

3.4 General assessment of Taiwan's financial system

From 2022 onwards, various factors such as the eruption of Russia-Ukraine war, the accelerated rate hikes and balance sheet tapering by the Fed, the zero-COVID policy in China, and the banking crises in the US and Europe have caused significant turbulence in global financial markets. Nonetheless, the impact on Taiwan's financial system has been relatively moderate.

In Taiwan's financial markets, the outstanding amount of bill issuance edged down, while the outstanding amount of bond issuance reached a historical high. The secondary markets for bonds and bills remained relatively stable. As for equity markets, stock indices rebounded after falling from record highs and volatility gradually decreased. Additionally, Taiwan's stock markets continued to enjoy brisk trading and were not significantly affected by the banking turmoil in the US and Europe. Meanwhile, the foreign exchange market saw a rise in trading volumes and the NT dollar exchange rate remained relatively stable.

Regarding financial institutions, domestic banks' asset quality improved and their profitability reached a near 20-year high with adequate capital levels. However, against the backdrop of a more conservative real estate market and rising interest rates on bank loans, the impact of real estate market changes on banks' credit quality warrants close attention. Meanwhile, insurance companies' profitability slumped but their average capital adequacy ratio rebounded after a sharp drop, coupled with higher market risk of foreign investment positions. The guarantee business of bills finance companies contracted and their profitability declined, along with still-high liquidity risk and interest rate risk.

Domestically, payment and settlement systems operated smoothly and the shared infrastructure for retail payments was further enhanced. The Bank constructed the Taiwan Financial Vulnerability Index to actively monitor for vulnerabilities of the financial system. In addition, the Bank collaborated with the FSC to address climate change issues so as to mitigate their impact on the financial system.

Overall, financial markets in Taiwan kept functioning smoothly. Among financial institutions, banks and bills finance companies still operated soundly. Meanwhile, the insurance companies were confronted by greater adverse impacts, but they increased capital and took other measures to counter the challenges. Additionally, domestic systemically important payment systems functioned in an orderly manner. In general, Taiwan's financial system remained largely stable. Nevertheless, some direct and indirect effects on the financial markets and financial institutions, which could arise from factors such as a slowdown in global economic growth, interest rate hikes by major central banks, spillover effects from the banking crises in the US and Europe, and geopolitical risks, deserve closer attention.