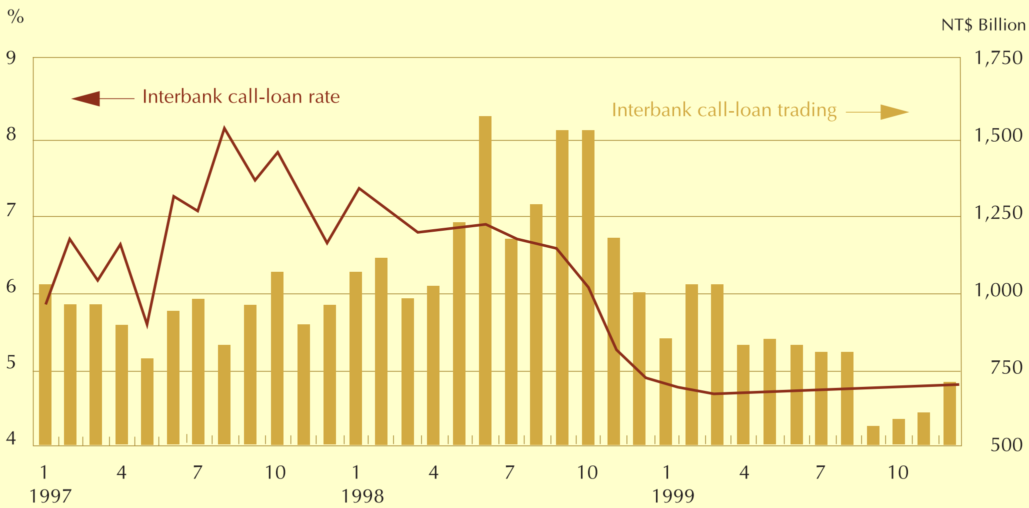
8. MONEY MARKET

Trading in the money market, including the interbank call-loan market and the short-term bills market, exhibited sluggishness for 1999 in general. The decline in issues or transactions was mainly caused by the weak demand for funds from most economic sectors. The Bank also adopted several measures to stimulate bank lending and, hence to boost the real economy. Consequently, the easy funding situation resulted in the money market rate declining throughout the year.

Downward Trend of Interbank Call-loan Rates

The interbank overnight call-loan rates generally exhibited a downward trend in 1999. The peak emerged in January, with a rate of 4.85 percent, measured on a daily average basis. Given the banks' conservative attitude toward extending loans, as well as the weak demand for funds from construction and other traditional industries, both caused by the eruption of the Asian financial turmoil and a few domestic corporate failures, the Bank implemented a moderately easy monetary policy to stimulate the economy. The measures adopted included: releasing postal savings re-deposits, reducing the rediscount rate and the interest rate on accommodations against secured loans on the 2nd of February, and lowering the required reserve ratios on the 20th of the same month. In addition, continuous inflows of foreign capital, as well as the widened trade surplus, also created easy funding conditions in the banking system. As a result, during the first five

Interbank Call-loan Market



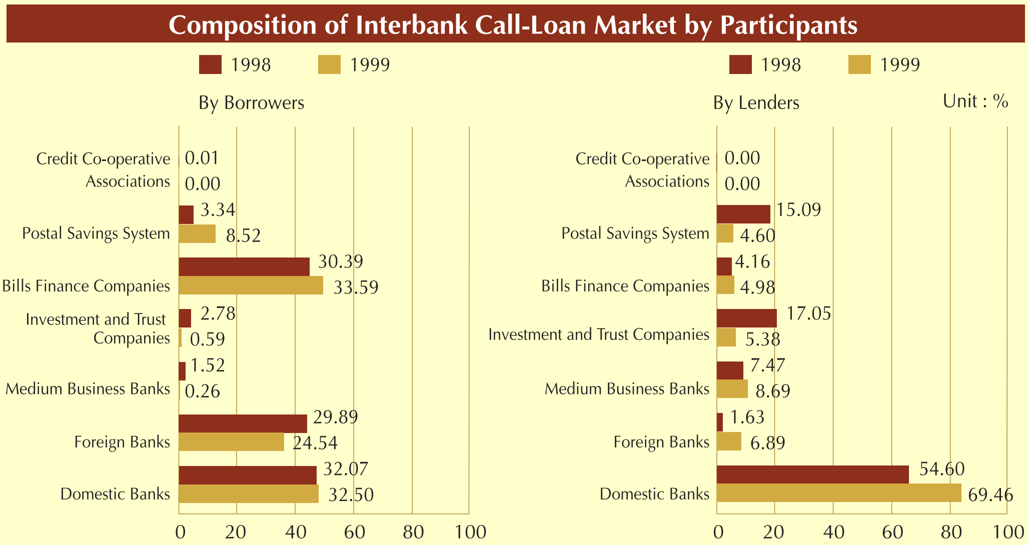
months of the year the overnight call-loan rate declined from 4.85 percent to 4.70 percent in May, the lowest level in the past ten years.

Afterwards, with the anticipation that the U.S. Federal Reserve System would increase the Federal funds rate target continuously, the Bank raised the rates on certificates of deposit, one of its key policy rates, on several occasions in a moderate manner to prevent market rates from further going down. Consequently, the interbank call-loan rate exhibited a slightly upward trend. The rate then remained between 4.82 percent and 4.84 percent from July to November, except for the period of mounting tension in cross-strait relations in July and when the devastating earthquake occurred in September. During the two occasions, the Bank, to prevent interest rates from rising dramatically, injected funds into the market through its repurchase agreements operations. Near the year-end, to meet the possibly high liquidity demand for the new millenium date change, the Bank decreased its mop-up of excess reserves when a large amount of certificates of deposit matured, and further cut its rates on certificates of deposit. In addition, the banking system also increased cash holding in preparation for possible panic withdrawals by depositors. Fortunately, owing to the successful computer system adjustment in the banking system and under the proper guidance of the government through the Y2K period, the withdrawals of deposits were not of major significant. The outflows of funds from the banking system were not as huge as expected. However, the fund conditions suddenly became so easy that the interbank call-loan rate fell significantly to 4.73 percent in December.

