

PRESS CONFERENCE GIVEN BY THE PRIME MINISTER AND THE CHANCELLOR OF THE EXCHEQUER IN LONDON

Wednesday 8 October 2008

Prime Minister:

Good Morning. Up and down the country families and small businesses are worried and anxious about their futures, and I know and understand this. Good strong banks are essential for every family and for every business in the country and extraordinary times call for the bold and far-reaching solutions that the Treasury has announced today.

The problems that started in America have now hurt every banking system in every continent of the world. The global financial market has ceased to function, putting in danger the necessary flow of money to businesses and families on which all of us depend in our daily lives.

So our stability and restructuring programme is comprehensive, it is specific and it breaks new ground. The programme is designed to restore confidence and trust in the financial system and, more than that, to put the British banking system on a sounder footing and to build strength for the future so that it can support jobs and prosperity right across our economy.

While over the last year we have consistently acted to stabilise the system, some weeks ago we started working with the Governor of the Bank of England and the Financial Services Authority on a programme that delivers a comprehensive restructuring of our banking system. We decided we had to do more than provide liquidity or buy up assets, as in the American programme, and when we have to meet immediate and long term challenges no one measure alone will be sufficient. So we have taken a comprehensive approach.

This is not a time for conventional thinking or out-dated dogma, but for the fresh and innovative intervention that gets to the heart of the problem.

We are taking three steps. First, to address the immediate issue of flows of money between banks, the Governor of the Bank of England is extending and he is widening the provision of short term liquidity. Loans under the special liquidity scheme will be increased from £100 billion to at least £200 billion, and the Bank will also now bring forward proposals for a permanent facility.

Secondly, to ensure the long term health of the British banking system we are today offering to support banks in raising additional capital by investing directly through preference shares, or at their request by assisting them by raising ordinary shares. The largest banks have committed that they will increase their capital by £25 billion, which we will make available to them if they so wish. In addition we will provide at least another £25 billion. We, the Bank and the FSA are determined that UK banking should be strong and secure.

And thirdly, for a fully commercial fee we will provide guarantees to allow banks to raise their own money in the markets and to resume normal lending. We expect to provide at least £250 billion of guarantees.

All these are investments being made by the Government which will earn a proper return for the taxpayer. And this comprehensive set of decisions on stability, on restructuring and on financing are

the necessary building blocks to allow banks to return to their basic function of providing cash and investment for families and businesses and thus help the economy move forward.

These decisions are the best way of providing long term security for depositors and savers. And as people will now know, we are taking legal action against the Icelandic authorities to recover the money lost to people who deposited in UK branches of this bank. The Chancellor is saying today that he will stand behind the deposits of these customers.

We are showing by our actions that we stand by people who save in Britain. At all times we will ensure taxpayers' money is protected. As the people of Britain will expect, there will be strings attached and conditions to be met. The Treasury has made clear today that it will need to be satisfied about the banks lending to home owners and businesses, including small businesses. We will insist on bank credit lines to small businesses being maintained on a normal commercial basis.

And because our economy should be built around the work ethic, rewarding enterprise and responsibility, rather than irresponsible risk-taking, we must also be satisfied in the terms of our agreements with the banks about executive remuneration, about dividend payments and about improvements in supervision, and we will insist that the taxpayer gets an appropriate share of the upside.

This support is therefore on commercial terms, we expect to be rewarded for the support we provide. Out of this restructuring I believe we can look forward to a fairer, more equitable and reliable financial system.

Because these are also global problems, global action is required. This is a long haul and we have invited other European countries to consider proposals we have put to them this morning on medium term funding, and are in active consultation about how we can adopt a European-wide funding plan, and I have spoken to President Sarkozy this morning about this.

At the same time we are in conversations with all the G7 leaders and G20 leaders about a gathering of Heads of Government and we are ready to put British proposals to such a meeting.

Countries are tested in difficult times. These problems certainly started in the United States of America, but they are having a big impact on our and on other financial systems. But I believe that the decisions we have taken today, with the conditions we have set, are the right decisions to allow us to come through this and help build financial security.

As you know, Alistair has already issued his statement this morning. Do you wish to add to it?

