

4. Money Market

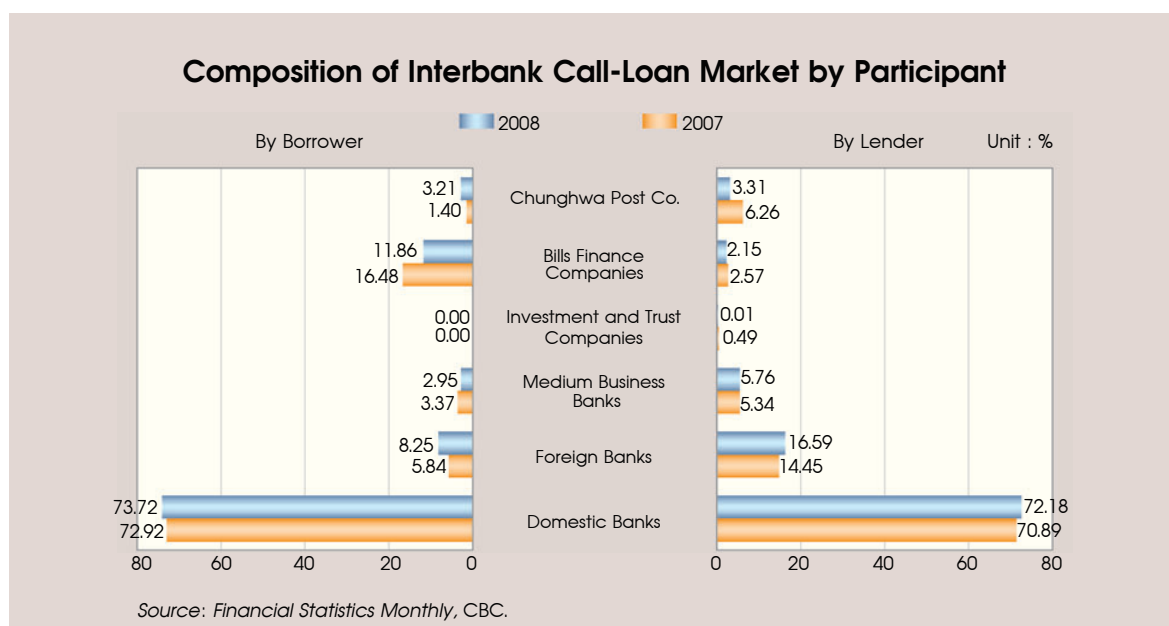
In 2008, the total turnover in the interbank call-loan market decreased by 17.93 percent, but that in the short-term bills market increased by 6.96 percent. Both of these market rates maintained a rising trend in the first half of the year, but then turned downward, as the Bank began to lower the discount rate in the third quarter.

Less Active Interbank Call-loan Market

The interbank call-loan market was less active in 2008, as a slowdown in the global economy and spillovers from the global financial crisis caused banks to adopt more conservative lending policies. In addition, the Central Deposit Insurance Corporation has imposed special assessment charges on interbank call loans since November 2008. The total annual turnover amounted to NT\$16,609.7 billion for the year, showing a decrease of 17.93 percent compared with the previous year.

Domestic banks were the largest borrower during the year, accounting for 73.72 percent of total trading, followed by bills finance companies, foreign banks and Chunghwa Post Co., with shares of 11.86 percent, 8.25 percent and 3.21 percent, respectively. The share of domestic banks slightly increased by 0.8 percentage points with the borrowed amount decreasing by 17.02 percent. The decrease reflected the Bank's ample supply of liquidity in the banking system in order to maintain financial stability amid the financial market turmoil, which reduced banks' demand for funds. The share of bills finance companies decreased by 4.62 percentage points mainly because their demand for funds weakened, as they cut down business to control business risk. It was partly also because banks reduced their call loans to bills finance companies as such loans are not covered by deposit insurance. The share of foreign banks kept rising and was 2.41 percentage points more than that in the previous year. The share of Chunghwa Post Co. also increased by 1.81 percentage points from the previous year.

