UK Finance

Business Finance Review 2025 Q3

Quarterly commentary on business finance for small and medium-sized enterprises.

December | 2025

2025 Q3 Highlights

UK Finance provides a regular analysis of how the finance needs of small and medium-sized enterprises (SMEs) are being supported through lending from mainstream lenders and specialised finance providers and looks at their deposit holdings. This latest *Business Finance Review* provides a round-up of lending activity to SMEs in the third quarter of 2025.

Executive Summary

- 2025 Q3 saw a further year-on-year increase in gross lending to SMEs. This continues the steady growth reported since the start of 2024. However, the pace of lending growth continued to ease in the three months to September. Aside from some seasonal variation the lending across sectors also points to moderation in new lending in Q3.

- Continuing the trend of the past year, lending growth to the smallest firms outpaced that to medium-sized businesses, but the rate of increase eased for this cohort. Gross lending to medium sized businesses was broadly stable over the quarter – as indicated by flat approvals data earlier in the year.

- Approvals of new loans and overdrafts plateaued in Q3, which points to a further slowdown in gross lending in the final months of 2025. The exception, however, is again small company loan approvals, which does appear to have a little bit of momentum going into the final months of the year.

- The aggregate overdraft utilisation and deposits pictures points to little overall change in Q3. At the aggregate level, therefore, SMEs continue to retain headroom within existing finance facilities and deposits. However, new analysis of the data shows that there are some sectors that might be heading for cashflow challenges with some sectors seeing real current account deposits and the proportion of accounts in overdraft return to pre-Covid levels.

- Repayments were also little changed over the quarter as SMEs continue to manage debt obligations and the legacy of pandemic funding. However, this left net lending broadly flat over the quarter.

Economic context

The UK economy slowed in the third quarter, with GDP increasing by a weaker-than-expected 0.1 per cent compared with the previous quarter. This represents a material loss of momentum relative to a solid H1.

Looking across broad industries, there was a consistently sluggish picture. Output in the dominant services sector rose by 0.2 per cent on the quarter, this was the slowest pace of growth for a year. Aside from public services output (public admin and defence, and education) which accelerated, it was a similarly flat trend across sub-sectors. Hospitality, however, had a more challenging quarter with output contracting by 0.4 per cent.

Official retail sales data as well as UK Finance card spending data point to cautious consumers, in line with fragile sentiment indicators. Households have instead been rebuilding savings buffers amidst signs of increasing worries about labour market prospects. Whether 'Black Friday' sales bring shoppers back out to the High Street at the end of the year remains to be seen.

Turning to other sectors in Q3, there was a similar flat story across construction, which posted modest growth of 0.1 per cent. Declines in housing construction offset growth in repair and maintenance. Output in the production sector was the outlier, declining by 0.5 per cent in Q3. This was driven to a large extent by a sharper contraction in manufacturing output. And within that, the impact of the cyber-attack on JLR loomed large. Output in that sector contracted by 29 per cent in September alone. Activity does not look to have rebounded at the start of Q4 with industry data from the Society of Motor Manufacturers and Traders showing car production down by almost a quarter in October.

Investment by businesses also fell 0.3 per cent over the quarter, following a larger decline in Q2. This tallies with weakness in investment intentions, as measured in CBI surveys, for example. Over the past nine months businesses have had to manage additional employment costs announced in last year's budget. Evidence from the Decision Maker Panel survey suggests that while businesses had planned to manage these cost increases through a combination of lower pay growth, some headcount reductions and lower profits, the most common reaction has been to absorb costs in lower margins.

Moreover, worries that further tax increases could be on the horizon in this year's autumn budget, also had a dampening effect on activity in September and October. The purchasing managers' index, for example, reported delayed decision making for services firms ahead of the statement. That said business surveys did point to a

modest improvement in sentiment over the quarter compared with H1. Some easing in global trade tensions has provided some upside news this quarter.

The build up to the budget and concerns that the Chancellor would need to bring forward further tax increase and/or spending cuts to hit her fiscal targets weighed on business and consumer confidence in the autumn. However, updated economic and fiscal forecasts from the Office for Budget Responsibility brought better than expected news on the public finances. Downward revisions to trend productivity were offset by an improved outlook for income tax receipts.

