



LSE New Year's Event, 7 February 2008, Fortis Headquarters Brussels

Where will the current turmoil in financial markets lead us?

Sir Howard Davies, LSE Director

On 7 February, the LSE Alumni Association Belgium (LSE AAB) welcomed Sir Howard Davies at the Fortis Headquarters in Brussels for their first New Year's reception.

In front of 120 LSE alumni living in Belgium and representatives of the Belgian and European financial services community, Sir Howard held a keynote speech on the current turmoil in global financial markets. He elaborated on hot topics such as the trouble in the US sub-prime market, the surprising interest rate policy of the Federal Reserve Bank, and the critical role of rating agencies.

Sir Howard said he was not surprised that US mortgage lenders, and the investment banks who securitised their loans and traded them extensively, had run onto problems. "What began as a house price correction transmuted into a general widening of spreads on risky assets, then a liquidity squeeze and now looks well on the way to becoming a full scale credit crunch." said Sir Howard. "Very large losses have also been made by German state owned banks and by Swiss investment banks."

Despite the massive assistance of central banks pumping highly-needed liquidity in the markets, the crisis seems far from over according to Sir Howard who believes it is highly likely the crisis will have a significant impact on the real economy. "Certainly in the US", he said "but probably also in Europe".

"There are almost certainly more losses to come, in companies where accounting and reporting is less timely and less complete. These firms will be very reluctant to be engaged in the types of structures and securitised deals which have been at the heart of the problem."

"This crisis has illustrated that financial markets are extremely interconnected these days. Unfortunately we do not yet have a robust regulatory system which is tightly linked enough to be able to handle this kind of crisis, and certainly not to be able to see it coming." Sir Howard warned. Urging regulators and central banks to drive the messages home in their continuing supervision and continue to do so even when the immediate danger has passed, he added "The early warning system did not work particularly well. There are countless reviews under way, trying to understand what went wrong and what might be done to strengthen our defences in the future."

Wrapping up, Sir Howard Davies said "Thanks for organising the Brussels event. It was great fun, and excellent to see so many people there. The Fortis location was ideal for an open and frank discussion, and their catering was splendid. I hope this will prove to be a shot in the arm for the alumni group in Brussels, and that you can organise some follow-ups over the next year. I am sure people appreciate it. Thanks again for the organisation. Best wishes, Howard Davies".

Olivier Van Horenbeeck, President LSE Alumni Association Belgium