Ten key facts about debt in the UK

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Introduction

Since the global financial crisis of 2008, debt has been a central focus of debates around the health of the UK economy. The media often focus on government debt as a percentage of GDP to discuss whether debt is “too high”. However, government debt as a percentage of GDP is a very poor guide to debt burdens as it takes no account of the interest rate on the debt, how much tax revenue the government is collecting, when the debt is due to be paid, what currency the debt is owed in and who it is owed to. For example, Japan has the highest government debt as a percentage of GDP in the world, but its government can borrow at negative interest rates. And looking just at government debt ignores important issues around debt owed by the private sector.

Jubilee Debt Campaign works to prevent debt burdens from driving poverty. We have worked with allies to prevent and end debt crises across the world, from Argentina to Zambia, Ghana to Greece. This briefing applies Jubilee Debt Campaign’s experience of working to prevent and end debt crises in other countries to the analysis of the debt problems and opportunities facing the UK economy.

Throughout this briefing ‘the UK’ means all of the UK – both the public sector (the government) and the private sector (individuals and companies) resident in the UK. UK government is used when just the government is being referred to, UK private sector (which includes personal debts) when just the private sector. All the facts come from official sources, primarily the UK’s Office for National Statistics, HM Treasury and Bank of England, and the International Monetary Fund and World Bank.

The ten key facts we believe everyone should know before discussing debt issues in the UK are:

1. **A quarter of UK government debt is owed to the UK government itself (Page 2)**

2. **Four-fifths of UK government debt is owed to people and institutions in the UK (Page 3)**

3. **Of G7 economies, only Germany has a lower government debt (as a proportion of GDP) than the UK (Page 4)**

4. **The UK government can currently borrow at the cheapest interest rates in its history (Page 5)**

5. **The UK government is paying virtually the lowest *amount* of interest on its debt in recorded history, as a proportion of GDP (Page 7)**

6. **UK government tax revenue (as a proportion of GDP) is the third lowest of G7 countries, and well behind other European countries (Page 7)**

7. **The debt of the UK’s private sector is more than four times as big as that of the government (Page 10)**

8. Unsecured personal debt in the UK is rising rapidly (Page 11)

9. The UK economy has the largest deficit with the rest of the world of any rich country (Page 12)

10. The UK's finance sector is the most exposed to a crisis of any G7 economy (Page 14)

In summary, the UK government's debt payment burden is low and its ability to borrow at record low interest rates is an opportunity. But that ability to borrow needs to be used wisely. Investments would best be made in areas that save public money in the future while tackling key problems such as the climate emergency and the cost, availability and quality of housing. Investments which also reduce the UK's financial deficit with the rest of the world (e.g. by reducing imports of fossil fuels) will also help protect UK citizens from future global debt and financial crises.

However, faced with an aging population and significant poverty and inequality, the UK also needs to increase its tax revenue. Ongoing funding is needed to maintain and improve public services such as healthcare and rebuild our social safety net and there is significant scope to increase our tax take to do this.

The UK's private debt remains high by historical and international standards and a significant concern. The rise in high cost household debt is putting increased financial burden on the poorest people. Lending needs to be regulated to protect people from high cost loans, while increased wages and an adequate social safety net are needed to protect people from having to resort to borrowing just to get by.

And finally, greater attention is urgently needed on strengthening the regulation of our financial system to reduce our exposure to global financial volatility and the risks it poses to the economy.

1. A quarter of UK government debt is owed to the UK government itself

The IMF say that the UK government's debt at the end of 2019 will be £1,869 billion, which is 86% of GDP.[1] Of the UK government's debt, just under one-quarter (23%) is owed to the UK government itself, via the Bank of England. The debt owed to the Bank of England, which is a "corporation wholly owned by the UK government"[2] comes from the quantitative easing policy. At the start of 2009, the Bank of England began creating money with which it bought UK government bonds. This was intended as a means to stimulate the economy to aid recovery from the 2008 financial crisis. Since 2009, £435 billion has been created to buy UK government bonds,[3] most recently £60 billion since the June 2016 vote to leave the European Union.[4]

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[1] IMF World Economic Outlook database. Accessed on 30 October 2017.
[2] http://www.bankofengland.co.uk/about/Pages/default.aspx
[3] A 'bond' is a kind of way that governments and companies borrow. To take the example of a government, it borrows money in return for issuing a contract saying it will repay the money in full in a certain number of years (e.g., 10) and interest every year until then (e.g., 3%). This contract is known as a 'bond'. The bond is then tradable. Whoever initial lent the money usually sells the bond on. Such bonds are being bought and sold in their millions every day on financial markets. The current owner of a bond is called a 'bondholder'.
[4] https://www.bankofengland.co.uk/monetary-policy/quantitative-easing In addition £10 billion has been created to buy corporate bonds.

Almost no interest is paid by the government on the debts owed to the Bank of England. All interest payments above the Bank of England's base rate on these debts are returned by the Bank of England to the government.

Furthermore, the amount of debt owed to the Bank of England does not fall when the debts are repaid. When these debts are repaid[5], the UK government pays the Bank of England. The Bank of England then uses this money to buy other government bonds on secondary debt markets, keeping the total amount of debt owed by the UK government to the Bank of England the same.[6]

By buying up assets, the impact of quantitative easing was to increase the value of those assets. Therefore, the most gains from the policy went to those who already owned assets, the rich. The Bank of England's own report has found that 40% of the value of quantitative easing has gone to the richest 5% of households.[7]

2. Four-fifths of UK government debt is owed to people and institutions in the UK

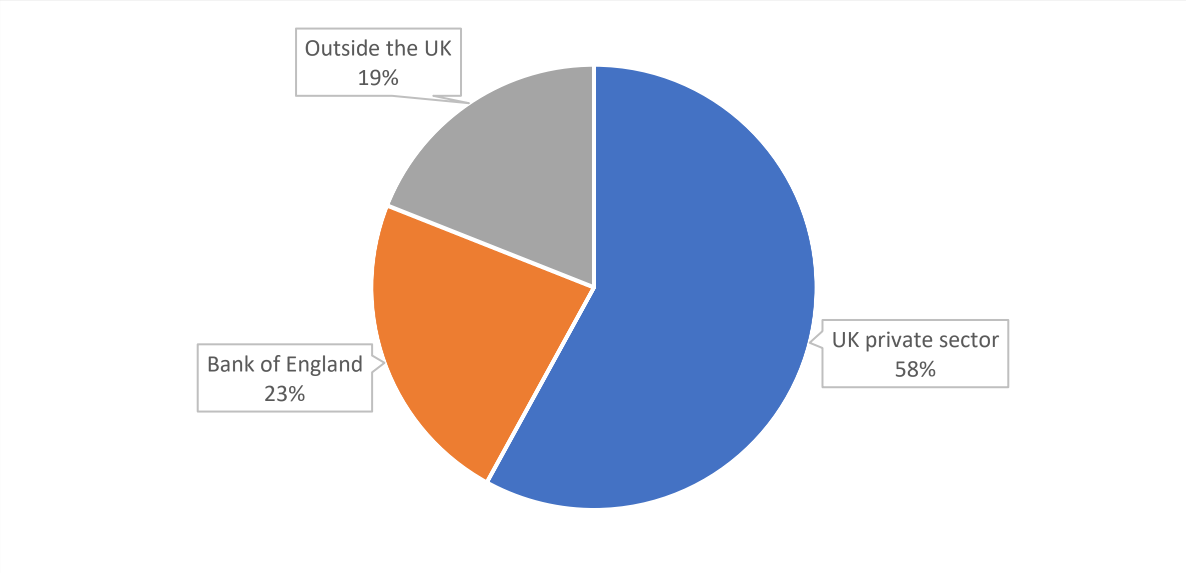
In all the debt crises we have worked on, whether in developing countries or richer countries such as Greece, the main risk has been debts owed outside the country. These debts are particularly dangerous because they lead to money flowing out of the country in interest and principal payments. Also, loans from abroad which have been helping to prop-up an economy can suddenly stop, either because of a change domestically, or more likely, a change in financial markets elsewhere in the world.

