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**An Assessment of Relations between
the Republic of Cyprus and the EU: The
Rhetoric Vs the Record**

Andreas Theophanous



**CYPRUS CENTER FOR
EUROPEAN AND
INTERNATIONAL AFFAIRS**

UNIVERSITY *of* NICOSIA

1993-2022 TWENTY NINE YEARS OF POLICY FORMULATION AND ANALYSIS

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Andreas Theophanous

Andreas Theophanous was born in Cyprus on February 14, 1960. In 1980, he went to the USA on a Fulbright scholarship. He received his BA degree in Economics and Political Science (with distinction, baccalaureate) from Susquehanna University in 1983. In the same year he was offered an Assistantship from the Department of Economics of The Pennsylvania State University from which he received the MA and PhD degrees in Economics in 1985 and 1988 respectively. He served as Economic Advisor to the President of the Republic of Cyprus George Vassiliou from September 1990 to February 1993.

Theophanous is Professor of Economics and Public Policy, the President of the Cyprus Center for European and International Affairs and also the Head of the Department of Politics and Governance of the University of Nicosia. Theophanous' areas of interest focus on Cyprus related issues, governance in biethnic and multiethnic societies, European Integration, Eastern Mediterranean affairs, political economy and higher education. He has, among other things, also done pioneering work on the economic aspects of the day-after a solution to the Cyprus problem. He has served on national and international committees dealing with political, economic and research issues. He visited several European, American and other universities and think-tanks as a Visiting Professor, Senior Fellow and/or Guest Speaker. These Institutions include the London School of Economics and Political Science, the Brookings Institution, the Woodrow Wilson International Center of Scholars, the Australian Institute of International Affairs, the Center for European Integration Studies – University of Bonn, the Hebrew University of Jerusalem, the Begin-Sadat Center on Strategic Studies at Bar-Ilan University and the University of Tokyo.

Professor Theophanous has published several books and numerous articles on economic and political issues; these include work on the Cyprus problem, Cyprus-EU relations, EU-Turkish relations, the Eastern Mediterranean, issues of political economy and higher education. He has also organized and participated in international symposia, conferences, seminars and professional events, and has been responsible for developing and coordinating several research projects. He is also Editor of the Policy Paper Series of the Cyprus Center for European and International Affairs since 2010 and of the bimonthly electronic Newsletter, *In Depth*, since 2005.

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Abstract

This paper briefly examines and assesses how the relations of the Republic of Cyprus with the EU have been influencing the Cyprus problem, the economy and social issues, before and after accession. The complex accession path of Cyprus was mainly preoccupied by political issues given that since 1974, Turkey occupies 37% of the territory of this island-state. As Cyprus had by far the highest standard of living in comparison with all the ten countries that became members of the EU in 2004, pre-accession economic aid to it was rather minimal. Furthermore, Cyprus was a net donor for many years after its accession to the EU. Cyprus had high expectations from the EU which were not fulfilled. Be that as it may, this island-state has to function in the best possible way to advance its own national goals and also contribute to the broader European objectives.

Introduction

The objective of this paper is to assess how the relations of the Republic of Cyprus with the EU have been influencing the Cyprus problem, the economy and social issues, before and after accession. The complex accession path of Cyprus was mainly preoccupied by political issues given that since 1974, Turkey occupies 37% of the territory of this island-state. As Cyprus had by far the highest standard of living in comparison with all the ten countries that became members of the EU in 2004, pre-accession economic aid to it was rather minimal. Furthermore, Cyprus was a net donor for years after its accession to the EU. Cyprus had high expectations from the EU which were not fulfilled. Be that as it may, this island-state has to function in the best possible way to advance its own national goals and also contribute to the broader European objectives.

Section I provides the historical background and context within which this discussion takes place. This is followed by a description of the accession process and its repercussions. Sections III and IV describe the impact of the EU on the Cyprus problem and on the economy and social issues respectively. Finally in Section V some concluding remarks and suggestions for further research are put forward.

I. HISTORICAL BACKGROUND AND CONTEXT

Cyprus gained a fettered independence in 1960 with Greece, Turkey and Britain being the three guarantor powers. From the early days it appeared that the path of the Republic would be uneasy and turbulent.

