



BRIEFING PAPER

Number 6193, 31 March 2017

Financial services: contribution to the UK economy

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Summary

This note sets out some key statistics on the financial services industry in the UK.

In 2016, financial and insurance services contributed £124.2 billion in gross value added (GVA) to the UK economy, 7.2% of the UK's total GVA. London accounted for 51% of the total financial and insurance sector GVA in the UK in 2015. There are over one million jobs in the financial and insurance sector (3.1% of all UK jobs). The UK had a surplus of over £60 billion on trade in the financial and insurance sectors in 2016. In 2015-16, the banking sector alone contributed £24.4 billion to UK tax receipts through corporation tax, income tax, national insurance and through the bank levy.

1. Measuring the contribution of the financial sector

This paper provides details on the output of the financial services sector, the number of people it employs, its contribution to the trade balance, and the amount of tax it contributes to the exchequer.

Measures of the financial sector usually include the activities of a wide range of firms, at the retail and wholesale level, including retail banks, building societies, investment banks and hedge funds, and are wider than the activities of financial services firms located in the City and Canary Wharf. Most measures of the size of financial services therefore also include, for example, bank branches in different areas of the country. In some cases, they also include activities related to insurance and pension funds.

These statistics usually measure the contribution of the financial services and/or related sectors on a stand-alone basis. To some extent they may under-estimate the sector's total contribution to the UK economy. This is because a well-functioning financial sector may have positive "spill-over" effects for other sectors of the economy, for example, it may increase firms' access to credit and therefore help other sectors to grow.

2. Gross value added

Gross value added (GVA) measures the contribution of a sector to the economy.

2.1 GVA changes over time

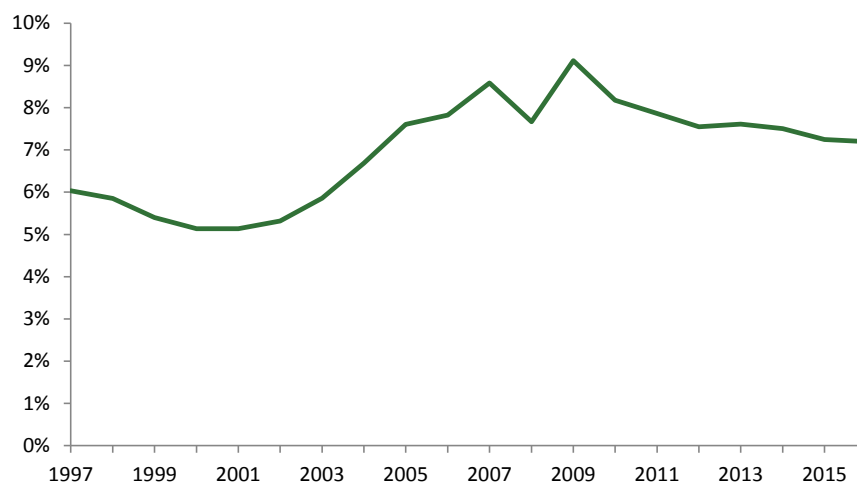
In 2016, financial and insurance services contributed £124.2 billion in GVA to the UK economy (in cash terms), 7.2% of total value added.

Table 1

GVA of the Financial and Insurance Services Sector, 1997-2016

	£bn, 2013 prices	% change	% of total UK GVA
1997	80.2	-	6.0%
1998	84.4	5.2%	5.9%
1999	86.0	1.8%	5.4%
2000	89.9	4.6%	5.1%
2001	93.3	3.8%	5.1%
2002	97.6	4.5%	5.3%
2003	104.3	6.9%	5.9%
2004	109.3	4.8%	6.7%
2005	116.9	6.9%	7.6%
2006	126.0	7.8%	7.8%
2007	131.6	4.5%	8.6%
2008	134.0	1.8%	7.7%
2009	133.4	-0.4%	9.1%
2010	123.1	-7.7%	8.2%
2011	121.4	-1.4%	7.9%
2012	122.0	0.5%	7.5%
2013	118.0	-3.3%	7.6%
2014	115.9	-1.8%	7.5%
2015	118.0	1.8%	7.2%
2016	120.6	2.3%	7.2%

Source: ONS, KL90, KKP5 and KKK9

Chart 1: Percentage of GVA accounted for by financial and insurance services, 1997-2016

Financial and insurance activities have grown as a proportion of total GVA since the late 1990s.

