

## 2. Monetary Management

### Keeping Policy Rates Unchanged to Maintain Price and Financial Stability

In 2017, the global economic outlook still faced uncertainties, while the domestic economy was on a mild recovery path and the output gap remained negative. Both inflationary pressures and future inflation expectations also stayed anchored. Based on the above assessment, the CBC kept policy rates unchanged in the course of the year so as to maintain price and financial stability and to promote economic growth.

At the end of 2017, the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral remained at their current levels of 1.375%, 1.75%, and 3.625%, respectively.

### Conducting Open Market Operations to Sustain Steady Monetary Growth

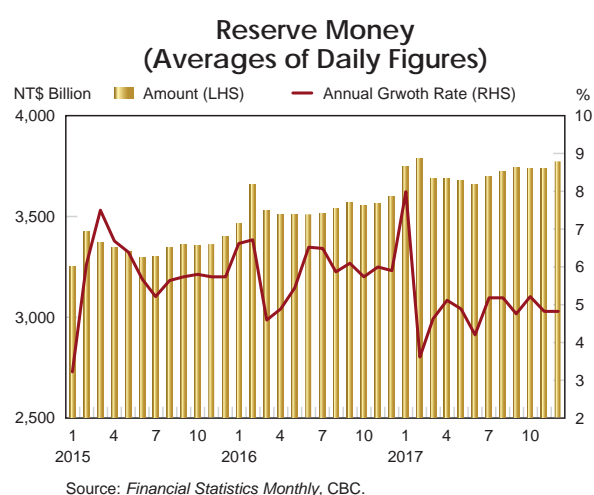
In 2017, the CBC continued to conduct open market operations by issuing certificates of deposit (CDs) to maintain reserve money and monetary aggregates at appropriate levels.

#### (1) Managing Market Liquidity

To increase the CBC's flexibility in open market operations and meet financial institutions' demand for asset allocation, the monthly amounts of 364-day CDs issued from May onwards and 2-year CDs issued from August onwards both increased by NT\$10 billion to NT\$170 and NT\$40 billion, respectively. Moreover, the CBC began to issue 7-day CDs on a regular basis from April 2017. The total outstanding amount of CDs issued by the CBC was NT\$7,880 billion at the end of the year.

#### (2) Slower Growth in Reserve Money

Reserve money grew at a slower pace for the year 2017, recording a growth rate of 5.04%, 0.88 percentage points lower than the previous year's figure. In terms of the monthly movements of reserve money, the annual growth rates of reserve money for January and February are often more volatile as the exact timing of the Lunar New Year holidays shifts on the Gregorian calendar each year. In 2017, they posted an average annual growth rate of 5.75% during



this period. Growth rates remained relatively stable from March onwards, and reached a yearly high of 5.23% in October and a yearly low of 4.22% in June.

On the demand side, reserve money, measured on a daily average basis, increased by NT\$179 billion over the previous year. Of the components, net currency increased by NT\$116 billion and the annual growth rate slightly decreased to 7.00% from 7.19% the previous year; reserves held by financial institutions expanded by NT\$63 billion with an annual growth rate decreasing to 3.32% from 4.84% the previous year. Currency held by the non-bank public grew moderately because the low interest rates paid on bank deposits enhanced the willingness to hold currency in hand. Meanwhile, the overall growth rate of banks' reserves decreased compared to the previous year as slower growth in transaction deposits reduced banks' demand for reserves.

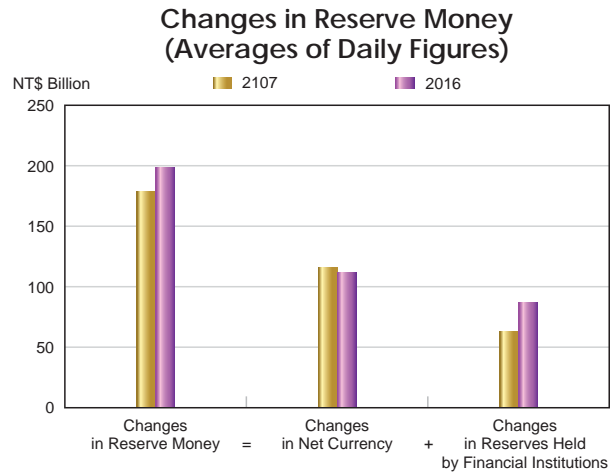
From the supply side perspective, reserve money increased by NT\$146 billion at the end of the year. The balance sheet of the CBC revealed the sources of changes in reserve money. The increase was mostly attributable to the growth in foreign assets held by the CBC and claims on financial institutions, while the decrease resulted largely from the increase in the issuance of CDs.

