



BANK OF ENGLAND

News release

Press Office

Threadneedle Street

London EC2R 8AH

T 020 7601 4411

F 020 7601 5460

press@bankofengland.co.uk

www.bankofengland.co.uk

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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 the Bank's regular half-yearly assessment of risks to financial stability, together with a number of articles (summarised in the attached 'Themes and Issues' editorial).

Sir Andrew Large, Deputy Governor for Financial Stability, commented:

"The international and UK financial systems have for the most part remained robust in the face of various pressures over the past six months - declines in equity markets, unusual volatility in various asset prices, slower-than-expected recovery, and an increase in credit risk. Some of the pressures simply reflect the economic cycle, but there is also an element of correcting past over-optimism. Against this background, markets have experienced periods of volatility; market confidence overall has remained fragile with particular concern being reflected from time to time about individual institutions.

In the UK, there has been a substantial build up of household debt accompanying the rapid and continuing rise in house prices. UK-owned banks remain, however, in a strong position, partly because of the relative resilience of the UK economy, and partly because of their sound capital and profitability."

The Bank's assessment deliberately focuses on potential threats to financial stability rather than the most likely prospect. It picks out the following issues (page references are to the 'Conjuncture and Outlook Overview'):

- changes in financial market sentiment, indicators of credit risk and asset prices (pp 9-12)
- the impact of these developments on major internationally active financial institutions (p13)
- the financial situation of UK corporate and household sectors (p14)
- the financial position of the UK banking system and UK insurers in the light of developments in asset prices and credit risk (pp 14-15).

The Review also considers, in the article on 'Strengthening Financial Infrastructure', private and public sector initiatives to make the financial system more robust and to improve the ability to manage potential crises.

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 Financial Stability Review 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 Review is to identify potential threats to systemic stability.

Key Resources

Financial Stability Review, December 2002

<http://www.bankofengland.co.uk/archive/Pages/digitalcontent/historicpubs/fsr/fsr13.aspx>