

2. Monetary Management

In 2015, uncertainties continued to surround the global economy, while the domestic economy experienced a slower recovery, the negative output gap widened and the inflation outlook was anticipated to be mild. Against this backdrop, the CBC announced policy rate cuts to help construct a stable financial environment and foster economic growth. In addition, the CBC continued to monitor financial institutions' management of real estate-associated credit risks and the enforcement results of targeted macro-prudential measures to 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 absorbing excess funds from the financial market to maintain liquidity at an appropriate level.

Lowering Policy Rates to Promote Economic Growth

The CBC cut policy rates in September and December, respectively, by a total of 0.25 percentage points to promote economic growth. At the end of 2015, the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral were 1.625%, 2.000%, and 3.875%, respectively.

CBC Policy Rates

Unit: % (percent per annum)

Effective Date	Discount Rate	Accommodation Rate with Collateral	Accommodation Rate Without Collateral
2011 / Apr. 1	1.750	2.125	4.000
Jul. 1	1.875	2.250	4.125
2015 / Sep. 25	1.750	2.125	4.000
Dec. 18	1.625	2.000	3.875

Source: *Financial Statistics Monthly*, CBC.

Continuing to Conduct Open Market Operations to Absorb Excess Liquidity

In 2015, the CBC continued to conduct open market operations by issuing certificates of deposit (CDs) to maintain reserve money and overnight call loan rates at accommodative levels. The average annual growth rate of reserve money in 2015 was 5.79%, while M2 recorded an annual growth rate of 6.34%, within the CBC's target range of 2.5% to 6.5%.

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

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
2013	63,122	63,074	0.870	0.930	1.050	0.660	0.769
2014	67,187	66,955	0.870	0.930	1.050	0.575	0.786
2015	68,418	67,877	0.842	0.911	1.031	0.502	0.617
2015/ 1	5,446	5,406	0.836	0.930	1.050	0.596	0.793
2	5,068	5,089	0.870	0.930	1.050	0.591	-
3	6,585	6,553	0.845	0.930	1.050	0.585	0.778
4	6,262	6,222	0.870	0.930	1.050	0.571	0.755
5	5,157	5,113	0.870	0.930	1.050	0.557	0.728
6	5,794	5,748	0.870	0.930	1.050	0.540	0.698
7	5,642	5,571	0.867	0.930	1.050	0.519	0.669
8	5,467	5,402	0.866	0.930	1.050	0.494	0.619
9	5,605	5,540	0.858	0.922	1.040	0.447	0.553
10	5,456	5,396	0.796	0.860	0.980	0.417	0.505
11	5,577	5,510	0.796	0.860	0.980	0.389	0.465
12	6,359	6,329	0.772	0.836	0.952	0.384	0.464

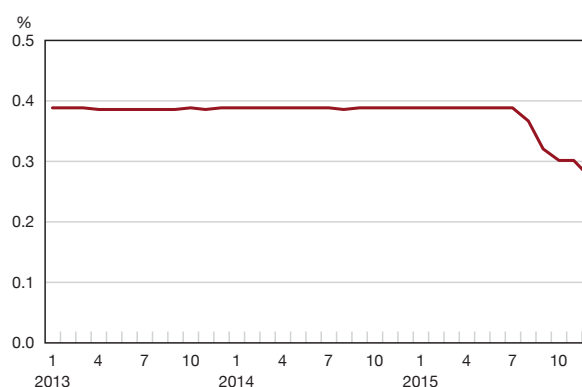
Source: Financial Statistics Monthly, CBC.

364-day CDs issued increased from NT\$120 billion to NT\$130 billion from March onwards, and then increased to NT\$150 billion from June. Subsequently, the monthly amount of 2-year CDs issued rose from NT\$20 billion to NT\$30 billion beginning August 2015. The total value of CDs issued amounted to NT\$68,418 billion in 2015, and the total outstanding amount of CDs issued by the CBC was NT\$7,545 billion at the end of the year.

Keeping in line with policy rates, the non-competitive bidding rates on CDs also changed. Consequently, in 2015, the rates on 30-day CDs fluctuated for the first eight months within the range of 0.836% to 0.870%, and then showed a downward trend from 0.858% in September to 0.772% in December. Meanwhile, the rates on 91-day, and 182-day CDs remained unchanged for the first eight months, and dropped to 0.836% and 0.952% at the end of the year, respectively. Furthermore, the rates on 364-day and 2-year CDs exhibited a downtrend from 0.596% and 0.793% in January to 0.3840% and 0.464% at the end of the year, respectively.

The average overnight call loan rates for the first seven months of the year remained

Overnight Call Loan Rate



Source: Financial Statistics Monthly, CBC.

stable within 0.387% to 0.388%. Afterwards, the average overnight call loan rates gradually declined, dropping to 0.275% at the end of the year.

Making Changes to Targeted Macro-prudential Measures Governing Real Estate Loans

- (1) Since June 2010, the CBC has introduced several rounds of targeted macro-prudential measures governing housing loans and strengthened financial institutions' management of real estate-associated credit risks. Furthermore, the CBC has urged banks to exercise self-discipline to implement risk management of real estate loans.
- (2) Banks' management of real estate-associated credit risks has already improved, and the government's measures to sustain housing market soundness have gradually come into effect. Real estate speculation has been more contained. Based on these assessments, the Board made several amendments to the *Regulations Governing Home Mortgage Loans and Land Loans Extended by Financial Institutions* on August 13, effective from August 14, 2015. Important amendments related to the above mentioned regulations included:
 - A. Revising the scope of the designated Specific Areas by removing two districts in New Taipei City, namely Bali and Yingge, and four districts in Taoyuan City, namely Taoyuan, Luzhu, Zhongli and Guishan.
 - B. Raising the loan-to-value (LTV) ratio ceiling on housing loans taken out by corporate legal entities and those taken out for high-value housing or third (or more) home purchases by natural persons to 60%, up from 50%.
- (3) Since the CBC introduced targeted macro-prudential measures on the real estate sector in June 2010, banks' concentration on mortgage loans has improved. Moreover, 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 accounted for 27.13% of total loans at the end of the year, down by 0.49 percentage points from June 2010. In addition, the concentration of housing loans in the stipulated Specific Areas improved markedly.