The chancellor did, however, announce a range of tax raising measures, mostly backloaded towards the end of the forecast period, allowing her to meet fiscal rules with a larger buffer than last year's budget. The main sources of additional revenue will come from a further freeze of income tax thresholds, increased gambling taxes and limiting tax relief on pension contributions. While there was no big hit to business this time, a further above-inflation increase to minimum wage rates was also announced.

There were also some significant spending announcements, including an end to the child benefit cap, freeze to rail fares and fuel duty, as well as a raft of infrastructure, and innovation investments. The greater degree of headroom against fiscal rules by the end of the parliament provided some reassurance to financial markets and ten-year gilt yields fell slightly following the statement.

Turning to monetary policy, the Monetary Policy Committee (MPC) voted narrowly to hold Bank Rate at four per cent in November. There was a range of views on the risks to inflation and labour market outlook at the meeting. But with inflation looking to have peaked and the demand outlook tepid in the year ahead markets are now expecting a 25-basis point cut in December.

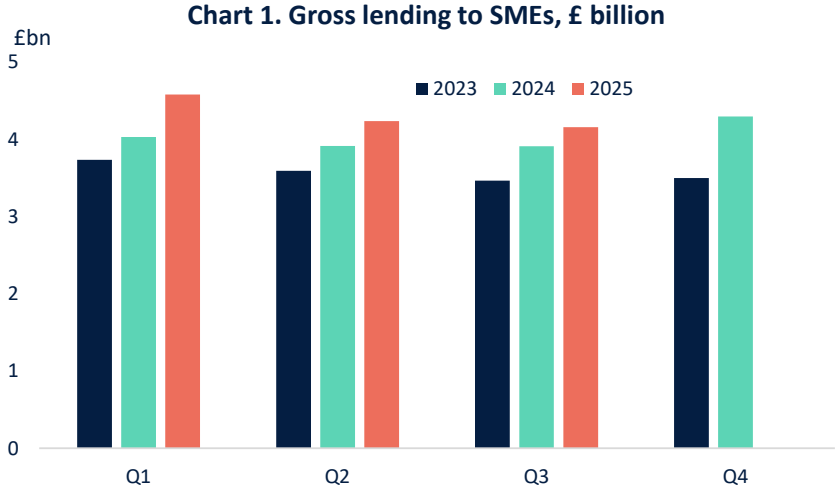
Lending to SMEs

2025 Q3 saw a further year on year increase in gross lending to SMEs by the main High Street lenders (**chart 1**). Our data has pointed to successive rises in lending since the start of 2024 and the three months to September marks the seventh such rise. Over the quarter gross lending came in a just under £4.2 billion – above the average recorded in both 2023 and 2024.

However, the pace of year-on-year growth in lending has been easing since the beginning of 2025, and that trend continued in the most recent quarter.

2025 Q3 lending was 6.4 per cent higher than the same quarter a year ago, down from growth of 8.3 per cent in Q2 - the slowest since the recovery in gross lending began at the start of 2024. This easing in lending growth was expected and signalled in last quarter's Business Finance Review, as we have also seen a slowdown in new loan approvals, particularly for medium sized companies.

