

Challenges to Britain post Brexit: inflation, living wage and interest rates



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Challenges Facing British Business Today

Introduction

The United Kingdom is one of the major business locations across the globe. Based on the World Bank survey, the market is ranked as the top European trade center as a result of ease in conducting businesses. Additionally, Britain provides access to the European market. Most traders from different parts of the globe perceive Britain as the entry point to Europe. Britain has a unique business environment as well as the competitive tax system that awaits the developing firms. Regardless of the obvious appeal, business organizations may encounter disparate and complicated laws, tax brackets, and other challenges that may influence the success of their businesses. In particular, the additional requirements of traversing the potential implication of Brexit (Hopkin 2017, p. 13). The outcome of the Brexit negotiations remains indeterminate; however, the discussions are gradually offering a greater clarity over the likely end of the British membership in the European Union. Britain will start its exit from the European Union in the year 2019 (Hopkin 2017, p. 14). However, the risk that Britain could terminate its membership from the European Union without the conclusion of the cross-sector trade negotiations should not be discounted. If the impending trade relationship involves barriers to trade, then the United Kingdom is most likely to struggle in trying to match the wider growth trends. The Brexit had implications on inflation, national living wage as well as the interest rates, all these factors have negative influences on the business operation. The increased inflation brought about by Brexit leads to the weakening of the pound, a situation that adversely affects both the small, medium-sized and <https://assignbuster.com/challenges-to-britain-post-brexit-inflation-living-wage-and-interest-rates/>

large businesses across the United Kingdom. The paper discusses inflation, national living wage and rise in the interest rates as some of the major challenges facing British businesses in the post-Brexit period.

Inflation

In the post-Brexit era, the United Kingdom has continued to experience higher inflation as compared to the euro-era; thus, the economic growth has been slower as compared to the time when Britain was in the European Union. The inflation has been higher in the post-Brexit time making it hard for small, medium-sized and large businesses to thrive. As a result, there has been a slower economic growth. During this time of higher inflation rates, businessmen find it harder to get loans, since the banks, as well as other financial institutions, fear low cash flows, a situation that leads to the low payments of the borrowed loans (Hunt and Wheeler 2017, p. 17). The above conditions, therefore, make it harder to start and operate a business in the United Kingdom. As a result, there has been a deterioration in the number of business activities. Low inflation rates often favor business activities in a given market. To protect the country from higher inflation, leaders often increase interest rates to cover both the cost of the depreciating value of money and the cost of increased market uncertainty. In the United Kingdom, the lack of borrowing power often reduces the liquidity of different businesses or enterprises that depend on the credit to fund operations or inventories (Hunt and Wheeler 2017, p. 16). The above scenario may, therefore, lead to insolvency, or a reduction in the capability of companies to invest in growth. Currently, in the United Kingdom, it is difficult to operate all types of businesses due to inconsistency in economic growth brought about <https://assignbuster.com/challenges-to-britain-post-brexit-inflation-living-wage-and-interest-rates/>

by the Brexit. The increase in inflation often causes the problems in the economy to snowball; as a result, lenders become more cautious and finally, all credit dries up; therefore, even good credit risks become unable to acquire financial support.

The rising inflation was the most notable economic impact of the Brexit; it has led to the fall in the value of the pound, a situation which has led to the higher import prices. With the increase in import prices, enterprises find it hard to grow their businesses and to make profits. New business organizations, therefore, find it difficult to operate in the UK markets. High inflation interferes with significant investments. After the Brexit, the inflation has risen above the normal target, and as a result, in the current business environment, the investor confidence in the UK's economy has been greatly reduced. Therefore, the business conditions in the country remain unappealing to the potential investors from foreign countries. With the increasing inflation rates in the United Kingdom, business organizations cannot realize profits due to a high cost of operation (Ciupijus 2011, p. 27).

Additionally, due to high interest rates, banks are reluctant to give out loans, a situation that interferes with the business operation. Due to the above factors, operating a business in Britain has become a problem that can only be solved by the implementation of effective economic policies. The punitive interest rates that result from the increasing inflation reduce the rates of lending, and in the long run, there is a reduction in business growth, a situation that prevents businesses from taking advantage of the available market opportunities.

