

I. Overview

Macro environmental risk factors

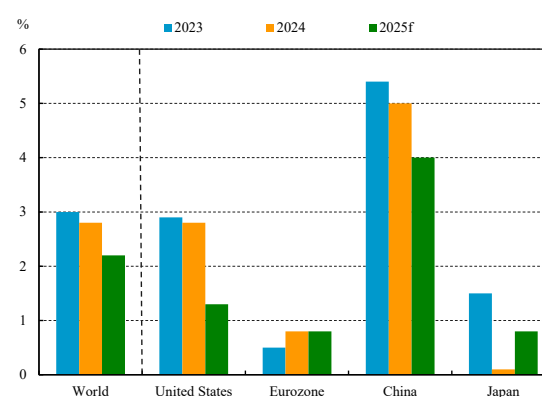
International economic and financial conditions

Global economic growth was moderate in 2024, with inflationary pressures easing and financial conditions remaining broadly accommodative

In 2024, as major central banks gradually shifted toward a more accommodative monetary policy stance, the global economy posted moderate growth. According to S&P Global Market Intelligence (hereafter S&P Global),¹ the global economic growth rate for 2024 was estimated at 2.8% (Chart 1.1), although economic performance varied among major economies. With declines in international oil and grain prices and a deceleration in nominal wage growth, the global consumer price index (CPI) inflation rate dropped to 4.5%.

With inflation steadily converging toward central bank targets, most central banks shifted to a more accommodative monetary stance. Supported by widespread expectations of interest rate cuts and improved investor sentiment, volatility in global financial markets declined during the first three quarters of the year. As a result, global financial conditions became more accommodative, although a slight tightening was observed from October onwards. Amid easing inflationary pressures, global stock markets generally experienced a gradual recovery, while US government bond yields showed a volatile trend during the first half of 2024. In the second half of the year, however, concerns over a potential economic slowdown, elevated inflation, and increased government bond supply – stemming from newly adopted

Chart 1.1 Global economic growth rates



Note: Figures for 2025 are S&P Global Market Intelligence estimates.

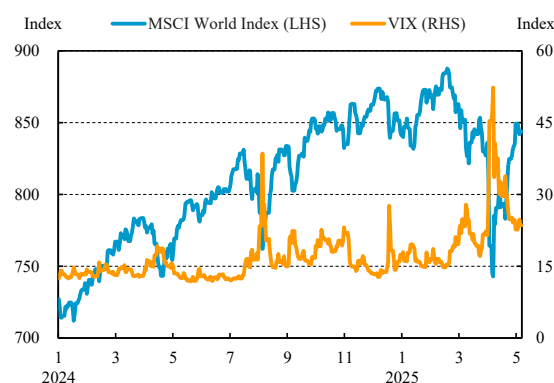
Source: S&P Global Market Intelligence (2025/5/15).

¹ S&P Global Market Intelligence (2025), *Global Executive Summary*, May.

US fiscal policies – contributed to an upward movement in 10-year US government bond yields.

Uncertainty in trade policies exerted negative effects on global economic growth and inflation, leading to a noticeable tightening in financial conditions

Chart 1.2 MSCI World Index and VIX Index



Source: Bloomberg.

Following US President Trump's inauguration in January 2025, a series of tariff measures were announced, further heightening uncertainty in the global trade environment. These actions posed downside risks to the global economy and financial markets, while also increasing the unpredictability of monetary policy decisions for central banks worldwide.

Moreover, after the announcement of reciprocal tariffs by the US on April 2, 2025,² China responded with retaliatory measures that further escalated US-China trade tensions and heightened the risk of economic decoupling between the two nations. These developments would exert substantial pressure on China's export-oriented economy and were expected to significantly dampen its growth momentum.

The announcement of reciprocal tariffs also triggered a sharp decline in global stock markets over several days, fueled a surge in risk-off sentiment, and drove a marked spike in the VIX index (Chart 1.2). However, on April 9, after the Trump administration announced a 90-day suspension of reciprocal tariffs for all economies except China, global stock markets rebounded considerably, and the VIX index declined sharply. Meanwhile, US bond yields fluctuated markedly amid heightened uncertainty surrounding tariff policies. Thereafter, repeated shifts in tariff policies caused greater market volatility, contributing to a clear tightening of global financial conditions.

