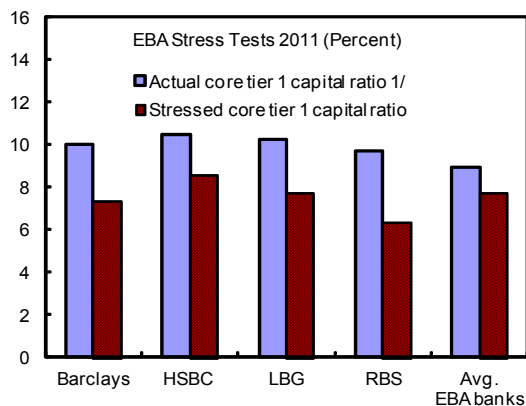


next 5 years also greatly reduces the total amount of consolidation required in the long run.

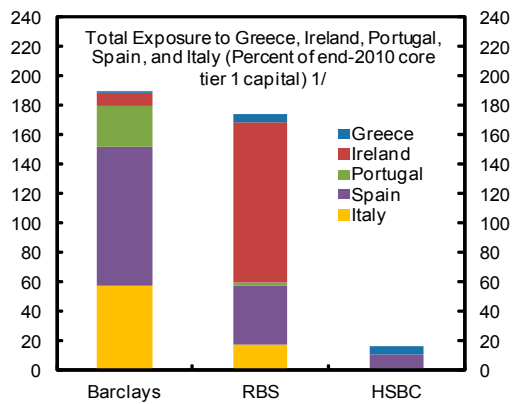
At the same time as the FSR, the Treasury released Whole of Government Accounts for FY09/10, which for the first time presented the public-sector financial position on the basis of commercial accounting standards, including future liabilities arising from public-service pensions. This release does not fundamentally affect IMF staff's view of the fiscal situation, but it is a step forward for fiscal transparency.

2. All four UK banks included in the European Banking Authority (EBA) stress tests passed. The stress test results show that each of the four banks—Lloyds Banking Group (LBG), Barclays, Royal Bank of Scotland (RBS), and HSBC—would maintain core tier 1 ratios of at least 5 percent (the minimum level set by the EBA) under a stressed scenario of low GDP growth over two years, falling property prices, rising unemployment, and moderate haircuts on trading book holdings of peripheral European sovereign bonds.² The results are broadly in line with those of the FSAP stress tests for these banks.³



Source: European Banking Authority.

1/ Standard Chartered was excluded from the exercise due to its limited European exposure. Actual core tier 1 capital ratios in the EBA analysis differ slightly from those reported in the staff report and FSSA due to minor definitional differences.



Source: European Banking Authority.

1/ LBG did not disclose any lending exposure outside of the UK and US.

² The EBA adverse scenario of a slight contraction in the first year and small positive growth in the second is roughly equivalent to the mild adverse scenario in the FSAP stress test, which entails approximately a one standard deviation shock to real GDP growth over the first two years of a five-year stress horizon. The FSAP also conducted stress tests under two additional adverse scenarios (a two standard deviation shock to real GDP growth and prolonged slow growth).

³ In addition to the EBA four, the other major UK banks in the FSAP solvency stress test sample include Standard Chartered, Santander UK, and Nationwide. All major UK banks exceeded the Basel III and Financial Service Authority hurdle rates in these scenarios. FSAP assumptions include haircuts to bank debt and sovereign debt holdings in both the banking and trading books. The FSAP also includes liquidity stress tests of the major UK banks, building societies, and foreign investment banks.