With regard to lenders, domestic banks continued to be the largest supplier of funds, accounting for 72.18 percent of total transactions. Following domestic banks were foreign banks, medium business banks and Chunghwa Post Co. with respective shares of 16.59 percent, 5.76 percent and 3.31 percent. The lending amount of domestic banks decreased by 16.43 percent compared with the previous year because banks' lending policy became more conservative. In addition, banks showed less willingness to lend because of the special assessment charge on interbank call loans imposed in November 2008. The share of Chunghwa Post Co. declined by 2.95 percentage points from the previous year owing to an increase in its holdings



of government bonds. The shares of foreign banks and medium business banks climbed by 2.14 and 0.42 percentage points from the previous year, respectively.

Regarding the maturity structure, overnight interbank call loans remained the most actively traded in the market with a predominant share of 51.49 percent, which represented a decrease of 2.22 percentage points compared with the previous year. Second to them were those with a maturity of 1 week, accounting for 32.04 percent with a decrease of 0.24 percentage points from the previous year. The share of loans with a 2 week maturity climbed to 14.09 from 11.57 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.

Increase in Short-term Bills Market Transactions

In 2008, new issues of short-term bills totaled NT\$6,948.6 billion, 6.98 percent more than that in the previous year. Of the new issues of short-term bills, commercial paper continued to account for the lion's share of 87.42 percent. Second to it were negotiable certificates of deposit, with a share of 8.64 percent. Bankers' acceptances made up a marginal share of 0.48 percent. Compared with the previous year, the Ministry of Finance increased the issues of treasury bills by 172.73 percent to cut down funding costs. This is because the bid rate on treasury bills was lower than short-term borrowing rates due to massive foreign capital inflows in the beginning of the year. In addition, the Bank kept lowering the discount rate from the third quarter onwards. The issues of commercial paper increased by 8.92 percent because funds demand from the private sector increased in the first half of the year and government

enterprises increased issues. As of the end of 2008, total outstanding bills amounted to NT\$969.8 billion, 4.81 percent more than that of the previous year-end.

Short-Term Bills Market

Unit: NT\$ Billion

Year	Total		Treasury Bills		Commercial Paper		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
1999	10,676.5	2,033.3	315.0	150.0	9,390.6	1,491.3	66.0	13.2	904.9	378.8
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
2007-2008 Changes	453.5	44.5	152.0	78.8	497.5	25.4	-4.9	-3.5	-191.1	-56.2
Growth Rate (%)	6.98	4.81	172.73	281.43	8.92	3.82	-12.83	-41.67	-24.14	-25.09

Source: Financial Statistics Monthly, CBC.

In the secondary market, total turnover of short-term bills increased by 6.96 percent to NT \$46,204.1 billion. Of the total transactions, commercial paper still made up the largest share of 85.24 percent, which represented decrease of 2 percentage points compared with the previous year. It was followed by negotiable certificates of deposit with a share of 9.60 percent, which was the same as in 2007. Treasury bills accounted for 4.49 percent, a small increase from the previous year. With respect to market participants, private enterprises remained the largest player in the market with a share of 48.17 percent, followed by banks with a share of 18.59 percent.

Money Market Rates Turned Downwards

During 2008, funding conditions in the banking system still remained easy. In the first half of the year, with a slowdown in capital outflows and weaker funds demand from the private sector amid a global economic slowdown, funding conditions were easy. In the second half of the year, while the financial market turmoil deepened, the Bank adopted an easy monetary policy to maintain sufficient liquidity. At the same time, domestic economic expansion slowed, external demand weakened, banks lending growth declined, and residents' portfolio investment abroad posted a net inflow as overseas investment cooled down.

The interbank overnight call-loan rate kept rising in the first half of the year because of the Banks' interest rate hikes. It turned downwards from 2.00 percent at the previous year-end

to 0.87 percent at the end of 2008 because of the Bank's continuous rate cuts since September 2008, adding up to a reduction of 162.5 basis points. The average issuing rate on commercial paper with maturities of 1 to 30 days turned downward from 2.31 percent at the end of last year to 1.73 percent at the end of this year. The secondary market rate on commercial paper with maturities of 1 to 30 days also stepped down from 1.98 percent to 1.00 percent during the same period.

