2. Monetary Management

Holding Policy Rates Steady

The global economy continued to recover amid potential downside risks in the year 2021. Meanwhile, domestic inflation pressures built up further, yet the overall price increase was still viewed as manageable. Taiwan's economy exhibited robust growth, albeit with uneven recovery momentum across sectors. Against this backdrop, the Bank kept policy rates unchanged in 2021. The discount rate, the rate on refinancing of secured loans, and the rate on temporary accommodations remained at 1.125%, 1.5%, and 3.375%, respectively.

Continuing to Conduct Open Market Operations to Absorb Excess Liquidity

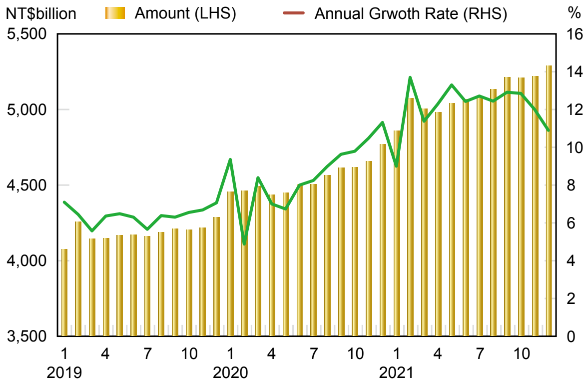
In 2021, the Bank continued to manage market liquidity through open market operations by issuing CDs in response to domestic economic and financial conditions, which helped to maintain reserve money and market rates at appropriate levels.

(1) Appropriately Managing Reserve Money

The Bank continued to conduct open market operations by issuing CDs. At the end of 2021, the total outstanding amount of CDs issued by the Bank was NT$9,483 billion. Reserve money grew by 12.18% for the year 2021, 3.59 percentage points higher than the previous year's figure. In terms of the monthly movements of reserve money, the annual growth rates of reserve money for January and February are often more volatile as the exact timing of the Lunar New Year holidays shifts on the Gregorian calendar each year. In 2021, reserve money posted an annual growth rate of 11.38% during this period. From March onwards, the annual growth rate remained relatively stable. Later, despite displaying a downtrend from October to December owing to a higher base effect, the annual growth rate of reserve money still remained above 10%.

On the demand side, reserve money, measured on a daily average basis, increased by NT$554 billion over the previous year. Of the components, net currency increased by NT$272 billion and the annual growth rate rose to 11.99% from 9.17% the previous year; reserves held by financial institutions expanded by NT$282 billion, with the annual growth rate trending up to 12.37% from 8.02% the previous

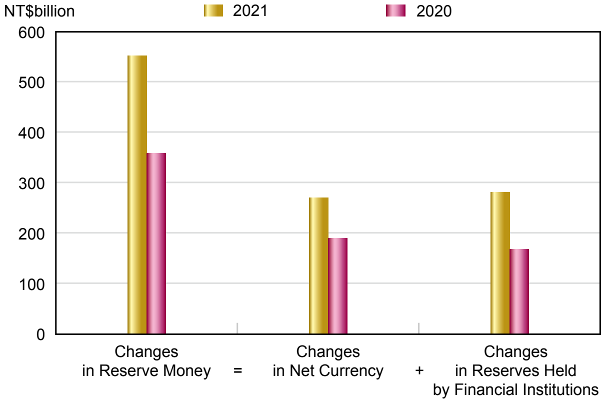
Reserve Money (Averages of Daily Figures)



Source: *Financial Statistics Monthly* (February 2022), CBC.

year. Currency held by the non-bank public expanded further on account of an increase in the private sector's demand for currency amid a steady recovery in the domestic economy and the low interest rates paid on bank deposits enhancing the willingness to hold currency in hand. Meanwhile, the overall growth rate of banks' reserves increased compared to the previous year as continuous growth in deposits raised banks' demand for reserves.

