Free report about impact of uk financial and banking crisis

Finance, Banking

1. 0 Introduction

The recent financial and banking crisis in UK can be traced to five years back (2007/2008). However, the root causes of the problem could be traced to the 1970s and the 1980 when the US and UK governments when UK and US deregulated their financial markets. The relaxation of the existing financial regulations enabled financial institutions to raise money from different areas of the world. This enabled the rapid growth of financial service businesses to levels that had not been witnessed before. However, the net effect of liberalizing the credit market was the massive expansion of personal debts, including mortgage debts.

The problems in the property market came to the fore when some lenders offered loans that were more than the face value of the underlying property. This was occasioned by some lenders who were anxious to retain expand their market share. The problem was exacerbated by lenders who would sell of these mortgage deals to other lenders, who were often unaware of the original underlying transactions. The rising oil prices in the mid 2007 combined with the rising unemployment led to a sharp increase in the number of defaulters. As a result, banks became increasingly worried about the real value of their own mortgages as well as mortgage-securitised investments acquired from other institutions (The Economist, 2013). This led to reluctance by banks to offer short-term loans to other bankers. Consequently, many banks and insurance companies faced liquidity problems as they were unable to meet their financial obligations.

UK, like the rest of the world, was not spared by the crisis. Some corporations like the Bradford and Bingley Building Society had to be nationalised to cushion them from collapse. Other institutions such as the Royal Bank of Scotland Group were also nationalised because they were not liquid enough to meet their short term obligations. The impact of the crisis was profound. Business became the hardest hit because sales were falling, and so was their profitability. The problem was compounded by the fact that they could not secure bank support to continue their trading activities (The Economist, 2013). 2. 0 Discussion2. 1 Impact on EmploymentAs of 3 December 2008, British companies had reported job losses of over 154, 266 people. Most of these job losses were experienced in the financial and banking sectors. Within the same period, unemployment increased to 7. 2%. A number of business outlets began to close shop, which increased the number of jobless people. The 18-24 age groups were the hardest hit by the crisis. The fall in sales combined with the high job losses led to reduced taxes for the government. The net effect was a reduction in the UK GDP. The country’s GDP reduced by 1. 5% (Andow, Köppe, & Meyer, 2011). 2. 2 Impact on the Third SectorThe impact of the financial and banking crisis in UK could be divided into two round effects. The first order effect involves the immediate lack of cash. The lack of cash means that funding for the third sector will reduce drastically. This is true considering the gifts received from the public, the funding received from foundations, and the amount of public grants and contracts given since the beginning of the crisis. In addition, corporate funding reduced significantly within the same period. The impact of the crisis is exacerbated by the rising prices of food and fuel. The spike in cost of food and fuel has led to a higher degree of inflation (Andow, Köppe, & Meyer, 2011).

Nevertheless, there are some counter-forces. For example, there are some areas of demand-led public spending that experience an increase in demand for their services. Charitable foundations, for instance, spend more during their downturns because the need for their services becomes acute. As a result, these charitable foundations maintain their spending even when their revenues continue to fall. This is contrary to the periods of a boom when such organisations spend lesser money because the demand for their services is low. Consequently, those are the periods when charitable organizations maintain a positive balance sheet.

The second round of effects is rather complex and intricate. This is because, as the markets retreat, the third sector comes in to fill that space. For the large, bureaucratic organisations, the drive to chase public contracts and increase income growth becomes less attractive as the conditions continue to deteriorate. For example, organizations will not spend much on the environment and other social activities because their cash reserves continue to dry up. On the other hand, social entrepreneurs are encouraged to make use of the resources that the market discards. For example, unemployed people, abandoned buildings and derelict land become much more useful during these occasions. This explains the reason why the third sector tends to be resilient to the shocks of financial and banking crisis than the private businesses. It also explains the reason why they survive longer than private businesses.

