

# Annual Report 2013

Central Bank of the Republic of China (Taiwan)

Taipei, Taiwan  
Republic of China

# Foreword



Fai-nan Perng, Governor

Against the backdrop of a gradual global recovery, stabilizing export growth and improved domestic demand, Taiwan delivered a better economic performance with an annual growth rate of 2.11 percent in 2013, faster than the 1.48 percent registered in the previous year. Inflation moderated from an annual growth rate of 1.93 percent in the previous year to 0.79 percent owing to lower international raw material prices and mild domestic prices rises.

The recent improvements notwithstanding, international economic conditions remain highly uncertain. With this in mind, as well as moderate economic growth and subdued inflationary pressures, the CBC held the policy rates unchanged throughout 2013 and kept M2 growth in check by managing market liquidity via open market operations. For the year as a whole, M2 growth averaged at a pace of 4.78 percent, close to the median of the 2013 target range. This is judged to be sufficient to help maintain price and financial stability and foster economic growth.

During 2013, the CBC continued to urge financial institutions to enhance risk management for real estate lending in “specific areas,” namely metropolitan Taipei, high-value housing loans, and land collateralized loans. The CBC also called for self-discipline and greater prudence on the part of the banks when making loans for residential properties in “non-specific areas” with considerable price surges and when making loans collateralized against lands for industrial use. We also alerted borrowers to potential risks associated with possible rate hikes at some point in the future.

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In terms of exchange rate movements, the NT dollar, under a managed float regime, continues to exhibit dynamic stability. At the end of 2013, foreign exchange reserves amounted to US\$416.8 billion, increasing by US\$13.6 billion during the year.

More financial products were approved for launch and restrictions were further eased to facilitate foreign currency fund flows in 2013. Authorized banks began to offer renminbi business from February 2013, leading up to rapid growth in renminbi deposits and an increasing variety of renminbi-denominated financial products. In addition, the foreign currency clearing platform, newly established to reinforce financial infrastructure, became available for transactions involving renminbi as well as US dollar remittances. Providing more efficient and less costly cross-strait fund transfers, such progress will facilitate the development of the financial service industry.

The CBC also inaugurated the Chinese version of the Virtual Money Museum in June 2013, followed by the English and the mobile versions. We expect the well-received virtual museum will increase the public's knowledge of banknotes and coins in this country.

Looking ahead, the global recovery is not quite yet secure given that the Chinese economy may slow down amid structural reforms and that the tapering of the US Federal Reserve's asset purchases could impact financial and economic stability of emerging market economies. The CBC will continue to closely monitor the economic and financial developments in Taiwan and across the world and take appropriate actions in a timely manner.

Finally, I would like to thank my colleagues for their dedication in putting together this publication and for their hard work over the past year. We remain committed to fulfilling our missions and strive to meet future challenges.

A handwritten signature in black ink, appearing to read 'Fai-nan Perng', with a stylized, flowing script.

Fai-nan Perng  
Governor  
April 2014

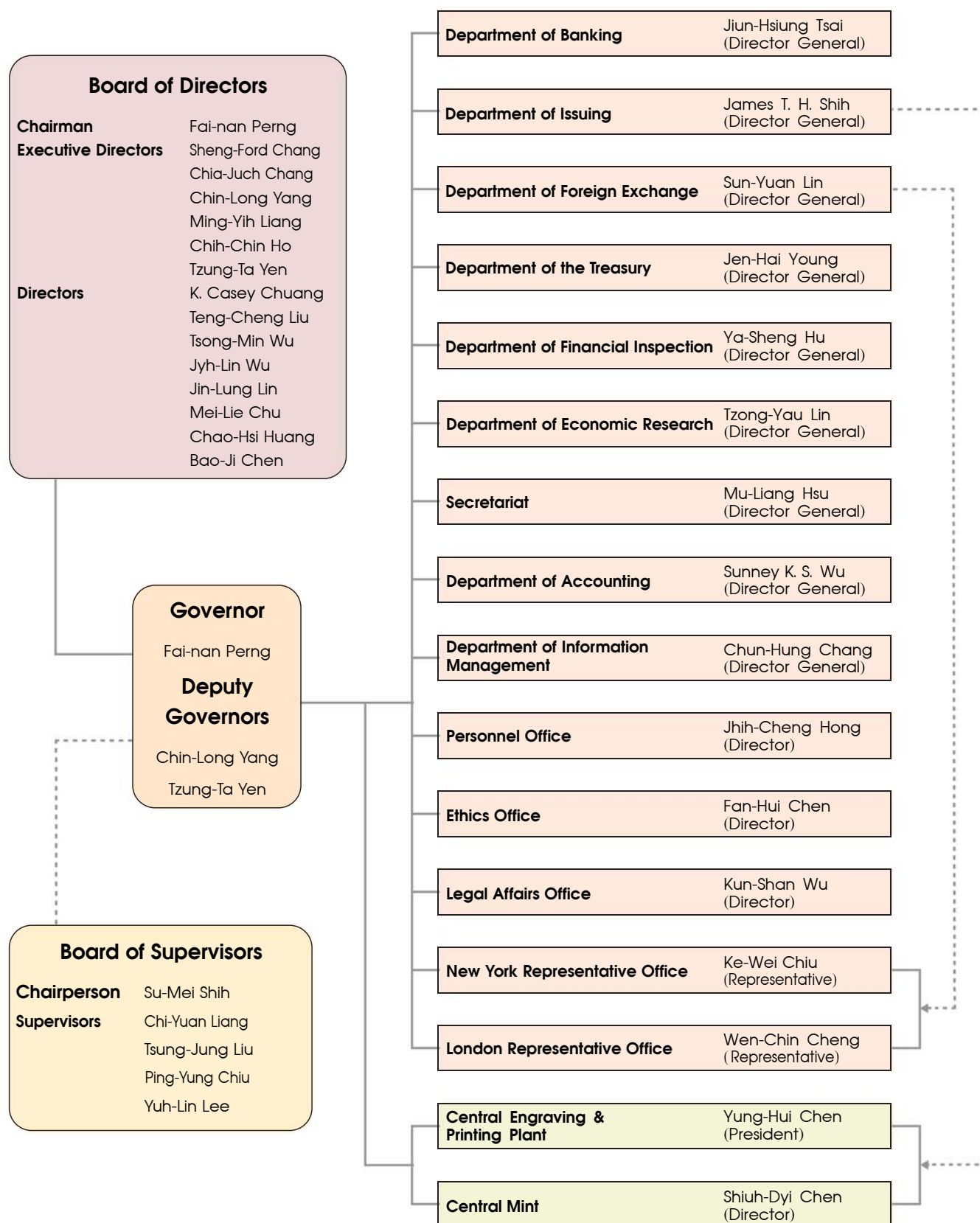
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# Organization and Management of the CBC



As of April 2014



Chairman  
Board of Directors  
Governor  
Fai-nan Perng



Executive Director  
Sheng-Ford Chang



Executive Director  
Chia-Juch Chang



Executive Director  
Deputy Governor  
Chin-Long Yang



Executive Director  
Ming-Yih Liang



Executive Director  
Chih-Chin Ho



Executive Director  
Deputy Governor  
Tzung-Ta Yen



Director  
K. Casey Chuang



Director  
Teng-Cheng Liu



Director  
Tsong-Min Wu



Director  
Jyh-Lin Wu



Director  
Jin-Lung Lin



Director  
Mei-Lie Chu



Director  
Chao-Hsi Huang



Director  
Bao-Ji Chen





Chairperson  
Board of Supervisors  
Su-Mei Shih



Supervisor  
Chi-Yuan Liang



Supervisor  
Tsung-Jung Liu



Supervisor  
Ping-Yung Chiu



Supervisor  
Yuh-Lin Lee

# *Developments in the Real Economy*



# I. Developments in the Real Economy

## 1. Overview

In 2013, Taiwan's GDP growth rate expanded from the 1.48 percent of the previous year to 2.11 percent, supported by a gradual advance in external and domestic demand amid improving economic conditions in the US and Europe. The balance of payments registered a surplus of US\$11,318 million and the current account surplus and the net outflow in the financial account reached concurrent historical highs. In terms of prices, the CPI annual growth rate dropped to 0.79 percent, compared to 1.93 percent the previous year, as reductions in communications fees and consumer electronics prices partially offset fuel and food price rises. Central government revenue gained by NT\$62.1 billion over the previous year, underpinned mainly by receipts from 4G mobile spectrum license fees. Combined with a NT\$26.1 billion decrease in expenditure, the 2013 government deficit narrowed considerably by NT\$88.2 billion to NT\$125.9 billion. Labor market conditions continued to improve, and the unemployment rate edged down during the year to reach a five-year low at an annual average of 4.18 percent.

### **Moderate Economic Growth**

In the first half of 2013, against a backdrop of a slow global recovery, Taiwan registered steady trade growth owing to a lower base the previous year. Entering the second half of the year, though Europe and the US showed more signs of strength, Taiwan's export growth slackened in the third quarter on weaker demand from Mainland China. However, in the fourth quarter, exports rebounded thanks to greater demand for electronics products, and private investment and consumer confidence both picked up, leading the economy to grow at a faster pace of 2.95 percent. For the year as a whole, Taiwan's economy expanded by 2.11 percent, higher than the 1.48 percent of the previous year.

In terms of GDP components by expenditure, 2013 witnessed faster private investment growth, steady private consumption, and slower net export growth. Domestic demand contributed 1.48 percentage points to the annual economic growth rate, greater than the 0.63 percentage points by net external demand. As for the sectoral components of GDP, the industrial sector grew by 1.78 percent with a contribution of 0.63 percentage points, while the service sector expanded 1.68 percent with a contribution of 1.06 percentage points, both higher than the previous year. The agricultural sector turned from contraction to positive growth of 0.23 percent, albeit with a rather limited contribution to the overall economic growth.

## Steady BOP Surplus

In 2013, both the current account surplus and the net outflow in the financial account reached historical highs, with the former greater than the latter. As a result, the overall balance of payments in 2013 showed a continued surplus of US\$11,318 million, narrowing from US\$15,484 million the previous year.

In the current account, the goods trade surplus widened from US\$31,608 million in 2012 to US\$37,014 million, reflecting an increase in exports and a decline in imports. The services account also recorded a wider surplus of US\$9,269 million owing to increased travel receipts and reduced expenditure on trade commissions. The surplus on the income account narrowed to US\$14,093 million, mainly because the revenue from residents' investment in foreign exchange assets decreased and the payments for non-residents' income from equity securities investment increased. Meanwhile, the current transfers balance showed a larger deficit of US\$2,996 million. Overall, the current account surplus grew by 13.2 percent to US\$57,380 million, representing a greater share of 11.3 percent in GNP compared to the previous year.

In terms of the financial account, the net outflow increased from US\$31,673 million in 2012 to US\$41,164 million, mostly accounted for by larger net outflows in direct investment abroad, debt securities investment, and banks' deposits with overseas branches. Among the components, direct investment abroad posted a new record-high net outflow of US\$14,336 million, mainly owing to expanded investment in Mainland China. Portfolio investment exhibited a net outflow of US\$29,197 million. Residents' portfolio investment abroad showed a net outflow of US\$37,177 million mainly because of debt securities investment overseas by insurance companies, while non-residents' portfolio investment registered a net inflow of US\$7,980 million owing to increased stock market investment by foreign investors. Moreover, other investment turned from a net inflow of US\$20,020 million the previous year into a net outflow of US\$2,396 million as a result of an increase in redeposits with overseas bank branches after they began to accept renminbi deposits.

## Mild Price Uptrend

In 2013, international raw material prices declined and a weaker yen reduced the cost of equipment imported from Japan. Therefore, Taiwan's import prices in NT dollar terms dropped by 4.45 percent, while prices for domestic sales and exports fell 0.71 percent and 2.06 percent, respectively. As a consequence, the WPI growth rate went down by 2.43 percent.

In terms of consumer prices, fuel, gas, and electricity for households all experienced rate hikes, as well as a rise in food prices. However, these were partially offset by lower communications fees and price reductions of consumer electronics to stimulate sales. For the year as a whole, the CPI went up by 0.79 percent, lower than the 1.93 percent of the previous year, while the core CPI

(excluding prices of fruits, vegetables, and energy) recorded a modest increase of 0.66 percent, lower than the 1.00 percent of the previous year.

### **Narrower Government Deficit**

Boosted by higher-than-expected receipts from 4G license auctions, the 2013 total central government revenue recorded an increase of NT\$62.1 billion or 3.7 percent, whereas expenditure fell by NT\$26.1 billion or 1.4 percent. As a result, the central government deficit shrank remarkably by NT\$88.2 billion over the previous year to a total of NT\$125.9 billion.

On the revenue side, a series of tax cuts and a lackluster economic recovery led to a 0.3 percent decline in tax revenues, still representing a large share of 70.4 percent in total central government revenue. As the Taiwan Power Company and the Taiwan Railways Administration continued to suffer losses in 2013, surpluses of public enterprises and public utilities narrowed by 4.3 percent, accounting for 14.5 percent in total central government revenue. Fees, fines and indemnities took up a larger share of 11.4 percent in total revenue, with an increase of 4.9 percentage points thanks mostly to 4G mobile spectrum license fees.

Central government expenditure registered a decrease as a result of spending cuts in national defense, and general subsidies and other expenditure. By category, expenditure on social welfare continued to mount up and, at 23.7 percent, remained the largest component of government spending. The category of education, science and culture took up a share of 19.2 percent, national defense, 15.6 percent, and economic development, slightly down to 13.9 percent.

A narrower fiscal deficit and reduced debt principal repayment softened the need for debt financing. At the end of 2013, the total outstanding debt of the central government rose to NT\$5,214.8 billion, up by NT\$203.3 billion over the previous year. As a percentage of GDP, its share increased modestly from 35.6 percent to 35.8 percent.

### **Improvements in Labor Market Conditions**

In 2013, the unemployment rate continued along a broad downtrend. The rate was 4.06 percent in May and then slightly went up to 4.33 percent in August after the graduation season. As the economy picked up, the unemployment rate edged down to 4.08 percent in December. For the year as a whole, the unemployment rate reached a five-year low at 4.18 percent, though structural unemployment remained a task to be tackled.

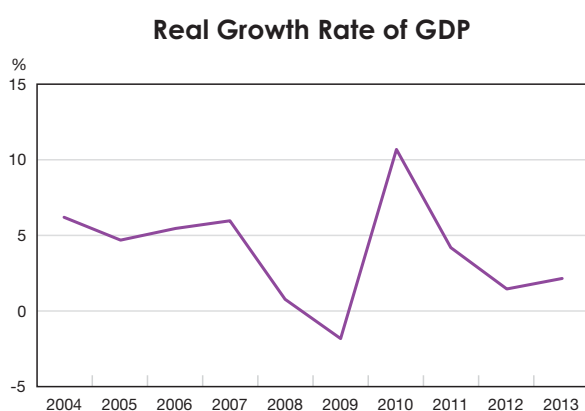
In terms of employment, the total number of employed persons averaged 10.97 million in 2013, up by 0.99 percent from the previous year. The services sector had the largest increase, hiring 1.21 percent more people compared to the previous year, while employment of the industrial sector rose by 0.77 percent.

Average non-farm (industrial and services sectors) employee earnings were NT\$45,965, a modest increase of 0.17 percent over the previous year. The average regular earnings of non-farm employees rose by 0.99 percent to NT\$37,716. Earnings in real terms posted a year-on-year decrease of 0.62 percent, while real regular earnings showed a 0.19 percent increase. Moreover, labor productivity index of the industrial sector grew by 0.09 percent, yet unit labor cost increased 0.14 percent in 2013 as the increase in total employee earnings outpaced that in total production.

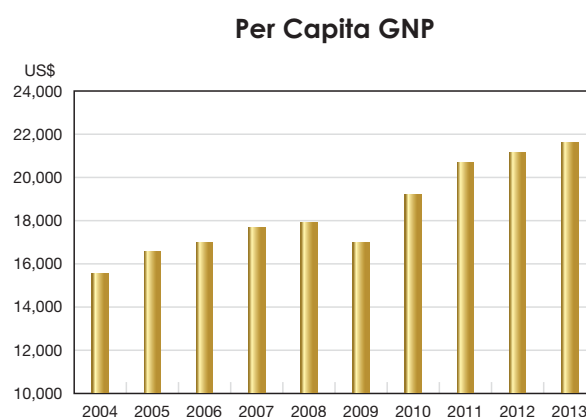
## 2. National Output and Income

Following an upturn in late 2012, the Taiwanese economy continued its mild recovery and expanded modestly in 2013. This was driven by moderate growth in the global economy and further supported by increased consumer spending and business investment. External trade witnessed stable growth during the first half of the year mainly owing to a lower base effect. Over the next six months, bolstered by an improvement in advanced economies along with solid consumer electronics demand abroad in the fourth quarter, exports gradually gained momentum. In addition, private consumption grew at a mild pace in the first three quarters on account of low wage growth and concerns about food safety, while the growth rose markedly in the fourth quarter on the back of a buoyant stock market and strong car sales. Moreover, private investment resumed healthy growth after two consecutive years of declines as semiconductor enterprises continued to increase capacity in advanced manufacturing. For the entire year, real GDP expanded at an annual growth rate of 2.11 percent, up from 1.48 percent in 2012.

The pace of economic expansion decelerated during the first quarter with real GDP growth down to 1.44 percent as private consumption lost steam and a decrease in net exports partially offset private investment growth. On account of steady expansion in external trade, improved private consumption and a continued increase in private investment, real GDP growth picked up to 2.69 percent in the second quarter. Nevertheless, hampered by slowing consumption, falling capital expenditure and declining exports resulting from softening demand from China, the third quarter's real GDP growth moderated to 1.31 percent. The domestic economy expanded the most during the fourth quarter as a pickup in the global economy boosted external trade and enhanced consumer confidence and business investment. Consequently, GDP growth firmed to 2.95 percent



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2014.



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2014.

in the fourth quarter. Meanwhile, owing to a mild increase in economic activity, per capita GNP in nominal terms increased by a modest 2.25 percent from US\$21,082 to US\$21,557.

## Expenditure Components of GDP

Against the backdrop of a modest gain in demand both at home and abroad, all expenditure components of GDP except government consumption posted growth rates higher than the previous year. Among them, private consumption recorded a positive contribution of 0.95 percentage points for the year, remaining the primary source of economic growth. Gross fixed capital formation also saw its contribution to GDP growth increased to 0.85 percentage points owing to a pickup in capital expenditures. Although exports posted a lower growth rate than imports, net exports continued to record a contribution of 0.63 percentage points to economic growth. On the contrary, affected by a limited fiscal budget, government consumption declined mildly, dragging GDP growth down by 0.04 percentage points. In terms of shares of GDP, all expenditure components decreased further in 2013. Exports of goods and services accounted for the largest share of GDP at 72.98 percent, followed by private consumption at 59.51 percent and gross fixed capital formation at 19.42 percent.

### 1. Modest Growth in Private Consumption

During 2013, consumer spending progressed at a cautious pace mainly owing to subdued income growth and concerns over food safety. For the entire year, private consumption rose by 1.77 percent in real terms, slightly higher than the previous year's 1.62 percent, accounting for 0.95 percentage points of GDP growth.

In the beginning of the year, consumer sentiment was dampened by a contraction in real wage

## Expenditure on Gross Domestic Product

Unit: %

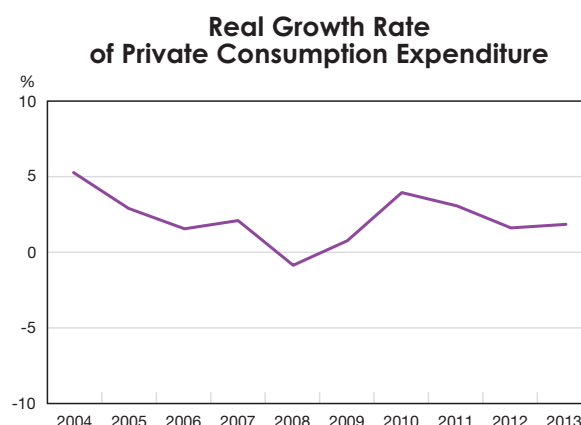
	2013			2012		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Private Consumption	59.51	1.77	0.95	60.13	1.62	0.87
Government Consumption	11.86	-0.33	-0.04	12.41	0.96	0.11
Gross Fixed Capital Formation	19.42	5.26	0.85	19.69	-4.01	-0.68
Change in Inventory	-0.16	-	-0.29	0.15	-	-0.10
Exports of Goods and Services	72.98	3.81	2.80	73.35	0.11	0.08
( Less : Imports of Goods and Services)	63.61	(4.01)	(2.17)	65.74	(-2.16)	(-1.21)
Expenditure on GDP	100.00	2.11	2.11	100.00	1.48	1.48

Note: \* Percentage point.

Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2014.



growth, shrinking financial wealth resulting from low trading activities in the stock market, and expectation of further depreciation of the Japanese yen, which delayed household purchases of vehicles. As a result, private consumption growth markedly weakened to 0.39 percent in the first quarter, in contrast to the 1.69 percent growth in the fourth quarter of the previous year. In the second quarter, with a buoyant stock market, a rebound in car sales and stronger retail sales, consumption expanded at an annual rate of 1.98 percent, even though food safety concerns, which suppressed spending in restaurants, partially offset it. During the third quarter, despite further gains in the stock market and an increase in the number of visitors travelling to Japan owing to the weakening of the Japanese yen, private consumption growth edged down to 1.45 percent on account of waning consumer sentiment in the face of lackluster wage growth. Later, supported by a surge in stock prices, a stronger demand for motor vehicles boosted by promotional sales and the release of new car models, and continued expansion in tourism, consumer spending in the retail sector and restaurant business rose significantly, leading private consumption to increase by a remarkable 3.28 percent in the final quarter, the highest annual growth since the fourth quarter of 2011.



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2014.

In terms of the private consumption categories, food consumption rose by 2.28 percent, slightly lower than the growth rate of 2.47 percent registered in 2012, while non-food consumption grew by 1.71 percent compared with an increase of 1.51 percent in the previous year. Among the components of non-food consumption, outlays for transportation posted the largest growth of 3.96 percent for the year, primarily as a consequence of heated demand for car purchases. Moreover, owing to higher demand for leisure activities, consumer spending on recreation and culture increased further, registering the second largest growth of 3.17 percent for the year.

## 2. Slight Decline in Government Consumption

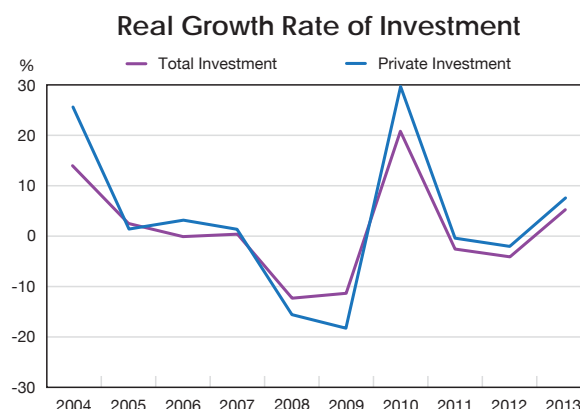
After trending upward for six years, the growth rate of government consumption expenditure slid into negative territory in 2013. This expenditure slightly declined by 0.33 percent in real terms for the year, subtracting 0.04 percentage points from GDP growth. This was mainly associated with continuous curtailment of government expenditure that aimed to improve public finance situations.

### 3. Moderate Rebound in Fixed Capital Formation

Fixed capital formation exhibited modest growth with an annual rate of 5.26 percent in real terms for the year of 2013, reversing its negative growth of 4.01 percent in the previous year, and contributing 0.85 percentage points to economic growth. During the first two quarters, as semiconductor companies accelerated capacity expansion in advanced manufacturing and the Japanese yen depreciation prompted manufacturers to import more capital equipment, fixed capital formation expanded by 5.88 percent. Although fixed capital formation posted slower growth in the third quarter as a result of weaker economic activity and a higher base effect, fixed capital investment grew by 4.69 percent in the second half of the year. This was mainly attributable to a pickup in capital spending led by the semiconductor industry on the back of mounting export orders for electronics products in the fourth quarter.

Regarding expenditure by type of purchaser, investment by private businesses increased by 7.38 percent after two consecutive years of decline, adding 0.94 percentage points to real GDP growth. In the first half of the year, as semiconductor manufacturers increased capital spending, private investment exhibited stable growth. In the third quarter, although capital spending on semiconductors continued to expand, it was restrained by a higher base. Concurrently, with weaker business sentiment amid uncertainties over the Fed's QE tapering and the slowdown of China's economy, most industries lacked investment momentum. During the fourth quarter, benefiting from vigorous worldwide demand for consumer electronics products, private investment resumed growth and posted a double-digit increase of the year. Furthermore, as the execution of several investment projects by public enterprises was ahead of schedule, investment by public enterprises increased by 3.84 percent, contributing 0.04 percentage points to economic growth for the year. Government investment, however, continued to shrink throughout all quarters because of a limited budget and went down by 5.93 percent over the year, subtracting 0.13 percentage points from economic growth.

In terms of the type of capital formation, the largest increase was observed in outlays on machinery and other equipment, registering a growth of 12.31 percent, in sharp contrast to the contractions of the last two years. This significant growth was largely generated by new investment in semiconductor production bolstered by successive releases of new ICT products, as well as with the effect of the Japanese yen depreciation. Meanwhile, the growth rate of investment by the



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2014.

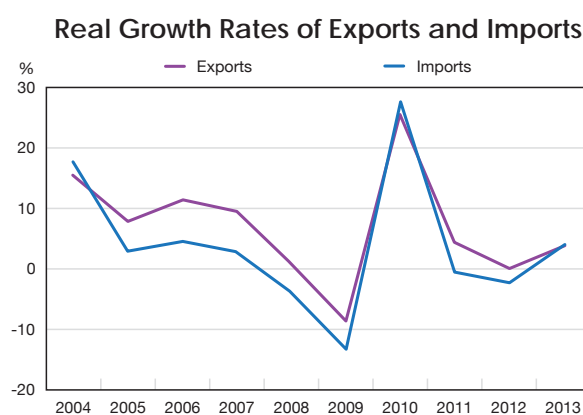
construction sector returned to positive territory and was up to 1.73 percent. This moderate growth, particularly in the first half of the year, reflected increasing construction of residential buildings driven by the solid demand in the housing market. Likewise, transportation spending accelerated in the first half of the year as a result of increased procurement of airliners and passenger trains, while it slightly contracted in the second half mostly owing to a higher base effect, registering a modest growth of 2.83 percent for the year as a whole. Additionally, investment in intangible fixed assets slowed and posted a decline of 5.33 percent over the previous year.

#### 4. Modest Lift in Exports and Imports

Despite competitive pressure from China's supply chain localization policy and intense competition from abroad in information and communications products, the growth of exports still outpaced that in 2012, registering a mild growth of 3.81 percent and contributing 2.80 percentage points to economic growth for the year as a whole. The increase in exports was mainly due to an improvement in the US and European economies in the second half of the year as well as a lower base effect.

For the first quarter, with a weaker-than-expected global recovery, China's continuing capacity expansion in the petrochemical industry and the weakening of the Japanese yen, exports of information and communications products, petrochemicals and machinery shrank, whereas those of electronics, mineral products and optical instruments grew, leading to a 4.53 percent growth in exports of goods and services. In the second quarter, owing to the lessening of global economic uncertainty, growth in exports of goods and services accelerated to 5.05 percent. The advance was mainly supported by the continual growth in exports of electronics and mineral products, together with the expansion of tourism service exports. Nevertheless, real exports of goods and services slowed to a 1.74 percent annual rate in the third quarter as commodity exports registered negative growth as a result of China's structural reform and its gradual localization of the supply chain. A significant contraction was witnessed in exports of optical instruments and mineral products. During the fourth quarter, underpinned by brisk demand from advanced economies for consumer electronics and higher demand for goods before the Chinese New Year holidays, the exports of goods and services expanded at an annual rate of 4.03 percent.

Following a modest growth in business investment spending, the growth of imports reversed its decline of the previous year and outpaced that of exports in 2013. The increase

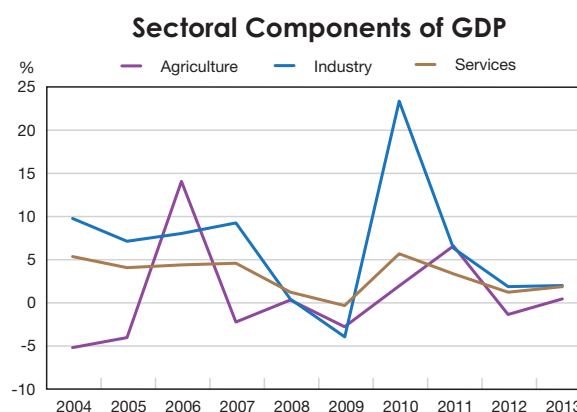


Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2014.

in imports was more notable in the first half of the year as capital outlays on machinery and electrical equipment rose with mounting external demand. Similar to exports, import growth trended down in the third quarter, and then picked up in the fourth quarter on the back of significantly improved domestic demand and exports. For the year as a whole, imports of goods and services increased by 4.01 percent, thus subtracting 2.17 percentage points from economic growth.

## Sectoral Components of GDP

On the output side, in 2013, both industrial output and services exhibited continuous expansion, albeit at a relatively mild pace amid modest recovery at home and abroad, while agricultural output remained subdued as a consequence of unstable weather conditions. Industry and services, accounting for major shares of national output, were key forces behind economic growth, contributing 0.63 and 1.06 percentage points, respectively, to economic growth for the year. Agricultural output, on the



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2014.

## Gross Domestic Product by Type of Activity

Unit: %

	2013			2012		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Agriculture	1.69	0.23	0.00	1.78	-1.57	-0.02
Industry	30.02	1.78	0.63	29.08	1.67	0.59
Mining & Quarrying	0.42	-5.71	-0.02	0.32	10.13	0.03
Manufacturing	24.88	2.02	0.63	24.37	1.81	0.56
Construction	2.87	0.82	0.02	2.85	-2.31	-0.05
Electricity, Gas, Water and Remediation Services	1.84	0.24	0.00	1.54	2.59	0.04
Services	68.29	1.68	1.06	69.14	1.01	0.64
Wholesale and Retail Trade	18.47	1.03	0.18	18.90	-0.19	-0.03
Transport & Storage	2.97	2.72	0.08	3.07	0.86	0.03
Information and Communications	3.40	1.58	0.06	3.53	3.75	0.14
Finance and Insurance	6.52	2.52	0.16	6.54	0.83	0.05
Real Estate	8.75	2.84	0.23	8.69	2.19	0.17
Administration and Defense	7.05	-0.67	-0.04	7.38	0.83	0.05
Education	4.54	0.69	0.03	4.66	0.96	0.04
Other Services	16.59	2.57	0.37	16.37	1.33	0.19
Gross Domestic Product	100.00	2.11	2.11	100.00	1.48	1.48

Note: \* Percentage point.

Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2014.

other hand, posted negligible contribution to overall economic growth.

Regarding the sectoral shares of GDP in nominal terms, Taiwan's economy was dominated by the services sector with a 68.29 percent share in 2013. The industrial sector accounted for 30.02 percent of GDP, slightly higher than the share in the previous year as a consequence of stronger export momentum. Meanwhile, the ratio of agricultural output to GDP slightly decreased to 1.69 percent.

#### 1. Scant Growth in Agricultural Output

During 2013, agricultural production, including agriculture, forestry, fishing and animal husbandry industries, was dragged down by unfavorable weather conditions such as severe coldness and torrential rain. Nevertheless, owing to a lower base effect, agricultural output grew by 0.23 percent.

#### 2. Steady Growth in Industrial Output

The industrial sector, comprised of the industries of mining and quarrying, manufacturing, construction, and electricity, gas and water, displayed a similar level of growth to the previous year with an increase of 1.78 percent in 2013. The steady growth in industrial output reflected increasing competitive pressure on the manufacturing sector from abroad.

Manufacturing production in 2013 grew by 2.02 percent, mainly led by the information and electronics industries, which showed a moderate growth of 1.21 percent in the production index during the year. The gain in the information and electronics industries was mostly attributed to a boom in semiconductor-related exports, driven by increased demand for mobile devices as well as the launch of new products. Nevertheless, the production of display panels saw a drop on account of intensifying competition with China and languid demand for panels for TVs as well as PCs. By contrast, output growth in other manufacturing industries was relatively weak. The production index of the chemical industry inched up a mere 0.73 percent under the impact of domestic production capacity adjustment in response to China's increasing capacity expansion in petrochemical products in the first half of the year and the decrease in related product prices. However, the production indices of the metal and machinery industry, and food, textile and other industries decreased by 0.34 percent and 0.08 percent, respectively.

In contrast to the previous year's 2.31 percent decrease, output in the construction industry increased by 0.82 percent for the year, mainly attributable to a buoyant housing market in the first half of the year, along with the affordable housing scheme promoted by the government to tackle the issue of housing price surges in metropolitan areas. Meanwhile, output of mining and quarrying decreased by 5.71 percent in 2013, which was a sharp drop compared with the previous year's growth of 10.13 percent, owing to the decline in the production volume of sand and gravel, as well as a higher base effect.

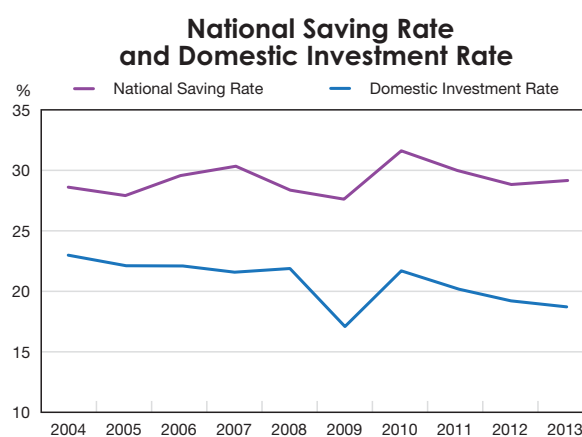
### 3. Moderate Performance in the Services Sector

In 2013, services output increased mildly and recorded a modest growth rate of 1.68 percent, higher than the growth rate of 1.01 percent of the previous year. The decent upturn in private consumption, particularly a marked improvement in the fourth quarter, helped drive the growth in the services sector, of which transport and storage, finance and insurance, and wholesale and retail trade services exhibited larger increases.

