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CAUSES AND IMPACT OF THE MOUs ON THE ECONOMIES OF CYPRUS GREECE AND PORTUGAL

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CENTER FOR EUROPEAN AND INTERNATIONAL AFFAIRS
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CAUSES AND IMPACT OF THE MOUs ON THE ECONOMIES OF CYPRUS GREECE AND PORTUGAL

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Abstract

This Policy Paper examines the conditions that culminated in a Troika Program for Cyprus, Greece and Portugal and evaluates the MoU impact on the respective economies within a critical review of the Troika philosophy. The paper also scrutinizes the reasons for the collapse of the Cypriot and Greek economies in particular and marks out some alternative policy proposals in order to counter the ills that plague the two states and raise their standing and respectability in the international community.

INTRODUCTION – GLOBAL AND EU CRISIS BACKGROUND

"The real problem is the inability of the political organs of the EU to take action. This blatant weakness is a much greater threat for the future of Europe than the big public debt of some Eurozone countries".
Statement by Helmut Schmidt, Chancellor of West Germany (16.5.1974-1.10.1982) on 19.10.2011.

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Chapter 1 places the Policy Paper topic in the context of the global and the EU economic crisis. Chapter 2 examines the European integration project, including the Eurozone integration aspirations, contrasting them with the record. Chapter 3 describes the economy of Cyprus in order to examine the conditions that culminated in a Troika program, while Chapter 4 traces the MOU impact. Chapters 5 and 6 give an account of the Greek economy and the Program impact respectively, including a detailed account regarding the third MoU in Subchapter 6.1. Chapters 7 and 8 examine the Portuguese economy and the MOU impact correspondingly. This is done for comparison purposes since the focus throughout this Policy Paper is on Cyprus and Greece. Chapter 9 analyses the Troika philosophy, while Chapter 10 points out its faults within a critical review of its failures. Chapter 11 attempts to go deeper into the reasons for the collapse of the Cypriot and Greek economies within a comparative political economy framework delineating the role of the Eurozone countries, especially regarding their discriminatory stance against Cyprus. Chapter 12 reviews national failure within a brief historical perspective. The conclusion in Chapter 13 draws together the endogenous and exogenous explications for the collapse of the Cypriot and Greek economies and marks out some general alternative policy proposals to counter the manifest failure of the Troika approach. Chapter 14 delves into specific policy proposals especially concerning Cyprus.

The Bibliography in Appendix I is indicative in relation to the research and documents consulted. The Appendices II-V include country indicators available from open sources like the respective statistical services, Eurostat and the IMF. No consistent time series were available and estimates and projections at the time of publication are certain to have been revised. But this does not affect the argument and the analysis.

***

The globalised international political economy (IPE) based on information technology has rendered, capital flows, financial and other services all important in their impact on other countries, compared to decades prior to the 1980's when the flow of physical tradable goods held preponderance. The more integrated world made transmission mechanisms and contagion

almost automatic concerning capital and financial flows and with much shorter time lags regarding other variables. Hence, when the subprime predatory mortgage lending crisis hit the USA in 2007, with the bursting of the housing bubble, it was not long before it turned into a global financial crisis in 2008. Economists like Paul Krugman criticized the insufficient regulatory framework that encouraged unconventional business practices within a shadow banking system involving innovative derivatives and off-balance sheet financing that contributed to or even reinforced the financial crisis. It was argued that dominant elites in the realms of finance and production have unleashed a destructive global financial crisis. Efforts to rescue the banks have shown that states are locked into a financial system that they do not control and which is removed from the principles of democratic deliberation. No global leadership manifests itself to prevent such "neo-liberal" crises (Scott Burchill et al., pp 130-132).

Since its inception with the the Treaty of Rome of 1957, the European Economic Community (EEC), as an international organization, customs union and common market for three decades, till 1989, managed to increase prosperity and cooperation among its Member States (MS). The monetary pillar introduced in the 1990s delivered less than it promised and sowed the seeds of future trouble due to the faulty Eurozone architecture which began to appear in the 2000's, with the turbulence in the international sector, following 9/11 and the intensifying competition from increasing globalization.

Specifically, on its path to integration, the EU made a frustrating attempt at an economic union with the EMU based on the Maastricht Treaty (signed on 7.2.1992), which led to the creation of the euro. The euro with its fixed exchange rate opened up the huge European market, for the large, industrial and competitive German economy (Chen et al., 2012), which enjoyed the seigniorage gains of the single currency but was unwilling to pay any of the costs. This practically involved economic cheating and exploitation of the weaker southern peripheral MS in the absence of fiscal federalism to ensure support by the richer and more competitive Northern MS, particularly when a shock hit.

Economic theory establishes that it is impossible to control the exchange rate, capital flows and monetary policy all at once. At least one variable has to be free. Full capital mobility and a fixed exchange rate imply the loss of monetary policy independence. The EMU fixed the nominal exchange rate, gave control of monetary policy to the European Central Bank (ECB) and allowed free capital movement. Capital mobility without a single currency would lead to exchange rate oscillations and almost constant crises. With the Euro, the Europeans wished to promote market integration by avoiding sizable relative price changes and the exchange rate and trade wars experienced prior to World War II. The alternative option of national currencies and floating exchange rates was never

acceptable to Europeans (Ch. Wyplosz, 1997). This recipe meant that sooner or later the day of reckoning would come for the less competitive southern EU member states. The financial crisis that hit the USA in 2008 with the collapse of the Lehman Brothers hit the weakest link in the Eurozone, i.e. Greece in spring 2010.

The monetary union eliminated market signals such as declining exchange rates (the nominal exchange rate was fixed) owing to large fiscal deficits and overborrowing. Banks loaned too much on overpriced housing and took risky assets on their balance sheets such as Non-Performing Loans (NPLs), which made a financial crisis inevitable. With the banking Union and new regulatory framework of financial institutions the EU is purporting to regulate the negative effects of financial capitalism on the real economies.

The euro's original sin is the separation between fiscal policy and sovereign currency. The euro has therefore been a death trap for the economies of the euro area and especially for its peripheral countries, which have suffered a growing fragility because of the increase of private and public sector debt and external deficits. The latter became dependent on the ECB and private financial markets to finance public deficits and debt (Antoni Soy, 2013).

The adverse economic consequences of the euro include the sovereign debt crises in several European countries, the fragile condition of major European banks, high levels of unemployment across the Eurozone, and the large trade deficits that now plague most Eurozone countries.

Paul de Grauwe (2012), in analyzing the implications of this fragility for the governance of the Eurozone, stresses that “a major structural weakness of the EMU is that it created a currency without a country” to back up its value, while the ECB failed to act as a lender of last resort”. He argues that the EU recession has been produced by policy failures at the beginning of the crisis. The eurozone’s creditor countries refused to increase spending, forcing an asymmetric adjustment process on debtor countries such as Spain, Greece and Ireland.

According to Kenneth Dyson (2010) the post-2007 financial and economic crisis highlighted the central problem in European and international economic policy coordination, which is structural imbalances causing high dependence on external financing of debt and potentially destabilizing financial flows.

The structural deficits of the euro area peripheral countries have been funded by external surplus countries, especially Germany. The austerity policies that program countries were forced to apply not only exacerbate the external current account balance deficit but also the public deficit and

public debt. Hence the crisis is self-feeding and clearly is a consequence and not the cause of the initial crisis.

Recognized American economists, such as Dornbusch (1996), Krugman (1997) and Feldstein (1998), stressed the difficulties of a monetary union that did not meet the requirements to be optimal currency areas in the sense of Mundell (1961). The EMU was promoted mainly for political reasons without regard to the great differences in the economic structures of the countries (Jorung and Drea, 2009). From the UK, important economists as Kaldor (1971) or Godley (1992) pointed out the operational difficulties which a monetary union could face when there was no political union of the participating countries. In this respect, the UK, Denmark and Sweden did not wish to relinquish the control of their monetary policy to Brussels.

Specifically, Feldstein states that the initial impetus and real rationale that led to the EMU and the euro was political, not economic (Foreign Affairs, vol. 76, no. 6, Nov., Dec. 1997, pp. 60-73). He predicted strains in the EMU due to the different economic structures of the participating countries as well as of their objectives, indicating that in times of crisis the EMU would be facing serious challenges. The Eurozone debt crisis and the gap between the European North and the European South are indicative. In 2012 Feldstein regarded the euro as an experiment that failed and suggested that it will be better to monetize the debt (for a period of time) in order to get out of the economic crisis.

Rudiger Dornbusch (1996) called the common currency a "Euro Fantasy Panacea". Fixing currencies forces the adjustment elsewhere, resulting in high interest rates and high unemployment. Unlike the United States which has substantial flexibility in both wages and labor market institutions European markets are more rigid. Hence EMU was a bad idea since it entrapped the system in fixed rates across vastly divergent countries.

In a speech at the University of Helsinki on 27.11.2014 Mario Draghi, President of the ECB, admitting that the "union is still incomplete", underlined the necessity for all euro area MS to be able to thrive independently by investing in mechanisms to share the cost of shocks. This means sharing the cost of structural reforms and economic adjustments. Sovereign debt needs also to act as a safe haven in times of economic stress, through of course a strong fiscal governance framework. This reveals the underlying conflict between Germany which does not want debt monetization and the ECB / Draghi (supported by MS such as France, Italy, Spain) who understand the necessity to inject money into the European economy. Paris and Berlin have clashed over the role of the ECB and over how the burden of financial assistance will be shared.

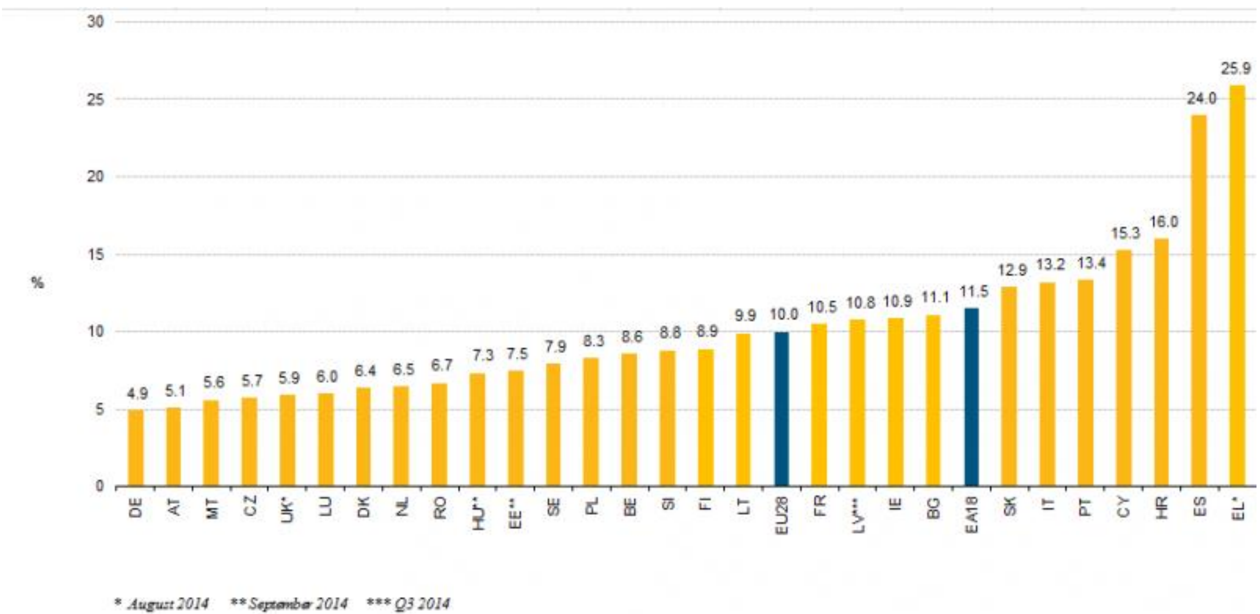
In sum, the political goal of creating a harmonious Europe has failed. There are disagreements among the EMU MS about the goals and methods of monetary policy and conflicts over domestic, foreign and international policies reflecting incompatible expectations about the sharing of power. These were exacerbated whenever the business cycle raised unemployment in a particular country or group of countries. The common currency created opportunities for exploitation of the crises and for shifting the cost from one Member-State to other Member-States (MS). As analyzed particularly in Chapter 4 of this Study / Paper, nowhere was this more obvious, abhorrent and repugnant than in the treatment of Cyprus and Greece. Indeed it was the epitome, the triumph of national interest against the common good of an integrated union. The USA from which the crisis originated in 2007 responded with expansionary monetary and fiscal policies that enabled her to ride the crisis without the pain, the misery and the agony inflicted on the weaker sections of the peoples of Europe, especially those in the Program countries.

Today European integration is in jeopardy and convergence in crisis. However, enhanced convergence is not likely to happen as a result of either scaling back integration or deeper federalization. For real convergence to advance the EU must lend direct support and enhance productivity growth. However, in order to prevent divergence it can and should cushion the effects of monetary shocks and give MS more leeway in economic policy.

In the light of the above analysis, the EU has made a lot of mistakes since 2008. It demonstrated inability to use fiscal policy counter-cyclically, while monetary policy encounters German objections. Precisely because of the inherent EMU weaknesses, analysts have claimed that the euro may never be in a position to challenge the dollar as an international currency.

At the EU level, the crisis and the neoliberal policies followed caused devastation especially in the south. Eurostat estimates that 24.4 mn in the EU-28, of whom 18.4 mn in the euro area (EA-18), were unemployed in October 2014. However, in the EU-28 real unemployment is estimated at around 33 mn, while another 133 mn are below the poverty line as a result mainly of the prolonged economic crisis. An evident question is why Eurozone, despite its integration, has 11.5% unemployment, higher than in the EU-28 (10%) (Chart below).

Unemployment rates, seasonally adjusted, October 2014, Eurostat



Rising inequality, already evident before the crisis, accelerated. The middle class and its disposable income in all program countries began to shrink, lowering effective demand and undermining the very logic and foundations on which the capitalist system, regarded as an economic model and not an ideological construct, thrives. This eroded the social contract and the consensus on a safety net of a welfare state on which the project of Europe was built. Economic insecurity spread.

The Eurozone crisis undoubtedly constitutes the most serious challenge facing the EU since its establishment. As outlined above, many academics but also technocrats, diplomats and politicians were conscious of the flaws undermining the EMU foundations. However, the crisis revealed the depth and the extent of the underlying problems, such that they endangered the entire European project.

EU INTEGRATION: EUROZONE ASPIRATIONS AND RECORD

"Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity."
The Schuman Declaration by French foreign minister Robert Schuman on 9.5.1950.

In terms of its degree of integration the EU is considered a state without being a state. It is a sui generis and incomparable organization with federal and supranational features. It has independent institutions, with some having more authority than others. Some claim "Europe has charted its own brand of constitutional federalism". The EU has the necessary minimal attributes of a federal system and this is why it is riven with many of the same tensions that afflict federal systems.

The two main competing theories of EU integration are Neo-functionalism and Intergovernmentalism. Neo-functionalism, as a theory of regional integration was developed in the second half of the 1950s and is the first, 'classical' grand theory/narrative of European integration. The core argument of Neo-functionalism is integration is achieved by 'spill-overs'. This was Jean Monnet's approach to European integration, aimed at integrating individual sectors and building up the momentum through sectoral interlinkages. The theory proposes economic determinism. Spill-over will eventually lead to a completely integrated Europe with a strong central government. Political integration will then become an "inevitable" side effect of integration in economic sectors. This has not yet been proved true, as EU integration has become a long and difficult process.

Intergovernmentalism was developed in the mid-1960s. The theory rejects the concept of the spill-over effect that Neo-functionalism proposes. It also rejects the idea that supranational organizations are on an equal level (in terms of political influence) as national governments or the nation-states. It suggests that national governments control the level and speed of European integration. The theory proposes the logic of diversity, which sets constraints on the degree to which the 'spill-over' process can advance or limit the freedom of action of the governments. The logic of diversity implies that on vital issues, losses are not compensated by gains on other issues. Any increase in power at supranational level results from a direct decision by governments. Integration is driven by national governments based on the domestic political and economic issues of the day.

Neo-Functionalism reflected the political dynamics in the early years of European integration and was questioned by Eurosclerosis in the 1970s and the early 1980s. This was both a political period and an economic pattern in Europe, alluding to the slow pace of enlargement, a perceived lack of democracy and economic problems such as

high unemployment and slow job creation in spite of overall economic growth. This led to negative and apathetic attitudes to the EEC. Moreover, adherence to Neo-Realist / Mercantilist national interest seemed to be prevailing in the later evolution of the EU, with insistence on relative gains, which tended to have an impact on European integration.

Nevertheless the Maastricht Treaty launched the Eurozone, which represented a clear and probably the most advanced federal structure in the EU. The underlying assumption behind EMU was that economic union and thus further political integration would inevitably follow. This rationale is in line with the neofunctionalist predictions on European integration. However, this assumption was fundamentally defective in the case of the EMU, as this automatic mechanism that could create a spillover from a monetary union to an economic union was seriously lacking due to EMU's originally flawed design. Worse still, the EMU also lacked the basis for an institutional mechanism that could restore economic stability in times of crisis. The record so far in reaction to the financial-sovereign debt-economic crises has been disappointing: Further institutional integration in terms of completing a banking union was chosen neglecting the reality that without a fiscal transfer union, a logical step in the direction of a political union, the EU can only move from crisis to crisis and finally possible disintegration. Instead of the convergence aimed at by Maastricht and the Stability and Growth Pacts (SGPs) more divergence was the outcome of the crisis and the wrong Troika recipes. National interest commands higher allegiance than European integration and there seems to be an accelerating conflict between the two. The current reality does not reflect the expectations of European citizens after the end of the cold war.

