III. Central Bank Operations

1. Overview

In the first half of 2011, the Bank raised its policy rates twice by a total of 25 basis points to curb inflation expectations as international commodity prices rose. During the second half of the year, the ongoing eurozone debt crisis threatened to slow down the global economy. The Bank decided to keep the policy rates unchanged to support the steady growth of the domestic economy.

Furthermore, the Bank continued to issue CD/NCDs and conducted open market operations to absorb excess liquidity and maintain market rates at appropriate levels. During the course of the year, the interbank overnight rate edged up to 0.4 percent at the end of 2011.

To discourage speculative property investments, the Bank continued to implement targeted prudential measures and urge banks to closely monitor mortgage lending risks. To provide assistance for SMEs, the Bank proposed an increase in the SME credit guarantee fund to help them smoothly secure financing from financial institutions.

In terms of foreign exchange management, the Bank steadily promoted the internationalization of capital markets and revised relevant foreign regulations in continual cooperation with the Financial Supervisory Commission (FSC). In view of the lessons learned about credit derivatives from the recent financial crisis, the Bank reviewed and stipulated relevant regulations to control potential risks. Furthermore, to meet the rising needs for renminbi remittances as cross-strait relations grew closer, the FSC and the Bank promulgated jointly the *Directions for Banks in Taiwan Area Conducting Renminbi (RMB) Business* on July 21, 2011. Pursuant to the said *Directions*, offshore banking units (OBUs) and overseas branches of domestic banks may apply for approval to conduct RMB business.

To ensure smooth operation of the payment systems, the Bank closely monitored domestic payment systems and urged settlement institutions to set up backup facilities and adequate contingency plans to provide business continuity. In addition, the Bank further opened the market of treasury bills to more participating institutions by including securities firms as eligible bidders. The Bank also raised the minimum purchasing amount from NT$300 million per year to NT$800 million for each eligible bond dealer to encourage active trading.