Central Bank of the Republic of China (Taiwan)

Financial Stability Report

May 2026 | Issue No. 20

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About the Financial Stability Report

Key points of the task to promote financial stability

Promoting financial stability not only is one of the operational objectives pursued by the Central Bank of the Republic of China (Taiwan) (CBC), but also lays the cornerstone for the effective implementation of monetary policy. To achieve this objective, in addition to serving as lender of last resort when necessary, the Bank regularly monitors the financial system and the overall economic and financial environment. This allows it to be constantly aware of the potential vulnerabilities and risks that could threaten financial stability so that the relevant financial authorities and market participants can respond in a timely manner to avoid financial turbulence.

In its work to promote financial stability, the Bank focuses primarily on the risks that could affect the stability of the overall financial system. Nevertheless, the Bank still pays close attention to the status of individual institutions as their weaknesses can trigger systemic risks.

Purpose of this report

The Financial Stability Report is issued annually. The aims of this report are to offer insight into the state of Taiwan's financial system and its potential vulnerabilities and risks, and to spark broad-based discussion that will enhance awareness of risk among market participants and spur them to take responsive action in a timely manner. This does not mean, however, that the risks mentioned in this report are sure to occur. Furthermore, this report is intended to serve as a reference for financial authorities, market participants, and others interested in the subject. Readers are advised to interpret or quote the information contained herein with caution.

Definition of financial stability

There is as yet no universally accepted definition of "financial stability." Defined positively, "financial stability" can be thought of in terms of the financial system's ability to: (1) facilitate an efficient allocation of economic resources both spatially and intertemporally; (2) assess and manage financial risks; and (3) withstand adverse shocks. From a negative view, "financial instability" refers to the occurrence of currency, banking, or foreign debt crises, or inability of the financial system to absorb adverse endogenous or exogenous shocks and allocate resources efficiently, with the result that it cannot facilitate real economic performance in a sustained manner.

Note: ***Except as otherwise noted, all data and information cited in this report are current as of April 30, 2026.***

Abstract

In 2025, despite the impact of US tariff policies and international geopolitical conflicts, the global economy continued to grow steadily, and financial conditions shifted from tightening toward easing. Meanwhile, Taiwan witnessed robust economic growth and moderate inflation. Corporate revenues continued to grow, household debt burdens eased slightly, and real estate market transactions cooled down. In this macroeconomic environment, Taiwan's financial markets experienced periods of volatility but remained resilient. Most financial institutions maintained sound operations and major domestic payment systems functioned in an orderly manner. On the whole, Taiwan's financial system remained stable. However, amid ongoing uncertainties stemming from geopolitical conflicts, developments in US trade policy and the monetary policy paths of major economies, the Bank will closely monitor subsequent developments and take timely and appropriate policy measures to promote financial stability.

The macroeconomic environment was impacted by US trade policy changes and geopolitical conflicts

Regarding international economic and financial conditions, in 2025, bolstered by the robust development of emerging technologies such as artificial intelligence (AI), which helped cushion the adverse effect of high US tariffs, the global economy grew steadily and financial conditions eased somewhat. Since February 2026, however, uncertainty surrounding the global economic outlook has increased amid heightened geopolitical tensions such as the Middle East conflict, changes in US trade policies, and the future paths of monetary policy among major central banks. These factors could lead to slowing global economic growth, resurging inflationary pressures, and intensified financial market volatility. Amid compounding risks, global financial conditions could tighten, thereby increasing risks to financial stability and warranting close monitoring.

Domestically, Taiwan benefited from stronger export and investment momentum in 2025, with the economic growth rate reaching a 15-year high. Steady economic growth is expected to continue into 2026, with inflation remaining moderate. The revenues of listed companies continued to grow, with their financial structures remaining sound, although profitability

diverged across major industries. Household debt burdens decreased slightly, while credit quality remained sound. As real estate market activity moderated, mortgage burdens eased marginally but continued to weigh on homebuyers. Overall, heightened uncertainty surrounding the global economic outlook and increased financial market volatility may affect the operating outlook for Taiwan's corporate sector, the debt-servicing capacity of households, and real estate market dynamics. Accordingly, close monitoring of these developments is warranted.

Financial markets, institutions, and infrastructures in Taiwan maintained smooth operations

In 2025, the outstanding amount of issuance and trading volume of bills and bonds generally expanded compared to the previous year. After a sharp decline in April, domestic stock price indices recovered quickly before repeatedly hitting record highs. However, market volatility and the risk of corrections should be monitored with caution. The NT dollar exchange rate against the US dollar experienced a brief period of sharp appreciation and elevated volatility, followed by a gradual depreciation and lower volatility. Overall, the foreign exchange market remained orderly. Domestic banks continued to post record-high profits, supported by sound asset quality and adequate capital levels. Life insurance companies experienced declines in both profits and capital adequacy ratios, while remaining exposed to higher market risks. Bills finance companies registered significant profit growth and a rebound in capital adequacy ratios, though their liquidity risks remained elevated.

Meanwhile, major domestic payment systems continued to operate smoothly, and the common infrastructure for retail payments was further enhanced. The Financial Supervisory Commission (FSC) amended relevant regulations for the insurance industry to bolster its risk-bearing capacity and spearheaded the establishment of a regulatory framework governing virtual asset service providers and stablecoin issuers in response to the rapid development of virtual asset markets. The Bank also continued to review and revise relevant foreign exchange regulations.

The Bank and the FSC continued to implement measures to promote financial stability

Since early 2025, the Bank has kept the policy rates unchanged and conducted open market operations to manage liquidity within the banking system. Moreover, the Bank appropriately adjusted its selective credit control measures in March 2026, while continuing to adopt a flexible foreign exchange policy to maintain dynamic stability in the NT dollar exchange rate. Alongside efforts to enhance risk management capabilities in the insurance industry, the FSC strengthened the legal framework for financial holding company mergers, bolstered cybersecurity resilience, promoted sustainability-related disclosures, and refined the anti-fraud legislation, thereby sustaining financial stability.

The Bank will continue to take timely and appropriate measures to safeguard financial stability

In 2025, Taiwan's financial markets experienced periods of volatility but remained resilient, while financial institutions generally maintained sound operations, and major payment systems functioned smoothly. Overall, the financial system remained stable. However, since early 2026, geopolitical conflicts, developments in US trade policy, the monetary policy paths of major economies, weak domestic demand and industrial overcapacity in China, as well as climate change risks have remained sources of uncertainty that could adversely affect global economic development and financial stability, thereby posing risks to Taiwan's financial system. The Bank will continue to closely monitor these developments and their potential impact on Taiwan's economy growth and financial system, and remains committed to taking timely and appropriate measures to safeguard domestic financial stability.

I. Overview

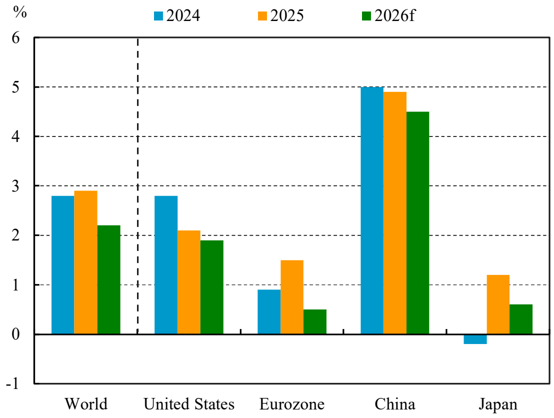
Macro environmental risk factors

International economic and financial conditions

Global economy expanded steadily, while uncertainty surrounding the economic outlook remained elevated

In 2025, supported by the robust development of emerging technologies such as AI, which helped mitigate the adverse effects of US tariff policies, the global economy expanded steadily. S&P Global[1] estimated the annual global economic growth rate at 2.9% for the year (Chart 1.1). As international oil and grain prices declined, the global consumer price index (CPI) inflation rate continued to ease to 3.2%.

Chart 1.1 Global economic growth rates



Note: Figures for 2026 are S&P Global Market Intelligence estimates.
Source: S&P Global Market Intelligence (2026/5/15).

Looking ahead to 2026, S&P Global forecasted global economic growth to slow to 2.2% (Chart 1.1), mainly owing to the Middle East conflict, geopolitical risks, shifts in US trade policies, and uncertainty over the future monetary policy paths of major central banks. In addition, higher energy prices may push global inflation up to 4.2%. Should the conflict in the Middle East persist, it could exert further upward pressure on global inflation and trigger second-round inflation effects, whereby rising inflation expectations drive sustained price increases.

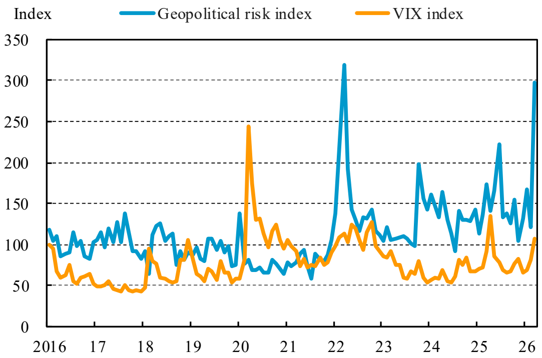
[1] S&P Global Market Intelligence (2026), *Global Executive Summary*, May.

The Middle East conflict heightened financial market volatility and could lead to tighter global financial conditions

Following the announcement of reciprocal tariffs by the US in April 2025, global stock markets declined sharply and market risk aversion increased, resulting in a temporary but significant tightening of global financial conditions. However, the subsequent postponement of tariff measures by the US, together with trade negotiations with multiple economies and an agreement with China to suspend the imposition of additional high tariffs, helped to ease market panic. As a result, global asset prices rebounded markedly and financial conditions became more accommodative.

Since February 28, 2026, the conflict in the Middle East has fueled a dramatic spike in the geopolitical risk index and heightened financial market volatility (Chart 1.2). Although global financial conditions have remained accommodative by historical standards, the interaction of multiple risk factors could lead to further tightening in global financial conditions and increase risks to financial stability, thereby warranting close attention.

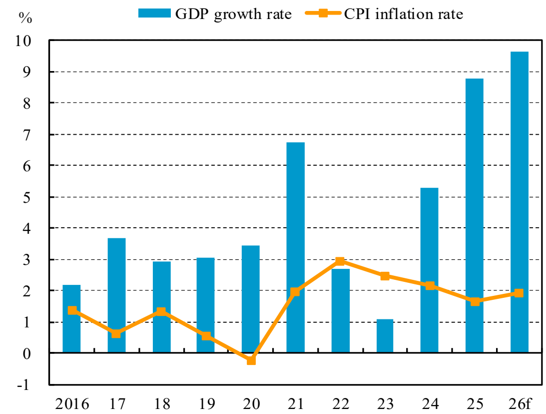
Chart 1.2 Geopolitical risk index and VIX index



Notes: 1. The Geopolitical Risk Index is constructed by quantifying the level of attention to geopolitical risks in news coverage by 10 major media outlets.
2. The VIX Index is estimated using end-January 2016 data as the base value of 100.

Source: IMF (2026), *World Economic Outlook*, April.

Chart 1.3 Economic growth rate and CPI inflation rate of Taiwan



Note: Figures for 2026 are DGBAS forecasts released on May 29, 2026.

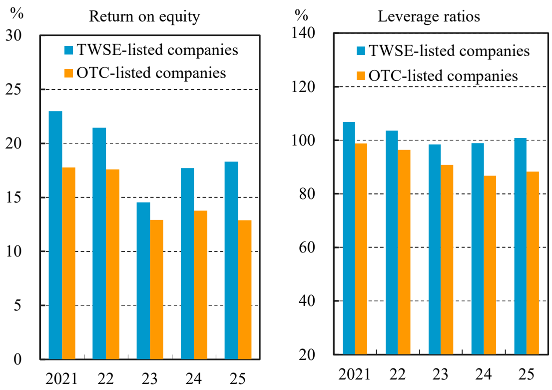
Source: DGBAS.

Domestic macro environment

Taiwan's economy expanded steadily, while inflation remained moderate

In 2025, supported by strong demand for emerging technology applications and robust private investment, Taiwan's economic growth rate expanded by 8.76%, reaching a 15-year high. Meanwhile, domestic inflation eased gradually, with CPI inflation falling to 1.66% (Chart 1.3).

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.

Looking ahead to 2026, continued expansion in AI-related business opportunities is expected to sustain steady growth in exports. Nevertheless, uncertainties surrounding recent US tariff measures and the Middle East conflict may continue to weigh on the global economic outlook. In March 2026, the Bank projected the annual economic growth rate at 7.28%. In May 2026, the Directorate-General of Budget, Accounting and Statistics (DGBAS) revised its forecast upward to 9.64% (Chart 1.3), the highest level in 16 years. The upward revision primarily reflected stronger-than-expected demand for emerging technologies, including AI, high-performance computing, and cloud infrastructure, which is expected to further support Taiwan's exports, investment, and private consumption.

Regarding inflation, the recent Middle East conflict has pushed up international crude oil prices. Nevertheless, the government has continued to implement supply-side measures to help stabilize domestic prices. In March 2026, the Bank projected CPI inflation at 1.80%. On the other hand, in May 2026, the DGBAS revised its forecast for CPI inflation upward to 1.93% (Chart 1.3), mainly reflecting continued increases in both goods and services prices. Given that the impact of the Middle East conflict on the domestic economy will depend on its duration, intensity, and geographical scope, a prolonged conflict could generate spillover effects on domestic economic activity and inflation. Accordingly, subsequent developments warrant continued close attention.

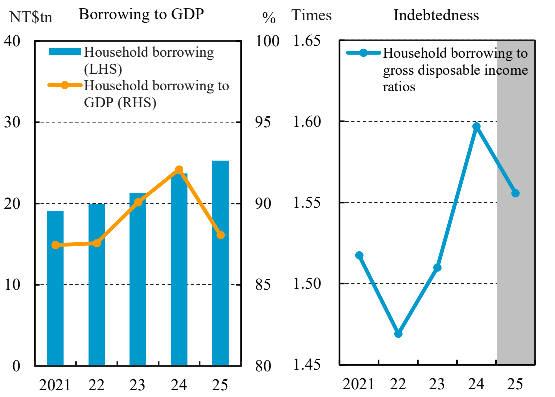
Overall revenues of the corporate sector[2] continued to grow, although profitability diverged across major industries

Supported by expanding global demand for AI and strong export momentum, overall revenues of the corporate sector continued to grow in 2025. Profitability of the Taiwan Stock Exchange (TWSE)-listed companies improved, while the average return on equity (ROE) of the Taipei

[2] In this report, the corporate sector refers to the non-financial corporate sector.

Exchange (TPEx)-listed companies declined owing to slower profit growth among traditional industries (Chart 1.4, left panel). At the end of the year, leverage ratios of listed companies edged up slightly (Chart 1.4, right panel), although their overall financial structures remained sound and leverage stayed at moderate levels. Current ratios declined, while interest coverage ratios diverged in line with profitability. Nevertheless, overall short-term debt-servicing capacity remained sound. At the end of 2025, the non-performing loan (NPL) ratio for corporate loans extended by financial institutions declined to a record low of 0.14%, indicating that the overall credit quality of the corporate sector remained sound.

Chart 1.5 Household indebtedness



Note: Total disposable income in shaded area is a CBC estimate.
Sources: CBC, JCIC, and DGBAS.

Household debt burdens eased slightly, and financial health remained sound; changes in the debt servicing capacity of some households with higher debt burdens warrant close attention

Household borrowing reached NT$25.29 trillion at the end of 2025, equivalent to 88.06% of annual GDP (Chart 1.5, left panel), with the annual growth rate moderating to 6.68%. As household disposable income increased, the ratio of household borrowing to total disposable income declined to 1.56 (Chart 1.5, right panel), indicating a modest easing in the debt burden. Meanwhile, the household debt servicing ratio declined slightly to 49.63%, suggesting that short-term household debt servicing pressure eased. In addition, households in Taiwan maintained substantial net worth,[3] showing that their overall financial health was sound. Nevertheless, the impact of income disparities on households' debt servicing capacity warrants continued attention.

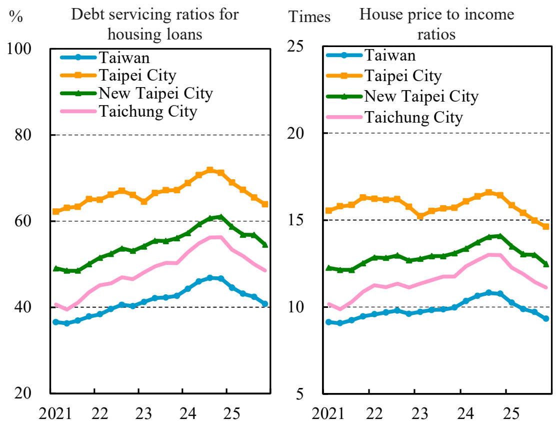
Moreover, the NPL ratio of household borrowing from financial institutions rose slightly to 0.15% at the end of 2025 but remained at a low level, indicating sound credit quality. Looking ahead, the recent Middle East conflict could reignite inflationary pressures and increase the expenditure burden on households. Together with lingering uncertainties surrounding US tariff policies and concerns over elevated valuations in AI-related industries, these developments could heighten financial market volatility and increase financial risks facing the household

[3] Household net worth includes household net non-financial assets and net financial assets.

sector. Accordingly, changes in the debt servicing capacity of households with higher debt burdens warrant close attention.

As activity in the real estate market moderated, the public's homebuying burden eased marginally but remained elevated

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



Notes 1. Debt servicing ratio for housing loans = median monthly mortgage payment/median monthly household disposable income.
2. Housing price to income ratio = median housing price/ median annual household disposable income.
Source: *Statistic on Housing Affordability*, MOI.

Since early 2025, the Bank has continued to implement its selective credit control measures and has required banks to meet their self-set quantitative control targets for aggregate real estate lending. Consequently, banks adopted more prudent real estate lending standards. In addition, following the announcement of US reciprocal tariff measures in April 2025, increased financial market volatility dampened homebuyers' confidence. Therefore, the total number of building ownership transfers stood at 261 thousand units in 2025, a decrease of 25.45% year on year. Regarding real estate prices, owing to cooling activity in the housing market, the Ministry of the Interior (MOI) housing price index declined marginally in 2025. The Sinyi housing price index (for existing houses) dropped gradually, while the Cathay housing price index (for newly launched housing projects) consolidated at elevated levels. In 2025, both Taiwan's debt servicing ratio for housing loans and housing price-to-income ratio continued to ease on a quarter-by-quarter basis. Among the six metropolitan areas, Taipei City recorded the heaviest mortgage burden (Chart 1.6).

Following the Bank's strengthening of its selective credit control measures in September 2024, the annual growth rate of loans for housing purchases and refurbishments moderated from a peak of 11.15% at the end of September 2024 to 4.46% at the end of April 2026. The interest rate on mortgage loans gradually rose to 2.327% in January 2026, the highest level since January 2009, before easing moderately to 2.307% in April. The NPL ratio of domestic banks' construction loans declined to 0.07% by the end of April 2026 owing to the write-offs of some bad debts. Meanwhile, the NPL ratio of house-purchasing loans remained low, fluctuating between 0.07% and 0.08%, indicating prudent risk management in real estate lending.

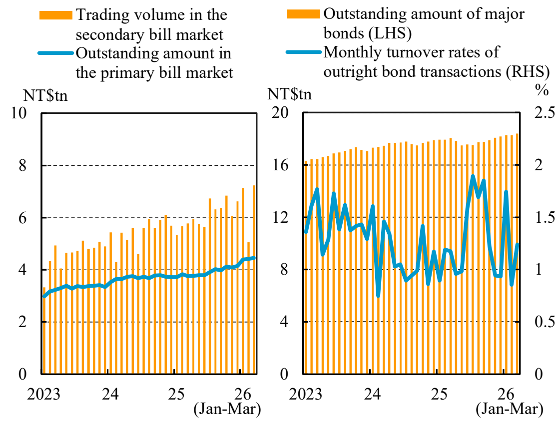
Financial system assessment

Financial markets

Outstanding amount of bill and bond issuance and trading volume generally expanded year on year

At the end of 2025, the outstanding amount of bill issuance in the primary market rose by 11.90% year on year, mainly driven by growth in commercial paper (CP) issuance. Correspondingly, the trading volume of bills in the secondary market expanded by 11.82% year on year to NT$73.08 trillion, with the annual growth rate recorded at 15.76% in 2026 Q1 (Chart 1.7, left panel). Meanwhile, at the end of 2025, the outstanding amount of bond issuance grew by 1.78% from a year earlier and reached another record high, mainly driven by increased corporate bond issuance for capital raising. However, the trading volume in the secondary market[4] decreased slightly by 0.32% year on year. The average monthly outright turnover rate of major bonds[5] surged twice before declining to 1.24% in March 2026 (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.

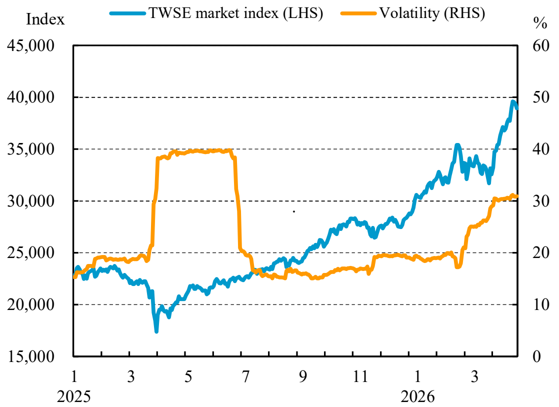
In terms of short-term market rates, the interbank overnight call loan rate showed little change, indicating that overall market liquidity remained ample. As for long-term market rates, Taiwan's benchmark 10-year government bond yields (hereinafter referred to as domestic bond yields) trended downwards to a yearly low of 1.225% in mid-October 2025 before rebounding. Looking ahead, geopolitical tensions in the Middle East and the future monetary policy paths of major central banks could affect global bond yields, which, in turn, could lead to fluctuations in domestic bond yields. Therefore, the interest rate risks associated with bond investments by domestic financial institutions warrant close attention.

4 Includes repo and outright transactions.
5 Includes government bonds, international bonds, corporate bonds, and financial debentures.

Stock indices rebounded rapidly after a plunge and repeatedly reached new record highs

Affected by US tariff policies, the Taiwan Stock Exchange Capitalization Weighted Stock Index (TAIEX) fell to a yearly low of 17,392 in April 2025. Subsequently, reduced uncertainty surrounding US tariff policies, strong demand for AI applications, robust export performance, and US interest rate cuts supported a rebound in the TAIEX, which gained 25.74% for the year and outperformed most major international stock markets. Meanwhile, market volatility gradually moderated toward the end of the year (Chart 1.8). In March 2026, escalating geopolitical tensions in the Middle East weighed on global economic and inflation prospects. Consequently, the TAIEX reversed its course and declined amidst global market turbulence, while market volatility escalated once again. In April, as the Middle East conflict temporarily subsided and foreign capital flowed into the domestic stock markets, the TAIEX repeatedly reached new record highs (Chart 1.8).

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.

Taiwan's stock market performed strongly. However, given its structural characteristics, including its close linkage with foreign capital flows, the high concentration in the technology sector, and the rapid expansion of the exchange-traded fund (ETF) market, alongside uncertainty surrounding US tariff policies and rising geopolitical risks, the index faces heightened volatility and correction pressures. These pressures are further compounded by substantial short-term gains in the domestic stock market and a sharp increase in margin loan balances. Accordingly, developments in market risk warrant careful monitoring.

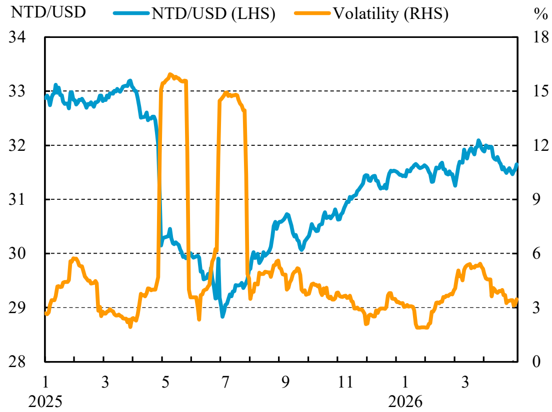
Volatility of the NT dollar against the US dollar increased but remained relatively stable over the long term

During the second quarter of 2025, driven by foreign capital inflows to Taiwan's stock markets and increased US dollar selling by exporters amid expectations of NT dollar appreciation, the

NT dollar appreciated sharply against the US dollar. In the second half of 2025, however, the renewed strength of the US dollar, coupled with profit-taking by foreign investors and their net sales of Taiwanese equities, caused the NT dollar to reverse its earlier appreciation and depreciate against the US dollar. The NT dollar exchange rate closed at 31.438 against the US dollar at the end of 2025, representing an appreciation of 4.27% over the year. The NT dollar nominal effective exchange rate (NEER) index declined slightly to 103.31 at the end of 2025. Since the beginning of 2026, depreciation of the NT dollar against the US dollar contributed to a further decline in the NEER index to 102.12 at the end of April.

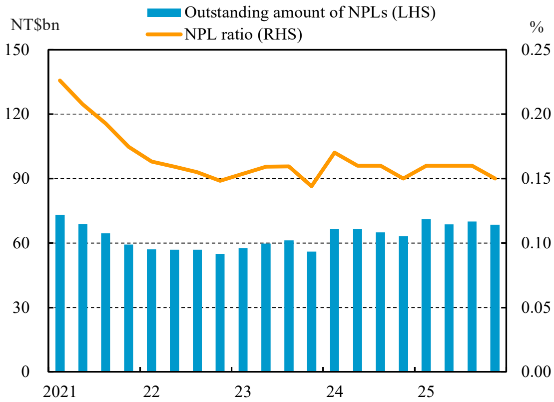
In 2025, the volatility of the NT dollar against the US dollar spiked twice, in May and again in July. For the year as a whole, the volatility ranged between 1.92% and 15.94%, with an average of 5.59% (Chart 1.9). From January to April 2026, the volatility of the NT dollar ranged between 1.87% and 5.43%. Compared with other major currencies, the NT dollar remained relatively stable.

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.

Chart 1.10 NPLs of domestic banks



Note: Excludes interbank loans.
Source: CBC.

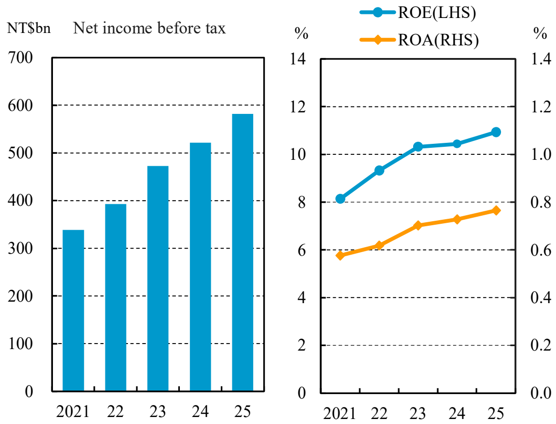
Financial institutions

Domestic banks continued to post record-high profits, while maintaining sound asset quality and adequate capital levels

In 2025, the growth of customer loans extended by domestic banks moderated, while the sectoral concentration of corporate loans decreased slightly. Meanwhile, the share of real estate-secured credit declined as well. The average NPL ratio remained low at 0.15% at the end of the year (Chart 1.10), reflecting sound asset quality. Provisions for loan losses remained sufficient. Although the credit quality of overseas commercial real estate (CRE) exposures remained weak at the end of the year, such exposures accounted for only a limited share of total lending and associated risks remained manageable. Additionally, the exposure of domestic banks to China, as a percentage of net worth, declined further to a record low of 14%. Nevertheless, given elevated economic and financial risks in China, continued close attention is warranted.

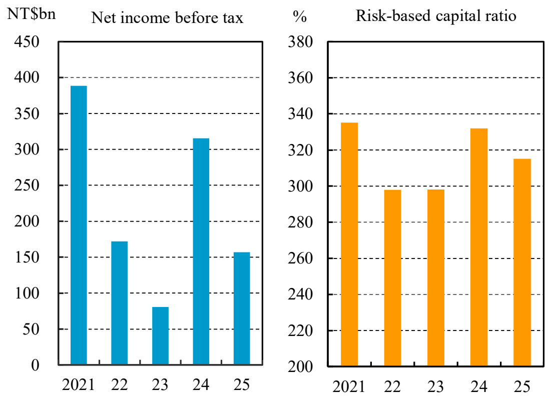
In 2025, benefiting from substantial increases in net interest income and net fee income, domestic banks' pre-tax net income grew by 11.62% year on year, reaching another record high of NT$581.9 billion (Chart 1.11, left panel). The average ROE and return on assets (ROA) also rose to 10.93% and 0.77%, respectively (Chart 1.11, right panel), reflecting a notable improvement in profitability. Furthermore, the capital adequacy ratio rose to 15.78%, while capital quality remained sound.

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.

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.

Life insurance companies experienced declines in profitability and risk-based capital (RBC) ratios

In 2025, owing to a sharp increase in foreign exchange losses resulting from the appreciation of the NT dollar against the US dollar, life insurance companies' pretax income fell considerably by 50.25% year on year to NT$156.9 billion (Chart 1.12, left panel). The average RBC ratio also declined to 315.09% at the end of 2025 (Chart 1.12, right panel), while the average equity to asset ratio[6] increased further to 7.86%.

Given currency mismatches between assets and liabilities, the profitability of life insurance companies remains highly susceptible to exchange rate fluctuations. At the end of 2025, the foreign exchange (FX) hedging ratio of life insurance companies declined to 50.23%, while

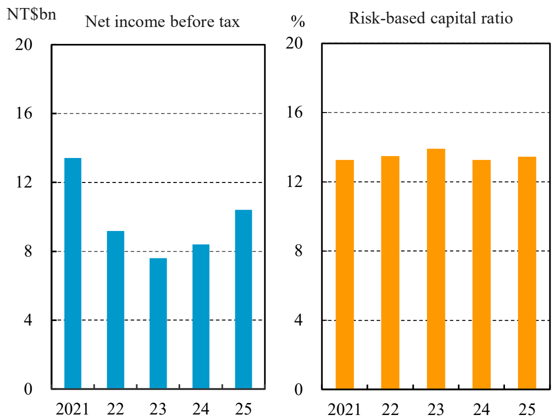
[6] Assets are exclusive of the assets of insurance products in separate accounts.

the accumulated FX valuation reserves increased to a record high of NT$613.7 billion. Nevertheless, exchange rate risk remained elevated owing to persistent currency mismatches. The investment positions of life insurance companies totaled NT$30.34 trillion at the end of 2025, with securities investments accounting for the largest share. Given the uncertainty surrounding US economic and trade policies, the future paths of monetary policy among major central banks, concerns over elevated valuations in AI-related industries, and geopolitical risks in the Middle East, the performance of domestic and international equity and bond markets could be adversely affected, thereby increasing equity and interest rate risks. Accordingly, related developments warrant close monitoring.

