2. Monetary Management

Tightening Monetary Policy to Contain Domestic Inflation Expectations

(1) Raising the Policy Rates Once to Foster Price Stability

In March 2024, considering that domestic inflation had remained at a relatively high level since 2021 and that the public expected an electricity rate hike in April, the Bank raised the policy interest 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 2%, 2.375%, and 4.25%, respectively.

Subsequently, the domestic inflation rate broadly maintained a gradual downtrend and was expected to come down to around 2% in 2025. Meanwhile, the domestic economy was projected to expand at a moderate pace for both 2024 and 2025, with a modestly negative output gap for both years. Against this background, the Bank kept the policy rates unchanged in June, September, and December 2024, to help foster sound economic and financial development on the whole.

(2) Increasing the Reserve Requirement Ratios on NT Dollar Deposits Twice to Reinforce the Effectiveness of the Selective Credit Controls

In order to strengthen the effectiveness of the selective credit controls and to further contain excessive credit flows into the real estate market, the Bank raised the reserve requirement ratios on NT dollar passbook and time (savings) deposits (excluding passbook deposits from nonresident investors) by 0.25 percentage points twice in a row, effective July 1 and October 1, 2024, equivalent to reducing market liquidity by approximately NT$250 billion.

Adjustments to the Reserve Requirement Ratios on NT Dollar Deposits

Unit: Percentage of deposits

Effective Date	Checking Accounts	Passbook Deposits	Savings Deposits		Time Deposits	Principal (in NT Dollars) Received by Banks from the Sale of Structured Products
			Passbook	Time		
2024/07/01	11.500	10.525	6.250	4.750	5.750	5.750
2024/10/01	11.750	10.775	6.500	5.000	6.000	6.000

Source: *Financial Statistics Monthly* (February 2025), CBC.

Continuing Open Market Operations to Adjust Market Liquidity

In 2024, 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 banking system 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 2024, the total outstanding amount of CDs issued by the Bank was NT$7,332 billion.

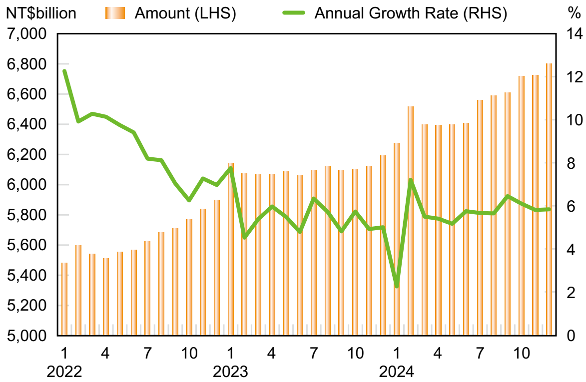
In 2024, reserve money grew by 5.58% year on year, 0.03 percentage points higher than the previous year's figure. The annual average excess reserves of financial institutions were NT$48.2 billion, lower than the previous year's NT$59.8 billion.

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 in late January in 2023, yet in the middle of February in 2024). For the first two months of 2024, reserve money posted an annual growth rate of 4.74%. From March onwards, the annual growth rates of reserve money were relatively stable.

On the demand side, reserve money, measured on a daily average basis, increased by NT$431.3 billion over the previous year. Of the components, net currency rose by NT$160.5 billion and the annual growth rate fell to 5.21% from 8.07% the previous year; reserves held by financial institutions expanded by NT$270.9 billion, with the annual growth rate rising to 8.97% from 8.08% the previous year.

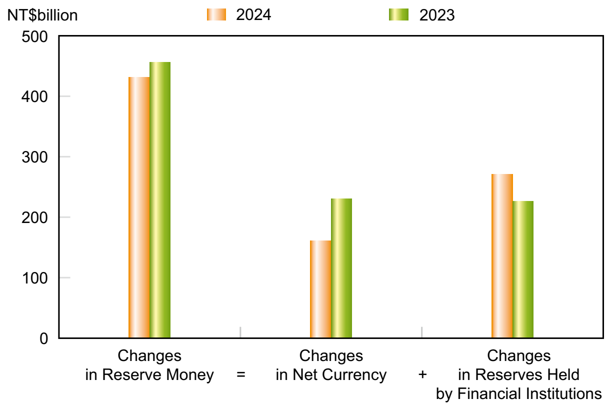
As higher interest rates paid on bank deposits raised the private sector's opportunity cost of holding currency, net currency

Reserve Money (Averages of Daily Figures)



Source: *Financial Statistics Monthly* (February 2025), CBC.

