UNITED KINGDOM
2021-2022 OUTLOOK

BACK TO REALITY

16 July 2021

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WORKING EVERY DAY IN YOUR INTEREST AND FOR SOCIETY

GROUP ECONOMIC RESEARCH

CONTENTS

SUMMARY OF OUR SCENARIO

SHORT-TERM INDICATORS ARE SOLID, BUT THE REALITY CHECK IS APPROACHING

The economy remained resilient during the third lockdown in Q121. There was a relatively limited contraction of GDP in Q1 (-1.6% QoQ, in line with our forecasts), which saw a higher level of adaptation of household consumption to the government's restrictive measures on social activity and mobility than during the early period of the pandemic. The easing of social restrictions, which started in March in line with the government's reopening plan thanks to the success of the vaccination rollout, triggered a stronger-than-expected rebound of activity in March and April, which continued in May, although at a more moderate pace. The level of GDP has now recovered a substantial part of its pandemic-related loss and in May it stood 3.2% below its pre-crisis level.

Forward-looking indicators suggest that the recovery's momentum has strengthened further. PMI surveys have skyrocketed and consumer confidence has recovered back to its pre-crisis level. We have revised upwards our short-term forecasts significantly and expect 5.2% QoQ growth in Q221, driven by household consumption in services. The labour market has been improving and shows pockets of tightness. The number of jobs on the furlough scheme has fallen to 1.7m in May (6.5% of the workforce) from 3.4m at the end of April.

Nevertheless, fears of the Delta variant continue to imply downside risks to the recovery. The number of new Covid-19 cases has risen sharply in recent weeks, leading the government to postpone the final stage of its reopening plan by four weeks, to 19 July. This postponement is unlikely to significantly impact the short-term economic prospects, but may have a downward effect on consumer and business sentiment. Caution in consumer behaviour is likely to remain for as long as the virus is present and imply an incomplete recovery in the most exposed sectors to social and physical interaction (hospitality, travel, leisure and culture).

We expect growth to slow sharply towards the end of the year as pandemic support unwinds. A key feature of the demand outlook beyond the initial post-pandemic rebound is the fact that a number of key government support measures are set to expire on 30 September, including the furlough scheme, the enhanced universal credit (GBP20 per week) and reduced VAT on food and accommodation services. This will likely result in a higher unemployment rate in Q421 (to 5.5% in our forecasts). Consumer confidence will likely take a hit, additionally amplified by strong inflation in the near term. We expect this to be followed by a sharp deceleration in household consumption at the turn of the year.

In terms of annual growth, strong near-term outlook leads us to increase our 2021 growth forecast significantly (from 5.6% to 7.4%), but to revise downwards our growth forecast for 2021 (to 5.6% from 6.6% previously). In our scenario, GDP reaches its pre-crisis level in Q421 (one quarter earlier than anticipated three months ago).

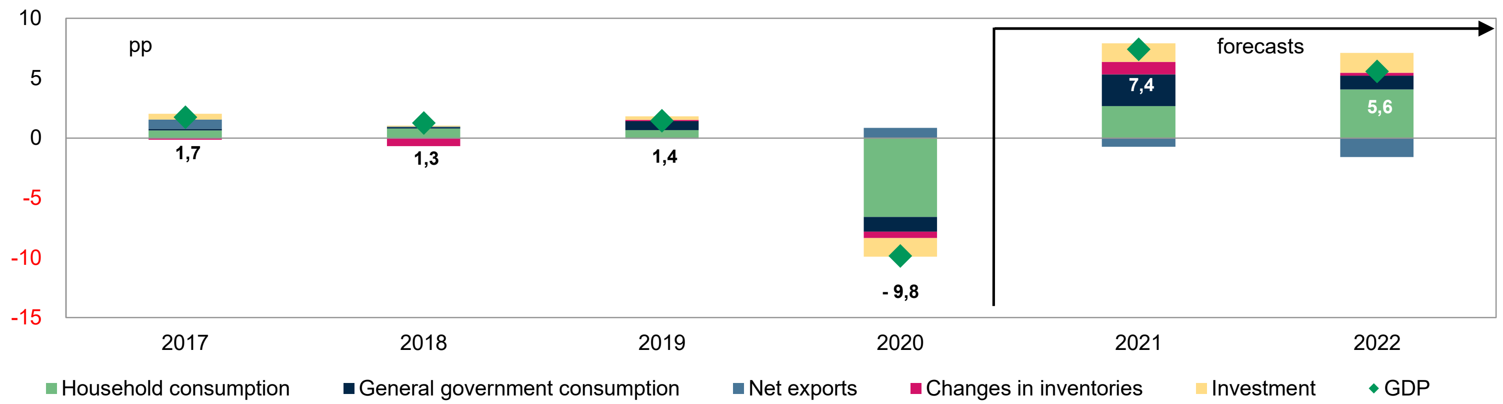
CPI inflation reached 2.1% in May, above the BoE's 2% target for the first time since July 2019. **CPI inflation is likely to rise to 3.2% in Q4 and stay elevated in Q121 before moderating.** The easing of the government's restrictions to activity has triggered a revival of prices in the sectors that were most hit by the pandemic. In the labour market, the reopening of the economy creates pockets of tightness in some sectors struggling to hire staff needed to respond to a sharp rebound in demand. This is likely to add upward pressure to wage growth in the near term. Pay growth has already accelerated sharply to 5.6% in the three months to April due to base effects as well as compositional effects in employment.

The BoE will likely continue to look through the near-term period of strong growth and inflation, which it considers temporary. As usual it will "focus on the medium-term prospects for inflation, including the balance between demand and supply, and medium-term inflation expectations, rather than factors that are likely to be transient." **Asset purchases are likely to be completed as planned by the end of the year but we continue to expect the first rate hike in the beginning of 2023 only.**

SUMMARY OF OUR SCENARIO

FORECASTS: STRONG UPWARD REVISION TO Q221 LIFTS 2021 ANNUAL GROWTH

Contributions to annual GDP growth



Sources: ONS, Crédit Agricole SA / ECO

United Kingdom	2019	2020	2021	2022	2020				2021				2022			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP (%)	1.4	-9.8	7.4	5.6	-2.8	-19.5	16.9	1.3	-1.6	5.2	2.9	1.4	0.9	0.5	0.5	0.4
household consumption	1.1	-10.6	4.4	6.8	-2.6	-20.8	19.7	-1.7	-4.6	6.0	5.0	2.0	0.6	0.5	0.5	0.3
public consumption	4.0	-6.5	13.4	5.6	-1.8	-17.3	15.8	6.7	1.5	3.0	3.0	1.0	1.0	1.0	1.0	1.0
investment	1.5	-8.8	8.5	9.0	-1.2	-20.7	19.0	4.4	-1.7	3.0	3.0	2.0	2.0	2.0	2.0	2.0
change in inventories*	0.1	-0.5	1.0	0.2	0.1	-0.7	0.5	1.4	-0.8	1.0	0.0	0.0	0.0	0.0	0.0	0.0
net exports*	-0.1	0.8	-0.7	-1.6	-2.5	3.4	-4.4	-1.5	2.5	-0.5	-1.2	-0.4	0.0	-0.3	-0.3	-0.4
Unemployment rate (ILO)	3.8	4.6	4.9	5.1	4.0	4.3	4.9	5.0	4.7	4.7	4.6	5.5	5.4	5.1	4.9	4.7
Inflation (CPI, YoY%)	1.8	0.9	2.1	2.5	1.7	0.6	0.6	0.5	0.6	2.1	2.7	3.2	3.2	2.7	2.1	2.0
Core CPI (YoY%)	1.7	1.4	2.1	2.6	1.6	1.4	1.3	1.3	1.1	1.9	2.6	2.9	3.1	3.0	2.3	2.2
Current account (% GDP)	-3.1	-3.5	-4.3	-5.6	-3.5	-3.0	-2.6	-4.8								
General gov. balance, % GDP	-2.3	-12.3	-7.5	-3.3	na	na	na	na	na	na	na	na	na	na	na	na
Public debt % GDP	85.2	102.1	100.0	95.2	na	na	na	na	na	na	na	na	na	na	na	na
Bank rate**	0.75	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Target of BoE's asset purchases (bn £) **	435	895	895	895	645	745	745	895	895	895	895	895	895	895	895	895

