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Briefing: Bank lending continues to neglect the real economy

August 2025

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The latest Bank of England data on commercial bank lending reveals that banks continue to prioritise lending towards the purchasing of already existing assets rather than supporting firms undertaking productive activities in the economy. This is particularly visible in the ever-growing share of credit going towards property purchases, as outstanding credit in mortgages has now hit a new milestone of £1.5 trillion.

Commercial banks serve an important public utility as they create new money in the economy when they create loans. However, as banks continue to rake in record-breaking profits, the role they play in shaping economic activity through their lending should be increasingly scrutinised. The data reveals a steady and continuing increase in bank lending towards non-productive activities, effectively meaning that bank lending is increasingly contributing to further financialisation of the economy, instead of investment in productive firms. Approximately one third of bank lending was directed towards productive industries by the end of the 1980s, but currently only 9.6% of total credit is held by productive sectors of the economy, and there is almost six times as much outstanding credit in mortgages compared to credit held by productive industries. This shows that the UK banking sector continues to insufficiently support the real economy, contributing to the UK's systemic underinvestment problem. Financial and monetary policies that direct lending towards real economy firms and activities are needed to increase productive investment.

Key findings

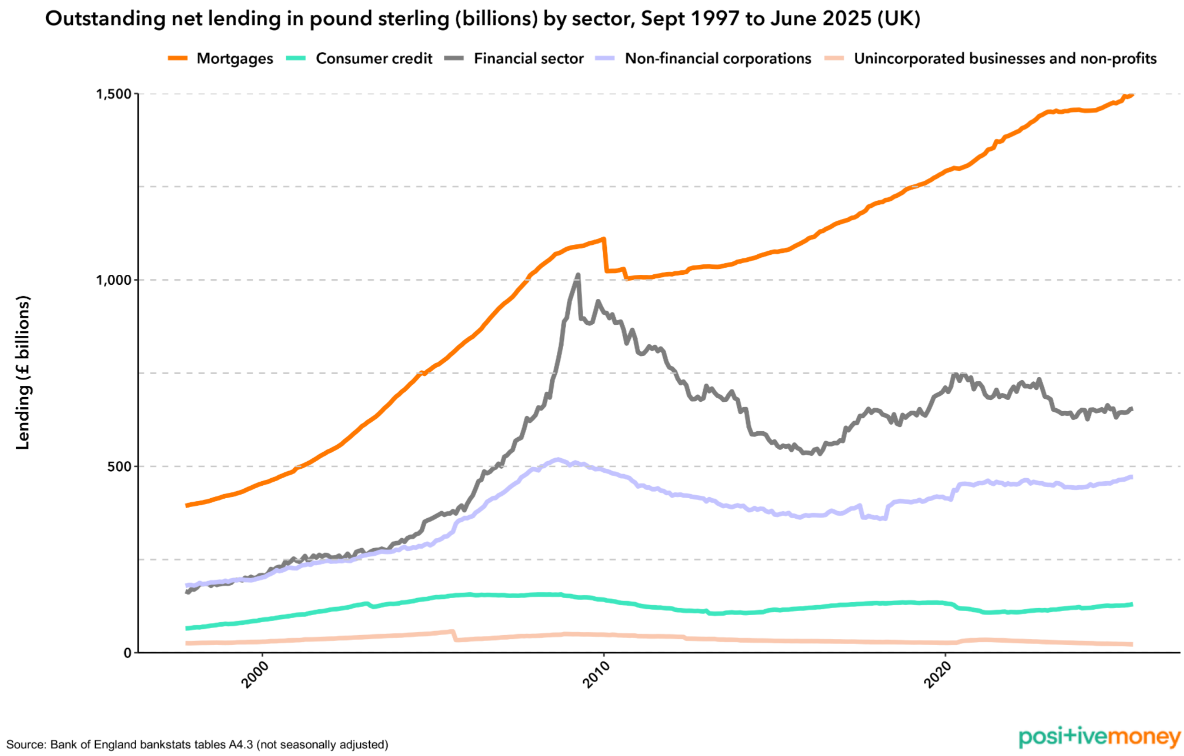
- Outstanding lending held in mortgages reached £1.5 trillion for the first time in June 2025 after growing 2.8% year-on-year. Mortgage lending now makes up 54% of all lending by commercial banks.
- The financial sector held £655 billion in outstanding credit in June 2025, making up 23.6% of total lending after 0.9% year-on-year growth.
- The finance, insurance, and real estate (FIRE) industries hold almost three times the stock of loans compared to the productive sectors of the economy, at £708 billion and £249 billion respectively.
- As a percentage of total lending, credit held by the productive sector has fallen from 11.6% in July 2009 to 9.6% in June 2025.
- The ratio of productive lending relative to mortgage lending has fallen from 0.28 in July 2009 to 0.17 in June 2025. This means that for every six pounds of outstanding credit held in mortgages, only one pound of credit is held by productive firms.

