IV. Measures to promote financial stability

4.1 Measures taken by the Bank and the FSC to promote financial stability

4.1.1 Measures taken by the Bank to promote financial stability

From 2022 onwards, the Bank raised the policy rates five times and the reserve requirement ratios on NTD deposits twice for the sake of curbing elevated domestic inflation that could drive up inflation expectations. At the same time, in order to preclude excessive flows of bank credit into the real estate market and stem resultant distortions in credit resources, the Bank continued to implement targeted macroprudential measures. The Bank also continued to adopt flexible FX rate policies to maintain dynamic stability of the NT dollar exchange rate, so as to ensure sound development of the domestic financial system and sustainable growth of the whole economy.

The Bank raised the policy rates and conducted open market operations

Global inflation has mounted in recent years. Although Taiwan's CPI inflation and core CPI inflation rates were relatively lower than those of countries in Europe and the US, the still-elevated domestic inflation might lead to higher inflation expectations. Hence, since March 2022, the Bank has adopted a moderate approach to monetary tightening by raising the policy rates five times by a total of 0.75 percentage points[61] and increased the reserve requirement ratios on NTD deposits twice by a total of 0.5 percentage points.[62] The policy moves were viewed as conducive to restraining domestic inflation expectations, maintaining price stability and fostering sustainable economic development.

Furthermore, based on its assessment of international and domestic economic and financial conditions, the Bank conducted open market operations and managed reserve money at an appropriate level by issuing NCDs. At the end of 2022, the total outstanding amount of NCDs issued by the Bank was NT$8,601 billion, while the average annual growth rate of reserve

61 The Bank raised the discount rate, the rate on refinancing of secured loans, and the rate on temporary accommodations by 0.25 pps each on March 18, 2022. Afterwards, the policy rates were adjusted upward by 0.125 pps in each of the subsequent Board Meetings on June 17, 2022, September 23, 2022, December 16, 2022, and March 24, 2023, reaching 1.875%, 2.25%, and 4.125%, respectively.

62 The Bank twice raised the reserve requirement ratios on NTD deposits by 0.25 pps on July 1, 2022 and October 1, 2022, respectively.

money registered 8.91% for the year. In addition, the weighted average overnight call loan rate trended upwards along with the Bank's policy rate hikes, rising from 0.083% in December 2021 to 0.507% in December 2022 and further increasing to 0.598% in March 2023.

The Bank continued to adopt targeted macroprudential measures and related actions to strengthen policy effectiveness

To prevent excessive credit resources from gushing into the real estate market and to enhance banks' risk management of real estate lending, with the aim of promoting sound banking operations and fostering financial stability, the Bank adjusted targeted macroprudential measures four times in December 2020 and March, September, and December 2021.[63] Furthermore, the Bank continued to adopt supporting measures associated with the announced selective credit controls and conducted monetary tightening in a gradual manner, which were judged to help strengthen the effectiveness of real estate credit control measures.

Since 2022, the annual growth rate of real estate-secured credit granted by domestic banks has slowed down, with the credit concentration in real estate lending slightly declining and the NPL ratio of real estate credit remaining at a low level. In the future, the Bank will fine-tune the regulatory measures as needed, depending on the status of real estate credit risk management of financial institutions, the effectiveness of targeted macroprudential measures, and developments in the housing market, so as to promote sound banking business and foster financial stability.

Adopting a flexible FX rate policy to maintain the dynamic stability of the NT dollar exchange rate

As Taiwan is a small open economy that is highly interconnected through trade with other economies, the Bank suitably adopts a managed float exchange rate regime to contain sharp fluctuations in exchange rates. The exchange rate of the NT dollar is in principle determined by market forces. Nevertheless, when disorderly movements (such as massive inflows or outflows of short-term capital) or seasonal factors lead to excess volatility and disorderly movements in the NT dollar exchange rate with adverse implications for domestic economic and financial stability, the Bank will, in line with its mandate, aptly maintain FX market order.

