



# Taiwan Academy of Banking and Finance (TABF) Taiwan Financial Risk Index (TAIFRI) Monthly Report

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## December TAIFRI Highlights

- **December TAIFRI score was 98.8 points, relatively low risk profile**

The December 2020 TAIFRI score was 98.8, 0.1 lower than the adjusted November score of 98.9, showing a relatively low historical risk profile. Asset valuation pressure, the first dimension, was 101.8, same as in November. Non-financial sector stability, the second dimension, scored 94.1, down 0.3 from 94.4 in November. Financial sector stability scored 94.3, up 0.2 points from 94.1 in November; and spillover and contagion was 102.1, down 0.3 from 102.4 in November.

- **Risk down in housing market; pay attention to stock market volume and price risks**

The real estate sub-index of asset valuation pressure scored 97.38 in December, down from 97.65 in November. Transaction volume and market sentiment were affected by the recovery of rents from the impact of the pandemic, as well as the government's related countermeasures. The housing price-to-rent ratio has declined for three consecutive months, marking a low since March 2020, although the ratio for offices has stabilized. The stock market sub-index scored 100.06, up from 99.58 in November. The market price-to-earnings ratio reached 22.48, a nine-year high, but the fundamentals are better than in other foreign markets. There was no significant holiday effect from foreign capital. Trading volume set a record of 430 billion in early January, but the risk premium hit a 7-year low. Due to the short-term moves, it is necessary to watch volume and price risks, but December options volatility hit a low since January 2020, indicating stable confidence.

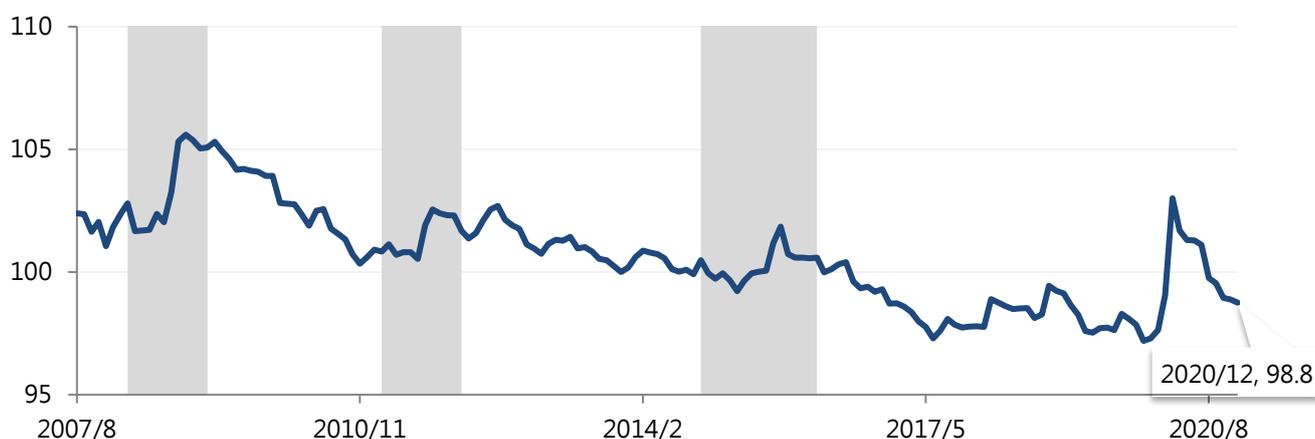
- **Domestic corporates have strong funding momentum; watch banks' overseas credit risks**

In non-financial sector stability, corporates have forecast recovery this year and continued loose policies and low funding costs caused increased funding needs at the end of last year, as well as substantially more SME lending. Corporate lending remained strong, with less risk of a funding gap. The bank asset quality sub-index of financial sector stability was affected by a decline in overseas credit quality. NPLs at overseas branches and OBUs continued to increase from 2020 2H, and bad debt coverage and capital adequacy ratio (BIS) declined slightly, affecting annual performance. Asset quality was more stable at large banks than at small ones. Overall, financial sector instability increased slightly but remained in a moderate range. We will continue to watch emerging markets and the solvency of local corporates.

