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Banking Crisis in Cyprus: Causes, Consequences and Recent Developments

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Title:	Banking Crisis in Cyprus: Causes, Consequences and Recent Developments
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Abstract:	The economy of Cyprus was barely affected by the U.S. subprime mortgage debacle. The economic crisis in Cyprus was initially driven by fiscal mismanagement and subsequently by the failure of the government and its regulatory branches to monitor the imprudent behavior and risky investment actions of top executives in the banking sector. That is, banking executives run amok due to poor monitoring leading to severe agency problems in the Cypriot banking industry. The economic effects of the first capital-controlled bail-in in the EU in 2013 temporarily hobbled the real economy and the banking sector of Cyprus. Nevertheless, in less than five years, the economy of Cyprus recovered almost fully. This paper provides an economic analysis of the macroeconomic, banking and political events that led to the economic collapse in Cyprus. We also cover the interim period between collapse and recovery. The Cyprus case is an opportunity for European economic agents and regulators to learn how to avoid bail-in and welfare bloat. Studying Cyprus helps the reader see the most troubling cracks in the foundations of the European Fortres.