House of Commons Library

Research Briefing

By Brigid Francis-Devine
14 January 2025

Household debt: statistics and impact on economy

Summary

Number 7584

Image Credits

Credit cards. Licensed under CC0 Public Domain / image cropped. No copyright required

Disclaimer

Feedback

Contents

Summary

Household debt is money borrowed by individuals, usually from banks or financial institutions. This includes mortgages, personal loans, student loans and credit card balances.

Trends in household debt

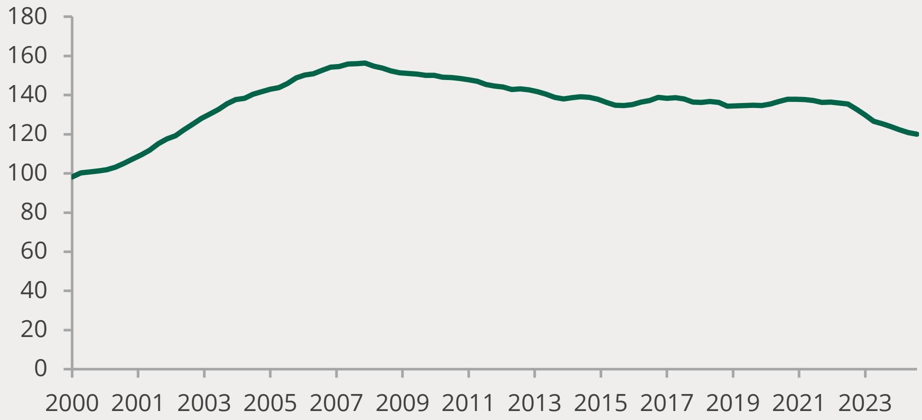
Total household debt in the UK rose sharply from the late 1990s up until the financial crisis began in 2008. Debt as a proportion of household income rose from 85% in 1996 to 156% at its peak in 2008.

During the 2008/09 recession, banks were much more reluctant to lend money and consumers were less inclined to take on credit. As a result, the household debt-to-income ratio fell to 128% by late 2015. Starting in early 2016, growth in household debt levels accelerated, leading to the debt-to-income ratio to increase from 132% in Q4 2015 to 136% in Q4 2017, before falling to 132% in late 2019.

During the coronavirus pandemic, total household debt and the debt-to-income ratio rose slowly, driven by rising mortgage debt but tempered by consumers repaying unsecured debt. From Q2 2022, the debt-to-income ratio started falling and reached 120% in Q3 2024, partly due to higher interest rates.

Household debt to income ratio

Household debt as a % of aggregate UK disposable household income



Source: ONS, National accounts series CVZI

The rising cost of living

People are using savings and debt to pay for essentials because of the rising cost of living. Debt advice charities like Stepchange and Citizens Advice are reporting an increase in debt advice clients. An Office for National Statistics survey shows that of the 56% of adults who saw an increase in their cost of living in November 2024 compared to the month before, 15% reported using more credit than usual as a result.

Who holds debt?

46% of UK adults had used some form of consumer credit in the year to May 2022. Those aged 35-54 are most likely to hold consumer credit, with 60% of 35-44 year olds and 58% of 45 to 54 year olds doing so, compared with only 19% of those aged 75 and over.

High income households are most likely to hold debt, particularly property debt, because taking out large loans like mortgages requires a high income and savings. However, low income households are more likely to be over-indebted.

Interest rates

The interest rate set by the Bank of England is an important factor in determining borrowing costs, although it is up to individual banks and financial companies to set the interest rates they offer consumers. The Bank of England regularly increased interest rates from December 2021 to August 2023 in response to high inflation. The interest rate was increased to 5.25% in August 2023. It was then cut in August and November 2024, to 4.75%.

Household debt and the economy

Household debt can boost economic growth in the short run, as households who borrow can spend more. However, in the medium term, high debt in the economy can make a recession deeper and longer. Households with high debt levels cut back on their spending by more than other households during and after a recession, and are more likely to default on their debt, resulting in losses for lenders.

The Bank of England's Financial Policy Committee has said that in their view the rising cost of living does not pose the same risks to lenders and the financial system as other shocks, because lenders are well capitalised, have limited direct exposures to Russia and Ukraine, and are resilient to risks from sectors with high commodity prices.

1 Understanding household debt statistics

This section provides an overview of how to interpret household debt statistics, including the types of household debt and debt affordability.

1.1 What is household debt?

Debt is money borrowed by individuals in the form of loans that are to be repaid later. Debt is measured at a household level.

Loans are usually provided by banks or other financial institutions. Forms of household debt include mortgages, personal loans, car loans, student loans, the balance on credit cards, and overdrafts on bank accounts.

Household debt can be defined as the total sum of all the various types of outstanding loans in the economy: all the borrowing accumulated over the years by households that has not yet been paid off.[1]

1.2 Types of household debt

Household debt can broadly be grouped into two categories: secured and unsecured.

- **Secured debt** is a loan secured on an asset which serves as collateral. If the borrower can't repay the debt, the creditor will then be able to take possession of the asset. The most obvious example of secured lending is **mortgages**. In the UK, mortgages account for a large majority of overall household debt.

- **Unsecured debt** is lending provided to individuals that is not secured on an asset. Credit card lending, personal loans, student loans and loans from payday lenders all come under this category.[2]

1 Sometimes debt is also referred to as liabilities.

2 Bank of England, What do I need to know about debt?, 18 March 2020

1.3 Household debt can be beneficial

Debt can be good for households

Debt allows people who do not have the money to buy a car, a house or to enrol in education, to borrow it today and increase their standard of living, knowing that they will have sufficient income to pay off that loan in instalments in the future.[3]

Debt allows individuals to smooth their consumption of goods and services over their lifetime. In economic theory, the "permanent income" or "life-cycle" model states that consumption depends on the expected lifetime income of an individual.[4] For example, younger people will borrow money in the expectation that they will receive higher earnings in the future when they will be able to pay back the borrowed money.

Debt can be good for the economy

As discussed in section 5, as well as benefiting individuals or families, household debt can provide stability to the whole economy by smoothing out spending during periods of temporary falls in income.[5] Having a high level of debt among households and private businesses is often seen as a sign of financial development, and more advanced economies do generally have higher private debt levels than developing economies.[6]

A spurt of increased lending to individuals will also boost economic growth in the short term, as individuals will have more money to spend on goods and services, potentially leading to increased business revenues, profits and hiring.

1.4 Household debt can cause problems

High levels of household debt can also create problems for individuals and the economy more widely.

High debt can reduce a household's 'financial resilience' (discussed further in section 4.3). A sudden change in circumstances, such as losing a job, will

3 Bunn, P. and Rostom, M., "Household debt and spending", Bank of England Quarterly Bulletin Q3 2014

4 For a review of this model which Modigliani and Brumberg are usually credited with formalising in the 1950s, see Browning, M., and Crossley, T. (2001), "The lifecycle model of consumption and saving", Institute for Fiscal Studies WP01/15

5 Röhn, O. et al. (2015), "Economic resilience: A new set of vulnerability indicators for OECD countries", OECD Economics Department Working Papers, No. 1249, OECD Publishing, Paris, page 12

6 IMF, "Dealing with household debt (PDF)", Chapter 3, World Economic Outlook, April 2012 and Bank for International Settlements, Total Credit to the non-financial sector (PDF), March 2016

make it more difficult for an individual to keep up with repayments on their outstanding debts. In order to continue to make these repayments the individual may cut back on their spending. Other factors such as rising debt repayments due to higher interest rates may also lead to reductions in spending.

An economic downturn or recession can cause many individuals to face this problem, which leads to reductions in consumer spending. In turn, companies faced with reduced revenues, or perhaps the prospect of going out of business entirely, will then cut back on their costs including labour costs either by lowering pay or reducing their workforce. There is some evidence that rising debt levels before a recession can make it worse (see section 5 for more detail).[7]

Another way in which high household debt can negatively impact on the economy is via the financial sector. This can be a result of more relaxed lending standards, as banks compete for new customers, leading to riskier lending and more defaults when the good times end. If enough of the financial sector is exposed to these bad loans – either directly or via having lent money to institutions that do – a banking crisis could ensue, with an associated credit crunch hurting the economy.[8] The US sub-prime mortgage market in in the run-up to the 2008-2009 financial crisis is an example of this scenario. Section 5 provides more detail.

