

II. Potential macro environmental risk factors

2.1 International economic and financial conditions

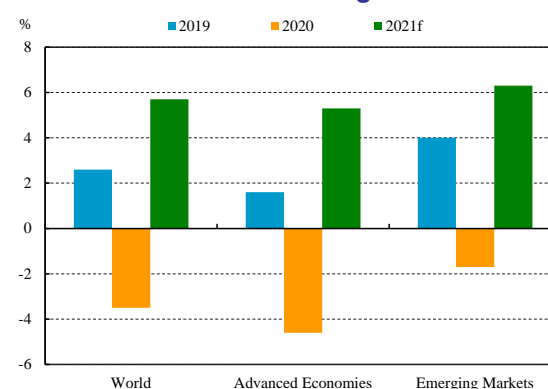
2.1.1 International economic and financial conditions

The COVID-19 pandemic had a severe impact on economic activity in 2020. Against the backdrop of shrinking global trade, subdued economic activity, and supply chain disruptions, global economic growth rates sunk deeply into negative territory. In 2021, with wider vaccine coverage across countries and continuous accommodative monetary policies employed by central banks, global economic growth is expected to gather momentum. However, the most considerable uncertainty surrounding the global economy is still derived from an unpredictable pandemic outlook and the pace of vaccine rollout. When it comes to financial markets, extremely accommodative monetary policies gave stock market investment a boost, resulting in a stark divide between financial markets and economic conditions. Once a quicker Fed normalization triggers a sharp rise in interest rates, it may put financial stability at risk.

The pandemic considerably jeopardized global growth momentum in 2020, and vaccine coverage will play a role in the speed of recovery in 2021

In the beginning of 2020, the COVID-19 pandemic broke out in Mainland China and rapidly spread across the world, derailing global economic growth momentum. On the supply side, the COVID-19-induced confinement measures caused stagnant business operations and declined productive capacity and resulted in supply chain disruptions. On the demand side, associated lockdowns and lower expenditure stemming from vulnerable confidence of households and firms during the pandemic have greatly

Chart 2.1 Global economic growth rates

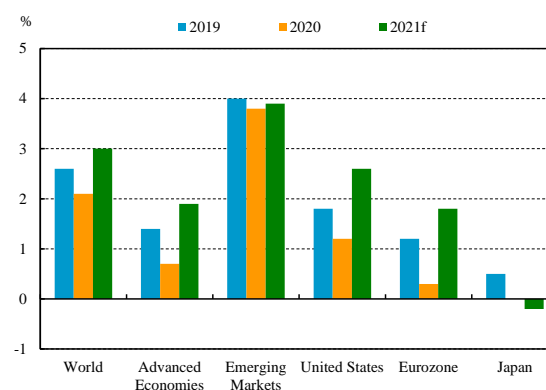


Note: Figures for 2021 are IHS Markit estimates.
Source: IHS Markit (2021/5/15).

reduced global demand. Affected by these negative factors, global growth moved into negative territory, contracting by 3.5%¹¹ during 2020 (Chart 2.1). It was the worst recession since the Great Depression, and far worse than the Global Financial Crisis (GFC) in 2008.¹²

Looking ahead to 2021, thanks to expanded vaccinations, loosened COVID-19 restrictions, extraordinary fiscal policy support, and a relatively low base period, global growth is projected to surge notably to 5.7%, while economic growth rates in advanced economies and emerging economies are expected to accelerate to 5.3% and 6.3%, respectively (Chart 2.1). Nevertheless, the IMF warned that logistical problems with delivering vaccines, together with uncertainties around coverage and efficacy of vaccines, could again cause deep wounds to the economy.¹³ The IMF estimated that in the downside scenario, which explores the possibility that vaccine coverage is lower than expected and that variants are more resistant to vaccines, global GDP growth in 2021 could slow by roughly 1.5 percentage points (pps) more than in the baseline scenario.

Chart 2.2 Global headline inflation indices



Note: Figures for 2021 are IHS Markit estimates.

Source: IHS Markit (2021/5/15).

Supported by global economic recovery, global inflation is expected to rise

In the first half of 2020, following lower oil demand amid an escalation of the COVID-19 pandemic and the collapse of the supply cut agreement, international oil prices crashed. Prices of some oil futures contracts even plunged into negative territory in April. Afterwards, Organization of the Petroleum Exporting Countries Plus (OPEC+) approved a historic agreement to cut output by a record amount. This, together with the manufacturing recovery in Europe and the US, policy support deployed across economies, and greater progress with vaccine trials, have finally stabilized the struggling oil market. Nonetheless, the average annual Brent crude oil spot price still dropped by over 35% to US\$41.69 per barrel compared to the level of 2019. Moreover, with other energy prices also oscillating along a downward path, the global CPI inflation rate decelerated to 2.1% in 2020. The headline inflation rates in advanced and emerging economies decreased to 0.7% and 3.8%, respectively (Chart 2.2).

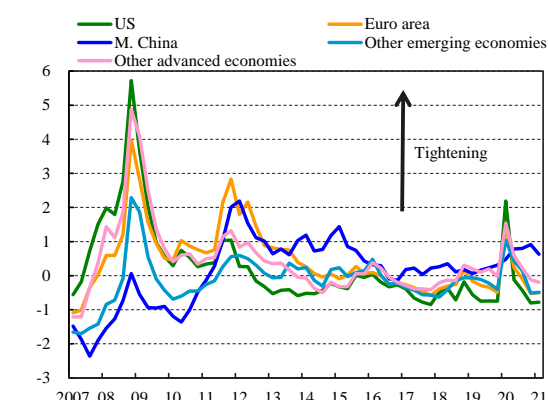
¹¹ IHS Markit estimate on May 15, 2021.

¹² According to data from IHS Markit, the world economy contracted by 1.7% in 2009 after the 2008 GFC.

¹³ IMF (2021), *World Economic Outlook*, April.

Since the beginning of 2021, the easing of lockdowns amid vaccine rollout, along with sizable fiscal policy support from the US, have boosted the global economy as well as oil demand. Meanwhile, OPEC+ agreed to extend most oil output cuts into April. This, together with Saudi Arabia extending its voluntary oil output cut and a shutdown of the oil refineries in Texas arising from frigid weather, had an impact on oil supply and buoyed crude prices. On March 5, the Brent crude oil spot price settled at its highest level since the pandemic began, hitting US\$69.95 per barrel. With the pandemic shock subsiding, an increase in demand also led other commodity prices to firm up further. As a result, IHS Markit anticipates that commodity prices will continue their upward trend and lift the global headline inflation rate to 3.0% in 2021. The headline inflation rate in advanced economies will increase to 1.9%, whereas the rate in emerging economies will only slightly pick up to 3.9% owing to weaker inflation in Mainland China (Chart 2.2).¹⁴

Chart 2.3 Global financial conditions indices



Notes: 1. Financial conditions indices are gauged by standard deviations from the means.
2. Other advanced economies comprise 11 economies, such as Australia, Canada, and the UK, etc.
3. Other emerging economies include 6 economies, such as Brazil and India, etc.

Source: IMF (2021), *Global Financial Stability Report*, April.

Highly accommodative financial conditions fueled financial vulnerabilities

Financial conditions have eased

In the beginning of 2020, the escalation of the COVID-19 pandemic induced mounting panic sentiment among investors, resulting in stock market crashes and widening corporate bond spreads. Consequently, financial conditions tightened abruptly (Chart 2.3). In the context of tighter financial conditions, the corporate sectors reduced investment because of rising funding costs and individuals postponed their consumption, thus putting financial stability at risk.

Since the second half of 2020, extraordinary monetary and fiscal policy support launched by national authorities has helped mitigate the impact of the pandemic. On the back of the aforementioned policies and other positive news regarding progress in vaccine development, investors expected that the global economy would be on track for recovery. As a result, excessive capital flowed into stock markets, leading to a sharp rise in stock prices and higher corporate valuations. Reflecting this, financial conditions loosened, notably in the US. The US

¹⁴ In 2020, pork prices in Mainland China oscillated at a high level amid an outbreak of swine fever. IHS Markit anticipates that pork prices will drop in 2021, while the CPI inflation rate will decline from 2.5% recorded in 2020 to 1.8% over the same period.

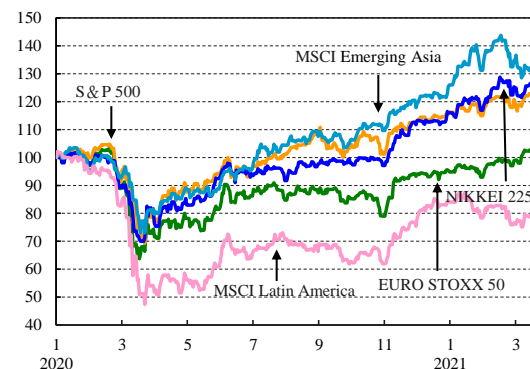
financial conditions index reached its loosest level ever following an evident jump in its stock markets (Chart 2.3).

The disconnect between financial markets and the real economy resulted in a K-shaped recovery

In March 2020, the spread of COVID-19 and plummeting oil prices led to panic sentiment among investors and sharp falls in global stock markets. From April onwards, monetary policy accommodation and fiscal stimulus measures were successively adopted by governments. Moreover, growing optimism on COVID-19 vaccines also boosted investors' confidence. As a result, vast capital inflows to stock markets fueled a sharp rally globally, especially in the US, Japan, and Asian emerging markets.¹⁵ On the other hand, euro equity markets had very limited growth owing to Brexit and the resurgence of the pandemic at the end of 2020 (Chart 2.4).

Recently, asset valuations in financial markets (e.g., stock markets) have fully recovered, but labor markets and economic activity have only partially bounced back, generating a K-shaped recovery. For instance, the stock market capitalization-to-GDP ratios for the US and Japan grew drastically to 198% and 122%, respectively, at the end of 2020 (Chart 2.5). Under this circumstance, worse-than-expected evolution of the pandemic and slower-than-anticipated economic revival in the future, or an earlier-than-expected tightening of monetary policies, may sharply heighten risk aversion and induce a sudden asset-price correction in financial markets. The abrupt correction could rattle the real economy and add to market pessimism, increasing the likelihood of adverse macro-financial feedback loops.

Chart 2.4 Performance of key international equity indices

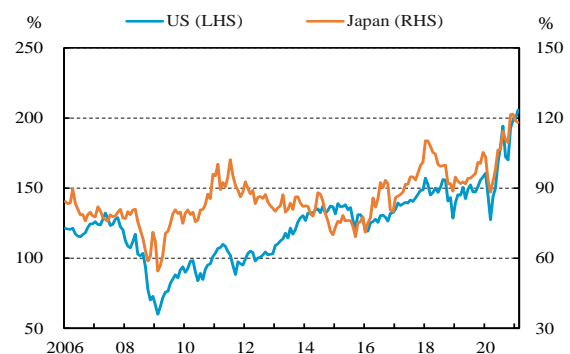


Notes: 1. January 1, 2020 = 100.

