

## 4. Money Market

In 2009, the total turnover in the interbank call-loan market increased by 54.77 percent, but that in the short-term bills market decreased by 8.89 percent. Market rates of both remained at low levels after the Bank stopped cutting the discount rate in the first quarter.

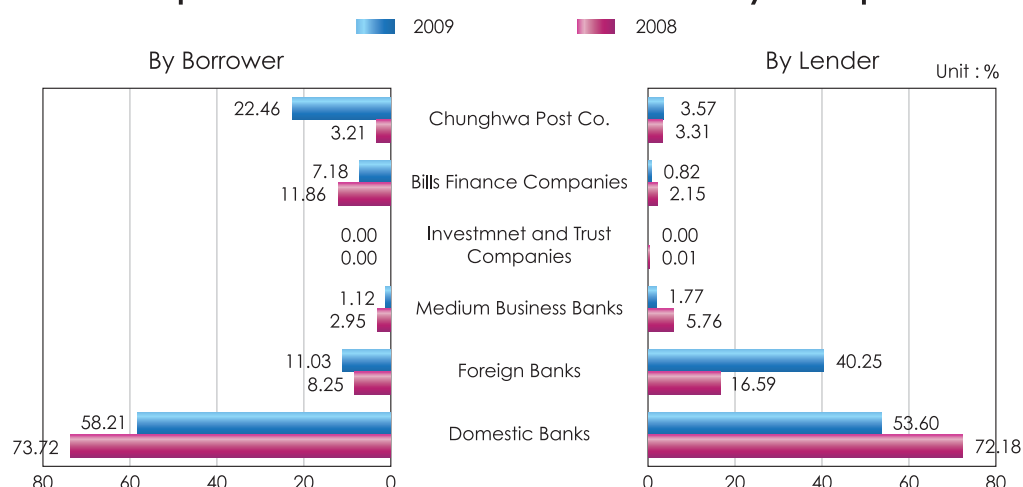
### Active Interbank Call-loan Market

The interbank call-loan market was active in 2009. As the effect of the global financial crisis lessened and the domestic economy gradually bottomed out in the first quarter, banks adopted more aggressive lending policies. In the second half of the year, foreign capital inflows increased, and the supply of domestic funds was abundant. The total annual turnover amounted to NT\$25,707.2 billion for the year, showing a marked increase of 54.77 percent compared with the previous year.

Domestic banks were the largest borrower during the year, accounting for 58.21 percent of total trading, followed by Chunghwa Post Co., foreign banks and bills finance companies, with shares of 22.46 percent, 11.03 percent and 7.18 percent, respectively. The share of domestic banks decreased by 15.51 percentage points with the borrowed amount increasing by 22.21 percent. The increase reflected the continuous inflow of foreign capital under more stable financial conditions and an ample supply of liquidity in the banking system. To mop up excess liquidity, the Bank increased the issuance of certificates of deposit, which induced banks' demand for funds. The share of Chunghwa Post Co. increased by 19.25 percentage points because of its collaborative efforts in absorbing market liquidity. The share of foreign banks also increased due to the outflow of foreign capital at the beginning of the year and was 2.78 percentage points more than that in the previous year. The share of bills finance companies decreased by 4.68 percentage points from the previous year, mainly because they continuously decreased the issuing amount to control risk, thus lowering the demand for funds.

With regard to lenders, domestic banks continued to be the largest supplier of funds, accounting for 53.60 percent of total transactions. Following domestic banks were foreign banks, Chunghwa Post Co. and medium business banks with respective shares of 40.25 percent, 3.57 percent and 1.77 percent. The lending amount of domestic banks increased by 14.92 percent compared with the previous year because banks' lending policies became less conservative. With abundant funds gained from custodian business for foreign investors, the lending amount of foreign banks kept increasing. The share of foreign banks climbed from 16.59 percent in the previous year to 40.25 percent. The share of Chunghwa Post Co. increased

### Composition of Interbank Call-Loan Market by Participant



Source: Financial Statistics Monthly, CBC.

to 3.57 percent from 3.31 percent in the previous year. In contrast, the share of medium business banks decreased by 3.99 percentage points from the previous year.

