



BANK OF ENGLAND

Financial Stability Report

June 2009 | Issue No. 25

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 the stability of the financial system.

The Bank's responsibilities for monetary stability are set out in the Bank of England Act 1998. The Bank's statutory responsibility for financial stability is set out in the Banking Act 2009.⁽¹⁾ The respective roles of the tripartite authorities — HM Treasury (HMT), the Financial Services Authority (FSA) and the Bank of England — are also set out in a Memorandum of Understanding (MoU).⁽²⁾

Under the Banking Act, the Bank is responsible for contributing to the maintenance of the stability of the financial system as a whole. This derives from its responsibility for setting and implementing monetary policy, its statutory role in respect of payment systems in the United Kingdom and its role as banker and supplier of liquidity to the banking system. As described in the MoU, the Bank aims to bring its expertise in economic analysis and its experience, both as a bank and as a participant in financial markets, to the assessment and mitigation of risks to the UK financial system. Where necessary, this involves helping to manage and resolve financial crises and making use of the Special Resolution Regime for dealing with distressed banks. 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.

As part of that contribution, the *Financial Stability Report* aims to identify key risks to UK financial stability and to stimulate debate on policies needed to 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:

Paul Tucker, Chair
Andrew Bailey
Charles Bean
Spencer Dale
Paul Fisher
Andrew Haldane
Mervyn King

This document was delivered to the printers on 24 June 2009 and, unless otherwise stated, uses data available as at 12 June 2009.

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

(1) The Banking Act 2009 is available at www.opsi.gov.uk/acts/acts2009/pdf/ukpga_20090001_en.pdf.

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