

11. Bond Market

The Ministry of Finance (MOF) issued central government bonds on only two occasions during the first half of 1999. As the Treasury was faced with a huge budget deficit during the second half of the year, issues of government bonds markedly increased. In terms of corporate bonds, unsecured corporate bonds issued by enterprises had to be credit-rated, starting from 1999, and banks were reluctant to extend credit lines to enterprises for issuing secured corporate bonds. As a result, issues of corporate bonds in 1999 declined significantly from the previous year. Issues of bank debentures also decreased in 1999 as compared with a year earlier, due to easy fund conditions in the banking sector. In addition, international financial institutions, including the Asian Development Bank (ADB), the Council of Europe Social Development Fund (COE), the European Investment Bank (EIB) and the Inter-American Development Bank (IADB), successively issued NT dollar-denominated bonds in Taiwan during the year.

The secondary market was overwhelmed by the buoyant stock market, the allegation of reforms in taxation on interest income from government bonds and the expectations for a large volume of government bonds to be issued by the MOF. These bearish sentiments caused the total trading value of the bond market to shrink as compared with the previous year. Bond yields were on an upward trend during the first half of the year and were on a declining trend amid some fluctuations during the second half of the year before turning upwards toward the end of the year.

Characteristics in the Issuance of Government Bonds

The MOF issued a total of NT\$282.82 billion in government bonds in 1999. The characteristics of these issues were as follows: (1) During the first half of the year, the MOF issued government bonds on only two occasions in January and April with a total amount of NT\$62.9 billion. During the second half of the year, as the Treasury was faced with a huge budget deficit, government bonds were issued every month, with the total amount reaching NT\$219.92 billion, of which NT\$40 billion was issued for the purpose of reconstruction after the September earthquake. The amount of government bonds issued in the year as a whole far exceeded the NT\$120 billion issued in the previous year. (2) During the year, government bonds were issued in short-term, medium-term as well as long-term maturities, such as 5, 10, 15 and 20 years, in order for their respective yields to serve as a reference for benchmark interest rates. (3) On a bidding day in August, the MOF announced

a plan to impose a 20 percent withholding tax on interest income from government bonds, which would be taxed separately from ordinary income. Meanwhile, the stock market rallied. As a result, some government bonds were not sold due to bid prices higher than the stop-out price, marking the first time for the amount of government bonds issued to be less than the amount open for bid.

Large Decrease in Issues of Corporate Bonds

From the beginning of the year onwards, interest rates were maintained at relatively low levels. Many securities firms and bills finance companies reduced commission to vie for market shares in underwriting corporate bonds. These two factors contributed to a lower cost for enterprises to issue bonds. However, under the requirement that, from 1999 onwards, unsecured corporate bonds issued by enterprises had to be credit-rated, many enterprises turned to banks to issue secured corporate bonds instead. Nevertheless, affected by the financial difficulties of several enterprises, the MOF's requirement to reduce non-performing loan ratios, and the lower rate of

Issues and Outstanding Volumes of Bonds

Unit: NT\$ Million

Year	Domestic NT-Dollar Bonds					
	Central Government Bonds		Corporate Bonds		Bank Debentures	
	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding
1995	125,000	805,110	43,790	92,200	44,662	97,468
1996	225,000	936,146	183,710	250,443	36,600	92,858
1997	160,000	975,394	111,200	323,924	26,000	68,890
1998	120,000	969,422	247,560	531,935	49,358	92,420
1999	282,800	1,181,930	137,510	603,149	35,930	97,796

(Continued)

Unit: NT\$ Million

Year	Foreign Bonds					
	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding
	(NT\$ Million)	(NT\$ Million)	(US\$ Million)	(US\$ Million)	(¥ Million)	(¥ Million)
1995	2,600	2,600	-	600	-	30,000
1996	7,000	9,600	-	600	-	30,000
1997	19,800	29,400	-	300	-	30,000
1998	33,700	63,100	-	-	-	-
1999	28,000	91,100	-	-	-	-

Sources : (1) *Financial Statistics Monthly, Taiwan District, the Republic of China, 1999, Central Bank of China.*

(2) *Major Indicators of Securities & Futures Market, Securities & Futures Commission, Ministry of Finance, 1999.*

return from guarantee as compared to lending business, banks were reluctant to extend credit lines to enterprises for issuing secured corporate bonds. Consequently, total issues of corporate bonds in 1999 declined significantly by NT\$110.1 billion, or 44.5 percent, from the previous year to NT\$137.5 billion.

