

Bank of England

**Record of the Financial Policy
Committee meeting on 27 March
2026**

1 April 2026

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The Financial Policy Committee (FPC) was established under the Bank of England Act 1998, through amendments made in the Financial Services Act 2012. The legislation establishing the FPC came into force on 1 April 2013. The objectives of the Committee are to exercise its functions with a view to contributing to the achievement by the Bank of England of its Financial Stability Objective and, subject to that, supporting the economic policy of His Majesty's Government, including its objectives for growth and employment. The responsibility of the Committee, with regard to the Financial Stability Objective, relates primarily to the identification of, monitoring of, and taking of action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system. The FPC is a committee of the Bank of England.

The FPC's next meeting will be on 26 June 2026 and the record of that meeting will be published on 7 July 2026.

Record of the Financial Policy Committee meeting on 27 March 2026

Headline judgements and policy actions

- The conflict in the Middle East has resulted in a substantial negative supply shock to the global economy. This has triggered significant market reactions, including large and volatile upward moves in global energy prices and government bond yields. The financial system has been resilient so far. However, the shock will weigh on growth, increase inflation and tighten financial conditions. This is likely to interact with vulnerabilities previously identified by the FPC in sovereign debt markets, risky asset valuations and risky credit markets, notably in private credit. Adverse impacts on the global macroeconomy increase the likelihood that multiple vulnerabilities could crystallise at the same time, amplifying their effect on financial stability and, ultimately, the provision of vital financial services to UK households and businesses.
- The conflict has made the global environment materially more unpredictable and followed a period in which global risks were already elevated. This increases the possibility of large, frequent and potentially overlapping shocks and periods of intense volatility. Heightened uncertainty and unpredictability have made it harder for markets to price underlying economic fundamentals, increasing the likelihood and magnitude of sharp market shifts in response to new information. The ultimate impact on financial stability will depend on the duration, scale and repercussions of the conflict, including whether any additional shocks materialise around the same time.
- These conditions increase the potential for several vulnerabilities to crystallise simultaneously, underscoring the importance of timely and active risk management by market participants. This should include incorporating scenarios involving further sudden and significant price adjustments into their stress testing and liquidity preparedness. Preparing for market stress events should help mitigate the risk of financial institutions' behaviours amplifying any vulnerabilities that materialise.
- Global sovereign bond markets have continued to see historically high issuance, with higher proportions issued at shorter maturities. The conflict has worsened the outlook for sovereign debt globally through its potential to weigh on growth, raise interest rates, and increase spending pressures. This could constrain governments' capacity to respond to future shocks and worsen vulnerabilities in sovereign debt markets. Many of these markets are characterised by a relatively high use of leverage by a small number of hedge funds pursuing similar strategies across jurisdictions. Such dynamics increase the risk of a disorderly unwind of positions causing a jump to illiquidity in core markets,

including as a result of cross-border spillovers. Markets have absorbed high volatility and volumes so far, underpinned by functioning repo markets.

- Some risky asset valuations have declined in response to the conflict. Despite the volatility that the conflict has generated, risk premia in global equity and debt markets remain compressed by historical standards, heightening the risk of a sharp correction if macroeconomic conditions worsen.
- Valuations remain particularly stretched for US technology companies focused on artificial intelligence (AI). Prior to the conflict, increasing debt-financing needs and concerns about whether expected returns on very significant AI-related investments would materialise led to selling pressure, illustrating the risks around these valuations. The conflict could increase these concerns, particularly given the energy-intensive nature of the supply chain for key components and the operation of data centres.
- Investor sentiment relating to risky credit markets, particularly private credit, had worsened before the conflict started. This reflected growing concerns around asset quality, valuations and liquidity, some of which relates to exposures to companies whose business models could be disrupted by AI, such as software and services. Redemption requests have been elevated in several international retail funds, and some have limited redemptions, underlining both the liquidity mismatch and valuation concerns. In addition, higher interest rates associated with the supply shock could increase debt-servicing pressures for leveraged borrowers, and lower growth could decrease asset quality, increasing pressure on private credit funds.
- Domestically, the economic outlook has deteriorated, increasing pressure on UK households and businesses. Aggregate household and corporate indebtedness continued to be low by historical standards, although vulnerabilities remain among a tail of small and medium-sized enterprises (SMEs) and highly leveraged corporates, including private equity-backed businesses. The FPC judges that these sectors remain resilient in aggregate, despite the more challenging outlook.
- The Committee reiterated its support for the private markets system-wide exploratory scenario (PM SWES), which will explore potential risks and dynamics associated with private markets and related risky public credit markets. It will do this through understanding the actions taken in response to a shock by banks and non-bank financial institutions (NBFIs) active in private markets.
- The FPC maintains its judgement that the UK banking system has the capacity to support households and businesses even if economic and financial conditions were to be substantially worse than expected. Recent energy and financial market moves have not reached the level of those in the 2025 Bank Capital Stress Test scenario, which also included a broad and severe macroeconomic stress. Banks should nevertheless continue

