

NORTH EAST

RACE EQUALITY FORUM

INFORMATION BRIEFING

No. 22



The Financial Cost of Covid-19 and Banks > A Prior Issue for the UK and World

Covid-19

Covid-19 as we know has had a devastating effect on people's lives, their mental health and economic futures. As important for all our futures is how much it has cost the taxpayer/government. Both politicians and media have stated that the many billions paid out for Covid-19 measures are unprecedented. But this only tells some of the truth and so this briefing details the actual facts.

So what currently are the facts? Now first we recognise that this situation is still ongoing. Although, the government National Audit Office (NAO) state that between February 2020 to 31st March 2022 government spent **£376 billion**

(see <https://www.nao.org.uk/covid-19/cost-tracker/>). Of this **£376 billion (bn)**, **£147bn supported businesses; £89bn supported health and social care; £75bn supported other public services and emergency responses; £60bn supported individuals; and £5bn supported operational expenditure**. A further **£129 billion** was also loaned or guaranteed by government or Bank of England. Further information can be found via the NAO link below. Also a recent BBC News report (<https://www.bbc.co.uk/news/business-52663523>) whilst commenting on the financial cost of Covid-19 notes that whilst it is expected that the government will spend less, from April 2021 to 2022 this will mean just over **£200bn** will have been spent.

So approximately **£700bn** will have been spent. But costs may also rise due to

support still needed for a number of years into the future. This is of course an overall enormous amount but it is not the most the UK government has ever had to spend in recent years and it is in fact just over half of that. Our next section provides the facts on this 'other' recent expenditure.



Banks

Q: Why did the Government provide support to UK banks?

In 2007, financial markets entered a sustained period of instability, causing difficulties for banks across the world and starting a global credit crisis. So Parliament, through the Treasury, took action to: protect depositors in banks; maintain liquidity as failure would threaten the overall financial system; ensure that banks would have sufficient capital to cushion them from future losses; and encourage banks to lend to creditworthy borrowers.

Q: How much support did the Government provide to UK banks?

There have been two types of support provided **Guarantee commitments** and **Cash outlay**. In total **£1,029bn** in **Guarantee commitments** and **£133bn** in **Cash outlay**. So in total **£1,162bn** was loaned to the banks of which **£122bn** was still owed to us in March 2014 (**£21bn** in **Guarantee commitments** and **£101bn** **Cash outlay**). The latest NAO information states that the debt in March 2020 still stood at **£22bn** (**Guarantee commitments £13.5bn** and **Cash outlay £8.5bn**) (see <https://www.nao.org.uk/highlights/taxpayer-support-for-uk-banks-faqs/#>).

Q: So will we get all the money back we gave to the banks?

It is likely that a substantial proportion of these schemes and investments will be with us for some time and the eventual profit or loss to the taxpayer will not be known until all the support is removed, the loans repaid and the shares sold. How much the taxpayer will receive will depend on a number of different factors.

Q: Has the taxpayer been sufficiently recompensed for providing this support?

The income generated by fees and interest is less than would be expected from a normal market investment and has not compensated the taxpayer for the degree of risk accepted by taxpayers in providing this support. Once the opportunity cost and risks are factored in the Guarantee commitments and Cash have represented a transfer from taxpayers to the financial sector. Also bear in mind that the situation continues: after the scandal about Forex and Libor, Banks are now having to pay fines for fixing the currency exchange rates: some of these banks are still technically owned by the taxpayer.



Conclusions

Although financially Covid-19 may not cost as much as loans to the financial sector at least with the banks money was gradually paid back, although after many years later. With both situations this will probably lead to not only tax increases but also public expenditure cuts. As with the bank debt virtually all public services witnessed reductions in funding and of course we then had 'austerity'. Covid-19 though overall has potentially caused as poor or worse situation and we are still dealing with that.

Contact: *For further information, back copies of Information Briefings or Research Briefings, or to join the Network email, gary.craig@galtres8.co.uk*

The North East Race Equality Forum is a Network of around 300 individuals and organisations in the North East Region committed to promoting racial equality in the context of social justice. No one organisation is necessarily committed to every idea published in the name of the Forum. The Forum is supported by the 'Race', Crime and Justice Regional Research Network, which includes researchers from each University in the region.