I. Overview

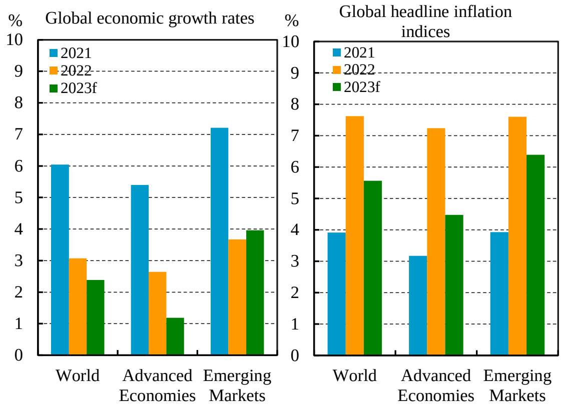
Potential macro environmental risk factors

International economic and financial conditions

Global economic growth slowed significantly, while inflation moderated after a sharp rise but still remained at elevated levels

In 2022, the Russia-Ukraine war caused supply shortages and a surge in commodity prices, exacerbating global inflationary pressures. These, together with China's zero-COVID policy, which intensified the strains on global supply chains, lifted the global consumer price index (CPI) inflation rate to 7.6%. To curb rising inflation, central banks of major economies accelerated the cycle of interest rate hikes, resulting in spillover effects that not only tightened international financial conditions, but also accelerated the decline in global economic growth. Consequently, the economic growth rate dramatically dropped to 3.1% (Chart 1.1).

Chart 1.1 Global economic growth rates and headline inflation indices



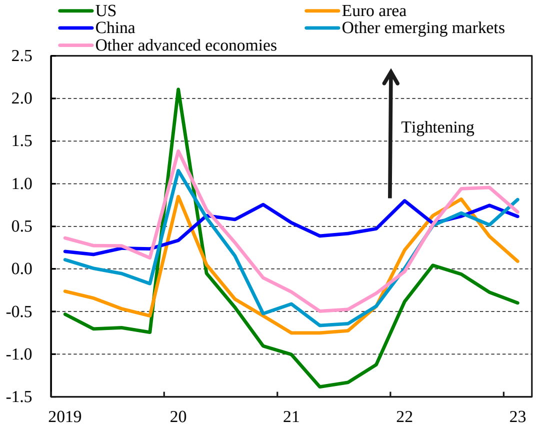
Note: Figures for 2023 are S&P Global Market Intelligence estimates.
Source: S&P Global Market Intelligence (2023/5/15).

Looking ahead to 2023, the withdrawal of China's zero-COVID policy is expected to boost the global economy. However, in view of tightened financial conditions, heightened geopolitical risks, and potential downside risks faced by the US and European economies, S&P Global[1] estimates that the global economic growth rate will continually decline to 2.3% in 2023. For advanced economies, growth is projected to substantially drop to 1.1%, while emerging economies are expected to demonstrate a slight rebound to 3.9%. Among emerging economies,

[1] S&P Global Market Intelligence (2023), *Global Executive Summary*, May.

the economic growth rate of China is anticipated to sharply pick up to 5.5% throughout the year given that the policy focus will shift from zero-COVID towards stabilizing economic growth. On the other hand, as the easing of the global pandemic and supply chain bottlenecks leads to a gradual alleviation of global inflationary pressures, the global CPI annual growth rate will come down to 5.6% but still remain high (Chart 1.1). The recent fallout of the banking turmoil in the US and Europe has induced financial tightening. Considering this, coupled with ongoing global inflationary pressures, the impact of the future trajectory of interest rate hikes and monetary policy stances by major central banks on the global economic growth and inflation outlook warrants close attention.

Chart 1.2 Global financial conditions indices



Notes: 1. Financial conditions indices are gauged by standard deviations from the mean. These indices were calculated quarterly in 2006-2019 and monthly after 2020.
2. Other emerging markets exclude Russia, Ukraine and Turkey.

Source: IMF (2023), *Global Financial Stability Report*, April.