Bills finance companies saw an expansion in their guarantee business and substantial growth in profitability, although liquidity risks persisted

The amount of CP guaranteed by bills finance companies rose by 4.99% year on year to NT$634.1 billion at the end of 2025, while the concentration of credit secured by real estate climbed. The guaranteed advances ratio edged up to 0.62%, 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 23.96% year on year to NT$10.4 billion in 2025 (Chart 1.13, left panel), primarily driven by higher net interest income from investments in bonds and bills. The average capital adequacy ratio rebounded to 13.45% at the end of the year (Chart 1.13, right panel), and all companies remained well above the statutory minimum requirement of 8%. Nevertheless, bills finance companies continued to face maturity mismatches by funding long-term assets with short-term borrowing, leaving them exposed to heightened liquidity risk.

Financial infrastructure

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

The CBC Interbank Funds Transfer System (CIFS) operated smoothly in 2025, with total settlement amounts reaching 20.9 times Taiwan's annual GDP. The transaction value processed by the Interbank Financial Information System (IFIS) also increased by 2.85% compared to 2024. The overall consumption expenditure via various e-payment instruments[7] rose by 5.22%, mainly supported by the ongoing improvements in the shared infrastructure for domestic retail payments, which enhanced the convenience of e-payments.

Other measures to strengthen the financial system

To enhance the risk-bearing capacity of the insurance industry, the FSC introduced Taiwan's new-generation solvency regime in 2026. Modeled after the Insurance Capital Standard (ICS), the new regime revises capital classifications, expands the scope of risk capital calculations, and adjusts capital adequacy ratio requirements. The FSC also adopted transitional measures to mitigate the impact of the regime change. In addition, the FSC amended the *Regulations Governing the Preparation of Financial Reports by Insurance Enterprises* and the *Directions for the Setting Aside of Foreign Exchange Valuation Reserve by Life Insurance Enterprises*. These amendments revised the recognition of foreign exchange gains and losses, while strengthening life insurance companies' mechanisms for setting aside reserves and appropriating special surplus reserves in response to exchange rate fluctuations, thereby enhancing their financial resilience.

Moreover, in response to the rapid development of virtual asset markets, the FSC advanced the draft *Virtual Asset Service Act* to establish a regulatory framework governing virtual asset service providers (VASPs) and stablecoin issuers. The FSC also plans to require the adoption of IFRS 18 *Presentation and Disclosure in Financial Statements*, beginning in 2028, with a view to enhancing the transparency and comparability of financial statements. Meanwhile, the Bank continued to review and amend the *Directions Governing Banking Enterprises for Operating Foreign Exchange Business* and other relevant regulations, thereby simplifying foreign exchange procedures to support financial market development and enhance the efficiency of banks' foreign exchange operations.

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

Measures to promote financial stability

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

Measures undertaken by the Bank to promote financial stability

Since the beginning of 2025, the Bank has kept policy rates unchanged, given that domestic inflation has remained moderate and the economy has been expected to continue growing steadily, while prudently responding to uncertainty surrounding the global economic and financial outlook. In addition, in response to economic and financial developments, the Bank conducted open market operations and continued to issue negotiable certificates of deposit (NCDs) to maintain reserve money at an appropriate level.

Since 2025, housing market transactions have continued to decline, expectations of further housing price increases have moderated noticeably, housing price growth has slowed, and both the concentration and growth of real estate lending have declined, indicating that the selective credit control measures have gradually taken effect. Furthermore, in August 2024, the Bank requested banks to establish self-set quantitative control targets for aggregate real estate lending, followed by the seventh adjustment to the selective credit control measures in September. After the implementation of these measures, the excessive concentration of credit resources in the real estate sector has gradually eased. Accordingly, beginning in 2026, quantitative management of aggregate real estate lending was returned to banks' internal management mechanisms. Nevertheless, the Bank will continue to require banks to submit data reports on real estate lending on a monthly basis and will also strengthen its efforts in targeted financial examinations, so as to keep updated on the status of banks' real estate lending and to ensure bank compliance with relevant measures.

In March 2026, the Bank moderately raised the cap on the loan-to-value (LTV) ratio for second outstanding housing loans extended to natural persons from 50% to 60%, while maintaining the requirement that no grace period be granted. In addition, the Bank continued to adopt a flexible FX rate policy and undertook appropriate administrative measures. These measures included strengthening monitoring to ensure compliance with the genuine demand principle for forward FX transactions 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.

Measures undertaken by the FSC to maintain financial stability

Since 2025, the FSC has continued to refine the financial supervisory framework and strengthen risk management in the insurance sector, including introducing an exchange-rate averaging mechanism for the calculation of insurers' capital adequacy ratios, adjusting the basis for calculating policy reserves, and adopting transitional measures under the new-generation solvency regime, to mitigate the impact of exchange rate fluctuations on the insurance sector. In addition, the FSC required insurance companies to conduct stress tests covering market, insurance, and climate risks. The results showed that the insurance sector as a whole maintained capital adequacy ratios and net worth ratios above the statutory minimum requirements, demonstrating its ability to withstand changes in financial conditions and the impacts of climate change.

Moreover, the FSC amended the *Regulations Governing the Investing Activities of a Financial Holding Company* to strengthen the orderly conduct of mergers and acquisitions and enhance corporate governance. The FSC also released the *Financial Operational Resilience on Cybersecurity Ecosystem Blueprint* (*FORCE-B*) to enhance cybersecurity protection and operational resilience in the financial sector. Concurrently, anti-fraud mechanisms and a cross-sector fraud prevention and reporting system were established to enhance the monitoring of suspicious transactions and strengthen cross-industry cooperation. In addition, the FSC promoted the phased adoption of sustainability-related disclosures by listed companies and financial institutions beginning in 2026 to enhance the transparency and comparability of information. These measures will help maintain the sound development of Taiwan's financial system.

The Bank will take appropriate measures in a timely manner to promote financial stability

In 2025, financial market volatility intensified amid the effects of US tariff policies and heightened geopolitical conflicts. Nevertheless, the global economy continued to grow at a moderate pace, while inflation continued to ease. Against this backdrop, Taiwan's financial markets remained resilient despite heightened volatility, financial institutions generally maintained sound operations, and financial infrastructure continued to function smoothly. On the whole, Taiwan's financial system remained stable.

Since early 2026, geopolitical conflicts, developments in US trade policy, the future monetary policy paths of major economies, weak domestic demand and industrial overcapacity in China, as well as climate change risks have remained sources of uncertainty that could adversely affect global economic growth and financial stability. Given the numerous downside risks to the global economic outlook, the Bank will continue to closely monitor subsequent developments and assess their potential impact on Taiwan's economy and financial conditions. It will also take appropriate response measures in a timely manner to promote domestic financial stability.

II. Macro environmental risk factors

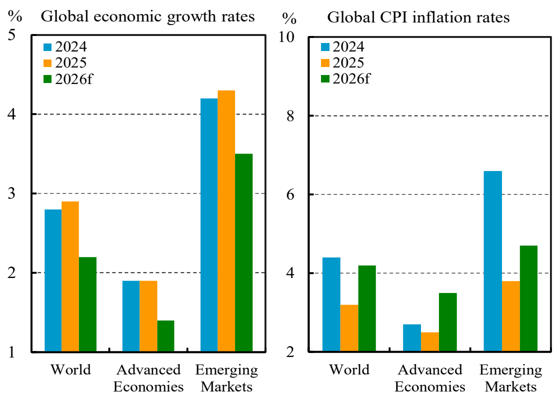
2.1 International economic and financial conditions

In 2025, supported by the rapid advances in emerging technologies such as AI and the easing of market concerns following the postponement of reciprocal tariff measures by the US, the global economy expanded steadily, asset prices rebounded, and financial conditions became more accommodative. Since the beginning of 2026, however, uncertainty surrounding the global economic outlook has increased amid the Middle East conflict, heightened geopolitical risks, shifts in US trade policies, and the uncertainty over future policy paths of major central banks. These developments could weigh on economic growth, reignite inflationary pressures, and lead to tighter financial conditions. In addition, rising energy prices, the sovereign-bank nexus, elevated valuations in AI-related industries, and the rapid expansion of non-bank financial intermediaries (NBFIs) and stablecoins could increase global financial vulnerabilities and pose risks to financial stability, and therefore warrant continued close monitoring.

2.1.1 Global economy expanded steadily, while uncertainty surrounding the economic outlook remained elevated

In 2025, supported by the rapid advances in emerging technologies such as AI, which helped offset the adverse effects of US tariff policies, the global economy expanded steadily. S&P Global[8] estimated the annual global economic growth rate at 2.9% (Chart 2.1). Among major economies, growth in the US remained resilient, supported by stronger investment in technology-related sectors. Meanwhile, economic momentum in the euro area strengthened, driven by a recovery in aerospace exports and expanded fiscal spending. In China, export growth moderated

Chart 2.1 Global economic growth rates and CPI inflation rates



Note: Figures for 2026 are S&P Global Market Intelligence estimates.
Source: S&P Global Market Intelligence (2026/5/15).

[8] See Note 1.

to 5.45% from 5.82% in 2024. Although domestic demand remained weak, overall growth momentum stayed broadly stable. Japan recorded moderate economic growth, bolstered by increased corporate investment.

As international oil and grain prices declined, headline inflation continued to ease worldwide. According to S&P Global,[9] global CPI inflation fell to 3.2% in 2025, down from 4.4% in the previous year (Chart 2.1). In response, most major central banks either initiated or continued their monetary easing cycles to support economic activity.

Looking ahead to 2026, global economic growth momentum is expected to moderate further. S&P Global[10] forecasted global economic growth to slow to 2.2%, with growth in advanced and emerging economies declining to 1.4% and 3.5%, respectively (Chart 2.1). Although continued expansion in the high-technology and manufacturing sectors may support economic growth, uncertainty surrounding the global economic outlook remains elevated. These headwinds include continued geopolitical tensions such as the Middle East conflict, shifts in US trade policies, uncertainty over the future monetary policy paths of major central banks and over the economic benefits and broader implications of AI development, as well as weak domestic demand and excess production capacity in China.

Regarding inflation, international energy prices, including crude oil, and other commodity prices have risen amid the Middle East conflict. S&P Global[11] projected global CPI inflation to climb to 4.2% in 2026. Should the conflict persist, it could add to upward pressure on global inflation and trigger “second-round inflation effects,” whereby inflation expectations lead to sustained price increases.

Given the elevated uncertainty clouding the global economic outlook, financial market volatility could increase and amplify downward pressure on asset prices through interest rate, capital flow, and asset price channels. This, in turn, could trigger abrupt cross-border capital movements and exchange rate fluctuations, thereby increasing vulnerabilities in the global financial system. Accordingly, these developments warrant close attention.

2.1.2 The Middle East conflict heightened financial market volatility and could lead to tighter global financial conditions

Following the Trump administration’s announcement of reciprocal tariffs in April 2025, global stock markets declined sharply, triggering a rise in market risk aversion and resulting in a

[9] See Note 1.
[10] See Note 1.
[11] See Note 1.

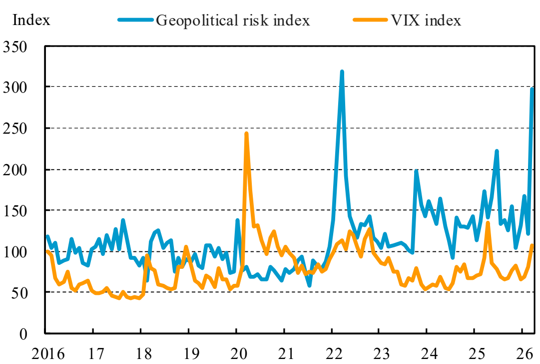
significant tightening of global financial conditions. By contrast, the tightening in financial conditions in emerging markets excluding China remained relatively contained, as stable exchange rates helped offset the impact of falling equity prices. Subsequently, the postponement of reciprocal tariff measures by the US, together with trade negotiations with multiple economies and an agreement with China to suspend the imposition of additional high tariffs, helped ease market panic. As a result, global asset prices rebounded markedly and financial conditions became more accommodative.

Since the outbreak of the Middle East conflict on February 28, 2026, financial markets have functioned in an orderly manner, with no significant deterioration observed in liquidity conditions across equity, bond, and foreign exchange markets. Global financial conditions have tightened only modestly, well below the levels observed during previous global shocks, and remain accommodative by historical standards. Nevertheless, a prolonged conflict in the Middle East could cause financial conditions to deteriorate further. The outlook for financial stability risks will depend on the adverse feedback loop between financial market distress and the degree of financial tightening. Under severe scenarios, substantial pressure could emerge on both investors and financial institutions.

2.1.3 Geopolitical risks will affect global inflation dynamics and financial market stability

The onset of the Middle East conflict triggered a sharp increase in the geopolitical risk index after February 28, 2026 (Chart 2.2), and contributed to a substantial rise in energy prices, which may exert upward pressure on global inflation over the next two years. Amid higher energy prices and a stronger US dollar, emerging market economies that rely heavily on commodity imports may face simultaneous pressures from currency depreciation and rising import prices, thereby further increasing their vulnerabilities.

Chart 2.2 Geopolitical risk index and VIX index

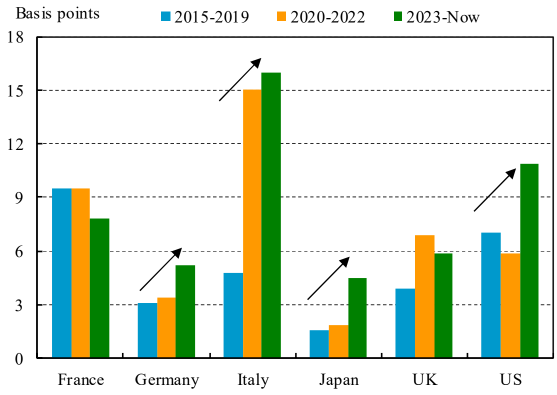


Notes: 1. The Geopolitical Risk Index is constructed by quantifying the level of attention to geopolitical risks in news coverage by 10 major media outlets.
2. The VIX Index is estimated using end-January 2016 data as the base value of 100.

Source: IMF (2026), *World Economic Outlook*, April.

With regard to financial markets, the outbreak of the Middle East conflict halted the global equity market rally that had persisted since the second half of 2025, driving market volatility markedly higher (Chart 2.2). In bond markets, despite relatively stable bid-to-cover ratios, persistent post-pandemic fiscal deficits and rising government debt levels in the G4[12] advanced economies have been accompanied by larger movements in long-term government bond yields on auction days in recent years (Chart 2.3), indicating that investors are demanding higher risk premia. Given that G4 government bonds are generally regarded as risk-free assets, a sharp increase in their yields could exert downward pressure on other financial asset prices.

Chart 2.3 Changes in government bond yields on auction days



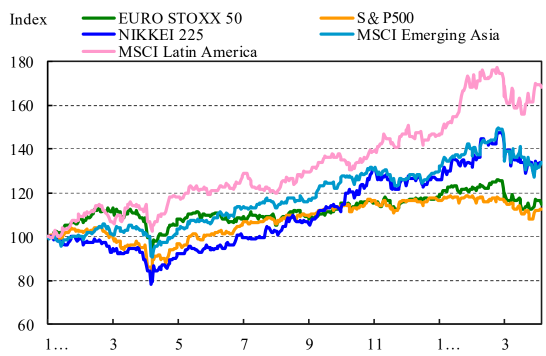
Note: The chart illustrates the fluctuations in 30-year government bond yields.
Source: IMF (2026), *World Economic Outlook*, April.

In lower-rated emerging markets and frontier economies, governments often rely heavily on domestic banks to purchase sovereign bonds because of more limited financing channels. As a result, banks' holdings of government bonds have continued to increase, deepening the sovereign-bank nexus. Should global inflationary pressures remain elevated, sovereign default risks may mount further. Concurrent stress on both governments and banking systems could tighten credit conditions, adversely affecting macroeconomic performance.

2.1.4 Elevated valuations and the opacity of circular financing in the AI sector could fuel potential systemic risks

In the wake of the announcement of reciprocal tariffs by the US in April 2025, global equity markets plummeted. However, as the reciprocal tariff measures were postponed and the US and China agreed to suspend additional tariffs on each other, financial market sentiment stabilized. Buoyed further by the ongoing AI investment wave, global stock indices continued to reach new record highs (Chart 2.4).

Chart 2.4 Major international equity indices



Notes: 1. January 1, 2025 = 100.
2. The EURO STOXX 50 refers to a stock index consisting of the largest 50 stocks in the 12 major economies of the euro area.
Source: Bloomberg.

Nonetheless, the IMF noted that volatility in

[12] The G4 economies include the EU, the UK, Japan, and the US.

US equity markets has increased since November 2025, reflecting growing concerns over the future profitability of AI-related sectors. The concentration of the S&P 500 Index has reached a record high, with information technology stocks accounting for more than 35% of the index. The Magnificent Seven, including NVIDIA, Apple, and Microsoft, account for approximately 33% of the S&P 500 Index. Should future corporate earnings fail to justify current valuations, investor sentiment could reverse rapidly, triggering a substantial price correction. In addition, circular financing arrangements within the AI supply chain, where suppliers, customers, shareholders, and financing sources are highly interconnected, have created complex ownership and financing structures with limited transparency. Such interconnectedness complicates the assessment of AI companies' equity structures and intrinsic market values for institutional and individual investors, potentially amplifying systemic risks.

The rapid development of generative AI has also disrupted the traditional software services sector, raising private credit investors' concerns over the quality of collateral backing loans to the sector and contributing to rising redemption pressures.[13] Consequently, private credit markets have come under growing liquidity pressure. Furthermore, given the significantly enhanced capabilities of AI models in data processing and system operations, their misuse could facilitate the identification of vulnerabilities in financial infrastructures or trading platforms. This may expand the scale and precision of cyberattacks, having potential adverse implications for payment and settlement systems as well as monetary policy transmission mechanisms. As many jurisdictions still lack sufficient capacity to prevent large-scale cyberattacks, strengthening cybersecurity defenses and deepening international cooperation remain essential for maintaining financial stability.

2.1.5 The impact of the growing investment share of non-bank financial institutions on emerging market economies

Following the 2008 global financial crisis, tighter financial regulations prompted emerging market economies to seek alternative financing channels through international capital markets, leading to the rapid expansion of NBFIs. Over time, NBFIs have gradually replaced traditional banks as a major source of external financing for emerging markets. Nevertheless, their inherent structural characteristics also pose potential risks. For example, liquidity mismatches in open-ended funds can easily trigger fire sales of assets owing to mass redemptions during periods of market stress, while passive funds adjust portfolios mechanically in response to benchmark changes, generating synchronized trading risks. In addition, the high leverage

[13] In late February 2026, Blue Owl announced the sale of approximately $1.4 billion in private credit assets to meet investor redemption requests. In the first quarter, Blackstone's flagship credit fund, BCRED, saw its redemption rate reach 7.9%, while BlackRock's flagship private credit fund recorded a redemption rate of 9.3% in March. Similarly, Cliffwater's flagship private credit fund faced redemption requests exceeding 7%.

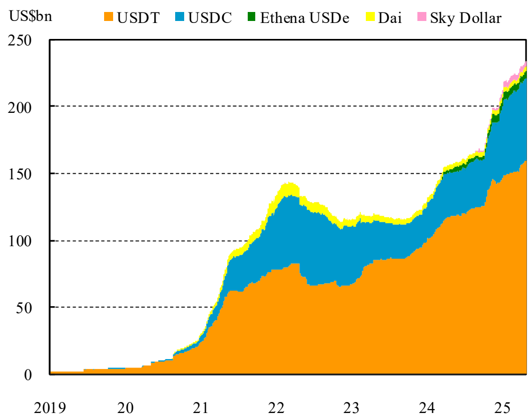
employed by hedge funds and the limited transparency of private credit may further intensify market volatility. If financial conditions deteriorate, these latent risks could exacerbate capital outflows and asset price declines, ultimately exposing emerging market economies to more severe financial shocks.

Given that the NBFI sector itself exhibits inherent vulnerabilities, its investments remain highly sensitive to shifts in global risk aversion, with this sensitivity becoming more pronounced as the VIX rises. During periods of global financial stress, emerging economies with weaker supervisory frameworks, insufficient foreign exchange reserves, or high debt burdens are highly susceptible to the twin risks of sudden stops in capital inflows and sharp currency depreciation, potentially trapping them in a vicious cycle of macro-financial instability.

2.1.6 The continuous expansion of stablecoins could pose risks to financial stability

Stablecoins are crypto-assets whose value is pegged to the US dollar or other fiat currencies. Leveraging their advantages of high accessibility, relative anonymity, and low-cost cross-border payments, stablecoins have rapidly expanded their use. The global stablecoin market capitalization has surged from US$3 billion in 2019 to nearly US$250 billion at the end of June 2025, with both outstanding amounts and trading volumes highly concentrated in the two leading US dollar-denominated stablecoins, USDT and USDC (Chart 2.5).

Chart 2.5 Stablecoin market capitalization



Source: BIS (2025), *Annual Economic Report*, June.

Although stablecoins generally exhibit lower price volatility than other crypto-assets, they nonetheless present the following risks: (1) In economies with weaker macroeconomic fundamentals, stablecoins could facilitate currency substitution through stealth dollarization. This could erode monetary sovereignty, weaken the transmission efficiency of central banks' monetary policy, and ultimately undermine the efficacy of macroeconomic policy tools; (2) Stablecoin issuance requires substantial holdings of high-quality liquid assets, driving up issuers' demand for short-term government bonds. This could alter supply and demand dynamics in the short-term government bond market, affect the shape of the yield curve, and constrain banks' capacity to provide loans to households and businesses, thereby weakening bank credit intermediation; (3) Stablecoins remain vulnerable to run risks. In the event of large-scale redemptions, issuers could be forced to liquidate reserve assets. The resulting spillover effects could spread to the broader financial market and, in severe cases, threaten overall financial stability.

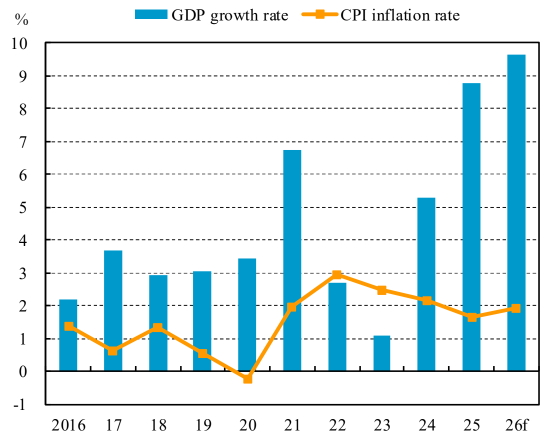
2.2 Domestic macroeconomic environment

In 2025, stronger exports and investment supported domestic economic growth, with real GDP growth reaching its highest level in 15 years. Inflation continued to ease, while housing market activity moderated. Looking ahead to 2026, Taiwan's economy is expected to continue expanding steadily, with inflation remaining moderate. Nevertheless, recent US tariff measures and the Middle East conflict have increased downside risks to the global economy and exerted upward pressure on prices. Should these developments have a more pronounced impact on the domestic economy, risks to the corporate and household sectors, as well as the stability of the real estate market, could increase. Accordingly, close monitoring and prudent policy responses remain warranted.

2.2.1 Domestic economic conditions

In 2025, strong demand for emerging technology applications, including AI and high-performance computing, boosted exports from Taiwan's related supply chains and strengthened corporate profitability. Together with robust private investment, these factors lifted real GDP growth to 8.76% (Chart 2.6), the highest level in 15 years. Meanwhile, CPI inflation declined from 2.18% in 2024 to 1.66%, while core CPI inflation fell from 1.88% to 1.66% (Chart 2.6), indicating that inflation continued to moderate.

Chart 2.6 Economic growth rate and CPI inflation rate of Taiwan



Note: Figures for 2026 are DGBAS forecasts released on May 29, 2026.
Source: DGBAS.

Looking ahead to 2026, the continued expansion of business opportunities from AI and other emerging technology applications is expected to sustain solid export growth and support private investment momentum, while private consumption growth is also likely to strengthen. Nevertheless, uncertainties surrounding recent US tariff measures and the conflict in the Middle East may continue to weigh on the global economic outlook. In March 2026, the Bank projected the annual economic growth rate at 7.28%. Subsequently, in May 2026, the DGBAS revised its forecast upward to 9.64% (Chart 2.6), the highest level in 16 years. The upward revision primarily reflected stronger-than-expected demand for emerging technologies, including AI, high-performance computing, and cloud infrastructure, which is expected to further support Taiwan's exports, investment, and private consumption.

Regarding inflation, the recent conflict in the Middle East has pushed up international crude oil prices. Nevertheless, the government has continued to implement supply-side measures to help stabilize domestic prices. In March 2026, the Bank projected CPI inflation and core CPI inflation at 1.80% and 1.75%, respectively. Subsequently, in May 2026, the DGBAS revised its forecast for CPI inflation upward to 1.93% (Chart 2.6), mainly reflecting gradually rising goods prices owing to weather-related factors, base effects, and higher electronic component costs driven by AI-related demand. At the same time, robust domestic economic activity and continued wage increases have sustained upward pressure on services prices. Overall, inflation remained moderate.

The impact of recent US tariff measures on Taiwan's economic growth is expected to remain limited. The extent of the economic impact from the Middle East conflict will depend on the duration, intensity, and geographic scope of the hostilities. Although the short-term impact is expected to be limited, a prolonged conflict could significantly weigh on global economic growth and add to inflationary pressures, thereby dampening domestic growth momentum and exerting upward pressure on domestic inflation. The Bank will continue to closely monitor developments in the Middle East and assess their implications for the global economy and inflation.

2.2.2 Corporate sector

Supported by strong global demand for AI, Taiwan's AI-related industries experienced substantial growth in both revenues and exports in 2025, thereby driving broad-based improvements in corporate profitability. By the end of the year, listed companies maintained moderate financial leverage, while their short-term debt servicing capacity remained sound. The NPL ratio for corporate loans extended by financial institutions declined to a new record low, reflecting sound credit quality in the corporate sector. Nevertheless, close attention should be paid to the widening divergence in profitability and debt servicing capacity across industries and its potential implications for the credit quality of financial institutions.

Revenues increased significantly, while overall profitability continued to improve

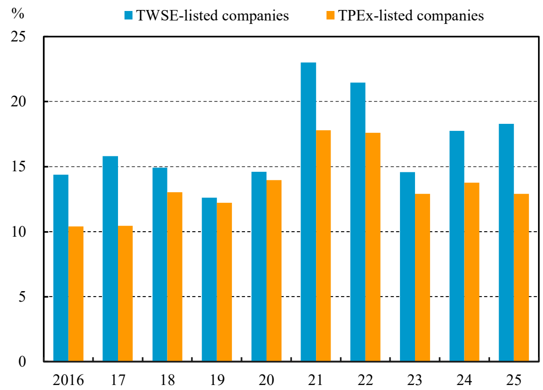
Driven by strong global demand for AI and robust export momentum, the combined operating revenues of TWSE- and TPEx-listed companies reached NT$44.37 trillion in 2025, representing a year-on-year increase of 14.09%, thereby further boosting overall corporate profitability. The average ROE of TWSE-listed companies rose to 18.30%, whereas that of TPEx-listed companies declined to 12.89% (Chart 2.7).

Corporate leverage remained moderate, and short-term debt servicing capacity remained sound

As market demand recovered, many firms increased their leverage to accelerate technological transformation and upgrading. At the end of 2025, the average leverage ratio of TWSE- and TPEx-listed companies rose to 100.90% and 88.38%, up from 98.88% and 86.78%, respectively, at the previous year-end (Chart 2.8). Nevertheless, their overall financial structure remained sound, and leverage remained at a moderate level.

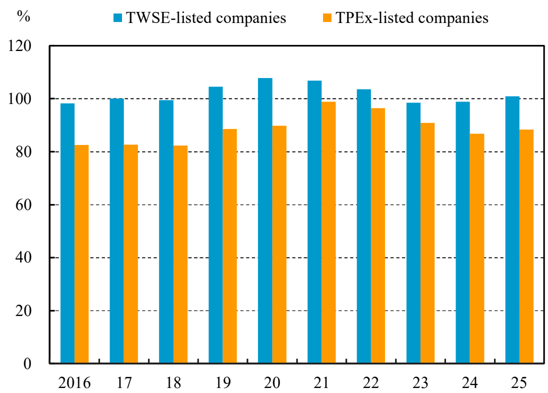
Amid expanding demand for AI-related products and services, firms' short-term funding needs increased. At the end of 2025, the current ratio of TWSE- and TPEx-listed companies declined to 158.78% and 176.85%, respectively (Chart 2.9). In addition, the

Chart 2.7 Return on equity in the corporate sector



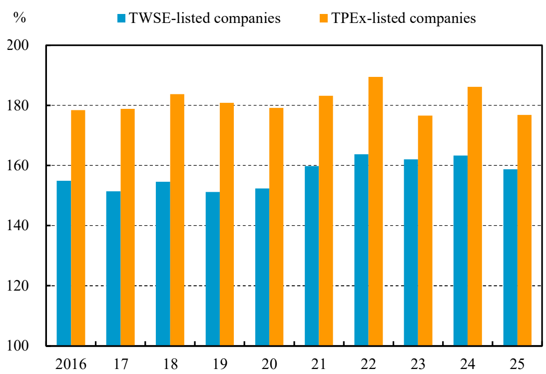
Note: Return on equity = net income before interest and tax/average equity.
Source: TEJ.

Chart 2.8 Leverage ratios in the corporate sector



Note: Leverage ratio = total liabilities/total equity.
Source: TEJ.

Chart 2.9 Current ratios in the corporate sector



Note: Current ratio = current assets/current liabilities.
Source: TEJ.

average interest coverage ratio diverged in line with profitability, rising to 16.24 times for TWSE-listed companies while falling to 12.46 times for TPEx-listed companies (Chart 2.10). Nevertheless, overall short-term debt-servicing capacity remained sound.

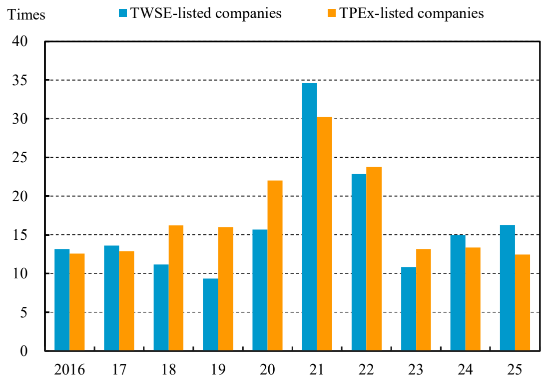
A sharp increase in foreign currency liabilities among TWSE-listed companies warrants prudent exchange rate risk management

In 2025, TWSE-listed companies actively expanded their overseas operations in response to global supply chain restructuring. This resulted in a sharp increase in the foreign currency liability-to-equity ratio to 44.64% at the end of September. By contrast, the corresponding ratio for TPEx-listed companies declined to 14.88%, reflecting differences in operating scale and financial structure (Chart 2.11). Given the uncertainty surrounding US economic and trade policies, alongside geopolitical risks, related developments could intensify volatility in FX markets and adversely affect corporate profitability and debt-servicing capacity. Accordingly, exchange rate risk warrants prudent management.