2. The Euro STOXX 50 refers to a stock index consisting of the largest 50 stocks in the 12 major economies of the euro area.

Source: Bloomberg.

Chart 2.5 Stock market capitalization-to-GDP ratios



Source: Bloomberg.

¹⁵ On March 17, 2021, the S&P 500, Nikkei 225, and MSCI Emerging Asia increased by 74.9%, 76.2%, and 79.2%, respectively, compared to their lowest level of 2020. Among them, stock market indices in South Korea, Taiwan, and India have set all-time record highs.

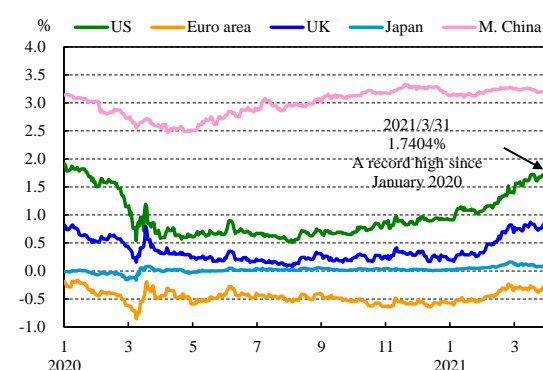
Reflecting stronger inflation expectations, government bond yields in major economies surged

In 2020, in light of the deteriorating COVID-19 pandemic, government bond yields in the US, the UK, and the euro area fell to the lowest level recorded since 2016. From 2021 onwards, global vaccine rollout and brighter economic prospects have fed into inflation expectations, spurring a spike in bond yields, particularly those in the US (Chart 2.6). Compared to its lowest level in 2020, the 10-year Treasury yield rose by 120 basis points and stretched to a recent high of 1.74% at the end of March 2021.

The surging inflation expectations were mainly driven by multiple factors, such as easy financial conditions, massive fiscal policy responses, pandemic alleviation, rising commodity prices, and economic recovery. Nonetheless, the negative output gap in the US persisted. This, together with structural disinflationary factors, including globalization, technology development, and an aging population, have continuously restrained long-term inflation expectations in the US. According to the St. Louis Fed's price pressures measure (PPM) in March 2021,¹⁶ there was only a 20% probability that the expected personal consumption expenditures price index (PCEPI) inflation rate would average more than 2.5% over the next 12 months (Chart 2.7), indicating that the rise in inflation expectations is likely to be temporary.

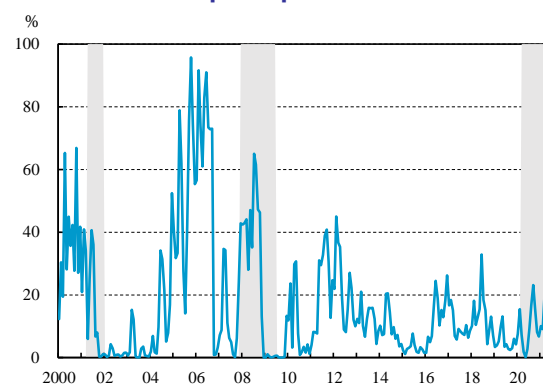
Although the surge in US government bond yields was likely to prove non-permanent, a significant increase in yields after mid-February 2021 triggered a correction in stocks. Global stock markets dropped after carving out fresh records. Against this backdrop, once real interest

Chart 2.6 10-year government bond yields in major economies



Source: Bloomberg.

Chart 2.7 Fed's price pressures measure



Notes: 1. The PPM measures the probability that the expected PCEPI inflation rate over the next 12 months will exceed 2.5%.
2. Shaded areas represent recessions defined by the National Bureau of Economic Research (NBER).

Source: St. Louis Fed.

¹⁶ The PPM index is constructed from a model augmented with nine factors (e.g., consumer price indexes). Please see Jackson, Laura E., Kevin L. Kliesen, and Michael T. Owyang (2015), "Introducing the St. Louis Fed Price Pressure Measure," *St. Louis Fed Economic Synopses*, November.

rates rise rapidly and persistently, it could bring about a repricing in financial markets and tightening financial conditions. In turn, it may hamper market confidence and endanger financial stability.

Global debt soared to a new record high, and non-financial private sector debt warrants close attention

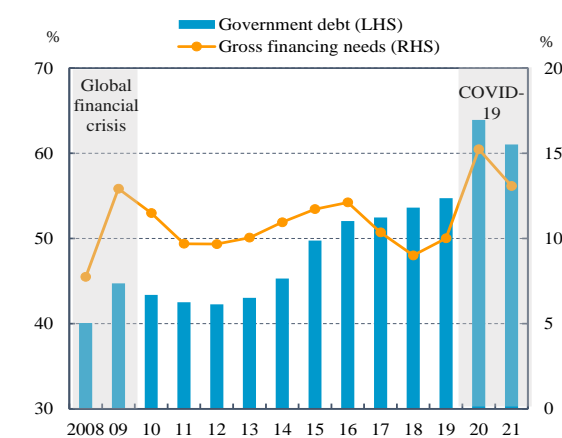
After the 2008 GFC, the influence of expansionary monetary policy on lowering borrowing costs provided stronger incentives for the non-financial sector to increase leverage. More recently, households and firms have taken on more debt to cover lost income following the COVID-19 outbreak. Both resulted in elevating private sector debt. With regard to government debt, massively scaled-up fiscal support at the national level to address the pandemic¹⁷ also led public debt to mount rapidly. According to the statistics of the Institute of International Finance (IIF), global debt across all sectors hit US\$281 trillion at the end of 2020, topping 355% of GDP, which was 35 pps higher than that of 2019.¹⁸

In the short term, policymakers will be faced with difficult trade-offs between providing monetary policy assistance for the economy and a withdrawal of policy support aimed at preventing debt overhang in the private sector. In the future, as soon as the economy is on track to recovery from the onslaught of the pandemic, macroprudential policies should be employed adequately to contain financial stability risks caused by high leverage.

Monetary policy normalization in advanced economies may cause portfolio outflows from emerging economies

The economic recovery is expected to be divergent because of uneven vaccine distribution and availability across regions. Since growth in emerging markets is forecast to be slower than in advanced economies, governments will face considerable financing needs. IMF staff analysis¹⁹ suggests that gross financing needs in emerging markets (excluding Mainland China) are anticipated to remain elevated at 13% of GDP in 2021, and government debt is

Chart 2.8 Government debt and gross financing needs of emerging economies (percent of GDP)



Note: This chart includes 51 emerging economies, excluding Mainland China.

Source: IMF (2021), *Global Financial Stability Report*, April.

¹⁷ Global fiscal support has already reached nearly US\$16 trillion. Please see IMF (2021), *Fiscal Monitor*, April.

¹⁸ IIF (2021), *Global Debt Monitor: COVID Drives Debt Surge – Stabilization Ahead?* February.

¹⁹ IMF (2021), *Global Financial Stability Report*, April.

expected to reach 61% of GDP. Both of these are beyond levels reported during the 2008 GFC (Chart 2.8).

In emerging markets, given that most of them have high debt and large financing needs, a move toward policy normalization or rising long-term interest rates in advanced economies could result in tighter financial conditions and significant capital outflows. Countries with poor economic fundamentals and limited access to vaccines may face massive capital outflows.

2.1.2 Mainland China's economic and financial conditions

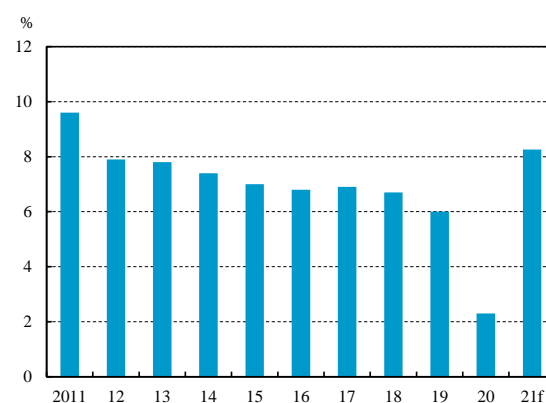
As the COVID-19 pandemic subsided, economic growth gradually picked up

In the beginning of 2020, the momentum of economic growth in Mainland China was battered severely by the outbreak of the COVID-19 pandemic. As a result, the growth rate declined to -6.8% in 2020 Q1. Afterwards, with the pandemic having abated, most regions successively eased their lockdowns and resumed production, leading to a stable recovery in Mainland China.²⁰ The GDP growth rate stood at 2.3% in 2020, a significant decrease of 3.7 pps compared to a year earlier (Chart 2.9). Looking ahead to 2021, owing to accelerating economic recovery and a lower base period of the previous year, IHS Markit forecasts that the economic growth rate will sharply surge to 8.3% (Chart 2.9).

Consumer prices continued to fall, while producer prices bounced back and housing prices showed moderate growth

Owing to slower growth in food prices, the CPI inflation rate of Mainland China was 2.5% throughout 2020, a decrease of 0.4 pps compared to a year earlier. IHS Markit projects the annual CPI inflation rate throughout 2021 will continue to fall to 1.8%. In addition, affected by the COVID-19

Chart 2.9 Economic growth rate of Mainland China



Note: Figure for 2021 is an IHS Markit estimate.

Sources: National Bureau of Statistics of China and IHS Markit (2021/5/15).

²⁰ According to the statistics of the National Bureau of Statistics of China, in 2020 Q2 and Q3, the annual growth rate in Mainland China rose to 3.2% and 4.9%, respectively. The economy advanced further to 6.5% in 2020 Q4 and gradually returned to its pre-pandemic level.

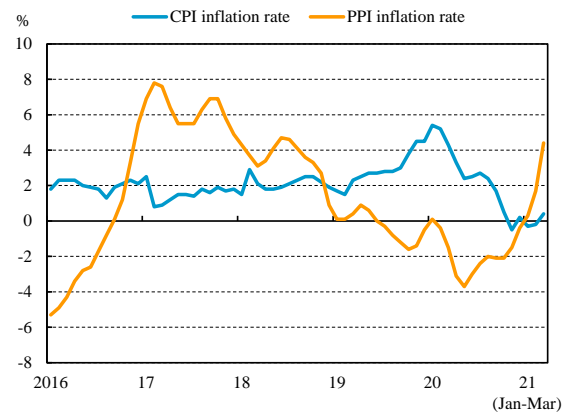
pandemic, the producer price index (PPI) inflation rate dropped to -1.8% throughout 2020. Nonetheless, since the beginning of 2021, the PPI inflation rate has returned to positive territory and climbed to a recent high of 4.4% in March (Chart 2.10).

