



**BANK OF ENGLAND**

# News release

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## **Financial Stability Report**

The Bank of England is today publishing its bi-annual *Financial Stability Report*. The Report is part of the delivery of the Bank's strategy for its financial stability work, as set out in the Bank's *Annual Report 2010*. The Report concentrates on the Bank's assessment of conjunctural risks to financial stability.

In relation to current conditions, the *Report* notes that since June sovereign and banking system concerns have re-emerged in parts of Europe. The IMF and European authorities proposed a substantial package of support for Ireland. But market concerns spilled over to several other European countries. At the time of writing, contagion to the largest European banking systems has been limited. In this environment, it is important that resilience among UK banks has improved over the past year, including progress on refinancing debt and on raising capital buffers. But the United Kingdom is only partially insulated given the interconnectedness of European financial systems and the importance of their stability to global capital markets.

The *Report* also says that more medium-term risks are posed by a redistribution of capital within the financial system. Capital has flowed into safe assets and, despite recent increases, bond yields remain low in many advanced economies. There are some signs of this intensifying a search for yield, including into emerging market assets. Low yields may also be masking latent distress among some overextended borrowers, including some households, corporates and sovereigns. Against that backdrop, it is in banks' collective interest to build resilience gradually through retention of earnings, which would be boosted if banks restrain distribution of profits to equity holders and staff.

On the policy front, the *Report* notes that the FSB/G20 reform programme includes improvements in the loss-absorbency of systemically important financial institutions and in the regimes through which they could be resolved; strengthening of central counterparties' (CCP) risk management; and improvements in the capital regime for banks' trading books. Reform in those areas will engender incentives for activity to migrate to unregulated parts of the financial system, so it is important that policymakers exercise vigilance about the regulatory perimeter.

A visual summary of the *Report* can be found below.

## **Notes to Editors**

1. The Financial Stability Report aims to identify key risks to UK financial stability and to stimulate debate on policies needed to manage and prepare for these risks. The Report is produced half-yearly by Bank staff under the guidance of the Bank's Financial Stability Executive Board, whose best collective judgement it represents, and following review by the Financial Stability Committee of the Court of Directors of the Bank of England.

2. Under the Banking Act, 2009 the Bank's financial stability objective is 'to contribute to protecting and enhancing the stability of the financial systems of the United Kingdom'. The Report is one vehicle to help it meet that objective.

## **Key Resources**

### **Visual Summary of the Financial Stability Report**

<http://www.bankofengland.co.uk/publications/Documents/fsr/2010/fsrsum1012.pdf>

### **Financial Stability Report, Issue 28**

<http://www.bankofengland.co.uk/publications/Documents/fsr/2010/fsrfull1012.pdf>