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LA CRISE CHYPRIOTE
THE CYPRUS CRISIS

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The Cyprus Crisis

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On March 26, 2013, the French journalist Antoine Reverchon wrote in the Economy and Business section of *Le Monde*: "The Cyprus crisis has served in revealing furthermore the crisis of legitimacy that the EU institutions go through, at Community level as well as in each Member State, all unable to stimulate a decision as to draw a perspective, or at least to provide the public opinion of an image of will and dynamism ...". The same day, the same newspaper ran the headline: *The IMF and Berlin impose their law in Cyprus*.

The leader of the French left Jean-Luc Mélenchon in an article entitled "The Road to German Europe" abounded in the same direction:

The key for me is the acceleration of history that occurs with the Cypriot episode. The title of "Le Monde" summarizes the financial and geopolitical episode: "The IMF and Berlin impose their law in Cyprus." Berlin! It's official, the map of power has changed in Europe! And during that time, France is paralyzed by insubstantial leaders dreaming to be the "good student of the European class."[1]

In the night of Friday 15 to Saturday, March 16, 2013 the finance ministers of the Eurozone after tough negotiations, opted for a levy on deposits to solve the Cyprus financial crisis by charging for the first time depositors. The plan was constituted of an assistance of 10 billion euros (55% of GDP of the island) from the Eurozone and a windfall tax on bank deposits to 6.75% up to 100,000 and 9.9 % above 100,000, to bring 5.8 billion euros.[2] This plan was rejected by the Cypriot parliament and discussions continued.

In fact there were two rescue plans for Cyprus. The first plan, that of the night of Friday 15 to Saturday, March 16, 2013, mentioned above, and rejected by the Cypriot parliament and a second plan adopted on 25 March 2013 and finally imposed on Nicosia.[3] The second plan spared insured deposits of less than 100,000 from levy, the Laiki Bank will be closed, its

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deposits of less than 100,000 and good assets are transferred to the Bank of Cyprus, the remaining deposits and credits are included to ensure funding discounts on the bank's assets, affecting the possible proceeds from the liquidation thereof. Deposits of more than 100,000 euros from the Bank of Cyprus are converted into shares of the Bank of Cyprus in proportion to 37.5% of these deposits,[4] the additional 22.5% is to be fixed.[5] The plan aims to raise 7 billion euros in return for 10 billion euros loan to Cyprus. This plan was accepted by the Cypriot Parliament.

At the Eurogroup meeting in Dublin on April 12, Eurozone finance ministers approved a 23 billion rescue package for Cyprus, which included a 10 billion loan for the next 3 years by the troika (International Monetary Fund, European Commission and European Central Bank) and a 13 billion contribution by Cyprus. In contrast to the preliminary bailout agreement struck between the troika and the previous administration last November, Cyprus will need to contribute 13 billion, 5,5 billion more than the 7,5 billion initially estimated.

In fact there is a confiscation of the savings of citizens in order to "save the banks." Therefore the question is: is the recapitalization of Cypriot banks a "dress rehearsal" for what's coming? According to the Washington based Institute of International Finance (IIF) which represents the consensus of the global financial establishment, "the Cyprus approach of hitting depositors and creditors when banks fail, would likely become a model for dealing with collapses elsewhere in Europe" serving even the interests of global financial conglomerates.[6]

Cyprus has formally requested financial assistance from the countries of the Eurozone to try to contain the risk of collapse of its economy confronted with the difficulties of the financial sector, on June 25, 2012. Beforehand, President Dimitris Christofias, who was then at the end of his term and was trying to avoid the tutelage of the Troika, sought a loan either from Moscow or from Beijing. It is when these efforts were not successful that Christofias was forced to go to the rescue mechanism of the European Union and to the International Monetary Fund. On 25 November 2012 there was a technical agreement between Nicosia and the Troika on the principle of aid that Cyprus would receive. Despite the fact that the Cypriot Parliament passed a series of laws in accordance with the agreement in principle, the proposed Troika

Memorendum was not finalized. There was pressure on Cyprus for even more severe measures than those that have been accepted on November 25, 2012.[7] On the one hand the Christofias government would not move forward in a field as slippery because of the presidential elections approaching and on the other side the Europeans were confident that the new government that would come out of these elections would be more inclined to comply with the requirements of the Troika, and therefore the completion of negotiations was held after the elections. After many hesitations Christofias decided not to run in the presidential elections, all the polls giving him losing prospects against his opponent of the Right Nicos Anastasiades.

