

## 2. Monetary Management

In 2013, against the backdrop of uncertainties surrounding the global economic outlook, moderate growth in the domestic economy, and muted inflationary pressures, the CBC maintained its monetary policy stance, leaving policy rates unchanged. In addition, the CBC continued to urge financial institutions to manage their credit risks and ensure financial stability. The CBC also continued to enhance the financing mechanism for small and medium-sized enterprises (SMEs) in order to expand banks' lending to SMEs while at the same time absorbing excess funds from the financial market to an appropriate liquidity level.

### Policy Rate Unchanged to Maintain Price and Financial Stability

In light of global economic uncertainties, mild expansion in the domestic economy, and subdued inflationary pressures, the CBC kept policy rates unchanged so as to maintain price and financial stability and to promote economic growth.

At the end of 2013, 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.

### 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

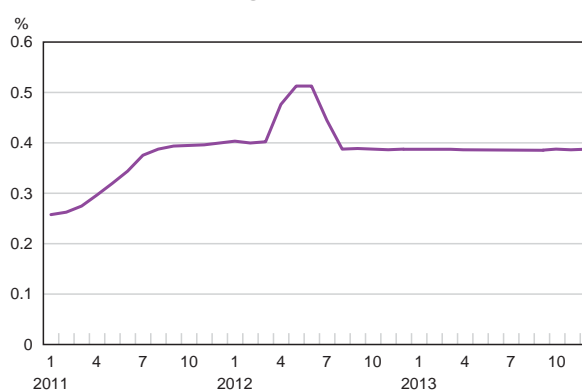
Source: *Financial Statistics Monthly*, CBC.

### Absorbing Excess Liquidity Through Open Market Operations

In 2013, the CBC continued to issue certificates of deposit (CDs) and conduct open market operations to maintain reserve money and overnight call loan rates at appropriate levels. The total value of CDs issued amounted to NT\$63,122 billion in 2013, and the total outstanding amount of CDs issued by the CBC was NT\$6,843 billion at the end of the year. The average annual growth rate of reserve money in 2013 was 7.18 percent, while M2 recorded an annual growth rate of 4.78 percent, within the CBC's target range of 2.5 percent to 6.5 percent.

Keeping in line with policy rates, the CBC also kept its non-competitive bidding rates for new CDs unchanged. Consequently, in 2013, 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 0.72 percent in January to 0.56 percent in December.

### Overnight Call Loan Rate



Source: Financial Statistics Monthly, CBC.

In 2013, the average overnight call loan rate remained broadly stable in each month, within the range of 0.386 percent to 0.387 percent.

### 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
2011	44,310	44,279	0.82	0.88	0.99	0.95
2012	54,831	54,912	0.87	0.93	1.05	0.85
2013	63,122	63,074	0.87	0.93	1.05	0.66
2013 / 1	4,830	4,858	0.87	0.93	1.05	0.72
2	4,734	4,839	0.87	0.93	1.05	0.72
3	5,164	5,156	0.87	0.93	1.05	0.72
4	5,295	5,289	0.87	0.93	1.05	0.69
5	5,363	5,334	0.87	0.93	1.05	0.66
6	4,883	4,892	0.87	0.93	1.05	0.64
7	5,780	5,751	0.87	0.93	1.05	0.63
8	5,421	5,400	0.87	0.93	1.05	0.63
9	5,173	5,166	0.87	0.93	1.05	0.65
10	5,471	5,450	0.87	0.93	1.05	0.64
11	5,370	5,345	0.87	0.93	1.05	0.62
12	5,637	5,594	0.87	0.93	1.05	0.56

Source: Financial Statistics Monthly, CBC.

### Continuing Risk Management Policy on Real Estate Loans

To urge financial institutions to manage their credit risks and ensure financial stability, the CBC continued to carry out the regulations governing housing loans in “specific areas”, land collateralized loans and high-value housing loans by financial institutions. Besides the above mentioned regulations, the CBC also asked financial institutions to pay attention to risk management when handling the following mortgage-related business. Important measures in 2013 included:

1. For real estate lending in “non-specific areas” with considerable housing price surges, financial institutions were urged to formulate and implement prudential measures for self-discipline. Subsequently, most major banks have formulated internal rules and procedures in this regard, such as expanding areas for credit risk management, lowering loan-to-value ratios, removing grace periods, and raising mortgage rates.
2. Financial institutions were urged to exercise caution regarding loans collateralized against industrial area land, rigorously observe credit regulations in extending such loans, and refrain from relying solely on collateral appraisal or borrowers' status as principals of large companies to grant a large credit line.

Since mortgage payment as a percentage of household income had exceeded 30 percent, the CBC advised borrowers to be mindful of risks stemming from future interest rate changes. The risk management measures for real estate lending implemented by the CBC have achieved the following results:

1. The outstanding amount of housing loans grew at a slower pace through 2013, accounting for 26.92 percent of total loans at the end of the year, down by 0.7 percentage points from June 2010. In addition, the concentration of housing loans in “specific areas” identified in targeted prudential measures reduced significantly.

### Housing Loan Ratios

Unit: %

Date	Housing Loans to Total Loans	New Housing Loans in “Specific Areas” to Total New Housing Loans
2010 / Jun.	27.62	64.37
2013 / Dec.	26.92	47.66

2. The average loan-to-value ratio in “specific areas” declined to 57.2 percent, while the average mortgage rate rose to 2.11 percent at the end of 2013.

### Housing Loans in “Specific Areas”

Unit: %

Date	Loan-to-Value Ratio	Mortgage Rate
2010 / Jul.	63.91	1.97
2013 / Dec.	57.20	2.11

3. The average loan-to-value ratio of newly-extended land collateralized loans decreased to 61.01 percent, and the average mortgage rate increased to 2.72 percent at the end of 2013.

### Newly-Extended Land Collateralized Loans

Unit: %

Date	Loan-to-Value Ratio	Mortgage Rate
2010 / Dec.	68.36	2.08
2013 / Dec.	61.01	2.72

4. The efforts of the aforesaid policy measures had successfully brought down the average loan-to-value ratio of high-value housing loans to 56.19 percent, and led the average mortgage rate upwards to 2.07 percent in December 2013.

### High-Value Housing Loans

Unit: %

Date	Loan-to-Value Ratio	Mortgage Rate
Pre-restriction	80-99 (maximum)	1.84 (minimum)
2013 / Dec.	56.19 (average)	2.07 (average)

### Enhancing the SME Financing Mechanism

To provide easier access to financing for SMEs, the CBC continued to urge commercial banks to increase lending to SMEs. Furthermore, the Financial Supervisory Commission agreed with the CBC's suggestion to increase banks' annual SME lending target. The outstanding loans extended to SMEs by domestic banks increased to NT\$4,761 billion at the end of 2013, which was a 7.05 percent rise from the end of 2012.

### Redeposits of Financial Institutions

Accepting redeposits from Chunghwa Post and commercial banks is another instrument for the CBC to influence banks' reserve positions to promote financial stability. At the end of 2013, outstanding postal savings redeposits amounted to NT\$1,624 billion. At the same time, commercial banks' redeposits totaled NT\$396 billion.

The Agricultural Bank of Taiwan accepted deposits from community financial institutions and made redeposits with the CBC. At the end of 2013, its outstanding redeposits were NT\$165 billion. In addition, the Central Deposit Insurance Corporation's time deposits at the CBC totaled NT\$39 billion, which was a NT\$27 billion increase from 2012.