2. Banking Sector

Number of Monetary Financial Institutions

At the end of 2023, the number of monetary financial institutions (defined hereafter in this chapter as excluding the central bank) marginally decreased to 405. The number of domestic banks decreased by one as Jih Sun International Bank was merged into Taipei Fubon Commercial Bank Co., Ltd. As for money market mutual funds, the number remained zero after the last remaining fund was liquidated in May 2017. The numbers of the other types of monetary financial institutions all stood unchanged.

In addition to monetary financial institutions, the number of financial holding companies was 15, the same as 2022.

Number of Monetary Financial Institutions by Type

Types of Institutions		End of 2023	End of 2022	Annual Change
Total Number of Main Offices		405	406	-1
	Domestic Banks	39	40	-1
	Foreign and Mainland Chinese Banks	31	31	0
	Credit Cooperatives	23	23	0
	Credit Departments of Farmers' and Fishermen's Associations	311	311	0
	Chunghwa Post	1	1	0
Total Number of Branches		6,079	6,074	5
	Local Branches	5,866	5,863	3
	Overseas Branches	154	152	2
	Offshore Banking Units	59	59	0

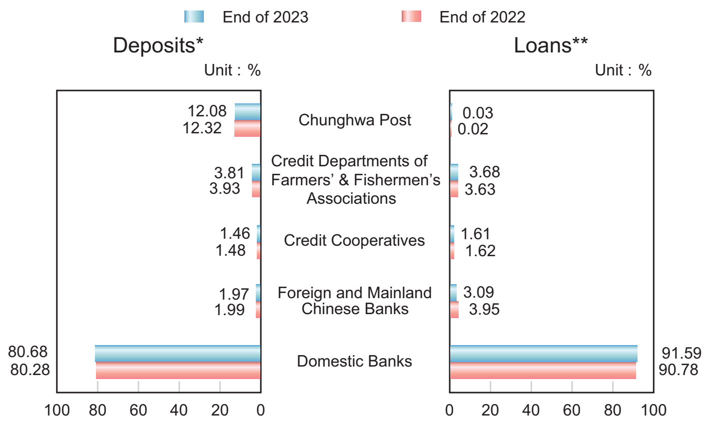
Sources: 1. *Financial Statistics Monthly* (February 2024), CBC.
2. Department of Financial Inspection, CBC.

Market Shares of Deposits and Loans

At the end of 2023, domestic banks maintained a dominant role in the deposit market, with the market share rising to 80.68%. This was primarily due to a more sizeable increase in the deposits of domestic banks, resulting from continued credit growth and ample market liquidity. By contrast, the deposit market shares shrank for the other types of monetary institutions, with the departments of savings and remittances of Chunghwa Post taking up a share of 12.08%, the credit departments of farmers' and fishermen's associations 3.81%, branches of foreign and Mainland Chinese banks 1.97%, and credit cooperatives 1.46%.

In terms of loans, the market share of domestic banks continued to climb to 91.59%, mainly because an increase in house-purchasing loans in the second half of the year offset soft demand for funds by enterprises due to sluggish exports. In contrast, foreign and Mainland Chinese banks' market share slipped to 3.09%. Chunghwa Post's market share slightly rose to 0.03%, reflecting an increase in lending to bills finance companies. As for the other institution types, the market share of credit departments of farmers' and fishermen's associations edged up to 3.68%, whereas that of credit cooperatives continued to fall to 1.61%.

Market Shares of Deposits and Loans by Category of Monetary Financial Institutions



Notes: * Excluding the values of the host contracts of structured products issued by banks.
** Including data for securities acquired under reverse repurchase agreements.

Source: *Financial Statistics Monthly* (February 2024), CBC.

Main Uses of Funds in Monetary Financial Institutions

At the end of 2023, the total amount of funds in monetary financial institutions was NT$66,276 billion, increasing by NT$3,966 billion compared to the end of 2022. The combined share of transaction and non-transaction deposits was around 87%. The balances of transaction deposits and non-transaction deposits posted annual growth rates of 3.73% and 9.96%, respectively.

