

7. Fiscal Agency Functions

Managing the Treasury Deposit Account

The Bank acts as the government's bank and manages the Treasury Deposit Account (TDA) on behalf of the MOF. All receipts and disbursements of the central government are made through this single account. Given only one head office, the Bank is allowed to delegate the businesses of treasury transactions to 15 financial institutions. The 346 nationwide and 5 overseas branches of these 15 financial institutions function as treasury agent institutions outside of Taipei city. There are another 4,408 tax revenue service offices over the country offering convenient services to government entities and the general public. In 2004, the Bank received a total of NT\$2,656 billion worth of treasury deposits, while it made NT\$2,637 billion government payments for the Treasury. As of the end of the year, the outstanding balance in the TDA was NT\$51 billion, an increase of NT\$19.5 billion from a year earlier.

Handling Central Government Institutions Deposits

Central government institutions are allowed to make their deposits with the Bank or other treasury agent institutions subject to the approval of the MOF. However, the delegated agent institutions are required to redeposit a certain percentage (currently the ratio is 60 percent) of the deposits with the Bank early each month, except those in interest-bearing accounts. At the end of the year, the balances of central government institutions deposits with the Bank and with other agent institutions amounted to NT\$126 billion and NT\$436 billion, respectively. Those redeposited by delegated agent institutions registered only NT\$22 billion.

Managing Central Government Securities

As a fiscal agent, The Bank on behalf of the MOF provides services related to the issuance, transfer, redemption, and interest payment of government securities. The auctions of central government bonds are conducted by the Bank. Currently, there are 77 domestic dealers qualified to submit tenders to the Bank in the auctions. In 2004, the Bank arranged 13 issues of central government bonds with a total amount of NT\$465 billion, of which 4 issues worth NT\$135 billion were auctioned on a reopen system. The reopen system was introduced by the Bank in April 2003 to establish benchmark yield curves and to increase bond market liquidity. In addition, the Bank paid a total of NT\$239 billion in principal and NT\$114 billion in interest payments for central government bonds during the year 2004. As of the end of the year, the outstanding amount of central government bonds was NT\$2,729 billion, an increase of NT\$25

billion from the end of 2003.

From September 1997 onwards, all new central government bonds were issued in book-entry form. The remaining outstanding physical bonds have also been gradually converted into book-entry form from January 1999. By the end of 2004, book-entry government bonds outstanding accounted for 99 percent of total outstanding central government bonds.

Treasury bills are sold at a discount through auctions. Participants in the auctions are limited to dealers, which includes banks, investment and trust companies, insurance companies, bills finance companies, and Chunghua Post Co. In 2004, the Bank arranged 6 issues of treasury bills with a total amount of NT\$131 billion. The outstanding amount of treasury bills at yearend 2004 was NT\$131 billion, an increase of NT\$25 billion from the end of 2003.

Adopting Single-price Auctions for Government Securities

Auctions can be conducted either in a single-price or multiple-price format. In a multiple-price auction, successful competitive bids are allotted in rising order of yield until the full amount of the issue is allotted, while in a single-price auction, successful competitive bids are allotted at the highest yield of accepted competitive bids. Previously, the Bank used multiple-price auctions to issue interest-bearing government bonds. To align with international standards and to encourage broader participation at auctions, given the premise that single-price auctions reduce the risks for less-informed bidders, the Bank changed its bonds auction system from the multiple-price format to the single-price format in July 2004. Due to the greater participation at the single-price auctions, the Bank can auction the bonds on more favorable terms so as to reduce the funding cost of the government. Furthermore, when the same price is applied to all accepted bids in the single-price auction, the volatility of bond yields in the secondary market is also reduced.

Planning the Issue of Exchangeable Government Bonds

To reduce government debt payment, the MOF plans to issue exchangeable government bonds, which can be swapped for shares in state-run or government-controlled companies.

The issue of exchangeable government bonds not only promotes the privatization of public enterprises, but also introduces a new financial product to the bond market. To ensure smooth transactions of exchangeable government bonds, the Bank has started the preparatory work from early this year, including the amendment of related regulations, development and test of computer systems, and personnel training. The necessary facilities were completed around the end of the year.