to monitor closely and risk-manage their exposures to the vulnerabilities mentioned above, taking account of the materially more unpredictable global environment.

- The FPC has maintained the UK countercyclical capital buffer (CCyB) rate at 2%. While global macroeconomic risks have increased, the UK banking system continues to be appropriately capitalised, with high levels of liquidity and strong asset quality. There is no evidence that banks are restricting lending to protect their capital positions.
- The FPC has assessed evidence on the risks to financial stability from the use of AI in the financial system. This evidence suggests that financial system participants have not yet adopted more advanced forms of AI, such as generative or agentic AI, in a manner that would present systemic risk. However, risks are likely to increase, potentially rapidly, amid growing intent among financial firms to expand their deployment of advanced AI. The Committee supports the Bank's and the Financial Conduct Authority's (FCA) initiatives to continue monitoring the adoption of AI by regulated firms and asked them to undertake further work on agentic AI, focused on use cases in payments and financial markets.

Record of the Financial Policy Committee meeting on 27 March 2026

1: The Financial Policy Committee (FPC) seeks to ensure the UK financial system is prepared for, and resilient to, the wide range of risks it could face, so that it is able to absorb rather than amplify shocks, and serve UK households and businesses, thus supporting stability and long-term growth in the UK economy.

2: The Committee met on 27 March 2026 to agree its view on the outlook for UK financial stability. The FPC discussed the risks faced by the UK financial system and assessed the resilience of the system to those risks. On that basis, the Committee agreed its intended policy actions.

The overall risk environment

3: The outbreak of conflict between Israel and the United States, and Iran, with impacts subsequently spreading to other parts of the Middle East, had resulted in a substantial negative supply shock to the global economy.

4: This shock had occurred following a period in which risks to financial stability had already increased. In particular, global risks were already elevated due to rising geopolitical tensions, fragmentation of trade and rising sovereign indebtedness. During 2025, there had been several shocks, but growth had remained resilient. This reflected some trade policy measures being smaller than originally assumed, easier financial conditions, and AI-related investment boosting growth in some regions. Prior to the start of the conflict, vulnerabilities in risky credit markets, including private credit, had already showed signs of worsening, and there had been some sharp moves in some technology-focused sectors' equity prices in reaction to AI-related developments.

5: Following the onset of the conflict, shipping through the Strait of Hormuz, a major channel for global energy and commodity transport, had effectively ceased. Energy production in the Gulf region had fallen, in part reflecting attacks on key infrastructure, which could require an extended period of time to repair. These developments led to much higher and more volatile energy prices, and represented a negative supply shock to the global economy, bringing the potential for inflationary pressures, higher interest rates and weaker growth.

6: In response to the conflict there had been significant moves in markets globally, with government bond yields increasing, risky asset prices falling, and some widening of credit spreads, in volatile trading conditions. Markets had, to date, continued to function despite high volatility and volumes.

7: Oil prices had increased rapidly due to supply disruptions and subsequently fluctuated above \$100 per barrel, with the Brent crude price reaching over 60% above pre-conflict levels. European and UK natural gas prices were more than 70% higher than pre-conflict levels, though remained well below the peaks reached in 2022 following Russia's invasion of Ukraine.

8: Advanced economy government bond yields had risen, with high volatility and volumes. This had been amplified in some markets, including the UK, by hedge fund deleveraging, predominantly at the short end of the yield curve. From pre-conflict levels, 10-year government bond yields had increased in the US, Germany and the UK by 47, 43 and 74 basis points, respectively; while 2-year government bond yields in those countries had increased by 61, 72 and 100 basis points, respectively.

9: Market contacts suggested that the central expectation was for the conflict to be short-lived. However, high levels of uncertainty over the conflict's trajectory and its long-term impacts, including on energy infrastructure in the region, raised the potential for further rapid and significant price moves if that assumption changed.