1. A sectoral overview of bank lending:

The Bank of England provides a sectoral overview of bank lending activities, revealing both the total amount and the share of lending going towards mortgages, consumer credit, the financial sector, non-financial corporations, and unincorporated businesses and non-profits.[1]

- Non-financial corporations saw 4% year-on-year growth in outstanding credit with £472 billion held in loans as of June 2025, accounting for 17% of total lending by sector.
- Although the non-financial sector has seen a small increase of 0.3 percentage points in its share of total lending over the last year, the stock of loans held in mortgages is still more than three times higher than that of the loans held by the non-financial sector.
- In just five years, the amount of outstanding credit in mortgages has grown by £199bn and stood at £1.5tn in June 2025, accounting for 54% of total lending.
- Credit held by the financial sector and non-financial sector stayed at roughly equal levels from 1997 to 2007, but since the financial crisis the amount of credit held by the financial sector has consistently been significantly higher than that held by non-financial corporations.

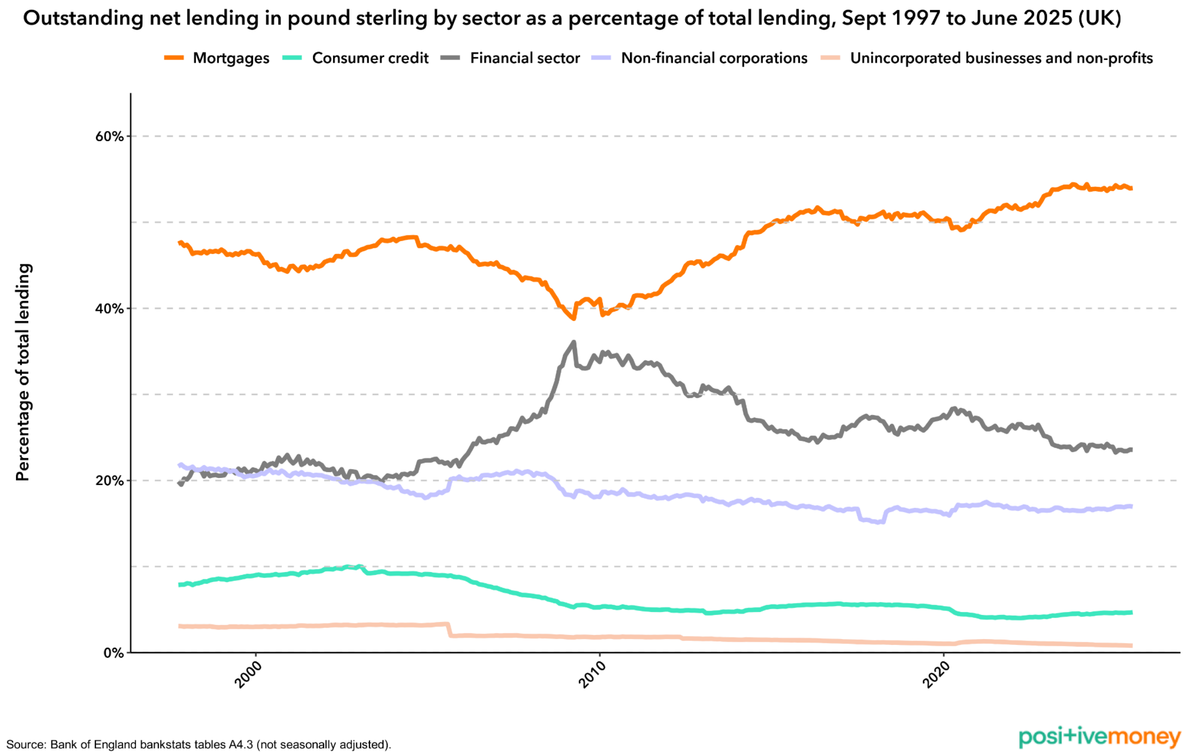
Figure 1: There is now a record-high £1.5tn in outstanding mortgage credit.