Here in the UK, government debt is sometimes referred to as "national debt". This is extremely misleading. A large majority of UK government debt is owed to people and institutions in the UK, not by the UK government to other nations.

According to the UK Treasury, around 19% of the UK government's debt is owed to people and institutions outside the UK.[8] Accounting for the 23% owed to the Bank of England, the remainder – 58% - is owed to the UK private sector, primarily pension funds and insurance funds (22%) and banks and building societies (22%), but also UK households (8%), and other companies (6%).[9]

[5] i.e., when the bond matures
[6] For example, see http://www.bankofengland.co.uk/markets/Documents/marketnotice151105.pdf
[7] http://www.theguardian.com/business/2012/aug/23/britains-richest-gained-quantative-easing-bank
[8] The UK government says 22% of GILTs are owed to overseas investors https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/785550/debt_management_report_2019-20_final_web.pdf GILTs make up 87% of the UK government's debt, so 22% of 87% is 19%..
[9] As above, calculated from https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/785550/debt_management_report_2019-20_final_web.pdf

Graph 1. Who UK government debt is owed to by sector, as of end-2018[10]



Government debt owed externally is more risky as:

- External debt leads to flows of resources out of a country (whereas domestic debt is the movement of resources within a country)
- External lending is more likely to be volatile, influenced by changes elsewhere in the world

Two related but separate issues are the currency debt is owed in and the law it is owed under. Virtually all[11] UK government debt is owed in pounds, the creation of which are controlled by the UK government. Unlike many other countries, which borrow in foreign currencies, because UK government debt is owed in the currency it controls, debt payments cannot suddenly increase if the pound devalues against other currencies.

All UK government debt is owed under English law. This means in the highly unlikely event that the government needed to restructure the debt, it could manage the process through UK legislation. This also means it would not be at risk of vulture funds preventing any debt reduction, as has been the case for other countries facing debt crises, for example Greece, Argentina, Liberia, Zambia and the Democratic Republic of Congo.

[10] Except for the amount owed to the Bank of England, this is all calculated from https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/785550/debt_management_report_2019-20_final_web.pdf According to the Bank of England it owns £435 billion of UK government debt, which is 23% of £1,869 billion. http://www.bankofengland.co.uk/markets/Pages/apf/default.aspx

[11] The government has issued a small amount of debt owed in the Chinese renminbi, but this was part of its efforts to make London into a global centre for trading renminbi assets, rather than because it needed Chinese currency.

Domestic v. external debt: The cases of Japan and Greece

Japan has the largest debt of any government as a proportion of national income: 238%.[12] However, most of this is either owed to the Japanese government itself or savers in Japan, which means it does not cause the country to have a financial imbalance with the rest of the world. Japanese government debt does not lead to significant financial flows out of the country and does not require large loans from outside the country to keep paying it. Furthermore, the Japanese government can still borrow at very low interest rates. The Japanese government's external debt is just 29% of GDP[13] (and so 12% of the total debt). It can borrow at interest rates of -0.1% for ten years, or -0.3% for five years.[14]

In contrast, Greece's government debt is very large, but less than Japan's, at 177% of GDP.[15] However, almost all of this is owed outside Greece, primarily to EU institutions and the IMF. Greece's large government external debt is why it has had a debt crisis for the last nine years, and why it is unlikely the crisis will end unless there is large scale cancellation of the external debt.[16]

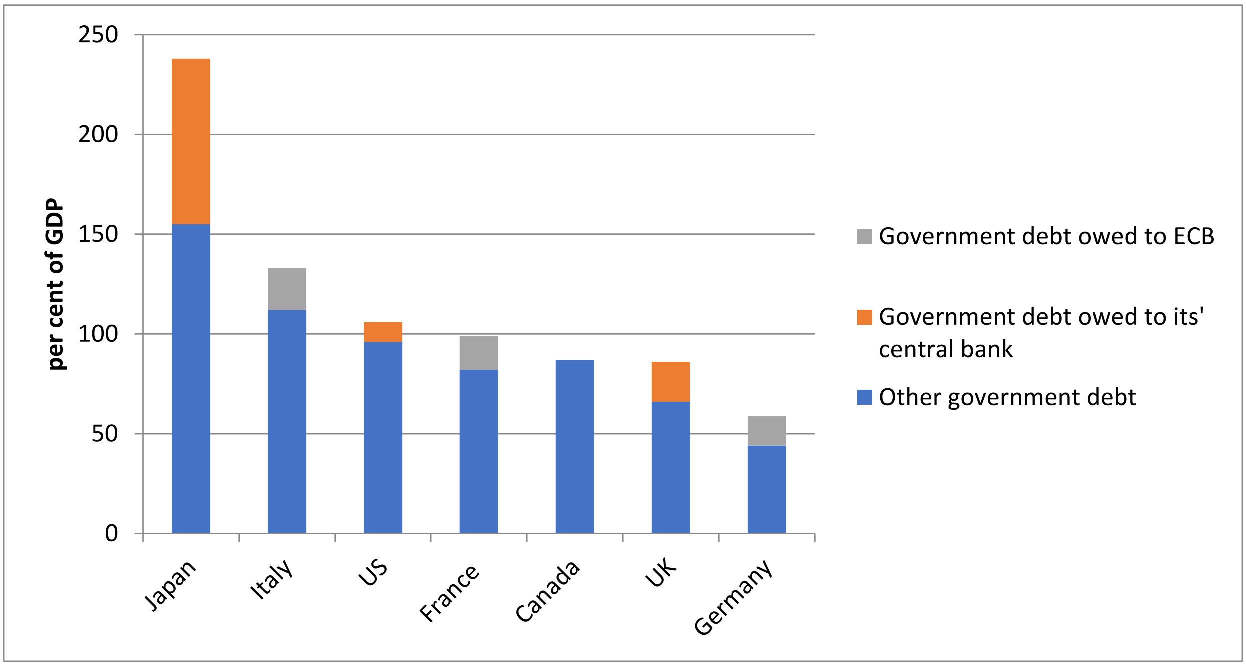
3. Of G7 economies, only Germany has a lower government debt than the UK

Despite growing significantly after the 2008 financial crisis (see point 6) by international and historical standards, UK government debt is still relatively low. The UK government has the second lowest debt of any country in the G7 proportionate to the overall size of the economy (see Graph 2. below). This remains the case if debt owed to a government's own central bank is excluded.[17]

Historically, the UK government's debt has been significantly higher. It increased above 100 per cent of GDP by the end of the First World War, going over 150% in the 1920s and 1930s. It reached a high of well over 200% of GDP at the end of the Second World War, and only fell below 100% in the 1960s. The fall in the size of the debt in the 1950s and 1960s was largely due to inflation and economic growth reducing the size of the debt as a % of GDP, rather than large government surpluses.