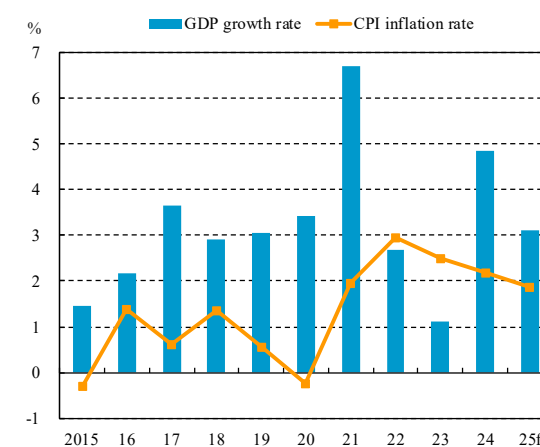
² Starting on April 5, the US government imposed a uniform baseline 10% tariff for all imports. Furthermore, beginning on April 9, discounted reciprocal tariffs were implemented against countries deemed by the US to engage in unfair trade practices. Under this measure, the tariff rate was set at 32% for Taiwan, 34% for China, 24% for Japan, and 20% for the EU.

Domestic macro environment

Taiwan experienced steady economic growth and a gradual decline in domestic inflation rates; however, downside risks to the economy persisted

In 2024, Taiwan's economic growth rate expanded by 4.84%, supported by robust export performance driven by the rapid development of emerging technology applications, coupled with an increase in private investment momentum.³ Meanwhile, domestic inflation eased gradually, with the annual CPI and core CPI growth rates falling to 2.18% (Chart 1.3) and 1.88%, respectively.

Chart 1.3 Economic growth rate and CPI inflation rate of Taiwan



Note: Figures for 2025 are DGBAS forecasts released on May 28, 2025.

Sources: CBC and DGBAS.

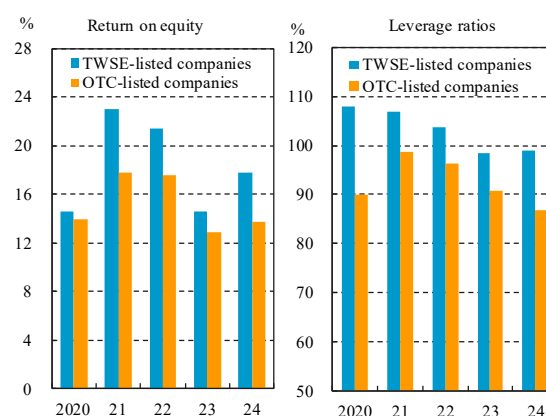
Looking ahead to 2025, with domestic demand and exports expected to retain growth momentum, the Bank projected in March that Taiwan's economic growth rate would reach 3.05%, while annual CPI inflation was forecast to decline further to 1.89%. In addition, in light of heightened uncertainty surrounding US tariff policies, the DGBAS projected in May that economic growth could slow significantly in the second half of the year. Nevertheless, benefiting from better-than-expected export performance in the first half of 2025, the DGBAS subsequently revised its full-year economic growth forecast to 3.10%, slightly below its February projection. The annual CPI inflation forecast was also revised downward to 1.88%, marking the lowest level since 2021. However, the spillover effects arising from the US announcement of reciprocal tariff policies are likely to amplify downside risks to the domestic economy and therefore warrant close attention.

³ Data cited from the DGBAS in this report, including Taiwan's economic growth rate, GDP, and CPI figures, are based on its press release published on May 28, 2025.

Overall profitability of the corporate sector⁴ outperformed expectations and short-term debt servicing capacity improved, but potential impacts of US tariff policies warrant attention

In recent years, the rapid advancement of artificial intelligence (AI) has significantly boosted revenues across related industries, leading to improved overall corporate profitability. In 2024, the overall profitability of the corporate sector exceeded market expectations (Chart 1.4, left panel), with major industries such as electronics and shipping reporting higher profits. By the end of the year, listed companies' financial leverage maintained moderate (Chart 1.4, right panel), and both current ratios and interest coverage ratios rebounded, indicating an improvement in overall short-term debt servicing capacity. Moreover, the non-performing loan (NPL) ratio for corporate loans extended by financial institutions declined to a historic low of 0.17% at the end of 2024, reflecting satisfactory credit quality. Nevertheless, the heightened uncertainty surrounding US tariff policies, coupled with ongoing geopolitical tensions worldwide, may exert downward pressure on future earnings growth of the corporate sector. Firms are therefore advised to prudently manage related risks.

Chart 1.4 Return on equity and leverage ratios in the corporate sector



Notes: 1. Return on equity = net income before interest and tax/average equity.

2. Leverage ratio = total liabilities/total equity.

Source: TEJ.

