Minutes of the Monetary Policy Meeting

June 15, 2023

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

Meeting Minutes[1] on Monetary Policy at the Joint Meeting of the Board of Directors and the Board of Supervisors, Held on June 15, 2023

Date and Time: 2:00 p.m., June 15, 2023

Location: Rooms A606 and A303, Central Bank of the R.O.C. (Taiwan)

Members Present:

Chairman, Board of Directors: Chin-Long Yang

Executive Directors: Tsui-Yun Chuang, Tzung-Ta Yen, Mei-Lie Chu, Chung-Dar Lei

Directors:

Chi-Chung Chen, Jin-Lung Lin, Chao-Hsi Huang, Shiu-Sheng Chen, Fu-Sheng Hung, Yi-Ting Li, Shi-Kuan Chen, Chien-Yi Chang, Ming-Jou Yang

Mei-Hua Wang (Excused, Appointing Tzung-Ta Yen as Proxy)

Chairman, Board of Supervisors: Tzer-Ming Chu

Supervisors: Ching-Fan Chung, Sheng-Yao Lin, Tien-Wang Tsaur, Kuei-Hui Cheng

Staff Present:

Alan R.-Y. Pan, Director General, Department of Banking

Yen-Dar Den, Director General, Department of Issuing

Chiung-Min Tsai, Director General, Department of Foreign Exchange

Pei-Jen Heh, Director General, Department of the Treasury

Christina Y.-H. Pan, Deputy Director General, Department of Financial Inspection

Yih-Jiuan Wu, Director General, Department of Economic Research

Chien-Ching Liang, Director General, Secretariat

Shu-Huei Kuo, Director General, Department of Accounting

Shu-Hui Chang, Director, Personnel Office

Kun-Shan Wu, Director, Legal Affairs Office

Chih-Cheng Hu, Secretary, Board of Directors

Chih-Jung Lee, Secretary, Board of Supervisors

Presiding: Chin-Long Yang

[1] This English translation is provided for information purposes only; the Chinese version shall prevail in case of discrepancies.

AGENDA: ECONOMIC AND FINANCIAL CONDITIONS AND MONETARY POLICY DECISION

I. Staff Review of Economic and Financial Conditions

1. International Economic and Financial Conditions

Developments since the Board met in March 2023 suggested that advanced economies continued to experience weak growth momentum, and their central banks would likely keep interest rates at relatively high levels for some time in view of still strong inflationary pressures. It was therefore projected that the global economy would grow at a slower pace this year. By sector, the manufacturing industry suffered a downturn as global final demand was hit by the cumulative tightening effect from major central banks' aggressive rate hikes, whereas the services sector rebounded as countries lifted pandemic-related restrictions.

In respect of international commodity prices, crude oil prices swung lower after mid-April as market concerns over the US and China's economic outlook weighed on oil demand prospects, with international institutions forecasting this year's oil prices to register lower than last year. In terms of grain prices since April, a decline was followed by a rebound. Meanwhile, the Reuters/Jefferies CRB (RJ/CRB) Index, a global commodities benchmark, trended down in line with crude oil and grain price falls.

The inflation rates of major economies softened somewhat but were still relatively high in the year so far, mainly because rising and sticky prices of services restrained the slowing down in core inflation (i.e., after excluding prices of volatile items). Broken down by type in the CPI basket, commodity prices in major economies declined year on year, reflecting energy price falls. In contrast, services prices continued with strong uptrends because of a partial shift of consumer demand from commodities to services following post-pandemic normalization and a resultant shortage of supply of food/beverage and recreational services coupled with higher hiring costs buoyed up by a labor supply-demand imbalance. As a consequence of elevated services prices, global inflation moderated rather slowly.

Among central banks in major economies, the US Federal Reserve (Fed) and the European Central Bank (ECB) maintained a restrictive monetary policy stance, with the

Fed pausing in June and the ECB further raising policy rates. Meanwhile, the Bank of Japan remained accommodative and the People's Bank of China (PBoC) reduced policy rates.

In the financial markets since April, the US banking industry had seen financial pressures easing, and volatility in the US government bond market had decreased from a previous peak after a bill was signed to suspend the debt limit. In the meantime, most major stock markets recorded upswings. The US dollar index rebounded and major currencies broadly depreciated against the US dollar.

