Press Office
Threadneedle Street
London EC2R 8AH
T 020 7601 4411
F 020 7601 5460
press@bankofengland.co.uk
www.bankofengland.co.uk

BANK OF ENGLAND

News release

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Quarterly Bulletin 2012 Q4

The 2012 Q4 issue of the Bank of England *Quarterly Bulletin* is published today.

The **Funding for Lending Scheme** (FLS) was launched over the summer by the Bank of England and HM Treasury. It is designed to incentivise banks and building societies to boost their lending to UK households and businesses. Specifically, banks and building societies are offered funding with both the amount and its price depending on the amount they lend. An article in this edition describes in detail the thinking behind the scheme, including describing the mechanics of how the scheme will work. The Article notes that by reducing funding costs, the FLS should lead to more and cheaper credit flowing into the real economy than otherwise. Early signs have been encouraging: market funding costs for UK banks have fallen sharply and many loan rates have fallen. But given the usual lags from credit being offered to loans being made, the FLS is unlikely to materially affect lending volumes until 2013.

The UK economy has received a significant amount of monetary stimulus since the onset of the financial crisis. Bank Rate has been reduced to its lowest level in its 300-year history and the MPC has purchased £375 billion worth of assets since the launch of its asset purchases programme (or QE) in early 2009. But despite this significant amount of stimulus, broad money growth has been persistently weak since 2008, without any precedence in the past half century. So it is important to investigate what impact QE has had on broad money. The article - **What can money data tell us about the impact of QE?** - analyses the impact of QE by using a money accounting framework, focusing on the period during which the second round of asset purchases took place. It shows that the monetary impact of QE2 looks very similar to that of QE1, with around 60% of asset purchases having fed through into broad money. But whereas in QE1 most of the 40% 'leakage' could be explained by bank balance sheet repair, during QE2 the largest 'leakage' came from sales of government debt by banks. So whereas the first two rounds of QE seem to have had a similar proportionate impact on money, there is some evidence that the transmission mechanism of QE may have varied over time.

The financial crisis has powerfully demonstrated the need for a new approach to financial regulation. Major reforms are therefore under way, aiming to establish a UK regulatory framework which is more focused on the issues that matter and better equipped to deliver financial stability. These reforms will come into effect in

April 2013. The Financial Services Authority will cease to exist in its current form, and its responsibilities will be transferred to two new bodies – the Prudential Regulation Authority (PRA), a part of the Bank of England, focusing on prudential issues; and the Financial Conduct Authority, a separate body, focusing on business and market conduct. Additionally, a Financial Policy Committee will be established within the Bank, focusing on the stability of the financial system as a whole. **The article in this edition focuses on the Prudential Regulation Authority**. It sets out the PRA's role in the new regulatory framework, describing the PRA's statutory objectives of promoting the safety and soundness of firms and contributing to policyholder protection. The PRA will advance these objectives by setting out expectations that firms should meet. The article goes on to describe how the PRA will supervise firms against these expectations. Importantly, it will do this using a judgement-based approach, and one that is both forward-looking and focused on the key risks posed to the stability of the UK financial system.

This edition also includes analysis from the **2012 NMG Consulting Survey** which looks at influences on household spending and saving; an article on **The role of designated market makers in the new trading landscape**; and the regular **Markets and Operations** article reviewing developments in financial markets and the Bank's official operations in the period between the previous Bulletin and 26 November 2012.

Note to Editors

Copies of the Quarterly Bulletin are available from:

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Bank of England,
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Key Resources

Quarterly Bulletin 2012 Q4 (1.2MB)