

3. Money Market

From March 2022 to March 2023, the Bank raised policy rates five times, and the interbank overnight call loan rate and bills market rates also swung up. Although the policy rates remained unchanged later in the year, money market rates still fluctuated at high levels. Consequently, financial institutions had weaker demand for interbank call loans, and the total turnover in the interbank call loan market for the year 2023 fell by 10.52% over the previous year. However, the year-end balance for 2023 rose by 14.37%, reflecting a longer duration of the period between the year-ends of the Gregorian and Lunar calendars (from Dec.29, 2023 to Feb.7, 2024, compared to the period from Dec.30, 2022 to Jan.19, 2023) that increased bank willingness to extend interbank loans before the end of 2023.

With regard to the short-term bills market in 2023, the total turnover recorded an increase of 14.50% from a year before. At the end of the year, the total issuance of short-term bills grew by 9.66% to meet corporate funding needs, while the outstanding amount of short-term bills went up by 15.81% compared to the previous year end.

Reduction in Interbank Call Loans

As market interest rates had trended up and demand for interbank call loans had softened amid the Bank's monetary policy tightening since 2022, total annual turnover of interbank call loans reached NT\$23,077.2 billion in 2023, decreasing by NT\$2,712.8 billion or 10.52% over the previous year.

With respect to borrowers, domestic banks still made the largest contribution to total transactions with a share of 75.92%, followed by bills finance companies, foreign and Mainland Chinese banks, and Chunghwa Post, with shares of 11.40%, 11.32%, and 1.35%, respectively.

The amount borrowed by domestic banks declined by NT\$2,103.8 billion or 10.72% from a year earlier. The contraction was primarily because the Bank reduced the issuance of 364-day and 2-year negotiable certificates of deposit (NCDs) to increase market liquidity, and rising tax revenues in the year drove down the government's demand for borrowing from banks, weakening domestic banks' funding needs.

As for foreign and Mainland Chinese banks, they obtained NTD funds through Taiwan's interbank swap markets, leading to reduced demand for borrowing in 2023. Therefore, the amount borrowed by foreign and Mainland Chinese banks registered a year-on-year decrease of NT\$417.3 billion or 13.77%.

The amount borrowed by bills finance companies rose by NT\$112.1 billion or 4.45% compared

with a year ago. The growth was largely because bills finance companies expanded the business of underwriting commercial paper in order to enhance profits from spread trading, resulting in higher funding needs. Meanwhile, the amount borrowed by Chunghwa Post slid by NT\$303.8 billion or 49.33% over the previous year.

In terms of lenders, domestic banks remained the largest supplier of funds, making up 60.23% of total transactions in 2023. Foreign and Mainland Chinese banks came in second with a share of 37.29%, followed by Chunghwa Post and bills finance companies making up 2.33% and 0.15% of total transactions, respectively.

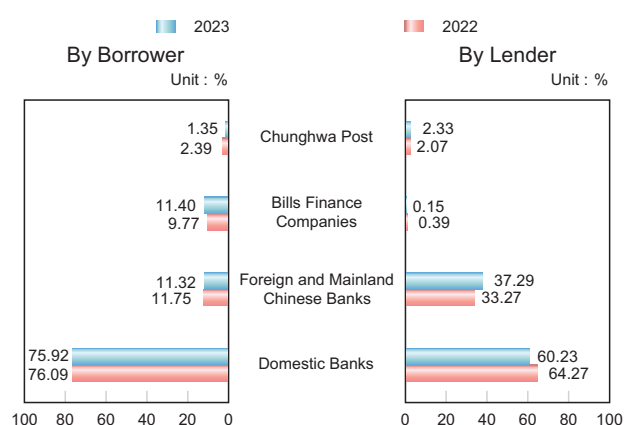
The amount of call loans made by domestic banks dropped by NT\$2,676.9 billion or 16.15% compared with the previous year, reflecting less available funds at hand as domestic banks increased investments in enterprises and personal loans showed faster growth in the second half of the year.

Foreign and Mainland Chinese banks slightly increased their interbank lending by NT\$27.2 billion or 0.32% over the previous year in order to enhance their profits considering money market rates stayed at relatively high levels in 2023.

On the other hand, in response to tighter funding conditions at the quarter ends, Chunghwa Post provided more interbank lending that crossed quarter ends in support of banks' funding needs. As a result, the amount of call loans made by Chunghwa Post expanded by NT\$1.9 billion or 0.35% from a year before.

