Minutes of the Monetary Policy Meeting

December 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 December 19, 2024

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

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

Ming-Jou Yang (Excused, Appointing Mei-Lie Chu 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

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 September 2024, the global economy saw a mild expansion, with the Global Manufacturing PMI (Purchasing Managers' Index) showing a slow but steady recovery and the Services PMI extending its uptrend. International institutions expected the global economy to continue with mild growth next year (2025) at a slower pace than this year (2024). Looking ahead, with heightened uncertainty over the economic and trade policies of the new US administration, there exists potential downside risks to the global economy.

In respect of global commodity price trends since October 2024, international oil prices fluctuated at low levels. For the year as a whole, international institutions forecasted oil prices to trend slightly lower than last year, with a further decline next year. Meanwhile, the R/J CRB index, a global commodities benchmark, trended upwards.

Global inflation pressures continued to ease, reflecting the energy price slump and slower food price increases. International institutions expected the annual growth rate of the global consumer price index (CPI) to decrease further this year and next, based on the projections of commodity price weakening, and labor market conditions easing and wage growth softening in major economies.

In respect of recent monetary policy developments, the US Federal Reserve (Fed) and the European Central Bank both continued with rate cuts and the People's Bank of China maintained an accommodative stance, whereas the Bank of Japan remained on a tightening path.

In international financial markets, the US 10-year government bond yields went up on expectations that the new administration's policies could increase bond supply. The US dollar index stayed high and most major currencies depreciated against the USD. The US stock market also outperformed other major ones with its rallies.

Looking ahead, the global economic outlook faces many uncertainties, including high uncertainty surrounding the policies of the new US administration, China's economic downturn risk, geopolitical risk hampering price and social stability, and heightened concerns over debt sustainability of major economies.

2. Domestic Economic and Financial Conditions

(1) Economic situation

Recently, the domestic leading indicators declined for the third consecutive month, while coincident indicators were broadly steady; the outlook generally maintained an uptrend. Data of November 2024 showed Taiwan's Manufacturing PMI rose into expansion territory and Non-Manufacturing Index (NMI) continued with expansion. However, the six-month outlook subindex shifted towards a cautious outlook for both manufacturing and non-manufacturing sectors.

Among the components of domestic GDP growth, exports grew by 9.9% year on year during the first eleven months of 2024, bolstered by robust business opportunities in AI and other emerging technologies. Looking ahead, in view of strong demand for emerging technology applications, continuous capacity expansion in advanced semiconductor production processes, and a sustained demand recovery for electronic end-products, the Bank expected Taiwan's real exports to extend solid growth into 2025.

In respect of private investment, continuous capacity building and R&D expenditures by semiconductor supply chains, coupled with corporate efforts to facilitate net-zero energy transition and inbound investment by major tech multinationals, the Bank forecasted real growth in private investment next year to outpace this year.

In respect of private consumption, steady employment, a 2025 hike in minimum wage and public sector pay, and stronger corporate profits that would boost chances of pay raise and bonus/dividend allocation were among the factors likely to bolster disposable income of households. However, considering a higher base effect, the Bank forecasted private consumption to post slower growth in 2025 than in 2024.

In the labor market, recent data showed that the total number of employed persons rose back up and the unemployment rate went down. For the first ten months of the year, the annual growth rate of total nominal earnings averaged 4.06%. Meanwhile, the real annual growth rate climbed to a four-year high at 1.82%, reflecting easing inflation.

Overall, considering statistical revisions for national income and better-than-expected private investment growth, the Bank upgraded its forecast for the 2024 GDP growth rate to 4.25%, representing a 0.43 percentage point increase from its September 2024 forecast.

For the outlook of next year, it remained to be seen how much the new US administration's policy agenda, including tariff increases on trading partners, would be put to practice; therefore, the Bank's assessment of the 2025 domestic economy did not factor this in. The forecast for GDP growth next year was revised up to 3.13% by the Bank, a modest upgrade by 0.05 percentage points from its September forecast based on expected continuation of domestic growth momentum, and the output gap was estimated to be slightly negative next year. Going forward, the Bank will take into account the implementation of new US policies and reflect the assessment quarter by quarter in its outlook for the domestic economic growth. Meanwhile, major forecasting institutions at home and abroad projected Taiwan's economy to expand by 4.00% to 4.50% this year and by 2.20% to 3.50% next year.

