

III. Central Bank Operations

1. Overview

In order to contain domestic inflation expectations against a background where inflation has stayed relatively high since 2021 and an electricity tariff hike was scheduled to take effect in April 2024, the Bank decided to raise the discount rate, the rate on refinancing of secured loans, and the rate on temporary accommodations by 0.125 percentage points to 2%, 2.375%, and 4.25%, respectively, effective March 22, 2024.

Later in the year, domestic inflation broadly maintained a gradual downtrend and was expected to ease further to below 2% in 2025. In addition, although downside risks were looming for the global economy, Taiwan's economy was expected to experience mild growth momentum in 2025 on the back of domestic demand. Meanwhile, the output gap was estimated to be slightly negative for both 2024 and 2025. Against this background, the Bank maintained policy rates unchanged in the remaining three quarters of the year so as to help sustain sound economic and financial development on the whole.

To implement the directive of "efficient allocation and proper use of credit resources" under the government's Healthy Real Estate Market Plan and to prevent excessive bank credit resources from gushing into the real estate market, the Bank has made rolling adjustments to its selective credit control measures since December 2020, which have helped reinforce banks' risk management associated with real estate lending.

In June and September 2024, the Bank made the sixth and seventh amendments to the selective credit controls, with the aim of further strengthening management of banks' credit resources and containing housing market speculation and property hoarding, while prioritizing the channeling of credit resources towards non-homeowners seeking owner-occupied housing.

In addition, in August 2024, through moral suasion, the Bank requested banks to enhance internal control of the aggregate amount of real estate lending from the fourth quarter of 2024 to the fourth quarter of 2025. These actions helped rectify the over-concentration of credit resources on real estate lending and improve the effectiveness of the Bank's selective credit control measures.

Since these policies took effect, housing market transactions have been decreasing, public expectation for housing price rises has softened, and housing loans to non-homeowner borrowers as a share of total housing loans in domestic banks have risen. These developments indicate that the Bank's selective credit control measures have gradually shown results.

In response to economic and financial conditions, the Bank continued with open market operations by issuing CDs to manage market liquidity and reserve money so as to maintain liquidity in the banking system and keep market rates at appropriate levels. In 2024, reserve money registered an annual growth rate (on an adjusted basis) of 5.58%, while the monetary aggregate M2 rose by 5.83% year on year, remaining within the Bank's M2 growth reference range of 2.5% to 6.5%.

As for the foreign exchange (FX) market, during the first half of 2024, market expectations for the timing of Fed rate cuts were repeatedly deferred, which supported the strength of the US dollar. In tandem, Taiwan's equity markets rose alongside gains in US tech stocks. As Taiwan's stock markets hovered at elevated levels, foreign investors adjusted their holdings and repatriated the gains abroad, resulting in NT dollar depreciation against the US dollar.

In the second half of the year, signs of cooling in the US labor market strengthened market expectations for Fed rate cuts, leading to a weaker US dollar and a rebound of the NT dollar exchange rate against the US dollar. Thereafter, following Donald Trump's re-election as US President, market concerns over the uncertainties surrounding his trade and economic policies prompted foreign investors to net sell Taiwanese stocks and remit funds abroad, causing the NT dollar to reverse course and depreciate against the US dollar.

Throughout the year, the NT dollar exchange rate experienced significant fluctuations, reflecting substantial foreign investor net sales and purchases of Taiwanese stocks as well as international economic impacts. Consequently, the Bank, in line with its statutory mandates, continued to conduct two-way smoothing operations in the forex market as warranted to maintain dynamic stability of the NT dollar, with a net selling of US\$16.4 billion for the entire year. Compared with other major currencies such as the SGD, EUR, KRW, and JPY, the NT dollar experienced lower volatility in its exchange rate vis-à-vis the US dollar in 2024.

Meanwhile, 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 light of Taiwan's economic, trade, and financial conditions, and in support of the policy goal to develop Taiwan into an asset management hub in Asia, the Bank raised the annual aggregate FX settlement amount limits for institutions and individuals and for companies and business entities, respectively, starting in November 2024.

In order to ensure the security and efficiency of the functioning of Taiwan's payment and settlement systems, the Bank continued to supervise clearing institutions in enhancing measures for sustaining core business operations under disaster scenarios and carrying out drills for system backup and manual backup procedures under extreme conditions.

Moreover, the Bank continuously urged the Financial Information Service Co., Ltd. (FISC) to

reinforce the retail payment infrastructure and encouraged electronic payment institutions to participate in the "Common Platform for Electronic Payment Institutions" and to provide services including funds transfer, tax e-payment, bill e-payment, and shopping e-payment via this platform.

In the meantime, the Bank instructed the FISC, in collaboration with financial institutions and electronic payment institutions, to continue promoting the adoption of TWQR, a common QR code payment specification, with the aim of gradually mitigating the fragmentation of Taiwan's retail payment market. Furthermore, efforts have been made to broaden TWQR application scenarios, including the development of a TWQR-based transit QR code for use in the transportation sector and the launch of a TWQR-based cross-border shopping e-payment service in Japan and South Korea, thereby fostering a more robust domestic payment ecosystem.

In response to digital developments, the central bank digital currency (CBDC) has become a focus of international research in recent years. The Bank also conducted relevant studies and experiments such as completing the "wholesale CBDC technical feasibility study" in 2020 and the "retail CBDC technology experimentation" in 2022, and established the "CBDC prototype platform." On the other hand, the Bank is currently undertaking three key tasks to reinforce CBDC-related research and preparations: continuing extensive communication, strengthening platform technology, and deliberating on the legal framework. Only upon completion of these tasks will the Bank evaluate the feasibility of launching a pilot program.