Minutes of the Monetary Policy Meeting

September 23, 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 September 23, 2021

Date and Time: 2:00 p.m., September 23, 2021

Location: Rooms B1101, B1102, and B1107, Central Bank of the R.O.C. (Taiwan)

Members Present:

Chairman, Board of Directors: Chin-Long Yang

Executive Directors: 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

Jain-Rong Su (excused, appointing Chao-Yi Chen as proxy), Mei-Hua Wang (excused, appointing Nan-Kuang Chen as proxy), Tzung-Ta Yen (excused, appointing Chung-Dar Lei as proxy), Chi-Chung Chen (excused, appointing Shi-Kuan Chen as proxy),

Chairman, Board of Supervisors: Tzer-Ming Chu (excused)

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

Staff Present:

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

Yung-Hui Chen, Counselor, Department of Issuing

Chiun-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

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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 DECISION

I. Staff Review of Economic and Financial Conditions

1. International Economic and Financial Conditions

As advanced economies accelerated vaccination rollout, relaxed pandemic-related restrictions, and kept fiscal and monetary stimulus measures in place, coupled with a lower base effect, international institutions forecasted a significant expansion for the global economy this year before slightly moderating next year. Meanwhile, with the WTO Goods Trade Barometer recently climbing to a new high, the growth rate of world trade volume was also forecasted to rebound markedly this year and edge down somewhat next year.

Hurricane disruptions to oil production in the Gulf of Mexico in late August, as well as market expectations of a demand rebound as the pandemic eased, pushed international oil prices back upwards. For this year as a whole, major institutions projected oil prices to rise higher compared to last year, while a modest decline was forecasted for next year. Overall, global commodity prices had posted an uptrend since July as international oil prices fluctuated at a relatively high level and industrial metal prices were driven up by great demand.

In view of elevated international goods prices owing to rising global demand and persisting supply chain bottlenecks, inflation forecasts for major economies this year were broadly higher than those of the previous year but would turn lower next year. In recent months, these economies witnessed a more significant inflation upturn but judged it to be transitory.

Looking at policy changes of major economies since the Bank's last Board Meeting in June, major central banks continued with monetary easing, maintaining policy rate levels and keeping asset purchase programs in place, albeit with tapering signals from the US Federal Reserve (Fed) and the European Central Bank (ECB). Meanwhile, major economies also remained expansionary in terms of fiscal policy.

In global financial markets, government bond yields of the US and Germany climbed out of the bottom as the Fed and the ECB signaled they might reduce bond-buying amid worries about recent elevated inflation. Global equities seesawed at high levels and the US dollar index rebounded, owing to intensifying financial risks in China and unclear path of the Fed's tapering plan.

Looking ahead, downside risks continue to loom over the global economic outlook, including (1) uneven vaccination progress and a greater impact of the new virus strain, (2) pressures for some advanced economies to gradually withdraw monetary easing, (3) potential disasters owing to climate change and heightened geopolitical conflicts. Should these risks materialize and/or intensify, they could dampen the global economic recovery and hamper financial stability.

2. Domestic Economic and Financial Conditions

(1) Economic situation

The six-month outlook subindex under Taiwan’s Manufacturing PMI (Purchasing Managers’ Index) in recent months pointed to further expansion, and the outlook subindex under the Non-Manufacturing Index (NMI) rose back from July onwards as the domestic COVID-19 cases dropped to a steady low. Both readings revealed more positive business sentiment.

Regarding external demand, rising global demand and raw material prices significantly boosted export performance of major products in the year so far, with an increase by more than 20% for exports to each major market. In view of greater final demand benefiting from gradual normalization of economic activity in major economies, the Bank expected Taiwan’s exports to enjoy solid real growth in the second half of 2021 and to expand significantly for the year as a whole before moderating next year.

