Bank of England

Financial Stability Report Q&A
5th July 2016

Ed Conway, Sky News: What would you say, Governor, to those who say - well we're a few weeks on from the Referendum, the FTSE is actually higher than it was before; stock markets don't look like they're in crisis; the pound has stabilised; the government can borrow at less than 1%. It doesn't look quite as scary to a lot of people as they thought it might be.

Mark Carney: Well, I think - first point. Let's focus on the positives, which is that financial markets are doing their job; they are adjusting to this change. As I said in my opening comments, it's detailed in the Report, those markets have functioned pretty well. You know, there's been some reduced volumes in gilt markets and some heightened volatility, but not inconsistent with the scale of the issue.

The directions of movements - and I'm not commenting on levels - but the directions of movements have been broadly consistent with some of the adjustments that are necessary, in particular the adjustment in sterling which has been significant - it has been significant. And it was sharp in the initial period. In fact, volatility spiked at its highest level ever.

But that adjustment has moved in the direction that is necessary to facilitate some of the economic adjustments that are going to be required in the economy.

I think the comment I would make in terms of the equity markets is - I would focus a little more on the domestically focused stocks - the FTSE 250 or the component of the FTSE 100 that is principally serving this economy. There's been a much more significant move in those equities in pound terms, and in common currency terms (certainly in dollar terms) quite notable. And that gives a sense of investor expectations, which may not prevail, but investor expectations of the direction of the economy.

The thing I'd end with and reinforce is that the movements in financial assets prices related to banks have been quite telling. As I said in my opening comments, again detailed in the Report, the movement in equity prices consistent with concerns about the economic direction, economic uncertainty. But the all-in funding costs for banks - whether you measure it in the cash markets or the derivative markets - haven't really budged. And that is a testament to the resilience that has been built up.

So it's a concern about the economic outlook, consistent with what's happening in the equity market, as opposed to concern about resilience. And all of that comes back together to an ability for this economy to adjust. The financial system doing its job, helping this economy to adjust. And of course that adjustment builds on the fundamental strengths in the UK which are legion, starting with human capital, extending through rule of law, the infrastructure and I would argue the institutions as well.

Kamal Ahmed, BBC: You said before the Referendum that there was a possibility of a technical recession. Given what the Financial Stability Report has said about the resilience of the financial system, have those fears been alleviated? That in fact the dynamism of the UK economy, the falling sterling, will actually create a boost which maybe wasn't expected before the Referendum?

Mark Carney: Well, first off the FPC doesn't make an economic forecast. It looks at the outlook for financial stability, the risks around that outlook and then takes measures to build resilience and, where possible, alleviate specific risks. So that's the core responsibility, as you know, of the FPC.

For forecasting, we rely on the MPC. The MPC's forecast, the last one was in May, the next one will be in August. So I'm going to defer the answer to that question till the MPC has opined.

The MPC, though, always recognised that the movement in sterling would help with the adjustment. The question is the scale of the other effects, the impact of this change on demand - and one sees it initially in demand for large, lumpy, irreversible investments - whether somebody's buying a house, building or buying commercial real estate, making a large business investment. You know, there was a growing body of evidence across all of those before the Referendum that all of those were slowing. It was an observation of the MPC in its most recent Minutes, and everything we've seen since - albeit it's early days and it's mainly survey based - has suggested a continuation of those trends.

So that does suggest movements in the economy that are consistent, notwithstanding the movement in the exchange rate - or even taking into account the movement in the exchange rate - that there is the prospect of a material slowing in the economy.

To go to your question - last point on it - is the financial system doing its job? Yes, the financial system is doing its job. It's helping prices adjust. The banks and building societies are up and running, they're open. Credit is available for people who want it. We've reinforced that today, and that will help this adjustment. Without question. It's going to dampen, it's going to cushion, it's going to make it better than it otherwise would be. And that is - so we're in a very different world than we were in 2007/8.

