Minutes of the Monetary Policy Meeting

September 19, 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 September 19, 2024

Date and Time: 2:00 p.m., September 19, 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, Jyh-Huei Kuo, 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,

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

Ya-Hui Pan, Director General, Department of Financial Inspection

Yih-Jiuan Wu, Director General, Department of Economic Research

Chien-Ching Liang, Director General, Secretariat

Shu-Huei Kuo, Director General, Department of Accounting

Shu-Hui Chang, Director, Personnel Office

Kun-Shan Wu, Director, Legal Affairs Office

Chih-Cheng Hu, Secretary, Board of Directors

Chih-Jung Lee, Secretary, Board of Supervisors

Presiding: Chin-Long Yang

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[1] This English translation is provided for information purposes only; the Chinese version shall prevail in case of discrepancies.

AGENDA: ECONOMIC AND FINANCIAL CONDITIONS AND MONETARY POLICY DECISION

I. Staff Review of Economic and Financial Conditions

1. International Economic and Financial Conditions

In the period since the Board last met in June 2024, the Global Manufacturing PMI (Purchasing Managers' Index) fell to below the threshold of 50 whereas the Services PMI continued with expansion. Meanwhile, high policy rates of major central banks still weighed on the world economy. Nevertheless, with major economies gradually easing their monetary policy stances, international institutions therefore projected mild growth for the global economy in both 2024 and 2025.

In regard to global commodity price trends since July 2024, international oil prices declined drastically as oil demand weakened, reflecting soft domestic demand in China and market concerns about slower US economic growth amidst signs of a cooling labor market. International institutions forecasted that, for this year, oil prices would trend slightly lower than last year and drop further next year. Meanwhile, the R/J CRB index, a global commodities benchmark, was dragged down by the oil price slump.

Price trends in the year so far pointed to a downward trend in the core inflation rates in major economies, indicating continuous easing in global inflationary pressures. According to projections by international institutions, the global inflation rate would decline further this year owing to a moderation in labor market conditions in major economies; for next year, the inflation rates of major economies were generally expected to come down to their target values, which are around 2% for most of these central banks.

In regard to monetary policy changes since June 2024, major central banks remained divergent in their policy stances. Both the US Federal Reserve (Fed) and the European Central Bank entered rate cutting cycles, whereas the People's Bank of China maintained an accommodative stance and the Bank of Japan further raised the policy rate.

Regarding international financial market trends since July 2024, given investor

concerns about a weakening in US economic activity and increasing market expectations of the Fed's rate cuts, the US government bond yields trended low, and the US Dollar Index also softened. Meanwhile, major stock markets across the world experienced volatile swings.

Looking ahead, the global economic outlook faces many uncertainties, including the difference in the pace of monetary policy adjustments among central banks, a fragmented global economy compounding the challenge of supply chain restructuring, China's economic slump, and heightening risks such as climate change, all of which would impact global economic, trade, and financial development.

2. Domestic Economic and Financial Conditions

(1) Economic situation

Recently, the domestic leading and coincident indicators continued rising. August data showed Taiwan's Manufacturing PMI and Non-Manufacturing Index (NMI) both stayed in expansionary territory, whereas the six-month outlook subindex pointed to slower expansion.

Among the components of domestic GDP growth, robust AI-related business demand and stabilization in exports of goods in traditional manufacturing industries drove Taiwan's exports to grow at an annual rate of 16.8% in August 2024; for the first eight months of the year, exports grew by 10.9% year on year. Considering the expected benefits that continuous expansion in emerging technology applications and new cell phones hitting the market will have for the related supply chains, the Bank forecasted solid export growth in both the second half of 2024 and the year as a whole with continuous growth into year 2025.

In respect of private investment, semiconductor-related supply chain manufacturers were expanding factories and production capacity, major foreign tech companies came to Taiwan to build data centers, green energy-related infrastructure projects continued in progress, and many manufacturers invested in equipment to facilitate low-carbon energy transition. In this view, the Bank forecasted real private investment to pick up pace in the second half of 2024 and to record mild growth for the

year as a whole with the growth momentum extending into next year.

In respect of private consumption, as the domestic economy continued recovering, real earnings growth regained momentum, and consumer confidence rose high. Against this background, the Bank forecasted continuous real growth in private consumption in the second half of 2024 and the year as a whole. For next year, private consumption was forecasted to grow mildly, with disposable income to be boosted by a scheduled hike in the minimum wage and public sector pay next year and stronger corporate willingness to raise pay thanks to stronger profits in the first half of this year.

