III. Central Bank Operations

1. Overview

For the year 2020, the coronavirus pandemic caused the global economy to deteriorate drastically. To mitigate pandemic-induced impacts on domestic economic activity and the labor market and to safeguard against the adverse implications of massive cross-border capital flows for financial stability, the Bank reduced the policy rates by 25 basis points in March.

In addition, to help SMEs to get through financial distress, the Bank rolled out a special accommodation facility to support bank credit to SMEs, effective from April 2020. This special facility aimed to help alleviate financial burdens on SMEs, sustain businesses, retain jobs, and protect paychecks.

In the meantime, in order to promote financial stability and sound banking operations and to preclude an inordinately high flow of bank credit into the real estate sector, the Bank reinforced previous efforts of targeted prudential measures on real estate lending by enacting the amended (and renamed) *Regulations Governing the Extension of Mortgage Loans by Financial Institutions*, which took effect on December 8, 2020. This action served as a part of the policy efforts to promote "efficient allocation and proper use of credit resources" under the government's "Program to Foster a Sound Real Estate Market."

In response to economic and financial conditions, the Bank continued to conduct open market operations by issuing CDs to manage market liquidity, maintain reserve money at appropriate levels, and sustain steady growth in monetary aggregates. For the year as a whole, reserve money and the monetary aggregate M2 posted year-on-year growth of 8.59% and 5.84%, respectively. Both readings were higher than the GDP growth rate of 3.11% over the same period, indicating sufficient market liquidity to support economic activity.

In the foregin exchange (FX) market, developments such as the spread of the coronavirus pandemic, the spillover effects of continued monetary easing by major central banks, and the significant repatriation of offshore funds by Taiwanese firms resulted in greater volatility in the NT dollar exchange rate. The Bank, in line with its statutory mandates, stepped in as warranted to sustain dynamic stability of the NT dollar and conducted symmetrical smoothing operations, with a net buying of US$39.1 billion for the year. In 2020, compared with other major currencies (including the Singapore dollar, the euro, and the Korean won), the NT dollar experienced lower volatility in its exchange rate vis-à-vis the US dollar. Moreover, in addition to approving more bank branches as authorized FX banks, the Bank reviewed the laws and regulations governing FX business as seen fit so as to facilitate authorized FX banks' competitiveness and service quality.

In order to ensure business continuity of the payment and settlement systems and maintain sound operation of domestic financial infrastructure amid the COVID-19 pandemic, the Bank urged financial institutitons to take precautionary measures in case of pandemic-related contingencies. Furthermore, the Bank required the Financial Information Service Co., Ltd. to assist financial institutions in reinforcing mobile payment infrastructure.

Meanwhile, in response to the evolving trend of digital payment innovations, the Bank's task force on central bank digital currencies (CBDCs) continued its efforts and completed technical research on the feasibility of a wholesale CBDC in June 2020. Later, the Bank moved on to the second phase with a proof-of-concept study on a general purpose CBDC in September that would run for two years with a rolling review depending on the progress and international trends.

To assist domestically-oriented service industries to weather the pandemic and encourage consumption, the government rolled out the Triple Stimulus Voucher program, effective from July 15, 2020. The Central Engraving and Printing Plant, a subsidiary of the Bank, was instructed by the government to design the vouchers in mid-May and later completed the production of 22 million sets of paper vouchers in late July. Through this program, the Bank made a concerted effort in helping stimulate domestic consumption.