

## 2. Monetary Management

In the first half of 2008, the Bank's monetary management focused on policy tightening to address upside risks to domestic inflation. Later, as the US subprime mortgage debacle had evolved into a global financial crisis, the Bank then shifted its monetary policy stance to monetary easing. The Bank also maintained an appropriate level of liquidity in the banking system, while promoting preferential loans and enhancing the financing mechanism for small and medium-sized enterprises (SMEs).

### Changing Monetary Policy Stance

In the first half of 2008, a worldwide surge in energy and raw material prices posed upside risks to domestic inflation. To maintain price stability and dampen inflation expectations, the Bank raised the policy rates twice by a total of 25 basis points. However, in the second half of the year, a financial crisis triggered by the US subprime mortgage debacle led to an international economic slowdown. As a result, both external and internal demands declined considerably. To reduce funding costs for businesses and to boost domestic consumption and investment, the Bank adopted expansionary monetary policies and cut its policy rates 5 times by a total of 162.5 basis points. At the end of 2008, the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral were 2 percent, 2.375 percent, and 4.25 percent, respectively.

### Central Bank Interest Rates

Unit: %

Effective Date	Discount Rate	Accommodation Rate with Collateral	Accommodation Rate without Collateral
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
2008 / Mar. 28	3.500	3.875	5.750
June 27	3.625	4.000	5.875
Sept. 26	3.500	3.875	5.750
Oct. 9	3.250	3.625	5.500
Oct. 30	3.000	3.375	5.250
Nov. 10	2.750	3.125	5.000
Dec. 12	2.000	2.375	4.250

Source: Financial Statistics Monthly, CBC.

## Adjusting Required Reserve Ratios

To curb a run-up in domestic prices in the first half of 2008, the Bank also raised the required reserve ratios on NT dollar demand deposits and on NT dollar time deposits by 1.25 percentage points and 0.75 percentage points, respectively, effective from July 1, 2008.

To induce commercial banks to adjust their deposit structures and lower the liquidity of overall outstanding deposits, the Bank adjusted the remuneration rates on banks' B reserve accounts. Originally, a uniform rate of 1.5 percent per annum was offered to the B reserve accounts with the Bank, regardless of the types of deposits. Effective from April 1, 2008, reserves in banks' B accounts from demand deposits would receive an annual rate of 0.25 percent, and those from time deposits would receive 2.75 percent. Later, more adjustments were adopted to reflect changes in commercial banks' deposit rates following the Bank's rate cuts. And, effective December 15, reserves in banks' B accounts from demand deposits would be remunerated at an annual rate of 0.275 percent, while those from time deposits would be offered a annual rate of 1.421 percent.

### Required Reserve Ratios on NT Dollar Deposits

Unit: %

	Checking Deposits	Passbook Deposits	Savings Deposits		Time Deposits
			Passbook	Time	
2008/7/1	12.000	11.025	6.750	4.750	5.750
2008/9/18	10.750	9.775	5.500	4.000	5.000

Source: Financial Statistics Monthly, CBC.

### Remuneration Rates on Required Reserve in B Account

Unit: %

Date	Demand Deposits	Time Deposits
2008/4/1	0.250	2.750
2008/11/3	0.374	2.423
2008/11/11	0.374	2.173
2008/12/15	0.275	1.421

Source: Department of Banking, CBC.

## Absorbing Excess Liquidity through Open Market Operations

The Bank issues certificates of deposit (CDs) and conducts open market operations to maintain banking sector's liquidity at an appropriate level. In 2008, the total value of CDs issued amounted to NT\$19,292 billion. At the end of the year, the total outstanding amount of CDs issued by the Bank was NT\$4,335 billion. In response to liquidity shock from the global

financial crisis, the Bank also conducted repurchase agreement transactions to provide ample liquidity to domestic financial institutions. For the year 2008, the Bank released a total of NT\$78.4 billion to accommodate temporary demand for funds from commercial banks.

