Minutes of the Monetary Policy Meeting

March 17, 2022

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

Meeting Minutes[1] on Monetary Policy at the Joint Meeting of the Board of Directors and the Board of Supervisors, Held on March 17, 2022

Date and Time: 2:00 p.m., March 17, 2022

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:

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)

Chi-Chung Chen (Excused, Appointing Nan-Kuang Chen 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

At the beginning of the year (2022), the global economic recovery continued, and supply chain bottlenecks slightly eased but remained unresolved. Then, the Russian invasion of Ukraine in late February prompted major economies to impose sanctions against Russia, disrupting global economic activity, stoking the prices of energy, metal, and grains, and riling financial markets.

For the outlook of this year, the Russia-Ukraine war, surging commodity prices, persistent supply chain bottlenecks, and the tapering of fiscal and monetary stimuli could all weigh on the global economy. In this view, international institutions recently downgraded their forecasts for the 2022 global economic growth.

Global trade was also forecasted by international institutions to grow slower in 2022 than in 2021 as the WTO Goods Trade Barometer slid deeper this year so far. The recent Russia-Ukraine conflict and the ensuing sanctions on Russia risk further disrupting global trade growth.

For the year to date, oil prices soared on geopolitical tensions in the Middle East and the Russian invasion of Ukraine. More recently, though, possible demand slowdown from a COVID-19 flare-up in China and the Russia-Ukraine peace talks sent oil prices lower. For the year as a whole, international institutions projected oil prices to be higher than the previous year. Grain and metal prices also rose markedly as the Ukraine war and the sanctions on Russia hampered the supply and exportation of grains and base metals.

Unabated supply-demand imbalance owing to supply chain bottlenecks and the Ukraine war-induced price surges amid disrupted supply and exportation of raw materials exerted heavy pressures on global inflation, leading international institutions to revise this year's global inflation forecasts upwards.

Since the Board last met in December 2021, the U.S. Federal Reserve (Fed) and the Bank of England had announced rate hikes, the European Central Bank (ECB) was likely to end its bond buying program in the third quarter of the 2022, while Japan's and China's central banks maintained a broadly loose monetary policy stance.

In the recent month, the 10-year government bond yields of the U.S. and Germany both rebounded as investors expected the Fed and the ECB to exit monetary easing. Global stock markets fluctuated downwards from a previous high after the Fed signaled a policy tightening. Then, stock markets took another hit as Russia invaded Ukraine in late February and faced a growing array of sanctions from major countries. In the foreign exchange market, the US dollar index trended up as investors expecting a faster rate hike cycle of the Fed turned to US dollar assets. Then, intensifying conflicts in Ukraine pushed up hedging demand and led the US dollar index to rise sharply and fluctuate at elevated levels.

Looking ahead, the global economy is confronted by multiple downside risks, including: (1) risks from geopolitical and military conflicts could escalate and impair global economic activity; (2) soaring raw material prices and tight labor market conditions could cause inflation to stay high; (3) the pace of major economies' monetary policy normalization could be interrupted or disrupted, and financial market volatility could heighten; (4) new coronavirus variants could harm health and climate change could cause a global food crisis. These risks, should they materialize, will hinder global economic growth and jeopardize financial stability.

2. Domestic Economic and Financial Conditions

(1) Economic situation

The easing of the domestic pandemic-related restrictions and continued export strength gave a further boost to economic activity, and firms were optimistic about the outlook in the coming six months.

In terms of external demand, emerging technology application and traditional manufacture continued enjoying strong demand, leading exports of major products and exports to major trading partners to expand by more than 10% for the year to date. Looking ahead, the Bank expected Taiwan's export to register solid growth this year, benefiting from growing business opportunities of products for digital transformation and emerging technology application, as well as firms increasing production capacity.

With respect to internal demand, private investment was expected to sustain growth with tech firms increasing capital outlay, major investment projects – such as green energy and government-supported infrastructure development – moving along, and maritime and air transporters procuring new equipment. Private consumption was also expected to pick up against a backdrop of stable COVID-19 situation at home, and other favorable factors including pay rises for public sector employees and base wage hike and improved prospects for listed companies to pay dividends thanks to healthy profits the previous year.