Regarding domestic demand, Taiwanese tech giants and related supply chain firms stepped up capital expenditure, and investment plans for 5G network technology and for maritime and air transport equipment continued to move along. The Bank thus projected solid real growth in private investment for the second half of the year as well as the entire year, and expected mild real growth next year. In terms of private consumption, the Bank viewed that a partial lift of restrictions amid an improving pandemic situation, the upcoming implementation of a new consumption stimulus program, and the effect of pent-up demand would all combine to give private consumption a firmer footing in the second half of the year. Real private consumption growth was forecasted to advance at a mild pace this year and gather steam next year.

In the labor market, albeit still high, the unemployment rate dropped to 4.24% in August.

The number of employed persons remained below the pre-pandemic level, with the services sector losing more jobs than the other sectors.

With the solid economic growth already registered in the first half of the year and a 3.43% expansion expected by the Bank for the second half of the year thanks to increased investment by tech firms and the government's private consumption stimulus program, the Bank forecasted Taiwan's economy to grow by 5.75% this year and by 3.45% next year. Meanwhile, the growth projections by major institutions ranged between 5.00% and 6.40% for this year and between 2.50% and 4.50% for the year of 2022.

(2) Financial conditions

Market liquidity was ample in August 2021. Short-term interest rates fluctuated narrowly as the pandemic eased. Banks' average excess reserves stayed around a level of over NT$60 billion in recent months.

With respect to bank credit conditions, extended export strength continued to buttress corporate demand for funds while banks' policy loans to pandemic-impacted small and medium-sized enterprises (SMEs) also increased. As a result, total bank lending and SME lending both registered steady growth. In regard to money supply, the annual growth rate of the monetary aggregate M2 trended down in August owing to a higher base effect and slower growth in transaction deposits and averaged 8.91% for the Jan.-Aug. period.

In the housing market, the second quarter price index for new housing projects edged down from the first quarter while that for existing homes moved upwards. For the first seven months of the year, the number of ownership transfers for buildings and for land increased by 16.0% and 15.2% year on year (yoy). More specifically, the six Special Municipalities combined saw a 10.2% yoy increase in building ownership transfers during the Jan.-Aug. period, albeit with a 22.8% yoy decline in the month of August as the domestic pandemic inhibited property transactions. Trading in the housing market looked likely to stabilize as the pandemic eased recently. Banks continued to hold a positive outlook for the residential housing market in major cities.

Data as of the end of July 2021 showed an annual increase of 11.6% in total real estate lending. By type of loans, housing loan growth slowed slightly to 10.2% year on year, while construction loan growth gathered pace to 17.1% owing mainly to a 26.7% increase in land loans. At the end of July 2021, the ratio of total land loans to construction loans also rose to 61.7%, compared to 59.3% at the end of December 2020. In addition, the average loan-to-value (LTV) ratio for newly-extended land loans of domestic banks rose from 42.6% in December 2020 to 63.6% in July 2021.

Furthermore, the number of natural persons having two outstanding housing loans continued rising; as of the end of June 2021, that number increased by 9.2% compared to the end of March 2016, higher than the 5.1% increase in the number of those with three or more outstanding housing loans. Data as of the end of June also revealed that a disproportionately large number of housing loans in this group were collateralized against property in a certain areas, with 82.6% of the collateral locating in the six Special Municipalities, Hsinchu County, and Hsinchu City.

Given the still fast increase in real estate lending, its share in total bank lending rose lightly to 36.7% at the end of July this year. At present, risk management associated with real estate lending was considered somewhat adequate, as the construction loan ratio of domestic banks stood at 26.89% at the end of July 2021, below the 30% cap prescribed in Article 72-2 of the Banking Act.[2] Meanwhile, the ratio of non-performing housing loans extended by domestic banks remained low at 0.11%.

(3) Price trends

As of August 2021, international prices for crude oil and other raw materials remained elevated, and domestic vegetables prices soared on damage from torrential rain, sending the annual growth rate of consumer price index (CPI) to 2.36%. However, the rise was attributable to such transitory forces as weather-induced disruptions. The core CPI posted an annual growth rate of 1.33%, considered to be mild.