[1] The sectoral data used is from Bank of England's bankstats tables A4.3.

However, it is worth noting that the category of non-financial corporations includes finance-related firms such as real estate (the buying and selling of real estate rather than construction) and business services (for example consulting companies), which make up a large proportion of the lending to non-financial companies in the Bank of England's sectoral data. Therefore, the amount of credit held by corporations active in the real economy is significantly lower than the amount shown under the category 'non-financial corporations'. Additionally, the financialisation of the wider economy has also led to non-financial firms themselves becoming increasingly financialised. They might engage in share buybacks rather than investing in their own productive capacity, or undertake speculative activities that are not captured by the Bank of England's sectoral data. Therefore, the actual amount of lending that goes towards speculative activities in different forms will be higher than what the data suggests. With this in mind, the fact that a high and growing share of lending goes towards mortgages and the financial sector is even more concerning, particularly as research has shown that disproportionate growth of the financial sector crowds out growth of the real economy.

Figure 2: After continuing to grow as a proportion of total lending since 2009, mortgages now make up 54% of all lending, surpassing all other sectors combined.



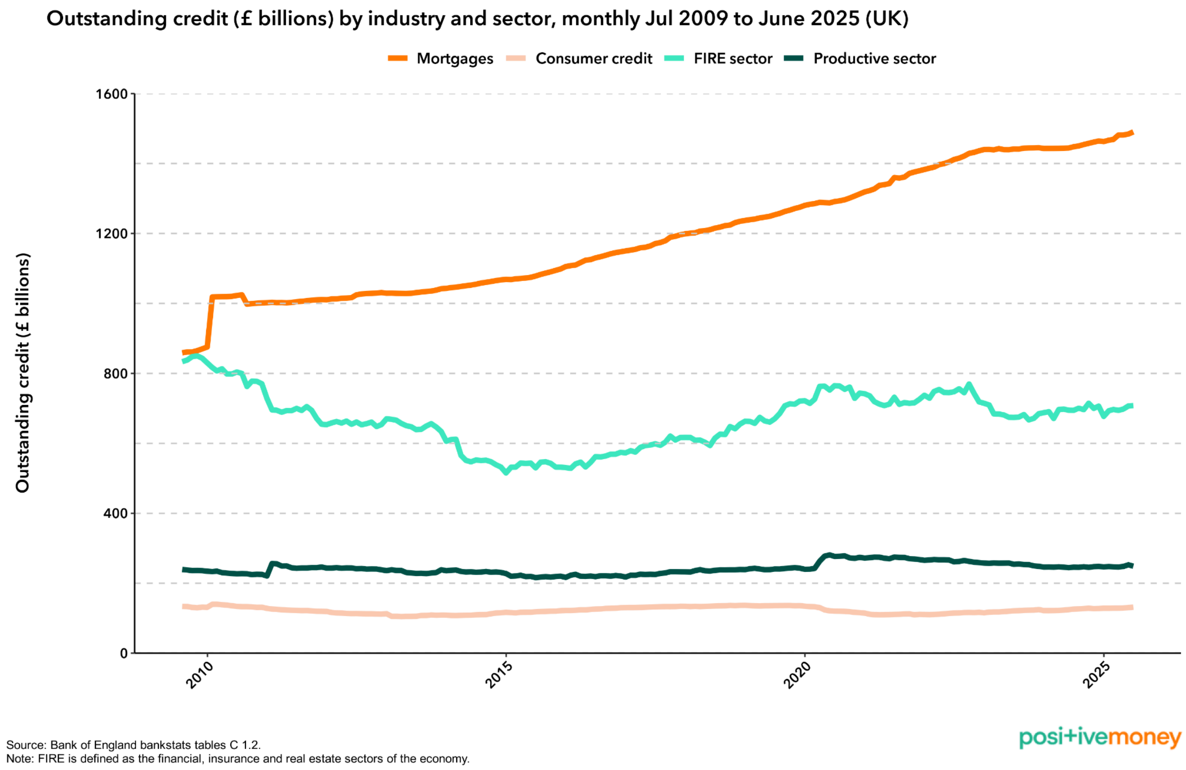
2. An industrial analysis of bank lending

