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## Abstract

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In 2021, amid the ongoing coronavirus (COVID-19) pandemic, the global economy saw a steady recovery albeit with mounting inflation. Domestic economic growth momentum was strong and inflation was relatively moderate compared to economies in Europe or the US. The corporate sector performed remarkably well and the financial condition of households also remained sound. In addition, the real estate market showed signs of heating up, but the government has implemented several measures to ensure the soundness of the market. Under this macro environment, financial markets in Taiwan kept operating smoothly and financial institutions' profitability elevated, with domestic financial infrastructures functioning well. On the whole, the financial system remained stable; however, the potential impacts stemming from uncertainties surrounding international economic and financial conditions on Taiwan's financial system warrant close attention.

### ***The impacts of the pandemic and Russia-Ukraine conflict on international and domestic macro environments***

Benefitting from expanded vaccinations around the world, loosened COVID-19 restrictions, and extraordinary fiscal policy support, the global economy significantly recovered in 2021. Nonetheless, supply disruptions amid the pandemic have led to a sustained increase in commodity prices. From the beginning of 2022, with a renewed flare-up of the pandemic worldwide and the ongoing Russia-Ukraine conflict, S&P Global Market Intelligence anticipates that global economic growth will moderate with notably increasing inflation. When it comes to international financial conditions, since the start of 2022, market expectations of a withdrawal of accommodative monetary policy and a protracted Russia-Ukraine conflict have led global financial markets to be more volatile. Reflecting this, financial conditions in most economies tightened. Additionally, with rapid buildup in government debt, some emerging markets could face the risk of capital outflows.

Regarding the domestic economy, in 2021, Taiwan saw strong economic growth momentum along with relatively moderate inflation compared to that in European economies and the US. External debt expanded slightly but foreign exchange (FX) reserves remained ample, indicating

robust external debt servicing capacity. Government debt and fiscal deficits increased yet still stayed within a manageable level. The revenue and profit of both Taiwan Stock Exchange (TWSE) listed and over-the-counter (OTC) listed companies reached record highs and their short-term debt servicing capacity markedly enhanced. Household financial conditions remained sound and demonstrated satisfactory credit quality. On the other hand, the buoyant housing market saw rising transactions and house prices, along with a moderately increasing mortgage burden. Relevant ministries and agencies actively launched regulations to ensure a healthy housing market so as to foster its sound development.

### ***Financial markets, institutions, and infrastructures operated smoothly in Taiwan***

From 2021 onwards, the outstanding amount of bill and bond issuance hit new highs, while their trading volume in the secondary market took divergent directions. Coupled with amplified volatility, stock prices fell back after repeatedly setting historical highs. The NT dollar turned to depreciate after appreciating against the US dollar, and FX markets remained dynamically stable. The profitability of domestic banks and their asset quality picked up with adequate capital levels. Life insurance companies reported record-high profits and higher risk-based capital (RBC) ratios, but faced higher market risks. Bills finance companies showed continuous expansion in profits, although liquidity risks remained high.

Domestic systemically important payment systems functioned in an orderly manner. The Bank has carried out successive experiments on a central bank digital currency (CBDC), and continually reviewed FX management measures. Meanwhile, the Financial Supervisory Commission (FSC) enhanced financial institutions' climate risk management and financial disclosure to promote the development of sustainable finance. In addition, the FSC has taken steps toward the New Generation Insurance Solvency Regime so that insurers can smoothly comply with international supervisory standards.

### ***The Bank and the FSC kept taking measures to promote financial stability, and the government's economic relief measures showed to be effective***

In 2021, the Bank continued the special accommodation facility to assist the Small and Medium-Sized Enterprises (SMEs) affected by the pandemic, and raised policy rates in March 2022 to contain domestic inflation expectations. The Bank also conducted open market

operations for the purpose of adjusting funds in the banking system. Besides this, the Bank modified targeted macroprudential measures four times, in line with the government's Healthy Real Estate Market Plan, and adopted flexible FX policies to safeguard the dynamic stability of the NT dollar exchange rate. Meanwhile, the FSC took appropriately flexible measures to respond to the impact of the pandemic on financial markets, and constantly strengthened measures related to financial institutions' anti-money laundering and combating the financing of terrorism (AML/CFT). Furthermore, the FSC reinforced regulations governing information security (InfoSec) and corporate governance, and strengthened risk disclosures and suitability assessments of fund products. Since the beginning of 2021, the relief packages launched by the Taiwanese government, such as the special budget for prevention, relief, and revitalization measures for the pandemic, along with the Bank's special accommodation facility for SMEs, showed to be effective, and in turn, helped mitigate the adverse impact of the pandemic on the domestic macro economy and financial system.

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

In 2021, with the pandemic still lingering but the related economic impact abating, Taiwan's financial system remained stable. Looking ahead, uncertainties arising from geopolitical tensions, soaring international raw material prices, and recurring pandemic outbreaks could lead high inflation globally to become much more persistent. These, together with an accelerated pace of monetary tightening in major economies, could increase volatility in financial markets and add further downside risks to the global economy. Considering all these factors, the Bank will continue to pay close attention to the potential impacts of relevant subsequent developments, and take appropriate response measures, such as monetary, credit, and FX policies, in a timely manner to promote domestic financial stability.

