

When Money Is Gone: The Death of Cyprus

by Tony Papert

March 31—Under the same treatment being prepared for the U.S. by those U.S. Senators who support “Too Big to Fail” and “ring-fencing” against reintroduction of Franklin Roosevelt’s Glass-Steagall protections, Cyprus’s economy has screeched to a sudden halt, which will only continue and worsen once banks are “re-opened” on April 2,—because firms will have been robbed of all their working capital, while nothing but cash is being accepted for payment throughout the island.

Reporting first-hand from Cyprus’s biggest port at Limassol, the March 30 *Wall Street Journal* shows that the island’s “cargo network has shuddered to a halt.” The *Journal* continues: “‘This is the artery of the economy, and now nothing can move through here, because no one’s sure they’ll get paid,’ dockworker Marios Theodosiou said, as a huge crane moved another steel container into a holding area.

“Many suppliers, wary of accepting letters of credit from Cyprus’s troubled banks, which reopened for business on Thursday [March 28] after being closed for nearly two weeks, have refused to release the containers for anything but cash. The result: Some goods are starting to disappear from shop shelves.... Unable to pay suppliers, many stores have opted to close until things improve.... With perishable goods such as fruit and vegetables running low, some Cypriots have begun to stockpile essentials, such as baby formula, tinned food and olive oil. Almost everyone is trying to hoard cash....

“Meanwhile, unpaid bills—including those for utilities and employee payrolls, many due for payment at the start of April—are stacking up. Some workers here are bracing for a protracted period without a paycheck.”

Watch for a 20% Fall in GDP

A broader evaluation of the damage, undoubtedly understated, was given by U.S. economist Paul Krug-

man in the *New York Times* March 26. He wrote: “If you look at Cyprus’s trade profile, you see just how much damage the country is about to sustain. This is a highly open economy with just two major exports, banking services and tourism—and one of them just disappeared. This would lead to a severe slump on its own. On top of that, the troika is demanding major new austerity, even though the country supposedly has rough primary (non-interest) budget balance. I wouldn’t be surprised to see a 20 percent fall in real GDP.”

What will happen when banks so-called “reopen?” Nothing but more asphyxiation. Reuters says that depositors in the biggest bank, Bank of Cyprus, will lose over 60% of their deposits over EU100,000, and get bank shares “worth” the remaining 37.5%. Depositors in the second-biggest bank, Bank Laiki, which has been liquidated, will lose 80%.

Thus, a large part of the working capital of most businesses will disappear down the drain of bailouts for the bad debts of the financial parasites of Wall Street and the City of London.

But bad as it is, that is still not the worst of it for the Cypriots: none of what remains of the deposits over EU100,000 will be available starting Tuesday, April 2! None of it will be made available at *any* definite time in the future,—if ever!

A 100% Haircut

Thus, a Greek correspondent of Yves Smith at www.nakedcapitalism.com, wrote to her today to say:

“If the Reuters story is correct, for the purposes of liquidity on Tuesday morning, that is a 100% haircut.

“If that is what they do, I am not sure how Cyprus can engage in economic activity on Tuesday without going to barter or scrips.

“I mean, that basically will mean 100% of the large deposits (all the business accounts) at Laiki and BoC are lost or not available as of next week. The Laiki wipe-out may have been survivable. If you wipe out (for liquidity purposes at least), both Laiki and BoC, then we are not talking about whether or not GDP drops X%, we are talking about how do you actually engage in commerce?

“If they do this, there is little chance it can last more than a month—the economy will simply fail at even basic functions.”