

2. Monetary Aggregates

The CBC has selected the monetary aggregate M2 as the intermediate target since 1992. For the year 2013, M2 recorded an annual growth rate of 4.78 percent, higher than the previous year's 4.17 percent but still within the CBC's target range of 2.5 percent to 6.5 percent. Compared with GDP growth of 2.11 percent, the money growth indicated there was sufficient liquidity to support economic activity.

The narrow monetary aggregate M1B trended upwards and registered a growth rate of 7.27 percent for the year 2013, higher than the previous year's 3.45 percent. The growth in M1B was mainly attributable to the shift of money from non-transaction deposits to transaction deposits resulting from a rebounding stock market.

Steady Growth in Reserve Money

Reserve money growth was up for the year 2013, registering a growth rate of 7.18 percent, and was 2.27 percentage points higher than the previous year's figure. In terms of the monthly movements of reserve money, as the Chinese New Year holidays fell on different months in 2013 and 2012, the annual growth rates of reserve money for January and February were more volatile, yet they combined to average 5.03 percent. In subsequent months, the annual growth rates remained relatively stable and reached a yearly high of 8.09 percent in September and a yearly low of 7.13 percent in December.

On the demand side, currency held by the non-bank public grew slightly faster as the low interest rates paid on bank deposits encouraged the willingness to hold cash. Banks' demand for reserves also rose owing to the shift of money from non-transaction deposits to transaction deposits. In addition, banks' excess reserves increased as the CBC adjusted its monetary policy operation and fund management in response to an unfavorable economic outlook.

From the supply side perspective, the balance sheet of the CBC revealed the sources of changes in reserve money. The increase was mostly attributable to the increase in foreign assets held by the CBC and claims on financial institutions, while the decrease resulted largely from the increase in the issuance of certificates

Annual Growth Rate of Reserve Money



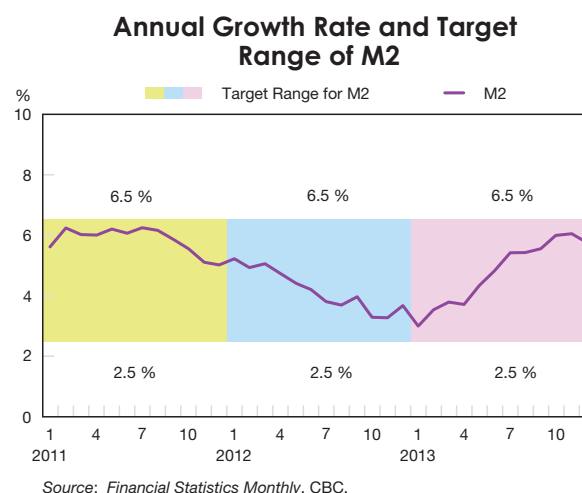
Source: *Financial Statistics Monthly*, CBC.

of deposit (CDs).

Moderate Growth in M2

The monetary aggregate M2 is comprised of currency in circulation, deposits in banks' checking and passbook accounts, and quasi-money. The annual growth rate of M2 in 2013 was 4.78 percent, up 0.61 percentage points from the previous year and slightly higher than the median of the CBC's target range.

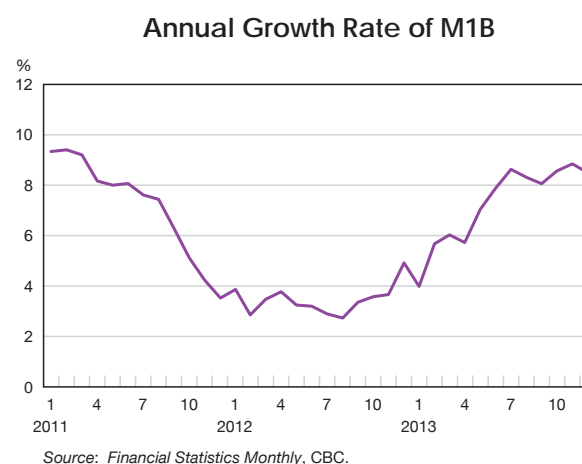
The monthly movements of the M2 annual growth rate in 2013 were all within the CBC's target range and generally exhibited an upward trend. In January, M2 growth fell to its all-year low of 2.99 percent because of a higher base effect resulting from the Chinese New Year holidays. The annual growth rate of M2 declined slightly in April as the Taiwan Insurance Guaranty Fund transferred a deposit to one life insurance company (which is not included in the monetary aggregates). In addition, net foreign capital outflows in August also brought down the pace of monthly M2 growth. For the other months, owing to continued growth in bank loans and investments, net foreign capital inflows and a lower base effect, the annual growth rate of M2 moved upward and recorded an all-year high of 6.05 percent in November.



Accelerated Growth in M1B

Despite moderate economic recovery, the stock market showed better performance than the previous year on account of an upswing in US stocks, easing capital gains tax rules and measures aimed at stimulating stock trading volumes and activity. As a result, transaction deposits increased relative to non-transaction deposits. Coupled with a lower base effect, the average annual growth rate of M1B recorded 7.27 percent, and was 3.82 percentage points higher than the previous year's figure.

As for the monthly movements of M1B, the annual growth rate hit its yearly low of 3.97 percent in January. Later, a transaction deposit transferred by the Taiwan Insurance Guaranty



Fund to one life insurance company in April, and net foreign capital outflows in August, as well as a shift of funds from transaction deposits to foreign currency deposits in September, led the growth rate of M1B to decline slightly in these three months. However, for the remaining months, the M1B growth rate mainly trended upward and reached a yearly high of 8.85 percent in November.