

## 2. Monetary Management

In 2014, owing to lingering uncertainties in the global economy, a negative output gap and a mild inflation outlook in the domestic economy, the CBC maintained its monetary policy stance, leaving policy rates unchanged. In addition, the CBC continued to monitor 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 view of global economic uncertainties, a negative domestic output gap, and a mild outlook for inflation, the CBC kept policy rates unchanged so as to maintain price and financial stability and to promote economic growth.

At the end of 2014, the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral remained at their current levels of 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 2014, the CBC continued to conduct open market operations by issuing certificates of deposit (CDs) to maintain reserve money and overnight call loan rates at appropriate levels. The average annual growth rate of reserve money in 2014 was 6.94 percent, while M2 recorded an annual growth rate of 5.66 percent, within the CBC's target range of 2.5 percent to 6.5 percent.

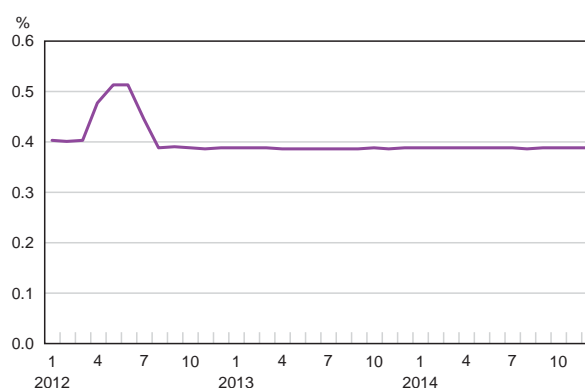
In response to the demands for asset allocation of financial institutions, the monthly amount of

364-day CDs issued increased from NT\$100 billion to NT\$120 billion from February onwards, and the monthly amount of 2-year CDs issued rose from NT\$10 billion to NT\$20 billion beginning August 2014. The total value of CDs issued amounted to NT\$67,187 billion in 2014, and the total outstanding amount of CDs issued by the CBC was NT\$7,106 billion at the end of the year.

Keeping in line with policy rates, the CBC also kept its non-competitive bidding rates for new CDs unchanged. Consequently, in 2014, the rates on 30-day, 91-day, and 182-day CDs remained at 0.87 percent, 0.93 percent, and 1.05 percent, respectively. In addition, the rates on 364-day CDs exhibited a downward trend from 0.58 percent in January to 0.52 percent in June. Subsequently, it showed an upward trend to 0.64 percent in October, and then dropped to 0.60 percent at the end of the year. Meanwhile, the rates on 2-year CDs displayed a similar pattern, staying within the range of 0.69 percent to 0.85 percent.

In 2014, the average overnight call loan rate remained broadly stable in each month, within the range of 0.386 percent to 0.388 percent.

### 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	274-364 Days	2 Years
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	0.77
2014	67,187	66,955	0.87	0.93	1.05	0.58	0.79
2014/ 1	5,022	5,110	0.87	0.93	1.05	0.58	0.76
2	5,550	5,444	0.87	0.93	1.05	0.57	0.74
3	5,650	5,611	0.87	0.93	1.05	0.56	0.73
4	5,728	5,692	0.87	0.93	1.05	0.53	0.71
5	5,461	5,433	0.87	0.93	1.05	0.52	0.69
6	5,624	5,602	0.87	0.93	1.05	0.52	0.70
7	6,356	6,319	0.87	0.93	1.05	0.54	0.75
8	5,322	5,287	0.87	0.93	1.05	0.60	0.80
9	5,518	5,512	0.87	0.93	1.05	0.61	0.84
10	5,968	5,963	0.87	0.93	1.05	0.64	0.85
11	5,145	5,138	0.87	0.93	1.05	0.63	0.85
12	5,844	5,844	0.87	0.93	1.05	0.60	0.81

Source: Financial Statistics Monthly, CBC.

## Amending the Regulations Governing Real Estate Loans and Continuing Relevant Risk Management Policy

- (1) Since June 2010, the CBC has introduced several rounds of targeted macro-prudential measures governing housing loans in the stipulated Specific Areas, and high-valued housing loans and land collateralized loans nationwide. Furthermore, since March 2013, in view of a more pronounced price increase in districts outside Specific Areas, the CBC has urged banks to exercise self-discipline to enhance risk management of housing loans in these districts.
- (2) In order to further strengthen financial institutions' management of real-estate associated credit risks, the Board amended the *Regulations Governing Home mortgage Loans and Land Loans Extended by Financial Institutions* on June 26, effective from June 27, 2014. Important amendments related to the above mentioned regulations included:
- A. Expanding the scope of Specific Areas to include four more districts in New Taipei City (Wugu, Taishan, Bali and Yingge) and four districts in Taoyuan City (Taoyuan, Luzhu, Zhongli and Guishan) .
  - B. Introducing a loan-to-value (LTV) ratio cap of 50 percent on a new housing loan taken out by a single borrower for his/her third or more home purchase, applicable to properties across the country.
  - C. Revising the definition of high-valued housing, of which the LTV ratio ceiling was lowered to 50 percent.
  - D. Lowering the LTV ratio ceiling on housing loans taken out by corporate legal entities to 50 percent.
- (3) Since measures were introduced to further enhance banks' real estate-related risk management in June 2014, the concentration of real estate lending in banks' loan portfolios has eased. Banks were also found to have granted loans for housing in the designated Specific Areas and high-valued housing across the country at lower LTV ratios and higher mortgage rates. This is conducive to sound banking operation and to the attainment of financial stability.