2.2 GVA across the regions of the UK

There is a wide disparity in the financial sector's contribution to GVA across different regions of the UK. The ONS provides regional data on the financial and insurance sector. London accounted for around half of the total financial and insurance sector GVA in the UK in 2015. The sector accounted for 16.3% of London's total GVA, a much higher proportion than any other part of the UK.

Table 2
Workplace based Financial and Insurance Activities GVA by region, 2015

	£billion	% total regional GVA	% total UK financial and insurance GVA
London	61.7	16.3%	50.9%
South East	11.5	4.6%	9.5%
Scotland	8.3	6.5%	6.9%
North West	7.1	4.5%	5.9%
Yorkshire and The Humber	6.7	6.1%	5.5%
South West	6.6	5.3%	5.5%
East of England	5.7	3.9%	4.7%
West Midlands	5.5	4.6%	4.5%
East Midlands	2.8	2.8%	2.3%
Wales	2.0	3.7%	1.7%
North East	1.9	3.8%	1.6%
Northern Ireland	1.4	4.0%	1.1%
Total	121.2	7.3%	100.0%

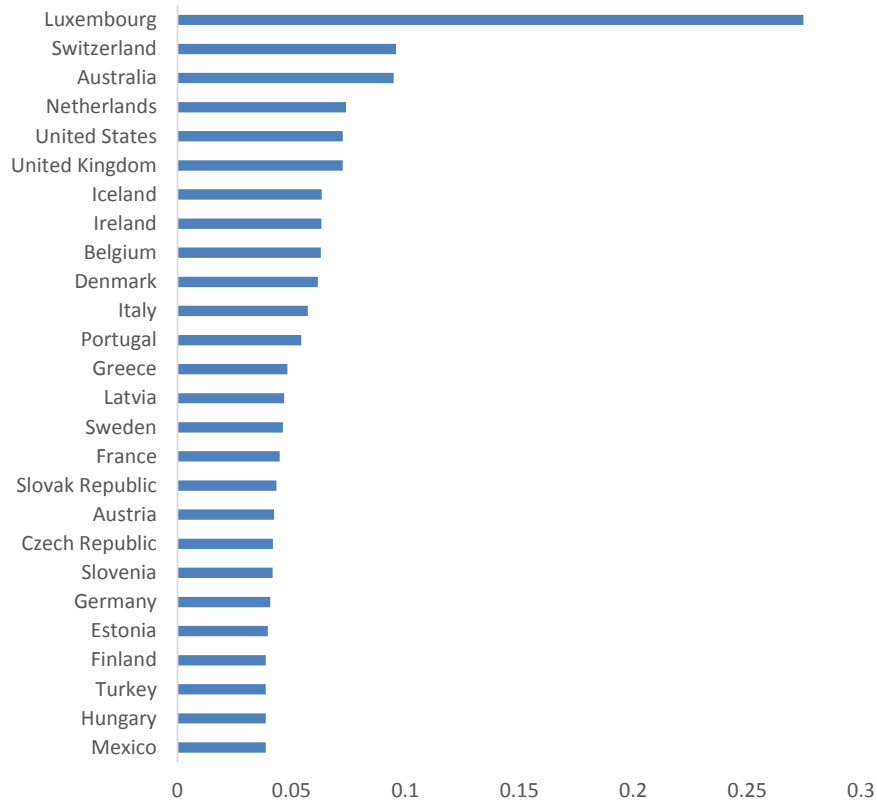
Source: ONS, *Regional Gross Value Added*, December 2016

Note: data are provisional

2.3 International comparisons

The OECD provides data on GVA across a selection of countries. As shown in the chart below, the UK financial and insurance activities sector accounts for a large proportion of GVA compared to many other countries.

Chart 2 Proportion of GVA accounted for by financial and insurance sector, selected OECD countries, 2015



3. Workforce jobs

In December 2016 there were 1.1 million workforce jobs in the financial and insurance activities industry in the UK, 3.1% of all workforce jobs. The proportion of workforce jobs in the sector has not varied substantially over the period since 1997, peaking at 4.0% in March 2002.

