

By Brigid Francis-Devine

6 July 2021

# Coronavirus: impact on household debt and savings



## Summary

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## Summary

Since the beginning of the coronavirus pandemic, official statistics show that total household savings have increased and total household debt has remained mostly unchanged, largely due to a fall in spending on non-essential items over lockdown and little change in household income.

The household savings ratio (household savings as a proportion of household disposable income) increased from **8.9% in January-March 2020** to **25.9% in April-July 2020**, a record high since the series began in 1987. This decreased to 14.3% in July-September 2020 as the economy opened up, and then increased again in October-December 2020 and January-March 2021 during lockdowns.

Total household debt was **£1,892 billion in January-March 2021**, only **2.4% more** than the year before. Unsecured debt fell in each month between March 2020 and May 2021 in total, as many households reduced their spending and so were less likely to borrow.

## Inequality

While on the whole, household savings have risen and debt has remained at a similar level, there is evidence to suggest that some households, particularly those with low incomes, have run down savings and increased debt since the start of the pandemic.

The Office for National Statistics found that by December 2020, nearly 9 million people had to borrow more money than usual because of coronavirus.

Groups which are more likely than average to have taken on more debt since the start of the coronavirus pandemic include renters, people from minority ethnic groups, parents and carers, disabled people and those who are shielding, and young people.

## Comparing the impact of the pandemic to the 2008/09 financial crisis

The UK financial system was better prepared for the pandemic in 2020 than the financial crisis in 2008: in 2008 household debt was rising quickly, which amplified the economic shock, and this was not the case in 2020. In 2020/21, interest rates are lower, more regulation is in place, and the banking system is better capitalised than in 2008.

Unlike in 2008/09, Government interventions like the Coronavirus Job Retention Scheme, Self Employment Income Support Scheme, and £20 per

week increase of Universal Credit have protected jobs and incomes, and this will support a recovery.

## 1

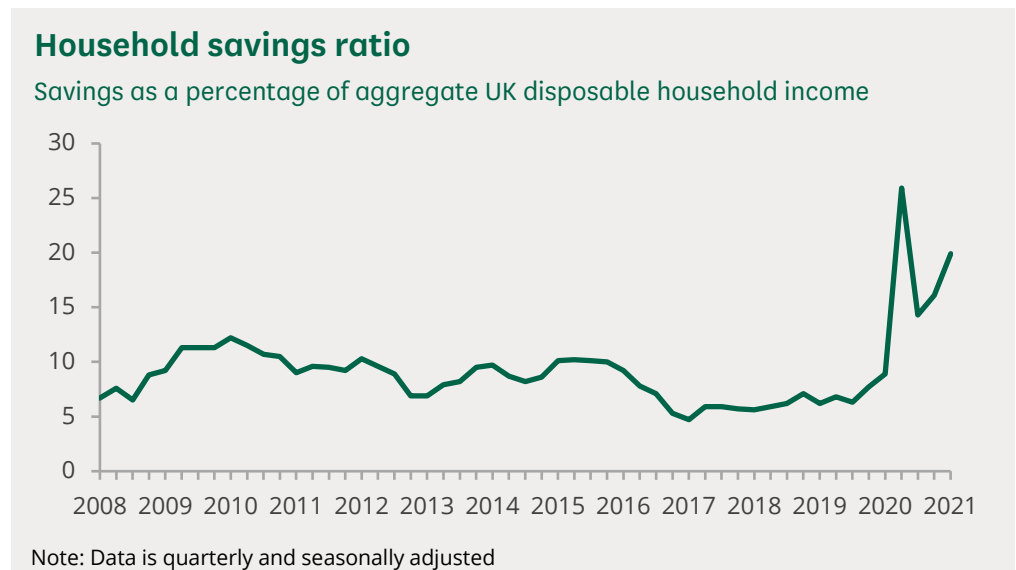
## Savings

Overall, household savings have increased since the pandemic began. The Bank of England estimates that households built up more than an extra £125 billion in savings from March 2020 to November 2020, and this increased to over £200 billion by June 2021.<sup>12</sup>

The household savings ratio is household savings as a proportion of household disposable income.

The household savings ratio (household savings as a proportion of household disposable income) increased from 8.9% in Q1 2020 to 25.9% in Q2 2020, a record high since the series began in 1987. This decreased to 14.3% in July-September 2020 as the economy opened up, and then increased again in October-December 2020 and January-March 2021 during local and national lockdowns.

Chart 1



Source: ONS, [Households' saving ratio](#), 30 June 2021

The chart below shows deposits in bank accounts increased by £46.0 billion in April-June 2020, despite the Bank of England cutting the interest rate to a historic low level of 0.1% in March.

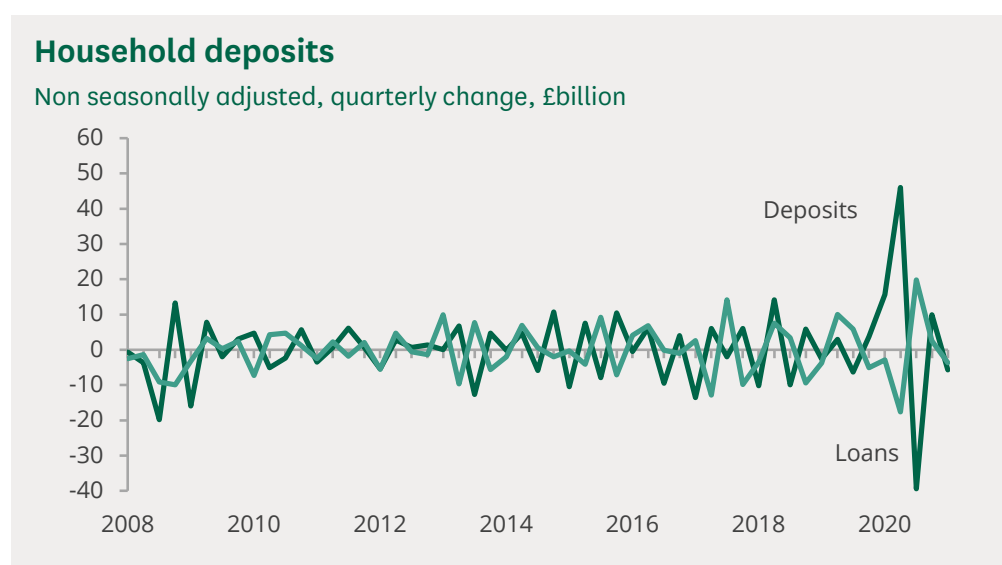
<sup>1</sup> Bank of England, [Monetary Policy Report](#), February 2021

