

FROM THE HIGH ASPIRATIONS OF ACCESSION TO GROWING EUROSCEPTICISM

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When Cyprus applied for membership to the EU there were high aspirations and expectations. Nevertheless the political sophistication of the country was such that it could not fully assess the stakes involved and adjust quickly enough to the necessary requirements.

In addition to joining a family of nations with a common value system, it was expected that accession to the EU would move Cyprus toward a new geopolitical architecture and above all it would redefine the terms of the solution of the Cyprus problem. The Republic of Cyprus became a member of the EU on May 1, 2004. A week earlier the Greek Cypriots had overwhelmingly rejected the UN settlement plan by 76%. The Greek Cypriot rejection had its own rationality which unfortunately was not adequately explained. No alternative proposition for the solution of the Cyprus problem was put forward and thus not surprisingly the moral high ground of the Republic of Cyprus was gradually eroded.

Accession to the Eurozone on January 1, 2008 was part of the conventional obligations of the Republic of Cyprus. It was expected that this decision would have contributed to a new approach toward fiscal discipline and banking prudence. It was also expected that it would have substantively contributed to a solution of the Cyprus problem encouraging an integrationalist approach. Unfortunately, these objectives were not realized. Furthermore, participation in the Eurozone left Cyprus with fewer policy tools and options as Germany continued to pursue a very strict fiscal policy.

Certainly, the Cypriot crisis had endogenous causes: in addition to problems caused by the expansion of the banking sector, the state, society, households

and individuals spent beyond their means. And there was nepotism, corruption and unlawful practices. Cyprus was in a deep recession and needed considerable help. The March 2013 Eurogroup decisions though threw the country into a deep depression. We are still not in a position to predict the exit from this predicament under the Memorandum and the current architecture of the Eurozone. In assessing the consequences of Cyprus' own faults and the lack of a narrative we must also consider the EU's own short-sightedness in dealing with the situation.

Cyprus has to work hard to get out of the crisis-depression, address the Cyprus question, utilize effectively and efficiently the newly found energy resources and find its place in the regional and broader international environment. Inevitably it also has to reassess its allies. In Cyprus today there is a sense of growing Euroscepticism as well as an underlying disappointment with Greece.

The recent Report by Moody's which pointed out the seriousness of the crisis indicates that there will be higher unemployment, lower consumption and investment. Furthermore, the banking system will be stretched even further given the expected increase of non performing loans. Consequently, according to the Report the possibility for the need for new recapitalization of the banks cannot be ruled out.

Cyprus should try to change its circumstances. The philosophy of the Troika, the Memorandum of Understanding as well as the current architecture of the Eurozone will make it almost impossible to overcome the crisis.

The crisis can be addressed within the architecture of the euro area only if the EU changes fundamentally its philosophy. This would involve a generous Marshall plan, allowing the country to have temporary discretionary fiscal policy, unconditional access to Emergency Liquidity Assistance (ELA) and a relaxation of the internal financial controls. If the Troika insists on a philosophy which leads to higher taxes and lower salaries there will be no end to the

crisis. Under these circumstances Cyprus would have to seriously examine the possibility of a temporary exit from the euro area and the introduction of a national currency.

The suggested policy plan could also combine elements of Roosevelt's policy in the 1930's to address the US depression and Reagan's philosophy in the 1980's to stimulate the economy. Such a strategic mix would include an expansionary fiscal policy allowing for deficits in the immediate short run as well as tax decreases. The country would need to move gradually toward fiscal rationalization while looking into new engines of growth and for a new economic paradigm. At the same time Cyprus has to cultivate and deepen relations with both EU and non EU members – in ways that this island state can further enhance its interests and further upgrade its role in the broader region.

Cyprus aside, it would be important for the EU to revisit the policies pursued in relation to the European South as a whole. Indeed, it is clear that to effectively address the European debt crisis and promote further integration, a new European paradigm is required.