** Contributions to GDP growth*

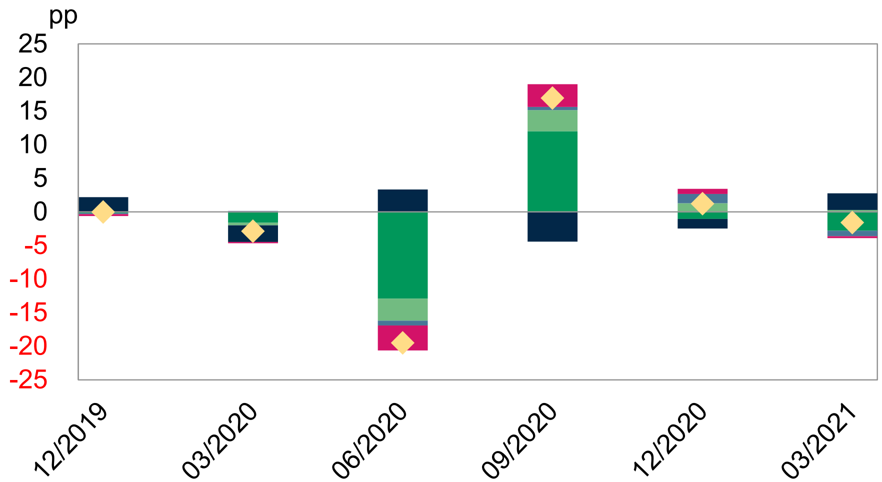
*** End of period*

Source: ONS, BoE, Crédit Agricole S.A.

CONTENTS

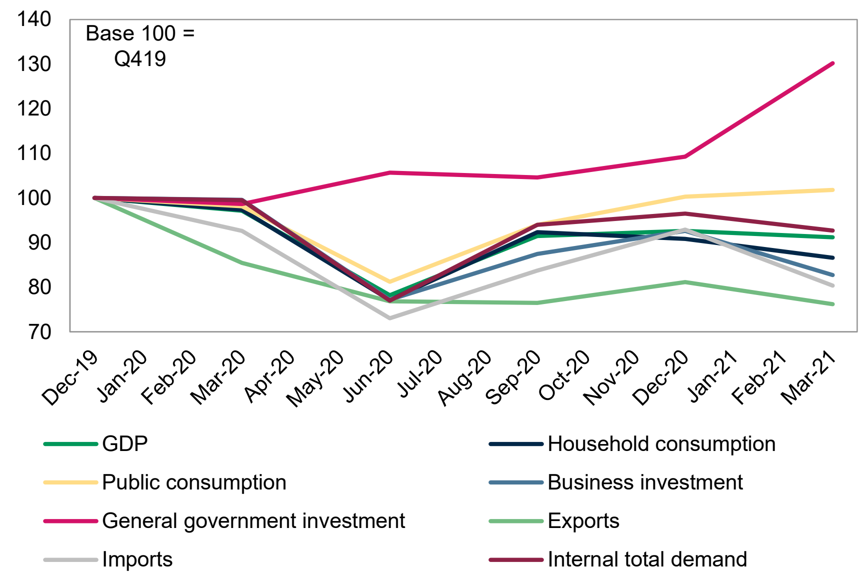
ACTIVITY REMAINED RESILIENT IN Q121 DESPITE HISTORIC HEADWINDS

Contributions to quarterly GDP growth: expenditure breakdown



Sources: ONS, Crédit Agricole SA / ECO

Evolution in expenditure components since end-2019



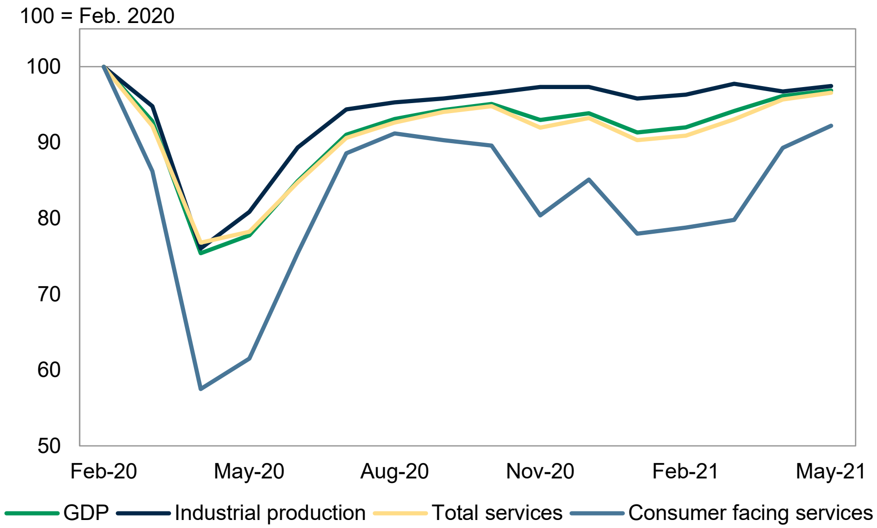
Sources: ONS, Crédit Agricole SA / ECO

The UK economy started the new year facing yet more tests of resilience. On the one hand, severe lockdown measures were put in place by the government (involving the closure of non-essential activities for more than three months) in order to curb the spread of a new much-more dangerous variant of Covid-19. On the other hand, the UK economy left the single market on 1 January 2021 with a Trade and Cooperation Agreement replacing the single-market membership and introducing significant barriers to trade in goods while leaving the services sectors largely uncovered. **Yet GDP fell by much less than initially feared (-1.6% QoQ, in line with our April forecast)**, with internal demand falling by 4% against more than 22% in Q220. Household consumption contracted by 4.6% against -20.8% in Q220 as consumers have increasingly adapted to the new conditions of life. Hefty government support has continued to shield jobs and incomes, leading to another rebound in the household saving ratio (to 19.9%). Business investment posted an extraordinary fall (-10.7% QoQ), albeit still half the one registered in Q220. Government consumption rose (1.5% QoQ) aided partly by increased healthcare services, such as tracing, testing and vaccinations. Government investment surged by 19.2% QoQ. **Trade plunged with exports down (-6.1%) and imports down (-13.5%)** due to an unwind of stockpiling ahead of Brexit, disruption and uncertainty from the new Brexit deal, and Covid-19 related restrictions.

