Minutes of the Monetary Policy Meeting

December 16, 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 December 16, 2021

Date and Time: 2:00 p.m., December 16, 2021

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

Members Present:

Chairman, Board of Directors: Chin-Long Yang

Executive Directors:

Jain-Rong Su, Tzung-Ta Yen, Nan-Kuang Chen, Chung-Dar Lei

Directors:

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

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

Chairman, Board of Supervisors: Tzer-Ming Chu

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

Staff Present:

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

Yen-Dar Den, Director General, Department of Issuing

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

Pei-Jen Heh, 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

[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

The easing of the COVID-19 pandemic in major economies, along with the boost from monetary easing and fiscal stimuli, supported the continued recovery in global economic and trade activity. International institutions forecasted that the global economy would likely sustain a steady recovery next year (2022). Nevertheless, there remain downside risks such as the spread of the new virus variants and lingering supply chain bottlenecks. In view of these risk concerns and a higher base effect this year (2021), it was expected that major economies would register slower growth in 2022 compared to 2021.

Meanwhile, global goods trade could experience softer growth momentum owing to port congestion, production glitches, and supply interruptions. International institutions forecasted world trade volume to increase more slowly in 2022 than in 2021.

Price trends of international crude oil since early November 2021 showed a decline from previous highs as oil demand was hampered by the U.S. efforts to increase local oil output and by market concerns that the new variants could result in a fresh round of major outbreaks. In terms of overall price trends since October, international raw material prices first trended up before falling down amid price fluctuations for crude oil and other commodities.

In terms of inflation, major economies were forecasted to witness higher inflation rates in 2021 compared to 2020, driven by supply-demand imbalances during the pandemic and the economic recovery therefrom. As the imbalance issue and elevated energy prices – expected to continue into the first half of 2022 – would likely ease afterwards, international institutions projected a gradual decline of inflation by the end of 2022, with the inflation rate for the year as a whole to register slightly higher than 2021.

Since the Board last met in September 2021, the U.S. Federal Reserve (Fed) had tapered off bond buying, and the European Central Bank and the Bank of Japan had maintained a broadly loose monetary policy stance.

In terms of global financial markets since October 2021, the 10-year government bond yields of major economies broadly trended upwards as the international oil price rises pushed up inflation expectations, before trending downwards from recent highs owing to the new variant’s potential threat to the economy. In recent months, strong earnings reported by U.S. and Europeans firms, the possibility of the Fed tapering faster, and the fear for a wider pandemic outbreak owing to new virus strains combined to paint a mixed picture that resulted in volatile upswings in the global stock markets. Meanwhile, the US dollar index climbed upwards on the back of the Fed’s move toward monetary policy normalization.

Looking ahead, the following downside risks continue to obscure the global economic outlook: (1) a rapid spread of new virus variants causing the global pandemic to intensify again, (2) a further rise in inflation pressures prompting major central banks to tighten monetary policy earlier, (3) China’s crackdowns and controls targeting several sectors that may result in a sharp economic slowdown, and (4) continued U.S.-China competition and heighted risks associated with climate change. These risks, should they materialize, could hinder global economic growth and jeopardize financial stability.

2. Domestic Economic and Financial Conditions

(1) Economic situation

In respect of business sentiment, Taiwan’s leading and coincident indicators for business cycles recorded consecutive rises in recent months, against a backdrop of the increasing domestic vaccination rate and gradual easing of containment measures, along with continued export strength. Firms also expressed optimism about the outlook in the coming six months.

In terms of external demand, major export products recorded across-the-board growth thanks to growing global demand and rising international raw material prices, with the subcategory of electronics parts and components making the greatest contribution. By destination, exports to all of the major markets expanded by more than 20%, with Mainland China being the largest market. As for projections, the Bank expected to see extended growth in real exports next year on account of robust development of emerging technology applications, new capacity for advanced semiconductor production, and increased production in Taiwan as firms re-distribute production plans.

Regarding domestic demand, as Taiwanese tech giants and related supply chain firms expanded capacity and many manufactures continued to spend on equipment that would help reduce carbon footprint, private investment would sustain its growth momentum. Considering the above benefits and a higher base effect, the Bank projected that real private investment would grow at a mild pace next year. Regarding private consumption, domestic COVID-19 containment policy was eased, government measures to boost consumption were launched, and business in the services industry – a domestically oriented sector – gradually rebounded. In addition, next year's hikes in base wage and public sector pay are likely to inspire a private sector wage increase. Therefore, the Bank expected to see faster growth in real private consumption next year.

With regard to recent labor market conditions, the unemployment rate continued to fall, while the number of employed persons rebounded and that of furloughed persons decreased. Despite these improvements, the labor market remained short of the pre-pandemic performance. Readings of employment and wage growth pointed to uneven recoveries, with the services sector the worse performer owing to the pandemic.

For the economy as a whole, the Bank forecasted Taiwan's economy to expand by 6.03% this year and by 4.03% next year given solid growth momentum. The growth projections by major institutions ranged between 5.93% and 6.20% for this year and between 2.61% and 4.15% for the year of 2022.