Changes in Reserve Money (Averages of Daily Figures)



Source: *Financial Statistics Monthly* (February 2025), CBC.

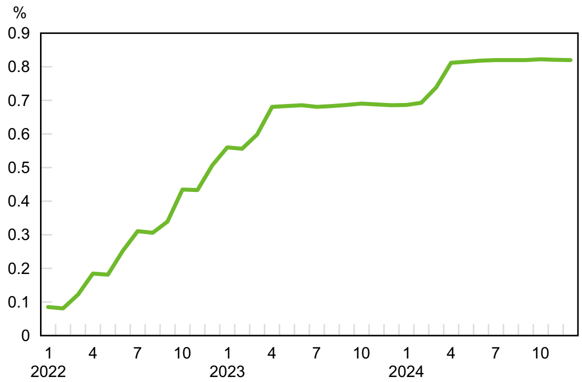
recorded slower growth than a year earlier. In respect of reserves held by financial institutions, with sustained growth in deposits, banks' required reserves rose accordingly, leading to a larger increase in reserves held by financial institutions compared to the previous year.

From the supply side perspective, reserve money rose by NT$628.7 billion at the end of 2024. According to the balance sheet of the Bank revealing the sources of changes in reserve money, increases were mostly attributable to the reduction in the outstanding balance of CDs issued by the Bank and the growth in foreign assets held by the Bank, whereas decreases were mainly due to increased government deposits.

(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 2024 drove up the overnight call loan rate by nearly 0.125 percentage points for the year. As of the end of December 2024, the annual average overnight call loan rate was at 0.821%.

Overnight Call Loan Rate



Source: *Financial Statistics Monthly* (February 2025), 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 2024 to improve operational readiness and ensure resilience of open market operations. In addition, in December 2024, the Bank conducted a small-scale test repo operation on sustainable bonds issued by banks to help promote the development of sustainable finance.

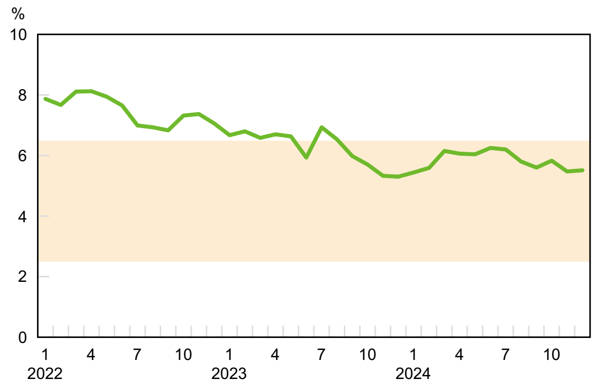
(4) M2 Rising Before Trending Down, All Within Reference Range

Measured on a daily basis, the annual growth rate of M2 fell by 0.42 percentage points from the previous year to 5.83% in 2024. The slowdown mainly reflected a higher base effect and net outflows of foreign capital.

With regard to the monthly movements in 2024, sustained annual growth in housing loans, together with a rebound in exports and a booming stock market, boosted funding demand of enterprises and individuals. As a result, the M2 annual growth rate rose from a yearly low of 5.44% in January to a yearly high of 6.25% in June.

Afterwards, owing to net capital outflows, the M2 annual growth rate continued to decline and registered 5.60% in September. In October, with a continuous rise in bank loans and investments, the M2 annual growth rate rebounded to 5.83%. In November, net capital outflows and decelerated growth in bank loans and investments brought the M2 annual growth rate down to 5.47%. Later, faster growth in both time deposits and foreign currency deposits led the M2 annual growth rate to edge up to 5.51% in December.

Annual Growth Rate of M2



Note: Shaded area is the reference range (2.5% to 6.5%) for M2 growth.
Source: *Financial Statistics Monthly* (February 2025), CBC.

