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## **Sectoral Bank Credit Distribution and Long-Term Economic Growth in the Era of Digitalisation Since the 1980s: Evidence from the United Kingdom**

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### **Abstract**

Credit distribution within the digitalised banking sector fundamentally reshapes the trajectories of modern economic development. As a primary driver of economic growth, the mechanism through which a nation distributes bank credit serves as a critical determinant of its economic density. Consequently, the financial services provided by the banking sector remain indispensable to a well-functioning economy. While financial intermediaries traditionally allocate capital between savers and borrowers, the structural business model of the financial system continuously transforms in response to concurrent technological and regulatory shifts. Given that banking operations and economic development are intrinsically linked, the patterns of sectoral credit distribution reflect a dynamic interaction between macroeconomic trends and the technological evolution of the banking apparatus. Drawing upon primary data and sector-specific lending indicators, this study identifies the key economic and financial drivers within the banking system that are associated with ongoing digital transformation. The findings reveal that digitalisation has increasingly fostered a symbiotic partnership model between Financial Technology (Fintech) firms and traditional banking institutions. Furthermore, this paper examines the evolution of credit, analysing how private bank credit has been redistributed across successive transformations of the banking business model. Ultimately, this study captures these structural shifts in credit distribution to evaluate their comprehensive impact on long-term economic growth. Empirical evidence demonstrates that the technological transformation of the banking system has been deeply interrelated with the structural transformation of the British economy since the 1980s. This systemic shift is reflected in the historical migration from industrial and corporate lending toward consumer and mortgage lending. Moving away from productive-based lending toward real estate and consumer credit, has fundamentally altered the trajectory of the UK economy, transforming it from an industrial, productive economy into a financialised, service-based one.

Keywords: Bank Credit Distribution, Economic Development, Digitalisation.

Jel codes: G21, E44, N24

### **1. Introduction**

At the macroeconomic level, the banking system plays a pivotal role in mobilising and allocating credit across diverse economic sectors. The financial sector and the banking system are intrinsically linked to the broader economy. Crucially, banking structures evolve alongside economic and technological paradigms; contemporary patterns of sectoral credit distribution reflect a continuous interplay between macroeconomic shifts and technological evolution. Consequently, banking business models are perpetually adapting to systemic digitisation, which fundamentally shapes modern credit allocation mechanisms. In broad sense digitalisation is ‘a strategy for integrating digital technologies and digitisation of data into the daily life of society’. Digitalisation has driven a profound shift in the traditional business model of transaction-based branches. Furthermore, digital transformation in banking is the act of integrating digital technologies and strategies to optimise operations, using APIs, clouding computing, AI, machine learning (ML), Internet of things, and Blockchain. As a result,



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digital innovation in banking has come to be regarded as a disruptive force to conventional financial systems. Consequently, digitalisation has had a profound impact on financial markets, leading to the emergence of innovative banking services and a reduction in the number of traditional physical credit institutions, shifting them from physical, product-centric organisations to entities reliant on advanced IT infrastructures and cloud-based operating platforms.

This study addresses the shifts in loanable funds across a long-run period in the era of digitalisation, taking the UK as a case study therefore, this paper aims to examine the evolution of credit and explore how private bank credit has been redistributed across successive transformation of the banking business model. Digitalisation of daily life has encouraged or facilitated the acquisition of large data sets describing various economic, social, and financial phenomena. Digital transformation increasingly drives the modern economic shift toward a digital economy. And thereby, digital transformation increasingly drives the banking system shift toward a digital system. So, the research question remains: has digitalisation facilitated more efficient, productive, and equitable bank credit allocation?

The efficient allocation of capital by robust financial systems is a cornerstone of sustainable economic development. Because credit is essential to economic activities, it should be directed toward highly productive industries that drive economic growth and elevate living standards. However, market imperfections often lead to credit misallocation toward unproductive sectors, undermining aggregate economic performance. This study examines the factors that have influenced the evolution of the banking sector and the distribution of bank credit across various industries in the UK economy since the 1980s. It first traces the digital transformation of banking in response to shifting financial and regulatory frameworks before exploring the evolution of credit allocation patterns. Furthermore, this paper aims to highlight the impact of these credit shifts on long-term economic growth in the UK. Ultimately, this study aims to provide systematic evidence on how partnership model between fintechs and conventional banks has emerged as a fundamental structural mechanism reshaping how financial institutions allocate credit, affecting banking decisions. By merging the large-scale capital reserves and regulatory infrastructure of traditional banks with the advanced data analytics and digital agility of fintech platforms, this model fundamentally changes bank risk profiles, credit underwriting parameters, and sectoral targeting.

## 2. Literature review

Historically, seminal scholars such as Schumpeter (1933, 1939), Gerschenkron (1962), Goldsmith (1969), Cameron (1972), and King and Levine (1993) emphasised the critical role of bank credit in driving economic growth. They contended that financial institutions are vital because they allocate capital efficiently to maximise macroeconomic performance. Sayers (1960) asserts that the banking sector acts as an endogenous supplier of liquidity, executing an entrepreneurial and steering function within the macroeconomy that significantly transcends the conventional parameters of passive financial intermediation. This perspective aligns with historical Schumpeterian analysis, which conceptualises the banking system as a primary catalyst for macroeconomic evolution. Specifically, Schumpeter (1933, 1939) identifies institutional credit creation as one of the twin foundational pillars of economic development, operating in tandem with entrepreneurial innovation. This theoretical framework is further corroborated by Gerschenkron's (1962) historical inquiries into continental European industrialisation. Gerschenkron demonstrates that 19th-century banking institutions functioned as critical engines of industrial expansion, fostering deeply integrated, symbiotic relationships with emergent industrial enterprises to overcome capital scarcity and institutional deficits. From a macroeconomic perspective, productive bank credit expands productive capacity and aggregate demand, thereby generating sufficient income streams to service ascending debt obligations. However, building upon this framework, Werner (1997) formalised the analytical distinction between productive and unproductive credit in his quantity theory of disaggregated credit. The theoretical framework demonstrates that while credit creation supporting real goods-and-services transactions fosters GDP growth, credit allocated toward the acquisition of existing assets drives asset price inflation in both financial and real estate markets, which affects economic growth and financial stability. Consequently, macroeconomic instability materialises when the proportion of productive credit contracts relative to speculative and household lending (Bezemer, 2018).

