
IV. Measures to promote financial stability and respond to the COVID-19 pandemic

4.1 Measures taken by the Bank and the FSC to boost financial stability

4.1.1 Measures taken by the Bank to bolster financial stability

In view of stable domestic economic growth and mild inflation outlook, the Bank held policy rates unchanged in 2019. Moreover, the Bank continued to implement restrictions on high-price housing loans in consideration of their higher price volatility. The Bank also continued to adopt flexible FX rate policies to maintain dynamic stability of the NT dollar exchange rate and duly review relevant FX regulations.

Adopting appropriate monetary policies in response to domestic and global economic and financial conditions

Taking into account the steady global economic growth and an uncertain outlook for the international economy and trade, coupled with a slightly negative output gap, a stable inflation outlook, and domestic nominal and real interest rates ranking in the middle level compared to those in major economies, the Bank kept policy rates unchanged in 2019. The discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral remained at 1.375%, 1.75%, and 3.625%, respectively.

In 2019, the excess reserves in all financial institutions remained at an ample level. The total loans and investments in the banking sector grew by 4.71%, while the monetary aggregate M2 increased by 3.46% year on year. Both rates were higher than the GDP growth rate of 2.71%, indicating that market liquidity was sufficient to support economic activity.

The Bank will continue to closely monitor price conditions, the output gap, as well as changes in global and domestic economic and financial conditions, and undertake appropriate monetary policies to maintain price stability and financial stability, thereby fostering economic growth.

Continuing to regulate high-price housing loans

Since June 2010, the Bank has actively adopted a series of targeted prudential measures for real estate loans, which have achieved results since their implementation. At present, except for high-price housing loans, most measures have been removed and mortgage-related credit risk management returned to rely on self-discipline of banks. In the future, the Bank will continue to monitor financial institutions' credit risk management of real estate loans and the developments in the real estate market, and undertake appropriate policy actions in a timely manner as needed to ensure financial stability.

Adopting flexible FX rate policies to safeguard the dynamic stability of the NT dollar exchange rate

As Taiwan is a small open economy that is highly interconnected in trade with other economies, the Bank adopts a managed float exchange rate regime to contain sharp fluctuations in the exchange rate. Under this regime, the exchange rate of the NT dollar is in principle decided by market forces. Nevertheless, when seasonal factors (such as massive inflows or outflows of short-term capital) lead to excess volatility and disorderly movements in the NT dollar exchange rate with adverse implications for domestic economic and financial stability, the Bank will, in line with its mandate, aptly maintain FX market order.

In the event of excessive exchange rate volatility caused by movements of large international short-term capital flows, the Bank would conduct “leaning against the wind” operations to stave off adverse implications for economic and financial stability and to enhance FX market efficiency.

Additionally, the Bank continued to undertake appropriate management measures in 2019 to safeguard FX market order and promote its sound development. These measures mainly included: (1) taking hold of the updated transaction information in the FX market through the Real-Time Reporting System for Large-Amount FX Transactions; (2) reinforcing examination efforts made to ensure that forward transactions were based only on actual transactions; (3) urging authorized banks to enhance their exchange rate risk management, thereby reducing FX exposures of individual banks and systemic risk in the FX market; and (4) strengthening targeted examinations on FX businesses in order to maintain the discipline of the FX market.

4.1.2 Measures undertaken by the FSC to maintain financial stability

From 2019 onwards, the FSC continued promoting the development of the financial industry, enhancing financial inclusion and encouraging financial technology (FinTech) innovation. Additionally, the FSC undertook several measures to preserve financial stability as follows: (1) enacting regulations governing the identification of D-SIBs and enhancing supervisory measures; (2) strengthening supervision on the product structure, sales and capital adequacy of the insurance industry; (3) promulgating regulations regarding the financial investment of repatriated offshore funds; (4) reinforcing capital requirements, anti-money laundering (AML) and corporate governance of domestic banks; and (5) enhancing the efficiency of financial inspection and supervisory reporting.