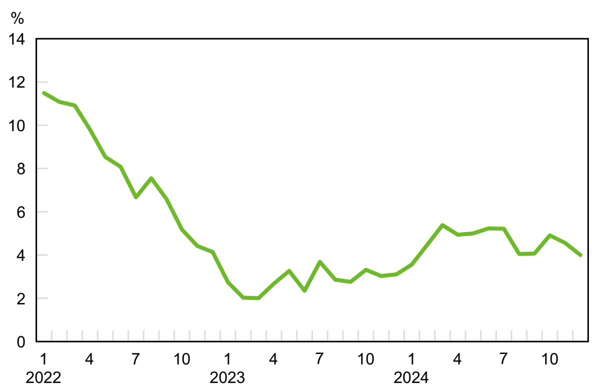
The annual growth rate of the monetary aggregate M1B, measured on a daily average basis, went up by 1.79 percentage points to 4.61% in 2024, mainly owing to a larger increase in demand deposits resulting from a lower base effect and stronger growth in bank loans and investments.

As for the monthly movements in 2024, with a higher annual growth rate of bank loans and investments, along with a lower base effect, both contributing to faster growth in demand deposits, the M1B annual growth rate exhibited an uptrend at the start of the year, rising from an all-year low of 3.56% in January to an all-year high of 5.38% in March.

In April, the M1B annual growth rate declined to 4.94% owing to net capital outflows. In subsequent months, a smaller scale of net resident capital outflows in May, coupled with a pickup in the annual growth rates of bank loans and investments in June and July, led the M1B annual growth rate to rebound to 5.22% in July. Nevertheless, the rate dropped to 4.05% in August as net capital outflows recorded stronger expansion.

In September, the M1B annual growth rate edged up to 4.07% on the back of faster growth in demand deposits. In October, it continued to rise to 4.91%, driven by a sustained increase in bank loans and investments. Thereafter, as both bank loans and investments and demand savings deposits posted slower growth, the M1B annual growth rate fell again to 4.00% in December.

Annual Growth Rate of M1B



Source: *Financial Statistics Monthly* (February 2025), CBC.

Continuing with 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 in 2024, as follows.

(1) Adjusting the credit control measures twice in June and September 2024

A. June 2024: The Bank lowered the loan-to-value (LTV) ratio cap on natural persons' second outstanding home loans for housing in the designated "specific areas" to 60%.

B. September 2024: The Bank made the following amendments:

(a) Granting no grace period to a natural person's first outstanding home loan when the borrower already owns building(s) to his/her name.

(b) Lowering the cap on the LTV ratio, from 60% to 50%, of natural persons' second outstanding home loans and widening the applicable scope (from housing in the "specific areas") to housing nationwide.

(c) Lowering the LTV ratio caps on corporate entities' housing loans, natural persons' high-value housing loans, natural persons' third (or more) outstanding home loans, and unsold housing unit loans from 40% to 30%.

(2) Adopting moral suasion in August 2024, requesting banks to self-regulate management of outstanding real estate loan balances

To encourage banks to allocate credit resources appropriately and avoid excessive credit flows into the real estate market, 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, and to submit quarterly reports on the implementation progress of these controls.

(3) Introducing supporting measures in October 2024 for natural persons who have acquired housing properties with outstanding home loans through inheritance or who have demonstrated a genuine need for home replacement

A. For a natural person who has acquired houses with outstanding home loans through inheritance, such inherited properties and home loans are not counted toward the number of houses or home loans under the borrower's name. In other words, if a natural person owns only inherited properties, a newly applied home loan (for purchasing a non-high-value house) may be exempted from the restrictions under the Bank's selective credit controls.

B. For a natural person with a genuine need for home replacement, who commits to selling the original property within one year after the disbursement of a newly approved home loan, the application for a first or second home loan (for purchasing a non-high-value house) may be exempted from the restrictions under the Bank's selective credit controls.

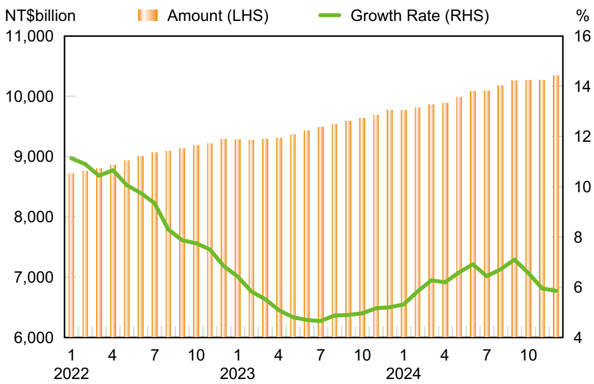
Since the Bank's selective credit controls took effect, real estate lending growth has seen a downtrend, which has helped enhance banks' risk management associated with real estate lending, and banks' real estate loans have maintained good credit quality as indicated by the continuously low non-performing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

Facilitating SME Funding

To assist small and medium enterprises (SMEs) in obtaining necessary funds for their operations, the Bank has regularly tracked banks' lending to SMEs and participated in the "Forward-Looking SME Financial Services Coordination Platform Meeting," jointly hosted by the Financial Supervisory Commission (FSC) and the Ministry of Economic Affairs to urge banks to enhance their lending to SMEs.