Since the 2008 financial crisis, there has been a revival of interest concerning the role of bank credit distribution in the economy. The pre-2008 mainstream view that financial expansion, namely more credit relative to GDP, is conducive to economic growth is no longer considered universally valid. Several studies demonstrate that, under certain conditions, a negative relationship exists between financial expansion and economic growth (Rousseau, 2017; Ranjdar, 2026). This shift can be attributed to the fact that the dramatic increase in the credit-to-GDP ratio over the past three decades has been driven primarily by an increase in mortgage and consumer lending rather than productive business lending (Bezemer, 2018). This 'debt shift' is inextricably linked to the broader technological transformation of bank business models, as well as the financialisation of the economy. According

to Epstein (2018), financialisation has been conducive to financial crises and higher debt burdens. As a result, it is likely that the negative impacts of the process of financialisation could be linked to changes in bank business models. From another perspective, drawing on qualitative data, Krippner (2011) posits that nation-states serve a decisive function in the financialisation of the economy. In this respect, Davis and Walsh (2015) argue that previous scholarly accounts largely neglect the state's role in the financialisation of the economy, frequently reducing state involvement to more reactive compliance with broader, irresistible market forces rather than recognising its active participation. Financialisation denotes a systemic process through which financial markets, institutions, and elites exert an increasingly dominant influence over economic policy and macroeconomic outcomes (Palley, 2007). This process has been structurally facilitated by the liberalisation and deregulation of regulatory frameworks, driven by elite pursuit of novel financial profit streams to counteract declining returns in the productive sector (Arrighi, 2010). Concurrently, commercial banks in Europe and the United States have fundamentally altered their business models since the 1980s amid rapid technological transformations. Examining this modern digital shift, Gopal and Schnabl (2022) analyse the broader impact of fintech innovations on the financial architecture, focusing specifically on the contraction and restructuring of traditional bank lending. Their empirical findings indicate that fintech firms became the primary suppliers of credit to small and medium-sized enterprises (SMEs), effectively offsetting the decline in traditional bank credit in 2016 and mitigating the overall contraction of credit to the real economy. Fintech innovations frequently yield novel digital products and services that challenge conventional banking paradigms, thereby presenting a disruptive threat to incumbent financial institutions. This phenomenon aligns with Rogers' (2003) diffusion of innovations theory, which elucidates the mechanisms, motivations, and velocity at which novel ideas and technologies permeate a market. Crucially, Rogers (2003) identify systemic determinants influencing this adoption trajectory, most notably relative advantage, compatibility, and complexity.

In the UK, following digital transformation and banking deregulation, commercial institutions diversified their product portfolios to optimise returns on existing assets. This catalytic shift accelerated market integration and the rise of universal banking, subsequently intensifying competition within the retail sector alongside elevated systemic leverage (Melnick, 2000). As banking operations scaled, financial institutions shifted toward a heavy reliance on wholesale funding and debt liabilities (Shin, 2010). Concurrently, structural globalisation and financial digitalisation expanded domestic credit supply (IMF, 2006). To capture cross-border efficiencies, numerous banks expanded geographically through foreign branching, corporate acquisitions, or joint ventures (Bank of England, 2010). Since 1980, the UK banking sector's asset growth has significantly outpaced aggregate economic output, characterised by an acute phase of expansion. Bowen (2017) attributes this acceleration to the penetration of retail banks into the domestic mortgage market; a segment historically monopolised by building societies. The resulting competitive pressures dismantled the established mortgage cartel, effectively terminating historical pricing constraints and the quantity rationing of housing credit. Commercial banks faced escalating competition not only from non-bank providers of household credit and savings products but also from expanding capital markets offering alternative channels for corporate finance (Llewellyn, 1990). As a result, banks and building societies dominated the domestic housing loan market, securing over 90 percent of all outstanding residential mortgages (Bowen, 2017).

### 3. Data and Methodology

#### 3.1 Measurement of the banking structure

This study utilizes official statistical data from the Bank of England and relevant British financial authorities and Federal Reserve Economic Data, Federal Reserve Bank of St. Louis (FRED)

to produce comprehensive indicators and benchmarks Ratios such as Monetary Financial Institutions (MFIs) *total lending/GDP*, *Private credit to GDP* and *sectoral -specific lending: Credit by industry as a percentage of total lending* to analyse how credit is allocated across different economic sectors and industries.

Bank credit to the private sector as a percentage of a nation's GDP is a vital indicator demonstrating the banking system's contribution to overall economic performance<sup>1</sup>. Furthermore, the proportion of total domestic lending directed to businesses and corporate institutions indicates the extent to which credit is allocated to productive sectors or financial and speculative activities. By measuring the proportion of credit allocated to households and industries<sup>2</sup> (rather than to the government or public enterprises) one can evaluate whether these private actors have the access to credit required to foster economic growth.

<sup>1</sup> This is widely recognised by the World bank and IMF as the primary indicator for financial development and banking sector depth.

<sup>2</sup> This is a standard benchmark used by institutions like the World Bank.

Another key indicator is the distribution of bank credit by industry. This metric reflects the volume and nature of credit allocated across various sectors of the economy. Furthermore, it serves as a critical indicator for capturing the influence of digital transformation on credit allocation and the banking system's engagement in innovation-driven economic growth. For instance, a higher volume of banking credit directed toward financial corporation and property sector demonstrates strong institutional commitment to financial expansion.

