**Minutes of the Monetary Policy Meeting**

December 19, 2019

Central Bank of the R.O.C. (Taiwan)

**Minutes[[1]](#footnote-1) of the Joint Meeting of the Board of Directors and**

**the Board of Supervisors on December 19, 2019**

**Date and Time**: December 19, 2019, at 2:00 p.m.

**Location:** Room A606, Main Building, Central Bank of the R.O.C. (Taiwan)

**Members Present:**

**Chairman, Board of Directors**: Chin-long Yang

**Executive Directors**:

Jain-Rong Su, Jong-chin Shen, Tzung-ta Yen, Nan-kuang Chen, Ming-yih Liang

**Directors**:

Chung-dar Lei, Jin-lung Lin, Mei-lie Chu, Chao-hsi Huang, Bih-jane Liu, Shiu-sheng Chen, Hsin-hong Kang

Excused: Chi-chung Chen (appointing Tzung-ta Yen as proxy)

 Chen-chia Lee (appointing Nan-kuang Chen as proxy)

**Chairman, Board of Supervisors**: Tzer-ming Chu

**Supervisors**: Ching-fan Chung, Sheng-yao Lin, Tien-wang Tsaur, Kuei-hui Cheng

**Staff Present:**

E-dawn Chen, Director General, Department of Banking

James T.H. Shih, Director General, Department of Issuing

Hui-huang Yen, Director General, Department of Foreign Exchange

Ling-chyun Ko, Deputy Director General, Department of the Treasury

Tsuey-ling Hsiao, Director General, Department of Financial Inspection

Tzong-yau Lin, Director General, Department of Economic Research

Chien-ching Liang, Director General, Secretariat

Kuei-chou Huang, Director General, Department of Accounting

Jhih-cheng Hong, Director, Personnel Office

Kun-shan Wu, Director, Legal Affairs Office

Chih-cheng Hu, Secretary, Board of Directors

Shu-huei Kuo, Secretary, Board of Supervisors

**Presiding:** Chin-long Yang

**AGENDA ITEM 1: ADJUSTING M2 GROWTH TARGET RANGE TO A REFERENCE RANGE FROM 2020 ONWARDS**

1. **Information related to the adjustment of M2 growth target range to a reference range from 2020 onwards**

The Department of Economic Research provided the following information:

1. **Review of M2 growth in 2019 and outlook on demand for money in 2020**
2. The monetary aggregate M2 posted stable growth this year, sufficient to support economic activity.
	1. In each of the first eleven months this year, M2 registered a stable annual growth rate within the 2.5%-6.5% range. The average M2 annual growth rate for the first eleven months of the year was 3.4% and was expected to be 3.5% for the year as a whole.
	2. The M2 annual growth rate broadly trended up in the second half of the year, partly reflecting the inbound remittances made by foreign portfolio investors to gain greater exposure in a rising Taiwan stock market.
3. Review of the money demand function for 2019
4. The target range of 2.5%-6.5%, set in December 2018 for the year of 2019, was estimated using the money demand function with data between 1991Q1 and 2018Q3.
5. After updating the data (with sample points extended to 2019Q3), the new estimation result showed that M2 demand would grow by 2.96% year on year in 2019, still within the 2.5%-6.5% target range.
6. The preliminary estimation of the 2020 money demand growth rate remained within the 2.5%-6.5% range
7. Preliminary estimates using the money demand function model showed that the 2020 demand for M2 would grow by 3.30% year on year.
8. Using a method similar to the European Central Bank (with the equation being “long-term income elasticity of money demand x potential output growth rate + tolerable inflation rate”), the reference value of the M2 annual growth rate in 2020 was 4.30%.
9. The growth rates of the demand for money and actual supply of money both fell within the reference range with broadly matching trends, indicating subdued inflationary or deflationary pressures associated with the overall monetary conditions.
10. **The existing monetary policy regime is a flexible money-targeting framework**

The Bank previously had, in the reference materials prepared for post-Board Meeting press conferences, stated that it adopted a flexible money-targeting framework, where not only M2, but other crucial macroeconomic and financial indicators were taken into account, in order to achieve the Bank’s statutory operational objectives.

Monetary policy consists of three key elements, namely money, interest rates, and exchange rates. Among them, the Bank was mulling over making an adjustment to M2 growth as a target.