Tighter financial conditions eased but financial vulnerabilities mounted

In the first three quarters of 2022, major central banks, such as the Fed, accelerated the pace of monetary policy tightening, resulting in significantly tighter financial conditions in advanced economies. Afterwards, their financial conditions moderately loosened amid a recovery in global financial markets. By contrast, financial conditions in China remained accommodative over the same period as it continued to adopt an easy monetary policy with the aim of supporting economic growth (Chart 1.2).

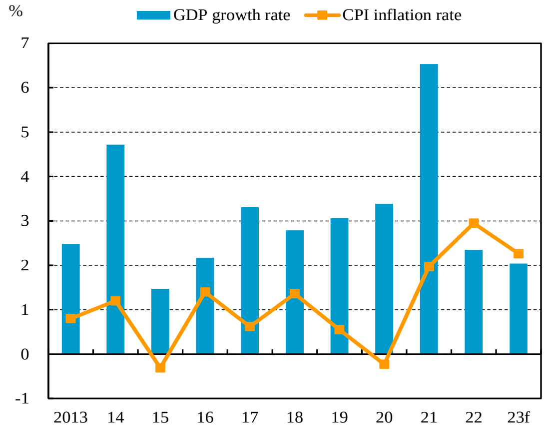
Owing to high interconnectedness of global financial markets, the rapid interest rate hikes by the Fed have influenced investor risk appetite, leading to turbulence in global stock and bond markets, as well as lifting debt risks and capital outflow pressures for emerging markets. Moreover, a series of shocks in the US and Europe have hit banks since March 2023. Although the swift actions taken by central banks temporarily contained market panic, these events provided evidence that major central banks' ongoing tightening of monetary policy resulted in an environment of tighter financing conditions and global financial vulnerabilities could potentially accumulate.

Additionally, in China, funding pressures remained in the real estate market and the levels of local government debt continued to mount. Failing to address these problems could pose threats to financial institutions and exert pressure on the funding markets. Lastly, potential reversals in cross-border capital flows caused by rising geopolitical tensions, together with contagion effects and feedback effects stemming from climate change, would elevate financial risks, which is a matter requiring close attention.

Domestic macro environment

Taiwan's economy grew steadily; domestic prices were still-elevated, but inflation remained relatively moderate compared to other countries, and external debt servicing capacity remained sound

Chart 1.3 Economic growth rate and CPI inflation rate of Taiwan



Note: Figures for 2023 are DGBAS forecasts released on May 26, 2023.
Source: DGBAS.

Export growth slowed down in 2022; however, benefiting from steady growth in private consumption and investment, the annual economic growth rate reached 2.35% (Chart 1.3),[2] indicating robust economic growth. Annual CPI inflation rose to 2.95% in 2022 from 1.97% a year earlier, reaching a 14-year high. Nonetheless, compared to major economies, inflation in Taiwan remained relatively moderate. Looking ahead to 2023, despite various negative factors in the first half of the year, export momentum is expected to gradually recover in the second half, and government initiatives to enhance post-pandemic economic recovery will likely be conducive to domestic demand. In sum, the DGBAS predicts that the annual economic growth rate will register 2.04% in 2023, and the CPI annual inflation rate is anticipated to decrease to 2.26% throughout the year.

Taiwan's external debt[3] declined to US$202.1 billion at the end of 2022, and FX reserves amounted to US$554.9 billion, implying a robust capacity to service external debt. As a result of a significant increase in profit-seeking enterprise income tax and the budget implementation of the government in conjunction with austerity principle, the government fiscal surplus was NT$38.4 billion,[4] equivalent to 0.17% of gross domestic product (GDP) for the year and was

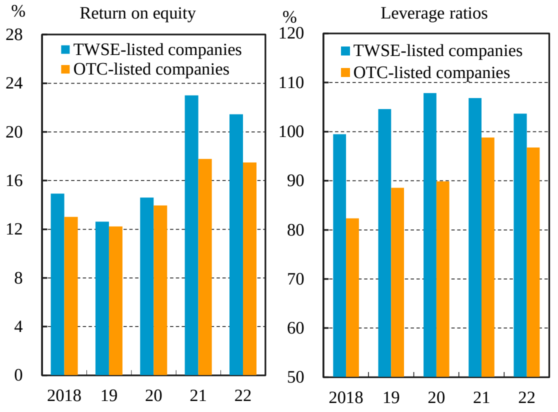
[2] Data cited from the DGBAS in this report such as Taiwan's economic growth rate, GDP and CPI figures of 2022, and forecasts of 2023 are referred to from its press release published on May 26, 2023.
[3] External debt refers to the combined amount owed to foreign parties by Taiwan's public and private 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. Among them, public external debt refers to the external debt that the public sector is directly responsible for repayment or provides payment guarantees. Private external debt, on the other hand, refers to external debt that does not include payment guarantees from the public sector.
[4] It is based on the latest data from the Department of Statistics, Ministry of Finance, as of May 16, 2023.