10: The global environment more broadly was materially more unpredictable as a result of the conflict, increasing the likelihood of large, frequent and potentially overlapping shocks, and episodes of intense market volatility. Heightened uncertainty and unpredictability had made it harder for markets to price underlying economic fundamentals in response to new information, increasing the likelihood and magnitude of sharp market shifts.

11: Developments in the Middle East could interact with several vulnerabilities in the financial system previously identified by the FPC in sovereign debt markets, risky asset prices and risky credit markets, notably in private credit. (These vulnerabilities are discussed in turn below.) A substantial negative supply shock leading to tighter financing conditions increased the likelihood of these vulnerabilities crystallising at the same time, potentially amplifying their combined impacts on financial stability and ultimately the provision of vital financial services to UK households and businesses.

12: This had underscored the importance of timely and active risk management and stress testing for market participants. The FPC judged that market participants' risk management, including their stress testing and liquidity preparedness, should incorporate scenarios which consider further sudden and significant price adjustments in financial markets and a breakdown in historical correlations. Preparing for market stress events should help mitigate the risk of financial institutions' behaviours amplifying any vulnerabilities that materialise.

13: Robust regulatory standards and international co-operation remained important to limit regulatory arbitrage, improve transparency, and prevent and respond to shocks.

Sovereign debt vulnerabilities and leverage in core markets

14: Global sovereign bond markets had continued to see historically high issuance, with higher proportions issued at shorter tenors. The conflict had worsened existing sovereign debt vulnerabilities previously identified by the FPC through its potential to weigh on growth, raise interest rates and increase spending pressures. This could constrain advanced economies' capacity to respond to future shocks. Many of these markets were characterised by a relatively high use of leverage by a small number of hedge funds pursuing similar strategies across jurisdictions. Should investor sentiment on the sovereign debt outlook deteriorate abruptly, the role played by a small number of leveraged hedge funds in global bond markets meant that stress in one major sovereign bond market could spill over to others, including the UK, with potential implications for domestic financing conditions.

15: The FPC had previously identified the risks associated with leveraged hedge fund strategies, where the associated gilt repo borrowing had been increasing over recent years. These strategies could be vulnerable to abrupt repricing, as illustrated by the decision by some hedge funds to unwind commonly held positions after the onset of the conflict, predominantly at the short end of the yield curve. Over this period, hedge funds reduced their aggregate net gilt repo borrowing by 21% (£19 billion) compared to pre-conflict levels. Aggregate borrowing levels remained elevated by historical standards at £74 billion. Markets had absorbed high volatility and volumes so far, underpinned by functioning repo markets.

16: Gilt repo positions continued to be characterised by a small number of firms pursuing similar strategies across jurisdictions and markets. The hedge funds with the highest leverage in the gilt market also had large repo positions in other government bond repo markets such as the US Treasury and European Government Bond markets. These cross-market positions, in addition to firms pursuing similar strategies, increased the risk of disorderly unwinds causing jumps to illiquidity in core UK markets, including through cross-border spillovers.

17: Hedge funds also continued to maintain record prime brokerage balances, indicating that links with systemically important institutions were facilitating their significant activity in equity markets. A sharp correction in equity markets could provide an additional channel through which stress could transmit to gilt markets. For example, following such a correction, hedge funds with positions in both equity and gilt markets could unwind gilt market positions, or banks could reduce lending to NBFIs.

18: The FPC noted that the liability driven investment (LDI) sector had remained resilient in the current market environment. This was supported by policy measures taken by the FPC, the Financial Conduct Authority (FCA), the Pensions Regulator and international regulators since the Autumn 2022 gilt market stress to require LDI strategies to maintain appropriate liquidity buffers and operational readiness for very severe stresses in the gilt market.

19: The Committee was briefed on work being undertaken by the Bank to enhance further its market-based finance surveillance toolkit, including its framework for identifying and monitoring risks to gilt market functioning, and to identify data gaps, supported through the use of 'desktop' system-wide stress testing. The FPC supported continuing policy engagement with industry and other authorities to enhance the resilience of the gilt repo market. The [feedback statement](#) to the Bank's discussion paper (DP) '[Enhancing the resilience of the gilt repo market](#)' would be published on 1 April 2026. The Bank had noted respondents' views on the benefits, risks, and wider market implications of the potential reforms explored in the DP.

