

# Financial Services Lead Advisory

**UK Credit Market Focus**  
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# Introduction

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Welcome to our publication on the UK credit market, where we explore a selection of the key macroeconomic conditions affecting the UK economy and more specifically the UK housing sector. We believe that could be relevant for both lenders and investors operating in the UK credit markets.

In this edition, we examine the UK mortgage market and the significant developments that have happened in 2022 and what could be expected in 2023.

If you have any questions on the analysis provided or the topics discussed, please reach out to the team members listed within.

We have a dedicated team of over 80 professionals across Europe who have market leading experience advising on loan portfolio and credit transactions and other credit and balance sheet optimisation processes. For further details please get in touch.

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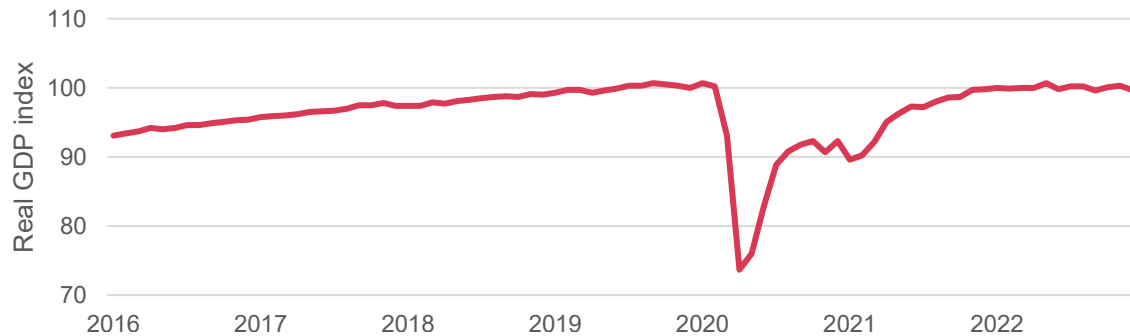
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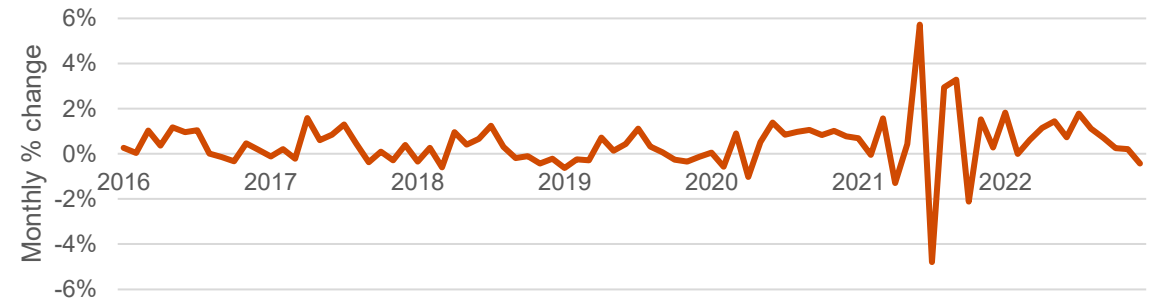
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High interest rates combined with high inflation seem to have stalled the economic bounce back from Covid-19. This has led to declining house price growth (and even negative growth in Dec-22). We expect that to persist during 2023.

UK Real GDP, 2016 - 2022 (Dec 2019 = 100)



UK house price monthly percentage change (2016 – 2022)

