

II. Financial Developments

1. Overview

In the first half of 2024, the annual growth rate of M2 generally increased, primarily driven by faster growth in loans and investments. However, from July to September, net capital outflows led to a decline in the M2 annual growth rate, reaching 5.60% in September. Although there was a temporary rebound in October, the growth rate fell again to 5.47% in November owing to a slowdown in loan and investment growth. In December, the growth rate rebounded to 5.51% as the annual growth rates of time deposits and foreign currency deposits increased. The average annual growth rate of M2 for 2024 was 5.83%, with all monthly figures remaining within the reference range for monetary growth (2.5%–6.5%).

In terms of interest rates, between March 2022 and March 2024, the Bank raised the policy interest rates six times, with a cumulative increase of 0.875 percentage points. Additionally, the required reserve ratios were raised by 0.25 percentage points in both July and October 2024. As a result, banks' posted interest rates on deposits and loans, as well as the weighted average interest rates on deposits and loans of domestic banks, showed an upward trend. Furthermore, the weighted average overnight interbank call loan rate, bills market rates, and government bond yields also increased compared to 2023.

In regard to the exchange rate, the NT dollar broadly depreciated against the US dollar in 2024. At the end of 2024, the NT dollar depreciated by 6.2% against the US dollar compared with a year earlier; on a daily average basis, the NT dollar also depreciated by 3.0% compared with the previous year. In the stock market, with the end of the US rate hike cycle and strong AI demand, the Taiwan Stock Exchange (TWSE) Capitalization Weighted Stock Index, the TAIEX, was on the rise, and the daily average trading value increased.

Growth in Bank Loans and Investments Increased, While M2 Growth Slowed

In 2024, with the annual growth rates of housing loans and personal revolving credit rising and export growth driving up funding demand from private enterprises, the annual growth rate of bank loans and investments reached 8.24% at the end of December, higher than the 6.58% recorded at the end of the previous year. The average annual growth rate of loans and investments also rose from 5.92% in the previous year to 8.03% in 2024. Despite the growth in loans and investments, there was an increase in outbound remittances of trading gains by foreign investors compared to the previous year, leading to a slowdown in M2 growth. As a result, the average annual growth rate of M2 declined from 6.25% in 2023 to 5.83% in 2024, with all monthly figures remaining within the Bank's 2.5% to 6.5% reference range for the year.

Both Deposit and Loan Rates Increased

While domestic inflation has remained at a relatively high level since 2021, there were renewed concerns about the electricity tariff hike in April 2024 pushing up inflation expectations. To contain inflation expectations and promote price stability, the Bank raised the policy interest rates by 0.125 percentage points in March 2024. As a result, banks' posted interest rates on deposits and loans trended upward. The average posted interest rate on one-year time deposits at the five major domestic banks rose from 1.58% at the end of the previous year to 1.70%. Meanwhile, the weighted average rate on newly-extended loans (including treasury loans) increased by 0.218 percentage points to 2.103% in 2024.

The weighted average interest rates on deposits and loans at domestic banks showed a broad uptrend in 2024, reflecting the effect of the Bank's policy rate hikes. The weighted average deposit interest rate for the year was 1.08%, up by 0.14 percentage points from the previous year, while the weighted average loan interest rate increased by 0.12 percentage points to 2.45%. Consequently, the average interest rate spread between deposits and loans narrowed from 1.39 percentage points in the previous year to 1.37 percentage points in 2024.

Money Market Rates Generally Increased

Since the beginning of 2024, the weighted average overnight call loan rate has generally trended upward, mainly influenced by factors such as funding demand, the Bank's policy rate hikes, capital outflows, and seasonal effects. The weighted average rate rose from the yearly low of 0.687% in January to a peak of 0.823% in October, before slightly declining to 0.820% at the end of December. The annual average rate was 0.794%, increasing by 0.148 percentage points from the previous year.

With regard to the bills market, money market rates broadly increased in 2024, while their yearly average rates were all higher than those of the previous year owing to the Bank's rate hikes. The average 1-30 day commercial paper rate in the secondary market was 1.40% in 2024, increasing by 0.2 percentage points over the previous year.

10-Year Government Bond Yield Became Higher than Last Year

In 2024, the rise in US government bond yields and the Bank's March policy rate hike combined to push up Taiwan's government bond yields. However, owing to ample domestic liquidity, the increase in Taiwan's bond yields was relatively moderate. The average yield on Taiwan's benchmark 10-year government bond rose by 22 basis points over the previous year to 1.43%.

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 increased by about NT\$60 billion over the previous year.

NT Dollar Broadly Depreciated

In 2024, the NT dollar broadly depreciated against the US dollar. In the year through to July, the NTD/USD exchange rate generally weakened, mainly because of US dollar strength as a resilient US labor market and higher-than-expected CPI inflation continued to dampen market expectations for a Fed rate cut in the first half of the year and because of portfolio outflows from Taiwan as foreign investors net sold on the TWSE. Afterwards, with the August release of the minutes of the Federal Open Market Committee (FOMC) indicating easing upside inflation risk and heightening downside labor market risk, followed by the Fed's half-percentage-point rate cut in Mid-September, the NT dollar strengthened against the US dollar. However, in November, the re-election of Donald Trump as US President raised concerns over potential negative impacts from his trade policies and led to portfolio outflows by foreign investors, causing the NT dollar to soften against the US dollar. The NTD/USD depreciation continued in December mainly because the Fed's Chair Powell signaled for slower rate cuts despite an expected cut in Mid-December.

As of the end of 2024, the NT dollar depreciated by 6.2% against the US dollar compared with the end of the previous year. On an annual average basis, the NT dollar also depreciated by 3.0% against the US dollar.

Stock Index Rose and Trading Value Significantly Increased

From the beginning of 2024, Taiwan's stock market was driven upward by the end of the US rate hike cycle and strong demand for AI technologies. On July 11, the TAIEX reached a historic high of 24,390 points. However, factors such as weak US economic data, Middle East conflicts, and foreign investor sell-offs caused the market to drop to a low of 19,831 points on August 5.

Subsequently, with the Fed's rate cuts, a rebound in US stocks and positive earnings reported by the Taiwan Semiconductor Manufacturing Company (TSMC), the TAIEX surged to 22,035 points at the end of the year, up by 28.5% over the end of the previous year. The daily average trading value on the TWSE increased significantly by 44.3% from 2023 to NT\$381.4 billion in 2024.