Risky asset prices

20: The onset of the conflict had seen a fall in equity valuations, especially in UK, European and Asian markets, where economies were more exposed to adverse energy price shocks. Credit spreads had also widened in response. However, risk premia globally remained compressed by historical standards, despite elevated uncertainty. The excess cyclically-adjusted price-to-earnings yield for the S&P 500 remained close to its most compressed level since before the global financial crisis (GFC). This continued to heighten the risk of a sharp correction, particularly if macroeconomic conditions worsened, including if the conflict escalated or became more prolonged, particularly for those sectors most exposed to higher energy prices.

21: AI had the potential to raise productivity across a range of sectors and, in turn, support long-term economic growth. Valuations for US technology companies focused on AI remained particularly stretched. Risks around those valuations were illustrated by some selling pressure on AI hyperscalers' stocks early in the year prior to the conflict, reflecting concerns about increasing debt-financing needs and whether expected returns on very significant AI-related investments would materialise. AI-related repricing could transmit widely throughout the financial system and impact the real economy. For example, a sharp correction could lead to tighter funding conditions for UK corporates.

22: The conflict in the Middle East posed additional threats to AI company valuations, given the energy-intensive nature of the supply chain for key components and the operation of data centres. In addition, supply chain disruption for key input chemicals and materials could similarly act as a bottleneck on the buildout of AI infrastructure capacity.

23: Other market moves had highlighted that there were also risks to valuations for companies whose business models could be disrupted by AI. Such concerns, in the context of news around rapid AI innovation, had contributed to sell-offs in software stocks earlier in the year. Concerns about potential disruption from AI also had implications in risky credit markets, particularly in private credit where exposures to the software sector had contributed

to recent concerns over asset quality and valuation uncertainty (see 'Risky credit markets and private credit', below).

Risky credit markets and private credit

24: The FPC noted that private finance can play an important role in supporting growth, by channelling funding towards productive investment in the real economy, and by contributing to a competitive and diverse lending landscape that meets the varied needs of UK businesses. However, private markets had grown significantly in the UK over the past two decades and had not been tested by a macroeconomic stress at their current size. Industry estimates suggested that since the GFC, global private market assets under management had increased six-fold from around \$3 trillion in 2008 to roughly \$18 trillion in 2025. The FPC noted that several recent developments in risky credit markets underlined some of the vulnerabilities that the Committee had previously identified.

25: Investor sentiment relating to risky credit markets, particularly private credit, had worsened before the conflict started. This reflected growing concerns around asset quality, valuations and liquidity at some private credit funds, some of which related to exposures to companies whose business models could be disrupted by AI, such as software and services. These concerns were illustrated by publicly-listed private credit firms and traded US business development companies underperforming relative to equity markets.

26: In addition, the high-profile default in February of a non-bank mortgage lender, Market Financial Solutions Limited, which was partly funded by private credit, highlighted weaknesses in relation to risky credit markets. The default echoed those of Tricolor and First Brands Group in 2025 Q3, further illustrating recurrent structural vulnerabilities previously identified by the FPC. These vulnerabilities included high leverage, weak underwriting standards, opacity, overly optimistic valuations and complex structures.

27: Alongside this, in private credit markets, although most private credit funds are closed ended, there were elevated redemption requests across several international retail funds primarily distributed through wealth management channels. Redemptions were driven by asset quality and liquidity concerns. Some firms limited the redemptions whereas others allowed and facilitated elevated redemptions. This highlighted persistent risks around valuation opacity and liquidity mismatches in these funds and further weakened investor sentiment. While retail participation in private credit remained relatively small in aggregate, stress originating in these retail funds could spill over to other parts of private credit and private equity markets, as well as other correlated asset classes. For example, there could be an unwillingness to refinance existing loans or provide additional lending to businesses. Firms should continue to factor the potential for such dynamics into their liquidity risk management.

28: To date, the impact of these risky credit market concerns and liquidity pressures at private credit funds on UK financial stability had been limited. Nevertheless, perceptions of continued asset quality deterioration, perhaps exacerbated by the global negative supply shock, and any reduction in private capital allocation to the sector, could tighten funding conditions and weaken valuations. A tightening of supply could also affect relatively more resilient borrowers reliant on private-market financing, including UK corporates, especially as UK private markets are heavily dependent on overseas investors. The risk of higher interest rates associated with the supply shock would also increase debt servicing pressures for leveraged borrowers globally, including private credit borrowers, while lower growth could decrease asset quality, increasing pressure on private credit funds. Energy intensive industries were also likely to face increased pressures as a consequence of higher energy prices, heightening refinancing risks for relevant firms reliant on private credit.

