Minutes of the Monetary Policy Meeting

December 21, 2017

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

Minutes[1] of the Joint Meeting of the Board of Directors and the Board of Supervisors on Decmber 21, 2017

Date and Time: December 21, 2017, at 3:30 p.m.

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

Members Present:

Chairman, Board of Directors: Fai-nan Perng

Executive Directors:

Yu-jer Sheu, Jong-Chin Shen, Chin-long Yang, Tzung-ta Yen, Ming-yih Liang, Sheng-cheng Hu

Directors:

Tsung-hsien Lin, Chen-chia Lee, Chung-dar Lei, Chao-yih Chen, Jin-lung Lin, Mei-lie Chu, Chao-hsi Huang, Bih-jane Liu

Chairman, Board of Supervisors: Tzer-ming Chu

Supervisors:

Chi-yuan Liang, Tsung-jung Liu, Ping-yung Chiu, Ching-fan Chung

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

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

Yue-min Chen, 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

Lien-Hwa Hsiang, Secretary, Board of Supervisors

Chih-cheng Hu, Secretary, Board of Directors

Presiding: Fai-nan Perng

Agenda Item 1: Setting M2 target range at 2.5%-6.5% for year 2018.

I. Background Information

The Department of Economic Research provided the following information:

1. Considerations for M2 target setting

The annual target range of the monetary aggregate M2 is mainly determined by taking into consideration two factors: demand for money, and future uncertainties.

2. Preliminary estimation of demand for money for 2018

Based on the coefficient estimates of the money demand function, and the CBC's own forecasts for the 2018 GDP growth rate (2.35%) and CPI growth rate (1.12%), the preliminary result of the annual growth rate of demand for M2 is around 3.11%.

3. Proposition to set the 2018 M2 target at a range of 2.5% to 6.5%

The CBC's preliminary result of the annual growth rate of demand for M2 is around 3.11%. Taking into account past model forecasting errors, it is estimated that annual M2 growth rate will be close to 4.0% for 2018. There also exist other factors likely to affect M2 growth, including lingering uncertainties about international political, economic, and financial conditions. Moreover, it is important for proactive measures, such as counter cyclical policy, to be employed should external developments dampen the momentum for Taiwan's economic recovery. Therefore, it is proposed that the 2018 M2 growth target range be set at 2.5%-6.5%, same as 2017.

Uncertainties with potential effects on next year's M2 growth and economic outlook include the following.

(1) High uncertainties as to the political, economic, and financial conditions around the world. For example, major economies' monetary policy decisions could spur greater capital flows, inevitably having some effects on Taiwan's M2 growth.

(2) Rising international trade protectionism could disrupt the world trade order, dampening Taiwan's exports.

(3) The impact of US tax reforms and expanded infrastructure spending and China's slower growth add to the uncertainties over the global economy, which could weaken Taiwan's growth momentum.

4. In view of considerable uncertainties over the economic and financial conditions at home and abroad next year, the Bank will, as usual, review and assess the M2 growth target and the estimation model in mid-year.

II. Discussion and Decision on the 2018 M2 Growth Target Range

1. All directors were in favor of keeping the M2 growth target range unchanged. Their views are summarized as below.

One director noted that a seminar participated by academics and experts was held in the Bank in early December 2017 to give an extended discussion on the setting of the 2018 M2 growth target range. The M2 growth simulation results for 2018 were broadly similar to those for 2017, supporting the view to maintain next year's M2 growth target range at 2.5%-6.5%, subject to a mid-year review if warranted by international economic and financial developments.

Another director pointed out that the 2.5%-6.5% M2 growth target range has been in place for nine years from 2009 to 2017, during which the target was achieved for all years but year 2009 by a small margin. In addition, the annual M2 growth rate averaged at a slightly lower level of 3.76% for the first eleven months of 2017. Nevertheless, since M2 growth targets and forecasts are two separate things and next year's target range can also be adjusted if warranted by international economic and financial developments, it seemed appropriate to keep the target range unchanged.

2. Decision on the 2018 M2 growth target range

The directors reached a unanimous decision to set the 2018 M2 growth target range at 2.5% to 6.5%.