Chancellor:

Yes. You will have seen the formal market notice we put out at 7.30 this morning and I will be making a statement to the House of Commons at 12.30 today.

I would just say this, that we are going through a period of extraordinary turbulence in every part of the world. Every single country is being affected. Now what we wanted to do here is to make sure that firstly we stabilised the position, which is why we have put more money into the system through the Bank of England; secondly, to make sure that we can encourage and help banks rebuild up their capital position, they can either do that through conventional means on the money market or through the special fund, the £25 billion now, with an additional £25 billion, should that be necessary. And we have also, through our announcement today, made it easier for there to be

longer term lending between banks. Why is that important? Because when banks start to lend to each other for a longer period, that will enable them to lend more money to us as individuals, businesses, mortgages and so on.

So I think today's measures are necessary, they are important. It is a really fundamental step that we are taking, but this is part of a process, it is part of a whole range of things that we are doing to support the economy, stabilising the banking system is one important part of that, and as I have said on many occasions, we will continue to do whatever it takes to ensure that we see this process through.

Question:

You have made it clear Prime Minister that your hope is, and it is a hope, that you will get this money back eventually. Will you be honest with the British people in the short term, where is this money coming from – higher borrowing, lower public spending, higher taxes, because it has to come from somewhere?

Prime Minister:

Well this is initially met, the banking recapitalisation, by borrowing. But remember this is not the American plan, the American plan is to buy up these bad assets by a state fund, our plan is to invest in taking capital in the banks which require this new form of money. So we are buying shares in the banks themselves. The £50 billion is to buy shares and therefore we will have a stake in the banks and we will get the upside in the appropriate cases from what we have done. As far as the other items we have announced today, these are lendings that are done on a commercial basis. We are trying by our lendings to open up the market.

I think there are really two issues here. One is for every family in this country the stability of the banking system matters. So if families are going to have mortgages, if families are going to be able to access cash, if businesses are able to invest, they need a banking system that is sound. The banking system must be sounder and that is why we are putting the capital in, but we expect a return on that. Secondly, however, we know that the taxpayers' interest has got to be protected at all times and that is why we are ensuring that it is an investment stake in the banks and we are not just simply giving money, it is not therefore the American scheme. Where there is lending being done through the Bank of England, these are at commercial terms. Alistair will be able to say more.

Chancellor:

It is worth remembering that if you look at what we have done over the last year, remember twelve months ago people asked me about the lending we made to Northern Rock, well over half of that money has now been repaid and Northern Rock is actually ahead of its repayment schedule. In relation to Bradford and Bingley a few weeks ago, yes we had to provide money up front to help savers, but that money will be recovered when it is right to do so from the wider banking industry. And if you look at the legs of what we have announced today, the first element is an extension of the special liquidity scheme, that is the money that the Bank of England puts into the system, and I have said today that is now going to be in excess of £200 billion, that money is effectively lent into the system and we get it back at the end of the three year period. In relation to the share capital, as Gordon said, that is an investment, it is remunerated, we get dividends, and of course the shares will be sold in due course. In relation to the guarantees we have provided to get the longer term lending, that too comes at a price, there is a fee there. And as Gordon said, looked at it in another way, if you didn't do anything there would be a very significant cost to all of us as taxpayers. I believe this is

the right thing to do, people expect us to take decisive firm action, especially to ensure that we stabilise the banking system and help it get through this period.

Question:

But that doesn't mean it is cost-free. I mean a facetious question meant to make an important point, if it was such a great idea to part-nationalise the banks, why didn't we do it 10 years ago? There must be a cost to ordinary people or at least, forgive me, a risk for ordinary taxpayers and it seems to me you are not being up front with them about that risk.

Chancellor:

The reason we are doing this now is because it is necessary to stabilise the banking system, you know that is why we intervened way back on Northern Rock. The Government of course funds these things initially through borrowing, but the point I am making is that unlike in America where basically the bad assets are being taken on by the taxpayer, what we are doing here is we are putting money into the system and we will get it back. Yes we need to fund it, but frankly only a government can do this, and the reason the Government is doing it is because it is absolutely necessary because the price you would have to pay otherwise for the wider economy is one that I don't think is acceptable.

