



Lending to business

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This note sets out statistics available on lending to business and discusses recent trends in the data. Actual outstanding lending has been falling since late 2008. The cost of credit has stabilised for businesses in general, although it has increased for small businesses. Reported demand for credit from small businesses has been volatile during 2010 and 2011. The 2011 Project Merlin commitments on making lending facilities available were met for businesses overall, but not for SMEs.

Contents

1	Statistics on amount of actual lending	2
1.1	Available measures of lending	2
1.2	What does the most recent data show?	2
1.3	Lending to businesses by region	3
2	Cost of credit	4
3	What explains patterns in bank lending to businesses?	6
3.1	Supply of credit	6
3.2	Demand for credit	6
4	Project Merlin	7
4.1	Lending agreement	7
4.2	Performance against commitments	7
4.3	Stretch targets	8
4.4	Criticisms	8

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1 Statistics on amount of actual lending

There are a number of different types of statistics that are published on lending to businesses. These set out below.

1.1 Available measures of lending

New term lending The total value of new loans advanced in a given period.

Stock of lending The total amount of outstanding loans left to be repaid

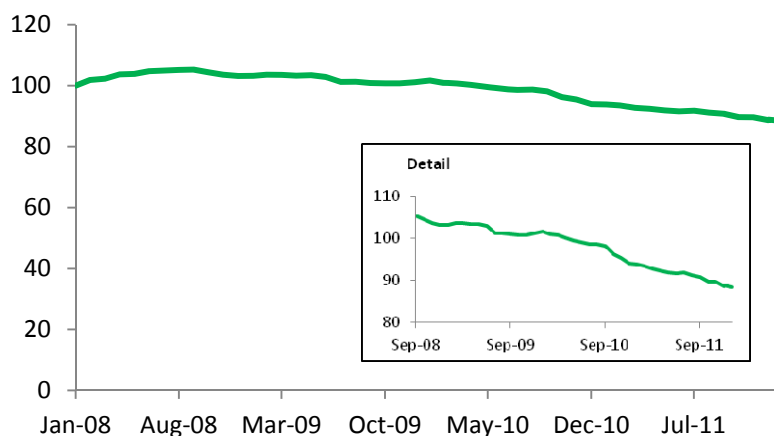
Net lending The change in the stock of lending, i.e. new term lending minus gross repayments of debt within a given period. For example, if net lending falls, this would indicate that new lending has fallen relative to gross repayments, and vice-versa. This means that a rise in repayments could decrease net lending and vice-versa.

Annual rate of growth in lending This is usually the rate of change in the value of loans left to be repaid over a year, i.e. growth in the stock of lending.

1.2 What does the most recent data show?

After a slight increase in 2008, outstanding lending to businesses has been falling since late 2008, as loan repayments exceeded new term loans. The inset chart below shows the fall in lending in more detail.

Chart 1: Falling outstanding lending to businesses¹
Indexed stock of lending, Jan 2008=100. Seasonally adjusted



Source: *Bank of England statistics*

The Bank of England provides data on lending to SMEs, based on BIS surveys and Bank calculations. These show that the stock of lending to SMEs has been falling since late 2009, as loan repayments exceeded new term loans.² The Bank of England's new survey on

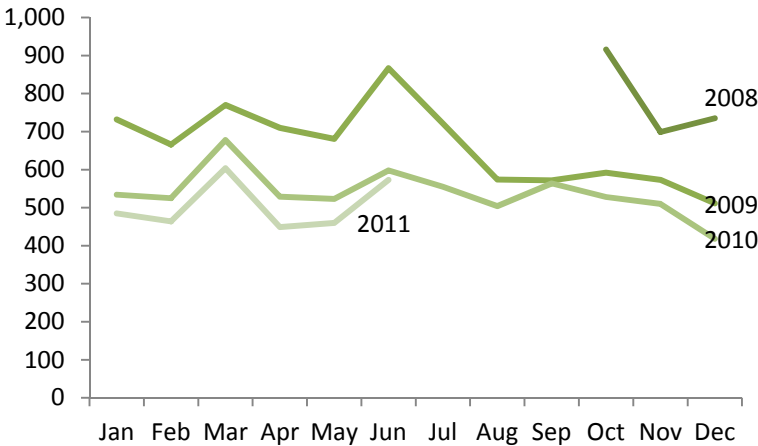
¹ Specifically, amounts outstanding of monetary financial institutions' sterling net lending to private non-financial corporations (PNFCs). Other measures of outstanding lending are also available from the Bank of England website.