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	64.99
2015 / Dec.	27.13	39.62

B. The average LTV ratio of housing loans in Specific Areas fell to 56.52%, and the average mortgage rate rose to 2.10% at the end of 2015.

Housing Loans in "Specific Areas"

Unit: %

Date	Loan-to-Value Ratio	Mortgage Rate
2010 / Jul.	63.91	1.97
2015 / Dec.	56.52	2.10

C. The average LTV ratio of newly-extended land collateralized loans declined by 5.91 percentage points to 62.45%, and the average mortgage rate climbed to 2.81% at the end of 2015.

Newly-Extended Land Collateralized Loans

Unit: %

Date	Loan-to-Value Ratio	Mortgage Rate
2010 / Dec.	68.36	2.08
2015 / Dec.	62.45	2.81

D. The average LTV ratio of housing loans taken out by corporate legal entities decreased to 56.77%, and the average mortgage rate increased to 2.18% at the end of 2015.

Housing Loans by Corporate Legal Entities

Unit: %

Date	Loan-to-Value Ratio	Mortgage Rate
2011 / Jan.	67.37	1.99
2015 / Dec.	56.77	2.18

E. The efforts of the aforesaid policy measures had effectively pushed the average LTV ratio of high-valued housing loans down to 57.53%, and brought the average mortgage rate upwards to 2.04% in December 2015.

High-Valued Housing Loans

Unit: %

Date	Loan-to-Value Ratio	Mortgage Rate
Pre-restriction	80-99 (maximum)	1.84 (minimum)
2015 / Dec.	57.53 (average)	2.04 (average)

F. The average LTV ratio on loans for third home purchases edged down to 57.96%, while the average mortgage rate trended up to 2.15% at the end of 2015.

Loans for Third Home Purchase

Unit: %

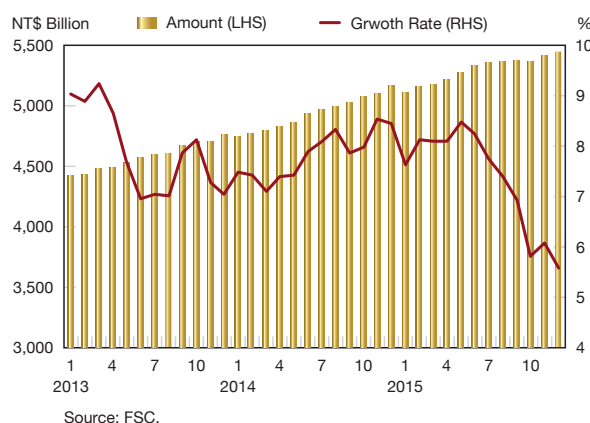
Date	Loan-to-Value Ratio	Mortgage Rate
2014 / Jun.	58-72	1.97
2015 / Dec.	57.96	2.15

Enhancing the SME Financing Mechanism

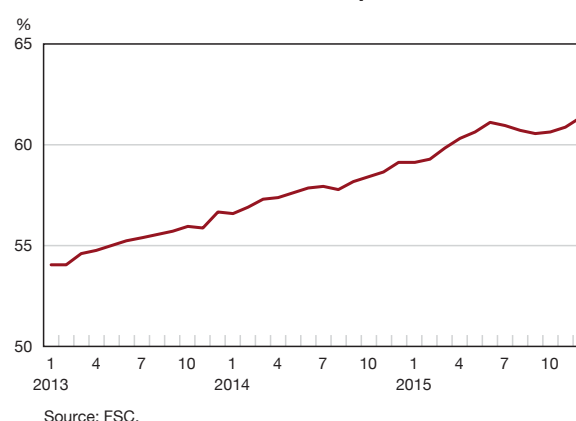
To provide easier access to financing for SMEs, the CBC supported the Financial Supervisory Commission (FSC) to continue the program of encouraging lending to SMEs by domestic banks. Furthermore, the CBC also continued to urge commercial banks to increase lending to SMEs.

At the end of 2015, the outstanding loans extended to SMEs by domestic banks amounted to NT\$5,452 billion, increasing by NT\$289 billion from the end of the previous year. The ratio of the outstanding loans extended to SMEs to those extended to private enterprises rose from 59.11% at the end of 2014 to 61.32%.

Outstanding Loans Extended to SMEs



Ratio of Outstanding Loans Extended to SMEs to Those Extended to Private Enterprises



Redeposits of Financial Institutions

Accepting redeposits from Chunghwa Post, the Agricultural Bank of Taiwan and commercial banks is another instrument for the CBC to influence banks' reserve positions to promote financial stability. At the end of 2015, the outstanding redeposits of Chunghwa Post and the Agricultural Bank of Taiwan stayed unchanged at NT\$1,624 billion and NT\$165 billion, respectively. However, commercial banks' redeposits slightly decreased to NT\$384 billion.

In addition, the Central Deposit Insurance Corporation's time deposits at the CBC totaled NT\$60 billion, which was a NT\$6.5 billion increase from 2014.