Household indebtedness increased, but financial health remained sound; changes in debt servicing capacity of highly indebted households warrant close attention

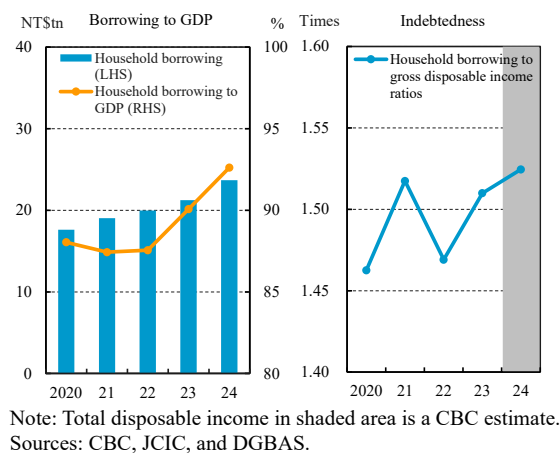
Household borrowing reached NT\$23.70 trillion at the end of 2024, equivalent to 92.62% of annual GDP (Chart 1.5, left panel), with the annual growth rate rising to 11.52%. The ratio of household borrowing to total disposable income also edged up to 1.52 (Chart 1.5, right panel), indicating a rising debt burden. Meanwhile, the household debt servicing ratio ascended to 48.32%, suggesting increased short-term debt servicing pressure. However, household net worth⁵ in Taiwan remained robust, standing at nearly eight times GDP as of 2023, reflecting a healthy financial condition. The NPL ratio of household borrowing from financial institutions further increased to 0.14% at the end of 2024, but remained low, reflecting overall satisfactory

⁴ In this report, the corporate sector refers to the non-financial corporate sector.

⁵ Household net worth includes household net non-financial assets and net financial assets.

credit quality. Nevertheless, uncertainty stemming from the tariff policies introduced by the Trump administration has triggered greater volatility in financial markets, thereby elevating financial risks for households. Should labor market conditions deteriorate, household debt servicing capacity of some households – particularly those with higher debt levels – could be adversely affected. Accordingly, it is important to closely monitor developments in this segment.

Chart 1.5 Household indebtedness



Real estate transactions declined and price growth moderated, while the mortgage burden remained heavy

In the first half of 2024, transactions in the housing market remained active. In response, the Bank implemented its sixth round of selective credit control measures in June. Moreover, in the second half of the year, the Ministry of Finance (MOF) requested state-owned banks to strengthen the review process for the new Preferential Housing Loans for the Youth.⁶ In August, the Bank urged banks to proactively monitor the total volume of mortgage loans and, in September, introduced a seventh round of selective credit control measures. As a result, the total number of building ownership transfers declined month by month, with a year-on-year decrease of 22.11% recorded from January to March 2025. Regarding real estate prices, the housing market experienced strong momentum in early 2024. The national housing price index released by the Ministry of the Interior (MOI) reached a peak of 151 in 2024 Q4. The Cathay housing price index (for newly built houses) and the Sinyi housing price index (for existing houses) also rose quarter by quarter, peaking at 218 and 167 in 2024 Q4, respectively. The Cathay housing price index hit a high of 220 in 2025 Q1, albeit at a slower pace, while the Sinyi housing price index declined moderately to 166. Taiwan's debt servicing ratio for housing loans and house price-to-income ratio saw a gradual upward trend from 2024 Q1 to Q3 and slightly decreased in Q4. Among the six metropolitan areas, Taipei City remained the most unaffordable (Chart 1.6).

The Bank adjusted its selective credit control measures twice, in June and September 2024, and in August urged banks to proactively monitor the total volume of mortgage loans. As a

⁶ The enhanced project, new Preferential Housing Loans for the Youth, has been implemented since August 1, 2023, with applications open until July 31, 2026.

result, the annual growth rate of outstanding loans for house purchases and refurbishments extended by banks has declined month by month since October 2024. Following the Bank's successive policy rate hikes and adjustments to the reserve requirement ratios on NT dollar deposits, the interest rate on mortgage loans gradually rose to 2.264% in March 2025, a new high since January 2009. At the end of March 2025, the NPL ratio of housing loans granted by domestic banks was around 0.07%, while the NPL ratio of construction loans, after a brief uptick, declined to 0.19% as banks wrote off their bad debts. Both ratios remained at low levels, indicating that risk management in real estate

lending remained sound and that the effect of recent credit control measures began to emerge. In parallel, the Bank persistently conducted targeted examinations on mortgage loans, while other government agencies continued to amend regulations to strengthen the supervisory framework, supporting the sound development of the real estate market. Since 2025, transactions in the housing market have gradually cooled. Meanwhile, lingering uncertainties surrounding US economic and trade policies could indirectly affect the domestic housing market through impacts on the broader economy and financial markets. These developments could weigh on the asset quality of financial institutions. The Bank will monitor these developments closely and continue to remind borrowers to remain alert to interest rate risks.