higher than internationally recognized minimum levels.[5] The ratio of total public debt to annual GDP continued dropping to 29.69%, implying that government debt still stayed within a manageable level.[6]

Revenue of the corporate sector set new highs with favorable profits

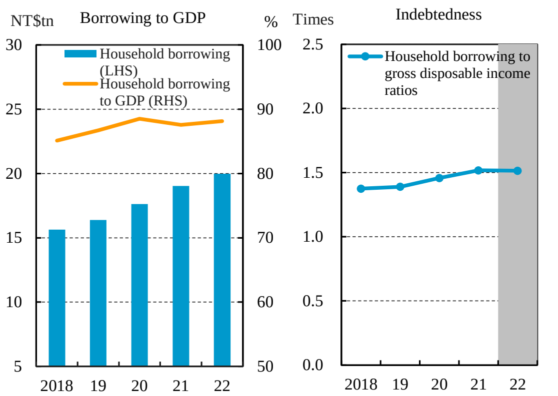
In 2022, thanks to continuous developments of emerging technology applications and digital transformation opportunities, the revenue and profit of both TWSE- and OTC-listed companies reached record highs and their profitability remained strong (Chart 1.4, left panel). However, profitability performance of the main industries took divergent paths. At the end of the year, leverage ratios for both TWSE- and OTC-listed companies decreased (Chart 1.4, right panel), and their current ratios trended upwards. On the other hand, their interest coverage ratios decreased owing to a greater increase in interest expenses, but the overall short-term debt servicing capacity remained sound. Finally, the non-performing loan (NPL) ratio for corporate loans from financial institutions dropped to a new low of 0.21% at the end of 2022, suggesting satisfactory credit quality.

Chart 1.4 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 1.5 Household indebtedness



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

Household borrowing expanded at a slower pace, and its financial health was steady

Household borrowing reached NT$19.98 trillion at the end of 2022, equivalent to 88.15% of annual GDP for the year, higher than the 87.57% of the previous year (Chart 1.5, left panel).

[5] As a comparison, fiscal deficits in European Union (EU) member nations are not allowed to exceed 3% of GDP according to the *Maastricht Treaty* and the subsequent *Stability and Growth Pact*.

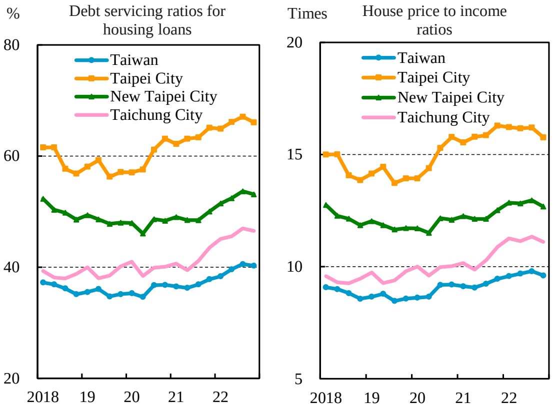
[6] As a comparison, outstanding government debt in EU member nations are not allowed to exceed 60% of GDP according to the *Maastricht Treaty* and the subsequent *Stability and Growth Pact*.

However, the annual growth rate of household borrowing rose at a slower pace of 4.95%, and the ratio of household borrowing to total disposable income marginally fell to 1.51 (Chart 1.5, right panel), reflecting a slightly eased household debt burden. By contrast, the debt servicing ratio ascended moderately to 48.87%, indicating that short-term household debt servicing pressure tightened to some extent. Nevertheless, household net worth[7] in Taiwan has been remarkable and has held at more than 7 times the GDP in recent years, showing a healthy financial condition. Meanwhile, the NPL ratio of household borrowing from financial institutions decreased to a new low of 0.12%, suggesting satisfactory credit quality, but any change in debt servicing capacity of some households with higher debt burdens warrants close attention in view of rising interest rates on bank loans and decreasing real monthly regular earnings for employees.

