

**BANK OF ENGLAND**  
LONDON EC2R 8AH

29 November 2011

The Rt Hon George Osborne  
Chancellor of the Exchequer  
HM Treasury  
1 Horse Guards Road  
SW1A 2HQ

Dear Chancellor,

Thank you for your letter of 29 November setting out HM Treasury's plans for credit easing to support the flow of finance to small and medium-sized enterprises (SMEs).

As I emphasised in my recent speech in Liverpool, and on many previous occasions, there is a special concern about the ability of SMEs to obtain credit. That is because SMEs, unlike larger companies, are constrained to borrow through the banking system which is at present under considerable stress. My conversations with businesses in all parts of the United Kingdom have reinforced this concern. So I am very supportive of government efforts to ease the flow of finance to SMEs in current circumstances.

As you note in your letter, we agree that measures which seek to influence the allocation of credit to particular sectors are appropriate for the Government to take rather than the central bank. The objective of the National Loan Guarantee Scheme that you are announcing today is to encourage banks to lend to small businesses. I am firmly of the view that the most effective way to help SMEs is through the banks. They are equipped to assess credit risk in a way that no other institution could do in the immediate future.

The Bank has been able to play its part in easing the flow of finance to companies via the corporate Asset Purchase Facility (APF), which continues to buy corporate securities. The corporate APF is permitted to purchase high-quality private sector assets that trade in viable markets. It is, however, typically only larger companies that issue securities such as corporate bonds and commercial paper that meet these criteria. The Bank's corporate APF and the schemes you are announcing today have different objectives, but I believe them to be complementary.

The corporate APF programmes were designed to ensure that the corporate bond and commercial paper markets function normally. As you note in your letter, it has been shown over the life of the APF that this objective can be delivered by undertaking asset purchases of substantially less than the current ceiling of £50 billion. I am therefore confident that the Bank can continue successfully to operate the corporate APF programmes with the lower ceiling of £10 billion.

I am copying this letter to Andrew Tyrie MP, Chair of the Treasury Committee.



Handwritten signature of Andrew Tyrie, consisting of a large, stylized 'A' and 'T' followed by 'yrie'.