In the case of fund uses, bank loans still accounted for over 50% of total uses of funds at the end of 2023. Due to a decrease in growth of loans to the private sector, the annual growth rates of NT dollar loans decreased from 8.92% at the end of the previous year to 6.02%. Net foreign assets accounted for a share of 10.45%, higher than the 9.06% recorded a year ago owing to the increase in investment in foreign securities.

Portfolio investments by monetary financial institutions measured on a cost basis changed from a decline of 0.55% at the end of the previous year to a growth of 12.77%, mainly due to an increase in investment in commercial paper. Banks' purchases of certificates of deposit issued by the central bank accounted for a share of 12.19%, lower than the 13.71% recorded a year ago.

Main Uses of Funds in Monetary Financial Institutions[1]

Unit: NT$billion

	End of 2023			End of 2022			Annual Change	
	Balance	Share (%)	Annual Growth Rate (%)	Balance	Share (%)	Annual Growth Rate (%)	Balance	Share (%)
Funds Balance								
Transaction Deposits [2]	23,711	35.78	3.73	22,858	36.68	2.42	853	-0.90
Nontransaction Deposits [3]	33,922	51.19	9.96	30,850	49.51	5.94	3,072	1.68
NT Dollar Deposits	24,958	37.66	8.41	23,023	36.95	7.11	1,935	0.71
Foreign Currency Deposits [4]	8,964	13.53	14.52	7,828	12.56	2.65	1,136	0.97
Government Deposits	1,494	2.25	4.79	1,426	2.29	10.92	68	-0.04
Other Items	7,149	10.78	-0.37	7,176	11.52	-2.73	-27	-0.74
Total	66,276	100.00	6.36	62,310	100.00	3.67	3,966	0.00
Uses:								
Net Foreign Assets [4]	6,926	10.45	22.68	5,645	9.06	10.40	1,280	1.39
Loans	38,065	57.43	5.54	36,067	57.88	7.59	1,998	-0.45
NT Dollar Loans	37,433	56.48	6.02	35,306	56.66	8.92	2,127	-0.18
Foreign Currency Loans [4]	632	0.95	-17.01	761	1.22	-31.34	-130	-0.27
Portfolio Investments [5]	8,420	12.70	12.77	7,467	11.98	-0.55	954	0.72
Purchases of CDs Issued by CBC	8,079	12.19	-5.44	8,544	13.71	-9.01	-465	-1.52
Deposits with CBC	4,786	7.23	4.35	4,586	7.37	0.45	200	-0.14

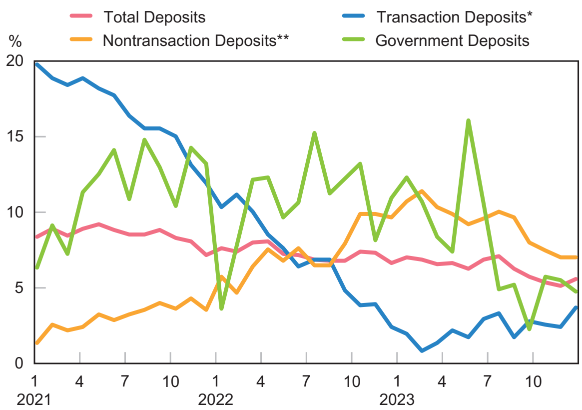
Notes: 1. Monetary Financial Institutions include Domestic Banks, Local Branches of Foreign and Mainland Chinese Banks, Credit Cooperatives, Credit Departments of Farmers' and Fishermen's Associations, Chunghwa Post and Money Market Mutual Funds.
2. Including checking accounts, passbook deposits and passbook savings deposits.
3. Including time deposits, time savings deposits, foreign currency deposits, postal savings deposits, non-residents' NT dollar deposits, repurchase agreements and money market mutual funds.
4. Excluding valuation changes in the exchange rate of the NT dollar against foreign currencies.
5. Measured at original costs.
Source: *Financial Statistics Monthly* (February 2024), CBC.

