Katie Martin

Morning, everyone. Thank you for being here. Welcome to the Financial Stability Report press conference. With us today are Sarah Breeden, Deputy Governor for Financial Stability, Sam Woods, Deputy Governor for Prudential Regulation, and the Governor Andrew Bailey.

Andrew will begin with opening remarks and then we'll turn to questions.

Ben Martin, The Times

Thank you very much. Governor, I had a two and a half or three questions, depending on how you measure. We've had the loosening of tier one capital rules today and a pledge to look at other measures to relax the capital regime. How far is this sowing the seeds for the next financial crisis? And are you approaching the limits of how far you'd like to deregulate?

And secondly, a related question how can you ensure that banks will not use the looser capital rules simply to return more capital to shareholders, rather than boosting lending into the economy?

Is there anything you can do to enforce that? Thank you.

Andrew Bailey

Well, first of all, it's important to say that obviously the assessment that we've done is in the light of both the evolution of the banking system and obviously the economic conditions that we've seen. So, the stress test plays an important part in that.

And it is true that this is actually the first cut we've made in the overall, sort of what the FPC does, which is the aggregate view of the capital requirements that we should have. But that seems to us to be a sensible reflection of conditions of the health of the banking system. So, I don't have any concerns about this in terms of where it takes the regulatory system to, I think it's a sensible thing to do.

Now you pose the second question, which is what obviously follows from this in terms of what the benefits are of it. Now, obviously it's not for us to dictate to banks how they run their businesses, that must be very clear.

But I would emphasise that there is a two-way relationship here that if the banks support the economy and support the economy by lending, that will strengthen the economy and the banking, the banks will benefit from that in terms of their own performance and their own returns. And I would expect that they will have that very much in mind when they think about the consequences of this.

Sarah Breeden

Perhaps I might add one thing. The review that we have done has looked at this issue of the appropriate level of capital, top down and bottom up. And our top-down assessment is based on a review of all of the studies that we have done on the costs and the benefits of capital regulation. Inevitably that doesn't come up with a single number.

It comes up with a range, and the number that we've chosen is towards the bottom of that range. We're comfortable with that. As the governor said, it reflects the evolution of the risks that we've seen in the system and the evolution of the shape of the system.

But it does underline for me how absent any material improvement in how we're measuring risk or the risks that the system is facing, it would be unwise to reduce our benchmark further.

Katie Martin

Behind you.

Harrison Moore, Market News International

The Head of the Bank for International Settlements, Hernandez de Cos, has called for an end to zero haircuts to stop hedge funds leveraging up on sovereign debt without cost. What's the bank's take on this view?

And to what degree do you think the UK could act unilaterally to impose minimum haircuts? Thanks.

Sarah Breeden

I'm happy to take that. Look, the resilience of the gilt repo market is fundamental to the resilience of the sovereign bond market, which is the basis on which all financial market activity in the UK takes place.

So, it's a natural area of focus for us. It was where we did our first system wide exploratory scenario exercise last year, and one of the things that we highlighted in that as a result of that review was how the resilience of repo financing was something that needed to improve.

As you say, the zero haircuts, there's very short maturity financing as well. What we're doing on the back of that is twofold. Firstly, we are telling the story of what is happening in gilt repo financing in the FSR and asking firms to ensure that their stress testing for that.

And then secondly, we publish a discussion paper in the summer that set out how we could improve the resilience of the gilt repo market. That had two particular areas of focus in. One was should we introduce minimum haircuts as much as the general manager of the BIS has mentioned? And secondly, whether we should introduce central clearing for gilt repo.

We've been engaging with the industry on that topic. We have their feedback in. We'll be looking to respond to that soon.

Andrew Bailey

One thing I would add is that I think if, as Sarah says rightly, very short funding arrangements are being used which can generate zero haircuts, then you have to also look at what the strategies are that those things are funding.

Because if they're funding strategies that actually have an assumption that the rollover will happen, then you have to you have to be careful to look through that, that very short term funding to assess what's the risk if the funding doesn't actually roll over as well as well as just the term of the funding?

Kalyeena Makortoff, Guardian

I'm going back to capital requirements. Governor, what do you say to allegations that you've merely done what Rachel Reeves has pushed for, including in the Chancellor's latest remit letter? Is that compromising your independence?

