

NT\$6.26 trillion,⁴² or 38.90% of annual GDP,⁴³ well above the NT\$5.96 trillion recorded in 2013 (Chart 2.26).

To promote fiscal health, the Ministry of Finance kept implementing the “Fiscal Health Plan” that seeks to enhance a sound fiscal system through the following directions: implementing all the measures of increasing income and reducing expenses; improving the structures of revenue and expenditure; controlling the scale of debt; coordinating all the resources; diversifying sources of finance; and timely modifying taxation.

2.3 Non-financial sectors

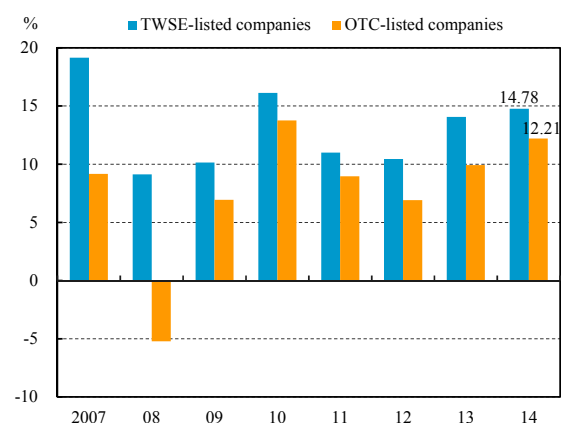
2.3.1 Corporate sector⁴⁴

The profitability of listed companies increased in 2014. Likewise, their financial structure was stable and short-term debt servicing capacity enhanced. The credit quality of corporate loans stayed sound, as NPL ratios were at their lowest recorded level. However, owing to strong industrial competition among countries, economic slowdown and promotion of industrial supply chain localization in Mainland China, as well as aggravated fluctuations in foreign exchange rates of major international currencies recently, the corporate sector’s profit outlook still faces challenges.

Profitability of listed companies grew in 2014

In 2014, benefiting from the modest recovery in the global economy and stable export growth in Taiwan, average ROEs of TWSE-listed and OTC-listed companies rose to 14.78% and 12.21%, respectively, compared to 14.06% and 9.92% in 2013 (Chart 2.27). Profitability enhanced, mainly

Chart 2.27 Return on equity in corporate sector



Note: Return on equity = net income before interest and tax / average equity.

Source: TEJ.

⁴² The figure is based on preliminary final accounts and budgets for central government and local governments, respectively. Outstanding non-self-liquidating debt at all levels of government with a maturity of one year or longer stood at NT\$6.08 trillion as of the end of February 2015.

⁴³ See Note 8.

⁴⁴ Corporate sector originally includes the data of overall corporations, TWSE-listed companies, and OTC-listed companies. Because listed companies have adopted the TIFRSs since 2013 and other corporations are still in accordance with ROC GAAP in Taiwan, the integration of financial information is not available. Therefore, this section starts to include only listed companies which are the targets for analysis since this issue. Throughout this section, figures for listed companies are consolidated financial data; prior to 2011 are under ROC GAAP, while from 2012 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.

driven by the strong demand for semiconductors, as well as the strong sales of consumer electronic products and smartphones, resulting in profit growth of the semiconductor, computers and peripheral equipment, and other electronics industries.

Except for the building material and construction and the plastics industries, all major industries for TWSE-listed companies reported increasing ROEs in 2014, especially the electronics industry. For OTC-listed companies, except for sharply increased profitability in the electronics and the iron and steel industries, all other industries experienced slightly descended performance (Chart 2.28).

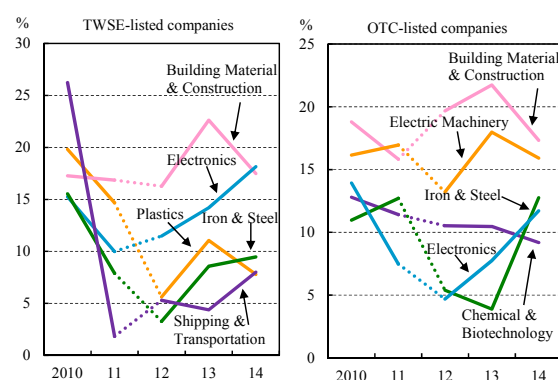
Leverage ratio decreased for listed companies

At the end of 2014, the average leverage ratio for TWSE-listed companies fell to 101.77% from 105.35% at the end of the previous year, but remained at a relatively high level. In addition, the average leverage ratio for OTC-listed companies decreased to 76.76% from 81.22% a year earlier (Chart 2.29). In 2014, listed companies raised bank borrowing to deal with the demand for investment and operating funds, resulting in the run-up of total liabilities. However, leverage ratios declined somewhat owing to a greater increase in equity.

