

2. Monetary Management

Due to continued economic recovery, an improvement in the unemployment situation, and a run-up in domestic prices, the Bank tightened its monetary policy standing by raising policy rates three times in 2010. The Bank also maintained an appropriate level of liquidity in the banking system, while promoting preferential loans, and enhancing the financing mechanism for small and medium-sized enterprises (SMEs).

Policy Rate Adjustments to Maintain Price Stability

Due to the fast pace of the economic recovery, improvement in employment conditions, and rising domestic prices, the Bank raised policy rates on June 25, October 1, and December 31, respectively, by a total of 0.375 percentage points to guide market interest rates higher and promote price and financial stability.

At the end of 2010, the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral were 1.625 percent, 2 percent, and 3.875 percent, respectively.

Enhance Financial Institutions' Risk Management on Real Estate Loans

As economic recovery gained speed, housing prices continued to rise. To curb funds flowing from financial institutions into the housing market and to urge financial institutions to manage their credit risks, the Bank announced the following macro-prudential policies:

CBC Policy Rates

Effective Date	Discount Rate	Accommodation Rate with Collateral	Unit: % (percent per annum)
			Accommodation Rate without Collateral
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
2010 / June 25	1.375	1.750	3.625
Oct. 1	1.500	1.875	3.750
Dec. 31	1.625	2.000	3.875

Source: Financial Statistics Monthly, CBC.

- (1) Since October 2009, the Bank has adopted several measures to enhance commercial banks' risk management, including urging commercial banks to modify their home mortgage policies, gathering more information to analyze housing market conditions, conducting target examinations on mortgage loans undertaken by commercial banks, and requiring financial institutions to set up guidelines to control their mortgage loan risks.
- (2) On June 24, 2010, the Bank announced the *Regulations Governing the Extension of Housing Loans in Specific Areas by Financial Institutions* (hereafter the *Regulations*) to contain risk-taking activities related to real estate lending. Under the *Regulations*, housing loans extended to borrowers who have taken out other outstanding housing loans cannot exceed 70 percent of the collateral value and have no grace period. The Regulations apply to the area of Taipei city and 10 other districts in New Taipei City.
- (3) On December 30, 2010, the Bank amended the Regulations to make them more effective. Major amendments included the following: three districts in New Taipei City were added to the scope of *Specific Areas in the Regulations*; lowering the maximum LTV (loan-to-value) ratio on second housing loans for home purchases in Specific Areas from 70 percent to 60 percent; land collateralized loans became subject to a maximum LTV ratio of 65 percent of the acquisition cost or the evaluation value, whichever is lower, where 10 percent of the approved loan amount cannot be disbursed until construction commences.

Conduct Open Market Operations to Absorb Excess Liquidity

The Bank issues certificates of deposit (CDs) and conducts open market operations to maintain reserve money and overnight interest rates at appropriate levels.

In 2010, the total value of CDs issued amounted to NT\$45,105 billion, among which were NT\$900 billion worth of 364-day CDs. At the end of the year, the total outstanding amount of CDs issued by the Bank was NT\$6,713 billion.

Keeping in line with changes in policy rates, the Bank also adjusted its non-competitive bidding rates for new CDs in June, October, and December, to guide market interest rates. Consequently, the rates on 30-day, 91-day, and 182-day CDs were increased to 0.74 percent, 0.78 percent, and 0.88 percent, respectively, which was a 0.17 of a percentage point increase to each type of CD.

As a result of CD bidding rate adjustments, the average overnight interest rate gradually increased to 0.239 percent in December, a 0.129 of a percentage point increase compared to the level of December 2009.

Redeposits of Financial Institutions

Accepting redeposits from Chunghwa Post Co. and commercial banks is another instrument

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
2008	19,370	18,495	1.89	2.05	2.17	2.27
2009	40,416	38,823	0.58	0.62	0.72	--
2010	40,416	44,401	0.62	0.66	0.73	0.70
2010 / 1	3,514	3,645	0.57	0.61	0.71	--
2	3,490	3,402	0.57	0.61	0.71	--
3	4,766	4,561	0.57	0.61	0.71	--
4	3,717	3,605	0.57	0.61	0.71	0.75
5	3,150	3,106	0.57	0.61	0.71	0.70
6	3,196	3,174	0.59	0.63	0.73	0.67
7	3,341	3,296	0.63	0.67	0.77	0.73
8	3,391	3,267	0.63	0.67	0.77	0.69
9	3,799	3,798	0.63	0.67	0.77	0.62
10	4,070	3,939	0.69	0.73	0.83	0.72
11	4,222	4,186	0.69	0.73	0.83	0.69
12	4,450	4,422	0.69	0.73	0.83	0.72

Note: * End-of-period data.
Source: Financial Statistics Monthly, CBC.

for the Bank to influence banks' reserve positions to promote financial stability. At the end of 2010, outstanding postal savings redeposits amounted to NT\$1,624 billion. At the same time, banks' redeposits totaled NT\$412 billion.

In addition, the three domestic agricultural banks, namely the Taiwan Cooperative Bank, the Land Bank of Taiwan and the Agricultural Bank of Taiwan, were allowed to accept deposits from community financial institutions and make redeposits with the Bank. At the end of 2010, their outstanding redeposits were NT\$135 billion.

Non-Competitive Bidding Rates on CDs Issued by the CBC

Unit: %

Effective Date	30 days	91 days	182 days
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
2010 / June 25	0.630	0.670	0.770
Oct. 1	0.690	0.730	0.830
Dec. 31	0.740	0.780	0.880

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

Enhancing the SME Financing Mechanism

To provide easier access to financing for SMEs, the Bank continued to urge commercial banks to expand lending to SMEs. In May, the Bank suggested the Financial Supervisory Commission increase the target value of SME loans by domestic banks from NT\$100 billion to NT\$150 billion. As a consequence, at the end of 2010, the outstanding loans extended to SMEs by domestic banks increased to NT\$3,677 billion, which was a 14 percent gain from 2009.

