Minutes of the Monetary Policy Meeting

June 16, 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 June 16, 2022

Date and Time: 2:00 p.m., June 16, 2022

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:

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

Directors:

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

Chi-Chung Chen (Excused, Appointing Tzung-Ta Yen as Proxy)

Chairman, Board of Supervisors: Tzer-Ming Chu

Supervisors: Ching-Fan Chung, Sheng-Yao Lin (Excused), 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-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 ongoing Russia-Ukraine war pushed up international raw material prices; China's zero-COVID policy added to global supply chain pressures, causing a broad slowdown in corporate expansion in major economies. Moreover, the US and some other economies began monetary tightening at a faster pace. For this year as a whole, international institutions expected the global economic growth to moderate.

International oil prices had swung upwards since April, reflecting the impact from the EU's proposal to phase out Russian crude oil by the end of the year. International institutions forecasted this year's oil prices to climb higher than last year. Grain prices had gone up since April as exports were disrupted by the Ukraine war, but came down slightly after successful talks to resume fertilizer exports from Ukraine and Russia.

As significantly upturns in food and energy prices pushed up inflation in major economies, international institutions continued to revise up their projections for this year's global inflation and expected to see inflation reach markedly higher levels this year compared to last year.

Against a backdrop of inflation climbing in major economies, the US Federal Reserve (Fed) and the Bank of England continued with policy rate hikes, the European Central Bank (ECB) was set to end its bond buying program, while Japan's and China's central banks maintained a broadly loose monetary policy stance.

US and German 10-year government bond yields went up on recent market expectations that the Fed would tighten faster and begin shrinking its balance sheet and the ECB would end asset purchases and gradually start rate hikes. Major central bank hawkishness also led to extended declines in global stock markets. Also reflecting market expectations that the Fed would roll out larger rate increases than other major central banks, the US dollar index trended up from April onwards as the currencies of major economies weakened against the US dollar.

Looking ahead, the global economy faces multiple downside risks, including the following: (1) the Ukraine war exacerbates supply chain disruptions and the global food crisis; (2) elevated inflation could amplify inflation expectations, adding to upside price pressures; (3) faster rate hikes by many economies could significantly worsen the financial crunch, creating additional downward pressures for global economic growth; (4) China's economic slowdown could act as a drag on the global economic growth. In addition, recurring waves of COVID-19 complicate an already uncertain global economic outlook.

2. Domestic Economic and Financial Conditions

(1) Economic situation

Taiwan's economy posted solid growth in the first quarter of the year, with the manufacturing sector keeping a steady pace and the services sector recovering. The coincident indicator for business outlook continued to rise mildly in April, while the leading indicator fell for the sixth consecutive month.

With pronounced price rises, the average real total earnings growth of the non-farm employees increased marginally for the first four months of the year. 54.0% of them saw negative growth, with a majority in the services sector.

The domestic COVID-19 case spike from mid-April onwards had led to an increase in the number of furloughed employees. As people shunned from dining out and traveling, private consumption slowed drastically and the recovery in the domestically-oriented services sector sputtered.

In terms of external demand, exports registered double-digit growth year on year for the January-to-May 2022 period. Looking ahead to the second half of the year, despite continued demand for emerging technology applications and digital transformation-related products, export growth is expected to be slightly constrained by a slowing global economy. Overall, the Bank projected exports to post solid growth for the year as a whole.

In regard to domestic demand, as several large tech firms stepped up capital expenditure for the year and infrastructure projects such as green energy and 5G networks got underway, private investment would likely gain stronger momentum.

However, there remain many economic and trade uncertainties around the world, casting a shadow over investment plans in Taiwan. Overall, the Bank expected private investment to grow mildly for the year as a whole.

In terms of private consumption, growth was dampened by a coronavirus case spike from mid-April but was expected to gradually pick up in the latter half of the year when infection cases begin to decrease steadily and the implementation of government stimulus measures helps bolster domestically-oriented services. The Bank projected private consumption growth this year to gather pace.

