# Cyprus Postmortems: Financial Manipulation Triggers Poverty and Economic Collapse

By Stephen Lendman
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On March 28, Cyrus Mail said banks opened for the first time in almost two weeks. They did so at midday local time. Cypriots face draconian restrictions. How they'll react remains to be seen.

Capital controls limit withdrawals, restrict non-cash transactions, freeze check cashing, and convert checking accounts into fixed-term deposits.

Finance Minister Michalis Sarris "signed into law a temporary decree." It caps cash withdrawals "per person per bank at 300 euros."

It "effectively ban(s) cheques and control(s) cash outflows from the country."

It permits only 1,000 euros per person to travel abroad per trip. Higher amounts require special approval.

Business payments are capped at 5,000 euros per day. Others up to 200,000 euros require approval of a "special four-member committee." Amounts above 200,000 require similar approval.

Distributing company payrolls require supporting documents. They're needed for student tuition and living expenses. They're required to send funds to first degree relatives studying abroad.

Overseas payments or transfers by debit, credit or prepaid cards are allowed up to 5,000 euros per month per person per bank.

The same goes for comparable amounts overseas by debit, credit or prepaid cards.

"Other payments or transfer of funds require the prior approval of the committee, taking into account the liquidity buffer situation of each credit institution in question."

It won't "be possible to prematurely break fixed-term deposits unless the funds are used to repay a loan within the same bank."

As long as capital controls remain, when fixed deposits mature, depositors "will only have access to either 5,000 euros or 10 per cent of the total, depending which is higher."

They're required to "put that amount either in a current account or a new fixed-term deposit in the same bank, depending on his (or her) choice." Residual amounts will be kept in the original deposit an extra month.

Financial transactions, payments or transfers not finalized before controls were instituted are subject to the same restrictions.

Banks are warned not to “execute cashless transfers that facilitate the circumvention of the restrictive measures.” They apply to all accounts, payments and transfers regardless of currency.

Exemptions include:

new funds transferred from abroad;

cash withdrawals or checks cashed from foreign institutions abroad;

committee-authorized payments; and

cash withdrawals from accounts banks held with Cyprus’ Central Bank, the Cyprus Republic, and Central Bank operations.

Central Bank internal audit head, Yiangos Demetriou, said measures in place will be reviewed after four days.

Expect no loosening any time soon. Whether clever lawyers and accountants find innovative exits remains to be seen.

Ahead of reopening, “truck loads of euro notes arrived at the Central Bank in Nicosia.” They came “under heavy police escort.” Helicopters hovered overhead.

Cash will be distributed among Cypriot commercial banks and cooperatives.

Depositors be warned. Eurozone banking is irrevocably broken. Bank-held deposits no longer are safe. Eurocrat diktats can be imposed anywhere.

Economics Nobel Prize recipient Christopher Pissarides said “Cyprus finds not all nations are equal.”

He came home end of January. He helped President Nicos Anastasiades’ campaign. He didn’t expect what happened.

The way Eurocrats treated Cyprus “shows that far from the currency bloc acting as a partnership of equals, it is a disjointed group of countries where the national interests of the big nations stand higher than the interests of the whole.”

“Meanwhile, the haphazard decision-making in the eurogroup continues.” It reached “a new low.”

It “casts serious doubts on the ability of this group to make the decisions to push Europe forward to financial stability and economic growth.”

Nicosia looks “eerie.” Streets are deserted. People are glued to television for late news. “There is total desperation. The smiles have gone. Nothing like this ever happened before.”

Stories circulate about wealthy Russians and others getting overseas calls to move assets and businesses there.

> "The future is indeed bleak. It is not clear what is coming next and from where."

The Daily Telegraph's international business editor, Ambrose Evans-Pritchard, headlined "Cyprus has finally killed myth that EMU (EU Economic and Monetary Union) is benign."

> "The punishment regime imposed on Cyprus is a trick against everybody involved in this squalid saga, against the Cypriot people and the German people, against savers and creditors. All are being deceived."

It's not a bailout. Cyprus gets no debt relief. A potential "economic death spiral" looms.

Capital controls "shattered" EMU monetary unity.

> "A Cypriot euro is no longer a core euro. We wait to hear the first stories of shops across Europe refusing to accept euro notes issued by Cyprus, with a G in the serial number."

Violating insured bank deposit security means anyone's money can be stolen. It'll happen if creditor state leaders think doing so's in their best interests.

