

12. Monetary Management

Lowering Required Reserve Ratios

To reduce banks' costs of funds, the Bank on July 17, 2000 raised the remunerative rate on banks' required reserves from 3.2 percent to 4 percent. This measure was expected to increase bank revenue by about NT\$4.8 billion per year. The effect was equivalent to reducing the required reserve ratios on demand deposits and time deposits by 1.5 percentage points and 0.25 of a percentage point, respectively, thereby releasing NT\$92 billion from banks' reserves. Therefore, the measure also indirectly reduced the cost of borrowing for corporations and individuals. In addition, to reform the reserve requirement system and adopt a reasonable structure, the Bank lowered the required reserve ratios on checking accounts and time deposits by 1.5 percentage points and 0.75 of a percentage point, respectively, and raised the ratio on demand deposits by 1 percentage point, effective from October 1. The weighted average required reserve ratio declined to 6.29 percent at the end of the year. Moreover, to stabilize the NT dollar exchange rate and maintain adequate foreign currency liquidity in the banking system, the Bank imposed a 5 percent reserve requirement on newly-taken foreign currency deposits with the domestic banking units (DBU) of financial institutions on December 8, and further raised the ratio to 10 percent on December 29.

Required Reserve Ratios on Deposits by Category

Unit: %

Effective Date	Checkable Deposits	Passbook Deposits	Time Deposits	Saving Deposits		Foreign Currency Deposits
				Passbook	Time	
1996-- Mar. 8	22.50	20.50	8.53	13.00	6.53	0
Aug. 24	22.00	20.00	8.40	12.50	6.40	0
1997-- Sept. 25	21.25	19.25	8.25	11.75	6.25	0
Oct. 16	19.75	17.75	7.75	10.25	5.75	0
1998-- Aug. 3	19.25	17.25	7.55	9.75	5.55	0
Sept. 29	18.75	16.75	7.35	9.25	5.35	0
1999-- Feb. 20	15.00	13.00	7.00	5.50	5.00	0
2000-- Oct. 1	13.50	13.00	6.25	6.50	5.00	0
Dec. 8*	13.50	13.00	6.25	6.50	5.00	5
Dec. 29*	13.50	13.00	6.25	6.50	5.00	10

Note: * The required reserve ratio is imposed on newly-taken foreign currency deposits with the domestic banking units (DBU) of financial institutions.

Sources: Financial Statistics Monthly, Taiwan District, the Republic of China.

Adjusting Discount Rates

The repeated interest rate hikes by the U.S. Federal Reserve during 2000 resulted in a widened interest spread between U.S. dollar and N.T. dollar funds. In the meantime, oil prices soared. To maintain financial stability and address inflationary pressure, the Bank on March 24 and June 27 raised the discount rate and the interest rate on accommodations with collateral by a total of 25 basis points each to 4.75 percent and 5.125 percent, respectively. However, during the last quarter of the year, as the U.S. economic slowdown appeared to affect the Taiwan economy, the Bank, on December 29 lowered both the discount rate and the interest rate on accommodations with collateral by 12.5 basis points to 4.625 percent and 5 percent, respectively.

Central Bank Interest Rates

Unit: %

Adjustment Date	Discount	Accommodation with Collateral	Accommodation without Collateral	Accommodation in Foreign Currencies*
1996 -- May 24	5.250	5.625	9.625	LIBOR 6M
Aug. 9	5.000	5.375	9.625	LIBOR 6M
1997 -- Aug. 1	5.250	5.625	9.625	LIBOR 6M
1998 -- Sept. 29	5.125	5.500	9.625	LIBOR 6M
Nov. 11	5.000	5.375	9.625	LIBOR 6M
Dec. 8	4.750	5.125	9.625	LIBOR 6M
1999 -- Feb. 2	4.500	4.875	9.625	LIBOR 6M
2000 -- Mar. 24	4.625	5.000	9.625	LIBOR 6M
June 27	4.750	5.125	9.625	LIBOR 6M
Dec. 29	4.625	5.000	9.625	LIBOR 6M

Note: * The rates on accommodations in foreign currencies have been fixed to the 6-month LIBOR two business days before.
Sources: Financial Statistics Monthly, Taiwan District, the Republic of China.