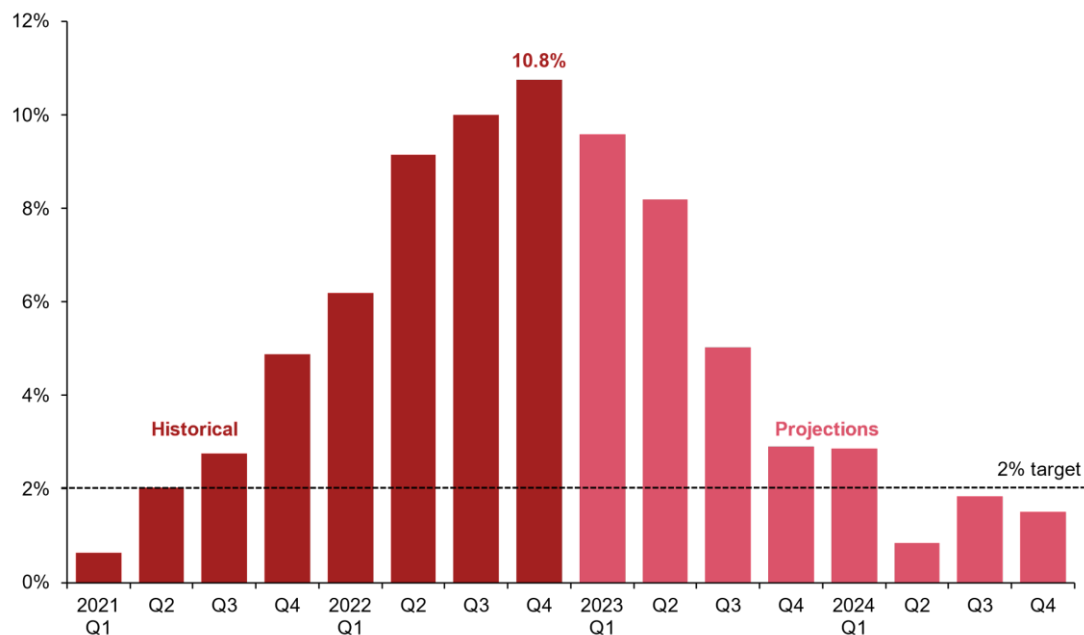


Sources: PwC analysis, ONS, Land Registry  
For more detailed information, please see our [PwC Economics publications](#).

Our modelling indicates that inflation has peaked at around 11%, making this the third highest inflation episode on record. Even though inflation has started to fall, there is uncertainty over how long it will take to get back to the 2% target and pressure on house prices through higher interest rates may persist

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**UK Consumer Price Inflation, projections from Q1 2023**



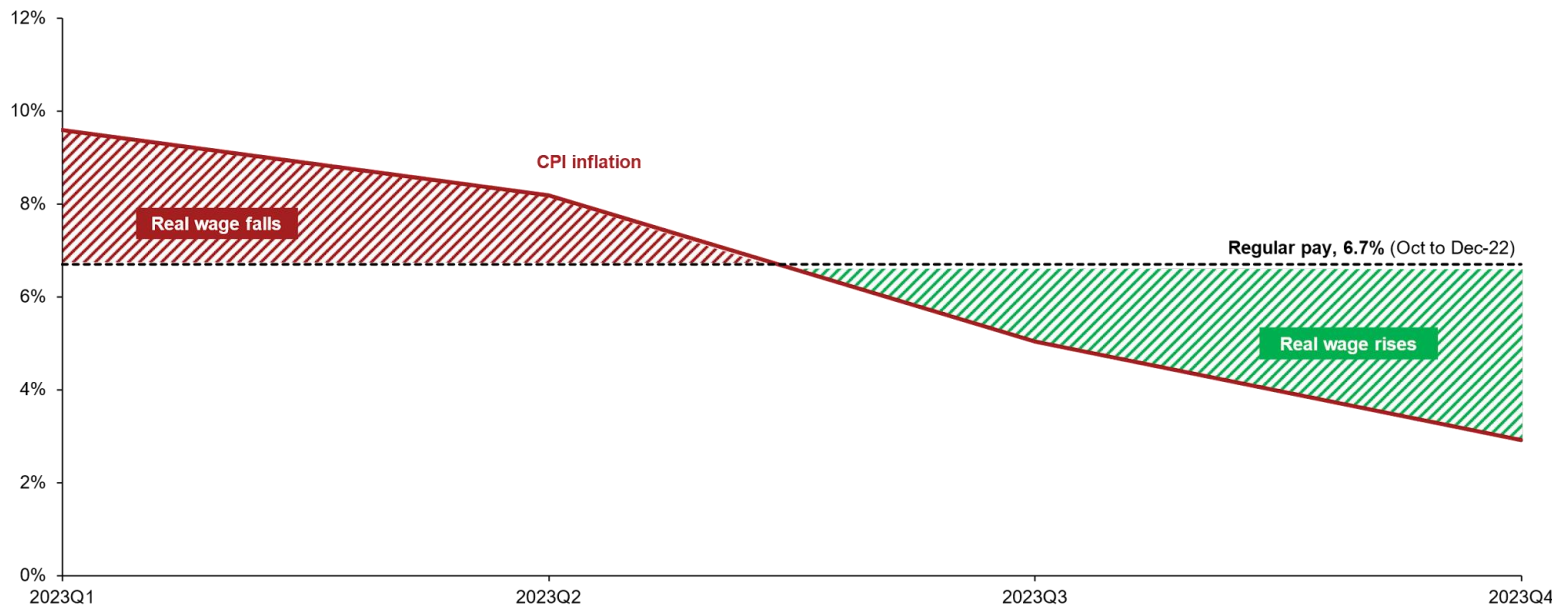
Sources: PwC analysis, ONS, Land Registry  
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1. OPEC oil embargo, early 1970s (24% peak)
2. Iranian revolution, late 1970s (18% peak)
- 3. Current crisis, 2021-23 (Projection: 11% peak)**
4. Iraq invades Kuwait, late 1980s (8% peak)
5. Libyan revolution, late 2000s (5% peak)

