

## 2.3 Non-financial sectors

### 2.3.1 Corporate sector<sup>38</sup>

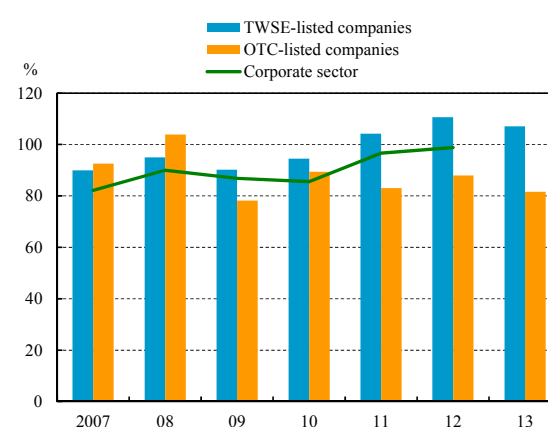
The profitability of listed companies increased in 2013. Meanwhile, their financial structure was stable and short-term debt servicing capacity enhanced. The credit quality of corporate loans stayed sound, as NPL ratios were still at low levels. Owing to the uncertainties surrounding the prospects for global economic recovery, coupled with economic restructuring in Mainland China and a possible elevation of global interest rates, the corporate sector's operations and future profits are likely to face challenges.

#### Profitability of listed companies grew in 2013

In 2013, benefiting from the global recovery and stable economic growth in Mainland China, average ROEs of TWSE-listed and OTC-listed companies rose to 13.95% and 9.90%, respectively, compared to 10.45% and 6.91% in 2012 (Chart 2.24). Profitability broadly improved, mainly because the semiconductor and the trading and consumer goods industries reported profit growth, and the optoelectronic industry saw a return to profitability after a period of great losses.

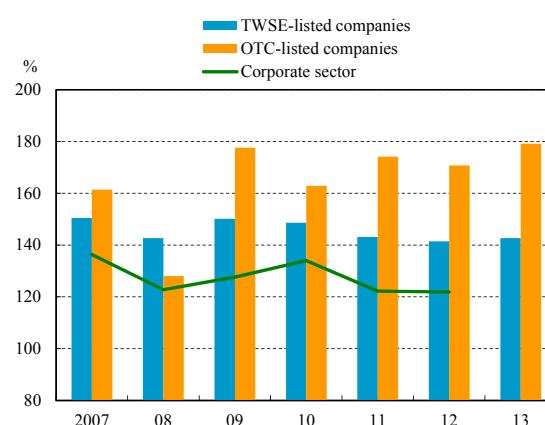
Except for the shipping and transportation industry, all major industries for TWSE-listed companies reported increasing ROEs in 2013, especially the building material and construction industry. For OTC-listed companies, except for decreased profitability in the chemical and biotechnology and the iron and steel industries, all other industries registered

Chart 2.26 Leverage ratios in corporate sector



Note: Leverage ratio = total liabilities / equity.  
Sources: JCIC and TEJ.

Chart 2.27 Current ratios in corporate sector



Note: Current ratio = current assets / current liabilities.  
Sources: JCIC and TEJ.

<sup>38</sup> Throughout this section, figures for the corporate sector are entity financial data as of 2012 in accordance with ROC GAAP. Listed companies prepare consolidated financial data as of 2013; prior to 2011 are under ROC GAAP, while 2012 and 2013 are under the TIFRSs. In light of changes in accounting treatment and presentation, readers should interpret these figures prudently when comparing statistics before and after IFRSs adoption.

better performance (Chart 2.25).

### Leverage ratio decreased slightly for listed companies

At the end of 2013, the average leverage ratio for TWSE-listed companies slightly fell to 107.07% from 110.61% at the end of the previous year, but remained at a high level. In addition, the average leverage ratio for OTC-listed companies decreased to 81.65% from 87.95% a year earlier (Chart 2.26). Over the same period, outstanding commercial paper and corporate bonds issued by listed companies in view of raising short-term and mid- to long-term funds were much higher than a year earlier, resulting in the run-up of total liabilities. However, leverage ratios declined somewhat due to a greater increase in equity.

