

Annual Report 2014

Central Bank of the Republic of China (Taiwan)

Taipei, Taiwan

Republic of China

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 long, sweeping horizontal stroke extending to the right.

Fai-nan Perng
Governor
April 2015

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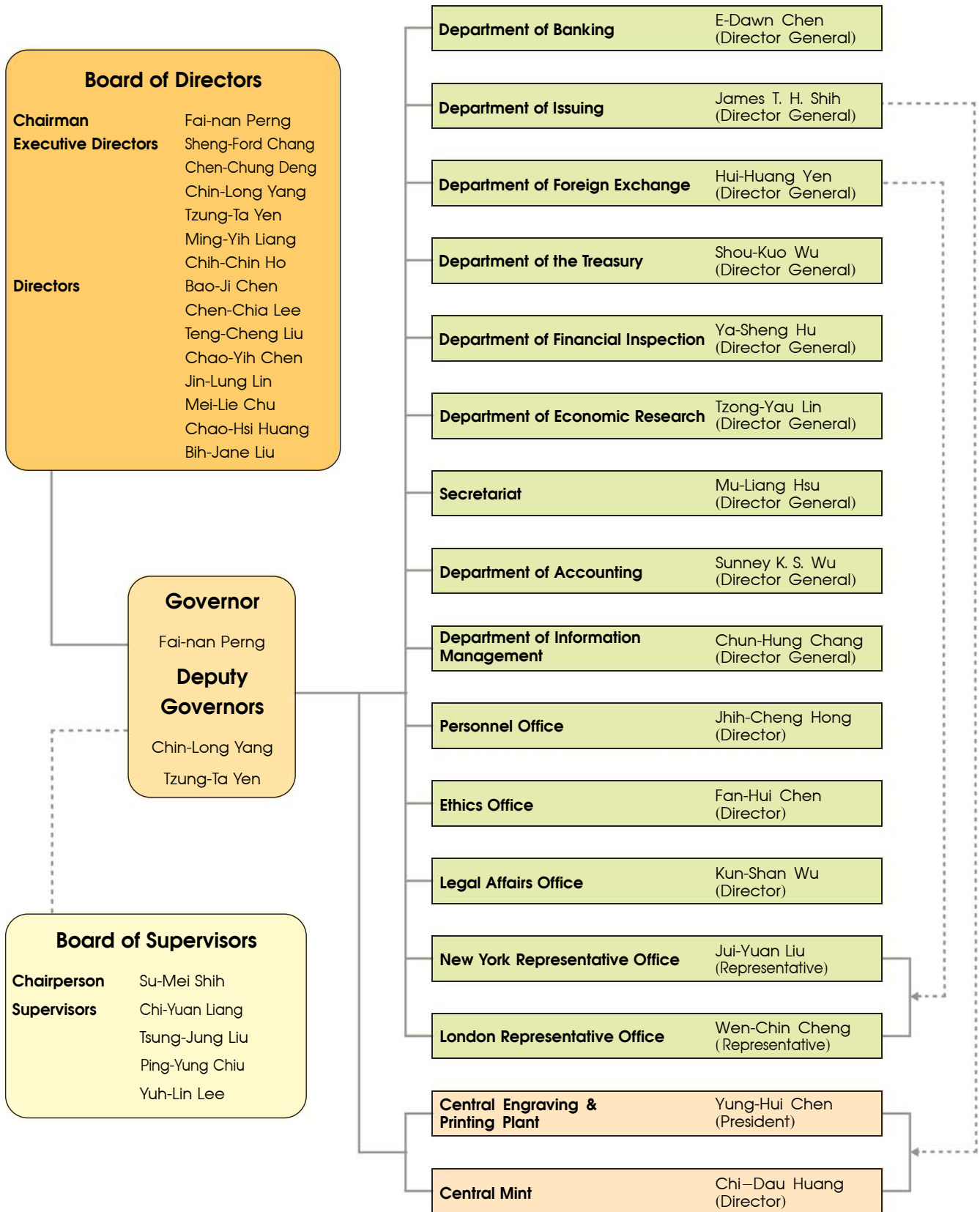
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Organization and Management of the CBC



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As of March 2015



Chairman
Board of Directors
Governor
Fai-nan Perng



Executive Director
Sheng-Ford Chang



Executive Director
Chen-Chung Deng



Executive Director
Deputy Governor
Chin-Long Yang



Executive Director
Deputy Governor
Tzung-Ta Yen



Executive Director
Ming-Yih Liang



Executive Director
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Director
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Director
Chao-Yih Chen



Director
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Mei-Lie Chu



Director
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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

As the global economy experienced a moderate recovery, Taiwan's GDP growth reached 3.74 percent in 2014, compared to 2.23 percent the year before. The economy registered record-high levels of current account surplus and financial account net outflow for the year as a whole, and the balance of payments showed a steady surplus of US\$13,015 million.

The uptrend in food prices due to supply-side factors (such as weather-induced disruptions and piglet infection) was partially offset because fuel costs were depressed by plunging global oil prices in the second half of the year and prices of consumer electronics also kept falling. For the year of 2014, the annual CPI growth rate posted a mild increase from the previous year's 0.79 percent to 1.20 percent. Although the economic pickup significantly bolstered tax revenue in 2014, a considerable decrease in revenue from fees collected led central government finances to post a slightly wider deficit of NT\$127.7 billion. Labor market conditions continued to improve. Employment kept growing, and the unemployment rate averaged 3.96 percent for the year, the lowest since 2008. Growth in real monthly earnings reached a four-year high of 2.36 percent.

Steady Economy Growth

In the first three quarters of 2014, a moderate global recovery accelerated the growth momentum for Taiwan's exports of electronics, machinery, and basic metals. In addition, semiconductors and airlines increased their capital expenditure. Against such a backdrop, both private consumption and investment gathered pace, bolstering the GDP growth rate to trend up steadily and reach 4.32 percent in the third quarter. However, in the fourth quarter, food safety concerns dampened consumer spending and private investment slowed on account of a higher base, dragging the economic growth rate down to 3.35 percent. For the year as a whole, the economy expanded by 3.74 percent, the highest among the four Asian tigers.

In terms of GDP components by expenditure, domestic demand grew 3.37 percent owing to stronger pickups in government and private consumption and steady growth in private investment. Domestic demand and net external demand contributed 3.07 and 0.67 percentage points to the annual economic growth rate, respectively, higher than 1.86 and 0.37 percentage points a year

earlier.

As for the sectoral components of GDP, the industrial and services sectors both registered higher growth over the previous year, contributing 1.88 and 1.53 percentage points, respectively. The agriculture, forestry, fishing and animal husbandry industries contributed only 0.06 percentage points to overall economic growth.

Healthy BOP Surplus

In 2014, the current account surplus and the net outflow in the financial account both continued to reach historical highs. Overall, the balance of payments posted a favorable surplus of US\$13,015 million, greater than US\$11,318 million the previous year.

In the current account, the goods trade surplus widened to US\$41,488 million, reflecting a larger increase in exports over imports. The services account surplus grew to US\$11,164 million, mainly accounted for by increases in travel receipts and net proceeds from merchanting. The income account recorded a surplus of US\$15,472 million, mainly owing to rises in banks' interest income and residents' outward direct investment. The deficit on the current transfers balance shrank to US\$2,789 million. Overall, the current account surplus grew by 18.2 percent to US\$65,335 million, representing a greater share of 12.3 percent in GDP from the previous year's 10.8 percent.

The net outflow in the financial account increased to US\$53,046 million, mostly because of a record-high portfolio investment net outflow. Among which, the US\$57,105 million net outflow in residents' portfolio investment abroad was mainly attributable to increased securities investment overseas by insurance companies, while non-residents' portfolio investment registered a net inflow of US\$12,895 million mainly owing to stronger stock buying by foreign investors. Direct investment abroad exhibited a net outflow of US\$12,597 million, with Mainland China still the primary investment destination. Other investment turned into a net inflow of US\$639 million as the private sector withdrew overseas deposits.

Mild Inflation

As weaker global demand drove raw material prices lower, Taiwan's import prices in NT dollar terms dropped by 2.10 percent in 2014 over the previous year. Consequently, WPI growth declined by 0.57 percent.

In terms of consumer prices, food prices were pushed up by supply-side factors, such as unfavorable weather conditions and a piglet disease outbreak. However, the increase was partially

offset as fuel became cheaper amid international oil price slumps, and consumer electronics continued with a low price promotion strategy. For the year as a whole, the CPI went up by 1.20 percent, higher than the 0.79 percent of the previous year, while core CPI (excluding prices of fruits, vegetables, and energy) rose by 1.26 percent, higher than 0.66 percent a year before.

Slightly Wider Central Government Deficit

In 2014, the central government deficit widened slightly from NT\$125.4 billion to NT\$127.7 billion, as the reduction in revenue exceeded that in expenditure.

Tax revenue grew by 10.3 percent with rising corporate profits amid an economic pickup, constituting nearly 80 percent of total central government revenue. Fees, fines and indemnities also fell substantially by 57.6 percent as a result of a higher base with receipts from 4G mobile service license fees in the previous year.

On the expenditure side, a decrease in central government expenditure was mainly attributable to reduced spending on social welfare. By category, expenditure on social welfare remained the largest component of government spending with a share of 22.2 percent.

Despite a slightly wider deficit, debt financing needs softened to NT\$191.7 billion as debt principal repayment contracted to NT\$64.0 billion.

At the end of 2014, the total outstanding debt of the central government posted a new high of NT\$5,373.9 billion. This represents a ratio of 36.5 percent to the average nominal GDP for the previous three fiscal years, still under the statutory limit of 40.6 percent.

Falling Unemployment Rate; Wage Growth at Four-Year High

The unemployment rate exhibited a broad downtrend throughout 2014 and reached 3.79 percent in December, the lowest since March 2007. For the year as a whole, the unemployment rate averaged at a low of 3.96 percent, unseen since 2008.

The average number of employed persons totaled 11.08 million in 2014, 112 thousand or 1.02 percent more than the previous year. Employment in the services sector increased by 68 thousand workers, or 1.06 percent, the highest among all sectors. The industrial sector hired 39 thousand more persons, an increase of 0.98 percent.

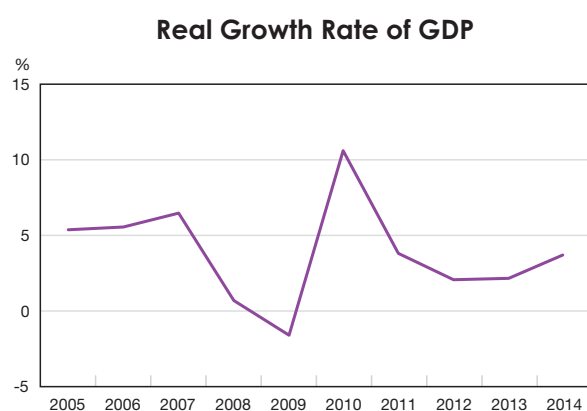
Average non-farm (industrial and services sectors) monthly earnings rose by 3.58 percent year on year to NT\$47,300. The average monthly regular earnings of non-farm employees increased by

1.81 percent to NT\$38,208. After adjustment for inflation, real monthly earnings grew by 2.36 percent, and real monthly regular earnings saw a four-year high increase of 0.61 percent. For the industrial sector and the manufacturing industry, labor productivity indices went up by 3.81 percent and 4.12 percent, respectively, over the previous year. Unit labor costs decreased owing to faster growth in production over total earnings, down by 1.09 percent for the industrial sector and 1.40 percent for the manufacturing industry.

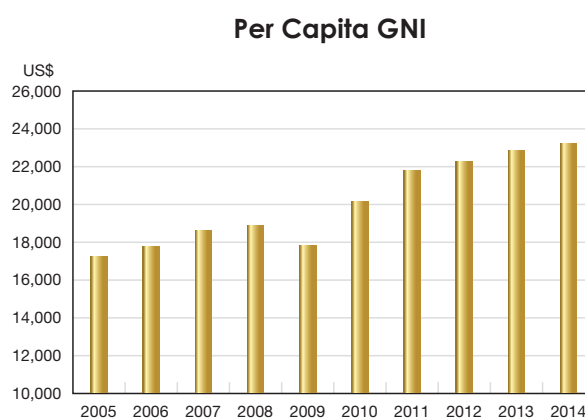
2. National Output and Income

In 2014, Taiwan's economic recovery strengthened and real GDP registered a three-year high growth of 3.74 percent along with the revival in domestic demand and a robust expansion in exports. Private consumption grew firmly owing to a buoyant stock market, a modest wage increase and an improving employment situation. Fixed capital formation progressively picked up as domestic sectors, especially semiconductors, telecommunications and aviation continued to expand capital outlays. Thanks to a solid increase in global demand, exports of electronic products, machinery, and basic metals and articles thereof to major trade partners advanced briskly, providing further support to domestic economic activity throughout the year. In line with continuing economic recovery, per capita GNI in nominal terms, for the year as a whole, climbed by 3.90 percent to US\$23,390.

Resulting from increasing strength in economic activity at home and abroad in the first three quarters and a modest slowdown in domestic demand in the last quarter, year-on-year quarterly growth rates for real GDP exhibited an inverted V-shaped pattern during the year. In the first quarter, the GDP growth rate grew by 3.41 percent mainly because of robust growth in exports and private consumption. During the second quarter, the improvement in domestic and global economic conditions intensified momentum of GDP growth. As the pace of recovery among advanced economies accelerated, which lifted both consumer and business sentiment, growth in domestic demand picked up accordingly. The second quarter's GDP growth ascended to 3.87 percent, mainly attributed to increased travel and retail sales as well as expansion in private investment. In the third quarter, strong external demand boosted exports and drove domestic demand to rise. Moreover, improving labor market conditions together with a surge in the stock market bolstered private



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2015.



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2015.

consumption demand, encouraging capital expenditures, such as semiconductor manufacturers' continuing investment in advanced technologies and telecom companies' gradual build-up of the 4G LTE system. Since growth in consumer spending, business investment and exports all gathered pace, real GDP growth rose to 4.32 percent for the third quarter, the highest level in the year. In the fourth quarter, the real GDP growth rate edged down to 3.35 percent, attributable to the slowdown in private consumption affected by food safety issues (involving tainted lard) and the decline in investment resulting from concerns about slowing economic growth in emerging markets such as China.

Expenditure Components of GDP

All expenditure components of GDP contributed positively to GDP growth in 2014. Private consumption was the primary source of economic growth, posting the largest contribution of 1.60 percentage points for the year. Growth in gross fixed capital formation exhibited an uneven pace over the year, contributing 0.38 percentage points to GDP growth. With rising global demand, both imports and exports strengthened, leading net exports to contribute 0.67 percentage points to economic growth. Meanwhile, growth in government consumption moved from negative to positive territory and further boosted GDP growth by 0.49 percentage points. In terms of shares of GDP, exports of goods and services remained to account for the largest share of GDP at 69.98 percent, followed by private consumption at 53.2 percent and gross fixed capital formation at 21.57 percent for the year.

(1) Steady Growth in Private Consumption

In 2014, private consumption increased by 2.96 percent in real terms and contributed 1.60

Expenditure on Gross Domestic Product

Unit: %

	2014			2013		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Private Consumption	53.20	2.96	1.60	54.20	2.35	1.29
Government Consumption	14.45	3.35	0.49	14.63	-1.15	-0.18
Gross Fixed Capital Formation	21.57	1.74	0.38	22.15	4.98	1.11
Change in Inventory	0.33	-	0.59	-0.07	-	-0.36
Exports of Goods and Services	69.98	5.70	3.96	69.51	3.51	2.48
(Less : Imports of Goods and Services)	59.53	(5.44)	(3.29)	60.41	(3.34)	(2.10)
Expenditure on GDP	100.00	3.74	3.74	100.00	2.23	2.23

Note: * Percentage point.

Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2015.

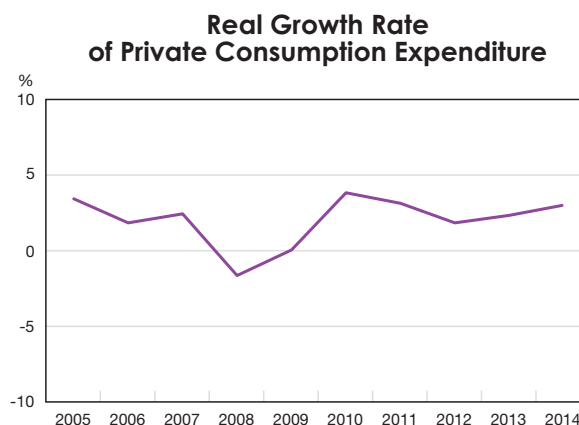
percentage points to GDP growth. Overall consumer spending grew at a solid pace owing to a substantial increase in financial wealth from the stock market and a continuing boost in consumer confidence as a result of faster-than-anticipated economic recovery and improvement in labor market conditions.

While real wage growth was sluggish in the first quarter, private consumption, driven by consumers' needs to replace aging vehicles, solid tourism activity and an increase in spending on retail goods, continued to grow steadily at 2.37%. In the second quarter, a further upsurge in the stock market as well as more willingness of enterprises to raise salaries lifted consumer sentiment, and thus consumer expenditures expanded by 3.30%. Along with the improvement in economic activity, a decrease in the unemployment rate and the wealth effect arising from a stock price upswing, private consumption was strengthened by an increase in demand for transportation, leisure activities and retail sales, and it registered a noticeable growth of 3.76 percent in the third quarter. Thereafter, the favorable wealth effect resulting from the stock market and continued expansion in tourism was offset by a significant drop in consumer spending on account of food safety concerns, and thus private consumption growth fell to 2.39 percent in the last quarter.

(2) Mild Growth in Fixed Capital Formation

For the year of 2014, capital outlays continued to advance steadily in line with the intensifying momentum of economic recovery, the launch of mobile devices that benefited domestic supply chains, and business opportunities brought by the Internet of Things (IoT). Fixed capital formation grew at an annual rate of 1.74 percent in real terms, contributing 0.38 percentage points to GDP growth.

While economic activity turned up progressively, growth in fixed capital formation showed swings over the year on account of a higher base effect. In the first half of the year, fixed capital outlays increased steadily as the semiconductor industry continued capacity expansion in advanced manufacturing and airline companies enlarged capital spending on aircraft to meet rising air travel demand. However, because of a higher base effect, fixed capital formation registered lackluster growth rates of 0.94 percent and 1.63 percent, respectively, in the first two quarters. In the third quarter, on the back of mounting export orders for electronics products supported by strong global demand, capital spending in the semiconductor industry speeded up, driving growth in fixed capital

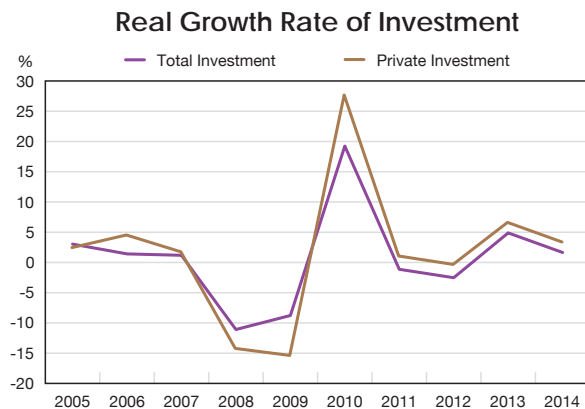


Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2015.

formation to rise to 4.83 percent. In the fourth quarter, affected by concerns about economic slowdown in Mainland China and its active development of supply chain localization, fixed capital formation posted a negative 0.42 percent growth due in part to a higher base effect.

In 2014, capital outlays by type of purchaser displayed an uneven pace of growth as well. While investment by the private sector and public enterprises registered positive growth, investment by general government was on a downward trend and posted further contraction for the year. In the first half of the year, the private sector steadily expanded new investment in semiconductor production, 4G network building, and aircraft purchasing, and its gross fixed capital formation grew by 2.85 percent. On the back of better-than-expected economic performance, capital spending on semiconductors and electronic components and machinery significantly increased and the airline industry further expanded purchases of aircraft for the launch of new budget airlines, lifting private investment growth to 6.27 percent in the third quarter. However, weighed down by worries about the weak economic outlook in the eurozone and Japan and China's slowing economy, business sentiment slipped and hence growth in private investment dropped to 1.28 percent in line with a higher base effect in the last quarter. For the year as a whole, private investment increased by 3.36 percent, adding 0.59 percentage points to real GDP growth. Meanwhile, public investment in the areas of renewable energy and public utilities increased and pushed investment by public enterprises to rise by 4.40 percent, contributing 0.06 percentage points to GDP growth for the year. In contrast, government investment continued to shrink throughout all quarters because of a limited budget and fell by 8.22 percent for the year, subtracting 0.27 percentage points from economic growth.

In terms of the type of capital formation, bolstered by vigorous growth in global travel, the largest increase was observed in outlays on transportation, resulting from increased procurement of airliners. Outlays on transportation registered a significant growth of 18.52 percent for the year. Growth in investment in intellectual property products came in second. Despite some tightening policy initiatives to contain local housing prices, private investment in the construction sector continued to rise in 2014. However, such an increase was offset by a sharp decline in government investment in construction, which caused investment in the construction sector to grow only modestly by 1.52 percent. In addition, growth in investment in machinery and equipment fell to negative territory, posting a negative 1.59 percent growth for the year.



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2015.

This contraction, particularly in the first half of the year, reflected a gentle pickup in capital expenditures in the private sector together with a higher corresponding comparison base in the previous year.

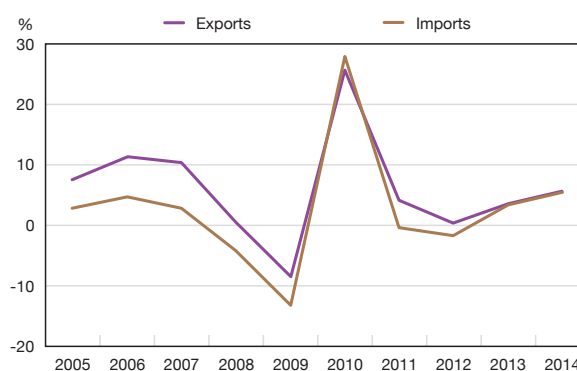
(3) Robust Growth in Exports and Imports

In 2014, exports of goods and services remained buoyant despite intense competition from the global market and China's active localization of the supply chain. With a faster-than-expected recovery in the US market, the release of iPhone 6 mobile devices, and an increase in IoT business opportunities, growth in exports kept trending upward, registering a four-year high growth rate of 5.70 percent and contributing 3.96 percentage points to economic growth for the year.

During the first two quarters, growth in exports of optical instruments, information and communications products, and mineral products all retreated, but a solid expansion in exports of electronics products, machinery, and basic metals and articles thereof led total exports to rise by 4.26 percent and 5.03 percent, respectively. Export growth in the third quarter sustained intensifying momentum from the second quarter and its pace accelerated to 7.62 percent as demand for electronics and mineral products strengthened and tourism service exports registered the third consecutive quarter of double-digit year-on-year growth. In the fourth quarter, owing to a slump in oil prices, exports of mining and petrochemical products experienced further contraction, dragging down growth in exports of goods and services to 5.74 percent.

In 2014, imports of goods and services expanded further and increased by 5.44 percent, subtracting 3.29 percentage points from economic growth. Since a great proportion of the import demand was derived from exports and capital formation, the growth trend of imports, similar to that of exports, moved upward in the first three quarters during the year. However, because of a contraction in capital outlays in the fourth quarter, growth in imports declined notably to 4.89 percent, down from the third quarter's 9.21 percent.

Real Growth Rates of Exports and Imports



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2015.

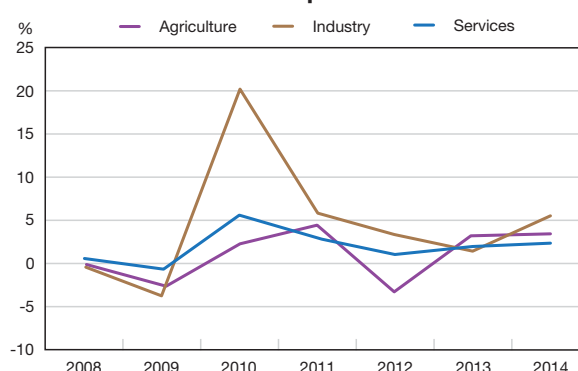
Sectoral Components of GDP

Looking at sectoral production in 2014, as growth momentum in economic activity resumed, all sectoral outputs advanced rapidly, recording higher growth rates than those in the previous

year. Benefiting from improving economic conditions at home and abroad, industrial output grew strongly at 5.63 percent and became the key driver of economic growth, pitching in 1.88 percentage points to GDP growth. Services, accounting for the largest share of national output, continued to grow healthily and contributed 1.53 percentage points to economic growth for the year. Mainly attributed to an increase in external demand for agricultural products, output in the agricultural sector also added 0.06 percentage points to overall economic growth.

Regarding the sectoral shares of GDP in nominal terms, Taiwan's economy was dominated by the services sector with a 64.05 percent share in 2014. Driven by accelerating recovery in global demand, production in the industrial sector increased and its share of GDP rose to 34.07 percent, slightly higher than that in the previous year. Meanwhile, the ratio of agricultural output to GDP edged up to 1.88 percent.

Sectoral Components of GDP



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2015.

Gross Domestic Product by Type of Activity

Unit: %

	2014			2013		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Agriculture	1.88	3.49	0.06	1.70	3.45	0.06
Industry	34.07	5.63	1.88	33.20	1.62	0.54
Mining and Quarrying	0.11	-5.16	-0.01	0.10	-3.72	0.00
Manufacturing	29.08	6.34	1.80	28.37	1.54	0.44
Construction	2.73	1.71	0.05	2.71	2.50	0.07
Electricity and Gas Supply	1.54	0.96	0.04	1.35	3.45	0.03
Water Supply and Remediation Services	0.61	0.20	0.00	0.66	0.51	0.00
Services	64.05	2.38	1.53	65.10	2.20	1.44
Wholesale and Retail Trade	16.47	2.64	0.45	16.92	1.44	0.24
Transport and Storage	2.88	2.20	0.06	2.81	8.12	0.23
Information and Communications	2.92	1.40	0.04	3.07	2.93	0.09
Finance and Insurance	6.64	7.10	0.46	6.45	3.80	0.24
Real Estate and Ownership of Dwellings	8.25	0.71	0.06	8.52	2.54	0.22
Public Administration and Defense; Compulsory Social Security	6.79	0.03	0.00	7.05	-0.78	-0.06
Other Services	20.11	2.31	0.46	20.28	2.35	0.48
Gross Domestic Product	100.00	3.74	3.74	100.00	2.23	2.23

Note: * Percentage point.

Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2015.

(1) Moderate Performance in Agricultural Output

Agricultural production, including agriculture, forestry, fishing and animal husbandry industries, maintained a stable growth of 3.49 percent in 2014. The growth was associated with increased exports of agricultural products and food.

(2) Accelerating Growth in Industrial Output

The overall industrial sector, comprised of the industries of mining and quarrying, manufacturing, construction, and electricity, gas and water, grew rapidly with a significant increase in production by 5.63 percent. This brilliant performance in industrial output came largely from accelerating expansion in the manufacturing industry driven by buoyant exports throughout the year.

On the back of the recovering global economy and domestic consumption, manufacturing production witnessed an upsurge of 6.34 percent in 2014 and its output growth outperformed sectoral growth as well. Benefiting from a soaring demand for new mobile devices as well as the launch of new products, the IT industry recovered, boosting manufacturing production of computers, electronics and optical products, and electronic parts and components. Accordingly, the information and electronics industry recorded double-digit growth of 11.79 percent, the strongest since 2011. Likewise, output growth in motor vehicles and parts, and machinery and equipment improved along with the expansion in exports, and the production index of the metal and machinery industry went up by 6.21 percent for the year. In contrast, food, textile and other industries slightly rebounded by 1.55 percent and the production index of the chemical industry contracted by 0.54 percent under the negative impact of China's increasing capacity expansion in petrochemical products and the decrease in related product prices.

Affected by the softening real estate market, output growth in the construction industry moderated to 1.71 percent for the year. Meanwhile, output of mining and quarrying further shrank by 5.16 percent in 2014 owing to the decline in the production volume of sand and gravel.

(3) Mild Growth in the Services Sector

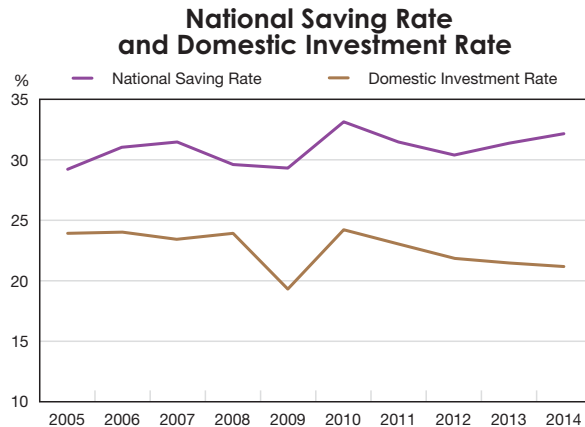
In 2014, services output continued to grow by 2.38 percent. The steady improvement in private consumption helped lift the growth in the services sector, of which finance and insurance as well as wholesale and retail trade services contributed significantly.

Resulting from increased interest revenue and fee income together with an upswing in the stock market from the second quarter onwards, finance and insurance services registered the largest growth in the services sector and grew by 7.10 percent for the year. Wholesale and retail trade services also posted an increase of 2.64 percent, up from the previous year's 1.44 percent growth, attributable to improving consumer confidence over the year. Transport and storage services

continued to grow along with the increase in the number of visitors and export demand, but posted a moderate growth of 2.2 percent for the year owing to a higher comparison base. On the other hand, growth in real estate slowed down to 0.71 percent for the year because of the decline in housing transactions resulting from the government's continued efforts to curtail soaring housing prices.

Further Rise in National Saving Rate

The national saving rate (the ratio of national saving to GNI measured at current prices) further rose from 31.35 percent in the previous year to 32.14 percent in 2014 as nominal national consumption (including both private consumption and government consumption expenditures) grew at a slower rate of 3.85 percent compared to the GNI growth rate of 6.23 percent. The relatively slow growth in nominal national consumption mainly resulted from the mild expansion in government and private consumption. Accordingly, the excess saving ratio, defined as the excess of national saving over gross domestic investment to GNI, climbed from 9.88 percent in 2013 to 10.96 percent in 2014, reflecting a greater increase in national saving than that in domestic investment.



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2015.

3. Balance of Payments

In 2014, the current account registered a record of US\$65,335 million surplus, which accounted for 12.3 percent of nominal GDP, up from 10.8 percent in the previous year, as a result of wider surpluses on the goods, services, and income accounts and a decrease in the current transfer deficit. The financial account posted a net outflow, which reached a new high of US\$53,046 million as investment in overseas debt securities by residents exhibited unprecedented net outflows. Because the current account surplus was partly offset by the net outflow in the financial account, the overall balance of payments recorded a surplus of US\$13,015 million, which was reflected in the increase in foreign reserve assets held by the CBC.

