

3.4 General assessment of Taiwan's financial system

From the beginning of 2023 onwards, various factors such as the banking crises in the US and Europe, ongoing tightening monetary policies by major central banks, a downturn in China's real estate market, and the heightened geopolitical risks from the Israel-Palestine conflict, have caused significant turbulence in global financial markets. Nonetheless, the abovementioned impacts on Taiwan's financial system have been relatively moderate.

In Taiwan's financial markets, the outstanding amount of bill issuance expanded, and that of bond issuance reached a historical high. The secondary markets for bills kept growing, while the bond trading volumes remained roughly unchanged. The stock indices fluctuated upward, repeatedly hitting historical highs, with volatility rising after falling, and saw brisk trading. The FSC has successively adopted relevant supervisory measures to address issues in the ETF market. Meanwhile, the foreign exchange market reported an increase in trading volumes and the NT dollar exchange rate remained relatively stable.

Regarding financial institutions, domestic banks' asset quality improved, and their profits reached a new high. The capital adequacy ratio continued to rise with liquidity risk remaining relatively low. Yet, the overhang of hiking loan rates and the clearance of unsold newly built residential houses on banks' real estate credit quality deserves close attention. Meanwhile, insurance companies' profitability recovered from a substantial decline, accompanied by an improvement in their average capital adequacy ratio. Nonetheless, they faced higher market risk in foreign investment positions. On the other hand, considering that insurers' premium income was mostly lower than insurance benefits, their future cash flows are worthy of continual close attention. Bills finance companies' guarantee business recovered and the concentration of credit secured by real estate declined; however, they saw substantial reductions in profitability, along with higher liquidity and interest rate risks.

The domestic payment and settlement systems operated smoothly and the shared infrastructure for retail payments was further strengthened. In order to promote sustainable financial development, the FSC advanced climate change scenario analysis in domestic banks, released the adoption of IFRS Sustainability Disclosure Standards in Taiwan, and strengthened self-management of platforms involving crypto assets and digital lending. Moreover, the FSC launched the policies and guidelines for AI applications of financial institutions so as to enhance transaction security and effectively manage risks.

Overall, financial markets in Taiwan kept functioning smoothly, with financial institutions maintaining robust operations, and domestic systemically important payment systems functioning in an orderly manner. In general, the financial system remained stable.

Nevertheless, some direct and indirect effects on the financial markets and financial institutions, which could arise from factors such as the trajectory of major central banks' monetary policies, geopolitical risks, the spillover effect of economic downturn in China, global economic fragmentation and climate change risks, deserve closer attention.