The sectoral data in the previous section allows for a good overview of bank lending in the economy. However, its inclusion of some finance, insurance and real estate

(FIRE sector) industries in its 'non-financial corporations' category does not permit a more in-depth analysis of how much credit goes towards the productive sector in the economy, or to see how much credit is held by specific industries. Bank of England's tables C1.2 allow for a more granular breakdown of data by industry and thus provides a clearer picture of which industries banks direct credit towards.[2] By separating the FIRE sectors and productive industries, i.e. those which primarily operate in the real economy rather than only undertake speculative activities, we can see even more clearly how bank lending is skewed towards finance-related activities rather than productive investment. The data suggests that the UK economy is suffering from systemic underinvestment in the real economy, and instead has become overreliant on the finance sector and speculative activity in the property market.

- The FIRE sector holds almost three times the stock of loans compared to the productive sectors of the economy, at £708bn and £249bn respectively.
- As a percentage of total lending, credit held by the productive sector has fallen from 11.6% in July 2009 to 9.6% in June 2025.
- The ratio of productive lending relative to mortgage lending has fallen from 0.28 in July 2009 to 0.17 in June 2025.

Figure 3: While outstanding credit held in mortgages has increased significantly, credit held by productive industries has only increased by £10bn in nominal terms since 2009 and fallen by £19bn compared to four years prior as of June 2025.



[2] Note that figures from tables C1.2 are not directly comparable to those from tables A4.3 due to using different methodologies for data collection.

Figure 4: The ratios of productive lending to total lending and mortgage lending have both fallen since 2009, although the latter much more drastically.

