PAGE 33 | TUESDAY 27TH JUNE 2023

Fledgling firms in NI 'most at risk' from rising interest rates

HIKE ADDS TO UK REPUTATION AS AN EXPENSIVE PLACE TO DO BUSINESS, SAYS MANUFACTURING BOSS

ALYSON MAGEE

Rising interest rates are likely to cause long-term damage to Northern Ireland's economy, with fledgling firms the most at threat, according to an economist.

With inflation remaining high in the UK and the Bank of England opting for a hike of 0.5 percentage points to 5% last week, the base rate is now forecast to reach 6% in 2023.

The increase will add to the costs of business who have debt such as loans to repay, while adding to wage demands from staff.

Paul Mac Flynn, co-director of the Nevin Economic Research Institute, said: “I think for businesses, the effect will be similar to that for households.

“One thing we can say for sure is that younger businesses, those with the least mature debt profile, are the most vulnerable. The speed at which these rate increases have happened have left almost no time for businesses to begin to adjust to the new environment.

“More broadly, the rate increases will act as a halt on new investment which will be particularly damaging to low productivity regions like Northern Ireland. The effect of the lost investment may be felt within our economy for years to come.”

Stephen Kelly, chief executive of Manufacturing NI, said the UK is quickly becoming one of the most expensive places in the world to do business, with the interest rate hikes exacerbating the impact of increased labour costs and energy and supply chain challenges.

“Many manufacturers have borrowings as there's a big capital investment required in the sector,” said Mr Kelly.

“Whilst many will be on fixed rates, some won't and others needing to make investments in

Businesses may suffer more damage from high rates, says FSB

new machinery or indeed to support export market growth are finding that 'money' is becoming just too expensive.

“This at a time when we must automate to drive productivity and meet the challenges of a very shallow labour pool.”

Hiking the base rate to slow down the economy does not help business, Roger Pollen, head of FSB NI, said.

“If you are running a business and relying on getting customers coming through the door to spend their money and keep your business afloat, it risks causing a lot of damage.

“Policymakers are using a blunt instrument to try to halt an inflationary spiral, ironically much of which has been fed by previous Bank of England and UK Government policies.”

If pressure isn't put on banks to pass on higher interest rates and incentivise savers, high rates and inflation are likely to persist and do more damage to businesses, he said.

A bright side, if any are to be found, could be rising opportunity for merger and acquisition activity, according to Gareth Hagan, chief executive of OCO Global. “A lot of businesses are sitting on a lot of cash,” said Mr Hagan. “In terms of folks who have cash and don't need to borrow, there might be some value in the market — not even businesses in distress but businesses that maybe might look at this as an opportunity to get an exit or do a transaction.”

Also, with inflation and interest rates rising less sharply in other markets, foreign direct investment might not take as big a hit as other funding sources in the NI economy, he said.

But businesses will certainly be re-evaluating their spending priorities as the cost of borrowing rises, said Angela McGowan (above), NI director of CBI.

“Firms will be adamant that any investments they give the go-ahead to must deliver sufficient returns to cover all elevated costs,” said Ms McGowan said. “It is highly likely that investments which lift long-term productivity will be prioritised.”

"In the months ahead, the MPC will be looking for evidence that inflation rates in services and wages in particular are slowing materially before calling an end to rate rises."