LATEST ECONOMIC TRENDS

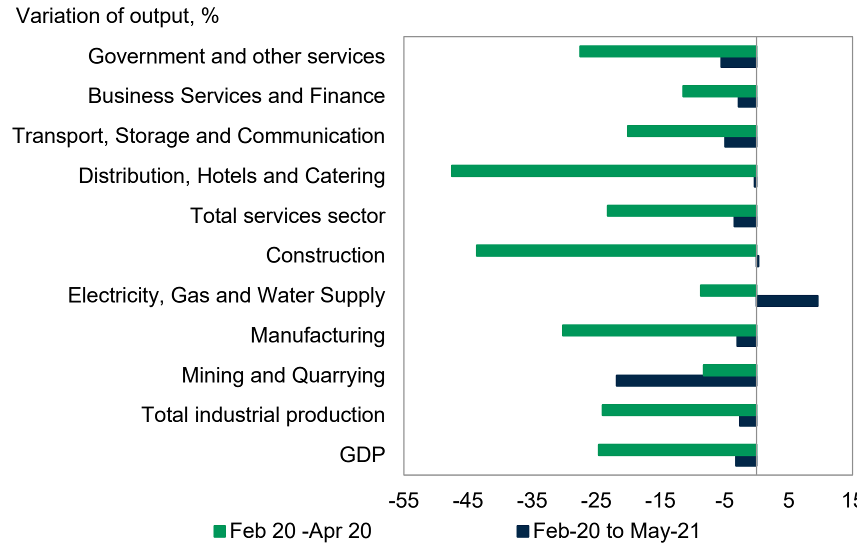
AFTER A STRONG REBOUND IN MARCH AND APRIL, THE RECOVERY LOST MOMENTUM IN MAY

Consumer-facing services were the main contributor to growth in May



Sources: ONS, Crédit Agricole SA / ECO

The recovery has been uneven across sectors



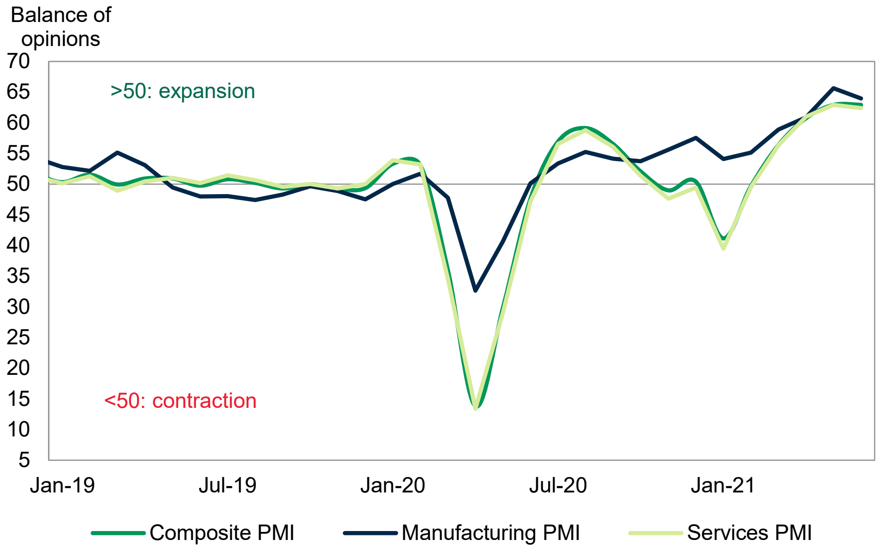
Sources: ONS, Crédit Agricole SA / ECO

GDP growth slowed sharply in May. GDP rose by 0.8% MoM in May (half as high as consensus expectations), after a downwardly revised 2% growth in April (from 2.3%). The level of GDP stands 3.1% below the pre-pandemic peak. The downside news in May GDP data was broad-based across the main sectors. The services sector rose by 0.9% after 2.8% growth in April. The recovery in consumer–facing services (retail, food and beverage serving activities, travel and transport, entertainment and recreation) continued in May, although at a much slower pace (3.2% MoM after 11.9% MoM). **The food and beverage serving activities contributed the most thanks to the reopening of indoor service in restaurants and pubs.** By contrast, growth in non-consumer-facing services was fairly modest (0.4% MoM after 0.8% in April). Also, manufacturing growth remained broadly flat, contracting slightly for the second consecutive month (-0.1% MoM). Supply disruption is partly responsible for that weakness. According to the ONS, the largest contribution to the fall came from the manufacture of transport equipment, falling by 16.5%, as microchip shortages disrupted car production. Construction output was also down in May (-0.8% MoM).

LATEST ECONOMIC TRENDS

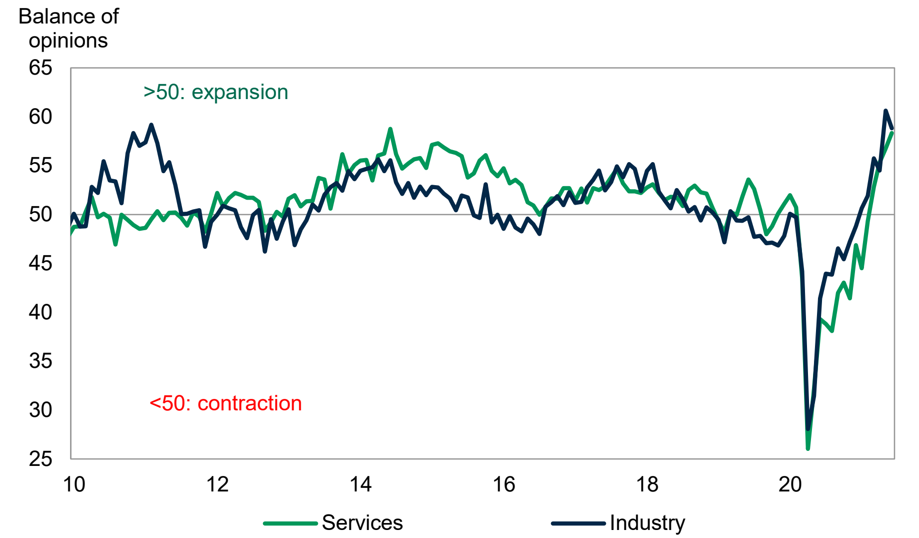
BUSINESS OPTIMISM POINTS TO STRONGER JOB CREATION AND HIGHER PRICES

Business optimism remained solid in June



Sources: IHS Markit, Crédit Agricole SA / ECO

Job creation hit a multi-year high



Sources: IHS Markit, Crédit Agricole SA / ECO

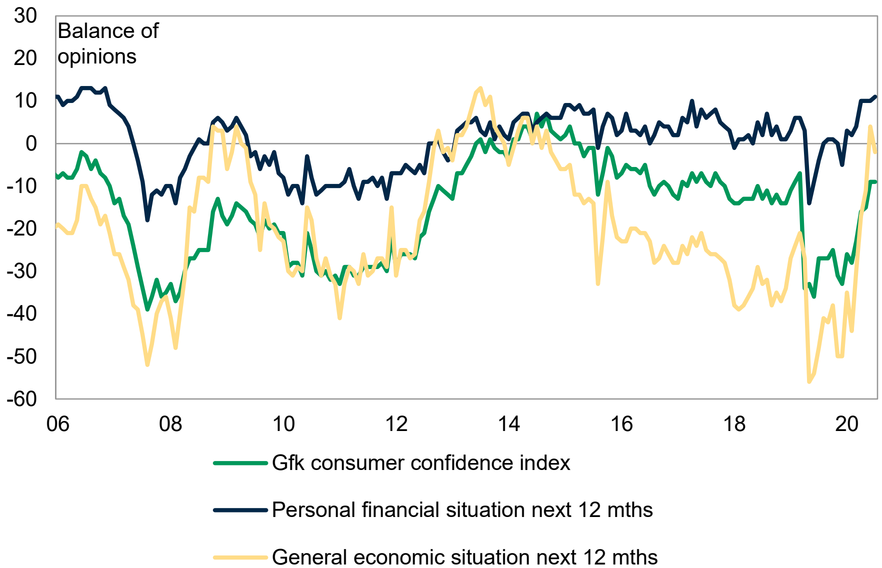
PMI surveys continued to signal an expansion of activity at record-level rates in June. That said, the overall rate of new business growth has softened since May. In the services sector there was a surge in demand for consumer services and a continued boost from looser pandemic restrictions on trade. Job creation was the strongest since June 2014. Despite that, businesses report capacity constraints and shortages of staff, creating difficulties in meeting orders volumes. **The output price index of the services PMI surged to a record high in June.** Strong demand meant that service sector companies were able to pass on higher costs to clients during June.

