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Briefing:
Where did banks lend in 2024?

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Analysis of the latest bank lending data from the Bank of England shows that the financial system continues to overwhelmingly favour lending towards the purchasing of already existing assets, with lending to the real economy lagging far behind.[1]

Bank lending data serves as an important indicator to understand which sectors of the economy our financial system is prioritising, since 97% of new money in the UK economy is created by commercial banks when they make loans. The latest data includes bank lending figures from December 2024, allowing for an analysis of bank lending activity for the whole of 2024. Although the change in annual net lending for the productive sector is positive for the first time in four years, the scale of credit going towards the productive sector remains dwarfed by that going towards financial speculation and mortgages. Despite some positive developments in 2024, the financial system is failing to support industries in the real economy, with the overwhelming majority of new credit going towards speculative activities or property purchases.

Key findings

A sectoral overview of bank lending:

- Mortgage lending now makes up **54.3% of all lending by commercial banks** (£1.474 trillion in outstanding credit), just shy of the record-high proportion of 54.4% (£1.475 in outstanding credit) in February 2024.
- The stock of loans held by non-financial corporations was £460 billion in December 2024, which is an increase of **£16 billion over one year**. Non-financial corporations now hold 16.9% of all credit, up from 16.5% in December 2023.
- Despite the increase in lending going towards non-financial corporations, **there is approximately three times as much outstanding credit in mortgages today than that held by non-financial corporations**.
- The share of lending going to unincorporated businesses and non-profits has continued to fall, declining from 1% of total lending one year ago to 0.9% in December 2024. In contrast, the share of lending held by unincorporated businesses and non-profits stood at 1.5% in 2014, or 3.2% in 2004.
- Financial firms (other than commercial banks) held £631 billion in outstanding lending as of December 2024, or **23.2% of total lending**. Total lending held by

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

financial corporations has fallen by £20 billion since December 2023, when its share of total lending was 24.2%.

Figure 1: Mortgage lending has grown rapidly over the past two decades, almost reaching £1.5 trillion at the end of 2024.