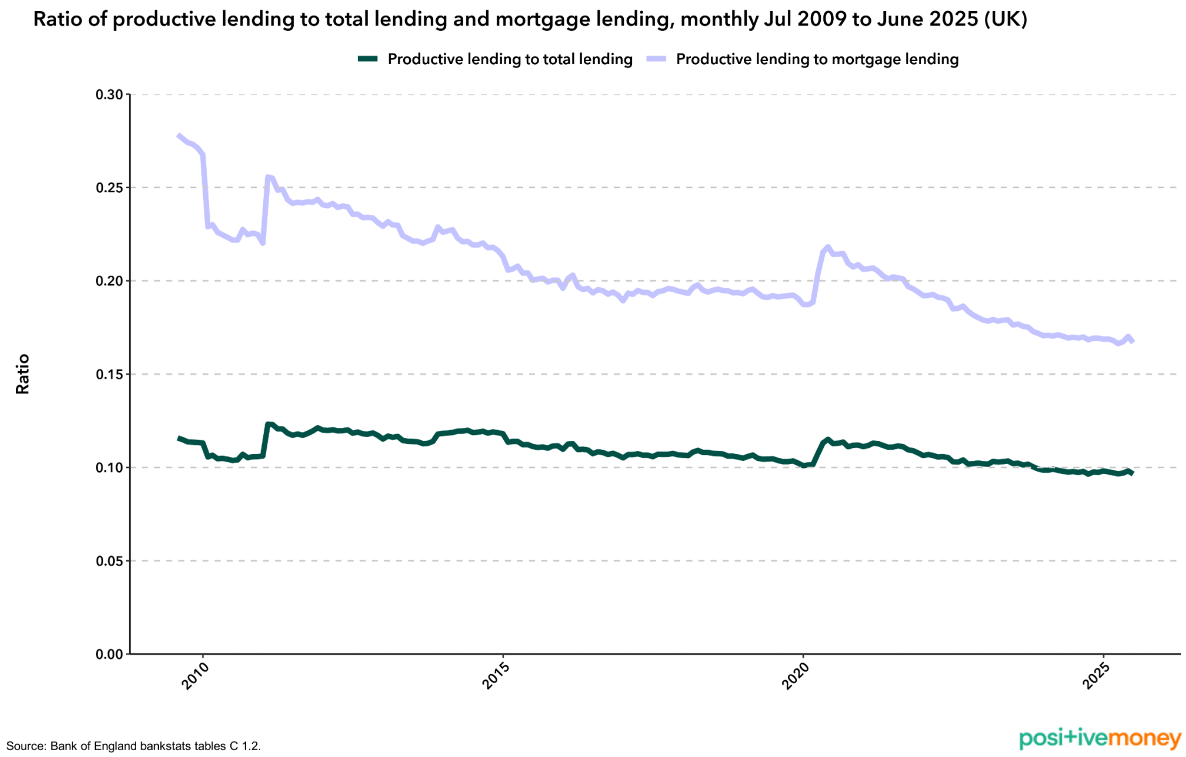
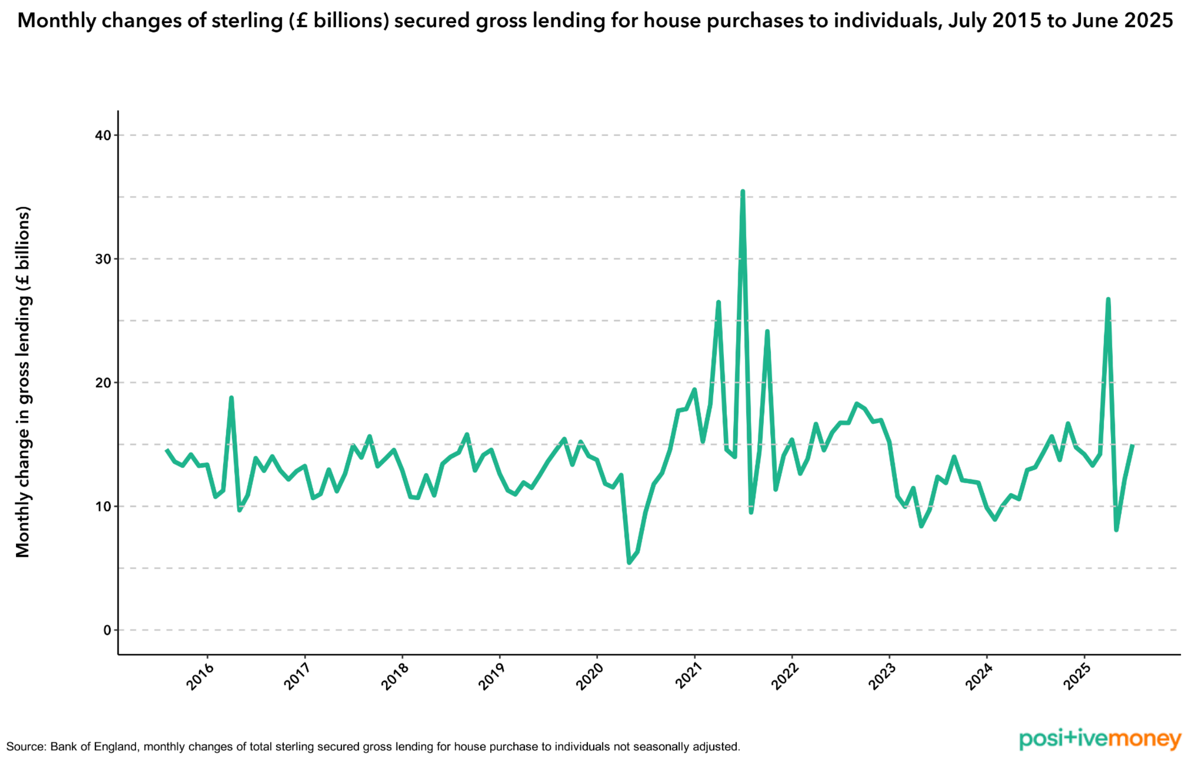


Figure 5: The first half of 2025 has seen steady growth in gross lending for mortgages, with the month of March seeing the largest flow since 2021.



