UK government ramps up virus support and signals more to come

The UK government has followed in the footsteps of other European capitals and has significantly ramped up the support to businesses. The challenge now will be to get the funds available to firms quickly. Expect further measures in coming days, including from the Bank of England, whom we expect to cut interest rates and introduce a fresh round of QE

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UK follows other European governments with large-scale support

Less than a week on from Rishi Sunak's first budget as Chancellor, the rapidly evolving nature of the crisis means he has now announced a significant increase in the amount of support available to firms.

The standout move was a decision by the government to guarantee up to £330bn of state-backed loans, a move not dissimilar to the one announced in France yesterday. The government will also give a £25,000 grant to small businesses across the retail/leisure sector, who are unable to claim on insurance for the reduction in business following the guidance issued to the public yesterday to avoid pubs/restaurants etc.

There's little doubt this is a sizable package, and the Chancellor will be hoping the large sums contained within his announcement will help convince firms to hold off on any restructuring decisions they may be considering. However the real challenge for the government will be to channel this money to firms rapidly, particularly in light of the number of businesses already making announcements about job losses.

One key unknown is how large the appetite to take on additional debt will be among affected firms - and whether it is enough to prevent them from taking imminent measures to downsize.

The other key question – and one which the Chancellor signalled will be addressed more heavily by new measures in coming days – is how workers, be it those being laid-off or those self-isolating, will be supported. At a little under 20% of average weekly income, the UK's current level of statutory sick-pay is quite a bit lower than elsewhere in Europe.

The government has announced that those suffering from the virus will benefit from a three-month mortgage holiday, which should help ease the strain on affected households. However it's worth remembering that homeownership rates in the UK are 63%, which leaves a fair portion of those in private rented accommodation more exposed for the time being. Official figures from 2017 indicated that for renters aged below 65, roughly two-thirds have no savings.

Expect to hear more from the Bank of England

We'd also expect further measures from the Bank of England over coming days – potentially as early as Wednesday morning pre-market – and at the latest by the 26 March meeting.

The Bank has already cut interest rates by 50bp and have taken a range of measures to release capital for banks and encourage lending. We expect the committee to implement another partial rate cut, most likely of 15-20bp, taking interest rates to their effective lower bound of just above zero. Don't forget that policymakers don't currently view negative rates as a viable tool.

We'd also expect a new round of quantitative easing, which we suspect would include both government bond and corporate bond purchases. On the gilts side, we think the initial decision could aim to increase the Bank's stock of gilt holdings by £100-150bn (currently it totals £435bn).

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