² Bank of England [Trends in Lending, April 2012](#)

lending to business indicates that the stock of lending to SMEs contracted in the second half of 2011.³

The BBA has a data set on lending to small business which ran from 2008 to mid-2011. The chart below shows data from the BBA up to June 2011, and shows that new term lending to small businesses in the first half of 2011 was lower than in previous years. Year on year lending has been falling since 2008.

Chart 2: Fall in new term lending to small businesses⁴
 £millions, not seasonally adjusted



Source: BBA

The BBA has published a new data series on [Bank Support for SMEs](#). The first publication in this series covers the period July-December 2011. The data shows that over this period, loan repayments generally exceeded the value of new loans for SMEs.

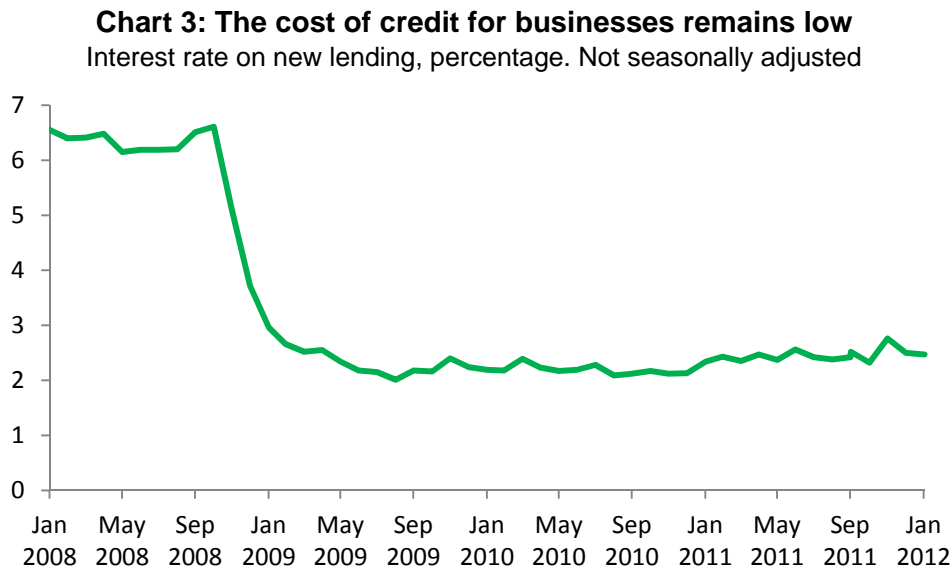
1.3 Lending to businesses by region

There is little statistical data on lending to businesses by region. Occasionally, some information may be available in surveys of businesses, for example, the BIS Small Business Survey⁵ and the FSB Voice of Small Business Survey⁶. However, it is important to be aware that if sample sizes are small, the data may not be reliable.

³ Bank of England [Trends in Lending, April 2012](#)
⁴ The BBA define small businesses as commercial businesses with an annual bank account debit turnover of up to £1 million
⁵ [BIS Small Business Survey](#)
⁶ [FSB Voice of Small Business Survey](#)

2 Cost of credit

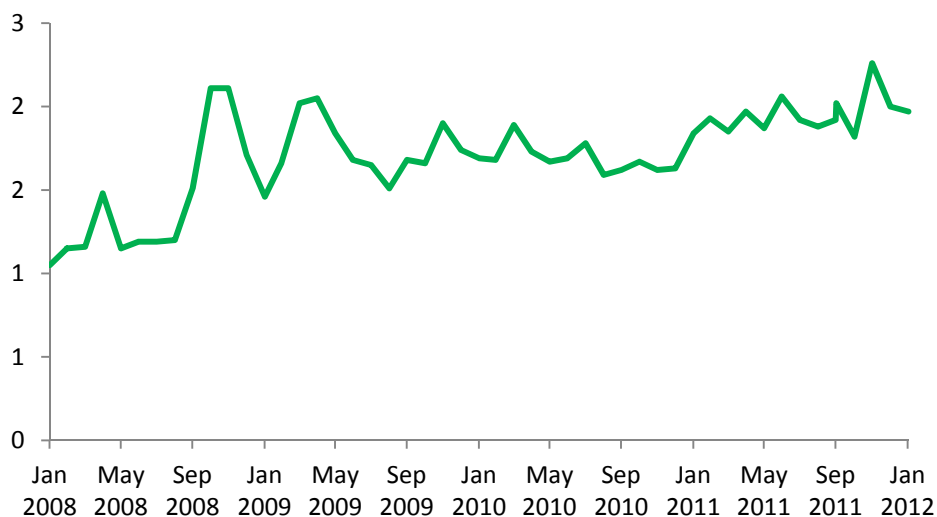
The chart below shows that the cost of credit on new lending to businesses⁷ fell sharply between 2008 and 2009 as the Bank of England base rate was cut, but has since remained broadly stable.