Amending the regulations governing capital requirements on investments by domestic banks in financial related enterprises

With a view to keeping the capital adequacy calculation of domestic banks in line with international standards, the FSC amended the regulations governing capital requirements on a bank's investments in financial related enterprises and eligible debt instruments issued by global systemically important banks (G-SIBs) for total loss-absorbing capacity (TLAC) instruments in January 2020. The investments mentioned above will be divided into important investments and non-important investments, which are determined by the threshold of 10% shareholding and applied to the methods of "cross-threshold exclusion" or "applicable capital exclusion." The investments may be excluded from the calculation of a bank's regulatory capital or included in the calculation of risk weighted assets according to the threshold applied.

Strengthening AML measures of innovative FinTech experimentation

Given that different innovative FinTech experimentations should comply with different AML regulations, the FSC promulgated the *Regulations Governing Anti-Money Laundering and Countering Terrorism Financing of Financial Technology Innovative Experimentation* in May 2019, stipulating that applicants should establish related operational procedures, including due diligence measures on participants, ongoing due diligence measures, policies and procedures for cross-border remittance, internal control and audit systems for AML, and reports of suspicious transactions.

Continually reinforcing corporate governance and internal audit systems for financial institutions

- (1) To achieve transparent disclosure of major ownership information and financial reports, the FSC amended shareholding reporting related regulations in December 2019, requiring majority shareholders to report beneficial owners/persons with ultimate control when reporting their shareholding information. Moreover, the FSC amended the regulations governing preparation of financial reports in March 2020, requiring issuers to disclose the names, numbers of shares held, and shareholding percentages of shareholders who hold 5 percent or more of the issuer's equity in quarterly financial reports.
- (2) The FSC amended regulations regarding public offering and issuance prospectuses, in January 2020, and annual reports of public companies, in March, respectively. The amendments require a public company to give explanations regarding the reasonableness and necessity when the chairperson of the board of directors and the general manager (or the person of an equivalent position) are the same person, spouses, or relatives within the first degree of kinship, and to disclose the remuneration paid to each individual director and supervisor under specific conditions.⁸²
- (3) The FSC continually promoted risk-based internal audit systems and supported the Bankers Association to introduce internal audit self-discipline guidelines for foreign branches and subsidiaries and to implement audit performance evaluation for the insurance industry.

Enhancing the efficiency of financial inspection and supervisory reporting

- (1) In view of digitalization of financial services and establishment of internet-only banks, the FSC set up an audit task force to prepare related work to focus on during examinations, introduced an automatic application programming interface (API) reporting system, and facilitated a digital examination process.
- (2) In October 2019, the FSC promulgated the *Directions on the Defects of Filing Regulatory Data by the Domestic Banks* to enhance the quality of supervisory reporting by giving demerit points if a bank delays or makes mistakes when filing regulatory data.
- (3) The FSC started a program of digital supervisory reporting system in October 2019. Under the program, it would set up a digital supervisory reporting platform and data warehouse

⁸² Includes companies that have posted after-tax deficits within the recent 3 fiscal years, poor corporate governance evaluations and lower average annual salaries of the full-time non-supervisory employees.

system with a step-by-step plan divided into three stages including internet-only banks, bills finance companies and domestic banks.

4.2 Taiwan's responses to the COVID-19 pandemic

In response to the impact of the COVID-19 pandemic on the domestic economy and society, Taiwan announced in February 2020 the *Special Act for Prevention, Relief and Revitalization Measures for Severe Pneumonia with Novel Pathogens* and launched an NT\$1.05 trillion “Relief package 2.0,” providing various types of assistance from the three major aspects of pandemic prevention, relief, and revitalization (Table 4.1).

