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17 September 2007

Statement by the Chancellor of the Exchequer on financial markets

Today Secretary Paulson and I have discussed the current instability in the financial markets.

We know that this is an international problem affecting countries throughout the world, including the United States and here in the United Kingdom

Many banks and other financial institutions all over the world are experiencing problems.

Here in Britain, we meet these challenges against a background of a strong economy, one that has grown for over sixty consecutive quarters.

In addition, we have historically low inflation, which has, in turn, seen low interest and mortgage rates.

Our economic, monetary, fiscal and regulatory framework and tripartite system for the financial markets has underpinned the stability of our economy, and has enabled us to deal with previous international financial turbulence.

And on an international level the world economy is forecast to grow at five per cent this year.

Secretary Paulson and I have discussed measures we believe are necessary to improve the regulation of international markets, to encourage greater transparency, and to strengthen cross-border cooperation and communication. We look forward to discussing all of these issues at the IMF meetings in Washington next month.

In relation to Britain and Northern Rock, the Financial Services Authority has repeated again over the weekend and today that Northern Rock is solvent and with a sound long term loan book, but has had short term liquidity difficulties. The support I authorised the Bank of England to offer Northern Rock last week is designed to overcome these short-term difficulties, and to enable it to do its business in the normal way.

As I have said on many occasions over the past few days, people are able to get their money out if that is what they want to do.

I want to put the matter beyond doubt. In the current market circumstances, and because of the importance I place on maintaining a stable banking system and public confidence in it, I can announce today that following discussions with the Governor and the Chairman of the FSA, should it be necessary, we, with the Bank of England, would put in place arrangements that would guarantee all the existing deposits in Northern Rock during the current instability in the financial markets.

This means that people can continue to take their money out of Northern Rock. But if they choose to leave their money in Northern Rock, it will be guaranteed safe and secure.

As I have discussed with Secretary Paulson, we will continue to work here and internationally to do everything we can to maintain a stable and strong economy.