

to the end of 2010; (2) the SMEs Guarantee Fund offered more guarantee facilities to SMEs that faced difficulties in obtaining finance from financial institutions; and (3) the improved performance of the corporate sector resulting from the global economic recovery.

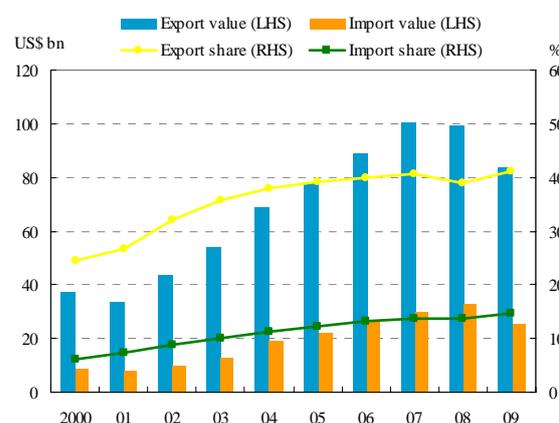
### **Evolving China's economic and financial environment has a greater influence on Taiwan's corporations**

China has become Taiwan's largest export market and the second largest origin of imports next to Japan. The export ratio to China and Hong Kong reached 41.09% in 2009, up from 24.44% in 2000, while the import ratio reported 14.65% in 2009 from 6.11% in 2000 (Chart 3.8), representing Taiwanese corporations' closer trade relations with China. Therefore, the evolution of China's economy and financial markets will impact Taiwanese corporations to an increasing extent. Consequently, this warrants closer attention with respect to business risks that may arise in China resulting from a combination of the following: tight monetary policy; increasing pressure for RMB appreciation; structural economic adjustments; and serious labor shortages.

## **3.2 Household sector**

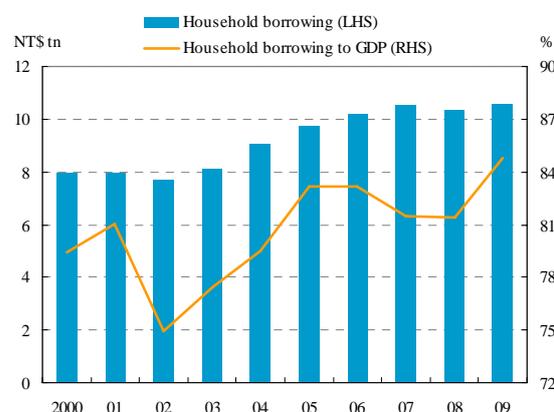
As interest rates declined, short-term household debt servicing capacity strengthened even as borrowing increased and debt burdens became heavier. Furthermore, overall credit quality remained satisfactory. Household debt servicing capacity should strengthen as the domestic economy recovered gradually and regular earnings resumed positive growth from November 2009. Nevertheless, the potential impacts caused by the high unemployment rate and possible reversal of interest rates warrant closer attention.

**Chart 3.8 Exports to and imports from China and Hong Kong**



Source: Directorate General of Customs, MOF.

**Chart 3.9 Household borrowing to GDP**



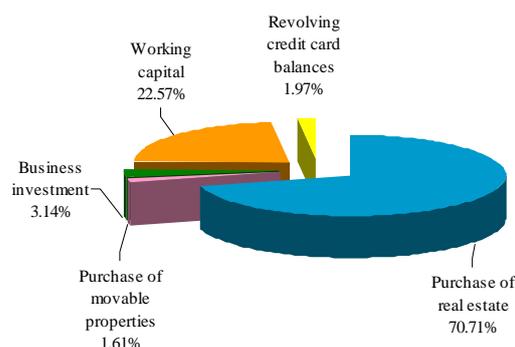
Note: Household borrowing data are end-of-period figures.  
Sources: CBC, JCIC and DGBAS.

## Household borrowing increased

Following sluggish local stock and real estate markets, the growth rate of household borrowing<sup>32</sup> turned negative from the second half of 2008. From the beginning of 2009, triggered by local stock and real estate market rebounds, accompanied by the government offering of NT\$400 billion in preferential mortgages for homebuyers, household borrowing rose to NT\$10.58 trillion as of the end of December, increasing by 2.35% year on year (Chart 3.9). The main reason behind this was that real estate purchase loans increased by 2.53%. Meanwhile, the outstanding borrowing for margin purchase and short sale of securities increased dramatically by 76.77%. The single largest share of household borrowing at the end of 2009 went for the purchase of real estate (70.71%), followed by working capital loans<sup>33</sup> (22.57%), whereas revolving credit card balances accounted for only 1.97% (Chart 3.10).