### 3.2 Measurement of digitalisation in the banking system

Banks are under continuous pressure to integrate digital technologies and adapt their business models, effectively transforming traditional brick-and-mortar operations into automated digital systems. To evaluate the scale, velocity, and efficacy of digital transformation within the banking systems, financial institutions and macro-prudential regulatory authorities rely on a dual-framework approach: high-level *digitalisation indices* and granular *technology adoption metrics*. While indices evaluate strategic indicators such as *digital customer engagement capabilities*, *the migration of legacy architecture to cloud-native frameworks*, *the structural acceleration of transaction velocity*, and *the expansion of open banking API ecosystems*, operational adoption metrics monitor the functional depth and performance of specific technological deployments. Principal among these operational parameters is *the digital penetration rate*, which quantifies the proportion of active consumers utilizing online banking channels, and *the straight-through processing (STP) rate*, which measures the ratio of financial transactions executed end-to-end without manual intervention. Furthermore, this study views the partnership model between fintechs and conventional banks as a key mechanism, affecting banking decisions on credit allocation. This symbiotic model allows traditional institutions to leverage their existing technological infrastructure and scale, while helping fintechs navigate evolving regulations and attract capital.

## 4. Technological innovation and partnership model

The most prominent structural transformation in bank services of commercial banks has been the decrease in number of physical branches. Since the beginning of the 1980s, the number of operational branches among major British commercial banks has followed a persistent downward trajectory, a trend that accelerated markedly during the 1990s. This contraction in branches has been profoundly driven by rapid technological innovation and digitalisation of the financial system. Specifically operational back offices and transactional mechanisms have undergone extensive automation, while Automated Teller Machines (ATMs) assumed critical role in facilitating retail cash withdrawals. Financial innovation and digitalisation in banking serve as primary explanatory variable for the acute decline in physical bank branches observed since the 1990s (Bennett, 2020). The deregulation of capital controls and the liberalisation of foreign exchange frameworks alongside systemic technological innovations have heightened macroeconomic financial integration. Consequently, these dynamics have mitigated barriers to entry for sovereign banking markets, directly intensifying international cross-border competition. This government-led financial deregulation was motivated by a strategic desire to capture global market share and enhance the competitiveness of domestic firms vis-à-vis foreign actors. This competitive pressure served as a catalyst for the British financial institutions in modernisation and structural efficiency within the financial sector. Technological innovation has fundamentally driven structural transformation within the banking sector. Such advancements consistently reduce transactional costs for financial service, yielding substantial operational efficiencies. Within commercial banking, this innovation is empirically evidence by the concentration of physical branch infrastructures. The expansion of digital and remote service channels-including automated teller machines and telephonic banking-has facilitated profound labour rationalisation and expenditure reduction, thereby boosting profitability.

The banking system has been experiencing a period of dynamic change. The primary features of this transformation include the expansion of digital retail finance, the growth of digital customer transactions, and the restructuring of organisational and operational frameworks. A widespread partnership model has integrated finance and technology, fostering a new type of digitally based banking business model. Strategic partnership between conventional banks and fintech start-ups have fundamentally transformed financial products and services. This symbiotic model allows traditional institutions to leverage their existing technological infrastructure and scale, while helping fintechs navigate evolving regulations and attract capital. A prime example of this collaboration is in Open Banking, where conventional banks and fintechs share customer-consented data to enhance user experiences and generate innovative products. Ultimately, these strategic collaborations have driven digital innovation and improved customer-focused services across the banking system. A concrete example is Barclays and fintech (MarketFinance): Barclays teamed up with invoice finance fintech MarketFinance to streamline and accelerate working capital loans for small and medium-sized enterprises (SMEs). Another example is Lloyds Bank and Thought Machine: Lloyds utilizes core banking technology from Thought Machine (a cloud-native core banking fintech) to modernize its underlying infrastructure. The Co-

operative Bank and Freedom Finance: The Co-operative Bank partnered with Freedom Finance via an open banking integration to expand customer access to tailored personal lending options.

## 5. Main Findings

The competitiveness and efficiency of the UK financial system are underpinned by London's status as a premier global financial hub. Within this ecosystem, both domestic and foreign institutions increasingly utilize consumer-consented data to optimise user experiences and promote innovative financial products. A key driver of this evolution is the strategic partnership between conventional commercial banks and fintech firms, facilitated by open banking frameworks to deliver highly customised personal lending solutions. Quantitative indicators highlight the depth of this digital transformation (see Table 1). Currently, online and mobile banking penetration stands at approximately 93% among the British population, with 72% leveraging AI-driven applications for wealth management. Simultaneously, institutional infrastructure has undergone significant modernisation: 95% of UK banks have transitioned to cloud-native architectures, abandoning legacy systems. This structural overhaul pushed the Straight-Through Processing (STP) rate to 60% by 2025, a milestone supported by the fact that 80% of financial institutions now deploy operational AI tools.