1. In accordance with the current practice, the Bank sets an annual target range for M2 growth for the coming year at the end of each year.
2. The Bank’s Board holds quarterly meetings to make policy rate decisions, based on the assessment of domestic and foreign economic and financial conditions like prices, inflation outlooks, and the output gap.
3. The NT dollar exchange rate is in principle determined by market forces. However, in the event of massive and collective waves of short-term capital flows, the Bank would step in the foreign exchange market in a timely and appropriate fashion to maintain dynamic stability of the NT dollar.
4. **Considerations for adjusting the M2 annual growth target range into reference range**

While the fundamental monetary policy framework remains essentially the same, starting from the year 2020, the target range for M2 growth will become the reference range to reflect the flexible approach used in practice. The primary considerations include the following.

1. The Bank adopts the money-targeting regime with flexibility. In addition to M2 growth, the Bank’s monetary policymaking also takes into account other key economic and financial indicators, such as inflation expectations, the output gap, interest rates and exchange rates, credit conditions, and asset prices.
2. Since after the global financial crisis, Taiwan has witnessed a weakening in the relationship between M2 and prices, an indication that the short-term effect of the intermediate target on price stability has become less clear. Nevertheless, the mid- to long-term relationship among M2, output, and prices remains stable. An appropriate pace of M2 growth would be conducive to attaining the ultimate objective of price stability.
3. As Taiwan is a small open economy, it is important to ensure monetary policy autonomy and flexibility. Adjusting the target range for M2 growth into the reference range would provide greater operational flexibility. Allowing M2 growth within an appropriate range to account for the uncertainties over macroeconomic and financial variables would help guard against excess volatility in short-term interest rates and would be consistent with the Bank’s efforts in maintaining dynamic stability of the exchange rate.
4. Monetary aggregates continue to be used by several major central banks as one of the reference indicators, performing as an anchor in the mid- to long-run.
	1. The European Central Bank uses the growth rate of the broad monetary aggregate M3 as one of the reference indicators.
	2. The Swiss National Bank does not target monetary aggregates but continues to pay close attention to the related readings and information they provide.
5. **The next steps**
6. Starting from next year, the target range of M2 growth would become a reference range.
	1. The M2 annual growth rate has stayed within the target range of 2.5%-6.5%, conducive to the attaining of a low and stable inflation rate and sufficient to support economic activity.
	2. The model estimation result showed that M2 demand growth would be within the aforesaid range. Therefore, a 2.5%-6.5% reference range for M2 growth was deemed appropriate.
7. Considering that M2 is a mid- to long-term indicator, the Bank will not set the reference range of M2 growth on an annual basis.
8. In the event of continued deviation from the 2.5%-6.5% range or structural changes, the Bank would conduct a review to analyze the potential factors contributing to the changes or deviations, so as to make adjustments as warranted and in a timely fashion. In brief, the approach would be straightforward, practical, and befitting under the current monetary policy framework.
9. Many of major central banks around the world review their monetary policy frameworks regularly to see whether the policy regimes continue to be appropriate for their economies. The Bank will also carry on with an in-depth study with regard to Taiwan’s monetary policy framework. And, if any adjustment is deemed required, the Bank would submit such issues for discussion in the Board Meetings, as well as inviting input from experts and the academia and strengthening communication with the general public.
10. **Discussion and decision on changing the M2 growth target range to a reference range**
11. The Board approved the proposition of adopting the M2 growth reference range. Their views are summarized below.
12. Discussion on the M2 growth reference range

One board director noted that the Bank will, at the end of each year, review the developments of M2 growth during the year and the outlook for money demand for the following year. The review will be used as a reference for monetary policymaking and will be presented at the Board Meeting. This board director continued that capital flows and domestic credit conditions are two important determinants of M2 growth; however, if M2 growth registers outside the 2.5%-6.5% reference range (for instance, a faster-than-6.5% growth pushed up by strong credit growth) for an extended period of time (for instance, for six months in a row or even over a year), it could imply that structural changes have taken shape and the Bank would reexamine the reference range in this light. Furthermore, the Bank will continue to examine its monetary policy framework. And, if any adjustment is deemed required, the Bank would submit such issues for discussion in the Board Meetings, as well as inviting input from experts and the academia and strengthening communication with the general public.

Another board director pointed out that, at a symposium held in 2008, where the Bank invited experts and the academia to revisit its monetary targeting regime, the idea of adopting a reference range for M2 growth was proposed but not put into action. In addition, according to the money demand function, Taiwan’s M2 growth is mainly affected by the change in the M2 value of the preceding period, while changes in income and prices tend to have relatively smaller effects; in this view, it was expected that the current range of M2 growth would continue to suffice in the near term.

