



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. It was largely prepared ahead of the announcement by the Chancellor of the Exchequer of the Government's plans to change the UK's system of financial regulation.

In relation to current conditions, the *Report* notes that since December markets have focused increasingly on strains placed on sovereign balance sheets. In April, concerns over Greek sovereign risk spilled over to other European countries and developed rapidly into a generalised retreat from risk-taking. Inadequate transparency about sovereign exposures led to counterparty concerns and renewed strains in bank funding markets. In response, the IMF and European authorities put in place a substantial package of support. While these measures helped to stabilise conditions, market pressures have not yet abated. EU leaders also recently announced plans to publish the results of stress tests conducted on the largest European banks; this will be another important step.

In terms of resilience, the *Report* says that UK banks have raised their capital and liquidity buffers substantially, which has helped them weather recent tensions. But, in common with their peers, they face a number of challenges in the period ahead. UK banks need to maintain resilience in a difficult environment, while refinancing substantial sums of funding; they have a collective interest in providing sufficient lending to support economic recovery; and they will need over time to build larger buffers of capital and liquidity to meet more demanding future regulatory requirements. The new Basel regulatory regime will be agreed in the autumn. An extended transition to this new regime would enable banks to build resilience through greater retention of earnings, while sustaining lending. The new regime should include a buffer of capital which banks can use to absorb stresses, as well as a hard minimum. That buffer might need to vary over the cycle.

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.

A box at the front of the *Report* summarises the changes to the UK's system of financial regulation announced by the Chancellor of the Exchequer at the Mansion House on 16 June 2010.

Key Resources

Visual Summary of the Financial Stability Report

<http://www.bankofengland.co.uk/publications/Documents/fsr/2010/fsrsum1006.pdf>

Financial Stability Report, Issue 27

<http://www.bankofengland.co.uk/publications/Documents/fsr/2010/fsrfull1006.pdf>