Minutes of the Monetary Policy Meeting

June 13, 2024

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 13, 2024

Date and Time: 2:00 p.m., June 13, 2024

Location: Room A606, Central Bank of the R.O.C. (Taiwan)

Members Present:

Chairman, Board of Directors: Chin-Long Yang

Executive Directors: Tsui-Yun Chuang, Tzung-Ta Yen, Mei-Lie Chu, Chung-Dar Lei

Directors:

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

Jyh-Huei Kuo (Excused, Appointing Tzung-Ta Yen as Proxy)

Chairman, Board of Supervisors: Shu-Tzu Chen

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

Chiung-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

In the period since the Board last met in March 2024, the Global Manufacturing PMI (Purchasing Managers' Index) and Services PMI both stayed above the threshold of 50, indicating further expansion for the global economy. Nevertheless, effects of monetary tightening by major economies and unrelenting geopolitical conflicts continued to hamper global economic growth momentum. International institutions projected mild growth for the global economy this year.

In regard to global commodity price trends since April 2024, international oil price rises caused by the Israel-Iran clashes later reversed to a decline as the conflict in the Middle East did not escalate, while markets also raised concerns about oil demand being dampened by the US Fed keeping policy rates higher for longer. Given the lingering geopolitical risk from the Middle East conflict, international institutions forecasted oil prices this year to broadly exceed the levels recorded in 2023. The R/J CRB index, a global commodities benchmark, had fluctuated at higher levels since April, reflecting a moderate uptrend in grain prices as well as price rises for industrial metal commodities.

In regard to inflation, elevated services prices in major economies had led to a slower decline in core inflation, causing the disinflation progress to stall. However, considering the restrictive monetary policy stance and a deferred effect from the global oil price downtrend, global inflation would likely continue coming down slowly this year.

In regard to monetary policy changes since April 2024, major central banks moved at different paces, reflecting the divergence in their economic performance and disinflation progress. Recently, the US Federal Reserve (Fed) continued with rate holds while the European Central Bank just delivered a rate cut. The Bank of Japan stayed on track towards policy normalization and the People's Bank of China maintained an accommodative stance.

In the financial markets, from April 2024 onwards, continuous strength in the US labor market and sluggish disinflation bolstered market expectation for a Fed rate cut delay, leading to high-level fluctuations of the US government bond yields. In the meantime, most major currencies weakened against the US dollar. Both Japan and Germany saw their 10-year government bond yields climbing upwards. Major stock markets across the world broadly rallied, with several of them hitting new record highs.

Looking ahead, the global economic outlook is confronted by many uncertainties, as factors ranging from monetary policy actions and debt overhangs in major economies, geopolitical risks, climate change, China's economic recovery progress, to global economic fragmentation and supply chain restructuring would all affect global economic, trade, and financial development.

2. Domestic Economic and Financial Conditions

(1) Economic situation

Recently, the domestic leading and coincident indicators continued rising. Taiwan's Manufacturing PMI climbed to expansion territory, with the six-month outlook subindex pointing to expansion for the fourth consecutive month. The Non-Manufacturing Index (NMI) and its six-month outlook subindex also remained expansionary.

Looking at the components of domestic GDP growth, exports grew at an annual rate of 9.1% during the first five months of the year, benefiting from a continued demand surge in AI and other emerging technology applications. However, though ICT/AV (information, communication and technology, and audio-visual) products recorded positive growth, the other major export product categories all showed contraction. For the second half of the year, export growth would continue to be bolstered by not only robust demand for AI and other emerging tech applications and improving global final demand, but also government incentives to boost inbound travel. The Bank forecasted solid real export growth in both the second half of 2024 and the year as a whole.

In respect of private investment, it would gain momentum from continuous export growth. Some firms in the semiconductor supply chains already revised up their capital outlay objectives for this year and investment in transport equipment continued, buttressing private investment growth in the second half of the year. The Bank therefore expected real private investment to resume positive growth in the second half of 2024 and to record modest growth for the year as a whole.

