

ratios of loans to the corporate sector began falling in 2001 and reached 2.40% as of 31 December 2007, the lowest level in ten years (Chart 6.6). During the reporting period, the credit quality of loans to the corporate sector remained satisfactory, but the slowing global economic growth, skyrocketing international commodity prices and appreciation of the NT dollar may bring about adverse impacts on the future profitability of the corporate sector. In addition, for many Taiwanese enterprises that have made investments in China, the implementation of the Employment Contract Law and the adoption of tax reforms in China could adversely affect their operations and profitability.

7. Household sector

For the household sector, borrowing growth has moderated and debt servicing capacity has strengthened, but debt burdens are still heavy. The credit quality of loans to households remains satisfactory. But the real income and debt repayment capacity of households may be undermined in the future as inflationary pressures increase and monthly payments on high loan-to-value mortgages spike upward with the expiration of interest-only periods.

Growth in household borrowing decelerated

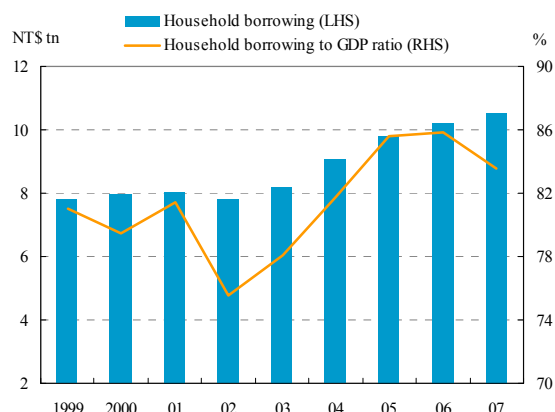
Total household borrowing⁶³ began a steady rise in 2003, due to falling interest rates, continuation of the government's preferential mortgage programs, and active expansion by banks of consumer finance activities. This growth momentum softened, however, after the credit and cash card debt crisis erupted in 2005. By the end of 2007, total household borrowing reached NT\$10.52 trillion (Chart 7.1) on year-on-year growth of 3.09%, down from a peak of 10.58% posted in 2004. The single biggest share of household borrowing at the end of 2007 went for the purchase of real estate (67.23%), followed by working capital loans⁶⁴ (24.13%) and revolving balances on credit cards (2.71%) (Chart 7.2). Loans for the purchase of real estate grew 6.95% year-on-year in 2007, while revolving balances on credit cards plummeted by 18.76%.

⁶³ 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 (including medium business 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.

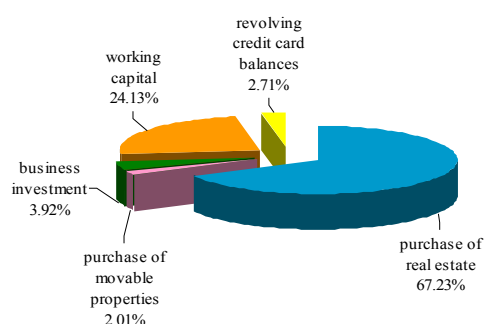
⁶⁴ The term "working capital loans" includes outstanding cash card loans.

Chart 7.1 Household borrowing to GDP



Note: Household borrowings are end of period figures.
Sources: CBC, JCIC and DGBAS.

Chart 7.2 Purposes of household borrowing



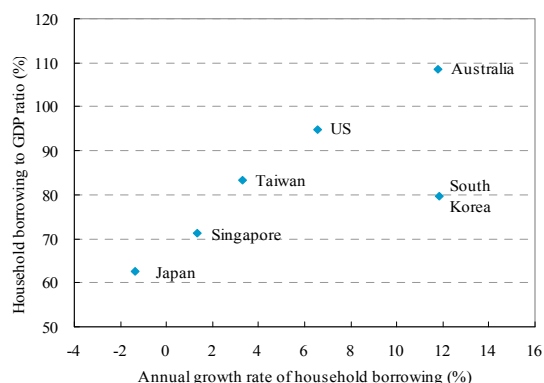
Note: Data are as of the end of 2007.
Sources: CBC and JCIC.

The ratio of household borrowing to GDP began climbing in 2003, topping out at 85.85% at the end of 2006, and then dropped to 83.60% in 2007 on the back of slowing growth in household borrowing and rising GDP growth (Chart 7.1). Total household borrowing in Taiwan grew at a faster annual rate than in Japan and Singapore but much slower than in the US, Australia, and South Korea. As a percentage of GDP, household borrowing in Taiwan was lower than in the US and Australia, but higher than in South Korea, Singapore, and Japan (Chart 7.3).