Chris Giles, The Financial Times: The FPC has taken some action today to encourage the supply of credit. Can you tell us from your discussions with people in markets and with banks whether you think there is a squeeze on credit or whether the action is really in the demand for credit - and what you're hearing about the willingness of people to take on loans at the moment?

Mark Carney: Your question is spot on, because if we do see a slowing in credit growth, it will be demand driven not supply driven. The decision of the FPC, which was very carefully considered, as you would expect, took into account - in effect, we're saying that we are seeing signs, and expect them to continue for a bit, of a change in the risk environment - a much more risk averse environment in that environment. And given the core resilience of the banks, it's important to ensure that there is no question about the availability of credit.

That's the one thing we want to take off the table. And we're fortunately in a position - due to the hard work of people - you know, it started long before I showed up. Actually, only Andrew can take credit for this at the table. That's - and many other things, I might add - but to build up this capital over time.

We're in a position where we can release some of that capital, take that issue off the table. Thus far we've also been able to reduce concerns about market functioning as well, so again the financial system is functioning, which should help the adjustment. And the decisions about demand for credit will be more governed by the degree of uncertainty about the future relationship with Europe, future structure of this economy, how quickly that's resolved. As I tried to say last week, it will be more governed not by the plans of the Bank of England and what we're putting in place - we'll do our core job to help - but by plans of others which are still being formulated.

Phil Aldrick, The Times: You talk about buy to let being one of the risks. I just wondered how severe do you fear a buy to let housing crash could be in the UK - a buy to let induced housing crash could be in the UK? Especially in light of the other concern you raised, which is just generally high levels of household indebtedness.

Mark Carney: Well, we have been concerned for some time about these issues - the interplay between high levels of household indebtedness and the housing market, and the possibility that there will be more vulnerable households because the economic environment turns. And that that could weigh on the economic outlook, make the subsequent pick-up shallower.

That's why we put in place - and we're pleased that we put in place a few years ago the measures to restrict high loan to income borrowing for owner occupiers. It's also why the PRA took action earlier this year to ensure that there was no slippage in underwriting standards in the buy to let market - that people were tested against income if they were using that as a backstop; that they were using reasonable stressed interest rates. And those measures help ensure that the protections in underwriting exist; they make it less likely that we will get this amplification channel if the housing market does turn for a sustained period of time. So it is something that we're watching closely.

I want to stress one other thing, and I apologise if it sounds a bit like a broken record. But this is a different - it comes to the same conclusion, but from a different point. Which as you know, Phil, we conducted a very severe stress test - housing stress test - in 2014, against the major banks, building societies - with a 35% fall in house prices, 30% fall in commercial real estate, prolonged recession with unemployment and sharp increase in interest rates.

So every way you could stress bank balance sheets against challenges in the housing market, we did it. And then we made sure that those institutions were well capitalised against that. In fact, not just able to withstand it, but able to lend in that environment.

And what we're seeing now - and there's some detail in the Report on this - even by the most pessimistic view of where bank equities have gone is nowhere near that stress test. You know, not even half of that stress test. Which gives you a sense, or should give you a sense - and really people who are watching this or who ultimately go to a bank - the confidence that the core of this system is very strong. So we may see some volatility, we may see things move around, but the system is going to be there for someone who wants to buy a house or a business person with a viable plan.

Joel Hills, ITV News: A couple of questions, if I can. About the easing of capital requirements. Sir John Vickers will make the point you're doing that from already low levels. With hindsight, do you regret allowing banks to pay out dividends in the run-up to the vote? Would it not have been better to wait and see in terms of this issue of capacity?

And my second question, if I could. You've told us a lot about the robustness of banks. What about the robustness of British households? You note here that the FPC's policies of restrained growth and the number of vulnerable households. How many households are vulnerable to an economic slowdown?

Mark Carney: Okay. Well, I think the FPC's actions today speak for themselves in terms of whether we - we have no regrets about the dividend policies of the banks. The fact is our view is that the banks are in a position where they have more capital than they need for the economic environment that they're in and that they will be in over the course of the few years. And in fact, they can be part of the solution, not part of the problem. And that's why we can release - first point.

