



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 five articles (summarised in the attached 'Themes and Issues' editorial), and also the Bank's regular half-yearly assessment of risks to stability.

Commenting on the Bank's assessment, David Clementi, Deputy Governor for Financial Stability, said:

"The US economic slowdown and the global correction in telecom and technology shares have been akin to a 'natural stress test' for the international financial system. So far it has proved resilient. The environment may, however, now become more difficult than appeared likely six months ago, especially if the slowdown in world activity were to turn out to be longer or deeper than currently expected."

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 Conjunction and Outlook Overview):

- the US slowdown and its implications (pp 8-9)
- the possible risk to asset prices and exchange rates from continuing macro economic imbalances (p 9)
- equity markets, including the deflation of the "technology, media and telecommunications" bubble (pp 9-10)
- developments in telecom sector debt, including growth in vendor financing (p 10)
- financial vulnerabilities in Japan and linkages to the wider international financial system (pp 10-11)
- the implications of renewed stresses in various emerging market economies eg Argentina (pp 11-12)
- the current state of the international financial system in terms of its robustness and resilience to shocks (pp 12-13)
- the position of the UK banking system against the background of the imbalances in the UK economy, household and corporate sector balance sheets and rapid growth in certain categories of lending eg to the property sector (pp 13-14)

Notes to Editors

1. 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.
2. The FSR is the Bank of England's twice-yearly publication covering the Bank's financial stability mandate, which is macroprudential rather than related to the regulation of individual firms.
3. The Bank's assessment focuses on downside risks, rather than on the central expectation, since one purpose of the FSR is to identify potential threats to systemic stability.

Key Resources

Financial Stability Review, June 2001

<http://www.bankofengland.co.uk/archive/Pages/digitalcontent/historicpubs/fsr/fsr10.aspx>