Among the services subsectors, real estate topped the growth among all subsectors, registering an increase of 2.84 percent for the year, reflecting vigorous housing transactions along with optimism for the real estate market during the first half of the year. Driven by increases in domestic and outbound visitor numbers, combined with stronger export demand in line with the revival of global trade in the fourth quarter, transport and storage services grew by 2.72 percent, compared with a mere 0.86 percent posted in 2012. Likewise, finance and insurance services continued their upward trend over the previous year, registering an increase of 2.52 percent for the year resulting from increased interest revenue and fee income. The growth in finance and insurance services was also due to a rebound in stock trading activity from the second quarter onwards, spurred by easing rules on a capital gains tax and measures aimed at stimulating trading volume. In addition, wholesale and retail trade services posted a growth rate of 1.03 percent, reversing from the previous year's 0.19 percent decline, primarily owing to significantly improved consumer confidence at the end of the year. On the other hand, administration and defense services shrank slightly by 0.67 percent for the year, reflecting the government's continued efforts to curtail expenditure.

### Rise in National Saving Rate

The national saving rate (the ratio of national saving to GNP measured at current prices) increased from 28.83 percent in the previous year to 29.12 percent in 2013 as nominal national consumption (including both private consumption and government consumption expenditures) grew by a relatively moderate rate of 1.80 percent compared to the GNP growth rate of 3.09 percent. The mild growth in nominal national consumption mainly resulted from the contraction in government spending and moderate growth in private consumption. The excess saving ratio, defined as the excess of national saving over gross domestic investment to GNP, climbed up from 9.60 percent in 2012 to 10.40 percent in 2013, reflecting a greater increase in national saving than that in domestic investment.



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2014.

### 3. Balance of Payments

In 2013, the current account surplus, which accounted for 11.3 percent of nominal GNP, increased to a historical high of US\$57,380 million. This represented growth of 13.2 percent as record increases in the goods and services surpluses more than offset a wider current transfer deficit and a narrower income surplus. The net outflow on the financial account reached a new high of US\$41,164 million, as direct investment abroad, investment in overseas debt securities by residents, and banks' deposits with overseas branches all exhibited record-high net outflows. Because the current account surplus was partly offset by the net outflow in the financial account, the overall balance recorded a surplus of US\$11,318 million, which was reflected in the increase in foreign reserve assets held by the CBC.

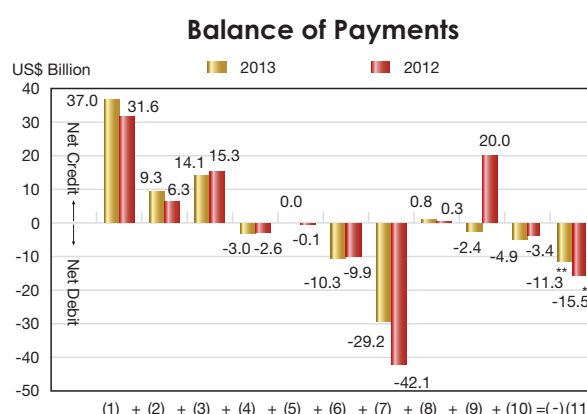
#### Widening Current Account Surplus

The current account consists of four major items, namely goods, services, income, and current transfers.

##### 1. Goods

Affected by the weakened economic conditions of advanced economies, the value of exports only increased modestly by 1.4 percent to US\$304,633 million. The value of imports decreased by 0.4 percent to US\$267,619 million, mainly accounted for by declines in imports of crude oil and basic metals. As a result of an increase in exports and a decrease in imports, the goods surplus widened to US\$37,014 million in 2013, hitting a new high in history.

As indicated by customs statistics, the top three export partners of Taiwan in 2013 were Mainland China including Hong Kong (hereafter in this chapter referred to as Mainland China), the US, and Singapore, accounting for a combined share of 56.7 percent of total exports. The top three import partners were Mainland China, Japan, and the US, with a combined share of 41.7 percent.



(1) Goods (2) Services (3) Income (4) Current Transfers (5) Capital Account  
(6) Direct Investment (7) Portfolio Investment (8) Financial Derivatives  
(9) Other Investment (10) Net Errors and Omissions (11) Reserves \*

Notes: \* Excluding valuation changes in exchange rates.

\*\* The minus sign (-) indicates an increase in foreign exchange reserves held by the CBC.

Source: Balance of Payments, CBC.

## Balance of Payments

Unit: US\$ Million

	(1) 2013	(2) 2012	(1)-(2)
A. Current Account	57,380	50,672	6,708
Goods: exports f.o.b.	304,633	300,430	4,203
Goods: imports f.o.b.	-267,619	-268,822	1,203
Balance on Goods	37,014	31,608	5,406
Services: credit	51,640	49,111	2,529
Services: debit	-42,371	-42,763	392
Balance on Services	9,269	6,348	2,921
Income: credit	25,169	25,833	-664
Income: debit	-11,076	-10,497	-579
Balance on Income	14,093	15,336	-1,243
Current transfers: credit	6,154	5,445	709
Current transfers: debit	-9,150	-8,065	-1,085
Balance on Current Transfers	-2,996	-2,620	-376
B. Capital Account	6	-83	89
Total, Groups A plus B	57,386	50,589	6,797
C. Financial Account	-41,164	-31,673	-9,491
Direct investment abroad	-14,336	-13,137	-1,199
Direct investment in R.O.C. (Taiwan)	3,996	3,207	789
Portfolio investment assets	-37,177	-45,304	8,127
Portfolio investment liabilities	7,980	3,213	4,767
Financial derivatives assets	5,851	4,526	1,325
Financial derivatives liabilities	-5,082	-4,198	-884
Other investment assets	-50,037	4,746	-54,783
Other investment liabilities	47,641	15,274	32,367
Total, Groups A through C	16,222	18,916	-2,694
D. Net Errors and Omissions	-4,904	-3,432	-1,472
Total, Groups A through D	11,318	15,484	-4,166
E. Reserves and Related Items*	-11,318	-15,484	4,166

Note: \* Excluding valuation changes in exchange rates.

Source: Balance of Payments, CBC.

In terms of Taiwan's trade with Mainland China, the value of exports amounted to US\$121,226 million in 2013, up by 2.2 percent from the previous year. As a result of Mainland China's measures aimed at industrial upgrade, intermediate goods imported from Taiwan were partly substituted by those produced by Mainland China's local industrial chain. This constituted the main reason for the slowdown of Taiwan's exports to Mainland China in the second half of the year. However, the share of exports to Mainland China still increased by 0.3 percentage points to 39.7 percent. Furthermore, Mainland China remained Taiwan's largest export market in 2013.

Imports from Mainland China grew by 1.6 percent to US\$44,251 million, attributable to demand for industrial raw materials such as steel. With a share of 16.4 percent, Mainland China became Taiwan's largest source of imports. The trade surplus with Mainland China increased by 2.5 percent



to US\$76,976 million in 2013, and Mainland China remained the largest source of Taiwan's trade surplus.

Exports to the US recorded a total value of US\$32,564 million in 2013, decreasing by 1.2 percent from 2012 and comprising a lower share in total exports of 10.7 percent. Taiwan's ICT products exports to the US reduced by 8.8 percent to US\$4,196 million, mainly induced by a downturn in US demand for smart phones. Imports from the US grew by 6.8 percent to US\$25,220 million, and their share in total imports increased to 9.3 percent, compared with 8.7 percent a year earlier. The trade surplus with the US narrowed to US\$7,345 million. The US, Taiwan's third largest source of trade surplus in the prior year, became the fourth in 2013.

Exports to Japan increased by 1.2 percent to US\$19,221 million, mainly boosted by the demand for Taiwan's electronics products. The share of exports to Japan remained at 6.3 percent. Imports from Japan slipped by 9.2 percent to US\$43,174 million, with their share in total imports further declining by 1.6 percentage points to 16.0 percent. Furthermore, Japan became Taiwan's second largest source of imports in 2013, after being the largest in 2012. The trade deficit with Japan decreased to US\$23,952 million.

Following a recession in the euro area caused by prolonged financial turmoil, exports to Europe decreased by 3.5 percent to US\$27,754 in 2013, and their share in total exports fell to 9.1 percent. Imports from Europe increased by 6.1 percent to US\$29,994 million, with their share in total imports growing to 11.1 percent. Therefore, the trade balance with Europe turned from a surplus of US\$499 million in 2012 to a deficit of US\$2,240 million in 2013.

Exports to the six countries in Southeast Asia, including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam, increased by 3.9 percent to US\$57,888 million in 2013. The combined share of exports to these countries in total exports increased to 19.0 percent. Imports from these countries grew by 3.4 percent to US\$32,431 million, with a share of 12.0 percent in total imports. In sum, the trade surplus with these six countries expanded from US\$24,349 million in 2012 to US\$25,457 million, with Singapore and the Philippines being the second and the third largest sources of Taiwan's trade surplus, respectively.

## Direction of Trade in Goods by Country

Unit: %

	2013			2012		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
Exports						
Mainland China (including Hong Kong)	121,226	39.7	2.2	118,646	39.4	-4.4
Southeast Asia 6*	57,888	19.0	3.9	55,713	18.5	9.8
U. S. A.	32,564	10.7	-1.2	32,976	10.9	-9.3
Europe	27,754	9.1	-3.5	28,765	9.6	-7.8
Japan	19,221	6.3	1.2	18,989	6.3	4.2
Rest of the World	46,798	15.3	1.5	46,091	15.3	-3.3
Total	305,452	100.0	1.4	301,181	100.0	-2.3
Imports						
Mainland China (including Hong Kong)	44,251	16.4	1.6	43,567	16.1	-3.8
Japan	43,174	16.0	-9.2	47,574	17.6	-8.9
Southeast Asia 6*	32,431	12.0	3.4	31,364	11.6	-3.9
Europe	29,994	11.1	6.1	28,266	10.5	-4.5
U. S. A.	25,220	9.3	6.8	23,604	8.7	-8.4
Rest of the World	95,002	35.2	-1.1	96,098	35.5	0.1
Total	270,071	100.0	-0.1	270,473	100.0	-3.9

Note: \* Including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

Source: *Monthly Statistics of Exports and Imports*, Ministry of Finance, R. O. C. (Taiwan).

## 2. Services

In 2013, service receipts increased by US\$2,529 million to US\$51,640 million, the largest-ever level in history. Service payments fell by US\$392 million to US\$42,371 million. Therefore, the service surplus greatly expanded by US\$2,921 million to US\$9,269 million, hitting a new high.

Of the various components of the services account, transportation receipts grew by US\$72 million to US\$10,058 million, reflecting an increase in international freight fares received by domestic sea carriers and international passenger fares received by domestic air carriers. Transportation payments also grew by US\$62 million to US\$10,544 million, resulting mainly from higher foreign ports expenses paid by domestic sea carriers. Overall, net transportation payments slightly decreased to US\$486 million in the year from the US\$496 million of the previous year.

Travel receipts increased by US\$907 million to US\$12,677 million as the total number of inbound visitors registered a record-high figure of 8.02 million, which included 2.88 million visitors from Mainland China, Taiwan's largest source of visitors. Meanwhile, travel payments increased by US\$1,674 million to US\$12,304 million. The main reason was a modest 7.9 percent growth in the number of overseas visits by residents, mainly boosted by visits to Japan. In sum, net travel receipts contracted from US\$1,140 million in 2012 to US\$373 million in 2013.

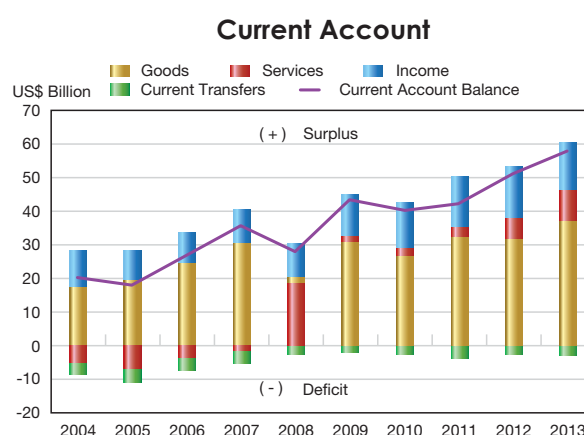
Other services receipts increased by US\$1,550 million to US\$28,905 million, mainly attributable to increases in net proceeds from merchanting. Other services payments declined by US\$2,128 million to US\$19,523 million on account of a decrease in expenditure on trade-related commissions. In all, the surplus in net other services expanded from US\$5,704 million in 2012 to US\$9,382 million in 2013.

### 3. Income

In 2013, income receipts declined by US\$664 million to US\$25,169 million, mainly owing to decreases in interest earnings generated by residents' foreign exchange assets. Meanwhile, income payments amounted to US\$11,076 million, US\$579 million more than in 2012, mostly attributable to an increase in non-residents' investment income from local equity securities. Consequently, the surplus on the income account shrunk from US\$15,336 million in 2012 to US\$14,093 million for the year of 2013.

### 4. Current Transfers

For the year of 2013, the respective figures of current transfer receipts and payments amounted to US\$6,154 million and US\$9,150 million. As a whole, the deficit on net current transfers expanded to US\$2,996 million in 2013 from the US\$2,620 million of the previous year, mainly owing to greater outward remittances for family support as well as anti-trust penalty payments.



Source: Balance of Payments, CBC.

### A Net Inflow in the Capital Account

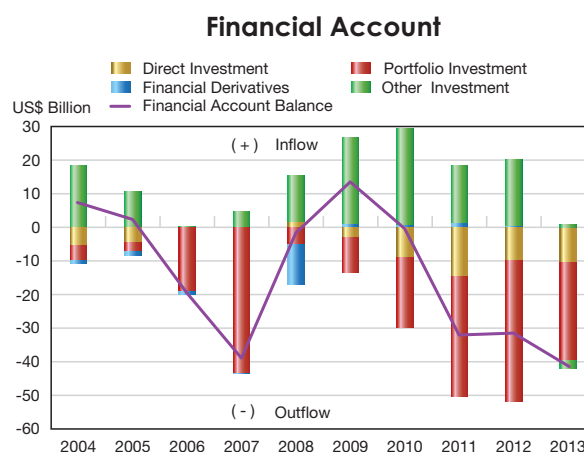
The capital account includes capital transfers (debt forgiveness, ownership transfers of fixed assets and migrants' transfers) and the acquisition and disposal of non-produced, non-financial assets. In 2013, the capital account posted a surplus of US\$6 million from a deficit of US\$83 million the previous year, owing to the increased receipts from residents' sales of patent rights.

### A Huge Net Outflow in the Financial Account

The financial account for the year 2013 showed a record-high net outflow of US\$41,164 million. In terms of sub-categories, direct investment, portfolio investment and other investment registered net outflows of US\$10,340 million, US\$29,197 million and US\$2,396 million, respectively.

#### 1. Direct Investment

Direct investment abroad by residents exhibited a record net outflow of US\$14,336



Source: Balance of Payments, CBC.

million, an increase of US\$1,199 million compared with 2012. On the other hand, direct investment in Taiwan by non-residents registered a net inflow of US\$3,996 million, US\$789 million more than in the previous year. According to the statistics of approved cases, residents' direct investment in Mainland China and in other areas reported US\$8,685 million and US\$5,232 million, respectively, suggesting that Mainland China remained the major recipient of Taiwan's direct investment abroad. The main investment target sectors included banking and insurance, wholesale and retail, and manufacturing sectors such as basic metals, computers, electronic and optical products, and electronic parts and components. Overall, direct investment exhibited a net outflow of US\$10,340 million in 2013, US\$410 million more than in 2012.

## 2. Portfolio Investment

In 2013, portfolio investment abroad by residents showed a net outflow of US\$37,177 million, mostly attributable to investment in overseas securities by life insurance companies. On the other hand, local portfolio investment by non-residents exhibited a net inflow of US\$7,980 million. This was due to quantitative easing monetary policies implemented by the Fed, the ECB and the BOJ, which led to massive foreign capital inflows into Asia's emerging economies, including Taiwan's stock market. As a result, a net inflow of US\$9,618 million was recorded in non-residents' equity securities investment. Overall, portfolio investment showed a net outflow of US\$29,197 million in 2013.

## 3. Financial Derivatives

Financial derivatives recorded a net inflow of US\$769 million, mainly owing to gains reaped by the banking sector from transactions of derivative instruments involving foreign exchange swaps, cross currency swaps, and interest rate swaps.

## 4. Other Investment

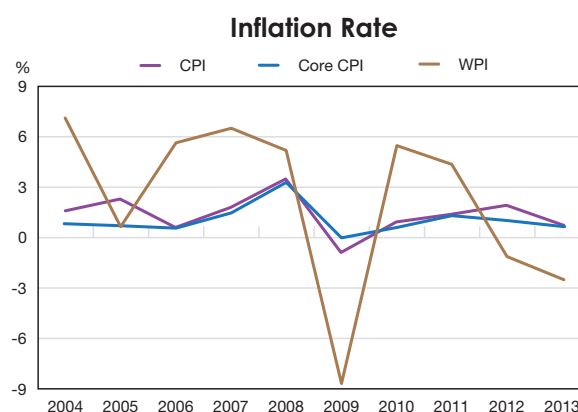
In 2013, other investment abroad by residents shifted to a net outflow of US\$50,037 million from a net inflow of US\$4,776 million a year earlier. The main reason was that banks' deposits with overseas branches increased following the substantial growth of the renminbi deposit business throughout the year. On the other hand, other inward investment by non-residents showed a net inflow of US\$47,641 million, largely attributable to the borrowings from overseas affiliates by the banking sector and short-term liabilities of the private sector. As a consequence, other investment swung to a net outflow of US\$2,396 million in 2013.

## **Increase in Foreign Exchange Reserves**

The foreign exchange reserve assets held by the CBC increased by US\$11,318 million as a result of the current account surplus.

## 4. Prices

Taiwan's wholesale price index (WPI) fell by 2.43 percent in 2013, showing a further decline over the 1.16 percent decrease last year. The drop in WPI inflation was largely attributable to lower international primary commodity prices owing to a slow recovery in the global economy, as well as the falling imported costs of machinery and equipment from Japan resulting from the depreciation of the Japanese yen. Headline inflation, measured by the consumer price index (CPI), increased moderately at an annual rate of 0.79 percent in 2013, down from a rise of 1.93 percent over 2012, mainly owing to fuel, gas, and electricity price hikes and a surge in food prices, though these were partly offset by reductions in communication fees and consumer electronics products. The core CPI, which excludes fruits, vegetables, and energy, also rose slightly by 0.66 percent in 2013, compared with a 1.00 percent increase in the previous year.



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

### Moderate Decrease in Wholesale Prices

The WPI decreased at an annual rate of 2.43 percent in 2013, mainly driven by the decline in international raw materials prices resulting from a slowdown in global demand caused by slack global economic growth, as well as lower imported costs of machinery and equipment from Japan on account of the depreciation of the Japanese yen against the NT dollar. In terms of monthly movements, the annual WPI inflation rate generally exhibited a downward trend for the whole year compared with the same period in 2012, yet the pace of the decrease in the annual WPI inflation rate gradually abated, and the decline was only 0.01 percent in December.

Broken down by the three major components of the WPI, the annual rates of change in prices for imports, domestic sales excluding imports, and exports continued their downward trends in 2013 owing to lower international commodity prices.

Import prices decreased by 4.81 percent in US dollar terms in 2013. However, as the NT dollar slightly depreciated against the US dollar over 2013, the annual rate of change in import prices decreased by 4.45 percent in NT dollar terms. The decline in import prices was mainly led by the falling prices of imported raw materials, such as glass, coal, copper, crude petroleum and liquefied natural gas. In addition, import prices were dragged down by declining import costs of machinery

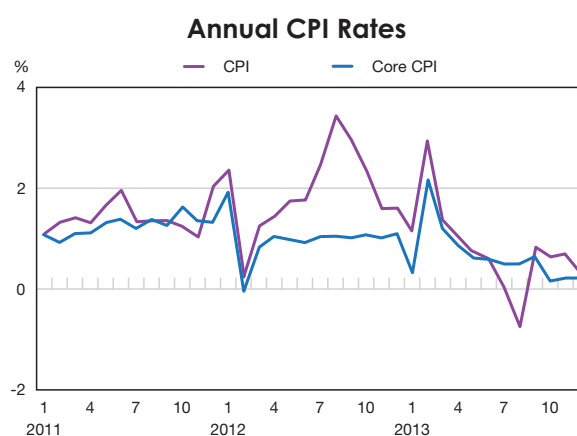
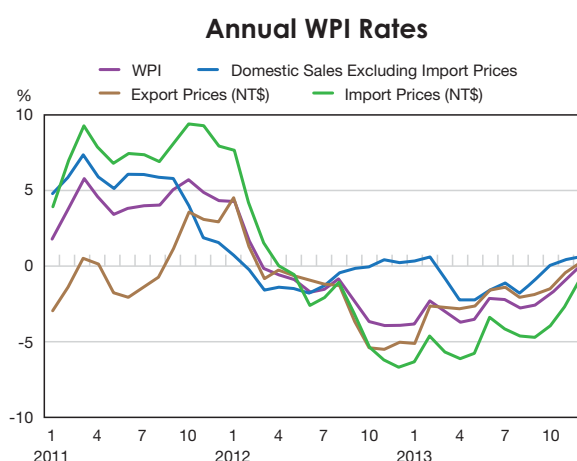
and equipment from Japan as a result of the depreciation of the Japanese yen. Among the components of import prices, prices of raw materials, capital goods and consumer goods fell by 3.94 percent, 7.80 percent and 3.20 percent, respectively, and accounted for 3.08 percentage points, 1.03 percentage points, and 0.28 percentage points in the import price decrease, respectively.

Export prices in US dollar terms dropped by 2.43 percent in 2013. Owing to the mild depreciation of the NT dollar against the US dollar, export prices fell by 2.06 percent in terms of the NT dollar. In NT dollar terms, among the basic groups, prices of animal products accounted for the largest decline at 18.76 percent, mainly attributable to the falling prices of frozen fish. Prices of primary metals and articles thereof and mineral products both decreased by 3.77 percent.

Prices of domestic sales excluding imports went down 0.71 percent in 2013. Among product groups, prices of computer, electronics and optical products, primary metal products, and non-metallic mineral products decreased by 10.13 percent, 6.88 percent, and 5.15 percent, respectively. In contrast, prices of furniture and fixtures rose by 4.80 percent in the year owing to the rising prices of wooden and metallic furniture.

### Mild Increase in Consumer Prices

The CPI rose by 0.79 percent in 2013, down from an increase of 1.93 percent in the previous year. Owing to an increase in prices of fuel, fruits and tour group fees, the annual rate of change in the CPI in the first quarter rose to 1.80 percent. From April onwards, monthly CPI inflation rates continued the downward trend and lowered to -0.78 percent in August, influenced by a higher base effect stemming from the fuel and the first-stage electricity price hikes and weather-related factors in the previous year. Subsequently, monthly CPI inflation rates went up, as prices of vegetables soared following typhoons and heavy rainfall and the second-stage electricity price increase which took effect in October.



The core CPI inflation rate was 0.66 percent in 2013. In the first two months of the year, the rate fluctuated on account of the seasonal factor of the Chinese New Year holidays. From March onwards, the pace of the core CPI slackened and slowed to 0.21 percent in December, owing to constrained private consumption caused by subdued growth in the domestic economy.

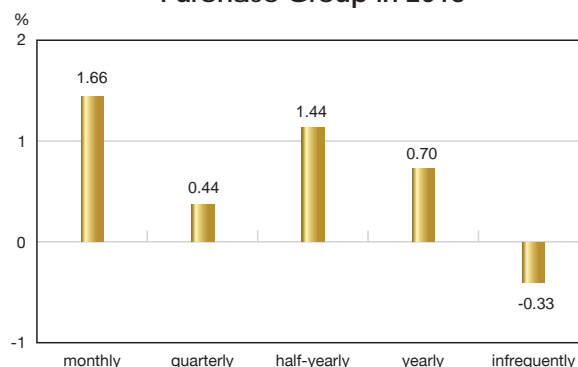
Compared with major economies, Taiwan's inflation remained low and stable during 2009 to 2013. Such an environment is conducive to maintaining the purchasing power of money and decreasing future economic uncertainties in order to help the general public arrange their economic activities such as production, consumption, saving and investment. This stable foundation should foster further economic growth.

Among the five components by frequency of purchase groups, the annual rate of change in prices of the most frequently purchased goods or services was pushed up by 1.66 percent due to a 1.27 percent rise in food prices that contributed 0.33 percentage points to CPI inflation.

The main factors contributing to the rise of CPI inflation in 2013 were as follows:

1. The rise in oil, electricity, and gas costs and higher raw food prices pushed up the prices of food away from home by 1.54 percent, contributing 0.16

CPI Inflation Rate by Frequency of Purchase Group in 2013



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

### Inflation Rates of Selected Countries

	2009	2010	2011	2012	2013	Average Annual Inflation Rate
World	1.64	2.87	4.10	3.23	2.98	2.96
United States	-0.32	1.64	3.14	2.08	1.47	1.60
Eurozone	0.24	1.51	2.55	2.32	1.29	1.58
Switzerland	-0.48	0.69	0.23	-0.69	-0.22	-0.09
Japan	-1.34	-0.70	-0.30	-0.03	0.03	-0.41
China	-0.70	3.32	5.40	2.65	2.62	2.66
<b>Taiwan</b>	<b>-0.86</b>	<b>0.96</b>	<b>1.42</b>	<b>1.93</b>	<b>0.79</b>	<b>0.85</b>
South Korea	2.76	2.95	3.99	2.21	1.32	2.64
Hong Kong	0.59	2.31	5.28	4.07	4.33	3.32
Singapore	0.59	2.83	5.25	4.53	2.39	3.12
Indonesia	4.81	5.13	5.36	4.28	6.98	5.31
Malaysia	0.58	1.73	3.17	1.66	2.11	1.85
Philippines	4.21	3.78	4.72	3.17	2.93	3.76
Thailand	-0.85	3.28	3.81	3.01	2.18	2.29
Vietnam	7.05	8.86	18.68	9.09	6.59	10.06

Sources : DGBAS; Global Insight.

percentage points to CPI inflation.

2. In line with the increase in tour group fees, prices of education and entertainment services rose by 1.12 percent, contributing 0.14 percentage points to CPI inflation.
3. Reflecting higher import prices for petroleum and natural gas, prices for domestic fuels and lubricants and gas rose by 2.70 percent and 4.29 percent and accounted for 0.10 and 0.05 percentage points in the CPI increase, respectively.
4. Owing to a shortage of supply caused by a bird flu outbreak, a ban on slaughtering poultry in traditional markets effective from May 17, and rising feed costs, prices of meat went up by 4.30 percent and accounted for 0.08 percentage points in the CPI increase.
5. With the supply constrained by typhoons and torrential rain in summer, prices of vegetables increased at an annual rate of 2.45 percent, contributing 0.06 percentage points to CPI inflation.
6. Prices of electricity moved up by 2.20 percent owing to the second-stage electricity price hike taking effect in October 2013 after the first hike launched in June 2012.

The main factors contributing to downward pressure on the CPI in 2013 were as follows:

1. Consumer electronics products retailers continued discount promotions because of slack domestic demand, causing a 1.84 percent decrease in the prices of durable consumer goods, such as equipment for communication, education and entertainment.
2. Prices of fruits fell by 2.58 percent owing to a higher base effect resulting from unfavorable weather conditions in the second half of 2012.

### Percentage Changes in the Major Components of the CPI in 2013

Item	Annual Rate of Change (%)	Contribution to CPI Inflation Rate (Percentage Point)
CPI	0.79	0.79
Food away from Home	1.54	0.16
Education & Entertainment Services	1.12	0.14
Residential Rent	0.68	0.12
Fuels & Lubricants	2.70	0.10
Meat	4.30	0.08
Vegetables	2.45	0.06
Electricity	2.20	0.05
Gas	4.29	0.05
Fish & Shellfish	2.49	0.04
Tobacco & Betel Nuts	3.54	0.04
Total		0.84
Durable Consumer Goods	-1.84	-0.14
Fruits	-2.58	-0.06
Total		-0.20
Others		0.15

Source: *Price Statistics Monthly*, DGBAS, Executive Yuan.



## 5. Public Finance of the Central Government

For the year 2013, with central government revenue increasing by 3.7 percent while expenditure contracted by 1.4 percent, overall central government finances remained in deficit for the fifth consecutive year, but the deficit narrowed to NT\$125.9 billion from NT\$214.1 billion in 2012.

### Growth in Central Government Revenue

In 2013, central government revenue increased by NT\$62.1 billion to NT\$1,730.4 billion. Tax revenue remained the major source of central government revenue, followed by surpluses of public enterprises and public utilities, with respective shares of 70.4 percent and 14.5 percent of the total revenue.

The growth in central government revenue was mainly because the fees, fines and indemnities increased significantly by NT\$89.1 billion, resulting predominantly from the higher-than-expected total bid price for Taiwan's fourth generation (4G) mobile communication services. Of the components of tax revenues, income tax revenue decreased by NT\$15.0 billion, because of less profits made by enterprises in the prior year. Revenue from securities transactions tax decreased by NT\$0.5 billion over the previous year, affected by still weak local stock markets. However, business tax revenue

### Total Revenue and Expenditure of the Central Government

Unit: NT\$ Billion

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
Total Revenue	1,368.2	1,464.5	1,546.4	1,635.5	1,640.9	1,553.7	1,497.4	1,671.3	1,668.3	1,730.4
(Ratio to GDP ; %)	12.0	12.5	12.6	12.7	13.0	12.4	11.0	12.2	11.9	11.9
Total Expenditure	1,564.8	1,567.0	1,529.8	1,552.0	1,617.7	1,714.8	1,654.4	1,734.4	1,882.4	1,856.3
(Ratio to GDP ; %)	13.8	13.3	12.5	12.0	12.8	13.7	12.2	12.7	13.4	12.7
Surplus/Deficit	-196.6	-102.5	16.6	83.5	23.2	-161.1	-157.0	-63.1	-214.1	-125.9
(Ratio to GDP ; %)	-1.7	-0.9	0.1	0.6	0.2	-1.3	-1.2	-0.5	-1.5	-0.9
Debt Repayment	56.1	64.1	65.0	6.0	65.0	65.0	66.0	66.0	94.0	77.0
Financing:	253.5	167.3	63.9	0.0	41.8	226.1	224.2	129.1	308.1	202.9
Debt Financing	253.5	167.3	63.9	0.0	0.0	164.5	224.2	129.1	288.1	202.9
Surplus of Previous Fiscal Years	0.0	0.0	0.0	0.0	41.8	61.6	0.0	0.0	20.0	0.0
Memorandum:										
Tax Dependency Ratio**(%)	58.6	68.1	71.5	77.9	76.8	61.3	65.4	69.4	64.9	65.6
Debt Dependency Ratio***(%)	16.2	10.7	4.2	0.0	0.0	9.6	13.6	7.4	15.3	10.9

Notes: \* The figures for 2012 and the previous years are final audit accounts; the figures for 2013 are final accounts.

\*\* Tax dependency ratio is defined as the ratio of annual tax revenue to total government expenditure.

\*\*\* Debt dependency ratio is defined as the ratio of annual issuance of government bonds and borrowing from banks to total government expenditure.

Sources: 1. DGBAS, Executive Yuan.

2. Department of Statistics, MOF.

increased by NT\$12.9 billion, mainly owing to the growth in consumption. As a result, overall tax revenue decreased by NT\$4.0 billion over the previous year. Moreover, in terms of surpluses of public enterprises and public utilities, a decrease of NT\$11.4 billion was recorded for 2013, mainly caused by continuous losses in some public enterprises.

## Reduction in Central Government Expenditure

Central government expenditure decreased by NT\$26.1 billion over the previous year to NT\$1,856.3 billion in 2013 after two consecutive years of increases. The contraction was primarily led by a decline of NT\$16.0 billion in general subsidies and other expenditure, resulting from a reduction in general and specific subsidies for local government units. The second largest decrease was a NT\$14.4 billion decline in national defense, mainly owing to less expenditure on barrack reconstruction. However, social welfare continued its expansion with an increase of NT\$19.0 billion because expenditure on the government's legal obligations for social insurance programs, such as subsidies for national pension, labor insurance, and national health insurance, grew.

In terms of share in total government expenditure, social welfare, and education, science and culture remained the top two categories, accounting for 23.7 percent and 19.2 percent, respectively, followed by national defense with 15.6 percent.

As the decrease in government expenditure was larger than that in tax revenue, the ratio of tax revenue to government expenditure, denoted by the tax dependency ratio, rose to 65.6 percent in 2013 from 64.9 percent in 2012.

