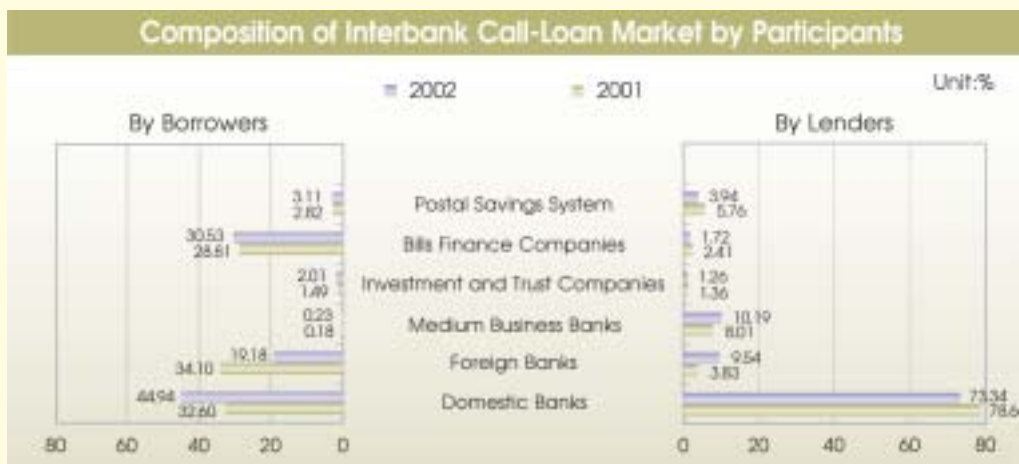


8. Money Market

Less Active Interbank Call-loan Market

Activity in the interbank call-loan market slowed down in 2002. For the year as a whole, the total turnover in the call-loan market reached NT\$9,687.7 billion, a contraction of 15.71 percent over the previous year. The decline reflected less borrowing from major market players despite abundant funds in the banking system. The lack of demand for funds was mainly due to sluggish business and consumer spending, together with a lackluster stock market. On the other hand, ample funds in the banking system, primarily resulting from a large trade surplus, net inflows of foreign capital, and the Bank's monetary easing, created more incentives for lending. Against this backdrop, market participants in the interbank call-loan market were on the side of lending rather than borrowing. In particular, local branches of foreign banks, big borrowers in the past, received more NT-dollar deposits from foreign institutional investors and thus curbed their borrowing from the market in 2002. Moreover, firms' shift from the short-term bills market to the bond market for fund raising resulted in a decrease in the borrowing needs of bills finance companies from the call-loan market.

As regards market shares, domestic banks replaced foreign banks as the largest borrower during the year, accounting for 44.94 percent of total trading, up 12.34 percentage points from the previous year. They were followed by bills finance companies and foreign banks, with shares of 30.53 percent and 19.18 percent, respectively. Among these borrowers, the share of



foreign banks markedly fell 14.92 percentage points, while that of bills finance companies edged higher slightly. With regard to lenders, domestic banks continued to be the largest supplier of funds, accounting for 73.34 percent of total transactions, but down 5.3 percentage points from a year ago. Following domestic banks were medium business banks and foreign banks, with respective shares of 10.19 percent and 9.54 percent. Among these lenders, the share of medium business banks rose a little, while foreign banks registered a notably increasing share, turning from a net borrower to a net supplier in 2002.

Trading of the shortest maturities was most active in the interbank call-loan market. Overnight interbank call-loans accounted for the major share of 58.76 percent, followed by those with maturities of 1 week and 2 weeks with shares of 28.65 percent and 8.55 percent, respectively.

Sluggish Short-term Bills Market

Issues of short-term bills totaled NT\$8,378.1 billion in 2002. Of the various instruments issued, commercial paper continued to predominate, accounting for the lion's share of 89.82 percent, followed by negotiable certificates of deposit with a share of 7.55 percent, while bankers' acceptances made up the negligible share of 0.48 percent. Total issues of short-term bills sharply dropped 15.39 percent from a year earlier. Even though there were more issues of Treasury bills, a significant decrease in issues of negotiable certificates of deposit and commercial paper contributed to the decline in issues of short-term bills. The issues of negotiable certificates

