

## Cyprus is the latest casualty of Germany's 'one size fits all' solution to the Eurozone crisis.

by Blog Admin

*On Tuesday the Cypriot parliament rejected an international bailout deal aimed at keeping the country's struggling banks afloat. The most controversial part of the agreement was a proposed €5.8 billion deposit levy on Cypriot bank deposits. **Adonis Pegasiou** writes that the agreement, pushed for by Germany, may create a precedent that will see a fall in confidence in other countries in Southern Europe. He argues that the measure shows that Germany should not be allowed to impose its desired solutions on struggling European economies.*



The latest proposal of the Eurogroup, regarding the bail out of Cyprus has caused unprecedented unrest that has not been limited to the national or even the European level. The essence of the proposal is for Cyprus to contribute a third of the overall €17 billion financial assistance required via a haircut in depositors' money, including even the average account holder whose deposits do not exceed €100,000 (i.e. violating the guarantee offered to them in case of bank failure) . In the last Eurogroup meeting, the German finance minister, Wolfgang Schäuble, with the backing of his northern allies and with the blessing of those countries possibly envying Cyprus's success as an international financial centre, cold-bloodedly blackmailed Cypriot officials with a 'take it or leave it' deal. Cypriot officials, though accused by some domestically for their negotiation strategy, at the end of the day had to decide within minutes on accepting a wide haircut on deposits (a red line for Cypriot negotiators, even considered to be a 'stupid idea' by the Finance Minister) otherwise the island's second largest commercial bank would be instantly refused further emergency liquidity assistance and essentially be left to collapse, possibly taking down with it the whole economy.

The proposal of the Eurogroup echoes greatly the infamous 'golden rule', i.e. the one who has the gold makes the rules. Germany, being the leading economic power in the EU, with the support of other northern European countries that aspire to its successful export-led economic growth model, has been the country effectively setting the guidelines for EU members in need of financial assistance. Far from the European ideals which respect and promote solidarity among the European people, Germany has stubbornly refused any attempt to acknowledge the particularities of the economic growth models of South European countries in financial need (Greece and Portugal have already felt the 'Troika effect', while Spain and Italy have also been in a precarious position for some time now) and has instead tried to enforce its own policy remedies in a 'one-size fits all' manner, without foreseeing the likely dramatic consequences of such action. Ironically, Germany has benefited greatly from sharing a common currency with these countries, which has enhanced trading and allowed the country to accumulate an astonishing trade surplus.

Specifically for the case of Cyprus, it has been evident that Germany, led by its uninspiring political elite (Chancellor Angela Merkel and Wolfgang Schäuble), has eyed Cyprus's economic growth model linked to its establishment as a financial centre and, deliberately or not, has initiated a process of bringing it to an



abrupt end. The knock-on effects from this unprecedented decision targeting bank depositors cannot be calculated precisely and what many fear is that such decisions may fuel a vicious circle of economic recession from which Cyprus cannot – and will not – escape easily. Even more, fears of creating a precedent and a possible repeat of such action in other suffering South European states has further exacerbated panic, unrest and uncertainty which essentially put at risk growth prospects in these countries as well. Germany has once again been short-sighted in proposing solutions that do not consider if and how a country's economic growth model can adjust, but which instead simply aim at getting the maths correct over public debt calculations.

Undoubtedly, those states in need of financial aid have to take certain specific painful measures and adjust accordingly their growth models, taking into consideration errors and inefficient practices of the past that urgently need reform. Yet one needs to place the proposed measures within the right context, weighing, on the one hand, the argument that the rescue aid is based on European tax payers' money that cannot be spent light-heartedly and, on the other, the necessity of not eliminating any future growth potential for the recipient country. Germany, being the leading power and contributing the most to the European Stability Mechanism, certainly should have a strong say in the rescue packages discussed, but it cannot exclusively and unilaterally determine the fate of the European people within a narrow-minded framework. Practically up to now this has had a boomerang effect, fuelling even further economic uncertainty and misery in Southern Europe.

By becoming a member of the EU, a state has faith in the Europeanisation process which should bring multifaceted benign effects for the economy and society on the whole, in good times and in bad. What we experience now is instead a process of 'Germanisation' that in my opinion can by no means be the answer to the problem. It is in such times that it is more evident than ever that the EU lacks charismatic leadership which can unite Europe in finding a way out of the crisis by firstly acknowledging the limits and particularities of each member state.

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*Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.*

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