FINANCIAL STABILITY REPORT PRESS CONFERENCE

Wednesday 9 July 2025

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

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

I will highlight the key themes from today's assessment of financial stability by the Financial Policy Committee (FPC). I will start with our view on the foundational role that financial stability plays in supporting sustainable economic growth. I will then highlight our key judgements on the overall risk environment and global vulnerabilities, then turn to the outlook for households and corporates, and the resilience of the banking system, before concluding on market-based finance and the growth in private markets.

First, **maintaining financial stability is the bedrock for broad-based and resilient growth.** Our role is to ensure the UK financial system is resilient so that it can absorb rather than amplify shocks. This was demonstrated in April, with the volatility seen in financial markets following global trade policy announcements – I will come on to this topic in more detail shortly.

The financial sector makes an important contribution to sustainable economic growth by providing vital financial services to households and businesses. In response to the November 2024 remit letter, the FPC is undertaking work to identify areas where the financial sector could contribute more to sustainable economic growth without compromising financial stability. Our focus in supporting the sector's ability to do this is through four main policy levers: regulatory efficiency, safe innovation, responsible openness and productive finance.

Second, **risks and uncertainty associated with geopolitical tensions, global fragmentation of trade and financial markets, and pressures on sovereign debt markets are still elevated. Some geopolitical risks have crystallised and material uncertainty around the global macroeconomic outlook persists.** As we are an open economy with a large financial sector, these risks are particularly relevant to UK financial stability.

Following the announcements by the US on trade policy in early April and subsequent responses from other jurisdictions, market measures of uncertainty increased markedly and the value of risky assets fell sharply. Yields in advanced economy government bonds rose and the US dollar also weakened. The functioning of core government bond and repo markets (including for gilts) remained orderly during this period of stress, but conditions might have become more strained if the episode of volatility had lasted longer.

Risk sentiment in some markets recovered after the pause in the implementation of higher trade tariffs. However, there has been a notable change in the usual correlation patterns between the dollar and other US assets, including equities and government bond yields.

Given these developments, the risk of sharp falls in risky asset prices, abrupt shifts in asset allocation and a more prolonged breakdown in historical correlations remains high. And vulnerabilities in market-based finance could amplify such moves, which could impact the availability and cost of credit in the UK. It is important that in their risk management market participants consider the implications of further shifts in historical correlations and are prepared for potential shocks.

Higher geopolitical tensions have been associated with an increase in the incidence of cyber attacks globally. Through the 2024 Cyber Stress Test we have assessed the ability of participating firms to deliver wholesale payments and settlement services during a severe but plausible data integrity cyber scenario. I encourage continued focus by industry and market participants in understanding, and building national and cross-border resilience to, these important potential threats.

Third, while we don’t underestimate the challenges for some households and firms, **we judge that UK household and corporate borrowers remain resilient in aggregate**, and it would take very significant macroeconomic shocks for aggregate debt servicing measures to deteriorate materially.

We have also today set out a FPC recommendation that the Prudential Regulation Authority and the Financial Conduct Authority amend implementation of the FPC’s loan-to-income flow limit. This seeks to allow individual lenders to increase their share of mortgages that can be extended at loan-to-income ratios of or greater than 4.5 – supporting the effectiveness of the flow limit – while aiming to ensure the aggregate flow remains consistent with the limit of 15%.

Fourth, **the UK banking system is well capitalised, maintains robust liquidity and funding positions, and asset quality remains strong**. UK banks are now earning returns at least equal to their cost of capital and in aggregate now have price to book ratios above 1. We judge that – even if economic, financial and business conditions became substantially worse than expected – the banking system remains in a strong position to support UK households and businesses.

Since 2019, UK bank capital levels in aggregate have been broadly stable and this has allowed the banking system to continue to support the real economy, including through several shocks such as the Covid pandemic. While we judge that the level of capital in the banking system is broadly appropriate, we will refresh our assessment of the overall level of capital requirements and provide an update in the December Financial Stability Report.

And the FPC has decided today 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.

Fifth, **long-standing global vulnerabilities in market-based finance that we have previously identified persist, which could – under prolonged stress – disrupt market functioning and contribute to broader financial instability.**

A particular concern is use of leveraged strategies, particularly as the number of prime brokers with capacity to support them can be limited. This can increase the risk of a disorderly unwind of positions and a sudden jump to illiquidity, especially when leverage is combined with other vulnerabilities such as market concentration, crowded positions and opacity. In this context, improving the capacity and resilience of gilt repo markets is important – as it is for a number of other sovereign markets – and the Bank will publish a Discussion Paper setting out possible ways to enhance gilt repo market resilience and improve market functioning, such as through greater central clearing of gilt repo, minimum haircuts on non-centrally cleared gilt repo, and enhanced disclosures of aggregated and anonymised information to help support market participants better monitor, understand, and manage vulnerabilities.

The role and size of private equity and private credit has grown significantly, including in the UK. While these markets play an important role in providing long-term capital to businesses and in turn support long-term growth, I believe further work is needed to understand how such markets would operate following a shock and the system-wide implications for financial stability and financing to the real economy. To explore these channels, we will be undertaking structured engagement with private market participants and key providers of capital within the sector.

There is also important international work being progressed on market-based finance and non-bank financial intermediation through the global Financial Stability Board. I also want to take this opportunity to note it is an honour to be appointed Chair of the Financial Stability Board and I remain committed to upholding its mission in the interest of global financial stability.

There have been significant global developments in the stablecoin industry, including evolving use cases and emerging UK and international regulatory regimes. We judge there to be financial stability benefits of having a regulatory framework that is proportionate to risks, allows for some degree of alignment with other jurisdictions and supports firms setting up in the UK. In this context, it is important to ensure stablecoins widely used as money adhere to the principles of singleness of and trust in money, and to support that we are exploring options for allowing some return on backing assets.

Let me conclude.

Risks to the global outlook remain high. In the UK, household and corporate borrowers remain resilient in aggregate and the UK banking system remains in a strong position to support them. Our focus remains on maintaining financial stability and ensuring the resilience of the financial system in an environment with increased geopolitical uncertainty and unpredictability, which underpins sustainable economic growth.

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