What Caused the Soaring Non-Performing Loans in Taiwan from the Late 1990s to the Beginning of 2000s?
Evidence from Panel Data of Domestic Banks

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Abstract
This study investigates the causes of soaring non-performing loans (NPLs) in Taiwan so as to prevent its reoccurrence. Five economic and financial factors are employed to examine their impacts on the increasing NPLs which led to the banking crisis in the late 1990s and the early 2000s. Empirical evidence indicates that financial deregulation, soundness of bank management, and changes in land prices have significant impacts on the financial instability in Taiwan by applying both Hierarchical Cluster Analysis and Panel Data Analysis. Among the lessons that emerge from this study is the obvious case for strong banking regulations and supervision to avoid the perilous waters of financial liberalizations. Furthermore, it is important to strengthen the efficiency of bank management and improve the quality of loans and asset portfolios by reducing the dependency on land-secured loans. This also may be applied to the subprime mortgage crises in 2008.

Keywords: Non-performing loans, Banking Crisis, Panel Data, Taiwan.