(2) Financial conditions

As of November 2021, market liquidity was ample, short-term interest rates fluctuated within a tight range. Banks' average excess reserves stayed above NT$60 billion.

Bank loans and investments continued expanding in the third quarter on the back of robust export growth but then slightly slowed to an annual growth rate of 8.17% in October as exporters repaid their loans.

Looking at the annual growth rate of the monetary aggregate M2, the uptrend in the first few months of this year broadly moderated from June onwards. During the Jan.-Oct. period, the average annual growth rate of M2 was 8.84%, higher than the upper boundary of the reference range. This was mainly because bank loans and investments, bolstered by solid economic fundamentals, continued to register strong growth and foreign investment in Taiwan exhibited a net capital inflow.

Considering that growth momentum for the domestic economy is likely to soften slightly next year, and bank loans and investments already came to elevated levels, the Bank expected the annual growth rate of M2 would likely decrease as a result of a higher base effect. In addition, the estimation of the money demand function showed that the growth rate of demand for M2 is likely to range between 2.5% and 6.5% next year, consistent with the reference range used by the Bank. Given that the M2 reference range serves as a mid- to long-term indicator, the Bank judged that it would be appropriate to maintain the current range. The Bank will continue to monitor any changes in the M2 growth trends. Should persistent deviations from the 2.5%-6.5% reference range or structural changes arise, the Bank will conduct assessments and make adjustments in a timely manner.

In the housing market, the price indices for new housing projects for sale and for existing homes both rose further to historical highs in the third quarter. For the first eleven months, the number of building ownership transfers in the six Special Municipalities increased by 7.14% year on year. As the domestic pandemic cases diminished, the housing market also witness a rebound in transaction volume as well as a price rally. Banks continued to be optimistic about the prospects of the residential housing market in major cities.

As of the end of October 2021, the annual growth rates of real estate lending, housing loans, and construction loans dropped slightly to 10.58%, 9.37%, and 15.25%, respectively. However, among construction loans, those taken out for land purchases continued to grow fast, expanding by 24.1% year on year.

Reflecting the broadly fast growth in real estate lending, its share in total bank lending slightly increased to 36.81% at the end of October this year. Meanwhile, banks' management of risks associated with real estate lending remained in good condition. The construction loan ratio of domestic banks was 26.84% at the end of October 2021, below the 30% cap prescribed in Article 72-2 of the Banking Act.[2] The ratio of non-performing housing loans extended by domestic banks remained low at 0.10%.

(3) Price trends

Against a background of rising international raw material (such as oil) prices and freight

[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.

charges since the start of the year, and a more recent price rally for fruit and vegetables since August owing to torrential rain, the annual growth rate of Taiwan's consumer price index (CPI) continued to register above 2% for several months in a row, whereas the core CPI recorded mild year-on-year growth at an average pace of 1.28% during the Jan.-Nov. period.

Recently, some of the goods with a higher consumption frequency, such as staple goods and food and beverages, had experienced price hikes, triggering a more acute sense of price inflation among consumers. The government had already taken measures to contain disproportionate price rises, which would help diffuse unwarranted public panic and lower inflation expectations.

For the first eleven months of the year, the average annual growth rates of the CPI was 1.91%. This was mainly due to rising prices of fuel and lubricants, transportation, and fruit and vegetables, with a combined contribution of 1.09 percentage points to this increase. The price inflation in the year so far was primarily attributable to supply side shocks as well as a lower base effect.

Although inflationary pressures were rising at home in the second half of the year, the overall price inflation was mild compared to the U.S. and Europe. This was mainly because of the successful containment of the pandemic, the low incidence of logistics gridlocks and other supply chain bottlenecks, the absence of labor market tightness, and mild growth in average non-farm employee earnings.

The average projections for Taiwan's inflation rate in 2021 and 2022 by major forecasting institutions had slowly trended upwards since the beginning of 2021 but remained below 2%, indicating mild pressures of inflation. Moreover, the projections made by international institutions for Taiwan's five-year inflation expectations were also mild, ranging between 1.4% and 1.6%.

Taking into account the effects from international oil price trends and weather events, the Bank estimated that the CPI annual growth rate would edge up in the fourth quarter. For this year as a whole, the CPI and core CPI annual growth rates were projected to be 1.97% and 1.31%, respectively, both mild. For next year, the Bank saw the CPI and the core CPI to rise by 1.59% and 1.45% year on year, respectively, in anticipation of a softer upswing in international oil prices. Meanwhile, major institutions forecasted Taiwan's CPI annual growth rate to be

1.80%-2.04% this year and 1.10%-2.00% next year.

