

2. Monetary Management

In 2007, the Bank's monetary management focused on continuing the gradual pace of policy tightening, absorbing excess liquidity in the banking system, promoting preferential loans, and enhancing the financing mechanism for small and medium-sized enterprises (SMEs).

Continuing the Gradual Pace of Policy Tightening

Year 2007 witnessed a global run-up in energy and raw material prices, posing upside risks to domestic inflation. To maintain price stability and promote sustainable economic growth, the Bank utilized the fine-tuning policy to bring down the inflationary pressure. The discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral were raised 4 times within the year by a total of 62.5 basis points each to the levels of 3.375 percent, 3.750 percent, and 5.625 percent, respectively. From October 2004 to the end of 2007, the Bank had raised its policy rates 14 times continuously with a total increase of 200 basis points.

As increases in the policy rates were by and large moderate, their impacts on funding costs for businesses were limited and did not interrupt normal economic activities. The new loan interest rates of the five major banks were raised by only 55.4 basis points within the year. The lending rate on loans with a maturity of three years and above was only raised by 46 basis

Central Bank Interest Rates

Unit: %

Effective Date	Discount Rate	Accommodation Rate with Collateral	Accommodation Rate without Collateral
2003 / June 27	1.375	1.750	3.625
2004 / Oct. 1	1.625	2.000	3.875
Dec. 31	1.750	2.125	4.000
2005 / Mar. 25	1.875	2.250	4.125
July 1	2.000	2.375	4.250
Sept. 16	2.125	2.500	4.375
Dec. 23	2.250	2.625	4.500
2006 / Mar. 31	2.375	2.750	4.625
June 30	2.500	2.875	4.750
Sept. 29	2.625	3.000	4.875
Dec. 29	2.750	3.125	5.000
2007 / Mar. 30	2.875	3.250	5.125
June 22	3.125	3.500	5.375
Sept. 21	3.250	3.625	5.500
Dec. 21	3.375	3.750	5.625

Source: *Financial Statistics Monthly, Republic of China (Taiwan)*, Central Bank of the Republic of China (Taiwan).

Adjustment Magnitudes of the Interest Rates

Unit: % ; percentage point

	Discount Rate	Accommodation Rate with Collateral	Deposit Rates Offered by Five Major Banks	Mortgage Lending Rate by the TCB*
2004 September	1.375	1.084	1.400	2.800
2007 Year End	3.375	2.054	2.617	3.260
Differences	2.000	0.970	1.217	0.460

Note: * TCB stands for Taiwan Cooperative Bank; the lending rates are for loans with a maturity of three years and above.

Source: *Financial Statistics Monthly, Republic of China (Taiwan)*, Central Bank of the Republic of China (Taiwan).

points and therefore had little impact on mortgage burdens for home buyers. The general public, on the other hand, gained more interest revenues due to higher deposit rates following the rise of the policy rates.

Absorbing Excess Liquidity through Open Market Operations

Due to abundant liquidity in the banking system, the Bank issued Certificates of Deposit (CDs) continuously to mop up excess reserves. In 2007, the total value of CDs issued amounted to NT\$13,672 billion. At the end of the year, the total outstanding amount of CDs issued by the Bank was NT\$3,460 billion. The Bank also conducted repurchase agreement transactions, releasing NT\$36 billion to accommodate temporary demand for funds from commercial banks.

Following the adjustments of the policy rates, the Bank also announced its non-competitive bidding rates for new CD issuance to guide market interest rates upwards. In 2007, the 30-day

Open Market Operations

Unit: NT\$ Billion

Year/ Month	Amount Absorbed*	Amount Offered*	Outstanding Amounts*	Weighted Average Rates on CDs Issued				
	Issues of CDs	Redemptions of CDs	CDs Issued	1-30 days	31-91 days	92-182 days	274-364 days	2 years
2005	20,007	20,049	3,521	1.29	0.34	1.44	—	—
2006	13,526	13,290	3,756	1.55	1.63	1.69	1.84	—
2007	13,672	13,968	3,460	1.91	1.95	1.94	2.29	—
2007 / 1	1,447	1,481	3,722	1.45	1.52	1.60	—	—
2	711	880	3,553	1.45	1.52	1.60	1.70	—
3	529	511	3,571	1.45	1.55	1.64	1.72	—
4	1,152	1,152	3,571	1.52	1.59	1.67	1.77	—
5	599	766	3,404	1.52	1.59	1.67	—	—
6	675	683	3,396	1.54	1.65	1.74	1.89	—
7	1,243	1,358	3,282	1.59	1.66	1.74	1.91	—
8	1,574	1,522	3,334	1.59	1.66	1.74	1.88	—
9	1,404	1,469	3,268	1.60	1.68	1.74	1.84	—
10	1,699	1,556	3,411	1.66	1.73	1.74	1.85	—
11	1,253	1,242	3,423	1.66	1.73	1.81	1.85	—
12	1,386	1,348	3,460	1.66	1.74	1.81	1.87	—

Note: * End-of-period data.