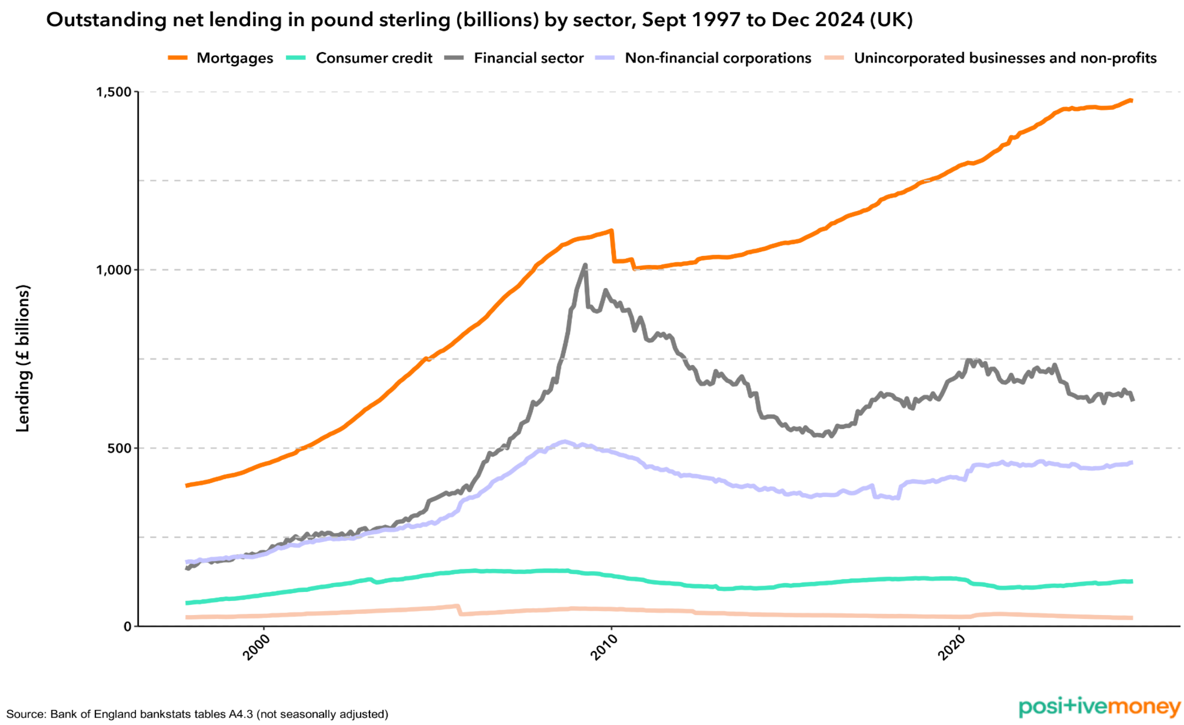
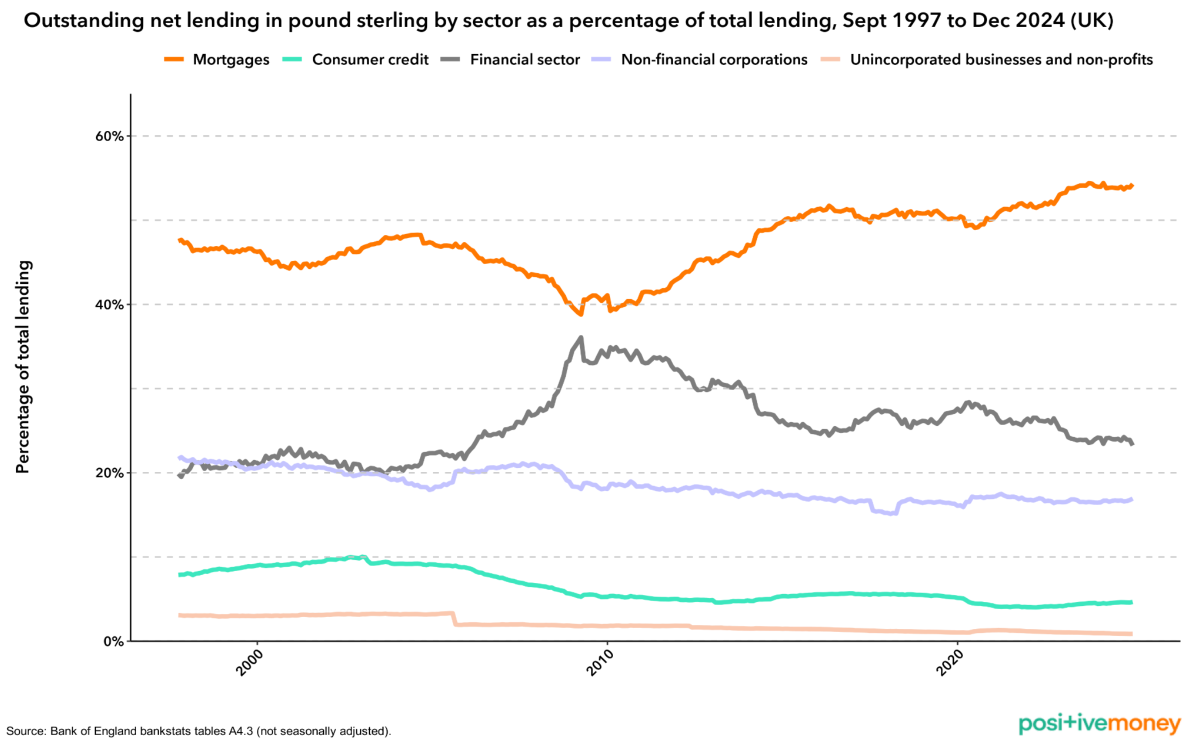


Figure 2: As a result of increased mortgage lending, the share of credit held in mortgages now makes up 54.3% of all lending by commercial banks.



