



BANK OF ENGLAND

News release

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Bank of England and HM Treasury Funding for Lending Scheme – 2014 Q2 Usage and Lending data

The Bank has today published data on the use of the Funding for Lending Scheme (FLS) showing, for each group participating in the FLS Extension, the net quarterly flows of lending to UK businesses and the amount borrowed from the Bank in the second quarter of 2014¹.

Participants in the FLS Extension are able to make drawdowns up to the end of January 2015. During the second quarter of 2014, 9 of the 36 groups participating in the FLS Extension made drawdowns of £3.2bn. Participants also repaid £0.8bn from the first stage of the FLS, taking total outstanding drawings to £45.7bn.

Net lending by FLS Extension participants to small and medium-sized enterprises (SMEs) was slightly negative in the second quarter of 2014, but at -£0.4bn was less negative than in previous quarters (Chart 1). Net lending to large companies was -£3.5bn. Net lending to all businesses, including eligible non-bank credit providers, was -£3.9bn.

During the FLS Extension, participants are able to earn additional borrowing allowances for positive net lending to businesses during the period 1 January 2014 to 31 December 2014. Lending to smaller businesses is encouraged by allowing participants to draw £5 in the Scheme for every £1 of net lending to SMEs. The firm-by-firm sectoral lending data published today show that a number of FLS Extension participants expanded their lending to SMEs in 2014 Q2. Overall, since 1 January 2014, net lending to businesses of all sizes has generated additional borrowing allowances of £4.7bn, spread across 12 participants.

As discussed in the August 2014 *Inflation Report*², aggregate net lending to private non-financial corporations (PNFCs) (i.e. including lending by banks and building societies not participating in the FLS) improved in 2014 Q2. Developments continued to differ by sector, with net lending to businesses in the real estate sector remaining weak in 2014 Q2 (Chart 2).

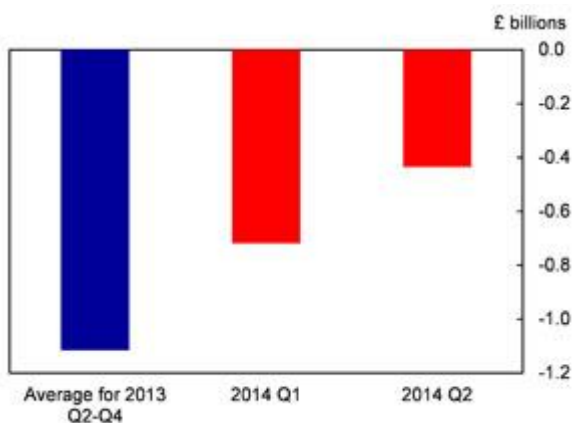
Since the launch of the FLS, bank funding costs have fallen significantly (Chart 3) and this has resulted in an improvement in corporate credit conditions. The balance of respondents to the 2014 Q2 Deloitte CFO Survey, which covers large companies, who reported that credit is available remained high and most noted that the cost of credit was cheap. The Federation of Small Businesses' Voice of Small Business Index reported that loan application success rates continued to increase in 2014 Q2, and that the rates offered to successful businesses have fallen back over the past year. Some of the weakness in bank lending to smaller businesses, which has persisted despite the fall in bank funding costs, may reflect weaker demand. The FLS Extension will continue to support lending to SMEs in 2014 H2.

¹FLS Extension usage and lending data are available at

www.bankofengland.co.uk/markets/Pages/FLS/extensiondata.aspx

²Available at www.bankofengland.co.uk/publications/Documents/inflationreport/2014/ir14aug.pdf

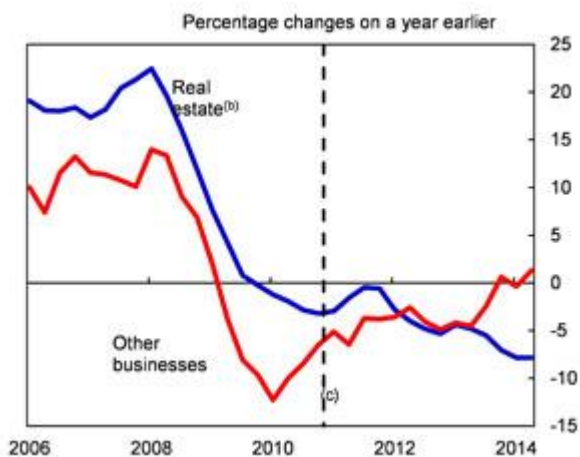
Chart 1: Net lending to SMEs (unweighted) by FLS Extension participants^(a)



Source: Bank of England.

(a) For more details of the sector definitions within FLS see the Market Notice at <http://www.bankofengland.co.uk/markets/Documents/marketnotice131219cons.pdf>

Chart 2: Growth in the stock of lending to the UK real estate sector and other businesses^(a)



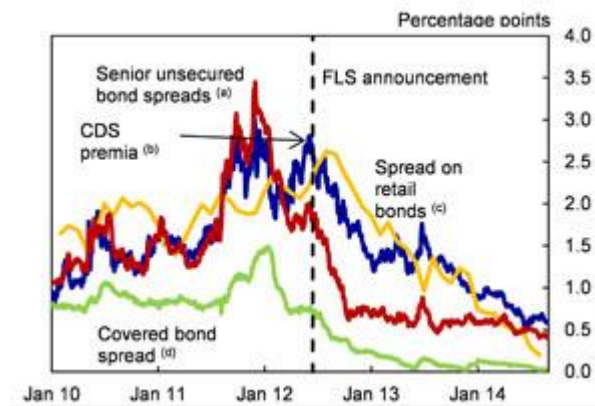
Source: Bank of England.

(a) Lending by UK monetary financial institutions. The sum of lending to the real estate sector and to other businesses comprises lending to PNFCs where data for PNFCs have been estimated by subtracting elements of the industrial breakdown for non-financial businesses thought to contain mainly public sector industries (public administration and defence, education, health and social work and recreational, personal and community services). Data cover lending in sterling. Non seasonally adjusted.

(b) The real estate sector is defined as buying, selling and renting of own or leased real estate and includes real estate and related activities on a fee or contract basis. The development of buildings is included in the data prior to 2011.

(c) From January 2011, data are on the SIC 2007 basis. Changes in the SIC codes have led to some components moving between industries. As a result, growth rates in 2011 may be affected.

Chart 3: UK banks' indicative longer-term funding spreads



Sources: Bank of England, Bloomberg, Markit Group Limited and Bank calculations.

- (a) Constant-maturity unweighted average of secondary market spreads to swaps for the major UK lenders' five-year euro senior unsecured bonds, or, where not available, a suitable proxy.
- (b) Unweighted average of the five-year senior CDS premia for the major UK lenders.
- (c) Sterling only, average of two and three-year spreads on retail bonds. Spreads over relevant end-month swap rates.
- (d) Constant-maturity unweighted average of secondary market spreads to swaps for the major UK lenders' five-year euro-denominated covered bonds, or, where not available, a suitable proxy.