1.5 Household debt affordability

The monthly cost of paying off debt is determined by the size of the original loan, the interest rate on the loan and the length of time in which the individual has to repay it.

Lower interest rates reduce the cost of repaying loans. Even if the amount of household debt is rising, a fall in interest rates could mean individuals spend less per month paying off their debt.[9] The reverse is also true: household debt might be falling but higher interest rates could mean people pay more each month in servicing their debt.

As well as the amount to repay, a critical factor in determining the affordability of repayments on a loan is income. The same monthly repayment

7 Bunn, P. and Rostom, M., "Household debt and spending (PDF)", Bank of England Quarterly Bulletin Q3 2014, p308

8 Röhn, O. et al. (2015), "Economic resilience: A new set of vulnerability indicators for OECD countries", OECD Economics Department Working Papers, No. 1249, OECD Publishing, Paris; and André, C. (2016), "Household debt in OECD countries: Stylised facts and policy issues", OECD Economics Department Working Papers, No. 1277, OECD Publishing, Paris

9 This is not automatic and will depend on the magnitude of the fall in interest rates and rise in household debt. If rates fall by a little but the total amount of debt rises a lot, people will be paying more each month to service their debt.

could account for a large proportion of someone's income, but only a tiny amount for someone on a higher income.

For this reason, economists often use measures of debt servicing costs and the overall level of debt, in terms of their proportion of income. If debts are rising by 5% a year but incomes are also rising by 5% a year, the ratio of debt to income is unchanged.

An additional factor to consider when looking at household debt in the economy is how it is distributed across individuals (although data on this is fairly limited). For instance, if the total amount of mortgage debt in the economy is unchanged, but the number of people with a mortgage has fallen, the average amount of mortgage debt per household has risen. Specific groups of people may have a particularly burdensome amount of debt, say first-time homebuyers, meaning they would be more exposed to higher interest rates or a fall in their incomes.[10]

10 Neal Hudson, Savills Residential Research, Household debt: concentrated risk, 24 Feb 2016

2 Trends in household debt in the UK

This section covers trends in household debt since 1987, the impact of the rising cost of living, how the UK compares to other countries.

2.1 Historic trends

The household debt-to-income ratio is household debt as a proportion of household disposable income.

1987-mid 1990s

UK household debt as a proportion of UK households' disposable income (the 'household's debt-to-income ratio'), rose from 1987 (the earliest data available) in the lead up to the early 1990s recession, to mid-1990.[11] As discussed in section 5, high debt-to-income ratio before a recession can increase the length and depth of the recession.

1996-2008

For many years after the early 1990s recession the household debt-to-income ratio gradually fell, to below 85% by 1996.

Beginning in 1997, however, the ratio began to rise, slowly at first, but from around 2001 it increased more quickly. There was annual growth of over 10% in household debt between 2001 and early 2005, and again for a period in 2006 and 2007. The level of household debt more than doubled from £654 billion in early 2000 to £1,494 billion in late 2008. As discussed in Section 5, this exacerbated the effects of the 2008 financial crisis.

2008-2015

The global financial crisis and severe recession in 2008/09 led to banks being much more reluctant to offer loans. In addition, households were less inclined to take on additional debt, instead 'deleveraging' – concentrating on paying off existing commitments.

The result was a decline in the household debt-to-income ratio from 156% at its peak in 2008 to 132% in late 2015. The absolute level of household debt remained broadly steady at around £1,500 billion from 2008 until 2013, with household disposable income (in cash terms) rising.[12]

11 ONS series CVZI (household debt) and total financial liabilities of loans to the household sector (series NIWK) and rolling 4-quarter total of disposable household income (series RPHA)

12 This is an aggregate measure referring to total disposable income of all households in the UK.

2013-2019

The absolute level of household debt in the economy began to increase noticeably again in 2014, with annual rates of growth accelerating from 2.1% at the end of 2013 to 4.2% in early 2017. Household disposable incomes grew at a slightly higher rate for most of this period, meaning that the debt-to-income ratio continued to ease lower (it was 132% in late 2015).

Annual growth in household debt levels was in the range of 3-4% for much of 2016-2018. Household disposable income grew by less than that during this time, so the debt-to-income ratio rose from 132% in Q4 2015 to 136% in Q3 2017. In 2018-2019 the debt-to-income ratio fell, to 132% in Q4 2019, with debt growth easing from 3% at the end of 2018 to 2% at the end of 2019.

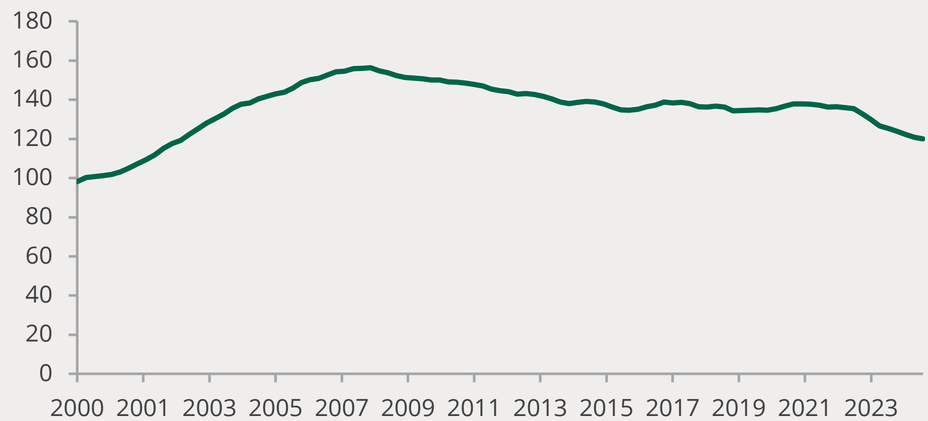
2.2 Latest statistics

2020-24: The coronavirus pandemic and the rise in the cost of living

Total household debt and the debt-to-income ratio rose slowly during 2020 and 2021, from 135% in Q1 2020 to 138% in Q1 and Q2 2021. As discussed below, this increase was driven by rising mortgage debt but tempered by consumers repaying unsecured debt. From Q1 2022, the debt-to-income ratio started falling, reaching 120% in Q3 2024. This was partly due to high interest rates set by the Bank of England in response to the rising cost of living.

Household debt to income ratio

Household debt as a % of aggregate UK disposable household income



Source: ONS, National accounts series CVZI

UK household debt, 2000-2024
Figures are for Q3 of each year

	Total (£ bn)	Annual % change in debt	Total as % of household disposable income	%-point change in debt-to-income ratio
2000	697	10.3%	100.7	4.0
2001	763	9.5%	105.1	4.4
2002	857	12.4%	115.2	10.1
2003	962	12.3%	125.2	10.0
2004	1,090	13.2%	135.6	10.4
2005	1,190	9.2%	141.8	6.2
2006	1,307	9.8%	148.8	7.0
2007	1,429	9.4%	154.2	5.4
2008	1,501	5.0%	156.4	2.2
2009	1,498	-0.2%	151.3	-5.1
2010	1,512	1.0%	150.1	-1.2
2011	1,513	0.0%	147.8	-2.3
2012	1,533	1.3%	144.1	-3.7
2013	1,568	2.3%	141.8	-2.3
2014	1,607	2.5%	138.6	-3.2
2015	1,657	3.1%	136.2	-2.4
2016	1,719	3.8%	136.4	0.2
2017	1,779	3.4%	138.6	2.2
2018	1,830	2.9%	136.8	-1.8
2019	1,871	2.2%	134.7	-2.1
2020	1,911	2.2%	136.7	2.0
2021	1,982	3.7%	137.3	0.6
2022	2,042	3.0%	135.5	-1.8
2023	2,096	2.7%	125.4	-10.1
2024	2,135	1.9%	120.0	-5.4

