Office for National Statistics

Article

UK finance during the coronavirus (COVID-19) pandemic: June 2022

Key insights into the UK banking sector and financial flows (loans and deposits) during the coronavirus (COVID-19) pandemic, and how these compared with the global financial crisis in 2008 to 2009.

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1 . Main points

- Since the coronavirus (COVID-19) pandemic, there has been an increase in the availability of loans to households and businesses, which is in contrast to the experience of the 2008 global financial crisis.

- The asset holdings of deposits by households rose sharply during the coronavirus pandemic, in part, reflecting the effects of “forced” saving because of public health restrictions.

- Businesses also increased their deposits holdings, which might have been a precautionary response to more uncertain business conditions.

- More recent evidence shows adults have reported using credit more than usual, possibly in response to the rising cost of living; the rise in business deposits since the start of 2022 might point to lower business confidence and greater uncertainty.

2 . Overview

Coronavirus (COVID-19) restrictions led to large economic impacts through 2020 and 2021. There were concerns that there would be adverse impacts on the provision of finance to households and businesses, particularly given the experience of the 2008 global financial crisis (GFC). These impacts on lending and borrowing could have amplified some of these effects on the real economy.

We show the trends in financial flows over the course of the coronavirus pandemic, particularly on loans and deposits in 2020 and 2021, including how this compared with the GFC. Our focus is on the monetary financial institutions (MFIs) in the National Accounts – in effect, the banking industry. We do not look at other types of finance provision here, such as those provided by other financial institutions (OFIs).

We also present the latest findings on more recent trends in loans and deposits in the first half of 2022. These provide some indicative insights into how households and businesses are responding to the higher cost of living and economic uncertainty in 2022.

3 . Two economic crises

The paths of income and expenditure determine whether households, corporations, the government and the rest of the world are net lenders or borrowers. The coronavirus (COVID-19) pandemic led to large movements in these income and expenditure flows, which must also be reflected in offsetting movements in financial flows. This is because a net borrowing position must be funded by taking on further financial liabilities and/or reducing financial assets. A net lending position is reflected in a net increase in financial assets and/or decrease in financial liabilities.

Figure 1 shows the compositional changes in the UK banking sector's net assets over the period of the global financial crisis (GFC) and the coronavirus pandemic. Figure 1 highlights the contrasting experience in the flows of loans and deposits. In 2020, there was a large rise in deposits held by households and businesses. This largely reflected the effects of forced savings in response to coronavirus restrictions, as detailed in our Economic modelling of forced savings during the coronavirus pandemic article. There was a larger impact on household consumption than on household incomes as presented in our Coronavirus and its effects on household consumption, UK: January to December 2021 article. This primarily reflected the impact of the Coronavirus Job Retention Scheme (CJRS) and Self-Employment Income Support Scheme (SEISS).

The introduction of coronavirus restrictions on spending on goods and services explains why there was a spike in these deposit flows. This would have been reflected by an offsetting increase in financial liabilities of deposits held by the banking sector – this is their holdings of these deposits that are owned by households and businesses. These financial flows helped explain why monetary financial institutions (MFIs) became net borrowers through the coronavirus pandemic, while households became net lenders. This was not the case in the GFC, where there was a rise in net assets of deposits and currency that was held by MFIs.

During the coronavirus pandemic, there was an increase in the provisions of loans by the banking sector. This included the impacts of policy responses introduced by the government and the Bank of England. For example, this includes the impacts of the Coronavirus Business Interruption Loan Scheme (CBILS), the Coronavirus Large Business Interruption Loan Scheme (CLBILS) and the Bounce Back Loan Scheme (BBLS), which all provided financial support to businesses. In contrast, during the GFC, there was a more marked adverse impact in the flows of loans to households and businesses. This highlighted how these impacts in the financial economy in 2008 and 2009 amplified some of these effects in the economy.

Figure 1: Banks raised their lending of loans during coronavirus, while households and businesses increased their holdings of deposits

Net financial assets, UK monetary financial institutions, share of GDP, 2007 to 2009 and 2019 to 2021

Notes:

1. A positive net value shows net lending (plus) while a negative net value shows net borrowing (minus).

2. This looks at the financial assets and liabilities of monetary financial institutions (MFIs), which compromise of UK banks and building societies, and other traditional loan and deposit-taking bodies.

