DOHA DATELINE
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Cyprus bailout sets new precedent

CYPRUS HAD TO enter into an 11th-hour bailout deal in March in which investors with more than €100,000 had to take losses that may amount to 30-40 per cent of their deposits. The bailout deal would enable them to secure a bailout of €10 billion from the troika of the European Commission, European Central Bank and the International Monetary Fund. All bank deposits under €100,000 will be secured and guaranteed by the state. One of the largest banks in Cyprus, Laiki Bank, was restructured by splitting off its troubled assets into a bad bank. Accounts with no problems would be transferred to the nation's largest financial institution, the Bank of Cyprus.

Earlier, Cyprus' parliament brought forward further bills to meet the total target of €5.8 billion. Lawmakers in Cyprus passed legislation to impose capital controls on its banks and create a "solidarity fund" to pool state assets. Cypriot banks were shut for more than a week while the government worked out the bailout and were closed to prevent a run and then reopened. The Cyprus bailout last month has once again revived the fears of euro crisis.

The original bailout scheme that was proposed earlier envisaged a one-off levy of 6.75 per cent on deposits of less than €100,000 and of 9.9 per cent on larger deposits, which caused outrage in Cyprus. The decision to tax uninsured deposits came after Cyprus proposed nationalising the pension funds of state-owned Cypriot companies that was rejected by troika inspectors.

As the Cyprus bailout negotiations were underway, Greece also struck a deal to have one of its biggest lenders, Piraeus Bank, take over the Greek branches of Cyprus' main banks, Bank of Cyprus and Cyprus Popular Bank. This move was meant to relieve Cyprus of the cost of supporting those units, while ensuring that Greek savers in those banks would be insulated from whatever new bailout terms might be struck. It also helps shield Greek banks from the Cyprus crisis and allows Cyprus to shrink its bloated banking sector.

Ratings agencies also had to review the ratings on the Cyprus economy and banking sector on the account of recent bailout developments. S&P downgraded the rating of Cyprus from CCC+ to CCC, and warned the outlook for the rating was negative. Moody's Investors Service downgraded its ratings of Bank of Cyprus, Cyprus Popular Bank and Hellenic Bank by one notch, on expectations of material losses for bank depositors amid serious problems in Cyprus' banking sector.

Cyprus is actually the leading source of foreign investments into Russia. For years, Russian firms, both private and state-run, have been using Cyprus as a tax haven. The economy is expected to shrink sharply as offshore banking is effectively shut down. It has also given a warning that parking money in offshore havens is at risk. Earlier, tax-payers and investors holding government securities had supported bailouts, however this is the first time the euro currency bloc has tapped savers' accounts to help pay for a bailout. Hence, a new precedent has emerged out of the Cyprus bailout for future deals with financially troubled countries.

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