Overall, with domestic consumption disrupted by local COVID-19 waves and investment outlook clouded by considerable downside risk to the global economy, the Bank projected the economy to expand by 3.75% this year, down from the March forecast of 4.05%, while the growth projections by major institutions ranged between 2.77% and 4.50%.

(2) Financial conditions

Domestic long and short-term interest rates climbed upwards in recent months, reflecting the Bank's March rate hike and global financial market volatility created by the Fed's tightening and the ongoing Ukraine war. The average bank excess reserves stood at around NT$70 billion.

Bank loans and investments had risen steadily in the year so far with both private and public enterprises increasing their demand for funding. In terms of money supply, the annual growth rate of M2 generally trended downwards from the latter half of 2021; in recent months, M2 growth picked up moderately as bank credit grew further.

In the housing market, growth in transaction volume had moderated since the beginning of the year, reflecting government efforts under the Executive Yuan's Healthy Housing Market Plan as well as a more recent local outbreak of the coronavirus. During the first four months of the year, the total number of building ownership transfers nationwide rose by 3.34% year on year. For the six Special Municipalities, building ownership transfers increased by 0.7% year on year in the first five months of 2022, but the monthly data showed a 7.7% decline in May compared to the same month last year. In the meantime, construction costs for new housing units continued rising, and the national Urban Land Price Index, compiled by the Ministry of the Interior, also trended up, both driving prices of new housing units upwards. Furthermore, the Housing Price Index, also compiled by the Ministry of the Interior, climbed 8.63% year on year during the fourth quarter of 2021, while the price indices for existing homes and for new housing projects rose further by 14.66% and 27.19% year on year, respectively, in the first quarter of 2022. Recent sentiment-related data showed that both builders and real estate businesses turned somewhat cautious about the outlook of the housing market, while banks also became less optimistic about the outlook of residential housing in major cities.

As of the end of April 2022, the annual growth rates of real estate lending, housing loans, and construction loans edged down to 10.20%, 9.39%, and 13.30%, respectively. Real estate loans as a share of total loans slightly shrank to 36.91%, lower than the 37.16% registered at the end of last year. Meanwhile, the construction loan ratio of domestic banks stood at 26.86%, still 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%.

Since the Bank made four amendments to its selective credit controls from December 2020 onwards, banks' loan portfolio concentration in real estate lending had kept steady, which was conducive to bank credit risk management. The Bank's tightening stance since March was also judged to amplify the effectiveness of selective credit controls. In addition, the Ministry of the Interior, Ministry of Finance, Financial Supervisory Commission, and local governments had all stepped up policy efforts to ensure housing market health, and the results were expected to gradually show at a later time.

(3) Price trends

Since the beginning of the year, costs of imported products such as food and crude oil had risen, pushing up prices of related domestic products, while unfavorable weather factors also affected the harvest of fruit and vegetables, both resulting in higher domestic

[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.

inflation. For the first five months of the year, the annual CPI growth rate averaged 3.04%, mainly reflecting price rises in food, fuel and lubricants, and consumer durables. As there was a more marked increase in prices of staples with a higher purchase frequency, consumers tended to be more conscious of upward price trends.

The Bank’s survey for inflation expectations found that, compared to the previous quarter, an increased share of respondents in the corporate sector and in investment trust companies expected the inflation rate to exceed 2.5% within the next 12 months, reflecting rising international raw material prices and a consequent price hike of related products by domestic firms. Projections for Taiwan’s inflation rate for 2022 made by major forecasting institutions also turned upwards, indicating rising inflationary pressures.

Given the still marked imported inflation pressures and the expectation that the inflation rate would slow gradually in the second half of the year as international crude oil price growth eases, the Bank forecasted the annual growth rates of CPI and core CPI to be 2.83% and 2.42%, respectively, for the year as a whole. Meanwhile, the projections by domestic and foreign institutions for the 2022 annual CPI growth rate ranged between 2.20% and 3.80%.

