positivemoney

Briefing: How is bank lending shaping the UK economy?

December 2024

For more information please contact author Alec Haglund at alec.haglund@positivemoney.org.uk, and for further reading, see the Author's blog, 'How is bank lending shaping the UK economy?.

A sectoral analysis of the latest bank lending data from the Bank of England reveals that banks are primarily lending towards property and the financial sector, with lending to productive sectors lagging far behind.[1]

Under the existing monetary system, bank lending is the main way in which new money is created, with 97% of money in the UK economy created by commercial banks when they make loans. Looking at who commercial banks are lending to therefore serves as a useful way to see which sectors of the economy our financial system is prioritising. The data shows that the financial system is failing to lend to industries in the real economy, with the vast majority of credit going towards speculative activities or property purchases.

Key findings:

- Outstanding mortgage loans stood at a record-high of **£1,472 billion** in October 2024. This is an increase of £400 billion over 10 years and now makes up **54% of all lending by commercial banks**, compared to 49.5% ten years prior and only slightly down from the record 54.4% in February 2024.
- **The stock of loans held by non-financial corporations is today lower than in 2010**, standing at £454 billion in October 2024, or 16.6% of total lending. **Non-financial corporations only hold about half of the outstanding credit today compared to 14 years ago in real terms.**
- There is more than three times as much outstanding credit in mortgages today than that held by non-financial corporations.
- Lending to unincorporated businesses and non-profits has fallen from 3.2% of total lending 20 years ago to 0.9% as of October 2024.
- Financial firms held **£653 billion** in outstanding lending as of October 2024, or **23.9% of total lending**.

An analysis of bank lending data by industry shows that banks prioritise lending to financial, insurance and real estate sectors (FIRE sectors) with levels of credit going towards productive industries in the real economy, such as manufacturing and services, lagging far behind:

[1] All data is from Bank of England bankstats tables A 4.3 and C 1.2.

- **The annual change in net lending to productive industries has been negative for the past three years**, falling by £8.5 billion in 2023.
- Outstanding credit held by the Real Estate and Business Services industry has steadily grown over the past 10 years, from £168 billion in October 2014 to £226 billion in October 2024, an increase of 34.5%.
- **Both Manufacturers and the Construction industries have seen their annual change in net lending fall in three out of the past four years.**
- Outstanding credit held by productive industries has **fallen by £24 billion** over the past four years and stands at £247 billion as of October 2024.
- The Financial Intermediation industry holds £266 billion in outstanding credit as of October 2024. The industry of Activities Auxiliary to Financial Intermediation (e.g. hedge funds) holds £167 billion, **an increase of 35.8% in 10 years**.
- **Outstanding mortgage lending grew by £400 billion in the last 10 years, whilst lending held by productive industries only grew by £15 billion in the same time.**
- Electricity, Gas and Water, as well as Public Administration and Defence, were the only productive industries seeing a positive change in annual net lending in 2023 at £1.4 billion and £76 million respectively, dwarfed by the annual growth in net lending to the Financial Intermediation sector in the same year at £27.1 billion.

What does this mean for the direction of the economy?

The lending data shows that little has changed since the financial crisis, as most new money is created for purchasing existing assets, such as property, or for speculative activity in the financial sector. In fact, the share of lending directed towards unproductive and speculative activities has grown since the financial crisis, whilst the proportion of lending that goes towards the real economy has fallen. The share of total lending going to non-financial corporations has fallen by approximately three percentage points since the financial crisis, and lags far behind lending towards mortgages or the financial sector in terms of outstanding credit. Industries such as manufacturing, construction, transport and retail have all seen negative annual changes in net lending in recent years. This is worrying, since it implies that the financial system is becoming increasingly reliant on inflating asset prices, which increases inequality and heightens the risk of a financial crisis.