Table 4.1 Summary of NT\$1.05 trillion “Relief package 2.0” of the Executive Yuan

Items	Amount	Details
Special Budget	NT\$210 billion	<ul style="list-style-type: none"> The upper limit of the special budget was increased from NT\$60 billion to NT\$210 billion. Moreover, the upper limit could be raised by NT\$210 billion (yet to be submitted to the Legislative Yuan) to NT\$420 billion, depending on the pandemic situation in the future. Allocation of the NT\$210 billion special budget: the MOEA, NT\$97.5 billion; the MOHW, NT\$36.5 billion; the MOL, NT\$31 billion; the MOTC, NT\$30.9 billion; and other ministries, NT\$14.1 billion.
Funds and Disbursement Through Reprioritization	NT\$140 billion	<ul style="list-style-type: none"> Ministerial funds: the MOL, the MOTC, the Ministry of Education and the Council of Agriculture, with a total of NT\$52.6 billion. Special funds: the National Development Fund and the Small & Medium Enterprise Credit Guarantee Fund (SMEG), totaling NT\$60 billion. Advance procurement: The public construction budget totaling NT\$12 billion. Reprioritization: NT\$15.4 billion.
Bailout Loans	NT\$700 billion	<ul style="list-style-type: none"> Loan amounts: the Bank provided NT\$200 billion (up to NT\$400 billion depending on the pandemic situation) through the special accommodation facility; the postal savings fund and government-owned banks provided relief funds of NT\$500 billion (in addition, each domestic bank has its own bailout loan program). Loan assistance: The MOEA and the MOTC would assist enterprises in obtaining funding through the SMEG's guarantee, as well as providing corporate and personal interest subsidies.

Sources: Executive Yuan and related ministries.

In addition, in order to reduce the impact of the pandemic, the Bank cut the policy rate by 25 bps in March 2020 and undertook measures to support liquidity in the financial system and sustain stability of the FX market. Meanwhile, the FSC adopted a number of measures to stabilize financial markets. Other ministries also introduced various response measures.

4.2.1 Monetary policy

To help enterprises affected by the COVID-19 pandemic to return to normal operations and to prevent massive capital flows from affecting financial stability, the Bank has implemented major measures since March 2020 as follows:

1. Cutting policy rates: the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral were reduced to 1.125%, 1.50%, and 3.375%, respectively.
2. Providing a special accommodation facility to support bank credit to SMEs: the Bank provided banks with a total amount of NT\$200 billion (set at an annual interest rate of 0.1%), in order to support credit extensions to SMEs. The accommodation facility mechanism can be categorized into three schemes A, B and C, according to eligible borrowers, amount, interest rate and collateral (Table 4.2).

Table 4.2 The Bank launched the special accommodation facility to support bank credit to SMEs

Items	Scheme A	Scheme B	Scheme C
Eligible borrowers	SMEs (including small business entities)	SMEs (including small business entities)	Only small business entities ¹
Amount	Maximum: NT\$2 million per borrower	Maximum: NT\$6 million per borrower	Maximum: NT\$500,000 per borrower
Interest rate	Not exceeding 1%	Not exceeding 1.5%	Not exceeding 1%
Collateral	The Small and Medium Enterprise Credit Guarantee Fund provides more than 90% credit guarantee.	Collateral ² required by banks	The Small and Medium Enterprise Credit Guarantee Fund provides 100% credit guarantee.

Notes: 1. Small business entities refer to those for-profit businesses that have tax registration with a sales amount not reaching NT\$200,000 in any given month since January 2020.

2. Collateral means those listed in Article 12 of the *Banking Act*.

3. As of May 21, 2020, the approved loan amounts for Scheme A, B, and C were NT\$6.63 billion, NT\$7.22 billion, and NT\$15.41 billion, respectively, with a total of NT\$29.26 billion.

Source: CBC.

4.2.2 Measures for financial market stability

Main measures taken by the Bank

To provide the financial system with sufficient liquidity and maintain FX market stability, the Bank took response measures as follows:

- (1) In order to keep market liquidity at an accommodative level, the Bank decreased the

issuance of CDs in a timely manner so as to reduce sterilized funds.

