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## Abstract

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In 2022, to curb rising inflation, central banks in major economies accelerated the cycle of interest rate hikes, which not only tightened international financial conditions, but also accelerated the decline in global economic growth. Nevertheless, economic growth momentum in Taiwan was strong. Inflation remained relatively moderate compared to other countries, albeit with heightened domestic prices. Revenue and profits of the corporate sector performed well and the financial condition of households also remained satisfactory. In addition, the government persistently endeavored to implement measures to ensure a healthy housing market which contributed to fostering its sound development. Under this macro environment, financial markets in Taiwan kept operating smoothly. Financial institutions, aside from insurance companies which need ongoing improvement, have generally maintained sound operations. Meanwhile, domestic systemically important payment systems also functioned in an orderly manner. On the whole, the financial system remained largely stable; however, the potential impacts stemming from a myriad of uncertainties surrounding international economic and financial conditions on Taiwan's financial system warrant close attention.

### ***Spillover effects resulting from rapid tightening of monetary policies by major central banks had impacts on international and domestic macro environments***

In 2022, in response to elevated inflation, central banks in major economies increased the pace of monetary policy tightening, causing spillover effects that not only tightened international financial conditions, but also accelerated the global economic growth downturn. Looking into 2023, despite the fact that the reopening of the Chinese economy is expected to bolster the global economy, financial conditions remain tight, and geopolitical risks are still high. Moreover, the US and European countries are facing downside risks to economic growth. S&P Global Market Intelligence (hereafter S&P Global) estimates that global economic growth will continually decline, and global inflationary pressures will be gradually alleviated yet still remain high. Furthermore, aggressive policy rate hikes by major central banks, such as the Federal Reserve System (Fed), have jolted global financial markets, and lifted debt risks and capital outflow pressures for emerging markets. Besides this, the swift actions taken by

authorities in the US and Europe in response to recent turmoil in the banking sector have temporarily contained market panic. Nevertheless, tighter financial conditions exacerbated global financial vulnerabilities, and financial instability stemming from rising geopolitical tension and climate change is a matter requiring close attention.

Regarding the domestic economy, Taiwan's economy grew steadily in 2022. Although domestic prices were still-elevated, inflation remained relatively moderate compared to other countries. The scale of external debt contracted and foreign exchange (FX) reserves remained ample, indicating robust external debt servicing capacity. Additionally, the government had a fiscal surplus and government debt stayed within a manageable level. The revenue of both Taiwan Stock Exchange (TWSE) listed and over-the-counter (OTC) listed companies reached record highs with favorable profits and their financial leverage decreased. Household financial conditions stayed sound and demonstrated satisfactory credit quality. Transactions in the housing market cooled down remarkably and the uptrend in house prices decelerated. The mortgage burden slightly decreased but still remained at a high level. Relevant ministries and agencies have actively implemented measures to ensure a healthy housing market so as to foster its sound development.

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

From 2022 onwards, the outstanding amount of bill issuance edged down, while the trading volume increased. As for the bond market, the outstanding amount of issuance expanded, but its trading volume slightly decreased. Stock indices rallied after falling from record highs and were not significantly affected by the turmoil in the US and European banking sectors. The NT dollar turned to appreciate after depreciating against the US dollar, and FX markets remained dynamically stable. Benefiting from wider spreads between deposit and loan interest rates, profits for domestic banks reached record highs, and their asset quality strengthened with adequate capital levels. While the insurance industry faced somewhat bigger headwinds, capital increases and other measures were taken to address the adverse impacts. Profits for bills finance companies showed a downward trend, but their capital adequacy was satisfactory.

Furthermore, domestic systemically important payment systems functioned in an orderly manner. Meanwhile, the Financial Supervisory Commission (FSC) expressed intention to gradually implement appropriate monitoring of crypto assets. Additionally, to support the government's 2050 net-zero transition plan, the Bank released the strategic plan on climate

change. The FSC also continued to promote the Green Finance Action Plan so as to facilitate Taiwan's sustainable development.

### ***The Bank and the FSC kept taking measures to promote financial stability***

From March 2022 onwards, the Bank raised the policy rates five times by a total of 0.75 percentage points and edged up the reserve requirement ratios on NTD deposits twice by a total of 0.5 percentage points, which helped restrain domestic inflation expectations. The Bank also conducted open market operations for the purpose of adjusting funds in the banking system. Besides this, the Bank kept adopting targeted macroprudential measures, in line with the government's Healthy Real Estate Market Plan, and maintained flexible FX policies to safeguard the dynamic stability of the NT dollar exchange rate. Meanwhile, the FSC undertook regulatory forbearance measures for insurers to help them cope with adverse impacts and implemented measures to stabilize the stock market and address market fluctuations. Furthermore, the FSC reinforced other supervisory policies, including continuing to enhance corporate governance of financial institutions and strengthening information security, so as to maintain financial stability.

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

In 2022, despite major central banks' rapid tightening of monetary policies and a slowdown in global economic growth, Taiwan's financial markets continued to operate smoothly. Among financial institutions, the operations of the banking sector and bills finance companies remained steady. While the insurance industry faced significant headwinds, capital increases and other measures were taken to address the adverse impacts. Additionally, domestic systemically important payment systems operated smoothly. As a whole, Taiwan's financial system remained largely stable. Looking ahead, a number of factors such as the tightening of monetary policies by the Fed and European central banks along with corresponding spillover effects, growing uncertainty over commodity supplies resulting from climate change, and escalating geopolitical risks, could cause global inflationary pressures to persist, intensify financial market volatility, and heighten downside risks to the global economy. In response, the Bank will continue to pay close attention to the potential impacts of relevant subsequent developments and take appropriate response measures to promote domestic financial stability.