The risk management measures for real estate lending implemented by the CBC have achieved the following results:

- A. The outstanding amount of housing loans increased at a slightly slower pace through 2014, accounting for 26.75 percent of total loans at the end of the year, down by 0.87 percentage points from June 2010. In addition, the concentration of housing loans in the stipulated Specific Areas improved markedly.

### Housing Loan Ratios

Date	Housing Loans to Total Loans	Unit: %	
		New Housing Loans in "Specific Areas" to Total New Housing Loans	
2010 / Jun.	27.62	70.20	
2014 / Dec.	26.75	51.46	

B. The average LTV ratio of housing loans in Specific Areas fell by 6.6 percentage points to 57.31 percent, and the average mortgage rate rose to 2.15 percent at the end of 2014.

### Housing Loans in “Specific Areas”

Unit: %

Date	Loan-to-Value Ratio	Mortgage Rate
2010 / Jul.	63.91	1.97
2014 / Dec.	57.31	2.15

C. The average LTV ratio of newly-extended land collateralized loans declined to 60.30 percent, and the average mortgage rate climbed to 2.78 percent at the end of 2014.

### Newly-Extended Land Collateralized Loans

Unit: %

Date	Loan-to-Value Ratio	Mortgage Rate
2010 / Dec.	68.36	2.08
2014 / Dec.	60.30	2.78

D. The average LTV ratio of housing loans taken out by corporate legal entities decreased to 43.67 percent, and the average mortgage rate edged down slightly to 2.25 percent at the end of 2014.

### Housing Loans by Corporate Legal Entities

Unit: %

Date	Loan-to-Value Ratio	Mortgage Rate
2011 / Dec.	56.11	2.30
2014 / Dec.	43.67	2.25

E. The efforts of the aforesaid policy measures had successfully pushed the average LTV ratio of high-valued housing loans down to 47.93 percent, and brought the average mortgage rate upwards to 2.08 percent in December 2014.

### High-Valued Housing Loans

Unit: %

Date	Loan-to-Value Ratio	Mortgage Rate
Pre-restriction	80-99 (maximum)	1.84 (minimum)
2014 / Dec.	47.93 (average)	2.08 (average)

F. The average LTV ratio on loans for third home purchase dropped sharply to 48.7 percent, while the average mortgage rate trended up to 2.29 percent at the end of 2014.

### Loans for Third Home Purchase

Unit: %

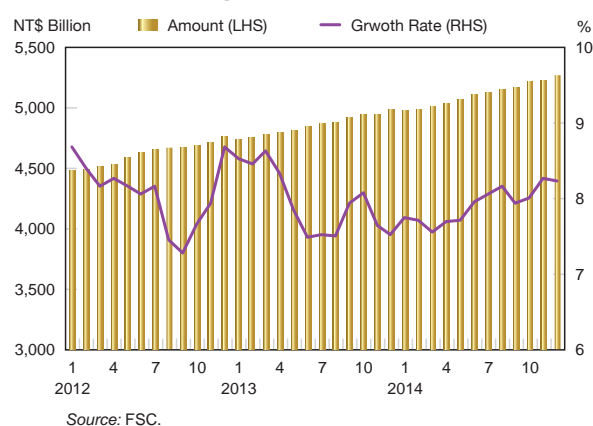
Date	Loan-to-Value Ratio	Mortgage Rate
2014 / Jun.	58~72	1.97
2014 / Dec.	48.7	2.29

### Enhancing the SME Financing Mechanism

To provide easier access to financing for SMEs, the CBC supported the Financial Supervisory Commission (FSC) to continue the program of encouraging SMEs lending by domestic banks. Furthermore, the CBC also continued to urge commercial banks to increase lending to SMEs.

At the end of 2014, the outstanding loans extended to SMEs by domestic banks amounted to NT\$5,164 billion, growing by NT\$403 billion from the end of the previous year and far exceeding the annual target of increased lending of NT\$240 billion set by the FSC.

#### Outstanding Loans Extended to SMEs



### 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 2014, outstanding postal savings redeposits and commercial banks' redeposits stayed unchanged at NT\$1,624 billion and NT\$396 billion, respectively.

The Agricultural Bank of Taiwan accepted deposits from community financial institutions and made redeposits with the CBC. At the end of 2014, its outstanding redeposits were NT\$165 billion. In addition, the Central Deposit Insurance Corporation's time deposits at the CBC totaled NT\$54 billion, which was a NT\$15 billion increase from 2013.