Short-term debt servicing capacity for listed companies enhanced

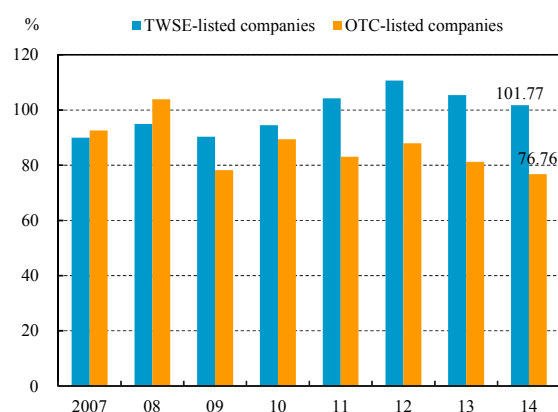
Owing to a greater increase in current assets, the current ratio for TWSE-listed companies increased to 152% at the end of 2014, while the interest coverage ratio slightly rose to 13.38. Moreover, the current ratio and interest coverage ratio for OTC-listed companies rebounded to 184% and 14.50, respectively, both the highest levels in recent years (Chart 2.30 and 2.31).

Chart 2.28 Return on equity of TWSE-listed and OTC-listed companies by major industries



Source: TEJ.

Chart 2.29 Leverage ratios in corporate sector



Note: Leverage ratio = total liabilities / equity.

Source: TEJ.

For listed companies as a whole, short-term debt servicing capacity enhanced.

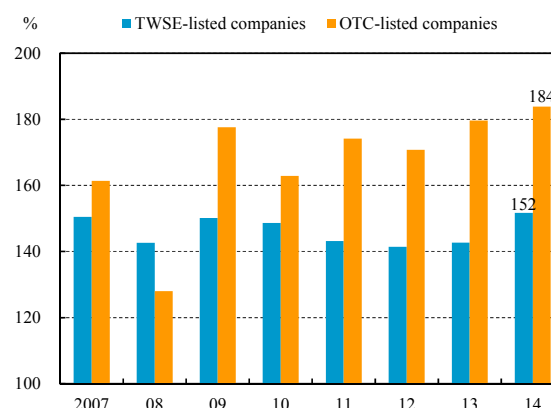
Credit quality of corporate loans remained sound

In 2014, the NPL ratio for corporate loans granted by financial institutions continued to decline as a result of massive write-offs of NPLs in large corporations, such as TMT Group, ProMOS Technologies, and TPSi. The ratio declined to 0.40% at the end of the year, from 0.63% at the end of pervious year, and reached the lowest level on record, reflecting sound credit quality for the corporate sector (Chart 2.32).

Corporate sector's profit outlook still faces challenges

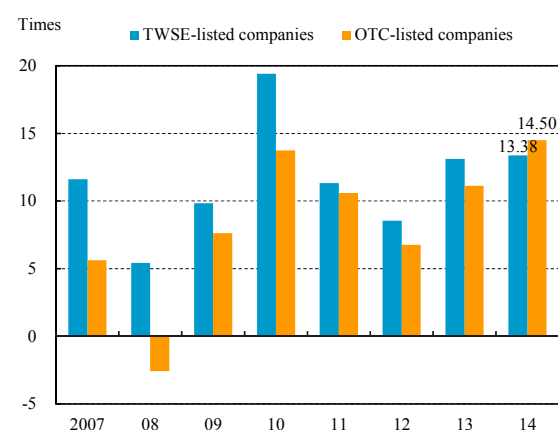
Although the global economy has experienced a slight recovery that can help to sustain profitability in the corporate sector, strong industrial competition among countries, economic slowdown and promotion of industrial supply chain localization in Mainland China, as well as aggravated fluctuations in foreign exchange rates of major international currencies recently, all continue to closely affect the profitability of Taiwan's export industries. In addition, the decline of international oil prices may indirectly reduce the costs of production in the corporate sector; however, it may also have negative effects on the mineral products and the petrochemical industries in Taiwan.

Chart 2.30 Current ratios in corporate sector



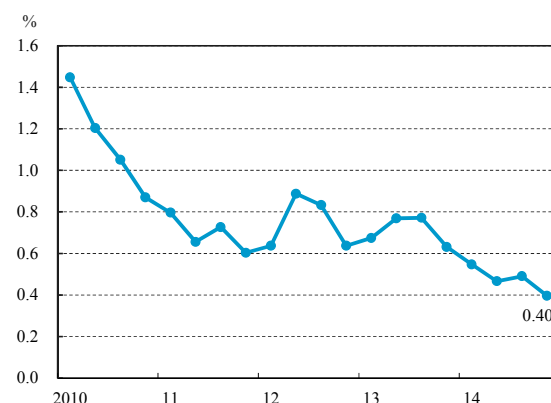
Note: Current ratio = current assets / current liabilities.
Source: TEJ.

