

4. Money Market

In 2011, the total turnover decreased by 7.85 percent in the interbank call-loan market, and by 3.16 percent in the short-term bills market. Interest rates in both markets went up gradually after the Bank raised the discount rate and increased the issuance of NCDs from the second quarter of the previous year.

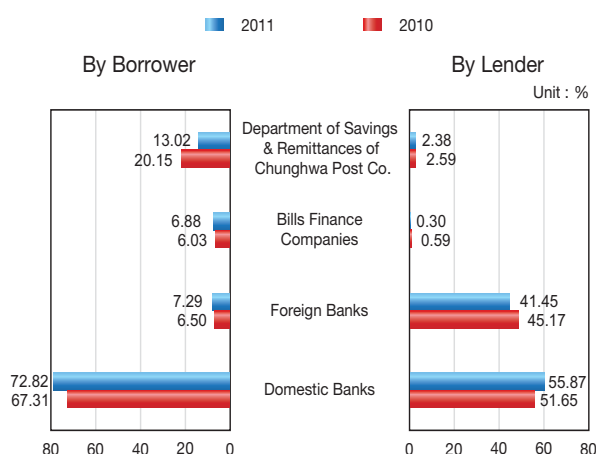
Dynamic Interbank Call-loan Market

With the European sovereign debt crisis remaining unresolved, global economic and financial uncertainties increased due to an interplay of weak economic growth and deteriorating financial conditions. As a result, trading in the interbank call-loan market was less active in 2011. Total annual turnover amounted to NT\$32,693.6 billion for the year, showing a decrease of 7.85 percent when compared with the previous year.

Domestic banks were the largest borrower during the year, accounting for 72.82 percent of total trading, followed by the Department of Savings & Remittances of Chunghwa Post Co., foreign banks and bills finance companies, with shares of 13.02 percent, 7.29 percent and 6.88 percent, respectively. The share of domestic banks increased by 5.51 percentage points, with the amount borrowed decreasing by 0.32 percent. The decrease in the amount borrowed was mainly due to banks' weak demand for funds, which was associated with slower growth in bank credit. The share of the Department of Savings & Remittances of Chunghwa Post Co. decreased by 7.13 percentage points due to the end of its collaborative efforts with the CBC in managing market liquidity last year. The share of foreign banks increased due to the larger outflow of foreign capital and was 0.79 percentage points more than that in the previous year. The share of bills finance companies increased by 0.85 percentage points from the previous year, and the borrowed amount increased by 5.03 percent primarily because of their continued efforts to improve profits by increasing the amount of bills issued.

With regard to lenders, domestic banks continued to be the largest supplier of funds, accounting for 55.87 percent of total transactions. Following domestic banks were foreign banks,

Composition of Interbank Call-Loan Market by Participant



Source: Financial Statistics Monthly, CBC.

the Department of Savings & Remittances of Chunghwa Post Co. and bills finance companies with respective shares of 41.45 percent, 2.38 percent and 0.30 percent. The amount lent by domestic banks decreased by 0.32 percent compared with the previous year because banks' lending policies became stricter. Due to the large outflow of custodian funds held for foreign investors, the amount lent by foreign banks decreased. Therefore, the share of foreign banks declined from 45.17 percent in the previous year to 41.45 percent. The share of the Department of Savings & Remittances of Chunghwa Post Co. decreased to 2.38 percent from 2.59 percent in the previous year, and that of bills finance companies decreased by 0.29 percentage points over the same period.

In terms of maturity, overnight interbank call loans remained the most actively traded instrument in the market with a predominant share of 64.41 percent, up by 0.87 percentage points from that of the previous year. Second were those with a maturity of 1 week, accounting for 31.76 percent, up by 0.71 percentage points from that of the previous year. The share of loans with a 2-week maturity declined to 3.59 percent from 4.49 percent in the previous year. Shares for the trading of those with maturities of 3 weeks, 1 month, 2-6 months, and above 6 months were negligible.

Increase in Short-term Bills Market Transactions

In 2011, newly issued short-term bills totaled NT\$7,422.4 billion. Of the new issues of short-term bills, commercial paper continued to account for the lion's share of 84.48 percent. Second were negotiable certificates of deposit with a share of 10.79 percent. Bankers' acceptances made up a marginal share of 0.41 percent. Because the Bank decided to keep the discount rate unchanged after five previous policy rate increases, bills finance companies could gain more profit by holding short-term bills. Compared with the previous year, the growth rate of commercial paper issued was

Short-Term Bills Market

Unit: NT\$ Billion

Year	Total		Treasury Bills		Commercial Papers		Bankers' 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
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
2010	7,137.2	1,167.5	365.0	240.0	5,903.4	686.1	33.1	6.2	835.7	235.2
2011	7,422.4	1,192.6	321.2	180.3	6,270.5	735.2	30.1	5.7	800.6	271.5
2010-2011 Change	285.2	25.1	-43.8	-59.7	367.1	49.1	-3.0	-0.5	-35.1	36.3
Growth Rate (%)	4.00	2.15	-12.00	-24.88	6.22	7.16	-9.06	-8.06	-4.20	15.43

Source: Financial Statistics Monthly, CBC.