Changes in Reserve Money (Averages of Daily Figures)



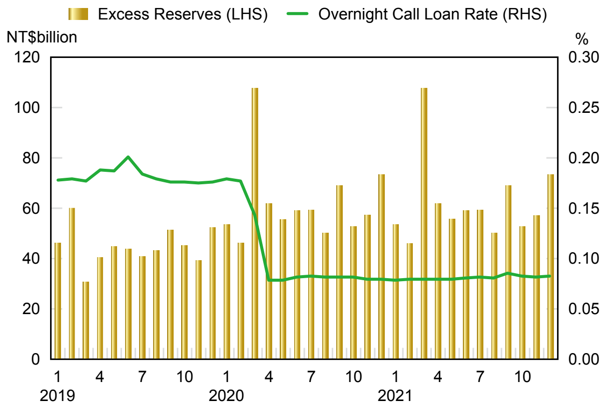
Source: *Financial Statistics Monthly* (February 2022), CBC.

From the supply side perspective, reserve money increased by NT$513 billion at the end of the year. According to the balance sheet of the Bank revealing the sources of changes in reserve money, increases were mostly attributable to the growth in foreign assets held by the Bank and expanded claims on financial institutions, whereas decreases were due to the Bank's issuance of CDs.

(2) Overnight Call Loan Rate Broadly Stable

In response to the demand for asset allocation of financial institutions, the Bank increased the monthly bidding amount for 2-year CDs from NT$40 billion to NT$60 billion from February 2021 and raised it further to NT$80 billion from April before reducing it to NT$60 billion from November onwards. The annual average excess reserves of financial institutions in 2021 was NT$62.7 billion, close to the NT$62.5 billion of the previous year. The annual average overnight call loan rate fluctuated slightly at around 0.080%.

Excess Reserves and Overnight Call Loan Rate



Source: *Financial Statistics Monthly* (February 2022), CBC.

(3) Conducting Regular Small-Scale Repo Operations

The Bank conducted small-scale test repo operations on CDs and government bonds in April and October 2021, respectively, to improve operational readiness and ensure resilience of the open market operations.

(4) Continuous Growth in Monetary Aggregates

The government provided relief loans in response to the economic impacts of the pandemic in the previous year. Subsequently, marked domestic economic recovery and stronger corporate demand for funds nudged up bank loans and investments. Moreover, as extended export strength continued to buttress an increase in inward remittances of overseas sales revenues, M2 recorded an annual growth rate of 8.45% in December 2020. With continuous growth in bank loans and investments in 2021, the M2 growth rate sustained at a higher level, but broadly moderated from June onwards. The M2 annual growth rate was 8.72% in 2021, higher than the upper boundary of the reference range at 6.5%.

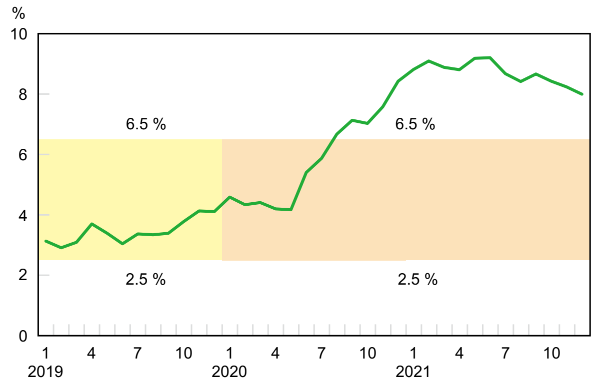
With regard to the monthly movements in 2021, for the first two months of the year, net foreign capital inflows and faster growth in bank loans and investments, as well as stronger demand for funds prior to the Lunar New Year holidays, brought the M2 growth rate up to 9.12% in February. It slipped to 8.83% in April owing to net foreign capital outflows and slower growth in bank loans and investments in March and April. Later, the M2 growth rate returned to an uptrend and hit a yearly high of 9.23% in June, driven by stronger expansion in bank loans and investments.

From July onwards, owing to a higher base effect, the M2 growth rate showed a broad downtrend despite net foreign capital inflows and an increase in bank loans and investments sending the M2 growth rate slightly higher in September. Afterwards, the M2 growth dropped to a yearly low of 8.02% in December.

The annual growth rate of the monetary aggregate M1B, measured on a daily average basis, went up by 5.95 percentage points to 16.29% in 2021. The rise in M1B growth was primarily owing to greater demand for funds amid a steady recovery in the domestic economy, a lower opportunity cost for the public to hold demand deposits, and a booming stock market.