Note: A rolling four-quarter total for household disposable income is used

%-point change in debt-to-income ratio is compared to period one year before

Source: ONS, National accounts series NIWK, RPHA and CVZI

Unsecured debt and mortgage debt

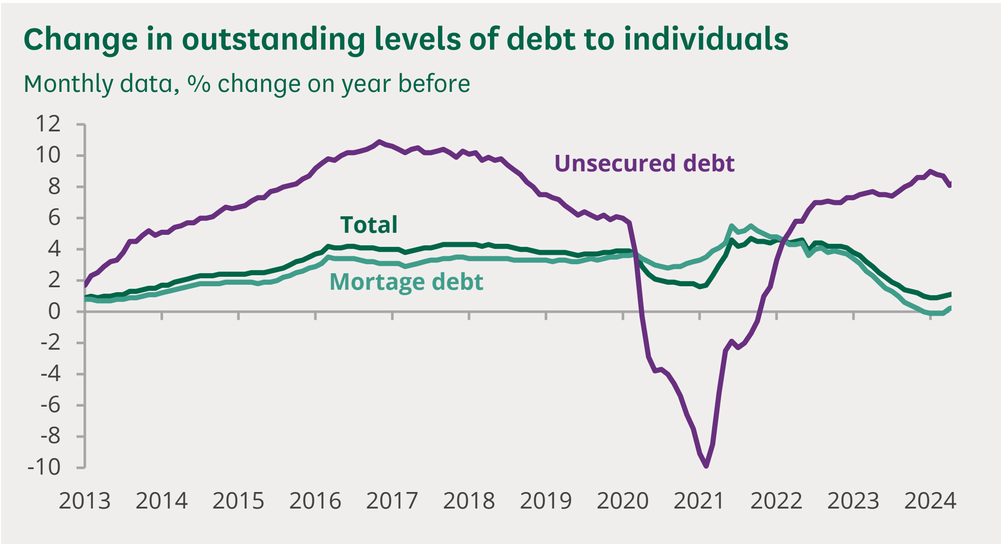
There is a significant difference in trends between mortgage debt and unsecured debt, especially since during the coronavirus pandemic. The chart below shows the percentage annual change of mortgage, unsecured, and total debt, using Bank of England data.[13]

[13] Bank of England, Bank of England database, series LPMBZ2K, LPMVTYI, LPMB4TC, accessed 10 January 2025

Unsecured debt fell dramatically in each month between March 2020 and May 2021, as many households reduced their spending because of lockdowns and so were less likely to borrow. This decrease started to slow somewhat in April 2021. This is because in the months from April 2021 onwards, levels of unsecured debt are compared to 2020 levels, which had already decreased because of the pandemic. Unsecured debt began to grow again in November 2021 and grew rapidly as the economy reopened and people began spending more and as prices rose. It reached 9.0% in January 2024, then stayed at a similar level until June 2024 before decreasing. It was 6.6% in November 2024.

Mortgage debt, on the other hand, started increasing in September 2020 and in June 2021 reached its highest year-on-year growth since the series began. This can be partly attributed to an increase in people purchasing houses and a corresponding spike in house prices, supported by the stamp duty holiday from July 2020 to June 2021. Mortgage debt fell between October 2021 and March 2024 partly due to fewer people taking out a mortgage because of higher rates. Since then, mortgage debt has been rising and was 1.3% in November 2024.

In summary, during the pandemic unsecured debt decreased and mortgage debt increased, and during the rising cost of living the opposite happened: mortgage debt decreased while unsecured debt increased. Section 2.3 discusses the impact of the rising cost of living on household debt.



Source: Bank of England database, series LPMBZ2K, LPMVTYI, LPMB4TC

2.3 The rising cost of living means people are using savings and debt to cover essentials

The Office for National Statistics found that in November 2024, 56% of adults in Great Britain reported their cost of living had increased compared to a month ago. 15% of these adults said they were using more credit than usual as a result.[14]

The Joseph Rowntree Foundation estimated that in October 2024, 34% of households in the bottom 40% of incomes held debt that they originally took out to pay for food, housing or essential bills like council tax or energy. This figure is around the same as October 2023 (32%).[15]

According to a Financial Conduct Authority's Financial Lives survey, 14% of adults described keeping up with bills and credit commitments as a heavy burden in January 2024, and 11% had fallen behind or missed a payment in the previous 6 months.[16]

Citizens Advice reported that in October 2024 they helped 48,448 people with debt advice, the highest number since the series began in January 2019 and up from 45,540 in October 2023. This number fell to 45,941 in November 2024.[17]

StepChange, a debt advice charity, had around 13,000 debt advice clients in November 2024, down from around 19,000 in January 2024. 'Cost of living increase' was the most common reason for debt, with 18% of clients citing this reason in November 2024.[18]

The Joseph Rowntree Foundation found that in October 2024, 37% of households with the lowest 40% of incomes were behind on household bills or credit commitments. This figure has fallen from 41% since October 2022.[19]

The Resolution Foundation found that in October 2023, around 12% of families in the bottom income fifth owed money on priority bills including energy and council tax.[20]

2.4 Forecasts

The Office for Budget Responsibility (OBR), the independent watchdog of UK public finances, published forecasts for household debt servicing costs in October 2024. Increases in interest rates in 2022 and 2023 means the cost for households of servicing their debt is likely to rise in the coming years but stay

14 ONS, Public opinions and social trends, Great Britain: household finances, 20 December 2024

15 Joseph Rowntree Foundation, No end in sight for living standards crisis: JRF's cost of living tracker, winter 2024, 3 December 2024

16 Financial Conduct Authority, Financial Lives cost of living (Jan 2024) recontact survey: Consumers and the rising cost of living (PDF), 10 April 2024

17 Citizens Advice, Cost of living data dashboard, (accessed 13 January 2025), Slide 11

18 StepChange, Monthly client data report: November 2024, December 2024

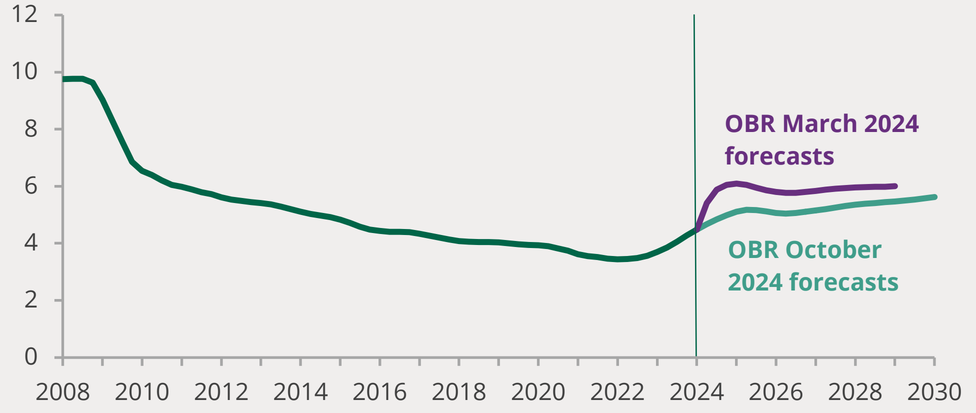
19 Joseph Rowntree Foundation, No end in sight for living standards crisis: JRF's cost of living tracker, winter 2024, 3 December 2024

20 Resolution Foundation, In too deep? The impact of the cost of living crisis on household debt, 29 February 2024

lower than in the pre-2008 financial crisis period. [21] October 2024 forecasts of debt servicing costs were also lower than forecasts made by the OBR in March 2024. Sections 1.5, 3.2 and 4.3 provide more detail on debt servicing costs.

Household debt servicing costs

Debt repayments as % of household income (quarterly figures)

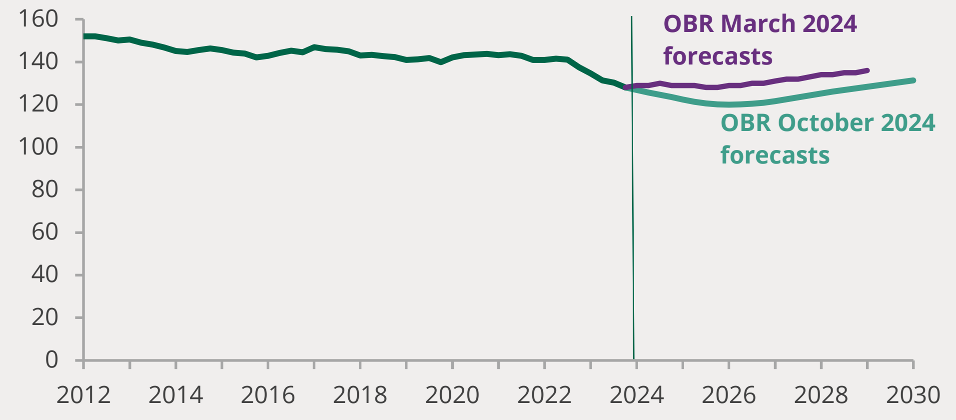


Sources: OBR, Economic and fiscal outlook – October 2024, Detailed forecast tables: economy, 1.11 and 1.18, 30 October 2024 and OBR, Economic and fiscal outlook – March 2024, Detailed forecast tables: economy, 1.18, 6 March 2024