Transactions in the real estate market cooled down remarkably and growth in housing prices decelerated; the mortgage burden slightly decreased but still remained at a high level

The total number of building ownership transfers decreased by 8.64% in 2022 and that of land ownership transfers also fell by 8.45% year on year, both continuing the downward trends in the beginning of 2023. Meanwhile, the national housing price index released by the Ministry of the Interior (MOI) kept rising gradually in 2022, but at a slower annual pace. The Cathay housing price index (for newly built houses) saw a sharp increase in 2022 yet experienced the reverse trend in 2023 Q1. The Sinyi housing price index (for existing houses) kept its upward trend as well in the first three quarters of 2022 and has slightly fluctuated at high levels since Q4. Moreover, the debt servicing ratio for housing loans rose gradually quarter by quarter and mildly went down to 40.25% in 2022 Q4, while the house price to income ratio registered 9.61, with both showing an increase from the previous year. As for mortgage burden, Taipei City exhibited the heaviest one among the six metropolitan areas (Chart 1.6).

Chart 1.6 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.

[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.).

Both housing loans and construction loans granted by banks grew at a slower pace in 2022 with rising mortgage interest rates. Furthermore, the NPL ratios for both loans dropped to 0.07% at the end of March 2023, showing satisfactory risk management on real estate lending. Since December 2020, the Bank has adjusted its targeted macroprudential measures four times, and it has continued to strengthen the risk management of real estate lending or guarantee business of financial institutions in collaboration with the FSC. The Bank and the FSC also launched a targeted examination toward mortgage loans to ensure banks' compliance with related regulations. Moreover, 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.

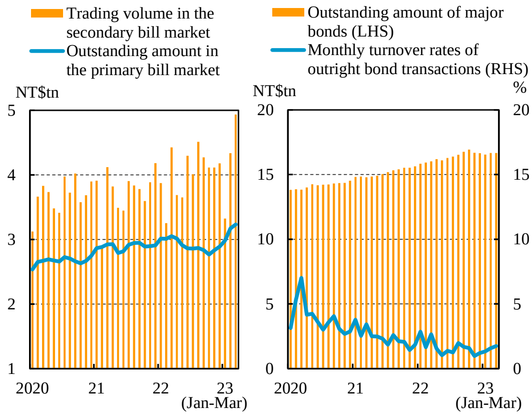
Financial system assessment

Financial markets

Bill issuance edged down, while bond issuance continued to expand

The outstanding amount of bill issuance in the primary market at the end of 2022 went down by 0.69% year on year, mostly attributed to the reduction in the issuance of treasury bills owing to the ample tax revenue. On the other hand, the trading volume in the secondary bill market increased by 7.86% year on year, thanks to factors such as strong demand for investment in commercial paper (CP) by corporates (Chart 1.7, left panel). As for the bond market, the outstanding amount of bond issuance in the primary market at the end of 2022 rose by 6.63%, compared to the end of the previous year, and reached a new high owing to the fact that foreign institutions issued bonds ahead of schedule or reduced early redemption of bonds given their expectation of the Fed's rate hikes. Nevertheless, considering that major bond market traders such as bills finance companies and securities firms reduced their bond holdings, trading volume in the secondary bond market[8]

Chart 1.7 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.

[8] Includes repo and outright transactions.

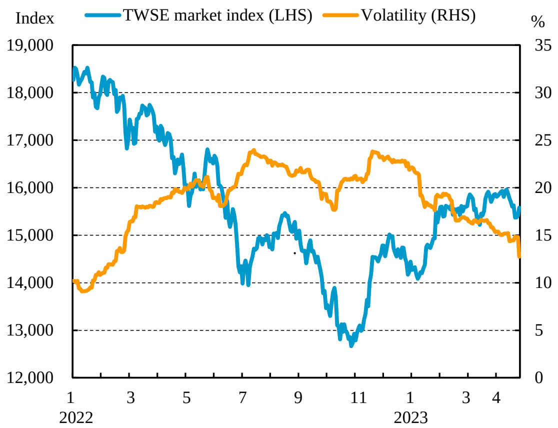
slightly decreased by 2.03%, and outright transaction volume significantly shrank compared to a year earlier. As a consequence, the average monthly outright turnover rate of major bonds[9] continued its downward trend and declined further to a record low of 1.55% in 2023 Q1 (Chart 1.7, right panel).