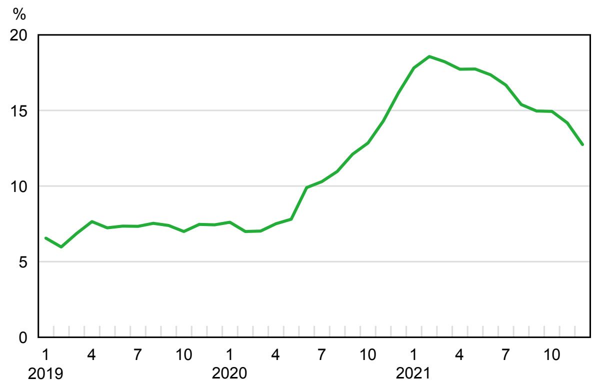
As for the monthly movements, the annual growth rate of M1B registered 17.81% in January, and then rose to the yearly high of 18.57% in February owing to higher demand for funds prior to the Lunar New Year holidays and an increase in currency issuance. Later, bolstered by a gradual domestic economic recovery and a buoyant stock market, M1B

Annual Growth Rate of M2



Source: *Financial Statistics Monthly* (February 2022), CBC.

Annual Growth Rate of M1B



Source: *Financial Statistics Monthly* (February 2022), CBC.

recorded month-on-month increases from March onwards; however, on account of a higher base effect, the annual growth rate of M1B exhibited a steady downtrend and fell to an all-year low of 12.75% in December.

Continuing the Special Accommodation Facility to Support Bank Credit to SMEs

Back in April 2020, to help SMEs adversely impacted by the pandemic, the Bank launched the Special Accommodation Facility to Support Bank Credit to SMEs ("the Facility"). With the domestic COVID-19 flare-up in mid-2021, the Bank continued to conduct a rolling review on the Facility and made relevant adjustments in order to enhance funding access for SMEs. Adjustments included stretching the applicable duration of preferential interest rates on newly-approved cases, raising the total amount of the Facility, extending the deadline for SME applications, and allowing increased borrowing within the specified maximum.

As the pandemic situation was broadly stable at home, the need for such funding assistance waned. The deadline for banks to accept new SME loan applications under the Facility remained December 31, 2021, as scheduled. However, to continue offering assistance by easing corporate funding burdens, the Bank extended the applicable duration of preferential interest rates on approved SME loans to June 30, 2022. Under the Facility launched in April 2020 to the end of 2021, financial institutions had approved more than 309 thousand applications with the disbursement totaling NT$504.9 billion.

Adjusting the Selective Credit Control Measures

In view of the still fast increase in banks' real estate lending, the Bank adjusted the selective credit control measures three times in the year 2021 to curb inordinate flows of credit resources towards the property market and to further rein in financial institutions' credit risk associated with real estate lending. These measures represented the policy efforts to facilitate effective allocation and reasonable utilization of credit resources as outlined in the government's Healthy Real Estate Market Plan so as to prevent bank credit from flowing towards property and land hoarding.

1. In 2021, the Bank further amended the *Regulations Governing the Extension of Mortgage Loans by Financial Institutions* in March, September, and December to reinforce the selective credit control measures. Major revisions were as follows:

(1) March 2021: The Bank lowered the LTV ratio caps on housing loans extended to corporate entities and on the third (or more) housing loans and high-value housing loans by natural persons. The Bank also introduced a new LTV ratio ceiling on mortgage loans for idle land in industrial districts.

(2) September 2021: The Bank removed the grace period for a second home loan taken out by a natural person for housing located in the stipulated specific areas.[9] The Bank lowered the LTV ratio caps on land loans and on mortgage loans for idle land in industrial districts.

[9] Specific areas included Taipei City, New Taipei City, Taoyuan City, Taichung City, Tainan City, Kaohsiung City, Hsinchu County, and Hsinchu City.

(3) December 2021: The Bank lowered the LTV ratio caps on high-value housing loans and on the third (or more) housing loans by natural persons, on loans for unsold new housing units, and on mortgage loans for idle land in industrial districts to 40%. The Bank also lowered the LTV ratio cap on land loans to 50% and required that the construction should commence within the promised time frame as formally undertaken by the loans' borrowers.

2. The Bank held meetings twice to improve the effectiveness of the selective credit control measures and urged banks to implement credit risk-based interest rate pricing principles.

