

raised risk weights on mortgage loans of banks in February 2022<sup>35</sup> to enhance their risk management.

In addition, the MOI, the Fair Trade Commission, the Consumer Protection Committee, and local governments have consecutively carried out joint audits targeting pre-sold houses and amended *The Equalization of Land Rights Act* in February 2023 to refine the property market mechanism. The Ministry of Finance (MOF) also amended regulations to prevent short-term speculation and tax evasion. All of the abovementioned efforts contributed to fostering a sound real estate market. Notwithstanding, with part of the authority and responsibility of real estate market management resting with local governments, a consummate system relies on cooperation between central and local governments to execute and improve relevant measures constantly to achieve the goals of sound development of the real estate market and fulfill housing justice.

## 2.3 General assessment of international and domestic macro environments

As for international economic and financial conditions, major central banks accelerated interest rate hikes to curb surging inflation in 2022, resulting in spillover effects that tightened global financial conditions and spurred a slowdown in global economic growth. Looking ahead to 2023, with a tighter financial environment and still-elevated geopolitical risks, global economic growth is likely to continue its downward path, while inflation pressures may ease but still remain high. In addition, the turbulence in global financial markets stemming from rapid interest rate hikes by major central banks, subsequent developments of the banking turmoil in the US and Europe, and the intensifying impact of climate change on the financial sector all exacerbate global financial vulnerabilities.

Regarding the domestic macro environment, Taiwan's economic growth remained stable in 2022. Although domestic prices were high, inflation was relatively moderate compared to other countries. Moreover, external debt servicing capacity stayed robust with ample FX reserves. Fiscal surpluses and outstanding public debt within a manageable level were conducive to weathering uncertainties surrounding international political and economic conditions, as well as maintaining economic growth momentum. With regard to the corporate sector, the overall revenue of TWSE- and OTC-listed companies reached a new high with favorable profits, coupled with a sustained short-term debt servicing capacity. However, their exchange rate risks still warrant prudent management. When it comes to the household sector, despite the fact that

<sup>35</sup> Applies to loan cases that were new, renewed or transferred since February 18, 2022.

the short-term debt burden trended upwards marginally, household financial health was steady, underpinned by their enormous net worth. Nonetheless, in view of rising interest rates on bank loans and decreasing real monthly regular earnings for employees, the debt servicing capacity of some households with higher debt burdens warrants close attention. Lastly, transactions in the real estate market cooled down remarkably, with moderately increasing house prices. Additionally, rising interest rates for bank loans and higher commodity prices could lead to some small and medium-sized construction firms with poor financial conditions facing greater challenges. Accordingly, the impact of real estate market trends on banks' credit quality should be closely observed.

In sum, in a scenario of major central banks tightening monetary policies and geopolitical risks remaining high, the trends of rising global interest rates, heightened volatility in financial markets, and gloomy global economic prospects could affect Taiwan's corporate sector outlook, household debt servicing capacity, and real estate market performance. This, in turn, could add risks to the financial sector, which warrants close attention.