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Bank intervention and recapitalisation

In order to revitalise the financial sector, the previous Government announced a bank recapitalisation scheme in October 2008.

This involved a £20bn injection of capital into Royal Bank of Scotland (RBS) in exchange for shares. Lloyds Banking Group (LBG) – created following the merger of Lloyds TSB and HBOS – received £17bn of capital under this scheme. As a result, the Government also became a significant shareholder in RBS and LBG.

The recapitalisation scheme sat alongside other measures to support the banking system in 2008:

- The Credit Guarantee Scheme was put in place (October 2008). This scheme provides guarantees on short to medium term debt issued by eligible banks in the wholesale markets, against a commercial fee. The window for new issuance closed in February 2010, although banks can roll over debt issued under the scheme with a further guarantee. Additional information is available on the website of the **Debt Management Office (opens in new browser window)** (https://webarchive.nationalarchives.gov.uk/20110406080828/http://www.dmo.gov.uk/index.aspx?page=CGS/CGS_about).
- The Bank of England introduced the Special Liquidity Scheme (SLS) to improve the liquidity position of the banking system by allowing banks and building societies to swap high quality but temporarily illiquid assets on their balance sheets for more easily tradable assets. The drawdown period for the scheme closed in January 2009, but the scheme will remain in place until January 2012 – thereby providing participating institutions with continuing liquidity support and certainty.
- Some short-term loans were also made to banks in this period (from October 2008) – known as Emergency Liquidity Assistance. For more information, please visit the **Bank of England's website (PDF, opens in new browser window)** (<https://webarchive.nationalarchives.gov.uk/20110406080828/http://www.bankofengland.co.uk/publications/other>).