Wider Current Account Surplus

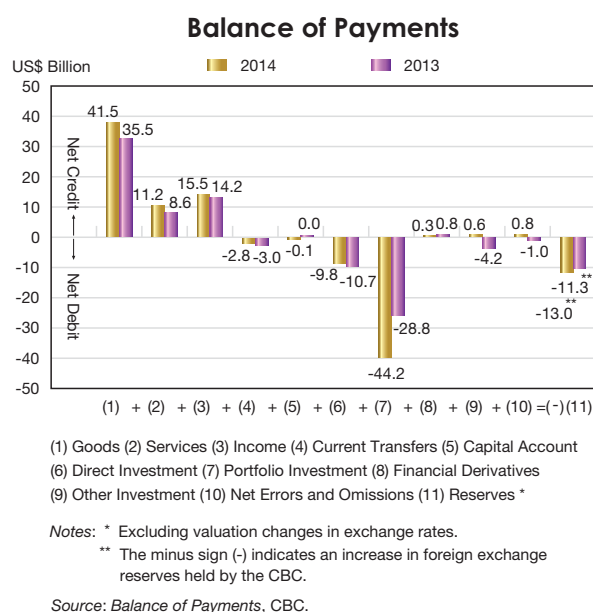
The current account consists of four major items, namely goods, services, income, and current transfers.

(1) Goods

Because an increase in electronics exports offset decreases in the volume and prices of mineral exports, the value of exports increased modestly by 2.7 percent to US\$311,554 million. The value of imports increased by 0.9 percent to US\$270,066 million, mainly accounted for by rising imports of consumer goods and capital equipment. As a result of a larger growth in exports over imports, the goods surplus widened to US\$41,488 million in 2014, hitting a new high in history.

According to customs statistics, the top three export partners of Taiwan in 2014 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 57.4 percent of total exports. The top three import partners were Mainland China, Japan, and the US, with a combined share of 43.3 percent.

In terms of Taiwan's trade with Mainland China, the value of exports amounted to US\$124,685 million in 2014, up by 2.9 percent



Balance of Payments

Unit: US\$ Million

	(1) 2014	(2) 2013	(1)-(2)
A. Current Account	65,335	55,257	10,078
Goods: exports f.o.b.	311,554	303,230	8,324
Goods: imports f.o.b.	-270,066	-267,778	-2,288
Balance on Goods	41,488	35,452	6,036
Services: credit	57,372	51,284	6,088
Services: debit	-46,208	-42,720	-3,488
Balance on Services	11,164	8,564	2,600
Income: credit	30,413	25,352	5,061
Income: debit	-14,941	-11,115	-3,826
Balance on Income	15,472	14,237	1,235
Current transfers: credit	6,578	6,153	425
Current transfers: debit	-9,367	-9,149	-218
Balance on Current Transfers	-2,789	-2,996	207
B. Capital Account	-76	6	-82
Total, Groups A plus B	65,259	55,263	9,996
C. Financial Account	-53,046	-42,934	-10,112
Direct investment abroad	-12,597	-14,285	1,688
Direct investment in R.O.C. (Taiwan)	2,839	3,598	-759
Portfolio investment assets	-57,105	-36,814	-20,291
Portfolio investment liabilities	12,895	7,980	4,915
Financial derivatives assets	5,689	5,851	-162
Financial derivatives liabilities	-5,406	-5,081	-325
Other investment assets	-14,614	-49,534	34,920
Other investment liabilities	15,253	45,351	-30,098
Total, Groups A through C	12,213	12,329	-116
D. Net Errors and Omissions	802	-1,011	1,813
Total, Groups A through D	13,015	11,318	1,697
E. Reserves and Related Items*	-13,015	-11,318	-1,697

Note: * Excluding valuation changes in exchange rates.

Source: Balance of Payments, CBC.

from the previous year. Mainland China's economic slowdown, supply chain localization, and overcapacity limited Taiwan's growth in exports to Mainland China. Taiwan's electronics exports to Mainland China increased by 16.0 percent, while its exports of LCDs and chemicals substantially reduced by 10.4 percent and 5.2 percent, respectively. The share of exports to Mainland China stayed the same at 39.7 percent as last year and Mainland China remained Taiwan's largest export market in 2014.

Imports from Mainland China grew by 12.4 percent to US\$49,728 million, attributable to demand for industrial raw materials such as electronic products and metals. With a share of 18.1 percent, Mainland China continued to be Taiwan's largest import partner. The trade surplus with Mainland China decreased by 2.6 percent to US\$74,956 million in 2014, yet Mainland China remained the largest source of Taiwan's trade surplus.

Exports to the US recorded a total value of US\$34,873 million in 2014, increasing by 7.1 percent from 2013 and comprising a higher share of 11.1 percent in total exports. Taiwan's metals exports to the US grew 15.6 percent to US\$5,710 million, mainly induced by rising demand in a recovering US economy. Imports from the US grew by 8.8 percent to US\$27,425 million, and their share in total imports increased to 10.0 percent, compared with 9.3 percent a year earlier. The trade surplus with the US expanded to US\$7,447 million. The US remained the fourth largest source of Taiwan's trade surplus.

Exports to Japan increased by 3.6 percent to US\$19,908 million, mainly spurred by robust demand for Taiwan's electronic products. The share of exports to Japan remained at 6.3 percent. Although a weaker yen lowered the cost of imports from Japan, the relocation of Japanese manufacturing firms abroad led Taiwan's imports from Japan to decrease 3.4 percent to US\$41,696 million, with their share in total imports declining further to 15.2 percent. However, Japan remained Taiwan's second largest source of imports in 2014. The trade deficit with Japan narrowed to US\$21,789 million.

Even though Europe's economic prospects were not yet clear, the ECB's stimulus measures bolstered its growth momentum. Therefore, Taiwan's exports to Europe rebounded by 3.5 percent to US\$28,720 million in 2014, and their share in total exports slightly rose to 9.2 percent. Imports from Europe increased by 2.4 percent to US\$30,707 million, with a share of 11.2 percent in total imports. The trade deficit with Europe narrowed to US\$1,986 million.

Owing to the plunge in global oil prices, exports to the six countries in Southeast Asia, including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam merely increased by 1.3

Direction of Trade in Goods by Country

Unit: %

	2014			2013		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
Exports						
Mainland China (including Hong Kong)	124,685	39.7	2.9	121,222	39.7	2.2
Southeast Asia 6*	58,629	18.7	1.3	57,888	19.0	3.9
U. S. A.	34,873	11.1	7.1	32,564	10.7	-1.2
Europe	28,720	9.2	3.5	27,750	9.1	-3.5
Japan	19,908	6.3	3.6	19,222	6.3	1.2
Rest of the World	46,987	15.0	0.4	46,795	15.3	1.5
Total	313,801	100.0	2.7	305,441	100.0	1.4
Imports						
Mainland China (including Hong Kong)	49,728	18.1	12.4	44,248	16.4	1.6
Japan	41,696	15.2	-3.4	43,162	16.0	-9.3
Southeast Asia 6*	33,508	12.2	3.4	32,391	12.0	3.3
Europe	30,707	11.2	2.4	29,986	11.1	6.1
U. S. A.	27,425	10.0	8.8	25,201	9.3	6.8
Rest of the World	91,156	33.2	-4.0	94,908	35.2	-1.2
Total	274,221	100.0	1.6	269,897	100.0	-0.2

Note: * Including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.
Source: *Monthly Statistics of Exports and Imports*, Ministry of Finance, R. O. C. (Taiwan).

percent to US\$58,629 million in 2014. The combined share of exports to these countries in total exports decreased to 18.7 percent. Imports from these countries grew by 3.4 percent to US\$33,508 million, with a share of 12.2 percent in total imports. In sum, the trade surplus with these six countries reduced from US\$25,497 million in 2013 to US\$25,121 million, with Singapore and the Philippines the second and the third largest sources of Taiwan's trade surplus, respectively.

(2) Services

In 2014, service receipts increased by US\$6,088 million to US\$57,372 million, the highest level in history. Service payments increased by US\$3,488 million to US\$46,208 million. In all, the service surplus expanded by US\$2,600 million to US\$11,164 million, hitting a new record.

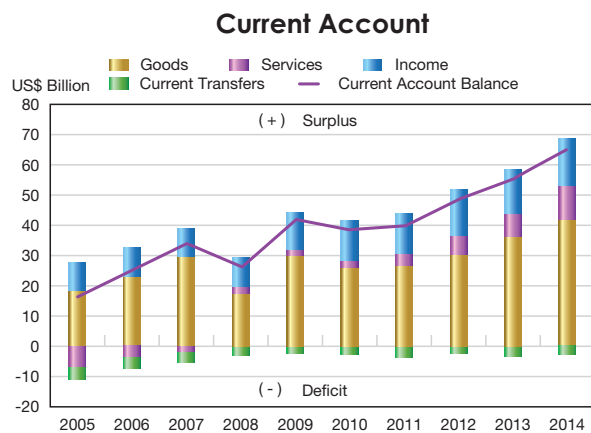
Of the various components of the services account, transportation receipts grew by US\$999 million to US\$11,109 million, reflecting increases both in international freight fares received by domestic sea carriers and in international passenger fares received by domestic air carriers. Transportation payments also grew by US\$703 million to US\$11,246 million, resulting mainly from higher foreign ports expenses paid by domestic carriers. Overall, net transportation payments slightly decreased to US\$137 million in the year.

Travel receipts increased by US\$2,330 million to US\$14,653 million as the total number of inbound visitors grew 23.6 percent to a record-high level of 9.91 million, among which visitors from Mainland China accounted for 40.2 percent and grew 38.7 percent compared to the previous year. Meanwhile, travel payments increased by US\$1,694 million to US\$13,998 million. This was mainly due to a 7.2 percent growth in the number of outbound travelers, mostly boosted by visits to Japan to take advantage of a weaker yen. In sum, net travel receipts increased to US\$655 million in 2014.

Other services receipts increased by US\$2,759 million to US\$31,610 million, mainly attributable to an increase in net proceeds from merchanting. Other services payments increased by US\$1,091 million to US\$20,964 million on account of an increase in expenditure on trade-related commissions. In all, the surplus in other services expanded to US\$10,646 million in 2014.

(3) Income

In 2014, income receipts increased by US\$5,061 million to US\$30,413 million, mainly owing to



Source: Balance of Payments, CBC.

increases in banks' interest revenues and residents' direct investment income. Meanwhile, income payments amounted to US\$14,941 million, US\$3,826 million more than in 2013, mostly attributable to an increase in non-residents' direct investment income. Consequently, the surplus on the income account expanded to US\$15,472 million for the year of 2014.

(4) Current Transfers

For the year of 2014, current transfer receipts and payments amounted to US\$6,578 million and US\$9,367 million, respectively. As a whole, the deficit in current transfers shrunk to US\$2,789 million in 2014, mainly owing to an increase in subsidies provided by a foreign parent company to its subsidiary in Taiwan.

Net Outflow in the Capital Account

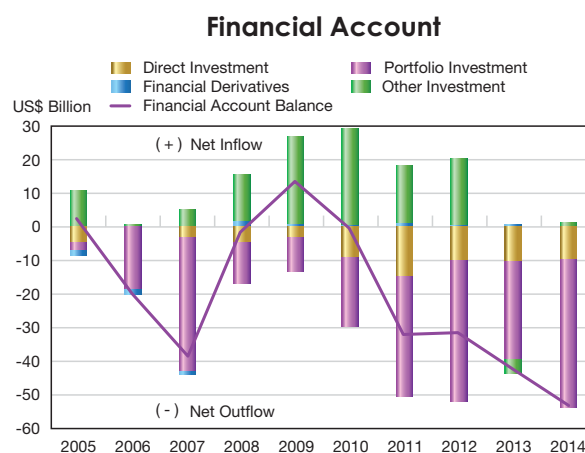
The capital account includes capital transfers (debt forgiveness, ownership transfers of fixed assets and migrants' transfers) and the acquisition and disposal of non-produced, non-financial assets. In 2014, the capital account posted a deficit of US\$76 million, from a surplus of US\$6 million the previous year, owing to decreased receipts from residents' sales of patent rights.

Huge Net Outflow in the Financial Account

The financial account for the year 2014 showed a record-high net outflow of US\$53,046 million. In terms of sub-categories, direct investment and portfolio investment registered net outflows of US\$9,758 million and US\$44,210 million, respectively, while other investment registered a net inflow of US\$639 million.

(1) Direct Investment

Direct investment abroad by residents registered a net outflow of US\$12,597 million, a decrease of US\$1,688 million compared with 2013. On the other hand, direct investment in Taiwan by non-residents registered a net inflow of US\$2,839 million, US\$759 million less than in the previous year. Based on approved cases, residents' direct investment in Mainland China and in other areas reported US\$9,830 million and US\$7,294 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 electronic parts and components, computers, electronics and optical products. The main target sector for inbound investments by non-residents included banking and insurance, electronic parts and components, and wholesale and retail. Overall, direct investment exhibited a net outflow of US\$9,758 million in 2014, decreasing by US\$929 million compared to 2013.

(2) Portfolio Investment

In 2014, portfolio investment abroad by residents showed a record-high net outflow of US\$57,105 million, mostly attributable to investment in foreign securities by life insurance companies. A substantial increase was recorded in insurance companies' holdings of foreign currency denominated international bonds (including Formosa bonds) issued by non-residents throughout the year, mainly due to the easing of the *Insurance Act* in June 2014, whereby insurance companies' investments in international bonds would no longer be included in the amount subject to the overseas investment ceiling. On the other hand, local portfolio investment by non-residents exhibited a net inflow of US\$12,895 million. This was due to foreign capital inflows into Taiwan's stock market. As a result, a net inflow of US\$13,756 million was recorded in non-residents' equity securities investment, while a net outflow of US\$861 million was recorded in non-residents' debt securities investment as foreign investors reduced holdings of government and corporate bonds. Overall, portfolio investment showed a net outflow of US\$44,210 million in 2014.

(3) Financial Derivatives

Financial derivatives recorded a net inflow of US\$283 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

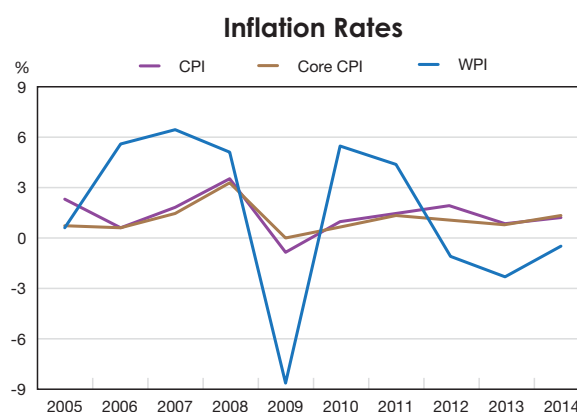
In 2014, other investment abroad by residents showed a net outflow of US\$14,614 million, mainly owing to increases in banks' overseas long-term loans and overseas account receivables. On the other hand, other inward investment by non-residents showed a net inflow of US\$15,253 million, largely attributable to increases in borrowings from overseas branches by the banking sector and short-term loans received from abroad by the private sector. As a consequence, other investment as a whole swung into a net inflow of US\$639 million in 2014.

Increase in Foreign Exchange Reserves

The foreign exchange reserve assets held by the CBC increased by US\$13,015 million as a result of the current account surplus.

4. Prices

In 2014, the slow recovery of the global economy led to the weakening of international primary commodity prices. As a result, Taiwan's wholesale price index (WPI) fell by 0.57 percent. Headline inflation, measured by the consumer price index (CPI), rose by 1.20 percent from the previous year's 0.79 percent increase, mainly driven by a surge in food prices, though it was partly offset by reductions in domestic retail oil prices and prices of consumer electronics products. The core CPI, which excludes fruits, vegetables and energy, rose by 1.26 percent in 2014, up from a 0.66 percent increase in the previous year.



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

Slight Decrease in Wholesale Prices

For the year 2014, the WPI edged down by 0.57 percent over the previous year, mainly owing to the falling prices for international primary materials stemming from subdued global demand. In terms of monthly movements, the annual WPI inflation rate generally exhibited an upward trend from the beginning of 2014 and registered 1.15 percent in May. Afterwards, it trended downward and turned negative from September, yet the pace of the decrease in the annual WPI inflation rate gradually accelerated on account of the oil-price plunge and the decline was 4.78 percent in December.

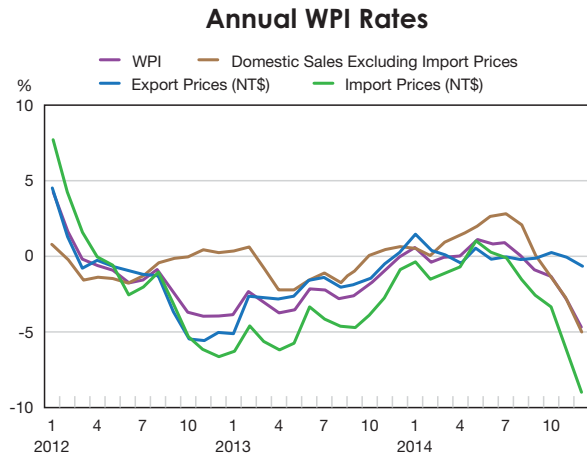
Broken down by the three major components of the WPI, the annual rate of change in prices for imports decreased moderately in 2014, whereas the annual rates of change in prices for domestic sales excluding imports and exports increased slightly.

Import prices fell by 4.03 percent in US dollar terms in 2014. The decline was mainly attributed to the falling prices of imported raw materials, such as glass, crude petroleum, iron ore, coal, cell phones and parts thereof, and electronic parts and components. As the NT dollar depreciated against the US dollar over 2014, import prices marked an annual decrease of 2.10 percent in NT dollar terms. Among the components of import prices, prices of raw materials and capital goods dropped by 2.47 percent and 1.25 percent, respectively, and accounted for 1.93 percentage points and 0.16 percentage points in the import price decrease. In contrast, prices of consumer goods

slightly rose by 0.05 percent.

Export prices in US dollar terms decreased by 1.92 percent in 2014. Owing to the depreciation of the NT dollar against the US dollar, export prices mildly moved up by 0.10 percent in terms of the NT dollar. In NT dollar terms, among the basic groups, prices of prepared foodstuffs, beverages, spirits and tobacco increased by 4.51 percent. However, prices of mineral products accounted for the largest decrease at 6.00 percent, mainly attributable to declines in the prices of gasoline, diesel, and fuel oil.

Prices of domestic sales excluding imports went up by 0.28 percent in 2014. Among product groups, prices of computers, electronic and optical products, petroleum and coal products, and chemical materials decreased by 10.98 percent, 3.14 percent, and 2.47 percent, respectively.

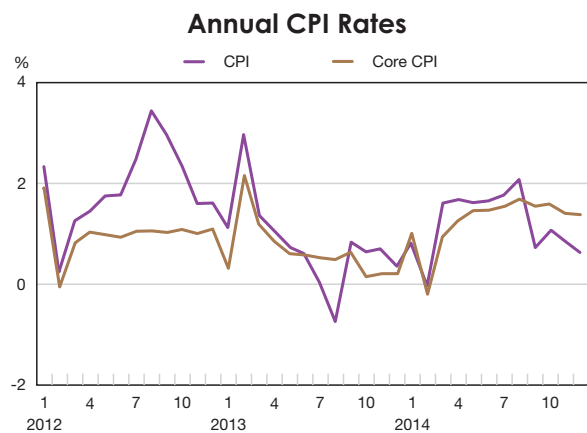


Source: Price Statistics Monthly, DGBAS, Executive Yuan.

Moderate Increase in Consumer Prices

The CPI rose by 1.20 percent in 2014, higher than the 0.79 percent change in the previous year. From the beginning of 2014, monthly CPI inflation rates stepped up and peaked at 2.07 percent in August, mainly attributable to high food prices affected by supply-side factors such as infected piglets and unfavorable weather conditions. Afterwards, the monthly CPI inflation rate went down to 0.60 percent in December, as prices of vegetables fell because of a higher base effect and oil prices plunged reflecting the downtrend in global oil prices.

The core CPI inflation rate was 1.26 percent in 2014. In the first two months of the year, the rate fluctuated on account of the seasonal factor of the Lunar New Year holidays. From March onwards, owing to moderate growth in the domestic economy, monthly core CPI inflation trended modestly upward and grew by 1.68 percent in August, the highest in 2014. Subsequently, the core CPI inflation rate edged down to 1.37 percent in December.



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

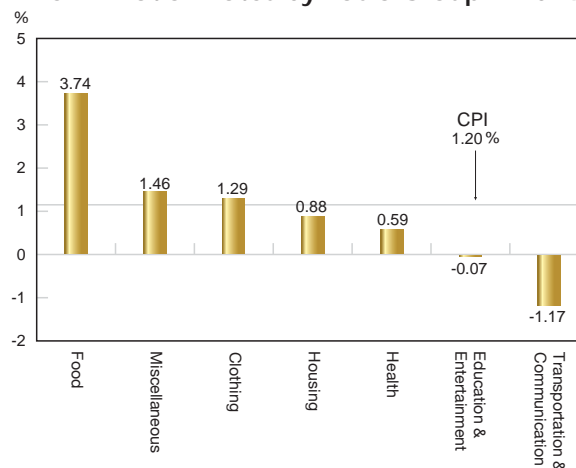
The advance in the CPI inflation rate in 2014

was largely boosted by food prices, which rose by 3.74 percent and contributed 0.97 percentage points to CPI inflation.

The main factors contributing to the rise of CPI inflation in 2014 were as follows:

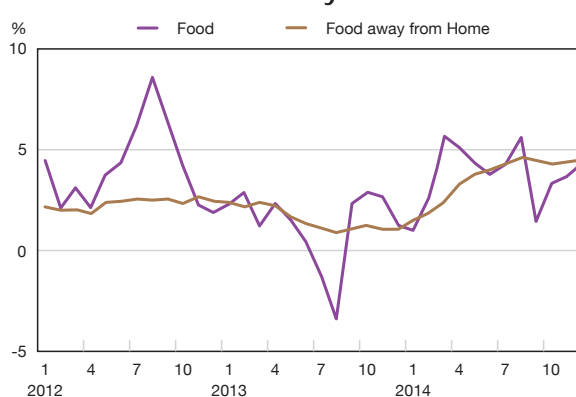
- (1) The rise in electricity costs and higher raw food prices such as pork, chicken and eggs, pushed up the prices of food away from home by 3.61 percent, contributing 0.36 percentage points to CPI inflation.
- (2) The prices of pork soared owing to a shortage of supply caused by infected piglets and higher demand for lard oil stemming from concerns over tainted cooking oil. On the other hand, prices of chicken increased on account of the substitution effect resulting from higher pork prices. As a result, prices of meat went up by 11.11 percent and accounted for 0.22 percentage points in the CPI increase.
- (3) With the supply constrained by unfavorable weather conditions such as typhoons in the second half of 2013, and severe coldness in the beginning of 2014, as well as heavy rainfall in summer, prices of fruits increased at an annual rate of 8.37 percent, contributing 0.19 percentage points to CPI inflation.
- (4) Prices of residential rent mildly rose by 0.73 percent, contributing 0.13 percentage points to CPI inflation.
- (5) Influenced by a decrease in the catch in offshore and deep-sea fisheries, prices of fish and shellfish continued a long-term upward trend and increased at an annual rate of 6.79 percent, accounting for 0.11 percentage points in CPI inflation.
- (6) Prices of electricity moved up by 4.27 percent, attributable to the second-stage electricity price hike taking effect in October 2013, as well as a higher subsidy standard as a measure to encourage electricity saving effective from August 2014.
- (7) In line with the increase in tour group fees, prices

CPI Inflation Rates by Basic Group in 2014



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

Annual Rates of Change in Prices of Food and Food away from Home



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

of education and entertainment services rose by 0.66 percent, contributing 0.09 percentage points to CPI inflation.

The main factors contributing to downward pressure on the CPI in 2014 were as follows:

- (1) Prices of durable consumer goods, such as equipment for communication, education and entertainment, decreased by 1.92 percent as consumer electronics products retailers continued discount promotions.
- (2) Since the second half of 2014, global oil prices have decelerated significantly, primarily induced by an increase in oil supply as a result of increased shale oil production in the US and the OPEC's decision to keep production quotas unchanged. In addition, weaker-than-expected global oil demand also contributed to the slump in oil prices. Reflecting the downward trend in global oil prices, prices of fuels and lubricants dropped by 3.18 percent.
- (3) Prices of vegetables fell by 3.51 percent on account of a higher base effect resulting from unfavorable weather conditions in the second half of 2013.

Percentage Changes in the Major Components of the CPI in 2014

Item	Annual Rate of Change (%)	Contribution to CPI Inflation Rate (Percentage Point)
CPI	1.20	1.20
Food away from Home	3.61	0.36
Meat	11.11	0.22
Fruits	8.37	0.19
Residential Rent	0.73	0.13
Fish & Shellfish	6.79	0.11
Electricity	4.27	0.10
Education & Entertainment Services	0.66	0.09
Garments	1.72	0.05
Total		1.25
Durable Consumer Goods	-1.92	-0.15
Fuels & Lubricants	-3.18	-0.12
Vegetables	-3.51	-0.08
Total		-0.35
Others		0.30

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

5. Public Finance of the Central Government

For the year 2014, central government revenue decreased by 0.2 percent, whereas central government expenditure contracted by 0.1 percent, causing the overall central government deficit to widen slightly to NT\$127.7 billion from NT\$125.4 billion in 2013.

Decrease in Central Government Revenue

In 2014, central government revenue decreased by NT\$4.2 billion to NT\$1,726.3 billion. Of its various components, tax revenue remained the major source, with a share of 77.8 percent of the total revenue, registering a marked growth of 10.3 percent from the previous year. The increase was mainly attributable to the growing profits of enterprises, solid domestic demand, and the upward adjustment of the business tax rate for banking and insurance industries.

Surpluses of public enterprises and public utilities, accounting for 14.0 percent of the total revenue, decreased by NT\$10.0 billion in 2014. The decline was mostly because the government's budget for revenue from Taiwan Sugar Corporation's capital reduction contracted in 2014. Fees, fines and indemnities decreased significantly by NT\$113.6 billion, primarily owing to a higher base effect resulting from the fees that the national treasury received from the 4G mobile-phone service license auction amounting to NT\$118.7 billion in 2013.

Total Revenue and Expenditure of the Central Government

Unit: NT\$ Billion

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*
Total Revenue	1,464.5	1,546.4	1,635.5	1,640.9	1,553.7	1,497.4	1,671.3	1,668.3	1,730.5	1,726.3
(Ratio to GDP : %)	12.2	12.2	12.2	12.5	12.0	10.6	11.7	11.3	11.4	10.7
Total Expenditure	1,567.0	1,529.8	1,552.0	1,617.7	1,714.8	1,654.4	1,734.4	1,882.4	1,855.9	1,854.0
(Ratio to GDP : %)	13.0	12.1	11.6	12.3	13.2	11.7	12.1	12.8	12.2	11.5
Surplus/Deficit	-102.5	16.6	83.5	23.2	-161.1	-157.0	-63.1	-214.1	-125.4	-127.7
(Ratio to GDP : %)	-0.8	0.1	0.6	0.2	-1.2	-1.1	-0.4	-1.5	-0.8	-0.8
Debt Repayment	64.1	65.0	6.0	65.0	65.0	66.0	66.0	94.0	77.0	64.0
Financing:	167.3	63.9	0.0	41.8	226.1	224.2	129.1	308.1	202.4	191.7
Debt Financing	167.3	63.9	0.0	0.0	164.5	224.2	129.1	288.1	202.4	191.7
Surplus of Previous Fiscal Years	0.0	0.0	0.0	41.8	61.6	0.0	0.0	20.0	0.0	0.0
Memorandum:										
Tax Dependency Ratio (%)**	68.1	71.5	77.9	76.8	61.3	65.4	69.4	64.9	65.6	72.5
Debt Dependency Ratio (%)***	10.7	4.2	0.0	0.0	9.6	13.6	7.4	15.3	10.9	10.3

Notes: * The figures for 2013 and the previous years are final audit accounts; the figures for 2014 are final accounts.

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

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

Sources: 1. Department of Statistics, MOF.
2. DGBAS, Executive Yuan.

Contraction in Central Government Expenditure

Central government expenditure reduced slightly by NT\$1.9 billion to NT\$1,854.0 billion. In terms of share in total expenditure, social welfare, and education, science & culture remained the largest two categories, accounting for 22.2 percent and 19.7 percent, respectively. In addition, national defense and economic development made up 15.7 percent and 14.5 percent, respectively.

Social welfare expenditure decreased by NT\$27.0 billion, mainly because the budget for subsidizing insufficient funds for the national pension fund contracted in 2014. Furthermore, the decline in the budget for subsidizing the national health insurance fees for laborers' dependents also played a role. Economic development expenditure increased by NT\$10.7 billion, largely owing to the expansion in infrastructure projects implemented by the government. Meanwhile, expenditures on education, science & culture and national defense increased by NT\$9.1 billion and NT\$2.4 billion in 2014, respectively.

Rising Tax Dependency

The tax dependency ratio, defined as the ratio of annual tax revenue to total central government expenditure, rose from 65.6 percent in 2013 to 72.5 percent in 2014, indicating that tax revenue grew faster than central government expenditure.

Lessening Debt Dependency

The fiscal deficit rose slightly to NT\$127.7 billion in 2014. This, combined with debt repayment,

Total Revenue and Expenditure of the Central Government by Category

Unit: NT\$ Billion

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*
Total Revenue	1,464.5	1,546.4	1,635.5	1,640.9	1,553.7	1,497.4	1,671.3	1,668.3	1,730.5	1,726.3
Taxes	1,067.8	1,094.3	1,208.7	1,243.0	1,051.6	1,082.4	1,203.4	1,222.1	1,218.0	1,343.4
Surpluses of Public Enterprises and Public Utilities	243.4	289.1	271.5	253.4	318.7	264.8	264.7	262.5	251.0	241.0
Fees, Fines and Indemnities	79.0	79.0	81.1	83.1	78.1	81.6	81.0	108.2	197.3	83.7
Proceeds from Sales of Properties and Recalled Capital	52.6	58.5	51.3	40.0	53.7	46.7	64.0	60.1	52.3	43.7
Others	21.7	25.5	22.9	21.4	51.6	21.9	58.2	15.4	11.9	14.5
Total Expenditure	1,567.0	1,529.8	1,552.0	1,617.7	1,714.8	1,654.4	1,734.4	1,882.4	1,855.9	1,854.0
General Administration	165.5	167.3	168.2	170.8	168.8	170.2	176.4	176.2	172.7	174.2
National Defense	248.5	237.1	256.7	282.4	291.2	276.8	284.2	303.4	289.0	291.4
Education, Science & Culture	301.5	303.1	308.7	310.3	326.4	342.7	356.2	358.9	355.7	364.8
Economic Development	247.0	197.0	193.3	203.6	244.4	194.5	217.1	263.9	258.3	269.0
Social Welfare	285.7	303.3	305.1	298.4	320.2	327.4	348.5	420.1	438.9	411.9
Community Development & Environmental Protection	25.2	20.4	19.4	13.5	21.4	9.0	6.6	15.9	15.9	16.2
Retirement & Compassionate Aid	130.5	134.7	134.6	133.8	133.4	134.5	138.5	138.3	132.8	134.6
Interest Payments	117.9	125.2	124.0	117.4	116.7	109.8	111.8	114.5	117.4	115.1
General Subsidies and Other Expenditure	45.2	41.7	42.0	87.5	92.3	89.5	95.1	91.2	75.2	76.8

Note: * The figures for 2013 and the previous years are final audit accounts; the figures for 2014 are final accounts.

Sources: 1. Department of Statistics, MOF.
2. DGBAS, Executive Yuan.

represented that the central government needed to finance NT\$191.7 billion for 2014.

With respect to the debt dependency ratio, defined as the ratio of revenues from government bonds and borrowing to total central government expenditure, it declined from 10.9 percent in the previous year to 10.3 percent in 2014, primarily because the demand for debt financing decreased in 2014 in line with the shrinkage of debt repayment.