Chart 2.31 Interest coverage ratios in corporate sector



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

Chart 2.32 NPL ratios of corporate loans



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

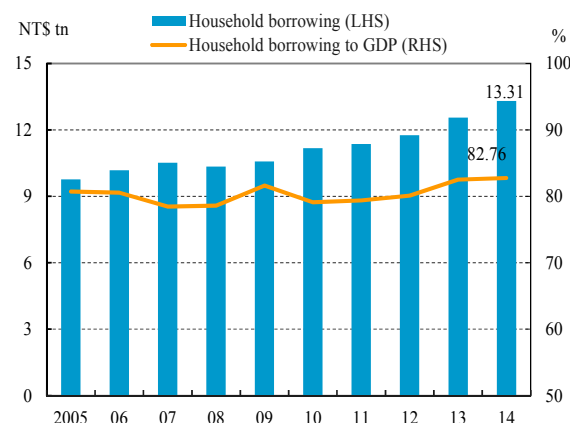
2.3.2 Household sector

The household debt burden relieved slightly as the balance of total household borrowing expanded more slowly than that of disposable income. Short-term debt servicing pressure increased, driven by the build-up of medium- and short-term borrowing; however, the overall credit quality of household borrowing remained satisfactory. Furthermore, combined with the falling unemployment rate and steadily growing regular earnings, this should help underpin the debt servicing capacity of households.

Household borrowing increased continuously

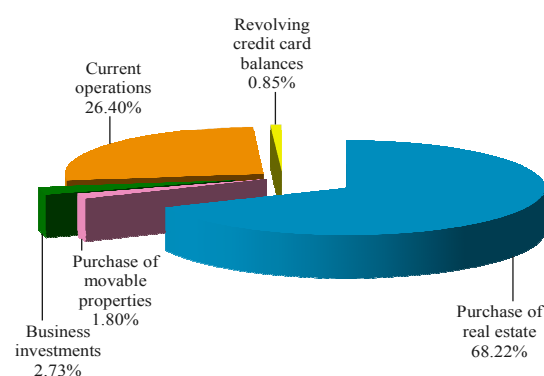
At the end of 2014, total household borrowing⁴⁵ saw a continued expansion and reached NT\$13.31 trillion, equivalent to 82.76% of annual GDP (Chart 2.33), mainly owing to an increase in loans for the purchase of real estate and current operations. The largest share of household borrowing went for the purchase of real estate (68.22%), with an annual growth rate of 3.65%, followed by current operation loans⁴⁶ (26.40%), with a considerably increased annual growth rate of 11.89%. The rest of the household borrowing categories took only minor percentages, including loans to purchase movable properties, largely consisting of vehicle loans, business investment loans, and revolving balances on credit cards (Chart 2.34).

Chart 2.33 Household borrowing to GDP



Sources: CBC, JCIC and DGBAS.

Chart 2.34 Household borrowing by purpose



Note: Figures are as of the end of 2014.
Sources: CBC and JCIC.

⁴⁵ 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) Other monetary 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.

⁴⁶ The term “current operation loans” includes outstanding cash card loans.

The annual growth rate of total household borrowing in Taiwan reduced to 5.98% at the end of 2014 from 6.77% a year earlier, posting a figure still higher than that in Japan and the US, and equivalent to that in South Korea, but lower than that in Australia. In addition, as a percentage of GDP, household borrowing in Taiwan was lower than that in Australia and South Korea (Chart 2.35).

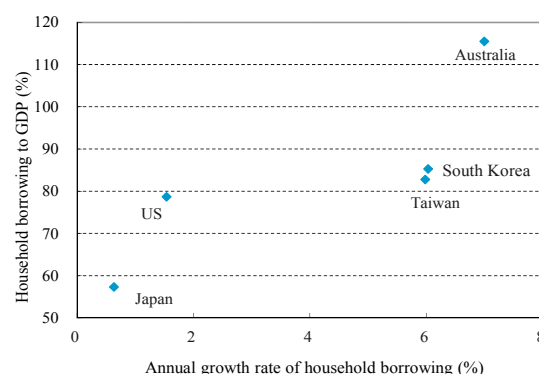
Household debt burden alleviated somewhat, while short-term debt servicing pressure mounted

As total household borrowing grew at a slower pace than disposable income in 2014, the ratio of household borrowing to total disposable income⁴⁷ shrank to 1.32 at the end of the year, reflecting that the household debt burden lessened. However, owing to the increase in loans for the purchase of movable properties and current operations, the debt servicing ratio uplifted to 44.02% in 2014 from 41.97% a year earlier (Chart 2.36). As a result, short-term debt servicing pressure remained high. Nevertheless, the decreasing domestic unemployment rate and steady growth of regular earnings should help improve the debt servicing capacity of households (Chart 2.37).

