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Bahrainomics

The latest economic news, articles and researches

In This Issue

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THEORY OF FINANCIALISATION – A PERSPECTIVE

by Ali Ali, BES Vice President

The term "Financialisation" has been increasingly used in academic circles and policy making, gradually becoming a standard term. It is an idea that originates from heterodox economic thinking and has had limited penetration and influence on mainstream neoclassical economics. Financialisation has been regarded as the product of epochal changes that took place following the 1973-74 oil shock crisis.

As documented in Lapavitsas (2009: 11) there are three processes relating to financialisation that also impact on production. These are (i) the productivity of growth, which suffered over the mid-1970s to the mid-1990s (particularly in the United States), (ii) an evident transformation in the process of work, partly caused by changes in regulations and technology and partly due to patterns of unemployment during times of hardship, and (iii) a wave of large multinational corporations dominating global trade production.

Financialisation is seen by some post-Keynesian academics as the globalisation of the financial markets, as defined by Epstein (2005: 3) “financialisation means the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies.” In addition, Greta Krippner followed Arrighi (1994) in defining financialisation as a ‘pattern of accumulation in which profit making occurs increasingly through financial channels rather than through trade and commodity production.’ (Krippner 2005: 181).

Mainstream orthodoxy economic school has in many ways played an important role promoting financialisation, largely through forming relations between firms and financial markets, as a result maximising profits on behalf of the shareholders, also called "the agency problem".

Economic Aspects of Financialisation

The notion of financialisation embodies a set of interrelated aspects, as Lapavitsas (2011) states, that resulted from the evolution of financialized capitalism. Firstly, large corporations turned to financial market funding and have become less reliant on banks. This has led to the second aspect; banks have shifted their role to financial intermediation as well as transacting with households. This in turn led to the third aspect; where individuals engage in financial considerations as they try to access their needs. On the international scale, financialisation has promoted the US dollar to become the "international reserve money" or more appropriately "quasi-world money" as coined by Makoto Itoh.

Non-Financial Corporations

Over the past twenty years, the expansion of the financial sector as well as the change in the behaviour of non-financial corporations (NFCs) has highlighted the influential growth in the role finance. NFCs responded to overseas competition by channelling capital from production towards financial markets.

Large multinational corporations have been able to fund investment with retained earnings and raise external finance in liberalised financial markets, becoming less reliant on banks. In addition, continuous waves of mergers and acquisitions enabled firms to engage in financial trading activities on a large-scale (Lapavitsas 2011). Furthermore, Crotty (2005) stated that neoclassical economists believed the "hostile merger movement" would effectively reduce the agency problem.

In her study on the financialisation of the American economy, Krippner (2005) examines two sources of revenue for NFCs, 'portfolio income' and 'financial and non-financial profits' respectively. Although the ratio of portfolio income relative to cash flow for US NFCs retracted during the second half of the eighties, it has had an upward trend from 1950 to 2001. The increasing ratio clearly exposes the relationship between financialisation and the financial market. Krippner also discovered that NFCs managed to generate greater profit-making opportunities domestically and externally from financial as opposed to productive activities – closely resembling the characteristics of financial corporations. (Krippner 2005: 195).

Banks

Banking in capitalist societies experienced substantial transformations over the previous decades. In response to changes in the behaviour of non-financial corporations, banks decided to turn to other sources; primarily households' incomes and investment banking practices. Lapavitsas (2009:16) described the activities of commercial banks as a major trend in the transformation of finance.

The first of these is known as "financial expropriation", namely the extensive involvement of households and individuals in the mechanisms of finance. This has motivated banks to direct their lending towards the working class, drawing profits from their wages and salaries. In that context, household borrowing (durable consumer goods, health, education, and mortgages) and financial assets (pension, insurance and housing) increased notably. (Lapavitsas 2011)

The participation of households in financialisation has been amplified by advances in technology that altered money handling and reduced the "relational" communication between individuals and banks, promoting the growth of ATM networks and e-banking. Facilitating easy, secure, and speedy access to money has encouraged the public to engage in formal financial activities.