Chart 1. Gross lending to SMEs, £ billion

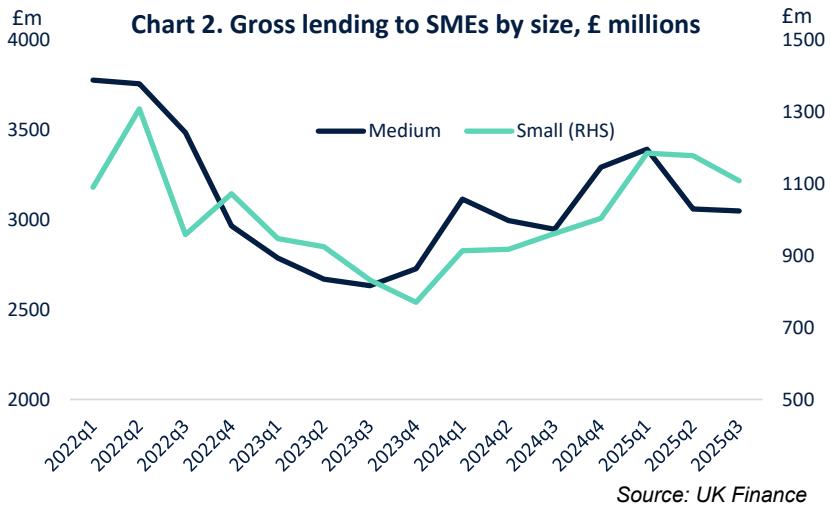


Source: UK Finance

Additionally, and as noted above, surveys point to a wobble in already subdued business sentiment in the run up to the budget. This was likely linked to concerns that businesses would again be called upon to plug a hole in the public finances. The SME Finance Monitor also reported in Q3 that the proportion of SMEs concerned about the economic climate had surpassed the 2020 average and was nearly equalled by those concerned by political uncertainty and future government policy. Taken together, the environment for planning future growth, investment, and taking on new or additional finance has become less supportive.

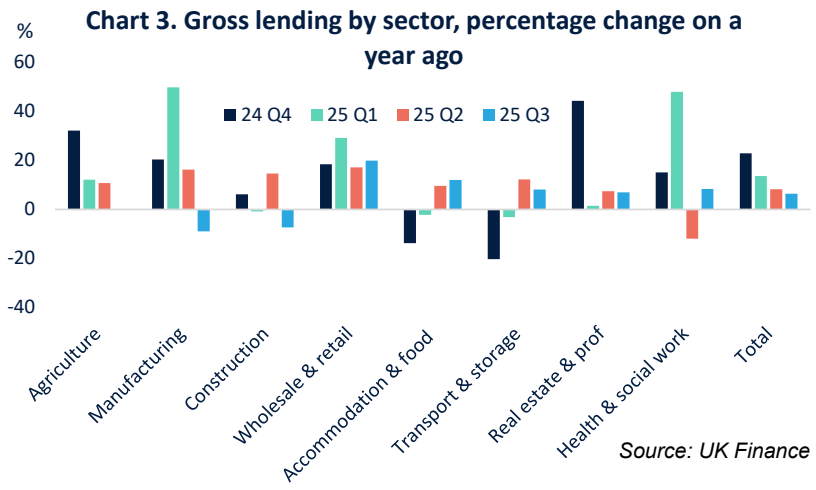
Turning to lending flows by size, gross lending to the smallest businesses (sub £2m turnover) looks to have turned a corner (**chart 2**) but nevertheless remained some 15 per cent higher in Q3 than the same quarter a year ago, and still consistent with the relatively strong loan approvals seen across 2025. Lending to medium-sized businesses was broadly flat on the quarter, and marginally (three per cent) up on the same quarter a year ago – again consistent with softer approvals reported in previous Reviews.

Chart 2. Gross lending to SMEs by size, £ millions



Source: UK Finance

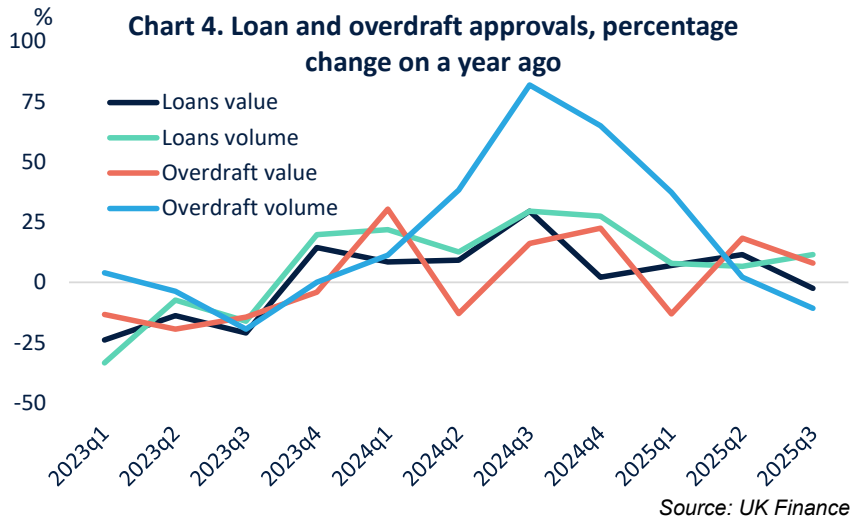
We can observe further evidence of the slowdown in growth in sectoral lending trends (**chart 3**). Across the majority of sectors, the year-on-year rise in gross lending in Q3 has eased compared with the first half of 2025. There are some sector-specific drivers. The drop off in lending to manufacturing may reflect the activity pulled forward ahead of US tariff announcements, for example. And in real estate, weaker lending is likely linked to stamp duty changes in the spring.



