



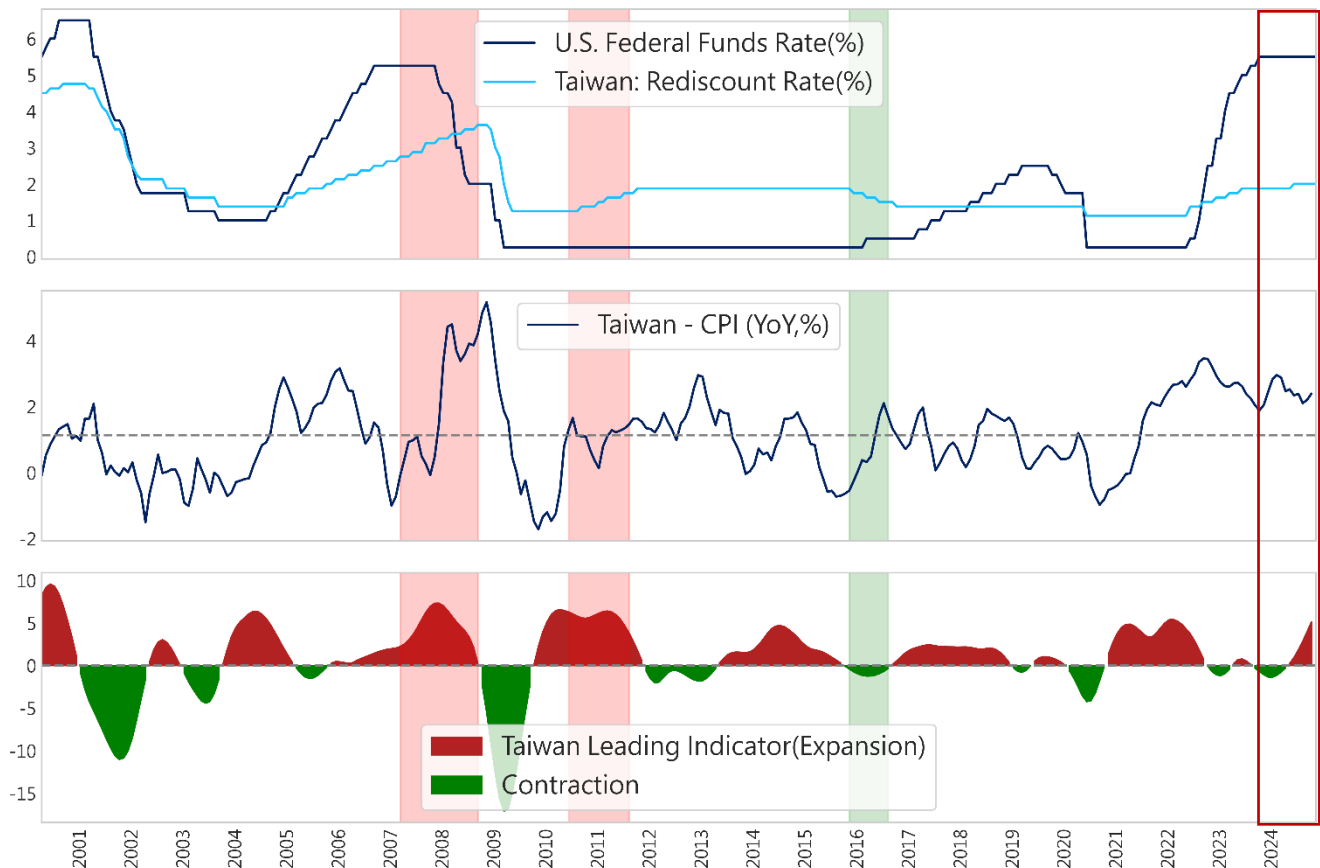
# Will Central Bank Raise Rates to Control Housing Prices?

September 2024

Taiwan's inflation remained above the Central Bank's 2% target for three consecutive years and leading indicators are also strengthening. This paves the way for interest rate hikes. Meanwhile, Housing, a main component of inflation, is booming. Will the Central Bank move on to raise rates amid the concerns of an overheated housing market?

By Cathay SITE

In the past, when the Fed announced its rate decision, Taiwan's Central Bank would most likely follow suit. But it is not necessarily the case now. In 2007~2008 and 2010~2011 when Taiwan's leading indicators strengthened and inflation hovered above long-term average, Taiwan's Central Bank had to follow its own course and raise interest rates. In 2016~2017, leading indicators weakened and inflation stayed below 2%, Taiwan's Central Bank decided to cut rates while the US was in a rate hike cycle. Now, inflation persistently above 2% and recently strengthening leading indicators pave the way for rate hikes.