The total outstanding debt of the central government increased by NT\$210.5 billion to NT\$5,373.9 billion at the end of 2014. However, the ratio of outstanding central government debt to GDP declined from 33.9 percent in 2013 to 33.4 percent in 2014, reflecting higher growth in domestic production.

Public Debt of the Central Government

Unit: NT\$ Billion

End of Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*
Outstanding Debt	3,549.9	3,623.0	3,718.5	3,778.7	4,127.2	4,537.7	4,764.0	5,010.7	5,163.4	5,373.9
(Ratio to GDP : %)	29.4	28.7	27.7	28.7	31.8	32.1	33.3	34.1	33.9	33.4

Note: * The figures for 2013 and the previous years are final audit accounts; the figures for 2014 are final accounts.

Sources: 1. Department of Statistics, MOF.

2. DGBAS, Executive Yuan.

6. Labor Market

Following the pattern of 2013, the unemployment rate continued to trend downward in 2014. In particular, it reached 3.79 percent in December, the lowest since March 2007. For the year as a whole, the unemployment rate was 3.96 percent, the lowest since 2008. While labor market conditions continued to improve, structural unemployment still existed. For example, the unemployment rates of young people and highly educated persons stayed elevated. Skill mismatch remains a major issue in Taiwan's labor market.

The labor participation rate increased by 0.11 percentage points to 58.54 percent, the highest since 1996. As working conditions have continued to improve, the female labor participation rate has increased for five consecutive years to 50.64 percent in 2014.

Annual average employment amounted to 11.08 million persons in 2014, which was a 1.02 percent increase from 2013. Employment in the industrial and services sectors grew by 0.98 percent and 1.06 percent, respectively. Employment in the agricultural sector also increased 0.80 percent in 2014.

The average monthly earnings per worker of the non-farm sector (the industrial and services sectors combined) was NT\$47,300 in 2014, a 3.58 percent increase from 2013. Average real monthly earnings also increased by 2.36 percent. Both were significant increases, especially compared to those of the past few years.

The year 2014 also witnessed rising labor productivity and reduced unit labor costs. Because the increase in total production exceeded the increase in total working hours, labor productivity of the industrial sector and the manufacturing industry increased 3.81 percent and 4.12 percent, respectively. On the other hand, unit labor costs in the industrial and services sectors decreased by 1.09 percent and 1.40 percent, respectively.

Employment Continued to Improve

Annual average employment in 2014 was 11.08 million persons, an increase of 112 thousand persons or 1.02 percent from the previous year.

In terms of employment by major sectors, employment in the agricultural sector in 2014 increased 4 thousand persons or 0.80 percent. Employment in the industrial sector increased 39 thousand persons or 0.98 percent. Within this sector, construction and manufacturing employment increased by 20 and 19 thousand people, respectively. Employment in the services sector grew by 68 thousand persons or 1.06 percent. Among which, employment in accommodation and food services increased

by 17 thousand, while education services added 11 thousand jobs. Of total employment, the services sector accounted for 58.91 percent, up by 0.02 percentage points from a year before, while the agricultural and industrial sectors made up smaller shares at 4.95 percent and 36.14 percent, respectively.

In terms of employed persons by occupation, employment of professionals increased 47 thousand persons or 3.60 percent, the highest among all occupations, followed by technicians and assistants with an increase of 28 thousand persons or 1.41 percent. On the other hand, employment of legislators, senior officials, and managers decreased by 10 thousand or 2.49 percent. In terms of employment ratios, skilled and machine operation related workers accounted for 31.22 percent of total employment, the largest among all occupations. Employment ratios of professionals and technicians/assistants rose by 0.30 and 0.07 percentage points to 12.03 percent and 17.96 percent, respectively, which reflected changing business demand for labor due to structural shifts.

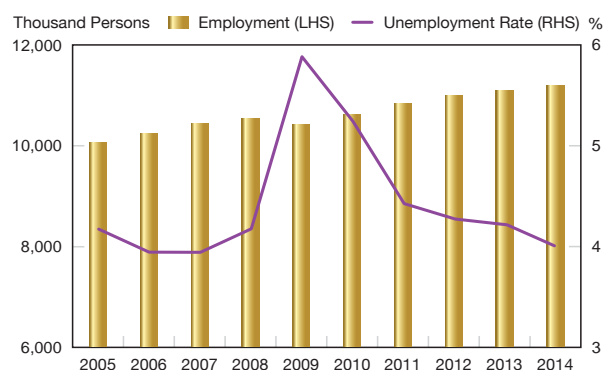
Unemployment Rate Dropped

While seasonal factors resulted in temporarily higher unemployment rates in certain months, such as February and summer when more people were seeking new jobs, the unemployment rate in general continued to trend downward in 2014. It dropped to 3.79 percent in December, the lowest since March 2007. For the year as a whole, the unemployment rate was 3.96 percent, the lowest since 2008.

As the economy improved, unemployment duration reduced to 25.89 weeks, lower than the year before by 0.28 weeks. The average number of the long-term unemployed (those who were unemployed for 53 weeks or more) was 75 thousand people, the same as the previous year. Males made up 65.52 percent of the long-term unemployed, while 65.73 percent were in the age group between 25 and 44 and 51.97 percent had a college degree or above. This indicates long-term unemployment remained more serious for males aged 25-44 and those with a higher education compared to other groups.

Total unemployment decreased by 21 thousand people or 4.46 percent from the year before, mainly because involuntary unemployment from businesses shrinking or establishments closing fell by 11 thousand persons or 7.87 percent. Consequently, the ratio of such unemployment to total unemployment dropped to 28.00 percent, compared to 29.04 percent of the previous year. People

Employment and Unemployment Rate



Source: DGBAS, Executive Yuan.

who quit their jobs to seek other job opportunities made up a major portion of the unemployed. The ratio slightly increased to 35.32 percent, indicating greater willingness for job change because of a favorable economic outlook.

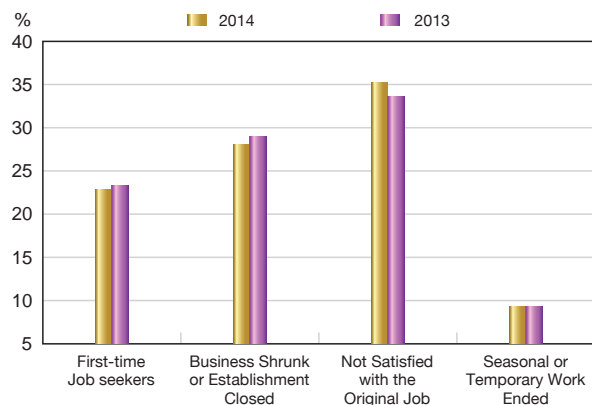
In terms of age groups, the unemployment rate of the age group of 15-24 decreased by 0.54 percentage points to 12.63 percent, mainly because those first-time job seekers who failed to find a job reduced 4 thousand persons. The unemployment rates of the age groups of 25-44 and 45-64 were 4.13 and 2.09 percent, respectively, representing year-on-year declines of 0.14 and 0.16 percentage points.

In terms of educational background, the unemployment rate of people with a junior high school degree or below dropped 11 thousand persons or 13.86 percent to 3.20 percent, while that of those with a middle high school or vocational school degree decreased 11 thousand persons or 6.73 percent to 3.83 percent. On the other hand, even though the unemployed with a college degree or above slightly increased by 0.5 thousand persons or 0.23 percent, the unemployment rate in this category still dropped to 4.35 percent.

Labor Force Participation Rate Rose

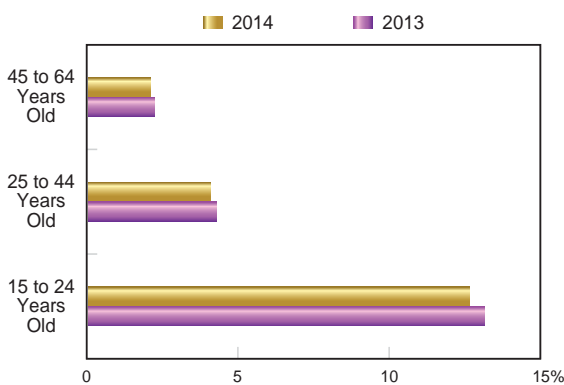
The labor force (employed and unemployed combined) rose by 90 thousand persons or 0.79 percent to 11.54 million in 2014, as more people were willing to join the labor market.

Causes of Unemployment



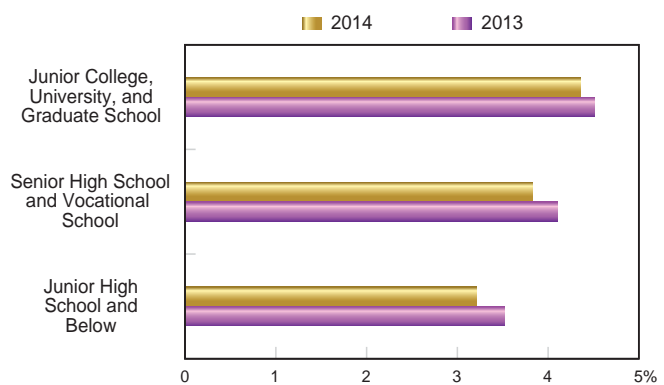
Source: DGBAS, Executive Yuan.

Unemployment Rate by Age



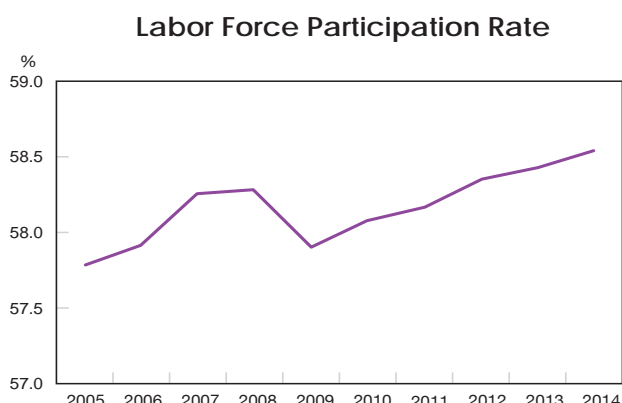
Source: DGBAS, Executive Yuan..

Unemployment Rate by Educational Background



Source: DGBAS, Executive Yuan.

The labor force participation rate reached 58.54 percent, 0.11 percentage points higher than the year before. In terms of gender, the male labor force participation rate increased by 0.04 percentage points from the preceding year to 66.78 percent, while the female rate also rose to 50.64 percent, up by 0.18 percentage points over the previous year. Such improvement reflected the positive effects of a strengthening economy and government efforts to promote gender equality.



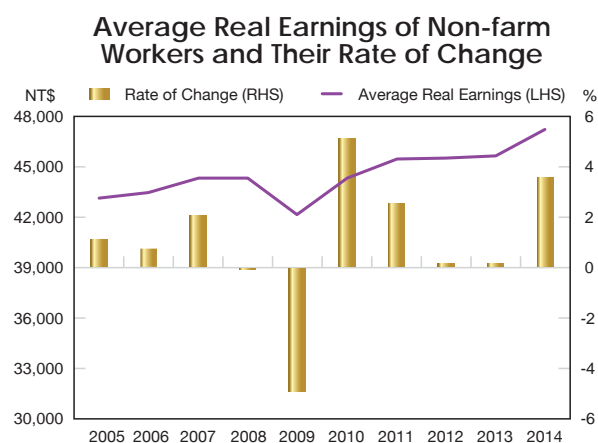
Source: DGBAS, Executive Yuan.

In terms of age group, the labor participation rates of the 25-44 and 45-64 age groups went up by 0.21 and 0.92 percentage points, respectively, to the levels of 86.85 percent and 61.65 percent, while that of the 16-24 age group went down by 0.22 percentage points to 29.36 percent. In terms of educational background, the labor participation rate of the working population with a degree higher than junior high school increased by 0.26 percentage points to 68.03 percent.

Real Earnings of Non-farm Workers Increased

In 2014 the average monthly earnings per worker of the non-farm sector reached NT\$47,300, a 3.58 percent increase from the year before. After adjustment for inflation, the average real monthly earnings also increased by 2.36 percent, as favorable economic conditions contributed to the rise in wages.

In terms of major sectors, the average monthly earnings of industrial sector workers increased by 2.95 percent over the previous year to NT\$45,378, and their earnings in real terms also increased by 1.73 percent. Meanwhile, the average monthly earnings of services sector workers increased by 4.04 percent to NT\$48,815, and their real earnings also went up 2.80 percent.

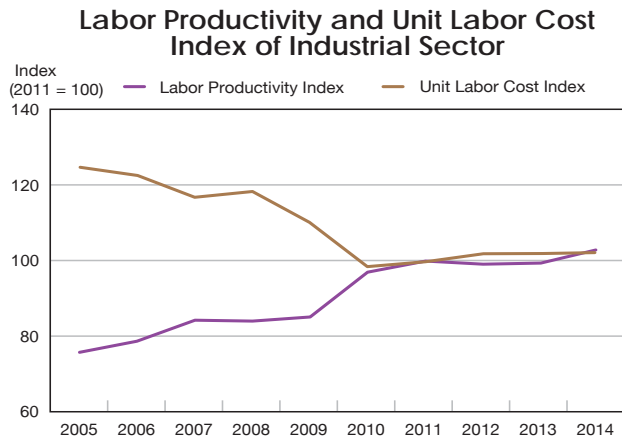


Source: DGBAS, Executive Yuan.

A further breakdown indicated finance and insurance workers' earnings experienced the largest increase at 6.70 percent, followed by 6.49 percent in the real estate industry, while earnings of workers in arts, entertainment, and leisure services decreased by 0.67 percent.

Labor Productivity Increased and Unit Labor Cost Decreased

As the increase in total production outpaced the increase in total working hours, labor productivity of the industrial sector and the manufacturing industry rose by 3.81 percent and 4.12 percent, respectively. In manufacturing, equipment maintenance registered the largest increase in labor productivity by 10.05 percent, followed by a 9.34 percent growth in computers, electronics, and opticals manufacturing. Since production grew faster than earnings, unit labor costs of the industrial and manufacturing sectors dropped by 1.09 percent and 1.40 percent, respectively. Of all the manufacturing sectors, machinery equipment experienced the largest drop in unit labor costs by 8.96 percent, and equipment maintenance came in second with a drop of 8.29 percent.



Source: DGBAS, Executive Yuan.

Financial Developments

II. Financial Developments

1. Overview

In 2014, 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. Market interest rates on deposits and loans both stayed at stable levels. Most money market rates exhibited a downward trend owing to ample liquidity, whereas 10-year government bond yields, mainly affected by the US Fed's decision to withdraw from asset purchases, exhibited an upward trend on average. Amid a moderate recovery in the domestic economy, growth in loans of monetary financial institutions picked up, while growth in investments was subdued. 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 swung to depreciation, mainly because the Fed ended its asset purchase program and Asian currencies depreciated following the BoJ's additional easing. In the stock market, despite adverse factors including heightened international geopolitical tension and a series of domestic incidents including an aviation accident, gas explosions and food safety concerns, market indices swung higher, mainly driven by global economic recovery, better corporate profits, and strong buying by foreign investors.

Growth in Monetary Aggregates Accelerated

The monetary aggregate M2, measured on a daily average basis, recorded a yearly growth rate of 5.66 percent in 2014. This was higher than the 4.78 percent in 2013 and yet remained within the CBC's 2.5 to 6.5 percent target range for the year. The pickup was mainly a reflection of an increase in net foreign capital inflows. The annual growth rate of M1B, measured on a daily average basis, accelerated to 7.96 percent in 2014 from 7.27 percent in 2013. Meanwhile, the annual growth rate of reserve money decreased in 2014, mainly owing to slower growth in reserves deposited with the CBC as domestic funds moved towards foreign currency deposits.

Growth in Bank Loans and Investments Increased Steadily

The annual growth rate of loans and investments, compared with that at the end of 2013, increased from 4.59 percent to 5.20 percent at the end of 2014. The increase was due to expanded growth in bank loans, mainly driven by a growing demand for funds among the private sector and individuals amid an economic recovery and strong stock market activity. For the year as a whole, the average annual growth rate of loans and investments of monetary financial institutions dropped from 5.60 percent in 2013 to 4.96 percent in 2014. 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 4.13 percent at the end of 2014, lower than the 4.78 percent recorded at the end of the previous year.

Asset Quality of Monetary Institutions 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 dramatically from 0.41 percent at the end of 2013 to 0.27 percent at the end of 2014. Since the pre-tax profits of monetary financial institutions kept growing during the year, their average return on assets and return on equity were both higher than those of the previous year, rising respectively from 0.58 percent and 10.04 percent to 0.66 percent and 11.23 percent.

Average Rates on Deposits and Loans Decreased Slightly

The CBC, in view of greater uncertainties surrounding the global economy and mild domestic inflation, kept policy rates unchanged in 2014 to sustain price and economic stability. As a result, domestic banks kept their posted interest rates on deposits and loans at steady levels throughout 2014. The average fixed rate on one-year time deposits of the five major domestic banks stayed generally at the same level as that in 2013, while the weighted average rate on their new loans decreased slightly because of a downswing in rates on loans for working capital and current operations.

The weighted average interest rates on deposits moved downward, mainly because transaction deposits made up a larger share in total deposits. Meanwhile, the weighted average interest rate on loans also declined slightly, mainly because of the increases in low-interest local government loans and syndicated loans.

Bills Market Rates Largely Declined; 10-Year Government Bond Yields Rose

The CBC 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 2014. With regard to the bills market, easy funding conditions led money market rates to exhibit downtrends.

During the first few months of 2014, the yield on the benchmark 10-year government bond recorded a downtrend, mainly influenced by the Fed's gradual reduction of asset purchases and increased hedging demands for US bonds against geopolitical risks. The yield started to move upwards in June. However, by the end of October, as the Fed announced an end to asset purchases, coupled with monetary stimulus expansions in Europe and Japan and a plunge in international oil prices, the yield trended downwards again. For the year as a whole, the average yield rose as compared with that in the previous year. The rise in the bond yield, likely to push up the funding

cost of the national treasury, caused some government bond auctions to be cut off. However, the total amount of government bonds issued increased compared to the previous year.

Exchange Rate Depreciated

At the beginning of 2014, the NT dollar depreciated against the US dollar, mainly influenced by better employment figures in the US and the Fed's tapering of bond purchases. The NT dollar reached a new low against the US dollar on March 21. Afterwards, the NT dollar appreciated because of continuous net foreign capital inflows and reached a yearly high on July 2. From October, the Fed concluded its asset purchase program, and Asian currencies softened as the yen weakened further following Japan's monetary stimulus expansion. These, combined with a steady economic recovery in the US and dramatic oil price falls, brought the NT dollar to depreciate again and hit a yearly low on December 24. At the end of 2014, the NT dollar depreciated against the US dollar by 5.57 percent compared to that at the end of the previous year. On an annual average basis, the NT dollar depreciated by 1.97 percent in 2014.

Stock Index Climbed

During early 2014, the domestic stock market's mainboard index, the TAIEX, extended gains following a rally at the end of the previous year, whereas it was brought down to a yearly low of 8,264 points on February 5, mainly affected by plunges across international stock markets. Afterwards, the TAIEX trended up to hit an all-year high at 9,569 on July 15, mainly driven by the global economic recovery, better corporate profits, and continued net purchases by foreign investors. In the following months, some negative factors, including heightened international geopolitical risks, a plane crash on Taiwan's offshore island of Penghu, gas blasts in Kaohsiung and domestic food safety concerns raised by the tainted oil scandal, brought the TAIEX to swing downwards. On a daily average basis, the TAIEX was 8,992 points in 2014, rising by 11.11 percent from 8,093 points in the previous year.

2. Monetary Aggregates

The CBC has selected the monetary aggregate M2 as the intermediate target since 1992. For the year 2014, M2 recorded an annual growth rate of 5.66 percent, higher than the previous year's 4.78 percent but still within the CBC's target range of 2.5 percent to 6.5 percent. Overall, there was sufficient liquidity to sustain economic growth.

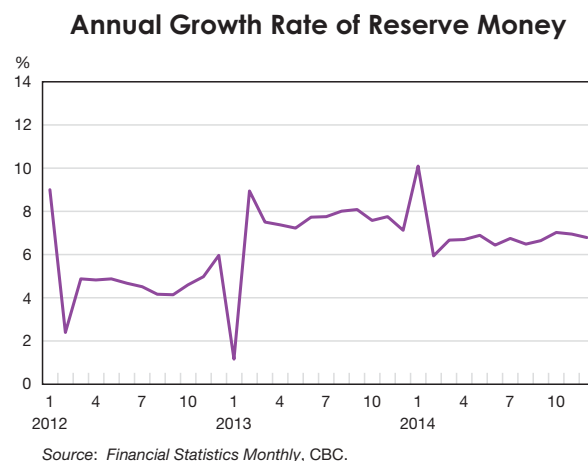
The annual growth rate of the narrow monetary aggregate M1B accelerated to 7.96 percent in 2014 from the previous year's 7.27 percent. The growth in M1B was mainly attributable to an increase in the transaction demand for money resulting from the economic recovery as well as the booming stock market.

Moderate Growth in Reserve Money

Reserve money grew at a slower pace for the year 2014, recording a growth rate of 6.94 percent, and was 0.24 percentage points lower than the previous year's figure. In terms of the monthly movements of reserve money, the annual growth rates of reserve money for January and February are more volatile as the exact timing of the Lunar New Year holidays shifts on the Gregorian calendar each year. In 2014, they posted a combined growth rate of 7.96 percent during this period. In subsequent months, growth rates remained stable and reached a yearly high of 7.02 percent in October and a yearly low of 6.44 percent in June.

On the demand side, currency held by the non-bank public grew moderately because the low interest rates paid on bank deposits enhanced the willingness to hold currency in hand. Banks' demand for reserves kept growing in the context of favorable domestic economic performance. However, the overall growth rate of banks' reserves decreased slightly compared to the previous year as the CBC adjusted its monetary policy operations and fund management to reduce banks' excess reserves.

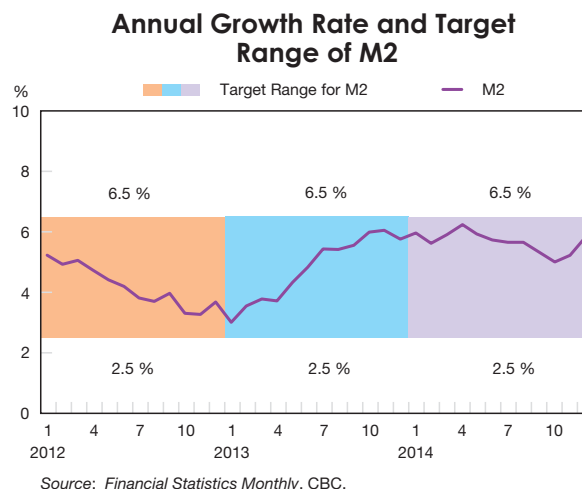
From the supply side perspective, the balance sheet of the CBC revealed the sources of changes in reserve money. The increase was mostly attributable to the increase in foreign assets held by the CBC and claims on financial institutions, while the decrease resulted largely from the increase in the issuance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



Steady 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 2014 was 5.66 percent, up by 0.88 percentage points from the previous year and higher than the mid-point of the CBC's target range.

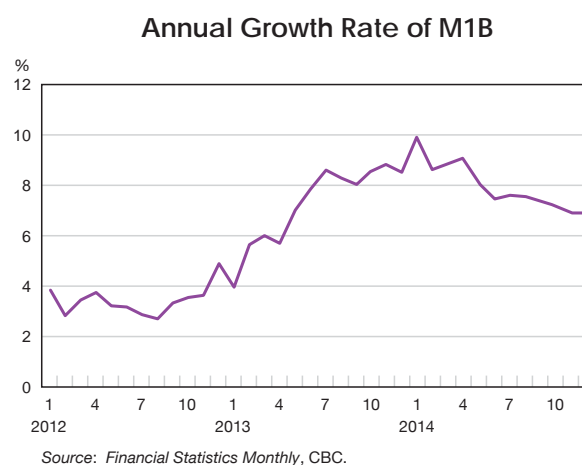
The monthly movements of the M2 annual growth rate in 2014 were all within the CBC's target range. In January, M2 growth rose to 5.97 percent owing to the seasonal factor of the Lunar New Year holidays, and then fell to 5.61 percent in February. The M2 growth rate rose in March and April on account of net foreign capital inflows. In addition, the Taiwan Insurance Guaranty Fund transferred a deposit to one life insurance company (which is not included in the monetary aggregates) in April 2013, resulting in a lower base. As a consequence, the annual growth rate of M2 recorded an all-year high of 6.24 percent in April. The M2 growth rates gradually trended down in the following months and hit a yearly low of 4.98 percent in October as a result of a decrease in net foreign capital inflows, which later turned into net outflows, and the higher base of the corresponding period in the previous year. Nevertheless, the annual growth rates exhibited an uptrend in November and December, respectively, because of net foreign capital inflows and the surge in foreign currency deposits.



Slight Increase in M1B Growth

As the sustained recovery in the domestic economy led to the rise in the transaction demand for money, coupled with a buoyant stock market, the average annual growth rate of M1B recorded 7.96 percent, 0.69 percentage points higher than the previous year's figure.

As for the monthly movements of M1B, the annual growth rate reached its yearly high of 9.93 percent in January because of a lower base effect and the Lunar New Year holidays, and then slid to 8.63 percent in February. In



March and April, M1B growth rose to 8.87 percent and 9.10 percent, respectively, owing to net foreign capital inflows. In subsequent months, the annual growth rates generally moved downward and recorded an all-year low of 6.90 percent in December.

3. Banking Sector

Number of Monetary Financial Institutions

At the end of 2014, the number of monetary financial institutions (defined hereafter in this chapter as excluding the central bank) amounted to 400. Among them, the number of domestic banks remained unchanged. The number of foreign and Mainland Chinese banks decreased by one as The Standard Bank of South Africa withdrew from Taiwan's market in March. The number of credit cooperatives decreased by one as a credit cooperative was acquired by a bank, while the number of credit departments of farmers' and fishermen's associations increased by three owing to new openings.

Number of Monetary Financial Institutions by Category

Types of institutions	End of 2014	End of 2013	Annual Change
Total Number of Main Offices	400	399	1
Domestic Banks	40	40	0
Credit and Mainland Chinese Banks	30	31	-1
Credit Cooperatives	23	24	-1
Credit Departments of Farmers' and Fishermen's Associations	306	303	3
Chunghwa Post	1	1	0
Total Number of Branches	6,113	6,102	11
Local Branches	5,932	5,927	5
Overseas Branches	119	112	7
Offshore Banking Units	62	63	-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 one and 16, respectively, with the former being a fund raised and managed by Yuanta Commercial Bank.

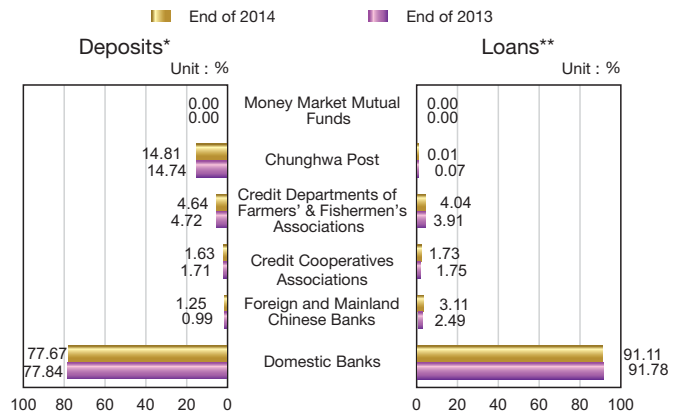
Market Shares of Deposits and Loans

In terms of market share of deposits, domestic banks accounted for 77.67 percent at the end of 2014, lower than the previous year, mainly owing to the reduction of NCD issuance by domestic banks. The market share of foreign and Mainland Chinese banks grew to 1.25 percent as a result of a significant increase in foreign currency deposits caused by the depreciation of the NTD. Chunghwa Post gained a larger market share, reaching 14.81 percent, with its effort to expand business. The market share of credit departments of farmers' and fishermen's associations slipped

owing to deposits outflows, while credit cooperatives' market share contracted as a result of a merger.

In terms of loans, the market share of domestic banks shrank to 91.15 percent for the year, owing to a greater repayment of borrowings by government and public enterprises. The share of foreign and Mainland Chinese banks went up to 3.11 percent with expanded lending to the private sector. Chunghwa Post's market share of loans slid to 0.01 percent, resulting from a significant decrease in lending to bills finance companies. The market share of credit departments of farmers' and fishermen's associations rose to 4.01 percent with three new openings, whereas the share of credit cooperatives dropped to 1.73 percent with one closing.

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 2014, the total amount of funds in monetary financial institutions was NT\$42,078 billion, increasing by NT\$2,548 billion compared to the end of 2013. A booming stock market and net foreign capital inflows thanks to an economic recovery led all the sources of funds to increase. Transaction deposits and non-transaction deposits accounted for over 86 percent of total sources of funds. In terms of non-transaction deposits, the effect of NT dollar (NTD) depreciation not only led to a shift in shares taken up by foreign currency deposits and NTD deposits but also caused the balance of foreign currency deposits to soar. As for government deposits, the amount slightly edged up by NT\$47.5 billion, but the share remained unchanged. In addition, there was a greater amount of other items, mainly resulting from the increased issuance of bank debentures as well as banks' increasing profits.

As for the uses of funds, the amount of all items except deposits with the CBC increased at the end of 2014 compared to the end of 2013. Among them, the share of bank loans dropped mainly owing to the significantly decreasing demand from government and public enterprises because of rising income tax revenues and higher profits of public enterprises, and the reduction in foreign currency loans by the corporate sector. Furthermore, both the balance and the share of net foreign assets increased over the end of the previous year.

Sources and Uses of Funds in Monetary Financial Institutions¹

Unit: NT\$ Billion

	End of 2014		End of 2013		Annual Change	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Sources:						
Transaction Deposits ²	12,849	30.54	12,141	30.71	708	-0.17
Non-transaction Deposits ³	23,386	55.58	22,048	55.77	1,338	-0.19
NT Dollar Deposits	19,226	45.69	18,573	46.98	653	-1.29
Foreign Currency Deposits	4,161	9.89	3,475	8.79	685	1.10
Government Deposits	773	1.84	725	1.84	48	0.00
Other Items	5,069	12.04	4,616	11.68	454	0.36
Total	42,078	100.00	39,530	100.00	2,548	0.00
Uses:						
Net Foreign Assets ⁴	3,198	7.60	2,310	5.84	888	1.76
Loans	23,465	55.77	22,413	56.70	1,052	-0.93
NT Dollar Loans	22,495	53.46	21,463	54.30	1,032	-0.84
Foreign Currency Loans ⁴	970	2.31	950	2.40	21	-0.09
Portfolio Investments ⁵	4,638	11.02	4,316	10.92	322	0.10
Purchases of CDs Issued by CBC	7,020	16.68	6,725	17.01	295	-0.33
Deposits with CBC	3,757	8.93	3,767	9.53	-10	-0.60

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.

Because funds in the banking system were at ample levels, both portfolio investments and banks' purchases of CDs issued by the CBC rose at the end of 2014 compared to the end of 2013. However, portfolio investments grew slower, mainly owing to geopolitical risks and fluctuations in global financial markets, but the share still increased at the end of 2014 from a year before. In addition, diversified uses of funds have resulted in the share of banks' purchases of CDs issued by the CBC continuously declining during recent years.