In 1963-64 there was intercommunal violence and the threat of a Turkish invasion loomed large. At the beginning of the crisis in December 1963 the Turkish Cypriots withdrew from the government. Furthermore, many Turkish Cypriots relocated themselves into enclaves for security purposes as they claimed. Greek Cypriots, however, saw this move as a preconceived step to create conditions for the partition of Cyprus. The Republic of Cyprus continued to function under the Doctrine of Necessity which was legitimized by Resolution 186 of the Security Council of the UN in March 1964.

Intercommunal strife continued and in early August 1964 Turkish planes bombed parts of Cyprus on several occasions. Consequently, Greece deployed a military contingent in Cyprus with the objective to defend the island from a Turkish invasion. In 1965 the Report of Galo Plaza, the Special Envoy of the UN Secretary General U Thant, was released. It basically argued that in Cyprus there was no basis for federalization and asked for steps toward an integrated society and a unitary state.

On April 21, 1967 a military regime came to power in Greece. In the fall of the same year, a new crisis broke out over Cyprus. A Turkish invasion was eventually averted, following American mediation, as Greece agreed to withdraw its military contingent from Cyprus. President Makarios insisted on maintaining the Cypriot National Guard and was successful in securing it. (Ironically, the Greek Junta used the National Guard to overthrow him on July 15, 1974.) The Cypriot President also declared that a solution would be sought on the basis of a unitary state. Thus, officially, the objective of enosis (unification with Greece) was put aside.

After 1968, there were intercommunal negotiations for the solution of the Cyprus dispute. Despite a difficult domestic and foreign environment it seemed possible to arrive at a settlement. It is also important to note that Cyprus entered into an Association Agreement with the then European Community in 1973. It is also worthwhile noting that during the period 1960-1973 Cyprus had an annual rate of real economic growth 7%.

Unfortunately, this promising path and record was interrupted by the coup of the American led Greek Junta against President Makarios on July 15, 1974. Turkey invaded Cyprus five days later on July 20, 1974 claiming that its objective was "to reestablish the constitutional order and to protect the Turkish Cypriot Community". On July 23/24 both the Greek Junta and the putschist regime in Nicosia collapsed. But Turkey did not cease hostilities. It continued violating the cease fire which was agreed on July 22 and following the collapse of the negotiations in Geneva (the Greek Cypriots did not accept the ultimatum of Ankara which amounted to terms of surrender), it launched a new attack on Cyprus in August 14-16 by land, air and sea and captured 37% of the territory of this island-state. The international community did not react; it only made statements and issued resolutions for the respect of the independence, territorial integrity and sovereignty of the Republic of Cyprus. It also called for the resumption of negotiations between the two communities for the solution of the Cyprus problem. In one way or another, Turkey, the country which invaded and conquered 37% of the territory of Cyprus, was treated as a third party to the conflict.

The socioeconomic and political repercussions were devastating. In addition to the casualties and the missing persons, Cyprus also suffered ethnic cleansing which was the outcome of the Turkish military advance and the brutalities that took place. It also lost the international airport of Nicosia and the port of Famagusta. Furthermore, as most of economic activity was concentrated in the occupied territory, the country found itself in an extremely difficult situation. Almost 40% of the Greek Cypriot population

became refugees in their own country. In addition, thousands of Greek Cypriots sought opportunities in other countries as the economy was also dislocated.

The Cypriot leadership had to deal with very harsh realities. Under these extremely difficult circumstances the country managed to survive and the Republic of Cyprus continued to exist. The Greek Cypriots achieved what was subsequently described by others as "an economic miracle". This included the fast economic recovery which proved to be critical for the continuity of the Republic of Cyprus under very difficult circumstances. It is important to note that by the beginning of the 1980's Cyprus began to experience an inflow of population. This, basically, consisted of Greek Cypriots who had left the country after 1974 and even before.

It is also important to note that in 1975 Cyprus renewed the Association Agreement with the EC. Although the Cypriot government had higher expectations at the time, this agreement did not lack its own political significance.

Cyprus' impressive economic record allowed the country to continue functioning and to also have positive expectations. At the same time, however, the Cyprus problem remained the major national issue which dominated the political agenda. It is also essential to understand that there was bitterness toward Greece, Britain, the US and the West in general for their responsibilities for the Cypriot tragedy in 1974.

