BANK OF ENGLAND

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

News release

26 February 2015

News Release – Bank of England and HM Treasury Funding for Lending Scheme – 2014 Q4 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 flow of lending to UK businesses and the amount borrowed from the Bank in the fourth quarter of 2014.[1]

During the fourth quarter of 2014, the number of groups participating in the FLS Extension remained at 38. Of these, 14 participants made drawdowns of £8.5bn in total. Participants also repaid £0.4bn, taking total outstanding drawings to £55.7bn.

Net lending by FLS Extension participants to all businesses was -£6.9bn in the fourth quarter of 2014. The fall was driven primarily by net lending to large companies, which was -£6.3bn. Net lending to small and medium-sized enterprises (SMEs) was also negative at -£0.8bn, while net lending to non-bank credit providers (NBCPs) was £0.2bn.

Over 2014, net lending by FLS Extension participants to all businesses contracted by an average of £4.0bn per quarter (Chart 1); net lending was more negative than in 2013.[2] This reflected developments in net lending to large companies and coincided with strong net issuance in capital markets. Net lending to SMEs contracted at a slower rate (-£0.5bn per quarter) in 2014 than it had during 2013.

A number of institutions expanded their lending during 2014 and additional borrowing allowances of £10.4bn have been generated, spread across 14 participants.

As discussed in the February 2015 *Inflation Report*,[3] aggregate net lending (i.e. including lending by banks and building societies not participating in the FLS) to private non-financial corporations (PNFCs) declined in 2014 Q4, despite improvements in credit conditions. This was partly driven by net lending to businesses in the real estate sector, which declined at a marked pace over 2014. At the same time, some measures of net lending to businesses outside of this sector continued to increase compared with a year earlier, albeit at a slightly slower pace (Chart 2).

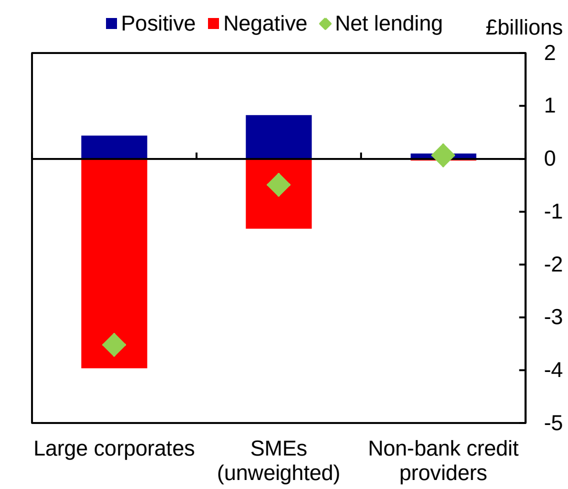
[1] FLS Extension usage and lending data are available at www.bankofengland.co.uk/markets/Pages/FLS/extensiondata.aspx.
[2] Data on lending in 2013 refers to the period Q2-Q4 2013.
[3] Available at www.bankofengland.co.uk/publications/Documents/inflationreport/2015/feb.pdf.

PNFCs have increased their use of non-bank finance over 2014, which may have reduced their demand for bank credit. Net corporate bond issuance, which was £13bn over the year, accounted for much of this (Chart 3). Net equity issuance has also been strong in 2014, and was positive for the first time since 2010.

The improvement in corporate credit conditions in part reflects the significant fall in bank funding costs that has occurred since the launch of the FLS. Over the fourth quarter of 2014, the absolute levels of funding costs have decreased further as reference rates, which constitute part of banks' wholesale funding costs, have fallen, while the spreads over reference rates that banks pay have remained broadly unchanged (Chart 4). For large companies, credit conditions are accommodative, such that the balance of respondents to the 2014 Q4 *Deloitte CFO Survey* who reported that credit was cheap and available remained high. But the improvement in credit conditions remains less marked for small companies.

The Bank and HM Treasury announced a further one-year extension to the FLS on 2 December 2014, which will provide lenders with continued certainty over the availability of cheap funding to support lending to SMEs during 2015.[4] Although bank funding costs remain accommodative, the FLS provides insurance against a rise in funding costs in the event of stress. The drawdown window for the FLS Extension will now remain open until 29 January 2016. Current participants will retain borrowing allowances earned by lending from 2013 Q2 to 2014 Q4, and will be able to earn further allowances by lending to SMEs and NBCPs in 2015, with lending to SMEs strongly incentivised by allowing participants to draw £5 in the Scheme for every £1 of net lending to SMEs.

