

United kingdom economy

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The United Kingdom is the sixth largest economy in the world, and the third largest in Europe after Germany and France. London is the world's second largest financial center after New York. The most important industries of the economy of Great Britain are the aerospace industry and the pharmaceutical industry. This economy is boosted by its oil and gas reserves.

The currency of the UK is the pound sterling, which is also the world's third largest reserve currency after the U. S. dollar and the euro. The UK is a member of the Commonwealth of Nations, the European Union, the G7, the G8, the G20, the International Monetary Fund, the Organisation for Economic Cooperation and Development the World Bank, the World Trade Organisation and the United Nations.

In the 18th century, the UK was the first country in the world to industrialise and during the 19th century possessed a dominant role in the global economy. From the late 19th century the Second Industrial Revolution in the United States and Germany presented an increasing economic challenge to Britain. Despite victory, the costs of fighting the First and Second World Wars further weakened the accountability of Great Britain's public finance and resulted in the collapse of the British Empire, and by 1945 the United States economy was the world's dominant economic power. However, it still maintains a significant role in the world's economies. Since 1979 and the government of Margaret Thatcher most state owned companies were privatised and opened to public competition and listed in the UK's financial market.

The UK economy has been weak in recent years following the late 2000 recession with growth largely flat since 2010. The UK experienced a <https://assignbuster.com/united-kingdom-economy/>

recession between 2008 and 2009, with many periods of consecutive negative growth and unemployment has held steady at late 2008 levels of 7.7%. In February 2013, the UK lost its top AAA credit rating for first time since 1978.

By analyzing this graph we can see that GDP in the United Kingdom has been rising constantly but in 2008 it was affected by the crisis causing the economic growth to decrease.

The biggest problem facing the UK economy is the lack of economic recovery. After a fall in GDP in 2008, the economy briefly recovered, but the recent double dip recession of 2012 has left this economy in a longer economic downturn than the Great Depression. Over the next few years the economy can return to a normal rate of economic growth or it may become stuck in a period of economic stagnation.

GDP percentage change quarter to quarter since 2008

This graph shows what has happened to GDP since the peak of 2008.

Inflation, average consumer prices (Index)

Despite the length of the recession, inflation has often been over the government's target of 2%. With fiscal policy limited by the government's attempt to reduce the deficit, there is greater pressure on monetary policy to provide an economic stimulus.

So far the MPC (Monetary Policy Committee) have been willing to tolerate inflation above target. They have also been willing to pursue unconventional monetary policy. However, if the economy continues to stagnate, the MPC

will face a further difficult choice of how much to use monetary policy as a tool to promote growth.

Volume of imports of goods and services (Percent change)

Volume of exports of goods and services (Percent change)

We can see in the graph there has been a drop in the volume of exports and a rise in the volumen of imports. A growing account deficit may be a cause for concern showing a decline in UK competitiveness because they are producing less than what they need.

In 2012, the Pound has strengthened against the Euro reaching a level not seen since 2008. However, the value of the Euro to Pound is still less than the peak of late 2007, when £1 reached €1. 4. In June 14th, 2012 £1 = €1. 24 Euros. An increase since the start of the year when £1 = 1. 18 Euros. This appreciation in the Pound makes it cheaper to buy goods from Europe, but makes UK exporters less competitive. Next graph shows a comparisson between the Euro and Pound from 2011 to 2012.

The Pound's appreciation against the Euro reflects the growing concern over the future of the Euro.

Unemployment rate (Percent of total labor force)

In this graph we can see that the unemployment rate has been increasing during the past couple of years, if the economy can return to its long run trend rate of economic growth, we can expect to see a fall in demand deficient unemployment and start to reduce the growing numbers of the long term unemployed. A return to economic growth would improve government tax revenues and help reduce the budget deficit and stabilise the countries

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with long term debt. If the UK economy fails to recover, we will see a continued fall in living standards, high unemployment and it will be very difficult to reduce the government's debt to GDP ratio.

Economic growth is a key factor in determining other problems such as unemployment, debt and the banking sector. Unemployment obviously rised during the recession. This rate is lower than previous recessions, when unemployment rose at a faster rate. This suggests the labour market is little flexible. (It is also much harder to get benefits). However, the rise in unemployment is still of great concern; in particular the rise in numbers of long term unemployment..

Unemployment also increases the danger of social division and social problems. The next graph is showing long term unemployment in the United Kingdom over time.

Government Debt

The Euro debt crisis has focused attention on the UK's rapid growth in debt since 2008. The government responded by saying that deficit reduction was the highest economic priority. However, even relatively mild austerity policies contributed to a double dip recession. This second recession meant tax revenues have been less than expected and the government was in danger of missing their deficit reduction targets. Markets seem to be willing to keep buying UK debt, with UK bond yields but, still there is concern over the level of debt, giving the government less room for fiscal expansion.