

## 4. Money Market

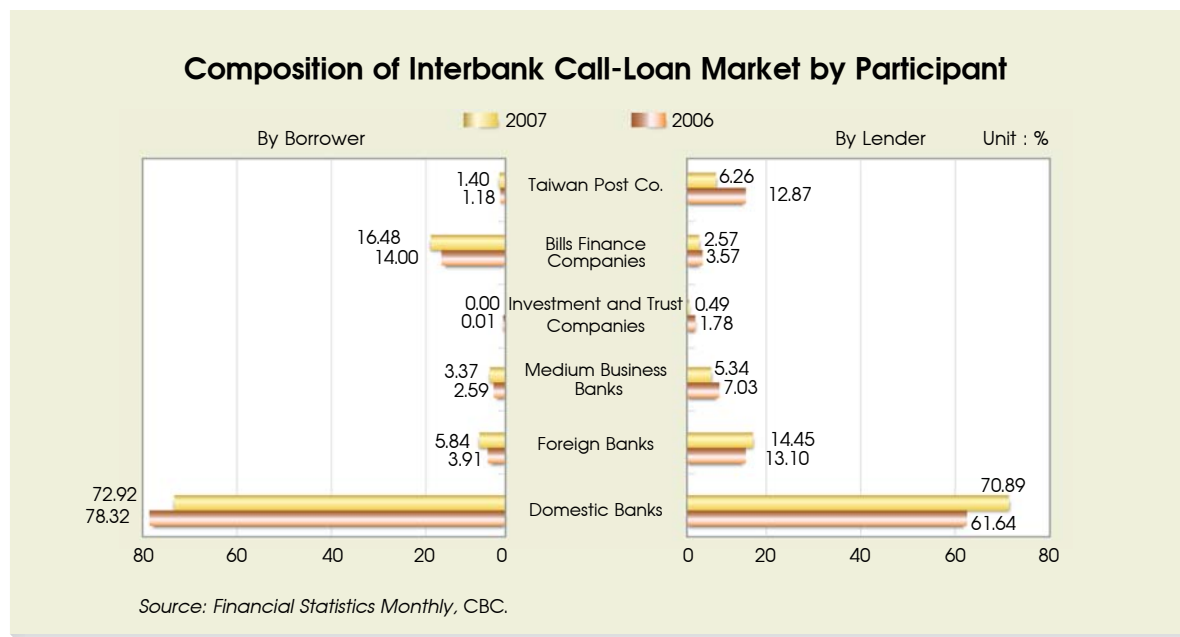
The money market consists of the interbank call-loan market and the short-term bills market. In 2007, the total turnover in the interbank call-loan market and that in the short-term bills market decreased by 15.10 percent and 11.03 percent, respectively. The reductions in turnover were mainly affected by the weaker demand for funds. The money market rates maintained a slowly rising trend, primarily affected by the Bank's raising rediscount rates at each of its quarterly board meetings.

### **Less Active Interbank Call-loan Market**

The interbank call-loan market was not active in 2007, as private investments were not strong amid the slowdown of the global economy and banks' lending policy became more conservative due to the impact of the US subprime mortgage crisis in the second half of the year. The total annual turnover amounted to NT\$20,238.3 billion for the year, showing a decrease of 15.10 percent when compared with the previous year.

In terms of borrowers in the interbank call-loan market, domestic banks were the largest borrower during the year, accounting for 72.92 percent of total trading, followed by bills finance companies, foreign banks and medium business banks, with shares of 16.48 percent, 5.84 percent and 3.37 percent, respectively. Compared with the previous year, the share of domestic banks declined by 5.4 percentage points with the borrowed amount down by 20.96 percent. The decrease in the borrowed amount was mainly due to banks' weak demand for funds, which was associated with slower growth in bank credit. In addition, the liquidity need of some problem banks was mitigated by accommodations from the Bank and by other financial institutions' placing redeposits with them. The share of foreign banks climbed by 1.93 percentage points to support their expansion in bank credit. The borrowed amount of bills finance companies remained largely unchanged, and yet their share was up by 2.48 percentage points mainly due to the decrease in the share of domestic banks.

With regard to lenders, domestic banks continued to be the largest supplier of funds, accounting for 70.89 percent of total transactions. Following domestic banks were foreign banks, Taiwan Post Co. and medium business banks, with respective shares of 14.45 percent, 6.26 percent and 5.34 percent. Among these lenders, the share of Taiwan Post Co. declined by 6.61 percentage points from the previous year owing to its increased holdings of government bonds and enterprise securities. Partly affected by this factor, the shares of domestic banks and foreign banks climbed by 9.25 and 1.35 percentage points, respectively.



Regarding the maturity structure of interbank call loans, overnight interbank call loans remained the most actively traded in the market with a predominant share of 53.71 percent, which represented an increase of 4.60 percentage points compared with the previous year. Second to them were those with a maturity of 1 week, accounting for 32.28 percent with an increase of 2.95 percentage points from the previous year. The shares of maturities of 2 weeks and 3 weeks declined to 11.57 percent and 1.71 percent, respectively. Trading of those with maturities of 1 month, 2-6 months and above 6 months accounted for negligible shares.