In 2022, the interbank overnight call loan rate elevated accordingly after the Bank raised the policy interest rates and its negotiable certificates of deposits (NCDs) interest rates four times, yet liquidity in financial markets remained ample. As for long-term market rates, domestic 10-year government bond yields hit a new 14-year high of 1.93% in October 2022 and descended gradually afterwards. Considering that inflation in major economies continues to be high and there are many uncertainties surrounding the future inflation outlook, together with the upward pressure on bond yields globally, the domestic 10-year government bond yields are likely to climb again. Therefore, the interest rate risks related to bond investments of financial institutions are worthy of attention.

Stock indices rebounded after falling from record highs and were not significantly affected by the turmoil in the US and European banking sectors

In the first three quarters of 2022, on account of the prolonged pandemic, the outbreak of the Russia-Ukraine war, the Fed's accelerated interest rate hikes, and China's zero-COVID policy, the Taiwan Stock Exchange Weighted Index (TAIEX) oscillated with a downward trend from the historical high of 18,526 at the beginning of the year. Since the beginning of October, thanks to the FSC's measures to stabilize the stock market, the index rallied and the volatility of the TWSE and the OTC markets gradually dropped to 21.33% and 22.71%, respectively, at the end of the year. Entering 2023 Q1, as economic activity gradually returned to normal and Taiwan's stock markets weren't significantly affected by the recent turmoil in the US and European banking sectors, the TAIEX and the Taipei Exchange Capitalization Weighted Stock Index (TPEX) of the OTC market fluctuated upwards. Their volatility also fell further at the end of April 2023 (Chart 1.8).

Chart 1.8 TWSE market index and volatility



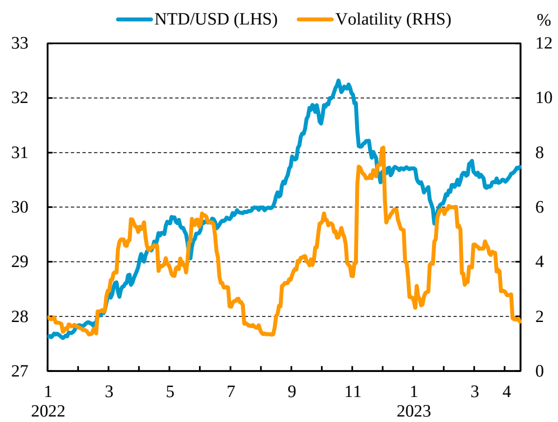
Note: Volatility refers to the annualized standard deviation of 60-day daily index returns.
Sources: TWSE and CBC.

[9] Includes government bonds, international bonds, corporate bonds, and financial debentures.

Driven by notably declining trading volume of Taiwan's stock markets in 2022, the monthly average trading value in both the TWSE and the OTC markets slumped compared to a year earlier. Accordingly, the annual turnover rates in terms of trading value fell sharply to 115.44% and 315.73%, respectively, but were still higher than those in most major international stock markets. Looking ahead, domestic stock markets are supported by sound economic fundamentals. However, against the backdrop of rising uncertainties over the economic prospects and inflation trends in major economies, along with the persisting panic sentiment stemming from the banking turmoil in the US and Europe among financial markets, these factors may continue to affect the international stock markets and, in turn, impact the performance of domestic stock markets. It is worth paying close attention to these developments.

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

Chart 1.9 Movements of NT dollar exchange rate against US dollar

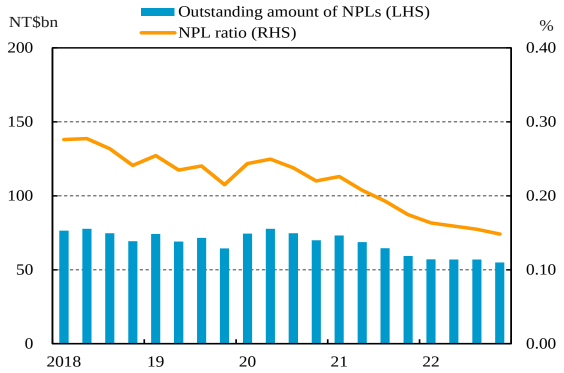


Note: Volatility refers to the annualized standard deviation of 20-day daily returns.
Source: CBC.