NPL ratio of household borrowing declined to a historical low

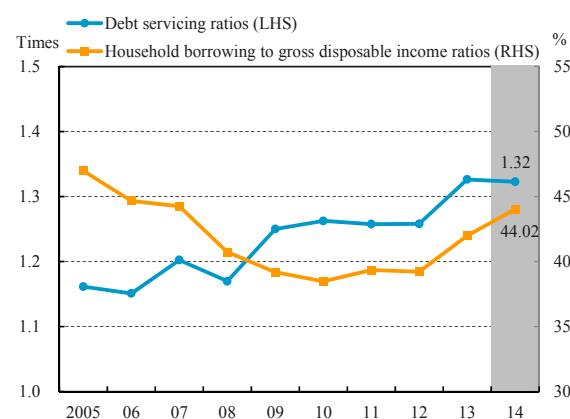
The NPL ratio of household borrowing

Chart 2.35 Household indebtedness in selected countries



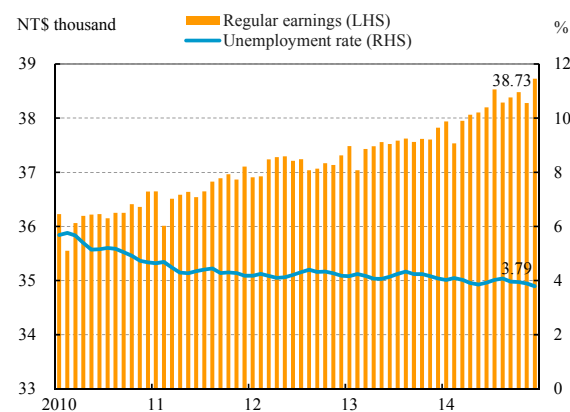
Note: Figures for Taiwan and the US are as of the end of 2014. The others are as of the end-of September 2014. Sources: Fed, BOJ, BOK, ABS, IMF, DGBAS, CBC and JCIC.

Chart 2.36 Household indebtedness and debt servicing ratios



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

Chart 2.37 Unemployment rate and regular earnings



Source: DGBAS.

⁴⁷ Total disposable income = disposable income + rental expenses + interest expenses.

continuously dropped to 0.23% at the end of 2014, touching a 15-year low (Chart 2.38). The main reason behind this was that NPLs for loans to purchase real estate steadily contracted during the year. This indicated that household credit quality remained satisfactory.

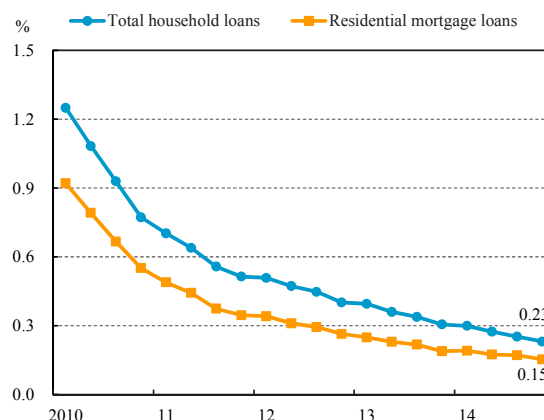
2.3.3 Real estate market

From 2014 onwards, trading volume in the real estate market contracted. The house price in some areas showed signs of a slight decline but remained high. In addition, real estate loans grew slowly as mortgage interest rates rose slightly. The CBC continuously implemented targeted prudential measures and reminded borrowers to pay attention to the risk of interest rate fluctuations, while the government carried out several measures, including levying a consolidated housing and land tax based on the market price. All the above-mentioned measures helped promote sound development of the real estate market.

Trading volume in the real estate market contracted

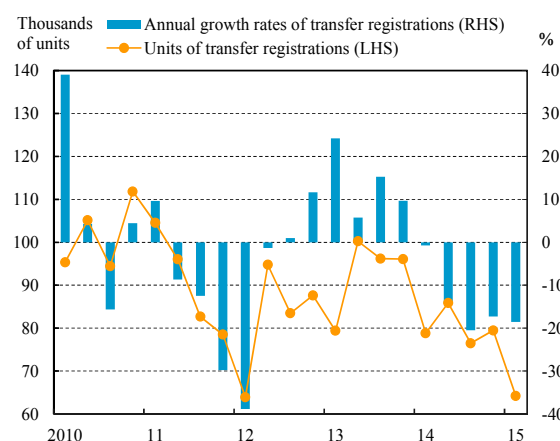
In 2014, housing market sentiment turned conservative and trading volume in the real estate market showed double-digit negative growth from Q2, owing to the government expanding the scope of tax audits, strengthening the regulation of non-first-time house-purchase loans, increasing the tax burden on high-priced house owners and people who own multiple houses, and proposing to levy a consolidated housing and land tax based on the market price. In Q4, the total number of building ownership transfers for transaction declined to 79.5 thousand units, decreasing by 17.30% year on year (Chart 2.39). The accumulated number of transfers for transaction was 320 thousand units in 2014, with an annual growth rate of -13.79%.

Chart 2.38 NPL ratios of household borrowing



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

Chart 2.39 Building ownership registrations for transaction



Source: Monthly Bulletin of Interior Statistics, MOI.

Among the six metropolitan areas,⁴⁸ New Taipei City registered the greatest year-on-year decrease of 25.04%, while the others saw year-on-year decreases of over 10%.

In 2015 Q1, the total number of building ownership transfers for transaction further decreased, with an annual growth rate of -18.55%. Among the six metropolitan areas, New Taipei City registered the greatest year-on-year decrease of -25.15%, followed by Taipei City with -21.13%.

