Bank of England

Record of the Financial Policy Committee meeting on 2 October 2025

8 October 2025

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The Financial Policy Committee (FPC) was established under the Bank of England Act 1998, through amendments made in the Financial Services Act 2012. The legislation establishing the FPC came into force on 1 April 2013. The objectives of the Committee are to exercise its functions with a view to contributing to the achievement by the Bank of England of its Financial Stability Objective and, subject to that, supporting the economic policy of His Majesty's Government, including its objectives for growth and employment. The responsibility of the Committee, with regard to the Financial Stability Objective, relates primarily to the identification of, monitoring of, and taking of action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system. The FPC is a committee of the Bank of England.

The FPC's next meeting will be on 25 November 2025 and the record of that meeting will be published on 2 December 2025.

Record of the Financial Policy Committee meeting on 2 October 2025

Headline judgements and policy actions

- Risks associated with geopolitical tensions, global fragmentation of trade and financial markets, and pressures on sovereign debt markets remain elevated. The risk of a sharp market correction has increased. A crystallisation of such global risks could have a material impact on the UK as an open economy and global financial centre.
- Despite persistent material uncertainty around the global macroeconomic outlook, risky asset valuations have increased and credit spreads have compressed. Measures of risk premia across many risky asset classes have tightened further since the last FPC meeting in June 2025. On a number of measures, equity market valuations appear stretched, particularly for technology companies focused on Artificial Intelligence (AI). This, when combined with increasing concentration within market indices, leaves equity markets particularly exposed should expectations around the impact of AI become less optimistic.
- There have been some notable credit defaults in the US automotive sector since the last meeting. These underscore some of the risks the FPC have previously highlighted around high leverage, weak underwriting standards, opacity, and complex structures.
- Term premia in sovereign bond markets have increased in many advanced economies, driven in part by expectations of higher debt issuance. Some key jurisdictions have experienced political uncertainty over the level and pace of reforms to improve the fiscal outlooks (e.g. political deadlocks in France and Japan). This increases the vulnerability of sovereign debt markets and adds to pressure on governments' capacity to respond to shocks.
- In the US, there has been continued commentary about Federal Reserve independence. Central bank operational independence underpins monetary and financial stability – and therefore lowers borrowing costs for households and businesses. A sudden or significant change in perceptions of Federal Reserve credibility could result in a sharp re-pricing of US dollar assets, including in US sovereign debt markets, with the potential for increased volatility, risk premia, and global spillovers.
- Uncertainty around the global risk environment increases the risk that markets have not fully priced in possible adverse outcomes, and a sudden correction could occur should any of these risks crystallise. A sharp correction could interact with vulnerabilities in the system of market-based finance, adversely affecting the cost and availability of finance for

households and businesses. As an open economy with a global financial centre, the risk of spillovers to the UK financial system from such global shocks is material.

- Domestically, the Committee judged that UK households and corporates have remained resilient but face continued pressure from higher costs of living and the continued adjustment to higher borrowing costs.
- The FPC maintains its judgement that the UK banking system has the capacity to support households and businesses even if economic and financial conditions were to be substantially worse than expected.
- The FPC decided to maintain the UK countercyclical capital buffer (CCyB) rate at 2%.

Record of the Financial Policy Committee meeting on 2 October 2025

1: The Financial Policy Committee (FPC) seeks to ensure the UK financial system is prepared for, and resilient to, the wide range of risks it could face, so that it is able to absorb rather than amplify shocks, and serve UK households and businesses, thus supporting stability and long-term growth in the UK economy.

2: The Committee met on 2 October 2025 to agree its view on the outlook for UK financial stability. The FPC discussed the risks faced by the UK financial system and assessed the resilience of the system to those risks. On that basis, the Committee agreed its intended policy actions.

The overall risk environment

3: Risks associated with geopolitical tensions, global fragmentation of trade and financial markets, and pressures on sovereign debt markets remained elevated. The risk of a sharp market correction had increased. A crystallisation of such global risks could have a material impact on the UK as an open economy and global financial centre.

Global risk outlook and vulnerabilities in financial markets

4: Measures of risk premia across many risky asset classes had further tightened since the last FPC meeting in June 2025, and credit spreads remained compressed despite high levels of uncertainty.