Looking ahead, global financial and economic prospects are facing uncertainties associated with how much longer major central banks maintain policy rates at high levels, tightness in global financial conditions, the strength of China's economic recovery, geopolitical risks, and climate change.

2. Domestic Economic and Financial Conditions

(1) Economic situation

Recent data showed the coincident indicators declined further. Growth in GDP from manufacturing contracted owing to significantly weaker momentum.

In respect of external demand, sluggish global final demand, ongoing inventory adjustments, and a higher base effect combined to drag Taiwan's exports down by 16.9% year on year for the first five months of 2023. For the second half of the year, it was expected exports would benefit from a stabilized global economy, continued demand for emerging tech applications, and rising travel service proceeds bolstered by an increase in inbound tourists. The Bank forecasted Taiwan's exports to resume positive growth in real terms for the second half of the year but the growth rate for the year as a whole would remain in negative territory.

Private investment, given its high correlation with exports, was projected by the Bank to record negative real growth this year as inventory adjustments continued amid export sluggishness and the outlook sentiment was cautious.

Private consumption gained support from the easing of pandemic containment measures and border controls, which led to rising sales of retail and food/beverage industries and boosted overseas travel sentiment. Coupled with the government's universal surplus tax rebate program (NT$6,000 per person), private consumption was forecasted by the Bank to register solid steady growth in real terms this year.

In the labor market, the unemployment rate fell to 3.50% in April while the number of employed persons trended back up month by month. In terms of furlough, the manufacturing sector saw an increase in the number of furloughed workers with exports stagnating, whereas the support services sector saw a decrease owing to border reopening. Moreover, in recent months, the number of employed persons and the amount of overtime hours worked both continued decreasing in the manufacturing sector but rose further in the services sector. In regard to wage growth in the year to date, nominal growth of total earnings of manufacturing workers slowed year on year owing to export contraction, whereas that of services workers increased as in-person consumption rebounded after the pandemic receded.

Overall, the prospects of domestic exports and private investment would be clouded by still tepid growth momentum for the global economy, which is exerting a drag on economic growth. Therefore, the Bank revised the forecast for Taiwan's 2023 economic growth rate from 2.21% in March to 1.72% with the first half of the year slowing to a pace of -0.74% before picking up to 4.07% in the second half of the year.

Broken down by quarter, economic growth contracted by 2.87% in the first quarter as exports and private investment were hampered by soft global final demand and continued supply chain de-stocking. While exports and private investment were expected to remain weak in the second quarter, the upturn in private consumption would propel the economy towards positive growth. For the third and fourth quarters of the year, modest private investment momentum would likely be countered by steady private consumption growth and a gradual export rebound, helping economic growth to accelerate from quarter to quarter.

The Bank estimated that Taiwan would show a negative output gap this year. As for the forecasts by major institutions at home and abroad, a myriad of uncertainties resulted in divergent views on Taiwan's 2023 GDP growth rate, spanning a wider range between 0.70% and 2.31%.

(2) Financial conditions

After March 2023, interest rates of banks and in the money markets climbed in line with the Bank's fifth policy rate hike and fluctuated in a narrow range. Excess reserves of banks averaged NT$56.1 billion in May.

With regard to bank credit in the year so far, the annual growth rate of bank loans and investments averaged 5.55% in the first four months of the year, lower than 6.66% in the fourth quarter of last year, reflecting diminishing private corporate funding needs amid the economic downturn and slower year-on-year expansion in housing loans.

With regard to money supply, the annual growth rate of M2 fell from 6.80% in February to 6.58% in March; the rate edged up to 6.70% in April as demand deposits increased as a result of the government's universal surplus tax rebates. Measured on a daily average basis, M2 expanded by 6.69% for the first four months of the year, lower than 7.25% of the fourth quarter last year.

In the housing market, the number of transactions had shrunk markedly since the beginning of the year and housing price uptrends had also moderated. Industry outlook sentiment for the next six months worsened further and consumer sentiment also tilted to the downside. With regard to real estate lending by banks, the annual growth rate had slowed since the Bank implemented selected credit control measures in December 2020. The nonperforming ratio remained low. However, real estate lending as a share of total lending was still high. In addition, second housing loans taken out by natural persons increased both in terms of the number of borrowers and as a share of total borrowers of newly-extended housing loans. The average loan-to-value (LTV) ratio of second housing loans taken out by natural persons for homes in the designated "specific areas" was not only high but also rising.