In the labor market, recent data showed the total number of employed persons increased month by month and the unemployment rate in July posted the lowest same-month record in nearly 24 years, despite a seasonal rebound. Regarding employee earnings, growth in total nominal earnings had picked up pace since the beginning of the year, averaging 4.06% for the first seven months of the year, a new period high in nearly 10 years.

Overall, given a stronger-than-expected economic expansion in the first half of the year, the Bank slightly upgraded its GDP growth forecast for year 2024 to 3.82%, raising by 0.05 percentage points from its June forecast. However, the second half of the year was forecasted to slow down from the 5.83% registered in the first half year to 1.99% owing to a higher base effect.

For the outlook of next year, as continuous expansion in the global economy and trade were expected to bolster Taiwan's exports and private investment, coupled with continuous private consumption growth, the Bank forecasted the economy to expand by 3.08% in 2025. In addition, the Bank estimated that Taiwan would have a slightly negative output gap in both 2024 and 2025. Growth projections by major institutions at home and abroad ranged between 3.57% and 4.50% for this year and between 1.97% and 4.40% for next year.

(2) Financial conditions

Domestic market liquidity was ample. In the period of June to August 2024, banks' excess reserves averaged above NT$45 billion. In terms of market interest rates, short-

term rates rose slightly in July, reflecting the Bank's previous hike in the reserve requirement ratios (RRRs) and the impact from firms distributing cash dividends. From August onwards, short-term interest rates fluctuated within a tight range, owing to frequent foreign capital movements as well as the aforementioned cash dividend distribution. Showing the effectiveness of the Bank's monetary policy instruments in guiding market interest rates, most of the money market rates and banks' deposit/lending rates had "sufficiently" risen in reflection of the Bank's policy rate increases.

In terms of bank credit, with home mortgages and personal working capital loans continuing to rise year on year since May 2024 and the corporate sector also showing greater funding demand amid steady export growth, the annual growth rate of banks' loans and investments rose month by month during the year, averaging 7.73% for the first eight months of 2024.

In terms of money supply trends since April this year, the annual growth rate of the monetary aggregate M2 first rose to 6.25% in June alongside the rising annual growth rate of loans and investments; afterwards, M2 growth dropped to an annual pace of 5.80% in August owing to net capital outflows. For the first eight months of the year, the annual growth rate of M2 averaged 5.94%, within the 2.5%-6.5% reference range.

In the housing market, the volume of housing transactions had risen markedly in both the designated "specific areas" (currently including six metropolitan areas, Hsinchu County, and Hsinchu City) and in the non-specific areas since August 2023. Data also showed that building ownership transfers in these two area categories rose year on year by 33.3% and 24.3% in July 2024, respectively. In addition, housing prices of new housing projects and existing homes had continued to rise faster since the second half of last year.

With housing prices and transactions both on the rise, the annual growth rate of outstanding housing loans further climbed to 11.0% at the end of August this year. The ratio of real estate loans to total loans (concentration of banks' lending in real estate loans) increased to 37.5% at the end of August, close to the historical high of 37.9%. Considering the current severe imbalance of bank credit skewed towards the real estate sector, the Bank, as a precaution, met with a total of 34 domestic banks in mid-August,

asking them to conduct internal management over a one-year horizon to rein in the total amount of real estate lending but not to adversely impact the funding needs of non-homeowners applying for owner-occupied housing loans, or real estate sector entities looking to finance their projects of urban renewal or reconstruction of old and unsafe buildings.

(3) Price trends

Regarding price trends from June 2024 onwards, weather-induced surges in prices of vegetables and fruit drove the annual growth rate of the consumer price index (CPI) upwards, but the figure went down to 2.36% in August. Excluding fruit, vegetables, and energy items, the annual growth rate of the core CPI continued to slowly come down to 1.80% in August 2024, the lowest since February 2024.

During the first eight months of the year, the annual growth rate of the CPI averaged 2.32% mainly owing to rising food prices (such as fruit and food away from home), housing rent hikes, and price rises in personal effects, entertainment services, and medical fees, which combined to contribute 1.75 percentage points, or about 75%, to the rise in the CPI annual growth rate.

By frequency of purchase, the items purchased frequently recorded slower price rises in the recent month. Import prices and prices of domestic sales excluding imports posted a year-on-year increase of 1.08% and 0.82%, respectively, for the first eight months of the year, indicating an absence of imported inflation pressures.

