
IV. Measures to maintain financial stability

In 2017, under the circumstances of modest international and domestic economic recoveries as well as mild inflation, Taiwan's financial markets and financial infrastructure maintained smooth operations and sound development. Profitability of financial institutions remained satisfactory, while asset quality, though slightly declining, stayed at an appropriate level, and capital levels continued improving. As a whole, Taiwan's financial system remained stable.

In spite of stable growth in advanced and emerging economies, international financial markets are likely to fluctuate sharply during the period of gradual monetary policy normalization by major central banks. Facing the changes in global and domestic economic and financial conditions, especially monetary policy normalization by the Fed, ECB and BOJ, the rise in trade protectionism, elevated debt levels in Mainland China, a possible major correction in global financial markets and capital outflows from emerging economies, the CBC will continue to closely monitor their influence on the domestic economy and financial system and adopt appropriate monetary, credit, and FX policies as warranted. Meanwhile, the FSC also continues to amend financial laws and regulations and undertake measures to strengthen financial supervision, aiming to foster the soundness of financial institutions and improve financial stability.

4.1 Measures taken by the CBC to promote financial stability

In view of moderate domestic economic recovery and mild inflation, the CBC held policy rates unchanged in 2017. Moreover, the CBC persistently implemented restrictions on high-value housing loans owing to their higher price volatility. The CBC also continually adopted a managed floating exchange rate regime and maintained dynamic stability of the NT dollar exchange rate, as well as timely amending relevant FX regulations.

4.1.1 Adopting appropriate monetary policies in response to domestic and global economic and financial conditions

The CBC kept policy rates unchanged

On account of an uncertain global economic outlook and a moderate domestic economic growth, coupled with a negative output gap, mild inflationary pressures and future inflation expectations, tightening financial conditions, and an appropriate level of real interest rates compared to major economies, the CBC kept policy rates unchanged in 2017. The discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral remained at 1.375%, 1.75%, and 3.625%, respectively.

Reserve money growth remained moderate

The CBC conducted open market operations to keep market liquidity at an appropriate level. In 2017, the excess reserves in all financial institutions remained at a higher level. The total loans and investments in the banking industry grew by 4.79%, while the monetary aggregate M2 increased by 3.75% year on year. Both rates were higher than the GDP growth rate of 2.89%, indicating 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 policies to maintain price and financial stability and, in turn, foster economic growth.

4.1.2 The CBC continued to implement targeted prudential measures on high-value housing loans

In March 2016, the CBC repealed most of the targeted prudential measures imposed on real estate loans, except for high-value housing loans because of higher risks faced by banks resulting from greater volatility in high-value housing prices, and urged banks to exercise self-discipline on mortgage-related credit risk management. In the future, the CBC will continue to monitor financial institutions' credit risk management on real estate loans and the developments in the real estate market, and undertake appropriate policy actions in a timely manner as needed to ensure financial stability.

4.1.3 Safeguarding stability of the NT dollar exchange rate

Adopting flexible FX rate policies

In order to maintain dynamic stability of the NT dollar exchange rate, the CBC adopts a flexible managed floating exchange rate regime. 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 domestic economic and financial stability, the CBC will, in line with its mandate, aptly maintain FX market order.

Maintaining an orderly FX market and promoting its sound development

In 2017, the CBC continued to undertake appropriate management measures⁶⁹ to safeguard FX market order and promote its sound development. These measures mainly included: (1) continuing to adopt management measures targeting international capital inflows and outflows; (2) urging authorized FX banks to strengthen their FX risk management; (3) strengthening targeted examinations on forward transactions to ensure they are undertaken for real demand purposes; (4) requiring combined position limits of NTD non-delivery forwards (NDFs) and FX options for each authorized FX bank not to exceed one-fifth of its total positions.

4.1.4 Strengthening the AML/CFT mechanism in FX business

Along with the reinforcement of money laundering supervision, the CBC successively amended the regulations governing the FX business of securities firms and banks in December 2017 and January 2018, respectively. Those amendments aimed at urging the banking and securities industries to comply with the *Money Laundering Control Act*, the *Counter-Terrorism Financing Act* and the associated directions when conducting FX business related to confirming customer identity, keeping records, reporting cash transactions exceeding certain amounts as well as declaring suspicious money laundering or terrorism financing transactions, and reporting entities or individuals designated on the sanction list of terrorism financing.

⁶⁹ See CBC (2017), *Financial Stability Report*, Chapter IV, May.