Since the second half of 2021, labor market conditions had gradually returned to the level before the May 2021 domestic COVID-19 flare-up; as the outbreak was contained and economic activity rebounded, the unemployment rate continued to fall and employment kept rising month by month. The nominal average regular earnings of all non-farm employees increased moderately. In particular, the harder-hit services sector saw a gradual rebound in wages and this sector's real GDP also resumed growth thanks to improved domestic pandemic situation. These developments showed that recoveries across various sectors have become less uneven.

Overall, sustained growth in exports and private investment and reinvigorating private consumption were likely to help uphold stable economic growth momentum for the year despite a higher base effect and potential impact from the Ukraine war. The Bank projected Taiwan's economy to expand by 4.05% this year, while the growth projections by major institutions ranged between 3.11% and 4.42%.

(2) Financial conditions

From February onwards, though financial markets were disturbed by the Russian invasion of Ukraine, market liquidity remained ample and short term market rates fluctuated within a tight range.

Looking at domestic credit and money conditions, in January, government demand for funds increased owing to public sector pay raise, payment for year-end bonuses, and pandemic relief and subsidies, along with a typical rise in corporate funding demand ahead of the Chinese New Year holidays. As a result, the annual growth rate of domestic banks' loans and investments rose, with loans to small and medium-sized enterprises (SMEs) also expanding. In terms of the annual growth rate of the monetary aggregate M2, though hovering above the 6.5% upper limit of the Bank's reference range since August 2020, it began trending downwards from September 2021 on.

In the housing market, the price indices of new housing projects and of existing homes both continued rising to all-time highs in the fourth quarter of 2021. The number of building ownership transfers in 2021 also hit a record high in nearly eight years with 348.2 thousand transfers. In the six Special Municipalities, ownership transfers posted an average annual growth rate of 0.21% in the first two months of the year. As the domestic COVID-19 situation remained subdued, housing transactions and prices both increased. Banks maintained positive about the residential housing market outlook, albeit with less optimism than previously observed.

As of the end of January 2022, the annual growth rates of real estate lending, housing loans, and construction loans edged down to 10.23%, 9.42%, and 13.41%, respectively. Real estate loan as a share of total loans slightly grew to 36.99%, but still lower than a historical high of 37.9% in October 2009. Meanwhile, the ratio of domestic banks' construction loans to their deposits and bank debentures was 26.99%, staying 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 0.08%.

With a view to preserving financial stability and reinforcing credit risk management associated with real estate lending, the Bank implemented and adjusted the selective credit control measures with four amendments since December 2020, seeking to prevent credit resources from flooding the real estate market. These measures have proved effective in mitigating related bank credit risk as the regulated types of real estate loans had been granted in compliance with relevant rules and the loan-to-value (LTV) ratios thereof were significantly lower than before.

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[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.

(3) Price trends

With a year-to-date global price rally for crude oil and other raw materials and a domestic price hike in some food and beverage products, home appliances, and automobiles, the annual CPI growth rate was still elevated, exceeding 2% for the seventh straight month.

For the first two months of the year, the annual CPI growth rate averaged 2.60%, reflecting price rises in fuel and lubricant products, food away from home, fruit, durable consumer goods, and transportation with a combined contribution of 1.57 percentage points to the increase.

As consumers tend to be more sensitive about price changes in goods they frequently purchase, the recent price hike in some staple goods as well as food and beverages amplified consumer sentiment of rising prices. The Bank's survey for inflation expectations found that, compared to the previous quarter, a larger share of respondents in the corporate sector and in investment trust companies expected the annual CPI growth rate to exceed 2%, mainly because of international raw material price rises and domestic price hikes by some firms.

The global supply chain bottleneck could persist, and the Ukraine war-induced disruptions have pushed up commodity prices such as crude oil, grains, and base metals. This would further feed into domestic prices of energy, food, and durable consumer goods, adding to inflationary pressures. The Bank expected inflation to still run above 2% in the first three quarters this year before sliding below 2% in the fourth quarter. For this year as a whole, the Bank forecasted the annual growth rates of CPI and core CPI to be 2.37% and 1.93%, respectively. Meanwhile, the CPI projections made by international institutions ranged between 1.50% and 2.75%.