29: Concerns about opacity, valuation methodologies and asset quality deterioration, amplified by structural liquidity mismatch, were central to recent redemption episodes. Market participants should have a clear understanding of their direct and indirect exposures to risky credit markets, including in stress scenarios where correlations and losses can shift outside historical norms.

30: The FPC received an update from Bank staff on the PM SWES, which was now underway and would complement the Bank's existing work on private markets. The Committee reiterated its support for the exercise, which would explore potential risks and dynamics associated with private markets and related risky public credit markets. This would be through understanding the actions taken by banks and NBFIs active in private markets in response to a shock, and how these actions might interact at a system level. Further updates on the PM SWES would be published later in the year.

Investment fund liquidity risk management

31: The FPC welcomed the FCA's Consultation Paper 'Enhancing fund liquidity risk management', published in December 2025. The FPC noted that liquidity mismatch in open-ended funds (OEFs) remained a key vulnerability in market-based finance and supported progress on building resilience by implementing the 2023 Financial Stability Board revised policy recommendations to address structural vulnerabilities from liquidity mismatch in OEFs. Previous Bank and FCA work had identified areas for improvement in fund managers' liquidity risk management systems, and the FPC supported these proposals which would play an important role in ensuring that all funds meet high standards in liquidity management.

UK household and corporate debt vulnerabilities

32: The economic outlook had deteriorated following the negative supply shock, increasing pressure on UK households and corporates. However, aggregate household and corporate

indebtedness was low by historical standards and debt vulnerability metrics remained around their long-run averages, providing resilience against shocks. As a result, the FPC judged that the UK household and corporate sectors remained resilient in aggregate, despite the more challenging outlook.

33: Vulnerabilities remained for a tail of highly leveraged corporates and SMEs. A sustained shock to energy and commodity prices from the conflict in the Middle East would likely increase debt-servicing pressures for these corporates by reducing profits and increasing funding costs. Corporates in sectors heavily reliant on energy inputs such as manufacturing, transport, agriculture and construction would be most exposed. And those in cyclical sectors such as accommodation and food would be further exposed if recent events led to lower household consumption. Nonetheless, as the FPC had noted previously, it would require large and persistent increases in borrowing costs or severe shocks to earnings to impair businesses' ability to service their debt in aggregate.

34: There had been some widening of credit spreads, but issuance markets had largely continued to be open, with only short-lived pauses in primary activity, and near-term financing needs for UK corporates were relatively modest. However, the impact on funding costs due to the increase in rates could be exacerbated by pressures in risky credit markets, and disruption due to further developments in AI. This could increase the cost and reduce the availability of funding for UK corporates seeking to raise or refinance debt. Maturities are typically shorter in markets serving higher risk borrowers such as leveraged loans and private credit. Around a quarter of leveraged loans and loans provided by private credit funds were due for refinancing by end 2027, leaving corporates in such funding markets more exposed to a tightening of credit conditions or a deterioration in investor risk sentiment.

35: Since the beginning of the conflict in the Middle East, swap rates had increased, resulting in quoted mortgage rates rising, and some mortgage products being withdrawn. Average rates for two-year and five-year fixed-rate mortgages had risen by an estimated 80 basis points and 70 basis points respectively, based on average daily rates data. This increase was smaller than the increase in relevant swap rates. The total number of mortgage products available in the UK had fallen from around 8,500 to 7,000, but remained above the number of mortgage products available during the 2022 gilt market stress and the initial Covid-19 lockdown.

36: Sustained increases in mortgage rates and energy prices would put increased pressure on household finances. Overnight Index Swap (OIS) rates are used as the benchmark for fixed-rate mortgage pricing. Based on current OIS rates, around 5.2 million (58%) mortgagors could face increases in mortgage repayments by 2028 Q4. However, typical increases in mortgage payments would remain modest in comparison to those experienced in recent years, as most mortgagors were already on higher rates. As such, while mortgage debt-servicing burdens would be expected to increase, in aggregate they would remain well below

historic peaks. It would take large and persistent increases in borrowing costs and energy prices to impair households' ability to service their mortgage debt in aggregate.