There was, however, a modest pickup in the pace of growth in accommodation and food services, and retail sectors, a normal seasonal pattern we see ahead of the busy Christmas period.

New finance approvals

Growth in new approvals (**chart** 4) also looks to be levelling off. The value of all new finance approvals (loans and overdrafts) was flat in Q3 compared with a year ago – this was the weakest growth for two years. The number of approvals was, however, up by a little over ten per cent on a year ago but this has significantly come off the boil compared with the second half of 2024.



The main driver for the slowdown in approval numbers is drop off in overdrafts, which surged during 2024 as businesses continued to grapple with rising input prices and higher labour costs. However, even at the peak, quarterly overdraft approvals were running at less than half that seen in the year before the pandemic, so moderation in recent quarters leaves approvals well below pre-pandemic norms.

In contrast, there is still some momentum in new loan approvals, which were up nearly 12 per cent on a year ago. By value, however, loan approvals were slightly down compared with last year. As such the average loan approved has dropped some 12 per cent over the past year to just under £250,000 in Q3.

The drop in loan approval values is largely a consequence of weaker demand from medium-sized businesses (**chart 5**) – a trend we noted in the last *Finance Review.*

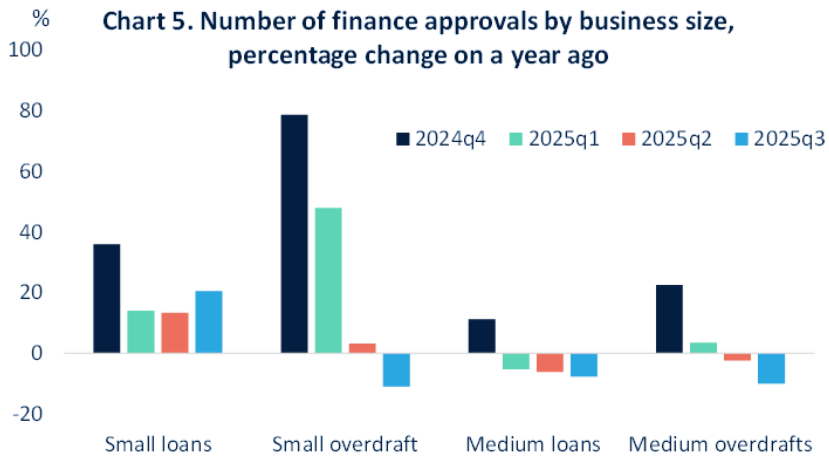


Chart 5. Number of finance approvals by business size, percentage change on a year ago

Source: UK Finance

Approvals to this cohort have been trending down, year-on-year, since the start of 2025. This picture is broadly consistent across the value of loans approved to medium businesses.

In contrast there appears to be some continued momentum in approvals to smaller firms. The number and value of loans to small businesses was a 21 per cent and 25 per cent higher than the same quarter last year, respectively. The moderation in borrowing costs over the past 18 months may be supporting a bit more demand for finance amongst this group, as well as anecdotal evidence of lenders' increased appetite to lend to smaller firms.

Looking at overall approvals by sector, growth has tailed off in recent quarter for both production and services sectors (**chart 6**), though for the former the volume of approvals was down by around eight per cent compared with last year. Falling approvals was broad-based across agriculture, manufacturing and construction.