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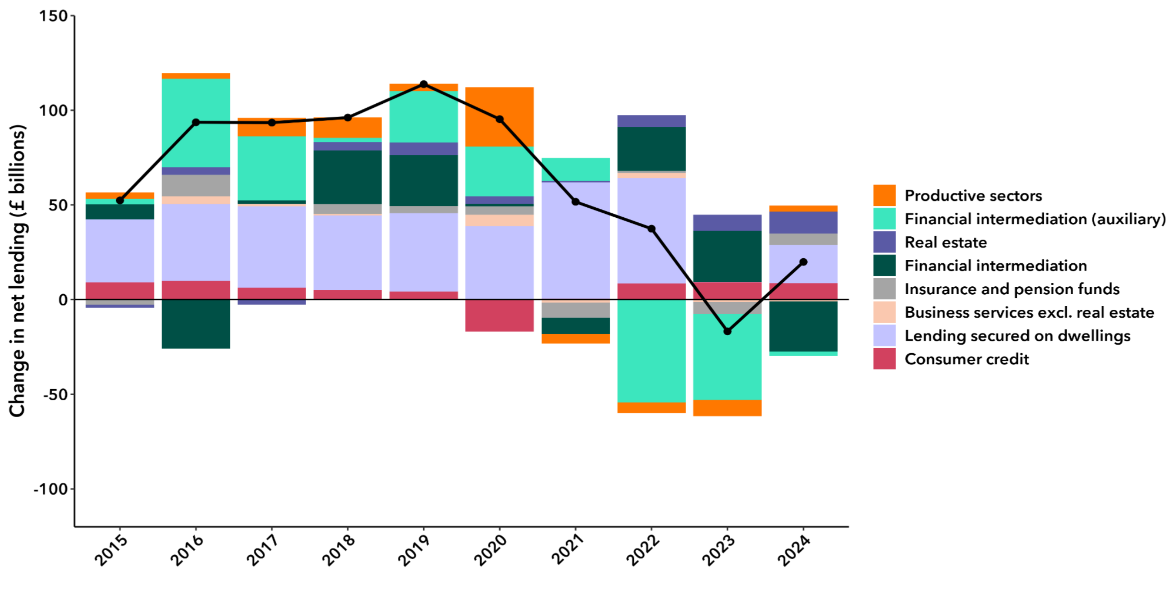
Analysis by industry:
Banks continue to prioritise lending to the financial, insurance and real estate sectors (FIRE sectors), and for purchasing property. This can be seen more clearly through an industrial analysis, since the data in the section above, using data from Bank of England table A4.3, includes industries such as the buying and selling of real estate among non-financial firms despite it effectively being a financial industry that does not produce real economic output.

It is worth noting that 2024 was the first year since 2020 in which the annual change in net lending to productive industries was positive. The annual change in net lending to productive sectors stood at £3.1 billion in 2024, while it fell by: £8.5 billion in 2023; £5.6 billion in 2022; and £5 billion in 2021. Despite this development, **outstanding credit held by the FIRE sectors remains almost three times that held by the productive sectors of the economy.**

Figure 3: The annual change in total net lending was positive in 2024. However, the growth in net lending achieved by the combined productive sectors (orange) pales in comparison to that of the real estate, insurance and pension, consumer credit, and mortgage sector.

Annual change in net lending (£ billions) by industry, 2015 to 2024 (UK)



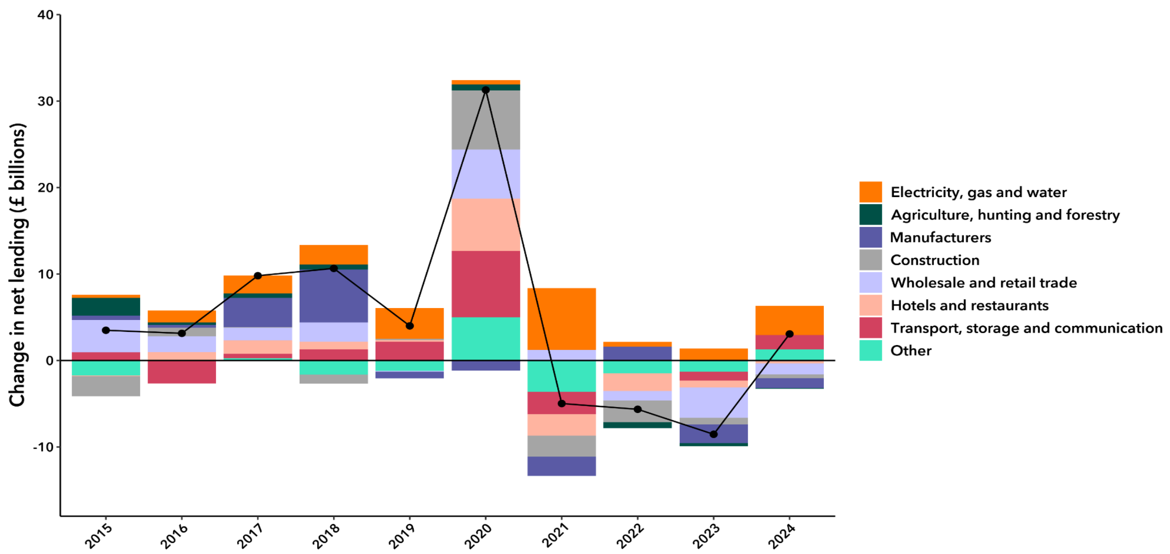
Source: Bank of England bankstats table C 1.2.
Note: Annual changes have been calculated by summing quarterly change. Productive industries include: Electricity, gas and water, recreational, personal and community service, agriculture, hunting and forestry, fishing industries, mining, manufacturers,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

