

## III. Central Bank Operations

### 1. Overview

The Bank assessed economic and financial conditions at home and abroad while formulating monetary policy for the year 2019. The international economic and trade prospects remained clouded by uncertainties, while the domestic economy witnessed moderate growth and the output gap was marginally negative. In addition, the inflation outlook was mild, and Taiwan's real interest rates still registered around the middle range among a host of economies. In light of the above developments, the Bank held the policy rates unchanged to help safeguard price and financial stability and foster economic growth.

During the course of year 2019, the Bank continued to conduct open market operations by issuing certificates of deposit (CDs) in response to economic and financial conditions. Through such operations, reserve money and the monetary aggregate M2 were maintained at appropriate levels with respective annual growth rates of 6.42% and 3.46%. Both readings were higher than the GDP growth rate of 2.71% over the same period, indicating sufficient market liquidity to support economic activity.

Meanwhile, the Bank announced a change in its monetary targeting approach. Starting from year 2020, the target range for M2 growth would become the reference range, which remains between 2.5% and 6.5%. It would not be reset on an annual basis. However, M2 would still play a role in anchoring inflation expectations. In the event of persistent deviations in M2 growth from the reference range or structural changes, the Bank will conduct a review and make necessary adjustments in a timely manner (see Box 2 for more).

In terms of macroprudential policy on the housing sector, the Bank kept the regulations governing high-value housing loans in place over the year, with the loan-to-value ratio still capped at 60%. This was to reflect higher credit risks for banks when extending real estate loans as prices for high-value homes tend to be more volatile than regular ones. The Bank also continued its efforts in urging banks to enhance risk management of real estate lending in order to sustain financial stability.

In the foreign exchange (FX) market, the supply of FX liquidity was broadly larger than the demand in 2019. To maintain dynamic stability of the NT dollar, the Bank conducted symmetrical smoothing operations, with a net buying of US\$5.5 billion for the year as a whole. The Bank also continued to approve bank branches as authorized FX banks and reviewed FX business related laws and regulations as necessary so as to facilitate authorized banks' competitiveness and service quality.

With the aim of advancing the safety and efficiency of payment system operation and fostering the development of financial inclusion, the Bank stepped up efforts to reinforce financial infrastructure and urged clearing institutions to strengthen information security for payment systems.

Furthermore, to be in line with government policy in encouraging the use of electronic payments and to diversify channels to pay national treasury fees, the Bank rolled out smartphone app-based and QR code-based mobile payment methods. For the former, the public can pay the fees on the nationwide bill payment service (e-Bill) mobile app of the Financial Information Service Co., Ltd., through a newly added payment option inside the app, a feature designed at the request of the Bank. For the latter, the Bank launched the "QR Code-Based National Treasury Fee Payment Mechanism," allowing the public to make payments through the Taiwan Mobile Payment app or other mobile banking apps by scanning QR codes.

In the meantime, in response to the evolving trend of financial technology development, the Bank formed a task force on central bank digital currencies (CBDCs) to undertake research on CBDC, blockchain, and electronic payments. Moreover, the Bank has been collaborating with academics and industry specialists to assess the feasibility of CBDC. Nurturing talent in this field is also one of the Bank's focuses.

On the other hand, to strengthen the Bank's communication with the public, an official Facebook account was established in early 2019. Through increasing its online presence, the Bank aimed to reach out to a wider audience by providing posts about the Bank's policies as well as publishing education materials to enhance financial awareness.