4 Facts That Prove The EFSF Doesn't Matter At All

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October 21, 2011 | includes: EU, FXE, IGOV

It's time to settle the debate regarding Europe's banking system. I know that the mainstream media keeps talking about another round of bailouts or an expansion to the Emergency Financial Stability Facility (EFSF) as though these things matter.

But the reality is… they don't. Europe's problems go WAY beyond Greece's debt. And the entire European banking system is primed for a systemic collapse. Consider the following four facts:

FACT #1: Europe's entire banking system is leveraged at 25 to 1.

This is nearly two times the US's leverage levels. With this amount of leverage you only need a 4% drop in asset prices to wipe out ALL equity. These are literally borderline-Lehman levels of leverage (Lehman was 30 to 1). Mind you, these leverage levels are based on asset values the banks *claim* are accurate. Real leverage levels are in fact likely much MUCH higher.

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FACT #2: European Financial Corporations are collectively sitting on debt equal to 148% of TOTAL EU GDP.

Yes, financial firms' debt levels in Europe exceed Europe's ENTIRE GDP. These are *just* the financial firms. We're not even bothering to mention non-financial corporate debt, household debt, sovereign debt, etc.

Also remember, collectively, the EU is the largest economy in the world (north of $16 trillion). So we're talking about over $23 TRILLION in debt sitting on European financials' balance sheets.

Oh, I almost forgot, this data point only includes "on balance sheet" debt. We're totally ignoring off-balance sheet debt, derivatives, etc. So REAL financial corporate debt is much MUCH higher.

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FACT #3: European banks need to roll over between 15% and 50% of their total debt by the end of 2012.

That's correct, European banks will have to roll over HUGE quantities of their debt before the end of 2012. Mind you, we're only talking about *maturing* debt. We're not even considering NEW debt or equity these banks will have to issue to raise capital.

Considering that even the "rock solid" German banks need to raise over $140 BILLION in new capital alone, we're talking about a TON of debt issuance coming out of Europe's banks in the next 14 months. And this is happening in an environment prone to riots, bank runs, and failed bond auctions (Germany just had a failed bond auction yesterday).

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FACT #4: In order to meet *current* unfunded liabilities (pensions, healthcare, etc) without defaulting or cutting benefits, the average EU nation would need to have OVER 400% of its current GDP sitting in a bank account collecting interest.

This last data point comes from Jagadeesh Gokhale, Senior Fellow at the Cato Institute, former consultant to the US Treasury, and former Senior Economic Advisor to the Federal Reserve Bank of Cleveland. This is a guy who's worked at a very high level on the inside studying sovereign finance, which makes this fact all the more disturbing. And he knew this as far back as January 2009!!!

Folks, the EFSF, the bailouts, China coming to the rescue… all of that stuff is 100% pointless in the grand scheme of things. Europe's ENTIRE banking system (with few exceptions) is insolvent. Numerous entire European COUNTRIES are insolvent.

Even the more “rock solid” countries such as Germany (who is supposed to save Europe apparently) have REAL Debt to GDP ratios of over 200% and STILL HAVEN’T RECAPITALIZED THEIR BANKS.

Again, it DOES NOT matter what Sarkozy and Merkel say. It doesn’t matter how much leverage the EFSF gets. Europe is broke. End of story. And those investors who get suckered into betting this mess will work out well are very likely going to lose everything.

The impact of the fallout from this will make 2008 look like a joke. The EU is the largest economy in the world. So if its banking system collapses (and it will) we’re facing a full-scale Global financial meltdown (the IMF has even warned of this).

That’s the reality of the situation we’re in today. I know nobody likes to publicly admit it. But it’s true.

What happened in 2008 was literally just the warm up. The REAL DEAL is coming in the next 14 months. And it’s going to involve corporate, financial, and sovereign defaults.