- **73.3% of all outstanding credit held by industry (i.e. excluding credit held by individuals) is held by the FIRE sector,** with only 26.7% held by productive industries.
- The industry of buying and selling of real estate saw a positive annual change in net lending in 2024 at £11.7 billion. Total outstanding credit for the real estate industry stood at £231 billion in December 2024, which is an increase of £13 billion over one year, or £41 billion over five years.

- **This is the fifth time in six years that the manufacturing industry has seen its change in annual net lending fall.** Manufacturers saw negative growth in its annual net lending at £1.2 billion in 2024.
- **The change in annual net lending for the construction industry fell for the fourth consecutive year, falling by £0.5 billion in 2024**.
- The electricity, gas and water industry and the transport, storage and communications industry saw the largest increases in annual net lending among productive industries in 2024, at £3.4 billion and £1.7 billion respectively.
- **Total outstanding credit held by productive industries stood at £247 billion as of December 2024, while the FIRE sectors held £677 billion**.
- The financial intermediation industry saw annual net lending fall by £26.5 billion in 2024, but it still **holds £242 billion in outstanding credit,** similar to the total held by all productive industries combined.
- The industry of activities auxiliary to financial intermediation (e.g. hedge funds) saw a smaller decrease in annual net lending at £2.2 billion, and the industry currently holds £164 billion in outstanding credit.
- **The four sectors which saw the highest positive change in annual net lending were insurance and pension funds, consumer credit, real estate and mortgages** – none of which are in the productive sector.
- **Outstanding mortgage lending grew by £19 billion between December 2023 and December 2024, whilst outstanding lending held by the productive sectors only grew by £1 billion in the same period.**

Figure 4: The positive change in annual net lending for the productive sectors in 2024 was largely driven by the energy and transport sector, as manufacturing, construction and wholesale showed negative growth in net lending in 2024.

Annual change in net lending (£ billions) to non-FIRE industries, 2015 to 2024 (UK)



Source: Bank of England bankstats table C 1.2.
Note: Annual changes have been calculated by summing quarterly change. 'Other' includes Fishing, Mining and quarrying, Public administration and defence, Education providers, Health and social work organisations, and Recreational, personal and community service.

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Figure 5: The largest positive changes in annual net lending in 2024 occurred in the FIRE sectors and mortgages.

