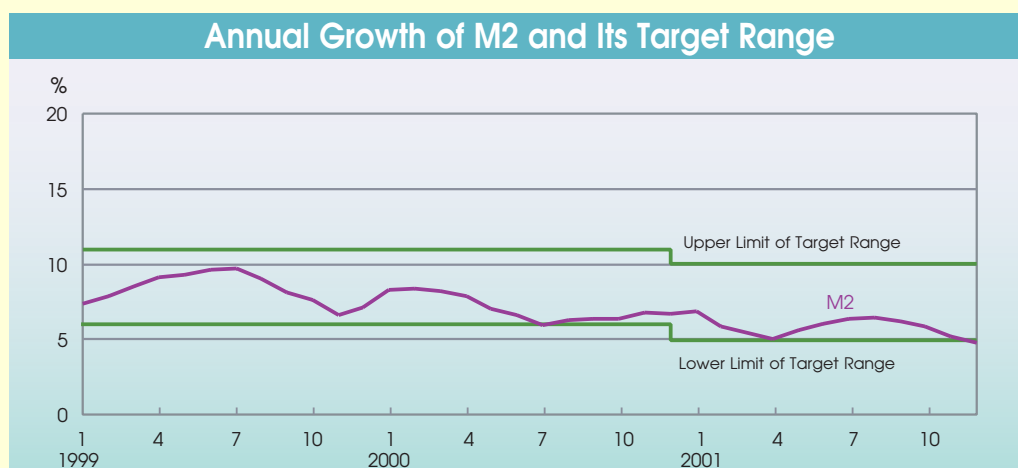


II. FINANCIAL DEVELOPMENTS

6. Monetary Aggregates

As the economy experienced a downturn while domestic prices remained stable in 2001, the Bank's monetary policy during the year was easing with the aim of promoting economic growth. The daily average broad monetary aggregate, M2, grew by 5.79 percent in 2001, which was lower than the preceding year's 7.04 percent but still within the target zone of 5 to 10 percent set for the year. The slower growth in M2 reflected declining economic growth, sluggish stock and real estate markets, banks' conservative attitudes towards lending, as well as a shift of funds from bank deposits to bond funds.



Slow Growth of Reserve Money

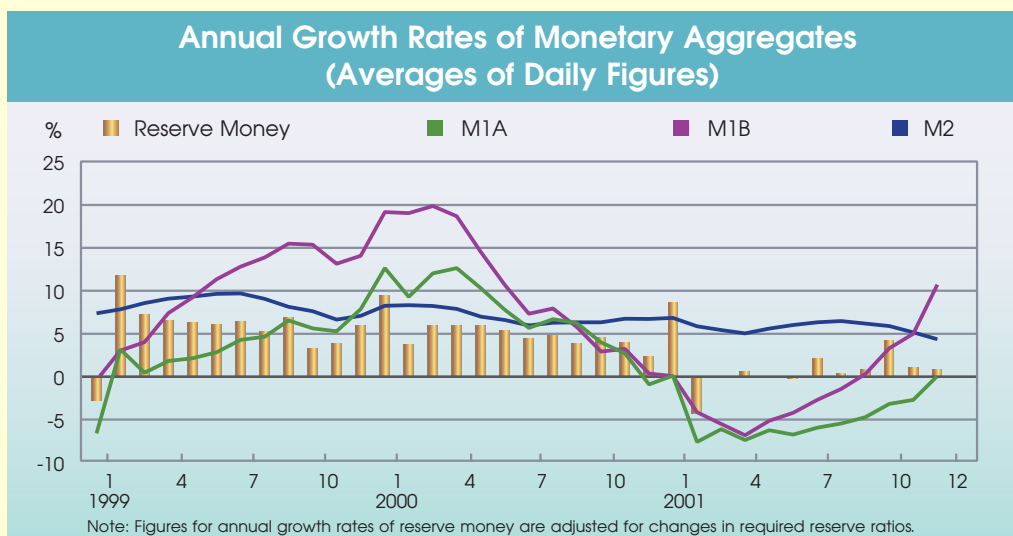
In 2001, the annual growth rate of daily average reserve money (adjusted for changes in required reserve ratios) was 1.13 percent, lower than that of the preceding year. Growth in reserve money fluctuated widely in the first two months of the year. It hit a peak in January, primarily attributable to the strong demand for currency in preparation for the Chinese Lunar New Year holidays. In February, affected by the successive decreases in the demand for currency after the holidays and the higher base in the corresponding month of the previous year (the Chinese Lunar New Year holidays were in February for 1999), the growth rate of reserve money turned negative. Afterwards, reserve money experienced slow growth due to

deceleration in bank credit along with the lackluster performance of the economy, except for a temporary increase of 4.22 percent in October.

Moderate Growth of M2

In 2001, the average annual growth rate of M2 was 5.79 percent, and remained within the target range set for the year. However, when compared with the past few years, M2 grew at a relatively slower pace, largely reflecting the sluggishness in the demand for funds, banks' conservative attitudes towards lending due to rising non-performing loan ratios in the banking system, and a shift of funds from bank deposits to bond funds by local investors.

During the first four months of the year, the contraction in domestic demand and the slowdown of foreign capital inflows caused M2 growth to decelerate moderately month by month. Thereafter, M2 growth temporarily moved upward between May and August due to a lower base in the corresponding months of the previous year and increases in the inflow of foreign capital. From September onwards, growth in M2 declined again owing to the economic slowdown associated with the serious damage caused by Typhoon Nari in September and the setback to external trade resulting from the September 11 terrorist attacks in the United States. In addition, along with the downward trend of interest rates, local bond funds, with yields higher than interest rates on bank deposits, attracted part of banks' deposits. These factors, together with M2's higher comparison base of the previous year, suppressed the annual growth rate of M2 to 4.73 percent in December, the lowest figure during the year.



V-shaped Pattern of M1B Growth

In 2001, the average annual growth rates of M1A and M1B were -4.69 percent and -1.02 percent, respectively. These negative annual growth rates mainly reflected weak demand for transaction balances resulting from the economic downturn and the sluggish stock market. In January, the annual growth rates of M1A and M1B were positive due to the increased demand for currency before the Chinese Lunar New Year. They dived into negative in February due to the higher comparison base, and continued to decline in the following two months as the stock market tumbled and demand for transaction balances shrank accordingly. From May onwards, the growth rates of M1A and M1B exhibited an upward trend in response to the narrowed interest rate spread between time deposits and demand deposits as a result of the easy monetary policy stance adopted by the Bank. From October onwards, the strong rebound in the stock market pushed up M1A and M1B growth rates further. In December the annual growth rates of M1A and M1B rose to 0.07 percent and 10.72 percent, respectively.