By type of items, the services CPI recorded slower year-on-year growth in August 2024 owing to a higher base effect. For the first eight months of the year, the annual growth rate of the services CPI was 2.06% and that of the commodity CPI was 2.54%.

For the outlook of 2024 as a whole, given that late July saw fruit and vegetable prices surged in the aftermath of typhoons and torrential rain, the Bank slightly revised up this year’s forecast for the CPI annual growth rate to 2.16% while slightly revised down the forecast for the core CPI annual growth rate to 1.94%. For next year, international institutions expected global oil prices to be steady; meanwhile, domestic services inflation would likely continue with a gradual downtrend. In this view, the Bank

forecasted that in 2025 the CPI and core CPI annual growth rates would ease further to 1.89% and 1.79%, respectively. Headline inflation forecasts by major domestic and foreign institutions ranged between 1.90% and 2.30% for year 2024 and between 1.28% and 2.40% for 2025.

Key factors affecting the future path of domestic prices include the following. Upside pressures could arise from (1) severe damage from typhoon and torrential rain leading to rises in fruit and vegetable prices owing to a reduction in supply; (2) prices of food such as food away from home and meat trending upwards, along with upside pressures for housing rent; (3) tour agencies hiking tour group fees; (4) the effect of carbon fees to be launched next year; (5) the minimum wage and public sector pay scheduled for an increase next year. On the other hand, downside pressures could come from a downtrend in communication devices such as mobile phones and from reductions in prices of communication services.

3. Considerations for Monetary Policy Decision-Making

(1) Regarding the policy interest rate decision

A. Domestic inflation has continued to come down gradually in the year so far and is expected to drop to below 2% next year.

B. The domestic economy is expected to expand mildly in the second half of 2024 and in 2025 while the output gap is estimated to be slightly negative for both 2024 and 2025.

(2) Regarding the adjustment of the selective credit control measures alongside a hike in the reserve requirement ratios

A. Beginning December 2020, the Bank has made six amendments to the *Regulations Governing the Extension of Mortgage Loans by Financial Institutions*, and the annual growth rate of banks' real estate loans has since dropped from its peak of 2021. Entering the second half of 2023, though, growth in housing transactions rebounded and housing prices climbed at a faster pace, driving a continuous rise in housing loans. As a result, annual growth of banks' real estate loans climbed back

up rapidly, leading to a higher loan concentration in real estate loans that came close to a historical high as of August 2024.

(a) The annual growth rate of housing loans rose back up from 4.5% at the end of May 2023 to 11.0% at the end of August 2024, a new record high for almost 18 years (since May 2006). The annual growth rate of construction loans also rebounded from 2.7% at the end of May 2024 to 5.0% at the end of August 2024.

(b) The annual growth rate of real estate loans also increased from 5.3% at the end of July 2023 to 9.4% at the end of August 2024.

(c) At the end of August 2024, the ratio of real estate lending to total lending was 37.5%, close to the historical high of 37.9% registered at the end of October 2009.

－The aforementioned record ratio of 37.9% was registered in October 2009, when real estate loans and the other loans (i.e., total loans minus real estate loans) all posted slower growth as the global financial crisis dragged the world economic growth down, with the other loans showing a more marked slowdown. In comparison, since the second half of 2023, real estate loans and the other loans had grown in step amid the domestic economic recovery, with real estate loans posting stronger gains. Compared to the situation around the end of October 2009, the present day was witnessing a more alarming imbalance of banks' credit resources gravitating towards the real estate-related sectors.

B. Internationally, there have been precedents of financial crises and economic recessions caused by an overheating real estate market. In the spirit of prudence, it is necessary to take further actions to remediate the alarmingly high concentration of real estate lending in Taiwan's banks. Therefore, to contain housing speculation and property hoarding, and to prioritize the channeling of credit resources towards non-homeowners seeking owner-occupied housing, the Board would consider the following amendments to the selective credit controls:

(a) Imposing a new rule that no grace periods should be granted to a natural person applying for a first outstanding home loan when the person already owns

building(s) to his/her name. This is aimed at preventing such borrowers from using financial leverages for speculative homebuying and reinforcing banks' credit risk management.

—It is estimated that nearly 20% of housing loan applications belong to people who seek new home loans despite already owning residential properties. Given the size of such applicants, granting them grace periods that allows interest-only repayments could aid short-term speculative homebuying.

