

II. Financial Developments

1. Overview

In 2021, the domestic economy continued to rebound in the first half of the year and corporate demand for funds was strong, leading to faster growth in loans and investments of banks. As a result, for the year as a whole, the annual growth rate of the monetary aggregate M2 rose.

The Bank's policy rates remained unchanged and deposit rates and the base lending rate offered by banks stayed steady, while the weighted average interest rate on deposits and the rate on loans slightly moved downward. Owing to ample market liquidity, the interbank overnight call loan rate remained stable; bills market rates and the average 10-year government bond yield declined over the previous year, albeit with a mid-year rebound.

In regard to the exchange rate, as the Fed maintained an easy monetary policy stance in the first half of the year and Taiwan's exports showed robust growth, the NT dollar largely held strong against the US dollar. At the end of 2021, the NT dollar appreciated against the US dollar compared with a year earlier; on a daily average basis, the NT dollar also appreciated against the US dollar in 2021 compared with the previous year.

In the stock market, the Taiwan Stock Exchange Capitalization Weighted Stock Index, the TAIEX, swung up to a historical high before the end of the year. The daily average transaction value also hit a record high in 2021.

M2 and Bank Loans and Investments Grew Faster

The annual growth rate of bank loans and investments increased from 6.79% at the end of 2020 to 8.39% at the end of 2021. The increase was due to enterprises' stronger demand for funds as economic growth continued to pick up throughout the year. With faster growth in bank loans and investments boosting demand for money, the monetary aggregate M2 (measured on a daily average basis) recorded an annual growth rate of 8.72% in 2021. This was higher than the 5.84% registered in 2020 while also exceeded the Bank's 2.5% to 6.5% reference range for the year.

Both Deposit and Loan Rates Declined

The Bank's policy rates remained unchanged and, as a result, the posted interest rates on deposits of banks stayed steady. At the end of 2021, the average fixed rate on one-year time deposits of the five major domestic banks was 0.77%, the same as a year earlier, and their average base lending rate was 2.442%, also the same as the year before. Meanwhile, the weighted average

rate on their newly-extended loans was 1.200% in 2021, declining by 0.073 percentage points over the previous year.

For domestic banks as a whole, the weighted average interest rate on deposits was 0.36%, declining by 0.09 percentage points over the previous year. The reasons for the decline included some funds shifted from higher-rate time deposits to lower-rate demand deposits, lower interest rates were applied to maturing time deposits at renewal, and some banks reduced their posted deposit rates. Meanwhile, the weighted average interest rate on loans was 1.60%, declining by 0.08 percentage points owing to an increase in low-interest loans to local governments and interest rate cuts on loans by some banks to boost lending business.

Bills Market Rates Went Up After Declining

As the Bank continued to conduct open market operations to maintain market liquidity at an appropriate, easy level in 2021, the weighted average overnight call loan rate was steady between 0.079% and 0.082% during the first eight months of the year. It slightly increased to 0.086% in September owing to greater demand for funds during the Mid-Autumn Festival holidays as well as an end-of-quarter effect, and stayed between 0.082% and 0.083% for the rest of the year. With regard to the bills market, money market rates first declined and then went up during the year, while their yearly average rates were all lower than those of the previous year amid ample market liquidity. The average 1-30 day commercial paper rate in the secondary market was 0.22% in 2021, declining by 0.12 percentage points over the previous year.

10-Year Government Bond Yield Came Lower than Last Year, Albeit with a Broad Uptrend

In 2021, higher inflation led the yields on US government bonds to increase, while the yields on Taiwanese government bonds did not rise as sharply thanks to ample market liquidity. The turnover-weighted average of the yield on the benchmark 10-year government bond declined by five basis points over the previous year as transaction in the secondary government bond market showed a downtrend in the recent years. However, government bond yields broadly went up during the year. In terms of issuance, as the Central Government Debt Service Fund renewed maturing government bonds and increased issuance to meet budget needs, the total amount of government bonds increased by NT\$82.0 billion over the previous year.

NT Dollar Held Strong and Average Exchange Rate Appreciated

In 2021, the NT dollar exchange rate against the US dollar broadly appreciated. At the beginning of the year, the NT dollar appreciated against the US dollar on the back of the Fed's continuous easing and Taiwan's robust export growth. In March, the NT dollar weakened against the US dollar following US President Biden's signing of the US\$1.9 trillion relief package and market

optimism of a US economic recovery. In April, the NT dollar appreciated against the US dollar because the Fed reiterated its easy monetary policy stance and continued to dismiss inflation risks as transitory. In the second half of the year, persistently higher inflation led most Fed officials to predict an earlier rate hike, and the Fed decided in late September to begin tapering by the end of the year, bolstering the US dollar and thus weakening the NT dollar. From late October onwards, the NT dollar appreciated against the US dollar owing to continuous net selling of the US dollar by local exporters. At the end of 2021, the NT dollar appreciated by 2.95% year on year against the US dollar. On a daily average basis, the NT dollar appreciated against the US dollar by 5.55% in 2021.

Stock Index and Turnover Hit Historical Highs

In 2021, the TAIEX generally swung upwards. During the months of May, July to August, and September to October, the TAIEX declined significantly owing to domestic COVID-19 outbreaks, deferred policy decision related to the day trading tax cut, the Evergrande default crisis and tighter energy controls in China, and inflation and debt ceiling concerns in the US. For the other months, however, it was supported by factors including domestic infections coming under control, US stock indices renewing record highs, and Taiwan's listed companies reporting good earnings and exports showing strength. Therefore, the TAIEX went on an uptrend from the yearly low at the beginning of the year to an all-time high of 18,248 points on December 29. The TAIEX stood at 18,219 points at the end of the year, increasing by 23.7% compared with a year earlier. The daily average transaction value reached a record amount of NT\$378.2 billion with a significant increase of 103.0% over the previous year.