[12] IMF. World Economic Outlook database.
[13] Japan's external government debt is $1,489 billion https://databank.worldbank.org/embed-int/Table-1-SDDS-new/id/4f2f0c86
[14] https://www.bloomberg.com/markets/rates-bonds/government-bonds/japan A negative interest rate means the lender is effectively paying the Japanese government to lend to it. This is not done through paying the 'negative interest' every year, but instead through more lending more than will ultimately be repaid when the bond matures (and no interest in between).
[15] IMF. World Economic Outlook database.
[16] For more on Greece see: Jubilee Debt Campaign. (2016). The Never-Ending Austerity Story: Why Greece's third 'bailout' changes nothing. http://jubileedebt.org.uk/reports-briefings/briefing/the-never-ending-austerity-story-why-greeces-third-bailout-solves-nothing
[17] As argued above, and by Lord Skidelsky, see https://www.project-syndicate.org/commentary/rising-debt-unfounded-fears-by-robert-skidelsky-2016-01 Arguably debt owed to the ECB should not be counted as owed to the government's own central bank, as the ECB is not majority owned by any Eurozone government, and unlike in the UK, US and Japan, Greece has been made to repay the ECB just as if it were like any other creditor.

Graph 2. Government debt owed at end-2018 for G7 economies (per cent of GDP)[18]



However, measuring the size of government debt as a proportion of GDP is not very helpful, as this takes no account of the cost of the debt – the size of debt payments relative to income – or where those payments are going, i.e. whether to people and institutions in the same country, or leaving the country. Instead, it is better to look at the costs of debt payments, and the size of debt owed outside a country. For example, Japan has a high government debt as a percentage of GDP, but the fact the government can borrow at negative interest rates mean it would still make sense for Japan to borrow to invest, for example in renewable energy.

4. The UK government can currently borrow at the cheapest interest rates in its history

The interest rates the UK government can borrow at have been falling since 2007 and are at their lowest level ever. Before the 2008 financial crisis the UK government could borrow at an interest rate, fixed for ten years, of between 4% and 5%. From 2009 to 2011 this fell to between 3% and 4%. In the second half of 2011 the rate fell substantially, and then varied between 1.5% and 2.5% (see Graph 3. below). Since the June 2016 vote to leave the EU rates have fallen again. At the time of writing, the UK government can borrow for 10 years at a fixed interest rate of 0.7%, or for 30 years at 1.25% fixed. According to the Financial Times, recent years have seen the lowest government borrowing costs in the UK's history.[19]

UK government debt is bought and held by a range of actors, including pensions funds, savers and speculators, and their desire to lend to the UK government is influenced by various factors. Lenders to the UK government are willing to accept a relatively low interest rate because UK government debt is one of the safest assets they can put their money into. Unlike most developing countries, the

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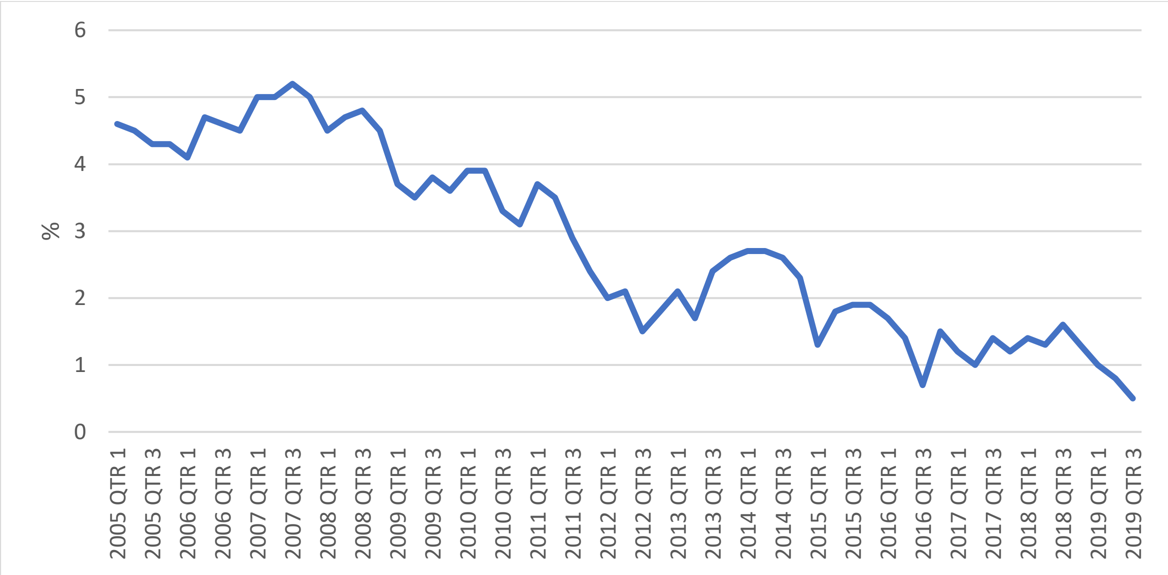
[18] Debt figures are from the IMF World Economic Outlook database. Debts owed to Central Banks are from the Bank of Japan, US Federal Reserve, Bank of England and European Central Bank.
[19] https://www.ft.com/content/ef568030-a7a8-11e4-be63-00144feab7de

UK government controls the creation of the currency in which its debt is owed – sterling. This means it is extremely unlikely the UK government would default on such £ denominated debt. The risk of holding UK government debt is if inflation erodes its value.

Graph 3. Interest rate paid on new UK government borrowing, fixed for 10 years[20]



The fact that the UK government controls the creation of pounds sterling, and also that it has guaranteed tax revenue, mean that UK government debt is a very safe asset (alongside or just behind government debt of other countries who can also borrow in the currency they control, such as the US, Switzerland and Japan). At times of fragility and crisis, speculators are more likely to put their money into safe government debt.

UK government debt has been a safe haven during and since the financial crisis – a vital asset in which to store money. For savers, particularly UK pension funds, it will continue to be a secure long-term asset, passed down through the generations as one generation cashes pension funds in and the next pays into them.[21]

The fact that most UK government debt is owed within the UK, all of it as pounds sterling, means that the government is at little risk of sudden increases in interest rates based on international financial flows. More likely is that economic shocks in the rest of the world will reduce UK government interest rates further as UK government debt continues to be a safe haven. When risks increase in other assets – from company shares to housing and real estate – savers and speculators take money out of those assets and put them in safe assets such as UK government debt. Whenever there are new events which reduce economic confidence – such as the vote to leave the EU – the interest rate on new UK government borrowing has fallen.