Overall, the lending data suggests that the financial and monetary system is ill-equipped to support higher living standards, which can only be achieved through increases in productivity and innovation in the real economy producing tangible goods and services. Business-as-usual in the financial system is therefore likely to hinder the government's missions. Macroprudential policy reforms delivering credit guidance and better monetary-fiscal coordination could help ensure new money creation supports missions to improve living standards, decarbonise the economy and increase housing affordability.

Figure 1

Outstanding net lending in pound sterling (billions) by sector, Sept 1997 to Oct 2024 (UK)

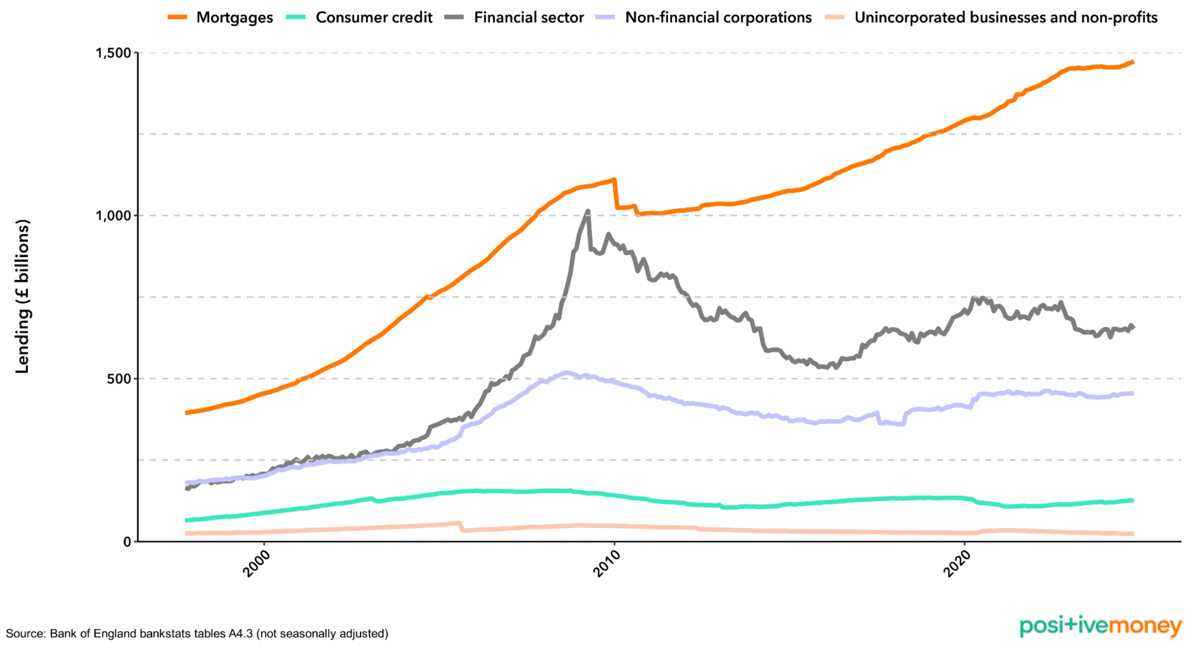
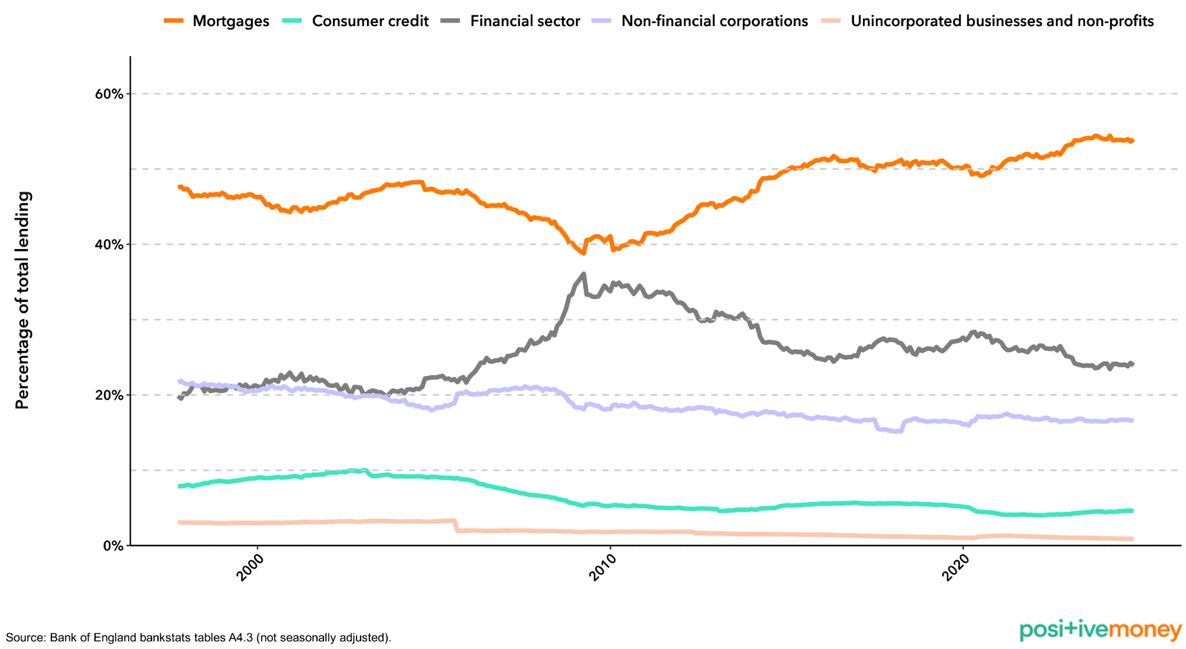


