

Address at the Inauguration of the SEACEN Seminar on the NPL Resolution Mechanism and Its Impact on the Financial System*

by

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The Honorable Dr. Subarjo, Mr. Rose, Mr. Markels, Dr. Kang, Chairman Lin, Chairman Lee, President Chen, Distinguished Guests, Prominent Speakers, Dear Participants, Ladies and Gentlemen:

Good morning. I am greatly honored to address this gathering at the inauguration of the *SEACEN Seminar on the NPL Resolution Mechanism and its Impact on the Financial System*. On behalf of the Central Bank of China, I warmly welcome all of you. In particular, I would like to extend my sincere welcome and appreciation to Dr. Subarjo and the SEACEN Centre for guidance and assistance in making this important seminar possible, and to our distinguished speakers for coming from afar to share their valuable thoughts with us.

Ladies and Gentlemen. May I note with some emphasis that it is especially relevant that

we are holding this seminar at this juncture. Not long ago, the 1997-98 Asian financial crisis highlighted the importance of a sound banking system as part of the fundamentals for a robust economy. In this post-crisis period, many of us unfortunately are still grappling with the challenge of rebuilding our financial health and revitalizing our banking system. The ongoing global economic downturn only adds to the pressing need for serious financial restructuring. While Taiwan weathered the Asian financial crisis relatively unscathed, its banking system is now more than ever vulnerable to adverse disturbances, as the market recession and trade contraction exacerbate its exposure to the already cumulated bad loans.

Similar to some other Asian countries, banks in Taiwan seem to become rather withdrawn in lending to businesses, for fear of falling victim to the moral hazard behavior on the part of the

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borrowers in distress. It is not unlike in a vicious circle, that their cautiousness and reluctance to play the role of intermediaries feed back into even weaker economic performances and bleaker projections. As a consequence, policy-makers are awkwardly situated with a difficult job of maintaining the overall credit quality on the one hand while ensuring the absence of a credit crunch on the other. Although I cannot say that we are treading on an entirely new territory, the severity of the problem we are facing at the moment must explain our eager anticipation and participation in this seminar today.

In Taiwan, a series of NPL (non-performing loans) resolution measures are under way to expedite debt restructuring and to strengthen banks' balance sheets. A governmental Financial Restructuring Fund has been in operation to facilitate the assumptions of problem community financial institutions by banks. Other measures include the establishment of private asset management companies. Currently, the Bankers Association of Taiwan has established Taiwan Asset Management Corporation whose Chairman Professor Lin is also here with us. Moreover, Chinatrust Bank, Goldman Sachs, China Development Industrial Bank and Morgan Stanley Dean Witter are also preparing to set up AMC's in Taiwan. I believe that the combined effort from

both the government and the private sector, manifested in the co-establishment and co-operation of asset management companies and the Financial Restructuring Fund, is on the right track in our attempt to resolve the NPL problem, but I also think its impact on the asset markets is something we have to set sight on. Asset management companies usually buy and sell assets at discounted prices, which could exert some undesirable effects on the asset and real estate markets in terms of further depressed asset prices and banks' deteriorating balance sheets. Again, a vicious circle is visible here.

Henceforth, carefully planned timing and logistics of attacking the NPL problem must be as important as our determination and capacity to do it. I am sure the views expressed and the experiences shared in this seminar will shed light on these issues and will prove useful to us all.

In closing, I wish you every success in the coming three days. I also hope that you find time to have fun in Taipei. There are many shops, restaurants and pubs I am sure you will enjoy visiting. And please remember your consumption here will not only add to your own utility and satisfaction, but also contribute to the progress of the Taiwanese economy. I thank you in advance.