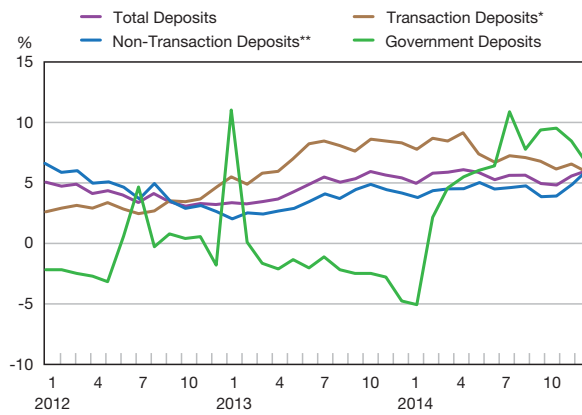
Pickup in Deposit Growth

At the end of 2014, total deposits of monetary financial institutions stood at NT\$37,008.3 billion, registering an annual growth rate of 6.00 percent, higher than last year's 5.38 percent. This was mainly attributable to steady economic growth and a significant net inflow of foreign capital.

With the Chinese New Year holidays boosting demand for currency in January, the annual growth rate of deposits lowered to 4.93 percent. The growth rate climbed upwards in February because money started to flow back to banks after the holidays and social security funds also increased their transaction deposits. This trend continued in March on account of larger net foreign

capital inflows and a buoyant stock market. The deposit growth rate reached its peak of 6.08 percent in April due to a lower base the previous year as the Taiwan Insurance Guaranty Fund transferred a deposit to one life insurance company (which is not included in the deposits of monetary financial institutions) last year. After May, when companies paid more corporate income taxes compared to the same period the year before annual deposit growth began to drop. From July, the growth rate fluctuated along with the movement of foreign capital. It declined to 4.75 percent in October due to a net foreign capital outflow and a wavering stock market, but rose in November when the outflow in foreign capital reversed. At the end of the year, despite a net foreign capital outflow, the annual growth rate of deposits went up to 6.00 percent, mainly because of faster growth in bank loans and investments.

Annual Growth Rates of Deposits

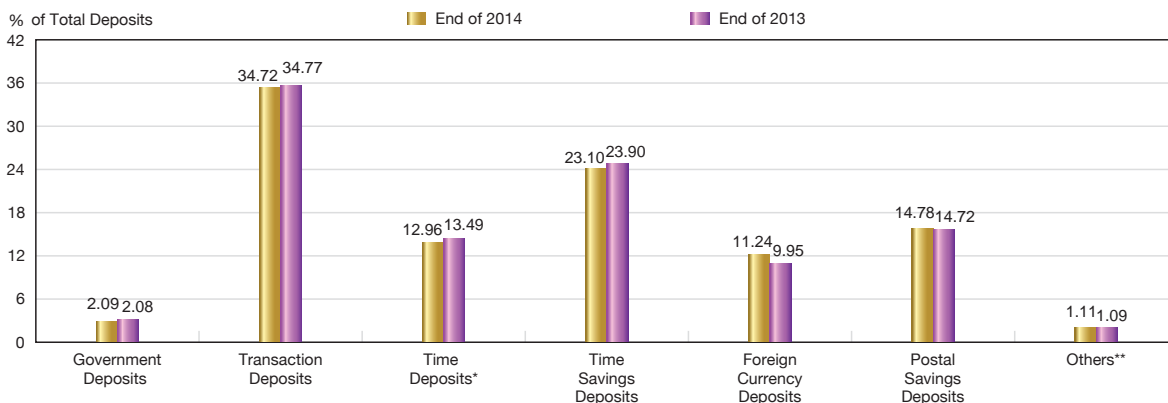


Notes: * Including checking accounts, passbook deposits and passbook savings deposits.
 ** Including time deposits, time savings deposits, foreign currency deposits, postal savings deposits, non-residents' NT dollar deposits, repurchase agreements, and money market mutual funds.

Source: Financial Statistics Monthly, CBC.

Despite an upswing in the stock market in the first half of the year, transaction deposits posted a lower annual growth rate of 5.83 percent for the whole year, down from 8.26 percent last year, with its share in total deposits declining to 34.72 percent from 34.77 percent. The slower growth was mostly caused by the increased volatility in the domestic stock market in the second half of the year as monetary policy divergence among major economies heightened uncertainties. Meanwhile,

Shares of Deposits by Type



Notes: * Including NCDs.
 ** Including repurchase agreements, non-residents' NTD deposits and money market mutual funds.

Source: Financial Statistics Monthly, CBC.

with moderate economic growth and a significant net inflow of foreign capital, the annual growth rate of non-transaction deposits rose to 6.07 percent from 4.22 percent the previous year. Its share in total deposits climbed to 63.19 percent at the year end, up from 63.15 percent the year before.

By type of non-transaction deposits, the depreciation of the NTD helped foreign currency deposits to take up a larger share by the year end, though the growth of RMB deposits slowed down from last year. In contrast, the shares of time deposits and time savings deposits declined. The share of postal savings deposits grew slightly to 14.78 percent.

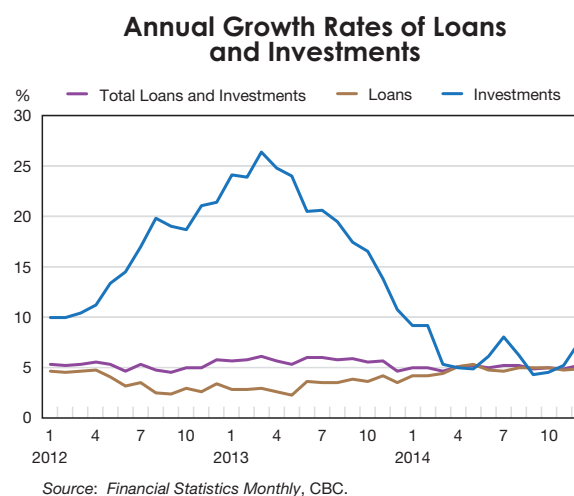
With greater tax revenues and more earnings contributed to the nation's treasury by public enterprises, the annual growth rate of government deposits returned to positive territory at 6.54 percent from -4.79 percent last year. Its share in total deposits edged up to 2.09 percent at year end.

Higher Growth in Bank Loans and Investments

The annual growth rate of loans and investments of monetary financial institutions was 5.20 percent at the end of 2014, increasing from 4.59 percent at the end of 2013. Growth in loans accelerated to 4.77 percent at the end of 2014 from 3.48 percent at the end of the previous year, mainly owing to a greater demand from private enterprises and individuals amid a recovering economy and active trading in the stock market. In contrast, growth in portfolio investment decelerated to 7.46 percent at the end of 2014 from 10.71 percent a year earlier, mainly owing to slower growth of investments in commercial paper.

Loans by Sector

The annual growth rate of loans extended to the private sector rose to 5.52 percent at the end of 2014 from 4.11 percent at the end of 2013. The upturn was mainly due to increasing demand from individuals and private enterprises. The annual growth rate of loans to public enterprises decreased significantly to -10.25 percent at the end of 2014 from 1.51 percent, mainly because the Taiwan Power Company and the CPC Corporation, Taiwan, reduced their borrowing from banks. For the part of Taiwan Power Company, the reduction was mainly a reflection of the company's considerable gains in annual profits; as for the CPC Corporation, it was mainly due to the company

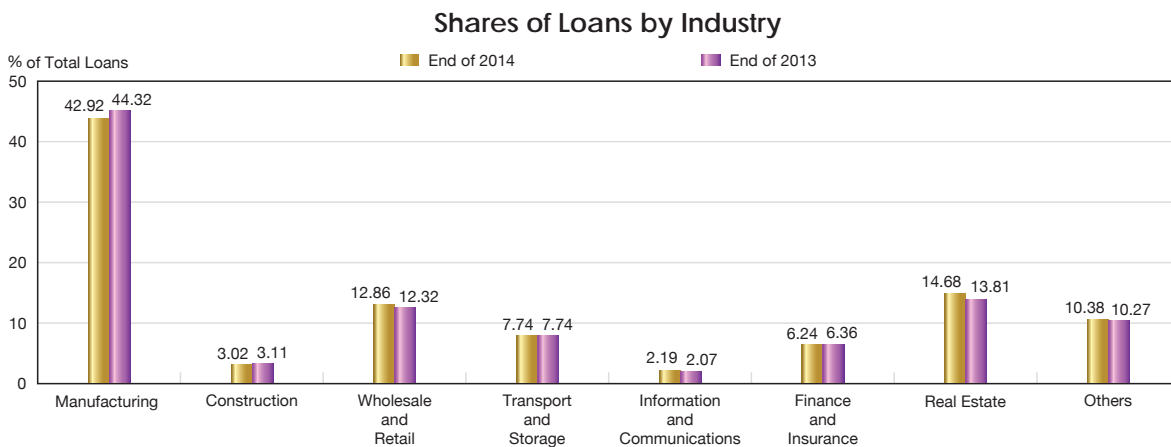


changing its policy to raise funds by issuing corporate bonds instead. Meanwhile, the annual growth rate of loans to government agencies was -0.74 percent at the end of 2014, mainly on account of increased income tax revenues thanks to the economic recovery. However, the negative growth still represented a remarkable improvement compared to the -9.25 percent of the previous year end, mainly owing to a lower base effect in 2013 resulting from 4G network license fees of NT\$118.7 billion received by the treasury which hugely reduced the borrowing needs to the government.

In terms of loan composition, loans extended to the private sector accounted for 90.56 percent of total loans, higher than the 89.72 percent recorded at the end of 2013. Loans extended to government agencies and public enterprises accounted for 6.56 percent and 2.88 percent, respectively, both lower than those recorded at the end of the previous year.

Loans by Industry

Broken down by industry sector, bank loans to the manufacturing sector continued to account for the largest portion, at 42.92 percent at the end of 2014, decreasing from 44.32 percent at the end of the previous year. The decrease was mainly due to slower growth in loans extended to the electronics industry at the end of 2014. The shares of loans extended to the construction industry and the finance and insurance industry also exhibited downtrends. Meanwhile, the shares of loans extended to the wholesale and retail industry, the information and communications industry, and the real estate industry increased at the end of 2014.



Consumer Loans

The annual growth rate of consumer loans extended by banks increased from 2.36 percent at the end of 2013 to 2.81 percent at the end of 2014. Among them, house-purchasing loans increased NT\$220.2 billion in 2014, mainly owing to an increase in the number of new home sales, but the

annual increase of 3.90 percent showed slowing growth for the year. As for the shares of various consumer loans, house-purchasing loans remained the largest component, with its share rising from 80.60 percent at the end of 2013 to 81.46 percent at the end of 2014. Car loans accounted for 1.62 percent, increasing from 1.49 percent mainly because car sales were boosted by low oil prices and a surge in replacement purchases. Meanwhile, house-repairing loans and revolving credit for credit cards accounted for 3.31 percent and 1.56 percent, respectively, both decreasing from the end of the previous year.

Investments

Portfolio investments by monetary financial institutions, measured on a cost basis, showed slower growth with an annual increase of 7.46 percent in 2014, mainly because banks became more cautious with their investments in response to the uncertainties in the global economic recovery and geopolitical risks.

Among the investment instruments, government bonds accounted for the largest share with 60.97 percent, higher than the 57.88 percent a year ago, mainly bolstered by the massive purchases of government bonds by banks and the Department of Savings and Remittances of Chunghwa Post for safety reasons. Meanwhile, banks anticipated interest rates may probably not rise in the near term because more monetary stimulus was announced by the ECB and the BoJ. In order to raise the rate of return, banks turned to purchase corporate bonds instead of commercial paper. Corporate bonds accounted for a share of 14.53 percent at the end of 2014, larger than a year ago. Commercial paper accounted for a share of 14.18 percent, decreasing from the end of 2013.

In terms of annual growth trends, portfolio investments by monetary financial institutions, measured at fair value, recorded a year-on-year increase of NT\$329.2 billion, while the increase was smaller, at NT\$321.8.0 billion, when measured on a cost basis.

Direct Finance and Indirect 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 annual increase in direct finance and indirect finance in 2014 shrank from the previous year's NT\$1,873.1 billion to NT\$1,699.6 billion. Direct finance increased NT\$234.2 billion during 2014, higher than last year's increase of NT\$62.6 billion. Indirect finance decreased from the previous year's NT\$1,810.5 to NT\$1,465.4 billion, which was mainly due to slower growth in investments by financial institutions.

Based on the outstanding balance, the share of direct finance in total funds raised decreased from 20.65 percent at the end of 2013 to 20.63 percent, while the share of indirect finance increased from 79.35 percent to 79.37 percent.

Direct Finance vs. Indirect Finance*

Unit: NT\$ Billion

Year	Direct Finance (1)	Indirect Finance (2)			Total Funds Raised (3)=(1)+(2)
		Loans	Investments	Subtotal	
2005	181.5	1,458.5	321.7	1,780.2	1,961.7
2006	-151.3	820.6	537.1	1,357.7	1,206.4
2007	82.7	737.0	228.6	965.6	1,048.3
2008	-316.1	649.2	563.0	1,212.2	896.1
2009	142.8	133.0	259.3	392.3	535.1
2010	165.5	1,242.6	433.8	1,676.4	1,841.9
2011	19.0	1,141.4	642.5	1,783.9	1,802.9
2012	17.0	809.4	880.7	1,690.1	1,707.1
2013	62.6	1,007.2	803.3	1,810.5	1,873.1
2014	234.2	1,247.9	217.9	1,465.8	1,700.0

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.

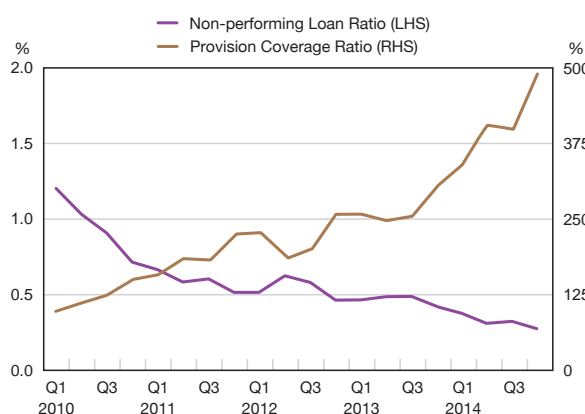
(2) Refers to the total amount of new issues of various marketable securities, including government bonds, corporate bonds, listed stocks, offshore bonds, depository receipts, short-term bills and asset-backed securities held by the non-financial sector.

Source: Financial Statistics Monthly, CBC.

Decline in the Non-performing Loan (NPL) Ratio

With improved asset quality, the average NPL ratio of monetary financial institutions as a whole declined further to 0.27 percent at the end of 2014 from the previous year's 0.41 percent. Among the different types of financial institutions, community financial institutions continued to show the biggest improvement in the average NPL ratio during the course of the year.

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

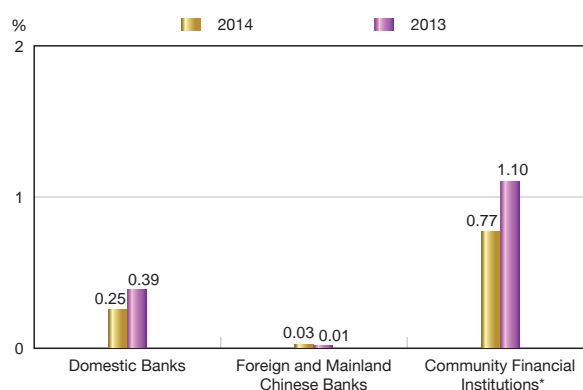


Note: * Include domestic banks, foreign and Mainland Chinese banks, credit cooperatives, credit departments of farmers' and fishermen's associations.

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



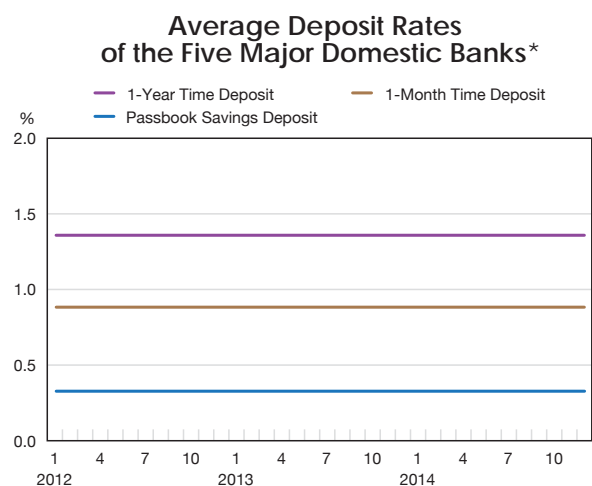
Note: * Include credit cooperatives and credit departments of farmers' and fishermen's associations.

Source: Department of Financial Inspection, CBC.

Owing to an increase in loan loss provisions and the decline in the average NPL ratio, the average provision coverage ratio of monetary financial institutions climbed to 491.81 percent at the end of 2014 from 306.09 percent the previous year.

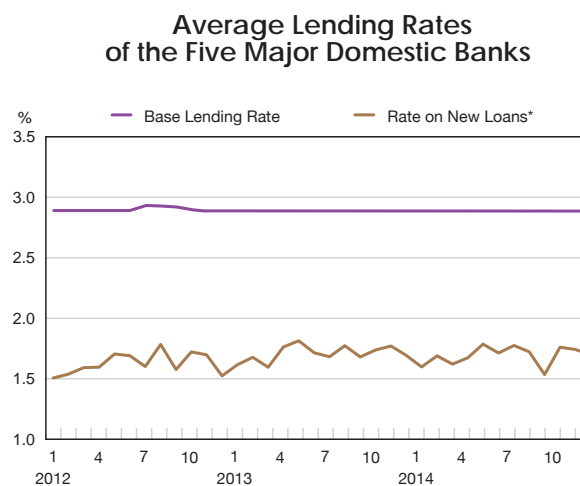
Bank Interest Rates Unchanged

Throughout 2014, the domestic economy experienced a moderate recovery and inflationary pressures were muted. However, because of an uneven pace of recovery among major economies, global uncertainties lingered. The CBC decided 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 2014.



Note: * The five major domestic banks are Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank and Land Bank of Taiwan.

Source: Financial Statistics Monthly, CBC.

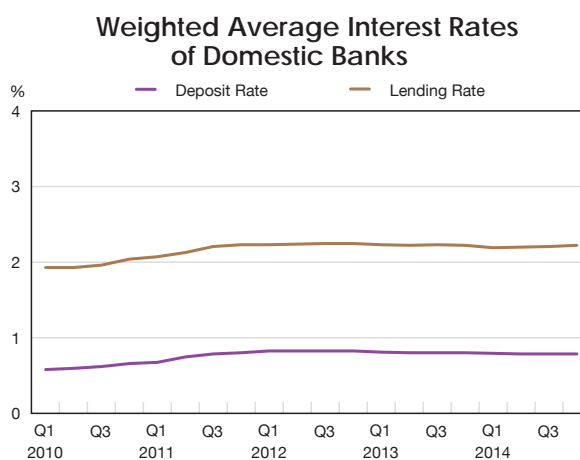


Note: * Including housing loans, capital expenditure loans, current operations loans and consumer loans.

Source: Financial Statistics Monthly, CBC.

Stock market trading activity became more vigorous during the first half of the year and resulted in an increased share of transaction deposits in total deposits. The weighted average interest rate on total deposits of domestic banks was 0.78 percent in 2014, 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



Source: Financial Statistics Monthly, CBC.

end of 2014. As banks' rates on central government loans declined in 2014, bringing down banks' rates on current operations loans, the weighted average interest rate on new loans of the five major domestic banks decreased from 1.70 percent in 2013 to 1.68 percent in 2014, down by 0.02 percentage points. However, because some banks enhanced mortgage-related risk management, the interest rate on housing loans rose slightly from 1.95 percent in 2013 to 1.96 percent in 2014. Excluding central government loans, the weighted average interest rate on new loans decreased from 1.75 percent in 2013 to 1.74 percent in 2014, down by 0.01 percentage points.

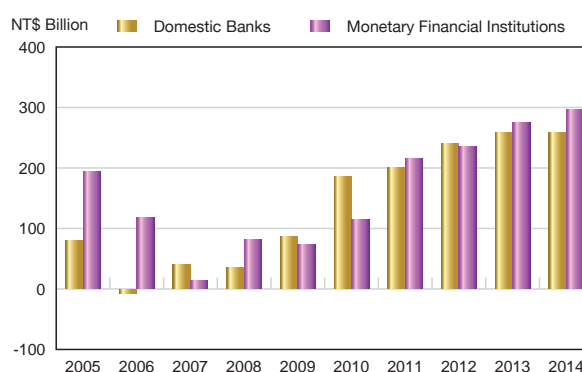
In the first quarter of the year, owing to higher growth in bank claims on local governments, the weighted average interest rate on total loans of domestic banks moved downward from 2.22 percent in the fourth quarter of 2013 to 2.19 percent. In the second quarter, as some banks' interest rates on loans for land and construction climbed, the weighted average interest rate moved slightly upward to 2.20 percent. Henceforward, because some local governments repaid their low-interest rate loans, the weighted average interest rate on loans moved upward 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 2.21 percent, which was 0.02 percentage points lower than that recorded in the previous year.

Because the decreases in deposit rates were more than in lending rates, the interest rate spread between deposits and loans widened to 1.44 percentage points, more than the 1.42 percentage points recorded in the fourth quarter of 2013.

Record Profitability

Benefitting from moderate economic growth,

Pre-tax Profits



Source: Department of Financial Inspection, CBC.

Profits of Monetary Financial Institutions

Unit: NT\$ Billion

	Pre-tax Profits			Return on Assets (%)*			Return on Equity (%)**		
	2014	2013	Annual Change	2014	2013	Annual Change	2014	2013	Annual Change
Domestic Banks	320.7	258.2	62.5	0.75	0.65	0.10	11.00	9.82	1.18
Foreign and Mainland Chinese Banks	25.7	16.3	9.4	0.55	0.46	0.09	26.71	22.05	4.66
Credit Cooperatives	2.5	3.5	-1.0	0.39	0.55	-0.16	5.71	8.09	-2.38
Credit Departments of Farmers' and Fishermen's Associations	5.6	4.9	0.7	0.29	0.27	0.02	4.78	4.48	0.30
Chunghwa Post	13.8	13.7	0.1	0.24	0.25	-0.01	12.68	13.85	-1.17
Total	368.3	296.6	71.7	0.66	0.58	0.08	11.23	10.04	1.19

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

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

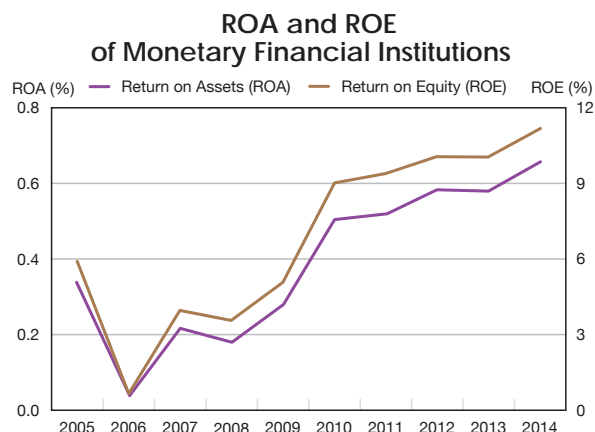
Source: Department of Financial Inspection, CBC.

the pre-tax profits of monetary financial institutions increased by NT\$71.7 billion to a historical high of NT\$368.3 billion in 2014. Those of domestic banks increased by NT\$62.5 billion to NT\$320.7 billion, mainly owing to increases in net interest revenue and net fee income, as well as realized gains from an overseas merger and acquisition. The pre-tax profit of foreign and Mainland Chinese banks increased by NT\$9.4 billion, and the pre-tax profit of Chunghwa Post also slightly increased by NT\$0.1 billion.

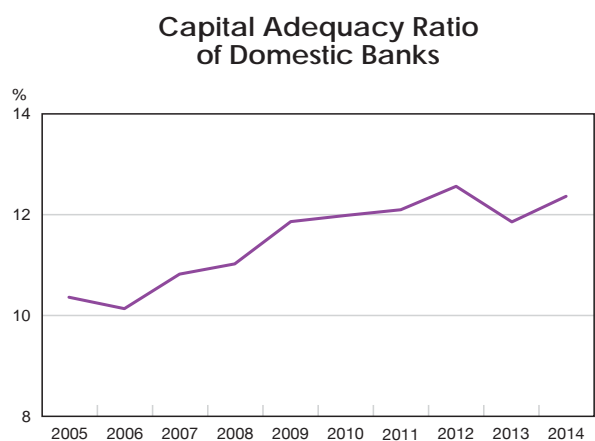
Increases in both ROA and ROE

The average return on assets (ROA) of monetary financial institutions in 2014 increased to 0.66 percent from 0.58 percent the previous year, as their return on equity (ROE) also went up to 11.23 percent from 10.04 percent a year earlier. 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 increased to 12.34 percent at the end of the year from 11.83 percent at the previous year end, mainly owing to capital increases by some domestic banks.



Source: Department of Financial Inspection, CBC.



Source: Department of Financial Inspection, CBC.

4. Money Market

In 2014, the total turnover in the interbank call loan market increased by 20.31 percent, but that in the short-term bills market decreased by 2.40 percent. Interest rates in both markets remained broadly stable at a low level.

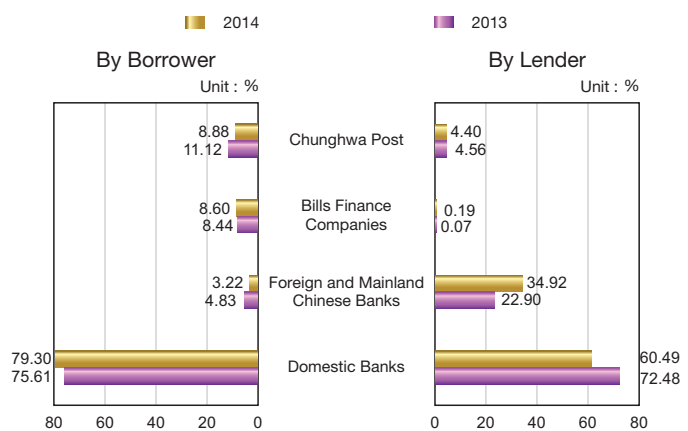
Significant Increase in Interbank Call Loans

Trading in the interbank call loan market was active in 2014. As the domestic economy experienced a moderate recovery, banks' loans and investments increased steadily and banks' demand for funds became stronger. Coupled with the abundant supply of funds in the local market associated with massive foreign capital inflows, total annual turnover of interbank call loans amounted to NT\$47,934.6 billion for the year, showing a marked increase of 20.31 percent when compared with the previous year.

With regard to borrowers, domestic banks were still the largest player during the year, accounting for 79.30 percent of total transactions, followed by Chunghwa Post, bills finance companies, and foreign and Mainland Chinese banks, with shares of 8.88 percent, 8.60 percent and 3.22 percent, respectively. In light of continuous foreign capital inflows, the CBC increased the issuance of certificates of deposit to absorb excess market liquidity, yet later in the year banks' demand for borrowing rose owing to their funding needs. As a consequence, the amount borrowed by domestic banks increased by NT\$7,889.6 billion or 26.19 percent compared with the previous year. On the other hand, the amount borrowed by bills finance companies increased by NT\$759.1 billion or 22.57 percent during the year because of their stronger demand for funds, which was associated with more transactions in short-term bills. However, the borrowed amount of Chunghwa Post and foreign and Mainland Chinese banks decreased by NT\$173.9 billion or 3.92 percent and NT\$383.3 billion or 19.91 percent, respectively.

With respect to lenders, domestic banks continued to be the largest supplier of funds, accounting for 60.49 percent of total transactions in 2014. Following domestic banks were foreign and Mainland Chinese

Composition of Interbank Call Loan Market by Participant



Source: Financial Statistics Monthly, CBC.

banks, Chunghwa Post and bills finance companies with respective shares of 34.92 percent, 4.40 percent and 0.19 percent. Domestic banks had stable sources of deposits and could provide sufficient funds for lending. However, the CBC conducted more open market operations to maintain market liquidity at an appropriate level. As a result, the amount lent by domestic banks only slightly increased by NT\$117.2 billion or 0.41 percent compared with the previous year. With abundant funds gained from the custodian business for foreign investors, the lending amount of foreign and Mainland Chinese banks kept increasing. The amount lent by foreign and Mainland Chinese banks grew by NT\$7,615.2 billion or 83.47 percent, with their share of total lending climbing from 22.90 percent in the previous year to 34.92 percent. Meanwhile, Chunghwa Post supplied more funds to the interbank call loan market because of statutory restrictions on its lending business. Therefore, the amount lent by Chunghwa Post increased by NT\$293.6 billion or 16.16 percent compared with the previous year.

In terms of maturity, interbank overnight call loans remained the most actively traded instrument in the market with a predominant share of 58.38 percent, down by 5.69 percentage points from that of the previous year. Second were those with a maturity of 1 week, accounting for 34.73 percent, up by 5.49 percentage points from that of the previous year because the interbank overnight call loan rate remained broadly stable. The share of loans with a 2-week maturity rose to 5.67 percent from 5.40 percent in the previous year. Shares for the trading of interbank call loans with maturities of 3 weeks, 1 month, 2-6 months, and above 6 months were negligible.

Decrease in Short-Term Bill Transactions

In 2014, newly issued short-term bills totaled NT\$10,840.6 billion. Of the new issues, commercial paper continued to account for the lion's share of 91.50 percent. Second were negotiable certificates

Short-Term Bills Market

Unit: NT\$ Billion

Year	Total		Treasury Bills		City 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	Issues	Year-end Outstanding
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
2014	10,840.6	1,641.2	244.9	130.0	10.0	0.0	9,919.5	1,306.8	24.1	4.3	642.2	200.2
2014-2013 Change	1,031.7	-9.0	-79.7	-84.6	10.0	0.0	1,092.1	107.6	0.6	0.1	8.6	-32.1

Source: Financial Statistics Monthly, CBC.

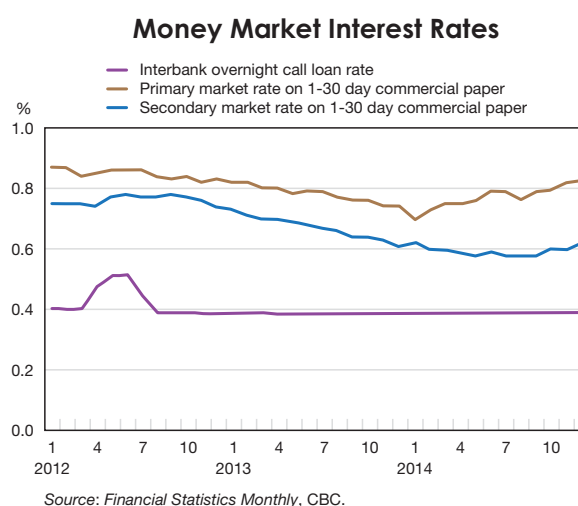
of deposit with a share of 5.93 percent, followed by treasury bills with a share of 2.26 percent. Because market interest rates remained at low levels, private and government enterprises were more willing to issue commercial paper instead of borrowing from banks. As a result, compared with the previous year, the amount of commercial paper issued increased by NT\$1,092.1 billion. On the contrary, the Ministry of Finance decreased the issues of treasury bills by NT\$79.7 billion owing to increased tax revenue. Meanwhile, the New Taipei City Government issued city treasury bills with a total amount of NT\$10.0 billion in order to relieve the city's budget shortage. As of the end of 2014, total outstanding short-term bills amounted to NT\$1,641.2 billion, 0.54 percent less than that of the previous year end.