## Total Revenue and Expenditure of the Central Government by Category

Unit: NT\$ Billion

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
Total Revenue	1,368.2	1,464.5	1,546.4	1,635.5	1,640.9	1,553.7	1,497.4	1,671.3	1,668.3	1,730.4
Taxes	916.6	1,067.8	1,094.3	1,208.7	1,242.9	1,051.6	1,082.4	1,203.4	1,222.1	1,218.1
Surpluses of Public Enterprises and Public Utilities	282.2	243.4	289.1	271.5	253.4	318.7	264.8	264.7	262.5	251.1
Fees, Fines and Indemnities	76.1	79.0	79.0	81.1	83.1	78.1	81.6	81.0	108.2	197.3
Proceeds from Sales of Properties and Recalled Capital	70.3	52.6	58.5	51.3	40.0	53.7	46.7	64.0	60.1	52.2
Others	23.0	21.7	25.5	22.9	21.4	51.6	21.9	58.2	15.4	11.7
Total Expenditure	1,564.8	1,567.0	1,529.8	1,552.0	1,617.7	1,714.8	1,654.4	1,734.4	1,882.4	1,856.3
General Administration	164.1	165.5	167.3	168.2	173.0	168.8	170.2	176.4	176.2	172.7
National Defense	248.9	248.5	237.1	256.7	282.4	291.2	276.8	284.2	303.4	289.0
Education, Science and Culture	302.1	301.5	303.1	308.7	310.4	326.4	342.7	356.2	358.9	355.9
Economic Development	248.9	247.0	197.0	193.3	201.3	244.4	194.5	217.1	263.9	258.3
Social Welfare	279.8	285.7	303.3	305.1	298.4	320.2	327.4	348.5	420.1	439.1
Community Development & Environmental Protection	24.8	25.2	20.4	19.4	13.5	21.4	9.0	6.6	15.9	15.9
Retirement & Compassionate Aid	123.1	130.5	134.7	134.6	133.8	133.4	134.5	138.5	138.3	132.8
Interest Payments	127.1	117.9	125.2	124.0	117.4	116.7	109.8	111.8	114.5	117.4
General Subsidies and Other Expenditure	46.0	45.2	41.7	42.0	87.5	92.3	89.5	95.1	91.2	75.2

Note: \* The figures for 2012 and the previous years are final audit accounts; the figures for 2013 are final accounts.

Sources: 1. DGBAS, Executive Yuan.

2. Department of Statistics, MOF.

In sum, the ratio of central government expenditure to GDP declined from 13.4 percent in the previous year to 12.7 percent. The ratio of the fiscal deficit to GDP also decreased from 1.5 percent in 2012 to 0.9 percent in 2013.

### Less Demand for Debt Financing

The demand for debt financing decreased in 2013 in line with the shrinkage of the fiscal deficit. The NT\$125.9 billion fiscal deficit and a NT\$77.0 billion debt principal repayment combined to represent a need for the central government to finance NT\$202.9 billion for 2013. This amount was wholly raised through issuing government bonds and borrowing from banks. The debt dependency ratio (i.e., the ratio of annual government bond issuance and borrowing from banks to total government expenditure) declined from 15.3 percent to 10.9 percent in 2013.

### Continued Increase in Outstanding Debt Obligations

The general budget and the special budget combined to require debt financing from government bond issuance and borrowing from banks. The total outstanding debt of the central government increased by NT\$153.3 billion over the previous year end, amounting to NT\$5,164.0 billion at the end of 2013. Furthermore, the ratio of outstanding central government debt to GDP declined slightly from the previous year's 35.6 percent to 35.5 percent in 2013.

### Public Debt of the Central Government

Unit: NT\$ Billion

End of Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
Outstanding Debt	3,362.1	3,549.9	3,623.0	3,718.5	3,778.7	4,127.2	4,537.7	4,764.0	5,010.7	5,164.0
(Ratio to GDP : %)	29.6	30.2	29.6	28.8	29.9	33.1	33.5	34.8	35.6	35.5

Note: \* The figures for 2012 and the previous years are final audit accounts; the figures for 2013 are final accounts.

Sources: 1. DGBAS, Executive Yuan.

2. National Treasury Administration, MOF.

## 6. Labor Market

In 2013, the unemployment rate continued to decline gradually. It was 4.06 percent in May, the lowest since August 2008. The unemployment rate climbed up from June to August as more fresh graduates sought job opportunities around the graduation season. As this seasonal effect disappeared after August, the unemployment rate started to decline again and reached 4.08 percent in December. For the year as a whole, the unemployment rate averaged 4.18 percent. Although labor market conditions continued to improve, structural unemployment persisted. The unemployment rates of youth and highly educated persons both remained high. Skill mismatch is still a major issue in Taiwan's labor market.

The labor participation rate increased to 58.43 percent, 0.08 percentage points higher than that in 2012 and also the highest since 1997. The female labor participation rate increased for the fourth consecutive year to 50.46 percent, indicating continuing improvement in the work environment for females, while the male labor participation rate dropped to 66.74 percent.

Annual average employment was 10.97 million persons in 2013, a 0.99 percent increase from 2012. Employment in the industrial and services sectors continued to grow at 0.77 percent and 1.21 percent, respectively. Employment in the agricultural sector remained the same as that in 2012.

Monthly earnings per worker in the non-farm sector (the industrial and services sectors) averaged NT\$45,965 in 2013. It was a slight increase of 0.17 percent from 2012. However, after adjustment for inflation, average real monthly earnings decreased by 0.62 percent.

As the increase in total production outpaced that in total working hours, labor productivity of the industrial sector and the manufacturing industry increased by 0.09 percent and 0.03 percent, respectively. Unit labor cost in the industrial and manufacturing sectors, on the other hand, increased by 0.14 percent and 0.27 percent, respectively.

### Employment Continued to Grow

Annual average employment in 2013 was 10.97 million, an increase of 107 thousand or 0.99 percent from the previous year.

In terms of employment by major sectors, employment in the agricultural sector in 2013 maintained the same level as that in the year before. Employment in the industrial sector increased by 30 thousand persons or 0.77 percent. Within this sector, construction and manufacturing employment increased by 16 thousand and 13 thousand people, respectively. Employment in the services sector grew by 77 thousand persons or 1.21 percent. Broken down further, employment in accommodation

and food services increased by 25 thousand, while wholesale and retail services employed 17 thousand more persons. Overall, services sector employment accounted for 58.89 percent of total employment, up by 0.14 percentage points. The employment ratios of agriculture and the industrial sector were 4.96 percent and 36.16 percent, respectively, both slightly down from the year before.

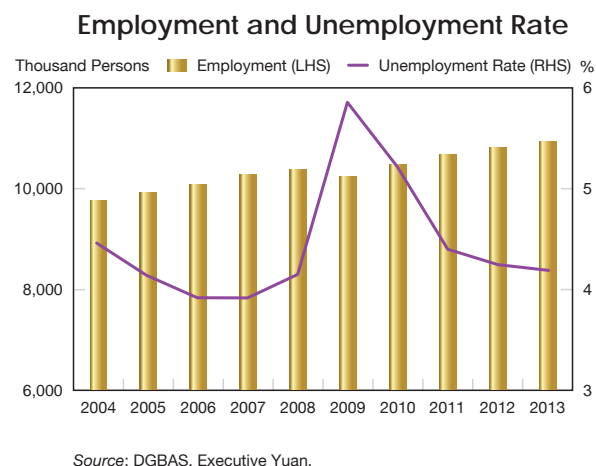
In terms of employed persons by occupation, employment of professionals saw the largest increase of 42 thousands or 3.38 percent. Services and sales workers came second with an increase of 37 thousands or 1.74 percent. On the other hand, employment of legislators, executive officers, and managers decreased by 18 thousand or 4.18 percent. While skilled workers and machine operators combined to account for the largest share of total employment at 31.32 percent, the ratio of employment of professionals to total employment increased the most to 11.73 percent, up by 0.27 percentage points, indicating a higher demand for professionals due to structural change.

### Unemployment Rate Dropped

The unemployment rate exhibited a slow downward trend in early 2013. It dropped to 4.06 percent in May, the lowest since August 2008. The unemployment rate climbed up from June to August as more students fresh from graduation sought job opportunities. As the seasonal effect disappeared after August, the unemployment rate started to decline again and reached 4.08 percent in December. For the year as a whole, the average unemployment rate was 4.18 percent, the lowest in the recent five years.

While the unemployment rate decreased in 2013, unemployment duration increased to 26.18 weeks, slightly higher than the year before by 0.14 weeks. The average number of the long-term unemployed (those who were unemployed for 53 weeks or more), however, declined to 75 thousand people, a decrease of 2 thousand persons over the previous year. Males made up 60.81 percent of the long-term unemployed, of which 67.08 percent were in the group aged between 25 and 44 and 54.21 percent held a college degree or above. This indicates those aged 25-44 and those with high education remained the main constituents of the long-term unemployed group.

Total unemployment decreased by 3 thousand people or 0.54 percent from the year before, mainly because there was a decrease by 6 thousand people or 12 percent in involuntary unemployment associated with the conclusion of seasonal or temporary work. As a consequence, the ratio of such

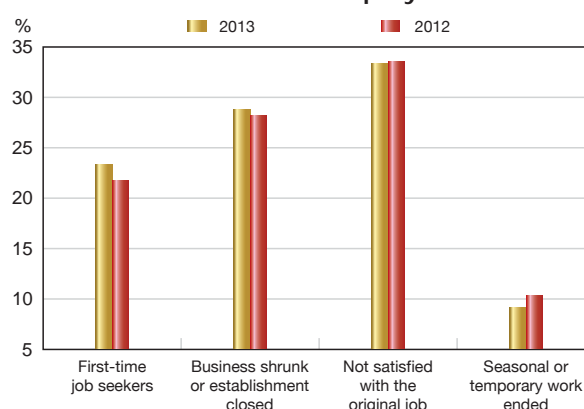


unemployment to total unemployment dropped to 9.17 percent, compared to 10.42 percent of the previous year. People who quit their jobs in search of other job opportunities made up a major portion of the unemployed, but the ratio slightly dropped, for the first time since 2010, to 33.59 percent, indicating lower willingness to change jobs amid a tepid economy.

In terms of age, the unemployment rate of the age group of 15-24 increased by 0.51 percentage points to 13.17 percent, still the highest among all age groups. Insufficient job experiences as well as gaps between school learning and occupational requirements were the main reasons behind the high proportion of unemployment of this age group. The unemployment rates of the age groups 25-44 and 45-64 were 4.27 percent and 2.25 percent, respectively, representing year-on-year declines of 0.11 and 0.06 percentage points.

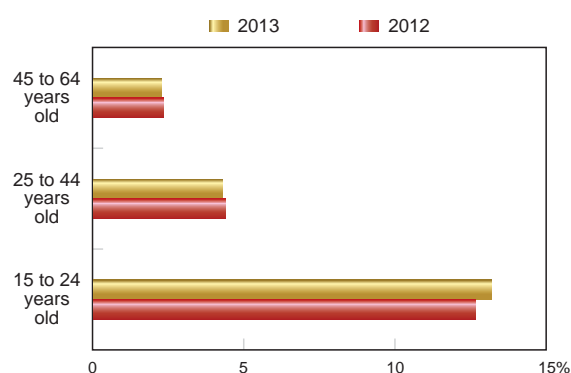
In terms of educational background, while the unemployment rate of people with a college degree or above decreased to 4.50 percent, the number of unemployed of this group increased by 3.8 thousand persons or 1.62 percent. It indicates skill mismatch of highly educated labor was still a major issue. On the other hand, the unemployment rates of the other two groups decreased. For people with a junior high school degree or below, the unemployment rate dropped to 3.53 percent, while that of those with a middle high school or vocational school degree decreased to 4.11 percent.

Causes of Unemployment



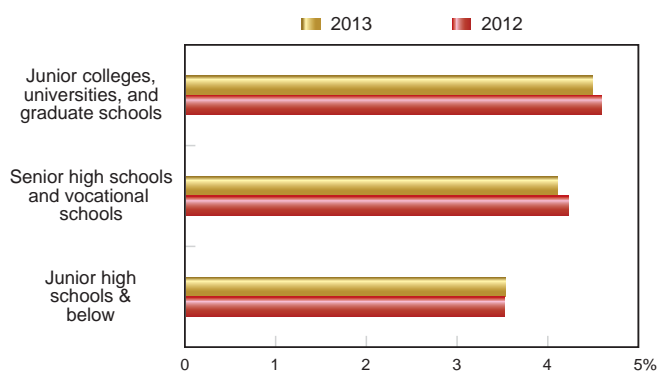
Source: DGBAS, Executive Yuan.

Unemployment Rate by Age



Source: DGBAS, Executive Yuan.

Unemployment Rate by Educational Background



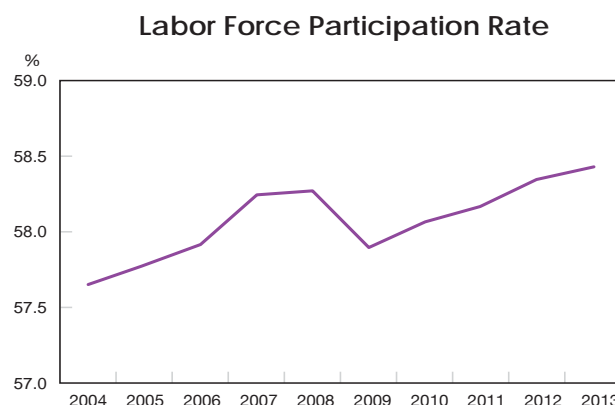
Source: DGBAS, Executive Yuan.

### Labor Force Participation Rate Slightly Rose

The labor force rose by 0.92 percent to 11.45 million in 2013, as more people were willing to join the labor market. Total employment amounted to 10.97 million, with an annual growth rate of 0.99 percent, while the number of these unemployed dropped by 0.54 percent to 478 thousand people.

For the entire year, the labor force participation rate averaged 58.43 percent, 0.08 percentage points higher than the year before. In terms of gender, the male labor force participation rate decreased by 0.09 percentage points from the preceding year to 66.74 percent, while the female rate continued to rise by 0.27 percentage points to 50.46 percent. This indicates the female labor force is playing a gradually greater role in economic development as the government continues to improve the working environment and promote gender equality. Labor participation rates of all age groups went up, with the rate of the group aged 15-24 posting the largest increase of 0.50 percentage points to 29.58 percent. In terms of educational background, the labor participation rate for the working population with a degree of junior high school or below registered the largest increase of 0.25 percentage points to 41.50 percent. However, labor participation rates for those with a high school education or above dropped.

The non-labor force population in 2013 reached 8.14 million, representing an increase of 46 thousand persons or 0.57 percent compared to the year before. The ratio of people in school or preparing for higher education to total non-labor force decreased by 0.56 percentage points to 26.11 percent. On the other hand, the ratio of the elderly and the disabled to total non-labor force rose by 0.28 percentage points to 29.99 percent, a sign that Taiwan's society is increasingly aging.



Source: DGBAS, Executive Yuan.

### Real Earnings of Non-farm Workers Decreased

In 2013, the average monthly earnings per worker of the non-farm sector reached NT\$45,965, a 0.17 percent increase from the year before. However, after adjustment for inflation, the average real monthly earnings decreased by 0.62 percent, indicating the nominal increase in earnings was outpaced by prices.

In terms of major sectors, the average monthly earnings of industrial sector workers increased

by 0.14 percent over the previous year to NT\$44,342 per worker, while their real earnings decreased by 0.65 percent. Meanwhile, the average monthly earnings per worker of the services sector increased by 0.17 percent to NT\$47,311, but their real earnings also went down 0.62 percent.

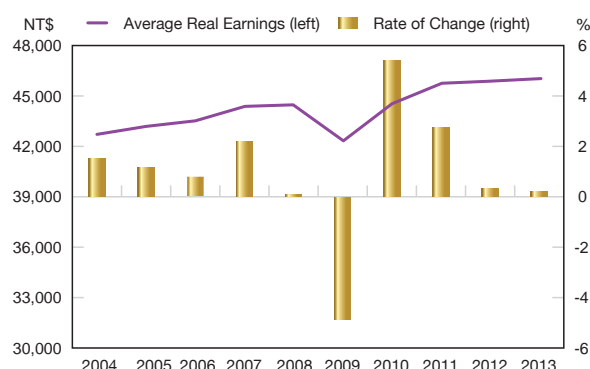
In terms of real regular monthly earnings per worker, the industrial sector registered an increase of 0.33 percent, while the services sector posted an increase of 0.05 percent. Together, the two sectors exhibited a 0.19 percent increase in their real regular monthly earnings compared with the previous year.

A further breakdown showed the earnings of the apparel and clothing accessories manufacturing industry experienced the largest decrease in real terms, at 7.38 percent, while the printing and reproduction of recorded media industry saw the largest increase in real earnings at 5.46 percent.

### Labor Productivity Slightly Went Up

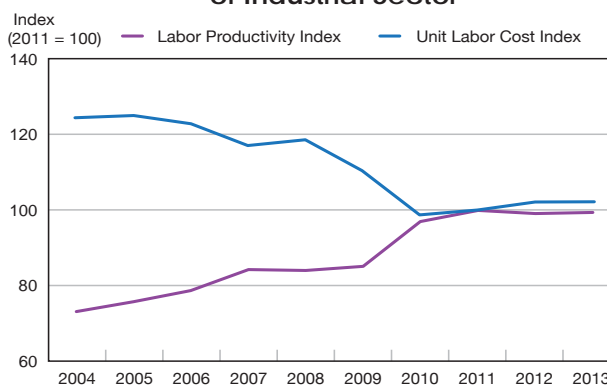
As the increase in total production outpaced that in total working hours, labor productivity of the industrial sector and the manufacturing industry increased by 0.09 percent and 0.03 percent, respectively. The petroleum and coal products manufacturing sector registered the largest increase in labor productivity of 7.52 percent. Since the increase in earnings outpaced that in production, unit labor cost of the industrial and manufacturing sectors increased by 0.14 percent and 0.27 percent, respectively. The wood and bamboo products manufacturing sector experienced the largest increase in unit labor cost of 13.39 percent, while the sector of computers, electronic and optical products manufacturing came second with an increase of 10.84 percent.

### Average Real Earnings of Non-farm Workers and Their Rate of Change



Source: DGBAS, Executive Yuan.

### Labor Productivity and Unit Labor Cost of Industrial Sector



Source: DGBAS, Executive Yuan.





# *Financial Developments*



## II. Financial Developments

### 1. Overview

In 2013, in view of global uncertainties, moderate domestic growth and mild inflationary pressures, the CBC maintained a moderately accommodative policy stance and kept the policy rates unchanged to ensure price and financial stability. Interest rates on deposits and loans also stayed at stable levels. The money market rate exhibited a downward trend owing to ample liquidity, whereas bond yields, affected by the anticipation of US Fed's decision to reduce the pace of its asset purchases (quantitative easing, or QE), exhibited an upward trend. Owing to a gradual recovery in the domestic economy, growth in loans and investments of monetary financial institutions picked up. This, combined with net foreign capital inflows, boosted the growth in M2. With respect to the exchange rate, the NT dollar against the US dollar depreciated, reflecting the influence of the Fed's asset purchase decision. In the stock market, supported by purchases by foreign investors and government measures, market indices swung higher.

#### **Growth in Monetary Aggregates Rose**

The annual growth rate of reserve money rose dramatically in 2013, mainly because stock market rallies induced by net foreign capital inflows boosted demand deposit growth. In addition, the uptrend in growth in currency issued also led to an increase in the growth rate of reserve money. The monetary aggregate M2, measured on a daily average basis, recorded a yearly growth rate of 4.78 percent in 2013, rising from 4.17 percent in 2012, and was still within the CBC's 2.5 percent to 6.5 percent target range for the year. The annual growth rate of M1B, measured on a daily average basis, accelerated to 7.27 percent in 2013 from 3.45 percent in 2012.

#### **Average Growth in Bank Loans and Investments Increased**

Compared with the end of 2012, the annual growth rate of loans and investments decreased from 5.69 percent to 4.59 percent at the end of 2013. The decrease was mainly because of an investment slowdown under banks' more conservative investment strategies to cope with the effect of Fed's decision to "taper off" its asset purchase program. On the other hand, growth in bank loans accelerated, mainly owing to individuals' growing demand for funds boosted by higher trading activities in the stock market and the real estate market. For the year as a whole, the average annual growth rate of loans and investments of monetary financial institutions increased from 5.08 percent in 2012 to 5.60 percent in 2013. If the loans and investments of life insurance companies, non-accrual loans reclassified, and bad loans written off by monetary financial institutions, as well

as funds raised directly from capital markets, were all taken into account, the total funds raised by the non-financial sector would register an annual growth rate of 4.78 percent at the end of 2013, higher than the 4.55 percent recorded at the end of the previous year.

### **Non-performing Loan Ratio Continued to Improve**

The asset quality of Taiwan's banks remained sound, mainly owing to their limited exposure to highly uncertain global financial markets. The overall non-performing loan ratio of monetary financial institutions decreased from 0.45 percent at the end of 2012 to 0.41 percent at the end of 2013. However, because the capital increases conducted by some banks in 2013 have not been fully reflected in their profits yet, the average return on equity was 10.04 percent, decreasing from 10.06 percent the year before. The average return on assets was 0.58 percent in 2013, the same level as that in 2012.

### **Average Interest Rates on Deposits and Loans Decreased Modestly**

The CBC, in view of greater uncertainty surrounding the global economy and mild domestic inflation, has kept policy rates unchanged in 2013 to maintain price and economic stability. As a result, domestic banks kept their posted interest rates on deposits and loans at a steady level throughout 2013. The average fixed rate on one-year time deposits of the five major domestic banks stayed at the same level as that at the end of 2012, while the weighted average rate on their new loans increased slightly because of an upswing in rates on loans for working capital. The weighted average interest rate on deposits decreased slightly, mainly because net foreign capital inflows caused an increase in the weight of demand deposits. The weighted average interest rate on loans also decreased slightly, mainly because the rate on long-term secured loans edged down.

### **Money Market Rates Decreased Slightly; Bond Yields Rose**

The CBC has continued to manage market liquidity to maintain excess reserves of banks at an appropriate level. The interbank overnight call loan rate remained at a stable level in 2013. With regard to the bills market, easy funding conditions led the average rate to exhibit a downtrend, which in turn induced an increase in the issuance of commercial paper.

In 2013, the yield on the benchmark 10-year government bond, influenced by the anticipation that the Fed would reduce its asset purchases, recorded an uptrend. The rise in bond yields, likely to push up the funding cost of the national treasury, caused some government bond auctions to be cut off despite falling short of the issue targets. Therefore, the total amount of government bonds issued declined compared to the previous year. Corporate bond yields also exhibited an upward trend, denting corporate bond issues even for key issuers like Taiwan Power Company. The total issue amount of corporate bonds decreased as a result.

## Exchange Rate Depreciated

At the beginning of 2013, the NT dollar against the US dollar appreciated on net foreign capital inflows. The interbank closing exchange rate reached a yearly high of 29.039 on January 11. Afterwards, the NT dollar softened because the market expected that Asian currencies might begin competitive devaluations after the yen weakened further as a result of the BOJ's monetary stimulus expansion. After mid-May, market concerns over possible US QE withdrawal caused the US dollar to appreciate, and thus the NT dollar reached 30.350 on June 24, the lowest rate of 2013. From mid-September, the US dollar turned to depreciate, owing to the US Fed's announcement to maintain its asset purchasing policy. The NT dollar started to appreciate and reached 29.425 on October 23, the highest rate in nine months. In mid-December, after the US Fed announced it would gradually reduce the size of its QE, the US dollar rebounded and the NT dollar depreciated again. At the end of 2013, the NT dollar depreciated against the US dollar by 2.72 percent compared to the end of the previous year. On an annual average basis, the NT dollar depreciated by 0.52 percent in 2013.

## Stock Indices Edged Up

During the period from January to early March 2013, the domestic stock market's mainboard index, the TAIEX, gradually gained from its yearly low of 7,617 points on January 17, bolstered by the robust performance of international stock markets, as well as progress in cross-strait financial cooperation. Afterwards, the TAIEX took a dip because of heightened tension between North and South Korea and the outbreak of bird flu in China. From mid-April, as the US stock market continued to hit record highs, and the Ministry of Finance released a new version of tax regulations regarding capital gains on securities transactions, foreign investors crowded into the stock market and pushed up the TAIEX to 8,399 points on May 22. However, after the Fed's talk of QE tapering, the TAIEX fell again and reached 7,663 points on June 25. Then, as the Legislative Yuan passed the amended version of the capital gains tax, the US Fed announced that QE would continue, and the Financial Supervisory Commission adopted measures to revitalize the stock market, the TAIEX was boosted to hit its yearly high of 8,623 points on December 30. On a daily average basis, the TAIEX was 8,093 points in 2013, increasing by 8.2 percent from 7,481 points the previous year.

## 2. Monetary Aggregates

The CBC has selected the monetary aggregate M2 as the intermediate target since 1992. For the year 2013, M2 recorded an annual growth rate of 4.78 percent, higher than the previous year's 4.17 percent but still within the CBC's target range of 2.5 percent to 6.5 percent. Compared with GDP growth of 2.11 percent, the money growth indicated there was sufficient liquidity to support economic activity.

The narrow monetary aggregate M1B trended upwards and registered a growth rate of 7.27 percent for the year 2013, higher than the previous year's 3.45 percent. The growth in M1B was mainly attributable to the shift of money from non-transaction deposits to transaction deposits resulting from a rebounding stock market.

### Steady Growth in Reserve Money

Reserve money growth was up for the year 2013, registering a growth rate of 7.18 percent, and was 2.27 percentage points higher than the previous year's figure. In terms of the monthly movements of reserve money, as the Chinese New Year holidays fell on different months in 2013 and 2012, the annual growth rates of reserve money for January and February were more volatile, yet they combined to average 5.03 percent. In subsequent months, the annual growth rates remained relatively stable and reached a yearly high of 8.09 percent in September and a yearly low of 7.13 percent in December.

On the demand side, currency held by the non-bank public grew slightly faster as the low interest rates paid on bank deposits encouraged the willingness to hold cash. Banks' demand for reserves also rose owing to the shift of money from non-transaction deposits to transaction deposits. In addition, banks' excess reserves increased as the CBC adjusted its monetary policy operation and fund management in response to an unfavorable economic outlook.

From the supply side perspective, the balance sheet of the CBC revealed the sources of changes in reserve money. The increase was mostly attributable to the increase in foreign assets held by the CBC and claims on financial institutions, while the decrease resulted largely from the increase in the issuance of certificates

**Annual Growth Rate of Reserve Money**



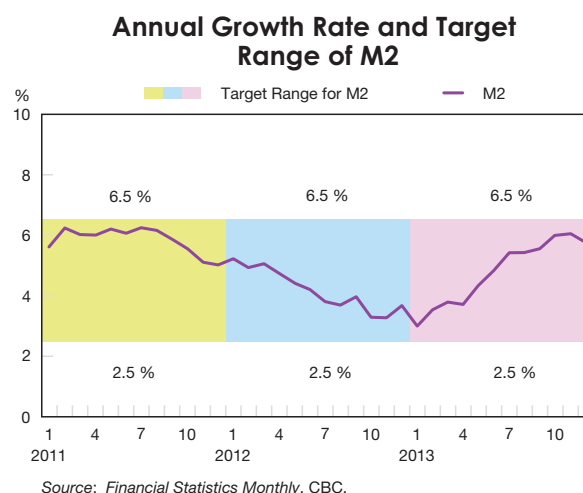
Source: *Financial Statistics Monthly*, CBC.

of deposit (CDs).

### Moderate Growth in M2

The monetary aggregate M2 is comprised of currency in circulation, deposits in banks' checking and passbook accounts, and quasi-money. The annual growth rate of M2 in 2013 was 4.78 percent, up 0.61 percentage points from the previous year and slightly higher than the median of the CBC's target range.

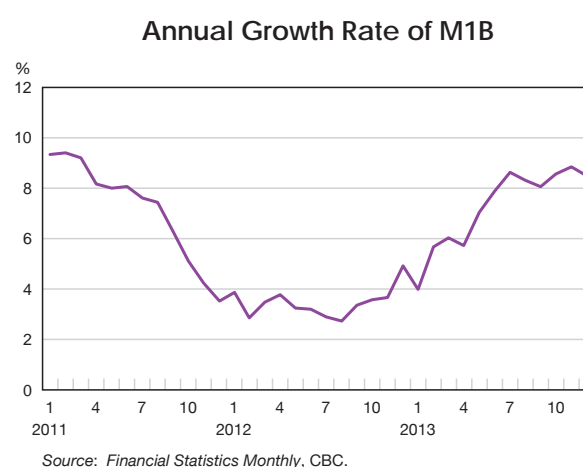
The monthly movements of the M2 annual growth rate in 2013 were all within the CBC's target range and generally exhibited an upward trend. In January, M2 growth fell to its all-year low of 2.99 percent because of a higher base effect resulting from the Chinese New Year holidays. The annual growth rate of M2 declined slightly in April as the Taiwan Insurance Guaranty Fund transferred a deposit to one life insurance company (which is not included in the monetary aggregates). In addition, net foreign capital outflows in August also brought down the pace of monthly M2 growth. For the other months, owing to continued growth in bank loans and investments, net foreign capital inflows and a lower base effect, the annual growth rate of M2 moved upward and recorded an all-year high of 6.05 percent in November.



### Accelerated Growth in M1B

Despite moderate economic recovery, the stock market showed better performance than the previous year on account of an upswing in US stocks, easing capital gains tax rules and measures aimed at stimulating stock trading volumes and activity. As a result, transaction deposits increased relative to non-transaction deposits. Coupled with a lower base effect, the average annual growth rate of M1B recorded 7.27 percent, and was 3.82 percentage points higher than the previous year's figure.

As for the monthly movements of M1B, the annual growth rate hit its yearly low of 3.97 percent in January. Later, a transaction deposit transferred by the Taiwan Insurance Guaranty



Fund to one life insurance company in April, and net foreign capital outflows in August, as well as a shift of funds from transaction deposits to foreign currency deposits in September, led the growth rate of M1B to decline slightly in these three months. However, for the remaining months, the M1B growth rate mainly trended upward and reached a yearly high of 8.85 percent in November.



### 3. Banking Sector

#### Number of Monetary Financial Institutions

At the end of 2013, the number of monetary financial institutions (defined hereafter in this chapter as excluding the central bank) amounted to 399. Among them, the number of domestic banks increased by one with the opening of ANZ Bank (Taiwan). The number of foreign and Mainland Chinese banks increased by one as China Construction Bank set up its branch in Taiwan. The number of credit cooperatives remained the same, while the number of credit departments of farmers' and fishermen's associations increased by one owing to a re-opening.

#### Number of Monetary Financial Institutions by Category

Types of institutions	End of 2013	End of 2012	Annual Change
Total Number of Main Offices	399	396	3
Domestic Banks	40	39	1
Credit and Mainland Chinese Banks	31	30	1
Credit Cooperatives	24	24	0
Credit Departments of Farmers' and Fishermen's Associations	303	302	1
Chunghwa Post	1	1	0
Total Number of Branches	6,102	6,077	25
Local Branches	5,927	5,905	22
Overseas Branches	112	110	2
Offshore Banking Units	63	62	1

Sources: 1. *Financial Statistics Monthly*, CBC.  
2. Department of Financial Inspection, CBC.

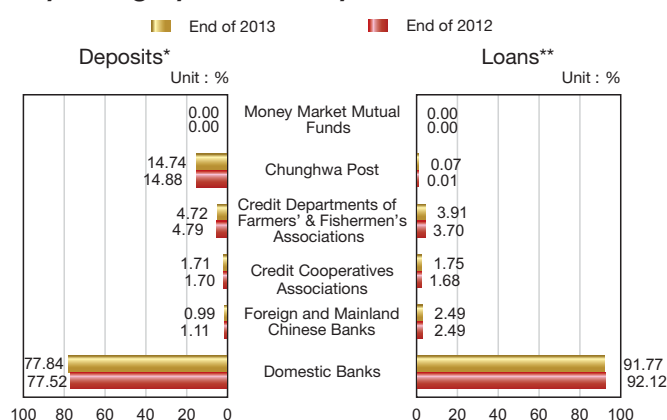
The number of money market mutual funds and the number of financial holding companies remained at 1 and 16, respectively, with the former being a fund raised and managed by Yuanta Commercial Bank.

#### Market Shares of Deposits and Loans

In terms of market share of deposits, domestic banks accounted for 77.84 percent at the end of 2013, higher than the previous year, owing to their efforts to solicit renminbi (RMB) deposits following the commencement of RMB business in February of the year. As the RMB deposits flowed into domestic banks, foreign and Mainland Chinese banks, credit departments of farmers' and fishermen's associations, and the Chunghwa Post lost some of their market shares of deposits which slipped to 0.99 percent, 4.72 percent, and 14.74 percent, respectively. The market share of deposits for credit cooperatives slightly increased by 0.01 percentage points.

In terms of loans, the market share of domestic banks dropped to 91.77 percent for the year, owing to a greater amount of government repayment, while the share of foreign and Mainland Chinese banks remained at 2.49 percent. The Chunghwa Post's market share of loans edged up to 0.07 percent, reflecting an increase in lending to bills finance companies with its excess cash. As for credit departments of farmers' and fishermen's associations and credit cooperatives, their market shares in loans continued to climb, both attributable to their efforts to expand business.

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



Notes: \* The carrying values of the host contracts of structured products issued by banks are excluded.

\*\* Including data for securities acquired under reverse repurchase agreements.

Source: Financial Statistics Monthly, CBC.

### Sources and Uses of Funds in Monetary Financial Institutions

At the end of 2013, the total amount of funds in monetary financial institutions was NT\$39,530 billion, increasing by NT\$2,321 billion compared to the end of 2012. Because of a significant increase in net foreign capital inflows, all the sources of funds except government deposits increased. However, as the stock market rebounded, it attracted a shift of funds from non-transaction deposits to transaction deposits. As a result, the share of non-transaction deposits shrank, while that of transaction deposits rose.

As the RMB deposits business commenced in February 2013, the outstanding balance of foreign currency deposits climbed. Therefore, foreign currency deposits took up a greater share in total non-transaction deposits, while the share of NT dollar deposits decreased, compared to the end of the previous year. Furthermore, the net worth of other items increased, mainly coming from banks' increasing profits and capital increase by cash.

Regarding the uses of funds, all items increased at the end of 2013 compared to the end of 2012. More specifically, a robust real estate market and improving foreign trade pushed up personal and corporate demand for capital, leading the outstanding balance of NT dollar loans to increase. On the other hand, affected by banks' aggressive expansions in overseas loans and the Chinese government's credit tightening, both the claims on banks' OBU and foreign currency loans increased. They resulted in increasing shares of both net foreign assets and foreign currency loans compared to the end of 2012.

