

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, in line with its statutory duties, 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 international short-term capital flows have 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.

In 2024, the Bank continued to conduct two-way smoothing operations in the forex market, in response to significant NTD exchange rate fluctuations driven mainly by foreign portfolio investment flows as well as international economic developments. The first half of 2024 witnessed NTD depreciation, partly due to USD strength on market expectations of the Fed delaying rate cuts and partly reflecting FINIs' profit-taking trades amid Taiwan stock rallies on the AI boom. Entering the second half of 2024, the NTD rebounded as the USD was weakened by stronger expectations for Fed rate cuts. However, the NTD turned lower later in the year, reflecting foreign portfolio investment outflows amid global market concerns about trade uncertainties from the new US administration's policies. Overall, NTD volatility in the year prompted the Bank to step in the forex market to maintain the dynamic stability of the NTD exchange rate, with net sales by the Bank amounting to US\$16.4 billion.

(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) The Bank continued to ensure sufficient foreign currency liquidity in the financial system to meet funding needs, with the seed capital of US\$20 billion, €1 billion and ¥80 billion that it provides to the Taipei Foreign Currency Call Loan Market to help corporations venture into overseas markets.
- (2) The Bank continued to provide foreign currency liquidity to domestic banks through foreign currency call loans and swaps, thereby helping to meet corporate funding needs for operations and overseas investments.

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 2024, Taiwan's total foreign exchange reserves stood at US\$576.7 billion, an increase of US\$6.1 billion or 1.1% compared to the end of 2023, mainly attributable to returns from forex reserve investments. Combining the reserves held in gold valued at US\$4.7 billion, the Bank's reserve assets totaled US\$581.4 billion at the end of 2024.

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\$77.1 billion, US\$24.2 billion, and US\$7.7 billion, respectively, at the end of 2024.

In terms of foreign currency liquidity, the total amount (including foreign currency claims and gold) reached US\$694.2 billion at the end of 2024.

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\$10 million and for a juridical person within US\$100 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.

(1) Measures with regard to the management of capital flows in 2024 included:

- A. The amendments to the *Directions for Banking Enterprises while Assisting Customers to Declare Foreign Exchange Receipts and Disbursements or Transactions* and the *Directions for Domestic Security Firm Approved to Conduct Foreign Exchange Business While Assisting Customers in Declaring Foreign Exchange Receipts and Disbursements or Transactions* took effect on July 4, 2024.
- B. On October 31, the Bank issued an official directive to raise the ceilings on the annual aggregate foreign exchange settlement amount for domestic residents. The amount ceiling for an association or an individual was raised from US\$5 million to US\$10 million, while that for a company or a firm was raised from US\$50 million to US\$100 million, effective from November 1, 2024.
- C. On December 24, the Bank, following the FSC's recommendation, agreed to relax the regulations related to foreign currency nondiscretionary money trusts, allowing trustors to use their beneficial rights in such trusts investing in foreign currency-denominated securities as pledge for NTD loans, so as to facilitate this business and increase funding flexibility. Accordingly, the Bank amended Subparagraph 4, Paragraph 1, Point 10 of the *Directions Governing Banking Enterprises for Operating Foreign Exchange Business* on January 15, 2025 effective on the same day.
- D. On December 27, the Bank requested four associations, including the Securities Investment Trust & Consulting Association of the R.O.C., to inform their members of the following policy change: Starting 2025, the annual limit of US\$50 million for foreign currency discretionary investment business in foreign securities would be lifted.

(2) 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 2024, 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	23	NTD 19.69 billion
	NTD-denominated bonds	13	NTD 11.75 billion
	Foreign currency-denominated bonds	54	USD 9.73 billion
		1	AUD 0.02 billion
		1	NZD 0.01 billion
		2	RMB 0.33 billion
		1	ZAR 0.3 billion
Domestic companies (and domestic branches)	Foreign currency-denominated bonds	52	USD 0.13 billion
	Overseas depositary receipts	7	USD 3.17 billion
	Overseas convertible bonds	7	USD 3.35 billion

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

(3) Approving Residents' Investments in Foreign Securities

Institution	Method/Instrument	Amount
Securities investment trust companies (SITEs)	151 domestic SITE funds (including 45 NTD-foreign multi-currency SITE funds)	NTD 3,052.7 billion (including 829 billion in multi-currency funds)
Life insurance companies	Nondiscretionary money trusts managed by financial institutions	USD 0.36 billion
	Investment in their own accounts	USD 0.48 billion
Five major government pension funds and employment insurance funds	Investment in their own accounts	USD 6.41 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 2024, the Bank continued to approve bank branches as authorized foreign exchange banks and review relevant regulations as needed to facilitate authorized foreign exchange banks' competitiveness and service quality.

At the end of 2024, there were 3,459 authorized foreign exchange banks in total, which included

38 head offices and 3,381 branches of domestic banks, 37 branches of foreign banks, three branches of Mainland Chinese banks, as well as 4,586 authorized money exchangers, post offices, and financial institutions authorized for the dealing of foreign currency cash and traveler's checks.

(2) Insurance Companies

As of the end of 2024, 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 increased by US\$2.83 billion, or 12.43%, from the previous year to US\$25.55 billion in 2024.

(3) Securities Firms

The approved cases for securities firms to conduct foreign exchange business in 2024 are listed in the following table.

Institutions	Foreign Exchange Business	Number
Securities firms	Underwriting of international bonds denominated in foreign currency	2
	Proprietary foreign securities trading neither belonging to investment with their funds nor for hedging needs	2
	NTD and foreign currency spot exchange rate	1
	Structured products	1
	Participating dealer of domestically issued foreign currency denominated ETFs	1

Source: Department of Foreign Exchange, CBC.

(4) Investment Trust/Consulting Firms

The approved cases granted by the Bank for investment trust and investment consulting firms to conduct foreign exchange business as of 2024 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	3
	Foreign currency discretionary investment business	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 2024

Currency	Domestic Participating Units	Settlements in 2024	
		Number of Transactions	Amount
US dollar	72	1,461,559	USD 2,094.8 billion
Renminbi	59	320,721	RMB 748 billion
Yen	37	62,435	JPY 1,823 billion
Euro	38	21,416	EUR 9.2 billion
Australian dollar	30	31,752	AUD 2 billion

Source: Department of Foreign Exchange, CBC.

Offshore Banking

(1) Regulatory amendments

In line with the amendment of relevant insurance regulations and to achieve supervision consistency, the Bank collaborated with the FSC to amend the *Regulations Governing Offshore Insurance Branches*. The amendment was effective July 10, 2024.

(2) Financial Status

A. Offshore Banking Units (OBUs)

At the end of 2024, the number of OBUs came to 59, and total OBU assets decreased by US\$0.67 billion, or 0.2%, over the previous year to US\$276.61 billion. The net income after tax of all OBUs amounted to US\$1.8 billion, almost the same as the year before.

B. Offshore Securities Units (OSUs)

At the end of 2024, the number of OSUs stood at 18, and total OSU assets increased by US\$0.81 billion, or 12.8%, over the previous year to US\$7.09 billion. The net income after tax of all OSUs continued with a net loss of US\$14.6 million, increasing by US\$23.6 million from a year before.

C. Offshore Insurance Units (OIUs)

As of the end of 2024, the number of OIUs was 20, with a total amount of assets of US\$0.85 billion, which was US\$0.04 billion, or 4.4%, less than the previous year end. The net income after tax of all OIUs added up to US\$21.3 million, increasing by US\$15.3 million or 256.2% from the previous year.