2. Monetary Management

Raising Policy Rates to Foster Price Stability

In March 2023, the Bank raised the policy rates by 0.125 percentage points to curb domestic inflation expectations. Therefore, the discount rate, the rate on refinancing of secured loans, and the rate on temporary accommodations were raised to 1.875%, 2.25%, and 4.125%, respectively.

Afterward, the domestic inflation rate gradually declined from the levels of 2022, and was expected to fall back to around 2% in 2024. The global economic outlook was still facing many risks, which could further dampen the domestic economic recovery. In addition, the domestic output gap was estimated to be negative in both 2023 and 2024. Based on these assessments, the Bank kept the policy rates unchanged in June, September, and December 2023, which would help foster sound economic and financial development on the whole.

Continuing Open Market Operations to Adjust Market Liquidity

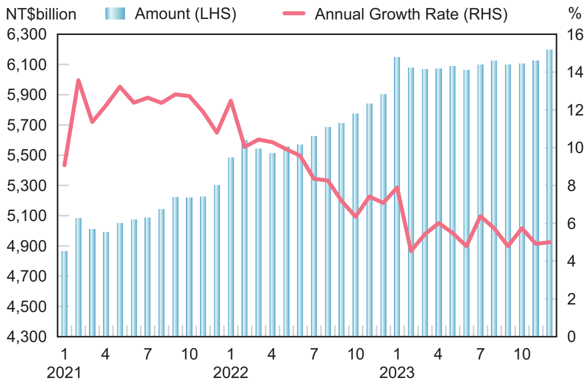
In 2023, the Bank continued to affect money supply through open market operations by issuing CDs in response to domestic economic and financial conditions, which helped to maintain market liquidity and market interest rates at appropriate levels.

(1) Appropriately Managing Reserve Money

The Bank continued to conduct open market operations by issuing CDs. At the end of 2023, the total outstanding amount of CDs issued by the Bank was NT$8,135.9 billion.

In 2023, reserve money grew at a slower pace at 5.55% year on year, 3.36 percentage points lower than the previous year's figure. The annual average excess reserves of financial institutions were NT$59.8 billion, lower than the previous year's NT$71.8 billion.

Reserve Money (Averages of Daily Figures)



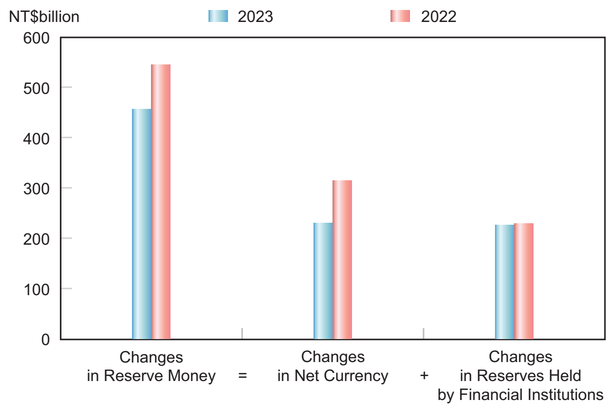
Source: *Financial Statistics Monthly* (February 2024), CBC.

In terms of the monthly movements of reserve money, the annual growth rates of reserve money for January and February are often more volatile because of the shift in the exact timing of the Lunar New Year holidays (e.g., the holidays occurred from the end of January to early February in 2022, yet in late January in 2023). For the first two months of 2023, reserve money posted an annual growth rate of 6.20%. From March onwards, the annual growth rate of reserve money was relatively stable.

On the demand side, reserve money, measured on a daily average basis, increased by NT$455.8 billion over the previous year. Of the components, net currency increased by NT$230 billion and the annual growth rate fell to 8.07% from 12.40% the previous year; reserves held by financial institutions expanded by NT$225.8 billion, with the annual growth rate down to 8.08% from 8.94% the previous year.