Question:

As far as taxpayers are concerned, they see the Government putting in vast, vast, sums of their money into propping up the banking system and they will be asking themselves this morning why on earth will the Government not give a guarantee to their savings, because while that question mark remains over their savings, their deposits, their confidence in the system is going to remain shaky.

Prime Minister:

Well first of all, every time a bank has been in difficulty we have made sure that the UK depositors are safe, we did it with Northern Rock, we did it with Bradford and Bingley by moving ownership across, we did it with Halifax Bank of Scotland, we have done it this morning with an Icelandic branch, not regulated by the FSA incidentally but is based in London, so that we can assure people who are UK depositors that the depositors are safe. So every action we have taken has been to make sure that not only is the banking system protected, but savers are protected.

Let me also say just this one thing. We could have continued simply to provide liquidity to the market, we could have done what the Americans have done which is to say we will buy up some of the assets. We analysed this problem in great detail and decided that we should go to the heart of the problem. And I think what some of the questions may be hinting towards is why have you taken such comprehensive action and why is it being done today? And the reason we have taken that comprehensive action is we know that you have got to have short term, medium term and long term security of funding, we know that customers will not get the money as they want to get it for the purposes that banks are intended to provide unless we build and restructure the banking system, and these are far more radical proposals than people have expected because we are not only restructuring the banking system with new capital, we are providing guarantees about medium term funding to get the markets moving again, as well as providing the short term liquidity.

It is in the taxpayers' interest that we have a sound banking system, but it is also in taxpayers' interest that we do everything in our power to protect the money that people pay as taxpayers. That is why the Government is taking shares, not simply providing money; that is why the Government is insisting on commercial terms for the loans that we are prepared to make and the guarantees that we are prepared to give; and that is why we are saying, if I may say so, and others may want to ask about this, that we are insisting in the individual negotiations with the banks that we have to be satisfied about executive remuneration, about the payment of dividends, about the conditions of supervision, and of course about the flow of money that will happen to businesses and to home owners. These are difficult times, they are tougher times over these last few months, but we are taking now radical action right across the system. I think some people may have expected simply a capitalisation scheme today, this is radical action across the system, the restructuring of banks under the conditions set down, a tough deal for everybody but the right deal for the British public, and it is accompanied by the security that long term funding and medium term funding can now be provided.

Question:

Prime Minister, what do you think of the way that the banks have run their businesses recently, and in exchange for you putting in this money do you think that some people in the banks should be losing their jobs now?

Prime Minister:

I think the right way of looking at this is where people devote hard effort and work hard, and where people are enterprising and are responsible in their risk-taking they should be rewarded. But where there is irresponsible or excessive risk-taking that puts not only a bank at risk but puts the system at risk, then we have to take action. And that is why we are insisting now in any dealings with individual banks that we will have to be satisfied, on behalf of the taxpayer, that when we make these investments, executive remuneration is on the agenda so that excessive risk is not being rewarded, as it has been in the past, dividend payments are on the agenda and also the standards of supervision within the bank itself have got to be on the agenda as well. So these are the tough conditions that have to be met and I have said there are strings attached, there are conditions attached. This is us insisting that what concerns every taxpayer in the country is part of the discussions and the agreements with the banks when we put in the capital and become a shareholder of these banks.

Question:

Taxpayers may want to know, as they are digging into their pockets, potentially taking a risk here, as they see the public finances potentially damaged, as they see the economy potentially damaged, who is to blame?

Prime Minister:

Well it is pretty clear to me that this problem started in America, it started with irresponsible actions and lending by individual institutions. Some of it was hidden from the regulators, some of it was never reported in companies' balance sheets, in some cases nobody actually knew in the board of the company what irresponsible lending was done. And then when you have a situation where sub-prime mortgages are repackaged, they then arrive in Britain in a different form and you have some institutions, at least one institution, that is not only contracted to buy sub-prime products this year or last year, but is contracted to buy them three years ahead without any knowledge of the quality of the product, then there is a failure of responsibility on the part of many in the banking system. Now

where there have been regulatory issues, such as on Northern Rock, the FSA have said that they could have done certain things better. But the problem essentially arises, starting out of the United States of America where we had this highly leveraged lending, it ran into trouble because people were not sure and taking huge risks about the products that they were involved in, it has become a problem for the whole banking system and we have got to deal with it. We have come to the conclusion that the restructuring of the banking system in Britain is necessary. It is necessary by recapitalising part of the banking system, but as part of that it is also essential that the short term funding and the medium term funding is provided. Because let's face it, what do people in Britain want? They want to know that their banks will do the job for which banks are intended. They are hard working people, enterprising people who want their banks to be able to ensure the flow of money for their mortgages and for their businesses and that is what we intend to make sure happens. British banks have had a great record in the past, we are going to ensure that the problems that have existed in the British as well as the international banking system are solved and we will restructure the banks around the principles that I have laid down.