With regard to the housing market, in light of the spread of COVID-19 and associated lockdowns in the beginning of 2020, the transaction volume in the first half of the year shrunk significantly, coupled with a moderate increase in housing prices. However, in the second half of the year, a more accommodative monetary policy adopted by the People's Bank of China (PBC) led to speculative trading, fueling a gradual rise in housing prices (Chart 2.11). Considering that there were more signs of financialization and bubbles in the housing market, Mainland China's government successively required banks to comply with enhanced supervision measures for housing loans from December 2020 onwards so as to reduce bubble risks.

The PBC moved toward a neutral stance after implementing highly accommodative monetary policies

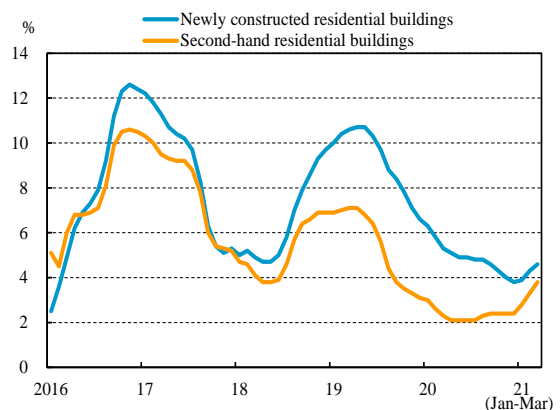
In early 2020, the escalation of the COVID-19 pandemic triggered financial market turmoil. The Shanghai interbank offered rate hiked rapidly. In response, the PBC substantially injected liquidity into markets by means of policy tools such as cuts in reserve requirement ratios. Moreover, the PBC led the market interest rates to drop by cutting rates of the

Chart 2.10 CPI and PPI inflation rates of Mainland China



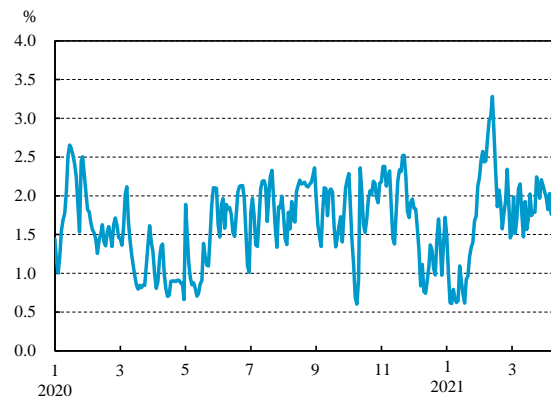
Source: National Bureau of Statistics of China.

Chart 2.11 Average annual growth rates of residential building sales prices in 70 medium-large cities of Mainland China



Source: Refinitiv Datastream.

Chart 2.12 Overnight Shanghai Interbank Offered Rate



Source: China Foreign Exchange Trading System & National Interbank Funding Center.

medium-term lending facilities (MLFs) and reverse repo operations. In the second half of the year, with effective control of the pandemic, the PBC moved toward a neutral stance and held an adequate level of liquidity for the financial system. As a result, the interbank overnight call loan rate picked up slightly and fluctuated in a range-bound band (chart 2.12).

SSE Composite Index and RMB FX rate both jumped substantially

Owing to the spread of COVID-19 in the beginning of 2020, the SSE Composite Index plummeted amid a plunge in global stock prices during March. However, from 2020 Q2 onwards, thanks to effective control of COVID-19 and a massive inflow of foreign capital, the SSE Composite Index rebounded significantly and fluctuated upwards. At the end of December, the index surged by 13.87% year on year. Nevertheless, the Index slid in early 2021, along with tumbling global stock markets owing to rising concerns about inflation in the US (Chart 2.13).

Regarding the FX market, in the beginning of 2020, soaring panic sentiment in international financial markets triggered a rise in the US Dollar Index, leading to a notable depreciation of the RMB exchange rate against the US dollar. Afterwards, with gradual economic recovery in Mainland China and a widening of interest rate spreads between the US and Mainland China, the RMB exchange rate against the US dollar turned to appreciate and rose by 6.52% throughout the year. However, the rate weakened against the US dollar from March 2021 on account of elevated US Treasury yields (Chart 2.14).

Chart 2.13 Shanghai Stock Exchange Composite index



Source: Bloomberg.

Chart 2.14 RMB/USD exchange rate



Source: CBC.

Aggregate financing to the real economy grew constantly

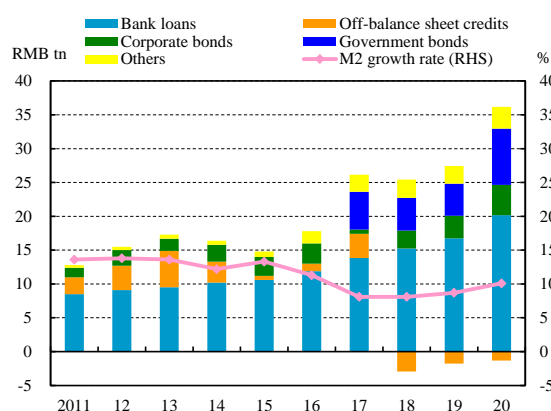
In 2020, against a backdrop of easy monetary policy by the PBC, the annual growth rate of broad money supply M2 rose by 1.4 pps to 10.1% from 8.7% a year before. The increment in aggregate financing to the real economy also markedly climbed to RMB34.9 trillion. Among them, only off-balance sheet credit continued to shrink by RMB1.3 trillion (Chart 2.15). At the end of 2020, the outstanding amount of financing to the real economy stood at RMB284.8 trillion, an annual increase of 13.3% compared to a year earlier.

At the end of 2020, the NPLs of commercial banks in Mainland China stood at RMB2.70 trillion, a striking increase of 11.93% year on year. On the other hand, the NPL ratio slightly dropped to 1.84% (Chart 2.16). If special-mention loans with a total amount of RMB3.78 trillion were included, the outstanding amount of classified assets would rise to RMB6.48 trillion, equivalent to 4.41% of total loans, reflecting unsound credit quality.

Mainland China's potential risks mounted with rising debt

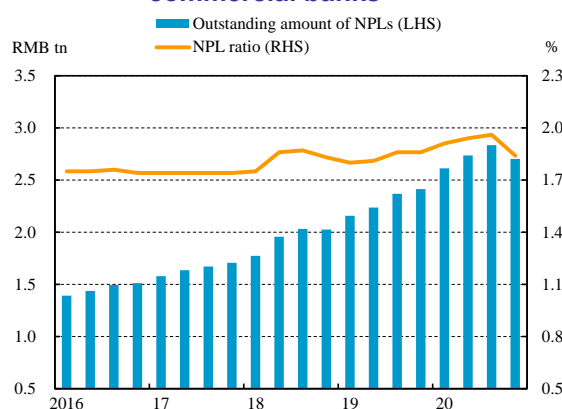
According to the statistics of the BIS, the outstanding debt for nonfinancial sectors in Mainland China continually reached a record high of RMB292.9 trillion at the end of 2020, equivalent to 289.5% of annual GDP, indicating a considerable increase of 26.6 pps year on year (Chart 2.17). Among them,

Chart 2.15 Increment of financing to the real economy and annual growth rate of M2 in Mainland China



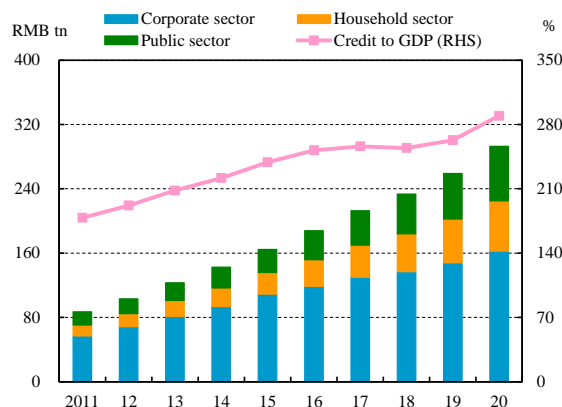
Source: PBC.

Chart 2.16 NPLs of Mainland China's commercial banks



Source: China Banking and Insurance Regulatory Commission.

Chart 2.17 Outstanding amount of debts for nonfinancial sectors and credit-to-GDP ratio in Mainland China



Source: BIS.

corporate sector debt continued its upward trend. For large enterprises (mainly state-owned enterprises), their outstanding debt financing from banks was more than RMB3 trillion, with the NPL ratio hitting over 16%. It put downward pressure on financial institutions' asset quality. Furthermore, the outstanding debt of the household sector, which was highly concentrated in mortgages, increased by 14.24% from a year before and stood at RMB34.5 trillion at the end of 2020. To make matters worse, some buyers purchased real estate with loans for personal consumption or for working capital, raising concerns about excessive financing.

According to the statistics from the Ministry of Finance of China, the outstanding amount of local government debt totaled RMB25.66 trillion at the end of 2020, a significant increase of 20.41% year on year. In addition, with more local government debt financing through other vehicles, the debt servicing pressure may mount further in the future.

2.1.3 Fiscal and monetary policies in major economies since the second half of 2020

Following the COVID-19 outbreak in the beginning of 2020, central banks in major economies have adopted more accommodative and aggressive policies, or so-called unconventional policies, so as to cushion the pandemic's impact. Since the global economy has not fully regained momentum, most central banks have maintained accommodative monetary policies by providing low interest rates. Besides this, governments continued their massive fiscal policy responses to mitigate downside risks to the real economy.

Major economies maintained accommodative monetary policies

Major central banks mostly kept interest rates low. Among them, after making rate cuts by a total of 150 bps throughout March 2020, the Fed held the target range for the federal funds rate at 0.00-0.25%. The Fed also announced the extension of its US dollar liquidity swap lines and left asset purchases unchanged. From 2020 onwards, the European Central Bank (ECB) kept interest rates steady owing to the unfolding of the pandemic and the persistence of below-target inflation outcomes. Furthermore, the ECB decided to extend the period of refinancing operations and to increase the size of its bond buying program. The Bank of Japan not only continued to apply a negative interest rate, but also extended the duration of the program regarding special funds-supplying operations to facilitate corporate financing. The Bank of England ramped up its government and corporate bond-buying program to respond to the impact of the pandemic. Mainland China stopped its monetary expansion and moved toward a

stable and neutral policy stance from the second half of 2020, as well as successively putting an end to various COVID-related support measures. Lastly, some Asian economies (such as Hong Kong and South Korea) kept policy rates unchanged from the second half of 2020 onwards, sustaining accommodative monetary policies (Chart 2.18).