At the presidential elections held on February 2013, the Communist Party AKEL, Christofias' party, presented Stavros Malas as a candidate and the Democratic Rally-DISY party of the Right, presented his leader Nicos Anastasiades. A third candidate Georges Lillikas of the Centre-left, an independent candidate, was supported by the Socialist Party EDEK. In the first round of presidential elections on February 17, 2013 Anastasiades tops (45.46%) Stavros Malas (26.91%) and George Lillikas gets 24.93%. In the second round of elections on February 24 Anastasiades was elected president of the Republic with 57.48% of the vote ahead of Stavros Malas who got 42.52%.[8]

Throughout the presidential campaign Nicos Anastasiades said that a bank levy from deposits to solve the Cyprus financial crisis was excluded. However, on March 15 at the Eurogroup meeting he accepted a plan which as already mentioned above, provided the levy of 6.75% of the Cypriot bank accounts totaling less than 100,000 euros and a levy of 9.9% for accounts in excess of that amount. Thus the plan of the Eurogroup provides a loan of 10 billion euros to be payed to Nicosia and the 7 missing billions are for the first time to be paid by bank depositors. It was indeed a confiscation of private savings to recapitalize banks. After its rejection by the Cypriot Parliament on 19 March 2013, the Eurogroup and the IMF adopt a new plan for Cyprus, on 25 March 2013, which was for all practical purposes imposed on Nicosia.

The new plan provided for a loan of 10 billion euros in Cyprus, 9 billion disbursed by the Eurogroup and one billion by the IMF. This loan was subject to severe conditions: reduction of the Cypriot banking sector with the collapse of the second largest Cypriot bank, Laiki, and taxation from 30 to 40% of bank accounts in excess of 100.000 euros. Prior to the decision of March 25, the Cypriot Minister of Finance went to Moscow from March 19 to 21 in an effort to obtain financial assistance from Russia. The mission was a failure mainly because Moscow did not want to disturb its relationship with Germany, a country which is amongst its most important economic partners.

Furthermore the bank levy on Cyprus caused anxiety to European investors since it was presented as the rescue "model" to be applied in the future:

> *By declaring the 25th March that Cyprus was a "model" rescue called to be a school, the Dutch Minister of Finance and President of the Eurogroup, Jeroen Dijsselbloem has severely shaken the confidence in European banks: savers and investors have concluded that their money is not anymore safe there, if they incur the same shock treatment than in Cyprus, namely a puncture from 50 to 80% of their assets superior to the guaranteed ceiling of 100.000 euros.*[9]

For all practical purposes, it is openly said that the responsibility of the depositors will be engaged in case of restructuring or bank failure in the European Union. This is a very important change. Because it means that what just happened in Cyprus will in fact not be the exception but the rule in the event of future banking problems. This so-called "cypriotisation" of bank accounts, is already programmed.

In an article in *Le Monde Diplomatique* Serge Halimi wrote:

> *Saturday, March 16, 2013, everything changed. Institutions as orthodox as the European Central Bank (ECB), the International Monetary Fund (IMF), the Eurogroup and the German government of Angela Merkel twisted the shaking arms of the Cypriot authorities to ensure that they perform a measure which if decided by Hugo Chavez, would be considered draconian, dictatorial, tyrannical, and would have earned the Venezuelan head of state kms of indignant editorials: automatic drain on bank deposits. Initially ranged from 6.75% to 9.90%, the rate of confiscation corresponded to nearly a thousand times the amount of the Tobin tax talked about fifteen years now. Evidence was therefore made: in Europe, when we want, we can!*[10]

Halimi continued:

> *It is in effect more liberal to deprive a Cypriot retiree, claiming that it is through him that one aims to attain a Russian mafioso having sought refuge in a tax haven, than to disgorge a German banker, a Greek shipowner, a multinational company that hosts its dividends in Ireland, Switzerland and Luxembourg.*
>
> *The seventeen member states of the Eurogroup in doing this dared the unthinkable. They will do it again. No citizen of the Union can ignore anymore that he is now the prime target of a financial policy decided to strip the fruit of his labor on the pretext of restoring the accounts. In Rome, Athens and Nicosia, indigenous puppets seem already resigned to set to music the instructions given in this regard by Brussels, Frankfurt or Berlin, then left to find themselves afterwards disowned by their people*.[11]

