



BANK OF ENGLAND

News release

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Bank of England Publishes Financial Stability Review

The Bank of England is today publishing its latest Financial Stability Review. It contains a number of articles (summarised in the 'Themes and Issues' editorial), and also the Bank's regular half-yearly assessment of risks to stability. Commenting on this assessment, David Clementi, Deputy Governor for Financial Stability, said:

"The risks facing the financial system appear somewhat greater than at the time of the Bank's June Review, given the sharp slowdown in world economic growth and the associated increased pressure on borrowers. But the position is better than immediately after 11 September, which temporarily created additional stresses and uncertainties. In the UK, there are few debt-servicing problems in the current interest-rate environment, although levels of borrowing in the corporate and household sectors could imply some future vulnerability. Importantly, the banking system as a whole - and this is true generally elsewhere, notably in the US - is cushioned against increased international and domestic risks by strong capitalisation and profitability."

The Bank's assessment covers the following issues, deliberately focusing on potential threats to financial stability rather than the most likely prospect (page references are to the Conjuncture and Outlook Overview):

- the US slowdown and its implications, given high household and corporate sector debt (pp 10-11)
- the possible risks to the stability of capital flows and exchange rates arising from continuing global macroeconomic imbalances (p11)
- equity market valuations (p11)
- the telecom, airline and insurance sectors (pp 11-12, and p14)
- vulnerabilities in Japan and links to the international financial system (pp 12-13)
- the lack of contagion so far from Argentina (p13)
- the resilience of the international financial system, including lessons from 11 September (pp 13-14)
- the position of the UK banking system against the background of the imbalances in the UK economy, rising household sector debt, and rapid growth in lending to the property sector (pp 14-16)
- the removal of a significant source of risk in UK payment and settlement systems following a Crest/Bank of England project (p16)

Notes to Editors

- Analysis of each of these issues is developed in the main text of the "Conjuncture and Outlook" article as well as being summarised in the Overview.
- The FSR is produced half-yearly as part of the Bank's financial stability mandate, which relates mainly to macroprudential issues and not to the regulation of individual firms.
- The Bank's assessment concentrates on downside risks, not the most likely outcome, given that a principal purpose of the FSR is to identify potential threats to systemic stability.

Key Resources

Financial Stability Review, December 2001

<http://www.bankofengland.co.uk/archive/Pages/digitalcontent/historicpubs/fsr/fsr11.aspx>