The total turnover of short-term bills in 2014 decreased by 2.40 percent to NT\$35,676.0 billion¹. Of the total transactions, commercial paper still made up the largest share of 92.81 percent, representing an increase of 0.52 percentage points compared with the previous year. It was followed by negotiable certificates of deposit with a share of 6.10 percent, representing an increase of 0.80 percentage points over 2013. 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 47.63 percent, followed by banks with a share of 24.43 percent.

Stable Money Market Rates

In 2014, the domestic economy experienced a moderate recovery and inflationary pressures were subdued. However, as the pace of recovery was uneven across major economies, uncertainties in the global economy still lingered. 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 and averaged 0.387 percent for the whole year, slightly higher than the 0.386 percent registered in the previous year. The primary market rate on commercial paper with a maturity of 1-30 days moved upward from 0.70 percent in January of 2014 to 0.83 percent in December of the same year. However, the secondary market rate on commercial paper with a maturity of 1-30 days descended from 0.62 percent in January to 0.58 percent in September and then moved upward to 0.62 percent in December of the same year.

The primary market rate on commercial paper with a maturity of 1-30 days moved upward from 0.70 percent in January of 2014 to 0.83 percent in December of the same year. However, the secondary market rate on commercial paper with a maturity of 1-30 days descended from 0.62 percent in January to 0.58 percent in September and then moved upward to 0.62 percent in December of the same year.



¹ In early 2014, some financial institutions were found to report incorrect data for short-term bill transactions, and the errors were gradually corrected in the second half of the year.

Decrease in Money Market Funds

At the end of 2014, there were a total of 45 money market funds in Taiwan with total assets reaching NT\$741.4 billion, a decrease of NT\$73.6 billion or 9.03 percent over the previous year. With regard to portfolio composition, the largest use of the funds was bank deposits with a share of 69.14 percent at the end of the year, followed by short-term bills with a share of 18.37 percent, up by 4.59 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 12.19 percent of total money market funds, down from 13.55 percent in the previous year. In addition, 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		Short-Term Bills		Repurchase Agreements		Bonds	
		Amount	Share (%)	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
2012	713.2	527.7	73.99	60.6	8.50	123.0	17.25	1.9	0.27
2013	815.0	592.0	72.64	112.3	13.78	110.4	13.55	0.3	0.04
2014	741.4	512.6	69.14	136.2	18.37	90.4	12.19	2.3	0.30
2014/ 1	794.6	581.0	73.12	104.2	13.11	108.5	13.65	0.9	0.12
2	858.8	610.1	71.04	123.8	14.41	124.1	14.45	0.8	0.10
3	832.5	592.2	71.14	124.3	14.93	115.3	13.85	0.7	0.09
4	930.9	630.9	67.77	158.3	17.00	140.9	15.13	0.9	0.09
5	840.6	608.8	72.43	122.9	14.62	107.8	12.82	1.1	0.13
6	796.6	584.4	73.36	115.4	14.48	95.8	12.03	1.1	0.13
7	825.2	596.3	72.27	133.6	16.20	94.0	11.39	1.2	0.14
8	814.2	578.4	71.04	127.9	15.71	106.3	13.06	1.6	0.19
9	794.5	553.1	69.61	138.7	17.46	101.0	12.71	1.7	0.22
10	833.9	571.5	68.54	138.9	16.65	121.3	14.55	2.1	0.26
11	844.0	570.5	67.59	140.1	16.60	131.1	15.53	2.4	0.28
12	741.4	512.6	69.14	136.2	18.37	90.4	12.19	2.3	0.30

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

5. Foreign Exchange Market

Slight Depreciation of the NT Dollar

In 2014, as the NT dollar slightly depreciated against most major international currencies but appreciated against the Japanese yen, the trade-weighted nominal effective exchange rate index of the NT dollar decreased by 0.35 percent on a daily average basis. The exchange rate movements of the NT dollar against the US dollar, the euro, the yen, the renminbi (RMB), and the Korean won are analyzed as follows.

The NT dollar against the US dollar slightly fluctuated before it weakened in the second half of 2014. Early in the year, as US labor market conditions improved and the Fed began to reduce its asset purchase program, the US dollar strengthened and the NT dollar reached a period low on March 21. In June, because the European Central Bank (ECB) introduced a negative deposit facility interest rate and the Fed announced it would keep its policy rate near zero, international capital flowed into Asia, and the NT dollar against the US dollar soared to a yearly high on July 2. At the end of October, as the Fed ended its asset purchase program and the Bank of Japan (BoJ) introduced further monetary easing, the yen slumped against the US dollar. In the meantime, the US economy expanded at a moderate pace, while recovery in the euro area and Japan remained weak and international oil prices dropped dramatically. Consequently, the US dollar strengthened against most currencies and the NT dollar hit a yearly low on December 24. At the end of 2014, the NT dollar depreciated by 5.57 percent against the US dollar compared with the end of the previous year. On a daily average basis, the NT dollar depreciated against the US dollar by 1.97 percent in 2014.

The NT dollar slightly depreciated against the euro in the first half of the year but then soared toward the end of the year. In the first quarter of the year, owing to an economic upturn in the euro area, the NT dollar versus the euro edged down to a yearly low on March 19. On June 5, the

Annual Changes of NTD Exchange Rate Against Major Currencies

	NTD/USD	NTD/EUR	NTD/JPY	NTD/CNY	NTD/KRW
Exchange Rate (2014/12/31)	31.718	38.550	0.2652	5.1125	0.0291
Exchange Rate (2013/12/31)	29.950	41.288	0.2853	4.9472	0.0284
Annual Change	-5.57%	7.10%	7.59%	-3.23%	-2.40%
Average Exchange Rate (2014)	30.368	40.290	0.2866	4.9431	0.0288
Average Exchange Rate (2013)	29.770	39.527	0.3050	4.8049	0.0272
Annual Change	-1.97%	-1.89%	6.42%	-2.80%	-5.72%

Source: Department of Economic Research, CBC.

ECB introduced a negative deposit facility interest rate and the NT dollar appreciated. In the middle of July, the collapse of Banco Espirito Santo, Portugal's largest listed bank by assets, led to renewed concerns among investors about the euro area's financial stability. In addition, the European Union imposed economic sanctions against Russia over its alleged involvement in shooting down a Malaysian airliner. This prompted investors to sell the euro, sending the euro down further. From September onwards, the US economy grew at a moderate pace and the Fed ended the asset purchasing program, while euro area industrial production slowed down and the ECB expanded its monetary easing. Against this backdrop, the NT dollar against the euro soared to a yearly high on November 7. Compared with the end of the previous year, the NT dollar appreciated against the euro by 7.10 percent at the end of 2014. On a daily average basis, the NT dollar depreciated against the euro by 1.89 percent.

In 2014, the NT dollar depreciated against the yen in the first three quarters and rapidly appreciated in the final quarter. At the beginning of the year, as the global economic outlook was unclear, the yen rose on safe-haven demand and the NT dollar versus the yen reached a yearly low on February 5. Then political tension in Ukraine and the ISIS-led insurgency in the Middle East further pushed up safe-haven demand for yen. However, as the BoJ reaffirmed its expansionary monetary policy, the NT dollar against the yen fluctuated between 0.2920 and 0.2976 from April to August. Later, on October 31, the BoJ announced further quantitative and qualitative monetary easing, and the NT dollar appreciated rapidly against the yen to reach a yearly high on December 8. In all, the NT dollar appreciated by 7.59 percent against the yen at the end of 2014 compared with the previous year end. On a daily average basis, the NT dollar appreciated against the yen by 6.42 percent.

In 2014, the NT dollar strengthened against the RMB in the first half of the year but weakened in the second half. Early in the year, since the economic growth of Mainland China slowed down and exports in February declined 20 percent, the RMB depreciated against the US dollar. In March, as the People's Bank of China widened the RMB's daily trading band and the RMB weakened, the NT dollar against the RMB reached a yearly high on June 3. In the second half of the year, as Mainland China's economy grew at a moderate pace and foreign capital inflows increased to take advantage of opportunities in the newly-launched Shanghai-Hong Kong Stock Connect, the NT dollar against the RMB generally followed a downward trend and dropped to a yearly low on December 25. The NT dollar depreciated against the RMB by 3.23 percent between end-2013 and end-2014. On a daily average basis, the NT dollar depreciated by 2.80 percent against the RMB when compared with the previous year.

In 2014, the NT dollar fluctuated against the Korean won all year. At first, as the Fed tapered its stimulus package and South Korea recorded net foreign capital outflows, the Korean won

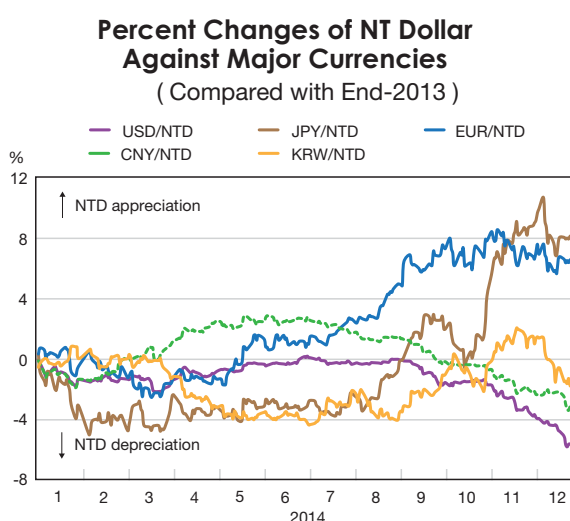
weakened. In March and April, South Korea's current account surplus attracted foreign capital inflows and the won turned to appreciation. The NT dollar against the won fell to a yearly low on July 3. Later in July, as the Bank of Korea revised down the country's economic growth forecast and investors expected a policy rate cut, the NT dollar appreciated against the won. From October onwards, the BoJ announced more monetary easing, and the won thus fell following a weaker yen. The NT dollar against the won soared to a yearly high on November 20. Compared with the end of 2013, the NT dollar depreciated by 2.40 percent against the Korean won at the end of 2014. On a daily average basis, the NT dollar also depreciated by 5.72 percent against the won in 2014.

Flourishing Foreign Exchange Market

Trading in the Taipei foreign exchange market expanded in 2014. Total net trading volume for the year reached US\$7,822.4 billion, representing a year-on-year growth rate of 9.0 percent. The daily average turnover was US\$31.3 billion. The increase in turnover reflects not only Taiwan's sustained growth in external trade but also the rise of transaction and 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 25.6 percent of the total turnover, while interbank transactions made up 74.4 percent, including 23.7 percent for transactions among local banks and 50.7 percent for those between local banks and overseas banks.

As far as traded currencies were concerned, NT dollar trading against foreign currencies accounted for 40.6 percent of the total trading volume, of which trading against the US dollar



Source: Department of Economic Research, CBC.

Turnover of Major Products in the Taipei Foreign Exchange Market

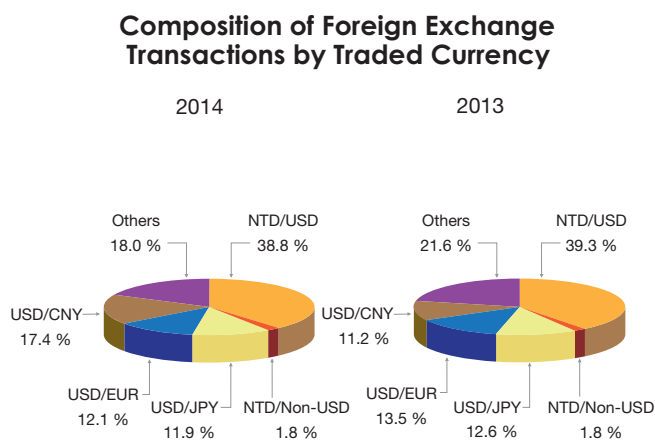
Unit: US\$ Million

Year	Spots	Forwards	Forex Swaps	Margin Trading	Options	Cross Currency Swaps	Total
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
2014	2,869,175	408,770	3,352,584	20,379	1,134,172	37,365	7,822,445
2013-2014 Growth Rate (%)	7.0	9.6	12.1	-6.2	5.7	13.3	9.0

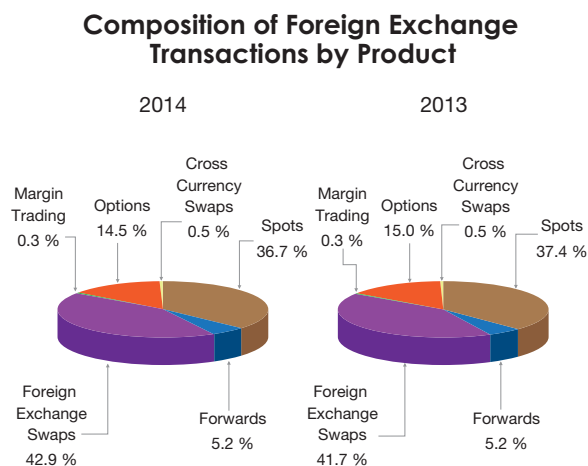
Source: Department of Foreign Exchange, CBC.

made up a dominant 38.8 percent. Transactions in third currencies contributed to 59.4 percent of the total trading volume, with trading in currency pairs of USD-RMB, USD-euro and USD-yen accounting for respective shares of 17.4 percent, 12.1 percent and 11.9 percent. Compared with 2013, NT dollar trading against foreign currencies moderately increased by 7.8 percent, and transactions in third currencies increased by 9.9 percent. The main reason for the latter increase was a steady increase in RMB business by domestic banking units (DBUs) since the cross-strait currency clearing mechanism was established.

With respect to types of transactions, the major types were foreign exchange swaps and spots, accounting for 42.9 percent and 36.7 percent of total turnover respectively. Compared with 2013, except for a decrease in margin trading, the trading volume in the total turnover of all the other types of transactions increased.



Source: Department of Foreign Exchange, CBC.



Source: Department of Foreign Exchange, CBC.

Turnover of Other Products in the Taipei Foreign Exchange Market

Unit: US\$ Million

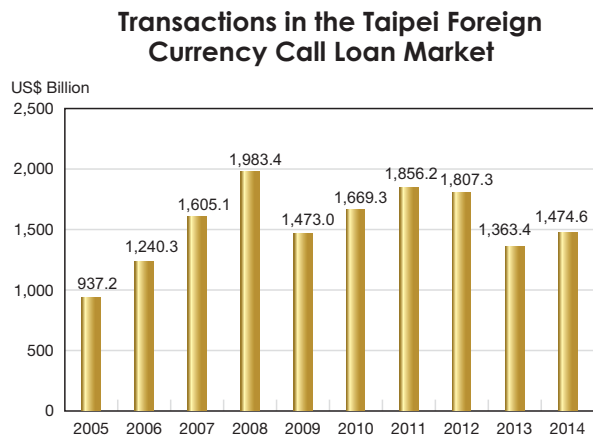
Year	Interest Rate-Related Products					Commodity-Related Products	Stock Index Options	Credit Derivatives	Total
	Forward Rate Agreements	Interest Rate Swaps	Interest Rate Options	Foreign Currency Interest Rate Futures	Subtotal	Commodity Options			
2010	842	125,541	6,043	392,368	524,794	18,060	105	10,126	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
2014	22	43,179	1,657	122,236	167,093	3,870	302	1,401	172,666
2013-2014 Growth Rate (%)	-95.9	16.6	-45.5	5.7	-21.7	-29.5	-82.8	-7.6	4.6

Source: Department of Foreign Exchange, CBC.

In 2014, 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\$172.7 billion. Of this amount, interest rate-related derivatives accounted for the lion's share with US\$167.1 billion, or 96.8 percent, with its turnover up by 6.9 percent from the previous year. Interest rate futures accounted for the majority of this increase, up by US\$6.6 billion. The main reason was that the Fed's tapering fueled market expectations of heightened market interest rate volatility.

Increase in Trading in Foreign Currency Call Loan Market

The transaction volume in the foreign currency call loan market in 2014 was US\$1,474.6 billion, an increase of 8.2 percent over the previous year. Of this amount, US dollar transactions accounted for a dominant share with US\$1,426.1 billion, making up 96.7 percent of the total while increasing 6.9 percent from 2013. The rise was mainly because some banks increased short term foreign currency lending after accepting plenty of foreign currency deposits. Japanese yen transactions reached ¥1,185.4 billion in 2014, a small share of 0.8 percent of the total with a decline of 9.6 percent in the volume compared to the previous year. The amount of euro transactions totaled €1.2 billion, a share of less than 0.1 percent. Other currencies accounted for 2.4 percent of the total transaction volume.



Source: Department of Foreign Exchange, CBC.

Growing Assets of Offshore Banking Units

There were 62 offshore banking units (OBUs) at the end of 2014. Domestic banks operate 38 of these OBUs, while foreign banks run the other 24. The total assets of all OBUs grew to US\$184.0 billion at the end of the year, representing an increase of US\$14.4 billion or 8.5 percent from the previous year end. Domestic OBUs made up 84.4 percent of these combined assets with an amount of US\$155.3 billion, and the OBUs of foreign banks accounted for US\$28.7 billion, or 15.6 percent of the total.

In terms of the uses of funds, loans to non-financial institutions, at US\$87.9 billion, represented the majority share of 47.8 percent of total OBU assets. Claims on financial institutions came in second place, accounting for 15.8 percent of total OBU assets. In terms of the destination for funds, Asia accounted for the majority with 63.0 percent, followed by America at 25.0 percent.

The OBUs' main source of funds were interbank transactions, making up 43.8 percent of total liabilities. Furthermore, deposits of non-financial institutions grew sharply, accounting for 31.4 percent of total liabilities. OBUs were the main funding source of overseas Taiwanese firms, with 64.0 percent of their funds coming from Asia and 22.0 percent from America.

Owing to the increased variety of RMB-related business, forex trading turnover of all OBUs in 2014 rose by 26.4 percent and registered US\$602.0 billion, of which US\$364.3 billion went for spot transactions, US\$143.0 billion for forex swap transactions and US\$94.7 billion for forward transactions. Compared with the previous year, the growth rates of the trading of spots, forex swaps and forward transactions were 35.1 percent, 20.2 percent, and 8.1 percent, respectively.

The total turnover of other derivatives products increased to US\$1,426.1 billion, 15.7 percent higher than 2013. Of this amount, currency options and RMB options transactions registered a combined amount of US\$1,143.7 billion, making up 80.2% of the turnover.

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
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
2014	87,849	22,066	47,681	26,379	183,974	57,818	101,671	338	24,146
2013-2014 Growth Rate (%)	9.8	0.2	7.2	14.1	8.5	12.9	1.5	-3.7	34.9

Source: Financial Statistics Monthly, CBC.

6. Stock Markets

Entering 2014, Taiwan's stock indices began to gradually climb, driven by global economic recovery, better corporate profits, and strong buying by foreign investors. In the second half of the year, the indices showed mixed fluctuations as the stock markets were affected by heightened international geopolitical tension and a series of domestic incidents including an aviation accident, petrochemical gas explosions and food safety concerns.

At the end of 2014, the Taiwan Stock Exchange (TWSE) weighted stock price index (TAIEX) gained 8.1 percent compared to the end of the previous year. However, most industrial groups posted price falls, with the largest decline in plastics and chemicals shares due to international oil price slumps. Only four groups, namely, electrical, shipping and transportation, trading and consumers' goods, and finance, were able to record year-on-year price gains. The TAIEX daily average trading value was NT\$88.3 billion, a 14.7 percent increase compared to the previous year.

In Taiwan's over-the-counter market, the weighted stock price index of the Taipei Exchange (TPEX, formerly known as GreTai Securities Market or GTSM) closed the year up by 8.3 percent over the previous year end. Amid mixed performances, the iron and steel group topped the risers with a 31.2 percent gain thanks to remarkable corporate profits, whereas textile shares came in with the largest fall of 13.4 percent. In 2014, the TPEX daily average trading value was NT\$25.6 billion, increasing significantly by 56.1 percent compared to the previous year.

Major Statistics of the TWSE Market

Year/Month	Stock Price Index (end of period)	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
2012	7,699.5	81.0	97.3	21,352.2	144.2	-16.1	-2.2
2013	8,611.5	77.0	82.6	24,519.6	243.0	-76.7	8.5
2014	9,307.3	88.3	84.6	26,891.5	354.6	-38.1	-0.4
2014/ 1	8,462.6	97.6	7.3	24,137.8	23.2	-4.7	-1.9
2	8,639.6	89.2	6.2	24,567.9	-16.2	-5.8	4.0
3	8,849.3	93.6	7.8	25,187.5	72.1	-9.1	2.4
4	8,791.4	92.2	7.7	25,090.7	89.7	-10.3	-1.6
5	9,075.9	88.2	7.1	25,939.9	33.7	-2.7	5.1
6	9,393.1	98.5	7.3	26,852.7	81.6	-7.8	4.3
7	9,315.9	111.5	9.2	26,662.1	31.0	-2.4	3.8
8	9,436.3	87.8	6.8	27,052.2	46.7	6.1	-1.2
9	8,966.9	75.6	6.2	25,790.1	-59.0	0.9	-19.7
10	8,974.8	79.0	6.7	25,837.4	-1.1	3.5	-6.3
11	9,187.2	73.0	5.5	26,446.8	95.8	1.7	6.9
12	9,307.3	75.8	6.8	26,891.5	-42.7	-7.6	3.9

Source: Securities and Futures Bureau, FSC.

The TWSE Market

Listings and Capitalization Both Increased

At the end of 2014, there were a total of 854 listed companies on the TWSE, 16 more over the previous year. The total capital of listed companies issued amounted to NT\$6.8 trillion, 2.6 percent greater than the previous year. Total market capitalization grew by 9.7 percent year on year to NT\$26.9 trillion. While there was no new issuance of Taiwan Depository Receipts (TDRs) in 2014, two of the existing TDRs were de-listed, trimming the total number of TDRs on the TWSE to 26 at year end.

TAIEX Trended Up in H1 and Fluctuated in H2

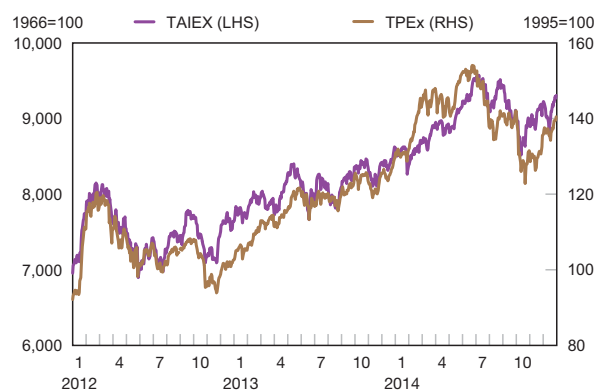
After extended gains following a rally at the end of the previous year, the TAIEX settled down to 8,264 points on February 5 after the market reopened after the Lunar New Year holiday, during which international stock markets plunged. Then, driven by the global economic recovery, better corporate profits, and continued net purchases by foreign investors, the TAIEX trended up to hit an all-year high of 9,569 on July 15.

In the following month, heightened international geopolitical risks, a plane crash on Taiwan's offshore island of Penghu and gas blasts in Kaohsiung combined together to send the TAIEX downwards to 9,086 on August 8. The index was able to bounce back to 9,513 as of September 1, bolstered by an upward revision of Taiwan's GDP forecast by the DGBAS and excellent corporate earnings growth.

Afterwards, the momentum of the TAIEX was sapped by a number of adverse factors, including domestic food safety concerns raised by a tainted oil scandal, a wider Ebola outbreak, and investor pullback from emerging markets. The TAIEX started a downward trend to hit 8,513 on October 17. However, encouraged by a continuing recovering of the US, improvement shown by domestic economic indicators, and the easing of some stock market investment measures, the TAIEX gradually swung upwards to close the year at 9,307 points, 8.1 percent higher than the 8,612 at the previous year end.

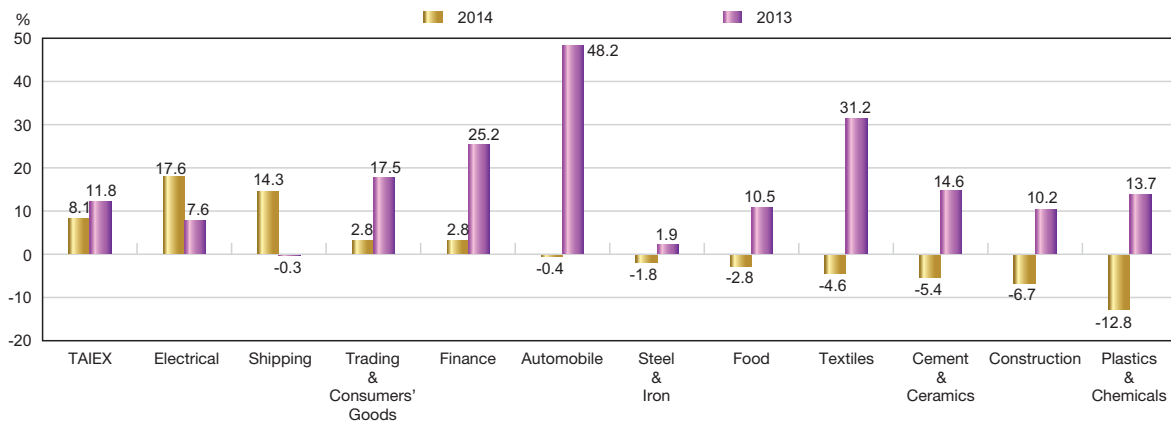
Broken down by subcategory, most industrial groups, except electrical, shipping and transportation, trading and consumers' goods, and finance, saw their share prices fall in 2014. Electrical stocks

TAIEX and TPEX Indices



Sources: 1. Securities and Futures Bureau, FSC.
2. Taipei Exchange (TPEX).

Changes in Industrial Group Stock Price Indices in the TWSE Market



Source: TWSE.

posted the largest gain of 17.6 percent, as huge sales of new cellphones increased demand for memory modules and chips and boosted the profits of IC companies. Shipping shares came in second with a 14.3 percent gain owing to reduced costs amid international oil price declines. On the other hand, oil price falls led plastics and chemicals shares to drop in value by 12.8 percent, the worst among all groups.

Market Turnover Increased

In 2014, the TWSE market turnover, measured on a daily average basis, increased to NT\$88.3 billion from the NT\$77.0 billion of the previous year, a 14.7 percent increase underpinned primarily by steady economic growth and a host of government measures to stimulate the stock market. As trading activity became robust, the turnover rate also rose from 82.6 percent the previous year to 84.6 percent.

Significant Net Buying by Foreign Investors

In 2014, foreign investors bought a net NT\$354.6 billion in the TWSE market, and were net buyers for the third year in a row. Local securities investment trust companies and securities dealers net sold TAIEX shares valued at NT\$38.1 billion and NT\$0.4 billion, respectively.

In the months of February, September, October, and December, foreign investors were net sellers in response to declines in international markets as well as profit taking from across Asian emerging markets. In all the other months of 2014, foreign investors were net buyers, fueled by market rallies in the US and Europe, a brighter economic outlook, and continued growth in earnings of Taiwan's listed companies.

Local securities investment trust companies, on the other hand, continued to be net sellers from January to July as they took advantage of an upward trend. After August, they began bargain hunting amid an extended market fall and turned into net buyers between August and November, until they net sold again in the last month of the year in response to strong year-end demand for fund redemption as well as a need to boost their own financial statements.

Local securities dealers, with inclinations for short swing trading, net sold in January, April, August, September, and October on market slumps and net bought in the rest of the year when the TAIEX rose.

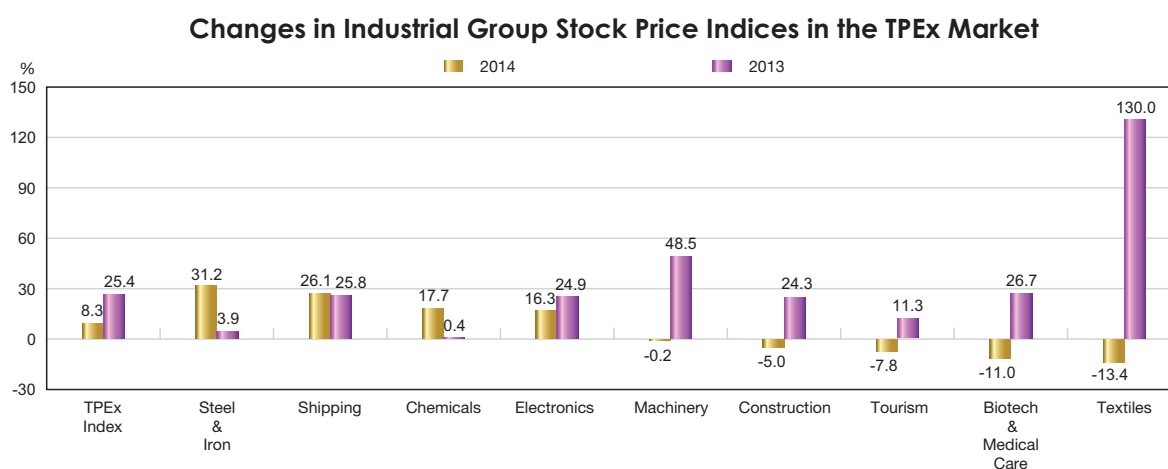
The TPEX Market

Listings and Capitalization Both Increased

The number of TPEX listings increased by 27 to a total of 685 at the end of 2014. The total capital amounted to NT\$679.6 billion, up by 2.7 percent from the previous year end. Market capitalization grew by 15.5 percent year on year, standing at NT\$2.68 trillion at the year end.

Market Index Fell After Rising

Stock prices in the TPEX market generally shared a similar trend with the TWSE market, albeit with greater volatility. Taking an uptrend early in the year all the way to peak at 154.1 points on July 1, the TPEX index was then battered by negative factors, including elevated geopolitical risks, growing concerns over the Ebola outbreak, and a spate of food safety scandals. It hit an all year low of 122.7 on October 27 and then rallied along with international markets to close the year at 140.4 points, up by 8.3 percent from the 129.6 points at the previous year end.



Source: TPEX.

For the year of 2014 as a whole, foreign investors recorded a net purchase position of NT\$43.1 billion in the TPEX market, while local securities investment trust companies and local dealers net sold NT\$4.4 billion and NT\$1.0 billion, respectively. The daily average turnover in the TPEX market was NT\$25.6 billion, increasing markedly by 56.1 percent from NT\$16.4 billion in 2013.

