I. Overview

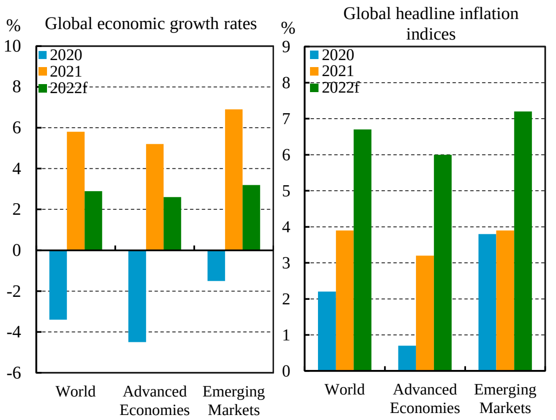
Potential macro environmental risk factors

International economic and financial conditions

Global growth is expected to moderate with tighter financial conditions

In 2021, thanks to expanded rollout of vaccinations, loosened COVID-19 restrictions, and extraordinary fiscal policy support, economies and trade across countries continued on the path of recovery. This, coupled with a lower base period, led global growth to surge notably to 5.8%. However, intensified supply disruptions amid the pandemic increased commodity prices, lifting the global consumer price index (CPI) inflation rate to 3.9% (Chart 1.1).

Chart 1.1 Global economic growth rates and headline inflation indices



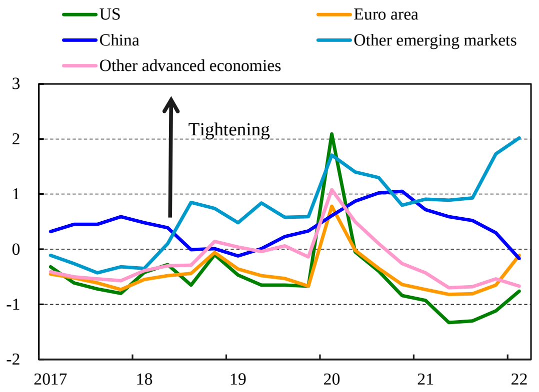
Note: Figures for 2022 are S&P Global Market Intelligence estimates.
Source: S&P Global Market Intelligence (2022/5/15).

Looking ahead to 2022, against the backdrop of rising downside risks to the global economic outlook owing to a renewed flare-up of the pandemic worldwide and the ongoing Russia-Ukraine conflict, S&P Global Market Intelligence anticipates that global growth will decline to 2.9%. Meanwhile, commodity prices further surged following the war in Ukraine, thus elevating global inflationary pressures. As a result, the global headline inflation rate is projected to pick up to 6.7% (Chart 1.1), and advanced economies in Europe and the US are expected to accelerate the pace of monetary policy normalization aimed at taming the rise in inflation worldwide.

With regard to financial conditions, in 2021, stock indices in Europe and the US kept their upward trajectories and financial conditions in advanced economies eased further. By contrast, financial conditions changed little in emerging markets as they saw relatively weaker stock market performance over the same period. From 2022 onwards, rising inflation risks and market expectations of a withdrawal of accommodative monetary policy, together with the continuing Russia- Ukraine war, have resulted in spiking volatility in financial markets worldwide. As a consequence, financial conditions in most economies, excluding China, tightened notably (Chart 1.2).

Given that major economies have hiked interest rates, the International Monetary Fund (IMF) warned that,[1] with global debt levels remaining relatively high, if real interest rates rise quickly, it could trigger an abrupt correction in financial markets and a sharp tightening of financial conditions. Moreover, with the rapidly mounting public debt-to-gross domestic product (GDP) ratio amid the pandemic, along with weaker post-pandemic recovery, emerging markets could face the risk of capital outflows in the case that financial conditions tighten further. Lastly, delayed and disorderly policies to combat climate change, together with market, liquidity, and cyber risks driven by extraordinary growth in decentralized finance (DeFi),[2] could pose a threat to financial stability.

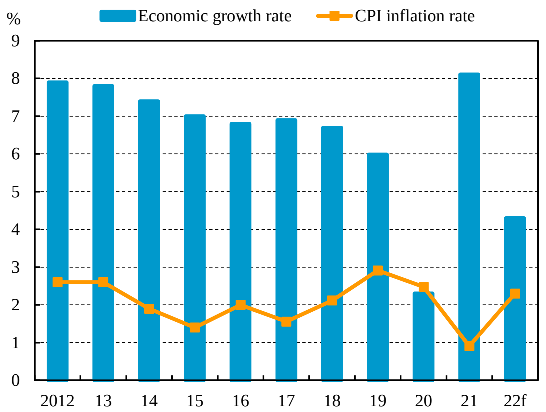
Chart 1.2 Global financial conditions indices



Notes: 1. Financial conditions indices are gauged by standard deviations from mean.
2. Other advanced economies comprise 11 economies, such as Australia, Canada, and the UK.
3. Other emerging economies include emerging markets in Europe (excluding Russia and Ukraine), Middle East, and Africa.