7.16 percent. In contrast, the Ministry of Finance decreased the issues of treasury bills to lessen the financial burden of the government. As of the end of 2011, total outstanding short-term bills amounted to NT\$1,192.6 billion, 2.15 percent more than that of the previous year-end.

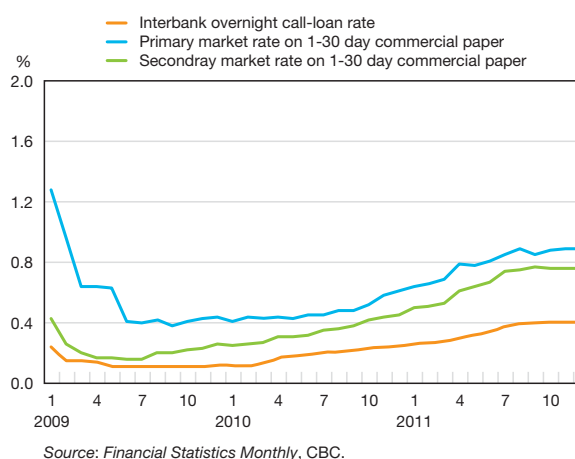
In the secondary market, the total turnover of short-term bills decreased by 3.16 percent to NT\$56,723.9 billion. Of the total transactions, commercial papers still made up the largest share of 63 percent, representing an increase of 3.62 percentage points compared with the previous year. It was followed by negotiable certificates of deposit with a share of 33.80 percent, representing a decrease of 4.46 percentage points over 2010. Treasury bills and banker's acceptances made up a negligible share of transactions. With respect to market participants, private enterprises were the largest players in the market with a combined share of 35.34 percent, followed by banks with a share of 34.71 percent.

Gradual Rise in Money Market Rates

During 2011, funding conditions in the banking system remained easy. In the first half of the year, the global economy sustained solid growth and inflation risks remained elevated. To ensure price stability and prevent excess liquidity affecting the stability of financial markets, the Bank raised the discount rate twice and issued more certificates of deposit to bring down the level of excess reserves. In the second half of the year, as the European sovereign debt crisis heightened global economic and financial uncertainties due to an interplay of weak economic growth and deteriorating financial conditions, the Bank decided to keep the discount rate unchanged and, as a result, the overnight call-loan rate stabilized.

As for the movement of money market interest rates, the interbank overnight call-loan rate went up gradually from its lowest point of 0.26 percent in the beginning of the year to 0.40 percent at the end of the year. The primary market rate on commercial paper with maturities of 1-30 days moved upward from 0.63 percent in the beginning of 2011 to 0.88 percent at the end of the year. The secondary market rate on commercial paper with maturities of 1-30 days also stepped up from 0.49 percent to 0.75 percent during the same period.

Money Market Interest Rates



Decrease in Money Market Funds

All quasi money market funds were converted to money market funds at the end of 2011. At

the end of the year, there were a total of 47 money market funds in Taiwan with total assets reaching NT\$755.7 billion, a decrease of NT\$27.7 billion or 3.54 percent over the level of the previous year. With regard to portfolio composition, the bond holding ratio of all money market funds declined from 3.8 percent in 2010 to 0.9 percent in 2011. The largest use of the funds was bank deposits with a share of 66.4 percent throughout the year, followed by repurchase agreements and short-term bills, with shares of 20.5 percent and 12.2 percent, respectively.

Portfolio Composition of Money Market Funds

Unit: %; NT\$ Billion

Year/Month End	Total	Outright Purchases		Repurchase Agreements		Bank Deposits		Short-term Bills	
		Amount	Share	Amount	Share	Amount	Share	Amount	Share
2009	925.3	72.6	7.8	245.5	26.5	531.7	57.5	75.5	8.2
2010	783.4	32.5	4.1	172.1	22.0	495.6	63.3	83.2	10.6
2011	755.7	6.7	0.9	155.0	20.5	501.8	66.4	92.2	12.2
2011 / 1	758.6	28.5	3.8	145.1	19.1	507.1	66.8	77.9	10.3
2	760.3	28.7	3.8	139.9	18.4	515.7	67.8	76.0	10.0
3	727.4	27.5	3.8	128.1	17.6	490.5	67.4	81.3	11.2
4	780.0	26.3	3.4	152.0	19.5	509.3	65.3	92.3	11.8
5	729.4	23.4	3.2	121.9	16.7	500.1	68.6	84.1	11.5
6	689.4	19.7	2.9	123.1	17.9	448.8	65.1	97.8	14.2
7	722.3	17.1	2.4	147.1	20.4	485.9	67.3	72.2	10.0
8	696.4	15.7	2.2	141.9	20.4	485.5	69.7	53.3	7.7
9	690.2	15.2	2.2	136.3	19.7	477.0	69.1	61.8	9.0
10	720.9	12.9	1.8	149.4	20.7	488.4	67.8	70.2	9.7
11	761.0	8.8	1.2	174.6	22.9	500.9	65.8	76.7	10.1
12	755.7	6.7	0.9	155.0	20.5	501.8	66.4	92.2	12.2

Source : 1. Securities Investment Trust & Consulting Association of the R. O. C. (Taiwan).
2. 2009 and 2010 data are Quasi Money Market Funds.