Minutes of the Monetary Policy Meeting

March 18, 2021

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 March 18, 2021

Date and Time: 2:00 p.m., March 18, 2021

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, Mei-hua Wang, Tzung-ta Yen, Nan-kuang Chen, Chung-dar Lei

Directors:

Jin-lung Lin, Chao-hsi Huang, Shiu-sheng Chen, Chao-yi Chen, Fu-sheng Hung, Yi-ting Li, Shi-kuan Chen, Chien-yi Chang

Chi-chung Chen (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:

Tsuey-ling Hsiao, Director General, Department of Banking

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

Chiun-min Tsai, Director General, Department of Foreign Exchange

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

Dou-ming Su, 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

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[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 DECISIONS

I. Staff Review of economic and financial conditions

The Department of Economic Research presented the following review:

1. International Economic and Financial Conditions

Global economic prospects were buoyed by faster vaccination against COVID-19 and an easing of restrictions. Given a brighter outlook and boosters provided by economic stimulus programs, as well as a lower base effect, global GDP growth was projected by international forecasters to strengthen significantly this year. Major economies were expected to return to a path of positive growth, albeit at different paces depending on the progress of vaccination, economic reopening, and implementation of the policy supports.

A noticeable improvement in global trade activity was evident in a strong rebound of the WTO Goods Trade Barometer. International forecasting institutions projected that global goods trade volume would expand significantly on the back of a global economic recovery and a lower base effect.

Still, the pandemic continued to affect the economy; against this backdrop, major economies maintained an accommodative monetary policy stance – stressing that an exit now would be premature – and continued with expansionary fiscal policy.

In global financial markets, investors expected higher inflation amid a global recovery and commodity price rises, while US inflation expectation was also fueled by the rollout of Biden administration’s US$1.9 trillion stimulus plan. As a result, 10-year government bond yields of the US, Japan, and Germany were all on the rise. The US dollar index rose back up as investors saw a growth-driving force in the US fiscal package and the real interest rates rebounded. Meanwhile, international stock markets went steady after downward corrections from previous peaks.

Regarding international commodity price trends since February, blizzard-caused shutdown of oil output in Texas – one of America’s key oil-producing states, optimism for the US economy to be lifted by a new stimulus package, and OPEC+’s decision of an extended production cut combined to push oil prices significantly upwards. Meanwhile, grain prices swung up on unstable weather conditions in major crop areas and strong Chinese demand for US farm produce. Overall, in view of raw material price rallies and the expectation for the global economy and consumer demand to warm up, international forecasters projected global inflation to turn upwards.

Looking ahead, the global economy would have to move forward in a sea of uncertainties likely to arise from: (1) a significant lack of effective mass vaccination; (2) rising yields on longer-term bonds of major economies, which could cause financial conditions to tighten; (3) financial fragilities exacerbating further as the pandemic aggravates existing inequality, productivity slack, and debt burdens; (4) lingering global economic and trade uncertainties over such issues as US-China relations, as well as unabated climate change risks. Should these uncertainties and risks materialize and/or intensify, they could derail a global economic recovery.

2. Domestic Economic and Financial Conditions

(1) Economic situation

Since after mid-2020, Taiwan's leading and coincident indicators for business cycles have both trended up. Recent business sentiment was also upbeat about economic prospects. The domestic economy continued warming up.

In terms of external demand, increasing vaccinations helped revive global economic growth momentum, leading exports of major Asian economies to expand year on year and markedly prodding up Taiwan's export growth. Looking at Taiwan's exports, major export products increased remarkably, benefiting from advancement in emerging technology applications, booming business to facilitate remote working, and resumed demand for traditional manufacturing goods. In terms of export markets, exports to Taiwan's major trading destinations all recorded positive growth. With global economic and trade activity on the mend, demand for emerging tech applications and remote-working products staying strong, and manufacturers in Taiwan expanding capacity, the Bank projected Taiwan's exports to enjoy solid growth in real terms this year.