Question:

Prime Minister you talk about responsibility, it seems that some within the City are now prepared to take responsibility for the situation in which we find ourselves and fall on their swords, and yet you seem to feel that you can walk away from the wreckage of a system that you have overseen for many years, smelling of roses. How can that be right?

Prime Minister:

I don't accept what you are saying. Britain has had ten years of growth and stability, but this is not the time to talk about the record, which I know has brought large numbers of jobs and large amounts of prosperity and more home owners to our country. This is the time to talk about the future and how we can build a better banking system. All over the world people are looking at what are the problems they now face in the banking system. We have led the world today with a proposal to restructure our banking system, a proposal to give short, medium and long term funding to get the system moving. I think the radicalness of what we have done will be seen by many people in other countries of the world and we are taking the steps that I believe other countries may want to consider in the future to get the banking system to be on a sounder footing, to do the job for which it is intended, to support the real economy and to support the needs of families and businesses in the economy.

Question:

Prime Minister what is Plan B, what happens if this does not work?

Prime Minister:

This is the set of measures that we are taking to deal with the problems as we see it. It is more fundamental than you would have expected, given some of the speculation about it, because it is dealing with the short and medium and long term problems that we face. It is a restructuring of the banking system in Britain and I think the proposals that we are putting to the rest of Europe show that we want the rest of Europe to support us in medium term funding. We have said, and I repeat, we will do whatever it takes to stabilise the banking system and put it on the soundest possible footing.

Question:

Can I take you back to the question of risk that Nick Robinson raised earlier, what are the risks of this and in particular the £250 billion guarantee on borrowings? Surely if these borrowings are based on dodgy assets there must be quite a downside risk to the taxpayer that you are not telling us about.

Chancellor:

In relation to getting the markets going again and extending the [indistinct] in which banks will lend to each other, there is a fee charge for that and of course what we will do is to ensure that when these loans are looked at we understand what exactly they are, what it is that we are underwriting. In other words, as you would expect with anyone lending anyone any money and where there is a guarantee there is a proper process carried out. But the key problem we are trying to address here is that people sometimes find it extraordinary to understand that we are in a situation now where too many banks will simply either not lend to each other or only lend overnight, whereas they used to lend on much, much longer periods, three months, six months and so on. We needed to unjam this problem and that is why we have introduced this guarantee to underwrite these loans, but we will of course make sure in doing so that there is a proper process and, as I say, there will be a fee that is charged.

Prime Minister:

I think you have got to look at the programme as a whole because we are certainly resuming medium term lending and that is providing it at a commercial rate, or a rate that has a return for our money. But you have to look when you are talking about bad assets at the whole system, and we are recapitalising the banks, restructuring the banks to enable them to deal with that problem itself, and of course maintaining short term lending in the system. It is the proposals as a whole and not one individual proposal that adds up to a programme that can give people confidence that we are taking the action necessary both to stabilise the banking system, but to put it on a sounder footing for the future.

Question:

Chancellor, if you are partially nationalising the banks but not putting anybody on the board, and apparently as far as one can see not partially running the banks, how are you absolutely going to guarantee that the credit that you are putting in is genuinely going to be moved about between the banks and specifically out to the small businesses and the rest that you want to get going again?