However, increasing UK government debt does have a distributional impact by transferring money from future taxpayers to the owners of the debt, which tends to be the rich. For example, 72% of

[20] Figures from www.uk.investing,com

[21] It would be devastating for safe saving in the UK if UK government debt were substantially paid off.

pension fund wealth is owned by the wealthiest 20% of the population.[22] With UK government interest rates at low levels, this is not currently a large impact. Furthermore, interest rates are currently below inflation, so actually government debt acts to transfer money in real terms from savers to the government.

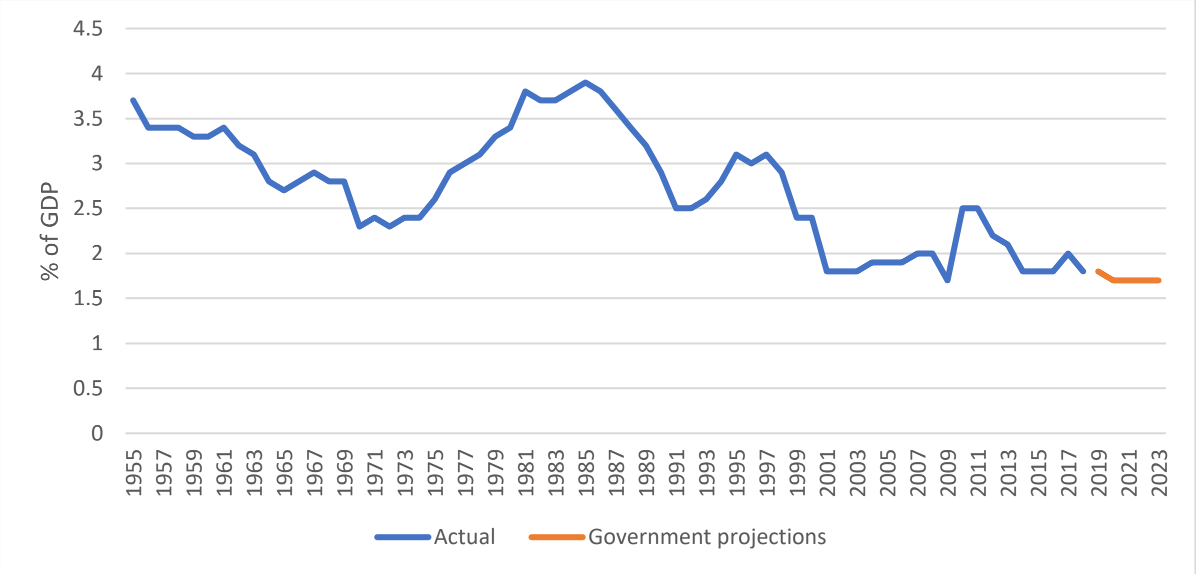
5. The UK government is paying virtually the lowest *amount* of interest on its debt in recorded history, as a percentage of GDP

The UK government is currently paying 1.8% of GDP in interest every year. This is the second joint lowest amount since records begin in 1955. The lowest was 2009 when it was 1.7% (see Graph 4. below). The other time interest payments were 1.8% of GDP was 2001-2003. This lower level of interest payments, despite the higher debt as a percentage of GDP is because:

- The interest rate paid on new government borrowing has fallen (see fact 4 above)
- A quarter of UK government debt is now owed to the Bank of England (see fact 1 above), on which the government only pays interest at the Bank of England base rate (now 0.75%) which is significantly lower than the interest owed under most of the debt contracts bought by the Bank of England

The UK's Debt Management Office projects that interest payment will stay low, falling to 1.7% of GDP, the joint lowest amount ever, from 2020 to at least 2023.

Graph 4. Interest paid by the UK government as a percentage of GDP, 1955-2018, and projections 2019-2023[23]



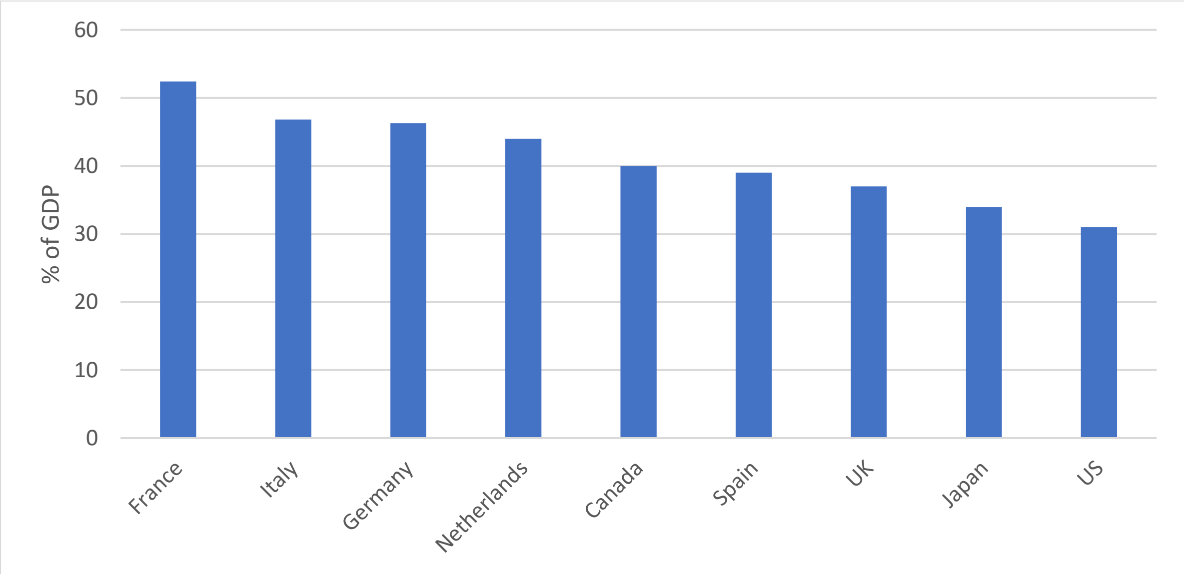
[22] https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/Cox-Private-pension-wealth,PDF.pdf

[23] http://researchbriefings.files.parliament.uk/documents/SN05745/SN05745.pdf The figures used are those net of the Asset Purchase Facility, i.e., accounting for the fact that most of the interest payments on debt owed to the Bank of England are returned to the UK government. For the projections the data comes from https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/785550/debt_management_report_2019-20_final_web.pdf

6. UK government tax revenue is the third lowest of G7 countries and well behind other European countries

The UK government continues to have one of the lowest tax revenue collection rates of major rich economies, as a percentage of GDP (see Graph 5. Below). On current government plans, tax revenue is projected to stay stagnant at 37% of GDP, at a time of increasing financial burdens from pensions and healthcare because of an aging population. The percentage of the population who are over 60 is projected by the Office for National Statistics to increases from 23.2% in 2015 to 26.3% by 2025.[24] Maintaining government revenue at the same level alongside an aging population will mean there is relatively less money available for public spending, including on pensions and healthcare.

