

II. Financial Developments

1. Overview

In 2022, major central banks continued with monetary policy tightening, the global economy cooled down, and exports weakened, all restricting domestic economic growth. Against this backdrop, the annual growth rates of the monetary aggregate M2 decreased because of net foreign capital outflows and slower growth in bank loans and investments.

In terms of interest rates, reflecting the Bank's hikes in the policy interest rates and the required reserve ratios in 2022, banks' posted interest rates and the weighted average interest rate on deposits and on loans moved upward. Owing to tighter liquidity, the interbank overnight call loan rate, bills market rates, and the average 10-year government bond yield increased over the previous year.

In regard to the exchange rate, during the course of the year, the NT dollar against the US dollar broadly depreciated. At the end of 2022, the NT dollar depreciated by 9.83% against the US dollar compared with a year earlier; on a daily average basis, the NT dollar also depreciated by 5.89% against the US dollar compared with the previous year. Moreover, following the reversal of the global stock market uptrend, the Taiwan Stock Exchange Capitalization Weighted Stock Index, the TAIEX, fluctuated downwards, and the daily average trading value declined sharply.

Growth in M2 and Bank Loans and Investments Declined

The annual growth rate of bank loans and investments decreased from 8.39% at the end of 2021 to 6.38% at the end of 2022. The decrease was due to a cautious housing market and weaker corporate demand for funds as the annual growth rate of exports declined in the second half of the year. With slower growth in bank loans and investments reducing the demand for money, the annual growth rate of M2 (measured on a daily average basis) declined to 7.48% in 2022 from the 8.72% registered in 2021, but still exceeded the Bank's 2.5% to 6.5% reference range for the year.

Both Deposit and Loan Rates Increased

In response to intense imported inflation pressures and in order to rein in inflation expectations, the Bank raised the policy rates in each of the quarterly meetings of 2022. As a result, the posted interest rates on deposits of banks moved upwards. At the end of 2022, the average posted interest rate on one-year time deposits of the five major domestic banks increased from 0.77% at the end of the previous year to 1.45%, and the weighted average rate on their newly-extended loans was 1.446% in 2022, increasing by 0.246 percentage points over the previous year.

For domestic banks as a whole, the weighted average interest rate on deposits was 0.53%, increasing by 0.17 percentage points over the previous year. Meanwhile, the weighted average interest rate on loans was 1.85%, increasing by 0.25 percentage points.

Money Market Rates Generally Increased

Short-term liquidity conditions tightened mainly owing to net foreign portfolio selling and the resultant net capital outflows in response to intensified financial market turmoil and domestic and foreign rate hikes as well as the war in Ukraine. The weighted average overnight call loan rate generally showed an upward trend in 2022, rising from a low of 0.081% in February to 0.507% in December. The annual average rate was 0.263%, increasing by 0.182 percentage points from the previous year.

With regard to the bills market, money market rates broadly increased in 2022, while their yearly average rates were all higher than those of the previous year amid tight market liquidity. The average 1-30 day commercial paper rate in the secondary market was 0.69% in 2022, increasing by 0.47 percentage points over the previous year.

10-Year Government Bond Yield Became Higher than Last Year

In 2022, higher inflation led the yields on US government bonds to increase. Coupled with the Bank's policy rate hikes, the turnover-weighted average of the yield on the benchmark 10-year government bond increased by 65 basis points over the previous year to 1.09%.

In terms of issuance, as the Central Government Debt Service Fund renewed maturing government bonds and increased issuance to meet budget needs, the total issuance amount of government bonds decreased by NT\$96.9 billion over the previous year.

NT Dollar Against the US Dollar Depreciated

In 2022, the NT dollar exchange rate against the US dollar broadly depreciated. Since the beginning of the year, US inflation pressure has been high, and the Fed raised interest rates in March, initiating a cycle of rate hikes. In early May, the US dollar strengthened as the Fed would start tapering in June, causing the NT dollar to depreciate against the US dollar. However, in late May, Taiwan's stock rallies attracted foreign portfolio inflows and caused the NT dollar to appreciate slightly against the US dollar.

Subsequently, inflation pressure in the US did not ease, and the Fed raised interest rates in June, July, and September. The US dollar continued to strengthen, causing the NT dollar to depreciate against the US dollar. In November, US inflation was lower than expected, which raised investors' expectations of a slower pace of interest rate hikes by the Fed. Additionally,

continual capital inflows to Taiwan caused the NT dollar to appreciate against the US dollar. In early December, Fed Chair Jerome Powell indicated that the pace of interest rate hikes may slow down, and the US dollar depreciated slightly in mid-December. However, because foreign investors withdrew their equity holdings in Taiwan, resulting in a net capital outflow, the NT dollar exchange rate fluctuated moderately. At the end of 2022, the NT dollar depreciated by 9.83% against the US dollar compared with the end of the previous year. On a daily average basis, the NT dollar depreciated against the US dollar by 5.89% in 2022.

Stock Index Fluctuated and Declined; Trading Value Decreased

In 2022, Taiwan's stock indices were on a broad downtrend for most of the year owing to the spread of the Omicron variant, the US Fed's faster rate hikes and balance sheet tapering, and monthly net sales by foreign institutional investors (FINIs). The resulting slump took the TAIEX to a yearly low in October. Afterwards, the TAIEX rebounded slightly as softer-than-expected US inflation somewhat eased the pressure for subsequent Fed rate hikes, global stock markets also stabilized, and FINIs net bought in November, as well as a boost from holiday shopping. At the end of the year, the TAIEX was 22.4% lower than a year ago. The daily average trading value on the Taiwan Stock Exchange (TWSE) decreased by 39.7% from 2021 to NT\$228 billion in 2022.