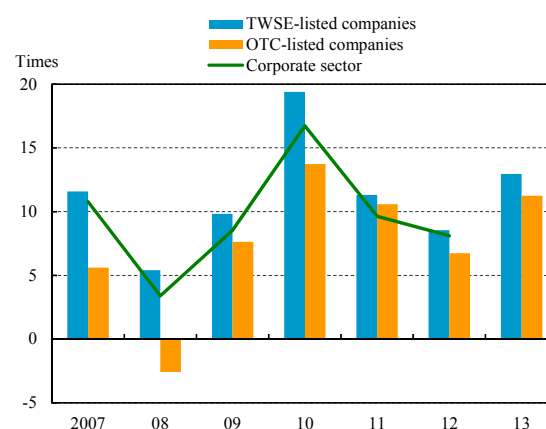
### Short-term debt servicing capacity for listed companies enhanced

The current ratio for TWSE-listed companies remained stable at 143% at the end of 2013, while the interest coverage ratio rose to 12.96 as a result of increasing profitability. Moreover, the current ratio and interest coverage ratio for OTC-listed companies rebounded to 179% and 11.24, respectively, both higher than the average levels of recent years (Chart 2.27 and 2.28). For listed companies as a whole, short-term debt servicing capacity slightly enhanced.

### Credit quality of corporate loans remained sound

In 2013, the NPL ratio for corporate loans granted by financial institutions was maintained at a relatively low level. Furthermore, the ratio rose in the first three quarters of 2013, owing to the reclassification of impaired loans of a few large corporations as NPLs. However, the ratio declined to 0.63% at the end of the year, lower than the ratio of 0.64% posted the year before,

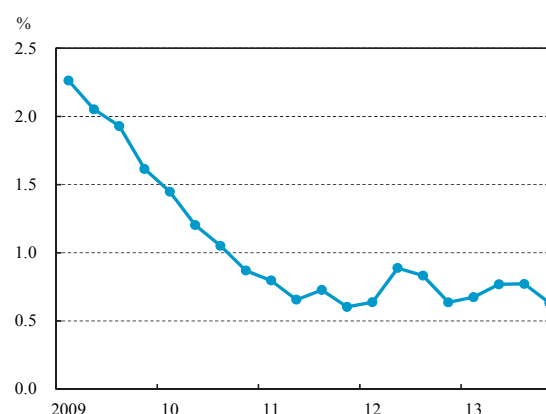
Chart 2.28 Interest coverage ratios in corporate sector



Note: Interest coverage ratio = income before interest and tax / interest expenses.

Sources: JCIC and TEJ.

Chart 2.29 NPL ratios of corporate loans



Note: End-of-period figures.

Source: JCIC.

reflecting sound credit quality for the corporate sector (Chart 2.29).

### Corporate sector's profit outlook still faces challenges

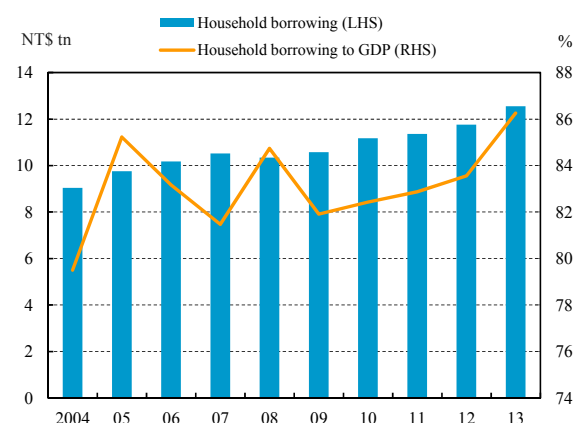
The international economy has gradually improved and the domestic economy has grown moderately, which has aided to underpin corporate profits. However, the prospects for global economic recovery remain uncertain. This, coupled with concerns about the pace of the US reducing the size of quantitative easing and the expected rises in interest rates, will affect the global economy and capital market performance. Should interest rates go up, it could leave firms, especially highly leveraged firms, exposed to heavier debt servicing burdens.

In addition, Mainland China's economic restructuring is also an important factor impacting on Taiwan's export industries (Box 2), especially those in which revenue and assets are mainly concentrated in the automobile, chemical and infrastructure-related industries in Mainland China. Moreover, as Mainland China's TFT-LCD panel and petrochemical industries localize their supply chains, which will transfer the relationship with Taiwanese firms from being complementary and cooperative to being competitive and alternative, coupled with overcapacity and price competition, a situation which is unfavorable for the profitability of Taiwan's export industries might arise.

