

4. Money Market

In 2014, the total turnover in the interbank call loan market increased by 20.31 percent, but that in the short-term bills market decreased by 2.40 percent. Interest rates in both markets remained broadly stable at a low level.

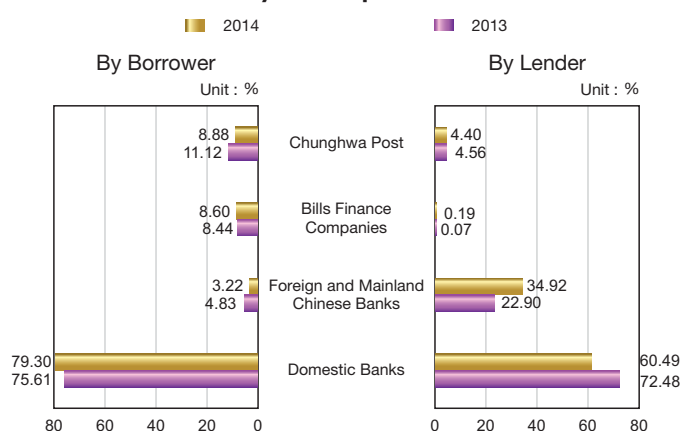
Significant Increase in Interbank Call Loans

Trading in the interbank call loan market was active in 2014. As the domestic economy experienced a moderate recovery, banks' loans and investments increased steadily and banks' demand for funds became stronger. Coupled with the abundant supply of funds in the local market associated with massive foreign capital inflows, total annual turnover of interbank call loans amounted to NT\$47,934.6 billion for the year, showing a marked increase of 20.31 percent when compared with the previous year.

With regard to borrowers, domestic banks were still the largest player during the year, accounting for 79.30 percent of total transactions, followed by Chunghwa Post, bills finance companies, and foreign and Mainland Chinese banks, with shares of 8.88 percent, 8.60 percent and 3.22 percent, respectively. In light of continuous foreign capital inflows, the CBC increased the issuance of certificates of deposit to absorb excess market liquidity, yet later in the year banks' demand for borrowing rose owing to their funding needs. As a consequence, the amount borrowed by domestic banks increased by NT\$7,889.6 billion or 26.19 percent compared with the previous year. On the other hand, the amount borrowed by bills finance companies increased by NT\$759.1 billion or 22.57 percent during the year because of their stronger demand for funds, which was associated with more transactions in short-term bills. However, the borrowed amount of Chunghwa Post and foreign and Mainland Chinese banks decreased by NT\$173.9 billion or 3.92 percent and NT\$383.3 billion or 19.91 percent, respectively.

With respect to lenders, domestic banks continued to be the largest supplier of funds, accounting for 60.49 percent of total transactions in 2014. Following domestic banks were foreign and Mainland Chinese

Composition of Interbank Call Loan Market by Participant



Source: Financial Statistics Monthly, CBC.

banks, Chunghwa Post and bills finance companies with respective shares of 34.92 percent, 4.40 percent and 0.19 percent. Domestic banks had stable sources of deposits and could provide sufficient funds for lending. However, the CBC conducted more open market operations to maintain market liquidity at an appropriate level. As a result, the amount lent by domestic banks only slightly increased by NT\$117.2 billion or 0.41 percent compared with the previous year. With abundant funds gained from the custodian business for foreign investors, the lending amount of foreign and Mainland Chinese banks kept increasing. The amount lent by foreign and Mainland Chinese banks grew by NT\$7,615.2 billion or 83.47 percent, with their share of total lending climbing from 22.90 percent in the previous year to 34.92 percent. Meanwhile, Chunghwa Post supplied more funds to the interbank call loan market because of statutory restrictions on its lending business. Therefore, the amount lent by Chunghwa Post increased by NT\$293.6 billion or 16.16 percent compared with the previous year.

In terms of maturity, interbank overnight call loans remained the most actively traded instrument in the market with a predominant share of 58.38 percent, down by 5.69 percentage points from that of the previous year. Second were those with a maturity of 1 week, accounting for 34.73 percent, up by 5.49 percentage points from that of the previous year because the interbank overnight call loan rate remained broadly stable. The share of loans with a 2-week maturity rose to 5.67 percent from 5.40 percent in the previous year. Shares for the trading of interbank call loans with maturities of 3 weeks, 1 month, 2-6 months, and above 6 months were negligible.

Decrease in Short-Term Bill Transactions

In 2014, newly issued short-term bills totaled NT\$10,840.6 billion. Of the new issues, commercial paper continued to account for the lion's share of 91.50 percent. Second were negotiable certificates

Short-Term Bills Market

Unit: NT\$ Billion

Year	Total		Treasury Bills		City Treasury Bills		Commercial Paper		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	Issues	Year-end Outstanding
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	7,140.8	1,167.5	365.0	240.0	-	-	5,903.4	686.1	33.1	6.2	839.3	235.2
2011	7,424.0	1,192.6	321.2	180.3	-	-	6,270.5	735.2	30.1	5.7	802.2	271.5
2012	8,187.7	1,454.0	265.0	195.0	-	-	7,311.6	1,023.6	24.2	4.3	586.9	231.1
2013	9,809.0	1,650.2	324.6	214.6	-	-	8,827.4	1,199.2	23.5	4.2	633.5	232.3
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
2014-2013 Change	1,031.7	-9.0	-79.7	-84.6	10.0	0.0	1,092.1	107.6	0.6	0.1	8.6	-32.1

Source: Financial Statistics Monthly, CBC.

of deposit with a share of 5.93 percent, followed by treasury bills with a share of 2.26 percent. Because market interest rates remained at low levels, private and government enterprises were more willing to issue commercial paper instead of borrowing from banks. As a result, compared with the previous year, the amount of commercial paper issued increased by NT\$1,092.1 billion. On the contrary, the Ministry of Finance decreased the issues of treasury bills by NT\$79.7 billion owing to increased tax revenue. Meanwhile, the New Taipei City Government issued city treasury bills with a total amount of NT\$10.0 billion in order to relieve the city's budget shortage. As of the end of 2014, total outstanding short-term bills amounted to NT\$1,641.2 billion, 0.54 percent less than that of the previous year end.