Owing to a slowdown in global economic growth, shrinking exports, and weaker corporate demand for funds, net currency recorded a smaller increase than the previous year. As for reserves held by financial institutions, slower growth in demand deposits reduced banks' demand to deposit reserves, resulting in a slightly smaller increase in reserves held by financial institutions compared to the previous year.

Changes in Reserve Money (Averages of Daily Figures)



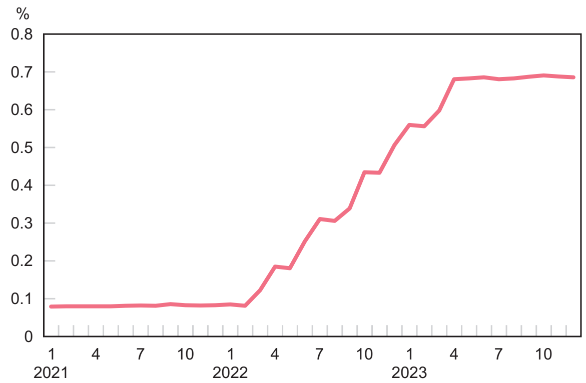
Source: *Financial Statistics Monthly* (February 2024), CBC.

From the supply side perspective, reserve money increased by NT$274.8 billion at the end of 2023. According to the balance sheet of the Bank revealing the sources of changes in reserve money, increases were mostly attributable to the decrease in the outstanding balance of CDs issued by the Bank and the growth in foreign assets held by the Bank, whereas decreases were due to the Bank's reduced claims on financial institutions.

(2) Overnight Call Loan Rate Moving Up with the Bank's Policy Rate Hike

The Bank's 0.125 percentage point rate increase in March 2023 drove up the overnight call loan rate by nearly 0.125 percentage points throughout the year. As of the end of December 2023, the annual average overnight call loan rate was at 0.692%.

Overnight Call Loan Rate



Source: *Financial Statistics Monthly* (February 2024), 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 2023 to improve operational readiness and ensure resilience of open market operations. In December 2023, the Bank conducted a new small-scale test repo operation on sustainable bonds issued by banks to help promote the development of sustainable finance.

(4) Continuous Growth in Monetary Aggregates, with M2 Growth Falling Back to within the Reference Range

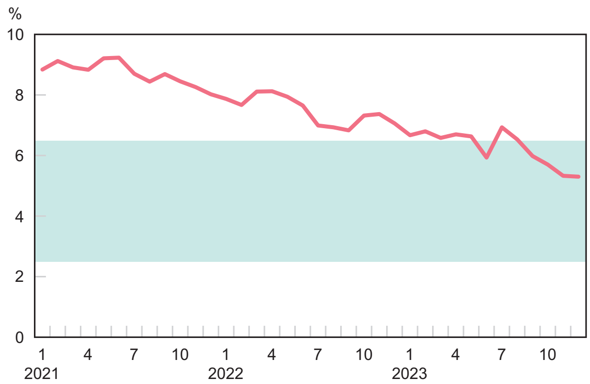
Measured on a daily basis, the annual growth rate of M2 fell by 1.23 percentage points from the previous year to 6.25% in 2023. The slowdown brought it back to the Bank's reference range of 2.5% to 6.5%, mainly reflecting a higher base effect and slower growth in bank loans and investments.

With regard to the monthly movements in 2023, weak corporate funding needs amid a tepid global economy led to a lower annual growth rate of current operations loans, while loans to the real estate sector also declined over the same period in 2022, resulting in a slower pace of year-on-year growth in bank loans and investments. Consequently, the M2 annual growth rate dropped from 7.06% in December 2022 to 6.58% in March 2023.

The M2 annual growth rate rose to over 6.60% in April and May as a result of the government's universal surplus tax rebate program (NT$6,000 per person). With the growth in bank loans and investments registering a downtrend before an uptrend around mid-year, the M2 growth rate declined to 5.93% in June, and then rebounded to an all-year high of 6.93% in July.

