



**BRIEFING PAPER**

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# Financial services: contribution to the UK economy

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## Summary

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

In 2017, the financial services sector **contributed £119 billion to the UK economy**, 6.5% of total economic output. The sector was largest in London, where 50% of the sector's output was generated.

The UK financial services sector was the **eighth largest in the OECD** in 2016 by its proportion of national economic output. Luxembourg's financial service sector was the largest in the OECD, contributing 27% of the country's economic output.

There were **1.1 million financial services jobs** in the UK, 3.2% of all jobs.

Exports of UK financial services were worth £61 billion in 2016 and imports were worth £11 billion, so there was **a surplus in financial services trade of £51 billion**.

44% of financial services exports went to the EU and 39% of financial services imports came from the EU.

The sector contributed **£27.3 billion in tax** in the UK in 2016/17.

For more information on the **impact of Brexit** on the financial services sector, please see the following Library briefing: [\*Brexit and financial services\*](#).

# 1. Measuring the contribution of the financial sector

This paper provides information on the economic output of the financial services sector and international comparisons; the number of jobs in the sector; statistics on the sector's exports and imports; and the amount of tax it contributes to the Exchequer.

Measures of the financial sector usually include the activities of a wide range of firms, including retail banks, building societies, investment banks and hedge funds, and are wider than the activities of financial services firms located in the City and Canary Wharf. Mostly, 'financial services' in this briefing paper are defined as the financial and insurance activities sector, [Standard Industrial Classification Section K](#).

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

There are a wide variety of other sources of information on the financial services sector. City UK represents the interests of the financial services sector in the UK and published the following document in December 2017: [Key Facts about the UK as an international financial centre 2017](#). The data in the City UK analysis are from different sources and are so not comparable to the data used in this paper.

## 2. Economic output

Economic output is measured by Gross Value Added (GVA) which is similar to GDP but is used to measure the contribution of part of the economy, such as an industry or region.

### 2.1 Economic output over time

In 2017, financial and insurance services contributed £119.1 billion to the UK economy, 6.5% of the total.<sup>1</sup>

Economic output of the UK finance and insurance industry				
	£ billion, current	£ billion, constant (2015 prices)	Change on previous year (constant)	% of total economy
1990	33.7	68.3	-	5.5%
1991	35.2	69.2	1.3%	5.5%
1992	36.4	66.9	-3.3%	5.5%
1993	43.8	68.8	2.8%	6.3%
1994	43.4	69.3	0.8%	5.9%
1995	47.9	70.6	1.9%	6.2%
1996	49.4	73.7	4.4%	6.0%
1997	51.1	79.0	7.2%	6.0%
1998	51.6	83.1	5.1%	5.8%
1999	49.4	84.5	1.7%	5.3%
2000	49.7	88.3	4.5%	5.1%
2001	51.7	91.4	3.5%	5.1%
2002	56.1	95.4	4.4%	5.3%
2003	65.5	101.8	6.8%	5.8%
2004	78.5	106.7	4.7%	6.7%
2005	94.4	114.5	7.3%	7.6%
2006	102.6	123.3	7.7%	7.8%
2007	118.3	129.2	4.8%	8.6%
2008	108.4	131.3	1.6%	7.6%
2009	125.9	131.1	-0.1%	9.0%
2010	115.7	120.9	-7.8%	8.1%
2011	114.1	120.4	-0.4%	7.8%
2012	112.9	122.0	1.3%	7.5%
2013	118.0	119.4	-2.2%	7.5%
2014	122.4	118.0	-1.2%	7.5%
2015	114.3	114.3	-3.1%	6.8%
2016	116.9	114.7	0.4%	6.7%
2017	119.1	114.7	-0.1%	6.5%

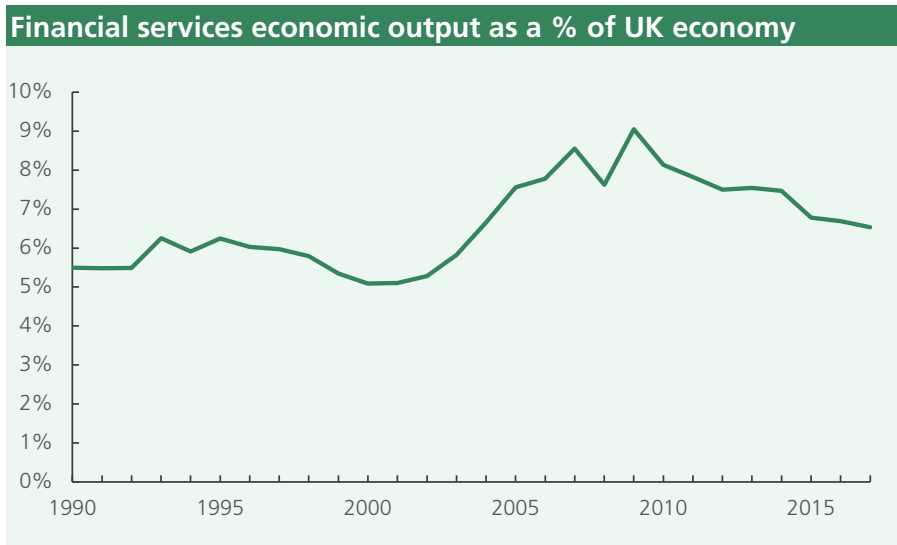
Source: ONS, Quarterly National Accounts, Q4 2017, Low Level Aggregates Table

