Cyprus - One Year On

By ***Michael Damianos**** of Michael Damianos & CO LLC Cyprus Lawyer, Solicitor of the Supreme Court of England and Wales, Council Member of the Strovolos Municipality

It has now been a bit over a year since the March 2013 Eurogroup decision to impose unprecedented economic conditions on Cyprus in order for it to obtain a euro 10 billion bailout. A year on, unemployment in the country is at record levels, food banks have sprung up, retail trade has shrank, manufacturing production fell, and obviously so has the country's GDP.

As far as the banking sector is concerned, the bail-out conditions included the winding down of Laiki Bank with uninsured deposits of over euro 100,000 being wiped out, and the bail-in of the Bank of Cyprus with uninsured deposits of over euro 100,000 being slashed by 47.5% in exchange for shares in the same bank. Billions of euros in Laiki Bank were wiped out overnight and billions of euros in the Bank of Cyprus were turned into shares.

The obvious lack of confidence in the banking sector has also resulted in people withdrawing funds from their bank accounts and there has not been a further bank collapse simply due to the restrictive measures imposed by the government on more or less all types of cash withdrawals and bank transfers. Cyprus banks now have billions of euros more outstanding loans than deposits in their books. Non-performing loans have increased rapidly and with the economy and property market falling, this means that they will keep increasing and that the bank collateral will shrink further. Short of cash and in need to deal with the non-performing loans, banks are, and will keep being, extremely stingy on new loans, depriving the market of badly-needed liquidity. Restoring confidence in the banking sector in order to attract foreign investors and get savers to re-deposit funds with Cypriot banks won't be an easy task and won't happen overnight. Banks won't, therefore, soon be able to provide liquidity to the economy.

Despite the above, it is not all bad news. The general perception, both in Cyprus and in the EU, is that the Cyprus economy has proved to be more resilient than expected. Tourism in 2013 did rise and we are looking at a busy summer ahead (provided that the events in Ukraine do not heavily affect this). Foreign businesses do not seem to have fled the country, despite such initial fears. It could, therefore, be the case that Cyprus could, sooner than expected, commence its recovery. In order for the country, however, to commence its recovery, badly-needed liquidity needs to be injected in the economy, mainly through foreign investment due to the condition of the banking sector. The imposed by the Troika de-nationalization of certain profit-making state-owned enterprises may be the start for foreign funds to be injected into the economy.

The government will, however, need to do much more in order to attract foreign investment, and foreign investment can only be attracted through incentives. This is surely something that the government is working on and it is trusted that it will sooner rather than later lead to the commencement of the Cyprus economy's recovery.

*** Michael Damianos** is a lawyer practicing in Cyprus since 2008, but qualified in both Cyprus and England & Wales (as a solicitor). Before practicing in Cyprus he qualified as a solicitor at the London office of Simmons & Simmons and then moved on to the London office of Lovells LLP (now Hogan Lovells), working for the then Energy, Power, Utilities and Infrastructure department. His main areas of practice in Cyprus are international and local mergers and acquisitions, general corporate and commercial work, fiduciary and trust services, energy/projects, real estate, banking and capital markets.

Find him at : http://damianoslaw.com | Michael@damianoslaw.com