

Three stages of financial crisis within the us

[Finance](#)



Financial Crisis of the of the Financial Crisis Financial Crisis is a term commonly used for a situation in which financial assets starts losing their part of nominal value, causing losses to different stakeholders of the economy. Global economies starting from US witnessed such a state from 2007 leading economies into deep trouble.

From August 2007, it started becoming evident that renowned banks are leading towards bankruptcy as derivatives were actually worth far less than it was ever imagined. Poor credit analysis by banks also created problems as sub prime mortgage also caused huge losses, when creditors failed to pay their due amount. In September 2008, Lehman Brothers announced that it was facing bankruptcy which created an overall panic all across the board. US government and other western government started injecting money into the banking system to stop big banks from going bankrupt. Moreover, credit flows to the private sector also stopped causing US economy and other economies to slow down. Interest rates were also increased in order to adopt a cautious approach in such difficult circumstances. Later in the winter season of FY09, US and other G20 countries started to cut down interest rates, so it could stop economy going into slump (Elliott, 2011).

Later, when risks of bank's solvency reduced, the focus shifted on government issues. High fiscal deficits caused governments to face severe problems as the economies were going through an overall slowdown.

Different European countries like Spain and Greece went into deep trouble due to the ballooning fiscal deficit. IMF and EU had to inject money into their system in order to maintain smooth functioning.

All these events have led to several problems for US and world economies. These economies would witness slow progress/growth rates and it will take <https://assignbuster.com/three-stages-of-financial-crisis-within-the-us/>

sometime to recover from this crisis.

References

Elliott. L, (2011), " Global financial crisis: five key stages 2007-2011" , The Guardian.