ONS Series KL90, KKK9, KKP5

Economic output in terms of Gross Value Added (GVA)

<sup>1</sup> ONS, [Quarterly National Accounts](#), Q4 2017, [Low Level Aggregates Table](#)

## 6 Financial services: contribution to the UK economy



Financial and insurance activities have grown as a proportion of total economic output since the early 1990s.

There was strong growth during the early 2000s, followed by a steady fall since the recession in 2008 and 2009.

In 2017, the sector contributed 6.5% of the UK economic output, down from 9.0% in 2009.

## 2.2 Financial services in the regions and countries of the UK

There is a wide disparity in the financial sector's contribution to the economy across different regions and countries of the UK. London accounted for half of the total UK financial and insurance sector's GVA in 2016.

The financial sector contributed £58.2 billion to London's economy in 2016, 14% of London's total economic output. This is a much higher proportion than in any other part of the UK.<sup>2</sup>

Financial services economic output by UK country & region, 2016			
	£ billions	% of regional output	% of UK financial services
London	58.2	14%	50%
South East	10.6	4%	9%
Scotland	8.1	6%	7%
North West	7.9	5%	7%
South West	6.4	5%	6%
The Humber	5.5	5%	5%
West Midlands	5.5	4%	5%
East of England	5.0	3%	4%
Wales	2.6	4%	2%
East Midlands	2.5	2%	2%
North East	1.9	4%	2%
Northern Ireland	1.2	3%	1%
UK	115.3	7%	100%

Source: ONS, Regional Gross Value Added, Balanced Approach, 2017, via NOMIS database

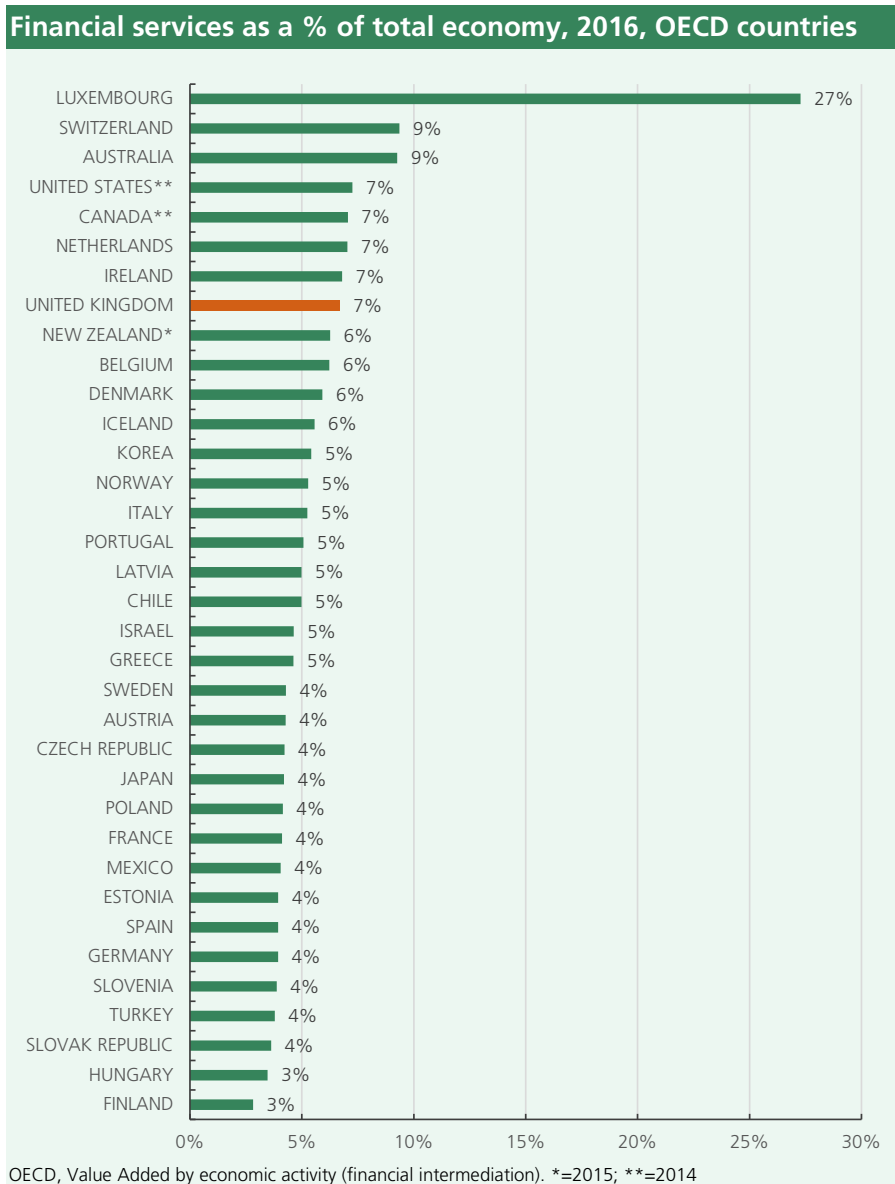
<sup>2</sup> ONS, [Regional Gross Value Added 1998-2016](#), Balanced Approach, 2017

