

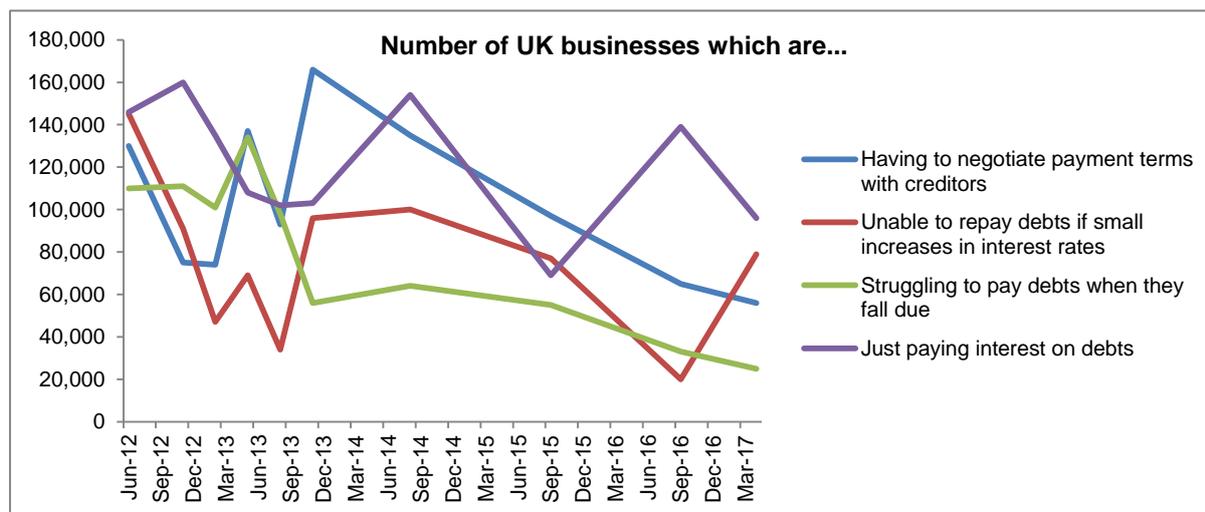
**One-in-25 UK businesses unable to repay debts if interest rates go up**  
**R3 Business Distress Index**  
**April 2017**

79,000 UK businesses (**4%**) say they would be unable to repay their debts if interests were to rise by a small amount – almost four times the 20,000 businesses in this situation in September 2016 – according to new research by insolvency and restructuring trade body R3.

The research, part of a long-running survey of business distress by R3 and BDRC Continental, also found that 96,000 firms (**5%**) were just paying interest on their debts.

**Other findings**

- Just 25,000 businesses (**1%**) say they are struggling to repay their debts when they fall due, which is down from a high of 134,000 (**8%**) in May 2013.
- The number of businesses which say they have recently had to renegotiate payment terms with their creditors has fallen from 166,000 (**10%**) in November 2013 to 56,000 (**3%**).
- **64%** of UK businesses are showing at least one sign of growth, slightly below the record high of **69%** reached in December 2015 and June 2016.
- **20%** of UK businesses are showing at least one of these signs of distress, slightly above the record low of **17%** in December 2015.



**R3 Commentary**



Andrew Tate, past president of R3 and partner at Kreston Reeves, says: “This is the first increase in the number of businesses worried they would be unable to cope with an interest rate rise since 2014, and it coincides with a period of slower than expected growth and a small rise in corporate insolvency numbers.

“UK firms have faced a challenging 2016 and early 2017: the sharp fall in the pound has made things difficult for importers, while a rising National Living Wage and the roll-out of pensions auto-enrolment have added to businesses’ running costs.

“Only paying the interest on debts is not necessarily a sign that a business is in distress: it may be that a company is taking advantage of low rates to invest in its operations or assets. But only repaying the interest is also a common characteristic of a ‘zombie business’ – a business only able to keep going because of an ultra-low cost of borrowing and with little chance of survival.

“The research shows that there are tens of thousands of firms currently walking a very tight line. Rising inflation may also lead to a double-whammy for struggling businesses: it may increase the chance of the Bank of England raising interest rates, and it would undermine the consumer spending that has driven the economy over the last year.”

Andrew Tate says: “A growing economy means fewer businesses are likely to show signs of serious distress. The last time we saw high numbers of businesses struggling to repay debts or talking to their creditors was in the wake of the UK’s flirtation with a double-dip recession in 2012-13.

“While it’s positive that signs of acute distress continue to fall, it’s no reason to be complacent. The latest GDP growth figures were lower than expected, while a healthy business’s finances can deteriorate rapidly depending on external factors, such as the cost of inputs or the failure of key customers or suppliers. And as the other statistics in the research show, some firms are starting to find their room for manoeuvre increasingly limited.”

Andrew Tate adds: “General levels of business distress remain low and levels of business growth are still high, although growth has faltered slightly since a run of record or near-record highs from 2013 to 2015. Still, like the overall economy, the vast majority of firms have fared reasonably well over the last year. Any uncertainty over the consequences of Brexit hasn’t filtered through too much – yet.”

**If you would like to meet with R3 to discuss these details, or any other insolvency related issues, please contact R3’s Communications & Public Affairs Assistant, Alex Clarke, on 020 7566 4202 or [alex.clarke@r3.org.uk](mailto:alex.clarke@r3.org.uk)**

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**About R3:** R3 is the trade body for the UK insolvency and restructuring profession. From senior partners at global accountancy and legal firms to practitioners who run their own small and microbusinesses, our members have extensive experience of helping businesses and individuals in financial distress. If you would like any further information about these statistics, please contact R3’s Communications & Public Affairs Assistant, Alex Clarke, on 020 7566 4202 or [alex.clarke@r3.org.uk](mailto:alex.clarke@r3.org.uk) Follow us @R3PressOffice

**About BRDC Continental:** Research undertaken by BDRC Continental, an award-winning insight agency. Questions were put to 500 UK businesses via BDRC Continental’s monthly Business Opinion Omnibus. Telephone-based interviews with a nationally representative sample of senior financial decision makers across the UK, weighted by size, region and sector. Fieldwork dates 3<sup>rd</sup>-13<sup>th</sup> April 2017.