

THE CYPRUS CRISIS AND THE DAY AFTER

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The impact of Troika's policies in Cyprus have been felt in no minute measures by many inside the country. In fact the shock has been so great that the face of the island from a developing and prosperous Member of the European Union has changed into a faltering economy with uncertain prospects. No doubt domestic miscalculations of Cypriot politicians over the years cannot be overlooked in this crisis but nor should we close our eyes to the important international aspects of this sad affair.

Western governments, including the European Union, had for years been asking Cyprus to close its banks to money laundering that had flooded the island with unexpectedly huge sums of cash. Russia also had asked Nicosia to provide the names of its citizens that had opened accounts on the island with large deposits. On both counts Cyprus appears to have faltered. Though responding favourably in words, it failed to act sufficiently robust enough to allay the concern of the West and Russia. The economy riding high, partly on the back of oversized banks filled at times with questionable deposits, Cyprus government seemed unconcerned about the long-term effects of its inaction.

In terms of fiscal measures, the previous government of President Christophias appears to have left much to be desired. The excessive government spending then – with no or little regard to the crisis in Greece – combined with an inexplicable monetary policy (high interest rates) have contributed to the current situation. The inefficacy of the Central Bank in Nicosia to monitor the banks on the island and their irresponsible purchase of Greek debt (not to mention their lavish lending to private clients in

Greece) added fuel to the fire. When some of these shortcomings were brought to the attention of policy makers, very unconvincing responses that dismissed all worries as unsubstantiated were usually received.

Having said that, external aspects should not be overlooked either. The strategic significance of Cyprus, its proximity to the Middle East, its high mountains, its membership of the EU, the presence of British Sovereign Bases and other facilities, its *de facto* division and Turkish military involvement all render a special status to the island, greater than its size or population would suggest. Accordingly there is much outside interest in the affairs of the country.

The intractable Cyprus problem, hitherto harmless to perceived interests of many foreign governments, may now be a nuisance in view of recent oil and gas discoveries in the Eastern Mediterranean. The prospects of alternative sources of energy for parts of Europe, considerable income for Cyprus, and the large investments by Israel for liquefying gas on the island all mean that Ankara should come on board. Absent an agreement with Turkey, the gas and oil deals could be hostage to unforeseen developments. However, a deal with Ankara would require the acquiescence of the Cyprus government. Whether in the context of an overall solution or as a separate agreement worked out between various capitals, Nicosia's blessing would be all that much easier to attain when Cypriot economy is in dire need of help.

Another factor, which may be of concern to some outside parties, has been the increasing influence of Russians in Cyprus. This can be easily noticed particularly in the coastal city of Limassol that hosts over 40,00 Russians. The opening of many Russian banks and ventures, the increasing volume of traffic between Nicosia and Moscow and the rising interest amongst Greek

Cypriots in learning Russian language cannot have gone unnoticed. The dissolution of Laiki Bank and the financial 'hair-cut' has now reduced the level of confidence in Cypriot banking system for depositors that used to consider the island a safe haven for their funds.

Conclusively, the combination of domestic policies of Cypriot governments in the past as well as the concerns and interests of outside countries have played their roles in the financial crisis that has now gripped the island. Prospects appear grim in the immediate future but with brinkmanship and level-headedness Cyprus should be able to overcome its economic malaise before the decade is out.