And secondly, will you reserve the right to reverse this capital cut before it comes into force in 2027 if there is a significant downturn and if financial stability is put at risk in the interim. Thanks.

Andrew Bailey

Well, it's perfectly reasonable for the Treasury and for the Chancellor when they are giving us the remit letter to set out, in fact I encourage them to set out their thinking. I'd rather know than not know it.

It's also obviously therefore, then incumbent on us to do the work to assess it, which we have done.

And as you see, I said in my opening remarks and I'll say again, absolutely at the core of what we stand for is that financial stability is an absolutely a precondition of growth in this economy.

But we do think that these changes, as Sarah was saying earlier and I was saying we think these changes are consistent with that and therefore it is sensible to do this. We don't maintain higher levels of capital than we need to in terms of our requirements, because that would not be efficient in the system.

On the question about what happens next. One of the things, one of the important parts there is that we will continue to do stress tests. So, we're now committed to doing a stress test every two years for the banks. We're also, as we've said, going to do a system wide exploratory scenario focusing.

So, I think the answer to the second part of your question is that we will be we will obviously be heavily influenced by what happens, but also the results of those stress tests in terms of what they show.

Sarah Breeden

If I might add, one thing we've put out in the set of documents today, all of our thinking that top down thinking about how we're thinking about the macroeconomic costs and benefits of capital, the bottom up thinking about how the shape of the system has changed, the international national comparisons and we're asking for feedback on it.

It's not formal rules on which we're consulting, but we've shared our thinking so that industry, academics, think tanks, investors can come back with their thoughts on where they think our analysis has come out.

Andrew Bailey

Sarah says the FPC does the sort of the top down the PRA and the PRC does the bottom up.

Sam, you might want to say something about how these two match up.

Sam Woods

Yes, maybe. And I think they do match up well. There are strong technical reasons to move the benchmark from 14 to 13. Those are to do with the change in the requirements we have around systemic risk, which have just come out a bit lower than we had projected ten years ago. I think it's not surprising there's some movement in those things.

And then also how well we think we're measuring risk in the system. We know that that will improve when we implement Basel All 3.1 on the 1st of January 27. So those are good reasons to match up the bottom up with the top down.

I think the other point I'd make would be just to go back to something Sarah said at the beginning, which I think is very important, which is we have published a chart in the report which shows you a kind of a curve, and it shows the effect on long run economic growth of having capital set at different levels.

And what it does show is that we're moving within the range which effectively maximises economic growth. And I think there are good reasons for doing that to move very much lower than where we've moved to would or could be associated with a quite significant risk of a negative impact on economic growth in the long run. And I think if we moved into that zone, your question would have more force.

Laura Noonan, Bloomberg

Two questions, the first one probably is more for Sam.

And this is if we're thinking about the mechanics of how the reduction in the benchmark capital works from a pillar 2A perspective, should we be thinking that the banks have the highest pillar 2A

requirements are going to benefit the most from this?

And overall, when you think about the 1% reduction from 14 to 13%, do you have a range of like 30 some benefits, some banks that will get at a 2% reduction, some banks will have more like a 0.5, or is there a range like that that you could share? And then the other question is totally different.

So basically do you have a range, I haven't seen it in the report, is there a range like say banks will benefit from between say 4% to 0.5 percent or anything like that you could share with us.

Sam Woods

Yeah. Well maybe I'll take that one and that's okay. So look, maybe the first thing to register is that the system wide capital requirement today, which includes most of the state, there's a couple of bits outside that but which are quite small is around 13.5% of tier 1. So the change in the systemic capital requirements is already in the system. And that will obviously affect firms depending on how systemic they are.

The other pieces you say is what we call pillar two, which is around corrections we make to risk measurement in pillar one, that would be about another half a point. The process through which those changes will occur is that resetting of those capital requirements for all firms, and that's currently in train will be enforced starting from the beginning of 27.

So, we haven't got a range for you at the moment. Overall it's about half a point of capital, but I would dissuade you from thinking that mechanically firms with a higher pillar 2A would get a bigger reduction because actually what drives the size of the reduction is how big the overlap is between what we've got in pillar 2A and what we've now put into Basel 3.1. And that won't necessarily go with size.

