

**Foreign Bank Claims on Taiwan During the Recent Global  
Financial Crisis**

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## Abstract

The objective of this research is to clarify the role of foreign banks during the recent global financial crisis, with a special focus on foreign bank claims on Taiwan through two separate channels: direct cross-border claims, and local lending by foreign banks' affiliates in Taiwan. This research utilizes two models based on macro and micro data to examine the determinants of foreign bank claims.

Our empirical results from Model I based on macro data show that foreign banks did not pull out much of their claims on Taiwan during the global financial crisis. One of the possible reasons is that Taiwan's economy was not hit as hard as other countries in the crisis. The findings from Model II based on micro data show that almost all foreign bank affiliates in Taiwan presented a stabilizing effect in their local lending during the crisis. This could be explained by that their major funding sources mainly come from local markets, which remained ample during the crisis. Moreover, foreign bank affiliates' market share of lending in Taiwan is much less than that of domestic banks. Therefore, we could not conclude that foreign banks present a stabilizing force for Taiwan.

While our empirical findings also indicate that foreign bank affiliates' lending in Taiwan is mainly affected by individual bank-specific characteristics, the decline of capital would decrease foreign bank affiliates' loan extension in Taiwan. So, the Central Bank or authorities of financial inspection still need to prudently supervise banks' liquidity and funding conditions, and provide banks with temporary liquidity problems sufficient funds to avoid credit crunch.

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