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## Abstract

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In 2016, the global economy rebounded following a slowdown. Though facing challenges and uncertainties, international financial markets improved continually. Meanwhile, the growth momentum of Taiwan's economy picked up. The corporate and household sectors as well as the real estate market remained stable. Against this backdrop, domestic financial markets operated smoothly and the health of financial institutions was sound. These circumstances, coupled with orderly functioning of payment systems, underpinned a stable financial system.

### ***International and domestic macro environmental factors potentially affecting Taiwan's financial system***

Regarding the global economy, the growth in advanced economies was less than expected in 2016. The growth rate in the US economy recovered after a slowdown, while the recovery in the euro area and Japan remained tepid, and the economic performances across emerging economies appeared uneven. The recovery in advanced economies is expected to proceed at a moderate pace in 2017, as predicted by IHS Global Insight, while growth momentum in emerging economies will increase. With regard to international financial conditions, short-term risks affecting global financial stability decreased in 2016. However, owing to uncertainties surrounding US economic and trade policies, and political and economic conditions in the euro area, along with weakening profitability of banks in the euro area, and high corporate leverage in several emerging economies, global financial stability faces severe challenges.

Regarding the domestic economy, in 2016, exports expanded substantially and the growth momentum enhanced along with stable inflation. Because of successive balance of payments surpluses, the amount of foreign exchange reserves climbed, while the external debt-servicing capacity remained sound. Fiscal deficits reversed to increase and the government's debt level mounted marginally. The *Fiscal Health Plan* was carried out continuously to enhance fiscal soundness. The profitability of listed companies rose and their short-term debt-servicing capacity decreased; however, the credit quality of corporate loans stayed healthy. Household

borrowing slowed down, the debt burden lessened and credit quality remained satisfactory. Real estate market trading volume contracted while house prices declined gradually. Nevertheless, the mortgage burden remained heavy.

### ***Financial markets, financial institutions and financial infrastructures operated smoothly***

As for financial markets, the bill and bond issuance in the primary market increased; stock indices fluctuated with an upward trend and foreign exchange markets remained dynamically stable. With respect to financial institutions, the profitability and asset quality of domestic banks, though slightly lower in 2016, remained sound, capital levels rose and ample liquidity persisted. Life insurance companies saw decreasing profitability and faced higher foreign exchange risks; however, financial conditions still exhibited sound fundamentals. Bills finance companies reported higher pretax net income, but still needed to pay attention to liquidity risks. With regard to financial infrastructures, the major payment systems operated smoothly during 2016. The CBC continued to expand the functions of the foreign currency-clearing platform to provide the Australian dollar remittance service. Meanwhile, the CBC and the FSC also took active measures promoting sound domestic FinTech development.

### ***The CBC and the FSC continually took measures to promote financial stability***

From 2016 onwards, the CBC successively adopted appropriate monetary, credit, and foreign exchange policy measures in response to the uncertainties surrounding the evolution of global and domestic economic and financial conditions. The underlying measures included lowering policy rates two times, maintaining the growth of broad monetary aggregates at appropriate levels, unwinding most targeted prudential measures for real estate loans and implementing a flexible managed float foreign exchange rate regime. Moreover, to pursue the operating objective of promoting financial stability, the CBC also revised foreign exchange regulations to keep in line with the government's anti-money laundering policies. Meanwhile, the FSC has strengthened regulations governing anti-money laundering and countering the financing of terrorism (AML/CFT) and persistently enhanced banks' risk management and risk-bearing abilities, including requiring domestic banks to carry out stress tests, improving banks' management of complex, high risk financial derivatives, and promulgating the *Standards Implementing the Net Stable Funding Ratio of Banks* together with the CBC to maintain

financial stability.

### ***Taiwan's financial system remained stable***

In 2016, although facing changing international and domestic economic conditions, financial markets operated smoothly. The profitability and asset quality of domestic financial institutions remained at a healthy level. Meanwhile, their financial conditions exhibited better fundamentals. All three major payment systems functioned along an orderly trajectory. In the hope of promoting financial stability, the CBC and the FSC formulated adequate policies and measures. Overall, the financial system in Taiwan remained stable. In the future, the CBC and the FSC will continue to closely monitor the influence of global and domestic economic and financial conditions on the domestic financial system and adopt appropriate policies to improve financial stability.

