Three ways to save the UK economy

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It has become increasingly clear that businesses are unwilling or unable to take on additional debt during what threatens to be the gravest economic crisis since the 1930s.

The government has moved quickly to introduce and then overhaul measures to supply hundreds of billions of pounds in credit to the UK economy.

However, it’s not supply that's the problem. It's demand - in two very important and different respects.

First, customer demand.

Apart from groceries, no-one is really buying anything. Yes, you can get deliveries of make-up, compost, and thousands of other products from various online marketplaces, but demand for what the UK service-based economy produces has collapsed.

Many shops, restaurants, bars, hairdressers, pet stores, garden centres are facing imminent ruin.

Bosses of businesses offering services, like barbers and hairdressers, say they have no idea when cash will start rolling in again

Second, demand for credit.

Given the above, why would any business put itself further in debt when there is zero clarity on when business may return to normal?

Yes, the government has ordered banks to remove the requirement for business owners to provide personal guarantees for loans up to £250,000.

For loans over that amount, they have also told banks they cannot ask for guarantees in excess of the 20% of the loan (given the government is guaranteeing the other 80% it would be a scandal if banks tried to do this, frankly).

As things stand, the government's 80% guarantee is to the lender - not the borrower. Anyone who takes out these loans - whose interest rate the government has not capped - will be 100% liable to pay them back albeit with a 12 month deferral - not holiday. The debt and interest must still be paid.

So what can be done? Here are three ideas I have heard floated.

Could banks forgive interest payments during lockdown?

1. Don't defer, forgive.

Banks should permanently forego interest payments for the period of April to June.

UK banks were the recipient of hundreds of billions of pounds of financial support 11 years ago.

Analysts at stockbrokers AJ Bell estimate the bill for interest on personal and company loans is roughly £28bn every three months.

The government has effectively ordered the banks to halt dividend payments for the rest of the year.

That gives banks additional capital resources of roughly £15bn for the calendar year - above and beyond the Bank of England's decision to relax the rules on how much capital they need to hold. The major banks' capital position is secure. They can afford it.

Chancellor Rishi Sunak unveiled a raft of measures to help businesses, but will they take them without knowing when they will reopen?

2. Given banks are able to borrow from the Bank of England at close to 0.1%, and that 80% of these loans will now be guaranteed by the government, it seems a bit excessive that many high street banks are charging in excess of 8% for loans that, as the government has already said, could only be taken out by businesses that were viable on their eve of the crisis.

I have been inundated by comments from such businesses that say that if they could borrow a million quid at cost (0.1% is bank rate - or £1000 pa) for one or two years, they would.

3. Any business that pays a dividend to shareholders between now and year end should be disqualified from any government bailout.

Many people think it is entirely unacceptable that any business that pays out a dividend during this crisis should then turn towards the taxpayer for cash handouts.

There are some interesting cases to watch.

P&O ferries has said it will need government support to ensure that vital ferry crossings, which despite collapsing numbers of leisure passengers have also preserved a vital link to the food and other essential items we import from the EU. P&O is owned by Dubai-based DP World, which is due to pay its shareholders a dividend of £270m in two weeks.

Easyjet paid a dividend of £174m two weeks ago and may now be seeking financial assistance from the government, although it has stressed it wants loans and not a bailout.

Some of the other big dividend payers will face understandable public resistance if shareholders are protected only for companies to throw themselves on the mercy of the tax-payer.

These issues are not easy.

As I've said before, the government is dealing with a very destructive boulder, gathering momentum down a very steep hill, crushing businesses and whole national economies in its way. It is a very hard thing to get ahead of and slow down.

The government has taken unprecedented steps to try and do that.