Source: IMF (2022), *Global Financial Stability Report*, April.

Chart 1.3 Economic growth rate and CPI inflation rate of China



Note: Figures for 2022 are S&P Global Market Intelligence projections.

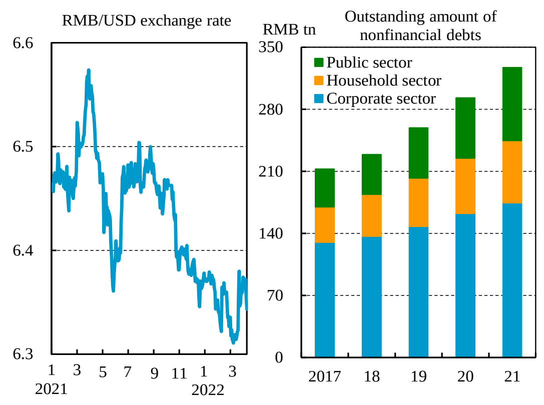
Sources: National Bureau of Statistics of China and S&P Global Market Intelligence (2022/5/15).

[1] IMF (2022), "Chapter 1: The Financial Stability Implications of the War in Ukraine," *Global Financial Stability Report*, April.

[2] DeFi refers to financial services processed by smart contracts stored on the blockchain. The key feature of DeFi is to record all contractual and transaction details, including lending, insurance, and investment, through automated and decentralized functions in the crypto ecosystem.

Economic growth in China could slow sharply, which would accelerate government debt risks

Chart 1.4 RMB/USD exchange rate and outstanding amount of nonfinancial debts in China



Sources: CBC and BIS.

Thanks to effective pandemic control, the annual economic growth rate of China rebounded markedly to 8.1% in 2021, with the annual CPI inflation rate declining to 0.9%. In 2022, with service industry and consumption momentum continually suppressed by the government's "zero-COVID" measures, together with the impacts of the Russia-Ukraine war and recent lockdowns in major cities, S&P Global Market Intelligence projects that the economic growth rate will decline noticeably to 4.3% (Chart 1.3). Meanwhile, the annual CPI inflation rate is forecast to pick up to 2.3%.

Affected by the government's stringent measures on property developers, some of them successively fell into liquidity crises and the housing market saw a sharp shrinkage in both transaction volume and prices in the second half of 2021. Despite the fact that China's government moderately relaxed the regulations afterwards, the housing market will likely remain sluggish in the short term.

In 2021, driven by the government's tightening regulations on internet platforms and a series of debt defaults by property developers, the SSE Composite Index fell sharply and then rebounded subsequently. Meanwhile, the RMB exchange rate against the US dollar turned to an uptrend after depreciating as a result of an accommodative monetary policy stance by the People's Bank of China (PBC) and an increase in export demand promoted by the pandemic. Since the beginning of 2022, shocked by bearish news, such as lockdowns in Chinese cities amid a rapid resurgence of the pandemic, the SSE Composite Index plummeted to a nearly two-year low and then recovered slightly. On the other hand, lifted by the rising demand for RMB in Russia's foreign transactions, the RMB exchange rate reached a nearly four-year high in March before gradually depreciating against the US dollar (Chart 1.4, left panel).

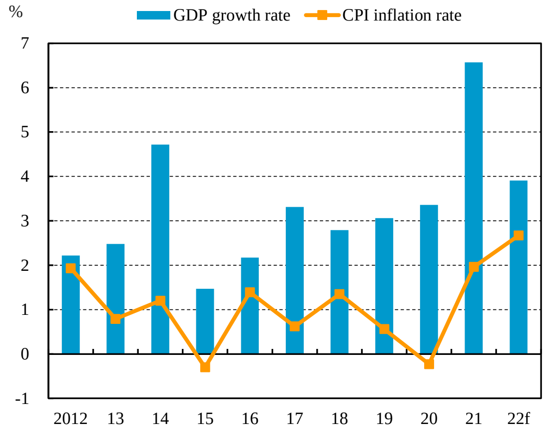
In 2021, the increment in aggregate financing to the real economy delined, and the NPL ratio of commercial banks continued to drop in China; nonetheless, vulunerability of small banks, such as rural commercial banks, remained elevated. The outstanding debt for nonfinanical sectors, including the corporate, household, and government sectors, saw moderate growth

(Chart 1.4, right panel), but that of local governments surged sharply. This, coupled with huge local government hidden debts accumulated by financing vehicles, reflects a rise in potential risks.

