

Getting liquidity where it is needed – speech by Nathanaël Benjamin

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Speech

Good afternoon, thank you for the opportunity to speak today.

Last week we published our latest Financial Stability Report, which provides the FPC's view on the outlook for the UK financial system, in terms of the current conjuncture as well as several structural matters. Today I'd like to take a further step back and talk about some long-term trends that will affect the future funding and liquidity environment, and how we policymakers are thinking about liquidity flows across the financial system as it evolves.

Liquidity flows support the provision of vital services in an evolving landscape

The Bank's approach to financial stability focusses on the role the financial system plays in providing vital services to households and businesses.¹ And in particular its ability to do so in both good and bad times, as disruptions to these services have large and persistent economic costs. For this to happen requires liquidity to flow to where it is needed most across the financial system so that financial institutions have the funding they need to operate effectively.

When we think about that, we need to consider how the provision of financial services to the real economy has been changing over time. In particular, we need to take into account the growing importance of non-bank financial institutions (NBFIs) which now play a more significant role than in the past. NBFIs account for around half of assets in the financial system, both globally and in the UK.² In the UK, market-based finance has accounted for essentially all of the growth in UK corporate credit since the Global Financial Crisis (GFC) and now accounts for 50% of the stock of corporate lending.

NBFIs play a key role in the provision of a range of financial services to households and businesses, operating both alongside, and in partnership with, banks. They provide services directly, such as financing, insurance, hedging products, and long-term savings. And they also support other direct providers of financial services, for example, by lending to banks in wholesale funding markets. Their activities provide liquidity and depth in the gilt market which serves as the risk-free benchmark for a wide range of sterling-denominated debt, such as corporate bonds. NBFIs also play an important role in the SONIA interest rate swaps market, which is used by banks to hedge their interest rate risk and has a big influence on the pricing of fixed-rate mortgages.

¹ [Picking what matters – speech by Nathanaël Benjamin | Bank of England](#)

² Financial Stability Board (2024), [Global Monitoring Report on Non-Bank Financial Intermediation 2024](#)

This has brought many positives, including cheaper and more diverse financial services to the real economy. But it has also come with the emergence of new types of risks emanating from the NBFIs sector and therefore made it increasingly important to consider the liquidity needs of NBFIs – whereas traditionally the focus has been on the liquidity needs of banks. We also have to consider the resilience of the channels through which NBFIs access that liquidity.

Risks in the financial system have transformed in other ways which pose different liquidity challenges. Derivatives markets allow financial institutions to hedge their risks, thereby indirectly supporting the provision of financial services. Post-GFC efforts to strengthen the role of central clearing and improve bilateral margining practices have been successful at reducing counterparty risk in the trading of derivatives. However, these changes have also increased liquidity risks arising from margin calls in times of stress, and more of this risk now sits with NBFIs – something we have talked about before.³

Similarly, repo markets are used by financial institutions, including NBFIs, to manage their day-to-day liquidity and collateral needs, as well as to obtain the funding they need to invest in financial assets, thus supporting the real economy. They allow financial institutions to lend to one another essentially as collateralised loans, reducing counterparty risk. However, repo borrowers are exposed to liquidity risk as they may have to top up the collateral backing their repo loans if the value of that collateral falls sharply in stress. And we've talked in the past about how this can be exacerbated by sharp rises in repo haircuts from currently very low – often zero – levels, and the consequences for financing conditions in the real economy.⁴

These long-term structural changes are not new and we have been talking about them for some time. But these different types of risks emerged against a backdrop of abundant liquidity, which dampened them somewhat. This may no longer be the case as the funding and liquidity environment has been changing over recent years. It is important for us now to consider whether liquidity is able to flow to where it is needed for the financial system to support the real economy, both in normal times and in stress. And in doing so we should recognise the more significant role that NBFIs play in providing that support.