Second point, the market agrees with us. If you look - you know, we've had this big shock which has resulted in a quite notable fall in equity prices, not just of banks but of domestically focused British companies. We have movements in the gilt curve which, to put it mildly, are not consistent with an acceleration in the pace of growth in this economy - I'll put it in the negative. And yet all-in funding costs for banks have not moved. So they have a tough environment, but the judgement around their fundamental creditworthiness has not changed. And why is that? Well, because they've got a lot of capital, a lot of liquidity; they've got more focused business plans. You know, there's always things they can do better, and the market is focused on them ultimately getting their returns up, which partly explains the equity performance.

But it terms of doing their job, they're well capitalised, and because they're well capitalised, because they built that £130bn of capital, we're able for them to release now this additional amount of capital which we had carved out for the countercyclical buffer. So this is the system working as it should.

But you had a second question on households. I'm going to ask Jon Cunliffe to answer that, please.

Sir Jon Cunliffe: The ratio of household debt to household income is something we've been watching very closely for a number of years. It was high before the crisis; it came down after the financial crisis and stayed relatively quiet. But in recent years it's been starting to move up a little bit as the economy started to grow. It's around 134% at the moment, I think. And we monitor that closely for precisely that reason, because households that are highly indebted - there's cohorts of households that are highly indebted - tend to cut back their consumption very strongly when they're faced with interest rate shocks or income shocks. And there's a vulnerability there.

That's precisely, as the Governor said, the reason we took the action we took a couple of years ago to restrict the flow of high loan to income mortgages and to ensure households were tested when they took out new mortgages against increases in interest rates.

And that action has had a result. It's slowed down the growth of high loan to income mortgages, and more importantly, it's reduced the numbers of households that would be vulnerable - extremely vulnerable - to income shocks or interest rate shocks.

But clearly it's something we need to watch closely for the future, for precisely that reason.

Helia Ebrahimi, Channel 4 News: Governor, can I just get your feeling for how fragile you think UK households are in the aftermath of the Brexit vote? As Jon was saying, you've got debt to income at 132%, historically high level. Back in 2014 the FPC judged that household indebtedness didn't pose a risk. How do you feel about that now?

Mark Carney: Well, in 2014 is when we took the measures that Jon was just describing and I alluded to earlier around high loan to income mortgages. So we were worried about the distribution of high indebtedness and we took action; we took quite notable action.

There has been some progress since then. The number of highly vulnerable households - so households with debt service ratios above 35% - has come down. Overall debt service ratios have come down as well. So there has been steady improvement in the distribution of debt and the proportion of households that are highly vulnerable, shall we say.

Obviously, though, the economic environment matters tremendously. If it's a difficult economic environment for a long period of time, those distributions shift and it becomes more of a concern.

One of the ways to avoid that situation, or to minimise that situation, or to cushion against that tendency if a shock is bringing us in that direction, is to make sure that the financial system is functioning and is there, and to the maximum extent possible, to ensure that people know that it's there. Because what we don't want to have happen is that there's a judgement - people lived through 2007, 8, 9, 10, 11, 12. It wasn't a lot of fun - 13 even. And there's traces of it even today. But certainly in the darkest period of the crisis and the recession, it was out of the question to go for credit, so opportunities fell by the wayside.

We don't want that to happen now. We have a system that should ensure that that doesn't happen. And we're sending not just a signal, with today's action, but really creating room on the balance sheets of these institutions. And I'd underscore that in our discussions with them, and our supervision of them, that we're confident that they have the capacity and the orientation to meet their responsibilities.

That will help with the situation with households, to go back to your point.

Jill Treanor, The Guardian: Again on this issue about households and their level of indebtedness, what is your clear message to people who are thinking about taking out a loan, or moving house, at a time when you're also warning that we could indeed be entering very difficult economic times? What should people be doing?

Mark Carney: Well, here's deep insight from a central banker: we're advising people to be prudent. We always advise people to be prudent, whether times are good or times are difficult.