Sources and Uses of Funds in Monetary Financial Institutions<sup>1</sup>

Unit: NT\$ Billion

	End of 2013		End of 2012		Annual Change	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Sources:						
Transaction Deposits <sup>2</sup>	12,141	30.71	11,215	30.14	926	0.57
Non-transaction Deposits <sup>3</sup>	22,048	55.77	21,156	56.86	892	-1.09
NT Dollar Deposits	18,573	46.98	18,281	49.13	292	-2.15
Foreign Currency Deposits	3,475	8.79	2,875	7.73	600	1.06
Government Deposits	725	1.84	762	2.05	-37	-0.21
Borrowings from CBC	358	0.90	151	0.41	207	0.49
Other Items (Net)	4,258	10.78	3,925	10.54	333	0.24
Total	39,530	100.00	37,209	100.00	2,321	0.00
Uses:						
Net Foreign Assets <sup>4</sup>	2,310	5.84	1,481	3.98	829	1.86
Loans	22,413	56.70	21,650	58.19	763	-1.49
NT Dollar Loans	21,463	54.30	20,828	55.98	635	-1.68
Foreign Currency Loans <sup>4</sup>	950	2.40	822	2.21	127	0.19
Portfolio Investments <sup>5</sup>	4,316	10.92	3,898	10.48	418	0.44
Purchases of CDs Issued by CBC	6,725	17.01	6,514	17.51	211	-0.50
Deposits with CBC	3,767	9.53	3,666	9.84	101	-0.31

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.

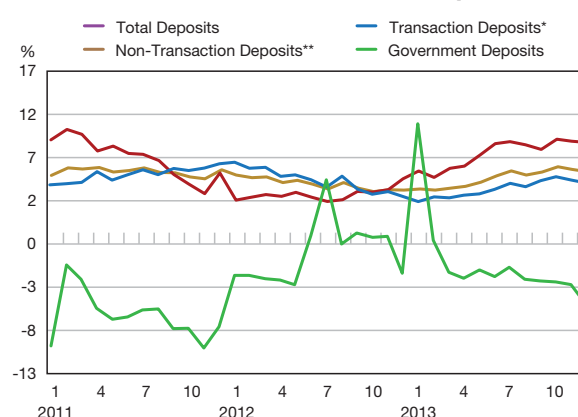
Source: Financial Statistics Monthly, CBC.

The share of portfolio investments rose at the end of 2013 compared to the end of 2012. However, affected by the US Fed's QE tapering in the second half of the year, each month's year-on-year growth rate increased at first and then decreased afterwards. Moreover, the shares of banks' purchases of CDs issued by the CBC and their deposits with the CBC decreased compared to the previous year's end as banks extended their businesses overseas.

## Uptrend in Deposit Growth

At the end of 2013, total deposits of monetary financial institutions registered an annual growth rate of 5.38 percent, higher than last year's 3.15 percent. This was mainly attributable to a net

## 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, non-residents' NT dollar deposits, repurchase agreements, and money market mutual funds.

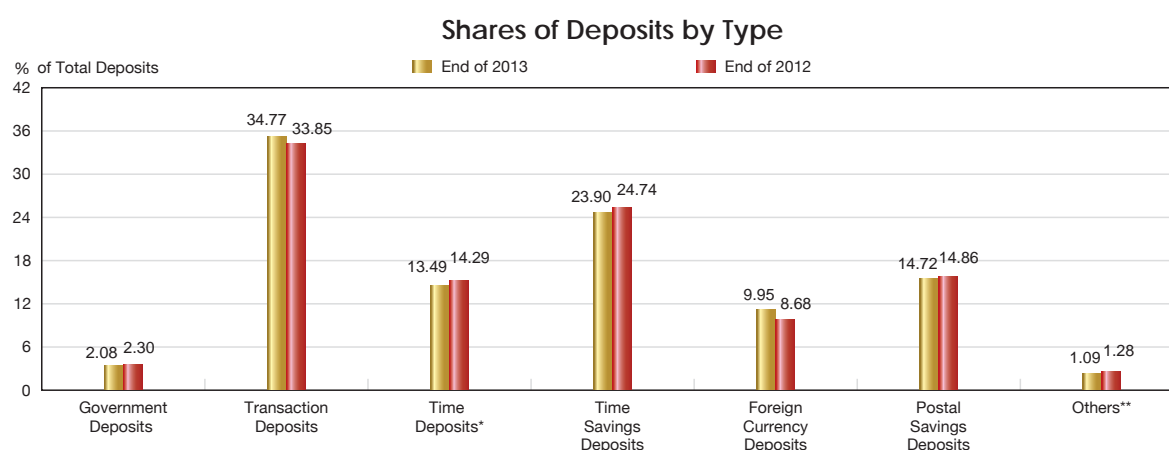
Source: Financial Statistics Monthly, CBC.

inflow of foreign capital, as well as modest growth in bank loans and investments.

As net foreign capital inflows continued, the annual growth rate of deposits exhibited an upward trend from January to May, except for February when a stronger demand for currency during the Chinese New Year holidays turned the deposit growth slightly down to 3.26 percent. In June, despite the Fed's hint of QE tapering which caused a net outflow of foreign capital, the annual growth rate of deposits stood at 4.87 percent, mostly contributed to by significant redemption of residents' investments in foreign financial products. Then, the annual growth rate of deposits fluctuated along with the movement of foreign capital until October, when the growth rate touched a yearly high of 5.94 percent as a result of a rebound in the stock market. Deposit growth slowed in November because of a decrease in net foreign capital inflows compared to the same period of last year. With a deceleration in the growth of bank loans and investments, the annual growth rate of deposits went further down to 5.38 percent at the end of the year.

Owing to a gradual rebound in the stock market and a net foreign capital inflow for the year, transaction deposits posted an annual growth rate of 8.26 percent at the end of the year, higher than the previous year's 4.59 percent, leading its share in total deposits to rise to 34.77 percent. Meanwhile, given a moderate economic recovery, the annual growth rate of non-transaction deposits also increased from 2.59 percent to 4.22 percent at year end. Its share in total deposits, however, declined to 63.15 percent because of a larger increase in transaction deposits associated with equity investment.

By type of non-transaction deposits, the share of foreign currency deposits rose at year end owing to banks' solicitation of RMB deposits, while the shares of other types of non-transaction deposits declined.



Notes: \* Including NCDs.

\*\* Including repurchase agreements, nonresidents' NTD deposits and money market mutual funds.

Source: *Financial Statistics Monthly*, CBC.

Considering a greater repayment of government bonds and increased efficiency of government funds management, which lowered government deposits with monetary financial institutions, the annual growth rate of government deposits dropped from -1.81 percent to -4.79 percent, while its share in total deposits slid to 2.08 percent at the end of the year.

### Growth in Bank Loans and Investments

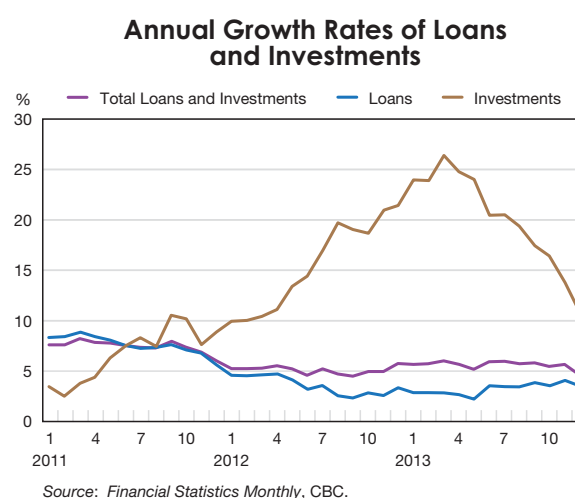
The annual growth rate of loans and investments of monetary financial institutions was 4.59 percent at the end of 2013, decreasing from 5.69 percent at the end of 2012. Growth in loans accelerated to 3.48 percent at the end of 2013 from 3.29 percent at the end of the previous year, mainly owing to a greater demand from individuals boosted by active trading in the stock market and the real estate market. In contrast, growth in portfolio investment decelerated dramatically to 10.71 percent at the end of 2013 from 21.37 percent at the end of the previous year, mainly owing to the more conservative investment strategies of banks in response to the US Fed's decision to gradually reduce the pace of its asset purchases. Growth in banks' investments in all types of instruments exhibited a downward trend.

### Loans by Sector

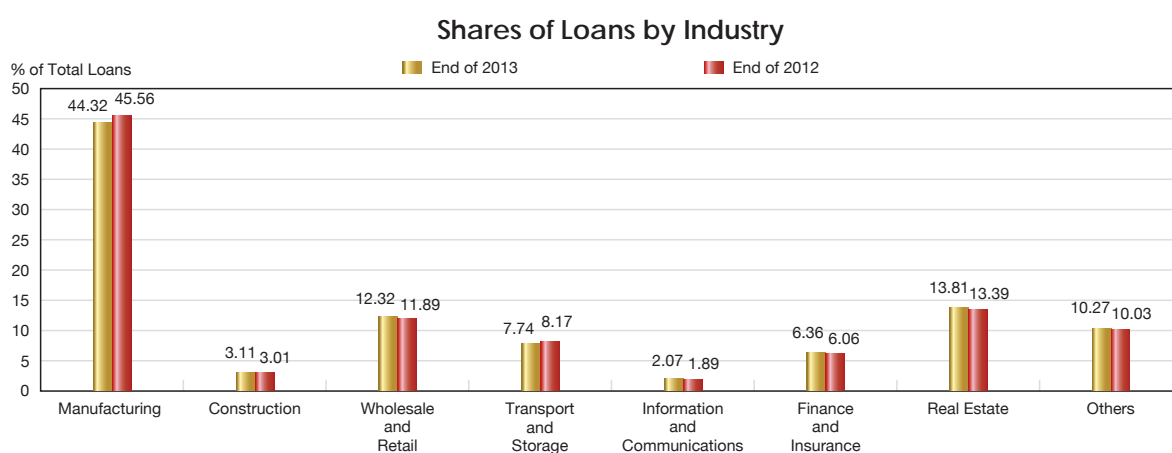
The annual growth rate of loans extended to the private sector rose to 4.11 percent at the end of 2013 from 3.57 percent at the end of 2012. The upturn was mainly due to an increasing demand from individuals. The annual growth rate of loans to public enterprises increased to 1.51 percent at the end of 2013 from -15.85 percent, mainly because the Taiwan Power Company turned to raise funds via borrowing instead of financing via bond issuance at unfavorably high rates. Meanwhile, the annual growth rate of loans to government agencies decreased to -9.25 percent from 3.95 percent, mainly because the national treasury received the fees from the 4G mobile-phone service license auction amounting to NT\$118.7 billion. Loans extended to the private sector accounted for 89.72 percent of total loans, higher than the 88.74 percent recorded at the end of 2012. Loans extended to government agencies and public enterprises accounted for 6.92 percent and 3.36 percent, respectively, both lower than those recorded at the end of the previous year.

### Loans by Industry

With regard to loans broken down by industry sector, the manufacturing sector continued to



account for the largest portion of bank loans, at 44.32 percent at the end of 2013, decreasing from 45.56 percent at the end of the previous year. The decrease was mainly due to the effect of a higher base in loans extended to chemical material manufacturers at the end of the previous year. Influenced by a robust real estate market, the share of loans extended to the construction industry exhibited an uptrend as the number of new construction projects in progress soared. The respective shares of loans extended to the wholesale and retail industry, the information and communications industry, the finance and insurance industry, and the real estate industry also increased at the end of 2013.



Source: *Financial Statistics Monthly*, CBC.

## Consumer Loans

The annual growth rate of consumer loans extended by banks increased from 0.94 percent at the end of 2012 to 2.36 percent at the end of 2013. Among them, housing loans rose from 2.77 percent to 4.18 percent, mainly owing to an increase in the number of house transactions. As for the shares of various consumer loans, housing loans remained the largest component, rising from 79.20 percent at the end of 2012 to 80.60 percent at the end of 2013. Car loans accounted for 1.49 percent, increasing from 1.24 percent, whereas housing repair loans and revolving credit for credit cards accounted for 4.25 percent and 1.68 percent, respectively, decreasing from the end of the previous year.

## Investments

Portfolio investments by monetary financial institutions, measured on a cost basis, showed slow growth with an annual increase of 10.71 percent in 2013, mainly owing to banks' more conservative investment strategies in response to the Fed's QE tapering.

Among the investment instruments, government bonds accounted for the largest share with 57.88 percent, lower than the 59.30 percent a year ago, mainly because the government decreased its bond issuance for the purpose of lowering interest payments in view of rising long-term interest rates. Meanwhile, banks turned to purchase corporate bonds and commercial paper instead. The corporate bonds and commercial paper accounted for shares of 13.87 and 14.82 percent at the end of 2013, respectively, increasing from the end of the previous year.

When measured at fair value, the annual increase of portfolio investments by monetary financial institutions was NT\$434.0 billion, higher than that measured on a cost basis of NT\$417.6 billion.

### Indirect Finance and Direct Finance

Financing channels of the non-financial sector comprise direct finance and indirect finance, referring respectively to issuing securities in the markets and borrowing from financial institutions. The total amount of funds raised by the non-financial sector during the year 2013 increased from the previous year's NT\$1,707.1 billion to NT\$1,873.1 billion. Funds raised by issuing securities increased by NT\$62.5 billion, mainly boosted by increased stock issuance by some financial holding companies. Meanwhile, funds raised through borrowing from financial institutions also increased by NT\$120.5 billion, which was mainly due to growth in bank loans.

Based on the outstanding balance, the share of indirect finance in total funds raised increased from 78.90 percent at the end of 2012 to 79.35 percent, while the share of direct finance decreased from 21.10 percent to 20.65 percent.

### Indirect Finance vs. Direct Finance\*

Unit: NT\$ Billion

Year	Indirect Finance (1)			Direct Finance (2)	Total Funds Raised (3)=(1)+(2)
	Loans	Investments	Subtotal		
2004	1,569.7	246.2	1,815.9	313.4	2,129.3
2005	1,458.5	321.7	1,780.2	181.5	1,961.7
2006	820.6	537.1	1,357.7	-151.3	1,206.4
2007	737.0	228.6	965.6	82.7	1,048.3
2008	649.2	563.0	1,212.2	-316.1	896.1
2009	133.0	259.3	392.3	142.8	535.1
2010	1,242.6	433.8	1,676.4	165.5	1,841.9
2011	1,141.4	642.5	1,783.9	19.0	1,802.9
2012	809.4	880.7	1,690.1	17.0	1,707.1
2013	1,007.2	803.4	1,810.6	62.5	1,873.1

Notes: \* Measured in terms of flow data.

(1) Refers to loans and investments (measured on a cost basis) made by monetary financial institutions, trust and investment companies, and life insurance companies, after taking account of their non-accrual loans reclassified and bad loans written-off.

(2) Refers to the total amount of new issues of various marketable securities, including government bonds, corporate bonds, listed stocks, offshore bonds, depository receipts, short-term bills and asset-backed securities held by the non-financial sector.

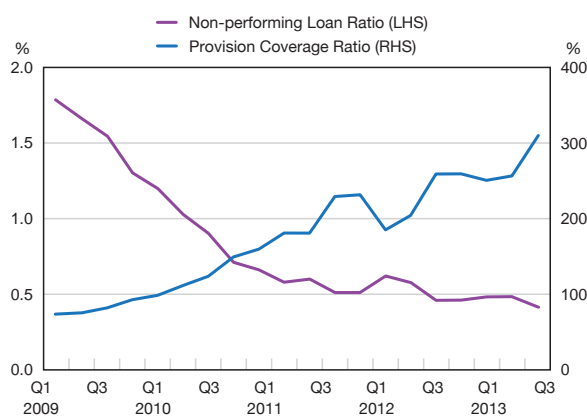
Source: Financial Statistics Monthly, CBC

## Decline in the Non-performing Loan (NPL) Ratio

Owing to the improved asset quality, the average NPL ratio of monetary financial institutions as a whole declined to 0.41 percent at the end of 2013 from the previous year's 0.45 percent. Among the different types of financial institutions, community financial institutions continued to show the biggest improvement of the average NPL ratio during the course of the year.

In addition, as banks reacted to the government's call for setting aside more loan loss provisions, the average provision coverage ratio of monetary financial institutions increased to 306.09 percent at the end of 2013 from 257.22 percent the previous year.

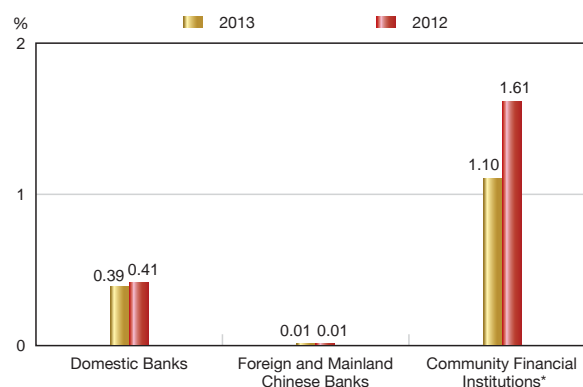
**Non-performing Loan Ratio and Provision Coverage Ratio of Monetary Financial Institutions\***



Note: \* Include domestic banks, foreign and Mainland Chinese banks, credit cooperatives, credit departments of farmers' and fishermen's associations.  
 Non-performing Loan Ratio = Non-performing Loans / Total Loans  
 Provision Coverage Ratio = Loan Loss Provisions / Non-performing Loans

Source: Department of Financial Inspection, CBC.

**Non-performing Loan Ratios by Type of Monetary Financial Institutions**



Note: \* Include credit cooperatives and credit departments of farmers' and fishermen's associations.

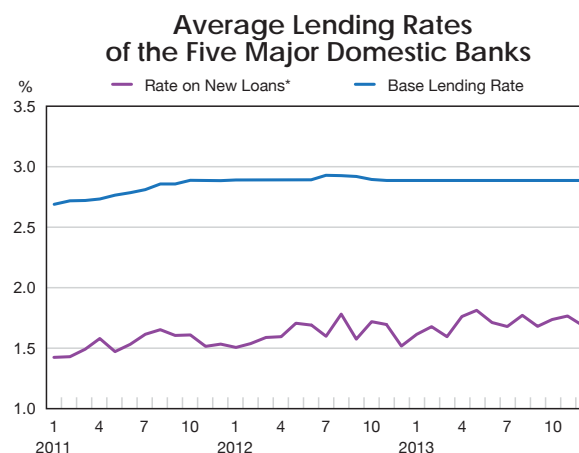
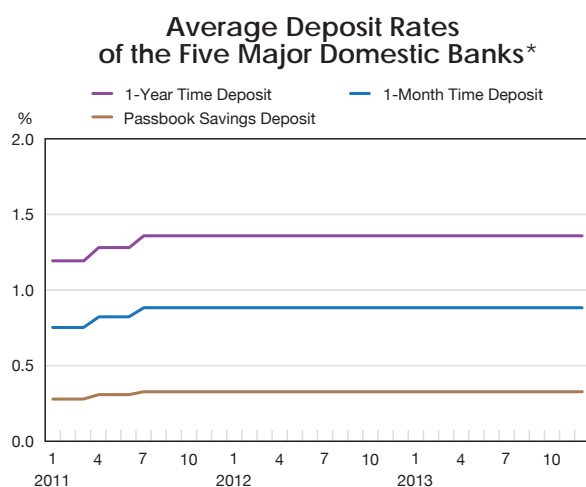
Source: Department of Financial Inspection, CBC.

## Bank Interest Rates Unchanged

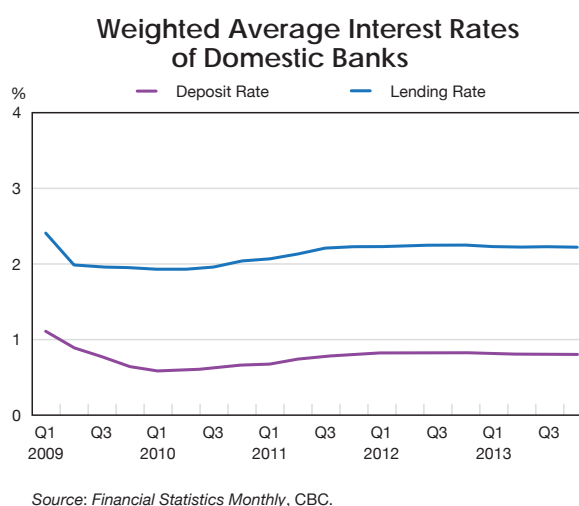
Throughout 2013, the domestic economy experienced a moderate recovery and inflationary pressures subdued. However, global uncertainties led the CBC to decide to keep policy rates unchanged; hence domestic bank interest rates remained broadly steady. In the case of the interest rates of the five major domestic banks, their average fixed rates on one-month and one-year time deposits, respectively, remained at 0.88 percent and 1.36 percent at the end of 2013.

Stock market trading activity became more vigorous during the first half of the year and induced a shift of funds from non-transaction deposits to transaction deposits. The weighted average interest rate on total deposits of domestic banks was 0.80 percent in 2013, which was 0.02 percentage points lower than that recorded in the previous year.





Regarding the loan rate, the average base lending rate remained at 2.88 percent at the end of 2013. As banks' rates on current operations loans climbed in 2013, the weighted average interest rate on new loans of the five major domestic banks edged up from 1.62 percent in 2012 to 1.70 percent in 2013, up by 8 basis points. Excluding central government loans, the weighted average interest rate on new loans increased from 1.68 percent in 2012 to 1.75 percent in 2013, up by 7 basis points.



During the first half of the year, the weighted average interest rate on total loans of domestic banks moved downward from 2.25 percent in the fourth quarter of 2012 to 2.22 percent in the second quarter of 2013. In the third quarter, owing to an increase in the interest rates of loans for land and construction, the weighted average interest rate moved slightly upward to 2.23 percent. Nevertheless, as some banks lowered their rates on long-term secured loans, the weighted average interest rate on loans declined back to 2.22 percent in the fourth quarter. For the year as a whole, the weighted average interest rate on loans of domestic banks was 2.23 percent, which was 0.01 percentage points lower than that recorded in the previous year.

## Profits of Monetary Financial Institutions

Unit: NT\$ Billion

	Pre-tax Profits			Return on Assets (%)*			Return on Equity (%)**		
	2013	2012	Annual Change	2013	2012	Annual Change	2013	2012	Annual Change
Domestic Banks	258.2	240.7	17.5	0.65	0.65	0.00	9.82	9.87	-0.05
Foreign and Mainland Chinese Banks	16.3	13.2	3.1	0.46	0.55	-0.09	22.05	20.01	2.04
Credit Cooperatives	3.5	2.3	1.2	0.55	0.38	0.17	8.09	5.83	2.26
Credit Departments of Farmers' and Fishermen's Associations	4.9	4.9	0.0	0.27	0.28	-0.01	4.48	4.70	-0.22
Chunghwa Post	13.7	13.4	0.3	0.25	0.26	-0.01	13.85	16.76	-2.91
Total	296.6	274.5	22.1	0.58	0.58	0.00	10.04	10.06	-0.02

Notes: \* Return on Assets = Pre-tax Profits / Total Assets

\*\* Return on Equity = Pre-tax Profits / Net Worth

Source: Department of Financial Inspection, CBC.

Because the decrease in the deposit rate was more than in the lending rate, the interest rate spread between deposits and loans of domestic banks widened to 1.43 percentage points, slightly higher than the 1.42 percentage points recorded in the previous year.

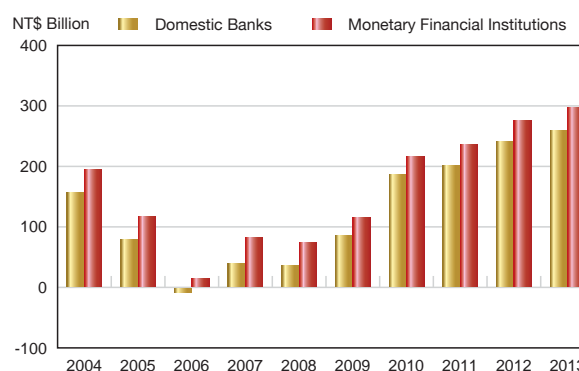
### Improved Profitability

Supported by a moderate economic recovery, the pre-tax profits<sup>1</sup> of monetary financial institutions increased by NT\$22.1 billion to a historical high of NT\$296.6 billion in 2013. Those of domestic banks increased by NT\$17.5 billion to NT\$258.2 billion, mainly owing to increases in net interest revenues and the fair value of banks' financial assets. The pre-tax profit of Chunghwa Post increased by NT\$0.3 billion to NT\$13.7 billion because its exchange transactions registered large revenues instead of losses as in the previous year.

### ROA Flat While ROE Lower

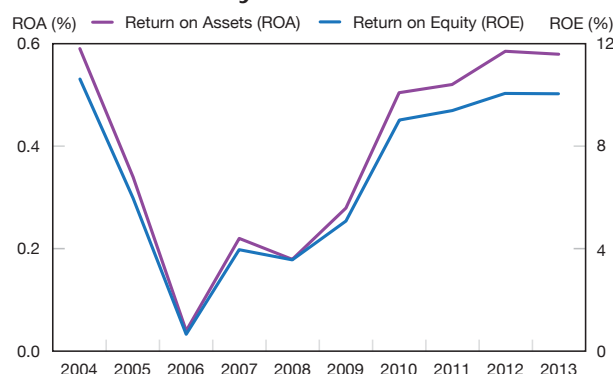
The average return on assets (ROA) of monetary financial institutions in 2013 was 0.58 percent, the same as that of the previous year,

### Pre-tax Profits



Source: Department of Financial Inspection, CBC.

### ROA and ROE of Monetary Financial Institutions

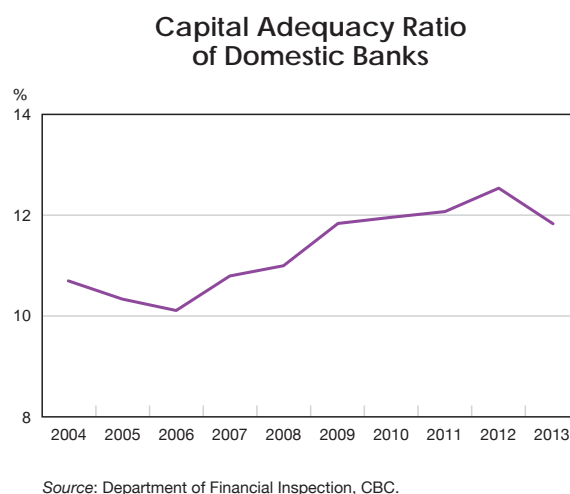


Source: Department of Financial Inspection, CBC.

<sup>1</sup> Local banks and Chunghwa Post have adopted International Financial Reporting Standards (IFRS) since the year of 2013.

while their return on equity (ROE) went down to 10.04 percent from 10.06 percent a year earlier, resulting from faster growth in net worth than in pre-tax profits as a result of some banks' cash capital increases. Among monetary financial institutions, domestic banks were the best performers in terms of ROA, and foreign and Mainland Chinese banks performed the best in terms of ROE.

With regard to capital adequacy ratios, the average ratio for domestic banks decreased to 11.83 percent at the end of the year from 12.54 percent at the previous year end. The main reasons behind the decrease were the adoption of Basel III standards and IFRS beginning 2013. Basel III standards introduced a new formula approach to capital calculation and an expanded scope of risk-weighted assets, which resulted in a significant increase in the credit risk-weighted assets. Meanwhile, with the adoption of IFRS, banks had to allocate liability reserves for retired employees' preferred deposits, which further impacted the capital adequacy ratio.



## 4. Money Market

Due to a slack recovery of the economy, the demand for funds in the private sector was not strong. The interbank overnight call loan rate remained broadly stable at a low level. As a result, total turnover in both the interbank call loan market and short-term bills market increased for the year.

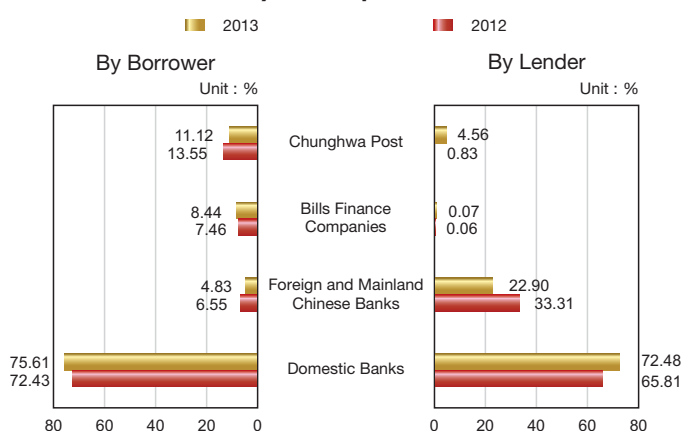
### Increase in Interbank Call Loans

In 2013, total annual turnover of interbank call loans amounted to NT\$39,843.1 billion, showing an increase of 14.24 percent when compared with the previous year. This was mainly because of stronger demand for funds by banks, in response to their uneven fund allocation, and by bills finance companies, to fund increased short-term bills trading at lower rates. The outstanding amount of interbank call loans amounted to NT\$380.7 billion in December 2013, recording a substantial increase of 53.34 percent from the previous year end.

With regard to borrowers, domestic banks were still the largest player during the year, accounting for 75.61 percent of total transactions, followed by the Chunghwa Post, bills finance companies, and foreign and Mainland Chinese banks, with shares of 11.12 percent, 8.44 percent and 4.83 percent, respectively. The amount borrowed by domestic banks increased by NT\$4,862.5 billion or 19.25 percent compared with the previous year because the interbank overnight rates remained broadly stable at a low level. The amount borrowed by bills finance companies increased by NT\$759.4 billion or 29.17 percent during the year because of their stronger demand for funds, which was associated with the transactions in short-term bills. However, the borrowed amount of the Chunghwa Post and foreign and Mainland Chinese banks decreased by NT\$295.0 billion or 6.24 percent and NT\$360.0 billion or 15.76 percent, respectively.

With respect to lenders, domestic banks continued to be the largest supplier of funds, accounting for 72.48 percent of total transactions in 2013. Those with smaller proportions were foreign and Mainland Chinese banks, the Chunghwa Post and bills finance companies, with respective shares of 22.90 percent, 4.56 percent and 0.07 percent. The amount lent by domestic

**Composition of Interbank Call Loan Market by Participant**



Source: Financial Statistics Monthly, CBC.

banks increased by NT\$5,925.7 billion or 25.82 percent compared with the previous year as domestic banks had stable sources of deposits and could provide sufficient funds for lending. Meanwhile, the Chunghwa Post supplied more funds to the interbank call loan market because of statutory restrictions on its lending business. As a result, the amount lent by the Chunghwa Post increased by NT\$1,528.8 billion or 630.03 percent compared with the previous year. In contrast, owing to the transfer of business from the Taipei Branch of ANZ Bank to the newly launched ANZ Bank (Taiwan), the amount lent by foreign and Mainland Chinese banks decreased by NT\$2,492.9 billion or 21.46 percent, with the share declining from 33.31 percent in the previous year to 22.90 percent.

In terms of maturity, interbank overnight call loans remained the most actively traded instrument in the market with a predominant share of 64.07 percent, down by 2.87 percentage points from that of the previous year. Second were those with a maturity of 1 week, accounting for 29.24 percent, down by 0.12 percentage points from that of the previous year. However, the share of loans with a 2-week maturity rose to 5.40 percent from 2.97 percent in the previous year because the interbank overnight call loan rate remained broadly stable. Shares for the trading of interbank call loans with maturities of 3 weeks, 1 month, 2-6 months, and above 6 months were negligible.

### Increased Transactions in Short-Term Bills

In 2013, newly issued short-term bills totaled NT\$9,809.0 billion. Of the new issues, commercial paper continued to account for the lion's share of 90.0 percent. Second were negotiable certificates of deposit with a share of 6.45 percent, followed by treasury bills with a share of 3.31 percent. Bankers' acceptances made up a marginal share of 0.24 percent. Because market interest rates remained at low levels, private and government enterprises were more willing to issue commercial

### Short-Term Bills Market

Unit: NT\$ Billion

Year	Total		Treasury Bills		Commercial Paper		Bankers' Acceptances		Negotiable Certificates of Deposit	
	Issues	Year-end Outstanding	Issues	Year-end Outstanding	Issues	Year-end Outstanding	Issues	Year-end Outstanding	Issues	Year-end Outstanding
2004	6,888.8	1,316.5	130.9	130.9	5,642.7	775.6	35.2	7.6	1,080.0	402.4
2005	7,121.0	1,168.1	115.0	45.0	5,690.4	747.0	31.1	7.7	1,284.5	368.5
2006	7,004.0	1,092.4	45.0	25.0	5,879.8	717.6	36.1	8.1	1,043.1	341.7
2007	6,495.1	925.3	88.0	28.0	5,577.2	664.8	38.2	8.4	791.7	224.0
2008	6,948.6	969.8	240.0	106.8	6,074.7	690.2	33.3	4.9	600.6	167.8
2009	6,293.4	1,043.1	435.0	215.0	5,397.7	651.3	21.9	4.9	438.8	171.9
2010	7,140.8	1,167.5	365.0	240.0	5,903.4	686.1	33.1	6.2	839.3	235.2
2011	7,424.0	1,192.6	321.2	180.3	6,270.5	735.2	30.1	5.7	802.2	271.5
2012	8,187.7	1,454.0	265.0	195.0	7,311.6	1,023.6	24.2	4.3	586.9	231.1
2013	9,809.0	1,650.2	324.6	214.6	8,827.4	1,199.2	23.5	4.2	633.5	232.3
2012-2013 Change	1,621.3	196.2	59.6	19.6	1,515.8	175.6	-0.7	-0.1	46.6	1.2
Growth Rate (%)	19.8	13.5	22.5	10.0	20.7	17.2	-3.1	-2.0	8.0	0.5

Source: Financial Statistics Monthly, CBC.