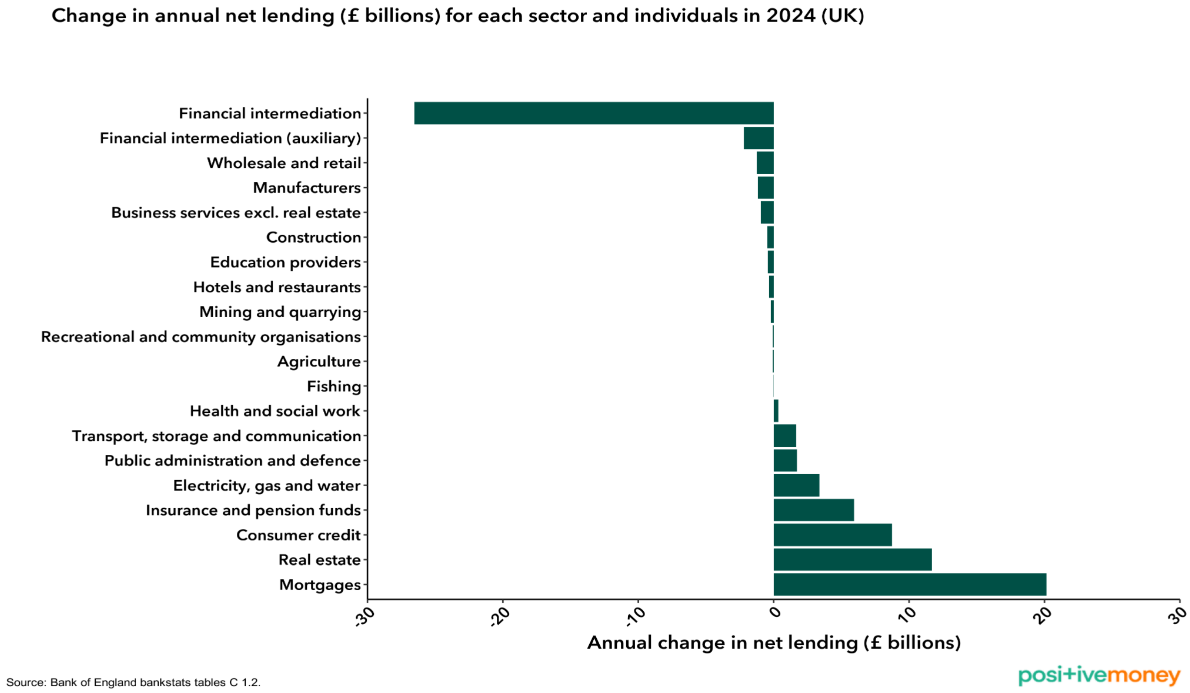

Figure 6: Despite some growth in net lending to the productive sector, the scale of outstanding credit held by the FIRE sectors is many times higher than that of the productive sectors.