Figure 2

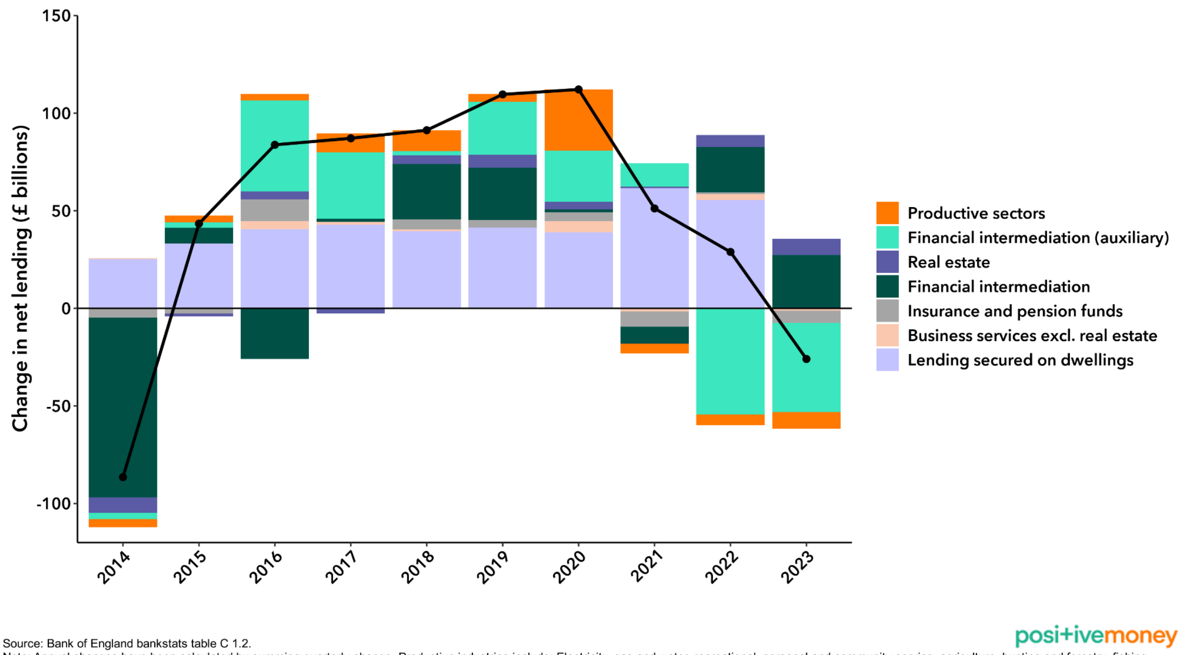
Outstanding net lending in pound sterling by sector as a percentage of total lending, Sept 1997 to Oct 2024 (UK)