IHS Markit reported that companies experience temporary price rises due to capacity constraints and subsequent efforts to manage demand. **In industry, growth of activity, employment and new orders slowed in June but remained at a pace among the highest in the last 30 years.** The sector is still overwhelmed by rising cost inflationary pressures, however, as Brexit-related trade issues exacerbated global supply chain delays. Input price costs rose at the fastest pace in the survey history as prices of a wide range of materials were up. Imbalances in demand versus supply, delivery delays and shortages in raw materials were to blame.

LATEST ECONOMIC TRENDS

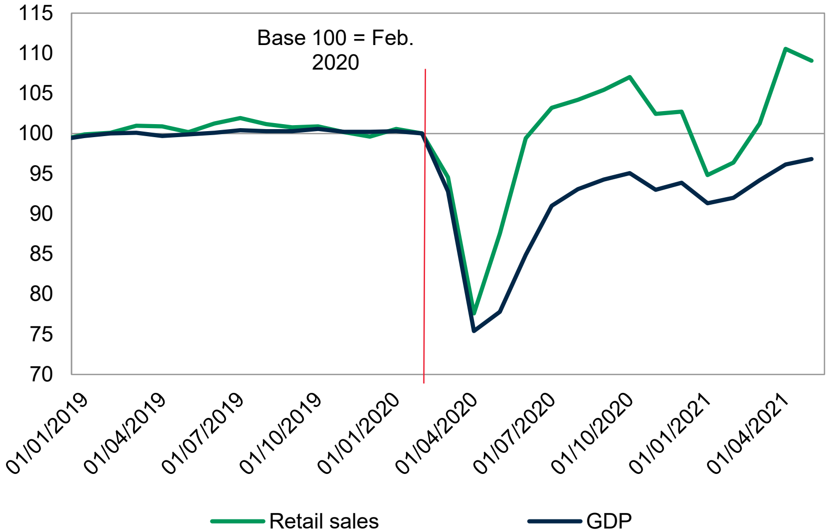
CONSUMER SPENDING INDICATORS ARE SOLID

Consumers are confident in the future



Sources: ONS, Crédit Agricole SA / ECO

Retail sales' volumes stand way above pre-crisis levels

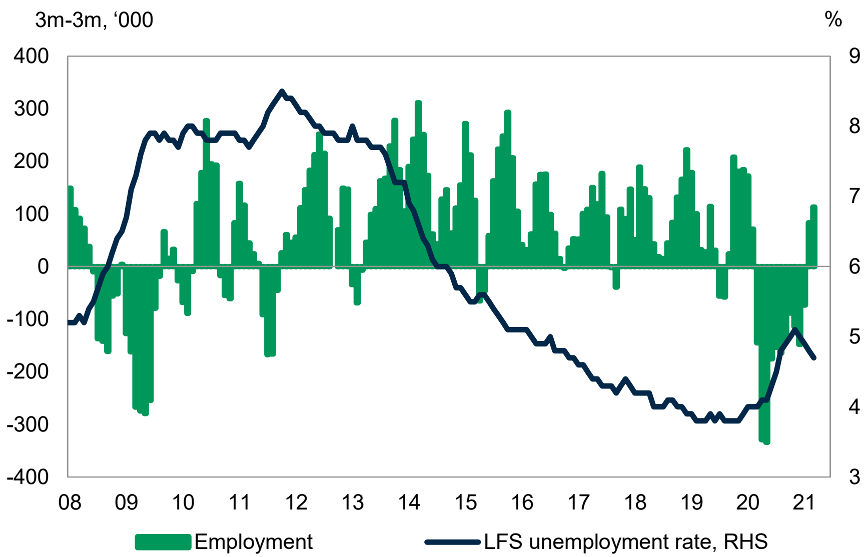


Sources: ONS, Crédit Agricole SA / ECO

Consumer confidence measured by the Gfk consumer confidence index stabilised in June at -9 points, its highest level since February 2020. Consumers continued to report an improvement in the climate for major purchases, which hit its highest since March 2020 amidst stronger perception for the economic situation and personal financial situation over the next 12 months. **The volume of retail sales fell in May (-1.4% MoM**) but this comes after a sharp rebound in April when retail restrictions were eased. It was the first decline since January. Retail sales volumes were still 9.1% higher than in February 2020, before the impact of the coronavirus. **Sales of food (-5.7% MoM) largely contributed to the decline in May as people returned to eating and drinking in restaurants and bars.** Non-food stores continued to report positive growth in volume of sales (+2.3% MoM) with household goods stores and "other" non-food stores reporting the largest growth of 9% and 7.7% respectively according to the ONS. Meanwhile, as non-essential stores reopened, online purchases posted their largest contraction (-4.2%) since August 2020 as consumers returned to physical stores.

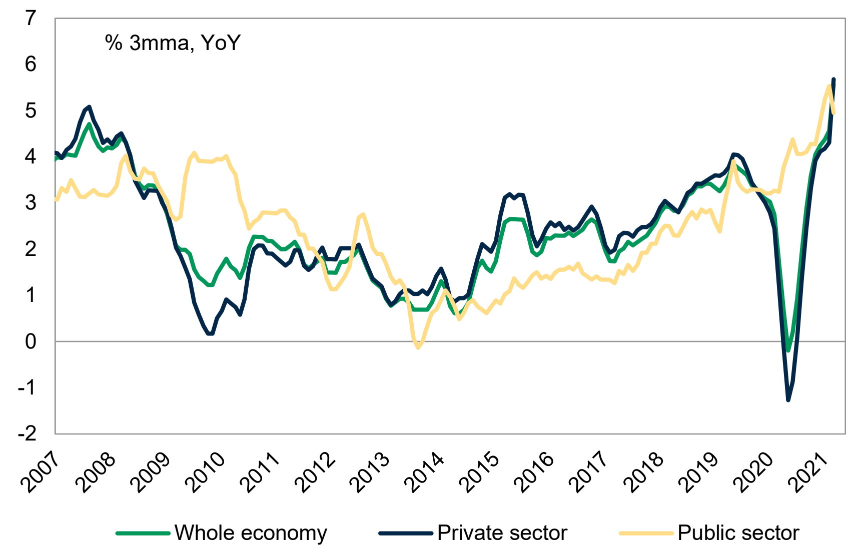
LABOUR MARKET: FAST IMPROVEMENT AND POST-REOPENING FRICTIONS

The unemployment rate fell to 4.7% in February-April



Sources: ONS, Crédit Agicole SA / ECO

Regular pay growth accelerated to 5.6%, boosted by technical effects



Sources: ONS, Crédit Agicole SA / ECO

As lockdown measures were eased and strong pent-up demand was unleashed, businesses started to recruit at a rapid pace. Vacancies have risen at a record rate, recovering around 90% of their loss during the pandemic. The unemployment rate fell to 4.7% in the three months to April (from a peak at 5.1% in Q420) as employment progressed (+113K on the quarter). Wage growth accelerated to 5.6%, the highest rate since the beginning of the series in 2001. According to the ONS, this acceleration is largely due to technical factors: 1). base effects related to the fall in earnings during the first wave of the pandemic one year ago and 2). compositional effects in employment as the proportion of low wage employment has declined relative to the period before the crisis. However, official labour market data does not fully capture yet the effects of the reopening on the labour market.