5: Equity market valuations had increased since Q2, to near all-time highs, partly driven by strong Q2 earnings of US technology firms. The price appreciation of the largest technology firms this year had increased the concentration within US equity indices to record levels. The market share of the top 5 members of the S&P 500, at close to 30%, was higher than at any point in the past 50 years.

6: Equity valuations appeared stretched, particularly in backward-looking metrics in the US. For example, the earnings yield implied by the Cyclically-Adjusted Price-to-Earnings (CAPE) ratio was close to the lowest level in 25 years – comparable to the peak of the dot com bubble. Forward-looking valuation metrics and compression in US equity risk premia also remained elevated relative to historical levels, with the S&P 500 at a one-year forward price-to-earnings ratio of 25 times, but remained below the levels reached during the dot com bubble. Some technology companies were trading at valuation ratios which implied high future earnings growth, and concentrations within US equity indices meant that any AI-led price adjustment would have a high level of pass-through into the returns for investors exposed to the aggregate index.

7: The Committee noted the future outlook for valuations was uncertain, with both downside and upside risks. Downside factors included disappointing AI capability/adoption progress or increased competition, which could drive a re-evaluation of currently high expected future earnings. Material bottlenecks to AI progress – from power, data, or commodity supply chains – as well as conceptual breakthroughs which change the anticipated AI infrastructure requirements for the development and utilisation of powerful AI models could also harm valuations, including for companies whose revenue expectations are derived from high levels of anticipated AI infrastructure investment.

8: Many measures of risk premia had compressed further since the Q2 meeting, with global credit spreads getting close to historically low levels and leveraged loan spreads remaining in the bottom quartile. The risk of sharp corrections in asset prices remained high. There had been some notable credit defaults since the last meeting. These involved two US corporates active in the automotive sector. While operating different business models, their financing appeared to display several common factors including high leverage, weak underwriting standards, opacity, complex structures, and the degree of reliance on credit rating agencies, illustrating how corporate defaults could impact bank resilience and credit markets simultaneously. These events highlighted some of the risks the FPC had previously set out.

9: Existing vulnerabilities in market-based finance set out in the July 2025 Financial Stability Report (FSR) remained, and could amplify price moves across markets, potentially affecting the availability and cost of credit in the UK.

10: The economic impacts of US tariffs, and reciprocal tariffs on US goods in other jurisdictions, had not yet been fully realised. The impact on businesses in heavily impacted industries – such as manufacturing, automotives and construction – remained unclear. Uncertainty around further developments in trade policy posed a risk to the global macroeconomic outlook. While measures of correlation between the dollar and US assets had returned to within historical norms, this could change as investors reassess their positions.

11: In the US, there had been continued commentary about Federal Reserve independence. Central bank operational independence underpins monetary and financial stability – and therefore lowers borrowing costs for households and businesses. A sudden or significant change in perceptions of Federal Reserve credibility could result in a sharp re-pricing of US dollar assets, including in US sovereign debt markets, with the potential for increased volatility, risk premia, and global spillovers. The consequences for other sovereign borrowing costs, which had tended to be correlated with US interest rates, would be a key uncertainty in such a scenario.

12: World and Advanced Economies Gross Debt to GDP ratios increased to 92.3% and 108.5%, respectively, in 2024 and were forecast to increase each year to 2030 – peaking at 99.6% and 113.3%, respectively.[1] Term premia in sovereign bond markets had increased in many advanced economies, driven in part by higher real interest rates as the outlook for debt issuance was high. Some key jurisdictions had experienced political uncertainty over the level and pace of reforms to improve the fiscal outlook (e.g. political deadlocks in France and Japan). These challenges had been reflected in sovereign debt yields.

13: As highlighted in the July FSR, there were a number of risk channels through which pressures on sovereign debt globally could affect financial stability, including in the UK via cross-border spillovers. These channels included: higher interest rates leading to tighter global financial conditions; increased market volatility interacting with vulnerabilities in market-based-finance; the reduced ability of governments to respond to future shocks; and the potential for capital outflows from overseas investors. Correlations between movements in yields across sovereign issuers could act to transmit and amplify stress in government bond markets.

14: Global geopolitical risks remained elevated. Conflicts in Europe and the Middle East had raised concerns about global energy supply. There had been concerns that these conflicts might escalate and create supply chain volatility. However, oil prices and shipping costs had moderated since the Q2 meeting.