In respect of private consumption, a reinvigorated domestic economy and robust trading in the local stock markets, as well as strong consumer confidence, would support private consumption growth in the second half of the year. The Bank forecasted continuous real growth in private investment in the second half of 2024 and the year as a whole.

In the labor market, recent data showed the total number of employed persons increased year on year, the unemployment rate dropped, and the number of furloughed workers trended down. Regarding sector employment, the manufacturing payroll employment showed slower declines in April 2024, whereas the services payroll employment rose further. Regarding monthly earnings, total nominal earnings posted faster growth, averaging 3.62% for the first four months of the year.

Overall, continuous development in AI and other emerging tech applications were expected to bolster exports and private investment, and private consumption were expected to post mild growth. In this view, the Bank forecasted Taiwan's economy to expand by 3.77% year on year in 2024, with the second half year recording slower growth than the first half owing to a higher base effect. Compared to the projections made in March 2024, the Bank upgraded the forecast of Taiwan's 2024 GDP growth rate by 0.55 percentage points, reflecting both a higher-than-expected GDP growth rate in 2024 Q1 but also the Bank's upward revision of the contribution from net external demand and private investment to the 2024 GDP growth rate.

In addition, the Bank estimated that Taiwan would have a slightly negative output gap in 2024. Major institutions at home and abroad expected Taiwan's economy to grow by 2.65%-4.30% in 2024.

(2) Financial conditions

Since March 2024, market interest rates had moved upwards following the Bank's policy rate hike. As the Bank's monetary policy operations had effectively guided market rate trends, most of the short-term market interest rates had sufficiently reflected the policy rate change. In May, as a liquidity squeeze in the tax-paying month of May was partly offset by net foreign capital inflows, short-term market interest rates fluctuated modestly. For the two months of March and April, excess reserves of banks averaged slightly above NT$45.0 billion.

In terms of bank credit, driven by a continuous uptrend in the annual growth rate of housing loans, stabilizing export growth, and robust stock trading, the annual growth rate of bank loans and investments further rose to 7.32% for the first four months of the year, higher than 6.26% of the fourth quarter last year.

Regarding money supply, the M2 annual growth rate first rose before declining in the months since February 2024, reflecting a reversal of a net foreign capital inflow into a net outflow. For the first four months of the year, the M2 annual growth rate averaged 5.81%, within the 2.5%-6.5% reference range but slightly higher than 5.44% of the fourth quarter last year.

In the housing market, the volume of housing market transactions had markedly climbed up since August 2023 and the housing price indices also rose year on year since the fourth quarter of 2023. Recent sentiment indicators showed optimistic views among construction and real estate businesses as well as banks about the housing market outlook. Since the Bank began this round of reinforcement in the selective credit control measures in December 2020, the non-performing loan ratio of banks remained low and construction loans continued to register slower year-on-year growth. However, an upturn in the annual growth rate of housing loans from the second half of 2023 onwards caused real estate lending to take up a large share in total bank lending. Moreover, the amount of loans disbursed by domestic banks for the second home loans in the designated “specific areas” also increased.

(3) Price trends

The annual growth rate of the consumer price index (CPI) rose from 1.94% in April 2024 to 2.24% in May, mainly owing to faster growth in the prices of fruit and vegetables. The annual growth rate of the core CPI (i.e., excluding fruit, vegetables, and energy items) also edged up from 1.81% in April to 1.84% in May.

During the first five months of the year, the CPI rose by 2.24% on average over the same period last year, remaining on a gradual decline. Key drivers contributing to the rise included rising food prices (such as food away from home and fruit), higher housing rent, and prices rises for personal effects and entertainment services, with a combined contribution of 1.51 percentage points, or 67%, to the rise in the CPI annual growth rate.

By frequency of purchase, during the first five months of the year, top staple items and the items purchased more often both recorded slower price rises compared to the same period last year. During this period from January to May, import prices and prices of domestic sales excluding imports both continued to record negative growth, indicating an absence of imported inflation pressures.

