FINANCIAL STABILITY REPORT PRESS CONFERENCE

Thursday 26 November 2026

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

Welcome to the press conference for the November 2026 Financial Stability Report. I should start off by welcoming Katharine Braddick, Deputy Governor for Prudential Regulation, to her first Financial Stability Report Press Conference.

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 operational resilience and the FPC's view on the resilience of households, corporates, and the banking sector. I will then outline the conclusion of the FPC's Review of Bank Capital, before turning finally the FPC's work on supporting sustainable economic growth.

Starting with the overall risk environment, **the continued conflict in the Middle East has led to a protracted negative supply shock to the global economy**. Global growth has so far been resilient, but the outlook for inflation and interest rates remains uncertain and sensitive to developments in the Middle East.

Beyond events in the Middle East, **vulnerabilities previously highlighted by the FPC in sovereign debt markets, risky credit markets, including in private credit, and risky asset valuations remain, and in some cases have amplified market volatility.**

Turning first to sovereign debt markets. **Sovereign debt-to-GDP ratios have continued to move upwards globally**. Government bond yields reached near two-decade highs in several advanced economies, as shown in **Chart 1**. In the UK, the increase in yields has mainly reflected higher expected policy rates. Elsewhere, fiscal and political uncertainty has contributed more materially to the increases in yields.

Chart 1: Longer-term bond yields have continued to increase

UK, US, French, and German 10-year yields



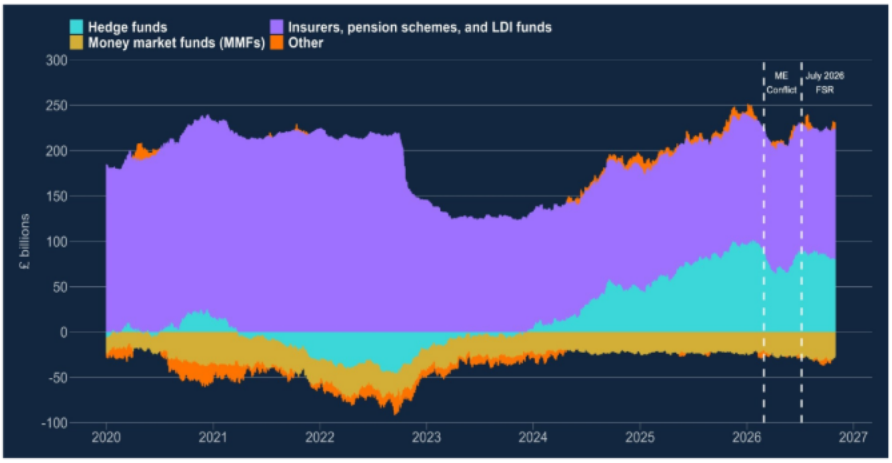
Source: Bloomberg Finance L.P.

As we've highlighted previously there has been a shift in recent years as investors in many sovereign bond markets are now underpinned by a relatively high use of leverage, and we see hedge funds pursuing similar trading strategies across jurisdictions. Market intelligence suggests that deleveraging by hedge funds contributed to the increase in French sovereign bond yields, although spillovers to other markets have been limited.

UK gilt and gilt repo markets have functioned well. As shown in **chart 2**, whilst hedge fund leverage remains elevated by historical standards, net repo borrowing has declined a little. Whilst the gilt repo market has remained resilient recently, past episodes of market dysfunction have highlighted the need to pursue reforms to enhance the resilience of that market. Today's publications provide an update on the FPC's thinking on gilt repo market resilience. The Bank will publish a roadmap for working with industry to develop its preferred package of policy measures in the first half of 2027.

