

11. Bond Market

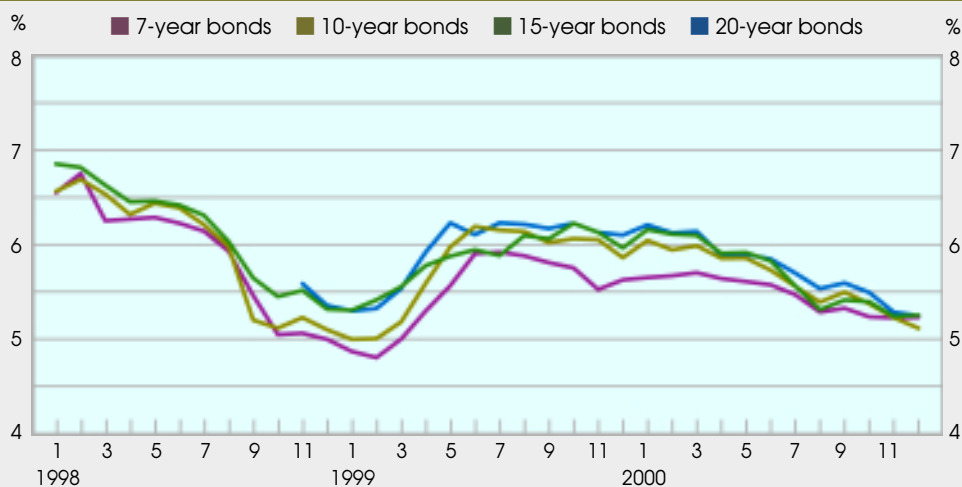
In terms of bond issues, the total amount of central government bonds issued in 2000 was higher than in any other year on record, reflecting the government's huge budget deficit. The amount of corporate bonds issued in 2000 increased from the previous year, as interest rates remained at low levels and stock prices declined further during the second half of the year. Issues of bank debentures also increased in 2000. In addition, international financial institutions, including the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Development Bank (IADB), and the Council of Europe Development Bank (CEB), successively issued NT dollar-denominated bonds in Taiwan during the year.

The secondary market registered a record-high total transaction value in 2000, affected by the sluggish stock market, the slowdown in economic recovery and declining interest rates. Bond yields were generally on a downward trend.

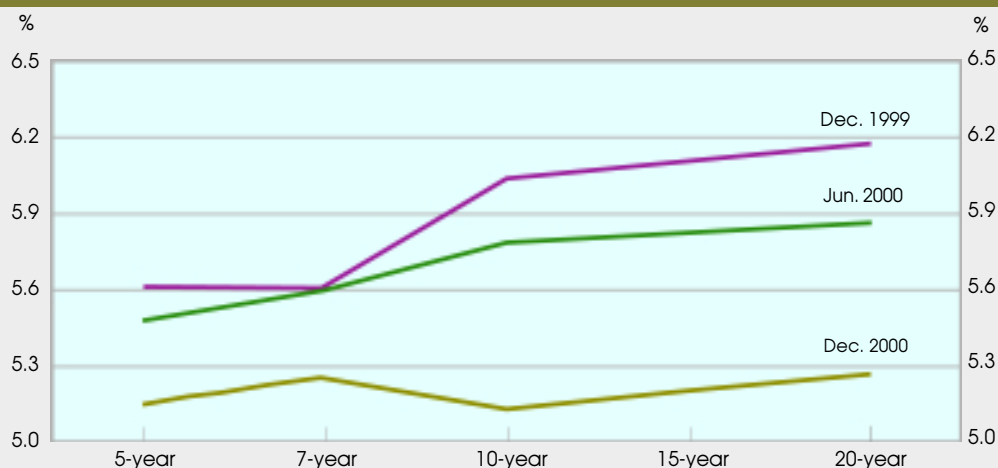
Characteristics of the Issuance of Government Bonds

The Ministry of Finance issued a total of NT\$346.5 billion in central government bonds in 2000. The characteristics of these issues were as follows: (1) the total amount of government bonds registered a record-high, reflecting a huge budget deficit; (2) government bonds were issued with maturities of 5, 7, 10, 15 and 20 years, and their respective yields served as a reference for medium- and long-term benchmark interest rates; (3) easy fund conditions resulted in a continuous slide in the weighted average yields of winning bids to the extent that the weighted average yields of winning bids for long-term government bonds fell below those for short-term ones. For example, the winning bids for the 20-year government bonds issued in April posted a weighted average yield of 5.937 percent, which was lower than the 6.154 percent weighted average yield for the 15-year government bonds issued in March. The weighted average yield of the winning bids for the 15-year government bonds issued in August was 5.19 percent, which again dropped below the 5.767 percent weighted average yield for the 10-year government bonds issued in June.

Trends of Yields of Central Government Bonds with Different Maturities



Yield Curves for Central Government Bonds



Large Increase in Issues of Corporate Bonds

Issues of corporate bonds increased significantly due to the following reasons: (1) interest rates remained at low levels throughout the year; (2) securities firms lowered their underwriting fees to vie for market share, which caused issuing rates of corporate bonds to break historic lows; (3) during the second half of the year, the gloomy stock market made it difficult for corporations to raise funds by means of equity financing; (4) due to the tax-free incentive, bond funds surged in size, which, in turn, increased the demand for corporate bonds. As a result, corporations willingly resorted to bond issuance, with some corporations issuing bonds for the

first time. However, from the fourth quarter onwards, bond funds, which were the major buyers of corporate bonds, shrank in size. With market supply exceeding demand, corporate bond yields began to rise. Total issues of corporate bonds in 2000 increased significantly by NT\$43.7 billion, or 31.8 percent, from the previous year to NT\$181.2 billion.