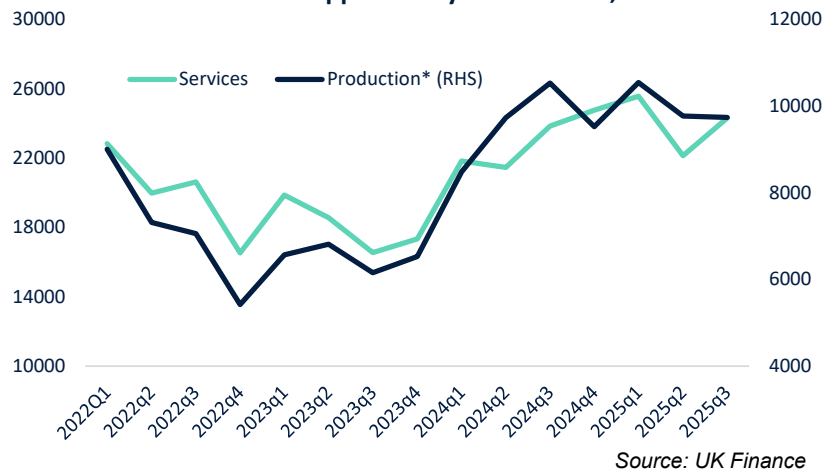


Chart 6. Finance approvals by broad sector, number

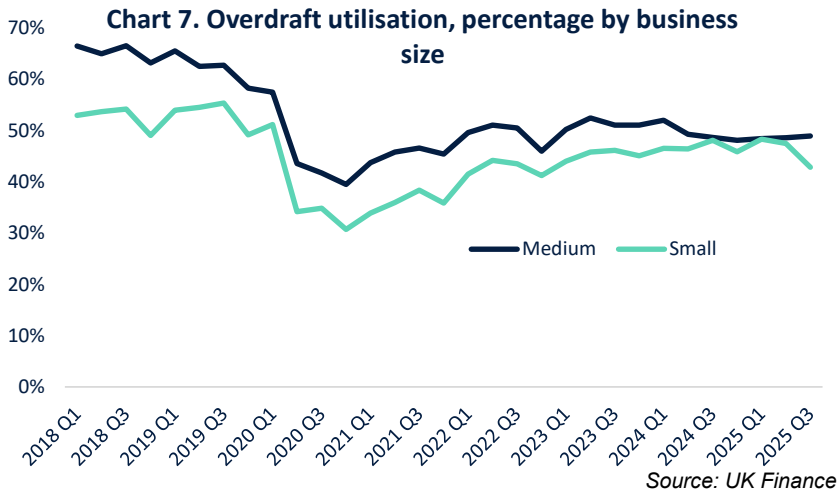
Source: UK Finance

The rise in approvals to firms in services sectors was concentrated in hospitality and retail (up 13 per cent and four per cent respectively).

Utilisation of existing facilities and deposits

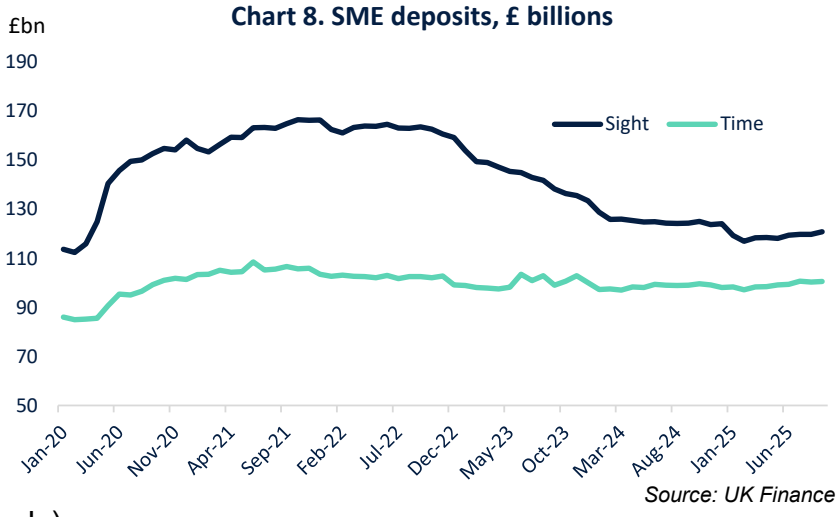
For much of the post-pandemic period we have reported a stable picture on overdraft utilisation and aggregate deposits, both holding above pre-Covid levels. Together this has provided a solid buffer for SMEs to manage the headwinds of recent years – from the spike in energy costs and other input prices, to the uncertainty created by global trade tensions and domestic government policy.

On both metrics we note little significant movements in Q3 relative to recent quarters. **Chart 7** shows a continuing flat picture on overall overdraft utilisation, with the rate across all SMEs holding steady at an average of 47 per cent in the three months to September – exactly in line with quarterly averages since the start of 2025. Utilisation rates have, however, dipped slightly for the smallest businesses.