Graph 5. Government tax revenue in 2019 as a percentage of GDP[25]



It was the fall in tax revenues because of the post-crisis contraction of the economy which created the large UK government deficit following the 2008 financial crisis. Between the mid-1990s and 2007, UK government debt fell as a percentage of GDP, from 45% in 1996 to 42% by 2007 (see Graph 6. below). The debt then began to rise rapidly in 2008 after tax income collapsed. Between 2008 and 2009 government revenue fell by £58 billion (in 2014 £ terms), from £635 billion to £577 billion (by 9%).[26]

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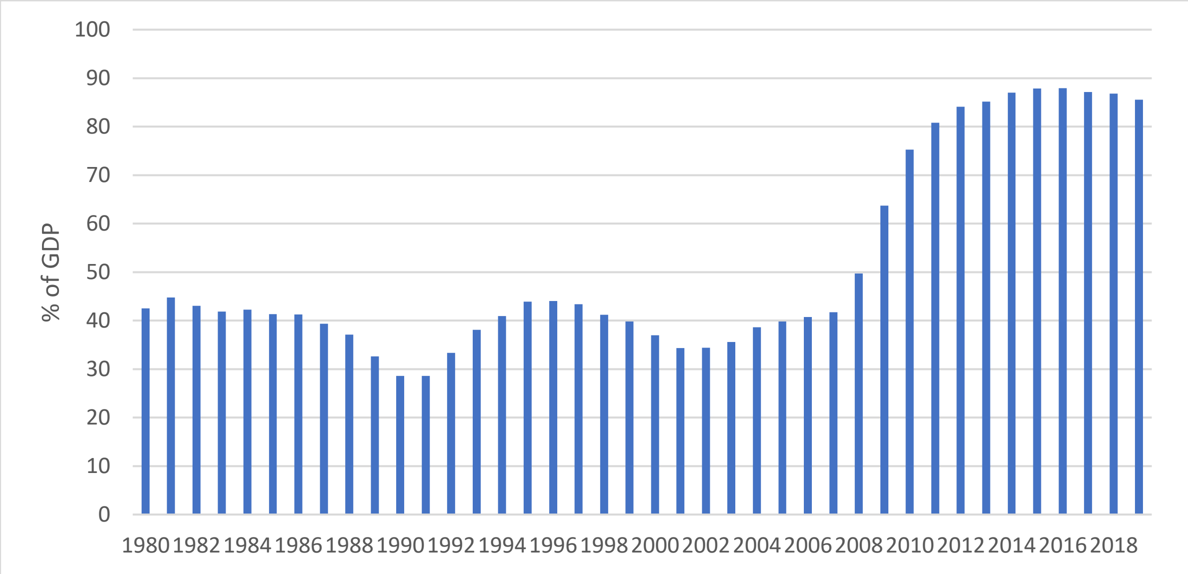
24 https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/bulletins/nationalpopulationprojections/2018based

25 IMF World Economic Outlook Database. Accessed on 29/10/19

26 Figures from IMF World Economic Outlook, amended to 2014 £.

Graph 6. UK government debt as a percentage of GDP, 1980 – 2019[27]



Government debt inevitably increases during a sizeable financial crisis because of the collapse in government revenues. The government continuing to spend helps to protect more people from the impacts of the, hopefully temporary, recession, by keeping more demand in the economy and so fewer people lose jobs than would otherwise be the case. The deficit would then be expected to fall as the economy recovers, and if and when the economy has recovered it becomes prudent to have a small surplus to help reduce government debt (alongside any moderate inflation and growth which will also reduce the debt). However, another reason for a deficit would be to invest in public infrastructure and services. Given the low interest rates on current UK government debt, it would make sense to do this in areas such as renewable energy, public housing and home insulation, all of which would save both people and the government money in the future.

The size of the UK economy per person is only 5% above 2007 levels, while median average pay is still £18 a week less than in 2008.[28] Economist David Blanchflower has called the period since 2009 the worst economic recovery in the UK since the South Sea bubble in 1720.[29] Therefore, a government deficit would be expected, and be necessary, until the economy has grown substantially more.

In the 40 years from 1980 to 2019, the UK government has had a deficit in all but five years, when instead there were small surpluses (1988-89 and 1999-2001) (see Graph 7. below). Despite this, in the mid-1980s and mid-1990s the overall debt fell despite there being a deficit, because the rate of economic growth and inflation was higher than the deficit.

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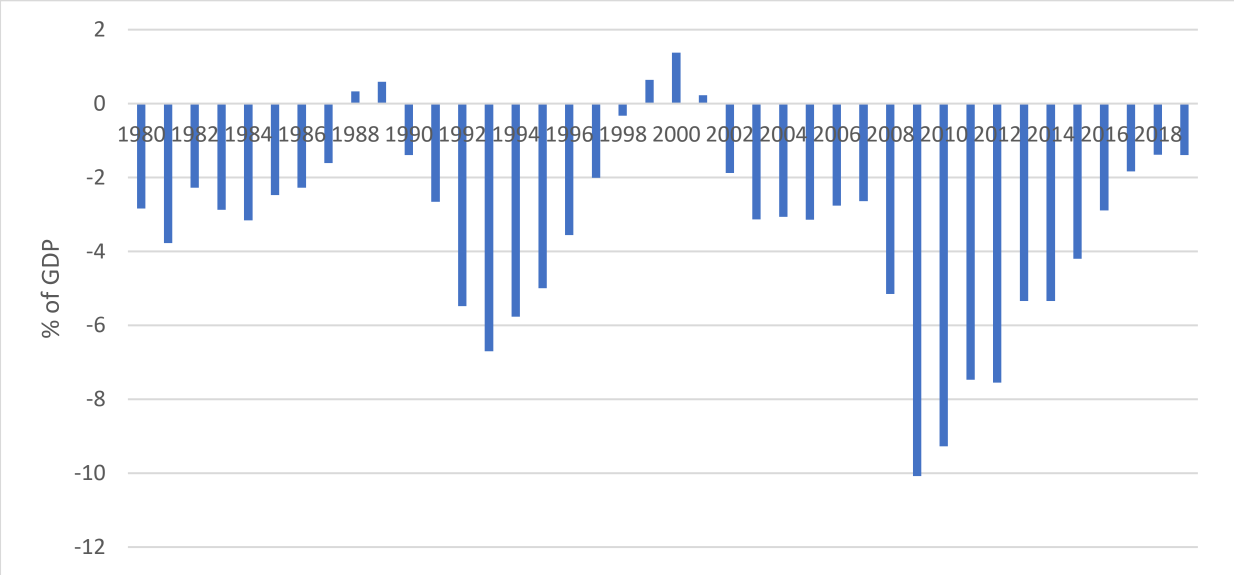
[27] IMF World Economic Outlook database. Accessed on 30/10/19.

