

Cash shortages

Many self employed are worried that their business has dried up, removing their income. Many small companies are concerned that they have been closed down temporarily for an unspecified time period but still have to pay rent, other overheads and employees pay. They welcomed the government pledge to pay 80% of the wage bill up to a ceiling, but still have to wait for the scheme to deliver them some cash.

So what do they do? They will turn to the banks. On Wednesday the Chancellor and Governor of the Bank of England wrote to all the banks, reminding them of the various schemes set out to allow more lending to business. They told them to "take all action necessary to ensure the benefits of these measures outlined above are passed through to business and consumers".

That's fine advice, but the banks have to operate within the rules of the schemes and within the confines of the Regulatory system that governs them. As the lending to business schemes offer a government guarantee of 80% of the loan, the banks still need to take care with the 20% they could lose. As the scheme says the banks need to reclaim personal guarantees and cash in collateral assets before claiming losses under the scheme, banks will obviously feel the need to apply some criteria about collateral and future cashflow projections when making the loans.

There will be difficult judgements for banks to make. How much of a business case can they expect from a company that has lost all its turnover and does not know when it will trade again? How much of a personal guarantee or pledged asset can they require, when this lending is for an extraordinary purpose, a temporary collapse of revenue, which is not about to be reinstated but will be permanently lost?

Banks still have to keep capital buffers and ensure the future solvency of their businesses, so have to keep an eye on the possible loss rate on this type of lending. Meanwhile the companies suffering from the shock of no money coming in are not that keen on a loan as they wish to avoid becoming heavily indebted for past losses that cannot be easily replaced.

The self employed need the money they would be earning to pay their domestic bills as well as meet their business commitments. The scheme outlined yesterday helps a bit, but leaves higher earners very short of cash though they may well have commitments commensurate with their normal earnings level. All this points to one inescapable conclusion. If this cessation of activity continues for too long there will be a lot of lost businesses and considerable longer term economic damage. In the short term the government has not done enough to avoid redundancies and the loss of some small businesses.