Table 1: Measurement of digitalisation in the banking system: digitalisation index and technology adoption metrics, UK, 2025

| Indices                                       | Core component                                                                                                                  | Percentage                                                                                    |
|-----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| <b>Digital Customer Engagement</b>            | digital self-service capability                                                                                                 | 72% of UK adults use digital tools/methods, and AI to manage finance and money                |
| <b>Core System Modernisation</b>              | transition from legacy architecture to modern, cloud-native frameworks                                                          | 95 % of UK banks moved to the cloud platforms<br>80% of financial actively firms use AI tools |
| <b>Transaction &amp; Payment Velocity</b>     | Shift away from physical instruments (cash, paper checks) to digital channels                                                   | (Monthly): 29.89-31 million open banking-enabled transactions                                 |
| <b>Open Banking &amp; API Ecosystem</b>       | Integration with external Fintech partners and third-party ecosystems                                                           | 50.7 % of the adult population using open banking<br>70 % using fintech services              |
| <b>Digital Penetration Rate</b>               | The percentage of total active customers who use mobile or online banking channels                                              | 93 % of UK adults                                                                             |
| <b>Straight-Through Processing (STP) Rate</b> | The percentage of financial transactions or loan applications fully processed from end-to-end without manual human intervention | 60% of total transactions                                                                     |

Sources: Bank of England

SQ Magazine, sqmagazine.co.uk

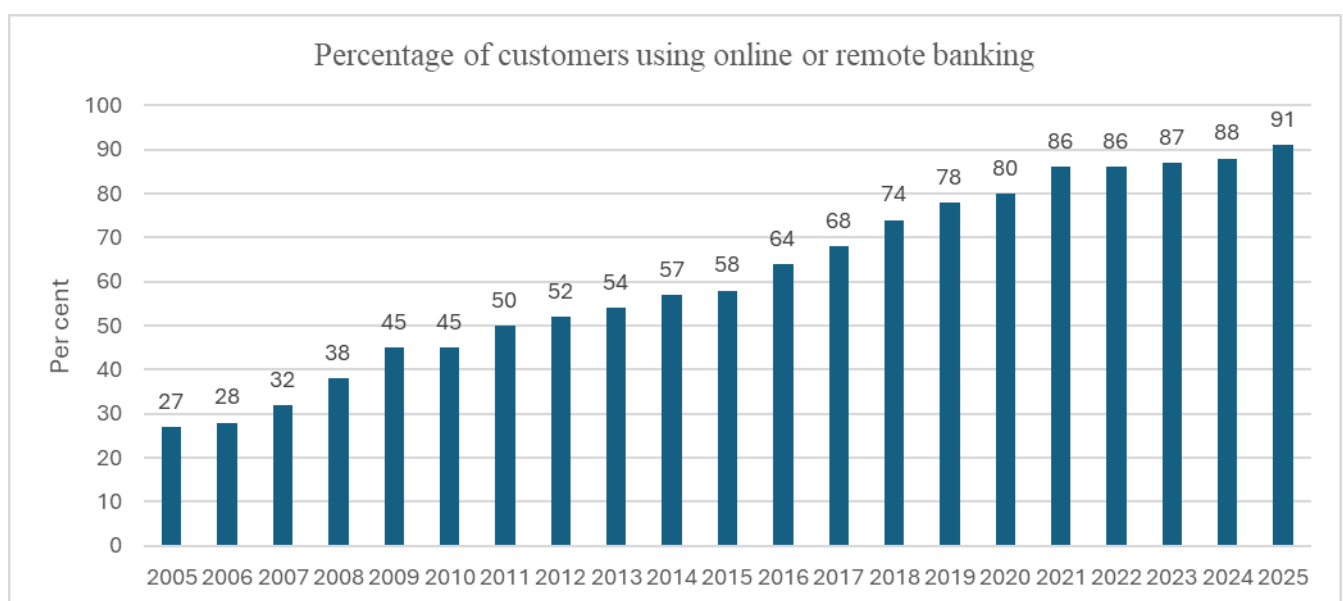
Lloyds Banking Group, 2025 Consumer Digital Index, Yearly Index Report, <https://www.lloydsbankinggroup.com/media/consumer-digital-index.html>

For instance, commercial banks aim to merge digital services with direct customer interactions to secure a seamless experience across all technological touchpoints. A major economic impact of modern data technology

is the global scaling of digital products, which fundamentally enhances value generation for consumers worldwide.

The digitisation of financial transactions has expanded exponentially, aligning with evolving consumer demands and the expansion of the contemporary digital economy. Consequently, consumer expectations regarding the accessibility of financial services have intensified. Mobile banking has served as a cornerstone of this digital transition. Concurrently, advancements in machine learning, natural language processing, and predictive analytics have prompted financial institutions to deploy intelligent conversational agents within customer service frameworks. Positioned at the forefront of global technological integration, the UK banking sector is characterised by robust consumer engagement across digital channels, alongside capital-intensive investments in fintech, artificial intelligence, blockchain architectures, and cloud computing. This trajectory is illustrated in Figure 1, which delineates a consistent upward trend in the digital penetration rate, ascending from 27% in 2005 to 91% in 2025.