Domestic macro environment

Taiwan's economic growth momentum was strong, while domestic inflation was relatively moderate, and external debt servicing capacity remained sound

Chart 1.5 Economic growth rate and CPI inflation rate of Taiwan



Note: Figures for 2022 are DGBAS forecasts released on May 27, 2022.
Source: DGBAS.

Benefiting from record high exports and significant growth in private investment, together with the gradual recovery of private consumption, the annual economic growth rate in Taiwan reached 6.57% in 2021 (Chart 1.5), hitting a record high in the past eleven years. Annual CPI inflation registered 1.96% in 2021, higher than the -0.23% a year earlier; nonetheless, the inflation was relatively moderate compared to that of European economies or the US. Looking ahead to 2022, the growth momentum of exports and private investment is supposed to remain solid; however, recurring domestic COVID-19 pandemic outbreaks have posed an impact on consumption growth. Besides this, the exacerbating Russia-Ukraine war and supply chain bottlenecks have pushed up commodity prices. In sum, economic growth is forecast to decline and inflation is projected to pick up. The DGBAS predicts that the annual economic growth rate will register 3.91% in 2022, and the predicted CPI inflation rate was revised up to 2.67%.[3]

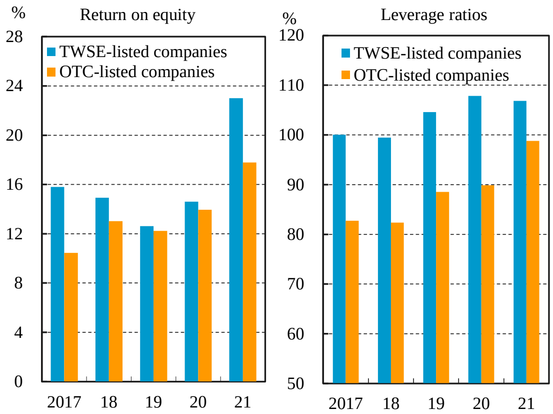
Taiwan's external debt[4] rose to US$213.6 billion at the end of 2021, but FX reserves remained at a sufficient level of US$548.4 billion, implying a robust capacity to service external debt. The government budget deficit was equivalent to 1.06% of annual GDP for 2021, which was lower than the internationally recognized alert threshold.[5] The ratio of total public debt to annual GDP continued dropping to 30.18%, implying that government debt still stayed within a manageable level.[6]

[3] Press release of the DGBAS on May 27, 2022.
[4] External debt refers to the combined amount owed to foreign parties by Taiwan's public and private sectors, including long-term debt with a maturity of greater than one year and short-term debt with a maturity of one year or less.
[5] As a comparison, fiscal deficits in EU member nations are not allowed to exceed 3% of GDP according to the *Maastricht Treaty* and the subsequent *Stability and Growth Pact*.
[6] As a comparison, outstanding government debt in EU member nations is not allowed to exceed 60% of GDP according to the *Maastricht Treaty* and the subsequent *Stability and Growth Pact*.

Revenue and profit of the corporate sector set new highs

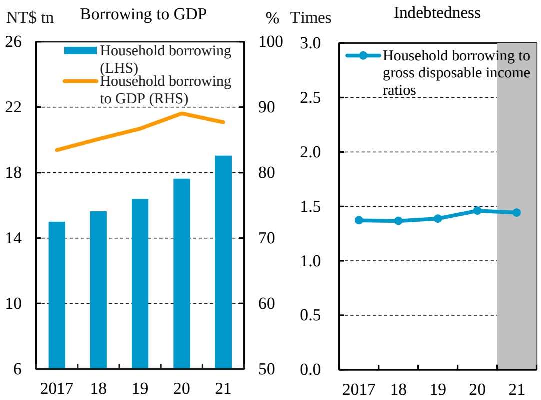
In 2021, the steady global economic recovery and the expansion of emerging technology applications fueled the demand for electronic and traditional products. As a result, the revenue and profit of both TWSE- and OTC-listed companies reached record highs despite the impact of persisting pandemic conditions internationally and domestically (Chart 1.6, left panel). On the other hand, the average leverage ratio for TWSE-listed companies decreased slightly, and that for OTC-listed companies increased at the end of 2021 (Chart 1.6, right panel). Nevertheless, both current ratios and interest coverage ratios trended upwards, indicating markedly enhanced short-term debt servicing capacity. Moreover, the non-performing loan (NPL) ratio for corporate loans from financial institutions dropped to a new low of 0.23%. The overall credit quality for the corporate sector was satisfactory.

Chart 1.6 Return on equity and leverage ratios in corporate sector



Notes: 1. Return on equity = net income before interest and tax/average equity.
2. Leverage ratio = total liabilities/total equity.
Source: TEJ.

Chart 1.7 Household indebtedness



Note: Total disposable income in shadow area is a CBC estimate.
Sources: CBC, JCIC, and DGBAS.