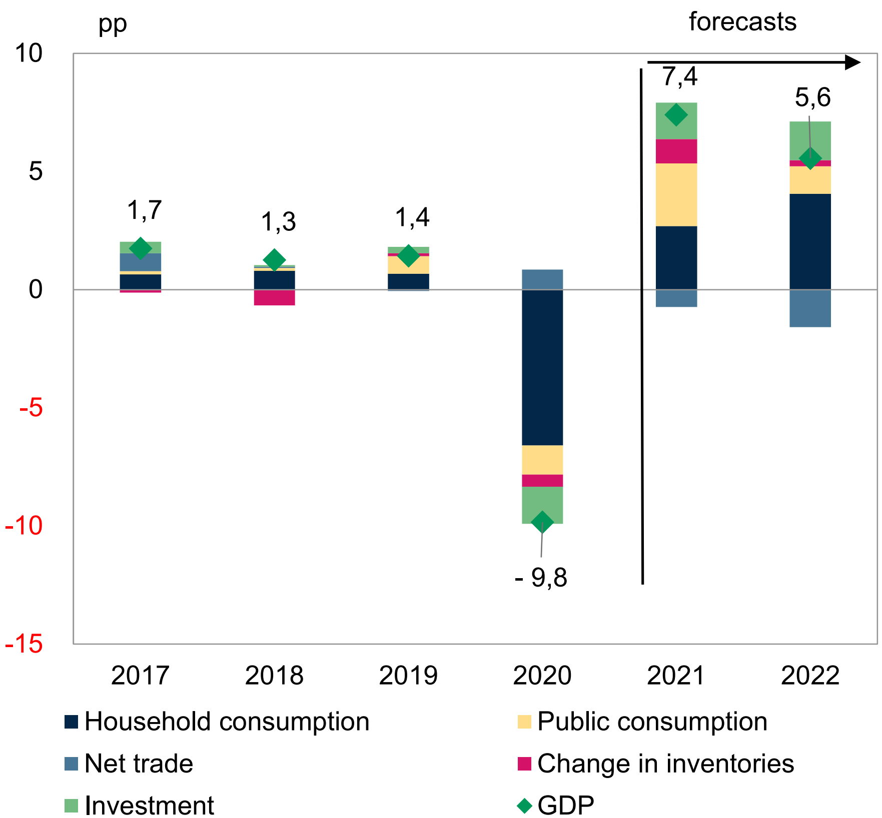
Timelier surveys suggest clear signs of overheating in the labour market. The REC jobs report in June, which compiles the responses of around 400 UK recruitment consultancies shows a sharp deterioration in the demand/supply imbalances of labour. While growth in permanent appointments and in temporary billings rose at historic rates, there was an unprecedented fall in the availability of workers. As a result, rates of starting pay rose rapidly at the end of Q2. The fall in labour supply is puzzling given the easing of government restrictions to activity and mobility and the still elevated, albeit rapidly decreasing, number of furloughed jobs (2.4 million as at 31 May according to official data). Besides improved hiring, recruiters note Brexit, pandemic-related uncertainties and the furlough scheme among the possible explanations for this lack of workers.

CONTENTS

THE BASIS OF OUR SCENARIO

GDP GROWTH PEAKS IN Q2. ACTIVITY RECOVERS TO ITS PRE-CRISIS LEVEL IN Q421

Annual GDP growth revised up for 2021 but down for 2022



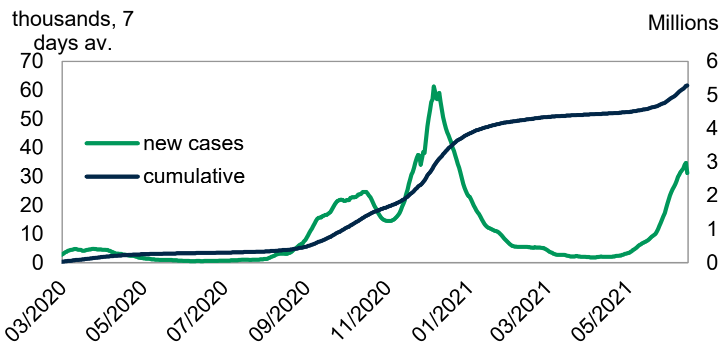
Sources: ONS, Crédit Agricole SA / ECO

We revise our 2021 growth forecast upwards to 7.4% from 5.6% largely on account of a significant positive revision to our Q221 growth expectation (from 2% QoQ to 5.2% QoQ). The easing of the restrictions triggered a stronger-than-expected rebound in March and April, implying a greater carry-over effect for Q2. Meanwhile, skyrocketing forward-looking indicators suggest continued strong momentum in the near term, driven by the consumer-facing services sector. GDP returns to its pre-crisis level in Q421, one quarter earlier than previously expected. **However, we slightly trim our forecasts for H221 and early 2022 reflecting growing worries about the spread of the Delta variant in the UK and abroad**. While the decision of the government to delay the final stage of the easing plan by 4 weeks to 19 July is unlikely to have a meaningful impact on activity, the spread of the virus raises the chances of greater precautionary behaviour from consumers and businesses, especially in the autumn and winter. Consequently our 2022 growth forecast is reduced by 1pp to 5.6%. **Risks to the scenario are broadly balanced.** To the downside, global delays in the vaccination programmes, the emergence of vaccine-resistant variants of the virus could trigger a renewed rise in infections and another period of restrictions on economic activity. To the upside, households decide to run down a greater proportion of their accumulated savings for consumer spending.