Deposits

Because of net capital outflows and slower growth in loans and investments, the annual growth rate of deposits held by monetary financial institutions decreased to 5.62% by the end of 2023 from 6.63% a year earlier. Regarding the composition of deposits, the drop in the annual growth rate was mainly due to slower growth in nontransaction deposits and government deposits.

In terms of nontransaction deposits, its annual growth rate decreased to 7.02% by the end of 2023 from 9.69% a year earlier due to slower growth in foreign currency deposits.

Annual Growth Rates of Deposits



Notes: * Including checking accounts, passbook deposits and passbook savings deposits.
** Including time deposits, time savings deposits, foreign currency deposits, postal savings deposits, nonresidents' NT dollar deposits, repurchase agreements, and money market mutual funds.
Source: *Financial Statistics Monthly* (February 2024), CBC.

However, its share in total deposits went up to 57.37% by the end of 2023 from 56.62% a year earlier.

The annual growth rate of foreign currency deposits decreased to 3.35% by the end of 2023 from 17.20% a year earlier and its share also shrank to 15.17% from 15.50%. This was primarily owing to weak exports in 2023, which resulted in reduced inward remittances of overseas sales revenues. Moreover, corporate demand for foreign currency softened, as reflected by lower demand for foreign currency borrowing and a shift from foreign currency deposits to NT dollar time deposits. Meanwhile, the increase in net investment in overseas long-term bonds and notes by pension funds further contributed to this trend.

In 2023, the annual growth rate of time deposits (including negotiable certificates of deposit) experienced a drop in May, mainly due to the reinstatement of the deadline for corporate income tax settlement and declaration, which usually is set at the end of May. A resultant wave of more corporate tax payments using time deposits compared to the same month of the previous year caused the annual growth rate of time deposits to drop to a yearly low of 4.32%. However, for all the other months, the annual growth rates of time deposits generally showed an uptrend. This was because some enterprises moved their foreign currency deposits into NT dollar time deposits, and the amount of cash dividends distributed by enterprises decreased compared to the previous year. At the end of 2023, the annual growth rate of time deposits rose to 10.66% from 6.37% a year earlier, with its share rising to 11.77% from 11.23%.

In 2023, the annual growth rate of time savings deposits rose before dropping. The increase in the first half of the year was driven by the impact of rising interest rates. In pursuit of higher returns, some individuals migrated from passbook savings deposits into time savings deposits, and some pension funds allocated more funds to time savings deposits. This led to a peaking in the annual growth rate of time savings deposits, reaching 13.68% in May. However, in the second half of the year, as the AI boom drove stock market rallies and spurred investment enthusiasm, some individuals and pension funds paused migration of passbook savings deposits into time savings deposits, which led to a decrease in the annual growth rate of time savings deposits. Nonetheless, by the end of 2023, the annual growth rate of time savings deposits still increased to 10.84% from 9.83% by the end of 2022, and its share also increased to 18.10% from 17.25%.

Regarding postal savings deposits, the annual growth rate declined from 4.45% by the end of 2022 to 3.50% by the end of 2023, and its share in total deposits decreased from 12.05% to 11.81%.

