



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

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



February TAI FRI Highlights

- **Latest TAI FRI score is 98.9; spillover/contagion dimension increased slightly; others subdued**

The February 2021 TAI FRI score was 98.9, the same as in January, showing a relatively subdued level compared to recent history. Asset valuation pressure, the first dimension, scored 101.9, down 0.6; non-financial sector stability scored 94.3, down 0.1; financial sector stability scored 93.0, flat from last month; and spillover and contagion scored 102.9, up 0.2.

- **Risks in the real estate market eased; stock market volatility continued to rise**

Asset valuation pressure, the first dimension, fell to a 12-month low, mainly due to a decline in housing market risks and a rise in government bond yields. Due to a steady recovery in residential rents and the government's prudent real estate lending measures, the price-to-rent ratio of residential house has fallen five months in a row, reaching the lowest point in nearly a year. Government bond yields hit a high since July. As corporate bond interest rates remain low, the spread between the two has reached its lowest level since November 2007. Some risks in the stock market continued to rise; the P/E ratio reached a new high since December 2012, and the risk premium also hit the lowest level since August 2014.

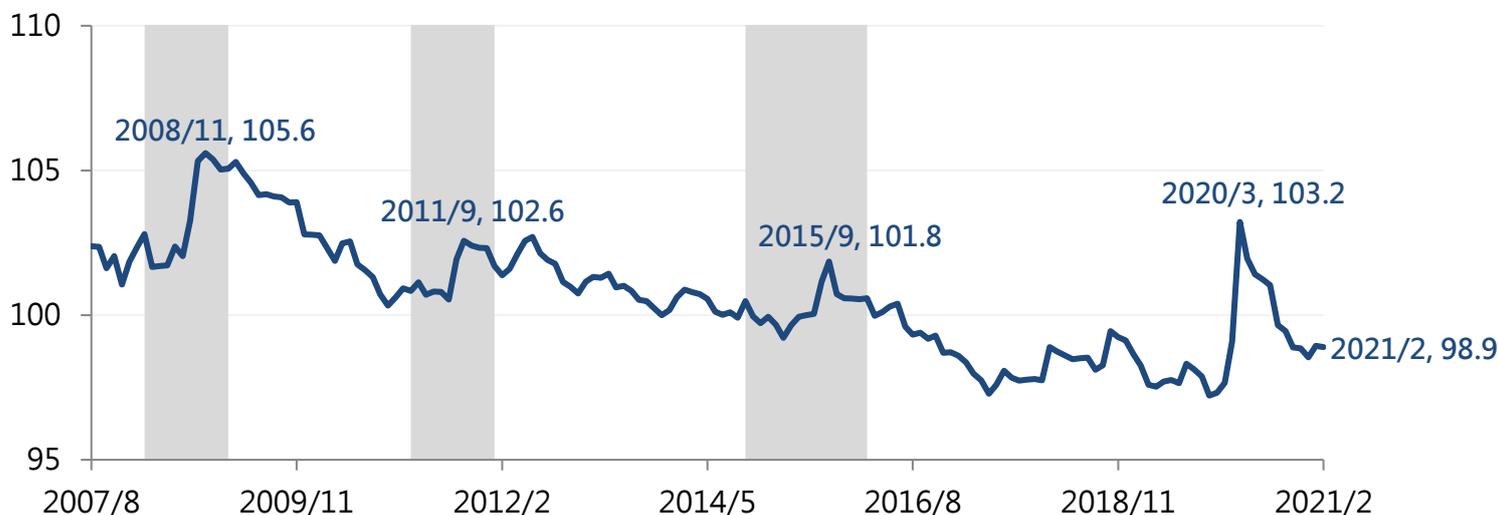
- **Risks in the non-financial sector have eased, and the financial sector is healthy**

In the second dimension, non-financial sector risks, risks in the household and corporate sectors both declined. The proportion of household investment into high-yielding bond funds slowed slightly after returning to the pre-pandemic level for two months in a row, and bank lending to the corporate sector maintained steady growth. In the third dimension, financial sector stability, due to write-offs at the end of last year, the NPL rate at the beginning of the year increased slightly, but the coverage rate exceeds 700%, and capital adequacy continued to rise. Bank deposits continued to grow, and funding is abundant.

