

## II. Financial Developments

### 1. Overview

In 2018, the Bank's policy rates remained unchanged, banks' posted interest rates and the weighted average interest rate on deposits stayed stable, while the base lending rate and the weighted average interest rate on loans slightly moved downward. The interbank overnight call loan rate hovered at a low level, whereas bills market rates rose modestly. The average 10-year government bond yield dropped on account of ample market liquidity. 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 the economic recovery, increased housing transactions, one big merger deal, and greater financing demand from government enterprises. Meanwhile, M2 growth slowed because of net foreign capital outflows and a broader asset allocation strategy beyond just deposits.

With respect to the exchange rate, the NT dollar against the US dollar fluctuated in the year, against a backdrop of the US-China trade conflicts and the Fed's rate hikes. At the end of 2018, the NT dollar depreciated against the US dollar compared with a year ago, but, on a daily average basis, the NT dollar appreciated against the US dollar in 2018.

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, reached 11,253 points on January 23, a record high in the past 28 years. In the fourth quarter, affected by the US-China trade conflict and global stock markets crashes, the TAIEX dropped and closed the year lower, but the daily average transaction value expanded.

#### **M1B Growth Increased but M2 Growth Slowed**

The monetary aggregate M2, measured on a daily average basis, recorded an annual growth rate of 3.52% in 2018. This was lower than the 3.75% registered in 2017 yet remained within the Bank's 2.5% to 6.5% target range for the year. The drop was because of a partial shift of bank deposits to life insurance policies and net foreign capital outflows. The annual growth rate of M1B, measured on a daily average basis, rose to 5.32% in 2018 from 4.65%, mainly because of increased stock market turnover in the course of the year and the implementation of pension reform in July. Meanwhile, the annual growth rate of reserve money went up in 2018 as a result of higher growth in transaction deposits.

## Bank Loans and Investments Grew Faster

The annual growth rate of bank loans and investments increased from 4.82% at the end of 2017 to 5.39% at the end of 2018. The increase was due to faster loan growth amid the economic recovery, a moderate housing market rebound, one big merger deal, and greater demand from Taiwan Power Company to finance its plant expansion and energy transition-related plans. 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 3.85% at the end of 2018, higher than the 3.68% recorded a year earlier.

## Deposit Rates Stayed Steady While Loan Rates Slightly Declined

In 2018, the Bank's policy rates remained unchanged, and banks' posted interest rates on deposits stayed steady. At the end of 2018, 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 2.631%, slightly lower than 2.632% in 2017. The weighted average rate on new loans decreased from 1.414% the previous year to 1.370%, mainly because of a drop in the rate on loans for current operations.

For domestic banks as a whole, the weighted average interest rate on deposits was unchanged. Meanwhile, the weighted average interest rate on loans slightly declined by 0.02 percentage points, mainly owing to increases in low-interest loans of some banks to local governments and government enterprises.

## Bills Market Rates Slightly Increased, but the 10-Year Government Bond Yields Decreased

Against the background of a domestic economic recovery and stable prices, the Bank 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 0.178% and 0.183% during the year of 2018. 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 downward, mainly because of ample market liquidity. 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\$52.7 billion over the previous year.

**Exchange Rate Swung Up at the End of the Year, but the Average Exchange Rate Rose Slightly**

At the beginning of 2018, the US dollar was dampened by the US Treasury Secretary's remarks that a weak US dollar would benefit the US economy. As a Result, the NT dollar appreciated against the US dollar. In April, because of the US-China trade conflict and rising US government bond yields, the NT dollar depreciated against the US dollar. Later, the US and China imposed tariffs on each other's exports. Tensions over the US-China trade conflict induced international capital outflows from emerging Asia, causing the NT dollar to depreciate against the US dollar and to fall to a yearly low on October 11. At the end of 2018, the NT dollar depreciated by 2.88% against the US dollar compared with the end of the previous year. On a daily average basis, the NT dollar appreciated against the US dollar by 0.94% in 2018.

**Stock Index Swung Higher but Closed Lower**

In the beginning of 2018, the TAIEX rose to a yearly high of 11,253 on January 23, a record unseen for 28 years, bolstered by active trading from domestic individual investors driven mainly by the domestic economic recovery, US stocks renewing record highs, and net purchases by foreign investors. In the fourth quarter, affected by the global stock market crash, rising US bond yields and foreign investors' sell-offs in emerging Asia, the TAIEX slid from 11,052 on October 1 to 9,489 on October 26. Thereafter, the TAIEX fell on weak international stock markets, the US-China trade friction, and domestic uncertainty over major elections. The TAIEX closed at 9,727 points at the end of the year, declining by 8.6% compared with the previous year end.