The funding and liquidity environment has been changing over recent years

We are moving away from a post-GFC monetary policy stance of very low interest rates and very large central bank balance sheets where central bank reserves are abundant. This is a significant change given the key role central bank reserves play in how liquidity

³ [Late call – speech by Nathanaël Benjamin | Bank of England](#)

⁴ [Late call – speech by Nathanaël Benjamin | Bank of England](#)

flows through the system, as the safest and most liquid of financial assets and the ultimate means of settlement.⁵

In the UK, the Bank of England's own balance sheet is shrinking as extraordinary monetary policy measures introduced in response to the GFC and Covid are being unwound. As a result, the overall stock of reserves in the system is decreasing and the way in which these reserves are supplied by the Bank is changing. As set out previously by several of my colleagues, we are transitioning towards a repo-led operating framework where the size of our balance sheet will reflect the liquidity needs of the system.⁶

This transition will require a change in how banks and non-banks manage their liquidity. In December 2023⁷, we set out how the change in central bank balance sheets was leading to a number of system-wide trends that were likely to affect bank funding and liquidity. And we have consistently highlighted the need for banks to factor these trends into their liquidity management and planning. For example, the cost and availability of reserves will affect banks' decisions to hold them versus other high-quality liquid assets (HQLA) that can also be used to manage their liquidity.⁸

We are now some way through this process. The Bank's reserves supply has fallen to around £680bn from a peak of nearly £980bn. Asset purchases are being unwound through quantitative tightening (QT) while cheap long-term funding provided through the Bank's crisis-era TFSME lending scheme is maturing or being repaid early by banks, with the amount outstanding declining from £193bn to £83bn.

The banking system has been adjusting to this change. Despite a shrinking supply of reserves, banks have maintained robust liquidity positions, with aggregate Liquidity Coverage Ratios (LCRs) of 153% and 285% for large and smaller banks respectively.⁹ Larger banks in particular have been replacing central bank reserves with gilts in their HQLA. And banks have increased their usage of both our Short-Term Repo (STR) and Indexed Long-Term Repo (ILTR) operations as intended. That has helped smooth through frictions in money markets and ensure that the supply shrinks at a manageable pace.

By adapting to this change, the banking system has been able to continue to support the real economy. Lending growth has picked up. Gross lending to households and businesses was 13% higher in the first five months of this year compared with the same period in 2024, with increases seen across all asset classes. Our most recent Agents' intelligence suggests that SME financing conditions have improved and are now close to

⁵ [The importance of central bank reserves - lecture by Andrew Bailey | Bank of England](#)

⁶ See the Bank's December 2024 discussion paper [Transitioning to a repo-led operating framework](#)

⁷ See [Financial Stability Report - December 2023 | Bank of England](#), Box D

⁸ HQLA are assets that can be readily converted into cash to meet short-term liquidity needs, including government bonds and, at appropriate haircuts, a range of higher-quality corporate debt and covered bonds.

⁹ Three-month moving average to May. The LCR measures a bank's stock of HQLA relative to forecast 30-day net cash outflows in a stress scenario.

what Agents would assess as “normal”, having been unusually tight for several years. The FPC judges that credit conditions continue to reflect developments in macroeconomic conditions.¹⁰ Banks have managed this while maintaining robust earnings. They have maintained net interest margins at around historical average levels, and their price-to-book ratios have risen in a way that reflects investor confidence in UK banks’ ability to maintain returns on equity around their cost of equity.

It’s not just banks who are affected. The change in funding and liquidity landscape has knock-on implications for the availability of liquidity for NBFIs as well. Banks play a significant role in the provision of liquidity to them, and banks’ own liquidity position is one factor affecting their willingness to on-lend liquidity to others (in addition to capital and counterparty risk considerations).

A new normal for funding and liquidity

The reduction in central banks’ footprint in the financial system is in many ways a return to normal – even though it may not feel like it for many employees in the financial sector who haven’t known anything else in their careers so far. But it is a new normal, reflecting the lessons learned during and since the GFC about the liquidity needs of banks, and of the system as a whole. It is important to consider how different parts of the financial system will continue to have access to the liquidity they need to support the real economy in this new normal.

