



BANK OF ENGLAND

Financial Stability Report

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The Bank of England has two core purposes — monetary stability and financial stability. The two are connected because serious disruption in the financial system can affect the implementation and effectiveness of monetary policy, while macroeconomic stability helps reduce risks to financial stability.

The Bank's responsibilities for monetary stability are set out in the Bank of England Act 1998. Responsibility for financial stability in the United Kingdom is shared between the tripartite authorities — HM Treasury (HMT), the Financial Services Authority (FSA) and the Bank of England. Their roles are set out in a Memorandum of Understanding (MoU).⁽¹⁾

The Bank's responsibility for contributing to the maintenance of the stability of the financial system as a whole derives from its responsibility for setting and implementing monetary policy, its role in respect of payment systems in the United Kingdom and its operational role as banker and supplier of liquidity to the banking system. The Bank aims to bring its expertise in economic analysis and its experience as a participant in financial markets to the assessment and mitigation of risks to the UK financial system including, as necessary, helping to manage and resolve financial crises. In so doing, the Bank works closely with authorities domestically and overseas on issues relevant to the stability of the UK financial system, including the international financial architecture and regulatory frameworks.

The *Financial Stability Report* aims to identify the major downside risks to the UK financial system and thereby to help financial firms, authorities overseas and the wider public manage and prepare for these risks. The *Report* is produced half-yearly by Bank staff under the guidance of the Bank's Financial Stability Board, whose best collective judgement it represents.

The Financial Stability Board:

John Gieve, Chair
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Charles Bean
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Mervyn King
Paul Tucker

This document was delivered to the printers on 27 October 2008 and, unless otherwise stated, uses data available as at 15 October 2008.

The *Financial Stability Report* is available in PDF at www.bankofengland.co.uk.

(1) The tripartite Memorandum of Understanding was revised in March 2006 and is available at www.bankofengland.co.uk/financialstability/mou.pdf.