By type of items, the pace of services CPI inflation slowed down in May because of a higher base effect. For the first five months of the year, the annual growth rate of the services CPI was 2.58% and that of the commodity CPI was 1.87%.

For the outlook of 2024 as a whole, domestic commodity prices would likely rise mildly given that international oil prices were forecasted by foreign institutions to run higher than 2023. Domestic services prices were expected to show a slower increase owing to a high base effect. The Bank slightly revised downward its 2024 forecasts for the CPI and core CPI annual growth rates to 2.12% and 2.00% and expected the inflation rate to come down to close to 2% in the second half of the year. Headline inflation forecasts by major domestic and foreign institutions ranged between 1.71% and 2.40% for year 2024.

Key factors affecting the future path of domestic prices this year include the following. Upside pressures could arise from (1) higher-than-last-year oil prices this year, as well as upturns in the R/J CRB commodity futures and sea freight fares; (2) domestic rent increases; (3) strong domestic consumer demand for leisure and entertainment services, pushing up prices of restaurant and hospitality services; (4) the universal hike in domestic electricity tariffs in April this year. On the other hand, downside pressures could come from reductions in prices of mobile phones and other communication devices and from a higher base effect in the second half of the year for fruit and vegetable prices.

3. Considerations for Monetary Policy Decision-Making

(1) Regarding the policy interest rates

A. In terms of price trends, a gradual decline is projected for Taiwan's inflation rate this year, with the rate coming down to close to 2% in the second half of the year.

B. In terms of economic growth, the Bank forecasts Taiwan's economy to expand by 3.77% year on year in 2024 owing to a lower base effect but estimated the output gap to be slightly negative while the momentum for business sector expansion remains mild.

(2) Regarding the proposition to adjust the selective credit control measures alongside a hike in the reserve requirement ratios

A. Since December 2020, the Bank has made five amendments to the *Regulations Governing the Extension of Mortgage Loans by Financial Institutions*, and the annual growth rate of banks' real estate loans has dropped from its peak in 2021. However, housing transactions had increased since the second half of 2023, driving the annual growth rate of housing loans continuously higher. The annual growth rate of banks' real estate loans also rebounded from 5.3% at the end of July last year to 7.6% at the end of April this year.

B. Recently, the ratio of real estate lending to total lending of all banks remained elevated. Moreover, since the June 2023 introduction of a 70% loan-to-value (LTV) ratio cap on natural persons' second outstanding home loans for housing in the designated "specific areas," this loan bracket (hereinafter "the second 'specific area' housing loans") had seen its loan disbursement amount on the rise, making it one of the key drivers of real estate loan growth. It was thus judged that more prudent management of this loan bracket would be appropriate. In this view, with the aim of enhancing bank management of credit risk associated with the real estate sector, the Bank decided to lower the aforementioned LTV ratio cap from 70% to 60%.

(a) The ratio of real estate lending to total lending of all banks was high, standing at 37.21% as of April 2024.

(b) The Bank's data on domestic banks' loan disbursement for the second "specific area" housing loans showed that the amount had gradually increased since July 2023, reaching NT$13.8 billion in 2023 Q3, NT$27.7 billion in 2023 Q4, and NT$30.0 billion in 2024 Q1.

(c) The data also showed that the average LTV ratio of this loan bracket had stayed high since July 2023. At 68.15% as of April 2024, it already exceeded 60%, which was the ceiling imposed on this loan bracket during December 2010 to February 2016.

C. A concurrent hike by 0.25 percentage points in the reserve requirement ratios on NT dollar deposits would help strengthen the effectiveness of today's selective credit control adjustments by adding quantity management of money and credit.