Several board directors expressed support for adopting a reference range for M2 growth. One board director stated that this would add to flexibility in monetary policymaking. Another board director noted that the target range of 2.5%-6.5%, spanning four percentage points, was in effect a reference range. After being renamed as the reference range, it would not be announced on an annual basis, which could prevent the kind of public postulation (such as wondering if raising the upper band implies policy easing) likely to follow the annual announcement of the target range. While monetary policymaking is carried out for the fulfillment of the central bank’s mandate, it also needs to consider public perception. Furthermore, while the Bank will cease to hold official discussions with experts and the academia each year to set the annual targets for M2 growth, it would continue to conduct money demand function estimation and relevant reviews thereof. Based on the aforementioned views, this board director supported the reference range proposition.

One board director also expressed support, stating that it was a justified move to change the M2 growth target range into a reference range based on two main reasons. First, while monetary policy is generally conducted through influencing either interest rates or money supply, the dominant trend in the world was to use the former rather than the latter. As with this trend, the Bank conducts monetary policy through interest rate-setting and takes into consideration the developments in money growth. Second, Taiwan’s money demand function has been stable for these years, with a very high coefficient of determination (denoted by R2); in the past three years, the M2 growth rate registered around 3%. Adopting a reference range of M2 growth would show that the Bank not only would be keeping track of M2 growth trends but also recognizes the need to continue studying the factors affecting money growth and will make adjustments as needed.

Another board director pointed out that monetary targeting has become more obsolete as many economies use inflation instead of monetary aggregates as targets. On the other hand, though, dropping the name of the target range could be construed as renouncing the target definitively. Therefore, this board director had reservations about the proposed adjustment.

One board director expressed the view that the target range approach needs to evolve with time. And since the adjustment of the target range of M2 growth into the reference range is an important announcement to be made, the considerations behind this change should be clearly stated. Another board director noted that the Bank has started revisiting the M2 growth target range since 2008. Although the short-term relationship between M2 and prices has weakened in Taiwan in the years after the global financial crisis, the mid- to long-term relationship has stayed stable. Therefore, by revisiting, and adjusting, the target range approach, it would better reflect the flexibility shown in practice.

1. Discussion on the implications regarding monetary aggregates

One board director noted that predicting the demand for money is to reckon how much supply there should be to meet the demand while taking into account price trends. Given that after the global financial crisis the relationship between M2 and prices was weaker for the short term but steady for the longer term, the Bank needs to take another look at how the overall economic structural changes affects transmission of M2 growth to prices. Another board director pointed out that the definition of M2 also needs to be adjusted to stay contemporary because times have changed and electronic payment and virtual currency have played more prominent roles.

One board director stated that advanced economies have struggled with defining money supply with M1 or M2 since the 1980s, mainly because of (1) the strained availability of statistics representative of money as a medium of exchange since late 1970s when financial liberalization came burgeoning and thus obscured the role of money, and (2) the enormous change in payment methods since 1995 with the rise of internet and smartphone uses. These two reasons prevented advanced economies from finding significant money demand functions, and Taiwan, having seen increasing signs of such changes, could face that challenge in the future. Nevertheless, the current M2 demand equation remains robust and continues to serve as a useful reference.

1. **Decision on changing the M2 growth target range to reference range**

The board directors approved the proposition that, starting from year 2020, the target range of M2 growth would become the reference range.

**AGENDA ITEM 2: ECONOMIC AND FINANCIAL CONDITIONS AND MONETARY POLICY DECISION**

* + 1. **Review of economic and financial conditions**

The Department of Economic Research presented the following review:

1. **International Economic and Financial Conditions**

In the period after the September Board Meeting, global economic growth was moderate owing to unabated trade policy uncertainty. International forecasting institutions projected that the global economy would expand at a slightly slower pace in 2020 than 2019. As for world trade growth, which slackened considerably this year owing to trade tensions, a rebound was forecasted for the next year.

Trade policy uncertainty also caused most major economies to experience slower growth this year, with China’s slowdown more significant than expected, taking its toll on emerging market economies. For the year of 2020, it was projected that major economies would register mild growth.

International oil prices, despite an upswing since October, were expected to stay low in 2020 below this year’s level amid a likely rise in global crude inventory and a moderate global economy. Given this projection of subdued crude oil prices and a soft world economic outlook, global inflation was expected to be mild next year. International institutions forecasted that the 2020 global inflation rate would remain similar to the trend this year.

Meanwhile, the U.S. Federal Reserve and some Asian central banks reduced policy rates in recent months as the economic prospects were dimmed by international factors and inflation was suppressed. In general, an accommodative monetary policy stance would remain in place, with the U.S., the euro area, and Japan all keeping rates unchanged in December.

International financial markets stabilized as the U.S.-China trade conflicts had eased since October. Major equity indices rose and major currencies broadly appreciated against the U.S. dollar, including the previously devalued renminbi, which rebounded vis-à-vis the U.S. dollar. In a world where interest rates were generally low and the size of negative-yielding bonds reached historical levels, along with increased activity of leveraged investment, both China and the U.S. had seen their non-financial corporate debt rising and credit quality deteriorating. Global financial fragility continued building up.