UK Household and corporate debt vulnerabilities

15: The Committee judged that UK households and corporates had remained resilient, but faced continued pressure from the adjustment to higher debt servicing costs and the cost of living.

16: The outlook for households was gradually improving as the share of households expected to refix at higher rates was falling. The aggregate household debt to income ratio was at its lowest level since 2001. Lenders had changed their behaviour following the

[1] IMF Fiscal Monitor, April 2025

Financial Conduct Authority (FCA) statement on mortgage stress rates in March. A number of lenders had recently taken up the Prudential Regulatory Authority's (PRA) option to modify their loan-to-income (LTI) flow limit, following the FPC's updated Recommendation in Q2, but the full impact of these policy changes had not yet been felt in the mortgage market.

17: Aggregate measures of UK corporate debt remained significantly below their pandemic peaks. Some highly leveraged corporate borrowers relying on market-based finance remained particularly exposed to global shocks. But the share of vulnerable borrowers with low interest coverage ratios had remained steady since Q2. The FPC was considering the availability of finance for high growth potential SMEs as part of its work on supporting economic growth and welcomed the publication of a **staff literature review**. The FPC would present its conclusions on this work in Q4.

Banking sector resilience

18: The FPC maintained its judgement that the UK banking system had the capacity to support households and businesses, even if economic and financial conditions were to be substantially worse than expected.

19: The UK banking system remained appropriately capitalised, had high levels of liquidity and asset quality remained strong. Aggregate resilience for the major UK banks across the Common Equity Tier 1 (CET1) risk-weighted capital ratio, Tier 1 leverage ratio and the liquidity coverage ratio were broadly unchanged compared to Q1 results at 14.5%, 5.1% and 151%, respectively. Major UK banks continued to report robust earnings, with return on tangible equity above their cost of equity and the aggregate Price to Tangible Book ratio reaching 1.3 times.

20: The FPC discussed its setting of the UK CCyB rate. The Committee's principal aim in setting the UK CCyB rate was to help ensure that the UK banking system was better able to absorb shocks without an unwarranted restriction in essential services, such as the supply of credit, to the UK real economy. Setting the UK CCyB rate enabled the FPC to adjust the capital requirements of the UK banking system to the changing scale of risk of losses on banks' UK exposures over the course of the financial cycle. The approach therefore included an assessment of financial vulnerabilities and banks' capacity to absorb such losses, including the potential impact of shocks.

21: In considering the appropriate setting of the UK CCyB rate, the FPC discussed its judgements around underlying vulnerabilities that could amplify economic shocks. The Committee noted that while the global risk environment remained elevated, UK households and corporates remained resilient in aggregate and credit conditions reflected the macroeconomic outlook. The UK banking system also remained resilient, maintaining appropriate levels of capital.

22: In view of these considerations, the FPC decided to maintain the UK CCyB rate at 2%. Maintaining a neutral setting of the UK CCyB rate in the region of 2% would help to ensure that banks continued to have capacity to absorb unexpected future shocks without an unwarranted restriction in essential services, such as the supply of credit, to the UK real economy.

23: The Committee would continue to monitor the evolution of financial conditions closely, as well as reviewing the results of the 2025 Bank Capital Stress Test, to ensure the setting of the CCyB remained appropriate.

24: In line with its statutory obligations, the FPC reviewed its Direction to the PRA on the leverage ratio, issued in September 2022.

25: The FPC continued to consider a leverage ratio to be an essential part of the framework for capital requirements for the UK banking system, and judged that the leverage ratio set out in the 2022 Direction should remain unchanged.

26: Having regard to the interaction between monetary and macroprudential policy, the Committee confirmed the appropriateness of continuing to exclude central bank reserves from the leverage ratio, and of not recalibrating the minimum leverage ratio requirement of 3.25% to reflect an increase in reserves since 2016. The FPC would keep this under review as part of future reviews of the leverage ratio framework.

27: More generally, as noted in the 2025 Q2 Record, the Committee would refresh its assessment of the overall level of capital requirements in the UK banking system and provide an update on progress and next steps in the December 2025 FSR. Given it is an important part of the capital framework, the leverage ratio would form part of the considerations. The Committee agreed that robust prudential standards and a resilient financial system supported growth and competitiveness by ensuring a continuous supply of financing to the real economy even in times of stress or high uncertainty, and by providing firms, customers, and counterparties with reassurance that they could do business in the UK safely and with confidence.