Chart 2: Hedge funds have reduced their net gilt repo borrowing, but it remains elevated by historical standards

Net repo borrowing by NBFI sector



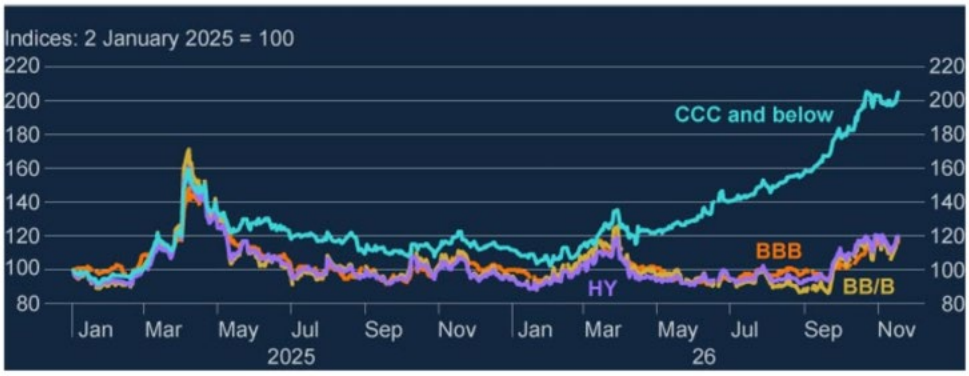
Sources: Sterling money market data (SMMD) and Bank calculations.

Turning to risky asset markets, **equity valuations remain stretched on some measures, despite recent falls.** Hedge funds and retail investors have continued to invest in AI stocks, with hedge funds obtaining leverage through significant prime brokerage borrowing. Following the US midterm elections there was a sharp fall in the value of AI-related equities. These moves were amplified by hedge fund deleveraging. Volatility in Korean equity markets has also shown that procyclical rebalancing from leveraged ETFs can amplify falls in equity prices. Whilst spillovers to other markets were limited across these episodes, in a more severe shock, losses on equity positions could lead globally active investors to delever in other markets, including sovereign debt markets.

Meanwhile **higher borrowing costs have increased refinancing pressures in corporate debt markets, particularly for weaker borrowers**. This is shown in the sharp widening in spreads for US CCC-rated debt, as shown in **Chart 3**. We'll be updating you on our private market SWES in the new year.

Chart 3: Public credit spreads, especially in riskier credit grades, have widened

Indexed US credit spreads by rating bucket



Sources: Bloomberg Finance L.P. and Bank calculations.

AI-related financing continues to grow rapidly and is increasingly spanning equity markets, public bond markets, private credit and more complex financing structures. This is increasing interconnections across the finance system. Some AI-related companies are also providing finance to others in the sector in arrangements linked to future revenue commitments. More complex structures and circular financing arrangements can make it harder to identify concentrations of risk and where exposures ultimately sit.

Turning to operational risks, **the FSR sets out the need for firms to keep pace with the growing scale and sophistication of cyber threats, to accelerate long-term preparations for quantum-resistant cryptography, and to develop and maintain credible arrangements to recover quickly from operational disruption, as well as increasing their focus on deep cyber recovery options**. The FPC recognises that this will place competing demands on technology skills and management capacity. However, a failure to take action could have system-wide implications. Sector-wide collaboration is crucial, in that context the Bank intends to establish a new Systemic Resilience Council which will bring together Bank, other authorities, and senior industry representatives from banks, insurers and financial market infrastructures to coordinate action on system-wide risks.

Taking the operational resilience themes in turn, **frontier AI capabilities have continued to grow since the July FSR**. Recent incidents have further illustrated the challenges in managing the risk of AI agents acting in ways which are misaligned with the objectives intended by developers and users. Capabilities of open weight models have also developed rapidly. These models can be run more cheaply than closed weight models, and safeguards may be disabled or removed more easily. This could make more advanced AI capabilities more readily available and useful to malicious actors.

Recent outages with Google cloud services and Microsoft have illustrated how operational dependencies mean disruption at a single provider can affect

many firms. This underlines the importance of the UK's Critical Third Party Regime, under which nine firms have now been designated.

Quantum computing could compromise widely used cryptography and hence cyber security. As the National Cyber Security Centre has been highlighting for some time, this makes an orderly transition to quantum-resistant cryptography a priority – which will have implications for the actions and decisions firms take today.

