Bank of England

Dame Meg Hillier MP
Chair, Treasury Committee
House of Commons
London
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Dave Ramsden
Deputy Governor, Markets and Banking

16 January 2026

Dear Chair,

I am writing in response to a request made by the Treasury Committee on 9 December for an explanation of the monetary policy equivalent impact of the FPC's decision to reduce its system-wide benchmark for Tier 1 bank capital to 13% of risk-weighted assets.

The FPC's judgement on the appropriate level of capital for the banking system balances the benefits to growth in the form of reduced frequency and cost of crises and the costs through lower investment. On 2 December 2025, the FPC announced a one percentage point reduction in its system-wide benchmark for Tier 1 bank capital to 13% of risk-weighted assets. It did so in recognition of changes in the banking system and improvements in risk measurement that will accompany the implementation of new international standards (Basel 3.1).

For major UK banks in aggregate, 13% is also the level of capital requirements that is expected to prevail in practice once Basel 3.1 is implemented after January 2027[1]. Banks currently maintain higher levels of capital than that, however, in part because they appear reluctant to use some regulatory buffers, which are intended to be useable in stress. The decision by the FPC to cut its benchmark, alongside the FPC's

[1]This number refers to aggregate capital requirements and buffers for the major UK banks, excluding firm-specific PRA buffers and requirements set by overseas authorities such as the international component of the CCyB.

commitment to making regulatory buffers usable, should make banks feel more comfortable to deploy the capital they have and support growth in future.

The impact on growth will depend on the way in which banks choose to deploy their capital in response to the FPC’s actions. If banks choose to reduce their capital ratios, and do so in a way which supports productive investment and hence increases potential supply, that would support growth and have no material impact on inflation. Accordingly, there would be no need for any offsetting, albeit very modest, tightening of monetary policy. If, however, banks respond in a way which primarily boosts the demand side of the economy some very modest tightening of monetary policy could be warranted to offset the impact on inflation and growth.

Ensuring a resilient financial system – one which can absorb rather than amplify shocks – is the most important contribution the FPC can make, not only to promote financial stability, but also to support economic growth. The FPC's actions to deliver financial stability continue to support the MPC in their objective to deliver price stability.

Section 1 of the December 2025 Financial Stability Report (FSR) describes various actions that the FPC is taking to support sustainable economic growth, in response to the Chancellor’s request set out in the November 2024 FPC remit letter, in addition to its review of the appropriate level of bank capital requirements. The FSR describes other steps the FPC has taken to ensure that its resilience-building measures are implemented efficiently and in a way that supports sustainable growth, as well as identifying areas where there is potential for the financial sector to contribute more to sustainable growth. The FPC’s analysis of risks in pursuit of its primary financial stability objective is also potentially useful for the MPC decision making process, which also supports sustainable growth.

Yours sincerely,