



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

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UK business finance since the crisis – moving to a new normal? – a speech by Ian McCafferty

At a speech given at Bloomberg in London, Ian McCafferty, external member of the Monetary Policy Committee, argued that the tight credit conditions which followed the financial crisis have now “diminished markedly” for firms – a fact which has important implications for monetary policy.

McCafferty’s analysis indicates that both large and small firms have been broadening their sources of finance away from banks. While large firms have turned increasingly to capital markets, with growing bond and equity issuance, SMEs have been drawing on new alternative sources of lending, including ‘crowdfunding’ and peer-to-peer lending platforms.

McCafferty warned that it was important to recognise that this form of finance is still small compared to bank lending, on which SMEs remain heavily reliant, but added: “alternative finance is growing, and is likely to be a developing feature of the market in future years.”

McCafferty noted that the UK economy continues to face headwinds – notably fiscal consolidation and sub-par growth in the world economy. However, he argued that the reduction the headwinds in business finance is now supporting the normalisation of the economy. With that, he said: “it is reasonable to expect the neutral interest rate – the level of interest rates consistent with full employment and inflation at target – to also move towards more normal levels”.

He concluded: “If we on the MPC are to achieve our ambition of raising rates only gradually, so as to minimise the disruption to households and businesses of a normalisation of policy after a long period in

which interest rates have been at historic lows, we need to avoid getting ‘behind the curve’ with respect to the neutral rate. And for me, that provides an additional justification not to leave the start date for lift off too late.”

ENDS