(a) Raising the reserve requirement ratios (RRRs) is expected to have the following effects: (1) Requiring banks to retain more funds as reserves would directly influence the quantity of loanable funds of banks, creating a credit tightening effect and sending a clear message by announcing the policy action, as well as locking in liquidity for a longer term; (2) a lower money multiplier would bring down the annual M2 growth rate; (3) reduction in funds available in banks would rein in money market liquidity, which would likely drive money market interest rates upwards.

(b) It is estimated that the 0.25 percentage point hike in the RRRs would lead to a combined increase of approximately NT$120 billion in banks' required reserves. This would not only reduce liquidity levels instantly and effectively, but also guide banks towards more prudent investment decisions and loan approvals, which would help further slow down credit flows into the real estate market.

II. Proposition and Decision about Monetary Policy

1. Policy Propositions: To keep the discount rate, the rate on refinancing of secured loans, and the rate on temporary accommodations unchanged at 2%, 2.375%, and 4.25%, respectively; to adjust the selective credit control measures; to raise

the reserve requirement ratios on NT dollar deposits by 0.25 percentage points.

2. Board members reached a unanimous decision on the policy rate hold, the adjustments to the selective credit control measures, and the 0.25 percentage point hike in the reserve requirement ratios on NT dollar deposits. Related discussions are summarized as follows.

(1) Discussions regarding the policy rate decision

One board director pointed out that the domestic economy was gradually firming up, and inflation continued with a broad downtrend without an expected surge following the April electricity tariff hike. Therefore, the director supported the rate hold proposition.

Another board director also stated that the April electricity tariff hike had a limited effect on the domestic inflation rate. Although the annual CPI growth rate was forecasted to slightly exceed 2% this year, the Bank's discount rate also came to 2%, the highest in 15 years after the 0.125 percentage point hike in March 2024. In addition, data on exports in the year up to May showed that only AI-related ICT/AV exports recorded fast growth whereas the rest product categories posted negative growth. A further rate hike in today's meeting by another 0.125 percentage points could then add to the interest burden of firms in traditional industrial sectors as well as small and medium-sized enterprises. The director therefore supported a rate hold but stressed continuous monitoring of domestic inflationary pressures.

One board director noted that, despite a modest downgrade of the Bank's forecast for Taiwan's 2024 annual CPI growth rate, this forecast put the timing of inflation coming down to below 2% at the fourth quarter of the year, instead of the third quarter as forecasted during the March Board Meeting. This highlighted the degree of uncertainty inherent in inflation forecasting.

One board director, expressing support for a rate hold, noted that Taiwan and the US witnessed similar economic and financial trends recently, including a robust labor market, strong stock market rallies, and cooling inflation. On the other hand, the Bank delivered a 0.125 percentage point hike in the March 2024 meeting whereas the US Fed maintained rate holds in the meantime. And the Bank would need to monitor Taiwan's price trends for a longer time, especially given that housing rent had exhibited steeper growth since March 2024 compared to the previous year.

Another board director stated that in recent months the leading indicator for Taiwan's core inflation had continued rising and the results of the forecasting model pointed to very low probability of a recession next quarter. Given the current domestic environment of solid economic growth and persistently high inflation, it was projected that further housing price rises would also send housing rent upwards, with considerable upside pressures on inflation. While this would justify continuous monetary policy normalization and moderate tightening, which would include delivering a further rate hike, the director noted that today's proposition to raise the reserve requirement ratios (to rein in real estate-related credit) would also have a tightening effect conducive to dampening inflation.

One board director remarked that Taiwan still faced significant inflationary pressures and it was concerning that housing rent was making an increasingly larger contribution to CPI inflation in recent months. In addition, as prices such as those of food away from home was trending up, the annual CPI growth rate was projected to rise further in June. Given the circumstances, it is important for the Bank to hold steadfast in its fight against high inflation and to show its firm resolution to do so. The director, while expressing support for a rate hike if otherwise proposed in today's meeting instead of a hold, also stated that the RRR hike would still bring about a tightening effect and therefore a rate hold for the time being would be acceptable.

