BANK OF ENGLAND

News release

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Why is the UK banking system so big and is that a problem?' notes that over the past 40 years the size of the UK banking system has grown dramatically – rising from around 100% to nearly 450% of nominal GDP – larger than the United States, Japan and the ten largest EU countries.[1] Moreover, as the Governor noted in his October 2013 speech, under plausible assumptions it could continue to grow rapidly. The article considers a number of reasons why the UK banking sector is so big. It also presents some empirical evidence on the relationship between banking system size and financial stability which suggests that while financial sector size can be important, it is the resilience of the banking system that is key for determining financial stability.

The Q4 edition also contains the regular annual article reporting the latest evidence from **the NMG Consulting survey of household finances**. The survey reports that average annual household pre-tax income is £33,000, with average mortgage debt of £83,000 and average unsecured debt of £8,000. While the stock of household debt relative to income has fallen from its peak in 2008, it remains fairly high compared with past decades. Even so, the proportion of households with high debt servicing ratios currently appears to be fairly low. In part this reflects the low level of interest rates. The article focuses on the potential impact of higher interest rates on UK households. If interest rates were to rise by two percentage points, while over the same period incomes rose by 10%, then the proportion of households with a high mortgage debt servicing ratio would rise from 1.3% to 1.8%. However, this remains well below previous peaks for this metric. Overall, the evidence does not suggest that gradual increases in interest rates from their current historically low levels would have unusually large effects on household spending.

This edition also includes an article explaining **the interaction of the FPC and the MPC**. The Bank's Financial Policy Committee (FPC) and Monetary Policy Committee (MPC) are separate committees, each with their own primary objectives, but with a common secondary objective. The article explains how each committee takes account of the other's actions. It concludes that there are clear benefits from having two separate committees, but there is also considerable scope for, and benefits from, effective information sharing between the FPC and MPC, and a shared understanding of each committee's approach to policymaking.

The URLs for these articles (which will be live from 00:05 hrs Monday 8 December) will be:

pdf **Why is the UK banking system so big and is that a problem?**

pdf **The potential impact of higher interest rates on the household sector: evidence from the 2014 NMG Consulting survey**

pdf **The interaction of the FPC and the MPC**

pdf **Entire edition**