(3) Price trends

From March 2023 onwards, the annual growth rate of consumer price index (CPI) edged down on account of milder increases in food (fruit and vegetables, etc.) prices and subdued fuel and lubricant fees, reaching 2.02% in May. Meanwhile, core CPI (i.e., excluding fruit and vegetables and energy items) increased by 2.57% year on year, abating rather slowly mainly because prices of food/beverage and travel/accommodation services were buttressed by booming demand amid the post-pandemic reopening period.

The annual CPI growth rate averaged 2.44% during the first five months of the year. Around 70% of this increase came from price rises in food (such as food away from home) and entertainment services as well as higher rent, with a combined contribution of 1.72 percentage points. For the same period, the annual growth rate of the core CPI averaged 2.68%.

By type of items, commodity prices exhibited slower growth whereas services prices still rose at a brisk pace. While these trends were similar to those in major economies, Taiwan’s inflation rate was lower overall.

By frequency of purchase, staples more frequently purchased showed smaller price rises in May. Import prices in NT dollar terms decreased by 8.56% year on year in May, marking the eighth consecutive month of decline. The producer price index also extended a decrease by 3.75%, indicating receding pressures of imported inflation.

For the second half of 2023, prices of crude oil and other raw materials would likely drop below their 2022 levels, and the concomitant decline in domestic import prices were expected to further weaken commodity prices in the CPI basket. By contrast, services prices would stay elevated as the post-pandemic reopening buoyed up entertainment services prices and higher costs of food ingredients and hiring made food-away-from-home more expensive. The Bank expected the inflation rate to come down slowly during the second half of the year with the fourth quarter witnessing a pace of around 2%. For the year as a whole, the CPI and the core CPI would respectively post annual growth rates of 2.24% and 2.38%, lower than the 2.95% and 2.61% of last year.

Forecasts by major domestic and foreign institutions for Taiwan’s 2023 inflation rate ranged between 2.00% and 2.30% with an average value of 2.16%. Factors behind the inflation outlook for the second half of the year included the trends of international commodity prices and domestic services as well as weather events.

3. Considerations for Monetary Policy

(1) Considerations for the policy rate decision

A. Domestic inflation to come down gradually in the second half of the year, with the inflation rate slowing to 2% in the fourth quarter

(a) The Bank forecasted the annual growth rates of the CPI and core CPI in 2023 to be 2.24% and 2.38%, respectively, lower than last year's 2.95% and 2.61%.

(b) Price trends of international commodities and domestic services as well as weather events, are among the factors affecting Taiwan's inflation outlook in the second half of the year.

B. The global economic outlook facing a myriad of uncertainties; the domestic output gap to turn negative this year and the domestic economy slowing more markedly than previously forecasted

(a) The Bank downgraded this year's economic growth rate from 2.21% in March to 1.72%.

(b) Uncertainties over the global economic and financial prospects included the duration of interest rates being kept high by major central banks, the tightness in global financial conditions, the pace of China's post-pandemic economic recovery, geopolitical risks, and climate change.

(2) Considerations for adjusting the selective credit control measures

A. With the four amendments since December 2020 to the *Regulations Governing the Extension of Mortgage Loans by Financial Institutions*, the annual growth rates of banks' real estate lending had slowed down, conducive to bank risk management associated with housing credit.

B. In view of a still high proportion of real estate lending in total lending in recent months, the Bank judged it was necessary to continue with credit control measures in order to improve management of credit resources of the banking sector and to mitigate credit risks associated therewith. Currently, the only restriction imposed on the newly-extended second housing loans for homes in the "specific areas" was the prohibition of a grace period (during which borrowers pay just the interest but not the principal) and some banks appeared to have applied looser mortgage underwriting standards compared to other banks. A 70% LTV ratio cap was thus to be introduced for the second housing loans taken out by natural persons for homes in the “specific areas” so as to strengthen real estate-related credit risk management.

(a) Real estate lending as a percentage of total bank lending continued to be high: At the end of April, the ratio of real estate lending to total lending was 37.02%, still higher than 36.83% at the end of 2022 and 36.43% at the end of 2020, suggesting an excessive flow of banks’ credit resources into the real estate sector.

