IV. Measures to promote financial stability and address the COVID-19 pandemic's impact

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

4.1.1 Measures taken by the Bank to promote financial stability

In 2021, the Bank kept the special accommodation facility in place to support bank credit to the SMEs affected by the pandemic. Meanwhile, in response to imported inflation pressures and policy rate hikes by the United States and other economies, the Bank raised the policy rates by 25 basis points (bps) in March 2022. Furthermore, the Bank adjusted targeted macroprudential measures regarding real estate loans four times from December 2020 to avoid excessive flows of bank credit into the real estate sector. The Bank also continued to adopt flexible FX rate policies to maintain dynamic stability of the NT dollar exchange rate, so as to safeguard financial stability and foster sustainable economic development.

The Bank raised the policy rates

As the Russia-Ukraine conflict pushed up commodity prices (such as energy prices) and heightened imported inflation pressures, domestic inflation is expected to remain elevated. Meanwhile, there have been and are likely to be further policy rate hikes by central banks in major economies like the US. Taking the above-mentioned factors into account, the Bank raised the discount rate, the rate on refinancing of secured loans and the rate on temporary accommodations each by 25 bps to 1.375%, 1.75% and 3.625%, respectively, on March 18, 2022. The rate hikes are expected to help contain domestic inflation expectations, maintain price stability, and assist sound financial and economic development.

Continued support for a special accommodation facility for SME loans

Against the backdrop of recurrent pandemic outbreaks, the Bank initiated the Special Accommodation Facility to Support Bank Credit to SMEs ("the Facility") in April 2020, and conducted a rolling review to fine-tune the rules in the Facility, the deadline of applicable preferential interest rates, total amount of the Facility's accommodations, and the application deadline, in order to continue to help SMEs reduce their funding costs and support industries to recover from the pandemic (Table 4.1). The total amount of the Facility was NT$400 billion. The deadline for SMEs to apply for credit support was extended to the end of 2021, while the preferential rates will remain applicable until June 30, 2022. As of April 29, 2022, banks had received 312,687 applications with the amount totaling NT$515.3 billion. Considering the facts that the Bank is adopting a tightening monetary policy stance, the pandemic-hit SMEs are gradually resuming normal operations, and the unemployment rate is falling, the Facility will be closed and the Facility's accommodations to the banking sector will not be rolled over after June 30, 2022.

Table 4.1 Key points of amendments to the Bank's Special Accommodation Facility

Content	Effective date
Extending the deadline from March 27, 2021 to December 31, 2021 for accommodations and applicable preferential interest rates for cases that banks submitted during the period from April 1, 2020 to August 9, 2020 for the approval of the Bank	Mar. 19, 2021
1. Raising the total amount of the Facility to NT$400 billion from NT$300 billion 2. Extending the deadline for SMEs to apply for credit support from June 30, 2021 to December 31, 2021 3. Extending the deadline to June 30, 2022 for accommodations to banks and for preferential interest rates applicable to SME loans 4. Adjusting lending conditions to allow loan applicants to apply again within the maximum credit lines	Jun. 4, 2021
Raising the maximum credit lines of Program C for each applicant from NT$0.5 million to NT$1 million	Jun. 24, 2021
Allowing banks to continue to apply to the Bank for accommodations, regardless of the NT$400 billion amount cap, for the SME loan cases received before the deadline of December 31, 2021	Oct. 29, 2021
Extending the deadline to June 30, 2022 for accommodations and applicable preferential interest rates for cases that banks submitted during the period from April 1, 2020 to July 4, 2021 for the approval of the Bank	Dec. 16, 2021

Source: CBC

Conducting open market operations to manage market liquidity

To manage liquidity in the financial market, the Bank conducts open market operations and manages reserve money at an appropriate level by issuing NCDs. At the end of 2021, the total outstanding amount of NCDs issued by the Bank was NT$9,483 billion, while the average annual growth rate of reserve money registered 12.18% for the year 2021. Furthermore, the

Bank guided the weighted average overnight call loan rate towards an appropriate level, holding at about 0.080% throughout 2021 and up to the rate hike on March 18, 2022. The rate was about 0.180% after the Bank raised the policy rates.