Palley (2007:8) found that the domestic non-financial sector debt in US increased rapidly, especially mortgage debt as a percentage of GDP doubled during the period 1973-2005. Palley further analysed the non-financial sector debt by type of borrower, discovering an upsurge in household debt, rising from 76.3% in 2000 to 94.0% in 2005. This signifies a remarkable change in comparison to other categories of borrowers in the non-financial sector of the economy. Similar trends were also identified in Britain, as loans to individuals as a share of total of lending more than tripled between 1976 and 2006. (Dos Santos 2009:6)

In tandem, the focus on investment banking practices were promoted by neoliberal policies in the 1980s, leading to financial market liberalisation and greater openness. The adoption of "financial market mediation" techniques by banks expanded rapidly following the abolition of the Glass-Steagall act in 1999. Moreover, consecutive surge in mergers and acquisitions, investing household savings in financial markets, and expansion in FX and other derivatives, have all enhanced the "pulse" of contemporary investment banking (Lapavitsas 2011). Technology has also encouraged banks to adopt sophisticated credit-scoring and statistical inference-based techniques to expropriate profits from workers' salaries and to quantitatively estimate financial risk. (Lapavitsas & Dos Santos 2008) Nowadays, banks hardly fit in their original "deposit-taking" shell.

QUARTERLY NEWS UPDATE

Local News

BAHRAIN GROWTH TO TOUCH 3.4% AS RESULT OF FISCAL REFORMS, OIL PRICES

Bahrain is experiencing a gradual post-Covid recovery, while the renewed fiscal reform momentum and high oil prices are mitigating Bahrain's fiscal and external vulnerabilities, said an IMF mission at the end of a visit to Bahrain.

The economic growth is projected to accelerate to 3.4 percent in 2022, with non-oil GDP increasing by 4 per cent driven by stronger manufacturing and the full reopening of the economy. Thereafter, growth is projected to stabilise at around 3 per cent over the medium term.

CENTRAL BANK OF BAHRAIN RAISES KEY POLICY RATE

The Central Bank of Bahrain (CBB) said it has raised the key policy rate, on its one-week deposit facility, by 50 basis points to 1.75 per cent, moving in lockstep with the US Federal Reserve's hike as the Bahraini dinar is pegged to the dollar.

The CBB also decided to hike its overnight deposit rate and lending rates by 50 basis points to 1.5 per cent and 3 per cent respectively, and its four-week deposit rate was increased by 75 basis points to 2.5 per cent.

QUARTERLY NEWS UPDATE

Regional News

GCC ECONOMIES TO GROW BY 5.9% IN 2022 – WORLD BANK

The World Bank has forecast that GCC economies will expand by 5.9% by the end of 2022.The growth will be driven by the region's recovery from the Covid-19 pandemic and developments in the hydrocarbon market, according to the World Bank.

The most recent issue of its Gulf Economic Update – Achieving Climate Change Pledges cites the broadly successful vaccine rollout across the region as well the easing of restrictions which has helped boost export earnings.

UAE ACCOUNTS FOR 41 PERCENT OF ARAB FDI PROJECTS OVER THE PAST 20 YEARS

The UAE accounts for a 41 percent share of the $1.3 trillion received in foreign direct investment (FDI) projects across Arab countries between 2003 and 2021, according to the Arab Investment Export Credit Guarantee Corporation (Dhaman).

Arab countries have together attracted 14,443 foreign projects during the last 19 years. "The number of foreign direct investment projects into the region rose by 37 percent and their capex grew by one percent between 2003 and 2021," the firm said in its 37th annual report on the investment climate in Arab countries for 2022.

International News

THE FED'S PREFERRED INFLATION GAUGE ROSE 5.4% IN FEBRUARY, THE HIGHEST SINCE 1983

The Federal Reserve's favorite inflation measure showed intensifying price pressures in February, rising to its highest annual level since 1983, the Commerce Department reported Thursday.

Excluding food and energy prices, the personal consumption expenditures price index increased 5.4% from the same period in 2021, the biggest jump going back to April 1983.

Including gas and groceries, the headline PCE measure jumped 6.4%, the fastest pace since January 1982.

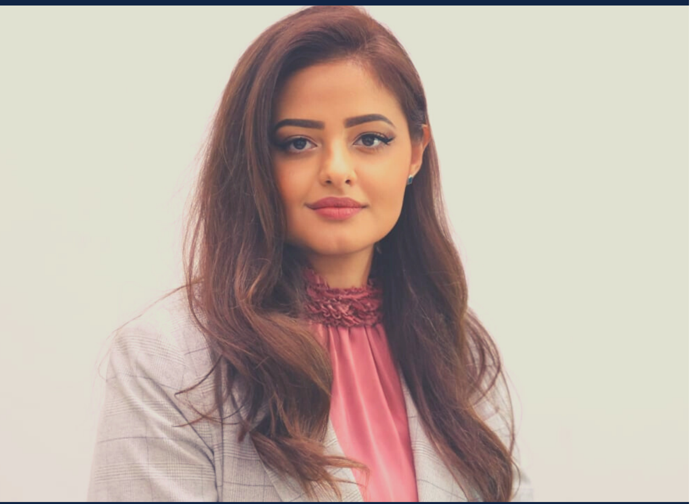
US MAKES BIGGEST INTEREST RATE RISE IN 22 YEARS

The US central bank has announced its biggest interest rate increase in more than two decades as it toughens its fight against fast rising prices.
The Federal Reserve said it was lifting its benchmark interest rate by half a percentage point, to a range of 0.75% to 1% after a smaller rise in March.