Subsequently, net foreign capital outflows brought the M2 annual growth rate down to 5.70% in October. Although net foreign capital outflows turned into inflows in November, the magnitude of inflows was still smaller than that of the same period of the previous year, sending the M2 growth rate further down to 5.33%. Later in December, the M2 annual growth rate fell slightly to an all-year low of 5.30%.

Annual Growth Rate of M2



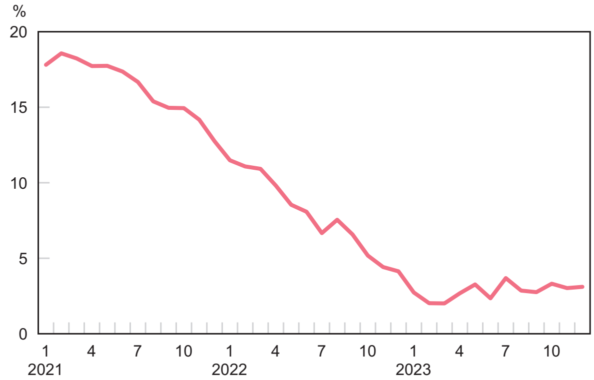
Note: Light blue area is the reference range for M2 growth (2.5% to 6.5%).
Source: *Financial Statistics Monthly* (February 2024), CBC.

The annual growth rate of the monetary aggregate M1B, measured on a daily average basis, went down by 4.99 percentage points to 2.82% in 2023, mainly owing to a higher base effect and weaker growth in demand deposits resulting from decelerated growth in bank loans and investments.

As for the monthly movements in 2023, from January to March, softer expansion in bank loans and investments and a higher base effect led to slower growth in demand deposits. As a result, the M1B annual growth rate showed a downtrend, dropping from 4.14% in December 2022 to an all-year low of 2.01% in March 2023.

In subsequent months, as growth in demand deposits rebounded, the M1B annual growth rate rose to 3.27% in May. Affected by changes in bank loans and investments, the M1B annual growth rate slipped to 2.35% in June but moved back up to a yearly high of 3.69% in July, before staying broadly stable from August onwards.

Annual Growth Rate of M1B



Source: *Financial Statistics Monthly* (February 2024), CBC.

Continuing the Selective Credit Control Measures and Adopting Supporting Measures to Strengthen Their Effectiveness

To promote financial stability and sound banking operations, to carry on with the Bank's policy efforts under the government's Healthy Real Estate Market Plan, and to prevent bank credit from excessively flowing towards property and land hoarding, the Bank continued to implement the selective credit control measures.

1. Making rolling adjustments to credit control measures

(1) February 2023: The Bank revised the Q&A for the provisions of land loans to include an exemption from the restriction on the commencement of construction within a specific time frame if there are factors that are not attributable to the borrower.

(2) June 2023: The Bank amended the regulations to introduce a 70% loan-to-value (LTV) ratio cap for a second outstanding home loan of a natural person for housing in a "specific area."

(3) July 2023: The Bank added a new Q&A on the regulations for a second outstanding home loan of a natural person for housing in a "specific area," specifying assistance measures provided to second-home buyers whose intentions are to replace their current homes.

2. Adopting supporting measures

(1) Evaluating the effectiveness of the Bank's selective credit control measures on a regular basis to serve as a reference for policymaking.

(2) Inviting banks to participate in seminars and urging them to comply with regulations and implement credit risk-based interest rate pricing principles.

(3) Conducting on-site financial examinations to urge financial institutions to conform to relevant regulations.

(4) Performing monthly reviews on the extension of mortgage loans by financial institutions and changes in credit terms, and releasing related statistics on the Bank's website.

(5) In June and July 2023, the Bank issued press releases stating that the Bank's regulations on a second outstanding home loan of a natural person for housing in a "specific area" had taken into account the interests of second-home buyers replacing current homes, and had provided relevant assistance measures in response.