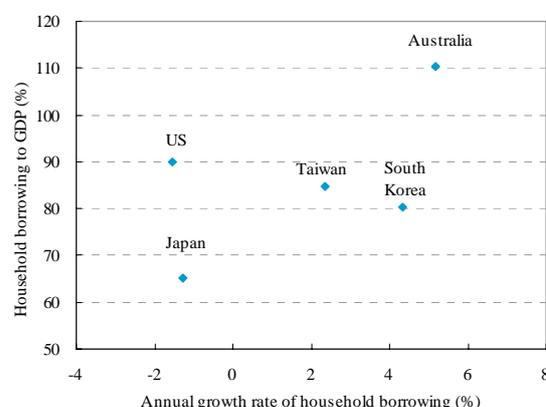
The ratio of household borrowing to GDP rose to 84.76% at the end of 2009 (Chart 3.9), higher than that in South Korea and Japan but lower than that in the United States and Australia. The growth rates of household borrowing in 2009 in Taiwan, South Korea and Australia were positive while those in the United States and Japan were in negative territory (Chart 3.11).

**Chart 3.10 Household borrowing by purpose**



Note: Figures are as of the end of 2009.  
Sources: CBC and JCIC.

**Chart 3.11 Household indebtedness in selected countries**



Note: Figures for Taiwan are as of the end of 2009. The others are as of the end-September 2009.  
Sources: Fed, BOJ, BOK, ABS, IMF, DGBAS, CBC and JCIC.

<sup>32</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 (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.

<sup>33</sup> The term “working capital loans” includes outstanding cash card loans.

**Household debt burden became heavier, but short-term debt servicing capacity improved gradually as interest rates declined**

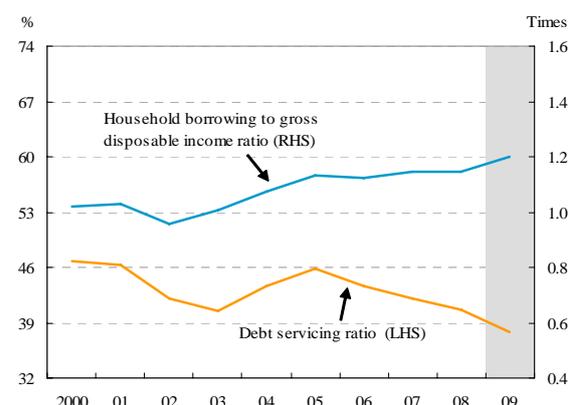
The ratio of household borrowing to gross disposable income<sup>34</sup> stood at 1.20 as of the end of 2009, up from 1.15 in 2008, representing a heavier household debt burden. Nevertheless, as interest rates declined, the debt servicing ratio decreased and registered 37.88% as of the end of 2009, showing enhanced short-term debt servicing capacity (Chart 3.12).

**NPL ratio of household borrowings declined**

The NPL ratio of household borrowings from banks kept falling to 1.41% as of the end of 2009, lower than 2.04% a year earlier (Chart 3.13). The main reason behind this was that NPLs for real estate purchases, the largest share of household borrowing, contracted due to the real estate market rebound in 2009. Household debt servicing capacity might improve because the domestic economy recovered in the second half of 2009, along with positive regular earnings growth from November 2009. Nevertheless, the potential impacts on household debt servicing capacity caused by the high unemployment rate and the possible reversal of interest rates warrant closer attention (chart 3.14).

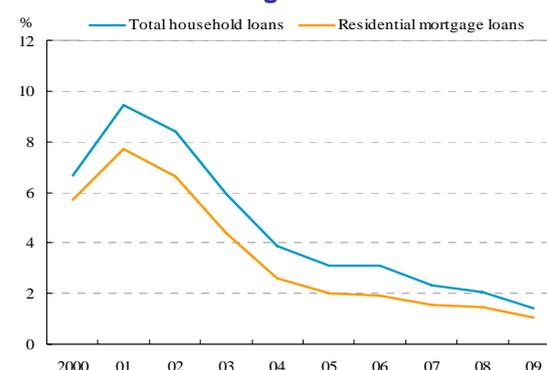
<sup>34</sup> Gross disposable income = disposable income + rental expenses + interest expenses.

**Chart 3.12 Household debt servicing ratio**



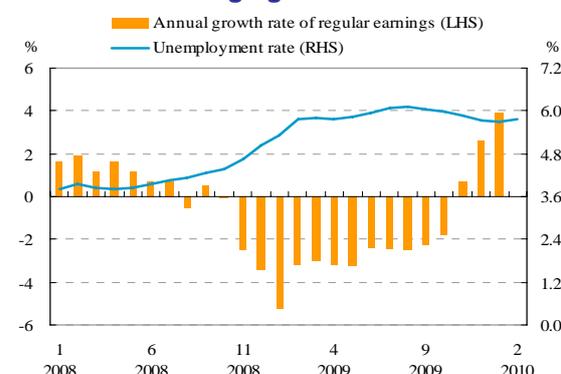
Notes: 1. Gross disposable income in shadow area is CBC estimate.  
 2. Debt servicing ratio = borrowing service and principal payment / gross disposable income.  
 Sources: CBC, JCIC and DGBAS.

**Chart 3.13 NPL ratio of household borrowings**



Note: End-of-period figures.  
 Source: JCIC.

**Chart 3.14 Unemployment rate and regular earnings growth rate**



Source: DGBAS.