Source: UK Finance

Across total deposits (**chart 8**), there has been a modest increase over the past three months. The one per cent increase in total deposits was split equally between sight and time deposits. Even after the rundown in deposits through 2023/24 both sight and time deposits remain above pre-pandemic levels (six per cent and 17 per cent respectively).

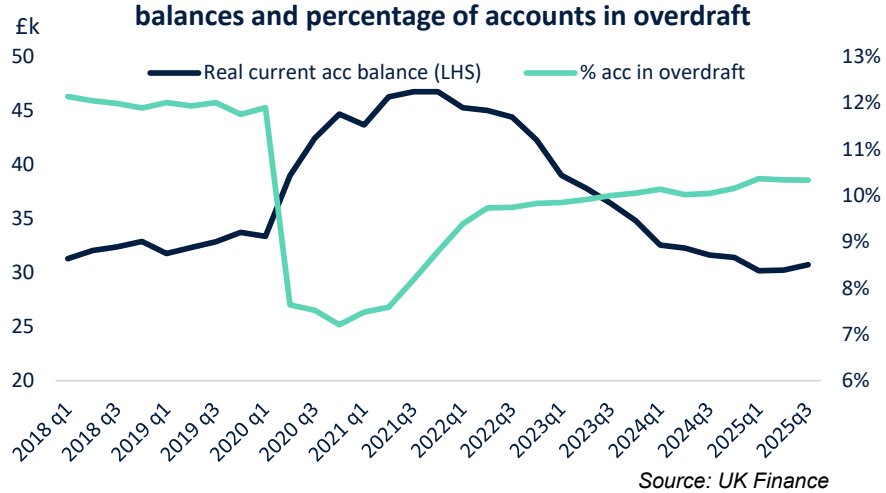


Source: UK Finance

Analysis published in the Bank of England's November Monetary Policy Report (MPR) indicate weaker cashflow positions for SMEs. Using Experian data, the report looks at

the proportion of SMEs in overdraft and real current account balances and confirms cashflow positions '*were robust during the substantial increases in costs in 2021 and 2022, which helped firms to absorb cost increases over that period. The proportion of SMEs in overdraft has broadly eased back to pre-pandemic levels since then and average real current account balances are a little below pre-pandemic levels.*' **Chart 9** replicates this analysis for SMEs with deposits and overdrafts with the main High Street lenders, and tells a similar story to the Experian data.

Chart 9. SME cashfow position, real current account balances and percentage of accounts in overdraft



Source: UK Finance

In the context of a weaker demand outlook, the report concludes that *'weaker SME cash-flow positions may also mean that firms' employment decisions become more sensitive to changes in consumer demand, increasing the risk of a sharper rise in unemployment, especially if demand remains weak.'*

As we have highlighted previously, the degree of headroom available across different sectors has become more varied in the past few years. In particular, sectors including transport and storage, and education have completely eroded the deposits buffer accumulated during the pandemic.

Table 1. SME cashflow positions, real terms account balances and percentage of accounts in overdraft.

	Sight deposits			Time deposits			Accounts in overdraft		
	2019Q3	2021Q3	2025Q3	2019Q3	2021Q3	2025Q3	2019Q3	2021Q3	2025Q3
Agriculture	28.4	39.0	31.6	47.4	55.5	56.3	26%	19%	17%
Manufacturing	47.3	69.2	48.7	91.9	111.3	113.3	14%	9%	12%
Construction	28.8	36.4	28.2	39.5	48.2	53.2	15%	11%	14%
Wholesale & retail	26.4	45.1	28.3	47.3	64.5	60.6	17%	10%	13%
Accommodation & food	20.0	38.8	19.8	27.7	43.2	39.4	14%	7%	12%
Transport, storage & comms	33.6	45.7	29.6	53.0	65.6	62.5	11%	9%	12%
Real estate & professional	37.6	50.4	33.0	69.3	82.5	64.0	8%	6%	7%
of which real estate	44.5	56.6	33.4	73.7	72.0	61.4	5%	3%	3%
Education	62.1	92.8	46.9	119.5	132.5	137.7	7%	5%	7%
Health & social work	36.9	55.2	39.8	72.7	90.0	71.1	7%	5%	6%
Recreation & personal	18.5	27.4	17.1	46.3	53.1	46.8	11%	6%	9%
Total	32.9	46.7	30.7	60.6	73.6	64.7	12%	8%	10%