<sup>2</sup> Bank of England, [Thirty years of hurt, never stopped me dreaming - speech by Andy Haldane](#), 30 June 2021

Households decreased their loan liabilities by £17.6 billion in April-June 2020 in comparison to January-March 2020, as they opted to pay down debt and reduce borrowing.<sup>3</sup>

In July-September 2020, as lockdown restrictions eased, deposits dropped and loans increased. In October-December 2020 and January-March 2021, both remained relatively stable.

**Chart 2**



Source: ONS, [UK Economic Accounts: institutional sector - households and non-profit institutions serving households](#), Table 6.2.8, 30 June 2021

A large drop in household spending, an increase in precautionary savings, and a smaller than expected fall in household income explain this initial increase in savings.

## Spending

This rise and fall in savings was driven by household spending. Between January-March 2020 and April-June 2020, there was a large decrease in household spending of £80.5 billion, as lockdown measures prevented spending on many non-essential items.<sup>4</sup> Spending on restaurants and hotels decreased by 88.4%, and spending on recreation and culture decreased by 17.7%.<sup>5</sup>

In July-September 2020 there was a strong bounce back in household spending, and financial consumption expenditure rose by 21.0%, in line with

<sup>3</sup> ONS, [Coronavirus and its impact on the UK Institutional Sector Accounts: Quarter 2 \(Apr to June\) 2020](#)

<sup>4</sup> ONS, [Coronavirus and its impact on the UK Institutional Sector Accounts: Quarter 2 \(Apr to June\) 2020](#)

<sup>5</sup> ONS, [Coronavirus and the impact on UK households and businesses: 2020](#), 19 April 2021

the re-opening of non-essential retail and hospitality, as well as the Government's Eat Out to Help Out scheme.

## Precautionary savings

As well as limited spending opportunities over lockdown, heightened uncertainty may have led to some households building up precautionary savings. Only 10% of Bank of England survey respondents said they planned to spend their additional savings in autumn 2020, with around two thirds planning to keep them in their bank account.<sup>6</sup> The Resolution Foundation found that in June 2021, 17% of people who have seen their savings increase plan to use them for increased spending.<sup>7</sup>

However, the fall in the savings ratio in summer 2020 shown in the chart above demonstrates at least some households spend some of their savings when lockdown restrictions ease. The Office for Budget Responsibility and the Chief Economist of the Bank of England expect households to 'treat themselves' after restrictions are lifted.<sup>8</sup>

## Income

Household income might have been expected to take a large hit because of the pandemic, which could have negatively impacted savings, but it only fell by 3.3% between January-March and April-June 2020. This was significantly smaller than the fall in GDP of 13.5%. The Resolution Foundation estimate that median income growth in 2020-21 will be 1.5% despite GDP falling by 10.8%.<sup>9</sup>

This reflects the impact of the Coronavirus Job Retention Scheme (CJRS) and the Self-Employment Income Support Scheme (SEISS), which protected the income of millions of households.<sup>10</sup> As well as this, the £20 a week increase in Universal Credit protected the income of benefit claimants.<sup>11</sup> Together, these measures effectively doubled the size of the welfare state to 9% of GDP.<sup>12</sup>

This along with fewer opportunities to spend and a rise in precautionary savings meant that aggregate household savings saw a large increase at the start of the pandemic.

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<sup>6</sup> Office for Budget Responsibility, [Economic and fiscal outlook – March 2021](#), 3 March 2021

<sup>7</sup> Resolution Foundation, [The Living Standards Audit 2021](#), 1 July 2021

<sup>8</sup> Financial Times, [Britons prepare to spend their savings as lockdown eases](#), 12 April 2021

<sup>9</sup> Resolution Foundation, [The Living Standards Audit 2021](#), 1 July 2021

<sup>10</sup> ONS, [Coronavirus and the impact on UK households and businesses: 2020](#), 19 April 2021.

Library briefing paper [Coronavirus Job Retention Scheme: statistics](#) provides more information on the CJRS.

<sup>11</sup> ONS, [Coronavirus and its impact on the UK Institutional Sector Accounts: Quarter 2 \(Apr to June\) 2020](#)

<sup>12</sup> Resolution Foundation, [The Living Standards Audit 2021](#), 1 July 2021



## 2

## Debt

Debt to income ratio is total household debt as a percentage of total household income.

Q1: January-March

Q2: April-June

Q3: July-September

Q4: October-December

So far, official statistics do not show a big change in household debt since the start of the coronavirus pandemic.

The Bank of England's measure of total outstanding debt to individuals rose by an annual rate of 3.6% in March 2020 when lockdown began, and each month since until April 2021 saw an annual increase of 1.5-2.9% – the lowest growth since 2013.<sup>13</sup> In May 2021 annual growth reached 3.4%.

Total household debt was £1,892 billion in January-March 2021, 2.4% more than the year before. This is not a dramatic increase: annual growth in household debt levels was in the range of 2.5-4.5% between 2017 and 2018, before decreasing to around 2% in 2019.<sup>14</sup>

The debt to income ratio (debt as a % of household income) has been increasing since Q1 2020 but 2020 and 2021 debt to income ratios are similar to 2018 levels. As discussed below, this increase is driven by an increase in mortgage debt but tempered by consumers repaying unsecured debt.