- **Risks in overseas markets have eased; risk of contagion from domestic financial institutions has risen slightly**

Regarding spillover and contagion, the fourth dimension, volatility in international stock markets has subsided after the rebound last month, and the credit default sub-index has returned to the pre-pandemic level. For domestic contagion, the spillover sub-index has declined rapidly from its April peak. Due to the international pandemic situation, it has rebounded somewhat over the past 3 months, but remains lower than in 2020 Q2 and Q3.

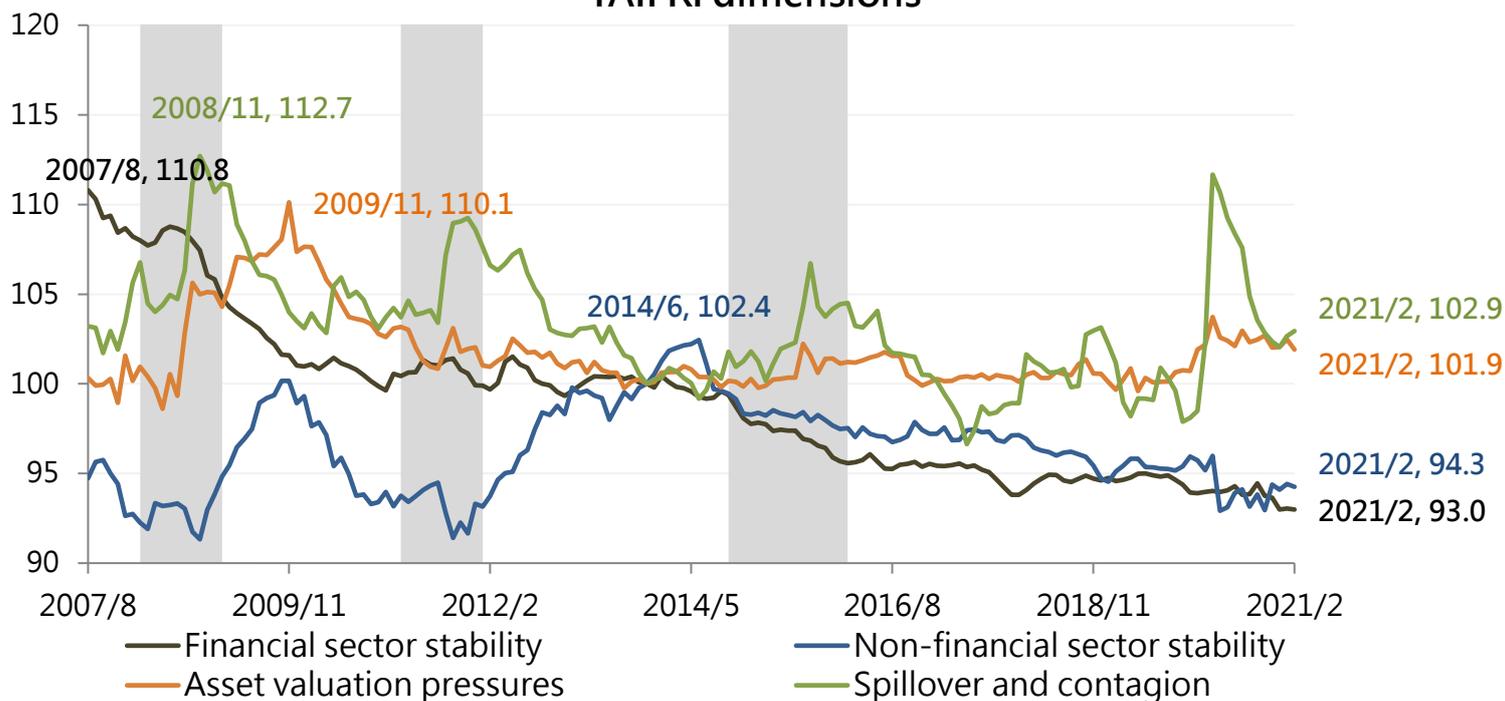
TAIFRI composite index



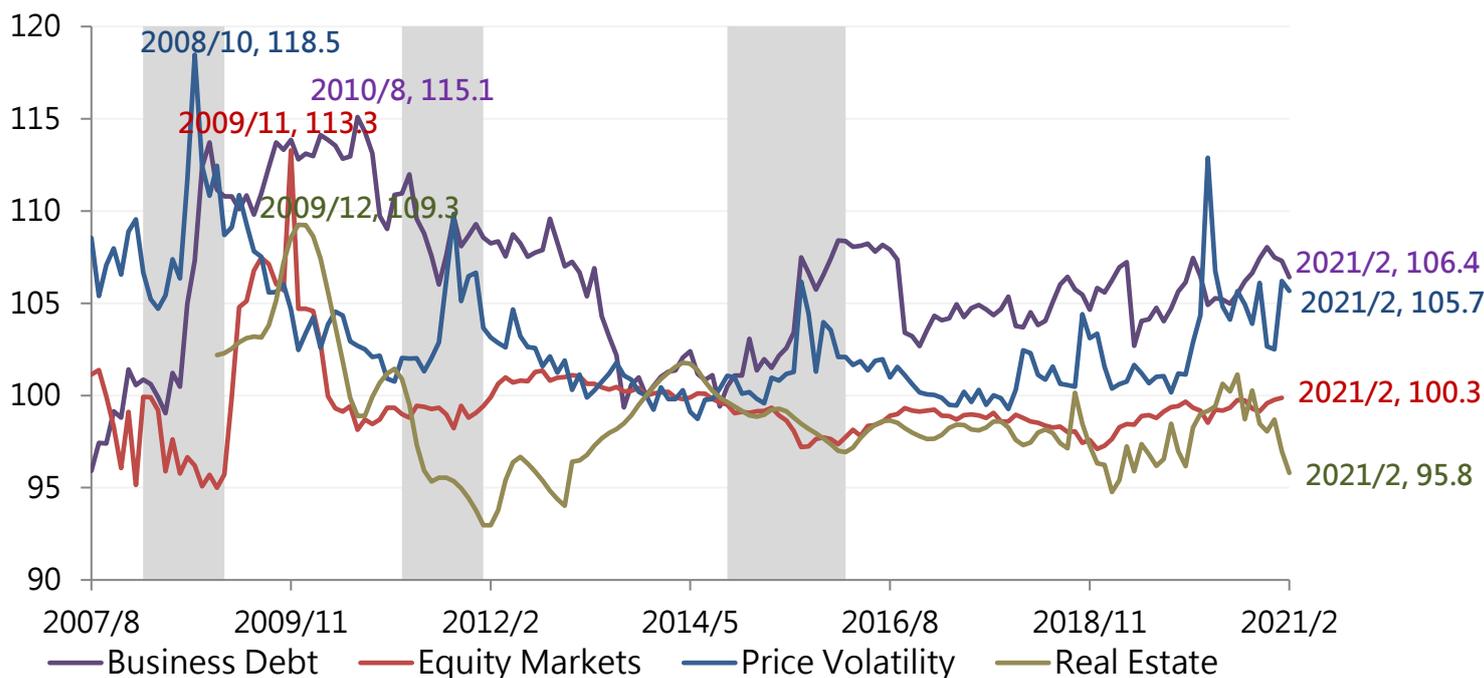
Source: TABF

Ranking of risk changes		
Rank	Increasing indicators	Decreasing indicators
1	NPL Ratio	Capital adequacy ratio
2	P/E Ratio	BBB bond spread
3	Price-to-rent ratio of offices	Coverage Ratio