Looking ahead, primary sources of upside price pressures include: (1) next year's base wage and public sector pay hike and the likely consequence of a private sector pay raise, which could increase hiring costs and in turn feed into the prices of goods and services; (2) further increases in global food prices, adding to upward pressures for domestic prices of food away from home; (3) unabated supply chain disruptions, which could push up the prices of certain goods. On the other hand, downside pressures could arise when the government's price stability policy measures effectively reduce the pressures from higher costs and/or when communication devices and telecom rates continue to trend low.

3. Considerations for Monetary Policy

(1) Considerations for the policy rate decision

A. This year's uptrend in the annual CPI growth rate was due to supply side factors and a lower base effect, which would likely decline next year, indicating little urgency to apply rate hikes against inflation.

B. An uneven recovery across industries: In March 2020, the Bank reduced the policy rates in order to help domestic small and medium-enterprises (SMEs) through the pandemic's economic impact, but the current recovery in some services sectors remained relatively weak.

C. Monetary policy changes (tightening) in major economies: The Fed announced a faster pace of tapering while other major central banks kept an easy monetary policy stance.

D. The economic outlook for the global as well as the domestic economy still faces many uncertainties.

E. With the domestic coronavirus outbreak largely stable, corporate needs for relief funding also declined. In this view, the Bank will close its special accommodation facility to support SME funding as scheduled on Dec. 31, 2021. However, in order to continue helping alleviate the burdens of funding costs and assist in the recovery of pandemic-hit industries, the Bank will roll over its special accommodations to banks, extending them to the new deadline of June 30, 2022.

(2) Considerations for adjusting the selective credit control measures

A. To promote financial stability, reinforce banks' credit risk management associated with real estate lending, and curb inordinate flows of credit resources towards the property market, the Bank amended the *Regulations Governing the Extension of Mortgage Loans by Financial Institutions* (hereinafter "the Regulations" or "Mortgage Loan Regulations") three times from December 2020. The Regulations have showed effectiveness in helping banks restrain credit risk associated with real estate lending. Nevertheless, banks' lending has remained noticeably concentrated on real estate loans.

B. To enhance banks' management of credit resources and prevent bank credit from flowing towards property and land hoarding, the Regulations should be reinforced through the following adjustments:

(a) The cap on the loan-to-value (LTV) ratio for natural persons' borrowing to purchase high-value housing or the third (and above) collateralized housing would be lowered to 40%. This is aimed to further enhance banks' management of credit resources, reduce credit risk, help borrowers avoid overleveraging, and prevent bank funds from being used for property hoarding.

(b) The cap on the LTV ratio for land loans would be lowered to 50% (40% plus the withheld 10% granted after construction commences). Borrowers would also be required to commit to begin construction within a specific time frame, a rule aiming at urging them to begin building work sooner so as to increase housing supply and prevent undue financing for land hoarding.

(c) The cap on the LTV ratio for unsold new housing loans would be lowered to 40%, with the aim of urging developers to speed up project sales so as to increase housing supply and prevent undue financing for house hoarding.

(d) The cap on the LTV ratio for idle industrial land mortgage loans would be lowered from 50% to 40%, in line with the LTV tightening (and the precondition of construction commencement for full loan disbursement) for land loans.

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

A. Deliberations on the rate hold proposition

One board director noted the high uncertainty over the COVID-19 pandemic and the conspicuous gap across industries; for instance, the electronics industry was largely unscathed and some even benefited from the pandemic, whereas such sectors as food and beverages and travel and tourism took a heavy blow. Meanwhile, rising prices of oil and of fruit and vegetables also drove the inflation rate upwards, albeit judged to be temporary. The director therefore supported the rate hold proposition.

One board director gave two reasons for supporting a rate hold. First, the New Taiwan dollar (NTD) was relatively strong; for instance, the NTD had appreciated by 2.53% this year so far, whereas the won – the currency of one of Taiwan's major export rivals – depreciated by 8.34%, which could hamper Taiwan's export competitiveness. Second, the seemingly robust export expansion this year was partially attributable to some sectors emerging from the previous year's contraction thanks to a lower base effect.

Another board director noted that, this year's economic growth notwithstanding, there remain some risks ahead in 2022 for Taiwan. Being a small open economy, Taiwan also needs to take into account the effect of major economies' monetary policy actions; as major central banks mostly kept an easy monetary policy stance, the conditions were not suitable for the Bank to hike rates. In this view, the board director supported the proposed rate hold.

One board director pointed out that though the Fed had begun tapering, it was expected not to raise rates until March 2022. Given that Taiwan's inflation was less concerning compared to the U.S. and was mainly accounted for by imported inflation, it seemed that this has yet to be the right timing for a rate hike. Moreover, hiking the rates at the current juncture could add to upward pressures on the NTD.

B. Deliberations on inflation-related issues

Several board directors discussed inflation expectations and shared their views on the price outlook. One of them observed that although the annual CPI growth rate was below 2% on average for this year so far, it was running above 2% for consecutive months recently. Given the downward stickiness of prices and a potential rise in inflation expectations owing to the noticeable price hikes in food and beverage services recently, the inflation uptrend could be even steeper.