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   .xlsx

4 . Loans to households

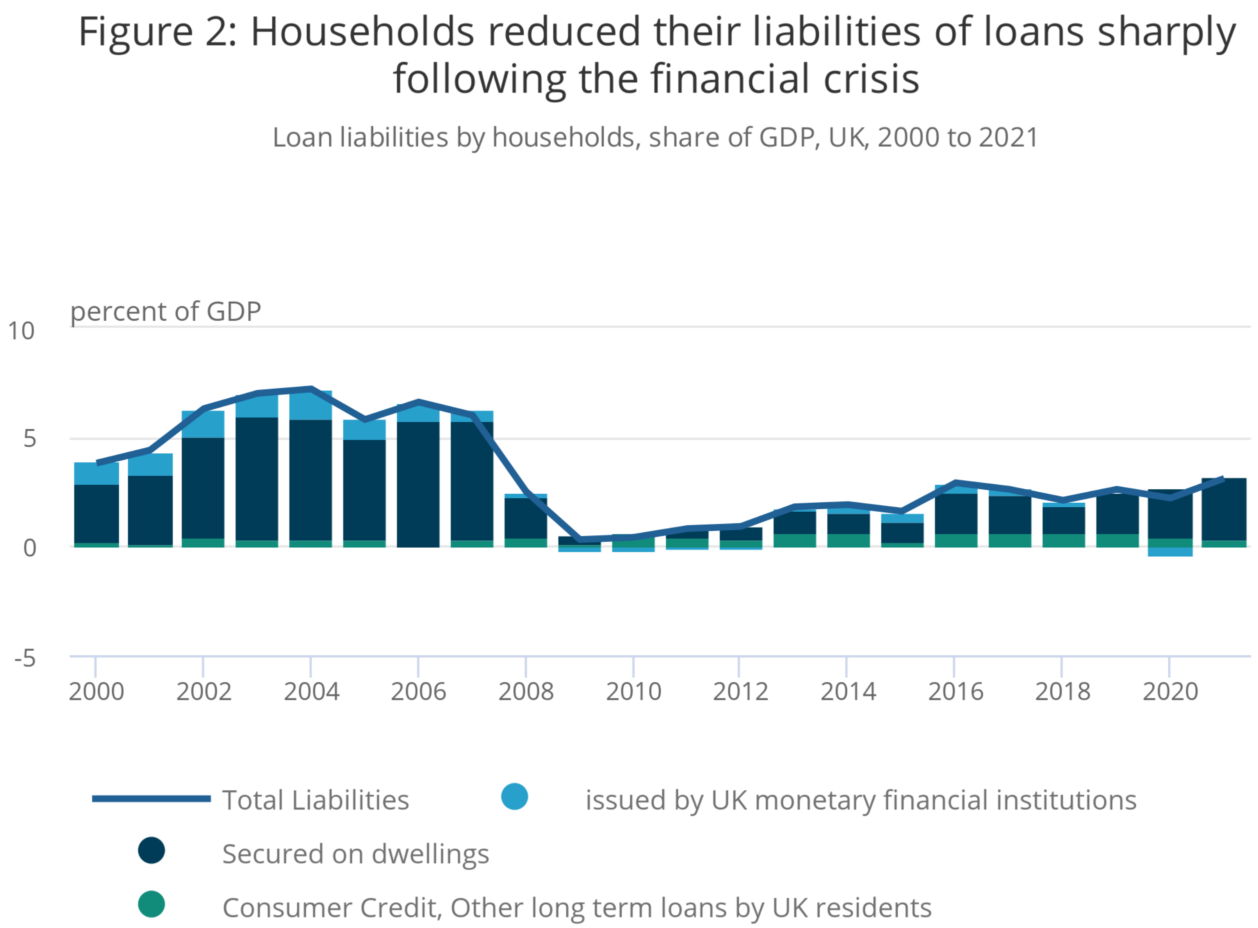
The impact on loan borrowing by households over the coronavirus (COVID-19) pandemic has been in sharp contrast to that of the global financial crisis, where the holdings of loan liabilities are broadly in line with their pre-coronavirus levels. There was initially an easing in the annual rate of total lending to individuals – further details on [total lending to individuals' data] are provided by the Bank of England. However, following the start of the coronavirus pandemic, this has since recovered to above its pre-coronavirus rates.

In contrast, between 2008 and 2009, households sharply reduced their borrowing, as the impact on the cost and availability of finance had an effect on the demand and supply of loans. This was particularly evident in the large decline in the acquisition of mortgage loans in 2008, which have not recovered to their pre-2008 levels (Figure 2).

More recently, there has been a rise in household loans secured on dwellings. This might reflect a change in consumer preferences in response to the coronavirus pandemic, as the increase in housing transactions captures there being more value in having larger living spaces outside of cities. The swift rebound in secured lending is also likely to have been boosted by policies such as a [break in stamp duty tax for property purchases].

Figure 2: Households reduced their liabilities of loans sharply following the financial crisis

Loan liabilities by households, share of GDP, UK, 2000 to 2021



Source: Office for National Statistics – UK Sector Accounts

The change in consumer credit following the coronavirus pandemic shows a more pronounced impact than secured lending. Following the coronavirus pandemic, all types of consumer credit lending saw a sharp fall, in particular lending on credit cards. One factor might be the build-up in household savings, which may have reduced their need for raising external finance through consumer credit. Households might have also used these additional savings to repay existing consumer credit loans.

In recent months, there has been a sharp rise in cost and price inflationary pressures. The impact of the squeeze on real incomes will, in part, depend on the response of households, such as if there will be a faster run down of any accumulated savings to smooth consumption over time.