- (2) Banks with funding demand are able to use their holdings of CDs issued by the Bank to request early withdrawal or to obtain funds from the Bank with CDs as collateral whenever necessary.
- (3) In case of emergency, the Bank's expanded repo facility, introduced in 2008 at the onset of the GFC, could also be applied.
- (4) The Bank paid close attention to cross-border capital flows and acted in line with its mandate to maintain an orderly FX market and safeguard financial market stability.

Main measures taken by the FSC

To orderly maintain the stability of securities exchange markets and protect the interests of investors, the FSC took the following response actions from March 19, 2020 onwards:

- (1) Lowering the cap on total securities borrowing and lending (SBL) short selling volume during trading sessions.
- (2) Expanding the scope of collateral to cover margin deficiency.
- (3) Requiring that if the closing price of the listed securities and Taiwan depository receipts falls by more than 3.5%, then on the following trading day the investors are not permitted to engage in regular or SBL short selling at a price lower than the closing price of the previous trading day.
- (4) Encouraging listed companies to buy back treasury shares in a timely manner to protect the interests of shareholders and enhance investors' confidence.

4.2.3 Providing relief loans, subsidy schemes and tax assistance

The "Relief package 2.0" was mainly employed by the ministries and commissions under the Executive Yuan in supportive measures, such as relief loans and various subsidy schemes for affected corporates and individuals, and the MOF also put easing tax burden measures into practice to provide related tax assistance as follows:

- FSC: through rating and rewarding, lowering loan provisioning ratios, decreasing deposit insurance premium rates and other measures, the FSC encouraged financial institutions to

take strong steps to implement relief measures⁸³ put forward the ministries and commissions of the central government. In addition, the FSC urged the banking industry to provide loan assistance to enterprises and individuals affected by the COVID-19 pandemic.

- MOF: the MOF urged government-owned banks to continue to extend policy loans to enterprises and provide assistance of relief loans to SMEs, micro-enterprises and individuals; moreover, interest rates of mortgages and consumer loans were reduced further. The MOF also cut taxes and deferred reporting and payment periods of corporate and individual income taxes.
- MOL: the MOL took measures to help unemployed workers to find jobs and/or to participate in public services, to subsidize self-employed business owners, to initiate youth employment stabilization plans, to implement a program that offer part-time jobs in public sectors, to provide labor relief loans, etc.
- Various government agencies, including the MOEA, MOHW, MOTC: the government approved a wide-range of relief packages, providing loan assistance to enterprises, individuals or groups affected by the pandemic. There were also subsidies for business operations, loan interest payments, taxes, payroll and expenses, etc.

4.3 The Bank will continue to adopt measures to promote financial stability when necessary

In 2019, Taiwan's financial markets and infrastructure maintained normal operation and sound development in the context of a slowing economy and mild inflation both domestically and abroad, while financial institutions experienced large increases in profitability, good asset quality and higher capital levels. Overall, Taiwan's financial system remained stable. In such a stable economic and financial environment, the Bank adopted appropriate monetary, credit and FX policies, while the FSC continued to revamp financial regulations and enhance financial supervision measures so as to guide the sound operations of financial institutions and promote financial stability.

Since the beginning of 2020, the outbreak of the COVID-19 pandemic disrupted global supply chain operations, greatly weakened the momentum of international trade and consumer demand, and triggered volatility in global financial markets. These circumstances, coupled with the collapse in oil prices, US-China trade dispute uncertainty, geopolitical conflicts, and other

⁸³ As of May 26, 2020, domestic banks had taken over one million borrowers of relief loans, with a total amount of NT\$925.5 billion. Among them, around 680 thousand borrowers with NT\$735.8 billion were approved.

factors, resulted in a sharp increase in domestic and international economic downside risks. In order to mitigate the impact of the COVID-19 pandemic on Taiwan's economy and financial system, Taiwan's government agencies (including the Bank) have consecutively launched various relief measures, such as revitalization programs, financing assistance, and market stabilization, which would help to keep labor market strong and support the momentum of economic growth, thereby promoting financial stability.

Considering that the COVID-19 pandemic has not yet eased and that 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.