Household financial conditions remained sound

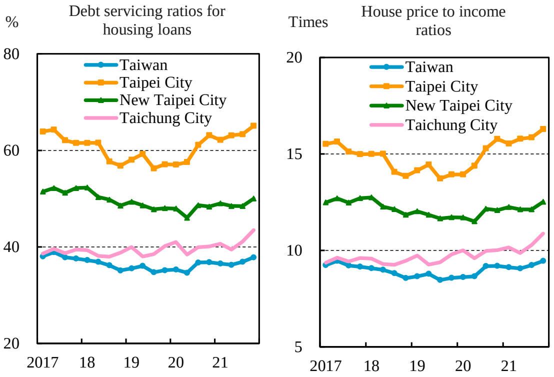
Total household borrowing expanded and reached NT$19.04 trillion at the end of 2021, equivalent to 87.69% of annual GDP (Chart 1.7, left panel), lower than the 89.04% in the previous year. The ratio of household borrowing to total disposable income also slightly dropped to 1.44 (Chart 1.7, right panel), reflecting a slightly eased household debt burden. Furthermore, household net worth in Taiwan has been remarkable[7] and has held at more than 8 times the GDP in recent years, indicating a healthy financial condition and a sustained debt

[7] Household net worth includes household net non-financial assets and net financial assets. Net non-financial assets include produced assets (buildings and constructions, transport equipment, machinery equipment, etc.) and non-produced assets (construction land, non-construction land, and other assets). Net financial assets are domestic and foreign financial assets minus liabilities (deposits, loans, shares of listed companies or other enterprises, life insurance reserves, etc.).

servicing capacity of households. Meanwhile, the NPL ratio of household borrowing from financial institutions decreased to a new low of 0.16%, showing satisfactory credit quality.

Transactions in the housing market thrived and house prices trended upwards with a slightly increasing mortgage burden

Chart 1.8 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.

A buoyant housing market saw a rise in house transactions and prices in 2021. The total number of building ownership transfers for transaction reached a record high since 2014, with an annual growth rate of 6.62%. Nevertheless, after the Bank and relevant ministries and agencies consecutively launched measures to curb speculation in the housing market, growth in housing market transactions moderated from the beginning of 2022. Meanwhile, the national housing price index released by the Ministry of the Interior (MOI), the Sinyi housing price index (for existing residential buildings), and the Cathay housing price index (for new residential buildings) reached historical high levels in 2021. The debt servicing ratio for housing loans also rose mildly quarter on quarter and reached 37.83% in 2021 Q4, while the house price to income ratio registered 9.46, both showing an increase from the previous year. In sum, the mortgage burden elevated marginally, and Taipei City exhibited the heaviest mortgage burden among the six metropolitan areas (Chart 1.8).

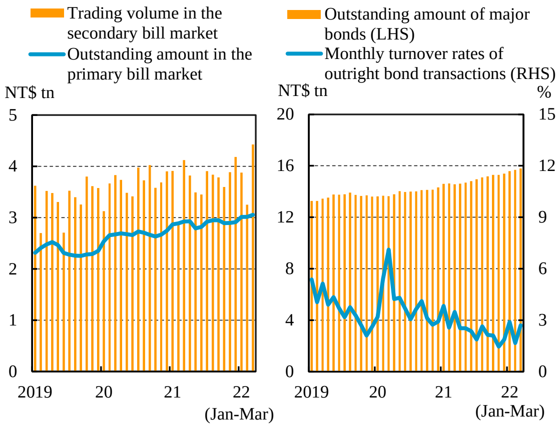
Since the government initiated the Healthy Real Estate Market Plan in December 2020, the Bank has revised targeted macroprudential measures regarding real estate loans four times. The FSC also continually adopted related measures to enhance financial institutions' risk management on mortgage loans. Furthermore, relevant ministries and agencies successively amended the regulations to refine management schemes and to prevent short-term speculation and tax evasion, which could foster sound development in the real estate market.

Financial system assessment

Financial markets

Bill and bond issuance hit new highs, while their trading volume in the secondary market took divergent paths

Chart 1.9 Primary and secondary bill and bond markets



Notes: 1. Major bonds include government bonds, international bonds, corporate bonds, and financial debentures.
2. Monthly turnover rate = trading value in the month/average outstanding amount of bonds issued. Average outstanding amount of bonds issued = (outstanding amount at the end of the month + outstanding amount at the end of last month)/2.

Sources: CBC and FSC.