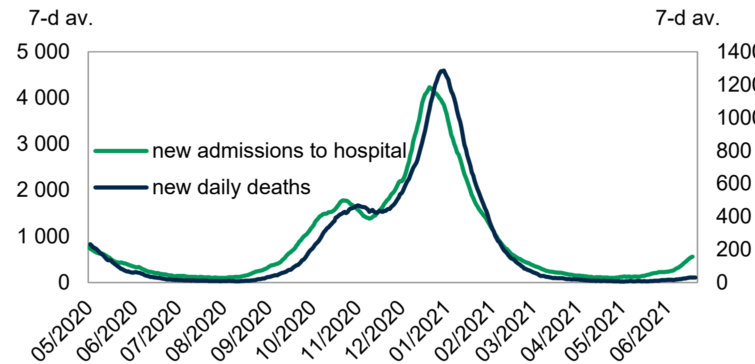
THE BASIS OF OUR SCENARIO

VACCINATION PROGRESS HELPS AVOID ANOTHER DEADLY COVID-19 WAVE

Covid-19 infections surge due to the Delta variant

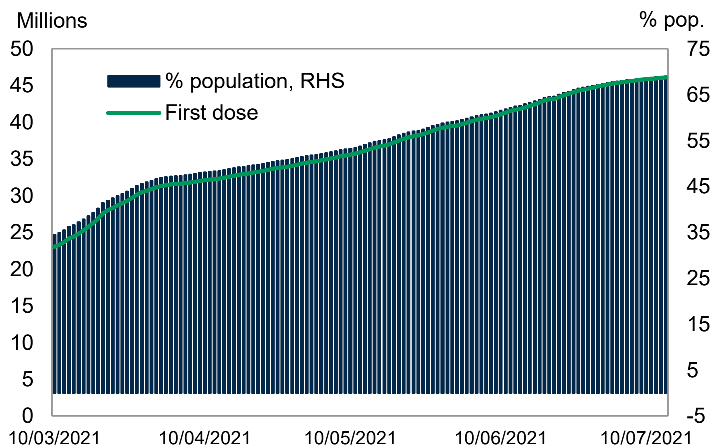


But hospitalisations and deaths are contained

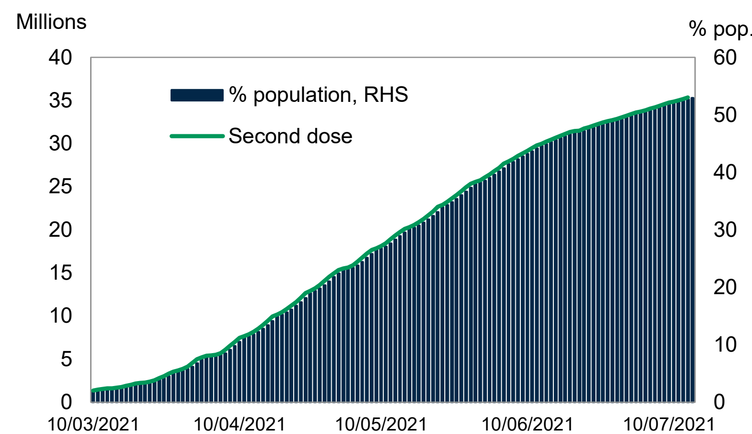


Source all charts: gov.uk, data as of 14 July, Crédit Agricole SA / ECO

Vaccinated people with one dose represent 70% of UK population



More than half of UK population has now received its second dose



THE BASIS OF OUR SCENARIO

FISCAL SUPPORT WILL BE UNWOUND FROM H221

Fiscal measures announced since March 2020 (GBPbn)*

Fiscal year straing in April	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Virus related policy	**250**	**93**	**0**	**1**	**0**	**0**
of which:						
Public services	106	53	0	0	0	0
Support for households	82	28	0	1	0	0
Support for businesses	62	13	0	0	0	0
Economic recovery measures	**6**	**16**	**15**	**5**	**1**	**0**
of which:						
Capital allowances super deduction	2	12	13	2	-2	-3
Fiscal consolidation measures			**-8**	**-20**	**-28**	**-32**
of which:						
Corporation tax rate increase			-2	-12	-16	-17
Income tax threshold freezes			-2	-4	-6	-8

** A negative sign indicates a fiscal tightening.*

Sources: OBR, Crédit Agricole SA / ECO

The government extended its emergency fiscal support in March 2021 but this support is set to be withdrawn in the coming months.

- **The job support schemes and Universal credit.** Both the Job Retention Scheme (JRS) and the Self-Employment Income Support Scheme (SEISS) will expire at the end of September. The JRS was tapered in July with employers asked to contribute 10% of the salaries of furloughed employees and this share will rise to 20% in August and September (while the furloughed employee continues to receive 80% of their regular salary). Also, the GBP20 per week uplift in the Universal Credit and the extra GBP500 payment to Working Tax Credit claimants are due to expire at the end of September.

- **VAT hike**. Last summer, the VAT in the hospitality sector was reduced to 5%. It will rise back to 12.5% on 1 October and then to its normal level on 1 April 2022.

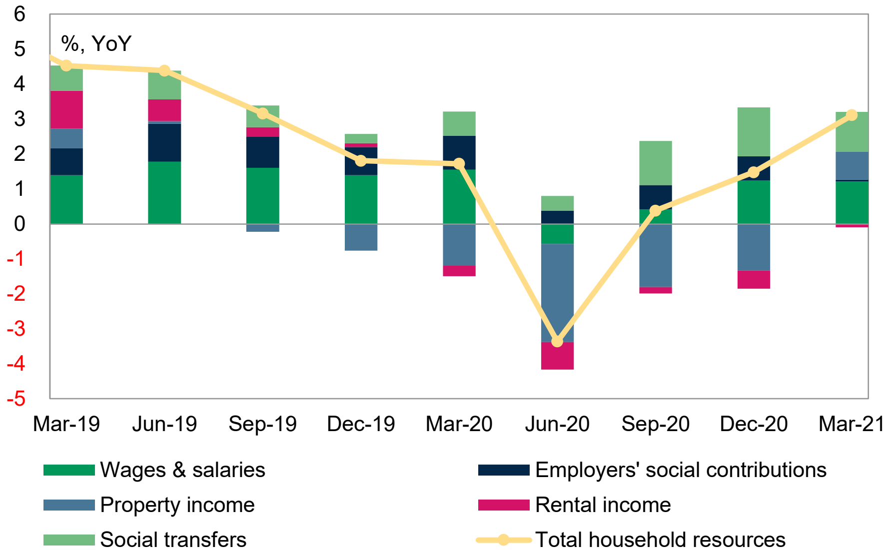
- **Stamp duty.** The threshold above which one has to pay a tax on residential property transactions was lowered to GBP250K on 1 July (from GBP500k last year) and will revert back to its normal GBP125K on 1 October.

- **Business rate relief**. Eligible properties in the retail, hospitality and leisure sectors in England were fully exempt from paying business rates during Q2, as an extension of the 100% relief available in 2020/21. From July, this relief is reduced to 66% in Q3 and will end on 31 March 2022.