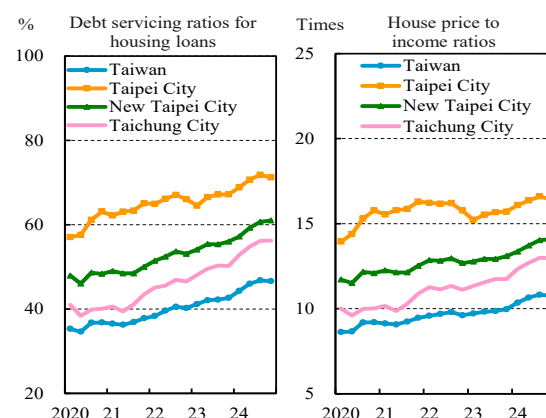
Financial system assessment

Financial markets

Outstanding amount of issuance and trading volume of bills and bonds expanded year on year

At the end of 2024, the outstanding amount of bills issued in the primary market rose by 10.91% year on year, mainly driven by stronger corporate funding needs that led to a surge in the issuance of commercial paper (CP). Correspondingly, the trading volume expanded by 17.94% year on year, reaching NT\$65.36 trillion, with the annual growth rate recorded at 10.76% in

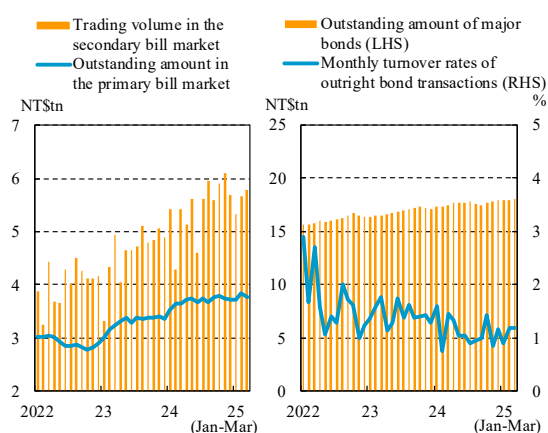
Chart 1.6 Debt servicing ratios for housing loans and house price to income ratios



Notes: 1. Debt servicing ratio for housing loans = median monthly housing loan payment/median monthly household disposable income.
 2. House price to income ratio = median house price/median annual household disposable income.
 Source: Housing Price Affordability Indicator Statistics, Construction and Planning Agency of the MOI.

2025 Q1 (Chart 1.7, left panel). Meanwhile, the outstanding amount of bond issuance grew by 4.75% compared to the end of the previous year, continuing to reach new record highs. This was primarily fueled by elevated corporate bond issuance. Although trading volume in the secondary market⁷ expanded 7.71% year on year, the outright transaction volume declined by 18.27%. As a consequence, the average monthly outright turnover rate of major bonds⁸ trended downward in 2024, and declined further to a record low of 0.90% in January 2025. Although the rate rebounded to 1.09% in March, it remained at a relatively low level (Chart 1.7, right panel).

Chart 1.7 Primary and secondary bill and bond markets



Notes: 1. Major bonds include government bonds, international bonds, corporate bonds, and financial debentures.
2. Monthly turnover rate = trading value in the month/average outstanding amount of bonds issued.
Average outstanding amount of bonds issued = (outstanding amount at the end of the month + outstanding amount at the end of last month)/2.

Sources: CBC and FSC.

Following the Bank's policy rate hike in March 2024, the interbank overnight call loan rate trended upwards before stabilizing. Nevertheless, liquidity in financial markets remained ample. Affected by the Bank's policy rate hike and the rebound in US government bond yields, Taiwan's benchmark 10-year government bond yields (hereinafter referred to as domestic bond yields) trended downwards after reaching a nearly two-year high, and later rebounded. In 2025 Q1, domestic bond yields peaked at 1.677% and then declined. Looking ahead, heightened uncertainty surrounding the tariff policies introduced by the Trump administration, coupled with monetary policy divergences among major central banks, may intensify volatility in global bond yields, potentially influencing domestic bond yield movements. Therefore, interest rate risks related to bond investments by domestic financial institutions warrant close attention.

Stock indices hit record highs before experiencing sharp volatility and a significant correction

In July 2024, the Taiwan Stock Exchange Weighted Index (TAIEX) reached a historical high of 24,390. Thereafter, the TAIEX underwent a sharp correction but partially recovered, closing at 23,035 by year-end, posting a year-on-year increase of 28.47%. Volatility rose during the period but gradually stabilized. In 2024, trading activity in the stock market remained robust,

⁷ Includes repo and outright transactions.

⁸ Includes government bonds, international bonds, corporate bonds, and financial debentures.

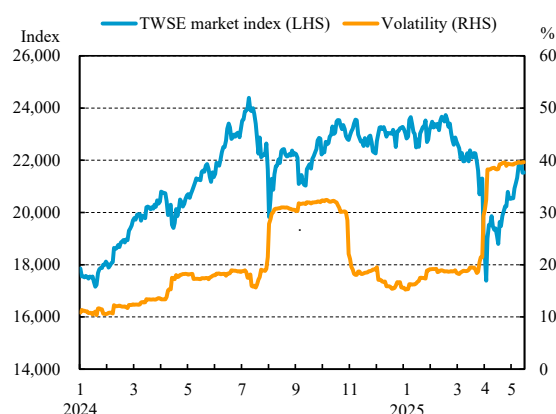
with the annual turnover rate by trading value on the TWSE market rising to 135.40%, reflecting ample market liquidity.