Decrease in Issues of Long-term Bank Debentures

Due to easy fund conditions in the banking sector, specialized banks and savings banks issued a total of NT\$35.9 billion in bank debentures in 1999, which was NT\$13.4 billion or 27.2 percent less than in the previous year. On January 1, the China Development Corporation was converted into the China Development Industrial Bank. It then issued NT\$10 billion in bank debentures in March to compensate for the possible withdrawal of trust funds. In July, the Taiwan Cooperative Bank issued NT\$22 billion in subordinated bonds in order to improve its capital adequacy ratio in compliance with the MOF's requirement.

Further Issues of NT Dollar Bonds by Foreign Financial Institutions

Following its last issue in December 1996, the Asian Development Bank on March 8 of 1999 issued a total of NT\$10 billion in NT dollar-denominated bonds, with NT\$2 billion, NT\$6 billion and NT\$2 billion, in 3-year, 5-year and 7-year bonds, respectively. The coupon rate for 5-year bonds was 5.35 percent, based on the rate of the FY1997-3rd issue of 7-year government bonds (with five years to maturity) in the secondary market on January 28 plus 24 basis points. The coupon rates for 3-year and 7-year bonds were 5.2 percent and 5.4 percent, respectively, subject to adjustment based on the coupon rate for 5-year bonds. Totalling NT\$10 billion, the bond issue marked the largest amount issued by the ADB in Taiwan.

The Council of Europe Social Development Fund on April 12 of 1999 issued NT\$6 billion in 5-year NT dollar-denominated bonds with a coupon rate of 5.38 percent for the first time in Taiwan. The coupon rate was based on the rate of the FY1998-4th issue of 7-year government bonds (with six years to maturity) in the secondary market on March 22 plus 28.2 basis points.

The European Investment Bank on November 16 issued NT\$6 billion in 5-year NT-dollar denominated bonds with a coupon rate of 5.9 percent. This was the second time the EIB issued NT dollar-denominated bonds in Taiwan. The coupon rate was based on a markup to the FY2000-1st issue of 5-year

government bond rate in the secondary market.

The Inter-American Development Bank on November 19 issued NT\$6 billion in NT-dollar denominated bonds with equal amounts in 3-year and 5-year bonds with coupon rates of 5.65 percent and 5.9 percent, respectively. During 1999, international financial institutions raised a total of NT\$28 billion by successively issuing NT dollar-denominated bonds in Taiwan.

Slight Decrease in Bond Trading in the OTC Market

The over-the-counter (OTC) market was overwhelmed by bearish sentiments during 1999 owing to (1) active transactions in the stock market with upwards moving share prices; (2) the allegations that interest income from repurchase agreements and coupon return from government bonds would be taxed separately from ordinary income; and (3) the expectations of a large amount of government bonds to be issued by the MOF in the future. Total transaction value in 1999 amounted to NT\$52,378 billion, representing a decrease of NT\$2,579 billion or 4.7 percent over the previous year. Of this amount, outright transactions increased by NT\$104 billion or 1.5 percent. Repurchase agreement transactions decreased by NT\$2,683 billion or 5.6 percent as compared with the previous year.