Household debt burden remained heavy

Steady economic growth, declining unemployment, and stable growth in regular earnings have fueled moderate growth in household gross disposable income⁶⁵ over the past six years; however, total household borrowing has increased steadily over the same period. As household borrowing has expanded faster since 2003 than disposable income, the ratio of household borrowing to gross disposable income and the household debt servicing ratio both have risen slowly,

Chart 7.3 Household indebtedness in selected countries

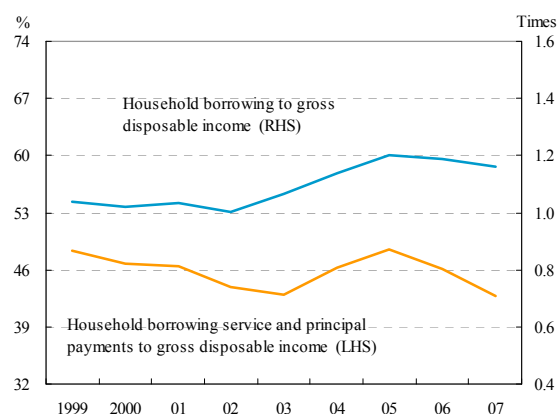


Note: Figures for Singapore and South Korea are as of June-end 2007 and September-end 2007, respectively. The remainders are based on the figures of the end of 2007.
Sources: Fed, BEA, BOJ, Cabinet Office of Japan, BOK, ABS, DGBAS, CBC and JCIC.

⁶⁵ Gross disposable income = disposable income + rental expenses + interest expenses. Gross household disposable income in 2007 was estimated by using parameters based on DGBAS data for household disposable income and national disposable income and carrying out “linear interpolation” that yielded better results through “trend detection” (e.g. performance under various interpolations, such as nearest, linear, spline, pchip, and cubic interpolation).

reflecting that the debt servicing capacity of households has deteriorated. Then the credit and cash card debt crisis erupted in the latter half of 2005, prompting banks to tighten consumer credit. This resulted in a softening, and even a contraction, of growth in short-term lending to the household sector, slightly alleviating the pressures stemming from principal and interest payments. The ratio of household borrowing to gross disposable income was 1.16 times as of the end of 2007, slightly down from the 1.19 times for the previous year, but still high, indicating that the household debt burden remained heavy. Meanwhile, the ratio of household borrowing service and principal payments to gross disposable income dropped back down to 42.67%, the same level as in 2003, implying that household debt servicing capacity has gradually improved (Chart 7.4).

Chart 7.4 Household debt servicing ratios

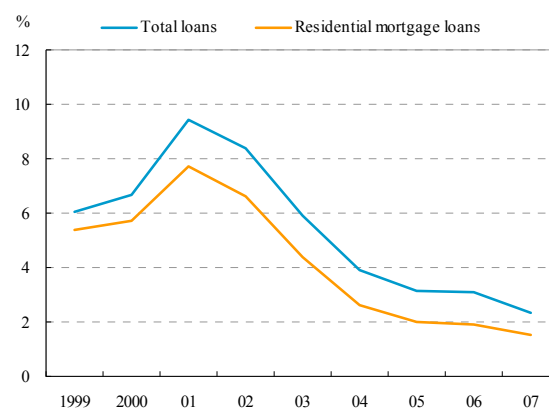


Note: Figure for gross disposable income of 2007 is CBC estimate.

Sources: JCIC and DGBAS.

The household NPL ratio⁶⁶ peaked at 9.45% at the end of 2001 before trending downward, increased temporarily in 2006 after the outbreak of the credit and cash card debt crisis, but resumed its decline to 2.33% at the end of 2007, the lowest level in nine years (Chart 7.5). This came about primarily because the non-performing ratio for residential mortgage loans, which accounts for the largest share of loans to households, remained at a low level due to continued appreciation of real estate. The credit quality of loans to households thus remains satisfactory, but increasing inflationary pressures and gradual expiration of interest-only periods on high loan-to-value mortgage loans may undermine the real income and debt repayment capacity of households.

Chart 7.5 NPL ratios of household loans



Source: JCIC.

⁶⁶ Data relating to the Remittances & Savings Department of Chunghwa Post Co. and securities firms are excluded from the figure for household NPL ratio.