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A major development in UK household balance sheets in the decade before the financial crisis was the build up of household debt, which as a share of income rose from around 100% in 1999 to a peak of 160% in 2008. Understanding how households with debt respond to shocks has important implications for both financial stability and monetary policy and informed the policy actions of the Financial Policy Committee (FPC) in June 2014. Those measures were designed to insure against the risks from a further significant increase in the number of highly indebted households.

'Household debt and spending' is the first study to use microdata to assess the role of debt levels in determining UK households' spending patterns over the course of the recent recession. It finds that UK households with high levels of debt cut their spending by more — relative to income — than other households, on average, following the financial crisis. Cuts in spending associated with debt are estimated to have reduced aggregate private consumption by around 2% after 2007, providing evidence that high levels of household debt have been associated with deeper downturns and more protracted recoveries.

Looking internationally, falls in the level of consumption over the recent recession, relative to estimates of pre-crisis trends, were greatest in countries that experienced the largest increases in aggregate household debt before the crisis. The fall in spending was slightly larger in the United Kingdom than implied by the average cross-country relationship with debt growth.

'How might macroprudential capital policy affect credit conditions?' considers a framework for thinking about the near-term impact on the amount and price of lending of a change in macroprudential capital policy. By encouraging banks to raise capital in good times that can be used to absorb losses in bad times, macroprudential capital policy is designed to make the financial system more resilient and reduce the likelihood and severity of financial crises. Over the long-run, this should help the banking system better able to support a sustainable flow of credit.

For the near-term focus of this article, a key determinant of the impact on credit conditions will be the extent to which banks' cost of funding is affected. This, in turn, will likely depend on factors like:

•The severity of various 'financial frictions' (such as the existence of deposit guarantees);
•The confidence of investors in the soundness of the banking system; and
•The expectations of economic agents (such as banks and investors) – for instance that a macroprudential policy change would, if necessary, be reinforced by further changes in the future to ensure the resilience of the banking sector.

This article introduces a simple framework that can be used to help quantify some of these channels. The model presented takes account of the decisions of savers and borrowers in the economy, as well as the banks themselves – and finds the impact of macroprudential capital policy on credit conditions to be of a similar magnitude to other recent studies. The article stresses, however, that both the direction and the magnitude of those effects are likely to depend crucially on the state of the financial system and the economy. For instance, when confidence in banks' capital adequacy is low – and this pushes up on banks' funding costs – then a requirement to increase capital ratios for all banks might improve systemic confidence. In this case, overall funding costs might fall which would help to support lending.

The Bank of England operates the United Kingdom's RTGS infrastructure for the settlement of the main electronic sterling payment systems. This infrastructure therefore plays a vital role in the safe functioning of the UK financial system. 'Enhancing the resilience of the Bank of England's Real-Time Gross Settlement (RTGS) Infrastructure' explains how the Bank of England is the first central bank to adopt a new RTGS contingency infrastructure, developed by SWIFT to meet the needs of the Bank and other central banks should the principal payments infrastructure become unavailable.

The articles are listed below;

Household debt and spending
How might macroprudential capital policy affect credit conditions?
Enhancing the resilience of the Bank of England's Real-Time Gross Settlement infrastructure

The Q3 edition also includes the two articles on digital currencies (such as Bitcoin) that were published on 11 September; the regular 'Markets and operations' update on financial markets; and a write-ups of the recent Monetary Policy Roundtable and the Conference on Monetary and Financial Law, both of which were held at the Bank.

Note to Editors

Copies of the Quarterly Bulletin are available from:
www.bankofengland.co.uk/publications/pages/quarterlybulletin/default.aspx