Certainly if you're taking out a mortgage, at some point over the life of that mortgage times will be difficult, it might be at the start, it might be five years in, it might be 10, 15, whatever. So you want to make sure as a family, as an individual, that you'll be able to service that mortgage if times are tough; you don't want to lose your flat, your home. And so thinking through where interest rates could go, where your earnings could go, as appropriate. That's the first thing.

But we would tell you that if we were in the tenth year of a boom, it would be the same message. I guess if we were in the tenth year of a boom it will be my successor's successor. But the second thing though is the point I just made to Helia which is that the system will be there. If you do want to take out a mortgage it should be there. If it's a viable business opportunity, viable for the economic climate, the system should be there. Because of the hard work over the course of the last seven or eight years, and because we're able, as a consequence of that, to ensure that capital can be deployed to lend to businesses and households as they need it.

Paul Davies, Wall Street Journal: So just on the current account deficit, I mean you draw out in the Report the importance of investment income and so on, and declining profits in mining companies and things like this, which will benefit from a falling pound. Trade will have a different effect. Do you have any sense of how these things will balance out and whether overall a falling pound is going to be beneficial for the current account, or worsen it? What are the sensitivities there?

Mark Carney: Well, in and of itself the movements in sterling should be beneficial for the account, for the current account. You know there are some issues in terms of the composition of the move, given where some of the major investments of UK institutions, UK individuals are, they tend to be more resident in Europe than they are for example in the US.

But overall the adjustment, as you point out, helps on the trade balance side, will help on the capital account side. It helps on the liability side because most liabilities in the UK are denominated in sterling, so we have right way risk, if you will, in that regard. So it helps with the current account. But of course the current account is a product of a variety of factors, including the balance of savings and investment decisions. And that will - you know, the pace of investment will also be quite important in terms of where the balances go over time.

Scott Hamilton, Bloomberg News: On Thursday you indicated that further Monetary Policy easing may be in the offing over the next few months, over the summer. Could you give us an update - in terms of the financial stability implications of any cut in interest rates? You said that interest rates can go lower than 0.5. What is the new floor, and might the FPC prefer the MPC to do quantitative easing instead?

Mark Carney: Well, you know - I'll try to answer this carefully in a way that doesn't mislead, because I don't want to mislead about any decision that the MPC - the MPC has yet to meet since the Referendum, we're about to start the process for the July meeting, so we haven't had formal deliberations about these issues.

But the basic point I want to make - and I referred to it on Thursday - I referred obliquely maybe to it here, but I'll spell it out, which is that in this environment, an environment of heightened uncertainty, an environment where Bank Rate is already quite low, it's extremely important that any monetary action, whatever it would be, is well aimed, that it focuses on the domestic economy, that it takes into account potentially unintended, or counterproductive, if you will, offsetting consequences in the financial sector.

I think it's pretty clear - you probably know my views on the more extremes of negative interest rates and giving back with the other hand or taking back with the other hand what you're trying to give with one. It's certainly the case in the United Kingdom, given the importance of building societies here and the structure of both mortgage and deposit markets.

So the general point I want to make and really stress is that during this period the Bank's committees, the PRA, the MPC and the FPC, are working very closely together and we're really thinking through the potential consequences - intended and unintended - and net consequences of any actions that any of the Committees might take. And that very much holds for monetary policy.

Tim Wallace, The Telegraph: Governor, yesterday Standard Life closed the doors on one of its commercial property funds because of high outflows. Do you think the sector can cope with this level of people leaving the commercial property market? And are you looking at ways to stop a rush for the door and stop any commercial property fire sales and so on that might follow, impacting the wider market?

Mark Carney: Yeah, well let just say two words at the start and then I'm going to ask Andrew Bailey to speak to this.

We have - the FPC has highlighted issues broadly around commercial property for some time. We've also been highlighting issues around liquidity mismatches in UCITS, or REITs, or mutual funds, depending on how they're structured, and the importance of having mechanisms to manage outflows consistent with the underlying assets that are held.

