III. Central Bank Operations

1. Overview

In the year 2010, the domestic economic recovery accelerated and real GDP posted a remarkable growth rate of 10.82 percent, the highest figure recorded since 1987. The labor market also showed significant improvement. Domestic prices went up mildly as a consequence of the rise in international commodity and energy prices.

The Bank continued to utilize various policy tools to achieve its operational goals of maintaining price and financial stability in 2010. As market interest rates moved up and imported inflationary pressures hightened, the Bank raised its policy rate three times, from 1.25 percent to 1.625 percent, to contain inflation expectations. Besides the regular auction of short-term NCDs, the Bank started to issue NCDs with a maturity of 364 days to drain mid-to long-term liquidity from the market. In 2010, the issuance of 364-day NCDs totaled NT$900 billion, equivalent to raising the reserve requirement ratio by 3.49 percentage points. The Bank also managed the prudent growth of money supply, with M2 posting a growth rate of 4.59 percent in 2010.

To curb speculative investment in the property market, the Bank urged financial institutions from October 2009 to enhance their credit risk control over real estate-related lending via moral suasion, enhanced collection of relevant data and statistics, and conducted target examinations. Further steps were taken in 2010, including the promulgation of regulations to govern the extension of land collateralized loans and housing loans in specific areas in metropolitan Taipei by financial institutions, with the aim of preserving financial stability.

The Bank and the Financial Supervisory Commission (FSC) jointly took several measures to prevent large short-term capital movements from threatening economic and financial stability. These major measures were as follows: (i) margins for securities borrowed by foreign investors should be denominated in US dollars; (ii) foreigners' investment in government bonds should be within the ceiling of 30 percent of total inward remittances; (iii) the combined limit of non-deliverable forwards (NDF) and NTD foreign exchange options managed by an authorized foreign exchange bank was lowered to 1/5 from 1/3 of its total position.

In terms of foreign exchange management, in continual cooperation with the FSC, the Bank adopted a series of measures, including the approval of the onshore USD short-term bills and settlement business to facilitate the short-term foreign currency funding needs of domestic enterprises.

Moreover, along with the expansion of the RMB cash business, demand for RMB cash notes rose accordingly. To secure a stable supply of RMB cash notes and to lower the conversion cost for domestic banks, the Bank approved domestic financial institutions to sign RMB notes coverage agreements with Bank of China (Hong Kong) .

To assure the smooth operation of the payment system, the Bank closely monitored domestic payment systems and urged each settlement institution to set up backup facilities and adequate contingency plans to provide business continuity in the advent of an emergency. To strengthen the management of central government bond issuance, the Bank also launched a withdrawal mechanism for market dealers to encourage them to fulfill their functions and obligations in the market.