

## 12. Monetary Management

### Cutting Discount Rate to Its Historic Low

The export-led recovery had not fed through into stronger domestic demand. In order to stimulate the economy against a backdrop of globally declining market interest rates, the Bank cut the discount rate and the interest rate on accommodations with collateral twice in 2002, bringing the total number of rate cuts to 14 times between December 2000 and the end of 2002, with a total rate decrease for the period of 3.125 percentage points. During the same period, the interest rate on accommodations without collateral was also cut 9 times by 5.75 percentage 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 historic lows of 1.625 percent, 2 percent, and 3.875 percent, respectively.

### Lowering the Required Reserve Ratio on Foreign Currency Deposits

There was an oversupply of US dollars in the domestic foreign exchange market, and interest rates on US dollar deposits were lower than those on NT dollar deposits. Therefore, the Bank lowered the required reserve ratio on foreign currency deposits (for those having been taken by banks since December 8, 2000) on June 28 from 2.5 percent to 0.125 percent.

### 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
Sep. 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
2002 / June 28	1.875	2.250	4.125
Nov. 12	1.625	2.000	3.875

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

Unit: %

Effective Date	Checking Deposits	Passbook Deposits	Passbook Savings 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
2002 / June 28	10.75	9.775	5.50	5.00	4.00	0.125

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

The Bank did not adjust the required reserve ratios on NT dollar deposits in 2002; however, in order to reasonably reflect market interest rates, the Bank lowered the remunerative rate on banks' B reserve accounts (55 percent of banks' required reserves are deposited in B accounts) by 0.25 of a percentage point on November 12 from 2.5 percent to 2.25 percent.

### Conducting Open Market Operations

Open market operations remained the most important policy instrument for regulating banks' reserves. During the year, liquidity in the banking system was apparently loose. The Bank therefore issued certificates of deposit (CDs) to stabilize market interest rates. On occasion,

### The Bank's Open Market Operations

Unit: NT\$ Billion

	Amount Absorbed			Amount Offered			Weighted Average Rates on CDs Issued (%)		
	Total	Maturity of Repurchase Agreements	Issues of CDs	Total	Repurchase Agreements	Redemptions of CDs	1-30 days	31-91 days	92-182 days
2000	4,076.6	55.2	4,021.4	4,173.5	92.7	4,080.8	4.64	4.78	4.91
2001	4,468.7	396.4	4,072.3	4,040.0	359.0	3,681.0	3.24	2.94	3.81
2002	8,754.2	841.1	7,913.1	7,759.3	841.1	6,918.2	2.11	2.09	2.12
2002/1	689.7	—	689.7	711.6	—	711.6	2.28	2.39	2.41
2	699.4	—	699.4	602.9	—	602.9	2.28	2.39	2.40
3	457.7	—	457.7	417.0	—	417.0	2.28	2.32	2.33
4	674.7	—	674.7	434.8	—	434.8	2.28	2.32	2.34
5	848.3	—	848.3	662.8	—	662.8	2.25	2.30	2.31
6	1,316.2	—	1,280.2	969.9	57.9	912.0	2.15	2.16	2.19
7	947.2	36.0	861.9	901.1	254.9	646.2	1.95	1.91	1.97
8	845.9	85.3	403.0	779.9	287.1	492.8	1.93	1.96	1.99
9	507.7	442.9	371.2	537.9	115.3	422.6	1.93	1.96	2.01
10	481.3	136.5	351.8	486.8	121.0	365.8	1.93	1.97	2.03
11	641.5	10.9	630.6	519.5	4.9	514.6	1.82	1.86	1.88
12	644.5	—	644.5	735.0	—	735.0	1.67	1.63	1.63

the Bank also purchased CDs and government securities to inject funds into the banking system to meet seasonal demand. For the year 2002, the Bank issued a total of NT\$7,913 billion in CDs, and paid NT\$6,918 billion for matured CDs. By the end of the year, the outstanding amount of CDs issued by the Bank was NT\$1,948 billion.

