II. Financial Developments

1. Overview

In 2025, the annual growth rate of M2 decreased, driven by slower growth in loans and investments. Although there was a temporary rebound to 5.11% in November as the annual growth rate of demand deposits increased and the decline in foreign currency deposits narrowed, M2 growth slowed again to 5.00% in December owing to net capital outflows. The average annual growth rate of M2 for 2025 was 4.54%, lower than 5.83% in 2024 and still within the reference range for monetary growth (2.5% – 6.5%).

Regarding interest rates, the Bank's policy rates remained unchanged. As a result, banks' posted interest rates and the weighted average interest rates on deposits and on loans stayed steady. Meanwhile, the weighted average overnight interbank call loan rate, money market rates, and government bond yields fluctuated within a tight range. In 2025, the weighted average overnight interbank call loan rate was 0.820%, increasing by 0.026 percentage points over the previous year. The average 1-30 day commercial paper rate in the secondary market was 1.39%, decreasing by 0.01 percentage points over the previous year. The average yield on 10-year government bonds was 1.45%, increasing by 0.02 percentage points from the previous year.

Regarding the exchange rate, the NT dollar first appreciated and then depreciated against the US dollar in 2025. At the end of the year, the NT dollar appreciated by 4.3% against the US dollar compared with a year earlier; on a daily average basis, the NT dollar also appreciated by 3.0% against the US dollar compared with the previous year.

Moreover, amid uncertainty surrounding U.S. tariff policies and robust demand for AI, the TAIEX trended upward in tandem with U.S. tech stocks. At the end of 2025, the TAIEX reached a record high of 28,964 points, up 25.7% year on year. The daily average trading value on the TWSE increased slightly from the previous year.

Bank Loans and Investments as well as M2 Saw Slower Growth

The annual growth rate of bank loans and investments decreased from 8.24% at the end of 2024 to 6.21% at the end of 2025, owing to a high base and the impact of U.S. tariff policies. With slower growth in bank loans and investments, the annual growth rate of M2 (measured on a daily average basis) declined to 4.54% in 2025 from 5.83% in 2024, but remained within the Bank's 2.5% to 6.5% reference range for the year.

Both Deposit and Loan Rates Remained Steady

In 2025, the Bank's policy rates remained unchanged. Accordingly, the posted interest rates on bank deposits stayed steady. At the end of 2025, the average posted interest rate on one-year time deposits of the five major domestic banks was 1.70%, unchanged from the end of the previous year. Meanwhile, the weighted average rate on their newly-extended loans (including treasury loans) fluctuated slightly within the range of 2.111% to 2.235% and the annual average was 2.161%, increasing 0.058 percentage points over the previous year.

Regarding the weighted average interest rates on deposits at domestic banks, some banks launched preferential deposit rate programs to attract funds. Additionally, firms temporarily parked funds in time deposits ahead of tax payments and dividend distributions during the second quarter, which increased the proportion of higher-interest time deposits, thereby driving up overall deposit rates. Consequently, the annual weighted average deposit rate stood at 1.15%, increasing 0.07 percentage points over the previous year. On the lending front, some banks raised mortgage rates and expanded their mortgage lending volumes. This led to an increased proportion of higher-interest long-term loans, bringing the annual weighted average loan rate to 2.50%, up 0.05 percentage points from the previous year.

Because the increase in loan rates was smaller than the increase in deposit rates, the average interest rate spread between deposits and loans narrowed from 1.37 percentage points in the previous year to 1.35 percentage points in 2025.

Money Market Rates Generally Remained Stable

Driven by the sustained growth in AI demand and the flourishing development of related supply chains, Taiwan's exports surged, and private investment continued to expand in 2025. Against this backdrop, financial institutions' demand for interbank call loans strengthened, leading the total annual turnover of interbank call loans to increase by 11.35% over the previous year.

Reflecting supply and demand for funds and seasonal factors, the weighted average interbank overnight call loan rate in 2025 fluctuated within a narrow range. The annual average rate stood at 0.820%, an increase of 0.026 percentage points from the previous year.

Likewise, bills market rates moved within a tight range in 2025, and the annual average 1-30 day commercial paper rate in the secondary market was 1.39%, down 0.01 percentage points from the prior year.

Government Bond Yields Fluctuated Slightly

Amid volatility in U.S. Treasury yields and the continuous revision of market expectations regarding the timing of interest rate cuts by major central banks, the turnover-weighted average of the yield on Taiwan's 10-year government bond rose to 1.45% in 2025, an increase of 0.02 percentage points from 1.43% in the previous year.

In terms of issuance, although 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$104.5 billion compared to the previous year.

Corporate bonds saw an expansion in issuance as firms increased funding to meet operational needs and support the green energy transition, with total issuance rising by NT$179.6 billion compared to the previous year. Bank debentures also increased, as banks sought to strengthen capital to improve capital adequacy ratios and meet growing demand for green financing and sustainable development bonds, with total issuance rising by NT$111.6 billion compared to the previous year.

NT Dollar Generally Appreciated Against US Dollar

In 2025, the NT dollar exchange rate against the US dollar first appreciated and then depreciated. In the first half of the year, following the U.S. announcement of reciprocal tariff measures in early April, frequent adjustments to tariff policies and the passage of the *"One Big Beautiful Bill" Act* raised investor concerns about U.S. economic growth momentum and its fiscal outlook, pushing the US dollar toward depreciation. In May and June, foreign investors net bought Taiwan stocks and exporters sold US dollars on the expectation of NT dollar appreciation, causing the NT dollar to appreciate against the USD.

In the second half of the year, as the U.S. reached trade agreements with multiple countries, policy uncertainty declined. In addition, Fed Chair Powell repeatedly expressed a cautious stance on rate cuts, contributing to a strengthening of the US dollar. At the same time, foreign investors sold Taiwan stocks to lock in profits, leading to capital outflows and NT dollar depreciation. By the end of 2025, the NT dollar had appreciated by 4.3% against the US dollar compared to the end of the previous year. On an average basis, the NT dollar also appreciated by 3.0% year-on-year.

Stock Index Hit a Record High

At the beginning of 2025, driven by strong demand for emerging AI technology applications, Taiwan stocks trended upward in tandem with U.S. tech stocks. After that, however, U.S. tariff policies triggered declines in major global stock markets, and foreign investors' net selling pushed the TAIEX down to its yearly lowest of 17,392 points on April 9.

Subsequently, supported by measures implemented by the Financial Supervisory Commission (FSC) to stabilize the stock market, intervention by the National Financial Stabilization Fund, the temporary suspension of U.S. reciprocal tariffs, the front-loading of export orders, continued strong AI demand, and solid corporate earnings performance, the market rebounded with volatility. By year-end, the TAIEX reached a record high of 28,964 points, up 25.7% year on year. The daily average trading value on the TWSE was NT$383.8 billion, a slight increase of 0.6% from the previous year.