Another board director pointed out that, despite a large basket of CPI components, the public tend to response more strongly to the price rises in staple goods as they purchase these items more frequently. The Bank should communicate to the public in a timely manner to prevent inflation expectations from building up.

One board director noted that, with Taiwan's inflation broadly stable for several decades, the issue of inflation expectation has been off the Bank's radar for a long while. Nonetheless, (inflation) expectations may influence (consumer) behavior, which in turn may influence actual inflation. If the public sentiment veers increasingly away from the Bank's account of inflation, this could damage the Bank's credibility.

Another board director agreed that the Bank can work on gaining better understanding of inflation expectations and inflationary pressures. As to the issue of inflation and how inflation expectations and pressures develop, potential structural changes in the long term should also be taken into account. For instance, green energy might replace the conventional energy form of fossil fuel, a transformation whose impact on prices deserves attention.

One board director pointed out that although many institutions expected Taiwan's inflation to moderate in 2022, it is still important to prevent the public from expecting higher prices, given the current low interest rate environment. In addition, as the interest rates were currently low, rate hikes would exert only limited influence on price trends unless the hikes are aggressive enough.

One board director noted that the expected decline in Taiwan's annual CPI growth rate next year would be due to a high base effect than otherwise. Nevertheless, the public was still uncomfortably aware of price uptrends, especially agriproducts; for example, fruit prices gained markedly in recent months amid unfavorable weather conditions. In addition, it was projected that international prices of soybeans, wheat, and corn would remain high next year and could be further pushed up by extreme weather events, which would then drive domestic prices of meat and eggs upwards.

Another board director noted that since housing rents have a large weight among the CPI basket, attention should be paid to whether housing price rises also lead to rent increases. On the other hand, if the pandemic eases next year, dissipating shipping gridlocks could help contain domestic goods price rises, but the services sector (such as food and beverages, travel, etc.) might experience upward pressures; it is important to keep a close watch on potential effects on future price trends domestically.

One board director remarked that the government's successful monitoring of charges for utility, public transportation, and fuel and lubricants had kept these prices mostly in check. In addition, imported inflationary pressures could also be mitigated via the commodity tax cut. As a result, Taiwan's headline inflation was mild compared to major economies. However, considering the effect of U.S.-China trade conflicts on low-cost goods exported by China, goods prices across countries could be prodded up. In this regard, this board director suggested the Bank consider adjusting the acceptable range for the annual CPI growth rate to a band higher than 0%-2%

One board director noted that inflation has different effects on individuals and households across different income classes because inflation is the most regressive tax of all. Low-income individuals/households tend to feel the most impact from inflation and are more sensitive to price rises. Although the issue of income distribution falls outside of the Bank's statutory mandate, its importance should not be overlooked.

C. Deliberations on the future path of monetary policy

Several board directors discussed the considerations for and the path of future monetary policy. One board director noted that, in addition to closely following the changes in the Fed's policy, the Bank should also monitor the effect of domestic consumers' inflation expectations and the future price trends and put them into proper consideration in the next quarterly meeting and adjust the monetary policy timely as warranted.

One board director noted that the Bank's monetary policy conduct has been steady and sound; in the event of raising the policy rates, the hikes would also be at a measured pace, unless otherwise warranted by excessive inflationary pressures. Should such pressures become excessively heavy in the coming months, the Board might consider and discuss a proposition to raise the rates during the next quarterly meeting.

Another board director observed that though Taiwan's current inflation situation was not as concerning as the U.S. but, if extending the time series span, the inflation rate of the U.S. averaged above 2% in the past two decades while that of Taiwan averaged around 0.95%. For those economies with a 2% inflation target, an overshoot of one percentage point (i.e., inflation reaching 3%) calls for close attention; likewise, Taiwan would need to heed an overshoot above 2%. The suggestion for the Bank would be to plan early, assess policy effects, and promptly take monetary policy actions when necessary. When it comes to addressing the issue of either inflation or housing prices, the Bank may need to make a bigger change to the broadly loose monetary policy stance upheld in the past twenty years.

One board director remarked that the persistent easy money conditions in Taiwan is related to ample market liquidity amid a saving glut and investment deficiency. After the global financial crisis, the domestic excess saving continued rising. More recently, despite a pickup in investment growth last year, the pandemic-led decline in consumption also caused saving to increase faster. The Bank would need to closely monitor if excess saving grows further and take this important factor into account when mulling the future policy path. In the future, if Taiwan's investment growth sustains steady growth and the economic fundamentals are solid, a higher inflation rate might be deemed acceptable.

One board director noted that the key considerations for the Bank's monetary policy conduct may also include housing price trends in addition to inflation and economic growth. Given the domestic economic expansion under way, it seems the timing is appropriate to gradually begin monetary policy normalization, which would also help soothe housing price surges.