(1) The Bank held the meeting on "Strengthening the Effectiveness of the Implementation of the Bank's Selective Credit Control Measures" in May with 36 domestic banks. Through the meeting, banks were urged to comply with relevant laws and regulations as well as risk-based pricing principles when extending mortgage loans and to avoid a price competition.

(2) The Bank held the meeting on "Strengthening the Effectiveness of the Implementation of the Bank's Selective Credit Control Measures" again in October with 36 domestic banks and the National Federation of Credit Co-operatives R.O.C. In this meeting, the Bank reiterated that banks should comply with credit risk-based pricing principles and should fully explain the pricing strategies for interest rates to borrowers so as to enable them to make proper financial planning decisions.

3. The Bank adopted the following supporting measures to improve the effectiveness of the implementation of the selective credit control measures.

(1) Statistics of banks' newly-extended real estate loans were released regularly on the Bank's website.

(2) 55 on-site financial examinations were conducted in 2021 to ensure banks' compliance with relevant laws and regulations.

(3) The Bank used moral suasion with banks, urging them to comply with relevant laws and regulations and implement credit risk-based differential pricing principles.

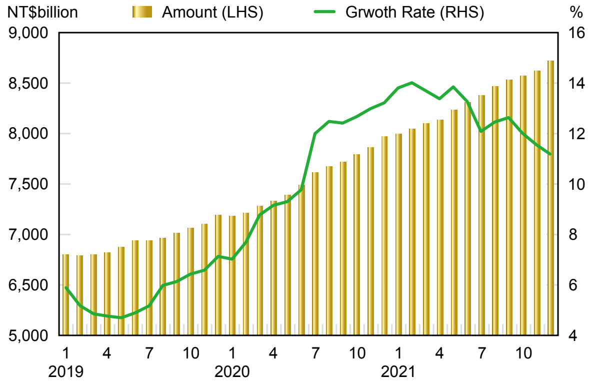
(4) The Bank suggested the FSC to enhance control over financial institutions' real estate guarantee business.

Facilitating SME Funding

To sufficiently meet the funding needs of SMEs, the FSC continued to encourage lending by domestic banks to SMEs, while the Bank also urged commercial banks to increase lending to SMEs.

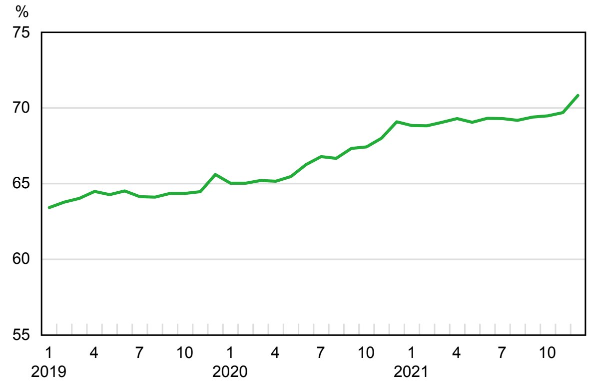
At the end of 2021, the outstanding loans extended to SMEs by domestic banks amounted to NT$8,689 billion, increasing by NT$876 billion from the end of the previous year and far exceeding the annual target of increased lending of NT$300 billion set by the competent authorities. Outstanding SME loans recorded an annual growth rate of 11.22% at the end of 2021, lower than the previous year owing to a higher base effect. Furthermore, the ratio of SME loans to loans extended to all private enterprises rose slightly from 69.08% at the previous year end to 70.83% at the end of 2021.

Outstanding Loans Extended to SMEs



Source: FSC.

Ratio of Outstanding Loans Extended to SMEs to Those Extended to Private Entreprises



Source: FSC.

Accepting Redeposits from Financial Institutions

Accepting redeposits from Chunghwa Post, the Agricultural Bank of Taiwan, and commercial banks is another instrument for the Bank to influence banks' reserve positions in order to promote financial stability. At the end of 2021, the outstanding redeposits of Chunghwa Post stayed broadly unchanged at NT$1,624 billion, while the outstanding redeposits of the Agricultural Bank of Taiwan and of commercial banks were NT$165 billion and NT$354 billion, respectively.

