

2. Monetary Aggregates

The CBC has used the monetary aggregate M2 as the intermediate target since 1992. For the year 2016, M2 recorded an annual growth rate of 4.51%, lower than the previous year's 6.34% but still within the CBC's target range of 2.5% to 6.5%. Compared with nominal GDP growth of 2.10%, the money growth indicated there was sufficient liquidity to support economic activity.

The annual growth rate of the narrow monetary aggregate M1B accelerated to 6.33% in 2016 from the previous year's 6.10%. The growth in M1B was mainly attributed to higher growth in transaction deposits.

Steady Growth in Reserve Money

Reserve money showed steady growth for the year 2016, recording a growth rate of 5.92%, and was 0.13 percentage points higher 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 gradually trended up because of a stronger demand for funds during the Chinese New Year holidays. The annual growth rate hit a yearly low of 4.62% in March and then moved upward to 6.55% in July. In subsequent months, annual 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. Banks' excess reserves also rose as the CBC adjusted its monetary policy operation in response to a slower economic recovery. Meanwhile, higher growth in transaction deposits led to an increase in 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, while the decrease resulted largely from the decrease in claims on financial institutions and the increase in the issuance of certificates of deposit (CDs).

Decline in M2 Growth

The monetary aggregate M2 is comprised of currency in circulation, deposits in banks'

Annual Growth Rate of Reserve Money



Source: *Financial Statistics Monthly*, CBC.

checking and passbook accounts, and quasi-money. The annual growth rate of M2 in 2016 was 4.51%, down by 1.83 percentage points from the previous year and close to the midpoint of the CBC's target range.

In terms of M2's monthly movements in 2016, owing to slowing growth in bank loans and investments and a decrease in net foreign capital inflows, which later turned into net outflows, the M2 growth rate exhibited a downward trend from 5.63% in January to 4.14% in May. The annual growth rate of M2 moved up between June and July on account of higher growth of bank loans and investments and net foreign capital inflows. The M2 growth rate generally trended down in the following months except in December and hit a yearly low of 3.96% in November as a result of lower growth in bank loans and investments and net foreign capital outflows.

Slight Increase in M1B Growth

In 2016, the average annual growth rate of M1B recorded 6.33%, 0.23 percentage points higher than the previous year's figure. The increase mirrored, in large part, the higher growth in transaction deposits.

As for the monthly movements of M1B, the annual growth rate reached its yearly high of 6.92% in January because of a stronger demand for funds prior to the Chinese New Year holidays, and then slid to 6.11% in February. Between March and August, the M1B growth rate broadly trended up as growth in transaction deposits accelerated. In subsequent months, the annual growth rates generally moved downward except in November, which was due to net foreign capital outflows. The M1B growth rate recorded an all-year low of 6.01% in December.

