

2. Monetary Management

As the US subprime mortgage crisis evolved into a global financial crisis that resulted in a worldwide economic recession, the Bank adopted an easy monetary policy stance in 2009. The Bank lowered the policy rates twice and continuously conducted open market operations to maintain market interest rates at a level conducive to supporting economic activity. The Bank also promoted various preferential loan programs and enhanced the financing mechanism for small and medium-sized enterprises (SMEs).

Monetary Easing to Boost the Economy

Against the backdrop of the economic slowdown and subdued prices, the Bank cut policy rates on January 8 and February 19 with the aim of reducing business' funding costs and boosting consumption and investment. The discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral were all decreased by a total of 0.75 of a percentage point. However, as the expansionary fiscal and monetary policy measures facilitated a gradual economic recovery from March, the Bank kept policy rates at the levels set on February 19. At the end of 2009, the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral were 1.25 percent, 1.625 percent, and 3.5 percent, respectively.

In line with the movements in banks' deposit interest rates, during 2009, the Bank adjusted

CBC Policy Rates

Unit: % (percent per annum)

Effective Date	Discount Rate	Accommodation Rate with Collateral	Accommodation Rate without Collateral
2007 / Mar. 30	2.875	3.250	5.125
June 22	3.125	3.500	5.375
Sept. 21	3.250	3.625	5.500
Dec. 21	3.375	3.750	5.625
2008 / Mar. 28	3.500	3.875	5.750
June 27	3.625	4.000	5.875
Sept. 26	3.500	3.875	5.750
Oct. 9	3.250	3.625	5.500
Oct. 30	3.000	3.375	5.250
Nov. 10	2.750	3.125	5.000
Dec. 12	2.000	2.375	4.250
2009 / Jan. 8	1.500	1.875	3.750
Feb. 19	1.250	1.625	3.500

Source: Financial Statistics Monthly, CBC.

Remuneration Rates on Required Reserves in B Accounts

Unit: %		
Date	Demand Deposits	Time Deposits
2008/12/15	0.275	1.421
2009/01/09	0.200	0.921
2009/02/20	0.173	0.771
2009/10/12	0.165	0.767

Source: The CBC website.

the remuneration rate on required reserves in banks' B accounts three times. The remuneration rate on required reserves for demand deposits was cut from 0.275 percent to 0.165 percent, while the remuneration rate on time deposits was lowered from 1.421 percent to 0.767 percent.

Providing Liquidity through Open Market Operations

The Bank issued Certificates of Deposit (CDs) and conducted open market operations to provide liquidity to the banking sector in an effort to boost the sluggish economy in the first two months of 2009. However, the gradual recovery of the economy and an inflow of short-term capital led to the buildup of excess liquidity in the banking sector from March. With this view, the Bank conducted open market operations to maintain reserve money and overnight interest rates at appropriate levels. As a result of the Bank's operations, net excess reserves of the banking sector dropped significantly from NT\$154 billion in April to NT\$40 billion in December.

Open Market Operations

Unit: NT\$ Billion; %							
Year/ Month	Amount Absorbed*	Amount Offered*	Weighted Average Rate on CDs Issued				
	Issues of CDs	Redemptions of CDs	1-30 days	31-91 days	92-182 days	274-364 days	2 years
2007	13,672	13,968	1.91	1.95	1.94	2.29	--
2008	19,370	18,495	1.89	2.05	2.17	2.27	--
2009	40,416	38,823	0.58	0.62	0.72	--	--
2009 / 1	1,620	1,730	0.69	0.76	0.87	--	--
2	2,780	2,402	0.61	0.65	0.75	--	--
3	3,050	3,075	0.57	0.61	0.71	--	--
4	3,490	3,296	0.57	0.61	0.71	--	--
5	3,350	3,155	0.57	0.61	0.71	--	--
6	3,690	3,547	0.57	0.61	0.71	--	--
7	4,070	3,855	0.57	0.61	0.71	--	--
8	3,970	3,931	0.57	0.61	0.71	--	--
9	3,480	3,424	0.57	0.61	0.71	--	--
10	3,540	3,303	0.57	0.61	0.71	--	--
11	3,500	3,455	0.57	0.61	0.71	--	--
12	3,876	3,651	0.54	0.61	0.71	--	--

Note: * End-of-period data.

