



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 three 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 international financial system proved resilient to the Argentina and Enron defaults and should benefit from an improvement in the outlook for the world economy since last December's Review. But the accounting, transparency and governance issues raised by Enron and some other cases may have clouded market perceptions of corporate prospects, as well as highlighting a series of risk management questions for banks. Pressures have also risen on some financial intermediaries given weak equity markets. In the UK, the banking system remains sound but faces challenges in responding prudently to the continuing growth in households' demand for credit."

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 implications of the economic outlook for credit risk, bond market risk, and global imbalances and exchange rate risk (pp 7-9)
- international telecoms and corporate sector liquidity risk (pp 8-10)
- Brazil and Japan (pp 10)
- various bank risk management issues highlighted by recent 'credit events' (pp 10-11)
- the position of the UK banking system and of UK insurers in the light of, respectively, rapid growth in household borrowing and falls in equity markets (pp 12-13).

Notes to Editors

1. Analysis of each of these issues is developed in the main text of the "Conjunction 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 Report, June 2002

<http://www.bankofengland.co.uk/archive/Pages/digitalcontent/historicpubs/fsr/fsr12.aspx>