Box

Selective Credit Control Measures: Implementation and Results

Pursuant to *The Central Bank of the Republic of China (Taiwan) Act*, the Bank is authorized by law to adopt selective credit control measures in order to foster financial stability. Since the second half of 2020, the domestic housing market had been gathering steam and a decline in mortgage lending standards had also begun to show in some banks.

To promote financial stability and sound banking operations, to urge banks to carefully consider mortgage loan purposes and borrower status as per the directive of "efficient allocation and proper use of credit resources" under the government's Healthy Real Estate Market Plan, and to curb bank credit resources from flooding the real estate market, the Bank implemented selective credit controls on four occasions (December 2020, and March, September, and December 2021) – by amending the *Regulations Governing the Extension of Mortgage Loans by Financial Institutions*. The actions were aimed at strengthening bank management of credit risks associated with real estate lending and preventing credit resources from being used for property hoarding. They have since produced good results, with the LTV ratios significantly brought down for the regulated loan types.

I. Implementation of the selective credit control measures

1. Introduction and amendments

(1) December 2020

The Bank noticed that there had been a disproportionate concentration on banks' real estate lending – which could draw investment away from productive economic activities and hamper sound allocation of credit resources – and an uptrend in housing loans and construction loans. In this view, the Bank sought to rein in housing loans extended to natural persons buying multiple homes and those to corporate entity homebuyers, to stop bank credit from being used for hoarding undeveloped land, and to strengthen loan standards for unsold housing units. To that end, the Bank introduced selective credit controls on housing loans to corporate entities, on new housing loans to natural persons already with two or more outstanding housing loans, on land loans, and on loans for unsold housing units, all four of which would also serve as uniform regulations to facilitate compliance among financial institutions.

(2) March 2021

While real estate lending continued to exhibit fast growth, corporate entities also showed a more pronounced tendency to buy multiple homes and to flip them for profit within a short time span. Accordingly, the Bank amended the selective credit control measures, including lowering the LTV ratio caps on housing loans taken out by corporate entities and on high-value housing loans, and adjusting LTV ratio caps for natural person homeowners according to the number of outstanding housing loans they already had. In addition, the Bank aimed to promote the development of industrial land lots by introducing new restrictions on loans collateralized against idle land in industrial districts.

(3) September 2021

To preempt an inordinate credit flow into the real estate sector for speculation and restrain related credit risk, the Bank took the precaution of adjusting credit controls, including imposing new restrictions on the second (or more) housing loans taken out by natural persons for homes in the designated "specific areas,"[1] to help contain overleverage and strengthen banks' credit risk management. The Bank also lowered the LTV ratio ceiling on land loans to curb them from an excessive surge. In addition, to urge land loan borrowers to begin construction promptly after land acquisition, the Bank thus stipulated that the "specific time frame" condition for idle industrial land mortgage loans to be exempt from the restrictions shall be one year.

(4) December 2021

In light of a still marked concentration of real estate lending in banks' loan positions, further amendments were made to ensure bank credit resources were under robust management and

[1] Including Taipei City, New Taipei City, Taoyuan City, Taichung City, Tainan City, Kaohsiung City, Hsinchu County, and Hsinchu City.