(2) Financial conditions

In respect of market interest rates, despite an end-of-quarter effect for the month of September, the policy hike on reserve requirement ratios taking effect in October, and foreign capital outflows in November, short-term market rates fluctuated in a narrow range with the Bank's open market operations. Most of the money market rates and banks' deposit/lending rates had "sufficiently" risen in reflection of the Bank's policy rate increases, indicating that the Bank's monetary policy instruments had been effectively guiding market interest rates.

In terms of bank credit, the annual growth rate of bank loans and investments trended upwards in the year to date, mainly owing to funding demand for housing loans and working capital, averaging 8.01% for the first eleven months of the year.

In terms of money supply, the annual growth rate of the monetary aggregate M2 turned into a downtrend from July onwards, owing to net capital outflows. For the first eleven months of the year, the annual growth rate of M2 averaged 5.86%, within the 2.5%-6.5% reference range.

Based on the estimations of the money demand function, the annual growth rate of M2 demand will remain between 2.5% and 6.5% next year. Although the domestic economy was expected to show mild growth and inflation to ease gradually next year, high uncertainties over international political, economic, and financial conditions could affect the momentum for the domestic economic recovery. In this view, the Bank maintains the M2 growth reference range at the current 2.5%-6.5% for the year 2024. The Bank will strive to sufficiently meet funding demand of the private sector so as to foster economic growth.

In the housing market, the seventh amendments to the selective credit controls in September this year had gradually shown results: housing transactions cooled, and housing price indices in the third quarter showed slower growth compared to the previous quarter. The index of homebuyer intent also declined, indicating softening expectations of housing price rises, alongside a dimming outlook for the housing market among real estate businesses and banks. Meanwhile, domestic banks recorded a rising share of housing loans taken out by non-homeowners as a percentage of total home loans, indicating that non-homeowners were prioritized to receive bank credit.

The annual growth rate of outstanding real estate loans and that of outstanding housing loans both declined slightly from October 2024 onwards, though the concentration of real estate lending in total bank lending remained elevated. Going forward, the Bank will closely monitor banks' progress in their improvement plans of real estate lending management.

(3) Price trends

Regarding price trends, the annual CPI growth rate rose to 2.08% in November 2024, driven up by greater fluctuations in the prices of vegetables and fruit owing to weather disruptions. The annual growth rate of the core CPI also went up to 1.74%. For the first eleven months of the year, the annual CPI growth rate averaged 2.18%. This was mainly attributable to food price increases (in particular, fruit and food away from home), housing rent hikes, and price rises in personal effects, medical care expenditures, and durable consumer goods, which combined to contribute 1.72 percentage points or about 79% to the increase in the annual CPI growth rate.

During the first eleven months of the year, the annual growth rate of import prices in NT dollar terms was 0.20%, while that of prices of domestic sales excluding imports was only a modest 0.85%, indicating a general absence of imported inflation pressures. By type of items, the services CPI rose at a slower pace in November because of a higher base effect. For the first eleven months of the year, the annual growth rate of the services CPI was 1.87% and that of the commodity CPI was 2.47%.

Considering higher-than-expected price rises of fruit and vegetables, the Bank slightly revised up its 2024 CPI annual growth rate forecast to 2.18% while marginally revised down the core CPI annual growth rate forecast to 1.90%. Looking to next year, despite the launch of carbon charges and hikes in minimum wage and public sector pay, international forecasters expected global oil prices to drop while domestic services inflation would likely maintain a gradual downtrend. In this view, the Bank projected that the CPI and core CPI annual growth rates would ease further to 1.89% and 1.79% in 2025, respectively. Headline inflation forecasts by major domestic and foreign institutions ranged between 2.10% and 2.30% for year 2024 and between 1.70% and 2.30% for 2025.

3. Considerations for Monetary Policy Decision-Making

(1) Domestic inflation has broadly maintained a pace of steady easing since the start of the year and is expected to further decline to below 2%.

(2) Despite potential downside risk to the global economy, supporting forces from domestic demand are likely to lend mild growth momentum to next year’s economic expansion at home.

A. The economy is forecasted by the Bank to grow by 3.13% year on year in 2025, and with the estimated output gap continuing to be slightly negative.