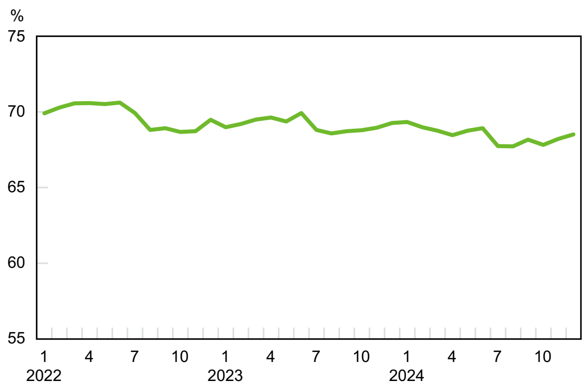
At the end of 2024, the outstanding loans extended to SMEs by domestic banks amounted to NT$10,338 billion, an increase of NT$571.6 billion from the end of the previous year to a level that exceeded the annual lending growth target of NT$420 billion set by the FSC for 2024 under the "Program to Encourage Lending by Domestic Banks to SMEs." At the end of 2024, the ratio of SME loans to loans extended to all private enterprises reached 68.52%, slightly lower than the 69.26% 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 the policy rates in March 2024, and the remuneration rates on financial institutions' B reserve accounts held with the Bank increased accordingly. Effective March 29, 2024, reserves from demand deposits and time deposits would receive interest at 0.771% and 1.459% 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 2024, 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$88 billion and NT$235.8 billion, respectively.

Box The Bank's Adjustments to Selective Credit Control Measures and Its Request for Internal Management by Domestic Banks over Real Estate Loans

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 continued to carry out selective credit control measures. In June and September 2024, the Bank made the sixth and seventh amendments to the relevant regulations. 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 enhance the effectiveness of the Bank's selective credit control measures.

I. The Bank made the sixth and seventh adjustments to selective credit control measures in 2024

1. In June and September 2024, the Bank made the sixth and seventh adjustments to the selective credit control measures through relevant regulatory amendments. Moreover, in August 2024, the Bank, through moral suasion, asked 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 measures include three primary aims: (1) cooling public expectations of a housing price uptrend; (2) freeing up loanable funds otherwise tapped by speculators and channeling such funds towards priority use for home loans to non-homeowners; and (3) rectifying the over-concentration of credit resources on real estate lending.

2. Key changes for the aforesaid adjustments to selective credit control measures are as follows.

(1) **June 2024:**

Lowering the cap on the LTV ratio to 60% for a natural person's second home loan for housing in specific areas.

(2) **September 2024:**

A. Granting no grace period to a natural person's first outstanding home loan when the borrower already owns building(s) to his/her name.
B. Lowering the cap on the LTV ratio, from 60% to 50%, for natural persons' second outstanding home loans and widening the applicable scope to housing nationwide.
C. Lowering the LTV ratio caps on corporate entities' housing loans, natural persons' high-value housing loans, natural persons' third (or more) outstanding home loans, and unsold housing unit loans from 40% to 30%.

3. To fulfill the objectives of the Bank's selective credit controls while also accommodating the public's need for financial planning related to owner-occupied housing, the Bank announced relevant support measures on October 9, 2024. Under these measures, housing loans (excluding high-value housing loans) applied for by natural persons may be exempted from the Bank's selective credit controls if the applicant falls into any of the following categories:

   (1) those who have acquired the property through inheritance; (2) those with a genuine need for home replacement; or (3) those who, at the time of applying for a home loan, have already signed a home purchase agreement (including for completed or pre-sale homes) with the case qualifying as inheritance or genuine home replacement.

II. The Bank requested domestic banks to implement internal management of the outstanding balance of real estate loans

1. From the second half of 2023 onwards, housing market transactions increased and housing prices surged, driving up the annual growth rate of banks' housing loans. As of the end of June 2024, the ratio of real estate lending to total lending of all banks (a measure of concentration of real estate lending) rose to 37.61%, indicating that the concentration of bank credit resources in real estate loans remained in need of further improvement.