### 2.3.2 Household sector

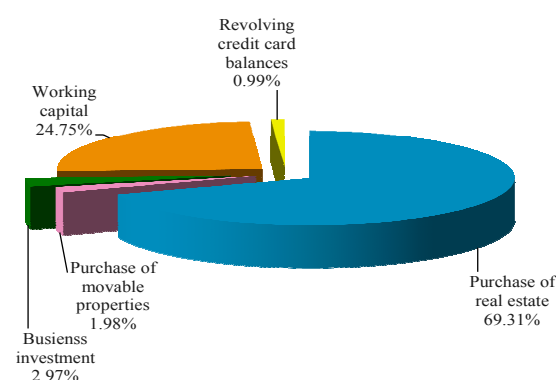
The household debt burden relieved slightly as the balance of total household borrowing expanded more slowly than that of disposable income. However, short-term debt servicing capacity of the household sector marginally deteriorated, driven by the build-up of

Chart 2.30 Household borrowing to GDP



Sources: CBC, JCIC and DGBAS.

Chart 2.31 Household borrowing by purpose



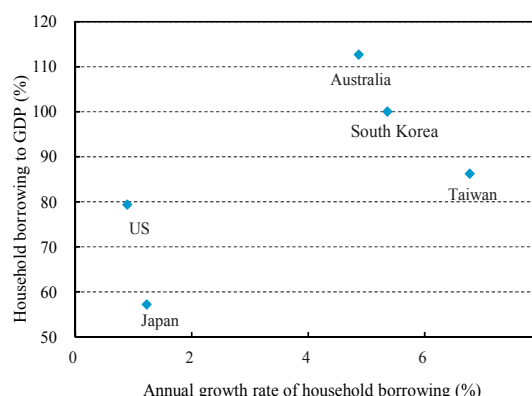
Note: Figures are as of the end of 2013.  
Sources: CBC and JCIC.

medium-and short- term borrowing. The overall credit quality of household borrowing remained satisfactory. Furthermore, the gradual easing of the unemployment rate and the continuous growth of regular earnings should help to underpin the debt servicing capacity of households.

### Household borrowing increased continuously

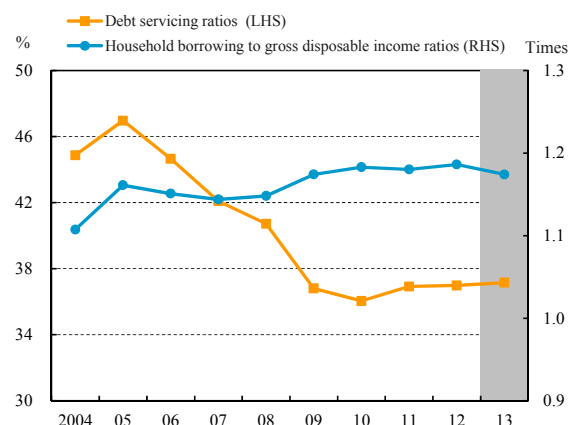
Total household borrowing<sup>39</sup> saw a continued expansion in 2013 and reached NT\$12.56 trillion at the end of the year, equivalent to 86.26% of annual GDP (Chart 2.30). The year-on-year growth rate of household borrowing, mainly contributed to by an increase in the purchase of real estate and working capital loans, uplifted to 6.77% at the end of 2013. The largest share of household borrowing went for the purchase of real estate (69.31%), with an annual growth rate of 4.84%, followed by working capital loans<sup>40</sup> (24.75%), with a considerably increased annual growth rate of 12.21%. The rest of the household borrowing categories took only minor percentages, including loans to movable property purchases largely consisting of vehicle loans, business investment loans mainly for margin purchases of securities, and revolving balances on credit cards (Chart 2.31). Among these three types of household borrowing, the first two loans exhibited year-on-year growth rates above 13%, whereas revolving balances on credit cards posted a negative annual growth rate.

Chart 2.32 Household indebtedness in selected countries



Note: Figures for Taiwan and the US are as of the end of 2013. The others are as of the end-September 2013. Sources: Fed, BOJ, BOK, ABS, IMF, DGBAS, CBC and JCIC.

Chart 2.33 Household indebtedness and debt servicing ratios



Note: Gross disposable income in shaded area is CBC estimate. Sources: CBC, JCIC and DGBAS.

