
Abstract

The global economy proceeded at a benign pace of growth as liquidity expansion was gradually replaced with investment-driven growth, but latent risks lingered with regard to economic development. In 2013, the Taiwanese economy grew moderately along with price stability. Financial markets kept evolving and the health of financial institutions was sound. These, coupled with the payment systems operating in an orderly manner, underpinned a stable financial system. In an attempt to avoid concentrations of credit risk by domestic banks, the CBC and the Financial Supervisory Commission (FSC) successively urged banks to reinforce their risk management of real estate loans, so as to facilitate the soundness of banks' operations.

In 2013, on the back of continuous easy monetary policies in major economies, global recovery proceeded at a mild pace and international financial markets broadly improved. In advanced economies, the US and Japanese stock markets were underscored by marked upward trends, while the pressures on European financial markets alleviated. Conversely, emerging economies saw heightening financial risks due to some countries facing weakening fundamentals, coupled with bouts of turmoil in stock and foreign exchange markets triggered by the Board of Governors of the Federal Reserve System (Fed) signaling steps toward normalizing monetary policy. Global economic growth is expected to proceed at a sustainable pace in 2014. However, the international spillovers of the US exiting from unconventional monetary policy, a slowdown in economic growth along with rising shadow banking risks in China, and escalating geopolitical risks related to Ukraine could pose threats to global financial stability.

Taiwan's economy grew moderately alongside mild inflationary pressures in 2013, bolstered by steady global economic expansion. Current account surpluses persisted and foreign exchange reserves registered US\$416.8 billion at end-December, reflecting a robust capacity to service external debt. However, ongoing reform in strengthening fiscal backstops is needed amid accumulating government debt. With regard to the non-financial sector, the financial health of the corporate sector improved as a result of increasing profitability and declining leverage ratios in listed companies. Household borrowing kept increasing; however, the credit quality remained satisfactory. Real estate market prices stayed high and the mortgage burden

remained heavy, posing challenges for the future.

Against the backdrop of stronger international and domestic economic and financial conditions, the financial system in Taiwan remained stable in 2013. As for financial markets, bill and bond issuance in the primary market expanded, while foreign exchange markets remained dynamically stable and stock indices trended up. With respect to financial institutions, the profitability of financial institutions increased dramatically, hitting a 10-year-peak over the same period. The average non-performing loan (NPL) ratio of domestic banks merely posted 0.39% at the end of 2013 and the NPL coverage ratio reached 311.65%, reflecting sound asset quality and abundant loan loss provisions. The average capital adequacy ratios of domestic banks stood at 11.83%, which was well above the statutory minimum requirement of 8%, and there was abundant liquidity in the financial system. Bills finance companies and life insurance companies both experienced reinforcing business performance and their financial conditions exhibited sound fundamentals. Underpinned by strengthening effectiveness of financial infrastructure, the major payment systems operated in an orderly fashion during 2013. Moreover, in an attempt to create a more competitive financial environment, the foreign currency clearing platform was introduced in March 2013 and its function was gradually expanded.

To pursue the operating objective of promoting financial stability, the CBC successively adopted appropriate monetary policy measures in 2013 in response to the uncertainties surrounding the evolution of global and domestic economic and financial conditions. The underlying measures included maintaining the growth of broad monetary aggregates at appropriate levels and stable policy rates. In addition, the CBC implemented a flexible managed float regime to uphold the dynamic stability of the NT dollar exchange rate. To promote the soundness of bank operations, the CBC also continued to implement risk management policies on real estate loans. Furthermore, the CBC opened up new foreign currency financial instruments and expanded foreign currency call loan and swap markets. Meanwhile, the CBC kept improving financial stability assessment instruments in the hope of strengthening the effectiveness of financial stability assessment.

Correspondingly, the FSC not only facilitated financial deregulation and upheld measures to support the development of the financial industry, but also strengthened the risk management of real estate loans granted by the domestic banking sector and monitored its exposures to Mainland China. To enhance the capacity of firms to absorb losses, the FSC urged financial institutions to increase their capital and provisions levels. In addition to asking the insurance industry to improve its financial structure, the FSC broadened the channels for insurers' uses

of funds and enhanced the exit mechanism for problem insurance companies. Moreover, several measures aimed at boosting the sound development of securities markets were taken by the FSC, for example, an improvement in the surveillance of backdoor listings, the development of the RMB Formosa Bond Market, as well as the introduction of the operation of Go Incubation Board for Startup and Acceleration Firms (GISA). All the aforementioned measures facilitated the maintenance of financial stability objectives.