Laura Noonan, Bloomberg

Got it. And then the other broader question around we're seeing a number of warnings around hedge fund and the gilt markets and this has been escalating. We have the base rate in the US basis, basis trade here is rising. What can the Bank of England can do beyond warnings?

Andrew Bailey

Well that was the area of our first SWES, the first exercise and the discussion paper that we've issued on gilt repo clearing is one of the outcomes of that because obviously you can do a number of things.

You could obviously respond to things you identify in those sorts of exercises by changing regulatory rules. But you could also and this is the case, float suggestions of strengthening infrastructure, which is what this is. So that's the focus at the moment.

But the second thing I would say is and by the way, the gilt market is not that unusual. In fact, it's not unusual at all amongst government bond markets in seeing this big change in the structure of activity and trading activity and position taking in these markets.

And it's very clear that we monitor these things very closely.

John-Paul Ford-Rojas, Daily Mail

Governor, yesterday a report into last week's OBR leak said that leaks, both intentional and inadvertent in the run up to the budget were to be deplored. Do you share that view? And were you alarmed by both the OBR leak and the apparent briefing from the Treasury?

The heavy briefing from the Treasury in the run up to the Budget, which apparently caused movements in the markets should there be a regulatory inquiry into these matters and has the Bank of England itself taken steps to ensure that its own market sensitive documents are also not subject to these kind of inadvertent errors?

Andrew Bailey

Well, I'm not going to comment on those events because we're not involved. It doesn't concern, obviously, the activities of the Bank of England. So, it's not for me to comment on those.

Obviously the importance of markets are market sensitive information and protecting market sensitive information is very important. You know, that's why you had the joy this morning of us locking you in a in a windowless room at a very early hour of the morning. But it is important.

Now, I can say to you though, on the last part of your question, obviously yes, we looked very carefully yesterday at the report because we all look at those reports and say, what can we learn from them? I can tell you that we use different procedures for our own practices in terms of releasing information as we obviously have today.

When we do, we do obviously for the Monetary Policy committee as well. But you know, obviously, we all we always seek to learn from these events and we are looking at it very carefully to see whether there's anything in there that we should.

We should be aware of and take note of and act upon if necessary.

Martin Arnold, FT

I have two questions, if I may. The first one is a timing question. Really. You've identified today that risks to financial stability are increasing and they're very high. And at the same time you're you said you're going to reduce capital requirements on the banks. Aren't you reducing restrictions on the banks at the worst possible time.

And the second point is one about in the in the in the in the round many of the reforms that were put in place post-financial crisis to respond to that ring fencing the senior managers regime restrictions on bonuses, higher capital levels all seem to be being chipped away at or eroded to a certain extent.

Did you go too far after the financial crisis? Thank you.

Andrew Bailey

So, on the first part of your question, Martin, I think there's a question about timing is important because, you know, we've obviously released a stress test today. You know, stress test is, again, a very thorough assessment of the resilience of the UK banking system. And the UK's banking system has once again, actually I think the conclusion is it is resilient.

Second point I make is come back to a point I made in my opening remarks that obviously we've been through some very, very, very substantial economic shocks in recent years and the banking system has come through those robustly. That's good, that's what we want it and need it to do.

But we haven't had the experiences that we've had in previous cycles and previous shocks. And so I think it is perfectly sensible and responsible, responsible to reach the conclusions that we have done today on capital, in the light of that, there's an exhaustive amount of analysis gone into this. But it is important that we do this. Looking at the whole cycle, I don't therefore sort of particularly take any message out of the current situation that we're in.

This is a this is a sort of across the whole cycle type of conclusion that we're drawing. So, I'm clear that we can be very robust on that.

On your second point about chipping away, as you put it. And does this suggest that we, we did too much after the financial crisis?

I mean, let me give you what I hope is a reasonably balanced answer to this question. First of all, you know, I once again stress, obviously we are charged with the job of maintaining financial stability and we will do that and are doing that and will continue to do that. And you will continue to hear that message from us.

I always say, though, does that mean that every piece of the regulatory system is perfectly formed at all times? No, it doesn't, it doesn't. The world moves on, things change. We learn from experience and act accordingly. So that's an important message there.

Does it mean that we overdid it in the post crisis mode? Well, no.

I think we were having to respond to a deep end, frankly very, very difficult and traumatic crisis. I think each of the measures that was adopted was sensible, but come back to the point.