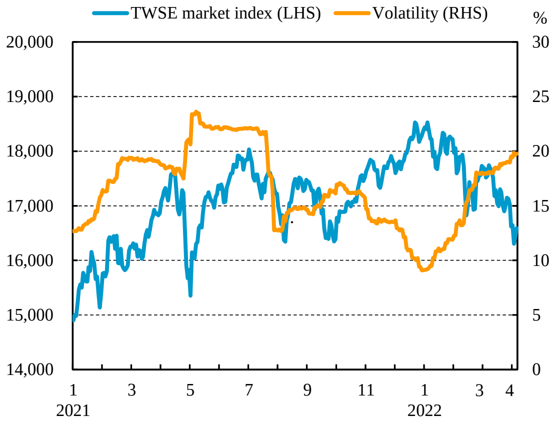
The outstanding amount of bill issuance in the primary market rose by 5.97% year on year at the end of 2021, owing to the fact that corporates significantly expanded commercial paper (CP) issuance for fund raising. The bill trading volume in the secondary market also saw a rise of 1.66% (Chart 1.9, left panel). As for the bond market, the outstanding amount of bond issuance increased by 7.58% at the end of the year because interest rates stayed at low levels, which attracted corporates and financial institutions to expand bond issuance. Nevertheless, trading volume in the secondary bond market[8] substantially decreased by 31.17% as bills finance companies and securities firms reduced their bond holdings. Analyzed by trading types, repurchase agreement (repo) transaction volume and outright transaction volume both shrank. As a consequence, the average monthly outright turnover rate of major bonds[9] continued its downward trend and declined further to a record low of 2.43% in 2022 Q1 (Chart 1.9, right panel).

In terms of short-term market rates, the interbank overnight call loan rate stabilized at a low level in 2021 and ascended marginally after the Bank raised the policy interest rates in March 2022. As for long-term market rates, 10-year government bond yields oscillated with an upward trend and reached a nearly 4-year high of 1.07% in late March 2022. Considering that recent tightening of monetary policies in major economies put upward pressure on bond yields globally, this could, in turn, propel Taiwan's 10-year government bond yields to increase further. Accordingly, the elevating interest rate risks related to bond investments warrant close attention.

[8] Includes repo and outright transactions.
[9] Includes government bonds, international bonds, corporate bonds, and financial debentures.

Stock indices reached historical highs before slumping, and trading volume rose dramatically

Chart 1.10 TWSE market index and volatility



Note: Volatility refers to the annualized standard deviation of 60-day daily index returns.
Sources: TWSE and CBC.

In May 2021, owing to recurring outbreaks of the pandemic, the Taiwan Stock Exchange Weighted Index (TAIEX) saw a sudden drop and its volatility surged sharply. Afterwards, with mixed news for the market, such as mounting concerns over inflation, faster-than-expected interest rate hikes by the US, heightened geopolitical risks, and uncertainty surrounding the pandemic, the TAIEX fluctuated with an upward trend and the volatility dropped. On December 29, the index reached a historical high of 18,248 (Chart 1.10), posting an increase of 23.66% year on year and surging higher than the major indices in international stock markets. Since the beginning of 2022, the TAIEX has slumped from its high level amid intensifying fluctuations in global stock markets, and the volatility has expanded again (Chart 1.10).

Underpinned by the booming trading volume of Taiwan's domestic stock markets in 2021, the monthly average trading value in the TWSE market significantly increased by 102.15% year on year. Consequently, the annual turnover rates in terms of trading value also rose noticeably to 176.60%, higher than those in most other major international stock markets, indicating sufficient liquidity in the stock market. Nonetheless, an escalation of the domestic pandemic recently, along with global geopolitical risks and uncertainties surrounding monetary policies in major economies, could impact domestic stock markets and warrant close attention.

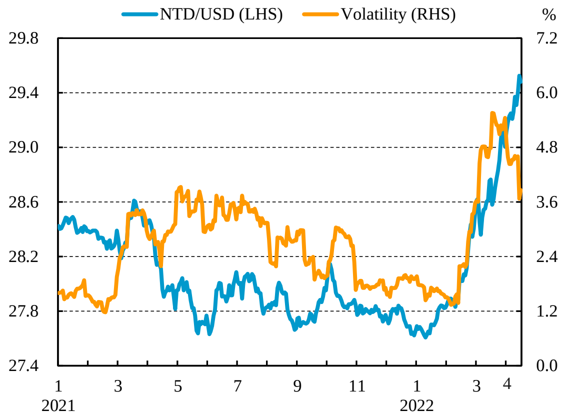
The NT dollar turned to depreciate after appreciating against the US dollar, while its volatility remained relatively stable

In 2021, Taiwan's exports performed remarkably well, creating strong demand for US dollars by exporters. This, coupled with inflows of foreign capital to invest in domestic stock markets, led the NT dollar exchange rate against the US dollar to fluctuate with an upward trend. The NT dollar stood at 27.690 at the end of 2021, rising by 2.95% over the end of the previous year. Nevertheless, with the US dollar trending upwards in the beginning of 2022, the NT dollar turned to depreciate by 6.07% against the US dollar compared to the end of 2021, falling to 29.480 at the end of April (Chart 1.11). With regard to trading volume, the scale of trading in

Taiwan's FX market declined by 0.30% in 2021, primarily because of a decrease in interbank transactions.

