

Funding the Future

Why the UK has most to fear from a collapse of the bank...

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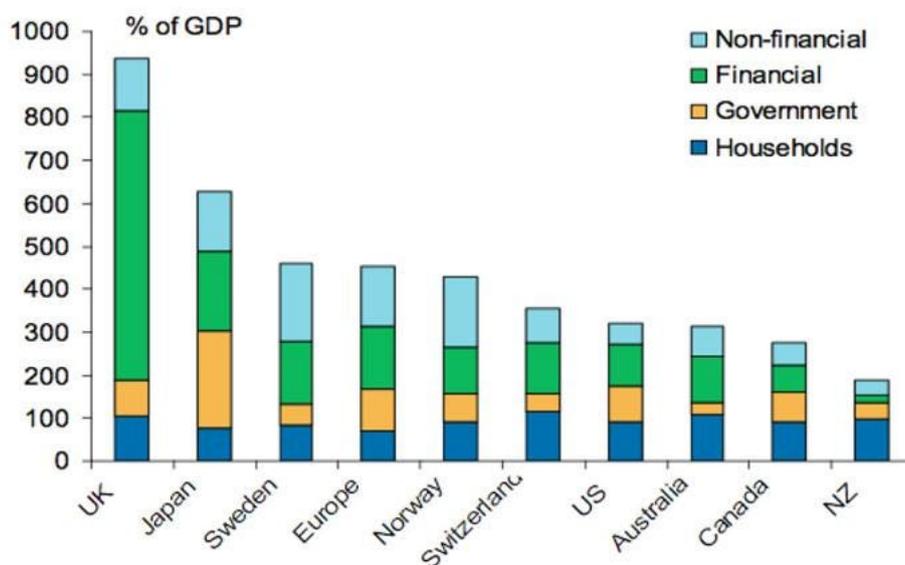
This graph has been used before, but it remains highly relevant.

Anyone watching Newsnight last night would have seen Paul Mason saying the Euro crisis can now be only weeks away from exploding. I think he's right.

And the Euro crisis is fundamentally a banking crisis. It is not a government debt crisis, although of course there is such an issue. And in the short term it is not an issue of imbalances in trade, although of course that is fundamental to it. In the short term this is a banking crisis because it was banks that over-lent, mostly completely recklessly. And that makes this a UK crisis. Why? Well [this graph explains all](#):

Exhibit 1

G10 Debt Distribution



Source: Haver Analytics, Morgan Stanley Research

We have financial debt within the City of London of more than 600% of GDP in the UK, dwarfing the issue for everyone else.

That's why banks are going nowhere - because no one wants this debt.

And that's why when or more likely if the Euro busts then London has the biggest crisis of all.

I said 2012 wasn't going to be pretty.

Hat tip: Howard Reed