Key Measures for the Stock Markets

Key measures for Taiwan's stock markets in 2014 include the following:

- (1) January 6: Investors may conduct buy-then-sell day trading from this day on.
- (2) June 30: Two way (buy first or sell first) same day trading was given the green light as of this day for a total of 200 different stocks, including the component stocks of the Taiwan 50 Index, the Taiwan Mid-Cap 100 Index, and the TPEX 50 Index (formerly known as GreTai 50 Index) .
- (3) August 25: The Taiwan HC (High Compensation) 100 Index, an index compiled by the TWSE and Research Affiliates, was officially launched.
- (4) October 7: The FSC announced four measures to reinvigorate the stock markets, namely: (A) to exclude the leveraged amount used in day trading from the balance of margin purchases and short selling; (B) to raise the ceiling on the margin loan ratio for stocks traded over the counter to 60 percent (from 50 percent) ; (C) to raise the cap on margin purchasing and short selling of a single trading account and a single stock; and (D) to hold more results conferences for commendable corporate performances.
- (5) November 18: The FSC announced law amendments with the following liberalization measures:
 - A. Offshore securities units (OSUs) and offshore banking units (OBUs) are no longer required to cap their sales of Taiwan securities investment funds at under 30 percent of their net assets;
 - B. The underlying assets for the foreign currency equity derivatives business conducted by OSUs may involve TWSE or TPEX listed single stocks, TWSE or TPEX stock price indices, or exchange-traded funds on Taiwan's securities markets;
 - C. When conducting stock lending business, a securities firm may (a) accept as collateral all types of securities purchased or borrowed via margin trading and central government bonds; (b) grant a borrower another 6-month extension appropriately based on the borrower's credit standing, allowing the borrowing period to be 18 months at most; and (c) expand margin loans to a same natural person where the balance shall not exceed NT\$80 million (formerly capped at NT\$60 million) .
- (6) December 26: After an amendment to the *Income Tax Act* passed the third reading in the

legislature, a proposed capital gains tax measure for active stock market traders was put off for three years. Beginning 2018, individuals who sell more than NT\$1 billion worth of shares within the year will be levied a transactions income tax of 0.1 percent on trades beyond the NT\$1 billion threshold.

7. Bond Market

For the year of 2014, the total volume of bond issuance showed a significant increase. New issues of bonds amounted to NT\$1,881.7 billion, growing by NT\$617.5 billion or 48.84 percent over the previous year. At the end of 2014, the outstanding amount of bonds issued stood at NT\$9,329.6 billion, an increase of NT\$1,045.8 billion or 12.62 percent from the previous year end.

In order to support fiscal funding needs, issuance of central government bonds for 2014 increased by NT\$33.4 billion, or 5.21 percent, to NT\$675.3 billion.

Corporate bonds exhibited a downtrend in 2014 as corporations issued more corporate bonds in the previous year amid market expectations of a possible rate hike later. Therefore, issuance of corporate bonds for 2014 decreased by NT\$105.6 billion, or 22.67 percent, to NT\$360.4 billion.

With respect to bank debentures, the main purpose for banks to issue bonds was to strengthen their capital base and meet mid- to long-term operation funding needs. For the year as a whole, bank debenture issuance totaled NT\$397.5 billion, increasing by NT\$287.2 billion or 260.43 percent over the previous year.

In terms of asset securitization, only one new product was issued in 2014. Added with the volume of products on a revolving issuance basis, the outstanding balance of asset securitization products slightly increased by NT\$0.5 billion, or 6.40 percent, to NT\$8.5 billion over the previous year.

Furthermore, the Financial Supervisory Commission (FSC) announced in 2014 that insurers are allowed to invest in international bonds without them counting toward the cap on insurers' foreign investments. Therefore, market demand increased and numerous foreign institutions gradually raised funds in Taiwan. In 2014, foreign financial institutions issued 50 foreign currency-denominated bonds totaling NT\$440.0 billion, whereas foreign bonds issued in Taiwan by international financial organizations recorded no new issues during the year.

In the secondary market, owing to the Fed's gradual reduction of asset purchases and geopolitical tensions in the Middle East and Ukraine, funds flowed to US government bonds on account of risk aversion, leading US bond yields to decline. Therefore, domestic government bond yields exhibited a downward trend for the first half of 2014. Entering the second half of the year, yields on bonds with different maturities trended upward, yet later fluctuated as they were affected by the Fed's announcement of the ending of its asset purchase program, expansion of quantitative easing measures by the ECB and the BoJ, and the decline in international oil prices. Of the components, the 10-year bond yield reached 1.6015 percent at the end of 2014, down by 0.0782

percentage points from 1.6797 percent at the previous year end. As demand for repo transactions was softened by abundant market liquidity, annual transactions contracted by NT\$1,194.0 billion or 1.72 percent over the previous year to NT\$68,032.1 billion. In addition, only one fixed income fund remained in the market with a volume of NT\$3.4 billion at the end of 2014.

Rise in Government Bond Issuance

On account of the rise in long-term bond yields, the amount of central government bonds issued with certain maturities was less than the amount open for bid. As a result, central government bond issuance for 2014 totaled NT\$675.3 billion, less than the expected amount of NT\$695.0 billion, yet still showing an increase of NT\$33.4 billion or 5.21 percent, compared with the previous year.

Issues of 5-year, 10-year, and 20-year government bonds were NT\$182.4 billion, NT\$215.0 billion, and NT\$125.0 billion, respectively. Moreover, there were also 2-year bond issuances worth NT\$35.0 billion and 30-year bond issuances worth NT\$117.9 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 2014 were all higher than the previous year on account of the Fed's decision to end asset purchases. The weighted average issuing rate on 10-year bonds rose to 1.610 percent from the previous year's 1.535 percent. However, the higher liquidity of short-term bonds led to stronger market demand. Therefore, the rate on 2-year bonds continued to fall from the previous year's 0.727 percent to 0.658 percent.

In terms of bonds issued by governments of special municipalities, new issues were nil in 2014.

In sum, the outstanding amount of government bond issuance was NT\$5,440.2 billion in 2014, an increase of NT\$230.7 billion or 4.43 percent from the previous year end.

Slowdown in Corporate Bond Issuance

For the year of 2014, corporate bond issuance shrank from a year earlier exhibited a downtrend as corporations issued more bonds in 2013 amid market expectations of a possible rate hike later. Therefore, the issuing amount of corporate bonds for 2014 decreased by NT\$105.6 billion, or 22.67 percent, to NT\$360.4 billion.

State-owned enterprises issued bonds worth NT\$93.6 billion, making up 26 percent of total corporate bond issuance in 2014. In the private sector, Formosa Plastics Group topped the list with its yearly bond issuance reaching NT\$43.0 billion, while Hon Hai Precision Industry Company Ltd. accounted for the second largest share of bond issuance with an amount of NT\$39.2 billion. Additionally, the combined bond issues of steel and iron companies exceeded NT\$30.0 billion.

Owing to the rise in long-term bond yields, weighted average issuing rates on 5-year, 7-year,

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
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	1,264.3	8,283.8	641.9	5,068.2	-	141.3	466.0	1,865.3	110.3	1,029.8	8.0	135.1	38.1	44.1
2014	1,881.7	9,329.6	675.3	5,338.5	-	101.7	360.4	2,013.0	397.5	1,273.6	8.5	118.7	440.0	484.1
2014/ 1	164.4	8,342.9	100.1	5,088.3	-	141.3	41.1	1,892.6	20.7	1,038.4	-	135.8	2.5	46.6
2	79.9	8,368.1	70.0	5,128.3	-	141.3	5.9	1,892.5	2.0	1,034.2	2.0	125.3	-	46.6
3	93.1	8,341.5	40.0	5,093.3	-	126.4	24.2	1,912.0	28.9	1,046.5	-	116.8	-	46.6
4	51.8	8,370.4	35.0	5,128.3	-	126.4	3.8	1,897.7	13.0	1,054.0	-	117.5	-	46.6
5	152.8	8,478.6	60.0	5,188.3	-	118.1	52.8	1,930.0	40.0	1,081.5	-	114.3	-	46.6
6	190.3	8,625.5	72.9	5,261.1	-	118.0	45.8	1,952.3	62.1	1,124.5	-	113.3	9.6	56.2
7	176.8	8,700.0	70.0	5,261.1	-	109.1	62.2	1,992.4	-	1,124.5	6.5	118.5	38.2	94.4
8	151.0	8,816.1	35.0	5,296.1	-	109.1	19.7	1,989.7	9.7	1,121.7	-	118.5	86.6	181.0
9	251.1	8,910.5	40.0	5,226.1	-	109.1	26.0	2,000.8	42.8	1,133.9	-	117.2	142.4	323.4
10	200.0	9,044.7	64.5	5,250.6	-	109.1	27.9	2,012.2	42.7	1,166.3	-	118.1	65.0	388.4
11	198.1	9,213.4	57.9	5,308.5	-	101.8	11.5	2,008.5	71.1	1,230.7	-	117.9	57.6	446.0
12	172.4	9,329.6	30.0	5,338.5	-	101.7	39.7	2,013.0	64.6	1,273.6	-	118.7	38.1	484.1

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.

10-year, and 15-year corporate bonds for 2014 were all higher than those in the previous year, reaching 1.4741 percent, 1.7316 percent, 1.9460 percent, and 2.0800 percent, respectively. At the end of 2014, the outstanding amount of corporate bonds was NT\$2,013.0 billion, rising by NT\$147.7 billion or 7.92 percent from the previous year end.

Marked Increase in Bank Debenture Growth

A total of 27 financial institutions issued bank debentures in 2014, mainly in support of their mid-to long-term operation funding needs. For the year as a whole, bank debenture issuance totaled NT\$397.5 billion, expanding by NT\$287.2 billion or 260.43 percent over the previous year. The issuance included US dollar bank debentures worth US\$5.4 billion issued by eight domestic financial institutions and renminbi bank debentures worth RMB6.0 billion issued by three domestic financial institutions. The majority of the issuance, or 57.64 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 16.68 percent and 22.79 percent in total issuance, respectively. The weighted average issuing rates on 5-year, 6-year, 7-year and 10-year bank debentures were higher than the previous year because of rising long-term bond yields.

At the end of the year, the outstanding amount of bank debentures was NT\$1,273.6 billion, growing by NT\$243.8 billion or 23.67 percent from the previous year end.

Decline 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, only one new asset securitization product was issued in 2014. The amount of asset securitization product issuance, combined with that of revolving issuance, totaled NT\$8.5 billion for the whole year, increasing by NT\$0.5 billion or 6.40 percent.

In addition to the slightly rising issuance of asset securitization products, five financial asset securitization products matured and the principal was repaid. Therefore, the outstanding amount of asset securitization decreased by NT\$16.4 billion or 12.14 percent from the previous year end to NT\$118.7 billion.

Significant Growth in Foreign and International Bonds Issuance

Foreign bonds, NT dollar-denominated bonds issued in Taiwan by international financial organizations, had been all repaid at the end of February 2013 and recorded no new issues for the year of 2014. On the other hand, international bonds refer to bonds issued in Taiwan by foreign financial institutions and are currently denominated in foreign currencies. Meanwhile, the FSC announced in June 2014 that insurers are allowed to invest in international bonds without them counting toward the cap on insurers' foreign investments. As a consequence, market demand increased and numerous foreign institutions gradually raised funds in Taiwan. Issuance by foreign financial institutions for the year of 2014 increased by NT\$401.9 billion or 1,056.28 percent from the previous year to NT\$440.0 billion. At the end of the year, the outstanding amount of international bonds and foreign bonds was NT\$484.1 billion, an increase of NT\$440.0 billion or 997.83 percent over the previous year end.

Fluctuation in Bond Yields and Contraction in Transactions

For the first half of 2014, affected by the Fed's gradual reduction of asset purchases, political unrest in the Middle East and geopolitical tensions between Russia and Ukraine, funds flowed to US government bonds for risk aversion, leading the 10-year local bond yield to decline along with the US 10-year bond yield and hit a yearly low of 1.4679 percent on May 21. After June, on the back of a buoyant stock market and market expectations of possible early withdrawal of QE in the US, the yield on the benchmark government bond reached a yearly high of 1.7570 percent on September 19.

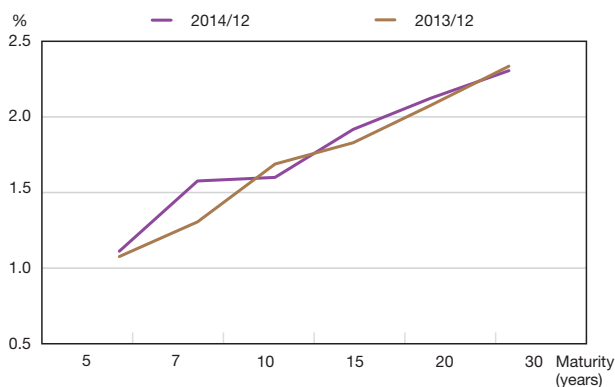
Later in the year, as the IMF revised down its global economic growth forecast and volatility in international financial markets heightened, the US bond yield trended downward, sending the 10-year bond yield to descend to 1.5976 percent on October 17. Afterwards, with the Fed's decision

to end its bond-buying program and continued expansion of monetary stimulus measures by the ECB and the BoJ, investor demand for safety was more subdued, causing the US bond yield to rebound from a slump.

In December, market concerns over intensifying deflationary pressures from the plunge in international oil prices dragged down US bond yields. Nevertheless, there was only a slight decrease in the 10-year local bond yield because of the crowding out effect triggered by increased issuance of international bonds. The 10-year bond yield mainly fluctuated between 1.57 percent and 1.65 percent, and finally ended 2014 at 1.6015 percent, 0.0782 percentage points lower than the 1.6797 percent of the previous year end. The average yield on 10-year government bonds for the year was 1.6040 percent, up by 0.1484 percentage points from 1.4556 percent over the previous year.

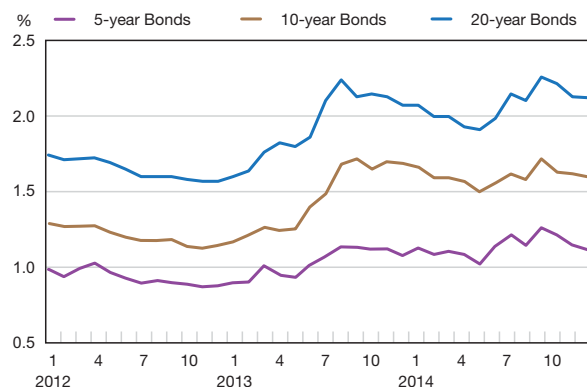
For the year of 2014, average yields on government bonds of every maturity range were similar to the previous year, except for the average yield on the 7-year bond which showed a bigger uptrend compared to 2013. The yield curve was not much different from that of the previous year.

Yield Curve of Central Government Bonds



Source: TPEX.

Yield on Central Government Bonds with Different Maturities



Source: TPEX.

In terms of transaction volume, as demand for repo transactions was softened by abundant market liquidity, the volume of repo transactions fell by NT\$2,204.6 billion or 3.97 percent for the year. On the other hand, outright transactions expanded by NT\$1,010.6 billion or 7.38 percent over the previous year owing to increased transactions of international bonds. As a result, total bond transactions for 2014 decreased by NT\$1,194.0 billion or 1.72 percent from the previous year to NT\$68,032.1 billion.

By type of bonds, government bonds accounted for 73 percent of total bond transactions with an annual trading volume of NT\$49,776.4 billion. The second most actively traded were corporate bonds, making up 22 percent of total transactions with an annual trading volume of NT\$15,050.5

billion. Bank debentures came in third, accounting for 4 percent of total transactions with an annual trading volume of NT\$2,483.4 billion. Foreign and international bonds and asset securitization products each made up marginal shares of less than 1 percent in total transactions, with their respective annual trading reaching NT\$632.3 billion and NT\$89.5 billion.

Bond Transactions in the Over-the-Counter Market

Unit: NT\$ Billion

Year/ Month	Total	Outright Transactions		Repurchase Agreement Transactions	
		Amount	Share(%)	Amount	Share(%)
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
2014	68,032.1	14,705.9	21.6	53,326.2	78.4
2014/ 1	4,886.6	1,042.9	21.3	3,843.7	78.7
2	4,714.3	1,104.0	23.4	3,610.3	76.6
3	6,029.1	1,289.1	21.4	4,740.0	78.6
4	6,232.2	1,262.9	20.3	4,969.3	79.7
5	5,575.1	1,210.5	21.7	4,364.6	78.3
6	5,539.0	1,502.8	27.1	4,036.2	72.9
7	6,114.7	1,452.6	23.8	4,662.1	76.2
8	5,942.2	1,265.3	21.3	4,676.9	78.7
9	5,918.2	1,355.3	22.9	4,562.9	77.1
10	5,844.2	1,335.5	22.9	4,508.7	77.1
11	5,341.3	976.3	18.3	4,365.0	81.7
12	5,895.2	908.7	15.4	4,986.5	84.6

Source: TPEX.

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			
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
2014	68,032.1	49,776.4	14,296.6	753.9	2,483.4	89.5	632.3
2014/ 1	4,886.6	3,586.6	1,057.0	68.7	162.4	5.5	6.4
2	4,714.3	3,649.1	863.4	60.7	129.9	5.8	5.4
3	6,029.1	4,720.8	1,019.7	62.9	207.3	9.1	9.3
4	6,232.2	4,903.3	1,038.2	60.0	218.6	7.1	5.0
5	5,575.1	4,220.5	1,055.0	51.1	238.1	6.8	3.6
6	5,539.0	4,154.5	1,091.1	57.8	213.9	7.2	14.5
7	6,114.7	4,539.4	1,242.1	71.3	194.5	8.7	58.7
8	5,942.2	4,404.3	1,187.9	64.0	177.4	9.0	99.6
9	5,918.2	4,148.1	1,276.7	70.4	229.3	10.7	183.0
10	5,844.2	4,154.6	1,361.2	60.6	185.1	8.3	74.4
11	5,341.3	3,581.7	1,361.6	54.4	235.2	6.6	101.8
12	5,895.2	3,713.5	1,742.7	72.0	291.7	4.7	70.6

Source: TPEX.

Central Bank Operations

III. Central Bank Operations

1. Overview

For the year 2014, uncertainties lingered in the global economy, the domestic output gap remained negative, and the inflation outlook was mild. Against such a backdrop, the CBC kept policy rates on hold so as to fulfill its legal mandates of maintaining price and financial stability and fostering economic growth.

In response to economic and financial conditions, the CBC continued to conduct open market operations and issue certificates of deposit (CDs) to manage market liquidity, maintain reserve money at appropriate levels and sustain steady growth in monetary aggregates. Moreover, in order to meet financial institutions' portfolio diversification needs, the CBC raised the bidding amounts of 364-day CDs and 2-year CDs. With regard to money supply, M2 recorded an annual growth rate of 5.66 percent, within the CBC's target range of 2.5 percent to 6.5 percent, which was sufficient to fully support economic activity.

To further strengthen financial institutions' management of real-estate associated credit risks and ensure sound banking operation, the CBC decided to expand the scope of Specific Areas to include four more districts in New Taipei City and four districts in Taoyuan City, revise the definition of high-valued housing, and introduce a loan-to-value ratio cap of 50 percent on, among others, new loans for the third (or more) home purchase, all effective from June 27, 2014.

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 FSC. Furthermore, from September 9, 2014, overseas branches of domestic banks were eligible to conduct NT dollar non-delivery forwards business with prior approval. This measure was expected to help expand the business scope of overseas branches of domestic banks and promote their international competitiveness. Meanwhile, 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.

To enhance the safety and efficiency of payment system operation, the CBC continued to improve financial infrastructure. During 2014, the CBC expanded the functions of the foreign currency

clearing platform, which significantly reduced the charges for remittances paid by the general public and the processing time. In addition, the CBC assisted the Financial Information Service Co., Ltd., the Taiwan Clearing House, and the National Credit Card Center of R.O.C. in founding the Taiwan Mobile Payment Co., which later launched the Payment Service Provider Trusted Service Manager platform on December 30, 2014, aiming to facilitate the development of mobile payments.

2. Monetary Management

In 2014, owing to lingering uncertainties in the global economy, a negative output gap and a mild inflation outlook in the domestic economy, the CBC maintained its monetary policy stance, leaving policy rates unchanged. In addition, the CBC continued to monitor 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 view of global economic uncertainties, a negative domestic output gap, and a mild outlook for inflation, the CBC kept policy rates unchanged so as to maintain price and financial stability and to promote economic growth.

At the end of 2014, the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral remained at their current levels of 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 2014, the CBC continued to conduct open market operations by issuing certificates of deposit (CDs) to maintain reserve money and overnight call loan rates at appropriate levels. The average annual growth rate of reserve money in 2014 was 6.94 percent, while M2 recorded an annual growth rate of 5.66 percent, within the CBC's target range of 2.5 percent to 6.5 percent.

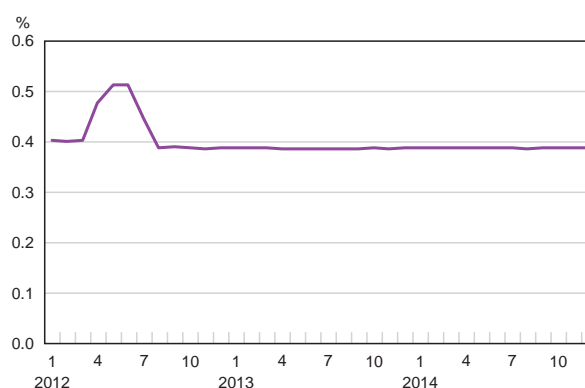
In response to the demands for asset allocation of financial institutions, the monthly amount of

364-day CDs issued increased from NT\$100 billion to NT\$120 billion from February onwards, and the monthly amount of 2-year CDs issued rose from NT\$10 billion to NT\$20 billion beginning August 2014. The total value of CDs issued amounted to NT\$67,187 billion in 2014, and the total outstanding amount of CDs issued by the CBC was NT\$7,106 billion at the end of the year.

Keeping in line with policy rates, the CBC also kept its non-competitive bidding rates for new CDs unchanged. Consequently, in 2014, the rates on 30-day, 91-day, and 182-day CDs remained at 0.87 percent, 0.93 percent, and 1.05 percent, respectively. In addition, the rates on 364-day CDs exhibited a downward trend from 0.58 percent in January to 0.52 percent in June. Subsequently, it showed an upward trend to 0.64 percent in October, and then dropped to 0.60 percent at the end of the year. Meanwhile, the rates on 2-year CDs displayed a similar pattern, staying within the range of 0.69 percent to 0.85 percent.

In 2014, the average overnight call loan rate remained broadly stable in each month, within the range of 0.386 percent to 0.388 percent.

Overnight Call Loan Rate



Source: Financial Statistics Monthly, CBC.

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	274-364 Days	2 Years
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	0.77
2014	67,187	66,955	0.87	0.93	1.05	0.58	0.79
2014/ 1	5,022	5,110	0.87	0.93	1.05	0.58	0.76
2	5,550	5,444	0.87	0.93	1.05	0.57	0.74
3	5,650	5,611	0.87	0.93	1.05	0.56	0.73
4	5,728	5,692	0.87	0.93	1.05	0.53	0.71
5	5,461	5,433	0.87	0.93	1.05	0.52	0.69
6	5,624	5,602	0.87	0.93	1.05	0.52	0.70
7	6,356	6,319	0.87	0.93	1.05	0.54	0.75
8	5,322	5,287	0.87	0.93	1.05	0.60	0.80
9	5,518	5,512	0.87	0.93	1.05	0.61	0.84
10	5,968	5,963	0.87	0.93	1.05	0.64	0.85
11	5,145	5,138	0.87	0.93	1.05	0.63	0.85
12	5,844	5,844	0.87	0.93	1.05	0.60	0.81

Source: Financial Statistics Monthly, CBC.

Amending the Regulations Governing Real Estate Loans and Continuing Relevant Risk Management Policy

- (1) Since June 2010, the CBC has introduced several rounds of targeted macro-prudential measures governing housing loans in the stipulated Specific Areas, and high-valued housing loans and land collateralized loans nationwide. Furthermore, since March 2013, in view of a more pronounced price increase in districts outside Specific Areas, the CBC has urged banks to exercise self-discipline to enhance risk management of housing loans in these districts.
- (2) In order to further strengthen financial institutions' management of real-estate associated credit risks, the Board amended the *Regulations Governing Home mortgage Loans and Land Loans Extended by Financial Institutions* on June 26, effective from June 27, 2014. Important amendments related to the above mentioned regulations included:
- A. Expanding the scope of Specific Areas to include four more districts in New Taipei City (Wugu, Taishan, Bali and Yingge) and four districts in Taoyuan City (Taoyuan, Luzhu, Zhongli and Guishan) .
 - B. Introducing a loan-to-value (LTV) ratio cap of 50 percent on a new housing loan taken out by a single borrower for his/her third or more home purchase, applicable to properties across the country.
 - C. Revising the definition of high-valued housing, of which the LTV ratio ceiling was lowered to 50 percent.
 - D. Lowering the LTV ratio ceiling on housing loans taken out by corporate legal entities to 50 percent.
- (3) Since measures were introduced to further enhance banks' real estate-related risk management in June 2014, the concentration of real estate lending in banks' loan portfolios has eased. Banks were also found to have granted loans for housing in the designated Specific Areas and high-valued housing across the country at lower LTV ratios and higher mortgage rates. This is conducive to sound banking operation and to the attainment of financial stability.

The risk management measures for real estate lending implemented by the CBC have achieved the following results:

- A. The outstanding amount of housing loans increased at a slightly slower pace through 2014, accounting for 26.75 percent of total loans at the end of the year, down by 0.87 percentage points from June 2010. In addition, the concentration of housing loans in the stipulated Specific Areas improved markedly.

Housing Loan Ratios

Date	Housing Loans to Total Loans	New Housing Loans in
		"Specific Areas" to Total New Housing Loans
2010 / Jun.	27.62	70.20
2014 / Dec.	26.75	51.46

Unit:%

B. The average LTV ratio of housing loans in Specific Areas fell by 6.6 percentage points to 57.31 percent, and the average mortgage rate rose to 2.15 percent at the end of 2014.

Housing Loans in “Specific Areas”

Unit:%

Date	Loan-to-Value Ratio	Mortgage Rate
2010 / Jul.	63.91	1.97
2014 / Dec.	57.31	2.15

C. The average LTV ratio of newly-extended land collateralized loans declined to 60.30 percent, and the average mortgage rate climbed to 2.78 percent at the end of 2014.

Newly-Extended Land Collateralized Loans

Unit:%

Date	Loan-to-Value Ratio	Mortgage Rate
2010 / Dec.	68.36	2.08
2014 / Dec.	60.30	2.78

D. The average LTV ratio of housing loans taken out by corporate legal entities decreased to 43.67 percent, and the average mortgage rate edged down slightly to 2.25 percent at the end of 2014.

Housing Loans by Corporate Legal Entities

Unit:%

Date	Loan-to-Value Ratio	Mortgage Rate
2011 / Dec.	56.11	2.30
2014 / Dec.	43.67	2.25

E. The efforts of the aforesaid policy measures had successfully pushed the average LTV ratio of high-valued housing loans down to 47.93 percent, and brought the average mortgage rate upwards to 2.08 percent in December 2014.

High-Valued Housing Loans

Unit:%

Date	Loan-to-Value Ratio	Mortgage Rate
Pre-restriction	80-99 (maximum)	1.84 (minimum)
2014 / Dec.	47.93 (average)	2.08 (average)

F. The average LTV ratio on loans for third home purchase dropped sharply to 48.7 percent, while the average mortgage rate trended up to 2.29 percent at the end of 2014.

Loans for Third Home Purchase

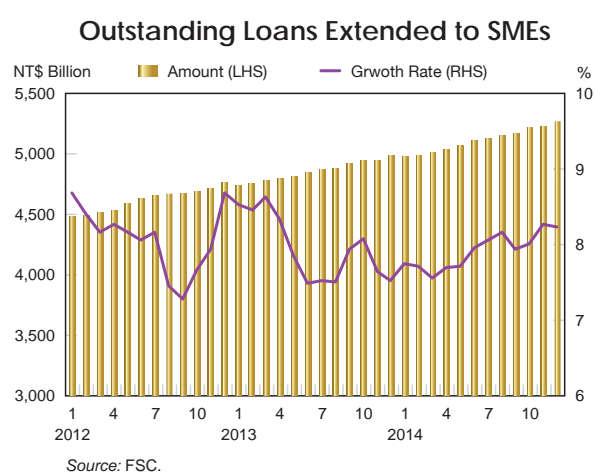
Date	Loan-to-Value Ratio	Mortgage Rate
2014 / Jun.	58~72	1.97
2014 / Dec.	48.7	2.29

Unit:%

Enhancing the SME Financing Mechanism

To provide easier access to financing for SMEs, the CBC supported the Financial Supervisory Commission (FSC) to continue the program of encouraging SMEs lending by domestic banks. Furthermore, the CBC also continued to urge commercial banks to increase lending to SMEs.

At the end of 2014, the outstanding loans extended to SMEs by domestic banks amounted to NT\$5,164 billion, growing by NT\$403 billion from the end of the previous year and far exceeding the annual target of increased lending of NT\$240 billion set by the FSC.



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 2014, outstanding postal savings redeposits and commercial banks' redeposits stayed unchanged at NT\$1,624 billion and NT\$396 billion, respectively.

The Agricultural Bank of Taiwan accepted deposits from community financial institutions and made redeposits with the CBC. At the end of 2014, its outstanding redeposits were NT\$165 billion. In addition, the Central Deposit Insurance Corporation's time deposits at the CBC totaled NT\$54 billion, which was a NT\$15 billion increase from 2013.

3. Foreign Exchange Management

For the year 2014, 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\$2.2 billion owing to returns on investments. The payment-versus-payment (PVP) mechanism was added to the foreign currency clearing platform. Moreover, from February 6, 2013, when domestic banking units (DBUs) were allowed to conduct renminbi (RMB) business, up to the end of 2014, DBUs recorded a balance of RMB 302.3 billion on RMB deposits, and the balance of DBUs' cross-strait RMB remittances was RMB1,970.7 billion.

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. In recent years, the US, Japan and the euro area have adopted quantitative easing (QE) policies one after the other. The spillover effects caused frequent large scale foreign capital movements in and out of Taiwan, which affected the NTD exchange rate and financial market stability. To prevent QE policies from disrupting the domestic FX market, the CBC conducted “leaning against the wind” operations to eliminate excessive exchange rate fluctuations in order to maintain the dynamic stability of the NTD exchange rate. Indeed, according to behavioral macroeconomic analysis, leaning against the wind can effectively eliminate excessive exchange rate fluctuations and enhance FX market efficiency.

At the end of 2014, the NT dollar exchange rate depreciated against the US dollar by 5.57 percent from the previous year end's 29.950 to 31.718, in the middle ground of stability as compared to the euro's 11.84 percent depreciation, the RMB's 2.48 percent depreciation, the Korean won's 3.36 percent depreciation and the Japanese yen's 12.24 percent depreciation.

In 2014, the CBC continued to implement the Real-Time Reporting System for Large-Amount Foreign Exchange Transactions to keep the market orderly. Moreover, reinforced examination efforts were made to ensure that forward transactions were based only on actual transactions. The CBC also urged authorized banks to enhance their exchange rate risk management.

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, including US\$20 billion, €1 billion and ¥80 billion.

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 2014, the volume of foreign exchange call loan transactions reached US\$1,474.6 billion, 8.2 percent more than that of 2013, while the balance at the end of 2014 was US\$22.7 billion. The volume of foreign currency-NTD swap transactions reached US\$1,240.3 billion, 9.6 percent more than 2013, while the balance was US\$170.4 billion at the end of 2014.

Foreign Exchange Reserve Management

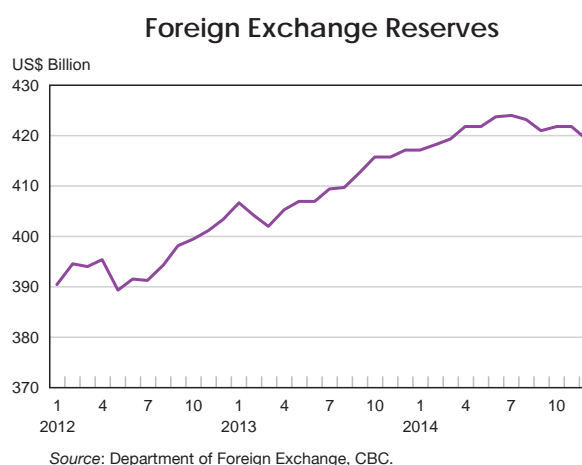
At the end of 2014, total foreign exchange reserves stood at US\$419.0 billion, a US\$2.2 billion increase from the end of 2013, mainly attributable to higher returns from foreign exchange reserve investments.