Looking ahead, the following factors could create upside price pressures for Taiwan: (1) persistent supply chain imbalance and the Russia-Ukraine war significantly driving global freight rates and commodity (such as crude oil and grains) prices upwards; (2) a proposed hike in the national health insurance copayment fees feeding into the prices of healthcare-related items. On the other hand, sources of downside pressures included (1) declines in communication devices prices and communications rates; (2) the government's potential reduction of tax rates for commodity tax, customs duty, and business tax, helping to mitigate rising cost pressures for firms.

3. Considerations for Monetary Policy

(1) Considerations for the policy rate decision

A. Taiwan was faced with heavy pressures of imported inflation as Russia's invasion of Ukraine significantly pushed up global commodity prices. The domestic annual CPI growth rate had exceeded 2% for several months in a row and this could continue into the third quarter of the year. The Bank forecasted this year's CPI and core CPI annual growth rates to be 2.37% and 1.93%, respectively.

B. The pandemic-hit domestically-oriented services sector gradually rebounded, and labor market conditions steadily resumed the levels before the mid-2021 domestic COPVID-19 flare-up. The Bank forecasted this year's economic growth rate to be 4.05%.

C. Central banks in the U.S. and the U.K. both began policy rate hikes, while the ECB announced it would soon end the asset purchases.

II. Proposition and Decision about Monetary Policy

1. **Policy Proposition: To raise the discount rate, the rate on refinancing of secured loans, and the rate on temporary accommodations by 25 basis points to 1.375%, 1.75%, and 3.625%, respectively.**

2. Board members reached a unanimous vote to raise the discount rate, the rate on refinancing of secured loans, and the rate on temporary accommodations by 25 basis points to 1.375%, 1.75%, and 3.625%, respectively. Related discussions are summarized as follows.

(1) Discussion on the policy rate proposition

One board director noted that the domestic economic growth was relatively stable and the economy was projected to expand at a pace faster than 4%. The annual CPI growth rate had been above 2% for several consecutive months and would likely stay around that level. Meanwhile, given the US Fed’s rate hike decision, the fact that domestic interest rates had been held at a relatively low level for some time could hamper effective capital allocation. Therefore, raising the policy rates would be an appropriate move. In addition, it was expected that a rate hike would have a dampening effect on housing price surges.

One board director pointed out that for a small open economy like Taiwan, it is difficult and unsound for monetary policy to proceed without regard to the moves and stances of major central banks, and monetary policy conduct in line with those in major economies would be more effective. Meanwhile, the domestic economy fared well, with the 2021 economic growth rate much higher than expected and the 2022 economy projected to enjoy solid growth. For several months in a row, the CPI inflation rate had exceeded 2% and the annual M2 growth rate had overshot the upper limit of the reference range amid accommodative liquidity conditions. Therefore, the board director supported the 25 basis points (bps) rate hike proposition and noted that the current focus for the Bank is not fostering economic growth but addressing the issues of inflation and bubbling asset prices.

One board director expressed support for the 25 bps rate hike based on assessments taking into account of cross-border capital movements and domestic price trends. However, this director noted that higher rates would add to the interest payment burdens on young people taking out their first housing loans or trading up for bigger homes, a potential situation that requires attention and could be taken into account in future policy discussions regarding selective credit controls.

One board director stated that Taiwan’s economy showed good growth in the last three years, whereas imported inflationary pressures caused the CPI inflation rate to hover above 2% for several months. The director viewed that the effect of a 25 bps hike was less about dampening housing prices than about sending a message. Furthermore, despite some results from the four rounds of selective credit controls, housing price expectations seemed to be buoyed up by repeated record highs in the past year. Given the current economic and financial situation, the director supported a 25 bps rate hike and suggested to continue monitoring the Fed’s rate path, global economic developments, and domestic price trends while prudently formulating monetary policy.