Judging from the record, the Eurozone, perhaps the highest hard core pillar of integration has been causing problems to the entire European project. These were analyzed in the previous Chapter on the "Global and EU crisis background". Critics point to the faulty Eurozone architecture, which was diagnosed from the very beginning of its Maastricht inception but in, retrospect, appears to have been severely underestimated. This is an ironic and simultaneously tragic aberration that instead of promoting further integration, the EMU is leading the EU project to disintegration.

Participation in the Eurozone makes it difficult for a country to pursue discretionary policies to address a serious recession, as it has to stick to a tight deficit reduction plan. This leads to the deepening of the crisis with further cuts in public spending and increased taxes. In effect, we have a situation of automatic destabilisers! These policies in conjunction with a tight monetary policy lead to a vicious deflationary cycle. For the Eurozone to function effectively there must be a system of fiscal support by the centre, a philosophy that is currently missing.

Comparing and contrasting the record before and after the creation of the Eurozone proves that membership has not been beneficial for southern less competitive MS. The record justifies the overwhelming need for the strong North and particularly the German hegemon to act benevolently and share some of the benefits that accrue to Germany due to the Euro.

Specifically, Germany's world-beating current account surplus rose to €215.3 bn (in 2014 from €189.2 bn in 2013. That is equal to 7.4% of the country's GDP and exceeds the €176.7 bn China achieved. This breaches the European Commission's recommended upper threshold of 6%. This may not be a conscious "beggar-thy-neighbor policy," but the right product mix at the right time, helped by the lower euro and this is to Germany's credit. Indeed, the single currency has depreciated 12% against the dollar in 2014 and fell to $1.054 on 11.3.2015 for the first time since September 2003, a 12-year low, apparently heading towards parity. The likelihood of an increase in US interest rates, the deepening crisis in Greece and the effect of the ECB's QE program precipitated the fall. Comparing the 2014 €215.3 bn to the €2 bn current account surplus of 2001, just before the Euro went into actual circulation in 2002, after its virtual launch in 1999, anyone can see the proof of Germany's gains from the single currency. However, the severe external and intra-European macroeconomic imbalances are also the outcome of the faulty Eurozone monetary architecture and the incomplete Economic Union (while Political Union is non-existent), which have not given the time or the means to the uncompetitive southern MS to converge. In fact, the southern MS possess a weak or even parallel Euro, not underpinned by strong economies. The single currency introduction allowed them to over borrow at lower rates but the time of reckoning was not long in coming when the crisis hit in 2008.

For their part, elites in Germany blame lagging competitiveness on low productivity and "too-high" real wages in the Mediterranean countries, generous pension systems as in Greece, accompanied by excessive budgetary expenditure giving rise to bloated states that keep accumulating deficits. In this domain, Germany failed spectacularly in its narrative, by insisting that the rest of the world follow its peculiar ordoliberal economic philosophy (German variant of social liberalism that emphasizes the need for the state to ensure that the free market produces results close to its theoretical potential) of export-oriented growth. By ignoring long-established ideas such as the Keynesian "paradox of thrift" or the "fallacy of composition," Germany is advocating a serious dose of austerity in the European periphery without even a hint of offsetting those negative economic effects with a stimulus or inflationary policies at home. German growth, after all, was partially fueled by demand in Southern Europe (made possible by excess German savings). By the iron logic of the balance of payments and flow of funds, one country's exports are another country's imports and one country's capital inflows are another's capital outflows. So, the Eurozone as a whole

cannot become more like Germany. Insisting on ordoliberal convergence is guaranteed to produce economic instability, not stability. Macroeconomic management is not the same as household economics. By signing the Maastricht Treaty in the early 1990s, Germany has accidentally or by design grown into an economic empire. It has a role as a leader, not as a rule maker but she is clearly not yet conscious of it.

Unless Germany changes stance, inevitably the clash of the two philosophies of austerity vs growth, rules vs activist discretion will continue. Germany, emboldened by its reunification in 1990, benefiting from Marshall Plan aid to rebuild its economy at the end of the 2nd world war and assisted by debt relief whose servicing would endanger its growth, forgot its guilt about the two world wars. Instead of the European Germany that was the original objective of the European project, Germany used the EMU structure to promote a German Europe. Instead of hegemonic stability, German self-interested mercantilism has led the EU vessel on the rocks of instability.

The depth and duration of the crisis and the predicament of the European project point to complex, systemic and perhaps historical explanations in its construction. This complex of causes does however have a common root: Germany's failure to act as a responsible hegemon in Europe.

From its beginning in 1958 to around 1990 or the Maastricht Treaty (signed in 1992), the EU managed a high grade in terms of its performance and some prosperity trickling down to the southern MS. Then a period of lower achievements followed till the onset of the crisis in 2007, which initiated a prolonged period of crisis placing the European project in question.

The debate on Europe’s future is shaped by economic and political questions about what has driven Europe to this point and how to exit the crisis. It is possible for Europe to remain inwardly focused in the coming decades. It is more likely that the EU will emerge transformed from the crisis, but exactly what Europe will appear in the future remains unclear. Given that the EU is already the weaker party of the two in its transatlantic relationship and NATO, its prolonged malaise renders it even feebler to project anything but soft power on the world stage and on crucial issues like its energy and military security.

In my view in order to fulfill the vision of its founders and overcome the crisis, the EU should proceed towards an enhanced form of federal political union. If the European project is to survive as the current prolonged crisis demonstrates it should include a social dimension with an equitable distribution of wealth at least to the extent of not having people below the poverty line. It should encompass a reasonable Gini coefficient of shared equality across all European citizens. Pareto optimality (a state of allocation of resources in which it is impossible to make any one individual

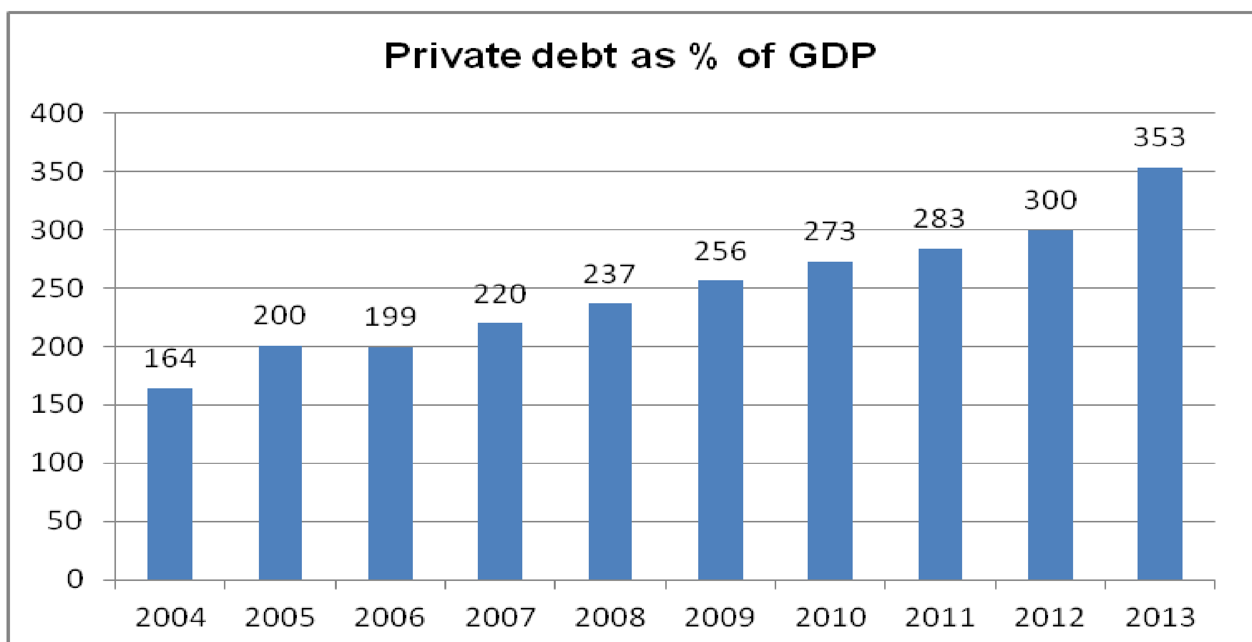
better off without making at least one individual worse off) should underpin the liberal economic order and laissez faire precepts of the capitalist state but modified by principles of Rawlsian justice, which would not accept unemployment beyond the frictional rate. It should be a federation which respects its ultimate principle, that of unifying its subjects / citizens instead of dividing them. It should be a polity which, in respecting national particularities, cultivates a European identity by respecting foremost the economic well-being of all European citizens and by building trust and not stealing people's property and savings as happened in the case of Cyprus. It would be a federation or a project that would be an edifice of reliability and responsibility, in accordance with the founding Treaty of Rome, failing which it might disintegrate into a tower of Babel. It would be a construction in which Europe's political elites should emphasize constructive policy instead of divisive politics aiming to maintain the balance of power and wealth overwhelmingly in their favour. This tactic could only lead to "a general bankruptcy of capitalist democracy" (Claus Offe, 2015). Such a construction would diminish the gulf between politics and policy, between the struggle for power and public opinion on the one side and strategic attempts to solve problems on the other. It would encompass bridges of input-legitimization in place of the current democratic deficit gaps and abolish the neo-liberal technocratic automaticity and the Thatcherite "TINA" logic ("there is no alternative"). This is sheer paralogism which begets mechanisms like the Troika, that treat economics as an ideology instead of the useful tool it can be, based on the circumstances. The EU is now entrapped in politics that fails to provide the electorate / citizens with choices. The unresolved crisis leads to radical populist extremism on the left and right of the political spectrum. Only more solidarity and more democracy, according to Claus Offe, can rescue the Eurozone from the brink of collapse. I agree. Europe does not need monsters like the Troika to devour people and weaken nations. It needs visionary leadership to take the European project forward. A leadership that seems to be abhorrently lacking in very difficult times in an increasingly unstable geopolitical setting reminiscent of the cold war era.

THE CYPRUS ECONOMY

"Ἄκουε δή, ἦ δ᾽ ὅς. φημὶ γὰρ ἐγὼ εἶναι τὸ δίκαιον οὐκ ἄλλο τι ἢ τὸ τοῦ κρείττονος συμφέρον.", Θρασύμαχος, Πλάτωνος Πολιτεία, 380 π.Χ.
("Listen - I say that justice is nothing other than the advantage of the stronger.") / "Might is right", Thrasymachus, in Plato's Republic.

Cyprus has been a member of the EU since 1.5.2004, and adopted the euro as its official currency on 1.1.2008. Cyprus provided an ideal business environment due to its preferential tax regime, in full compliance with the EU and OECD requirements. Its economic model was based on the sale of services.

Economic growth in Cyprus over the past decades was driven mainly by the tourism, construction and financial and professional services sectors but rather in an ad hoc and unbalanced way without adequate planning. On the demand side, consumption climbed to almost 90% of GDP in 2008, which was not sustainable. This led to a 5% annual growth in domestic demand and was associated with a consistent rise in total private indebtedness, which was financed by large external capital inflows, and exceeded 3.5 times the GDP by 2013 (see Chart).



Source: Central bank of Cyprus

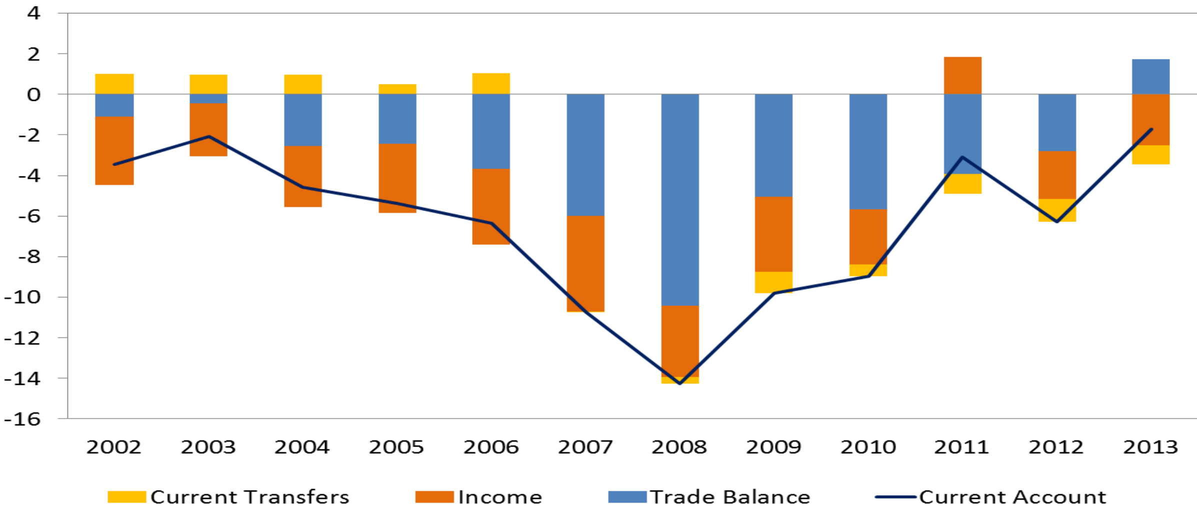
The high growth following EU accession dissipated with the global financial crisis and Cyprus moved from boom to bust. In the run-up to the 2008 global crisis and in the following years prior to the Memorandum of Understanding agreement (MOU) of April 2013, Cyprus had accumulated large imbalances and vulnerabilities and faced a fiscal cliff and structural problems that were masked by an average 4% annual growth rate.

Specifically, the fiscal balance shot up into negative territory with the election of Christofias to the presidency, as the Table below indicates.

Government deficits (-) and surpluses (+) in % of GDP						
2008	2009	2010	2011	2012	2013	2014
0.9	-6.1	-5.3	-6.3	-6.4	-4.9	-4.4
Source: Ministry of Finance, IMF						

As a result, the current-account deficit widened to about 15.6% of GDP (Chart below) at the end of 2008. This reflected surging imports and an erosion of external competitiveness as wage growth exceeded productivity.

Current Account (% of GDP)



Source: Cyprus Statistical Service, Ministry of Finance

A major external vulnerability of the Cyprus economy was its interconnection with the Greek economy, which proved to be fatal. The linkage was based on trade relations but more importantly on banking and financial relations. In fact, the Cypriot crisis peaked as a result of the excesses of the banking sector which took place simultaneously with the deterioration of fiscal indicators (A. Theophanous, Sept. 2013).

Cyprus had an oligopolistic and concentrated bank sector with the three leading banks (Bank of Cyprus, Popular and Hellenic), before the Eurogroup agreement of March 2013, accounting for 97% of total bank assets (excluding the co-operative bank sector) and overall controlling 55.6% of domestic deposits and 48% of domestic loans (IMF, 2011). Banks assets increased to more than 8 times GDP. The huge expansion of the Cypriot banking sector is reflected in the comparative Table below:

Table: Size of banking sector: Total assets of credit institutions as % of 2009 GDP								
Country	Ireland	Greece	Spain	Italy	Cyprus	Luxembourg	Malta	Portugal
Percentage	809.3	206.4	326.6	242.8	822.4	2,118.4	721.0%	310.3
Source: ECB (2010)								

Thus, in 2010, Cyprus came second in Europe in terms of the size of the banking sector relative to its GDP after Luxembourg (extreme outlier), surpassing Ireland and Malta. Specifically, according to the IMF (2011) the banking sector continued to grow, with total bank assets reaching 835% of GDP in 2011, with a frivolous expansion in unknown markets (Ukraine etc) and an uneven exposure to the Greek market, which amounted to €29 bn, or 160% of GDP. The banking sector was oversized and severely undercapitalized, with the two largest banks found economically insolvent by Pimco Investment House. Capital needs (excluding the 2012 €1.8 bn recapitalization bond to Laiki Bank and after bail in of junior debt) were initially estimated by Pimco at just over €10 bn, large not only relative to Cyprus's GDP but also in historical comparison. More extensive analysis of the disputed Pimco estimate follows in the next Chapter.

There was a disproportionately high rate of loans to Greek companies and households (about €23.6 bn), through the aggressively and rapidly expanding Cypriot branch networks in Greece, using the abundant liquidity from deposits (both from local residents and foreigners). In addition, the Popular Bank and the Bank of Cyprus resorted to undiversified investments in Greek sovereign bonds, taking an inconceivable risk for the sake of short-term overblown profits.

The concentration ratio of the two major Cypriot banks, Laiki and BoC in Greece revealed a criminally imprudent absence of risk management, while the Central Bank of Cyprus and the ECB were guiltily piling billions of Emergency Liquidity Assistance (ELA) on the Cypriot public by lending to an insolvent and not just an illiquid bank, when a "run" on the banks started. Evidently, there was insufficient monitoring of banking (leverage of European banks at historical levels) and economic developments by the ECB and the responsible EU authorities.

Despite the scale of the above imbalances, there was a willingness to address them seriously. Fiscal measures began in 2011 and fiscal rationalization had started in December 2012. However, the lack of partner solidarity forced Cyprus to request financial assistance from the EFSF / ESM on 27.6.2012.

The Cyprus economy was with complete and unequivocal certainty brought down by greedy and rapacious, predatory and self-serving bankers with malpractices that have been allowed to continue for years by the Central Bank of Cyprus (CBC) without any due diligence. This is not only proved by the facts and figures but is also confirmed by all the major Credit Rating Agencies like Moody's, Fitch and Standard and Poor's. These had been warning ever since Cyprus was excluded from borrowing in the sovereign debt markets in May 2011 that the huge Cyprus bank exposure to Greece carried a great risk of being transferred to the state balance sheet. Fiscal deficits, incurred by profligate and imprudent government expenditure were nonetheless manageable, especially if tax evasion had been seriously tackled. They were not such as to cause the economy's downfall. Any argument to the contrary is unfounded and derives from those with an axe to grind like bankers, who wish to shake off their guilt and worse still from those with a lack of understanding.