Short-term Bills Market

Unit: NT\$ Billion

| Year | Total | | Treasury Bills | | Commercial Paper | | Bankers' Acceptances | | Negotiable Certificates of Deposit | |
|-----------------------------|----------|----------------------|----------------|----------------------|------------------|----------------------|----------------------|----------------------|------------------------------------|----------------------|
| | Issue | Year-end Outstanding | Issue | Year-end Outstanding | Issue | Year-end Outstanding | Issue | Year-end Outstanding | Issue | Year-end Outstanding |
| 1992 | 5,169.9 | 940.5 | 453.0 | 80.0 | 3,082.1 | 340.7 | 285.4 | 55.4 | 1,349.4 | 464.4 |
| 1993 | 5,969.4 | 1,043.8 | 60.0 | 30.0 | 3,843.0 | 509.2 | 829.3 | 141.8 | 1,237.1 | 362.7 |
| 1994 | 7,450.5 | 1,184.1 | 50.0 | 15.0 | 5,201.5 | 536.3 | 1,144.6 | 192.2 | 1,054.4 | 440.5 |
| 1995 | 9,093.7 | 1,406.9 | 15.0 | 5.0 | 6,140.5 | 647.5 | 1,707.3 | 274.2 | 1,230.9 | 480.2 |
| 1996 | 9,643.6 | 1,750.2 | 98.7 | 15.0 | 6,773.4 | 1,095.3 | 1,816.5 | 268.4 | 955.0 | 371.6 |
| 1997 | 11,348.9 | 2,042.2 | 57.3 | 20.0 | 8,872.1 | 1,296.5 | 1,018.7 | 131.9 | 1,400.7 | 593.8 |
| 1998 | 13,691.2 | 2,368.0 | 55.0 | 55.0 | 11,497.9 | 1,764.5 | 486.6 | 37.2 | 1,651.7 | 529.3 |
| 1999 | 10,676.5 | 2,033.3 | 315.0 | 150.0 | 9,390.6 | 1,491.3 | 66.0 | 13.2 | 904.9 | 378.8 |
| 2000 | 10,324.6 | 1,805.0 | 95.0 | 45.0 | 9,032.7 | 1,256.3 | 46.2 | 10.2 | 1,150.8 | 493.5 |
| 2001 | 9,901.5 | 1,487.8 | 85.0 | 50.0 | 8,926.8 | 1,102.4 | 36.1 | 8.3 | 853.6 | 327.1 |
| 2002 | 8,378.1 | 1,309.5 | 180.0 | 180.0 | 7,525.1 | 870.1 | 40.1 | 7.9 | 632.9 | 251.5 |
| 2001-2002 Growth rate(%) | -15.39 | -11.98 | 111.76 | 260.00 | -15.70 | -21.07 | 11.08 | -4.82 | -25.86 | -23.11 |

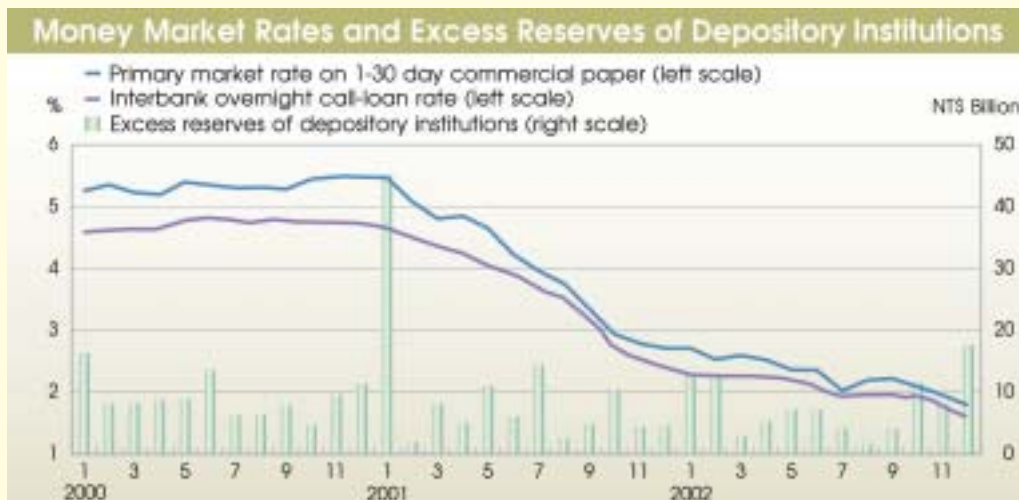
Source: Financial Statistics Monthly, Taiwan District, The Republic of China, Central Bank of China.

of deposit decreased mainly as a result of the abundant liquidity in the banking system. The decline in the issues of commercial paper was in part due to weak demand for business credit. In addition, more issues of corporate bonds, resulting from bond funds' large demand and firms' taking advantage of the fairly low level of interest rates, also contributed to the reduction in the issues of commercial paper. In contrast, the increase in the issues of Treasury bills was for the government's liquidity needs. At the end of 2002, the amount of total outstanding bills amounted to NT\$1,309.5 billion, a reduction of 11.98 percent from the previous year-end.

The total turnover of short-term bills in the secondary market fell to NT\$53 trillion, posting a drop of 8.63 percent from the previous year. Of the total trading amount, commercial paper still made up the largest share of 81.29 percent, but lower than that in 2001. It was followed by negotiable certificates of deposit with a share of 11.65 percent, which was also lower than that in 2001. As there were more issues in the primary market, the share of Treasury bills therefore rose from 0.33 percent in 2001 to 6.17 percent in 2002. In terms of market participants, private enterprises accounted for 35.66 percent, replacing banks with a share of 31.16 percent as the biggest player.

Falling Money Market Rates

Money market rates continued to edge downward during the course of 2002. While there was a modest acceleration in economic activity, consumers and businesses remained cautious about spending. With the inflation outlook remaining benign, to help bolster the domestic recovery and in line with market expectations, the Bank continued to pursue an easy monetary



policy stance. In 2002, the Bank further lowered the discount rate on two occasions by a total of 50 basis points to a record low of 1.625 percent. Money market rates edged lower according.

Among major money market rates, the interbank overnight call-loan rate fell from 2.39 percent in December 2001 to 1.61 percent in December 2002. The average issuing rate of commercial paper with maturities of 1 to 30 days declined from 2.71 percent to 1.78 percent over the same period.