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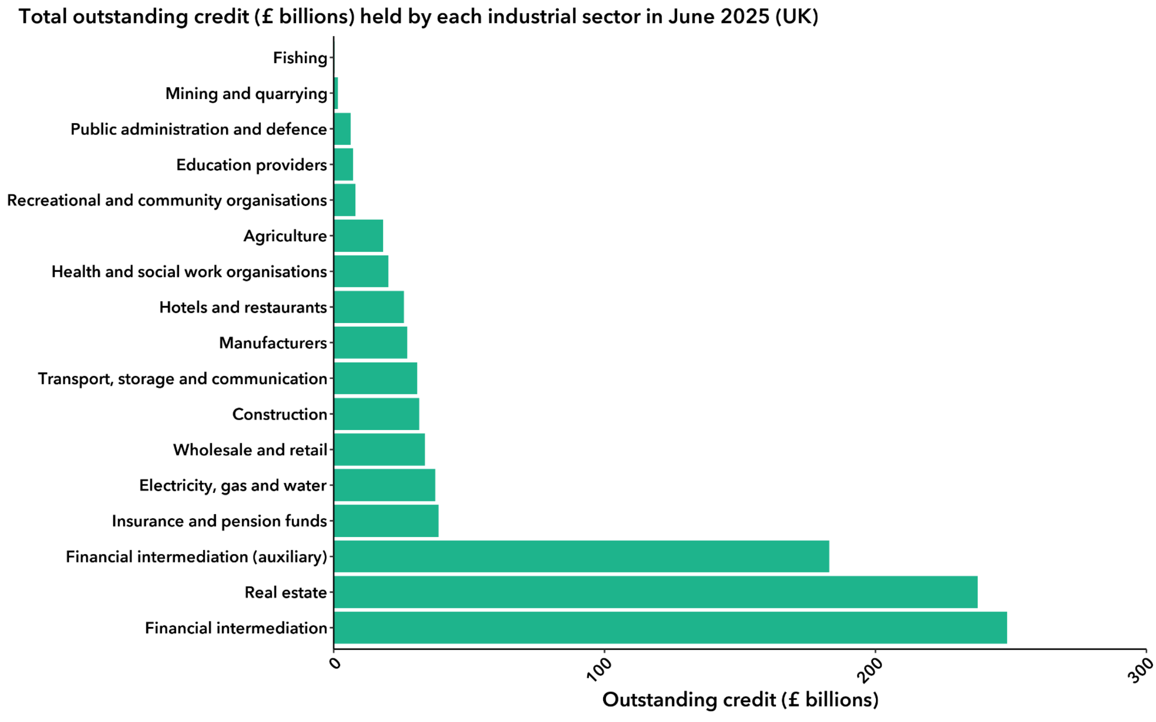
The previous graphs give a clear picture of the high, and growing, focus on lending towards the purchasing of already existing assets, primarily property. However, as can be seen in the graph below, it is worrying that key industries in the real economy only receive a fraction of the credit that is directed to the FIRE sectors. As noted in a review on UK productivity in 2023, industries such as manufacturing can provide significant boosts to productivity, but a lack of investment has prevented the sector from modernising. While the review praises the UK financial sector for its contribution to the UK economy, this data shows that the UK financial sector is disproportionately large in comparison to the real economy. Rather than acting merely as an enabler of investment, an outsized financial sector can be detrimental to the development of firms in the real economy, and growth in the financial sector beyond a certain point harms productivity growth in the economy overall.

Figure 6: Excluding mortgages and consumer credit, it is clear that industries in the FIRE sector receive much more credit than productive industries such as agriculture, manufacturers, energy, or construction.



Source: Bank of England bankstats tables C 1.2.