(b) Lowering the cap on the loan-to-value (LTV) ratio to 50% of natural persons' second outstanding home loans and widening the applicable scope (from housing in the designated "specific areas"") to housing nationwide. For housing loans to corporate entities, high-value housing loans, and the third (or more) housing loans to natural persons, the LTV ratio caps would both be lowered to 30%. By reducing the available amount of loans potentially taken out for property speculation, more loanable funds can thus be used for home loans to non-homeowner borrowers.

—Data showed that there had been a large number of new borrowers taking out their second outstanding housing loans, representing a share of about 17% in the second quarter of 2024. Moreover, the total amount as well as the number of borrowers both surged for this loan bracket, rising by 97% and 71% year on year, respectively, in the second quarter of 2024. This phenomenon also "spilled over" from the specific areas to the entire nation; in the first half of 2024, for the bracket of a second outstanding housing loan taken out for housing outside the specific areas, the loan amount and the applicant number increased 49% and 20% year on year, respectively. Today's new cap tightening would not only prevent credit flows from being used for property hoarding, but also help channel those credit towards priority use for home loans to non-homeowners.

—The tightening of LTV caps on housing loans to corporate entities, high-value housing loans, and the third (or more) housing loans to natural persons is mainly based on the consideration that such loans are mostly for non-owner-

occupied housing. The tightening would help release more credit resources for non-homeowners seeking home loans.

(c) Lowering the LTV ratio cap on unsold housing unit loans to 30%, which would help urge housing project builders to expedite the sale, thereby increasing the supply of housing units while keeping bank credit from being used for property hoarding.

C. A concurrent hike by 0.25 percentage points in the reserve requirement ratios on NT dollar deposits would help strengthen the effectiveness of the Bank's recent moral suasion efforts and today's selective credit control adjustments by adding quantity management of money and credit, so as to 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

All board members agreed on the rate hold proposition after taking into account various domestic and international factors.

One board director stated that Taiwan's economy has continued with a steady expansion and gradual domestic disinflation, with the inflation rate expected to drop to below 2% next year; therefore, there was no need to hike the policy rates. On the other hand, despite recent easing by major central banks, a policy rate reduction was not an

imperative, either, given that a continued uptrend in the domestic price index of residential rent pointed to a lingering inflation risk. Another board director noted that the pace of domestic disinflation would seem less rapid than in other countries (such as the US) because domestic inflation had not risen as markedly as in other countries thanks to the containment efforts by relevant authorities. In that sense, there was no need to follow in the footsteps of the US to start cutting the policy rates.

One board director gave consent to the rate hold, but pointed out that compared to other economies Taiwan has posted a negative real interest rate for a long while, a phenomenon worth contemplating. Another board director noted that monetary policy actions should also address potential inflationary pressures though the annual CPI growth rate was forecasted by the Bank to drop to below 2% next year. The uptrend in housing rent, which usually lags behind housing price rises, could pick up pace if housing prices remain elevated and even climb up. For the first eight months of the year, compared to the first five, housing rent has not only seen a faster average year-on-year increase but also made a greater contribution to the CPI inflation. Therefore, the Bank needs to stay alert on the fight against inflation.

One board director stated that despite an expected gradual slowdown in domestic inflation, rises in housing rent and food-away-from-home prices did not turn slower, which calls for the Bank's continued attention to the inflation path. Meanwhile, the labor market remained steady. Judging from current inflation and labor market conditions, the director considered the current levels of the policy rates were appropriate.

Another board director pointed out that because the domestic economic recovery remained on track and domestic disinflation was to continue now that previous inflationary pressures caused by typhoons had gradually diminished, there was no need for a rate change at the current juncture.

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

All board members agreed on the proposition to adjust the selective credit control measures and to raise the reserve requirement ratios on NT dollar deposits.

One board director pointed out a phenomenon where real estate is used by some speculators as liquid assets, betting on short-term gains during the grace period when mortgage borrowers repay only the interest. In this light, the director contended that there ought to be more forceful measures to rein in housing credit; investors should use money in their own pockets to invest in real estate; otherwise, a reversal in the housing price uptrend or even a hard landing could be detrimental to financial stability. Another board director stated that compared to the June 2024 measures, the proposed credit control adjustment in today's meeting would have a wider applicable scope and tighter credit caps, with the expected effectiveness also greater. However, given the strong domestic economic fundamentals and the fact that not all housing market speculators need to tap bank credit for homebuying, the effectiveness of today's measures remain to be seen.