The financial crisis revealed serious inadequacies in liquidity risk management practices by banks and other financial institutions. Post-GFC reforms have significantly strengthened micro-prudential regulation and supervision of liquidity risks, and we now have a much greater understanding of the importance of taking a system-wide view of liquidity. The PRA’s liquidity supervision framework now includes rules targeted at the key aspects of a firm’s liquidity risk management including the Liquidity Coverage Ratio, the Net Stable Funding Ratio and the Overall Liquidity Adequacy Rule. Leverage Ratio requirements have also been introduced as a backstop to the risk-weighted capital framework. These guard against the risk of excessive leverage in normal times that could result from the inherent errors and uncertainties in assigning risk weights, which could exacerbate liquidity strains during a stress. For their part, banks have taken the liquidity risk lessons from the crisis on board and manage their liquidity and leverage in a way that is more prudent than was the case prior to 2008.

As my colleague Vicky Saporta has set out, the Bank of England has also learned lessons in the way it provides liquidity and supplies reserves.¹¹ Our operating framework is now accessible to a much wider range of banks and we have introduced new facilities to supply

¹⁰ See [Financial Stability Report - December 2023 | Bank of England](#), Section 5.2

¹¹ [Learning by doing – speech by Victoria Saporta | Bank of England](#)

reserves against a broad range of collateral, including contingent facilities that can be activated in stress. These facilities allow the supply of reserves to expand when needed, for example if there is an increase in demand for precautionary liquidity in a stress. We have taken steps to normalise regular usage of our facilities in a way which reduces stigma, emphasising that all of our facilities are ‘open for business’.

And we continue to learn. The experience of March 2023 highlights the importance of the composition of firms’ liquid assets and their ready access to central bank facilities in preparing them to deal with faster, larger liquidity shocks. The PRA intends to identify whether changes to the prudential liquidity framework are warranted to reflect these lessons, with any proposed changes subject to consultation in 2026.

Beyond banks, the 2020 dash-for-cash episode and the System-Wide Exploratory Scenario (SWES) provided valuable insights into how banks and NBFIs behave in a severe market-wide liquidity shock, and how their actions can interact to amplify stress across the financial system.¹² And we also continue to assess the liquidity risk implications of new forms of digital money.

Accounting for the growing role of market-based finance

So both the normalisation in the monetary policy environment and the shift in the provision of services from banks to non-banks are major trends for the financial sector. And my key point is this: we need to think about them together, not in isolation. The ‘new normal’ for funding and liquidity has to take account of the growing importance of market-based finance. Now more than ever, we need to consider the liquidity demands of NBFIs as well as banks given their significant role in the provision of vital services to households and businesses.

This has changed the nature of liquidity flows through the financial system and the types of liquidity risk we are most concerned about. The funding and liquidity landscape influences business decisions by NBFIs, including the level of leverage in the non-bank sector and the types of risks taken by NBFIs. So we need to think about how to support continued provision of financial services by NBFIs in normal times, in a way that avoids unsustainable risk-taking and leverage, and that supports the financial system’s ability to self-manage increased liquidity demands and self-stabilise in severe but plausible stresses. To ensure the central bank needs to step in only in extreme scenarios, not more often.

Unlike banks, NBFIs are not able to hold central bank reserves. They do not have the power to create money (in the form of commercial deposits).¹³ And they do not have

¹² [The Bank of England's system-wide exploratory scenario exercise final report | Bank of England](#)

¹³ Bank of England Quarterly Bulletin 2014 Q1, [Money creation in the modern economy](#)

regular access to central bank facilities, reflecting the different role they play in the financial system. This poses a unique challenge in ensuring that liquidity flows to them as well as banks. And it means that banks will continue to play a major role in providing liquidity to them, reflecting banks' special role in the financial system, including their expertise in maturity transformation and credit risk management.

