

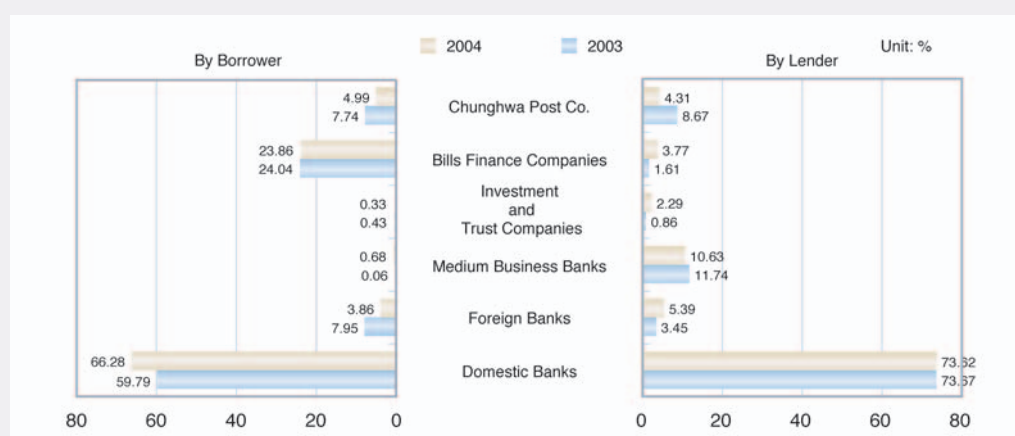
## 4. Money Market

### Increase in Interbank Call-loan Market Transactions

Demand for funds gradually regained momentum as economic activity picked up throughout 2004, while the supply of funds was mainly affected by cross-border capital flows and bond fund withdrawals. In the first quarter, funding conditions in the banking system remained easy as a result of massive foreign capital inflows. However, in the second quarter, as the NT dollar started to depreciate in late April against the US dollar over expectations of Fed rate hikes, and the stock market weakened following mainland China's macroeconomic tightening, sharp increases in oil prices and political uncertainties surrounding Taiwan in the wake of the presidential election, foreign capital turned to a net outflow. In the second half of the year, funding conditions tightened slightly as bond funds faced tremendous withdrawals due to certain corporate bond defaults. For the year as a whole, with Taiwan's economy experiencing a recovery and banks expanding consumer finance, the increased demand for funds resulted in a rebound in the interbank call-loan market. The total annual turnover in the interbank call-loan market was NT\$10,199.4 billion, representing an increase of 16.21 percent compared to the previous year.

In terms of borrowers in the interbank call-loan market, domestic banks were the largest borrower during the year, accounting for 66.28 percent of total trading, a 6.49 percentage-

### Composition of Interbank Call-Loan Market by Participant



point rise from the previous year. They were followed by bills finance companies, Chunghwa Post Co. and foreign banks, with shares of 23.86 percent, 4.99 percent and 3.86 percent, respectively. Among these borrowers, the share of foreign banks declined by 4.09 percentage points as foreign banks received sufficient NT dollar funds through large amounts of non-residents' NT dollar deposits and foreign currency swaps in the first half of the year. The share of bills finance companies dropped as well because their corporate clients shifted from the bills market to the banks for fund raising.

With regard to lenders, domestic banks continued to be the largest supplier of funds, accounting for 73.62 percent of total transactions, a slight decrease from a year ago. Following domestic banks were medium business banks, foreign banks and Chunghwa Post Co., with respective shares of 10.63 percent, 5.39 percent and 4.31 percent.

Regarding the maturities of interbank call loans, overnight interbank call loans remained the most actively traded in the market with a predominant share of 62.66 percent. Second to them were those with maturities of 1 week and 2 weeks, respectively accounting for 22.90 percent and 10.51 percent. Trading of those with maturities ranging from 2 months to 6 months accounted for a negligible share of 0.09 percent.

### Less Active Short-term Bills Market

In 2004, new issues of short-term bills totaled NT\$6,888.8 billion, 8.7 percent less than in the previous year. Of new issues of short-term bills, commercial paper continued to account for