Source: Bloomberg, compiled by Cathay SITE

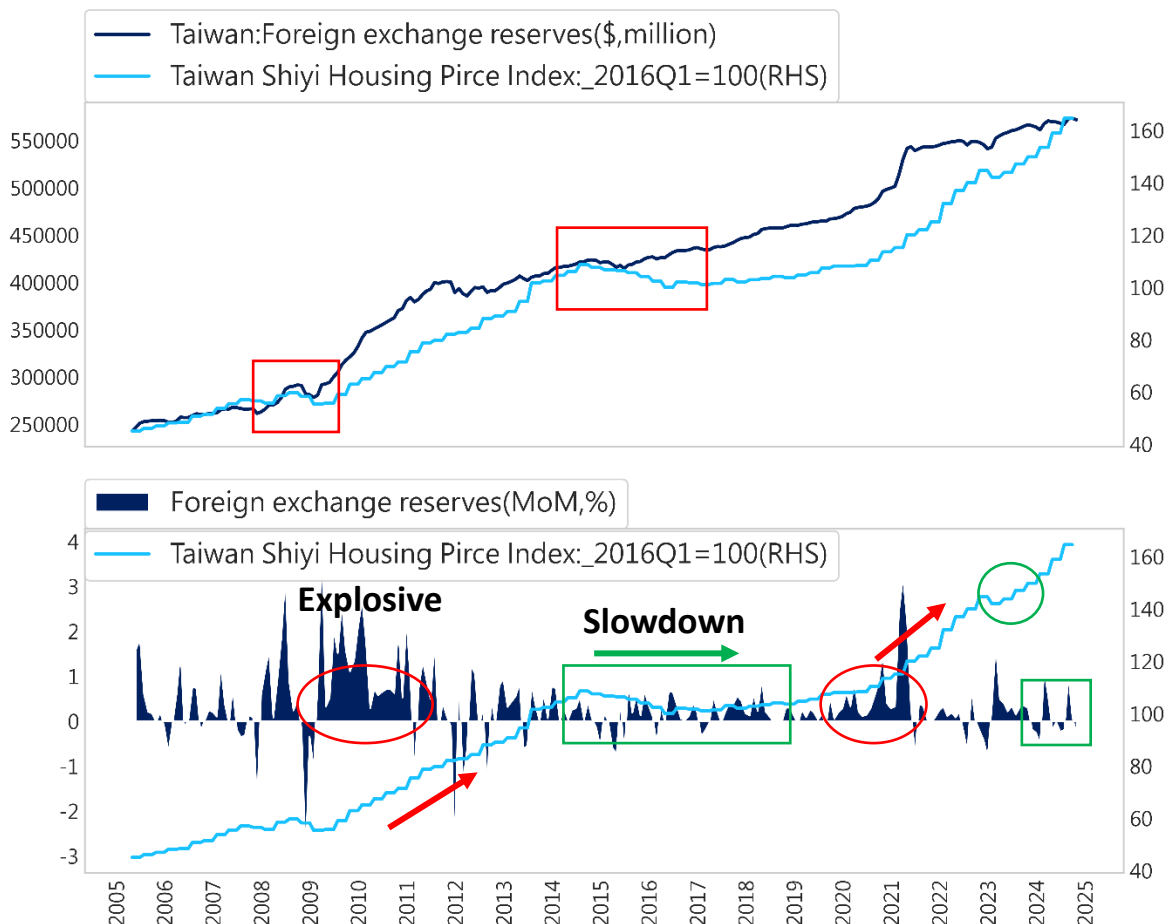


**Housing costs – the key to inflation risk**

Taiwan’s Central Bank decided to raise its key interest rates by 12.5 basis points in the March policymaking meeting. This decision came after the announcement of an electricity tariff hike in April. The spillover of the electricity tariff hike to other categories wasn’t as much as expected. Instead, the main force that is driving inflation comes from Housing and Healthcare. In particular, Housing, accounting for 23.5% of the CPI index and whose prices growing at the fastest pace in 30 years, is to blame for the rising inflation. Moreover, movements in rental prices have an outsized influence on housing inflation. It may take 6~12 months for the housing CPI readings to reflect recent dynamics in the rental market. Considering that housing costs were up 11.9% compared with one year ago in the second quarter, we still see rent growth in the coming future.

Taiwan’s overseas production share is getting lower as there are more Taiwan’s export orders filled by production at home. With the relocation of production, Taiwanese manufacturers are building new factories which fuels rising property prices in the surroundings.

Taiwan is an export-oriented economy. From below charts, it can be observed that foreign reserves would accumulate at a faster pace before the housing explosive phase. In recent 20 years, there were two housing corrections, i.e. 2008~2009 and 2015~2016, at which time foreign reserve levels went down beforehand. However, despite moderating foreign reserve accumulation, the housing market bucked the trend of a slowdown phase which should have begun in the second half of 2023 thanks to the boost by preferential housing loans for young homebuyers.



