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

4.1 Measures taken by the Bank and the FSC to promote financial stability in 2024

4.1.1 Measures taken by the Bank to promote financial stability

Since early 2024, Taiwan's inflation rate has generally trended downward. Nevertheless, to anchor domestic inflation expectations, the Bank raised its policy rates in March 2024. Furthermore, to curb excessive allocation of banks' credit resources to the real estate market, the Bank adjusted its selective credit control measures twice, in June and September 2024, with revisions including lowering the cap on the LTV ratios for home loans and unsold housing unit loans. In August, the Bank further required banks to formulate internal plans to manage the overall volume of their real estate loans. The Bank also actively conducted targeted financial inspections to ensure that financial institutions remain fully compliant with applicable regulations. In addition, the Bank continued to maintain flexible FX rate policies aimed at preserving the dynamic stability of the NT dollar exchange rate, thereby supporting the sound development of Taiwan's financial system and sustainable growth of the overall economy.

The Bank raised the policy rates and conducted open market operations

As global inflation gradually eased, Taiwan's CPI and core CPI inflation rates also showed a downward trend. However, in light of a proposed electricity rate hike that could increase inflation expectations, the Bank raised its policy rates by 0.125 pps on March 22, 2024[63] to anchor domestic inflation expectations and maintain price stability. Moreover, to enhance the effectiveness of its selective credit control measures, the Bank raised the reserve requirement ratios on NTD deposits twice, by 0.25 pps on July 1 and on October 1, 2024, to foster sound economic and financial development.

Furthermore, the Bank conducted open market operations and maintained reserve money at an appropriate level, in accordance with domestic and international economic and financial

[63] The Bank raised policy rates six times between March 18, 2022, and March 22, 2024, with a cumulative increase of 0.875 pps. On March 18, 2022, the Bank raised the discount rate, the rate on refinancing of secured loans, and the rate on temporary accommodations by 0.25 pps. Subsequently, at each of the quarterly meetings held on June 17, 2022, September 23, 2022, December 16, 2022, March 24, 2023, and March 22, 2024, the Bank further raised the policy rates by 0.125 pps.

conditions. This was primarily achieved through the issuance of NCDs. At the end of 2024, the outstanding amount of NCDs issued by the Bank was NT$7,332 billion, while the average annual growth rate of reserve money stood at 5.58%. In line with the Bank's policy rate hikes, the weighted average overnight call loan rate rose from 0.69% at the end of 2023 to 0.82% at the end of 2024.

The Bank continued to adopt selective credit control measures to address the overconcentration of credit in real estate lending

Since December 2020, the Bank has adjusted its selective credit control measures on five occasions – in December 2020, and in March, September, December 2021, and in June 2023. These measures have helped mitigate the risks associated with banks' real estate lending. Nevertheless, real estate lending still made up a large proportion of total bank lending. In response, the Bank introduced two further amendments to the *Regulations Governing the Extension of Mortgage Loans by Financial Institutions* in June and September 2024. The revised regulations lowered the cap on the LTV ratio to 50% for a second home loan of a natural person and extended the applicable scope from the restricted "specific areas" to nationwide. In addition, the LTV ratio cap was reduced to 30% for (1) corporate borrowers, (2) high-value housing loans, (3) third or more home loans borrowed by individuals, and (4) loans for unsold housing units. A new provision was also introduced that natural persons who already own real estate are not eligible for a grace period on their first home loans (Table 4.1). This measure aims to further enhance banks' risk management in the banking sector's real estate lending practices. In October 2024, the Bank provided relief measures to accommodate borrowers with inherited properties or actual relocation requirements, thereby supporting the funding needs of non-speculative homebuyers.

Table 4.1 Main amendments to the *Regulations Governing the Extension of Mortgage Loans by Financial Institutions* in June and September, 2024[1]

Loan types		Loan terms		
		Prior to the Amendment	June 13, 2024 Amendment	September 19, 2024 Amendment
Housing loans borrowed by corporates		LTV ratio cap: 40%, No grace period	(unchanged)	LTV ratio cap: 30%, No grace period
Natural persons	High-value housing loan	LTV ratio cap: 40%, No grace period	(unchanged)	LTV ratio cap: 30%, No grace period

Loan types		Loan terms		
		Prior to the Amendment	June 13, 2024 Amendment	September 19, 2024 Amendment
	First home loan to a borrower owning building(s) in his/her name	(nil)	(nil)	No grace period
	Second home loan	Housing in the "specific areas"[2]; LTV ratio cap: 70%; No grace period	Housing in the "specific areas"[2]; LTV ratio cap: 60%; No grace period	Housing nationwide; LTV ratio cap: 50%; No grace period
	Third (or more) home loan	LTV ratio cap: 40%, No grace period	(unchanged)	LTV ratio cap: 30%, No grace period
Land loans		● LTV ratio cap: 50% (10% to be withheld until construction commences) ● Requiring the borrower to submit a substantive development plan for the land purchased, and to undertake in writing a specific time frame to commence construction[3]	(unchanged)	(unchanged)
Unsold housing unit loans		LTV ratio cap: 40%	(unchanged)	LTV ratio cap: 30%
Mortgage loans for idle land in industrial districts		LTV ratio cap: 40%[4]	(unchanged)	(unchanged)