The average annual growth rate of the CPI stood at 1.64% for the first eight months of the year, mainly because increases in domestic fuel prices amid international oil price surges, airfares owing to greater demand, and prices of vegetables. In the year so far, raw material price uptrends and shipping fee surges pushed up import prices and triggered imported inflationary pressures, albeit with signs of moderating in recent months.

[2] According to Article 72-2 of the Banking Act, the total amount of loans extended for residential construction and construction for business purposes by a commercial bank shall not exceed thirty percent (30%) of the aggregate of such commercial bank’s deposits and bank debentures issued at the time such loans is extended.

The Bank's survey for inflation expectations found that expectations of investment trust companies were broadly steady, while an increased share of businesses expected the CPI annual growth rate to register between 1.5% and 1.99% in the following 12 months. Both results showed that 80% of the respondents expected the CPI inflation rate to stay below 2% in the same period, indicating still mild inflation expectations.

In view of the transitory weather effects, the Bank estimated that the CPI annual growth rate would edge up in the third quarter, though still on a downtrend in the longer term. Meanwhile, the core CPI annual growth rate would likely decline further. The Bank forecasted Taiwan's CPI and core CPI annual growth rates to be 1.70% and 1.17% this year and to both drop to 0.92% next year as international oil prices stabilize. Meanwhile, major institutions projected Taiwan's inflation to register between 1.50% and 2.03% this year and between 0.89% and 1.90% next year.

Taiwan's own five-year inflation expectations were also mild. In addition, 5-year inflation expectations by international institutions ranged between 1.4% and 1.6% for Taiwan.

3. Considerations for Monetary Policy

(1) Considerations for the policy rate decision

A. The recent upswing in domestic inflation was considered to be transient. Inflation was expected to be mild this year and the inflation outlook pointed to a downtrend next year. The CPI and core CPI annual growth rates were forecasted by the Bank to reach 1.70% and 1.17% this year and to both drop to 0.92% next year.

B. The global economic recovery continued forward, albeit with many uncertainties.

C. With the domestic coronavirus outbreak under control, the gradual recovery of the domestically-oriented services sector and stabilizing private consumption were expected to keep the economy on the path of mild growth in the second half of 2021 and in 2022. The Bank forecasted Taiwan's economy to expand by 3.43% in the second half of the year and by 3.45% next year.

(2) Considerations for adjusting the selective credit control measures

A. To facilitate effective allocation and reasonable utilization of credit resources according to the government's Healthy Real Estate Market Plan, the Bank amended the *Regulations*

Governing the Extension of Mortgage Loans by Financial Institutions (hereinafter "the Regulations" or "Mortgage Loan Regulations") in December 2020 and March 2021. Since the enactment, banks have shown good compliance in extending the regulated mortgage loans, and the LTV ratios also dropped significantly. However, there was still a notable uptrend in total real estate lending.

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

(a) The number of natural persons holding two home loans continued rising, with a majority of the collateralized property located in specific areas, including Taipei City, New Taipei City, Taoyuan City, Taichung City, Tainan City, Kaohsiung City, Hsinchu County, and Hsinchu City. Removing the grace period from the loan terms for a natural person's second home loan taken out to purchase housing in any of the aforementioned specific areas could help mortgage borrowers avoid overleveraging and would also prompt banks to reinforce credit risk management.

(b) Recent data showed that banks' construction loans continued to post high annual growth rates mainly owing to a surge in land loans. In addition, higher land prices pushed up by property developers' aggressive land acquisition played a key role in the rise in the prices of newly-builts, which also drove existing housing prices upwards. By lowering the LTV ratio cap for land loans from 65% to 60% (50% before the construction begins and the remaining 10% after that) is viewed to help prevent land loans from growing excessively.

