

Foreword



Chin-Long Yang, Governor

In 2022, Taiwan's economy operated in a challenging environment. Private consumption was dampened by a surge in COVID-19 cases during the first half of the year, while exports and private investment remained strong, supporting moderate economic growth. In the second half of the year, exports gradually slipped into contraction, thereby slowing the rate of economic growth. For the year as a whole, domestic economic expansion decelerated from a pace of 6.53% in 2021 to 2.45%, the slowest in nearly six years. Domestic prices were pushed up by surging costs of raw material imports such as food and energy following Russia's invasion of Ukraine. Taiwan's consumer price index (CPI) saw the annual growth rate rise from 1.97% in 2021 to 2.95%, and the core CPI (excluding fruit, vegetables, and energy items) also increased from 1.33% to 2.61%.

In response to the pressures of imported inflation, the Bank tightened monetary policy in a gradual manner, raising the policy rates four times by a total of 0.625 percentage points and increasing the reserve requirement ratios

on NTD deposits twice by a total of 0.5 percentage points. These actions were judged to help rein in domestic inflation expectations and maintain price stability. The Bank also continued adopting selective credit control measures including reinforcing efforts such as conducting on-site financial examinations, as well as urging banks to strengthen regulatory compliance and to implement the principles of credit risk-based differential pricing.

The Bank's Special Accommodation Facility to Support Bank Credit to SMEs continued serving the funding needs of SMEs in the first half of 2022 before its expiration at the end of June. Over the course of implementation, it has helped about 307,000 SMEs by providing credit support in the amount of NT\$503.6 billion, effectively helping SMEs stay viable, thereby safeguarding financial stability and fostering economic growth. Meanwhile, the Bank conducted open market operations to manage liquidity in the financial system. In 2022, the average annual growth rate of bank loans and investments was 7.39%, and that of M2 was 7.48%; both indicators were higher than the economic growth rate of 2.45%, indicating there was ample liquidity to support economic activity.

With regard to foreign exchange management, as the Federal Reserve's big rate hikes in 2022 triggered global panic selloffs of risky assets, flight to safety sent USD exchange rate higher. Additional pressures also came from portfolio outflows with foreign institutional investors cutting Taiwanese stock holdings as part of strategic asset allocation and fund management. Together, these factors significantly weakened the NT dollar against the US dollar. The Bank, in line with its mandate, stepped in to maintain the dynamic stability of the NTD exchange rate, with a net forex sales amounting to US\$13 billion. At the end of 2022, the Bank held US\$554.9 billion worth foreign exchange reserves, representing a year-

on-year increase of US\$6.5 billion owing mainly to returns from forex reserves management.

Amid burgeoning innovations for digital payment, the Bank completed the second phase proof-of-concept study on central bank digital currency (CBDC) in June 2022 and will continue conducting related research and projects. In addition, the Bank and the National Treasury Administration of the Ministry of Finance concluded their joint efforts in July 2022 and the disbursement and repayment for treasury account loans henceforth went in electronic mode, increasing the efficiency and lowering the operational risk of the treasury funds transfers.

Furthermore, the Bank recognized that climate change has presented new challenges and risks to central banks in their conduct of monetary policy and fulfillment of the mandate to maintain financial stability. With this in mind, the Bank announced the "CBC Strategic Plan to Address Climate Change Issues" at the end of 2022, in line with the government's "2050 Net-Zero Transition" initiatives. Under the Plan, the Bank will formulate and progressively implement relevant policies, including monetary policy, operational tools of monetary policy, macro-prudential policy, forex reserves management, and international cooperation. The Bank hopes the Plan will help reduce climate-change related impacts on Taiwan's economic and financial sectors, so as to safeguard financial stability and help foster sustainable economic development.

The world today is facing a challenging future with the economy facing multiple downside risks and the global inflation outlook still uncertain despite some signs of disinflation. The Bank will closely monitor the trajectory of monetary policy moves in major economies, changes in international raw material prices,

geopolitical risks, and extreme weather events to assess their implications for domestic price trends, and economic and financial conditions. Accordingly, the Bank may adjust its monetary policy in a timely manner as warranted so as to accomplish its statutory duty of maintaining price stability.

Finally, I would like to thank my colleagues for their hard work in producing the annual accounts of the Bank for the year of 2022. 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
March 2023