In recent years, huge and frequent movements of international short-term capital flows have superseded international trade and macroeconomic fundamentals and become the key factor

[63] See the Bank's 2022 *Financial Stability Report*.

influencing the volatility of exchange rates. With a view to preventing the abovementioned factors from disrupting the domestic FX market, the Bank conducts “leaning against the wind” operations to maintain order in the FX market when necessary so as to mitigate volatile movements of the NT dollar exchange rate and foster FX market efficiency. The dynamic stability of the NT dollar exchange rate is conducive to the long-term sound development of the domestic economy as a whole.

In addition, the Bank continued to undertake appropriate management measures to safeguard FX market order and promote its sound development. These measures mainly included: (1) monitoring up-to-date transaction information in the FX market through the Real-Time Reporting System for Large-Amount FX Transactions; (2) reinforcing off-site monitoring efforts to ensure that forward transactions are based on genuine needs so as to curb FX speculation; (3) urging authorized FX banks to enhance their exchange rate risk management, thereby reducing FX exposures of individual banks and systemic risks in the FX market; and (4) strengthening targeted examinations on FX businesses in order to maintain the discipline of the FX market.

4.1.2 Measures undertaken by the FSC to maintain financial stability

From 2022 onwards, the FSC amended regulations to assist the insurance industry in coping with the impact of surging claims on pandemic insurance policies and from the Fed’s fast interest rate hikes. The FSC also implemented measures to stabilize equity markets in response to sharper fluctuations. In the meantime, the FSC continued to strengthen corporate governance, information security, and other supervisory measures in the financial industry to preserve financial stability.

Strengthening risk bearing capacity of the insurance industry

The insurance industry suffered repercussions owing to surging claims on COVID-related policies and the impact of the Fed’s rapid interest rate increases on their net worth. To help insurers counter these issues and enhance their risk-bearing capacity, the FSC amended the foreign exchange reserve requirements of the life insurance industry and broadened the scope of bonds and notes in the conditional trades insurers are allowed to engage in. In addition, the FSC also took other measures as follows:

(1) In order to ensure that insurers make a concerted effort to handle matters affecting the rights and interests of insurance policyholders and to facilitate a steady benchmarking with the

international Insurance Capital Standard (ICS), the FSC announced in September 2022 that it would provide enterprises with the following assistance measures. In calculating the risk-based capital (RBC) ratio, regulations were relaxed for “deferred income tax assets” from an approach of year-by-year recognition as RBC assets to being recognized in full as regulatory capital. Additionally, in October 2022, the FSC announced that the implementation of the original plan for insurers to take risk-based capital charges associated with terrorist attacks, communicable diseases, and credit guarantees in addition to catastrophe risks by the end of 2022 will be postponed to the end of 2024.

(2) To facilitate smooth adoption of the ICS by insurers and to strengthen the regulatory capital quality of the insurance industry, the FSC proposed the amendment of the *Regulations Governing Capital Adequacy of Insurance Companies* in April 2023, which would adopt a layered structure for regulatory capital to be divided into Tier 1 Unlimited Capital, Tier 1 Limited Capital and Tier 2 Capital based on insurers’ loss-absorbing capacity and sustainability. Real estate value-added benefits would be included in Tier 2 Capital.

(3) To enhance fundraising flexibility for insurers, the FSC amended the *Directions Governing the Issuance of Corporate Bonds as Capital Instruments by Insurance Companies* on April 14, 2023. This amendment relaxes the restriction and allows insurers to issue long-term corporate bonds with maturities of 10 years or more, which shall be included in Tier 2 Capital.

Taking measures for stock market stability to address market fluctuations

Volatility of domestic stock markets surged sharply in the second half of 2022 as a result of international political and economic uncertainties. In order to maintain orderly stock markets and safeguard investor interests, the FSC expanded the range of eligible collateral for margin calls in July 2022 and imposed restrictions on the short selling of securities in October 2022. Afterwards, with global stock markets stabilizing, the FSC removed the aforementioned restrictions in February 2023 and resumed normal market administration.