In 2025 Q1, the domestic stock markets remained volatile and continued to consolidate. Following the announcement of the US reciprocal tariff policies in early April, domestic stock markets plunged, accompanied by a sharp surge in volatility (Chart 1.8). Subsequently, as market sentiment gradually stabilized and foreign investors stepped up purchases of domestic stocks, the market rebounded swiftly, albeit with volatility remaining high. In light of the recent uncertainties stemming from the ongoing impacts of US tariff measures and escalating geopolitical risks – factors that could undermine global economic prospects and weigh on international and domestic stock markets – close monitoring of domestic market developments is warranted.

NT dollar appreciated against the US dollar following earlier depreciation, accompanied by elevated volatility

In 2024, the US dollar appreciated, leading to the depreciation of most major Asian currencies. The NT dollar exchange rate stood at 32.781 against the US dollar at the end of 2024, posting a depreciation of 6.24% from the end of the previous year, ranking mid-range among Asian peers. However, from January to April 2025, the NT dollar turned to appreciate against the US dollar following earlier depreciation. This appreciation accelerated, fueled by sustained foreign capital inflows into domestic stock markets and heightened expectations of NT dollar appreciation, which boosted the supply of US dollars. Moreover, in 2024, foreign investors repatriated funds owing to profit-taking and dividend payouts, leading to a decline in the nominal effective exchange rate (NEER) index of the NT dollar, which dropped to 101.10 at the end of the year. Since the beginning of 2025, the NT dollar has appreciated significantly

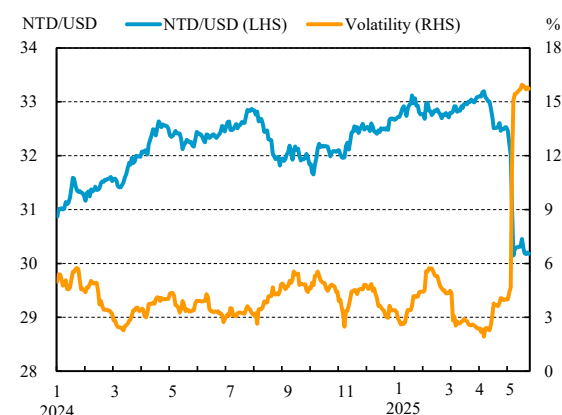
Chart 1.8 TWSE market index and volatility



Note: Volatility refers to the annualized standard deviation of 60-day daily index returns.

Sources: TWSE and CBC.

Chart 1.9 Movements of NT dollar exchange rate against US dollar



Note: Volatility refers to the annualized standard deviation of 20-day daily returns.

Source: CBC.

against the US dollar, with its NEER rising to 105.85 as of May 20.

The volatility of the NT dollar exchange rate against the US dollar ranged from 2.27% to 5.74% in 2024, with an annual average of 3.97%. In early May 2025, the volatility of the NT dollar surged (Chart 1.9). Nevertheless, the average volatility of the NT dollar for the period from January 1 to May 20 stood at 5.32%, which remained lower than those of other major currencies. This suggests that the NT dollar has remained relatively stable over the long term.

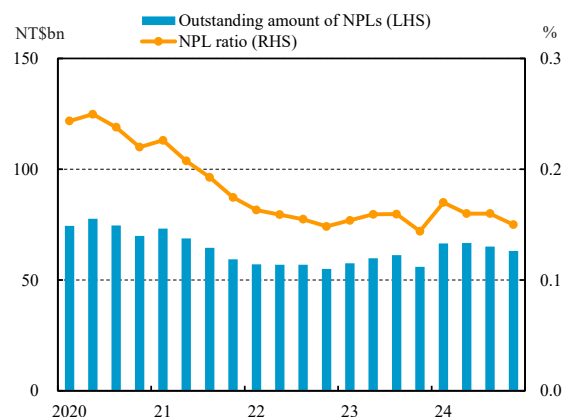
Financial institutions

Domestic banks achieved record-high profits while maintaining sound asset quality and adequate capital levels

In 2024, the growth of customer loans extended by domestic banks accelerated, while credit concentration in corporate loans decreased slightly. Meanwhile, the share of real estate-secured lending declined as well. The average NPL ratio registered a low level of 0.15% at the end of the year (Chart 1.10), reflecting sound asset quality. Provisions for loan losses remained sufficient. The credit quality of overseas commercial real estate (CRE) exposures showed a modest improvement at the end of 2024, but underlying vulnerabilities remained elevated. Additionally, the exposure of domestic banks to China, as a percentage of net worth, descended further to a new low of 18%. Nonetheless, considering China's ongoing internal economic challenges and the external tariff pressures, the potential economic and financial risks are expected to increase and therefore warrant constant close attention.