In October 2024, The OBR expected the household liabilities-to-income ratio to increase slightly in coming years, from 122% in Q1 2025 to 131% in Q1 2030. [22] These forecasts are lower than the OBR forecasts in March 2024. [23]

UK household liabilities as % of income

Quarterly data and OBR forecasts up to Q1 2030



Source: OBR, Economic and fiscal outlook – October 2024, Detailed forecast tables: economy, 1.11 and 1.18, 30 October 2024 and OBR, Economic and fiscal outlook – March 2024, Detailed forecast tables: economy, 1.11, 6 March 2024

21 OBR, Economic and fiscal outlook – October 2024, Detailed forecast tables: economy, 1.11 and 1.18, 30 October 2024

22 OBR, Economic and fiscal outlook – October 2024, Detailed forecast tables: economy, 1.11 and 1.18, 30 October 2024

23 OBR, Economic and fiscal outlook – March 2024, 6 March 2-24

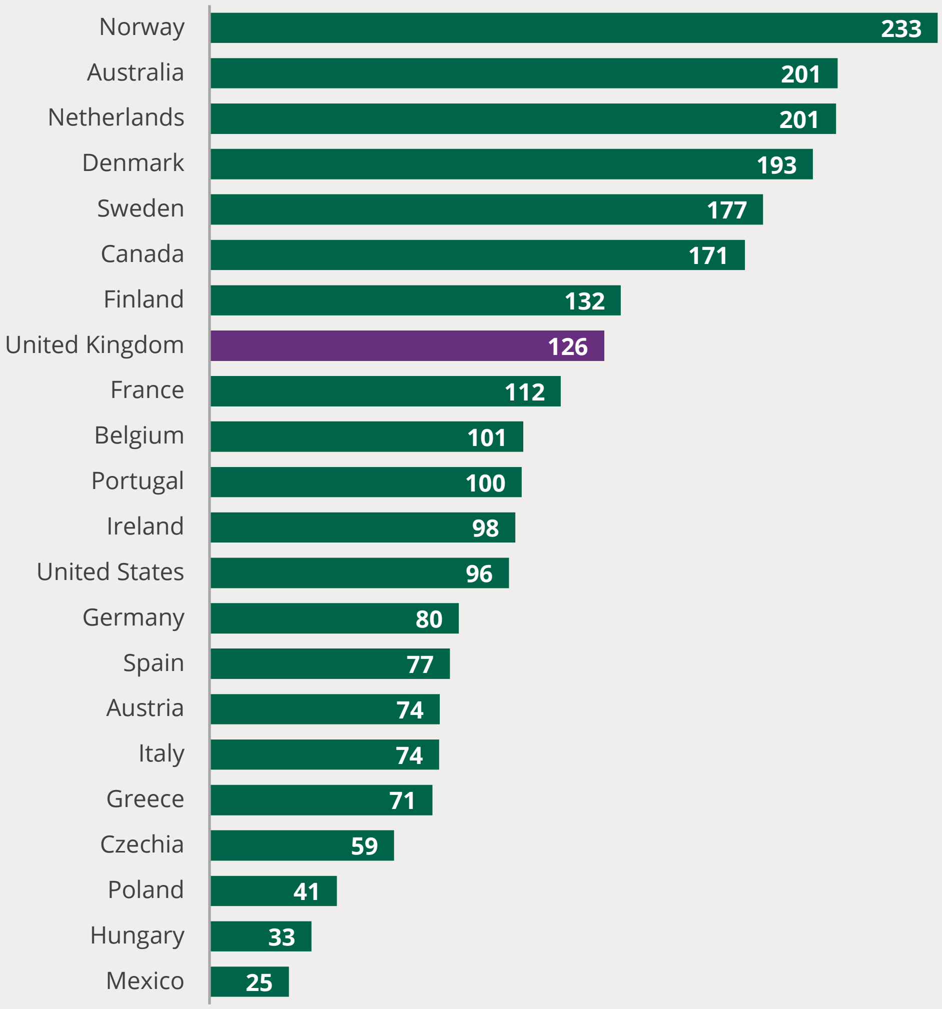
2.5 International comparisons

The chart below provides OECD data on international comparisons of household debt as a percentage of household disposable income.[24]

The UK's household debt-to-income ratio was above countries like the US, France and Germany, but well below other countries like Denmark, the Netherlands and Australia.[25]

Household debt, % of disposable income, OECD countries

Q1 2024*



Note: *Data for Norway is Q2 2023 and data for Finland is Q3 2023

Source: OECD Data Explorer, Household dashboard: cross-country comparisons

[24] OECD data explorer, Household Dashboard: cross country comparisons, these figures may differ slightly from ONS data for the UK.

[25] These figures include debt of the non-profit sector (more formally, the non-profit institutions serving households or NPISH), which the UK-sourced data elsewhere in this note typically excludes.

3 The cost of debt: interest rates

This section covers Bank of England interest rate policy and its impact on mortgage interest rates, as well as Financial Policy Committee policy to ensure financial stability in the UK.

3.1 Bank of England policy – interest rates

The Bank of England enacts monetary policy by raising or lowering interest rates, as well as carrying out quantitative easing and tightening. In theory, lower interest rates give people more incentives to borrow and spend money, which can stimulate the economy. Higher interest rates, on the other hand, mean people are more likely to save and less likely to spend, reducing demand for goods and services in the economy, which in turn reduces inflation.

The interest rate set by the Bank of England is an important factor in determining borrowing costs, although it is up to individual banks and financial companies to set the interest rates they offer consumers. If rate rises are passed on, it will make it more expensive to borrow money and increase the cost of servicing debt for people on variable interest rates.

Interest rates 2016-2020

August 2016 interest rate cut

In August 2016, the Bank of England's Monetary Policy Committee (MPC) downgraded its forecasts for the UK economy in the wake of the vote to leave the EU. As a result, it cut interest rates from 0.5% to 0.25% and introduced other measures to stimulate the economy, including extending its quantitative easing programme (creating money to buy government and company debt). The MPC's intention was for the rate cut to lead to lower borrowing costs and higher levels of spending and investment for households and business.[26]

Interest rates increased in November 2017 and August 2018

The Bank of England's Monetary Policy Committee raised interest rates for the first time in over a decade at its November 2017 meeting.[27] The base rate was

[26] Bank of England, Monetary Policy Committee decision 4 August 2016

[27] Bank of England press release, "Bank Rate increased to 0.50%", 2 November 2017

raised by 0.25 percentage points to 0.50%, reversing the August 2016 rate cut. In August 2018, the MPC raised interest rates again to 0.75%.[28]

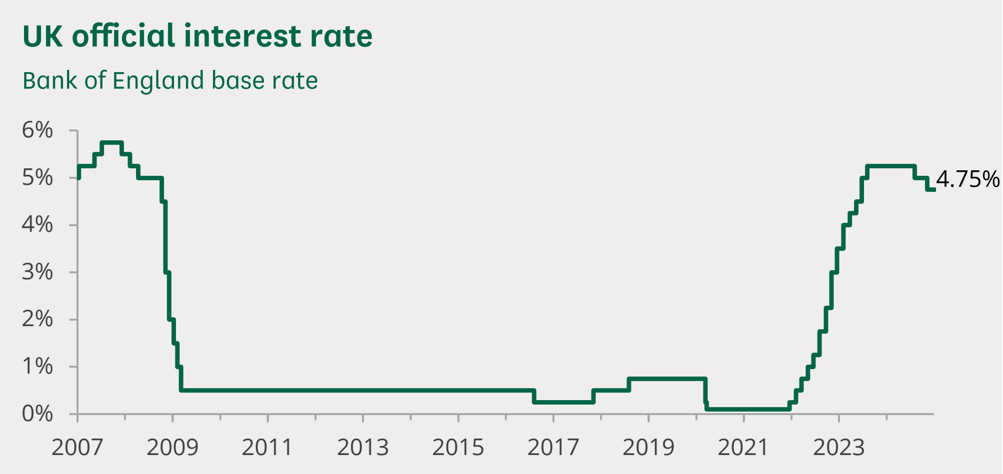
Interest rate cuts in March 2020

In response to the economic impact of the coronavirus pandemic the Bank of England cut the base rate to 0.25% on 11 March 2020 and then to 0.10% on 19 March 2020, an historic low.[29]

Interest rate rises in 2021 to 2024

When inflation began to rise in 2021, the Bank of England started increasing interest rates.

