

II. Financial Developments

1. Overview

In 2020, the domestic economy rebounded significantly in the second half of the year and corporate demand for funds strengthened, leading to faster growth in loans and investments of monetary financial institutions. For the year as a whole, the annual growth rate of the monetary aggregate M2 rose from the 3.46% registered in 2019 to 5.84%.

As the Bank cut its policy rates in March in response to the COVID-19 pandemic, deposit rates and the base lending rate offered by banks moved downward, while the weighted average interest rates on deposits and on loans recorded a broad downtrend. After declining in March and April, the weighted average overnight call loan rate stabilized at a low level. Owing to ample market liquidity, bills market rates and the average 10-year government bond yield also declined.

In regard to the exchange rate, after the Fed's announcement of US\$2.3 trillion worth lending facilities at the beginning of April, the NT dollar maintained its strength against the US dollar. At the end of 2020, the NT dollar appreciated against the US dollar compared with a year earlier, and on a daily average basis, the NT dollar also appreciated against the US dollar in 2020 compared with the previous year.

In the stock market, tracking international market trends, the Taiwan Stock Exchange Capitalization Weighted Stock Index, the TAIEX, declined in the first three months of 2020. Afterwards, because many countries implemented easy monetary policies and various financial relief measures, the TAIEX swung up to a historical high at the end of the year. The daily average transaction value also hit a record high in 2020.

M1B and M2 Growth Picked Up

The monetary aggregate M2, measured on a daily average basis, recorded an annual growth rate of 5.84% in 2020. This was higher than the 3.46% registered in 2019 yet remained within the Bank's 2.5% to 6.5% reference range for the year. The increase was attributable to faster growth in bank loans and investments and net capital inflows. The annual growth rate of M1B, measured on a daily average basis, rose to 10.34% in 2020 from 7.15% a year earlier, mainly because of faster growth in transaction deposits. Meanwhile, the annual growth rate of reserve money went up in 2020, also as a result of faster growth in transaction deposits.

Bank Loans and Investments Grew Faster

The annual growth rate of bank loans and investments increased from 4.96% at the end of 2019

to 6.79% at the end of 2020. The increase was due to enterprises' stronger demand for funds resulting from obviously faster economic growth in the second half of the year. If loans and investments of life insurance companies, and non-accrual loans reclassified and bad loans written off by monetary financial institutions were all taken into account, the total outstanding loans and investments of financial institutions would register an annual growth rate of 6.66% at the end of 2020, higher than the 5.56% recorded a year earlier.

Deposit and Loan Rates Both Declined

In view of the impacts of the COVID-19 pandemic, the Bank cut policy rates in March and, as a result, the posted interest rates on deposits of banks dropped. At the end of 2020, the average fixed rate on one-year time deposits of the five major domestic banks was 0.77%, declining by 0.27 percentage points from a year earlier, and their average base lending rate was 2.442%, declining by 0.189 percentage points over the year before. Meanwhile, the weighted average rate on their newly-extended loans was 1.273% in 2020, declining by 0.113 percentage points over the previous year.

For domestic banks as a whole, the weighted average interest rate on deposits was 0.45%, declining by 0.10 percentage points over the previous year owing to a shift of funds from time deposits to demand deposits, which had lower rates, and the Bank's policy rate cut in March. Meanwhile, the weighted average interest rate on loans was 1.68%, declining by 0.19 percentage points owing to a weaker demand for funds amid the COVID-19 pandemic and the effect of the Bank's March rate cut.

Bills Market Rates and the 10-Year Government Bond Yield Dropped

In 2020, as the Bank continued to conduct open market operations to maintain market liquidity at an appropriately easy level, the weighted average overnight call loan rate kept steady at about 0.179% during January and February. It decreased to 0.144% in March as a result of the COVID-19 pandemic and the Bank's policy rate cut. The rate dropped further to 0.079% in April owing to the deferred effect of the Bank's rate cut, and fluctuated between 0.079% and 0.083% during the rest of the year. With regard to the bills market, easy funding conditions led money market rates to exhibit a downtrend. The 1-30 day commercial paper average rate in the secondary market was 0.34% in 2020, declining by 0.17 percentage points over the previous year.

The yield on the benchmark 10-year government bond also trended downward in 2020, 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 increased by NT\$125.0 billion over the previous year.

NT Dollar Appreciated and Average Exchange Rate Rose

In early 2020, despite rising safe-haven buying of the US dollar amid the COVID-19 pandemic, the NT dollar exchange rate against the US dollar fluctuated within a small range as infections came under control in Taiwan. In March, although the Fed cut the policy rate twice and implemented unlimited quantitative easing (QE), the NT dollar depreciated on a daily average basis against the US dollar owing to continuous net foreign capital outflows. Thereafter, in addition to the Fed's announcement of US\$2.3 trillion worth lending facilities, the US dollar strength was also dampened by investor worries about a slowing US recovery amid renewed waves of COVID-19 infections in the second half of the year, as well as US President Trump's US\$2.3 trillion pandemic-aid and spending package in late December. These factors, combined with net capital inflows and exporters' selling of the US dollar, caused the NT dollar to maintain its strength against the US dollar and appreciate to a yearly high of 28.440 on December 11. At the end of 2020, the NT dollar appreciated by 5.61% year on year against the US dollar. On a daily average basis, the NT dollar appreciated against the US dollar by 4.55% in 2020.

Stock Index Rebounded; Both Index and Turnover Hit Historical Highs

In the beginning of 2020, when the COVID-19 pandemic spread worldwide from China and brought forth economic and financial impacts, along with large net sales in the local stock market by foreign investors, the TAIEX declined and reached a yearly low of 8,681 on March 19. Afterwards, because many countries introduced easy monetary policies and various financial relief measures, and the National Financial Stabilization Fund also stepped in to support the local stock market, the TAIEX bounced back. In the second half of the year, the prices of major technology stocks surged on account of increasing demand for electronics chips bolstered by robust business in 5G applications and remote working-related products during the pandemic lockdowns and strong sales of new iPhones. As a result, the TAIEX swung up successively and rose to a historical high of 14,733 points at the end of the year, increasing by 22.8% compared with a year earlier. The daily average transaction value was NT\$186.3 billion, also hitting a historical high with a significant increase of 70.4% over the previous year.