Chancellor:

We are not seeking to take public control of these institutions, we are absolutely not doing that. We did in the case of Northern Rock where we appointed directors and they are responsible for the company, answerable to me and therefore me to parliament. This is a completely different proposition, it is one where the Government is taking a shareholding, where banks choose to raise money through the restructuring fund that we are setting up, the £25 billion. It is open to banks, if they choose to do so, to raise that money through conventional market operation, as they do on a regular basis. But what we are doing is recognising that those markets may be difficult for some, that we are making this facility available in return for which we take shares, but we are not talking about running the banks. The banks are going to be run as a commercial operation, albeit with government help and restructuring. So there is a fundamental difference here. We are not talking about taking over the banks, the banks will continue to run. What we are doing is trying to make

sure that we help them build up their capital which is an essential precondition of ensuring that they can return to more normal lending.

Question:

Prime Minister how worried are you that these turbulent times that you describe are going to lead to people losing their jobs and their homes, how much does that worry you?

Prime Minister:

Well we will do everything in our power to make sure that employment levels remain high. There are a considerable number of vacancies still in the economy for people looking for jobs. But obviously the action that we are taking today is designed to do something that is necessary for a successful economy: that the banks perform the function that they should be performing, which is lending money to home owners, lending money to businesses, making sure that people have access to all the banking services so that they can make the decisions and run their everyday lives. So it is absolutely critical to the success of every business that we have a sound banking system, and it is absolutely important to every home owner and every household that the banking system is in good condition, to restabilise the banking system, to put it on this sound and long term footing, but to do that by protecting the taxpayers' interest and that is what every family will want to know. We are laying down conditions about the supply of funds that include executive remuneration, that include dividend payments, they include the resumption of lending to small businesses, they include that the Government, if it makes an investment on behalf of the taxpayer, will get a share of the upside as the banks improve their position in the market place. All these are done to put the taxpayers' interest at the head of this and that is why the conditions are being set and strings are indeed being attached.

Question:

Could I just ask about the timing of this announcement and the allegations that you have dithered in making this announcement. Given the turbulence in the markets, shouldn't you have been ready to make this announcement on Monday morning, instead of which there were 48 hours in which we have seen the value of some of Britain's leading banks fall by over 50%?

Chancellor:

As Gordon has said, we have been considering this proposal for a while, we needed to work it through. Now I have made very clear my extreme irritation at the speculation that emerged on Sunday morning about this because it was totally unhelpful. But what I said on Monday in the House of Commons was I would make an announcement when I was ready to make it. Now inevitably, given the complexity of the discussions that need to take place, to put together a proposal such as this it takes time. Now I said earlier this week that if you look at America, if you announce something and you haven't thought through the consequences then you get into real difficulties. I was determined to ensure that that would not happen. Therefore it was right to take the necessary time to get the thing right. Now of course this has taken place against as I said a period of massive turbulence that has been caused for all sorts of different reasons, we have been clear at each stage that we will do whatever it takes to stabilise and then help the banking system get through this. It was always the case that I was going to make this statement when I was ready to do it, and not before that.

Prime Minister:

I just think people should reflect for a minute that this is a far more comprehensive programme than people either expected or people in some cases were calling for a few days ago. It deals with the issue of restructuring of the banks, it deals with medium term funding, it deals with short term liquidity, it deals with international action. And I think the level of the discussions that had to take place with the commercial banks is an important element in this, contact with other governments is also an important element too. I think everybody here should recognise that the best thing when you are doing a comprehensive restructuring is to get the policies and the decisions right and to do it therefore in the right and calm and orderly way, which is what we are trying to do. I think what the British people want is to know that those people who are charged with responsibilities of leadership will take the calm and orderly action that is necessary to ensure the stability of the system. As you can see these proposals go far beyond things that were speculated on on Sunday.

Question:

Will you apologise to the British people for the fear, for the panic of 48 hours in the financial markets for the silent bank run that began in the last 48 hours? You are the ultimate stewards of this financial system, so don't you owe them an apology?

Prime Minister:

I don't accept that. We have provided liquidity at all times, we have increased the amount of liquidity available to the banks who sought it. The banks have been able to draw on liquidity, whether it is in Britain or in some cases in dollars as a result of the actions that the Governor has taken, but you have got to get a restructuring programme right and I think people would take exception to a situation where we announced a partial proposal, then had to come back with another partial proposal and then another partial proposal. The immediate impact of this is that people know that we have looked at every aspect of the banking system, how it can be restructured for the medium term and longer term, increasing liquidity from today, increasing the medium term funding that is guaranteed by the Government, and also restructuring the banks to do what I say is the purpose of banking. That is to provide a service to the real economy and to families in this country. And I do think on reflection you would revise that question because essentially what we have done is a far more comprehensive programme than ever people were asking for.

