

8. Money Market

Active Interbank Call-loan Market

Trading in the interbank call-loan market exhibited a significant increase in 2001. This mainly resulted from the easy monetary policy adopted by the Bank, and the tax-avoiding practices of banks by extending call-loans in place of purchasing bills. Furthermore, local branches of foreign banks lacked NT dollar funds resulting from the shift of funds from NT dollar deposits to foreign currency deposits by the general public in expectation of an NT dollar depreciation. Bills finance companies also need NT dollar funds to support their holdings of bills positions in anticipation of falling interest rates. These factors on demand or supply sides all attributed to the increased turnover. For the year as a whole, the total turnover in the call-loan market amounted to NT\$11,492.7 billion, representing an increase of NT\$1,956.9 billion or 20.52 percent from a year earlier.

With respect to market shares, foreign banks were the largest borrowers during the year, accounting for 34.10 percent of total trading, which reflected a significant increase of 16.79 percentage points over the previous year. They were followed by domestic banks, bills finance companies and the Postal Savings System, with shares of 32.6 percent, 28.81 percent and 2.82 percent, respectively. Among these borrowers, bills finance companies' share rose mildly, while those of domestic banks and the Postal Savings System dropped markedly. In terms of lenders, domestic banks were the largest providers of funds, accounting for 78.64 percent of total transactions, which showed an increase of 9.42 percentage points over the previous year. They were followed by medium business banks, the Postal Savings System and foreign banks, with shares of 8.01 percent, 5.76 percent and 3.83 percent, respectively. Among these lenders, the shares of medium business banks and the Postal Savings System rose slightly, while that of foreign banks declined significantly.

Shrinking Short-term Bills Market

Issues of short-term bills amounted to NT\$9,901.5 billion in 2001. Of the various instruments issued, commercial paper accounted for the largest share, or 90.16 percent. It was followed by negotiable certificates of deposit with a share of 8.62 percent, while bankers' acceptances made up the smallest share of only 0.36 percent. Total issues of short-term bills declined by NT\$423.1 billion, or 4.10 percent, compared with that recorded in the previous year. The issues of negotiable certificates of deposit and commercial paper both decreased. The decline in the issues of negotiable certificates of deposit resulted from the easy funds conditions in the

banking system. Factors affecting the decline in the issues of commercial paper included weak demand for funds from enterprises due to the economic slowdown and banks' reluctant attitudes toward purchasing bills in an attempt to avoid business tax. At the end of 2001, total outstanding bills amounted to NT\$1,487.8 billion, reflecting a decrease of NT\$317.2 billion or 17.57 percent from a year earlier.

The total turnover of short-term bills in the secondary market fell to NT\$58,059.5 billion, representing a decrease of NT\$5,855.8 billion or 9.16 percent over the previous year. Of the total amount, commercial paper accounted for the largest share of 86.49 percent. In terms of market participants, banks and private enterprises were the major players, with shares of 34.85 percent and 32.48 percent, respectively.

Downward Trend of Money Market Rates

The interbank overnight call-loan rate exhibited a downward trend in 2001. In anticipation of weakening international and local economies, the Bank lowered the discount rate 8 times from December 2000 to August, 2001. The September 11 terrorist attacks in the U.S. and typhoon Nari damage caused both external and domestic demand to weaken further. The Bank further lowered the discount rate 4 times from September to December, 2001. The discount rate was at its historic low of 2.125 percent at the end of 2001, with a total cut of 262.5 basis points from December 2000 to December 2001. This led to a downward trend in all types of money market interest rates. Among them, the interbank overnight call-loan rate fell from 4.74 percent in November 2000 to 2.39 percent in December 2001. The average issuing rate of commercial paper with maturities of 1 to 30 days declined from 5.50 percent to 2.71 percent during the same period of time.