2. In August 2024, the Bank successively met with the general managers of 34 domestic banks and the National Federation of Credit Co-operatives, urging these institutions to fulfill their social responsibilities and to avoid excessive credit flows into real estate lending. The Bank requested that, without adversely affecting the funding needs of non-homeowners applying for owner-occupied housing loans or of real estate sector entities looking to finance their projects of urban renewal and reconstruction of old and unsafe buildings, banks should, in light of their respective business conditions, gradually adjust the aggregate amount of real estate lending from the fourth quarter of 2024 to the fourth quarter of 2025 so as to improve the over-concentration of credit resources in real estate lending.

III. Results and effectiveness of the Bank's selective credit control measures

Following the above-mentioned efforts, housing market transactions declined and public expectations of housing price rises eased in the second half of 2024. Meanwhile, domestic banks recorded a rising share of housing loans taken out by non-homeowners as a percentage of total home loans, and the concentration of real estate lending decreased. These developments indicated that the Bank's selective credit control measures in 2024 had gradually shown results.

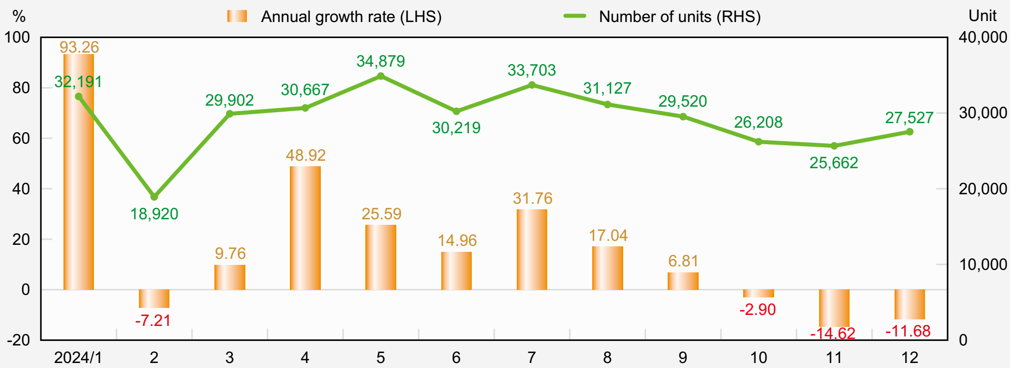
1. Reduction in housing market transactions

   In October 2024, the annual growth rate of the total number of building ownership transfers nationwide turned negative, registering -2.90%, followed by -14.62% in November and -11.68% in December.

2. Easing of public expectations of housing price increases

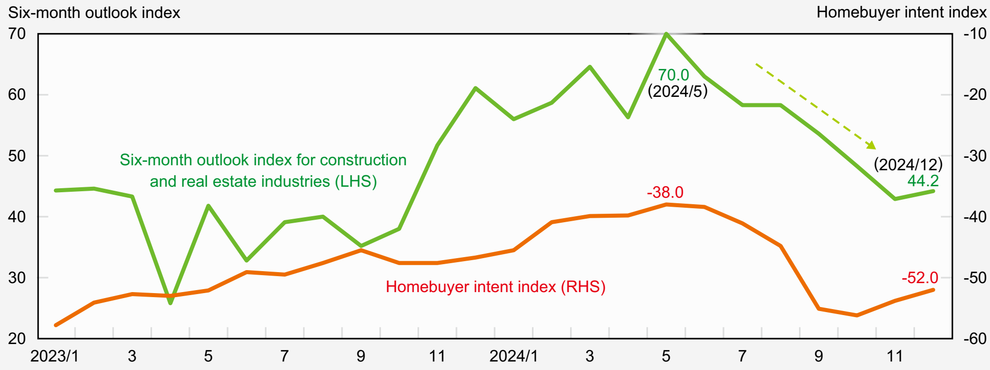
   As public expectations of housing price rises eased, the homebuyer intent index, compiled by the Cathay Financial Holdings based on its "national economic confidence survey," declined from -38 in May 2024 to -52 in December 2024. Meanwhile, the six-month outlook index for the construction and real estate industries, published by the Chung-Hua Institution for Economic Research (CIER), also fell from 70% in May 2024 to 44.2% in December 2024.