## 2.3 International comparisons

UK's financial services sector contributed the eight highest proportion of economic output in the OECD countries.<sup>3</sup>

Luxembourg's reliance on the financial services is a significant outlier (the sector accounts for 27% of economic output in Luxembourg).

Switzerland's financial services sector contributed 9.4% of total economic output in 2016.



<sup>3</sup> OECD, [Value added by activity](#), accessed April 2018, Finance and insurance



### 3. Workforce jobs

In Q4 2017, there were 1.1 million jobs in the financial and insurance sector, 3.2% of all jobs in the UK.

The number of jobs in the financial services sector has remained broadly steady over the past few decades, but the proportion of jobs in this industry has fallen as the number of jobs in the whole economy has grown.

<b>Jobs in the UK financial services sector, Q4 each year</b>		
	Thousand jobs	% of all jobs
1981	875	3.4%
1991	1,126	4.0%
2001	1,192	3.9%
2002	1,194	3.9%
2003	1,180	3.8%
2004	1,172	3.8%
2005	1,154	3.6%
2006	1,171	3.7%
2007	1,185	3.7%
2008	1,209	3.8%
2009	1,128	3.6%
2010	1,116	3.5%
2011	1,120	3.5%
2012	1,145	3.6%
2013	1,116	3.4%
2014	1,114	3.3%
2015	1,111	3.3%
2016	1,127	3.2%
2017	1,134	3.2%

Source: ONS, Workforce jobs data, Q4 each year, via NOMIS database

Financial and insurance activities

## 4. Trade in financial services

The UK has a trade surplus in financial and insurance activities (exports exceed imports in the sector) of £51 billion.<sup>4</sup>

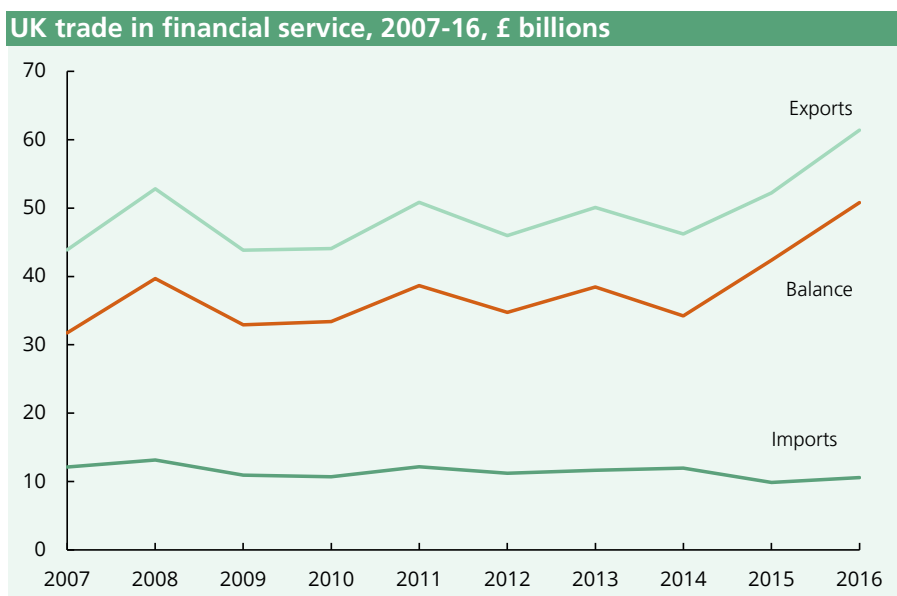
UK trade in financial services, 2007-16, £ billions										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Exports	43.9	52.8	43.9	44.1	50.8	46.0	50.1	46.2	52.2	61.4
Imports	12.1	13.1	10.9	10.7	12.2	11.2	11.6	12.0	9.9	10.6
Balance	31.7	39.7	32.9	33.4	38.7	34.7	38.5	34.2	42.4	50.8