In regard to domestic demand, the Bank expected to see continued real growth in private investment as domestic and multinational tech firms expanded their local investment plans and major government spending schemes including green energy and 5G network infrastructure also moved along. Private consumption was also expected by the Bank to rebound on the back of a domestic economic pickup, stronger consumer confidence, and a lower base effect in the previous year.

In the labor market, conditions continued to improve. Since the latter half of 2020 as the COVID-19 outbreak eased at home, the unemployment rate had fallen and hiring also had gradually increased, while the number of furloughed employees and that of firms furloughing staff both dropped.

Overall, the Bank forecasted Taiwan's economy to grow by 4.53% year on year in 2021, faster than last year's 3.11%, based on the expectation that favorable factors would continue to bolster goods exports, a domestic economic pickup, private consumption resuming growth, and private investment expanding further. Meanwhile, the projections for Taiwan's growth this year ranged between 3.30% and 6.20% according to major forecasting institutions.

(2) Financial conditions

Public demand for currency increased in February, the month the Lunar New Year holidays fell in, followed by a flow of currency back into the banking system afterwards. In addition, market liquidity conditions were accommodative and short-term interest rates fluctuated within a very small range. The annual growth rate of the monetary aggregate M2 trended up recently, mainly reflecting a continued increase in bank loans and investments and a net capital inflow.

In the housing market, prices of new housing projects and existing homes continued rising in the first three quarters of 2020 against a background of repatriation of offshore funds, more urban renewals, and ample market liquidity. In the fourth quarter, prices of new housing projects inched down, dampened partly by the Bank's selective credit control adjustments (effective December 8, 2020). Entering the year 2021, building ownership transfers in the six Special Municipalities increased by 18.0% year on year during the Jan.-Feb. period.

Meanwhile, a more distinct feature of hoarding and rapid turnover of multiple properties was found among corporate entities. According to data from the Ministry of the Interior as of the end of 2020, among corporate entity homeowners, those owning four or more homes made up a share of 11.69% and accounted for 73.55% of the homes owned by corporate entities. Furthermore, in the fourth quarter of 2020, more than half – at 54.51% – of non-real estate and non-construction related corporations sold houses within one year of purchase. Meanwhile, high-value housing transactions had been heating up, partly reflecting demand from the returning Taiwanese businessmen in the past year. In the four quarter of 2020, the number and amount of high-value housing increased by 17.57% and 23.92% year on year, respectively.

Mortgage credit continued to grow. As of the end of January 2021, the outstanding balance of housing loans expanded by 9.2% year on year, while that of construction loans grew by 18.7% with land loans increasing the most at a pace of 28.5%. Meanwhile, the concentration ratio of real estate lending rose further to 36.53%.

On the other hand, the loan-to-value (LTV) ratios dropped slightly in January 2021, in line with the effect from the selective credit controls tightened by the Bank last December. The ratios of non-performing housing loans extended by domestic banks remained low, showing good credit quality management.

Looking at the number of housing loans to natural persons, those taking out four or more housing loans (per borrower) registered a higher annual growth rate; though the pace already slowed from 4.0% of the third quarter of 2020 to 2.2% of the fourth quarter, both readings were faster than the increases of those borrowing three or less housing loans. Meanwhile, the number and amount of high-value housing loans disbursed posted annual growth rates of 18.1% and 20.8% in 2020.

Furthermore, to encourage land owners to utilize idle land in industrial districts instead of leaving it unused after purchasing with bank loans, the Bank had, on multiple occasions, urged financial institutions to exercise caution when making loans collateralized by land classified for industrial use and to formulate internal rules for self-discipline.

In the year so far, the Bank already talked with many banks to find out about their status in implementing the amended selective credit controls. We were told that although the prudential measures did help dampen speculative demand, housing prices were not expected to decline soon given recent waves of capital repatriation and rising construction costs. The banks expressed concern about property hoarding and house flipping by corporate entities, suggested a discriminative bank credit policy aiming at borrowers with multiple outstanding mortgage loans, and also said it would benefit banks if there could be a harmonized set of rules governing industrial land loans so as to make compliance easier and prevent a mortgage price war.