Key Points of the Adjustments of Selective Credit Control Measures

<table>
<tr><th colspan="2" rowspan="2">Type of loans</th><th colspan="4">LTV ratio caps and others (date: mm/dd/yyyy)</th></tr>
<tr><th>12/08/2020 - 03/18/2021</th><th>03/19/2021 - 09/23/2021</th><th>09/24/2021 - 12/16/2021</th><th>12/17/2021 -</th></tr>
<tr><td rowspan="2">Corporate entity</td><td>First housing loan</td><td>LTV cap: 60%;
No grace period</td><td rowspan="2">LTV cap: 40%;
No grace period</td><td rowspan="2">(unchanged)</td><td rowspan="2">(unchanged)</td></tr>
<tr><td>Second (or more) housing loan(s)</td><td>LTV cap: 50%;
No grace period</td></tr>
<tr><td rowspan="5">Natural person</td><td>High-value housing loan in addition to two (or less) outstanding housing loans</td><td rowspan="2">LTV cap: 60%;
No grace period</td><td>LTV cap: 55%;
No grace period</td><td>(unchanged)</td><td>LTV cap: 40%;
No grace period</td></tr>
<tr><td>High-value housing loan in addition to three (or more) outstanding housing loans</td><td>LTV cap: 40%;
No grace period</td><td>(unchanged)</td><td>(unchanged)</td></tr>
<tr><td>Second housing loan for a home in one of the "specific areas"</td><td>(nil)</td><td>(nil)</td><td>No grace period</td><td>(unchanged)</td></tr>
<tr><td>Third housing loan</td><td rowspan="2">LTV cap: 60%;
No grace period</td><td>LTV cap: 55%;
No grace period</td><td>(unchanged)</td><td rowspan="2">LTV cap: 40%;
No grace period</td></tr>
<tr><td>Fourth (or more) housing loan(s)</td><td>LTV cap: 50%;
No grace period</td><td>(unchanged)</td></tr>
<tr><td colspan="2">Land loans</td><td>LTV cap: 65%, with 10% withheld for disbursement until construction commences</td><td>(unchanged)</td><td>LTV cap: 60%, with 10% withheld for disbursement until construction commences;

Borrower required to submit a substantive development plan for the land purchased</td><td>LTV cap: 50%, with 10% withheld for disbursement until construction commences;

Borrower required to submit a substantive development plan and undertake that construction would begin within a specific time frame*</td></tr>
<tr><td colspan="2">Loans for unsold housing units</td><td>LTV cap: 50%</td><td>(unchanged)</td><td>(unchanged)</td><td>LTV cap: 40%</td></tr>
<tr><td colspan="2">Idle industrial district land mortgage loans</td><td>Internal rules of banks</td><td>LTV cap: 55%;

Exemption condition: (1) commencement of construction, or (2) submission of a substantive development plan and an affidavit stating that construction would take place within a specific time frame</td><td>LTV cap: 50%;

Exemption condition: (1) commencement of construction, or (2) submission of a substantive development plan and an affidavit stating that construction would take place within one year</td><td>TV cap: 40%;
Exemption conditions unchanged</td></tr>
</table>

Note: * On January 13, 2022, the Bank met with banks on the subject of "reinforcing management of risks associated with land loans," urging them to set up internal rules to ensure that land loan borrowers begin construction on the collateralized land lots as per the loan terms. Particularly, regarding the condition of "specific time frame," banks were asked to exercise prudence in assessing and verifying the actual time needed (up to a maximum of 18 months) for borrowers before commencing construction. Banks should clearly state in the loan contracts that if borrowers fail to begin construction within the agreed time frame, banks shall reclaim the loan amount disbursed in a gradual manner by a reasonable percentage and raise the interest rates on the loans with annual increments.

Source: Department of Banking, CBC.

not used for speculative hoarding of homes and land lots. The key adjustments included lowering the LTV ratio caps on high-value housing loans and the third (or more) housing loans for natural persons, on land loans, on loans for unsold housing units, and on idle industrial district land. Meanwhile, lending standards for land loans were tightened by requiring borrowers to commit in writing to commencing construction within a specific time frame.

2. Related actions

To amplify the effects of the selective credit control measures, the Bank followed up with related actions as described below.

(1) Compiling and disclosing relevant data: Statistical data on those types of real estate lending subject to the Bank's credit controls are published on the Bank's website on a regular basis.
(2) On-site financial examinations: Beginning from January 2021, the Bank also ran targeted examinations to ensure the banking sector's compliance with the selective credit controls. Within the year of 2021, a total of 55 such examinations were conducted.
(3) Meeting with financial institutions: The Bank held two meetings with financial institutions in May and October 2021 on the subject of "enhancing the effectiveness of the selective credit control measures," urging banks to ensure compliance, to offer reasonable pricing based on assessments of credit risk and other factors, and to refrain from price wars. The Bank also reminded borrowers to heed their own mortgage interest burdens and be financially prepared for any future changes.
(4) Strengthening bank risk management in property guarantee business: Acting on the recommendation of the Bank, the FSC adopted several measures to prompt banks to enhance risk management related to real estate guarantee business. These measures included a cap on the ratio of the guarantee balance of bills finance companies for real estate firms and a requirement that banks shall incorporate real estate guarantee business into the scope of their internal control and audit rules in accordance with the relevant regulations stipulated by the Bank.