(c) In line with the LTV tightening (and the precondition of construction commencement for full loan disbursement) for land loans, the LTV ratio cap on idle industrial land mortgage loans would also be lowered from 55% to 50%. In addition, the "well-defined period of time" stated in the provisions of exemptions would be uniformly stipulated as "one year." The changes are viewed as helping galvanize meaningful progress in the construction and development of the idle collateralized industrial land.

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 were in favor of the decision to keep policy rates unchanged at current levels, citing mild inflation and uncertainties over the economic outlook as the main reasons. One board director agreed with a rate hold, mainly because Taiwan's economy outperformed many other economies but would grow at a slower pace next year according to the Bank on account of downside risks to the global economy. At present, domestic inflation posted a temporary upturn but it was projected to trend down next year.

One board director noted that the US policy rates continued to stay unchanged and uncertainties remained over the containment of the Delta variant of COVID-19 and the future progress of domestic vaccination rollout, which combined to support a rate hold. Another board director pointed out that the average annual CPI growth rate in the Jan.-Aug. period was considered still mild, though the longer term development would need to be monitored; meanwhile, the recent NT dollar appreciation would not justify a rate liftoff. On balance, a rate hold would be appropriate.

One board director expressed the view that the central bank's toolkit is no panacea. A major factor behind the persistent low interest rates in Taiwan was ample liquidity, shaped by excessive saving and deficient investment. Given an environment already flush with funds, a rate hike could prod saving further up and induce capital inflows with some of those funds potentially flowing into the real estate sector, carrying adverse implications for the sound development of the housing market. All these were needed to be taken into account in monetary policymaking. Meanwhile, recent appreciation in the NT dollar was built on solid fundamentals of Taiwan's economy, evident in the continued strong growth momentum in external demand. However, considering that pandemic-hit SMEs, which had been given better funding access under the Bank's NT$400 billion-worth low interest facility in response to COVID-19, were also susceptible to exchange rate pressures, it would not be appropriate to raise the policy rates at the current juncture.

Several board directors also discussed inflation trends. One board director noted that the

September meeting of the US Federal Open Market Committee (FOMC) still viewed that elevated inflation largely reflected transitory factors but did not completely dismiss concerns. Therefore, the Bank should also continue to closely watch domestic inflation and stay alert. Another board director stated that despite mild inflation at present, the Bank needs to heed the future path of domestic inflation and conduct more research on inflation expectations and survey methodology. The director suggested the Bank give guidance regarding the criteria necessary to warrant a rate hike so as to bolster public confidence in the Bank's ability to keep inflation anchored.

One board director pointed out that structural factors holding down global inflation have weakened somewhat; though still not radical in the near term, structural changes, once set off, would have a greater effect in the coming years. Furthermore, it is important to study inflation expectations. For instance, inflation expectations of households could well overshoot actual inflation as the day-to-day shopping experience of goods and services tend to dictate public expectations of inflation; household inflation expectations might be able to capture the tipping point of structural changes in inflation. When the gap between headline and core inflation readings widens, which is often discounted as a phenomenon reflecting temporary disruptions, it could actually be an important sign preceding future structural inflation changes that could be captured by households' inflation expectations.

Several board directors gave their views on future monetary policy deliberations. One board director noted that, despite the impact from the pandemic, Taiwan's economic fundamentals were stronger than many other economies. Meanwhile, the recent US FOMC meeting suggested the Fed may start to reduce asset purchases later this year and possibly to raise rates as soon as next year. Against this backdrop, Taiwan being a small open economy should also begin to ponder over the appropriate timing of a rate liftoff so as to prepare itself for the likely policy changes in advanced economies.

One board director pointed out that the effect from an earlier domestic COVID-19 flare-up had not fully receded, representing a lingering downside risk to the economy. Meanwhile, inflation rose further, albeit judged to be transitory. While the current circumstances did not warrant an inflation-fighting rate hike, the Bank would need to weigh up the effect of persisting low interest rates on the economy and, when the timing is right, consider the possibility to raise the policy rates.