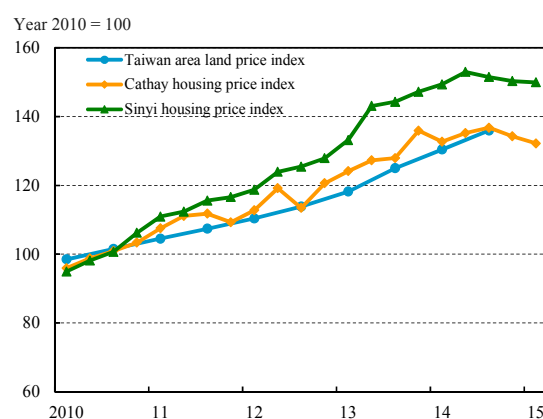
Real estate prices declined slightly

In 2014, driven by a contracted housing market, housing prices fell moderately. Over the same period, land prices trended up as the land price index recorded an annual growth rate of 8.77% as of the end of September 2014⁴⁹ (Chart 2.40).

The Cathay housing price index (for new constructions) rose with a gradually narrowing trend. In 2014 Q4, the housing price index for Taiwan turned to decline, with an annual growth rate of -1.20%. The average annual growth rate in 2014 registered 4.67%, lower than 10.62% a year earlier. The average annual growth rates in Taipei and New Taipei City were -0.46% and -5.46%, respectively. In 2015 Q1, the annual growth rate was -0.38%.

The Sinyi housing price index (for existing buildings) also fell in 2014 Q3, while the annual growth rate contracted to 2.12% in Q4. The average increase registered 6.55% in 2014, lower than 14.43% a year earlier. Among the metropolitan areas, New Taipei City and Kaohsiung City registered greater increases, but Taipei City saw a fall in Q4. In 2015 Q1, the annual growth rate decreased to 0.38%, while both New Taipei City and Taoyuan City reversed to trend downwards.

Chart 2.40 Land and house price indices



Notes: 1. Taiwan area land price index is released semiannually. Figures are as of the end of March and September.

2. For comparison purposes, all the three indices use the same base year of 2010 (2010 average=100).

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

⁴⁸ Refers to New Taipei City, Taipei City, Taoyuan City, Taichung City, Tainan City, and Kaohsiung City.

⁴⁹ The land price index was 115.04 as the Ministry of Interior re-designated 31 March 2013 as the base period (index=100).

Mortgage burden remained heavy

In 2014, since housing prices stayed high and mortgage interest rates rose slightly, the mortgage burden ratio for Taiwan increased quarter by quarter from Q2 and registered 35.61% in Q4. The house price to income ratio during the same period was 8.41 (Chart 2.41). Among them, the mortgage burden and house price to income ratios in Taipei City were the highest, reaching 66.59% and 15.73, respectively.

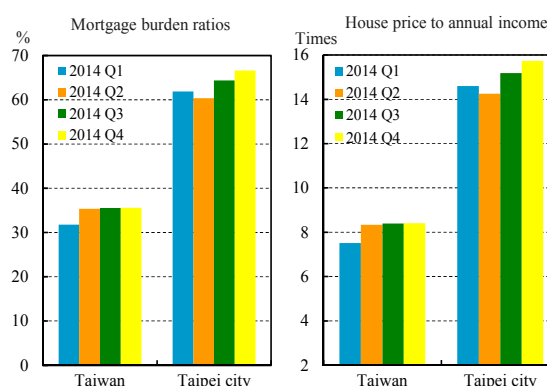
Construction license permits contracted, while new residential properties construction expanded

In 2014, the economy grew gradually, enterprises increased their demand for floor space to launch new stores and expand plant capacity. However, the total floor space of construction license permits decreased by 2.83% year on year, with residential properties decreasing by 12.53%, owing to a decrease in new residential properties construction projects. In 2015 Q1, the annual growth rate of the total floor space of construction license permits decreased to -13.38%, with residential properties decreasing to -20.25%.

Additionally, the total floor space of usage permits increased continuously in 2014 (Chart 2.42) and the annual growth rate was 10.24%, because of residential properties increasing by 7.23%. In 2015 Q1, the annual growth rate of the total floor space of usage permits registered 0.92%, with the growth rate of residential properties reaching 8.19%.

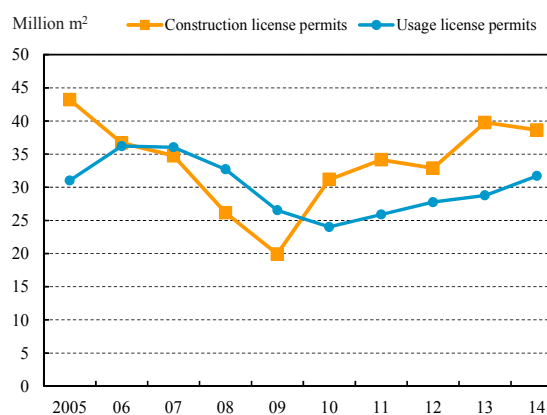
Moreover, the number of vacant residential properties was 1.43 million units in 2014, estimated by the number of units consuming less electricity than the minimum service charge

Chart 2.41 Mortgage burden ratios and house price to income ratios



Notes: 1. Mortgage burden ratio = median housing loans monthly payments / median household monthly disposable income.
 2. House price to annual income = median house price / median household annual disposable income.
 Source: Housing Price Affordability Indicator Statistics, Construction and Planning Agency of the MOI.

Chart 2.42 Floor space of construction license permits and usage license permits



Source: Monthly Bulletin of Interior Statistics, MOI.

from the Taiwan Power Company (Chart 2.43).

