Interest rate rise could ruin 80,000 businesses

Fourfold increase in companies at risk

Philip Aldrick, Economics Editor

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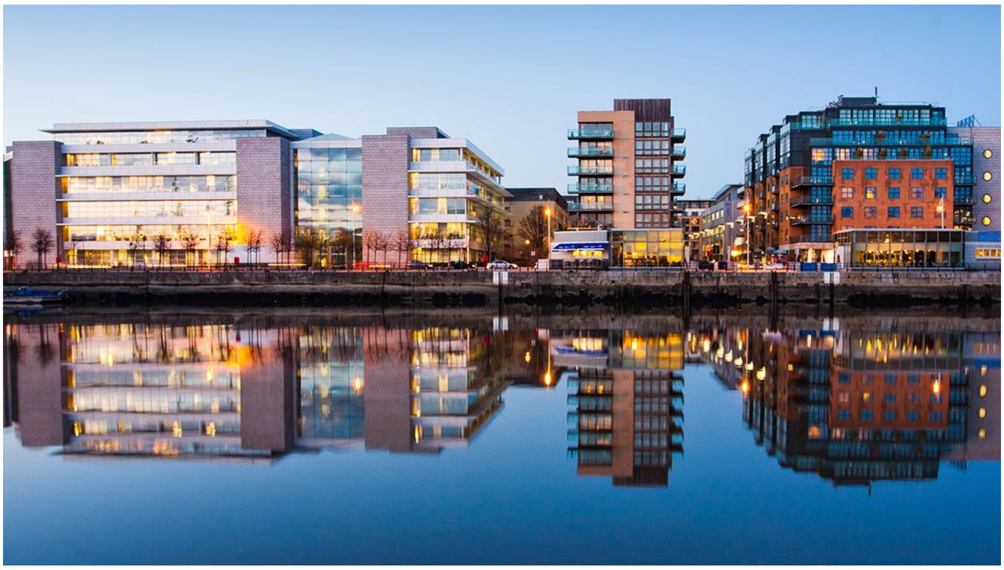

96,000 companies are only paying interest on their borrowings and failing to clear their debts
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One in 25 businesses, or nearly 80,000 enterprises, would

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of corporate balance sheets.

It is thought that some 79,000 businesses would be unable to repay their debts if rates were to rise, four times as many as in September when the Association of Business Recovery Professionals, or R3 as it is known, conducted a similar survey.

The research also revealed that 96,000 companies are only paying interest on their borrowings and failing to clear their debts.

The findings are likely to revive concerns from economists that ultra-low rates of 0.25 per cent are keeping unviable, over-indebted "zombie" firms on life support and tying up capital that could otherwise be directed at more productive businesses that would drive stronger economic growth.

Andy Haldane, the Bank of England's chief economist, has conceded that, by keeping zombie companies going, low rates may be one of the causes of the nation's chronically weak productivity.

The increase in companies at risk of financial distress has come as the economy has slowed and as currency hedges protecting firms against higher import costs have dropped away. Input costs for businesses have been rising at more than 15 per cent largely because of the cheap pound.

Andrew Tate, a spokesman for R3, said: "This is the first increase in the number of businesses worried they would be unable to cope with an interest rate rise since 2014, and it coincides with a period of slower-than-expected growth and a

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pension auto-enrolment have added to businesses' running costs."

Mr Tate said that "only repaying the interest is also a common characteristic of a zombie business" and that rising inflation, which has soared from 0.3 per cent in April last year to 2.7 per cent, could deal companies a double blow.

High inflation is driving up costs and should the Bank respond by raising rates the "double whammy" could create more problems. "The research shows that there are tens of thousands of firms currently walking a very tight line," Mr Tate said.

For the moment, with rates at a record low, the number of companies in financial distress is falling, R3 said. Only 25,000 companies are struggling to pay debts compared with the high of 134,000 in May 2013. Fewer companies have had to renegotiate payment terms with their creditors, the survey also found.

Strong growth is the best defence against corporate distress but the growth slowed to just 0.2 per cent in the first three months of the year, down from 0.7 per cent in the final quarter of 2016.

The R3 research was conducted by BDRC Continental among "senior financial decision makers" at 500 companies between April 3 and April 13.

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Rich Sims 20 minutes ago

If they cannot handle a rise of 0.25% the management are paying themselves to much.

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Thomas Malthus 59 minutes ago

If you really want to find diversion of capital look to the inflated house prices.
France and Germany have higher productivity because they invest in plant and machinery not houses ,

Recommend Reply

Nick Tilley 3 hours ago

Given that this is a consequence of Government's shorttermism in lending policy, encouraging lending rashly at artificially low interest rates, this should hardly come as a surprise, but does not bode well for the future.
However should the worst occur can the banks stand a mass of right

Otto Leipzig 16 minutes ago

@Nick Tilley And all funded by miserable interest rates paid to the saver in the street. Cash borrowed for next to nothing, and they still cannot make the business work. Still there is a too high proportion of UK directors and managers who are just not up to the job of running ....anything.

Recommend Reply

JournoList 8 hours ago

In the real world people would recognise the malign effects of ZIRP, the final stage of the Dutch Auction of capital stemming from the U.S. deficit.

But here in the Business section of the Times there can be no reference to the lack of reverse gear in ZIRP. Now in its ninth year it has spawned a great many new enterprises by providing free capital and at the same time undermining the mature entities like BHS and the rest of the retail sector, amongst others.

This is not creative destruction, just destruction.

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Mike Richley 7 hours ago

@JournoList Not often I agree with you, but today spot on.

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