Furthermore, volatility in the NT dollar exchange rate against the US dollar shifted between 1.17% and 3.93% in 2021 and registered an annual average of 2.55%. During January to April 2022, volatility in the NT dollar exchange rate against the US dollar rose and registered between 1.34% and 5.56% (Chart 1.11). Compared to major currencies such as the Japanese yen, the euro, the Singapore dollar, and the Korean won, the NT dollar exchange rate has stayed relatively stable against the US dollar.

Chart 1.11 Movements of NT dollar exchange rate against US dollar

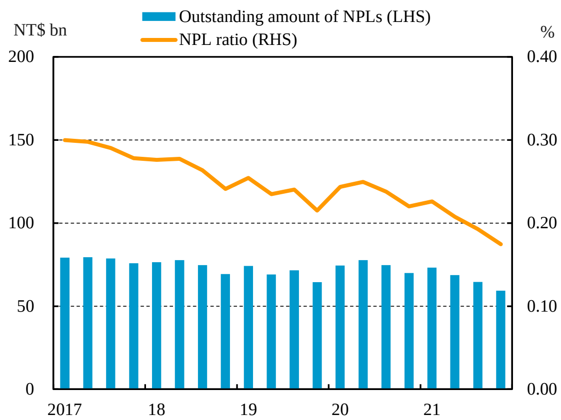


Note: Volatility refers to the annualized standard deviation of 20-day daily returns.
Source: CBC.

Financial institutions

Domestic banks' profitability and asset quality strengthened with satisfactory asset quality

Chart 1.12 NPLs of domestic banks

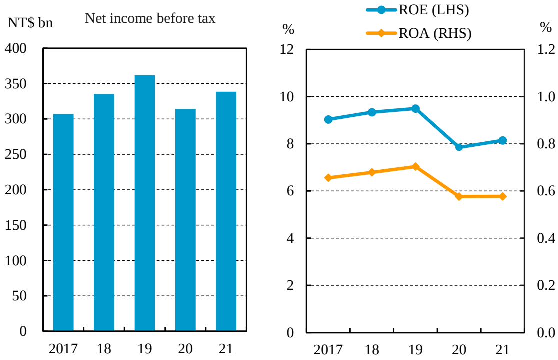


Note: Excludes interbank loans.
Source: CBC.

Growth in customer loans of domestic banks accelerated in 2021, while the credit concentration in corporate loans slightly decreased. However, the share of real estate-secured credit mounted continually. The average NPL ratio saw a decline to 0.17% at the end of the year (Chart 1.12), reflecting an improvement in credit quality, and the provisions for loan losses remained sufficient. Nevertheless, possible impacts stemming from relief loans on banks' credit risk management and their credit quality warrant close monitoring. Meanwhile, the aggregate amount of exposure to China continually contracted in 2021, and the ratio of the exposures to banks' net worth fell to a new low of 34% at the end of the year. Nevertheless, the potential risks in China are still elevated, which warrant constant close attention.

The net income before tax of domestic banks recorded NT$338.7 billion in 2021, increasing by 7.76% over the previous year (Chart 1.13, left panel). This mainly resulted from a pickup in net interest income owing to a geater decrease in interest expenses. The average return on equity (ROE) rose to 8.14%, while the return on assets (ROA) remained at 0.58% (Chart 1.13, right panel), indicating ascending profitability. On the other hand, the average capital adequacy ratio of domestic banks remained unchanged at 14.80% at the end of 2021, representing satisfactory capital quality.

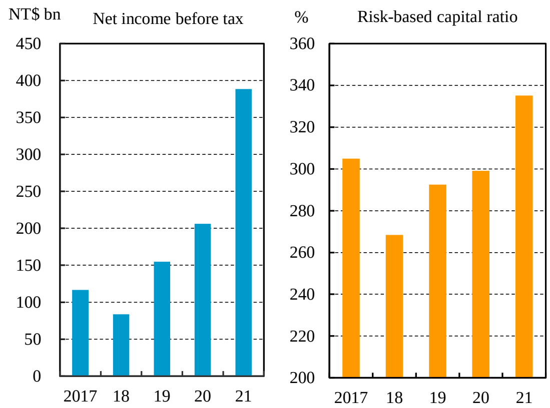
Chart 1.13 Profitability of domestic banks



Notes: 1. ROE = net income before tax/average equity.
2. ROA = net income before tax/average total assets.
Source: CBC.