Figure 7: The growth in credit going towards mortgages and the FIRE sector compared to the productive sector is even more pronounced if viewed since 1986.[3]

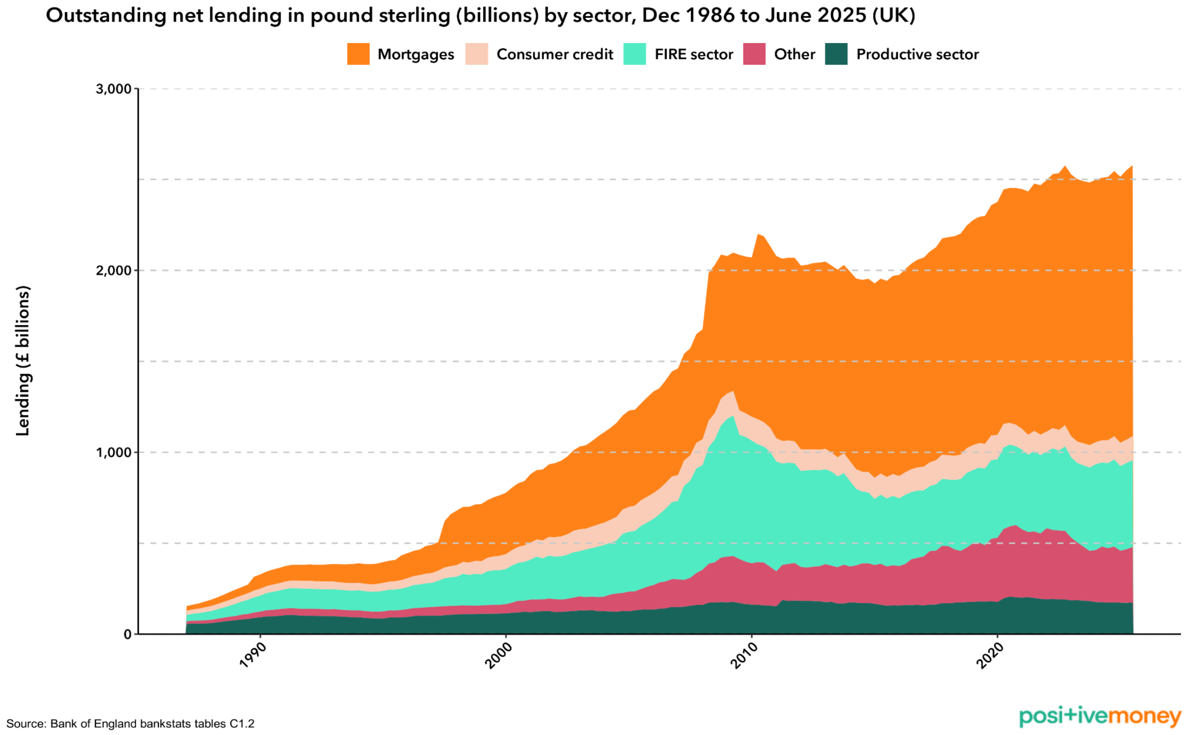
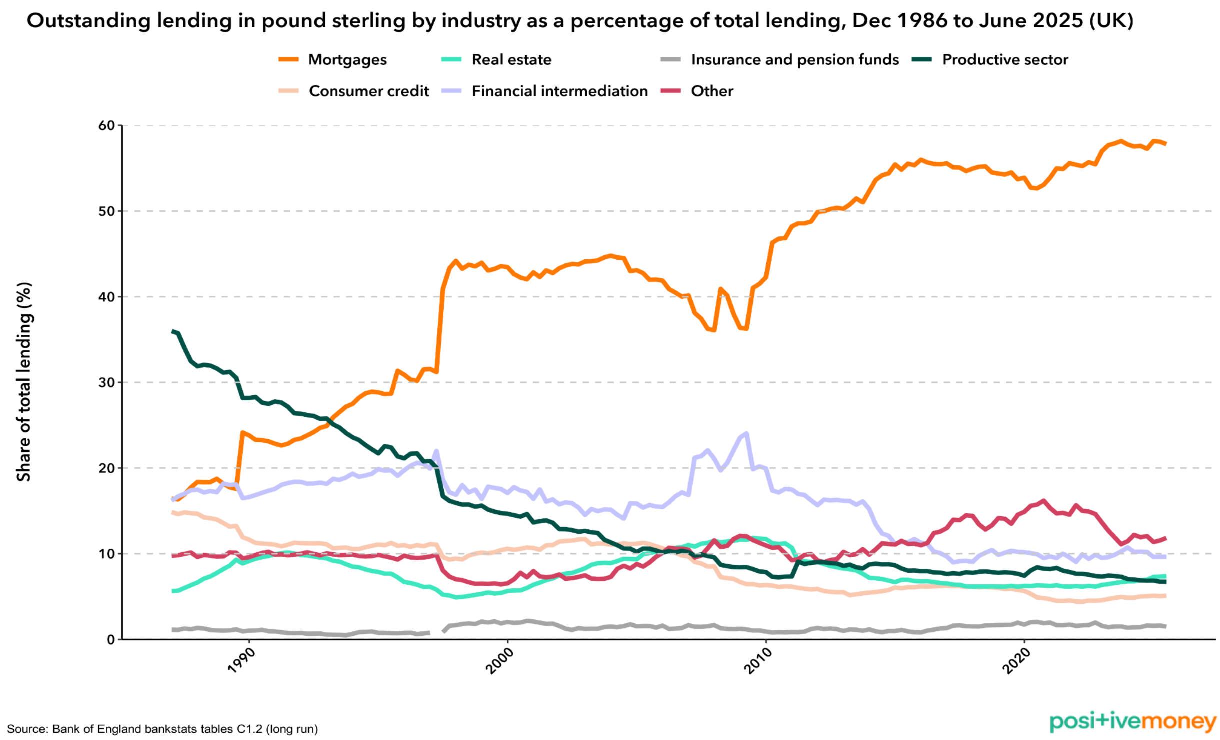


