

CYPRriot ECONOMY IN GREAT NEED OF A SOLUTION TO THE CYPRUS PROBLEM

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The Cypriot economy has experienced its first “boom and bust” cycle joining, unhappily, the club of today’s capitalist economies. The leading capitalist economy, the United State, have, so far, experienced twelve such cycles since the 1940s. Economies which are less-dependent on real estate and the housing market and with much stronger social cohesion policies are less vulnerable to a boom and bust cycle. Classic examples are the Scandinavian countries which have developed very diverse, high tech and export-oriented economies.

Cyprus is a rather young State and its political elite have not had the chance to experience periods of ‘bad weather’ in the country’s economy under conditions of peace. Both society and politicians have grown to believe that the continuously increasing economic growth was the result of an economic miracle. The truth is that small economies when built on conjunctural opportunities can grow fast but can easily go into fast depression as well. This is what happened in Cyprus recently.

Cyprus is now under a financial assistance program from the Troika lenders. In the case of Cyprus, Troika opted for a financial assistance program to support the Government needs and handed the bill for bank recapitalization to the depositors of the two largest banks. Today the Cypriot economy is searching for a new plan for recovery with almost 30% less bank deposits than this time last year and worsening economic indicators. What are the chances of the economy to recover any time soon?

Cyprus needs to discover the right policy mix, diversify its economy and give it a strategic direction. It needs to redesign it’s economy. It is not enough to promote economic growth simply by having low corporate tax and rely heavily on real estate and tourism. An exit from the Eurozone is neither a choice nor a wise political move. It is not the Euro’s fault that we have created an economy

based on feeble foundations. Also an exit from the Euro will complicate efforts towards finding a viable solution to the Cyprus issue.

Cypriots have grown also to believe that the illegal occupation of the part of the country by Turkey is not an obstacle to economic recovery. This is a fallacy. And those uttering the argument that the country enjoys stability simply paraphrase what Turkey maintains over the years that the invasion of the country by Turkey brought with it peace and stability!

Small countries grow sustainable economies when they take full advantage of their strategic advantages. Cyprus resides at the heart of a trouble-riddled area. All around Cyprus there is turmoil, from Libya and all the way to Turkey. The discovery of energy reserves in the area puts Cyprus at the heart of plans to become an energy hub. Turkey is currently looking for a strategic orientation too. After a successful reform program, steered by accession negotiations to the EU, Turkey decided to venture into the Arab world, taking advantage of the Arab spring, in order to claim the role of a regional superpower. It did not work. The recent developments in Turkey were a warning for Prime Minister Erdogan to stay out of regional issues. Turkey has no choice but to resume again the path towards European integration. The recent high-level meetings of Mr Erdogan in European capitals manifest that he is keen to resume this path that worked for him before. Even if this means that the process ends with a special relationship agreement between Turkey and the EU (this suits both parties!). The efforts to harmonize her relations with Israel also indicate that Turkey realizes that she needs friends and not enemies in the region.

Thus at this present time Turkey needs a resolution of the Cyprus problem to regain the lost momentum towards closer ties with the EU and a role in the handling of energy reserves. Turkey however cannot be a partner and a trouble-maker at the same time. She needs to look at what Ukraine is going through at the moment.

More importantly Cyprus needs a viable solution of the Cyprus problem to regain a momentum towards economic recovery. The momentum that will follow will bring with it the correct economic policy mix. International investors will also

consider Cyprus for productive investments that will give the country's economy an extrovert orientation. The special relationship with Israel will inevitably expand and Cyprus will become a true crossroad of economic interests and an arch paradigm for peace.

Finally those with international interests in the area should realize that it is in their best interest to push for a viable solution to the Cyprus issue. If a solution fails then their interest are also jeopardized. The months to follow will reveal if wisdom or party politics will prevail.