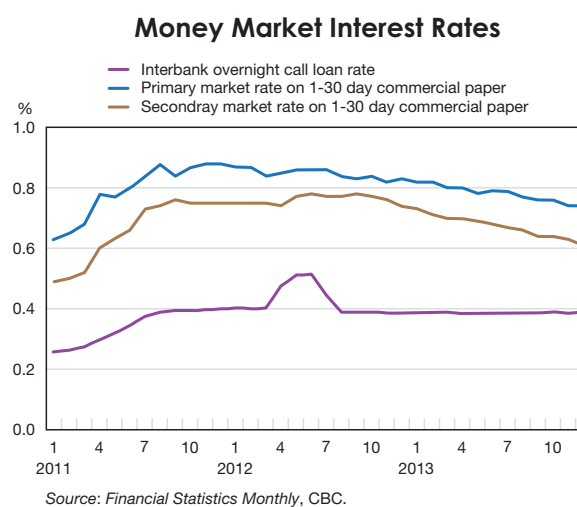
paper instead of borrowing from banks. As a result, compared with the previous year, the amount of commercial paper issued increased by NT\$1,515.8 billion. As of the end of 2013, total outstanding short-term bills amounted to NT\$1,650.2 billion, 13.50 percent more than that of the previous year end.

The total turnover of short-term bills in 2013 decreased by 5.52 percent to NT\$36,554.5 billion. Of the total transactions, commercial paper still made up the largest share of 92.29 percent, representing an increase of 0.66 percentage points compared with the previous year. It was followed by negotiable certificates of deposit with a share of 5.30 percent, representing an increase of 1.04 percentage points over 2012. Treasury bills and bankers' acceptances made up a negligible share of transactions. With respect to market participants, private enterprises were the largest player in the market with a share of 47.54 percent, followed by banks with a share of 23.70 percent.

### Stable Money Market Rates

In 2013, export growth continued to be dampened by weak external demand, and private consumption also showed lackluster growth. The CBC has continued to manage market liquidity to maintain excess reserves of banks at an appropriate level. The interbank overnight call loan rate remained broadly stable between 0.386 and 0.387 percent each month. It averaged 0.386 percent for the whole year, slightly lower than the 0.428 percent registered in the previous year.

The primary market rate on commercial paper with maturities of 1-30 days moved downward from 0.82 percent in January of 2013 to 0.74 percent in December of the same year. The secondary market rate on commercial paper with maturities of 1-30 days also descended slightly from 0.73 percent to 0.61 percent during the same period.



### Increase in Money Market Funds

At the end of 2013, there were a total of 47 money market funds in Taiwan with total assets reaching NT\$815.0 billion, an increase of NT\$101.8 billion or 14.27 percent over the previous year. With regard to portfolio composition, the largest use of the funds was bank deposits with a share of 72.64 percent at the end of the year, followed by short-term bills with a share of 13.78 percent, up by 5.28 percentage points over the previous year. This was primarily because the profits from short-term bill transactions increased owing to the decline in short-term bill rates. Meanwhile,

repurchase agreements accounted for 13.54 percent of total money market funds, down from 17.24 percent in the previous year. However, the bond holding ratio of all money market funds was negligible.

### Portfolio Composition of Money Market Funds

Unit: %; NT\$ Billion

Year/Month End	Total	Bank Deposits		Repurchase Agreements		Short-Term Bills		Bonds	
		Amount	Share	Amount	Share	Amount	Share	Amount	Share
2011	755.7	501.8	66.41	155.0	20.51	92.2	12.20	6.7	0.89
2012	713.2	527.7	73.98	123.0	17.24	60.6	8.50	1.9	0.27
2013	815.0	592.0	72.64	110.4	13.54	112.3	13.78	0.3	0.04
2013 / 1	768.3	549.8	71.55	156.4	20.36	60.1	7.82	2.0	0.26
2	785.7	559.8	71.24	160.8	20.46	63.4	8.07	1.8	0.23
3	743.0	563.6	75.85	122.7	16.51	55.0	7.40	1.7	0.23
4	810.8	577.1	71.18	145.8	17.98	86.2	10.63	1.7	0.20
5	821.8	594.8	72.37	131.1	15.95	94.6	11.51	1.4	0.16
6	829.8	591.1	71.23	142.3	17.14	95.2	11.47	1.3	0.15
7	850.3	613.8	72.18	130.9	15.40	105.1	12.34	0.5	0.05
8	869.1	612.1	70.42	135.0	15.53	121.5	13.98	0.6	0.07
9	784.2	592.9	75.61	102.9	13.12	87.8	11.20	0.6	0.07
10	823.0	605.2	73.54	119.3	14.49	98.0	11.91	0.5	0.05
11	833.9	588.5	70.57	118.9	14.26	126.2	15.13	0.3	0.04
12	815.0	592.0	72.64	110.4	13.54	112.3	13.78	0.3	0.04

Source: Securities Investment Trust & Consulting Association of the R. O. C. (Taiwan).

## 5. Foreign Exchange Market

### Appreciation of the NT Dollar

In 2013, the NT dollar depreciated against most major international currencies, but significantly appreciated against the yen. As a result, the trade-weighted nominal effective exchange rate index of the NT dollar, on a daily average basis, increased by 2.79 percent. The exchange rate movements of the NT dollar against the US dollar, the euro, the Japanese yen, the renminbi (RMB), and the Korean won are analyzed as follows.

Early in the year, as the US Fed continued with its quantitative easing monetary policy, international capital flowed into emerging market economies in Asia, leading the NT dollar to appreciate, and the NT\$/US\$ exchange rate soared to a yearly high of 29.039 on January 11. Hereafter, international investors expected Asian currencies to weaken in response to the Bank of Japan's aggressive monetary stimulus, dragging the NT dollar down to 30.060 on April 8. In mid-May, US labor market conditions improved and the increased possibility that the Fed may start tapering its stimulus package weakened the NT\$/US\$ exchange rate to a yearly low of 30.350 on June 24. After the Fed announced in September to maintain the pace of its bond-buying program, coupled with an unclear US economic outlook, the NT dollar rebounded to a nine-month high of 29.425 on October 23. In December, the NT dollar weakened as the market reacted to the Fed's decision to scale back its bond-buying program from US\$85 billion to US\$75 billion per month, effective in January 2014. Compared with the end of 2012, the NT dollar depreciated by 2.72 percent against the US dollar at the end of 2013. On a daily average basis, the NT\$/US\$ exchange rate depreciated by 0.52 percent in 2013.

As the euro depreciation continued into 2013, the NT dollar against the euro strengthened to a yearly high of 37.884 on January 4. Soon after the success of Spanish and Italian government bond auctions, low bond yields pushed the euro up, and the NT dollar went down. In February, the

### Annual Changes of NTD Exchange Rate Against Major Currencies

	NTD/USD	NTD/EUR	NTD/JPY	NTD/CNY	NTD/KRW
Exchange Rate (2013/12/31)	29.950	41.288	0.2853	4.9472	0.0284
Exchange Rate (2012/12/28)	29.136	38.610	0.3375	4.6741	0.0272
Percentage Change	-2.72%	-6.49%	18.31%	-5.52%	-4.10%
Average Exchange Rate (2013)	29.770	39.527	0.3050	4.8049	0.0272
Average Exchange Rate (2012)	29.614	38.050	0.3711	4.6914	0.0263
Percentage Change	-0.52%	-3.74%	21.67%	-2.36%	-3.32%

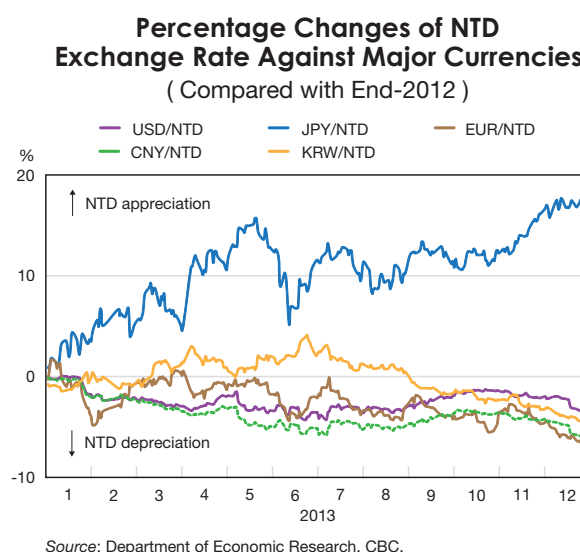
Source: Department of Economic Research, CBC.



European Union (EU) revised down the euro area's economic growth forecast, international investors worried about a relapse of the European debt crisis, dragging the euro down, and the NT dollar rebounded. Afterwards, while the EU extended the maturities of Portugal's and Ireland's loans and agreed to bail out Cyprus with the International Monetary Fund, the NT\$/€ exchange rate fluctuated between 38.277 and 40.253 from March to June. Thereafter, as economic indicators for the euro area improved more than expected, the euro was able to hold its strength, despite renewed tension in the Middle East in September and the effect of the European Central Bank's rate-cut in November. As a result, the NT\$/€ exchange rate edged down to a yearly low of 41.328 on December 27. Compared to the end of the previous year, the NT dollar depreciated against the euro by 6.49 percent. On a daily average basis, the NT dollar depreciated against the euro by 3.74 percent.

The NT dollar appreciated against the yen for the most part of the year. At the beginning of this year, the Bank of Japan (BOJ) announced a massive expansionary monetary policy package in order to resolve its chronic economic stagnation and deflation; in turn, the NT\$/¥ exchange rate soared from a yearly low of 0.334 on January 2 all the way to a period high of 0.291 on May 21. Afterwards, because the BOJ neither released new monetary stimulus measures nor boosted government bond purchases, the yen bounced back, and the NT\$/¥ exchange rate depreciated to 0.320 on June 13. From July onwards, owing to an upturn in Japan's economy, the NT\$/¥ exchange rate hovered between 0.297 and 0.311. On October 1, Japan's Prime Minister Shinzo Abe announced that the consumption tax rate would increase from April 1, 2014, leading the market to expect another BOJ policy expansion to alleviate possible backlash; consequently, the NT dollar rallied, and the NT\$/¥ exchange rate reached a yearly high of 0.285 on December 30. Between end-2012 and end-2013, the NT dollar appreciated by 18.31 percent against the yen. On a daily average basis, the NT\$/¥ exchange rate strengthened by 21.67 percent.

During 2013, the fact that Mainland China's exports and economy grew at a moderate pace, coupled with spillover effects of quantitative easing in major developed countries that induced massive foreign capital inflows, led the RMB up from a yearly low of 6.244 against the US dollar on February 19 to a period high of 6.113 on August 15, following which it fluctuated in a narrow band. In October, owing to Mainland China's widened trade surplus, the RMB further appreciated to an annual high of 6.054 against the US dollar on December 31.



The NT dollar against the RMB depreciated by 5.52 percent between end-2012 and end-2013. On a daily average basis, the NT dollar depreciated by 2.36 percent against the RMB when compared with the previous year.

In 2013, the NT dollar strengthened against the Korean won in the early half of the year, but dropped toward the year end. At first, in the context of rising tensions on the Korean Peninsula in March and April, the slowdown of South Korea's export growth in May, and a rate cut by the Bank of Korea, the NT dollar soared to a yearly high of 0.026 against the won on June 25. Thereafter, as the tremendous current account surplus and strong fiscal health of South Korea attracted foreign capital inflows, the won surged along with Korean stock indices, and the NT dollar fell to a yearly low of 0.285 against the won on December 28. Compared with the end of 2012, the NT dollar depreciated by 4.10 percent against the won at the end of 2013. On a daily average basis, the NT dollar also depreciated by 3.32 percent against the won in 2013.

### Flourishing Foreign Exchange Market

Trading in the Taipei foreign exchange market expanded in 2013. Total net trading volume for the year reached US\$7,174.1 billion, representing a growth rate of 21.7 percent. The daily average turnover was US\$28.9 billion. The increase in turnover reflects not only Taiwan's sustained growth in external trade but also the rise of hedging demands due to a greater volatility in major foreign currencies.

In terms of trading partners, transactions between banks and non-bank customers accounted for 24.8 percent of the total turnover, while interbank transactions made up 75.2 percent, including 23.7 percent for transactions among local banks and 51.5 percent for those between local banks and overseas banks.

As far as traded currencies were concerned, NT dollar trading against foreign currencies accounted for 41.1 percent of the total trading volume, of which trading against the US dollar (USD)

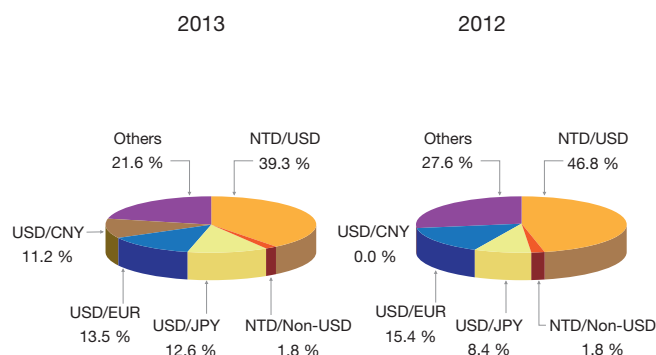
### Turnover of Major Products in the Taipei Foreign Exchange Market

Unit: US\$ Million

Year	Spots	Forwards	Forex Swaps	Margin Trading	Options	Cross Currency Swaps	Total
2009	1,841,951	283,233	1,627,020	20,809	311,353	26,927	4,111,293
2010	2,192,719	290,075	2,166,897	18,295	423,261	23,848	5,115,095
2011	2,570,319	415,459	2,454,626	19,016	529,351	24,587	6,013,357
2012	2,249,684	406,831	2,558,288	19,419	627,958	30,993	5,893,172
2013	2,681,798	373,006	2,991,819	21,730	1,072,740	32,983	7,174,076
2012-2013 Growth Rate (%)	19.2	-8.3	16.9	11.9	70.8	6.4	21.7

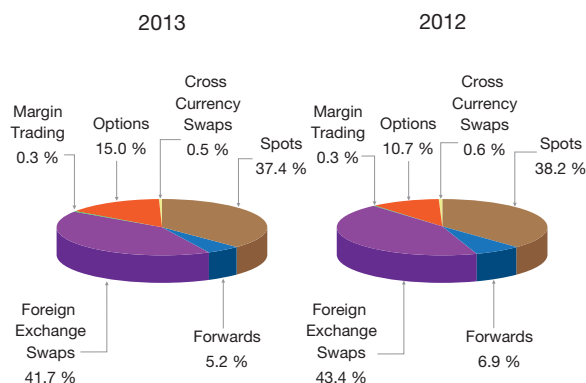
Source: Department of Foreign Exchange, CBC.

### Composition of Foreign Exchange Transactions by Traded Currency



Source: Department of Foreign Exchange, CBC.

### Composition of Foreign Exchange Transactions by Product



Source: Department of Foreign Exchange, CBC.

made up a dominant 39.3 percent. Transactions in third currencies contributed to 58.9 percent of the total trading volume, with trading in currency pairs of USD-euro, USD-yen and USD-RMB accounting for respective shares of 13.5 percent, 12.6 percent and 11.2 percent. Compared with 2012, NT dollar trading against foreign currencies slightly increased by 3.0 percent, and transactions in third currencies tremendously increased by 39.5 percent. The main reasons for the latter increase were domestic banking units (DBUs) began to offer RMB business in February 2013 after the cross-strait currency clearing mechanism was established, and the US and Japan's expansionary monetary policies changed pace relative to the other, leading the US dollar-yen turnover to increase.

With respect to types of transactions, the major types were foreign exchange swaps and spots, accounting for 41.7 percent and 37.4 percent of total turnover. Compared with 2012, except for a decrease in forwards, the trading volume in the total turnover of all the other types of transactions increased.

### Turnover of Other Products in the Taipei Foreign Exchange Market

Unit: US\$ Million

Year	Interest Rate-Related Products					Commodity-Related Products	Stock Index Options	Credit Derivatives	Total
	Forward Rate Agreements	Interest Rate Swaps	Interest Rate Options	Foreign Currency Interest Rate Futures	Subtotal	Commodity Options			
2009	5,715	469,003	4,999	208,566	688,283	18,360	51	3,312	710,006
2010	842	125,541	6,043	392,368	524,794	18,060	105	10,126	553,085
2011	902	76,153	3,569	254,703	335,327	22,728	421	5,204	363,681
2012	1,069	51,887	4,320	142,310	199,586	15,440	955	2,243	218,223
2013	523	37,042	3,040	115,636	156,240	5,488	1,758	1,517	165,004
2012-2013 Growth Rate (%)	-51.1	-28.6	-29.6	-18.7	-21.7	-64.5	84.2	-32.4	-24.4

Source: Department of Foreign Exchange, CBC.

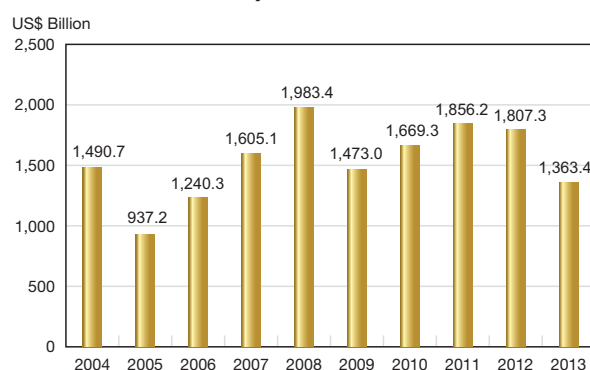
In 2013, the total turnover of forwards, swaps, and options based on foreign currency interest rates, stock price indices, commodity prices, and credit derivatives amounted to US\$165.0 billion. Of this amount, interest rate-related derivatives accounted for the lion's share with US\$156.2 billion, or 94.7 percent, with a negative annual growth rate of 21.7 percent. Interest rate futures accounted for the majority of this decline, with a decrease of US\$26.7 billion. The main reason was that most countries maintained a low interest rate environment, causing investor enthusiasm to cool on account of the contracted volatility of market interest rates.

### Shrunk Trading in Foreign Currency Call Loan Market

The transaction volume in the foreign currency call loan market in 2013 was US\$1,363.4 billion, a decline of 24.6 percent over the previous year. Of this amount, US dollar transactions accounted for a dominant share with US\$1,334.0 billion, making up 97.8 percent of the total while decreasing 25.6 percent from 2012. The decrease was mainly because banks accepted plenty of foreign currency deposits, plus they raised long-term funds in response to Fed's QE tapering, thus reducing their demand for foreign currency call loans. Japanese yen transactions reached ¥1,311.6 billion in 2013, a small share of 1.0

percent of the total despite an increase of 50.5 percent in the volume compared to the previous year. The amount of euro transactions totaled €0.6 billion, a share of less than 0.1 percent. Other currencies accounted for 1.1 percent of the total transaction volume.

**Transactions in the Taipei Foreign Currency Call Loan Market**



Source: Department of Foreign Exchange, CBC.

### Slight Reduction in Assets of Offshore Banking Units

There were 63 offshore banking units (OBUs) at the end of 2013. Domestic banks operate 38 of these OBUs, while foreign banks run the other 25. The total assets of all OBUs decreased to US\$169.6 billion at the end of the year, representing a decrease of US\$1.3 billion or 0.8 percent from the previous year end. Domestic OBUs made up 83.6 percent of these combined assets with an amount of US\$141.8 billion, and the OBUs of foreign banks accounted for US\$27.8 billion, or 16.4 percent of the total.

In terms of the uses of funds, loans to non-financial institutions, at US\$80.0 billion, represented the majority share of 47.2 percent of OBU total assets, mainly because many Taiwanese firms in Mainland China raised funds from the OBUs. Claims on financial institutions came in second place,

accounting for 14.5 percent of total OBU assets. In terms of the destination for funds, Asia accounted for the majority with 60.0 percent, followed by America at 27.0 percent.

The OBUs' main source of funds were interbank transactions, making up 44.5 percent of total liabilities. Furthermore, deposits of non-financial institutions rose sharply, accounting for 30.2 percent of total liabilities. Being the main funding resource of overseas Taiwanese firms, 65.0 percent of the OBUs' funds came from Asia and 21.0 percent from America.

Owing to the increased variety of RMB-related business, forex trading turnover of all OBUs in 2013 rose by 26.6 percent and registered US\$476.2 billion, of which US\$269.7 billion went for spot transactions, US\$118.9 billion for foreign exchange swap transactions and US\$87.6 billion for forward transactions. Compared with the previous year, the growth rates of the trading of spots and foreign exchange swaps were 39.4 percent and 42.7 percent, respectively, while the trading of forwards decreased 11.8 percent.

The total turnover of other derivatives products grew rapidly, amounting to US\$1,233.0 billion, 195.6 percent higher than 2012. Of this amount, currency options and RMB options transactions registered US\$974.1 billion, nearly fourfold the volume of the previous year.

### Consolidated Balance Sheet of Offshore Banking Units in Banking System

Unit: US\$ Million

End of Year	Loans to Non-financial Institutions	Portfolio Investment	Claims on Financial Institutions	Other Assets	Total Assets= Total Liabilities	Deposits of Non-financial Institutions	Due to Financial Institutions	Securities Issued	Other Liabilities
2009	29,988	13,757	43,954	7,352	95,051	32,493	54,070	352	8,136
2010	40,752	15,952	55,878	10,348	122,930	35,587	75,270	364	11,709
2011	58,976	15,760	56,900	13,465	145,101	37,645	91,662	370	15,424
2012	67,811	18,240	60,200	24,655	170,906	44,102	100,389	364	26,051
2013	79,981	22,019	44,459	23,113	169,572	51,191	100,133	351	17,896
2012-2013 Growth Rate (%)	17.9	20.7	-26.1	-6.3	-0.8	16.1	-0.3	-3.6	-31.3

Source: *Financial Statistics Monthly*, CBC.

## 6. Stock Market

Taiwan's stock markets generally fluctuated on an uptrend in 2013, underpinned by the US Fed's decision to delay the unwinding of its monetary stimulus, significant increases of share holdings by foreign investors, and new measures introduced by the Financial Supervisory Commission (FSC) to boost the stock markets.

At the end of 2013, the Taiwan Stock Exchange (TWSE) weighted stock price index (TAIEX) registered a gain of 11.8 percent over the previous year end. All industrial groups except shipping & transportation posted year-on-year increases, with textile and financial shares the best performers. The TAIEX daily average trading value was NT\$77.0 billion, a 4.9 percent decrease compared to the previous year.

In Taiwan's over-the-counter market, the weighted stock price index of the GreTai Securities Market (GTSM) closed the year up by 25.4 percent over the previous year end. Among across-the-board stock rises, textile shares registered the highest gain of 130.0 percent. The daily average trading value was NT\$16.4 billion, increasing by 3.9 percent compared to the previous year.

### Major Statistics of the TWSE Market

Year/Month	Stock Price Index* (1966=100)	Daily Average Trading Value (NT\$ Billion)	Turnover Rate (%)	Market Capitalization* (NT\$ Billion)	Net Buying Positions** (NT\$ Billion)		
					Foreign Investors Net Buy/Sell	Securities Investment Trust Companies Net Buy/Sell	Securities Dealers Net Buy/Sell
2011	7,072.1	106.1	119.9	19,216	-277.6	9.4	-45.6
2012	7,699.5	81.0	97.3	21,352	144.2	-16.1	-2.2
2013	8,611.5	77.0	82.6	24,520	243.0	-76.7	8.5
2013/ 1	7,850.0	78.0	7.9	21,863	16.3	-7.9	0.6
2	7,898.0	78.6	4.6	22,027	29.2	-4.6	4.8
3	7,918.6	76.6	7.3	22,129	-30.9	-10.1	-4.1
4	8,093.7	73.0	6.5	22,649	29.5	-7.7	4.1
5	8,254.8	82.8	7.9	23,119	58.3	-16.7	1.4
6	8,062.2	78.0	6.6	22,608	-117.5	-10.0	-11.7
7	8,107.9	81.7	8.3	22,728	82.4	-2.5	16.1
8	8,021.9	74.5	6.9	22,567	-45.7	0.8	-6.9
9	8,173.9	75.4	6.6	23,037	121.0	-6.0	-2.5
10	8,450.1	79.4	7.3	23,884	74.6	-5.0	1.0
11	8,406.8	73.7	6.5	23,876	-21.2	-1.6	4.4
12	8,611.5	71.9	6.5	24,520	47.0	-5.5	1.4

Notes: \* Refers to end-of-period data.

\*\* Minus sign "-" indicates net sale positions.

Source: Securities and Futures Bureau, FSC.

## The TWSE Market

### Listings and Capitalization Both Increased

At the end of 2013, the total number of TWSE-listed companies amounted to 838, adding 29 new listings to the market. Total market capitalization grew by 14.8 percent year on year to NT\$24.5 trillion.

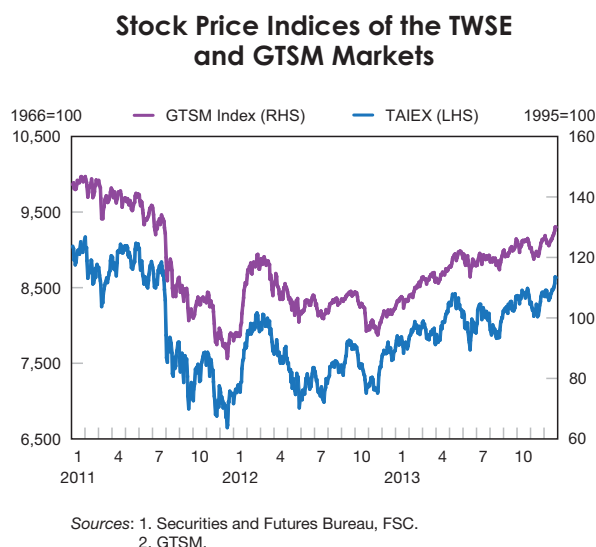
### TAIEX Trended Up Gradually

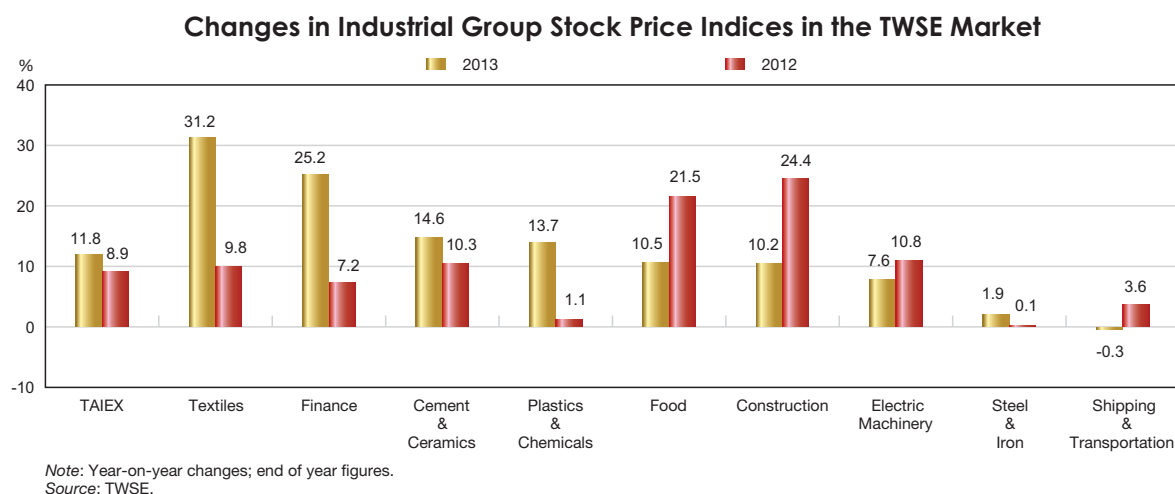
In the beginning of 2013, strong rallies in international stock markets, progress in cross-strait financial cooperation, and the resulting foreign investor purchases sent the TAIEX on an uptrend. The index reached 8,039 points on March 11, before investor concerns over rising tensions on the Korean Peninsula and an avian flu outbreak in China sapped investor sentiment. As a result, the TAIEX dropped to 7,729 on April 9.

Encouraged by a better-than-expected outlook for the electronics industry, new record highs achieved by the US stock markets, and a possible easing of the rules for the securities capital gains tax, foreign investors began to accumulate net buying positions on the local bourse, helping the TAIEX to bounce back and reach 8,399 on May 22. Following this, market concerns of an imminent Fed QE tapering pushed down share prices and the TAIEX fell to 7,663 points on June 25.

However, the TAIEX rebounded with sustained rallies in the second half of the year, driven by several favorable developments both at home and abroad. Investor sentiment was first brightened by the passing of an eased version of the capital gains tax on stock sales, in which the 8,500-point trigger threshold was removed. Then, the Fed opted to postpone QE tapering, and Taiwan's FSC rolled out several equity market stimulus measures. The TAIEX eventually hit an all-year high of 8,623 on December 30 and dipped only slightly in the final session the next day to close the year at 8,612, an increase of 11.8 percent from 7,700 the previous year end.

Broken down by subcategory, almost all industrial groups recorded positive annual growth in share prices owing to substantial net buying from foreign investors, with shipping & transportation shares and their marginal year-on-year price fall the only exception. Textile stocks outperformed other groups with a 31.2 percent rise, thanks to new clothing technology that increases functionality and boosts demand. Financial stocks reaped the second largest gain of 25.2 percent, benefiting mainly from increased cross-strait financial cooperation.





## Market Turnover Decreased

In 2013, TWSE market turnover, measured on a daily average basis, declined to NT\$77.0 billion from the NT\$81.0 billion registered the previous year. The 4.9 percent drop was mainly due to less-than-satisfactory domestic recovery and heightened investor concern over QE tapering.

## Foreign Investors and Local Dealers Net Bought, While Local Securities Investment Trust Companies Net Sold

In 2013, foreign investors bought a net NT\$243.0 billion in the TWSE market. Local securities dealers also net bought shares totaling NT\$8.5 billion, while local securities investment trust companies net sold NT\$76.7 billion.

Foreign investors were net sellers in the months of March, June, August, and November, during which market sentiment was clouded by renewed European debt woes, the Fed's QE taper talk, and Taiwan's own food safety issues. In all the other months of 2013, foreign investors were net buyers of the TAIEX shares, encouraged by significant earnings growth among Taiwan's listed companies and the Fed's decision to hold off QE tapering.

In terms of local securities investment trust companies, a net purchase position of NT\$0.8 billion was recorded only in August as a result of bargain hunting after the market slumped. In the other months, strong demand for fund redemption led to net sales by local securities investment trust companies.

Local securities dealers, with inclinations for short swing trading, net sold on downtrends in March, June, August, and September, and net bought amid market rallies in the other months of 2013.



## The GTSM Market

### Listings and Capitalization Both Increased

The number of GTSM listings increased by 20 during the year, amounting to 658 at the end of 2013. Market capitalization grew considerably by 33.8 percent, standing at NT\$2.32 trillion at the year end.

### Share Prices Rose Significantly

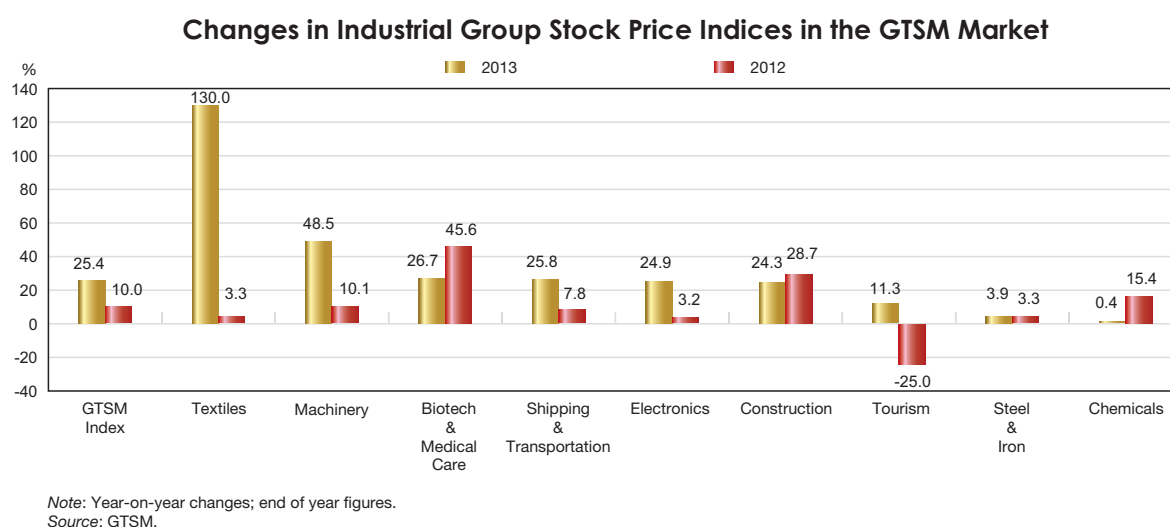
Similar to the TWSE market, stock prices in the GTSM market generally trended up in 2013. The index hit a yearly high of 129.6 points on the year's final day of trading, a remarkable increase of 25.4 percent compared to the 103.3 points recorded at the end of 2012.

All three types of institutional investors finished the year with net buying positions. Foreign investors, local securities investment trust companies, and local dealers net bought NT\$26.9 million, NT\$9.0 billion, and NT\$3.0 billion, respectively. The daily average turnover in the GTSM market was NT\$16.4 billion, increasing by 39.0 percent from NT\$11.8 billion the previous year.

### Key Measures for the Stock Markets

Key measures for Taiwan's stock markets in 2013 were as follows:

1. March 1: The Executive Yuan approved the "Stock Market Revitalization Program," aiming to foster steady growth of the stock market by (1) increasing diversification of quality financial products, (2) invigorating stock market activity, (3) expanding the scope of Taiwan's capital market, and (4) promoting international visibility of Taiwan's stock market and enhancing corporate governance.