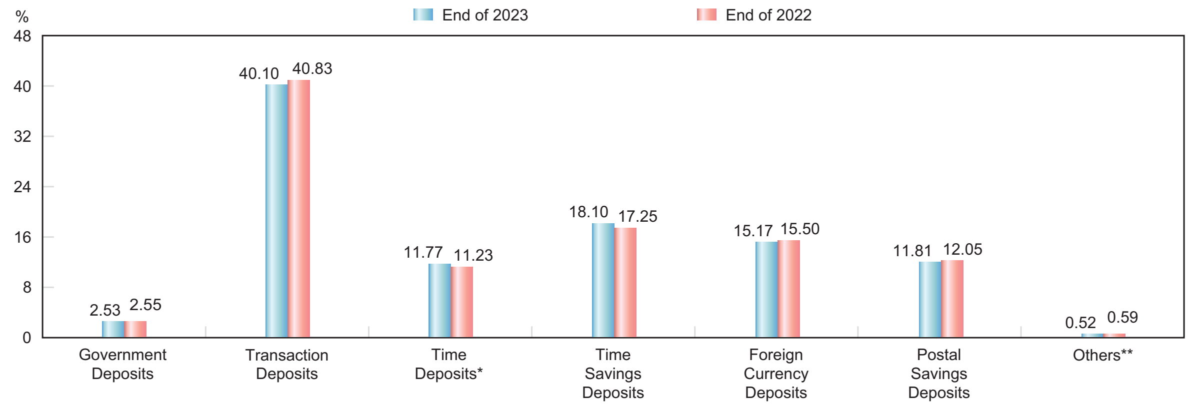
In terms of transaction deposits, its annual growth rate increased to 3.73% by the end of 2023 from 2.42% a year earlier. This increase was because the annual growth rate of passbook savings deposits rose and the annual growth rate of passbook deposits turned positive. However, its share in total deposits shrank to 40.10% by the end of 2023 from 40.83% a year earlier.

In the beginning of 2023, the annual growth rate of passbook savings deposits decreased from 3.80% at the end of the previous year to 3.17% at the end of March, driven by the rise in interest rates. However, later in the year, thanks to the government's one-off universal tax rebate program and the gradual uptick in the stock market, the annual growth rate of balances in securities giro accounts turned positive. Additionally, in the second half year, as the shift of passbook savings deposits into time savings deposits slowed down, the annual growth rate of passbook savings deposits went up to 4.26% by the end of 2023.

The annual growth rate of passbook deposits turned positive by the end of 2023. Although the economic slowdown in 2023 weakened demand for short-term operational funds by enterprises, there was a lower base effect because the funds from property and casualty insurers' passbook deposits shifted to policyholders' passbook savings deposits during the pandemic in 2022. Furthermore, the amount of corporate tax payments using passbook deposits increased less, and the amount of cash dividends distributed by enterprises decreased compared to the previous year, leading the annual growth rate of passbook deposits to turn positive.

With regard to government deposits, the annual growth rate experienced a significant increase in May as the end-of-May deadline for corporate income tax settlement and declaration, which was postponed to the end of June 2023, was reinstated. This change led to a significant surge in tax revenue compared to the same period in the previous year, causing the annual growth rate of government deposits to reach a yearly high at 16.11%. However, for the other months, the annual growth rates of government deposits generally showed a downtrend because of the decline in economic growth momentum in 2023, resulting in a slowdown in government tax revenue growth. Also, the national treasury disbursed relevant funds under the universal tax rebate program as well as post-pandemic recovery plans, leading to a decrease in the annual growth rate of government

Shares of Deposits by Type



Notes: * Including NCDs.
** Including repurchase agreements, non-residents' NTD deposits and money market mutual funds.

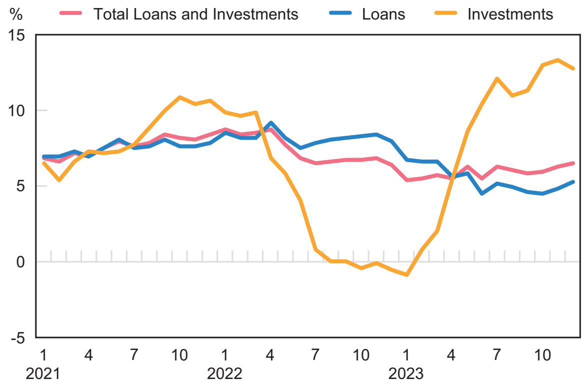
Source: *Financial Statistics Monthly* (February 2024), CBC.

deposits to 4.79% by the end of 2023 from 10.93% a year earlier. Its share in total deposits slightly decreased to 2.53% from 2.55%.

Bank Loans and Investments

The annual growth rate of loans and investments of monetary financial institutions was 6.58% at the end of 2023, up from 6.38% at the end of 2022. Growth in loans slowed to an annual pace of 5.30% at the end of 2023 from 7.94% at the end of the previous year, whereas growth in portfolio investment rose to positive territory at 12.77% at the end of 2023 from -0.55% a year earlier.