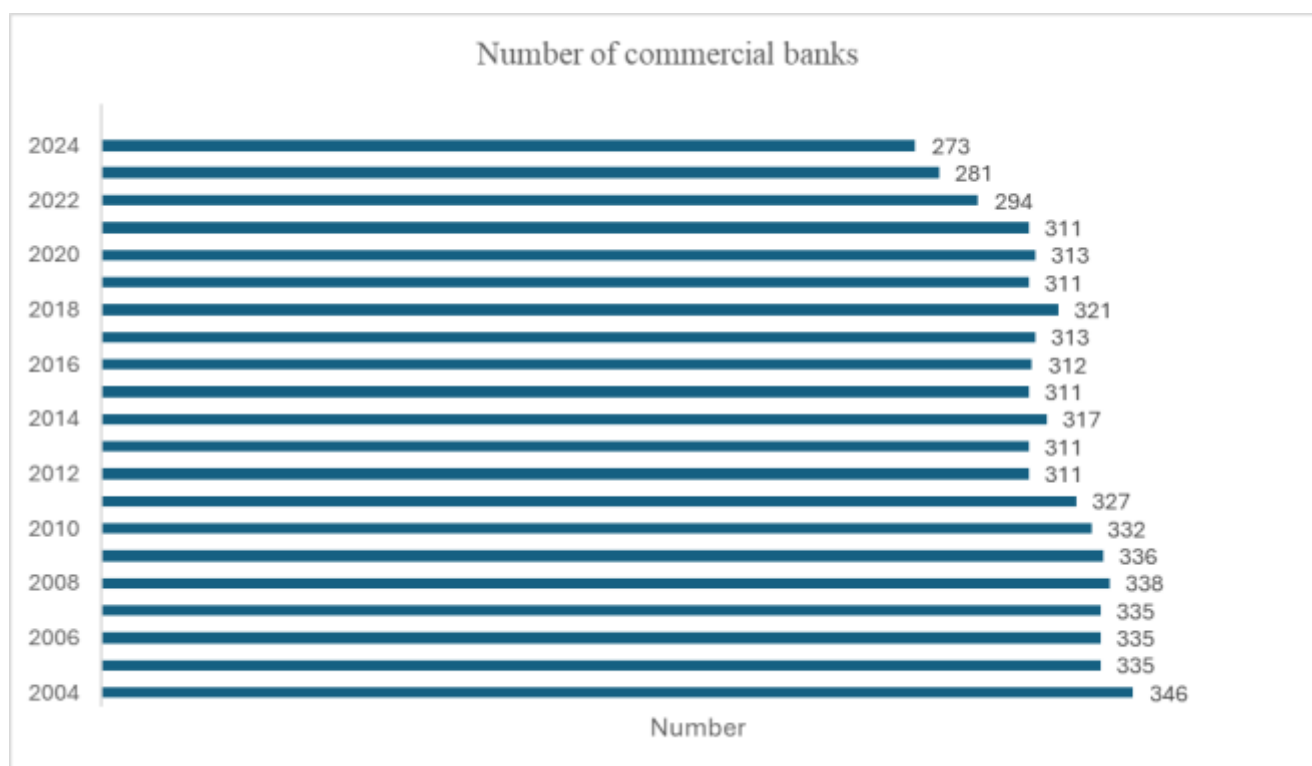
Figure 1: Digital Penetration Rate, 2005-2025, UK



Source: <http://www.ventionteams/uk/finance/banking/statistics>

Conversely, financial innovations, including online banking, mobile platforms, and the integration of artificial intelligence persistently exert a disruptive systemic influence on the structure and organisation of conventional banking. Consequently, automated systems now manage tasks previously performed by banking personnel, precipitating a structural reconfiguration of employment within the sector. As illustrated in Figure 2, this technological transformation has directly correlated with a contraction in the market; the total number of commercial banks declined from 345 in 2004 to 272 in 2025.

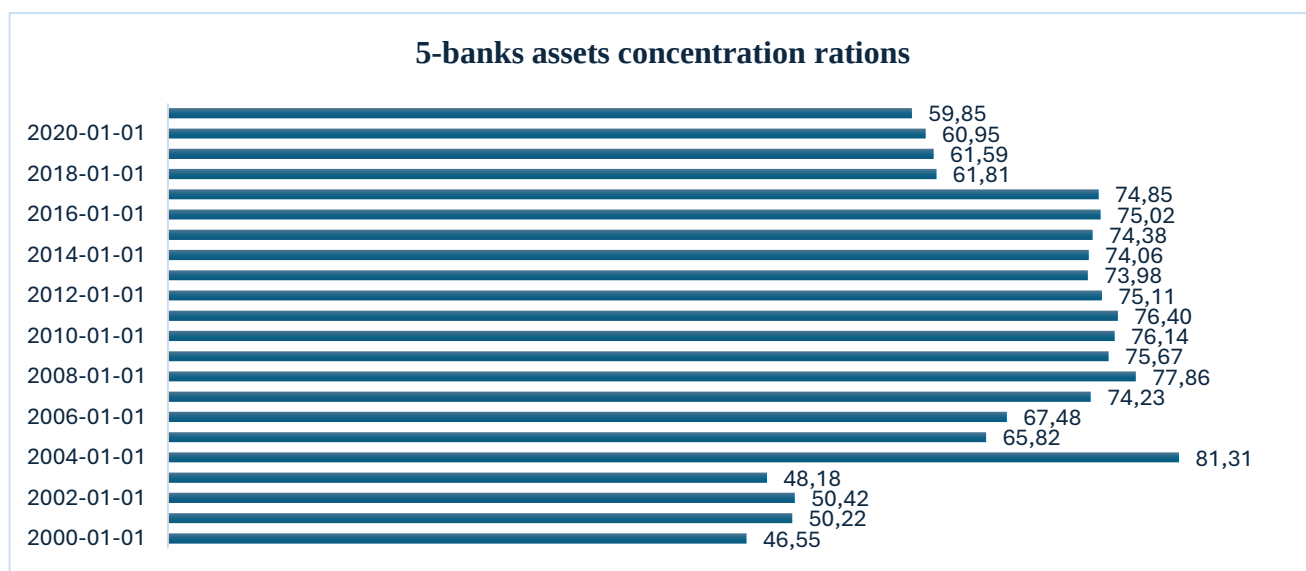
Figure 2: Total number of commercial banks, 2004-2024, UK



Source: FRED, Federal Reserve, Bank of St Louis

Furthermore, retail banking institutions represented the primary hub of asset ownership within the UK domestic financial sector, generating an oligopolistic market structure that remained robust from the mid-1980s onward. Institutional asset concentration was structurally accelerated by serial mergers and the implicit underwriting subsidies inherent to 'Too Big to Fail' (TBTF) policy frameworks (Bowen, 2017). A subsequent wave of corporate consolidation intensified during the 2000s, peaking during the 2008 financial crisis when state-led restructuring concentrated systemic commercial bank assets within a narrow cluster of market leaders. This domestic concentration was structurally reinforced by London's status as a global financial hub. Consequently, as quantified in Figure 3, the leading tier of dominant financial groups accounted for approximately 77.86% and 60% of total MFI assets by fiscal year in 2008 and 2021 respectively.