<sup>39</sup> The term “household borrowing” as used in this section refers to outstanding loans and revolving credit card balances taken out by households from the following financial institutions:

- (1) Depository institutions: domestic banks, local branches of foreign banks, credit cooperatives, credit departments of farmers’ associations, credit departments of fishermen’s associations, and the Remittances & Savings Department of Chunghwa Post Co.
- (2) Other financial institutions: trust and investment companies, life insurance companies, securities finance companies, and securities firms.

<sup>40</sup> The term “working capital loans” includes outstanding cash card loans.

Compared to other selected countries, the growth of total household borrowing in Taiwan was relatively high. As a percentage of GDP, household borrowing in Taiwan was lower than that in Australia and South Korea (Chart 2.32).

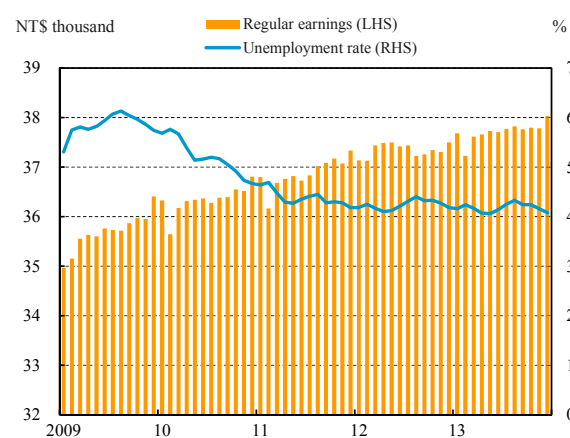
### **Household debt burden alleviated somewhat**

As total household borrowing grew at a slower pace than disposable income in 2013, the ratio of household borrowing to gross disposable income<sup>41</sup> shrank to 1.17 at the end of the year, reflecting that the household debt burden lessened. However, the debt servicing ratio kept rising to 37.15% in 2013, higher than that of 36.98% a year earlier (Chart 2.33), mainly driven by mounting household short-term debt servicing pressure due to the increase in loans to movable property purchases and working capital loans. Nevertheless, the decreasing domestic unemployment rate along with steadily growing regular earnings (Chart 2.34) should help to improve the debt servicing capacity of the household sector.

### **NPL ratio of household borrowing declined to a historical low**

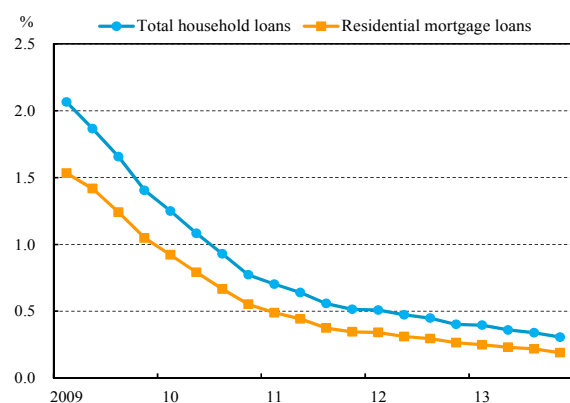
The NPL ratio of household borrowing continuously dropped to 0.31% at the end of 2013, the lowest level in fifteen years (Chart 2.35). The main reason behind this was that NPLs for real estate purchases and working capital loans, the largest shares of household borrowing, steadily contracted during the year. This indicated that household credit quality remained satisfactory.

**Chart 2.34 Unemployment rate and regular earnings**



Source: DGBAS.

**Chart 2.35 NPL ratios of household borrowing**



Note: Figures are as of the end of each quarter.

Source: JCIC.

<sup>41</sup> Gross disposable income = disposable income + rental expenses + interest expenses.

### 2.3.3 Real estate market

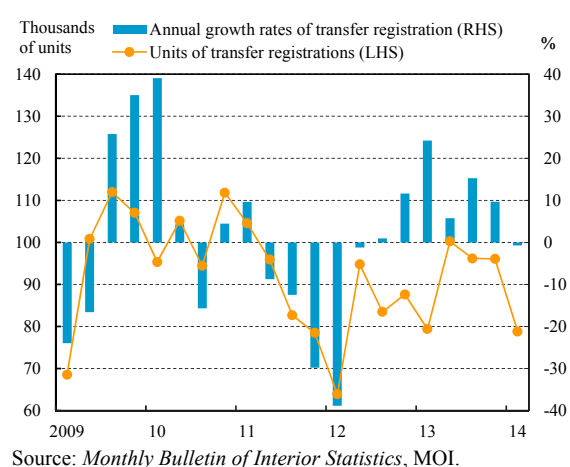
In the first half of 2013, transactions in the real estate market increased significantly, but resumed a stable level in the second half of the year. While housing prices continuously trended upwards in 2013, it stayed at high levels with fluctuating movements in 2014 Q1. In addition, real estate loans grew moderately as mortgage interest rates rose slightly.