There is no doubt that the Cyprus crisis is due to two factors: first there was the global economic crisis that has obviously affected Cyprus as many other countries. And secondly there was the inability of the Cypriot political system and a financial oligarchy to properly manage the economy of the island. In fact, despite the global crisis, a small economy like Cyprus would be manageable if adequate measures were taken in a timely manner. But the Cypriot political system and the banking elite of the island plagued by cronyism, clientelism and corruption did nothing not to push the country into the abyss. Moreover, Cypriot banks, mouthfuls of Greek debt have not withstood the financial loss inflicted to private creditors in Athens in early 2012.

In this volume of *Études helléniques / Hellenic Studies* various papers analyze the political and economic situation in Cyprus with reference to the recent presidential elections and the danger of imposing a solution to the Cyprus issue in favor of Turkey. Indeed, in the Eastern Mediterranean geopolitics are changing at the moment because of the discovery in the region of large deposits of natural gas, but also because of the political turmoil caused by the civil war in Syria, Israeli-Palestinian conflict and the Iranian crisis. But it's the most recent discovery of large deposits of oil and gas in the eastern Mediterranean that radically alters the geopolitical equation in the region and beyond.

Jean Catsiapis notes in his article that the Cypriot presidential elections held on 17 and 24 February 2013 have a double originality. First, the outgoing President Dimitri Christofias, unlike his predecessors did not attend his own succession. In fact, aware of the failure of his mandate, he didn't want to be repudiated by the electorate. Second, the Cyprus problem, that is to say, the question of the reunification of Cyprus and the end of Turkish occupation was not at the center stage of the campaign, as is normally the case - since 1974 - in any political election in Aphrodite's island. It is the economic and financial crisis, which was the main topic discussed during the campaign.

Michalis Kontos in his article takes a systemic approach to analyze the Cypriot presidential election of February 2013 and the understanding of the system of the Greek Cypriot parties of the era after 1974, the fateful date of the invasion of the island by Turkey and the occupation of the northern part. It also presents the economic conditions that influenced the presidential election of February 2013. The author also deals with the first steps of the new Cypriot president Nicos Anastasiades whom he judges severely after what he agreed at, at the Eurogroup meeting of 15 March 2013.

In an in-depth analysis of the Cypriot economy, Aris Petasis goes back to the early years of independence. He notes as well that the modern economic history of Cyprus which dates back to 1960, teaches us that the economy of Cyprus has been destroyed twice (1974: 19% contraction, in 2013: narrowing of 10% -20%). Cyprus must now rethink its economy from a zero base as the highly profitable sector of services has been destroyed. To overcome the economic depression Cyprus must: a) apply a strong and healthy long-term planning, b) encourage greater involvement of all in the process of decision making, c) liberalize the labor market d) reduce its large public sector e) become more competitive and f) allow the ingenuity of its people to prosper.

George Kentas' article deals with the Cyprus issue, while referring to the recent elections and the economy. The author, referring to Thucydides, considers this issue in the context of control and domination of Cyprus by antagonist powers. He thinks that the problem goes far beyond its appearance and is even in interconnection of Greek-Turkish relations. History, according to Kentas, suggests that the Cyprus problem is connected to the geopolitical and geo-economic antagonisms in the region. Any solution must take into account the standards of the international community and not ghosts of so-called solution opportunities that do not respect the principles of international law.

Christos Psilogenis in his historical analysis of the political and economical evolution of Cyprus since independence, poses the question of the survival of the Cypriot state in the context of the current crisis. In fact Cyprus has managed to survive despite the fact that 70% of its resources (wealth) were lost as a result of the Turkish invasion. The discovery of natural gas reserves may be the only way to let it out of the terrible economic situation in which it is currently held. The author makes many references to the Security Council decisions of the UN and to the various legal texts to show that Turkey is violating international law by occupying the northern part of the island. In his conclusion Psilogenis underlines the fact that the discovery of natural gas has led to birth of a strategic poker game in the Eastern Mediterranean, reviving the old Eastern Question.

NOTES

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