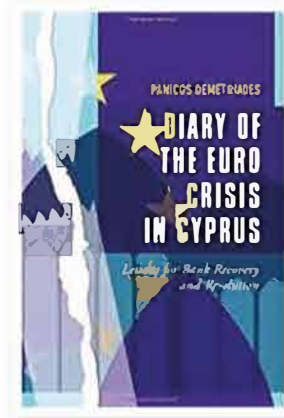


The virtues of tedium



TITLE

A Diary of the Euro Crisis in Cyprus

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Palgrave Macmillan (£25.98)

It will be difficult to put this “diary” down. Part political thriller it tells, from the vantage point of the desk of governor of the Central Bank of Cyprus, how the Cypriot financial crisis of 2012-13 felt. There are many stories that are scarcely believable – such as the one about the loans channelled via monasteries to finance the personal interests of the head of Laiki Bank, or the deep concerns of the Russian authorities about money-laundering – that are nevertheless true. Indeed, the author has shown considerable restraint in not following some of the highways and byways of this extraordinary saga to the murky places where they lead.

There is much serious economics lightly told that explains how Cyprus found itself unable to finance its bloated banking system or its own economy. It also sheds light on how the country fantasised that it had the skill to run a financial empire across eastern Europe. But the heart of the tale is about how the various players addressed the choices that faced them when the economic reality of the flawed and unrealistic ambitions of the past hit. As the subtitle of the book implies, the most crucial choices related to the decision to force the banks to pay for their own bail-out through bail-in, and how those choices shifted over days, or hours even, as the politics played out.

This does not purport to be a history and one longs to know what really happened at those meetings in Brussels, Berlin or Moscow, at which the author was not present, in which the IMF, the ECB, the European Commission and many governments argued and agonised about what was to be done. But that account is for another book. What this diary does tell

us, though, is just how impossibly impractical it is to leave the euro once in, notwithstanding rhetoric to the contrary, and how, like Micawber, politicians can always fool themselves that money will somehow turn up.

It also, as the subtitle suggests, spells out that there are many downsides to bail-ins that have not been carefully constructed, which are often passed over, such as wholly unexpected switches in the ownership of banks to persons who may, or may not, want to own a bank and may, or may not, be fit and proper to do so. It cannot tell us what would have happened if there had been a levy on deposits to keep the banks afloat as was at one stage mooted, but it does provide lessons on how ideas that are simple in theory can get messy in practice.

Most of all it reminds us of the frailty of human nature, of the dangers of greed, ambition, naivety and social capture. Many important people come out of this account badly. We are reminded that strict governance and financial supervision, both in appallingly short supply in this affair, may – despite all their tedium – actually serve a role in protecting the many from the failings of the few. Their absence meant many innocent people were damaged. The Cyprus economy has not collapsed, in part assisted by tourist windfalls, but the financial system remains badly maimed and limping. It seems scarcely believable that half of all loans remain non-performing even four years on.

You might have thought that, in the face of this disaster, the country would, like Ireland, which suffered from many of the same root ills, have taken the lessons to its heart and reinvented itself. Immediately following the crisis, good intentions were expressed at the highest levels. The aim was to move forward with reforms to the structure of the financial system. But this diary comes to an abrupt and dramatic end, which may take the reader by surprise, with nothing undertaken. Politics remained supreme over economics, a chilling reminder that factionalism has enormous cost, wherever it is found. ■

David Green – member, Independent Commission on the Future of the Cyprus Banking Sector 2012-13