

CHART OF THE WEEK

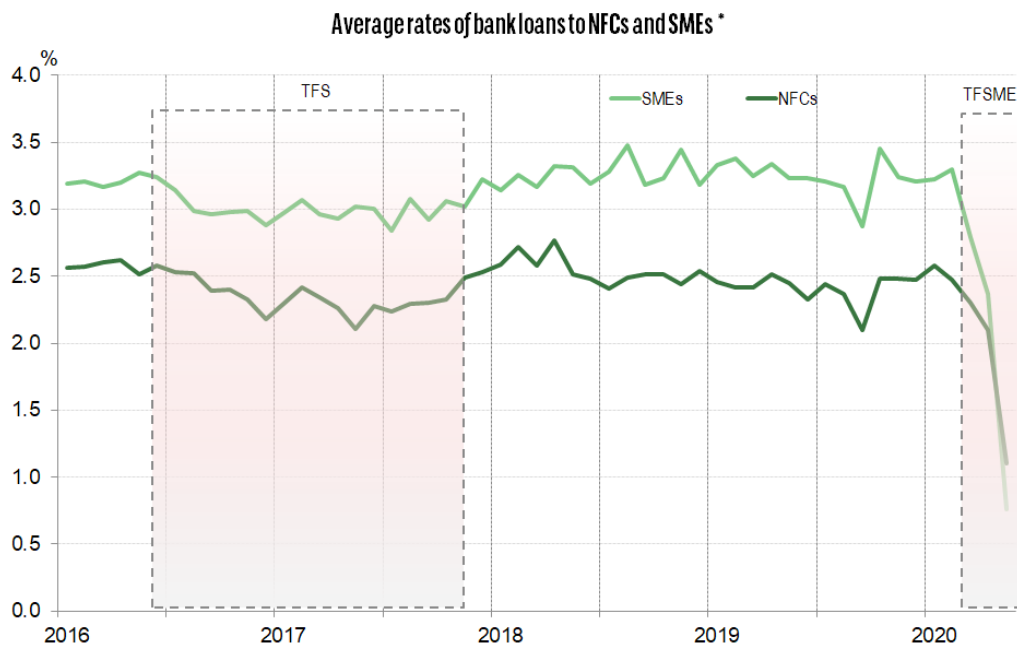
CHART
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WEEK

by BNP PARIBAS

15 July 2020

UNITED KINGDOM: IS THE TFSME MORE EFFECTIVE THAN THE TFS IN LOWERING BUSINESS LOAN RATES?

Laure Baquero



*Floating rate on new loans to private NFCs and SMEs

SOURCE: BANK OF ENGLAND

Following the example of the Term Funding Scheme (TFS) introduced by the Bank of England (BoE) in the summer of 2016, the Term Funding Scheme Small and Medium-sized Enterprises (TFSME) announced in March 2020 aims to support the supply of loans to businesses via a four-year refinancing program granted to credit institutions at a lower rate than that of the main refinancing operations¹. Unlike the TFS, the TFSME more specifically targets the financing of small and medium-sized enterprises (SME).

Operational since April 15, the scheme resulted in GBP11.9bn drawdown from credit institutions on 27 May and already came with a significant drop in average borrowing rates of the all private non-financial companies (SNF), and even more so in the case of SMEs. And this to a much greater extent than that observed after the launch of TFS. The explanation for this difference is multifactorial. The TFSME intervenes while the BoE makes greater use of its monetary policy tools with a drop in the key rate from 0.75% to 0.10% (vs from 0.50% to 0.25% in 2016) and the expansion of its asset purchase program by GBP200bn (vs GBP 70 bn). It is also taking place in an environment marked by falling sovereign rates, and concomitantly with government guaranteed loan programs.

¹ Soon on our website : EcoFlash, United Kingdom: Measures to support bank financing of businesses

ECONOMIC RESEARCH



BNP PARIBAS

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William De Vijlder
Chief Economist

+33 1 55 77 47 31

william.devijlder@bnpparibas.com

ADVANCED ECONOMIES AND STATISTICS

Jean-Luc Proutat

Head – United States, United Kingdom

+33 1 58 16 73 32

jeanluc.proutat@bnpparibas.com

Hélène Baudchon

France - Labour markets

+33 1 58 16 03 63

helene.baudchon@bnpparibas.com

Louis Boisset

European Central Bank watch, Euro area global view, Japan

+33 1 57 43 02 91

louis.boisset@bnpparibas.com

Frédérique Cerisier

Euro area (European governance and public finances), Spain, Portugal

+33 1 43 16 95 52

frederique.cerisier@bnpparibas.com

Raymond Van Der Putten

Germany, Netherlands, Austria, Switzerland – Energy, climate

+33 1 42 98 53 99

raymond.vanderputten@bnpparibas.com

Tarik Rharrab

Statistics

+33 1 43 16 95 56

tarik.rharrab@bnpparibas.com

BANKING ECONOMICS

Laurent Quignon

Head

+33 1 42 98 56 54

laurent.quignon@bnpparibas.com

Laure Baquero

+ 33 1 43 16 95 50

laure.baquero@bnpparibas.com

Céline Choulet

+33 1 43 16 95 54

celine.choulet@bnpparibas.com

Thomas Humblot

+ 33 1 40 14 30 77

thomas.humblot@bnpparibas.com

ECONOMIES EMERGENTES ET RISQUE PAYS

François Faure

Head – Argentina

+33 1 42 98 79 82

francois.faure@bnpparibas.com

Christine Peltier

Deputy Head – Greater China, Vietnam, South Africa

+33 1 42 98 56 27

christine.peltier@bnpparibas.com

Stéphane Alby

Africa (French-speaking countries)

+33 1 42 98 02 04

stephane.alby@bnpparibas.com

Stéphane Colliac

Turkey, Ukraine, Central European countries

+33 1 42 98 43 86

stephane.colliac@bnpparibas.com

Sara Confalonieri

Africa (Portuguese & English-speaking countries)

+33 1 42 98 43 86

sara.confalonieri@bnpparibas.com

Pascal Devaux

Middle East, Balkan countries

+33 1 43 16 95 51

pascal.devaux@bnpparibas.com

Hélène Drouot

Korea, Thailand, Philippines, Mexico, Andean countries

+33 1 42 98 33 00

helene.drouot@bnpparibas.com

Salim Hammad

Latin America

+33 1 42 98 74 26

salim.hammad@bnpparibas.com

Johanna Melka

India, South Asia, Russia, CIS

+33 1 58 16 05 84

johanna.melka@bnpparibas.com

CONTACT MEDIA

Michel Bernardini

+33 1 42 98 05 71

michel.bernardini@bnpparibas.com





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Structural or in news flow, two issues analysed in depth



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Bulletin édité par les Etudes Economiques - BNP PARIBAS
Siège social : 16 boulevard des Italiens - 75009 PARIS / Tél : +33 (0) 1.42.98.12.34
Internet :

Directeur de la publication : Jean Lemierre / Rédacteur en chef : William De Vijlder



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