
About the Financial Stability Report

Key points of the task to promote financial stability

Promoting financial stability is not only one of the operational objectives pursued by the Central Bank of the Republic of China (Taiwan), the CBC, but also lays the cornerstone for the effective implementation of monetary policy. To achieve this objective, in addition to serving as lender of last resort when necessary, the CBC regularly monitors the financial system and the overall economic and financial environment to be aware of the potential vulnerabilities and risks that might threaten financial stability, so that the financial authorities and market participants can respond in a timely manner to avoid financial turbulence.

In its work to promote financial stability, the CBC focuses primarily on the risks that could affect the stability of the overall financial system. However, the CBC still pays close attention to the status of individual institutions in the sense that their weaknesses can trigger systemic risks.

Purpose of this report

The aims of this semiannual report are to offer insight into the state of Taiwan's financial system and its potential vulnerabilities and risks, and to spark broad-based discussion that will enhance awareness of risk among market participants and spur them to take responsive action in a timely manner. This does not mean, however, that the risks mentioned in this report are sure to occur. Furthermore, this report is intended to serve as reference for financial authorities, market participants, and others interested in the subject. Readers are advised to interpret or quote the information contained herein with caution.

Definition of financial stability

There is as yet no universally accepted definition of "financial stability." Defined positively, "financial stability" can be thought of in terms of the financial system's ability to: (1) facilitate an efficient allocation of economic resources both spatially and intertemporally; (2) assess and manage financial risks; and (3) withstand adverse shocks. From a negative

approach, “financial instability” refers to the occurrence of currency, banking or foreign debt crises, or inability of the financial system to absorb adverse endogenous or exogenous shocks, and allocate resources efficiently, with the result that it cannot facilitate real economic performance in a sustained manner.

Note: Except as otherwise noted, all data and information cited in this report is current as of 31 March 2008.