

III. Central Bank Operations

1. Overview

In the year 2008, the Bank undertook a series of monetary policy actions in response to economic and financial developments. In the first half of the year, prices stepped up due to surging international energy and raw material prices. To maintain price stability, the Bank conducted fine-tuning rate hikes by a total of 25 basis points and raised the reserve requirement on NT dollar deposits. In the second half of the year, as the global financial turmoil intensified and sparked worldwide recession, economic situation at home suffered a significant downturn, accompanied by deteriorating unemployment. In light of subsiding inflationary pressure, the Bank shifted to monetary easing, lowering the policy rates five times by a total of 162.5 basis points.

To ensure that liquidity remained sufficient to sustain financial stability, the Bank reduced required reserve ratios on NT dollar deposits and expanded the scope of its repurchase agreements operations. The Bank also helped to strengthen the Small and Medium Enterprise Credit Guarantee Fund of Taiwan to share banks' credit risk, and requested banks to switch the frequency of lending rate reviews from quarterly to monthly to more promptly reflect the Bank's rate cuts and thus enhance monetary policy transmission. In addition, the Bank urged banks to continue to extend credit to fulfill their financial intermediary function.

In terms of foreign exchange management, the Bank continued to relax restrictions on foreign exchange business. To reduce the interest rate differentials between NT dollar and foreign currency-denominated deposits, the Bank lowered the required reserve ratios on foreign currency deposits. In addition, the Bank authorized fourteen financial institutions to commence Chinese renminbi exchange business, making renminbi conversion available in Taiwan.

The Bank continued to facilitate the efficiency of the payment system. Interbank transactions of book-entry government bonds were incorporated into the CBC Interbank Funds-Transfer System (CIFS) and were all processed on a DVP basis. The Bank also agreed the Taiwan Stock Exchange's decision to allow bulk trades to be settled via the CIFS. Three buy-backs of book-entry treasury bills were conducted to help the Treasury lessen the interest burden.

To promote the sound operation of financial institutions and safeguard financial stability, the Bank established a financial stability evaluation framework. In 2008, the Bank began publishing Financial Stability Report and launched a study project to develop an approach to stress-testing Taiwan's financial system.