Another board director pointed out the important role of inflation expectations despite the markedly milder inflation in Taiwan than in the U.S. and argued for the need for the Bank to communicate well to the public that the domestic economic recovery could moderate next year, and many uncertainties remain, while supply chain bottlenecks would likely ease gradually. Such communication would help subdue inflation expectations and keep them from self-fulfilling. Although monetary policy does not solve supply-side problems, the Bank should also communicate to the public about the policy tools it may use once longer-term risks of price changes emerge. In the future, the Bank will monitor the policy changes of other central banks and the developments in international economic and financial conditions to advise quarterly reviews and respond as warranted.

One board director noted that domestic consumers recently felt a sharper pain from rising prices of food and beverages, but the government already took action to stabilize prices, which would help contain inflation expectations. In addition, Taiwan did not experience serious supply-demand imbalances, the current inflation rate was milder than major economies, and most forecasters also projected a decline in Taiwan's inflation next year. Meanwhile, the Bank's special accommodation facility to support the SMEs was coming to a close, whereas the services sector lagged behind other industries amid a K-shaped recovery. Moreover, as the domestic market already had ample liquidity, raising the policy rates could attract capital inflows and further buoy up liquidity. Therefore, future adjustments to the Bank's monetary policy should be made after assessing these factors, including domestic inflation outlook, recovery of the pandemic-hit sectors, and rate increases by major economies' central banks.

D. Deliberations on M2 growth

Two board directors gave opinion on the fact that M2 growth had exceeded the upper end of the reference range. One board director pointed out that M2 growth still has influence on prices over the longer term. However, domestic prices kept rising and M2 growth recorded above-reference-range growth for 15 consecutive months. Against that backdrop, and considering the prominent role of public inflation expectations in affecting future inflation, the Bank should let the public know that it might raise the policy rates at the appropriate timing as warranted. A rate hike would not only influence prices but would also add to mortgage interest burdens, which could cause non-performing loans to increase, presenting risks to financial stability. It is hoped that the Bank could conduct effective communication to facilitate more accurate public expectations of inflation and housing prices.

Another board director stated that M2 continues to serve as an important reference for monetary policy deliberation. Particularly, indirect finance has a dominant share in Taiwan's financial system and M2 growth can provide information on bank loans and investments. As the M2 annual growth rate had continued to overshoot the reference range this year so far, it would be important to examine if this also reflected significant growth in bank loans, especially real estate loans, and to find out if the Bank's selective credit controls helped restrain the expansion of banks' real estate lending.

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

A. Deliberations in favor of the adjustments

Citing the recent uptrend in construction-related financing, one of the board directors expressed support for the adjustment to reduce the LTV caps to as low as 40%, stating that the timely tightening of selective credit controls would help restrain property speculation. Another board director also supported the adjustment proposition and noted that given the increasingly higher prices and trading volume in the housing market, it would certainly be warranted to apply the brakes as seen fit.

One board director remarked that despite the housing boom and considerable growth in home prices, this might not be the right timing to tackle them with policy rate adjustments; therefore, the Bank had to address this problem via selective credit controls. Nevertheless, considering the many determinants behind housing prices, it would be a tough battle to fight by deploying only monetary policy instruments. The focus now should be to forestall undue public expectations of future housing prices and the selective credit controls would send a clear signal to that end, hence the director's support for the adjustments.

Another board director also supported the adjustments, stating that the housing price trends at present reflected a combination of supply-side and demand-side factors and the Bank would need to demonstrate its resolve to keep the housing market from overheating. Although the selective credit controls had achieved some results, they would still need to be accompanied by other types of policy efforts if the housing price problem is to be successfully tackled. Such policy measures include increasing the supply of social housing, raising the relevant tax levies, etc. Multi-faceted policy actions would thus more effectively help sustain a healthy housing market.

One board director showed support for the adjustments, mainly because the side effects on housing prices from protracted monetary easing were increasingly distinct and it would thus be the right direction to strengthen the clout of selective credit controls. Though the selective credit controls had proved effective to an extent, they could only treat the symptoms but not the disease; the housing price malady cannot be cured without a targeted therapy against loose monetary policy. Another board director noted that the effectiveness of the selective credit controls was hampered by the liquidity flush in the domestic market. However, the Bank should not be discouraged by the limited results but rather carried on with what should be done.

B. Deliberations on the effectiveness of the implemented selective credit control measures

One board director noted that the Bank had made three rounds of adjustments (four, if including this round) to its selective credit control measures, which seemed to make such moves more predictable, if not formulaic; it is thus important to monitor if the expected effectiveness is attained. Another board director noted that despite a series of selective credit controls being rolled out, they had not shown concrete results; it is thus important to find out if public confidence in the Bank is impaired consequently.

One board director pointed out that given a 62% share of land loans in construction loans, overall, construction lending had seen a decline in annual growth since January 2021 and the annual growth rate of housing loans had also trended down since June 2021. Meanwhile, real estate lending as a percentage of total bank lending had remained stable. These readings all attested to the effectiveness of the three rounds of selective credit controls.