Adjusting targeted macroprudential measures four times to guide efficient allocation of bank credit

In order to promote financial stability and to help banks enhance risk management of real estate lending, to implement the government's Healthy Real Estate Market Plan and to preclude excessive flow of bank credit into the real estate market, the Bank has adjusted targeted macroprudential measures four times since December 2020 (Table 4.2), which have helped banks to lower credit risk.

Table 4.2 The CBC has amended the *Regulations Governing the Extension of Mortgage Loans by Financial Institutions* four times since December 2020

<table>
<tr><th colspan="2" rowspan="2">Loan items</th><th colspan="4">Loan conditions</th></tr>
<tr><th>2020.12.7 amendment[1]</th><th>2021.3.18 amendment[1]</th><th>2021.9.23 amendment[1]</th><th>2021.12.16 amendment[1]</th></tr>
<tr><td rowspan="2">Corporates</td><td>The first housing loan</td><td>LTV cap of 60%, no grace period</td><td rowspan="2">LTV cap of 40%, no grace period</td><td rowspan="2">(unchanged)</td><td rowspan="2">(unchanged)</td></tr>
<tr><td>The second (or more) housing loan</td><td>LTV cap of 50%, no grace period</td></tr>
<tr><td rowspan="4">Natural persons</td><td>High-value housing loan for a borrower with two or less outstanding housing loans</td><td rowspan="2">LTV cap of 60%, no grace period</td><td>LTV cap of 55%, no grace period</td><td>(unchanged)</td><td>LTV cap of 40%, no grace period</td></tr>
<tr><td>High-value housing loan for a borrower with three or more outstanding housing loans</td><td>LTV cap of 40%, no grace period</td><td>(unchanged)</td><td>(unchanged)</td></tr>
<tr><td>Second home loan for housing in "specific areas"[2]</td><td>(nil)</td><td>(nil)</td><td>No grace period</td><td>(unchanged)</td></tr>
<tr><td>Third home loan</td><td>LTV cap of 60%, no grace period</td><td>LTV cap of 55%, no grace period</td><td>(unchanged)</td><td>LTV cap of 40%, no grace period</td></tr>
</table>

Loan items		**Loan conditions**			
		2020.12.7 amendment[1]	**2021.3.18 amendment[1]**	**2021.9.23 amendment[1]**	**2021.12.16 amendment[1]**
	Fourth (and more) home loan		LTV cap of 50%, no grace period	(unchanged)	
Land loans		● LTV cap of 65% (10% withheld until construction begins) ● Borrower required to submit a substantive development plan for the land purchase	(unchanged)	● LTV cap of 60% (10% withheld until construction begins) ● Borrower required to submit a substantive development plan for the land purchase	● LTV cap of 50% (10% withheld until construction begins) ● Requiring the borrower to submit a substantive development plan for the land purchased, and to undertake in writing a specific time frame to commence construction[3]
Unsold housing unit loans		LTV cap of 50%	(unchanged)	(unchanged)	LTV cap of 40%
Mortgage loans for idle land in industrial districts		Banks internal rules	LTV cap of 55%[4]	LTV cap of 50%[4]	LTV cap of 40%[4]

Notes: 1. The 2020.12.7 amendment took effect on December 8, 2020; the 2021.3.18 amendment took effect on March 19, 2021; the 2021.9.23 amendment took effect on September 24, 2021; and the 2021.12.16 amendment took effect on December 17, 2021.

2. Specific Areas include Taipei City, New Taipei City, Taoyuan City, Taichung City, Tainan City, Kaohsiung City, Hsinchu County, and Hsinchu City.

3. The promised time frame as formally undertaken by the loans' borrowers is up to 18 months.

4. It shall not apply if mortgaged land is already under construction, or if the borrower already submits a substantive plan for construction and pledges that construction will begin within a certain period of time, which was amended to one year on September 23, 2021.

Source: CBC.

Additionally, the Bank has consecutively conducted targeted examinations of real estate lending business, invited banks for communication to further understand their real estate credit management, and urged banks to issue internal regulations to require that borrowers begin construction within a limited period of time. The FSC, referring to the suggestions from the Bank, also took measures to urge banks and bills finance companies to control the risks stemming from their guarantee business for the real estate industry. The Bank will closely monitor and evaluate the effectiveness of targeted macroprudential measures, allocations of bank credit resources in the real estate market and the developments in housing markets, and fine-tune the regulatory measures via a rolling review, so as to maintain financial stability.