MOU IMPACT ON THE CYPRUS ECONOMY

“Carthago delenda est” (Carthage is destroyed), Cato the Elder (234-149 b.C.).
"Ceterum censeo Carthaginem esse delendam" (Moreover I consider that Carthage must be destroyed), Cato the Elder (234-149 b.C).
"Δοκεῖ δέ μοι καὶ Καρχηδόνα μὴ εἶναι", Plutarch, biography of Cato the Elder in "Parallel Lives".

The German chancellor Angela Merkel stated after the illegal “bail-in” decision on 25.3.2013 that “the Cyprus banking system no longer exists”. She meant that the rape of Aphrodite was accomplished. This is revealing of the malevolent intention to destroy the Cyprus banking system, just like it was a foreign policy goal of the Roman Republic to eliminate completely any further threat from its ancient rival Carthage. It was a thorn in the lion’s paw, a nagging pain for Europe’s financial giants. They could not allow a small country like Cyprus to play such a role in the allocation of global financial capital. The criminal stupidity of the Cypriot “bankers” presented Merkel and the big sharks behind her with the opportunity they have been looking and diligently preparing for. The purchase of the Greek bonds unloaded by German and French banks onto the market at approximately 25% nominal discount was not the only idiotic and criminal act committed by the foolish, callow and ignorant Cypriot “bankers”.

It is underlined that these criminal “bankers” were truly “golden boys”, not in terms of their gold quality but of their avarice. They rewarded themselves with salaries exceeding €300,000 a year, i.e. about €1,500 a day, and millions of euros in bonuses for pernicious deals, that only demonstrated their malpractices and incompetence and hurt the viability of the banks. Moreover, they gave themselves gratuities of several more millions of euros as “retirement benefits”. The bribes, kickbacks and backhanders were over and above these self-granted remunerations and rewards, which can only be characterized as embezzlements and the outcome of abuse of power. As such, they should be returned by law to the Fund that must be set up to compensate the people to whom the bankers shifted the cost of their rapacity. In the wake of the crisis, the bankers and banking employees who were kept happy with extraordinary salaries and benefits / perks over decades, extracted by their powerful and intransigent trade union, have belatedly (as of June 2013) taken very low salary cuts averaging 12-13%. In the Laiki Bank salary cuts of the order of 12-13% were not introduced until October 2012, i.e. just a few months before its collapse. By comparison, wage cuts in the public sector which began on 1.9.2011 and expanded, range from over 15% for the salary scale A1 to over 40% for the salary scale A16, inclusive of tax. Specifically, according to government Treasury data, based on the July 2015 wage bill, the state sector salary cuts amount on average to 21.2%

of the gross mean wage (excl. allowances, incl. overtime) before tax, which rise to 27.3% after tax. These cuts do not incorporate the loss of income from child benefits and student grants, which were not subject to income criteria before and of which tax evaders continue to take advantage.

It is remarked that Bank salaries and benefits are on average much higher than in the public sector. Yet, the civil service wage cuts are more than double those in the banking sector. In other words, those who were to blame passed the costs of the party for payment by others. Social justice was again sacrificed in favour of the crooks and the embezzlers. Many young people remained unemployed or were forced to emigrate so that the bankers could keep their fat salaries and perks as a reward for destroying the economy. Regarding the theft hidden under the euphemism "bail-in", there were truly tragic cases of people who deposited their lifetime earnings one or just a few days before the Laiki bank close-down, after working for 30 to 50 years abroad. After depositing €1 mn or more, the next moment they found they were left with the scraps of just €100.000. They could no longer retire the way they had planned or offer capital to their children to start up their desired business or pay for their education. People who were tricked into buying bank bonds / securities by entrusting their retirement money or their savings for the future education of their children saw their lifetime planning destroyed, their hard-earned money seized by the crooks and villains, who sought to amass a fortune to last them for a hundred years in daily luxury. Such injustice is completely inadmissible and any money grabbed by the bankers in underhand, crooked, deceptive and fraudulent dirty-dealings, including super rewards and benefits should be returned to the special Compensation Fund, outlined above and in Chapter 14. These evildoers, rogues and scoundrels are responsible for the misery they caused and the agony the Cypriot people are going through. The rule of law and social justice demands that they should not be allowed to enjoy the fruits of their mischievous, dishonest and self-serving malpractices.

In a TV interview on 31.8.2015, the Attorney-General Mr Costas Clerides stated that the Law Office of the Republic of Cyprus is proceeding with the criminal investigation of acts of omission or commission that led to the collapse of the banking sector, in particular the ELA issue. He is not dealing with the issue of irregularities. Of course, the irregularities practiced regularly by the bankers should also be fully investigated by independent bodies or Commissions appointed by the government and chaired by foreign experts. In both cases, bankers found guilty of criminal acts of omission or commission and / or irregularities should be forced to internalize and repay their full cost. The big looting of huge sums of loans to politicians, persons well-connected with the establishment and companies affiliated with political parties (whose names appear on a published list) that were written off by the banks should be investigated case by case. The loans illegally or irregularly deleted from the bank

balance sheets should be returned with interest and deposited to the special Compensation Fund. This was done in the USA where the money from heavy fines imposed on companies for wrongdoing, dereliction of duty, professional misconduct, unprofessional or unethical behaviour was used to compensate the victims of their malpractices. The bankers bear total legal liability for their torts and civil wrongs that unfairly caused thousands of people to suffer economic losses and injuries and violations of property, or constitutional rights. This is the only way that justice can be done.

Uniquely discriminating against Cyprus, Eurogroup / Troika imposed an illegal "bail-in" prior to offering a conditional "bail-out" in contrast to what it had done in other MS, forcing the country to "participate" in its rescue effort. The illegality of the "bail-in" is not a matter of opinion or evaluation. It is an acknowledged objective fact. There is no law in the Republic of Cyprus which allows such a preposterous deed. Part II of the Cyprus constitution protects fundamental rights and liberties, which are explicitly to be respected, including those of possessing, enjoying or disposing of any movable or immovable property (Article 23).

Furthermore, there was no EU "bail-in" Directive in March 2013 when the "bail-in" along with other draconian measures were imposed on Cyprus. There was no harmonization of the procedures for resolving institutions at Union level. The Bank Recovery and Resolution Directive (BRRD) was not adopted until Spring 2014 and hence prior to its coming into effect shareholders and creditors of failing banks at national level could not be legally forced to pay any share of the costs through a "bail-in" mechanism. The new Directive provides authorities with comprehensive arrangements to deal with failing national banks, as well as cooperation arrangements to tackle cross-border banking failures, through a single rulebook for the resolution of banks and large investment firms in all EU Member States. Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms, i.e. the EU's new "bail-in" Directive does not come into force until January 2016. This is why the Greek Central Bank is currently rushing to recapitalize the troubled Greek banks before it takes effect, in order to spare the massacre of depositors, bank bond holders and shareholders and the further ruin of its economy. Hence, "bail-in" lacked any legal basis. It was a shameful and discriminatory political decision. Yet European officials pledged at the time that "taxpayers will never again face losses from a bank failure until all creditors and unsecured depositors have been wiped out first" in a flimsy effort to cover up their criminal machinations and expedients to destroy the Cyprus banking system out of self-interest. Their hypocrisy was exposed in no uncertain terms in the case of Banco Espirito Santo.

In July 2014 Portugal's largest bank, Banco Espirito Santo collapsed amid allegations of fraud, accounting irregularities and secret or dishonest activities or manoeuvring of the sort that helped cause Europe's debt crisis back in 2010. The bank's core Tier 1 capital ratio had collapsed to 5%, well below the 8% minimum. The Portuguese government rescued the crippled bank with a recapitalization plan of €4.9 bn, including a contribution of €4.4 bn by the state. Depositors and senior bondholders were spared. The Bank of Portugal Governor Carlos Costa stated that "It became imperative and urgent that a solution was implemented to guarantee deposits and **safeguard the financial system**". In this regard, the ESM Managing Director Klaus Regling stated on 14.7.2014 that if problems arise during upcoming stress tests, Portugal and Greece have money set aside to recapitalize their banks. The discrimination against Cyprus both ex ante and ex post is evident. Any fair judge would reasonably wonder why having punished the people of Cyprus, by stealing their property, and destroyed their financial system at a time when the EU had already rescued the banks of other Eurozone MS, the Portuguese Banco Espirito Santo was again saved on soft terms, after the Cyprus bank bail-in, despite a declared policy line to the contrary.

Yet another proof of the malicious discrimination against Cyprus is the statement by Mario Draghi, President of the ECB on 3.9.2015 that the ECB informed the Eurogroup that "a haircut in the case of Greece would be counter-productive for economic recovery as it would not only hurt bank depositors but also the SMEs". There could not be a more cynical yet official and resounding admission that these officials with the fat salaries and benefits imposed the bail-in theft on the Cypriot people, stealing the lifetime savings of families and the working capital of Cypriot SMEs, fully aware of the catastrophic effect that this would exert on the economy and bank trust. Furthermore, the statement is an admission that these officials knew their basic first-year economics and hence the detrimental impact on the Cyprus economy and its financial sector, as well as the grievous short-, medium- and log-term consequences of such an action. Notwithstanding, they hypocritically imposed the bail-in robbery offering the peanuts of a mere €10 bn loan, of which only €7 bn will most probably be eventually absorbed. In other words total destruction of its economy and impoverishment of its people in return for nothing or peanuts as a reward for Cyprus becoming a member of the EU.

The Eurogroup "bail-in" decision of March 2013 (Eurogroup meetings on 17 and 25 March 2013), with the consent of the Cypriot government dismembered the economy and took it back several years. This outcome should have been known by the politicians who along with the bankers pushed the economy on its knees with their greed. On 19.3.2013, the Cypriot parliament / House of Representatives rejected (36 MPs against and 19 abstentions from the ruling government party, Democratic Rally, with one not present for the vote) a bank deposit haircut of 6.75% on all savings below €100.000 and 9.9% above that sum proposed by the Euro

group of 17.3.2013. This was so illegal that it even contravened EU rules guaranteeing small savers. Then the Euro group of 25.3.2013 used the same blackmailing tactics that it would repeat in June 2015 in Greece: The ECB threatened to cut off ELA lending to Cyprus's banks unless a bail-in was imposed as a precondition for a bail-out. Insured deposits of less than €100.000 would be spared, the Cyprus Popular Bank (CPB, Laiki Bank), would be "resolved" and absorbed by the Bank of Cyprus, creating in the process a so-called "bad bank", while uninsured deposits in the Bank of Cyprus would eventually suffer a levy of 47.5%. The imposed arrangement regarding Laiki Bank contravened normal market practice and legislation concerning the liquidation of an insolvent bank. The major objective was to protect the ECB from losing any of its ELA loaned against its own rules to an insolvent and not an illiquid bank. For this malpractice the ECB was jointly responsible with the CBC.

Laiki was kept wired or hooked up on the ELA and government oxygen ventilator long enough to enable the embezzlers and those in the know to withdraw their money and the Christofias government to minimise its / AKEL's political cost in the upcoming presidential elections of February 2013. The €1.8 bn granted to Laiki on 30.6.2012 was transferred on the shoulders of the taxpayer as national debt and the €9.5 bn Laiki ELA was off-loaded on the bailed-in victims of both Laiki itself and totally unjustifiably and illegally the Bank of Cyprus. It is noted that ELA is provided to a solvent bank that is facing temporary liquidity problems. By the end of March 2012 Cypriot banks had virtually zero ELA. However, by the end of April 2012 ELA exploded to €3.8 bn. Laiki's solvency at this stage was questionable and its liquidity problems were definitely and most clearly not temporary: The Central Bank of Cyprus was violating ECB rules. Even more alarming was the stance of the ECB. By the end of August 2012 the situation was clearly unsustainable (€9.5 bn ELA in just four months), yet, the ECB had allowed the CBC to continue providing ELA, completely defying the rule book. The former CBC governor Panicos Demetriades confirmed that Laiki was kept on life support till after the February 2013 presidential elections.

In fact, in order to reward themselves for their rule-violations and malpractices, the two guilty parties, the ECB and the CBC ensured that priority was given to ELA repayment instead of allowing some development lending to lift the economy out of its recession and high unemployment. As of the end of July 2015 the ELA stood at €5.8 bn compared to the €11 bn owed in 2013. That is almost half of it, a huge sum of €5.2 bn or 29% of GDP was repaid. Since the ECB is responsible for supervising the banks via the national central banks, the reasonable question arises why ordinary people should be forced to pay for their grievous failures, thus destroying their lifetime planning. The unlawful but easy way out for them was to shift the burden onto the BoC by stealing its depositors, its bank bond holders and its shareholders. Clearly, the BoC did not go bankrupt as a business in the course of its commercial activities

and hence its lenders (bond holders) and owners (shareholders) should not bear the cost. The deficient BoC capital and insolvency was forced by Eurogroup decisions including the enormous Laiki ELA liability of around €9.5 bn and the Greek "PSI".

The government shied away from rejecting this shameful deal, too frightened and too panicky to search for alternatives. The Troika's MoU agreement, was endorsed in full by the Cypriot House of Representatives on 30 April 2013 with 29 votes in favour by the MPs from the ruling coalition of the Democratic Rally (DISY) and the Democratic Party (DIKO) and 27 votes against by the communist party AKEL, the socialist party EDEK and the Green party.

There were severely negative wealth and confidence effects, the financial sector was crippled and the imposition thereafter of serious internal and external restrictions on capital flows worsened the situation. Banks remained closed for two weeks, imposing restrictions on withdrawing cash and transferring money abroad after re-opening. Fresh deposits coming from abroad were exempted from the controls. Restrictions were relaxed after a year, with the final capital controls lifted more than two years later in April 2015. Capital controls have historically been introduced as part of long-term measures designed to protect trade advantages, rather than as a short-term response to financial crisis. When controls have been used in crisis, they have typically been imposed in emerging economies. In Europe, Cyprus, Iceland and Greece experienced this misfortune. In the case of Cyprus, the capital restrictions have hurt not just banks and their reputation but all sectors of the economy. Firms reliant on import and export flows were particularly affected as later occurred in Greece.

Following the bail-in in March, during 2013, the economy experienced strong disinflation with a large negative output gap, a decline in fixed investment and further nominal wage reduction limiting disposable income. Bank credit disappeared. Monetary aggregates and money supply dropped. As a member of the Eurozone, with a fixed nominal exchange rate, Cyprus could not use this instrument as an additional monetary policy tool, despite the urgent need to ease monetary conditions. At the same time two important pillars that condition economic dynamics – spending and saving – have incurred a serious blow.

The MOU shrank the GDP and inevitably increased the public and private debt. The growth rate for 2013 contracted by -5.4%, followed by a further decline by -2.3% in 2014, while growth is expected to continue in negative territory in 2015. Forecasts vary indicating the degree of uncertainty surrounding the expected direction of the Cyprus economy. Irrespective of any creative accounting (recent accounting, statistical and methodological changes), in reality GDP receded about 6 years and per capita income about 8 years. Public consumption turned negative as from 2012, in line with fiscal consolidation. It declined by -

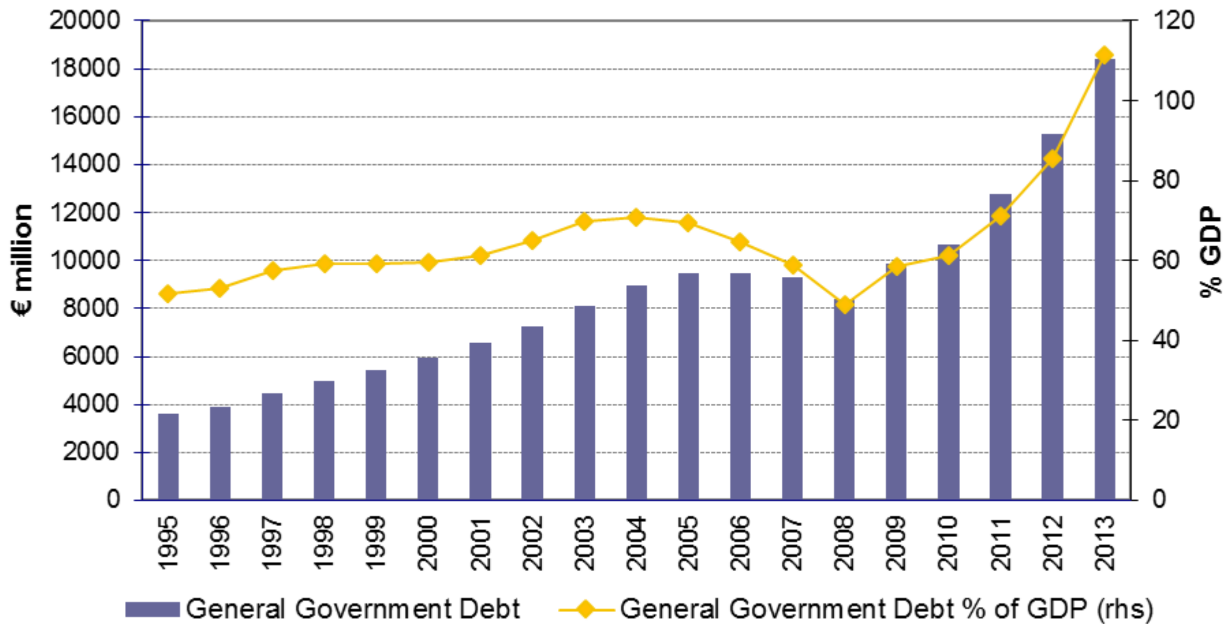
4.9% in 2013 followed by a sharp fall of -8.7% in 2014 - a trend expected to continue in 2015-2016, albeit at lower negative rates. Private consumption fell by 6% in 2013 but recovered slightly in 2014 and is expected to move in minor positive territory in 2015-2016 due to the negative wealth effect of the haircut and high unemployment. The deceleration of private consumption essentially reflects the outcome of the impoverishment of society not just owing to the bail-in but also the heavy MoU-induced taxation measures which reduced disposable income. Fixed investment dropped by a massive 21.6% in 2013 and by -13.4% in 2014, continuing its downward trend since 2009, while it is expected to decline further in 2015 (See Appendix II).