Meanwhile, homebuyer sentiment seemed to be dampened recently as the government's housing market policies gradually showed results. In terms of the outlook for residential housing market in major cities, banks showed slightly less optimism about some areas and were continuously upbeat about some other areas.

(3) Price trends

For the first two months of the year, the CPI annual growth rate averaged 0.59%, mainly because the upward pressures from increases in flight tickets and vegetable prices were partially offset by declines in prices of fruit and of fuel and lubricants. The average annual growth rate of core CPI saw a mild rise of 0.84% for the same period.

Among the CPI basket of goods and services, the 17 staple goods deemed most often seen on consumers' shopping lists exhibited an average CPI annual growth rate of 1.95% during the Jan.-Feb. period; this was higher than the headline CPI inflation rate but the rise was still mild. Meanwhile, CPI inflation was modest across various consumption frequencies and income levels.

With respect to inflation expectations, professional forecasters' projections of Taiwan's CPI inflation rate had stayed around 1% on average since April 2020, pointing to mild expectations. A reference survey the Bank conducted on investment trust companies revealed an increased share of those respondents expecting domestic prices to slightly turn upwards, and the expectation pointed to a mild inflation.

For this year as a whole, in part because of rising import prices as the global impacts of COVID-19 subside and international raw material prices rebound, along with a strengthening in domestic consumer spending, inflation would likely climb back up, albeit with a mild outlook. Taiwan's CPI and core CPI was forecasted to register annual growth rates of 1.07% and 0.77%, this year, respectively, according to the Bank, while CPI inflation projections of major forecasters ranged between 0.90% and 1.70%.

Looking at major factors shaping future domestic price trends, upside pressures include (1) an expected rebound in prices of crude oil and other raw materials and a surge in international freight charges could push import prices up; (2) rises in food commodity prices abroad and a protracted drought at home could disrupt crop production, potentially driving domestic food prices upwards; (3) domestic consumer spending is expected to gather pace. On the other hand, persistently low communication fees could put downside pressures on domestic prices.

3. Considerations for Monetary Policy

(1) Considerations for the policy rate decision

A. The global economic outlook, though improving, remain shrouded in many uncertainties; major economies maintained an accommodative monetary policy stance and carried on with expansionary fiscal policies.

B. Given mild price trends and inflation outlook, the Bank forecasts the CPI and the core CPI annual growth rates to be 1.07% and 0.77% this year.

C. The domestic economy is on track to solid growth this year, likely expanding by 4.53% according to the Bank's forecast.

(2) Considerations for adjusting the Bank's selective credit control measures

A. The amended *Regulations Governing the Extension of Mortgage Loans by Financial Institutions* (the Regulations) took effect on December 8, 2020, a policy move in line with the aims of "efficient allocation and proper use of credit resources" in the government's "Program to Foster a Sound Real Estate Market." So far, the LTV ratios of the loans governed by the Regulations have dropped and the interest rates thereof have risen, but there remains a substantial increase in banks' real estate lending.

B. To preclude a disproportionate surge in mortgage credit, and to reinforce financial institutions' management of credit risk associated with real estate lending, it would be appropriate to further enhance the Regulations in the following direction:

(a) Given that corporate entity home-buyers seem to be hoarding home properties and turning them over quickly, the LTV ratio cap on housing loans extended to corporate entities would be lowered.

(b) Considering that multiple mortgage loans taken out by natural persons could have adverse implications for banks' management of credit risk associated with real estate lending, the LTV ratio cap on such loans would be adjusted, with different caps applicable depending on how many housing loans the borrower has taken out.

(c) In view of a price spillover of high-value housing to neighboring housing, and its volatile price changes as well as the concomitant high credit risk, the LTV ratio cap would be lowered.

(d) With the aim of promoting land utilization in industrial districts, new restrictions on mortgage loans for idle land in such districts would be introduced as an official guideline for banks.