### UK household debt, 2017-2021

Figures are for end of each quarter

	Total (£ bn)	Annual % change in debt	Total as % of household disposable income	%-point change in debt-to- income ratio
Q1 2018	£1,741	2.6%	129.9	-0.9
Q2 2018	£1,758	3.2%	129.7	-1
Q3 2018	£1,778	3.1%	129.7	-1.8
Q4 2018	£1,790	3.3%	128.8	-2.1
Q1 2019	£1,773	1.8%	126.7	-3.2
Q2 2019	£1,794	2.0%	126.9	-2.8
Q3 2019	£1,814	2.0%	127.4	-2.3
Q4 2019	£1,828	2.1%	127.4	-1.4
Q1 2020	£1,843	4.0%	127.8	1.1
Q2 2020	£1,841	2.6%	128.4	1.5
Q3 2020	£1,856	2.3%	128.6	1.2
Q4 2020	£1,873	2.5%	129.5	2.1
Q1 2021	£1,892	2.6%	130.2	2.4

Source: ONS, national accounts series [NIWK](#), [RPHA](#), and [CVZI](#)

<sup>13</sup> Bank of England, [Money and Credit-September 2020](#), 29 October 2020

<sup>14</sup> ONS, national accounts series [NIWK](#), [RPHA](#), and [CVZI](#)

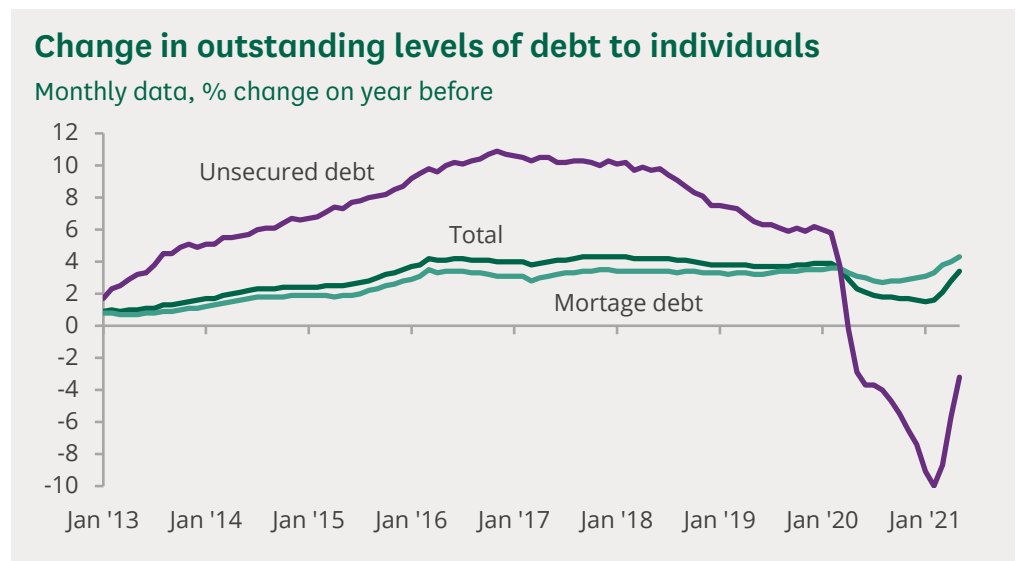
Unsecured debt is loans which are not backed by collateral.

There is a significant difference in trends between mortgage debt and unsecured debt, especially since the start of the pandemic. The chart below shows the percentage annual change of mortgage, unsecured, and total debt. Unsecured debt fell in each month between March 2020 and May 2021, as many households reduced their spending and so were less likely to borrow. This decrease slowed somewhat in April 2021 (-5.7%) and continued to slow in May 2021 (-3.2%). This is because April and May 2021 levels of unsecured debt are compared to April and May 2020 levels, which had already decreased because of the pandemic.

Mortgage debt, on the other hand, started increasing in September 2020 and reached its highest year-on-year growth since the series began in May 2021. This can be 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 30 2021.

In May 2021, the 3.4% annual change in outstanding debt comprised of a 4.3% rise in mortgage debt (the large majority of total debt) and a 3.2% decrease in unsecured debt.

Chart 3



Source: [Bank of England, Money and Credit: May 2021](#)

### 3 Inequality

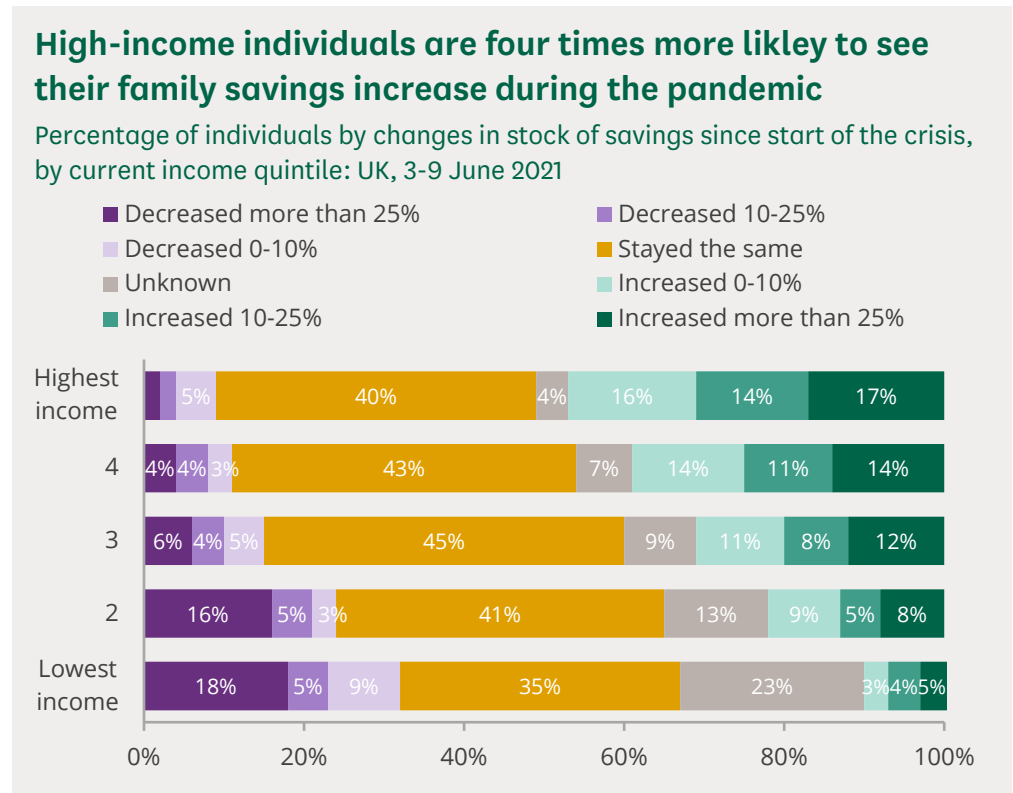
The statistics in Sections 1 and 2 are aggregate levels of savings and debt for all households, which do not take into account differences between households. Some households have run down savings and taken on more debt since the start of the pandemic, particularly low-income households.