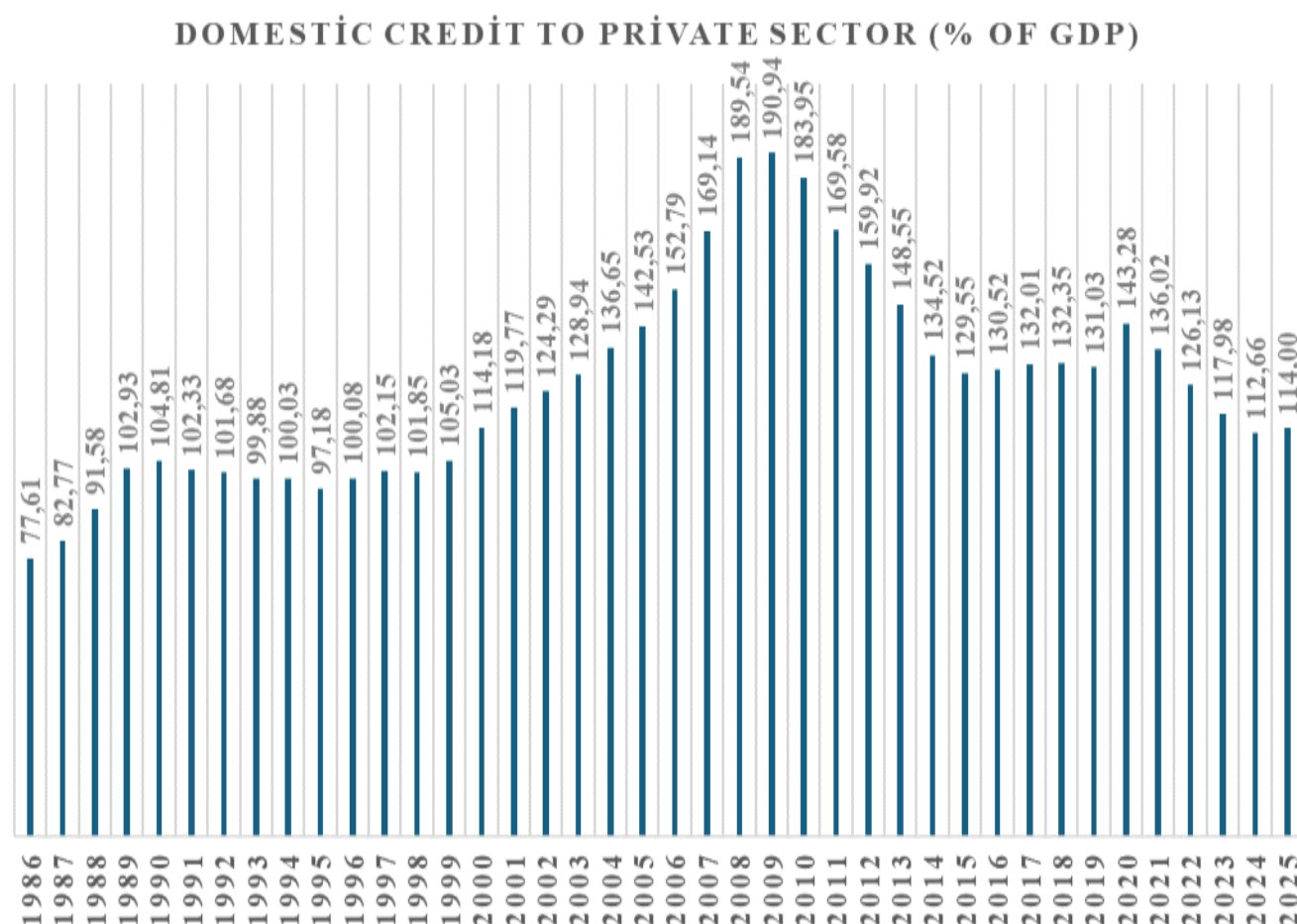
Figure 3: 5-Banks' asset concentration ratios: measured as market shares of total assets (%), 2000-2021, UK



Source: FRED, Federal Reserve Bank of St Louis.  
 Top five share: HSBC, Barclays, Lloyds, NatWest, and Standard Chartered.

For roughly a century leading up to the 1980s, UK banking assets remained relatively stable at approximately half the value of the nation's GDP. Following extensive regulatory shifts, these assets aggressively expanded, reaching five times the value of GDP by the mid-2000s (Haldane, 2010). Consequently, by the onset of the 2007–2008 global financial crisis, the scale of the UK financial sector relative to its domestic economy surpassed that of any other G7 nation. As shown in Figure 4, the overall trend indicates that credit to private sector relative to GDP is consistently high and demonstrates that the volume of total private credit has surpassed their respective GDP. This means that the total amount of money borrowed by the private sector is larger than the value of everything the country produces in a single year. Moreover, digitalisation has driven the adoption of collaborative partnership models, which increasingly dictate the availability and the volume of the flow of loanable funds across various industries. In line with continuing digital transformation within the banking sector, the volume of credit extended by monetary financial institutions to the private sector exhibits an upward trajectory. As illustrated in this Figure, total credit to the private sector as a percentage of GDP in the UK grew gradually from 1986. In 1986, the credit-to-GDP ratio stood at 77%. By 2008, these figures peaked at 189%. Following a subsequent decline from 2009 onward, the ratios settled at 114% in 2025.