So these issues we have been flagging. But I may ask Andrew to expand a bit because he's straddling between his two roles …

Andrew Bailey: So I'm here as the retiring PRA head, but I'll just put my FCA hat on for a moment, if you don't mind, to answer that question.

So I think that - just to start with the underlying structure of what we've got here, we've got open ended funds which hold illiquid assets. And I mean that in the sense that they don't of course revalue naturally; there isn't a market that revalues them naturally and there needs to be a valuation process.

So the fact of suspension is designed into these structures, it's not a panic measure, it's designed into these structures to deal precisely with that situation, where there's been some shock to the market, if you like, and there's a presumption of a valuation adjustment which is quite hard to capture in illiquid assets at high frequency. And the purpose of the suspension is to create a pause, if you like, to allow that process then to happen. And that's sensible, it's absolutely sensible.

And it's sensible because - in the structure of these assets, and I'll come back to that in a moment. It's sensible because of course what from a conduct point of view we do not want is differential treatment of investors. So we do not want those who get to the door quickly to get a better deal than those who don't, or those who either don't or choose not to.

So the suspension is designed into the structure. Now we are - and I should say we, and I speak as the FCA here, as I said, is we are in very close touch with the firms, let me be clear on that.

The last point I'd make is just to stand back from that and it really comes back to the point the Governor made at the outset. I think it does, and I think it does point to issues that we will need to look at in the design of these things, because it comes back to my fundamental point about holding illiquid assets in open end funds that revalue, or are required to be revalued, at high frequency. So there's a mechanism for putting sort of the orderly pause in.

But my own feeling - and this is, as you can understand, having been there for two and a bit days - this is a preliminary feeling, is that we will need to come back and have a look at that issue; both from the point of view of conduct and from the point of systemic stability.

Harry Daniels, Live Squawk News: Governor, just the FPC and maybe in the wider context of The Bank, do you have the capacity to handle Article 50 when it's actually triggered, in terms of the operations and making sure The Bank can do its job efficiently during the talks, the two years, and then thereafter? Do you need more staff, will you need more guidance, as it were?

Mark Carney: The short answer is yes, we do have the capacity. I mean obviously it's a major event and we will have to reprioritise what we work on; but we will do that. In the hierarchy of things, you'd be hard pressed, aside from the day to day responsibilities of our committees, I'm hard pressed to think of - and in fact I'm not going to try to think of something that's going to be more important than this process, once this process begins.

But of course, you know, our contribution would be technocratic, it will be analytic. It'll focus into the efforts of the Government and we'll be guided by them.

Let me stress though what I said at the outset, which is that until that process is finished - and actually beyond that potentially, depending on how that process is structured and what the conclusions the country comes to and the agreement - until EU law ceases to take effect, the system remains the system, it's in place and we will abide by it, we'll enforce it, we'll act consistent with the laws and rules that currently are in force. So there is that certainty for institutions and a protection for deposit holders and others that come with it.

Caroline Binham, Financial Times: Governor, six or seven months ago when we were here talking about the countercyclical buffer, you stressed that it was a reallocation of capital from the Pillar 2 bucket to the countercyclical one, that there was no great raising of capital for banks. Today we're told that the release is going to help with the provision of credit. I'm just wondering which is it, it's it significant? Is it not significant?

Mark Carney: It is significant - sorry I'll let you finish.

Caroline Binham, Financial Times: And just, there was a clarification on one of your comments in your opening remarks I just wanted to check. You said that it would be fine for banks to run down their buffers to about half with the capital all in of liquidity?

Mark Carney: Okay, so on the first point, no the two are consistent. I'm glad you asked the question because it's important to be absolutely clear about this. What happened over time, and quite rightly, before we had the countercyclical buffer system in place, is that over a series of years the PRA would conduct stress tests, either on an individual bank basis or initially across the banks. And they would ascribe - some of the judgement from that stress test would put in place a sort of macroeconomic element to what's called the PRA buffer. So it's real capital that had to be raised by institutions, or held by institutions for cycle risk - I'll call it cycle risk.

