Cyprus faces deep recession, high unemployment after bank bailout

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Thousands of workers and youth took to the streets of Cyprus Tuesday to protest terms imposed by European authorities in exchange for a €10 billion ($12.9 billion) loan to avert state bankruptcy. The Mediterranean island remained under financial lock-down, and its working population face the prospect of economic collapse and penury.

Bank staff fearing mass layoffs demonstrated outside the central bank headquarters in the capital Nicosia, while high school and university students walked out of classes and gathered in front of the presidential palace. Their slogans were “Troika go home,” and “those who stole our money should go to jail and pay.”

The Cypriot government reached a deal with the troika—the European Union (EU), European Central Bank (ECB) and the International Monetary Fund—on Monday.

Under its terms, the country’s financial sector is to undergo massive restructuring with its second largest bank, Laiki, wound up and its debts to the ECB transferred to the Bank of Cyprus. In addition, Cyprus must raise €5.8 billion by imposing a levy on bank deposits.

Initially, the Cypriot government had proposed a levy on all bank accounts, both small and large. Its aim was to protect wealthy depositors—particularly Russian and British—attracted by the island’s tax haven status, which had helped swell its financial sector to eight times the size of its entire economy.

The levy broke guarantees protecting banking deposits below €100,000. Amidst angry protests, parliament voted it down.

On Tuesday, Cyprus’s central bank confirmed that the new agreement, imposed in defiance of public opinion without so much as a vote in parliament, will see a 40 percent levy on deposits above €100,000 held in the Bank of Cyprus, in addition to wiping out €4.2 billion of deposits at Laiki. This is to be accompanied by capital controls, including a weekly limit on cash withdrawals and curbs on the export of euros.

In a televised address Monday evening, President Nicos Anastasiades claimed that the deal had averted “the collapse and the bankruptcy of the state,” enabling the country to return to “normalcy,”

“The danger for the bankruptcy of Cyprus is definitely left behind and the tragic consequences for the economy and the society are averted,” he said.

In fact, the restructuring plan is tied in with the loss of thousands of jobs in the banking sector, privatisations, and severe austerity on a par with measures that have devastated Greece.

As the BBC’s Robert Peston commented, “The rescue of Cyprus won't feel like one to its people.” It amounted, he continued, to “An economy that will be starved of credit, and will therefore shrink rapidly and very painfully for citizens,” and whose “main industry, offshore banking, is being shut.”

The Fitch rating agency has put Cyprus on “watch negative,” stating that “the shock resulting from the systemic failure of Cyprus's banking system will have profound negative implications for the domestic economy, which heightens the risk to public finances.”

Analysts forecast the country’s economy will contract by 20 percent in the next three years. Unemployment, currently at 14 percent, is projected to rise to more than a quarter of the population.

Nicholas Papadopolous, chairman of the Cypriot parliament’s finance committee, bluntly admitted: “We are heading for a deep recession, high unemployment.”

The European bourgeoisie, which has turned the entire continent into an austerity zone on behalf of finance capital, is now looting another defenceless

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country.

The EU was prepared to target larger bank deposits in Cyprus because it would mainly hit medium-size depositors, and weaken Russian influence over the island. Europe’s major banks also saw their opportunity to court Russian investors forced out of Cyprus.

That is why financial markets initially rose on news of Monday’s deal. They only started to go into reverse as concern spread that bank levies could become a template for the euro zone.

This was triggered by the statement of Eurogroup President Jeroen Dijsselbloem, who indicated that Cyprus was a model for future bank bailouts of other European countries. As his remarks rattled international markets, Dijsselbloem sought to backtrack, stating that Cyprus was a “specific case with exceptional challenges.”

Nonetheless, the opening of Cypriot banks and the stock exchange was delayed for a further two days at least, until March 28.

Stratfor complained that “By seizing money from bank deposits and putting towards bailout funds,” the EU had set a “new and possibly destabilizing precedent in Europe.”

Deposit seizures and limitations on the free movement of capital meant that the EU “has now made it official policy, under certain circumstances, to encourage member states to seize depositors' assets to pay for the stabilization of financial institutions.”

“If Russian deposits can be seized in Nicosia, why not American deposits in Luxembourg?” it asked.

Such fears were strengthened by reports that the Spanish government is to impose losses of up to 60 percent on investors at five nationalised banks. In addition, a European Commission spokesperson confirmed Tuesday that large uninsured depositors could be “bailed-in” to future bank rescues, under draft legislation being prepared by the EU.

Several Russian financiers and oligarchs made statements indicating that wealthy investors in Cyprus would not be hit by the bailout, which will primarily affect mid-level investors and the Cypriot population.

Alexander Orlov, from the Arbat Investment Services in Moscow said there was “no real victims [of the Cypriot levy] at the highest level of the decision-making apparatus.”

Orlov said that €20 billion—much of it Russian—had already been withdrawn from Cypriot banks over the last year, adding, “I think the €2.5bn loan given by the government previously could have been in order to buy time for ‘whom it may concern’ to withdraw their funds.”

His statement was backed up by Russian oligarch Alexander Lebedev, who said that he stood to lose less than €8,000 in Cyprus. “It's not worth talking about,” he said.

Referring to the effectiveness of capital controls on the super-rich, Lebedev, who owns the *Independent* and the London *Evening Standard*, said “Certain schemes can be put into place.... This is how Cyprus was making money.”

Cyprus was a financial “transit jurisdiction” en route to “Lithuania, Latvia, Belize, Switzerland, everywhere, he said, adding “there are plenty of ways [to avoid capital controls], they can split accounts.”

Meanwhile, Britain’s Chancellor George Osborne announced that he had authorised €13 million to be sent to the island as a “contingency fund” for the UK’s armed forces stationed there, and that the treasury was working with the Cypriot authorities to protect customers at British branches of Laiki from being “sucked into the Cypriot resolution process.”

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