The Bank also announced its non-competitive bidding rates for new CD issuance to guide market interest rates in line with policy rate changes. In the first half of 2008, the 30-day CD

### 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
2006	13,526	13,290	1.55	1.63	1.69	1.84	—
2007	13,672	13,968	1.91	1.95	1.94	2.29	—
2008	19,370	18,495	1.89	2.05	2.17	2.27	—
2008 / 1	1,426	1,531	2.05	2.13	2.23	—	—
2	1,433	1,002	2.05	2.13	2.23	—	—
3	1,229	1,076	2.05	2.13	2.23	2.20	—
4	1,696	1,524	2.07	2.15	2.25	2.24	—
5	1,432	1,396	2.07	2.15	2.25	2.29	—
6	1,064	1,322	2.08	2.17	2.27	2.39	—
7	1,659	1,886	2.12	2.21	2.31	—	—
8	1,440	1,547	2.12	2.21	2.31	2.31	—
9	1,411	1,175	2.11	2.20	2.30	2.22	—
10	2,273	2,065	1.98	2.07	2.17	—	—
11	1,799	1,650	1.67	1.77	1.90	—	—
12	2,509	2,322	1.25	1.26	1.34	—	—

Note: \* End-of-period data.

Source: Financial Statistics Monthly, CBC.

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

Unit: %

Effective Date	30 days	91 days	182 days
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
2008 / April. 1	2.060	2.150	2.250
June 27	2.120	2.210	2.310
Sept. 26	2.070	2.160	2.260
Oct. 9	1.970	2.060	2.160
Oct. 30	1.870	1.960	2.060
Nov. 10	1.620	1.710	1.810
Dec. 12	1.020	1.060	1.160

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

Source: Press Releases on Open Market Operations, CBC.

rate moved up from 2.04 percent to peak at 2.12 percent on June 27, reflecting the tight monetary policy stance amidst mounting inflation risks. From then onwards, the CD rate gradually went down to a low of 1.02 percent on December 12, in step with the Bank's monetary easing.

### **Redeposits of Financial Institutions**

Accepting redeposits from Chunghwa Post Co. and commercial banks is another instrument for the Bank to influence banks' reserve positions to promote financial stability. At the end of 2008, outstanding postal savings redeposits amounted to NT\$1,582 billion. At the same time, banks' redeposits was NT\$380 billion.

In addition, 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 2008, their outstanding redeposits was NT\$115 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 6 times since its inauguration, the total amount of the loanable funds under this program increased to NT\$1,800 billion. By September 21, 2008, the date the program expired, NT\$1,662.9 billion of the loanable funds had been appropriated to 869,575 households.

The Bank also assisted a new NT\$200 billion preferential loan program launched by the Ministry of the Interior on September 22. At the end of the year, NT\$74.5 billion of the loanable funds had been obtained by a total of 28,109 households.

In addition, the Bank continued to provide subsidies to victims of the earthquake in 1999 for interest payments on their mortgage loans. As of the end of 2008, a total of NT\$67.4 billion loans had been approved for 35,013 housing units under this program.

### **Enhancing the SME Financing Mechanism**

To provide easier access to financing for SMEs, the Bank continued to promote the dual-track guarantee system to assist 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 2008, the outstanding guarantees and loans extended to SMEs by domestic banks were NT\$310.8 billion and NT\$3,137.6 billion, respectively.

## **Modifying Mortgage Rates and Loan Rate Adjustment**

To ensure market rates reflect the Bank's monetary policy stance and to improve the monetary policy transmission mechanism, the Bank urged commercial banks to conduct mortgage and business loan rate adjustment more frequently. Banks also agreed to allow this type of loan holders to convert to the new scheme, where rates on mortgages and base-rate pricing business loans would be adjusted on a monthly basis, instead of a quarterly or semiannual one in the original contracts.