



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

Financial Research Institute
Pei-Shan Tung
tnabiki@tabf.org.tw



January TAIFRI Highlights

- **January TAIFRI score reaches 98.9 points; increased asset valuation and spillover/contagion risk**

The January 2021 TAIFRI scored 98.9 points, a slight increase of 0.4 over the 98.5 in December 2020, but still relatively low for Taiwan historically. The first dimension, asset valuation pressure, scored 102.8, up 0.9; non-financial sector stability scored 94.0, down 0.1; financial sector stability scored 93.0, the same as in December, and contagion/spillover scored 102.7, up 0.6.

- **Demand for commercial real estate remains strong; stock market volatility risk continues to rise**

In the first dimension, asset valuation pressure, the real estate market sub-index was 98.1, down 0.2. Due to steadily recovering residential rents and the government's macroprudential real estate lending measures, the residential price-to-rent ratio has fallen for four months in a row, hitting a low since the peak of the pandemic in March 2020. Due to demand from businesses returning to Taiwan, however, commercial real estate prices and rents have both risen steadily. This month's stock market sub-index exceeded the 100 benchmark for the first time since August 2014. Price-earnings ratios reached a high since December 2012, and the risk premium also hit a low since September 2014. Option price volatility however hit a high since May 2020, reflecting market expectations of more volatility in the short term. The stock market is also the risk factor that increased the most this month.

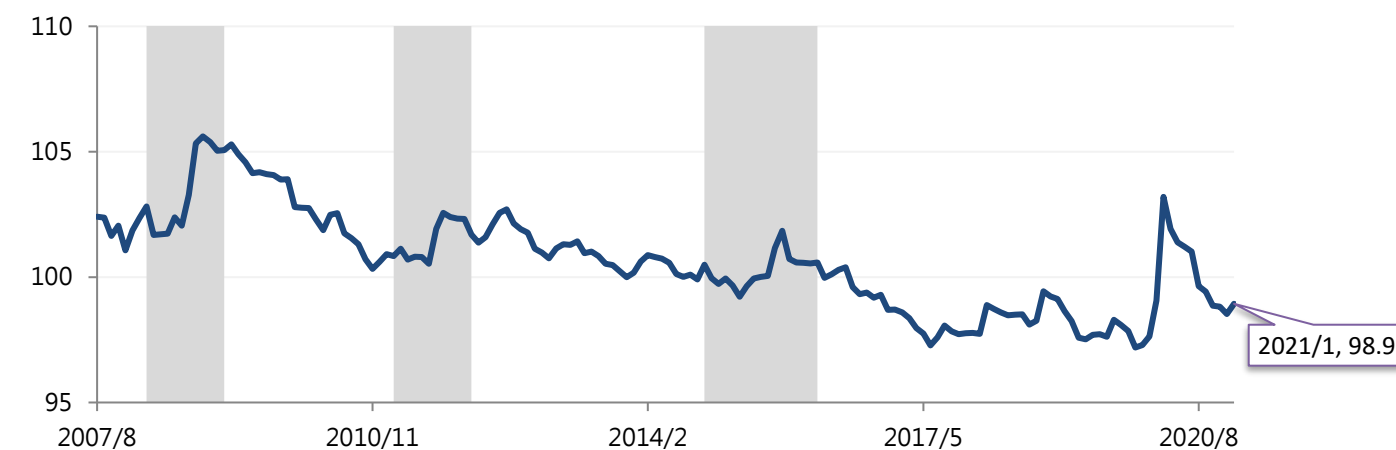
- **Household sector demand for high-yield investments remains strong; bank asset quality not significantly affected by COVID**

In the second dimension, non-financial sector stability, the proportion of household investments in high-yield bond funds has returned to its pre-pandemic level for the second consecutive month. Initial estimates of growth in bank lending to corporates maintained steady growth. In financial sector stability, the third dimension, banks pro-actively wrote off bad loans late last year. The COVID pandemic had little impact on banks' asset quality, whose NPL ratio and NPL coverage remained stable. Due to factors such as monetary easing policy, repatriation of overseas life insurance investments, and strong stock market transaction volume, bank deposit balances have grown an average of 7% per month since April 2020, about two percentage points faster than loan balances. In December 2020, the loan-to-deposit ratio reached a record low. Banks are sufficiently capitalized.