(6) In November 2023, the Bank called on the National Federation of Credit Cooperatives, R.O.C. (NFCC) and the Agricultural Bank of Taiwan to inform community financial institutions about strengthening the implementation of the regulations.

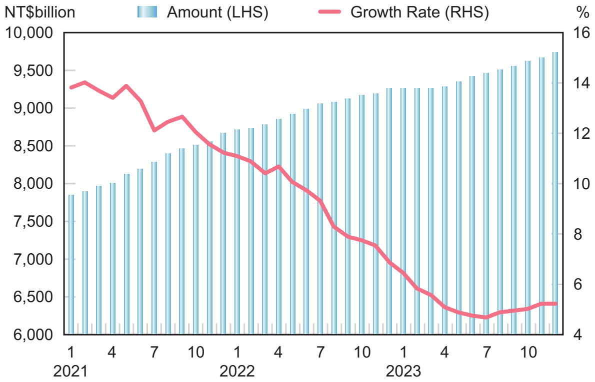
Since the Bank's selective credit controls took effect, real estate lending growth has seen a significant downtrend, which has helped enhance banks' risk management associated with real estate lending, and banks' real estate loans have maintained good credit quality as indicated by the continuously low non-performing loan ratio of this loan bracket. The Bank has continued to closely monitor the possible impacts of real estate-related policies on the housing market, keep watch on banks' real estate lending, review the outcomes of the selective credit controls, and make timely adjustments as needed in order to promote financial stability and sound banking operations.

Facilitating SME Funding

To assist SMEs in obtaining necessary funds for their operations, the Bank regularly tracked banks' lending to SMEs and participated in the formulation of the annual lending growth target under the FSC's "Program to Encourage Lending by Domestic Banks to SMEs" to urge banks to enhance their lending to SMEs.

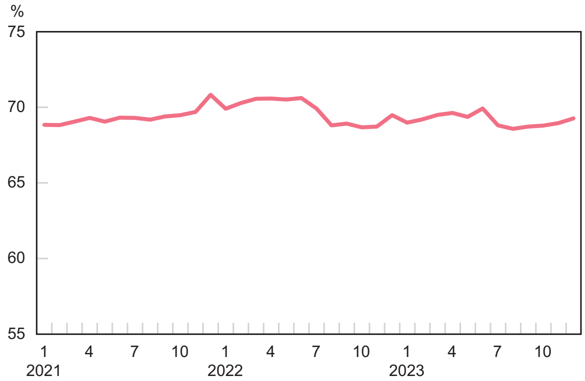
At the end of 2023, the outstanding loans extended to SMEs by domestic banks amounted to NT$9,766.4 billion, an increase of NT$483.1 billion from the end of the previous year to a level that exceeded the annual lending growth target of NT$380 billion set by the FSC for 2023 under the "Program to Encourage Lending by Domestic Banks to SMEs." At the end of 2023, the ratio of SME loans to loans extended to all private enterprises reached 69.26%, slightly lower than the 69.48% recorded at the previous year end.

Outstanding Loans Extended to SMEs



Source: FSC.

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



Source: FSC.

Raising the Remuneration Rates on Financial Institutions' B Reserve Accounts

The Bank raised policy rates in March 2023, and the remuneration rates on financial institutions' B reserve accounts held with the Bank increased accordingly. Effective March 31, 2023, reserves from demand deposits and time deposits would receive interest at 0.646% and 1.334% per annum, respectively.

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 2023, the outstanding redeposits of Chunghwa Post stayed broadly unchanged at NT$1,623.7 billion, while the outstanding redeposits of the Agricultural Bank of Taiwan and of commercial banks were NT$127 billion and NT$235.8 billion, respectively.