Between December 2021 and August 2023 the interest rate was raised 14 times, reaching 5.25% on 3 August 2023. It was then cut in August and November 2024, to 4.75%.[30]



Source: Bank of England, Interest rates and Bank Rate

Interest rates rose around the world in 2022 and 2023

Central banks around the world raised interest rates due to high inflation. The US central bank, the Federal Reserve, raised interest rates to a range of 5.25% to 5.50% in July 2023. It started cutting rates in September 2024 and rates were a range of 4.25 to 4.5% in December 2024. The European Central Bank (ECB) raised its main rates in September 2023, taking the deposit rate to 4.00%.[31] The ECB started cutting rates in June 2024 and the deposit rate was 3.00% in December 2024.

28 Bank of England, "Monetary Policy Committee voted unanimously to raise Bank Rate to 0.75%", 2 August 2018

29 Bank of England, Bank Rate reduced to 0.1% and asset purchases increased by £200bn - March 2020, 19 March 2020

30 Bank of England, Interest rates and Bank Rate, (accessed 29 May 2024)

31 Library economic indicators page, Interest Rates and Monetary Policy

3.2 Mortgage rates

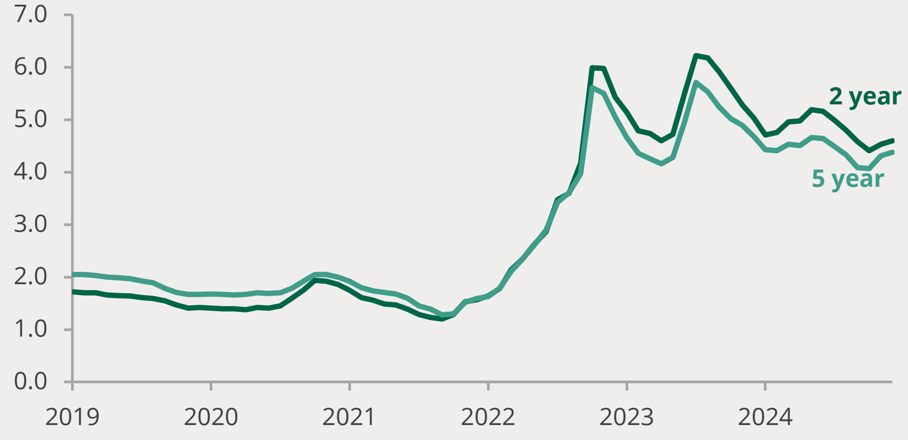
Higher Bank of England interest rates make borrowing more expensive for banks and financial institutions, who can choose to pass this expense onto their customers by raising their interest rates on mortgages and consumer credit. Because mortgages are very large loans, an increase in a mortgage interest rate can mean a big increase in a customer's monthly payments.

There have been large increases in mortgage interest rates since September 2021, when average two-year fixed mortgage interest rates were 1.2%.[32] As the Bank of England has increased its interest rates since 2021, mortgage providers have raised the interest rates on the mortgages they offer.[33]

After peaking in October 2022 average mortgage rates declined until April 2023.[34] Following the releases of higher-than-expected inflation data for April 2023 and May 2023, financial markets raised their expectations for how high the Bank of England would raise interest rates. This resulted in the average interest rate being offered on new mortgages moving higher again, peaking in July 2023 before falling.[35] Rates rose slightly in November and December 2024: at the end of December 2024, the average interest rate was 4.60% on a two-year fixed rate mortgage and 4.38% for a five-year fixed rate mortgage.[36]

Average rate on fixed-term mortgages rising again

Interest rate (%), based on 75% loan-to-value mortgages



Source: Monthly data to May 2023, Bank of England, Quoted household interest rates (accessed 10 January 2025), at 75% LTV

[32] Bank of England, Quoted household interest rates (accessed 20 October 2022), at 75% LTV

[33] "Average SVR paid by UK mortgage borrowers hits highest level in 13 years", Guardian, 20 June 2022 and "UK lenders raise mortgage rates ahead of further anticipated BoE hikes", Financial Times, 17 June 2022

[34] "Mortgage rates hit fresh 14-year highs", BBC News, 20 October 2022

[35] "How the bond market is driving up UK mortgage rates", Financial Times, 20 June 2023 and Moneyfacts.co.uk, The best UK residential mortgage rates this week (accessed 26 June 2023)

[36] Bank of England, Quoted household interest rates (accessed 10 December 2024), at 75% LTV

Around 30% of UK households have a mortgage (the rest own their property outright, privately rent or are in social housing). [37] An estimated 19% of mortgages are on variable rates, which track the Bank of England rate.[38] The remaining 80% are fixed-term mortgages, where the interest rate is fixed for a certain amount of time, usually for two or five years. Those coming off rates that were fixed when interest rates were much lower face a large increase in mortgage payments when their fixed terms end and they have to remortgage.

The Bank of England estimated in November 2024 that 2.7 million households were still paying less than 3% on their mortgage interest rate and face an increase when they remortgage (which most will do before the end of 2026). A total of 4.4 million households are expected to remortgage to a higher rate between December 2024 and the end of 2027. These increases will vary but for a typical mortgage, monthly repayments are projected to increase by around £146, or around 22%.[39]

3.3 Financial Policy Committee policies

The Financial Policy Committee (FPC) of the Bank of England monitors financial stability in the UK and creates policy to make sure the UK financial system is resilient.

Some recent policy decisions taken by the FPC include:

- Restrictions on high loan-to-income mortgages and stricter affordability tests were introduced in 2014 to avoid a large proportion of households with very high debt-to-income ratios.[40] The Financial Policy Committee withdrew the stricter affordability tests from 1 August 2022, but retained the restrictions on high loan-to-income mortgages, which they thought a stronger guard against increases in highly indebted households.[41]
- The FPC raised the UK's counter cyclical capital buffer from 0% to 1% from 13 December, then to 2.0% from 5 July 2023. The counter cyclical capital buffer is the amount of money lenders need to raise as a buffer

37 See the Library dashboard, Constituency data: Home ownership and renting for information at the local, regional and national levels, based on the 2021/2022 censuses

38 Bank of England, Financial Stability Report - November 2024, 29 November 2024

39 Quoted increase in monthly repayments is based on the typical owner-occupier mortgagor rolling off a fixed rate between December 2024 and end-2027.
Source: Bank of England, Financial Stability Report - November 2024, 29 November 2024, section 4.2

40 These are (i) No more than 15% of total borrowing of mortgage lenders can be to loan-to-income ratios of 4.5 or higher; (ii) Lenders should test how affordable mortgages would be to borrowers if interest rates were 3%-points higher than at the time. For more details see p.20 of the Nov'16 Financial Stability Report (PDF)

41 Bank of England, Financial Policy Committee confirms withdrawal of mortgage market affordability test, 20 June 2022

for risks attached to rising consumer debt. The FPC raises the rate when risks are growing.[42]

[42] Bank of England, The countercyclical capital buffer (CCyB) (accessed 3 August 2023)

4 Who holds debt?

This section looks beyond the aggregate UK household debt statistics and provides some analysis of who holds debt and how much is owed.

4.1 How many people hold debt products?

Personal debt products include mortgages, overdrafts, credit cards and student loans.