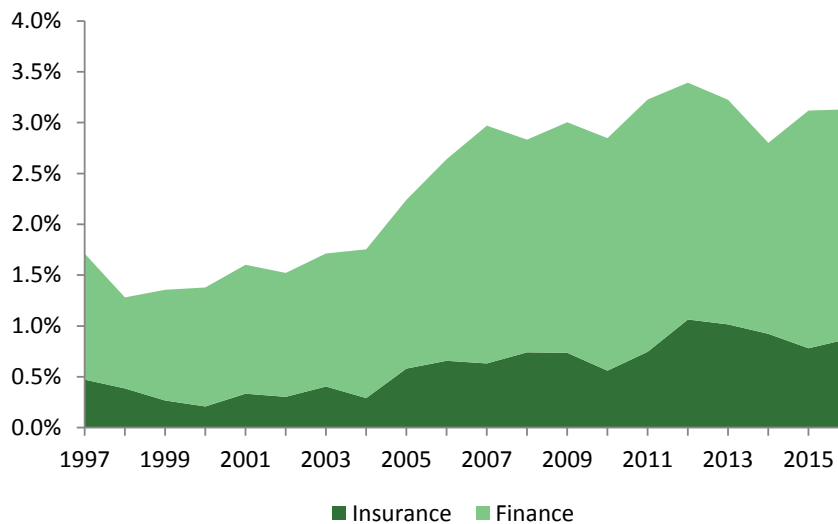
4. Trade balance

The UK has a trade surplus in financial and insurance activities, i.e. exports exceed imports in the sector. In 2016, UK exports of financial services were £55.5 billion and imports were £11.7 billion, giving a trade surplus of £43.8 billion. In the insurance and pension services sector, exports were £17.1 billion in 2016, imports were £0.2 billion and the trade surplus was £16.9 billion.¹

The chart below shows the trade surplus in financial and insurance sectors as a share of GDP. The combined surplus increased during the 2000s and has been around 3% of GDP for the last 10 years.

Chart 3 Trade surplus in financial and insurance activities

% of GDP



¹ ONS, [Balance of payments: Oct to Dec and annual 2016](#), 31 March 2017, Table F

5. Taxation of the financial services industry

Her Majesty's Revenue and Customs (HMRC) publishes details of the receipts from the banking sector from income tax, national insurance contributions, corporation tax, the bank payroll tax and the banking levy.² In 2015/16, these taxes raised £24.4 billion. The majority of this was from PAYE (income tax and national insurance) which raised nearly £18 billion with corporation tax raising £3.2 billion and the bank levy £3.4 billion.

The bank surcharge was introduced in January 2016. Significant receipts from this tax are not expected until 2016/17.

Table 3
PAYE and corporation tax receipts from the banking sector
£billions

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
PAYE	16.7	14.0	15.2	17.5	17.6	17.8	17.6	17.9	17.8
Corporation tax	6.6	3.9	2.1	3.5	1.3	2.2	1.6	2.3	3.2
Bank Payroll tax	..	..	..	3.4	..	..	..	..	..
Bank Levy	..	..	..	..	1.6	1.6	2.2	2.7	3.4
Total	23.3	17.9	17.3	24.4	20.5	21.6	21.3	22.9	24.4

Source: HMRC, Pay-as-You-Earn and Corporation Tax Receipts from the banking sector, August 2016

The City of London Corporation publishes estimates of financial sector tax receipts.³ This is based on research by PricewaterhouseCoopers (PwC), which collects data from a survey of financial services companies.

The PwC research uses a broader measure of tax contributions compared to HMRC. As well as income taxes, national insurance contributions and corporation taxes, this data includes VAT, business rates and other taxes. While the HMRC figures are for taxes paid by the banking sector, the PwC survey includes insurance companies as well as banks. The PwC estimates include both taxes paid by the sector itself (such as corporation tax and business rates) and taxes collected by the sector on behalf of Government, such as income tax and insurance premium tax, for example, which are paid by employees and consumers respectively.

The PwC research indicates that the financial sector contributed £71.4 billion or 11.5% of total government receipts in 2015/16.

² HMRC, [PAYE and Corporation Tax Receipts from the banking sector](#), 31 August 2016

³ City of London Corporation/PwC, [Total Tax Contribution of UK Financial Services](#), 9th edition, December 2016

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