Within this climate, Greece tried to convince the Greek Cypriot leadership that closer relations with the EC and eventually membership could facilitate a solution of the Cyprus question. Furthermore, such a policy option, according to Athens, would benefit Cyprus in many other respects.

Gradually a paradigm shift begun to take place in Cyprus. Yes, there was bitterness toward the West and also the feeling of being led down in 1974 by Greece as well, but the most pragmatic perspective was to be forward looking. Greece was now a democratic nation and it could not be held responsible for the actions of the American led Greek Junta. Moreover, the EC was gradually becoming a serious player in international relations and, furthermore, it could not be accountable for the actions and omissions of the US and the UK in 1974. In the new era it was also essential for Cyprus to come closer to nations that shared a similar value system.

Given the new political climate and strongly encouraged by Greece, Cyprus pursued a Customs Union Agreement with the EC in accordance with the provisions of the existing Association Agreement between the two sides. Several European nations had reservations regarding the prospect of signing such an agreement with Cyprus considering the political situation on the island and the implications for Turkey. Greece, however, made it clear though that without the Customs Union with Cyprus it would veto the accession of Spain and Portugal in the EC. The Customs Union Agreement between Cyprus and the EC was ratified in October 1987; this became applicable as of January 1, 1988. This agreement had great political significance: if in the absence of a solution to the Cyprus problem the EC had reached a Customs Union Agreement with the Republic of Cyprus, accession without a solution would also be possible.

From the economic perspective it is doubtful whether Cyprus gained. Following the implementation of this agreement the relative importance of the primary and secondary sectors of the economy continued to decline. Simultaneously, the tertiary sector continued to grow.

II. THE ACCESSION PROCESS OF CYPRUS

On July 4, 1990 the Republic of Cyprus submitted an application for membership to the EU. President Vassiliou made this decision despite the fact that the left wing party AKEL which was backing him was opposed to this move. AKEL changed its stance officially in 1995. Furthermore, the UK, one of the three guarantor powers of the Republic of Cyprus, had strong reservations. The UK advised President Vassiliou to focus on the negotiations for the solution of the Cyprus issue and to seek accession after the resolution of the problem.

Turkey also opposed this move by the Republic of Cyprus. Greece was a staunch supporter of the application of Cyprus to become a member of the EU. Furthermore, the vast majority of Greek Cypriots were in favour of the application for membership to the EU. Indeed, President Vassiliou was well aware of this; this was one of the reasons for his decision although initially he was hesitant. Above all though he was eventually convinced that this was the appropriate policy step to take.

Greek Cypriots at the time had a rather idealistic view of the EU and also developed great expectations. They believed that it was a Union in which the rule of law prevailed and a democratic value system reigned supreme. Furthermore, they also believed that solidarity among member states was a value adhered to both in theory and practice. This meant that once Cyprus had become a member state of the EU, the Union would not tolerate the occupation of the northern part of the island by Turkey as, after all, this would be European territory.

In addition, Greek Cypriots also believed that the standing of Cyprus in the regional and international arena would be enhanced. There was also a prevailing perception that the value system of the EU as well as its institutions would be of great value to Cyprus.

In September 1993 the European Commission issued its "Opinion on Cyprus application". This island state was considered eligible for membership as it had a democratic system of government and a vibrant economy. Any shortcomings could be addressed accordingly in due time. Nevertheless, the anomaly with the division of Cyprus was a major issue which, according to the European Commission, should be addressed before accession to the EU. Cypriot policymakers knew that the Cyprus problem was unresolved due to the stance of Turkey. Nevertheless, they expressed their satisfaction with the Opinion of the European Commission and vowed to work and act in the best possible way to move on with the accession process.

There was a growing belief in the US as well as in various circles of the EU that the Cyprus problem and the Greco-Turkish issues could be addressed constructively within the framework of the Union. The policy perspective was to offer Turkey the vision of becoming a member of the EU; this, it was thought, could open the way to resolve the Cyprus problem as well as all issues between Greece and Turkey.