UK macro-economic overview - We expect that 2023 will be a year of two halves - with the squeeze on real incomes easing as the year goes on. This could help minimise levels of stress on retail loan portfolios

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**Projected annual growth in CPI from Q1 to Q4 2023 and latest total nominal pay growth**

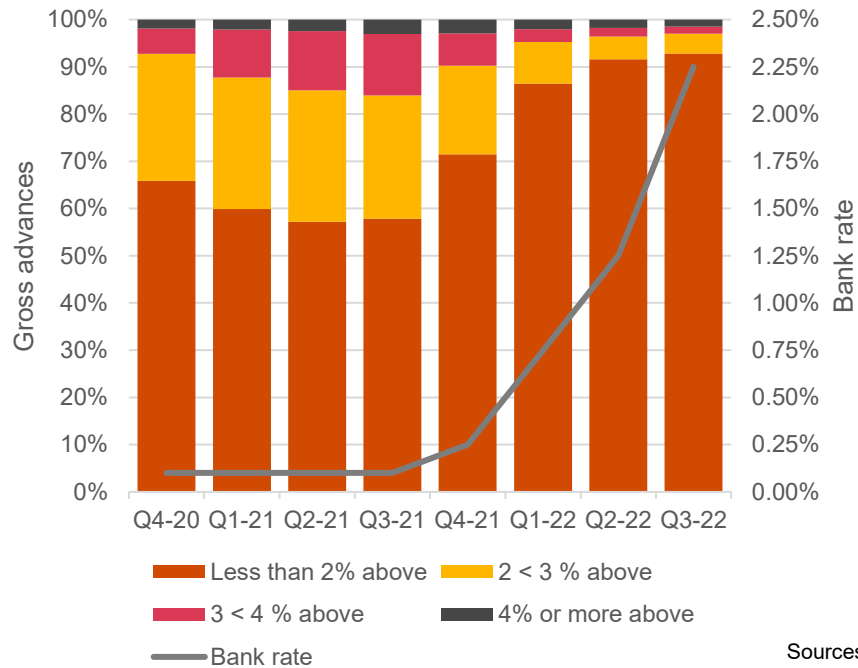


Sources: PwC analysis, ONS, Land Registry  
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# Mortgage lenders saw a combination of lower credit spreads and people fixing for longer in the first three quarters of 2022

Lenders have seen a squeeze on credit spreads as increases in offer rates lagged behind the increases in the base rate

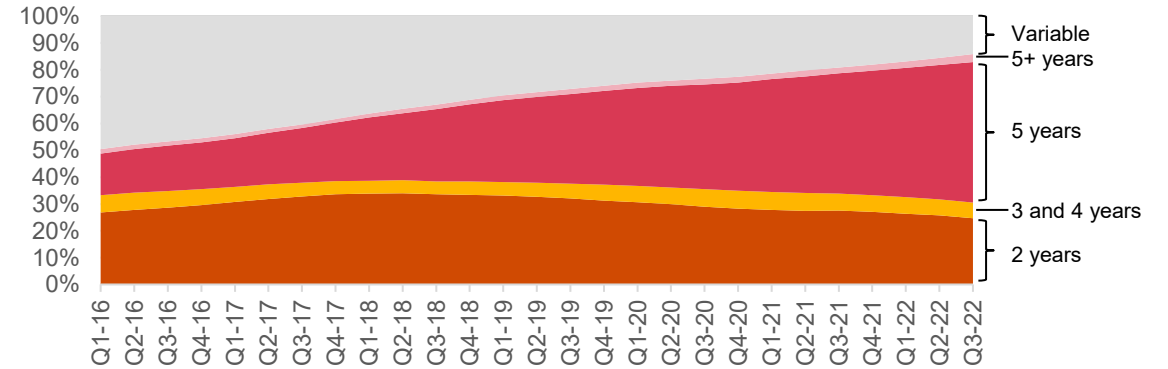
Per cent of gross UK mortgage advances above Bank Rate