As for bills finance companies, the amount lent by this group went down by NT\$64.9 billion or 65.15% over the previous year because of less available funds at hand.

Composition of Interbank Call Loan Market by Participant



Source: Financial Statistics Monthly (February 2024), CBC.

In terms of maturity, interbank overnight call loans remained the most actively traded instrument in the market with a predominant share of 45.55%, down by 0.66 percentage points from that of the previous year. The second were those with a maturity of one week, rising by 0.66 percentage points to 37.55% over the previous year, while the share of loans with a two-week maturity slipped by 1.33 percentage points to 10.13%.

Rise in Short-Term Bill Transactions

For the year 2023, newly issued short-term bills stood at NT\$20,478.6 billion. Commercial paper made up a dominant 94.69% of the new issues, followed by NCDs with a share of 3.99%.

Newly issued short-term bills posted a year-on-year increase of NT\$1,803.8 billion or 9.66% in 2023. The growth was mainly attributable to commercial paper with an increased issuance of NT\$2,093.7 billion to meet corporate funding needs despite an uptick in short-term bills market rates.

In contrast, issuance of NCDs shrank by NT\$315.0 billion from the previous year. This was because, when part of the NCDs reached maturity, some banks did not renew the issuance of NCDs after assessing their own funding conditions or corporate holders did not renew their purchases in order to free up funds for other purposes.

Overall, the amount of the total issuance of short-term bills was larger than that of the total repayments for short-term bills. Consequently, the outstanding of short-term bills reached NT\$3,348.0 billion as of the end of 2023, representing an increase of NT\$457.0 billion or 15.81% from that of the previous year end.

Short-Term Bills Market

Unit: NT\$billion

Year	Total		Treasury Bills		City Treasury Bills		Commercial Paper		Banker's Acceptances		Negotiable Certificates of Deposit	
	Issues	Year-End Outstanding	Issues	Year-End Outstanding	Issues	Year-End Outstanding	Issues	Year-End Outstanding	Issues	Year-End Outstanding	Issues	Year-End Outstanding
2014	10,840.6	1,641.2	244.9	130.0	10.0	0.0	9,919.5	1,306.8	24.1	4.3	642.2	200.2
2015	11,512.8	1,677.7	233.7	90.0	-	-	10,426.0	1,346.6	20.8	3.5	832.3	237.6
2016	12,778.5	1,873.5	217.3	90.0	-	-	11,371.3	1,480.1	18.3	4.1	1,171.6	299.4
2017	14,878.5	2,154.5	220.0	25.0	-	-	13,077.8	1,709.0	19.4	4.2	1,561.3	416.4
2018	14,971.9	2,223.1	160.0	30.0	-	-	12,965.0	1,760.6	18.5	4.0	1,828.5	428.5
2019	14,927.3	2,353.2	314.0	65.0	-	-	13,613.6	2,034.1	14.0	2.6	985.7	251.5
2020	16,005.2	2,747.2	336.6	125.0	-	-	14,824.7	2,344.3	13.0	2.8	830.9	275.1
2021	17,254.0	2,911.2	320.0	115.0	-	-	16,107.5	2,560.1	17.8	4.5	808.7	231.6
2022	18,674.8	2,891.0	230.0	30.0	-	-	17,296.9	2,584.8	15.9	2.7	1,131.9	273.5
2023	20,478.6	3,348.0	260.0	30.0	-	-	19,390.6	3,000.9	11.1	2.3	816.9	314.8

Source: *Financial Statistics Monthly* (February 2024), CBC.

The total turnover of short-term bills in 2023 grew by NT\$7,016.3 billion or 14.50% to NT\$55,416.2 billion. Of the total transactions, commercial paper still made up the lion's share of 96.73%, while NCDs came in with the second largest share of 2.71%.

In respect of market participants, private enterprises were still the largest player in the market

with a dominant share of 47.73%, followed by banks and bills finance companies with shares of 26.10% and 14.77%, respectively.