In sterling markets, one of the most important conduits for liquidity flows between banks and NBFIs is the gilt repo market, as it allows participants to effectively lend against gilts as collateral. What we are talking about here is quite different from the type of leverage that banks provide to the private equity ecosystem, which does not involve gilt repo but rather loans secured against collateral which is illiquid and hard to value – I have talked about those risks before.¹⁴

With only a few notable exceptions, over the past decade the gilt repo market has remained a liquid and well-functioning market. Far from shrinking in the face of abundant central bank liquidity, as some predicted at the outset of quantitative easing, repo activity as a proportion of banking sector assets has remained broadly in line with pre-GFC levels. This is in part due to the increase in activity in NBFIs, and reflects the unique role of the repo market as a major vehicle through which banks are the main providers of liquidity, and with it leverage, to non-banks.

However, recent experience has shown that despite its size and liquidity in normal times, this crucial market can come under pressure when demands for liquidity, particularly from NBFIs, increase in a stress. In the 2020 dash-for-cash episode, gilt repo market functioning deteriorated sharply as market participants, including UK-based dealer banks, were unable to satisfy increased NBFi demand for liquidity to meet margin calls and redemptions. The LDI crisis also highlighted the difficulty in getting liquidity to flow where it was needed in stress. However, the challenge there was different as LDI funds needed less leverage not more and while pension funds had the incentive to borrow, they lacked the ability to do so in effective or timely ways.¹⁵ So even in an environment of abundant central bank liquidity, there were impediments to liquidity flowing from, or through, banks to NBFIs in stress.¹⁶

This is consistent with the findings of the SWES, which showed that despite higher NBFi demand for liquidity in the scenario, most banks had very little, if any, appetite to increase the amount of repo finance they extend to non-banks.¹⁷ This was largely driven by counterparty credit risk concerns, against the backdrop of often zero haircuts. A

¹⁴ [Not-so-private questions – speech by Nathanaël Benjamin](#)

¹⁵ [A journey of 1000 miles begins with a single step: filling gaps in the central bank liquidity toolkit - speech by Andrew Hauser | Bank of England](#)

¹⁶ [Market resilience, non-bank financial institutions and the central bank toolkit – practical next steps– speech by Nick Butt | Bank of England](#)

¹⁷ [The Bank of England's system-wide exploratory scenario exercise final report | Bank of England](#)

deterioration in gilt repo market conditions can amplify forced gilt sales, threatening dysfunction in cash gilt markets. These two markets play a crucial role in the pricing of risk-free assets, which in turn underpins a wide set of other transactions. They help liquidity flow around the system, ultimately funding the provision of vital services to households and businesses. Because of this, dysfunction in these markets has costly implications for the real economy.

That's why one of our financial stability priorities is to enhance the resilience of liquidity in core markets, including gilt repo. It is natural to expect these markets to be impacted by large shocks, as it is likely that demand for liquidity will increase and participants might become more risk-averse and limit their liquidity provision. But we want to make sure that the structure of these markets, and the incentives participants face, mean that these impacts are manageable and that core markets remain sufficiently resilient so that they do not amplify the initial shock.

- In 2023, the PRA completed a thematic review of regulated firms' liquid fixed income financing (or 'matched book' repo) businesses, sharing observations on the lessons learned from the large fluctuations in gilt markets in September and October 2022 and expectations that firms should incorporate these into their risk management practices.¹⁸
- We will soon publish an exploratory discussion paper on potential measures to build gilt repo market resilience, such as greater central clearing of gilt repo and minimum haircuts or margin requirements on non-centrally cleared gilt repo transactions. It will also seek views on a broader range of other potential initiatives.¹⁹
- And we have already enhanced our toolkit to step in through the launch of our Contingent Non-Bank Financial Institution Repo Facility (CNRF). While our preference remains for liquidity to flow via banks from our regular lending facilities to NBFIs, we recognise that in periods of very severe stress, intermediation capacity constraints can prevent banks from lending at sufficient scale to prevent spillover effects resulting in gilt market dysfunction that threatens UK financial stability. In such extraordinary situations, the CNRF provides a means of channelling liquidity directly to financially sound and resilient NBFIs.²⁰

¹⁸ [Letter from Nathanaël Benjamin and David Bailey – Fixed income financing thematic review | Bank of England](#)

¹⁹ See [Financial Stability Report - July 2025](#), Section 6.2

²⁰ The CNRF is open to insurance companies, pension funds and Liability Driven Investment (LDI) funds that meet the facility's eligibility criteria. See [Contingent Non-Bank Financial Institution Repo Facility \(CNRF\) | Bank of England](#).