2. April 1: To attract more investors into the futures market, the levy on futures transactions was lowered from 0.004 percent to 0.002 percent.
3. June 25: The amended version of the capital gains tax on securities trading passed the third reading in the legislature. The revision includes (1) canceling the 8,500-point trigger threshold, (2) exempting small investors from the tax, and (3) levying only the additional sales by large investors who have sold over NT \$1 billion in shares within one year.
4. July 1: In an effort to increase the efficiency of trading and information disclosure, the TWSE shortened the matching time for stock trading to 15 seconds from 20 seconds; information disclosure during the closing session was also adjusted to be at an interval of every 15 seconds.
5. September 3: The FSC announced three measures to stimulate stock market activity, including (1) allowing investors to conduct buy-then-sell day trading, (2) exempting more stocks from the price constraint on SBL (securities borrowing and lending) short sales, and (3) removing the ban on trading at the daily price ceiling/floor by securities dealers, effective for a trial period.
6. September 23: The shares of 1,200 TWSE and GTSM listed companies were exempted from the restriction of no short sales below their last closing prices.

## 7. Bond Market

For the year of 2013, the total volume of bond issuance slightly decreased. New issues of bonds amounted to NT\$1,264.4 billion, contracting by NT\$170.2 billion or 11.86 percent over the previous year. At the end of 2013, the outstanding amount of bonds issued stood at NT\$8,284.1 billion, an increase of NT\$531.3 billion or 6.85 percent from the previous year end. As the Taiwan offshore renminbi(RMB) market gradually developed, banks and firms commenced issuing RMB-denominated bonds, so-called Formosa bonds, in March 2013. The RMB-denominated bond issuance amounted to RMB10.6 billion at the end of 2013.

Owing to rising long-term bond yields, the amount of central government bonds with certain maturities issued were less than the amount open for bid. As a result, issuance of central government bonds decreased by NT\$23.1 billion, or 3.47 percent, to NT\$641.9 billion.

Regarding corporate bonds, the rise in long-term bond yields lowered corporations' willingness to issue bonds. Issuance of corporate bonds for 2013 totaled NT\$466.0 billion, showing a decrease of NT\$16.5 billion or 3.42 percent over the previous year.

With respect to bank debentures, the main purpose for banks to issue bonds was to strengthen their capital base. For the year as a whole, bank debenture issuance totaled NT\$110.3 billion, decreasing by NT\$70.1 billion or 38.86 percent over the previous year.

In terms of asset securitization, several products matured during the year, while the volume of products on a revolving issuance basis declined from the previous year. As a result, the outstanding balance of asset securitization products decreased.

Moreover, nine new RMB-denominated international bonds were issued, whereas foreign bonds recorded no new issues during the year.

In the secondary market, government bond yields showed minor fluctuations for the first half of 2013. Entering the second half of the year, yields on bonds with different maturities trended upward amid concerns over an early tapering of the Fed's asset purchases. After mid-September, bond yields fluctuated slightly below their yearly highs. Of the components, 10-year bond yield reached 1.6797 percent at the end of 2013, up by 51.24 basis points from 1.1673 percent at the previous year end. Affected by investors' wait and watch attitude in the second half of the year, annual transactions totaled NT\$69,226.1 billion, contracting by 20.02 percent over the previous year. In addition, only one fixed income fund remained in the market with a volume of NT\$3.2 billion at the end of 2013.

## Decline in Government Bond Issuance

Affected by the rise in long-term bond yields, the amount of central government bonds with certain maturities issued was less than the amount open for bid. As a result, central government bond issuance for 2013 totaled NT\$641.9 billion, a decrease of NT\$23.1 billion or 3.47 percent, compared with the previous year.

Issues of 5-year, 10-year, 15-year and 20-year government bonds were NT\$110.0 billion, NT\$150.0 billion, NT\$40.0 billion and NT\$151.7 billion, respectively. Furthermore, there were also 2-year bond issuances worth NT\$70.0 billion and 30-year bond issuances worth NT\$120.2 billion to meet market demand.

In regard to issuing rates, the weighted average issuing rates on the central government bonds with maturities above 5 years in 2013 were all higher than the previous year on account of an increase in long-term bond yields resulting from concerns over a possible early tapering of the Fed's asset purchases. The weighted average issuing rate on 10-year bonds rose to 1.535 percent from the previous year's 1.214 percent. However, higher liquidity of short-term bonds led to stronger market demand. Therefore, the rate on 2-year bonds fell from the previous year's 0.780 percent to 0.727 percent.

In terms of bonds issued by governments of special municipalities, new issues were nil in 2013.

In sum, government bond issuance amounted to NT\$641.9 billion in 2013, a decrease of NT\$23.1 billion or 3.47 percent from 2012. The outstanding amount continued to rise to NT\$5,209.5 billion at year end, an increase of NT\$275.1 billion or 5.58 percent from the previous year end.

## Slowdown in Corporate Bond Issuance

For the year of 2013, rising long-term bond yields, caused by concerns over a possible early reduction of the pace of the Fed's asset purchases, increased the cost of issuing corporate bonds and thus weakened the willingness of companies to issue bonds. The issuing amount of corporate bonds for 2013 totaled NT\$466.0 billion, showing a decrease of NT\$16.5 billion or 3.42 percent over the previous year. Among the total issuance, renminbi corporate bonds worth RMB0.8 billion issued by two domestic companies were also included.

State-owned enterprises issued bonds worth NT\$88.5 billion, making up 20 percent of total corporate bond issuance in 2013. In the private sector, Taiwan Semiconductor Manufacturing Company (TSMC) topped the list with its yearly bond issuance reaching NT\$86.2 billion, while Formosa Plastics Group accounted for the second largest share of bond issuance with an amount of NT\$81.0 billion. Additionally, the combined bond issues of shipping firms and airlines exceeded NT\$30.0 billion.

Owing to the rise in long-term bond yields, weighted average issuing rates on 5-year, 7-year, and 10-year corporate bonds for 2013 reached 1.3720 percent, 1.5030 percent, and 1.6889 percent, respectively, all higher than those in the previous year. At the end of the year, the outstanding

## Issues and Outstanding Values in Bond Market by Category

Unit: NT\$ Billion

Year/ Month	Total		Central Government Bonds		Local Government Bonds*		Corporate Bonds		Bank Debentures		Beneficiary Securities**		Foreign & Int'l Bonds***	
	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding
2011	1,393.9	7,113.5	620.0	4,509.6	20.0	134.8	396.7	1,351.0	194.7	900.4	162.5	178.3	-	39.4
2012	1,434.6	7,752.8	665.0	4,776.3	23.4	158.1	482.5	1,619.5	180.4	1,022.1	76.9	148.3	6.2	28.5
2013	1,264.4	8,284.1	641.9	5,068.2	0.0	141.3	466.0	1,865.3	110.3	1,029.8	8.0	135.1	38.2	44.4
2013/1	185.4	7,841.5	120.0	4,821.3	-	158.0	65.4	1,675.0	0.0	1,012.1	0.0	147.6	-	27.5
2	122.2	7,865.6	75.0	4,826.3	-	158.0	30.2	1,695.3	15.0	1,027.1	2.0	133.4	-	25.5
3	121.2	7,907.2	80.0	4,836.3	-	158.0	23.9	1,713.3	17.3	1,039.4	0.0	134.7	-	25.5
4	88.2	7,942.1	70.0	4,906.3	-	151.3	6.7	1,698.3	11.5	1,025.9	0.0	134.8	-	25.5
5	70.9	7,986.5	28.9	4,935.2	-	151.3	30.5	1,712.3	9.5	1,027.1	2.0	135.1	-	25.5
6	95.6	8,059.4	35.0	4,970.2	-	151.3	52.7	1,750.5	2.5	1,022.1	-	134.4	5.4	30.9
7	110.8	8,071.6	42.0	4,952.2	-	151.3	68.8	1,797.6	-	1,015.8	-	134.4	-	20.3
8	76.5	8,127.8	26.3	4,978.5	-	151.3	39.9	1,824.7	8.3	1,018.1	2.0	134.9	-	20.3
9	65.8	8,119.6	40.0	4,978.5	-	141.3	23.6	1,832.2	2.2	1,013.0	0.0	134.3	-	20.3
10	90.6	8,193.8	59.7	5,038.2	-	141.3	30.9	1,845.5	-	1,012.3	0.0	136.2	-	20.3
11	76.8	8,223.2	30.0	5,068.2	-	141.3	34.8	1,847.9	10.0	1,010.0	2.0	135.5	-	20.3
12	160.4	8,284.1	35.0	5,068.2	-	141.3	58.6	1,865.3	34.0	1,029.8	0.0	135.1	32.8	44.4

Notes: \* Referring to bonds issued by governments of special municipalities.

\*\* Including those purchased back by originators for credit enhancement.

\*\*\* Including NT dollar and foreign currency-denominated bonds issued in Taiwan by international financial institutions.

Sources: 1. Financial Statistics Monthly, CBC.

2. Banking Bureau, Financial Supervisory Commission.

3. Department of Foreign Exchange, CBC.

amount of corporate bonds was NT\$1,865.3 billion, rising by NT\$245.8 billion or 15.18 percent from the previous year end.

### Significant Decrease in Bank Debenture Growth

A total of 26 financial institutions issued bank debentures in 2013. For the year as a whole, bank debenture issuance, including renminbi bank debentures worth RMB2.0 billion issued by two domestic financial institutions, totaled NT\$110.3 billion, shrinking by NT\$70.1 billion or 38.36 percent over the previous year. The majority of the issuance, or 75.33 percent, went for subordinated debts to bolster capital adequacy.

In terms of the volume of issuance, the major types of bank debentures issued were 7-year and 10-year bank debentures, making up shares of 44.48 percent and 33.56 percent in total issuance, respectively. The weighted average issuing rate on 7-year bank debenture was higher than the previous year, whereas the issuing rate on 10-year bank debenture was lower as the credit ratings of the banks that issued 10-year debt in 2013 were better than those in 2012. At the end of the year, the outstanding amount of bank debentures was NT\$1,029.8 billion, growing by NT\$7.7 billion or 0.75 percent from the previous year end.

### Contraction in Asset Securitization

As housing prices remained high, enterprises became lukewarm about issuing real estate securitization products, and banks turned cautious toward financial asset securitization. As a result,

revolving issuance accounted for the only source of asset securitization product issuance. The total amount of issues of asset securitization products contracted by NT\$68.8 billion or 89.53 percent from 2012 to NT\$8.0 billion. Furthermore, six financial asset securitization products matured, and the principal was repaid. As a result, at the end of 2013, the outstanding amount of asset securitization decreased by NT\$13.2 billion or 8.90 percent from the previous year end to NT\$135.1 billion.

### Marked Growth in Foreign Bond Issuance

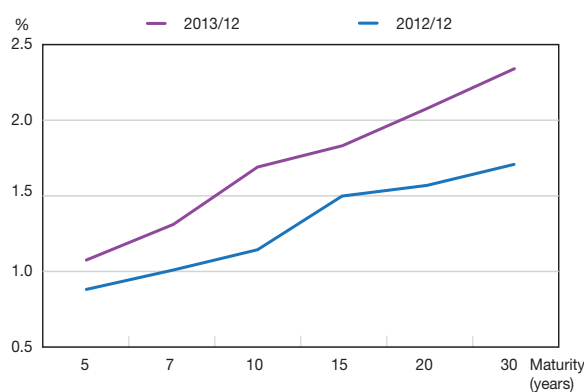
With the development of the Taiwan offshore RMB market, five foreign banks commenced to issue RMB-denominated international bonds totaling RMB7.8 billion in 2013. Moreover, two international bonds matured and the principal was repaid. With regard to foreign bonds, new issues were nil and none of the previously issued bonds reached maturity in 2013. As a result, at the end of the year, the outstanding amount of international bonds and foreign bonds was NT\$44.4 billion, an increase of NT\$15.9 billion or 55.79 percent over the previous year end.

### Rise in Bond Yields and Decline in Transactions

For the first half of 2013, government bond yields showed minor fluctuations. However, yields on bonds with different maturities exhibited a marked upward trend from May amid concerns over an early tapering of the Fed's asset purchases. After mid-September, bond yields fell and fluctuated in a narrow band.

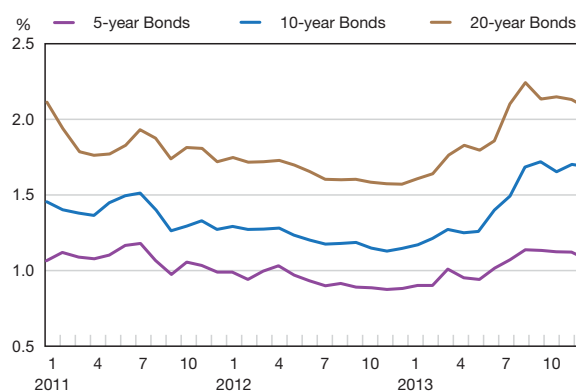
With increased stock market trading activities in early 2013 and a surge in US bond yields in March, the yield on the benchmark 10-year government bond rose to 1.3588 percent on March 12. However, the quantitative easing policies implemented by the US and Japan gave a boost to the bond market, leading the 10-year bond yield to decline with the US bond yield and hit a yearly low of 1.1695 percent on May 3. From May onwards, affected by the Fed's hint of a possible reduction

**Yield Curve of Central Government Bonds**



Source: GreTai Securities Market.

**Central Government Bonds Yield with Different Maturities**



Source: GreTai Securities Market.

of the pace of asset purchases in the near future, the 10-year bond yield trended up to a yearly high of 1.7917 percent on September 14. Later, owing to different market expectations regarding the timing of the Fed's tapering, the 10-year bond yield dropped and mainly fluctuated between 1.60 percent and 1.74 percent. The yield finally ended 2013 at 1.6797 percent, 51.24 basis points higher than the 1.1673 percent of the previous year end.

For the year 2013, average yields on government bonds in every maturity range were higher than the previous year. Affected by the rise in long-term interest rates, the yield spread between long-term and short-term rates was wider and the yield curve was steeper than the previous year.

In terms of transaction volume, government bonds saw a decline in 2013, mainly because investors worried that the Fed may cut back its asset purchases earlier than expected, and an increasingly higher long-term bond yield turned investor sentiment to become more cautious. As a result, total bond transactions for 2013 decreased by NT\$17,325.6 billion or 20.02 percent from the previous year to NT\$69,226.1 billion. Of the components, outright transactions shrank by NT\$4,740.5 billion or 25.71 percent over the previous year. Repo transactions fell by NT\$12,585.1 billion or 18.48 percent.

### Bond Transactions in the Over-the-Counter Market

Unit: NT\$ Billion

Year/ Month	Total	Outright Transactions		Repurchase Agreement Transactions	
		Amount	Share (%)	Amount	Share (%)
2011	97,809.1	26,856.8	27.5	70,952.3	72.5
2012	86,551.7	18,435.8	21.3	68,115.9	78.7
2013	69,226.1	13,695.3	19.8	55,530.8	80.2
2013/1	7,634.7	1,712.5	22.4	5,922.2	77.6
2	4,283.9	738.0	17.2	3,545.9	82.8
3	6,421.1	1,312.5	20.4	5,108.6	79.6
4	6,462.9	1,534.5	23.7	4,928.4	76.3
5	6,838.1	1,782.2	26.1	5,055.9	73.9
6	5,440.6	1,103.1	20.3	4,337.5	79.7
7	5,921.5	1,084.3	18.3	4,837.2	81.7
8	5,302.0	742.3	14.0	4,559.7	86.0
9	4,890.6	897.5	18.4	3,993.1	81.6
10	5,629.5	1,100.0	19.5	4,529.5	80.5
11	5,481.8	1,107.6	20.2	4,374.2	79.8
12	4,919.4	580.8	11.8	4,338.6	88.2

Source: GreTai Securities Market.

By type of bonds, government bonds accounted for 74 percent of total bond transactions with an annual trading volume of NT\$51,490.5 billion. Corporate bonds came in second, accounting for 23 percent of total transactions with an annual trading volume of NT\$15,666.9 billion. Bank debentures, asset securitization products, and international and foreign bonds each made up marginal shares of less than 3 percent in total transactions, with their respective annual trading reaching NT\$1,941.4 billion, NT\$76.4 billion, and NT\$50.9 billion.

### Turnover in Bond Market by Category

Unit: NT\$ Billion

Year/ Month	Total	Government Bonds	Corporate Bonds		Bank Debentures	Beneficiary Securities	Foreign & int'l Bonds
			Nonconvertible	Convertible			
2011	97,809.1	81,096.0	12,820.8	2,001.5	1,676.8	152.2	61.8
2012	86,551.7	68,974.8	14,442.9	1,150.0	1,859.2	103.4	21.4
2013	69,226.1	51,490.5	14,860.0	806.9	1,941.4	76.4	50.9
2013/ 1	7,634.7	5,834.9	1,495.4	79.1	216.7	5.0	3.6
2	4,283.9	3,163.2	938.4	40.6	133.9	5.7	2.1
3	6,421.1	4,870.2	1,298.9	67.0	177.5	5.1	2.4
4	6,462.9	4,877.3	1,346.9	59.7	174.6	2.1	2.3
5	6,838.1	5,283.0	1,303.0	69.3	175.9	4.3	2.6
6	5,440.6	3,953.0	1,252.3	67.4	155.6	9.3	3.0
7	5,921.5	4,239.9	1,434.3	72.2	166.3	2.8	6.0
8	5,302.0	3,751.9	1,311.8	67.0	161.5	6.8	3.0
9	4,890.6	3,523.3	1,157.9	70.4	127.4	8.0	3.6
10	5,629.5	4,247.1	1,168.2	78.1	122.1	9.1	4.9
11	5,481.8	4,194.9	1,058.0	62.0	151.3	10.1	5.5
12	4,919.4	3,551.8	1,094.9	74.1	178.6	8.1	11.9

Source: GreTai Securities Market.





# *Central Bank Operations*



## III. Central Bank Operations

### 1. Overview

In 2013, against the backdrop of uncertainties surrounding the global economic outlook, mild expansion in the domestic economy, and muted inflationary pressures, the CBC kept policy rates unchanged so as to maintain price and financial stability and to ensure steady economic growth. At the end of 2013, the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral were 1.875 percent, 2.25 percent, and 4.125 percent, respectively.

In response to economic and financial conditions, the CBC continued to issue certificates of deposit (CDs) and conduct open market operations to maintain reserve money at appropriate levels and sustain steady growth in monetary aggregates. In addition, in order to diversify banks' portfolios, the CBC resumed monthly auctions of 2-year CDs from August 2013. At the end of the year, the total outstanding amount of CDs issued by the CBC was NT\$6,843 billion. The average annual growth rate of reserve money in 2013 was 7.18 percent, while M2 recorded an annual growth rate of 4.78 percent, within the CBC's target range of 2.5 percent to 6.5 percent.

The CBC continued with credit risk management measures for housing loans in “specific areas,” land collateralized loans, and high-value housing loans. Furthermore, the CBC also urged financial institutions to enhance self-discipline via prudential measures for real-estate lending in “non-specific areas” with considerable housing price surges, and to exercise caution regarding collateral loans on industrial area land.

In terms of foreign exchange management, the CBC steadily promoted the internationalization of capital markets and revised relevant foreign exchange regulations in continual cooperation with the Financial Supervisory Commission. Moreover, to develop Taiwan as an offshore renminbi (RMB) market, the CBC amended the *Regulations Governing Foreign Exchange Business of Banking Enterprises* in January 2013, stipulating that authorized foreign exchange banks (DBUs) may conduct RMB business after opening clearing accounts with the RMB clearing bank in Taiwan. On February 6, 2013, DBUs in Taiwan officially launched RMB business. In September, the CBC allowed DBUs to grant foreign currency (including RMB) loans to Taiwanese firms based on lending contracts with their affiliates or subsidiaries in Kunshan, Mainland China. This policy would help expand the channels for Taiwan's RMB funds to flow back to Mainland China.

To ensure smooth payment system operation, the CBC closely monitored domestic payment

systems and urged settlement institutions to set up backup facilities and adequate contingency plans to provide business continuity. In addition, to further strengthen financial infrastructure and to support the operation of the cross-strait RMB clearing mechanism, the CBC mapped out a foreign currency clearing platform, which adopted the SWIFT standard to facilitate transactions with financial institutions abroad. This platform was officially launched on March 1, 2013, providing the service of domestic US dollar remittance. The service of domestic and cross-border RMB remittance commenced operation through this platform on September 30.

## 2. Monetary Management

In 2013, against the backdrop of uncertainties surrounding the global economic outlook, moderate growth in the domestic economy, and muted inflationary pressures, the CBC maintained its monetary policy stance, leaving policy rates unchanged. In addition, the CBC continued to urge financial institutions to manage their credit risks and ensure financial stability. The CBC also continued to enhance the financing mechanism for small and medium-sized enterprises (SMEs) in order to expand banks' lending to SMEs while at the same time absorbing excess funds from the financial market to an appropriate liquidity level.

### Policy Rate Unchanged to Maintain Price and Financial Stability

In light of global economic uncertainties, mild expansion in the domestic economy, and subdued inflationary pressures, the CBC kept policy rates unchanged so as to maintain price and financial stability and to promote economic growth.

At the end of 2013, the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral were 1.875 percent, 2.25 percent, and 4.125 percent, respectively.

### CBC Policy Rates

Unit: % (percent per annum)

Effective Date	Discount Rate	Accommodation Rate with Collateral	Accommodation Rate Without Collateral
2010 / Jun. 25	1.375	1.750	3.625
Oct. 1	1.500	1.875	3.750
Dec. 31	1.625	2.000	3.875
2011/ Apr. 1	1.750	2.125	4.000
Jul. 1	1.875	2.250	4.125

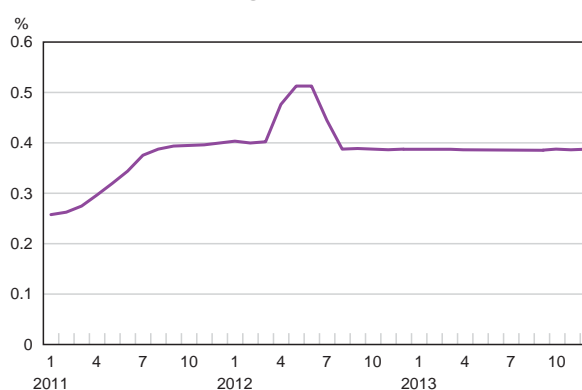
Source: *Financial Statistics Monthly*, CBC.

### Absorbing Excess Liquidity Through Open Market Operations

In 2013, the CBC continued to issue certificates of deposit (CDs) and conduct open market operations to maintain reserve money and overnight call loan rates at appropriate levels. The total value of CDs issued amounted to NT\$63,122 billion in 2013, and the total outstanding amount of CDs issued by the CBC was NT\$6,843 billion at the end of the year. The average annual growth rate of reserve money in 2013 was 7.18 percent, while M2 recorded an annual growth rate of 4.78 percent, within the CBC's target range of 2.5 percent to 6.5 percent.

Keeping in line with policy rates, the CBC also kept its non-competitive bidding rates for new CDs unchanged. Consequently, in 2013, the rates on 30-day, 91-day, and 182-day CDs remained at 0.87 percent, 0.93 percent, and 1.05 percent, respectively. On the other hand, the rates on 365-day CDs exhibited a downward trend from 0.72 percent in January to 0.56 percent in December.

### Overnight Call Loan Rate



Source: Financial Statistics Monthly, CBC.

In 2013, the average overnight call loan rate remained broadly stable in each month, within the range of 0.386 percent to 0.387 percent.

### Open Market Operations

Unit: NT\$ Billion; %

Year/ Month	Amount Absorbed	Amount Offered	Weighted Average Rate on CDs Issued			
	Issues of CDs	Redemptions of CDs	1-30 Days	31-91 Days	92-182 Days	274-365 Days
2011	44,310	44,279	0.82	0.88	0.99	0.95
2012	54,831	54,912	0.87	0.93	1.05	0.85
2013	63,122	63,074	0.87	0.93	1.05	0.66
2013 / 1	4,830	4,858	0.87	0.93	1.05	0.72
2	4,734	4,839	0.87	0.93	1.05	0.72
3	5,164	5,156	0.87	0.93	1.05	0.72
4	5,295	5,289	0.87	0.93	1.05	0.69
5	5,363	5,334	0.87	0.93	1.05	0.66
6	4,883	4,892	0.87	0.93	1.05	0.64
7	5,780	5,751	0.87	0.93	1.05	0.63
8	5,421	5,400	0.87	0.93	1.05	0.63
9	5,173	5,166	0.87	0.93	1.05	0.65
10	5,471	5,450	0.87	0.93	1.05	0.64
11	5,370	5,345	0.87	0.93	1.05	0.62
12	5,637	5,594	0.87	0.93	1.05	0.56

Source: Financial Statistics Monthly, CBC.

### Continuing Risk Management Policy on Real Estate Loans

To urge financial institutions to manage their credit risks and ensure financial stability, the CBC continued to carry out the regulations governing housing loans in “specific areas”, land collateralized loans and high-value housing loans by financial institutions. Besides the above mentioned regulations, the CBC also asked financial institutions to pay attention to risk management when handling the following mortgage-related business. Important measures in 2013 included:

1. For real estate lending in “non-specific areas” with considerable housing price surges, financial institutions were urged to formulate and implement prudential measures for self-discipline. Subsequently, most major banks have formulated internal rules and procedures in this regard, such as expanding areas for credit risk management, lowering loan-to-value ratios, removing grace periods, and raising mortgage rates.
2. Financial institutions were urged to exercise caution regarding loans collateralized against industrial area land, rigorously observe credit regulations in extending such loans, and refrain from relying solely on collateral appraisal or borrowers' status as principals of large companies to grant a large credit line.

Since mortgage payment as a percentage of household income had exceeded 30 percent, the CBC advised borrowers to be mindful of risks stemming from future interest rate changes. The risk management measures for real estate lending implemented by the CBC have achieved the following results:

1. The outstanding amount of housing loans grew at a slower pace through 2013, accounting for 26.92 percent of total loans at the end of the year, down by 0.7 percentage points from June 2010. In addition, the concentration of housing loans in “specific areas” identified in targeted prudential measures reduced significantly.

### Housing Loan Ratios

Unit: %

Date	Housing Loans to Total Loans	New Housing Loans in “Specific Areas” to Total New Housing Loans
2010 / Jun.	27.62	64.37
2013 / Dec.	26.92	47.66

2. The average loan-to-value ratio in “specific areas” declined to 57.2 percent, while the average mortgage rate rose to 2.11 percent at the end of 2013.

### Housing Loans in “Specific Areas”

Unit: %

Date	Loan-to-Value Ratio	Mortgage Rate
2010 / Jul.	63.91	1.97
2013 / Dec.	57.20	2.11

3. The average loan-to-value ratio of newly-extended land collateralized loans decreased to 61.01 percent, and the average mortgage rate increased to 2.72 percent at the end of 2013.

### Newly-Extended Land Collateralized Loans

Unit: %

Date	Loan-to-Value Ratio	Mortgage Rate
2010 / Dec.	68.36	2.08
2013 / Dec.	61.01	2.72

4. The efforts of the aforesaid policy measures had successfully brought down the average loan-to-value ratio of high-value housing loans to 56.19 percent, and led the average mortgage rate upwards to 2.07 percent in December 2013.

### High-Value Housing Loans

Unit: %

Date	Loan-to-Value Ratio	Mortgage Rate
Pre-restriction	80-99 (maximum)	1.84 (minimum)
2013 / Dec.	56.19 (average)	2.07 (average)

### Enhancing the SME Financing Mechanism

To provide easier access to financing for SMEs, the CBC continued to urge commercial banks to increase lending to SMEs. Furthermore, the Financial Supervisory Commission agreed with the CBC's suggestion to increase banks' annual SME lending target. The outstanding loans extended to SMEs by domestic banks increased to NT\$4,761 billion at the end of 2013, which was a 7.05 percent rise from the end of 2012.

### Redeposits of Financial Institutions

Accepting redeposits from Chunghwa Post and commercial banks is another instrument for the CBC to influence banks' reserve positions to promote financial stability. At the end of 2013, outstanding postal savings redeposits amounted to NT\$1,624 billion. At the same time, commercial banks' redeposits totaled NT\$396 billion.

The Agricultural Bank of Taiwan accepted deposits from community financial institutions and made redeposits with the CBC. At the end of 2013, its outstanding redeposits were NT\$165 billion. In addition, the Central Deposit Insurance Corporation's time deposits at the CBC totaled NT\$39 billion, which was a NT\$27 billion increase from 2012.



### 3. Foreign Exchange Management

For the year 2013, the CBC followed the established managed float regime to maintain an orderly foreign exchange (FX) market. Sufficient seed funds were provided by the CBC for the Taipei Foreign Currency Call Loan Market. The CBC's foreign exchange reserves increased by US\$13.6 billion owing to a higher return on investments. The CBC also established a foreign currency clearing platform compatible with international standards. Moreover, the CBC approved the NTD clearing bank in Mainland China and the renminbi (RMB) clearing bank in Taiwan.

#### Foreign Exchange Market Management

Taiwan's exchange rate is in principle guided by the market mechanism; the CBC only steps in when there is excessive exchange rate volatility. At the end of 2013, the NT\$/US\$ exchange rate depreciated by 0.53 percent from the previous year end's 29.614 to 29.77, relatively stable as compared to the euro's 3.33 percent appreciation against the US dollar, the renminbi's 1.85 percent appreciation, the Korean won's 2.81 percent appreciation, the Japanese yen's 22.32 percent depreciation and the Singapore dollar's 0.13 percent depreciation.

In 2013, the CBC continued to implement the Real-Time Reporting System for Large-Amount Foreign Exchange Transactions to keep the market in order. Moreover, examination efforts were reinforced to ensure that forward transactions were based only on actual transactions. The CBC also urged authorized banks to enhance their exchange rate risk management. In addition, the CBC strengthened target examinations related to foreign exchange activities. The CBC also approved 107 new authorized FX banks and 20 new FX derivatives and provided liquidity for the FX call loan and swap markets.

#### Management of the Foreign Currency Call Loan and Swap Business

In order to provide the financial system with sufficient foreign currency liquidity to meet funding needs, including those for corporations to venture into overseas markets, the CBC provided seed funds\* for the Taipei Foreign Currency Call Loan Market.

Furthermore, the CBC continued to conduct foreign currency swap transactions with banks and extended foreign currency call loans to banks so as to facilitate smooth corporate financing. During 2013, the volume of foreign exchange call loan transactions reached US\$1,362.7 billion, 24.6 percent less than that of 2012, while the volume of foreign currency-NT dollar swap transactions reached US\$1,131.9 billion, 0.2 percent more than 2012.

\* The seed funds include US\$20 billion, €1 billion and ¥80 billion.

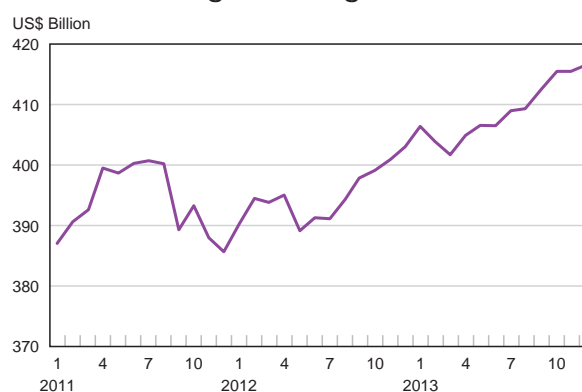
## Foreign Exchange Reserve Management

At the end of 2013, total foreign exchange reserves stood at US\$416.8 billion, a US\$13.6 billion increase from the end of 2012. The increase was mainly attributable to higher returns from foreign exchange reserves investments.

## Capital Flow Management

The CBC's foreign exchange management mainly relies on the market mechanism, and capital can, in principle, flow freely in and out of Taiwan. As of 2013, foreign currency capital not involving NT dollar conversion can flow freely; neither is there any restriction on financial flows involving NT dollar conversion for commodity and service trade, as well as direct and securities investments approved by the competent authorities. However, regulation exists for short-term remittances. Annual remittances for an individual resident within US\$5 million and for a juridical person within US\$50 million can be settled by banks directly, while annual remittances above the aforementioned amounts require the approval of the CBC. Each transaction for a non-resident within US\$0.1 million can be settled by banks directly, whereas any amount of transaction above that threshold requires the approval of the CBC.

Foreign Exchange Reserves



Source: Department of Foreign Exchange, CBC.

## Key Measures with Regard to the Management of Capital Flows in 2013

1. In order to promote the internationalization of Taiwan's capital markets, the CBC approved the following in 2013:
  - (1) The issuance of overseas depositary receipts by five domestic corporations with a total issuance amount of US\$1.7 billion, and the issuance of European Convertible Bonds by six domestic corporations with a total of US\$1 billion raised.
  - (2) Initial public offerings on the TWSE and GTSM by 22 foreign corporations, with a total amount of NT\$15.4 billion raised; the issuance of NT dollar Convertible Bonds by seven foreign corporations, which combined to raise a total amount of NT\$5.7 billion; the offering and issuance of RMB-denominated bonds by four foreign banks, raising RMB\$6.7 billion; the offering and issuance of international bonds by one foreign bank for a total amount close to US\$1 billion.
2. The CBC gave consent to an increase in residents' investments in foreign securities, detailed as follows:
  - (1) Domestic securities investment trust companies were allowed to offer 45 public funds and two

private funds domestically, all of which invest in foreign securities, with a total of NT\$555 billion and NT\$4.5 billion raised, respectively.