C. Deliberations on the content of the selective credit control measures

One board director stated that in an market economy, property investment should be done with own funds instead of tapping bank loans; in that sense, the LTV cap on new housing loans for borrowers with at least two outstanding loans should be even lower than proposed. Another board director contended that the current housing market conditions were different from the days back in 2010; the situation today was more complicated and challenging, as the recent housing boom was not merely fueled by speculation but also buttressed by solid real demand. Furthermore, the Bank had previously introduced the control measure of allowing no grace periods for a second housing loan in eight “specific areas.” Should the real estate market remain heated, more targeted prudential measures could be deployed to rein it in.

Several board directors gave their views about the requirement that land loan borrowers should commit to begin construction work within a specific time frame. One of these board directors stated that the rules need to be clearer and more specific. Another board director pointed out that, to commence construction, builders must apply for building permits first and this process is often subject to less predictable variables (e.g., from the local governments or the community); therefore, some flexibility in the follow-up is still needed to allow for unforeseen situations.

One board director stated that, after the adjustments are approved, the Bank will meet with banks with the aim of further improving the relevant rules. Considering that land loan cases could be complicated, the Bank’s measures retain some flexibility for banks to determine the “specific time frame” at their own discretion. In the future, the Bank will further clarify the relevant rules via official circulars to facilitate bank compliance by providing them with uniform standards. Moreover, the Bank would also supplement the effort by conducting target examinations to see if banks hike the interest rates or revoke the loans when borrowers fail to begin construction within the promised time frame.

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 December 16, 2021

Monetary Policy Decision of the Board Meeting

I. Global economic and financial conditions

Since the Board met in September this year, global economic and trade activity has continued to recover, underpinned by the easing of COVID-19 pandemic situations and monetary and fiscal stimulus measures adopted by major economies. However, lingering supply chain bottlenecks and elevated price levels of crude oil and other international commodities have prompted inflation rates in the US and the euro area to rise further. Meanwhile, rising pandemic uncertainties stoked by the recent spread of new virus variants, which induced market concerns over economic prospects, and the US Fed's faster tapering of asset purchases have combined to spark greater volatility in global financial markets.

International institutions forecast the global economic recovery to remain on track, though with softer growth momentum. As supply and demand imbalances diminish, global inflation is likely to gradually return to normal. Nevertheless, the global economy still faces multiple uncertainties, such as the evolution of the pandemic, the monetary policy stance of major central banks, developments of the US-China competition, and possible damages that climate change may cause, which could present more downside risks to the global economic outlook.

II. Domestic economic and financial conditions

1. In recent months, exports registered robust and steady growth and private investment sustained solid momentum. Moreover, with the domestic pandemic situation under control, the government rolled out consumption stimulus measures, leading to an upturn in private consumption. The Bank projects Taiwan's economy to post solid expansion in the fourth quarter of 2021 and revises up the GDP growth forecast to 6.03% for the entire year. In terms of labor market conditions, the unemployment rate continued its downtrend and the number of employed persons increased further, but have not yet returned to their pre-pandemic levels. From the beginning of the year, the average nominal total earnings of payroll employees of the industrial and services sectors recorded modest growth. However, as some occupations of the services sector were hit harder by the pandemic, the nominal total earnings of their payroll employees decreased, indicating uneven recovery momentum across sectors.

   Looking ahead to next year, a continued global economic recovery will help sustain growth momentum for Taiwan's exports and private investment, albeit with the growth rates moderating because of a higher base effect. With the domestically-oriented services sector gradually picking up, employment will witness a larger increase. In addition, the hikes in minimum wage and public sector employee pay may spur wage increases for workers in the private sector. Therefore, private consumption growth is expected to rebound. Overall, the Bank forecasts that Taiwan's economic growth would advance at a pace of 4.03% in 2022 (Appendix Table 1).

2. As international oil price uptrends since the start of the year have prodded up domestic fuel and lubricant prices, and a lingering effect from the disruptions of typhoon and torrential rain in August has led to a spike in fruit and vegetables prices, together with a more recent price hike by some food and beverage service providers, the annual growth rate of the consumer price index (CPI) has registered above 2% for several months in a row and stood at 2.84% in November. Excluding fruit, vegetables, and energy items, the core CPI increased at a milder pace than the CPI, posting an annual growth rate of 1.49% in November. For the first eleven months of the year, the average annual growth rates of the CPI and the core CPI were 1.91% and 1.28%, respectively. For the year as a whole, the Bank projects that the annual CPI growth rate would be 1.97% and that of the core CPI would register 1.31% (Appendix Table 2).

   Domestic inflation pressures have built up further since the middle of the year. However, price increases in Taiwan have not been as significant as those in European economies or the US. This was mainly because Taiwan has broadly kept the pandemic situation under control and has experienced little supply chain bottlenecks such as logistics problems, and the domestic labor market did not face capacity constraints and recorded mild growth in average non-farm employee earnings.