#### Trading volume in the real estate market expanded before resuming a stable level

In the first half of 2013, trading volume in the real estate market increased in Q2 boosted by issues regarding the Taoyuan Aerotropolis, the upgrading of cities and counties to special municipalities as well as pan-Taipei metropolitan area mass rapid transit construction. In the second half of the year, housing market sentiment turned conservative and the trading volume declined slightly owing to concerns over an early exit from QE in the US in addition to the proposed amendment of the *Specifically Selected Goods and Services Tax Act* by the Ministry of Finance. In Q3, the total number of building ownership transfers for transaction increased by more than 15% year on year owing to a lower base in the previous year as a result of the launch of a property transaction price registration system that led to contracting trading volume. In Q4, the number of building ownership transfers for transaction remained at the same level quarter on quarter due to an increase in trading volume before adjusting for current land value and massive construction projects entering the completion phase. Starting 2014, transactions in the real estate market contracted gradually, and the number of building ownership transfers for transaction declined to 79 thousand units in Q1, with an annual growth rate of -0.73% (Chart 2.36).

In 2013, the accumulated number of building ownership transfers for transaction rebounded to 370 thousand units, with an annual growth rate of 12.78%. Analyzed by the six metropolitan areas, Taipei City registered slight growth of 2%, while the other special municipalities and Taoyuan County saw annual growth rates of above 10%. Taichung City and New Taipei City, among others, reported greater increases.

Chart 2.36 Building ownership registrations for transaction



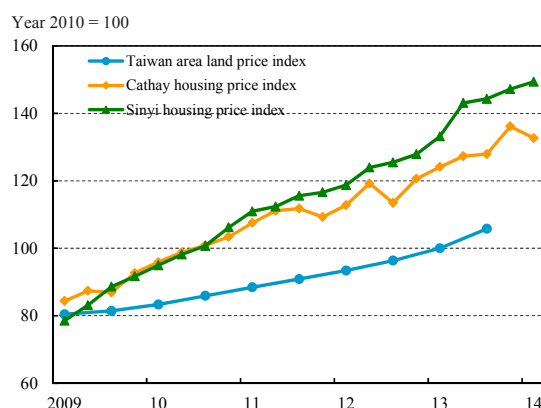
### Real estate prices trended upwards

Driven by a buoyant housing market, housing prices rose in 2013. Land prices also continuously trended up due to an active market, as the land price index recorded an annual growth rate of 9.83% in September 2013<sup>42</sup> (Chart 2.37).

The Cathay housing price index (for new constructions) fluctuated with an upward trend. The average growth rate for the whole of 2013 was 9.61%, higher than 7.48% a year earlier. Among the major metropolitan areas, there was greater growth in Taoyuan and Hsinchu City and County as well as Kaohsiung City. In 2014 Q1, the Cathay housing price index decreased, but still increased 6.91% year on year. House prices in the major metropolitan areas mostly elevated, but New Taipei City reversed to trend downwards.

The Sinyi housing price index (for existing buildings) also saw a rise. The average growth rate of the index was 14.43% in 2013, higher than 8.89% a year earlier. Among the major metropolitan areas, there were significant increases in Kaohsiung City and Taoyuan County. In 2014 Q1, the Sinyi housing price index continued an upward trend, with the annual growth rate registering 12.16%, although Taipei City saw a narrower upturn.

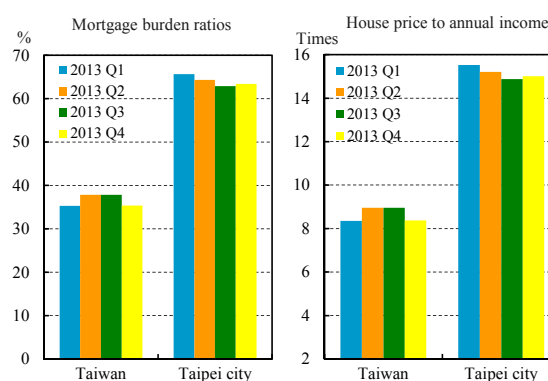
#### Chart 2.37 Land and house price indices



- Notes: 1. Taiwan area land price index is released semiannually.  
 2. The sample and compilation methods employed to generate the Sinyi housing price index were changed in 2012 Q4 and applied retroactively to historical data.  
 3. For comparison purposes, all the three indices use the same base year of 2010.