II. Proposition and Decision about Monetary Policy

1. **Policy Proposition: To keep the discount rate, the rate on refinancing of secured loans, and the rate on temporary accommodations unchanged at 1.125%, 1.5%, and 3.375%, respectively; to adjust the Bank's selective credit control measures.**

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

(1) Discussion on the policy rate proposition

All board directors expressed support for keeping the policy rates unchanged based on the assessment of lingering uncertainties over the domestic economic growth amid the unabated global coronavirus pandemic. One board director noted there was no inflation risk at home and the pandemic situation still represented uncertainties for the economic outlook; therefore, it would be appropriate to hold the policy rates steady.

One board director also agreed with a rate hold, noting that discussions about a rate adjustment could at least wait until the government's pandemic relief measures close on June 30 this year and would depend on the evolution of the pandemic or developments in the economic conditions. Another board director stated that a rate cut would have a limited effect given the circumstances, and the global economic recovery was still faced with high uncertainties; the economic fundamentals, pandemic-related factors, and market liquidity conditions would all justify a rate hold.

Several board directors, all agreeing to maintain current rate levels, shared their views on a recent inflation expectation uptick and the movements of the NT dollar exchange rate. One board director pointed out that there would be little space for rate adjustments given that advanced economies broadly kept an accommodative monetary policy stance and that more US relief measures were expected to be rolled out; nevertheless, market concerns surrounding US inflation could give rise to more uncertainties over the NT dollar, posing increasing challenges to the Bank's exchange rate policy conduct; in this light, the Bank would also need to closely monitor how the exchange rate movements would affect Taiwan's industries. Another board director also noted the need to heed the risk from inflation expectations, and suggested the Bank pay attention should renewed capital inflows for equity investment by foreign investors cause the NT dollar to strengthen again.

One board director put forward a proposition that, for the benefit of monetary policy implementation, the Bank may begin to conduct surveys on inflation expectations and consumer finances at its earliest convenience. The main considerations included (1) price stability is one of the Bank's objectives, and one of the key factors affecting domestic prices is consumer behavior shaped in part by inflation expectations; (2) by surveying consumer finances, which would encompass statistical data on household balance sheet, real estate, financial assets, income, borrowing, use of payment tools, saving and investment intensions, etc., the Bank may get a better understanding of Taiwan's household financial conditions. The proposition gained support from several board directors; one of them stated that the Bank would prioritize an inflation expectation survey, whereas a consumer finance survey might be conducted through other government agencies or outsourced parties given its complicated process and relatively difficult implementation. One supervisor pointed out that some of the data on consumer finances might not be available owing to trade secret protection.

(2) Discussion on the proposed adjustment to the selective credit control measures

All board directors were in favor of the decision to adjust the selective credit control measures. One board director noted that, considering a growing risk of a housing price surge, a properly-adopted set of selective credit controls would be needed to curb an inordinately high flow of credit resources into the real estate market. Another board director stated that the share of real estate loans extended by banks continued increasing despite the targeted prudential measures introduced in December, thus warranting the proposed adjustment.

Several board directors shared their views on the content of this adjustment. One board director remarked that housing loans extended to corporate entities should be subject to a lower

LTV cap; regarding high-value housing, in addition to being an upward factor behind neighborhood housing price rises, natural-person owners – 80% of which own only one housing unit and a relatively modest share owning four or more units according to tax statistics – tend not to buy a fourth or more high-value housing unit for own-occupancy purposes. Accordingly, a lower LTV cap – similar to that on corporate borrowers' mortgages – on the fourth or more high-value housing loans taken out by natural persons would help dent homebuying enthusiasm, albeit with a potential impact on bank lending business.

One board director also agreed there is a need for such restrictions on mortgage loans taken out by corporate entities and on those for high-value housing; moreover, given that corporate entities do not run on real estate transactions and that owning four (or more) high-value homes is out of the ordinary, lower LTV caps would be warranted. Another board director pointed out that, to differentiate among varying levels of underlying risks of housing loans, there should be a lower LTV cap on a fourth (or more) mortgage loan taken out by natural persons for purchasing high-value housing; this would also be in line with the Principles for Sound Residential Mortgage Underwriting Practices issued by the Financial Stability Board, which recommends more conservative underwriting criteria in view of higher underlying risks.