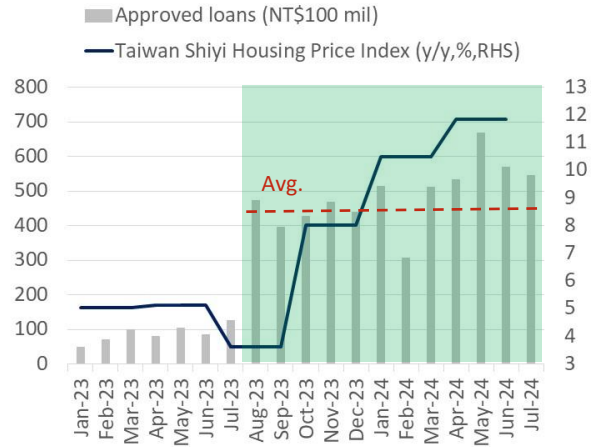
Source: Bloomberg, compiled by Cathay SITE



**Loan programs add fuel to the already hot housing market**

Under the mortgage scheme, banks have approved 75 thousand of loan applications and extended near NT\$ 600 billion in housing loans since August 2023. The annual growth of housing price index accelerated from 3% in 23Q3 to 11.9% in 24Q2. The explosive demand bolstered by policies and banks' credit portfolios overconcentrated on real estate loans pose an alarming risk of overheating to Taiwanese homes.

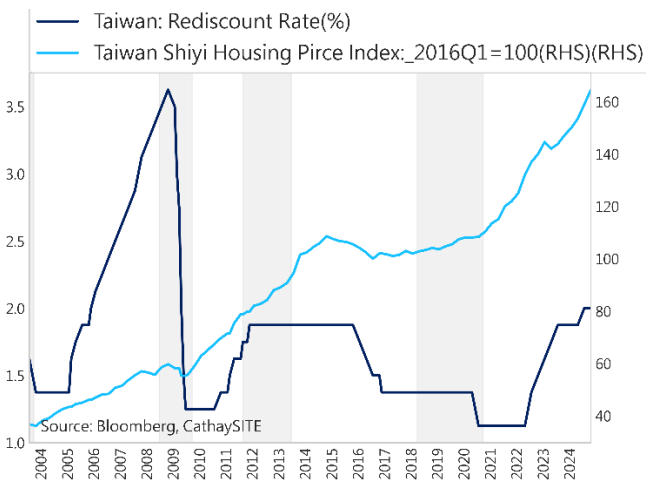
At the supply-front, homeowners are increasingly reluctant to sell on the expectation that housing prices will go up. Building permits are also at their lows. According to history, transaction would retreat and buyers were entailed higher bargaining power before housing price corrections. Currently, the sales volume is increasing and bargaining power of buyers is diminishing, showing that it's a seller's market, i.e. housing shortage.



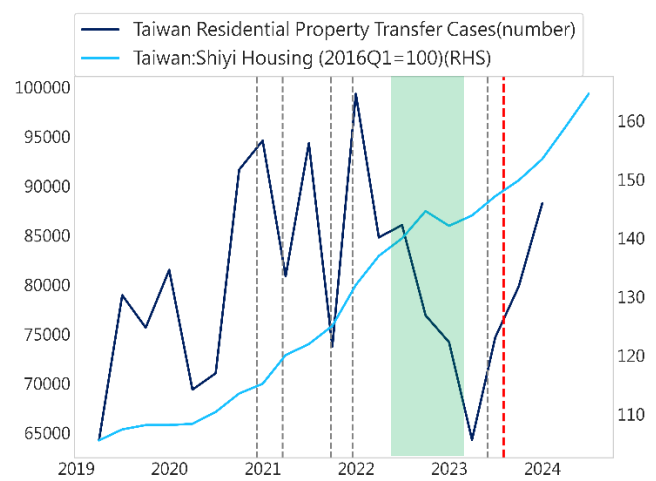
**To hike or not to hike?**

Central bank may influence the housing market through prices (raise rates) or quantities (credit control). However, history tells us that rate increases have proved ineffective in reigning in housing prices. Instead, housing prices have been temporarily subdued after five rounds of credit control with property tax and the promulgation of the Equalization of Land Rights Act. Taiwan's Central Bank has always been cautious about monetary policy decisions and will prefer credit control measure to rate increases to stabilize housing prices.

**Rate hikes barely affected housing prices**



**Credit controls narrowly cooled housing market**



Source: Bloomberg, compiled by Cathay SITE

- : Five rounds of credit control
- : Housing market cooled in 1H23
- - - - - : Mortgage scheme started (2023/8)

Taiwan's inflation remains sticky against the backdrop of rising rents. In the meantime, Taiwan still sees steady economic growth and is unlikely to follow suit when major central banks inch towards rate cuts.



Housing market is booming supported by preferential housing loan program. Positive factors including offshore capital brought back home, growing capex outlook and mortgage scheme will outweigh Central Bank's containment measures. Mind, the upside of housing prices is limited as banks are approaching their lending quota. TWD is getting out of the woods as US rate cuts are on the table which narrowed the unfavorable interest rate spread. Taiwan's Central Bank now sees little need to raise rates to support the currency. In conclusion, we expect the Central Bank will hold interest rates steady in September meeting and cool housing market by tightening credit control.

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