Voting for the proposition:

Fai-nan Perng, Yu-jer Sheu, Jong-Chin Shen, Chin-long Yang, Tzung-ta Yen, Ming-yih Liang, Sheng-cheng Hu, Tsung-hsien Lin, Chen-chia Lee, Chung-dar Lei, Chao-yih Chen, Jin-lung Lin, Mei-lie Chu, Chao-hsi Huang, Bih-jane Liu

Voting against the proposition: None.

Agenda Item 2: Economic and Financial Conditions and Monetary Policy Decision

I. Review of Economic and Financial Conditions

The Department of Economic Research presented the following review:

1. International Economic and Financial Conditions

Developments since the September Board Meeting pointed to synchronized global growth with moderate expansion in advanced economies and sustained recovery in emerging market economies. The global economy is expected to pick up steadily next year, but world trade growth might be dragged down slightly by the gradual monetary policy normalization in advanced economies, softer demand from China, and a higher base of the previous year.

For the year of 2018, with the exception of the US economy continuing to strengthen, most major economies are projected to experience slightly slower growth. As a stronger euro could dampen exports and Japan might feel the strains from China's economic slowdown, both the euro area and Japan will grow slower than this year. For other Asian economies, most of them will not expand as fast as this year owing to a higher base effect. In addition, international forecasting institutions projected inflation to be below 2% for the US, the euro area, and Japan, indicating a mild inflation outlook.

In the international financial markets, major Asian currencies except the Japanese yen broadly appreciated against the US dollar owing to capital inflows into this region. Meanwhile, the global stock markets recorded an extended rally on the back of a mild expansion in the global economy.

Key risks facing the global economy stem from four areas: (1) gradual normalization of monetary policy by major economies, which could induce capital outflows from other economies and cause currency devaluation; (2) impacts stemming from the US economic and trade policies, such as the US tax reform and its influence on cross-border capital flows; (3) rising trade protectionism and its repercussions on global trade activity; (4) geopolitical risks, including tensions on the Korean Peninsula and the Middle East, and possibly louder cries for autonomy/independence in some European countries, which could roil the commodity and financial markets, compounding the uncertainties over the global economic recovery.

2. Domestic Economic and Financial Conditions

(1) Economic situation

During the period since the Board last convened, Taiwan enjoyed robust export growth. The Manufacturing Purchasing Managers' Index (PMI) and the Non-Manufacturing Index (NMI) both showed expansion. As employment improved further, consumer confidence rebounded and private consumption increased steadily. The economic recovery continued, albeit with moderate strength, as suggested by the government's business climate monitor barely flashing "green" (representing stable growth) in October and moderate growth in private investment mainly owing to slower capital equipment outlay of the semiconductors industry. Projections by major forecasting institutions at home and abroad saw Taiwan's economy to expand by 2.50%-2.61% this year and 2.27%-2.41% next year, while **the Bank's own forecast is 2.61% this year and 2.35% next year.**

In terms of external demand, bolstered by the steady expansion in the global economy and a lower base effect, Taiwan's exports rose by 13.1% during the January-November period this year; exports in NT dollar terms grew at a slower pace of 6.9%, reflecting NT dollar appreciation. By product, electronic parts and components made up the most contribution to export growth, thanks to robust global demand for semiconductors. By market, exports to all major destination economies registered positive growth, with those to China showing the largest increase. In assessing the outlook, a stable global economic recovery and sustained strength in electronics will shore up Taiwan's exports but the momentum could be dampened by unabated global economic uncertainties and a higher base year of 2017. Taiwan's exports are expected to post moderate growth in 2018.

With respect to domestic demand, with corporate profit gains likely to bolster business hiring and bonus sharing, as well as the announced plan to increase minimum wage and public sector pay, private consumption is expected to continue growing next year at a pace similar to this year.

As for private investment, the semiconductor and panel industries are expected to continue investing in machinery and equipment, and the government has allocated more budget for technology development to facilitate projects on industry innovation as well as "forward looking" infrastructure development. Combined with the effect of a lower base for comparison this year, private investment is projected to record higher, albeit moderate, growth next year.