Box

Updated Review of the Bank's Selective Credit Control Measures

Beginning in December 2020, the Bank introduced a round of selective credit controls (see Appendix) through amendments to the relevant regulations five times – in December 2020, March, September, and December 2021, and then in June 2023. Judged to be in line with two of the Bank's operational objectives, namely promoting financial stability and sound banking operations, these actions were taken to help curb excessive credit allocation to the real estate market as per the directive of "efficient allocation and proper use of credit resources" under the government's Healthy Real Estate Market Plan. Moreover, the Bank implemented five policy rate hikes and two increases in the required reserve ratios between March 2022 and March 2023. These tightening moves could also strengthen the effectiveness of selective credit control measures.

1. Implementation of the selective credit control measures

The Bank made five adjustments to its selective credit control measures through relevant regulatory amendments since December 2020. The primary considerations and key changes are as follows.

(1) **December 2020:** Strengthening regulation on high-risk real estate borrowers

The Bank noticed several anomalies: Housing loans and construction loans in banks had recorded faster growth; there had been increasing cases of a single natural person taking out multiple housing loans and a rising number of housing loans taken out by corporate entities; bank credit had become a profiting-making tool as some borrowers took out land-collateralized loans to hoard idle land or non-owner occupied housing; banks had been applying overly loose lending standards to loans for unsold housing units of construction firms. In this view, the Bank decided to introduce new selective credit controls, imposing restrictions on housing loans taken out by corporate entities, the third (or more) outstanding housing loan by a natural person, land-collateralized loans and loans for unsold housing units, such as capping the loan-to-value (LTV) ratios and removing grace periods.

(2) **March 2021:** Enhancing regulation on housing loans of corporate entities, third (and more) outstanding housing loans by natural persons, and high-value housing loans; Stipulating new regulations on loans collateralized against idle land in industrial districts

Seeing that banks' real estate lending still posted strong growth and there arose sizable increases in property hoarding and flipping by corporate entities, while also aiming to encourage development of idle land in industrial districts, the Bank implemented the following measures: Lowering the LTV ratio caps on housing loans taken out by corporate entities, adjusting the LTV ratios on natural persons' housing loans according to the number of outstanding ones, lowering the LTV ratio caps on high-value housing loans, and imposing a new LTV ratio cap on loans collateralized against idle land in industrial districts.

(3) **September 2021:** Imposing new restrictions on the second outstanding housing loan(s) taken out by a natural person for homes in the designated "specific areas;"[1] reinforcing restrictions on land loans and loans collateralized against idle land in industrial districts

Against the backdrop of still strong growth in banks' real estate lending, the Bank sought to prevent excessive credit flow from moving into the real estate sector and to encourage borrowers to expedite land development. Therefore, the Bank imposed new restrictions by removing grace periods from the second outstanding housing loans taken out by a natural person for homes in the designated "specific areas," and lowering the LTV ratio caps on land loans and on loans collateralized against idle land in industrial districts.

(4) **December 2021:** Tightening regulation on high-value housing loans, the third (or more) outstanding housing loan(s) of a natural person, land loans, loans collateralized against idle land in industrial districts, and unsold housing units loans

In view of the still large share of real estate lending in banks' total lending, the Bank decided to lower the LTV ratio ceilings for all the abovementioned loan types and to introduce a new regulation that requires borrowers of land loans to commit in writing to commencing construction within a specific time frame (which would be 18 months in maximum according to a later rule stipulated in January 2022).

(5) **June 2023:** Enhancing regulation on the second outstanding housing loan of a natural person for homes in the "specific areas"

In addition to the persistently high concentration of real estate lending in banks' total lending, the number of newly-extended natural persons' second outstanding housing loans increased in the first quarter of 2023 from the previous quarter, while also taking up a larger share. Meanwhile, the average LTV ratio of natural persons' second outstanding housing loans for homes in the "specific areas" remained high and even continued rising. In response, the Bank imposed a new LTV cap on that loan bracket, stipulating that lenders could only grant loans worth no more than 70% of the value of "specific area" homes to natural persons taking out a second outstanding housing loan.