B. Future changes to the economic and trade policies of the new US administration would be a key variable for Taiwan’s economic growth.

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.**
2. Board members reached a unanimous decision on the policy rate hold. 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 noted that the introduction of carbon charges as well as the scheduled hike in minimum wage and public sector pay next year are expected to bring upward price pressures. Combined with lingering expectation for price increases, a rate cut was not warranted. On the other hand, a rate hike would not be sufficiently justified with the Fed and the ECB in the rate cutting cycle. Therefore, a rate hold would be the appropriate decision. Another board director pointed out that despite current resilience in the domestic economy, a potential trade war as a result of new US policies next year could induce great uncertainty. In addition, while the domestic inflation rate was expected to come down to below 2%, it would be appropriate to keep the policy rates unchanged given lingering inflation expectations.

One board director gave the view that various data supported the assessment of a robust economy at present but a conservative future outlook for the near term, as well as easing but protracted inflationary pressures. Therefore, the director was supportive of a rate hold.

One board director stated that according the Bank's projections, the economy would expand steadily and the inflation rate would ease to below 2%. However, multiple uncertainties still linger, and forecasters at home and abroad held mixed views over the effects of the new US administration's policies next year. Therefore, it serves to be cautious on monetary policy actions. One board director pointed out that the reason for Taiwan's recent export growth strength was partly due to overseas enterprises frontloading orders before any new tariffs are imposed by the US, a phenomenon also seen in other economies. Future changes in new US administration's policies could prove challenging to the Bank's monetary policy conduct.

Another board director remarked that it was the right direction to maintain a tightening stance; however, it was important to note the fact that Taiwan's real interest rate has stayed in negative territory for four years in a row and could continue to be so next year based on the Bank's 2025 inflation forecast. Moreover, an external survey-based report on consumer expectations in October 2024 indicated that expectation of prices serves as one of the key factors behind inflation and currently the pressures of inflation showed signs of an upturn, which calls for further attention.

One board director noted that the rise in the CPI annual growth rate in November 2024 was primarily due to increases in prices from food, rent, and personal effects to medical care expenditure. Among these, the contribution from rent alone was as high as 0.39 percentage points in November, higher than its Jan.-Nov. average contribution of 0.36 percentage points. In addition, the Bank projected a further increase in rent in December, which warrants continuous close watch of the items whose rises are more acutely felt by consumers.

One board director pointed about that, while the economy as a whole is expected to grow by more than 3% year on year in 2025, the industry-wise pace of recovery could be uneven. In particular, growth momentum for traditional industries remain tepid, reflecting impact from China's over-capacity and weak domestic demand. Given the circumstances, a rate hike would risk having adverse implications for Taiwan's industries except for AI-related ones. Considering that the domestic economic growth was resilient and the inflation rate was expected to drop to below 2%, neither hiking nor cutting the policy rates would be the appropriate move. Furthermore, as market sentiment were dampened by uncertainties surrounding new US policies, major central banks around the world would likely be more prudent in making any rate adjustments.

(2) Discussions regarding the selective credit control policy

Several board directors stated that some housing market indicators, such as transaction volume and prices of pre-sale homes and mortgage rates, showed that the Bank's seventh amendment to the selective credit controls had proved effective. Therefore, it would be appropriate to pause new control measures and monitor closely future developments before making further moves as warranted.

One board director gave the view that, while no new credit controls would take place this time, the Bank will primarily work on two focus areas going forward: (1) Regarding moral suasion, the Bank will continue reviewing quarterly the progress of banks' internal improvement plans on real estate lending management and to urge them to ensure robust implementation. (2) Recent targeted examinations conducted by the Bank on real estate mortgages already found major deficiencies and will continue to reinforce its targeted examinations and to require banks to ensure compliance with the Bank's relevant rules and rectify deficiencies. It was found that because some banks had almost reached their regulatory limit on real estate lending (as per Article 72-2 of *The Banking Act of the Republic of China*), part of bank credit found its way into the housing market through financial leasing companies, circumventing the control measures on housing speculation. In this view, the Financial Supervisory Commission (FSC) had made strong efforts in financial examinations and, with the aim of curbing bank credit flows from creeping into the real estate market, the FSC asked banks to build four defensive lines against lending by financial leasing firms, especially in regard to land or construction loans. It was also found that some of the loans taken out for land, construction, or house purchases were sourced from the credit departments of Farmers' Associations. In this light, reinforced examination and management would be conducted as necessary, as a preemptive action to prevent these lenders from becoming another vehicle for circumventing the credit controls.

