Financial Panic Sweeps Europe As The Head Of The IMF Warns Of A "1930s Depression"

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Are we on the verge of another Great Depression? Christian Lagarde, the head of the IMF, said this week that if dramatic action is not taken immediately we could actually see conditions "reminiscent of the 1930s depression" and that no country on earth "will be immune to the crisis".

Right now, financial panic is sweeping across Europe, but most Americans are not too concerned about it because they simply don't understand how important the EU is. The truth is that the EU has a much larger population than the United States does. The EU has an economy that is nearly as large as the economies of the United States and China **combined**. The EU has more Fortune 500 companies that the United States does, and the banking system of Europe is substantially larger than the banking system of the United States. Anyone out there that believes that a massive financial collapse in Europe would not dramatically affect the rest of the globe is being delusional. The European debt crisis is one of the biggest stories that we have seen in a long, long time and the coming financial meltdown is going to permanently change the global economy.
So far, politicians in Europe have held 19 high-level emergency meetings in an attempt to solve this crisis.
All of their efforts have failed.
Right now, this is the situation in Europe....
-Most EU governments are drowning in toxic levels of debt
-Bond yields have risen dramatically this year and this has caused borrowing costs for most EU members to soar
-In an attempt to get debt under control, governments all over Europe are implementing brutal austerity measures and this is causing European economies to slow down substantially
-There is a tremendous lack of confidence in the European financial system at this point and this is causing a massive credit crunch
-The credit crunch is causing the money supply to drop significantly in almost every nation in the EU
-Major banks all over Europe are massively overleveraged and are on the verge of failing
This is all so similar to what we saw back during the early 1930s.
In fact, things have gotten so bad that prominent world leaders are now using apocalyptic language when describing the situation in Europe.
Just check out what the head of the International Monetary Fund, Christine Lagarde, recently said about Europe. Speaking at a State Department conference in Washington D.C. this week, Lagarde made the following very shocking statements....
**"The world economic outlook at the moment is not particularly rosy. It is quite gloomy"*
**"There is no economy in the world, whether low-income countries, emerging markets, middle-income countries or super-advanced economies that will be*

immune to the crisis that we see not only unfolding but escalating"
**"It is not a crisis that will be resolved by one group of countries taking action. It is going to be hopefully resolved by all countries, all regions, all categories of countries actually taking action."*
**"No country or region is immune. All must take action to boost growth. Work must start in the eurozone countries and must continue relentlessly. The risks of inaction include protectionism, isolation and other elements reminiscent of the 1930s depression."*
**"This is exactly the description of what happened in the 1930s, and what followed is not something we are looking forward to."*
But didn't the politicians in Europe recently reach a deal which was supposed to fix all this?
Well, unfortunately the deal basically did nothing to fix the underlying financial problems that Europe is facing.
In fact, global financial markets seem entirely unimpressed by this recent deal. A recent article by Professor Peter Morici detailed some of the problems with the deal....
Investors are rejecting the euro deal, because the agreement does not effectively meet the funding needs of Italy and other Mediterranean governments, address the weak balance sheets of European commercial banks, or fix the underlying structural flaws in the euro architecture.
The €440 billion European Financial Stability Facility is providing short-term funding—guaranteed by 17 Eurozone member states as a whole—to tide over the more troubled governments.
However, those bailouts impose huge cuts in spending and tax increases. Coupled with austerity plans also adopted by France and other healthier European states, those packages are pushing Europe into a recession that could last several years.
What is even worse is that there are signs that this recent deal is already unraveling. Some EU nations have decided that they are not sure that they want to go along with the program.
The following comes from a recent article in the Telegraph....
Amid fresh warnings that Europe is triggering a 1930s-style global depression, the German chancellor faced open rebellion against the key plank of her Brussels accord. The leaders of Hungary and the Czech Republic told a joint conference in Budapest they were ready to reject the planned treaty changes and implied move towards a centralised tax system. Czech prime minister Petr Necas said he was "convinced that tax harmonisation would not mean anything good for us".
In Poland, we are actually seeing people march in the streets to protest against this new agreement....
Poles marched under banners that read: "We want sovereignty, not the euro." They were protesting against the Brussels deal that could see EU countries, including those outside the eurozone, face penalties for breaking tough centralised spending laws.
So not only does this new deal not address the fundamental problems that Europe is facing, there is also a tremendous amount of doubt about whether or not it will eventually be approved.
Meanwhile, the brutal austerity measures that are being implemented all over Europe are pushing many EU nations into recession.
The EU (led by Germany and France) and the IMF have been pushing financially