In terms of maturity, overnight interbank call loans remained the most actively traded in the market with a predominant share of 58.62 percent, up by 7.13 percentage points from that of the previous year. Second were those with a maturity of 1 week, accounting for 31.27 percent, down by 0.77 percentage points from that of the previous year. The share of loans with a 2-week maturity declined to 8.25 percent from 14.09 percent in the previous year. Trading of those with maturities of 3 weeks, 1 month, 2-6 months, and above 6 months accounted for negligible shares.

### Decrease in Short-term Bills Market Transactions

In 2009, newly issued short-term bills totaled NT\$6,293.4 billion, 9.43 percent less than that in the previous year. Of the new issues of short-term bills, commercial papers continued to account for the lion's share of 85.77 percent. Second were negotiable certificates of deposit with a share of 6.97 percent. Bankers' acceptances made up a marginal share of 0.35 percent. Compared with the previous year, the growth rate of commercial papers issued was negative because corporate demand for funds was weak. On the contrary, the Ministry of Finance increased the issues of treasury bills owing to tax revenue reduction. As of the end of 2009, total outstanding short-term bills amounted to NT\$1043.1 billion, 7.56 percent more than that of the previous year-end.

## Short-Term Bills Market

Unit: NT\$ Billion

| Year             | Total    |                      | Treasury Bills |                      | Commercial Papers |                      | Bankers' Acceptances |                      | Negotiable Certificates of Deposit |                      |
|------------------|----------|----------------------|----------------|----------------------|-------------------|----------------------|----------------------|----------------------|------------------------------------|----------------------|
|                  | Issue    | Year-end Outstanding | Issue          | Year-end Outstanding | Issue             | Year-end Outstanding | Issue                | Year-end Outstanding | Issue                              | Year-end Outstanding |
| 2000             | 10,324.6 | 1,805.0              | 95.0           | 45.0                 | 9,032.7           | 1,256.3              | 46.2                 | 10.2                 | 1,150.8                            | 493.5                |
| 2001             | 9,901.5  | 1,487.8              | 85.0           | 50.0                 | 8,926.8           | 1,102.4              | 36.1                 | 8.3                  | 853.6                              | 327.1                |
| 2002             | 8,378.1  | 1,309.5              | 180.0          | 180.0                | 7,525.1           | 870.1                | 40.1                 | 7.9                  | 632.9                              | 251.5                |
| 2003             | 7,547.7  | 1,194.4              | 60.0           | 60.0                 | 6,815.1           | 808.8                | 34.5                 | 6.8                  | 638.1                              | 318.7                |
| 2004             | 6,888.8  | 1,316.5              | 130.9          | 130.9                | 5,642.8           | 775.6                | 35.2                 | 7.6                  | 1,080.0                            | 402.4                |
| 2005             | 7,121.0  | 1,168.1              | 115.0          | 45.0                 | 5,690.4           | 747.0                | 31.1                 | 7.7                  | 1,284.5                            | 368.5                |
| 2006             | 7,004.0  | 1,092.4              | 45.0           | 25.0                 | 5,879.8           | 717.6                | 36.1                 | 8.1                  | 1,043.1                            | 341.7                |
| 2007             | 6,495.1  | 925.3                | 88.0           | 28.0                 | 5,577.2           | 664.8                | 38.2                 | 8.4                  | 791.7                              | 224.0                |
| 2008             | 6,948.6  | 969.8                | 240.0          | 106.8                | 6,074.7           | 690.2                | 33.3                 | 4.9                  | 600.6                              | 167.8                |
| 2009             | 6,293.4  | 1,043.1              | 435.0          | 215.0                | 5,397.7           | 651.3                | 21.9                 | 4.9                  | 438.8                              | 171.9                |
| 2008-2009 Change | -655.2   | 73.3                 | 195.0          | 108.2                | -677.0            | -38.9                | -11.4                | 0.0                  | -161.8                             | 4.1                  |
| Growth Rate (%)  | -9.43    | 7.56                 | 81.25          | 101.31               | -11.14            | -5.56                | -34.23               | 0.00                 | -26.94                             | 2.44                 |

Source: Financial Statistics Monthly, CBC.