The trade balance improved in 2013 basically due to the depression since the imports of goods and services fell by -14.1% in comparison to the exports which declined by -4.2%.

Consequently, the current account balance, though negative at -1.9% of GDP (2013) recorded an improvement compared to previous years. However, the 2014 current account outcome of -4% is worse than the original Eurostat / IMF estimate of -1.1%. The medium term forecast sees the current account balance staying slightly in negative terrain till the year 2020 (-0.2%), which is indicative of the difficulty in attaining external competitiveness. The net financial account experienced massive outflows of the order of -26.3% of GDP in 2013 with further declines of -11.4% and -16.8% of GDP estimated for 2014 and 2015 due to the bail-in impact unwinding as capital controls have been relaxed and finally lifted in April 2015.

The small Cyprus debt market in terms of size, liquidity and tradability proved very vulnerable as the crisis unfolded during 2013. The public debt increased significantly from 86.6% of GDP (estimated at 79.5% according to the new GDP definition) in 2012 to 111.5% of GDP (estimated at 102.2% according to the new GDP definition) in 2013 or €18.4 bn (see Charts below). In 2014 public debt increased to €18.7 bn or 107.5% of GDP (Eurostat data).

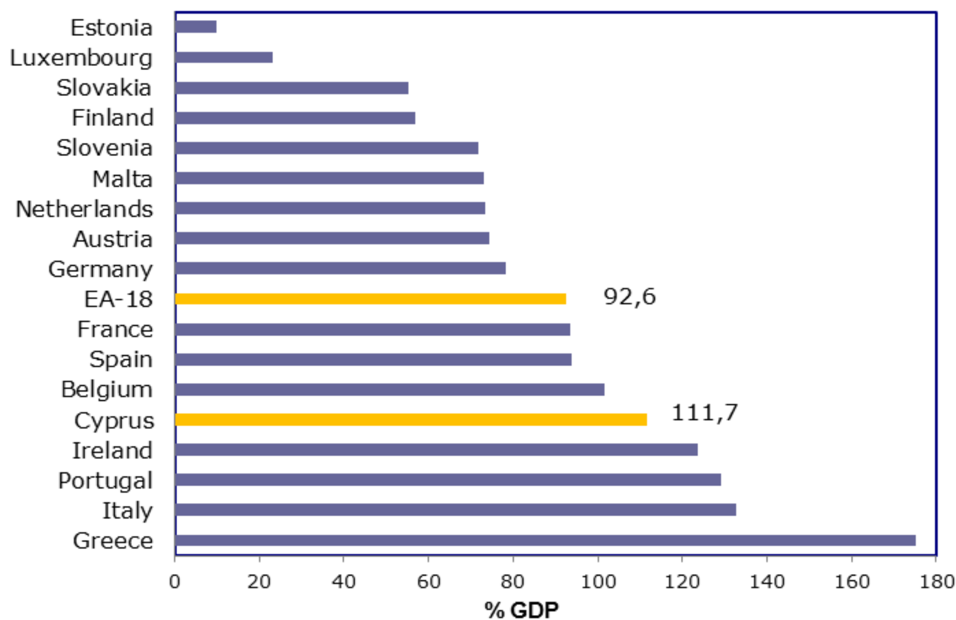
Trend in the consolidated general government debt



Source: PDMO, Ministry of Finance

In terms of debt-to-GDP, Cyprus ranks worse than the average of the Eurozone area which stood at 92.6% in 2013 compared to 90.7% 2012 (Chart below). It is forecast to rise to 122.5% by 2016 before its projected decline in 2017.

Euro Area General government consolidated gross debt in 2013



Source: PDMO, Ministry of Finance

Regarding fiscal policy, the MOU requires a primary surplus of 2.5% of GDP in 2017 and 4% thereafter to assist in the repayment of debt. Deficit reduction is to be achieved via internal devaluation (cuts in wages, pensions and benefits), and not through growth, placing unprecedented pressure on society. However, given the destruction of the banking system this is a difficult if not an impossible target. The general government deficit was -4.9% in 2013 compared to -6.4% in 2012, while a slightly positive balance is projected for 2018 (0.6%). In the Eurozone countries the fiscal deficit in 2013 averaged -3.0% of GDP, a further improvement from the previous year, continuing its downward trend after the abrupt increase of 2009.

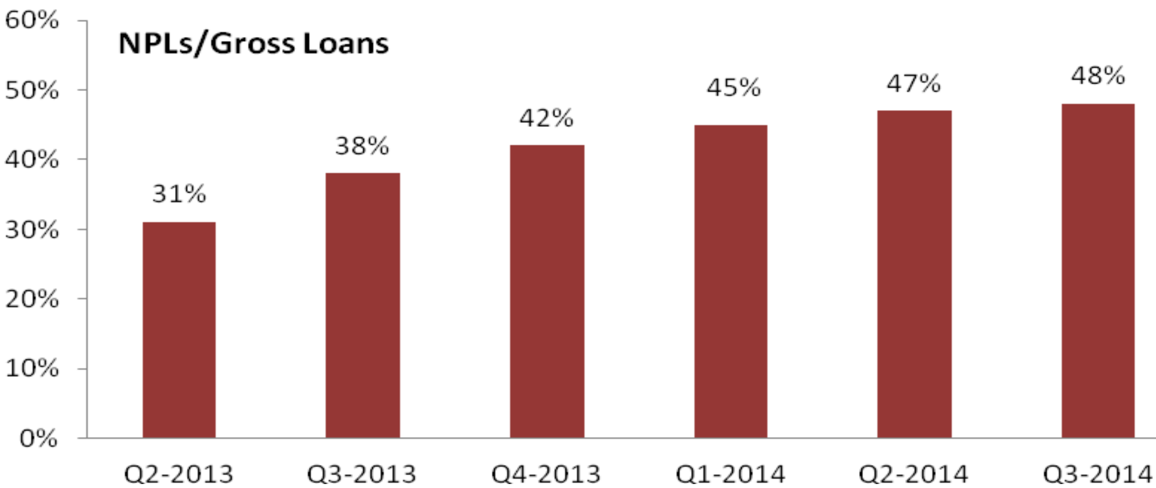
The increase of old and multiple imposition of new taxes (property tax etc) ignored completely Laffer curve dynamics, with the inevitable drop of government tax revenues, at a time when a fall in the tax burden was indicated to trigger automatic stabilisers for the correction of the economy's recession path (A. Theophanous, CCEIA, University of Nicosia, 13.6.2014).

Even though inflation dropped from 3.1% in 2012 to 0.4% in 2013 and -0.3% in 2014, the purchasing power of wages decreased substantially as salary cuts are far greater. Wages went back to the 2006 level, which in relation to the 2014 price index implies that the purchasing power of the euro in the household budget fell by -14%, representing a heavy drop of the standard of living. As in Greece the lower labour cost is absorbed by enterprises as increased profit instead of being passed on to raise competitiveness.

Acting within the Monetarist model of "return to laissez faire" the Troika advocates privatization and the clearance of state assets, including the profitable state-owned enterprises calculated to raise €1.4 billion by 2018. However, economic theory states that natural monopolies, such as the provision of electricity, serve a social role. In essence they can be viewed as public goods in cases of market failure. Without government regulation of production and pricing such privatized markets are likely to function as socially unjustifiable private monopolies seeking high rents.

High unemployment rates ensued, 15.9% in 2013 and 16.1% in 2014, which were especially high among the young. Unemployment is expected to stick to the 15-16% range for 2015-2016. If undeclared unemployment is considered, the rate rises to 20%, a percentage never recorded before in the labour market. The future prospects of a whole generation were dented, with inevitable migration of human capital to be used in the production function of other countries. Statistics show that about 25000 people, mostly young emigrated from Cyprus in 2013 and another 15000 in 2014. High unemployment and human drainage has left the Social Security Fund with lower revenues by €153 mn in 2014.

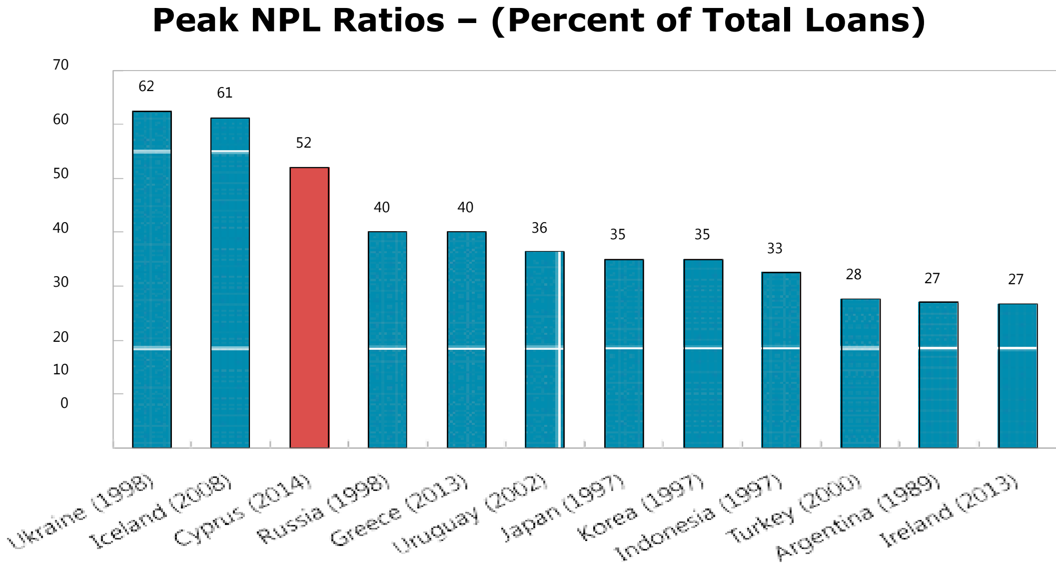
As a result of the grabbing of the wealth of domestic residents to recapitalise the banks and the severe recession and unemployment that followed, many loans, almost half of the overall loan portfolio in the Cypriot banking system, worth €57.2 bn in December 2014 became non-Performing. NPLs represented the highest percentage share in the EU, rising to €27.5 bn by December 2014, as shown by the chart below.



Source: Central Bank of Cyprus

In fact, according to the IMF, Cyprus has one of the highest rankings in peak NPL ratios among a number of countries that went through crises (Chart below).

Peak NPL Ratios – (Percent of Total Loans)



Sources: IMF, Laeven and Valencia (2013)

Total NPLs are expected to rise to 55-60% of the overall bank loan portfolio as the on-going recession and unemployment hit harder household incomes in 2015. Indeed, as of July 2015, with the MoU austerity measures hitting the economy harder and raising

unemployment, NPLs exceeded 60%, while those of the Co-operative banks exceeded 50%. Based on 2014 preliminary results, Bank of Cyprus, problematic housing loans account for 10% of its NPLs of €12.7 bn. The high NPL ratio is exerting a tremendously negative impact on the banks' balance sheet and capital. Essentially, the banks ceased to be banks since they stopped performing their primary role of financial intermediation and extending credit to the economy. This is another proof of the destructive effect of the collapse of the banking sector on the economy.

The average house price in Cyprus fell considerably, while apartments suffered even more, according to the Royal Institution of Chartered Surveyors (RICS), due to the economic slowdown which has affected local consumer demand and the tightening of lending criteria, but also price correction. Specifically, the base value of the average price index, which was equal to 100 as at Q4 2009 fell by almost 30% by Q3 2014 regarding houses and by even more for all other types of property. The recession caused a disconnect between the objective and commercial value of properties, adding to complications, as happened also in other program countries. With the enactment in April 2015 of the foreclosure legislation (five laws affecting personal and corporate insolvency) and the expected distressed sale of properties, prices are likely to tumble further, with millions of euros lost in value, representing forced wealth transfer.

It is undeniable that the Cypriot society lived beyond its means on borrowed money. The Cypriot house ownership mentality, coupled with the rapacity of unscrupulous developers for big and quick profits led to a surge of loans to the private sector and the housing bubble. However, the foreclosures legislation on which Troika insisted by withholding the next ESM disbursement after the 5th MOU Review of July 2014 will not get rid of NPLs. Only the revival of growth can lift the economy out of its current misery and enable the repayment of private and public debt (A. Theophanous, 4.12.2014). Hitting at the very fabric of society's indigenous culture is wrong, callous and unjust. The great injustice lies in the manifest aim for a forced transfer of private assets to the new (mostly foreign) owners of the BoC at distressed knock-down prices below their fair market price, as if the several billions of euros already grabbed were not enough! Cypriot bank ownership fell into the grabbing hands of foreigners (i.e. the U.S. private equity investor Wilbur Ross, the European Bank for Reconstruction and Development and a few others regarding the Bank of Cyprus, and Wargaming.net, a big videogame developer from Belarus, which bought a large stake in Cyprus' second biggest bank, the Hellenic, and together with American investors owns more than half of Hellenic's shares), who bought into the banks on the cheap at the expense of the old shareholders and bank security holders. In this respect, the asset quality review and stress tests by the ECB serve to ramp up bank capital requirements. Of course, the sinister bail-in objective was to facilitate the repayment of the ELA to the ECB.

In effect, as Professor of Finance Stavros A. Zenios at the University of Cyprus argues in an analytical paper (14.3.2014) the Cyprus bail-in violated international principles of fairness. The tools brought in to solve the problem created significant adverse side effects, while available evidence questions the validity of confidential studies (by Pimco Investment House) guiding the policy decisions. Professor Zenios also questioned the unjust treatment of the old shareholders, whose stake was almost completely annihilated in comparison to what should have been a fairer calculation of their imposed losses. The foundation of the bailout was challenged by many more economists, lawyers and politicians as well as the BlackRock study for its deficiencies and most probably deliberately faulty methodology.

In fact, a separate Report / Study by BlackRock (the world's largest fund company) commissioned by the Central Bank of Cyprus shortly before Pimco issued its report on 1.2.2013 criticized Pimco's lack of transparency and its excessive financial assumptions, which deviated from international accounting standards, thus inflating how much cash banks needed to survive. Pimco analysts, according to BlackRock, gave little chance that troubled loans would recover over time and were very aggressive in marking down the value of real estate collateral. All of that increased the loan loss estimates and the amount of money needed to keep banks solvent. The BlackRock study, which has never been publicly released, but kept strictly under wraps, was reviewed by the New York Times and suggests that the banks' needs were at least €1 bn less. Actually, Government investigators, who delved into the matter, found that capital requirements were even lower, just over €6 bn.

When Pimco delivered its report on 1.2.2013, the ex-CBC governor Mr. Demetriades wrote an excoriating letter to Mr. Mogelof, the Pimco executive overseeing the project, stating that Pimco's estimate "appears to be extracted from a black box calculation". Mr Mogelof responded in a letter that **its assumptions came directly from Mr. Demetriades's team at the CBC as well as the country's creditors** (!!!). Quod erat demonstrandum (ὅπερ ἔδει δεῖξαι): There could not be a more revealing proof or admission that Pimco succumbed to pressure from the three bodies lending money to Cyprus / the Troika (IMF, ECB and European Commission), unbelievably with a helping hand from the CBC, in a malicious plot to rob depositors, bank security holders and shareholders with a heavy bail-in and concomitantly to destroy the banking system with the inevitably consequential loss of trust.

Indeed, a month and a half later, in March 2013, the Pimco report was used by European officials to calculate the illegal and faulty bailout and the resulting resolution of the two systemic banks (Laiki and Bank of Cyprus). The gloomy assessment was also used to defend the Piraeus Bank's purchase of the Cyprus banks' assets fire sale, knocked-down prices. According to people who participated in the review, Pimco bankers

have said that they never intended the report to be used to value the Piraeus Bank transaction. That is another admission of the theft of Cypriot depositors, bank security holders and shareholders.

In a radio interview on 13.7.15, ex CBC Governor, MIT Professor Ath. Orphanides, stated that he knows for a fact that "crimes were committed at CBC, including the illegal provision of ELA at the end of 2012 and the beginning of 2013. This violated established procedures and could only be characterised as theft. The theft comprised the assets of Cypriot bank shareholders, bank security holders and depositors and the transfer of billions of euros of their property to a certain bank in Greece (Bank of Piraeus). The CBC management bears the main responsibility for this but also the AKEL government. Their actions should be thoroughly investigated, as they cost billions of euros to the Cypriot citizens, brought down the banking system and destroyed the country's economic model. The technocratic Report on the banking system by Finance Professor Stavros A. Zenios provides evidence for the CBC mistakes and the illegal provision of ELA at the end of 2012 and the beginning of 2013, when the Laiki Bank was manifestly insolvent, according to the CBC's own data. There is also evidence concerning the Pimco Report crime, which inflated the problems of the banking system, leading to the bail-in / haircut. The BlackRock Report results could have been used to avoid the bail-in / haircut, yet the CBC withheld the information on the ridiculous excuse that the Anastasiades government would not understand it. Evidence about the BlackRock Report was revealed in New York Times articles and a documentary by the German journalist Harold Schumann. The BlackRock findings are hidden precisely because they prove the committed crimes. The Pikis investigation Commission did not use the Zenios technocratic Report and instead focused on political responsibilities, which is not enough. A technocratic analysis / investigation should be done to prove the mistakes of the CBC".