Due to the easy funding conditions, the monthly-averaged free reserves in the banking system for the year as a whole reached NT$11.5 billions, the highest level in eight years. To mitigate the downward pressure on the interbank call-loan rate, the Bank successively issued certificates of deposit to mop up excess liquidity in the market and also used fixed rate tenders at the same time to direct the money market rates toward an appropriate level. The interbank call-loans rate for the whole year of 1999 decreased from 6.56 percent in the previous year to 4.77 percent.

Less Active Interbank Call-Loan Market

Trading in the interbank call-loan market decreased significantly by 35.84 percent in 1999 from the previous year to NT$9,366.7 billion. The decline was mainly the result of the abundant funds in the banking system and the weak funds demand from the construction and other traditional industries. Demand for interbank call-loans from domestic banks and foreign banks therefore shrank. Similarly, bills finance companies also decreased the demand for call-loans. This was because the banks, in their efforts to reduce the ratio of past-due loans, would rather extend loans at the money market rate than purchase short-term bills directly. The resulting decline in issues of commercial paper in turn reduced the need for funds on the part of the bills finance companies.



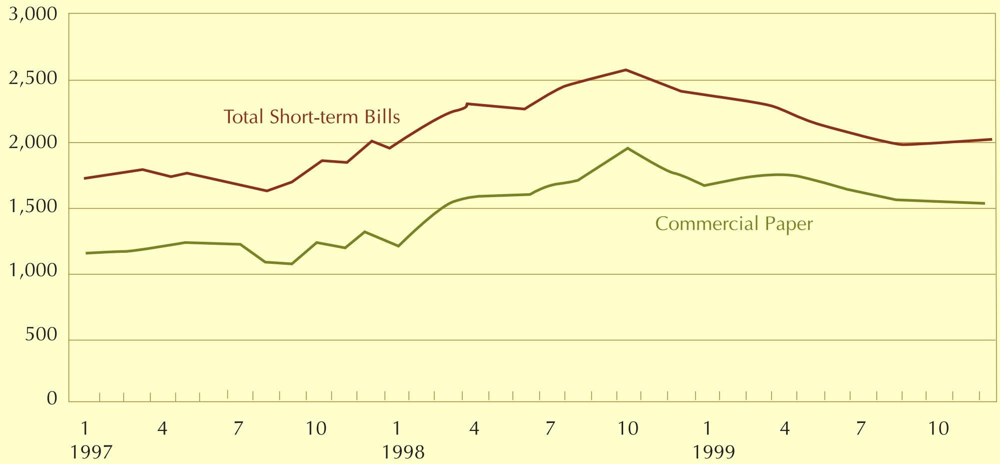
With respect to market shares, bills finance companies replaced domestic banks as the largest borrower in 1999, accounting for 33.59 percent of total trading. They were followed by domestic banks and foreign banks, with shares of 32.50 percent and 24.54 percent, respectively. In terms of lenders, domestic banks remained the largest provider of funds, accounting for 69.46 percent of total transactions. The share rose substantially by 14.86 percentage points over the previous year, mainly attributable to the conversion of some investment and trust companies and credit cooperative associations into domestic banks. Foreign banks' share of the interbank market increased to 6.89 percent in this year because most inflows from qualified foreign institutional investors (QFIIs) were deposited in those banks, and this increased those banks' short-term funds significantly. By contrast, due to its increasing redeposit with the Bank and with the banking system, the share of the Postal Savings System declined sharply, from 15.09 percent in the previous year to 4.60 percent. This implied that the Postal Savings System's traditional role as a major funds provider changed, at least temporarily.

Sluggish Short-term Bills Market

Issues of bills amounted to NT$10,676.5 billion in 1999, declining by 22.02 percent in 1999 as compared with that recorded in the previous year. Of the various instruments used, commercial paper still accounted for the largest share, or 87.96 percent, while bankers' acceptances made up the smallest share of only 0.62 percent. As mentioned above, the decline in the issues of commercial paper and bankers' acceptances were attributable to the weak funds demand by enterprises and banks' reduced willingness to purchase short-term bills. In addition, the easy fund conditions in the banking system made the issue of negotiable certificates of deposit less necessary. By contrast, the Treasury increasingly raised funds through issues of Treasury bills. The reasons included that the revenue from releasing shares of government-owned enterprises to the public couldn't meet the budget demand, that the revenue from the business tax on financial institutions shrank markedly because of tax rate being cut from 5 percent to 2 percent in July, and that the large amount of subsidies was provided for the damaged region's rehabilitation after the September earthquake. The issues of Treasury bills amounted to NT$315 billion, an increase of NT$260 billion from the previous year. At the end of 1999, total outstanding bills amounted to NT$2,033.3 billion, reflecting a decrease of 14.78 percent over the previous year. Of the components, commercial paper accounted for 73.35 percent, followed by negotiable certificates of deposit, with a share of 18.63 percent.

Outstanding Balance of Bills in the Money Market

Unit : NT$ Billion



In the secondary market, transactions in short-term bills also contracted. The total trading volume fell 12.17 percent from a year earlier to NT$59,656.1 billion. Of this amount, commercial paper continued to account for the largest share of 92.27 percent. In terms of market participants, banks and private enterprises were the two major participants, with shares of 33.90 percent and 33.69 percent, respectively. They were followed by bills finance companies and investment and trust companies with a combined share of 19.01 percent.