

11. Bond Market

The bond market was very active in 2001 as interest rates went down during the course of the year. Issues of both government bonds and corporate bonds recorded their historic highs. Issues of bank debentures also significantly increased as the Ministry of Finance eased regulations to allow commercial banks to issue bank debentures to improve their capital structure. Moreover, NT dollar-denominated bonds issued by international financial institutions in Taiwan also increased during the year.

Owing to falling interest rates, the transaction volume in the secondary market registered a record high for the year. Bond yields were generally on a downward trend during the first three quarters of the year, before bouncing back on the strengthening stock prices in the fourth quarter.

Bond funds continued to grow in 2001, as more depositors shifted their bank deposits to bond funds for higher returns. Owing to the continuous expansion of their size, bond funds became the biggest institutional investors in the local corporate bond market.

Surge in Issues of Government Bonds

The Ministry of Finance issued a total of NT\$ 437 billion in central government bonds in 2001. The total issues registered a record-high, reflecting the tight fiscal condition of the central

Issues and Outstanding Volumes of Bond Market

Unit:NT\$ Million

	Central Government Bonds		Local Government Bonds		Corporate Bonds		Bank Debentures		Foreign Bonds*	
	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding	Issues	Outstanding
1999	282,820	1,181,930	-	63,302	137,510	590,149	35,930	97,796	28,000	91,100
2000	346,500	1,409,036	16,000	71,299	181,244	707,304	46,096	91,668	22,000	113,100
2001	437,000	1,772,613	20,000	85,691	208,470	818,943	118,989	202,611	40,500	143,000
2001/ 1	70,000	1,478,832	-	71,292	3,990	704,908	3,540	94,942	7,000	120,100
2	60,000	1,538,716	-	71,292	15,450	717,918	2,700	97,395	-	120,100
3	50,000	1,570,758	-	71,072	550	715,371	2,350	98,207	-	120,100
4	-	1,546,914	-	69,086	15,000	726,854	1,680	99,778	-	113,500
5	30,000	1,575,635	10,000	79,081	18,900	738,629	7,300	107,035	-	113,500
6	-	1,575,505	-	79,073	29,050	751,714	1,500	105,876	5,000	114,500
7	40,000	1,615,314	10,000	89,069	29,750	771,870	3,100	108,889	9,000	123,500
8	50,000	1,665,257	-	89,068	19,500	788,412	17,150	125,965	8,500	132,000
9	37,000	1,702,218	-	88,088	2,600	788,079	21,250	147,158	-	132,000
10	50,000	1,752,187	-	88,086	15,650	795,542	9,060	154,774	11,000	143,000
11	50,000	1,802,145	-	85,697	27,700	818,646	30,459	183,839	-	143,000
12	-	1,772,613	-	85,691	30,330	818,943	18,900	202,611	-	143,000

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.

government. The maturity of newly issued government bonds was extended to 30 years for the first time to meet the market demand mainly from the life insurance industry and to complete the yield curve. Due to easy fund conditions, the weighted average interest rate of winning bids for government bonds with different maturities all moved down during the year.

Large Increase in Issues of Corporate Bonds

Demand for corporate bonds strengthened from the beginning of 2001 owing to the continuous expansion of the size of local bond funds and the maturity of bonds held by banks, life insurance companies and investment and trust companies. Coupled with banks' policy of tightening the guarantee conditions for corporate bond issues, demand for corporate bonds largely exceeded supply, and that in turn caused issue rates of corporate bonds to fall to record lows. In the second half of the year, enterprises became more willing to raise funds through the issue of corporate bonds as the cost of funds was reduced and raising capital from the stock market became more difficult. Issues of corporate bonds increased further in the fourth quarter as enterprises intended to lock in low costs of funds in view of the rising trend of long-term bond yields. Total issues of corporate bonds in 2001 significantly rose by NT\$ 27.3 billion or 15.07 percent, to NT\$ 208.5 billion.

Commercial Banks Allowed to Issue Debentures

Commercial banks were allowed to issue bank debentures in July 2001. Before that, only four specialized banks were allowed to issue bank debentures. For the year, specialized banks and commercial banks issued a record-high total of NT\$ 119.0 billion in bank debentures, an increase of NT\$ 72.9 billion or 158.13 percent from the previous year. Banks increased their issues of bank debentures because they intended to take advantage of low costs of funds and to strengthen their tier II capital.

Marked Increase in Bonds Issued by International Institutions

Some international financial institutions were very active in issuing NT dollar-denominated bonds in Taiwan during the year 2001. The issues totaled a record high of NT\$ 45.0 billion, representing an increase of NT\$ 18.5 billion or 84.09 percent from a year earlier. Of these issues, the European Investment Bank accounted for the largest share of NT\$ 16 billion, followed by the Inter-American Development Bank with NT\$ 12 billion, the Nordic Investment Bank with NT\$ 8.5 billion, and the European Bank for Reconstruction and Development with NT\$ 4 billion.