(3) Overnight Call Loan Rate Broadly Stable

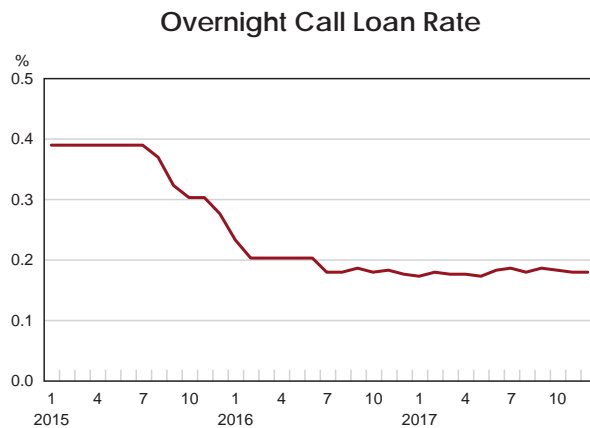
In 2017, the CBC continued to conduct open market operations to maintain excess reserves and the overnight call loan rate at appropriate levels. The annual average excess reserves of financial institutions reached NT\$46 billion, slightly higher than the NT\$44 billion of the previous year. The annual average overnight call loan rate remained broadly stable at around 0.180%.

(4) M2 Growth Slower but Within Target Range

The monetary aggregate M2 has served as the CBC's intermediate target for monetary policy since 1992. The M2 growth target range for 2017 was set at 2.5% to 6.5% and the midpoint was 4.5%. M2 recorded an annual growth rate of 3.75%, down by 0.76 percentage points from the previous year. The annual growth rates of



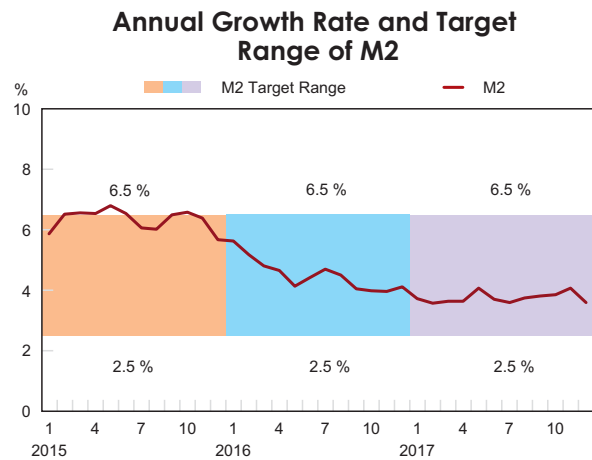
Source: Financial Statistics Monthly, CBC.



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M2 in every month of the year remained within the CBC's target range.

In terms of monthly movements in 2017, the M2 growth rate trended down for the first two months, reflecting slower growth in foreign currency deposits and in bank loans and investments, and reached its yearly low of 3.56% in February. The M2 growth rate moved upward from 3.64% in March to 4.07% in May on account of faster growth in bank loans and investments and net foreign capital inflows. After slightly declining to 3.60% in July, the M2 growth rate returned to an uptrend in subsequent months and hit a yearly high of 4.07% in November, driven by higher growth in foreign currency deposits, stronger expansion in bank loans and investments, and net foreign capital inflows. However, softened growth in bank loans and investments and net foreign capital outflows in December brought down the pace of monthly M2 growth to 3.60%.

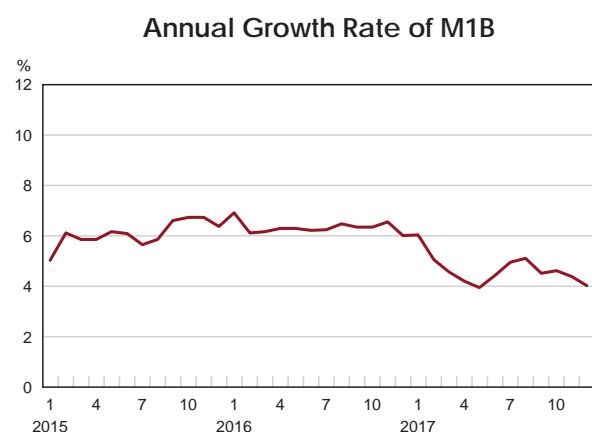


Source: Financial Statistics Monthly, CBC.

