

# Small firms risk being buried under £105bn debts

[Patrick Hosking](#), Financial Editor

Tuesday May 12 2020, 12.01am, The Times

Sir Adrian Montague, who chairs a group set up by the Bank of England, says businesses will need full-scale recapitalisation



Small and medium-sized businesses will be left with as much as £105 billion of unsustainable debt within ten months because of the pandemic, according to a first estimate of the scale of the problem from a City group set up at the request of the Bank of England.

The Recapitalisation Group, a panel of 45 bankers, fund managers, accountants and other business leaders under the auspices of The City UK, said there would need to be massive equity investment and forbearance on the debt to ease the strain on the companies.

Sir Adrian Montague, chairman of the group, said the impact of the excessive debts would be serious, profound and far-reaching, in a letter to Andrew Bailey, governor of the Bank of England. His team, aided by the accountancy firm EY, said: “Faced with falling revenues and additional debt, business will require full-scale recapitalisation to alleviate the hit to employment and to sustain the investment required to put the economy back on its feet.”

It estimated the level of “unsustainable debt” at between £90 billion and £105 billion by March 2021.

This was just among small and medium enterprises of the size that qualify for the coronavirus business interruption loan scheme. It excluded the smallest businesses as well as large listed companies.

Sir Adrian, chairman of the insurance group Aviva, said this category of businesses employed about 16 million people, which is about half the working population, and turned over £2 trillion.

Part of the solution would be “the rescheduling and restructuring of debt to provide companies with breathing space, to raise patient capital to allow for their rehabilitation, and to minimise the loss of productive capacity and employment”.

The sums involved compared to total equity investment by British venture capital and private firms in 2018 of £20.6 billion, of which about half was invested in British companies. Banks provided SME loans of about £57 billion in 2019.

“On this basis, we think it is reasonable to suggest that significant volumes of new, appropriately structured capital from these or other sources will be required to support the interests of business and the long-term competitiveness of the UK economy.”

The panel said: “Our preliminary work suggests our main focus should be forbearance and restructuring and the recapitalisation of companies using equity or equity-like instruments.”