One board director remarked that domestic consumer price trends were relatively steady, and a rate hike out of step with major economies could amplify the NTD strength. On balance, it seemed the better approach would be to keep the policy rates unchanged. Perhaps the Bank could start to mull a gradual rate liftoff next year if the US Fed begins to raise rates.

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

All board directors were in favor of the adjustment of the selective credit control measures. One board director pointed out that banks' real estate lending had made up an increasingly larger share in total bank lending. Among the components, the main contributor would be a growing share in construction loans as a result of rising land loans, whereas the share of housing loans changed modestly. As real estate developers were keen on buying more land, the ensuing land price hikes also pushed up housing prices. In this view, it would be appropriate to lower the LTV ratio ceiling for land loans.

One board director stated that although Taiwan's often-watched housing price indices showed a slower rise in the second quarter this year, a broad uptrend persisted, justifying the adjustment proposition. Another board director noted the so-called "consolidated land and housing income tax 2.0" entered into force not long ago, but recent data still showed excessively high annual growth rates of building ownership transfers and land sales. In addition, the proposed credit control adjustment was moderate. The director thus supported the adjustment with the aim of cooling down an overheating property market but cautioned that the effectiveness of such adjustment would need further monitoring. Another board director remarked that the selective credit controls might not do much to tamp down housing prices. For instance, the current housing boom in Southern Taiwan was actually due to a favorable outlook bolstered by major investment projects such as new semiconductor plants.

Two board directors both said that the Bank had adjusted the control measures twice since December 2020; hopefully this adjustment would also be well received by the market. Another board director noted that the purpose of selective credit control is to foster a sound housing market and promote financial stability, but the public might have doubts about the effectiveness of this additional tightening, which could end up impairing the Bank's credibility. In the future, more thoughts will need to be put into how best to ensure a sound housing market.

One board director gave the opinion that, in the case of selective credit control, a progressive approach to brake gently would make the ride steadier. Moderate policy actions might not reduce housing and land prices, but they could still be productive by markedly reducing the pace of property price rises. In addition, the current upside pressures on housing and land prices could have been partially fueled by the low interest rate environment. The Bank tackled the housing price elevation by increasing the cost and limiting the source of funds for property buyers via LTV ratio caps. Nevertheless, the most effective solution would be taxation policies, albeit not an easy path for such policy changes to happen. Another board director noted that a considerable part of the present housing price strength actually came from surging raw material prices and wages that fed into the cost of building and construction. Raising the policy rates while advanced economies stay put could prove futile in dampening housing prices and even detrimental to the economy.

One board director pointed out that, in addition to the increases seen in housing prices and housing loans, Taiwan’s household debt to GDP ratio had also gone high, with real estate purchases the primary use of this debt buildup. Suppose the housing prices keep climbing and real estate loans keep expanding, mortgage borrowers will face even heavier debt burdens once the policy rates start rising. Therefore, selective credit control would be the right way to foster a sound real estate market.

One board director expressed the view that selective credit control is not as potent and effective as other types of measures in cooling the housing market. And it would need to be deployed early in order to produce better results in restraining public expectations for housing price rises. On the other hand, protracted monetary easing including keeping the policy rates low has significant implications for the housing market. In addition, housing price rises could impact financial stability, cause resource misallocation, and militate against fair distribution of wealth. Some research found that the best way to stabilize the housing market is a mix of macroprudential measures and interest rate policy. Policy rates are a blunt tool to address housing market concerns; relying solely on interest rate adjustments to tame housing price rises could create serious problems for other sectors in the economy. Nonetheless, this does not mean the Bank should write off interest rate policy completely but perhaps it could consider a policy mix of macroprudential measures and interest rate adjustment when warranted.