Once the countercyclical buffer framework came into being, it made sense - the PRA Board agreed, the FPC agreed - to take that capital and reclassify it as part of the countercyclical buffer. And that was equal to about half a percent of risk weighted assets.

So that was actual capital, £5.7bn as it turns out, that was reclassified. And because of the nature of the PRA process, they had done this for about three quarters of the banks, but those banks accounted for 90% of the lending.

So as of six months ago, we had a situation where these banks had an explicit and transparent now half a per cent buffer for the countercyclical. There were - the other quarter of banks, mainly challenger banks, that were going to have to raise capital to get up to that half a percent because they hadn't allocated it yet. So they had to actually raise capital.

What we've announced today is that we've taken that amount, that 5.7, and said - you don't need it because the risk environment has changed and that releases it. So it's actual capital that was released. We couldn't have done that six months ago, 12 months ago, before we had actually moved it there because it hadn't been identified, it didn't have that purpose, and there wasn't a way to be consistent across the institutions. And so it's very clear - so it's real capital that's there that now the banks don't need to have.

Now if I can move to your second question because it goes directly into that, which is - how do these buffers work? When you have a countercyclical buffer, it sits on top of the other buffers, whether they're systemic buffers, or the so-called capital conservation buffer, right, they all sit in a stack. If the bank's capital goes down - you know, is reduced because they make losses or they expand their balance sheet too fast - into those buffers then they start to have restrictions on dividends and potentially compensation, or both. And it could be - if it goes well into it, elimination of dividends. Supervisory judgement there.

But the system is designed that, if there is a major shock, a major persistent shock, the institution can dip into the buffer.

It has consequences. The consequences of fewer dividend payments, potentially over time no dividend payments, in order to rebuild. But it hasn't breached it regulatory requirements and that's the big thing. So it's not a hard minimum level. You could understand why management would like to avoid it, but they don't have to avoid it. And if there is a big, unexpected shock, they may not be able to avoid it and it may be better for the system that they dip down into it.

Now our institutions are well north of these buffers, also we've made it - the distance between the buffers and where they are today - higher by half a percent, larger by half a percent by the action we've taken. But we have explicitly designed the system so that we have more buffers, a substantial proportion of buffers relative to the minimum. So the system has some flexibility in it, if there is a very large shock.

Szu Chan, The Telegraph: Just a follow up on commercial property risks and potential spill-overs into the real economy. Given, as you highlight in the Report, that a substantial proportion of small and medium sized enterprises use commercial real estate as collateral when unlocking access to finance, the fact that a 10% fall in real estate prices leads to a 1% fall in investment, and the fact that the MPC has suggested that delays to economic decisions tend to raise unemployment, what are the potential ramifications of a commercial property crash on joblessness?

Mark Carney: Yeah well it’s - I think your question did a very good job of summarising the channels, and I think what’s important that we as the FPC don’t just identify a sector that something bad could happen to it and it’s not necessarily an issue for the economy in and of itself, it has to amplify through other channels.

Certainly one of the most important is the first one you raised, which is that 75% of small and medium sized enterprises - of lending to small and medium sized enterprises - is secured against commercial property. And so a generalised shift in the commercial property outlook or generalised deterioration in the commercial property outlook can affect, certainly on the margin and maybe more severely, the ability of those enterprises to have access to credit because they don't have the underlying collateral or it's not worth as much.

Obviously the commercial property sector, the construction sector, is an important part of the economy, has been an important part of the economy. We're seeing indicators not just in terms of volume of transactions in commercial property, but leading indicators around construction that in the run up to the Referendum were slowing, to put it mildly, in construction, and there's a possibility that that is going to continue. That has knock on effects, direct knock on effects on jobs.

We're not going to put a precise - again as the FPC, we're not going to put a precise number on it but it is an amplification channel about which we worry.

Now what can we do about it? Well one of the things that Andrew Bailey and his team have done, and maybe Andrew you can expand if you wish, have done over the years is to ensure that the exposure of UK banks to commercial property has been kept quite manageable. This has not been driven by UK bank lending, these shifts in commercial property. And so the consequence of that is that we've cut off, if you will, or greatly reduced one of the amplification channels. This is not a big issue for UK banks.