Labor market conditions continued to improve. In the months since January, the average unemployment rate dropped year on year, and the average wage posted a mild increase.

(2) Financial conditions

The domestic market (nominal) interest rates have remained steady. The Bank has managed market liquidity through open market operations and kept banks' excess reserves at an adequately accommodative level. The overnight call loan rate has also been steady. Taiwan's real interest rate remained in positive territory and relatively higher than many major economies. Assessed against economic conditions, some of those economies enjoy higher GDP growth than Taiwan while recording relatively lower, and negative, real interest rates when compared with Taiwan.

In regard to monetary growth, the M2 annual growth rate climbed to 4.07% in November, mainly because of faster growth in bank loans and investments and continued net foreign capital inflows. For the first eleven months of this year, the average annual M2 growth rate was 3.76%, within the Bank's target range. In terms of bank credit, the annual growth rate of bank loans and investments rose from 4.15% to 4.79% year on year for the January-November period, mainly attributable to a steady economic recovery and greater demand for funds. The average annual growth rate of M2 and that of bank loans and investments were both higher than the sum of the 2017 projected GDP and CPI annual growth rates (3.22%), indicating that market liquidity conditions have been sufficient in meeting the need of economic activity.

In recent months, both short- and long-term market interest rates have held steady, and the domestic stock prices have stayed elevated, whereas the NT dollar has strengthened against the US dollar. Overall, the financial condition index has pointed to slightly tighter financial conditions.

Looking ahead, as a result of lingering global economic uncertainties and monetary policy divergence among major economies, cross-border capital movements will play a major part in M2 growth changes. Meanwhile, demand for funds buttressed by the mild economic recovery is expected to support continued growth in bank loans and investments.

(3) Price trends

Geopolitical risks in the Middle East and the extended oil output-cut agreement among OPEC members and non-OPEC oil producers have combined to push up international oil prices since September. In mid-December, Brent crude oil price hit a new high in two and a half years. However, international forecasts pointed to a mild increase in oil prices next year. Global grain prices swung lower on positive supply factors thanks to favorable weather conditions.

Within the year, despite an upturn in international oil prices, imported inflationary pressures were mitigated by a stronger NT dollar. As a result, combined with stable basic cost of living and a higher comparison base of vegetables and fruit prices, consumer prices saw a smaller increase. The annual CPI growth rates averaged 0.57% for the first eleven months of the year, and the annual core CPI growth rate (excluding fruit, vegetables, and energy prices) averaged 0.99% for the same period. In sum, current inflation remains stable.

Soft domestic demand has led the output gap, a key factor of inflationary pressures, to be negative, indicating muted inflationary pressures. Reflecting this observation, the forecasts made by major institutions at home and abroad suggest a mild inflation outlook for Taiwan for this year and the next. The medians of domestic institutions' forecasts for 2017 and 2018 are 0.62% and 0.96%, respectively, while those of international institutions' forecasts are 0.60% for 2017 and 1.30% for 2018. **According to the Bank's own forecasts, the CPI annual growth rate is projected to be 0.61% this year and 1.12% next year,**

and core CPI is expected to rise 1.02% this year and 1.12% next year. The inflation outlook remains stable.

As for key determinants of price trends next year, sources of upside pressures include: the absence of major crop damage amid relatively stable weather conditions this year could result in more marked rises in vegetables and fruit prices next year; the cascading effect of the cigarette tax hike could continue into October 2018; the hikes in minimum wage and public sector employee pay next year may herald a private sector wage increase; international oil prices are expected to rise moderately. Downside pressures might arise from a still negative output gap and further reductions in telecommunication rates.

3. Considerations for Monetary Policy

(1) Global economic uncertainties still lie ahead, while the domestic recovery is on track but the output gap remains negative

Since the Board last convened in September, the global economy continued with steady growth, with a stable outlook for 2018. However, monetary policy divergence among major central banks, the effects of the US economic and trade policies, mounting trade protectionism, and geopolitical risks might cast a longer shadow on the world's international and financial prospects. In addition to persistent uncertainties, a higher base effect of exports could also inhibit external demand growth, while private investment is expected to increase mildly. In sum, the domestic economy is projected to recover at a moderate pace next year.