One board director noted an excessively high level of saving in Taiwan, some of which has flowed into the property market. Housing price deviations have concerned the Bank mainly because it could indirectly affect financial stability. However, this issue involves not only financial stability, but also housing justice, resource allocation, etc. Therefore, it requires concerted cooperation with strong efforts to fight the battle on the various fronts of supply, demand, and system. Meanwhile, although it makes sense to introduce a rate hike and selective credit control at the same time, there are many factors to consider when deciding the right timing and the appropriate recipe to administer the policy tools. For instance, a rate hike could add to the current NTD strength; if combined with selective credit control adjustments, such policy tightening could be packing too hard a punch. The Bank's policymaking cannot and does not aim for an all-around solution but seeks to reach the best possible policy balance given the many factors at play.

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 September 23, 2021

Monetary Policy Decision of the Board Meeting

I. Global economic and financial conditions

Since the Board met in June this year, faster vaccination against the coronavirus (COVID-19) in major economies, coupled with monetary and fiscal policy support, have led global economic and trade activity to expand continuously. Meanwhile, with increasing global demand and lingering supply chain bottlenecks pushing up international goods prices, major economies have witnessed a pronounced uptick in inflation, judged by their central banks to be transitory. Moreover, some economies recently experienced recurring virus outbreaks and market investors kept a close watch on major central banks' moves toward asset purchase tapering, both adding to volatility in international financial markets.

The global economy is expected to register a strong recovery this year. However, uneven vaccination progress across regions and the spread of new virus variants may lead to divergent recoveries across economies. In addition, adjustments to the accommodative monetary policy stance by some central banks in advanced economies, along with geopolitical conflicts and climate change-related risks, could increase uncertainties over global economic and financial prospects. International institutions project the world economy to grow at a slower pace next year and inflation to drop back.

II. Domestic economic and financial conditions

1. From mid-2021, Taiwan's exports continued to record strong expansion thanks to robust orders for tech products and traditional manufacturing goods. In terms of domestic demand, as tech firms increased capital outlay, private investment posted steady growth. With relaxed restrictions following the downgrade of the health alert amid the easing of the domestic pandemic situation, consumer confidence gradually rebounded. Combined with the government's forthcoming rollout of consumption stimulus measures, it is expected that private consumption would show an upturn. The Bank forecasts Taiwan's economy to expand by 3.43% for the second half of the year and 5.75% for the entire year (Appendix Table 1). As for labor market conditions, the unemployment rate moved down to 4.24% in August, still a high level. The number of employed persons remained below the pre-pandemic level, with the services sector in particular witnessing a more significant decrease in hiring.

   Looking ahead to next year, bolstered by continuous recovery in major economies and still solid demand for emerging technology applications, Taiwan's exports and private investment are likely to see sustained growth momentum, albeit at slower rates owing to the base effect. Private consumption is anticipated to gather pace as the domestically-oriented services sector shows signs of recovery, helping to boost employment and wage growth. Overall, the Bank forecasts that Taiwan's economic growth would advance at a pace of 3.45% in 2022.

2. As torrential rain caused domestic vegetables prices to surge, along with elevated international oil and other raw material prices, the annual growth rate of the consumer price index (CPI) rose to 2.36% in August while that of the core CPI (excluding fruit, vegetables, and energy items) registered 1.33%. For the first eight months of the year, the average annual growth rates of the CPI and the core CPI were 1.64% and 1.18%, respectively. It is projected that the annual CPI growth rate would remain high in the third quarter, reflecting temporary, weather-induced upside pressures, whereas the annual growth rate of the core CPI would trend down further in the second half of the year. For 2021 as a whole, the Bank forecasts the CPI and core CPI annual growth rates to be 1.70% and 1.17%, respectively (Appendix Table 2).

   For the year of 2022, given a stable outlook for global oil prices forecasted by international institutions, the Bank projects that the annual growth rates of the CPI and the core CPI would both drop to 0.92%. The forecasts by international and domestic institutions for Taiwan's inflation next year average around 1.37%.

3. In recent months, banks' excess reserves stayed around NT$60 billion and above. The average annual growth rate of the monetary aggregate M2 dropped from the 9.09% of the second quarter to 8.44% in August. Meanwhile, short- and long-term market interest rates fluctuated within a tight range. Overall, financial conditions were accommodative.

