Abstract

In 2023, global economic growth experienced a slight decline but has shown resilience. Against the backdrop of a more optimistic market expectation for interest rate cuts, global financial conditions have turned to ease. Domestically, economic growth moderated, and inflation rates maintained a gradual downward trend. While corporate revenues and profits contracted, the overall short-term debt servicing capacity remained sound. Household borrowing expanded continually, but its financial health remained steady. In addition, the government persistently endeavored to implement measures to ensure a healthy housing market which contributed to fostering its sound development. Under this macro environment, financial markets in Taiwan kept operating smoothly. Major financial institutions have maintained sound operations. Meanwhile, domestic systemically important payment systems functioned in an orderly manner. On the whole, the financial system remained stable; however, the potential impacts stemming from a myriad of uncertainties surrounding international economic and financial conditions on Taiwan's financial system warrant close attention.

International and domestic macro environments were influenced by monetary policies of major central banks and geopolitical tensions

In 2023, although major central banks significantly hiked interest rates to tame inflation, the global economic growth rate merely saw a slight decline, demonstrating resilience in economic activity. Global financial conditions have gradually eased with optimistic market expectations for interest rate cuts. Looking ahead to 2024, the outlook for global manufacturing and services sectors is expected to recover gradually. Nonetheless, considering geopolitical tensions, elevated funding costs, as well as uncertain monetary policy stances of central banks in the US and Europe, S&P Global Market Intelligence (hereafter S&P Global) estimates that global economic growth will remain unchanged, with inflation moderating but staying at elevated levels. Furthermore, the trajectory of monetary policy stances by major central banks, rising geopolitical risks, deterioration in the credit quality of the commercial real estate (CRE) markets in the US and Europe, along with the real estate market downturn and substantial levels of local government debt in China, could potentially heighten global financial instability risks, which require close attention.

In 2023, domestic economic growth slowed and the inflation rate gradually decreased. The scale of external debt slightly rose, but foreign exchange (FX) reserves remained ample, ensuring robust external debt servicing capacity. Despite the fact that the fiscal position registered a deficit, government debt to GDP shrank and stayed within a manageable level. Taiwan Stock Exchange (TWSE) listed and over-the-counter (OTC) listed companies both saw declines in revenue and profitability, but their leverage ratios improved and the overall ability to service short-term debt stayed strong. Household financial conditions remained sound and demonstrated satisfactory credit quality. Starting from the second half of the year, transactions in the real estate market recovered, thus intensifying the burden on homebuyers. Relevant ministries and agencies will continually implement measures to ensure a healthy housing market so as to foster its sound development.

Financial markets, institutions, and infrastructures operated smoothly in Taiwan

From 2023 onwards, the outstanding amount of issuance and trading volume of bills and bonds have mostly expanded. The stock indices fluctuated with an uptrend and reached historical highs. The NT dollar broadly depreciated against the US dollar, while its volatility remained relatively stable. Domestic banks saw improvements in asset quality, profits, and capital adequacy. Life insurance companies experienced a notable recovery in profits after a slump, and their average risk-based capital (RBC) ratio edged up. Bills finance companies underwent a substantial reduction in profitability, but their capital levels remained adequate.

Furthermore, domestic systemically important payment systems functioned in an orderly manner. The Bank and the Financial Supervisory Commission (FSC) have enhanced their research and implementation of climate change scenario analysis. Additionally, to refine the domestic financial environment, the FSC announced transitional measures for the insurance industry to align with international standards, strengthened the management of platforms involving crypto assets and digital lending, and published the “Core Principles and Policies for Artificial Intelligence (AI) Applications in the Financial Industry.”

The Bank and the FSC kept taking measures to promote financial stability

The Bank raised the policy rates by 0.125 percentage points in March 2024, aiming to curb domestic inflation expectations and sustain price stability. The Bank also conducted open market operations for the purpose of adjusting funds in the banking system. Besides this, the Bank kept adopting selective credit control measures and other policies to support the government's Healthy Real Estate Market Plan, and took flexible FX policies to safeguard the dynamic stability of the NT dollar exchange rate. Meanwhile, the FSC kept fortifying insurance companies' risk-bearing capacity and strengthened the supervision of the Exchange Traded Fund (ETF) market. It also enhanced financial institutions' risk management for outsourcing operations and took measures to guard against illegal offshore funds, all with the goal of preserving financial stability.

The Bank will continually take measures to promote financial stability as needed

In 2023, despite a slowdown in both domestic and global economic growth, Taiwan's financial markets continued to function smoothly, and financial institutions maintained stable operations. As a whole, Taiwan's financial system remained stable. Looking ahead, a number of factors would amplify the uncertainties of global inflation as well as trade and economic development, including the trajectory of monetary policy stances by major central banks, geopolitical risks, and climate change. Moreover, a high interest rate environment, risks from China's economic downturn, supply chain restructuring, and fragmentation of the global economy, could all pose adverse impacts on global economic development and financial stability. In response, the Bank will continue to pay close attention to the potential impacts of relevant subsequent developments and take appropriate response measures to promote domestic financial stability.