



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

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



March TAI FRI Highlights

- **March TAI FRI down slightly to 98.8**

The March 2021 TAI FRI score was 98.8, down 0.1 from February, reflecting relatively low historical risk. The first dimension, Asset Valuation Pressure, scored 101.0, down 0.5; Non-financial Sector Stability, the second dimension, scored 94.7, down 0.1; Financial Sector Stability, the third dimension, scored 93.0, up 0.1; and Spillover and Contagion, the fourth dimension, scored 102.9, unchanged from last month.

- **Stock market volatility have eased; residential housing market continued to slow following a slight rebound**

Asset Valuation Pressure fell to its lowest level since January 2020, mainly because the Taiwan Option Volatility Index reached its lowest level since the pandemic, indicating that investors are more sanguine about the risk of future stock market volatility. However, P/E ratios have climbed for three months in a row, setting a record high since December 2012, and the risk premium also reached a new low since August 2014. Due to government policies, new bank mortgage loans have been declining, but price-to-rent ratios rebounded slightly in March after declining for five months, mainly because housing rents corrected slightly in March after previously rising.

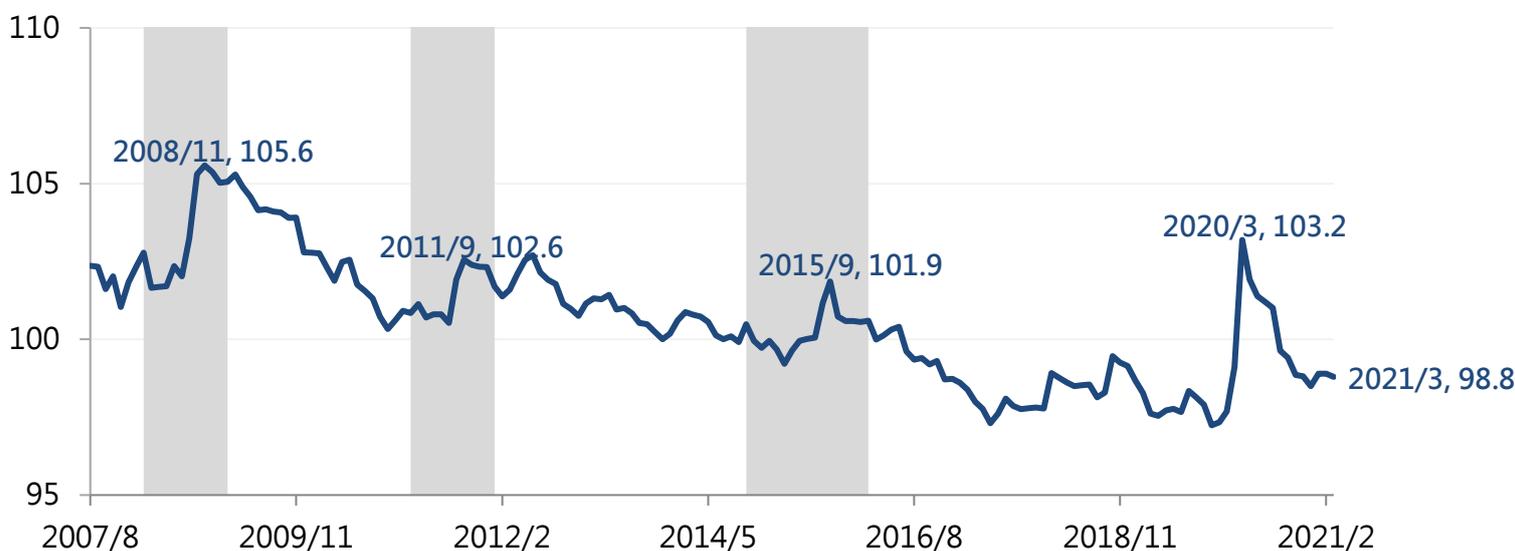
- **The financial sector is healthy; risks in the non-financial sector have increased slightly**

Within Non-financial Sector Stability, household and corporate risk both increased slightly. The proportion of domestic household investment in high-yield bond funds hit a high since October 2018, indicating robust demand for overseas high-yield funds. The yields of major national bonds with a maturity of over 5 years have continued to rise across the board, so country risks and market liquidity/corporate credit risks of emerging markets have greatly increased, requiring special attention. Growth of corporate lending remained at 4-5%, but the growth rate slowed down. Although Financial Sector Stability increased slightly from February, the NPL rate remained at a historical low, and NPL coverage and capital adequacy ratios reached high levels. Banks' loan-to-deposit ratios reached a low since August 2007, showing ample capital.

- **Overseas credit market risks have increased slightly; contagion risks have eased**

Due to the persistently high yields of U.S. Treasury bonds and continued easing by various countries, the U.S., China, and Europe's CDS indices have all reached new highs in the past three months, reflecting the expectation of corporate defaults. Regarding contagion in the domestic financial market, the spillover index has declined after four consecutive months of growth, indicating less risk of contagion.