28: The FPC welcomed the commencement of the Bank Resolution (Recapitalisation) Act 2025 on 16 July. The Act introduced a new recapitalisation payment mechanism, primarily designed to facilitate UK small bank resolution if that was in the public interest. The FPC supported this targeted enhancement of the UK bank resolution regime which had helped to ensure the regime remains fit for purpose and ready for use.

Resilience of the gilt repo market

29: The FPC welcomed the publication of the Bank's Discussion Paper **Enhancing the resilience of the gilt repo market**. The Discussion Paper seeks views from market participants on the effectiveness and impact of a range of potential reforms to enhance the resilience of the gilt repo market in stress. It focuses on greater central clearing of gilt repo and minimum haircuts on non-centrally cleared gilt repo transactions, as well as views on a broader range of other potential initiatives. The Committee noted that this work would help advance a finding of last year's System Wide Exploratory Scenario exercise that there was merit in exploring market structure reforms to improve resilience in this area.

The following members of the Committee were present at the 2 October Policy meeting:

- Andrew Bailey, Governor
- Nathanaël Benjamin
- Sarah Breeden
- Jon Hall
- Randall Kroszner
- Clare Lombardelli
- Liz Oakes
- Dave Ramsden
- Carolyn Wilkins
- Sam Woods

Gwyneth Nurse attended as the Treasury member in a non-voting capacity.

Annex 1: Financial Policy Committee policy decisions

Outstanding FPC Recommendations and Directions (as at the date of the FPC's meeting on 2 October 2025)

On 23 March 2023, the FPC made the recommendation (23/Q1/2) that:

- The Pensions Regulator (TPR) should have the remit to take into account financial stability considerations on a continuing basis. This might be achieved, for example, by including a requirement to have regard to financial stability in its objectives, which should be given equal weight alongside other factors to which TPR is required to have regard. The FPC noted that in order to achieve this, TPR would need appropriate capacity and capability.

On 27 June 2025, the FPC made the recommendation (25/Q2/1) that:

- The PRA and FCA should together (i) aim to ensure that the aggregate flow of new residential mortgages from mortgage lenders at loan-to-income ratios (LTIs) at or greater than 4.5 does not exceed 15% of total new residential mortgages, and (ii) allow individual lenders to increase their share of lending at such high LTIs while aiming to ensure the aggregate flow remained consistent with the limit of 15%. The FPC recognises that, in doing so, such high LTI lending by individual lenders could exceed 15% of their total number of new residential mortgages while the aggregate flow remains consistent with the 15% limit. The aggregate flow is calculated based on new residential mortgages extended by lenders which extend residential mortgage lending in excess of £150 million per annum.

Other FPC policy decisions which remain in place

The following text sets out previous FPC decisions, which remain in force, on the setting of its policy tools. The calibration of these tools is kept under review.

Countercyclical capital buffer rate

The FPC agreed to maintain the UK CCyB rate at 2% on 2 October 2025, unchanged from its 27 June 2025 meeting. This rate is reviewed on a quarterly basis. The UK has also reciprocated a number of foreign CCyB rate decisions – for more details see the Bank of England website. Under PRA rules, foreign CCyB rates applying from 2016 onwards will be automatically reciprocated up to 2.5%.

Leverage Ratio

In September 2021, the FPC finalised its review of the UK leverage ratio framework, and issued a Direction and Recommendation to implement the outcome of the review as set out in its October 2021 Record.

In October 2022, in line with its statutory obligations, the FPC completed its annual review of its Direction to the PRA. The FPC revoked its existing Direction to the PRA in relation to the leverage ratio regime, and issued a new Direction on the same terms as in September 2021 with the addition of discretion for the PRA to set additional conditions to the central bank reserves exclusion.

- The full text of the FPC's Direction to the PRA on the leverage ratio is set out in the Annex of the October 2022 Record, together with the original Recommendation (now implemented).
- The PRA has published its approach to implementing this Direction and Recommendation.
- The FPC is required to and has continued to review its leverage ratio Direction annually, most recently in 2025 Q3.