One board director noted that Taiwan's inflation had come down to around 2% and economic growth was robust (partly due to a lower base effect). Taking into account these developments as well as liquidity conditions, it would be appropriate to keep the policy rates unchanged.

(2) Discussions regarding the selective credit control adjustments and the RRR hike

Several board directors stated that a policy package of lowering the LTV ratio cap on the second "specific area" housing loans and raising the RRRs at the same time would help tighten credit and curb excessive financial flows towards the real estate market.

The RRR hike would also help guide market interest rates upward, similar to the effect of monetary policy tightening or policy rate hikes. One of these board directors pointed out that the Bank had previously adopted a similar policy mix where it raised the policy rates and the RRRs at the same time, a strategy aiming to manage price (interest rates) and quantity (money stock) in parallel. The proposed actions at today's meeting was a policy mix of two quantity-related tools by adjusting the selective credit control measures alongside an RRR hike. Also, raising the RRRs would guide money market rates upwards. For instance, since the Bank began a rate hiking cycle in March 2022, the one-month commercial paper secondary market rate had risen by 1.198 percentage points, the 2-10 day (reverse) repo market rate had risen by 1.031 percentage points, both greater than the 0.875 percentage points rise in the Bank's discount rate so far in this cycle, which were partly due to the effect of policy rate hikes combining two RRR hikes.

One board director noted that strong housing demand was insufficiently met owing to shortfalls in new projects for sale and new housing starts. The situation was consistent with what was shown in the recent financial data where the annual growth rate of construction loans continued declining but that of housing loans continued rising. The current supply-demand imbalance in the housing market cannot be addressed by monetary policy tools alone. While the RRR hike would help contain real estate lending by reducing overall liquidity, resolving the imbalance still requires means outside the Bank's capacity.

One board director gave support for the proposition to lower the LTV ratio cap on the second "specific area" housing loans to 60%, stating that the cap was likely better received by the public since it was imposed before during 2010-2016. Meanwhile, raising the RRRs by 0.25 percentage points was to require banks to increase the reserves they already retain and the impact on banking operations should be limited.

Another board director pointed out that a housing market cooldown can primarily be achieved by affecting price and/or quantity. The price-related strategy is through interest rates; however, interest rate tools would not only affect housing market transactions but also impact investment and consumption. In addition, such a tool would require a massive scale to meaningfully affect housing market trends. On the other hand, a quantity-related strategy by reducing liquidity would be more effective as it exerts a greater force more directly on the housing market. While today's RRR hike was mainly aimed at the housing market, the Bank should also pay attention to any potential impact on consumption, investment, and market interest rates arising from the reduction of money supply.

One board director remarked that given the complexity of the housing price issue in Taiwan, it cannot be resolved by monetary policy alone. Supply-side factors including construction costs, urban planning, and social housing add to the complexity of this issue. What the Bank can do in its capacity would be adopting policies to contain speculative transactions as an effort to dampen housing price growth, not to crush the prices. Considering that real estate-related lending still takes up a large proportion in bank credit, the director agreed with the proposition to adjust selective credit controls and to hike the RRRs in order to promote financial stability.

One board director pointed out that Taiwan had witnessed a continuous rise in the annual growth rate of housing transfers, record-breaking housing prices, and a broad uptrend in the ratio of real estate lending to total bank lending since June 2023, all of which indicated that the housing market was not cooling down. Hence, the director supported the proposition of selective credit control adjustments and the RRR hike.

One board director noted that if today's selective credit control adjustments effectively cool down the housing market, it would help stabilize rent increases, thereby removing upside pressures on CPI inflation induced by higher rent.

Another board director pointed out that while a lower LTV ratio cap of 60% on the second "specific area" housing loans would achieve certain effectiveness in containing housing price rises, it is important to monitor potential near-term surges in the pre-sale housing market after the new cap is implemented.