Compared to major economies, though, Taiwan’s inflation rate this year was mild, reflecting slack domestic private consumption demand and the government’s robust supply-side measures to contain price volatility. International institutions expected Taiwan’s longer-term inflation to register around a mild level of 1.5%.

Looking ahead, upside pressures for domestic prices could arise from (1) upward price adjustments to reflect rising international freight fares and raw material prices; (2) the easing of border controls and continuous oil price uptrends resulting in a sizeable increase in airfares by aviation companies. On the other hand, downside pressures could come from (1) government plans to reduce customs duties and commodity and business taxes, in order to help ease the pressures of rising costs on product providers; (2) promotional price cuts to prop up consumer interest amid an ongoing coronavirus outbreak; (3) telecom operators cutting prices of mobile phones and other communication devices amid intense competition.

3. Considerations for Monetary Policy

(1) Considerations based on external and domestic economic and financial conditions

A. International commodity prices continued trending up, imposing heavy imported inflation pressures on domestic prices, which would likely stay at elevated levels. The Bank revised up forecasts for this year's CPI and core CPI annual growth rates to 2.83% and 2.42%, respectively.

B. The recent COVID-19 case surge at home disrupted the recovery of domestically-oriented services sector and restrained private consumption growth.

C. Domestic economic growth momentum could be dampened by a global economic outlook facing downward risks. The Bank revised down this year's economic growth rate projection to 3.75%.

(2) Considerations for raising the policy rates by 12.5 basis points

A. The domestic price uptrend in the year so far was mainly due to supply-side factors such as higher costs for importing crude oil and food. To counter cost-push inflation shocks, a policy mix combining various suitable tools would be required to maintain price stability.

(i) The government took measures to stabilize oil and electricity rates, and reduced several customs duties, commodity taxes, and business taxes where necessary. These supply-side measures adopted to address energy and food price volatility had greatly buttressed overall price stability.

(ii) In the face of drastic price volatility caused by supply-side factors, monetary policy responses such as aggressive tightening could concomitantly restrain economic output; therefore, supply-side measures would serve better under the circumstances. However, as inflation was expected to stay elevated for an extended period of time, an appropriate tightening stance would still be needed to help anchor inflation expectations and reach a better supply-demand balance, so as to maintain price stability.

B. The Bank raised the policy rates by 25 basis points in March this year, a decision based on the anticipation that the domestically-oriented services sector was on track towards continued revival and thus the policy rates could be brought back up to the pre-pandemic level. However, that pace of services recovery was disrupted by the recent spike in coronavirus infections, which dampened private consumption growth and rattled labor market conditions.

(i) The government, in response to recent Omicron waves, extended the special regulations governing pandemic relief measures to June 30, 2023. Accordingly, relevant relief loan programs would expire later than originally scheduled.

(ii) The Bank's Special Accommodation Facility to Support Bank Credit to SMEs (hereinafter the "Special Accommodation Facility") would expire at the end of June this year, meaning that the rates of such preferential loans would go up afterwards.

C. In light of elevated domestic inflation, a larger policy rate increase would more significantly exacerbate interest burdens of economically-vulnerable businesses and workers taking out relief loans and other policy loans; it would be more appropriate to adopt a more moderate pace for today's rate hike.

(3) Considerations for raising the reserve requirement ratios by 25 basis points

A. In light of the ongoing price uptrends at home, the Bank proposed to simultaneously raise policy rates and reserve requirement ratios to rein in public expectations for price growth. The Bank judged that adopting a monetary policy mix to affect price (interest rates) and quantity (money stock) would not only help amplify policy effects but also clearly demonstrate the Bank's stance to continue tightening.

B. Higher policy rates tend to affect not just one particular part but a broad range of the economy, including the deposit rates of financial institutions which current relief loans or other policy loans are typically linked to. Therefore, it would be more appropriate to refrain from unwarranted large rate increases. On the other hand, since higher reserve requirement ratios do not directly affect deposit rates, using this tool as part of the policy mix would therefore not add to the interest burden of vulnerable workers and firms.