2. These credit controls are non-retrospective, do not affect loan applications by same-household members, and are equipped with separate support measures for homeowners in transition

(1) With no retroactivity, the selective credit controls do not have effect on loan applications

[1] The "specific areas" prescribed herein refer to Taipei City, New Taipei City, Taoyuan City, Taichung City, Tainan City, Kaohsiung City, Hsinchu County, and Hsinchu City.

submitted to and registered by financial institutions prior to the relevant statutory amendments, with their loan conditions still following the applicable rules at the time of loan case registration.

(2) The selective credit controls are applicable to the individual borrower, not the entire household, so they would not hinder the rights of other members in the same household to take out housing loans.

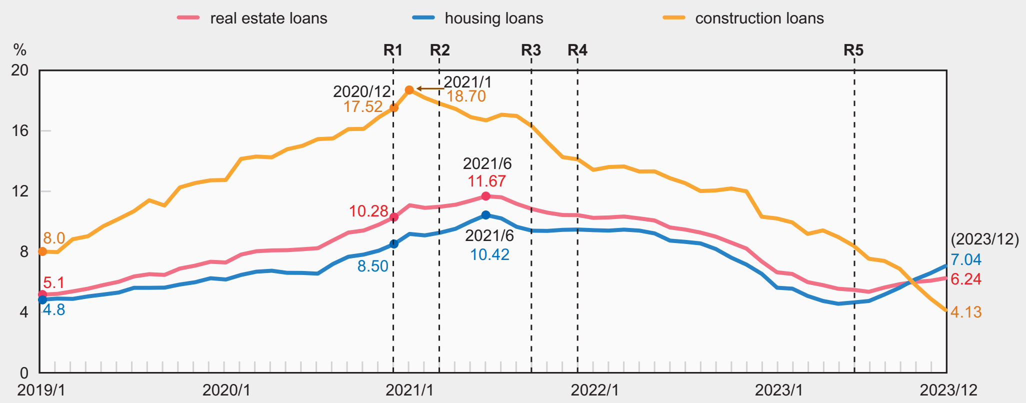
(3) For homeowners in transition between current and new housing, the Bank has provided relevant support measures[2] to help them take out housing loans as needed.

3. Results and effectiveness

(1) Remarkable decline in real estate lending growth rate, slowing the bank credit flow to the real estate market

As of December 2023, the annual growth rates of banks' real estate loans, housing loans, and construction loans were 6.24%, 7.04%, and 4.13%, all lower than the levels prior to December 2020 when the Bank began implementing selective credit controls, with these measures continuing to work and more results expected to show.

Annual Real Estate Loan Growth Rates of All Banks



Notes: 1. Real estate loans = housing loans (house-purchasing loans) + house-repairing loans + construction loans.
2. R1-R5 represent the five amendments to the selective credit controls with R1 referring to the Dec. 2020 amendment.

Source: Department of Economic Research, CBC.

(2) LTV ratios came down, related loans posted low non-performing loan (NPL) ratios, and banks exhibited good real estate credit risk management

A. The LTV ratios of the loans under restriction all came lower.

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[2] According to the Q&As compiled by the Bank in July 2023 on natural persons' second housing loans for "specific area" homes, if borrowers do have actual needs in the home-transition period to take out a new loan before full repayment of the outstanding one, they need to, through Affidavit of Undertaking, promise to sell and complete ownership transfer of the collateralized property of the existing loan (along with debt and lien cancellation) within one year, with the result that the borrowers may be exempt from the relevant 70% LTV ratio cap.