Issues and Outstanding Volumes of Bonds

Unit: NT\$ Million

Domestic NT-Dollar Bonds						
Year	Central Government Bonds		Corporate Bonds		Bank Debentures	
	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding
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	234,560	518,935	49,358	92,420
1999	282,800	1,181,930	137,510	590,149	35,930	97,796
2000	346,500	1,409,036	181,244	707,304	46,096	91,668

(Continued)

Foreign Bonds*						
Year	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding
	(NT\$ Million)	(NT\$ Million)	(US\$ Million)	(US\$ Million)	(¥ Million)	(¥ Million)
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	-	-	-	-
2000	22,000	113,100	-	-	-	-

Note : *Refers to the NT dollar-denominated and foreign currency-denominated bonds issued in Taiwan by international financial institutions and organizations..

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

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

Increase in Issues of Bank Debentures

Specialized banks and savings banks issued a total of NT\$46.1 billion in bank debentures in 2000, which was NT\$10.2 billion or 28.4 percent more than in the previous year. The coupon rates of these issues were largely based on the floating interest rates posted by the issuing banks on their 1-year time savings deposits or 1-year time deposits with a premium or discount depending on how tight or easy the reserve positions of the banks were.

Further Issues of NT Dollar Bonds by Foreign Financial Institutions

During 2000, international financial institutions raised a total of NT\$22.0 billion by successively issuing NT dollar-denominated bonds in Taiwan.

On July 13, the European Bank for Reconstruction and Development (EBRD) issued a total of NT\$6 billion in NT dollar-denominated bonds in Taiwan, with NT\$1.5 billion, NT\$3.5 billion and NT\$1 billion, in 3-year, 4-year and 5-year bonds, respectively. The corresponding coupon rates were 5.4 percent, 5.5 percent and 5.62 percent.

On October 17, the European Investment Bank (EIB) issued NT\$4 billion in 5-year NT dollar-denominated bonds in Taiwan with a coupon rate of 5.24 percent.

Toward the end of October, the Inter-American Development Bank (IADB) issued a total of NT\$6 billion in NT dollar-denominated bonds in Taiwan, with NT\$4 billion and NT\$2 billion, in 3-year and 5-year bonds, respectively. The corresponding coupon rates were 5.12 percent and 5.2 percent.

On November 20, the Council of Europe Development Bank (CEB) issued NT\$6.0 billion in 5-year NT dollar-denominated bonds in Taiwan with a coupon rate of 5.22 percent.

Large Increase in Bond Trading in the OTC Market

In the beginning of 2000, bullish and bearish sentiments alternated in the OTC market with bond yields rising at first and falling afterwards. Bond yields rose again prior to the presidential election. During that time, buying halted as political uncertainty heightened risk and market participants expected interest rates to trend upward after the election. On March 20, the day after the presidential election, bond yields soared on panic selling. However, on the following day, investor confidence was soon restored and a bullish period began with declining bond yields. Under the impact of a local bank fraud case and bank runs in April and May, interest rates hikes by the U.S. Federal Reserve and military drills by mainland China off the coast of Taiwan, bond yields exhibited a generally rising trend. From June onwards, despite the Middle East tensions, rising oil prices and depreciating NT dollar, the bond market was filled with bullish sentiment, extraordinarily active trading and spiraling-down bond yields. This was mainly attributable to the gloomy stock market and declining interest rates.

Trading in the bond market turned active from March onwards. Total transaction value in 2000 amounted to NT\$68,420.3 billion, representing an increase of NT\$16,242 billion or 31.1 percent over the previous year. Of this amount, outright transactions increased by NT\$8,941 billion or 124 percent. Repurchase agreement transactions increased by NT\$7,301 billion or 16.2 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 (%)	
1996	2,622	9	25,666	91	28,288
1997	2,571	6	37,801	94	40,372
1998	7,106	13	47,851	87	54,957
1999	7,210	14	44,968	86	52,178
2000	16,151	24	52,269	76	68,420
2000 / 1	523	12	3,754	88	4,277
2	495	14	3,080	86	3,575
3	690	13	4,489	87	5,179
4	1,048	20	4,147	80	5,195
5	754	14	4,652	86	5,406
6	1,034	19	4,511	81	5,545
7	1,589	26	4,411	74	6,000
8	1,815	28	4,728	72	6,543
9	1,423	25	4,353	75	5,776
10	1,988	31	4,388	69	6,376
11	2,512	34	4,838	66	7,350
12	2,280	32	4,918	68	7,198

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

Limited Bond Transactions on the TSE Market

Because of declining stock prices, transactions in convertible corporate bonds amounted to NT\$51.28 billion in 2000, a decrease of NT\$2.96 billion or 5.5 percent over the previous year. However, there was no trading in non-convertible corporate bonds and government bonds on the Taiwan Stock Exchange (TSE).

Bond Transaction Value by Type 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)
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	51,910,604	95,693	0	172,029	0	54,237
2000	68,006,240	169,430	0	244,760	0	51,277

Sources: (1) Major Indicators of Securities & Futures Market, Securities & Futures Commission, Ministry of Finance.
(2) OTC Monthly Review, R.O.C., Over-the-Counter Securities Exchange.