THE TELEGRAPH

OSBORNE UNVEILS £140bn SCHEME

TO KICK-START STAGNANT [UK] ECONOMY

by

Robert Winnet

Political Editor

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http://www.telegraph.co.uk/finance/financialcrisis/9332570/Osborne-unveils-140bn-scheme-to-kick-start-stagnant-economy.html

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George Osborne unveiled a £140 billion emergency scheme to try to avoid a second credit crunch caused by the ongoing chaos in the eurozone.

The Bank of England is to offer money to high-street banks to kick-start mortgage and small business lending to prevent loans being rationed for many families and entrepreneurs, the Chancellor announced.

It comes after sharp rises in the costs of mortgages and other loans in recent months as banks struggle to raise money in the midst of the single currency crisis.

Sir Mervyn King, the Bank of England Governor, said that the “industrialised world have thrown everything bar the kitchen sink” at the global economic meltdown but that even “bolder action” was now required.

“We are not powerless in the face of the euro-zone debt storm,” Mr Osborne said. “We can deploy new firepower to defend our economy from the crisis on our doorstep. Funding for lending to the family aspiring to own their home and the business that wants to expand…The Government - with the help of the Bank of England – will not stand on the sidelines and do nothing as the storm gathers.”

He added: “We are rolling up our sleeves and doing everything possible to protect British families and firms.”

The bank funding scheme will allow high-street banks to temporarily “swap” their assets, such as their mortgage books, with the Bank of England in return for money they can loan to customers. It is estimated this could support up to £80bn in new loans.

The Bank of England will on Friday also activate an emergency scheme that offers six-month liquidity to banks in tranches of no less than £5bn a month.

It is the latest attempt – following the cut in interest rates to record lows and the £325bn quantitative easing scheme – to kick-start the British economy following the start of the financial crisis four years ago.

The scheme should also help British banks shield themselves from the impact of the eurozone crisis – as they will not have to rely on international finance markets to raise money, which is currently difficult.

Sir Mervyn said that the “euro area crisis” has created a “large black cloud of uncertainty hanging over our economy”.

He added that the “ugly picture” had created “formidable challenges” and that despite trillions of pounds being pumped globally into the economy over the past two years “we are back to where we were”.

Speculation mounted that the Spanish government will require a full-blown government bailout after the country’s borrowing rates rose above the psychologically-important rate of seven percent.

The country has already been offered a €100bn “line of credit” to help Spanish banks by their European counterparts – but international investors do not believe this is sufficient.

This weekend, Greece will again hold elections and there are fears that parties refusing to support austerity plans will win the balance of power – which could lead to the country being forced out of the euro.

World leaders will meet for the G20 summit in Mexico next week when Angela Merkel, the German Chancellor, and other European leaders will be under intense pressure to solve the ongoing crisis in the single currency.

Mr Osborne reiterated warnings that Greece may have to leave the euro before the economic chaos can end.

“The political paradox Europe faces right now is this: some or all of these things are needed for the existing countries in the eurozone to make their currency work, but it may take Greek exit to make it happen,” the Chancellor said. “That is a decision for the eurozone and the Greek people. One thing is for sure: if exit is the chosen route then the eurozone must have a very good plan in place to prevent contagion.

“The worst case for everyone would be exit without a sufficiently ambitious response. But carrying on with the current uncertainty and instability is not much better. A time for decisions has come.”

Also appearing at the Lord Mayor’s banquet for bankers, Sir Mervyn also set out the damaging impact of the ongoing crisis.

“The euro-area crisis has had more dramatic moments, in which the ultimate resolution seems to be at hand only to be confounded by subsequent events, than there are episodes in The Killing,” the Bank Governor said, referring to the Danish crime drama.

“The effect of the euro-area crisis has been to create a large black cloud of uncertainty hanging over not only the euro area but our economy too, and indeed the world economy as a whole…The black cloud has dampened animal spirits so that businesses and households are battening down the hatches to prepare for the storms ahead. The result is that lower spending leads to lower incomes and a self-reinforcing weaker picture for growth.”

However, Sir Mervyn echoed assurances from the Chancellor that the situation would improve with Government action.

He added: “Leaders of the G20 will next week confront formidable challenges. In the United Kingdom, we can and will get through this. But it would be naïve to pretend that any of us can know when the storms from overseas will have passed over our shores and the economic skies begin to brighten.”

The Treasury and Bank of England unveiled plans for two different schemes to help provide funding for banks.

The “funding for lending scheme” will “provide funding for an extended period of several years, at rates below current market rates and linked to the performance of banks in sustaining or expanding their lending”. Although backed by the Treasury, the scheme will be run by the Bank of England and will not therefore add to Government borrowing.

Ministers hope that the scheme will lead to a cut in the cost of mortgage borrowing. Over the past six months, two-year fixed mortgage rates have risen from 3.22 percent to 3.66 percent. Many banks have also increased their standard mortgage rates.

It is understood that the bank funding scheme will be introduced rather than increasing again the size of the quantitative easing programme, as some economists have recommended.

The scheme was first discussed at the quad of senior ministers – David Cameron, Nick Clegg, Danny Alexander and Mr Osborne – about a month ago. The decision to only announce the programme may spark allegations that the Government was seeking to overshadow the Prime Minister’s appearance at the Leveson Inquiry.

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[UK] BANKS SHARES JUMP ON OSBORNE'S

£140bn STIMULUS PLAN

by

Harry Wilson

Banking Correspondent

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http://www.telegraph.co.uk/finance/9333398/Banks-shares-jump-on-Osbornes-140bn-stimulus-plan.html

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Shares in Britain’s largest banks were among the biggest risers this morning as the market gave a cautious thumbs up to the government’s plans to provide £140bn of emergency funding to support the economy.

Royal Bank of Scotland's shares jumped more than 7pc in early trading to 246.7p, while Barclays rose a little over 5pc to 203p as investors digested the impact of George Osborne’s announcement last night of a scheme to provide low-cost funding to Britain’s largest lenders.

In his annual Mansion House speech on Thursday night [14/06/2012], the Chancellor said the Bank of England would provide an emergency stimulus package intended to kick-start mortgage and small business lending, as fears grow about the impact the worsening eurozone crisis is having on economic growth.

Britain’s largest retail bank, Lloyds, saw its share price rise 4.7pc to 31.2p and HSBC, the largest UK bank by market capitalisation, recorded a 2.3pc increase to 558p, as they also benefited from the renewed investor confidence in bank shares.

The sharp rise in bank shares drove the FTSE 100 up 0.8pc to 5510 points in early trading.

The Bank of England’s new External Collateral Term Repo (ECTR) will see the central bank pump a minimum of £5bn every month into the banks in the form of six-months loans.

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