In 2024, benefiting from increases in net gains from financial asset valuations and disposals, along with a substantial rise in net fee income, domestic banks' pre-tax net income grew by 10.31% year on year, reaching a new historical high of NT\$521.3 billion (Chart 1.11, left

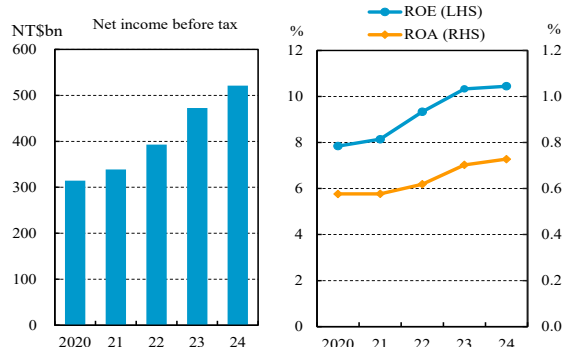
Chart 1.10 NPLs of domestic banks



Note: Excludes interbank loans.

Source: CBC.

Chart 1.11 Profitability of domestic banks



Notes: 1. ROE = net income before tax/average equity.

2. ROA = net income before tax/average total assets.

Source: CBC.

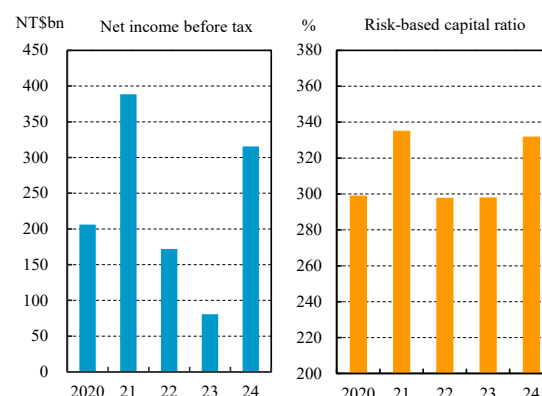
panel). The average return on equity (ROE) and the return on assets (ROA) also went up to 10.45% and 0.73%, respectively (Chart 1.11, right panel), reflecting a notable improvement in profitability. The capital adequacy ratio edged down to 15.03% but remained at an adequate level.

Life insurance companies reported notable profit recovery and improved RBC ratios amid higher market risk

In 2024, owing to growth in net investment income, life insurance companies recorded a considerable increase in pretax income, surging by 291.24% year on year to NT\$315.5 billion (Chart 1.12, left panel). The average RBC ratio also rose to 331.95% at the end of 2024 (Chart 1.12, right panel), while the average equity to asset ratio⁹ rebounded to 7.62%.

Foreign investment positions of life insurance companies kept growing and reached NT\$23.03 trillion at the end of 2024, along with a sustained increase in domestic securities investments, which amounted to NT\$6.40 trillion. In April 2025, the announcement of reciprocal tariff measures by the US triggered a sharp downturn in global stock markets and substantial volatility in US Treasury yields. Although financial markets temporarily stabilized thereafter, the large positions of financial assets measured at fair value rendered life insurers susceptible to market fluctuations and thus amplified stock investment and interest rate risks. Additionally, the NT dollar appreciated sharply in early May 2025, leading to higher FX risks for unhedged positions. Although premium income exceeded insurance benefit payouts in 2024 Q4 – resulting in a net cash inflow – the overall net cash outflow for the full year still widened compared to the previous year. In response, the FSC has strengthened its monitoring of life insurers' liquidity. At the end of 2024, cash positions held by life insurers were sufficient to meet their cash outflow needs. That said, future developments in market and liquidity conditions warrant continued close attention.

Chart 1.12 Net income before tax and RBC ratio of life insurance companies



Note: Figures for RBC ratios exclude insurance companies taken into receivership by the FSC.

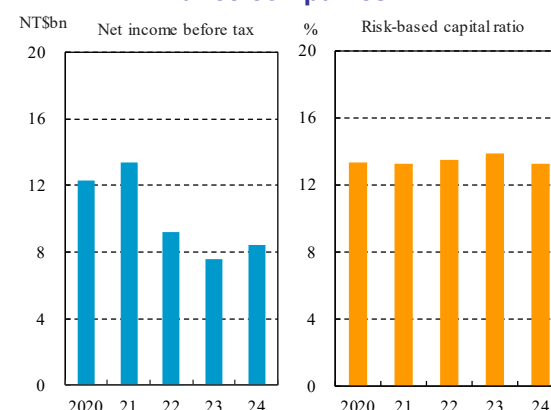
Source: TIGF.

⁹ Assets are exclusive of the assets of insurance products in separate accounts.

