

**RECENT FINANCIAL DEVELOPMENTS AND THE EFFECTS OF THE 1997 ASIAN FINANCIAL CRISIS  
ON TAIWAN**

**Abstract**

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Financial policy in Taiwan prior to the 1980s had the following characteristics: relatively little attention to financial efficiency and more attention to financial stability. Financial liberalization and financial internationalization have been pursued during the 1990s. During this period the financial system has experienced market failure, and at such times the government has intervened in financial market activities in order to compensate for market failures. The goals of financial efficiency and stability are currently being pursued in a new combination.

Several financial phenomena of Taiwan are analyzed in this paper, and are summarized as follows:

1. Due to the inadequacy of the formal financial market, the informal financial sector played an important role in the early stages of financial development, but it has since been losing influence.
2. Direct finance always develops after indirect finance.
3. The major loan customers are mostly large enterprises, as opposed to small- and medium-sized enterprises.
4. Bankers tend to make short-term rather than long-term loans.
5. A prudent re-regulation system becomes very important during the process of financial development.
6. The government tends to provide preferential financial measures in order to meet specific industrial development targets in the early stages of development.
7. The sequence of economic reforms is decided upon by the government to some extent based on past experiences.

Generally speaking, Taiwan's financial system seems to be more stable than efficient. After the late 1980s financial liberalization and internationalization started to receive more attention. Strict government regulation and the inveterately conservative attitude of Taiwan bankers have always been subject to criticism. However, Taiwan's experience combating the 1997 financial crisis has put the financial system in a much better light.

The 1997 financial crisis hit many Southeast Asian countries and South Korea very hard. Taiwan suffered comparatively little. Although fluctuations in the exchange rate, interest rate, and stock price index were a shock to the country, they all stabilized in a very short time. This can be attributed to the strengths of the real economic sectors and the financial sector. The reaction of the Central Bank to the crisis and the monetary policy adopted to deal with it also contributed to some extent to the overall stability of the Taiwan economy.