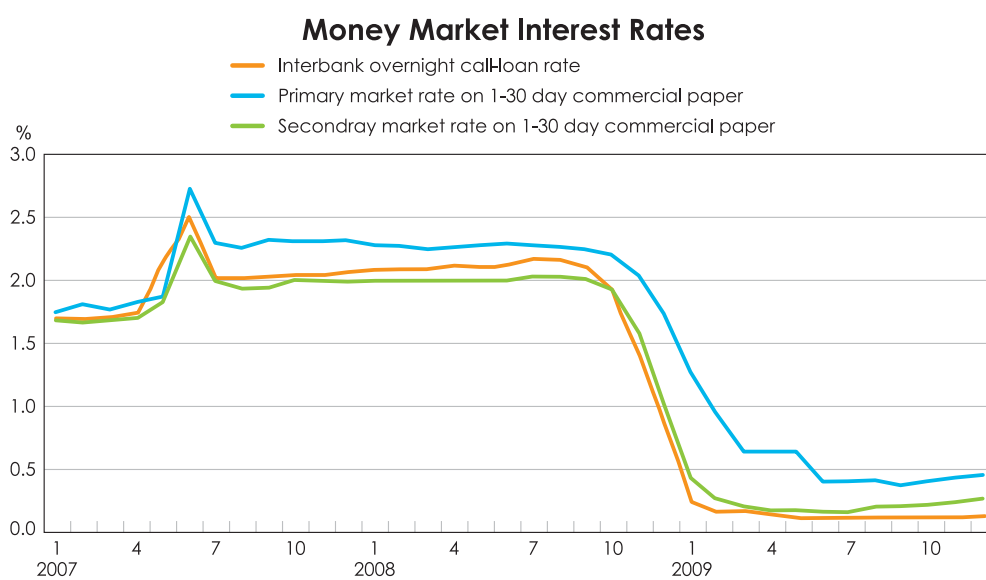
In the secondary market, total turnover of short-term bills decreased by 8.89 percent to NT\$42,096.4 billion. Of the total transactions, commercial papers still made up the largest share of 78.17 percent, which represented a decrease of 7.07 percentage points compared with the previous year. It was followed by negotiable certificates of deposit with a share of 17.54 percent, which represented an increase of 7.94 percentage points compared with 2008. Treasury bills accounted for 4.08 percent. With respect to market participants, private enterprises remained the largest player in the market with a share of 45.49 percent, followed by banks with a share of 21.77 percent.

## Money Market Rates Went Down and Stayed Low

During 2009, funding conditions in the banking system remained easy. In the first quarter, with weak funds demand from the private sector amid a domestic economic slowdown, repatriation of funds from overseas and the Bank's increase in banks' excess reserves, funding conditions were easy. In the second quarter, because net foreign capital inflows increased, funding conditions stayed easy. In the third quarter, the Bank issued more certificates of deposit to bring down the level of the huge banks' excess reserves to prevent excess liquidity from affecting the stability of financial markets. In the fourth quarter, as the financial crisis waned, the global economy clearly rebounded and domestic recovery also gained momentum, demand for funds increased, but funding conditions remained easy under the Bank's monetary easing policy.

The interbank overnight call-loan rate went down in the first quarter of the year because of the Banks' interest rate cuts. It turned downwards from 0.87 percent at the previous year-

end to a low of 0.10 percent in May 2009 and then stayed low under the Bank's continued monetary easing policy. The primary market rate on commercial paper with maturities of 1-30 days went downward from 1.73 percent at the end of the previous year to 0.43 percent at the end of 2009. The secondary market rate on commercial paper with maturities of 1-30 days also stepped down from 1.00 percent to 0.25 percent during the same period.



Source: Financial Statistics Monthly, CBC.