Real estate loans grew modestly as mortgage interest rates gradually increased

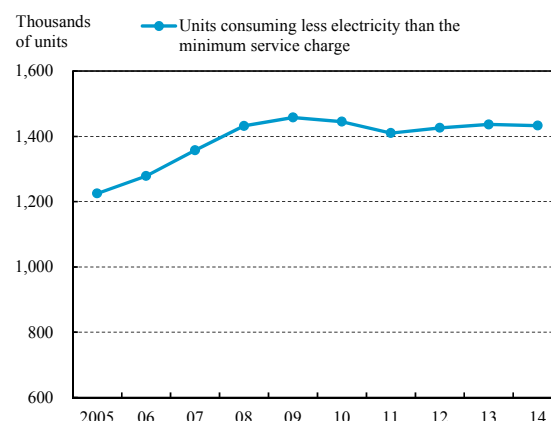
From June 2014 onwards, house-purchase loans grew slowly, owing to the CBC and the FSC continuously strengthening risk management regarding the real estate loans of financial institutions. At the end of March 2015, the outstanding loans for house purchases and house refurbishments granted by banks⁵⁰ reached NT\$6.11 trillion, with an annual growth rate of 2.44%. Meanwhile, outstanding construction loans reached NT\$1.64 trillion, with an annual growth rate of 6.52% (Chart 2.44).

The new loans for house purchases granted by the five large banks⁵¹ decreased by 6.89% year on year to NT\$502.4 billion in 2014. In 2015 Q1, they continued to significantly decrease by 30.07% year on year. As for the interest rate for new mortgages, it gradually increased but remained at a low level. In March 2015, it reached 1.99% (Chart 2.45).

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

In 2014, the CBC continuously deployed

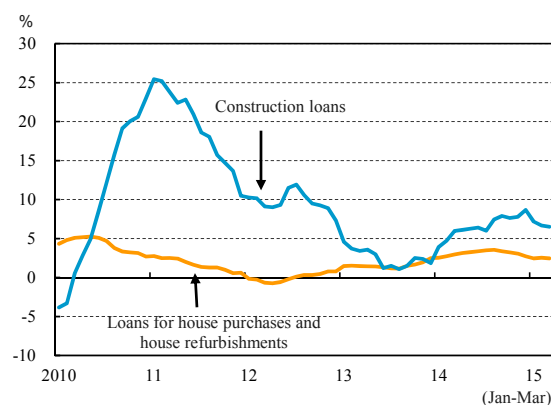
Chart 2.43 Estimated units of vacant houses



Note: The number of units consuming less electricity than the minimum service charge is monthly average within the current year.

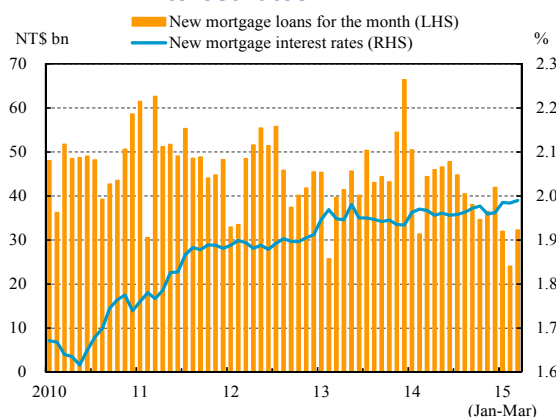
Source: Taiwan Power Company.

Chart 2.44 Annual growth rates of real estate loans



Source: CBC.

Chart 2.45 New mortgages – amounts and interest rates



Source: CBC.

⁵⁰ Refers to domestic banks and the local branches of foreign and Mainland Chinese banks.

⁵¹ The five large banks refer to Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank, and Land Bank of Taiwan.

measures to enhance risk management regarding the real estate loans of financial institutions. In June, for the purpose of further strengthening risk management regarding housing mortgages, the CBC expanded the scope of stipulated Specific Areas, revised the definition of high-value housing, introduced the regulation on third or more house-purchase loans taken out by a single borrower and lowered the loan-to-value (LTV) ratio ceiling on loans for high-value house purchases and house-purchase loans taken out by corporate legal entities.

With the gradual exit from QE in the US, the market expects interest rates will reverse to move upwards in the future. The CBC has repeatedly alerted borrowers to pay attention to the risk of interest rate fluctuations.

In addition, since the CBC urged banks to prudently conduct the business of industrial land collateralized loans in order to strengthen risk management on December 23, 2013, most banks have complied with the principles the CBC suggested. On February 4, 2015, the CBC invited related institutions and principal banks once again to discuss the above-mentioned issues, and reached a consensus about implementing more rigorous self-restraint measures on land collateralized loans in idle industrial zones.

Since the CBC implemented the aforementioned targeted prudential measures, both the concentration of real estate loans and LTV ratios of banks have fallen, helping the sound operations of banks and promoting financial stability (Box 3). Such measures, together with the government facilitating tax reforms by levying a consolidated housing and land tax based on the market price, strengthening of tax audits on real estate transactions, expanding the units of social housing and rental subsidized housing and continuously improving the property transaction price registration system, have been favorable for the sound development of the real estate market.

