

UK unveils second bank rescue package

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Britain unveiled a second bank rescue package worth tens of billions of pounds on Monday aimed at kick-starting lending to homeowners and businesses and curbing an alarmingly deepening recession.

Prime Minister Gordon Brown said the measures, including an insurance scheme to protect banks from so-called toxic assets, were crucial to free up credit to get the economy moving again.

"Good businesses must have access to credit, jobs should not be lost needlessly," he said, presenting the package to reporters along with Chancellor of the Exchequer Alistair Darling.

"The government is clear that meeting lending demand to otherwise creditworthy businesses, homeowners and consumers is essential for supporting economic recovery," added a government statement.

Brown urged other countries to take similar steps, warning that the world risked tumbling into a "damaging spiral" of de-globalisation if they did not co-ordinate their responses to the economic downturn.

The British leader did not put a total price tag on the new measures, which came after a first package last October.

However, press reports suggested it was worth some 200 billion pounds (\$A438.16 billion) overall.

The announcement came as Royal Bank of Scotland (RBS), majority-owned by the taxpayer since the credit crisis, said it expected to suffer an annual loss of up to 28 billion pounds (\$A61.34 billion), including losses linked to its part takeover of Dutch lender ABN Amro in 2007.

The government's new Asset Protection Scheme was "designed to protect financial institutions against exposure to exceptional future credit losses on certain portfolios of assets," it said.

Brown insisted the measures were not intended to help out banks that had got themselves into trouble, but were instead targeting homeowners and small businesses, the "backbone of our country", struggling to get finance.

"I will not sit idly by and let people go to the wall because of the irresponsible mistakes of a few bankers," he said.

Banks would pay a fee to have their bad loans underwritten by the government, leaving them with more freedom to increase lending to cash-starved businesses and individuals.

Finance minister Darling insisted that the government was offering only "backstop insurance" and not a "blank cheque."

He told reporters that banks would take the "first hit," with the government offering a helping hand in cases of "extraordinary losses."

In return, "the bank will need to sign a lending responsibility agreement, binding with a duty on directors to comply, and which we will audit in return for the support we are giving," he said.

He said bank chiefs were behind the government's plan.

Brown said the problems stemmed from banks offering loans internationally then retreating when the credit crunch began.



Much of the money being lent was being raised on the markets and that avenue "has effectively been closed," he said.

As part of the plans, the Bank of England will use Treasury bills to purchase bank-owned assets worth up to 50 billion pounds (\$A109.54 billion).

The measures follow October's 37 billion pound (\$A81.06 billion) recapitalisation scheme, which largely failed to increase lending by banks suffering from the global credit crunch.

"In an ideal world, you would not want to be in this position," Darling said.

The government on Monday also said it would convert its preference shares in Royal Bank of Scotland obtained during October's bailout into normal shares.

This would mean the bank would no longer have to pay a fixed dividend to the government, thus freeing up cash to lend. In return, the taxpayer's stake in the bank would increase to almost 70 per cent from 58.

Recession is likely to become official in Britain this week when data is expected to show that the economy contracted for a second straight quarter in the final three months of 2008.

Official unemployment figures are due later this week, but the last total showed unemployment reached a 10-year high of 1.86 million last October.

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