#### 3.1 Savings - inequality

There is evidence that low-income households were less able to save and more likely to run down savings than households with higher income.

A survey by the Resolution Foundation found that between February 2020 and June 2021, 32% of people with the lowest incomes saw a fall in savings and 12% saw a rise. 10% of the highest income fifth saw a fall, and 46% saw a rise in savings.

Chart 4



Source: Resolution Foundation, [The Living Standards Audit 2021](#), 1 July 2021

In October 2020, the Institute for Fiscal Studies (IFS) found that the lowest-income fifth of users of the Money Dashboard (MDB) budgeting app saw a £170 per month decline in their savings (or increase in their debt), while every other group saw an increase.<sup>15</sup>

In November 2020, the Bank of England found that 20% of survey respondents had depleted their savings since the start of the pandemic, and that the accumulation of savings was greater for high-income households. 42% of high-income employed households saved more since the start of the pandemic, compared to 22% of low-income employed households.<sup>16</sup>

This inequality is due to two factors: income and spending:

## Spending

The spending most affected by the pandemic is ‘social consumption’; things like eating out or live entertainment, and this accounts for a larger proportion of high-income households’ spending. Meanwhile, low-income households spend a higher proportion of their incomes on essentials, so have not experienced the same drop in spending.<sup>17</sup>

In fact, the Resolution Foundation reported that low-income households, particularly families with children, have increased their spending over lockdown. The cost of food has risen for many, as families have been forced to use more local and expensive shops to avoid public transport and having children at home has required higher spending on food and energy. By September 2020, over a third of low-income families with children have increased their spending, compared with 13% of their high-income counterparts.<sup>18</sup> By June 2021, over 40% of those who had seen their debt increase said increased spending pressures were at least partly responsible.

## Income

The Bank of England reports that at least a quarter of households experienced a fall in income because of the pandemic by April 2020. The initial hit to income was felt across the income spectrum, with the Coronavirus Job Retention Scheme and the £20 a week Universal Credit increase providing greater support to those on lower incomes. However, the impact has generally been more persistent for lower-income households, who were less likely to see a recovery in incomes through 2020 and 2021.<sup>19</sup>

Between April and October 2020, 43.8% of those in work or looking for work in the bottom fifth of incomes reported reduced income, higher than the 30.4%

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<sup>15</sup> Institute for Fiscal Studies, [Spending and saving during the COVID-19 crisis: evidence from bank account data](#), 29 October 2020.

<sup>16</sup> Bank of England, [How has Covid affected household savings?](#), 25 November 2020

<sup>17</sup> Bank of England, [Monetary Policy Report and Financial Stability Report – August 2020](#).

<sup>18</sup> Resolution Foundation, [Pandemic Pressures, Why families on a low income are spending more during Covid-19](#), 11 January 2021

<sup>19</sup> Bank of England, Quarterly Bulletin 2021 Q2, [Household debt and Covid](#), 25 June 2021

of those in the top fifth.<sup>20</sup> And the Bank of England found that 42% of high-income employed households saved more during the pandemic, compared with 22% of low-income employed households.<sup>21</sup>

According to the Resolution Foundation, in January 2021, 45% of families who were new to claiming Universal Credit had seen their disposable income fall by at least a quarter from its pre-pandemic levels, and at least 34% had seen it fall more than 40%. Because of the £20 per week increase in Universal Credit from April 2020 just over a fifth of existing UC families reported income increases since the start of the pandemic.<sup>22</sup>

The effect on income differs between two categories of low-income household:

- Non-working families who were claiming Universal Credit before the pandemic have seen an increase to their income on average since the £20 Universal Credit uplift. Resolution Foundation figures show that incomes have grown the most in the very bottom of the income distribution in 2020-21.<sup>23</sup> However, as outlined above, these households may have increased their spending because of the pandemic.
- Low paid workers are more likely than average to have lost their jobs or been put on furlough, so their income has decreased on average. The Resolution foundation find that among those in work, low-income households have been more affected by labour market shocks: 47% of those in work in the bottom fifth of incomes experienced a negative employment change between March 2020 and June 2021, compared to 20% in the top fifth.<sup>24</sup>

Library paper [Coronavirus: impact on the labour market](#) provides more detail about how low paid workers are disproportionately economically impacted by the pandemic.

## 3.2 Debt – inequality

In the same way as savings, despite there being little change in aggregate debt for all households, there is evidence that some households have experienced an increase in debt levels, particularly lower income households.

