



**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 the Bank's regular half-yearly review of risks to financial stability and measures taken to strengthen the financial infrastructure, together with a number of articles (summarised in the 'themes and issues' editorial).

Near-term risks to the UK financial sector from default by households, firms and overseas borrowers have remained low since the December Review, and volatility in international financial markets has generally been subdued. The major UK banks remain profitable, well capitalised and liquid; corporate default rates around the world remain low; and ratings upgrades outnumber downgrades.

There have, however, been a few signs suggesting that credit quality may have fallen. Banks' write-offs of UK household debt have increased – although from a low level – and globally, bond spreads have risen from the trough they reached in March this year.

Sir Andrew Large, the Bank's Deputy Governor for Financial Stability, commented:

"The near-term outlook for the UK financial system is generally healthy. There are, however, some concerns on the horizon. For example, there are signs that areas of credit risk may be under-priced, and the liquidity of some assets could prove illusory in stressed conditions. But UK banks' profits, capital and liquidity suggest that they would be resilient even if unexpected stresses did arise".

Banks continue to develop their 'stress testing' techniques – investigating their vulnerability to unlikely extreme events. But risk management by private financial firms may not address fully the risks to the financial system as a whole. Public authorities, including the Bank, pursue enhanced systemic stability through the design of international financial infrastructure and regulatory and payments infrastructure. An example discussed in this Review is the Basel/International Organization of Securities Commissions Trading Book Review, which is now being finalised after a consultation period.

## **Notes to Editors**

The Bank's assessment deliberately focuses on potential threats to financial stability, rather than on the most likely prospect. It identifies the potential threats as they relate to the UK, and arising from key categories of risk both international and domestic.

- Credit default risk (pages 9-10)
- Risks in the international financial system (pages 10-12)
- UK financial sector resilience (pages 12-13)

(Page references are to summaries in the 'overview of UK financial stability: threats and resilience'. The analysis is developed in the main text of the 'conjuncture and outlook' article.)

The Bank of England's financial stability mandate relates to the stability of the system as a whole rather than to the regulation of individual firms.

## **Key Resources**

Financial Stability Review - Issue 18, June 2005

<http://webarchive.nationalarchives.gov.uk/20100114080129/http://www.bankofengland.co.uk/publications/fsr/2005/fsrfull0506.pdf>