Grand Theft Cyprus: “Deadly Economic Medicine”

By [Stephen Lendman]
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Hit ’em again harder is policy. Cyprus is Exhibit A. It’s pound of flesh demanded got greater. “Could it possibly get any worse,” headlined Cyprus Mail?”

Weeks after agreeing to Eurocrat terms, six billion more euros are demanded. A leaked European Commission “Assessment of the public debt sustainability of Cyprus” report revealed it.

At issue are “needs for the recapitalization of the banking sector, the redemption of maturing medium and longterm debt, including loans and fiscal needs,” it said.

Another 600 million euros will be raised through higher corporate taxes. Gold reserves sales may raise another 400 million. Eurocrats demand they be sold. Their public debt sustainability report mandates it. Clause 29 states:

> “Sale of excess gold reserves: The Cypriot authorities have committed to sell the excess amount of gold reserves owned by the Republic. This is estimated to generate one-off revenues to the state of 400 (million euros) via an extraordinary payout of central bank profits.”

Privatizations and privately held debt rollovers will raise more cash. How much remains to be seen.

Cypriots are learning the hard way. Eurozone straightjacket rules entrap them. One size fits all doesn’t work. Losing control of monetary and fiscal policy assures disaster. It’s just a matter of time. It’s hitting Cypriots full-force.

The original 17 billion bailout rose to 23 billion. It exceeds economic output. It’s unheard of. According to Eurasia Group group director Mujtaba Rahman:

“There are absolutely no winners from the Cyprus agreement. Every major country and institutional constituency has been hurt, creating the potential for even more toxic and difficult” conditions ahead.

Cypriot officials have to raise more cash than expected. Eurocrats agreed to a nine billion euro bailout. IMF terms add another billion.

Cyprus has to raise 13 billion. It’s over double the original amount. Depositors will bear most of the burden. They’re already hit hard. Those with over 100,000 euros stand to lose 60% or more of their savings. Some may lose everything.

Small depositors are protected. At least they are so far. Perhaps not going forward. Accounts of all sizes are vulnerable. Bailout terms override promises. They're made and broken.

London's Guardian explained more. Cyprus has to contribute to its own bailout. It's entirely responsible for bearing the extra cost.

Cypriot parliament's president, Yannakis Omirou, said:

"Instead of solidarity from our European partners, we have been served poison."

It's more than originally agreed. Expect more demands ahead. It usually happens. Black holes get deeper. Ordinary people suffer most.

Cyprus faces protracted Depression. Depositor accounts are being looted. Bail-in terms demand it. Expect pound of flesh amounts to increase. They may do exponentially. Nothing too extreme is off the table.

"We will resist," said main opposition Akel party spokesman Giorgos Doulouka. "Every alternative scenario for the exit of our country from the troika and the memorandum now has to be studied."

"They are eating us alive. What Greece suffered in three years, Cyprus is experiencing in a matter of weeks. All the extra measures that the government will now have to take will be at the expense of ordinary people. It is outrageous."

According to Capital Economics' Johathan Loynes:

> "They don't know where there might be more black holes: I wouldn't be that surprised if there were to be another shock in the next week or so."

Optimistic economic projections are ludicrous. BNY chief currency strategist Simon Derrick said:

"Why would confidence return and make people want to put money into Cyprus? The economy is three things – banking, property and tourism."

> "You're not going to rebuild an offshore banking industry in Cyprus; and in tourism it's competing against Turkey, where the currency is down 50% since mid-2005."

On April 15, Cyprus Mail editors headlined "Bailout is turning into a bottomless pit," saying:

"(J)ust when you thought it could not get any worse," it did. "It's becoming increasingly hard for anyone to figure out what the real facts are other than the certainty that we are in a worse mess than anyone could possibly have imagined."

> "It is probably too much to ask that the 'government of change' come clean and tell the people who have been robbed of their money, jobs, and standard of living what is really going on, how much money is really needed, and how this will affect their lives."

President Nicos Anastasiade says don't worry. Everything will be all right. He's "delusional." He's "lying through his teeth."

People are sick and tired of political rhetoric. They're living "on a cloud of natural gas." They suffocating. They may end up "donat(ing a kidney." They've got "nothing else left to give."

London-based fund manager [Pawel Morski] calls Cyprus' situation "a brutal lesson in realpolitik." Expect it economic black hole to deepen.

A stroke of the pen shrunk its banking sector. It did so "by a deft combination of taking people's money and stripping the Greek operations (120% of Cypriot GDP) out and selling them to Pireaus."

"Given that the Greek operations were to a significant degree responsible for the disastrous GGB trades that wiped out the banks, and given that Pireaus stock rallied sharply afterwards, the Cypriots find themselves in the position of the Blackadder character who not only had a relative murdered, but had to pay to have the blood washed out of the murderer's shirt."

Naked Capitalism's Yves Smith believes uninsured Laiki Bank and Bank of Cyprus depositors will lose everything. Perhaps insured ones come next.

Bail-ins are the new normal. Bank accounts are low-hanging fruit. They're easy pickings. Expect Eurocrats and their Western counterparts to take full advantage.

Financial wars take no prisoners. Ordinary people are easy prey. They're ripe targets. Force-fed austerity harms them. Perhaps looting their bank accounts come next.

A Final Comment

Bad solutions substitute for good ones. Troubled Eurozone countries prove doing the wrong thing assures disaster.

Greece teeters on collapse. Its unemployment hit a fresh high. It tops 27%. Youth unemployment approaches 60%. Its agony reflects what's spreading.

In December 2001, troubled Argentina abandoned politico-economic orthodoxy. It defied its creditors. It addressed its duress responsibly. It halted all debt payments. Domestic and foreign creditors were affected.

An earlier IMF loan made things worse, not better. Nearly $100 billion in debt was restructured. It was completed in 2005. It was done on a take it or leave it basis.

Bondholders took stiff haircuts. Most agreed. They decided something was better than nothing. In 2010, most holdouts capitulated. They did so on similar terms.

Sustained economic growth followed. So did currency stabilization. Jobs were created. Unemployment fell. Exports increased. Investors returned. IMF debt was repaid. Debt restructuring and a devalued currency helped. Doing the right thing matters most.

Troubled Eurozone countries can relieve their debt burdens the same way. Doing so lets them reclaim their sovereignty. They'll be able to reissue their own currencies. They never should have abandoned them in the first place. It's not too late to go back.

Stephen Lendman *lives in Chicago. He can be reached at lendmanstephen@sbcglobal.net.*

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

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

Visit his blog site at sjlendman.blogspot.com.

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Articles by: **Stephen Lendman**

About the author:

Stephen Lendman lives in Chicago. He can be reached at lendmanstephen@sbcglobal.net. His new book as editor and contributor is titled "Flashpoint in Ukraine: US Drive for Hegemony Risks WW III." http://www.claritypress.com/LendmanIII.html Visit his blog site at sjlendman.blogspot.com. Listen to cutting-edge discussions with distinguished guests on the Progressive Radio News Hour on the Progressive Radio Network. It airs three times weekly: live on Sundays at 1PM Central time plus two prerecorded archived programs.