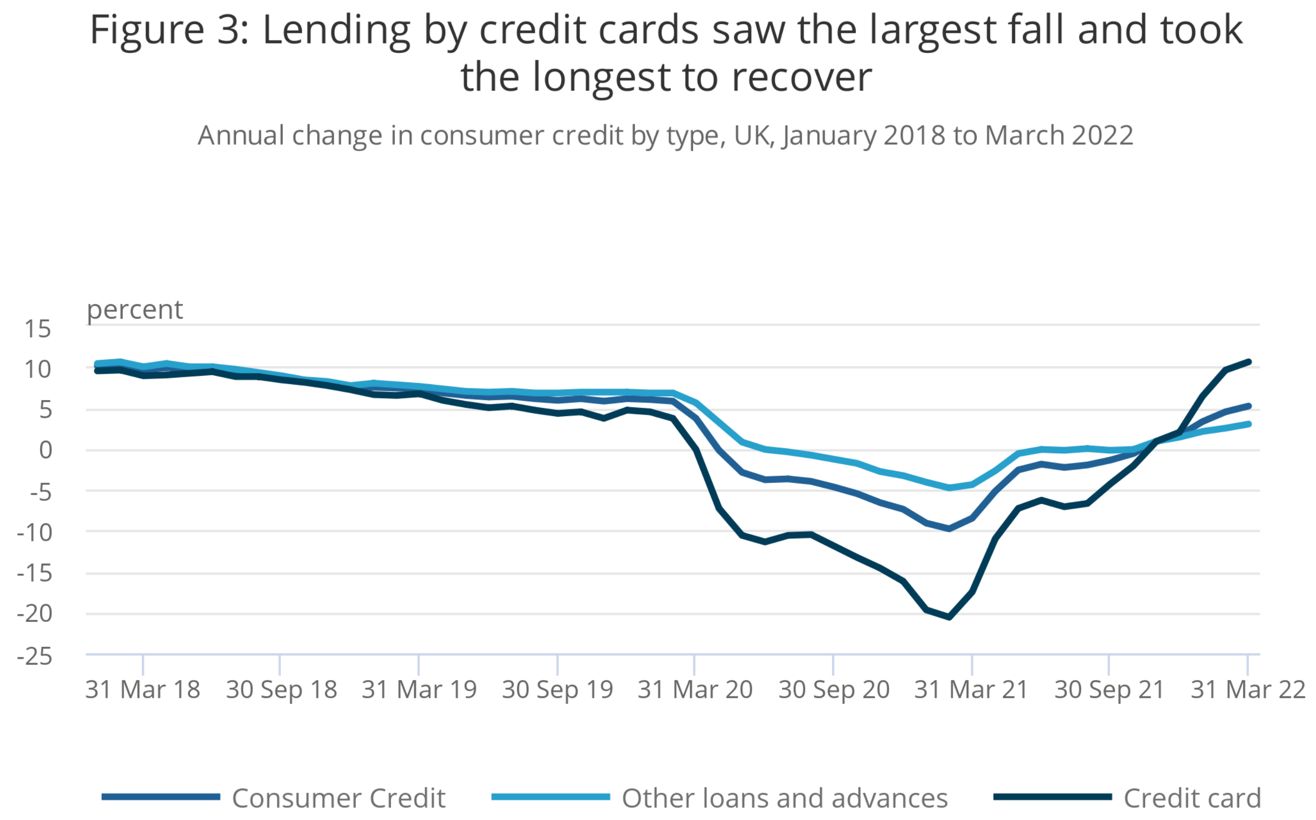
The May 2022 Bank of England Monetary Policy Report (PDF, 4,092 KB) shows that households might save less and use existing savings to pay for extra spending because of higher inflation. Similarly, the Opinions and Lifestyle Survey found that since November 2021, the proportion of adults who think they would not be able to save any money in the next 12 months has gradually risen. This figure was 45% in May 2022 compared with 34% in November 2021, as detailed in our Public opinions and social trends, Great Britain: 25 May to 5 June 2022 bulletin. This also shows that 21% of adults reported using their savings in response to higher living costs.

In recent months, there has been a rise in consumer credit, with an increase in credit card lending of 10.6% on the year in March 2022 (Figure 3), reversing the falling trend in consumer credit in 2020 and 2021. Consumer credit lending is more concentrated among lower income workers who were more likely to have seen a fall in their incomes earlier in the coronavirus pandemic, according to the Bank of England's Household debt and Covid bulletin. The latest rise in consumer credit might be boosted by cheaper credit. The Bank of England's Money and Credit – March 2022 report shows that the cost of credit card borrowing was 18.0% in March 2022, 54 basis points below the February 2020 level.

The Office for National Statistics (ONS's) Opinions and Lifestyle Survey found that 14% of adults reported using credit more than usual in response to higher cost of living in May 2022. This was a rise from 11% from early April 2022, as detailed in our Public opinions and social trends, Great Britain: household finances dataset. Similarly, the latest EY Independent Treasury Economic Model (ITEM) Club UK Bank Lending Forecast indicates that household demand for consumer credit could rise significantly this year. This is because of cost of living pressures from rises in prices for essential goods and services.

