

What's the impact of the Lehman Brothers saga?

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Four years ago this week Lehman Brothers Holding Inc. almost destroyed the global economy with a massive exodus of most of its clients, stock losses and a devaluation of its assets by credit rating agencies.

We were talking about people's distrust in banks and the market. But what factors led to that feeling? Does it come down to the fact that people were greedy after they began making millions of dollars of investments? Does it all come down to greed looking back at what happened with Lehman Brothers and the beginning of the financial crisis?

Well, it's greed, but, of course, the institutional investors get remunerated up to point on what returns get their investments. We've got to bear in mind that they're investing our money, our pensions. It's the insurance companies on which we depend. So, this is why I said earlier "we all need to be together anyway". Then we'll encourage the system to develop. We weren't really looking right way. And, of course, everyone benefited up to point from cheap credits. The problem now is, of course, that it's moved the other way. What individuals are paying and what businesses, particularly small firms and medium-sized firms, are paying is now higher despite the dropping of official interest rates and dropping of inflation and everything else. They're paying more now in terms of interest rates for their borrowing than they did at the time just before the beginning of the crisis. So, we've gone backwards in many ways. There's an issue right now in the UK – how to make the money flowing again. Clearly, nobody would want to borrow if it costs so much. Why aren't banks doing something more? That's because they're concerned about their margins, because they're in a position within a need to re-trend a little bit and a need to recover profitability and in many cases the need to become profitable again so that the government can sell them. The ones here in the UK are not ready to be sold yet. But they did actually sell Northern Rock. But there're some big retail banks here waiting to go to the market and, of course, they need to be profitable. And there's a big fight right now going on between the government, if you like, and the banks about whether the fact that they're not lending is because people aren't asking for it or is it because the banks themselves are just not prepared to go a step further and be a little bit more innovative in what they do in terms of requests from firms for funding which is crucial to get the economy moving.

Professor Rehman, is that also the feeling here in the US?

It's still here. Clearly lending to small businesses is very-very small. And it's very tight, that market. And until that recovers we really won't see the full recovery in this country.

When do you think that might take place and how close did Lehman Brothers incident come to destroy the market confidence at that time?

I think in terms of recovery, this is a very difficult question. Clearly, if everything stays static in Europe which I don't think it will, I think in 2013, at first, the first half is going to get quite worse in Europe, especially with the Italian elections looming in May. And the market is going to be very nervous about that. And that's not going to help us. So, at best, if we can just kick out 2%, I'd be happy, but the US will recover slowly, at least two or three years. We know that. And if any unpredicted incidents happen in Europe, that would put us back to flat growth

And I believe we now can talk to our colleagues in Moscow. Professor Natalia Volchkova, are you there?

Yes, hi!

I don't know how much you've heard of what we've talked about so far, but here in London we've been talking about the lack of confidence in the institutions that formerly we trusted to manage not just our private funds, but the general investment profile of individual nations too. What's the feeling in Russia? We hear in London and perhaps Washington that Russia has managed to escape a lot of this and remain on the fringes. Is that fair?

Yes, to some extent. Russian banking system is quite different from what you have in Washington or in London. The largest banks are still owned by state. So the way how people perceive banks in Russia is somewhat different, they're like state agents. What we do observe over last years is a number of stories about corruption, because of state ownership of largest banks. That's quite different. And Russian banks were not really participating in the events that led to world-wide crisis. They were not participating in a lot of actions that now we perceive were not very ethic. So it's somewhat different. Russia did get part of the crisis, because of Russian firms borrowing this cheap money abroad and Russian financial market did benefit from the monetary station 5 years ago. However, the extension of crisis and the way it hit Russia was quite severe, but still the origin of problems was quite different.

Going back to what happened with Lehman Brothers and looking back now these years later at how the economy has changed and also the status of Lehman Brothers at this point. Are they pretty much close to selling off now all their assets? It seems like they've had a decent year in terms of doing net and trying to recover and paying off the debts?

They're in their final sell right now. They still exist as an entity, apart from Lehman Brothers. But in terms of what happened after that I think the financial system, financial world, including the world economy has shifted after this crisis. It showed us our abilities, it showed us where we do have some strength, it showed us also the interactivity between financial markets and it's not just financial markets. This financial market's crashes transmitted to trade crashes, transmitted into remittance crashes and nobody's saved at the end of the day, regardless of how sophisticated financial markets are.

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