   Looking at next year, the base wage increase, the public sector pay raise, and potential price hikes in some sectors to reflect higher personnel and raw material costs could push prices upwards. Nonetheless, with major institutions projecting a slower ascent for international oil prices in 2022, the Bank expects the domestic CPI annual growth rate to drop to 1.59% and the core CPI to maintain mild growth at a pace of 1.45%. Similarly, most of the selected international and domestic institutions forecast Taiwan's 2022 annual CPI growth rate to run lower than this year.

3. In recent months, banks' excess reserves stayed somewhat above NT$60 billion. The monetary aggregate M2, which increased by 8.61% year on year during the third quarter, grew at a slower pace at 8.45% in October. Loans and investments by the banking sector continued expanding, posting an annual growth rate of 8.17% in October. Meanwhile, short-

and long-term market interest rates fluctuated within a tight range. Overall, financial conditions were accommodative.

III. Adjustments to the expiry dates of the Bank's Special Accommodation Facility

Back in April 2020, the Bank launched the Special Accommodation Facility to Support Bank Credit to Small and Medium-Sized Enterprises (SMEs). Under the Facility, financial institutions have so far approved more than 290 thousand applications with the total disbursement exceeding NT$460 billion, providing the pandemic-hit SMEs with the funds needed to stay afloat. As the pandemic situation was broadly stable at home, enterprises gradually resumed normal operation and the need for such funding assistance also waned. Therefore, the deadline for banks to accept new SME loan applications under the Facility will remain December 31, 2021, as previously announced.

For the Facility's accommodations to banks, effective December 16, 2021, those due for repayment by December 31, 2021 (i.e., those approved between April 1, 2020 and July 4, 2021) will be rolled over to June 30, 2022, so as to continue offering assistance by easing corporate funding burdens and to help the affected enterprises recover. Meanwhile, SME loans granted by banks under the Facility during the aforementioned period (2020/04/01 – 2021/07/04) will remain eligible for the Facility's preferential interest rates until June 30, 2022.

Beyond June 30, 2022, when the Facility ceases to apply, banks' loans to SMEs will come from their own funds instead of the Bank's special accommodations and the interest rates will be set according to each bank's pricing strategies. To avoid possible disruptions to corporate funding, the Bank urges SMEs to prepare in advance with proper financial planning.

IV. Monetary policy decision: maintaining the policy rates and adjusting the selective credit control measures

1. The Board considered the economic and financial conditions at home and abroad in today's meeting: The current domestic inflation situation is viewed as manageable and the inflation rate is expected to return to a slower pace next year. Taiwan's economy is projected to exhibit strong growth this year, albeit with divergence among different sectors, and is also expected to post solid growth next year as the global economic recovery continues onwards amid potential downside risks. Against this background, the Board judged that maintaining the current policy rate levels and monetary easing would help foster sound financial development and economic growth.

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.

2. Looking ahead, given the uncertainty over global inflation, if domestic prices are persistently higher, or pandemic-hit sectors regain solid footing, or major economies begin to raise policy rates, the Bank may, as necessary, adjust its monetary policy timely and appropriately to fulfill its statutory duties.

3. Since December 2020, the Bank has made three amendments to the selective credit control measures, which have helped banks reduce credit risk. Nevertheless, recent data showed that real estate lending still made up a dominant share in total bank lending. To strengthen management of bank credit resources and curb credit flows toward property and land hoarding, the Bank decided to amend the *Regulations Governing the Extension of Mortgage Loans by Financial Institutions*, effective December 17, 2021, as follows (see Appendix for more details):

   (1) Lowering the LTV ratio caps on a high-value housing loan and on a third (or more) housing loan to 40%.

   (2) Lowering the LTV ratio cap on land loans to 50%, including 10% thereof to be withheld for disbursement until construction commences within the promised time frame as formally undertaken by the loans' borrowers.

   (3) Lowering the LTV ratio cap on loans for unsold new housing units to 40%.

   (4) Lowering the LTV ratio cap on mortgage loans for idle land in industrial districts to 40%.

The Board judged that the measures adopted by the Bank to help rein in credit risk associated with real estate lending have represented active efforts in achieving effective allocation and proper use of credit resources, which are part of the government's Healthy Real Estate Market Plan. However, it still requires concerted actions under the Plan's various policy aspects in order to promote sound development of the real estate market.

Considering that the average mortgage burden ratio (monthly housing loan repayment as a percentage of monthly disposable income) of Taiwanese households exceeds 30%, the Bank urges mortgage borrowers to caution an immediate increase in repayment after the grace period and a risk of possible interest rate changes..

V. 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*

December16, 2021

1. The LTV ratio caps on a high-value housing loan and on a third (or more) housing loan is lowered to 40% in order to further strengthen banks' management of credit resources, lower credit risk, and curb credit flows toward property hoarding.
2. The LTV ratio cap on land loans is lowered to 50% (with 10% thereof to be withheld for disbursement until construction commences within the time frame formally promised in writing) in order to urge the borrowers not to stall construction, to help increase housing supply, and to prevent credit resources from being used for land hoarding.
3. The LTV ratio cap on loans for unsold new housing units is lowered to 40% to prompt developers into action to sell their new unsold housing, to help increase housing supply, and to prevent credit resources from being used for property hoarding.
4. In line with the LTV tightening on land loans (including a lower LTV ratio for unconstructed land; see Point 2 above), the LTV ratio cap on mortgage loans for idle land in industrial districts is lowered to 40%.

