

# Foreword



Chin-Long Yang, Governor

Looking back on 2020, it started with an outbreak of the coronavirus COVID-19 that quickly spread out and wreaked havoc on the global economy and world trade. Hampered by the resulting demand weakness both at home and abroad, Taiwan's economic growth slowed to 0.35% in the second quarter, the lowest since the second quarter of 2016. However, the pace picked up further and further in the latter half of the year amid economic reopening overseas and the introduction of consumption stimulus policies domestically. The annual growth rate of GDP reached 5.09% in the fourth quarter, the highest since the second quarter of 2011. For the year as a whole, the economy expanded by 3.11%, also higher than the past two years.

Similarly, domestic inflation was affected by the pandemic as softer international demand for raw materials dragged down energy prices and hospitality services (such as travel and hotels) launched promotional price cuts. The annual growth rate of CPI dropped to -0.23%, the lowest since 2016, while that of the core CPI (excluding fruit, vegetables, and energy) fell to 0.35%, a record low unseen for more than a decade.

Faced with the unusual challenges posed by pandemic-induced impacts on the economy and the labor market, the Bank reduced the policy rates by 25 basis points and rolled out a special accommodation facility worth NT\$200 billion to help SMEs obtain funding in March, followed by an expansion of the facility to NT\$300 billion in September. The Bank also made amendments to its targeted prudential measures on real estate lending in December in an attempt to attain "efficient allocation and proper use of credit resources" outlined in the government's "Program to Foster a Sound Real Estate Market."

Meanwhile, the Bank continued to manage market liquidity through open market operations. The annual growth rate of bank loans and investments and that of the monetary aggregate M2 were 6.31% and 5.84%, respectively. With both readings outrunning the GDP growth rate of 3.11%, it indicated that the financial system had sufficient liquidity to support economic activity.

---

The pandemic's influence was felt in the foreign exchange market as well. Continued monetary easing by major central banks had spilled over to other parts of the world, coinciding inadvertently with the significant repatriation of offshore funds by Taiwanese firms. The consequent bouts of increased volatility prompted the Bank to step in to ensure dynamic stability of the NT dollar exchange rate. Overall, net forex purchases in the spot market by the Bank amounted to US\$39.1 billion in 2020. At the end of the year, the Bank held US\$529.9 billion worth foreign exchange reserves, representing a year-on-year increase of US\$51.8 billion owing mainly to returns from forex reserves management and smoothing operations in response to surging capital inflows.

In 2020, the Bank continued with efforts to ensure sound operations of the domestic payment and settlement systems. For instance, given the approach of Taiwan's internet-only banks, we asked the Financial Information Service Co., Ltd. (FISC) to, via active communication and real time monitoring, help ensure that such banks maintain sufficient funds in their accounts with the Bank (i.e., the Interbank Funds Transfer Guarantee Special Accounts at the Department of Banking of the CBC) to facilitate the execution of interbank transactions. Pandemic-related responses were also established to sustain business continuity for payment systems.

In addition, the Bank urged the FISC to continue fostering the development of the digital economy in a safe and secure environment by reinforcing mobile payment infrastructure, building a common platform for electronic payment, and advancing information security to meet international standards. Furthermore, through collaboration with the academia, the Bank completed a technical research on the feasibility of a wholesale central bank digital currency (CBDC) in June and moved on to the second phase with proof-of-concept study on a retail CBDC in September that would run for two years with a rolling review depending on the progress as well as international trends.

The past year has been one of crisis and resilience, and uncertainties from the coronavirus and major economies' policy moves still loom over the world economy and financial markets. 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 and credit policies where needed.

Finally, I would like to thank my colleagues for their hard work in producing this publication that reflects the Bank's efforts as well as economic and financial overviews for the year of 2020. Going forward, we remain devoted to fulfilling our duties and addressing the challenges.



Chin-Long Yang  
Governor  
March 2021