Major economies announced further fiscal stimulus

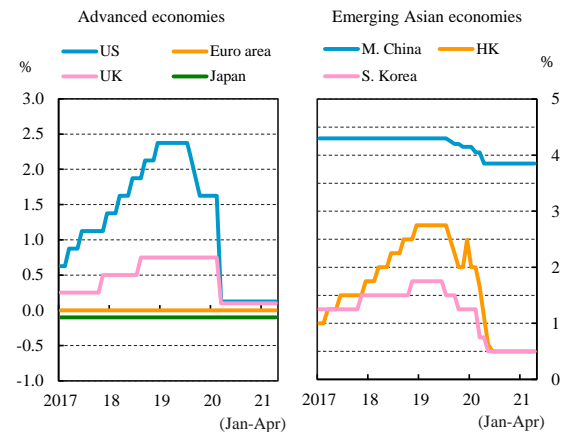
In the first six months of 2020, widespread lockdowns amid the COVID-19 outbreak resulted in serious impacts on the real economy and posed downside risks to the global economic outlook. In order to assist vulnerable households and firms to weather the COVID-19 crisis, major economies deployed extraordinary fiscal policy support. In the second half of the year, high uncertainty around the evolution of the pandemic hindered economic growth. Accordingly, most economies continuously launched fiscal stimulus packages, focusing on unemployment benefits, extension of the loans to businesses, and vaccine distribution. For example, the US passed the second-largest pandemic aid bill in March 2021, totaling US\$1.9 trillion. The European Union agreed to a €750 billion COVID-19 recovery fund. The Japanese government launched a new round of stimulus worth roughly ¥73.6 trillion.

2.2 Domestic macro environment

2.2.1 Domestic economic and fiscal conditions

Although private consumption, which was affected by the COVID-19 pandemic, turned to decline in 2020, the domestic economy grew moderately and inflation remained stable thanks to positive growth in exports and an increase in private investment. External debt servicing capacity stayed robust on the back of a persistent surplus in the balance of payments and ample FX reserves. With the government's fiscal deficits rising again, outstanding public debt marginally expanded but still stood within a manageable level. However, from mid-May 2021 onwards, the impacts of a global recurrence of the COVID-

Chart 2.18 Policy rates in major economies



Notes: 1. Advanced economies: figure for the US is based on the target federal funds rate; for the euro area, the main refinancing operations fixed rate; for the UK, official bank rate; for Japan, interest rate on excess reserves.
2. Emerging Asian economies: figure for Mainland China is based on one-year loan prime rate; for Hong Kong, base rate; for South Korea, Bank of Korea base rate.
3. Figures are as of April 30, 2021.

Sources: Central bank and monetary authority websites.

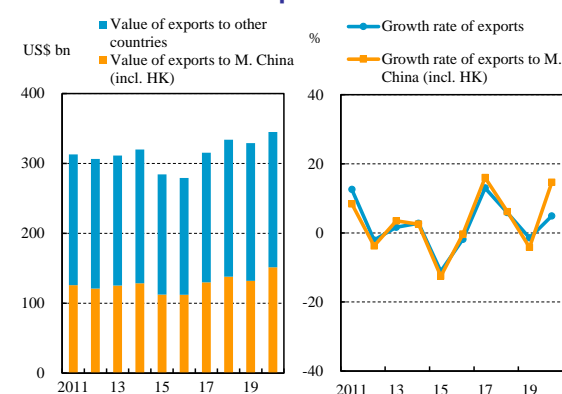
19 pandemic and an upsurge in domestic COVID-19 cases on economic growth momentum warrant close attention.

Taiwan was less impacted by the COVID-19 pandemic, and the domestic economy remained on a mild growth path

In 2020, benefiting from the leading advanced manufacturing process technologies of Taiwan's semiconductor industry and a partial order transfer effect, the annual growth rate of exports rose against the trend.²¹ For the year as a whole, exports increased by 4.90%, reaching a record high of US\$345.2 billion (Chart 2.19), mainly owing to the export value of electronic components creating a new high. Among Taiwan's major trading partners, the growth rate of exports to Mainland China (including Hong Kong) turned positive, growing by 14.64%, chiefly because of a larger increase in exports of integrated circuits to Mainland China (Chart 2.19).

The domestic economy maintained moderate growth in 2020, thanks to booming exports, coupled with the stable demand from government consumption and a rise in the investment by state-owned enterprises, as well as the three major programs for investing in Taiwan²² promoted by the government which helped to increase private investment. Despite private consumption being constrained by the pandemic and decreasing by 2.75% year on year, the annual economic growth rate reached 3.11%,²³ slightly higher than the 2.96% of the previous year (Chart 2.20).

Chart 2.19 Total value and annual growth rates of exports



Source: MOF.

²¹ In 2020, the annual growth rate of exports in Taiwan registered 4.90%, outperforming Hong Kong (-0.5%), Singapore (-4.3%), and South Korea (-5.5%). Analyzed by export regions, Taiwan's exports to Mainland China (including Hong Kong), the United States, and Japan reached record highs of US\$151.4 billion, US\$50.6 billion, and US\$23.4 billion, respectively; however, exports to the ten ASEAN member states registered US\$53.2 billion, which was the lowest in the past four years.

²² From January 2019 onwards, the Executive Yuan promoted the *Action Plan for Welcoming Overseas Taiwanese Businesses to Return to Invest in Taiwan*, and in June 2019, approved the *Action Plan for Accelerated Investment by Domestic Corporations* and the *Action Plan for Accelerated Investment by SMEs*. Such programs not only attracted enterprises to return to invest in Taiwan but also accelerated guiding the upgrading and transformation of domestic corporations.

²³ Press release of the DGBAS on February 20, 2021.

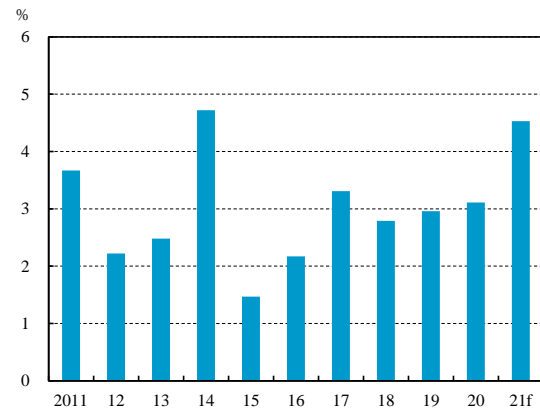
Looking ahead to 2021, the Bank predicts that the annual economic growth rate will continue to rise to 4.53% (Chart 2.20). However, from mid-May onwards, the negative effects of a global resurgence of the pandemic and an upsurge in domestic COVID-19 cases on economic growth momentum merit closer attention.

Domestic prices remained stable

In 2020, on account of the pandemic and a decline in international crude oil prices, annual wholesale price index (WPI) inflation declined to -7.79%, much lower than -2.26% recorded in 2019. The DGBAS projected that annual WPI inflation would rebound to 0.66% in 2021. With regard to consumer prices, annual CPI inflation registered -0.23% in 2020, lower than the 0.56% of the previous year, owing to the impact of the pandemic and a fall in fuel prices coupled with discount promotions offered by the hospitality industry. Core CPI inflation, which excludes fruits, vegetables and energy, increased mildly and reached 0.35% in 2020, lower than the 0.49% of the previous year (Chart 2.21).

Annual CPI inflation in the first quarter of 2021 registered 0.80%, but it rose to 2.09% in April, and was expected to be higher than 2% in May, mainly because of an increase in the international prices of raw materials such as crude oil as well as a lower base period deriving from the impact of the COVID-19 pandemic in the same period of the previous year, which should be a short-term phenomenon. In the second half of 2021, owing to the factor of a lower base period gradually fading, annual CPI inflation is expected to decrease at a gradual pace.

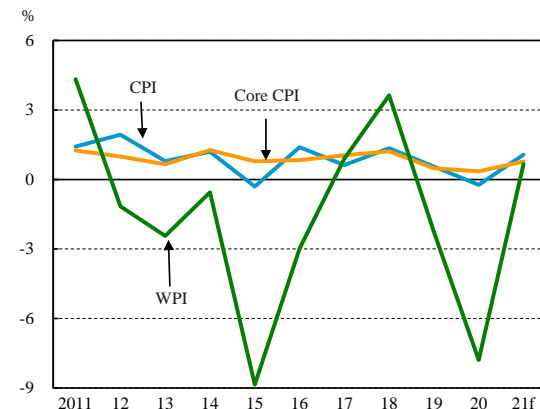
Chart 2.20 Economic growth rate in Taiwan



Note: Figure for 2021 is a CBC forecast released on March 18, 2021; other figures are released by DGBAS.

Sources: DGBAS and CBC.

Chart 2.21 Consumer and wholesale price indices (% change, yoy)



Note: Figures for CPI and Core CPI in 2021 are CBC forecasts released on March 18, 2021; other figures are DGBAS statistical data and a forecast released on February 20, 2021.

Sources: DGBAS and CBC.

The Bank forecasted that the annual CPI and core CPI inflation rates would remain at about 1.5% and 1%, respectively, with little concern of inflation.

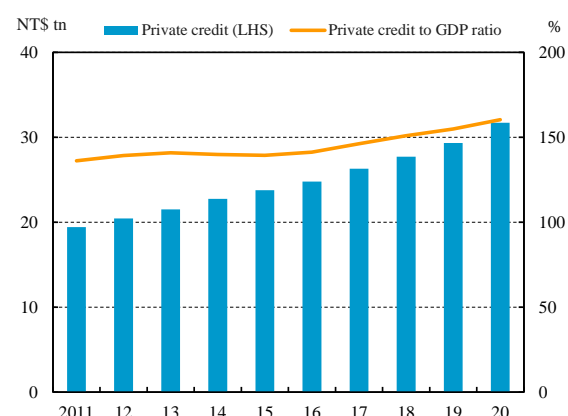
Credit to the private sector provided by financial institutions increased continually

Private credit²⁴ to private enterprises and households provided by financial institutions rose continually in 2020, reaching NT\$31.71 trillion at the end of the year, an increase of 8.10% year on year, and the ratio of credit to GDP registered 160.36% (Chart 2.22). It showed that the credit supply provided by domestic financial institutions was sufficient to support economic activity.

