

III. Central Bank Operations

1. Overview

The global economy continued on the path of recovery in the year 2021 amid lingering downside risks. Domestic inflation pressures built up further, whereas overall price trends were still considered manageable. Meanwhile, Taiwan's economy witnessed robust growth, albeit with divergence among different sectors. Against such a backdrop, the Bank held the policy rates unchanged to help safeguard price and financial stability and foster economic growth.

To help small and medium-sized enterprises (SMEs) adversely impacted by the COVID-19 pandemic, the Bank launched the Special Accommodation Facility to Support Bank Credit to SMEs ("the Facility") in April 2020. In mid-2021, with a surge in coronavirus infections at home, in order to enhance funding access for SMEs, the Bank continued its rolling review on the Facility and made relevant adjustments such as raising the total amount available under the Facility. Later, with the domestic coronavirus outbreak largely stable, corporate needs for relief funding declined. Therefore, the deadline for banks to accept new SME loan applications under the Facility remained December 31, 2021, as scheduled. However, to continue helping alleviate corporate financial burdens by supporting low funding costs, SME loans granted by banks under the Facility would remain eligible for the Facility's preferential interest rates until June 30, 2022.

In addition, to promote financial stability, rein in financial institutions' credit risk associated with real estate lending, and curb inordinate flows of credit resources towards the property market, the Bank amended the Regulations Governing the Extension of Mortgage Loans by Financial Institutions in March, September, and December 2021, to adjust its selective credit control measures. In order to reinforce the effectiveness of these control measures, the Bank held meetings twice to urge banks to comply with credit risk-based pricing principles when extending mortgage loans. Moreover, the Bank also adopted relevant supporting measures.

In response to economic and financial conditions, the Bank continued to conduct open market operations by issuing CDs to manage market liquidity and reserve money so as to maintain liquidity in the banking system and market rates at appropriate levels and sustain steady growth in monetary aggregates. For the year as a whole, reserve money and the monetary aggregate M2 registered year-on-year growth of 12.18% and 8.72%, respectively. Both readings were higher than the GDP growth rate of 6.45% over the same period, indicating sufficient market liquidity to support economic activity.

In the foreign exchange (FX) market, bolstered by the US government's US\$1.9 trillion fiscal

stimulus package and solid growth in Taiwan's exports in the first half of 2021, the NT dollar appreciated against the US dollar and exhibited greater volatility. In the second half of the year, the US Fed adopted monetary policy tightening and Taiwan's exports continued to record significant expansion, resulting in the NT dollar against the US dollar fluctuating within a limited range. When the NT dollar exchange rate experienced more fluctuations, the Bank, in line with its statutory mandates, stepped into the FX market through two-way interventions as warranted to maintain dynamic stability of the NT dollar exchange rate, with a net buying of US\$9.1 billion for the year. In 2021, compared with other major currencies (including the Singapore dollar, the euro, the yen, 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 amid the COVID-19 pandemic, the Bank continued urging financial institutions to take precautionary measures in case of pandemic-related contingencies. Furthermore, considering marked growth in interbank retail payment transactions, the Bank raised the ceiling on the amount of financial institutions' end-of-day balance in the Interbank Funds Transfer Guarantee Special Account⁸ to be counted as part of the required reserves. The Bank also required the Financial Information Service Co., Ltd. (FISC) to collaborate with financial institutions in reinforcing mobile payment infrastructure, such as constructing an "inter-institutional electronic payment institutions platform" and launching the "mobile number funds transfer" service to promote mobile payment. In the meantime, in response to the evolving trend of the digital economy, the Bank has conducted research on central bank digital currencies (CBDCs) and has moved on to the second phase with a proof-of-concept (PoC) study on a general purpose CBDC, which will be completed in September 2022.

To assist the domestically-oriented services sector battered by the pandemic and boost private consumption, the government rolled out the Quintuple Stimulus Voucher program, effective from October 8, 2021. The Central Engraving and Printing Plant, a subsidiary of the Bank, was instructed by the government to design and print the vouchers from August and later completed the production of 19.5 million sets of paper vouchers in mid-October. Through this program, the Bank joined a concerted effort in helping stimulate domestic consumption.

⁸ Authorized financial institutions may jointly open an Interbank Funds Transfer Guarantee Special Account with the Bank. The funds in the Special Account serve as guarantee for clearing individual interbank retail payments.