Figure 3: Lending by credit cards saw the largest fall and took the longest to recover

Annual change in consumer credit by type, UK, January 2018 to March 2022



Source: Bank of England

Notes:

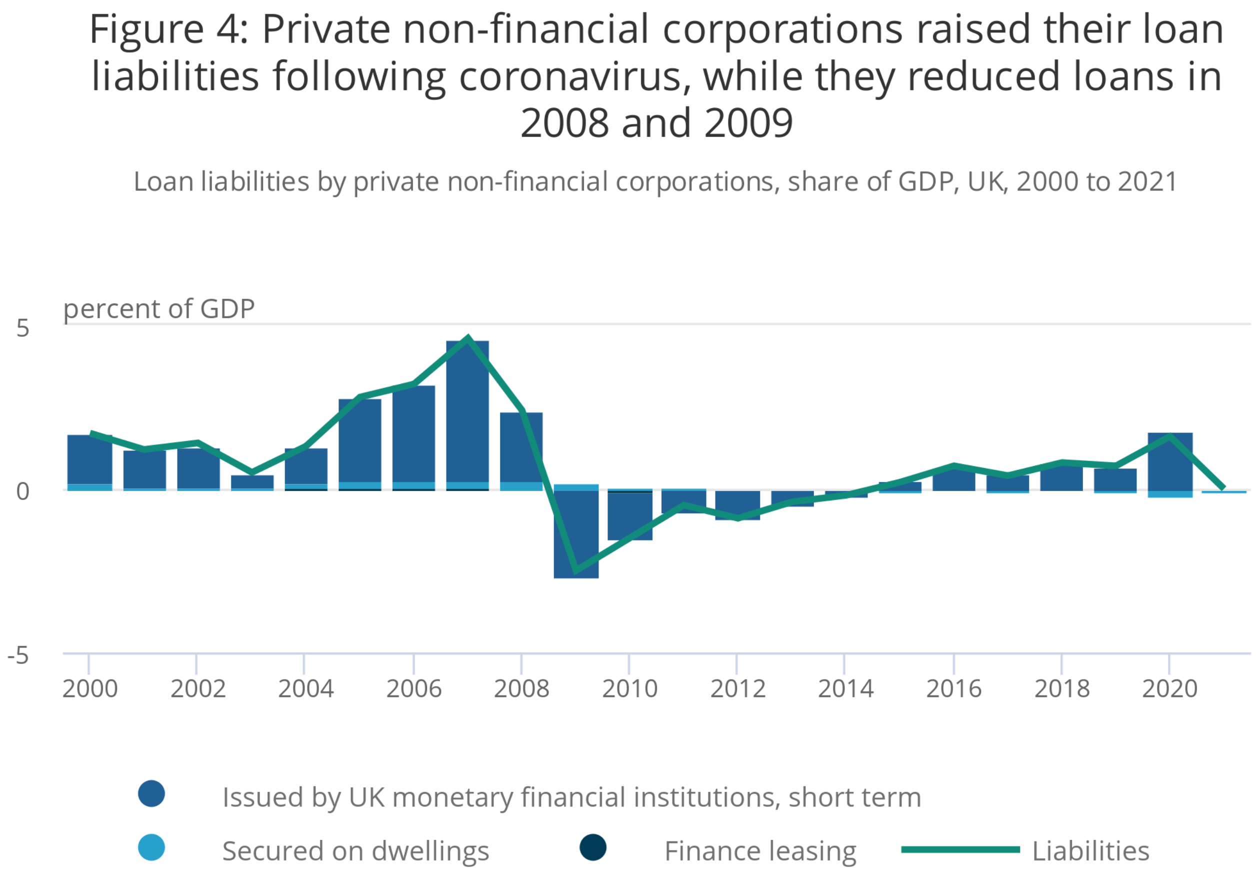
1. Consumer credit is the total of all consumer credit to individuals. Other loans and advances include forms of consumer credit, such as car dealership finance and personal loans.

5 . Loans to business

Following the global financial crisis, businesses experienced a large fall in their loan liabilities (Figure 4). This reflected the impact on the cost and availability of finance at the time. However, Figure 4 shows that this was not the case over the course of the coronavirus (COVID-19) pandemic. There was a rise in their borrowing, particularly short-term loans. These loans typically contribute a significant share towards total business loans, reflecting businesses' reliance on bank lending to manage cash flow and operations. The demand for loans by businesses during the coronavirus pandemic could also reflect the availability of [government coronavirus financial support schemes] to ease cash flow, and/or businesses capitalising on the more affordable interest rates on coronavirus support loans.

Figure 4: Private non-financial corporations raised their loan liabilities following coronavirus, while they reduced loans in 2008 and 2009

Loan liabilities by private non-financial corporations, share of GDP, UK, 2000 to 2021



Source: Office for National Statistics – UK Sector Accounts

Notes:

1. We have excluded other long-term loans that have been issued by UK residents.

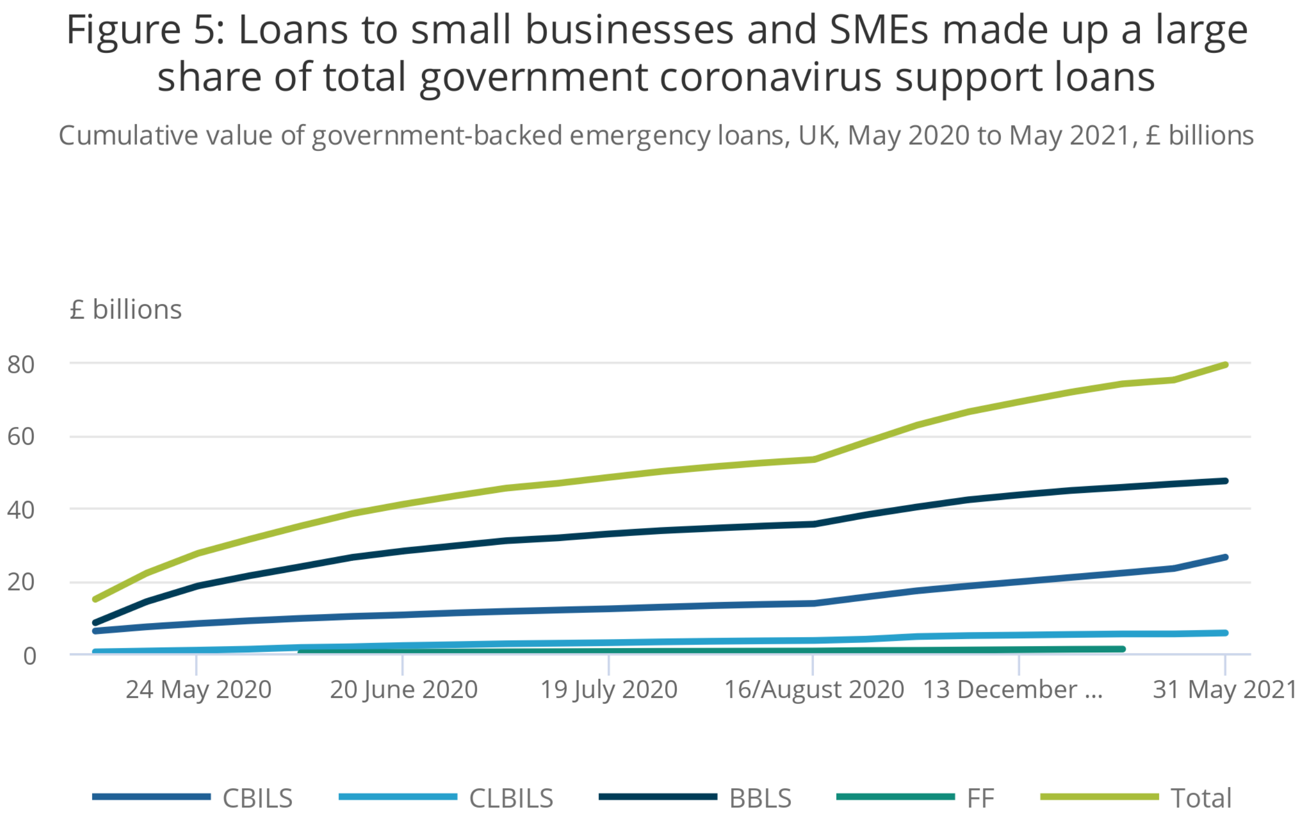
Over the course of the first year of the coronavirus pandemic, there was a sharp rise in loans provided to small and medium-sized enterprise (SMEs). The [Bank of England's Money and Credit – May 2020 report] found that this likely reflected SMEs drawing down loans through the government-supported schemes, such as the Coronavirus Business Interruption Loan Scheme (CBILS) and the Bounce Back Loan Scheme (BBLS). These loans reduced the interest rate paid by SMEs on new borrowing to an actual "effective" rate of 0.98% in May 2020, compared with 3.44% in February 2020. Since March 2021, the 12-month rate in lending to SMEs has fallen as these government loan support schemes ended, as overall SMEs have been repaying loans.

The difference in bank lending between SMEs and large businesses, in part, reflects the take-up of emergency government-backed loans. These were introduced to ease the adverse impact of the coronavirus pandemic on cashflows. Also, larger firms had access to the COVID-19 Corporate Financing Facility (a scheme for large businesses affected by coronavirus through the purchase of their short-term debt). If this was accessed, it made them ineligible for any of the government-backed loan schemes. It is also the case that large corporates tend to have access to other sources of finance other than bank loans.

Figure 5 shows the cumulative take-up of these loans over time by businesses. In particular, the drawdown of loans through the CBILS and the BBLS were high, which were aimed at SMEs. These two schemes provided a combined total of £73.7 billion in loans. Among larger firms, take up of the CLBILS was relatively low (£5.6 billion).

Figure 5: Loans to small businesses and SMEs made up a large share of total government coronavirus support loans

Cumulative value of government-backed emergency loans, UK, May 2020 to May 2021, £ billions



Source: HM Treasury – Coronavirus Business Loan Scheme Statistics

Notes:

1. The first loan schemes were opened in March 2020 and closed on 31 March 2021, but applications received before closure were processed for approval until the end of May 2021.

2. The coronavirus loan schemes include the Coronavirus Business Interruption Loan Scheme (CBILS), which was targeted at SMEs, the Coronavirus Large Business Interruption Loan Scheme (CLBILS) loan scheme, which provided finance to mid-sized and larger UK businesses, the Bounce Back Loan Scheme (BBLS), which provided financial support to SMEs, and the Coronavirus Future Fund (FF). This was a co-investment scheme between the private and public sectors aimed at securing equity investment for start-up companies unable to access existing state-backed loan schemes.

We further explore the loans to business by size and industry during the coronavirus pandemic. Figure 6 shows that across almost all industries, SMEs raised their total net loans since the start of coronavirus. The highest total net lending was observed in:

- real estate, professional services, and support activities
- wholesale and retail trade
- construction

There was also relatively large increase in loans provided to SMEs in other “high-contact” industries, such as the transport and storage, and accommodation and food service industries. We provide provides further insights in our Effects of the coronavirus pandemic on “high contact” industries article.

