
IV. Measures to maintain financial stability

In 2015, against a backdrop of moderate domestic economic growth and steady inflation, Taiwan's financial markets and infrastructure maintained smooth operations and sound development. Profitability of financial institutions stayed healthy, while asset quality and capital positions strengthened further. As a whole, Taiwan's financial system remained stable.

As a result of an 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, expanded quantitative easing monetary policies by the ECB and spillover effects likely induced by 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 amend 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

Since 2015, the CBC has prudently relaxed restrictions on foreign exchange business to foster a more diversified market. Between 2015 Q1 and 2016 Q1, in view of domestic growth deceleration and mild inflation, the CBC cut policy rates three times and conducted open market operations to maintain monetary and credit conditions at an accommodative level. Given that banks have continued strengthening credit risk management on real estate loans, the CBC revised the relevant targeted prudential measures. Moreover, to prevent massive and frequent cross-border capital flows from disrupting the domestic foreign exchange market, the CBC continually followed the managed float regime and stabilized the NT dollar exchange rate.

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

The CBC lowered policy rates three times

Owing to a slowdown in global economic growth, worse-than-expected domestic economy, widened negative output gap, and moderate inflation outlook, the CBC lowered policy rates three times by a total of 12.5 bps during the period from September 2015 to March 2016. As a result, the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral fell to 1.5%, 1.875%, and 3.75%, respectively.

Reserve money growth remained moderate

The CBC accommodated financial markets with funds to keep liquidity at an appropriate level through open market operations. In 2015, the excess reserves in all financial institutions remained ample. The total loans and investments of all banks grew by 4.61%, while the monetary aggregate M2 grew by 6.34% year on year, both of which were higher than the GDP growth rate of 0.75%. This indicated that market liquidity was sufficient to support economic activity.

The CBC will continue to implement appropriate monetary policies

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 appropriate monetary policy actions to maintain price and financial stability and, in turn, foster economic growth.

4.1.2 Amending targeted prudential measures for real estate loans

Given that financial institutions have enhanced credit risk management on real estate loans and the government's measures to promote a sound housing market have gradually come into effect, speculative real estate demand decreased and property transactions slowed down. In view of these developments, the CBC made amendments to targeted prudential measures for real estate loans in August 2015, removing six districts from the scope of the designated Specific Areas and raising the loan-to-value ratio ceiling on real estate loans taken out by certain borrowers. In March 2016, the CBC further lifted all relevant measures except those for high-value housing loans. As a sound real estate market is vital to financial stability and

economic growth, the CBC will continue to monitor financial institutions' credit risk management on real estate loans and the enforcement results of targeted prudential measures, so as to undertake appropriate policy actions in a timely manner to ensure financial stability.

4.1.3 Safeguarding stability of the NT dollar exchange rate

Adopting flexible foreign exchange rate policies

Taiwan adopts a flexible managed float exchange rate regime, and the exchange rate of the NT dollar is in principle decided by market forces. Nevertheless, when seasonal or irregular factors (such as massive inflows or outflows of short-term capital) lead to excess volatility and disorderly movements in the NT dollar exchange rate with adverse implications for economic and financial stability, the CBC will, in line with its mandate, conduct leaning against the wind operations to maintain market order.

Maintaining an orderly foreign exchange market and promoting its sound development

After the global financial crisis, advanced economies adopted quantitative monetary easing policies, inducing massive and frequent short-term capital movements, which disturbed the domestic foreign exchange market. In order to prevent excessive exchange rate fluctuations and maintain dynamic stability of NT dollar exchange rate, in 2015, the CBC continued to undertake appropriate management measures to safeguard foreign exchange market order and promote its sound development. These measures included:

1. Implementing the Real Time Reporting System for Large-Amount Foreign Exchange Transactions to monitor the latest transaction information in the foreign exchange market.
2. Urging authorized foreign exchange banks to strengthen their foreign exchange rate risk management.
3. Strengthening examinations on forward transactions to ensure that they are undertaken for real demand purposes; undertaking targeted examinations on foreign exchange businesses when necessary.
4. Requiring that, for each authorized foreign exchange bank, its combined position limit for NTD non-delivery forwards (NDFs) and foreign exchange options may not exceed one-fifth of its total position limit.