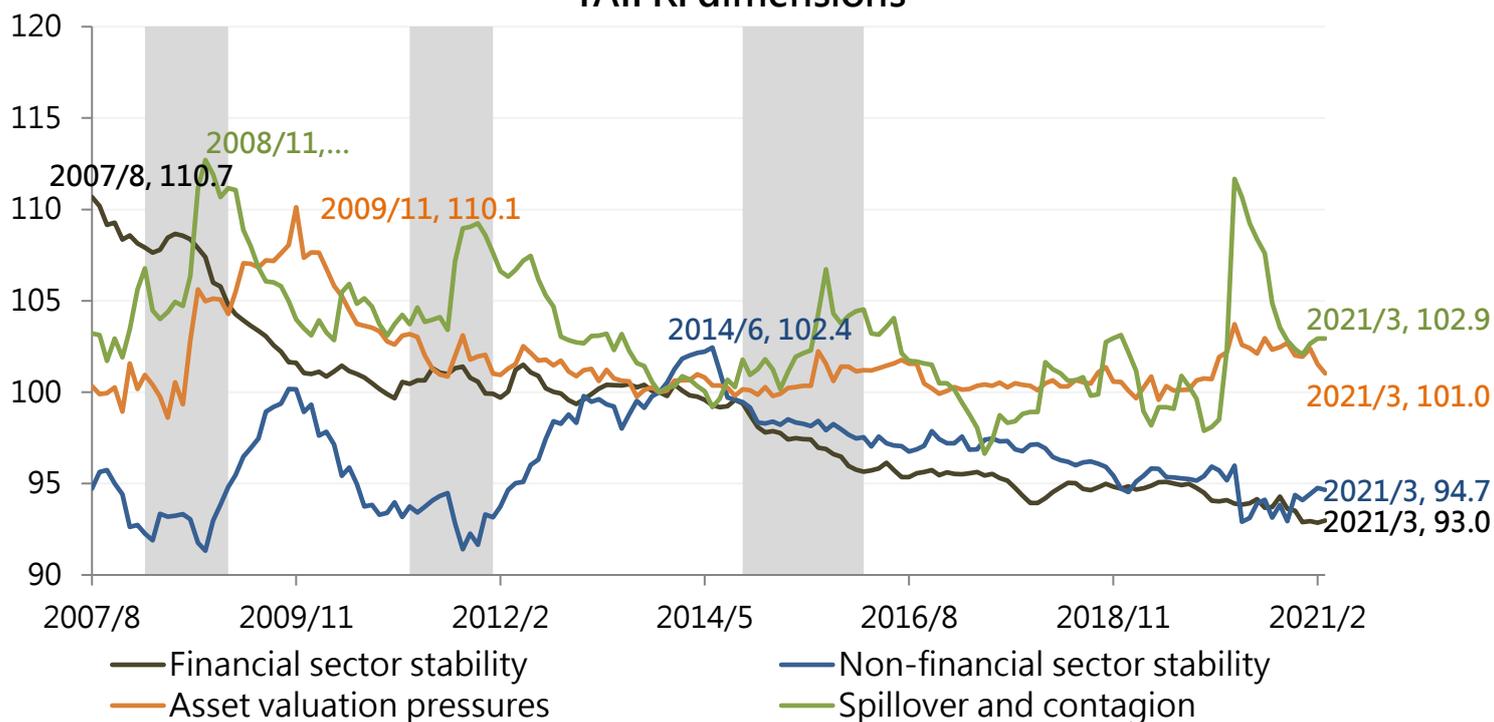
TAIFRI composite index



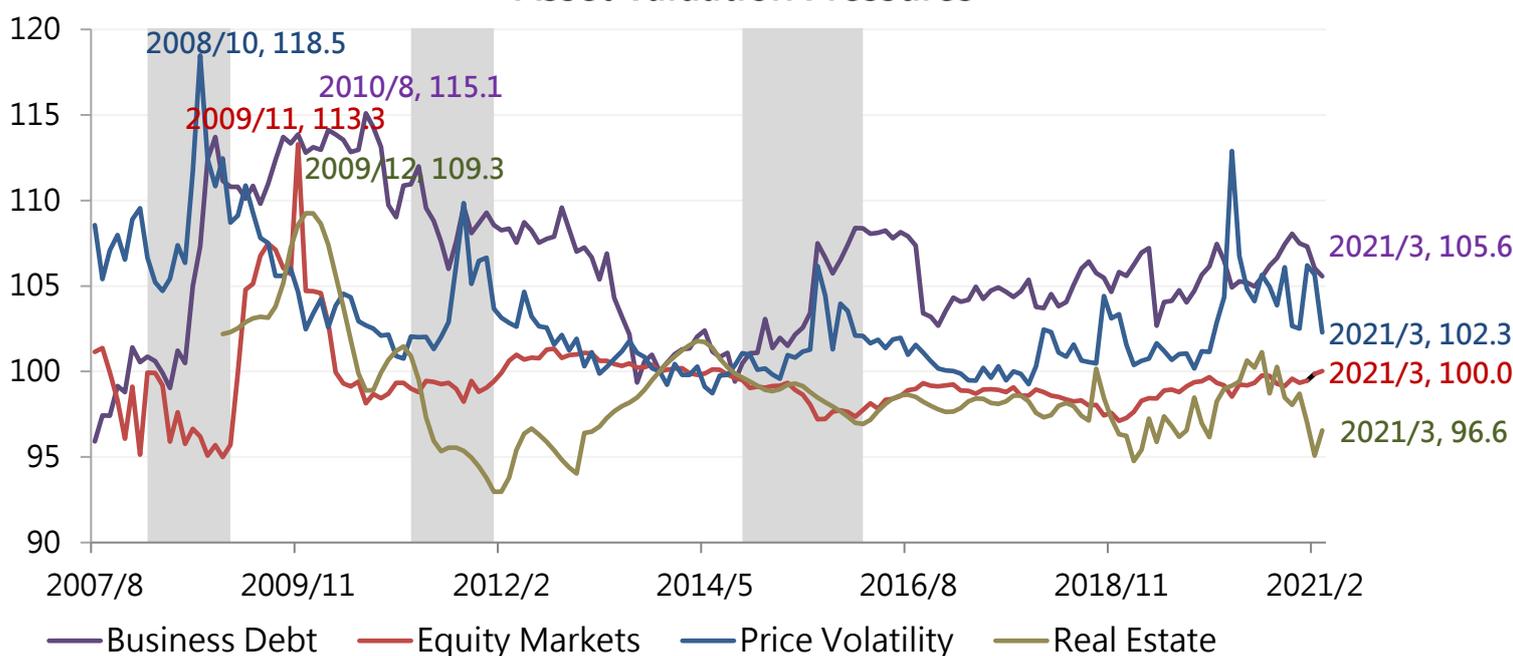
Source: TABF

Ranking of risk changes		
Rank	Increasing indicators	Decreasing indicators
1	Coverage Ratio	TAIWAN VIX