The Eurogroup's vindictiveness against Cyprus undermined confidence not just in the Cyprus economy but in the euro zone itself, prompting capital / bank deposit outflows, as investors thought it safer to exit the country. Further, it hurt the very concept of modern banking systems which are based on fractional reserves for banks, backed by some form of governmental guarantee (A. Theophanous, CCEIA, University of Nicosia, 14.6.2013).

Banking practices after March 2013 moved from the imprudent practices and high risk taking of the past to total risk aversion and strict and bureaucratic procedures, which have effectively limited the granting of loans. Banks prefer to keep zero-interest earning liquidity rather than lend unless a pile of forms are filled in and very high collateral is presented to them. This has exerted a suffocating effect on people and the economy.

The kick out of the Cypriot banks from Greece not only resulted in a net loss of assets of around €3.2 bn to the Bank of Piraeus but was tantamount almost to a de facto exit from the Eurozone leaving Cyprus with no systemic leverage whatsoever. Panayiotis Kamenos, leader of the right-wing "Independent Greeks", in an interview on the Greek public television (ET) on 8.9.2015 stated that the Cypriot bank branches in Greece were in fact seized / confiscated by the Troika / Eurogroup decisions and that the Greek Bank branches abroad would have suffered the same fate, if Greece had not accepted the third MoU on 11.7.2015. This is an extraordinary confirmation of the truth and a corroboration of ex CBC Governor Ath. Orphanides regarding the most dishonest theft of the Cypriot bank shareholders, bank security holders and depositors and the transfer of their property and assets to the private owners of the Bank of Piraeus. A whole people was sacrificed for the benefit of private banking interests!

The total sum bailed-in for bank recapitalization was €9.4 bn, of which €7.8 bn came from uninsured deposits and €1.3 bn from bank bond / security holders, most of whom were tricked into purchasing them, without the banks revealing the dire capital deficiencies and exposed position they were in. On the contrary, bankers made misleading statements at the time, which are now under investigation by the Law Office of the Republic.

Cyprus Banks Bail-in, €bn			
	BOC	Laiki	Total
Uninsured deposits	3,9	4,0	7,8
Senior debt	0,0	0,1	0,2
Subordinated debt	0,6	0,8	1,3
Total	4,5	4,9	9,4
Source: IMF			

Despite Central Bank secrecy it is estimated that a third of the €7.8 bn deposits bailed in i.e. €2.6 bn, belonged to domestic residents. If the €1.3 bn bailed in from bank bond holders is added Cypriots lost €4 bn. Moreover, Cypriot shareholders, bank securities holders and depositors were forced to recapitalize the bank of Piraeus to the tune of €3.2 bn and the Greek state with another €4.5 bn. This represented a huge transfer of wealth to Greece of almost €8 bn or about 50% of Cyprus GDP. In accounting terms for every debit there is a credit: It is evident that without the transfer to Greece of such a huge amount of wealth / savings belonging to Cypriots there would not have been any need for a bail-in, which destroyed confidence in and the reputation of the banking system and its final collapse. This may explain why the Troika demanded on 26.3.2013 that the Cypriot branch networks in Greece be undone via an unnecessary fire sale and not an authentic indicated auction, for the meager, knocked down price of only €524 mn, in conditions of induced

panic and haste characterized by the lack of transparency. The Bank of Cyprus was threatened by Troika with closure unless it accepted the fire sale of the Cypriot bank branches in Greece and also the Laiki ELA liability, a huge some of around €9.5 bn. It was a blackmail of the worst sort. It was an outright theft, a shameful and disgusting robbery. The end result was to recapitalize the troubled Bank of Piraeus at the expense of an equivalent increase of the recapitalization needs of the Bank of Cyprus for which it resorted to robbery of the depositors, its debt security holders and its shareholders. Moreover, the Laiki ELA liability of €9.5 bn never resulted from any bad decisions by the shareholders of the Bank of Cyprus. Therefore it was an illegal transfer of an external liability for which the ECB and the Central Bank of Cyprus should be held accountable. Consequently, all the depositors, the bank bond holders and the shareholders have legal justifiable claims against the Bank of Cyprus, the resolved Laiki and the government because they did not lose their savings / investments via an ordinary business bankruptcy but a grabbing and transfer of their money in a totally illegal manner and outright violation of their constitutional and human right to their property.

Yiannis Stournaras, Minister of Finance between 5 July 2012 – 10 June 2014, who was appointed Governor of the Bank of Greece by Prime Minister Antonis Samaras on 20 June 2014, and George Provopoulos, Governor of the Bank of Greece from 2008 to 2014, i.e. at the time of the Cyprus bail-in, both played a dark role in the behind-the doors deals in a manner hostile to the interests of Cyprus. This could easily be characterized as an economic coup d’ état, which was almost as irrational and destructive in its consequences as the Greek military junta coup d’ état of 15.7.1974. Even though the banking sector in Greece received recapitalization aid from the ESM of the order of €50 bn so as not to resort to a haircut, the Cypriot banks in Greece were not allowed to benefit from the assistance granted. Ignoring the fact that the Cyprus banks realized losses of €4.5 bn precisely because of the Greek “PSI” of October 2011, the Cypriot Finance Minister M. Sarris was turned away by Provopoulos and Stournaras when he requested a fair share of the assistance. This was a manifestly shameful lack of solidarity. Furthermore, in a most illegal, devilish and evidently discriminatory act the Greeks who held deposits at the Cypriot bank branches in Greece were excluded from the carnivorous haircut theft, resulting in even greater haircuts and robbery of Cypriots and foreigners.

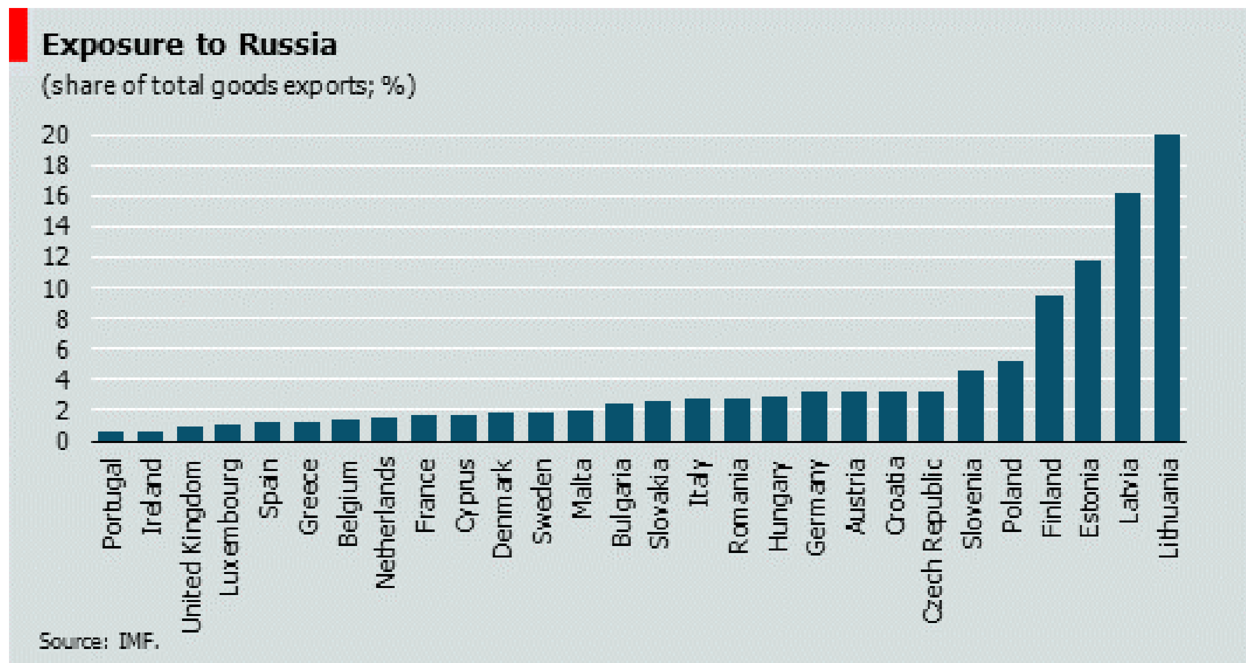
In its October 2014 Report on Cyprus the IMF admits that collapse of the banking sector in early 2013 triggered financial instability and made Cyprus’s external position highly vulnerable. Financial-sector liabilities, mainly non-resident deposits, are large and unstable, requiring the maintenance of external-payment restrictions. Reliance on official financing is high and rising, while the external liabilities of the central bank with the Euro-system remain significant. The outlook is difficult, with the recession expected to continue this year, followed by a modest

recovery starting next year. Finally, the IMF concedes that risks remain tilted to the downside.

Moody's Credit Rating Agency in its November 2014 Report assigns a stable but weak economic outlook in which high NPLs in the banking sector continue to pose risks to debt sustainability. Moody's believes that Cyprus remains in a similar position to other defaulted sovereigns. The underlying problems that led to the country's initial default are not yet fully resolved and the likelihood of redefault will remain elevated for a sustained period of time. Standard and Poor's Investor Services confirm that in their view the restructuring of Cyprus' financial sector will have a major effect on the economy. The Agency believes that investment growth will be held back by domestic banks' deleveraging and the economy's high credit risk which is exacerbated by high real interest rates and deflationary pressures, all leading to stress on Cyprus' financial stability.

In their latest 2015 Reports / Announcements, the Credit Rating Agencies Fitch, (24.4.2015), DBRS (5.6.2015) and Moody's (29.7.2015) converge in assigning «B-», «B (low)» and «B3» grades respectively as government bond rating, which are four and five positions below the so-called investment grade. These ratings reflect the government's high debt burden and the large stock of NPLs in the Cypriot banking sector that limits the banks' ability to support economic growth. In fact, all the Credit Rating Agencies underline that the Cypriot authorities' main challenge is to stabilize the banking system, which is heavily exposed to NPLs, exceeding 50% of total loans or about 157% of GDP. Despite the fiscal correction, the economy remains fragile and general economic conditions remain challenging. The GDP is expected to fall by 0.8% for a fourth consecutive year, following its 2.3% decline in 2004, according to Fitch. According to DBRS, general government debt is expected to peak at 108% of GDP in 2016. The Reports of the Credit Rating Agencies confirm the detrimental impact of the MoU and the bail-in on the bank system and the Cyprus economy, whose path to recovery after such a blow continues to be extremely thorny. Recovering the malevolently destroyed confidence in the banking system is a Sisyphean and not a Herculean task.

In its October 2014 Report on Cyprus the "Economist" underlines that Cyprus is one of two euro zone economies still in recession (the other being Italy), which has persisted since the fourth quarter of 2011. It points out the Knock-on effects of a further Russian slowdown from EU sanctions most notably in those countries which rely on Russia as an export market. Tourism and the professional services sectors in Cyprus remain over-dependent on Russia in this respect (Chart below). This is another instance of Cyprus paying a high price due to the EU without a quid pro quo.



The MOU delivered a blow to the Cyprus business and economic model. It removed its comparative advantages as an attractive financial center. As a consequence of the above, the Cyprus banking system was not just forcefully downsized to below four times the GDP, but control and ownership of the biggest bank the BoC, which absorbed the good and bad Laiki, passed to foreign interests. Today, BoC shareholders are about a third each, Americans, Russians and Cypriots. BoC was delisted from the Cyprus stock exchange (but relisted in December 2014) whose trade activity dwindled, since BOC and Laiki stock were the blue chips that gave life to it.

Moreover, heavy widespread taxation of various forms forces Cypriots to subsidize the repayment of stolen wealth taken on the state balance sheet (such as the €1.8 bn recapitalization bond to Laiki and government loan guarantees given without due diligence under political pressure based on clientelism), in the name of balancing the budget.

Furthermore, the bail-in and the ensuing recession exerted a catastrophic effect on Cypriot household lifetime planning based on the life cycle Consumption hypothesis. It distorted private sector Consumption-Savings-Investment decisions with adverse consequences on private demand and resulting negative spillovers into public sector taxation and other revenues.

Troika MOU measures have not only caused high unemployment and poverty but have also resulted in wealth redistribution in favour of the stronger / richer social classes / plutocrats. This parameter, extremely damaging to social cohesion does not enter Troika calculations but proves the contradictory forces and relations underlying free market economies / capitalism when not regulated: Social production but private appropriation of profit. The embezzlement of funds was so huge that even the weaker

sections of society who have to live on a €350 pension a month must contribute. Under the pretext of the so-called “Minimal assured income” Troika moves the puppet strings for means testing, while allowing millionaire sharks to slip through the tax net unhustled.

The Cyprus Gini coefficient measuring the statistical dispersion of the country’s inequality rose from about 25 prior to the crisis, an index close to that of Scandinavian countries to 32.4 in 2013, above the average for the EU and approaching that of some poor African and Latin American countries. With the crisis biting and unemployment rising over the last two years, the real Gini coefficient, taking account of the cuts in social expenditures and heavy regressive taxation which hits the poorer sections of society disproportionately, should now be around 40 out of 100 and on a rising trend. That represents a perpendicular increase in inequality and poverty.

Koutsampelas and Polycarpou (2013) have examined the effects of the austerity measures that affect wages, taxes, social benefits and contribution rates. Their findings show that the rise of unemployment and falling wages have impacted on income distribution by increasing income disparities. The burden of adjustment falls mostly upon households located at the middle and upper part of the income distribution, due to the progressivity principles applied, albeit certain low-income groups are harmed, too. Also, the specific configuration of the political system plays an important role in the allocation of costs. Some interest groups with large lobbying power have tried and succeeded to derail policy decisions in order to minimize their own economic losses at the expense of the losses of the society at large. These comprise the big property owners, the Central Bank of Cyprus and the bankers, who have belatedly taken minimal cuts compared to the public and private sectors.

So far the so-called structural reforms have concentrated on assisting the survival of the banking sector (i.e. the foreclosure legislation), without any visible gains to the economy or society at large. As issues of equity and efficiency are intertwined it seems that by destabilizing the economic system Troika has failed to propose policies which minimize equity losses while promoting efficiency. Hence, the “bail-in” and the MOU inflicted unprecedented damage on the Cyprus economy. The cruel and irrational “bail-in” crime faced severe criticism, some of which is recorded below:

Irish MEP Nessa Childers, daughter of the country's former President Erskine H. Childers, painted a bleak picture. She described the efforts of the EU-IMF as an "incompetent mess" and said the Eurozone was more destabilized as a result.

In its Schumpeter Blog “The Economist” called The Cyprus bail-out: Unfair, short-sighted and self-defeating. "The Cypriot deal has no coherence in the larger context. The bail-out appears to move Europe

further away from the institutional reforms that are needed to resolve the crisis once and for all. Rather than using the European Stability Mechanism to recapitalize banks, and thereby weaken the link between banks and their governments, the euro zone continues to equate bank bail-outs with sovereign bail-outs. As for debt mutualisation, after imposing losses on local depositors, the price of support from the rest of Europe is arguably costlier now than it ever has been".

Dr. Jeffrey Stacey wrote in Germany's Der Spiegel, under the headline "'Abject Error': How the Cyprus Deal Hurts EU Strategic Interests. In strategic terms the EU hurt not only Cyprus and itself, but also the interests of the US and other allies in the West. Europe pushed Cyprus directly into the arms of the Russian government. Not only did this hurt the prospects for its own deal, but it gave leverage to Moscow in the process".

Economist Richard D. Wolff commented in an interview in relation to the Cyprus bailout agreement: "This is blackmail. This is basically the officials of the banks and the political leaders going to the mass of people and saying to them, "This awful deal that makes you, who have nothing to do with the crisis and didn't get any bailout, pay the costs of the crisis and the bailout. You must do this, because if you don't, we will do even more damage to you and your economy. So give us your deposits, give us your money, pay more taxes and suffer fewer social programs, because if you don't, we will impose even worse on you." It's the basic idea of austerity across the board and in our country, too. And I think it's the confrontation of a system that does not work with the mass of the people, saying, "We will go down and take you with us, unless you bail us out".

Indeed, this is how the Cyprus economic model and its banking system were destroyed and the people were handed the bill by those, who, in their effort to enrich themselves by amassing wealth for a thousand years, destroyed them and their livelihood in the process.

Even though size and concentration posed risks to the banking system, it was not these that precipitated the collapse of the banking sector and with it the economy. It was the imprudent malpractices, negligence, unprofessional and unethical behaviour of the bankers, who exploited moral hazard and asymmetric information for their personal aggrandizement and gratification to the full without any scruples. The mismanagement by the Boards of Directors and their corrupt connection to the economic oligarchy and the political establishment (as testified by the list of those who were granted debt write-offs or concessionary loan terms) proved to be fatal for the economy. These ruinous shortcomings were worsened by a complacent and inept, in fact lacking, supervision of the banking system by the CBC. It is asserted that the banking establishment always had a strong influence in the appointment of the CBC governor and the other members of the Board of Directors, who were

never renowned for their smart qualifications or suitability for the job. Over decades the CBC was simply accommodating to bank interests. The bankers just did what they liked without the exercise of any due diligence or proper supervision. The appointment of the CBC governor and the other members of the Board of Directors were further politicized starting with the election of the Christofias government on 17.2.2008 at a time when the CBC as an institution should have been strengthened, following entry into the Eurozone on 1.1.2008. These developments were evidently connected to the bank scandals and the eventual collapse of the bank sector that dragged the economy to its ruin. All these factors culminated in catastrophic deficiencies which were crucial for the systemic collapse, since the Cyprus economic model was based on banking, financial and professional services. As concluded in the previous Chapter and elsewhere in this Policy Paper / Study, the fiscal problems could have been easily controlled and would never have caused the disintegration of the economy. All that was needed was a wise government to rein in expenditure and fight tax evasion.