(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: December 17, 2021

<table>
<tr><th colspan="2" rowspan="2">Loans</th><th colspan="2">Criteria</th></tr>
<tr><th>Current provisions</th><th>Amendments</th></tr>
<tr><td colspan="2">Housing loan, taken out by a corporate entity</td><td>LTV ratio capped at 40%; no grace period</td><td>(Unchanged)</td></tr>
<tr><td rowspan="5">Natural person</td><td>High-value housing loan for a borrower with two or less outstanding housing loans</td><td>LTV ratio capped at 55%; no grace period</td><td>LTV ratio capped at 40%; no grace period</td></tr>
<tr><td>High-value housing loan for a borrower with three or more outstanding housing loans</td><td>LTV ratio capped at 40%; no grace period</td><td>(Unchanged)</td></tr>
<tr><td>Second home loan for housing in "specific areas" *</td><td>No grace period</td><td>(Unchanged)</td></tr>
<tr><td>Third home loan</td><td>LTV ratio capped at 55%; no grace period</td><td rowspan="2">LTV ratio capped at 40%; no grace period</td></tr>
<tr><td>Fourth (and more) home loan</td><td>LTV ratio capped at 50%; no grace period</td></tr>
<tr><td colspan="2">Land loans</td><td>● LTV ratio capped at 60%, with 10% withheld for disbursement until construction commences
● Requiring the borrower to submit a substantive development plan for the land purchased</td><td>● LTV ratio lowered to 50%, with 10% withheld for disbursement until construction commences
● Requiring the borrower to submit a substantive development plan for the land purchased and to undertake in writing a specific time frame to commence construction</td></tr>
<tr><td colspan="2">Unsold housing unit loans</td><td>LTV ratio capped at 50%</td><td>LTV ratio capped at 40%</td></tr>
<tr><td colspan="2">Mortgage loans for idle land in industrial districts</td><td>LTV ratio capped at 50%, with the following exemptions applicable when:
● Construction on the collateralized land has</td><td>LTV ratio capped at 40%, with the following exemptions applicable when:
● Construction on the collateralized land has</td></tr>
</table>

	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	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 (2021/12/16)**	**6.03**	**4.03**
	TRI (2021/12/15)	6.07	4.05
	CIER (2021/12/10)	6.05	3.67
	DGBAS (2021/11/26)	6.09	4.15
	TIER (2021/11/8)	6.10	4.10
Foreign institutions	IHS Markit (2021/12/15)	6.00	3.16
	ADB (2021/12/14)	6.20	3.00
	BofA Merrill Lynch (2021/12/13)	6.00	2.61
	Goldman Sachs (2021/12/13)	6.00	3.20
	HSBC (2021/12/13)	6.00	3.10
	J.P. Morgan (2021/12/10)	6.10	3.70
	UBS (2021/12/10)	5.93	3.11
	Barclays Capital (2021/12/10)	6.10	3.30
	Credit Suisse (2021/12/9)	6.10	3.30
	Deutsche Bank (2021/12/7)	6.00	3.80
	Citi (2021/11/25)	6.00	3.80
	Morgan Stanley (2021/11/17)	6.20	3.80
Forecast Average		**6.06**	**3.52**

Appendix Table 2

Taiwan's Inflation Forecasts by Major Institutions

Unit: %

Forecast institutions		2021 (f)	2022 (f)
Domestic institutions	**CBC (2021/12/16)**	**1.97 (CPI) 1.31 (Core CPI*)**	**1.59 (CPI) 1.45 (Core CPI*)**
	TRI (2021/12/15)	2.04	1.93
	CIER (2021/12/10)	1.90	1.77
	DGBAS (2021/11/26)	1.98	1.61
	TIER (2021/11/8)	1.80	1.52
Foreign institutions	IHS Markit (2021/12/15)	1.99	1.92
	ADB (2021/12/14)	2.00	1.10
	BofA Merrill Lynch (2021/12/13)	1.90	1.70
	Goldman Sachs (2021/12/13)	1.91	1.97
	HSBC (2021/12/13)	1.80	1.40
	J.P. Morgan (2021/12/10)	2.00	1.90
	UBS (2021/12/10)	1.99	1.53
	Barclays Capital (2021/12/10)	2.00	1.90
	Credit Suisse (2021/12/9)	1.90	2.00
	Deutsche Bank (2021/12/7)	1.90	1.40
	Citi (2021/11/25)	1.90	1.80
	Morgan Stanley (2021/11/17)	1.90	1.50
Forecast Average		**1.93**	**1.68**

* Excluding vegetables, fruit, and energy.