



UK government unveils £50 billion bank recapitalisation plan

Nick Sawyer and Christopher Whittall

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Responding to what it describes as “extraordinary market conditions”, the UK government will make an initial £25 billion available to eligible financial institutions, with a further £25 billion available if required. In return for the capital, the government will receive preference shares or permanent interest bearing shares in those institutions.

“We will do whatever it takes to re-stabilise the banking system,” said UK Prime Minister Gordon Brown, speaking at a press conference.

Eight UK banks have so far confirmed their participation in the recapitalisation scheme: Abbey, Barclays, HBOS, HSBC, Lloyds TSB, Nationwide, Royal Bank of Scotland and Standard Chartered. The facility is open to UK incorporated banks, including UK subsidiaries of foreign institutions.

As part of the agreement, the government will have a say in dividend policies and bonus schemes. It also declared it will require banks to support lending to small businesses and home owners.

In addition to the recapitalisation plan, the Bank of England (BoE) will make a further £200 billion available to banks under the special liquidity scheme.

The BoE will continue to conduct auctions to lend sterling and dollars against extended collateral, adding it will review the size and frequency of these operations if necessary. The BoE will also bring forward its plans for a discount window facility, set to be unveiled next week.

Meanwhile, the UK government will push to reopen the medium-term lending market for banks. Specifically, it will offer a government guarantee on short- and medium-term debt issuance to help refinance maturing wholesale funding obligations.

While the details of this part of the proposal have yet to be hammered out, the government expects the take up of the guarantee to be in the region of £250 billion. The guarantee will likely be provided on senior unsecured debt instruments of up to 36 months in maturity, in dollars, euros or sterling.

To qualify for the guarantee, banks must “raise Tier 1 capital by the amount and in the form the government considers appropriate”. The eight institutions taking part in the recapitalisation plan will immediately qualify for the support.

The equity market reacted coolly to the news. As of 1100 BST, the UK FTSE 100 index was at 4390.05, a fall of 4.67%. However, the index had fallen as low as 4245.29 earlier in the day – a drop of 7.82%.

The Dow Jones Eurostoxx 50 index had fallen by 6.06% to 2704.96 by 1100 BST, following steep falls in equity markets last night in the US and in Asia today. Similarly, France’s Cac index had dropped to 3535.66, down 5.27%, and the Dax index in Frankfurt was down to 5004.73, a fall of 6.04%.

In the US, the S&P 500 index yesterday dropped to 996.23, a fall of 5.74%. In Asian markets today, the Nikkei 225 index plunged 9.38% to 9203.32, while the Hang Seng index finished at 15431.73, down 8.17%.

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