One board director pointed out three primary aims of today's credit controls and RRR hike: First, enhanced quantity management of money and credit would help cool strong public expectations of a housing price uptrend, thereby dampening speculative motivations. Second, lowering the LTV ratios on several types of real estate loans would complement the Bank's previous moral suasion, helping banks to achieve the intended effects of their internal management of total real estate lending over the coming year. Third, today's policy measures would free up loanable funds otherwise tapped by speculators and channel such funds towards priority use for home loans to non-homeowners. In addition, the RRR hike would slightly tighten market liquidity and help banks be more prudent in lending, imposing stronger curbs on credit flows into the real estate market.

Several board directors said that considering an overheated housing market, drastic surge in housing credit, and near-record high concentration of real estate lending, it was necessary to adjust the selective credit control measures. One board director stated that demand for housing credit is derived from demand for housing property, which are mainly due to the following three reasons: (1) real economic activity, such as the need for real estate in a growing economy and as a result of industry clusters;(2) adjustment of asset allocation; (3) speculative transactions. Today's credit controls were expected to not only help contain excessive leveraging for housing property speculation but also

to channel credit resources towards better allocation, which in turn would help direct available funds to fostering real economic activity such as investment and infrastructure-building. Another board director also pointed out that today's measures would help restrain housing prices to some extent and thus conducive to financial and price stability.

One board director approved of the Bank's recent moral suasion on banks to enhance internal management of the total volume of real estate lending and stated that today's policy moves – adjusting selective credit controls and raising the RRRs – would help curb excessive credit flows to the real estate market. Another board director remarked that it takes longer for banks' quantity management of real estate lending to work and this would thus fail to immediately rectify the over-concentration of credit resources on real estate lending. On the other hand, the selective credit control measures could be deployed to keep new property investors and new speculators from entering the housing market by denying them easy access to banks' housing credit. Furthermore, the housing market, unlike stock markets, tends to seldom experience market corrections or short-term volatile price swings; the introduction of today's measures might help bring about a housing market correction.

Many board directors expressed the view that, regarding the proposed new rule to remove grace periods on first outstanding home loans by borrowers already owning housing property, exemption should be applied to a homeowner whose property is owned through inheritance or the inherited property is not located in the city where the borrower currently resides or works. Several board directors also expressed concern about the situation where a borrower inherits a housing property with an outstanding loan but has to take out the second loan to buy a home because of job-related relocation, subjecting the borrower to the new stricter credit controls of no grace period and lower LTV ratios. In this light, it was suggested that such particular cases and actual funding needs of borrowers should be taken into consideration.

Another board director raised concerns about the situations where homebuyers already enter into contracts via real estate agencies but have not yet submit loan applications to banks, or where buyers of presale homes already sign contracts with homebuilders but the loan cases have not yet been submitted to banks; in both situations, today's new credit controls would cause the loans to fall short of the previously expected

amount owing to tighter LTV ratio caps.

Several board directors noted that it is never an easy task for policy measures to cover all the bases. One board director pointed out that following the policy launch, the Bank will strive to address problems and difficulties. Reviews and rectifications will then be conducted after some time into the policy implementation, with a focus on comprehensiveness and an understanding of specific cases.

One board director gave opinion on the RRR adjustment, stating that the Bank should move towards a path of slowly reducing the RRRs. The director noted that it does not seem appropriate for monetary policy to strike solely via quantity-based tools. In addition, some banks might be caught ill-prepared upon an RRR hike, potentially putting the Bank in a position to provide liquidity as seen fit. Hence, such a tool needs to be used with caution. In this view, adjusting monetary policy via an interest-rate channel might be more effective in ensuring financial and price stability.

Several board directors viewed that raising the RRRs would help rein in bank credit but could also affect the ratio used for the regulatory limit where, as prescribed in Article 72-2 of the Banking Act, banks' construction-related lending (the numerator) shall not exceed 30% of the sum of deposits received and bank debentures issued (the denominator). With an RRR hike, the denominator could shrink because banks have to set aside more funds as reserves, possibly reducing the amount of total deposits. As a result of a smaller denominator, banks could find the regulatory limit of 30% closer in sight, making it more difficult for banks to grant housing credit to homebuyers.