Source: *Bank of England*

However, the cost of credit has not fallen as much as the Bank of England base rate, which means that relative to the Bank rate, the cost of credit has risen, as shown in the chart below. This increased spread may be a reflection of higher risk premiums.

Chart 4: Although the cost of credit is low, it has been rising relative to the Bank rate
Interest rate on new lending, percentage point margin over the Bank rate. Not seasonally adjusted



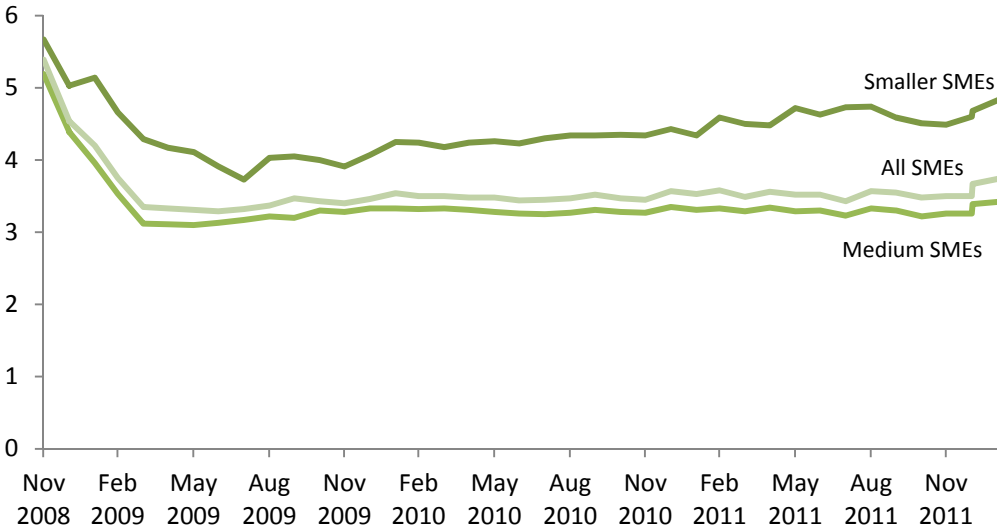
Source: *Bank of England*

For medium SMEs, the cost of credit fell over 2009, and has remained broadly stable since. Smaller SMEs pay more for credit, as can be seen in the chart below. The gap between the

⁷ Private non-financial corporations (PNFCs)

cost of credit for smaller SMEs and other SMEs has increased, as the cost of credit for smaller SMEs has risen whilst that for other SMEs has stabilised.

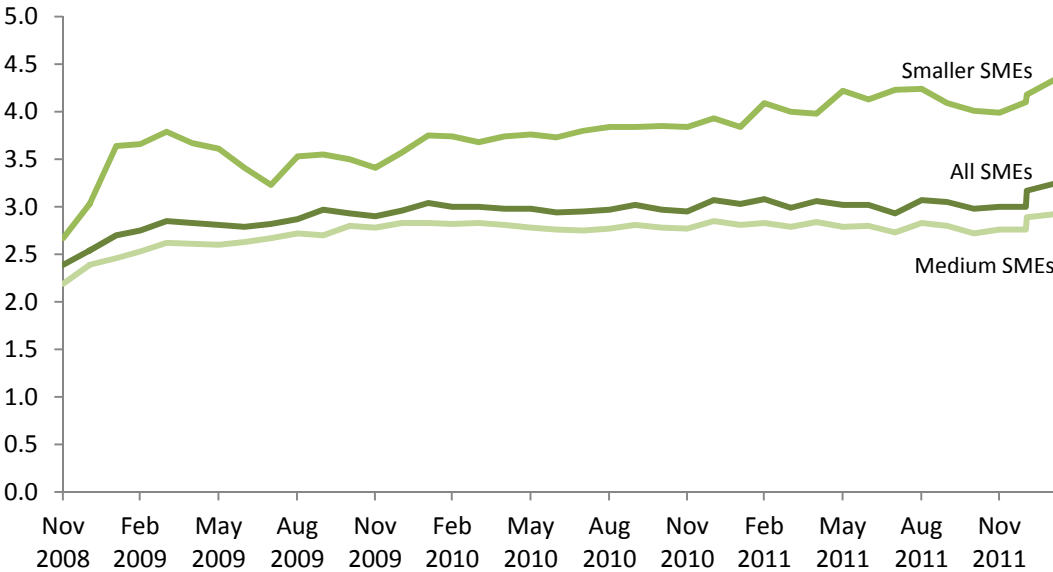
Chart 5: The cost of credit is rising for smaller SMEs, but is stable for medium SMEs
 Median interest rate, percentage. Not seasonally adjusted



Source: Bank of England

As is the case for all businesses, although the cost of credit is lower than it was in 2008, it has not fallen as much as the Bank of England base rate. As the chart below shows, the cost of credit has risen relative to the Bank rate, especially for smaller SMEs. Again, this increased spread may be a reflection of higher risk premiums.