Figure 4: Total domestic MFI credit to private sector as a percentage of GDP, 1986-2025, UK



Sources: Federal Reserve Economic Data, Federal Reserve Bank of St. Louis, 2025: World Bank DataBank

Over the past four decades, the UK has undergone a more intensive process of deindustrialisation and financialisation than any other major peer economy. The British financial sector has expanded significantly since the beginning of 1980s. Between 1979 and 1989, investment in financial services grew by 320.3%, compared to only 12.8% increase in manufacturing investment (Coates, 1995). Conversely, the UK experienced a far more rapid industrial contraction than its macroeconomic peers during this same timeframe. This shift was largely driven by state policies favouring free trade, international markets, and the domestic service industry (Davis and Walsh, 2015), which effectively crowded out the economy's non-financial productive sectors. Regulatory reforms in the late 1980s accelerated this structural transformation, reshaping the British financial landscape. Specialised institutions merged into integrated retail banking conglomerates that moved beyond traditional asset-liability transformation and into complex investment banking. Simultaneously, the deregulation of building societies intensified market competition, prompting these institutions to expand into wholesale market lending and unsecured household credit (Bowen, 2017). As illustrated in Figure 5, households accounted for the largest share of total net lending in 2025 at 51.7%. Concurrently, UK bank lending to non-financial corporations remained lower than credit allocated to financial corporations. In the same year, lending to the non-financial corporate sector represented 17.5%, underscoring a structural prioritisation of household credit, while loans held by financial corporations constituted 30% of total lending. This distribution suggests that monetary financial institutions are increasingly driving the financialisation of the economy, a trend accelerated by the digital transformation of the financial sector. Although these sectoral metrics offer a comprehensive overview of aggregate lending across households, financial, and non-financial corporations, they do not permit a granular analysis of credit allocation between the productive and non-productive sectors.

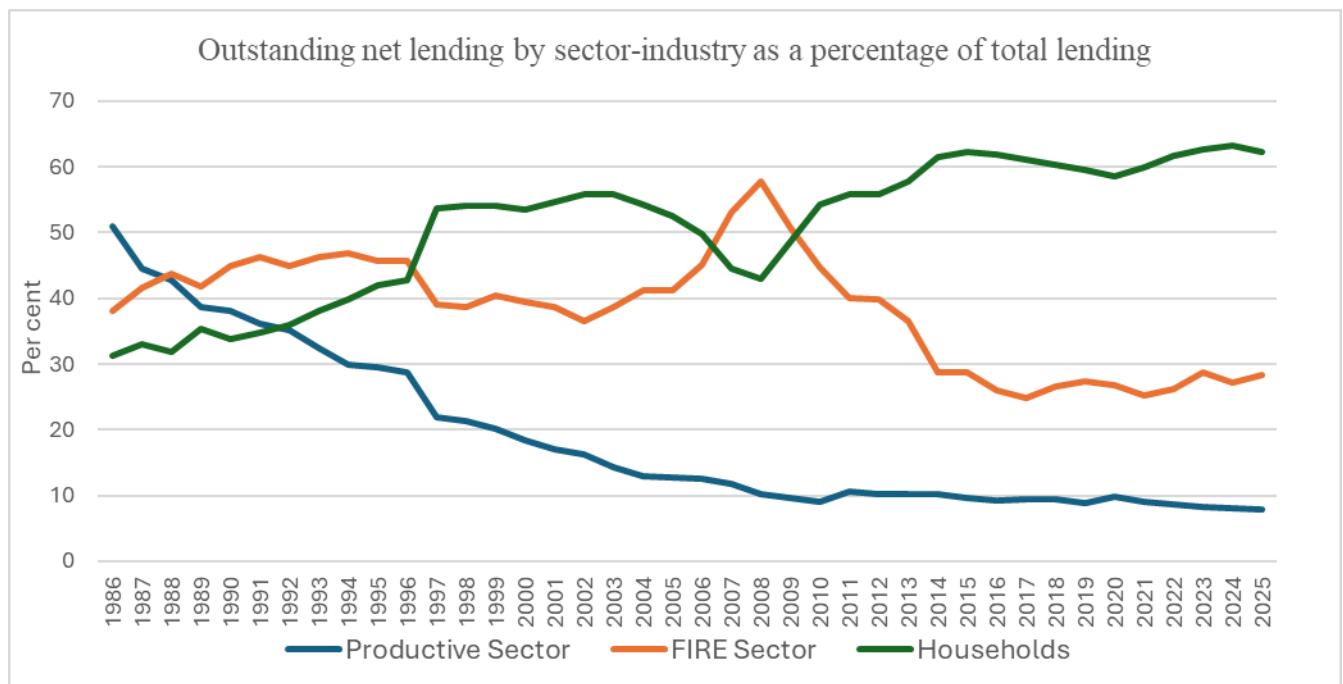
Figure 5: Outstanding lending by sector, as a percentage of total MFI lending (excluding the central banks), 1997-2025



Source: Bank of England, bankstats tables C.1.2

For the purposes of this analysis, the productive sector comprises manufacturing, agriculture, trade, construction, transport, and hospitality. Conversely, the FIRE sector encompasses finance, insurance, and real estate activities. To address the limitations of the prior illustration, Figure 6 details industry-specific data, thereby providing a clearer representation of the net lending shares for each segment. By isolating lending to the FIRE and productive sectors from household net lending, it is possible to assess credit distribution toward industries in the real economy versus speculative financial activities. Figure 6 demonstrates that bank lending is heavily directed toward the financial sector at the expense of the real economy, suggesting that the UK economy has become over-reliant on financial activities. Specifically, between 2013 and 2025, credit held by productive sectors declined from 10 percent to 7 percent, whereas by 2025, the FIRE sector accounted for 28 percent of total lending.