Current account sustained a surplus and FX reserves stayed ample

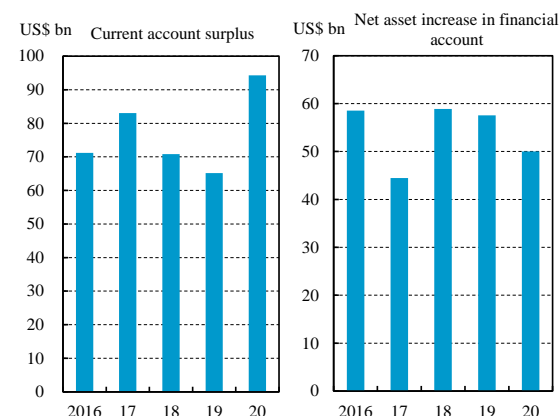
In 2020, the merchandise trade surplus expanded, and service trade turned to a surplus, as well as Taiwanese nationals inwardly remitted more income from overseas direct investments, leading to an expansion in the income surplus. As a result, the annual current account surplus rose to US\$94.3 billion, or 14.09%²⁵ of the year's GDP, a sharp increase of 44.68% compared to 2019. An increase in foreign securities investments by the banking sector and insurance companies boosting foreign assets, coupled with the reduced holdings of Taiwanese stocks by foreign institutional investors, caused a decrease in foreign liabilities. Accordingly, the financial account posted an increase of US\$50 billion throughout the year (Chart 2.23), while the Bank's reserve assets increased by US\$48.3 billion.

Chart 2.22 Private credit provided by financial institutions



Source: CBC.

Chart 2.23 Current account surplus and net asset increase in financial account



Source: CBC.

²⁴ Private credit refers to the loans granted by major financial institutions to various private enterprises, individuals, and non-profit organizations in Taiwan, as well as the purchases of securities such as stocks, corporate bonds, commercial paper, acceptance bills, beneficiary certificates issued by private enterprises, and the equities of long-term investments in private enterprises.

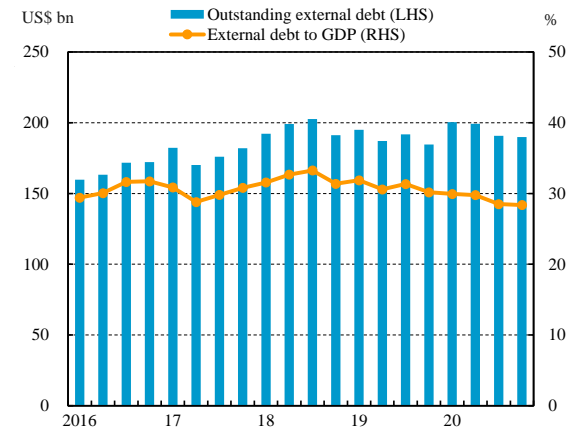
²⁵ For the ratio of current account deficit to GDP, it is generally deemed that its critical value as a risk measure is 3%. A country in which the reading is greater than 3% and has risen by at least 5 pps from the previous year is considered to be relatively high risk.

FX reserves climbed to US\$529.9 billion at the end of 2020, rising by 10.83% from a year earlier, mainly supported by the accumulation of earnings from portfolio investment operations of FX reserve assets, and the intervention operations by the Bank because of a large amount of capital inflows that caused excessive volatility in the FX market. At the end of April 2021, the FX reserves continuously increased to US\$541.1 billion.

The scale of external debt expanded, while debt-servicing capacity remained strong

Primarily because of an increase in the long-term external debt of the banking sector, Taiwan's external debt²⁶ rose to US\$189.9 billion at the end of 2020 (Chart 2.24), increasing by 2.82% compared to a year earlier. The largest share of external debt went for the private sector, registering US\$188.4 billion, while the public sector share only reached US\$1.5 billion. Taiwan's external debt stood at 28.37% of the year's GDP at the end of 2020, lower than the internationally recognized alert threshold,²⁷ and much lower than those in the US, Japan, and Malaysia (Chart 2.25).

Chart 2.24 External debt servicing capacity

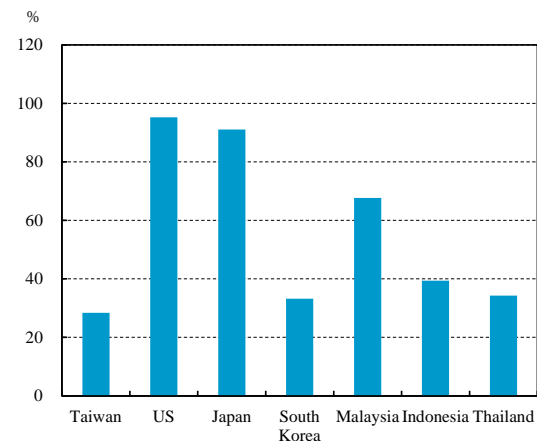


Notes: 1. Figures for outstanding external debts are on an end-of-period basis.

2. Figures for GDP are on an annualized basis.

Sources: CBC and DGBAS.

Chart 2.25 External debt to GDP in selected countries



Note: Figures for the United States, and Thailand are as of the end of 2019; other figures are as of the end of 2020.

Source: CEIC.

²⁶ See Note 2.

²⁷ The general international consensus is that a country with a ratio of external debt to GDP lower than 50% is deemed to be relatively low risk.

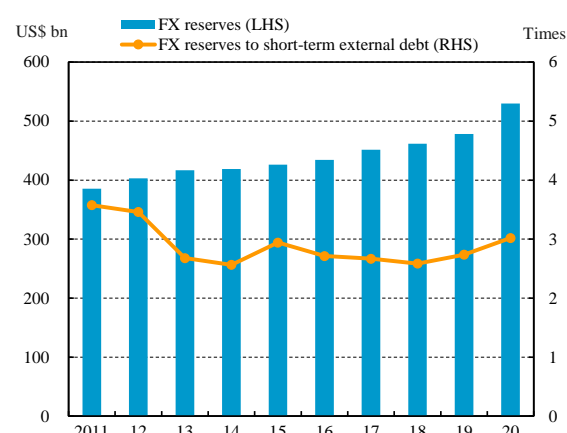
Furthermore, at the end of 2020, the ratio of FX reserves to short-term external debt rose to 3.02 times owing to an increase in FX reserves and a decline in short-term external debt. It was much higher than the internationally recognized alert threshold,²⁸ implying that Taiwan's FX reserves have a robust capacity to meet payment obligations (Chart 2.26).

Fiscal deficits reached a record high and government debt also increased

In 2020, the government compiled a special budget of about NT\$420 billion to mitigate the impact of the pandemic, and actively promoted several measures, such as the *Forward-looking Infrastructure Development Program*, leading to an expansion of annual expenditures. As a result, the government budget turned to a deficit of NT\$451 billion or 2.28%²⁹ of GDP for the year, from a surplus of NT\$20.2 billion recorded in the previous year (Chart 2.27).

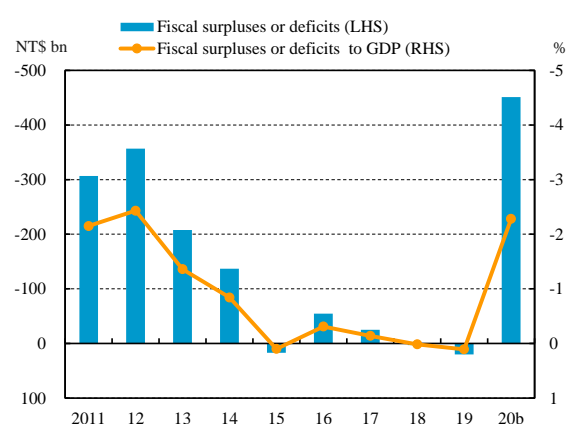
With fiscal deficits expanding, the outstanding public debt at all levels of government³⁰ rose to NT\$6.68 trillion at the end of 2020, increasing by 7.86% year on year. Despite the ratio of total public debt to the year's GDP also rebounding to 33.76%³¹ (Chart 2.28), government debt still stayed within a manageable level.

Chart 2.26 Short-term external debt servicing capacity



Source: CBC.

Chart 2.27 Fiscal deficits



Notes: 1. Fiscal position data include those of central and local governments.

2. Figures for 2020 are final accounts for the central government and budgets for local governments.

Sources: MOF and DGBAS.

²⁸ The general international consensus is that a country with a ratio of FX reserves to short-term external debt higher than 100% is deemed to be relatively low risk.

²⁹ See Note 3.

³⁰ The term "outstanding debt at all levels of government" as used in this report refers to outstanding non-self-liquidating debt with a maturity of one year or longer.

³¹ See Note 4.

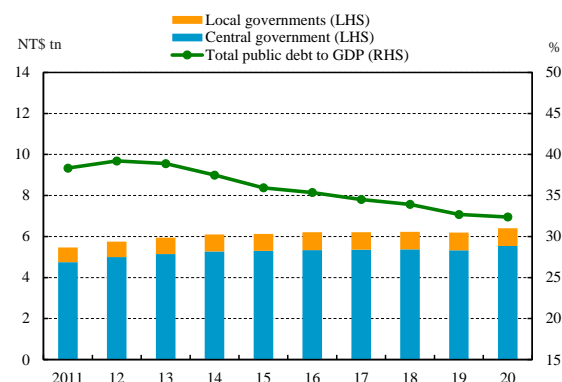
2.2.2 Corporate sector³²

The profitability of TWSE- and OTC-listed companies greatly enhanced in 2020, attributable to several factors including the stellar performance of the electronics industry spurred by strong demand for emerging technology applications. Meanwhile, their financial leverage ratios elevated, but short-term debt servicing capacity remained adequate. Although the NPL ratio for corporate loans granted by financial institutions rose slightly, the credit quality for the corporate sector stayed satisfactory.

Profitability of both TWSE- and OTC-listed companies spiked despite the impact of the COVID-19 pandemic

In 2020, the corporate sector in Taiwan faced the challenge of the global spread of the COVID-19 pandemic, and foreign demand for some traditional manufacturing products waned significantly. However, the COVID-19 pandemic drove up remote business opportunities, inducing demand for semiconductors, information and communications technology, and 5G applications. Consequently, the average ROEs of TWSE- and OTC-listed companies jumped to 14.60% and 13.95% from 12.62% and 12.23%, respectively, in the previous year (chart 2.29). Their overall profitability ascended remarkably.

Chart 2.28 Public debt

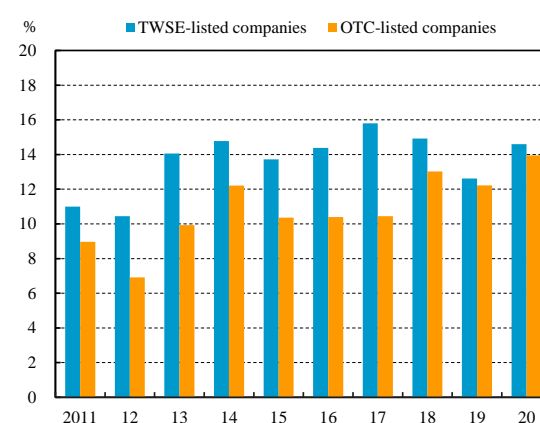


Notes: 1. Outstanding public debt refers to non-self-liquidating debt with a maturity of one year or longer, excluding external debt.

2. Figures for 2020 are preliminary final accounts for the central government and budgets for local governments.

Sources: MOF and DGBAS.