(2) Current inflationary pressures and expected inflation are both mild

During the period of January to November, domestic inflation has been stable. In view of moderate oil price rises expected for next year, soft domestic demand, and a still negative output gap, the inflation outlook is mild.

(3) Financial conditions were slighter tighter

In recent months, steady interest rates and domestic stock rally were accompanied by the NT dollar appreciation. Consequently, the financial condition index has pointed to slightly tighter financial conditions.

(4) Taiwan's real interest rate stands at an appropriate level compared to those of major economies

Taiwan continued to exhibit positive real interest rates. Assessed against economic growth, many economies enjoying higher GDP growth than Taiwan recorded relatively lower, and negative, real interest rates, a reflection of a more loose monetary policy stance compared to Taiwan.

II. 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. All board members approved of keeping policy rates unchanged. The discussions are summarized as follows.

In respect of the international economic situation, **one board director expressed** concerns about how risks to the global economic and trade outlook could affect Taiwan's economic growth. There remain many international uncertainties next year, particularly lower world trade volume than this year, which could dampen domestic economic activity. **Another board director suggested** close attention be paid to changes in the interest rate gap between Taiwan and the US since the Federal Reserve already initiated the balance sheet normalization program and is expected to hike its policy rate further in 2018.

With regard to domestic economic conditions, several board directors saw Taiwan's economy as growing steadily but noted the recovery momentum was just moderate. **One board director pointed out** that private consumption recorded stable growth in the past few quarters and private investment is expected to grow faster next year, but their shares of GDP were both at their lows in recent years. These indicated that there is much room for both consumption and investment to increase further. **Another board director noted** that government efforts in boosting investment and the announced public sector wage increase would only generate some growth momentum for Taiwan's small economy. **One other board director added** that Taiwan and the global economy will likely grow at a still moderate pace in the next three years, according to international forecasting institutions.

During the discussion of domestic price trends, **one board director stated** that Taiwan's basic cost of living, which includes water, electricity, health, communication, transportation, and education expenses and accounts for a weight of 16.62% in the consumer price index, has been steady this year with zero percentage point contribution to the annual CPI growth rate. This was conducive to stable inflation and has helped Taiwan sustain higher per capita GDP at purchasing power parity (PPP). **Another board director observed** that while previous hikes in electricity rates had pushed up prices, decreases in electricity rates have not brought about price declines.

Several board directors and supervisors gave opinion on international raw material price trends and their possible effects on domestic inflation prospects. **One board supervisor noted** that as crude oil (including shale oil) inventory swung lower recently, futures investors largely trimmed their bets on a further decline in oil prices. Given large speculative positions in oil futures, improving global economic fundamentals, and heightened geopolitical risks in the Middle East, the current forecast based on international institutions' projections of next year's oil prices seemed rather conservative. In addition, base metal prices and prices of other energy commodities such as coal and liquefied natural gas all climbed significantly, which could drive up domestic prices. Nevertheless, there are other factors at play when it comes to domestic price movements; for instance, recent grain price falls exerted a price-stabilizing effect. Overall, the annual CPI growth rate will still face upside pressures from import price uptrends. **One board director also pointed out** that crude oil futures prices could affect spot oil prices.

Another board director noted the importance of monitoring the development of shale oil and the effect on oil prices; if the prospects of shale oil remain bright, increased shale output will likely contain sharp crude prices rises. **One board supervisor saw** future raw material price gains as having a lag effect on domestic prices, which are expected to increase in the second half of next year, while the effect will likely be felt by the advanced economies first. **One board director pointed out** that while weather-induced disruptions to domestic CPI were largely absent this year, future price movements will still face uncertainties associated with weather conditions.

In their discussions regarding interest rate decision, **many board directors** expressed the view that monetary policy deliberation shall incorporate key factors such as domestic inflationary pressures, economic growth, and real interest rates. Against a backdrop of multiple uncertainties over the international economy, moderate growth momentum for the domestic economy, a still negative output gap, and a higher real interest rate compared to many major economies, it would be the appropriate decision to keep the policy rates unchanged. In particular, **one board director** judged that Taiwan's output gap remains to be addressed, current inflation is mild with the inflation rate below 2%, and the unemployment rate is likely to decrease further; this assessment underpinned the view that a rate hike would be premature. Moreover, a rate hold is also warranted by the concern that increasing the policy rate would add to mortgage burden on homeowners with a negative impact on consumer spending and, in turn, weigh on the gradual recovery of the domestic economy.