C. With the increase of reserve requirement ratios, banks would shift their funds from central bank-issued certificates of deposit or redeposits to required reserves, so that bank capital would park with the central bank for a longer period. This would reduce the stock of money in the economy, thereby alleviating inflationary pressures and helping maintain price stability.

D. As banks will have to set aside more funds to be held as reserves, they would be more cautious in making new investments and extending new credit. This would constrain the capacity of credit creation by banks and, in turn, help maintain M2 growth at an appropriate level.

II. Proposition and Decision about Monetary Policy

1. **Policy Propositions: To raise the discount rate, the rate on refinancing of secured loans, and the rate on temporary accommodations by 12.5 basis points to 1.5%, 1.875%, and 3.75%, respectively; and to increase the reserve requirement ratios on NT dollar demand deposits and time (savings) deposits by 25 basis points.**

2. Board members reached a unanimous vote to raise the policy rates by 12.5 basis points and to increase the reserve requirement ratios on NT dollar demand deposits and time (savings) deposits by 25 basis points. Related discussions are summarized as follows.

(1) Discussions on today's monetary policy propositions

One board director stated that this year's price rises were mainly due to imported inflation, and supply-side inflationary pressures were beyond the influence of monetary policy. Nevertheless, considering that price stability is part of the Bank's statutory mandate, it would be imperative to adopt an appropriate increase in the policy rates to rein in inflation. Meanwhile, data showed that since the Bank's March rate hike, the average excess reserves of financial institutions had come to levels higher than the same period last year. Therefore, raising the reserve requirement ratios by an appropriate extent would reduce the money stock and restrain bank credit expansion, thereby making up a tightening move that affects both quantity (money stock) and price (interest rates). Furthermore, in deciding the pace of the policy rate hike, one should also take into account the recent local COVID-19 resurgence’s impact on the SMEs. Therefore, the board director was in favor of a 12.5 basis-point rate hike and a 25 basis-point increase in the reserve requirement ratios.

Another board director agreed with today’s propositions and stated that the considerations supporting the policy rate increase by only 12.5 basis points – including financial conditions having tightened, economic activity likely slackening off, relief loan programs closing (leaving the respective loan rates at the discretion of banks), and domestic demand recovery sputtering (e.g., domestically-oriented services sector posting negative real earnings growth) – were understandable. However, one of the main objectives of interest rate tools is to anchor inflation expectations; the Bank should communicate to the public that today’s decisions took into consideration the impact of evolving price trends and therefore it opted for an approach that would affect both money stock and interest rates. Such communication would promote policy effectiveness by improving public understanding of potential changes in inflation expectations and borrowing costs over the coming months or an extended time.

One board director pointed out that although domestic inflation had been trending up owing to rising international oil prices, the government had introduced many supply-side measures, including a domestic oil price stabilizing mechanism and electricity rate freezes, to mitigate such supply-side inflation. Meanwhile, the Bank’s policy rate hike would also help temper inflation expectations, albeit with possible negative implications, especially for the domestically-oriented services sector.

One board director noted that the services sector was battered by the pandemic and was having a hard time regaining its footing; with the Bank’s Special Accommodation Facility set to close soon, a further 25 basis-point rate hike would weigh on the services sector as well as the SMEs. In this view, it would help to tap an alternative solution by using the reserve requirement tool in tandem. The director, expressing support for today’s policy propositions, added that the reserve requirement tool influences through the stock of money. While it has been a while since the tool was last deployed, the increase in the reserve requirement ratios in today’s meeting would affect money supply through the money multiplier effect, the positive and negative outcomes of which should be rigorously followed to help guide future policy formulation.