One board director gave the following reasons in favor of a 25 bps rate hike. First, the Fed had begun a rate hike cycle. Though inflation in Taiwan was not as concerning as in the U.S., the unemployment rate already dropped to close to the natural rate of unemployment, a sign that the economy might be heating up; a 25 bps rate increase would help dampen the heat. Second, protracted low interest rates in recent years had also helped shore up asset prices in Taiwan; combined with rising inflation expectations and the idea of buying real estate as an inflation hedge, housing prices could go further up. Raising the policy rates by 25 basis points could not only send an inflation-fighting message but also rein in the asset price buildup, making it an appropriate policy move.

One board director pointed out that though Taiwan's inflation was below 3% and lower than major economies, inflationary pressures would actually be higher than what the data showed. In addition, more after-effects of the Ukraine war could arise; particularly, energy market shifts and supply chain shocks could result in lasting outcomes and effects. Housing prices rose quite sharply in the fourth quarter of 2021 and it seemed that higher price expectations had become entrenched since more than a year ago, a sentiment difficult to dissolve. With interest rates staying low for a long while, speculators seeking short-term gains and first-time homebuyers wary of price surges scrambled to buy houses, creating a vicious loop that could be exacerbated if low rates persist longer.

One board director stated that the forecasting model designed to gauge the probability of recession in Taiwan showed a very slim likelihood. In addition, inflation was expected to remain above 2%, economic growth was strong and employment was solid. In this view, this would be the right timing for monetary policy normalization. The director therefore supported the proposition to raise the policy rates by 25 basis points. The Bank would need to closely monitor the developments of inflation expectation and continue conducting inflation expectation surveys.

One board director noted that the rate hike proposition was partly based on current economic strength, solid labor market recovery, and pressures from inflation. In addition, keeping inflation in check would likely boost slow-growing real wages.

Inflation affects households of various income brackets in different ways. With the prices of items to buy at least once a month and the 17 major staples (on the government's monitor list for price stabilization) rising more markedly than the overall CPI growth, the public tended to be more acutely aware of price hikes and to expect higher prices in the future too. Raising the policy rates would help dampen inflation expectation while also rein in expectation of higher housing prices. Moreover, in the post-Board Meeting press conference in December 2021, the Bank already floated the possibility of a future rate hike so as to promote public understanding of monetary policy and to guide public expectation of the policy path in the right direction, in hopes that borrowers including homebuyers would be prepared for future interest payments. Importantly, from the perspective of financial stability, the press conference communication also demonstrated central bank transparency and would be essential to anchoring inflation and stabilizing real estate prices.

Another board director expressed support for the rate hike mainly because the reasons for the Bank's rate cut two years ago no longer existed; and while the recoveries among sectors were uneven – slow in the services sector but strong in the industrial sector, the situation was beyond the Bank's capabilities and capacity. With this rate hike, the policy rates would return to the level before the last rate cut, which would be an appropriate move.

One board director stated that even though it seemed to be the timing for a rate hike, it would be preferable to wait until the next Board meeting in June or to hike the rates now but by 12.5 basis points instead. This was based on three reasons. First, the NT dollar had not turned weak. Second, until the Bank's special accommodation facility to support SMEs concludes on June 30, 2022, this would still be a time when relief measures are judged needed to stay in place while many industries remain financially stressed; a rate hike at this juncture would add to funding pressures. Third, the around 2% headline and core inflation rates at present were primarily caused by labor shortages and raw material supply logjams, both exerting great influence on inflation.

Another board director was also in favor of a rate hike, albeit with concern about the pace of 25 basis points. A rate hike would be appropriate given that the domestic inflation rate had been over 2% for several months in a row, that inflation pressures could continue rising with the Ukraine war pushing up prices of metal, energy, and farm produce, and that inflation expectations of investment trust companies and of the corporate sector tilted to the upside. The normalization move would also be warranted by the fact that interest rates had stayed low for a long while. Moreover, positive readings from data on exports, investment, and consumption indicated that a rate hike would not create much of a concern. Nevertheless, the Bank's rate hike would then translate into higher interest burdens on borrowers of various types of the government's policy loan programs; it would thus be important to reconsider whether a 12.5 or 25 bps rate hike is more appropriate.