Continuing to enhance corporate governance of financial industry entities

To strengthen corporate governance of financial holding companies and the securities and futures industry, the FSC made a regulatory amendment in 2022 stipulating that directors, supervisors, general managers, or related persons, of a financial holding company who act concurrently as the director, supervisor, or general manager of other financial institutions would be deemed to have a conflict of interest. In addition, the FSC announced in April 2023 that it would study and amend the *Financial Holding Company Act* and the *Banking Act of the Republic of China* to strengthen requirements regarding the transparency and management of equity and added supervisory measures prohibiting shareholders who have control over financial holding companies or banks but do not hold the positions of responsible persons from improperly interfering in the operations of financial institutions.

Launching Financial Cyber Security Action Plan 2.0 to continuously reinforce financial information security

To ensure uninterrupted operation of the financial system, the FSC in December 2022 released the “Financial Cyber Security Action Plan 2.0” in the wake of the “Financial Cyber Security Action Plan 1.0” in 2020. The key points for implementation are as follows: (1) requiring a wider range of institutions to appoint a chief information security officer (CISO) and to institute periodic CISO liaison meetings; (2) adopting and amending self-discipline rules in response to digital transformation and the opening of online services; (3) increasing the adoption of international cyber security management standards and establishing cyber security monitoring mechanisms.

Facilitating the safe and sound operations of offshore funds and electronic payment institutions

(1) To protect the interests of investors and conduct sound management of offshore funds, the FSC amended the *Regulations Governing Offshore Funds* in December 2022. The main amendments included: (A) a master agent which handles the offering and selling of offshore funds in Taiwan shall not represent more than five offshore fund institutions; (B) a master agent that handles four or more offshore fund institutions shall post an additional operating bond; (C) considering how legislations in the jurisdiction where an offshore fund is registered may differ from those in Taiwan, the FSC has eased qualification criteria for acting as a master agent or sub-distributor of an offshore fund.

(2) The amendments to the *Act Governing Electronic Payment Institutions* were passed in January 2023, providing the FSC with greater flexibility in discretionary power. Given the safe and sound operation of an electronic payment institution could be hindered by that institution’s violations of legislation or its articles of incorporation, or by other behaviors of the institution, the FSC may require an electronic payment institution to set aside a certain amount in reserves or to increase capital to strengthen operational soundness of electronic payment institutions.

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

In 2022, despite major central banks' simultaneous tightening of monetary policies to combat high inflation and the resultant global economic slowdown, Taiwan's financial markets continued to function well. Among financial institutions, the operations of the banking sector and bills finance companies remained steady. While the insurance industry faced somewhat bigger headwinds, capital increases and other countermeasures 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. The Bank continued to adopt appropriate monetary, credit and foreign exchange policies in response to changes in the global and domestic economic and financial conditions to promote financial stability. Meanwhile, the FSC revamped relevant financial regulations and enhanced financial supervisory measures to facilitate sound operations of financial institutions and maintain financial stability.

Since entering the year 2023, the global economic and trade growth momentum has decelerated amid the spillover effects of major central banks' monetary tightening, while inflation has somewhat cooled but remained elevated. Moreover, the recent bank failures in the United States and Europe have resulted in severe market turbulence, which has compounded the uncertainties over global economic prospects. Looking ahead, the reopening of the Chinese economy and the ongoing Russia-Ukraine conflict may exert upward pressure on commodity prices, hindering the progress of disinflation 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 US and European monetary tightening and their spillover effects, growing uncertainty in commodity supplies resulting from climate change, and escalating geopolitical risks could cause global inflationary pressures to linger, intensify financial market volatility, and heighten downside risks to the global economy.

Considering that the international economic outlook is still surrounded by many uncertainties, the Bank will continue to pay close attention to the impacts of these developments on domestic economic and financial conditions and take appropriate response measures in a timely manner so as to promote financial stability.