Chart 6: Although the cost of credit is low, it has been rising relative to the Bank rate
 Median interest rate, percentage point margin over the Bank rate. Not seasonally adjusted



Source: Bank of England

3 What explains patterns in bank lending to businesses?

Changes in both the demand for lending and supply of lending drive patterns in the amount of business lending. On the supply side, banks may be less willing to lend if they are concerned about levels of risk specific to a business or risks that are economy-wide. On the demand side, firms are less likely to borrow from banks if future profitability looks uncertain, or if other sources of funding, such as equity or bond issuance look more attractive.

3.1 Supply of credit

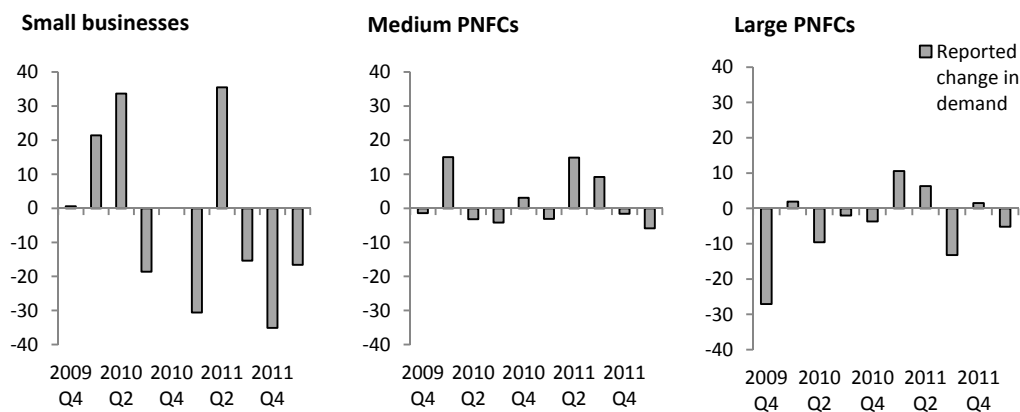
According to the Bank of England's most recent Credit Conditions survey⁸, lenders reported that the total amount of credit made available to the corporate sector was broadly unchanged in 2012 Q1.

3.2 Demand for credit

According to the Bank of England's most recent Credit Conditions Survey, demand from small businesses fell in 2012 Q1 but was expected to increase in Q2. Demand from large and medium-sized companies was reported to have fallen slightly over the past three months. Demand from medium-sized companies was expected to increase in Q2, but a further slight reduction in demand was expected from large companies.

The chart below shows credit demand by firm size, as reported in the Bank of England's Credit Conditions Survey.

Chart 7: Reported demand for credit by firm size
Net percentage balances



Source: *Bank of England Credit Conditions Survey 2012 Q1*⁹

Reported demand for credit fell more steeply for smaller businesses over the last three quarters, and has also been more volatile compared to larger firms.

⁸ Credit Conditions Survey 2012 Q1

⁹ Credit Conditions Survey 2012 Q1

4 Project Merlin

4.1 Lending agreement

Following a period of discussion between the Government and the major UK banks,¹⁰ known as “Project Merlin”, a statement was made by the banks on 9 February 2011. As part of the agreement, the banks stated a capacity and willingness to lend £190 billion of new credit to business in 2011, with £76 billion of this lending capacity allocated to small and medium-sized enterprises (SMEs). If demand exceeded this, the banks committed to lend more.¹¹

The Project Merlin agreement only covered 2011. It has been confirmed that the Project Merlin agreement will not continue in 2012.¹²

4.2 Performance against commitments

The Bank of England published quarterly statistics on lending on a Project Merlin basis over the course of 2011. The definitions used vary between banks and the data do not conform to the Bank of England’s Statistical Code of Practice.¹³ Comparable pre-2011 data are not available. The table below shows statistics for 2011, the duration of the Project Merlin commitments:

Table 1

Lending facilities to UK businesses by the five major UK banks in 2011

£ billions

	2011 Q1	2011 Q2	2011 Q3	2011 Q4
All businesses				
New lending facilities in quarter	47.3	53.0	57.4	57.2
Cumulative lending facilities	47.3	100.3	157.7	214.9
Cumulative lending facilities as a percentage of total 2011 commitment	25%	53%	83%	113%
SMEs				
New lending facilities in quarter	16.8	20.5	18.8	18.9
Cumulative lending facilities	16.8	37.3	56.1	74.9
Cumulative lending facilities as a percentage of total 2011 commitment	22%	49%	74%	99%

Source: *Bank of England*

Note: The total may not equal the sum of the quarterly data due to rounding.