In March 1995, a major step forward was made. The EU offered Turkey a Custom Union Agreement which was not vetoed by Greece; Cyprus was to start accession negotiations with the EU 18 months after the end of the then Intergovernmental Conference; and Greece received a new financial Protocol. This was another major step for Cyprus. Ankara also considered that this was an important development which could address multiple objectives.

Accession negotiations between Cyprus and the EU begun in March 1998. At the time President Clerides invited the Turkish Cypriot leadership to join the Cyprus negotiations team. This offer though was rejected.

In December 1999 a major decision regarding Cyprus was made at the Helsinki European Council. The EU considered desirable the accession of a reunified Cyprus to the EU but in the absence of a solution this would not be an obstacle to membership. At the same time Turkey was offered candidacy for membership.

The accession negotiations between EU and Cyprus were taking place simultaneously with renewed efforts to resolve the Cyprus problem. The Cypriot negotiating team knew that the Cyprus problem could create complications; consequently, one chapter after another was closed without the best possible elaboration of the issues under consideration. In other words, under different circumstances Cyprus could have secured a better agreement on various issues.

The negotiations for the solution of the Cyprus problem were not progressing well. It was evident that there was a serious gap in the positions of the two sides. When the UN Secretary General Kofi Annan finalized his Plan for a settlement shortly before accession, the Greek Cypriots found it grossly biased. Indeed, in the referendum that took place on April 24, 2004, a few days before accession, 75,8% of the Greek Cypriots voted No while 65,6% of the Turkish Cypriots (and the settlers) voted Yes.

There is no doubt that the US, the UK and other countries wanted to facilitate Turkey's European path. The occupation of the northern part of Cyprus by Turkey was an obstacle to this. In a cynical act of political expediency, they directed their pressure towards the weaker side. The Annan Plan satisfied all Turkish objectives. In the event of a simultaneous Yes the European path of Turkey would be enhanced while at the same time it would have satisfied its objectives in Cyprus. In the case of rejection that should come from the Greek Cypriot side; as it did. In such a case Turkey would not be held responsible for the continuing stalemate in Cyprus and could proceed with its European ambitions.

III. THE IMPACT OF THE EU ON THE CYPRUS PROBLEM

During the 1990's, the mainstream hypothesis was that the accession process would act as a catalyst for the solution of the Cyprus problem. The major idea was that Turkey would be given the option of accession to the EU so that it would have a strong incentive to make meaningful concessions in Cyprus and pave the way for the resolution of this complex dispute. At the same time the Turkish Cypriots would also have even stronger incentives for a reunified Cyprus which would be a member of the EU. For the Turkish Cypriots a federal solution would be the best possible outcome since their dependence on Turkey would decrease while at the same time their separate identity would be preserved in the new arrangement. Furthermore, political equality would ensure that they will never be treated as a minority.

It is interesting to see why these expectations did not materialize. It is indeed surprising that the UN and the EU were exerting stronger pressures on the weaker Greek Cypriot side to make more and more concessions for the solution of the Cyprus problem. The ongoing narrative at the time was that it was important "to show understanding for the pride of Turkey and of the Turkish Cypriots". Furthermore, it was noted that "the Greek Cypriots should exhibit patience and any constitutional difficulties (perversions, I would say) could be addressed satisfactorily within the EU and its Institutions".

Commenting on this biased Annan Plan at the end of February 2004, Professor Shlomo Avineri of the Hebrew University of Jerusalem, who had previously served as Director General of the Ministry of Foreign Affairs of Israel, stated that it amounted to "the favourite occupation of the UN and of the EU".

The Greek Cypriots rejected it by an overwhelming 75,8% majority not out of a nationalist fervor. Their fear was that the implementation of the Annan Plan would make them worse off; the Republic of Cyprus would be pushed aside as it would be replaced by a new state entity which in essence would be a protectorate of Turkey; furthermore, Cyprus would be a second rank member state of the EU. Moreover, the economic viability of such a state would be at stake. Such a state of affairs could not be accepted.