One board director supported raising the policy rates and remarked that a rate hike, either by 25 basis points or by 12.5 basis points, would have an announcement effect nonetheless. The effect not only could guide public expectation and recognition of the Bank's resolve to contain inflation but also would help facilitate a healthy housing market.

(2) Discussion on the Bank's special accommodation facility to support SMEs

One board director pointed out the fact that the Bank's special accommodation facility to support SMEs (hereinafter "the facility") was introduced in March 2020 in tandem with a 25 bps rate reduction; accordingly, a 25 bps rate hike in this Meeting should lead to a simultaneous increase in the rate on the facility's special accommodations to banks. However, the facility was scheduled to end on June 30, 2022; considering the imminence of the expiry date, the Bank would amend relevant rules to keep the rate on the facility's special accommodations to banks at 0.1% through to June 30, 2022, so that banks' loans to SMEs could continue using preferential rates. Several board directors supported this proposition.

Another board director noted that many pandemic-hit SMEs were still not out of the woods, while the Bank's facility was in effect closing down as the June 30, 2022 expiry date is not so far from mid-March. Considering the likelihood that SMEs might still need funding support after the facility expires, the Board could give deeper thought to the impact on SME funding costs if the policy rates were to be raised by 25 basis points.

One board director took note of the public's interest in whether the facility will be extended beyond June 30, 2022, and expressed the view that, with the domestic COVID-19 outbreaks easing, the number and amount of SME loan cases guaranteed by the government (i.e., Small and Medium Enterprise Credit Guarantee Fund of Taiwan) and granted by banks under the facility had been rather modest since the end of February 2022, indicating the Bank had fulfilled its interim mission. When the facility ends, the Bank would urge banks to keep credit flowing to the SMEs as needed.

(3) Discussion on the Bank's selective credit control measures

One board director pointed out that the latest data showed both existing and newly-built homes recorded large price gains in the fourth quarter of 2021 that accelerated significantly from the previous quarter, with Hsinchu City and Hsinchu County leading the surge. In regard to lending, the recent slight decline in the annual growth rate of real estate loans was partly due to a higher base effect, instead of being a clear sign of the uptrend reversing. Meanwhile, real estate loans continued to take up a rising share in total loans. In addition, compared with recent data of other economies, Taiwan's real housing price index seemed to have a relatively lower annual growth rate; however, Taiwan ranked higher than most countries in terms of accumulated growth in housing prices in the past 20 years. In this light, more discussion seemed imperative on the issue of imposing selective credit controls.

One board director took note of the elevated annual growth rate of housing prices at present and suggested the Bank pay close attention and, if necessary, further reinforce the selective credit control measures. Another board director also remarked that consumers conscious of surging housing prices in major cities and cautious against rising inflation were planning to buy real estate as an inflation hedge. This called for the Bank's close attention and, if necessary, might require a new round of selective credit controls on the real estate market.

One board director pointed to the relatively focused and limited scope of the Bank's selective credit controls and suggested the possibility of broadening the measures' influence to a wider range in the future. On the other hand, the director stated that back in 2010, housing prices had not been significantly dented by the Bank's macro-prudential measures imposed on housing loans in the designated "specific areas" in Taipei City, New Taipei City, and Taoyuan; the housing market slump actually set in later in 2016 after the introduction of the consolidated land and housing sales tax, as well as an economic slowdown and a stock market decline. Therefore, it seemed uncertain whether housing prices would be brought down even if the current selective credit controls were to be enhanced for another around in the future.

3. **Monetary Policy Decision:** The board directors reached a unanimous vote to raise the discount rate, the rate on refinancing of secured loans, and the rate on temporary accommodations by 25 basis points to 1.375%, 1.75%, and 3.625%, respectively.

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.