Question:

Prime Minister can you confirm whether or not the removal of the RBS board was part of this deal, whether you sought guarantees about the board or not, and if it wasn't are you saying that you are prepared to risk tens of billion pounds worth of taxpayers' money on what was a discredited management?

Chancellor:

Absolutely not. It is a matter for companies who run them, companies and their shareholders. Any decision in relation to that is entirely a matter for those banks. Our concern is purely and simply in relation to helping the recapitalisation process where that is appropriate, and also helping in the wider provision of liquidity, that is our sole purpose.

Question:

Can I just ask you why you didn't follow the American Paulson plan and is there not a danger that we still haven't identified the toxic assets in our banks and therefore the lending that you want to happen between banks is still going to be withheld?

Prime Minister:

Hold on, I mean everybody is talking about the Paulson plan as the removal of toxic assets and they moved into a state fund, bought at a particular price, we don't yet know the price, it hasn't yet happened. What our concern has been all along is to strengthen the banks themselves. Ours in a way is a restructuring of the banks rather than simply taking one part of the banking system, its worst assets, out of the banking system. We want the banks to be stronger, we want the banks to be strengthened by an injection of capital, we want them to be strong enough to withstand the events that are likely or have hit them round the world and not just in Britain. Therefore I believe that that and the combination of the offer of greater short term liquidity and medium term funding is a far more comprehensive package. I think there are further discussions going on in the United States, but I believe that by looking at this in detail and by looking at what the future of our banking system is and taking a medium and long term view as well as a short term view, we have taken a bold and I believe far reaching decision that the banks needed more capital. It needed to be restructured but at the same time we have provided the additional funding for them to do medium term and short term lending.

Question:

Prime Minister how quickly do you think you need to now sit down with G7 or G20 colleagues and discuss the international context? And perhaps you can give us some detail, you mentioned that Britain has some proposals to put to your international colleagues, what do they look like and are they as radical as those that you have outlined today?

Prime Minister:

Well let me say first of all that we are putting this morning, to all our European colleagues a proposal about a medium term funding scheme and a European-wide initiative and we think we have reason to believe that there is some support for that in different parts of Europe. As far as the G7, Alistair will be able to say that he is meeting as the G7 with the other Ministers of the G7 on Friday this week. There will be a meeting of the International Monetary Fund on Saturday, there is then a meeting of the Financial Stability Forum very soon and we are preparing for a meeting of international leaders. We will put proposals both about the funding of the system, but also about the supervision of the system across frontiers. I would emphasise one proposal for example, a college of supervisors. If you take a big multinational firm it is regulated in America, Britain, France and all that sort of thing, better to have one college of supervisors so that there is a clear idea what it is doing across frontiers and not just in one vicinity. So these are proposals on regulation and supervision about disclosure and transparency, but we will be looking also for cooperation at a macro-economic level also because we believe there are things that can be done at that level as well.

Chancellor:

Yes, and Gordon has mentioned the discussions that he has had with President Sarkozy and I have had similar discussions with my counterparts in Europe at the Finance Ministers meeting in Europe yesterday. On Friday I think two things are necessary. One is that we need to make sure that the regulatory system, the supervisory system that we have is far more attuned to the global problems that now exist. I forget, somebody was asking earlier what conclusions do you draw from all this,

well one of them is that whereas in the past if an American bank started getting deeper and deeper into the sub-prime mire, that might have been a problem for an American State of the United States, it is now a problem for us within weeks. Therefore there has to be far greater global cooperation, we need to start looking at those risks far more than we did in the past. The second thing, and today's announcement here is of relevance, is that if you look around the world and see what is happening at the moment, it is patently obvious to everyone that this isn't just a problem for national governments, it is a problem for Europe. It is a problem for every major country in the world and even beyond that. The G7, which is the largest developed countries, has got an opportunity to show a lead here. Now what we do in each country, as Gordon was saying to Patrick, will be different or will be modified for those conditions, but I think acting together to stabilise the banking system and then at measures to look at the wider economy are absolutely essential, that is what we will be discussing on Friday and Saturday.