Key principles for the new funding and liquidity landscape

Notwithstanding the progress made, we are only part of the way through the journey to this new normal and we will continue to learn and adapt as we go.

Because of the unique role we play as both a central bank and a regulator, we have a number of levers that can affect the overall funding and liquidity landscape. These include: i) our monetary operating framework and the terms on which we provide liquidity to the system, ii) the regulatory framework for banks, including liquidity and leverage ratio policies, and iii) policies relevant to the markets in which banks and NBFIs operate.

In using those levers, it will be important to be clear about what our objectives are, to ensure that the set of policy choices we make across them is coherent. Clearly our overarching goal is to deliver the Bank's core statutory objectives of monetary and financial stability. But within that overarching goal we can set out three objectives:

- First, whatever frameworks we have in place, it is vital to maintain monetary control. As my colleague Vicky has set out, monetary control can be achieved under a range of different operating frameworks, although some frameworks may be more robust than others to unanticipated shifts in the demand for reserves.²¹
- Second, individual banks should maintain enough liquid assets, including reserves, to meet their own short-term stressed liquidity needs, taking into account their ability to liquidate these assets either with us or with the market. While this has always been important, management of liquidity risk prior to the GFC proved to be inadequate. Micro-prudential liquidity regulation and banks' liquidity management practices have since improved substantially. And banks need to continue to adapt to changing liquidity risks, including the possibility of faster liquidity shocks in a digital world as highlighted by the experience of Silicon Valley Bank in March 2023.
- And finally, reflecting what we have learned since 2008 and how the financial system has developed, it is important to supplement these monetary policy and microprudential aims with a macroprudential one. Namely that as well as ensuring that market rates remain close to Bank Rate, and that individual banks can withstand a liquidity stress, we seek to ensure that liquidity can flow around the financial system to get where it is needed most. By that I mean that banks and other financial institutions are appropriately incentivised to lend to one another, including in stress, thereby achieving an effective degree of liquidity recycling across the whole ecosystem. While some impact on liquidity provision in a severe stress is inevitable, we want core liquidity markets to be resilient enough so that they help to absorb rather than amplify the initial stress.

²¹ [Learning by doing – speech by Victoria Saporta | Bank of England](#)

There will be choices in how we use our policy levers to achieve these objectives. For example, the level of reserves banks choose to hold in normal times, and the way in which we supply them, will affect their level of asset encumbrance (i.e. how much of their assets are pledged or otherwise committed to us for use in our repo facilities). But as banks encumber more of their assets with us to obtain reserves through our repo facilities, it is important that they also maintain enough 'dry powder' to source additional reserves from us in stress and also consider what collateral they have available to source liquidity from private sector funding markets.

Liquidity getting to where it is needed most

To meet these three objectives, we need to ensure that our decisions on the monetary operating framework and regulatory framework are coherent and tread a middle road as we make these choices. This middle road should ensure sufficient incentives for individual institutions to maintain liquidity insurance themselves and also provide incentives for them to support the liquidity of the system as a whole by lending in financial markets. And we need to ensure that funding markets are liquid and resilient in both normal and stressed times, paying close attention to how our policy choices can affect this resilience. That means ensuring liquidity is cheap enough to allow sufficient market depth in normal times, but without encouraging a build-up of unsustainable leverage in the system which would unravel in a stress.

