

2.3 General assessment of international and domestic macro environments

As for international economic and financial conditions, the economic growth rate merely saw a slight decline and remained resilient during the period of global disinflation in 2023. However, economic growth showed divergent paths across countries. In the meantime, financial conditions turned to ease amid market optimism about future interest rate cuts. Looking ahead to 2024, in spite of the fact that global manufacturing and services sectors are expected to recover gradually, with geopolitical tensions, still-high funding costs, and uncertainties about the monetary policies of the US and European central banks, global economic growth is anticipated to remain unchanged, with inflation moderating but staying at elevated levels. In addition, several factors could pose challenges to global financial stability. These include the trajectory of major central banks' monetary policies, the deterioration of credit quality in US CRE loans, and ongoing developments in China's housing and stock markets. Additionally, China's substantial levels of local government debt and elevating geopolitical risks also contribute to these challenges.

Regarding the domestic macro environment, Taiwan's economic growth decelerated in 2023 and the inflation rate maintained a gradual downward trend. Moreover, FX reserves stayed ample with strong external debt servicing capacity. Although the fiscal position registered a deficit, government debt decreased and remained well below internationally recognized minimum levels, which was conducive to weathering uncertainties surrounding international political and economic situations and maintaining economic growth momentum. On the other hand, the overall revenue of TWSE- and OTC-listed companies has declined and profitability in major industries mostly weakened. On the plus side, their leverage ratios kept improving and the short-term debt servicing capacity remained sound. As for households, their borrowing continued to grow, and their short-term debt burden trended upwards mildly. However, the financial health of households was steady, underpinned by their enormous net worth. Even so, close attention should be paid to changes in debt servicing capacity of some households with higher debt burdens. Lastly, the housing market has seen a resurgence in transactions and higher prices, which pushed up the burden on homebuyers. In contrast, the NPL ratios of housing loans remained low, indicating that risk management was still effective. Notwithstanding, it is necessary to monitor the ability of borrowers who applied for the new Preferential Housing Loans for the Youth to withstand future interest rate fluctuations, as well as its impact on financial institutions' asset quality after the grace period expires.

In sum, with the uncertainty surrounding major central banks' monetary policies and

heightened geopolitical risks, global economic downturn risks and financial market volatility have intensified. These factors could affect Taiwan's corporate sector outlook, household debt servicing capacity, and real estate market performance, thereby adding risks to the financial sector, which warrant close attention.