(b) Recent data pointed to an increase in natural persons’ second housing loans in terms of the borrower number and as a share of total: According to the Joint Credit Information Center, in the first quarter of the year, the number of newly-extended second housing loans taken out by natural persons increased and its share as a percentage of total borrowers of newly-extended housing loans also rose from 12.6% in the previous quarter to 15.2%.

(c) The average LTV ratio for natural persons’ second housing loans for homes in the “specific areas” was high and on the rise: The Bank’s statistical data showed that the average LTV ratio of this loan bracket was 75.5% in October 2021 but rose to 77.1% in April, showing a trend towards looser loan underwriting by banks.

II. Proposition and Decision about Monetary Policy

1. **Policy Propositions: To maintain the discount rate, the rate on refinancing of secured loans, and the rate on temporary accommodations at 1.875%, 2.25%, and 4.125%, respectively, and to adjust the selective credit control measures**

2. Board members reached a unanimous decision to keep the policy rates unchanged and to adjust the selective credit control measures. Related discussions are summarized as follows.

(1) Discussion on the policy rate proposition

One board director pointed out that the Bank, in view of weak momentum for domestic economic growth, downgraded its forecast for Taiwan's 2023 GDP growth rate to below 2% with a possibility of turning lower. Meanwhile, manufacturing growth staggered, and exports contracted for nine months in a row. It was expected that exports and private investment would both post negative real growth this year. Given such prospects, a further rate hike would not be appropriate. In addition, the inflation rate had eased and forecasted by the Bank to fall to below 2% in the fourth quarter and to register lower for the year as a whole compared to last year. The director therefore approved of a rate hold.

One board director stated that continued rate hikes by various central banks to contain inflation had inhibited global economic growth. Against this backdrop, weak final demand had led to continuous supply chain inventory drawdown, dampening Taiwan's exports. According to the Directorate General of Budget, Accounting and Statistics (DGBAS), exports would resume positive growth in the fourth quarter but would still be in contraction territory for the year as a whole. Domestic demand, on the other hand, gained support from private consumption thanks to the lifting of pandemic-related restrictions and the universal surplus tax rebates as well as other stimulus schemes under the government's special budget for post-pandemic economic recovery. In sum, Taiwan's economy was "warm inside, cold outside," experiencing moderate domestic demand growth compounded by an external demand downturn. The Bank took a cautious view on this year's GDP growth while forecasted the inflation rate to come down gradually. The director approved of a policy rate hold, citing the multitude of uncertainties over the economic outlook.

One board director noted that the Bank's GDP growth forecast downgrade was mainly attributable to shrinking exports. The director then cited the International Monetary Fund, whose *World Economic Outlook* stated that continued rate hikes by major economies since last year caused the world to face anemic economic growth in the next five years, a rocky road fraught with uncertainties. In this light, a rate hold would be the sensible decision that would allow the Bank to pause for new information such as the lagged effect of monetary tightening and take stock of a need for future rate adjustments.

Another board director, in favor of a rate hold, stated that a pause would be appropriate so that the Bank may review the effects of its monetary policy and take this into consideration for the next policy meeting. Nevertheless, the director cautioned that prices of services continued to rise markedly and, like core inflation, tend to resist downward change; it was important to prevent inflation expectations from firming up.

One board director pointed out that the Bank trimmed the forecast for the 2023 GDP growth rate by 0.5 percentage points in June, a considerable downgrade compared to its March forecast. In addition, several neighboring economies had turned less hawkish with rate holds or even rate cuts. Meanwhile, Taiwan's inflation was also trending down. Given the above, it would be appropriate to keep the policy rates unchanged.

One board director pointed to such developments as the Fed pausing rate hikes in June, domestic inflation stabilizing, the economy contracting significantly in the first quarter, and the Bank already delivering five rate hikes. Therefore, a rate hold would be a reasonable decision for today's Meeting.

