

Britons 'penalised by protectionism of foreign banks'

Britons are falling victim to foreign banks that have begun acting in a "protectionist" way after state bail-outs, a study published by the Bank of England has revealed.



They viewed banks in which the state has at least a major stake as nationalised, such as Royal Bank of Scotland (RBS) and Northern Rock. Photo: AFP



By [Emma Rowley](http://www.telegraph.co.uk/journalists/emma-rowley/) , and Harry Wilson

6:05AM BST 24 May 2011

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While British banks have not shown a "nationalistic" shift in their behaviour, despite being nationalised, their foreign counterparts have – by lending less to British customers and raising their borrowing costs, the paper found.

Leaders of the G20 nations promised after the global financial crisis to "not retreat into financial protectionism".

Nonetheless, after nationalisation, foreign banks reduced their proportion of British lending to total lending by more than 10 percentage points and raised interest rates on new loans to UK residents by 0.7 percentage points, the study said.

"Foreign nationalised banks seem to have engaged in financial protectionism, which British nationalised banks have not," wrote Andrew K. Rose, from Berkeley, and Tomasz Wieladek, a Bank of England economist.

They viewed banks in which the state has at least a major stake as nationalised, such as Royal Bank of Scotland (RBS) and Northern Rock.

[UK banks miss first Project Merlin target](http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/8530443/UK-banks-miss-first-Project-Merlin-business-lending-target.html)

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The paper came as the Bank published figures showing that Britain's five biggest banks had failed to meet their lending target for small and medium-sized business

(<http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/8530443/UK-banks-miss-first-Project-Merlin-business-lending-target.html>) in the first three months of the year.

Under the terms of the Project Merlin deal with the Government, banks, including state-backed lenders Lloyds Banking Group and RBS, agreed to lend £19bn to SMEs in the first quarter, but data on Monday showed they undershot this by £2.2bn.

Total borrowing made available in the quarter was £47.3bn, just below the agreed annual level of £190bn which works out at £47.5bn a quarter. The British Chambers of Commerce said "over-centralised processes, unclear decision-making and a lack of proper, local relationship management" at banks put off business

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customers from applying for finance.

However, the British Bankers' Association blamed the shortfall on "muted" demand for new borrowing among smaller businesses. Prime Minister David Cameron said it was too early to "rush to conclusions".

The Bank did not give a breakdown of how the five Project Merlin banks – Barclays, HSBC, Lloyds, RBS and Santander UK – performed. RBS is understood to have missed its target.

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