Looking ahead, several downside risks could dampen the global economic outlook, including: (1) unrelenting U.S.-led trade friction; (2) a slowing Chinese economy, combined with rising economic and financial risks; (3) a further build-up of global financial fragility, amidst growing non-financial corporate debt and worsening credit quality, as well as increased high-risk alternative investments made by insurers and pension funds; (4) persistent geopolitical risks. All these could weigh on global financial market stability and the economic and trade outlook.

1. **Domestic Economic and Financial Conditions**

(1) Economic situation

Indicators for domestic economic outlook showed that both leading and coincident indicators continued to rise, while the Taiwan Manufacturing PMI (Purchasing Managers’ Index) and the Taiwan NMI (Non-Manufacturing Index) both pointed to expansion. Overall, the business climate was stable.

In terms of external demand, major Asian economies recorded year-on-year declines in total exports owing to weak growth momentum in the global economy and falling international raw material prices. Against this backdrop, Taiwan’s exports decreased over the previous year, dragged down by export price drops. For the year to date, most of Taiwan’s major export products showed negative growth in value terms, except for two categories – information, communication and audio-video products and electronic product parts – which continued to grow. By market destination, exports to the U.S. increased markedly whereas exports to China made the largest negative contribution to export performance. Looking ahead to next year, the Bank forecasted that real exports (imports) growth would be better than this year as world trade volume was expected to grow faster than this year, combined with a reshuffle in global information/communication supply chain and a cyclical upturn in the semiconductor industry.

With respect to domestic demand, private investment gained momentum as machinery equipment and construction expanded further and the government made robust efforts with programs to encourage investments. However, given a higher base effect, the Bank projected that real growth in private investment would be somewhat slower next year than this year. In terms of private consumption, although monthly and hourly base wage hikes next year would help shore up consumer spending, publicly-traded companies saw slower profit growth this year and wage only increased gradually. Therefore, private consumption was forecasted to grow moderately in real terms next year.

Meanwhile, labor market conditions were stable. The unemployment rate rose modestly in the year to date compared to the same period the previous year, while wage growth slowed slightly.

All in all, private consumption was expected to sustain growth at a similar pace this year and the next, while private investment growth, albeit solid, would be somewhat weaker over this year owing to a higher base effect. The Bank forecasted that Taiwan’s economy would expand by 2.57% next year compared to this year’s 2.60%, while major forecasting institutions made growth projections of 2.45%-2.64% for this year and 2.23%-2.72% for the year of 2020.

(2) Financial conditions

In the weeks since late November, banks were more conservative in liquidity management ahead of a seasonal upsurge in demand for funds towards the year-end. Nevertheless, with ample liquidity in the market, short-term interest rates fluctuated rather mildly. Meanwhile, banks’ excess reserves stayed around the level of NT$40 billion in recent months. Compared to major economies, Taiwan’s real deposit interest rates were in the middle of the range.

In respect of money supply and credit conditions, the annual M2 growth rate averaged 3.40% for the first eleven months of year, maintaining a pace considered befitting. Bank loans increased against a backdrop of solid economic growth in the second half of the year as well as rising demand for manufacturing finance and loans for land and construction. With growth in M2 as well as bank loans and investments trending up during the Jan.-Nov. period, the banking system enjoyed ample liquidity, indicating sufficient money and credit conditions to support real economic activity.

For the year to date, trading volume in the housing market continued rising. All the top six urban areas showed year-on-year increases in home ownership transfers during the first eleven months of the year, albeit with regional variations with a more heated housing market in Southern Taiwan and a lukewarm one in Northern Taiwan. Meanwhile, housing prices climbed gradually. According to the Housing Price Index compiled by the Ministry of the Interior, readings for most of the top six urban areas pointed upwards in the second quarter of the year, with housing prices in some areas hitting new highs.

In terms of real estate lending as of the end of October, the annual growth rate of loans for home purchases rose slightly to 5.82%, while that of loans for construction advanced further to 12.25% as homebuilders had been keen on acquiring land and offering more new housing projects. With continuous increases in both types of loans, the share of real estate lending in total lending grew to 35.06% at the end of October. Banks were seen to grant home mortgages in gradually more lenient terms, but asset quality remained healthy.

(3) Price trends

In the second half of the year, international prices of crude oil and other raw materials stayed subdued, domestic fuel and communications rates were lowered, and key staples experienced price declines. Inflation at home remained low and stable. The annual CPI growth rate averaged 0.51% for the first eleven months of the year, mainly because of price increases in education & entertainment services, residential rent, and fruit and vegetables.