And that means - to go back to businesses and households with other activities - that it doesn't have a knock on effect there and just reinforces the bigger message we're trying to get across, which is about the one thing to take off the table here is availability of credit.

But Andrew I don't know if you want to …

Andrew Bailey: Well - no that's right, I think there's two things, I would just underline that point. I mean there has been quite a big shift in the composition, as the Governor said, of commercial property financing.

So if you go back to the period before the financial crisis, it was heavily bank financed. Now because of the volatility of commercial property prices in this country, I would characterise is as what appeared to be debt financing on the balance sheet of banks actually providing what was economically equity financing, and that was part of the problem of the financial crisis.

What we've seen since the financial crisis with the recent - in recent years - upturn in commercial property prices, is far more equity financing coming in. And that seems to be sensible because it's equity financing financing what is an equity carrier, something that has the economic characteristics of equity. Of course that means you know it will absorb losses when they happen and that's as it should do.

The second thing, I don't think it's in this the latest FSR, but I would point you to a chart we've used quite a few times in the past which distinguishes those - it's exactly to your question about small firms actually - those companies that are heavy users as you said of commercial property as a source of security in borrowing and those that aren't.

And what you see from that chart, as I remember it, is that the latter group that don't rely have a very different economic property in terms of how they adjust to changes in economic cycles, they can adjust more rapidly. So understanding that part of the system is important from the point of view of the overall macro context.

James Burton, Daily Mail: Governor, your Report talks about how the fall in bank equity prices has been consistent with roughly half the fall in your stress tests, and it talks about that being consistent with a rise in unemployment to 7.5%, falls in residential and commercial real estate prices of 15% to 20%, and a GDP growth reduction in three years of four percentage points. So is that now the worst case scenario that the Bank is planning for?

Mark Carney: No. That's a very clever question. That's an arithmetic calculation. It illustrates - if you took the entire adjustment in bank equity, the falls in UK focused banks' equity, and ascribed it to a worse economic environment, and used the stress test used in both 2014, 2015 stress test, it's equivalent to roughly half. And arithmetically roughly half is exactly consistent with the numbers you just quoted.

We have to factor in a couple of things. First that's an equity market view that's then blended with a bank stress test. Secondly, that equity markets sometimes under or overshoot so it's not precise. Thirdly, there is an element of banks' share price movements that have been focused on returns, and not just returns because the economic environment could get worse, but returns because - do they have the right business model? And that has affected certain institutions more than others.

There's also a question, to go back to I think Scott Hamilton's question about the path of monetary policy and the potential feedback to bank returns there as well, which arguably also for some investors at least and some institutions, would have affected their equity price. So all of that is to caution taking that as a forecast.

What that analysis says to us, though, is that you have this big potential shock priced in to the equity market and look what happens to the judgements of the funding markets to the banks creditworthiness. All in funding costs basically haven't moved. They've actually gone down a bit, but if you factor in higher cost of equity they haven't - more or less haven't moved, and they'll bounce up and down as time goes on.

But there's nothing like what happened during the euro crisis or during the global financial crisis to UK banks, which reinforces that even if there were this big economic shock, and I'm not saying there will be, but even if there were, there's the confidence of capital market investors in the underlying resilience of these institutions; maybe just less enthusiasm about their prospective returns.

Jason Douglas,
Wall Street Journal: Could I ask you just to say a little bit more, please, on the international picture? Have you detected any spill-overs to the financial stability globally from the Brexit vote? Are things well contained? And I suppose what kinds of things are you discussing with other central banks in order to mitigate any problems that might arise?

Mark Carney: Well the first thing I'd say is vis-à-vis the major central banks, as you'd expect we've been in close contact with them, even more intensive contact in the run-up to the Referendum and in the immediate aftermath.