Of course we learned from experience and we are learning from experience. And that's what, that's why we feel comfortable making these changes in the light of the experience we've had. But I've said many other times in another context, we can't make policy with the benefit of hindsight.

We have to make it at the time we made. We made all these changes in the light of what we experienced in the financial crisis. I think it was sensible to do those things. It's also sensible to take account of the experiences we've had since the financial crisis.

But I'll finish by saying this and I've said it many times what we have to be very alert to, we're now, you know what, 17 years on from the financial crisis. We have to be, however, very clear, I think it's our job to remind.

I understand fully that the financial crisis is disappearing into the rear-view mirror, memories of it are fading. The people around now who were not around when it when it happened. But we do have to continue to maintain the lessons of the financial crisis because sometimes people say to me, well, that's all over.

You've dealt with that. And I say, well, we've dealt with it in the immediate sense, but actually the lessons of it persist.

Sam Woods

Andrew, can I just have one small point just on the Martin I'm glad you asked the question in the round, because we also try to look at this in the round.

And one narrow but important point to bring out, which we've put in the report today is just a reminder actually, but we've stuck with it that we reduced our benchmark versus what it otherwise would have been by five percentage points. Giving credit for resolvability, ring fencing, robust supervision and active use of the countercyclical buffer.

So that's quite a big delta and quite a big judgement we've made there. Now we've stuck with it. But we did also want to remind readers of the report that absent those things, the benchmark would be higher.

Eir Nolsoe, The Daily Telegraph

Eir Nolsoe from the Telegraph. Governor, as the head of Britain's independent central ban, have tensions between the OBR and the Treasury over its forecasts undermined faith in economic policy making. And should the Treasury come clean on its correspondence with the OBR? And I was also just hoping to ask you are attacks on independent institutions like the OBR dangerous?

Andrew Bailey

Well, again, it's not for us at the Bank of England to comment on the position of the OBR and the position of the Treasury in respect of the OBR. I don't think that's appropriate at all, frankly.

Eir Nolsoe

You sort of commented on attacks on the Fed before on these sorts of political attacks. So just thinking about these sort of political attacks on the OBR now. Do you have any comment on whether that's dangerous, whether it's that sort of a dangerous precedent?

Andrew Bailey

Well, I've said that in the past because I think what is what is important and the reason the OBR was created was to ensure that there was a source of independent forecasting, an independent assessment of fiscal policy. And that's important.

It's important in many countries. I mean, Britain is not unique. There's nothing unusual about Britain. All the arrangements differ slightly, but there's nothing unusual about this absolutely sort of core principle.

You know, you'll remember it was done, it was done actually by George Osborne when he was Chancellor.

And I think it was a sensible thing to do and remains a sensible thing to do because that's an important foundation of the arrangement.

So, you know, attacks on the OBR in terms of the principle, I would say no. Can we please remember why it was done and the principles underlying it? But it's not for us to get involved in the sort of the day-to-day affairs of that.

David Milliken, Reuters,

David Milliken from Reuters. Two questions. First, just on the sort of gilt repost issue, some of the numbers involved here are sort of pretty huge. You had sort of in the Financial Stability Report, I think £100 billion of bets sort of in November. Can you just spell out a bit more sort of what happens if something sort of goes wrong here, whether it is something where sort of state that taxpayer might need to step in to bail out banks or hedge funds and sort of or whether it means the government sort of can't raise money easily from debt markets.

And second, just this issue of sort of dollar liquidity and banks reliance on sort of dollar funding, sort of how much of a concern is that to you? Are you concerned that potentially there could end up being sort of shortages here because of sort of volatility in sort of say, US financial markets and again, what should be being done about that?

Andrew Bailey

Well, I'm Sarah I'm sure want to come in, I'll start off.

Look, we obviously look very carefully at these questions about the impact of leverage in the non-bank world and including in in the gilt market and government bond markets. It's a it's a major focus both domestically and internationally. So, it obviously features two things we can draw on as I said, we did the system wide exploratory scenario, which was explicitly designed to sort of do a system wide test of that and obviously do a system wide test when you put a shock into the system and say, what happens when it unwinds quite suddenly and quite violently?

And obviously the second thing I would say is that, you know, a lot of our focus is on the linkages between the core of the financial systems, in this case the banking system, really, and these other parts of the system as they've grown.