II. Implementation results of the Facility

1. LTV ratios brought down

Since the first rule tightening in December 2020, those types of loans under restriction have been made by domestic banks in accordance with the relevant rules, and the average LTV ratios have been significantly lower than before implementation.

LTV Ratios of Real Estate Loans Before and After Rule Tightening

(unit: %)

<table>
<tr><th colspan="4">Type of loans</th><th>Before (average; mainly Jan.-Sept. 2020)</th><th>After (average; Dec. 2021)</th><th>Statutory cap (Dec. 2021)</th><th>Current cap (12/17/2021 onwards)</th></tr>
<tr><td rowspan="5">Housing loans</td><td colspan="3">Corporate entity</td><td>63.97</td><td>39.84</td><td>40</td><td rowspan="5">40</td></tr>
<tr><td rowspan="4">Natural person</td><td colspan="2">Third housing loan</td><td>63.97</td><td>53.18</td><td>55</td></tr>
<tr><td colspan="2">Fourth (and more) housing loan(s)</td><td>63.97</td><td>47.84</td><td>50</td></tr>
<tr><td rowspan="2">High-value housing</td><td>Two (or less) outstanding housing loans</td><td>71.00</td><td>50.68</td><td>55</td></tr>
<tr><td>Three (or more) outstanding housing loans</td><td>71.00</td><td>39.28</td><td>40</td></tr>
<tr><td rowspan="3" colspan="2">Land loans</td><td colspan="2">Loan application made during 12/08/2020-09/23/2021</td><td rowspan="3">69.19</td><td>63.60</td><td>65</td><td rowspan="3">50</td></tr>
<tr><td colspan="2">Loan application made during 09/24/2021-12/16/2021</td><td>58.05</td><td>60</td></tr>
<tr><td colspan="2">Loan application made from 12/17/2021 onwards</td><td>37.52</td><td>50</td></tr>
<tr><td rowspan="2" colspan="2">Loans for unsold housing units</td><td colspan="2">Loan application made during 12/08/2020-12/16/2021</td><td rowspan="2">51.03</td><td>33.62</td><td>50</td><td rowspan="3">40</td></tr>
<tr><td colspan="2">Loan application made from 12/17/2021 onwards</td><td>28.59</td><td>40</td></tr>
<tr><td colspan="4">Idle industrial district land mortgage loans</td><td>n.a.</td><td>49.78 (Oct. 2021)</td><td>50</td></tr>
</table>

Notes: 1. The "before" data are based on the information for the Jan.-Sept. 2020 period as reported by the 14 banks when they came to meet with the Bank in November 2020, except for the "before" data on high-value housing loans taken out by natural persons, which were based on data reported by banks before the Bank first imposed credit controls on this type of loan in June 2012.
2. The "after" data were compiled by the Bank based on the reports submitted by 39 domestic banks.
3. "n.a." means there was no statistical compilation.

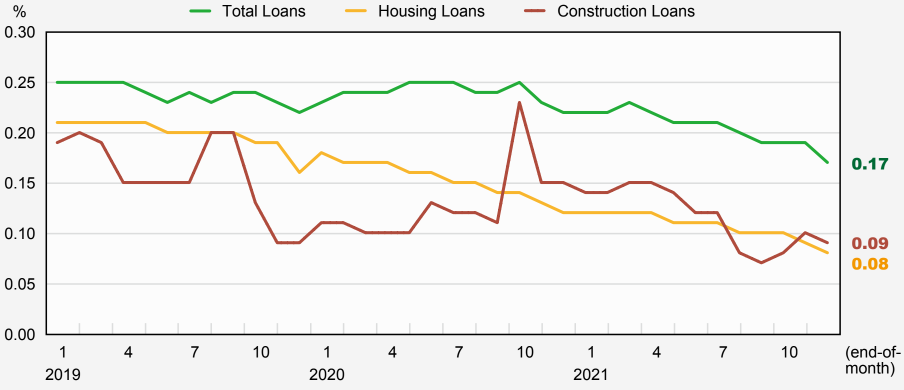
Source: Department of Banking, CBC.