   Since the Bank first introduced the Special Accommodation Facility to Support Bank Credit to SMEs in April 2020 in response to the pandemic's economic impact, financial institutions have so far approved approximately 265 thousand applications totaling NT$399.7 billion. The annual growth rate of SME loans extended by banks stood at 12.27% at the end of July 2021 and the annual growth rate of overall bank lending registered an 8.01% rise.

III. Monetary policy decision

1. Overall, the current inflation upswing is viewed to be transitory and inflation is expected to be mild for this year as a whole, with next year's inflation outlook tilting to the downside. In terms of economic growth, the global recovery remains on track, though still facing multiple uncertainties. Meanwhile, with the pandemic situation under control at home, the

domestically-oriented service activity is likely to gradually rebound and private consumption to pick up. Against this background, Taiwan's economy is expected to continue with mild expansion in the second half of 2021 and the year of 2022. Taking this assessment into account, the Board judged that maintaining the current policy rate levels and monetary easing would help sustain price and financial stability and foster economic growth.

At the Meeting today, the Board decided unanimously 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.

The Bank will closely monitor the evolution of the coronavirus pandemic, monetary policy stances of major central banks, geopolitical risks, and changes in global financial markets, 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. To achieve the goals of effective allocation and proper use of credit resources as outlined in the government's Healthy Real Estate Market Plan, the Bank made two successive amendments in December 2020 and March 2021 to its selective credit control measures. Though the amended Regulations Governing the Extension of Mortgage Loans by Financial Institutions have brought down the loan-to-value (LTV) ratios of those loans regulated, banks have continued witnessing marked increases in real estate lending. It is thus deemed necessary for preemptive actions to be taken to curb inordinate flows of credit into the real estate market and further rein in credit risk associated therewith. In this regard, the Bank amended the aforementioned Regulations, effective September 24, 2021, as follows (see Appendix for more details):

   (1) Removing the grace period for a second home loan taken out by a natural person for housing located in the stipulated specific areas, namely Taipei City, New Taipei City, Taoyuan City, Taichung City, Tainan City, Kaohsiung City, Hsinchu County, and Hsinchu City.

   (2) Lowering the LTV ratio cap on land loans to 60%.

   (3) Lowering the LTV ratio ceiling on mortgage loans for idle land in industrial districts to 50%; stipulating that the "well-defined period of time" for the relevant exemptions to apply shall be "one year."

   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 conduct a rolling review on the results of these regulations and measures and make timely adjustments as warranted to ensure sound banking operations and promote financial stability.

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*

September 23, 2021

1. In light of a continuous buildup in second home loans taken out by natural persons, particularly for housing in certain areas, an amendment is introduced to prohibit grace periods for such loans in the stipulated specific areas, with the aim of helping to contain over-leveraged borrowing and to reinforce banks' credit risk management.
2. Considering that the recent uptrend in the annual growth rate of construction loans was chiefly due to a surge in land loans, an amendment is introduced to lower the LTV ratio cap on land loans from 65% to 60% (with 10% thereof to be withheld for disbursement until construction commences), in order to tamp down unwarranted growth in such loans.
3. In line with the above-mentioned LTV ratio tightening, an amendment is introduced to lower the LTV ratio cap on mortgage loans for idle land in industrial districts from 55% to 50%. In addition, the "well-defined period of time" for the relevant exemptions to apply would now be clearly and uniformly stipulated as "one year." This is aimed at galvanizing meaningful progress in the construction and development of those collateralized industrial idle land.

(See comparison table on the following pages.)

