

# United Kingdom

The COVID-19 pandemic and the subsequent lockdowns across the globe had significant knock-on effects on the UK in 2020, both for the economy and its banking sector. Domestic GDP was €2.18 trillion, down 9.8% from 2019 and the lowest level since 2013. The main drag on UK growth in 2020 was the large contraction in household spending. The uncertainty and cashflow pressure on businesses, as a result of the pandemic, also weighed on investment.

Consumer price inflation in the UK fell sharply with an annual rate of 0.6% reported at the end of 2020. This led inflation to drop further below the Bank of England's 2% monetary target, and compared with 1.3% in 2019. Government support to the hospitality industry through the 'eat out to help out' scheme and temporary VAT reduction, as well as lower fuel and transport costs contributed to pushing inflation down through the latter part of 2020.

In response to the pandemic the Bank of England adopted expansionary monetary policy to support the economy. The official bank rate fell to 0.1% in March 2020 and remained at that level throughout the rest of the year. In addition, the Bank also engaged in further quantitative easing in March, June and November. At the end of 2020 the asset purchase programme stood at £895 billion of which £20 billion was used to purchase corporate bonds and the remainder was UK government bond purchases. The value of sterling decreased during 2020, with its effective exchange rate index 2% lower at the end of the year.

The unemployment rate rose from 3.8% at the end of 2019 to 5.2% in December 2020. Despite the rise in unemployment claims, job losses were limited by the introduction of the government's furlough scheme – the Coronavirus Job Retention Scheme. By the end of 2020 a cumulative 9.9 million people had been supported with furlough. At the end of 2020, the household saving ratio of gross saving to total disposable income increased to 16.3%, a record high since records began in 1963, due to the lack of spending as a consequence of national lockdowns, combined with an effective furlough scheme.

Consumer and business confidence inevitably deteriorated during 2020, with continued uncertainty associated with the impacts of the UK's withdrawal from the EU, in addition to the unpredictable nature of COVID-19. While indicators such as the Purchasing Managers' Indices (PMIs) recovered in mid-2020 with a partial re-opening of the economy during the summer, they resumed their decline with the reintroduction of restrictions in the Autumn.

Payment volumes fell in 2020, to 35.6 billion from around 40 billion in the previous year. This represented an 11% decline – again a consequence of pandemic restrictions limiting opportunities to spend. Consumers were responsible for nearly nine out of every ten payments, the majority of which were made spontaneously. The rise in contactless payment limits from £30 to £45 for single transactions in April 2020 helped increase efficiency in transactions, meanwhile aiding the protection of both workers and consumers due to less necessary interaction amidst the pandemic. Contactless payments accounted for 27% of all payments – an increase of 8 percentage points compared with 2018.

Virtually all the UK population hold a debit card linked to a personal current or deposit account and two-thirds hold a credit card. During the last year, the share of payments made by debit cards increased, accounting for 44% of all UK payments. This is due to the aforementioned changes to contactless usage, and its role as one of the main payment methods for online shopping. The decline in cash usage accelerated in 2020, accounting for 17% of all payments in the UK this year compared with 56% in 2010..

There are more than 370 monetary financial institutions (MFIs) in the UK. Just under half the sector balance sheet (49.7%) is held in GBP, 18.4% in EUR and 31.9% in other currencies. By country of ownership 52% of the sector balance sheet reflects UK ownership, while 14% reflects EU ownership and the remaining 34% reflect institutions owned in the rest of the world. Total balance sheet assets of €9.5 trillion represented the largest banking sector in Europe and the fourth largest worldwide. The regulatory capital ratio of the sector was stable at 21.6% at end of 2020, with Core Equity Tier 1 capital of €506 billion, slightly lower than a year earlier.

MFI credit in the UK accelerated in 2020 – annual growth for private non-financial businesses increased to 9.5% from 3.1% at the end of 2019, while the household sector slowed to 2% from 3.2% at the end of the previous year. Growth across the household sector was mixed, with annual secured lending growth slightly down at 3%, credit card lending contracted sharply, by 17.6% and other unsecured household credit (personal loans and overdrafts) also contracted by 8.7%. Deposits held by non-financial businesses and households saw significant growth in 2020. Households' deposits with MFIs grew by 6.9% in 2020, an increase from 3.7% in the previous year. Growth in deposits held by private non-financial businesses increased significantly from 2.8% in 2019 to 18.5% in 2020.

In cross-border services, the UK financial services sector has historically generated a balance of payments trade surplus. In 2019 (the latest available figures), the surplus was €46.2 billion, a decline from €51 billion in 2018 but still some two-fifths of the UK's total trade surplus in services.

The UK banking sector contributed an estimated 5.4% of UK tax revenue in 2020, a greater proportion than its share of UK gross value added. The total tax contribution of the sector was an estimated €44 billion. The estimated tax contribution comprised of €20 billion in employment and other taxes collected and €24 billion in corporation and other taxes borne. To support the UK economy throughout the pandemic, UK banks approved 1.5 million government-backed loans to the sum of £68 billion, with an approval rate of 98.8%. The sector employs more than 388,000 people – some 1.2% of the total UK workforce and 35.3% of the financial services sector.