One board director noted that although recent declines in animal feed costs took pork prices lower, price stickiness would prevent related food-away-from-home prices from decreasing correspondingly. In the CPI basket, the top 17 staple goods continued seeing marked rises, and services and food away from home showed downward price stickiness. For the year as a whole, it was expected that a higher base effect would weaken this year's inflation rate provided that prices of pork and other related items would not rise further. In terms of economic growth, the pace of expansion would probably fall short of 2%. Export growth has been a key driving force for Taiwan, but recently it shrank faster than in South Korea and Japan, mainly owing to higher bases in the previous three years amid an economic boom. Given the above, a further rate hike at this juncture, while having an uncertain effect on core inflation, could risk dampening domestic demand instead. In addition, Taiwan's inflation was primarily fueled by external factors; and while the unemployment rate came to a 23-year low in April, efforts to bring down inflation would imply a trade-off towards higher unemployment. Furthermore, the economy already passed its fifteenth cyclical peak and began slowing gradually. In this view, the director approved of a rate hold and added that the Bank needs to closely monitor future price trends as reference for future interest rate decision-making.

One board director, referring to Taiwan's "warm inside, cold outside" economy, pointed out that while external demand was dampened by tighter monetary and economic conditions abroad, domestic private investment could also be dented as exports and the manufacturing production index continued declining. Without a pause in rate hikes, corporate investment could take a further hit. Therefore, a rate hold is the right decision, while continuous monitoring of future domestic price trends remains important. At present, the CPI sub-index of top 17 staple goods continued to record high annual growth rates, likely adding to inflation expectations. Although the headline and core inflation rates were edging downwards, their average values for the first five months of 2023 were still higher than those of the previous ten years. Moreover, the average real annual growth rates of total employee earnings turned negative for the January-April period of the year, the first negative growth in seven years, warranting continued attention to the potential impact of prices on real total earnings growth.

One board director pointed out that external demand shocks have been the key driver of Taiwan's business cycles and, in particular, export growth; domestic interest rate policy could be of help, albeit to a limited extent. The director cited recent data as the reasons backing up a rate hold for now: First, the headline inflation rate began trending down after a streak of rate hikes and the economy still faced a relatively low probability of recession in the next quarter despite the recent forecast downgrade. As for core inflation, it slowed slightly but remained elevated. In particular, the top 17 staples continued to post significant year-on-year price rises, which could raise public expectations of inflation. Taking into account the upside and downside factors, the director approved of a rate hold and noted that, given the transmission lags of monetary policy, it was with hope that more effects would show progressively. However, the Bank should, at the sign of resurgence in headline or core inflation, confront it proactively and raise the policy rates at a regular pace.

Another board director approved of a rate hold and expressed concern about rising prices. For the first five months of the year, the annual growth rate of the CPI sub-index of top 17 staples averaged higher than the previous year and that of the core CPI was also elevated. Meanwhile, higher rents continued to exert upside pressures on the inflation rate. Food price trends also require continued monitoring as they face potential shocks from supply uncertainties owing to weather-related interruptions or grain export controls implemented by several major crop-producing economies. If inflation shows any hint of becoming unanchored by the next Board Meeting, the Bank should take a stronger approach to contain inflation.

(2) Discussion on the proposition to adjust selective credit control measures

Several board directors expressed the opinion that by introducing a new 70% cap on the LTV ratio on second housing loans taken out by natural persons for homes in the designated “specific areas” it would help enhance lending risk management of banks, improve proper allocation of credit resources, achieve a healthy housing market, and promote financial stability.

One board director shared that the Bank noticed a continuous increase in banks’ real estate loans with a large balance as a percentage of total loans. There was also a rising number of second housing loans taken out by natural persons, making up a greater share of total borrowers of newly-extended housing loans. As some banks became more flexible about the LTV ratios, the average LTV ratio of natural persons’ second housing loans in the “specific areas” thus climbed to above 70%. The proposition to restrict the LTV ratios of this loan bracket seemed to aim at the concern that excessive lending to the real estate sector could undermine banks’ risk control. In this view, the director approved of this proposition.

One board director remarked that the previous series of selective credit controls were indeed introduced with the aim of a healthy housing market; in the meantime, the Bank continued monitoring banks’ loan portfolio to curb an inordinate flow of capital into the real estate sector. The director was in favor of the new control measure. Another board director also stated that, given the interest rate hold, implementing a new 70% cap on the second housing loans by natural persons for homes in the “specific areas” would improve the efficiency of bank credit resources.

One board director noted that not only housing price rises eased but transaction level also cooled down somewhat. In addition, the annual growth rates of housing loans and construction loans both declined. These developments carried positive implications for financial stability and indicated that the Bank’s rate hikes were beginning to show results.