Source: ONS Pink Book, various editions

In 2016 exports of financial services were worth £61.4 billion, while imports were worth £10.1 billion, resulting in trade surplus of £50.8 billion. Financial services made up 25% of all UK service exports and 7% of all service imports.

The UK's trade in financial services over the last ten years is shown below. The UK has maintained a trade surplus in financial services in each of the last ten years, peaking at £51 billion in 2016.

UK exports of financial services peaked at £61 billion in 2016; UK imports of financial services have fallen slightly in recent years from a high of £12 billion in 2014.



<sup>4</sup> ONS, [Pink Book 2017](#), (and earlier editions), [Table 3 – trade in services](#)

## 4.1 Financial services trade with the EU

Exports of financial services to the EU were worth £27 billion (44% of all UK financial service exports), while imports from the EU were worth £4 billion (39% of UK imports of financial services).

Exports of financial services to non-EU countries were worth £34 billion (56% of all UK financial service exports), while imports were worth £6 billion (61% of UK imports of financial services).

UK trade in financial services, 2007-16				
	Exports		Imports	
	EU	Non-EU	EU	Non-EU
2007	39%	61%	39%	61%
2008	39%	61%	41%	59%
2009	41%	59%	36%	64%
2010	40%	60%	36%	64%
2011	42%	58%	36%	64%
2012	39%	61%	35%	65%
2013	41%	59%	33%	67%
2014	41%	59%	33%	67%
2015	45%	55%	35%	65%
2016	44%	56%	39%	61%

Source: ONS Pink Book, various editions

Since 2007, the proportion of exports of financial services to the EU has grown from 39% to the current total of 44%.

Imports of financial services from the EU dipped in 2012 to 2015 but have recently returned to the same proportion of all financial service imports as in 2007.

## 5. Taxation of the financial services industry

Her Majesty's Revenue and Customs (HMRC) publishes details of receipts from the banking sector from income tax, national insurance contributions, corporation tax, the bank payroll tax and the banking levy.<sup>5</sup>

In 2016/17, these taxes raised £27.3 billion. The majority of this was from PAYE (income tax and national insurance) which raised nearly £18.4 billion with corporation tax raising £4.8 billion and the bank levy raising £3.0 billion. The bank surcharge was introduced in January 2016. It raised £1.1 billion in 2016/17.

UK tax receipts from the banking sector, £ billions						
	PAYE	Corporation Tax	Bank Payroll Tax	Bank Levy	Bank Surcharge	Total
2005-06	13.6	7.0	-	-	-	20.6
2006-07	15.9	7.3	-	-	-	23.2
2007-08	16.7	6.6	-	-	-	23.3
2008-09	14.0	3.9	-	-	-	17.9
2009-10	15.2	2.1	-	-	-	17.3
2010-11	17.5	3.5	3.4	-	-	24.4
2011-12	17.6	1.3	-	1.6	-	20.5
2012-13	17.8	2.2	-	1.6	-	21.6
2013-14	17.6	1.6	-	2.2	-	21.3
2014-15	17.9	2.3	-	2.7	-	22.9
2015-16	17.8	3.2	-	3.4	0.0	24.4
2016-17	18.4	4.8	-	3.0	1.1	27.3

HMRC, *PAYE and Corporate Tax receipts from the banking sector: 2017*

The City of London Corporation publishes estimates of financial sector tax receipts.<sup>6</sup> This is based on research by PricewaterhouseCoopers (PwC), which collects data from a survey of financial services companies.

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

The PwC research indicates that the financial sector contributed £72.1 billion or 11.0% of total government receipts in 2016/17.

<sup>5</sup> HMRC, *PAYE and Corporate Tax receipts from the banking sector: 2017*, August 2017

<sup>6</sup> City of London Corporation/PwC, *Total Tax Contribution of UK Financial Services, 10<sup>th</sup> edition*, November 2017

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