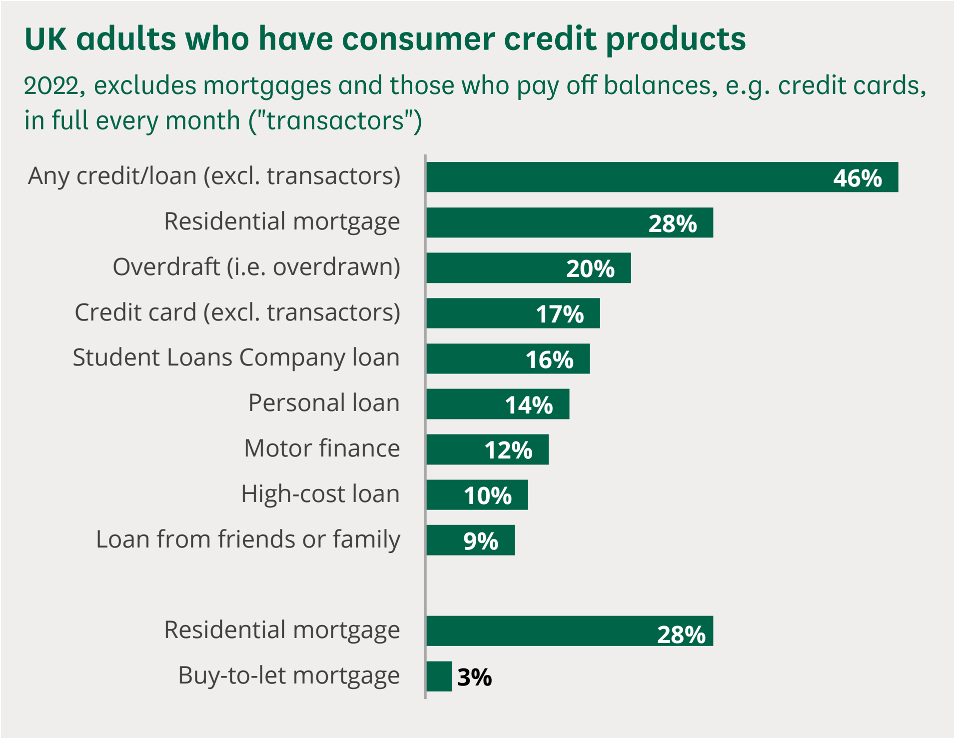
There are multiple forms of personal debt including mortgages, overdrafts on bank accounts, credit cards, and student loans. Unsurprisingly, mortgages are the largest in terms of amount owed. Around 30% of households have a mortgage.

The most recent data on the number of people who hold debt products is from the Financial Conduct Authority (FCA)'s Financial Lives surveys is from May 2022, so does not capture the effects of the rising cost of living.

Around 46% of UK adults had some form of debt excluding mortgages (commonly referred to as consumer credit) in the 12 months to May 2022.[43] This figure excludes adults who use credit products, chiefly credit cards, but pay them off in full every month (referred to as "transactors").

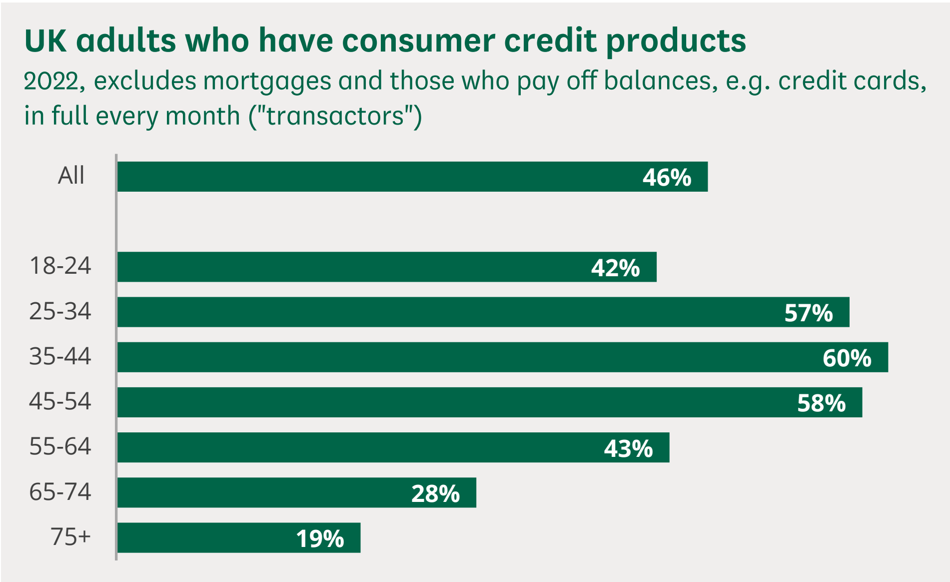
The chart below shows the proportion of UK adults, who in the 12 months to May 2022 held various types of consumer credit products and mortgage.

[43] Financial Conduct Authority, Financial Lives Survey 2022, figure 2.5



Source: Financial Conduct Authority, Financial Lives Survey 2022, figure 2.5

The chart below shows the percentage of each age groups which have consumer credit products. Overall, those aged 35-54 were most likely to hold consumer credit, with 60% of 35 to 44 year olds and 58% of 45 to 54 year olds doing so, compared with only 19% of those aged 75 and over.



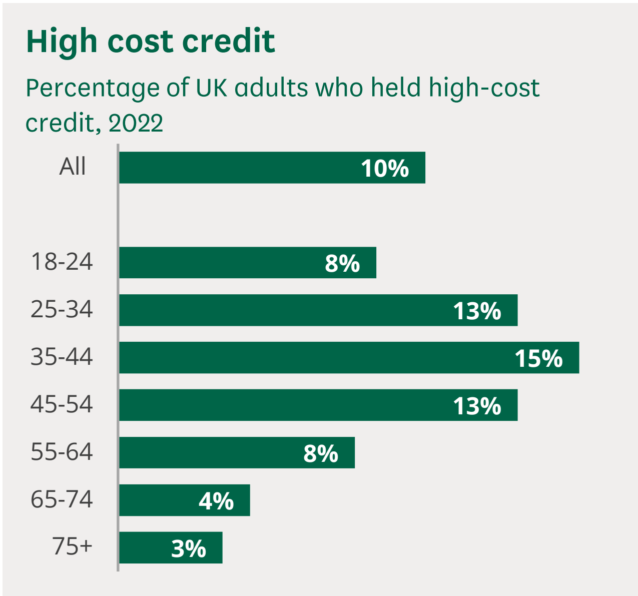
Source: Financial Conduct Authority, Financial Lives Survey 2022, figure 2.4

Buy now, pay later and high-cost credit

Deferred payment credit, or 'Buy now, pay later' credit is not regulated by the FCA. The government consulted on draft legislation to regulate Buy now, pay later in October and November 2024. In the 12 months to May 2022, 8.8 million

UK adults (17%) used this form of credit. 25 to 34 year olds were most likely to use this.

The Financial Conduct Authority's definition of high-cost credit includes catalogue credit or shopping accounts, rent-to-own finance, pawnbroking loans, home collected loans, payday loans, short-term instalment loans and logbook loans. In the 12 months to May 2022, 10% of UK adults had a high-cost loan. 35 to 44-year-olds were most likely to have high-cost loans.[44]



Source: Financial Conduct Authority, Financial Lives Survey 2022, figures 2.6 and 2.7

Debt by household characteristic

The kind of debt a household holds often depends on their household income. Households with high incomes are much more likely to hold property debt than lower income households, because getting a mortgage requires a high income and savings. Financial debt is more evenly spread across the income distribution, but high income households are more likely than low income households to hold financial debt too.

The table below provides data from the Wealth and Assets survey which shows that 72% of households with the top tenth of incomes held debt in April 2018 to March 2020, compared with 44% of households with the bottom tenth of incomes.

[44] Financial Conduct Authority, Financial Lives Survey 2022, figures 2.6 and 2.7

Household debt by income
Great Britain, April 2018 to March 2020

	Property Debt	Financial Debt	Total Debt
1 (Lowest tenth)	13%	36%	44%
2	17%	45%	52%
3	22%	43%	52%
4	23%	46%	55%
5	30%	52%	61%
6	37%	53%	65%
7	44%	52%	69%
8	53%	58%	74%
9	53%	55%	72%
10 (Highest tenth)	58%	47%	72%

ONS, Wealth and Assets Survey, Household debt: wealth in Great Britain, 7 January 2022

Debt can also vary by other household characteristics like employment status, ethnic group and housing tenure. The table below provides data from the Financial Lives Survey in 2020 which shows the proportion of households who hold debt by household characteristic.

All credit and loans

The proportion of UK adults who had any credit or loan (excluding transactors) in 2020 was highest among employed and self-employed people, people in households with annual income of £30,000 or more, and people who rent or own their homes with a mortgage.

Residential mortgages

The proportion of UK adults who had a residential mortgage in 2020 was highest among the self-employed, those with annual household income of £50,000 or more, and of course those who owned their house with a mortgage.

High cost credit/loans

The Financial Conduct Authority (FCA) defines high cost credit as credit products with high interest rates, including payday loans and balances on catalogue credit or shopping accounts.[45]

[45] People on high cost credit include people who revolve a balance on a catalogue credit or shopping account (6% of all adults did this), have bought products with rent-to-own finance (2%), or have one of the following loan products: pawnbroking loan (1%), home-collected loan (1%), payday loan (single payment) (2%), short-term instalment loan (2%) or logbook loan (<0.5% of all adults). Financial Conduct Authority, Financial Lives Survey 2020, p43

Adults with low household income, unemployed adults and renters are the most likely to hold high cost credit.

