

The Cypri-hot case!

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In advance of a more in-depth study of the crisis in Cyprus and its impact on the euro zone, here are a few thoughts on the draft agreement reached last Monday morning, 25 March, between the Cypriot Presidency and some of the donors.

This [proposal](#) provides for the winding up of a private bank, Laiki, and shifting of its insured deposits (under 100,000 euros) to another private bank, the Bank of Cyprus, as part of its recapitalization. Deposits in the Bank of Cyprus in excess of 100,000 euros will be frozen and converted into shares. Ultimately, the Bank of Cyprus should be able to achieve a capital ratio of 9%, complying with applicable EU banking legislation. In exchange for these provisions and for an increase in taxes on capital gains and corporate profits, the European institutions will contribute 10 billion euros to Cyprus. Bank deposits guaranteed under the rules in force in the EU will still be insured, while the increase in capital gains taxes will reduce the remuneration of deposits in Cyprus, which have been above the European average.

In one week, the negotiations between the Cypriot authorities, the IMF and Europe's institutions have led to radically different results. For the part of the rescue plan needed for the viability of the banking system, the Cypriot President was apparently faced with a choice between a levy on all depositors, including "small savers", and a bank failure that would entail financial losses only for shareholders, bondholders and "big savers" (those with deposits of over 100,000 euros). It thus took a week for the democratically elected representative of a Member State of the European Union to give in and uphold the interests of the many (the general interest?) over the interests of the few, a handful of bankers.

The March 25th draft agreement also included a very interesting reference to the issue of money laundering. Cypriot banks will undergo audits to better understand the origin of the funds they collect. This time it did not take a week, but rather years for members of the Eurogroup to deal formally with a basic question about the operation of the Cypriot economy. Beyond Cyprus itself, there is reason to wonder whether there isn't funny money in the EU too.

One final thought about the International Monetary Fund, the donor partner that together with the European Central Bank and the European Commission makes up the Troika. It seems that it set many of the requirements: should we conclude that the IMF has much more bargaining power than the ECB and the European Commission, that it is the leader of this Troika? If this is so, it would raise some problems: first, the ECB and the Commission are supposed to defend the interests of Europe, which would not be the case if these two institutions were under the thumb of the IMF. Second, we should not forget that during the recapitalization of April 2009, the IMF received additional funds from the EU countries, which was a wise decision on their part if their representatives anticipated that soon they would need recourse to bailout funds, with the funds allocated to the IMF returning back to the EU in the form of loans. That said, having the IMF dictate drastic conditions for qualifying for bailout funds that have largely been contributed by from the EU itself is questionable, and would undermine the process of European integration.