Credit quality remained sound as the NPL ratio of the corporate sector continued to reach a new low

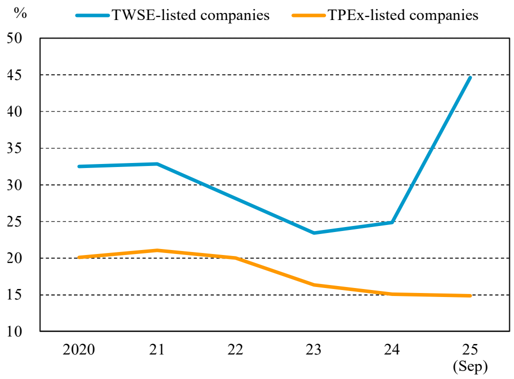
At the end of 2025, the NPL ratio for corporate

Chart 2.10 Interest coverage ratios in the corporate sector



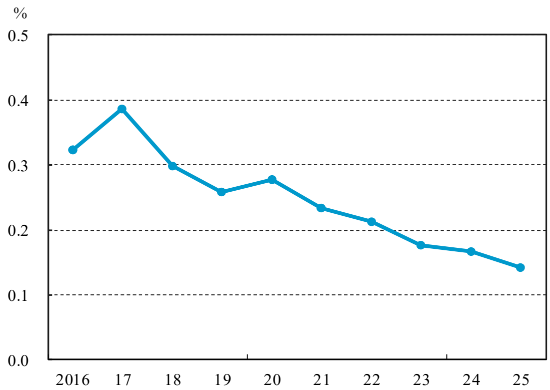
Note: Interest coverage ratio = income before interest and tax/interest expenses.
Source: TEJ.

Chart 2.11 Foreign currency liability-to-equity ratios in the corporate sector



Source: TEJ.

Chart 2.12 NPL ratio of corporate loans

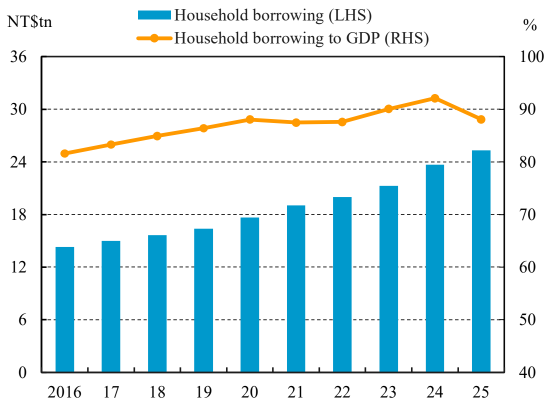


Source: JCIC.

loans extended by financial institutions [14] declined to a record low of 0.14% (Chart 2.12). This indicates that the overall credit quality of the corporate sector remained sound.

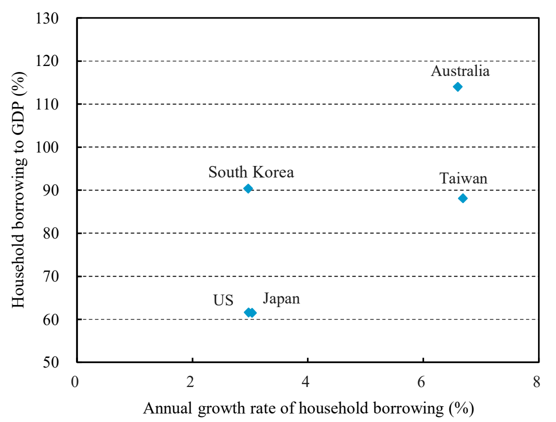
Amid the ongoing diversification of global supply chains and economic restructuring, coupled with heightened uncertainties surrounding US trade policies, firms may continue to face structural transformation pressures. Therefore, close attention should be paid to the potential impact of these subsequent developments on the credit quality of financial institutions.

Chart 2.13 Household borrowing to GDP



Sources: CBC, JCIC, and DGBAS.

Chart 2.14 Household indebtedness in selected countries



Note: Figures are as of the end of 2025.
Sources: Fed, BoJ, BoK, ABS, IMF, DGBAS, JCIC, and CBC.

2.2.3 Household sector

In 2025, household borrowing expanded continually. However, overall household indebtedness and short-term household debt servicing pressure both eased slightly. Meanwhile, the household sector maintained substantial net worth, reflecting that its overall financial position remained sound. Moreover, the NPL ratio of household borrowing from financial institutions stayed at a low level, indicating sound credit quality of household borrowing. Nevertheless, since early 2026, rising inflationary risk and heightened financial market volatility have increased household living expenses and financial risks. Accordingly, changes in the debt servicing capacity of some households with higher debt burdens warrant close attention.

Household borrowing grew at a slower pace

Household borrowing reached NT$25.29 trillion at the end of 2025, equivalent to 88.06% of GDP (Chart 2.13), down from 92.10% a year earlier. Borrowing for real estate purchases

[14] The data are based on JCIC statistics on loans by financial institutions to all enterprises, excluding data from overseas branches of domestic banks.

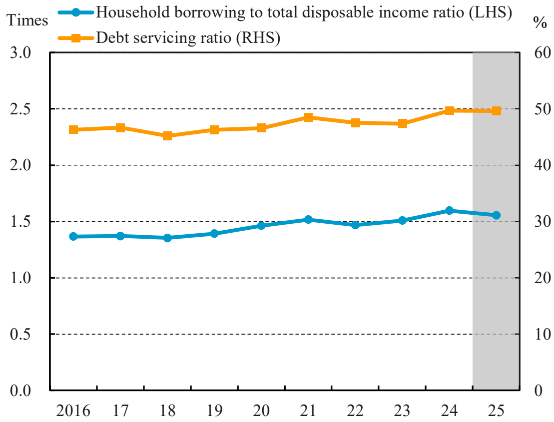
remained the largest component, accounting for 60.13% of total household borrowing.

Household borrowing maintained an upward trend, although the annual growth rate slowed to 6.68%. The increase was mainly driven by borrowing for real estate purchases and working capital needs. Compared with other economies, Taiwan's household borrowing to GDP ratio was higher than those of the US and Japan, but lower than those of Australia and South Korea. Nevertheless, the relatively rapid growth in Taiwan's household borrowing warrants continued close monitoring of its potential impact on the household debt burden (Chart 2.14).

Household indebtedness eased slightly, while net worth remained substantial

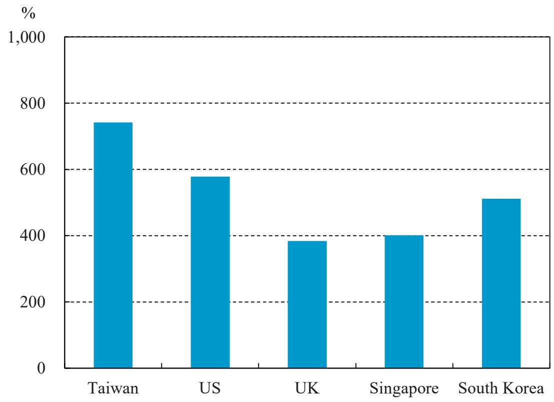
Benefiting from a rise in the minimum wage and corporate wage growth, household disposable income increased. As a result, the ratio of household borrowing to total disposable income[15] declined to 1.56 in 2025, indicating that the overall household debt burden eased slightly. Moreover, the debt servicing ratio declined to 49.63% (Chart 2.15), suggesting that short-term household debt servicing pressure also eased slightly. Nevertheless, the impact of income disparities on households' debt servicing capacity warrants continued attention. In addition, households in Taiwan maintained substantial net worth,[16] exceeding seven times GDP in 2024. The household net worth to GDP ratio in Taiwan was significantly higher than those in the US, the UK, Singapore, and South Korea (Chart 2.16), showing that the overall financial condition of households in Taiwan was sound.

Chart 2.15 Household indebtedness and debt servicing ratio



Notes: 1. Total disposable income in shaded area is a CBC estimate.
2. Debt servicing ratio = principal and interest payments/total disposable income.
Sources: CBC, JCIC, and DGBAS.

Chart 2.16 Household net worth to GDP



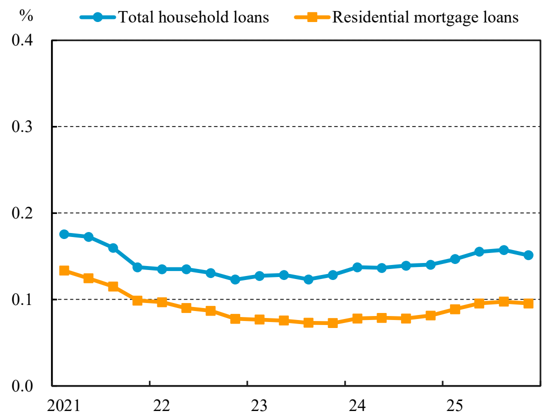
Notes: 1. The household sector herein includes households and non-profit organizations.
2. Figures are as of the end of 2024.
Sources: DGBAS and official websites of selected countries.

[15] Total disposable income = disposable income + rental expenses + interest expenses.
[16] See Note 3.

The NPL ratios of household borrowing remained at a low level, indicating healthy credit quality

The NPL ratio of household borrowing from financial institutions was 0.15% at the end of 2025. Among loan categories, the NPL ratio of loans for real estate purchase increased slightly to 0.10% but remained at a low level (Chart 2.17), indicating sound credit quality.

Chart 2.17 NPL ratios of household borrowing



Source: JCIC.

Looking ahead, the escalation of the conflict in the Middle East in early 2026 could, if prolonged, drive up energy prices, fuel inflationary pressures, and increase the expenditure burden on households. In addition, uncertainty surrounding the future direction of US tariff policies persists, while concerns over elevated valuations of AI-related investments remain, both of which could intensify financial market volatility and thereby increase financial risks facing households. As a result, changes in the debt servicing capacity of households with higher debt burdens warrant close attention.

2.2.4 Real estate market

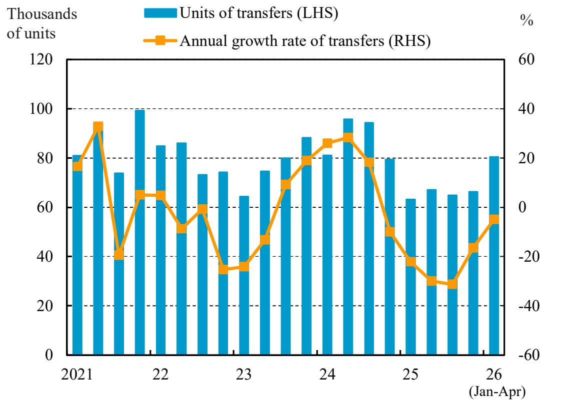
In 2025, the Bank continued to implement its selective credit control measures, with most banks fulfilling their self-set quantitative control targets for aggregate real estate lending. As a result, transactions in the housing market moderated, growth in banks' real estate lending slowed, and the concentration of real estate lending by all banks declined moderately. Overall, speculative demand in the real estate market eased gradually. Meanwhile, the NPL ratios of banks' real estate-related lending remained at low levels, indicating that asset quality remained sound.

Transactions in the real estate market continued declining

Since early 2025, the Bank has continued to implement its selective credit control measures and has required banks to meet their self-set quantitative control targets for aggregate real estate lending during the period from the fourth quarter of 2024 through the fourth quarter of 2025. Consequently, banks adopted more prudent real estate lending standards. In addition, following the announcement of US reciprocal tariff measures in April 2025, increased financial market volatility dampened homebuyers' confidence, leading to a marked decline in housing transactions. Therefore, the total number of building ownership transfers shrank significantly. However, in the fourth quarter, strong export performance and continued gains in Taiwan's equity market helped ease the wait-and-see sentiment among prospective homebuyers, moderating the year-on-year decline in the number of building ownership transfers (Chart 2.18). The total number of building ownership transfers stood at 261 thousand units in 2025, a decrease of 25.45% compared with 2024 and the lowest level since 2017.

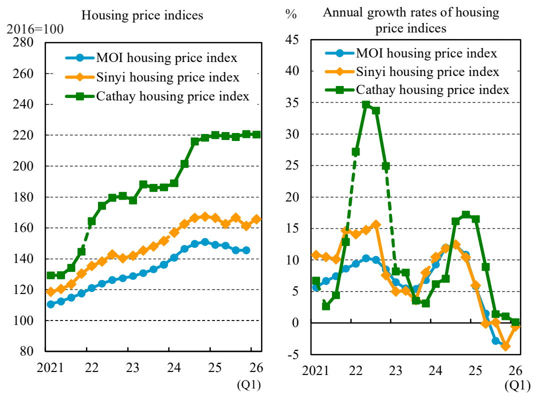
From January to April 2026, the total number of building ownership transfers stood at 80 thousand units, continuing to decline by 4.92% year on year, albeit with the extent of the decrease narrowing further. In terms of land transactions, affected by slackening activity in the housing market and a base-period effect, the total number of land ownership transfers contracted by 24.44% year on year in 2025, marking the largest decline on record. From January to April 2026, the number of transfers further declined by 6.83% year on year.

Chart 2.18 Number and growth of building transfers



Source: *Monthly Bulletin of Interior Statistics*, MOI.

Chart 2.19 Housing price indices and annual growth rates



Notes: 1. The Cathay housing price index incorporated a time variable into its model in the first quarter of 2022, redefined the standard residential property specifications, and rebased the index. Accordingly, the quarterly index series from 2020 onward were revised retrospectively.
2. The Sinyi housing price index adjusted its base period and updated its standard housing samples in 2022. Accordingly, the quarterly index series for previous years were revised retrospectively.
3. For comparison purposes, all three indices have been rebased to 2016 = 100.

Sources: MOI, Cathay Real Estate, and Sinyi Real Estate Inc.

Prices of existing houses turned downward from their peak, while prices of newly launched housing projects consolidated at elevated levels.

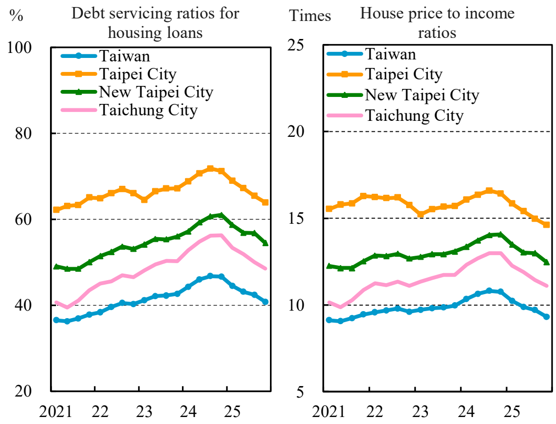
Owing to cooling activity in the housing market, the MOI housing price index (for existing houses) declined gradually from its peak of 151 in 2024 Q4 to 146 in 2025 Q4. Meanwhile, its annual growth rate continued to moderate quarter by quarter (Chart 2.19).

The Sinyi housing price index (for existing houses) eased gradually to 161 in 2025 Q4, following a peak of 167 in 2024 Q4, representing an annual decline of 3.66%. The index edged up slightly in the first quarter of 2026. Meanwhile, the Cathay housing price index (for newly launched housing projects) consolidated at elevated levels throughout 2025, peaking at 221 in Q4 before easing slightly to 220 in 2026 Q1. Nevertheless, its annual growth rate continued to moderate for five consecutive quarters (Chart 2.19).

The mortgage burden declined gradually, but remained strained

The debt servicing ratio for housing loans declined gradually after peaking in 2024 Q3, reaching 40.75% in 2025 Q4. Among the six metropolitan areas, Taipei City recorded the heaviest mortgage burden at 63.92% (Chart 2.20, left panel). Meanwhile, the nationwide housing price to income ratio decreased to 9.32 times in 2025 Q4 (Chart 2.20, right panel).

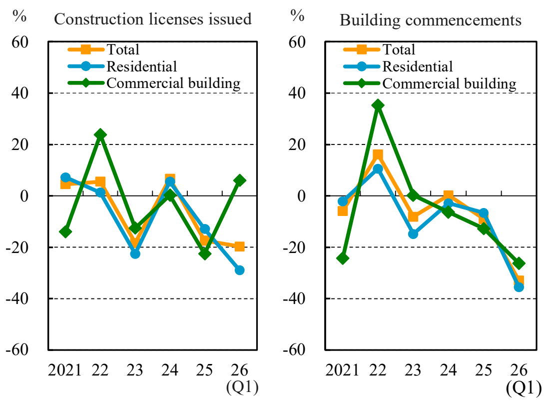
Chart 2.20 Debt servicing ratios for housing loans and housing price to income ratios



Notes: 1. Debt servicing ratio for housing loans = median monthly mortgage payment/median monthly household disposable income.
2. Housing price to income ratio = median housing price/median annual household disposable income.

Source: *Statistic on Housing Affordability*, MOI.

Chart 2.21 Annual growth rates of floor space of construction licenses issued and construction commencements



Note: Commercial building includes buildings for commercial, industrial, storage, office, and service uses.

Source: *Monthly Bulletin of Interior Statistics*, MOI.

The total floor space of both construction licenses issued and building commencements shrank, while the inventory of unsold newly completed housing units expanded continuously

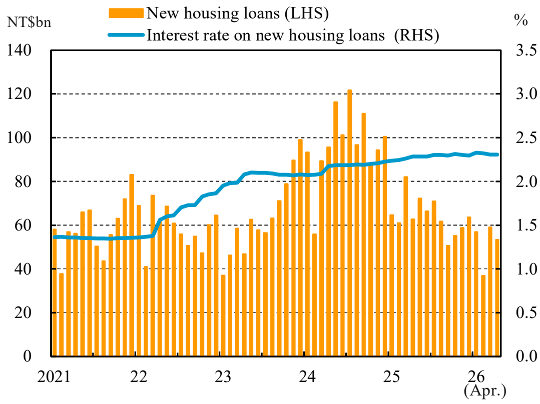
Owing to sluggish transactions in the housing market, real estate developers adopted a more cautious approach to launching new pre-sale residential housing projects in 2025. Coupled with the high base effect from the previous year, the total floor space of construction licenses issued declined by 17.45% year on year (Chart 2.21, left panel). Meanwhile, the total floor space of construction commencements turned to decrease by 8.99% year on year in 2025 (Chart 2.21, right panel). In 2026 Q1, sharply higher excavated soil disposal costs further weighed on construction activity, contributing to a 19.65% year-on-year decline in the total floor space of construction licenses issued.

As construction projects initiated in previous years were completed, the total floor space of usage licenses issued continued to grow, increasing by 1.36% year on year in 2025. According to statistics from the MOI, the inventory of unsold newly completed housing units expanded to 112.1 thousand units by the end of 2025 Q2. Given the growing supply, higher prices, and weaker-than-expected sales performance, pressure to sell the inventory of unsold newly completed housing units may intensify in the future and warrants close attention.

Growth in construction loans and loans for house purchases and refurbishments declined, while mortgage interest rates edged higher

As housing market activity moderated, new housing loans issued by the five major domestic banks[17] continued to decline. Total new housing loans amounted to NT$769.4 billion in 2025, a decrease of 33.85% compared to the previous year. Moreover, from January to April 2026, new housing loans totaled NT$205.9 billion, reflecting a further year-on-year decrease of 23.82% (Chart 2.22).

Chart 2.22 New housing loans by the five major banks – amount and interest rate



Note: The five major banks refer to Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank, and Land Bank of Taiwan.
Source: CBC.

Following the Bank's policy rate increase of 12.5 basis points in March 2024 and two 25-basis-point increases in the reserve requirement ratios on NTD deposits in July and October 2024, respectively, the average interest rate on newly extended housing loans by the five major banks increased gradually. It reached 2.327% in January 2026, a new high since January 2009, before moderately easing to 2.307% in April (Chart 2.22).

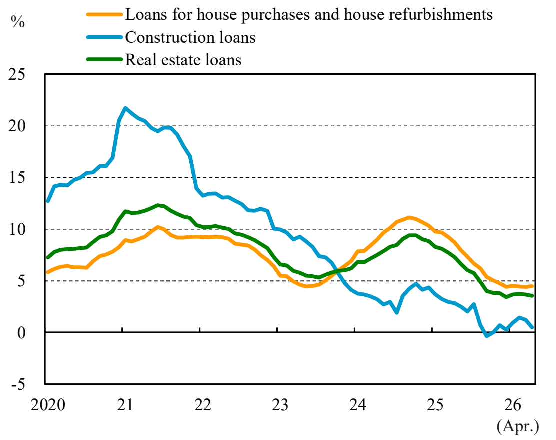
Since June 2024, banks have adopted more prudent mortgage lending standards.[18] As a result,

[17] The five major banks refer to Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank, and Land Bank of Taiwan.
[18] This was attributable to banks' implementation of enhanced management measures under the government's Preferential Youth Housing Loans 2.0.

disbursements under the government's Enhanced Program of the Preferential Housing Loans for the Youth (hereinafter "Preferential Youth Housing Loans 2.0") by state-owned banks declined, and borrowers increasingly faced waiting lists for loan disbursements owing to tighter lending quotas. Following the FSC's relaxation of the relevant regulations, state-owned banks gradually increased their acceptance of loan applications under the program. Nevertheless, the total amount disbursed under the program still declined by 31.69% year on year in 2025. Furthermore, the total amount disbursed under the program decreased further by 10.14% year on year during the first four months of 2026.

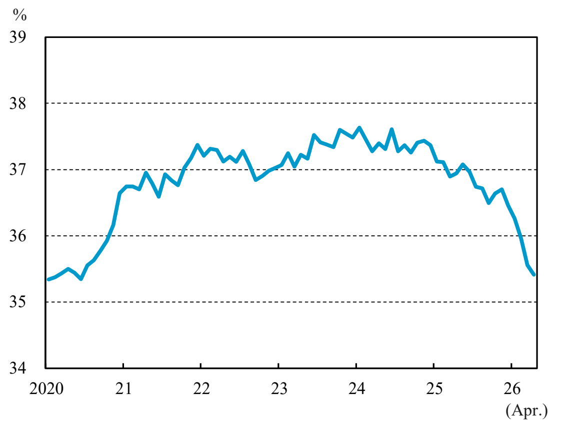
Following the Bank's strengthening of its selective credit control measures in September 2024, the annual growth rate of total real estate lending granted by banks[19] fell from a high of 9.41% at the end of September to 3.53% at the end of April 2026. Meanwhile, the annual growth rate of loans for house purchases and refurbishments granted by banks peaked at 11.15% at the end of September 2024 before gradually declining to 4.46% by the end of April 2026. Moreover, the annual growth rate of construction loans also declined from a peak of 4.72% at the end of October 2024 to 0.48% at the end of April 2026 (Chart 2.23).

Chart 2.23 Annual growth rates of real estate lending



Note: Real estate loans refer to the aggregate amount of loans for house purchases, house refurbishments, and construction loans.
Source: CBC.

Chart 2.24 Real estate loans to total loans



Note: Real estate loans refer to the aggregate amount of loans for house purchases, house refurbishments, and construction loans.
Source: CBC.

Selective credit controls have taken effect, with banks maintaining prudent risk management of real estate lending

Since 2025, as the Bank has continued to implement its selective credit control measures and

[19] Refers to domestic banks and the local branches of foreign and Chinese banks.

required banks to adhere to their self-set quantitative control targets for aggregate real estate lending, housing market activity has cooled. The measures have become increasingly effective, as reflected in slower growth in real estate lending and a decline in the concentration of such lending. At the end of April 2026, the outstanding balance of real estate lending stood at NT$15.21 trillion, accounting for 35.42% of total loans. The ratio declined markedly from its peak of 37.61% at the end of June 2024, reaching its lowest level since March 2020 (Chart 2.24).

Moreover, at the end of April 2026, lending to non-homeowner mortgage borrowers accounted for 64.50% of total house purchasing loans, while financing for urban renewal and the reconstruction of unsafe and dilapidated buildings accounted for 24.59% of total construction loans. These developments indicate that banks' credit resources have continued to be channeled towards accommodating the funding needs of non-homeowner mortgage borrowers and projects related to urban renewal and the reconstruction of unsafe and dilapidated buildings, consistent with government policy objectives. Meanwhile, asset quality remained sound. The NPL ratio of domestic banks' construction loans, after rising to 0.24% at the end of January 2025, declined to 0.07% by the end of April 2026. Over the same period, the NPL ratio of house purchasing loans remained low, fluctuating between 0.07% and 0.08%.

The Bank and relevant authorities continued to implement measures to promote a sound real estate market

Since December 2020, the Bank has adjusted its selective credit control measures seven times. In August 2024, the Bank also required banks to implement self-set quantitative control targets for aggregate real estate lending. As these measures gradually took effect and real estate lending indicators improved, responsibility for managing the aggregate amount of real estate lending was returned to banks under their internal risk management frameworks beginning in 2026. Furthermore, in March 2026, the Bank raised the maximum LTV ratio for second housing loans extended to natural persons nationwide from 50% to 60%, while maintaining the restriction of no grace period.[20]

Moreover, since 2024, the Bank and other relevant authorities have continued to implement measures to promote a sound real estate market, helping curb speculative housing demand and foster the sound development of the real estate market. Nevertheless, as certain measures fall within the jurisdiction of local governments, continued close cooperation between central and local governments will be essential to further strengthen the institutional framework and ensure

[20] See Chapter IV, "Measures to Promote Financial Stability," for details.

the effective implementation of relevant measures in order to achieve the long-term objective of a sound and sustainable real estate market.

Given that many economies have adopted mortgage-related credit control measures to mitigate the financial risks arising from elevated housing prices and the rapid expansion of real estate lending, and that South Korea has further strengthened such measures in recent years, the following Box provides a comparison of the policy background and the key similarities and differences between the real estate credit control measures adopted in Taiwan and South Korea.

Box
A comparison of loan-to-value (LTV) ratio caps on real estate lending between Taiwan and South Korea

Surging housing prices, accompanied by rising real estate lending and household indebtedness, posed potential risks to financial stability. Credit control measures have therefore been widely used internationally to contain such risks. In recent years, both Taiwan and South Korea have strengthened their credit control frameworks. Nevertheless, differences in housing market characteristics and financial supervisory regimes led to notable variations in the scope and stringency of these measures. This Box compares the LTV ratio caps applied to real estate lending in Taiwan and South Korea and highlights their key similarities and differences for reference.

1. Background to the recent tightening of credit control measures in Taiwan and South Korea

1.1 Since the second half of 2023, Taiwan's housing market transactions have expanded rapidly, accompanied by faster growth in housing loans and rising real estate credit concentration. In response, the Bank strengthened its selective credit control measures in June 2024. As these measures gradually took effect, the Bank appropriately adjusted the relevant credit control measures in March 2026

To mitigate risks associated with real estate lending, the Bank implemented five rounds of selective credit control measures between December 2020 and June 2023, which helped moderate the growth of banks' real estate lending. However, from the second half of 2023, housing market transactions in Taiwan accelerated rapidly, supported by the recovery of domestic economic activity and the government's launch of the Preferential Youth Housing Loans 2.0. At the same time, expectations of rising housing prices strengthened and housing price increases spread nationwide, resulting in faster growth in housing loans.

To strengthen the allocation of banks' credit resources and mitigate related credit risks, the Bank lowered the LTV ratio caps for second housing loans extended to natural persons in specific areas to 60% and requested domestic banks to conduct internal quantitative management of aggregate real estate lending in June 2024.

Nevertheless, housing market transactions continued to expand, and the ratio of real estate lending to total loans across all banks rose to 37.5% in August 2024, approaching its historical high. To further strengthen the management of credit resources and channel credit resources towards priority uses such as housing loans for non-homeowner borrowers, the Bank made amendments to its selective credit control measures in

September 2024. The amendments included the following: (1) Granting no grace period to a natural person's first housing loan when the borrower already owns building(s) to his/her name; (2) Lowering the cap on the LTV ratio of natural persons' second housing loans to 50% and widening the applicable scope to housing nationwide; (3) Lowering the LTV ratio caps on corporate entities' housing loans, natural persons' high-value housing loans, natural persons' third (or more) housing loans, and unsold housing unit loans to 30%.

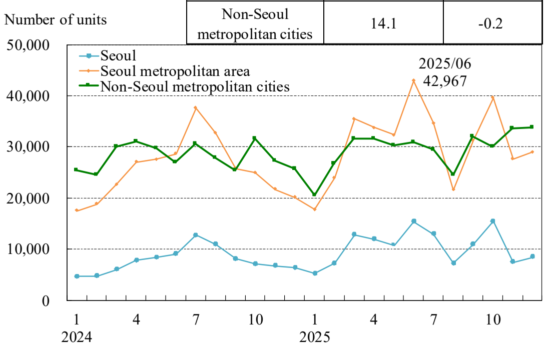
Following the implementation of these measures, housing market transactions moderated significantly, growth in real estate lending slowed, and the concentration of credit resources in real estate lending declined, indicating that the policy measures had gradually taken effect. Moreover, as most banks met their self-set quantitative control targets for aggregate real estate lending, responsibility for quantitative controls reverted to banks' internal management beginning in 2026. In March 2026, the Bank moderately adjusted its selective credit control measures by raising the LTV ratio cap on natural persons' second housing loans from 50% to 60%, while maintaining the requirement that no grace period be granted.

1.2 Since 2025, amid a marked increase in housing market activity in the Seoul metropolitan area and accelerating growth in household lending, the South Korean government has introduced three rounds of housing market stabilization measures beginning in June 2025 to progressively strengthen the management of household lending

Since early 2025, the temporary relaxation of land transaction permit requirements in selected districts of Seoul, together with market expectations of policy rate cuts, has contributed to a notable increase in housing market activity and prices in the Seoul metropolitan area, comprising Seoul, Incheon, and Gyeonggi Province (Charts B.1 and B.2). Signs of overheating gradually emerged, particularly in Seoul, where both transaction activity and housing price increases were more pronounced. From January to May, housing transactions in Seoul increased by 51.4% year on year, compared with 26.0% for the Seoul

Chart B.1 Housing market transactions in South Korea

Housing transaction Jan.-May 2025	Number of units (10,000 units)	Annual growth rate (%)
Seoul metropolitan area	14.4	26.0
Seoul	4.8	51.4
Non-Seoul metropolitan cities	14.1	-0.2



Note: The Seoul metropolitan area comprises Seoul, Incheon, and Gyeonggi Province. Other areas refer to regions outside the Seoul metropolitan area.

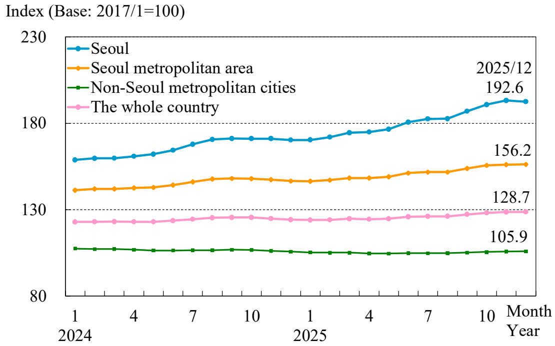
Source: Korea Real Estate Board.

metropolitan area as a whole. Monthly housing transactions in the Seoul metropolitan area peaked at almost 43,000 units in June 2025 (Chart B.1).

During the same period, the housing price index in Seoul rose by 8.9% year on year, substantially exceeding the corresponding increases of 1.3% nationwide and 4.2% in the Seoul metropolitan area (Chart B.2). By contrast, housing markets outside the Seoul metropolitan area experienced declines in both transaction volumes and housing prices.