The charts below show cumulative progress against both lending commitments over the duration of 2011, assuming the commitments were evenly spread between quarters:

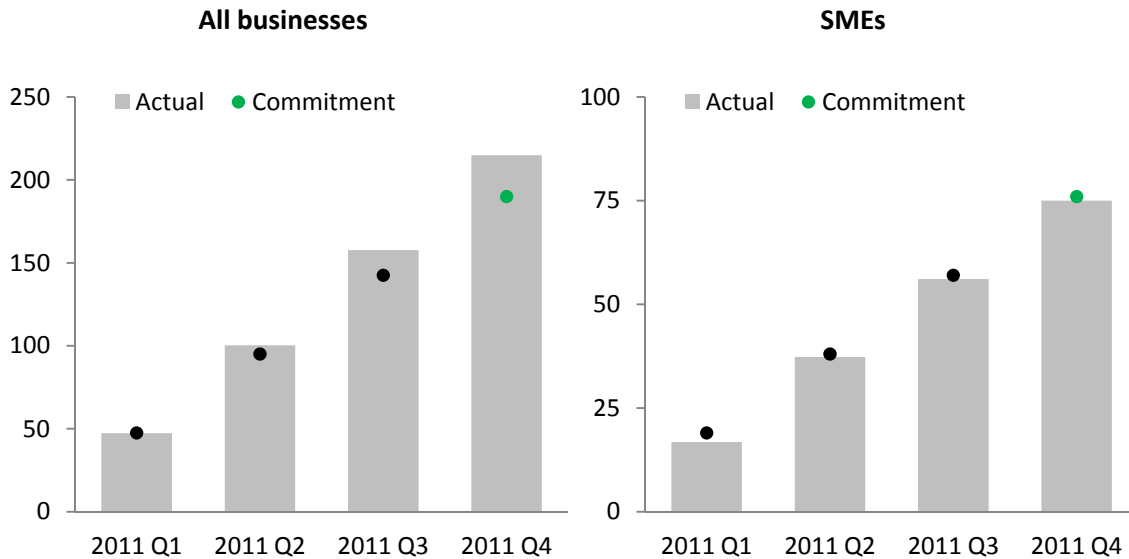
¹⁰ Barclays, HSBC, Lloyds Banking Group, RBS and, with respect to lending, Santander

¹¹ Further details and the full statements made by the banks and the Treasury are available in Treasury [press notice 17/11](#), 9 February 2011

¹² [HL Deb 7 Dec 2011 cc WA157](#)

¹³ Bank of England *Trends in Lending* website, [Additional data for lending to UK businesses, including 'Project Merlin' data](#)

Chart 8: Lending facilities UK businesses by the five major UK banks: cumulative actual against straight line target
£ billions



Source: Bank of England

- In total, £214.9 billion was made available to UK businesses in 2011, 13% higher than the commitment of £190 billion.
- £74.9 billion of that was made available to SMEs, around 1% less than the SME commitment of £76 billion.

4.3 Stretch targets

The Project Merlin commitments related to expanding lending capacity, i.e. increasing the availability of credit to businesses, rather than targets for actual lending.

There was some controversy over the existence of so-called “stretch targets”. This was interpreted as the amount of money actually lent, rather than the amount of capacity available. It was later confirmed that ‘stretch’ targets were the Merlin banks’ initial assessment of what extra they could lend in 2011 compared with 2010¹⁴.

4.4 Criticisms

The Project Merlin commitments did not include targets for actual lending. Therefore, even though the targets were partially met, actual lending did not increase over 2011.

This also means that it is difficult to draw meaningful conclusions about trends over time from Project Merlin data on lending facilities. Data on lending facilities by the five major banks were not collated prior to the Project Merlin agreement, and it is likely that the baseline level of lending facilities at the end of 2010 would have been lower than the long-term average given the economic conditions of the time.

¹⁴ HC Deb 22 June 2011 cc344-4W