37: The FPC's loan-to-income (LTI) flow limit, alongside the FCA's responsible lending rules, continued to provide appropriate protection against a material and unsustainable increase in household indebtedness and the number of highly indebted households, and the associated risk to economic growth of large cuts to consumption. Following the FPC's updated Recommendation in 2025 Q2, the aggregate share of lending at high LTIs had increased to 11.5% in 2025 Q4, supported by a number of lenders taking up the Prudential Regulation Authority's (PRA) option to disapply their individual LTI flow limit. The Committee welcomed the PRA and FCA consultation on the implementation of the LTI flow limit Recommendation published on 1 April 2026.

Banking sector resilience

38: The FPC maintained its judgement that the UK banking system had the capacity to support households and businesses, even if economic and financial conditions were to be substantially worse than expected. Banks should nevertheless continue to monitor closely and risk-manage their exposures to the vulnerabilities mentioned above, taking account of the materially more unpredictable global environment.

39: The UK banking system was appropriately capitalised, had high levels of liquidity and asset quality remained strong. UK bank share prices had declined over recent weeks but still remained significantly higher than a year ago, with the aggregate price to tangible book ratio at 1.4 times.

40: Impairments on UK bank lending remained low and their direct exposures to the Middle East were limited. Recent energy and financial market moves had not reached the level of those in the 2025 Bank Capital Stress Test scenario, which also included a broad and severe macroeconomic stress. The results of that test supported the FPC's judgement on the UK banking system's capacity to support the economy, even in very severe economic and financial conditions.

41: Recent events had heightened UK banks' focus on vulnerabilities in risky credit markets, including private credit. Data submissions received by the Bank for the 2025 Bank Capital Stress Test indicated that UK banks' exposure to private market funds and to highly leveraged corporates backed by financial sponsors was worth about 4% of committed limits in banks' total loan portfolios. The largest component of this was lending to private equity and credit funds backed by the contractual commitments of investors to provide capital to the fund. Especially in the context of a negative global supply shock, banks should ensure that they have a clear understanding of their direct and indirect exposures to risky credit markets, such as private credit, including in stress scenarios where correlations and losses can shift outside historical norms.

42: As highlighted previously by the FPC, banks' exposures to leveraged NBFIs, including hedge funds, continued to be significant. Monitoring and risk management of their exposures was warranted, given elevated uncertainty in the global environment.

43: In December 2025, the FPC had set out its assessment of the appropriate capital requirements for the banking system. As part of this the FPC had considered whether the capital framework might warrant adjustment to make it more effective, efficient and proportionate in the future, and to address any unintended consequences of post-crisis reforms. The FPC had also supported the significant steps that were already being taken to address feedback and improve the efficiency and proportionality of the framework. This included the Bank reducing the frequency of its main stress tests of capital resilience from annual to biennial; the finalisation of Basel 3.1 reforms; the recently published Strong and Simple framework; and the updating of some regulatory thresholds. Since the publication of the FPC's assessment of bank capital requirements, Bank staff had received feedback on the issues outlined in that assessment from a broad range of stakeholders, including at a Bank-hosted event on 20 March 2026. The FPC noted that written feedback on its analysis would be received until 2 April 2026 and the Committee would provide an update on the evidence gathered and next steps in the July 2026 Financial Stability Report.

44: The Committee noted that on 19 March 2026 US authorities published proposals for its largest banks to implement the aspects of Basel III yet to be implemented in the US. The proposals covered the same parts of the Basel framework as the PRA's [final Basel 3.1 rules](#), published on 20 January 2026. The Committee also noted the proposal to revise the calculation of the risk-based capital surcharges for US global systemically important bank holding companies (G-SIBs). The Committee noted the US authorities' view that the proposals would generally be consistent with the Basel agreement.

45: The FPC continued to monitor developments in credit conditions. As set out above, there had been some withdrawal and repricing of mortgage products by lenders in response to movements in interest rate swap rates that inform banks' mortgage pricing. Prior to that, credit conditions had continued to ease somewhat in line with the macroeconomic outlook and policy developments related to the mortgage market. The UK banking system remained appropriately capitalised and there was no evidence that banks were restricting lending to protect their capital positions.