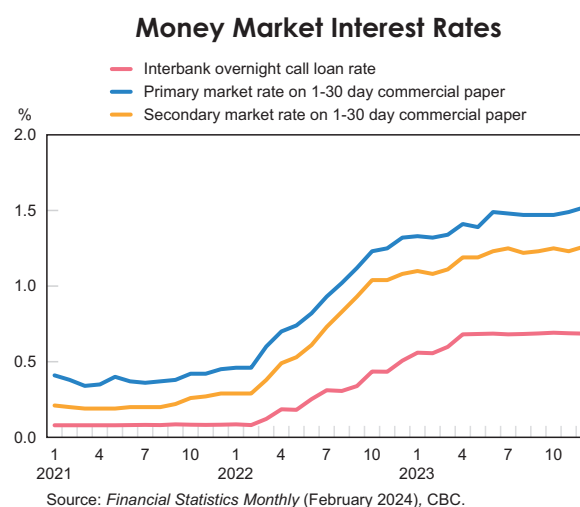
Broad Uptrend in Money Market Rates

In 2023, the weighted average interbank overnight call loan rate displayed a broad uptrend. With the Bank's policy rate hikes in December 2022 and March 2023, the US and European banking sector turmoil, as well as the end-of-quarter effect, the interbank overnight call loan rate swung up to 0.681% in April 2023 from 0.507% in December 2022.

Later in the year, on account of income tax collections and enterprises' dividend payouts in May, as well as four consecutive months of net foreign capital outflows since July, the interbank overnight call loan rate trended up and recorded an all-year high of 0.691% in October.

In November, net foreign capital outflows turned into net inflows. However, with the year end approaching, considering the need to boost lending before the year end and to meet the regulatory capital adequacy ratio requirements, banks became cautious about fund allocation. Through the Bank's open market operations, the interbank overnight call loan rate modestly went down to 0.686% in December.

The primary market rate on commercial paper with a maturity of 1-30 days moved upwards from 1.33% in January to 1.52% in December. Meanwhile, the secondary market rate on commercial paper with a maturity of 1-30 days also rose from 1.10% in January to 1.26% in December.



Growth in Money Market Funds

The Bank's policy rate rises for the past two years have sent the yields of domestic money market funds higher, attracting more investors to make purchases. In addition, with market expectations of the rate hike cycle nearing an end, some banks reduced the issuance of deposits with longer maturities, driving a shift of capital flows into money market funds.

At the end of 2023, there were a total of 36 money market funds in Taiwan and the total assets stood at NT\$863.5 billion with an increase of NT\$82.1 billion or 10.51% from the previous year end.

With regard to portfolio composition, the largest use of funds was short-term bills with a share of 49.47% at the end of the year. Following short-term bills were bank deposits and repurchase agreements, accounting for 39.89% and 10.02% of the total money market funds, respectively.

Portfolio Composition of Money Market Funds

Unit: NT\$billion

Year/Month End	Total	Bank Deposits		Short-Term Bills		Repurchase Agreements		Bonds	
		Amount	Share (%)	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
2021	851.4	437.2	51.35	327.8	38.50	86.1	10.11	0.4	0.04
2022	781.4	208.4	26.67	474.4	60.71	95.0	12.16	3.6	0.46
2023	863.5	344.5	39.89	427.2	49.47	86.5	10.02	5.4	0.62
2023/ 1	761.8	231.6	30.40	447.4	58.73	80.0	10.50	2.8	0.37
2	778.1	263.8	33.90	430.1	55.28	81.4	10.46	2.8	0.36
3	798.1	266.8	33.43	450.3	56.42	78.3	9.81	2.7	0.34
4	839.1	280.3	33.40	458.0	54.58	98.1	11.69	2.8	0.33
5	805.1	300.4	37.31	438.8	54.50	63.4	7.87	2.5	0.32
6	789.0	290.6	36.83	425.5	53.93	70.3	8.91	2.5	0.33
7	849.3	290.5	34.21	464.7	54.72	91.5	10.77	2.6	0.30
8	836.5	283.1	33.84	470.3	56.22	80.5	9.62	2.5	0.32
9	832.3	302.7	36.37	458.6	55.10	68.5	8.23	2.5	0.30
10	866.2	316.0	36.48	466.1	53.81	80.3	9.27	3.8	0.44
11	843.9	321.9	38.14	445.2	52.75	72.2	8.56	4.6	0.55
12	863.5	344.5	39.89	427.2	49.47	86.5	10.02	5.4	0.62

Source: Securities Investment Trust & Consulting Association of the R.O.C.