One of the major challenges faced by the British businesses today is the fall in the value of the sterling pound due to an increase in inflation. The successive increase in the cost of imports adversely affects the operational as well as the strategic plans for most of the businesses. Therefore, to start and operate a business in the United Kingdom, there is the need to consider several factors otherwise the business may collapse due to ever-increasing operational costs (Meunier and Nicolaïdis 2005, p. 22). Although the inflation is anticipated to level out, the post Brexit uncertainty on the future trade with the rest of Europe makes it hard for businesses or enterprises to plan with greater confidence, and reluctant to engage in the new capital investment. The UK's economy after the Brexit vote is gradually losing momentum as the higher inflation and the weak pound impacts the living standards. The above scenario is making it difficult to operate businesses in the country. In the recent past, there was a sharp fall in the value of a pound. When compared to the dollar, the value of the pound has dropped drastically as compared to the period leading to the Brexit. The underlying pressure on the currency is causing fear among the investors who find it difficult to operate in the country.

Additionally, most investors are also leaving the country as the high living standards, and the increased cost of operation cannot allow them to make intended profits. Investing in the United Kingdom has a lot of challenges. Investors must analyse the market to determine ways of reducing the risks that relate to the barriers. The drawbacks pose a great significance in the property business because it affects profit maximization. As a result of high inflation, the absolute cost advantage sets in, it is another barrier that may

change the new Companies that are planning to enter the business in the United Kingdom (Hunt and Wheeler 2017, p. 19). The current business owners already have the standards prices that favour their clients and going into the same market with new prices may lead to risks and collapse of the new ventures. The bargaining power is also a challenge for start-up companies. New organizations may end up setting low prices to attract property buyers leading to low output and frustration in the market.

National Living Wage

Since Brexit, the national living wage rate has led to the increase in the cost of operation, a situation which has adversely influenced profit levels for many businesses in the UK. The rise in Britain's living wage results from the increased pressure from the higher costs of living. Inflation rose drastically after the European Union referendum that led to the sudden fall in the value of the pound (Meunier and Nicolaïdis 2005, p. 22). With the increase in living standards, workers from different organizations demand higher pay to meet the high cost of living. With the rise in inflation, many businesses must increase the wages to attract experienced staff, a situation that increases the cost of operation. With the absence of foreigners in the post Brexit era, most businesses must comply with the requirement of raising the wages to maintain their relevance in the UK market. Considering the tight wage control brought about by high inflation, businesses are losing controls over the salaries they give to their workers. Thus, they need to make difficult decisions that may facilitate changes in the contracts that they make. For instance, stopping or reducing payments of the bonus as well as cutting back on benefits of other employees may offer a solution to the increasing

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national living wage. However, the above scenario may prove to be a challenge as the most organizations need to motivate their workers to ensure high productivity (Hopkin 2017, p. 25). The government policies on the minimum wage, therefore, prove to be a challenge for most of the businesses that aim to thrive in the UK market. Before the Brexit, most businesses enjoyed the vast number of foreign employees whose wage demands were not as high as the current set of workers. As a result, they could afford to pay all the wages plus the bonuses; additionally, they were able to employ many employees to facilitate the production processes. In the post Brexit era, the operation of the businesses proves to be a challenge due to high salaries.

As a result of high wage demands from the workers, businesses constantly experience employee relations issues especially in a situation where worker's wages have been inflated to equal that of their supervisors. Additionally, seeking a new set of employees with a lower wage demand often prove to be a challenge; thus, businesses have to adjust to ensure that they remain relevant in the competitive market. The increase in wages particularly impacts the small and medium-sized businesses that offer low salary scale to their workers. Such businesses are thus unable to operate in the UK especially in the post Brexit period. They risk recording losses or high cost of operation. With high taxation already in place, businesses are sure of recording losses amidst the increasing national living wages. The diversity in the business operation in the UK's economic system has persistently been on the rise (Meunier and Nicolaïdis 2005, p. 22). The contribution of this growth has been attributed to the ideas of human capital that have also been on the

rise relative to the business operations. The extreme growth of these businesses has led to the suspicion of the rate of competitiveness and sustainability issues. The idea of human capital has increased in the modern system of business operation. It has become the tool for gaining competitive advantage and sustainability issues. The diversity in the world contributes to different ideas which influence the businesses directly or indirectly. The contribution of workers is, therefore, an essential aspect of the businesses that the post-Brexit UK's market lacks, making it harder for businesses to make profits. The sustainability issues are also influenced by the different ideas that are being contributed by the diverse population that exists across the globe. The disparity in the ideological differences creates a lot of competition, a situation which leads to the growth and expansion in business activities both at the domestic level and the international level. The diversity is an essential characteristic of human nature, for instance, certain activities can only be performed perfectly by women rather than men, this situation may bring success in different fields as the expertise for specific roles will be considered. On the other hand, the process of managing diversity continues to pose a significant problem for various organizations.

