

II. Financial Developments

1. Overview

In 2023, affected by the delayed spillover effects of monetary tightening by major countries in 2022, economic growth in major economies slowed down, and funding demand weakened. Against this backdrop, the annual growth rate of the monetary aggregate M2 exhibited a downtrend. Despite a brief decline back into the reference range in June, the rate exceeded the upper limit of the range again in July and August. Thereafter, net capital outflows led the annual growth rate of M2 to fall back within the reference range in the final four months of the year.

In terms of interest rates, banks' posted interest rates and the weighted average interest rates on deposits and on loans moved upward, reflecting the Bank's five hikes in the policy interest rates and two hikes in the required reserve ratios between March 2022 and March 2023. Owing to tighter liquidity conditions, 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 2023, the NT dollar depreciated by 0.1% against the US dollar compared with a year earlier; on a daily average basis, the NT dollar also depreciated by 4.4% compared with the previous year. In the stock market, spurred by the ongoing buzz surrounding artificial intelligence and the US stock market rallies, the Taiwan Stock Exchange (TWSE) Capitalization Weighted Stock Index, the TAIEX, was on the rise, and the daily average trading value increased.

Growth in M2 and Bank Loans and Investments Both Declined

In early 2023, declining exports weakened corporate capital funding demand. However, the introduction of a renewed Preferential Housing Loans for the Youth program in August resulted in an increase in the annual growth rate of housing loans, offsetting the sluggish corporate lending growth. At the end of 2023, the annual growth rate of bank loans and investments stood at 6.58%, slightly higher than the 6.38% at the end of 2022. Nevertheless, the average annual growth rate for the entire year decreased from 7.39% in 2022 to 5.92% in 2023. 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 6.25% in 2023 from the 7.48% registered in 2022, within the Bank's 2.5% to 6.5% reference range for the year.

Both Deposit and Loan Interest Rates Increased

In response to intense inflation pressures and in order to rein in inflation expectations, the Bank

raised the policy rates by 0.125 percentage points in the quarterly meeting of March 2023. As a result, the posted interest rates on bank deposits moved upwards. At the end of 2023, the average posted interest rate on one-year time deposits of the five major domestic banks edged up from 1.45% at the end of the previous year to 1.48%, and the weighted average interest rate on their newly-extended loans increased by 0.439 percentage points to 1.885% in 2023.

For domestic banks as a whole, the weighted average interest rate on deposits was 0.94%, increasing by 0.41 percentage points over the previous year. Meanwhile, the weighted average interest rate on loans was 2.33%, increasing by 0.48 percentage points.

Money Market Rates Generally Increased

During 2023, short-term liquidity conditions tightened mainly owing to the spillover effects of major central banks' monetary tightening since 2022, concerns over instability in the US and European banking systems in March 2023, the Bank's interest rate hike in late March, and consecutive net foreign capital outflows for four months starting in July. The weighted average overnight call loan rate generally showed an upward trend in 2023, rising from a low of 0.560% in January to 0.686% in December. The annual average interest rate was 0.646%, increasing by 0.383 percentage points from the previous year.

With regard to the bills market, money market rates broadly increased in 2023, 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 1.20% in 2023, increasing by 0.51 percentage points over the previous year.

10-Year Government Bond Yield Became Higher than Last Year

In 2023, 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 Taiwan's benchmark 10-year government bond rose by 12 basis points over the previous year to 1.21%.

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\$42.1 billion over the previous year.

NT Dollar Against the US Dollar Broadly Depreciated

In 2023, the NT dollar against the US dollar broadly depreciated. At the beginning of the year, inflationary pressures in the United States eased and the US dollar weakened; coupled with foreign capital inflows to Taiwan, the NT dollar appreciated against the US dollar towards a yearly high of 29.700 on February 2. Then, as the Fed raised interest rates by 0.25 percentage points

and US economic data was better than expected, the US dollar strengthened and the NT dollar depreciated. After the collapse of Silicon Valley Bank in March, the market reduced expectations of an aggressive Fed interest rate hike, causing the US dollar to fall and the NT dollar to appreciate. Subsequently, amid persisting inflation, the Fed delivered three 0.25 percentage point rate hikes in March, May, and July. Additionally, escalating tensions in the Middle East in October increased market demand for safe-haven assets, also bolstering the US dollar. Furthermore, foreign portfolio investors began to realize profits in Taiwan's stock market from July onwards, resulting in net capital outflows that drove a continuous depreciation of the NT dollar against the US dollar. In November and December, as the Fed kept its policy rate unchanged and US inflation rates were lower than expected, the US dollar weakened and the NT dollar appreciated against the US dollar. At the end of 2023, the NT dollar depreciated by 0.1% 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 4.4% in 2023.

Stock Index Rose and Trading Value Increased

From the beginning to the middle of 2023, the TAIEX was driven upwards by the easing of inflationary pressures and monetary tightening in the US, increasing demand for AI technologies, and bullish runs of US tech stocks. In the second half of the year, though, the US sovereign debt credit rating downgrade, China's property sector debacles and its central bank's rate cuts, US stock corrections, and foreign investor selloffs of TAIEX shares combined to lead to downward swings through to the end of October. Afterwards, the TAIEX was boosted by market expectation of the end of the Fed's tightening cycle and an anticipated holiday shopping boom, as well as foreign investor net purchases of local stocks. As a result, the TAIEX followed the US stock rebound to rally and closed the year at an all-year high, up by 26.8% over the end of the previous year. The daily average trading value on the TWSE increased by 15.9% from 2022 to NT\$264.3 billion in 2023.