

## II. Financial Developments

### 1. Overview

In the first half of 2009, affected by the financial turmoil that severely impacted the global economy, Taiwan's external trade and private investment shrank, and the economy continued to contract. In the second half of the year, against the backdrop of a recovering global economy, Taiwan's domestic economic activity steadily picked up. Demand for funds, however, remained soft and banks' loans and investments growth declined before trending upwards in the fourth quarter of the year. Along with the Bank's easy monetary policy, market interest rates moved downward gradually. The NT dollar exchange rate against the US dollar depreciated in the first two months of the year and then appreciated afterward.

With respect to monetary aggregates, the annual growth rate of M2 rose from 2.67 percent in the previous year to 7.21 percent in 2009, exceeding the upper bound of the Bank's 2.5 percent to 6.5 percent target zone for the year. The main reasons included a net foreign capital inflow and an increase in net foreign exchange receipts from external trade. The easy monetary policy adopted by the Bank to bolster economic recovery in the absence of inflationary pressures also played a role.

Loans and investments of major financial institutions grew at an annual rate of 0.75 percent at the end of 2009, down from 3.42 percent registered a year earlier, mainly due to soft demand for funds from enterprises affected by the global financial turmoil and sluggish growth in bank portfolio investments. Among the loans extended by major financial institutions, the outstanding balance of consumer loans turned to an increase, primarily led by a rise in private consumption and a warming housing market. If the loans and investments of life insurance companies and trust and investment companies, as well as funds raised directly in the financial markets were taken into account, the total funds raised by the non-financial sector registered an annual growth rate of 1.62 percent at the end of the year, lower than the 2.76 percent recorded at the previous year-end.

The pre-tax profits of depository institutions went up in 2009, mainly due to increases in the fair value of financial assets and the profits of portfolio investments. As a result, their average return on assets and return on equity were both higher than those of the previous year. The average capital adequacy ratio of domestic banks increased from the previous year-end's 11.04 percent to 11.85 percent, meanwhile the overall non-performing loan ratio decreased

from 1.54 percent to 1.15 percent during the same period.

In the stock market, the TAIEX (Taiwan Stock Exchange Capitalization Weighted Stock Index) moved down in January, triggered by a marked drop of business in major hi-tech companies amid the deteriorating US economic climate and a continued sell-off by foreign investors. Subsequently, owing to falling interest rates and an easing of restrictions by the government on Chinese investment in Taiwan, the TAIEX rebounded substantially. From August onwards, owing to improvement in the US economy, the Fed's commitment to low interest rates, and the emerging effects of the cross-strait MOU and ECFA issues, the TAIEX gained significant upward momentum and reached a yearly high of 8,188 points on December 31, recording a 78.3 percent rise from a year earlier. The daily average turnover for the year increased by 12.8 percent compared with the previous year.

The NT dollar exchange rate (NT\$/US\$) started the year weakly and hit a yearly low of 35.174 in March due to the impact of global financial distress. Afterwards, owing to the popularity of the US dollar carry trade as well as the warming cross-strait relations, the exchange rate appreciated to reach a yearly high at the year-end of 32.030, showing an appreciation of 2.59 percent compared with the previous year-end. On a daily average basis, however, it depreciated by 4.54 percent in 2009 over the previous year.