### **Receiving Redeposits from Financial Institutions**

Receiving redeposits from financial institutions was another instrument of the Bank to influence banks' reserve positions. Due to excess liquidity in the banking system, the Bank allowed financial institutions to increase their redeposits with the Bank during the year of 2002. At the year-end, outstanding postal savings redeposits with the Bank rose to NT\$1,266.6 billion, an increase of NT\$118.9 billion from the year before. The Taiwan Cooperative Bank, the Land Bank of Taiwan and the Farmers Bank of Taiwan, which receive deposits from community financial institutions, may make redeposits with the Bank. The outstanding amount of their redeposits was NT\$144.6 billion at the end of 2002, which was an increase of NT\$15 billion from the year before. To absorb excess liquidity, the Bank also took redeposits from banks, and the outstanding amount was NT\$440 billion at the end of the year.

### **Promoting Preferential Loans**

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 loans and credit guarantees to the youth buying their first homes, and NT\$200 billion in preferential loans to general home buyers. The government subsidized 0.85 of a percentage point of the annual interest rate, contributing to the program's popularity. The Bank and the Ministry of Finance raised the upper limits on total preferential loans for the above two programs by NT\$200 billion on August 27, 2001 and April 16, 2002, respectively. The total amount of the two programs was thus extended to NT\$720 billion. By the end of 2002, around 340,856 households had obtained a total of NT\$671 billion in government-subsidized mortgage loans from banks.

The Bank continued to support the Preferential Loans and Credit Guarantees for Traditional Industries program, which was jointly initiated with the Ministry of Finance in October 2000 with an initial upper limit on total loans of NT\$450 billion to help traditional industries acquire the funds necessary for business operations. The Bank and the Ministry of Finance raised the upper limit on the total preferential loans that banks as a whole may extend to traditional industries

by NT\$300 billion on September 18, 2001 and by another NT\$300 billion on September 16, 2002. The total amount for this program was thus extended to NT\$1,050 billion. By the year-end, a total of 103,429 cases had received loans amounting to NT\$893.2 billion under this package.

The Bank continued to provide subsidies to victims of the earthquake in 1999 for their interest payments on mortgage loans. This subsidy also applied to banks assuming the mortgage assets of earthquake victims. By the end of 2002, 29,838 housing units had been approved for a total of NT\$48.4 billion worth of loans under this policy. The total interest subsidy received by banks amounted to NT\$300 million.

To continue to help small and medium-sized enterprises to get sufficient funds, the Bank kept on extending special loans to small and medium-sized enterprises. The program was initiated in November 1998, and the total amount of this program was NT\$27 billion. By the end of 2002, there were a total of 2,716 cases receiving a total of NT\$226 billion in loans.

#### **Enhancing the SME Credit Guarantee System**

To facilitate small and medium-sized enterprise (SME) financing, the credit guarantee system was enhanced. In 2002, the government decided to earmark an additional NT\$20 billion to the SME Credit Guarantee Fund within the course of the next two years to expand the Fund's net worth. This measure is expected to help SMEs raise a total of NT\$300 billion in bank credit. Those SMEs whose loan applications are rejected by banks may look for assistance via a window at the SME One-Stop Solution Center of the Ministry of Economic Affairs, which coordinates relevant agencies to handle such cases. The Bank has also seconded staffs to the SME One-Stop Solution Center to assist the operations.

#### **Promoting Adjustable Rate Mortgages and Flexible Base Rates**

In the past, downward rigidity of mortgage interest rates prevailed in Taiwan's banking system. Moreover, although bank lending to large enterprises was mostly based on floating money market rates, that to general consumers and SMEs was based on a mark up (or down) to prime rates, which were also downwardly rigid. This rigidity undermined client interests and retarded the effective transmission of monetary policy. To solve these problems, the Bank encouraged banks to commence adjustable rate mortgages and flexible base rates. These rates were automatically adjusted according to benchmark market interest rates, which made pricing more market-sensitive and transparent.