Citing high correlation between interest rate policy implementation and M2 growth target achievement, **one board director expressed approval** of the proposition, seeing a rate hold as conducive to attaining next year's 2.5%-6.5% M2 growth target range, already agreed upon unanimously in this meeting.

Another board director also favored the rate hold proposition, adding that effective monetary policy hinges on sending a clear signal to the market about the direction of policy, i.e., a rate increase/decrease indicates more rate increases/decreases in the coming quarters unless otherwise warranted. However, the overall domestic economic and price situations at present do not suffice for this approach; it is thus more appropriate to maintain the interest rates at their current levels.

Several board directors and supervisors expressed their opinions about a rate cut. **One board director** agreed that maintaining current rates is the sensible path given that domestic economic and price trends remained largely unchanged; however, since Taiwan's real interest rate was higher than those of most major economies, there seemed to be room for a rate cut. **Another board director** also noted that, while current situations validated the decision to keep the policy rate steady, in the future, a rate cut warranted by economic and financial conditions at home and abroad can provide an economic boost. **One board supervisor suggested** that in the context of continuously higher real interest rates in Taiwan than in other major economies, some of which had announced rate cuts, as well as subdued momentum for domestic growth, it might be possible to explore the option of a rate cut. **Another board supervisor stated** that considering future inflationary pressures stemming from recent raw material price rises, the timing was not ripe for a rate cut and it would be more appropriate to keep rates unchanged for now.

With regard to the developments that the US, the UK, and South Korea all hiked their policy rates in the recent month, **several board directors and supervisors** expressed their view that Taiwan needed not follow suit as our economic, financial, and price conditions were not exactly the same as these countries. **One board director pointed out** that the US was already close to full employment, whereas Taiwan's output gap remained negative. Taiwan also experienced muted inflationary pressures and a mild inflation outlook and witnessed NT dollar appreciation and the ensuing tightening of financial conditions. This board director cautioned that a policy rate hike could result in further currency appreciation, and exchange rate movements tend to have important effects on Taiwan's economy. Furthermore, some countries enjoyed faster economic growth but registered lower, even negative, real interest rates, whereas Taiwan’s real interest rate was relatively higher and in the positive territory. On balance, it would be appropriate to keep the policy rates unchanged. **Another board director shared a similar view** in favor of a rate hold, stating that a negative output gap, mild inflation, and higher real interest rates than many neighboring countries warrant no change instead of acting prematurely by raising rates on the heels of the Fed’s hike.

One board supervisor also pointed out that, comparing to South Korea, Taiwan exhibited less rapid growth, lower inflationary pressures, and a higher real interest rate, weakening the rationale for a rate hike. **Another board director**, also in support of a rate hold, observed that as Taiwan is likely to move ahead in next few years with moderate growth momentum and steady price trends, near-term market attempts to speculate the possibility of a rate hike simply based on the interest rate decisions of other central banks (such as rate hikes by the US Fed and the Bank of Korea) would be rather conjectural.

One board director also noted that the European Central Bank and the Bank of Japan were in a “wait-and-see” mode instead of following the footsteps of the Fed to raise rates. Meanwhile, a domestic wage increase slated for next year and potential rises in international oil prices would affect future inflation and consequently the real interest rate. Given the highly uncertain prospects, it would be a well-advised decision to hold steady on policy rates; interest rate adjustments in line with international trends may be put on the table next year, depending on the economic and financial developments at home and abroad.

Based on the assessment of domestic and international economic and financial conditions and prospects, the board directors all expressed approval of keeping policy rates unchanged.

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.

Voting for the proposition:

Fai-nan Perng, Yu-jer Sheu, Jong-Chin Shen, Chin-long Yang, Tzung-ta Yen, Ming-yih Liang, Sheng-cheng Hu, Tsung-hsien Lin, Chen-chia Lee, Chung-dar Lei, Chao-yih Chen, Jin-lung Lin, Mei-lie Chu, Chao-hsi Huang, Bih-jane Liu

Voting against the proposition: None.