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

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

In recent years, huge and frequent movements of international short-term capital flows have superseded international trade and economic fundamentals and become the key factor influencing the volatility of exchange rates. With a view to avoiding disturbances from the abovementioned factors on the domestic FX market, the Bank conducts "leaning against the wind" operations to maintain order in the FX market when necessary so as to mitigate volatile movements of the NT dollar exchange rate and foster FX market efficiency. The dynamic stability of the NT dollar exchange rate is conducive to the long-term sound development of the domestic economy.

Additionally, the Bank continued to undertake appropriate management measures to safeguard FX market order and promote its sound development. These measures mainly included: (1) taking hold of the updated transaction information in the FX market through the Real-Time Reporting System for Large-Amount FX Transactions; (2) reinforcing off-site monitoring efforts to ensure that forward transactions are based on genuine needs so as to curb FX speculation; (3) urging authorized FX banks to enhance their exchange rate risk management, thereby reducing FX exposures of individual banks and systemic risks in the FX market; and (4) strengthening targeted examinations on FX business in order to maintain the discipline of the FX market.

4.1.2 Measures undertaken by the FSC to maintain financial stability

From 2021 onwards, in view of the impact of the COVID-19 pandemic on the domestic financial system, the FSC took appropriate measures in a timely, flexible manner and evaluated financial institutions' risk bearing capacities. Furthermore, the FSC strengthened AML/CFT and information security (InfoSec) measures of financial institutions, as well as enhancing risk disclosures of several mutual fund products to preserve financial stability.

Taking measures in response to the impact of the pandemic

(1) In light of an upsurge in domestic COVID-19 cases, the FSC successively adopted temporary measures from May 2021 onwards, including: allowing banks to use flexible methods to provide financial products and services, to adjust their business hours, and to waive or reduce individuals' interbank transfer service fees via banks' online banking/mobile banking and physical ATMs.[52]

(2) Since February 2020, the FSC has coordinated with banks to extend the debt workout mechanism[53] for credit card debts and other personal loans, including housing loans, auto loans and unsecured consumer loans, through end-June 2023. Personal credit records will not be affected during the deferral period.

(3) The FSC deferred the implementation of *Basel III: Finalizing Post-crisis Reforms* to 2024 and allowed D-SIBs to defer for one year the enforcement of the 2% additional internal capital requirement, which must be achieved before each year-end of the four years equally from 2022 onwards.

Urging banks and insurers to conduct stress tests to evaluate their risk bearing capacities

To understand how the low interest rate environment and the pandemic affected the resilience of financial institutions, the FSC required domestic banks and insurers to conduct stress tests in 2021. The stress scenarios for domestic banks included credit, market and operational risks, while those for insurers encompassed insurance, market and climate change risks. According to the test results released by the FSC, financial institutions' average capital adequacy ratios under extremely adverse scenarios were still higher than the statutory minimums,[54] indicating that domestic banks and insurers had strong risk bearing capacities.

Recently, a rise in COVID-19 cases in Taiwan triggered a drastic surge in claims for several domestic insurers. Against this backdrop, the FSC required life and non-life insurers that sold COVID-related policies to conduct stress tests for the purpose of estimating the claims on

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52 Fee waiver or reduction ceased to apply following the lowering of domestic pandemic alert level in July 2021.

53 The debt workout mechanism included: (1) credit card debts: cardholders can apply for a deferral of payment for 3 to 6 months. During the deferral period, liquidated damages and revolving interest will be waived, and (2) other personal loans: individuals can apply for a deferral of principal or interest payments for 3 to 6 months. During the deferral period, liquidated damages and deferred interest will be waived.

54 The results of the stress test showed that the average common equity ratio, Tier 1 capital ratio, capital adequacy ratio, and leverage ratio of domestic banks under the severe adverse scenario were 9.68%, 10.64%, 12.33% and 5.60%, respectively. All ratios were above the statutory minimums. In addition, the stress test results for life and non-life insurers in terms of insurance and market risks, and non-life insurers in terms of climate change risks indicated that the average capital adequacy ratios and the equity to asset ratios of those insurers were all higher than the statutory minimums.

pandemic insurance policies and the underlying impact on their own financial health.