### Decrease in Short-term Bills Market Transactions

In 2007, new issues of short-term bills totaled NT\$6,495.1 billion, 7.27 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 85.87 percent. Second to it were negotiable certificates of deposit, with a share of 12.19 percent. Bankers' acceptances made up a marginal share of 0.59 percent. Compared with the previous year, the issues of negotiable certificates of deposit decreased by 24.10 percent due to the easy funding conditions of banks. The issues of commercial paper decreased by 5.15 percent because rising money market interest rates and relatively lower bank loan rates made enterprises less willing to issue commercial paper. As of the end of 2007, total outstanding bills amounted to NT\$925.3 billion, 15.30 percent less than the previous year-end.

In the secondary market, total turnover of short-term bills declined by 11.03 percent to NT\$43,196.2 billion. Of the total transactions, commercial paper still made up the largest share

of 87.24 percent, higher than in 2006. It was followed by negotiable certificates of deposit with a share of 9.60 percent, which was slightly lower than in 2006. Treasury bills accounted for 3.05 percent, a small decrease from the previous year. With respect to market participants, private enterprises remained the largest player in the market with a share of 53.09 percent, followed by banks with a share of 17.82 percent.

### Short-Term Bills Market

Unit: NTS Billion

Year	Total		Treasury Bills		Commercial Paper		Bankers' Acceptances		Negotiable Certificates of Deposit	
	Issue	Year-end Outstanding	Issue	Year-end Outstanding	Issue	Year-end Outstanding	Issue	Year-end Outstanding	Issue	Year-end Outstanding
1998	13,691.2	2,386.0	55.0	55.0	11,497.9	1,764.5	486.6	37.2	1,651.7	529.3
1999	10,676.5	2,033.3	315.0	150.0	9,390.6	1,491.3	66.0	13.2	904.9	378.8
2000	10,324.6	1,805.0	95.0	45.0	9,032.7	1,256.3	46.2	10.2	1,150.8	493.5
2001	9,901.5	1,487.8	85.0	50.0	8,926.8	1,102.4	36.1	8.3	853.6	327.1
2002	8,378.1	1,309.5	180.0	180.0	7,525.1	870.1	40.1	7.9	632.9	251.5
2003	7,547.7	1,194.4	60.0	60.0	6,815.1	808.8	34.5	6.8	638.1	318.7
2004	6,888.8	1,316.5	130.9	130.9	5,642.8	775.6	35.2	7.6	1,080.0	402.4
2005	7,121.0	1,168.1	115.0	45.0	5,690.4	747.0	31.1	7.7	1,284.5	368.5
2006	7,004.0	1,092.4	45.0	25.0	5,879.8	717.6	36.1	8.1	1,043.1	341.7
2007	6,495.1	925.3	88.0	28.0	5,577.2	664.8	38.2	8.4	791.7	224.0
2006-2007 Change	-508.9	-167.1	43.0	3.0	-302.6	-52.8	2.1	0.3	-251.4	-117.7
Growth rate (%)	-7.27	-15.30	95.56	12.00	-5.15	-7.36	5.82	3.70	-24.10	-34.45

Source: Financial Statistics Monthly, CBC.

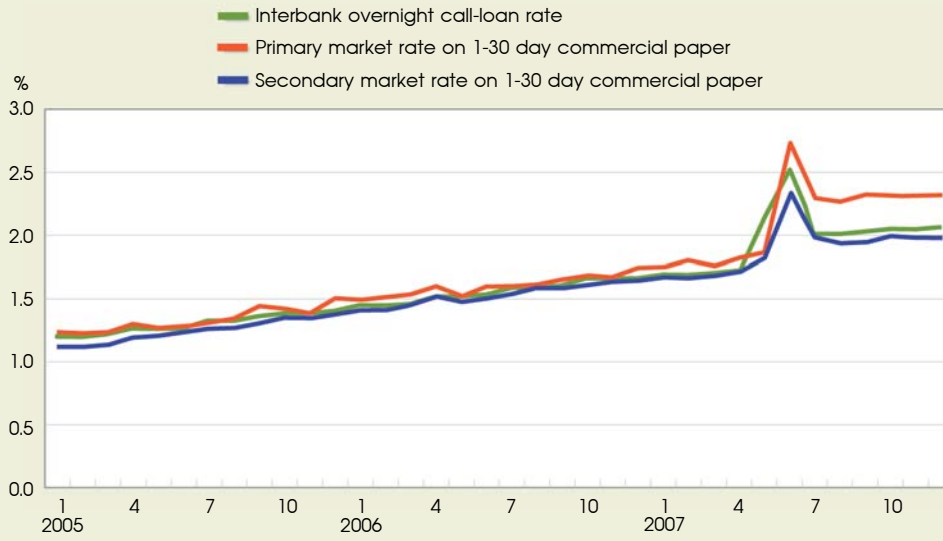
### Money Market Rates Trended Upwards

During 2007, funding conditions in the banking system remained easy. In the first half of the year, while residents' foreign investment boosted capital outflows and certain banks faced liquidity problems, funding conditions tightened slightly. However, in the second half of the year, funding conditions were easy, as domestic demand for bank credit markedly weakened and foreign investments cooled in the face of escalating US subprime mortgage crisis.

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.

The interbank overnight call-loan rate rose from 1.66 percent at the previous year-end to 2.05 percent at the end of 2007. Over the same period, the average issuing rate on commercial paper with maturities of 1 to 30 days kept moving upwards to reach 2.31 percent at the end of the year. The secondary market rate on commercial paper with maturities of 1 to 30 days also stepped up from 1.64 percent to 1.98 percent.

### Money Market Interest Rates



Source: Financial Statistics Monthly, CBC.