<u>Press Release March 17, 2022</u>

Monetary Policy Decision of the Board Meeting (2022Q1)

I. Global economic and financial conditions

Since the Board met in December last year, the global economic recovery has remained on track amid an Omicron-driven pandemic resurgence and lingering supply chain bottlenecks. The recent Russian invasion of Ukraine has propelled major economies to impose economic and financial sanctions on Russia, hampering global commodity supply, inducing commodity price surges, and thereby creating further inflationary pressures. In addition, as the US Fed and other central banks in major economies began to reduce monetary policy accommodation, the global economy this year is expected to grow at a slower pace. Owing to the impacts of the Russia-Ukraine conflict and the ensuing sanctions, international financial markets experienced greater volatility. International institutions trimmed down the global economic growth forecast for this year and revised up their projections for global inflation.

Looking ahead, risks such as geopolitical tensions, surging international raw material prices, recurring outbreaks caused by new coronavirus variants, and aggravating threat from climate change could contribute to more persistently high global inflation, negative impacts on economic activity, and heightened financial market volatility, posing greater downside risks to the global economy.

II. Domestic economic and financial conditions

1. From the beginning of 2022, despite Omicron-driven disruptions to the domestic economy, consumers largely remained willing to spend, and the retail and food/beverage sectors registered growing sales. In addition, bolstered by thriving global economic activity, solid demand for emerging technology applications and digital transformation-related products, growth momentum for exports remained strong and capital equipment imports continued to increase, leading to a robust expansion in the domestic economy. Going forward, private consumption growth is likely to gather pace, and exports and private investment will continue picking up. Nevertheless, given the higher comparison base and the impact of the Russia-Ukraine conflict, the domestic economy is likely to register moderate growth. The Bank forecasts that Taiwan's economy would expand by 4.05% in 2022 (Appendix Table 1).

   In the labor market, the unemployment rate continued to fall and the number of employed persons increased further, both close to the level before the massive coronavirus outbreak in mid-2021. The average regular nominal earnings of all payroll employees in the industrial and services sectors recorded mild annual growth, with those of all payroll employees in the pandemic-distressed services sector also on the rise as the coronavirus wave receded. This indicates a more even recovery across sectors.

2. For the first two months of 2022, the consumer price index (CPI) posted an average annual growth rate of 2.60%, a still fast pace mainly because of domestic fuel price hikes following international oil rallies and cost-pushed price increases for food away from home, as well as rising prices for fruit, durable consumer goods, and

flight tickets. For the same period, the core CPI (excluding fruit, vegetables, and energy items) rose by 2.03% year on year.

The global supply chain bottleneck was expected to persist for some time, while international commodity prices such as oil, grains, and base metals soared as a result of Russia's invasion of Ukraine. These could drive up domestic prices for energy, food, and durable consumer goods, thereby stoking inflationary pressures. The estimates show that the CPI annual growth rates would remain above 2% in the first three quarters of the year, before slowing to below 2% in the fourth quarter. For the year as a whole, the Bank projects the CPI and core CPI annual growth rates to be 2.37% and 1.93%, respectively (Appendix Table 2).

3. In recent months, banks' excess reserves stayed somewhat above NT$60 billion. The annual growth rate of M2 (on a daily average basis) slowed from 8.24% of the fourth quarter of 2021 to 7.87% of January 2022. Loans and investments by the banking sector continued to expand, posting an annual growth rate of 8.75% in January; among them, SME loans increased by 11.52% year on year. Meanwhile, short- and long-term market interest rates fluctuated within a tight range. Overall, financial conditions were accommodative.

III. Interest rate decision: Raising the policy rates by 25 basis points

The Board considered the economic and financial conditions at home and abroad in today's meeting. Myriad uncertainties facing the global economic outlook could dampen the domestic growth momentum. For the domestic inflation outlook, however, the recent Russia-Ukraine conflict and the consequent price surges in global energy items and other commodities impose considerable imported inflation pressures. The annual growth rate of the CPI has stayed over 2% for consecutive months and will likely remain so towards the third quarter of the year, while that of the core CPI has also increased, both pointing to a persistent trend of elevated inflation. Furthermore, the domestically-oriented services sector that took a greater hit from the pandemic has gradually rebounded and the labor market conditions have continued to improve. Meanwhile, some economies, including the United States, have begun to raise policy rates. In this view, the Board judged that a rate hike would help contain domestic inflation expectations and achieve the policy objectives of price stability and sound financial and economic development.