Strengthening AML/CFT measures of financial institutions

(1) In June 2021, to robustly enforce the *Money Laundering Control Act* as well as the international norms issued by the Financial Action Task Force, the FSC included, for the first time, those enterprises who handle virtual currency platforms or transactions into the scope of AML control, while taking a preemptive approach by offering guidance and assistance to these enterprises for proper conduct and compliance of AML operations.

(2) The FSC amended the *Regulations Governing Anti-money Laundering of Financial Institutions* and regulations related to internal control and audit systems in December 2021. The aforementioned regulations incorporated migrant worker foreign remittance companies into the scope of AML control, and added provisions that set out relevant requirements for electronic payment institutions and migrant worker foreign remittance companies to comply with when conducting cross-border correspondent banking and remittance business.

Continually reinforcing InfoSec and corporate governance

(1) To enhance the decision-making of financial institutions on cyber security matters, the FSC revised related regulations in September 2021, requiring all banks, together with bills finance companies, securities related financial institutions and insurance companies that met specific requirements, to appoint a vice president (or a person of equivalent rank) or higher-level personnel to serve as chief cyber security officer, who shall be in charge of promoting cyber security policy and the allocation of resources for relevant matters.

(2) To strengthen the ability of insurance companies to monitor and prevent conflicts of interest or improper transactions, the FSC issued a policy interpretation and collected banks' submission of self-regulatory rules in December 2021. Those measures stipulated that insurance companies should adopt management mechanisms for domestic equity investment staff, with the aim of urging firms to improve their internal control.

Enhancing risk disclosure and suitability assessment of fund products

(1) In an effort to better protect investors and increase investors' risk awareness, the FSC adopted strengthened supervisory measures for high-yield bond funds as follows: (A) changing the term "high-yield bond fund" to "non-investment grade bond fund"; (B)

requiring fund operators to explain how its risk-return ratings are calculated, why each fund has received its particular risk-return rating, and any restrictions that may result from the rating; (C) revealing exchange rate risk in the risk disclosures signed by the investors; and (D) strengthening fund investment suitability assessments for customers.

(2) To ensure more complete disclosures of ESG funds' investment policies, the FSC announced related rules. The key points included: (A) stipulating the details[55] to be published in issuance prospectuses or investor information summaries, and requiring that the aforementioned information shall be disclosed on a regular basis; (B) for the approved ESG-themed funds, the content disclosed in the investor information summary shall be rectified and submitted to the FSC for approval within six months; (C) an offshore fund, which is not compliant with the above rules, is not allowed to be claimed as a sustainability- or ESG-themed fund in marketing communications.

4.2 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 under the *Special Act for Prevention, Relief and Revitalization Measures for Severe Pneumonia with Novel Pathogens* to a total of NT$840 billion,[56] and extended the applicable period[57] depending on the extent of the pandemic's impact. Those measures were aimed at boosting consumption and improving domestic demand, reducing the impact of the pandemic on the public and businesses, and maintaining the momentum of domestic economic growth.

As of the end of April 2022, NT$712.1 billion had been executed under the special budget, accounting for about 85% of the total special budget of NT$840 billion. The remaining budget will be used based on the pandemic developments in the future. In addition, as of April 27, 2022, domestic banks had accepted a total of 607,429 applications for relief loans, with the amount totaling NT$5.22 trillion, either under various government (including the Bank) programs or banks' self-run relief lending initiatives. Among these measures, the Special Accommodation Facility launched by the Bank to support financially distressed SMEs had

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[55] The disclosures included ESG investment objectives and measurement standards, investment strategies and methods, allocations of investment ratios, performance indicators, exclusion criteria, risk warnings, and participation in due diligence and governance.

[56] In February 2020, the Executive Yuan promulgated the *Special Act for Prevention, Relief and Revitalization Measures for Severe Pneumonia with Novel Pathogens*, initially set at NT$60 billion, followed by an additional budget of NT$150 billion in April, NT$210 billion in July and NT$260 billion in October. This special budget was again expanded by NT$160 billion in June 2021 with the amount totaling NT$840 billion.

