# Bank governor Andrew Bailey warns companies to raise equity, not increase debt pile

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Large companies that were already overleveraged before the coronavirus pandemic struck must take responsibility for the consequences, the governor of the Bank of England has said.

Andrew Bailey said yesterday that overleveraged businesses unable to access cheap government-guaranteed debt should look to raise finance on equity markets instead of adding to their debts.

Giving evidence to MPs on the Treasury select committee, Mr Bailey said: "There will be companies who do not have access [to government loans] and one principal reason is their condition before any of this happened. They were over-indebted before coronavirus came around and I'm afraid they will have to take responsibility for sorting that out."

Mr Bailey said that "the answer to that situation is not more debt". Instead, businesses should focus on raising equity or swapping debt for equity. Companies have begun to tap investors as they seek to shore up their finances and reduce their debts in the face of the crisis. This week, Compass Group, the world's biggest catering firm, raised £2 billion from investors. It marked the biggest equity fundraising in Britain since the pandemic began.

The governor has repeatedly emphasised the need for businesses to deal with their debts. “There are companies for which the answer is really going to be to raise equity because, if you were overleveraged before Covid happened, the answer is not to take on more debt but to go into the equity markets,” he said after the publication of the Bank of England’s *Monetary Policy Report* this month.

Companies have taken on high levels of debt in recent years thanks to record low interest rates and the tax advantage that debt offers over equity. However, some are struggling to access state support because of their large debts.

This has left private equity-backed companies feeling exposed. Many have been barred from the government’s coronavirus large business interruption loan scheme because of European Union rules that ban governments from bailing out companies in financial distress.

Mr Bailey also reiterated his call for businesses to conserve capital by cancelling dividend payments. He said that businesses should take a sensible and “very cautious” approach and avoid paying out to shareholders.

His comment came as the Treasury said that it would ban companies from paying dividends if they took out government-backed loans. The government said that cash bonuses for executives would have to be cut and that senior employees could not be rewarded with big cash bonuses. Companies must not undertake share buybacks.