THE AFTER TROIKA MOU ERA: ANALYSIS, PROSPECTS AND PROPOSALS

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The after Memorandum era leaves deep wounds to the real economy since the financial model that Cyprus followed by providing services to international companies, has been significantly compromised by the decisions of the Eurogroup in March 2013. The trust and robustness of the banking system has been negatively affected and unfortunately serious investors have turned their eyes to alternative destinations.

Regarding the financing of the state from the international markets things are not so rosy either. The much advertised exit from the MoU and ability now to borrow from the markets will lead the country to borrow at an interest rate twice or even higher than the one we had during the Troika and therefore cause a multimillion servicing burden to the public debt. This money will be deprived from the real economy that could otherwise been channeled into more productive areas and stimulate consumption and create jobs. Also our official exit from the "program" and by being in non-investment grade (Junk bonds) immediately excludes the country to participate in the quantitative easing program offered by the European Central Bank. This means that our banks will be deprived of cheap funding which was available by the ECB when the country was in a memorandum.

Economic growth estimates.
The economic growth rates well be positive, 1.6% is the forecast by the IMF and 2.5% from the Cyprus Treasury, but this will not translate in the improvement of the economic situation of households and small and medium businesses. GDP is an indicator of the average economic growth that cannot reflect the real picture of an economy since it can be unbalanced with regard to the allocation of the factors that constitute it. For example a few large companies can affect the index positively while the income of thousands of households may not be growing at the same rate.

Moreover, the high rate of private debt, that is 300% of GDP, while the EU average is close to 50%, does not leave much room for optimism. Consider that servicing this debt of around 60 billion with an average interest rate of 4% corresponds to 2.4 billion interest payments per year. This means that the economy should grow at a rate in excess of 4% per year in order to serve its private debt, which in turn indicates that it is no longer viable and that banks should make provisions that a large part of it will not be recoverable.

The economic cycles of growth, bubble and recession are phenomena that are repeated for centuries in the liberal capitalist economic system in which we live. Unfortunately to us the crisis came too abruptly since it was in a way imposed with the deposit haircut. Of course before March 2013 we took no preventive actions that would mitigate the size of the resulting depth of the economic disaster.

Here comes the role of the state in which it should have already made the growth plan for the post-MoU era with a new economic model that in my opinion should be based on the development of the knowledge economy. Innovation and entrepreneurship are the way to create jobs and sustainable economic growth. But in order to do this requires planning and incentives to attract venture capital funds which finance new innovative businesses that have high growth potential in a rather not so long term. These funds, beyond financing which the banks do not undertake, provide expertise to founders, supervision and access to a large network of partners or other companies with which they collaborate.

Additionally our old economic model is no longer the same after the Eurogroup decision in March 2013, and should be updated and upgraded. Attracting large banking names such as HSBC, or even Deutsche Bank, will help the financial services sector to attract major companies to do business on the island.

Widening in the economic inequality.
Cyprus has the lead in the worst performance of unequal income distribution on the Gini index as calculated by Eurostat for the years 2008-2014. The average increase of unequal income distribution in the EU was 0.6 points, while Cyprus increased by 5.8 points and Greece with 1.1 points.

The biggest hit was experienced by the middle class and small and medium enterprises, the backbone of our economy. From thriving, but also in an exaggeration economy led by a lending spree of the abundant cash that Cyprus banks had, ended up on relying on social groceries and the EEE, the minimum guaranteed income of 480 Euros. This is not the economy that we deserve to have and therefore we need to revive and regroup it. How could we do that? By Meritocracy, Reliability and Credibility, Dignity. We must demand as a society to return to these values as they were lost in the course of a fictitious prosperity. These timeless values will make a more productive state, less corrupt (unfortunately it will not be eliminated) and with new ideas and technocratic planning will recover the real economy of the people and not numbers. In this way we will be able to regain our credibility, and move away from junk ratings, both in investment grade but also in real terms, and take back our dignity. Unfortunately there are no magical solutions but there are solutions that can get us through this depressing landscape.