

Accepting Redeposits from Financial Institutions

Accepting redeposits from Chunghwa Post, the Agricultural Bank of Taiwan, and commercial banks is another instrument for the Bank to influence banks' reserve positions in order to promote financial stability. At the end of 2019, the outstanding redeposits of Chunghwa Post stayed broadly unchanged at NT\$1,624 billion, whereas the redeposits of the Agricultural Bank of Taiwan and of commercial banks decreased modestly to NT\$143 billion and NT\$359 billion, respectively.

Box 2

Adjusting M2 Growth Target Range to a Reference Range from 2020 Onwards

1. Considerations for Adjusting M2 Growth Target Range to a Reference Range from 2020 Onwards

Starting from 2020, the M2 annual growth target range will be adjusted to a reference range. The main considerations are as follows:

- (1) In addition to M2 growth, the Bank also closely monitors and considers other key economic and financial indicators, such as inflation expectations, the output gap, interest rates and exchange rates, credit conditions, and asset prices. M2 growth remains one of the crucial reference indicators for monetary policy.
- (2) According to the Bank's past experiences, M2 growth was easily affected by factors such as cross-border capital flows, asset portfolio diversification, and financial innovations. Following the global financial crisis, Taiwan has witnessed a weakening in the short-term relationship between M2 and prices. Nevertheless, the mid- to long-term relationship among M2, output, and prices remains relatively stable. An appropriate pace of M2 growth would be conducive to attaining the ultimate objective of price stability. Furthermore, M2 also conveys important information with regard to financial stability.
- (3) As Taiwan is a small open economy, it is important to ensure monetary policy autonomy and flexibility. Adjusting the target range for M2 growth into the reference range would provide greater operational flexibility. Allowing M2 growth within an appropriate range to account for the uncertainties over macroeconomic and financial variables would help guard against excess volatility in short-term interest rates and would be consistent with the Bank's efforts in maintaining dynamic stability of the exchange rate.

2. The Bank's Future Policy Practice

- (1) From 2020 onwards, the target range of M2 growth will become a reference range. In fact, since 2009, the M2 annual growth rate has generally stayed within the target range of 2.5%

to 6.5%, which has been conducive to attaining a low and stable inflation rate and sufficient to support economic activity. Furthermore, the model-projected annual growth rate of M2 demand in 2020 remained within the aforementioned range.¹ Therefore, the M2 growth reference range for 2020 remains at 2.5% to 6.5%.

- (2) Considering that M2 is a mid- to long-term indicator, the Bank will not set the reference range of M2 growth on an annual basis. However, as M2 growth still serves as a valuable reference, the Bank will continue to keep track of M2 growth trends in the monthly monetary growth forecast meetings. Moreover, at the end of each year, the Bank will also review the developments of M2 growth during the year and the outlook for money demand in the following year. The review will be used as a reference for monetary policymaking.
- (3) A multitude of uncertainties such as frequent international capital flows, asset portfolio diversification, and the rapid development of financial technology may cause the M2 growth rate to deviate from the reference range. In the event of continued deviation from the 2.5%-6.5% range or structural changes, the Bank would conduct a review to analyze the potential factors contributing to the changes or deviations, so as to make adjustments as warranted and in a timely fashion.

¹ For the model-projected results, please refer to "Adjusting M2 Growth Target Range to a Reference Range from 2020 Onwards," *Quarterly Bulletin*, Central Bank of the Republic of China (Taiwan), Vol.41, No.4, pp.7-12 (in Chinese).