III. 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.

The Bank will also announce the tentative schedule of Monetary Policy Meetings next year. The Meetings will take place on March 22, June 21, September 27, and December 20 in 2018, followed by a news conference.

Date: December 21, 2017

Central Bank of the Republic of China (Taiwan)

PRESS RELEASE

Monetary Policy Decision of the Board Meeting

I. Global economic and financial conditions

Since the Board met in late September this year, the global economy has experienced synchronized growth and will move into next year with a similar outlook. Among major economies, the US economy is expected to post mild expansion, while the euro area and Japan might show some signs of moderation. Growth in China and the ASEAN economies could grow at a slightly slower pace.

Recently, central banks in advanced economies such as the US and the UK have been on the path toward gradual normalization of monetary policy, whereas Japan and most emerging market economies have continued with an accommodative monetary policy stance. The divergent path of monetary policy in major economies, the developments and impact of the US economic and trade policies, rising trade protectionism, and geopolitical risks will all add to the uncertainties surrounding the global economic and financial outlook.

II. Domestic economic and financial conditions

1. Exports and industrial production both recently recorded continuous expansion, while private consumption rose mildly. Nevertheless, growth momentum for private investment remained subdued. The CBC forecasts the

domestic economy to advance by 2.41% in the fourth quarter 2017 and 2.61% for the entire year. Labor market conditions were stable with employment continuing to increase and the unemployment rate declining further.

For the year of 2018, on the back of an anticipated steady recovery in the world economy, momentum for exports and private investment is likely to sustain. In addition, private consumption is expected to remain stable, and government spending may register continued growth. As a result, the CBC projects Taiwan's economy to advance 2.35% for 2018.

2. In recent months, a continued upturn in international oil prices has pushed up domestic import prices. However, NT dollar appreciation has helped ease the pressure on imported inflation. Meanwhile, the stable rates on basic cost of living as well as a higher comparison base of vegetables and fruit priceswageThe CBC forecasts CPI and core inflation (excluding vegetables, fruit, and energy items) for 2017 to average 0.61% and 1.02% year on year, respectively, suggesting that current inflation is rather stable.

   Looking ahead to 2018, private sector might raise wages in step with the hikes in minimum wage and public sector employee pay, which could provide a thrust to prices. However, in the context of mild increases in international oil prices, moderate domestic demand, and the output gap remaining negative, the CBC projects CPI and core CPI to both rise at a pace of 1.12% year on year in 2018, reflecting a mild inflation outlook (see Table 1 in Appendix 1).

3. Against a backdrop of stable inflation and economic recovery, the CBC has continued to manage market liquidity and help maintain banks' excess reserves at an appropriate level. For the first eleven months of the year, bank credit registered steady growth with bank loans and investments expanding by

4.79% year on year, while the monetary aggregate M2 posted an average annual growth rate of 3.76%. This suggests there is ample market liquidity to support economic activity.

In recent months, both short- and long-term market interest rates have held steady, and the domestic stock prices have stayed elevated, whereas the NT dollar has strengthened against the US dollar. Overall, the financial condition index has pointed to slightly tighter financial conditions.

III. Monetary policy decisions

In sum, uncertainties still cast a shadow over next year's global economic outlook. The domestic economic growth is likely to pick up moderately, while the output gap remains negative. Both current inflationary pressures and future inflation expectations are anchored. The financial conditions have experienced some strains, while Taiwan's real interest rate stands at an appropriate level among major economies (see Table 2 and Figure 1 in Appendix 1). In light of the above developments, the Board judged that maintaining the policy rates and the M2 target range unchanged will help to foster a stable financial environment and achieve sustained economic growth.

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

1. 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.

2. Taking into account the economic growth and price trends, the Board decided to set the 2018 M2 growth target range at 2.5% to 6.5% (see Appendix 2), the same as this year.

The CBC will continue to closely monitor the latest developments in both actual and expected inflation, output gap, and other international and domestic economic and financial conditions. We will undertake appropriate monetary policy actions accordingly in an attempt to fulfill the central bank's statutory mandate.