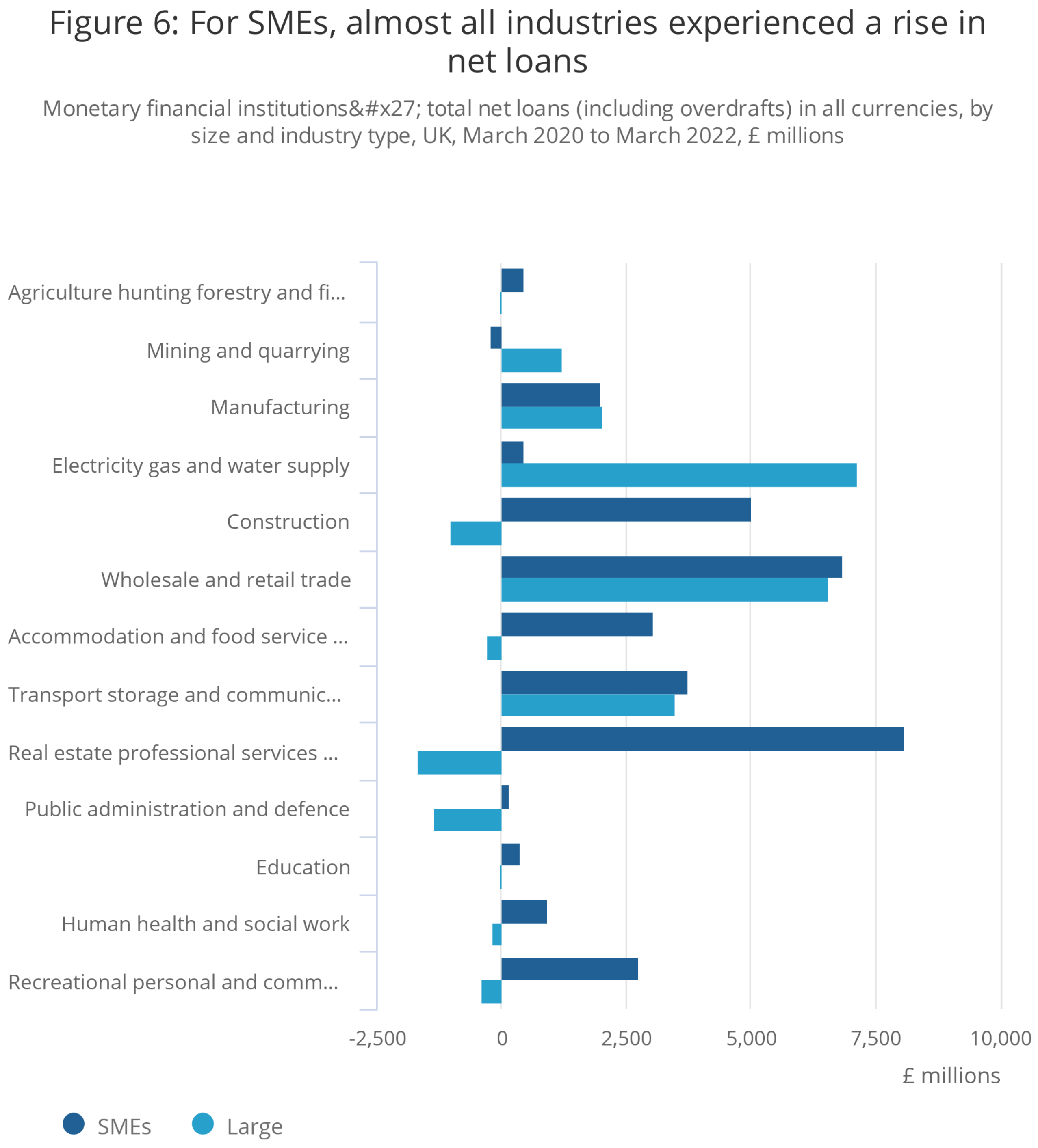
For large businesses, half of the industries saw a fall in total net lending, with the largest falls seen in:

- real estate, professional services, and support activities
- public administration and defence
- construction

This might reflect how large businesses are able to access a wider range of external finance.

Figure 6: For SMEs, almost all industries experienced a rise in net loans

Monetary financial institutions' total net loans (including overdrafts) in all currencies, by size and industry type, UK, March 2020 to March 2022, £ millions