Several board directors expressed concern about the aforementioned cap tightening adversely impacting home-movers, and suggested the Bank communicate to the public about relevant home-mover assistance measures. One of these directors pointed out that upon the June 2023 introduction of this LTV ratio cap, a supplementary policy measure was implemented concurrently to exempt home-movers within a one-year window conditional upon signed affidavits. Since then, close to 10% of home-mover borrowers had availed this conditional loan approval policy, which would continue to be applied to today's new cap tightening. In this view, the director expressed support for the proposed selective credit control adjustments.

3. **Monetary Policy Decision:**

The board directors decided unanimously to keep the discount rate, the rate on refinancing of secured loans, and the rate on temporary accommodations unchanged at 2%, 2.375%, and 4.25%, respectively, to adjust the selective credit control measures, and to raise the reserve requirement ratios on NT dollar deposits by 0.25 percentage points.

Voting for the proposition: Chin-Long Yang, Tsui-Yun Chuang, Tzung-Ta Yen, Mei-Lie Chu, Chung-Dar Lei, Junne-Jih Chen, Jin-Lung Lin, Chao-Hsi Huang, Shiu-Sheng Chen, Fu-Sheng Hung, Yi-Ting Li, Shi-Kuan Chen, Chien-Yi Chang, Ming-Jou Yang, and

Jyh-Huei Kuo (Excused, Appointing Tzung-Ta Yen as Proxy)

Voting against the proposition: None

III. The Press Release

The board directors 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 13, 2024

Monetary Policy Decision of the Board Meeting (2024Q2)

I. Global economic and financial conditions

Since the Board met in March this year, indicators have pointed to continuous expansion in the global manufacturing and services sectors. Nevertheless, the effects of major economies' monetary tightening and ongoing geopolitical conflicts have continued to dampen global economic growth momentum. Meanwhile, inflation rates in major economies have come down rather slowly because of stickiness in the prices of services. International institutions forecast mild global economic growth and further yet slow declines in global inflation this year.

As the economic performance and the progress of disinflation varied across major economies, the pace of their monetary policy adjustments also diverged. The US Federal Reserve kept the policy rate unchanged, while the European Central Bank pivoted to a rate cut last week. The Bank of Japan moved towards monetary policy normalization, and the People's Bank of China continued with its accommodative monetary policy stance. Market expectations of the timing for major central banks to adjust their monetary policy stance added to the volatility in international financial markets.

Looking ahead, a string of key factors such as major economies' monetary policy moves, geopolitical risks, climate change, the pace of China's economic recovery, global economic fragmentation, and supply chain restructuring could weigh on international economic and financial outlooks.

II. Domestic economic and financial conditions

1. During the first quarter of the year, strong demand for emerging technology applications such as artificial intelligence (AI) significantly bolstered Taiwan's export growth. Meanwhile, private consumption rose steadily, and private investment posted a smaller contraction. As a result, the domestic economy expanded at a faster-than-expected pace. For the second quarter, the economy was expected to exhibit solid growth, with data in recent months showing a rebound in private investment as well as continuous growth in exports and private consumption. In terms of labor market conditions in the year to date, the unemployment rate registered lower than that in the same period last year, the number of employed persons increased, and nominal total payroll earnings rose faster.

Looking into the second half of the year, private consumption will likely continue with mild growth, while a rebound in global final demand and the ever-brightening business prospects of emerging tech applications are both expected to buttress export growth momentum and boost private investment. Nonetheless, a higher base effect can cause the economic growth rate to register lower in the second half of the year than the first half according to the Bank's projections. For the year as a whole, the Bank has raised the forecast for the GDP growth rate to 3.77% (see Appendix Table for the forecasts by major institutions), up from the March projection of 3.22%.

2. For the first five months of the year, the annual growth rate of the consumer price index (CPI) averaged 2.24%, mainly reflecting increases in the prices of food (particularly food away from home and fruit) and housing rent, as well as uptrends in the prices of personal effects and entertainment services. The annual growth rate of the core CPI (excluding vegetables, fruit, and energy items) continued slowing down gradually, averaging 2.06% during the same period.