- (2) One domestic managed futures enterprise was allowed to offer one futures trust fund on the local market, with a total of NT\$5 billion raised.
- (3) Life insurance companies were approved to invest in foreign securities with the amount totaling US\$1.6 billion through non-discretionary money trusts managed by financial institutions. Their own investments in foreign securities amounted to US\$0.9 billion.
- (4) Five major government pension or insurance funds, including labor pension funds, invested a total amount of US\$8.2 billion in foreign securities.

3. The CBC loosened the following regulations regarding foreign exchange remittances:

- (1) *The Regulations Governing the Declaration of Foreign Exchange Receipts and Disbursements or Transactions* was revised and released on July 30, 2013. Starting from August 1, remittances for individual's payments of non-residents' services are excluded from the declarer's yearly accumulated remittances; unless otherwise regulated by the CBC, the regulations apply to the declaration of Taiwan area renminbi disbursements or transactions.
- (2) *The Directions for Banking Enterprises while Assisting Customers to Declare Foreign Exchange Receipts and Disbursements or Transactions* was amended, effective August 1, 2013. Pursuant to the amendments, for citizens of Mainland China with Taiwan Resident Certificates, the declaration and amount of their remittances shall be handled on the same basis as those for other people with Taiwan Resident Certificates; moreover, in tandem with relevant regulations of the Ministry of Economic Affairs (MOEA), qualified data processing service providers with proof of certification from the MOEA may conduct foreign exchange declarations for cross-border on-line transactions on behalf of service users.

## **Management of the Foreign Exchange Business of Financial Institutions**

### **1. Authorized banks**

At the end of 2013, there were 3,356 authorized foreign exchange banks in total, which included 39 head offices and 3,278 branches of domestic banks, 36 branches of 28 foreign banks, three branches of Mainland Chinese banks, as well as 992 authorized money exchangers, post offices and financial institutions authorized to engage in basic foreign exchange business. In 2013, the CBC approved 15 cases for authorized banks to establish branches in Mainland China, eight cases for domestic banks to set up branches abroad, and one case for a Mainland Chinese bank to establish its branch in Taiwan. In terms of new FX products, 20 derivatives were approved in 2013 after prudent

review aimed at investor rights protection.

## 2. Insurance companies

In 2013, 18 insurance companies were allowed to engage in foreign currency investment-linked insurance business, and 24 were permitted to conduct business in relation to traditional foreign currency insurance products.

## 3. Securities firms

In 2013, the CBC approved four securities firms to be agents for foreign bond trading, 40 to be entrusted as agents for foreign securities trading, 28 for underwriting international bonds, six for proprietary trading of and investments in international bonds, six for proprietary foreign securities trading neither belonging to investment with their own funds nor for hedging needs, eight to issue warrants linked to foreign securities or indexes, one to issue overseas warrants linked to domestic securities, nine to conduct non-discretionary individually managed money trust wealth management business, 21 to deal onshore foreign currency bills, and five as participating dealers of offshore exchange traded funds.

The CBC also permitted 45 securities firms, investment trust and investment consulting firms to be master agents for offshore public funds, 21 institutions to be mandated to place private offshore funds in Taiwan; the CBC also gave permission to 21 investment trust and investment consulting firms to conduct foreign currency discretionary investments in foreign securities, 19 as mandated institutions to publicly offer or privately place foreign currency-denominated funds in Taiwan, and two to be master agents for offshore exchange traded funds.

## 4. Renminbi exchange transactions

- (1) On January 25, 2013, the Taipei Branch of the Bank of China signed *Clearing Agreement Regarding Renminbi Business* with the People's Bank of China. On January 28, the CBC approved the Taipei Branch of the Bank of China as the renminbi clearing bank in Taiwan.
- (2) Taiwan's authorized FX banks (domestic banking units, DBUs) signed clearing agreements with the Taipei Branch of the Bank of China, and began to offer renminbi business on February 6.
- (3) With the establishment of the cross-strait currency clearing mechanism, the management of renminbi business in the Taiwan area is governed by the *Foreign Exchange Control Act*. Therefore, on August 30, 2013, the CBC and the Financial Supervisory Commission abolished the *Regulations Governing the Administration and Settlement of Renminbi in the Taiwan Area*, and restrictions on renminbi banknotes purchase involved in banks' renminbi currency exchange business were lifted.

- (4) By the end of 2013, there were 65 authorized FX banks and 57 offshore banking units (OBUs) engaged in renminbi business. From February 6, 2013, to the end of 2013, renminbi deposit balance amounted to RMB182.6 billion; renminbi remittances totaled RMB499.5 billion; renminbi settlement through the Taipei Branch of the Bank of China totaled RMB1,545.8 billion.
- (5) In 2013, the renminbi investment products were further diversified. As of the end of 2013, renminbi business conducted by financial institutions were as follows: (A) 43 authorized FX banks and four securities firms offered renminbi derivative financial products and structured products; (B) nine banks and companies issued 13 renminbi bonds, totaling RMB10.6 billion; (C) nine companies raised and issued 14 renminbi funds, totaling RMB3.5 billion.

#### 5. Foreign currency clearing platform

- (1) To further reinforce Taiwan's financial infrastructure, and in line with the establishment of the cross-strait renminbi clearing mechanism, the CBC consigned the Financial Information Service Co. to set up a foreign currency clearing platform in conformity with international standards. The platform went on line on March 1, 2013, to handle domestic US dollar remittances. From September 30 onward, domestic and cross-strait renminbi remittances were included.
- (2) By the end of 2013, the foreign currency clearing platform had achieved the following: (A) 76 domestic banks participated in US dollar settlement with a daily average of 3,244 transactions and an amount of US\$8.9 billion; (B) 44 domestic units participated in renminbi settlement, with a daily average of 318 transactions and an amount of RMB0.57 billion; (C) domestic bank remittance fees were lowered from NT\$600-1,400 to NT\$320-1,020 per transaction.

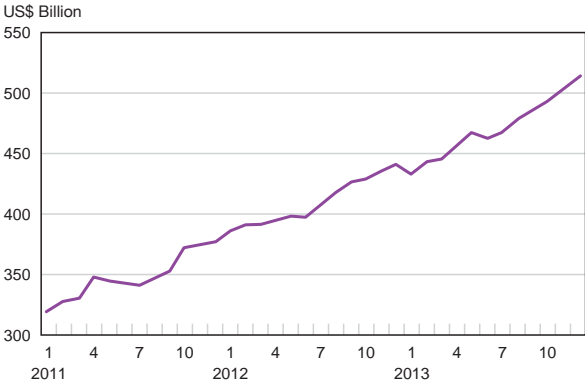
#### 6. Offshore Banking Units

- (1) At the end of 2013, all OBU assets totaled US\$169.6 billion, which was US\$1.33 billion or 0.8 percent less than the previous year end. Domestic banks owned 84 percent of the OBU assets, while foreign banks owned 16 percent.
- (2) OBU cross-strait financial business kept growing.
  - A. At the end of 2013, non-financial institutions' deposits reached US\$51.19 billion, a 16.1 percent increase from a year ago.
  - B. Cross-strait remittances increased 16.3 percent in 2013 from a year ago, amounting to US\$31.7 billion at the end of 2013.
- (3) Offshore Securities Units (OSUs)
  - A. In order to expand the scope of Taiwan's capital market and to promote securities firms'

international competitiveness, the CBC, along with the Financial Supervisory Commission, revised some provisions of the *Offshore Banking Act*, and began to accept securities firms' applications to establish offshore securities business branches. This amendment was approved by the President on June 19, 2013, and went into effect immediately.

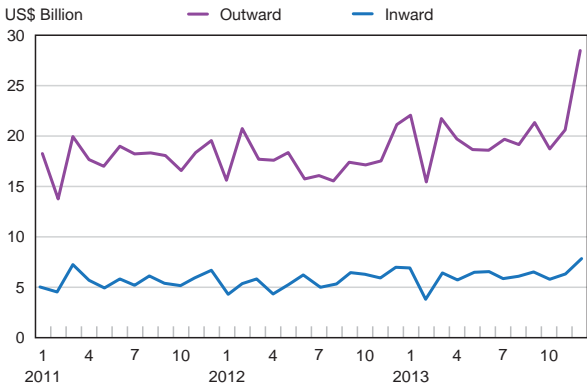
- B. The CBC and the Financial Supervisory Commission together revised the *Enforcement Rules of the Offshore Banking Act* and formulated the *Regulations Governing Offshore Securities Branches*, announced and enacted on December 26, 2013.

OBU’s Non-financial Institution Deposits



Source: Department of Foreign Exchange, CBC.

Cross-Strait Remittances Through OBUs



Source: Department of Foreign Exchange, CBC.

## 4. Financial Inspection

Pursuant to the Central Bank of the Republic of China (Taiwan) Act, the CBC conducts target examinations to ensure effective enforcement of policies related to monetary, credit, and foreign exchange management. To fulfill its mandate of financial stability, the CBC has established an off-site monitoring system and a financial stability assessment framework to systematically monitor and assess potential sources of risks in order to deploy appropriate policies and measures in a timely manner.

### On-Site Target Examinations

Target examinations in 2013 inspected the handling of land collateralized loans and high-value housing loans as well as mortgage lending in legally-stipulated “specific areas,” banks' offered rates, data warehousing of checking accounts, counterfeit money detection and follow-up, foreign exchange transactions, purchases and sales of foreign currency securities entrusted with securities dealers, foreign currency exchanges, the correctness of reporting to the CBC, etc.

### Follow-up on Banks' Compliance with Examination Findings

In 2013, in light of the CBC's target examination findings and the Financial Supervisory Commission's examination findings related to the CBC's operations or regulations, the CBC continued monitoring how the examined financial institutions had improved and urged them to rectify related deficiencies, thus ensuring successful implementation of the CBC's policies.

### Off-Site Monitoring

Based on financial conditions and the amendments to relevant laws and regulations, the CBC reviews and amends as necessary the format and content of periodical statistical data submitted by financial institutions. In 2013, developments related to off-site monitoring for the above purposes included the following:

1. In line with the IFRS, assessment contents in the CBC's off-site monitoring system for domestic banks, local branches of foreign banks, financial holding companies, bills finance companies, securities dealers, and insurance companies were amended accordingly.
2. The items of “Tier I capital ratio,” “common equity ratio” and “net worth less than capital” related to capital adequacy requirements for domestic banks were added. Also, assessment criteria of provision coverage ratios for special mention loans were adjusted.
3. The outstanding and duration of securities held by bills finance companies and liquidity analysis

related to the weighted duration of bond assets were incorporated in the CBC's off-site monitoring system.

4. "Own assets" and "local debt, equity and other items" were added to the country risk statistics.

### **Financial Institution Information Transparency**

The CBC regularly compiles and publishes various financial institution statistics and up-to-date financial regulations. It also discloses related information on its website. As a result, operational transparency of financial institutions has increased, and market self-discipline has been reinforced.

### **Financial Stability Assessment**

The CBC compiles financial soundness indicators so that the relevant authorities, market participants and the public are kept informed of the status and sources of financial system risks in Taiwan. In 2013, the 7<sup>th</sup> *Financial Stability Report* was published. The publication also promotes cross-border communication and information sharing with regard to Taiwan's financial stability and surveillance.

### **International Cooperation in Financial Supervision**

In 2013, the CBC continued to actively engage in international cooperation related to financial supervision, as follows:

1. Hosting a 6-day Course on Credit Risk Analysis, held by the SEACEN Centre and the Federal Reserve System.
2. Participating in the 4<sup>th</sup> SEACEN High-Level Seminar on Financial Stability/4<sup>th</sup> Meeting of Deputy Governors in Charge of Financial Stability and Banking Supervision, the conference "Asia: Challenges of Stability and Growth" held by the Bank of Korea and IMF, the 18<sup>th</sup> consulting group meeting for APEC Financial Regulators Training Initiative, Asia/Pacific Group on Money Laundering (APG) Annual Meeting and Forum on Technical Assistance and Training.
3. Completing questionnaires from the SEACEN Centre and the Asian Development Bank, respectively. The former was to be used for SEACEN learning and research needs analyses and their 3-year strategic plans. The latter was regarding the APEC Financial Regulators Training Initiative.
4. Answering the queries related to financial supervision from foreign central banks and financial supervisory agencies.



## 5. Payment and Settlement Systems

The CBC Interbank Funds-Transfer System (CIFS) is the backbone of Taiwan's payment system, linking two Interbank Remittance Systems (IRS) operated by the Financial Information Service Co. (FISC) and the National Credit Card Center of the R.O.C. (NCCC), the Check Clearing House System (CCHS), the Central Government Securities Settlement System (CGSS), the Bills Clearing and the Settlement System (BCSS), the Securities Book-Entry Clearing System (SBECS) of the Taiwan Stock Exchange Corporation (TWSE), and the Electronic Bond Trading System (EBTS). Together these constitute a comprehensive payment system.

Accordingly, the CBC, with its mandate for financial stability, plays a key role in the smooth functioning of Taiwan's payment systems. In addition to operating the CIFS and the CGSS, the CBC also monitors major payment systems based on international standards to ensure sound operation of these systems and to promote stability of the financial system.

### Operation of Payment and Settlement Systems

#### 1. Funds Transfers via the CIFS

Launched in May 1995, the CIFS is a large-value electronic funds-transfer system. In addition to dealing with interbank funding, reserve requirement adjustments and funds settlements in financial markets, the CIFS also provides interbank final settlement services to several clearing institutions such as the Taiwan Clearing House (TCH), the FISC, the NCCC, the Taiwan Depository and Clearing Corporation (TDCC) and the TWSE.

At the end of 2013, participants of the CIFS included 71 banks, eight bills finance companies, and seven other institutions including Chunghwa Post, the TWSE, the GreTai Securities Market (GTSM), and the NCCC, etc. In the year 2013, the daily average amount of funds transferred via the CIFS was NT\$1,803.4 billion, while the daily average number of transactions reached 2,848.

#### 2. Transactions via the CGSS

The CGSS was established in September 1997. It is a system for issuance, transfer, redemption, and interest payment of book-entry central government securities. Since its inception, central government bonds have been issued in book-entry form. In October 2001, treasury bills were included in this system and have been issued in book-entry form ever since.

The CGSS linked up with the CIFS in April 2008. Since then, fund settlements, principal redemptions and interest payments have been handled through the CIFS using a delivery-versus-payment (DVP)

mode. The DVP mode, promoted by the Bank for International Settlements (BIS), is an arrangement in a securities settlement system to ensure that securities delivery occurs almost at the same time as the funds transfer, effectively mitigating potential risks during the transaction process.

There were 16 clearing banks with 1,693 branches that handled the registration of central government securities transfers at the end of 2013. During 2013, 294 thousand transfers with a total amount of NT\$28.7 trillion were processed by this system.

## Monitoring Payment Systems

The CBC monitors the payment systems on a periodic basis to maintain their safety and efficiency. In 2013, the CBC's monitoring activities in this regard included the following:

1. Requiring payment system operators and payment instrument issuers to provide detailed information on their operations and activities as a basis for monitoring payment systems.
2. Ensuring clearing institutions set up backup systems and contingency plans for business continuity in case of emergency.
3. Inviting the Financial Supervisory Commission and clearing institutions such as the FISC, the TDCC, and the TCH to jointly hold conferences twice in 2013 to promote the sound operation of the payment systems.
4. Urging the TCH to establish a risk management mechanism of check clearing and settlement to complete the day's clearing once a member fails to pay its accrued net difference. As a result, the TCH formulated the “*Directions for Risk Management Mechanism of Clearing and Settlement*,” effective from May 1, 2013.
5. Urging the TCH to, in accordance with Article 27 of the *Personal Information Protection Act* and the CBC's *Regulations Governing the Clearinghouse's Plan of Security Measures for Personal Information Files*, draw up a formal plan and the policy to enhance credit information protection under its possession.

## Planning and Building the Foreign Currency Clearing Platform

The foreign currency clearing platform planned by the CBC and established by the FISC was launched in 2013, aiming to strengthen financial infrastructure and facilitate the development of the financial services sector. This platform adopted the SWIFT standard to facilitate transactions with financial institutions abroad. Settlements of domestic US dollar remittances and domestic and cross-strait renminbi remittances could be processed on this platform, starting from March and September 2013, respectively. Both services have run smoothly with steady growth in the trading volume. Moreover, the PVP (payment-versus-payment) system for cross-currency transactions and

the service of cross-strait US dollar remittances were launched in February 2014.

### **Incorporating Credit Card Transactions into the CIFS**

In November 2013, the CBC agreed that the payment operations of credit cards of the NCCC, which were originally handled by three banks, be included in the CIFS to enhance clearing efficiency of credit card payments. Since the incorporation, the credit card payment clearing operations have been working smoothly.

### **International Research Cooperation**

In 2013, the CBC participated in the project titled “Analytical Framework to Assess Systemic Financial Market Infrastructure” held by the Conference of Governors of South East Asian Central Banks (SEACEN) Research and Training Centre, and submitted a research report on the case of Taiwan.

## 6. Currency Issuance

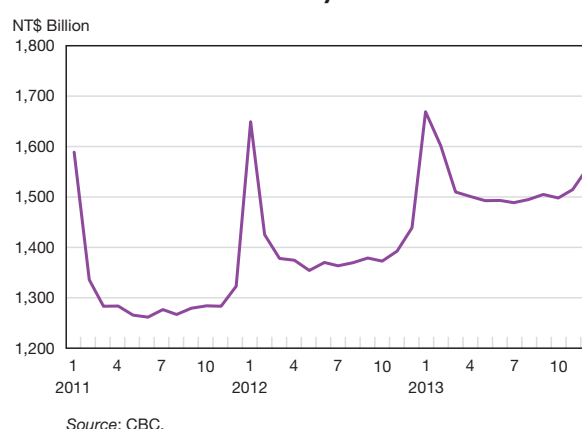
As the issuing authority for the nation's currency, the CBC has the responsibility for maintaining the supply of currency at an appropriate level to meet public demand, which is dependent on the level of economic activity, seasonal factors, and the development of noncash payments instruments, etc.

### Currency Issuance Increased

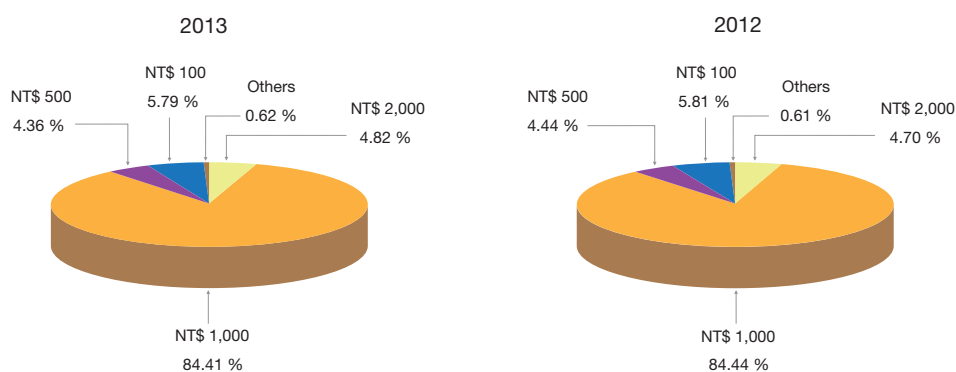
In 2013, the CBC implemented an appropriate currency issuance plan for delivering banknotes and coins. The currency issued peaked at NT\$1,873.0 billion on February 8, the day before the Chinese New Year holidays, reflecting a temporary seasonal surge in cash demand. At the year end, the outstanding amount of the currency issued was NT\$1,556.0 billion, representing an increase of NT\$118.5 billion or 8.24 percent over the previous year end.

At the end of 2013, the denomination structure of NT dollar banknotes in circulation was similar to the end of 2012. The NT\$1,000 note accounted for the lion's share at 84.41 percent, followed by the NT\$100 (5.79 percent) and the NT\$2,000 (4.82 percent) notes.

Currency Issued



Composition of NT Dollar Banknotes Issued  
( Year-End Figures )



Source: CBC.

### Currency in Circulation to GDP Ratio Increased

Owing to the low interest rate environment since September 2008, the public began to increase their currency holdings, and the ratio of currency in circulation to GDP rose significantly. It stood at 8.96 percent in 2013, a 0.51 percentage point gain over the previous year.

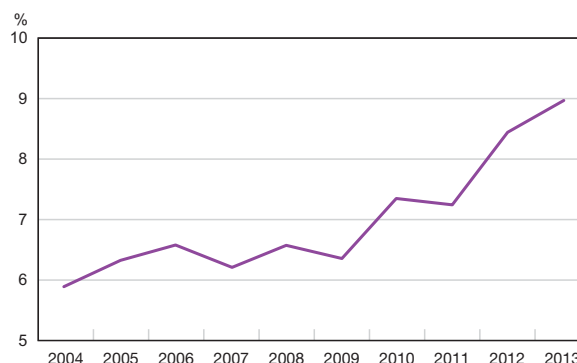
### Two Commemorative Coin Sets Were Issued

In addition to normal currency issuance, the CBC may also issue gold and silver coins and commemorative notes and coins from time to time, such as for important ceremonies, national holidays, major international events or other significant national events. During the year 2013, the CBC issued a casting set of coins for the Chinese Zodiac Year of the Snake, and the second coin set of the National Parks of Taiwan series-Yushan National Park.

### The Virtual Money Museum Launched

The Virtual Money Museum of the CBC was officially launched on June 19, 2013, introducing the historical development, anecdotes, and circulation of banknotes and coins, as well as the security features of the New Taiwan dollar. In addition, the Museum provides various contents to meet different viewing needs, including a regular version, a child-friendly version, and a virtual gallery.

**The Ratio of Currency Held by the Public to GDP**



Sources: 1. CBC.  
2. DGBAS, Executive Yuan.

## 7. Fiscal Agency Functions

The CBC acts as a banker to the central government as well as to other banks. As the fiscal agent of the government, the CBC performs various services for the national treasury. These services include handling the treasury deposit account (TDA), managing central government agency deposit accounts, and undertaking the issuance, registration, redemption, and interest payment of central government bonds and treasury bills.

### Managing the Treasury Deposit Account

The CBC manages the TDA on behalf of the Ministry of Finance (MOF), processing receipts and disbursements of the central government. For the convenience of government agencies and the general public, the CBC delegates the handling of treasury transactions to 13 financial institutions and their 360 branches, including three overseas branches located in New York, Los Angeles, and Paris. In addition, there are another 4,784 tax collection agencies set in financial institutions. In 2013, the CBC received a total of NT\$3,087.4 billion in treasury deposits, a decrease of NT\$140.9 billion or 4.36 percent from 2012. Payments made on behalf of the national treasury were NT\$3,090 billion, decreasing by NT\$121.1 billion or 3.77 percent over the previous year. At the end of 2013, the TDA balance was NT\$23.3 billion, a decrease of NT\$2.4 billion or 9.34 percent from the end of 2012.

### Handling Central Government Agency Deposits

Central government agencies are required to make their deposits with the CBC or other delegated banks. However, the delegated banks are required by law to redeposit 60 percent of the deposits with the CBC, except those in interest-bearing accounts. At the end of 2013, the balance of central government agencies' deposits with the CBC amounted to NT\$124.5 billion, a decrease of NT\$17.2 billion or 12.14 percent over 2012. Deposits with other delegated banks were NT\$424.8 billion at the end of 2013, decreasing by NT\$21.2 billion or 4.75 percent. Among them, redeposits with the CBC registered NT\$14.4 billion, increasing by NT\$3.9 billion or 37.14 percent from the previous year end.

### Managing Central Government Bonds

As a fiscal agent, the CBC provides services related to the issuance, registration, transfer, redemption, and interest payment of central government bonds. The CBC also conducts the auctions of central government bonds. There are 63 domestic dealers qualified to directly participate in the auctions, including 27 banks, 22 securities companies, eight bills finance companies, five insurance companies, and Chunghwa Post.

In 2013, the CBC handled 19 issues of central government bonds in book-entry form worth NT\$641.9 billion and paid NT\$350 billion in principal and NT\$115.2 billion in interest for central government bonds. At the end of 2013, the outstanding amount of central government bonds was NT\$5,068.2 billion, an increase of NT\$291.9 billion or 6.11 percent from the previous year end.

### **Managing Treasury Bills**

The CBC also conducts the auctions of treasury bills, which are issued at a discount. Currently, direct bidders include banks, insurance companies, securities companies, bills finance companies, and Chunghwa Post.

In 2013, the CBC handled 13 issues of book-entry treasury bills with a total amount of NT\$324.6 billion. At the end of 2013, the outstanding amount of treasury bills was NT\$214.6 billion, an increase of NT\$19.6 billion or 10.03 percent from the previous year end.

### **Improving Operational Efficiency**

In response to the needs of issuing multiple central government bonds or treasury bills with different maturities for the MOF on the same day, the CBC expanded the functions of the Central Government Securities Settlement System, and the updated system went online from December 9, 2013.

## 8. Participation in International Activities

The CBC actively took part in international activities during 2013. As a member of various international organizations, the CBC hosts conferences, provides training courses, and attends numerous forums, including the annual meetings organized by the Asian Development Bank (ADB), the Central American Bank for Economic Integration (CABEI), and the South East Asian Central Banks (SEACEN) group. In addition, the CBC also maintains close relationships with the Inter-American Development Bank (IDB), the European Bank for Reconstruction and Development (EBRD) and the Bank for International Settlements (BIS). In 2013, the CBC strengthened its ties with other central banks to exchange views on key issues of the current global economic and financial situation.

The CBC is a founding member of ADB and, through this platform, has played an active role in promoting financial cooperation and stability in Asia. In May 2013, the CBC participated in the 46th annual meeting of ADB held in New Delhi, India, and shared views on unconventional monetary policy being used as a tool to stimulate economic growth. The CBC judged that a number of advanced economies have become over-reliant on monetary stimulus during the recent economic downturn. Although macroeconomic stimulus may be effective in the short run, it is no substitute for structural reforms. Therefore, policy makers in these large and advanced nations should give some consideration to the possible spillover effects that their policies may inadvertently cause.

The CBC is also a member of SEACEN. In November 2013, the CBC attended the 49th annual conference of governors held in Kathmandu, Nepal. At this conference, the CBC joined other member central banks to exchange views on financial sector development strategies for inclusive growth, and discussed the key downside risks in the global economy and their potential adverse effects on regional economies. Furthermore, the CBC hosted the SEACEN-Federal Reserve System Course on Credit Risk Analysis during November 10 to 15.

In addition, the CBC participated in the meetings held by other international organizations, such as the IDB's annual meeting of the Board of Governors held in Panama City, Panama, during March 14 to 17, the CABEI's ordinary meeting of the Board of Governors which took place in San Salvador, El Salvador, on April 25 and 26, the EBRD's annual meeting of the Board of Governors held in Istanbul, Turkey, on May 10 and 11, and the BIS annual general meeting in Basel, Switzerland, on June 22 and 23.





# *Annex*



## IV. Annex

### Taiwan Offshore RMB Market — Developments and Prospects

#### I. Preface

In an effort to further promote bilateral trade and finance, the two respective central banks across the Taiwan Strait signed the *Memorandum on Cross-Strait Currency Clearing Cooperation* (hereinafter the “*Memorandum*”) on August 31, 2012. Based on this foundation, a mechanism was inaugurated for currency clearing and settlement between the NT dollar and renminbi (RMB), marking a new milestone for Taiwan's RMB business.

#### II. Taiwan's Development into an Offshore RMB Market

##### 1. The stage before the *Memorandum* (between June 2008 and August 2012)

- (1) In response to needs arising alongside flourishing tourism across the Strait, the CBC authorized financial institutions on the island of Taiwan to exchange RMB banknotes in 2008.
- (2) To facilitate the settlements of cross-border trade for Taiwanese companies, the CBC, along with the Financial Supervisory Commission (FSC), gave a green light to the offshore banking units (OBUs) and overseas branches of Taiwanese banks to conduct RMB business on July 21, 2011.

##### 2. The stage after the *Memorandum* (from August 31, 2012, onward)

After several rounds of negotiations, the CBC and the People's Bank of China (PBOC) signed the *Memorandum* on August 31, 2012. Based on the framework thus established, the two central banks would separately designate one currency clearing institution to provide clearing and settlement services as per the laws and regulations of the other side. Meanwhile, the two central banks agreed to coordinate the supervision of the two designated currency clearing institutions, including information sharing, protection of confidentiality, business examination, crisis management, and means of communication.

- (1) A chronology of events that mark the development of the RMB business by the CBC since 2013 is as follows.

Date	Event
Jan. 25, 2013	The CBC amended the <i>Regulations Governing Foreign Exchange Business of Banking Enterprises</i> . The authorized foreign exchange banks (DBUs) may conduct RMB business after opening clearing accounts with the RMB clearing bank in Taiwan.
Jan. 28	The CBC approved the Taipei Branch of the Bank of China as the RMB clearing bank in Taiwan.
Jan. 29	The CBC set the scope of business for derivative RMB products conducted by DBUs.
Jan. 30	The CBC and the Taipei Branch of the Bank of China co-hosted a seminar on the regulations governing RMB business and the clearing of RMB.
Feb. 6	DBUs in Taiwan officially launched RMB business.
April 1	The CBC relaxed the regulations on DBUs conducting RMB trade settlement and clearance with the clearing bank.
April 11	The CBC and the Taipei Branch of the Bank of China co-hosted the second seminar on the regulations governing RMB business and the clearing of RMB.
April 12	The CBC allowed securities firms to conduct RMB derivatives and structured products.
May 8-9	The Taipei Branch of the Bank of China hosted a seminar on cross-border RMB business.
Aug. 30	The CBC repealed the <i>Regulations Governing the Administration and Settlement of Renminbi in the Taiwan Area</i> . DBUs can now procure and sell RMB banknotes freely when engaged in banknote exchange business.
Sep. 3	The CBC allowed DBUs to grant foreign currency (including RMB) loans to Taiwanese firms based on lending contracts with their affiliates or subsidiaries in Kunshan, Mainland China.
Sep.14	The CBC widened the scope of business for derivative RMB products conducted by DBUs.
Sep. 30	The newly-launched foreign currency clearing platform began to process domestic and cross-strait RMB remittances and funds transfers.
Oct. 9	The Taipei Branch of the Bank of China hosted a seminar on financial business to be conducted in Kunshan area.
Jan. 20, 2014	The Taipei Branch of the Bank of China offered RMB banknote services.

## (2) The scope of RMB business conducted by financial institutions

A. Along with the continuous deregulation of RMB business, DBUs are allowed to offer a variety of RMB services and products, including RMB deposits, loans, remittance, trade settlement, currency exchange, derivatives, and structured products.

B. After RMB business commenced at DBUs, other types of financial institutions also began to engage in RMB business:

- Securities investment trust enterprises may offer domestic securities investment trust funds denominated in RMB.
- Insurance companies may offer RMB-denominated insurance products.
- Trust enterprises may engage in collective trust fund management and employment accounts

and collective trust funds which invest in financial products in Mainland China and/or RMB-denominated products.

- Securities firms may trade for their own accounts and/or execute orders to trade foreign securities, FX derivatives and structured products which invest in the financial products in Mainland China and/or RMB-denominated products.

### The Scope of RMB Business in Taiwan

Business Service Scope	RMB Products
Retail and corporate banking	Deposits, loans, remittance, trade settlement, currency exchange, wealth management products
Capital market	RMB corporate bonds (Formosa bonds), securities investment trust funds
Foreign exchange market	Spots, forwards, swaps, NDFs
Insurance	RMB-denominated insurance products
Other RMB products	Derivatives (currency options, interest rate swaps, cross currency interest rate swaps, etc.), structured products

## III. Market Development

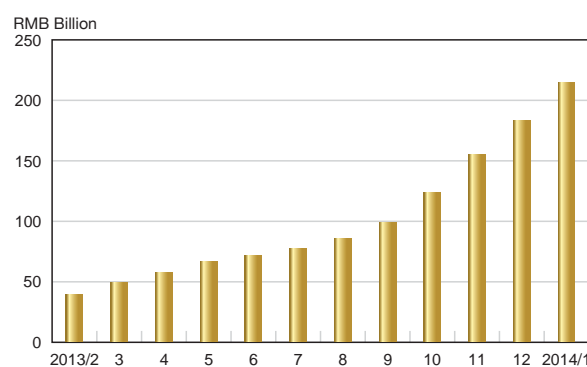
### 1. DBUs' RMB business grew rapidly

The offshore RMB business in Taiwan has made great strides since its launch.

#### (1) RMB deposits accumulated rapidly

At the end of January 2014, 66 DBUs and 57 OBUs in Taiwan have been conducting RMB business, with deposits totaling RMB214.5 billion. Taiwan has accumulated quite a substantial RMB liquidity pool so far. Meanwhile, RMB deposits are the second largest among foreign currency deposits in Taiwan, next to the US dollar (USD) and followed by the Japanese yen and the euro.

#### RMB Deposits in Taiwan



Source: Department of Foreign Exchange, CBC

#### (2) RMB remittances increased gradually

RMB remittances have reached a total of RMB580.5 billion, growing from about RMB17.3

billion in February 2013 to RMB81 billion in January 2014.

- (3) RMB settlements handled by the Taipei Branch of the Bank of China grew steadily

RMB settlements handled by the Taipei Branch of the Bank of China has amounted to nearly RMB1,907 billion, growing from RMB8.0 billion in February 2013 to RMB361.1 billion in January 2014.

