

2. Monetary Management

In 2016, moderation in global economic growth and uncertainties surrounding the international economy hampered domestic growth. Taking into account a lingering negative output gap and mild inflation expectations, the CBC judged that policy rate cuts would be conducive to economic growth. The CBC continued to absorb excess funds from financial markets to maintain liquidity at an appropriate level. In addition, the CBC revised targeted macroprudential measures and continued to closely monitor financial institutions' management of real estate-associated credit risks 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.

Lowering Policy Rates to Promote Economic Growth

In view of both international and domestic economic and financial conditions, the CBC kept monetary conditions accommodative to foster economic growth. The CBC cut policy rates in March and July, respectively, by a total of 0.25 percentage points. At the end of 2016, the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral were 1.375%, 1.750%, and 3.625%, respectively.

The four policy rate cuts since the second half of 2015 have brought the cumulative reduction to 0.5 percentage points, and maintaining such an accommodative monetary policy stance has helped to boost economic growth.

CBC Policy Rates

Unit: % (percent per annum)

Effective Date	Discount Rate	Accommodation Rate with Collateral	Accommodation Rate Without Collateral
2015 / Sep. 25	1.750	2.125	4.000
Dec. 18	1.625	2.000	3.875
2016 / Mar. 25	1.500	1.875	3.750
Jul. 1	1.375	1.750	3.625

Source: *Financial Statistics Monthly*, CBC.

Continuing Open Market Operations to Absorb Excess Liquidity

In 2016, 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 2016 was 5.92%, while M2 recorded an annual growth rate of 4.51%, within the CBC's target range of 2.5% to 6.5%.

In response to the demand for asset allocation of financial institutions, the monthly amount of 364-day CDs issued increased from NT\$150 billion to NT\$160 billion from February onwards. The total value of CDs issued amounted to NT\$66,995 billion in 2016, and the total outstanding amount of CDs issued by the CBC was NT\$7,587 billion at the end of the year.

Against a backdrop of a slow recovery for the domestic economy and sluggish credit demand, along with two policy rate cuts, the non-competitive bidding rates on CDs also changed. Consequently, in 2016, the rates on 1-30 day CDs fluctuated for the first eight months within the range of 0.579% to 0.699% until hitting a plateau in the last four months, and ended the year at 0.580%. Furthermore, the rates on 31-91 day and 92-182 day CDs both exhibited steady downtrends from 0.790% and 0.910% in January to 0.650% and 0.770% at the end of the year, respectively. On the other hand, the rates on 274-364 day CDs swung between 0.338% and 0.375% for the first eleven months, and then rose sharply to 0.583% in December because of a stronger demand for funds. Meanwhile, the rates on 2-year CDs generally displayed a similar pattern, staying within the range of 0.405% to 0.502% for the first eleven months, and then climbed to 0.705% at the end of the year.

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
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
2016	66,995	67,103	0.619	0.701	0.823	0.375	0.458
2016/ 1	5,750	5,799	0.682	0.790	0.910	0.351	0.427
2	5,471	5,438	0.699	0.790	0.910	0.349	0.428
3	6,759	6,813	0.664	0.781	0.899	0.363	0.436
4	5,235	5,195	0.654	0.720	0.840	0.375	0.442
5	5,503	5,587	0.608	0.720	0.840	0.370	0.437
6	6,061	5,994	0.625	0.720	0.840	0.360	0.434
7	5,219	5,130	0.583	0.650	0.770	0.344	0.413
8	5,877	5,835	0.579	0.650	0.770	0.338	0.405
9	5,217	5,265	0.581	0.650	0.770	0.342	0.421
10	5,439	5,393	0.581	0.650	0.770	0.356	0.449
11	5,241	5,326	0.580	0.650	0.770	0.371	0.502
12	5,224	5,327	0.580	0.650	0.770	0.583	0.705

Source: Financial Statistics Monthly, CBC.

Average overnight call loan rates gradually declined, dropping from 0.233% in January to 0.178% in August. Afterwards, average overnight call loan rates stayed at relatively low levels, recording 0.174% at the end of the year.

Revising Targeted Macroprudential Measures Governing Real Estate Loans

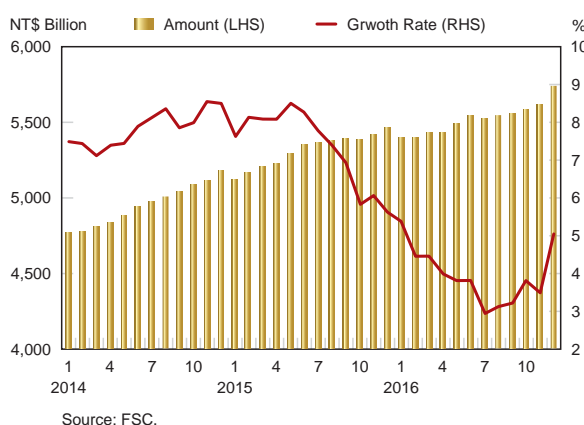
1. Since the CBC introduced targeted macroprudential measures on the real estate sector in June 2010, banks' management of real estate-associated credit risks has improved. In addition, as the government rolled out several relevant taxation schemes and implemented measures to sustain housing market soundness, speculative demand has tapered off. However, given that largely volatile high-value housing prices may raise banks' real estate-associated credit risks, the CBC repealed most rules imposed on home mortgage loans and land loans in March, except for high-value housing loans. The CBC also urged banks to exercise self-discipline on risk management of home mortgage loans and land loans.
2. The CBC will continue to keep watch on banks' real-estate lending and developments in the housing market. Appropriate monetary policy actions will be adopted in a timely manner so as to achieve the operational objectives for the CBC to sustain financial stability.

Enhancing the SME Financing Mechanism

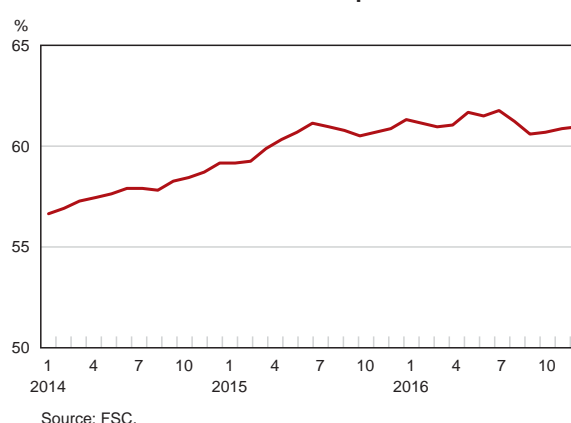
To sufficiently meet SME's funding needs, the Financial Supervisory Commission (FSC) continued the program of encouraging lending to SMEs by domestic banks. Meanwhile, the CBC urged commercial banks to increase lending to SMEs.

At the end of 2016, the outstanding loans extended to SMEs by domestic banks amounted to NT\$5,727 billion, increasing by NT\$274 billion from the end of the previous year. The ratio of the outstanding loans extended to SMEs to those extended to private enterprises rose slightly from 61.32% at the end of 2015 to 61.56% at the end of 2016.

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 2016, the outstanding redeposits of Chunghwa Post and the Agricultural Bank of Taiwan stayed unchanged at NT\$1,624 billion and NT\$165 billion, respectively. Commercial banks' redeposits also stayed unchanged to NT\$384 billion.