Looking ahead, services such as food away from home might become more expensive to reflect base wage hikes. On the other hand, import prices would weaken as international raw material prices were expected to be soft, and a negative output gap remained, along with mild domestic demand. Overall, inflationary pressures were muted. The Bank projected the CPI and core CPI annual growth rates to be 0.54% and 0.49% this year, and 0.77% and 0.70% next year. The inflation outlook was stable.

As for the key determinants of future price trends, sources of upside pressures include (1) the minimum wage hike next year, which would continue to push up prices in services; (2) residential rent would trend up steadily amid a recovering housing market; (3) food prices including fruit and vegetables could rise faster, with this year’s favorable weather contributing to a lower base effect. Downside pressures include tepid prices for raw materials amid soft global economic growth, a continuous downtrend for domestic communication rates, and a sustained negative output gap at home.

1. **Considerations for Monetary Policy**

(1) The domestic inflation rate stayed low and stable for the year to date. The CPI annual growth rate averaged 0.51% for the Jan.-Nov. period and was forecasted by the Bank to register 0.54% for the entire year. Given that international crude prices were projected by foreign institutions to remain low next year and the domestic output gap was marginally negative, the inflation outlook was stable. The Bank expected the CPI annual growth rate to be 0.77% in 2020.

(2) In view of a steady global economy, uncertainties notwithstanding, it was expected that the domestic economy would register stable growth. The Bank forecasted the economy to expand 2.60% this year and 2.7% next year.

(3) Taiwan’s real interest rate was in the middle range compared to major economies.

* + 1. **Proposition and Decision about Monetary Policy**
1. **Policy Proposition: To keep the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral unchanged at 1.375%, 1.75%, and 3.625%, respectively.**
2. Board members reached a unanimous vote for policy rates to remain unchanged. The discussions are summarized as follows.

(1) Discussion on domestic and international economic and financial conditions

In respect of economic conditions abroad, one board director noted that major forecasting institutions were not in agreement about next year’s global economic growth, with some projecting a pace faster than this year and some lower than this year, which indicated that downside risks to the global economy could not be dismissed yet. Nevertheless, one recent piece of foreign research revealed that downside risks to the global economy were on the wane, and another research piece argued that a global economic pickup was on the way. Moreover, in the U.S. the Fed said the economic outlook was favorable while in Japan the government raised the economic growth forecast. These comments suggested that the prospects for the global economy were positive.

With regard to economic conditions at home, one board director noted that the U.S.-China trade conflicts had prompted Taiwanese firms operating in China to recalibrate their production strategies, with mid- to low-end industries relocated to Southeast Asia and high-end industries back to Taiwan, in general. The government’s vision to transform Taiwan into a regional hub for advanced manufacturing, high-tech research and development, cutting-edge semiconductor production, and green energy development carries the potential to drive Taiwan’s economy in the coming years, adding that private investment will become one of the mainstays for economic growth. One board supervisor pointed out that Taiwan has been forging the domestic chain of production in recent years. In addition, the Industry and Commerce Census data showed that the import coefficient of exports has lowered, implying that Taiwan was not the “shallow plate economy” dubbed in earlier years and has come to be less reliant on external trade.

In terms of domestic financial conditions, several board directors expressed their views about housing market developments and credit risk associated with real estate lending. One board director pointed out that while housing transactions have increased in recent years, the property market saw a shift in the composition of homebuyers from owner-occupants being the majority to individual investors for long-term asset allocation purposes; in addition, there was no sight of a surge in the number of speculative property investors. Housing prices had risen mildly since 2017 and was expected to pick up faster in the second half of the year. However, given a large stock of vacant-for-sale housing units nationwide and the time needed to reduce it, housing prices would not be spiraling upwards anytime soon. Meanwhile, transactions of commercial property and land had soared since the beginning of the year, and high-value residential property had posted greater price increases; it is therefore important to monitor if there is speculative activity in commercial property and high-value housing. Nevertheless, since the amount and the ratio of non-performing mortgage loans did not rise sharply, housing market developments remained a minor risk factor for banks’ loan books.

Another board director noted a continuing uptrend since 2017 in the annual growth rates of real estate lending, construction licenses issued, and construction loans. The asset quality of banks’ mortgages monitored by the Bank remained good so far; while the non-performing ratio was low, it was a lagging indicator. This board director also called for attention to a potential rise in the numbers of vacant units and vacant-for-sale units, citing the already sizable inventory of these units and the increasing supply of homes amid the recent housing market recovery. While the soundness of banks’ lending is the mission and focus of the Bank, the issues of the real estate market as a whole would rely on the work of relevant authorities and agencies with concerted policy efforts.