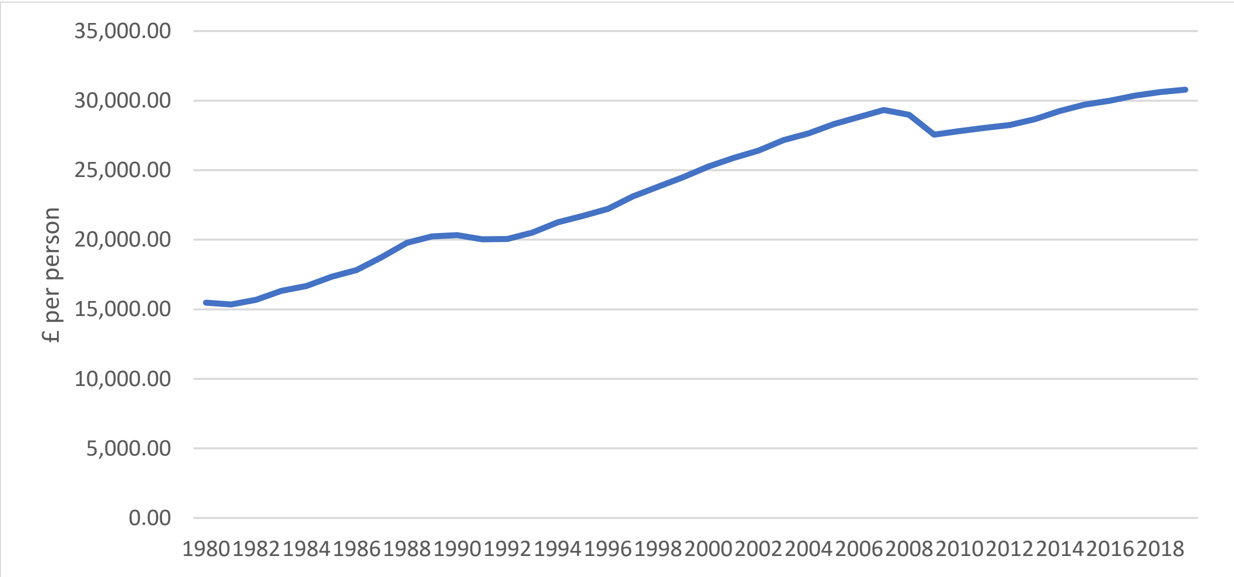
[28] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2019

[29] http://www.independent.co.uk/voices/comment/britain-has-taken-longer-to-recover-from-recession-than-at-any-time-since-the-south-sea-bubble-9645218.html

Graph 7. UK government cash deficit, percentage of GDP, 1980-2019[30]



Graph 8. UK GDP per person, constant £, 1980 - 2019[31]



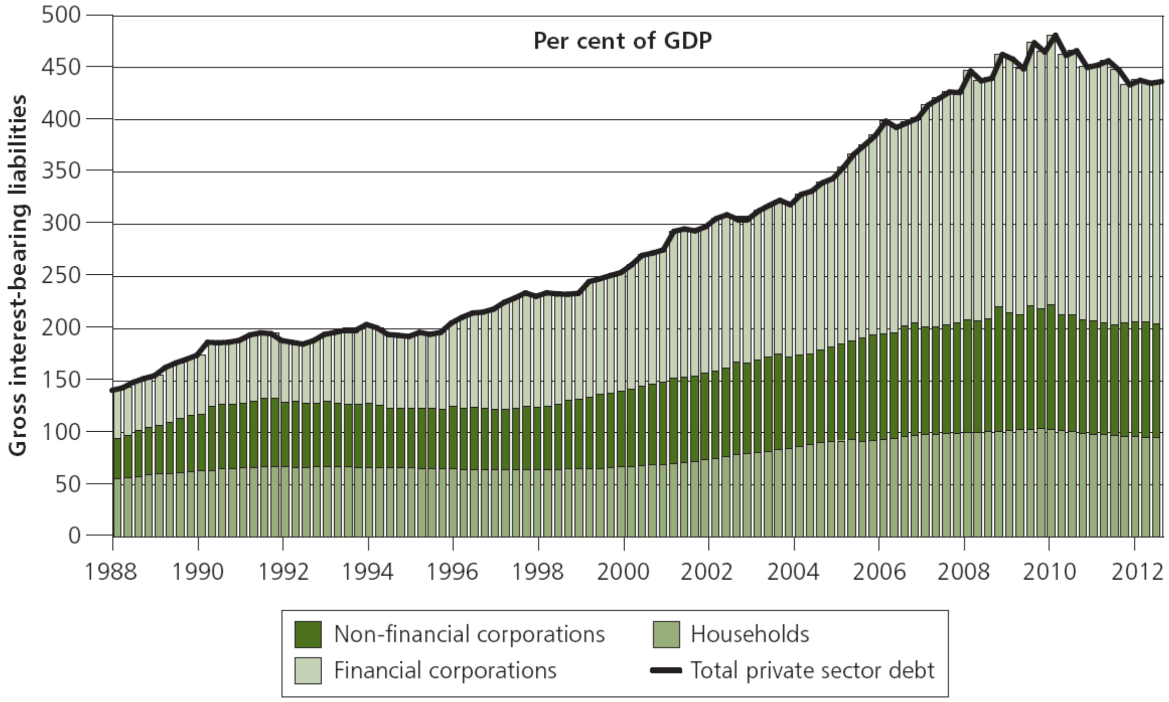
7. The debt of the UK's private sector is more than four times as big as that of the government

The total debt of the UK's private sector debt, i.e., companies and households, is estimated to be over 400% of GDP, more than four times the size of UK government debt. At the end of the 1980s private sector debt was 150% of GDP, but it then grew to over 450% of GDP by the financial crisis of 2008 (see Graph 9. below).

[30] IMF World Economic Outlook database. Accessed on 30/10/19.
[31] IMF World Economic Outlook database. Accessed on 30/10/19.

These figures all come from the budget documents produced by the UK Treasury. However, these figures have not been included in the Budget since 2013. While there are up-to-date official figures on the debt of UK households and non-financial corporations, we cannot find such figures for financial corporations. According to the OECD, the debt of UK households and non-financial corporations was 224% of GDP in 2018. This is similar to the level in 2007 (235% of GDP) and an increase since 2013 (218% of GDP),[32] indicating that total UK private sector debt is likely to, if anything, have risen since the Treasury stopped publishing the data in 2013. High private sector debt risks causing an economic crisis if companies go bankrupt because of being highly indebted, or loans which have been keeping the economy going suddenly stop.

Graph 9. UK private sector debt 1988-2013, percentage of GDP[33]



8. Unsecured personal debt in the UK is rising rapidly

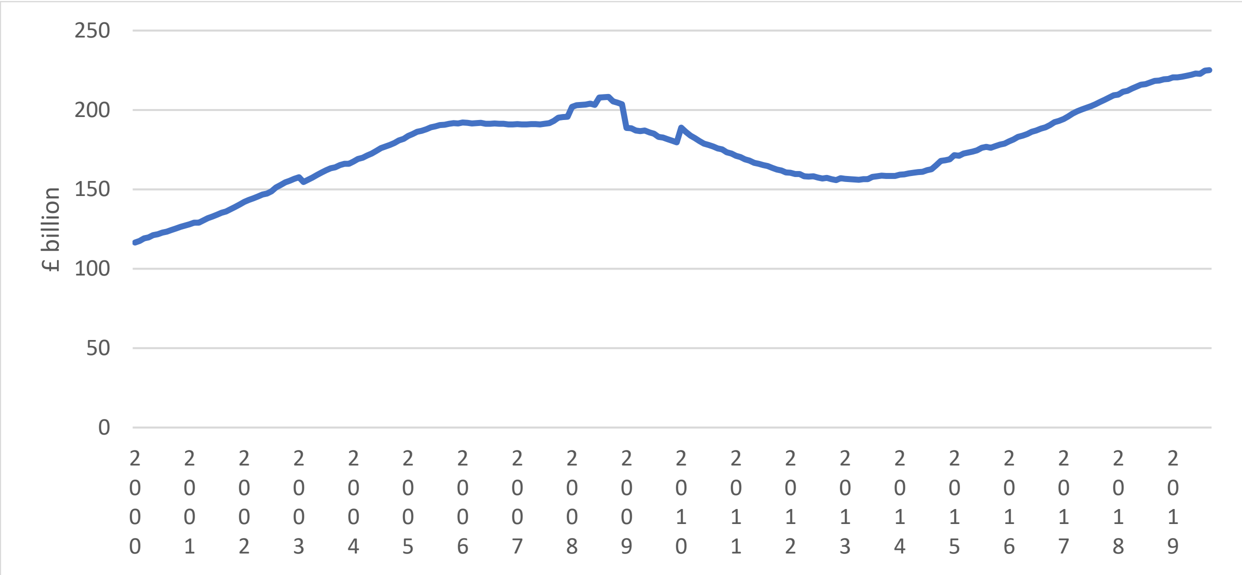
Unsecured debt[34] is increasing rapidly and is now above the peak reached during the 2008 financial crisis (see Graph 10. below). The annual growth rate in unsecured debt was particularly high between 2015 and 2017. The annual growth rate was 8.2% in the year to September 2015, 10.3% in the year to September 2016, and 9.9 % in the year to September 2017. The rate of growth has