Notes: 1. The amendment dated June 13, 2024, took effect on June 14, 2024, while the amendment dated September 19, 2024, came into force on September 20, 2024.
2. Specific areas include Taipei City, New Taipei City, Taoyuan City, Taichung City, Tainan City, Kaohsiung City, Hsinchu County, and Hsinchu City.
3. Determination of the "specific time frame": Financial institutions should carefully verify and assess the actual time required for the borrower to commence construction. The time frame should not exceed 18 months in principle.
4. Exemptions apply under the following conditions: (1) construction on the collateralized land has commenced; or (2) the borrower has submitted a substantive project development plan and a written affidavit stating that construction will commence within one year.

Source: CBC.

Moreover, in August 2024, the Bank employed moral suasion to encourage banks to gradually adjust the total amount of real estate loans for a one-year period from 2024 Q4 to 2025 Q4, based on their respective operational conditions. While this action was aimed at addressing the overconcentration of credit in real estate loans, it was also premised that banks should pay attention not to affect the financing needs of homebuyers without self-occupied residences and of developers engaged in urban renewal and the reconstruction of old and unsafe buildings.

To monitor compliance with regulatory requirements, the Bank has required financial institutions to submit monthly reports on real estate mortgage loans since December 2020 and has conducted off-site monitoring accordingly. If unusual changes or unreasonable deviations are identified in loan portfolios, the Bank would then carry out on-site inspections. Recently, through on-site targeted inspections of real estate lending operations, the Bank identified key areas of non-compliance and will, through enhanced inspections, urge banks to fully comply with relevant regulatory requirements and address the identified deficiencies so as to improve their management of real estate credit risk.

In addition, the Bank adopted monetary tightening in a moderate and gradual manner, which also contributed to strengthening the effectiveness of selective credit control measures. Since the second half of 2024, real estate transactions have decreased, and public expectations of housing price rises have eased. The share of housing loans to individuals without self-occupied residences has increased, while the concentration of credit in real estate loans has declined. These all reflected the progressive effectiveness of the credit control measures. Looking ahead, the Bank will pay close attention to developments related to US tariff policies and their potential impact on the domestic housing market. The Bank will also continue to assess the effectiveness of the selective credit control measures and fine-tune the regulatory measures as needed, with the aim of promoting financial stability and ensuring sound banking operations.

Adopting a flexible FX rate policy to maintain the dynamic stability of the NT dollar exchange rate

As a small and open economy, Taiwan is highly interconnected through trade with other economies. Excessive exchange rate volatility could pose risks to economic development and financial stability. To mitigate such risks, the Bank adopts a managed floating exchange rate regime, under which the NT dollar exchange rate is, in principle, determined by market forces. However, when disorderly movements, such as massive inflows or outflows of short-term capital, or seasonal factors cause excess volatility and disorderly conditions in the FX market with potential adverse impacts on domestic economic development and financial stability, the Bank will maintain the FX market order as needed in line with its policy mandate.

In recent years, massive and frequent movements of international short-term capital flows have overtaken international trade flows and macroeconomic fundamentals as the primary drivers of exchange rate fluctuations in the short term. To mitigate the disruptive effects of such capital movements on the domestic FX market, the Bank conducts “leaning against the wind” operations to maintain order in the FX market when necessary. These actions aim to mitigate exchange rate volatility and foster FX market efficiency. By maintaining the dynamic stability of the NT dollar exchange rate, the Bank supports a stable macroeconomic environment conducive to the sustainable development of Taiwan’s economy.

In addition, the Bank continued to adopt appropriate administrative measures to safeguard order in the FX market and promote its sound development. These measures mainly included: (1) monitoring up-to-date transaction information in the FX market through the Real-Time Reporting System for Large-Amount FX Transactions; (2) reinforcing off-site monitoring efforts to ensure that forward transactions are based on genuine needs, thereby mitigating speculative trading in the FX market; (3) urging authorized FX banks to enhance their exchange rate risk management, in order to reduce FX exposures of individual banks and limit systemic risks in the FX market; and (4) reinforcing targeted inspections of FX operations to maintain the discipline of the FX market.

4.1.2 Measures undertaken by the FSC to maintain financial stability

Since the beginning of 2024, the FSC has implemented several key measures to strengthen financial stability. These include the announcement of localization and transitional arrangements for the adoption of the TW-ICS, as well as amendments to the methods for calculating banks’ regulatory capital and risk-weighted assets. These efforts aim to support the domestic insurance and banking sectors in smoothly aligning with international standards. In addition, the FSC has strived to strengthen the capital deployment and asset-liability management (ALM) capabilities of the insurance sector. It has also enhanced risk controls regarding AI applications in the financial sector and improved the management of VASPs. Moreover, the FSC has continued to bolster cybersecurity defense mechanisms in the financial sector and to promote measures to stabilize the real estate market. Collectively, these measures are designed to safeguard financial stability.