One board director expressed the view that financial crises in history tended to be associated with real estate market debacles, warranting the Bank’s earnest attention to this sector. And the current higher ratio of housing credit to total bank lending also represented potential financial risk that should be mitigated. Another board director pointed out that in one of the previous amendments to the selective credit controls, the grace period was removed for natural persons’ second housing loans in the “specific areas” but no LTV ratio caps were introduced concurrently. This seemed to have led banks to gradually relax loan standards for this bracket and somewhat fueled speculative sentiment. In this view, the director approved of this amendment.

One board director stated that, from the perspective of bank lending risk management, it was sensible to introduce the new restriction. The average LTV ratio of natural persons’ second housing loans in the “specific areas” was 75.5% in October 2021; thereafter, it rose to 77.1% in April 2023. A 70% cap seemed to be the appropriate move without excessive impact.

Several board directors discussed the level of the new cap. One board director pointed out that, for the second housing loans taken out by natural persons for homes in the “specific areas,” the proposed cap on the LTV ratio was 70%, while the current cap on the third housing loans and on any housing loans taken out by corporate entities was 40%. The different cap levels for different loan types showed that today’s new rule took into account the actual needs of homebuyers (e.g., needs to expand or downsize, to buy homes for children/parents, to move, etc.). The new restriction was judged to be able to nudge second home buyers towards selling their first homes sooner as they could be exempted from the 70% cap when repaying the first housing loan within a short period after taking out the second one. Furthermore, compared to the previous 60% cap on the same loan bracket implemented in June 2010 and the current bank data average of 77%, the new cap of 70% was moderate.

3. **Monetary Policy Decisions:**

The board directors decided unanimously to keep the discount rate, the rate on refinancing of secured loans, and the rate on temporary accommodations unchanged at 1.875%, 2.25%, and 4.125%, respectively, and to adjust the selective credit controls.

Voting for the proposition: Chin-Long Yang, Tsui-Yun Chuang, Tzung-Ta Yen, Mei-Lie Chu, Chung-Dar Lei, Chi-Chung Chen, Jin-Lung Lin, Chao-Hsi Huang, Shiu-Sheng Chen, , Fu-Sheng Hung, Yi-Ting Li, Shi-Kuan Chen, Chien-Yi Chang, Ming-Jou Yang, and Mei-Hua Wang (Excused, Appointing Tzung-Ta Yen as Proxy)

Voting against the proposition: None

III. The Press Release

The board directors 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.

Press Release June 15, 2023

Monetary Policy Decision of the Board Meeting (2023Q2)

I. Global economic and financial conditions

Since the Board met in March this year, the cumulative tightening effects of continuous rate hikes by major central banks in the US and Europe have weakened global final demand and resulted in a tepid performance in the manufacturing sector. Nevertheless, the lifting of pandemic-related restrictions in most countries has supported a rebound in the services sector. Against such a background, commodity prices have registered a narrower increase because of cooling demand, whereas services price increase have remained stubbornly strong as a partial shift of consumer demand from commodity to services boosted demand for food/beverage and entertainment services and the related imbalance between services labor supply and demand also pushed up labor costs. As a consequence, global inflation has trended down at a rather gradual pace.

Recently, some central banks continued raising policy rates, yet a few central banks paused the pace of rate hikes in order to assess the cumulative effects of this monetary tightening cycle on economic activity and inflation. In view of inflationary pressures in major economies remaining elevated, interest rates could stay at restrictive levels for a considerable time. It is therefore expected that global economic and trade growth momentum would remain sluggish.

Looking ahead, the global economic and financial outlooks are still shrouded in many uncertainties, such as the duration of policy rates of major economies staying high, the degree of tightening of global financial conditions, the pace of China's economic recovery, geopolitical risks, and climate change.

II. Domestic economic and financial conditions

1. For the first quarter of the year, private consumption picked up as life gradually returned to normal as domestic pandemic-related restrictions and border controls were further relaxed. Nevertheless, a sluggish global economy and continued inventory reductions in supply chains caused Taiwan's exports to decrease even more markedly, while growth in private investment also turned negative. Overall, the annual GDP growth rate slowed to -2.87% in the first quarter. Thereafter, despite continued weakness in exports and private investment in recent months, an expansion in private consumption was expected to bolster economic growth for

the second quarter. Meanwhile, labor market conditions improved with the unemployment rate coming down and the number of employed persons rising further. In the year so far, nominal total earnings in the services sector rose over the same period last year thanks to post-pandemic resurgence in face-to-face consumption activity, whereas the manufacturing sector, hit by shrinking exports, posted slower year-on-year earnings growth and experienced an increase in the number of furloughed employees.