In 2022, in view of high and persistent inflation, the Fed implemented an aggressive series of interest rate hikes, resulting in a strong international US dollar. As a consequence, the NT dollar fell against the US dollar even to below 32 in October. Subsequently, owing to the inflation in the US showing signs of easing, along with the news of the Fed's possible slowdown in the pace of interest rate hikes, the NT dollar reversed and rebounded to 30.708 against the US dollar at the end of 2022, depreciating by 9.83% from the end of the previous year. At the beginning of 2023, the NT dollar continued its uptrend but reversed later to end April at 30.740, depreciating by 0.10% compared to the end of 2022 (Chart 1.9). Moreover, in 2022, affected by declining exports in the second half of the year, together with continued foreign capital outflows, the nominal effective exchange rate (NEER) index of the NT dollar weakened and registered 100.88 at the end of the year. Nevertheless, in early 2023, underpinned by a significant foreign capital inflow aiming to buy Taiwanese stocks, the NEER of the NT dollar rebounded to 101.47 at the end of March.

Volatility in the NT dollar exchange rate against the US dollar shifted between 1.33% and 8.18% in 2022 and registered an annual average of 3.89%. During January to April 2023, the volatility shrank and registered between 1.81% and 6.04% (Chart 1.9). 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 1.10 NPLs of domestic banks

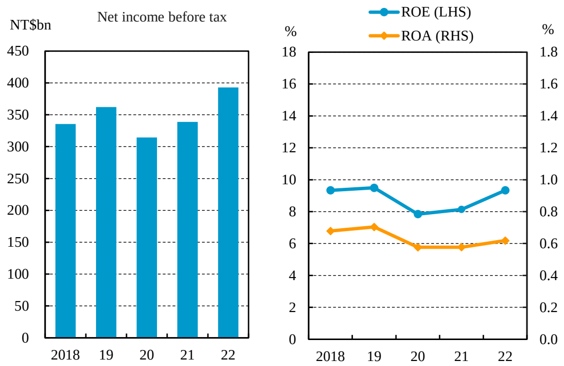


Note: Excludes interbank loans.
Source: CBC.

Financial institutions

Domestic banks' asset quality strengthened and profitability reached a nearly 20-year high, while the average capital adequacy ratio declined marginally

Chart 1.11 Profitability of domestic banks



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

Growth in customer loans of domestic banks decelerated in 2022, while the credit concentration in corporate loans slightly increased. However, the share of real estate-secured credit edged down. The average NPL ratio saw a decline to 0.15% at the end of the year (Chart 1.10), reflecting an improvement in credit quality, and the provisions for loan losses remained sufficient. Meanwhile, the exposures of domestic banks to China as a percentage of net worth continually reached a new low of 26% at the end of 2022. Nevertheless, the potential economic and financial risks in China are still elevated, which warrant constant close attention.

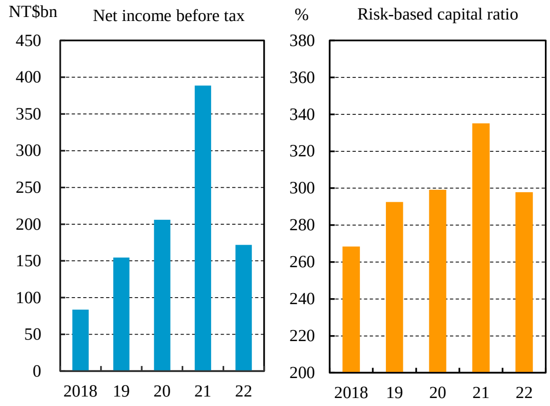
Benefiting from a substantial pickup in net interest income owing to wider spreads between deposit and loan interest rates, the net income before tax for domestic banks in 2022 increased by 15.97% over the previous year to NT$392.8 billion, a record high in nearly 20 years (Chart 1.11, left panel). The average return on equity (ROE) and the return on assets (ROA) also went up to 9.33% and 0.62%, respectively, indicating ascending profitability (Chart 1.11, right panel). Although the average capital adequacy ratio slightly dropped to 14.68% at the end of

2022, the capital quality of domestic banks remained satisfactory.