Bond Transactions in the Over-the-Counter Market

Unit: NT\$ Billion

Year/ Month	Outright Transactions		Repurchase Agreement Transactions		Total Trading Value
	Amount	Share (%)	Amount	Share (%)	
1997	2,571	6	37,801	94	40,372
1998	7,106	13	47,851	87	54,957
1999	7,210	14	45,168	86	52,378
1999 / 1	908	20	3,569	80	4,477
2	556	17	2,626	83	3,182
3	832	17	4,186	83	5,018
4	537	12	3,905	88	4,442
5	464	11	3,706	89	4,170
6	313	8	3,637	92	3,950
7	316	8	3,884	92	4,200
8	574	13	3,790	87	4,364
9	645	14	3,826	86	4,471
10	581	12	4,170	88	4,751
11	925	19	3,819	81	4,744
12	559	12	4,050	88	4,609

Source: OTC Monthly Review, R.O.C. Over-the-Counter Securities Exchange, 1999.

Limited Bond Transactions on the Exchange

Because of stock prices on the upswing, transactions in convertible corporate bonds amounted to NT\$54.23 billion, an increase of NT\$13.31 billion or 32.5 percent over the previous year. However, there was no trading in non-convertible corporate bonds and government bonds on the Taiwan Securities Exchange (TSE).

Bond Transaction Value by Types of Markets and Bonds

Unit: NT\$ Million

Year	OTC Market				TSE Market	
	Government Bonds	Corporate Bonds	Bank Debentures	Foreign Bonds	Government Bonds	Corporate Bonds (Convertible)
1995	20,796,056	2,747	0	2,317	0	1,866
1996	28,258,781	24,067	0	4,663	0	10,033
1997	40,318,832	27,061	0	26,221	0	19,796
1998	54,718,697	69,555	0	168,975	0	40,921
1999	52,110,604	95,693	0	172,029	0	54,237

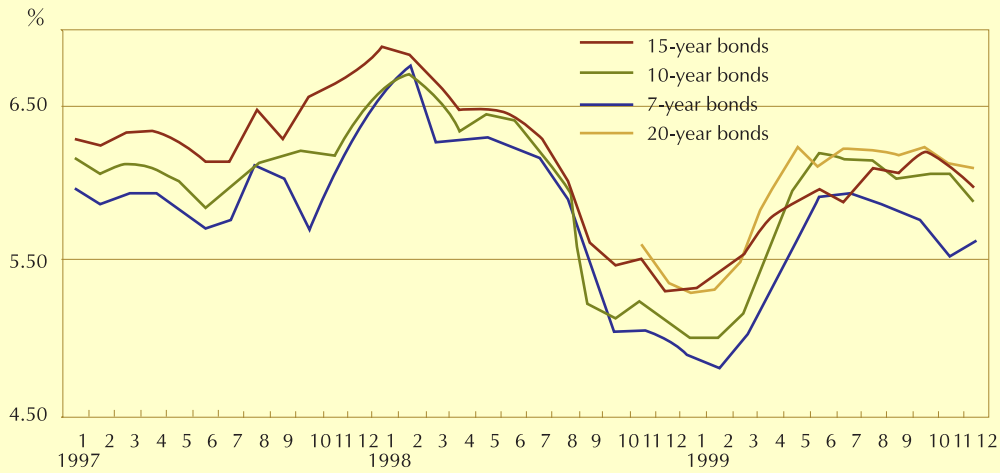
Sources : (1) *Major Indicators of Securities & Futures Market, Securities & Futures Commission, Ministry of Finance, 1999.*

(2) *OTC Monthly Review, R.O.C. Over-the-Counter Securities Exchange, 1999.*

Movements in Bond Yields

Bond yields tended to rise month by month during the first half of the year and consolidated from July to September owing to alternating bullish and bearish market sentiment. In October, as the market expected short-term interest rates to remain at low levels and a large volume of government bonds to be issued following the September earthquake, yields for short-term bonds declined while those for long-term bonds went up. In early and middle November, selling pressure subsided after a long period of consolidation and monetary conditions were easy. Yields for short-term and long-term bonds both declined before rising again in late November due to active stock transactions. Bond yields exhibited minor fluctuations in December owing to alternating bullish and bearish market sentiment.

Trends of Yields of Central Government Bonds with Different Maturities*



Note : * Yields for the different maturities refer to the yields for the central government bonds with equal or approximate maturity dates.

Yield Curves for Central Government Bonds