Chart 2.29 Return on equity in corporate sector



Note: Return on equity = net income before interest and tax/average equity.

Source: TEJ.

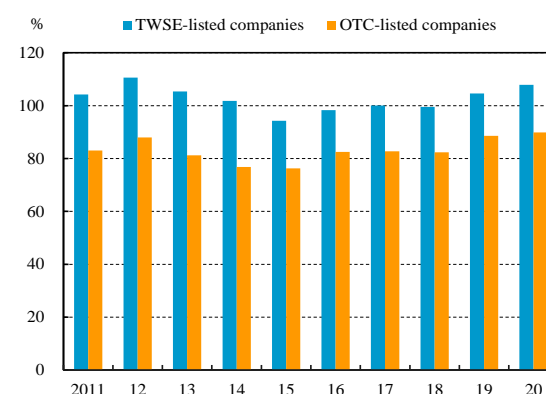
³² Corporate sector section only includes the non-financial industrial data of TWSE-listed companies and OTC-listed companies. Figures for listed companies are consolidated financial data; the data for 2011 are on the basis of generally accepted accounting principles in the Republic of China (Taiwan) (ROC GAAP), while from 2012, the data are on the basis of International Financial Reporting Standards as endorsed for use in Taiwan (TIFRSs). In light of changes in accounting treatment and presentation, readers should interpret these figures prudently when comparing statistics before and after IFRSs adoption.

Leverage ratios elevated, while short-term debt servicing capacity remained at an adequate level for listed companies

At the end of 2020, the average leverage ratios for TWSE- and OTC-listed companies rose to 107.85% and 89.88% from 104.61% and 88.55%, respectively, a year earlier (Chart 2.30). Leverage ratios increased mainly owing to the fact that market interest rates trended downward, which attracted companies to increase borrowing from banks and the issuance of CP and corporate bonds.

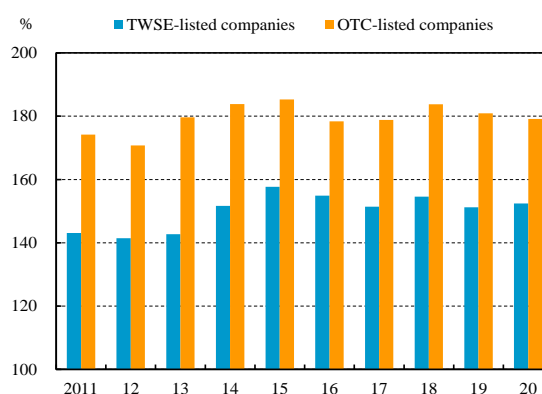
Meanwhile, the current ratio for TWSE-listed companies rose slightly to 152.43%, but that for OTC-listed companies decreased mildly to 179.14% (Chart 2.31). However, the current assets of both types of companies are still sufficient to support short-term debt. With a substantial increase in profits, their interest coverage ratios climbed to 15.70 and 21.99 (Chart 2.32), respectively, implying that the capacity to pay interest with profits was greatly improved. Overall, short-term debt servicing capacity for listed companies remained at an adequate level in 2020.

Chart 2.30 Leverage ratios in corporate sector



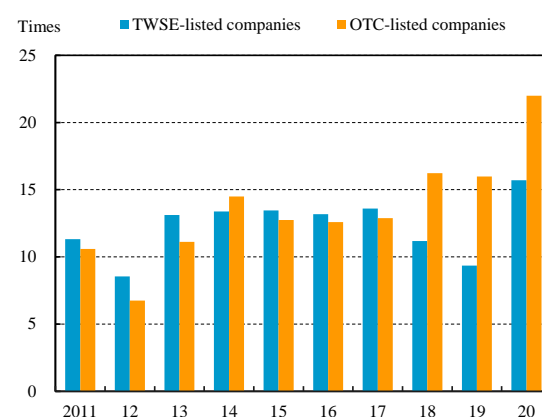
Note: Leverage ratio = total liabilities/total equity.
Source: TEJ.

Chart 2.31 Current ratios in corporate sector



Note: Current ratio = current assets/current liabilities.
Source: TEJ.

Chart 2.32 Interest coverage ratios in corporate sector



Note: Interest coverage ratio = income before interest and tax/interest expenses.
Source: TEJ.

Pandemic caused a slight increase in the NPL ratio of the corporate sector, while credit quality of corporate loans remained satisfactory

Affected by the COVID-19 pandemic, the NPL ratio for corporate loans³³ from financial institutions edged up to 0.28% at the end of 2020 from 0.26% a year earlier, while the overall credit quality for the corporate sector remained satisfactory (Chart 2.33).

2.2.3 Household sector

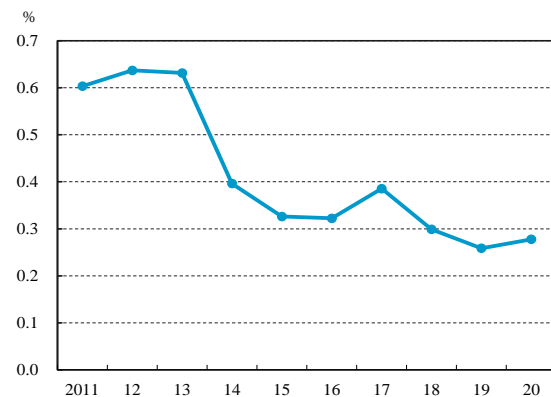
The balance of total household borrowing expanded continually, while the household debt burden rose in 2020. However, the household net worth to GDP ratio was high, reflecting that the debt servicing capacity of households remained sound. Moreover, the credit quality of household borrowing from financial institutions remained satisfactory.

Household borrowing grew continually

Total household borrowing expanded and reached NT\$17.63 trillion at the end of 2020, equivalent to 89.15% of the GDP for the whole year (Chart 2.34). The purchase of real estate accounted for 62.72%, the major share of household borrowing.

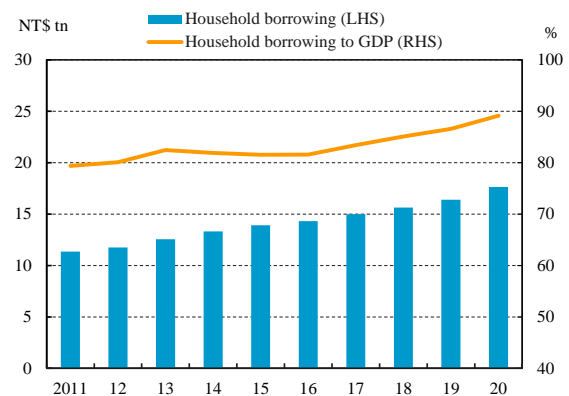
The annual growth rate of household borrowing rose to 7.54% in 2020, mainly attributed to the purposes of purchase of real estate and working

Chart 2.33 NPL ratio of corporate loans



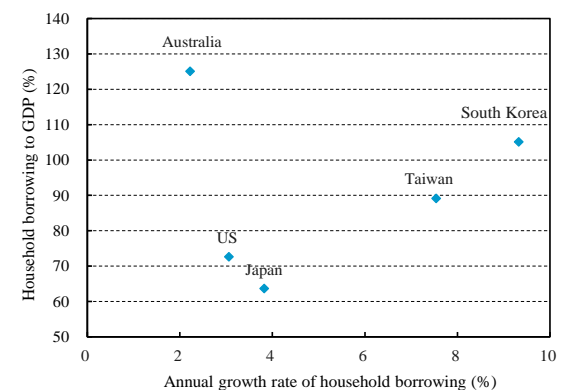
Source: JCIC.

Chart 2.34 Household borrowing to GDP



Sources: CBC, JCIC, and DGBAS.

Chart 2.35 Household indebtedness in selected countries



Note: Figures are as of the end of 2020.

Sources: Fed, BOJ, BOK, ABS, IMF, DGBAS, JCIC, and CBC.

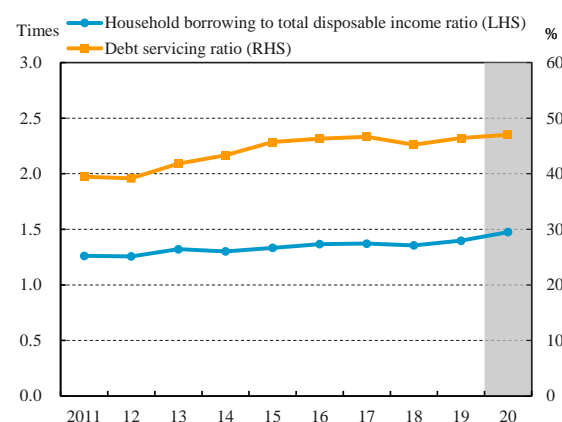
³³ The data for the corporate sector herein are on the basis of listed and unlisted corporations provided by the Joint Credit Information Center (JCIC), excluding the data of overseas branches of domestic banks.

capital needs. Compared to other countries, the growth rate of total household borrowing in Taiwan was lower than that in South Korea, but higher than those in Japan, the US, and Australia. As for household borrowing to GDP, Taiwan's ratio was lower than those in Australia and South Korea, but higher than those in the US and Japan (Chart 2.35).

Household debt burden increased, while net worth was high

The ratio of household borrowing to total disposable income³⁴ increased to 1.48 in 2020, reflecting a rising household debt burden. Moreover, the debt servicing ratio also climbed marginally to 47.03% (Chart 2.36), thereby indicating that short-term household debt servicing pressure tightened. Nonetheless, household net worth³⁵ in Taiwan has been remarkable over the past decades, which has been held at more than 8.3 times the GDP in recent years. Compared to other countries, the household net worth to GDP in Taiwan was higher than those in the UK, the US, South Korea, and Singapore (Chart 2.37), reflecting that the financial health of households in Taiwan was still sound with fair debt servicing capacity.

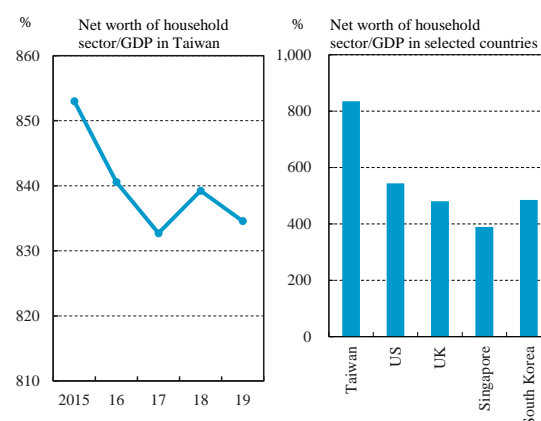
Chart 2.36 Household indebtedness and debt servicing ratio



Notes: 1. Total disposable income in shaded area is a CBC estimate.
2. Debt servicing ratio = borrowing service and principal payments/total disposable income.

Sources: CBC, JCIC, and DGBAS.