Another board director, approving of today's policy propositions, noted that although the broad, ongoing price rises chiefly resulted from supply-side factors, the central bank should still take actions where needed. The director also pointed out that the downward revision to the Bank's domestic GDP forecast primarily reflected below-expectation progress in private consumption. The rate hike, albeit based on a comprehensive assessment of the overall economic and financial conditions, would be helpful to some parts of the economy while undesirable to others. The Bank's monetary tightening was aimed at combating inflation. The key would be to bring down inflation expectations of the household and corporate sectors, preventing such mentality from becoming entrenched and thus causing prices to spiral upwards. Since today's increase in policy rates was smaller than the March rate hike and the reserve requirement tool functions indirectly via the bank credit channel, adequate communication to the public about the inflation-fighting effects of today's decisions would be important for the policy to work well in containing inflation expectations.

One board director agreed with a 25 basis-point rise in the reserve requirement ratios and, while supporting a policy rate hike, recognized the challenge in deciding on a rate hike by either 12.5 or 25 basis points. After the Bank raised the policy rates by 25 basis points in March, data showed that the overnight call loan rate and other short-term interest rates did not increase by a corresponding extent, implying that the March rate decision somehow did not go far beyond an announcement effect. Therefore, a further hike by 25 basis points would be more appropriate in today's meeting, whereas a 12.5 basis-point hike, if adopted, should be accompanied by a 12.5 basis-point hike in the interest rates on 7-day (or other short-term) certificates of deposit issued by the Bank.

One board director pointed out that Taiwan's inflationary pressures were in fact much higher than what the actual data showed. Be it supply-side or demand-side, inflation of either type would certainly affect inflation expectations, an area where the Bank should tackle. Historically, regardless of the type of inflation, an easy money environment seems to have been the underlying cause of rising inflation. The clearer, the firmer, and the sooner an effective monetary policy is introduced, the more likely it will be to well anchor inflation expectations early on and to ward off the risk of an economic recession. Though monetary policy is not a cure-all, its timely effective deployment would help treat the problems. Slow and conservative rate hikes might not be powerful enough to constrain inflation and anchor inflation expectations. Meanwhile, despite four amendments to the selective credit controls on housing credit, each round was implemented with a light touch and may not be effective. Indeed, some of the relevant indicators – such as housing prices, housing loan portfolio concentration, the household debt-to-GDP ratio, housing prices-to-income ratio, and the housing loan burden ratio – had continued to hit record highs. This director expressed concern that the Board did not take action against the housing price issue in the March meeting, neither did it in today's meeting. In addition, although a policy mix has the benefit of amplifying the intended effect, the one proposed in today's meeting still appeared to err on the side of caution. Compared to the monetary policy conduct of central banks the world over, the extent of a 12.5 basis-point increase seemed to be out of norm and lack potency.

One board director noted that Taiwan's inflation had been mild so far this year compared to other economies; though inflation expectations had risen, the inflation rate was expected to gradually trend down in the second half of the year. Against this backdrop, it was warranted to raise the policy rates to stem higher inflation, but the pace should not be rushed in order not to adversely impact vulnerable sectors, such as the domestically-oriented services sector, in which a growing number of employees were furloughed amid the impact from the recent Omicron outbreak. Meanwhile, as domestic banks' excess reserves stood at high levels, raising the reserve requirement ratios would help restrain the liquidity of money supply. In all, the director agreed with today's propositions.

Another board director also expressed support for the policy propositions, stating that the simultaneous tightening through price (interest rates) and quantity (money stock) would not only demonstrate the Bank's resolve to keep inflation in check but also show the market that the Bank is keeping an eye on the overnight call loan rate, an indicator of short-term funding costs. Nevertheless, the reserve requirement adjustment has not been frequently deployed, and the effect of such policy implementation on bank excess reserves and market interest rates would need to be closely monitored. Moreover, with a policy rate hike, financially vulnerable borrowers would feel the pain of a heavier interest burden when banks correspondingly raise their interest rates on loans (as well as on deposits); on the other hand, larger corporates would be better equipped to sustain a rate hike as their funding costs via debt issuance are largely determined by bills finance and capital market interest rates. In this view, today's proposition to administer a smaller rate hike, along with raising the reserve requirements, would be an equitable approach that looks out for the economically disadvantaged people.

