

## 2. Monetary Management

In 2012, in view of uncertainties in the international economic outlook and mild recovery of the domestic economy, the Bank maintained its monetary policy stance, leaving policy rates unchanged. In addition, the Bank continued to monitor financial institutions to manage their credit risks and ensure financial stability. The Bank also 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 Unchanged to Maintain Price and Financial Stability

Owing to global economic uncertainties, moderate domestic economic recovery and sustained attention to inflation, the Bank kept policy rates unchanged so as to maintain price and financial stability and to promote sound economic growth.

At the end of 2012, 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 Risk Management Policy on Real Estate Loans

To urge financial institutions to manage their credit risks and ensure financial stability, the Bank continued to carry out the regulations governing land mortgage loans and housing loans by financial institutions and also amended them in June to include restrictions on high-value housing loans. Important measures related to the above mentioned regulations in 2012 include:

- (1) On February 15, for existing land mortgage loans for personal finance, the Bank announced that the rollover of such loans shall be adjusted to an appropriate loan-to-value ratio within the prescribed period therein.

### CBC Policy Rates

Unit: % (percent per annum)

Effective Date	Discount Rate	Accommodation Rate with Collateral	Accommodation Rate without Collateral
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.

- (2) Beginning June 22, the Bank adopted targeted prudential measures with respect to high-value housing loans. Housing loans for properties located in Taipei City or New Taipei City with an appraisal or sale value of NT\$80 million or above, or those located elsewhere in Taiwan with an appraisal or sale value of NT\$50 million or above shall be subject to a loan-to-value ratio capped at 60% with no grace period.

### Absorbing Excess Liquidity through Open Market Operations

In 2012, the Bank continued to issue certificates of deposit (CDs) and conduct open market operations to maintain reserve money and overnight call loan interest rates at appropriate levels. At the end of the year, the total value of CDs issued amounted to NT\$54,831 billion and the total outstanding amount of CDs issued by the Bank was NT\$6,643 billion. The average annual growth rate of reserve money in 2012 was 4.91 percent, while M2 recorded an annual growth rate of 4.17 percent, within the Bank's target range of 2.5 percent to 6.5 percent.

Keeping in line with policy rates, the Bank also kept its non-competitive bidding rates for new CDs unchanged. Consequently, in 2012, the rates on 30-day, 91-day, and 182-day CDs remained at 0.87 percent, 0.93 percent, and 1.05 percent, respectively. On the other hand, the rates on 365-day CDs exhibited a downward trend from 0.90 percent in January to 0.73 percent in December.

In the first half of the year, as a result of inflationary pressures caused by fuel and electricity price hikes, the average overnight interest rate of interbank call loans gradually increased to 0.513 percent in June from 0.403 percent in January. In the second half of the year, owing to modest

### 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
2010	45,105	44,401	0.62	0.66	0.73	0.70
2011	44,310	44,279	0.82	0.88	0.99	0.95
2012	54,831	44,279	0.87	0.93	1.05	0.85
2012 / 1	3,513	3,676	0.87	0.93	1.05	0.90
2	4,285	3,817	0.87	0.93	1.05	0.89
3	4,493	4,546	0.87	0.93	1.05	0.88
4	6,056	6,129	0.87	0.93	1.05	0.89
5	4,450	4,514	0.87	0.93	1.05	0.89
6	4,136	4,256	0.87	0.93	1.05	0.88
7	4,323	4,261	0.87	0.93	1.05	0.87
8	5,033	5,036	0.87	0.93	1.05	0.85
9	4,236	4,313	0.87	0.93	1.05	0.83
10	5,139	5,152	0.87	0.93	1.05	0.81
11	4,756	4,809	0.87	0.93	1.05	0.76
12	4,412	4,405	0.87	0.93	1.05	0.73

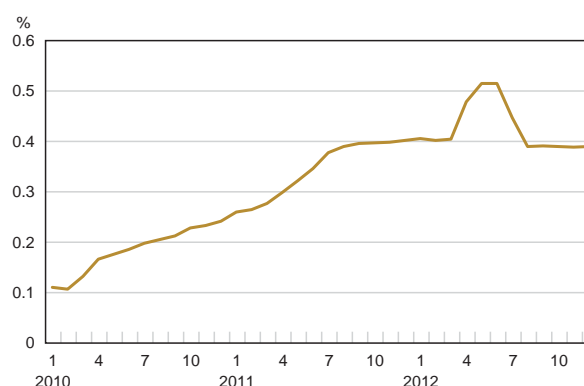
Source: Financial Statistics Monthly, CBC.

economic recovery, the average overnight interest rate decreased to 0.388 percent in August. Afterwards, the overnight call loan rate remained relatively stable.

### 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 Financial Supervisory Commission agreed with the Bank's suggestion to set banks' regional SME lending targets. The outstanding loans extended to SMEs by domestic banks increased to NT\$4,448 billion in 2012, which was a 9.13 percent rise from 2011.

Overnight Call Loan Rate



Source: Financial Statistics Monthly, CBC.

### 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 2012, outstanding postal savings redeposits amounted to NT\$1,624 billion. At the same time, commercial banks' redeposits totaled NT\$398 billion.

In addition, Agricultural Bank of Taiwan accepted deposits from community financial institutions and made redeposits with the Bank. At the end of 2012, its outstanding redeposits were NT\$165 billion.