

## 12. Monetary Management

### Cutting Discount Rate to Its Historic Low

Under the precondition of price and financial stability, the Bank continued to adopt an easy monetary policy to stimulate the economy. The Bank cut the discount rate and the interest rate on accommodations with collateral 12 times between December 2000 and the end of 2001 by a total of 262.5 basis points. During the same period, the interest rate on accommodations without collateral was also cut 7 times by 525 basis points. As a result, at the end of the year, the discount rate, the interest rate on accommodations with collateral, and the interest rate on accommodations without collateral all stood at their respective lowest ever levels of 2.125 percent, 2.5 percent, and 4.375 percent, respectively.

**Central Bank Interest Rates**

Unit : %

Effective Date	Discount Rate	Accommodation Rate with Collateral	Accommodation Rate without Collateral
2000 - Dec. 29	4.625	5.000	9.625
2001 - Feb. 2	4.375	4.750	9.625
Mar. 3	4.250	4.625	9.625
Mar. 30	4.125	4.500	9.625
Apr. 23	4.000	4.375	9.625
May 18	3.750	4.125	6.000
June 29	3.500	3.875	5.750
Aug. 20	3.250	3.625	5.500
Sept. 19	2.750	3.125	5.000
Oct. 4	2.500	2.875	4.750
Nov. 8	2.250	2.625	4.500
Dec. 28	2.125	2.500	4.375

### Lowering Required Reserve Ratios

The Bank lowered the required reserve ratios on October 4 with the aim of reducing banks' costs of funds and lessening the differences between the required reserve ratios of different types of deposits. The required reserve ratios of checking deposits, passbook deposits, passbook savings deposits, time deposits, and time saving deposits decreased to 10.75 percent, 9.775 percent, 5.50 percent, 5.00 percent, and 4.00 percent, respectively. As a result, the weighted average required reserve ratio of NT dollar deposits declined from 6.22 percent to 5.00 percent. In line with the downward trend of market interest rates, the Bank also lowered

the remunerative rate on banks' required reserves kept in B accounts by 156 basis points to 2.5 percent. The required reserve ratio of foreign currency deposits ( those made since December 8, 2000 ) was also cut to 5 percent. On November 8, this ratio was further cut to 2.50 percent to help reduce banks' costs of foreign currency funds.

### Required Reserve Ratio in Banking System by Type of Deposits

Unit : %

Effective Date	Deposits	Passbook Deposits	Passbook Saving Deposits	Time Deposits	Time Savings Deposits	Foreign* Currency Deposits
2000 – Dec. 29	13.50	13.00	6.50	6.25	5.00	10.00
2001 – Oct. 4	10.75	9.775	5.50	5.00	4.00	5.00
Nov. 8	10.75	9.775	5.50	5.00	4.00	2.50

Note: \* indicating those made since December 8, 2000.

### Conducting Open Market Operations

Open market operations remained to be the most important policy instrument for regulating bank reserves. During the year, the liquidity in the banking system was apparently loose. The Bank therefore issued certificates of deposit ( CDs ) to stabilize market interest rates and to maintain the proper growth of the M2 monetary aggregate. On occasion, the Bank also purchased CDs and government securities to inject funds into the banking system to meet seasonal demand. For the year, the Bank purchased a total of NT\$359 billion in CDs and government securities and issued a total of NT\$4,069 billion in CDs. By the end of the year, the outstanding amount of CDs issued by the Bank was NT\$953.1 billion.

### Receiving Redeposits from Financial Institutions

Receiving redeposits from financial institutions was the Bank's another instrument to influence banks' reserve position. Due to excess liquidity in the banking system, the Bank allowed financial institutions to increase their redeposits with the Bank. At the end of 2001, outstanding postal savings redeposits with the Bank increased to NT\$1,156.2 billion, an increase of NT\$110.8 billion from the year before. The Taiwan Cooperative Bank, the Land Bank of Taiwan and the Farmers Bank of China, receiving deposits from community financial institutions, may make redeposits with the Bank. The outstanding amount was NT\$129.6 billion at the end of the year, which was an increase of NT\$27 billion from the year before. To absorb excess liquidity, the Bank also took deposits from banks when it reduced required reserve ratios, and the

outstanding amount was NT\$130 billion at the end of the year.

### **Promoting Preferential Loans**

- a. Two preferential mortgage loan programs continued to be promoted, which were jointly initiated by the Bank, the Ministry of Finance and the Ministry of the Interior in August 2000, to help boost the real estate market and to relieve the burden of home buyers. These two programs consisted of NT\$120 billion in Preferential Housing Loans and Credit Guarantees to the Youth, and NT\$200 billion Preferential Housing Loans. The annual subsidized interest rate was 0.85 percent. The programs were very popular. The Bank and the Ministry of Finance appropriated an additional NT\$200 billion fund for the latter on August 27, 2001. The total credit line of these two programs was thus extended to NT\$520 billion. By the end of 2001, a total of around 188,000 households obtained a total of NT\$351.3 billion government-subsidized mortgage loans.
- b. The Bank continued to support the Preferential Loans and Credit Guarantees program for traditional industries, which was jointly initiated with the Ministry of Finance in October 2000, to help these industries acquire the funds necessary for business operations. By the year-end, a total of 55,157 cases had received loans amounting to NT\$503.9 billion under this package.
- c. To continue to help small and medium-sized enterprises to get sufficient funds, the Bank prolonged the timeframe for banks to extend special loans to small and medium-sized enterprises for another year to November 4, 2002. The program was initiated in November 1998, and the total of this program was NT\$27 billion. By the end of the year, there were a total of 2,577 cases receiving a total of NT\$21.6 billion loans.
- d. The Bank continued to provide 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 banks assuming the mortgage assets of earthquake victims. By the end of 2001, 27,576 housing units had received a total of NT\$42.9 billion loan under this policy. The total interest subsidy received by financial institutions amounted to NT\$185 million. The Bank also appropriated a total of NT\$18 billion from postal savings redeposits for banks to make loans for the reconstruction of quake-ravaged schools, medical institutions, shrines and temples, and historical sites.

### **Adoption of a New Check-clearing Management System**

To be in line with the global trend of financial liberalization, in July, several changes were

made by the Bank to strengthen credit records regarding check-clearing management through the market mechanism. The new system is now governed by checking account agreements among account holders, their banks, and the clearing houses, which define the rights and obligations of each party with regard to keeping and handling records of dishonored checks and dishonored accounts.

Under the new practice, there is no more seven-day buffer period for check writers to make up deposits in their checking accounts. The checks that are issued by those check writers who don't have sufficient cash in their accounts will now be immediately recorded as dishonored checks. A customer's account will be suspended as a dishonored account for three years if the customer issues three dishonored checks within one year. In order to revive their relations with banks, suspended check writers may either clear their previous debts or open new checking accounts after the three-year waiting period. A databank is also available for the public to acquire information on all check writers' credit records.

