



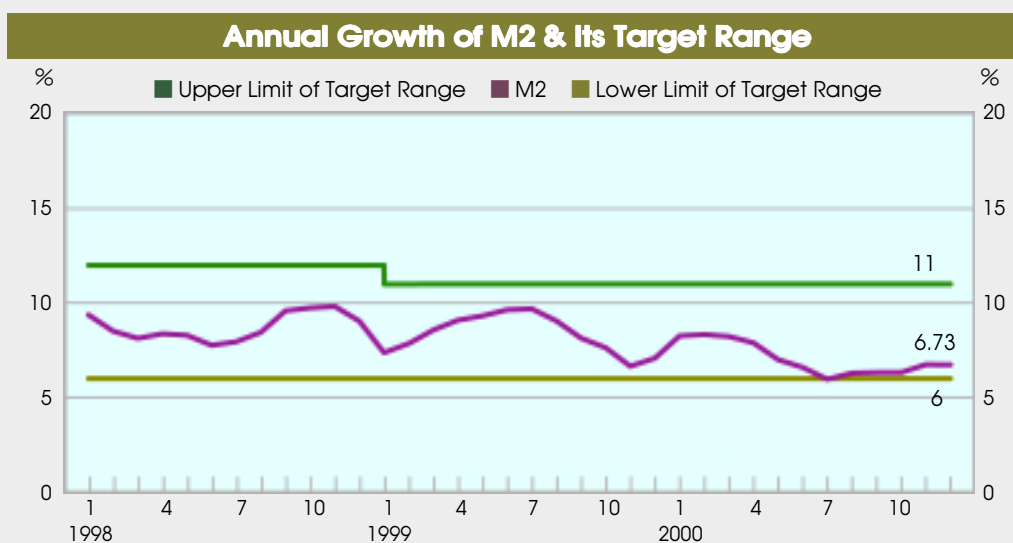
## **II. FINANCIAL DEVELOPMENTS**

- 6. Monetary Aggregates**
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## II. FINANCIAL DEVELOPMENTS

### 6. Monetary Aggregates

The Bank adheres to targeting M2 growth, the broadest monetary aggregate measured by the Bank, as an intermediate tool for monetary policy. At the end of 1999, the Bank set a target corridor of between 6 percent and 11 percent growth on an annual basis for M2 in 2000, which was aimed to allow the Taiwan economy to make full use of its production capacity without jeopardizing price stability. Despite the higher growth expected in domestic demand and prices, the Bank followed the same target corridor as in the previous year. The underlying considerations included the increasing diversification of financial assets and the prevailing tendency for the high-tech industry, the engine for domestic economic growth, to raise funds through direct finance.



#### Moderate Reserve Money

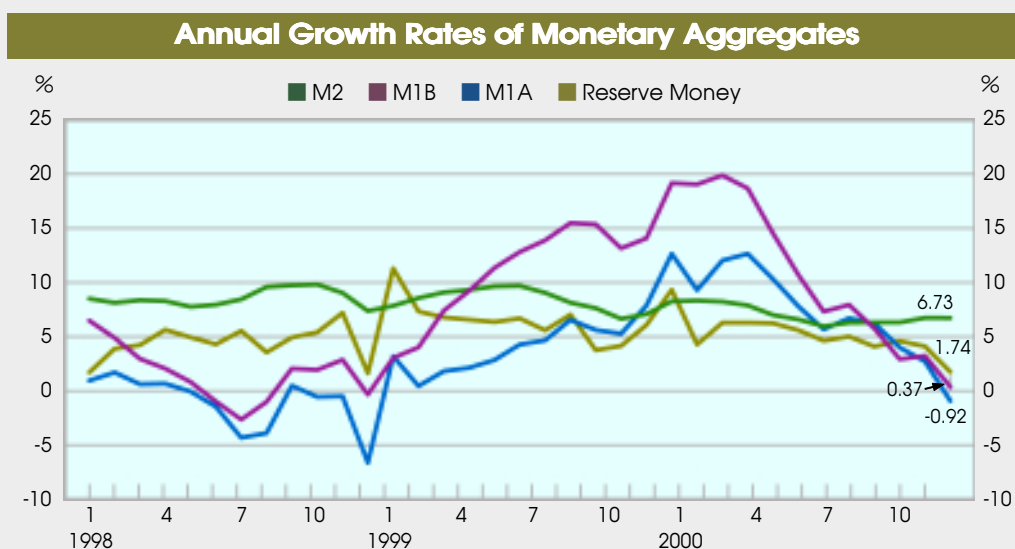
During 2000, reserve money first increased and then decreased moderately. The annual growth rate of reserve money (adjusted for changes in required reserve ratios) was 5.17 percent on a monthly average basis, slightly lower than that in the previous year. Before gradually trending down, the growth of reserve money hit a peak in January due to the strong demand for currency

in preparation for the Chinese Lunar New Year holiday. Mainly attributable to the higher base in the corresponding month of the previous year, the growth of reserve money fell appreciably in February. As the economy began to slow down in the second quarter, the demand for funds from the private sector declined. With sluggish growth in credit expansion and a plunge in the stock market, the demand for reserve money among deposit money banks continually decreased through the second half of the year. Toward the end of the year, the annual growth rate of reserve money further dropped significantly because of the higher base in the corresponding period of the previous year.

### Slower Growth of M2

M2 growth, measured on a daily average basis, was 7.04 percent for 2000, which fell within the target corridor set for the year. However, when compared with the previous year, M2 grew at a slower pace. Although economic recovery and expansion remained on track through the end of the first quarter, the downturn in the stock market starting mid-April as well as the substantial number of non-performing loans in the banking system slowed down credit extension activities and, hence, gradually moderated the growth of M2.

The annual growth rate of M2 in each month of the year except July remained within the target range. At the beginning of the first quarter, with the buoyant stock market, the continued influx of foreign funds and the increases in banks' loans and investments, together with an



increasing trade surplus, M2 growth rose apparently. However, affected by the slump in the US stock market in April and the outflow of foreign capital, the annual growth rate of M2 declined thereafter. In addition, the gloom surrounding traditional industries and an increasingly cautious attitude adopted by local banks towards lending to them further shrank loans and investments. All these factors helped suppress M2 growth to 5.96 percent in July, hitting the lowest point of the year. Similar economic conditions persisted through the following months: banks slowed down their credit granting to businesses to prevent non-performing loans from rising and the demand for funds by enterprises further slackened. As a result, the average monthly M2 growth rates remained within the range of 6 percent to 7 percent in the latter half of the year.

### **Higher Growth of M1B and M1A**

For 2000 as a whole, the annual growth rates of M1A and M1B were 7.36 percent and 10.58 percent, respectively, which were apparently higher than the corresponding rates recorded in the previous year. However, the growth rates of M1B and M1A exhibited a downward trend from April onwards. In the beginning of the year, both rates rose primarily because of an increase in transaction demand for money, including currency in circulation and demand deposits, during the period of Chinese Lunar New Year. Later on, in March and April the upswing in the stock market and the appreciation of the NT dollar, which caused time deposits and foreign currency deposits to shift to demand deposits, further increased the growth in M1A and M1B. However, in the latter part of the second quarter, reflecting anticipated decelerating economic activity and shrinking stock trading volumes, the stock price index dropped significantly. As a result, the growth rates of M1A and M1B steadily declined month by month from May onwards. With the adverse impacts from the stock market as well as the successive decreases in the giro accounts for stock settlements, the corresponding annual growth rates of M1A and M1B fell to 0.37 percent and negative 0.92 percent, respectively, both hitting all-year lows, in December.