

# Commercial Borrowing - UK - 2023

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## This report looks at the following areas:

- The impact of COVID-19 and current economic conditions on commercial borrowing and how lenders and borrowers alike have reacted to the new conditions.
- Whether alternative lenders can truly disrupt and obtain market share from the mainstream lenders.
- The value of the market in 2022 and beyond.

According to the BoE, the aggregate corporate debt to earnings ratio for UK businesses had fallen to around 315% in 2022 Q2 – below the pandemic peak of 345% and the global financial crisis (GFC) peak of nearly 370%.

A high level of debt among UK businesses can lead to risks to the financial system. Higher debt levels can cause businesses to cut back on employment and investment in the face of economic shocks. This can have a negative impact on jobs and incomes. Banks can also take losses if businesses struggle to pay back their loans.

The UK banking system claims that it remains strong enough to continue to support households and businesses through this current economic period – major UK banks and building societies were resilient to the challenges posed by COVID-19 and their capital and liquidity positions remain strong.

There has been a general trend of positive levels of net lending since 2015 – although some industrial sectors in the UK still experience poor credit availability.

This has been helped by the increased availability of alternatives to lending through the commercial banking sector for large corporates, such as the use of capital markets. The Bank of England has reported that in addition to bank lending and capital markets businesses continue to raise funds from alternative sources of external finance, including P2P platforms.



“The current economic situation will mean that lenders will be more selective when undertaking borrowing agreements. Lenders are likely going to focus on profitable areas, meaning financial institutions need to identify the sectors they would like to target and focus on meeting the finance needs in these.”

– Lewis Cone, Senior B2B Analyst

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SMEs were hit hardest by the financial crisis and have suffered due to the closures enforced by the COVID-19 lockdowns. Their position as higher-risk businesses means they have been affected not only by the changing risk environment and the commercial risk assessments of banks, but also indirectly by the tighter financial regulation of the past few years, which has discouraged lending to higher-risk businesses.

According to the Financial Policy Committee (FPC) in December 2022, the pressure on corporate earnings combined with a rising cost of credit will continue to increase over 2023 and reduce companies' ability to service their debts.

SMEs are more likely to face pressures as they are more exposed to rising borrowing costs than larger corporates and are more vulnerable than they were pre-COVID, having been disproportionately impacted by the pandemic – having increased their debt more than larger companies over that period.



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- Several lenders secure new institutional funding lines
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