

THE CYPRUS PARLIAMENT'S "NO" HELPED THE EUROZONE

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Yves Bertoncini held an interview with the Cyprus newspaper *Kathimerini* dealing with the rescue plan defined for this country and the reactions it has generated. We offer you an English translation of this interview conducted by Ioannis Seitanidis and published on 31 March 2013.

1. Did you expect such a radical solution for the Cyprus?

I didn't expect such a solution, because Cyprus is a small country which could have been easily bailed out by the EU. The problem is that lending 17 billion euro to Cyprus would have created a national debt superior to 150% of its GDP, then making it very difficult to reimburse. The other element is that it appeared unfair to ask the European or Cypriot tax payers to be the only ones to rescue a financial system whose weaknesses and excesses contributed a lot to the present crisis – hence the idea to ask banks' shareholders, investors and even bank account owners to pay part of the bill. There was also a European temptation to use the levy effect linked to the bail out so as to reduce the weight of the Cyprus financial system, including through a forced contribution of Russian capitals. All these elements can explain why such radical options were favoured in the treatment of the Cyprus case.

2. On 28 January 2013 you told me that the danger for the eurozone in 2013 is the stagnation. Now in eurozone we have a new model for handling the debt crisis in Europe. The bail-in is a new element. What will be the implications in the European economy?

The crisis of the eurozone is mainly a twofold "crisis of confidence", both on the banking sectors situation and on the ability of the states to reimburse their debts. In this context, restoring growth will also rely on the decisions taken to address fully and structurally the roots of such crises, and then to correct the excesses of both the financial and the public systems. As for the "bail in" option, it is not radically new: it was partly used in Spain (with the contribution of the banks' shareholders) and in Greece (with the private sector involvement, including the Cypriot banks and investors...). What is radically new in the Cyprus case is the initial idea to ask all bank account owners to

contribute financially to the rescue plan: this was a psychological and economic mistake, which has finally been corrected after the refusal of the Cypriot parliament. This mistake and, more generally, the content of the plan adopted to help Cyprus, could affect negatively the growth prospects of the eurozone if the European citizens and the financial markets were to believe that such a plan could be used again in other countries, and that it's not linked to the very specific situation of Cyprus.

3. The U.S.A. chose another model and saved the financial system with plenty of public money. This model seems to work. Is the eurozone taking risks with a new model, with uncertain outcome?

Let me first underline that the USA have made two dramatic errors: first by developing the sub-primes market; second by not preventing the failure of the Lehman Brothers bank... They then chose to use public money to finance their bailout plan, as in Ireland. This is quite unfair, because it leads all tax payers, whatever their wealth, to pay for mistakes they have not made – the Irish people is quite angry about it. This option is even more difficult to accept in a European context, where the public money used come from other countries. The governments concerned then have to choose between two risks: an economic one, if the bailout plan adopted is not efficient; but also a political one, given the more or less substantial reluctance of their citizens to bail out their neighbours. The European authorities are then a bit in the situation of Ulysses trying to sail between Charybdis and Scylla...

4. Do you see effects on other countries with large banking systems, such as Malta and Luxembourg?

There is certainly a temptation, at least in certain capitals or populations, to fight against the countries whose wealth is based on an overwhelming financial sector.

But in normal times, it's not easy to obtain substantial reforms from their part, because they want to protect the competitive advantage they managed to build, as part of a strategy compensating their small size and their location. The problem with Cyprus is that it has lost de facto its sovereignty, as it absolutely needed the aid of other member states: it was then compelled to establish an "IMF style" relation with them, and has then to comply with the conditions set to grant this aid. This is not the case of countries such as Malta and Luxembourg, which may continue to preserve more easily their economic model, even if there will be more political pressure on them.

5. Cyprus has remained desperately alone the last ten days. A lot of people in Cyprus said that the Europe behaved vindictively. Where is the solidarity? The euro project is not any more a political project, but turn to a strictly economic project, with the rich countries of the North to put all the rules?

In Cyprus, there is no solidarity from the United Kingdom or from non-eurozone countries; no solidarity either from the Russian authorities, as they refused to lend more money than the 2.5 billion euro plan they had already granted to Nicosia. On the contrary, there is a real solidarity from the eurozone countries, which will lend 9 billion euro to Cyprus, after having already lent more than 300 billion euro to Greece, Ireland and Portugal. Nevertheless, this solidarity is far from being romantic: it relies on precise conditions, defined

by "memorandum of understanding", which are very intrusive. It's true than the EU then wears a new mask, the one of the Troika, acting alongside and as the IMF, which is not popular and will never be... The fact that many lenders countries are from the North of Europe increases the antagonism of the situation. It is mainly due to material reasons: they lend the money, so they can influence its use. But when cultural reasons are mentioned, often based on stereotypes, it can indeed become dangerous for the EU cohesion.

6. France, the second economy of eurozone seems to have more power to be a key player in Africa, than in Europe. Is this dangerous for the Europe?

It's true than France is less influent at the moment at the eurozone level, because its credibility has been weakened during the last decade, given it persistent budgetary excesses and its competitiveness problems. The fact that François Hollande is a social democrat President in a eurozone where conservative leaders are dominant also plays a role in France's difficulty to impose its views. This situation is not optimal for the EU, whose decisions are better balanced and consensual when they are shaped by France and Germany on an equal footing, as well as by the contribution of the EU institutions and some other key countries. But it will take time to restore the balance between France and Germany on economic matters - whereas on military and diplomatic ones, France remains rather in a position of leadership.