One board director gave the opinion that, in light of a more noticeable rise in high-value housing prices, the Bank should keep close watch of the developments and implement macroprudential policy tools such as selective credit controls if necessary. Another board director also called for attention to the housing market and pointed to the likely effects from the newly-enforced *Management, Utilization, and Taxation of Repatriated Offshore Funds Act*, stating that the law, though carrying a limited influence in the short term, might exert a greater impact on the housing market five years from now – when the ban on buying homes with repatriated funds is lifted. Therefore, the relevant authority might consider deploying macroprudential policies to address housing market issues in the future, if needed.

(2) Discussion on interest rate decision

All board directors expressed support for keeping the policy rates unchanged, based mainly on the lingering uncertainties over the international economic, trade, and financial prospects, as well as steady economic growth, a mild inflation outlook, and accommodative financial conditions at home. One board director noted that recently export growth improved, domestic investment and the real estate sector grew vigorously amid a wave of capital repatriation, and the forecast for domestic economic growth was revised upward. As these developments showed that the domestic economic outlook was cautiously optimistic, a rate cut would seem less appropriate for the time being. Furthermore, there still existed global financial vulnerabilities, uncertainties related to Brexit and the U.S.-China trade spat, and unabated concerns about short-term international capital (“hot money”) inflows. Against that backdrop, a rate increase could induce more drastic inflows of “hot money.” Domestically, low inflation and a still negative output gap would not warrant a rate increase, either. Therefore, the board director contended that a rate hold would be in order.

Another board director shared the view that a rate cut would not be substantiated because recent readings of the domestic economy did not indicate much change, the negative output gap was expected to widen only modestly, and the banking system held ample liquidity amid accommodative financial conditions at home. In addition, the U.S. was experiencing a longer expansion period in its business cycle since after the subprime mortgage crisis in 2007, while many economic conditions broke with past norms. Close attention should be paid to the turning point when the U.S. growth path reverses. It is also advisable to pay attention to the policy implications of the nascent new economic thinking and potential responses to address such implications. Given that there seemed no urgency in adopting prevention policy moves, it would be appropriate to keep policy rates on hold.

One board director stated that a rate cut would not give much impetus to consumption and investment under the current low-rate environment; therefore, there would be little ground for the policy rates to be reduced. In addition, the domestic inflation was mild, the economic expansion was not strong enough to create inflationary pressures, and the output gap was still negative. It would thus be the best decision to keep policy rates unchanged.

Another board director pointed out that the forecasting model’s estimation for Taiwan’s economic recession showed that, compared to the previous estimation, the probability for Taiwan’s economy going into recession in the next quarter lowered, suggesting there was no need for a rate cut. Monetary policy developments around the world also indicated no urgency for a rate increase. On balance, this board director supported the decision of a rate hold. Another board director shared the view that a stable domestic economy at present meant that a rate cut would not be appropriate for the time being. In terms of the situation abroad, the Federal Reserve already took a pause in its rate-cutting cycle, and the policy rates in China and South Korea, albeit being reduced, were still higher than Taiwan’s. Therefore, this board director was in favor of holding the rates steady.

One board director expressed support for maintaining the policy rates at current levels, based mainly on the following assessments: (1) the domestic inflation outlook was mild, (2) domestic investment was expected to gain momentum as capital repatriation planned by Taiwanese firms were being carried out, information security-related investment in Taiwan rose amid the U.S.-China trade friction, and major tech firms in Taiwan increased their capital outlay to seize business opportunities in 5G development and other emerging technology applications; (3) against this backdrop, combined with expected impetus towards exports given a brighter global economic outlook and a projected rebound in world trade growth in 2020, the domestic economy still showed a positive outlook. Another board director pointed out that amid a mild economic expansion expected for Taiwan, private investment, which was one of the mainstays to support economic growth and industrial development would benefit from a stable interest rate environment.

**3. Monetary Policy Decision:** The board directors reached a unanimous vote to keep the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral unchanged at 1.375%, 1.75%, and 3.625%, respectively.

* + 1. **The Press Release**

The board directors and supervisors approved unanimously to issue the following press release in the post-meeting press conference, together with the Supplementary Materials for the Post-Monetary Policy Meeting Press Conference prepared by the Bank.

# Monetary Policy Decision of the Board Meeting

1. Global economic and financial conditions

Since the Board met in late September this year, the global economy has gradually picked up with subdued inflation. Major economies have maintained an accommodative monetary policy stance, and international financial markets have stabilized.

Looking ahead to next year, international institutions forecast a steady expansion in the global economy and mild growth in world trade. Nevertheless, a multitude of uncertainties such as developments of protectionist trade policies, monetary policy of major economies, and geopolitical risks could impact the global economic and trade outlooks.