Active Trading in the OTC Market

The continuous downward trend in interest rates prompted bullish sentiment in the govern-

ment bond market, pressing the yields for government bonds with different maturities down to new lows. By July 2001, the transaction volume of bonds registered a record-high level with yields of government bonds of different maturities all dropping below 4 percent. In addition, the Ministry of Finance's first issue of 30-year government bonds attracted massive bids from local dealers on expectations of the market rate would decline further. As a result, the average yield of 30-year government bonds plummeted to 3.761 percent in July. In September, as domestic economy further deteriorated following the September 11 terrorist

Bond Transactions in the Over-the-Counter Market

Unit:NT\$ Billion

	Outright Transactions		Repurchase Agreement Transactions		Total Trading Value
	Amount	Share (%)	Amount	Share (%)	
1999	7,258	13.8	45,177	86.2	52,435
2000	16,702	24.3	52,152	75.7	68,854
2001	53,024	44.6	65,969	55.4	118,993
2001 / 1	1,661	30.1	3,864	69.9	5,525
2	3,379	42.5	4,574	57.5	7,953
3	5,216	47.3	5,807	52.7	11,023
4	3,645	42.3	4,969	57.7	8,614
5	4,842	47.5	5,347	52.5	10,189
6	5,713	53.3	5,008	46.7	10,721
7	6,852	52.9	6,096	47.1	12,948
8	4,156	40.0	6,247	60.0	10,403
9	3,862	40.1	5,762	59.9	9,625
10	6,079	49.7	6,155	50.3	12,234
11	4,725	43.1	6,229	56.9	10,954
12	2,894	32.9	5,911	67.1	8,805

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

Turnover in Bond Market by Category

Unit:NT\$ Billion

	Total	OTC Market						
		TSE Market	Subtotal	Government Bonds	Corporate Bonds		Foreign Bonds	Bank Debentures
		Corporate Bonds (Convertible)			Nonconvertible	Convertible		
1999	52,435.0	54.2	52,380.8	52,110.6	95.7	2.4	172.1	-
2000	68,853.9	51.3	68,802.6	68,354.6	169.4	33.8	244.8	-
2001	118,992.5	24.0	118,968.5	118,334.5	173.8	90.1	360.1	10
2001 / 1	5,524.5	1.5	5,523.0	5,496.8	4.5	2.5	19.2	-
2	7,953.4	1.4	7,952.0	7,926.6	11.8	3.0	10.6	-
3	11,023.1	1.3	11,021.8	10,989.8	11.9	3.0	17.1	-
4	8,614.1	1.2	8,612.9	8,586.7	13.4	2.2	10.6	-
5	10,188.8	1.3	10,187.5	10,138.6	24.9	3.9	20.1	-
6	10,721.8	2.3	10,719.5	10,677.9	13.5	5.5	22.6	-
7	12,947.9	2.5	12,945.4	12,888.3	28.6	5.1	23.4	-
8	10,402.8	2.3	10,400.5	10,282.5	13.6	4.9	89.5	10
9	9,624.1	1.4	9,622.7	9,596.2	7.2	5.3	14.0	-
10	12,234.0	0.7	12,233.3	12,177.6	8.1	4.1	43.5	-
11	10,953.4	4.5	10,948.9	10,875.3	23.6	10.9	39.1	-
12	8,804.6	3.6	8,801.0	8,698.2	12.7	39.7	50.4	-