The rise in the Interest Rates

In most economies, Central Banks often increase interest rates depending on the level of inflation. When the rate of inflation is expected to rise, banks usually adjust the interest rates towards the upper margin to moderate economic growth. In the process of attempting to control the growth of an economy, Central Banks often increase the cost of borrowing, decrease the disposable income and as a result, moderate the growth in consumer

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spending. Increased interest rates often tend to reduce the rate of economic growth as well as inflationary pressures. In the UK, there is a lack of borrowing power attributed to the higher interest rates. The above scenario significantly reduces the liquidity of diverse enterprises, both the ones that are already operating and the startups.

Additionally, businesses that operate on credit are vastly affected by the increase in interest rates. The above situation may lead to insolvency or a reduction in the capability of companies to invest in growth. In the post-Brexit economy, it is difficult to operate all types of businesses due to inconsistency in economic growth brought about by the Brexit. The increase in inflation often causes the problems in the economy to snowball; as a result, lenders become more cautious and finally, all credit dries up; therefore, even good credit risks become unable to acquire financial support.

After the Brexit vote, the Central Bank of England raised the interest rates to maintain economic growth; as a result, the sterling pound strengthens against the US dollars and the Euro. The above situation led to an increase in the prices of goods abroad. The rising costs which are continually on the rise since 2016, makes it harder for businesses to operate as there is an increase in the expenses (Geddes 2013, p. 19). In particular, the export sector is widely affected, and the businesses can no longer make profits as they used to do before the Brexit. Currently, the rise in interest rates is one of the significant problems that affect businesses in the United Kingdom. The effects of change in interest rates differ from one business to the other.

Companies that make luxury goods are mostly affected whenever there is an increase in the interest rates, and this happens because a majority of the <https://assignbuster.com/challenges-to-britain-post-brexit-inflation-living-wage-and-interest-rates/>

customers cut back on non-essential commodities when there is a fall or reduction in income; as a result, an increase in the interest rates. Most businesses often operate on credit or loans, and whenever there is an increase in interest rates, businesspeople or enterprises usually find it hard to engage in different contracts. The current high interest rates in the UK's market discourage investors as there are high costs of borrowing. In the UK market, almost all small businesses have outstanding loans, and when there is an increase in the interest rates, the loans become more expensive, characteristically, these are long-term loans that take years for businesses to pay off. Therefore, any increase in the interest rates on the above loans means that enterprises or companies will have to carry the debts longer in addition to paying more money. Besides, higher interest rates suggest that there will be a difficulty in taking short-term loans to aid in the payment of the unanticipated expenses or the expansion of businesses whenever there is the need. The above scenario can interfere with the growth of a business enterprise for many years. Succinctly, when there is an increase in interest rates, consumers with debts often must pay additional interests to the lenders (Meunier and Nicolaïdis 2005, p. 22). The above case typically leads to negative consequences on the spending habits. In the current business environment in the UK, if an individual owns a business that deals in the luxury goods, they may experience hard times amidst the increase in the interest rates than the companies offering basic needs. Luxury products are often the first things that consumers eliminate from their budget when there is an increase in the living standards.

Conclusion

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The outcome of the Brexit negotiations remains indeterminate; however, the discussions are gradually offering a greater clarity over the likely end of the British membership in the European Union. The increased inflation brought about by Brexit leads to the weakening of the pound, a situation that adversely affects both the small, medium-sized and large businesses across the United Kingdom. The inflation has been higher in the post-Brexit time making it hard for small, medium-sized and large businesses to thrive. As a result, there has been a slower economic growth. During this time of higher inflation rates, businessmen find it harder to get loans, since the banks, as well as other financial institutions, fears low cash flows, a situation that leads to the low payments of the borrowed loans. With the rise in inflation, many businesses must increase the wages to attract experienced staff, a situation that increases the cost of operation. With the absence of foreigners in the post Brexit era, most businesses have to comply with the requirement of raising the wages to maintain their relevance in the UK market. The increase in inflation often cause the problems in the economy to snowball; as a result, lenders become more cautious and finally, all credit dries up; therefore, even good credit risks become unable to acquire financial support.

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