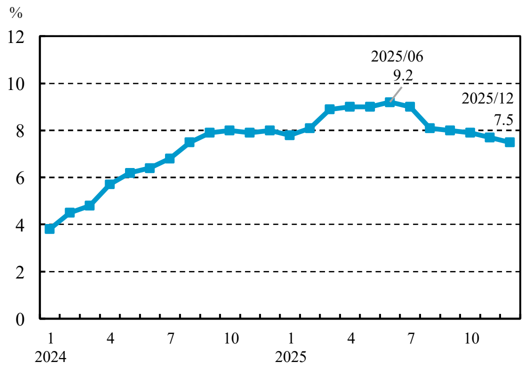
Given that South Korea's household debt-to-GDP ratio ranked among the highest in advanced economies, both the Financial Services Commission and the Bank of Korea identified risks associated with household lending as a key financial vulnerability. Since 2018, the FSC has continuously strengthened measures to manage household lending. Amid the renewed housing market boom in 2025, the annual growth rate of housing loans rose to a peak of 9.2% at the end of June. In response, the South Korean government successively introduced three rounds of tighter housing market stabilization measures. Following these measures, mortgage lending growth gradually moderated to 7.5% by December (Chart B.3). Nevertheless, the Seoul housing price index continued to rise, reaching a high level of 193.2 in November before edging down slightly to 192.6 in December (Chart B.2).

Chart B.2 Housing price indices in South Korea



Note: The Seoul metropolitan area comprises Seoul, Incheon, and Gyeonggi Province. Other areas refer to regions outside the Seoul metropolitan area.
Source: Korea Real Estate Board.

Chart B.3 Annual growth rate of housing loans by deposit money banks in South Korea



Source: Bank of Korea.

2. A comparison of recent LTV ratio caps in Taiwan and South Korea

South Korea's recent LTV-related measures adopted a differentiated regulatory framework based on housing location, property value, loan purpose, borrower characteristics, and debt servicing capacity. To curb speculative demand, stricter requirements were imposed on Seoul and designated speculative control areas, including lower LTV ratio caps, lower maximum loan amounts, shorter loan maturities, a higher floor for the stress interest rate applied to the debt servicing ratio (DSR), and strengthened management of jeonse (deposit-based lease) loans. The scope of these measures also progressively expanded. Furthermore, to discourage borrowers from using mortgage loans to purchase high-value residential properties, South Korea explicitly linked allowable loan amounts to property prices, with higher-priced housing subject to lower loan ceilings.

By comparison, the Bank's selective credit control measures introduced in September 2024, in response to broad-based pickup in the domestic housing market in the first half of 2024, were applied uniformly nationwide. In contrast, South Korea imposed stricter restrictions than those imposed by the Bank on loans to first-time homebuyers, purchasers of replacement housing, multiple-home owners, as well as on loans for high-value residential property. For example, under South Korea's high-value housing regulations, the maximum loan amount for residential properties priced above KRW2.5 billion in designated areas was capped at KRW200 million. In contrast, the Bank's selective credit control measures introduced in September 2024 focused solely on adjusting LTV ratio caps and did not impose absolute caps on loan amounts (Table B1).

In addition, the South Korean government imposed differentiated maximum loan limits for policy-based mortgage loans and other consumer loans, such as unsecured credit loans, based on the intended use of funds. By contrast, to channel credit resources toward housing loans for non-homeowner borrowers, the Bank exempted policy-based housing loans for non-high-value residential properties from its selective credit control measures.

Table B.1 A comparison of recent LTV restrictions on real estate lending between Taiwan and South Korea

Items	Taiwan (effective from September 2024)	South Korea (current regulations)
1. Scope of restricted loans	**A narrower range of loans is subject to restrictions:**[1,2] • Housing loans meeting specified conditions • Land loans • Unsold housing unit loans • Mortgage loans for idle land in industrial districts	**A broader range of loans is subject to restrictions, while land-secured loans are excluded**: • Housing loans extended to households, differentiated by purpose (e.g., owner-occupancy or home purchase) • Policy-based house-purchasing (or rental housing) loans • Consumer credit loans • Housing loans extended to real estate developers
2. LTV ratio caps for housing loans	**Differentiated LTV ratio caps apply according to the number of outstanding housing loans, with the lowest cap set at 30%**	**Differentiated LTV ratio caps based on the number of residential properties owned, with the lowest cap set at 0%.**
(1) First-time homebuyers	No LTV ratio caps or grace period restrictions applied	• Home purchases in designated areas: LTV ratio capped at 70%, with a mandatory move-in requirement within six months of purchase • Home purchases in non-designated areas: LTV ratio capped at 80%, with no occupancy restrictions
(2) Non-first-time homebuyers	• First housing loans extended to natural persons who already own properties but have no outstanding mortgage loans: no LTV ratio cap applies, but the grace period is not available • For borrowers with outstanding mortgage loans, LTV ratio caps apply and grace periods are not available − Second housing loans (with one outstanding mortgage loan): LTV ratio capped at 50% (raised to 60% in March 2026) − Third (or more) housing loans (with two or more outstanding mortgages): LTV ratio capped at 30%	• New housing loans for individuals owning one residential property in designated areas: − Subject to a sale commitment: LTV ratio capped at 40% for properties in designated areas; 70% for non-designated areas − Without a sale commitment: mortgage loans for purchasing residential properties in designated areas are prohibited (LTV ratio capped at 0%) • New housing loans for individuals owning two or more residential properties in designated areas: new mortgage loans are prohibited (LTV ratio capped at 0%)

<table>
<tr><th>Items</th><th>Taiwan (effective from September 2024)</th><th>South Korea (current regulations)</th></tr>
<tr><td>(3) Owner-occupied home replacement requirements</td><td>Home replacement assistance measures are provided for owner-occupiers who have a genuine need for home replacement and commit to selling the original property within the prescribed period after the disbursement of a newly approved housing loan (the deadline for selling the original property was extended from one year to 18 months beginning in September 2025)</td><td>For borrowers subject to a sale commitment, the existing property must be sold within six months</td></tr>
<tr><td>(4) Housing purchases by non-natural persons</td><td>Housing loans taken out by corporate entities: LTV ratio capped at 30%</td><td>For loans extended to real estate firms, the LTV ratio cap was reduced to 0% in designated areas, while remaining unchanged at 60% in non-designated areas</td></tr>
<tr><td>(5) High-value housing loan restrictions</td><td>• High-value housing is subject to a higher threshold, with three tiers by region based on the lower of the appraised value and the purchase price:
– Taipei City: NT$70 million
– New Taipei City: NT$60 million
– Other regions: NT$40 million
• For properties meeting the above criteria, a nationwide LTV ratio cap of 30% applies, with no cap on the maximum loan amount</td><td>• High-value housing is subject to a lower threshold, with differentiated maximum loan limits based on housing price tiers in designated areas:
<table>
<tr><th>Housing price in designated areas</th><th>Maximum loan amount</th></tr>
<tr><td>Above KRW2.5 billion (approx. NT$53.93 million)</td><td>KRW200 million[3] (approx. NT$4.314 million; LTV ratio capped below 8%)</td></tr>
<tr><td>KRW1.5-2.5 billion</td><td>KRW400 million[3] (approx. NT$8.329 million)</td></tr>
<tr><td>Below KRW1.5 billion (approx. NT$32.28 million)</td><td>KRW600 million[3] (approx. NT$12.94 million)</td></tr>
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Notes: 1. Mortgage loans extended by domestic financial institutions for reconstruction projects undertaken pursuant to the *Urban Renewal Act*, the *Statute for Expediting Reconstruction of Urban Unsafe and Old Buildings*, or other relevant government policies are exempt from the Bank's regulations.

2. Mortgage loans obtained by natural persons under the Ministry of Finance's Preferential Housing Loans for the Youth program are exempt from the Bank's restrictions on first and second housing loans extended to natural persons.

3. As the South Korean government announced its restrictions on high-value housing in October 2025, the conversion was based on the NT dollar-Korean won exchange rate for that month, as reported in the Bank's "Exchange Rates of the NT Dollar against the US Dollar and of Major Trading Partners' Currencies against the US Dollar."

Sources: Press releases from the CBC and South Korea's Financial Services Commission.

2.3 General assessment of international and domestic macro environments

In 2025, as trade tensions gradually eased, the global economy expanded steadily, market sentiment improved, and financial conditions became more accommodative. Since February 2026, however, amid heightened geopolitical tensions, including the Middle East conflict, shifts in US trade policies, and uncertainty surrounding the monetary policy paths of major central banks, global economic growth has moderated, inflationary pressures have intensified, and financial conditions have tightened. At the same time, financial market volatility has increased and financial vulnerabilities have risen accordingly. Nevertheless, compared with historical levels, overall financial conditions have remained accommodative. Looking ahead, the interaction of multiple risk factors could lead to further tightening of global financial conditions and an increase in financial stability risks, warranting close attention.

Regarding the domestic macro environment, stronger export performance and investment momentum supported robust economic growth in 2025, while the continued decline in CPI inflation reflected easing inflationary pressures. Overall revenues of listed companies increased significantly and profitability continued to improve. Moreover, corporate leverage ratios remained at moderate levels, while short-term debt servicing capacity stayed sound. Nevertheless, the sharp increase in foreign currency liabilities among TWSE-listed companies warrants prudent management of exchange rate risks. As for the household sector, borrowing continued to grow, while short-term debt servicing pressure eased slightly. Supported by substantial net worth, the financial health of households remained sound. Nevertheless, close attention should be paid to changes in the debt servicing capacity of some households with higher debt burdens. In the housing market, transactions declined, and prices of existing houses reversed from their peak, while prices of newly launched housing projects remained elevated. The financial burden on homebuyers eased marginally but remained heavy. Meanwhile, the NPL ratios of real estate-related lending stayed at a low level, indicating that credit risk remained well contained. Nevertheless, continued attention should be paid to the potential impact of the expiration of the grace period for housing loans under the government's Preferential Youth Housing Loans 2.0 on financial institutions' asset quality.

Overall, the persistence of geopolitical tensions such as the Middle East conflict, together with continued uncertainty surrounding US trade policies and the monetary policy paths of major central banks, could amplify downside risks to the global economy and heighten financial market volatility. These factors may adversely affect the operating outlook for Taiwan's corporate sector, the debt servicing capacity of households, and developments in the real estate market, thereby increasing risks to the financial sector, warranting close attention.

III. Financial system assessment

3.1 Financial markets

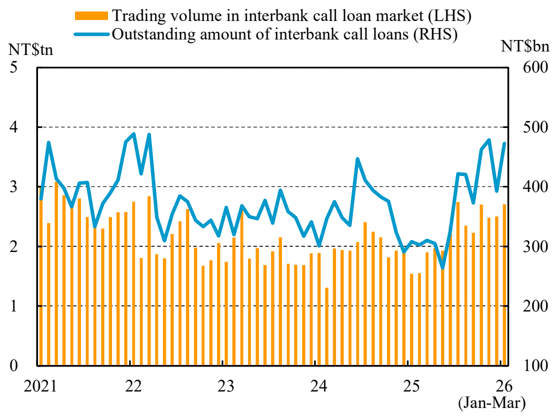
Since 2025, both the outstanding amount and trading volume of interbank call loans have continued to increase, while market conditions have remained stable. The outstanding amount of bill issuance and trading volume in the secondary market have also continued to expand, with CP remaining the dominant instrument traded, thereby facilitating short-term corporate financing. Meanwhile, the outstanding amount of bond issuance has continued to grow, particularly driven by a marked increase in corporate bond issuance, although the overall trading volume decreased slightly. Domestic stock indices rebounded rapidly after a sharp correction in April 2025 and subsequently reached successive record highs, accompanied by stronger market trading activity. In the meantime, the NT dollar experienced a period of sharp appreciation against the US dollar and heightened volatility. Subsequently, as the US dollar strengthened, the NT dollar gradually depreciated and volatility moderated. Considering that rising geopolitical risks, uncertainty surrounding US tariff policies, and concerns over elevated equity valuations of AI-related industries could affect future international economic and financial conditions and, in turn, Taiwan's financial markets, it is crucial to continue closely monitoring related developments.

3.1.1 Money and bond markets

Both outstanding amount and trading volume of interbank call loans continued to increase

In 2025, the average daily outstanding amount of interbank call loans increased slightly by 0.8% year on year to NT$363.7 billion, mainly reflecting a substantial increase in call loans extended as part of banks' liquidity management strategies.[21] Owing to

Chart 3.1 Interbank call loan market



Note: Outstanding amount is the monthly average of daily data.
Source: CBC.

[21] In 2025, the average daily outstanding amount of call loans extended by domestic banks increased by 4.32% from the previous year.

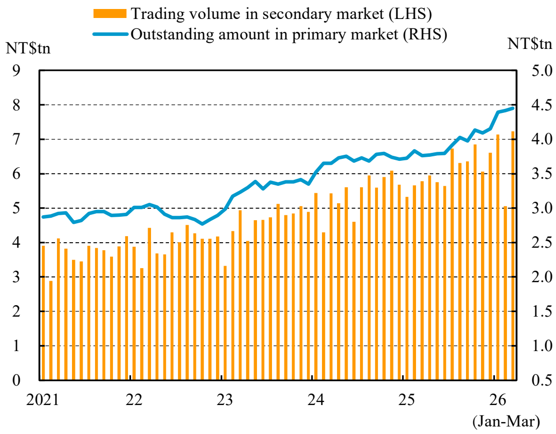
heightened market funding demand, financial institutions also stepped up their funding activities, resulting in an 11.35% year-on-year increase in the trading volume of interbank call loans. In the first quarter of 2026, the average daily outstanding amount and trading volume of interbank call loans increased significantly by 45.18% and 28.73% year on year, respectively, mainly reflecting large-scale Treasury cash operations, which resulted in a transient uneven distribution of market liquidity and prompted some financial institutions to obtain funds through the call loan market to bridge temporary funding gaps (Chart 3.1).

Both primary and secondary bill markets expanded

The outstanding amount of bill issuance in the primary market reached NT$4.16 trillion at the end of 2025, showing a rise of NT$441.9 billion or 11.90% year on year. The increase was mainly driven by stronger corporate funding demand, which led to a larger increase of NT$451.6 billion in the outstanding amount of CP issuance. Entering 2026, continued growth in CP issuance led the outstanding amount of bill issuance to increase further by 18.22% year on year at the end of March (Chart 3.2).

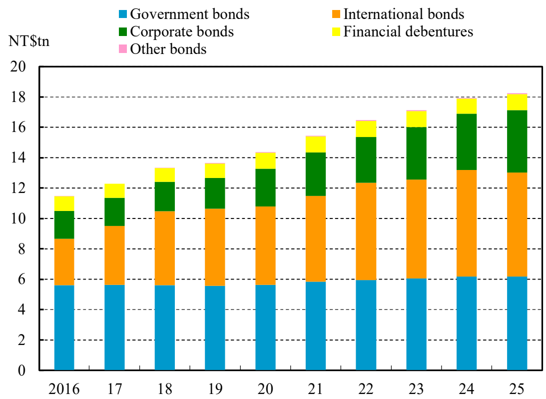
In 2025, as the outstanding amount of bill issuance expanded, the trading volume of bills in the secondary market rose by 11.82% year on year to NT$73.08 trillion. Among these instruments, CP continued to account for the largest share of 94.02%, although its share declined slightly from a year earlier. In the first quarter of 2026, the bill trading volume increased by 15.76% over the same period of the previous year (Chart 3.2), mainly because securities firms increased CP issuance to meet stock market margin financing needs.

Chart 3.2 Primary and secondary bill markets



Source: CBC.

Chart 3.3 Bonds outstanding in the primary market



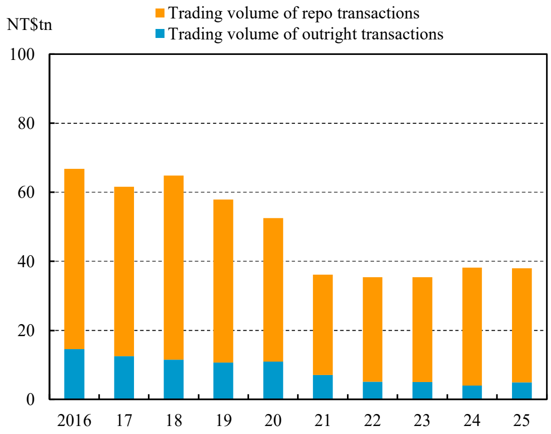
Note: Other bonds include beneficiary securities and foreign bonds.
Source: FSC.

The outstanding amount of bond issuance continued expanding, while the trading volume edged down and the turnover rate of outright bond transactions declined

The outstanding amount of bond issuance rose by a modest 1.78% year on year to reach another record high of NT$18.25 trillion at the end of 2025 (Chart 3.3). The increase was mainly driven by strong corporate financing demand, which resulted in a 9.99% increase in outstanding corporate bond issuance. Meanwhile, the outstanding amount of government bonds [22] remained broadly unchanged. However, the outstanding amount of international bonds issued by foreign entities declined by 2.33% compared to the end of the previous year owing to exchange rate valuation effects.

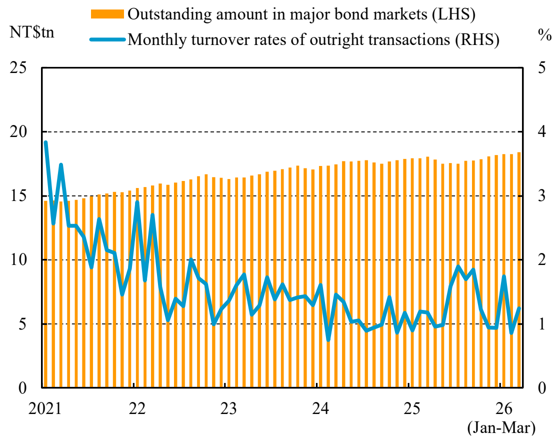
On the other hand, the trading volume in the secondary bond market registered NT$38.01 trillion in 2025, shrinking 0.32% year on year (Chart 3.4). By trading type, outright transaction volume increased by 22.60% year on year, while repo transaction volume shrank by 3.06% year on year, with the overall trading volume at a relatively low level over the past decade. In 2025, the average monthly outright turnover rate of major bonds increased sharply during the year before declining to 0.93% in December. The rate declined to 1.24% in March 2026 from a peak of 1.74% in January (Chart 3.5).

Chart 3.4 Outright and repo transactions in the bond market



Source: CBC.

Chart 3.5 Outstanding amount in major bond markets and monthly turnover rates of outright transactions



Notes: 1. Major bonds include government bonds, corporate bonds, financial bonds, and international bonds.
2. The monthly turnover rate for outright transactions = (total value of outright transactions in the month) / (average outstanding issuance), where the average outstanding issuance = (the outstanding issuance at the end of the current month + the outstanding issuance at the end of the previous month) / 2.

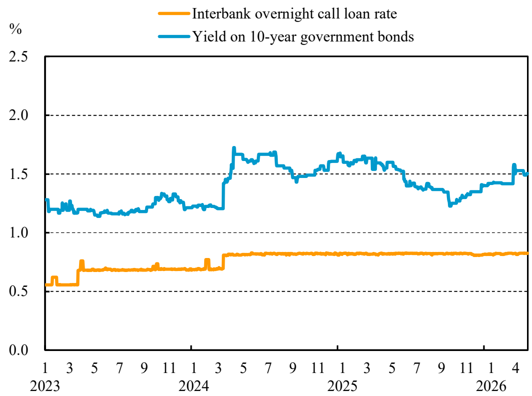
Source: FSC.

[22] Including central and local government bonds.

Short-term market rates remained stable, while long-term rates declined before rebounding

In terms of short-term market rates, the interbank overnight call loan rate showed little change, indicating that overall market liquidity remained ample (Chart 3.6). As for long-term market rates, amid the Fed's pause in policy rate cuts and declining US government bond yields, domestic 10-year government bond yields trended downwards to a yearly low of 1.225% in mid-October 2025 before rebounding. Afterwards, they increased to 1.505% at the end of April 2026 (Chart 3.6).

Chart 3.6 Interbank overnight rate and 10-year government bond yield



Source: Bloomberg.

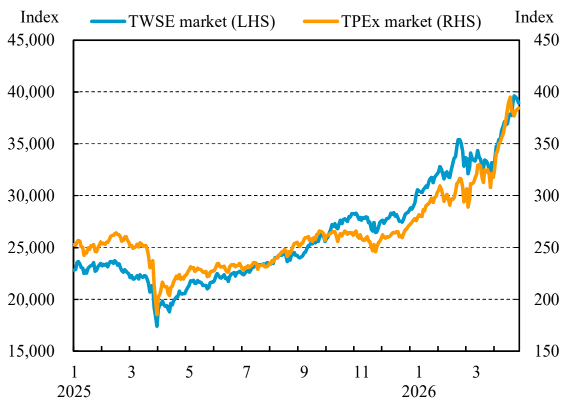
Looking ahead, geopolitical tensions in the Middle East and the monetary policy paths of major central banks could affect global bond yield movements, which, in turn, could lead to fluctuations in Taiwan's government bond yields. Therefore, the interest rate risks associated with bond investments of domestic financial institutions call for close attention.

3.1.2 Equity markets

Stock indices rebounded rapidly after a sharp correction and repeatedly reached new record highs

In the TWSE market, the TAIEX experienced heightened volatility in the first half of 2025, mainly reflecting the US announcement of its reciprocal tariff policies (Chart 3.7). Subsequently, reduced uncertainty over US trade policies, improving market sentiment, strong demand for AI applications, robust Taiwanese export performance, and US monetary policy easing supported a sustained rally in the TWSE market. Tracking gains in

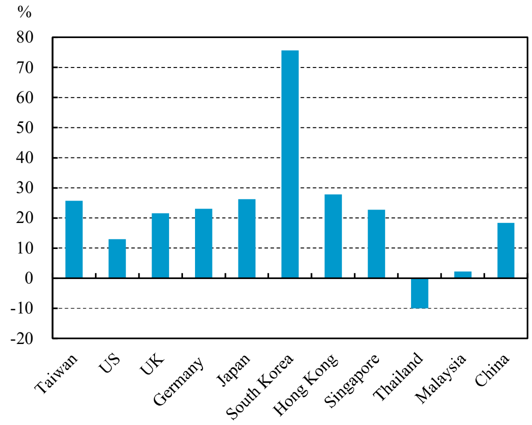
Chart 3.7 Taiwan's stock market indices



Sources: TWSE and TPEx.

US equity markets, the TAIEX closed the year at 28,964, posting an increase of 25.74% year on year and outperforming most major international stock indices (Chart 3.8). In the TPEx market, the Taipei Exchange Capitalization Weighted Stock Index (TPEX) likewise moved broadly in line with the TAIEX, registering 276 points at year-end with an increase of 7.97% year on year.

Chart 3.8 Major stock market performance



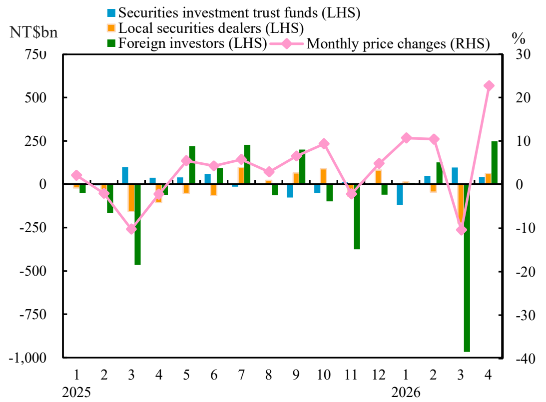
Notes: 1. Changes are figures at the end of 2025 compared to those at the end of 2024.
2. Market performance is based on TAIEX for Taiwan, DJIA Index for the US, FTSE-100 Index for the UK, DAX Index for Germany, NK-225 Index for Japan, KOSPI Index for South Korea, Hang Seng Index for Hong Kong, Straits Times Index for Singapore, SET Index for Thailand, Kuala Lumpur Composite Index for Malaysia, and SSE Composite Index for China.
Source: TWSE.

From the beginning of 2026, the TAIEX repeatedly reached new record highs on the back of continued demand for AI applications and favorable earnings prospects for domestic enterprises. The index climbed to 38,927 at the end of April, representing an increase of 34.40% from the end of 2025 (Chart 3.7). The TPEX followed a similar trend, closing at 385 at the end of April, up 39.22% from the end of 2025.

Foreign investors and local securities dealers were net sellers, while securities investment trust funds were net buyers

In the TWSE market, securities investment trust funds recorded net purchases of NT$105.8 billion in 2025, mainly reflecting (1) growth in assets under management and (2) continued capital inflows into ETFs, which boosted demand for the constituent stocks. By contrast, local securities dealers recorded net sales of NT$148.2 billion during the year, largely owing to portfolio rebalancing and hedging activities (Chart 3.9).

Chart 3.9 TWSE net buy/sell amounts (by type of institutional investors) and monthly price changes



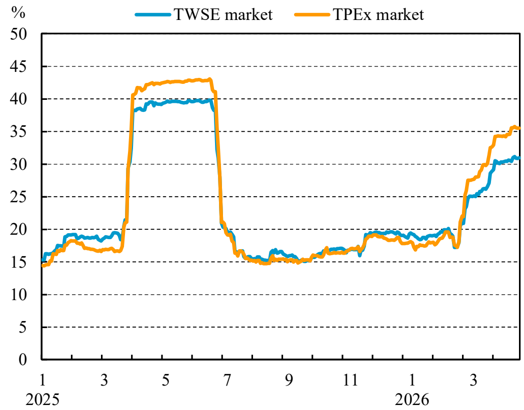
Note: Institutional investors are classified into securities investment trust funds, local securities dealers and foreign investors.
Source: TWSE.

Foreign investors' trading behavior remained closely linked to global financial conditions and changes in risk appetite. In 2025, foreign investors posted net sales of NT$599.5 billion. During January and February 2026, they posted modest net buying in the TWSE market. In March, however, rising risk aversion triggered substantial net sales by this group, which led to a decline in the TAIEX. In April, all three major institutional investors were net buyers, supporting continued gains in the TAIEX.

Participation by domestic individual investors increased

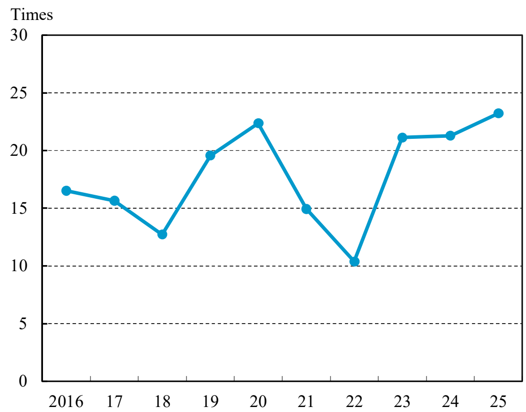
In addition to the three major institutional investors, domestic individual investors also were a key driver of trading activity in the domestic stock markets. Their share of trading value on the TWSE market increased from 53.19% in the fourth quarter of 2025 to 53.73% in the first quarter of 2026. Meanwhile, the number of active individual investors reached a record high, indicating stronger retail participation and heightened market trading momentum. Given that individual investors' trading behavior tends to be more sensitive to shifts in market sentiment, related developments warrant continued attention.

Chart 3.10 Stock price volatility in Taiwan's markets



Note: Volatility refers to the annualized standard deviation of 60-day daily index returns.
Sources: TWSE, TPEx, and CBC.

Chart 3.11 Price-to-earnings ratio of the TAIEX



Source: TWSE.

Stock market volatility gradually moderated but remained elevated

In 2025, uncertainty surrounding US tariff policies caused volatility in both the TWSE and the TPEx markets to surge in early April and to remain elevated throughout the second quarter. Thereafter, volatility gradually moderated as market sentiment improved, registering at 18.78% (TWSE) and 17.87% (TPEx), respectively, at the end of the year. During January and February 2026, volatility remained relatively steady. However, escalating geopolitical tensions in the Middle East triggered a renewed increase in market volatility in March, which remained at an elevated level in April (Chart 3.10).

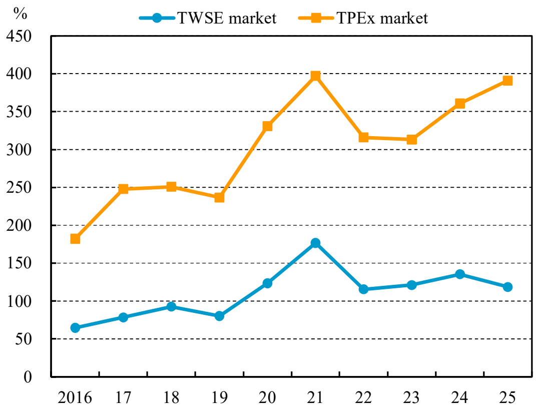
The TAIEX P/E ratio continued to rise, reflecting continued market optimism toward Taiwan's technology sector

The TWSE market is dominated by technology stocks. Supported by sustained demand for AI applications, profitability and share prices of semiconductor and other technology firms increased significantly. As a result, the weight of the electronics sector in the TAIEX rose from 71.10% a year earlier to 76.27% in the fourth quarter of 2025, indicating a further increase in market concentration.

Meanwhile, the price-to-earnings (P/E) ratio of the TAIEX rose from 21.29 at the end of 2024 to 23.22 at the end of 2025 (Chart 3.11), reflecting continued market optimism for the future growth prospects of Taiwan's technology sector.

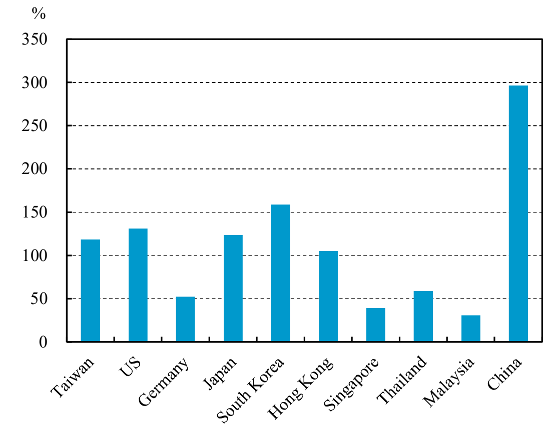
Given the high concentration of technology-related industries in the TWSE market, fluctuations in the sector could amplify overall market volatility. Moreover, growing concerns over elevated valuations of AI-related industries may intensify short-term price fluctuations; over the longer term, if AI development turns out to be slower than expected, it could trigger valuation corrections. In addition, heightened geopolitical risks could disrupt global supply chains and affect the development of the technology sector, further increasing market uncertainty. These developments warrant close monitoring.

Chart 3.12 Annual turnover rates in Taiwan's stock markets



Sources: TWSE and TPEx.

Chart 3.13 Turnover rates in major stock markets



Note: Figures refer to accumulated turnover rates in 2025.
Source: TWSE.