GREEK ECONOMY

"A ruler will never be short of good reasons to explain away a broken promise."
The Prince, by Niccolò Machiavelli.

Prior to the economic crisis and its MOU Greece clearly outperformed the benchmark Eurozone economy in real GDP growth since 1995-96, especially in the period 2000-2005. The expansion of household credit was a driver of private consumption at the expense of savings. Strong growth supported incomes. Greece experienced a high rise in real disposable income (16% increase during 2006-2008 alone), along with Spain, Portugal and Finland, compared to household real disposable income growth in the Euro area economies during the period 2000-2010.

On the downside, Greece had a huge "domestic Income-Expenditure" disparity reflected in its twin fiscal and current account deficits (2009-10). The comparative Table of the GDP structure below proves that the Greek economy was not healthy. In the decade 2001-2010 Greece consumed too much (91% of GDP) and exported too little (22% of GDP). Cyprus also overconsumed (86% of GDP), exported more but also imported more than Greece.

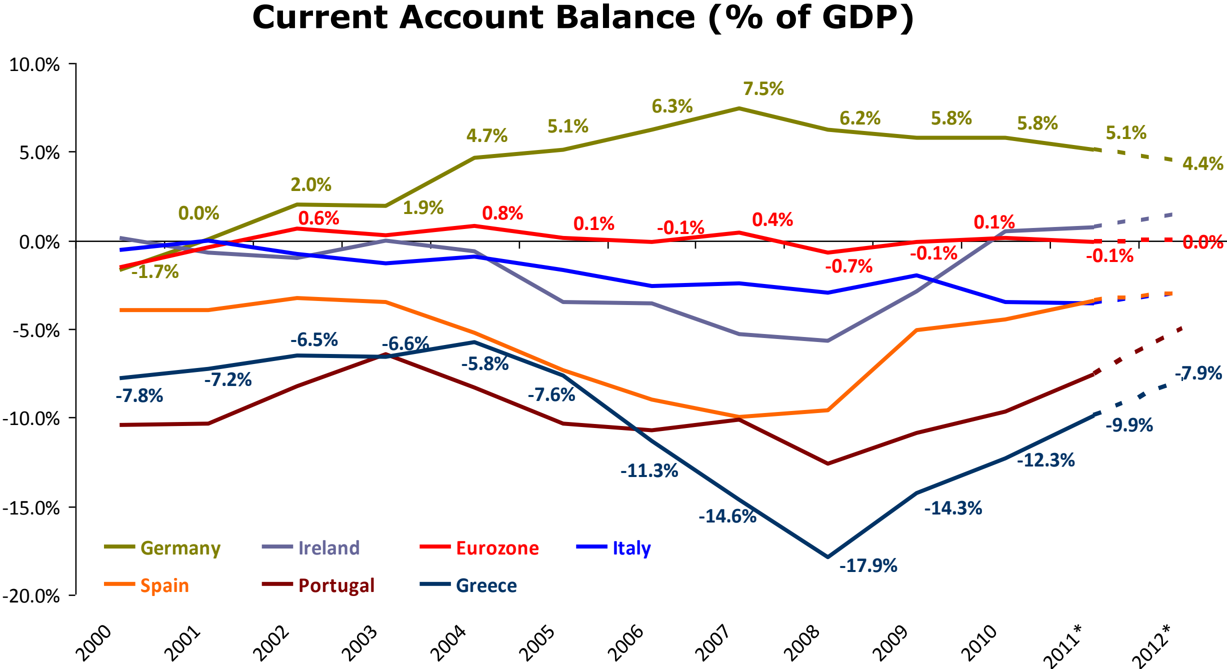
EU-17 GDP Structure (Demand side) (2001-2010 avg)

	Final Consumption (% of GDP)	Investments (% of GDP)	Exports (% of GDP)	Imports (%of GDP)
Eurozone-17	**77,4%**	**21,2%**	**41,6%**	**40,3%**
Belgium	**74,0%**	**21,7%**	**88,0%**	**83,9%**
Germany	75,6%	19,5%	44,0%	39,2%
Esthonia	73,8%	33,7%	79,2%	90,3%
Ireland	**63,1%**	**21,7%**	**101,6%**	**85,0%**
Greece	**90,7%**	**22,3%**	**22,4%**	**35,3%**
Spain	78,9%	27,2%	29,5%	35,9%
France	80,8%	19,7%	29,3%	29,9%
Italy	79,5%	21,0%	26,7%	27,2%
Cyprus	86,2%	19,9%	51,9%	57,1%
Luxembourg	54,0%	23,6%	170,0%	147,8%
Malta	85,3%	16,4%	91,4%	93,1%
Netherlands	**72,8%**	**20,3%**	**78,0%**	**71,0%**
Austria	**72,4%**	**22,8%**	**55,2%**	**50,5%**
Portugal	**85,3%**	**24,4%**	**32,9%**	**42,8%**
Slovenia	73,8%	27,9%	65,2%	67,1%
Slovakia	74,0%	26,8%	86,4%	86,8%
Finland	**70,8%**	**20,1%**	**46,4%**	**38,5%**
Sweden	**72,4%**	**18,5%**	**50,8%**	**41,4%**
United Kingdom	84,4%	17,5%	28,5%	32,1%

Source: Eurostat

Structural competitiveness rigidities included overregulated product markets and restrictions in Service sectors. Greece has lost cost competitiveness concerning relative unit labor cost and moved back to 100th position among 183 countries in 2011 from 80th in 2006 according to the doing Business Report of the World Bank. Over 1995-2008 there was a consistently low competitiveness ranking relative to per capita GDP. The Income-competitiveness disparity was a warning signal that the bubble would sooner or later burst.

In addition, there was persisting inflation differential with the euro zone (1.5-2.0%) (in the goods' sector, not a Balassa–Samuelson effect), a persistent current account deficit (12-14% of GDP) and high budget deficits which fuelled inflation and deteriorated the Current Account Balance (Chart below).



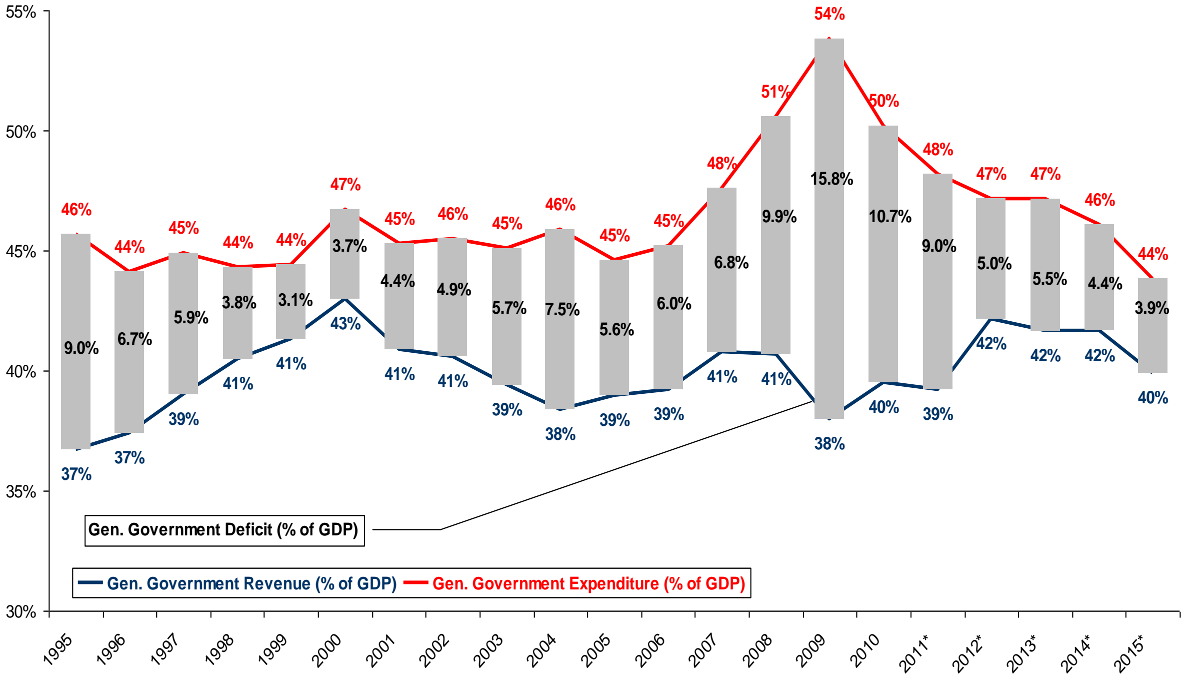
Sources: Eurostat/European Economic Forecasts, European Commission, Autumn 2011

Worse still, red tape and growth-stifling regulation were keeping employment less than 50% of total population, while foreign direct investment was practically zero. The public sector debt was excessive, above 100%. The estimated total administrative burden / cost as % of GDP, at 6.8% in 2003 was sky-high in Greece, compared to the EU and in particular 1.5% in the UK, 3.7% in Germany and 4.6% in Italy (Kox report for European Commission, 2005).

Greece's major problems were fiscal derailment and loss of competitiveness. In the fiscal domain it had chronic general government imbalances and a social security system that was not viable. Its main problem was primarily the solvency of its governments rather than its banks.

On the expenditure side, the expansion of the state involved an Increase in the number of civil servants which doubled between 1980 and 2010. Special privileges were provided to social groups (safeguarding the status quo). The average spending on public sector wages increased by 100% during the decade 2000-2010, while public employment climbed over 10%. The public sector exhibited lack of planning or control of its size and quality, transparency, incentives or quantification of results.

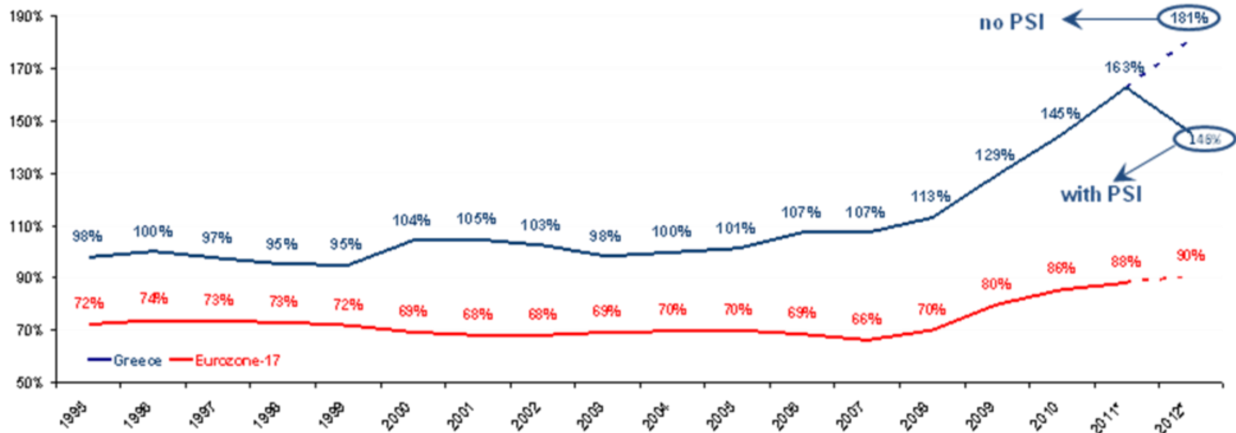
On the revenue side Greece suffered from a big shadow economy and widespread tax evasion. The fact that the state loses approximately annual revenues of €1.3 bn just from gasoline contraband is a telling indicator. The most acute problems of inefficiency and evasion relates to personal income tax: Revenues from personal income tax were 4 percentage points of GDP lower than the Eurozone average for 2005-2009 (despite comparable tax rates). This was associated with the large share of the income of self-employed: 24% of GDP on average for 2005-2009 vs. 12.5% of GDP in the Eurozone. For 2009, 94% of tax payers reported annual incomes of less than €30,000. Consequently, there was a widening fiscal deficit in the period 2000-2009 that preceded the collapse in 2010 (Chart below).



*Estimate. Sources: AMECO database, ELSTAT, 2012 Budget, Ministry of Finance, November 2011

Given the fiscal cliff the Greek debt dynamics showed a widening gap compared to the Eurozone (Chart below).

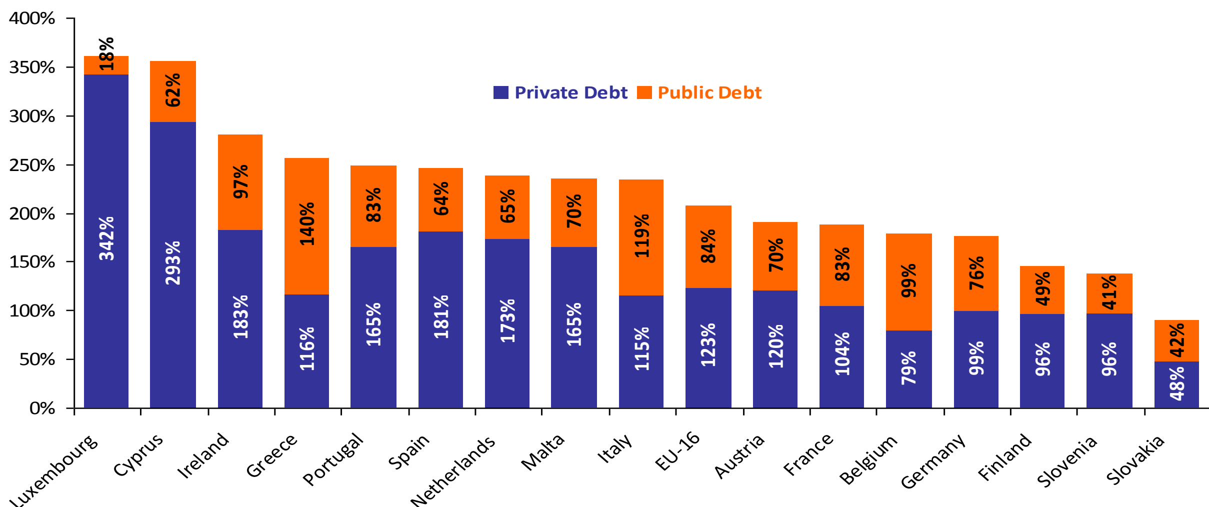
General Government Debt (% of GDP



*Estimates. Sources: AMECO, ECB, 2012 Budget, Ministry of Finance, November 2011

Rapid private sector imbalances and leverage through bank credit followed entry into euro zone. Cyprus bank branches and Greek banks became exposed to NPLs via imprudent lending. However, the private sector debt in Greece remained relatively low unlike Cyprus (almost 300% of GDP), as the chart below shows:

Private Sector – Public Sector Debt 2010 (% of GDP)



*Estimates. Sources: AMECO, ECB, 2012 Budget, Ministry of Finance, November 2011

Despite the above path towards the bursting of bubbles and economic collapse, Greek politicians, as much as Cypriot politicians refused to accept the political cost of taking corrective measures. They were aware of the costs for Greece joining the single currency and the required reforms but the survival of the nation took third place, far below their personal or party benefit. Hence, Greece failed as an economy before the program. The crash in 2010 could easily have been foreseen.

MOU IMPACT ON THE GREEK ECONOMY

"Solitudinem faciunt, pacem appellant (They make a desert / desolation, and call it peace.", Tacitus, ca. 56 - ca. 117).

Greece entered the Troika Program in spring 2010, more than one year before Portugal. Portugal exited its Program after three years in May 2014, Cyprus is due to leave it also after three years in spring 2016, while Greece is currently asking for a follow-up third rescue package, without which it will default.

Specifically, on 2 May 2010, Greece was granted a €110 bn bailout loan to rescue the country from sovereign default and cover its financial needs from May 2010 until June 2013, conditional on implementation of austerity measures, structural reforms and privatization of government assets. A year later, a worsened recession along with a delayed implementation by the Greek government of the agreed conditions in the bailout program revealed the need for a second bailout worth €130 bn (now also including a bank recapitalization package worth €48 bn), while all private creditors holding Greek government bonds were required at the same time to sign a deal accepting extended maturities, lower interest rates, and a 53.5% face value loss-the so-called "PSI". The second bailout program was finally ratified by all parties in February 2012, and effectively extended the first program, meaning a total of €240 bn were to be transferred at regular tranches throughout the period from May 2010 until December 2014.

Despite helping Greece in a number of ways, such as debt relief of €60 bn in the October 2011 Greek PSI (Private Sector Involvement, which is a euphemism for official theft of investments in Greek sovereign debt) and the above-mentioned bank bail-out, (instead of imposing a destructive bank bail-in as in Cyprus), the Troika shock therapy placed the country on a catastrophic course. Greece's economy with its built-in weaknesses was pushed into the mess of protracted depression, eroding any reform benefits.

The nominal GDP recorded big reductions throughout the period 2010-2014 registering a cumulative fall of around 30%. Gross debt jumped from 148.3% in 2010 to 177.1% in 2014. There huge fiscal cliff remains. The overall fiscal balance has been estimated to stay in negative territory for the period 2010-2016 that includes projections, proving that heavy taxation, unsurprisingly, has failed to restore fiscal health, let alone tackle the structural weakness of public finances. The structural current account balance presents a similar picture for the same period, indicating that the Program is failing to restore competitiveness (See Appendix III).

