

ACCA economist lectures on financial crisis at Chamber of Commerce

"No recession fears for GCC," says Hamirani

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KUWAIT: Kuwait Society of Auditors and Accountants in cooperation with the British Legal Accountants Society held a seminar entitled "The Financial Crisis: From Wall Street to Main Street," on Wednesday at the Kuwait Chamber of Commerce and Industry. Lecturing at the seminar were Economic analyst, Hamid Hamirani representing Association of Chartered Certified Accountants (ACCA), and Chairman of the Accounting Department, College of Administrative Sciences at Kuwait University (KU), Dr. Sadiq Al-Bassam.

Addressing the media, Hamirani began his lecture by referring macroeconomics and how important it was to the recent financial crisis.

"What I'm trying to demonstrate is that ACCA has got the qualifications which can really manifest into different realms," Hamirani said. "As far as the financial crisis concern, macroeconomics is a very important element in such an issue especially to CFO's."

Hamirani continued his lecture on the causes and consequences of the recent financial crisis.

A major cause, he explained, was that the U.S. economy was facing a credit problem he described as "a toxic problem, where financial institutions are not lending out or buying financial paper as a result of the fear that either the borrowing or issuing institution may have toxic credit thus leading to a default in the original loan or paper obligation."

Additionally, Hamirani referred to the yen carry trade crisis, saying: "Up until last year, Yen-bore was at 0 percent and the American dollar was 1 percent. Hedge funds, seeing no end to the Asset Boom, which is the brain child of Alan Greenspan, borrowed Yen in Japan, converted into dollars and introduced new financial products: derivatives, commercial paper and provided commercial banks and mortgage lenders the opportunity to pass their risk to the hedge funds. Credit was then given to many insecure and known credit risk borrowers thus creating the sub-prime crisis."

He then added: "The liquidity was poured into investments in China, for manufacturing, and India, in soft skills outsourcing, creating the demand which led to commodity price inflation and broke the conventional relationship between the U.S. dollar rise and commodity price inflation."

Hamirani stressed: "If financial institutions had their macroeconomic fundamentals on the right track then the crisis could have been helped."

Referring to the Wall Street view on the financial crisis, Hamirani stated that the crisis in the U.S. led to enormous changes in lending standards. "The changes are as follows: housing boom and bust, derivative explosion, and the credit crisis," he said.

"After Greenspan Fed took rates down to ultra-low levels, home prices began to levitate. More and more mortgages were being securitized and purchased by Wall Street then repacked in forms of bonds. The low rates this spurred demand for this higher yielding. In this ultra-low rate environment, prices being appreciated, what mattered the most to the mortgage originator was that the borrower was not default for 90 days," continued Hamirani.

Hamirani said he believed that the global equity market would remain under stress. "75 percent of the World's GDP (advanced economies) are already in recession and only now admitting that. A dozen emerging countries are in a stage of seeking IMF assistance and the IMF has only 250 billion dollars," he pointed out.

"Even China and Brazil's economies are under stress. China's growth is now 9 percent, considerably lower than what was expected. Growth is expected to drop down between 8 to 9 percent next year."

He also pointed towards deleveraging, securitization and fall in house values as other reasons why the global equity market would remain under stress.

"Future plans for the financial crisis," said Hamirani, "are a global slow down, reduction in interest rates, more regulation for the buy side rather than sales side, fiscal stimulus and return of Keynesian economy where there is an increase in government spending and rising unemployment."

Speaking on how the GCC countries and the Gulf region would be affected, Hamirani stated: "There are no recession fears for the GCC; growth is expected to be around 4.5 percent which is reasonable for the 33 million or so population."

The dollar liquidity squeeze will ensure projects are prioritized and cash surplus combined with low commodity prices provides an excellent opportunity for GCC to complete projects with relatively less cost."

Hamirani also added: "Loss of revenue in oil is to a larger extent compensated by a reduction in construction costs, deflationary pressures on wages and the strengthening of the dollar and consequent increase in buying power."

Continuing, he stated: "The oil price fall is likely to arrest or delay capacity extension and alternative energy projects which were a real threat to the long term stability of oil prices."

Hamirani is an ACCA member in Oman and currently Senior Vice President of Vision Investment Services based in Oman. Hamirani previously worked as a government advisor and has a through background in macroeconomic issues. He publishes articles online at www.zawya.com and has had numerous successful lectures on the same topic in Oman.

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