Box 3**The effectiveness of the CBC's macro-prudential measures on real estate loans**

In view of banks' credit portfolios being over-concentrated on real estate loans, specifically newly extended housing loans in metropolitan Taipei during the second half of 2009, which undermined banks' credit risk management, the CBC conducted moral suasion in October 2009 to urge banks to extend real estate loans in a more prudent manner. Furthermore, the CBC has introduced a series of targeted prudential measures for real estate lending since June 2010 (Table B3.1), aiming to further enhance banks' risk management on real estate loans.

Table B3.1 The CBC's targeted macro-prudential measures on real estate lending

Year/month	Measures	Contents of the measures
2010/6	Enacting the regulations governing house-purchase loans in Specific Areas	1. Applying to second or more house-purchase loans for home purchases in Specific Areas, including Taipei City and ten districts in New Taipei City. 2. Capping the loan-to-value (LTV) ratios at 70% and removing the grace period.
2010/12	1. Expanding the scope of Specific Areas	Expanding the scope of Specific Areas to include three more districts in New Taipei City, enlarging regulated entities to include corporates and lowering the LTV ratio cap to 60%.
	2. Regulating land collateralized loans	For the loans collateralized by residential or commercial land plots in urban planning districts, requiring borrowers to submit concrete construction projects, capping LTV ratios at 65% and requesting 10% of approved loans to be extended only after the construction commences.
2012/6	Enacting the guidelines governing loans for high-value house purchases	1. Defining high-value properties as: (1) located in Taipei City or New Taipei City valued at NT\$80 million or more; (2) located in other areas valued at NT\$50 million or more. 2. Capping LTV ratios of those loans at 60% and removing their grace period.
2013/3	Adopting self-discipline measures for house-purchase loans in districts outside Specific Areas	Requiring banks to exercise self-discipline for house-purchase loans in districts outside Specific Areas with considerable surges in housing prices.
2013/12	Adopting self-discipline measures for loans collateralized by industrial zone land	Urging banks to strengthen risk management on loans collateralized by industrial zone land, including: 1. Requiring borrowers to submit construction projects and related financial information. 2. Requiring borrowers to commit to writing that construction will commence on the collateralized land within a specific period. 3. Conducting post-loan-reviews to ensure the fulfillment of commitments by borrowers.
2014/6	Amending the regulations governing house-purchase loans in Specific Areas	1. Expanding the scope of Specific Areas to include four more districts in New Taipei City and four districts in Taoyuan County, and capping their LTV ratio at 60%. 2. Capping the LTV ratio at 50% for third or more

		<p>house-purchase loans by a single borrower across the country.</p> <p>3. Revising the definition of high-value housing to include residential properties valued at more than NT\$70 million in Taipei City, NT\$60 million in New Taipei City and NT\$40 million in other areas, and lowering their LTV ratio ceiling to 50%.</p> <p>4. Lowering the LTV ratio ceiling of house-purchase loans granted to corporate legal entities to 50% across the country.</p>
2015/2	Further enhancing self-discipline measures for land lending in idle industrial zones	<p>Inviting related competent authorities and main banks to discuss lending principles for idle industrial zone land, and reaching the following consensuses:</p> <p>1. For loans collateralized by idle industrial zone land stated in the Joint Credit Information Center’s database:</p> <p>(1) Renewed loans or transferred loans: capping LTV ratio at 55% if the construction does not commence.</p> <p>(2) New loans: capping LTV ratio at 55% if borrowers fail to implement construction projects.</p> <p>2. For other land collateralized loans: continuing to implement self-discipline measures issued by the CBC in December 2013.</p> <p>3. Above-mentioned lending principles should be encompassed into internal credit procedures of banks and listed as the examination targets of financial authorities.</p>

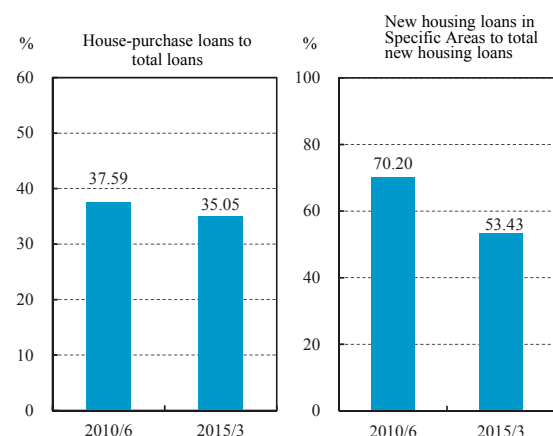
Source: CBC.

The aforesaid measures have already achieved the following results:

● **The concentration of banks’ housing loans in Specific Areas has been addressed**

The ratio of house-purchase loans to total loans declined from 37.59% at the end of June 2010 to 35.05% at the end of March 2015. In addition, the ratio of new housing loans in Specific Areas to total new housing loans declined from 70.20% to 53.43% during the same period, showing that the concentration of housing loans in the banking system has been improved (Chart B3.1).

Chart B3.1 Concentration of house-purchase loans



Source: CBC.