The ONS found that by December 2020, nearly 9 million people had to borrow more money than usual because of coronavirus. At the end of June 2020

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<sup>20</sup> ONS, [Coronavirus and the impact on UK households and businesses: 2020](#), 19 April 2021

<sup>21</sup> Bank of England, [How has Covid affected household savings?](#) 25 November 2020

<sup>22</sup> Resolution Foundation, [The debts that divide us. Flash findings from a survey of families claiming Universal Credit](#), 7 February 2021

<sup>23</sup> Resolution Foundation, [The Living Standards Audit 2021](#), 1 July 2021

<sup>24</sup> Resolution Foundation, [The Living Standards Audit 2021](#), 1 July 2021

10.8% of adults reported owing money, and this reached 17.4% in December 2020.<sup>25</sup>

Stepchange, a UK Debt charity, reported that in September 2020, 15% of new debt advice clients cited coronavirus as the main reason for their debt.<sup>26</sup>

A survey by Stepchange found that 10.6 million people had borrowed to make ends meet between March 2020 and January 2021. Of these people, 48% borrowed on a credit card, 35% used an overdraft, 32% borrowed from family or friends, and 26% used high cost credit.<sup>27</sup>

## Low-income households have borrowed more

The Resolution Foundation found that 54% of adults in families from the lowest income fifth borrowed more in March-June 2020 to cover everyday costs like food and housing.<sup>28</sup>

A survey by the Joseph Rowntree Foundation and Save the Children found that 60% of families on Universal Credit and Child Tax Credits have been forced to borrow money between March and June 2020.<sup>29</sup>

A later Resolution Foundation survey found that that 31% of families on Universal Credit reported in January 2021 that they were in more debt than in the start of the crisis, compared to 13% of all families.<sup>30</sup>

## Low financial resilience has increased

People have low financial resilience if they are over-indebted or find it difficult to withstand financial shocks.

People have low financial resilience if they are over-indebted or find it difficult to withstand financial shocks. For example, someone with low financial resilience could not withstand a £50 reduction in their monthly income or losing their main source of income for a week.

According to the Financial Conduct Authority (FCA), between March and October 2020 the number of people with low financial resilience increased from 10.7 million to 14.2 million. This is an increase from 20% of adults having low financial resilience, to 27%.

The FCA says this increase is not surprising, given the large numbers before the pandemic who had limited savings and patterns of borrowing that placed them at greater risk. In February 2020, 39% of adults, who *weren't* defined as

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<sup>25</sup> ONS, [Personal and economic well-being in Great Britain: January 2021](#), 21 January 2021

<sup>26</sup> Stepchange, [Debt advice during coronavirus: September 2020](#), October 2020

<sup>27</sup> StepChange, [Stormy Weather: Covid and Debt. The impact of the Covid-19 pandemic on financial difficulty in January 2021](#), February 2021

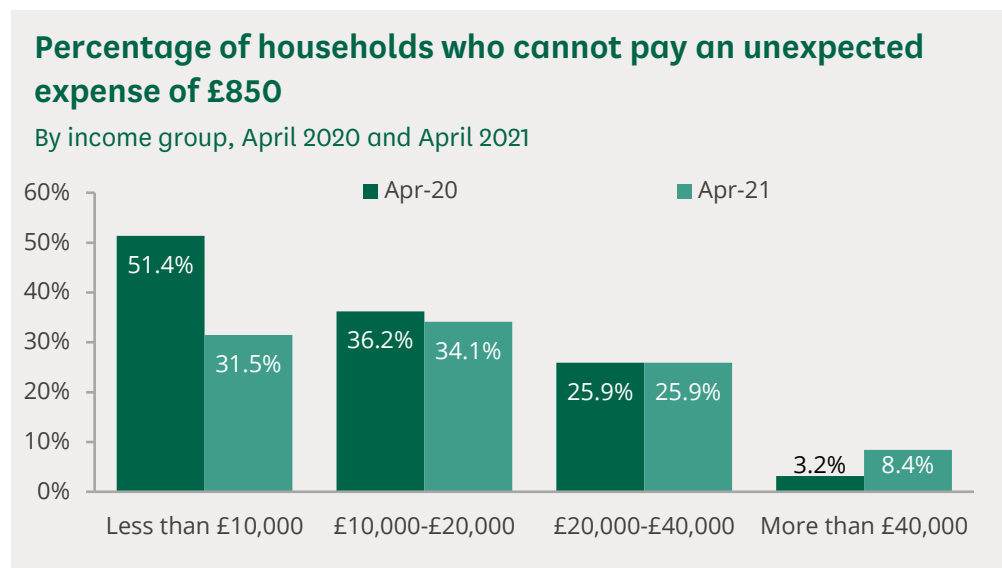
<sup>28</sup> Resolution Foundation, [Return to spender. Findings on family incomes and spending from the Resolution Foundation's coronavirus survey](#), 9 June 2020

<sup>29</sup> Joseph Rowntree Foundation [Nearly two thirds of families on Universal Credit forced into lockdown debt 'nightmare'](#), June 2020

<sup>30</sup> Resolution Foundation, [The debts that divide us. Flash findings from a survey of families claiming Universal Credit](#), 7 February 2021

having low financial resilience said they could not continue to cover their living expenses for less than three months if they lost their main source of income.<sup>31</sup>

**Chart 5**



Source: ONS, [Personal and economic well-being estimates by income group, across time](#), 25 May 2021

## Households have been falling behind on bills

In November 2020, Citizens Advice estimated that 7.3 million people were behind on bills, or 14% of adults.<sup>32</sup> In January 2021, another estimate from the Resolution Foundation found that 6% of adults had fallen behind on their bills, but this rose to 23% among Universal Credit claimants.<sup>33</sup>

Citizens Advice found that households who have fallen behind on their bills owed £1.6 billion in household bill arrears by October 2020.<sup>34</sup>

A report from the Institute for Fiscal Studies (IFS) estimates that by May 2020, the number of households making mortgage, retail and council tax payments was respectively 14%, 11%, and 9% below what they would have predicted based on pre-crisis trends.<sup>35</sup>

As the IFS have noted, in some cases unpaid bills are a sensible short term solution in a crisis (for example, mortgage holidays), but still mean additional debt going forward.