Strengthening capital deployment and ALM capabilities of the insurance sector

To support life insurance companies in expanding their domestic investments, the FSC reduced the risk coefficients applied to certain infrastructure investments. Specifically, in September and December 2024, the FSC lowered the risk coefficients from 10.18% to 1.28% for insurance companies' investments made through domestic private equity funds or venture capital firms, provided that these investments are fully allocated to domestic public infrastructure projects. These adjustments are intended to channel insurance capital toward domestic public infrastructure and to mitigate currency mismatches in insurers' asset allocation.

Furthermore, in order to strengthen insurers' attention to asset-liability matching, the FSC published a revised draft of the *Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises* in April 2024. The revision stipulates that the policy value deficiency reserves should be deposited in a special reserve under equity, thereby limiting insurers' earnings distribution with the aim of protecting policyholder interests and ensuring that insurers maintain adequate solvency.

Enhancing risk control in AI applications within the financial sector

In order to encourage financial institutions to effectively leverage technology, the FSC issued the *Guidelines for AI Applications in the Financial Industry* (hereinafter referred to as the *AI Guidelines*) in June 2024. These guidelines were developed in accordance with the *Core Principles and Policies for AI Applications in the Financial Industry*, while also drawing on relevant documents released by international organizations and other countries, as well as insights from academic and industry experts. The *AI Guidelines* adopt a risk-based approach to implementing the core principles. Financial institutions are encouraged to assess the specific risks associated with their AI application scenarios and, based on the six core principles and related considerations,[64] reasonably select appropriate risk mitigation mechanisms and implementation methods. The *AI Guidelines* also serve as a reference for the adoption, utilization, and management of AI systems.

Improving the management of VASPs

To facilitate sound development of virtual asset services, the FSC assisted VASPs in establishing an industry association in August 2024. The FSC also issued six self-regulatory rules covering: (1) listing and delisting review mechanisms, (2) consumer protection, (3) anti-money laundering (AML) and countering the financing of terrorism (CFT), (4) anti-fraud and industry-wide joint defense mechanisms, (5) information security management, and (6) separation and custody of client assets. Penal provisions were also incorporated into these rules to strengthen industry self-regulation. In addition, Article 6 of the *Money Laundering Control*

[64] The six core principles include: (1) establishing governance and accountability mechanisms; (2) emphasizing fairness and human-centric values; (3) safeguarding privacy and customer rights; (4) ensuring system robustness and security; (5) emphasizing transparency and explainability; and (6) promoting sustainable development.

Act (hereafter referred to as the *AML Act*), which came into effect on November 30, 2024, stipulates that VASPs that have not completed AML registration with the FSC are prohibited from providing virtual asset services. Violators are subject to criminal liability.

In line with amendments to the *AML Act*, the FSC promulgated the *Regulations Governing Anti-Money Laundering Registration of Enterprises or Persons Providing Virtual Asset Services* in November 2024. These regulations clarify the types of business activities and registration systems for VASPs, including conditions and procedures for registration, regulatory management of the entities, and transitional provisions, thereby enhancing the AML supervision of VASPs.

Bolstering cybersecurity defense mechanisms in the financial sector

In response to the growing cybersecurity needs arising from the post-pandemic period and digital transformation, advanced economies such as the US and the EU have actively developed cybersecurity defense strategies based on the Zero Trust Architecture.[65] The FSC, drawing on international practices and adapting to the characteristics of Taiwan's financial sector and existing cybersecurity capabilities, issued the *Guidelines for the Adoption of Zero Trust Architecture in the Financial Sector* in July 2024. The guidelines outline a four-level implementation framework – static, dynamic, real-time, and integrated – and suggest that financial institutions adopt a risk-based approach by prioritizing high-risk areas – such as remote work environments and cloud service access that fall outside the traditional cybersecurity perimeter – as the initial targets for implementing the Zero Trust Architecture. This initiative aims to guide the financial sector in progressively implementing Zero Trust principles and strengthening cybersecurity defenses. Going forward, the FSC will collaborate with industry associations and relevant institutions to jointly assess actual cybersecurity protection needs and implementation feasibility. Appropriate measures will be incorporated into regulatory requirements in a timely manner to raise the overall level of cybersecurity resilience across the financial industry.

Taking measures to help stabilize the real estate market

To support individuals without self-occupied residences in obtaining home loans, the FSC has continued to collaborate with relevant ministries to promote real estate stabilization policies. It also supervises banks to implement relevant measures, including: (1) requiring banks to

[65] Zero Trust Architecture is based on the principle of "never trust, always verify." It enhances the security of access control to systems or data through continuous and diverse authentication mechanisms.

prioritize both new and recycled loan quotas for loans to first-time homebuyers, loans for self-occupied residences, and previously committed loans. In addition, banks are required to establish mechanisms to manage the allocation of residential mortgage loans so as to prevent excessive credit concentration in large-amount loans and construction-related loans; and (2) overseeing the Bankers Association in establishing a dedicated information disclosure section for residential mortgage loans, allowing the public to access information on the available loan quota and contact details for each bank.