

3. Foreign Exchange Management

Promoting the Sound Development of the Foreign Exchange Market

(1) Flexible foreign exchange rate management to maintain dynamic stability of the NT dollar exchange rate

As Taiwan is a small open economy with high dependence on foreign trade, the Bank suitably adopts a managed float exchange rate regime to contain sharp exchange rate fluctuations. Under this regime, the NT dollar exchange rate is in principle determined by market forces. However, in the event of disorderly movements (such as mass inflows and outflows of short-term capital) and seasonal factors, the Bank would conduct appropriate smoothing operations to stave off adverse effects for economic and financial stability and to maintain an orderly foreign exchange market.

In recent years, massive and frequent movement of international short-term capital has become the main driving force of exchange rate changes. To mitigate excessive exchange rate volatility and to improve market efficiency, the Bank has adopted "leaning against the wind" operations to prevent erratic flows from disrupting the foreign exchange market. The dynamic stability of the NT dollar exchange rate is viewed as conducive to long-term economic stability and sound development.

As Taiwan's stock market was buoyed by the US stock rally amid easing inflation and slower Fed rate hikes, foreign portfolio capital inflows thus drove the NTD up against the USD in early 2023. The AI boom and the Fed's pause in interest rate hikes from June onwards pushed global and Taiwan stock market indices up, but the resultant profit-taking trades by foreign investors and outward remittances of the gains led to NTD depreciation.

The NTD depreciated significantly in the second half of 2023 because the US 10 year treasury yield jumped and the USD strengthened. As the Fed became somewhat dovish in November because of a sharp tightening in US financial conditions and the easing of labor market and inflation pressures, a consequent decrease in US treasury yields and the USD caused the NTD to rebound and appreciate.

Overall, in 2023, the NTD exchange rate fluctuated significantly, reflecting not only foreign portfolio investment flows but also international economic impacts. To maintain the dynamic stability of the NT dollar exchange rate, the Bank continued to conduct two-way smoothing operations in

the forex market. For the year as a whole, net sales by the Bank amounted to US\$2.8 billion. NTD exchange rate volatility was lower compared to the SGD, EUR, KRW, and JPY in 2023.

(2) Maintaining an orderly forex market and promoting sound market development

A. Implementing the Real-Time Reporting System for Large-Amount Foreign Exchange Transactions.

B. Strengthening off-site monitoring management to ensure that forward transactions were based on real transactions to curb foreign exchange speculation.

C. Urging authorized banks to enhance their exchange rate risk management in order to reduce market exposure of individual banks and to contain systemic risks.

D. Strengthening targeted examinations on foreign exchange business to help ensure a sound foreign exchange market.

Foreign Currency Call Loan and Swap Market Management

(1) To provide the financial system with sufficient foreign currency liquidity to meet funding needs, including those for corporations to venture into overseas markets, the Bank appropriated seed capital for the Taipei Foreign Currency Call Loan Market, including US\$20 billion, €1 billion and ¥80 billion.

(2) Through foreign currency call loans and swaps conducted by authorized foreign exchange banks, the Bank continued to support corporations and insurance companies by meeting the needs for foreign currency liquidity and exchange rate hedging.

Foreign Exchange Reserve Management and Foreign Currency Liquidity of the Bank

The Bank manages its foreign exchange reserves based on the considerations of liquidity, safety, and profitability. The Bank keeps a close watch on the global economic and financial situation and adjusts the portfolio of foreign exchange reserves accordingly. Currently, financial assets denominated in US dollars make up a larger share in Taiwan's foreign exchange reserves than the COFER (Currency Composition of Official Foreign Exchange Reserves) average published by the IMF. As of the end of 2023, Taiwan's total foreign exchange reserves stood at US\$570.6 billion, an increase of US\$15.7 billion or 2.8% compared to the end of 2022 mainly attributable to returns from foreign exchange reserve investments. Combining the reserves held in gold valued at US\$5.0 billion, the Bank's reserve assets totaled US\$575.6 billion at the end of the year.

