HM TREASURY

HMT Ref: 0286W 08/09

To ask Mr Chancellor of the Exchequer, what recent assessment he has made of the effect of the bank recapitalisation scheme on levels of bank lending. 244124

IAN PEARSON

The Chancellor announced on 25 November that the Government would undertake a quick review of the arrangements for the Government's Credit Guarantee Scheme and assess whether they have any implications for the Crosby proposals and how it was working in practice, to maximise its impact on financial and wider economic stability while ensuring it did not crowd out market-based lending now or when better market conditions return.

That review is now complete, and the Government is today announcing changes to the Scheme consistent with the objectives of the review.

Taking account of international experience, and market developments, in particular the falls in bank risk premia, the Government is adjusting the formula that determines the fees paid by participating institutions for use of the Government guarantees. This will lead to those institutions paying a lower, but still commercial, fee for use of the Scheme.

To enable participating institutions to manage better the transition from guaranteed to wholly unsupported funding the government will also lengthen the scheme, from 3 to 5 years, ending in April 2014. Within that the 3 year maximum term of individual instruments will be retained, with some flexibility to roll them over as agreed with the Treasury. At present the Scheme guarantees borrowing in Sterling, Euros and US Dollars. In future participants will also be able to borrow in a wider range of currencies, further extending the investor base in UK banks and building societies.

These changes will enable banks and building societies to borrow from a diverse range of investors, improve their financial positions, and therefore pave the way for them to lend to the economy.

These proposals vary the Scheme as approved by the European Commission on 13 October 2008 and are subject to the Commission's approval under the state aid rules. The Government has informed the European Commission of these proposals and will bring forward changes to the rules of the Scheme to implement these proposals once it has obtained the Commission's approval.

Full details of the changes are being published on Treasury and the Debt Management Office's websites.