In the long run, the financial and banking crisis may have a positive effect on civil economy. It may make the civil organizations shift their focus from the provision of public services as their main priority. It is important to note that, during the 19th century, the civil economy was quite involved in financing, retailing and manufacturing. However, the situation changed at the turn of the 20th century as the third sector consolidated in areas of social provision (The Economist, 2013). With the benefit of this hindsight, policy makers will need to focus on building the civil economy with a view of breaking away from the narrow conventional economy of running the economy. 2. 3 Impact on HousingIn the short-term, emergency measures aimed at saving, several housing associations from collapse are necessary. This is because financial reports obtained from several housing associations show that their profits are falling. The same institutions are also experiencing huge write-down of assets, especially the biggest players. The largest housing associations, many of them grown from development groups, are largely dependent on sales from new housing to subsidise social homes. The financial and banking crisis has inspired a shift in the strategy used by the housing associations. This is because they are now considering allocating the unsold homes for renting – a move that will ensure that they deliver a fraction of their incomes from a full sale (Mulgan, 2008).

Moving forward, merger between some of the housing associations is inevitable. This will ensure that they consolidate their assets, be in a better position to leverage those assets, and mitigate against future financial and banking crises. In the long run, the current model of home ownership might have to be reviewed altogether. A review will allow for the provision of innovative and services such as renting, part and full ownership that is flexible enough to allow people to move between tenures as the circumstances change.

The building of social houses will also come under high pressure in the short-term. Even though it is necessary, the current mortgage conditions are tight. Nevertheless, increasing the supply of social housing could be one of the best means to lessen pressure on the house prices. Therefore, creation and the revival of social institutions to supply housing finance will be inevitable in the future as one of the means for reducing consequences of the financial and banking crisis on the housing industry (Marshall, 2013). 2. 4 Public Sector and Public FinancesUndoubtedly, the financial and banking crisis in UK has a significant effect of the public sector. In the short term, public finances will be in a mess. There will be high budget deficits, and this will make expansion of public services difficult. The high interest rates prevailing in the market will also mean that existing programmes may be forced to diver their cash into repayment of interest.

Although the inter-relationship between public finances and economic performance is a complex one, the overall link between tax, provision of services and public expenditures is rather obvious. The huge write-downs in spending and investment may be offset if the government invests in large infrastructure projects, which will drive the creation of jobs. Manager, on the other hand, may reduce the rising costs by making hard savings.

Local authorities, as well as National Housing Service trusts seeking private financing initiative, could face reluctance from suppliers who may not be willing to commit their overstretched resources to a deal (Muradoglu, 2010). On the contrary, public sector organisations appear attractive to investors because they can negotiate better deals and accrue the finances that they require.

In reacting to the downturn, cost reduction programs for public sector organisations will be helpful in meeting the fiscal and delivery challenges presented by the crisis. On the other hand, private providers of public services may need to negotiate with their clients on prices and contract terms with a greater emphasis on reward for delivery. Nevertheless, the knock-on effect on their balance sheets could be significant. 2. 5 Impact on Private SectorThe private has become extra cautious in taking risks. Nowadays, only a few organisations are taking PFI schemes, and for those taking such financing alternatives, they require secure terms and guaranteed profits. Financial institutions, on the other hand, are finding it hard to assess the level of risk. As a result, they are getting more reluctant to get involved in the process.

The reluctance by the private sector to accrue expenses will mean that there will be a weak appetite for job creation. The private sector is reluctant to create permanent jobs because this will be an added expense. 3. 0 ConclusionUK is one of the countries that still reels from the effects of the 2007/2008 global financial crisis. The crisis had a profound effect on the financing and banking sector, which is one of the driving forces of the UK economy. The effect of the crisis was an economic recession that saw the country's GDP reduce by 1. 5%. Many individuals lost their jobs, and businesses closed down. However, the third sector was one of the sectors that survived, the economic crunch, unlike many private businesses. Although the economy has relatively stabilised now, there is still reluctance on the part of banks to catalyse economic growth because of the high interest rates charged. Nevertheless, the system is now better than it was four or five ago.

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