1. Domestic economic and financial conditions
2. Benefitting from diverted orders from the US-China trade dispute and expanded domestic production by Taiwanese businesses, exports resumed growth last month. In terms of domestic demand, private investment witnessed stronger growth, underpinned by increased imports of capital equipment by the semiconductor industry. Meanwhile, rising retail sales indicated a continued expansion in private consumption. The Bank projects Taiwan's economy to expand moderately in the fourth quarter and register a 2.60% growth rate for the entire year. With respect to labor market conditions, the unemployment rate marginally rose from the same period a year earlier and wage growth moved up at a slightly slower pace.

Going forward, continued growth in emerging technology applications and efforts by domestic manufacturers to boost production capacity are likely to support a rebound in export growth. Combined with the projections of steadily increasing private investment, stable growth in private consumption, and higher government spending, the Bank therefore forecasts the domestic economy to grow by 2.57% in 2020 (Appendix Table 1).

1. Domestic inflation has remained low and stable since the beginning of 2019. For the first eleven months of the year, the consumer price index (CPI) and the core CPI (excluding fruit, vegetables, and energy items) recorded average annual growth rates of 0.51% and 0.49%, respectively. For the year as a whole, the Bank forecasts the CPI and core CPI annual growth rates to be 0.54% and 0.49%, respectively.

Looking at inflation next year, as international oil prices are projected by international institutions to stay at low levels, imported inflationary pressures are likely to abate. In addition, domestic demand is expected to be moderate. These factors point to a stable inflation outlook. The Bank forecasts the annual growth rates of CPI and core CPI for 2020 to be 0.77% and 0.70%, respectively (Appendix Table 2).

1. For the first ten months of the year, the average annual growth rates of the monetary aggregate M2 and of bank loans and investments were 3.32% and 4.70%, respectively, indicating that money and credit conditions were sufficient to support domestic economic activity. Financial conditions continued to be accommodative in recent months, as both short- and long-term interest rates remained steady and banks' excess reserves stayed around the level of NT$40 billion. In view of a seasonal rise in demand for funds prior to the solar and lunar New Year holidays, the Bank will manage market liquidity with some flexibility to ensure the demand is adequately met.
2. Interest rate decision

Based on the latest information about economic and financial conditions at home and abroad, the Board considers that a slightly negative output gap and a stable inflation outlook are projected for Taiwan next year, and the domestic economy is expected to register steady growth as global economic growth remains on track despite the uncertainties. Meanwhile, Taiwan's real interest rates are around the middle range among a host of economies (Appendix Table 3). Therefore, the Board judges that a policy rate hold and a continued accommodative monetary policy stance will help ensure price stability and foster sound development of the economy and the financial sector.

The Board reached the following decision unanimously at the Meeting today:

The discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral are kept unchanged at 1.375%, 1.75%, and 3.625%, respectively.

1. Starting from year 2020, the target range for M2 growth will become the reference range, which remains between 2.5% and 6.5%. It will not be reset on an annual basis. However, in the event of persistent deviations in M2 growth from the reference range or structural changes, the Bank would conduct a review and make necessary adjustment in a timely manner.
2. In the housing market, transactions have increased and prices have gradually trended up this year. Homebuilders have stepped up land acquisition and the offering of new housing projects, while banks have recorded faster year-on-year rises in loans for home purchases and building construction. The Bank will keep a watchful eye on risk management in financial institutions associated with real estate lending so as to safeguard financial stability.
3. With regard to the latest developments in the US-China trade dispute, the two economies reached a ''phase-one'' deal last week. The Bank will closely monitor future developments therefrom, as well as the implications of other international uncertainties – including China's economic slowdown, monetary policy moves in major economies, global corporate debt overhang, and geopolitical risks – for Taiwan's economy and financial conditions. If warranted by the situation, the Bank will act timely as appropriate to fulfill its statutory mandate.
4. The NT dollar exchange rate is in principal determined by market forces. Nonetheless, if irregular factors (such as massive inflows or outflows of short-term capital) as well as seasonal ones lead to excess volatility and disorderly movements in the NT dollar exchange rate with adverse implications for economic and financial stability, the Bank will, pursuant to its mandate, step in to maintain an orderly foreign exchange market.