* 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: September 24, 2021

Loans		Criteria	
		Current provisions	**Amendments**
Housing loan, taken out by a corporate entity		LTV ratio capped at 40%; no grace period	(Unchanged)
Natural person	High-value housing loan for a borrower with two or less outstanding housing loans	LTV ratio capped at 55%; no grace period	(Unchanged)
	High-value housing loan for a borrower with three or more outstanding housing loans	LTV ratio capped at 40%; no grace period	(Unchanged)
	Second home loan for housing in "specific areas" *	(Nil)	**No grace periods allowed**
	Third home loan	LTV ratio capped at 55%; no grace period	(Unchanged)
	Fourth (and more) home loan	LTV ratio capped at 50%; no grace period	(Unchanged)
Land loans		● LTV ratio capped at 65%, with 10% withheld for disbursement until construction commences ● Requiring the borrower to submit a substantive development plan for the land purchased	● LTV ratio lowered to 60%, with 10% withheld for disbursement until construction commences ● Requiring the borrower to submit a substantive development plan for the land purchased
Unsold housing unit loans		LTV ratio capped at 50%	(Unchanged)
Mortgage loans for idle land in industrial districts		LTV ratio capped at 55%, 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 a well-defined period of time	LTV ratio capped at 50%, 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

* 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 1

Taiwan's Economic Growth Forecasts by Major Institutions

Unit: %

Forecast institutions		2021 (f)	2022 (f)
Domestic institutions	**CBC (2021/9/23)**	**5.75**	**3.45**
	DGBAS (2021/8/13)	5.88	3.69
	Academia Sinica (2021/7/28)	5.05	n.a.
	TIER (2021/7/23)	5.40	n.a.
	CIER (2021/7/20)	5.16	3.43
	TRI (2021/7/14)	5.12	n.a.
Foreign institutions	ADB (2021/9/22)	6.20	3.00
	EIU (2021/9/22)	5.70	3.10
	Goldman Sachs (2021/9/22)	6.31	3.38
	HSBC (2021/9/22)	6.00	2.60
	Deutsche Bank (2021/9/21)	6.00	3.80
	UBS (2021/9/21)	5.91	3.28
	Barclays Capital (2021/9/17)	6.40	3.30
	BofA Merrill Lynch (2021/9/17)	5.80	2.90
	J.P. Morgan (2021/9/17)	6.40	4.50
	Standard Chartered (2021/9/17)	5.00	2.50
	Credit Suisse (2021/9/16)	6.20	4.00
	Morgan Stanley (2021/9/16)	6.40	3.00
	IHS Markit (2021/9/15)	6.04	3.16
	Citi (2021/8/23)	6.00	3.90
Forecast Average		**5.84**	**3.35**

Appendix Table 2

Taiwan's Inflation Forecasts by Major Institutions

Unit: %

Forecast institutions		2021 (f)	2022 (f)
Domestic institutions	**CBC (2021/9/23)**	**1.70 (CPI) 1.17 (Core CPI*)**	**0.92 (CPI) 0.92 (Core CPI*)**
	DGBAS (2021/8/13)	1.74	0.89
	Academia Sinica (2021/7/28)	1.78	n.a.
	TIER (2021/7/23)	1.65	n.a.
	CIER (2021/7/20)	1.72	0.90
	TRI (2021/7/14)	1.78	n.a.
Foreign institutions	ADB (2021/9/22)	1.50	1.10
	EIU (2021/9/22)	1.80	1.90
	Goldman Sachs (2021/9/22)	1.85	1.64
	HSBC (2021/9/22)	1.70	1.30
	Deutsche Bank (2021/9/21)	1.90	1.30
	UBS (2021/9/21)	2.03	1.12
	Barclays Capital (2021/9/17)	1.90	1.90
	BofA Merrill Lynch (2021/9/17)	1.60	1.20
	J.P. Morgan (2021/9/17)	1.70	1.80
	Standard Chartered (2021/9/17)	1.60	1.00
	Credit Suisse (2021/9/16)	1.80	1.70
	Morgan Stanley (2021/9/16)	1.60	1.40
	IHS Markit (2021/9/15)	1.74	1.47
	Citi (2021/8/23)	1.70	1.80
Forecast Average		**1.74**	**1.37**

* Excluding vegetables, fruit, and energy.