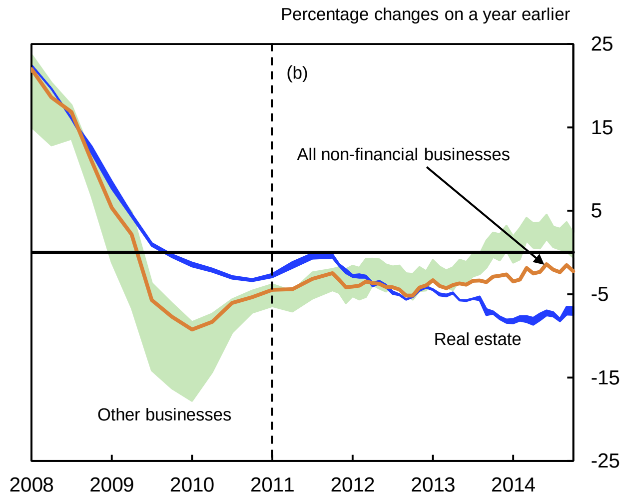
Chart 1: Average quarterly net lending to businesses and non-bank credit providers by FLS Extension participants in 2014[(a)]



Source: Bank of England.

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

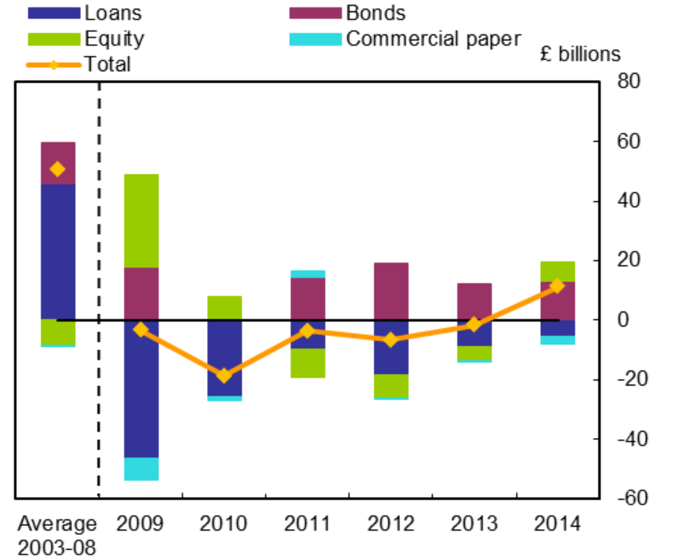
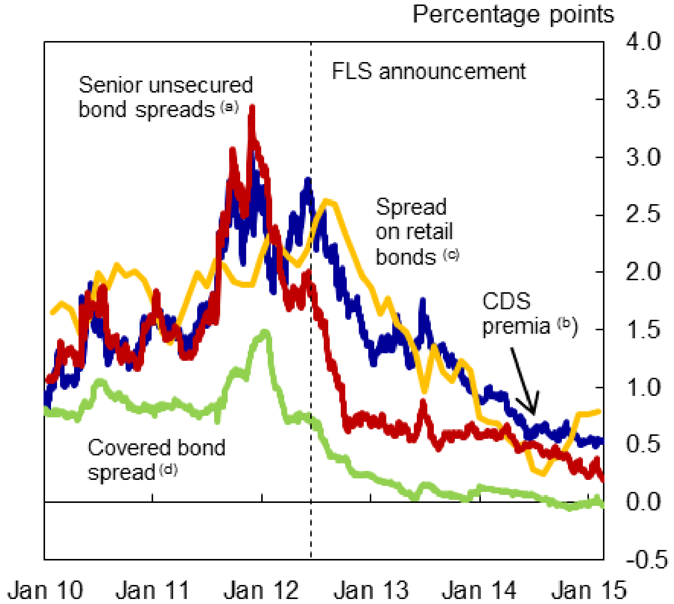
Chart 2: Growth in the stock of lending to the UK real estate sector and other businesses[(a)]



Source: Bank of England.

(a) Lending by UK monetary financial institutions. Rates of growth in the stock of lending. Non seasonally adjusted. For details on the series included in the swathes see tab 'Chart 1.1 appendix', available at www.bankofengland.co.uk/publications/Documents/other/monetary/lendingtoukbusinessesandindividualsoctober2014.xls.
(b) From January 2011, data are on the SIC 2007 basis. Changes in the SIC codes have led to some components moving between industries, which may affect growth rates in 2011.

[4] See www.bankofengland.co.uk/publications/Pages/news/2014/165.aspx for the news release.

Chart 3: Net external finance raised by UK businesses from banks and capital markets (a)	Chart 4: UK banks' indicative longer-term funding spreads
	

Source: Bank of England.

Note: Owing to the seasonal adjustment methodology, total may not equal the sum of its components.

(a) Finance raised by PNFCs from UK MFIs and from capital markets. Bonds data cover debt issued by UK companies via UK-based Issuing and Paying Agents. Data cover funds raised in both sterling and foreign currency, expressed in sterling. Seasonally adjusted. Bonds, equity and commercial paper are non-seasonal.

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.

ENDS