Life insurance companies' profitability and average RBC ratio slumped

Life insurance companies reported net income before tax of NT$171.9 billion in 2022, a substantial year-on-year decrease of 55.75% from a year earlier (Chart 1.12, left panel). This mainly resulted from a huge reduction in investment revenue amid a slump in international stock and bond markets. The average risk-based capital (RBC) ratio also decreased to 297.82% at the end of the year (Chart 1.12, right panel). The average equity to asset ratio[10] fell to a low of 2.66% in the end of September 2022, but then climbed to 5.11% at the end of the year.

Chart 1.12 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.

Foreign portfolio positions of life insurance companies grew continually and reached NT$21.19 trillion at the end of 2022. However, since the volatility in stock markets mounted and global bond yields remained high, life insurance companies still faced higher equity risk and interest rate risk. The FX risk inherent in large-value open FX positions should also be reckoned with. Furthermore, the premium income markedly reduced by 21.43% in 2022, and the life insurance benefit payment has exceeded premium income since July 2022, which could put pressure on life insurance companies' cash flows.

Moreover, in 2022, the total assets of non-life insurance companies contracted, and they reported net income before tax of minus NT$190.5 billion owing to a drastic increase in coronavirus disease 2019 (COVID-19) insurance claim settlements. Correspondingly, the average RBC ratio trended downwards to 231.30% at the end of the year from 466.12% a year earlier. Looking into 2023, pressure on insurers' claim settlements is expected to be eased.

Bills finance companies' guarantee business shrank along with a substantial reduction in profitability and high liquidity risks

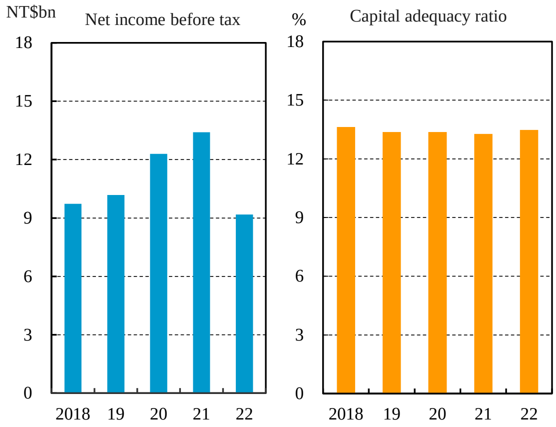
CP guaranteed by bills finance companies went down by 13.12% year on year in 2022, and the

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

guaranteed advances ratio trended upwards to 0.16%. However, the credit quality of CP guarantees was still satisfactory.

The net income before tax of bills finance companies reduced by 31.54% year on year to NT$9.2 billion in 2022 (Chart 1.13, left panel), owing to an increase in interest expenses and a decrease in gains on disposal of financial assets. The average capital adequacy ratio bounced back to 13.48% at the end of 2022 (Chart 1.13, right panel), and the ratio for each company remained well above the statutory minimum of 8%. Nevertheless, bills finance companies still faced a significant maturity mismatch between assets and liabilities. Although the liquidity risk declined, it was still at a relatively high level.

Chart 1.13 Net income before tax and capital adequacy ratio of bills finance companies



Source: CBC.

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 2022, settling funds worth a total of 23.6 times the GDP for the year. The total transaction values processed by the Interbank Financial Information System (IFIS) also increased by 4.32% compared to 2021. The overall consumption expenditure via a variety of non-cash payment tools[11] rose by 12.92%, mainly attributed to rising demand for contactless payments amid the pandemic and an improvement in convenience of mobile payments. Additionally, a shared platform for cross-institution e-payments, established by the Financial Information Service Co., Ltd. (FISC) to meet the Bank's expectation, has been covering e-payments for taxes and utility bills from 2022 onwards and is expected to provide a payment service for shopping in 2023 Q3. Last but not least, triggered by multiple risk events, the crypto asset market remained highly volatile in 2022. In this vein, the FSC expressed intention to implement appropriate monitoring of crypto assets in a gradual manner.