[32] http://stats.oecd.org/index.aspx?queryid=34814
[33] HM Treasury. (2013). Budget 2013 https://www.gov.uk/government/publications/budget-2013-documents
[34] Unsecured debt is any debt not guaranteed by an asset such as a house. It therefore excludes mortgages but includes personal loans, credit cards and pay-day loans.

slowed more recently, but unsecured debt still grew 7.7% in the year to September 2018 and 6% in the year to September 2019.[35]

Total unsecured personal debt is now £225 billion, which is £4,294 per adult in the UK. It has increased from £157 billion in mid-2013,[36] an increase of 43%.

Graph 10. Unsecured personal debt in the UK, 2000-2019[37]



9. The UK economy has the largest deficit with the rest of the world of any rich country

The current account balance measures how much the UK (the public and private sector) is sending to the rest of the world each year through buying imports and making debt and profit payments, and how much it is earning through exports and receiving debt and profit payments.

If there is a current account deficit this means that the UK as a whole (private and public sectors) is borrowing from the rest of the world or selling things people in the UK own, to people outside the

[35] Data from https://www.bankofengland.co.uk/boeapps/database/fromshowcolumns.asp?Travel=NIxAZxSUx&FromSeries=1&ToSeries=50&DAT=RNG&FD=1&FM=Jan&FY=1972&TD=31&TM=Dec&TY=2019&FNY=Y&CSVF=TT&html.x=66&html.y=26&SeriesCodes=LPMBI2O&UsingCodes=Y&Filter=N&title=LPMBI2

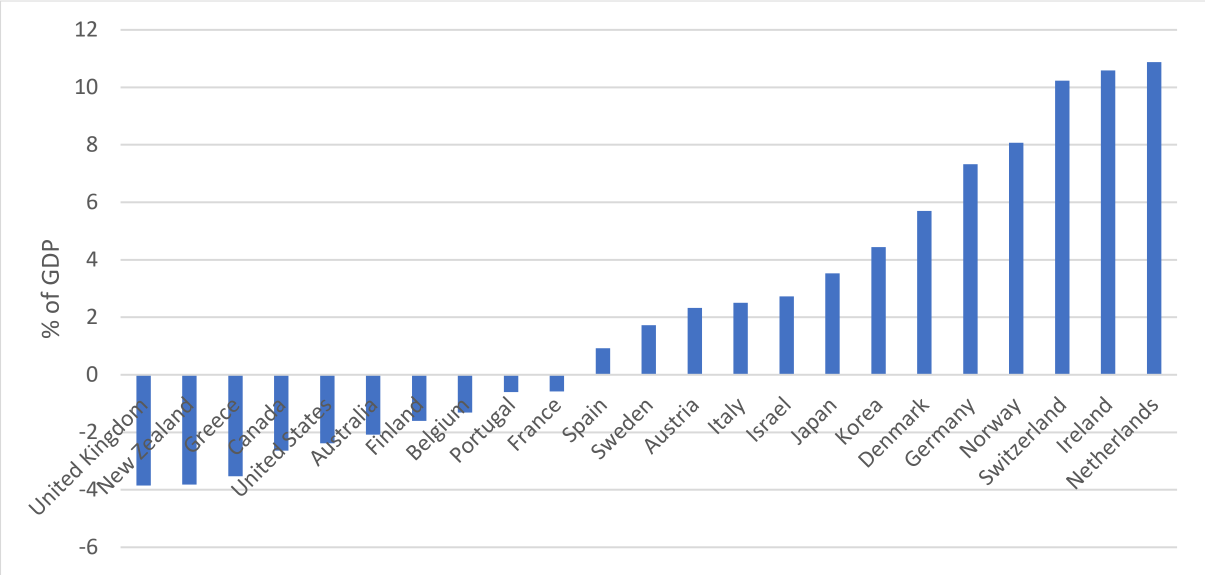
[36] Data from https://www.bankofengland.co.uk/boeapps/database/fromshowcolumns.asp?Travel=NIxAZxSUx&FromSeries=1&ToSeries=50&DAT=RNG&FD=1&FM=Jan&FY=1972&TD=31&TM=Dec&TY=2019&FNY=Y&CSVF=TT&html.x=66&html.y=26&SeriesCodes=LPMBI2O&UsingCodes=Y&Filter=N&title=LPMBI2

[37] Data from https://www.bankofengland.co.uk/boeapps/database/fromshowcolumns.asp?Travel=NIxAZxSUx&FromSeries=1&ToSeries=50&DAT=RNG&FD=1&FM=Jan&FY=1972&TD=31&TM=Dec&TY=2019&FNY=Y&CSVF=TT&html.x=66&html.y=26&SeriesCodes=LPMBI2O&UsingCodes=Y&Filter=N&title=LPMBI2O

UK.[38]. It is this borrowing or sale of assets which enable the UK to consume more from the rest of the world than it is earning from the rest of the world.

In 2018, the UK had a current account deficit of 3.9% of GDP. According to the IMF, this is the highest of any rich country (see Graph 11. below). Of other G7 countries, Canada had a deficit of 2.6% in 2018, the US 2.4% and France 0.6%. Italy had a surplus of 2.5%, Japan 3.5% and Germany 7.3%.[39]

Graph 11. Current account deficits / surpluses in 2018 of rich countries, percentage of GDP[40]



The impact of the whole UK economy spending more than it earns from the rest of the world is to increase debts owed outside the UK, or to sell-off UK assets to speculators from outside the UK, which then leads to interest and profits being sent out of the country in the future. Whilst a current account deficit allows the UK to consume more now, it is at the cost of reducing income in the future. Furthermore, if speculators suddenly reduce their willingness to lend to the UK economy, or buy UK assets, it can lead to a sudden drop in income in the UK, and so recession.