One director stated that in theory, an RRR hike would affect the quantity of banks' loans and deposits, just as many other factors do, such as capital inflow/outflow, export growth, domestic economic conditions, etc. Take the previous RRR hike (effective July 2024) for example. After the hike, the outstanding balance of bank loans continued to rise in the two months of July and August, and the outstanding balance of bank deposits rose before decreasing but still higher than the end of June. This indicated that in the months after the July RRR hike, banks continued to extend credit and receive deposits, with the process of credit creation largely unaffected. Secondly, the August data showed that the Article 72-2-stipulated ratio of domestic banks did not change significantly; the

ratio's numerator (loans extended for residential construction and business construction) and the denominator both increased, implying little effect from the July RRR hike. Furthermore, as the banking system continued to enjoy ample liquidity, banks had mostly responded to the RRR hike through early termination of their central bank-issued certificates of deposit. In other words, raising the RRRs has not caused banks to record a smaller denominator of the Article 72-2 ratio.

One board director remarked that the RRR hike was adopted to complement the selective credit control measures. Given the ample liquidity, it would be hardly concerning that there might be any liquidity squeeze in the banking system. Another board director pointed that, in fact, as early as the end of 2023, some banks had begun to dial down real estate lending as they came close to the aforementioned regulatory limit of 30% or their internal control level. Also, when a large number of housing loan applications swarmed to those banks still with space to lend, the sheer volume as well as a longer processing time usually needed for housing loan case reviews thus extended the wait until loan approval and disbursement. In other words, this was not a credit crunch but just the result of banks complying with Article 72-2 of the Banking Act.

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, Jyh-Huei Kuo, 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

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 September 19, 2024

Monetary Policy Decision of the Board Meeting (2024Q3)

I. Global economic and financial conditions

Since the Board met in June this year, the global manufacturing sector has weakened to tepid growth, while the services sector has witnessed continuous expansion. The global economy has sustained mild growth. In more recent months, international oil and other commodity prices trended down, services price rises moderated, and global inflation further eased.

From mid-2024 onwards, monetary policy paths of major central banks continued to diverge. The European and US central banks started their rate-cut cycles successively to avoid excessive tightening. The People's Bank of China continued with its expansionary monetary policy stance on concern of mounting deflationary risk. The Bank of Japan delivered another rate increase thanks to a virtuous cycle between prices and wages. Market attention to major central banks' monetary policy moves has induced greater volatility in international financial markets.

For the outlook of 2024 and 2025, international institutions projected the world economy to grow at a moderate pace and the inflation rate to drop further. However, the international economic and financial outlooks are still shrouded in many uncertainties, such as varied paces in monetary policy moves of major central banks, geopolitical changes following the US presidential election, and the spillover effect of China's softening economy, as well as climate change and other potential impacts.

II. Domestic economic and financial conditions

1. In the months since midyear, Taiwan's exports have recorded solid growth, supported by robust demand for artificial intelligence and other emerging technology applications. With regard to domestic demand, private investment gained stronger momentum with capital equipment imports increasing significantly in recent months, and private consumption continued growing. Nevertheless, owing to a higher base effect, the Bank forecasted Taiwan's economy to expand by 1.99% for the second half of the year. The Bank's GDP growth forecast for the year as a whole was 3.82% (see Appendix Table 1 for the forecasts by major institutions). In the labor market, the number of employed persons continued increasing in recent months, the unemployment

rate registered lower than that in the same period last year, and total nominal earnings posted mild growth.

For the outlook of next year, a pickup in global goods trade growth and the continuous boom in emerging tech applications would continue to bolster growth in Taiwan's exports and private investment. Meanwhile, as minimum wage and public sector pay were scheduled to be raised next year, private consumption is expected to enjoy further growth. Therefore, the Bank forecasted the economic growth rate to be 3.08% in 2025.

2. Regarding price trends since June 2024, weather-induced surges in the prices of fruit and vegetables led to a brief upswing in the annual growth rate of the consumer price index (CPI) followed by a decline. The annual growth rate of the core CPI (excluding vegetables, fruit, and energy items) continued slowing down gradually. For the first eight months of the year, the average annual growth rate of the CPI was 2.32% and that of the core CPI was 1.97%. The Bank expected that the inflation rate in the second half of the year would be slightly lower than the first half. For year 2024, the Bank forecasted the CPI and the core CPI annual growth rates to register 2.16% and 1.94% respectively (see Appendix Table 2 for the forecasts by major institutions), lower than the 2023 figures of 2.49% and 2.58%.

