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## **£20bn loan guarantee scheme won't help the economy warns financial planner**

A London-based chartered financial planner has urged business owners not to get carried away after the government revealed that a £20bn loan guarantee scheme for small firms will be in place before the Budget is announced in a fortnight.

Jonathan Davis, managing director of Jonathan Davis Wealth Management, revealed that lending to these businesses will not help to revive the UK economy.

He said: "I am highly sceptical of any scheme to create more lending. It is more and more lending which put us in economic depression in the first place. If you think we are not in depression, think again."

Davis's words of warning come as chancellor George Osborne announced the plans to pump cheap credit into the economy as soon as possible to stimulate economic growth.

Each firm will be able to borrow a maximum amount of £415,000, while the loans can only be discounted by up to 15 per cent and cannot last longer than two years.

Confirming that the programme should start before the Budget is announced on March 21, Osborne told the Commons: "On credit easing, I can confirm that subject to the final EU state aid approval, which we expect to get in the next week, that we will have a scheme up and running before the Budget."

It is understood the Treasury has struggled to generate interest among certain banks, with reports suggesting that some do not see the scheme as worth their while.

Davis believes that action needs to be taken to address the root problems affecting British businesses.

He said: "Sure, it [credit easing] will help some but not many. It's a sop to the baying crowd but in reality it does nothing to sort the root problems of our economy for businesses which include high prices and costs of running businesses, low or negative growth, high debts and high business rates."

Instead, Davis went on to say that businesses should be focusing on becoming more efficient in order to succeed in the future.

He said: "They should be cutting their costs to meet the economic conditions that we find ourselves in. In other words, they should not be biting off more than they can chew."

“They should be reducing their costs wherever they can. There are four things that businesses can do to improve profits - they can sell more, they can sell more often, they can sell more to the same customers more often or they can cut costs.”

He added: “Of course, if they can make more sales profitably then they should aim for that but you must certainly never try to get sales without working out if you’re going to make a true profit and it’s going to be positive for cash flow.”