For the outlook of the second half of 2023, while private consumption is likely to continue growing steadily, exports would also gradually gather steam amid a stabilizing global economy and demand for emerging technology applications. The Bank expected Taiwan's economic growth to accelerate in the second half of the year compared to the previous half. For the year as a whole, the economy was forecasted to expand by 1.72% (see Appendix Table for the forecasts by major institutions), down from the March projection of 2.21%.

2. In the months from March onwards, moderating price increases in food items (such as fruit and vegetables) and softening fuel and lubricant fees combined to drive the annual growth rate of the consumer price index (CPI) on a slow downtrend that began in the second half of 2022, taking the inflation rate to 2.02% in May. The annual growth rate of the core CPI (excluding fruit, vegetables, and energy items) was 2.57% in May, a slower descent mainly because of demand-driven price rises in domestic accommodation and food services in the post-pandemic period. For the first five months of 2023, the annual growth rate of the CPI averaged 2.44% and that of the core CPI averaged 2.68%.

   Looking at the second half of 2023, it was expected that prices of crude oil and other raw materials would trend below the levels of 2022, bringing down related import prices for Taiwan and thus leading to a further softening in domestic commodity prices. However, domestic services prices stayed elevated owing to price rises in entertainment services and in food away from home, the latter of which reflected higher food ingredients and hiring costs. The Bank therefore forecasted that the inflation rate would continue to come down gradually in the second half of the year, with the headline and core inflation rates projected to slow down to 2.24% and 2.38% (see Appendix Table for the forecasts by major institutions) in 2023 from 2.95% and 2.61% the previous year, while noting that price trends of international commodities and domestic services and the effects of weather events could still affect the domestic inflation outlook in the second half of this year.

3. Banks' excess reserves stayed slightly above NT$60 billion on average for the March-April period. The annual growth rate of M2 (measured on a daily average basis) decreased from 7.25% in the fourth quarter of 2022 to an average of 6.69% in the first four months of 2023. Bank loans and investments further decreased from 6.66% of the fourth quarter of 2022 to 5.55% in the first four months of 2023. Short-term market rates and interest rates on bank deposits and loans both exhibited uptrends following the Bank's March rate hike, the fifth one in this tightening cycle.

III. Monetary policy decisions: The Board decided unanimously to hold the policy rates steady and to adjust the selective credit control measures

1. In today's meeting, the Board considered the following assessment of economic and financial conditions at home and abroad. Domestic inflation is expected to come down moderately in the second half of the year, bringing the inflation rate to around 2% in the fourth quarter. Meanwhile, the international economic outlook is confronted by many uncertainties, the domestic output gap would likely turn negative, and the domestic economy is projected to grow at a slower pace than previously forecasted. Taking into account the previous streak of five policy rate hikes and two increases in the required reserve ratios, the Board judged that a rate hold would allow the Bank to assess the cumulative effects and implications of its monetary tightening and would help foster sound economic and financial development on the whole.

   At the meeting today, the Board decided to maintain the discount rate, the rate on refinancing of secured loans, and the rate on temporary accommodations at current levels of 1.875%, 2.25%, and 4.125%, respectively.

   Looking ahead, the Bank will continue to monitor the implications for domestic economic activity and financial conditions arising from domestic monetary tightening and from the spillovers of major central banks' rate hikes. Accordingly, the Bank will adjust its monetary policy in a timely manner as warranted, so as to fulfill the statutory duties of maintaining financial and price stability and fostering economic development within the scope of the above objectives.

2. The Bank has made four adjustments to its selective credit control measures since December 2020. The policy measures have so far effectively helped banks mitigate credit risk associated with real estate lending, reflected by steady slowdown in banks' construction and housing loan growth and the continuously low level of the non-performing loan ratio for real estate lending.