- **Subsiding domestic and foreign risks**

In the contagion and spillover dimension, as market volatility and credit risks in the US, China, Japan, and EU, major exposure areas for domestic banks, have eased, overseas investment risks are stable. Due to a stable financial market, the domestic financial contagion sub-index fell from a high of 111.7 in March to 102.1, returning to the pre-pandemic level.

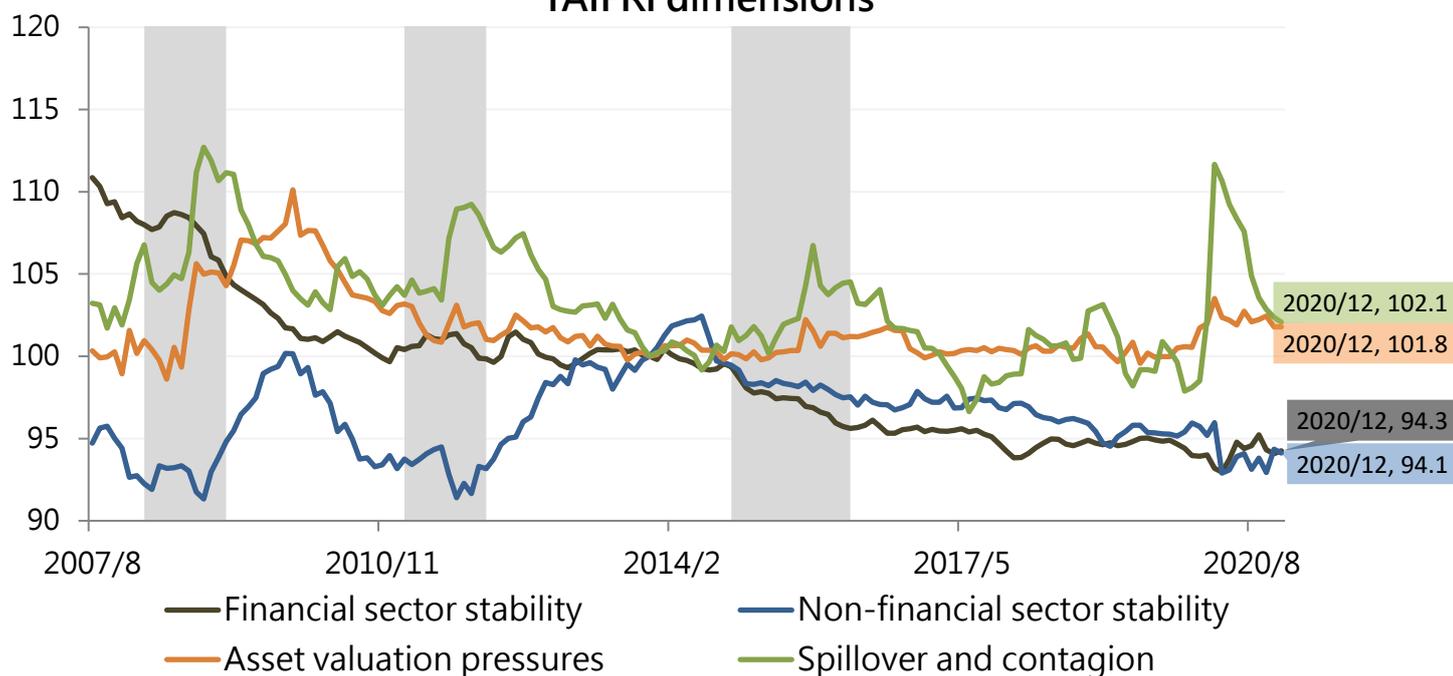
## TAIFRI composite index



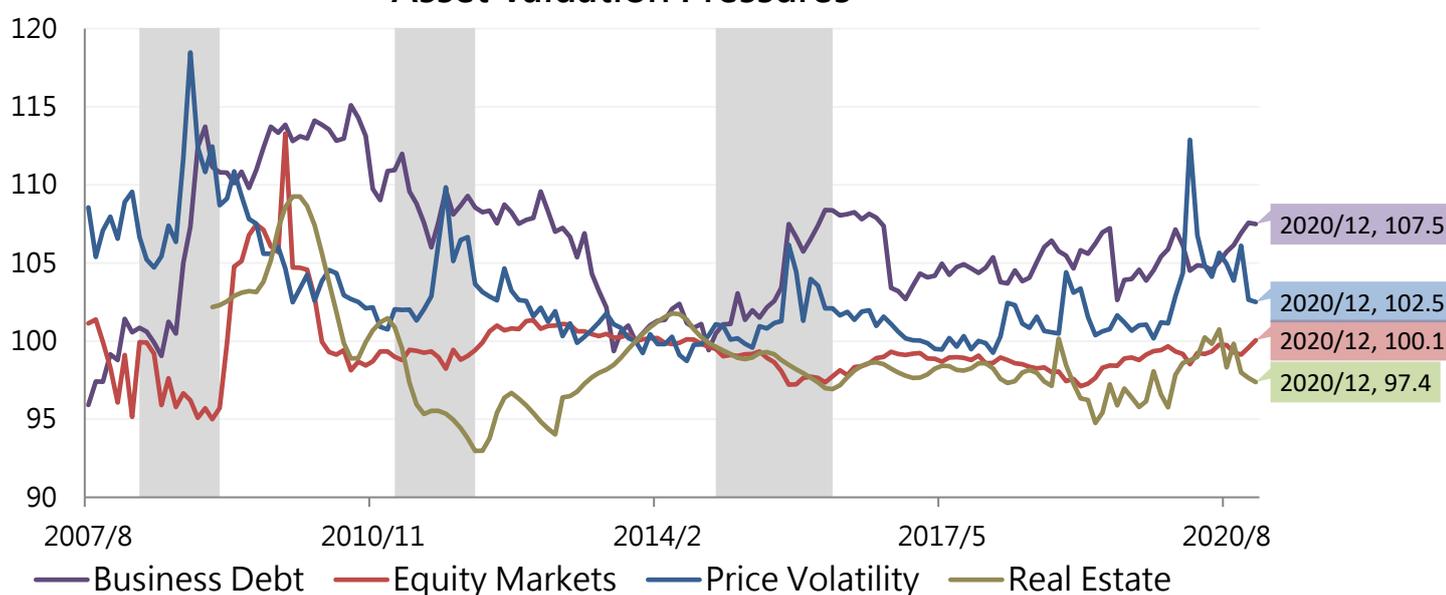
Source: TABF

| Ranking of risk changes |                                |                                |
|-------------------------|--------------------------------|--------------------------------|
| Rank                    | Increasing indicators          | Decreasing indicators          |
| 1                       | Capital adequacy ratio         | Overseas market risk           |
| 2                       | NPL coverage ratio             | BBB bond spread                |
| 3                       | Price-to-rent ratio of offices | Business loan growth           |
| 4                       | P/E ratio                      | Price-to-rent ratio of houses  |
| 5                       | E/P ratio spread               | TAIEX options volatility index |