Primary responsibility for managing liquidity risks lies with financial institutions themselves, and this applies for both banks and NBFIs. When managing their liquidity needs, banks should take into account their ability to use our lending facilities regularly for routine liquidity management, which we encourage and welcome. We want to avoid any stigma around routine usage of these facilities in normal times, so that they can be more effective in stress. NBFIs also need to take a prudent approach to their own liquidity risk management, taking on board lessons from previous periods of market instability such as the 2022 Liability Driven Investment (LDI) episode.²²

That said, we also want to create a funding and liquidity environment which incentivises banks and NBFIs to participate actively in private sector funding markets, rather than hoarding liquidity excessively. This means that we need to be cognisant of potential distortions to banks' and NBFIs' incentives to lend to one another, and their capacity to warehouse risk, in both normal times and in stress. We want to encourage the efficient distribution, or recycling, of liquidity across the financial system and to support the efficiency and depth of intermediation in core private sector funding markets. The resilience of these core markets to stress remains crucial, as they underpin a wide set of transactions that ultimately support the provision of services to households and

²² See [Further guidance on enhancing resilience in Liability Driven Investment | FCA](#)

businesses. It is important that market participants, including NBFIs, maintain their own liquidity resilience so that these markets can self-stabilise in response to most shocks. The less efficiently private sector funding markets distribute liquidity in normal times, the less trained they are to cope with shocks, and therefore the more likely it is that central banks might have to step in.

Situations where central banks have to make extraordinary interventions should be rare. But we cannot eliminate liquidity risk altogether and it will remain the case that some shocks are so severe that intervention will be appropriate given the threat to UK financial stability. What we ultimately care about is how the provision of vital financial services would be affected. So as well as thinking about individual institutions' liquidity needs, we need to consider how significant a role they play in providing those services as well as the potential for their liquidity stress to spread to other parts of the financial system. Given the growing significance of NBFIs, the CNRF is a valuable addition to our toolkit if we do need to intervene.

We should also be mindful of how the funding and liquidity environment can impact the overall level of leverage in the system and the types of risks taken, which in turn affect the size and likelihood of liquidity shocks emerging in stress. Whilst leverage in the financial system supports the depth of funding markets and growth in the real economy, we want to avoid the build-up of extreme leverage in normal times which can create destabilising fire-sales during periods of high volatility and pose very large risks to the real economy.²³

Closing remarks

As I have set out in this speech, there are a lot of factors impacting future liquidity conditions for banks and non-banks that we need to consider together in the round. Normalisation in the monetary policy environment affects the overall level of system-wide liquidity, and the calibration of our repo lending facilities determines how banks can access liquidity from us. Banking regulation, including liquidity and leverage ratio policies, affects banks' demand for holding reserves and other HQLA, their capacity to warehouse risk, and their incentives to distribute excess liquidity to other financial institutions. And there are a range of policy initiatives we can consider to improve the resilience of markets that are core to the distribution of liquidity, such as measures to encourage greater central clearing or minimum repo haircuts.

All of these factors affect the liquidity available to NBFIs, and hence their ability to support the real economy. And given the larger role market-based finance now plays in providing financial services to households and businesses, this is very important. In considering

²³ For a discussion of the use of NBFI leverage in UK core markets, see [Financial Stability Report - July 2025](#), Box C

these different factors together, it is helpful to apply a macroprudential lens which considers how liquidity flows around the financial system.

If we get the calibration of incentives right across our monetary operating framework and regulatory frameworks, reserves should be neither scarce nor abundant – just ample. Banks would maintain an appropriate level of reserves for their own liquidity management purposes, taking into account the predictability and reliability of the Bank's liquidity provision. And outside of periods of exceptional monetary stimulus they would also have incentives not to hoard excess and unneeded liquidity, and would instead redistribute it to the rest of the system where it might be more needed.

Let me end on a practical note. Balancing the principles set out above to achieve the right calibration of incentives requires co-ordination on our part to ensure that policy choices are coherent across our monetary operating framework, our microprudential functions, and our macroprudential functions. Fortunately, the UK's institutional arrangements are well suited to this since the Monetary Policy Committee, Prudential Regulation Committee, and Financial Policy Committee are all housed under one roof. And that co-ordination is happening. We look forward to thinking through these macro issues in collaboration with the industry, towards a steady state which sets up the financial sector well to support households and businesses in a range of environments.

Thank you.

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