One board director pointed out that in the past three years, unanticipated shocks including the US-China trade conflicts, the coronavirus outbreak, and the Russian invasion of Ukraine had resulted in volatile price uptrends internationally and domestically, leading foreign and local institutions to keep upgrading inflation projections. In the US, inflation was spurred by both supply and demand factors, prompting the Fed to combat inflation with aggressive rate hikes. On the other hand, Taiwan's inflation was mainly induced by supply constraints; with domestic consumer demand still lukewarm and the government adopting supply-side measures to stabilize prices, inflation remained mild compared to major economies, thus warranting a more moderate pace of rate hikes. Nonetheless, if inflation becomes persistently high, then monetary tightening should step up. In regard to housing market-related measures, the Bank's four recent rounds of selective credit controls were in fact financial stability measures introduced to avoid an inordinate credit flow into the real estate sector, instead of attempts aiming directly at housing prices. Therefore, the effectiveness of such measures would be better reflected by financial stability-related indicators such as portfolio concentration and non-performing loan ratios of real estate lending. Currently, banks had shown good real estate credit management, housing transactions had slowed somewhat, and the policy efforts by other government agencies to ensure a sound housing market were expected to gradually make headway. In addition, monetary tightening since March would also help dampen housing credit growth. Based on such an assessment, it was judged appropriate to maintain the selective credit controls at current status. In the future, the Bank should continue monitoring developments related to real estate lending and, if necessary, take further measures in a timely manner.

One board director expressed concern because the proposition's 12.5 basis points would trail farther behind the Fed's rate hikes which included a 75 basis-point rise in June and another hike expected in July. Despite the fact that recent NTD weakness was mainly caused by foreign portfolio investment outflows, more downward pressures on the currency could ensue if a wider US-Taiwan interest rate differential induces more capital outflows. And since Taiwan's price uptrends were due in large part to rises in import prices of raw materials, a weaker currency would also weigh on price stability. In addition, the relative mild inflation in Taiwan was mainly supported by utility (oil, electricity, natural gas, etc.) fee freezes and subsidies from the government. In sum, recent data pointed to little change in domestic economic and financial conditions; combined with the Fed's aggressive rate hikes, it would seem more fitting for the Bank to raise the policy rates by 25 basis points. On the other hand, the last time the Bank adjusted reserve requirements was more than a decade ago, and the effect of this type of adjustment at a time when bank excess reserves stayed somewhat elevated would be limited.

One board director approved of a 12.5 basis-point rate hike, noting that an appropriate hike would help rein in inflation expectations. However, given this was a small increase by 12.5 basis points, it would be important to heed potential impacts of a wider US-Taiwan interest rate differential on capital flows and NT dollar exchange rates. As Taiwan faced mainly the kind of price pressures arising from imported inflation, the widening differential would possibly induce capital outflows and further weaken the NTD, aggravating the problem of imported inflation.

One board director stated that the US government bond yields have surged as the Fed tightened at a faster pace; this not only weakened the US economic outlook and weighed on future stock dividend growth, but also pushed up the discount rate (used in business valuation that converts future returns into present value) and led investors to downgrade stock valuations, causing sharp corrections in the US stock markets. Reflecting the US financial market turbulence, Taiwan's stock indices also fluctuated downwards, triggering a sell-off by foreign institutional investors who, based on asset re-allocation and funds redemption strategies, executed large profit-taking trades and moved capital out, causing the NT dollar to weaken more markedly than usual. In addition, the majority of foreign capital in Taiwan is held in the form of stock holdings, and data also pointed to little change in the balance of foreign investor holdings of Taiwanese government bonds and NTD deposits. These showed that the widening interest rate spread between the US and Taiwan was not the main driver for the recent foreign capital outflow.

(2) Discussions on the future path of monetary policy

One board director stated that the domestic inflation rate had been above 2% since April 2021 and was expected to remain so for the rest of 2022, longer than previously projected, while surveyed data also showed that experts and scholars still envisaged inflation exceeding 2% next year. On top of that, if the coronavirus outbreak eases in the second half year or sometime in the future, the domestic economic activity would also rebound. Persistent price uptrends would continue to buoy inflation expectations. Therefore, it is important for future monetary policy deliberations to focus on the issue of inflation and inflation expectations.