Figure 8: When viewed since 1986, it is clear how drastically the share of total lending going towards the productive sector has fallen over the past four decades.



[3] Note that data by industry prior to 2009 is less granular and thus contains the category 'Other' which includes both unclassified productive industries and FIRE sector firms.

What does this mean?
When financial investments are prioritised over investments in productive activities, this increases inequality by inflating the wealth of asset owners at the expense of those who do not own assets. The economy as a whole benefits from increased productivity, but this is not so for sustained asset price bubbles. A prolonged and systemic favouring of lending towards speculative activities will thus be detrimental both for wellbeing and productivity by reducing investments which increase the productive capacity of the economy while lowering purchasing power for the majority of citizens. As profit-driven institutions banks favour lending towards speculative activities if it maximises their returns, even if it has a negative impact on the economy as a whole by driving up costs of production, increasing inequality, harming productivity, and growing the share of rent-seeking activity in the economy. Far from the notion that banks are able to distribute credit efficiently in the economy, this data shows that the deregulation of the banking sector in the 1980s has led to a significant increase in the misallocation of resources towards speculative and non-productive sectors in the economy.

At the same time that commercial banks continue to post record-breaking profits, their lending activities are clearly serving the real economy less and less. Since banks create almost all of the new money in the economy, their lending activities have significant impacts on both the production and distribution of wealth and resources in society. For as long as banks continue to shun the productive industries while pumping money into speculative parts of the economy, the inevitable result will be an increase in the price of assets without an equivalent increase in economic output, further divorcing the financial sector from the real economy. Not only does this undermine the government's growth mission by contributing to the UK's low rates of investment, it drives further wealth inequality and heightens the risk of another financial crisis.

This data shows that the current financial and monetary system is ill-equipped to support the real economy. A vast majority of bank lending goes towards propping up asset price bubbles in the property and financial markets rather than productive investment, which only adds to the argument for a windfall tax to make sure banks pay their fair share. Though bank executives claim that paying more tax would harm UK growth and investment, this analysis reveals just how little the banking sector invests in the real economy in the first place. Rather than being the result of taxation, the UK banking sector's lack of support for the real economy is due to a structural bias that favours lending towards the purchasing of already existing assets such as property. We must reform the financial system so that a greater proportion of new money created goes towards supporting the real economy and tackling urgent societal challenges, such as climate breakdown, poverty, or the housing crisis, via credit guidance policies, and fully leveraging the potential of the National Wealth Fund to finance socially beneficial economic activities.