   Nevertheless, recent indicators showed that real estate lending still made up a large proportion in total bank lending; in the first quarter of 2023, second home loans taken out by natural persons saw both an increase in number and an expansion in its ratio to total borrowers of newly-extended home loans, compared to the previous quarter; and the loan-to-value (LTV) ratio granted to second home loans taken out by natural persons for homes in the designated "specific areas" averaged at high levels and continued rising. In this light, the Bank decided to amend the *Regulations Governing the Extension of Mortgage Loans by Financial Institutions* with the aim of further strengthening management of bank credit resources and containing related credit risk. The amendments, including the introduction of a 70% cap on the LTV ratio for a second home loan of a natural person for housing in a "specific area," will take effect on June 16, 2023 (see Appendix for more details).

   It is expected that more results will continue to emerge as government agencies are making headway with their policy efforts under the Healthy Real Estate Market Plan and improving relevant mechanisms and measures. Going forward, the Bank will continuously monitor the developments in housing credit and market, review the implementation of the selective credit control measures, and make adjustments as needed in order to promote financial stability and sound banking operations.

IV. The NT dollar exchange rate is in principle determined by market forces. Nonetheless, when seasonal or irregular factors (such as massive inflows or outflows of short-term capital) lead to excess volatility or disorderly movements in the NT dollar exchange rate with adverse implications for economic and financial stability, the Bank, in accordance with its statutory mandates, will step in to maintain an orderly market.

Appendix: **Comparison Table of the Amendments to the *Regulations Governing the Extension of Mortgage Loans by Financial Institutions***

Effective date: June 16, 2023

<table>
<tr><th colspan="2" rowspan="2">Loans</th><th colspan="2">Loan Underwriting Criteria</th></tr>
<tr><th>Current provisions</th><th>Amendments</th></tr>
<tr><td colspan="2">Housing loan, taken out by a corporate entity</td><td>LTV ratio capped at 40%; no grace period</td><td>(Unchanged)</td></tr>
<tr><td rowspan="3">Natural person</td><td>High-value housing loan</td><td>LTV ratio capped at 40%;
no grace period</td><td>(Unchanged)</td></tr>
<tr><td>Second home loan for housing in a "specific area"*</td><td>No grace period</td><td>LTV ratio capped at 70%;
no grace period</td></tr>
<tr><td>Third home (and more) loan</td><td>LTV ratio capped at 40%;
no grace period</td><td>(Unchanged)</td></tr>
<tr><td colspan="2">Land loans</td><td>● LTV ratio capped at 50%, with 10% withheld for disbursement until construction commences
● Requiring the borrower to submit a substantive development plan for the land purchased and to undertake in writing a specific time frame to commence construction</td><td>(Unchanged)</td></tr>
<tr><td colspan="2">Unsold housing unit loans</td><td>LTV ratio capped at 40%</td><td>(Unchanged)</td></tr>
<tr><td colspan="2">Mortgage loans for idle land in industrial districts</td><td>LTV ratio capped at 40%, with the following exemptions applicable when:
● Construction on the collateralized land has already commenced, or
● The borrower has submitted a substantive development plan for the land purchased and an affidavit stating that construction would take place within one year</td><td>(Unchanged)</td></tr>
</table>

* The "specific areas" prescribed herein refer to Taipei City, New Taipei City, Taoyuan City, Taichung City, Tainan City, Kaohsiung City, Hsinchu County, and Hsinchu City.

Appendix Table

Taiwan's 2023 Growth and Inflation Forecasts by Major Institutions

Unit: year-on-year; %

Forecast institutions		GDP Growth Rate	CPI Growth Rate
Domestic institutions	**CBC (2023/6/15)**	**1.72**	**2.24 (CPI)** **2.38 (core CPI*)**
	DGBAS (2023/5/26)	2.04	2.26
	TIER (2023/4/25)	2.31	2.20
	CIER (2023/4/20)	2.01	2.18
Foreign institutions	Goldman Sachs (2023/6/12)	1.20	2.03
	Barclays Capital (2023/6/9)	0.70	2.00
	BofA Merrill Lynch (2023/6/9)	1.30	2.10
	Citi (2023/6/9)	1.90	2.30
	Morgan Stanley (2023/6/9)	2.00	2.10
	Nomura (2023/6/9)	1.60	2.20
	S&P Global Market Intelligence (2023/5/15)	1.15	2.14
Forecast Average		**1.63**	**2.16**

* Excluding vegetables, fruit, and energy.