

4. Money Market

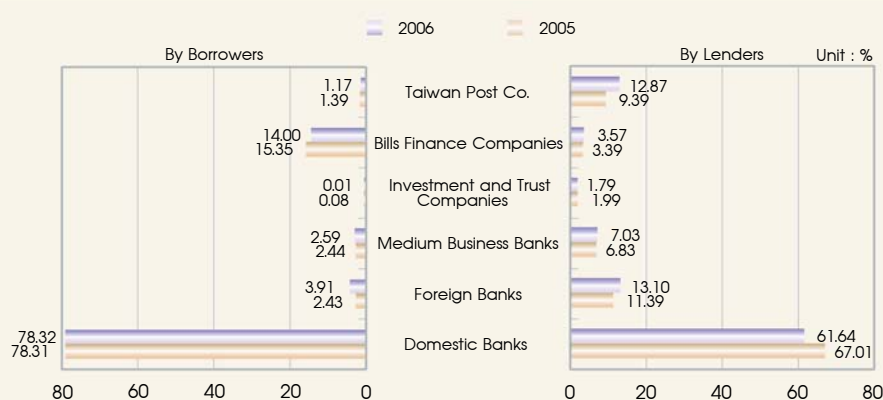
The money market consists of the interbank call-loan market and the short-term bills market. In 2006, the total turnover in the interbank call-loan market increased by 20.60 percent, but the trading volume in short-term bills market decreased by 8.32 percent. Money market rates trended mildly upwards as the Bank kept raising the discount rates.

Increase in Interbank Call-Loan Market Transactions

Activity in the interbank call-loan market grew briskly in the year, mainly because dealers for the Bank's open market operations were required to offer fixing rate quotations and bolster trading in the market after the Taipei Interbank Offered Rate (TAIBOR) system began in October 2005. Especially in the second quarter, the recovery of local stock markets further fueled trading in the interbank call-loan market. For the year as a whole, the total annual turnover in the interbank call-loan market was NT\$23,838.9 billion, an increase of 20.60 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 78.32 percent of total trading, followed by bills finance companies, foreign banks and medium business banks, with shares of 14.00 percent, 3.91 percent and 2.59 percent, respectively. Compared with the previous year, the share of domestic banks and medium business banks remained almost the same. The share of foreign banks

Composition of Interbank Call-Loan Market by Participant



Source: Financial Statistics Monthly, CBC.

climbed by 1.48 percentage points to support their extension of loans, which expanded faster than deposits. The share of bills finance companies kept dropping due to their weak demand for funds.

With regard to lenders, domestic banks continued to be the largest supplier of funds, accounting for 61.64 percent of total transactions, a 5.37 percentage-point decrease from a year ago. Following domestic banks were foreign banks, Taiwan Post Co. and medium business banks, with respective shares of 13.10 percent, 12.87 percent and 7.03 percent. Among these lenders, as Taiwan Post Co. received large amounts of time deposits, and foreign banks received abundant funds through foreign capital inflows, their shares climbed by 3.48 and 1.71 percentage points, respectively.

Regarding the maturities of interbank call loans, the Interbank Money Center actively encouraged dealers to engage in interbank call-loan transactions with longer maturities. In April, the Center expanded the interbank call-loan maturities from 6 months to one year. Therefore, although overnight interbank call loans remained most actively traded in the market with a predominant share of 49.11 percent, the share represented a decrease of 5.62 percentage points compared to the previous year. Second to them were those with maturities of 1 week and 2 weeks, respectively accounting for 29.33 percent and 17.00 percent. Trading of those with new maturities above 6 months accounted for a negligible share of 0.03 percent.

Less Active Short-Term Bills Market

In 2006, new issues of short-term bills totaled NT\$7,004.0 billion, 1.64 percent less than in the previous year. Of the new issues of short-term bills, commercial paper continued to account for the lion's share of 83.95 percent. Second to it were negotiable certificates of deposit, with a share of 14.89 percent. Bankers' acceptances made up a marginal share of 0.52 percent. Compared to the previous year, the issues of negotiable certificates of deposit decreased by 18.79 percentage points due to the ease funding conditions of banks. However, the issues of commercial paper kept growing in 2006. As of the end of 2006, total outstanding bills amounted to NT\$1,092.4 billion, 6.48 percent less than the previous year-end.

In the secondary market, total turnover of short-term bills declined by 8.32 percent to NT\$48,551.3 billion. Of the total transactions, commercial paper still made up the largest share of 80.70 percent, slightly higher than in 2005. It was followed by negotiable certificates of deposit with a share of 14.33 percent, which was slightly lower than in 2005. Treasury bills accounted for 4.91 percent, a small decrease from the previous year. With respect to market

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
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	7,269.7	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
2006	7,004.0	7,079.7	1,092.4	45.0	65.0	25.0	5,879.8	5,909.2	717.6	36.1	35.7	8.1	1,043.1	1,069.9	341.7
2005-2006 Changes	-117.0	-189.7	-75.7	-70.0	-135.9	-20.0	189.4	190.2	-29.4	5.0	4.6	0.4	-241.4	-248.5	-26.8
Growth rate (%)	-1.64	-2.61	-6.48	-60.87	-67.65	-44.44	3.33	3.33	-3.94	16.08	14.79	5.19	-18.79	-18.85	-7.27

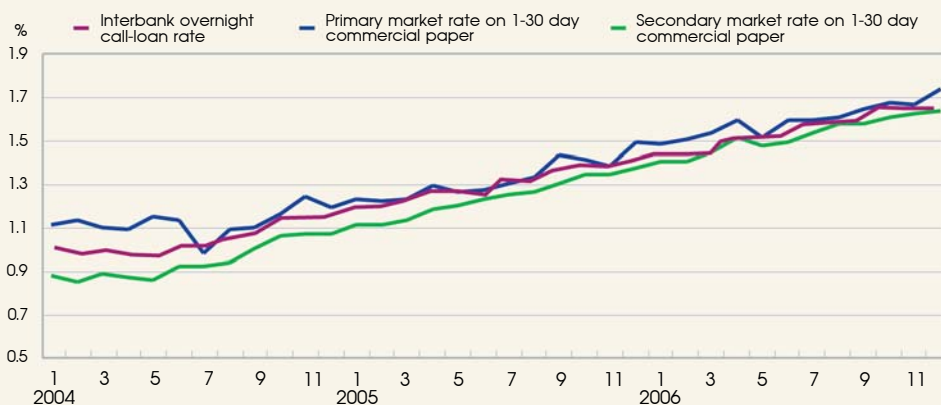
Source: Financial Statistics Monthly, CBC.

participants, private enterprises remained the largest player in the market with a share of 49.48 percent, followed by banks with a share of 21.09 percent.

Money Market Rates Trended Upwards

During 2006, funding conditions in the banking system remained easy. In the first-half of 2006, while private investment remained weak, and banks tightened consumer credit in response to emerging credit card bad debts, the demand for funds was subdued. In the second half of the year, funding conditions remained easy as private investment rose slightly. Along with the Bank's rate hikes in March, June, September and December, the overnight interbank call-loan rate and other money market rates trended upwards during the year.

Money Market Interest Rates



Source: Financial Statistics Monthly, CBC.

The interbank overnight call-loan rate rose from 1.41 percent at the previous year-end to 1.66 percent at the end of 2006. Over the same period, the average issuing rate on commercial paper with maturities of 1 to 30 days kept moving upwards to reach 1.74 percent at the end of the year. The secondary market rate on commercial paper with maturities of 1 to 30 days stepped up from 1.38 percent to 1.64 percent.