<sup>31</sup> Financial Conduct Authority, [Financial Lives 2020 survey: the impact of coronavirus](#), 11, February 2021

<sup>32</sup> Citizens Advice, [Lockdown debts: estimating the size of lockdown arrears](#), 30 October 2020

<sup>33</sup> Resolution Foundation, [The debts that divide us. Flash findings from a survey of families claiming Universal Credit](#), 7 February 2021

<sup>34</sup> Citizens Advice, [Lockdown debts: estimating the size of lockdown arrears](#), 30 October 2020

<sup>35</sup> Institute for Fiscal Studies, [The effects of coronavirus on household finances and financial distress](#), 29 June 2020

## 1 The pros and cons of household debt

The downsides to household debt are well known and include over-indebted households cutting back on their spending on other things, thus reducing economic activity. In addition, there could be problems in the banking system when loan defaults rise. Research from the UK and internationally has shown that large increases in household debt prior to recessions make those recessions worse and inhibits the following recovery, as discussed in Section 4.

Household debt, however, does provide benefits to an economy and individuals. It allows people to buy things, like a house, that they would not be able to pay for in one go, raising their standard of living. It allows people to smooth their consumption over time, including during periods when their incomes temporarily fall. This can provide stability to the economy.

Library briefing paper [Household debt: statistics and impact on economy](#) provides more background information.

### 3.3

## Most affected groups

Some groups are more likely to have seen an increase in debt than others. There is evidence to suggest that renters, people from minority ethnic groups, parents and carers, disabled people, and young people have been disproportionately likely to have increased their debt since the beginning of the pandemic.

### Renters

The ONS' Opinions and Lifestyle Survey found that at the end of July 2020, 63.2% of renters reported not being able to afford a necessary but unexpected expense of £850, compared with 10.6% of homeowners.<sup>36</sup>

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<sup>36</sup> Office for National Statistics, [Personal and economic well-being in Great Britain: September 2020](#), 10 September 2020



Citizens Advice found that 26% of renters had fallen behind on bills between February and November 2020, compared to 9% of homeowners.<sup>37</sup> They found that 13% of renters were behind on council tax, compared to 5% of homeowners.<sup>38</sup>

The FCA found that in July 2020, 42% of renters were worried about falling behind on rent payments.<sup>39</sup>

According to the Joseph Rowntree Foundation 700,000 renters were in rent arrears in September 2020, and 1.7m (19%) were in arrears with household bills or council tax payments. Approximately 80,000 households in the private rented sector and 125,000 households in the social rented sector had arrears of more than £1,000.<sup>40</sup>

## People from minority ethnic groups

The FCA found that between February and October 2020:

- 11% of consumers from a minority ethnic group used their savings to cover loan repayments, compared to 5% of consumers from a White ethnic group.
- 26% of people from a minority ethnic group used savings for day-to-day expenses, compared to 17% of people from a White ethnic group.
- 23% of mortgage holders from a minority ethnic group deferred a mortgage payment, compared to 17% of mortgage holders from a White ethnic group.
- 32% of consumers from a minority ethnic group fell behind on bills or missed a payment in this time, compared to 15% of consumers from a White ethnic group.<sup>41</sup>

However, when the FCA controlled for factors like age, gender and income, they found that ethnicity was not a significant factor in things like financial product ownership, use of financial services, or reporting that their financial situation had improved or worsened.<sup>42</sup>

The Joseph Rowntree Foundation reported that in late October 2020, 42% of renters from minority ethnic groups were worried about paying rent through to February 2021, compared with 29% of all renters. The gap between adults from a minority ethnic group and adults from a White ethnic group worried

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<sup>37</sup> Citizens Advice, [Debt at the close of 2020](#), 11 December 2020

<sup>38</sup> Citizens Advice, [Unavoidable debt: Coronavirus council tax debt](#), 27 January 2021

<sup>39</sup> Financial Conduct Authority, [FCA highlights continued support for consumers struggling with payments](#), 22 October 2020

<sup>40</sup> Joseph Rowntree Foundation, [Struggling renters need a lifeline this winter. 16 November 2020](#)

<sup>41</sup> It is likely that financial experiences vary widely between minority ethnic groups, and the FCA collected data for specific ethnic groups, but sample sizes were too small to provide reliable analysis.

<sup>42</sup> Financial Conduct Authority, Ethnicity, personal finances and Coronavirus, 22 February 2021

about paying their rent has widened since March 2020, from a difference of 9.4 percentage points before the pandemic, to 14.5 percentage points in October 2020.<sup>43</sup>

Citizens Advice found that 31% of people from a Black ethnic group and 28% of people from any minority ethnic group fell behind on bills between February and November 2020, compared to 11% of those from a White ethnic group.<sup>44</sup>

Turn2us, a UK poverty charity, found that by September 2020, 45% of people from a Black ethnic group said they were unable to afford an emergency cost of £250, compared to 26% of people from a White ethnic group and 27% of people from an Asian ethnic group.<sup>45</sup>

## Parents and carers

The ONS found that in July 2020, 22.2% of parents said they had to borrow money or use credit more than before the coronavirus pandemic, compared to an average of 13.3%.<sup>46</sup> Between April and October 2020, 62.8% of parents were able to afford a necessary but unexpected expense of £850, compared to 79.7% of non-parents.<sup>47</sup>

Citizens Advice found that a quarter (23%) of people with caring responsibilities had fallen behind on their bills in July 2020, compared to 6% of people without caring responsibilities.<sup>48</sup> Citizens Advice also found that 30% of people with children aged 5 or under fell behind on bills between February and November 2020, compared to 14% of all adults.<sup>49</sup>

StepChange found that between March 2020 and January 2021, of parents with children under five:

- 30% had seen an income fall, compared to a 28% average.
- 16% were in arrears on household bills, compared to 8% on average.
- 9% had run down savings, compared to 6% on average.
- 31% had borrowed to make ends meet, compared to a 21% average.