Number and Annual Growth Rate of Building Ownership Transfers



Source: Ministry of the Interior, R.O.C. (Taiwan).

Homebuyer Intent Index & Six-Month Outlook Index for Construction and Real Estate Industries



Notes: 1. The homebuyer intent index by the Cathay Financial Holdings is calculated based on survey respondents' views regarding the timing of buying or selling a house (= Yes - No).
2. The six-month outlook index for the construction and real estate industries by the CIER: A reading below 50 indicates contraction.

Sources: 1. Cathay Financial Holdings.
2. Press releases on Purchasing Managers' Index, National Development Council.

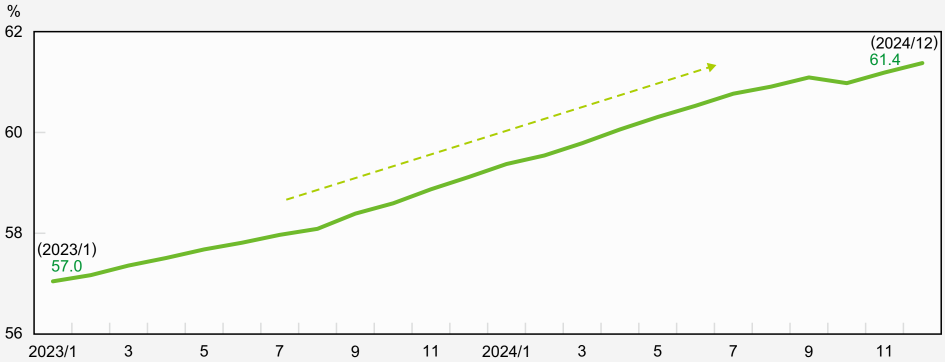
3. Rise in the share of housing loans extended to non-homeowners by domestic banks as a percentage of total home loans

The share of housing loans extended to non-homeowners as a percentage of total home loans rose from 57.0% at the end of January 2023 to 61.4% at the end of December 2024, indicating that non-homeowners were prioritized to receive bank credit.

4. Decrease in the concentration of real estate lending

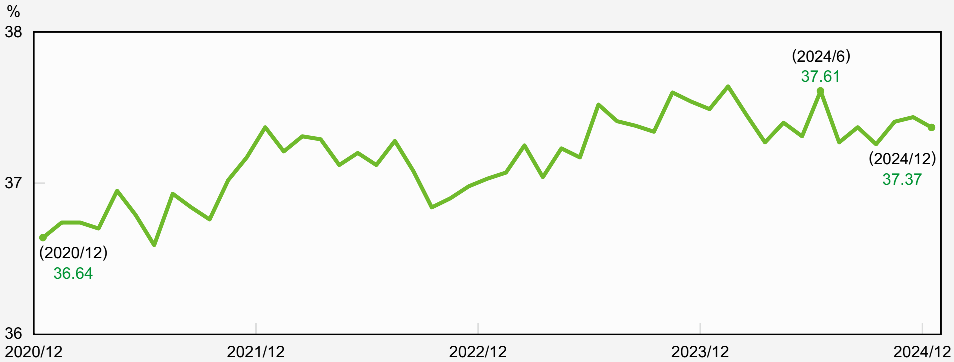
The concentration of real estate lending in total bank lending declined from 37.61% at the end of June 2024 to 37.37% at the end of December 2024, indicating a gradual improvement in the over-concentration of credit resources in real estate lending.

Housing Loans to Non-Homeowner Borrowers as A Share of Total Home Loans in Domestic Banks



Source: FSC.

Concentration of Real Estate Lending by All Banks



Note: The concentration of real estate lending refers to the ratio of real estate lending (= house-purchasing loans + house-repairing loans + construction loans) to total lending of all banks.

Source: Department of Economic Research, CBC.

IV. Conclusion

To reduce the over-concentration of credit resources in loans to the real estate sector, the Bank continued to implement selective credit control measures and requested domestic banks to enhance internal control of the aggregate amount of real estate lending. Regarding moral suasion, the Bank will keep track, on a quarterly basis, of the progress of banks' internal improvement plans on real estate lending management and urge them to ensure robust implementation.

In the future, the Bank will continue reviewing the status of banks' real estate lending and the effectiveness of the Bank's credit control measures, closely monitor potential impacts of real estate sector-related policies on the housing market, and adjust the measures as needed in order to promote financial stability and sound banking operations.