

Bank restrictions on capital 'very temporary' says Cyprus president

Step follows last-minute €10bn deal to avoid financial meltdown on island

 Pictures  Video

Irish Times Reporters

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Cyprus is introducing "very temporary" restrictions on capital flows when banks reopen this week, the island's president has said, seeking to reassure panicked Cypriots that a bailout deal struck overnight was in their best interests.

The step follows a last-ditch deal with international lenders on a €10 billion rescue plan to avoid economic meltdown, with Cyprus agreeing to close down its second-largest bank and inflict heavy losses on big depositors.

Without an agreement, Cyprus had faced certain banking collapse today and potential exit from the European single currency. It still risks a run on banks when they reopen their doors this week. The two biggest institutions stay shut until Thursday, but the rest will be open from tomorrow.

"The agreement that we reached is difficult but, under the circumstances, the best that we could achieve," newly elected conservative head of state Nicos Anastasiades said in a televised address to the nation on his return from fraught negotiations with the European Union, European Central Bank and International Monetary Fund in Brussels.

He said the Cypriot central bank would implement capital controls on bank transactions, anticipating a run on deposits by Cypriots and foreigners fearing for the safety of their money.

But the president added: "I want to assure you that this will be a very temporary measure that will gradually be relaxed."

Many larger investors face steep losses they cannot avoid.

Backed by euro zone finance ministers, the bailout plan will spare the Mediterranean island a financial catastrophe by winding down the largely state-owned Popular Bank of Cyprus, also known as Laiki, and shifting deposits of less than €100,000 to the Bank of Cyprus to create a "good bank", leaving problems behind in a "bad bank".

Deposits above €100,000 in both banks, which are not guaranteed by the state under EU law, will be frozen and used to resolve Laiki's debts and recapitalise the Bank of Cyprus, the island's biggest, through a deposit/equity conversion.

Uninsured depositors

The raid on uninsured Laiki depositors is expected to raise €4.2 billion, euro group chairman Jeroen Dijsselbloem said.

Laiki will effectively be shuttered, with thousands of job losses. Officials said senior bondholders in Laiki

would be wiped out and those in Bank of Cyprus would have to make a contribution - setting a precedent for the euro zone.

An EU spokesman said no across-the-board levy or tax would be imposed on deposits in Cypriot banks, although the hit on large account holders in the two biggest banks is likely to be far greater than initially planned.



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A first attempt at a deal last week collapsed when the Cypriot parliament rejected a proposed levy on all deposits.

The Central Bank of Cyprus said both Bank of Cyprus and Laiki would remain shut until Thursday, while all other lenders would reopen on Tuesday - just over a week after the government ordered them to close their doors to halt a run on deposits.

In return for the €10 billion package of rescue loans, Cyprus must drastically shrink its outsized banking sector, cut its budget, implement structural reforms and privatise state assets.

Cyprus may impose controls on the movement of capital but only for a temporary period of time, the European Commission said today.

"Any measures to restrict or limit freedom of movement may only be enacted exceptionally and temporarily and that is what has been requested by the Cypriot authorities," Michel Barnier, the European Commissioner responsible for the single market, had told a news conference in Brussels.

European Commission President Jose Manuel Barroso said Cyprus's recovery from its bailout and bank restructuring is uncertain and it is too early to say when economic growth will return.

"I am confident that the programme will work, but let's be honest. At this moment, we cannot say exactly what the impact is going to be," Mr Barroso told a news conference today. "It will depend on the level of implementation and the commitment of Cyprus itself," he said.

Russian president Vladimir Putin earlier instructed his government to negotiate the restructuring of a Russian bailout loan to Cyprus, his spokesman Dmitry Peskov said.

The announcement signals Moscow's support for the deal despite concern that Russian depositors in Cyprus could take losses as a result. Cyprus had requested an extension of an existing €2.5 billion Russian loan, and a reduction in the interest it charges to 2.5 per cent from 4.5 per cent. Talks last week failed to agree on a restructuring.

Minister for Finance Michael Noonan welcomed the deal which he said protected small depositors and reaffirmed the position that all deposits in European banks up to €100,000 were guaranteed.

He said the deal had the unanimous support of the 17 euro zone countries.

The finance ministers accepted the plan reached in 10 hours of negotiations in Brussels between Cypriot officials and the troika.

"We believe that this will form a lasting, durable and fully financed solution," said IMF chief Christine

Lagarde.

Additional reporting Reuters

