

## 2. Monetary Aggregates

The CBC has selected the monetary aggregate M2 as the intermediate target since 1992. For the year 2014, M2 recorded an annual growth rate of 5.66 percent, higher than the previous year's 4.78 percent but still within the CBC's target range of 2.5 percent to 6.5 percent. Overall, there was sufficient liquidity to sustain economic growth.

The annual growth rate of the narrow monetary aggregate M1B accelerated to 7.96 percent in 2014 from the previous year's 7.27 percent. The growth in M1B was mainly attributable to an increase in the transaction demand for money resulting from the economic recovery as well as the booming stock market.

### Moderate Growth in Reserve Money

Reserve money grew at a slower pace for the year 2014, recording a growth rate of 6.94 percent, and was 0.24 percentage points lower than the previous year's figure. In terms of the monthly movements of reserve money, the annual growth rates of reserve money for January and February are more volatile as the exact timing of the Lunar New Year holidays shifts on the Gregorian calendar each year. In 2014, they posted a combined growth rate of 7.96 percent during this period. In subsequent months, growth rates remained stable and reached a yearly high of 7.02 percent in October and a yearly low of 6.44 percent in June.

On the demand side, currency held by the non-bank public grew moderately because the low interest rates paid on bank deposits enhanced the willingness to hold currency in hand. Banks' demand for reserves kept growing in the context of favorable domestic economic performance. However, the overall growth rate of banks' reserves decreased slightly compared to the previous year as the CBC adjusted its monetary policy operations and fund management to reduce banks' excess reserves.

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 of deposit (CDs).

**Annual Growth Rate of Reserve Money**

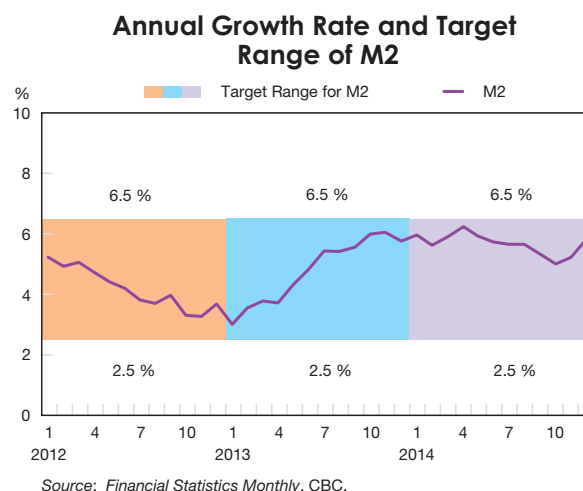


Source: *Financial Statistics Monthly*, CBC.

## Steady 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 2014 was 5.66 percent, up by 0.88 percentage points from the previous year and higher than the mid-point of the CBC's target range.

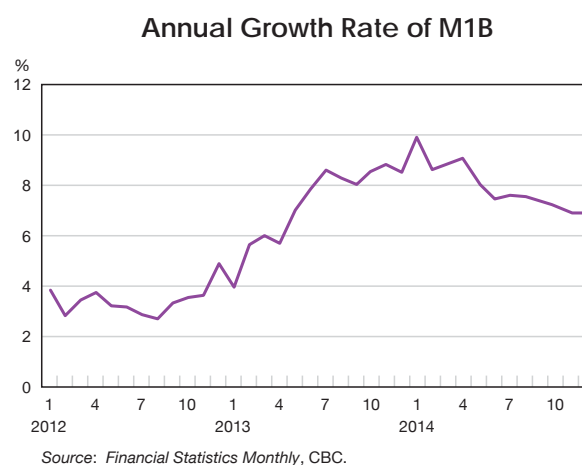
The monthly movements of the M2 annual growth rate in 2014 were all within the CBC's target range. In January, M2 growth rose to 5.97 percent owing to the seasonal factor of the Lunar New Year holidays, and then fell to 5.61 percent in February. The M2 growth rate rose in March and April on account of net foreign capital inflows. In addition, the Taiwan Insurance Guaranty Fund transferred a deposit to one life insurance company (which is not included in the monetary aggregates) in April 2013, resulting in a lower base. As a consequence, the annual growth rate of M2 recorded an all-year high of 6.24 percent in April. The M2 growth rates gradually trended down in the following months and hit a yearly low of 4.98 percent in October as a result of a decrease in net foreign capital inflows, which later turned into net outflows, and the higher base of the corresponding period in the previous year. Nevertheless, the annual growth rates exhibited an uptrend in November and December, respectively, because of net foreign capital inflows and the surge in foreign currency deposits.



## Slight Increase in M1B Growth

As the sustained recovery in the domestic economy led to the rise in the transaction demand for money, coupled with a buoyant stock market, the average annual growth rate of M1B recorded 7.96 percent, 0.69 percentage points higher than the previous year's figure.

As for the monthly movements of M1B, the annual growth rate reached its yearly high of 9.93 percent in January because of a lower base effect and the Lunar New Year holidays, and then slid to 8.63 percent in February. In



March and April, M1B growth rose to 8.87 percent and 9.10 percent, respectively, owing to net foreign capital inflows. In subsequent months, the annual growth rates generally moved downward and recorded an all-year low of 6.90 percent in December.