THE BASIS OF OUR SCENARIO

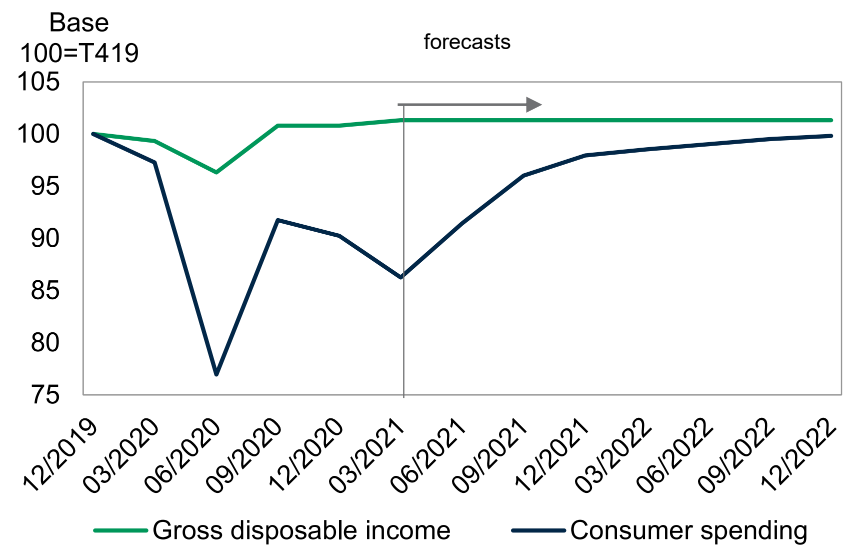
HOUSEHOLD CONSUMPTION OUTLOOK TO GET CHALLENGING AS FISCAL SUPPORT UNWINDS

Household resources have continued to accelerate



Sources: ONS, Crédit Agricole SA / ECO

Gross disposable income has now surpassed its pre-crisis level



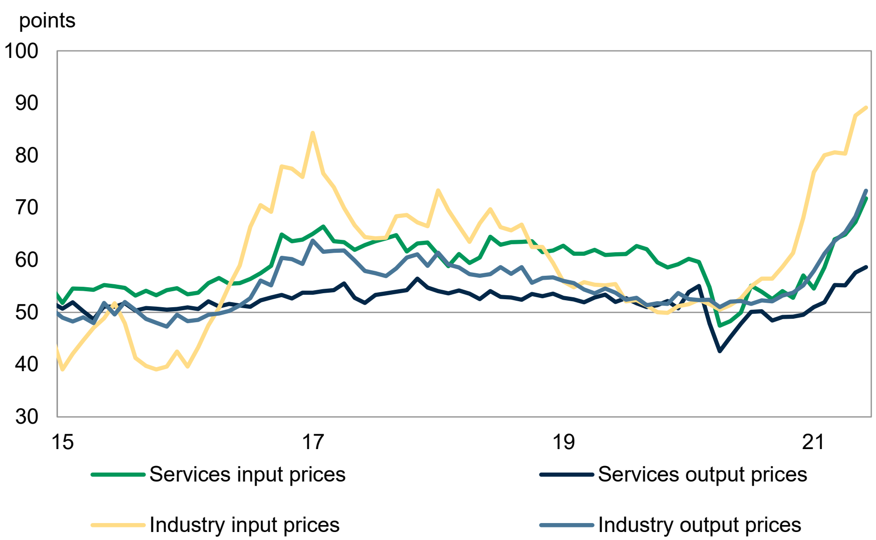
Sources: ONS, Crédit Agricole SA / ECO

The near-term outlook for household consumption remains solid. The easing of social restrictions is likely to trigger a sharp rebound in spending in the consumer-facing services sectors during the summer with some rebalancing away from the goods' sector. The improvement in the economic outlook following a successful vaccination campaign has triggered a revival in the labour market and contributes to the uplift in consumer confidence which has now largely recovered to pre-crisis levels. Furthermore, household consumption is underpinned by hefty savings accumulated during the pandemic. **However, the outlook for household consumption gets more challenging in the latter part of the year.** As the government's support measures, such as the furlough scheme, are set to expire at the end of September, the unemployment rate is expected to increase sharply (5.5%). Inflation is rising fast (expected at 3.2% YoY in Q421, with upside risks) which will dent consumer purchasing power. Also, an acceleration of the outbreak is possible next autumn/winter. **Hence, we expect a sharp slowdown in household consumption in the final part of the year.** In 2022, the fiscal burden is set to increase as the government plans to freeze the income tax thresholds in April, which will further weigh on consumer spending.

THE BASIS OF OUR SCENARIO

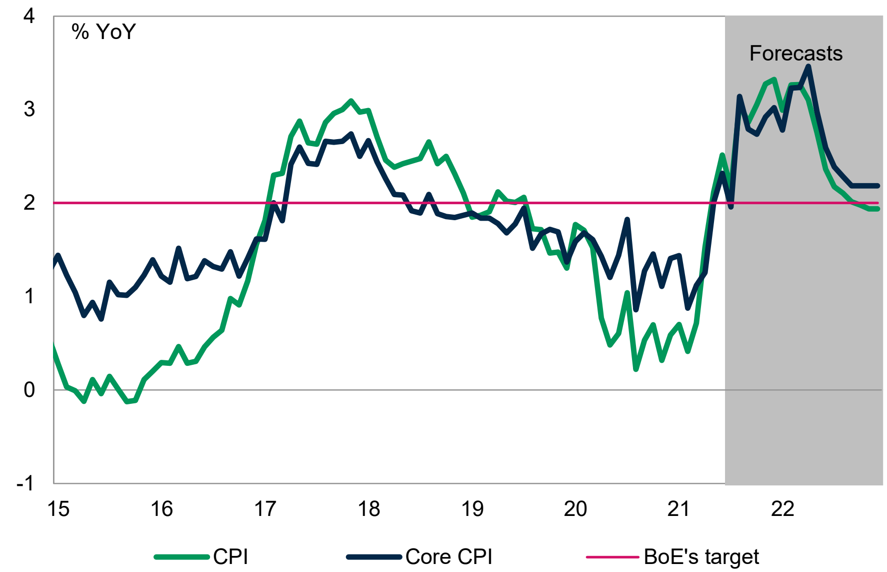
STRONG UPWARD REVISIONS TO NEAR-TERM INFLATION FORECASTS

PMI cost pressures: no sign of abating soon



Sources: IHS Markit, Crédit Agricole SA / ECO

CPI inflation set to exceed 3% during Q4 and Q1



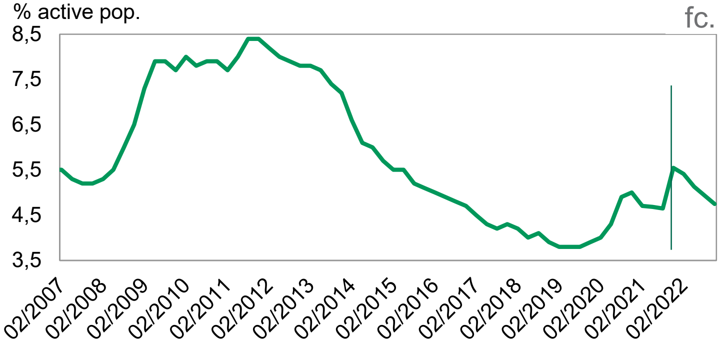
Sources: ONS, Crédit Agricole SA / ECO

CPI inflation surprised significantly to the upside in May and June, rising to 2.5% with core inflation (2.3% YoY) contributing largely to the upside news. The CPI posted a 0.5% MoM increase in June (the same as the core CPI). That strength appears to reflect shifts in demand taking place alongside the relaxation of lockdown restrictions, against a backdrop of supply constraints. For instance, prices for food, second-hand cars, clothing and footwear, eating and drinking out, and motor fuel rose, contributing the most to inflation in July, while prices of games, toys and hobbies fell. Meanwhile, strong base effects from last year's falls in prices amplify the upward contributions to inflation. In industry and in construction, supply disruptions and shortages of materials have pushed producers' costs sharply up and strong demand allows companies to increasingly pass the cost increase to consumers. Short-term indicators continue to suggest strong upward momentum. **We now expect CPI inflation to reach 3.2% YoY in Q4 and to remain above 3% in Q121.** It is also likely to be volatile in the near tem as temporary factors play both to the upside and to the downside: opposite base effects from strong services inflation in July 2020 and the Eat Out to Help Out scheme put in place in August 2020, followed by a VAT hike in tourism and accommodation to 12.5% in October and then to the normal 20% rate in April 2022. We continue to expect a sharp moderation towards 2% by the end of 2022 as demand growth is expected to slow down following the end of government's pandemic support, the ongoing supply constraints gradually unwind and base effects go into reverse.

THE BASIS OF OUR SCENARIO

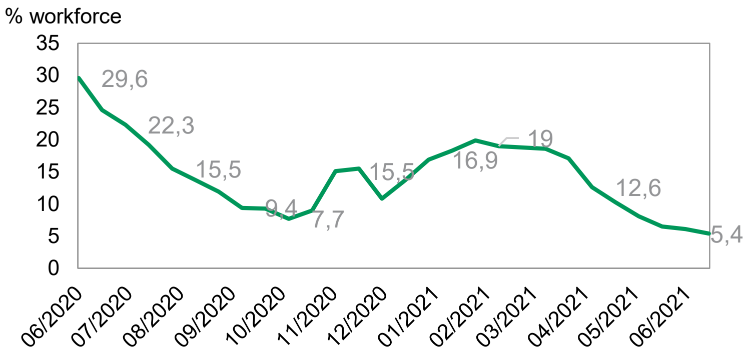
BANK OF ENGLAND: THE UNEMPLOYMENT RATE WILL BE THE KEY VARIABLE TO WATCH

The unemployment rate is expected to remain higher than its pre-crisis level



Sources: ONS, Crédit Agricole SA / ECO

The proportion of workforce on furlough leave was 5.4% in June



Sources: ONS BICS (data as of 27 June, proportion of workforce of businesses that have not permanently stopped trading, weighted by employment), Crédit Agricole SA / ECO

The recent hawkish surprises in inflation and prospects for a continued sharp upward trend in prices in the coming months have risen the probability of an earlier rate hike by the BoE. However, as the June MPC minutes suggest, **the BoE expects the near-term period of above-target inflation to be temporary** with CPI inflation still expected close to target in the medium term. Even though the unemployment rate has fallen and the number of furloughed jobs has declined faster than expected, the BoE considers that there is spare capacity in the economy.