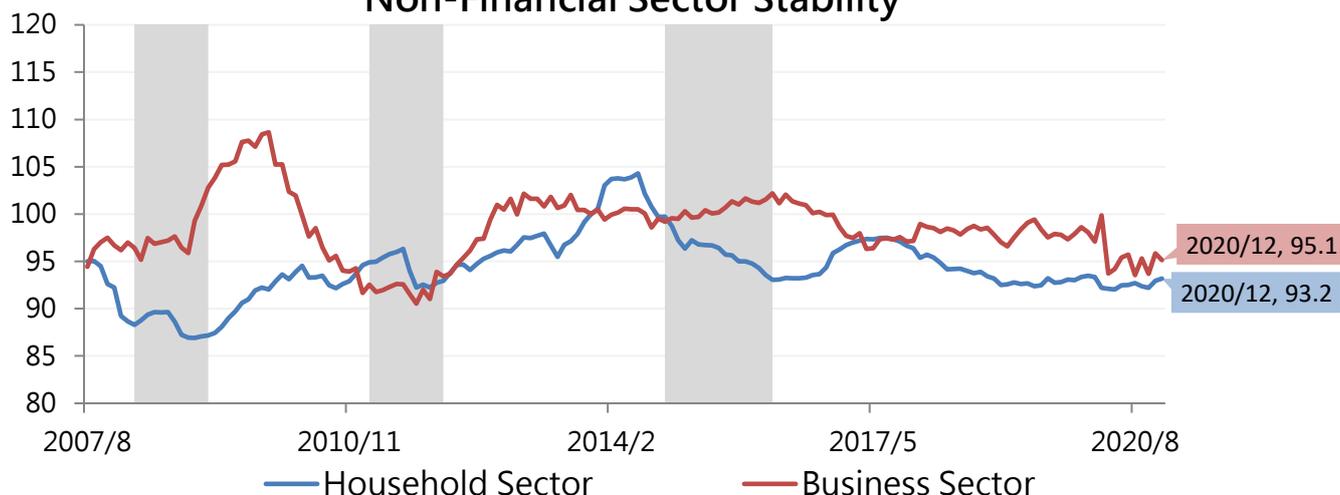
### TAIFRI dimensions



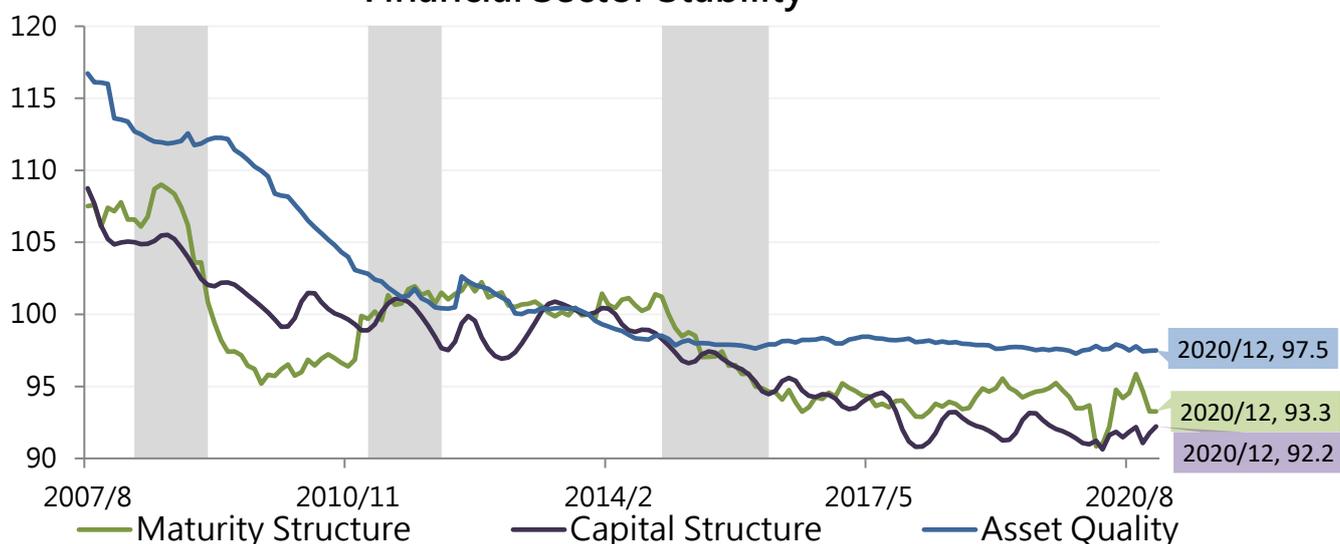
### Asset Valuation Pressures



### Non-Financial Sector Stability



### Financial Sector Stability



### Spillover and Contagion

