
Abstract

In 2019, Taiwan's financial markets operated smoothly in the context of a slowdown in economic growth and mild inflation both domestically and abroad. Domestic financial institutions experienced sharp increases in profitability and higher capital levels. The major payment systems also functioned along an orderly trajectory. However, in the beginning of 2020, with the outbreak of the coronavirus disease 2019 (COVID-19) pandemic which has quickly spread globally, the downside risks of domestic and international economic conditions increased dramatically. The pandemic triggered further bouts of global financial market turmoil. However, thanks to a sound domestic financial system, coupled with an appropriate government response to the pandemic, the impact on Taiwan's financial system was relatively limited.

International and domestic macro environment and impacts arising from the COVID-19 pandemic

With regard to global economic and financial conditions, the momentum of international economic growth slowed in 2019. In response, major economies adopted accommodative monetary policy stances. As a consequence, most of the global stock markets trended upwards and government bond yields trended downwards before bouncing back. Since early 2020, global economic growth has seriously lost momentum amid the outbreak of COVID-19 and its spread across the world. As predicted by IHS Markit, the global economic outlook would fall into a slowdown. On the back of heightened anxiety of investors, global stock markets slumped and the spreads of high-yield corporate bonds surged; hence, financial conditions significantly tightened. The economic growth in Mainland China also waned, along with rising potential risks. To mitigate the impact of the COVID-19 pandemic on the economy, major economies consecutively adopted accommodative monetary policy stances such as interest rate cuts and expansion of asset purchasing plans, in conjunction with the implementation of unprecedented fiscal stimulus packages.

In 2019, Taiwan's economy grew soundly and consumer prices rose moderately with mild inflation. External debt shrank and foreign exchange (FX) reserves remained ample, implying

that external debt-servicing capacity remained strong. The government's fiscal deficits and public debt expanded, but stayed within a manageable range. The profitability of listed companies decreased, while household financial conditions remained sound. Real estate market trading volume and house prices both surged; nevertheless, the mortgage burden remained heavy. Starting from early 2020, the impact of the global COVID-19 pandemic on the momentum of domestic economic growth could undermine the debt-servicing capacity of the corporate and household sectors. Real estate market outlook may also turn conservative. In addition, the implementation of large-scale relief and revitalization plans by the government, which will be partially financed by debt, could increase its fiscal deficits and outstanding public debt.

Financial markets, institutions, and infrastructures operated smoothly

In 2019, bill and bond issuance in the primary market rose, whereas the trading volume in the secondary market shrank. Stock prices fluctuated with an upward trend; FX markets remained dynamically stable. The profitability and capital levels of domestic banks increased and loss-bearing capacity remained sound. Life insurance companies exhibited a substantial increase in profitability, underpinning a rebound in their capital levels apparently. Bills finance companies showed rising profits, though liquidity risks remained high. Furthermore, the major systemically important payment systems operated smoothly.

From early 2020, with the spread of the COVID-19 pandemic around the world, the yields on Taiwan's government bonds sharply fluctuated, and the stock indices plunged and then turned to rebound. The NT dollar exchange rate against the US dollar remained relatively stable. On the other hand, domestic banks could see a compression of interest rate spreads between deposits and loans and deteriorated credit quality amid the pandemic. However, domestic banks, supported by their sound financial conditions and improving risk-bearing capacity, were able to weather the adverse impacts deriving from the pandemic. The securities investments of life insurance companies were severely affected by the COVID-19 outbreak, resulting in a significant decline in their equities. Nevertheless, given that life insurance companies have continuously injected their profits into capital in recent years, their resilience to withstand adverse shocks has improved. The credit quality of bills finance companies could be affected; however, the impacts should be limited. Domestic systemically important financial infrastructures, which were not affected by the pandemic, functioned orderly. As a whole, domestic financial systems operated smoothly.

Taiwan's government actively took measures in response to the COVID-19 pandemic

From 2019 onwards, the Bank successively adopted appropriate monetary, credit, and FX policy measures. Meanwhile, the Financial Supervisory Commission (FSC) persistently revised financial regulations and strengthened financial supervisory measures, so as to maintain sound operation of financial institutions and to promote financial stability. To contain the impact of COVID-19 on the domestic economy and society, in early 2020, the Executive Yuan launched an NT\$1.05 trillion relief and revitalization plan, providing various types of assistance in three major directions of epidemic prevention, relief, and revitalization of the economy. In addition, in order to mitigate the impact of the pandemic on the domestic financial system, the Bank lowered policy rates, together with supporting the liquidity of the financial system and maintaining the stability of the FX market. Meanwhile, the FSC also adopted a number of measures to stabilize financial markets.

The Bank will continually take measures to promote financial stability as needed

In 2019, financial markets operated smoothly and financial conditions of financial institutions were sound, while all payment systems functioned orderly. Overall, the financial system in Taiwan remained stable. From early 2020 onwards, global financial markets fluctuated drastically following the COVID-19 outbreak. In response, Taiwan's government launched a series of relief and revitalization measures which are expected to help maintain the stability of the domestic labor market and support the momentum of economic growth. Nevertheless, considering that the COVID-19 pandemic has not yet eased and international economic and financial developments are still surrounded by many uncertainties, the Bank will continue to pay close attention to the impacts of relevant subsequent developments on domestic economic and financial conditions so as to take pertinent response measures in a timely manner to promote financial stability.

