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RECOVERY & REVIVAL BULLETIN

Welcome to the latest issue of our Recovery and Revival Bulletin, designed to keep you up-to-date on insolvency matters that may be of interest to you. If you have any feedback on this bulletin, or would like to know more about our services or how we can help you, please contact us on **020 8357 2727** or at insolvency@newmanandpartners.co.uk

Borrowers may be unable to repay debts this year

Santander UK has warned that an impending recession, predicted by the IMF and Bank of England, could lead to many borrowers struggling to repay their loans, as it set aside more funds to protect itself from potential defaults. The British arm of the Spanish bank said that despite government support for energy bills, rising prices would continue to eat away at disposable income, which could impact lending repayments.

The warning comes as the bank released its full-year results. These documents showed that Santander UK had set aside £321 million in 2022 to cover potential defaults, compared with the £233 million it released a year earlier when Covid restrictions began to lift. The bank cited the “*deterioration in the economic environment*,” including higher interest rates, lower economic growth, and a drop in house prices, as reasons for the higher provision for potential defaults.

As a sign of the times, Santander predicts that house prices will fall by about 10 per cent to levels not seen since 2021, which could impact the ability of borrowers to repay their loans and mortgages. The warning came as Virgin Money also set aside £66 million to cover a possible rise in bad debts in the first quarter. However, the challenger bank said repayments had been stable so far.

Santander’s provision for potential defaults hurt its profits, which rose just two per cent to nearly £1.9 billion over the year to December, despite a 12 per cent increase in net interest income

to £4.5 billion. The interest rate rise allowed it to charge more for mortgages and loans, but the profits were subdued by the £421 million it put aside to cover the cost of fraud and scams, as well as a £108m regulatory fine from the Financial Conduct Authority.

The warning from Santander UK highlights the impact of a potential recession on borrowers, particularly those who are already struggling with considerable debt. As prices continue to rise and economic growth remains uncertain, many borrowers may find it difficult to make ends meet and repay their loans.

It is also a reminder of the importance of lenders being adequately prepared to deal with potential defaults and losses. The setting aside of funds to cover potential losses is a prudent approach that can help banks and other organisations weather the storm of a recession and emerge stronger on the other side.

“The global economic environment and rising cost of living have presented challenges for many of our customers and clients,” Santander UK’s chief executive, Mike Regnier, told the Guardian. *“Our focus has been to provide targeted and practical support, including advice on household budgeting and a toolkit for SMEs to help them through the ongoing inflationary pressures.”*

Whilst Santander’s report focused largely on personal borrowing, similar issues are believed to exist amongst commercial borrowers as well. Many SMEs have had to rely on both government and traditional bank loans to survive in recent years and the pressure of higher interest rates is likely to have a big impact on their solvency in the 12 months ahead.

If you are aware of any businesses with considerable debt that require insolvency and restructuring advice, please **speak to our experienced team of practitioners today**.



Will the UK stave off recession?

SMEs fear national economic decline

The National Institute of Economic and Social Research (NIESR) predicts that the UK will avoid a recession this year and grow marginally, despite household budgets being squeezed by high prices. However, the Institute warns that at least seven million households will still feel like they are in a recession due to the rising costs of living.

There has been considerable concern that the UK might enter into a recession in 2023, but NIESR's forecast of 0.2 per cent growth this year and one per cent growth in 2024 is slightly more optimistic than the official predictions from the Bank of England (BoE). The Bank has recently warned of a potential recession, but it also expects it to be shorter and less severe than previously anticipated.

The BoE predicts the slump will now last just over a year instead of almost two. Meanwhile, the International Monetary Fund (IMF) has also forecast that the UK will fall into recession this year and perform worse than any other advanced economy, including sanction-hit Russia.

Despite these forecasts, think-tank NIESR is more optimistic about the national growth outlook but has other concerns about the impact of inflation. It has warned that one in four UK households, or around seven million families, will be unable to fully cover their energy and food bills in the 2023-24 financial year due to rising prices, up from one in five in 2022-23.

The think tank has also highlighted that middle-income households will face a hit to their disposable income of between seven per cent and 13 per cent – reaching up to £4,000 this financial year on average. As a result, NIESR says that fewer people will be able to retire early, and more workers between the ages of 50-64 will look to return to work.

In response to this crisis in the UK economy, the Government is already considering plans to coax retired middle-aged workers back into jobs to boost the economy. There are currently 300,000 fewer people in employment than before the pandemic and this is having an impact on the availability of talent and the cost of employment.

As a result of fears of a recession, a Treasury spokesperson has acknowledged that the UK is not immune to global challenges of high inflation and slow growth. Alongside its plans to reintroduce more retired workers back to the workplace, the Government also announced plans to halve inflation, which currently stands at 10.5 per cent, this year. Many economists expect this to happen as energy prices are already falling and post-pandemic supply problems are easing.

Economists are issuing caution over the findings of the NIESR study. They have said that forecasts are not always accurate. They give the International Monetary Fund's forecasts as an example, which have picked up fewer than 10 per cent of recessions a year ahead of time, according to an analysis of recessions around the world between 1992 and 2014.



Whilst NIESR may have predicted that the UK will narrowly dodge a recession, the fear of this dreaded word still looms large for many small businesses. One of Europe's largest small business lenders, iwoca, has released its SME Outlook 2023 research, which shows that small businesses in the UK are most distressed about the prospects of recession, inflation, and high operating costs.

As the UK economy is barely growing and inflation remains a key problem, over two in five (43 per cent) small business owners identify a recession as their top concern in 2023. In the context of soaring prices of energy, raw materials, and the scarcity of labour, inflation remains the primary challenge for over a third (38 per cent) of small businesses. Decreased consumer spending (29 per cent) and increased business running costs (38 per cent) are also cited as key worries for UK small business owners in 2023.

Over three-quarters (76 per cent) of small business owners are also concerned that energy bill support for businesses is being scaled back in the first half of this year. In fact, one in three (32 per cent) SMEs expressed significant concerns about the potential decrease in Government energy support.

The research also shows that a quarter of small businesses (25 per cent) expect their turnover to shrink in the next twelve months – up a third on last year's figures. This comes as more than two in five (43 per cent) SME owners think they will personally be worse off by the end of 2023, up from a third a year ago. Just a quarter (26 per cent) of small businesses expect revenue to grow over the next year, down from 28 per cent at the start of 2022.

If your clients have fears about the future growth of their business during these uncertain times and believe that they may face insolvency as a result of poor economic growth, they must seek professional advice immediately. We work with a wide range of firms to help their clients understand the risks they face and provide plans to get them on the road to recovery. To find out how we can help, please **contact us**.

CAREFUL CONSIDERATION IS NEEDED BEFORE TAKING OUT ANY FORM OF FINANCE AND SPECIALIST ADVICE SHOULD BE SOUGHT. IF YOU HAVE ANY QUESTIONS, PLEASE CONTACT US.

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