UK households and corporates remain resilient in aggregate, however higher borrowing costs and energy prices are placing additional pressure on household finances. Consistent with higher market interest rates, mortgage rates have increased since the July FSR and more households are now projected to see increases in mortgage repayments over the next three years, as shown in **Chart 4**. However, the median increase is projected to be materially smaller than the increases experienced during 2023 and 2024. Pressures will be greater for some households, notably low-income households and renters.

Chart 4: Number of owner-occupied mortgages by estimated change in monthly mortgage costs, from 2026 to December 2029



Sources: Bank of England; Bloomberg Finance L.P.; FCA Product Sales Data; and Bank calculations.

The UK banking system remains well capitalised with high levels of liquidity. Despite heightened uncertainty, banks have continued to support lending to the real economy, particularly large corporates, shown in **Chart 5**. There is no evidence of banks restricting lending to defend capital positions. The FPC has maintained the UK countercyclical capital buffer at its neutral setting of 2%. This helps to ensure that banks continue to have capacity to absorb unexpected future shocks without restricting lending to households and businesses.

Chart 5: Aggregate lending volumes have continued to rise, with signs of strength in lending to large corporates.



Sources: Bank of England and Bank calculations.

Today's publications mark the conclusion of the FPC's review of the bank capital framework, the detail of which is set out in a Financial Stability in Focus report.

The report sets out that the PRA will consult on lower minimum requirements related to domestic lending. This is to reflect more fully the resilience provided by maintaining a 2% neutral CCyB rate, and to better reflect the risks of geographic concentration. After this reduction, systemwide capital requirements for the major UK banks will be consistent with the FPC's benchmark of around 13%.

Changes announced as part of the FPC's bank capital review represent meaningful reform, making capital requirements more proportionate, better targeted, and – as a result – lower. Whilst overall impact varies by bank, in aggregate the changes announced over this year result in Tier 1 capital requirements for major UK banks reducing by an amount equivalent to around 50 basis points of risk-weighted assets, which translates into at least £8bn. It is for banks to decide how they respond to these changes. But to provide some illustration, if all of the reduction in their capital requirements were to flow through to lending, it would increase the major UK banks' lending capacity by around £175bn, which is equivalent to around two years of net lending to the household and non-financial corporate sectors based on last year's lending.

Reducing capital requirements much further would risk financial instability and put long term growth at risk by undermining the banking system's ability to absorb rather than amplify shocks.

Banks currently maintain levels of capital in excess of regulatory requirements. The FPC and PRA intend to enhance banks' confidence in using their capital resources to support the economy. **The FPC has set out its vision of a single releasable buffer which could be used without automatic distribution restrictions.** Such reform would ideally be achieved in coordination with international bodies, and we will

evaluate progress on this work by the end of next year. **The FPC and PRC will also consider how further action could reduce incentives for firms to maintain capital in excess of requirements** and bring forward proposals next year.

Finally, in response to its 2025 remit letter, **the FPC's work on long-term capital and high-growth firms has identified the actions which, from a macro-economic perspective, would have the most significant impact on the supply of long-term finance for high-growth firms seeking to scale up**. Evidence shows that the UK has a deep domestic pool of capital and a rich pipeline of innovative firms, but material frictions affect how efficiently the two are matched. A range of government and industry initiatives are already seeking to address these frictions, but the framework for these initiatives is perceived to be fragmented. This makes greater coordination and reducing complexity across the financing chain an immediate priority.

Let me conclude.

The outlook for inflation and interest rates remains uncertain and sensitive to developments in the Middle East, whilst vulnerabilities in markets previously highlighted by the FPC remain, and in some cases have amplified market volatility. Developments in AI, the deeper interconnections across the financial system from common technologies and providers, and the development of quantum computing make cyber and operational risks a more prominent risk to financial stability, and we're working closely with other authorities and industry to address them. The changes to the bank capital framework announced today, and earlier this year, make requirements more proportionate, better targeted and – as a result – lower. And finally, the FPC's work on long-term capital and high-growth firms has emphasised the need for greater coordination and reducing complexity across the financing chain.

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