**Appendix**

**Table 1 Taiwan's Economic Growth Forecasts by Major Institutions**

|  |
| --- |
| Unit: % |
| Forecast institutions | 2019 (f) | 2020 (f) |
| Domestic institutions | **CBC (2019/12/19)** | **2.60** | **2.57** |
| CIER (2019/12/19) | 2.54 | 2.44 |
| Academia Sinica (2019/12/18) | 2.62 | 2.58 |
| TRI (2019/12/17) | 2.59 | 2.63 |
| NTU/Cathay (2019/12/16) | 2.50 | 2.30 |
| DGBAS (2019/11/29) | 2.64 | 2.72 |
|  **Forecast Average** | **2.58** | **2.54** |
| Foreign institutions | Deutsche Bank (2019/12/17) | 2.60 | 2.80 |
| IHS Markit (2019/12/16) | 2.46 | 2.23 |
| Goldman Sachs (2019/12/16) | 2.50 | 2.40 |
| Standard Chartered (2019/12/16) | 2.40 | 2.20 |
| J.P. Morgan (2019/12/16) | 2.60 | 2.50 |
| HSBC (2019/12/16) | 2.40 | 2.10 |
| BofA Merrill Lynch (2019/12/13) | 2.50 | 2.40 |
| Barclays Capital (2019/12/13) | 2.50 | 2.40 |
| Credit Suisse (2019/12/12) | 2.50 | 2.50 |
| Citi (2019/12/12) | 2.60 | 2.40 |
| Morgan Stanley (2019/12/12) | 2.40 | 2.40 |
| UBS (2019/12/12) | 2.45 | 1.86 |
| **Forecast Average** | **2.49** | **2.35** |

**Table 2 Taiwan's Inflation Forecasts by Major Institutions**

|  |
| --- |
| Unit: % |
| Forecast institutions | 2019 (f) | 2020 (f) |
| Domestic institutions | **CBC (2019/12/19)** | **0.54(CPI)****0.49(Core CPI\*)** | **0.77(CPI)****0.70(Core CPI\*)** |
| CIER (2019/12/19) | 0.54 | 1.02 |
| Academia Sinica (2019/12/18) | 0.52 | 0.73 |
| TRI (2019/12/17) | 0.52 | 0.94 |
| DGBAS (2019/11/29) | 0.55 | 0.71 |
|  **Forecast Average** | **0.53** | **0.83** |
| Foreign institutions | Deutsche Bank (2019/12/17) | 0.50 | 0.80 |
| IHS Markit (2019/12/16) | 0.56 | 0.96 |
| Goldman Sachs (2019/12/16) | 0.60 | 0.80 |
| Standard Chartered (2019/12/16) | 0.70 | 1.00 |
| J.P. Morgan (2019/12/16) | 0.60 | 1.00 |
| HSBC (2019/12/16) | 0.50 | 0.70 |
| BofA Merrill Lynch (2019/12/13) | 0.60 | 1.10 |
| Barclays Capital (2019/12/13) | 0.60 | 1.00 |
| Credit Suisse (2019/12/12) | 0.60 | 1.20 |
| Citi (2019/12/12) | 0.70 | 1.20 |
| Morgan Stanley (2019/12/12) | 0.70 | 0.80 |
| UBS (2019/12/12) | 0.98 | 1.61 |
|  **Forecast Average** | **0.64** | **1.01** |

　\* Excluding vegetables, fruit, and energy.

**Table 3 Real Deposit Rates of Selected Economies**

|  |
| --- |
| Unit: % |
| Economies | (1) | (2) | (3)=(1)-(2) |
| 1-year **time deposit rate**\* | CPI annual growth rate\*\* | **Real interest rate** |
| (As of 2019/12/19) | (2019 forecast) |
| Malaysia | 2.750 | 0.69 | 2.060 |
| Indonesia | 4.750 | 3.05 | 1.700 |
| South Korea | 1.100 | 0.36 | 0.740 |
| Thailand | 1.438 | 0.71 | 0.728 |
| **Taiwan** | **1.065** | **0.54** | **0.525** |
| Singapore | 0.700 | 0.58 | 0.120 |
| US | 1.730 | 1.81 | -0.080 |
| Switzerland | 0.000 | 0.35 | -0.350 |
| Japan | 0.010 | 0.49 | -0.480 |
| UK | 0.850 | 1.80 | -0.950 |
| Euro area | 0.050 | 1.22 | -1.170 |
| China | 1.500 | 2.73 | -1.230 |
| Philippines | 0.500 | 2.43 | -1.930 |
| Hong Kong | 0.300 | 2.86 | -2.560 |

\* 1-year time deposit rates of selected major banks in respective economies, except for Taiwan, of which the figure is the 1-year time deposit floating rate of the five major domestic banks.

\*\* IHS Markit projections, as of December 16, 2019. Forecast for Taiwan's CPI annual growth rate is the CBC's projection.

1. This English translation is provided for information purposes only; the Chinese version shall prevail in case of discrepancies. [↑](#footnote-ref-1)