Europe Heading Towards a Full-scale Disaster – Here's Why

By **Munknee** on 06/27/2012 – 12:12 am PDT -- **Investing & Markets**

Europe is heading into a full-scale disaster [because,] you see, the debt problems in Europe are not simply related to Greece. They are SYSTEMIC. The European banking system's leverage levels alone position Europe for a full-scale banking collapse on par with Lehman Brothers. Again, I'm talking about Europe's ENTIRE banking system collapsing. This is not a question of "if," it is a question of "when" and it will very likely happen before the end of 2012. Words: 750

Graham Summers (www.gainspainscapital.com) in edited excerpts from his original article*.

Lorimer Wilson, editor of *www.munKNEE.com* ***(Your Key to Making Money!), has edited the article below for length and clarity – see Editor's Note at the bottom of the page. This paragraph must be included in any article re-posting to avoid copyright infringement.***

Summers goes on to say, in part:

The chart below shows the official Debt-to-GDP ratios for the major players in Europe and, as you can see, even the more "solvent" countries like Germany and France are sporting Debt-to-GDP ratios of 75% and 84% respectively. These numbers, while bad, don't account for unfunded liabilities – and Europe is nothing if not steeped in unfunded liabilities.

Let's consider Germany: According to Axel Weber, the head of Germany's Central Bank, Germany is, in fact, sitting on a REAL Debt-to-GDP ratio of over 200%**.** This is Germany – with unfunded liabilities equal to over TWO times its current GDP. (*To put the insanity of this into perspective, Weber's claim is akin to Ben Bernanke going on national TV and saying that the U.S. actually owes more than $30 trillion and that the debt ceiling is in fact a joke*.)

What's truly frightening about…[the situation in Germany] is that Weber is most likely being *conservative* here. Jagadeesh Gokhale of the Cato Institute published a paper for EuroStat in 2009 claiming Germany's unfunded liabilities are in fact closer to *418%*!

…Germany has yet to recapitalize its banks….[and, by] the German Institute for Economic Research's OWN admission, German banks need 147 billion Euros' worth of new capital. To put [that] into perspective the TOTAL EQUITY at the top three banks in Germany is less than 100 billion Euros – and this is GERMANY we're talking about: the supposed rock-solid balance sheet of Europe. *How bad do you think the other, less fiscally conservative EU members are? Think BAD, as in systemic collapse bad.*

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Indeed, let's consider TOTAL debt sitting on Financial Institutions' balance sheets in Europe. The below chart shows this number for financial institutions in several major EU members relative to their country's 2010 GDP.

As you can see, *financial institutions in Germany, France, Italy, Spain, the UK, and Ireland are all ticking time bombs*. Indeed, taken as a whole, *European financial institutions have more debt than Europe's ENTIRE GDP*.

Let's compare the situation…[in Europe] to that in the U.S. banking system:

- *Taken as a whole, the U.S. banking system is leveraged at 13 to 1….*
- *The European banking system is leveraged…at over 26 to 1. That's the ENTIRE European Banking system leveraged at near Lehman levels (Lehman was 30 to 1 when it collapsed).*

To put this into perspective:

- *with a leverage level of 26 to 1, you only need a 4% drop in asset prices to wipe out ALL capital.*
- *What are the odds that European bank assets fall 4% in value in the near future as the PIIGS continue to collapse?*
- *These leverage levels alone position Europe for a full-scale banking collapse on par with Lehman Brothers.*
- *Again, I'm talking about Europe's ENTIRE banking system collapsing.*
- *This is not a question of "if," it is a question of "when" and*
- *it will very likely happen before the end of 2012.*

- *[Why? Because there] is a HUGE percentage of European bank debt that needs to be rolled over by the end of 2012 [as can be seen in the graph below].*

I trust at this point you are beginning to see why any expansion of the EFSF or additional European bailouts is ultimately pointless: Europe's ENTIRE BANKING SYSTEM as a whole is insolvent. Even a 4-10% drop in asset prices would wipe out ALL equity at many European banks.

Conclusion

On that note I believe we have at most a month or two and possibly even as little as a few weeks to prepare for the next round of the EU Crisis.