I would say that that co-ordination, co-operation, was effective in building mutual understanding of the risks in the potential channels, helping to prepare private financial institutions, but also making sure that the networks that we've built, whether they're through swap lines or other mechanisms, were in place, could be used if they needed to be used. And it's very welcome. I mean, that was the system working well and it helps ensure that if much, much more extreme scenarios had transpired, that the system could have addressed them. So that's the first thing.

In terms of spill-overs of the actual vote as markets settle down a bit, look it has heightened focus on these issues of bank profitability, bank balance sheets in some jurisdictions. There is a sense that there could be a heightened degree of risk aversion for a period of time, that oscillates a bit in markets day to day, but general sense that there's a spill-over there.

Certainly we've seen quite remarkable, in the true sense of the word, movements in global government yields, which suggest certain paths for the economy and as a consequence for policy. So the spill-overs are notable. But the system globally has worked well and I have every confidence it will continue to do so.

And then the last comment I'd make is that - and again it's ultimately a judgement of the MPC, but in the run up to the vote, the global economy, most indicators, in aggregate, indicators of the global economy were that the pace of growth had firmed and so the environment was a more constructive environment than it would have been, certainly earlier this year, if the vote had gone the way it did earlier this year. And I say gone the way it did in terms of the expectations relative to the outcome.

George Hay,
Reuters Breakingviews: Governor if Scotland eventually does vote to leave the UK how would that affect your regulation of the banks that are domiciled there? I mean would you be asking RBS to re-domicile down here like happened a couple of years ago?

Mark Carney: Well it's a hypothetical on a hypothetical, because we don't know - there is no referendum as you know planned in Scotland, and we don't know the regulatory environment that would be in place if indeed that were to happen. So we have a double contingency.

In general, you do want mind and management of an institution situated where the bulk of activity is taking place, within the same regulatory jurisdiction - in general. But that's as far as I'll go on that.

Sam Nussey, Nikkei: So we've seen the capital buffer reduced to 0% when there was previously the suggestion that it might come up towards 1%. You've mentioned the possibility of further easing over the summer, be that rate cuts. Many thought that at 0.5%, we were already at the lower bound, many would have said, or perhaps further quantitative easing. Some people would question whether the Bank has further scope for easing, given the level we're already at. Now what would you say to those criticisms and is there the scope for perhaps further unconventional measures of the type we haven't seen before?

Mark Carney: Well Sam, given it's an FPC press conference, I don't want to go into a bunch of detail on monetary policy, and also given that the MPC is just starting its process later this week.

What we have said as an MPC is that we - and this is in our letters to the Chancellor and our Minutes - that we do have a wide range of tools available if further easing were merited. And it would be prudent, if the judgement of the MPC is that further easing is merited, it would be prudent to look at that full range of tools to decide what would be most effective at this time in this environment.

And just to repeat what I said to an earlier question, in order to help make that decision, it requires close co-operation, discussion and more detailed analysis, co-operation and discussion with the other Committees. It's a decision of the MPC but it helps it be better informed. And we have a structure that allows us to do that and we will do it.

Jenny Scott: We do have time just for one more if there's anyone who hasn't had a …

Nils Pratley, The Guardian: Some politicians in their pre-Referendum period accused you and the Bank of creating financial instability with your comments on the risk of Brexit - Andrea Leadsom, for example. Is there anything those politicians could say or do to make your life or your job easier now?

Mark Carney: Wow, that's - we're not asking people to make our lives easier on that front. It's a technocratic institution, we work with whoever is in government and this Committee has a statutory responsibility to assess the risks. I mean, you'll note that on the front page of it this is submitted, this Report is submitted to parliament pursuant to our statutory obligations and if it's a Financial Stability Report which - whose first job is to identify the risks to financial stability, we have to call them as we see them based on analysis and an objective assessment, and that is what we have done.

And as a consequence of doing that, we're able to take some measures to mitigate those risks if they start to crystallise. And a number of things that we've been talking about this morning have been examples of measures that the FPC and the Bank of England more broadly have taken to address risks that - some of which are crystallising in and around the Referendum.

And all of that means that this economy will be able to rely on its financial system, adjust more smoothly and move forward, which is what everyone - I think everyone wants.

END