Moreover, the MOU created severe socioeconomic conditions in Greece as a result of the failed policy approaches: So far, despite high emigration (of about 300.000 people owing to the crisis), over 1 mn jobs have been lost, with unemployment hovering around the 25-30%, of which 64% young people. Deflation and decreasing salaries and pensions are creating stifling conditions in the labour market and the social domain, with a negative impact on the real economy. The social cost is huge and includes increased suicide (of an estimated 3.000 people due to the crisis), crime, prostitution and drugs use rates. Four out of ten children live in poverty. The strengthening of the social safety net has been subject to delays, while the pensions system remains unviable.

According to economist Theodore Pelagidis "Greece is facing the depression of the century" as a result of the Troika program. The MOU not only failed to solve the main problems (business environment, privatization, product markets and professional services, bad laws etc), but (as implemented) created new ones. It focused initially only on tax increases and lowering wages in the private sector. It ignored for too long non-wage costs in spite of the hard evidence that they were the main problem for the productive economy, not average wages.

For example, exports are not making a difference today (as in Portugal) because Greek enterprises are facing heavy taxation, high energy costs, lack of liquidity, and last but not least, sky-high interest rates. Private sector cost of money, including energy cost and taxes crowded out the fall in wages! Overall the productive sector was left to wither away. Furthermore, the MOU introduced unbelievable complication with all the new tax laws. The increases in taxes and prices of state-monopolies caused stagnating exports. Grexit talk context just before "PSI" 2 destroyed a large part of a healthy private sector, which constitutes the tax base. Real "structural reforms" were not a priority till 2013. However, the new problems that arose from the Troika conditional policies cancelled the positive effect of the many structural reforms of 2013. Bank balance sheets remain fragile with low quality capital and very high NPLs, which rose from about 13% of total loans in 2010 to 40% in 2013. The 10-year Government Bond Yield which diverged sharply above that of Ireland, Italy, Portugal and Spain when Greece went into the Program in 2010 still remains above the respective ones for those countries. Predictably, performance on privatization and receipts continue to fall short of expectations and targets, since they are implemented in deep recession when investor sentiment is low.

Examining the reasons for the disastrous MOU results, professor Pelagides (2014) states that the creditors failed to tackle the problems of the Greek economy in a number of ways: First, the Greek government was allowed to continue the "Business as usual rent-seeking system" which represented a "dead end" for the productive economy in 2010-2012. Second, Troika heavily taxed the economy in an attempt to close the

primary and the general fiscal balance, which exerted a significant inflationary impact and hurt the productive sector so much that almost expulsed the economy from the euro zone. Hence, the fiscal multiplier depressed the economy further, while policy implementation was blamed. Third, internal devaluation was imposed with the aim to increase competitiveness, which in conjunction with heavily taxing the productive sector made debt repayment a self-defeating impossible task for the country. Fourth, there was a misguided attack first and foremost on the already low private sector wages (42% below the Eurozone average in 2013), which was bound to be ineffective when there are so many self-employed and unemployed. The private sector wage bill was 18% of GDP, the lowest in the EU. Fifth, the budget deficit remained structurally embedded because the emphasis was on sharp wage cuts, while revenues and expenses were not consolidated. Even though employment in public administration, defence, health and education over total population stood at 8.4% in Greece, compared to 10.5% in EU27 and in EA17 (Eurostat, 2012), it is excessive (around 58% in relation to 40% in EU27 and in EA17) when compared to the tax-paying private sector employees. Sixth, labour market deregulation was implemented ahead of product market liberalization which goes contrary to economic logic. This was due to the persistence of rents in protecting sectors and massive free riding. The political economy of reform was considered a theoretical nuisance to ignore.

The above failures and the bad outcome proved that the Troika did not understand the key challenges for the economy. In its June 2014 Report on Greece the IMF acknowledges that despite "significant progress" in rebalancing the economy a number of challenges remain to be overcome before stabilization is deemed complete and Greece enters a sustained and balanced growth path. The real exchange rate remains overvalued, and non-tourism exports are relatively weak. Banks face a mountain of bad loans that will require adequate capital and oversight to clean up, which implies a prolonged deleveraging antithetical to the assumed recovery. Fiscal gaps are projected for 2015-2016 and public debt remains very high. Structural reform commitments, concerning product and service market liberalization have lagged behind, while further labour market and public administration reforms are required, since progress there is mixed. In other words, the IMF recognizes failure or minor gains compared to the damage wreaked on the economy.

Moody's in its October 2014 Comment on Greece states that despite the government's desire to exit the Troika program by the end of 2014, an early exit raises funding risk for Greece, given the high financing needs for next year and structural reform uncertainties, as these would probably decelerate without the strict conditionality associated with an economic program.

Jeroen Dijsselbloem the chairman of the Eurogroup since 21.1.2013 admitted essentially in November 2014 that the Greek Program failed as the Greek economy after more than 4 years of Troika medicine had still many weaknesses. Hence, no recovery is in sight. If there is to be a recovery it is likely to be a jobless one or rather a jobless stagnation. Even though Greece wanted to shed the shackles of the Troika after two MoUs, it was still facing a financing gap which made a third bail-out program inevitable.

The Drama of the Third Mou

"I will make you an offer you cannot refuse" - Godfather.

"The position of Prussia in Germany will not be determined by its liberalism but by its power ... Not through speeches and majority decisions will the great questions of the day be decided, but by iron and blood (Eisen und Blut)".
Speech by Otto von Bismarck, German Chancellor, given in 1862.

Inevitably the economic chaos caused major social upheavals which have affected the balance of power in Greece's political system. The situation at the end of 2014, almost five years into the program was one of social disruption, uncertainty and political instability, evidently worse than in 2010. The economic crisis and the collapse of traditional parties helped Syriza grow its influence catapulting the party into power in the January 2015 Greek elections. Economics professor Yanis Varoufakis, appointed as finance minister has been arguing for years in his classes and blog publications about the non-viability of austerity and the unsustainability of Greece's debt burden. In the Eurogroup meetings and European summit discussion taking place over the six months prior to reaching an agreement on 12.7.2015, the new Greek government put forward political and economic proposals offering what it believed to be a reasonable way out of austerity and a chance to replace existing bailout laws with new ones. The Greek argument was based on simple rational economics and on basic economic equations: A positive economic growth rate above the average annual interest rate on sovereign debt is necessary in order to enable debt repayment. The Greek narrative kept recounting the complaint that Germany's heavy-handedness and self-interested policies regarding the European affairs forced Greece into a debt trap and reduced it to a debt colony. The articles of Nobel Laureates like Paul Krugman, Joseph Stiglitz and other renowned economists lent at least moral support to the Greek story line. Joseph Stiglitz in particular stated that it is in the self-interest of Eurozone and Europe to keep supporting Greece, adding that: "Almost all the money, 90% of the money that allegedly went to Greece did not go to Greece. It went to German and French banks and to the creditors". As stated by the ex-Governor of the Bundesbank the first

Greek MoU of May 2010 was proposed in order to assist the German and French banks and not Greece, which in fact was cheated into accepting it.

Greece cannot achieve a 4.5% primary surplus given its tax structure and tax evasion, while facing an agonizing near 30% unemployment, tantamount to a human crisis. It demands more flexibility on the rate of adjustment, such that it would enable the restoration of social cohesion by the introduction of social measures and by avoiding additional austerity measures. In the current derelict condition of its economy, it is impossible for Greece to pay off its debts and meet its broader economic policy obligations. The private and public debts cannot be repaid under conditions of a deep and sustained recession. If the austerity program continues it will lead to financial collapse and exit from the Eurozone by accident or design. Even default within the Eurozone would create serious complications well beyond Greece. The Greek government is stressing the necessity of stepping up measures against tax evasion, fraud and corruption. Such measures are likely to be effective, if tax cuts based on Laffer curve considerations, accompanied with severe penalties for non-compliance are introduced triggering private demand and supply side response. Such a boost in private spending would set in motion the automatic stabilizers and raise the public revenues.

Greece continued to emphasize the need for a fundamental change in the European Union's economic philosophy insisting that Troika austerity programs have left the country with unacceptable levels of poverty and a huge fall of its GDP, defying sheer economic logic, echoing the agony embodied in the Keynesian axiom "In the long run we are all dead". Tsipras, the Greek Prime Minister and Varoufakis admitted the truth about the continuing triple bankruptcy of the country - public debt, banks, private sector. They request from the official creditors time to rebuild state finances, improve tax collection capacity and repay with issued perpetuities when the government has public savings from growth. They are putting forward proposals manifestly reasonable and expect reciprocity from them and especially Germany.

Amid rising political uncertainty of what would follow, the Troika suspended all scheduled remaining disbursements to Greece under its current program - until the Greek government either accepts the previously negotiated conditional payment terms or alternatively reaches a mutually accepted agreement, including updated terms from the creditors. This rift has been causing capital outflows and a growing liquidity crisis (both for the Greek government and the Greek financial system) and the threat of a sovereign default and potential consequent exit from the Eurozone. Some final attempts were made in May-June 2015 to reach an agreement with the Troika or the so-called "Institutions". Negotiations dragged on fruitlessly for five months in an effort to find some adjusted terms that Greece could comply with in order to activate the transfer of the frozen bailout funds in its existing program. Embroiled

in a brinkmanship battle in which the stakes for the German-led hard-liners were not just the rescue of Greece or contagion from Grexit but the very survival of their misguided philosophy of economic austerity and their self-serving concept of the Eurozone, the "Institutions" refused to be flexible and the negotiations broke down.

The Germans kept repeating, not completely without justification, that they could not trust the Greek government. Even though Tsipras asked for his government to be given time to prove its credentials and its good intentions, the sins of past irresponsible governments weighed heavily down on him. Germany's frustration was expressed in the statement of the German Economy Minister, Vice Chancellor since 2013 and chairman of the Social Democratic Party of Germany (SPD) Sigmar Gabriel on 7.7.2015 that "The Greek elite has plundered the country for years and Europe stood by and watched them do it".

Der Spiegel claimed on 15.3.2015 that "German chancellery officials and the EU considered the Cyprus plan for Greece, as the Cyprus example may be the best choice for Greece in order to force the Greek government to implement reforms. The dangers of the problem spreading to other countries by a Grexit are small, and would be very limited, as member-states with a huge debt as well as the Eurozone itself are in a much better state than in 2012. ESM and the ECB have safeguarded the Eurozone and many believe that a Grexit will make the Eurozone homogenous. German chancellery officials studied the Cyprus crisis, since the country almost left the Eurozone on 17.3.2015. At that moment, the ECB threatened to cut off emergency aid (ELA) to Cypriot banks since the country's parliament refused to accept the EU's measures". In fact, Banks were closed to implement a haircut, while capital controls applied for more than two years. On 24.7.2015 Der Spiegel admitted that Germany wished a Grexit in order to preserve a German sphere of influence among hard-core MS. In fact, Der Spiegel reveals not just the thinking behind the Schäuble plan for a five-year "temporary" Grexit but also proves the targeting of the Cyprus banking system by Germany.

The Tsipras government argued truthfully that, facing such an unprecedented human crisis, it had already gone beyond its limits and its mandate from the elections of 25.1.2015. It could not impose an additional burden on the shoulders of the weaker sections of society. In what was a tactical move, in order to strengthen its position, the government carried out a referendum on 5.7.2015, amid closed banks as from 28.6.2015, in which 61.3% voted for renegotiation of a creditor deal, while the better-off 38% part of the population voted in favor of the proposed terms and a third rescue package. The Greek people were asked whether they were in favour or against further austerity measures, even though the political opposition tried to capitalize on the 75% who support Greece's remaining in the Eurozone by presenting the issue as a choice between the Euro and the drachma. In this effort the opposition was

assisted by the ECB's withholding ELA funding of the Greek banks. Worse still, the ECB imposed a further haircut on banks asset collateral for the provision of ELA. The ECB's refusal to grant ELA to Greek banks, forced them to close and impose capital controls from 28.6.2015 until 20.7.2015. Capital controls remained after the banks reopened. It was a hardly-concealed attempt to affect the referendum result but the big brother declared himself offended when those tactics were called "terrorist" by Varoufakis who was forced to resign just like George Papadreou and Silvio Berlusconi before him. This is another proof of the EU's democratic deficit. Varoufakis pursued a game-theoretic brinkmanship, stating that "failing to agree would be too costly for both sides…because there's too much at stake, as much for Greece as for Europe, If Greece crashes, a trillion euros (the equivalent of Spain's GDP) will be lost. It's too much money for Europe to allow it". The defeat of New Democracy in the referendum result, following its defeat in the January 2015 elections, prompted the resignation of its leader Mr. Samaras, while the new leadership has announced a shift of its political agenda towards the centre in order to try to undercut Syriza support in future elections.

The program or the Financial Assistance Facility Agreement (MFFA) expired on 30.6.2015, with Greece becoming the first developed nation to ever default on its international obligations. Cash-starved, Greece failed to repay the IMF the SDR 1.2 bin (about €1.55 bn) due on 30.6.2015. The IMF did not declare Athens in default but in arrears.

On the same day, the rating agency Fitch Greece's cut Greece rating by one notch from CCC to CC, warning default risks are high. Fitch also downgraded Greek Banks to restricted default (RD) due to the capital controls introduced on 28.6.2015, mainly including restrictions on deposit withdrawals, which Fitch views as affecting a material part of the banks' senior obligations. Therefore, a downgrade marked the end of the Greek bailout which is proof of the huge failure of the MoU and its two programs.

The European Council President Donald Tusk, former Polish premier, known for his hard line on Russia in general and Moscow's involvement in the Ukraine conflict in particular, had warned Tsipras that "the game is over" and that Greece has no more time for "gambling" and needs to decide on a cash-for-reforms deal. Facing hostility and mistrust as well as an ultimatum for Grexit unless an agreement was reached by 12.7.2015, the Greek government formally requested a three-year loan from the ESM on 8.7.2015, committing to a "to a comprehensive set of reforms and measures to be implemented in the areas of fiscal sustainability" and proposing to immediately implement a set of measures in the areas of tax and pension reforms. Press reports indicate that the size of measures needed to deal with the fiscal gap (vs. the targets) has now increased to €12 bn for 2015 and 2016, above the €8 bn contemplated by the Greek government some weeks before. The bill has significantly increased given that GDP growth in 2015 is estimated to contract by as much as 3% and

could decrease further if the conditions in the banking system are not normalized.

Eventually the Euro group with political backing from the European Summit made an offer that Greece could not refuse, since the nation was afraid of bringing back the drachma, a currency, associated with poverty and weakness in the subconscious of the people. As is evident, the generous offer of the Godfather carries a menacing threat. If you refuse, you are done! Grexit was the name of the threat in this case. True to the rules that safeguard German preponderance the big brother / Godfather did at last make an offer, showing mercy to what he saw as the undeserving and untrustworthy beggar that had to be humiliated. The mercy involves loans of €86 bn over three years on strict conditionality encompassing additional surrender of national sovereignty, since Greece is obliged to set up a new fund with valuable state assets as collateral for the new bailout loan. This includes a €25 bn bank buffer, €10 bn of which will be used to enhance the Greek banks' capital base, while the rest will be available if needed to address further potential bank recapitalization problems. Greece will also receive a €35 bn investment / development plan. Nevertheless, the said loan is by far the most generous granted to any program country with a 32.5 year repayment schedule and 1% interest rate, as per the final agreement reached on 14.8.2015, following approval by the Greek Parliament with support from the Opposition. This is tantamount to a negative real interest rate. Both Dijsselbloem, the Eurogroup President and Dutch Finance Minister, and Tsakalotos, who replaced Varoufakis as Greek finance minister underlined the importance of such a deal, which does not involve a "bal-in", that would damage the banking system. Instead Greek banks would be given additional recapitalization assistance if necessary. It is noted that Dijsselbloem and his country, the Netherlands were among the most vociferous in favour of the Cyprus "bal-in". His statement, at a press conference on 14.8.2015 that the agreement reached safeguarded the Greek banking sector reveals that the Cyprus banking system was consciously attacked. It proves yet again that the calculated attack against the Cyprus banking system targeted its destruction in an act of shameful and unlawful discrimination against the people of Cyprus. The question arises why the EU did not lend the banks directly and avoid the "bail-in", especially, given the fact that a large part of the hole driven in the bank balance sheets was due to the Greek sovereign debt PSI (losses of €4.5 bn) and the dishonest, forced fire sale (losses of €3.2 bn) of the Cypriot bank branches in Greece. In this way, "ownership" of the costs of wrong decisions would be acquired by those responsible, i.e. the bankers themselves. A much-deserved "MoU" should have been imposed on the banks, much before the collapse of Laiki, including stringent measures and monitoring over and above what the ECB stress tests require, so as to force them to put their house in order, starting with their exorbitant personnel expenses. Having aided and abetted the commission of the banking crime through the lack of ECB and CBC prudential supervision and by causing a deliberate depletion in

bank capital, the EU / Eurogroup / Troika dished out the bill for payment by innocent victims. They passed the buck of irresponsibility and heaped upon the people unjustified burdens to pay for the mistakes of others, including their own.

The imposed terms were characterized as worse than those imposed on Germany by the Treaty of Versailles that ended the First World War by saddling Germany with the "war guilt" and punishing reparations that gave it an excuse to launch the Second World War. The Prime Minister Tsipras was said to have been subjected to mental water boarding and blackmail in order to submit.