Source: Financial Statistics Monthly, CBC.

Non-Competitive Bidding Rates on CDs Issued by the Central Bank

Unit: %

Effective Date	30 days	91 days	182 days
2007 / Mar. 30	1.720	1.790	1.870
June 22	1.920	1.990	2.070
Sept. 21	1.980	2.060	2.150
Dec. 21	2.040	2.130	2.230
2008 / April. 1	2.060	2.150	2.250
June 27	2.120	2.210	2.310
Sept. 26	2.070	2.160	2.260
Oct. 9	1.970	2.060	2.160
Oct. 30	1.870	1.960	2.060
Nov. 10	1.620	1.710	1.810
Dec. 12	1.020	1.060	1.160
2009 / Jan. 8	0.620	0.660	0.760
Feb. 19	0.570	0.610	0.710

Note: The auction rates on 364-day or above CDs are not shown on this table.
Source: Press Releases on Open Market Operations, CBC.

In 2009, the total value of CDs issued amounted to NT\$40,416 billion, while at the end of the year the total outstanding amount was NT\$5,929 billion. In the first two months of 2009, non-competitive bidding rates on new CD issuance were also adjusted to guide market interest rates to be in sync with policy rate changes. The 30-, 91-, and 182-day CD interest rates were lowered to 0.57 percent, 0.61 percent, and 0.71 percent, respectively, following subsequent changes reflecting monetary conditions in the banking sector. As a consequence, overnight interest rates changed accordingly. The Interbank overnight interest rate was 0.233 percent in January, fell to 0.097 percent in June, and edged up to reach 0.106 percent in December.

Redeposits of Financial Institutions

Accepting redeposits from Chunghwa Post Co. and commercial banks is another instrument for the Bank to influence banks' reserve positions to promote financial stability. At the end of 2009, outstanding postal savings redeposits amounted to NT\$1,582 billion. Also, commercial banks' redeposits with the Bank were NT\$443 billion.

In addition, the Taiwan Cooperative Bank, the Land Bank of Taiwan and the Agricultural Bank of Taiwan may accept deposits from community financial institutions and make redeposits with the Bank. At the end of 2009, their outstanding redeposits were NT\$130 billion.

Promoting Preferential Loans

The Ministry of the Interior launched an NT\$200 billion preferential housing loan program in 2008 to help relieve the mortgage burdens of homebuyers. Another NT\$200 billion was added to the expanded program in April 2009. The Bank continued to assist in this effort. By the end of 2009, a total of 147,775 households were granted NT\$399.5 billion under the program.

The Bank also continued to provide subsidies for victims of the 1999 earthquake regarding interest payments on their mortgage loans. On January 23, 2009, to further relieve interest burdens on those victims, the Bank changed the interest payment plan to allow the option to choose between a floating rate or a 2% fixed-rate preferential loan.

Moreover, Typhoon Morakot slammed into southern Taiwan on August 8, 2009, resulting in heavy losses. On August 10, the Bank asked 8 public banks to provide a preferential loan program to aid the typhoon victims. The Bank not only shared its own experience in disaster relief, but also helped implement relevant relief measures. The pamphlet Q&A for Victims of Typhoon Morakot prepared by the Bank, was also distributed for reference.

Enhancing the SME Financing Mechanism

To provide easier access to financing for SMEs, the Bank continued to assist them by encouraging bank lending and by urging the Small and Medium Enterprise Credit Guarantee Fund (SMEG) to raise the guarantee coverage ratio, increase the maximum guarantee amount, and lower guarantee fees. At the end of 2009, the outstanding amount of guarantees and loans extended to the SMEs by domestic banks were NT\$372.8 billion and NT\$3,207.3 billion, respectively.