

# SOME EURO COUNTRIES BANKRUPT,

## KING WARNS

Sky News

19 October 2011



Sir Mervyn King  
Governor of the Bank of England

<http://uk.news.yahoo.com/king-warns-time-running-economy-190401666.html>

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The Governor of the Bank of England has warned that "time is running out" for the UK and global economy.

Sir Mervyn King told bosses the "recovery in our trade position is at risk of stalling" because of the latest economic problems.

In a speech to the Institute of Directors in Liverpool, he said the eurozone debt crisis was delaying the UK's return to economic normality.

The governor explicitly stated that some European countries and banks are bankrupt during the address on Tuesday night.

In a major departure, he described the problems as a "solvency crisis" rather than an issue of simple liquidity.

He also criticised governments for being reluctant to face up to their underlying debt issues.

The governor said: "A slowing of the world economy, especially in the euro area, is a threat to our strategy of rebalancing and recovery of the UK economy."

And he added: "In the absence of rebalancing, globally and especially in the euro area, we could be facing a recovery that is not merely reluctant but recalcitrant."

But he did suggest families facing a squeeze to their household incomes should see some respite from high inflation next year.

"Increases in energy prices, import prices and VAT account for the current high level of inflation," he said.

"Once the effect of these temporary factors begins to dissipate, inflation should fall back sharply early next year."

His speech came after figures showed the Consumer Prices Index hit a record high in September, climbing to 5.2%.

This is its highest measure since September 2008 and the highest since the measure was introduced in 1997.

The governor told business chiefs there was room for optimism because "the fundamentals of the UK economy are strong".

But he added: "Without a rebalancing of spending in the world economy, a struggle between debtor and creditor countries will inflict economic pain on everyone.

"We must use the gravity of the global crisis to provoke a bold response."

He described the Government's economic strategy as "credible" and said Britain had been on track until the latest crisis.

But he warned: "The problems in the euro area and the marked slowing in the world economy have lengthened the period over which a return to normality is likely.

"2011 has been the year of the reluctant recovery. Growth has disappointed, both here and abroad.

"Business and consumer confidence have fallen sharply, not only at home but also elsewhere in Europe and the United States and the level of world trade in goods has stagnated."

Elsewhere, he said new incentives should be provided to banks to encourage lending to small and medium-sized enterprises but he said ultimately this was down to the Government.

The governor's speech follows days after he told Sky News Britain could now be in the grip of "the most serious financial crisis ever".

It also came amid reports that France and Germany have agreed to enlarge the eurozone rescue fund by 2tn euros (£1.75tn).

According to The Guardian, the European Financial Stability Facility will see its lending capability become five times larger.

The two countries are also said to have decided that banks in Europe should be recapitalised to meet a 9% capital ratio.

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