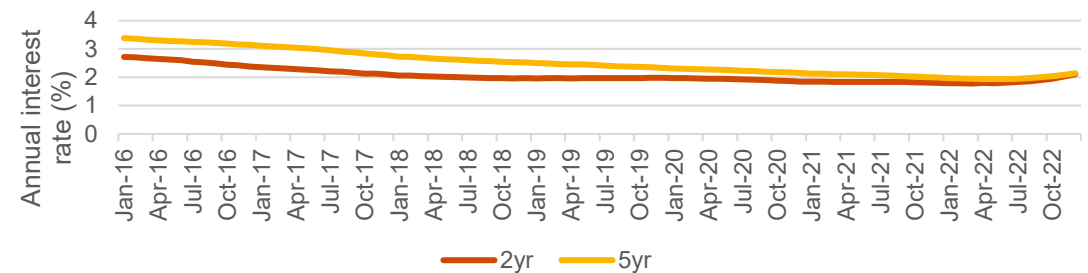
Sources: PwC analysis, Bank of England, ONS

Mortgage borrowers have been fixing for 5 years as they sought to lock in at record low interest rates

Total distribution of outstanding mortgages by period of initial interest rate fix



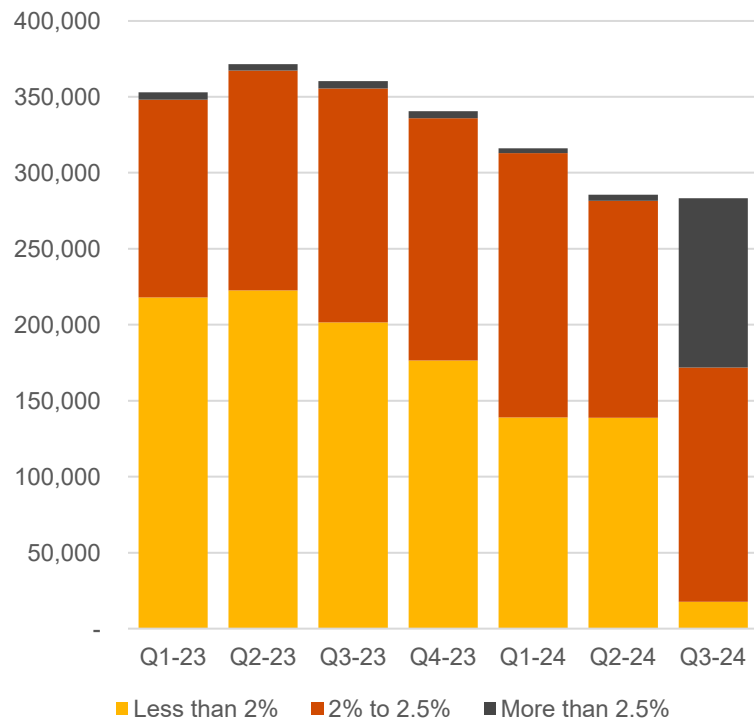
Monthly average of UK resident banks' mortgage interest rate - initial fix 2yr vs 5yr



A significant amount of households will see their fixed rate mortgages mature in 2023 and will face refinancing at higher rates, which will put pressure on their monthly expenses. Current data suggests those borrowers with LTVs >90% will be most impacted

Over 300,000 mortgages are expected to come to the end of their fixed rate period every quarter in 2023 and into 2024

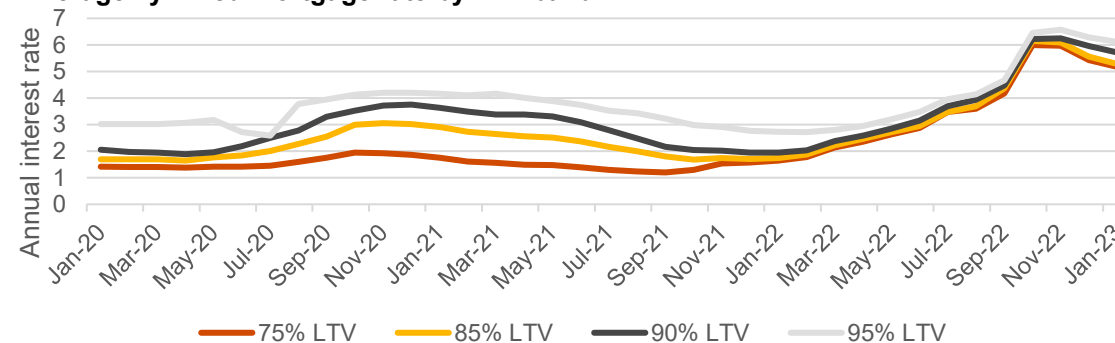
Number of fixed rate mortgages coming up for renewal by initial interest rate