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 2014, foreign currency capital not involving NT dollar conversion can flow freely; neither is there any restriction on financial flows involving NT dollar conversion for goods 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.

Key measures with regard to the management of capital flows in 2014 included:

- (1) Promoting the internationalization of Taiwan's capital market
- (2) Increasing residents' investments in foreign securities



CBC-Approved Fund-Raising by Domestic and Foreign Institutions

Institution	Method	Number	Amount
Foreign companies	IPO on TWSE & TPEX	22	NTD10.87 billion
	NTD convertible bonds	6	NTD4.40 billion
	International bonds	29	USD14.66 billion
			RMB3.30 billion
			AUD0.17 billion
ZAR0.60 billion			
Domestic companies	Overseas convertible bonds	7	USD2.11 billion
	Overseas depository receipts	3	USD0.88 billion
	RMB-denominated bonds	2	RMB1.20 billion
Mainland Chinese banks	RMB-denominated bonds	6	RMB16.30 billion

Note: TWSE (Taiwan Stock Exchange) ; TPEX (Taipei Exchange) .
Source: Department of Foreign Exchange, CBC.

Residents' investments in Foreign Securities Approved by the CBC

Institution	Method/Instrument	Amount
Securities investment trust (SIT) companies	85 domestic SIT funds (including 59 NTD - foreign multiple currency SIT funds)	NTD1,360.00 billion (multiple currency funds: NTD965.00 bn)
	3 SIT private funds	NTD4.60 billion
	1 domestic futures trust fund	NTD5.00 billion
Life insurance companies	Non-discretionary money trusts managed by financial institutions	USD2.13 billion
	Investment for their own accounts	USD3.40 billion
	Foreign securities investment remittances to presell forward FX contracts	USD0.09 billion
	Lowering overseas investment hedge positions	USD6.00 billion
Five major government funds	Investment for their own accounts	USD3.36 billion
	Overseas investment remittances	USD0.09 billion

Source: Department of Foreign Exchange, CBC.

(3) Loosening the regulations regarding foreign exchange remittances In line with the Financial Supervisory Commission's (FSC's) approval of the cooperation agreements signed by the Taiwan Futures Exchange and foreign futures exchanges, the CBC relaxed related remittance regulations. Starting from May 15, 2014, banks may handle the declaration of FX settlements of futures commission merchants, foreign futures clearing houses or foreign futures commission merchants in conducting FSC-approved NTD-denominated futures contracts listed on the aforementioned foreign futures exchanges per the cooperative agreements.

Management of the Foreign Exchange Business of Financial Institutions

(1) Authorized FX banks

Pursuant to *The Central Bank of the Republic of China (Taiwan) Act* and *Foreign Exchange Regulation Act*, the CBC reviewed and authorized banks to manage FX business and supervised accordingly. In 2014, the CBC continued to approve bank branches as authorized FX banks and loosened restrictions on FX derivative product business.

- A. At the end of 2014, there were 3,407 authorized FX banks in total, which included 39 head offices and 3,329 branches of domestic banks, 36 branches of 27 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.
- B. The CBC also approved 14 cases for authorized FX banks to establish branches in Mainland China, 26 cases for domestic banks to set up branches abroad.
- C. In terms of new FX products, 28 derivatives were approved in 2014 after prudent review.
- D. To boost international competitiveness of domestic banks' foreign branches with a more extensive business scope, on September 9, the CBC announced that overseas branches of domestic banks may apply for NTD non-delivery forward (NDF) business.
- E. On October 8, the CBC announced that authorized FX banks could accept and handle internet banking or mobile banking FX business for non-resident natural persons with resident certificates and natural persons with Identification Cards issued according to the Ministry of Foreign Affairs' *Directions for Issuing Identification Cards to the Staff of Diplomatic Missions in the Republic of China (Taiwan) and Their Family Members*. The aforesaid business includes: NTD remittances with the equivalent value below NT\$500 thousand, foreign currency outward remittances, foreign currency transfers with the same person's bank account or with a pre-defined third person account.

(2) Insurance companies

In 2014, 21 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

- A. As securities firms and their offshore securities units (OSUs) were allowed to engage in securities business-related spot transactions between foreign currencies, starting from August 26, 2014, the CBC required securities firms and OSUs to declare their FX receipts and disbursements or

transactions.

B. As of end-2014, the approved cases granted by the CBC for securities firms, investment trust and investment consulting firms to manage FX business are as follows:

CBC-Approved FX Business Managed by Securities Firms and Investment Trust and Investment Consulting Firms (As of End-2014)

Institution	FX business	Number
Securities firms	Agents for foreign bond trading	10
	Brokering trades in foreign securities	38
	Underwriting international bonds	32
	Proprietary trading of and investments in international bonds	8
	Proprietary foreign securities trading neither belonging to investment with their own funds nor for hedging needs	10
	Issuance of warrants linked to foreign securities or indexes	7
	Issuance of warrants linked to domestic securities	1
	Non-discretionary individually managed money trust wealth management	11
	Issuance of onshore foreign currency bills	21
	Participating dealers of offshore exchange traded funds	4
Securities firms; investment trust and investment consulting firms	Master agents for offshore public funds	47
	Mandated institution of private offshore funds	22
	Foreign currency discretionary investments in foreign securities	27
	Conducting public offer or private placement of foreign currency-denominated funds	18
	Master agents for offshore exchange traded funds	2

Source: Department of Foreign Exchange, CBC.

RMB Exchange Transactions

- (1) Since February 6, 2013, when authorized FX banks or DBUs began to conduct RMB business, domestic RMB business has been flourishing.
- (2) By the end of 2014, there were 67 DBUs and 59 offshore banking units (OBUs) engaging in RMB business. The balance of RMB deposits amounted to RMB302.3 billion; RMB remittances totaled RMB1,970.7 billion; and RMB settlement through the Taipei Branch of the Bank of China totaled RMB5,502.3 billion.

- (3) Along with the development of RMB business, RMB investment products were further diversified. As of the end of 2014, RMB investment business conducted by financial institutions were as follows:

RMB Investment Business

Institution and number	Type of RMB Business and Amount
49 DBUs and 4 securities firms	Offering RMB derivative financial products and structured products
21 banks and companies	Issuing 44 RMB bonds totaling RMB31.40 billion
23 companies	Issuing 40 funds, denominated in RMB or including an RMB currency class, with the amount totaling RMB7.10 billion
15 companies	Conducting RMB-denominated investment type insurance business, with accumulated premium receipts totaling RMB0.53 billion
12 companies	Conducting RMB-denominated traditional insurance business, with accumulated premium receipts totaling RMB0.23 billion

Source: Department of Foreign Exchange, CBC.

Expanding Foreign Currency Clearing Platform

- (1) For better consumer protection and higher efficiency of domestic USD remittance, the CBC began efforts to establish a domestic USD clearing mechanism in September 2008 and officially launched the system on December 6, 2010.
- (2) To further reinforce Taiwan's financial infrastructure, and in line with the establishment of the cross-strait RMB 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 online on March 1, 2013, to handle domestic US dollar remittances. From September 30 onward, domestic and cross-strait RMB remittances were included.

In 2014, cross-strait USD remittance began to be settled via the platform. The CBC also set up a PVP mechanism among banks and a liquidity-saving mechanism for foreign currency remittances. In addition, the CBC selected the Taipei Branch of Mizuho Bank and Taiwan's Mega Bank as the respective clearing bank for the yen and the euro, with remittances of the two currencies expected to be settled on the platform in the first half of 2015. The CBC plans to establish a delivery-versus-payment (DVP) mechanism for foreign bonds and bills in the early second half of 2015.

- (3) By the end of 2014, the foreign currency clearing platform had achieved the following:
- A. 76 domestic banks participated in US dollar settlement with a daily average of 3,594 transactions and an amount of US\$6.10 billion;

B. 57 domestic banks participated in RMB settlement, with a daily average of 594 transactions and an amount of RMB1.90 billion;

C. domestic bank remittance fees were lowered from NT\$600-1,400 to NT\$320-1,020 per transaction.

Offshore Banking Units and Securities Units

(1) At the end of 2014, all OBU assets totaled US\$184.0 billion, which was US\$14.4 billion or 8.5 percent more 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.

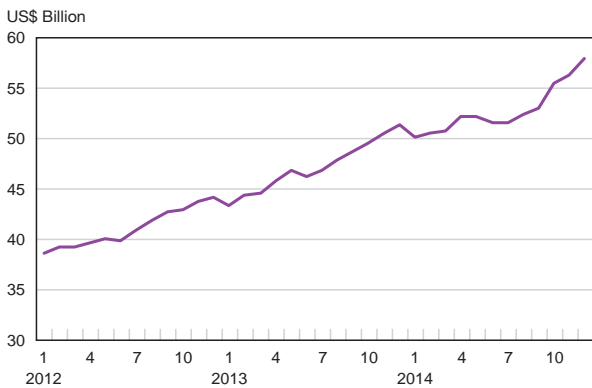
A. At the end of 2014, non-financial institutions' deposits reached US\$57.82 billion, a 13.0 percent increase from a year ago.

B. Cross-strait remittances increased by 2.2 percent from a monthly average of US\$26.43 billion in 2013 to US\$27.02 billion in 2014.

(3) Offshore Securities Units (OSUs)

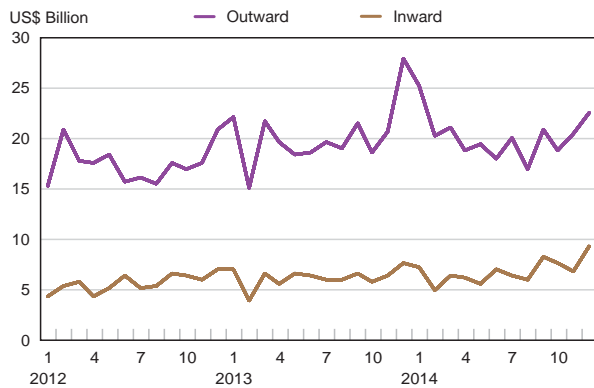
At the end of 2014, total OSU assets reached US\$0.59 billion; from the official launch in April 2014 to the end of December, total OSU net profit was about US\$3.0 million.

OBU's Non-financial Institution Deposits



Source: Department of Foreign Exchange, CBC.

Cross-Strait Remittances Through OBUs



Source: Department of Foreign Exchange, CBC.

Box

NTD NDF – Features and Development

On September 9, 2014, the CBC announced that the overseas branches of domestic banks could apply for NTD Non-delivery Forward (NDF) business, drawing lots of attention from the markets. The definition, features, and development of NTD NDFs and the rationale for deregulation and related supervisory framework are as follows.

I. Definition and Features of NDFs

1. Definition of NDF

A foreign exchange forward contract is a financial derivative instrument through which two parties agree to exchange underlying currencies at a predetermined exchange rate on a settlement date beyond two business days. Depending on whether the notional amounts are exchanged on settlement date, forward contracts are categorized into two types: Delivery Forward (DF) and NDF. NDF means that the profit or loss is calculated between the two parties based on the difference between the originally agreed exchange rate and the spot exchange rate on the fixing date without the delivering principal at maturity.

2. Features of NDFs

As NDF contracts are cash-settled, customers do not need to prepare the full principal amounts for delivery. Therefore, NDFs are regarded as low cost, yet highly leveraged financial derivative instruments and could be used for speculation besides hedging. Consequently, fluctuations in spot rates driven by NDF trading are much larger than those driven by DF transactions.

II. The Development of NTD NDFs

1. Launching the NTD NDF Business in July 1995

Following the opening of foreign professional institutional investor trading in Taiwan's financial markets in December 1990, the CBC opened the NTD NDF market to domestic and foreign legal entities trading with authorized banks in July 1995. When conducting NTD NDFs, in contrast to NTD DFs, there was no need to provide underlying transaction documents or exchange full principal on the maturity date, providing great convenience.

Initially, in order to prevent enterprises from using NTD NDFs to speculate in the FX market, which may cause excessive volatility in NTD exchange rate movements, the CBC set up a firewall to limit the NTD NDF trading position of authorized banks to one third of their total foreign exchange position.

2. Re-regulating the NTD NDF Market in May 1998

The Asian financial crisis broke out in July 1997. Hedge funds and international speculators aggressively attacked Asian currencies. Offshore speculators kept putting downward pressure on the NTD mainly through NDF trading. Although there was a cap on NTD NDF trading positions,

some banks sold NDFs to foreign entities and simultaneously longed NDFs and shorted DFs with domestic entities, intending to offset the NDF trading positions on their balance sheets and thus create more room for further NDF trading. Therefore, it opened the door for overseas speculators to attack the domestic foreign exchange market, causing a sharp depreciation of the NTD and undermined the stability of domestic financial markets.

After thorough consideration by the CBC and the Taipei Foreign Exchange Market Development Committee, the CBC announced that only the authorized banks could carry out NDF trades with other authorized counterparts and their overseas branches or headquarters. This move proved to help safeguard Taiwan from the Asian Financial Crisis.

Without NTD NDFs, non-banking entities still could hedge their foreign exchange exposures through DFs, FX Swaps, CCS, and FX options, etc.

III. The Rationale and Supervisory Framework for Deregulating the NTD NDF Market in September 2014

According to the related provisions, besides adhering to local laws, overseas branches of domestic banks should seek the approval for conducting overseas business from the Financial Supervisory Commission, which in turn would examine the case by consulting the CBC before approval. Based on the assessment of the potential impact of NTD NDFs on the domestic foreign exchange market, the CBC had expressed disagreement for years when inquiries from banks were received.

Currently, foreign banks dominate the overseas NTD NDF market. In order to help domestic banks compete with foreign banks, the CBC announced that overseas branches of domestic banks could apply for NTD NDF business from September 2014. This will not only increase the range of hedging tools available to enterprises, but also enhance the international competitiveness of overseas branches of domestic banks by expanding their business scope.

On the other hand, in order to manage risks, the CBC introduced related supervisory provisions. First, eligible counterparties are limited to foreign legal entities, domestic legal entities with foreign investment, foreign financial institutions, overseas branches of domestic banks and their headquarters. Second, FX positions should be hedged overseas. If carried out in domestic markets, the total position of NTD NDFs and NTD FX options is limited to one fifth of the authorized foreign exchange position.

In the recent wave of financial liberalization, the CBC has continued to approve new financial instruments and encourage financial innovations that are consistent with the mandate of maintaining financial stability. Market discipline and risk management are both of utmost importance. The headquarters of domestic banks should prudentially enact NTD NDF internal controls, and safeguard the interests of customers and strengthen risk management. Carefully implemented, this new initiative will maintain financial stability and enhance the international competitiveness of overseas branches of domestic banks.

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 risks and risk sources in order to deploy appropriate policies and measures in a timely manner.

On-Site Target Examinations

Target examinations in 2014 inspected the handling of land collateralized loans and housing loans, required reserves, banks' offered rates, counterfeit money detection and follow-up, the promotion of the usage of NTD200 notes, notes and coins withdrawn from circulation, forward foreign exchange transactions and reporting, Treasury Marketing Units (TMUs), foreign exchange business of securities enterprises, spot foreign exchange financial trading across foreign currencies, foreign exchange remittances, and the correctness of reporting to the CBC, etc.

Follow-up on Banks' Compliance with Examination Findings

In 2014, 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, the amendments to relevant laws and regulations as well as the monitoring of financial institutions' dynamic operations, the CBC reviews and amends as necessary the format and content of periodical statistical data submitted by financial institutions. In 2014, developments related to off-site monitoring for the above purposes included the following:

- (1) In line with the increasing asset growth of domestic banks, the threshold for bank classification by asset size was raised from NT\$200 billion to NT\$600 billion.
- (2) The assessment criteria of "risk weighted capital adequacy ratio," "allowance for uncollectible accounts," and "valuation reserves" for domestic banks were adjusted.
- (3) For foreign and Mainland Chinese banks, the assessment criteria of "ROE" and "internal management commentaries" were adjusted, and the formulas for "valuation reserves" and

“expected loss on credit” were adjusted.

- (4) A compliance indicator, “the ratio of guaranteed and endorsed bills to total equity, greater than 5.5 times, for bills finance companies” was added.
- (5) The indicators of “capital to stockholders’ equity ratio” and “pre-tax income/capital” were added as assessment criteria for securities finance companies. Meanwhile, the risk weight of individual indicators was adjusted.

Financial Institution Information Transparency

The CBC regularly compiles and publishes financial institution statistics, such as “Condition and Performance of Domestic Banks (Quarterly)” and “Major Business Statistics of Financial Institutions,” as well as the latest financial regulations. It also discloses related information on its website. As a result, operational transparency of financial institutions has strengthened, 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 2014, the 8th 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 2014, the CBC continued to actively engage in international cooperation related to financial supervision, as follows:

- (1) Participating in international meetings/conferences or research programs

A. The 5th SEACEN Financial Stability Forum and 5th Meeting of Deputy Governors in Charge of Financial Stability and Banking Supervision, the 16th SEACEN Conference of Directors of Supervision of Asia-Pacific Economies, the 27th Meeting of SEACEN Directors of Supervision, SEACEN Web-Based Supervisory Discussion Room, and 2014 Research Project “Building on the Counter-cyclical Buffer Consensus: Asian Empirical Test.”

B. BIS “IBFS 2014 Compilers Workshop.”

C. The 4th ECB Conference on Accounting, Financial Reporting and Corporate Governance for Central Banks.

D. APEC Financial Regulators Training Initiative: 19th Advisory Group Meeting.

E. The 17th Asia/Pacific Group on Money Laundering (APG) 2014 Annual Meeting.

(2) Information-sharing with international institutions

A. Completing questionnaires from the SEACEN Centre and the Asian Development Bank, respectively. The former was to be used for a Financial Reporting Symposium with regard to curriculum design. The latter was regarding the APEC Financial Regulators Training Initiative.

B. Exchanging views with the US Fed's supervisory officials with regard to their "Final rules to strengthen the oversight of operations of foreign banks."

5. Payment and Settlement Systems

The CBC Interbank Funds-Transfer System (CIFS) is the backbone of Taiwan's payment system, linking payment and remittance systems operated by the Financial Information Service Co., Ltd. (FISC), the National Credit Card Center of R.O.C. (NCCC), the Taiwan Clearing House (TCH), the Taiwan Depository and Clearing Corporation (TDCC), the Taipei Exchange (TPEX), and the Taiwan Stock Exchange Corporation (TWSE) together to construct a comprehensive system.

Accordingly, the CBC plays a key role in the functioning of Taiwan's payment systems and operates the CIFS and the Central Government Securities Settlement System (CGSS). In addition, 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

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 each clearing institution.

At the end of 2014, participants of the CIFS included 70 banks, eight bills finance companies, and seven other institutions including Chunghwa Post, the TWSE, the TPEX, and the NCCC, etc. In the year 2014, the daily average amount of funds transferred via the CIFS was NT\$1,970.7 billion, while the daily average number of transactions reached 2,981, growing by 4.67 and 9.28 percent, respectively.

(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, 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 1,707 branches that handled the registration of central government securities transfers at the end of 2014. During 2014, 278,000 transfers with a total amount of NT\$27.8 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 2014, 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 (FSC) and clearing institutions such as the FISC, the TDCC, and the TCH to jointly hold conferences themed the “Development and Planning of Third-Party Payment and Mobile Payment Services” and “Enhancing the Effectiveness of System Operations while Taking Innovation and Safety into Account” in May and November 2014, respectively, to promote sound operation of the payment systems.
- (4) Providing comments on the draft of the *Act Governing Electronic Payment Institutions* and the amendment to the *Act Governing Issuance of Electronic Stored Value Cards* to the FSC in order to strengthen the legal basis of electronic payment supervision.

Expanding the Foreign Currency Clearing Platform

The foreign currency clearing platform planned by the CBC and established by the FISC was launched in March 2013, aiming to strengthen financial infrastructure and facilitate the development of the financial services sector. Functions of this platform have been gradually expanded in 2014 as follows:

- (1) Settlements for domestic US dollar call loan transactions between the CBC and banks could be processed on this platform, starting from January.
- (2) Cross-strait US dollar remittances and the interbank PVP (payment-versus-payment) mechanism were launched in February.
- (3) PVP settlements for NTD-USD foreign exchange swap transactions between the CBC and authorized banks were included in this platform in March. In addition, a liquidity saving mechanism for foreign currency remittances was incorporated into its services in July.
- (4) The process of selecting clearing banks for the Japanese yen and the euro was completed in

June and October, respectively. Settlements for USD-euro and USD-yen transactions will be available on this platform, starting from January and June 2015, respectively.

Building the Bills Payment Backup Mechanism

To ensure the smooth functioning of the payment system, the CBC established a backup mechanism of bills payment in July 2014. The backup mechanism would promptly continue processing the payment and delivery in case of disconnection between the Check Clearing House System (CCHS) and the CIFS.

Assisting in Establishing a Mobile Payment Platform

To enhance the safety and efficiency of mobile payment services, the CBC assisted the FISC, the TCH, the NCCC and financial institutions in founding the Taiwan Mobile Payment Co. in September 2014. Subsequently, this company launched the payment service provider trusted service manager (PSP TSM) platform in December 2014, aiming to facilitate mobile payment processing.

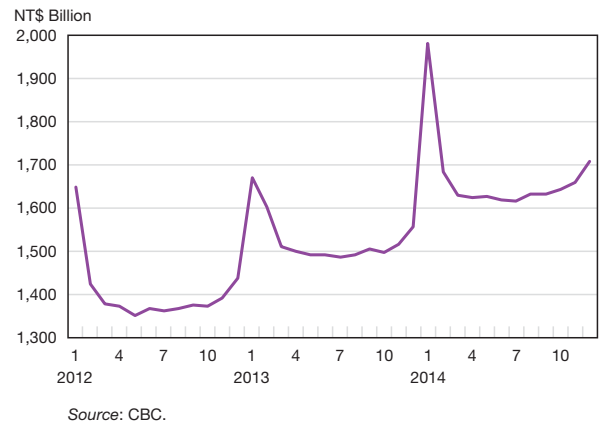
6. Currency Issuance

For the year 2014, the CBC conducted currency issuance with a focus on maintaining an adequate supply of currency to meet public demand, which is dependent on the level of economic activity, seasonal factors, and the development of noncash payment instruments, etc.

Currency Issuance Increased

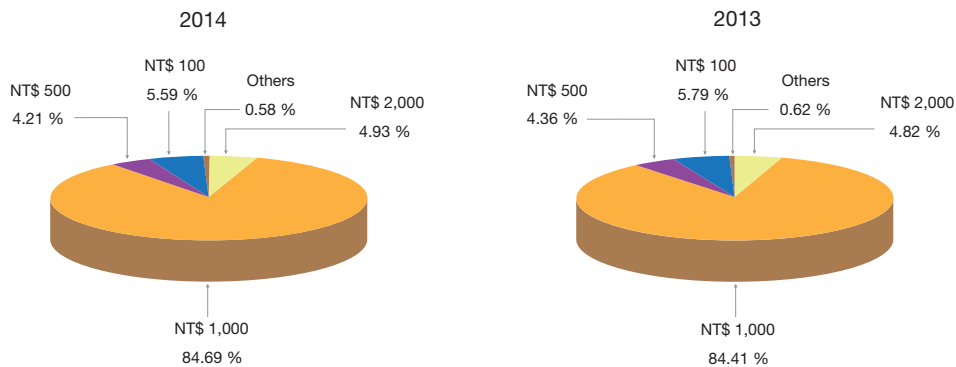
In 2014, the CBC implemented an appropriate currency issuance plan for delivering banknotes and coins. The currency issued peaked at NT\$1,981.0 billion on January 29, the day before the Lunar New Year holidays, reflecting a temporary seasonal surge in cash demand. At the year end, the outstanding amount of currency issued was NT\$1,706.7 billion, representing an increase of NT\$150.7 billion or 9.69 percent over the previous year end.

Currency Issued



At the end of 2014, the composition of NT dollar banknotes in circulation by denomination was similar to the end of 2013. The NT\$1,000 note accounted for the lion's share at 84.69 percent, followed by the NT\$100 (5.59 percent) and the NT\$2,000 (4.93 percent) notes.

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



Source: CBC.

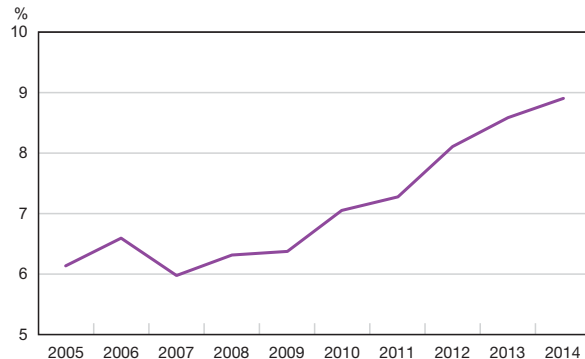
Currency in Circulation to GDP Ratio Increased

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 8.90 percent in 2014, a 0.32 percentage point gain over the previous year.

Two Commemorative Coin Sets Were Issued

With the authority of 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 2014, the CBC issued a casting set of coins for the Chinese Zodiac Year of the Horse, and the third coin set of the National Parks of Taiwan series - Yangmingshan National Park.

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 357 branches, including three overseas branches located in New York, Los Angeles, and Paris. In addition, there are another 4,795 tax collection agencies set in financial institutions. In 2014, the CBC received a total of NT\$3,156.7 billion in treasury deposits, an increase of NT\$69.3 billion or 2.24 percent over the previous year. Payments made on behalf of the national treasury were NT\$3,170 billion, increasing by NT\$80 billion or 2.59 percent from 2013. At the end of 2014, the TDA balance was NT\$10 billion, a decrease of NT\$13.3 billion or 57.08 percent from the previous year end.

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 2014, the balance of central government agencies' deposits with the CBC amounted to NT\$116.1 billion, a decrease of NT\$8.4 billion or 6.75 percent over 2013. Deposits with other delegated banks were NT\$455.6 billion at the end of 2014, increasing by NT\$30.8 billion or 7.25 percent. Among them, redeposits with the CBC registered NT\$10.1 billion, decreasing by NT\$4.3 billion or 29.86 percent from the end of 2013.

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 61 domestic dealers qualified to directly participate in the auctions, including 27 banks, 20 securities companies, eight bills finance companies, five insurance companies, and Chunghwa Post.

In 2014, the CBC handled 20 issues of central government bonds in book-entry form worth NT\$675.3 billion and paid NT\$405 billion in principal and NT\$115.7 billion in interest for central government bonds. At the end of 2014, the outstanding amount of central government bonds was NT\$5,338.5 billion, an increase of NT\$270.3 billion or 5.33 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 2014, the CBC handled 10 issues of book-entry treasury bills with a total amount of NT\$244.9 billion. At the end of 2014, the outstanding amount of treasury bills was NT\$130 billion, a decrease of NT\$84.6 billion or 39.42 percent from the previous year end.

Improving Operational Efficiency

To encourage central government bond dealers to actively participate in auctions, and avoid yields of competitive bids submitted deviating too much from those in the prevailing bond market, the CBC amended the criteria of subtracting dealers' scores. For dealers who submit yields that are more than a one percentage point deviation from the weighted average yields, the deducted points would be raised to four from two, effective from January 22, 2014.

In addition, from September onwards, the MOF authorized the CBC to transfer a NT\$3 billion remittance fund from the TDA to the Interbank Fund Transfer Guarantee Special Account at the Department of Banking of the CBC each day before daily operations of treasury deposit remittance. At the end of the same day, the CBC would transfer the fund back. The mechanism helped streamline the operation of the TDA.

8. Participation in International Activities

The endeavors to take part in international activities continued in 2014. 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). Meanwhile, the CBC strengthens its cooperation with other central banks and related institutions through meetings on macroeconomic and financial issues.

The CBC is a founding member of the ADB and, through this platform, has played an active role in promoting financial cooperation and stability in Asia. In May 2014, the CBC participated in the 47th annual meeting of the ADB held in Astana, Kazakhstan, and shared views with other members, including the concern that QE policies implemented by a number of advanced economies might create significant spillover effects and undermine regional stability. In light of this, the ADB could offer the necessary assistance to member economies, and even step forward to coordinate a regional policy response to help the region deal with large external shocks.

The CBC is also a member of SEACEN. In November 2014, the CBC attended the 50th annual conference of governors held in Port Moresby, Papua New Guinea, exchanging views on the challenges to regional financial and macroeconomic stability, including volatile capital flows and increasing financial integration, as well as shadow banking activities.

Furthermore, 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 Costa do Sauipe, Brazil, during March 27 to 30, the CABEI's ordinary meeting of the Board of Governors which took place in San Jose, Costa Rica, on April 24 and 25, the EBRD's annual meeting of the Board of Governors held in Warsaw, Poland, on May 14 and 15, and the BIS annual general meeting in Basel, Switzerland, on June 28 and 29.

Annex

IV. Annex

The Development of Financial Payment Systems in Taiwan

The Role of Financial Payment Systems

The financial payment systems (FPSs) mainly handle interbank funds transfers among financial institutions; their role in the economy is like that of the utilities plumbing in our day-to-day lives. The performance of FPSs not only determines how well financial transactions run but also has an impact on the stability of the financial system as a whole. Therefore, a well-established FPS is an essential infrastructure that supports the sound operation of a nation's financial system.

In Taiwan, the CBC is the competent authority overseeing the FPSs. Besides building and operating the CBC's Interbank Funds-Transfer System (the CIFS, or CBC-CIFS hereafter), the CBC is mandated to oversee other FPSs in order to construct a safe and efficient financial market infrastructure (FMI).