LTV Ratios of Real Estate Loans Before and After Rule Tightening (Domestic Banks)

(unit: %)

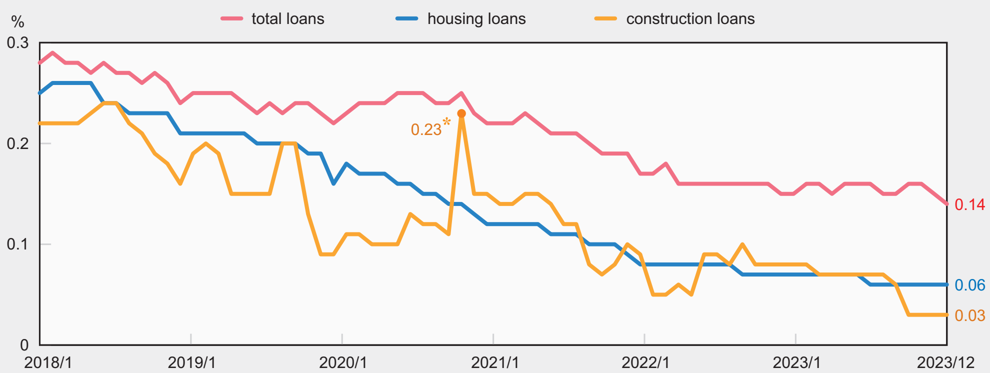
Type of loans			Before (average; mainly Jan.-Sept. 2020)	After (average; Dec. 2023)	Current cap (Jun. 16, 2023 onwards)
Housing loans	Corporate entity (regardless of the number of outstanding housing loans)		63.97	39.28	40
	Natural person	2nd outstanding housing loan, specific areas	77.16	68.05	70
		3rd (and more) outstanding housing loan	63.97	39.46	40
		High-value housing	71.00	39.09	40
Land loans			69.19	48.79	50
Loans for unsold housing units			51.03	38.67	40
Loans collateralized against idle industrial district land			n.a.	49.78 (Oct. 2021)	40

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; the "before" data on high-value housing loans taken out by natural persons are based on data reported by banks before the Bank first imposed credit controls on this type of loan in June 2012; the "before" data on the second housing loans of "specific area" homes of natural persons are based on data reported during Jan.-May 2023.
2. The "after" data are compiled by the Bank based on the reports submitted by 37 domestic banks. For data on loans collateralized against idle industrial district land, the latest available data was October 2021 (when the LTV ratio cap was still 50%).
3. "n.a." there was no statistical compilation.

Source: Department of Banking, CBC.

B. The NPL ratios of domestic banks' real estate-related loans all remained low, and below the NPL ratio of total loans, indicating good credit quality that is conducive to the management of banks' real estate credit risk.

Non-performing Loan Ratios of Domestic Banks



Note: The NPL ratio of construction loans reached 0.23% in October 2020; this was caused by a surge in one bank's single month non-performing construction loan ratio, attributable to one corporate borrower.

Source: Department of Financial Inspection, CBC.

4. Promoting awareness of the control measures and their effectiveness

The Bank has continued to enhance policy promotion and public communication through various channels, in order to encourage understanding of the execution and results of the abovementioned selective credit control measures.

(1) Whenever the selective credit control measures were adjusted, they were accompanied by a press release and presentation materials for the press conference post the Bank's quarterly Board Meeting, explaining the considerations behind the policy adjustment, changes made, and future outlook. Supplementary materials for the post-meeting press conference were also provided to give more details on the status and results of the previously-enforced credit controls.

(2) On several occasions the Bank issued press releases to urge banks to comply with the control measures and the principle of credit risk-based interest rate pricing, to formulate internal rules, to actively require borrowers to fulfill the promise on construction work commencement, to provide homeowners in the midst of home transition with the Bank's relevant support measures, etc.

(3) The Bank has since made several reports to the Parliament[3] on the implementation and related issues of the selective credit control measures.

(4) Governor Yang, at the invitation of a seminar, gave an account of the related issues of the housing market and the Bank's selective credit control measures undertaken in accordance with the government's Healthy Real Estate Market Plan.

(5) On multiple occasions the Bank responded to the suggestions of private sector groups (such as the real estate development associations of various municipalities) and released related information on social media platforms (such as the Bank's Facebook page) to strengthen policy communication.