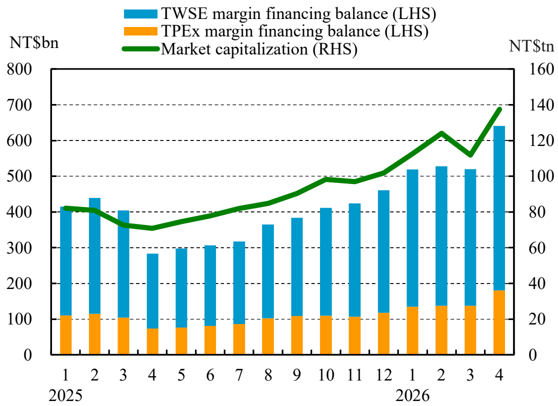
Trading value continued to increase, while margin financing balances rose sharply

Owing to increased participation by domestic individual investors, trading activity in the domestic stock markets remained buoyant in 2025. The monthly average trading value in both the TWSE and the TPEx markets reached NT$7.77 trillion and NT$2.14 trillion in 2025, respectively, marking increases of 1.05% and 10.39% year on year. From January to April 2026, the corresponding figures rose further to NT$14.58 trillion and NT$3.71 trillion, respectively.

Against this backdrop, the annual turnover rate in terms of trading value in the TPEx market rose to 390.82%, while that of the TWSE market edged down to 118.49% owing to stronger growth in market capitalization (Chart 3.12). The turnover rate in the TWSE market remained higher than those of most major international stock markets (Chart 3.13), indicating active trading and ample market liquidity.

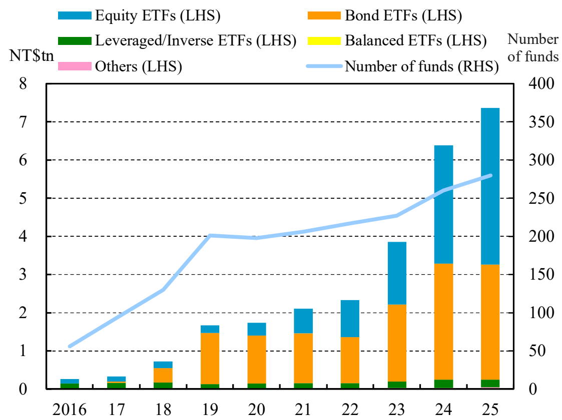
In addition, owing to rising stock prices, margin financing balances increased significantly from the second quarter of 2025 onward, reaching NT$641.3 billion at the end of April 2026, up 126.44% from a year earlier (Chart 3.14). This reflected stronger demand for margin trading amid bullish market sentiment.

Chart 3.14 Margin financing balances in Taiwan's stock markets



Sources: TWSE and TPEx.

Chart 3.15 ETF fund size and number of funds in Taiwan



Note: In August 2025, Taiwan's first balanced ETF was listed.
Sources: FSC and SITCA.

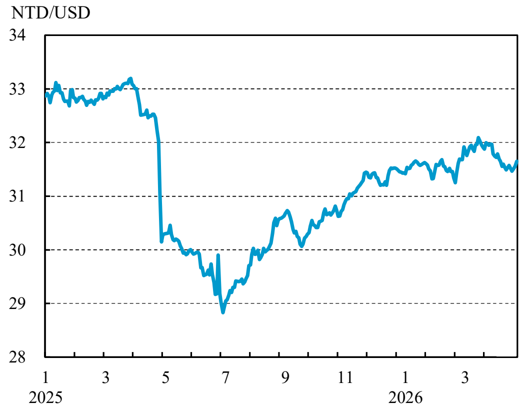
Although the domestic stock markets continue to be supported by solid economic fundamentals, uncertainty surrounding US trade policies and heightened geopolitical risks may weigh on global economic activity and international stock markets. Coupled with the sharp rally in domestic stock prices, these factors could increase market volatility and correction pressures. Accordingly, developments in these factors and their effects on the domestic stock markets warrant close monitoring.

Domestic ETF market continued to expand

Supported by the strong performance of the domestic stock markets and the FSC's approval of a broader range of ETF products, the domestic ETF market continued to expand in 2025. Total ETF assets[23] reached NT$7.37 trillion at the end of the year (Chart 3.15), representing year-on-year growth of 15.41%, with equity ETFs recording the largest increase. Meanwhile, the number of ETF funds and total beneficiaries rose to 280 and 15.76 million, respectively, both reaching historical highs.

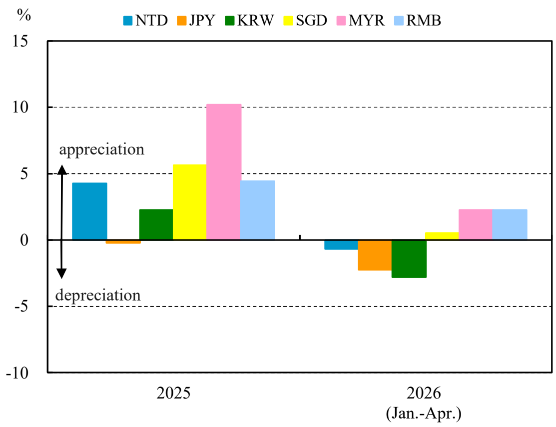
Given the continued expansion of the domestic ETF market, ETF-related investment activities could amplify price fluctuations in capital markets and increase co-movement among constituent stocks. The associated risks warrant close monitoring.[24]

Chart 3.16 NTD/USD exchange rate



Source: CBC.

Chart 3.17 Exchange rate changes of major Asian currencies against the US dollar



Note: Changes in 2025 are figures at the end of the year compared to those at the end of 2024; changes in the period of Jan-Apr 2026 are figures at the end of April 2026 compared to those at the end of 2025.
Source: CBC.

3.1.3 FX market

The NT dollar depreciated after appreciating against the US dollar, while the trading volume of the FX market increased

During the second quarter of 2025, capital inflows by foreign investors into Taiwan's stock markets, together with increased US dollar selling by exporters amid market expectations of NT dollar appreciation, contributed to a sharp appreciation of the NT dollar against the US dollar. The NT dollar against the US dollar reached 28.828 on July 3. In the second half of 2025, however, in addition to renewed strength of the US dollar, profit-taking by foreign investors and their net sales of Taiwanese equities resulted in capital outflows. Consequently, the NT dollar reversed course and depreciated against the US dollar. The NT dollar exchange rate was 31.438 against the US dollar at the end of 2025 (Chart 3.16), representing an appreciation of 4.27% over the year. Most major Asian currencies also appreciated against the

[23] Offshore ETFs, futures ETFs and leveraged/inverse futures ETFs were not included.

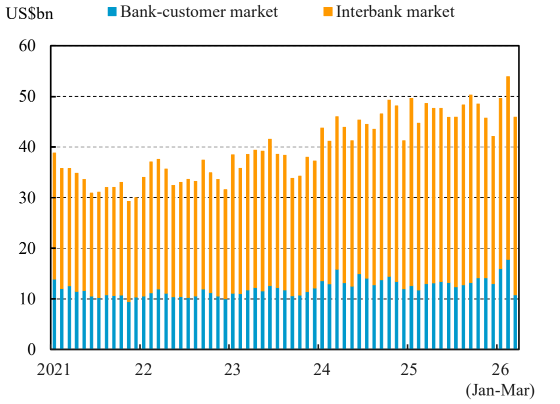
[24] For market developments and supervisory issues regarding Taiwan's ETF market, see Box 2 in *Financial Stability Report* No. 19.

US dollar during the same period (Chart 3.17).

During January and February 2026, the NT dollar remained relatively stable against the US dollar. From March onwards, however, foreign capital outflows and heightened geopolitical risks led to depreciation pressure on the NT dollar. As a result, the NT dollar depreciated by 1.69% during the first quarter. In April, substantial foreign capital inflows into Taiwan's stock markets helped narrow the extent of depreciation.

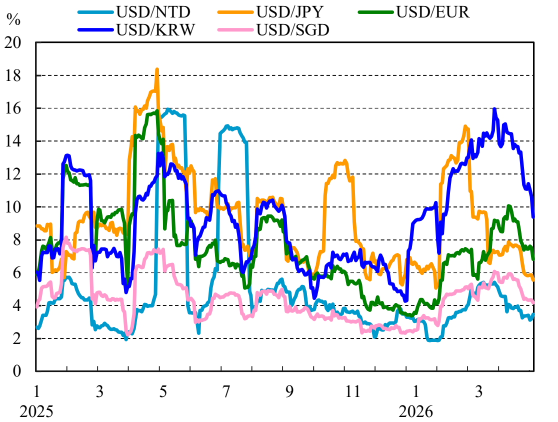
The average daily trading volume in Taiwan's FX market amounted to US$47.1 billion in 2025, rising by 5.55% compared to a year earlier, primarily because of an increase in interbank transactions (Chart 3.18). In March 2026, the daily trading volume stood at US$46.0 billion, down 5.51% from the same period of the previous year.

Chart 3.18 FX market trading volume



Notes: 1. Trading volume is the monthly average of daily data.
2. The latest data for trading volume are as of March 2026.
Source: CBC.

Chart 3.19 Exchange rate volatility of various currencies versus the US dollar



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

Volatility of the NT dollar against the US dollar spiked but remained relatively stable over the long term

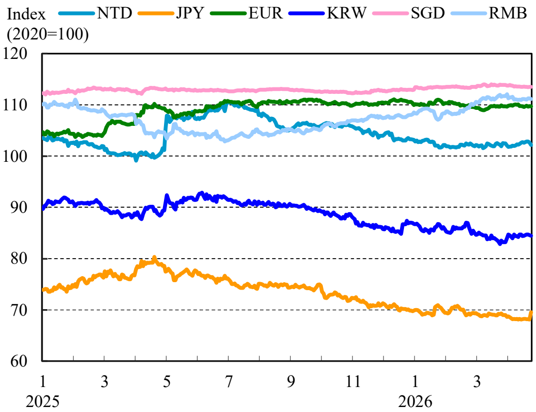
The volatility of the NT dollar against the US dollar increased sharply in May and again in July 2025, mainly owing to more frequent cross-border capital flows amid uncertainty surrounding US trade policies and changing expectations regarding the Fed's monetary policy path. Subsequently, the volatility moderated. In 2025, the volatility of the NT dollar against the US dollar ranged between 1.92% and 15.94%, with an annual average of 5.59%, which was lower than that of most major currencies.

From January to April 2026, the volatility of the NT dollar against the US dollar ranged between 1.87% and 5.43%. Compared with other major currencies, the volatility of the NT dollar remained relatively stable (Chart 3.19).

The nominal and real effective exchange rate indices of the NT dollar rose temporarily before stabilizing

In early May 2025, capital inflows by foreign investors into Taiwan's stock markets, together with expectations of NT dollar appreciation, caused the NEER of the NT dollar to rise sharply. The index reached 110.57 on July 4 before gradually declining as the US dollar regained strength globally and foreign capital shifted to net outflows. At the end of 2025, the NEER of the NT dollar dropped to 103.31, a slight decrease of 0.20% from 103.52 at the end of 2024. Since the beginning of 2026, depreciation of the NT dollar against the US dollar contributed to a further decline in the NEER of the NT dollar to 102.12 at the end of April, down 1.15% from the end of 2025 (Chart 3.20).

Chart 3.20 NT dollar nominal effective exchange rate index



Source: BIS.

During the same period, the real effective exchange rate (REER) index of the NT dollar followed a pattern similar to that of the NEER index. After staying at elevated levels between May and July 2025, the REER of the NT dollar gradually declined and stood at 99.27 in December 2025, slightly down by 0.28% from 99.55 in December 2024. In April 2026, the NT dollar's REER declined further to 97.68, a decrease of 1.60% from December 2025.

3.2 Financial institutions

Performance among Taiwan's major financial institutions diverged in 2025. Domestic banks continued to post record-high profits, while maintaining sound asset quality and adequate capital levels. Although life insurance companies experienced a sharp decline in profitability and faced elevated equity investment and interest rate risks, their overall capital levels remained adequate. Bills finance companies recorded significant profit growth and improved capital adequacy ratios, although liquidity risks increased. Overall, domestic banks, life insurance companies, and bills finance companies continued to operate soundly.

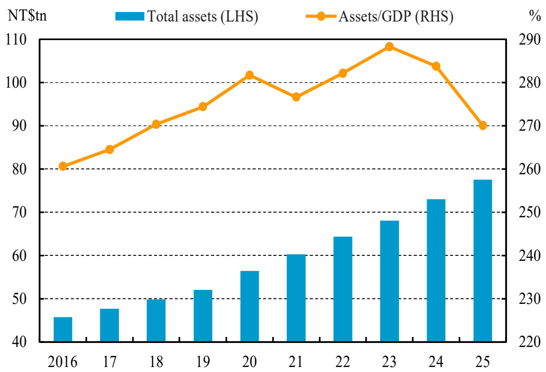
3.2.1 Domestic banks

At the end of 2025, the total assets of domestic banks[25] continued to expand and their asset quality remained sound. Both the sectoral concentration of corporate loans and the concentration of real estate-secured credit declined, and total China exposure continued to decrease. Credit risks associated with overseas commercial real estate-secured lending remained manageable. Market risk, as measured by value at risk (VaR), increased, albeit with limited impact on capital adequacy ratios. Liquidity in the banking system was ample, and overall liquidity risk stayed low. Domestic banks continued to post record-high profits in 2025, while capital adequacy ratios improved, indicating a strong capacity to absorb losses.

Total assets continued to expand

The total assets of domestic banks continued to expand and reached NT$77.55 trillion at the end of 2025. The annual growth rate moderated to 6.18% from 7.35% a year earlier. As GDP growth outpaced the asset growth, the ratio of total assets to annual GDP declined to 270.06% (Chart 3.21). By business unit, the annual asset growth rate of domestic banking units (DBUs) decreased slightly, reflecting slower loan growth. In contrast, asset growth of offshore banking units (OBUs) continued to accelerate, benefiting from steady growth in investments and loans and an increase in interbank lending. Meanwhile, the annual asset growth rate of overseas branches declined markedly owing to a

Chart 3.21 Total assets of domestic banks



Sources: CBC and DGBAS.

25 Includes the Agricultural Bank of Taiwan. As of the end of 2025, there were 39 domestic banks in total.

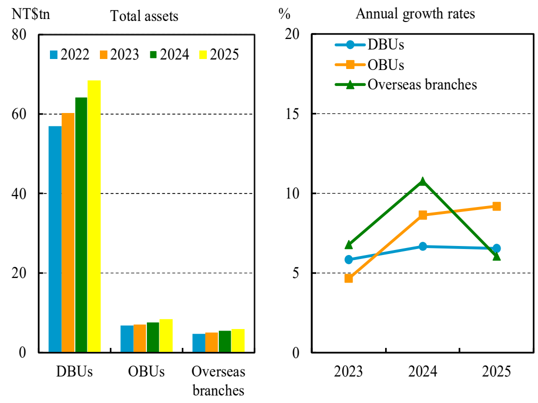
reduction in holdings of net financial assets (Chart 3.22).

Credit risk

Customer loan growth moderated

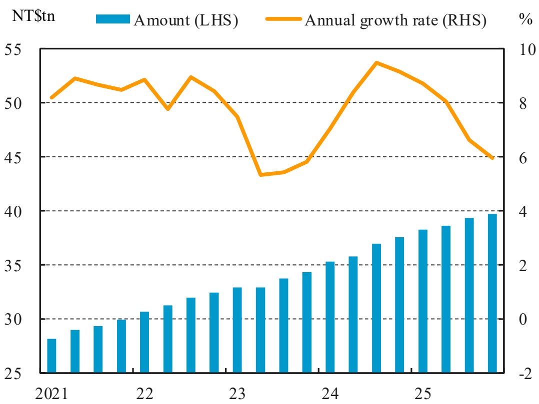
Customer loans[26] remained the primary source of credit risk for domestic banks. The outstanding customer loans of DBUs stood at NT$39.76 trillion at the end of 2025, accounting for 51.28% of total assets. The annual growth rate moderated from 9.17% a year earlier to 5.98% (Chart 3.23). Among major loan categories, the annual growth rate of household borrowing decreased from 11.95% a year earlier to 6.99%, reflecting weaker demand for housing loans. The annual growth rate of corporate loans also decreased to 4.97% from 6.57% a year earlier, as uncertainty surrounding US tariff policies and a volatile global environment prompted some firms to adopt a more cautious approach to meeting their financing needs. By contrast, the annual growth rate of loans to government agencies increased from 3.06% to 3.33%, mainly driven by increased government borrowing to finance higher public expenditure.

Chart 3.22 Total assets of domestic banks by sector



Note: Figures for total assets include interbranch transactions.
Source: CBC.

Chart 3.23 Outstanding loans in domestic banks



Note: Loans of OBUs and overseas branches are excluded.
Source: CBC.

Asset quality remained sound

At the end of 2025, the outstanding classified assets[27] of domestic banks amounted to NT$490.5 billion, up 2.96% from a year earlier. Nevertheless, the average classified asset ratio edged down by 0.02 percentage points (pps) to 0.63% (Chart 3.24). The expected losses on

[26] The term “customer loans” refers to discounting, overdrafts, other loans, and import bill advances, but excludes export bill purchases, collections, and interbank call loans.

[27] Assets of domestic banks are broken down into five categories: normal, special mention, substandard, doubtful, and loss. The term “classified assets” herein includes all assets classified under the latter four categories.

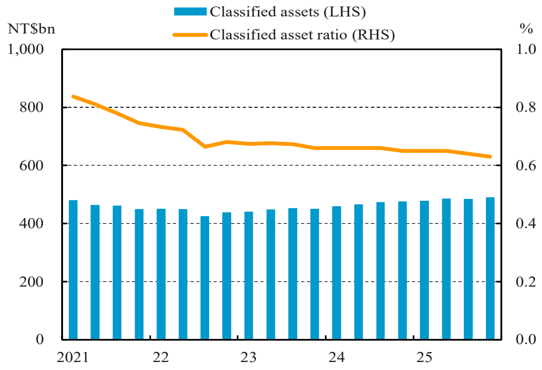
classified assets,[28] as assessed by domestic banks, increased slightly by NT$1.8 billion year-on-year to NT$54.1 billion. Nevertheless, the ratio of such expected losses to allowances for doubtful accounts and other loss provisions declined to 8.13%, indicating the existing provisions remained sufficient to absorb such losses without eroding equity.

The outstanding NPLs of domestic banks registered NT$68.6 billion at the end of 2025, increasing by 8.69% from the end of the previous year, while the average NPL ratio remained at 0.15% (Chart 3.25). Furthermore, the loan coverage ratio remained broadly stable at 1.36% at the end of 2025, while the NPL coverage ratio declined to 896.47% owing to a relatively smaller increase in allowances for doubtful accounts (Chart 3.26). Nonetheless, the overall capacity of domestic banks to absorb potential loan losses remained adequate.

The share of real estate-secured credit declined

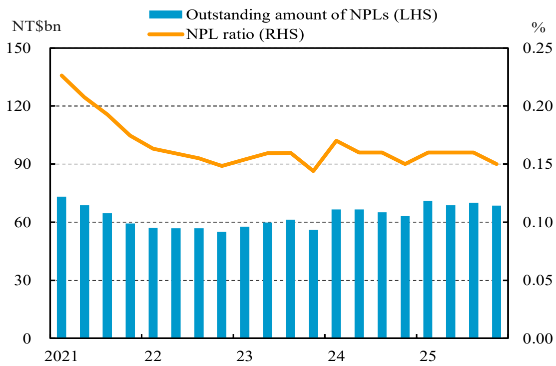
At the end of 2025, real estate-secured credit granted by domestic banks amounted to NT$26.98 trillion, accounting for 57.53% of total outstanding credit.[29] The ratio decreased marginally from the previous year, indicating a slight reduction in concentration (Chart 3.27). Since the second half of 2025, as the effects of the CBC's selective credit control measures have gradually materialized,

Chart 3.24 Classified assets of domestic banks



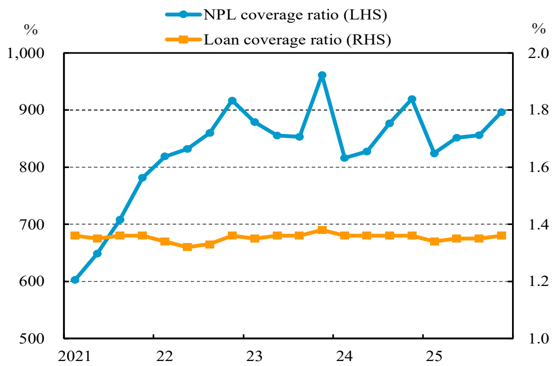
Note: Classified asset ratio = classified assets/total assets.
Source: CBC.

Chart 3.25 NPLs of domestic banks



Note: Excludes interbank loans.
Source: CBC.

Chart 3.26 NPL coverage ratio and loan coverage ratio of domestic banks

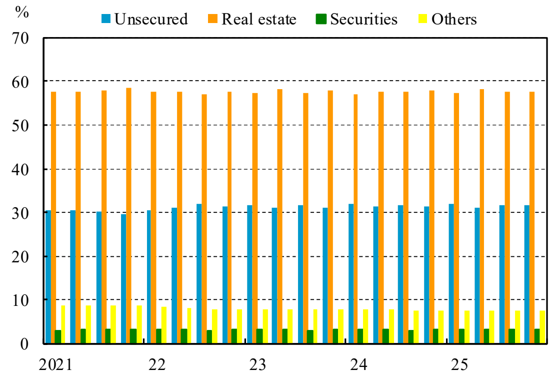


Notes: 1. NPL coverage ratio = total provisions/non-performing loans.
2. Loan coverage ratio = total provisions/total loans.
3. Excludes interbank loans.
Source: CBC.

[28] Such loss refers to losses from loans, acceptances, guarantees, credit cards, and factoring without recourse.
[29] The term "credit" herein includes loans, guarantee payments receivable, and acceptances receivable.

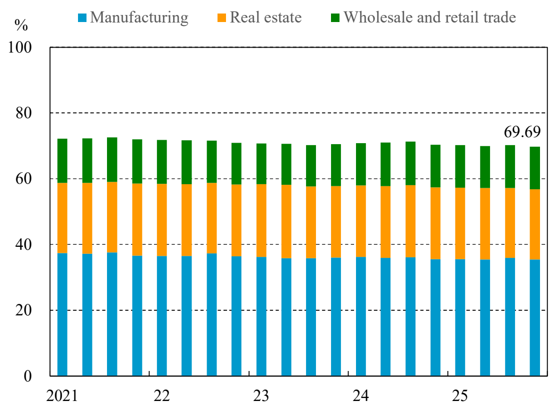
speculative activity in the housing market has decreased, transaction volumes have contracted markedly, and the growth of housing prices has moderated, although the price level remains elevated. Given the substantial supply of newly completed residential units entering the market in recent years, the pressure from the inventory overhang may continue to increase. Accordingly, the potential impact of future developments in the real estate market on banks' credit quality warrants continued close monitoring.

Chart 3.27 Credit by type of collateral in domestic banks



Source: CBC.

Chart 3.28 Shares of corporate loans of the three largest industries



Notes: 1. Industry share = loans to industry / total corporate loans outstanding.
2. Exposures of OBUs and overseas branches were excluded.
Source: CBC.

Sectoral concentration in corporate loans decreased slightly

Corporate loans granted by the DBUs of domestic banks (excluding OBUs and overseas branches) stood at NT$16.99 trillion at the end of 2025. The three largest borrowing industries were manufacturing (NT$6.03 trillion), real estate (NT$3.62 trillion), and wholesale and retail trade (NT$2.19 trillion). Combined, these three industries accounted for 69.69% of total corporate loans, down from 70.38% in the previous year (Chart 3.28), indicating that sectoral concentration in corporate loans decreased modestly. Within manufacturing,[30] which was the largest recipient of corporate lending, loans to the electronics industry made up the largest share at 34.46% with an amount of NT$2.08 trillion at the end of 2025, up from 33.02% a year earlier.

Risks associated with overseas CRE lending remained manageable

While policy rate cuts by US and European central banks supported a recovery in CRE market

[30] Loans to the manufacturing sector are divided into five categories by industry, including: (1) electronics, (2) mining of metals and non-metals, (3) petrochemicals, (4) traditional manufacturing, and (5) others.

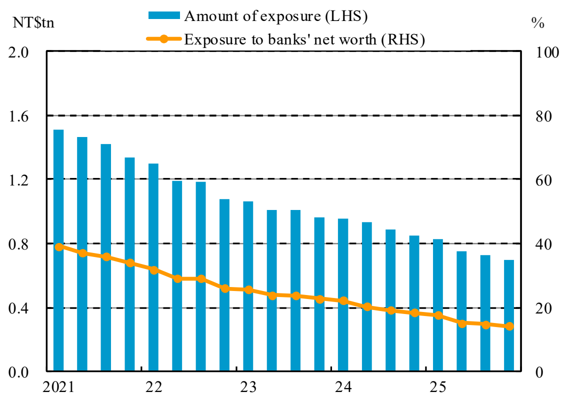
activity, overall CRE vacancy rates remained elevated. In 2025, the credit quality of US and European CRE loans extended by domestic banks remained weak. Nonetheless, as exposures to US and European CRE accounted for only 0.37% of domestic banks' total loans, the associated risk remained manageable.

The IMF, the U.S. Fed, and the Financial Stability Oversight Council (FSOC)[31] have noted that recent declines in CRE vacancy rates, coupled with lower interest expenses, have helped enhance the sector's debt-servicing capacity. Nevertheless, refinancing risks in overseas CRE remain elevated; domestic banks should continue to closely monitor developments in the credit quality of their overseas CRE exposures and the potential impact of any deterioration.

Exposure to China continued to decline, but potential risks remained elevated

At the end of 2025, domestic banks' exposure to China amounted to NT$0.70 trillion, a further decline of 17.71% from the previous year, driven primarily by a 31.84% reduction in investments. The above exposure as a percentage of net worth decreased further to 14% (Chart 3.29), reaching a new record low and remaining well below the statutory ceiling of 100%.

Chart 3.29 Exposure of domestic banks to China



Source: FSC.

Since 2025, China's economic growth has continued to moderate amid structural challenges, including a sluggish property market, rising local government debt, and weak consumer demand. In addition, ongoing US-China trade tensions, heightened geopolitical risks, and the global trend toward supply chain de-risking could exacerbate financial market volatility. Accordingly, domestic banks should closely monitor the potential impact of these developments on the credit quality of their exposure to China.

[31] Please refer to IMF (2025), *Global Financial Stability Report*, October; Fed (2025), *Financial Stability Report*, November; FSOC (2025), *Annual Report*, December.

Market risk

Estimated VaR for market risk exposures increased

At the end of 2025, among the market risk exposures of domestic banks, net positions in interest rate-sensitive debt securities constituted the largest share, followed by net FX positions, while net equity positions were the smallest. Based on the Bank's market risk model,[32] the estimated total VaR for market risk exposures of domestic banks stood at NT$523.2 billion at the end of 2025, increasing by NT$90.2 billion or 20.83% year on year (Table 3.1). Among the components, the interest rate VaR rose by 26.08% year on year owing to larger net positions in debt securities. The FX VaR also increased by 16.33% from the end of the previous year, driven by heightened volatility in the NT dollar exchange rate against the US dollar. The equities VaR decreased sharply by 84.58% as banks substantially reduced their net equity positions by transferring certain trading book positions to the banking book in accordance with the FSC's revised capital adequacy calculation methodology (Table 3.1).

Table 3.1 Market risks in domestic banks

Unit: NT$bn

Type of risk	Item	End-Dec. 2024	End-Dec. 2025	Changes	
				Amount	pps
Foreign exchange	Net position	176.8	156.3	-20.5	-11.60
	VaR	4.9	5.7	0.8	16.33
	VaR/net position (%)	2.77	3.65		0.88
Interest rate	Net position	8,924.0	10,289.9	1,365.9	15.31
	VaR	408.0	514.4	106.4	26.08
	VaR/net position (%)	4.57	5.00		0.43
Equities	Net position	115.4	20.4	-95.0	-82.32
	VaR	20.1	3.1	-17.0	-84.58
	VaR/net position (%)	17.42	15.20		-2.22
Total VaR		433.0	523.2	90.2	20.83

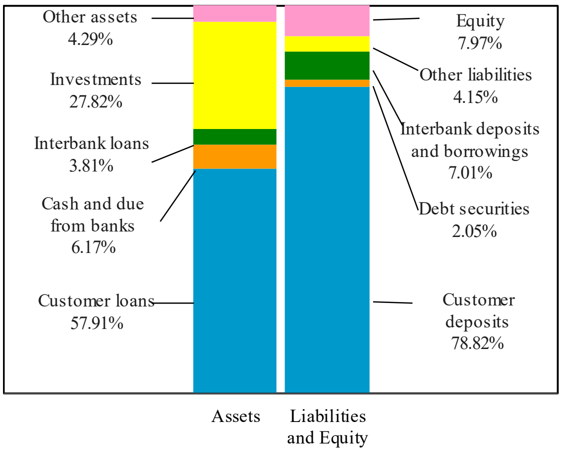
Source: CBC.

[32] The Bank's market risk model estimates interest rate risk using a dynamic Nelson-Siegel term structure model combined with a VAR model, while foreign exchange and equity risks are estimated using GARCH models. The model features a window-based graphical user interface, allowing users to estimate alternative GARCH specifications by selecting the desired GARCH model and its corresponding probability distribution (e.g., SGED) from drop-down menus.

The impact of market risk on capital adequacy ratios was limited

Based on the above estimates, the total VaR would reduce the average capital adequacy ratio of domestic banks by 2.19 pps,[33] from 15.78% to 13.59%. Nevertheless, the adjusted ratio would remain well above the statutory minimum requirement of 10.5%. Given heightened geopolitical conflicts in the Middle East and ongoing uncertainty surrounding US trade policies, global financial market volatility could intensify, thereby increasing market risks. Accordingly, these developments warrant continued close attention.

Chart 3.30 Asset/liability structure of domestic banks

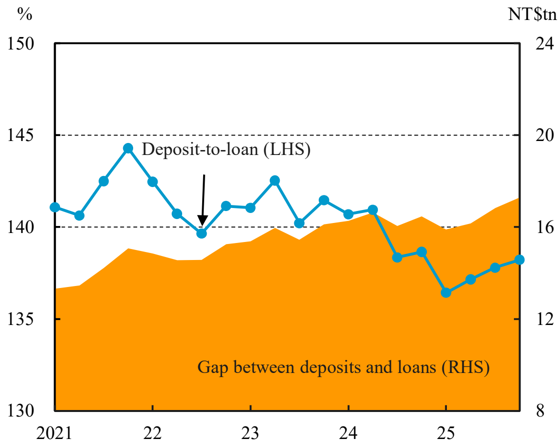


Notes: 1. Figures are as of end-December 2025.
2. Equity includes loss provisions. Interbank deposits include deposits with the CBC.
Source: CBC.

Liquidity risk

Liquidity in the banking system remained ample

Chart 3.31 Deposit-to-loan ratio of domestic banks



Source: CBC.

The asset and liability structure of domestic banks remained largely unchanged in 2025. In terms of the sources of funds, customer deposits, which are relatively stable, still accounted for the largest share, at 78.82% of total liabilities and equity. Equity accounted for the second largest share, at 7.97%. As for the uses of funds, customer loans constituted the largest portion at 57.91%, followed by investments in debt and equity securities at 27.82% (Chart 3.30).

