

Maintaining financial stability is defined as one of the CNB's main objectives in Act No. 6/1993 Coll., on the Czech National Bank, as amended:

## Article 2

(2) In accordance with its primary objective, the Czech National Bank shall

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**d) supervise the activities of entities operating on the financial market, analyse the evolution of the financial system, see to the sound operation and development of the financial market in the Czech Republic, and contribute to the stability of its financial system as a whole.**

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The CNB defines financial stability as a situation where the financial system operates with no serious failures or undesirable impacts on the present and future development of the economy as a whole, while showing a high degree of resilience to shocks.

The CNB's definition is based on the fact that financial stability may be disturbed both by processes inside the financial sector leading to the emergence of weak spots, and by strong shocks, which may arise from the external environment, domestic macroeconomic developments, large debtors and creditors, economic policies or changes in the institutional environment. The CNB regularly monitors and closely analyses developments in all areas relevant to financial stability. The members of the CNB Bank Board meet on a quarterly basis with experts from key sections to discuss the current risk outlook in so-called macro-financial panels. A wide range of information on developments in the domestic financial system and abroad is presented at these meetings. The discussions precede the Board's monetary-policy meeting debating the new CNB macroeconomic forecast and provide the participants with a comprehensive picture of the economic and monetary situation.

The CNB's aim with regard to financial stability is above all to ensure a degree of resilience of the system that minimises the risk of financial instability. To fulfil this aim, the CNB as a monetary and supervisory authority uses the instruments made available to it by the Act on the CNB. Cooperation with other national and international authorities is also very important in this area. In order to maintain financial stability, the CNB focuses on prevention and broad communication with the public regarding the potential risks and factors posing a threat to financial stability. This Financial Stability Report is an integral part of such communication.

The global financial crisis has led not only to a strengthening of the importance of the objective of financial stability, but also to the institution of macroprudential policy designed to maintain financial stability. The main aim of macroprudential policy is to mitigate systemic risk, i.e. the risk of instability of the financial system as a whole. An intensive debate about the tools of macroprudential regulation, i.e. the set of pre-emptive measures intended to prevent financial instability, is going on at international level. At EU level, a joint institution for macroprudential policy – the European Systemic Risk Board – should start operating at the start of 2011. The CNB will be involved in the work of this institution.