Chart 2.37 Household net worth to GDP



Notes: 1. The household sector herein includes households and non-profit organizations.

2. In the right panel, figures are as of the end of 2019.

Sources: DGBAS and official websites of selected countries.

Credit quality of household borrowing remained satisfactory

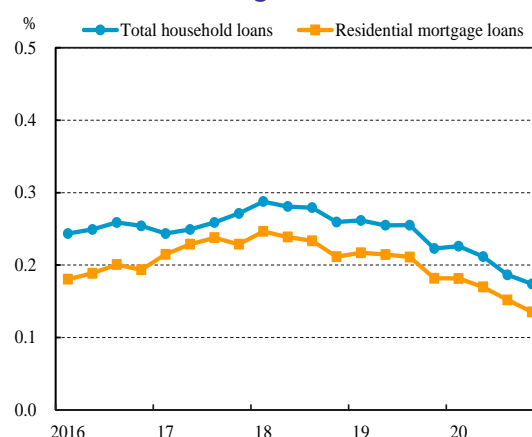
In the second half of 2020, with the domestic COVID-19 situation brought under control, economic activity gradually picked up, the unemployment rate fell back to 3.68% in December, and the actual number of employees working reduced hours as previously determined through

³⁴ Total disposable income = disposable income + rental expenses + interest expenses.

³⁵ See Note 5.

employer-employee negotiations also significantly dropped to 6,463, indicating that the impact of COVID-19 on the household sector shrank noticeably. These factors, coupled with persistently low interest rates, were helpful to reduce the household debt burden. As a result, the NPL ratios of household borrowing and loans for purchase of real estate decreased to new lows of 0.17% and 0.14%, respectively, at the end of the year (Chart 2.38), reflecting satisfactory credit quality.

Chart 2.38 NPL ratios of household borrowing

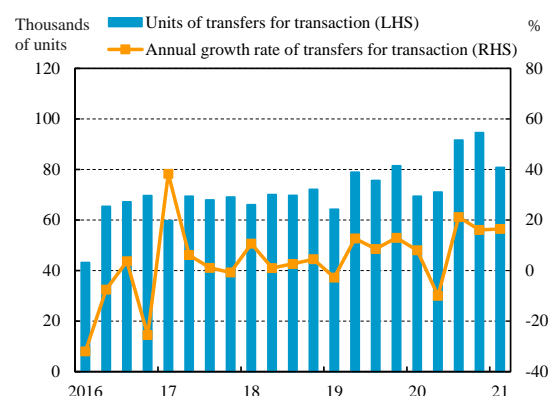


Source: JCIC.

2.2.4 Real estate market

With house and land transactions bouncing back, house prices rose in the second half of 2020. New housing and construction loans extended by banks grew at a faster pace, and the mortgage burden slightly increased. To curb speculation in the housing market, the government initiated the Healthy Real Estate Market Plan in December 2020. The relevant ministries and agencies launched and put numerous measures into practice accordingly to foster a sound real estate market.

Chart 2.39 Building transfers for transaction and annual growth rate



Source: Monthly Bulletin of Interior Statistics, MOI.

Trading volumes in the real estate market increased

In the first half of 2020, the total number of building ownership transfers for transaction decreased by 1.94% compared to the same period of the previous year because of the pandemic. In the second half of the year, the annual growth rate rose back up and registered 18.51%, as restored consumer sentiment led to a pickup in housing market transactions amid the well-contained domestic pandemic situation, coupled with firms' expanded investment and the successive handover of new buildings. For the whole year, the annual growth rate increased to 8.76% year on year (Chart 2.39). When moving into 2021, following the CBC's revision of

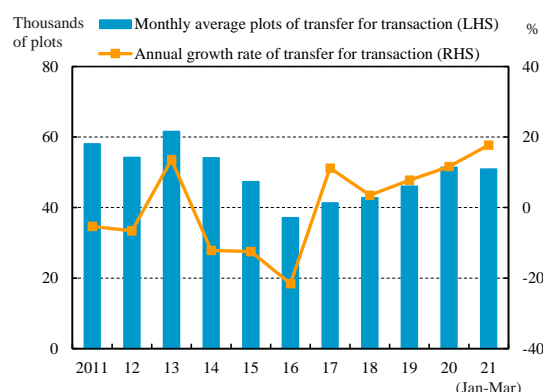
mortgage rules and the government's joint audits targeting pre-sold houses, housing market sentiment cooled down. However, the annual growth rate of building ownership transfers for transaction reached 16.42% in 2021 Q1, mainly owing to a lower base period and the increased handover of new buildings.

A buoyant housing market, coupled with stronger demand for factory buildings owing to firms' expanded investment, the eager purchase of vacant land by firms in the real estate industry, as well as increased domestic real estate investments by life insurance companies, led the total number of land ownership transfers for transaction to rise by 11.62% year on year (Chart 2.40).

Real estate prices hit an all-time high

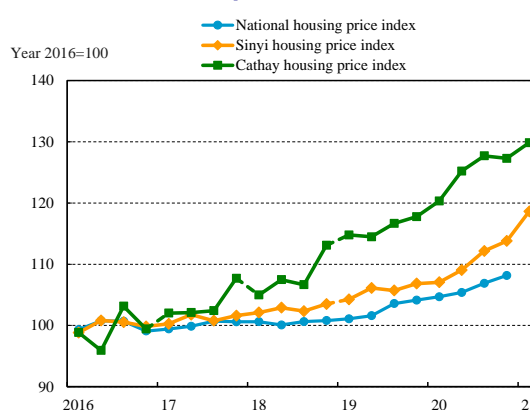
The national housing price index released by the Ministry of the Interior (MOI) rose gradually from early 2020 onwards. It reached a record high of 108.17 as of the end of Q4 (Chart 2.41), increasing by 3.87% year on year. The Sinyi housing price index rose in 2020 and reached a historical high level in 2021 Q1. The Cathay housing price index also trended upwards to hit a historical high level in 2021 Q1 (Chart 2.41), while the annual growth rate slowly fell to 7.92% quarter on quarter from 9.47% in 2020 Q3.

Chart 2.40 Land transfers for transaction and annual growth rate



Note: Figures are the monthly average of each year. Data of 2021 are the monthly average for the period of January to March.
Source: Monthly Bulletin of Interior Statistics, MOI.

Chart 2.41 House price indices



Notes: 1. In 2018 Q1, the Cathay housing price index model's parameters were revised, and from January 2017 the opening price, transaction price, and index of each quarter were recalculated. In 2021 Q1, the time variable was removed from the model for potential transaction prices.

2. For comparison purposes, all three indices use the same base year of 2016 (2016 average = 100).

Sources: MOI, Cathay Real Estate, and Sinyi Real Estate Inc.

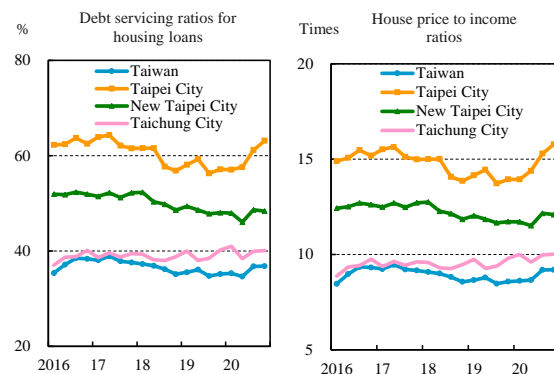
Mortgage burden rebounded

The debt servicing ratio for housing loans declined to 34.64% in 2020 Q2, the lowest level since 2014 Q2. However, from Q3 onwards, the ratio rose mildly to 36.81% in Q4 following rising housing prices quarter on quarter, and increased by 1.66 pps from the previous year. Among them, Taipei City showed the heaviest mortgage burden with its ratio registering 63.12% (Chart 2.42, left panel). The house price to income ratio also rose to 9.20 times in 2020 Q4 (Chart 2.42, right panel), increasing 0.62 times year on year.

The total floor space of construction licenses issued and building commencement expanded substantially, while pressure from the expansion of unsold new residential properties remained

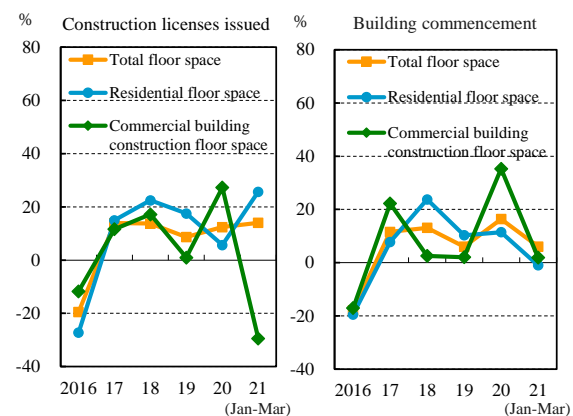
With the housing market gathering momentum, the total floor space of construction licenses issued increased by 12.44% in 2020. For the period of January to March 2021, total floor space continued to increase by 14.02% year on year (Chart 2.43, left panel). Furthermore, the total floor space of building commencement also increased by 16.38% in 2020. It was mainly underpinned by an abundance of marketing projects for residential properties, construction of commercial and industrial buildings, as well as successive commencement of social housing and reconstruction of old and dangerous buildings. For the period of January to March 2021, total floor space continued to increase by 6.07% year on year (Chart 2.43, right panel).

Chart 2.42 Debt servicing ratios for housing loans and house price to income ratios



Notes: 1. Debt servicing ratio for housing loans = median monthly housing loan payment/median monthly household disposable income.
2. House price to income ratio = median house price/median annual household disposable income.
Source: Housing Price Affordability Indicator Statistics, Construction and Planning Agency of the MOI.

Chart 2.43 Annual growth rates of floor space of construction licenses issued and building commencement



Note: Commercial building construction includes buildings for commerce, industry, storage, business and service.
Source: Monthly Bulletin of Interior Statistics, MOI.

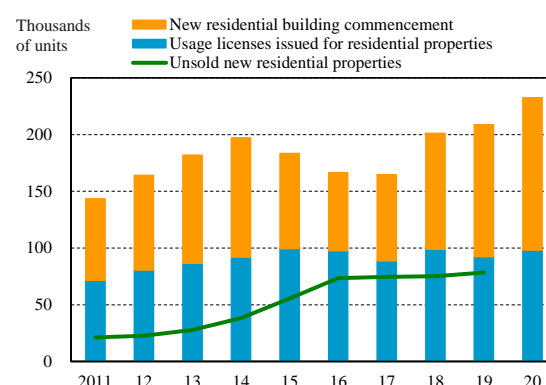
In 2020, the supply of new residential buildings increased as the annual growth rate of usage licenses and commencement for new residential buildings increased and reached 6.48% and 15.27%, respectively (Chart 2.44). With an increase in sales for some construction projects in the second half of 2020, the inventory of unsold new residential properties mildly reduced. However, given the successive release and high prices of new residential buildings as well as no signs of a pickup in their sale rates, the pressure on reducing the mounting number of unsold new residential properties remained.

