III. Central Bank Operations

1. Overview

In the first half of 2022, the outbreak of the Russia-Ukraine war and further worsening of global supply chain bottlenecks contributed to a surge in global inflation. In the second half of the year, global inflation remained elevated, and major economies such as the US continued to tighten monetary policy, with the world economy experiencing slower growth. Meanwhile, the domestic economic expansion moderated on account of softened global demand. Soaring import costs of energy and food brought the annual CPI growth rate up above 2%. Based on the assessment of economic and financial conditions at home and abroad, the Bank adopted a tight monetary policy stance in 2022 to rein in domestic inflation expectations, maintain price stability, and help foster sound economic and financial development. Therefore, the Bank raised policy rates four times throughout the year by a total of 0.625 percentage points, and increased the reserve requirement ratios on NT dollar demand deposits and time (savings) deposits twice by a total of 0.5 percentage points.

In 2022, the Bank continued to conduct the Special Accommodation Facility to Support Bank Credit to SMEs ("the Facility"). With the pandemic situation broadly stable at home, enterprises' need for such funding assistance waned. The Facility thus expired at the end of June that year as planned. The Facility has been very productive in helping SMEs sustain normal operations, maintaining financial stability, and fostering robust economic growth.

Moreover, the Bank continued implementing the selective credit control measures during the year so as to promote financial stability, rein in financial institutions' credit risk associated with real estate lending, and prevent excessive credit resources from gushing into the real estate sector. To boost the effectiveness of the existing credit controls, the Bank also adopted relevant supporting measures, such as performing on-site financial examinations, holding meetings with banks to understand their current practices, urging financial institutions to comply with relevant laws and regulations as well as credit risk-based interest rate pricing principles, and requesting financial institutions to strengthen the efforts to ensure that land loan borrowers begin construction on the collateralized land lots as per the loan terms. The Bank's tight monetary policy stance in 2022 was also conducive to enhancing the effectiveness of the selective credit controls.

In response to economic and financial conditions, the Bank continued with open market operations by issuing CDs to manage market liquidity and reserve money so as to maintain liquidity in the banking system and market rates at appropriate levels. For the year as a whole, reserve money and the monetary aggregate M2 recorded year-on-year growth of 8.91% and 7.48%, respectively. Both readings were higher than the GDP growth rate of 2.45% over the same period, indicating sufficient market liquidity to support economic activity.

In terms of the foreign exchange (FX) market, the Fed, in view of soaring global inflation in 2022, adopted substantial rate hikes to curb inflation, triggering fire sales of risky assets worldwide. The resulting flow of capital into US dollar assets for risk aversion purposes led to the strengthening of the USD, and the NTD thus depreciated significantly. In the fourth quarter, abated inflation pressures in the US drove up investors' expectations of slower Fed rate hikes, contributing to a weaker USD, and the NTD against the USD rebounded. When the NTD exchange rate experienced more fluctuations, the Bank, in line with its statutory mandates, stepped into the FX market and conducted two-way smoothing operations as warranted to maintain dynamic stability of the NTD, with a net selling of US$13 billion for the year. Compared with other major currencies such as the SGD, EUR, KRW, and JPY, the NTD experienced lower volatility in its exchange rate vis-à-vis the USD in 2022. Furthermore, in addition to approving more bank branches as authorized FX banks, the Bank reviewed the laws and regulations governing FX business as seen fit so as to facilitate authorized FX banks' competitiveness and service quality.

In order to ensure security and efficiency of the functioning of Taiwan's payment and settlement systems, the Bank continued urging financial institutions to strengthen information security of the systems and to perform drills on system backup and contingency procedures in case of emergency. With regard to promoting mobile payment, the Bank required the Financial Information Service Co., Ltd. (FISC) to collaborate with financial institutions in reinforcing mobile payment infrastructure, such as constructing the "shared platform for cross-institution electronic payment" and providing the "mobile number funds transfer" service. On the other hand, in response to emerging innovations in digital payment, the Bank has conducted a two-phase research project on central bank digital currencies (CBDCs). The second phase proof-of-concept study on a general purpose CBDC was completed in June 2022. The experiment results from the second phase will serve as a basis for the Bank's further research on the CBDC.

In the meantime, the issue of climate change has posed new challenges and risks to central banks' statutory mandates of implementing monetary policy and maintaining financial stability. Against such a backdrop, the Bank, in line with the government's goal of acheiving a transition to net zero carbon emissions by 2050, released the "CBC Strategic Plan to Address Climate Change Issues" on December 30, 2022. The plan will be carried out owith 11 action measures in five aspects, namely monetary policy, monetary policy operation instruments, macro-prudential policy, FX reserve management, and participation in international discussions and activities. Through this plan, the Bank aims to mitigate the impact of climate change-related risks on domestic economic and financial conditions so as to ensure financial stability and facilitate Taiwan's sustainable development.