

abundant and interest rates remain at low levels. All these will help to improve the operating environment and financial soundness of the corporate sector. However, rising international oil prices, economic recession in the eurozone, slow recovery of the US economy and China's lessened GDP growth target may affect future performance of the corporate sector and, therefore, warrant close attention.

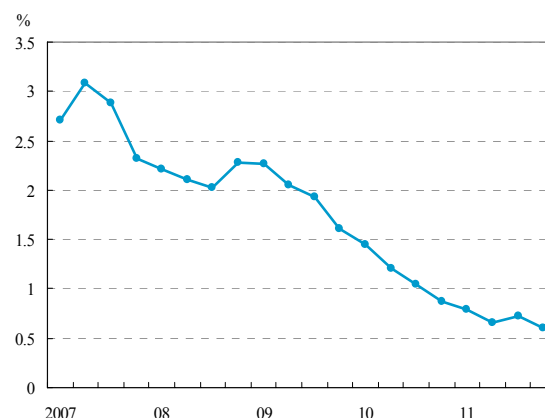
### 3.2 Household sector

As the growth of total household borrowing slowed and disposable income expanded faster than borrowing, the household debt burden slightly eased. Overall credit quality of household borrowing also remained satisfactory. Moreover, the gradual easing of the unemployment rate and the continuous growth of regular earnings may help to enhance the debt servicing capacity of households.

#### **Growth of household borrowing slowed**

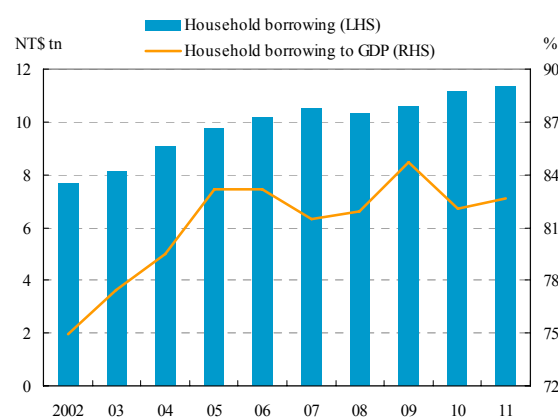
Total household borrowing<sup>48</sup> at the end of 2011 reached NT\$11.36 trillion, equivalent to 82.65% of annual GDP (Chart 3.7). The year-on-year growth rate of household borrowing for 2011 declined from 5.61% at the end of the previous year to 1.71%, mainly attributable to decreased growth of residential mortgage loans. The largest share of household borrowing went for the purchase of real estate (72.24%), with a decreased annual growth rate of 2.53%,

**Chart 3.6 NPL ratio of corporate loans**



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

**Chart 3.7 Household borrowing to GDP**



Sources: CBC, JCIC and DGBAS.

<sup>48</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.

followed by working capital loans<sup>49</sup> (22.22%), with an increased annual growth rate of 5.87%. Business investment loans, mainly for margin purchases, and revolving balances on credit cards took only minor percentages (Chart 3.8); however, they experienced large falls of 28.00% and 21.78%, respectively, following weakened stock market and local economic conditions in the second half of 2011.

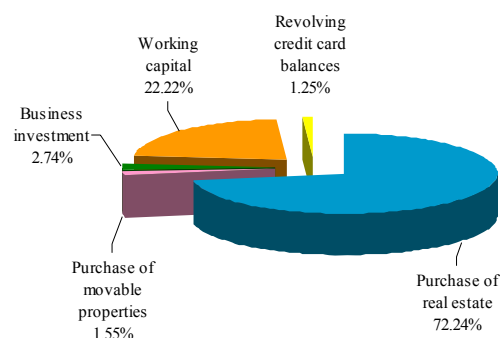
Compared to other selected countries, the growth of total household borrowing in Taiwan remained positive but was lower than that in Australia and South Korea. As a percentage of GDP, the household borrowing in Taiwan was lower than that in Australia, approximating that in the US and South Korea, but higher than that in Japan (Chart 3.9).

### Household debt burden eased slightly

In 2011, as total household borrowing grew at a slower pace than disposable income, the ratio of household borrowing to gross disposable income<sup>50</sup> eased back to 1.16, reflecting a slightly reduced debt burden.

