

III. Central Bank Operations

1. Overview

Given that higher-than-usual domestic price gains in recent years could buoy inflation expectations, the Bank raised the policy rates by 0.125 percentage points in March 2023. Later in the year, the domestic inflation rate gradually came down from the levels of 2022 and is expected to decline to around 2% in 2024. In addition, the global economic outlook still faced a myriad of risks that could in turn dampen Taiwan's economic recovery. On the other hand, the Bank estimated that Taiwan would have a negative output gap in both 2023 and 2024. Based on these assessments, the Bank kept the policy rates on hold till the end of 2023, helping foster sound economic and financial development on the whole.

With the aim of promoting financial stability and sound banking operations, implementing the cross-ministry Healthy Real Estate Market Plan initiated by the government, and preventing excessive bank credit resources from gushing into the real estate sector, the Bank continued with the selective credit control measures during 2023. In June, the Bank decided to amend the *Regulations Governing the Extension of Mortgage Loans by Financial Institutions* to introduce a 70% cap on the loan-to-value (LTV) ratio for a second home loan of a natural person for housing in a "specific area," and adopted relevant support measures to further strengthen management of bank credit resources and contain related credit risk.

Furthermore, from March 2022 to March 2023, the Bank implemented policy rate hikes five times and increased the reserve requirement ratios on NT dollar demand deposits and time (savings) deposits twice. These measures were also conducive to enhancing the effectiveness of the selective credit controls.

In response to economic and financial conditions, the Bank continued with open market operations by issuing CDs to manage market liquidity and reserve money so as to maintain liquidity in the banking system and market rates at appropriate levels. For the year 2023, reserve money posted an annual growth rate of 5.55%. Meanwhile, the monetary aggregate M2 grew by 6.25% year on year, falling back to the Bank's M2 growth reference range of 2.5% to 6.5%.

With respect to the foreign exchange (FX) market, in the beginning of 2023, as US stocks rebounded from the previous downturn, the TAIEX also swung back up, resulting in net foreign capital inflows and NT dollar appreciation against the US dollar. Thereafter, despite the TAIEX registering a continuous uptrend, foreign investor net sales on the TWSE for profit-taking induced net foreign capital outflows and NT dollar depreciation against the US dollar. For the second half

of the year, a surge in US government bonds yields led to the strengthening of the US dollar, and the NT dollar thus depreciated markedly. Nevertheless, with US Treasury yields trending lower and a weaker US dollar, the NT dollar exchange rate reversed to appreciate in November.

The NT dollar exchange rate fluctuated significantly for the entire year, reflecting substantial foreign investor net sales and purchases of Taiwanese stocks as well as international economic impacts. Consequently, the Bank, in line with its statutory mandates, continued to conduct two-way smoothing operations in the forex market as warranted to maintain dynamic stability of the NT dollar, with a net selling of US\$2.8 billion in 2023. Compared with other major currencies such as the SGD, EUR, KRW, and JPY, the NT dollar experienced lower volatility in its exchange rate vis-à-vis the US dollar in 2023.

Meanwhile, in addition to approving more bank branches as authorized FX banks, the Bank reviewed the laws and regulations governing FX business as seen fit so as to facilitate authorized FX banks' competitiveness and service quality.

In order to ensure security and efficiency of the functioning of Taiwan's payment and settlement systems, the Bank continued urging financial institutions to strengthen information security of the systems and to perform drills on system backup and contingency procedures in case of emergency. Moreover, the Bank continuously required the Financial Information Service Co., Ltd. (FISC) to reinforce mobile payment infrastructure, such as the introduction of the shopping e-payment service on the "Common Inter-Institutional Electronic Payment Platform" in 2023. The Bank also urged the FISC to collaborate with financial institutions and electronic payment institutions to promote the use of TWQR, a common QR code payment specification. It is expected to help address the fragmentation of the domestic retail payment market.

In the meantime, to assist in cash disbursements for the government's "Universal Cash for All" project, the Bank and the Ministry of Finance instructed the FISC to provide, in collaboration with financial institutions, multiple easy and convenient channels for the public to claim their cash payments through the interbank payment infrastructure.

In response to emerging innovations in digital payment, the Bank has conducted research on central bank digital currencies (CBDCs). The Bank completed the study on wholesale CBDC technical feasibility study in 2020 and the project on retail CBDC technology experimentation in 2022. The videos showcasing the results of the retail CBDC technology experimentation have been released in both Chinese and English on the Bank's official website. Currently, the Bank is carrying out the following tasks to reinforce CBDC-related research and preparations: conducting opinion surveys, enhancing platform technology, and deliberating relevant regulations.