Annual Growth Rates of Loans and Investments



Source: *Financial Statistics Monthly* (February 2024), CBC.

Loans by Sector

The annual growth rate of private sector loans extended by banks (defined in the following paragraphs as including domestic banks and local branches of foreign and Mainland Chinese banks) continued to slip to 5.33% at the end of 2023 from 7.46% a year earlier. The fall was largely due to sluggish exports, a moderation in the housing market, and weakening demand for bank borrowing as some investment companies raised funds by issuing bonds and commercial paper. The annual growth rate of loans to government enterprises dropped to 6.98% as of the end of 2023 from 81.52% a year earlier, as Taiwan Power Company and the CPC Corporation met their funding needs by issuing bonds and commercial paper rather than bank borrowing. Meanwhile, the annual growth rate of loans to government agencies declined further from -1.63% to -5.93% at the end of 2023 owing to a larger repayment by the government thanks to increased tax revenues.

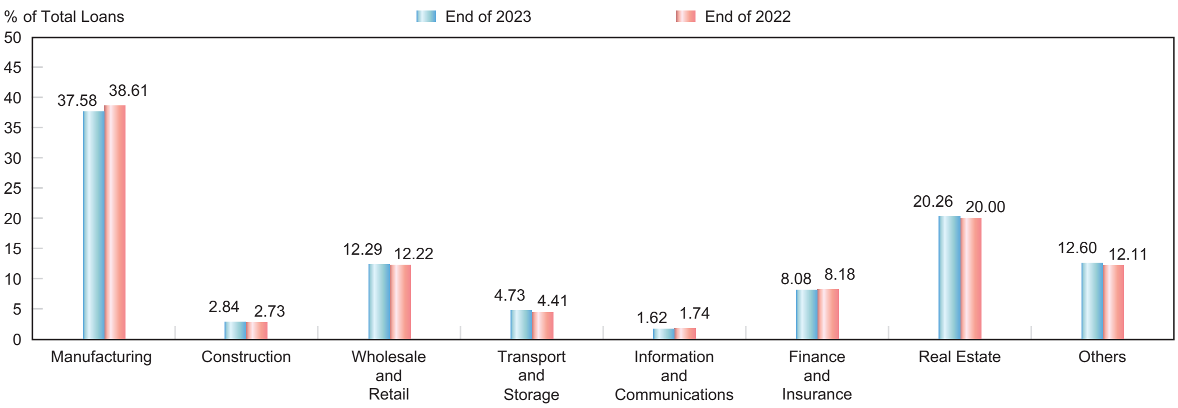
In terms of loan composition, loans extended to the private sector and government enterprises accounted for 93.52% and 2.87% of total loans at the end of 2023, higher than the 93.16% and 2.82% recorded at the end of 2022. Loans extended to government agencies accounted for 3.61% at the end of 2023, lower than 4.02% at the end of 2022.

Loans by Industry

Broken down by industry sector, bank loans to the manufacturing sector continued to account for the largest portion, at 37.58% at the end of 2023 compared to 38.61% at the end of 2022, with its annual growth rate also down from 10.01% to 0.93%. This was mainly attributable to a decrease in loans extended to computers, electronic and optical products manufacturing as export growth declined in 2023. While the share of loans extended to the construction industry increased to 2.84%, its annual growth rate dropped from 11.49% to 7.93% at the end of 2023, reflecting the housing market slowdown.

The share of loans extended to the real estate industry expanded; however, its annual growth rate trended down because of slower growth in construction loans. Meanwhile, the share of loans extended to the wholesale and retail industry climbed up, whereas its annual growth rate continued to decline amid trade headwinds in 2023. Both the share and the annual growth rate of loans to the finance and insurance industry slipped as the industry raised funds by issuing bonds and commercial paper, reducing demand for bank borrowing.

