

Foreword



Fai-nan Perng, Governor

In 2014, Taiwan's exports were bolstered by a moderate expansion in the global economy. Consumer spending gathered pace on the back of improvements both in employment and wage growth as well as a strong stock market. Private investment also accelerated. Against this backdrop, Taiwan's economy advanced 3.74 percent in 2014, higher than the other three Asian tigers. Inflation was mild with the annual CPI rate at 1.20 percent, as meat and other food prices were pushed up by supply side factors such as a piglet disease outbreak.

In view of a negative output gap and a benign inflation outlook, the CBC held the policy rates unchanged throughout 2014 and kept M2 growth in check by managing market liquidity via open market operations. The annual growth rate of M2 in 2014 averaged 5.66 percent, within the target range and judged to be conducive to maintaining price and financial stability and economic growth.

In June 2014, the CBC introduced more macroprudential measures to rein in mortgage lending risk. Firstly, the scope of Specific Areas subject to tighter loan rules was further expanded. Secondly, a 50 percent cap on the loan-to-value (LTV) ratio was introduced for third homes purchased by individuals and properties of corporate legal entities. Thirdly, a new, stricter definition was applied to high-priced housing, whose LTV ratio would also be capped at 50 percent. These measures have further brought down lending concentration and mortgage LTV ratios while pushing up mortgage lending rates, helping to ensure sound banking operation and promote financial stability.

Taiwan's foreign exchange market, as well as the domestic financial markets, experienced greater volatility during 2014 under the impact of large and erratic foreign capital flows as major advanced economies rolled out quantitative easing policies. Particularly in the fourth quarter, fluctuations became more pronounced in international foreign exchange market and the US dollar strengthened markedly. Therefore, the CBC, in line with its legal mandate, stepped in to maintain an orderly market and the NT dollar continued to exhibit dynamic stability.

We also carried on with the endeavors to further develop financial infrastructure. The newly-established foreign currency clearing platform continued to open more services last year. Taiwan's renminbi market was augmented with a spot rate fixing mechanism for both exchange rates and interbank offered rates. A shared mobile payment platform was launched to enhance banking resource utilization and improve mobile payment efficiency. In addition, overseas branches of domestic banks were now eligible to apply for conducting NT dollar non-delivery forwards business. The CBC also permitted authorized foreign exchange banks to offer online banking services to a wider customer base and allowed interbank ATM cash withdrawal in foreign currency, seeing the ensuing benefits to boost bank performance and competitiveness as well as the development of the financial service sector.

Looking ahead, we note that uncertainties remain in the global economic recovery as international financial markets still face possible disruptions from oil price volatility, European political and economic disturbance, and a looming US rate hike. The CBC will continue to closely monitor the economic and financial developments in Taiwan and across the world and undertake appropriate monetary policy actions as warranted.

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
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