With US inflation at a 40-year high, further hikes are expected. The push marks the latest effort to contain spiking costs being felt by households around the world.

WOMEN INCLUSION COMMITTEE

WOMEN OF THE QUARTER



Dr Hana Bawazir

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Dr. Bawazir holds a PhD in Banking and Finance and an MSc in International Banking and Financial Studies from University of Southampton, UK and BSc in Banking and Finance from University of Bahrain.

Prior to her appointment at UOB, Dr Bawazir worked as a Fund Intern Economist in the Middle East and Central Asia Division at the IMF in Washington DC. She has also worked as a visiting scholar and lecturer at the University of Southampton.

Her research interest focuses on the empirical modelling of bank behaviour. In particular, she primarily investigates the role of the government in banking systems in terms of regulation, supervision, and bank bailouts, and how such government interventions affect bank conduct.

HOW EMPOWERING WOMEN BOOSTS ECONOMIC GROWTH

by Dr Hana Bawazir

While economic growth and financial stability are fundamental to give women the opportunities they need, women's participation in the labour market is also part of the growth and stability equation. Female labor force participation has remained lower than male participation, over the last three decades, women's participation in the global workforce has remained at around 51 percent, dipping as low as 21 percent in the Middle East and North Africa. Gender wage gaps are high, and women are overrepresented in the informal sector, often working in precarious, under-paid, and unprotected conditions. In many countries, there are different restrictions persist which constrain women from developing their full economic potential.

Recently however, we have witnessed great progress in empowering women in the economy and closing gender gaps in the world. As they are key to achieving the 2030 Sustainable Development Goals, particularly Goal 5, to achieve gender equality, and Goal 8, to promote full and productive employment and decent work for all; also Goal 1 on ending poverty, Goal 2 on food security, Goal 3 on ensuring health and Goal 10 on reducing inequalities.

The attainment of a more equitable society and narrowing gender gaps are two issues that are drawing considerable attention from policymakers in many countries. There is also increasing recognition that the pursuit of these two objectives is not just desirable from a social equity perspective, but that it would have beneficial effects for the macroeconomy. When more women work, economies grow. Women's economic empowerment boosts productivity increases economic diversification and income equality in addition to other positive development outcomes. This in turn, contributes to economic growth and macroeconomic resilience.

While not uncontroversial, there is evidence of a positive impact of women's presence on boards and in senior management on companies' performance. Companies employing female managers could be better positioned to serve consumer markets dominated by women and more gender-diverse boards could enhance corporate governance by offering a wider range of perspectives. Moreover, a larger share of women in decision-making positions could reduce the share of high-risk financial operations that are normally conducted by male traders. Female leadership and diversity on boards of financial institutions and banking supervision agencies are associated with lower non-performing loans and greater financial stability. Female political leadership is also associated with greater infrastructure spending and educational attainment of girls.

In addition, better opportunities for women can also contribute to broader economic development in developing economies, for instance through higher levels of school enrollment for girls. Increasing women's and girls' educational attainment contributes to women's economic empowerment and more inclusive economic growth. Education, upskilling and re-skilling over the life course – especially to keep pace with rapid technological and digital transformations affecting jobs—are critical for women's and girl's health and wellbeing, as well as their income-generation opportunities and participation in the formal labour market.

Providing women with equal economic opportunities and unleashing the full potential of the female workforce, with significant prospective growth and welfare implications, will require an integrated set of policies to promote and support female employment. Research suggests that well-designed, comprehensive policies can be effective in boosting women's economic opportunities and their actual economic participation.

RECAP ON KEY ECONOMIC INDICATORS

Bahrain's Real GDP — 5.5% YoY

Bahrain's Oil Sector — -4.7% YoY

Bahrain's Non-Oil Sector — 7.8% YoY

Bahrain's Inflation — +3.9% MoM, +3.4% YoY

S&P GCC Composite Index ended 9.7% higher in June 2022

World Economic Growth

Growth of 4.4% in 2022

Growth of 3.8% in 2023

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