Life insurance companies reported record-high profits and higher RBC ratios, though facing soaring market risks

Chart 1.14 Net income before tax and risk-based capital ratio of life insurance companies



Note: Figures for risk-based capital ratios exclude insurance companies taken into receivership by the FSC.
Source: FSC.

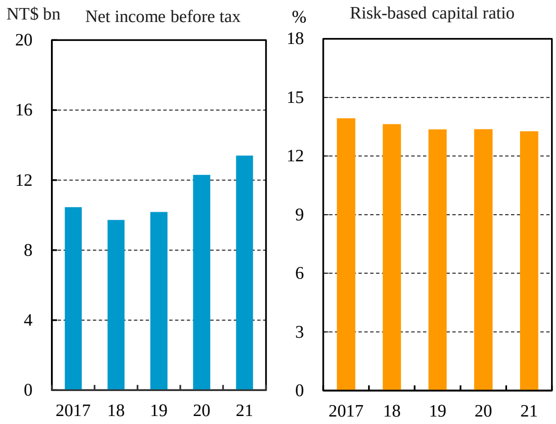
The net income before tax of life insurance companies hit NT$388.5 billion in 2021, a substantial year-on-year increase of 88.50% (Chart 1.14, left panel). This mainly resulted from elevated investment revenue as life insurance companies actively realized their capital gains of stock and bond investments. Additionally, at the end of the year, the average RBC ratio kept picking up to 335.17% (Chart 1.14, right panel), while the average equity to asset ratio[10] also rose to 8.87%.

Foreign portfolio positions of life insurance companies grew continually and reached NT$19.92 trillion at the end of 2021. Nonetheless, in view of recent turmoil in global financial markets and spiking US government bond yields, the impact of market risk on life insurance companies warrants close attention.

[10] Assets are exclusive of the assets of insurance products in separate accounts.

Profitability of bills finance companies kept increasing, but the liquidity risk remained high

Chart 1.15 Net income before tax and capital adequacy ratio of bills finance companies



Source: CBC.

CP guaranteed by bills finance companies continued to reach a record high in 2021, mainly because corporates increased CP issuance to raise funds on the back of a low level of interest rates in the bill market. The guaranteed advances ratio stayed at 0.01% at the end of the year, reflecting satisfactory credit quality; however, the impact of the evolution of the pandemic warrants close attention. Meanwhile, bills finance companies still faced a maturity mismatch between assets and liabilities, showing a still high liquidity risk.

In 2021, the net income before tax of bills finance companies expanded by 9.01% year on year to NT$13.4 billion (Chart 1.15, left panel), a new high in more than 10 years, mainly owing to a substantial decrease in interest expenses of bill and bond repo transactions and an expansion in income from underwriting fees. The average capital adequacy ratio declined slightly to 13.27% at the end of 2021 (Chart 1.15, right panel), but the capital adequacy ratio for each company remained well above the statutory minimum of 8%.

Financial infrastructure

Domestic payment systems functioned smoothly, and consumption via non-cash payment instruments expanded

The CBC Interbank Funds Transfer System (CIFS) functioned smoothly in 2021, settling funds worth a total of 24.6 times the GDP for the year. The overall consumption expenditure via a variety of non-cash payment tools[11] rose by 9.57%, mainly supported by continuous expansion of mobile payment coverage and mounting demand for contactless payment amid the pandemic. Furthermore, in order to facilitate the interconnection of information and cash flow between banks and e-payment institutions, the Bank urged the Financial Information Service Co., Ltd. (FISC) to set up a shared platform for cross-institution e-payment, which started to provide

[11] Non-cash payment tools include credit cards, debit cards, electronic tickets, electronic payment accounts, and ACH interbank collection.

intra-institution transfer services from October 2021 onwards. This platform is expected to offer “tax payment” and “bill payment” services in 2022, with the aim of promoting the efficiency of the overall payment market.

In response to the emerging trends of digital payment, the Bank has carried out orderly CBDC experiments

In order to explore the potential of digital technology, the Bank is pragmatically conducting CBDC research and testing projects. The Bank has already completed the first phase program on the feasibility of a wholesale CBDC. The results showed that the application of distributed ledger technology (DLT) had its own limits. In particular, it could not achieve efficacy in dealing with real-time, high-frequency, and large-volume payment transactions. Currently the Bank has proceeded to the second phase program on a general-purpose CBDC, which simulates the application of a CBDC in retail payment scenarios. The program is expected to be finalized in September 2022 and the Bank will extensively consult external opinions based on the simulation results, thereby assisting the Bank to evaluate the possibility of future CBDC issuance.