IV. In principle, the NT dollar exchange rate is determined by market forces. If irregular factors (such as massive inflows or outflows of short-term capital) lead to excess volatility and disorderly movements in the NT dollar exchange rate with adverse implications for economic and financial stability, the CBC will, in line with its mandate, step in to maintain an orderly market so as to ensure economic and financial stability.

Appendix 1

Table 1 Taiwan's Inflationary Pressures and Inflation Outlook

Unit: %

		Inflationary pressures	Inflation outlook	
		Jan.-Nov. 2017	2017 (f)	2018 (f)
Domestic institutions	TIER (2017/11/15)	**0.57 (CPI)** **0.99 (Core CPI*)**	0.75	0.80
	TRI (2017/12/14)		0.64	0.88
	DGBAS (2017/11/24)		0.62	0.96
	CIER (2017/12/19)		0.56	0.99
	CBC (2017/12/5)		0.61 (CPI) 1.02 (Core CPI*)	1.12 (CPI) 1.12 (Core CPI*)
Foreign institutions	UBS (2017/12/15)		0.64	0.96
	EIU (2017/12/16)		0.60	1.20
	Credit Suisse (2017/12/15)		0.60	1.20
	HSBC (2017/12/15)		0.70	1.20
	IHS Markit (2017/12/15)		0.56	1.22
	Deutsche Bank (2017/12/8)		0.60	1.30
	BoA Merrill Lynch (2017/12/18)		0.50	1.30
	Goldman Sachs (2017/12/18)		0.80	1.30
	Barclays Capital (2017/12/15)		0.60	1.30
	Citi (2017/11/16)		0.60	1.30
	Nomura (2017/12/15)		0.60	1.50

Median:
0.62% (2017)
0.96% (2018)
(domestic institutions)

Median:
0.60% (2017)
1.30% (2018)
(foreign institutions)

*Excluding vegetables, fruit, and energy.

Sources: DGBAS, Executive Yuan; forecasts by respective institutions.

Compared with other economies, Taiwan's nominal interest rate is not low and the real interest rate is relatively higher.