2. Banks' real estate lending risk management considered satisfactory

(1) Non-performing loan ratios comparatively low

As of the end of December 2021, the non-performing loan ratios for housing loans and construction loans extended by domestic banks were 0.08% and 0.09%, respectively. With both ratios lower than the overall non-performing loan ratio, which was 0.17%, domestic banks continued to exhibit good asset quality.

Non-performing Loan Ratios of Domestic Banks

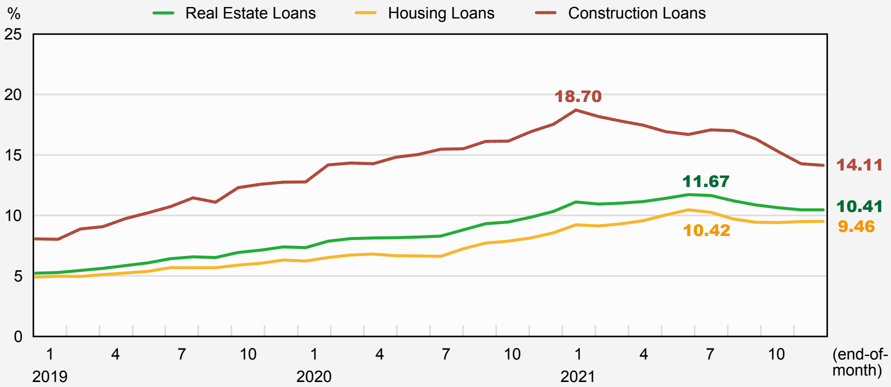


Source: FSC.

(2) Growth in real estate lending broadly slowed

At the end of December 2021, the annual growth rate of real estate lending by all banks slowed to 10.41% from the 11.67% registered at the end of June 2021. Of the components, the annual growth rate of construction loans dropped markedly to 14.11% from the 18.70% of end-January 2021, while that of housing loans dropped to 9.46% from the 10.42% of end-June 2021.

Annual Growth Rates of Real Estate Loans (All Banks)



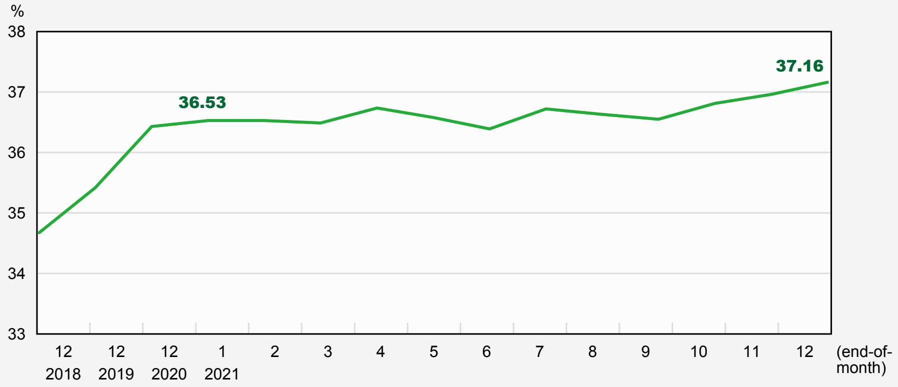
Notes: 1. "All banks" include domestic banks and local branches of foreign and Mainland Chinese banks.
2. "Real estate loans" include loans for home purchases, home renovations, and building construction.

Source: *Financial Statistics Monthly* (February 2022), CBC.

(3) Real estate loan concentration largely steady

From the beginning of 2021, the share of real estate lending in total lending by all banks stayed largely steady. The share was 37.16% at the end of December 2021, still lower than the historical high of 37.90% recorded at the end of October 2009.

Real Estate Loan Concentration (All Banks)



Notes: 1. "All banks" include domestic banks and local branches of foreign and Mainland Chinese banks.
2. "Real estate loans" include loans for home purchases, home renovations, and building construction.

Source: *Financial Statistics Monthly* (February 2022), CBC.

III. Conclusion: The Bank will run a rolling review and act as needed to sustain financial stability

A healthy real estate market requires coordinated efforts from all relevant government agencies to address issues from the various aspects of demand, supply, and the system. Looking ahead, the Bank will stay attentive to the developments in banks' real estate lending and in the housing market, conduct a rolling review of the selective credit control measures, and act as needed to promote sound banking operations and foster financial stability.