

in starting off at his first job. He thinks of the after retirement. Yelberton's plan is to save then live off his retirement money from ages 60 to 30 years. If the rate of return that he can get would build up to \$5.74 after 30 years (using  $r = 5.74$ ). Say that Yelberton will earn \$60 (this amount is approximately an annual pension for Yelberton is how much of those life, and how much to put aside until after simplifying assumptions, but it does convey the for future consumption after retirement.

**Personal budget constraint.** Yelberton's assumption during his working life and future

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"Where borrowers have taken advantage of market conditions to raise their debt levels, an adjustment in market prices could expose a debt overhang, giving rise to risks to financial stability," the BOE said in the report.

Its warning highlights renewed unease in policy circles over the risks of heavy indebtedness, which critics of central banks say they have helped fuel by pinning interest rates to the floor for years in an effort to revive sluggish economies. Still, central banks, including the BOE, take comfort from postcrisis reforms designed to ensure the banking system can better withstand unexpected economic and financial shocks.

The BOE reiterated that its stress tests suggest British banks are strong enough to withstand a disorderly U.K. exit from the European Union.

But Mr. Carney stepped up warnings that more work needs to be done—especially by EU authorities—on issues such as the legal framework for derivatives to prevent disruption to the provision of financial services in the event of an abrupt break. The U.K. is scheduled to leave the EU in March 2019.

"The EU has not yet indicated their solution to these fundamental issues which would be expected to have more material impacts on the costs and availability of finance on the continent in the unlikely event of a disorderly Brexit," Mr. Carney said.

Negotiations between London and Brussels over the terms of Britain's EU exit are ongoing. The U.K. is due to leave the EU in March next year but a host of critical issues remain unresolved, including future customs arrangements, product regulations and cross-border financial services.

## [2]

Jun 25 2018 at 9:31 AM

### Global financial system vulnerable to rate hikes, warns BIS



Recent workers' protests in Brazil, where signs of global financial stress are showing up again.

**Dado Galdieri**

by **Ambrose Evans-Pritchard**

World debt ratios have spiralled to record levels during the era of super-easy money and markets are showing telltale signs of late-cycle excess, leaving the international financial system acutely vulnerable to a jump in borrowing costs.

Any reversal in our fortunes could be "quick and sharp", says the Bank for International Settlements, the global watchdog based in Switzerland and the scourge of dissolute practice.

The warnings cascade from the BIS's annual report released over the weekend, always a sobering read for investors and central bankers alike.