of elevated business risk for corporations, which warrants close attention and timely responses.

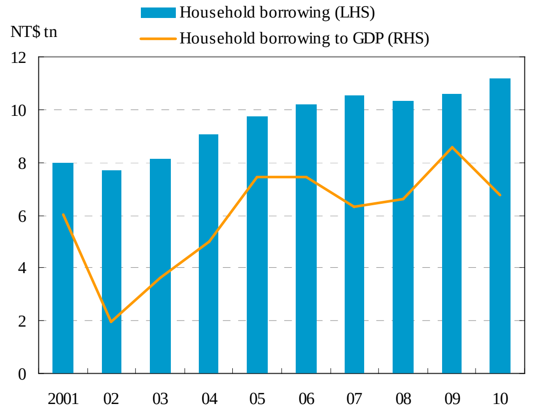
3.2 Household sector

The household debt burden eased and debt servicing capacity strengthened as disposable income expanded faster than borrowing. Overall credit quality of household borrowing also remained satisfactory. However, as interest rates gradually move upwards, highly leveraged households may face even heavier indebtedness. Thus, the debt repayment capacity for those households warrants close attention.

Household borrowing slightly increased

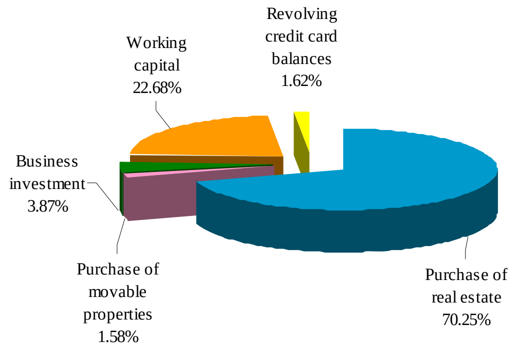
Following booming local stock and real estate markets, total household borrowing[44] at the end of 2010 reached NT$11.19 trillion (Chart 3.8) with an year-on-year growth rate of 5.69%. The largest share of household borrowing went for the purchase of real estate (70.25%), followed by working capital loans[45] (22.68%), while revolving balances on credit cards accounted for only 1.62% (Chart 3.9). Except for revolving credit card balances, the balances for every other kind of loan increased in 2010. Among them, business investment loans, mainly for margin purchases, had the greatest annual growth rate of 29.92%, while real estate purchase loans increased by 4.72%.

Chart 3.8 Household borrowing to GDP



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

Chart 3.9 Household borrowing by purpose



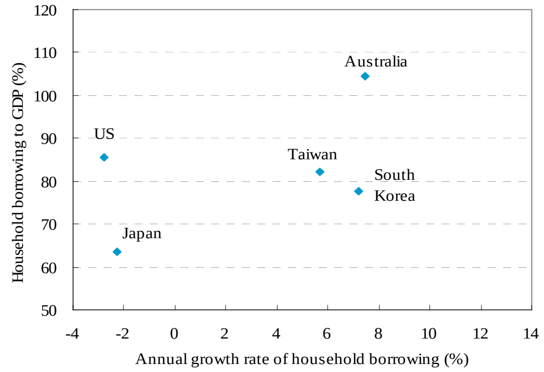
Note: Figures are as of the end of 2010.
Sources: CBC and JCIC.

[44] 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.

[45] The term “working capital loans” includes outstanding cash card loans.

The ratio of household borrowing to GDP dropped to 82.17% at the end of 2010, mainly due to a much faster pace in GDP growth (Chart 3.8). Compared to other selected countries, the growth of total household borrowing in Taiwan, South Korea, and Australia remained positive and higher than the previous year. As a percentage of GDP, household borrowing in Taiwan was lower than in the US and Australia, but higher than in South Korea and Japan (Chart 3.10).

Chart 3.10 Household indebtedness in selected countries

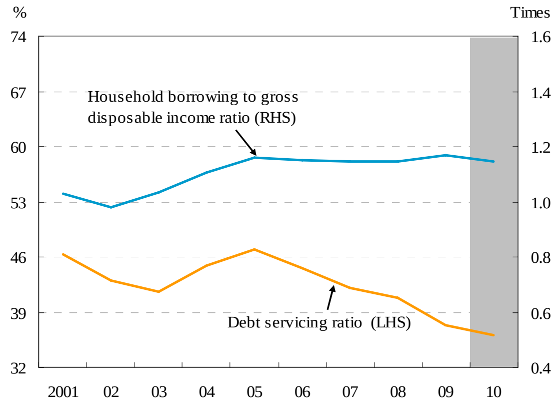


Note: Figures for Taiwan are as of the end of 2010. The others are as of the end-September 2010.
Sources: Fed, BOJ, BOK, ABS, IMF, DGBAS, CBC and JCIC.