● **The average LTV ratio of real estate loans has declined, while the average mortgage rate has risen gradually**

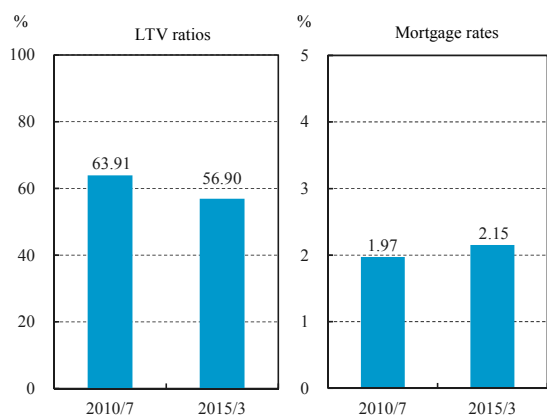
After the CBC implemented various targeted macro-prudential measures, the average LTV ratio of real estate loans has subsided and the average mortgage rate has risen gradually

(Chart B3.2, B3.3 and B3.4).

● **The number of building ownership registrations for transaction in Taiwan has dropped**

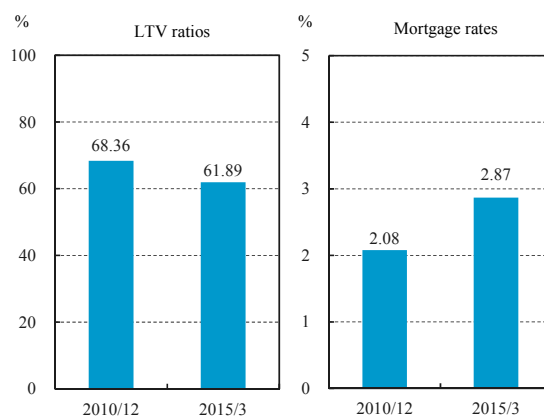
In 2014, the number of building ownership registrations for transaction in Taiwan was equivalent to those in the period of SARS during 2002 and 2003 (Chart B3.5), dropping by 13.8% year on year (Table B3.2). Moreover, the number slid down further in the first quarter of 2015,¹ indicating a depression of speculative transactions in the housing market.

Chart B3.2 The LTV ratios and mortgage rates on new house-purchase loans in Specific Areas



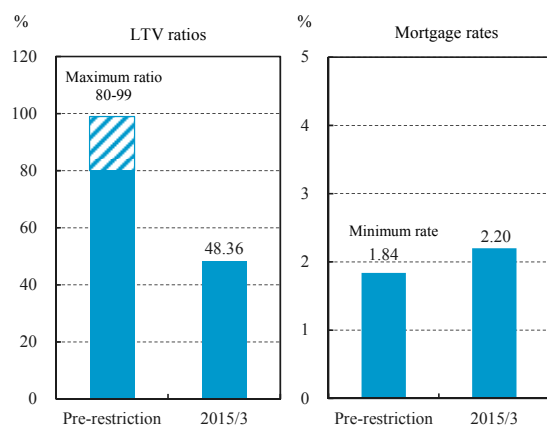
Source: CBC.

Chart B3.3 The LTV ratios and mortgage rates on new land collateralized loans



Source: CBC.

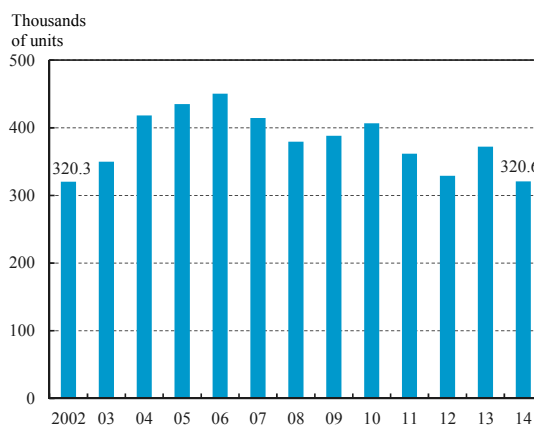
Chart B3.4 The LTV ratios and mortgage rates of high-value house-purchase loans



Note: The slashed square indicates the LTV ratios of loans for high-value house purchases were between 80% and 99%.

Source: CBC.

Chart B3.5 Building ownership registrations for transaction in Taiwan



Source: Monthly Bulletin of Interior Statistics, MOI.

Table B3.2 Building ownership registrations for transaction in Taiwan and Specific Areas

Unit : buildings

Area Year	Taiwan	Taipei City	New Taipei City	Taoyuan City	Taichung City	Tainan City	Kaohsiung City
2013	371,892	39,496	80,601	50,870	53,695	23,378	43,755
2014	320,598	32,023	60,416	43,662	47,887	20,552	38,815
Annual growth rate	-13.8%	-18.9%	-25.0%	-14.2%	-10.8%	-12.1%	-11.3%

Source: Monthly Bulletin of Interior Statistics, MOI.

Note: In the first quarter of 2015, the number of building ownership registrations for transaction in Taiwan was 64,190 buildings, 18.6% less than the same period of the previous year.