Source: *Financial Statistics Monthly, Republic of China (Taiwan)*, Central Bank of the Republic of China (Taiwan).

Non-Competitive Bidding Rates on CDs Issued by the Central Bank

Unit: %

Effective Date	30 days	91 days	182 days
2005 / Mar. 25	1.270	1.310	1.360
July 01	1.330	1.380	1.440
Sept. 16	1.390	1.450	1.520
Dec. 23	1.450	1.520	1.600
2006 / Mar. 21	1.520	1.590	1.670
June 30	1.590	1.660	1.740
Sept. 29	1.660	1.730	1.810
Dec. 29	1.690	1.760	1.840
2007 / Mar. 30	1.720	1.790	1.870
June 22	1.920	1.990	2.070
Sept. 21	1.980	2.060	2.150
Dec. 21	2.040	2.130	2.230

Note: * The auction rates on 364-day or above CDs were not shown on this table.

Source: Press Releases on Open Market Operations, Central Bank of the Republic of China (Taiwan).

CD rate moved up by 35 basis points to 2.04 percent at the end of the year, leading the overnight call-loan rate to rise from 1.685 percent early in the year to 2.083 percent at the year-end.

Redeposits of Financial Institutions

Accepting redeposits from Taiwan Post Co. and commercial banks is another instrument for the Bank to influence banks' reserve positions to enhance financial stability. At the end of 2007, outstanding postal savings redeposits increased from NT\$1,487 billion at the end of 2006 to NT\$1,581 billion. At the same time, banks' redeposits slightly edged up from NT\$328 billion to NT\$359 billion.

In addition, the three domestic agricultural banks, namely the Taiwan Cooperative Bank, the Land Bank of Taiwan and the Agricultural Bank of Taiwan, were allowed to accept deposits from community financial institutions and make redeposits with the Bank. At the end of 2007, their outstanding redeposits decreased to NT\$117 billion, compared to NT\$136 billion in 2006.

Encouraging Banks to Accept Long-Term Deposits

In view of excess liquidity in the banking system, banks have the tendency to refuse long-term deposits from the public. In both June and July, the Bank issued statements requesting banks not to turn down deposits that were in line with banks' publicly-announced board rates, which are legally binding between the banks and depositors. Banks may redeposit their funds with the Bank if their long-term deposits increase. At the end of 2007, such redeposits received by the Bank amounted to NT\$112 billion.

Promoting Preferential Loans

To help encourage the real estate market and relieve the mortgage burden on home buyers, the Bank, the Ministry of Finance and the Ministry of the Interior jointly initiated a preferential mortgage loan program in August 2000. After having expanded this program six times since its inauguration, the total amount of the loanable funds under this program increased to NT\$1,800 billion. In September 2006, the Executive Yuan decided to continue this program until the loanable funds as planned were used up—as opposed to the original deadline of September 2006. By the end of 2007, NT\$1,695.5 billion of the loanable funds had been obtained by 867,637 households with a total mortgage amount of NT\$2,666.7 billion under this program.

The Bank also continued to provide subsidies to victims of the earthquake in 1999 for interest payments on their mortgage loans. By the end of 2007, a total of NT\$67 billion loans had been approved for 34,856 housing units under this program.

Enhancing the SME Financing Mechanism

To provide easier access to financing for SMEs, the Bank continued to promote the two-track guarantee system to support SMEs in obtaining loans. In addition, since June 2003, the Bank has monitored banks' performance of SME financing on a monthly basis to encourage banks to extend loans to SMEs. At the end of 2007, the outstanding guarantees and loans extended to SMEs by domestic banks were NT\$338.4 billion and NT\$3,056.6 billion, showing an increase of NT\$112.7 billion and NT\$922.1 billion, respectively, as compared with the end of July 2004.