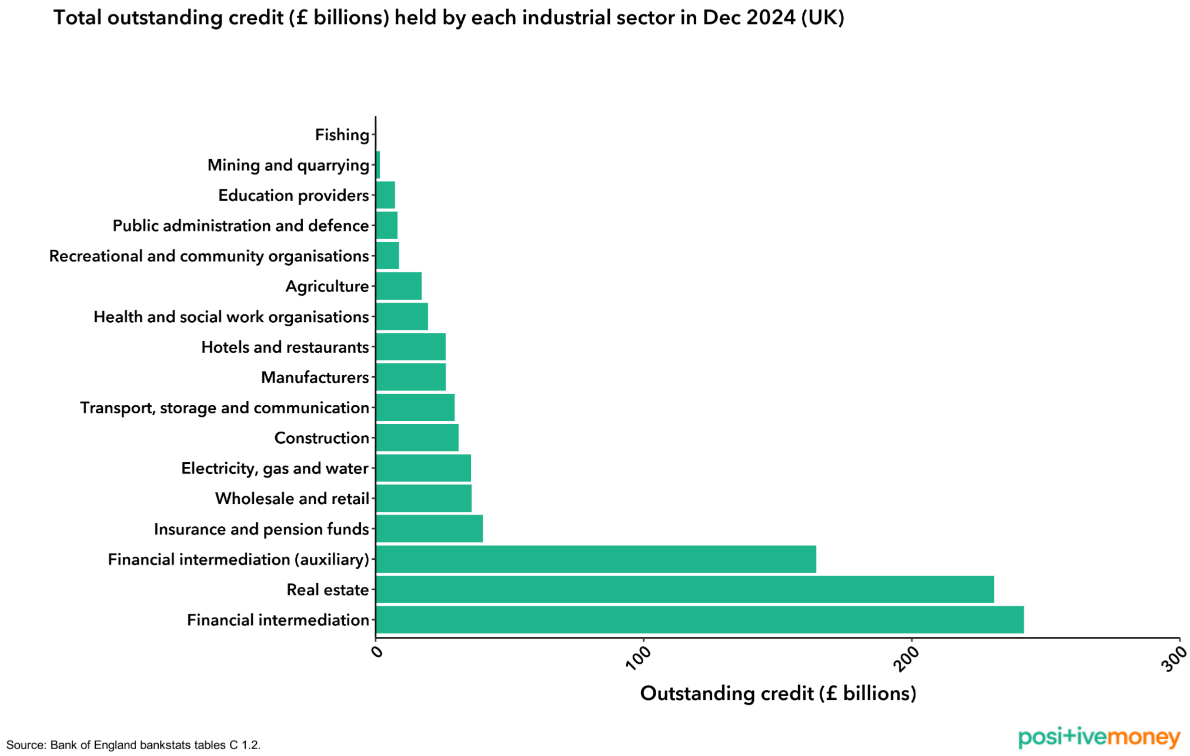

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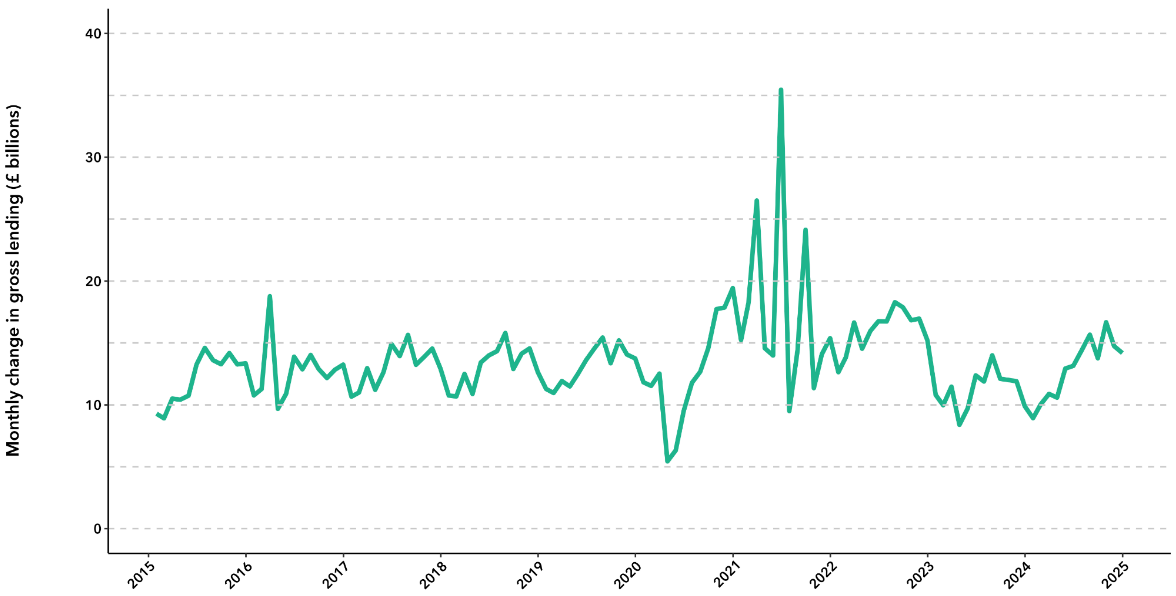
Figure 7: 2024 saw steady monthly growth in gross lending secured for house purchases by individuals.

Monthly changes of total sterling (£ billions) secured gross lending for house purchases to individuals, 2015 to 2024



Source: Bank of England, monthly changes of total sterling secured gross lending for house purchase to individuals not seasonally adjusted.

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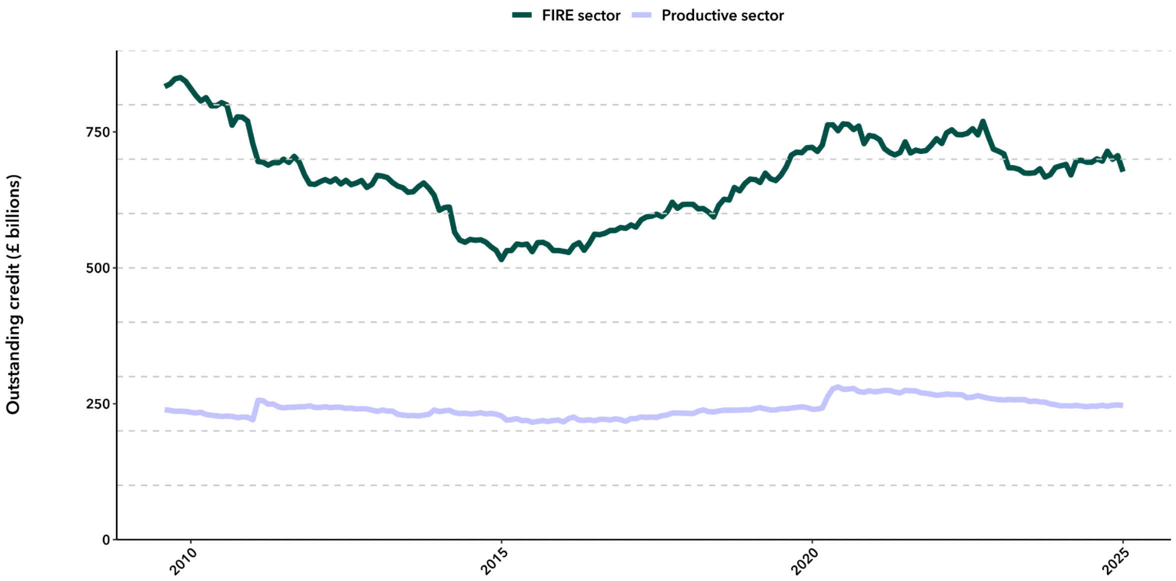
Figure 8: Outstanding credit held by the FIRE sector remains almost three times higher than that held by the productive sector.