Question:

What is the earliest the taxpayer can expect a return on this investment? Secondly, at what level will you cap executive salaries and what other rules will you impose? And thirdly, Chancellor, can you say what you are going to say in the Mais Lecture?

Chancellor:

Right, in that order.

Prime Minister:

You could give a brief summary of the two hour lecture.

Chancellor:

Well let me deal with that one first. I have agreed with the organisers of the Mais Lecture that we will put that off for a few weeks because they felt that in the light of what was happening today my words this evening might not be as fully reported as they hoped, never mind what I hoped, so that saves you all something to do this evening.

In relation to your other points, you know firstly what we are announcing today are the principles that underpin our approach. We will then enter into discussions with individual banks and it is only after that stage you can possibly answer questions about what might be required and over what timescale.

The second thing is that we the Government are not going to decide on people's remuneration, that would be frankly ridiculous. What we have said though is that the Financial Services Authority, the regulator, is looking at these things, it is drawing up a code, particularly to deal with the question of people's incentives where frankly there were cases where people were incentivised in such a way that they ran up huge risks for their banks. Then that was bad enough, that's come back on the rest of us. So the FSA is the best body to deal with that.

Prime Minister:

Let us be absolutely clear that the conditions in our discussions with the banks include executive remuneration, dividend payments and the flow of lending to small businesses and of course to home

owners, and these are the measures that we will take to ensure that the taxpayers' interests are represented.

Question:

Prime Minister can you give a cast iron guarantee that public spending will not be hit in other areas, including in areas like the north east for example?

Prime Minister:

Well I think our record on public spending in the north east is one of which we can be very proud, increasing expenditure on housing, on health, on education and social services. And we have set out our plans for the next three years and I believe that the Regional Development Agencies are injecting more money into the north east.

Question:

The Prime Minister has located the problems very squarely with the irresponsible lending in the States, the Chancellor also spoke about the problems of making an announcement there before it was fully thought through, obviously there has also been a lot of commentary about what went on in Congress. Would you say there has been a failure of political leadership there and where would you locate that?

Chancellor:

I wouldn't say that at all. You know I work very closely with Hank Paulson who is someone both of us have a great deal of admiration for. I think the point I was making in relation to Congress is you want as far as you possibly can to give enough detail, enough substance to your proposals for people then to be able to form a view and consult. Now obviously in America that process took longer than I think anybody wanted, but I think Hank Paulson and the American administration, just as we have, reacted to some pretty difficult situations and they have dealt with them as best as they possibly can.

Question:

I am a bit puzzled as to why you have bracketed dividend payments in with your warnings on executive pay and banking supervision. If you take equity stakes in banks that attract dividend payments, don't you want them to be as healthy as possible in order to benefit the taxpayer?

Chancellor:

I think I heard enough to be able to answer you, or put it another way, here is the answer I am going to give anyway, regardless of what your question might be! And that is that Gordon has set out his position very fully on that and I don't want to repeat it.

But yes we are taking, where it is appropriate to do so and if it is part of the agreement, a shareholding and we would expect to receive a dividend in respect of that. But in relation to the running of the bank, that is something for the banks but you know I think Gordon and I between us have made the position pretty clear.

Question:

Does today mark the death of the fiscal rules and if so will you be putting forward a new fiscal framework, new rules that they should follow?

Prime Minister:

Today marks the announcement of a restructuring scheme for our banks and the restructuring scheme for our banks is far reaching. I believe that we have done everything in our power therefore to protect the taxpayer by the measures that I am announcing. In the medium term funding scheme we are charging what is effectively a commercial rate which will be a return for the Government. So I wouldn't put the emphasis today on that, I would put the emphasis on the restructuring in a way that we believe is the best deal and gives the best protection to the taxpayer.

Question:

Can you just tell us how far through this crisis you think we are?

Prime Minister:

Well we have got to deal with every situation that arises. We are taking the difficult action we are taking today because we are in tougher times. We know it is a long haul, I said that at the opening of my remarks, but we believe that at every point we have taken decisive action and today we are taking decisive action which is more comprehensive I believe than people expected because we are dealing with all aspects of the banking system.