One board director noted that, given the housing market boom at present, banks could consider applying lower LTV ratio caps to certain mortgage types; however, for those firms looking to build plants, their substantive investment plans should be financed under less strict underwriting standards. Therefore, it would be appropriate to set forth some exceptions or conditions regarding loans collateralized by idle land in industrial districts.

Another board director suggested that the Bank use progressive adjustments to the LTV ratio caps so that space is reserved for any future adjustment if warranted by the developments in the real estate market; meanwhile, tightening the caps excessively in one take would come as a drastic shock to the public.

One supervisor also noted that an excessive, drastic reduction in the LTV cap could instead raise the risks to banks from outstanding mortgage loans as tighter caps could curtail housing demand and causing price falls, thereby hurting the value of collaterals, particularly in the case of luxury homes. One board director pointed out that many buyers of high-value homes actually have deep pockets and do not need to take out mortgages. Another board director stated that housing loans granted with high LTV ratios are susceptible to a price trend reversal that could cause the amount of the loans to exceed the market value of their collaterals, creating credit risk to banks; likewise, risk therefrom would be smaller if the LTV ratios are lower.

Several board directors pointed to the significance of real estate lending to financial stability and suggested that the Bank review and evaluate the results of the selective credit controls after some time into the implementation.

3. **Monetary Policy Decision:** The board directors reached a unanimous vote to keep the discount rate, the rate on refinancing of secured loans, and the rate on temporary accommodations unchanged at 1.125%, 1.5%, and 3.375%, respectively, and to adjust the Bank's selective credit control measures.

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.

Press Release March 18, 2021

Monetary Policy Decision of the Board Meeting

I. Global economic and financial conditions

Since the Board met in December last year, the coronavirus (COVID-19) pandemic has gradually been brought under control, leading to a gradual recovery in global economic and trade activities, coupled with an uptrend in international crude oil and other commodity prices. International institutions project the world economy to return to positive growth this year and inflation to pick up mildly. Amid expectations of a global economic recovery and the US government's US$1.9 trillion fiscal stimulus package, recent inflation expectations in the US have strengthened markedly, driving up long-term government bond yields of major economies, and in turn causing greater volatility in international stock markets.

As the pandemic still weigh on economic activity, major economies have maintained an accommodative monetary policy stance and continued with expansionary fiscal policies. According to international forecasting institutions, global economic growth is likely to rebound in 2021. However, a string of uncertainties such as the coverage and effectiveness of vaccination, a possible tightening of financial conditions induced by recent rises in long-term bond yields of major economies, financial fragilities including considerably high levels of global debt, the development of US-China relations, and climate change risks still cast a long shadow over the global economic outlook.

II. Domestic economic and financial conditions

1. From the beginning of this year, continuously buoyant demand for electronic parts and components and information and communication products, as well as stronger sales of traditional manufacturing merchandise, boosted Taiwan's export growth substantially. With respect to domestic demand, labor market conditions remained stable and the unemployment rate dropped, while consumer confidence went up and retail sales continued growing. Taiwan's high-tech manufacturers increased capital expenditure, leading to an expansion in capital equipment imports. These developments indicated solid domestic economic growth.

   Looking at the year as a whole, Taiwan's export growth is expected to gather pace amid faster recoveries across major economies, benefiting also from a sustained boom in global demand for emerging technology applications and for remote-work technologies. Private investment would gain momentum from stronger exports and expand further, while private consumption would likely grow moderately thanks to the economic upturn at home. The

Bank forecasts that Taiwan's economy would expand by 4.53% in 2021 (Appendix Table 1).

2. For the first two months of the year, the annual growth rate of the consumer price index (CPI) averaged 0.59%, and the core CPI (excluding fruit, vegetables, and energy items) increased at an annual pace of 0.84%. For the year as a whole, inflation is expected to rebound as import prices trend up on the back of global price recoveries for oil and other raw materials and surging international freight charges. Domestic consumption is also expected to increase moderately. The Bank projects the CPI and core CPI annual growth rates to be 1.07% and 0.77%, respectively, indicating a mild inflation outlook (Appendix Table 2).