Conducting Open Market Operations

The Bank conducted open market operations by purchasing government securities and issuing certificates of deposit (CDs) on a timely basis to guide money market rates with the aim of ensuring financial stability. During the year, the Bank purchased a total of NT\$92.7 billion in government securities and issued a total of NT\$4,025.2 billion in CDs. By the end of the year, the outstanding amount of government securities purchased by the Bank was NT\$37.5 billion and that of CDs issued was NT\$561.8 billion.

Issuing Certificates of Deposit

In February, the longest maturity of CDs issued by the Bank was extended from one year to

three years. Moreover, to adjust liquidity in the money market and establish benchmark market interest rates, the Bank, starting from February 17, auctioned CDs on a regular basis. CDs with maturities of 91 days and 182 days were auctioned every week, those with maturities of 273 days and 364 days were auctioned every four weeks and those with a maturity of 2 years were auctioned every two months.

Extending Preferential Loans

- (1) To provide sufficient funds to small and medium-sized firms, the Bank on November 5, 1998 set aside NT\$30 billion from the postal savings redeposits for domestic banks to extend loans to small and medium-sized firms. In May 2000, NT\$3 billion was appropriated from the above package to be extended as special loans for production purposes. By the end of the year, there were a total of 2,301 cases receiving loans amounting to NT\$18.4 billion.
- (2) On December 24, 1998, the Bank set aside NT\$30 billion from the postal savings redeposits for domestic banks to extend special loans for production purposes. To meet the application needs, a further NT\$3 billion was added to the package in May 2000. The NT\$33 billion in total was all extended as loans at the end of the month.
- (3) The Bank appropriated NT\$100 billion from the postal savings redeposits for financial institutions to accommodate the September 21 earthquake victims to rebuild their homes or to purchase new houses. In line with the Contingency Decree for the September 21 Earthquake Reconstruction promulgated by the President on February 3, 2000, the Bank provided subsidies to earthquake victims for their interest payments on mortgage loans collateralized against land or houses damaged in the earthquake. This subsidy also applied to financial institutions assuming the mortgage assets of earthquake victims. The maximum loan granted to one housing unit was NT\$3.5 million, and the interest subsidy was provided accordingly. By the end of 2000, 23,427 housing units had received a total of NT\$36.4 billion under this policy. Furthermore, financial institutions assumed NT\$1.1 billion worth of the earthquake victims' mortgage assets and were granted a total interest subsidy of NT\$100 million.
- (4) The Bank appropriated NT\$10 billion, NT\$5 billion, NT\$2 billion and NT\$1 billion from the postal savings redeposits to assist in the reconstruction of quake-ravaged schools, medical institutions, chapels and temples, and historical sites, respectively. An additional NT\$700 million was appropriated for the residents of a composite building destroyed in a typhoon in August 1997, of which NT\$690 million had been granted by the year-end.

- (5) To bolster the real estate market and relieve the burden of buyers purchasing houses, the Ministry of Finance, the Ministry of the Interior and the Bank collaboratively promulgated the Guidelines for NT\$120 Billion Preferential Housing Loans to the Youth and the Guidelines for NT\$200 Billion Preferential Housing Loans and Credit Guarantee, both effective from August 14, 2000. The Ministry of the Interior subsidized 0.85 percent of the interest rates on housing loans. The preferential housing loans to the youth were accompanied by credit guarantees, which lessened the initial down payment burden faced by home buyers and also cushioned financial institutions against excessive risk exposure. By the year-end, altogether 51,886 housing units were granted a total of NT\$113.9 billion under this package.
- (6) To boost traditional industries and lower corporations' costs of funds, the Ministry of Finance and the Bank initiated the Guidelines for NT\$450 Billion Preferential Loans and Credit Guarantee to Traditional Industries, effective from October 25, 2000. The prevailing interest rates in this package were 6.5 percent to 7 percent, while the maximum coverage of credit guarantee was 80 percent of the loan value. By the year-end, 5,285 corporations had received a total of NT\$56.4 billion under this package.

Receiving Redeposits from Financial Institutions

At the end of 2000, the outstanding postal savings redeposits with the Bank were NT\$1,045.4 billion. The Taiwan Cooperative Bank, the Land Bank of Taiwan and the Farmers Bank of China received deposits from community financial institutions (consisting of credit cooperative associations and the credit departments of farmers' and fishermen's associations) and redeposited them with the Bank. The outstanding amount was NT\$102.6 billion at the end of the year.