   For year 2025, the Bank forecasted Taiwan's CPI and core CPI annual growth rates to slow further to 1.89% and 1.79% owing to a stable outlook for international oil prices as expected by international institutions and the prediction of continuous gradual easing in domestic services price increases. 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. Domestic market liquidity was ample, and both long- and short-term market interest rates fluctuated within a narrow range in recent months. Banks' excess reserves averaged slightly above NT$45 billion for the three months from June to August. For the first eight months of the year, the average annual growth rate of the monetary aggregate M2 (measured on a daily average basis) was 5.94% and that of bank loans and investments was 7.73%, both deemed sufficient to support economic activity.

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

1. At the meeting today, the Board considered the totality of information on the economic and financial conditions at home and abroad. Domestic inflation has been gradually easing in the year to date and would likely come down to below 2% next year. In addition, the domestic economy is expected to continue expanding at a moderate pace both for the second half of this year and for next year, with a modestly negative output gap for both years. 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 the implications of monetary policy moves of major central banks, China's economic downturn risk, geopolitical risks, and extreme weather for Taiwan's economic activity and financial conditions. The Bank will adjust its monetary policy accordingly 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.

2. The Bank has made six 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 climb back up and housing prices saw steeper rises in the second half of last year, leading the annual growth rate of housing loans to trend upwards continuously to 11.0% at the end of August this year, the highest since May 2006. Furthermore, the annual growth rate of construction loans also picked up, reaching 5.0% at the end of August. As a result, the ratio of real estate lending to total lending of all banks (a measure of

concentration of real estate lending) stayed elevated at a level of 37.5% at the end of August this year, close to its historical record of 37.9%.

The Bank successively met with a total of 34 domestic banks between August 12 and August 21. Through moral suasion, the Bank asked these banks to draw up a quantitative, self-disciplinary improvement plan covering a one-year horizon to reduce over-concentration of credit resources in loans to the real estate sector. Such plans shall not adversely impact the funding needs of non-homeowners applying for owner-occupied housing loans, or real estate sector entities looking to finance their projects aligned with the government-promoted policies of urban renewal, reconstruction of old and unsafe buildings, and affordable housing, or corporates seeking capital to build or buy own-use plants or offices.* For the coming future, the Bank will regularly examine the effectiveness of these plans and conduct on-site inspections to ensure successful execution by the banks.

In order to further reinforce management of banks' credit resources and to contain housing market speculation and property hoarding, while prioritizing the channeling of credit resources towards non-homeowners seeking owner-occupied housing, the Bank decided to make the following amendments to the *Regulations Governing the Extension of Mortgage Loans by Financial Institutions*, effective September 20, 2024. The primary points to this amendment are as follows (Appendix 1):

(1) Granting no grace period to a natural person's first outstanding home loan when the borrower already owns building(s) to his/her name.

(2) Lowering the cap on the loan-to-value (LTV) ratio, from 60% to 50%, of natural persons' second outstanding home loans and widening the applicable scope (from housing in the designated "specific areas") to housing nationwide.

(3) Lowering the LTV ratio caps on corporate entities' housing loans, natural persons' high-value housing loans, and natural persons' third (or more) outstanding home loans from 40% to 30%.

(4) Lowering the LTV ratio cap on unsold housing unit loans from 40% to 30%.

In addition, the Bank judged that a concurrent hike in reserve requirement ratios would reinforce the effect of the Bank's moral suasion and the above selective credit controls 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 October 1, 2024 (Appendix 2).

In the future, the Bank will continue reviewing the status of banks' real estate lending and the effectiveness of the Bank's 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.

IV. 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.

Notes: * For more details, please refer to the Bank's press releases as follows (in Chinese):

1. The August 21, 2024 press release entitled "The Bank Recently Met with 34 Domestic Banks to Request for Self-Disciplinary Management of the Outstanding Balance of Real Estate Loans in a Joint Effort to Improve Over-concentration of Credit Resources in Real Estate Lending," at https://www.cbc.gov.tw/tw/cp-302-175172-6f024-1.html.
2. The August 22, 2024 press release entitled "Supplementary Notes on the Bank's Recent Request for Self-Disciplinary Management by Domestic Banks over the Outstanding Balance of Real Estate Loans," at https://www.cbc.gov.tw/tw/cp-302-175204-6c020-1.html.

