



Written by [Bob Adelman](#) on March 25, 2013

Cyprus Deal Turns Bank Depositors into Lenders, Abolishes National Sovereignty

Late Sunday night the president of Cyprus, Nicos Anastasiades, was officially informed of [the deal](#) the unelected Eurogroup had come up with in order for Cyprus to receive its bailout from the European Central Bank. Anastasiades [flew to Brussels on Sunday](#) to meet with Mario Draghi, the president of the European Central Bank (ECB), Christine Lagarde, the managing director of the International Monetary Fund (IMF), and José Barroso, the president of the European Commission (EC). The meeting was run by Herman Van Rompuy, the president of the European Council. On his way to the meeting, Anastasiades admitted that “the situation is very difficult.”



That was an understatement. Once the details were explained to Anastasiades, the Eurogroup — consisting of unelected finance ministers from each country that uses the euro, and headed by another unelected bureaucrat, Jeroen Dijsselbloem — issued a statement of unanimity:

The Eurogroup has reached an agreement with the Cypriot authorities on the key elements necessary for a future macroeconomic adjustment program. This agreement is supported by all euro area Member States as well as the three institutions.

The details were ugly. There will first of all be a “downsizing of the [country’s] financial sector” by theft of part of every account over roughly \$130,000 (€100,000) in Cyprus’ two largest banks, the Bank of Cyprus and the Cyprus Popular Bank (the Laiki Bank), which hold half of all bank deposits in the country. Any amount above \$130,000 will make a “contribution” to the deal amounting to an estimated 20 percent while those accounts held in Cyprus’ other 26 banks will be nicked four percent. The Cyprus Popular Bank will be liquidated and accounts \$130,000 or smaller will be transferred to the Bank of Cyprus. Accounts over \$130,000 will disappear along with any investors’ bonds in that bank. The country’s capital gains tax rate will be increased along with corporate income tax rates.

Said “downsizing” was exacerbated by Anastasiades telling his friends what was coming on Thursday and to get their money out before the deal was announced. [According to the Daily Mail](#), within the next 48 hours some \$6 billion of foreign deposits (estimated to be between \$20 and \$40 billion) was transferred out of the country, leaving a banking system weakened by haircuts already suffered due to the Greek financial crisis teetering on the edge.

Anticipating that once the banks were opened small depositors would be taking their money out as well, the deal kept the remaining banks closed indefinitely, limiting depositors just \$130 maximum daily withdrawals from their accounts through ATM machines.

And a new term was introduced into the lexicon of the day: “bail-in.” A bail-in occurs when the contract



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terms of a bond are unilaterally and illegally changed by an outside illegal and unelected body so that the bond holder who normally would stand at the head of the line in a bankruptcy gets to “contribute” part of his investment to save the bank in which he invested. In essence it’s a forced haircut.

The statement was full of praise for the willingness of the Cyprus government and its president to go along with the ultimatum: “Together with the decisions taken by Cyprus, this results in a fully financed program which will allow Cyprus’ public debt to remain on a sustainable path.”

Lipstick in generous quantities was applied to the robbery. First, [Dijsselbloem said](#), “We’ve put an end to the uncertainty that affected Cyprus and the euro area over the last few days. The Laiki bank will have to be dissolved so yes, senior bond holders, along with the others, will basically be wiped out there.” But they aren’t the only ones “contributing” to the rescue. Added Dijsselbloem, “The contribution to this recapitalization must come, inevitably, from senior bondholders, junior bondholders, shareholders and ... uninsured depositors.”

Said Lagarde, the deal is “a comprehensive and credible plan to deal with the current economic challenges in the country ... this will form a lasting, durable and fully financed solution.”

The finance minister from Ireland, one of the thieves on Dijsselbloem’s committee, [said](#), “We would never hit depositors in Ireland [like we just did in Cyprus].... We believe the \$130,000 [insured limit for depositors] is absolutely sacrosanct and there is absolutely no circumstance in which we would touch depositors because they are guaranteed and that guarantee applies across the euro zone.” Barroso added, “I am confident that the program will work.”

The precedent has been established, despite protestations to the contrary. The Rubicon has been crossed and bondholders and depositors will no longer trust the banks in Cyprus or in the eurozone.

Mats Persson [called the precedent risky](#):

The Eurozone set a risky precedent when it decided to go for depositors. Images of long queues outside ATMs will have registered in other parts of the Mediterranean. If Cypriot depositors are forced to pay today, why not Spaniards tomorrow?...

Events in Cyprus have shown just what a high-risk gamble the euro was....

If you could design a system whereby a splinter could take down an elephant, this would be it.

The deal announced Sunday night by the Eurogroup and applauded by its connivers failed to mention the single biggest cost of all. Depositors are losing their money, bondholders are getting forced haircuts, banks are being closed leaving thousands out of work, and the wealthy are being hit again through higher capital gains taxes and higher corporate taxes. But the biggest cost of all is the loss of national sovereignty, where an unelected gaggle of bureaucrats can come in and dictate the terms of a bailout to a once-sovereign nation, all in the name of saving the banks. It’s the banks, always the banks, forever the banks, no matter what the real cost is.

Photo of students holding placards in a parade in Cyprus March 25: AP Images

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