

Lack of access to foreign capital 'harms UK business'

Tuesday, 24 May 2011

The reduction in foreign banks' UK lending threatens a lasting squeeze on families and businesses because backed overseas lenders are practising "financial protectionism", a Bank of England paper warned yesterday.

The paper argued that foreign banks had withdrawn credit and raised prices in Britain under pressure from their home governments. By contrast, UK banks backed by the taxpayer did not behave in the same way. In the years leading up to the financial crisis, overseas banks increased their lending in Britain's booming economy but activity fell sharply after 2007.

If the reduction is a temporary response to risks in the British economy, foreign banks will probably come back, the paper argued.

"On the other hand, if this phenomenon is longer lasting, possibly due to financial protectionism, the lack of access to foreign capital means that UK households and firms will need to roll over maturing loans with alternative sources of funding," the authors, Andrew Rose and Tomasz Wieladek, said. "Whether or not the decline in foreign lending is a result of financial protectionism has therefore important implications for UK financial and monetary policy."

They concluded: "Foreign nationalised banks seem to have engaged in financial protectionism."

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