Following the rejection of the Annan Plan, Cyprus was strongly criticized by the EU as it was held responsible for the lack of a solution to the problem. In December 2004 Turkey was given a date for accession negotiations with the EU, October 5/6, 2005, on the minimum condition that it would implement the Ankara Protocol with all member states of the EU, including the Republic of Cyprus. Not surprisingly Turkey never implemented the Ankara Protocol in relation to Cyprus, yet accession negotiations begun then. Subsequently, progress on the EU-Turkey negotiations and the closing of the relevant chapters were linked with developments on the Cyprus problem and Ankara's stance. Nevertheless, the lack of substantive progress on EU-Turkey accession negotiations was due to other issues. Turkey was not willing to fulfill the conditions necessary for such progress. There were serious democratic deficits. Moreover, Turkey adopted an ala cart stance toward the conditions for accession to the EU. In addition, several countries in the EU were not convinced that accession of Turkey to the Union was possible and desirable.

If we compare the stance of the EU towards Russia for its invasion in Ukraine with that of Turkey in relation to its ongoing occupation of the northern part of Cyprus, it can be easily observed that this is a clear case of double standards. The US, EU, Britain and the West in general have also tolerated the colonization of the occupied northern part of Cyprus with Anatolian settlers, its islamization and the usurpation of Greek Cypriot properties. Furthermore, Turkey has been tolerated for its repeated violations of the

Cypriot Exclusive Economic Zone and of the status of Varoshia. Ankara has been also tolerated for its ongoing hybrid warfare, a major dimension of which is the encouragement of illegal immigration from third countries to the government-controlled areas of the Republic of Cyprus.

Since the referendum of 2004, there were several efforts and cycles of negotiations for the solution of the Cyprus problem. Nevertheless, the conflict seems to be intractable. The EU policy approaches do not seem to have any influence on Turkey. In July 2017 there was the failure of a concerted effort of the international community to address the Cyprus problem at Crans-Montana, in Switzerland. Turkey insisted on maintaining the guarantee system with its own participation as well. Nevertheless, the differences between the two sides extended to other issues as well. Perhaps the most important one is the way each side views the agreed principle of political equality. The Greek Cypriot side has strong reservations about provisions on issues of governance that, if implemented, would make Cyprus hostage to Turkey.

After this failure Ankara gradually moved away from the agreed basis of a bizonal bicomunal federation. With the election of Ersin Tatar as the new leader of the Turkish Cypriot Community in October 2020, with the direct involvement of Ankara in the elections, the Turkish side put forward its preference for a two state solution. In actual fact though, the objective of Turkey is confederation – an arrangement of two independent states, which would have to work together on issues of foreign policy, defense, energy and so on. With such an arrangement Ankara would ensure, by using the Turkish Cypriot state, that no major decision takes place without its consent.

It is also important to stress that when the Secretary General of the UN, Antonio Guterres, called an informal five-party conference on April 27-29, 2021 to explore the prospects for restarting the negotiating process, Turkey

insisted that the EU should not be represented. In essence, Turkey had its way. This may be indicative of the lack of effective support of the EU to the Republic of Cyprus.

Indeed, the impact of the EU seems not to have been as important as it was expected initially. It should be highlighted, however, that at the beginning the influence of the EU on the Turkish Cypriots was important. We should remember that Ankara and the occupation regime unilaterally and partially lifted restrictions to free movement on both sides of the Green Line on April 23, 2003 in order to ease tensions within the Turkish Cypriot community. At the time the ratio of the standard of living between the two sides was about 4:1. The Republic of Cyprus was about to become a member of the EU. The Turkish Cypriots felt that they were missing the train to progress and to a better future.

With the partial lifting of obstacles to free movement, there were immense gains for the Turkish Cypriots. Furthermore, with the accession of the Republic of Cyprus to the EU, the Turkish Cypriot community enjoyed multiple benefits both from the official State as well as from the Union without any obligations. Retrospectively it seems that Turkish Cypriots continued to enjoy the gains accrued from the occupation – such as the usurpation of Greek Cypriot properties – as well as benefits from the Republic of Cyprus and the EU without any obligations. Irrespective of the intentions of the Union and the promotion of some common EU objectives and values in both communities, a situation emerged which has compromised the vast majority of the Turkish Cypriots into not only accepting but also supporting the *status quo*.

Furthermore, it is also important to note that the Turkish Cypriot community has been receiving financial support from the EU (so far almost €700 million thanks to the Greek Cypriot tax payers), before and after the referendum, unconditionally. The wisdom of this approach should be reconsidered.