Household short-term debt servicing capacity slightly improved

In 2010, as total household borrowing increased at a slower pace than disposable income,[46] the ratio of household borrowing to gross disposable income was brought back to 1.15 times, reflecting a slightly reduced debt burden.

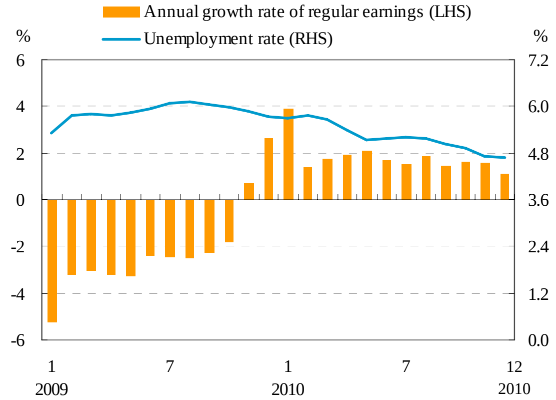
Chart 3.11 Household debt servicing ratio



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.

The debt servicing ratio decreased year by year and registered 36.12% at the end of 2010 due to the increase in household disposable income that was triggered by domestic economic recovery. Household short-term debt servicing capacity thus improved (Chart 3.11).

Chart 3.12 Unemployment rate and regular earnings growth rate



Source: DGBAS.

The fact that both the domestic unemployment rate gradually decreased and the regular earnings growth rate turned positive in 2010 helped to improve the debt servicing capacity of household sector (Chart 3.12). However, as the CBC raised interest

46 Gross disposable income = disposable income + rental expenses + interest expenses.

rates by 0.125% each time for four times from June 2010, inducing lending rates to move upward, the debt repayment pressures of highly leveraged households might increase and thus warrants close attention.

NPL ratio of household borrowing dropped to record low

At the end of 2010, the NPL ratio of household borrowing from banks was down from 1.41% a year earlier to 0.77%, the lowest level in ten years (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 2010.

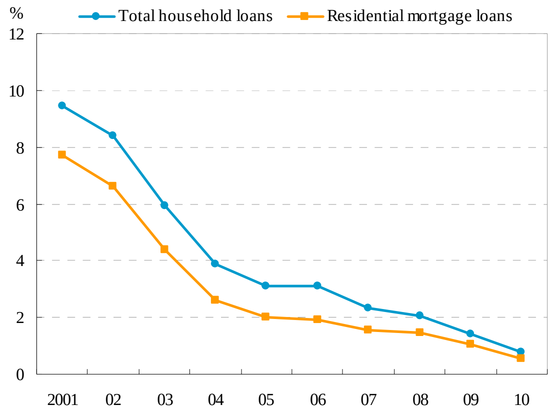
3.3 Real estate market

The real estate market continued to warm up in 2010, while house prices in specific areas surged and mortgage burdens elevated. Outstanding real estate-related loans continued to increase, albeit at a decreasing growth rate, as mortgage interest rates slowly rose. In response to surging house prices in specific areas and the concentration of banks' credit in the real estate market, the government implemented a series of measures and the housing market began showing signs of cooling starting February 2011. Its potential impact on the real estate-related business and asset quality of financial institutions is worth closer monitoring.

Real estate market rebounded

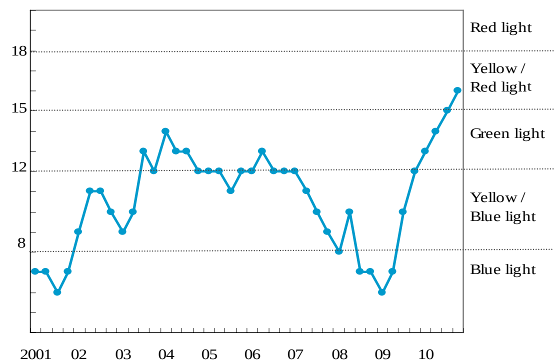
Taiwan's real estate cycle indicators [47] jumped to a 10-year high of 16 points in 2010 Q4, a yellow/red light indicating a

Chart 3.13 NPL ratio of household borrowing



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

Chart 3.14 Real estate cycle indicators



Sources: "Quarterly Report of Taiwan Real Estate Cycle Indicators," Architecture and Building Research Institute, Ministry of the Interior (MOI); Taiwan Real Estate Research Center.

[47] The real estate cycle indicators show five types of market outlooks with different colored lights. A red light indicates a "heated market," a yellow/red light indicates a "moderately heated market," a green light indicates a "stable market," a yellow/blue light indicates a "moderately declining market," and a blue light indicates a "sluggish market."