- **Overseas investment has increased market risks; corporate credit risks remain stable**

In the fourth dimension, contagion/spillover, volatility in international stock markets rebounded after two months, but the credit default indicator has fallen to its pre-pandemic level, reflecting the effects of continued easing. For domestic spillovers, the spillover index fell quickly from its June high. Due to the international pandemic situation, it has risen slightly for 3 months. Contagion effects remain elevated, but not to the levels of Q2 and Q3.

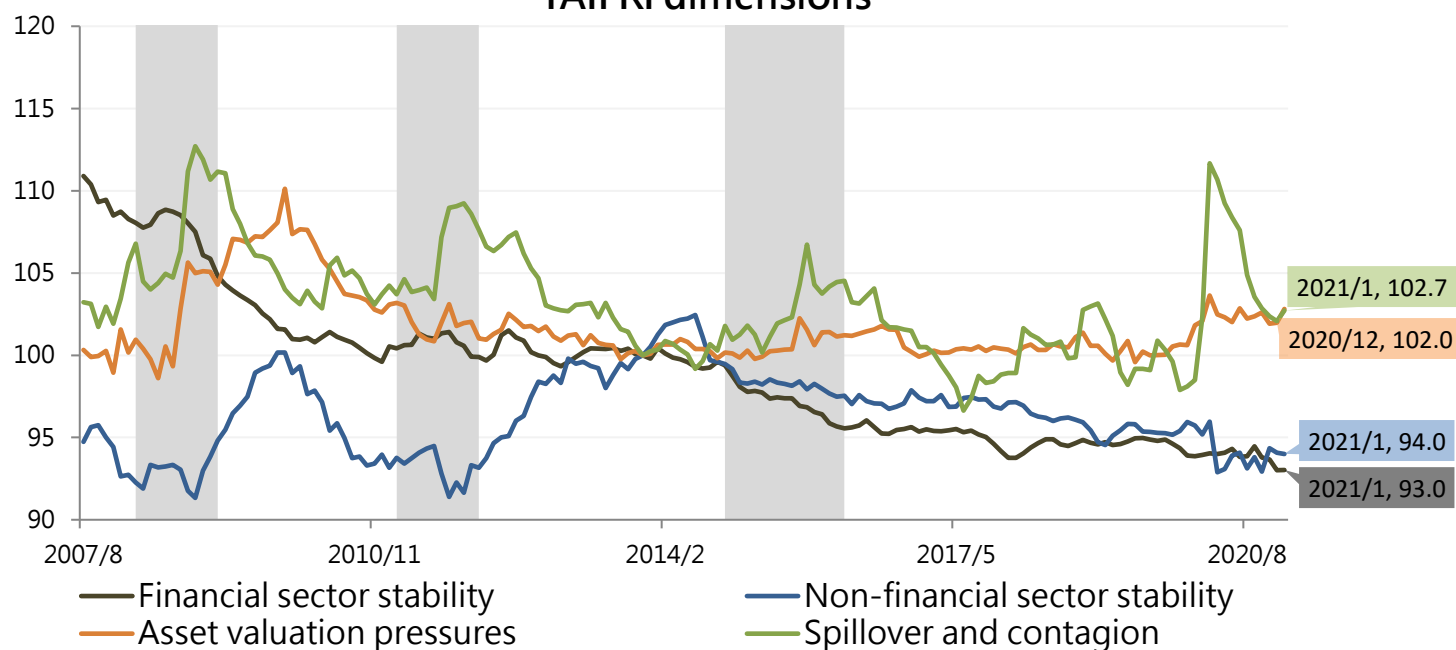
TAIFRI composite index



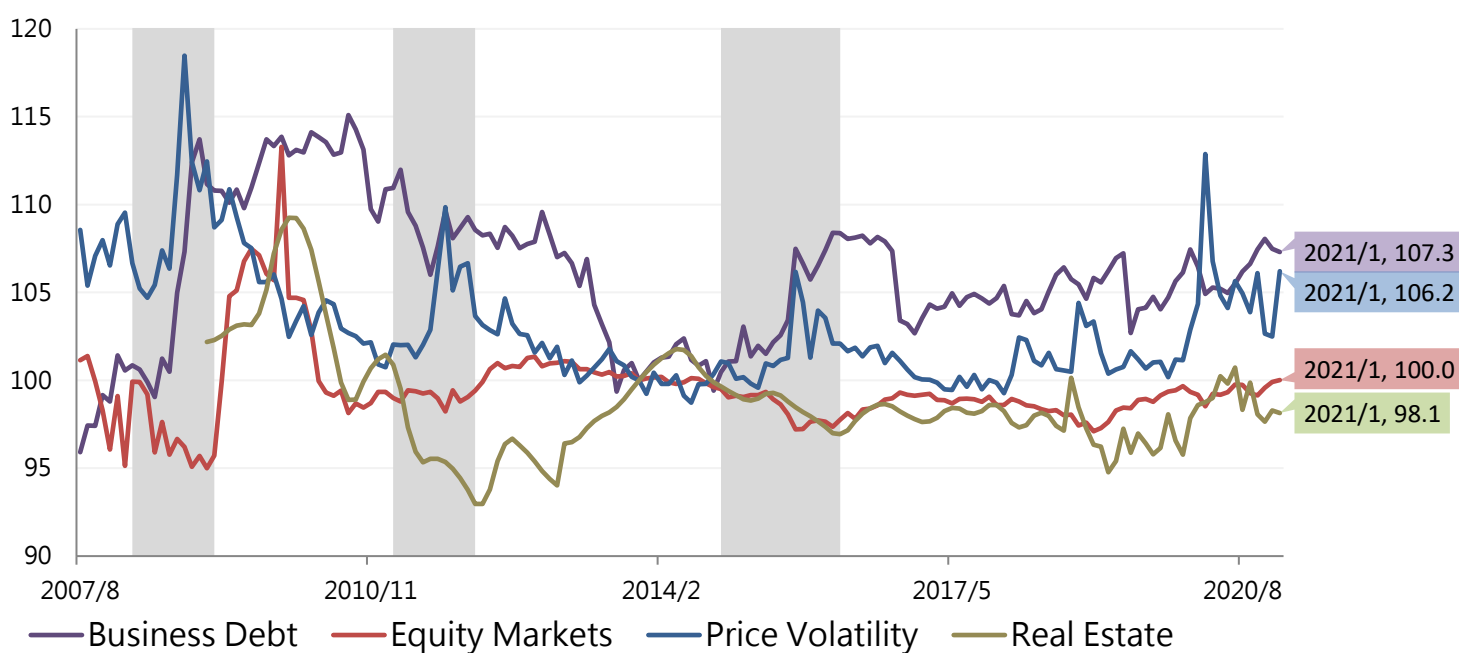
Source: TABF

Ranking of risk changes		
Rank	Increasing indicators	Decreasing indicators
1	TAIEX options volatility index	Capital adequacy ratio
2	Overseas market risk	BBB bond spread
3	Price-to-rent ratio of offices	Price-to-rent ratio of houses

