

4. Money Market

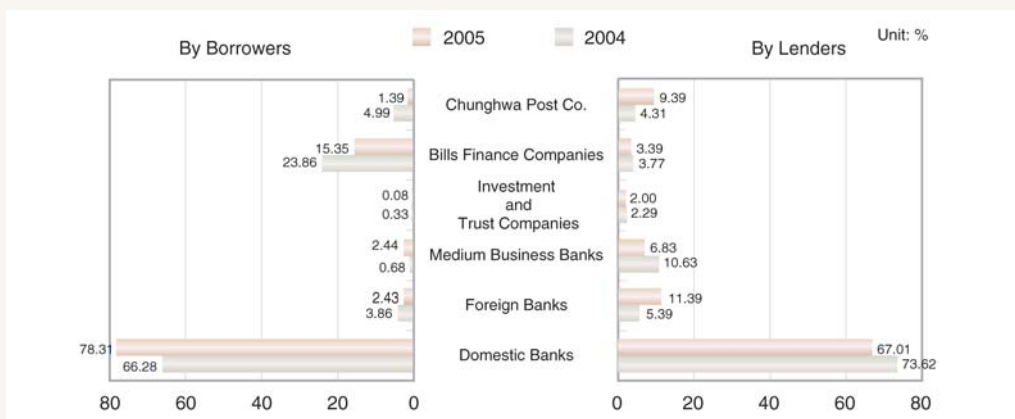
Brisk Interbank Call-loan Market

In the first-half of 2005, funding conditions in the banking system remained easy, because expectations of a renminbi appreciation and an increase in Taiwan's weighting in the Morgan Stanley Capital International (MSCI) index resulted in continuous foreign capital inflows, while continuously rising oil prices softened domestic economic growth. Activity in the interbank call-loan market grew briskly in the second-half of the year, when demand for funds regained momentum as economic activity picked up and banks expanded loans and credit. For the year as a whole, the total annual turnover in the interbank call-loan market was NT\$19,767.3 billion, representing a massive increase of 93.81 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 78.31 percent of total trading, followed by bills finance companies, medium business banks and foreign banks, with shares of 15.35 percent, 2.44 percent and 2.43 percent, respectively. The share of domestic banks and medium business banks climbed by 12.03 and 1.76 percentage points, respectively, as their funding from deposits was insufficient to support the expansion of loans and foreign assets. The share of bills finance companies kept dropping.

With regard to lenders, domestic banks continued to be the largest supplier of funds,

Composition of Interbank Call-Loan Market by Participant



accounting for 67.01 percent of total transactions, a 6.61 percentage-point decrease from a year ago. Following domestic banks were foreign banks, Chunghwa Post Co. and medium business banks, with respective shares of 11.39 percent, 9.39 percent and 6.83 percent. Among these borrowers, the share of foreign banks climbed by 6 percentage points as foreign banks received sufficient NT dollar funds through large amounts of non-residents' NT dollar deposits.

Regarding the maturities of interbank call loans, overnight interbank call loans remained the most actively traded in the market with a predominant share of 54.73 percent. Second to them were those with maturities of 1 week and 2 weeks, respectively accounting for 27.68 percent and 13.03 percent. Trading of those with maturities ranging from 2 months to 6 months accounted for a negligible share of 0.86 percent.

Increase in Short-term Bills Issuance

In 2005, new issues of short-term bills totaled NT\$7,121.0 billion, 3.4 percent higher than in the previous year. Of new issues of short-term bills, commercial paper continued to account for the lion's share of 79.91 percent. Second to it were negotiable certificates of deposit, with a share of 18.04 percent. Treasury bills and bankers' acceptances made up marginal shares of 1.61 percent and 0.44 percent, respectively. Compared to the previous year, although the issues of Treasury bills and bankers' acceptances decreased slightly, the issues of negotiable certificates of deposit increased significantly. The increase in the issues of negotiable certificates of deposit was mainly due to some investors shifting their money from bond funds to negotiable certificates of deposit. Moreover, the issues of commercial paper turned to positive growth in

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
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	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	1,194.4	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	1,316.5	130.9	60.0	130.9	5,642.8	5,676.0	775.6	35.2	34.4	7.6	1,080.0	996.3	402.4
2005	7,121.0	7,269.4	1,168.1	115.0	200.9	45.0	5,690.4	5,719.0	747.0	31.1	31.1	7.7	1,284.5	1,318.4	368.5
2004-2005 Changes	-658.9	-896.1	122.1	-15.9	140.9	-85.9	47.6	43.0	-28.6	-4.1	-3.3	0.1	204.5	322.1	-33.9
Growth rate (%)	-8.73	-11.69	10.22	-12.15	234.83	-65.62	0.84	0.76	-3.69	-11.65	-9.59	1.32	18.94	32.33	-8.42

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

2005. However, as of the end of 2005, total outstanding bills amounted to NT\$1,168.1 billion, 11.27 percent less than the previous year-end.

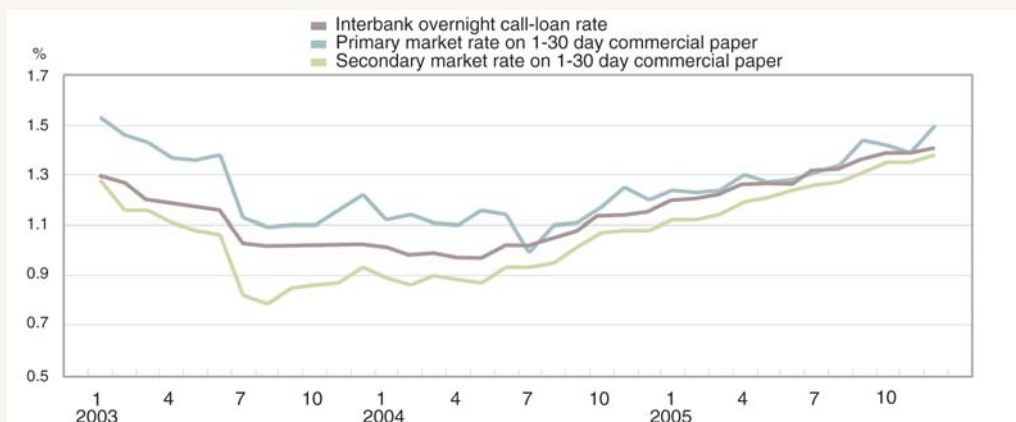
In the secondary market, total turnover of short-term bills increased by 7.70 percent to NT \$52,591.1 billion. Of the total transactions, commercial paper still made up the largest share of 75.27 percent, though slightly lower than in 2004. It was followed by negotiable certificates of deposit with a share of 17.02 percent, which was slightly lower than in 2004. Treasury bills accounted for 7.64 percent, an increase from the previous year. With respect to market participants, private enterprises remained the largest player in the market with a share of 39.97 percent, followed by banks with a share of 28.96 percent.

Money Market Rates Trend Upward

During 2005, the Bank raised the discount rates in March, June, September and December, each time by 12.5 basis points, to ease inflationary expectations due to rising oil prices and to adjust the real interest rates upward for fostering efficient fund allocation. In accordance with the Bank's policy actions, money market rates trended upward along the year.

The above trend was reflected in the interbank overnight call-loan rate, which rose from 1.15 percent at the previous year-end to 1.41 percent at the end of 2005. Over the same period, the secondary market rate on commercial paper with maturities of 1 to 30 days stepped up from 1.08 percent to 1.38 percent. The average issuing rate on commercial paper with maturities of 1 to 30 days kept moving upward to reach 1.50 percent at the end of the year.

Money Market Interest Rates



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