Moreover, the Republic of Cyprus continued to support the Turkish Cypriots in various ways irrespective of political developments. These include financial support, access to public services as well as the provision of passports of the State.

IV. THE IMPACT OF THE EU ON THE ECONOMY AND ON SOCIAL ISSUES

The Customs Union Agreement between the Republic of Cyprus and the EC/EU became effective on January 1, 1988. From the economic perspective it is doubtful whether this specific agreement was beneficial to Cyprus. But politically this was extremely important. If without the solution of the Cyprus problem, the EC/EU could reach a Customs Union Agreement with the Republic of Cyprus, then a precedent would be created for accession even in the event of no solution.

Following this agreement, there was a steady increase of the tertiary sector as a percentage of the GDP. At the same time there was a gradual decline of the secondary and primary sectors. In the period of Europeanization and globalization, the banking sector as well as the financial and legal services grew substantially. Furthermore, tourism and the property market provided a great impetus to the economy. The excesses of this model were to be a major though not the only cause of the crisis a few years later.

The growth of the economy was such that in the 1990's Cyprus, for the first time, began to import foreign labour. It was a time during which most people began to believe that economic growth was the norm; some even thought that every next year would be better associated with higher and higher salaries and more benefits.

Cyprus became a member of the EU on May 1, 2004 and on January 1, 2008 it adopted the Euro. It was a period of prosperity and high expectations. This record led to a situation of growing complacency.

The decision makers at almost all levels of government and the financial system did not have a comprehensive understanding of the implications of the accession to the Eurozone and the simultaneous adoption of an imperial currency. What is even worse is that there was no adequate understanding

of the faulty architecture of the Eurozone and what could happen in times of serious crises. The few voices of rational analysis were ignored.

Following 2008, the financial crisis which started in the US spread to the Eurozone and other countries. Most Cypriot government officials and other stakeholders naively believed that this island would not be touched by the crisis. This was due to wishful thinking, lack of a comprehensive understanding of the situation and populism.

The harsh reality, however, was that the Cypriot economy was facing very serious structural problems: the banking sector, the fiscal domain and the property market were problematic. Furthermore, both the state and many households were spending recklessly beyond their means. And the imperativeness of restraint was ignored. At the time, in addition to the growing public and private debt, the Cyprus record pointed to a situation of low growth and rising prices. It was a form of stagflation. The need for drastic action was obvious but there was an atmosphere of inaction, denial and populism. There were of course strong voices for serious economic changes but the steps taken were inadequate.

Had Cyprus delayed its accession to the Eurozone, the automatic stabilizers could partly address the situation. The currency would have depreciated, the interest rates would have increased and borrowing as well as consumption would have decreased. This would not be enough though. But certainly the drastic changes of economic indicators would have served as a great warning.

The explosion and the destruction of the most important electricity generating plant at Mari on July 11, 2011 served as an additional serious warning for the malaise Cyprus was going through. Since the Turkish invasion of 1974 Cyprus had faced only one recession; in 1991 immediately after the invasion of Kuwait by Iraq and the American intervention

thereafter. The recession of 1991 (about -1%) was followed by a robust economic growth of almost 9% in 1992. In 2011 the economic environment in Cyprus was such that it could be predicted that a great storm was imminent.

Furthermore, in October 2011 the EU made a decision for the haircut of the Greek debt. Cypriot banks lost €4,5 billion; that was equivalent to about 25% of Cyprus GDP. This was a great shock. Yet again the government as well as the banking sector failed to fully understand the implications. This was the time for Cyprus to seek the support of the EU to rescue its economy. Had this taken place an agreement could have been reached which would be less harsh than the one actually imposed in March 2013. Certainly, a Memorandum of Understanding with the Troika in late 2011 or early 2012 would not have included a bail in.

The Cypriot technocrats who were negotiating with the Troika for a rescue plan realized that with the passage of time the terms of an agreement were becoming harsher. Finally, it was the newly-elected President Anastasiades that had to deal with the extremely difficult situation that he had inherited. Indeed, the Memorandum of Understanding that was finally agreed was extremely harsh. It would be noted that the First Plan which entailed universal haircut of bank deposits was rejected by the Parliament. The Second Plan involving the Popular Bank and the Bank of Cyprus was accepted as there was no alternative for addressing the crisis within the Eurozone. The bail in method used led to drastic changes in the banking system and the economy of Cyprus. It would not be an exaggeration to say that the philosophy of the package was punitive. Indeed, the Troika had exhausted its harshness on Cyprus.

