

Foreword



Chin-Long Yang, Governor

Entering the year of 2021, progress in vaccination campaigns led many major economies to gradually lift COVID-19 restrictions, helping economic and trade activity to return to a more normal state and galvanizing the global economic recovery. Against this backdrop, Taiwan's exports and private investment were robust and the overall economic growth accelerated from 3.36% the previous year to 6.45%, the fastest in nearly eleven years. Meanwhile, in addition to a lower base effect, the annual growth rate of consumer price index (CPI) was also pushed up by rising raw material prices including crude oil and by weather-induced price hikes in food items such as fruit and vegetables, climbing from a negative 0.23% in 2020 to a positive 1.96% in 2021. Excluding fruit, vegetables, and energy, core CPI inflation remained mild, with the annual growth rate reaching 1.33% compared to the previous year's 0.35%.

Against this backdrop, the Bank continued with efforts to fulfill its legal mandates. When the domestic COVID-19 cases flared up around mid-year, the Bank, supported by a rolling review, made several adjustments to its special accommodation facility to keep credit flowing and make borrowing more affordable for the pandemic-hit small and medium-sized enterprises, including

extending the applicable duration of preferential interest rates, expanding the size of total accommodation, postponing the application deadline, and allowing a second draw of such a loan. When the banking sector continued racking up real estate loans, the Bank reinforced the selective credit control measures introduced in December 2020 for another three rounds to stem excessive credit flows into the housing market and further rein in credit risk thereof, successfully slowing the growth in construction and house-purchasing loans and bolstering banks' real estate credit quality.

The Bank also continued to flexibly manage market liquidity through open market operations. In 2021, bank loans and investments showed an annual growth rate of 7.65% and the monetary aggregate M2 increased by 8.72% year on year. As both figures were higher than the GDP growth rate of 6.45%, the financial system held ample liquidity, sufficient to support economic activity.

Meanwhile, the Bank stayed committed to the statutory objective of safeguarding the value of the NT dollar. For the first half of 2021, excess supply of the US dollar (USD) in the domestic forex market strengthened the NT dollar (NTD) and amplified exchange rate volatility, whereas more balanced USD supply and demand in the second half of the year kept the NTD-USD exchange rate within a tight range. When the NT dollar exchange rate experienced heightened volatility, the Bank stepped in with smoothing operations as needed to maintain the currency's dynamic stability, with a total of US\$9.1 billion net purchases for the year as a whole. At the end of 2021, the Bank held US\$548.4 billion worth foreign exchange reserves, representing a year-on-year increase of US\$18.5 billion owing mainly to returns from forex reserves management and smoothing operations to address the effect of massive and erratic cross-border capital flows.

The Bank also took note of a marked increase in interbank retail payment transactions and the opening of internet-only banks in Taiwan. In response, the Bank now allowed a higher share – up from 8% to 16% – of banks' required reserves to

come from the end-of-day balance of their funds deposited in the central bank's Interbank Funds Transfer Guarantee Special Accounts, thereby facilitating banks' liquidity needs for payment settlement. Moreover, we recognized the importance of better interconnectedness for cross-institution flows of data and funds, including the flows among electronic payment (e-payment) institutions and those between them and financial institutions. To that end, the Bank urged the Financial Information Service Co., Ltd. (FISC) to set up the "shared platform for cross-institution electronic payment," which began to provide funds transfer services from October 2021. With the e-payment institutions all joining this platform, payment market efficiency has further improved.

The Bank also carried on with its work to explore a potential central bank digital currency (CBDC). We already found through the first phase research completed in June 2020 on the feasibility of a wholesale CBDC that the distributed ledger technology (DLT) has its downsides, particularly in that the DLT application remains inadequate to satisfy the need for real-time, high-frequency, large-volume payment transactions. Currently, the second phase proof-of-concept study is well underway, with a pilot platform to simulate and test the CBDC's capabilities in retail payment scenarios. The study is expected to conclude in September 2022, and the findings will be disclosed in due course to invite discussion and public comments as part of the Bank's further evaluation for issuing a CBDC.

Another highlight in recent years was enhanced communication with the public via a website revamp in 2020, using the responsive web design technology to provide improved viewer experience across devices and web accessibility. The revamp also ushered in the Monetary and Financial Knowledge Hub (in Chinese Only) to serve as a reliable source of monetary and financial knowledge. In October 2021, the Bank also asked colleges and universities to promote the Hub to broaden its reach.

Looking ahead, uncertainties compounded by global geopolitical tensions,

recurring pandemic waves induced by new coronavirus variants, worsening climate change, and surging international commodity prices would continue to weigh on the world's economic development and financial stability. The Bank will continue to closely monitor and assess the economic and financial conditions at home and abroad. Based on the assessment and committed to its legal mandates, the Bank will take actions to preserve order in the forex market and dynamic stability of the NT dollar exchange rate, and to adjust monetary and credit policies as needed. The Bank was also mindful of a recent array of regulatory issues around the world resulting from fast-growing digital currencies and crypto-assets and will keep close watch on these developments and their implications for financial stability.

Finally, I would like to thank my colleagues for their hard work in producing this publication, which outlines the Bank's efforts as well as economic and financial overviews for the year of 2021. Going forward, we remain devoted to fulfilling our duties and addressing the challenges.

A handwritten signature in black ink, reading "Chin Long Yang". The signature is written in a cursive, flowing style.

Chin-Long Yang
Governor
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