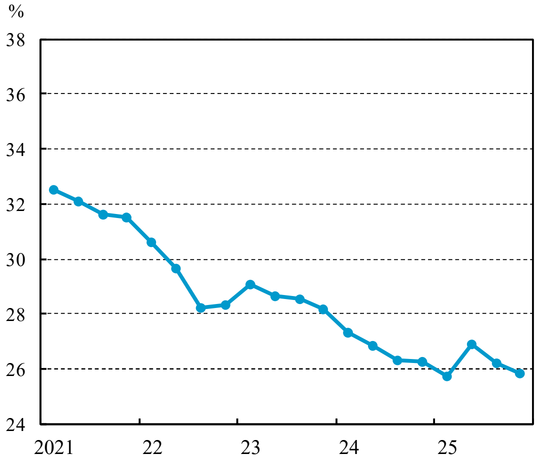
At the end of 2025, as loan growth outpaced deposit growth, the average deposit-to-loan ratio declined slightly from 138.65% at the end of the previous year to 138.22%. After funding loan demand, deposits maintained a surplus of NT$17.29 trillion over loans (Chart 3.31). The overall liquidity condition of domestic banks remained ample.

[33] Domestic banks had already set aside capital for market risk in accordance with relevant regulations. To avoid double counting, the impacts of market risk on the capital adequacy ratio herein were estimated using capital shortfalls after considering the aforementioned market risk capital.

Overall liquidity risk remained low

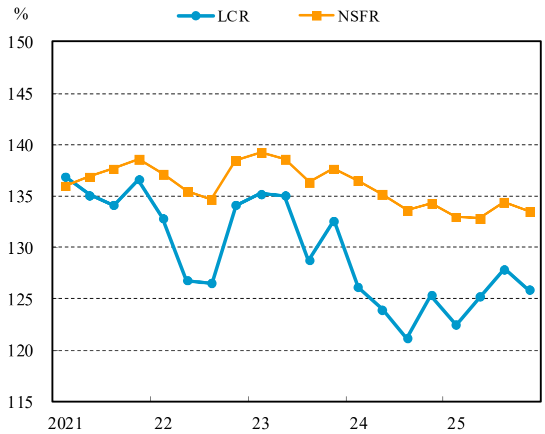
The average NT dollar liquid reserve ratio of domestic banks remained well above the statutory minimum standard of 10% throughout 2025, registering 25.84% in December (Chart 3.32). Although this was down 0.44 pps from the same period of the previous year, all banks maintained ratios above 15%. At the end of 2025, the average liquidity coverage ratio (LCR) of domestic banks edged up to 125.87%, compared with 125.38% at the end of the previous year (Chart 3.33).[34] Meanwhile, the average net stable funding ratio (NSFR) of domestic banks fell from 134.28% at the end of the previous year to 133.46% (Chart 3.33), primarily reflecting a substantial rise in claims on non-financial institutions with residual maturities of more than one year. Nonetheless, all banks maintained ratios well above the statutory minimum requirement,[35] and the overall liquidity risk of domestic banks was relatively low.

Chart 3.32 Liquid reserve ratio of domestic banks



Note: Figures are the average daily data in the last month of each quarter.
Source: CBC.

Chart 3.33 LCR and NSFR of domestic banks



Source: CBC.

Profitability

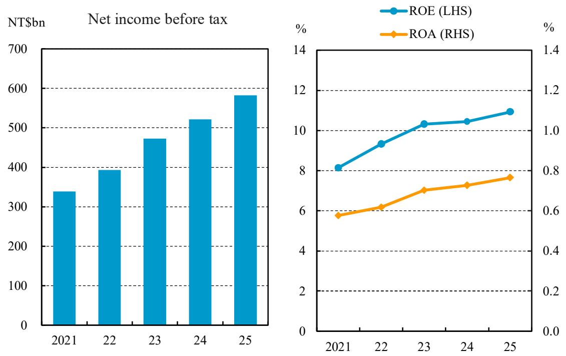
Profits reached another record high in 2025

Benefiting from substantial increases in net interest income and net fee income, the net income before tax of domestic banks rose by 11.62% over the previous year to NT$581.9 billion, marking a new historical high. The average ROE and ROA also went up to 10.93% and 0.77%, respectively (Chart 3.34).

[34] According to the *Standards Implementing the Liquidity Coverage Ratio of Banks*, banks are required to maintain an LCR of no less than 100%, except for the Export-Import Bank of the Republic of China.
[35] According to the *Standards Implementing the Net Stable Funding Ratio of Banks*, the minimum standard for banks is 100%.

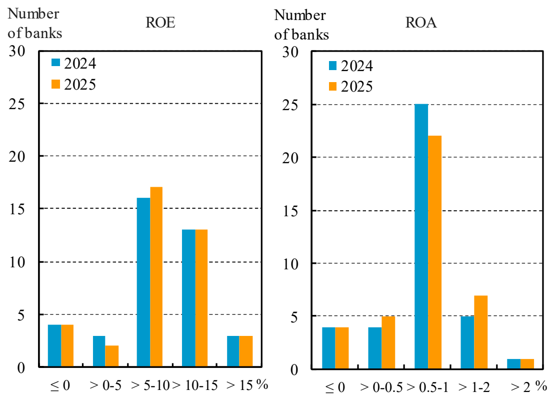
In 2025, four small banks posted operating losses. Nevertheless, all of them met the statutory minimum capital adequacy requirement, and therefore their losses had only a limited impact on the overall financial system. All the other banks remained profitable, although individual banks' ROE and ROA showed mixed performance. The number of banks with an ROE of 10% or higher remained unchanged at 16. Meanwhile, eight banks recorded ROAs above the 1% international benchmark, up from six a year earlier (Chart 3.35).

Chart 3.34 Net income before tax of domestic banks



Notes: 1. ROE = net income before tax/average equity.
2. ROA = net income before tax/average assets.
Source: CBC.

Chart 3.35 Domestic banks classified by ROE and ROA



Source: CBC.

Factors that might affect future profitability

Supported by higher mortgage interest rates and a growing share of long-term loans, the average interest rate spread between deposits and loans of domestic banks edged up from 1.36% at the end of 2024 to 1.37% at the end of 2025 (Chart 3.36). Nevertheless, room for further expansion in interest spreads remains limited, suggesting that the momentum of profit growth will moderate. Other factors that may weigh on profitability include: (1) Heightened geopolitical tensions in the Middle East have pushed up global energy prices, which may elevate production costs for domestic enterprises and compress revenue and profit margins, thus weakening their debt-servicing capacity. In addition, domestic banks could become more vulnerable to losses on their credit exposures and investment positions in the Middle East if the regional conflict intensifies, resulting in increases in non-performing loans, higher provisioning requirements, and greater volatility in bond valuations and investment returns, thereby exerting downward pressure on bank profitability; (2) Since the second half of 2025, driven by strong market optimism regarding the prospects for AI development, both Taiwan and US equity markets have recorded significant gains. However, as AI-related end-use applications and business models are still evolving, related investments could face valuation correction risks if the actual economic benefits fall short of expectations. Such developments would adversely affect gains from the valuation and disposal of domestic banks' holdings of equity and debt securities.

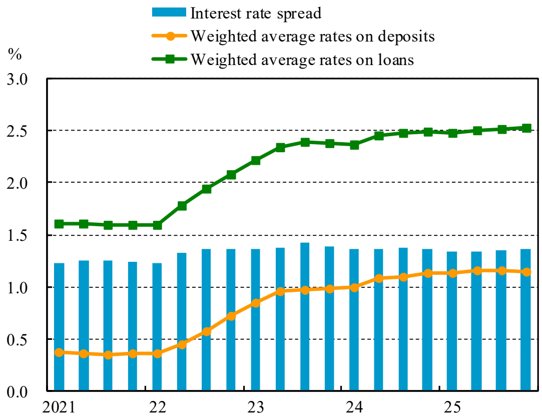
Capital adequacy

Capital ratios increased

Supported by cash capital increases by several banks and smaller valuation losses on financial assets, the average common equity Tier 1 (CET1) capital ratio, Tier 1 capital ratio, and capital adequacy ratio rose to 12.50%, 13.69%, and 15.78%, respectively, at the end of 2025, all exceeding the levels recorded a year earlier (Chart 3.37). Both the CET1 capital ratio and Tier 1 capital ratio rose further to record highs.

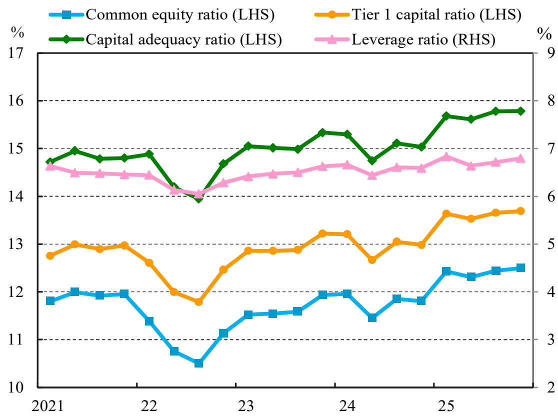
Among the components of regulatory capital, CET1 capital, which provides the strongest loss-absorbing capacity, accounted for 79.18% of total regulatory capital at the end of 2025. The high proportion of CET1 capital showed that the capital quality of domestic banks was sound. Moreover, the average leverage ratio of domestic banks stood at 6.79% at the end of 2025 (Chart 3.37), higher than 6.59% a year earlier and well above the 3% statutory minimum requirement, indicating that financial leverage remained sound.

Chart 3.36 Interest rate spread of domestic banks



Notes: 1. Interest rate spread = weighted average interest rates on loans - weighted average interest rates on deposits.
2. The weighted average interest rates on deposits and loans exclude preferential deposits of retired government employees and central government loans.
Source: CBC.

Chart 3.37 Capital ratios and leverage ratios of domestic banks



Notes: 1. Common equity ratio = common equity Tier 1 capital/risk-weighted assets.
2. Tier 1 capital ratio = Tier 1 capital/risk-weighted assets.
3. Capital adequacy ratio = Regulatory capital/risk-weighted assets.
4. Leverage ratio = Tier 1 capital/total exposure.
Source: CBC.

All domestic banks maintained capital and leverage ratios above the statutory minimum requirements

At the end of 2025, the capital ratios of six domestic systemically important banks (D-SIBs) and all non-D-SIBs were above either the relevant 2025 capital buffer requirements set by the FSC[36]

[36] The statutory standards for the common equity ratio, Tier 1 capital ratio, and capital adequacy ratio of non-D-SIBs are 7%, 8.5% and 10.5%, respectively. D-SIBs are required to set aside an additional 2% of buffer capital and 2% of internal management capital according to the requirement of the FSC. The additional capital must be achieved before the end of each of the four years equally starting from the next year after the designated date.

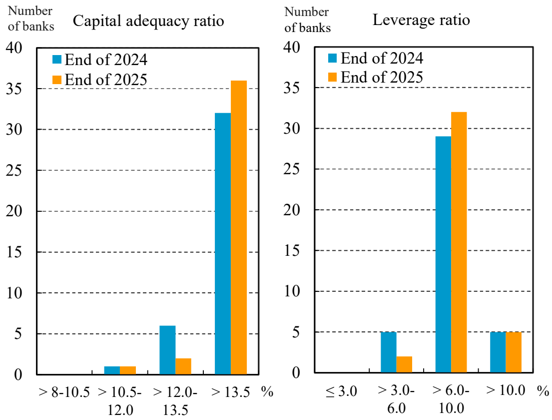
or the statutory minimum requirement. In addition, the leverage ratios of all domestic banks exceeded the statutory minimum requirement of 3% (Chart 3.38).

Credit ratings

Overall credit rating levels remained broadly stable

According to the overall risk assessments of Taiwan's banking system made by major credit rating agencies, Standard & Poor's maintained Taiwan's Banking Industry Country Risk Assessment (BICRA)[37] at Group 4, which corresponds to a moderately low risk category. Compared with other Asian economies, Taiwan's banking sector risk remained comparable to that of Malaysia and lower than those of the Philippines, China, Thailand and Indonesia. Meanwhile, Fitch Ratings also maintained Taiwan's Banking System Indicators/Macro-Prudential Indicator (BSI/MPI)[38] at bbb/1 (Table 3.2).

Chart 3.38 Capital ratios and leverage ratios of domestic banks



Source: CBC.

Table 3.2 Systemic risk indicators for the banking system

Banking System	Standard & Poor's BICRA		Fitch BSI/MPI	
	2025/2	2026/2	2024/9	2025/10
Singapore	2	2	aa/1	aa/1
Hong Kong	2	2	a/2	a/2
Japan	3	3	a/2	a/2
South Korea	3	3	a/2	a/2
Taiwan	**4**	**4**	**bbb/1**	**bbb/1**
Malaysia	4	4	bbb/1	bbb/1
Philippines	5	5	bb/1	bb/1
China	6	6	bbb/1	bbb/1
Thailand	7	7	bbb/1	bbb/1
Indonesia	6	5	bb/1	bbb/1

Sources: Standard & Poor's and Fitch Ratings.

In addition, the weighted average credit rating index[39] of rated domestic banks increased slightly from the previous year-end (Chart 3.39), mainly reflecting rating upgrades for five banks.

Rating outlooks for most domestic banks remained stable

As of the end of 2025, most domestic banks were rated twAA or twA by Taiwan Ratings or

[37] BICRA is scored on a scale from 1 to 10, ranging from the lowest-risk (group 1) to the highest-risk (group 10), which indicates the assessment results by Standard & Poor's of economic and industry risks of a country's banking system.

[38] Fitch Ratings assesses banking system vulnerability with two complementary measures, the BSI and the MPI. These two indicators are brought together in a Systemic Risk Matrix. The BSI represents banking system strength on a scale from aaa (strongest), aa, a, bbb, bb, b, ccc, cc, c to f (fail). The MPI indicates the vulnerability of the macro environment on a scale from 1 (lowest vulnerability), 2, 2* to 3 (highest vulnerability).

[39] The credit rating index is an asset-weighted average rating score of rated domestic banks, measuring the overall creditworthiness of those banks on a scale from 1 (weakest) to 100 (strongest). The rating score for banks is determined according to their long-term issuer ratings from Taiwan Ratings or national long-term ratings from Fitch Ratings. The higher the index is, the better the bank's overall solvency.

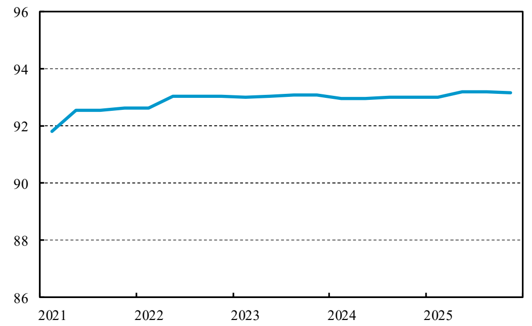
AA(twn) or A(twn) by Fitch Ratings, and none was rated below twBB/BB(twn) (Chart 3.40).[40] In terms of rating outlooks, all but two domestic banks maintained "Stable Outlooks," while the remaining two were assigned a "Developing Outlook." One bank's outlook was subsequently revised from "Stable" to "Positive" in January 2026.[41]

Taiwan Ratings expected the credit strength of Taiwan's banking sector to remain stable in 2026 despite adverse macroeconomic conditions and geopolitical uncertainties. Net interest income is expected to remain stable, while fee income is projected to continue growing steadily. Although economic fluctuations and potential corrections in housing prices may lead to a modest increase in the recognition of non-performing assets, the banking sector's strong capital position should provide sufficient buffers against potential economic shocks.[42]

3.2.2 Life insurance companies

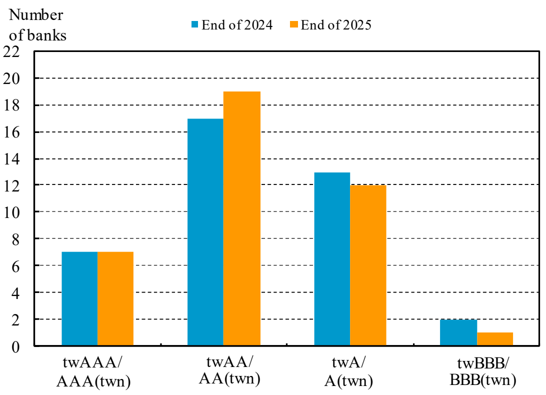
In 2025, the total assets of life insurance companies remained at high levels, although asset growth moderated. The average equity to asset ratio continued to rise, while overall credit ratings remained sound. Nevertheless, profitability declined markedly. Owing to currency mismatches between assets and liabilities, foreign exchange risk rose, while

Chart 3.39 Credit rating index of domestic banks



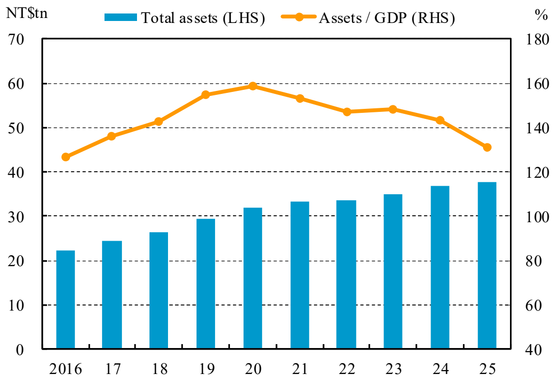
Sources: Taiwan Ratings and Fitch Ratings, index compiled by the CBC.

Chart 3.40 Number of domestic banks classified by credit ratings



Sources: Taiwan Ratings and Fitch Ratings.

Chart 3.41 Total assets of life insurance companies



Sources: TIGF and DGBAS.

[40] In 2025, two banks were upgraded from the twA/A(twn)+ category to the twAA/AA(twn) category, while another bank changed its rating agency from Taiwan Ratings to Fitch Ratings, with its long-term issuer rating changing from twBBB+ to A-(twn). As a result, the number of rated banks in the twAA/AA(twn) category increased by two at the end of 2025, while the numbers of banks in the twA/A(twn) and twBBB/BBB(twn) categories each decreased by one.

[41] One bank's asset quality improved following the adoption of more stringent credit underwriting standards over the past few years. Accordingly, Taiwan Ratings revised the bank's rating outlook upward to "Positive" from "Stable" in January 2026.

[42] See Taiwan Ratings (2025), "2026 Credit Outlook for Taiwan," December.

investment positions were faced with relatively high interest rate and equity risks.

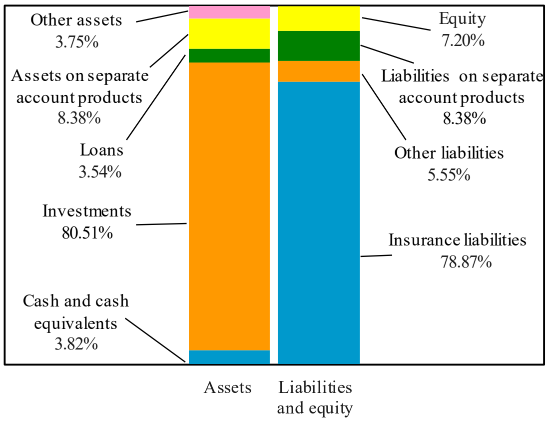
Asset growth moderated

The total assets of life insurance companies reached NT$37.68 trillion at the end of 2025, equivalent to 131.22% of annual GDP (Chart 3.41). The annual growth rate of total assets decreased to 2.11%, reflecting slower asset growth. Meanwhile, the market structure of the life insurance industry was largely unchanged, with the top three companies accounting for a combined 54.34% share of total assets.

Investments remained the primary use of funds

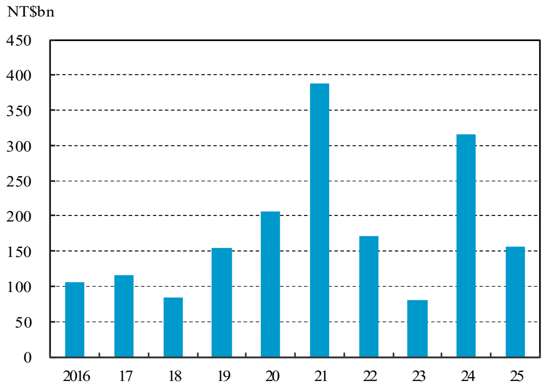
At the end of 2025, investments continued to account for the largest share of the use of funds, although their share declined to 80.51% (Chart 3.42).[43] Insurance liabilities remained the dominant source of funds, accounting for 78.87% of total liabilities and equity. Meanwhile, the share of equity increased further to 7.20%, supported by higher retained earnings and a recovery in the stock market (Chart 3.42).

Chart 3.42 Asset/liability structure of life insurance companies



Note: Figures are as of the end of 2025.
Source: TIGF.

Chart 3.43 Net income before tax of life insurance companies



Source: TIGF.

Pretax income declined sharply in 2025

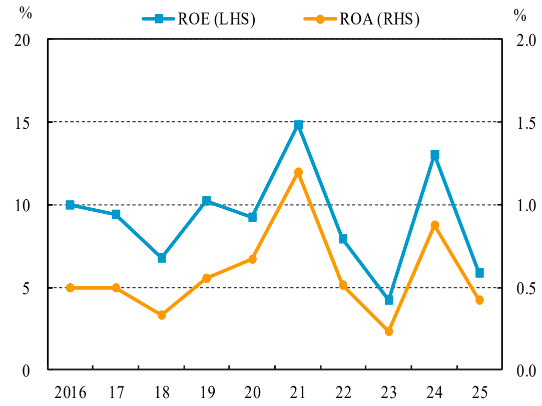
Affected by a sharp increase in foreign exchange losses resulting from the appreciation of the NT dollar against the US dollar,[44] life insurance companies posted pre-tax net income of

[43] Foreign investments and domestic securities investments (including investments in insurance-related enterprises) accounted for 60.42% and 17.53% of total assets, respectively.

[44] The NT dollar depreciated by 6.24% against the US dollar in 2024, but reversed course to appreciate by 4.27% in 2025.

NT$156.9 billion in 2025 (Chart 3.43), a considerable year-on-year decrease of 50.25%. Their average ROE and ROA declined to 5.92% and 0.42%, respectively, from 13.06% and 0.88% a year earlier (Chart 3.44).

Chart 3.44 ROE & ROA of life insurance companies



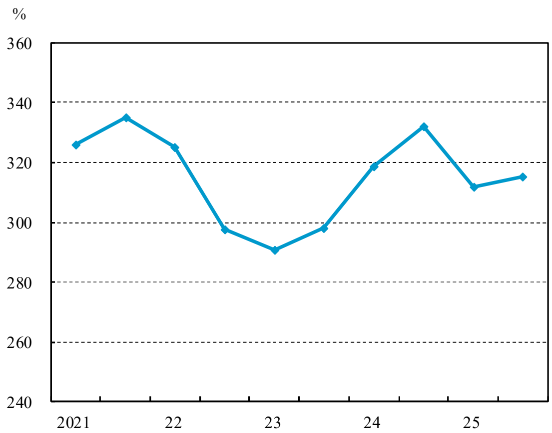
Notes: 1. ROE = net income before tax/average equity.
2. ROA = net income before tax/average assets.
Source: TIGF.

Average RBC ratio slid, while equity to asset ratio increased

At the end of 2025, the RBC ratio declined to 315.09% from 331.95% a year earlier, mainly because of a relatively larger increase in risk-based capital (Chart 3.45).[45] Among life insurers, two life insurance companies reported RBC ratios below the statutory minimum of 200% (Chart 3.46).

Furthermore, supported by higher retained earnings, the average equity to asset ratio increased further to 7.86% at the end of 2025 (Chart 3.47). However, one life insurance company continued to report its ratio below the statutory minimum of 3%.

Chart 3.45 RBC ratio of life insurance companies



Notes: 1. RBC ratio = regulatory capital/risk-based capital.
2. Figures are exclusive of life insurance companies in receivership.
Source: TIGF.

Overall credit rating levels remained broadly stable

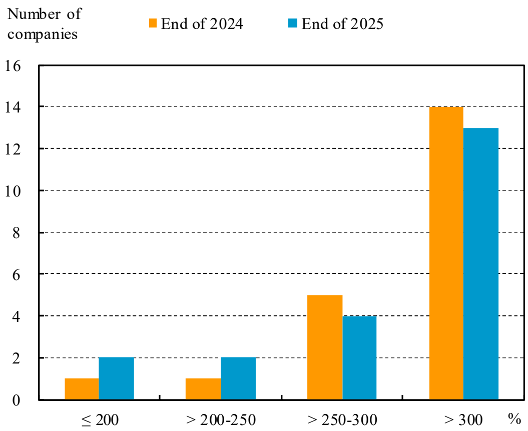
Among the 17 life insurance companies rated by credit rating agencies, none experienced any rating changes in 2025. At year-end, with the exception of one company rated twA-, all other life insurance companies maintained credit ratings of twA or above, or their equivalent. Among them, the three largest life insurance companies by total asset share retained twAA+ ratings, indicating a strong capacity to meet their financial commitments. In terms of rating outlook, three companies continued to carry negative outlooks. In addition, one company was placed on CreditWatch Positive, reflecting expectations of effective support from its parent financial

[45] Life insurance companies are required to report their RBC ratios to the regulatory authority every six months.

holding company following a merger. The remaining companies were assigned stable outlooks.

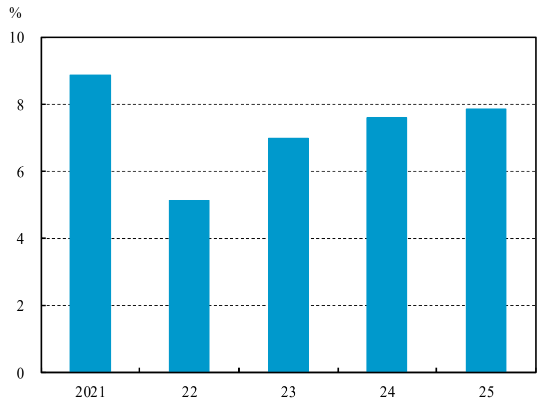
Credit rating agencies[46] indicated that the foreign exchange risk exposure of life insurance companies remained elevated, making profits sensitive to exchange rate fluctuations, hedging costs, and market uncertainties, among others. Furthermore, while the initial adoption of IFRS 17 might exacerbate balance sheet volatility, the capital level of the life insurance sector remains adequate, and the overall credit outlook is expected to remain stable.

Chart 3.46 Number of life insurance companies classified by RBC ratios



Source: TIGF.

Chart 3.47 Equity to asset ratios of life insurance companies



Note: For assets, the assets of investment-linked insurance products in separate accounts are excluded.
Source: TIGF.

Currency mismatches between assets and liabilities increased foreign exchange risk

Life insurance companies' liabilities primarily consisted of NT dollar-denominated insurance policies. At the end of 2025, foreign currency-denominated policies accounted for 19.49% of total assets, substantially lower than the 60.42% share of foreign currency assets. As a result, currency mismatches between assets and liabilities left profitability highly susceptible to exchange rate fluctuations. In 2025, the NT dollar appreciated by 4.27% against the US dollar, resulting in substantial foreign exchange losses of NT$548.5 billion on net foreign assets. Although life insurance companies employed derivatives and currency-basket hedging strategies to mitigate the impact of FX fluctuations, the persistently wide interest rate differential between Taiwan and the US kept hedging costs elevated. As a result, hedging gains amounted to only NT$57.4 billion, significantly weighing on profitability.

At the end of 2025, the FX hedging ratio of life insurance companies declined to a record low of 50.23%, while the accumulated FX valuation reserves rose to a record high of NT$613.7

46 See Note 42.

billion. Taiwan Ratings noted that although the revised FX valuation reserve mechanism and related accounting adjustments would help smooth earnings volatility for the life insurance sector, they would not reduce the underlying risks arising from currency mismatches. Moreover, with the hedging ratio continuing to decline, FX risks are expected to persist. Under extreme FX rate scenarios, profitability could still be significantly affected.[47]

Investment positions faced higher equity and interest rate risks

The investment positions of life insurance companies totaled NT$30.34 trillion at the end of 2025, with securities investments accounting for the largest share. Given the uncertainty surrounding US economic and trade policies, the future path of monetary policy among major central banks, concerns over elevated valuations in AI-related industries, and geopolitical risks, including Middle East conflicts, the performance of domestic and international equity and bond markets could be adversely affected, thereby increasing equity and interest rate risks. Accordingly, related developments warrant close monitoring.

3.2.3 Bills finance companies

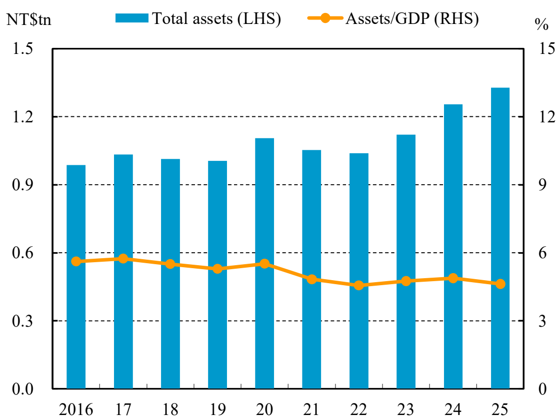
In 2025, the total assets of bills finance companies expanded, along with an increase in their guarantee balances. Meanwhile, the concentration of real estate-secured credit rose. Nevertheless, credit quality remained satisfactory. Although liquidity and interest rate risk increased, profitability and capital adequacy improved.

Total assets increased

The total assets of bills finance companies stood at NT$1.33 trillion at the end of 2025, an increase of 5.79% from a year earlier, mainly owing to higher holdings of corporate bonds and CP. The ratio of their total assets to annual GDP declined slightly to 4.62% over the same period (Chart 3.48).

In terms of the asset and liability structure, investments in bills and bonds constituted the largest share, at 96.35% of total assets as of

Chart 3.48 Total assets of bills finance companies

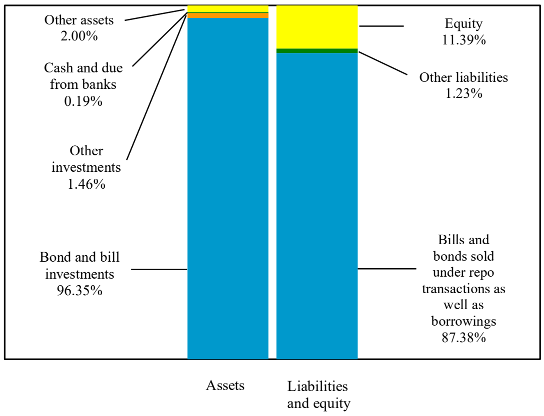


Sources: CBC and DGBAS.

[47] Taiwan Ratings (2026), "Taiwan Life Insurers: After Forex Rules Shakeup, Risk Will Linger," April.

the end of 2025. On the liability side, short-term bills and bonds sold under repo transactions and borrowings accounted for 87.38% of total liabilities, while the proportion of equity rebounded to 11.39% (Chart 3.49). The asset and liability structure remained roughly unchanged compared to a year earlier.