2	Price-to-rent ratio of houses	NPL Ratio
3	Capital adequacy ratio	BBB bond spread

TAIFRI dimensions



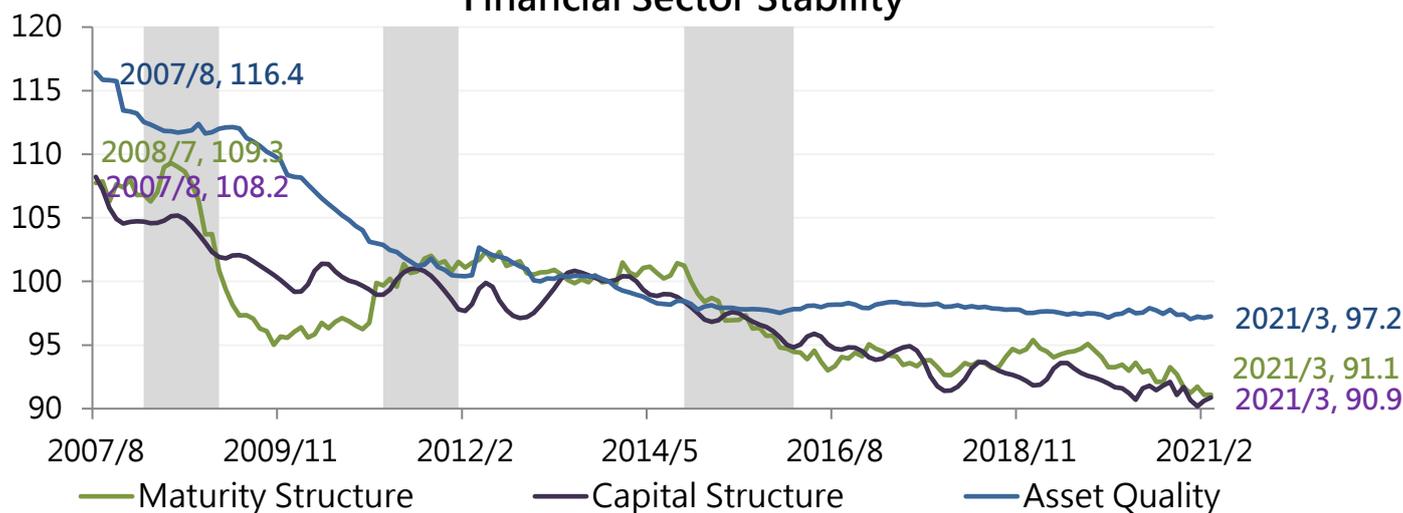
Asset Valuation Pressures



Non-Financial Sector Stability



Financial Sector Stability



Spillover and Contagion