Foreign exchange reserves are the Bank's foreign currency claims on nonresidents. On the other hand, foreign currency claims on residents consist of US dollars held under swap agreements and foreign

currency deposits with and loans to domestic banks, which amounted to US\$86.8 billion, US\$28.8 billion, and US\$7.8 billion, respectively, at the end of 2023.

In terms of foreign currency liquidity, the total amount (including foreign currency claims and gold) reached US\$704.3 billion at the end of 2023.

Capital Flow Management

In line with the efforts to promote financial liberalization and internationalization, the Bank's foreign exchange management has mainly been focusing on maintaining the market mechanism, and financial capital can, in principle, flow freely in and out of Taiwan. Financial capital flows not involving NT dollar conversion have been able to flow freely. Additionally, there are no restrictions on financial flows involving NT dollar conversion for goods and service trade, nor for direct and securities investments approved by the competent authorities.

Regulation only exists for short-term remittances. The amount of accumulated annual remittances for an individual resident within US\$5 million and for a juridical person within US\$50 million can be settled by banks directly, while annual remittances above the aforementioned amounts require the approval of the Bank. For a nonresident, each transaction within US\$0.1 million can be settled by banks directly, whereas any transaction amount above that threshold requires the approval of the Bank. Measures with regard to the management of capital flows in 2023 included:

(1) Promoting the Internationalization of Taiwan's Capital Market

Cases of fund-raising by domestic and foreign institutions through securities issuance, approved by or filed for record to the Bank in 2023, are shown in the following table.

Institution	Fund-Raising Method	Number	Amount
Foreign Companies	IPO on TWSE & TPEx and registration on the Emerging Stock Board	14	NTD 11.4 billion
	NTD convertible bonds	8	NTD 2.45 billion
	Foreign currency-denominated bonds	59	USD 6.77 billion
		1	RMB 0.29 billion
		8	AUD 0.31 billion
		1	ZAR 0.82 billion
	Overseas depositary receipts	2	USD 0.69 billion
	Overseas convertible bonds	1	USD 0.40 billion
Domestic companies (and domestic branches)	Overseas depositary receipts	3	USD 1.35 billion
	Overseas convertible bonds	2	USD 0.80 billion

Note: TWSE stands for the Taiwan Stock Exchange; TPEx stands for the Taipei Exchange.
Source: Department of Foreign Exchange, CBC.

(2) Approving Residents' Investments in Foreign Securities

Institution	Method/Instrument	Amount
Securities investment trust companies (SITEs)	36 domestic SITE funds (including 27 NTD-foreign multiple currency SITE funds)	NTD 647 billion (including 470 billion in multiple currency funds)
Life insurance companies	Non-discretionary money trusts managed by financial institutions	USD 0.34 billion
	Investment in their own accounts	USD 0.23 billion
Five major government pension funds and employment insurance funds	Investment in their own accounts	USD 6.55 billion

Source: Department of Foreign Exchange, CBC.

Management of Foreign Exchange Business of Financial Institutions

(1) Authorized foreign exchange banks

Under *The Central Bank of the Republic of China (Taiwan) Act* and the *Foreign Exchange Regulation Act*, the Bank reviews, authorizes, and supervises banks to conduct foreign exchange business accordingly. In 2023, the Bank continued to approve bank branches as authorized foreign exchange banks and loosened restrictions on foreign exchange derivative product business in order to facilitate authorized foreign exchange banks' competitiveness and service quality.

At the end of 2023, there were 3,468 authorized foreign exchange banks in total, which included 36 head offices and 3,392 branches of domestic banks, 37 branches of foreign banks, three branches of Mainland Chinese banks, as well as 4,622 authorized money exchangers, post offices, and financial institutions authorized to engage in basic foreign exchange business.

(2) Insurance Companies

As of the end of 2023, the numbers of insurance companies allowed to engage in traditional and in investment-linked foreign currency insurance business were both 21. The foreign currency premium revenue decreased by US\$4.98 billion, or 18.0%, from the previous year to US\$22.73 billion in 2023.

