

UK Bank Stress Test: All Is Well

July 13, 2023

All major UK banks passed the Bank of England’s stress test, released on July 12, 2023. According to the Bank of England, this stress test indicated that “the major UK banks would be resilient to a severe stress scenario that incorporated persistently higher advanced-economy inflation, increasing global interest rates, deep and simultaneous recessions in the UK and global economies with materially higher unemployment, and sharp falls in asset prices.” The Bank of England went on to note that, “reflecting resilience built up by banks in recent years, the results indicate the UK banking system would be able to withstand the severe macroeconomic scenario and has the capacity to support households and businesses throughout the stress.” It was also noted that “the [stress] scenario is more severe than the 2007–08 global financial crisis (GFC). It is also substantially more severe than the current macroeconomic outlook.”

The eight banks and building societies covered in this stress test include the ‘Big 4 Banks’ -- Barclays, HSBC, Lloyds and NatWest – plus Nationwide Building Society, Santander UK, Standard Chartered and Virgin Money UK.

All banks tested would remain above their CET1 and Tier 1 leverage hurdle rates. Furthermore, “no bank [would be] required to strengthen its capital position as a result of the test.” Note as well that the aggregate bank capital drawdown was less than that under the last stress test in 2019, even though the severity of these two stress tests was similar. (Stress tests between these dates were crafted to address COVID-related stresses.) In addition, **no bank would have had to convert its AT1 securities.** The ‘ring-fenced’ (domestically focused) bank subsidiaries of the ‘Big 4’ bank groups were also separately tested, and they performed well, too.

Spectrum is encouraged by the positive results of these strenuous stress tests on large UK banks, which are consistent with the positive results of the Federal Reserve’s stress tests last month, which covered large US banks.

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