Loans by Industry



Note: Figures include the data of domestic banks and local branches of foreign and Mainland Chinese banks but exclude their data on securities acquired under reverse repurchase agreements.

Source: *Financial Statistics Monthly* (February 2024), CBC.

Consumer loans

The annual growth rate of consumer loans extended by banks increased from 6.16% at the end of 2022 to 6.37% at the end of 2023. Among them, house-purchasing loans increased NT$660.4 billion or 7.04% in 2023, a faster year-on-year increase than 6.52% in 2022 mainly because of an increase in loan origination for newly-built housing units in the latter half of 2023 and the introduction of new Preferential Housing Loans for the Youth in August boosting loan applications. As for the shares of various types of consumer loans, house-purchasing loans remained the largest component, with its share increasing from 84.77% at the end of 2022 to 85.30% at the end of 2023. Car loans accounted for 1.87%, increasing from 1.75%, mainly because the shortage of car parts eased and the delivery volume of imported cars increased. Meanwhile, house-repairing loans, revolving credit for credit cards, employee welfare loans, and other consumer loans accounted for 0.34%, 0.89%, 0.33%, and 11.27%, respectively.

Portfolio Investment

Owing to valuation changes, portfolio investment by monetary financial institutions, measured at fair value, recorded a year-on-year increase of NT$1,095.5 billion, while the increase was smaller, at NT$953.4 billion, when measured on a cost basis.

Portfolio investment by monetary financial institutions, measured on a cost basis, returned to positive territory, registering 12.77% in 2023 compared to -0.55% in 2022. This was mainly driven by ample liquidity in the banking system, together with a rebound in corporate bonds and commercial paper issuance as market interest rates stabilized when central banks in the US and Europe as well as the Bank kept the policy rates unchanged.

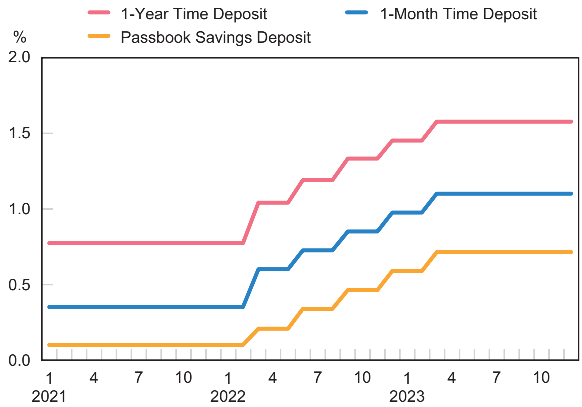
In terms of tool types, government bonds accounted for a share of 51.84%, lower than the 56.12% recorded a year ago because of a year-on-year decrease in net issuance of government bonds. As such, banks increased investment in corporate bonds and commercial paper. At the end of 2023, commercial paper accounted for a share of 21.00%, higher than a year ago. In addition, corporate bonds accounted for a share of 19.52%, edging up from the end of 2022.

Bank Interest Rates

The Bank raised the policy rates by 0.125 percentage points in March 2023, in order to contain domestic inflation expectations. As a result, banks' posted interest rates on deposits and loans trended upward. In the case of the five major domestic banks, the average fixed rates on one-month and one-year time deposits moved upward to 1.10% and 1.58% at the end of March 2023 from 0.98% and 1.45% at the end of February, respectively, while remaining steady for the rest of the year.

In view of the slow decline of domestic inflation and the potential impact of lingering global uncertainties on the strength of the domestic economic recovery, the Bank decided to keep the policy rates on hold in June, September and December in 2023. The Bank also stressed that it would continue to pay attention to the monetary policy trends of major economies, downward risks of Mainland China's economy, as well as changes in international raw material prices, geopolitical risks, extreme weather, etc., and their impact on the domestic economic and financial situation

Average Deposit Rates of the Five Major Domestic Banks*



Note: * The five major domestic banks are Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank and Land Bank of Taiwan.

Source: *Financial Statistics Monthly* (February 2024), CBC.