Several board directors discussed economic uncertainties lying ahead and a wider US-Taiwan interest rate differential, and stated that the Bank's monetary policy conduct should be more nimble. If needed, the Bank may hold emergency meetings of Executive Directors before the next scheduled meeting (in September) so as to make swift, nimble policy adjustments as warranted.

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 12.5 basis points to 1.5%, 1.875%, and 3.75%, respectively; and to increase the reserve requirement ratios on NT dollar demand deposits and time (savings) deposits by 25 basis points.**

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 June 16, 2022

Monetary Policy Decision of the Board Meeting

I. Global economic and financial conditions

Since the Board met in March this year, the continued Russia-Ukraine conflict has pushed up commodity prices and the strict pandemic-related restrictions in China have exacerbated international supply chain bottlenecks, significantly heightening global inflationary pressures. Meanwhile, further policy rate hikes by central banks in major economies like the US have induced tighter financial conditions. As a result, it is expected that growth momentum for the global economy is likely to soften this year. Recent global financial market turbulence has also intensified in the wake of monetary tightening in major economies. International institutions have further downgraded their forecasts for the 2022 global economic growth and revised this year's global inflation forecasts upwards.

Looking ahead, the global economy is still clouded by multiple downside risks, mainly including the Russia-Ukraine conflict, inflation expectations likely being pushed up by high global inflation, a slowdown in China's economic growth, and tightening international financial conditions, which could weigh on global production as well as economic and trade activity. Moreover, recurring COVID-19 pandemic outbreaks would also add to uncertainties to the global economy.

II. Domestic economic and financial conditions

1. In the first quarter of the year, bolstered by growth in exports and private investment, the domestic economy expanded at a solid pace. The manufacturing sector showed steady expansion, while the services sector gradually recovered. In terms of labor market conditions, the unemployment rate fell slightly compared to the same period of the previous year, whereas the number of employed persons recorded a modest year-on-year decrease. As inflation was elevated, the average real total earnings of all payroll employees in the industrial and services sectors only registered marginal growth, and there remained a pronounced difference in wage growth across sectors.

   The domestic COVID-19 resurgence since mid-April caused companies to institute more furloughs and consumers to shun away from dining out and travel. As a result, consumer spending slumped, and the recovery of domestically-oriented services sector faltered.

   Looking ahead to the second half of the year, though the global economic expansion is likely to moderate, it is expected that continued demand for emerging technology applications and digital transformation-related products would buttress Taiwan's export growth. Private investment is projected to extend the uptrend and government consumption is also set to increase, while private consumption would gradually pick up once the domestic coronavirus outbreak eases. The Bank forecasts Taiwan's economy to grow by 3.75% this year (Appendix Table), lower than the March forecast of 4.05%.

2. From the beginning of 2022, domestic prices of food and oil related products were pushed up by rising import costs and domestic harvests of fruit and vegetables were restrained by unfavorable weather conditions, leading the consumer price index (CPI) annual growth rate to trend upwards. For the first five months of the year, the annual growth rates of the CPI and core CPI (excluding fruit, vegetables, and energy items) averaged 3.04% and 2.33%, respectively. The Bank expects the inflation rate to gradually come down in the second half of the year, but still at elevated levels. For the year as a whole, the Bank revises the CPI and core CPI annual growth rate projections upwards to 2.83% and 2.42%, respectively (see Appendix Table).

3. Recently, banks' excess reserves stood around NT$70 billion. The annual growth rate of bank loans and investments averaged 8.62% for the first four months of the year, while that of M2 (on a daily average basis) registered 7.94% for the same period. Meanwhile, short- and long-term market interest rates both rose higher.