Bills finance companies saw growth in guarantee business and improved profitability, though liquidity risks persisted

The amount of CP guaranteed by bills finance companies rose by 4.53% year on year at the end of 2024, while the concentration of credit secured by real estate also climbed. The ratio of guaranteed advances edged up to 0.54%, although the overall credit quality remained sound.

Chart 1.13 Net income before tax and capital adequacy ratio of bills finance companies



Source: CBC.

The pre-tax net income of bills finance companies grew by 10.31% year on year to NT\$8.4 billion in 2024 (Chart 1.13, left panel), primarily driven by higher income from the disposal of debt instruments and increased net interest income. The average capital adequacy ratio declined to 13.26% at the end of 2024 (Chart 1.13, right panel), yet all companies remained well above the statutory minimum requirement of 8%. However, bills finance companies still tend to rely on short-term funding to support long-term investments, indicating that liquidity risk remains elevated.

Financial infrastructure

Domestic payment systems functioned smoothly, with ongoing expansion in e-payment consumption

The CBC Interbank Funds Transfer System (CIFS) operated smoothly in 2024, with total settlement amounts reaching 22.7 times the annual GDP. The transaction value processed by the Interbank Financial Information System (IFIS) also increased by 18.88% compared to 2023. The overall consumption expenditure via various e-payment instruments¹⁰ rose by 13.37%, mainly supported by the ongoing improvements to shared infrastructure for domestic retail payments, which enhanced the convenience and accessibility of e-payments. In addition, the Bank continued to urge the Financial Information Service Co., Ltd. (FISC) to work collaboratively with e-payment service providers and financial institutions in expanding the application scenarios of TWQR (the unified QR code payment standard) on the cross-

¹⁰ Non-cash payment instruments include credit cards, debit cards, electronic tickets, electronic payment accounts, and automated clearing house (ACH) interbank collection.

institution e-payment platform, and in promoting the development of a cross-border payment service. These efforts aim to support the development of a sound and integrated payment ecosystem in Taiwan.

Other measures to strengthen the financial system

Given that the capital adequacy ratio is a key indicator for assessing the risk-bearing capacity of domestic banks, the FSC amended and promulgated relevant regulations regarding the calculation methods for regulatory capital and risk-weighted assets, with the aim of strengthening the resilience of Taiwan's financial system. Furthermore, to facilitate a smooth transition for domestic insurers to the new-generation solvency regime and the adoption of the International Financial Reporting Standard (IFRS) 17 "Insurance Contracts" starting from 2026, the FSC continues to implement a series of localization and transitional adjustment measures.

Considering that climate risks may affect the financial system via the real economy, most central banks and financial supervisory authorities around the world have successively introduced climate-related supervisory initiatives. These measures are primarily implemented through stress testing, scenario analysis, and enhanced information disclosure to better assess and manage climate-related risks. In this regard, the FSC has been refining its climate change scenario analysis model, while the Bank continues to collect and analyze relevant information, to support future assessments of climate change risks and the potential applications of macroprudential instruments.

Moreover, to promote Taiwan as an Asian asset management hub, the FSC unveiled five major policy initiatives, comprising 16 strategic measures. These are being advanced through regulatory easing and cross-agency collaboration. In line with these efforts, the Bank revised FX regulations by raising the annual cumulative FX settlement threshold for nationals, removing the previous annual quota on discretionary investment in foreign currency (FC)-denominated securities, and relaxing currency restrictions on loans secured by the beneficial rights of specific money trusts denominated in FCs.

Overall, Taiwan's financial system remained broadly stable throughout 2024, though the potential impacts of uncertainty surrounding US tariff policies warrant close attention

In 2024, both the primary and secondary markets for bills and bonds in Taiwan continued to

expand. Domestic stock indices repeatedly hit new highs amid active market trading. The NT dollar showed a moderate depreciation trend against the US dollar, while exchange rate volatility remained relatively low. Domestic banks, life insurance companies, and bills finance companies all recorded improved profitability, maintained sound asset quality, and reported adequate capital levels. In addition, domestic payment and settlement systems operated smoothly. Overall, Taiwan's financial system remained broadly stable throughout the year.

From early 2025 onwards, uncertainty surrounding the Trump administration's policy stance triggered a sharp decline in domestic stock indices, followed by a gradual rebound. The NT dollar exchange rate also experienced increased short-term volatility; nevertheless, it remained relatively stable over the longer term. Meanwhile, the money and bond markets showed limited volatility. The asset quality of financial institutions remained resilient, as no significant deterioration has been observed and average NPL ratios stayed near historical low levels. However, should US tariff policies undermine the debt servicing capacity of the corporate and household sectors, which are the main borrowers of financial institutions, there could be adverse impacts on the asset quality, profitability, and capital adequacy of financial institutions. Moreover, increasing volatility in both domestic and international financial markets could dampen the investment performance of financial institutions, particularly life insurance companies, which hold substantial investment portfolios across domestic and foreign markets and are more susceptible to market risks. The Bank will continue to closely monitor developments in US tariff policies and related negotiation dynamics with major economies, with the aim of identifying potential risks and adopting appropriate, prudent responses as needed.