46: The FPC welcomed the PRA's consultation paper (CP) on [modernising the liquidity framework](#) published on 17 March 2026. The PRA proposed proportionate, targeted reforms to modernise the PRA's prudential liquidity framework to address key lessons from the March 2023 global banking sector stress, and reflect the Bank's transition to a demand-driven, repo-led framework for the supply of reserves. The proposals seek to strengthen firms' internal stress testing and enhance firms' operational readiness to deal with future liquidity shocks, including pre-positioned collateral at the Bank.

UK CCyB rate

47: The FPC discussed its setting of the UK CCyB rate. The Committee's principal aim in setting the UK CCyB rate was to help ensure that the UK banking system was better able to absorb shocks without an unwarranted restriction in essential services, such as the supply of credit, to the UK real economy. Setting the UK CCyB rate enabled the FPC to adjust the capital requirements of the UK banking system to the changing scale of risk of losses on banks' UK exposures over the course of the financial cycle. The approach therefore included an assessment of financial vulnerabilities and banks' capacity to absorb such losses, including the potential impact of shocks.

48: In considering the appropriate setting of the UK CCyB rate, the FPC noted that while global macroeconomic risks had increased, aggregate UK household and corporate indebtedness was low by historical standards, providing resilience against shocks. Additionally, the UK banking system continued to be appropriately capitalised, had high levels of liquidity and asset quality remained strong. The results of the 2025 Bank Capital Stress Test had shown that the banking sector would be resilient to a severe global aggregate supply shock, including a sharp increase in commodity and energy prices. There was no evidence that banks were restricting lending to protect their capital positions.

49: In view of these considerations, the FPC decided to maintain the UK CCyB rate at 2%. Maintaining a neutral setting of the UK CCyB rate in the region of 2% would help to ensure that banks continued to have capacity to absorb shocks without an unwarranted restriction in essential services, such as the supply of credit, to the UK real economy.

The use of AI in the financial system

50: The FPC noted that the Bank and FCA were promoting proactively the responsible adoption of new technologies in the financial sector. In relation to AI specifically, and in light of the pace at which the technology is evolving, the Committee was supportive of the steps taken by the Bank and FCA to ensure existing regulation was flexible, outcomes-focussed and effective. In April 2025, the FPC had outlined the risks to financial stability from the use of AI in the financial system in its [Financial Stability in Focus: Artificial Intelligence](#) (FSiF). It set out four channels: banks and insurers' use of AI, AI in financial markets, operational risks in relation to AI service providers, and cyber risks from AI. The FPC assessed the latest evidence on use cases of more advanced AI applications (e.g. complex deep-learning, generative, and agentic applications) against each of these channels, and assessed the extent of the risk presented today, the likely trajectory of that risk, and the availability of data and intelligence to monitor the risk at an appropriate frequency.

51: At present, there was little evidence that the financial system had adopted more advanced forms of AI in a manner that would present systemic risk. For example, there was little evidence that financial firms were using advanced forms of AI to make core financial

decisions, such as credit and insurance underwriting, or in core trading and investment activities. The FPC noted that one key driver of this was firms' assessment that the lack of interpretability and predictability in advanced AI systems meant the potential risks from deploying them in more material use cases exceeded the potential gains.

52: However, and noting the considerable growth in AI capabilities in recent years, the FPC also judged that risks appeared likely to increase, amid growing intent among financial firms to expand their deployment of advanced AI. At some point, adoption could potentially accelerate significantly as the technology improved, shifting firms' assessment of the associated costs and benefits.

53: AI was expected to bring considerable potential benefits for productivity and growth in the financial sector and the rest of the economy. While noting the efficiencies and opportunities offered by this innovation, the Committee judged that agentic AI presented particular risks spanning several channels identified in the FSiF. Firms' private incentives to deploy agentic AI, for example in payments and financial markets, could fail adequately to internalise certain negative externalities (e.g. an increase in payments fraud, or financial markets more prone to sharp movements). If so, firms' decisions to adopt this form of advanced AI in such use cases could result in consequences that did not align with the FPC's public policy objectives. The FPC had noted previously the importance of monitoring AI risks effectively, and assessing their financial stability impact robustly, to inform whether additional risk mitigations or guardrails might be warranted to support safe innovation. It was with this objective in mind that the FPC asked the Bank and FCA to draw out risks from deployment in payments and financial markets of agentic AI specifically in their forward-looking work.

