

2. Monetary Aggregates

The CBC has selected the monetary aggregate M2 as the intermediate target since 1992. For the year 2015, M2 recorded an annual growth rate of 6.34%, higher than the previous year's 5.66% but still within the CBC's target range of 2.5% to 6.5%. Overall, there was sufficient liquidity to support economic activity.

The annual growth rate of the narrow monetary aggregate M1B decelerated to 6.10% in 2015 from the previous year's 7.96%. The decline in M1B mainly resulted from a shift of funds from transaction deposits to non-transaction deposits, the shrinking trading value in the stock market during the second half of the year, and a higher base effect.

Growth in Reserve Money Decelerated

Reserve money grew at a slower pace for the year 2015, recording a growth rate of 5.79%, and was 1.15 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 2015, they posted a combined growth rate of 4.67% during this period. The annual growth rate reached a yearly high of 7.53% in March and trended down to 5.22% in July. In subsequent months, growth rates remained relatively stable.

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. For banks, slower expansion of loans and the shift of money from transaction deposits to non-transaction deposits both reduced banks' demand for 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

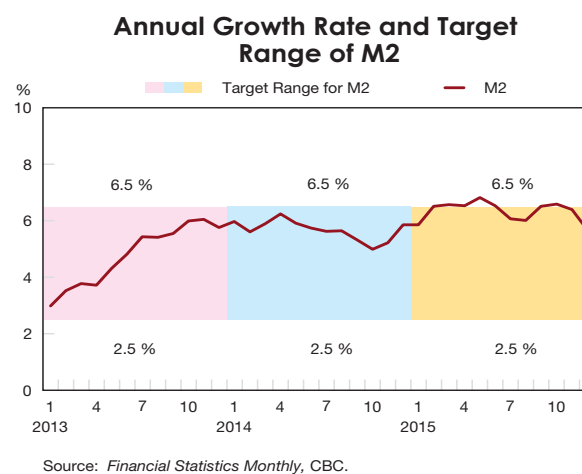


Source: *Financial Statistics Monthly*, CBC.

Accelerated 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 2015 was 6.34%, up by 0.68 percentage points from the previous year and slightly lower than the upper limit of the CBC's target range.

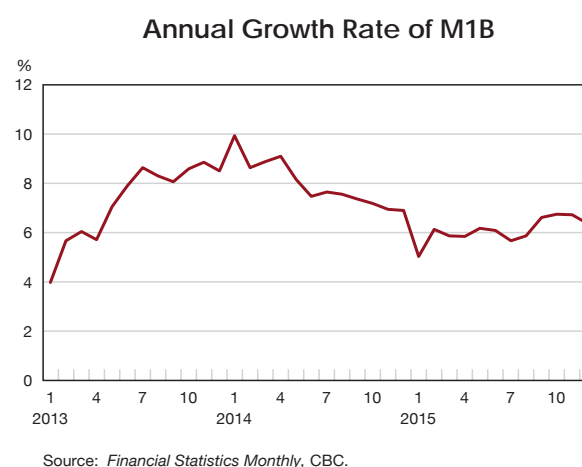
In terms of M2's monthly movements in 2015, the M2 growth rate trended up from January onwards owing to net foreign capital inflows, and reached its yearly high of 6.81% in May. The M2 growth rate moved downward between June and August on account of net foreign capital outflows and slowing growth of bank loans and investments. The annual growth rates rose in September and October, respectively, because of an increase in bank loans and investments and net foreign capital inflows. In the following months, the M2 growth rate trended down and recorded a yearly low of 5.68% in December as a result of net foreign capital outflows.



Decline in M1B growth

In 2015, the average annual growth rate of M1B recorded 6.10%, 1.86 percentage points lower than the previous year's figure. The decline mirrored, in large part, the shift of funds from transaction deposits to non-transaction deposits, the stock trading volume declined during the second half of the year, and the higher base in the previous year.

As for the monthly movements of M1B, the annual growth rate reached its yearly low of 5.03% in January because of a higher base effect, and then rose to 6.12% in February. In March and April, the M1B growth rates exhibited a downtrend, mainly owing to the shift of funds from transaction deposits to non-transaction deposits and the decrease in bank loans and investments. The M1B growth rate rose to 6.18% in May on account of net capital inflows. Subsequently, affected by slower growth in bank loans and investments and net foreign



capital outflows, the M1B growth rate dropped to 5.66% in July. The M1B growth rate gradually trended up in the following months and hit a yearly high of 6.75% in October. However, the bearish stock market and net foreign capital outflows both contributed to falling M1B growth from November onwards.