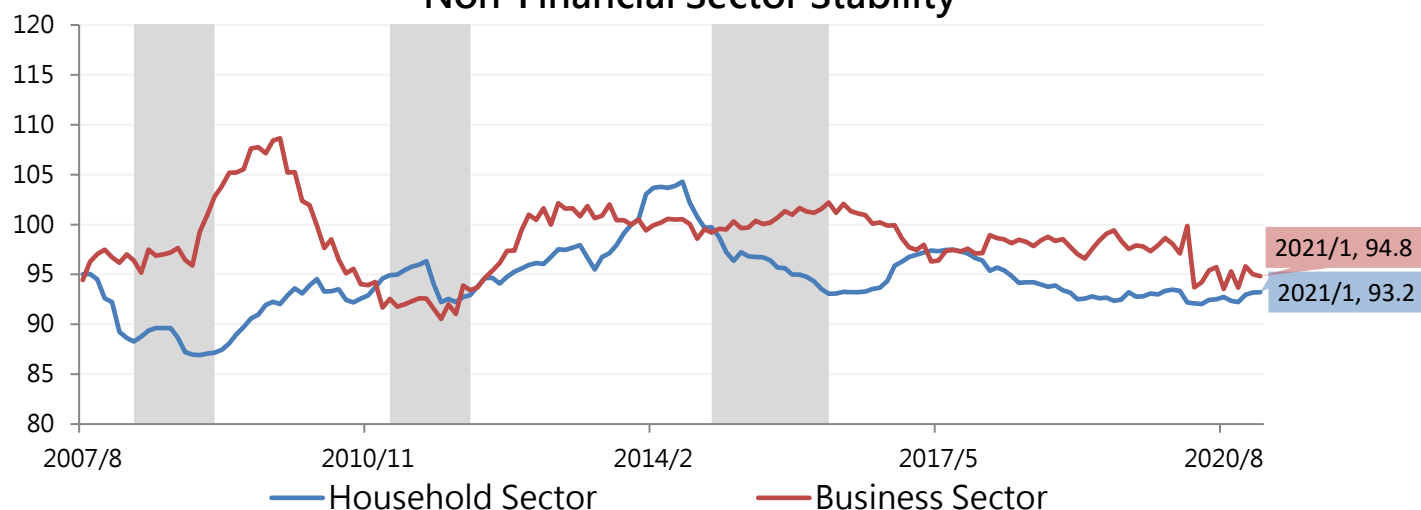
TAIFRI dimensions



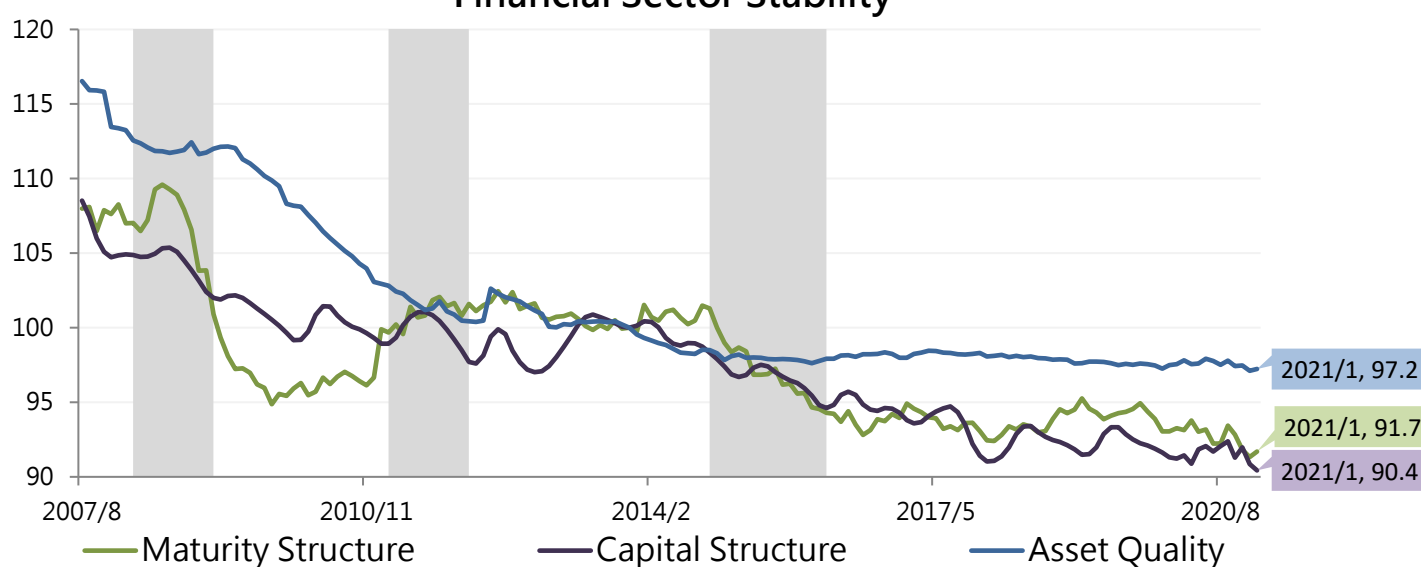
Asset Valuation Pressures



Non-Financial Sector Stability



Financial Sector Stability



Spillover and Contagion

