

II. Financial Developments

1. Overview

In 2017, the CBC's policy rates remained unchanged, banks' posted interest rates on deposits and loans stayed stable, while weighted average interest rates on deposits and loans slightly moved downward. Most money market rates slightly increased, and the average 10-year government bond yield turned upwards following the Fed's rate hikes and US bond yield rises. Loans and investments of monetary financial institutions grew at a pace faster than that of the previous year as loan growth picked up owing to economic recovery, increased housing transactions, and brisk trading in the stock market. Meanwhile, M2 growth slowed because some deposits shifted from banks to life insurance companies.

With respect to the exchange rate, the NT dollar against the US dollar swung upwards in the year, affected by factors including a weak US dollar, larger net foreign capital inflows, and the Fed's rate hikes. In the stock market, driven by factors including US stocks renewing record highs and net purchases in the local market by foreign investors, the Taiwan Stock Exchange Capitalization Weighted Stock Index, the TAIEX, swung up from its yearly low in January to over 10,000 points in May and reached its yearly high on November 23, before declining owing to weak international stock markets and net sales by foreign investors.

M2 Growth Slowed

The monetary aggregate M2, measured on a daily average basis, recorded a yearly growth rate of 3.75% in 2017. This was lower than the 4.51% registered in 2016 and remained within the CBC's 2.5% to 6.5% target range for the year. The drop was because part of bank deposits shifted to life insurance companies. The annual growth rate of M1B, measured on a daily average basis, dropped to 4.65% in 2017 from 6.33% recorded a year earlier, mainly because of lower growth in transaction deposits and a higher base effect in the previous year. Meanwhile, the annual growth rate of reserve money decreased in 2017 because growth in banks' demand for reserves slowed as a result of lower growth in transaction deposits.

Growth in Bank Loans and Investments Increased

Although commercial banks were still conservative in making investment decisions on concerns about monetary policy normalization in advanced economies, as well as increasing uncertainty in global political, economic and financial situations, the annual growth rate of loans and investments increased from 3.89% at the end of 2016 to 4.82% at the end of 2017. The increase was due to faster

loan growth as the economic recovery, increased housing transactions, and brisk stock trading combined to boost private sector demand for funds. If loans and investments of life insurance companies, non-accrual loans reclassified and bad loans written off by monetary financial institutions, and funds raised directly from capital markets were all taken into account, the total outstanding amount of funds raised by the non-financial sector would register an annual growth rate of 3.69% at the end of 2017, higher than the 2.56% recorded a year earlier.

Average Rates on Deposits and Loans Slightly Declined

In 2017, the CBC's policy rates remained unchanged, and banks' posted interest rates on deposits and loans both stayed steady. At the end of 2017, the average fixed rate on one-year time deposits of the five major domestic banks was 1.04%, the same as a year earlier, and the base lending rate was 2.632%, close to that of 2016. The weighted average rate on their new loans decreased from 1.468% the previous year to 1.414%, mainly because of a drop in the rate on loans for current operations resulting from new low-interest loans to local governments and government enterprises.

For domestic banks as a whole, the weighted average interest rate on deposits slightly decreased by 0.07 percentage points, mainly because the share of time deposits in total deposits shrank from the previous year. Meanwhile, the weighted average interest rate on loans also slightly declined by 0.09 percentage points, mainly owing to increases in low-interest loans of some banks to local governments and government enterprises.

Bills Market Rates and 10-Year Government Bond Yields Increased

Against the background of a domestic economic recovery and stable prices, the CBC continued to conduct open market operations to maintain market liquidity at an appropriately easy level. The interbank overnight call loan rate remained at a stable lower level, fluctuating between 0.17% and 0.18% during the year of 2017. With regard to the bills market, money market rates fluctuated in a narrow range and slightly increased compared with last year because of stronger demand for funds amid the economic recovery.

The yield on the benchmark 10-year government bond trended upward, mainly because of robust stock trading absorbing funds from the bond market, as well as the Fed's rate hikes. In terms of issuance, as tax revenue increased and the amount of issuance was approaching the statutory limit, the total amount of government bonds issued decreased by NT\$163.5 billion over the previous year.

Exchange Rate Swung Up

The NT dollar against the US dollar reached a yearly low on January 4. Afterwards, the NT dollar

appreciated owing to foreign capital inflows and a weak US dollar resulting from US president Trump's remarks that the US dollar was too strong and that could hurt the US economy. While the Fed raised the policy rate on June 15, along with the announcement of its balance sheet reduction plan, and foreign capital flowed out of Asia, the NT dollar slightly depreciated. After early July, because of US dollar weakness on concerns that the Fed would slow down the pace of rate hikes, as well as continuous net foreign capital inflows, the NT dollar trended up again to a yearly high on December 28. At the end of 2017, the NT dollar appreciated against the US dollar by 8.14% compared to that at the end of the previous year. The NT dollar against the US dollar also appreciated by 6.17% on an annual average basis.

Stock Index Swung to Rise, Then Closed Lower

After the beginning of 2017, the TAIEX swung up from the yearly low of 9,273 on January 3 to over 10,000 points in May, mainly driven by the domestic economic recovery, US stocks renewing record highs, and net purchases by foreign investors. Afterwards, although there were unfavorable factors including tensions on the Korean Peninsula, the TAIEX continued to climb to a yearly high of 10,855 on November 23, a record unseen for 28 years, mainly bolstered by active trading from domestic individual investors. For the rest of the year, the TAIEX declined on weak international stock markets and net sales by foreign investors. The TAIEX closed at 10,643 points at the end of the year, increasing by 15.01% compared with the previous year end.