Real estate loans grew but mortgage interest rates trended downward

With transactions in the housing market expanding, the total new housing loans granted by the top five banks³⁶ registered NT\$629.5 billion in 2020, increasing by 6.23% year on year. In the first three months of 2021, the figure reached NT\$152.7 billion, an increase of 10.39% year on year, owing to loan demand for reconstruction of old and dangerous buildings (Chart 2.45). After the Bank cut policy rates in March 2020, the average interest rate for new housing loans granted by the top five banks trended downward and dropped to 1.357% in March 2021, a decrease of 0.251 pps compared to the level in December 2019 (Chart 2.45).

From August 2020 onwards, the annual growth rate of outstanding loans for house purchases and refurbishments granted by banks³⁷ trended upwards and registered 9.02% at the end of March 2021. Meanwhile, outstanding construction loans expanded with double digit growth

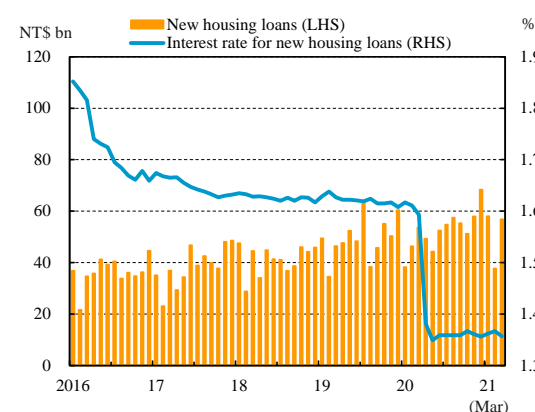
Chart 2.44 New residential buildings and unsold properties



Note: The MOI uses data from land registration, Taiwan Power Company, and house tax registration to classify residences that have been registered for the first time within the last 5 years and have an average electricity consumption of less than 60 kWh as unsold new residential properties.

Source: Real Estate Information Platform, MOI.

Chart 2.45 New housing loans – amount and interest rate



Source: CBC.

³⁶ The top five banks refer to the Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank, and Land Bank of Taiwan.

³⁷ Refers to domestic banks and the local branches of foreign and Mainland China's banks.

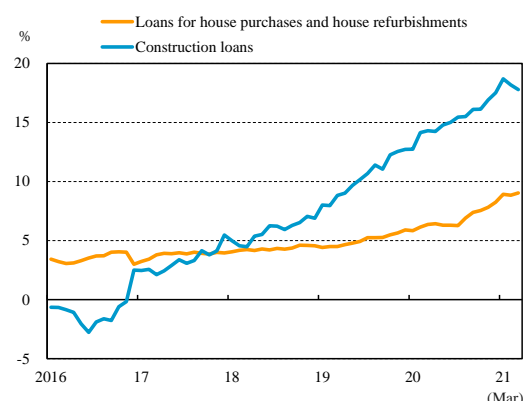
and reached an annual growth rate of 17.79% at the end of March 2021 (Chart 2.46). The aggregate amount of the aforementioned real estate loans amounted to NT\$10.79 trillion and the share of total loans continually rose to 36.48% in March 2021 (Chart 2.47). However, the ratio was still lower than the historical high level of 37.90% at the end of October 2009.

Banks' risk management on real estate loans remained satisfactory

In 2020, the average LTV ratio for new housing loans rose quarter by quarter and registered 72.64% in Q4, while the annual average LTV ratio recorded 71.79%, higher than the 70.58% in 2019. Moreover, the ratio for high-value housing loans³⁸ rose slightly to 57.00% in 2020 and then further ascended to 58.12% in 2021 Q1 (Chart 2.48).

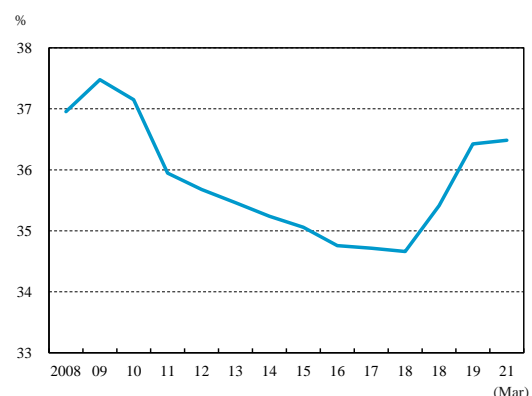
From the second half of 2020 onwards, the mortgage lending standards of some banks showed signs of loosening. However, the lending standard turned to tighten following the Bank's adjusted mortgage rules. Moreover, the NPL ratios of housing loans and construction loans granted by domestic banks dropped to 0.12% and 0.15%, respectively, at the end of March 2021. Both of the ratios were much lower than the overall NPL ratio of total loans, which revealed that the risk management of domestic banks on real estate loans remained satisfactory.

Chart 2.46 Annual growth rates of real estate loans



Source: CBC.

Chart 2.47 Real estate loans to total loans



Notes: 1. Real estate loans refer to the aggregate amount of loans for house purchases, house refurbishments, and construction loans.
2. Figures are end-of-year data, except for figure of 2021, which is end-March data.

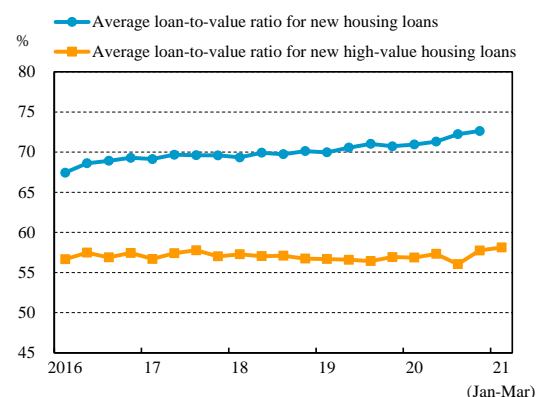
Source: CBC.

³⁸ Figures prior to 2021 include data from natural persons and companies, while the figure of 2021 includes data from natural persons only.

The government earnestly worked to fulfill the Healthy Real Estate Market Plan to foster a sound real estate market

In December 2020, the government initiated the Healthy Real Estate Market Plan in response to the real estate market situation (Box 1). Furthermore, the Bank revised mortgage rules twice to protect the housing market from excessive inflows of capital. The FSC also implemented a targeted inspection toward mortgage loans to strengthen risk management of real estate lending. All these efforts helped to foster a sound real estate market. Nevertheless, the supply and demand of the housing market adjusted slowly. The relevant ministries and agencies should continually collaborate with local governments to improve related systems, so as to realize the goal of sound development in the real estate market.

Chart 2.48 Average loan-to-value ratios for new and high-value housing loans



Sources: JCIC and CBC.

Box 1

The Healthy Real Estate Market Plan in Taiwan

In December 2020, the National Development Council under the Executive Yuan proposed the Healthy Real Estate Market Plan, which included two types of measures. The short-term or immediate implementation measures aimed at achieving four major goals, including curbing speculation in the housing market, preventing tax evasion, preventing the housing market from being flooded by capital, and creating quality homes to achieve housing justice. Among them, some measures, such as pre-sold housing audits and mortgage loans related policies, were effective at curbing market sentiment on speculative transactions, while the performance of the other measures would be revealed over time. The mid- and long-term measures are to continue improving the real estate management system so as to foster a sound real estate market. Specific measures of the Healthy Real Estate Market Plan are summarized in Table B1.1.

Table B1.1 Structure of the Healthy Real Estate Market Plan

Short-term/ Mid- and long-term	Goals	Policies	Specific measures
Short-term or immediate implementation	Curbing speculation in the housing market	<ul style="list-style-type: none"> ● Inspecting the housing market situation regularly ● Curbing pre-sold houses and housing market speculation 	<ul style="list-style-type: none"> ● Actual price registration of real estate transaction 2.0 related acts were passed by the Legislative Yuan at the end of 2020 and came into effect on July 1, 2021. ● Amendments to the provisions of the <i>Income Tax Act</i> on the consolidated house and land transaction income tax were passed in April 2021 and came into effect on July 1, 2021. ● Establishing diagnostic indicators to point out whether the real estate market's supply and demand and transactions are healthy. ● Establishing a pre-sold house management team to enhance audits on pre-sold house transactions. ● The Ministry of Finance launched a task force to enhance audits on income from real estate transactions.
	Preventing tax evasion	<ul style="list-style-type: none"> ● Preventing individuals from using companies to evade taxes ● Preventing single units from being divided into separate 	<ul style="list-style-type: none"> ● The amendments to the <i>Basic Income Tax Act</i> were passed by the Legislative Yuan at the end of 2020, reverting to the previous requirement to include income

		properties to evade taxes	<p>from transactions of unlisted stocks in the taxable amount of basic income. The amendments came into effect on January 1, 2021.</p> <ul style="list-style-type: none"> ●The Ministry of Finance proposed the amendments to the <i>House Tax Act</i> to revise the current house value tax exemption standard in March 2021. ●Implementing the auditing project of real estate transactions by profit-seeking enterprises.
	Preventing the housing market from being flooded by capital	<ul style="list-style-type: none"> ●Preventing the housing market from being flooded by capital ●Mortgages should be within borrowers' ability ●Building a sound credit system 	<ul style="list-style-type: none"> ●The Bank revised targeted prudential measures on real estate lending twice (see Chapter 4). ●The capital requirements of real estate loans will adopt a loan-to-value (LTV) approach. ●Adopting targeted examinations to strengthen risk management of financial institutions and financial inspection of real estate lending.
	Creating quality homes to achieve housing justice	<ul style="list-style-type: none"> ●Expanding social housing and rent subsidies 	<ul style="list-style-type: none"> ●Direct construction of 40,168 units of social housing at the end of October 2020. ●Increasing the number of rent subsidy recipients from 60,000 to 120,000 housing units in 2020. ●Providing landlords with incentives to accelerate the implementation of social housing subletting management.
Continued implementation and mid- and long-term discussion		<ul style="list-style-type: none"> ●Preventing actual house usage from violating requirements ●Curbing pre-sold house and housing market speculation ●Setting reasonable house tax ●Establishing a system for approving residential housing purchases by private legal persons 	<ul style="list-style-type: none"> ●Intensifying inspections of house usage and applicable tax rate. ●Deliberating a law amendment to reinforce the management of real estate market information and pre-sold house transactions. ●Continuing to review the house tax rate. ●Deliberating to revise the <i>Equalization of Land Rights Act</i>, adding a system for approving residential housing purchases by private legal persons.

Source: National Development Council.