(3) Securities Firms

The approved cases for securities firms to conduct foreign exchange business in 2023 are listed

in the following table.

Institutions	Foreign Exchange Business	Number
Securities Firms	Underwriting of international bonds denominated in foreign currency	1
	Proprietary foreign securities trading neither belonging to investment with their funds nor for hedging needs	1
	NTD and foreign currency spot exchange rate	1
	Accepting orders to trade foreign securities	1
	Foreign bond trading agency business	1
	Structured products	3

Source: Department of Foreign Exchange, CBC.

(4) Investment Trust/Consulting Firms and Futures Firms

The approved cases granted by the Bank for investment trust and investment consulting firms and futures firms (concurrently operating as a leverage transaction merchant) to conduct foreign exchange business as of 2023 are shown in the following table.

Institutions	Foreign Exchange Business	Number
Investment trust and investment consulting firms	Serving as mandated institutions of private offshore funds	2
	Serving as master agents of offshore funds	1
	foreign currency discretionary investment business	2
	Conducting public offers or private placement of foreign currency-denominated funds	2
Futures firms (concurrently operating as a leverage transaction merchant)	Contracts for differences linked to foreign stocks or ETFs	1

Source: Department of Foreign Exchange, CBC.

Foreign Currency Clearing Platform

(1) Taiwan's foreign currency clearing platform was consigned by the Bank and established by the Financial Information Service Co. The platform offers services for domestic and cross-border (including cross-strait) remittances of the Chinese renminbi and the Japanese yen, and domestic remittances of the US dollar, the euro, and the Australian dollar. The platform adopts a payment-versus-payment (PVP) mechanism among banks, a liquidity-saving mechanism for foreign currency remittances, and a delivery-versus-payment (DVP) mechanism for foreign currency bonds and bills.

(2) Domestic Development of Foreign Currency Settlement Business in 2023

Currency	Domestic Participating Units	Settlements in 2023	
		Number of Transactions	Amount
US dollar	71	1,340,787	USD 1,983.2 billion
Renminbi	60	281,680	RMB 574 billion
Yen	38	42,782	JPY 1,471.7 billion
Euro	39	21,058	EUR 8.1 billion
Australian dollar	29	27,230	AUD 1.8 billion

Source: Department of Foreign Exchange, CBC.

Offshore Banking

(1) Regulatory amendments

- A. In order to enhance banks' competitiveness in wealth management business, the Bank collaborated with the FSC to amend the renamed *Directions Governing the Custody and Disposal of Clients' Equity-Type Foreign Securities Obtained Through Physical Delivery of Domestic and Offshore Structured Products or Structured Notes by Banks (Including OBUs)*. The amendment relaxed the range of eligible products and participants, effective August 9, 2023.
- B. In order to facilitate compliance of securities firms, the Bank collaborated with the FSC to amend the rules regarding the financial standards for a securities firm applying to establish an offshore securities unit (OSU) by lifting the upper limit of its total debts, so as to be consistent with the limit in Article 13 of the *Regulations Governing Securities Firms*. The amendment was effective November 1, 2023.

(2) Financial Status

A. Offshore Banking Units (OBUs)

At the end of 2023, the number of OBUs came to 59, and total OBU assets increased by US\$11.16 billion, or 4.2%, over the previous year to US\$277.29 billion. The net income after tax of all OBUs amounted to US\$1.8 billion, decreasing by US\$0.54 billion or 23.1% from a year before.

B. Offshore Securities Units (OSUs)

At the end of 2023, the number of OSUs stood at 18, and total OSU assets increased by US\$1.75 billion, or 38.5%, over the previous year to US\$6.28 billion. The net income after tax of the business also decreased by US\$11.2 million, or 41.4%, to minus US\$38.1 million for 2023.

C. Offshore Insurance Units (OIUs)

As of the end of 2023, the number of OIUs was 20, with a total amount of assets of US\$0.88 billion, which was US\$0.1 billion or 10.2% less than the previous year end. The net income after tax of all OIUs decreased by US\$23.9 million, or 80%, to US\$6 million from the previous year.