III. Monetary policy decisions: Raising the policy rates by 0.125 percentage points and raising the reserve requirement ratios by 0.25 percentage points

In today's meeting, the Board considered these developments in domestic and foreign economic and financial conditions. Given mounting pressures of imported inflation fueled by rising international commodity prices, domestic inflation is expected to remain elevated. Meanwhile, as the recent surge of COVID-19 inflections at home disrupted the recovery of domestically-oriented services sector, private consumption growth would likely weaken. In addition, shrouded by downside risks, a more subdued global economic outlook could further weigh on Taiwan's growth momentum.

The Board judged that raising both the policy rates and the reserve requirement ratios would send a clear message that the Bank continues to adopt a monetary policy stance of tightening. This will help strengthen the policy effects and rein in domestic inflation expectations, so as to 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 1.5%, 1.875%, and 3.75%, respectively, effective June 17, 2022.

The Board also decided unanimously to increase the reserve requirement ratios on NT dollar demand deposits and time (savings) deposits by 0.25 percentage points each (see Appendix for the requirements by type of deposits), effective July 1, 2022.

Against the backdrop of intense inflationary pressures and significant downside risks faced by the global economy, the Bank will keep close watch on the implications for domestic price trends resulting from the Russia-Ukraine conflict and other geopolitical risks, international commodity price movements, and the global pandemic progress, while also closely monitor how the monetary policy tightening of major economies would affect economic and financial conditions at home and abroad. Based on the assessments thereof, the Bank may adjust its monetary policy timely and appropriately to fulfill the statutory duties of maintaining financial and price stability, and fostering economic development within the scope of the above objectives.

IV. The Bank's selective credit control measures, first introduced in December 2020 and adjusted later for three times, have so far successfully slowed down the expansion of construction and housing loans and kept real estate loan concentration broadly steady, thereby bolstering banks' credit risk management. As the government's cross-agency efforts proceeded further under the Healthy Real Estate Market Plan and the renewed pandemic waves created additional concerns, trading in the housing market has cooled somewhat for the year to date, and the annual growth rates of building ownership transfers in the entire nation and in the Six Special Municipalities both declined to negative territory recently. Moreover, the monetary policy tightening would also boost the effectiveness of the existing credit controls. The Bank will stay attentive to the developments in real estate lending and continue to review the implementation of the selective credit control measures, and make adjustments as needed in order to promote financial stability.

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

Adjustments to the Reserve Requirement Ratios
(Effective July 1, 2022)

Unit: Percentage of Deposits

Type of Deposit	Current Ratio	New Ratio
Checking Accounts	10.750	11.000
Passbook Deposits	9.775	10.025
Passbook Savings Deposits	5.500	5.750
Time Savings Deposits	4.000	4.250
Time Deposits	5.000	5.250
Principal (in NT Dollars) Received by Banks from the Sale of Structured Products	5.000	5.250

Appendix Table

Taiwan's Economic Growth and Inflation Forecasts by Major Institutions

Unit: %

Forecast institutions		**GDP growth forecast**	**CPI growth forecast**
Domestic institutions	**CBC (2022/6/16)**	**3.75**	**2.83 (CPI)** **2.42 (Core CPI*)**
	DGBAS (2022/5/27)	3.91	2.67
	TIER (2022/4/25)	4.10	2.40
	CIER (2022/4/20)	3.96	2.56
Foreign institutions	S&P Global Market Intelligence (2022/6/15)	3.54	2.74
	Citi (2022/6/13)	3.40	3.00
	EIU (2022/6/13)	4.50	3.80
	Goldman Sachs (2022/6/13)	3.35	3.04
	HSBC (2022/6/13)	3.80	2.20
	Barclays Capital (2022/6/10)	3.90	2.90
	BofA Merrill Lynch (2022/6/10)	3.30	2.70
	J.P. Morgan (2022/6/10)	3.50	3.00
	Standard Chartered (2022/6/10)	3.60	2.60
	UBS (2022/6/10)	2.77	2.63
	Credit Suisse (2022/6/9)	3.50	3.10
	Morgan Stanley (2022/6/9)	3.10	3.00

* Excluding vegetables, fruit, and energy.