One board director remarked that the Bank's moral suasion and targeted examinations were indeed justified. Another board director pointed out that, with two amendments to selective credit controls rolled out successively in June and September 2024, the housing market already began to feel the impact, which justified a pause on introducing more credit controls. Notwithstanding concerns about using financial leasing firms or credit departments of Farmers' Associations to bypass the credit controls, adjustments can still be made once judged necessary. One other board director observed that, while the housing market did witness signs of cooling, there were some views advocating further tightening of the rules and some others concerning financial turbulence triggered by over-tightening. The Bank would need to keep close watch of the developments in the real estate market.

One board director noted that the September 2024 amendments to the selective credit controls would need some time to show results. Meanwhile, some banks already came close to the upper limit of real estate lending prescribed in Article 72-2 of the *Banking Act*, implying that the housing market could still see a spike in November. Nevertheless, a gradual cooling was expected to come around.

One board director gave the opinion that, given the high concentration of real estate lending in banks' loan portfolios, it remained important to closely monitor housing price trends in order to see if the enacted selective credit controls were able to rein in housing price rises. In addition, the director expressed support for allowing banks to set up respective objectives of real estate lending at their discretion, complemented by targeted examinations by the Bank.

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.

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
Jyh-Huei Kuo (voting by proxy through Tzung-Ta Yen),
Ming-Jou Yang (voting by proxy through Mei-Lie Chu)

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 December 19, 2024

Monetary Policy Decision of the Board Meeting (2024Q4)

I. Global economic and financial conditions

Since the Board met in September this year, the global manufacturing sector has recovered at a slow yet steady pace, while the services sector has continued to expand, and the global economy has registered mild growth. In recent months, global inflation has eased further on account of a downtrend in prices of international oil, grains, and other commodities as well as easing labor market conditions in major economies. Recent market attention to future changes in economic and trade policies of the new US administration has intensified international financial market volatility.

Looking ahead, the unwinding of monetary tightening by major central banks is expected to sustain growth momentum for the global economy. International institutions therefore projected mild growth for the global economy in 2025 and a continuous easing of global inflation. However, multiple uncertainties such as the new US administration's economic and trade policy shifts, spillover effects of China's economic slowdown, and geopolitical conflicts all pose downside risks to the global economy.

II. Domestic economic and financial conditions

1. In recent months, Taiwan's exports grew steadily, supported by an ongoing surge in demand for artificial intelligence and other emerging technology applications. With regard to domestic demand, private investment picked up further with capital equipment imports increasing significantly since mid-year, and private consumption also continued growing. The Bank forecasted Taiwan's economy to expand by 4.25% for the year as a whole (see Appendix Table 1 for the forecasts by major institutions). Regarding recent labor market conditions, the number of employed persons increased in recent months and the unemployment rate came back down, alongside mild wage growth.

   For the outlook of next year, a steady upturn in global trade growth and strong demand for emerging tech applications would continue to drive the growth momentum for Taiwan's exports and private investment. Meanwhile, a scheduled hike in minimum wage and public sector pay next year would support further growth in private consumption. The Bank therefore projected the economy to expand by 3.13% in 2025. Nevertheless, US economic and trade policy changes under the new administration will be an important variable in affecting Taiwan's economic outlook.

2. As weather disruptions caused greater fluctuations in recent months in domestic prices of food (particularly vegetables and fruit), the annual growth rate of the consumer price index (CPI) rose back up to 2.08% in November, while the annual growth rate of the core CPI (excluding vegetables, fruit, and energy items) also rose to 1.74%. For the first eleven months of the year, the average annual growth rate of the CPI was 2.18% and that of the core CPI was 1.90%, both continuing with a gradual downtrend. The Bank forecasted the CPI and the core CPI annual growth rates to register 2.18% and 1.90% in 2024 (see Appendix Table 2 for the forecasts by major institutions), respectively, lower than the 2023 figures of 2.49% and 2.58%.