[57] In May 2021, the Legislative Yuan agreed to extend the special COVID-19 relief act and its associated budget to June 30, 2022. Amid a continued and severe outbreak of infections, the Executive Yuan presented to the Legislative Yuan in April 2022 the extension of the special COVID-19 relief act and its associated budget to June 30, 2023.

approved 306,888 applications with the amount totaling NT$503.5 billion as of April 29, 2022 (Table 4.3), representing an effective effort to help vulnerable SMEs access the needed working capital to weather the pandemic.

Table 4.3 The effectiveness of the Bank's Special Accommodation Facility (as of April 29, 2022)

		Program A	Program B	Program C	Total
Applications	No. of cases	76,053	59,823	176,811	312,687
	Amount (NT$bn)	151.8	272.9	90.6	515.3
Cases approved	No. of cases	74,796	59,187	172,905	306,888
	Amount (NT$bn)	148.1	267.7	87.8	503.5

Notes: 1. Program A aims at assisting SMEs to obtain financing up to NT$4 million per borrower. The program is offered at an interest rate of up to 1% per annum with 90% of credit guaranteed by Taiwan SMEG. This scheme is available from April 1, 2020 to December 31, 2021.
2. Program B aims at assisting SMEs to obtain financing up to NT$16 million per borrower. The program is offered at an interest rate of up to 1.5% per annum with collateral required by banks (or 80% of credit guaranteed by Taiwan SMEG). This program is available from April 1, 2020 to December 31, 2021.
3. Program C aims at assisting small-scale business entities to obtain financing up to NT$1 million per borrower. The program is offered at an interest rate of up to 1% per annum with 100% of credit guaranteed by Taiwan SMEG. This program is available from April 20, 2020 to December 31, 2021.

Source: CBC

Thanks to the effectiveness of those economic relief measures, Taiwan sustained economic growth at 6.57% in 2021, reaching an 11-year high and faring much better than major economies in Europe, North America, and Asia. The unemployment rate gradually declined from a peak of 4.8% in June 2021 to 3.64% at the end of the year, and the number of employees who agreed to negotiated reductions of working hours with their employers also decreased significantly from a peak of 58,731 at the end of August 2021 to 12,198 in April 2022. Meanwhile, benefiting from increasing demand for electronics as well as for traditional products underpinned by a sustainable economic recovery worldwide, the profitability of TWSE-listed and OTC-listed companies in 2021 reached the highest level in nearly a decade, driving the domestic stock market to record highs.

Moreover, despite the lingering challenge of the pandemic, Taiwan's financial institutions continued to make profits in 2021. Among them, life insurance companies and bills finance companies kept making record-high profits. Meanwhile, the average NPL ratio of domestic financial institutions remained at a low level, reflecting satisfactory credit quality, and their capital levels continued to be adequate and well above the statutory minimum. All of the aforementioned performance shows that financial institutions still operated soundly in spite of a negative shock from the epidemic.

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

Despite the fact that the pandemic continued to develop, though its impact on global economic activity began to gradually fade, Taiwan’s financial markets and financial infrastructure functioned well and developed steadily in 2021. Profitability of financial institutions also remained satisfactory with sound asset quality and adequate capital levels. Overall, Taiwan’s financial system remained stable. The Bank continued to adopt appropriate monetary, credit and foreign exchange policies in response to changes in the global and domestic economic and financial conditions to promote financial stability. Meanwhile, the FSC revamped financial regulations and enhanced financial supervisory measures to facilitate sound operations of financial institutions and maintain financial stability.

Entering the year 2022, global economic recovery continued. However, the resurgence of the Omicron variant, persistent supply chain bottlenecks and the recent Russian invasion of Ukraine which propelled major economies to impose economic and financial sanctions on Russia have constrained raw commodity supplies, resulting in price hikes and adding to global inflationary pressures. Moreover, with the United States and other major countries gradually withdrawing from their accommodative monetary policies, global economic growth is expected to be more moderate. Looking ahead, geopolitical tensions, soaring international raw material prices and recurring pandemic outbreaks caused by new coronavirus variants could lead elevated global inflation to become entrenched. Moreover, the accelerated pace of monetary tightening in major economies could increase volatility in financial markets and create more downside risks to the global economy.

Considering that the international economic outlook is still surrounded by many uncertainties, the Bank will continue to pay close attention to the impacts of relevant subsequent developments on domestic economic and financial conditions so as to take appropriate response measures in a timely manner to promote financial stability.