Royal Bank of Scotland Latest Victim of Greek Meltdown

The citizens of the United Kingdom ultimately will pay the price of this loss. The government owns more than 80 percent of the stock in the Royal Bank of Scotland. Four years ago, the Royal Bank of Scotland was rescued from collapse by the British government providing an enormous £45 billion bailout, which was the biggest single bailout in the world.

Beyond just the direct losses fiscally to taxpayers, the Royal Bank of Scotland announced on August 5 that it would cut 2,000 jobs because of the losses. Chief Executive of the Bank of Scotland Stephen Hester announced that "there will be more job cuts to come" in the next year or 18 months. The bank, which employs 148,000 people worldwide, had gone through massive layouts, about 27,000 employees, in October 2008.

Hester expressed, however, confidence in the future:

> RBS's second quarter results show the group's restructuring momentum continues whilst core business performance is resilient in challenging market conditions. There is no shortcut to achieving our goals…. Economic and regulatory winds may be challenging the momentum of our people and restructuring actions have sustained thus far in the RBS recovery plan should continue to stand us in good stead…. If the external environment changes and it looks like an area this is changing, both in terms of slower economic growth and indeed specific regulatory pressures, we will need to respond again. The investment banking areas is one such area where it looks as if we will need to respond again on costs.

The Royal Bank of Scotland's announcement came one day after the British lender Lloyds announced that it, too, had sustained massive losses. Another British bank, Barclay's, has had similar problems.

Much, although not all, of the problem is the meltdown of Greek sovereign debt. The status of Greek national debt instruments is not at the status of junk bonds, with a high probability of actual default (which would not mean that investors got nothing back, but that investors rather got back less than promised, perhaps the principal but no interest, or perhaps even a loss of some principal). The Royal Bank of Scotland holds €1.2 billion in Greek government debt.

There seems to be a growing ripple in the pond caused by Greek sovereign debt problems, as well as the other PIGS (Portugal, Ireland, Greece, Spain). The French banks, Societe Generale and BNP Paribus, both disclosed recently that the banks held large amounts of Greek sovereign debt. These banks, like the Royal Bank of Scotland, took a hit in profits because of the devaluing of Greek sovereign debt. As the problem of European governments potentially defaulting on their bonds increases, then the pressures on the other nations and financial institutions in the European Union increase too.

It ought to be sobering to investors to realize that most of the heartburn in recent months has come out of the practical insolvency of a relatively small European nation with a relatively small economy. Greece, even Greece with Ireland and Portugal, are small enough so that Euro fire brigades can contain the threats to big banks and the treasuries of major nations.

But Spain is not a small country. If that nation defaults on its debts, then the relative impact upon the other nations of the European Union would be about three times as great — and that possibility become more probable every day. Italy is a major nation with a large economy — not only in Europe but in the world. A tide hitting against the shores of all the south of Europe, from Lisbon to Athens, would put great pressure not only on the governments of nations like France, Britain, and Germany, but also upon the major banks that hold bonds from the governments of Greece, Italy, Portugal, Spain, and Ireland.

The other factor, which will probably loom larger as the pain from indulgent living in the Mediterranean nations reaches the colder shores of the Baltic Sea and North Sea, is that Germany, Holland, Britain, etc., will be more interested in the anger of national voters than in a notional "United States of Europe."

Finland is already showing that reluctance and setting an example for larger nations in the European Union. The dominos are still falling, and it is by not means clear how short of total financial chaos before this crisis ends. It is also, probably, the nightfall of the European Union, an imaginary replication of our nation, which is drowning in self-indulgent pensioners, waves of unassimilated Muslims, top-heavy and insulated Union bureaucrats, and the ever-present bane of populist politicians and parties.

Photo: AP Images