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

Other measures to strengthen the financial system

To support the government's 2050 net-zero transition plan, the Bank formulated *The Bank's Strategic Plan on Climate Change* and released it on December 30, 2022. For the same purpose, the FSC also continued to promote the Green Finance Action Plan 3.0, aiming to strengthen financial institutions' management of climate-related risks and disclosure of greenhouse gas (GHG) emission information, and formulated the Taiwan Sustainable Taxonomy. Furthermore, while some insurers reclassified their financial assets to mitigate the impact of large fluctuations in interest rates on their balance sheets, the FSC required them to set aside a provision to special capital reserves and reinforce corporate governance to ensure sustainable and sound operations of these insurers. As for the financial landscape, the Bank compiled the Taiwan financial vulnerability index (TFVI) to evaluate the vulnerability dynamics of the domestic financial system. Finally, the Bank continually reviewed FX regulations, such as revising the *Directions Governing Banking Enterprises for Operating Foreign Exchange Business*, so as to strengthen the administration of foreign currency exchange counters (FCEC) and clarify the matters of FX settlement declarations for legal entities.

Measures to promote financial stability

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

Measures undertaken by the Bank to promote financial stability

From 2022 onwards, in order to cope with high domestic inflation, 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. These policies could help restrain domestic inflation expectations, maintain price stability and foster sustainable economic development. Apart from that, considering international and domestic economic and financial conditions, the Bank conducted open market operations and managed reserve money at an appropriate level by issuing NCDs.

Moreover, the Bank adjusted targeted macroprudential measures four times from December 2020 onwards and implemented a tightened monetary policy in a gradual manner to strengthen the effectiveness of real estate measures. The Bank also continually adopted flexible FX rate policies and undertook appropriate FX management measures (such as reinforcing off-site monitoring efforts to ensure that forward transactions are based on genuine needs 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

For the sake of addressing the impact stemming from claims of COVID-related policies and the Fed's rapid interest rate increases on the insurance industry, the FSC announced that the deferred income tax assets resulting from the losses of the aforementioned policies could be fully recognized as regulatory capital. Furthermore, the implementation of the original plan for insurers to take capital charges against the risks arising from terrorist attacks, communicable diseases, and credit guarantees except for natural events, will be postponed. Last but not least, the FSC amended the *Regulations Governing Capital Adequacy of Insurance Companies* and relaxed the restriction on the issuance of long-term corporate bonds for insurers.

In addition, in response to increased volatility in domestic stock markets, the FSC consecutively adopted related measures to stabilize the markets from July 2022 onwards. Afterwards, with global and domestic stock markets stabilizing, the FSC removed the aforementioned policies in February 2023 and resumed normal market administration. Finally, the FSC adopted other supervisory measures as well, including strengthening the corporate governance of financial institutions and reinforcing information security so as to maintain financial stability.

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

In 2022, despite the adverse macro environment amid major central banks' rapid tightening of monetary policies and a slowdown in global economic growth, profitability of Taiwan's banking industry and bills finance companies remained satisfactory with adequate capital levels. While the insurance industry faced somewhat bigger headwinds, capital increases and other measures were taken to address the adverse impacts. Furthermore, financial markets and financial infrastructure functioned well and developed steadily. Overall, Taiwan's financial system remained largely stable. The Bank will continue to adopt appropriate monetary, credit and foreign exchange policies. Meanwhile, the FSC revamped financial regulations and enhanced financial supervisory measures to facilitate sound operations of financial institutions and maintain financial stability.

Looking ahead, the reopening of the Chinese economy and the ongoing Russia-Ukraine conflict may exert upward pressure on commodity prices, thus influencing the degree of inflation moderation in major economies. Furthermore, the escalating US-China technology dispute poses a potential risk to the recovery of the Chinese economy. Moreover, factors such as the tightening of monetary policies by the Fed and European central banks, along with corresponding spillover effects, growing uncertainty in 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. Against this backdrop, the Bank will continue to pay close attention to the impacts of relevant subsequent developments on domestic economic and financial conditions and take appropriate response measures in a timely manner, thus promoting financial stability.