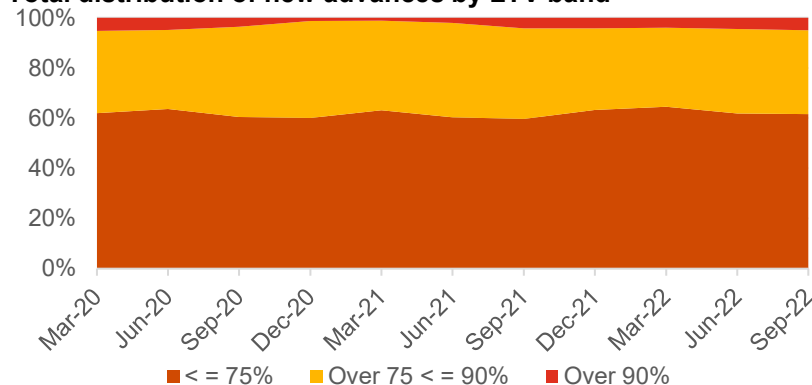
Sources: PwC analysis, Bank of England, ONS

Interest rates between differing LTV bands converged in 2022, however the gap has started widening again after October

Average 2yr fixed mortgage rate by LTV band

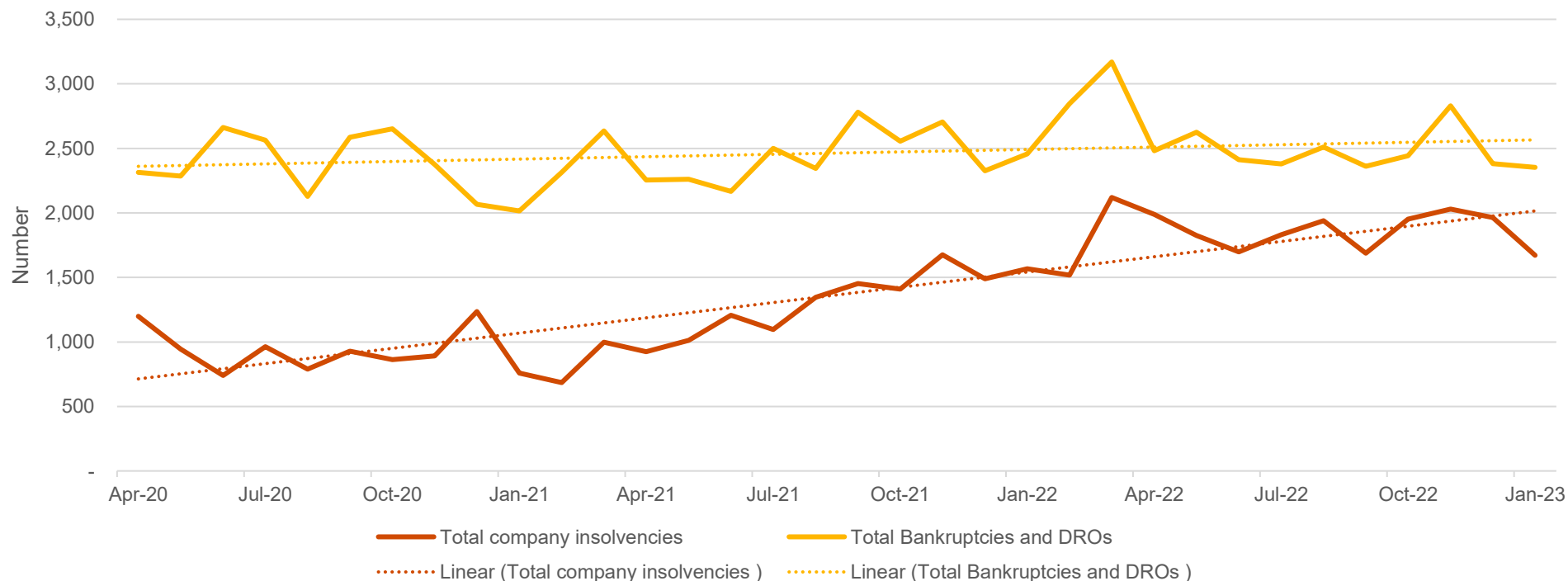


Total distribution of new advances by LTV band



Indications of market stress show a trend in increase in company Insolvencies since the start of Covid-19, however individuals appear more resilient. We expect that will be a time lag before the effects of higher interest rates and the higher cost of living fully feed through the system

**Number of company Insolvencies and individual Bankruptcies and Debt Relief Orders (England and Wales), during and post Covid-19**



Sources: PwC analysis, Bank of England, ONS  
 For more detailed information, please see our [PwC Restructuring publications](#).



# Thank you

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