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<sup>43</sup> Joseph Rowntree Foundation, [Struggling renters need a lifeline this winter. 16 November 2020](#)

<sup>44</sup> Citizens Advice, [Debt at the close of 2020](#), 11 December 2020

<sup>45</sup> Turn2us, [Weathering the storm: How Covid-19 is eroding financial resilience](#), November 2020

<sup>46</sup> Office for National Statistics, [Personal and economic well-being in Great Britain: September 2020](#), 10 September 2020

<sup>47</sup> ONS, [Personal and economic well-being in Great Britain: January 2021](#), 21 January 2021

<sup>48</sup> Citizens Advice, [Excess debts - who has fallen behind on their household bills due to coronavirus?](#), 8 September 2020

<sup>49</sup> Citizens Advice, [Debt at the close of 2020](#), 11 December 2020

## Disabled people and people who are shielding

Citizens Advice found that 22% of those who were shielding due to coronavirus had fallen behind on their bills in July 2020, and that 3.1 million disabled people had fallen behind on their bills because of coronavirus. They found that 9% of disabled people had fallen behind on council tax payments by January 2021, compared to 7% of non-disabled people.<sup>50</sup>

Turn2us found that in September 2020, 46% of disabled people used at least one form of debt since March, compared to 33% of people with no disability.<sup>51</sup>

## Young people

From April to October 2020, 62.9% of under 30s could afford an unexpected expense of £850, compared to 72.5% of 30-59 year olds, and 80.7% of 60 year olds.<sup>52</sup>

Turn2us found that in September, 57% of people aged 18-24 had used at least one form of debt since March, compared to 20% of people aged 55+.<sup>53</sup>

The FCA found that in July 2020, 19% of those aged 25-34 said they were likely to seek debt advice in the following 6 months compared to 2% of those aged 55-64.<sup>54</sup>

Citizens Advice found that 27% of people aged 18-34 were behind on their bills between February and November 2020, compared to 4% of people aged 55+.<sup>55</sup> Young people are less likely to have built up savings to weather a short-term shock to their income and are also more likely to have higher housing costs and to be in insecure work.

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<sup>50</sup> Citizens Advice, [Unavoidable debt: Coronavirus council tax debt](#), 27 January 2021

<sup>51</sup> Turn2us, [Weathering the storm: How Covid-19 is eroding financial resilience](#), November 2020

<sup>52</sup> ONS, [Personal and economic well-being in Great Britain: January 2021](#), 21 January 2021

<sup>53</sup> Turn2us, [Weathering the storm: How Covid-19 is eroding financial resilience](#), November 2020

<sup>54</sup> Financial Conduct Authority, [FCA highlights continued support for consumers struggling with payments](#), 22 October 2020

<sup>55</sup> Citizens Advice, [Debt at the close of 2020](#), 11 December 2020

## 4

## Comparing the impact of coronavirus with the 2008/09 financial crisis

How does household savings, debt and spending during the pandemic compare to during the 2008/09 financial crisis?

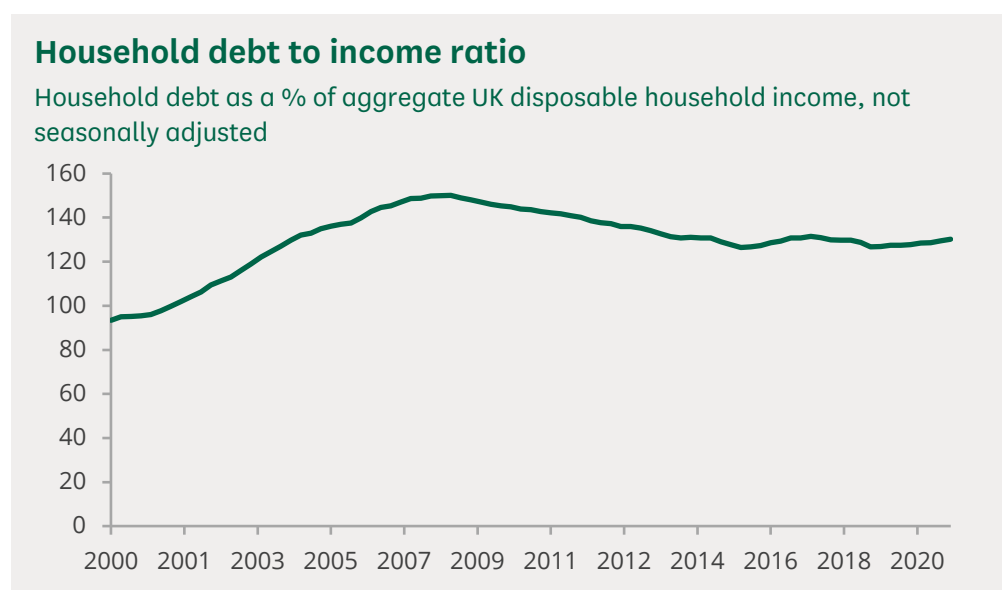
### Household debt levels fell during the 2008 financial crisis

As outlined in Section 2, during the coronavirus pandemic total debt has remained relatively constant, and unsecured debt has decreased, largely due to a decrease in spending because of lockdown restrictions. Household debt decreased during the 2008/09 financial crisis for different reasons.

During the financial crisis in 2008/09, banks were much more reluctant to offer loans (discussed further in Box 2), which caused a decrease in household debt. As well as this, because of increased uncertainty, households were less inclined to take on additional debt, instead concentrating on paying off existing commitments.<sup>56</sup>

The result was a decline in the household debt-to-income ratio from around 145% at its peak in early 2008 to 127% in late 2015.

#### Chart 6



Source: ONS, [Households \(S.14\): Debt to Income ratio: percentage: NSA](#), 20 June 2021

<sup>56</sup> Bank of England, Quarterly Bulletin 2021 Q2, [Household debt and Covid](#), 25 June 2021

## 2 A ‘credit crunch’ versus an external shock

The big difference between the 2008/09 financial crisis and the coronavirus pandemic when it comes to household finances is that the 2008/09 financial crisis was **caused by problems in the financial system itself**, whereas the pandemic is a **temporary external shock**.

In 2008/09, banks suffered large losses which caused a ‘credit crunch’: banks were reluctant to lend to individuals and companies. This had ramifications for the rest of the economy. Library paper [The credit crisis: a timeline](#), explains this in more detail.