Other measures to strengthen the financial system

To urge financial institutions to prudently control the credit risk of real estate lending, the Bank has adjusted targeted macroprudential measures regarding real estate loans on a rolling basis. The FSC also adopted measures to strengthen risk management of real estate credit for banks and bills finance companies. Moreover, the FSC enhanced financial institutions’ climate risk management and financial disclosure to promote the development of sustainable finance, as well as taking a gradual approach to implement the New Generation Insurance Solvency Regime for insurers in line with international supervisory standards. In addition, to fulfill FX management, along with simplifying administration and providing convenience for the public, the Bank continually reviewed FX regulations, such as the *Regulations Governing the Declaration of Foreign Exchange Receipts and Disbursements or Transactions*, so as to help banks develop public access to digital services and provide diversified financial services in a more flexible manner.

Measures to promote financial stability and address the COVID-19 pandemic

Measures undertaken by the Bank and the FSC to promote financial stability

Measures undertaken by the Bank to promote financial stability

The Bank continued the special accommodation facility in 2021 to support bank credit to the SMEs affected by the pandemic. Additionally, the Bank raised the discount rate, the rate on refinancing of secured loans, and the rate on temporary accommodations each by 25 basis points (bps) in March 2022, so as to contain domestic inflation expectations and maintain price stability. Moreover, for the purpose of adjusting funds in the banking system, the Bank conducted open market operations, as well as keeping the weighted average overnight call loan rate at an appropriate level.

In addition, with the aim of helping banks enhance risk management of real estate lending and implementing the government's Healthy Real Estate Market Plan, the Bank adjusted targeted macroprudential measures four times since December 2020. The Bank also continually adopted flexible FX rate policies and undertook appropriate FX management measures (such as reinforcing off-site monitoring efforts on forward transactions and urging authorized FX banks to enhance their exchange rate risk management) to safeguard the dynamic stability of the NT dollar exchange rate and maintain FX market order, thus ensuring sound financial development.

Measures undertaken by the FSC to maintain financial stability

From 2021 onwards, in response to the impact of the pandemic on the domestic financial system, the FSC appropriately took flexible measures, including allowing banks to use adaptable methods to provide financial services, extending the debt workout mechanism for personal loans, as well as deferring the implementation of *Basel III: Finalizing post-crisis reforms* and additional internal capital requirements for domestic systemically important banks (D-SIBs). Moreover, the FSC required domestic banks and insurers to conduct supervisory stress tests to evaluate their risk bearing capacities.

In addition, the FSC constantly strengthened AML/CFT measures of financial institutions, along with regulations governing InfoSec and corporate governance. In an effort to better protect investors' interest and increase their risk awareness, the FSC reinforced risk disclosures and fund suitability assessments for high-yield bond funds, together with ensuring more complete disclosures of funds featuring environmental, social, and corporate governance (ESG).

Effectiveness of Taiwan's measures to address the COVID-19 pandemic

In response to the impact of the COVID-19 pandemic on the domestic economy and society, the Legislative Yuan successively raised the ceiling on the special budget for the *Special Act for Prevention, Relief and Revitalization Measures for Severe Pneumonia with Novel Pathogens* with a total of NT$840 billion. As of the end of April 2022, about 85% of the special budget had been implemented. In addition, the special accommodation facility launched by the Bank to support financially-distressed SMEs had assisted vulnerable enterprises to access the funds to weather the pandemic. Thanks to the effectiveness of those economic relief measures, Taiwan sustained economic growth at 6.57% in 2021, not only reaching an 11-year high, but also performing much better than major economies in Europe, North America, and Asia. The unemployment rate gradually declined from its peak, and the number of employees who agreed on negotiated reductions of working hours with their employers also shrank notably. Meanwhile, with the profitability of TWSE- and OTC-listed companies reaching a 10-year high in 2021, domestic stock markets also hit record-high levels.

Lastly, despite the lingering challenge of the pandemic facing Taiwan, financial institutions continued to make profits in 2021. Among them, life insurance companies and bills finance companies kept reaching historical highs. Meanwhile, the average NPL ratios of domestic financial institutions remained at a low level, reflecting satisfactory credit quality, and their capital levels remained adequate and well above the statutory minimum. All of the aforementioned performance shows that financial institutions in Taiwan still operated soundly amid a negative shock from the pandemic.

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

Overall, with the pandemic lingering but the related economic impact abating, Taiwan's financial system remained stable in 2021. To facilitate sound operations of financial institutions and promote financial stability, the Bank will keep adopting appropriate monetary, credit, and FX policies, and the FSC will revamp financial regulations and enhance financial supervisory measures.

Looking ahead, geopolitical tensions, soaring international raw material prices, and recurring pandemic outbreaks caused by new variants could lead high inflation globally to become much more persistent. These, coupled with the accelerated pace of monetary tightening in major economies, could increase volatility in financial markets and add further downside risks to the global economy. Against this backdrop, 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 appropriate response measures in a timely manner, thus promoting financial stability.