Source: Bank of England

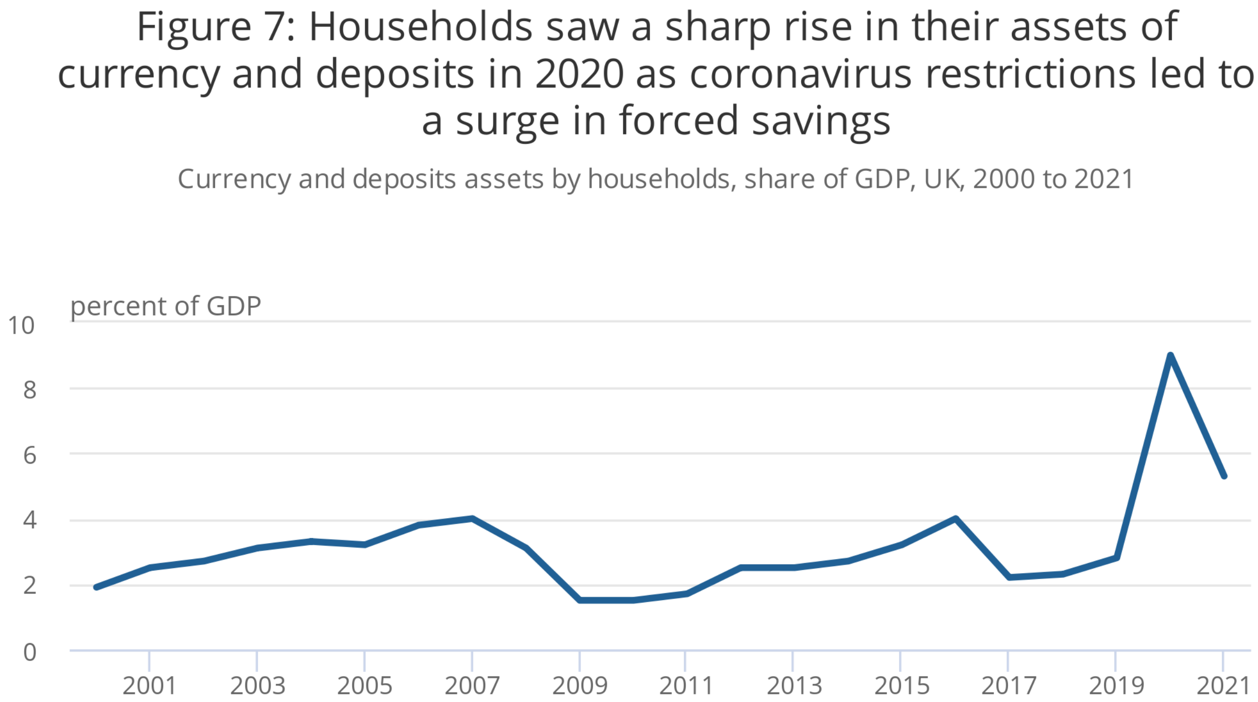
6 . Deposits held by households and businesses

Figure 7 shows that that asset holdings of deposits and currency by households rose sharply following the coronavirus (COVID-19) pandemic. In 2020, households held deposits equivalent to 9% of gross domestic product (GDP) before falling to 5.3% in 2021. This is consistent with the record rise in the household savings ratio to over 25% in Quarter 2 (Apr to June) 2020. The additional role of forced savings through the coronavirus, in addition to intertemporal and precautionary motives was highlighted in [our Economic modelling of forced savings during the coronavirus pandemic article].

As restrictions were lifted over the course of 2021, there was not the same level of accumulation of these financial assets by households. The effect of these forced savings leading to higher levels of holdings of currency and deposits during coronavirus, is reflected in how this was not the case during the global financial crisis. This will likely reflect how households were using their savings at that time in response to the adverse impacts on employment and incomes.

Figure 7: Households saw a sharp rise in their assets of currency and deposits in 2020 as coronavirus restrictions led to a surge in forced savings

Currency and deposits assets by households, share of GDP, UK, 2000 to 2021



Source: Office for National Statistics – UK Sector Accounts

Figure 8 shows a similar trend for private businesses, whose holdings of assets of currency and deposits rose sharply in response to the coronavirus pandemic. This contrasted with the global financial crisis when private businesses' held currency and deposits fell.

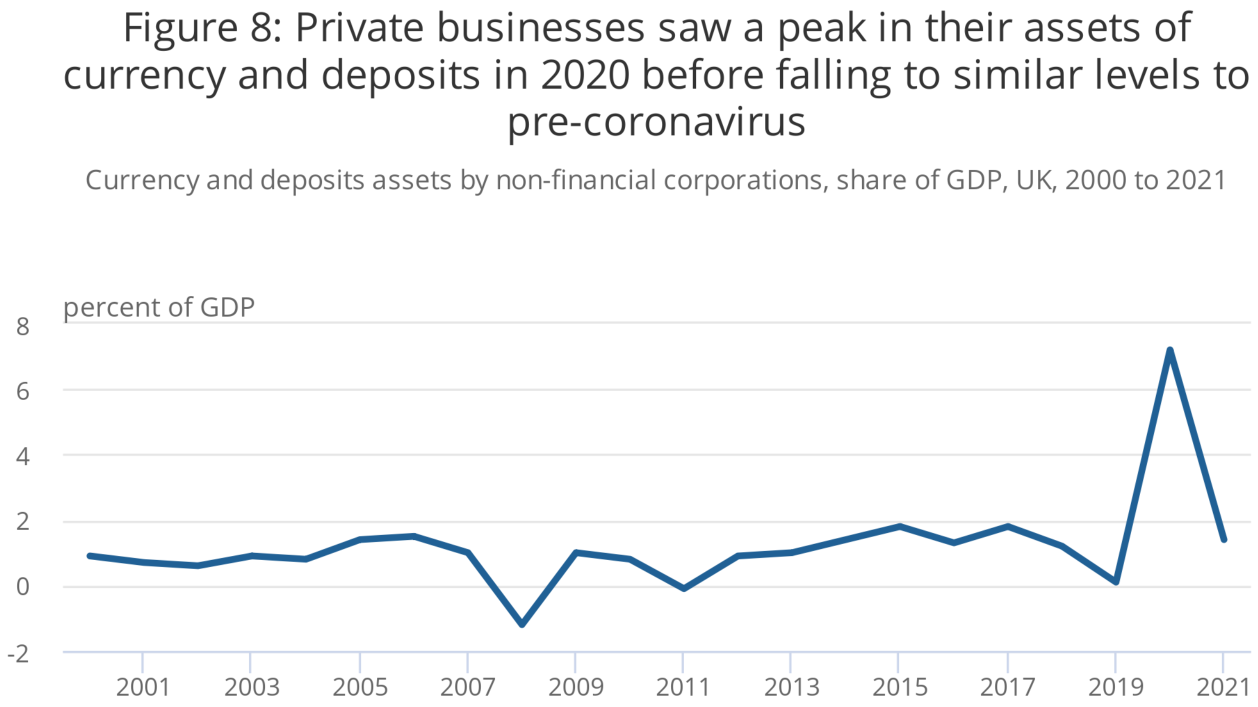
In 2020, business-held currency and deposits were equivalent to 7.2% of gross domestic product (GDP), before falling in 2021 to levels seen prior to the coronavirus pandemic (Figure 8). This is consistent with evidence from the [Bank of England's Money and Credit - July 2020 report]. The report found that from March to June 2020, monthly average business deposits were £28.8 billion, compared with the six months average prior to February 2020 (pre-coronavirus) of minus £0.4 billion withdrawals.