On the other hand, changes in household savings, debt and spending in 2020/21 has nothing to do with the financial system. The coronavirus pandemic and resulting lockdowns are the core causes of these changes. This should mean that these changes will reverse more quickly once lockdown ends, as outlined in the sections below.

## The UK financial system was better prepared for a crisis in 2020 than in 2008

In 2008, high levels of household debt before the crisis amplified the economic shock, as households with lots of debt cut back sharply on their spending or defaulted on their debts. Households defaulting on their debts can mean lenders tighten credit conditions, making it harder for households to borrow.<sup>57</sup>

The Bank of England says there is little evidence that household debt has amplified the coronavirus recession. In 2020, the total stock of UK household debt (excluding student loans) was equivalent to around 123% of total household income, significantly below its 2008 peak of around 145%.

Interest rates are significantly lower than in 2008, so it is less costly to pay back debt (households have lower ‘debt servicing costs’).<sup>58</sup>

Post financial crisis reforms, such as the Bank of England’s Financial Policy Committee’s mortgage market Recommendations, put in place in 2014, have also helped to guard against a significant increase in the number of highly indebted households.<sup>59</sup>

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<sup>57</sup> Bank of England, [Household debt and spending. Quarterly Bulletin 2014 Q3](#), 16 September 2014

<sup>58</sup> Bank of England, Quarterly Bulletin 2021 Q2, [Household debt and Covid](#), 25 June 2021

<sup>59</sup> Bank of England, [Financial Stability Report - December 2020](#), 11 December 2020

The UK banking system is also better capitalised than 2008, so lenders could avoid the ‘credit crunch’ that happened in 2008, and keep lending to support households during the pandemic, and offer payment holidays on debt.<sup>60</sup>

## Spending after coronavirus is set to recover faster

During coronavirus, household consumption dropped much more dramatically than in 2008. In 2008 the peak to trough fall in consumption expenditure was 4.1 % (January-March 2008 – April-June 2009). In April-June 2020, there was a decrease of 21.6% in final consumption expenditure.

However, because the drop in consumption during coronavirus was largely due to lockdown restrictions, economists expect it to recover more quickly than was the case in 2008. In July-September 2020 there was a strong bounce back in household spending, as non-essential retail and hospitality reopened.<sup>61</sup>

As well as this, unlike in 2008/09, Government interventions like the Coronavirus Job Retention Scheme, Self Employment Income Support Scheme, and £20 per week increase of Universal Credit have protected jobs and incomes, and this will support a recovery.

However, there is still uncertainty about what will happen to household finances after the initial post-pandemic bounce. Low-income households are more likely to spend additional savings, and because most of the increase in savings has been concentrated in higher-income households, it is unclear how much extra spending will take place.<sup>62</sup> Consumers may also be more cautious of health risks and financial uncertainty as the economy reopens, which might mean more precautionary savings.

The end of the Government support in the autumn will mean a fall in income for households on Universal Credit and will likely mean an increase in the unemployment rate, which will put downward pressure on spending.<sup>63</sup>

Library briefing paper [Coronavirus: Economic impact](#) provides more detail about the factors which could affect economic recovery.

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<sup>60</sup> Bank of England, [Monetary Policy Report and Financial Stability Report - August 2020](#), 6 August 2020

<sup>61</sup> ONS, [Coronavirus and the Impact on UK households and businesses: 2020](#), 19 April 2021

<sup>62</sup> Bank of England, [Monetary Policy Report](#), February 2021, section 3, and [Monetary Policy Report](#), May 2021, p20

<sup>63</sup> HM Treasury, [Survey of independent forecasts for the UK economy: May 2021](#), 19 May 2021

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## 5 Further Reading

### 5.1 House of Commons Library

[Coronavirus: impact on the labour market](#)

This provides statistics on the pandemic's effect on the labour market, and most affected workers.

[Coronavirus: Economic impact](#)

This provides analysis on the pandemic's effect on GDP and public finances.

[Household debt: statistics and impact on economy](#)

This provides an overview of household debt statistics.

### 5.2 Other sources

#### Official statistics

[Coronavirus and its impact on the UK Institutional Sector Accounts: Quarter 2 \(Apr to June\) 2020](#)

30 September 2020|ONS

This provides official figures on savings and debts in April-June 2020

#### Saving and spending

[Financial Lives 2020 survey: the impact of coronavirus,](#)

11 February 2021|Financial Conduct Authority

This tracks the impact of coronavirus on consumer trends and financial resilience.

[Pandemic Pressures, Why families on a low income are spending more during Covid-19,](#)

11 January 2021|Resolution Foundation

This uses online surveys and interviews to show that low-income families have increased spending over lockdown

[How has Covid affected household savings?](#)

25 November 2020|Bank of England

This uses household surveys to show that higher income households have saved more than low-income households during the pandemic.

[Spending and saving during the COVID-19 crisis: evidence from bank account data,](#)

29 October 2020|Institute for Fiscal Studies

This uses data from a budgeting app to show spending and saving in March-September 2020.

## Debt

[Stormy Weather: Covid and Debt, The impact of the Covid-19 pandemic on financial difficulty in January 2021,](#)

February 2021|Stepchange

This presents the results of a poll in January 2021 about how personal finances have been affected, and most affected groups.

[Lockdown debts: estimating the size of lockdown arrears,](#)

30 October 2020|Citizens Advice

This estimates the number of people behind on bills and payments, and the value of 'lockdown arrears' since the start of the pandemic.

## Incomes

[The Living Standards Audit 2021](#)

1 July 2021|Resolution Foundation.

This report explores incomes and employment before and during the pandemic and offers forecasts for living standards after coronavirus.

[The debts that divide us, Flash findings from a survey of families claiming Universal Credit](#)

7 February 2021|Resolution Foundation

This explores the change in the Universal Credit caseload since the start of the pandemic, and presents survey results on how Universal Credit claimants are faring.



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