UK adults who have debt products

Feburary 2020

	Any credit/loan (excl. transactors)	Residential mortage	High cost credit/loan
Ethnic group			
White ethnic group	57%	33%	11%
Minority ethnic group	59%	31%	11%
Labour market status			
Employed	71%	48%	13%
Self-employed	61%	43%	9%
Unemployed	58%	15%	18%
Retired	24%	5%	3%
Housing tenure			
Own outright	29%		3%
Mortgage	75%	95%	10%
Renting	72%	0%	22%
Annual income			
<£15k	53%	11%	16%
£15-£30k	59%	28%	13%
£30-£50k	65%	43%	11%
£50+	64%	52%	9%

Source: Financial Conduct Authority, Financial Lives survey, Appendix 1

1 Sources of household debt statistics

Data collated by the Bank of England and ONS from financial institutions are the preferred sources of data for overall household debt statistics in the whole economy (see section 2).

However, these do not provide breakdowns for different groups of people, nor do they give much detail on those who are struggling to keep up with debt payments. For these figures, we must rely on surveys, which means estimates of how much debt people have and whether they can afford certain payments is self-reported by survey respondents.

The statistics in this section mostly come from the Financial Conduct Authority's Financial Lives Survey and the Office for National Statistics' Wealth and Assets Survey.[46]

4.2 How much debt do people have?

On average, in May 2022, UK adults had outstanding non-mortgage debt of around £5,600 including student loans (£2,700 without student loans).[47]

The table below provides these figures by age group. Average debt levels excluding student loans peaks in middle age, with an average debt of £4,600 per person among 35 to 44 year olds and £4,100 among 45 to 54 year olds.

Average personal debt outstanding by age group

2022, £ per person, all UK adults, excludes mortgages

	All	18-24	25-34	35-44	45-54	55-64	65-74	75+
Including student loans	5,600	10,700	12,400	6,100	4,600	2,800	1,300	600
Excluding student loans	2,700	1,000	3,200	4,600	4,100	2,700	1,300	600

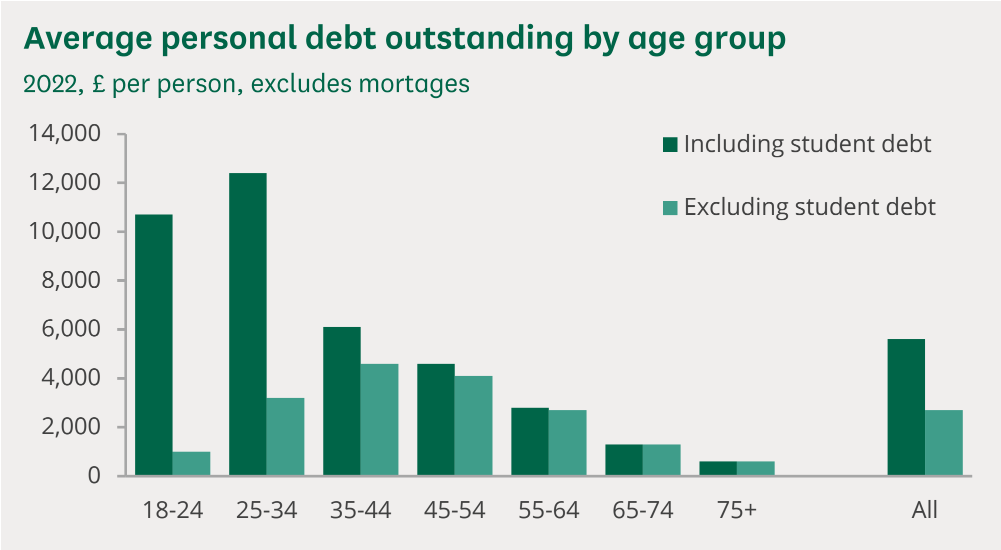
Note: Figures are mean averages

Source: Financial Conduct Authority, Financial Lives Survey 2022, figure 2.9

Student loans make a big difference to the figures among the younger age groups. Average debt among 18-24 year olds rises from £1,000 excluding student loans to £10,700 when they are included. Student loans are loans taken out by students to cover fees and their maintenance costs from the Government. The Library briefings Student support for undergraduates across the UK and Student loan statistics provide more information on student loans.

46 FCA, Financial Lives Survey 2020,

47 FCA, Financial Lives Survey 2020, 11 February 2021, p46



Source: FCA, Financial Lives Survey 2022, figure 2.9

4.3 Low financial resilience and over-indebtedness

Someone has ‘low financial resilience’ if they are over-indebted or have little capacity to withstand financial shocks.

There are multiple definitions of low financial resilience. The Financial Conduct Authority (FCA) defines low financial resilience as over-indebted or with little capacity to withstand financial shocks, like a £50 reduction in their monthly income or losing their main source of household income for one week.

In May 2022, 12.9 million UK adults had low financial resilience, 24% of all adults. This is up from 10.7 million adults (20%) in February 2020. According to the FCA, this increase is due to a higher proportion of adults who are heavily burdened by domestic bills and credit commitments, due to rising prices: 7.8 million adults (15%) said they felt heavily burdened in May 2022 compared to 5.3 million (10%) in February 2020.

4.2 million adults were in financial difficulty (had missed paying bills or meeting credit commitments in three or more of the previous six months) in May 2022, 8% of all UK adults.[48] This rose to 11% in January 2023. [49]

Of the 10.7 million adults with low financial resilience in February 2020, 7.2 million (14% of UK adults) were over-indebted and 3.8 million (7% of UK

48 Financial Conduct Authority, Financial Lives 2022 survey: insights on vulnerability and financial resilience relevant to the rising cost of living, 21 October 2022

49 Financial Conduct Authority, Financial Lives cost of living 2023 report, 26 July 2023. Adults are defined as being in financial difficulty if they have fallen behind, or missed, any payments for domestic bills or credit commitments in three or more of the last six months.

adults) were in 'financial difficulty'.[50] In 2017, 11.6 million (23%) had low financial resilience, 7.5 million (15%) were over-indebted and 4.1 million (8%) were in financial difficulty.[51]

In May 2022, groups which were most likely to have low financial resilience included:

- Unemployed adults (48%) and workers in the 'gig economy' (37%)
- Renters (47%)
- Adults with household income of less than £15,000 (50%)
- Adults from a Black ethnic group (44%) or from multiple ethnic groups (39%).[52]

The ONS' Opinions and Lifestyle Survey collects data on the number of UK adults with low financial resilience, defined as adults who report that their household would be unable to afford an unexpected but necessary expense of £850. In May 2024, the percentage of people with low financial resilience was 22%.[53]

Savings

An important component of financial resilience is savings. Households with savings set aside can cope better with financial shocks. The Resolution Foundation found that in 2018 to 2020, 30% of working-age adults in Great Britain live in families with savings below £1,000 and 5% lived in families with no savings at all.

Those with less than £1,000 savings were more likely to have accumulated debt in the year to October 2023: 34% compared with 16% among those with savings of more than £1,000.[54]

---

50 The FCA defines over-indebtedness as considering a heavy burden keeping up with domestic bills and credit commitments or missing any credit commitments and/ or any domestic bills in any three or more of the last six months.

51 Financial Conduct Authority, Financial Lives 2020 survey: the impact of coronavirus, 11 February 2021

52 Financial Conduct Authority, Financial Lives 2022 survey: insights on vulnerability and financial resilience relevant to the rising cost of living, 21 October 2022

53 6 November to 1 December 2024, ONS, Public opinions and social trends, Great Britain: household finances, 20 December 2024

54 Resolution Foundation, Precautionary tales, Tackling the problem of low saving among UK households, 12 February 2024

Access to credit

Access to credit is important for financial resilience. Low-income households are less likely to be approved for a loan, so are more likely to have loans from unregulated and high-cost lenders.

The Resolution Foundation found that in March 2023 around 13% of the poorest fifth of families had been rejected for credit in the previous 12 months, compared to 5% of the richest fifth.[55]

Debt servicing costs

Higher interest rates make monthly loan repayments more expensive, which can increase low financial resilience and over-indebtedness. As discussed in section 3, the Bank of England has raised its interest rates and lenders are passing this extra cost on to customers. This has a particularly large impact on holders of variable rate mortgages and people who are coming to the end of their fixed-rate mortgage term.