   For year 2025, in spite of the launch of carbon fees and the aforementioned hike in minimum wage and public sector pay, international oil prices are expected by international institutions to soften and domestic services inflation is expected to continue edging down. In this view, the Bank forecasted Taiwan's CPI and core CPI annual growth rates to slow further to 1.89% and 1.79% next year. 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 around NT$50 billion for the three months from September to November this year. For the first eleven months of the year, the average annual growth rate of the monetary aggregate M2 (measured on a daily average basis) was 5.86% and that of bank loans and investments was 8.01%, both deemed sufficient to support economic activity.

III. The Board decided unanimously to keep the policy rates unchanged

At the meeting today, the Board considered the totality of information on the economic and financial conditions at home and abroad. Domestic inflation has broadly maintained a gradual downtrend and would likely ease further to below 2% next year. While downside risks are looming for the global economy, Taiwan's economy is expected to experience mild growth momentum next year on the back of domestic demand. Against this background, the Board judged that a rate hold would help sustain 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 evolving trends in domestic inflation and closely monitor new developments in the US economic and trade policy changes, the pace of monetary policy adjustment by major central banks, China's economic downturn risk, geopolitical conflicts, and extreme weather, and their implications 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.

IV. Around mid-August this year, the Bank had through moral suasion asked banks to enhance internal control of the aggregate amount of real estate lending over the coming year (from 2024 Q4 to 2025 Q4). Then, in September, the Bank made the seventh amendment to its selective credit control measures in September. Recent data showed that, after these efforts took place, housing transactions decreased, consumer expectations of housing price rises eased, and domestic banks recorded a rising share of housing loans taken out by non-homeowners as a percentage of total home loans.

Recent data also showed that the annual growth rates of banks' housing loans and construction loans both moved lower. However, the ratio of real estate lending to total lending of all banks (a measure of concentration of real estate lending) remained elevated, registering 37.4% at the end of November this year. The Bank will keep track of the progress of banks' internal improvement plans for real estate lending and strive to ensure such plans are carried out vigorously.

In the future, the Bank will continue reviewing the effectiveness of the selective credit control measures, closely monitor potential impacts of real estate sector-related policies on the housing market, and adjust relevant 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 Table 1

Taiwan's Economic Growth Forecasts by Major Institutions

Unit: %

Forecast institutions		2024 (f)	2025 (f)
Domestic institutions	**CBC (2024/12/19)**	**4.25**	**3.13**
	NTU/Cathay (2024/12/11)	4.10	2.80
	TRI (2024/12/11)	4.21	3.16
	DGBAS (2024/11/29)	4.27	3.29
	TIER (2024/11/7)	4.03	3.15
Foreign institutions	Citi (2024/12/18)	4.50	3.00
	S&P Global Market Intelligence (2024/12/17)	4.28	2.65
	J.P. Morgan (2024/12/13)	4.30	2.20
	Morgan Stanley (2024/12/13)	4.20	3.40
	Nomura (2024/12/13)	4.20	3.50
	ADB (2024/12/11)	4.00	2.50
	HSBC (2024/12/6)	4.10	2.80
Forecast Average		**4.20**	**2.97**

Appendix Table 2

Taiwan's Inflation Forecasts by Major Institutions

Unit: %

Forecast institutions		2024 (f)	2025 (f)
Domestic institutions	**CBC (2024/12/19)**	**2.18 (CPI) 1.90 (Core CPI*)**	**1.89 (CPI) 1.79 (Core CPI*)**
	NTU/Cathay (2024/12/11)	2.10	1.90
	TRI (2024/12/11)	2.19	1.99
	DGBAS (2024/11/29)	2.18	1.93
	TIER (2024/11/7)	2.23	1.87
Foreign institutions	Citi (2024/12/18)	2.20	2.10
	S&P Global Market Intelligence (2024/12/17)	2.16	1.86
	J.P. Morgan (2024/12/13)	2.10	1.70
	Morgan Stanley (2024/12/13)	2.30	2.30
	Nomura (2024/12/13)	2.20	2.00
	ADB (2024/12/11)	2.20	2.00
	HSBC (2024/12/6)	2.20	1.90
Forecast Average		**2.19**	**1.95**

* Excluding vegetables, fruit, and energy.