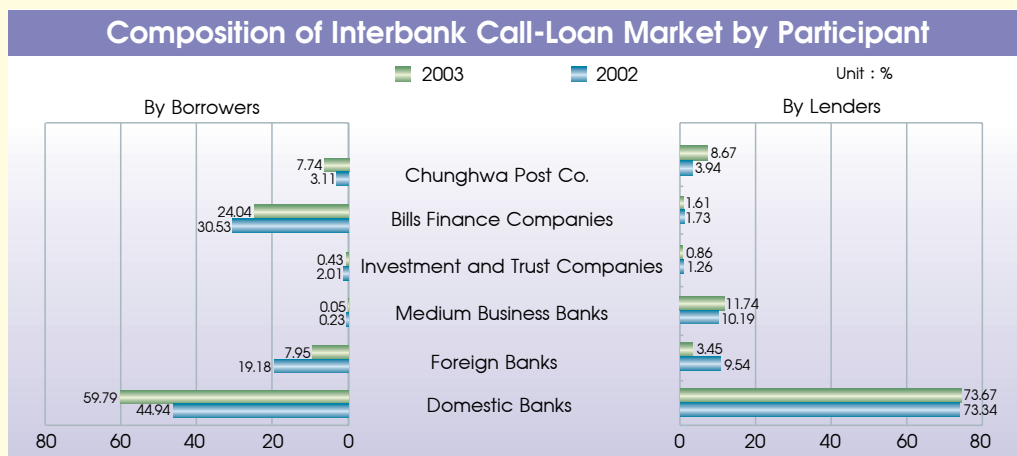


## 8. Money market

### Less Active Interbank Call-loan Market

Private demand for funds contracted in the first half of 2003 due to sluggish consumer and business spending, the tumbling stock market in the wake of the US-Iraq War and the spread of the SARS epidemic. In the second half of the year, as the SARS epidemic was under control, the stock market regained its momentum and economic activity gradually picked up although the labor market and private consumption remained fragile. Due to optimism about the stock market's bullish prospects, foreign capital continued to flow into Taiwan and registered record-high net inflow level during the year. In addition to the surge in foreign capital inflows, the expansion of the trade surplus, an increase in firms' issues of overseas convertible bonds and depositary receipts, and the Bank's monetary easing stance, created ample funds in the banking system. On the demand side, local branches of foreign banks received more NT-dollar deposits and thus curbed their borrowing from the market. 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. For the year as whole, the total annual turnover in the call-loan market was NT\$8,776.6 billion, representing a decline of 9.40 percent compared to the previous year.

In terms of borrowers by category of financial institutions, domestic banks were the largest borrower during the year, accounting for 59.8 percent of total trading, a 14.9 percentage-point rise from the previous year. They were followed by bills finance companies and foreign



banks, with shares of 24.0 percent and 8.0 percent, respectively. Among these borrowers, the share of foreign banks declined by 11.2 percentage points as foreign bank borrowings continued to trend down in the past two years. The share of bills finance companies dropped as well because their corporate clients shifted from the bills market to the bond market for fund raising, and the Ministry of Finance (MoF) allowed bills finance companies to issue commercial paper as their another funding source.

With regard to lenders, domestic banks continued to be the largest supplier of funds, accounting for 73.7 percent of total transactions, a slight increase from one year ago. Following domestic banks were medium business banks and Chunghwa Post Co., with respective shares rising to 11.7 percent and 8.7 percent.

Overnight interbank call-loans remained the most actively traded in the market with a predominant share of 58.1 percent. Second to it were those with maturities of 1 week and 2 weeks, respectively accounting for 26.1 percent and 10.5 percent. Trading of those with maturities ranging from 2 months to 6 months accounted for a negligible share of 0.1 percent.

### Sluggish Short-term Bills Market

In 2003, new issues of short-term bills totaled NT\$7,547.7 billion, and commercial paper continued to account for the lion's share of 90.3 percent. Second to it were negotiable certificates of deposit, with a share of 8.5 percent. Treasury bills and bankers' acceptances made up negligible shares of 0.8 percent and 0.5 percent, respectively. Compared to the