54: The FPC also supported the Bank's and FCA's initiatives to continue to monitor the adoption of AI by regulated firms, including by re-running their joint AI survey in 2026, continuing market intelligence gathering exercises, and supporting the evolution of firms' AI risk management practices, including via engagement with industry.

55: The FPC would – working with other financial sector authorities – continue to monitor closely the degree of AI adoption in the financial sector and assess the potential risk this posed to UK financial stability.

Other matters

56: The FPC reviewed and agreed to revise the Bank's Financial Stability Strategy (FSS). The revised FSS would be published in due course following approval by the Bank's Court of

Directors and consultation with HM Treasury.¹ The FPC also discussed and agreed their refreshed medium-term priorities, which would be published alongside the FSS.

57: The Committee noted that the FPC was currently legally required to group its formal engagement around at least four rounds of meetings each year. Evolving this requirement from at least four, to at least three rounds a year, would provide additional flexibility that better supported Bank staff and the Committee to progress work on long-term structural issues while preserving its ability to respond in real time to shocks in the risk environment when they did occur.

¹ The Bank of England Act 1998 (the Act) requires the Bank's Court of Directors ('Court') to review the Bank's strategy in relation to the Financial Stability Objective and if necessary, revise the strategy. Court has delegated the review of the strategy to the FPC - as permitted by the Act - but Court retains responsibility for the strategy.

The following members of the Committee were present at 27 March Policy meeting:

- Andrew Bailey, Governor
- Nathanaël Benjamin
- Stephen Blyth
- Sarah Breeden
- Jon Hall
- Randall Kroszner
- Clare Lombardelli
- Liz Oakes
- Dave Ramsden
- Nikhil Rathi
- Carolyn Wilkins
- Sam Woods

Gwyneth Nurse attended as the Treasury member in a non-voting capacity.

Annex 1: Financial Policy Committee policy decisions

Outstanding FPC Recommendations and Directions (as at the date of the FPC's meeting on 27 March 2026)

On 23 March 2023, the FPC made the recommendation (23/Q1/2) that:

- The Pensions Regulator (TPR) should have the remit to take into account financial stability considerations on a continuing basis. This might be achieved, for example, by including a requirement to have regard to financial stability in its objectives, which should be given equal weight alongside other factors to which TPR is required to have regard. The FPC noted that in order to achieve this, TPR would need appropriate capacity and capability.

On 27 June 2025, the FPC made the recommendation (25/Q2/1) that:

- The PRA and FCA should together (i) aim to ensure that the aggregate flow of new residential mortgages from mortgage lenders at loan to income ratios (LTIs) at or greater than 4.5 does not exceed 15% of total new residential mortgages, and (ii) allow individual lenders to increase their share of lending at such high LTIs while aiming to ensure the aggregate flow remained consistent with the limit of 15%. The FPC recognises that, in doing so, such high LTI lending by individual lenders could exceed 15% of their total number of new residential mortgages while the aggregate flow remains consistent with the 15% limit. The aggregate flow is calculated based on new residential mortgages extended by lenders which extend residential mortgage lending in excess of £150 million per annum.

Other FPC policy decisions which remain in place

The following text sets out previous FPC decisions, which remain in force, on the setting of its policy tools. The calibration of these tools is kept under review.

Countercyclical capital buffer rate

The FPC agreed to maintain the UK CCyB rate at 2% on 27 March 2026, unchanged from its 25 November 2025 meeting. This rate is reviewed on a quarterly basis. The UK has also reciprocated a number of foreign CCyB rate decisions – for more details see the Bank of England website. Under PRA rules, foreign CCyB rates applying from 2016 onwards will be automatically reciprocated up to 2.5%.

Leverage Ratio

In September 2021, the FPC finalised its review of the UK leverage ratio framework, and issued a Direction and Recommendation to implement the outcome of the review as set out in its October 2021 Record. In October 2022, in line with its statutory obligations, the FPC completed its annual review of its Direction to the PRA. The FPC revoked its existing Direction to the PRA in relation to the leverage ratio regime, and issued a new Direction on the same terms as in September 2021 with the addition of discretion for the PRA to set additional conditions to the central bank reserves exclusion.

- The full text of the FPC's Direction to the PRA on the leverage ratio is set out in the Annex of the October 2022 Record, together with the original Recommendation (now implemented).
- The PRA has published its approach to implementing this Direction and Recommendation.
- The FPC is required to and has continued to review its leverage ratio Direction annually, most recently in 2025 Q3.