The Board decided unanimously at the meeting today to raise the discount rate, the rate on refinancing of secured loans, and the rate on temporary accommodations to 1.375%, 1.75%, and 3.625%, respectively, effective March 18, 2022.

Given that global inflation still faces conspicuous upside risk, the Bank will keep close watch on developments related to international raw material prices, monetary policy actions by major economies, and geopolitical risks, and how these factors affect domestic prices and economic and financial conditions. Based on the assessments thereof, the Bank may adjust its monetary policy timely and appropriately to fulfill the statutory duties of maintaining price stability, safeguarding financial stability, and fostering economic development.

IV. The Special Accommodation Facility's interest rate on re-accommodations to banks: Maintained at the current level of 0.1% until June 30, 2022 to ensure funding ease for SMEs after the policy rate hike

Under the Bank's Special Accommodation Facility to Support Bank Credit to Small and Medium-Sized Enterprises (SMEs) launched in April 2020, financial institutions have approved preferential loans to more than 300 thousand borrowers with the total amount exceeding NT$500 billion. While the Facility has been productive in helping the pandemic-hit SMEs obtain essential funds, the need for financial relief diminished as firms gradually resumed normal operations amid successful containment of the domestic coronavirus situation. In this light, the Facility was closed for new SME loan applications after December 31, 2021, but the preferential rates would remain applicable until June 30, 2022 as previously announced. Likewise, the Facility's accommodations to the banking sector were also rolled over to the same date, before which a total amount of around NT$400 billion would be repaid to the Bank.

In line with this policy rate hike, which could have affected the funding costs of the SMEs utilizing the Facility, the Bank would therefore amend the relevant regulations so that the rate on the special accommodations to banks would remain at 0.1%, allowing the SME borrowers to continue enjoying preferential loan rates supported by the Facility.

V. Introduced in December 2020, the Bank's selective credit control measures have been adjusted as needed with three more amendments, representing sustained efforts to achieve effective allocation and reasonable utilization of credit resources as per the government's Healthy Real Estate Market Plan. Since the implementation, they have successfully held down the expansions in construction loans and housing loans and reined in real estate loan concentration, conducive to reducing credit risk and promoting sound banking operations. The Bank will stay attentive to the developments in real estate lending and in the housing market, continue to review the implementation of the selective credit controls, and make adjustments as needed in order to promote financial stability.

VI. 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 Table 1

Taiwan's Economic Growth Forecasts by Major Institutions

Unit: %

Forecast institutions		2022 (f)
Domestic institutions	**CBC (2022/3/17)**	**4.05**
	DGBAS (2022/2/24)	4.42
Foreign institutions	IHS Markit (2022/3/15)	3.16
	Citi (2022/3/14)	3.80
	EIU (2022/3/14)	3.20
	Goldman Sachs (2022/3/14)	3.42
	HSBC (2022/3/14)	3.20
	Barclays Capital (2022/3/11)	3.70
	BofA Merrill Lynch (2022/3/11)	3.70
	J.P. Morgan (2022/3/11)	3.60
	UBS (2022/3/11)	3.11
	Credit Suisse (2022/3/10)	3.30
	Morgan Stanley (2022/3/3)	3.80

Appendix Table 2

Taiwan's Inflation Forecasts by Major Institutions

Unit: %

Forecast institutions		2022 (f)
Domestic institutions	**CBC (2022/3/17)**	**2.37 (CPI) 1.93 (Core CPI*)**
	DGBAS (2022/2/24)	1.93
Foreign institutions	IHS Markit (2022/3/15)	2.75
	Citi (2022/3/14)	2.40
	EIU (2022/3/14)	2.40
	Goldman Sachs (2022/3/14)	2.47
	HSBC (2022/3/14)	1.60
	Barclays Capital (2022/3/11)	2.20
	BofA Merrill Lynch (2022/3/11)	1.90
	J.P. Morgan (2022/3/11)	2.60
	UBS (2022/3/11)	1.95
	Credit Suisse (2022/3/10)	2.50
	Morgan Stanley (2022/3/3)	1.50

* Excluding vegetables, fruit, and energy.