On several occasions, Cypriot officials as well as foreign analysts indicated that Cyprus was used as an experiment. Certainly, this policy tool would never have been used in countries such as Italy and Spain. Cyprus was

singled out as it was a small economy. Moreover, Cyprus was accused of corruption, money laundering and as a place where Russian oligarchs had deposited millions of Euros and were receiving extremely high interest rates. The narrative to justify the harsh measures imposed on Cyprus served several objectives in the EU, including especially those of Germany.

Undoubtedly, Cyprus had to blame itself to a large extent for the predicament that it had brought to itself. Yet the rescue plan provided by the Troika could have been rational, smooth and humane. Rationalization of expenses, of taxes and of practices was absolutely necessary. But it could have been done with an element of solidarity instead of punitiveness.

The socioeconomic impact was severe: drastic reduction of the standard of living, dramatic increase of the number of people under the poverty line, decline of the middle class and the rise of inequality. In addition, two banks closed and the banking sector as a whole was reduced drastically. Unemployment increased, salaries decreased and for the first time since 1974 Cyprus faced an outflow of people. To the present day, on average, wages remain on the same level since 2012. This factor as well as low and sometimes negative interest rates led to the decrease of savings. Actually, Cyprus has one of the lowest saving rates among Eurozone countries. This is a major concern that was raised in many times by EU Commission during its reports. Recently with the high rate of inflation interest rates will increase; but in real terms they will still be negative.

Moreover, Cyprus is one of the most indebted countries in the Eurozone. The public and private debt were around 100% and 178% of the GDP respectively in the summer of 2022. In addition, the competitiveness of the economy is still low even though the implementation of the Memorandum via a shock therapy had as a major purpose its enhancement through internal devaluation. This did not occur. This is an indication of the failure

of the Memorandum to tackle the actual problems of the economy and also of the Troika policies.

It would not be an exaggeration to say that Cyprus recovered despite the harshness of the Troika Program. Government officials in Nicosia were jubilant stating that the record pointed to a success story. This was an exaggeration; one could say though that it was a success story only when compared with the record of Greece. As mentioned above one of the major purposes of the Memorandum was to upgrade the competitiveness of the economy and to restore macroeconomic imbalances. However, these problems still remain in the Cypriot economy. The shock therapy that was applied in the case of Cyprus caused a decline in real wages; an effect of this policy was the deregulation of the labour market with many young and educated people earning salaries that are very low. According to the most recent data of Cyprus Statistical Services the majority of the labour force earns monthly wages less than €1.500. With the domestic inflation reaching almost 10% it is very difficult for many people to cope with the current economic conditions.

Cyprus was on a positive path of growth and recovery, despite several shortcomings, when COVID-19 came to our lives. This was the second shock to the society and the economy in a few years. The response of the EU was lukewarm although it was much better in relation to the manner that the Euro debt crisis was addressed. A major step in the right direction was the suspension of the strict fiscal rules. Consequently, almost all governments of the members of the Eurozone took measures to alleviate the situation. The expansionary macroeconomic policies were absolutely necessary and addressed the extraordinary circumstances created by the pandemic. During this time it was realized that the state had a major role to play in the socioeconomic affairs of any country. This realization challenged the conventional neoliberal thinking about the primacy of markets and the belief

in the limited role of the state. Nevertheless, to the present day a comprehensive alternative model has not been proposed.

Given the war in Ukraine and the sanctions against Russia the economic environment entails again serious challenges. The EU today has to deal with enhanced inflationary pressures and with the prospect of stagflation. Cyprus is inevitably affected as well. It is unfortunate that this war was not prevented. And while Ukraine and Russia are inevitably affected by this war, the EU as well will have to live with less prosperity, less security and more uncertainty. These issues and challenges will have to be addressed at both the national and the European level.