Sources: MOI, Cathay Real Estate and Sinyi Real Estate Inc.

#### Chart 2.38 Mortgage burden ratios and house price to income ratios



- Notes: 1. Mortgage burden ratio = median of housing loans monthly payments / median of household monthly disposable income.  
 2. Housing price was taken from the residential trading price data recorded in the property transaction price registration system of the Department of Land Administration, MOI.

Source: *Housing price affordability indicator statistics*, Construction and Planning Agency of the MOI.

<sup>42</sup> The land price index was 105.8 as the Ministry of Interior re-designated 31 March 2013 as the base period (index=100).

### Mortgage burden was heavy

Starting 2013, with rising housing prices, the mortgage burden ratio for Taiwan stayed high and registered 35.4% in 2013 Q4. The house price to income ratio during the same period was 8.4 (Chart 2.38), demonstrating that the mortgage burden was heavy. Among the metropolitan areas, the mortgage burden and house price to income ratios in Taipei City were the highest, reaching 63.4% and 15.0, respectively.

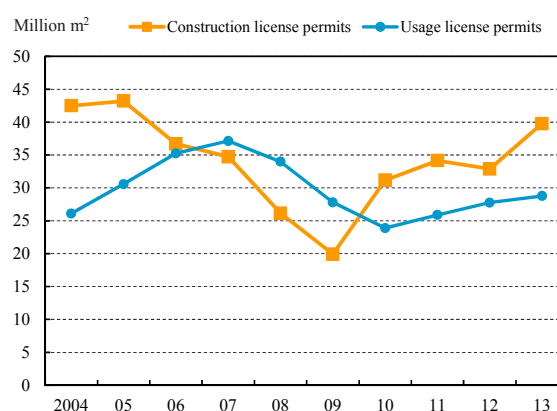
### Construction license permits increased significantly and vacant houses expanded

Due to significantly increasing construction projects introduced to the market, the total floor space of construction license permits sharply increased by 20.92% year on year in 2013, with residential properties increasing by 31.56%. Starting 2014, owing to the lower-than-expected sale of new construction projects as well as a higher base in the previous year, the annual growth rate of residential properties decreased to 1.55% in 2014 Q1 in terms of the total floor space of construction license permits.

Additionally, total floor space of usage permits increased by 3.64% year on year in 2013, with residential properties increasing by 7.27% (Chart 2.39). In 2014 Q1, the annual growth rate of residential properties registered 6.50% in 2014 Q1 in terms of the total floor space of usage permits.

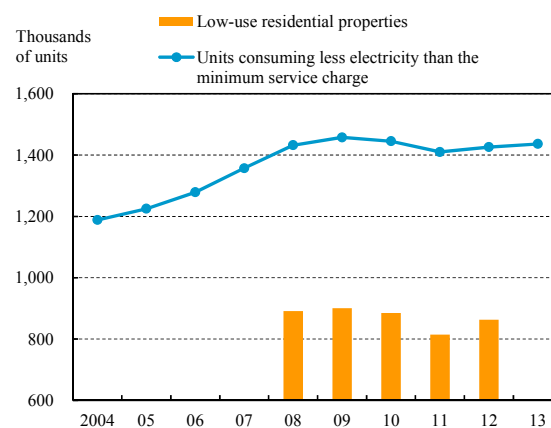
The total number of low-use residential properties was about 863 thousand units at the end of 2012, estimated by the Construction and Planning Agency of the Ministry of Interior. And the ratio of low-use residential properties to housing inventory was about 10.63%. In addition,

Chart 2.39 Floor space of construction license permits and usage license permits



Source: Monthly Bulletin of Interior Statistics, MOI.

Chart 2.40 Estimated units of vacant houses



Sources: Construction and Planning Agency of the MOI and Taiwan Power Company.