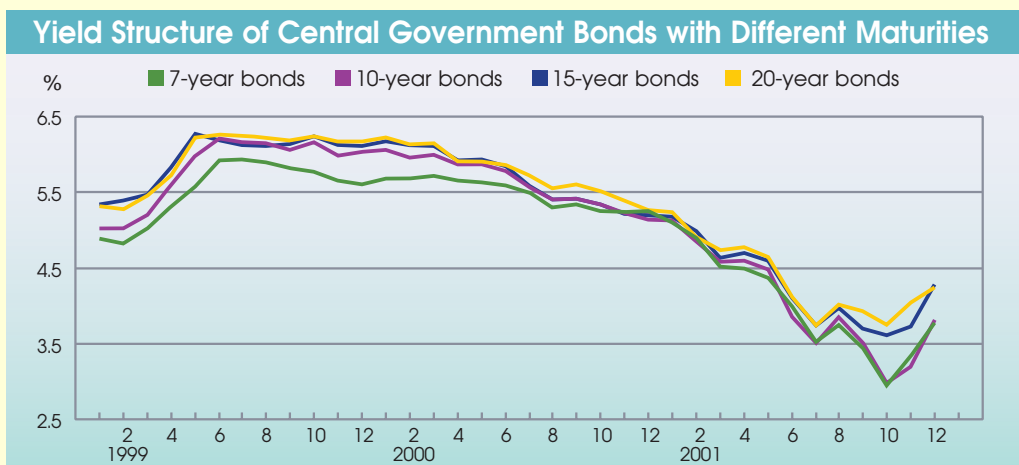
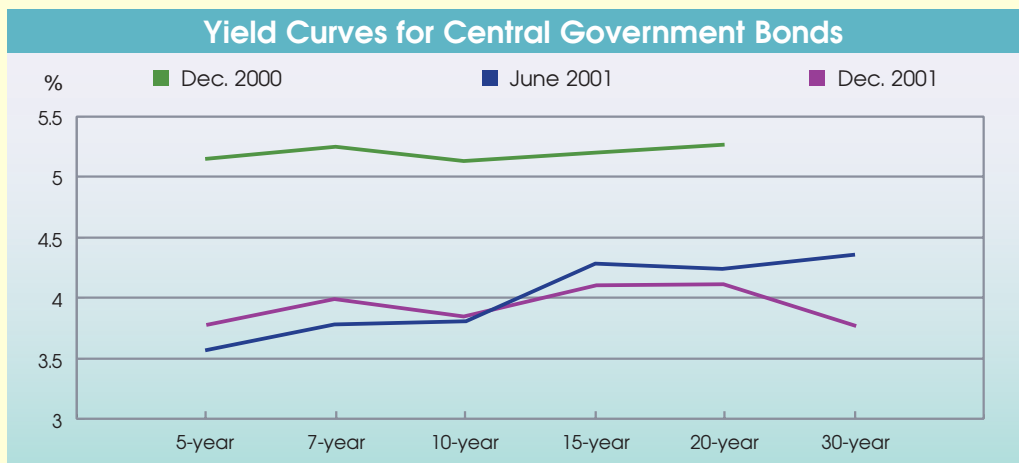
Source: OTC Monthly Review, R.O.C., Over-the-Counter Securities Exchange.

attacks in the U.S., typhoon Nari damage, and the successive rate cuts by the Bank, bond yields dropped further. In mid-October, bond yields registered record lows with the average yield on 10-year government bonds merely standing at 2.9775 percent. Following this nadir, and as the stock market started to gather momentum, bond yields gradually trended upward. Consequently the average yield on 10-year government bonds in December increased to 3.8104 percent.

The total trading in the bond market amounted to a record-high of NT\$ 118,968 billion in 2001, an increase of NT\$ 50,165.9 billion or 72.91 percent. Of this amount, outright transactions increased by 218.3 percent, and repurchase agreement transactions increased by 26.49 percent from the previous year.

Sharp Increase in Bond Funds

Owing to the sluggish stock market and a lower interest rate environment, local bond



funds continued to expand during the year 2001. As of the end of the year, the net asset of local bond funds amounted to NT\$ 1,424.6 billion, a robust increase of NT\$ 647.3 billion or 83.28 percent over the NT\$ 777.3 billion registered at the end of the previous year. The rapid growth of local bond funds indicated a shift of funds from bank deposits in pursuit of higher returns.

With respect to portfolio allocation, local bond funds mainly invested in outright purchases of corporate bonds, repurchase agreements of government bonds, and bank time deposits. Of the total investment at the end of 2001, outright bonds accounted for 36.5 percent, bonds with repurchase agreements made up 28.7 percent, and deposits with financial institutions represented 32.1 percent.

Portfolio Composition of Bond Funds

Unit: NT\$ Billion

	Total	Outright Purchases		Repurchase Agreements		Bank Deposits		Short-term Securities	
		Amount	Share (%)	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
1999	633.0	178.5	28.2	205.1	32.4	233.6	36.9	15.8	2.5
2000	777.3	313.8	40.4	163.5	21.0	280.1	36.0	19.9	2.6
2001	1,424.6	520.6	36.5	409.2	28.7	457.0	32.1	37.8	2.7
2001/ 1	792.1	303.4	38.3	192.8	24.4	279.8	35.3	16.1	2.0
2	861.3	323.6	37.6	224.2	26.0	295.2	34.3	18.3	2.1
3	928.6	331.1	35.7	251.7	27.1	324.2	34.9	21.6	2.3
4	952.9	336.2	35.3	254.5	26.7	340.0	35.7	22.2	2.3
5	989.8	351.1	35.5	259.2	26.2	357.3	36.1	22.2	2.2
6	1,000.4	377.0	37.6	235.6	23.6	363.0	36.3	24.8	2.5
7	1,143.4	395.6	34.6	324.7	28.3	397.3	34.8	25.8	2.3
8	1,223.9	420.1	34.3	343.5	28.1	433.5	35.4	26.8	2.2
9	1,280.2	458.0	35.8	365.4	28.5	427.2	33.4	29.6	2.3
10	1,348.0	444.8	33.0	416.6	30.8	430.7	32.0	55.9	4.2
11	1,451.5	489.8	33.7	452.3	31.2	461.2	31.8	48.2	3.3
12	1,424.6	520.6	36.5	409.2	28.7	457.0	32.1	37.8	2.7

Source : Securities Investment Trust & Consulting Association of R.O.C.

The Outstanding of Bond Funds vs. the TSE Stock Price Index