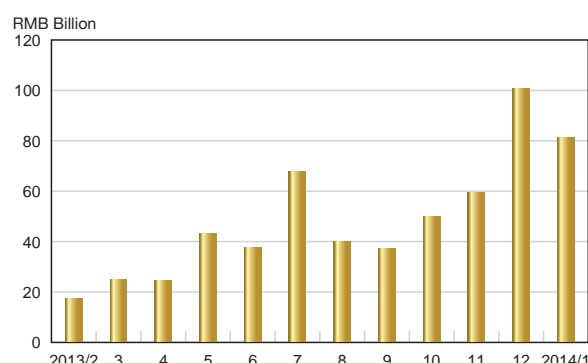
- (4) The newly-launched foreign currency clearing platform added RMB into its services

The success of an offshore RMB market cannot be achieved without an efficient and effective payment and settlement platform. Therefore, under the plan initiated by the CBC, the newly-launched foreign currency clearing platform now also facilitates RMB transactions. Beginning from September 30, 2013, the platform is extended to carry out RMB payment and settlement services involving remittances and funds transfers, both onshore and cross-border, including transactions with Mainland China, Hong Kong, and other foreign markets. Adding RMB to the platform will increase the efficiency of processing RMB flows, push up RMB-related business volume, and promote a wider variety of RMB products and services. As of the end of January 2014, the platform has handled clearing and settlement for 14,389 RMB cross-border remittances with an amount of RMB16.3 billion, and onshore cross-bank clearing for 11,306 transactions with an amount of RMB23.0 billion.

## 2. Other RMB business developments

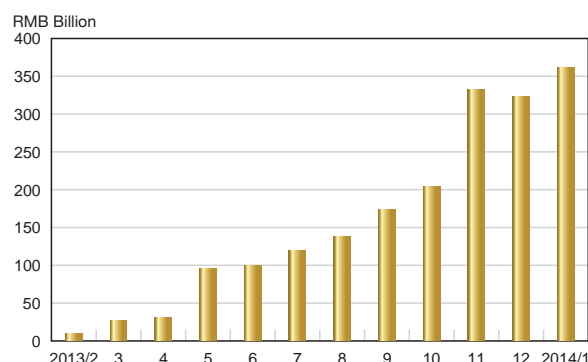
- (1) The first RMB-denominated bond (Formosa bond) in Taiwan was issued on March 12, 2013. As of the end of January 2014, 11 domestic and foreign institutions (including four Hong Kong branches of Mainland Chinese banks) have issued a total of 15 Formosa bonds with a combined amount of RMB12.1 billion.

**RMB Remittance**



Source: Department of Foreign Exchange, CBC

**RMB Settlements Handled by the Taipei Branch of the Bank of China**



Source: Department of Foreign Exchange, CBC

- (2) The transaction amount of outright purchases and repo transactions of Formosa bonds conducted by securities firms have reached RMB3.85 billion and RMB2.54 billion, respectively.
- (3) 11 securities investment trust enterprises have been approved to publicly offer 17 trust funds denominated in RMB. 14 RMB-denominated funds have been issued, with an outstanding balance of RMB3.56 billion.
- (4) 15 insurance companies have been approved to sell RMB-denominated insurance products, with the accumulated premiums amounting to RMB0.18 billion.

### Summary List of Other RMB Business

Industry Type	RMB Business	Number	Size (in RMB Billions)
Bond issuers	No. of Formosa bonds issuers	11	
	No. of Formosa bonds issued	15	
	Amount of Formosa bonds' issuance		12.10
Securities firms	Transaction amount of outright purchases of Formosa bonds		3.85
	Repo transactions of Formosa bonds		2.54
Securities investment trust enterprises	No. of RMB funds publicly offered	9	
	No. of RMB funds	14	
	Outstanding balance of RMB funds		3.56
Insurers	No. of RMB-denominated insurance products of insurance companies	15	
	Accumulated premiums		0.18

### IV. RMB Deposit as a Choice for Asset Allocation

1. In Taiwan, foreign currency depositors have a variety of currencies to choose from, such as the USD, the euro, and the Australian dollar. The main reasons to hold foreign currency deposits are to meet the needs for trade settlement, and to profit from interest rate spreads and exchange rate differences. In recent years, as more international financial products are on the market for Taiwan's investors, the ratio of foreign currency deposits to total deposits has gradually risen, except in the aftermath of the global financial crisis when the ratio growth stagnated. The opening of RMB business brought that ratio to a new high, reaching 12.88 percent at the end of 2013.
2. The RMB has recently been added to the family of foreign currency deposits as one of the choices

for asset allocation. However, its share, compared to either foreign currency or NT dollar (NTD) deposits, is still small. For example, as mentioned above, at the end of December 2013, the ratio of foreign currency deposits to total deposits was 12.88 percent, and the ratio of RMB deposits to total deposits was only 2.51 percent. By contrast, the ratio of NTD deposits to total deposits was 87.12 percent. Therefore, the suspected impact of RMB deposits on NTD deposits is actually limited, and the indirect currency substitution effect is negligible. Meanwhile, there exists some substitution between the deposits of RMB and those of the other foreign currencies, which further reduces the impact of RMB deposits on NTD ones.

3. Hong Kong and Singapore are the most financially liberalized economies in East Asia and act as regional financial centers. Hong Kong is also the biggest offshore RMB hub in size. Nevertheless, their ratios of RMB deposits to total deposits are far from substantial, at 11.93 percent and 3.06 percent for Hong Kong and Singapore, respectively.

## **V. Notable Measures under Preparation by the CBC**

### **1. Regular review of regulations**

The CBC has, on several occasions, relaxed the regulations on RMB business, such as allowing financial institutions to offer RMB derivatives, and permitting banks to square RMB positions with the clearing bank for trade-related conversions. The CBC will keep monitoring the development of Taiwan's RMB business, conduct periodic reviews of relevant regulations and make timely and appropriate adjustments. This is part of the CBC's efforts in strengthening Taiwan's status as an important offshore RMB market.

### **2. Enhancement of financial infrastructure**

The CBC continues working with relevant institutions to make the newly-launched foreign currency clearing platform more functional. The CBC also cooperates with other international clearing platforms, and plans to expand the scope of the platform's clearing and settlement services in the future. If needed, the CBC might consider extending the operating hours of the platform to support transactions in different time-zones, such as Europe.

### **3. Magnifying Taiwan's unique strengths**

Annual bilateral trade between Taiwan and Mainland China totals around US\$120 billion, and bilateral remittances amount to more than US\$560 billion. Many Taiwanese firms invest in Mainland China and run businesses across both sides of the Strait. Banks can tap tremendous RMB business opportunities by providing firms with more and better RMB-related services, such as trade settlements, cash flow management, which would in turn help build a larger pool of RMB liquidity.

### **4. Expanding RMB transaction volume and maintaining liquidity support**



## (1) Greater participation

The CBC aims to encourage participation by overseas banks in Taiwan's RMB business. With roadshows to be held abroad by Taiwan's RMB clearing bank, it is hoped that more foreign financial institutions will become participating banks.

## (2) Cooperation between domestic and foreign currency brokerages

The CBC also encourages Taiwanese FX brokerage houses to seek business cooperation with their counterparts from other offshore RMB markets, such as Hong Kong, Singapore, and London. This will not only expand the size of the global offshore RMB business but also stimulate business growth of RMB transactions handled in Taiwan and bolster market liquidity.

## (3) Exchange rate and interest rate pricing to facilitate the offering of RMB financial products

It is important for Taiwan to establish pricing mechanisms for CNT exchange rate (referring to RMB traded in Taiwan) and CNT TAIBOR (Taipei Interbank Offered Rate) as a benchmark for RMB financial contracts offered in Taiwan. This would help deepen Taiwan's RMB market.

## (4) Closer cooperation with other offshore markets

The CBC encourages the financial industry to cooperate closely with other offshore RMB markets, such as Hong Kong, London, and Singapore. The CBC itself will also reach out and strengthen its cooperation with relevant authorities in international financial hubs.

## 5. Expanding the channels for Taiwan's RMB funds to flow back to Mainland China

(1) The CBC actively engages in negotiations with the PBOC on the relaxation or cancellation of the RMB exchange limit and on signing a currency swap agreement as soon as possible.

(2) The CBC will try to gain support to allow onshore RMB lending by Taiwanese banks directly to Taiwanese firms in more pilot cities including Kunshan, Shanghai, Shenzhen, and Xiamen. After Taiwan's legislature passes the cross-strait service trade agreement, the RMB Qualified Foreign Institutional Investor (RQFII) scheme will also apply to Taiwanese financial institutions wishing to invest in China's equity and bond markets. The CBC will express the necessity of a larger quota for RQFII investment during cross-strait dialogues, so as to get broader channels for RMB to flow back to Mainland China.

# ***Chronology of Events of the CBC in 2013***



## Chronology of Events of the CBC in 2013

Date	Event
Jan. 25	The CBC promulgated the amended <i>Regulations Governing Foreign Exchange Business of Banking Enterprises</i> , which would allow financial institutions to conduct renminbi (RMB) business.
Feb. 25	The CBC approved the Taiwan Clearing House to have its net payables and receivables settled in the CBC Interbank Funds-Transfer System (CIFS) through its settlement account at the CBC.
Mar. 1	The foreign currency clearing platform, consigned by the CBC to be set up by the Financial Information Service Co., Ltd. (FISC), was officially inaugurated and began to process domestic interbank clearing and settlement of US dollars.
28	<p>The CBC's Board decided on the following measures:</p> <ol style="list-style-type: none"> <li>1. Leaving the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral unchanged at 1.875 percent, 2.25 percent, and 4.125 percent, respectively.</li> <li>2. Calling for banks' self-discipline to help rein in real-estate associated credit risk by applying prudent lending standards in "non-specific areas" showing a noticeable uptrend in housing prices.</li> </ol>
Jun. 19	<p>The Financial Supervisory Commission (FSC) and the CBC jointly amended the <i>Offshore Banking Act</i> to permit securities firms to set up offshore securities branches to engage in international securities business.</p> <p>The CBC launched the Chinese version website of its Virtual Money Museum.</p>
27	The CBC's Board decided to leave the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral unchanged at 1.875 percent, 2.25 percent, and 4.125 percent, respectively.
Jul. 3	In response to the implementation of International Accounting Standard 39, the CBC amended the <i>Directions for Auditing Liquidity of Financial Institutions</i> .
30	The CBC amended the <i>Regulations Governing the Declaration of Foreign Exchange Receipts and Disbursements or Transactions</i> . Payments to non-

Date	Event
	residents for rendering services to nationals are not counted into the declarant's annual aggregate settlement amounts. In addition, this amendment also stipulated that the declarations of foreign exchange receipts and disbursements or transactions involving RMB should be governed by the <i>Regulations</i> , effective from August 1, 2013.
Jul. 30	The CBC amended the <i>Directions for Banking Enterprises While Assisting Customers to Declare Foreign Exchange Receipts and Disbursements or Transactions</i> . Accordingly, the declaration and foreign exchange settlement of Mainland Chinese holding relevant Taiwan Area Resident Certificates with a validity of more than one year would be handled on the same basis as those applied to foreign nationals. In line with the regulations stipulated by the Ministry of Economic Affairs, the CBC also allowed qualified service providers to make declarations of foreign exchange settlements relating to online cross-border transactions for merchandise or services on behalf of their service users, effective from August 1, 2013.
Aug. 9	To provide alternative financial instruments for financial institutions' asset portfolios to meet the needs of the financial market, the CBC resumed the auction of 2-year certificates of deposit.
30	The CBC and the FSC jointly repealed the <i>Regulations Governing the Administration and Settlement of Renminbi in the Taiwan Area</i> .  The CBC amended the <i>Regulations Governing the Establishment and Administration of Foreign Currency Exchange Bureaus</i> to expand the scope of institutions which may apply to set up a foreign currency exchange bureau, effective from September 1, 2013.
Sep. 26	The CBC's Board decided to leave the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral unchanged at 1.875 percent, 2.25 percent, and 4.125 percent, respectively.
30	The newly-launched foreign currency clearing platform began to offer service for domestic and cross-border RMB transactions.

Date	Event
Oct. 29	The CBC amended the <i>Regulations Governing the Audit and Adjustment of Deposit and Other Liability Reserves of Financial Institutions</i> . Financial institutions shall submit the Reserve Adjustment Form within five business days after the end of the maintenance period.
Nov. 25	The CBC incorporated into the CIFS the settlement of credit card payments via the account of the National Credit Card Center at the CBC.
Dec. 23	The CBC urged banks to exercise caution regarding collateral loans on industrial area land and enhance risk management.
26	<p>The CBC's Board decided on the following measures:</p> <ol style="list-style-type: none"> <li>1. Leaving the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral unchanged at 1.875 percent, 2.25 percent, and 4.125 percent, respectively.</li> <li>2. Setting the target range of M2 growth for 2014 at 2.5 percent to 6.5 percent.</li> </ol> <p>The CBC promulgated the <i>Regulations Governing Foreign Exchange Business of Securities Enterprises</i>.</p> <p>The FSC and the CBC jointly amended the <i>Offshore Banking Act Enforcement Rules</i> and promulgated the <i>Regulations Governing Offshore Securities Branches</i>.</p>

# Financial Statements of the CBC

## 1. Balance Sheet

Unit: NT\$ Million

	December 31 2013	December 31 2012	Change	
			Amount	%
<b>Assets</b>				
Foreign Assets	12,658,241	11,901,431	756,810	6.36
Due from Domestic Banks	271,039	74,220	196,819	265.18
Loans and Accommodations to Financial Institutions	286,898	270,676	16,222	5.99
Other Assets	1,095,429	1,125,131	-29,702	-2.64
<b>Total Assets</b>	<b>14,311,607</b>	<b>13,371,458</b>	<b>940,149</b>	<b>7.03</b>
<b>Liabilities</b>				
Currency Issued	1,555,992	1,437,529	118,463	8.24
Deposits of Financial Institutions	1,570,406	1,469,052	101,354	6.90
Certificates of Deposit Issued	6,843,220	6,642,560	200,660	3.02
Redeposits of Financial Institutions	2,196,506	2,196,675	-169	-0.01
Government Deposits	148,624	167,448	-18,824	-11.24
Other Liabilities	1,132,641	639,137	493,504	77.21
<b>Total Liabilities</b>	<b>13,447,389</b>	<b>12,552,401</b>	<b>894,988</b>	<b>7.13</b>
<b>Net Worth</b>	<b>864,218</b>	<b>819,057</b>	<b>45,161</b>	<b>5.51</b>
<b>Total Liabilities and Net Worth</b>	<b>14,311,607</b>	<b>13,371,458</b>	<b>940,149</b>	<b>7.03</b>

## 2. Income Statement

Unit: NT\$ Million

	2013	2012
<b>Income</b>		
Interest Income	359,452	413,364
Fee Income	116	114
Foreign Exchange Gains	12,381	9,512
Revenue from Trust Investment	-3,284	17,565
Subsidiaries Investment Income	1,102	1,249
Others	710	1,266
<b>Total Income</b>	<b>370,477</b>	<b>443,070</b>
<b>Expenses</b>		
Interest Expenses	92,238	96,868
Fee Expenses	220	199
Expenses for Coin Issuance	2,109	1,546
Expenses for Banknote Issuance	4,601	3,376
Allowances	43,440	112,841
Operating Expenses	1,473	1,486
Administrative Expenses	461	465
Others	864	1,640
<b>Total Expenses</b>	<b>145,406</b>	<b>218,421</b>
<b>Net Income</b>	<b>225,071</b>	<b>224,649</b>

# Key Economic and Financial Indicators of the Republic of China (Taiwan)

Year / Month	I. Business Indicators			II. National Income and Aggregate Demand										
	NDC <sup>(1)</sup> Total Score of Monitoring Indicators  (average)	TIER <sup>(2)</sup> Business Composite Index (2006=100) (average)		Economic Growth Rate  (%)	Per Capita GNP  (US\$)	Unemploy- ment Rate  (%)	Manufacturing Sector			Annual Rate of Change of Industrial Production Indices				
		Manufacturing  Sector	Services  Sector				Labor Productivity Index  (2011=100)	Average Monthly Earnings (Per Employee) (NT\$)	Unit Labor Cost Index Growth Rate (%)	General  (%)	Manufacturing  (%)	Construction  (%)		
2004	33	105.63	102.84	6.19	15,503	4.44	71.83	40,657	-3.04	9.29	9.97	4.78		
2005	22	97.71	98.40	4.70	16,449	4.13	74.40	41,858	0.58	3.32	3.20	11.38		
2006	22	100.00	100.00	5.44	16,911	3.91	77.43	42,393	-1.89	4.80	4.61	9.02		
2007	25	102.12	96.05	5.98	17,596	3.91	83.03	43,178	-5.00	7.76	8.34	-0.49		
2008	19	87.43	89.96	0.73	17,833	4.14	82.93	43,121	1.50	-1.15	-0.90	-9.26		
2009	19	97.36	95.54	-1.81	16,901	5.85	83.87	39,125	-7.57	-7.91	-7.80	-19.08		
2010	37	101.94	105.90	10.76	19,090	5.21	96.88	42,300	-11.20	24.17	26.47	-9.17		
2011	24	95.29	99.43	4.19	20,625	4.39	100.00	43,316	1.17	4.44	4.69	7.58		
2012	17	91.72	90.66	1.48	21,082	4.24	99.34	43,689	2.25	-0.25	-0.32	7.12		
2013	20	98.07	94.54	2.11	21,557	4.18	99.37	43,829	0.27	0.65	0.56	3.69		
2013/ 1	19	99.08	96.26			4.16	98.19	58,943	-40.57	19.06	20.40	11.83		
2	20	97.98	94.94			4.24	109.74	59,320	70.11	-11.23	-11.91	44.59		
3	18	99.48	94.39			1.44	5,327	4.17	99.73	38,949	5.65	-3.22	-3.21	-6.61
4	17	97.38	93.12			4.07	101.46	39,136	3.75	-0.93	-1.12	-14.67		
5	19	99.47	95.89			4.06	98.30	39,669	4.33	-0.43	-1.27	-1.78		
6	23	97.51	94.45	2.69	5,166	4.14	102.77	40,958	0.22	-0.52	-0.71	-0.55		
7	20	98.40	96.37	1.31	5,401	4.25	96.34	41,024	1.01	2.07	1.97	19.48		
8	20	98.78	95.23			4.33	97.23	41,860	5.63	-0.97	-0.85	-13.92		
9	20	97.99	94.06			4.24	99.90	42,114	-2.92	-0.21	-0.56	12.99		
10	20	96.20	93.31			4.24	96.95	40,670	4.90	0.82	0.47	16.98		
11	21	95.81	92.49			4.16	97.57	39,455	4.48	-0.22	0.39	-22.10		
12	24	98.76	94.10	2.95	5,663	4.08	97.84	44,034	-5.71	5.55	5.60	22.63		

Notes: (1) NDC : National Development Council.  
(2) TIER : Taiwan Institute of Economic Research.

## Key Economic and Financial Indicators of the Republic of China (Taiwan) Cont.

Year / Month	II. National Income and Aggregate Demand														
	Annual Rate of Change of Private Consumption Expenditure	Annual Rate of Change of Gross Fixed		Gross National Savings / GNP	Gross Domestic Investment / GNP	External Trade of Goods on Customs Basis (in US Dollars)									
		Capital Formation	Private Sector			Annual Rate of Change of Total Exports						Annual Rate of		Trade Balance	Annual Rate of Change of Export Orders
						Change of Total Imports	Capital Equipment	China and H. K.	U. S.	Japan	Europe	Southeast Asia <sup>(3)</sup>			
													(%)		
2004	5.17	13.96	25.62	28.61	22.94	21.1	28.8	8.3	11.1	14.7	33.0	31.8	38.0	13,613	26.5
2005	2.90	2.66	1.53	27.94	22.17	8.8	12.2	1.3	9.4	-0.8	13.8	8.2	-6.2	15,817	19.2
2006	1.49	0.07	3.31	29.55	22.12	12.9	14.8	11.2	7.9	10.5	13.8	11.0	-1.7	21,319	16.7
2007	2.08	0.55	1.36	30.38	21.56	10.1	12.6	-0.9	-2.2	9.7	16.7	8.2	2.6	27,425	15.5
2008	-0.93	-12.36	-15.58	28.36	21.85	3.6	-0.8	-4.0	10.2	4.6	7.3	9.7	-9.0	15,181	1.7
2009	0.76	-11.25	-18.15	27.62	17.13	-20.3	-15.9	-23.5	-17.4	-24.6	-21.5	-27.5	-22.3	29,304	-8.3
2010	3.96	21.12	29.76	31.68	21.71	34.8	37.1	33.6	24.2	30.1	37.2	44.1	68.8	23,364	26.1
2011	3.10	-2.33	-0.25	29.97	20.28	12.3	8.1	15.6	1.2	6.2	22.7	12.0	-5.6	26,820	7.2
2012	1.62	-4.01	-1.85	28.83	19.23	-2.3	-4.4	-9.3	4.2	-7.8	9.8	-3.9	-6.7	30,708	1.1
2013	1.77	5.26	7.38	29.12	18.73	1.4	2.2	-1.2	1.2	-3.5	3.9	-0.2	5.3	35,544	0.4
2013/1						21.6	36.1	3.1	17.3	2.2	28.0	22.2	40.6	512	18.0
2						-15.8	-21.9	-11.9	0.4	-17.2	-10.9	-8.6	-7.6	932	-14.5
3	0.39	6.36	7.44	28.14	18.68	3.2	5.2	-1.9	16.1	-12.3	5.0	0.2	12.9	3,202	-6.6
4						-1.9	0.2	4.9	1.9	-19.4	0.6	-8.3	-5.5	2,295	-1.1
5						0.7	3.2	-1.1	-9.2	-9.8	3.4	-8.1	8.1	4,425	-0.4
6	1.98	5.43	8.45	30.01	18.93	8.7	5.9	-3.1	9.0	7.1	20.5	6.6	4.1	3,306	-3.5
7						1.6	-0.9	1.4	1.2	6.0	8.5	-7.7	-20.3	3,237	0.5
8						3.6	2.9	0.9	-0.2	4.0	2.8	-1.3	-11.6	4,596	0.5
9	1.45	0.57	2.12	29.71	18.63	-7.0	-8.4	-8.5	-11.2	4.5	-9.9	-0.7	14.8	2,347	2.0
10						0.7	-3.1	0.5	0.8	7.6	5.7	-2.9	-3.4	4,117	3.2
11						3.4	9.2	0.5	-1.0	-0.2	-1.5	-0.5	13.2	4,352	0.8
12	3.28	8.89	12.17	28.65	18.68	1.2	5.1	-0.6	-3.5	-8.1	2.2	10.0	27.1	2,221	7.4

Note: (3) Only includes six major countries in the region, i.e., Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.



# Key Economic and Financial Indicators of the Republic of China (Taiwan) Cont.

Year / Month	III. Prices					IV. Money, Banking and Finance					
	Annual Rate of Change of Price Indices (%)					Reserve Money (daily average)		Monetary Aggregates (daily average)			
						Amount  (NT\$ Billion)	Annual Growth Rate <sup>(5)</sup> (%)	M1B		M2	
	CPI	Core CPI <sup>(4)</sup>	Wholesale Price	Import Price	Export Price			Amount (NT\$ Billion)	Annual Growth Rate (%)	Amount <sup>(6)</sup> (NT\$ Billion)	Annual Growth Rate (%)
					(In NT Dollars)						
2004	1.61	0.76	7.03	8.58	1.62	1,662.2	11.98	6,905.4	18.98	22,117.1	7.27
2005	2.30	0.73	0.61	2.42	-2.46	1,792.5	7.63	7,395.8	7.10	23,488.5	6.20
2006	0.60	0.53	5.63	8.82	2.50	1,888.1	5.62	7,787.5	5.30	24,939.0	6.18
2007	1.80	1.46	6.47	8.94	3.56	1,977.1	5.11	8,289.2	6.44	25,975.9	4.16
2008	3.52	3.26	5.14	8.84	-2.15	2,084.1	3.35	8,045.8	-2.94	26,679.3	2.71
2009	-0.86	-0.04	-8.73	-9.60	-6.59	2,298.4	11.55	9,376.5	16.54	28,667.1	7.45
2010	0.96	0.58	5.46	7.04	2.02	2,421.7	5.43	10,776.6	14.93	29,966.1	4.53
2011	1.42	1.26	4.32	7.65	0.09	2,632.3	7.24	11,547.8	7.16	31,713.9	5.83
2012	1.93	1.00	-1.16	-1.28	-1.62	2,761.6	4.91	11,946.7	3.45	33,037.6	4.17
2013	0.79	0.66	-2.43	-4.45	-2.06	2,959.9	7.18	12,815.8	7.27	34,616.7	4.78
2013/ 1	1.12	0.30	-3.83	-6.35	-5.13	2,865.7	1.17	12,407.9	3.97	33,735.0	2.99
2	2.96	2.19	-2.28	-4.60	-2.63	3,049.3	8.94	12,634.2	5.66	34,137.0	3.53
3	1.36	1.19	-3.08	-5.67	-2.74	2,941.6	7.51	12,595.6	6.03	34,201.2	3.78
4	1.05	0.86	-3.73	-6.15	-2.83	2,940.1	7.39	12,556.7	5.72	34,194.6	3.71
5	0.74	0.61	-3.54	-5.78	-2.66	2,928.3	7.22	12,681.0	7.04	34,391.5	4.32
6	0.60	0.60	-2.10	-3.36	-1.55	2,930.5	7.73	12,709.2	7.89	34,422.7	4.82
7	0.06	0.51	-2.21	-4.13	-1.44	2,941.8	7.76	12,822.9	8.63	34,699.1	5.42
8	-0.78	0.50	-2.82	-4.66	-2.03	2,972.9	8.02	12,988.1	8.31	34,912.0	5.41
9	0.84	0.64	-2.57	-4.75	-1.86	2,985.6	8.09	13,036.6	8.05	35,020.5	5.54
10	0.64	0.15	-1.84	-3.92	-1.53	2,969.9	7.59	13,014.8	8.58	35,081.0	5.99
11	0.68	0.21	-0.93	-2.72	-0.45	2,978.9	7.77	13,068.0	8.85	35,200.1	6.05
12	0.34	0.21	-0.01	-0.97	0.31	3,014.5	7.13	13,274.1	8.50	35,405.5	5.75

Notes: (4) Core CPI refers to CPI excluding the categories of fruits, vegetables and energy.

(5) The annual growth rates are adjusted for most recent changes in required reserve ratios on Jan. 1, 2011, and in the share of required reserves deposited with the Bank's B account in Nov. 2001.

(6) The data has included the net present value of money market mutual funds since Oct. 2004.

# Key Economic and Financial Indicators of the Republic of China (Taiwan) Cont.

Year / Month	IV. Money, Banking and Finance										
	Monetary Financial Institutions (end of period)				Non-performing Loan Ratio of Domestic Banks <sup>(9)</sup> (end of period)	Interest Rates (%)					
	Deposits <sup>(7)</sup>		Loans & Investments <sup>(8)</sup>			CBC's Discount Rate  (end of period)	Interbank Call Loan Rate  (average)	31-90 Days CP Rate In Secondary Market	10-year Gov't Bond Rate in Secondary Market	Five Major Domestic Banks <sup>(10)</sup>	
	Amount  (NT\$ Billion)	Annual Rate of Change (%)	Amount  (NT\$ Billion)	Annual Rate of Change (%)						1-year Deposit Rate (end of period)	New Loan Rate  (average)
2004	23,148.4	6.77	17,964.0	8.64	3.80	1.750	1.061	0.99	2.66	1.52	2.24
2005	24,611.6	6.32	19,360.2	7.77	2.24	2.250	1.312	1.27	2.05	1.99	2.31
2006	25,811.5	4.88	20,153.9	4.10	2.13	2.750	1.552	1.54	1.98	2.20	2.37
2007	26,052.5	0.93	20,626.9	2.35	1.84	3.375	1.998	1.90	2.32	2.62	2.70
2008	27,870.2	6.98	21,331.5	3.42	1.54	2.000	2.014	1.92	2.29	1.42	2.80
2009	29,448.6	5.66	21,482.3	0.71	1.15	1.250	0.109	0.24	1.51	0.89	1.50
2010	31,006.3	5.29	22,803.7	6.15	0.61	1.625	0.185	0.38	1.37	1.13	1.45
2011	32,302.2	4.18	24,172.9	6.00	0.43	1.875	0.341	0.70	1.38	1.36	1.54
2012	33,300.4	3.09	25,548.8	5.69	0.40	1.875	0.428	0.79	1.21	1.36	1.62
2013	35,062.4	5.29	26,720.6	4.59	0.38	1.875	0.386	0.69	1.46	1.36	1.70
2013/ 1	33,583.3	3.29	25,767.1	5.63	0.40	1.875	0.387	0.75	1.17	1.36	1.61
2	33,602.8	3.20	25,833.7	5.68	0.42	1.875	0.387	0.73	1.21	1.36	1.67
3	33,777.6	3.39	25,967.2	6.02	0.42	1.875	0.387	0.72	1.27	1.36	1.59
4	33,822.5	3.57	26,028.4	5.64	0.44	1.875	0.386	0.71	1.25	1.36	1.76
5	33,904.2	3.94	26,032.7	5.22	0.44	1.875	0.386	0.70	1.25	1.36	1.80
6	34,202.0	4.89	26,046.6	5.93	0.44	1.875	0.386	0.70	1.40	1.36	1.71
7	34,480.5	5.38	26,298.8	5.91	0.45	1.875	0.386	0.70	1.49	1.36	1.68
8	34,565.2	5.02	26,367.7	5.75	0.44	1.875	0.386	0.68	1.68	1.36	1.77
9	34,609.3	5.38	26,469.0	5.83	0.45	1.875	0.386	0.67	1.72	1.36	1.68
10	34,756.4	5.88	26,537.5	5.47	0.43	1.875	0.387	0.66	1.65	1.36	1.73
11	34,935.5	5.85	26,687.6	5.60	0.41	1.875	0.386	0.64	1.70	1.36	1.77
12	35,062.4	5.29	26,720.6	4.59	0.38	1.875	0.387	0.64	1.69	1.36	1.69

Notes: (7) The carrying values of the host contracts of structured products issued by banks are excluded.

(8) From Jan. 2004, includes data for securities acquired under reverse repurchase agreements. Portfolio investments are measured at original costs.

(9) The data are based on the new NPL definition released by the Financial Supervisory Commission in Dec. 2001, which include loans under surveillance.

(10) For data prior to Oct. 2008, the five major domestic banks are Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank and Chang Hwa Commercial Bank, while beginning Nov. 2008, the Chang Hwa Commercial Bank is replaced by Land Bank of Taiwan.

# Key Economic and Financial Indicators of the Republic of China (Taiwan) Cont.

Year / Month	V. Securities Market					VI. Balance of Payments and Foreign Exchange Market						
	TWSE <sup>(1)</sup> Stock Market		Bond Market			Balance of Payments				Foreign Exchange Reserves	Exchange Rate	Daily Average Value of Foreign Exchange Transactions
	Stock Price Index	Total Trading Value	Outstanding  (end of period)	Total Trading Value		Current Account	Capital Account	Financial Account	Changes in Reserve Assets <sup>(12)</sup>	(end of period)	(end of period)	
	(1966=100) (average)	(NT\$ Billion)	(NT\$ Billion )	Share of Outright Transactions (%)	(US\$ Million)				(US\$ Billion)			
2004	6,034	23,875.4	4,777.3	206,132.4	59.89	19,728	-77	7,169	-26,595	241.74	31.917	10.24
2005	6,092	18,818.9	5,145.3	319,737.0	69.49	17,578	-117	2,302	-20,056	253.29	32.850	12.07
2006	6,842	23,900.4	5,462.1	275,833.2	61.63	26,332	-118	-19,620	-6,086	266.15	32.596	15.63
2007	8,510	33,043.9	5,542.1	194,005.5	48.34	35,154	-96	-38,951	4,020	270.31	32.443	18.62
2008	7,024	26,115.4	5,771.2	135,509.5	44.09	27,505	-334	-1,660	-26,274	291.71	32.860	19.37
2009	6,460	29,680.5	5,920.3	97,547.5	40.40	42,923	-96	13,469	-54,126	348.20	32.030	16.22
2010	7,950	28,218.7	6,352.3	106,318.0	40.12	39,872	-116	-358	-40,173	382.01	30.368	20.23
2011	8,156	26,197.4	6,895.8	97,809.1	27.46	41,688	-119	-32,046	-6,239	385.55	30.290	24.17
2012	7,481	20,238.2	7,576.1	86,551.7	21.17	50,672	-83	-31,673	-15,484	403.17	29.136	23.41
2013	8,093	18,940.9	8,104.6	69,226.1	19.63	57,380	6	-41,164	-11,318	416.81	29.950	28.93
2013/ 1	7,759	1,716.9	7,666.5	7,634.7	25.61					406.56	29.582	29.35
2	7,933	1,021.2	7,706.8	4,283.9	17.23					404.08	29.705	32.75
3	7,907	1,607.5	7,747.0	6,421.1	20.44	11,316	-20	-8,967	-2,151	401.89	29.875	28.25
4	7,893	1,460.6	7,781.8	6,462.9	23.74					405.19	29.616	29.14
5	8,272	1,822.6	7,825.9	6,838.1	26.06					406.62	30.060	33.59
6	7,989	1,482.4	7,894.2	5,440.6	20.28	14,061	29	-7,416	-3,880	406.61	30.120	31.53
7	8,102	1,880.0	7,917.0	5,921.5	18.31					409.12	30.120	27.88
8	7,932	1,564.1	7,972.6	5,302.0	14.00					409.39	29.983	28.35
9	8,193	1,508.8	7,965.1	4,890.5	18.35	14,865	-8	-10,898	-2,612	412.61	29.670	28.08
10	8,366	1,747.1	8,037.4	5,629.5	19.54					415.60	29.455	27.56
11	8,237	1,547.5	8,067.4	5,481.8	20.21					415.56	29.679	27.38
12	8,431	1,582.3	8,104.6	4,919.4	11.81	17,138	5	-13,883	-2,675	416.81	29.950	24.72

Note: (1) TWSE: Taiwan Stock Exchange Corporation.

(2) The minus sign "-" represents an increase.

Sources: 1. NDC.

2. TIER.

3. Department of Statistics, Ministry of Economic Affairs.

4. DGBAS, Executive Yuan.

5. Department of Statistics, Ministry of Finance.

6. Banking Bureau, Financial Supervisory Commission.

7. Financial Statistics Monthly and Balance of Payments Quarterly, CBC.

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