
IV. Measures to maintain financial stability

In 2014, against a backdrop of moderate growth in the global and domestic economies and modest inflation, Taiwan's financial markets and infrastructure maintained smooth operations and sound development. Financial institutions' profitability strengthened, asset quality continued to improve simultaneously, and capital levels largely rose. As a whole, Taiwan's financial system remained stable.

As a result of uneven economic recovery and the divergence of monetary policies among major economies, international financial markets fluctuated significantly, which, in turn, heightened uncertainties over global economic recovery. Facing changes in global and domestic economic and financial conditions, especially slowing economic growth in Mainland China, expanding quantitative easing monetary policies by the ECB and the spillover effects likely induced by the US monetary policy normalization in the future, the CBC will continue to closely monitor the influence of these issues on the domestic economy and financial system and adopt appropriate monetary, credit and foreign exchange policies. Meanwhile, the FSC also continues to update financial laws and regulations and undertakes measures to strengthen financial supervision, aiming at maintaining the soundness of financial institutions and improving financial stability.

4.1 Measures taken by the CBC to promote financial stability

The CBC continued to approve new foreign exchange financial products prudently to foster a more diversified market, and to appropriately review and relax restrictions on foreign exchange business to allow financial institutions to expand their business scope. In addition, the CBC also implemented appropriate monetary, credit and foreign exchange policies to improve financial stability.

4.1.1 Adopting appropriate monetary policies to cope with domestic and global economic and financial conditions

Policy rates remained unchanged in 2014

The uneven pace of economic recovery and the divergence of monetary policies in major economies resulted in greater fluctuations in international financial markets and heightened uncertainties over global economic recovery. Coupled with a negative domestic output gap and manageable inflation expectations, the CBC kept policy rates unchanged⁸⁴ in 2014 so as to maintain price and financial stability and promote economic growth.

Reserve money growth remained moderate

The CBC accommodated financial markets with funds to keep liquidity at appropriate levels through open market operations. The total loans and investments of all monetary institutions steadily increased, growing respectively by 4.96% and 5.66% year on year in 2014, higher than the GDP growth rate of 3.74% in the same period, while the monetary aggregate M2 maintained growth within its targeted range. This indicated that market liquidity was sufficient to support economic activity.

The CBC will implement appropriate monetary policies and macro-prudential policy tools as needed

The CBC will continue to closely monitor price conditions, the output gap, as well as changes in global and domestic economic and financial conditions, and undertake monetary policies and macro-prudential policy tools flexibly to achieve its statutory mandates.

4.1.2 Continually implementing targeted prudential measures for real estate loans

In order to prevent banks' funds from being used for housing and land speculation and urge financial institutions to control the risks associated with real estate loans, thereby protecting the rights of depositors and promoting financial stability, the CBC has continually implemented targeted macro-prudential measures against house-purchase loans in the designated Specific Areas, land collateralized loans and high-value house-purchase loans

⁸⁴ From 1 July 2011, the CBC has kept the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral unchanged at 1.875%, 2.25%, and 4.125%, respectively.

since June 2010. Since the implementation of these measures, concentration in real estate loans and loan-to-value (LTV) ratios have both declined, and mortgage interest rates have increased. The effort has come to fruition.

In view of the developments in the housing market and credit risk management of financial institutions, the CBC further amended the relevant regulations in June 2014, which included: (1) expanding the scopes of Specific Areas (adding four more districts in New Taipei City and another four in Taoyuan City); (2) requiring an additional LTV ratio cap of 50% on the third or more house-purchase loans taken out by natural persons, applicable to properties across the country; (3) revising the definition of high-value housing⁸⁵ and lowering its LTV ratio ceiling to 50%; (4) lowering the LTV ratio ceiling on house-purchase loans taken out by corporate legal entities to 50% for properties across the country. Moreover, to prevent borrowers from using banks' funds for industrial land speculation and to encourage the use of industrial land, the CBC called on banks to exercise rigorous self-discipline on land collateralized loans of idle land in industrial zones in February 2015, so as to urge banks to implement risk management of industrial land collateralized loans and assist industrial development in Taiwan (Box 3).

4.1.3 Implementing a managed float regime to stabilize the NT dollar exchange rate

Adopting flexible foreign exchange rate policies

Taiwan adopts a flexible managed floating exchange rate regime, and the exchange rate of the NT dollar is in principle guided by the market mechanism. Only when there are aberrations (such as an abnormally large inflow or outflow of short-term capital) and seasonal changes causing the exchange rate to over-fluctuate and move in a disorderly fashion with adverse implications that could destabilize the domestic economy and financial markets, will the CBC step in to adjust the market in a timely manner.

Maintaining an orderly foreign exchange market and improving its sound development

The divergence of monetary policies in the US, Japan, the euro area, etc. since 2014 has resulted in rising uncertainties and volatility in international short-term capital movements.

⁸⁵ The definition of high-price housing is revised to the appraised values or purchase prices of houses above NT\$70 million in Taipei City, above NT\$60 million in New Taipei City, and above NT\$40 million in other areas.

The CBC will continue to closely monitor their dynamics and influence on the NT dollar exchange rate. Should there be an inordinate inflow or outflow of capital, leading to the foreign exchange rate over-fluctuating, the CBC will undertake appropriate management measures to maintain an orderly foreign exchange market.

1. To prevent excessive volatility of the NT dollar exchange rate from endangering financial stability, the CBC implements the Real Time Reporting System for Large-Amount Foreign Exchange Transactions to monitor the latest transaction information in the foreign exchange market.
2. The CBC urges authorized foreign exchange banks to strengthen their foreign exchange rate-associated risk management in order to mitigate the risk exposures of individual banks and systemic risks of the whole market.
3. The CBC strengthens targeted examinations on foreign exchange businesses and forward transactions to ensure they are undertaken for real demand purposes, in order to restrain foreign exchange speculation and maintain discipline in the foreign exchange market.
4. To avoid interruption in the market from foreign speculative funds, the CBC requires authorized foreign exchange banks to follow the sum of position limits for NTD non-delivery forwards (NDF) and foreign exchange options such that the combined amount may not exceed one-fifth of the total position limit.

4.2 Measures undertaken by the FSC to maintain financial stability

From 2014 onwards, the FSC launched several policy measures to facilitate financial development and deregulation, such as relaxing business restrictions on OBUs, opening up the establishment of OSUs and OIUs, as well as promoting the Financial Import Substitution Program, the Digital Financial Environment Building Program and the program to boost securities markets, etc. Concurrently, the FSC has continued to strengthen financial supervision to maintain financial stability.

4.2.1 Continually adopting related supervisory measures on real estate loans

From 2011 onwards, the FSC has required banks with high credit concentration in housing