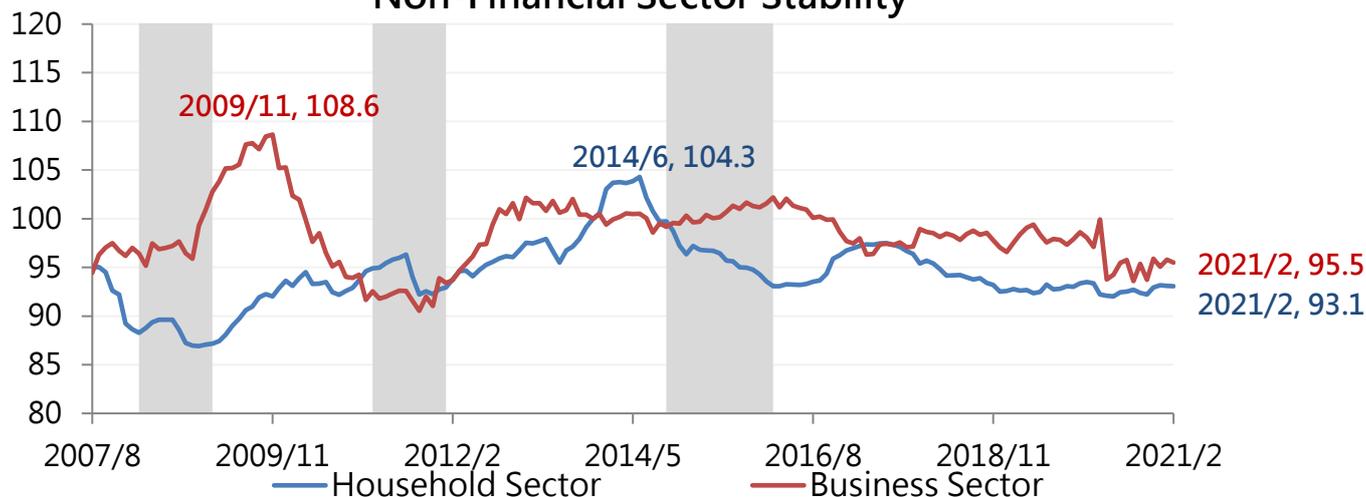
TAIFRI dimensions



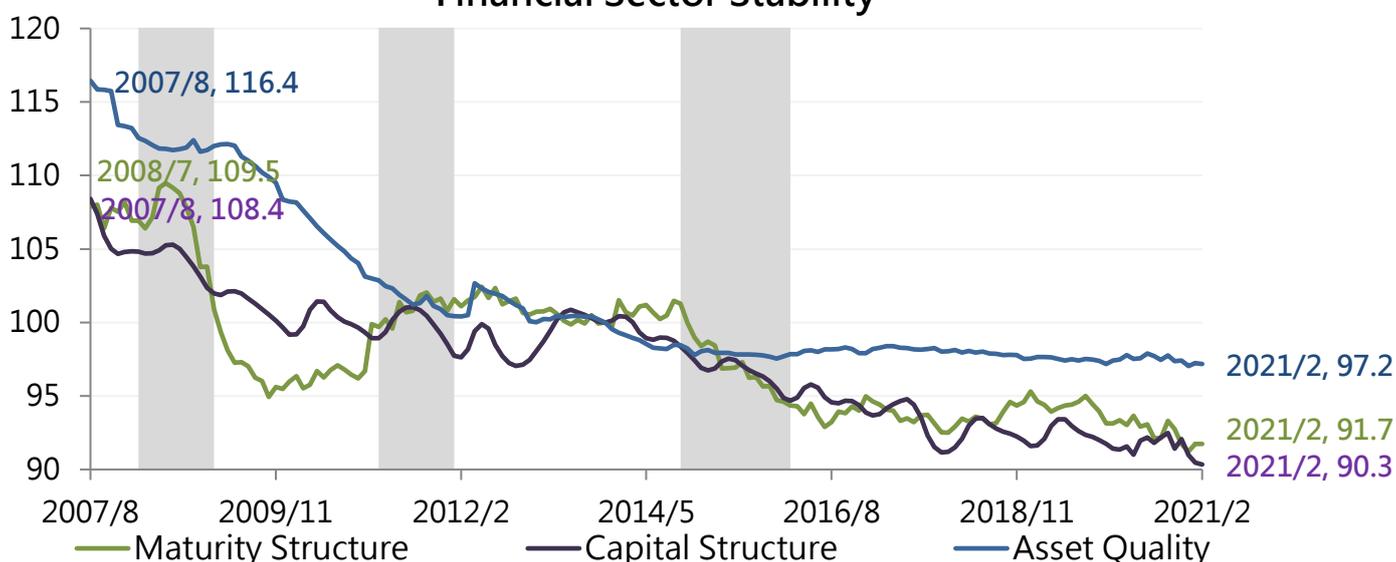
Asset Valuation Pressures



Non-Financial Sector Stability



Financial Sector Stability



Spillover and Contagion

