12. Monetary Management

(1) Lowering Required Reserve Ratios

To improve banks' asset quality, on February 22, the Bank lowered the required reserve ratios on demand deposits by 3.75 percentage points and on time deposits by 0.35 of a percentage point. The average required reserve ratio decreased from 7.65 percent to 6.41 percent. The objective of this policy was to provide sufficient funds for domestic enterprises. However, to maintain the growth rate of monetary aggregate at an appropriate level, on February 23, the Bank issued negotiable certificates of deposit (NCDs) and received re-deposits to absorb NT$177 billion of excess funds from the market.

Required Reserve Ratios on Deposits*

Unit: %

Adjustment Date	Checking Accounts	Passbook Deposits	Time Deposits	Savings Deposits	
				Passbook	Time
Aug. 12, 1995	25.25	23.25	9.625	15.75	7.625
Sept. 25	24.25	22.25	9.125	14.75	7.125
Nov. 7	23.75	21.75	8.875	14.25	6.875
March 8, 1996	22.50	20.50	8.525	13.00	6.525
Aug. 24	22.00	20.00	8.400	12.50	6.400
Sept. 25, 1997	21.25	19.25	8.250	11.75	6.250
Oct. 16	19.75	17.75	7.750	10.25	5.750
Aug. 3, 1998	19.25	17.25	7.55	9.75	5.55
Sept. 29	18.75	16.75	7.35	9.25	5.35
Feb. 20, 1999	15.00	13.00	7.00	5.50	5.00
July 7	15.00	13.00	7.00	5.50	5.00

Note:* Based on the revised Article 23 of the *Central Bank of China Act* effective from July 7, 1999, the floors on required reserve ratios of deposits and other debts have been lifted.

(2) Cutting the Rediscount Rate

On February 2, the Bank lowered both the rediscount rate and the interest rate on accommodation against secured loans by 0.25 of a percentage point. The goal of this policy was to stimulate the economy through encouraging commercial banks to lower their lending rates.

Central Bank Interest Rates*

Unit: %

Adjustment Date	Discount	Accommodation with Collateral	Accommodation without Collateral	Accommodation in Foreign Currencies*
Nov. 24, 1994	5.500	5.875	9.625	6-month LIBOR
Feb. 25, 1995	5.800	6.000	9.625	6-month LIBOR
July 25	5.500	5.875	9.625	6-month LIBOR
May 24, 1996	5.250	5.625	9.625	6-month LIBOR
Aug. 9	5.000	5.375	9.625	6-month LIBOR
Aug. 1 1997	5.250	5.625	9.625	6-month LIBOR
Sept. 29, 1998	5.125	5.500	9.625	6-month LIBOR
Nov. 11	5.000	5.375	9.625	6-month LIBOR
Dec. 8	4.750	5.125	9.625	6-month LIBOR
Feb. 2, 1999	4.500	4.875	9.625	6-month LIBOR

Note:* Beginning from Nov. 24, 1994, the rates of accommodation in foreign currencies have been fixed to the 6-month LIBOR two business days before based on the telerate screen 3750 of the Associated Press.

(3) Releasing Postal Savings Re-deposits

a. To stimulate domestic demand, the Bank appropriated a total of NT$90 billion from postal savings re-deposits in three equal amounts to accommodate three major special loan programs of commercial banks. These programs included a preferential housing loan program for first-time home buyers, a financing program for small and medium-sized enterprises, and a financing program for the manufacturing industry in general. The latter two programs were devised for the needs of enterprises to purchase machinery and equipment or to increase working capital.

b. From January 1999, the Bank and the Ministry of Finance jointly initiated a NT$150 billion preferential housing loan package to stimulate the real estate market, of which NT$60 billion was for first-time home buyers, NT$89.8 billion for the buyers of new housing units, and NT$0.2 billion for aboriginal first-time home buyers. These funds were released through commercial banks to the general public. By the end of the year, NT$146.5 billion had been appropriated and a total of 80,415 households had benefited from these programs.

c. The Bank also appropriated a total of NT$117 billion as a part of the government's relief effort to help reconstruction after the serious earthquake in September. The Bank appropriated NT$100 billion to accommodate an emergency loan program for the people in the quake-hit area to rebuild their houses or to purchase new housing units. The Bank also appropriated

NT$10 billion, NT$5 billion, and NT$2 billion to help rebuild the schools, hospitals, and temples, respectively, in the quake-ravaged area.

(4) Conducting Open Market Operations

Since the beginning of the year, there had been an excess supply of funds in the market resulting from the trade surplus, capital inflows, and a weak demand for funds. To maintain the growth rate of monetary aggregate at an appropriate level and to stabilize market interest rates, the Bank conducted open market operations based on the prevailing market conditions. For the year as a whole, the Bank issued a total of NT$2,469 billion in NCDs. At the end of the year, the outstanding balance amounted to NT$617 billion including the NT$164 billion resulting from a follow-up policy after lowering required reserve ratios in February.

In addition to issuing NCDs, the Bank also conducted open market operations by way of repurchase agreements to regulate short-term market conditions or to meet special circumstances such as the September earthquake. In February, July, and September, the Bank released NT$94 billion through its repurchase agreements operations. The Bank also engaged in swap transactions using US dollars in exchange for NT dollars. The outstanding balance of such swap transactions at the end of the year stood at NT$106 billion.

(5) Preventing Contagion of Bank Runs

As a bank run occurred in a credit cooperative in southern Taiwan, the Bank provided special accommodation to the Central Deposit Insurance Company (CDIC) to help it restore regional financial stability in order to prevent the bank run from spreading to other financial institutions. After the Bank of Taiwan (BOT) assumed ownership of the credit cooperative, the Bank also accommodated the BOT with NT$1.3 billion refinanced through the CDIC with a view to further financial stability.