Chart 3.49 Asset/liability structure of bills finance companies



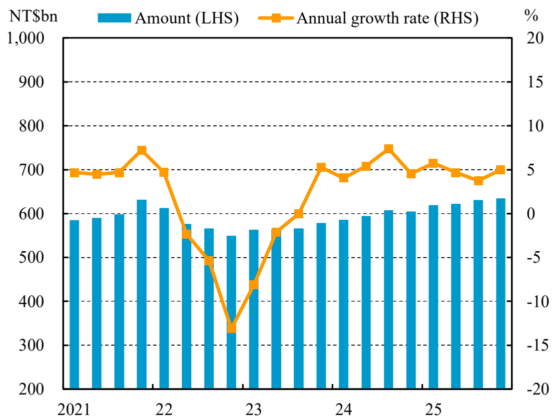
Note: Figures are as of the end of 2025.
Sources: CBC and FSC.

Credit risk

Guarantee balances increased, while the concentration of real estate-related credit rose

The amount of CP guaranteed by bills finance companies registered NT$634.1 billion at the end of 2025 (Chart 3.50), increasing by 4.99% year on year. The increase mainly reflected stronger demand for CP issuance amid continued economic expansion and rising capital expenditures. Consequently, the average ratio of guarantee liabilities to equity increased to 4.89 times, but the ratios of all individual companies remained below the regulatory ceiling of 5 or 5.5 times.

Chart 3.50 Outstanding CP guaranteed by bills finance companies



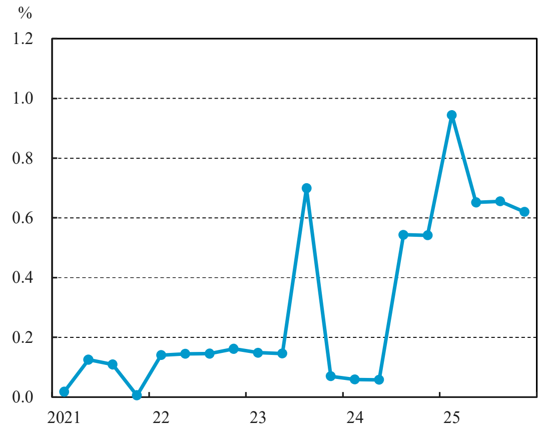
Source: CBC.

At the end of 2025, guarantees granted to the real estate and construction industries increased further to 32.38% of total guarantees outstanding. Among these, guarantees granted to the real estate industry subject to the FSC's regulatory limit expanded to 27.35%, remaining below the regulatory ceiling of 30%. In addition, the share of real estate-secured credit also increased to 44.63%. Given the rising share of real estate-related credit and expectations of a further housing market correction, the potential impact on the credit quality of bills finance companies' mortgage-related exposures warrants close monitoring.

Guaranteed advances ratio rose marginally, while credit quality remained sound

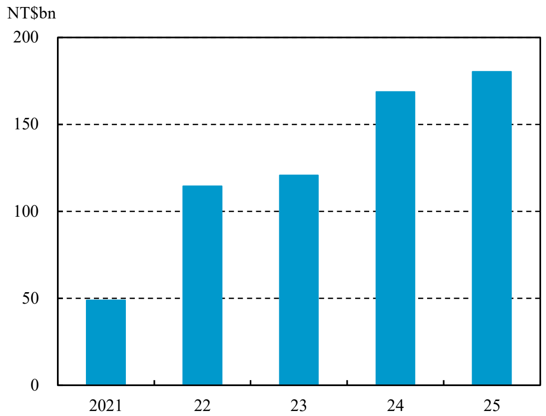
The guaranteed advances ratio of bills finance companies rose sharply to 0.94% in the first quarter of 2025 before it declined to 0.62% by the end of the year (Chart 3.51). The overall credit quality remained sound. The ratio of credit loss reserves to guaranteed advances[48] declined further to 2.20 times as the latter grew at a faster pace. Nevertheless, existing reserves remained sufficient to cover potential credit losses.

Chart 3.51 Guaranteed advances ratio of bills finance companies



Note: Guaranteed advances ratio = overdue guaranteed advances/(overdue guaranteed advances + guarantees).
Source: CBC.

Chart 3.52 Outstanding amount of non-guaranteed CP investments of bills finance companies



Source: CBC.

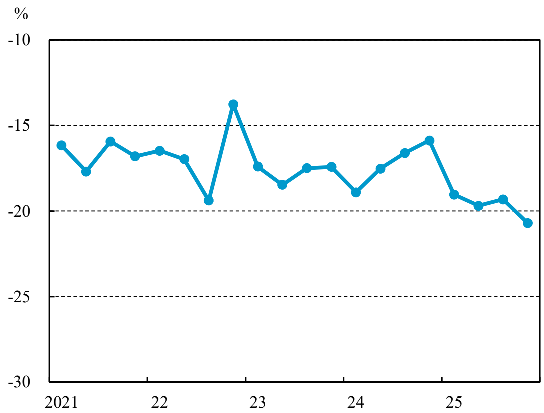
Holdings of non-guaranteed CP issued by the securities and leasing industries remained high, warranting close monitoring of potential risks

The outstanding holdings of non-guaranteed CP (CP2) by bills finance companies stood at NT$180.4 billion at the end of 2025, increasing by 6.94% year on year (Chart 3.52). This was because bills finance companies increased their holdings of CP2 issued by financial holding companies. Each company's ratio of CP2 investment to equity remained below the regulatory ceiling of 2 times. The investment in CP2 issued by the securities industry continued to reach new record highs, accounting for 31.07% of total CP2 holdings, the largest share among all industries. This mainly reflected increased issuance of CP2 by securities firms to meet funding needs associated with securities financing business and investment activities amid the buoyant domestic stock market in the second half of 2025. In addition, CP2 issued by leasing companies accounted for the second-largest share at 23.55%.

[48] Credit loss reserves to guaranteed advances ratio = (provisions + loss reserves to guarantees)/guaranteed advances.

Given the close linkages between the securities industry and the stock market, together with the leasing industry's widespread reliance on short-term funding to finance long-term assets, a decline in stock prices or liquidity strains could expose the securities and leasing industries to refinancing difficulties and funding disruptions. Therefore, the potential impact on the asset quality of bills finance companies warrants close attention.

Chart 3.53 0-30 day maturity gap ratio of bills finance companies

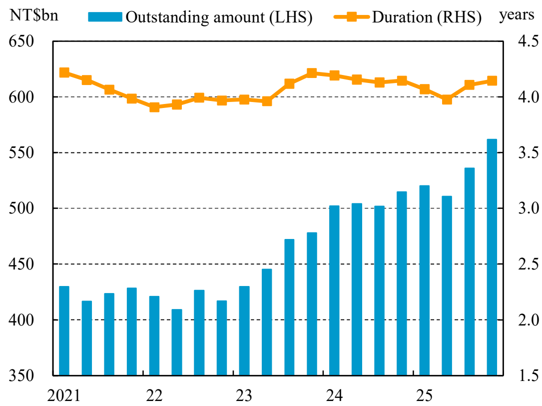


Note: 0-30 day maturity gap ratio = net NTD cash flow within 0-30 days/total assets denominated in NTD.
Source: CBC.

Liquidity risk increased

As of the end of 2025, more than 80% of funding sources of bills finance companies consisted of short-term interbank borrowing and repurchase agreements with financial institutions, while more than 90% of funds were invested in bills and bonds, of which bonds accounted for 44.44%. As a result, maturity mismatch between assets and liabilities persisted. Moreover, the average ratio of the 0-30 day maturity gap to total NTD-denominated assets widened to -20.70% at the end of the year (Chart 3.53), reflecting an escalating liquidity risk.

Chart 3.54 Outstanding amount of fixed-rate bond investments and bond duration of bills finance companies



Source: FSC.

Moreover, the average ratio of major liabilities[49] to equity rose to 8.92 times, leading to a higher degree of overall financial leverage. However, the leverage ratios of all bills finance companies stayed below the regulatory ceilings of 10 or 12 times.

Interest rate risk of bond investments rose

In 2025, the outstanding amount of fixed-rate bond investments held by bills finance companies

[49] Major liabilities include call loans, repo transactions, as well as issuance of corporate bonds and CP.

increased to NT$561.9 billion, while the average duration remained at 4.15 years (Chart 3.54). Given continued uncertainties surrounding geopolitical conflicts, US trade policies, and the future path of monetary policy adjustments by major central banks, financial market volatility could increase further. As a result, interest rate risk associated with bond investments merits close attention.

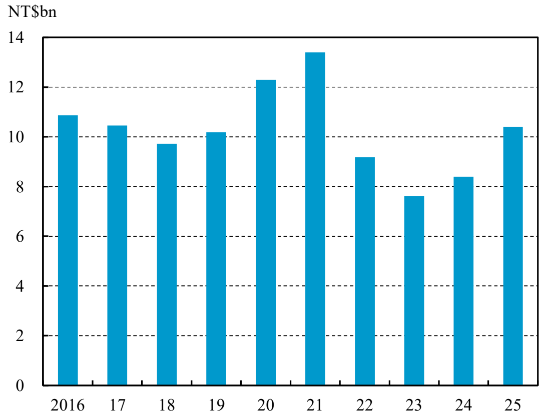
Profitability increased significantly

The net income before tax of bills finance companies increased by 23.96% year on year to NT$10.4 billion in 2025 (Chart 3.55). The increase was mainly owing to higher net interest income from investments in bonds and bills. Accordingly, the average ROE and ROA rose from 6.16% and 0.70% in the previous year to 7.30% and 0.82%, respectively (Chart 3.56).

Average capital adequacy ratio rebounded

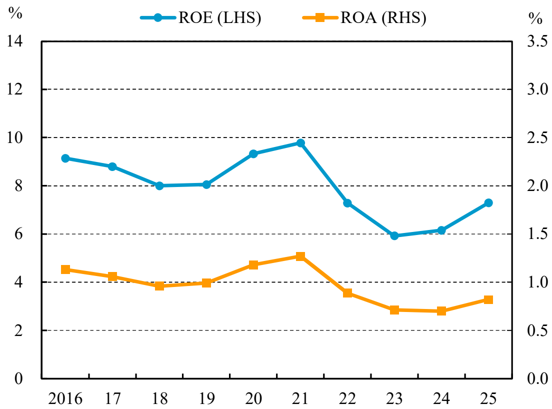
At the end of 2025, supported by retained earnings, the average Tier 1 capital ratio and capital adequacy ratio rebounded from 13.05% and 13.26% at the end of 2024 to 13.14% and 13.45%, respectively (Chart 3.57). Meanwhile, the capital adequacy ratios of all bills finance companies stayed well above the statutory minimum of 8%.

Chart 3.55 Net income before tax of bills finance companies



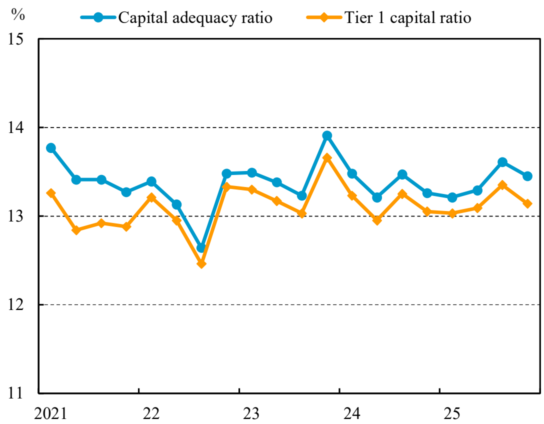
Source: CBC.

Chart 3.56 ROE & ROA of bills finance companies



Notes: 1. ROE = net income before tax/average equity.
2. ROA = net income before tax/average assets.
Source: CBC.

Chart 3.57 Average capital adequacy ratios of bills finance companies



Source: CBC.

3.3 Financial infrastructure

In 2025, Taiwan's payment and settlement systems operated smoothly. The shared infrastructure for retail payments, including TWQR (the common QR code payment standard), continued to be enhanced, promoting the wider adoption of electronic payments and fostering payment innovation. The FSC carried on strengthening financial supervision to enhance the risk-bearing capacity of the insurance industry. It also advanced the draft *Virtual Asset Service Act*, establishing a regulatory framework for VASPs and stablecoin issuers. Meanwhile, the FSC planned to adopt IFRS 18 beginning in fiscal year 2028 to enhance the transparency and comparability of financial disclosures. The Bank also persisted in reviewing and revising FX regulations with a view to improving the efficiency of banks' FX business.

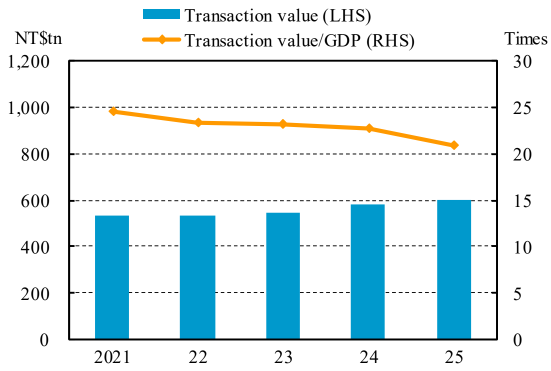
3.3.1 Payment and settlement systems

The Bank's CIFS and the FISC's IFIS functioned smoothly in 2025, while transaction values continued to grow steadily. Meanwhile, the FISC continued to strengthen the shared infrastructure for retail payments. With an increase in public adoption of e-payment instruments, consumer spending via electronic payment also expanded steadily.

Overview of the CIFS's operation

The CIFS is used to process large-value interbank funds transfers (e.g., FX, interbank lending, and related transactions) and provides the final settlement of interbank transfers by connecting with various clearing systems, such as those for domestic securities, bills, bonds and retail payments. In 2025, the total value of funds transferred via the CIFS reached approximately NT$601 trillion, equivalent to 20.9 times Taiwan's annual GDP (Chart 3.58).

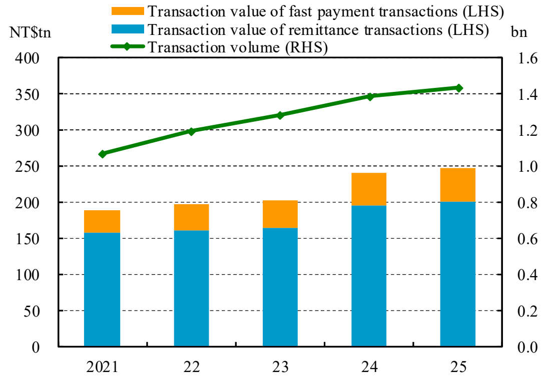
Chart 3.58 Funds transferred via the CIFS



Note: GDP in 2025 was published by DGBAS on May 29, 2026.
Sources: CBC and DGBAS.

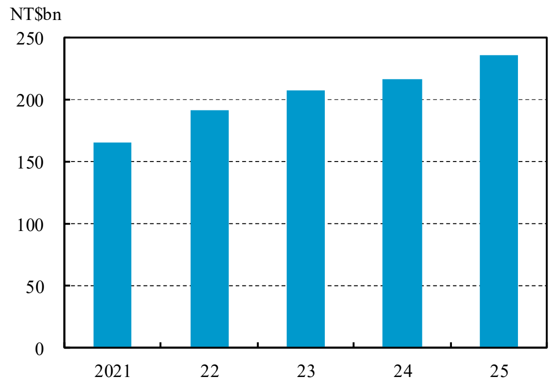
Retail payment transactions in Taiwan are primarily processed through the IFIS, which utilizes the funds deposited by financial institutions in the Interbank Funds Transfer Guarantee Special Account (hereinafter the Guarantee Account)[50] at the Bank to clear interbank payment transactions on a trade-by-trade basis,[51] with final settlement completed through the CIFS. In 2025, approximately 1.44 billion transactions were processed by the IFIS and the value totaled around NT$247 trillion, representing year-on-year increases of 3.60% and 2.85%, respectively. Among these, fast payment transactions[52] amounted to approximately NT$45 trillion, an increase of 4.52% from the previous year (Chart 3.59). The average end-of-day balance of retained clearing funds in the Guarantee Account stood at about NT$235.8 billion, an annual increase of 8.67% (Chart 3.60), providing sufficient funds to support 24-hour fast payment transactions.

Chart 3.59 Transaction value and volume processed by the IFIS



Source: CBC.

Chart 3.60 Average end-of-day balance of retained clearing funds in the Interbank Funds Transfer Guarantee Special Account



Source: CBC.

Development of shared infrastructure for retail payments

To gradually address fragmentation of the e-payment market, the FISC established a shared platform for cross-institution e-payments in October 2021. This platform enables interconnectivity both among e-payment institutions and between e-payment institutions and financial institutions, facilitating the seamless flow of information and funds across institutions. Through apps provided by e-payment institutions, users can conveniently transfer funds, pay bills and taxes, and make purchases across various service providers, thereby

[50] The Guarantee Account, established jointly by financial institutions with the Central Bank, adopts a pre-funding mechanism. During the operating hours of the Central Bank's CIFS system, financial institutions may allocate and deposit clearing funds required for interbank transactions. When the public makes interbank withdrawals or transfers, the FISC system promptly deploys these funds to clear transactions between financial institutions.

[51] Interbank payment transactions include remittances, automated teller machine (ATM) withdrawals, transfers (including online and mobile transfers), tax payments and corporate funds transfers.

[52] A "fast payment transaction" refers to a payment transaction in which funds become available to the payee in real time or near real time, excluding remittance transactions that do not operate on a 24/7 basis.

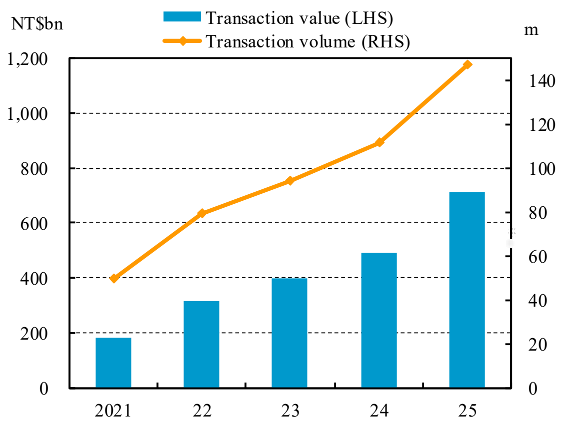
improving overall payment efficiency.

In addition, efforts to promote the use of the TWQR system are ongoing, along with continued expansion of its use cases. For example, the TWQR Transit Code,[53] which enhances interoperability between the payment and transportation industries, was officially launched in March 2025. It has since been progressively introduced across participating metro, bus, and ferry services, contributing to the sound development of a nationwide integrated payment ecosystem.

By the end of 2025, 44 banks, ten e-payment institutions, and over 678,000 affiliated merchants had joined the TWQR system. During the year, TWQR processed approximately NT$713.6 billion across 147 million transactions (Chart 3.61), representing year-on-year growth of 45.79% and 31.87%, respectively.

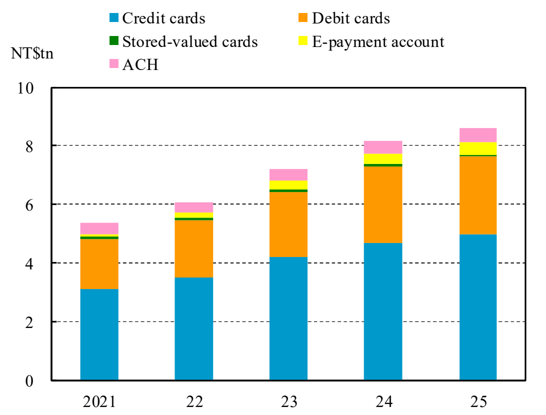
To promote the development of cross-border payments, the FISC has been expanding TWQR cross-border payment services for shopping since 2021. On the outbound side, Taiwanese travelers can already use TWQR-enabled mobile payment services in Japan and South Korea. On the inbound side, beginning April 27, 2026, visitors from Japan have been able to use mobile wallets issued in Japan to make payments in Taiwan, further expanding the TWQR cross-border mobile payment ecosystem.

Chart 3.61 Transaction value and volume via TWQR



Source: CBC.

Chart 3.62 Consumption via non-cash payment tools



Notes: 1. The consumption statistics of debit cards include consumer purchases with domestic chip bank cards, VISA and other international debit cards, UnionPay cards, and ATM transfers for shopping payments.
2. ACH interbank collection refers to the handling by payment institutions of funds deducted from and transferred to the relevant accounts through the ACH system of the TCH on behalf of customers.

Sources: CBC, FSC and FISC.

[53] The TWQR Transit Code was developed by the FISC via integrating Taiwan's Common QR Code Payment Standard with the Transportation Ticket QR Code Data Format Standard by the Ministry of Transportation and Communications. Utilizing the "Common Platform for Electronic Payment Institutions," the payment systems of the financial institutions and the e-payment institutions are connected, allowing users to conveniently access and use public transportation services simply by presenting the TWQR Transit Code on a payment app.

Domestic consumption via e-payment instruments

In 2025, total domestic spending through various e-payment instruments reached NT$8.6 trillion (Chart 3.62), marking a year-on-year increase of 5.22%. Among these instruments, spending via credit cards, e-payment accounts, and ACH direct debit services continued to rise, with annual increases of NT$302 billion, NT$53.9 billion, and NT$50.4 billion, respectively. This growth was primarily supported by the continued enhancement of the shared retail payments infrastructure, which further improved the convenience of e-payment.

3.3.2 Strengthening risk-bearing capacity of the life insurance industry

Implementation of the new-generation solvency regime

To better reflect the operating risks faced by the insurance industry, safeguard policyholders' interests, and maintain financial stability, the FSC amended the *Regulations Governing Capital Adequacy of Insurance Companies* in December 2025, with reference to the ICS issued by the International Association of Insurance Supervisors. The amendments introduce a new-generation solvency regime in Taiwan, which replaces the current RBC framework and has taken effect in 2026. The key amendments are as follows: (1) revising capital classifications by redefining the components of Tier 1 unlimited capital, Tier 1 limited capital, and Tier 2 capital; (2) expanding the scope of risk capital[54] calculations and requiring insurers to calculate risk capital in accordance with the prescribed methodology; (3) adjusting the minimum capital adequacy ratio requirement from 200% under the current RBC framework to 100%, while revising the classification thresholds for capital inadequacy[55]; and (4) requiring the semiannual capital adequacy ratio reports to be audited, rather than reviewed, by certified public accountants.

In addition, to facilitate the smooth implementation of the new-generation solvency regime beginning in 2026, the FSC issued the *"Directions for Insurance Enterprises Applying for Optional Transitional Measures on Capital Resources and Capital Requirements"* in October 2025. Under the *Directions*, insurers may apply to the FSC to adopt the optional transitional

[54] Incorporation of emerging risks such as non-default spread risk, longevity risk, lapse risk, and catastrophe risk.
[55] The revised capital adequacy classifications are as follows: (1) adequate capital: the capital adequacy ratio (CAR) equals or exceeds 100%; (2) inadequate capital: the CAR is more than 50% but less than 100%; (3) significantly inadequate capital: the CAR is more than 25% but less than 50%; and (4) seriously inadequate capital: the CAR is less than 25%.

measures[56] for calculating capital adequacy ratios during the transitional period (from January 2026 to December 2040), using their financial statements and market information as of either June 30 or September 30 of 2025 as the basis for assessment.

Amendments regarding the recognition of foreign exchange gains and losses

In February 2026, the FSC amended the *Regulations Governing the Preparation of Financial Reports by Insurance Enterprises* regarding the recognition of foreign exchange gains and losses. The amendments aim to better reflect the long-term business characteristics of the life insurance industry and ensure the fair presentation of financial statements. The key amendments are as follows: (1) for the financial assets classified as debt instruments measured at amortized cost, where the associated foreign currency risk component(s) have not been designated as hedged items, the unrealized foreign exchange differences shall be amortized and recognized as foreign exchange gains or losses on a straight-line basis for each debt instrument over its remaining duration; (2) the unamortized cumulative unrealized foreign exchange differences shall be recognized as other assets or other liabilities; upon the derecognition of a debt instrument, any unamortized amount shall be fully recognized in the current period's foreign exchange gains or losses.

Amendments regarding foreign exchange valuation reserves of life insurance enterprises

To strengthen life insurers' responsiveness to exchange rate fluctuations and enhance their overall operational resilience, the FSC amended the *Directions for the Setting Aside of Foreign Exchange Valuation Reserve by Life Insurance Enterprises* in February 2026. The key amendments are summarized below.

First, foreign exchange valuation reserves are classified into two components: (1) fluctuation reserves, which are appropriated from or offset against current profit or loss at prescribed ratios based on foreign exchange gains or losses, with no cap on the accumulated balance; and (2) fixed reserves, which are appropriated at a fixed ratio based on a life insurer's net foreign investment exposure, with the accumulated balance subject to a cap of 10% of such exposure.

[56] The transitional measures include: (1) interest rate risk is phased in linearly from at least 50% in the first year to 100%; (2) emerging risks (including longevity, policy surrender, expenses, catastrophe, and non-default risks) from 0% in the first year to 100%; and (3) a net asset transition measure, under which, for in-force NT dollar-denominated policies with a policy reserve interest rate of no less than 4%, the after-tax difference between current estimated insurance liabilities and their corresponding market value-adjusted assets may be recognized as regulatory capital, with the recognized amount adjusted annually on a rolling basis.

Second, the requirements governing special surplus reserves are strengthened, with such reserves classified into: (1) fixed reserves for foreign exchange risk, appropriated at 10% of after-tax earnings, with a cap on the accumulated balance equal to twice the after-tax amount of fixed reserves; (2) enhanced reserves for foreign exchange risk, appropriated according to a prescribed formula based on reductions in hedging ratios. These reserves may not be converted into freely distributable earnings and are not subject to any cap on the accumulated balance.

Third, to align with the transitional arrangements under the new-generation solvency regime, the FSC required that fixed reserves and enhanced reserves for foreign exchange risk be deducted on an after-tax basis when calculating regulatory capital during the transition period.

3.3.3 Strengthening the regulation of virtual assets and stablecoins

To establish a comprehensive regulatory framework for virtual assets, strengthen the supervision of the financial and operational activities of VASPs, and facilitate the prudent issuance of stablecoins, the FSC has advanced the draft *Virtual Asset Service Act*. The key provisions of the draft include: (1) establishing a licensing regime and operational regulations for VASPs, including a review mechanism for the listing and delisting of virtual assets, segregation of customer assets, information confidentiality, internal control and audit systems, and mandatory membership in the relevant industry association; (2) establishing a regulatory framework governing the issuance, trading, and revocation of approval for stablecoins, together with requirements relating to issuance and redemption mechanisms, reserve asset management, and internal control systems; (3) prohibiting fraud and market manipulation involving virtual assets, while establishing exit mechanisms for and related penalties on VASPs, thereby strengthening the supervision of virtual asset transactions and related market participants.

Among virtual assets, stablecoins have gradually become a major medium of exchange in virtual asset markets. In recent years, their use has expanded to real-economy payments and cross-border transactions, reflecting their potential to enhance payment efficiency. However, without appropriate regulation, stablecoins could also give rise to a range of risks.

In accordance with its statutory mandate, the Bank offered recommendations on the regulatory framework governing the issuance and payment functions of stablecoins, including: (1) requiring stablecoin issuers, consistent with the regulatory framework of electronic payment institutions, to use the fiat currency received from users to invest in reserve assets, the value of which should be no less than the total amount of stablecoins issued, so as to protect consumer interests; (2) prohibiting stablecoin issuers and VASPs from paying interest or providing other investment returns on stablecoins, so as to avoid undermining the financial intermediary function of banks; (3) requiring cross-border stablecoin payments involving foreign exchange operations to comply with relevant regulations governing foreign exchange declarations and balance of payments statistics. The Bank will maintain cooperation and close communication with the FSC in formulating the relevant subordinate regulations, with a view to further strengthening regulatory effectiveness.

3.3.4 Planned adoption of IFRS 18 Presentation and Disclosure in Financial Statements

The International Accounting Standards Board issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024 to fully replace International Accounting Standard 1 (IAS 1). By enhancing the structure of financial information, IFRS 18 aims to help investors better evaluate companies' operating performance and the sustainability of earnings. The FSC plans for all domestic public companies, including financial institutions, to adopt IFRS 18 beginning in fiscal year 2028.

The main differences between the IFRS 18 and IAS 1 frameworks include: (1) restructuring the statement of profit or loss by introducing new subtotals such as operating profit or loss and profit or loss before financing and income taxes, together with the classification of income and expenses into five categories, namely operating, investing, financing, income taxes, and discontinued operations; (2) requiring management-defined performance measures to be disclosed in the notes to the financial statements, together with information on their calculation methodologies and reconciliations; (3) introducing new principles on aggregation and disaggregation to help investors focus more on material information.

To facilitate the smooth adoption of IFRS 18 by Taiwan's financial sector, the FSC amended the *Regulations Governing the Preparation of Financial Reports by Securities Issuers* and the *Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants* in February 2026. Financial reporting standards for other financial institutions will also be revised accordingly to enhance the transparency and comparability of financial information. Key amendments include: (1) requiring items in the statement of comprehensive income to be classified and presented under operating, investing, and financing categories, and revising the definitions of operating revenue and costs; (2) requiring operating expenses to be presented primarily by function, while retaining flexibility to classify expenses by nature; (3) stipulating that goodwill be presented separately on the balance sheet; (4) revising the format of the statement of cash flows; and (5) introducing additional note disclosure requirements for impairment losses, inventory write-downs, and management-defined performance measures.

Amendments to FX regulation

To support financial market development and enhance the efficiency of banks' foreign exchange operations, the Bank continued to review and amend relevant FX regulations. The major amendments are summarized below.

- In January 2025, the Bank amended the *Directions Governing Banking Enterprises for Operating Foreign Exchange Business* to align with the FSC's relaxation of regulations, which has allowed banks engaging concurrently in trust business to grant NTD loans secured by the beneficial rights of foreign currency-denominated specified money trusts. With the amendment, the Bank relaxed the related restrictions on the currency denomination of such loans to facilitate the development of self-collateralized lending under specified money trusts. In July 2025, the Bank amended the *Regulations Governing Foreign Exchange Business of Banking Enterprises*. The major amendments included: (1) simplifying application procedures for authorized banks establishing automated service equipment and outsourcing foreign exchange operations by allowing banks to manage such matters internally and retain relevant records for inspection; (2) extending the filing deadline and simplifying filing procedures for foreign exchange bank debenture issuance; (3) aligning customer identity verification requirements with the relevant regulations of the competent authority; (4) codifying the requirement that foreign currency loans may not be converted into NTD to formal regulatory status; (5) removing banks' foreign exchange position limits and relying instead on banks' internal controls and risk management mechanisms; (6) raising the reporting threshold for spot foreign exchange transactions to the equivalent of USD 1 million and revising the reporting deadline.
- In December 2025, the Bank amended the *Directions for Banking Enterprises while Assisting Customers to Declare Foreign Exchange Receipts and Disbursement*s *or Transactions*. The major amendments included: (1) removing the requirement to print foreign exchange settlement inquiry records, and allowing banks to determine their own record-retention methods in support of the government's paperless policy; (2) reinforcing banks' accountability for reviewing foreign exchange settlement declarations related to investment and transaction cases; (3) introducing foreign exchange settlement requirements for remittances related to Global Depositary Receipts; (4) relaxing foreign exchange settlement requirements for specified foreign currency trusts to facilitate fund management for elderly persons and persons with disabilities.