The rise in currency and deposits held by businesses could have been a precautionary response, because of businesses delaying investment during uncertain business conditions. Also, businesses may have decided to retain capital as a buffer against potential cash flow challenges. Further information can be found in [our Coronavirus and the impact on UK households and businesses article].

More timely estimates from the [Bank of England's Money and Credit - March 2022 report] found that businesses deposited a net £12.4 billion into banks and building societies, up from £2.6 billion in February. The pick-up in businesses' deposits since the start of the year might indicate lower business confidence, coinciding with more concerns around the economic outlook.

Figure 8: Private businesses saw a peak in their assets of currency and deposits in 2020 before falling to similar levels to pre-coronavirus

Currency and deposits assets by non-financial corporations, share of GDP, UK, 2000 to 2021



Source: Office for National Statistics – UK Sector Accounts

The latest figures from the Bank of England show that between April 2020 and March 2022, UK businesses' total deposits were £15.2 billion, although businesses deposits held varied between industries. Real estate, professional services and support activities held the highest total deposits (£5.0 billion), far outweighing all other industries shown. This was followed by:

- wholesale and retail trade
- transport, storage, and communication
- construction

7 . UK finance during the coronavirus (COVID-19) pandemic data

Quarterly sector accounts
Dataset | Released 31 March 2022
Quarterly aggregate economic indicators and summary estimates for private non-financial corporations and households' sectors of the UK economy, and revisions.

UK Economic Accounts time series
Dataset | Released 31 March 2022
Quarterly estimates of national product, income and expenditure, sector accounts revisions and balance of payments.

Public opinions and social trends, Great Britain: household finances
Dataset | Released on 10 June 2022
Indicators from the Opinions and Lifestyle Survey (OPN) of people's experiences of changes in their cost of living and household finances in Great Britain.

8 . Glossary

Global financial crisis (GFC)

The global financial crisis (GFC) for this analysis covers the period between 2008 to 2009.

Monetary financial institutions (MFIs)

There are three subsectors within the monetary financial institutions sector, which are:

- central bank – the Bank of England
- deposit-taking corporations – retail banks and building societies
- money market funds – investment funds that only invest in short-term debt securities such as treasury bills, certificates of deposit and commercial paper; they can also invest in long-term debt securities with a residual short-term maturity

Net lending or borrowing

The net lending of a sector represents the surplus resources that a sector makes available to other sectors, net borrowing represents their financing of a deficit from other sectors.

Net lending means a sector has money left over after its spending and investment in a given period. Net borrowing means it has spent and invested more than it received and has a need for financing. This may be covered by borrowing, issuing shares or bonds, or by drawing on reserves.

9 . Data sources and quality

UK sector accounts

The official UK sector accounts data underpinning our analysis include data up to the year 2021, the latest annual year for which these data are available.

The sector accounts data from Quarter 1 (Jan to Mar) 2020 are subject to more uncertainty than usual because of the challenges faced by the Office for National Statistics in collecting the data under government-imposed public health restrictions.

10 . Related links

Coronavirus and the impact on UK households and businesses: 2021
Article | Released 17 June 2022
The effect of the coronavirus (COVID-19) pandemic on UK households and businesses. Includes analysis on income, expenditure, dividends, assets, liabilities, and insolvencies.

Quarterly sector accounts, UK: October to December 2021
Bulletin | Released 31 March 2022
Detailed estimates of quarterly sector accounts that can be found in the UK Economic Accounts (UKEA).

Public opinions and social trends, Great Britain: 25 May to 5 June 2022
Bulletin | Released 10 June 2022
Social insights on daily life and events, including impacts on health and well-being, the cost of living, and goods shortages from the Opinions and Lifestyle Survey (OPN).