

Cyprus crisis: a financial and energetic challenge for EU and Turkey

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5 Apr 2013

The conclusions of April 2012

■ What to do

- Monetary and fiscal policies have to deliver macroeconomic stability.
- An environment made of expectations firmly anchored to price stability and moderate taxation rate and low degree of volatility of economic activity. In such an environment confidence of consumers, investors and entrepreneurs keeps high and stable.
- Competition, free trade, smooth working of market mechanisms., as road to growth.
- Growth generated in the private sector, not by state interventions.
- Policies granting economic freedom. More economic freedom leads to more growth and more welfare.

The 2013 economic conditions in Eurone

- Unemployment rate: 12% in February 2013 on rise from 10.9 in February 2012; 12% in 2013 and 2014.
- GDP rate of growth: -0.9% last quarter 2012 on same quarter of the previous year; -0.3 2013, 1.4 in 2014;
- Inflation: 1.7% in March 2013, down from 2.7% in march 2012; 1.8 in 2013 and 1.5 in 2014;

- Public deficit: -4.1 (2011); -3.5% ; - 2.8 (2013); -2.7 (2014)
- Cyclically Adjusted public deficit: -2.4 (2012);-1.3 (2013) -1.6 (2014)
- Public debt: 90% third quarter of 2012,
- Public debt forecasts: 93.1 (2012); 95.1 (2013) 95.2 (2014)
- Trend of European spreads: declining over the past 12 month (April12 to April: Ireland 600 down to 300; Portugal 1000 down to 520; Spain 650 (July 12) down to 380; Italy 500 (July 12) down to 250 (January 13) and **up** to 350.
- Why? Effects of European economic governance?

What Europe needs for growth

- Fiscal discipline cannot bring growth. But creates the appropriate environment for growth;
- Fiscal imbalances affects negatively private enterprises. Interest rates, delay in payments (case of Italy)
- Growing dissatisfaction in Eurozone with fiscal discipline;
- Do we go towards a German Europe?
- The European banking union: supervision, resolution, deposit insurance.
- European leaders and growth measures. Public works...and taxes.
- The British voice....the SEM.

The case for Greek Cyprus

The economy (1)

- The economy: 2011, billion euro
- GDP 17.9
- Private Cons. 11.9
- Government 3.6
- Investments 2.9
- Exports 7.6
- Imports 8.2

- Eurozone GDP 2011 9,421 billion euro
- Turkey GDP 2011 555 billion euro

The case for Greek Cyprus

The economy (2)

	11	12	13	14
■ GDP growth	0,5	-2,3	-3,5	-1,3
■ Inflation	3,5	3,1	1,5	1,4
■ Unemployment	7,9	12,1	13,7	14,2
■ Public budget balance	-6,3	-5,5	-4,5	-3,8
■ Current account balance	-4,2	-6,0	-1,7	0,1
■ Public Debt	71	86	93	97

The case for Greek Cyprus

The banking crisis

- The original sin: the lack of banking supervision in EMU.
- The banking supervision in the Treaty: Article 127 on ECB
- The ESCB shall contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system.
- The Council, acting by means of regulations in accordance with a **special legislative procedure**, may **unanimously**, and after consulting the European Parliament and the European Central Bank, confer specific tasks upon the ECB concerning policies relating to the prudential supervision of credit institutions [...]

The case for Greek Cyprus

The banking crisis

- The unintended consequences of the lack of banking supervision. Moral hazard.
- The more the controller is far the more difficult is capturing it.
- External and internal causes of the crisis.
- External causes: inflow of capitals made the Country over-banked. Need to downsize the sector.
- Corruption (money laundering, cancellation of debts) and unproductive public expenditures (defense)
- Internal: moral hazard + free rider
- The reform of private and public finance.

The case for Greek Cyprus

The banking crisis

- The reaction of the EU Institutions: Commission, Eurogroup, Ecb.
- The reaction of the markets.
- “Bail out” versus “bail in”, both undermine confidence.
- Getting out of the euro?
- Need of market oriented reforms.

The case for Greek Cyprus

The energy crisis

- The intersections between banking and gas.
- The Turkish reaction.
- Reunification versus “two countries”
- The solution: integration

