British banks are 'technically insolvent' (and other secercies)

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Britains biggest banks are "technically insolvent", Royal Bank of Scotland said yesterday, as the global banking industry was rocked by another day of turmoil, including the announcement of $23bn (£16bn) of new losses from Merrill Lynch and Citigroup, the giant US institutions.

Analysts working for RBS, one of several British banks to have received emergency funding from the UK Government last year, told the City that "the domestic UK banks are technically insolvent on a fully marked-to-market basis".

The warning does not mean British banks are about to go bust, because the assessment is purely theoretical, and RBS said the position was "not unusual at this stage in the economic cycle".

However, it will add to pressure on the Government to provide more support for the country's banks. Treasury officials are now set to spend this weekend in talks about a fresh round of measures, which could be unveiled as early as next week, to free up lending to households and major corporations hit by the credit crunch.

The value of Barclays fell by a quarter in stock market trading yesterday, amid a series of wild rumours about its finances, although the bank said it saw no need to comment on the drop. Its board said in a statement last night that it knew "no justification for the fall".

The statement said next month the bank expected to report that profits before tax for 2008 were "well ahead" of the £5.3 billion forecast by analysts.

City analysts said the bank had been targeted by traders after regulators lifted a ban yesterday on the short selling of financial stocks. Barclays' share price, along with the value of other British banks, was also hit by dismal news from the international markets, including the announcement on Thursday night that the Irish government was nationalising Allied Irish Banks. In the US, Bank of America announced yesterday that it was taking a $20bn injection of emergency funding from the US government, subsequently revealing that Merrill Lynch, the investment bank it rescued last year, had lost more than £15bn in the final three months of last year.

Citigroup, once the world's largest bank, announced more than $8bn of losses for the final quarter of last year, and revealed plans to split itself in two.

Treasury officials were still discussing plans to help British banks last night but the proposals are likely to include up to £100bn of new guarantees for the wholesale markets that underpin mortgage and other loans.

Other possible measures being considered include state support to help Britain’s largest companies raise their own funds. Another option is to launch a “bad bank” to remove tainted assets from the banks’ balance sheets, though while this policy is under consideration, it is thought to remain some way off.

Other proposals include ring-fencing the toxic assets within bank balance sheets. Lord Mandelson, the Business Secretary, has also talked of easing the terms of the Government’s £37bn bank bailout in order to kickstart lending. Downing Street made it clear yesterday that the Government remained committed to doing “whatever is necessary to help British businesses and families get through this global financial recession”. Reform plan raises fears of Bank secrecy

The urge to coverup what one ought not be doing is immense. That fact helps explain Plans To Allow Secret Printing By The BOE.

The Bank of England will be able to print extra money without having legally to declare it under new plans which will heighten fears that the Government will secretly pump extra cash into the economy.

The Government is set to throw out the 165-year old law that obliges the Bank to publish a weekly account of its balance sheet – a move that will allow it theoretically to embark covertly on so-called quantitative easing. The Banking Bill, which is currently passing through Parliament, abolishes a key section of the law laid down by Robert Peel’s Government in 1844 which originally granted the Bank the sole right to print UK money.

The ostensible reason for the reform, which means the Bank will not have to print details of its own accounts and the amount of notes and coins flowing through the UK economy, is to allow the Bank more power to overhaul troubled financial institutions in the future, under its Special Resolution Authority.

However, some have warned that it means: “there is nothing to stop an unreported and unmonitored flooding of the money market by the undisciplined use of the printing presses.”

It comes after the Bank’s Monetary Policy Committee cut interest rates by half a percentage point, leaving them at the lowest level since the bank’s foundation in 1694.

Debating the issue in the House of Lords recently, Lord James of Blackheath, a Conservative peer, said: “Remove [this] control and there is nothing to stop an unreported and unmonitored flooding of the money market by the undisciplined use of the printing presses.

“Quite why the Bank has to keep its operations so shrouded in secrecy is a mystery to me,” said Simon Ward, economist at New Star. “This [reform] will make it much more difficult to track what the Bank is doing.” Where’s the mystery? Simon answers his own question.

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