### Short-term Bills Market

Unit: NT\$ Billion

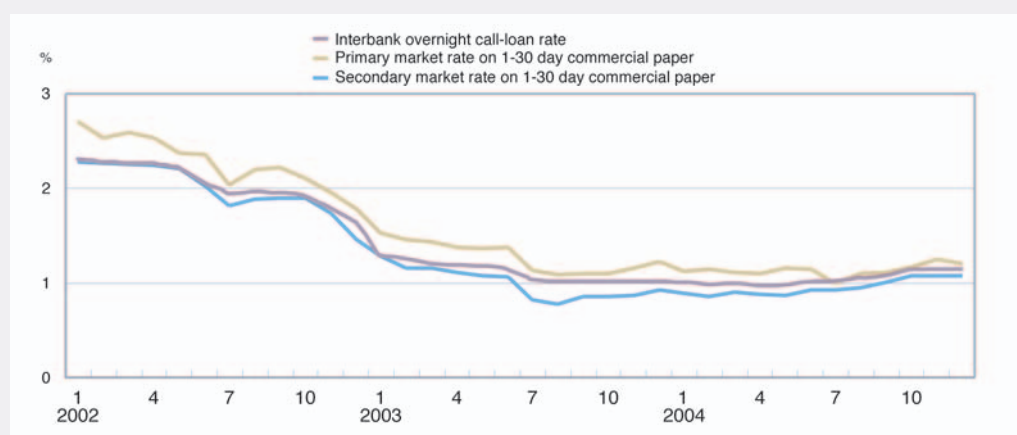
Year	Total			Treasury Bills			Commercial Paper			Bankers' Acceptances			Negotiable Certificates of Deposit		
	Issue	Redemption	Year-end Outstanding	Issue	Redemption	Year-end Outstanding	Issue	Redemption	Year-end Outstanding	Issue	Redemption	Year-end Outstanding	Issue	Redemption	Year-end Outstanding
1995	9,093.7	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	9,300.3	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	220.0	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	35.6	6.8	638.1	570.9	318.7
2004	6,888.8	6,766.7	1,316.4	130.9	60.0	130.9	5,642.7	5,676.0	775.5	35.2	34.4	7.6	1,080.0	996.3	402.4
2003-2004 Changes	-658.9	-896.1	122.1	70.9	-120.0	70.9	-1,172.4	-1,200.3	-33.3	0.7	-1.2	0.8	441.9	425.4	83.7
Growth rate (%)	-8.73	-11.69	10.22	118.17	-66.67	118.17	-17.20	-17.46	-4.12	2.03	-3.37	11.76	69.25	74.51	26.26

Source: Financial Statistics Monthly, Taiwan District, the Republic of China, Department of Economic Research, Central Bank of China.

the lion's share of 81.91 percent. Second to it were negotiable certificates of deposit, with a share of 15.68 percent. Treasury bills and bankers' acceptances made up marginal shares of 1.90 percent and 0.51 percent, respectively. Compared to the previous year, total new issues of short-term bills declined by 8.73 percent. Although the issues of negotiable certificates of deposit, Treasury bills and bankers' acceptances increased slightly, the issues of commercial paper declined significantly. The decline in the issues of commercial paper was mainly due to enterprises shifting to bank credit for fund raising as banks actively promoted their loan businesses and bank lending rates dropped to a record low in 2004. On the other hand, as banks increased their fund raising when expanding loan business, and some investors shifted their money from bond funds to negotiable certificates of deposit, negotiable certificates of deposit issued by banks in 2004 increased over the previous year. The Ministry of Finance (MOF) increased the issues of Treasury bills to meet short-term funding needs. As of the end of December 2004, total outstanding bills amounted to NT\$1,316.4 billion, 10.22 percent higher than the previous year-end.

In the secondary market, total turnover of short-term bills increased by 1.98 percent to NT\$48,829 billion. Of the total transactions, commercial paper still made up the largest share of 76.54 percent, though slightly lower than in 2003. It was followed by negotiable certificates of deposit with a share of 18.73 percent, which was higher than in 2003. Treasury bills accounted for 4.63 percent, a decline from the previous year. With respect to market participants, private enterprises remained the largest player in the market with a share of 42.09 percent, followed by banks with a share of 27.19 percent.

### Money Market Interest Rates



Source: *Financial Statistics Monthly, Taiwan District, the Republic of China, Department of Economic Research, Central Bank of China.*

## Money Market Rates Rebounded from Record Lows

In the first half of 2004, funding conditions in the domestic market remained easy due to the net inflow of foreign capital. Accordingly, the interbank overnight call-loan rate steadily declined from the beginning of the year, reaching a record low in May, while other major money market rates followed suit and also fell to the record lows. Thereafter, funding conditions tightened as foreign capital turned into a net outflow. Furthermore, bond funds witnessed considerable withdrawals in the second half of the year, contributing to the relatively tight funding condition. The Bank raised discount rates by 25 and 12.5 basis points in early October and late December, respectively, to ease the rise of inflationary expectations. In accordance with tighter funding conditions and the Bank's policy actions, the downward trend of money market rates had been reversed since May.

The above trend was reflected in the interbank overnight call-loan rate, which dropped from 1.03 percent of the previous year-end to a record low of 0.97 percent in May and gradually rose to 1.15 percent at the year-end. Over the same period, the secondary market rate on commercial paper with maturities of 1 to 30 days, declined from 0.93 percent to 0.87 percent between the previous year-end and May and then stepped up to 1.08 percent at the year-end. The average issuing rate on commercial paper with maturities of 1 to 30 days kept dropping during the first four months, rebounded slightly in May and June, then declined to the record low level of 0.99 percent in July, and moved upward to 1.20 percent at the year-end.

In 2004, measured on a daily average basis, the interbank overnight call-loan rate averaged 1.06 percent, representing a 0.04-percentage-point decrease from a year earlier. The average issuing rate and secondary market rate of commercial paper with maturities of 1 to 30 days also declined from 1.28 percent and 1.00 percent to 1.13 percent and 0.95 percent, respectively.