**FINANCIAL STABILITY REPORT PRESS CONFERENCE**

**Tuesday 2 December 2025**

**Opening remarks by Andrew Bailey, Governor of the Bank of England**

Welcome to the press conference for the December 2025 Financial Stability Report.

I will highlight the key themes from today's publications by the Financial Policy Committee (FPC). I will start with our view on the overall risk environment, before turning to the FPC's work on supporting sustainable economic growth, the results of the Bank Capital Stress Test, and the FPC's updated assessment on the appropriate benchmark for capital requirements for the UK banking system.

The first theme to highlight is that the FPC judges that whilst UK household and corporate indebtedness remains low in aggregate, **overall risks to financial stability have increased during 2025**. Key sources of risk include geopolitical tensions, fragmentation of trade and financial markets, and the pressures on sovereign debt markets could stand to amplify the impact of these risks crystallising. As governments around the world face increasing spending pressures, their capacity to respond to shocks in the future may be more constrained than we have seen in the past. And elevated geopolitical tensions increase the likelihood of cyber-attacks and other operational disruptions.

Against this backdrop of heightened risk, **in the FPC's judgement, many risky asset valuations remain materially stretched – particularly for technology companies focused on Artificial Intelligence.** On some measures equity valuations in the US are approaching levels not seen since the dot-com bubble, and in the EU and UK, since the Global Financial Crisis (GFC). The AI sector is a particular hot spot, and somewhere where the role of debt financing is increasing quickly as firms seek large-scale infrastructure investment. Given deeper links between AI and credit markets, and increasing interconnections between firms, a sharp asset price correction could lead to losses on lending which could disrupt financial stability.

While credit spreads remain compressed by historical standards, the FPC continues to monitor the structural weaknesses previously identified in risky credit markets, including private markets. Features such as opacity, high leverage, complex interactions and weak underwriting standards and a high degree of reliance on credit rating agencies illustrate how corporate defaults could impact bank resilience and credit markets simultaneously. Two recent high-profile defaults in the US have intensified the focus on these issues.

Private markets have grown significantly both in size and importance in the UK over the past two decades and are now a significant source of funding for corporates. In this context, **the FPC will be launching a second system-wide exploratory scenario (SWES) focused on risks from private markets, with more details published later this week**. It's important for firms to manage their risks by including scenarios in their analysis where losses are greater, or more correlated, than in the past. Exercises like the SWES help firms to do this more effectively, by shining a light on system-wide behaviours.

The second key theme to cover is **the FPC's commitment to supporting sustainable economic growth**. The single most important thing we as the FPC can do to support economic growth is to maintain financial stability. Financial stability contributes to a stable and predictable economic environment, underpinned by a financial system which can absorb, rather than amplify shocks. That in turn supports business and consumer confidence and facilitates investment which is needed to drive long-term productivity growth. And, in the context of the global risk environment I have just described, maintaining a focus on financial stability is more important than ever.

In response to the Chancellor's request in the November 2024 remit letter, the FPC has considered areas where the financial sector could contribute more to sustainable growth such as the provision of financing for investment, without undermining financial stability.

As we've set out in the Financial Stability Report, lending to UK households and corporates has fluctuated in the past as changes in financial and macroeconomic conditions led to rapid growth in lending during boom times, and rapid deleveraging during downturns. However, the actions we and overseas policymakers have taken since the GFC to increase bank resilience enabled the banking sector to continue to support the real economy through recent shocks such as the Covid pandemic.

Box A of the FSR sets out the conclusions of the FPC's work to assess and identify areas where there is potential for the financial sector to contribute more to sustainable growth, and potential solutions to impediments the sector might face in doing so. These include barriers faced by pension funds and insurers in supporting long-term capital investment in the UK economy; challenges High Growth Firms (HGFs) face in accessing domestic finance – particularly through the scale up phase; and issues relating to the responsible adoption of innovative technology. The FPC supports efforts by the Bank, PRA, and other UK authorities to address these challenges and issues.

Third, turning to the theme of **bank resilience.** Overall, the FPC judges that the UK banking system remains well capitalised – again, something that we saw reflected in their resilience to recent shocks. Major UK banks continue to report robust earnings, and their average price-to-tangible book ratios have increased further since the July FSR – to around 1.4 today, which is consistent with them now earning their cost of capital.

**That resilience is confirmed by the results of the Bank Capital Stress Test which we have also published today.** These results indicate that the UK banking system would be able to continue to support the economy even if economic conditions turn out materially worse than expected, enabling it to contribute to long-term sustainable economic growth. The Bank Capital Stress Test scenario includes a severe global aggregate supply shock, leading to a deep recession across countries and a rise in inflation across advanced economies with central banks raising interest rates to bring inflation back to target. In the stress test, the aggregate Common Equity Tier 1 (CET1) capital ratio starts at 14.5% and falls to a low point of 11% in the first year – well above the sum of aggregate regulatory minima and systemic buffers. No individual bank was required to strengthen its capital position as a result of the test.

**As we announced in July, today we have also set out a refreshed assessment of the overall level of capital requirements for the banking system.** The FPC judges that the appropriate benchmark for Tier 1 capital requirements has now reduced to around 13% of RWAs, lower than its previous benchmark of around 14%. That judgement is consistent with the evolution in the financial system, including a reduction in the systemic importance of some banks and improvements in risk measurement.

In addition, the FPC has also considered how the capital framework can be made more effective, efficient and proportionate. The committee has set out areas for further work, namely: enhancing the usability of regulatory buffers; reviewing the implementation of the leverage ratio in the UK; and responding to feedback on interactions, proportionality, and complexity in the capital framework.

I want to be very clear that these changes apply to all UK banks and building societies. They are not targeted at any specific part of the banking sector.

The FPC has decided to maintain the UK countercyclical capital buffer (CCyB) rate at 2%, its neutral setting. This reflects our assessment of the evolution of domestic economic and financial conditions.

Let me conclude.

Risks to financial stability have increased during 2025, although in the UK context aggregate household and corporate indebtedness remains low, and the UK banking system remains well capitalised – as demonstrated by the stress test results published today. Since the FPC first set out a benchmark for bank capital requirements, the system has evolved, and we are now able to confirm that benchmark has reduced from around 14% of risk weighted assets to around 13%. The FPC recognises the important role that the financial sector has to play in contributing to economic growth. But I would underline that the single most important thing we can do to support sustainable economic growth is to maintain financial stability.

And now, Sarah, Sam and I will be happy to take your questions.