Positive Money is an international research and campaign organisation working to redesign our economic system for social justice and a liveable planet. Find out more: positivemoney.org

Figure 3

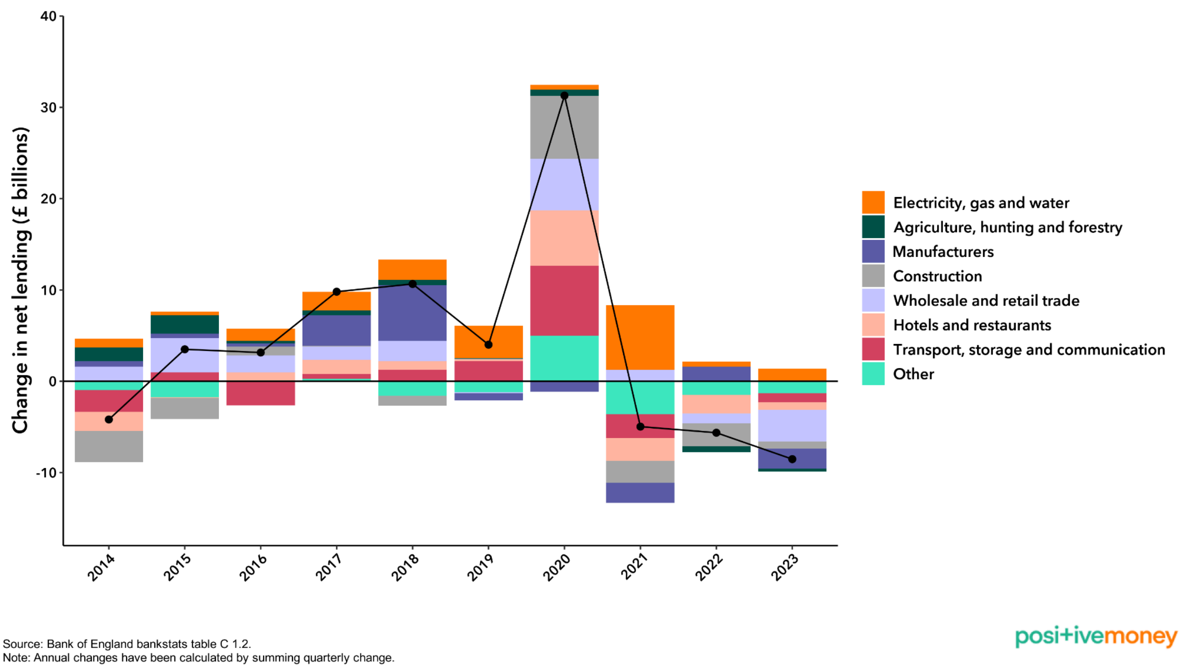
Annual change in net lending (£ billions) by industry, 2014 to 2023 (UK)



Source: Bank of England bankstats table C 1.2.
Note: Annual changes have been calculated by summing quarterly change. Productive industries include: Electricity, gas and water, recreational, personal and community service, agriculture, hunting and forestry, fishing industries, mining, manufacturers, construction, wholesale and retail, hotels and restaurants, transport, storage and communication, public administration and defence, education providers, health and social work organisations.

Figure 4

Annual change in net lending (£ billions) to non-FIRE industries, 2014 to 2023 (UK)



Source: Bank of England bankstats table C 1.2.
Note: Annual changes have been calculated by summing quarterly change.