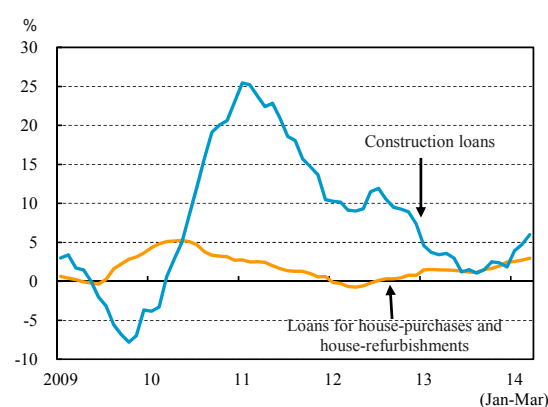
total new construction housing inventory (for sale)<sup>43</sup> registered 31 thousand units at the end of same year. Moreover, the number of vacant residential properties was 1.44 million units in 2013, estimated by the number of units consuming less electricity than the minimum service charge from the Taiwan Power Company (Chart 2.40). Due to massive construction projects introduced over the last few years and lower-than-expected sales, the units of vacant houses remained high.

### **Real estate loans grew modestly as mortgage interest rates gradually increased**

Affected by the CBC's and the FSC's measures to strengthen risk management regarding the real estate loans of banks, the outstanding loans for house purchases and house refurbishments granted by banks<sup>44</sup> reached NT\$5.94 trillion at the end of 2013, with an annual growth rate of 2.48%. Outstanding construction loans reached NT\$1.49 trillion and the annual growth rate decreased to 1.83%. At the end of March 2014, the annual growth rate of the two types of loans increased compared to the end of 2013 (Chart 2.41).

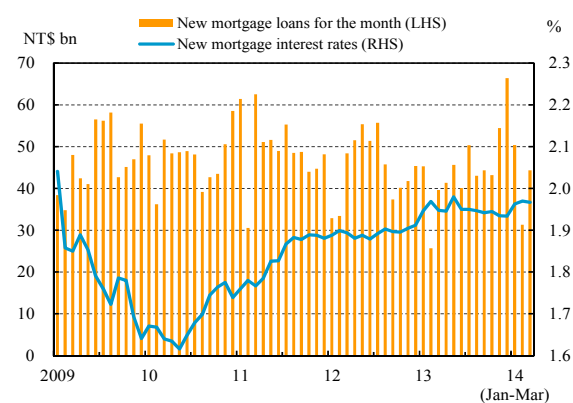
The new loans for house purchases granted by the five large banks<sup>45</sup> increased slightly by 0.04% year on year to NT\$ 539.5 billion in 2013. In 2014 Q1, they continued to increase, posting a growth rate of 13.93% year on year. As for the interest rate for new mortgages, it gradually increased but remained at a low level in 2013, and then rose slightly to 1.967% in March 2014 (Chart 2.42).

**Chart 2.41 Annual growth rates of real estate loans**



Source: CBC.

**Chart 2.42 New mortgages – amounts and interest rates**



Source: CBC.

<sup>43</sup> According to the Construction and Planning Agency of the Ministry of Interior, new construction housing inventory (for sale) includes: residential properties with house tax registration, built within the last 5 years, still maintaining the first registration and having the possibility of being for sale.

<sup>44</sup> Refers to domestic banks and the local branches of foreign banks.

<sup>45</sup> The five large banks refer to Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank, and Land Bank of Taiwan.

***CBC continuously implemented targeted prudential measures and reminded borrowers to pay attention to the risk of interest rate fluctuations***

The CBC continuously deployed measures to enhance risk management regarding the real estate loans of banks in 2013, and in March urged banks to take self-disciplined prudential measures for housing loans in the areas that have seen dramatic increases in housing prices. Subsequently, in December, the CBC suggested that banks cautiously conduct the business of land collateralized loans in industrial areas for the purpose of ensuring banking soundness and financial stability. In addition, it is noted that domestic banks mostly adopted floating-rate mortgage loans. Meanwhile, the ratio of mortgage expenditure to household income exceeded 30% in Taiwan. As a consequence, it would not only increase borrowers' mortgage payment burdens but also heighten the credit exposures of financial institutions given the possibility of future interest rate hikes. The CBC, in turn, continuously alerted borrowers to pay attention to the risk of interest rate fluctuations in the future and to prepare a well-developed financial plan in advance.

Those measures proved to be effective, as both the concentration of real estate loans and loan-to-value ratios fell. Such measures, together with the continuous promotion of real estate tax reform, strengthening of tax audits on real estate transactions and improving the property transaction price registration system, helped promote sound development of the real estate market.