Johnson set to clash with banks over lending gap

Fall in small business loans hits regions hardest

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Boris Johnson visits the John Smedley Mill in Matlock, Derbyshire, during last month's general election. The prime minister has promised to "level up" opportunity and economic performance across the country

The banking industry could be on collision course with the government over plans to level up economic performance after significant regional disparities in small business lending came to light.

Credit balances from big banks to small and medium-sized companies across Britain shrank between 2014 and 2019, but did so most rapidly outside London, industry data has revealed.

Regional lending figures from UK Finance, the City trade body, show that the outstanding stock of small business loan and overdraft usage from big banks fell by almost 16 per cent in the North West between the end of 2014 and September last year, from £9.8 billion to £8.2 billion.

In contrast, loans and overdraft balances in London fell by only 2.3 per cent in the same period. There were marked declines in Wales, with a drop of 14.2 per cent, the East of England, where the stock of credit fell by 13.6 per cent, and in Yorkshire and the Humber, where it fell by 10.9 per cent.

The provision of finance to small and medium-sized companies, which employ more than 27 million people and generate £1.9 trillion in annual output, is vital for economic growth and tackling weak productivity.

Regional differences underline the scale of the challenge facing Boris Johnson, who has promised to "level up" opportunity and economic performance across the country.

Mike Conroy, director of commercial finance at UK Finance, said that some companies may be switching to other forms of borrowing not covered by the figures, as well as focusing on paying down bank exposures.

He said that regional differences were closely linked to the level of demand and economic activity in a region and that approval rates for loans were high outside London.

However, Mike Cherry, national chairman of the Federation of Small Businesses, said that finance was harder to come by outside of London and the South East and that the closure of bank branches may have played a role in regional differences.

Wales and northwestern England have been particularly badly hit by branch closures, as has Scotland, where credit balances were flat between 2014 and last year.

Across the UK, there was a 6.9 per cent fall in the stock of loan and overdraft usage at small and medium-sized companies in the past five years.

Mr Cherry said that only about one in seven small companies applied for external finance each quarter as many "would rather grow more slowly than secure finance to expand more rapidly or improve their processes. That's not good news for the economy or our efforts to close the productivity gap."

Bank deposits from small and mid-sized companies are growing at a rate of 5 per cent a year. There were 4 per cent fewer loan applications in the three months to September last year compared with the same period in 2018.

Small and medium-sized businesses added £66 billion to their cash stockpiles in the past five years, stoking fears that a reluctance to invest could stifle productivity, other research shows.

Small companies have £329 billion in cash reserves, according to the Centre for Economics and Business Research and Shawbrook Bank, equivalent to 14 per cent of annual economic output.

On aggregate, for every £1 that is borrowed, small and medium-sized businesses have more than £2 in deposit and current accounts.

Shawbrook estimated that £86 billion of small companies' cash was dormant in current accounts, meaning that the economy is missing out on a vital source of investment while small businesses are forgoing an estimated £4.2 billion in annual interest.

UK Finance said that two thirds of loans were made to businesses outside of London and the South East.