Figure 6. Outstanding lending by sector-industry as a percentage of total MFI lending (excluding the central banks), 1986-2025, UK



Sources: Bank of England, bankstats tables C.1.2

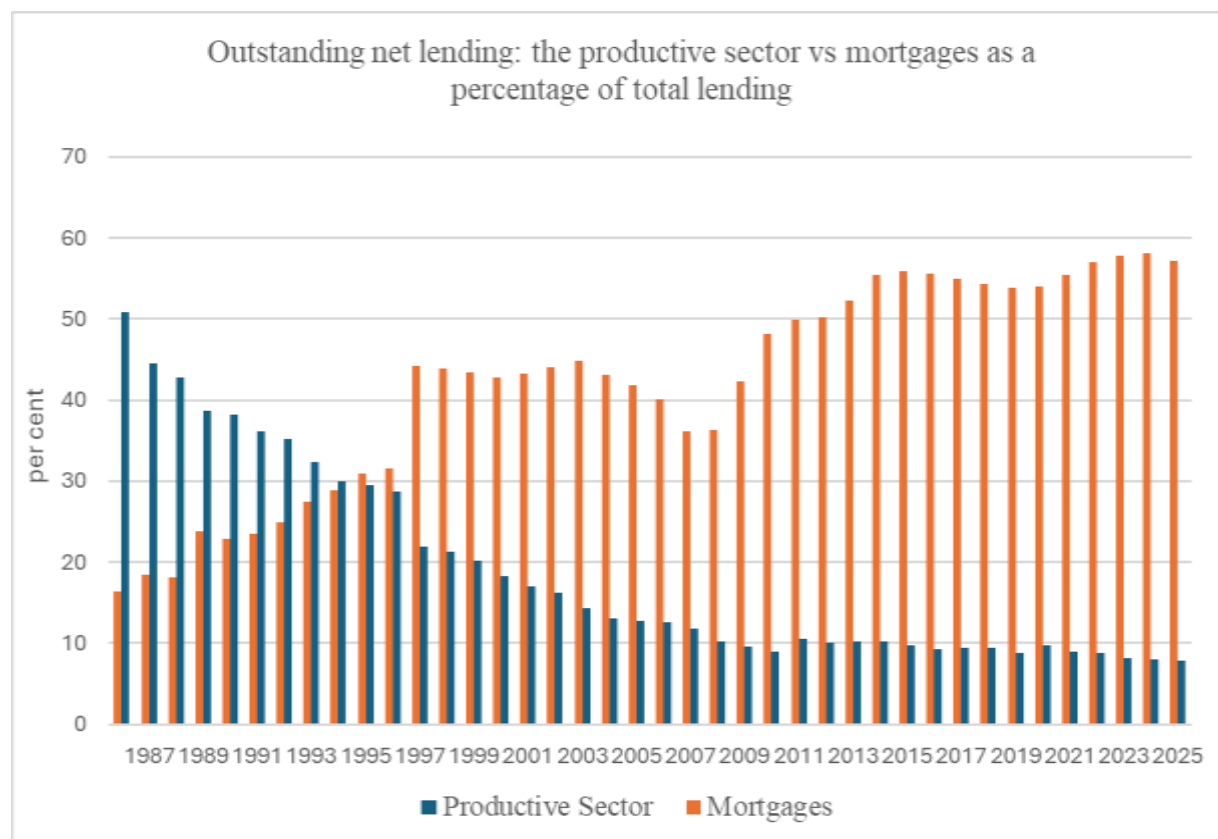
Productive sector: Manufacturing, Agriculture, Trade, Construction, Transport, and Hospitality

FIRE sector: Finance, Insurance, and Real Estate

Households: Unsecured Consumer Loans and Mortgages

A granular breakdown of financial data is achieved in Figure 7 by separating mortgages from alternative sectoral lending categories. It is observed that mortgage loans constitute the primary component of total lending, reaching 57% by 2025. Concurrently, the graph illustrates that bank capital is disproportionately allocated toward property assets rather than productive industries, which received only 7% of net lending in 2025. It can therefore be inferred that credit distribution between 2008 and 2025 was heavily skewed toward the real estate sector, while productive segments of the real economy captured a negligible portion of total credit.

Figure 7: Outstanding lending by industry as a percentage of total lending: Mortgages versus productive industries, 1986-2025, UK



Source: Bank of England, bankstats tables C.1.2

## 6. Conclusion

Digitalisation has structurally converted traditional banking from brick-and-mortar, deposit-reliant models into data-intensive, technology-driven operations designed to maximise operational efficiency and optimise customer utility metrics. Over the last thirty years, financial institutions have evolved significantly, embedding digital product solutions to serve as core innovation drivers. However, this empirical analysis reveals that despite these macro-level financial shifts, asymmetric long-term credit allocation strategies persist as a direct function of underlying institutional structures.

Fintech-bank collaborations have fostered the emergence of platform-based ecosystems, fundamentally transforming contemporary credit allocation and the structural distribution of loanable funds across the macroeconomy. This collaborative paradigm yields asymmetric yet mutually reinforcing competitive advantages for both incumbent institutions and financial technology firms, executing a profound influence on aggregate macroeconomic trajectories. Concurrently, the highly concentrated UK banking sector, historically dominated by an oligopoly of dominant financial institutions, has undergone a profound operational and organisational changes. Catalysed by digital transformation, these incumbents have increasingly reoriented their portfolios toward long-term, systemic credit deployment within the residential mortgage market, while filtering remaining capital into high-yield, short-duration speculative assets. This strategic reorientation has amplified systemic rent-seeking behaviour, directly undermining the real economy. Empirical data substantiate that this post-1980s paradigm shift in credit intermediation has catalysed the structural financialisation of the UK economy. The empirical analysis demonstrates that contemporary credit allocation remains heavily skewed toward financialised and speculative channels at the expense of productive, real-economy sectors. Commercial banks frequently leveraging symbiotic partnerships with fintech enterprises, consistently direct liquidity toward existing asset to maximise immediate financial yields. Consequently, this credit distribution exerts a significant crowding-out effect on the productive sector, severely constraining the aggregate supply of credit accessible to non-financial corporations.

Ultimately, a critical avenue for future research on whether prioritising bank credit expansion for financial assets over real sector output artificially drives up asset values? Addressing this requires robust empirical investigation into whether the continuous financialisation of the UK economy threatens to catalyse asset price bubbles across property and financial markets, thereby escalating macroeconomic vulnerability to future systemic crises.

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