troubled nations all over Europe to make incredibly deep budget cuts. But these very deep budget cuts have had a devastating economic impact.
In a recent article, I discussed how brutal austerity measures have already pushed the economy of Greece into a full-blown depression....
Just look at what happened to Greece. Greece was forced to raise taxes and implement brutal austerity measures. That caused the economy to slow down and tax revenues to decline and so government debt figures did not improve as much as anticipated. So Greece was forced to implement even more brutal austerity measures. Well, that caused the economy to slow down even more and tax revenues declined again. In Greece this cycle has been repeated several times and now Greece is experiencing a full-blown economic depression. 100,000 businesses have closed and a third of the population is living in poverty. But now Germany and France intend to impose the "Greek solution" on the rest of Europe.
Right now, the flow of government money is drying up all over Europe and so is the flow of money from the banks. European banks are shrinking their balance sheets and have dramatically cut back on lending in order to meet new capital requirements that are being imposed upon them.
All of this has created an environment where there is not much credit flowing in Europe at all. When there is a credit crunch of this magnitude, it causes the money supply to start to shrink. This is already happening all over Europe as a recent article in the Telegraph noted....
All key measures of the money supply in the eurozone contracted in October with drastic falls across parts of southern Europe, raising the risk of severe recession over coming months.
Right now, we are seeing the money supply in each of the "PIIGS" nations fall at a staggering rate. The following comes from the same Telegraph article referenced above....
Simon Ward from Henderson Global Investors said "narrow" M1 money – which includes cash and overnight deposits, and signals short-term spending plans – shows an alarming split between North and South.
While real M1 deposits are still holding up in the German bloc, the rate of fall over the last six months (annualised) has been 20.7pc in Greece, 16.3pc in Portugal, 11.8pc in Ireland, and 8.1pc in Spain, and 6.7pc in Italy. The pace of decline in Italy has been accelerating, partly due to capital flight. "This rate of contraction is greater than in early 2008 and implies an even deeper recession, both for Italy and the whole periphery," said Mr Ward.
Those numbers scream "**Recession, Recession, Recession**".
There may be one glimmer of hope on the horizon. The Federal Reserve has been lending huge amounts of money to the European Central Bank and the European Central Bank has been lending that money out to European banks. In turn, the European banks have been using much of that money to buy up European government bonds. It is a massive Ponzi scheme, but it has stabilized bond yields in Europe for now. This scheme was described in a recent article by Simone Foxman....
*That's because the European Central Bank may have already introduced roundabout measures that will solve some of Europe's big problems—**it's making investing in peripheral sovereign debt a huge profit opportunity for banks.***
Theoretically, financial institutions will be able coin money by

borrowing ultra-cheap from the ECB and buying higher yielding sovereign debt.
Essentially, it appears the ECB might allow European banks to pledge everything but the kitchen sink in return for funds. First, the new policy allows European banks to hold far fewer assets as collateral in exchange for funding from the ECB —freeing up liquidity to the tune of €103 billion ($134 billion). More importantly, relaxing collateral restrictions could also allow European banks to use even somewhat risky sovereign assets as collateral for bond purchases.
But this Ponzi scheme cannot go on indefinitely. A lot of European banks are already starting to run out of collateral for these loans as one Australian news source recently explained....
"If anyone thinks things are getting better, they simply don't understand how severe the problems are," a London executive at a global bank said. "A major bank could fail within weeks."
Others said many continental banks, including French, Italian and Spanish lenders, were close to running out of the acceptable forms of collateral, such as US Treasury bonds, that could be used to finance short-term loans.
Some have been forced to lend out their gold reserves to maintain access to US dollar funding.
So will the European Central Bank keep lending them money once they are out of collateral?
If they do, the ECB itself could potentially be in a great deal of danger.
The truth is that the ECB is already playing with fire. So far, the European Central Bank has spent over 274 billion dollars buying up European government bonds in an attempt to keep bond yields down.
How many toxic assets can the ECB buy up before they get into real trouble?
That is a very interesting question.
Meanwhile, the rest of the world is becoming increasingly concerned about the financial panic that is sweeping Europe.
For example, Australian banks have been given one week to perform a stress test that evaluates their ability to survive in the event of a European financial collapse.
Why all the urgency?
Do they know something that we don't?
Just like back in 2008, we are seeing massive problems at some of the largest banks in the world.
On Thursday, Fitch Ratings downgraded a whole bunch of the world's most prominent banks....
The banks included Bank of America, Morgan Stanley and Goldman Sachs, as well as Europe's Barclays, Societe Generale and BNP Paribas.
Germany's Deutsche Bank and Switerzland's Credit Suisse were also downgraded.
The global banking system is a giant house of cards. There is simply way too much debt, way too much leverage and way too much risk.
On average, major banks across Europe are leveraged 26 to 1.
If the value of the assets held by those banks declines by just 4 percent, they will be wiped out.
Yes, that is how serious things are.
And already we are starting to see major banks fail in Europe.
This week it was revealed that Germany's second largest bank is going to need a bailout. The following comes from a Sky News report....

Germany's second largest bank, Commerzbank, is reportedly in discussions with the German government about a bailout after regulators said it needed to raise more money to cope with a potential default on its loans to governments. "Intense talks" have been going on for several days, according to sources who spoke to the news agency Reuters.

So if Germany's second largest bank is failing, are any banks in Europe safe?

Just like we saw back during the 1930s, we are starting to see a run on banks all over Europe.

In fact, according to a recent Der Spiegel article, a run on Greek banks has been going on for a while now and is rapidly accelerating....

He means that the outflow of funds from Greek bank accounts has been accelerating rapidly. At the start of 2010, savings and time deposits held by private households in Greece totalled €237.7 billion — by the end of 2011, they had fallen by €49 billion. Since then, the decline has been gaining momentum. Savings fell by a further €5.4 billion in September and by an estimated €8.5 billion in October — the biggest monthly outflow of funds since the start of the debt crisis in late 2009.

If you can believe it, approximately 20 percent of all bank deposits in Greece have been withdrawn since the start of 2011.

Europe is in a massive amount of trouble. The euro is dropping like a rock and the European financial system is paralyzed by panic and fear.

It is going to take a miracle to prevent a massive financial collapse from happening in Europe in 2012.

Unfortunately, there do not appear to be any miracles for Europe on the horizon.