Key factor for the BoE will be the evolution of the labour market when government' supports wind down in H221. The BoE has made it clear that it does not intend to tighten monetary policy "at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably". The current signs of labour market overheating are likely to disappear or at least diminish when the fiscal supports wind down in H221. Redundancies among furloughed people are expected to rise over the summer, many of whom are in the food & accommodation, wholesale and retail sector, as employers are asked to contribute from July to the payment of salaries.

In its May monetary policy report the BoE expected the unemployment rate to rise 5.4% in Q3 before falling gradually to 4.4% by the end of 2022, still above the pre-crisis level of 3.8%. Indeed, various factors suggest that the unemployment rate may prove persistently high during 2022: an increase in the participation rate, difficulties reintegrating the available labour force due to skills mismatches with the expanding sectors requiring more qualified staff and long-lasting changes in the economy, such as increased digitalisation. **We continue to expect the first rate hike in the beginning of 2023, but if labour market slack is eroded more rapidly than expected by the BoE, rate hikes are possible in 2022.**

CONTENTS

FOCUS

SUMMARY OF CORONAVIRUS BUSINESS LOAN SCHEMES

Scheme	Announcement	Scope	Size of the loan	Guarantee	End	Interest-free	Term length	Total amount loaned (bn £)
Covid Corporate Financing Facility (CCFF)	17 March 2020 (joint with the BoE)	Investment grade firms	-	-	31 December 2020	-	final maturities March 2022	37
Coronavirus Business Interruption Loan Scheme (CBILS)	23 March 2020	SME (turnover < £45 million)	up to £5 million	80%	31 March 2021	12 months	6 years (possible extension to 10 years)	26.4
Coronavirus Larger Business Interruption Loan Scheme (CLBILS)	16 April 2020	Larger businesses (turnover > £45 million)	up to £25m (for businesses with turnover from £45m to £250 m) & up to £50m (for those with turnover > £250m)	80%	31 March 2021	12 months	3 years	5.6
Bounce Back Loans (BBLS)	17 April 2020	No turnover restriction	up to £50,000 or 25% of turnover	100%	31 March 2021	12 months	10 years	47.4
Coronavirus Future Fund	20 April 2020	Start-ups ineligible for the CBILS	from £125,000 to £5 million	-	31 January 2021	-	3 years	1.1
Future Fund: Breakthrough	3 March 2021	R&D intensive companies (min investment round size of £20m)	details yet to be announced	details yet to be announced	details yet to be announced	details yet to be announced	details yet to be announced	details yet to be announced
Recovery Loan Scheme	3 March 2021	Viable businesses	up to £10 million	80%	31 December 2021	-	up to 6 years	na

Sources: Parliament UK, HM Treasury, Bank of England, Crédit Agricole SA / ECO

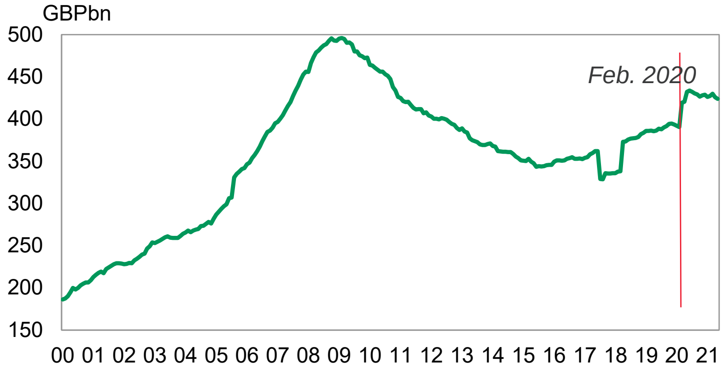
According to HM Treasury data, as of 31 May 2021, over 1.6 million businesses received loans worth over GBP80bn through the four main government-backed financial loan schemes (CBILS, BBLS, CLBILS and Future Fund schemes). Bounce back loans form the largest proportion, representing 59% of the total amount loaned. The Future Fund closed to new applications on 31 January 2021, while the other three schemes closed on 31 March 2021. The Recovery Loan Scheme acts as a successor to those schemes. Government-backed loans provided financing on a broad-based basis across sectors. Wholesale and retail sector businesses were offered the most in loans worth GBP12.4bn in total (or 17% of total loans granted across all sectors), followed by the construction sector (GBP11.7bn) and professional activities (GBP7.3bn).

The CCFF was launched at the onset of the crisis in spring 2020 and is a joint HM Treasury and BoE lending facility, under which the BoE has bought short-term unsecured debt in the form of a commercial paper of up to one-year maturity. The CCFF closed to new purchases on 23 March 2021 meaning that the latest maturities expire in March 2022. As of 7 July, a total of GBP4.4bn of commercial paper remained outstanding under the scheme (from a total lent of over GBP37bn between March 2020 and March 2021).

FOCUS

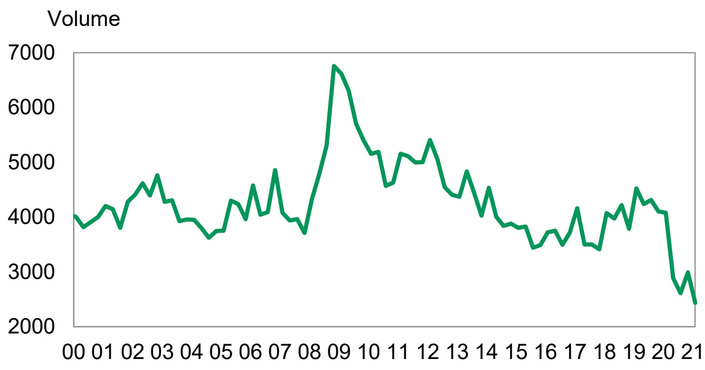
A RELATIVELY LIMITED INCREASE IN AGGREGATED BUSINESSES' INDEBTEDNESS MASKS DISTRESS IN THE MOST AFFECTED SECTORS

Loans outstanding to private non-financial companies



Sources: BoE, Crédit Agricole SA / ECO

Company insolvencies



Sources: ONS, Crédit Agricole SA / ECO

In aggregate, corporate debt levels increased relatively modestly since the pandemic. The BoE's data shows that the outstanding amount of loans to private non-financial companies rose by GBP33.4bn between February 2020 and May 2021 or 8.5%. However, according to the BoE, the increase in indebtedness has been more substantial in some sectors and across SMEs more broadly. **The improvement in cash positions during 2020 is likely to partially explain businesses' muted demand for credit in 2021**, relative to 2020. Large companies have been repaying some of their outstanding loans, while SMEs' borrowing has been reduced to around GBP0.5bn per month in 2021, compared to GBP3.6bn per month in 2020. Overall, net financing raised via bank lending and capital market issuance turned negative in March and April 2021, as companies have started to repay more finance than they raise.

Interest payments as a proportion of earnings did not increase over 2020 and remain around historic lows, as most of the additional debt was taken at relatively low interest rates through government-sponsored loan schemes. Indeed, loans provided under the CBILS, BBLS and CLBILS have a maturity ranging from three to up to ten years and are interest-free for the first year of the loan. However, **with grace periods coming to expiration, businesses that have borrowed under government support will need to start repayments on them.** The government is generally providing a guarantee of 80% of the loan (and 100% in case of the BBLS), but the borrower remains totally responsible for paying back the facility, along with interest and fees charged by the lender.

So far, business insolvencies have been relatively low (3000 on average per quarter since April 2020, compared to around 4200 per quarter in 2019). **But the end of the government's support more broadly is likely to lead to an increase in insolvencies in the coming year, especially in the sectors that are more affected by the crisis, such as accommodation and food.** According to the BoE, as of January 2021, 11.8% of SMEs in these sectors are already in arrears on their outstanding loans or have formally defaulted and 5.5% of the SMEs total population were in a similar situation in Q121.

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