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

Effective Date: September 20, 2024

<table>
<tr><th colspan="2" rowspan="2">Loans</th><th colspan="2">Loan Underwriting Criteria</th></tr>
<tr><th>Current provisions</th><th>Amendments</th></tr>
<tr><td colspan="2">Housing loan taken out by a corporate entity</td><td>LTV ratio cap: 40%;
No grace period</td><td>LTV ratio cap: 30%;
No grace period</td></tr>
<tr><td rowspan="4">Natural person</td><td>High-value housing loan</td><td>LTV ratio cap: 40%;
No grace period</td><td>LTV ratio cap: 30%;
No grace period</td></tr>
<tr><td>First outstanding home loan to a borrower owning building(s) to his/her name</td><td>(Nil)</td><td>No grace period</td></tr>
<tr><td>Second outstanding home loan</td><td>Housing in the "specific areas"*
LTV ratio cap: 60%;
No grace period</td><td>Housing nationwide;
LTV ratio cap: 50%;
No grace period</td></tr>
<tr><td>Third (or more) outstanding home loan(s)</td><td>LTV ratio cap: 40%;
No grace period</td><td>LTV ratio cap: 30%;
No grace period</td></tr>
<tr><td colspan="2">Unsold housing unit loans</td><td>LTV ratio cap: 40%</td><td>LTV ratio cap: 30%;</td></tr>
<tr><td colspan="2">Land loans</td><td>● 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</td><td>(Unchanged)</td></tr>
<tr><td colspan="2">Mortgage loans for idle land in industrial districts</td><td>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</td><td>(Unchanged)</td></tr>
</table>

* 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 October 1, 2024)

Unit: %

Type of Deposit	Current Ratio	New Ratio
Checking Accounts	11.500	11.750
Passbook Deposits	10.525	10.775
Passbook Savings Deposits	6.250	6.500
Time Savings Deposits	4.750	5.000
Time Deposits	5.750	6.000
Principal (in NT Dollars) Received by Banks from the Sale of Structured Products	5.750	6.000

Appendix Table 1

Taiwan's Economic Growth Forecasts by Major Institutions

Unit: %

Forecast institutions		2024 (f)	2025 (f)
Domestic institutions	**CBC (2024/9/19)**	**3.82**	**3.08**
	NTU/Cathay (2024/9/11)	3.70	2.80
	DGBAS (2024/8/16)	3.90	3.26
	Academia Sinica (2024/7/31)	3.88	n.a.
	TIER (2024/7/25)	3.85	n.a.
	CIER (2024/7/19)	3.81	2.98
	TRI (2024/6/27)	3.57	n.a.
Foreign institutions	S&P Global Market Intelligence (2024/9/17)	3.87	2.64
	Citi (2024/9/16)	4.50	3.00
	Goldman Sachs (2024/9/16)	4.04	1.97
	Barclays Capital (2024/9/13)	4.00	2.30
	BofA Merrill Lynch (2024/9/13)	3.70	2.30
	Morgan Stanley (2024/9/13)	3.70	3.10
	Nomura (2024/9/13)	4.10	4.40
	Standard Chartered (2024/9/13)	3.70	2.00
Forecast Average		**3.88**	**2.82**

Appendix Table 2

Taiwan's Inflation Forecasts by Major Institutions

Unit: %

Forecast institutions		2024 (f)	2025 (f)
Domestic institutions	**CBC (2024/9/19)**	**2.16 (CPI) 1.94 (Core CPI*)**	**1.89 (CPI) 1.79 (Core CPI*)**
	NTU/Cathay (2024/9/11)	2.10	1.80
	DGBAS (2024/8/16)	2.17	1.91
	Academia Sinica (2024/7/31)	2.21	n.a.
	TIER (2024/7/25)	2.13	n.a.
	CIER (2024/7/19)	2.16	2.06
	TRI (2024/6/27)	2.20	n.a.
Foreign institutions	S&P Global Market Intelligence (2024/9/17)	2.18	1.82
	Citi (2024/9/16)	2.30	2.40
	Goldman Sachs (2024/9/16)	1.99	1.28
	Barclays Capital (2024/9/13)	2.20	1.70
	BofA Merrill Lynch (2024/9/13)	2.10	1.70
	Morgan Stanley (2024/9/13)	2.30	2.30
	Nomura (2024/9/13)	2.20	1.80
	Standard Chartered (2024/9/13)	1.90	1.50
Forecast Average		**2.15**	**1.85**

* Excluding vegetables, fruit, and energy.