"Monetary union has become a danger to property." Eurogroup chief Jeroen Dijsselbloem calls it a template for future EMU rescues. "(U)ninsured deposit holders" can expect eventual haircuts.

The "Dijssel Bomb" confirms creditor powers. They'll impose them "if push ever comes to shove."

At the same time, "the German bloc (lies) about the real cost of holding the euro together. The accord pretends to shield" EMU creditor states' taxpayers from future losses.

The cost of Cyprus' new credit line shifts to the ECB. It "will have to offset the slow-motion (Cypriot) bank run with its Emergency Liquidity Assistance (ELA)."

It's likely to be a large amount. Much will show up on the Bundesbank's balance sheet and its peers. It'll do so "through the ECB's Target2 payment nexus."

Money "will leak out of Cyprus unless (Eurocrats) encircle the island with razor wire."

According to Jeffries' Marchel Alexandrovich:

"In saving 5.8 billion euros, "the other euro area countries will likely be on the hook for four to five times more in contingent liabilities."

"But, of course, the former represents real money that gives politicians a headache; the latter is monopoly central bank money."

Ahead of Germany's September elections, Angela Merkel "will do anything (to) disguise the true cost of the EMU project."

Paul Krugman says "Cyprus should leave the euro. Staying in means an incredibly severe depression."

Normura’s Dimitris Drakopoulos believes no one knows what’s coming. “The economy could go into a free fall.”

Cyprus lost its core industry. Its assets equal eight times GDP. Nothing’s there to replace it. Tourism won’t work.

EMU membership made it “shockingly expensive.” Prospective tourists won’t know what to expect on arrival.

Seizing money irresponsibly “was an act of state madness.” What happened shows EMU went “off the rails.” Stability’s endangered. It “should be dismantled before it destroys Europe’s post-war order.”

Southern European countries have their own crises. Their “denouement will arrive when (they) conclude that recovery is a false promise (and) break free of EMU’s contradictory regime.”

Economist Yanis Varoufakis addressed “The Good, the Bad and the Extremely Ugly (Aspects of the Cyprus Deal).”

The latter two way outweigh the former. “The Memorandum of Understanding” hasn’t been presented. The “deal is utterly incomplete.”

It’s unknown “what degree and type of austerity will be imposed upon a collapsing social economy.” It’s almost certain to be “an austerian package bound to crush weaker Cypriots….”

Wiping out foreign depositors will devastate Cypriot banking and tourism.

Transferring 9 billion of ELA money from Laiki Bank to the Bank of Cyprus “flies in the face of basic banking resolution principles.” Doing so reflects Eurocrat tyranny.

It’s unclear how capital controls will be implemented. It’s uncertain they’ll work. Cypriot euros are no longer exportable. Restricting them to Cyprus flies in the face of monetary union.

Eurocrat demands are “exceptionally ugly.” They jeopardized sacrosanct deposit insurance guarantees. They compromised Eurozone integrity.

They “sacrifice(d) the (EU’s) single market principle according to which capital controls are” verboten.

The ugliest part of the deal exposes the illusion of “genuine Eurozone-wide banking union.” Dijsselbloem said so in no uncertain terms.

> “The combination of (a) the denial of the need to effect public debt consolidation, (b) the derailing of a meaningful banking union and (c) the heavy-handedness with which Cyprus was treated over the past week, spell a new, uglier, state of affairs in Europe.”

Eurocrats spurned unifying moves. They chose authoritarian/divisive ones instead. Doing so pushes Eurozone countries “in precisely the opposite direction to that dictated by political and economic sustainability.”

"I would not be surprised" if what happened doesn't reflect "a major turning point." It may become "the moment in history when Europe moved beyond the pale."

It might have been worse. Cyprus state broadcaster CyBC said German Finance Minister Wolfgang Schaeuble proposed a 40% haircut on all deposits.

IMF managing director Christine Lagarde concurred. On March 26, Cypriot Finance Minister Michalis Sarris said large uninsured Laiki Bank depositors could lose up to 80% of their money.

"Realistically," he added, "very little will be returned."

Euro expert Bernard Connolly looks prescient. Before its introduction, he predicted the euro's failure. He called it a hairbrained idea doomed to fail.

He said one or more of Europe's weakest countries would face rising deficits, troubled economies, and a "downward spiral from which there is no escape unaided. When that happens, the country concerned will be faced with a risk of sovereign default."

It only remains for it to happen. Expect perhaps eventual EMU collapse.

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*His new book is titled "Banker Occupation: Waging Financial War on Humanity."*

*http://www.claritypress.com/LendmanII.html*

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