(6) The Bank set up a dedicated page on its official website about the Bank's efforts under the government's Healthy Real Estate Market Plan, providing details on the regulations, frequently asked questions and answers, and related press releases, as well as a regular update on data regarding domestic banks underwriting the regulated types of real estate loans.

[3] Including the Apr. 19, 2021 report on the implementation status of the Bank's selective credit control measures; the Nov. 22, 2021 report on how to prevent bank and non-bank credit from being used to fuel property speculation; the May 12, 2022 report on a review of whether to tighten further amid major central banks' tightening moves and to adjust the selective credit control measures; the Mar. 30, 2023 report related to the government's social housing projects and relevant measures under the government's newly-amended tax measures to rein in high housing prices.

5. Conclusion

To foster financial stability and sound banking operations, and to attain the goal of "efficient allocation and proper use of credit resources" as per the government's Healthy Real Estate Market Plan, the Bank launched a series of efforts with five amendments to the selective credit controls beginning December 2020. With these measures, the real estate loan growth rates have declined and their NPL ratios have stayed low, pointing to good credit quality. The data have demonstrated how the Bank's housing credit policy measures have helped reinforce banks' credit risk management associated with the real estate sector and kept bank credit resources from flowing unreasonably to the real estate market.

In implementing the selective credit controls, the Bank paid attention not to affect existing loan applicants or other homebuying household members of the borrowers whose housing loans come under restriction. The Bank also made a point of ensuring the rights of housing loan borrowers in transition between current and future owner-occupied homes.

In the process, the Bank continued to strengthen communication through various channels to promote public understanding of how these measures were conducted and how much they had achieved. Going forward, the Bank will continue with a rolling review across financial institutions regarding the underwriting of real estate loans and the execution of the selective credit controls and will adjust the measures as needed to promote sound banking operations and foster financial stability.

Appendix: Key Points of the Adjustments to Selective Credit Control Measures

Type of loans		LTV ratio caps and others (date: mm/dd/yyyy)				
		12/08/2020 - 03/18/2021	03/19/2021 - 09/23/2021	09/24/2021 - 12/16/2021	12/17/2021 - 06/15/2023	06/16/2023 -
Corporate entity	First housing loan	LTV cap: 60%; No grace period	LTV cap: 40%; No grace period	(unchanged)	(unchanged)	(unchanged)
	Second (or more) housing loan(s)	LTV cap: 50%; No grace period				
Natural person	High-value housing loan in addition to two (or less) housing loans	LTV cap: 60%; No grace period	LTV cap: 55%; No grace period	(unchanged)	LTV cap: 40%; No grace period	(unchanged)
	High-value housing loan in addition to three (or more) housing loans		LTV cap: 40%; No grace period	(unchanged)	(unchanged)	(unchanged)
	Second housing loans for a home in one of the "specific areas"	(nil)	(nil)	No grace period	(unchanged)	LTV cap: 70%; No grace period
	Third housing loan	LTV cap: 60%; No grace period	LTV cap: 55%; No grace period	(unchanged)	LTV cap: 40%; No grace period	(unchanged)
	Fourth (or more) housing loans(s)		LTV cap: 50%; No grace period	(unchanged)		(unchanged)
Land loans		LTV cap: 65%, with 10% withheld for disbursement until construction commences; Borrower required to submit a substantive development plan for the land purchased	(unchanged)	LTV cap: 60%, with 10% withheld for disbursement until construction commences; Borrower required to submit a substantive development plan for the land purchased	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	(unchanged)
Loans for unsold housing units		LTV cap: 50%	(unchanged)	(unchanged)	LTV cap: 40%	(unchanged)
Idle industrial district land mortgage loans		Internal rules of banks	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	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	LTV cap: 40%; Exemption conditions unchanged	(unchanged)

Note: This is a translated, simplified table. In the event of any inconsistency or ambiguity, the official Chinese version of relevant regulations shall prevail.
Source: Department of Banking, CBC.