In terms of monetary aggregate M1B, it rose at an annual rate of 4.65% in 2017 (on a daily average basis), 1.68 percentage points lower than the previous year's figure. The slide was primarily caused by a deceleration in the growth of transaction deposits and a higher base in the previous year.

With regard to the monthly movements of M1B, its annual growth rate hit a yearly high of 6.05% in January on account of higher demand for funds prior to the Lunar New Year holidays. From February onwards, as growth in transaction deposits moderated, the M1B growth rate moved downward and hit an all-year low of 3.94% in May.

The M1B growth rate exhibited a steady uptrend from June to August owing to a faster growth in transaction deposits. In the following months, a shift of funds from transaction deposits to non-transaction deposits led the growth rate of M1B to decline. Later, weaker growth in bank loans and investments and net foreign capital outflows dragged the M1B annual growth rate down to 4.03% in December.



Source: Financial Statistics Monthly, CBC.

### Amending Relevant Regulations in Line with IFRS 9

In response to the development of the widely-applied International Financial Reporting Standards (IFRS), financial institutions in Taiwan are required to adopt the latest accounting standard, IFRS 9-Financial Instruments (IFRS 9), from 2018 onwards. In order to address the transition to IFRS 9, the CBC published amendments to the *Directions for Auditing Liquidity of Financial Institutions* on December 21, 2017, which would be effective from January 1, 2018. The regulations were adjusted to be in line with changes in the new accounting standard.

### Continuing with Macroprudential Policy on High-Value Housing Loans

Although housing market transactions slightly picked up in 2017, housing prices fluctuated within a narrow range and home buyers still held a conservative attitude toward the housing market outlook. However, given that largely volatile high-value housing prices could still raise banks' real estate-associated credit risks, the CBC decided to keep the loan-to-value (LTV) ratio capped at 60% on high-value housing loans.

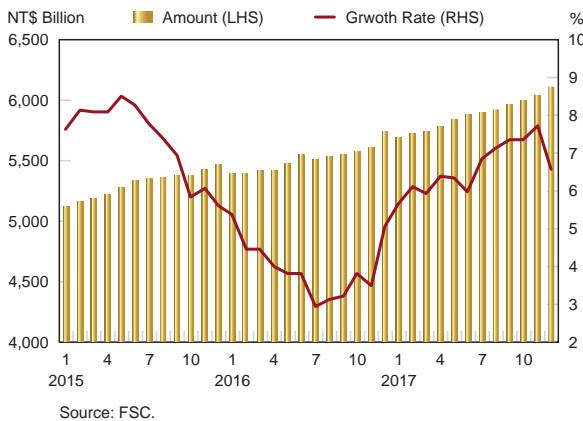
The CBC will continue to keep watch on banks' real-estate lending and developments in the housing market. Appropriate monetary policy actions will be adopted in a timely manner so as to achieve the operational objectives for the CBC to sustain financial stability.

### Facilitating SME Funding

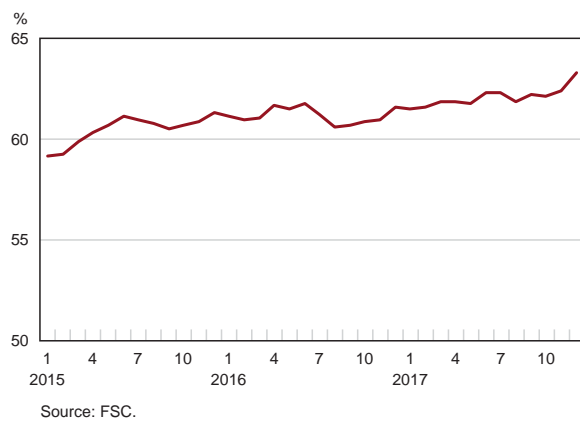
To sufficiently meet SME's funding needs, the Financial Supervisory Commission (FSC) continued to encourage lending to SMEs by domestic banks. Meanwhile, the CBC also urged commercial banks to increase lending to SMEs.

At the end of 2017, the outstanding loans extended to SMEs by domestic banks amounted to NT\$6,102 billion, increasing by NT\$376 billion or 6.56% from the end of the previous year. The ratio

Outstanding Loans Extended to SMEs



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



of the outstanding SME loans to those extended to private enterprises rose slightly from 61.56% at the end of 2016 to 63.28% at the end of 2017.

### **Accepting Redeposits from 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 2017, 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 amounted to NT\$364 billion, decreasing by NT\$20 billion from the end of the previous year.