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News release

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Bank of England and HM Treasury Funding for Lending Scheme – 2014 Q1 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[1] in the first quarter of 2014 and the amount borrowed from the Bank during February and March.

During February and March, four of the 36 groups participating in the FLS Extension made drawdowns of just over £2bn. Participants also repaid £0.6bn from the first stage of the FLS, taking total outstanding drawings to around £43.3bn.

Net lending to businesses by FLS Extension participants was -£2.7bn in the first quarter of 2014. The fall was concentrated in lending to large companies; net lending to small and medium-sized enterprises (SMEs) was -£0.7bn (Chart 1). But the firm-by-firm sectoral lending data published today show that a number of FLS Extension participants expanded their lending to SMEs in 2014 Q1. 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. Overall, that has generated additional borrowing allowances of £2.0bn, spread across 12 participants.

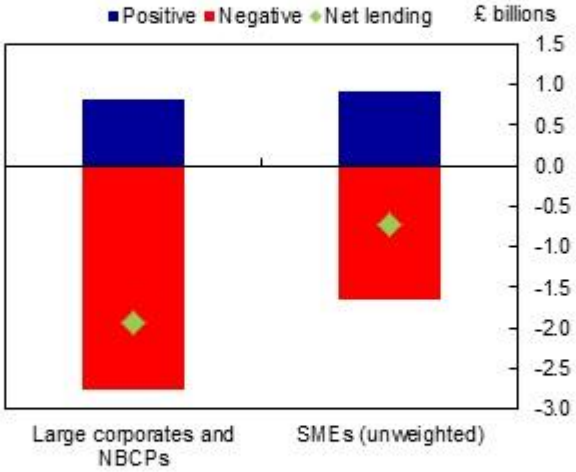
As discussed in the May 2014 *Inflation Report*, aggregate net lending to private non-financial corporations (PNFCs) (i.e. including lending by banks and building societies not participating in the FLS) also fell in 2014 Q1. But developments differed by sector. The majority of the aggregate fall in net lending in 2014 Q1 was accounted for by a continued decline in lending to businesses in the real estate sector (Chart 2). But that contraction is likely, in part, to reflect banks' desire to reduce their bad loans to the commercial real estate (CRE) sector. Falls in net lending to CRE companies also reflected an increase in the repayment of debt, as some CRE companies reduced their overall borrowing, and others refinanced loans with non-bank lenders.

Measures of average bank retail and wholesale funding costs have fallen by up to 200 basis points since the launch of the FLS in July 2012 (Chart 3). These falls in funding costs have fed through into an improvement in corporate credit availability: for example, lenders responding to the Bank's 2014 Q1 *Credit Conditions Survey* reported an increase in corporate credit availability for the sixth consecutive quarter.

The drawdown window for the first phase of the FLS closed on 31st January 2014. A box outlining developments in credit conditions since the launch of the FLS can be found on pages 14-15 of the May 2014 *Inflation Report*.[2]

[1] Lending to businesses includes lending to eligible non-bank credit providers (NBCPs).
[2] Available at **www.bankofengland.co.uk/publications/Documents/inflationreport/2014/ir14may1.pdf**

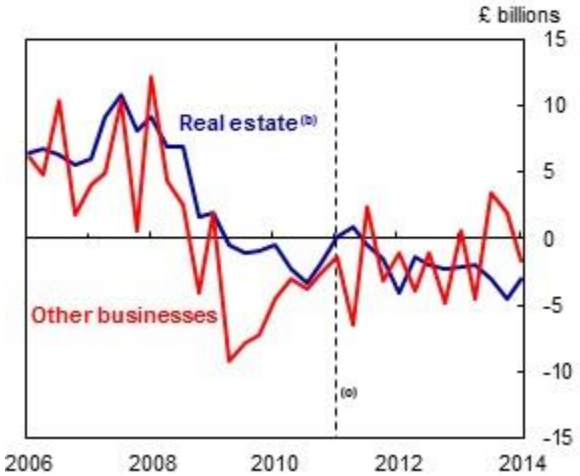
Chart 1: Net lending to businesses and non-bank credit providers (NBCPs) by FLS Extension participants in 2014 Q1[(a)]



Source: Bank of England.

(a) NBCP data exclude intragroup lending. For more details of the sector definitions within FLS see the Market Notice at **www.bankofengland.co.uk/markets/Documents/marketnotice131219cons.pdf**

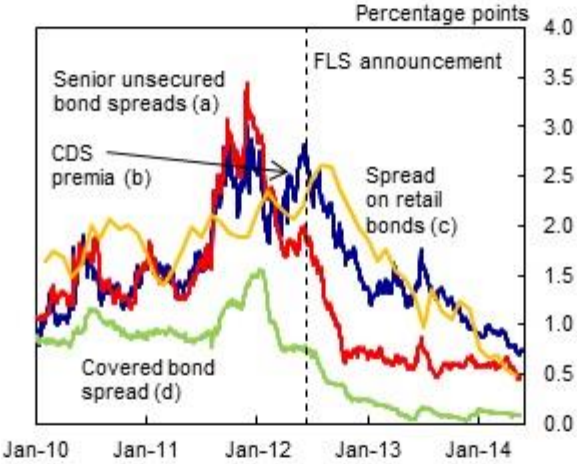
Chart 2: Net lending to the UK real estate sector and other businesses[(a)]



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. From January 2011, data are on the SIC 2007 basis. Changes in the SIC codes have led to some components moving between industries.

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.
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.