If we look instead at real terms average current account balance (sight deposits), the potential cashflow strain on transport and storage, education, and real estate is even more evident. As well as managing the cost increases noted above these sectors have variously also had to deal with the impact of new EU trading arrangements and frictions of buying/selling internationally; the introduction of VAT on school fees, and larger increases in borrowing/mortgage costs, respectively. Additionally, construction, accommodation and food, and recreation and personal services also look to have a weaker cashflow situation relative to the end of 2019.

Some of these sectors have also seen a large reduction in notice accounts, but in general balances here remain healthy, though in some cases may be less accessible in meeting short term cost pressures.

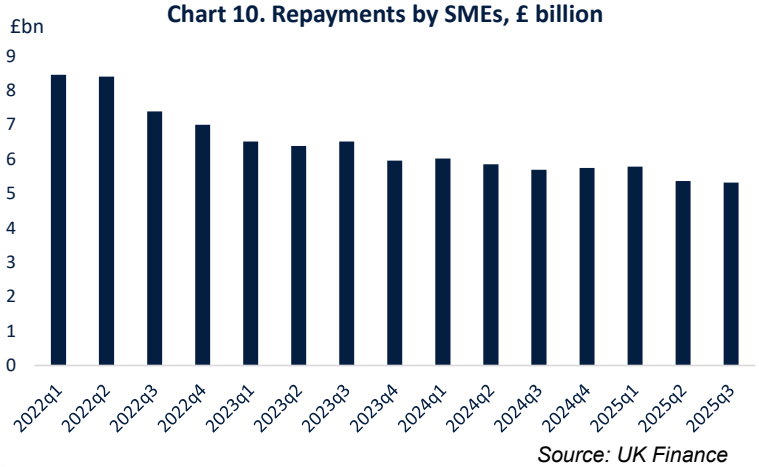
The position of rising numbers of SMEs in overdraft appears to be a somewhat less acute situation. Again, transport and storage is the one sector to see a higher proportion of firms in overdraft compared with pre-pandemic, but recreation and personal services, and construction are not far behind.

This analysis provides only a view of the average position within sectors, and there will inevitably be a spectrum of experiences within those industries. However, it does provide some insight into where problems may emerge were the economy to experience any further shocks in the coming year.

Repayments

Repayments by SMEs were broadly unchanged over the quarter, running at a little over £5.3 billion. This is around six per cent down on the year to 2025 Q1. Data published by the Department for Business and Trade shows the steady increase in businesses that have fully repaid Bounce Back loans has continued, with 17 per cent, by value, repaid. Meeting Covid loan obligations will remain a priority for many businesses in the next 18 months, and beyond for the nearly ten per cent of firms that extended the loan period to 10 years.

Chart 10. Repayments by SMEs, £ billion



Source: UK Finance

SME finance outlook

If recent trends continue, the near-term outlook for new lending and approvals is likely to slow further as the year comes to a close. Looking to 2026 there are upside and downside risks to SME finance demand and lending behaviour.

The key downside risk is the subdued growth outlook, with recent OBR forecasts, for example, suggesting household disposable income growth will remain weak by historic standards and the international outlook also remains uncertain. Indeed, the OBR made some large downward revisions to its expectation for business investment growth over the next five years, citing '*continued weakness in business sentiment, lower profit growth, and increases in long-term interest rates which have pushed up the cost of capital.'* On this forecast, it might be expected that demand for new finance for business development and growth will remain sluggish.

On the upside, the uncertainty around domestic policy priorities, following the budget may support some SMEs to mobilise activities which may have been on hold in the latter part of 2025. In some industries, it is still the case that many firms will have access to internal resources to kick-start any new investment, but other will want to engage with lenders to take plans forward. If as expected, the Bank of England further reduces interest rates in the coming quarters, this may provide a further boost to demand.

The advent of any new shocks or challenges, particularly those which might have sector-specific impacts on industries that have already seen a more material weakening of their cashflow position will be something to watch going into next, with lenders keen to encourage businesses concerned about their financial situation to engage in an early conversation.