   For the outlook of the second half of the year, with services inflation easing further, the Bank expects the inflation rate to gradually come down in the second half of the year. For the year as a whole, the annual growth rates of the CPI and core CPI are forecasted to be 2.12% and 2.00%, respectively, lower than 2.49% and 2.58% last year (see Appendix Table for the forecasts by major institutions). Factors likely to influence the future path of domestic inflation include price trends of international commodities and domestic services, as well as weather conditions.

3. Banks' excess reserves averaged slightly above NT$45 billion for the two months of March and April. For the first four months of the year, the average annual growth rate of M2 (measured on a daily average basis) slightly rose to 5.81% from 5.44% in the fourth quarter last year. The average annual growth rate of bank loans and investments also increased from 6.26% in the fourth quarter last year to 7.32% in the first four months this year. Both money market interest rates and bank deposit and lending rates rose in line with the Bank's policy rate hike in March this year, the sixth in this tightening cycle.

III. The Board decided unanimously to keep the policy rates unchanged, to adjust the selective credit control measures, and to raise the reserve requirement ratios by 0.25 percentage points

At the meeting today, the Board considered the balance of incoming data on economic and financial conditions at home and abroad. The domestic inflation rate has gradually come down in the year to date and would continue to ease to around 2% in the second half of the year. Meanwhile, the domestic economy would likely expand at a moderate pace this year and the output gap is expected to be modestly negative. Against this background, the Board judged that a rate hold would help foster sound economic and financial development on the whole.

The Board decided to keep the discount rate, the rate on refinancing of secured loans, and the rate on temporary accommodations unchanged at 2%, 2.375%, and 4.25%, respectively.

Going forward, the Bank will stay attentive to the developments in domestic inflation and keep watch on incoming information regarding monetary policy paths of major central banks, China's economic recovery, international raw material prices, geopolitical risks, and extreme weather to assess their implications for Taiwan's economic activity and financial conditions. Based on such assessment, the Bank will adjust its monetary policy in a timely manner as warranted, so as to fulfill the statutory duties of maintaining financial and price stability and fostering economic development within the scope of the aforementioned objectives.

IV. The Bank has made five amendments to its selective credit control measures since December 2020, which have helped banks mitigate risks associated with real estate lending. The nonperforming loan ratio of real estate loans has since remained low, indicating good credit quality.

Nevertheless, housing market transactions began to pick up in the second half of last year, leading to a continuous upturn in the annual growth rate of housing loans. As a result, the ratio of real estate lending to total lending of all banks remains elevated. Moreover, since the June 2023 introduction of a 70% loan-to-value (LTV) ratio cap on natural persons' second outstanding home loans for housing in the designated specific areas, this loan bracket has seen its loan disbursement amount on the rise. Therefore, to further enhance management of bank credit resources and reduce related credit risk, the Bank decided to amend the Regulations Governing the Extension of Mortgage Loans by Financial Institutions to lower the aforementioned LTV ratio cap on natural persons' second outstanding home loans for housing in the specific areas to 60%, effective June 14, 2024 (Appendix 1).

In addition, the Bank judged that a concurrent hike in reserve requirement ratios would reinforce the effect of the above credit control measures via enhanced quantity management of money and credit, thereby helping to further contain excessive credit flows into the real estate market. The Board thus decided to raise the reserve requirement ratios on NT dollar passbook and time (savings) deposits by 0.25 percentage points, effective July 1, 2024 (Appendix 2).

In the future, the Bank will continue reviewing the status of banks' real estate lending and the effectiveness of relevant credit control measures, closely monitor potential impacts of real estate sector-related policies on the housing market, and adjust the measures as needed in order to promote financial stability and sound banking operations.

V. The NT dollar exchange rate is in principle determined by market forces. Nonetheless, when irregular factors (such as massive inflows/outflows of short-term capital) and seasonal factors lead to excess volatility or disorderly movements in the NT dollar exchange rate with adverse implications for economic and financial stability, the Bank, in accordance with its statutory duties, will step in to maintain an orderly market.