3. In the domestic financial system, liquidity remained ample, and banks' excess reserves stayed above NT$50 billion recently. Meanwhile, the average annual growth rate of the monetary aggregate M2 moved above 8%, higher than the Bank's reference range of 2.5%-6.5%. While short-term market interest rates fluctuated slightly, Taiwan's government bond yields tracked the uptrend of US Treasury yields and edged up. Overall, financial conditions remained accommodative.

   Under the Bank's special accommodation facility, launched in April 2020 to help small and medium-sized enterprises (SMEs) adversely impacted by the pandemic, financial institutions have so far received approximately 207 thousand applications with the amount totaling NT$275.4 billion. At the end of January 2021, the annual growth rate of SME loans extended by banks reached 13.93% and the annual growth rate of overall bank lending rose to 7.44%.

III. Monetary policy decisions

At the Meeting today, the Board decided unanimously on a policy rate hold and on the amendments to the Bank's selective credit controls.

1. An overall assessment of the economic and financial conditions at home and abroad included a global economic recovery still faced with significant uncertainties, continued monetary easing and large fiscal stimuluses in major economies, mild domestic price trends and inflation outlook, and the prospect of a solid economic expansion. In this view, the Board judged that a rate hold would help sustain price and financial stability and foster economic growth.

   The discount rate, the rate on refinancing of secured loans, and the rate on temporary accommodations are kept unchanged at 1.125%, 1.50%, and 3.375%, respectively.

The Bank will closely monitor the developments of the coronavirus pandemic, monetary policy stances of major central banks, changes in global financial conditions and economic and trade relations among major economies, and geopolitical risks, as well as the implications thereof for Taiwan's economy, financial conditions, and price trends, so as to adopt appropriate monetary policies as warranted to fulfill its statutory duties.

2. The Bank's *Regulations Governing the Extension of Mortgage Loans by Financial Institutions*, renamed after amendment, took effect on December 8, 2020 as a part of the policy efforts to promote "efficient allocation and proper use of credit resources" under the government's "Program to Foster a Sound Real Estate Market." Since the enactment, mortgage loans stipulated therein have been taken out at lower loan-to-value (LTV) ratios and higher interest rates. However, banks' real estate lending continued to increase markedly. Therefore, with the aim of stemming an inordinately high flow of bank credit into the real estate sector and further reining in credit risk of such lending, the Bank decided to introduce the following amendments (Appendix), effective March 19, 2021:

(1) Lowering the LTV ratio cap on housing loans extended to corporate entities: capped at 40%.

(2) Adjusting provisions on housing loans extended to individuals (natural persons):

A. Lowering the LTV ratio cap on a third housing loan from 60% to 55%; introducing a new LTV cap of 50% on a fourth (or more) housing loan (previously subject to a 60% cap).

B. Lowering the LTV ratio cap on high-value housing loan from 60% to 55%; introducing a new LTV cap of 40% on a fourth (or more) housing loan (previously subject to a 60% cap) extended to a borrower with three outstanding housing loans.

(3) Introducing a new LTV ratio ceiling on mortgage loans for idle land in industrial districts: capped at 55%.

The Bank will pay close attention to developments in the housing market and banks' management of credit risk associated with real estate lending. We will also monitor the results of the regulations and measures introduced and make timely adjustments to the relevant measures as warranted.

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 and disorderly movements in the NT dollar exchange rate with adverse implications for economic and financial stability, the Bank, in line with its statutory mandates, will step in to maintain an orderly market.

Appendix

Notes* on the Amendments to the *Regulations Governing the Extension of Mortgage Loans by Financial Institutions*

March 18, 2021

1. Among corporate entity home-buyers, there has been a more pronounced hoarding of home properties and short-lived ownership. In this light, the loan-to-value (LTV) ratio cap on housing loans extended to corporate entities is lowered to 40%.
2. Considering that multiple mortgage loans taken out by natural persons could have adverse implications for banks' management of credit risk associated with real estate lending, the LTV ratio cap on such loans is adjusted, with different caps applicable depending on how many housing loans the borrower has taken out.
3. High-value housing could drive up the prices of neighboring housing, and its volatile price changes pose greater credit risk to banks. In this view, the LTV ratio ceiling is also lowered.
4. To promote land utilization in industrial districts, new restrictions on mortgage loans for idle land in such districts are introduced as an official guideline for banks.