Outstanding credit (£ billions) held by FIRE sector and productive sector, monthly Jul 2009 to Dec 2024 (UK)



Source: Bank of England bankstats tables C 1.2.
Note: FIRE is defined as the financial, insurance and real estate sectors of the economy.

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What does this mean for the direction of the economy?

Whilst it is welcome to see that the productive sectors of the economy saw a positive change in annual net lending for the first time in four years, the fact that a vast majority of credit is still directed towards buying existing assets, like property, or speculating in financial markets shows that the monetary system is ill-equipped to support the real economy. Commercial banks hold significant influence in the direction of the economy due to their ability to create new money as they issue new loans. By issuing or withholding credit, commercial banks are able to shape and direct economic activity. Unfortunately, the data shows that new money is primarily created for speculative activities, instead of financing productive sectors that could deliver higher living standards for the population. In essence, the financial system is geared toward asset-appreciation rather than growing the real economy, as can be seen by the ever-increasing amount of credit going towards mortgages, and the high levels of outstanding loans held by financial firms and the wider FIRE sector. It is worth noting that this analysis only includes lending from commercial banks. Many corporations also secure lending from non-bank financial institutions (NBFIs), but there is little data available to analyse lending from NBFIs.

The fact that lending towards mortgages has continued to increase while the actual number of mortgages has steadily fallen every year in the past decade is a result of the reliance on asset-price inflation in the economy, a reflection of skyrocketing house prices. With interest rates expected to fall further in 2025, mortgage lending is forecast to double its pace of growth in 2025 relative to 2024. The Financial Conduct Authority is looking to loosen the restrictions on mortgages in order to boost economic growth through increased mortgage lending, which would only increase the share of new money being directed towards further inflating property prices.

Although this growth model may be profitable for lenders in the short-term, it heightens the risk of another financial crisis as asset prices can only be inflated for so long if not accompanied by growth in the real economy. Higher living standards and a just green transition can only be realised by increased investment into the real economy which produces tangible economic goods and services. Creating credit for the purchasing of already existing assets, such as houses, only increases inequality and harms productivity as more resources are extracted from the real economy to the rentier economy. This benefits asset owners and the wealthy, since it drives up the prices of financial assets and property, but it harms the health of the wider economy. Increased productivity and output can only be realised if productive sectors are sufficiently supported by the financial system, but as the lending data shows, key sectors such as manufacturing and construction continue to suffer from a lack of investment. The bank lending data shows that our monetary system is causing systemic underinvestment into the sectors of the economy that are vital for tackling the various crises we face, from clean energy to social care, and public transport to affordable housing. Instead, the monetary system overinvests into financialised forms of illusory growth by continuously directing credit towards activities that spur asset price growth without increasing real economic output. This type of growth will do little to solve our societal and economic woes.

We must recognise that a deregulated credit market does not allocate investments efficiently in the economy, as it consistently and systematically underinvests in the real economy by shifting credit towards speculative activities. The monetary and financial system must be reformed so that new money is created for the purposes of improving well-being and tackling the societal challenges we currently face. To achieve this change, we must fully leverage the opportunity of the National Wealth Fund to direct credit towards achieving a just green transition, and apply effective credit guidance tools and improve monetary-fiscal coordination to ensure money creation supports missions to improve living standards, tackle the housing crisis, and decarbonise our economy.