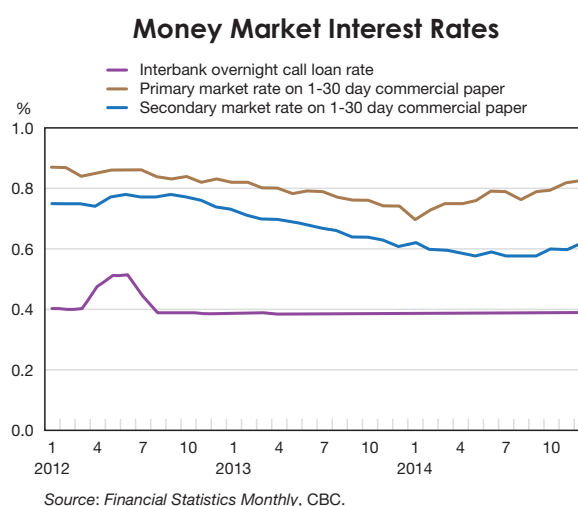
The total turnover of short-term bills in 2014 decreased by 2.40 percent to NT\$35,676.0 billion¹. Of the total transactions, commercial paper still made up the largest share of 92.81 percent, representing an increase of 0.52 percentage points compared with the previous year. It was followed by negotiable certificates of deposit with a share of 6.10 percent, representing an increase of 0.80 percentage points over 2013. Treasury bills and bankers' acceptances made up a negligible share of transactions. With respect to market participants, private enterprises were the largest player in the market with a share of 47.63 percent, followed by banks with a share of 24.43 percent.

Stable Money Market Rates

In 2014, the domestic economy experienced a moderate recovery and inflationary pressures were subdued. However, as the pace of recovery was uneven across major economies, uncertainties in the global economy still lingered. The CBC has continued to manage market liquidity to maintain excess reserves of banks at an appropriate level.

The interbank overnight call loan rate remained broadly stable and averaged 0.387 percent for the whole year, slightly higher than the 0.386 percent registered in the previous year.

The primary market rate on commercial paper with a maturity of 1-30 days moved upward from 0.70 percent in January of 2014 to 0.83 percent in December of the same year. However, the secondary market rate on commercial paper with a maturity of 1-30 days descended from 0.62 percent in January to 0.58 percent in September and then moved upward to 0.62 percent in December of the same year.



¹ In early 2014, some financial institutions were found to report incorrect data for short-term bill transactions, and the errors were gradually corrected in the second half of the year.

Decrease in Money Market Funds

At the end of 2014, there were a total of 45 money market funds in Taiwan with total assets reaching NT\$741.4 billion, a decrease of NT\$73.6 billion or 9.03 percent over the previous year. With regard to portfolio composition, the largest use of the funds was bank deposits with a share of 69.14 percent at the end of the year, followed by short-term bills with a share of 18.37 percent, up by 4.59 percentage points over the previous year. This was primarily because the profits from short-term bill transactions increased owing to the decline in short-term bill rates. Meanwhile, repurchase agreements accounted for 12.19 percent of total money market funds, down from 13.55 percent in the previous year. In addition, the bond holding ratio of all money market funds was negligible.

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 (%)
2012	713.2	527.7	73.99	60.6	8.50	123.0	17.25	1.9	0.27
2013	815.0	592.0	72.64	112.3	13.78	110.4	13.55	0.3	0.04
2014	741.4	512.6	69.14	136.2	18.37	90.4	12.19	2.3	0.30
2014/ 1	794.6	581.0	73.12	104.2	13.11	108.5	13.65	0.9	0.12
2	858.8	610.1	71.04	123.8	14.41	124.1	14.45	0.8	0.10
3	832.5	592.2	71.14	124.3	14.93	115.3	13.85	0.7	0.09
4	930.9	630.9	67.77	158.3	17.00	140.9	15.13	0.9	0.09
5	840.6	608.8	72.43	122.9	14.62	107.8	12.82	1.1	0.13
6	796.6	584.4	73.36	115.4	14.48	95.8	12.03	1.1	0.13
7	825.2	596.3	72.27	133.6	16.20	94.0	11.39	1.2	0.14
8	814.2	578.4	71.04	127.9	15.71	106.3	13.06	1.6	0.19
9	794.5	553.1	69.61	138.7	17.46	101.0	12.71	1.7	0.22
10	833.9	571.5	68.54	138.9	16.65	121.3	14.55	2.1	0.26
11	844.0	570.5	67.59	140.1	16.60	131.1	15.53	2.4	0.28
12	741.4	512.6	69.14	136.2	18.37	90.4	12.19	2.3	0.30

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