Appendix 1: Comparison Table of the Amendments to the *Regulations Governing the Extension of Mortgage Loans by Financial Institutions*

Effective Date: June 14, 2024

Loans		Loan Underwriting Criteria	
		Current provisions	**Amendments**
Housing loan taken out by a corporate entity		LTV ratio cap: 40%; No grace period	(Unchanged)
Natural person	High-value housing loan	LTV ratio cap: 40%; No grace period	(Unchanged)
	Second home loan for housing in specific areas*	LTV ratio cap: 70%; No grace period	LTV ratio cap: 60%; No grace period
	Third (or more) home loan	LTV ratio cap: 40%; No grace period	(Unchanged)
Land loans		● LTV ratio cap: 50% (10% to be withheld until construction commences) ● Additional requirements: ◆ A substantive project development plan ◆ A written affidavit specifying the timeframe to commence construction	(Unchanged)
Unsold housing unit loans		LTV ratio cap: 40%	(Unchanged)
Mortgage loans for idle land in industrial districts		LTV ratio cap: 40%; Exemptions applicable when: ● Construction on the collateralized land has commenced; or ● Borrower has submitted a substantive project development plan and a written affidavit stating construction to begin within 1 year	(Unchanged)

* The "specific areas" prescribed herein include Taipei City, New Taipei City, Taoyuan City, Taichung City, Tainan City, Kaohsiung City, Hsinchu County, and Hsinchu City.

Appendix 2: Adjustments to the Reserve Requirement Ratios (Effective July 1, 2024)

Unit: %

Type of Deposit	Current Ratio	New Ratio
Checking Accounts	11.250	11.500
Passbook Deposits	10.275	10.525
Passbook Savings Deposits	6.000	6.250
Time Savings Deposits	4.500	4.750
Time Deposits	5.500	5.750
Principal (in NT Dollars) Received by Banks from the Sale of Structured Products	5.500	5.750

Appendix Table

Taiwan's 2024 Economic Growth and Inflation Forecasts by Major Institutions

Unit: %

<table>
<tr><th colspan="2">Forecast Institutions</th><th>GDP Growth Rate</th><th>CPI Annual Growth Rate</th></tr>
<tr><td rowspan="4">Domestic Institutions</td><td>CBC (2024/6/13)</td><td>3.77</td><td>2.12 (CPI)
2.00 (Core CPI*)</td></tr>
<tr><td>DGBAS (2024/5/30)</td><td>3.94</td><td>2.07</td></tr>
<tr><td>TIER (2024/4/25)</td><td>3.29</td><td>2.13</td></tr>
<tr><td>CIER (2024/4/19)</td><td>3.38</td><td>2.30</td></tr>
<tr><td rowspan="8">Foreign Institutions</td><td>Citi (2024/6/11)</td><td>4.30</td><td>2.40</td></tr>
<tr><td>Goldman Sachs (2024/6/11)</td><td>2.65</td><td>1.71</td></tr>
<tr><td>Barclays Capital (2024/6/7)</td><td>3.30</td><td>2.10</td></tr>
<tr><td>BofA Merrill Lynch (2024/6/7)</td><td>3.70</td><td>2.00</td></tr>
<tr><td>Morgan Stanley (2024/6/7)</td><td>3.70</td><td>2.30</td></tr>
<tr><td>Nomura (2024/6/7)</td><td>3.90</td><td>2.20</td></tr>
<tr><td>Standard Chartered (2024/6/7)</td><td>3.10</td><td>1.90</td></tr>
<tr><td>S&P Global Market Intelligence (2024/5/15)</td><td>3.64</td><td>2.03</td></tr>
<tr><td colspan="2">Forecast Average</td><td>3.56</td><td>2.11</td></tr>
</table>

* Excluding vegetables, fruit, and energy.