The Evolution of Taiwan's Financial Payment Systems

1. The Framework

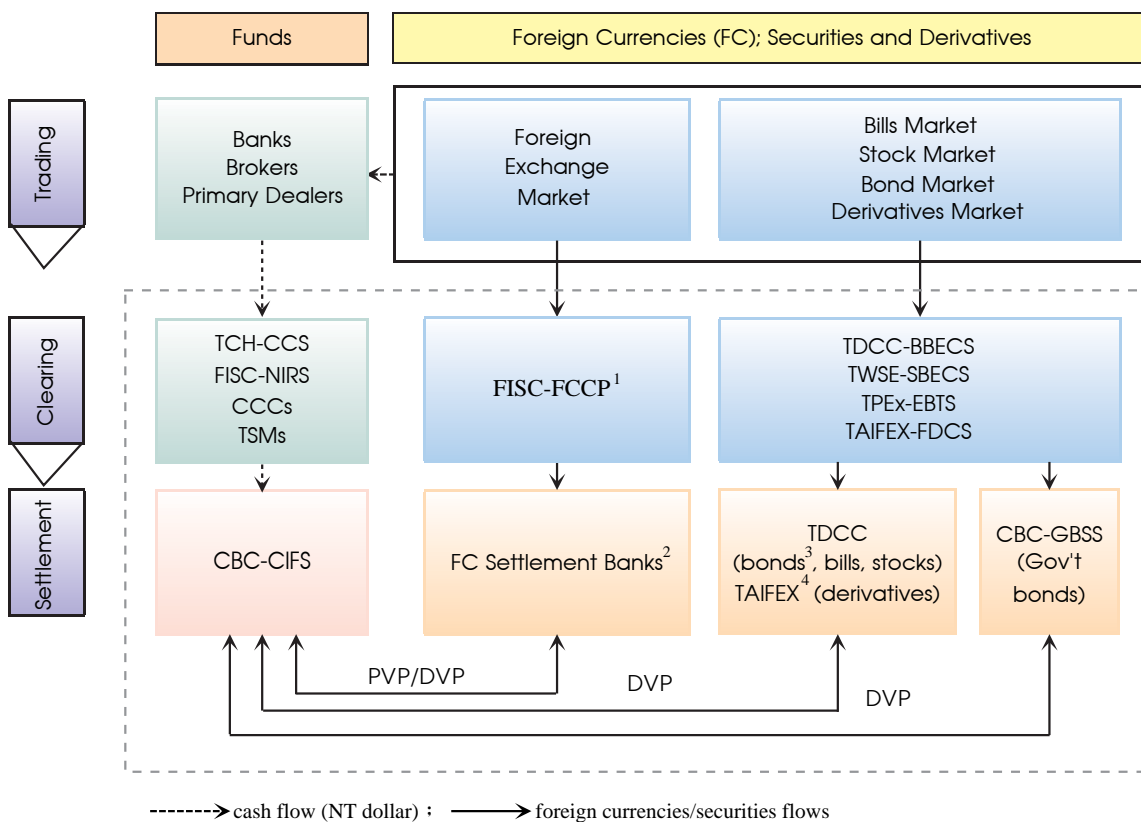
The Bank for International Settlements (BIS) defines FMI as a multilateral trading system among participating institutions, including the operator of the system, used for the purposes of clearing, settling and recording every payment, security, derivative, and other financial transaction. The general picture of the current framework and processes of Taiwan's FMI is illustrated in Chart 1, where the dotted line-framed section indicates the main financial payment and settlement systems operated in Taiwan, including:

- (1) Funds transfer systems: CBC-CIFS, the check clearing system (TCH-CCS), the nationwide interbank remittance system (FISC-NIRS), credit card centers (CCCs), trusted service managers (TSMs) and the foreign currency clearing platform (FISC-FCCP);
- (2) Securities transferring systems: the short-term bills book-entry and clearing system (TDCC-BBECS), the securities book-entry and clearing system (TWSE-SBECS), the electronic bond trading system (TPEX-EBTS), and the futures and derivatives clearing system (TAIFEX-FDCS).

The CBC-CIFS functions as the settlement hub for domestic payment systems and mainly handles operations such as interbank funds transfers, call loan settlement, required reserves adjustment, foreign exchange settlement involving the NT dollar, and bonds and bills settlement. In addition, it

connects with the following clearing institutions to handle fund settlements involving the NT dollar: Financial Information Service Co., Ltd. (FISC), Taiwan Clearing House (TCH), National Credit Card Center (NCCC), Taiwan Depository and Clearing Corporation (TDCC), Taiwan Stock Exchange Corporation (TWSE), Taipei Exchange (TPEX), and Taiwan Futures Exchange (TAIFEX).

Chart 1 Framework and Processes of Taiwan's Financial Payment Systems



1. Currently USD bills are settled via Mega Bank's USD Clearing System;
 2. FC clearing banks are Mega Bank (US\$ and euro); Bank of China's Taipei Branch (renminbi); Mizuho Bank's Taipei Branch (yen);
 3. Including all kinds of bonds except government bonds;
 4. DVP facility is not available between CBC-CIFS and TAIFEX-FDCS.

2. System Integration and Development

To comply with international principles¹ recommended by the Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO), the CBC has devoted itself to improving domestically important payment and settlement systems. It also connects domestic large-value payment systems with the CIFS in order to facilitate settlement efficiency, mitigate systemic risk, and timely monitors bank liquidity positions, so as to support its open market operations. Relevant reforms are explained as follows:

¹ CPSS issued *Core Principles for Systemically Important Payment Systems* (2001); *Recommendations for Securities Settlement Systems* (2001) and *Recommendation for Central Counter Party* (2004), which together have become international standards for the design and management of payment and settlement systems.

(1) Applying Full RTGS and Liquidity Risk Control Facilities to CIFS

With a view to improving the security and efficiency of the large-value funds transfer system, the CBC has revamped its CIFS to implement Real Time Gross Settlement (RTGS) across the board starting from 2002 and adopted liquidity risk control facilities as below:

- A. Providing intraday overdrafts in order to streamline the system operation;
- B. Incorporating a queue mechanism with first-in-first-out ordering to help participants control their liquidity positions in real time;
- C. Setting throughput ratios to require participants to complete payments by a specific ratio at a designated time in order to control the daily payment flows.

(2) Integrating Domestic FPSs and Adopting DVP Mechanism

- A. Starting from September 2002, by sequentially linking CBC-CIFS with systems operated by FISC, TCH, TDCC, TWSE, TPEX, and NCCC, the clearing balances resulting from interbank transactions have been settled by CBC-CIFS. Furthermore, a delivery-versus-payment (DVP) mechanism was introduced for securities settlement to reduce default risks;
- B. Starting from April 2008, the CBC has connected the Government Bonds Book-entry Settlement System (GBSS) with the CIFS, which also adopts a DVP mechanism.

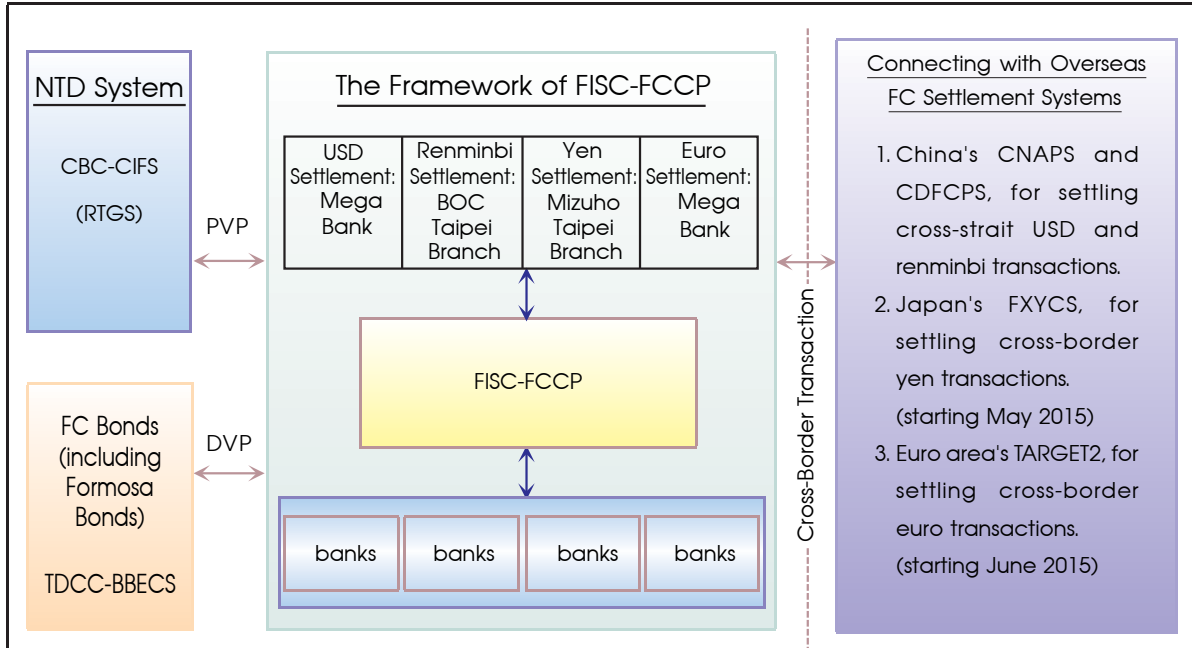
(3) Building Foreign Currency Clearing Platform with DVP and PVP Mechanisms

In September 2012, the CBC consigned the FISC to build a foreign currency clearing platform (herein FISC-FCCP), aiming at enhancing trading efficiency for the foreign exchange market, shortening the payment and settlement process in both local and cross-strait remittances of US dollars and renminbi, and reducing settlement risks and remittance costs of foreign currencies. The platform adopts payment-versus-payment (PVP) and DVP facilities to reduce default risks. The operative framework of the FISC-FCCP is shown in Chart 2.

The FISC-FCCP commenced operation on March 1 in 2013. Later, more businesses have been approved by the CBC to expand the service scope of the platform phase by phase, including:

- A. 2013: offering settlement services for domestic USD remittance and remittance in renminbi both within and across border (including cross strait);
- B. February 2014: offering settlement services for cross-strait USD remittance and PVP settlement for transactions in several foreign currencies;
- C. March 2014: offering settlement services for NTD/USD swap transactions between the CBC and authorized foreign exchange banks, using a PVP mechanism;

Chart 2 Operative Framework of Foreign Currency Clearing Platform



Note: CNAPS = China National Advanced Payment System; CDFCPS = China Domestic Foreign Currency Payment System; FXYCS = Foreign Exchange Yen Clearing System; TARGET2 = Trans-European Automated Real-time Gross Settlement Express Transfer System 2.

D. July 2014: introducing a USD liquidity saving mechanism in order to cut down the demand for USD liquidity;

E. January 2015: offering settlement services for domestic yen remittance.

According to the planned service enhancement in 2015, cross-border yen remittance and remittance of the euro both within and across border will be put in place. By then, a PVP mechanism will also have been applied to each currency pair of transactions among US dollar, renminbi, yen, euro and NT dollar. Meanwhile, a DVP mechanism will also be implemented for transactions of bonds and bills denominated in foreign currencies.

(4) Launching the Shared Platform for Mobile Payment

To assist the domestic the financial industry in developing safe and convenient mobile payment services while preventing a waste of resource from repeated investment, the CBC and the FSC approved three domestic clearing institutions, the FISC, the TCH and the NCCC to establish the Taiwan Mobile Payment Co. (TWMP) on September 5, 2014, and 32 participating financial institutions were also invited to become shareholders. The TWMP has engaged in the design and construction

of the domestic financial payment service platform for mobile payment. This payment service provider trusted service manager (PSP TSM) platform was completed around mid-December and has been in operation since December 30, 2014.

The Performance of Domestic Payment Systems

Chart 3 Transaction Value of CIFS

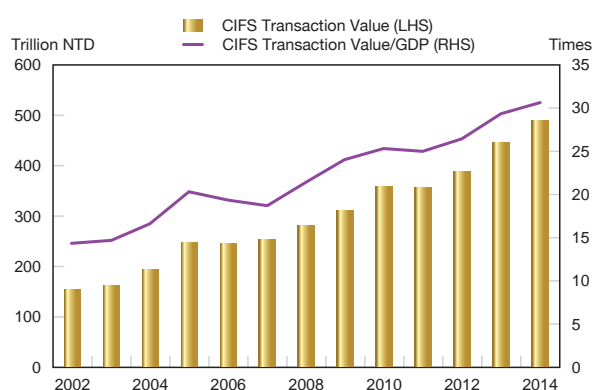
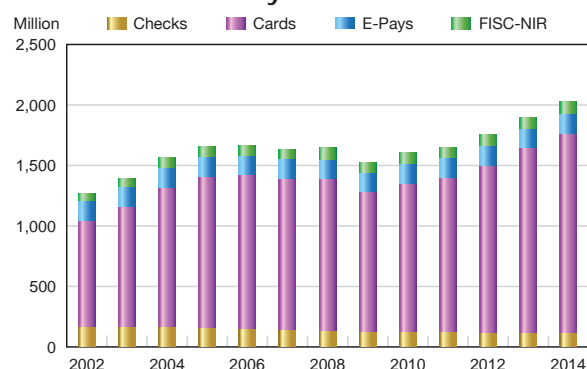


Chart 4 Transaction Using Main Retail Payment Tools



Note: Cards include credit cards, ATM cards and debit cards; E-Pays include retail payments for e-commerce development, such as Financial Electronic Data Interchange (FEDI), Financial Extensible Markup Language (FXML), Shared Internet Bank, Shared Mobile Bank, bills payment and ACH.

Sources: National Income Statistics Quarterly, DGBAS, Executive Yuan; Financial Statistics Monthly, CBC.

The CBC-CIFS has become a settlement hub of large-value payments, and its transaction value has more than tripled from NT\$153 trillion in 2002 to NT\$493 trillion in 2014. This reflects that domestic financial transactions increasingly adopt central bank money as settlement assets in place of commercial bank money, and has thus greatly reduced the settlement risk of large value payments. During the same period, the ratio of CIFS transaction value to GDP increased from 15 times to 31 times, with improved efficiency of system operation as a whole (see Chart 3). Moreover, in terms of annual transactions in small-value retail payments, broken down by type of payment tools, checks have shown a remarkable downtrend, cards have become the most popular retail payment instrument, and electronic payments are on the rise and ready to take off (see Chart 4). These changes highlight how the development trend is for e-commerce.

Conclusion

Following the rapid development of information communication technology, domestic banks and non-financial institutions have begun to build transaction platforms based on the Internet or payment channels through mobile devices, in order to tap business opportunities in Internet banking or mobile payment. For example, they may act as an agency of collection and payment, issue

stored-value cards, offer small-value remittance services, etc., keeping in step with the development of e-commerce. To promote the sound development of e-commerce, the *Electronic Payment Processing Institutions Act* was promulgated on February 4, 2015. The Act authorizes non-financial institutions to provide services such as acting as an agent to collect payments, receive funds as stored value, and handle funds transfers under the applicable requirements. The CBC also amended its relevant regulations in accordance with some provisions of the Act, such as reserve requirements and foreign exchange transaction declaration, so as to facilitate related services provided by e-payment institutions.

In addition, in response to emerging business opportunities of mobile payments, four domestic private companies, namely Chunghwa Telecom, United International Mobile Payment, Smart Catch Digital Technology and Taiwan Mobile Payment, have in recent years devoted themselves to building TSM platforms, including the finance-led PSP TSM and the telecom-led mobile network operator (MNO) TSM. These TSMs integrate existing payment methods, such as direct debiting from banking accounts, credit transfer, payment by credit card or stored-value card, or even online/offline to offline/online (O2Os) payments such as online orders collected at convenient stores or cash on delivery. By offering diversified payment services, the TSMs can not only promote convenience and security for the transactions but also boost growth momentum for e-commerce, and thereby further invigorate economic development.

Chronology of Events of the CBC in 2014

Chronology of Events of the CBC in 2014

Date	Event
Jan. 9	The CBC issued a commemorative coin set for 2014, the Chinese Zodiac Year of the Horse.
16	The CBC launched the English version website and Chinese-language mobile application of its Virtual Money Museum.
Feb. 14	The CBC increased the monthly bidding amount for 364-day certificates of deposit from NT\$100 billion to NT\$120 billion.
	The foreign currency clearing platform began to process cross-strait US dollar remittances.
17	The foreign currency clearing platform began to process payment versus payment settlements.
Mar. 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.
May 15	In line with the FSC's approval of the cooperation agreement between the Taiwan Futures Exchange and foreign futures exchanges, the CBC allowed authorized banks to handle declaration of foreign exchange settlements of Taiwan's futures commission merchants, foreign futures clearing houses or foreign futures commission merchants in dealing with NTD-denominated futures contracts listed on the foreign futures exchanges as per the cooperation agreements.
Jun. 19	The Taipei Branch of Mizuho Bank was designated as the Japanese yen clearing bank in Taiwan.
26	<p>The CBC's Board decided on the following measures:</p> <ol style="list-style-type: none"> 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. 2. Amending the <i>Regulations Governing Home Mortgage Loans and Land Loans Extended by Financial Institutions</i>, effective from June 27, 2014.

Date	Event
Jul. 14	The CBC launched the backup mechanism for clearing bills payments.
Aug. 8	The CBC increased the monthly bidding amount for 2-year certificates of deposit from NT\$10 billion to NT\$20 billion.
Sep. 1	The CBC set up a pricing mechanism for the USD/CNT fixing rate and the CNT Taibor fixing rates.
9	The CBC allowed overseas branches of domestic banks to engage in the NT dollar Non-delivery forward (NDF) business.
25	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.
Oct. 8	The CBC allowed authorized banks to engage in foreign exchange transfers for the amount equivalent to NT\$500,000 or less through internet or mobile banking by non-resident natural persons.
Nov. 12	The CBC issued the New Taiwan Dollar Uncirculated Coin Collection/ National Parks of Taiwan Series - Yangmingshan National Park.
Dec. 18	<p>The CBC's Board decided on the following measures:</p> <ol style="list-style-type: none"> 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. 2. Keeping the target range of M2 growth for 2015 unchanged at 2.5 percent to 6.5 percent.
29	The CBC and the FSC jointly promulgated the <i>Standards Implementing the Liquidity Coverage Ratio of Banks</i> , effective from January 1, 2015.

Financial Statements of the CBC

1. Balance Sheet

Unit: NTS Million

	December 31 2014	December 31 2013	Change	
			Amount	%
Assets				
Foreign Assets	13,393,681	12,658,000	735,681	5.81
Due from Domestic Banks	533,318	271,039	262,279	96.77
Loans and Accommodations to Financial Institutions	260,360	286,898	-26,538	-9.25
Other Assets	1,009,061	1,095,473	-86,412	-7.89
Total Assets	15,196,420	14,311,410	885,010	6.18
Liabilities				
Currency Issued	1,706,694	1,555,992	150,702	9.69
Deposits of Financial Institutions	1,563,552	1,570,406	-6,854	-0.44
Certificates of Deposit Issued	7,106,310	6,843,220	263,090	3.84
Redeposits of Financial Institutions	2,193,793	2,196,506	-2,713	-0.12
Government Deposits	126,300	148,624	-22,324	-15.02
Other Liabilities	1,617,695	1,132,471	485,224	42.85
Total Liabilities	14,314,344	13,447,219	867,125	6.45
Equity	882,076	864,191	17,885	2.07
Total Liabilities and Equity	15,196,420	14,311,410	885,010	6.18

2. Income Statement

Unit: NTS Million

	2014	2013
Income		
Interest Income	389,608	359,452
Fee Income	114	116
Foreign Exchange Gains	17,806	12,381
Revenue from Trust Investment	6,359	0
Subsidiaries Investment Income	1,657	1,140
Others	548	709
Total Income	416,092	373,798
Expenses		
Interest Expenses	92,464	92,238
Fee Expenses	227	220
Expenses for Coin Issuance	1,814	2,109
Expenses for Banknote Issuance	3,430	4,598
Allowances	117,223	43,285
Operating Expenses	1,461	1,464
Administrative Expenses	452	457
Others	1,078	4,380
Total Expenses	218,149	148,751
Net Income	197,943	225,047

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

Year / Month	I. Business Indicators			II. National Income and Aggregate Demand								
	NDC ⁽¹⁾ Total Score of Monitoring Indicators (average)	TIER ⁽²⁾ Business Composite Index (2006=100) (average)		Economic Growth Rate (%)	Per Capita GNI (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 (%)
2005	22	97.71	98.40	5.42	16,930	4.13	74.40	41,858	0.58	3.32	3.20	11.38
2006	22	100.00	100.00	5.62	17,446	3.91	77.43	42,393	-1.89	4.80	4.61	9.02
2007	25	102.12	96.05	6.52	18,256	3.91	83.03	43,178	-5.00	7.76	8.34	-0.49
2008	19	87.43	89.96	0.70	18,564	4.14	82.93	43,121	1.50	-1.15	-0.90	-9.26
2009	19	97.36	95.54	-1.57	17,531	5.85	83.87	39,125	-7.57	-7.91	-7.80	-19.08
2010	37	101.94	105.90	10.63	19,864	5.21	96.88	42,300	-11.20	24.17	26.47	-9.17
2011	24	95.29	99.43	3.80	21,507	4.39	100.00	43,316	1.17	4.44	4.69	7.58
2012	17	91.72	90.66	2.06	21,967	4.24	99.34	43,689	2.25	-0.25	-0.32	7.12
2013	20	98.07	94.54	2.23	22,513	4.18	99.37	43,829	0.27	0.65	0.56	3.69
2014	25	100.59	98.45	3.74	23,390	3.96	103.46	45,207	-1.40	6.37	6.63	10.56
2014/ 1	22	101.23	95.77			4.02	102.48	81,895	42.97	-1.45	-1.58	6.35
2	25	101.33	98.01			4.09	104.28	40,408	-35.89	7.36	8.09	-24.67
3	25	102.11	98.93	3.41	5,663	4.03	102.43	39,271	-1.78	3.89	4.32	-7.70
4	29	101.82	97.48			3.91	103.03	39,669	-2.71	5.72	6.09	37.42
5	24	103.61	101.17			3.85	105.63	42,742	3.50	5.82	5.95	30.39
6	26	102.74	102.54	3.87	5,726	3.92	107.93	40,384	-7.71	8.57	8.82	3.33
7	27	104.44	104.15			4.02	101.70	46,031	7.12	6.33	6.95	-18.39
8	29	102.76	100.89			4.08	103.71	44,542	1.63	6.88	7.02	21.01
9	27	99.88	96.39	4.32	5,953	3.96	103.44	42,057	-7.65	9.94	10.59	22.39
10	24	95.58	94.89			3.95	103.24	40,854	-6.04	9.20	9.22	35.34
11	25	94.34	94.19			3.89	105.02	41,579	0.80	6.79	6.85	1.39
12	22	97.43	96.67	3.35	6,048	3.79	99.28	43,422	-6.56	7.76	7.76	19.94

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 / GNI (%)	Gross Domestic Investment / GNI (%)	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 (US\$ Million)	Annual Rate of Change of Export Orders (%)	
						China and H. K. (%)	U. S. (%)	Japan (%)	Europe (%)	Southeast Asia ⁽³⁾ (%)	Change of Total Imports (%)	Capital Equipment (%)			
2005	3.36	3.17	2.43	29.20	23.89	8.8	12.2	1.3	9.4	-0.8	13.8	8.2	-6.2	15,817	19.2
2006	1.79	1.52	4.57	31.05	24.02	12.9	14.8	11.2	7.9	10.5	13.8	11.0	-1.7	21,319	16.7
2007	2.42	1.14	1.88	31.46	23.45	10.1	12.6	-0.9	-2.2	9.7	16.7	8.2	2.6	27,425	15.5
2008	-1.69	-11.13	-14.15	29.62	23.89	3.6	-0.8	-4.0	10.2	4.6	7.3	9.7	-9.0	15,181	1.7
2009	0.01	-8.81	-15.32	29.29	19.29	-20.3	-15.9	-23.5	-17.4	-24.6	-21.5	-27.5	-22.3	29,304	-8.3
2010	3.76	19.31	27.63	33.14	24.23	34.8	37.1	33.6	24.2	30.1	37.2	44.1	68.8	23,364	26.1
2011	3.12	-1.15	1.20	31.46	23.01	12.3	8.1	15.6	1.2	6.2	22.7	12.0	-5.6	26,820	7.2
2012	1.82	-2.61	-0.35	30.45	21.82	-2.3	-4.4	-9.3	4.2	-7.8	9.8	-3.9	-6.7	30,708	1.1
2013	2.35	4.98	6.67	31.35	21.47	1.4	2.2	-1.2	1.2	-3.5	3.9	-0.2	5.3	35,544	0.4
2014	2.96	1.74	3.36	32.14	21.19	2.7	2.8	7.1	3.5	3.5	1.2	1.5	3.3	39,670	6.7
2014/1						-5.4	-10.3	4.6	4.7	0.3	-5.0	-15.2	-15.9	2,949	-2.8
2						7.8	17.5	4.7	-6.1	5.9	4.8	4.8	11.7	1,570	5.7
3	2.37	0.94	1.40	31.29	21.08	1.9	-0.3	10.3	7.7	9.8	5.7	7.4	14.6	1,957	5.9
4						6.2	5.0	6.7	-3.2	13.1	8.6	5.7	18.9	2,547	8.9
5						1.4	6.3	1.0	2.6	5.7	-4.5	-2.3	-8.6	5,283	4.7
6	3.30	1.63	4.32	32.63	21.40	1.2	3.4	11.8	4.6	2.5	-7.0	7.4	4.7	1,895	10.6
7						5.7	6.5	2.4	-2.0	8.8	8.7	9.3	31.7	2,614	5.7
8						9.5	8.7	4.8	17.6	13.5	12.4	13.9	10.6	4,103	5.2
9	3.76	4.83	6.27	31.35	22.28	4.6	3.5	8.8	11.6	1.1	-0.4	-0.1	-1.2	3,535	12.7
10						0.6	5.4	4.4	3.8	-12.8	-1.9	-1.5	9.4	4,618	13.4
11						3.5	-0.4	11.4	3.0	3.7	2.5	5.0	7.0	4,183	6.0
12	2.39	-0.42	1.28	33.24	20.05	-2.9	-5.7	14.6	-3.2	-5.7	-7.0	-12.3	-24.7	4,411	4.5

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)			
	CPI	Core CPI ⁽⁴⁾	Wholesale Price	Import Price	Export Price	Amount (NT\$ Billion)	Annual Growth Rate ⁽⁵⁾ (%)	M1B		M2	
								Amount (NT\$ Billion)	Annual Growth Rate (%)	Amount (NT\$ Billion)	Annual Growth Rate (%)
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
2014	1.20	1.26	-0.57	-2.10	0.10	3,165.4	6.94	13,836.1	7.96	36,576.7	5.66
2014/ 1	0.83	1.04	0.59	-0.42	1.51	3,155.3	10.11	13,639.7	9.93	35,749.8	5.97
2	-0.04	-0.19	-0.36	-1.55	0.45	3,230.6	5.95	13,724.0	8.63	36,051.0	5.61
3	1.61	0.96	-0.02	-1.13	0.14	3,138.2	6.68	13,712.6	8.87	36,215.3	5.89
4	1.66	1.25	0.07	-0.64	-0.40	3,136.7	6.69	13,699.7	9.10	36,327.4	6.24
5	1.62	1.47	1.15	1.03	0.59	3,130.5	6.90	13,713.8	8.14	36,425.0	5.91
6	1.64	1.47	0.80	0.23	-0.22	3,119.3	6.44	13,657.2	7.46	36,398.7	5.74
7	1.76	1.55	0.85	-0.01	-0.01	3,140.4	6.75	13,804.4	7.65	36,652.9	5.63
8	2.07	1.68	0.03	-1.59	-0.21	3,165.9	6.49	13,970.5	7.56	36,879.9	5.64
9	0.71	1.55	-0.85	-2.58	-0.15	3,184.5	6.66	13,996.5	7.36	36,880.2	5.31
10	1.05	1.60	-1.38	-3.32	0.25	3,178.3	7.02	13,948.7	7.18	36,827.6	4.98
11	0.85	1.40	-2.90	-6.14	-0.05	3,185.6	6.94	13,976.5	6.95	37,036.7	5.22
12	0.60	1.37	-4.78	-9.07	-0.67	3,219.6	6.80	14,189.4	6.90	37,475.7	5.85

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.

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 ⁽⁶⁾ (end of period) (%)	Interest Rates (%)					
	Deposits		Loans & Investments			CBC's Discount Rate (end of period)	Interbank Call Loan Rate (average)	31-90 Days CP Rate In Secondary Market (average)	10-year Gov't Bond Rate in Secondary Market (average)	Five Major Domestic Banks ⁽⁷⁾	
	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)
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
2014	37,133.9	5.91	28,110.6	5.20	0.25	1.875	0.387	0.62	1.60	1.36	1.68
2014/ 1	35,237.1	4.92	27,042.3	4.95	0.36	1.875	0.388	0.63	1.66	1.36	1.59
2	35,540.7	5.77	27,111.4	4.95	0.35	1.875	0.387	0.63	1.60	1.36	1.69
3	35,745.7	5.83	27,144.3	4.53	0.33	1.875	0.387	0.61	1.59	1.36	1.62
4	35,882.7	6.09	27,328.1	4.99	0.32	1.875	0.387	0.59	1.57	1.36	1.67
5	35,949.1	6.03	27,385.8	5.20	0.30	1.875	0.388	0.59	1.50	1.36	1.78
6	36,028.3	5.34	27,335.4	4.95	0.28	1.875	0.387	0.62	1.56	1.36	1.71
7	36,436.7	5.67	27,642.5	5.11	0.28	1.875	0.387	0.61	1.62	1.36	1.77
8	36,519.1	5.65	27,730.3	5.17	0.28	1.875	0.386	0.62	1.58	1.36	1.72
9	36,335.5	4.99	27,732.0	4.77	0.30	1.875	0.387	0.64	1.72	1.36	1.53
10	36,459.3	4.90	27,833.4	4.88	0.30	1.875	0.387	0.60	1.63	1.36	1.76
11	36,780.2	5.28	27,962.7	4.78	0.28	1.875	0.387	0.63	1.62	1.36	1.74
12	37,133.9	5.91	28,110.6	5.20	0.25	1.875	0.387	0.68	1.60	1.36	1.66

Notes: (6) The data are based on the new NPL definition released by the Financial Supervisory Commission in Dec. 2001, which include loans under surveillance.
(7) 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® Stock Market		Bond Market			Balance of Payments				Foreign Exchange Reserves	Exchange Rate	Daily Average Value of Foreign Exchange Transactions
	Stock Price Index (1966=100) (average)	Total Trading Value (NT\$ Billion)	Outstanding (end of period) (NT\$ Billion)	Total Trading Value		Current Account	Capital Account	Financial Account	Changes in Reserve Assets ⁽⁷⁾			
				Share of Outright Transactions (%)						(end of period) (US\$ Billion)	(end of period) (NT\$/US\$)	(US\$ Billion)
2005	6,092	18,818.9	5,145.3	319,737.0	69.49	16,481	-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	24,995	-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	33,781	-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	26,386	-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	41,952	-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	38,461	-116	-358	-40,173	382.01	30.368	20.23
2011	8,156	26,197.4	6,895.8	97,809.1	27.46	39,927	-119	-32,046	-6,239	385.55	30.290	24.17
2012	7,481	20,238.2	7,576.1	86,551.7	21.30	48,947	-83	-31,673	-15,484	403.17	29.136	23.41
2013	8,093	18,940.9	8,104.6	69,226.1	19.78	55,257	6	-42,934	-11,318	416.81	29.950	28.93
2014	8,992	21,898.5	8,726.8	68,032.3	21.62	65,335	-76	-53,046	-13,015	418.98	31.718	31.29
2014/ 1	8,567	1,756.8	8,160.5	4,886.6	21.34					416.94	30.376	38.94
2	8,496	1,515.7	8,196.3	4,714.3	23.42					417.98	30.355	36.80
3	8,687	1,966.0	8,178.1	6,029.2	21.38	15,041	-17	-13,107	-2,622	419.20	30.510	31.96
4	8,900	1,935.2	8,206.3	6,232.2	20.26					421.50	30.258	30.20
5	8,936	1,852.0	8,317.8	5,575.1	21.71					421.65	30.050	26.55
6	9,229	1,969.9	8,455.9	5,539.0	27.13	16,053	-10	-10,348	-4,393	423.45	29.915	27.82
7	9,474	2,453.2	8,487.1	6,114.7	23.76					423.66	30.040	27.81
8	9,266	1,844.1	8,516.6	5,942.2	21.29					423.07	29.970	28.64
9	9,229	1,588.3	8,469.8	5,918.2	22.90	15,065	-15	-11,195	-4,181	420.70	30.436	35.22
10	8,819	1,738.2	8,538.2	5,844.3	22.85					421.48	30.478	32.50
11	9,016	1,460.8	8,649.5	5,341.3	18.28					421.47	31.039	33.20
12	9,109	1,818.4	8,726.8	5,895.2	15.41	19,176	-34	-18,396	-1,819	418.98	31.718	27.79

Notes: (®)TWSE: Taiwan Stock Exchange Corporation.

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

Sources: 1. NDC.

2. Taiwan Institute of Economic Research.

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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