Table 2 Real Interest Rates and Economic Growth of Selected Economies

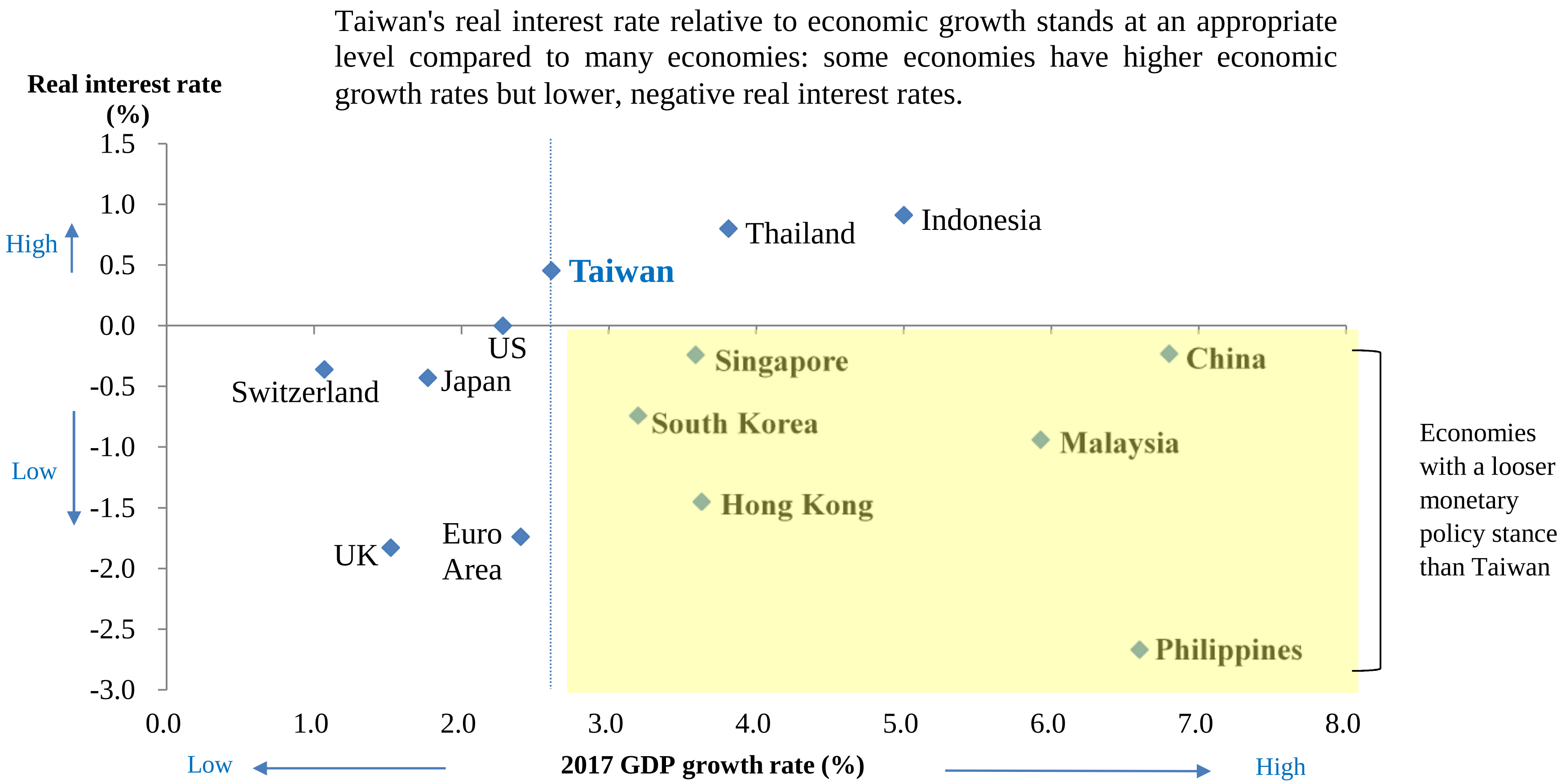
Unit: %

Economies	(1) 1-year time deposit rate (As of 2017/12/21)	(2) CPI annual growth rate ** (2017 forecast)	(3)=(1)-(2) **Real interest rate**	**Real GDP growth rate (2017 forecast)** **
Indonesia	4.750	3.84	0.910	5.0
Thailand	1.500	0.70	0.800	3.8
Taiwan	**1.065***	**0.61**	**0.455**	**2.61**
US	2.140	2.14	0.000	2.3
China	1.500	1.73	-0.230	6.8
Singapore	0.250	0.49	-0.240	3.6
Switzerland	0.160	0.52	-0.360	1.1
Japan	0.011	0.44	-0.429	1.8
South Korea	1.300	2.04	-0.740	3.2
Malaysia	2.850	3.79	-0.940	5.9
Hong Kong	0.050	1.50	-1.450	3.6
Euro Area	-0.270	1.47	-1.740	2.4
UK	0.860	2.69	-1.830	1.5
The Philippines	0.500	3.17	-2.670	6.6

* 1-year time-deposit floating rate of the five major domestic banks.

** IHS Markit projections, as of Dec. 15, 2017. Forecasts for Taiwan's CPI annual growth rate and the real GDP growth rate are CBC's projections.

Figure 1 Real Interest Rates and Economic Growth of Selected Economies



Source: same as Table 2.

Appendix 2

Considerations for the year 2018 M2 growth target range

1. In 2018, the domestic economy is expected to recover moderately along with subdued inflationary pressures. In addition, several areas of concern, including volatile cross-border capital movements amid amplified uncertainties over global financial conditions, the developments and impact of the U.S. economic and trade policies, and slower growth in the Chinese economy, could affect Taiwan's economic recovery. Based on the assessment, the M2 growth target range for 2018 is set at 2.5% to 6.5%, unchanged from this year. The CBC will sufficiently meet the funding needs of the private sector in order to foster economic growth.
2. Given the highly uncertain outlook for international and domestic economic and financial developments in 2018, the CBC will, as usual, review and assess the M2 growth target in mid-year and adjust the target range if necessary.