The socioeconomic cost of the sanctions for Cyprus is heavy. It is not only the losses from the tourist sector. It is also the notable negative impact on the legal and financial sectors. In addition, there are about 40.000 residents of Russian ethnic background many of whom are affected by the sanctions directly. It remains to be seen how the EU will assist countries that are affected to a greater extent by the situation.

It is essential to also underline that the legal framework of Cyprus has been very much influenced by the European *acquis communautaire*. It will be useful to evaluate the socioeconomic impact of this process. One major issue raised in relation to this is that Cyprus today is the country which faces the highest number of asylum seekers per capita from third countries. This is a major challenge which preoccupies the people of Cyprus and the political agenda. This is another area in which Cyprus expects the solidarity of the EU.

Cyprus has to also work systematically to address corruption as indicated by all relevant international indexes and also improve its image. Following the extraordinary circumstances after the collapse of 2013, the Anastasiades government tried to utilize all possible tools for recovery. This

included a program for attracting foreign investors with the offer of Cypriot passports. This program had several loopholes which led to malpractices which left Cyprus exposed. Although some steps have been taken to ameliorate this situation much, still more remains to be done.

It is also essential to note that the programs associated with attracting investors in the property market of houses and apartments have contributed to the increase of prices, as well as of rents. This, in conjunction with low salaries, entail additional socioeconomic repercussions. In the case of the younger generation the issues created are even more difficult. We should remember that in Cyprus for years the objective of individuals to acquire their own house or even apartment was the norm. This goal now seems to be extremely difficult or even unrealistic for the majority of young people. The socioeconomic and demographic implications of this situation are gloomy. These should certainly be studied further and assessed accordingly.

V. CONCLUDING REMARKS AND SUGGESTIONS FOR FURTHER RESEARCH

Undoubtedly, the accession of the Republic of Cyprus in the EU on May 1, 2004 and the adoption of the Euro on January 1, 2008 were great achievements. Nevertheless, the expectations of Cypriots were not fulfilled. To the contrary there were several disappointments. Be that as it may it is important that Cyprus should do its best as a member of the Union to advance its own objectives as well as make a notable contribution to the European project.

The EU has been very tolerant to Turkey's actions in Cyprus. Despite the rhetoric the Union did not take any measures which would create a cost to Turkey for its actions. To the present day, Turkey does not recognize the Republic of Cyprus and has not yet implemented the Ankara Protocol in a way so as to include this island state as well. Furthermore, it has systematically been violating the Cypriot EEZ and has also been waging a hybrid warfare against this island state. This situation undermines peace, stability and cooperation in the Eastern Mediterranean.

Although the EU stance on the Cyprus problem has not lived up to the expectations of Cypriots and to its own value system, it is also important to underline that this island state should have worked in a better way to make its case. It is essential for Cyprus to have a narrative and a comprehensive vision for the future. Although it may be extremely difficult for the EU or even impossible to promote a policy of sanctions against Turkey, it is possible to advance a policy which will ease tensions in the island and pave the way for some major steps forward.

Cypriots also feel that the EU did not exhibit solidarity during the economic crisis which culminated in 2013. Yes, Cyprus should blame itself for the structural problems it had to address; at the same time though there were international dimensions to the crisis. Furthermore, the architecture of the

Eurozone was problematic to say the least while the logic of the measures taken to rescue Cyprus remains questionable.

Currently, it seems that Cyprus is one of the EU countries which is very seriously affected by the sanctions imposed against Russia. It is essential to see how the EU will design policies and offer help to countries and group of EU citizens who are very much affected by this situation.

In any case Cyprus has to promote a new paradigm with the objective to achieve balanced growth and development. New sectors of economic activity should act as engines of growth. At the same time it is essential to promote policies which tend to reduce socioeconomic inequalities.

Cyprus also has the right to expect much more support from the EU in relation to the issues of illegal migration and asylum seekers from third countries. The government has made its case in Brussels. Nevertheless, the response in terms of economic aid and other means so as to contain the problem is not adequate. Last but not least Cyprus has to act in difficult times in the best possible way to advance its own objectives and to also serve broader European interests.

Undoubtedly, it will be important to address each of the issues which were briefly examined in this paper separately and in more detail. Such a task will further enhance knowledge and it will be also useful for policy makers.



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