55 Resolution Foundation, In too deep? The impact of the cost of living crisis on household debt, 29 February 2024

5 Household debt and economic shocks

This section covers the role household debt played in the 2008/09 financial crisis, the coronavirus pandemic and the rising cost of living in 2021 to 2024.

5.1 Household debt can boost economic growth in the short run

According to International Monetary Fund (IMF) research, an increase in the household debt-to-income ratio can boost economic growth and employment in the short term. Households take out loans to consume more, which means more growth. However, evidence suggests that after 2-5 years, those effects are reversed and the odds of financial crisis increase.[56]

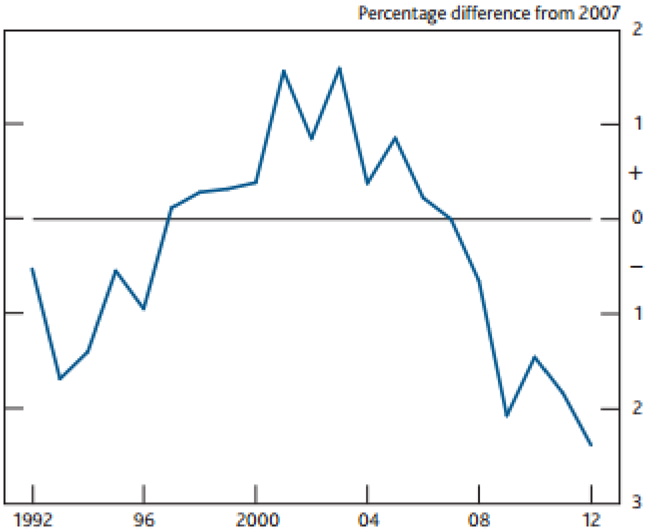
A 2014 Bank of England paper found that the accumulation of household debt in the UK from 1996 to 2003 contributed to economic growth, with indebted households adding roughly 0.35 percentage points a year to overall consumer spending growth of about 4.5% per year over this period.[57]

The chart below summarises the impact of debt on the aggregate level of consumer spending compared to the level seen in 2007 (just before the financial crisis). Debt-fuelled consumption added to private consumption, and thus GDP growth in the decade prior to 2007, but reduced consumption during and after the crisis.

[56] IMF, Global Financial Stability Report October 2017: Is Growth at Risk?, October 2017, Chapter 2

[57] Bank of England, Quarterly Bulletin Q3 2014(PDF), October 2014

Chart 8 Estimated impact of debt on the level of total private consumption, relative to 2007[(a)]



Sources: DCLG, LCF Survey, ONS and Bank calculations.

(a) The impact on non-housing consumption is constructed by taking predicted spending for each household from the model described in footnote (2) on page 309, and then subtracting what the model predicts they would have spent if debt had had the same estimated influence on spending patterns in each year as it did in 2007, keeping all other characteristics unchanged. Differences are then summed across households. To get to a total impact on aggregate private consumption there is assumed to be no effect on housing consumption or the consumption of non-profit institutions serving households.

Source: Bank of England, Quarterly Bulletin Q3 2014(PDF)

5.2 High levels of household debt can lengthen and deepen recessions

Large increases in household debt before recessions tend to lead to deeper and longer downturns. Households with high debt levels cut back on their spending by more than other households during and after a recession and are more likely to default on their debt, resulting in losses for lenders.[58]

A 2012 OECD Working Paper found that high debt levels impaired the ability of households to smooth their spending.[59] It also suggested that when household debt levels rise above trend the likelihood of a recession increases.[60]

A paper by Jorda, Schularick and Taylor (2013) looked at private and public sector debt in 150 recessions and recoveries since 1870. It found that once a

58 Bank of England, Quarterly Bulletin 2021 Q2, Household debt and Covid, 25 June 2021

59 And for companies to smooth their investments.

60 Sutherland,D. and P. Hoeller (2012), "Debt and Macroeconomic Stability: An Overview of the Literature and Some Empirics", OECD Economics Department Working Papers, No. 1006, OECD Publishing, Paris

country enters recession, if households and businesses have a lot of credit, the post-recession economic recovery is typically slower. [61]

Financial crisis 2008/09

In 2008, high levels of household debt before the crisis amplified the economic shock: countries with higher debt-to-income ratios saw larger falls in aggregate consumption.[62] In the UK in 2008, household debt (excluding student loans) was around 150% of total household income, a record high.[63] An estimated 2 percentage points of the 5% fall in total consumer spending after 2007 were associated with cuts in spending by households with higher debt levels.[64]

Coronavirus pandemic 2020 and 2021

In 2020, the total stock of UK household debt (excluding student loans) was equivalent to around 125% of total household income, significantly below its 2008 peak of around 150%.[65] The Bank of England says there is little evidence that household debt has amplified the coronavirus recession.[66]

Rising cost of living 2022-2024

In Q1 of 2022, as prices were beginning to rise, UK household debt was 123.8% of total household income. This is high compared to historical standards but is materially lower than in 2008.[67]

5.3 Financial regulation and interest rates matter

Financial crisis 2008/09 and coronavirus pandemic

In 2008/09 there was a large number of highly indebted households and banks were poorly capitalised (they did not have enough capital to be able to cope with losses without going bankrupt). These factors were an important reason why the financial crisis was so severe and lasted so long.

61 Jorda, O., Schularick, M., and Taylor, A. (2013), "Sovereigns versus Banks: Credit, Crises, and Consequences (PDF)", Federal Reserve Bank of San Francisco Working Paper 2013-37

62 Bank of England, Financial Stability Report, Financial Policy Committee Record and stress testing results - December 2019, 16 December 2019

63 Bank of England, Financial Stability Report - July 2023, Chart 2.5, household debt to income ratio, excluding student debt.

64 Bank of England, Household debt and spending, Quarterly Bulletin 2014 Q3, 16 September 2014

65 Bank of England, Financial Stability Report - July 2023, Chart 2.5, household debt to income ratio, excluding student debt.

66 Bank of England, Quarterly Bulletin 2021 Q2, Household debt and Covid, 25 June 2021

67 Bank of England, Financial Stability Report - July 2023, Chart 2.5, household debt to income ratio, excluding student debt.

Post financial crisis reforms, such as the Bank of England's Financial Policy Committee's mortgage market recommendations, put in place in 2014, help to guard against a significant increase in the number of highly indebted households.[68]

The UK banking system is better capitalised than 2008, so during the pandemic, lenders could avoid the 'credit crunch' that happened in 2008 and keep lending to support households and offer payment holidays on debt.[69]

During the pandemic, interest rates were significantly lower than in 2008, so it was less costly to pay back debt (households had lower 'debt servicing costs').[70]

Rising cost of living 2022-2024

The Bank of England's Financial Policy Committee has said that in their view the rising cost of living does not pose the same risks to lenders and the financial system as other shocks, because lenders are well capitalised, have limited direct exposures to Russia and Ukraine, and are resilient to risks from sectors with high commodity prices.[71]

High interest rates, particularly rising mortgage rates, mean that households and businesses are experiencing high debt servicing costs. The percentage of households with high cost of living-adjusted debt servicing ratios for mortgage debt rose in 2021 and 2022 but stayed significantly below its pre-2008 peak of 3.4%. It was 1.2 in Q2 2024. The percentage with high cost of living adjusted debt servicing ratios for consumer credit increased slightly in the year to Q1 2023, to around 10% at a similar level to its pre-2008 peak of 9.5%.[72]

68 Bank of England, Financial Stability Report - December 2020, 11 December 2020

69 Bank of England, Monetary Policy Report and Financial Stability Report - August 2020, 6 August 2020

70 Bank of England, Quarterly Bulletin 2021 Q2, Household debt and Covid, 25 June 2021

71 Bank of England, Financial Stability Report - July 2022, 5 July 2022, Bank of England, Financial Stability Report - July 2023, 12 July 2023

72 Bank of England, Financial Stability Report - July 2023, 12 July 2023

6 Further reading

6.1 House of Commons Library

High cost of living: Impact on households

Household Debt: Key Economic Indicators

Autumn Budget 2024: Background briefing

6.2 Other sources

Monetary Policy Reports
Bank of England

Financial Lives cost of living (Jan 2024) recontact survey
Financial Conduct Authority, 10 April 2024

In too deep? The impact of the cost of living crisis on household debt
Resolution Foundation, 29 February 2024

Cost of living data dashboard
Citizens Advice

Economic and fiscal outlook – October 2024
Office for Budget Responsibility, 30 October 2024