So again, the bank stress test is important there because again, we're testing shocks that we put into that system in terms of how they can affect and transmit back into the core. So both of those exercises really, really seek to get to the same thing.

And you know, I'm afraid I have no question that we will have to go on doing this.

Now, we had some experience earlier this year. I would say if you go back to the spring, we saw obviously some very sharp movements in markets around the time of some of the tariff announcements that gave us something of a line of sight, but it actually, you it triggered some parts of that sort of ecosystem and not others.

So, we have to go on testing it on dollar funding, I would simply say this. I mean, we obviously let's go back to the global financial crisis for a moment. We had some very, very, you know, difficult experiences during that period about, you know, banks maintaining very large what I would call dollar funding gaps.

And obviously it's critical because we're the UK central bank, we can obviously control the supply of sterling into the system, we can solve issues, but we're not obviously in control in the same way as the supply of other currencies, other countries currencies, including obviously the dollar.

So, we do I mean, I think both from a macro and a micro potential point of view, obviously you have to watch that very carefully.

Now I would say this that I think that, you know, we are not in a situation of the sort that we were in during the financial crisis. The supervision of that side of things is much tighter. But we do spend a lot of time in the Bank of England looking particularly in the context of the dollar, because it's the reserve currency at what would be the what would be the context or a stress in those markets and how would they feed through into our system and what access might we need to dollars as a system that is to counter that. So it is very much a focus of our of our activity.

Sarah Breeden

If I might add, on the hedge fund repo positioning, what we learned from the SWES that what causes a reduction in financing to hedge funds is a concern about their credit quality and or a nervousness from banks about putting their balance sheets to work in a period of stress. And so what we are doing here is being really clear about what might happen to the market and also ensuring that the banks have the resilience to be able to support the market through providing funding to the gilt repo counterparties through it.

Joel Hills, ITV News

Joel Hills, ITV News, Governor through the prism of financial stability, there were big swings in gilt yields ahead of the budget. To what extent do you think that markets were reacting to the pre-budget speculation, which in some instances turned out not to be correct?

And Andy Haldane, formerly of this parish, described the build up to the budget as a circus.

He said one of the reasons we had very weak growth in September was because there's that budget speculation. It's dampened people's willingness to spend and first and foremost, we need to stop that speculation. Is he right?

Andrew Bailey

Well, look, let's sort of take the question apart, if you don't mind a bit. Obviously, Look statements the obvious that the budget is a market sensitive event. So, it's not surprising that markets move in response to news in the budget.

I think the question that you were posing in the quote from Andy Haldane is a rather different point, which is was there in the economy wide. were businesses, for instance, cautious more generally until they saw what was in in the budget?

And I think there was a lot of anticipation, there was a lot of expectation building up obviously about what had been the budget. And that's not a point about, you know, what was said this day, what was said the next day. This is a point about the general significance of this budget, which I think was very clearly established. So I would put it into that context.

Now obviously businesses now know what's in the budget and can go forward on that basis.

John Hills

And in terms of speculation, market speculation?

Andrew Bailey

Well, I'm not I'm not going to comment on the budget process. I think that's not for us to comment on. I think that's a matter for Parliament and the Treasury.

Thomas Chow, Central Banking

I want to go back to the gilt market. So, a lot of the hedge funds are in the gilt market because they can make a profit by doing these relative value trades. So, by introducing minimum haircuts, you're inevitably taking away some of the profits and taking away some of the incentives that have led to hedge funds to the gilt market in the first place.

So, my questions is A if they do leave, are you worried that the hedge funds are will leave in response to policies from the bank, especially given that a lot of the hedge funds are not based in the UK in the first place.

And B if they do leave. Are you okay with that?

Andrew Bailey

Well, obviously the reason that we would come out with a conclusion that it was sensible to have haircuts and to have margining would be because of the risks in the system. We wouldn't do it on a whim, obviously, it would be because of the risks in the system.

So I think if you go down that road, you know, you're putting emphasis rightly, I think, on the argument that, well, look, if this system is unstable in that sense, then we have to be very careful that the gains and the benefits of it that are being made in the good times are, you know, are illusory in that sense because they will disappear when things and the system isn't robust and resilient to the shock that might come along. So that's what we have to do. And that's the argument for why we, you know, if we go down this road, that's why we should do it. It's not based on, you know, just have it on a whim in that sense.

