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Nationalised banks lending less to the UK

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BANKING
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NATIONALISATION of banks outside the UK has resulted in greater “financial protectionism”, the Bank of England said yesterday.

Banks taken over by the state charge higher rates to foreigners and lend less across international borders, the Bank’s report found.

Yet UK banks supported by the government following the credit crunch have not succumbed to such nationalistic practices, the authors claimed.

“Our key finding is that after nationalisation, foreign banks reduced British [loans] as a share of total lending by about eleven percentage points, and increased interest rates on new loans to UK residents by 0.7 per cent,” the report explained.

“By way of comparison, nationalisation does not seem to affect either the lending or interest rate decisions of British banks.”

The study, supervised by external members of the Bank’s monetary policy committee, was conducted to find whether government impingement on banks had resulted in “a new type of protectionism”.

Following the great recession of the 1930s, trade protectionism was heavily used, deepening the trough according to many economists.

“This time around, there is only muted evidence of traditional trade protectionism,” the report said.

“But the public sector has made substantial interventions in financial markets around the world, particularly in the banking sector, while cross-border bank lending has fallen.”

Eamonn Butler of the Adam Smith Institute commented: “I am not surprised that foreign lenders might regard Britain as a bad debt, given the huge government debt.

“But the current government seems resolutely set on bringing the national books back into balance and denationalising the banks as soon as possible, so there is no real need for alarm,” Butler added.