### Short-term Bills Market

Unit: NT\$ Billion

Year	Total			Treasury Bills			Commercial Paper			Bankers' Acceptances			Negotiable Certificates of Deposit		
	Issue	Redemption	Year-end Outstanding	Issue	Redemption	Year-end Outstanding	Issue	Redemption	Year-end Outstanding	Issue	Redemption	Year-end Outstanding	Issue	Redemption	Year-end Outstanding
1994	7,450.5	7,310.2	1,184.1	50.0	65.0	15.0	5,201.5	5,174.4	536.3	1,144.6	1,094.2	192.2	1,054.4	976.6	440.5
1995	90,937.7	8,870.9	1,406.9	15.0	25.0	5.0	6,140.5	6,029.4	647.5	1,707.3	1,625.3	274.2	1,230.9	1,191.3	480.2
1996	9,643.6	9,300.0	1,750.2	98.7	88.7	15.0	6,773.4	6,325.6	1,095.3	1,816.5	1,822.4	268.4	955.0	1,063.7	371.6
1997	11,348.9	11,056.8	2,042.2	57.3	52.3	20.0	8,872.1	8,670.8	1,296.5	1,018.7	1,155.2	131.9	1,400.7	1,178.5	593.8
1998	13,691.2	13,347.5	2,386.0	55.0	20.0	55.0	11,497.9	11,029.9	1,764.5	486.6	581.4	37.2	1,651.7	1,716.2	529.3
1999	10,676.5	11,029.2	2,033.3	315.0	220.0	150.0	9,390.6	9,663.8	1,491.3	66.0	90.0	13.2	904.9	1,055.4	378.8
2000	10,324.6	10,552.9	1,805.0	95.0	200.0	45.0	9,032.7	9,267.8	1,256.3	46.2	49.2	10.2	1,150.8	1,036.0	493.5
2001	9,901.5	10,218.8	1,487.8	85.0	80.0	50.0	8,926.8	9,080.6	1,102.4	36.1	38.1	8.3	853.6	1,020.1	327.1
2002	8,378.1	8,556.4	1,309.5	180.0	50.0	180.0	7,525.1	7,757.5	870.1	40.1	40.5	7.9	632.9	708.4	251.5
2003	7,547.7	7,662.8	1,194.3	60.0	180.0	60.0	6,815.1	6,876.3	808.8	34.5	34.5	6.8	638.1	570.9	318.7
2002-2003 Changes	-830.4	-893.5	-115.2	-120.0	130.0	-120.0	-710.0	-881.2	-61.3	-5.6	-4.9	-1.1	5.2	-137.5	67.2
Growth rate (%)	-9.91	-10.44	-8.80	-66.67	260.0	-66.67	-9.44	-11.36	-7.05	-13.97	-12.10	-13.92	0.82	-19.41	26.72

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

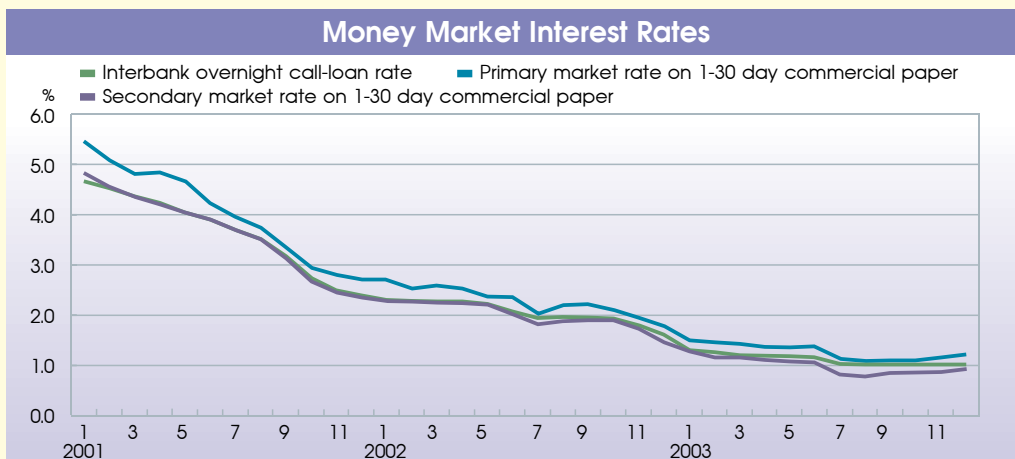
previous year, total new issues of short-term bills declined by 9.9 percent. Although the issues of negotiable certificates of deposit slightly increased, the issues of commercial paper, Treasury bills, and bankers' acceptances posted declines. The decline in the issues of commercial paper was mainly due to enterprises' preference for issues of corporate bonds over commercial paper for fund raising.

In addition, bills finance companies turned more conservative in guarantee services after the MoF lowered the ceiling on outstanding balances of guarantees issued for commercial paper by bills finance companies. As banks' lending rates trended lower over the course of 2003, the MoF increased the borrowing from banks and lessened the issues of Treasury bills. As of the end of December 2003, total outstanding bills amounted to NT\$1,194.3 billion, a decline of 8.8 percent from the previous year-end.

In the secondary market, total turnover of short-term bills fell by 7.7 percent to NT\$48,962 billion. Of the total transactions, commercial paper still made up the largest share of 81.01 percent, but slightly lower than that in 2002. It was followed by negotiable certificates of deposit with a share of 12.9 percent, which was higher than that in 2002. Treasury bills accounted for 5.7 percent of total transactions, which was lower than in the previous year. With respect to market participants, private enterprises remained the largest player in the market with a share of 38.7 percent, followed by banks with a share of 29.1 percent.

**Interest Rates Fell to Record Lows**

Private consumption was tamed in the first half of the year due to the outbreak of the US-Iraq War and the contagion of the SARS epidemic. Business demand for funds remained weak.



With the net inflow of foreign funds, funding condition in the domestic market was relatively easy, allowing money market rates to reach record lows. In order to prevent any possibility of deflation, and to promote economic growth, in late-June, the Bank lowered the discount rate by 25 basis points to record low of 1.375 percent. Money market rates stepped down accordingly. As both domestic and external demand started to pick up in the second half of the year, consumer confidence was strengthened and the domestic economy accelerated. This reflected in a gradual rise in money market rates from August, such as the secondary market rate of commercial paper with maturities of 1 to 30 days rising from 0.78 percent to 0.93 percent between August and December, measured on a daily average basis.

In 2003, all major money market rates, measured on a daily average basis, dropped to record low levels, as compared with their previous years<sup>1</sup>. The interbank overnight call-loan rate averaged 1.10 percent in 2003, representing a 0.95-percentage-point lower than a year earlier. Over the same period, the average issuing rate and secondary market rate of commercial paper with maturities of 1 to 30 days declined from 2.28 percent and 2.00 percent to 1.28 percent and 1.00 percent, respectively.