2. Monetary Management

In 2011, due to continued high international raw material prices and a run-up in global inflation risks, the Bank tightened its monetary policy stance by raising policy rates twice in the first half of the year before holding rates unchanged for the rest of the year. The Bank still continued to enhance the financing mechanism for small and medium-sized enterprises (SMEs) in order to expand banks' lending to SMEs while absorbing excess funds from the financial market to an appropriate liquidity level.

Policy Rate Adjustments to Maintain Price Stability

Owing to sustained high international raw material prices and global inflation risks, the Bank raised policy rates on April 1 and July 1, respectively, by a total 0.25 percentage points to restrain inflation expectations and maintain domestic price and financial stability. In the second half of the year, owing to the gradual spread of the European sovereign-debt problem, an obvious decline in global economic growth and a domestic economic moderation, the Bank kept policy rates unchanged so as to promote economic growth.

At the end of 2011, the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral were 1.875 percent, 2.25 percent, and 4.125 percent, respectively.

Continuing Macro-prudential policy

To curb speculative investment in the property market, the Bank continued to conduct macro-prudential policies and urged financial institutions to enhance their credit risk control over real estate lending through the *Regulations Governing the Extension of Housing Loans in Specific Areas*

CBC Policy Rates

Unit: % (percent per annum)

Effective Date	Discount Rate	Accommodation Rate with Collateral	Accommodation Rate without Collateral
2009 / Jan. 8	1.500	1.875	3.750
Feb. 19	1.250	1.625	3.500
2010 / Jun. 25	1.375	1.750	3.625
Oct. 1	1.500	1.875	3.750
Dec. 31	1.625	2.000	3.875
2011 / Apr. 1	1.750	2.125	4.000
Jul. 1	1.875	2.250	4.125

Source: *Financial Statistics Monthly*, CBC.

and Land Loans by Financial Institutions. Important measures related to the aforesaid *Regulations* in 2011 include:

(1) On January 20, the Bank provided related explanations and FAQs for the *Regulations*. The contents were released on the CBC website.

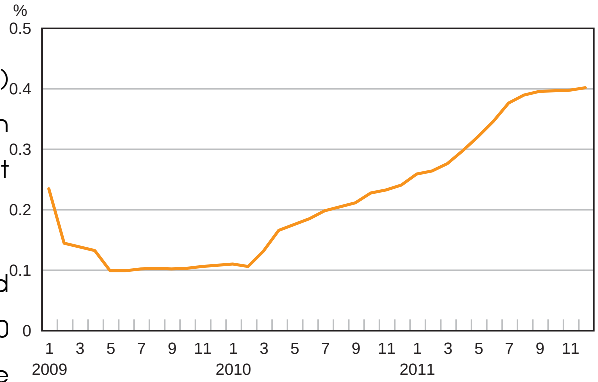
(2) On August 2, for land collateralized loans to be used to cover living expenses or for financial management, the Bank announced that borrowers who apply for such loans without a specific construction project may only do so on condition that the financial institutions confirm the use of funds and verify the loans are not to be used for investment, purchase of real estate or housing construction.

Absorbing Excess Liquidity through Open Market Operations

The Bank issued certificates of deposit (CDs) and conducted open market operations to maintain reserve money and overnight call-loan interest rates at appropriate levels.

In 2011, the total value of CDs issued amounted to NT$44,310 billion, among which was NT$1,200 billion worth of 364-day CDs. At the end of the

Overnight Call-loan Rate



Source: *Financial Statistics Monthly*, CBC.

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	274-365 days
2009	40,416	38,823	0.575	0.616	0.715	--
2010	45,105	44,401	0.621	0.659	0.729	0.698
2011	44,310	44,279	0.818	0.879	0.988	0.948
2011 / 1	4,277	4,481	0.740	0.780	0.880	0.799
2	3,672	3,453	0.740	0.780	0.880	0.839
3	4,060	4,082	0.740	0.780	0.880	0.877
4	4,161	3,939	0.810	0.860	0.970	0.935
5	3,807	3,867	0.810	0.860	0.970	0.975
6	3,290	3,399	0.810	0.860	0.970	1.010
7	3,850	3,818	0.870	0.930	1.050	1.049
8	3,766	3,814	0.870	0.930	1.050	1.054
9	3,032	3,158	0.870	0.930	1.050	0.995
10	3,526	3,382	0.870	0.930	1.050	0.984
11	3,473	3,369	0.870	0.930	1.050	0.960
12	3,397	3,518	0.870	0.930	1.050	0.898

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

year, the total outstanding amount of CDs issued by the Bank was NT$6,682 billion.

Keeping in line with changes in policy rates, the Bank also adjusted its non-competitive bidding rates for new CDs to guide market interest rate movements. Consequently, on July 1, the rates on 30-day, 91-day, and 182-day CDs were increased to 0.87 percent, 0.93 percent, and 1.05 percent, respectively, which represented increases of 0.13, 0.15, and 0.17 of a percentage point for each type of CDs.

As a result of CD bidding rate adjustments, the average overnight interest rate of interbank call loans gradually increased to 0.4 percent in December from 0.239 percent a year ago.

Enhancing the SME Financing Mechanism

To provide easier access to financing for SMEs, the Bank continued to urge commercial banks to increase lending to SMEs. Furthermore, the Bank asked the government to expand the SME Credit Guarantee Fund (SMEG) in order to improve its credit guarantee capacity and help those SMEs lacking in collaterals for funding. As a consequence, the Ministry of Economic Affairs and the Bankers Association decided to contribute to the fund NT$5.7 billion in 2011 and NT$2 billion in 2012.

At the end of 2011, the fund size of the SMEG increased to NT$536 billion, which was a 14.42 percent gain from 2010. The outstanding loans extended to SMEs by domestic banks increased to NT$4,076 billion, which was a 10.85 percent rise from 2010.

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 2011, outstanding postal savings redeposits amounted to NT$1,624 billion. At the same time, banks' redeposits totaled NT$401 billion.

In addition, Agricultural Bank of Taiwan accepted deposits from community financial institutions and made redeposits with the Bank. At the end of 2011, its outstanding redeposits were NT$145 billion.