Sarah Breeden

If I might add, it's the exact same question as the level of bank capital. The level of bank capital needs to be set with an eye to the cost of a crisis versus the impact on activity. In normal times, that exact same process needs to be thought about in the context of the resilience of the gilt market.

Anna Wise, Press Association

Anna Wise from Press Association on cyber attacks. You've raised this as something that's a concern to financial stability. And we saw from JLR just how damaging a major attack can be to a company and the wider economy. Are you concerned that there are plenty of British businesses that will not be prepared and will be too late to get ready for this risk.

Andrew Bailey

Well, I mean sadly. You know, I've said many times, I'll say it again. You know, if you look at the league table of risks, post the financial crisis and ask the question, what risk has come up the league table most sharply in that period? I'm afraid cyber would be up there for me right at the top. First point.

Second point is it never goes away. You know, we have to be I'm afraid though we sort of, you know, straightforward and sort of, you know, frank about this, you know, you can't mitigate cyber risk in a way that just takes it off the table. That's not to say, you know, by the way, that's not to say we have to do a lot of things because we do.

But we just have to be very, very cognisant and very, you know, very realistic about the fact that as we develop defences and firms develop defences, you know, the bad actors out there are developing at the same time. So it never goes away.

I mean, I do think that you look at it globally. There is evidence of more impacts. You know, the impacts of anything are building. You've pointed to very well known cases.

And so our approach is with the financial sector is to say it's critically important. We have to go on working together on it. And we have to go on setting standards because as I say, I'm afraid it will just go on evolving.

And look, there is no pushback from the financial sector on this whatsoever in my experience. I mean, we're in this yeah, we're in this together in that sense. I think they are just as cognisant as we are of the risks that are around us.

We've pointed to it in the context of this financial stability report again, and we've made a particular point here. Let's be let's be absolutely frank about this, that the fragmentation of the world economy, the fact that there are bad actors out there.

You know, in the world economy, we know we know who they are, uou know, there is an association with cyber attacks.

Sarah Breeden

Can I add one thing on that?

One thing we have tried to emphasise to financial services firms is think about how if you are attacked, how it affects your customers and the activity that happens in the economy and in the financial system and ensure you are resilient to the most serious threats there.

Elliot Needham, Politico

In the Financial Stability Report you talk a lot about stretched valuations and equity markets. Obviously in the US you focus on AI companies. What sectors of the UK market are you particularly concerned about?

Andrew Bailey

Well Good question.

So, let's start with the US. It's it is the case that as we set out a report that we've got very stretched valuations and I mentioned this in my opening remarks.

Now let me make two other points or three other points. One of course as many people have pointed out, this sector is very concentrated. So if you look at the sort of percentage of the S&P that is accounted for by this, you know, in numerical terms of company numbers, it's very small, but it's but it's very significant.

The second thing is that there is a I mean there is a difference to the.com situation at the moment that these companies have got positive cash flows and they're not sort of, you know, created on a sort of, you know, on hope.

But as we see and we were seeing it last week, I think in the sort of, you know, debate between sort of, you know, is Google, you know, moving on to Nvidia's patch. It doesn't mean to say everybody's going to win. It doesn't mean to say everybody's going to win equally.

Third point I'd make is that it's important to make to be clear that it is not inconsistent, it would be quite consistent, in fact, that AI turns out to be the next what I tend to call general purpose technology in terms of prompting productivity growth across economies. I mean, I hope it is, but we'll see.

But now it is quite consistent with that outcome and still having a bubble because the job of markets is to price the future stream of earnings. Those future stream of earnings could be very positive, but they could still get it wrong. They could still be, you know, be too much on the on the upside.

So, we have to be very cognisant of that. On the UK, one of the things that we've highlighted though is that of course you could even though the UK doesn't have this constant concern and most other markets don't have this concentration.

You could get spill-over quite easily, you know we've seen equity markets spill over many times in the past.

So you could get something that starts in a particular part of, let's say, the US market that spills over into world markets. So we have to be sensitive to that.

Laura Noonan, Bloomberg

Just one quick question again. Back to the capital benchmark. I noticed that you said that it would put the UK in an area similar to where other major jurisdictions either are or are headed. What if other major jurisdictions had someplace different and unexpected?