The debt servicing ratio rose from 36.07% a year earlier to 36.40% in 2011 due to the increase in working capital loans, showing that household short-term debt servicing pressure slightly increased (Chart 3.10). However, the fact that the domestic unemployment rate decreased gradually and regular earnings grew continuously may help to improve the debt servicing capacity of the household sector (Chart 3.11).

Chart 3.8 Household borrowing by purpose



Note: Figures are as of the end of 2011.  
Sources: CBC and JCIC.

Chart 3.9 Household indebtedness in selected countries



Note: Figures for Taiwan and the US are as of the end of 2011.  
The others are as of the end-September 2011.  
Sources: Fed, BOJ, BOK, ABS, IMF, DGBAS, CBC and JCIC.

<sup>49</sup> The term "working capital loans" includes outstanding cash card loans.

<sup>50</sup> Gross disposable income = disposable income + rental expenses + interest expenses.

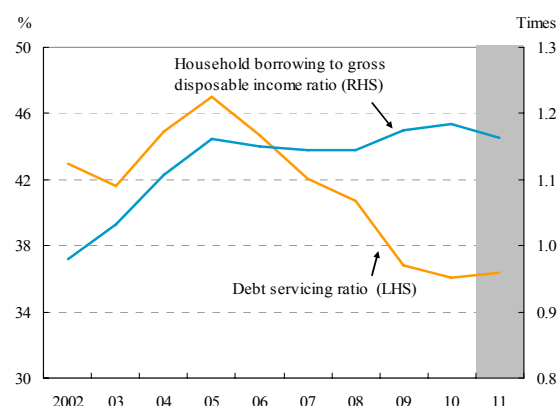
### NPL ratio of household borrowing dropped to a record low

The NPL ratio of household borrowing declined from 0.77% a year earlier to 0.51 % at the end of 2011, the lowest level in ten years (Chart 3.12). The main reason behind this was that NPLs for real estate purchases, the largest share of household borrowing, contracted. Household credit quality remained satisfactory.

## 3.3 Real estate market

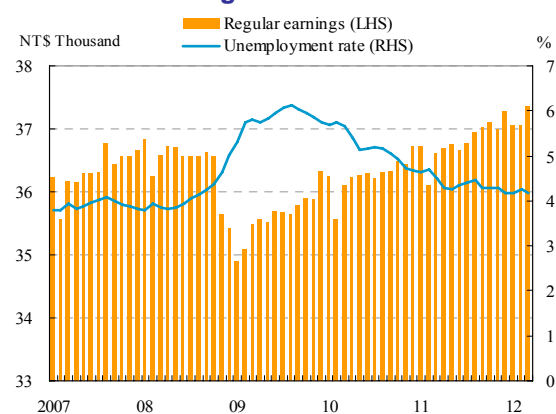
During the first half of 2011, real estate prices continuously climbed and indices repeatedly struck new highs. However, due to factors including the Ministry of Finance (MOF) imposing the Specifically Selected Goods and Services Tax, house prices gradually decreased and trading volume significantly contracted in the second half of 2011. The increase of outstanding real estate-related loans slowed down as mortgage interest rates slowly rebounded. As trading volume in the housing market contracted and massive construction projects introduced over the last few years were continuously completed, areas with high volumes of construction projects faced increasing downward pressure on housing prices.

Chart 3.10 Household debt servicing ratio



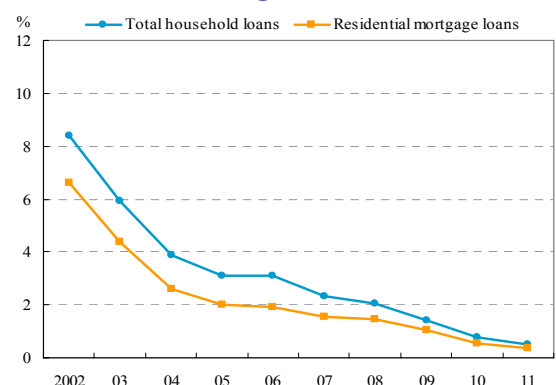
Notes: 1. Gross disposable income in shadow area is CBC estimate.  
 2. Debt servicing ratio = borrowing service and principal payment / gross disposable income.  
 Sources: CBC, JCIC and DGBAS.

Chart 3.11 Unemployment rate and regular earnings



Source: DGBAS.

Chart 3.12 NPL ratio of household borrowing



Source: JCIC.