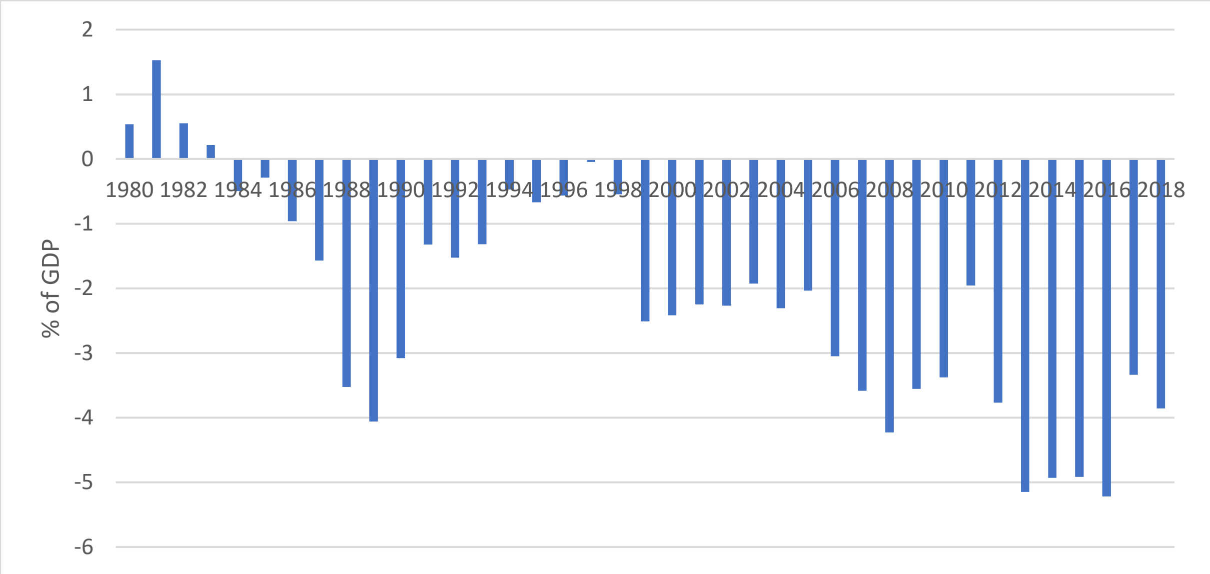
Governor of the Bank of England Mark Carney has said that the UK's large current account deficit means the country is dependent on "the kindness of strangers".[41] However, this is not quite right. Those outside the UK lending to the UK, or buying UK assets, are not doing so out of kindness, but in anticipation of receiving more back in return in the future.

The UK's current account deficit peaked at 5.2% of GDP in 2016, the highest on record. Before 2013, the deficit had only gone over 4% once before, in 1989, during the boom just before the 1990s

[38] Most likely both of these things.
[39] IMF World Economic Outlook database. Accessed 30/10/2019
[40] IMF World Economic Outlook database. Accessed 30/10/2019
[41] https://www.theguardian.com/business/2016/jan/26/mark-carney-fails-to-rule-out-eight-year-term-at-bank-of-england

recession.[42] What is striking about the current record high deficits is that they have not even funded an economic boom.

Graph 12. UK current account balance, 1980 - 2018[43]



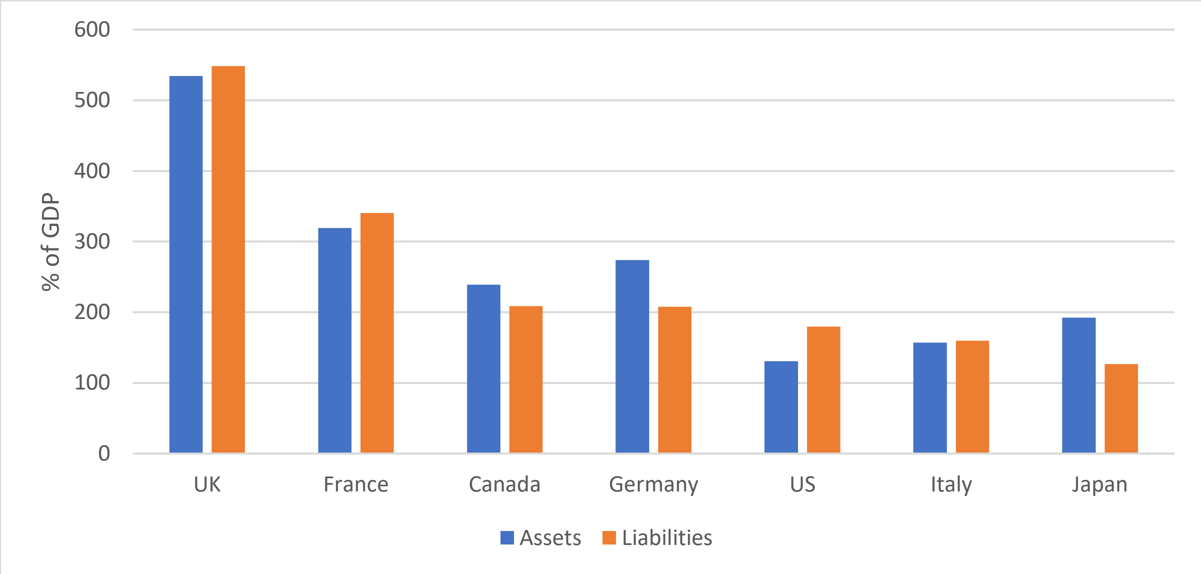
10. The UK's finance sector is the most exposed to a crisis of any G7 economy

The UK economy is the most exposed to global financial volatility of any major economy. In total, the UK economy (public and private sector) have the equivalent of 549% of GDP of financial liabilities to the rest of the world and claim 535% of GDP as assets (most of these comes from the finance sector). This is significantly higher than the assets and liabilities of France, the next most exposed major economy, and more than double those of Germany (see Graph 13. below).

Financial shocks, such as the fall in value of those assets, could rapidly and negatively affect the UK economy if they led to a fall in income for UK companies, even resulting in bankruptcy of major companies. In 2007-2008 it was the fall in value of such foreign held assets which led to the effective bankruptcy of UK banks.

[42] ONS. Balance of payments time series dataset https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/balanceofpayments
[43] IMF World Economic Outlook database. Accessed 30/10/2019

Graph 13. External assets and liabilities of G7 economies, mid-2019, percentage of GDP[44]



In 2017 the ONS revised its estimate of assets and liabilities, which led to a change from a surplus of £470 billion (24% of GDP) to a deficit of £22 billion (1% of GDP).[45] This re-estimate led to headlines of "Britain's missing £490 billion." However, the real problem is not whether there is a small deficit or surplus, but the huge scale of the UK's external assets and liabilities, such that re-estimates can lead to changes of the magnitude of £490 billion.

For example, if we imagine there was a 20% fall in the value of external assets held by all the G7 economies, this would leave the UK with net liabilities of 121% of GDP. France's would be 85%, the US's 75%, Italy 34% and Canada 17%. Germany and Japan would still have net assets of 11% and 27% respectively. This makes the UK uniquely vulnerable to financial changes elsewhere in the world.

[44] Assets and liabilities data from IMF database http://data.imf.org/regular.aspx?key=60947518 GDP data from IMF World Economic Outlook database.
[45] https://blog.ons.gov.uk/2017/10/23/has-500-billion-really-gone-missing/