Measures to promote financial stability and in response to the impact of US tariff policies

Measures undertaken by the Bank and the FSC to promote financial stability

Measures undertaken by the Bank to promote financial stability

In 2024, both Taiwan's CPI and core CPI inflation rates declined. However, in view of a possible electricity rate hike, the Bank raised its policy rates by 0.125 pps in March 2024 to curb inflation expectations and maintain price stability. In addition, the Bank conducted open market operations in line with prevailing economic and financial conditions to maintain reserve money at an appropriate level. This was primarily achieved through the issuance of negotiable

certificates of deposit (NCDs).

Moreover, the Bank introduced two further amendments to the *Regulations Governing the Extension of Mortgage Loans by Financial Institutions* in June and September 2024. Key measures included lowering the loan-to-value (LTV) ratio caps for housing mortgages and unsold housing unit loans, while also introducing targeted relief measures. Meanwhile, the Bank also raised the reserve requirement ratios on NT dollar deposits twice during the year to reinforce quantitative monetary credit management and enhance the effectiveness of its selective credit control measures. In August, the Bank further requested banks to independently manage the aggregate volume of their real estate loans. It also conducted targeted financial inspections to ensure that financial institutions fully complied with applicable regulations, with the aim of addressing the overconcentration of credit in real estate lending. In addition, the Bank continually adopted a flexible FX rate policy and undertook appropriate administrative measures. These included strengthening off-site monitoring to ensure that forward transactions were based on genuine needs and urging banks to enhance their exchange rate risk management. These efforts helped support the dynamic stability of the NT dollar exchange rate and maintain orderly conditions in the FX market, thereby ensuring sound financial development.

Measures undertaken by the FSC to maintain financial stability

The FSC has worked to strengthen the capital deployment of the insurance sector by promoting the channeling of insurance capital toward domestic public infrastructure and mitigating currency mismatches in insurers' asset allocation. Additionally, in order to support insurers in enhancing asset-liability management, the FSC released revised draft regulations with the aim of ensuring that insurers maintain adequate solvency levels.

To encourage financial institutions to effectively use emerging technology, the FSC issued guidelines for AI applications in the financial industry, providing a reference framework for the adoption, utilization, and management of AI systems. These guidelines will enhance risk control in AI applications within the financial sector. The FSC also strengthened the supervision of Virtual Asset Service Providers (VASPs) and reinforced cybersecurity defense mechanisms in the financial sector to facilitate sound development of virtual asset services and to enhance the overall cybersecurity resilience of the financial system.

Government measures in response to US tariff policies

In response to the impacts of US tariff policies, the Executive Yuan announced the *Support*

Program for Strengthening Taiwan's Export Supply Chain in Response to US Tariffs on April 4, 2025. The program included a planned investment of NT\$88 billion to implement 20 support measures aimed at assisting domestic industries in navigating trade-related challenges. Subsequently, on April 24, 2025, the Executive Yuan further approved a draft of the *Special Act for Strengthening Economic, Social, and Homeland Security Resilience in Response to Global Challenges*, which increased the program's budget by NT\$5 billion to a total of NT\$93 billion, to further support industrial upgrading, transformation, and equipment renewal for affected enterprises. In parallel, the Bank has implemented four mechanisms to stabilize the exchange rate through dynamic responses to fluctuations in the FX market, and established a comprehensive liquidity provision mechanism to ensure sufficient liquidity within the banking system. The FSC also launched measures aimed at promoting financial stability, while the relevant ministries actively introduced complementary support initiatives, including financing, subsidies, and tax incentives.

The Bank will take appropriate measures to safeguard financial stability

In 2024, Taiwan's economy recorded steady growth, while inflation gradually eased. Against this backdrop, Taiwan's financial markets remained sound, financial institutions maintained solid operations, and the financial infrastructure functioned smoothly. Overall, Taiwan's financial system remained broadly stable.

However, since early 2025, the spillover effects of US tariff policies have undermined global financial market stability, dampened global economic growth prospects, and intensified inflationary pressures in many economies. These developments may further transmit negative effects from the real economy to the financial system, thereby posing potential risks to Taiwan's financial stability.

In addition, downside risks from China's economy, geopolitical tensions, climate change, and supply chain shifts may adversely affect global economic development and financial stability. In view of these numerous downside risks to the economic and financial outlook, the Bank will continue to pay close attention to evolving developments and their potential impact on domestic economic and financial conditions. The Bank will also take appropriate measures in a timely manner to safeguard financial stability.