

Banks are blaming EU for their loan failures

Sticking to pettifogging bureaucratic rules are threatening the very survival of British firms

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Allow me to replay you a couple of conversations I've had in the past few weeks because I'm a bit haunted by them.

Before we get to them, a reminder of the central problem facing the economy right now: hundreds of thousands of businesses are on the brink of collapse, if not halfway down the cliff. If too many healthy businesses are allowed to collapse it's not clear if there will be any recovery to speak of.

That is why Britain, like most countries around the world, has thrown the fiscal kitchen sink at the problem: furlough schemes for workers who would otherwise be laid off; financing for big companies and, perhaps most importantly, guaranteed loans for small firms. This latter plan, the coronavirus business interruption loan scheme (CBILS), is the heart of the Treasury's efforts. Yet it is fast transpiring that it isn't working as intended.

Just over £1 billion has been lent to small businesses in the past couple of weeks through CBILS. In any normal time this would be an astonishing achievement but consider: in Germany banks have already lent out seven times that. In Britain's case, while lending finally started to ramp up in the past week or so, barely more than 6,000 loans have been issued. For many companies it is too late.

Examining what went wrong in the early stages of the loan scheme is enlightening, in part because it helps illustrate Britain's broader challenge as it seeks to fight the pandemic and the economic impact.

The first problem with CBILS was that initially banks felt they were duty-bound to assess whether the businesses requesting loans were eligible for a normal, non-virus loan instead. What this meant was that companies requesting life-or-death support found themselves fielding lengthy requests for paperwork. Rather than getting the guaranteed loans, they were offered regular loans — the kind that involve high interest rates and taking a director's home as collateral.

This is where the first of my conversations came in. I asked a senior banker who was advising the big banks why, in the middle of an economic storm like this, they were behaving in this way. His answer? EU state aid rules.

It didn't matter, said the banker, that Britain has left the European Union. It is still bound to comply with EU rules preventing countries from giving undue support to their companies at least until we end the transition period. Those state aid rules, he added, would apply to all

loans under CBILS. It was in the smallprint laid down by the Treasury. This is where things get a bit fishy, because when I asked the Treasury about it they denied all knowledge. Not long afterwards, however, Rishi Sunak said they were changing the scheme so that banks could lend without first attempting to issue a standard loan.

I wouldn't have bothered to recount this story had I not had a similar conversation a few days ago. Although the chancellor might have addressed that initial problem, there is still a deeper issue with CBILS. While many other governments are guaranteeing 100 per cent of loans to small businesses, ours is only taking 80 per cent of the hit. The chancellor is considering whether to cover the entire loan so I called a contact close to the action who said the move was being resisted by senior figures at the Treasury. The reason? EU state aid rules.

This is utterly flabbergasting, for all sorts of reasons. There is no justification, either in the law or in practice, for state aid rules preventing Britain saving its economy from oblivion. The idea is preposterous. And if you wanted further evidence, look no further than Germany, which is doing all of the above without a care for which EU treaty it contravenes.

Let's hope the banker and the senior Treasury person I spoke to got the wrong end of the stick. Either way, the episode underlines an unfortunate characteristic of British officialdom. For centuries we ignored the will of other countries and did whatever we wanted. In the past half century we seem to have lurched to the other extreme. Other countries disregard the rules, bailing out "national champions", while Britain allows its companies to go to the wall. In 2017 Britain spent £7.7 billion on state aid; France spent £15.1 billion and Germany £37.2 billion.

Britain has left the EU yet it is still treading the very same path that infuriated enough people to vote to leave four years ago: we have seemingly allowed these rules to impede our response to the deepest recession in three centuries. Sure, our approach may be more purist, even if it means we will end up sourcing our trains from French state-supported companies rather than domestic ones. But being purist and sticking to the rules is of little use during an economic crisis of this magnitude.

This is not the moment to be sucking one's teeth and pondering Brussels strictures which, anyway, probably won't apply in a few years' time. That can come later. The hundreds of thousands of small businesses on the brink of collapse are what matter right now.

Almost every country is facing almost identical crises. Eventually they will be over. Once we are out of the woods we will learn which countries responded best and whose political and institutional frameworks were found wanting. The early signs for Britain are not promising.

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