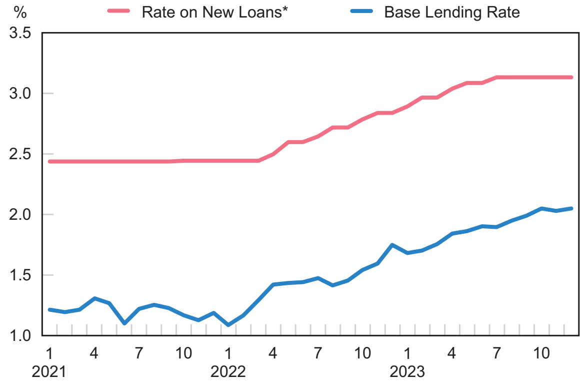
and adjust monetary policy as necessary to maintain price stability and financial stability.

The weighted average rates on deposits and loans of domestic banks generally showed an upward trend in 2023. In terms of deposit interest rates, the Bank's policy rate hikes in December 2022 and March 2023 guided banks' posted interest rates on deposits upward, causing the weighted average interest rate to rise to 0.96% in the second quarter of 2023 from 0.72% in the fourth quarter of the previous year. Then, owing to the increase either in the amount or in the share of time deposits in total deposits, the rate rose further to 0.99% in the fourth quarter of the year. On the whole, the weighted average interest rate on total deposits of domestic banks was 0.94% in 2023, which was 0.41 percentage points more than that recorded in the previous year.

In terms of loan interest rates, after the Bank's March policy rate hike, banks successively increased their base lending rates and the index rates on adjustable-rate mortgages. In addition, there was a decrease in lower-rate borrowings from governments. As a result, the weighted average interest rate on new loans of the five major domestic banks roughly trended upward from 1.679% in January to 2.051% in December. For the year as a whole, the rate increased from 1.446% in the previous year to 1.885%, up by 0.439 percentage points. Excluding central government loans, the weighted average interest rate on new loans increased from 1.483% in the previous year to 1.899% in 2023, up by 0.416 percentage points. Moreover, the average base lending rate increased to 3.133% at the end of 2023 from 2.837% at the previous year-end.

The Bank's policy rate hike led the weighted average loan rate to increase from 2.08% in the fourth quarter of 2022 to 2.34% in the second quarter of 2023. Then, in the third quarter, the weighted average interest rate on loans of domestic banks continued to rise to 2.39% because local governments and government enterprises paid down more loans and some banks successively

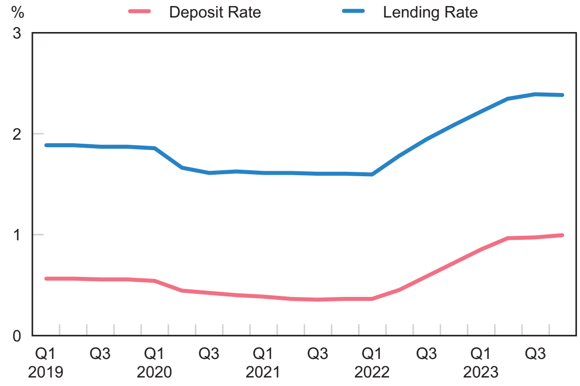
Average Lending Rates of the Five Major Domestic Banks



Note: * Including housing loans, capital expenditure loans, current operations loans and consumer loans.

Source: *Financial Statistics Monthly* (February 2024), CBC.

Weighted Average Interest Rates of Domestic Banks



Source: *Financial Statistics Monthly* (February 2024), CBC.

increased their base lending rates. In the fourth quarter, the weighted average loan rate moved downward to 2.38% because of the introduction of competitive loan rate schemes by some banks and repayment of high-interest rate loans by some firms. For the year as a whole, the weighted average interest rate on loans of domestic banks was 2.33%, which was 0.48 percentage points more than that recorded in the previous year.

Because the increase in the average lending rate was more than that in the average deposit rate, the average interest rate spread between deposits and loans widened to 1.39 percentage points in 2023, which was 0.07 percentage points more than that recorded in the previous year.