

II. Financial Developments

1. Overview

In 2019, the Bank's policy rates remained unchanged, deposit rates and the base lending rate offered by banks stayed stable, while the weighted average interest rate on deposits and the rate on loans slightly moved downward. Against a backdrop of ample market liquidity, the interbank overnight call loan rate remained low, bills market rates rose modestly, and the average 10-year government bond yield declined. Loans and investments of monetary financial institutions grew at a pace slower than that of the previous year as the domestic economy moderated and stock market turnover shrank. The monetary aggregate M2 growth rate slowed from 3.52% registered in 2018 to 3.46%.

The NT dollar exchange rate was mainly affected by the developments of the US-China trade conflict during the year, with the currency weakening against the US dollar before strengthening later. At the end of 2019, the NT dollar appreciated against the US dollar compared with a year earlier; however, on a daily average basis, the NT dollar depreciated against the US dollar.

In the stock market, the Taiwan Stock Exchange Capitalization Weighted Stock Index, the TAIEX, swung to a yearly high in the middle of December, a record unseen for 29 years. The daily average transaction value shrank compared with the previous year but was the second highest since 2011.

M1B Grew Faster but M2 Growth Slowed

The monetary aggregate M2, measured on a daily average basis, recorded an annual growth rate of 3.46% in 2019. This was lower than the 3.52% registered in 2018 yet remained within the Bank's 2.5% to 6.5% target range for the year. The decline was attributable to increasingly diversified asset allocation and slower growth of bank loans and investments. The annual growth rate of M1B, measured on a daily average basis, rose to 7.15% in 2019 from 5.32% a year earlier, mainly because of faster growth in transaction deposits. Meanwhile, the annual growth rate of reserve money went up in 2019, also as a result of faster growth in transaction deposits.

Bank Loans and Investments Grew More Slowly

The annual growth rate of bank loans and investments decreased from 5.39% at the end of 2018 to 4.96% at the end of 2019. The decrease was due to the US-China trade conflict, export trade contraction, and slower economic growth in the first half of the year. If loans and investments of life insurance companies, non-accrual loans reclassified and bad loans written off by monetary

financial institutions, and funds raised directly from capital markets were all taken into account, the total outstanding amount of funds raised by the non-financial sector would register an annual growth rate of 4.04% at the end of 2019, higher than the 3.85% recorded a year earlier.

Both Deposit Rates and Loan Rates Slightly Declined

In 2019, as the Bank's policy rates remained unchanged, interest rates on deposits and the base lending rate offered by banks stayed steady.

For domestic banks as a whole, the weighted average interest rate on deposits slightly declined by 0.01 percentage points, driven lower mainly by a shift of funds in the third quarter from time deposits to demand deposits, which had lower rates. Meanwhile, the weighted average interest rate on loans slightly declined by 0.03 percentage points, mainly owing to increases in low-interest loans to local governments and government enterprises and interest rate cuts on loans by some banks to boost lending business.

Bills Market Rates Slightly Increased, but the 10-Year Government Bond Yield Decreased

Against the background of mild inflation expectations, the Bank continued to conduct open market operations to maintain market liquidity at an appropriately easy level. The interbank overnight call loan rate remained at a low level, fluctuating between 0.176% and 0.202% during 2019. With regard to the bills market, money market rates fluctuated in a narrow range and edged slightly higher year on year because of stronger demand for funds amid an upturn in private investment.

The yield on the benchmark 10-year government bond trended downward, mainly because of ample market liquidity and the Fed's rate reductions. In terms of issuance, as the Central Government Debt Service Fund renewed maturing government bonds and acted to meet budget needs, the total amount of government bonds issued increased by NT\$62.7 billion over the previous year.

Average Exchange Rate Showed Depreciation

The NT dollar against the US dollar depreciated in May 2019 as the US-China trade conflict flared up. US President Trump announced an additional 10% tariff on US\$300 billion of imported merchandises from China on August 1, causing the NT dollar to depreciate against the US dollar to a yearly low on August 5. In early September, the NT dollar appreciated against the US dollar owing to the easing of US-China trade friction as both sides agreed to resume talks in early October. When the US and China reached the "phase one" trade deal on December 13, shoring up currencies in emerging Asia including the renminbi, the NT dollar against the US dollar also maintained its strength. At the end of 2019, the NT dollar appreciated by 2.08% year on year against the US dollar. However, on a daily average basis, the NT dollar depreciated against the US dollar by 2.49% in 2019.

Stock Index Swung Higher, but Turnover Shrank

In the beginning of 2019, the TAIEX rose along with international stock rallies and reached 11,096 on May 3, bolstered by an apparent cooling of the US-China trade friction, international capital flows back into emerging market countries, net purchases in the local market by foreign investors, and expectations of record high stock dividends from domestic firms. Afterwards, owing to unstable US-China relations, Hong Kong political unrest, and sell-offs by foreign investors in the local market, the TAIEX swung downward until the end of August. Thereafter, bolstered by the Fed's rate cuts, US stock rallies renewing records, better-than-expected sales of new iPhones, the trade diversion effects of US tariffs on Chinese goods, and net foreign purchases of technology shares, the TAIEX rose to a yearly high of 12,122 on December 18, hitting the highest level in 29 years. The TAIEX closed at 11,997 points at the end of the year, increasing by 23.3% compared with the previous year end. The daily average transaction value was NT\$109.4 billion, shrinking by 8.8% compared with the previous year, but still the second highest since the year of 2011.