3.4 General assessment of Taiwan's financial system

In 2025, against the backdrop of US tariff policy adjustments, diverging monetary policy stances among major economies, and heightened geopolitical conflicts, global financial market volatility increased markedly, driving rapid shifts in international capital flows and swings in risk appetite. Nevertheless, the impact on Taiwan's financial system remained relatively limited.

In financial markets, stronger demand for short- and long-term funding from enterprises supported continued expansion in both the primary bill and bond markets in 2025, while activity in the secondary markets was mixed. Although domestic stock indices underwent a temporary correction following the announcement of US tariff measures, they subsequently rebounded, supported by the continued development of the AI industry and capital inflows. Stock prices rose steadily, while trading activity continued to increase. The NT dollar experienced a period of sharp appreciation against the US dollar, accompanied by heightened volatility, reflecting the combined effects of foreign capital inflows, market expectations, and global US dollar trends. Subsequently, the NT dollar gradually depreciated, and volatility moderated. The FX market remained dynamically stable.

From the beginning of 2026, as escalating conflicts in the Middle East increased global risk aversion, global financial markets experienced greater volatility. Nevertheless, continued demand for AI applications supported the performance of Taiwan's technology sector and stock markets, with domestic stock indices repeatedly reaching record highs. Meanwhile, the NT dollar remained relatively stable against the US dollar amid the interplay of positive and negative factors. Overall, the domestic financial markets remained resilient. However, with stock market gains relatively concentrated in AI-related industries and market valuations remaining elevated, along with the rapid expansion of the ETF market, which could amplify price volatility in capital markets, the potential implications of these developments warrant close monitoring.

Regarding financial institutions, domestic banks continued to post record-high profits in 2025, while maintaining sound asset quality and achieving higher capital levels, indicating that their risk-bearing capacity remained robust. Nevertheless, credit exposures continued to be concentrated in real estate-related sectors, and the impact of developments in the real estate market on credit quality warrants attention. Life insurance companies recorded a further increase in the average equity to asset ratio, although the profitability and average RBC ratio declined, mainly reflecting the effects of exchange rate movements and heightened volatility in global financial markets. Given their substantial foreign investment positions and structural currency mismatches between assets and liabilities, life insurance companies remained highly exposed to market risks arising from global financial market fluctuations. Bills finance companies saw improvements in both profitability and capital adequacy ratios; however, amid heightened financial market volatility, liquidity and interest rate risks should continue to be managed prudently. Regarding financial infrastructure, domestic payment and settlement systems operated smoothly, while the shared infrastructure for retail payments continued to be enhanced. The Bank and the FSC made timely revisions to relevant regulations and adopted supervisory measures to strengthen financial institutions' risk management and enhance market resilience.

Overall, Taiwan's financial markets developed steadily, financial institutions generally remained sound, and key financial infrastructures functioned smoothly. Accordingly, Taiwan's financial system remained stable. Looking ahead, considerable uncertainty surrounding geopolitical risks, developments in US trade policies, and the monetary policy paths of major central banks could amplify volatility in global financial markets through capital flows, the repricing of financial assets, and shifts in market sentiment, thereby increasing downside risks to the global economy. Should external shocks intensify, the debt-servicing capacity of the corporate and household sectors could weaken, which could in turn increase credit risks and investment loss pressures on financial institutions. The Bank will continue to closely monitor domestic and international financial developments and respond prudently to potential risks.

IV. Measures to promote financial stability

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

4.1.1 Measures taken by the Bank to promote financial stability

From 2025 through the first quarter of 2026, the Bank kept policy rates unchanged as it prudently responded to changes in domestic and international economic and financial conditions. The Bank also made appropriate adjustments to its selective credit control measures. In addition, the Bank continued to implement a flexible FX rate policy to maintain the dynamic stability of the NT dollar exchange rate, thereby supporting the sound development of Taiwan's financial system and sustainable economic growth.

The Bank conducted appropriate monetary policy in response to domestic and international economic and financial developments

From 2025 onwards, supported by strong demand for AI and other emerging technology applications, Taiwan's exports and private investment expanded significantly. Together with a recovery in private consumption, economic growth accelerated to 8.76% in 2025 and was expected to remain solid in 2026. Meanwhile, the CPI inflation rate declined to 1.66% in 2025, falling below 2% for the first time since 2022. Core CPI (excluding fruit, vegetables, and energy) also declined to 1.66% from 1.88% in 2024. Both the annual CPI and core CPI inflation rates are projected to remain below 2% in 2026.

Taking into account the gradual moderation in domestic inflation in 2025, with inflation expected to remain below 2% in 2026, together with the strong economic growth recorded in 2025 and the outlook for still-solid growth momentum in 2026, the Bank decided to keep policy rates unchanged. Accordingly, the discount rate, the rate on refinancing of secured loans, and the rate on temporary accommodations were maintained at 2%, 2.375%, and 4.25%, respectively. The rate hold reflected a prudent response to uncertainty surrounding the global economic and financial outlook and the potential effects of geopolitical tensions in the Middle East and the US economic and trade policies on domestic prices and economic activity, while supporting the sound development of the economy and financial system.

In addition, the Bank continued to issue NCDs to maintain reserve money at an appropriate level. The maturity structure and issuance volume of NCDs were adjusted flexibly in response to changes in domestic and international economic and financial conditions in order to effectively manage market liquidity and maintain stable market interest rates. At the end of 2025, the outstanding amount of NCDs issued by the Bank totaled NT$7,423.7 billion. Reserve money grew by an average annual rate of 6.02% in 2025, while the weighted average overnight call loan rate remained stable between 0.81% and 0.82%.

The Bank appropriately adjusted selective credit control measures and continued to review their effectiveness on a rolling basis

Between December 2020 and September 2024, the Bank adjusted the selective credit control measures on seven occasions,[57] helping prevent an excessive concentration of bank credit resources in the real estate market. Since 2025, housing market transactions have continued to shrink, expectations of further housing price increases have moderated noticeably, and housing price growth has slowed. Meanwhile, housing loans extended to borrowers without owner-occupied residences increased as a share of total residential mortgage loans, and the share of urban renewal and reconstruction loans in total construction loans also increased. At the same time, the concentration and growth of real estate lending both declined, suggesting that the selective credit control measures have progressively shown effectiveness.

Furthermore, through moral suasion in August 2024, the Bank requested 34 banks to establish self-set quantitative control targets for aggregate real estate lending covering the period from the fourth quarter of 2024 through the fourth quarter of 2025. Since implementation, most banks have met their self-set targets, suggesting that the excessive concentration of credit resources in the real estate sector has gradually eased and that credit resources have increasingly been redirected to support the real investment needs of other productive enterprises. The few banks that did not meet their targets mainly prioritized housing loans to non-homeowner borrowers and loans for urban renewal and reconstruction of unsafe and dilapidated buildings, both of which are consistent with government policy objectives. Accordingly, beginning in 2026, quantitative management of aggregate real estate lending was returned to banks' internal control mechanisms. Nevertheless, the Bank continues to require banks to submit data reports on real estate lending on a monthly basis and will also strengthen its efforts in targeted financial examinations, so as to keep updated on the status of banks' real estate lending and to ensure banks' compliance with the selective credit control measures.

[57] The adjustments were implemented in December 2020, March 2021, September 2021, December 2021, June 2023, June 2024, and September 2024, respectively.

To accommodate the financing needs of owner-occupiers genuinely seeking home replacement, the Bank introduced assisting measures in July 2023. Additional assisting measures were subsequently introduced in October 2024 for borrowers who had acquired housing through inheritance or who had genuine home replacement needs. Since implementation, most households have been able to complete home replacement smoothly. However, in view of the financing needs of genuine owner-occupiers, the Bank further extended the deadline for selling the original property from one year to 18 months in September 2025, thereby alleviating funding pressures associated with home replacement transactions.

Given that the effects of the Bank's selective credit control measures have gradually become evident and that financial institutions have stepped up risk management on real estate lending, and taking into consideration the public feedback on second outstanding housing loans intended primarily for owner-occupied purposes, in March 2026, the Bank made appropriate adjustments to its credit controls, including raising the cap on the LTV ratio for second outstanding housing loans nationwide from 50% to 60% (Table 4.1), with the amendments to the *Regulations Governing the Extension of Mortgage Loans by Financial Institutions* taking effect on March 20, 2026.

Table 4.1 The key points of the March 2026 amendments to the *Regulations Governing the Extension of Mortgage Loans by Financial Institutions*[1]

Loan types		Loan conditions	
		Prior to the March 19, 2026 Amendments	Effective March 20, 2026[1]
Housing loans to corporate borrowers		LTV ratio cap: 30%, No grace period	(unchanged)
Natural persons	High-value housing loan	LTV ratio cap: 30%, No grace period	(unchanged)
	First housing loan for a borrower already owning residential property	No grace period	(unchanged)
	Second housing loan	LTV ratio cap: 50%; No grace period	LTV ratio cap: 60%; No grace period
	Third (or more) housing loan	LTV ratio cap: 30%, No grace period	(unchanged)

<table>
<tr><th rowspan="2">Loan types</th><th colspan="2">Loan conditions</th></tr>
<tr><th>Prior to the March 19, 2026 Amendments</th><th>Effective March 20, 2026[1]</th></tr>
<tr><td>Land loans</td><td>● LTV ratio cap: 50%, with 10% withheld until construction commences
● Borrowers are required to submit a substantive development plan and undertake in writing to commence construction within a specified period[2]</td><td>(unchanged)</td></tr>
<tr><td>Unsold housing unit loans</td><td>LTV ratio cap: 30%</td><td>(unchanged)</td></tr>
<tr><td>Mortgage loans secured by idle land in industrial districts</td><td>LTV ratio cap: 40%[3]</td><td>(unchanged)</td></tr>
</table>

Notes: 1. The amendments promulgated on March 19, 2026 took effect on March 20, 2026.
2. With respect to the specified period for commencing construction under land loans, financial institutions should prudently assess the actual time required for borrowers to begin construction. As a general rule, the period should not exceed 18 months.
3. Exemptions applicable when: (1) construction on the collateralized land has commenced; or (2) the borrower has submitted a substantive project development plan and concurrently committed in writing to commence construction within one year.

Source: CBC.

Going forward, the Bank will continue to monitor banks' compliance with the Bank's regulations and their internal management of aggregate real estate lending. The Bank will also closely monitor developments in the housing market, continue to assess the effectiveness of the selective credit control measures, and review and adjust those measures on a rolling basis as necessary to promote financial stability and the sound operation of the banking sector.

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

As a small and open economy, with a high degree of trade openness, Taiwan is particularly sensitive to exchange rate fluctuations. 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 short-term capital inflows or outflows, or seasonal factors lead to excess volatility and disorderly conditions in the FX market that could adversely affect domestic economic development and financial stability, the Bank will maintain FX market order as needed in accordance 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 lessen exchange rate volatility and foster FX market efficiency. In 2025, the Bank conducted two-way operations in the FX market to maintain the dynamic stability of the NT dollar exchange rate. The Bank recorded net purchases of US$13.25 billion in the first half of the year and net sales of US$5.56 billion in the second half, resulting in net purchases of US$7.69 billion for the year as a whole.

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 the latest transaction information in the FX market through the Real-Time Reporting System for Large-Amount FX Transactions; (2) strengthening off-site monitoring to ensure compliance with the genuine demand principle for forward FX transactions, thereby mitigating speculative trading in the FX market; (3) requiring 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 examinations of FX operations to maintain the discipline of the FX market.

4.1.2 Measures undertaken by the FSC to maintain financial stability

The FSC continued to enhance the financial regulatory and supervisory framework. Since 2025, it has undertaken a range of measures, including revising the capital adequacy requirements for the insurance sector, amending the regulations regarding the recognition of foreign exchange gains and losses and those governing foreign exchange valuation reserves, strengthening the regulatory and supervisory framework for VASPs and stablecoin issuers, and promoting the adoption of *IFRS 18 Presentation and Disclosure in Financial Statements*.[58] At the same time, the FSC has strengthened risk management in the insurance sector, enhanced the regulatory and supervisory framework governing mergers and acquisitions by financial holding companies, improved cybersecurity protection and operational resilience in the financial sector, reinforced anti-fraud mechanisms, and continued promoting sustainability-related disclosures. These measures are intended to enhance the risk-bearing capacity of financial institutions and the resilience of the financial market as a whole, thereby safeguarding financial stability.

[58] Measures related to strengthening the risk-bearing capacity of life insurance companies, enhancing the supervision of virtual assets and stablecoins, and implementing IFRS 18 are discussed in Section 3.3 of Chapter III.

Strengthening the risk management capacity of the insurance sector

To contain the impact of heightened volatility in financial and capital markets on insurers, the FSC introduced three interim measures in June 2025, including an exchange-rate averaging mechanism for the calculation of insurers' capital adequacy ratios, adjustments to the basis for calculating policy reserves together with supporting measures to strengthen insurers' financial soundness,[59] and the establishment of application criteria for transitional measures under the new generation solvency regime. These measures were intended to mitigate the impact of exchange rate fluctuations. In addition, the FSC required both life and non-life insurance companies to conduct stress tests based on their financial statements as of the end of 2024, covering insurance risk, market risk, and climate-related risk. The results[60] indicated that the insurance sector as a whole maintained capital adequacy ratios and net worth ratios above the statutory minimum requirements, demonstrating its ability to withstand changes in financial conditions and the impact of climate change.

Enhancing the regulatory framework for mergers and acquisitions by financial holding companies

To align merger and acquisition regulations more closely with market practices and promote orderly market development, the FSC promulgated amendments to the *Regulations Governing the Investing Activities of a Financial Holding Company* in November 2025, drawing on domestic and international merger and acquisition experience. The key amendments included: (1) requiring financial holding companies to make initial investments in publicly listed companies in cash, in order to avoid adverse effects of stock price fluctuations on shareholders' interests; (2) raising the minimum shareholding threshold for initial investments in financial institutions to more than 25% in order to enhance the stability and certainty of acquisitions; (3) requiring applicants for initial investments in financial holding companies, banks, insurance companies, and securities firms to submit reasonable and feasible financial and funding plans, together with a commitment to implement those plans, in place of the previously-stipulated

[59] In addition to being required to appropriate 30% of pre-tax profit for 2025 to the foreign exchange valuation reserve, the monthly fixed provisioning ratio was adjusted as follows: (1) for insurers adopting the previous regime, the ratio was raised from 0.06% to 0.085%; and (2) for insurers adopting the new regime, the ratio was raised from 0.10% to 0.125%.

[60] Stress test results for the insurance industry showed that: (1) under the insurance risk scenario, the aggregate CARs of the life insurance and non-life insurance industries were 298% and 349%, respectively, while the corresponding net worth ratios were 7.8% and 23.6%; (2) under the market risk scenario, the aggregate CARs of the life insurance and non-life insurance industries were 245% and 419%, respectively, while the corresponding net worth ratios were 6.1% and 29.4%; and (3) under the climate change risk scenario, the non-life insurance industry recorded a CAR of 361% and a net worth ratio of 26.2%.

documentation requirement, so as to ensure the acquisition of a majority shareholding or board representation; (4) relaxing restrictions on the double leverage ratio by allowing a specified adjustment period to accommodate acquisition-related funding needs; (5) strengthening corporate governance by requiring initial investment proposals to be reviewed by the audit committee and supported by opinions from independent external experts; (6) prohibiting the public disclosure of tender offer conditions unless prior approval of the competent authority has been obtained, in order to avoid unnecessary market volatility and protect shareholders' interests; and (7) stipulating that an applicant whose investment proposal has been rejected may not submit another application for investment in the same target company within one year.

Enhancing cybersecurity protection and operational resilience in the financial sector

To implement the national cybersecurity strategy and strengthen cybersecurity protection and operational resilience in the financial sector, the FSC released the *FORCE-B*, a four-year development blueprint, on December 30, 2025. The blueprint strengthens the accountability of boards of directors and senior management for cybersecurity governance, promotes a "shift-left" approach by incorporating cybersecurity into system design and development processes, and encourages the adoption of zero-trust architecture, thereby strengthening overall cybersecurity defense baselines. It also addresses risks arising from emerging technologies, including AI, quantum computing, and cloud applications, while strengthening the management of third-party service providers and supply chain risks. In addition, through cross-institutional cybersecurity intelligence sharing, cyberattack simulation exercises, and backup mechanisms, the FSC aims to enhance financial institutions' capabilities to respond to and recover from major cybersecurity incidents, thereby safeguarding the continuity of financial services and maintaining financial stability.

Strengthening the legal framework for financial fraud prevention

To enhance the effectiveness of financial fraud prevention, the FSC promoted the establishment of four mechanisms, namely a protection mechanism for suspected fraud victims, a cross-industry notification mechanism, a cross-institutional technology analytics platform, and a cross-sector fraud prevention and reporting mechanism. These measures were already incorporated into the *Fraud Crime Hazard Prevention Act*, which took effect on January 21, 2026. Through cooperation among financial institutions, VASPs, and law enforcement authorities, the new framework strengthens the legal foundation for cross-institutional, cross-industry, and public-private collaboration, thereby enabling financial fraud prevention measures to become more swift, accurate, and effective.

Continuing to promote sustainability-related disclosures

To enhance the quality of sustainability-related disclosures and align domestic practices with international standards, the FSC requires eligible TWSE- and TPEx-listed companies to adopt the IFRS Sustainability Disclosure Standards in phases[61] based on paid-in capital thresholds, beginning in fiscal year 2026. Companies are also required to disclose sustainability-related financial information approved by board resolution in dedicated sections of their annual reports. In addition, the FSC has continued to revise disclosure requirements for the annual reports and financial statements of various types of financial institutions, with phased implementation beginning in fiscal year 2026, in order to improve the quality of sustainability-related disclosures in the financial sector.

[61] The IFRS Sustainability Disclosure Standards will first apply in fiscal year 2026 to TWSE- and TPEx-listed companies with paid-in capital of NT$10 billion or more, in fiscal year 2027 to those with paid-in capital of NT$5 billion or more but less than NT$10 billion, and in fiscal year 2028 to all remaining TWSE- and TPEx-listed companies. The corresponding initial years of public disclosure will be 2027, 2028, and 2029, respectively.

4.2 The Bank will adopt appropriate measures in a timely manner to promote financial stability

In 2025, financial market volatility intensified amid the impact of US tariff policies and heightened geopolitical conflicts. Nevertheless, the global economy continued to grow at a moderate pace, while inflation continued to ease. Against this backdrop, Taiwan's financial markets remained resilient despite heightened volatility, financial institutions generally maintained sound operations, and financial infrastructure continued to function smoothly. As a result, the overall financial system remained stable. The Bank continued to adopt appropriate monetary, credit, and foreign exchange policies in response to changes in domestic and international economic and financial conditions in order to promote financial stability. Meanwhile, the FSC revised relevant financial regulations and enhanced financial supervisory measures to facilitate sound operations of financial institutions and safeguard financial stability.

Since early 2026, demand for AI applications has continued to support global economic growth. However, if AI development falls short of expectations, it could trigger asset price corrections and weaken market demand. In addition, escalating geopolitical conflicts, including the conflict in the Middle East, have pushed up international oil prices, potentially fueling inflationary pressures, dampening global demand, and increasing uncertainty surrounding the economic outlook. Furthermore, developments in US trade policies and their implications, the future monetary policy paths of major economies, weak domestic demand and excess industrial capacity in China, as well as climate change-related risks, could all adversely affect global economic growth and financial stability.

Given the numerous downside risks to the global economic outlook, the Bank will continue to closely monitor subsequent developments and assess their potential implications for Taiwan's economy and financial conditions. It will also take appropriate response measures in a timely manner to promote domestic financial stability.

Appendix: Financial soundness indicators[62]

Table 1: Domestic Banks

Unit: %

Items / Year (end of year)	2020	2021	2022	2023	2024	2025
Asset size						
Assets to GDP	281.69	276.61	282.15	r 288.30	r 283.77	270.06
Earnings and profitability						
Return on assets (ROA)	0.58	0.58	0.62	0.70	0.73	0.77
Return on equity (ROE) (Pretax)	7.84	8.14	9.33	10.33	10.45	10.93
Return on equity (ROE) (After tax)	6.82	7.11	7.92	8.59	8.70	9.17
Net interest income to gross income	59.95	62.11	66.08	55.92	52.79	55.76
Non-interest expenses to gross income	53.93	53.88	51.89	49.75	48.75	48.58
Gains and losses on financial instruments to gross income	17.06	12.93	1.29	24.62	28.41	22.56
Employee benefits expenses to non-interest expenses	57.05	58.36	56.01	54.85	54.43	55.13
Spread between lending and deposit rates (basis points)	1.22	1.24	1.36	1.39	1.36	1.37
Spread between the highest and the lowest interest rates of interbank O/N lending	0.12	0.22	0.14	0.32	0.04	0.02
Asset quality						
Non-performing loans to total loans	0.22	0.17	0.15	0.14	0.15	0.15
Provision coverage ratio	623.74	781.47	916.53	960.96	919.15	896.47
Capital adequacy						
Regulatory capital to risk-weighted assets	14.84	14.80	14.68	15.33	15.03	15.78
Tier 1 capital to risk-weighted assets	12.79	12.97	12.46	13.22	12.98	13.69
Common equity Tier 1 capital to risk-weighted assets	11.84	11.96	11.13	11.93	11.81	12.50
Non-performing loans net of provisions to equity	-0.91	-0.31	-0.45	-0.39	-0.27	-0.10
Leverage ratio	6.64	6.46	6.28	6.63	6.59	6.79

[62] Since 2020, in line with the IMF's *2019 Financial Soundness Indicators Compilation Guide (FSI Guide)*, two new categories of indicators – life insurance companies and bills finance companies – have been added to the financial soundness indicators, while the market liquidity category has been removed. Consequently, the number of indicators has increased from 42 to 58, primarily reflecting the addition of 21 new indicators, the removal of 5 indicators, and the revision of 5 existing indicators. Time series data for the discontinued indicators and the indicators prior to these revisions are available on the CBC's website (https://www.cbc.gov.tw/en/cp-486-862-AE8D1-2.html).

Table 1: Domestic Banks (cont.)

Unit: %

Items \ Year (end of year)	2020	2021	2022	2023	2024	2025
Liquidity						
Customer deposits to total loans	142.04	144.30	141.14	141.46	138.65	138.22
Liquid assets to total assets	9.44	9.74	8.89	8.68	8.36	8.15
Liquid assets to short-term liabilities	13.19	13.37	12.20	11.86	11.56	11.24
Liquidity coverage ratio	141.60	136.60	134.13	132.60	125.38	125.87
Net stable funding ratio	136.51	138.56	138.41	137.71	134.28	133.46
Credit risk concentration						
Loan concentration by economic activity	71.95	72.04	70.90	70.52	70.38	69.69
Large exposures to Tier 1 capital	8.60	8.06	5.88	4.25	3.76	2.88
Gross asset positions in financial derivatives to regulatory capital	8.75	4.32	11.00	8.69	11.20	8.23
Gross liability positions in financial derivatives to regulatory capital	9.36	4.51	10.06	9.86	9.27	7.50
Geographical distribution of claims to total claims						
Domestic economy	80.96	81.23	79.64	79.21	78.90	78.32
Advanced economies	12.66	12.45	14.32	15.08	15.45	15.87
Emerging economies						
Emerging Asia	5.31	5.30	5.05	4.77	4.73	4.72
Emerging Europe	0.02	0.02	0.01	0.01	0.01	0.01
Latin America and the Caribbean	0.37	0.31	0.31	0.26	0.24	0.24
Middle East and Central Asia	0.42	0.47	0.46	0.46	0.54	0.67
Sub-Saharan Africa	0.26	0.22	0.21	0.21	0.13	0.17
Credit of private sector to GDP	158.36	159.06	159.73	r 165.73	r 166.45	159.66
Sensitivity to market risk						
Net open position in foreign exchange to capital	3.45	3.58	2.47	1.80	2.48	1.48
Foreign-currency-denominated loans to total loans	18.80	18.06	18.48	17.84	16.52	17.46
Net open position in equities to capital	26.93	31.71	28.37	29.11	28.81	30.70
Foreign-currency-denominated liabilities to total liabilities	26.53	25.80	29.90	28.78	31.69	29.97

Notes: 1. Figures for “Spread between lending and deposit rates” exclude the data of preferred deposits rates of retired government empolyees and central government lending rates.
2. Figures marked with “r” indicate revised data, based on updated GDP statistics released by DGBAS.

Table 2: Life Insurance Companies

Unit: %

Items \ Year (end of year)	2020	2021	2022	2023	2024	2025
Assets to GDP	158.59	153.13	147.34	r 147.91	r 143.37	131.22
Return on assets (ROA)	0.67	1.19	0.51	0.24	0.88	0.42
Return on equity (ROE) (pretax)	9.27	14.83	7.97	4.20	13.06	5.92
Return on equity (ROE) (after tax)	9.38	13.78	6.77	4.60	12.38	6.83
Risk based capital (RBC) ratio	299.13	335.17	297.82	298.09	331.95	315.09
Equity to investment assets	8.80	9.10	5.34	7.27	8.00	8.24

Notes: 1. Investment assets include financial assets such as cash, bank deposits, loans, securities, derivatives, and non-financial assets for investment.
2. Figures marked with "r" indicate revised data, based on updated GDP statistics released by DGBAS.

Table 3: Bills Finance Companies

Unit: %

Items \ Year (end of year)	2020	2021	2022	2023	2024	2025
Assets to GDP	5.52	4.84	4.56	4.75	r 4.88	4.62
Return on assets (ROA)	1.18	1.27	0.89	0.71	0.70	0.82
Return on equity (ROE) (pretax)	9.33	9.78	7.28	5.93	6.16	7.30
Return on equity (ROE) (after tax)	7.56	8.01	5.92	4.90	4.97	5.85
Capital adequacy ratio	13.38	13.27	13.48	13.91	13.26	13.45
0-30 day maturity gap to assets (NTD)	-18.01	-16.80	-13.76	-17.43	-15.88	-20.70

Note: Figures marked with "r" indicate revised data, based on updated GDP statistics released by DGBAS.

Table 4: Non-financial Corporate Sector

Units: %, times

Items \ Year (end of year)	2020	2021	2022	2023	2024	2025
Total liabilities to equity						
TWSE-listed companies	107.85	106.85	103.62	98.44	98.88	100.90
TPEx-listed companies	89.88	98.81	96.44	90.89	86.78	88.38
Return on equity (ROE)						
TWSE-listed companies	14.60	23.01	21.46	14.57	17.74	18.30
TPEx-listed companies	13.95	17.78	17.60	12.91	13.76	12.89
Net income before interest and tax / interest expenses (times)						
TWSE-listed companies	15.70	34.58	22.87	10.83	14.98	16.24
TPEx-listed companies	21.99	30.23	23.79	13.18	13.35	12.46
Foreign-currency-denominated liabilities to equity						
TWSE-listed companies	32.48	32.85	28.12	23.45	r 24.87	44.64
TPEx-listed companies	20.11	21.07	20.01	16.36	r 15.07	14.88

Notes: 1. Data of TWSE-listed and TPEx-listed companies are from TEJ.
2. The reference date of foreign-currency-denominated liabilities to equity in 2025 is the end of September 2025.
3. Figures marked with “r” indicate revised data, based on updated non-financial corporate sector statistics provided by TEJ.

Table 5: Household Sector

Units: %, times

Items \ Year (end of year)	2020	2021	2022	2023	2024	2025
Borrowing to GDP	88.04	87.43	87.55	90.07	r 92.10	88.06
Debt service and principal payments to total disposable income	r 46.59	48.47	r 47.53	r 47.37	r 49.68	49.63
Borrowing to total disposable income (times)	1.46	1.52	1.47	1.51	r 1.60	1.56

Notes: 1. Figures for “total disposable income” are the sum of household disposable income, rent expense and interest expense.
2. Figure for “total disposable income” for 2025 is a CBC estimate.
3. Figures marked with “r” indicate revised data, based on updated GDP and disposable income statistics released by DGBAS.

Table 6: Real Estate Market

Units: index, %

Items \ Year (end of year)	2020	2021	2022	2023	2024	2025
National housing price index	108.17	117.50	127.51	136.20	150.98	145.52
Residential real estate loans to total loans	32.04	32.52	31.79	33.54	34.16	34.27
Commercial real estate loans to total loans	19.37	19.69	19.54	19.77	19.78	19.70

Abbreviations

ABS	Australian Bureau of Statistics
ACH	Automated clearing house
AI	Artificial intelligence
ATM	Automated teller machine
BICRA	Banking Industry Country Risk Assessment
BIS	Bank for International Settlements
BoJ	Bank of Japan
BoK	Bank of Korea
BSI	Banking System Indicator
CAR	Capital adequacy ratio
CBC	Central Bank of the Republic of China (Taiwan)
CET 1	Common equity Tier 1
CIFS	CBC Interbank Funds Transfer System
CP	Commercial paper
CP2	Non-guaranteed CP
CPI	Consumer price index
CRE	Commercial real estate
DBU	Domestic banking unit
DGBAS	Directorate-General of Budget, Accounting and Statistics of the Executive Yuan
D-SIB	Domestic systemically important bank
ETF	Exchange Traded Fund
EU	European Union
EUR	Euro
Fed	Federal Reserve System
FISC	Financial Information Service Co., Ltd.
FORCE-B	Financial Operational Resilience on Cybersecurity Ecosystem Blueprint

FSC	Financial Supervisory Commission
FSI	Financial soundness indicators
FSOC	Financial Stability Oversight Council
FX	Foreign exchange
GARCH	Generalized Autoregressive Conditional Heteroskedasticity
GDP	Gross domestic product
IAS	International Accounting Standard
ICS	Insurance capital standard
IFIS	Interbank Financial Information System
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
JCIC	Joint Credit Information Center
JPY	Japanese yen
KRW	Korean won
LCR	Liquidity coverage ratio
LTV	Loan-to-value
MOI	Ministry of the Interior
MPI	Macro-Prudential Indicator
MYR	Malaysian ringgit
NBFIs	Non-bank financial intermediaries
NCD	Negotiable certificates of deposit
NEER	Nominal effective exchange rate
NPLs	Non-performing loans
NSFR	Net stable funding ratio
NTD	New Taiwan dollar
OBU	Offshore banking unit
P/E ratio	Price-to-earnings ratio
PPS	Percentage points
QR	Quick Response
RBC	Risk-based capital
REER	Real effective exchange rate
RMB	Renminbi
ROA	Return on assets

ROE	Return on equity
SGD	Singapore dollar
SGED	Skewed Generalized Error Distribution
SITCA	Securities Investment Trust and Consulting Association
TAIEX	Taiwan Stock Exchange Capitalization Weighted Stock Index
TCH	Taiwan Clearing House
TEJ	Taiwan Economic Journal Co., Ltd.
TIGF	Taiwan Insurance Guaranty Fund
TPEx	Taipei Exchange
TPEX	Taipei Exchange Capitalization Weighted Stock Index
TWSE	Taiwan Stock Exchange
USD	US dollar
VAR	Vector autoregressive
VaR	Value at risk
VASPs	Virtual asset service providers
VIX	Volatility Index

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