(See comparison table on next page)

* The translated version of this Appendix is to serve as a reference for English readers. In the event of any inconsistency or ambiguity, the official Chinese version shall prevail.

Effective date: March 19, 2021

Loans		Criteria	
		Current provisions	**Amendments**
Corporate entity	First housing loan	LTV ratio capped at 60%; no grace period.	LTV ratio capped at 40%; no grace period.
	Second housing loan	LTV ratio capped at 50%; no grace period.	LTV ratio capped at 40%; no grace period.
Natural person	Third housing loan	LTV ratio capped at 60%; no grace period.	LTV ratio capped at 55%; no grace period.
	Fourth housing loan	(Applying the same rules as a third housing loan)	LTV ratio capped at 50%; no grace period.
	High-value housing loan	LTV ratio capped at 60%; no grace period.	● Borrower with two or less (including zero) outstanding housing loans: LTV ratio capped at 55%; no grace period. ● Borrower with three or more outstanding housing loans: LTV ratio capped at 40%; no grace period.
Land loans		● LTV ratio capped at 65%, with 10% withheld for disbursement until construction commences. ● Requiring borrower to submit a substantive development plan for the land purchased	(No amendments)
Unsold housing unit loans		LTV ratio capped at 50%	(No amendments)
Mortgage loans for idle land in industrial districts		Internal rules of banks	LTV ratio capped at 55%*

* Not applicable when (1) construction on the collateralized land has already commenced, or (2) the borrower has submitted a substantive development plan for the land purchased and an affidavit stating that construction would take place within a well-defined period of time.

Appendix Table 1

Taiwan's Economic Growth Forecasts by Major Institutions

Unit: %

Forecast institutions		2021 (f)
Domestic institutions	**CBC (2021/3/18)**	**4.53**
	DGBAS (2021/2/20)	4.64
	TIER (2021/1/25)	4.30
	Forecast Average	**4.49**
Foreign institutions	IHS Markit (2021/3/15)	4.55
	EIU (2021/3/15)	4.50
	Goldman Sachs (2021/3/15)	3.90
	HSBC (2021/3/15)	4.00
	UBS (2021/3/15)	3.99
	Citi (2021/3/14)	4.50
	Barclays Capital (2021/3/12)	5.20
	BofA Merrill Lynch (2021/3/12)	4.80
	J.P. Morgan (2021/3/12)	6.20
	Standard Chartered (2021/3/12)	3.30
	Credit Suisse (2021/3/11)	5.60
	Morgan Stanley (2021/3/11)	3.80
	Deutsche Bank (2021/3/2)	5.50
	Forecast Average	**4.60**

Appendix Table 2

Taiwan's Inflation Forecasts by Major Institutions

Unit: %

Forecast institutions		2021 (f)
Domestic institutions	**CBC (2021/3/18)**	**1.07 (CPI) 0.77 (Core CPI*)**
	DGBAS (2021/2/20)	1.33
	TIER (2021/1/25)	1.00
	Forecast Average	**1.13**
Foreign institutions	IHS Markit (2021/3/15)	1.10
	EIU (2021/3/15)	1.50
	Goldman Sachs (2021/3/15)	1.30
	HSBC (2021/3/15)	1.10
	UBS (2021/3/15)	0.99
	Citi (2021/3/14)	1.20
	Barclays Capital (2021/3/12)	1.10
	BofA Merrill Lynch (2021/3/12)	1.00
	J.P. Morgan (2021/3/12)	1.70
	Standard Chartered (2021/3/12)	1.00
	Credit Suisse (2021/3/11)	1.70
	Morgan Stanley (2021/3/11)	1.60
	Deutsche Bank (2021/3/2)	1.30
	Forecast Average	**1.28**

* Excluding vegetables, fruit, and energy.