So, if there is massive deregulation in the US, for example, between now and 2027, would you still be thinking that where the UK needs to get to is 13% tier one as a kind of baseline, or would you revise?

Andrew Bailey

Let me say two things on that.

Firstly, we've published a lot of material on the calculation of the comparisons because it is, you know, to coin the phrase, the devil's in the detail of those things. And, I think we've set out probably the most extensive account of it we've ever set out because it's important you don't get to those outcomes easily.

I hear a lots of numbers get quoted out there. We tend to sit in this building thinking they haven't looked at part of the you know, because I mean, give the comparison with the US as we set out.

You can only compare US and UK banks in this respect. Not just looking at the capital side but looking at the risk weighted assets side because the US has a very different risk weight, there's Collins floor that we've talked about in the report. So that's point I'd make

On the what happens next in other places. Look we're in very close touch with them you know through the Basel Committee through the Financial Stability Board which I have the pleasure of chairing.

So there are very active discussions going on. It will be one of the priorities of the Financial Stability Board in the next year that we are focussed on these issues and it is very important, of course, that everybody now completes adopting Basel 3.1.

And I've said this before many times, I'll say it again it's important not just for prudential reasons but because this is the playing field. This is the you know, it marks out the field that banks can play on to use a metaphor if you like. And if we don't go ahead on that basis then we've got a much bigger problem. We've got a much bigger problem.

Now all my sense is talking to international banks from around the world. They all want that to happen because they get this point that it's a playing field. It defines the basis of competition. If we see very, very big deregulatory moves, well, I mean, there's going to be some pretty frank conversations going on to start with. And that will be the starting point.

Ben Martin, The Times

Thank you for the question.

Governor, do you have a view on whether the budget is particularly pro-growth?

Obviously, the health of the economy is central to financial stability.

Do you think that the budget measures last week are conducive for growth?

Andrew Bailey

Well, I think look, I think the OBR has set out its view on growth and the budget.

So I'm not going to add to that because we will of course in the monetary policy Committee context be putting that through our own, you know, our own assessment, and we will be doing that and we will publish that, you know, we will publish it most obviously when we get to the February monetary policy report and we're back in this room again talking about that. So that's how we will do that.

I think it is essential that we, to be honest with you, going to all the questions about process and the budget, let's step back from that.

The biggest issue is is an issue of substance for policy as a whole. It's why we've been talking about the Financial Stability Report in this context is that we have policies that support growth.

And the reason is this something I've said, I say often, but I'll say it again for the last 15, 16 years, we've had a potential growth rate in the economy, which is about 1% lower than what it was for the previous 20 years.

So, it's about it went from about two and a half to one and a half. It's about one and a half today we think.

And I think the OBR are in about the same place. Now the consequence of that for policy, both for policy quite broadly is very challenging.

And by the way, this is of course the case in many other countries. The UK is not alone in this.

In this, we've had a fall off in productivity growth. My own view on this is that I think it does a lot to do with the point we were just discussing on AI. You know, we had quite a big technology driven innovation, productivity growth in the preceding 20 years.

That contribution to growth has fallen off as it had in previous times of history, by the way. The question is where's the next one going to come from? Probably AI. I think if it comes from anywhere, how quickly is it going to come?

But we need we need an environment and policies where we can support growth because if we don't raise the potential growth rate and therefore the actual growth rate of the economy, the whole policy context is much more difficult. I mean, as we're seeing the choices are much more difficult to make.

So, we have to all of us have to be absolutely focussed on raising the growth rate.

Elliott Needham, Politico

Yeah. Just following up on my previous question.

You're warning about these spill-overs into the UK equity market. At the same time, we are seeing kind of both the government and the financial sector try to encourage more retail participation in the stock market. Are you worried that there could be risks that more retail investors get into the stock market? And then we see this AI bubble burst.

Andrew Bailey

I think we need more investment in the real economy. We do not have a good story to tell about this over many, many years, by the way. This is not a point about any particular government. It's a point about a very long period of time.

That's why the pension reforms are so important, that's why having more investment in risk capital is important.

Now of course it has to be done you know, eyes wide open, understanding the risk proportionately and all of that. But we do need a system that gets more investment into the real economy. Because again, going back to what I was just saying about productivity growth, you know, it depends on investment.

Katie Martin

Thanks very much, everyone.