

Foreword



Chin-Long Yang, Governor

In 2019, the global economy continued weaving through supply chain shocks arising from trade disputes among the world's largest economies. As challenging as it was to our exports, Taiwan was able to register steady growth in private consumption and investment. On that account, the pace of domestic economic growth picked up quarter after quarter to reach a six-quarter high of 3.31% in the final three months of 2019. For the year as a whole, the economy expanded by 2.71%, marginally lower than the 2.75% of 2018. With respect to inflation, the diminished cigarette tax hike effect, falling prices of oil and other imported raw materials for agriculture and industry, and decreased telecommunications rates combined to lead the CPI lower from the previous year's 1.35% to 0.56%, and the core CPI (excluding fruit, vegetables, and energy) from 1.21% to 0.49%.

In regard to monetary policy conduct, the policy rates were kept unchanged in the year, reflecting the Bank's assessment of lingering uncertainties over international economic and trade conditions, low and stable inflation and a mild inflation outlook domestically, and an interest rate level around the middle range compared to major economies. Overall, monetary and credit conditions were accommodative, and domestic economic and financial conditions remained healthy. The Bank also managed market liquidity through open market operations. The annual growth rates of bank loans and investments and of the monetary aggregate M2 were 4.71% and 3.46%, respectively. With both readings in excess of the same year's GDP growth, it indicated that the financial system had sufficient liquidity to support economic activity.

Meanwhile, the Bank announced a change in its monetary targeting approach, effective from the year 2020. In place of the approach of setting up an M2 growth range as the target for the coming year, a reference range would be adopted and, while remaining at 2.5%-6.5% for now, would not be reset on an annual basis. Nevertheless, M2 would continue playing a role in anchoring inflation expectations. Should persistent deviations from the reference range or structural changes occur in the future, the Bank will conduct assessments and make adjustments in a timely and appropriate fashion.

The Bank also made strides in another aspect of monetary policy, with expanded efforts in communicating with the public. Indeed, central bank communication has increasingly gained

traction in recent years, lauded as a helpful tool to fortify understanding of and trust in monetary policy, thereby bolstering monetary policy effectiveness. In Taiwan, we began reaching out to the general public via Facebook in 2019, posting about the Bank's policies and using educational pieces to promote financial awareness. We continued to upload more videos on the Bank's official website and mobile app as well as on the site of our Virtual Money Museum, and increased video exposure via the Executive Yuan's multimedia electronic billboards and terrestrial TV broadcasts with informative contents such as NT dollar banknote anti-counterfeit features and helpful guides on paper money preservation.

In 2019, the foreign exchange market broadly exhibited a trend of more supply than demand. The Bank conducted symmetrical smoothing operations, with a net buying of US\$5.5 billion, to sustain dynamic stability of the NT dollar. The Bank held US\$478.1 billion worth foreign exchange reserves, a year-on-year increase of US\$16.3 billion owing mainly to returns from foreign exchange reserves management. Moreover, in addition to greenlighting more bank applications to conduct forex transactions, the Bank reviewed the laws and regulations governing forex business as seen fit, to help authorized foreign exchange banks stay in the lead and their financial services on top form.

Efforts to improve financial infrastructure also carried on in 2019, with the aim of enhancing financial inclusion. One of the methods was by promoting the use of electronic payments. The Bank asked the Financial Information Service Co., Ltd. to further diversify ways to pay central government fees and fines by adding the options of smartphone app-based and QR code-based mobile payments. Moreover, the evolving trend of financial technology (fintech) development also prompted us to reconfigure the research team on digital finance, now comprising a task force on central bank digital currencies (CBDCs) to explore topics of CBDC, blockchain, electronic payments, etc., and a fintech working group for such fields as artificial intelligence, big data, and supervisory technology. They would be charged with the mission to study the feasibility of applying fintech to the Bank's operations or to develop proofs of concept.

At the time of writing, the world remains mired in uncertainties from the coronavirus woes, unresolved trade talks, extreme weather, and geopolitical risks, adding to strains in international financial markets and weighing down on global economic growth. In these extraordinary times, the Bank will continue to closely monitor economic and financial developments at home and abroad and to take action in accordance with its statutory mandates, including maintaining an orderly forex market and dynamic stability of the NT dollar while staying responsive by deploying monetary, credit, and foreign exchange policies where needed.

Finally, I would like to thank my colleagues for their hard work and dedication in producing this publication that reflects the Bank's efforts and economic and financial overviews for the year of 2019. Going forward, we remain devoted to fulfilling our duties and addressing the challenges.



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