Foreword

Chin-Long Yang, Governor

Taiwan's economy grew at an annual pace of 3.22% in the first half of 2018 as solid global economic expansion and rising international oil prices significantly bolstered export performance. However, economic growth softened to 2.08% in the second half year with export momentum easing amid a sputtering global economy and private consumption slowing. For the year as a whole, the domestic economy expanded by 2.63%, lower than the 3.08% registered in 2017. Meanwhile, inflation was mild. The annual growth rate of consumer price index (CPI) rose from 0.62% a year ago to 1.35% owing mainly to international oil price surges and a deferred boost from the cigarette tax hike, while the annual core CPI growth rate increased from 1.04% to 1.21%.

In 2018, the Bank maintained a policy stance appropriate for the circumstances at home and abroad. Indeed, weakening global expansion and heightened international uncertainties weighed on domestic economic growth, in addition to a still negative output gap. Meanwhile, both inflation and the inflation outlook were mild, and Taiwan's interest rate was around the middle of the range as compared with a host of major economies. Against this backdrop, the Bank held the policy rates steady and kept an accommodative stance in support of adequate money supply and credit availability, so as to foster solid economic and financial development. Over the course of the year, the Bank managed market liquidity through open market operations. Bank loans and investments grew by 5.26% year on year and M2 increased by 3.52%. Both readings were higher than the GDP growth rate of 2.63% over the same period, indicating ample market liquidity to support economic activity.

Furthermore, the Bank began to provide a live stream of the post-Board Meeting press conferences last June. This represented a step forward in central bank transparency, just one year after the Bank started to publish the quarterly Board Meeting minutes. We hope these changes would bring the public closer to understanding what are shaping the monetary policy decisions.

Throughout 2018, Taiwan's FX market showed a supply-demand balance as the amount of net foreign capital outflows, which exceeded US$10 billion, was approximately matched by that of net resident inflows. Despite a flurry of uncertainty shocks from US-China trade conflicts and currency crises of some emerging market economies, the NT dollar demonstrated dynamic stability under a managed floating regime as the Bank smoothed out excessive upward or downward swings in the NTD-USD exchange rate movements when needed. At the end of the year, foreign exchange reserves held by the Bank amounted to US$461.8 billion, with an increase of US$10.3 billion owing to rising returns from foreign exchange reserves management.

To enhance financial inclusion, the Bank kept up its efforts to improve financial infrastructure, along with a keen eye for the latest developments in financial technologies and an aim to encourage the use of electronic payment instruments. One of the examples was the blockchain-based platform for financial audit verification, freshly inaugurated in late 2018 by the Financial Information Service Co., Ltd. under the auspices of the Bank. Moreover, the Bank continued to assist financial institutions in promoting the government's mobile payment service "Taiwan Pay."

Looking ahead, uncertainty about US-China trade friction and monetary policy of major central banks, as well as geopolitical concerns, could roil international financial markets and dampen the global economic fortunes. In light of these risks, the Bank will continue to monitor domestic and external economic and financial developments and take appropriate monetary and FX policy actions in line with its legal mandate, including maintaining an orderly FX market to safeguard dynamic stability of the NT dollar.

Looking back, the hard work of my colleagues over the past year is reflected in this publication, with economic analyses and overviews on the Banks operation. Going forward, we will stay on close watch for and rise to new monetary policy challenges.

Chin-Long Yang

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