Despite the gallant rhetoric Greece was eventually forced to do an about-face. Faced with an engineered near collapse of the Greek financial system, the government was forced to cave in. Greece's Parliament authorized the Syriza government on 11.7.2015 to sign an agreement with the creditors entitled "Negotiation and Achievement of a Loan Agreement with the ESM" and avert a meltdown of the country's eurozone membership. Out of a total of 300 deputies 251 MPs voted in favour drawing cross-party support, while 32 voted against, with the Syriza hard-core left launching a rebellion. In a tactical manoeuvre Prime Minister Tsipras submitted his resignation to President Prokopis Pavlopoulos on 20.8.2015 and asked for the earliest possible election date, which is expected to be the 20.9.2015. Tsipras wishes to capitalise on his personal popularity and inflict another defeat on the principal Opposition party, the New Democracy and the discredited political party system before the new austerity measures begin to bite, causing waning support. His principal aim is to seal public support for the bailout program and to crush the Syriza party left wing rebellion, led by fired energy minister Panayiotis Lafazanis, which broke away on 21.8.2015 and formed a new anti-bailout party, called Laiki Enotita (Popular Unity). The split cost Tsipras 25 Mps or a sixth of Syriza's parliamentary group. These MPs comprise ideological bigots, who, as Tsipras said, have escaped from reality and thrive in self-deception. Their primary demand is the write-off of most if not all national debt and of course the abandonment of the MoU. They disregard the fact that debt forgiven will have to be paid by other people, who are not at all responsible for the huge sums of money embezzled by corrupt Greek politicians over decades and spent prodigiously within the framework of clientelism. One wonders what moral or legal justification there is in Cypriots and other nationals being forcefully impoverished to pay for profligate, wasteful, irresponsible and recklessly extravagant expenditure by consecutive Greek governments and for the recapitalization of Greek banks, causing the depletion of the capital of Cypriot banks, which was replenished by the "bail-in". As for the dogmatic intolerance of the Syriza hard left, these small-minded bigots should know that the economy and its variables are not driven by sectarian ideology but by the specific circumstances, both internal and external, applying each time. None of the economic schools of thought holds the absolute truth as to the right policy

prescription. Rules and discretion should interact all the time according to the prevailing conditions.

Following the deal, Tsipras stated that the bank closure / suffocation was planned but the most extreme plans of the most extreme conservative circles in Europe for a Grexit, based on the Schäuble proposal were averted. Varoufakis asserted that Troika aimed at the humiliation and / or the fall of the Tsipras government and that he had a plan "B", which did not involve exit from the euro, later specifying that this involved some form of digital parallel payments like IOUs. Panayiotis Kamenos founder president of the right-wing anti-austerity party "Independent Greeks", which formed a majority governing coalition with the Syriza Party on January 26.1.2015, having stated that as Minister of National Defence he would never accept the cut of a single Euro from the defence budget, was forced to accept a cut of the order of €300-400 mn to be determined with the Troika / "institutions". Apparently the state collateral fund imposed by Troika will also include state assets like combat aircraft and frigates for the nation's defence, which is revealing of the utter ridicule and humiliation to which Greece has been subjected by the lenders.

Greece was given another chance, probably the last one to prove that it can put its house in order and that its politicians shall do what they agreed to. The self-righteous stance adopted by the uncompromising Syriza left wing, led by the provocative Zoe Constantopoulou Greek Parliament President since February 2015, is as wrong and misguided as the German and wider European view of the Greeks as lazy drones, no good for nothing, never-do-well people. This sanctimonious, holier-than-thou, self-satisfied, smug, priggish and complacent attitude became apparent in the stance that debt relief was the most natural thing to do and that this was "owed" to Greece. In this respect the issue of German war reparations was brought up vexing the Germans even more. It is a fact of life that lenders set terms, especially to heavy borrowers like Greece, which have not earned a reputation of being trustworthy. German Finance Minister Wolfgang Schäuble repeated that the Greek debt is unsustainable, although EU "rule books" or Treaties (referring to article 125 of the Lisbon Treaty which does not allow the rescue of a country: "The Union shall not be liable for or assume the commitments of central governments, regional, local or other public authorities…") do not allow for a write-down. The Schäuble position has been questioned by the Financial Times and a number of analysts. Hence, given that the IMF confirmed the unsustainability of the Greek debt, it is expected that this will take the form of extending the grace period and maturities of debt repayment and lowering even further the interest rate. However, Germany may eventually concede a debt write-off.

The USA, separately and also via the G7, had been exerting pressure on Germany to be more accommodating to the desperate situation in Greece for evident geopolitical reasons. The USA does not wish to see NATO weakened or Russian influence to rise in the Balkans. Already Tsipras had

played the Russian card with a couple of visits to Putin (8.4.2015 and 17.6.2015), whose economy was hurt with sanctions following the Ukraine crisis and the fall in the price of oil, which earns Russia a sizable percentage of its export and budget revenues. Tsipras criticized the sanctions against Russia repeatedly. During the June visit in the framework of the St. Petersburg International Economic Forum, Russia and Greece signed a deal to create a joint enterprise for construction / extension of the Turkish Stream pipeline project across Greek territory. The pipeline will have a capacity of 47 billion cubic meters a year. Of course, this is part of Russia's plans to by-pass Ukraine by finding alternative routes via Turkey after the South Stream pipeline project was killed off by European Energy regulations, but is not exactly congruent with American and European plans to raise Europe's energy security by diversifying away from Russian oil and gas supplies.

However, it was the steadfast support of France, which seconded by Italy averted the Schäuble plan / trap for a five-year "temporary" Grexit. Germany could not disregard France, which is a pillar of the EU. France wished to prevent a further rise of German preponderance and introduce a new and fairer model of economic governance in the EU. At the same time French President Francois Hollande tried to be objective and neutral and not to put the Franco-German axis / partnership at risk. Italy, itself deeply indebted understands the woes of the South and shared France's view. Italy's finance minister Pier Carlo Padoan said on 14.7.2015 that only Italy, France and Cyprus supported a compromise rescue deal with Greece, while the rest of the euro zone nations fell in behind Germany's hard-line position. "We avoided the worst. But from today a very complex path follows, whose outcome cannot be taken for granted". Cyprus, naturally supported Greece, despite the lack of reciprocation in the March 2013 bail-in decisions from which the Greek banking system benefited at the expense of the Cyprus banking system. Behind the banks are individuals who benefit and others who lose. Other southern MS refused to show solidarity, afraid that their own citizens / taxpayers may be called upon to foot the bill of a Greek default and counting the political cost.

The estimated probability of Greece leaving the euro in June and early July 2015 was greater than 50% despite the Greek government's engagement into a gallant brinkmanship game with the Eurogroup. This is at least to its credit compared to the Cypriot "leadership's" outright and frightened surrender, without even pretending to have a Plan «B».

A Report released by the IMF 26.6.2015 states what has always been known-that the Greek debt is unsustainable. Specifically, the IMF argument is compelling: "To ensure that debt is sustainable with high probability, Greek policies will need to come back on track but also, at a minimum, the maturities of existing European loans will need to be extended significantly while new European financing to meet financing needs over the coming years will need to be provided on similar

concessional terms. But if the package of reforms under consideration is weakened further-in particular, through a further lowering of primary surplus targets and even weaker structural reforms-haircuts on debt will become necessary". The IMF estimates that Greece would need a further bail-out of €52 bn between October 2015 and the end of 2018. At least €36 bn would have to be new money from euro-zone countries. This financing would be needed because Greece would be unable to access private markets to pay interest and redeem debt coming due over that period while primary surpluses and privatization proceeds would be lower than previously planned. As the prospect of an exit of Greece from the Eurozone raised the topic of debt sustainability, IMF Director Christine Lagarde said that "Greece is in a situation of acute crisis, which needs to be addressed seriously and promptly," and for the country to get out of that crisis both reforms and a "debt restructuring" would be needed.

Greece, was kept wired or hooked up on an oxygen ventilator for five years turning a large part of its debt into official EFSF / ESM so that in the event of default the banks would not incur big losses but all the taxpayers of the EU MS would have to cough up. ELA with the ECB kept rising in 2015 as the Greek banks could not cope with deposit withdrawals given the mounting uncertainty and a fear of a deposit haircut. According to Bloomberg, the ECB decided on 8.7.2015 to leave Greece's emergency liquidity ceiling unchanged at €89 bn. It also decided to leave unchanged the collateral haircut schedule. The ECB stated that ELA had to be weighed against the risk of overturning the entire Greek financial system. Households were said to hold an estimated €50 bn at home in early July 2015. There are proposals to introduce restrictions on the movement of capital for five or ten years in order to help consolidate the Greek economy. Such a move would be a form of devaluation in practice and would effectively dampen the value of a euro in Greece even further. Already, the weak Greek euro is worth less that a euro in Germany or France. This is due to continuing capital outflows triggered by the uncertainty about Grexit and the fear of default and reversion to the drachma. Grexit was possible as the government did not have funds to cover its financial requirements and debt repayment obligations due in June 2015.

After the deal, the European Council President Donald Tusk stated that the eventual agreement was necessary to avoid the real risk of chaos, the insolvency of its banking system and possible bankruptcy, as well as a huge negative impact on both Greece and Europe's "geo-political" situation. Tusk also gave a warning that a "debt cut won't hurt bankers; it will hit nurses in Slovakia and public officials in Finland". This remark proves the above point that Greece was kept on the oxygen lifeline to enable conversion of private bank debt to official debt shared by all the EU MS.

The crush of the high expectations created by the Tsipras government is likely to lead to a new politico-socioeconomic vicious circle, already reflected in the new elections called for 20.9.2015. A hard currency like the Euro, without the discretionary ability to use monetary policy, abolished by the EMU, and fiscal policy, abolished by the three MoUs, is a toxic recipe. Of course, the outcome reflects not just the social and economic failures of the Greek state but also those of the Eurozone and the whole EU, as amply analyzed in this Paper / Study. The 3rd MoU is going to be yet another macroeconomic disaster for Greece. It will prolong the recession with negative GDP growth rates of the order of 2-3% with all the consequent repercussions. According to forecasts the Greek economy is expected to contract by 2.3% in 2015 and 1.5-2% in 2016. Despite such efforts, default and Grexit remain on the cards. Apparently, hegemonic Germany does not seem willing to alter the current economic philosophy, not, as many analysts confirm, because it is good for Europe but because, in true mercantilist fashion it manifestly promotes its own interests. This is so despite the recession now knocking on Germany's door. For Berlin, apparently, ideology and status are top priorities, irrespective of the prolonged recession and the suffering of southern countries, which are being relegated to a status of cheap labour neo-colonies. Germany worships rules instead of discretion, ideological instead of practical economics and continues the rhetoric to serve domestic political ends and maintain the lead and cohesion of its northern supporters, ignoring the reality that is breaking up the EU. Continuing to confuse household economic management with macroeconomics Germany insists on strict fiscal discipline, unsustainable over time, knowingly turning a blind eye to the years of crisis that have revealed the deep flaws in the eurozone's architecture.

Taking into account Bismarck's "blood and iron" speech of 1862, one wonders if the German mentality has changed despite two defeats in two world wars. Nonetheless, such arrogance or hubris may be rationalized by success. If so, however, it is more appropriate to ask why Greek mentality does not alter despite abject failure.

PORTUGUESE ECONOMY

Growth in Portugal prior to the MoU was anemic to negative with high unemployment, high public debt and internal and external imbalances (See Appendix IV). Portugal was laden with all the features and malaise of an uncompetitive southern MS. The root causes of Portugal's initial imbalances and need for assistance included low GDP and productivity for more than a decade, high household, corporate and public debts, subdued implementation of structural reforms, deterioration of confidence and rating downgrades which landed the economy in a situation incompatible with long-term fiscal sustainability. Portugal’s government had faced mounting funding pressures which resulted in an acute economic crisis and, ultimately, a request for financial support from the European Union and the IMF in May 2011. The impact of the crisis has been severe, with real GDP contracting by close to 5% during 2011-2012, unemployment edging up to almost 13% by 2011 and a high and rising public debt, (See Table below).

Portugal: Selected Economic Indicators

(Percent of GDP, unless otherwise stated)

	2009	**2010**	**2011**	**2012**	**2013**	**2014**
				Est.	Proj.	Proj.
Gross Domestic Product (% change)	-2.9	1.4	-1.6	-3.0	-1.0	0.8
Consumer Price Index (% change)	-0.9	1.4	3.6	2.8	0.8	1.2
Unemployment (percent) 1/	9.5	10.8	12.7	15.5	16.4	15.9
Current Account balance	-10.9	-10.0	-6.5	-2.5	-1.1	-1.0
Government balance	-10.2	-9.8	-4.4	-5.0	-4.5	-2.5
Government debt	83.1	93.3	108.1	120.0	122.2	122.3

Source: Authorities and IMF staff calculations
1/ Structural break in 2011.

Before the sovereign debt crisis erupted in early 2011, Portugal’s consumption-based growth model led to large current account deficits of the order of 11% in 2009 and 10% in 2010. External competitiveness declined, debts rose to unsustainable levels in the private and public

sectors, and growth fell well below the pace needed to converge to average EU living standards. The roots of the crisis can be traced to the failure to adapt to the rigors of monetary union, in the face of a rapidly changing and more competitive international environment. Instead of delivering on the promise of sustainable catch-up growth to EU living standards, monetary union facilitated the accumulation of economic and financial imbalances. The competitiveness of the tradable sector eroded, while policy responses were, at best, muted. Counter-cyclical fiscal policy during the 2008-2009 crisis led to ballooning government deficits and debt. Banks lost access to the wholesale funding market in mid-2010; and in the first half of 2011, Portugal's government was shut out from financial markets. As in the case of Cyprus credit rating agencies assisted in the exclusion. Specifically, in the summer of 2010, Moody's Investors Service cut Portugal's sovereign bond rating, which led to an increased pressure on Portuguese government bonds.

A MoU was negotiated with the Troika by a caretaker government and signed on 17 May 2011, shortly before the elections, giving rise to an austerity-oriented economic adjustment program. Portugal's economic adjustment program was supported by loans from the EU amounting to €52 bn and a €26 bn Extended Fund Facility with the IMF. That is, a bailout program of about €80 bn.

Under the MoU, Portugal launched a comprehensive economic and financial program to reverse the imbalances and regain market confidence. This involved a front-loaded fiscal adjustment program, as was the case in both Cyprus and Greece, aiming to restore fiscal credibility and jump-start external adjustment. In addition, financial sector measures sought to keep banks well-capitalized and liquid, while facilitating orderly deleveraging. A number of important structural reforms have also been implemented. According its standard neo-liberal recipe, the Program came down hard on reforming labour legislation, cutting redundancy payments by more than half and abolishing employer collective bargaining obligations regarding smaller employers, i.e. those needing most protection. All this is called liberalizing working practices.

Portugal left the EU bailout Program on 18 May 2014, after three years, arguably having achieved improved structural deficits and return to economic growth, while regaining complete market access to accommodate its future refinancing needs. That was the rhetoric. The reality is portrayed in the following Chapter, analyzing the MoU outcome.

MOU IMPACT ON THE PORTUGUESE ECONOMY

The EU-IMF MoU purported to restore investor confidence via consolidating public finances, enabling sustainable growth and safeguarding financial stability; Execute a credible, balanced fiscal consolidation strategy; Rebalance the economy from non-tradable to tradable sector to improve Portugal's net external position; Further support the financial sector through more robust supervision and strengthen bank capitalization; Implement an ambitious structural reform agenda to boost potential growth, improve labour market outlook and regain competitiveness; Finally, mitigate negative social impact of the adjustment process.

The results did not quite match the promises. According to analysts much was achieved but challenges remain: GDP growth is still not robust and unemployment is unacceptably high. The public debt rose from 93.3% of GDP in 2010 to 128.7% of GDP in 2014 (See Appendix V and Table above). High debt levels suggest Portugal could be affected by a turn in bond market sentiment. Corporate sector indebtedness and high NPLs, driven up by the economic recession caused by the austerity measures, as happened in both Cyprus and Greece, continue to weigh on bank profitability and growth.

As the European Commission observes in its 11th Review of the MOU (April 2014), the recovery remains fragile as the overhang of public and private debt is likely to weigh on the medium-term outlook, while the necessary transition from a growth model based on domestic demand to an export-driven expansion remains challenging. Accordingly, it is essential that the Portuguese government develops a solid medium-term growth strategy with a view to carrying the current momentum beyond the horizon of this Program. The Commission concern is an admission that MoU delivery was below expectations. But the medicine continues to be more of the same: A continued strong commitment to structural reforms and fiscal consolidation was judged to be essential.

The IMF Article IV mission to Lisbon in March 2015 claims that Portugal’s economic adjustment program stabilized a severely unbalanced economy but policymakers still need to address several difficult legacies of the crisis and long-standing imbalances. First and foremost, on present policies, job creation over the next few years would be insufficient to reduce labor slack to acceptable levels, particularly among lower-skilled workers. A more rapid pace of job creation is also needed to reduce poverty and income inequality. Second, also on present policies, excessive levels of debt in a large section of the corporate sector will continue to act as a brake on investment, lock in misallocation of resources to unproductive firms and pose a risk to financial stability. Third, fiscal consolidation needs to continue over the medium term, not only because of the legacy of high public debt, but also to signal that past

fiscal policy excesses will not be repeated once the immediate crisis pressures subside.

The output recovery has so far been tepid. A recovery led by private consumption raised growth to below 1% in 2014, associated with employment growth of just 1.6%. The overall fiscal deficit in 2014 was 5% and projected to remain at 3.2% of GDP in 2015, still marginally above the excessive deficit procedure target of 3% of GDP. Over the medium term, the pace of activity and job creation is projected to be slow. Despite the strong cyclical impulse, investment is expected to remain too low to maintain the economy's capital stock, and the working-age population will shrink due to aging.

In general, according to the IMF Program assessment, Portugal made considerable progress in advancing fiscal and external adjustment and implementing the structural reform agenda. Sovereign bond spreads narrowed significantly. Nonetheless, the IMF highlights that near-term outlook was uncertain and sizable medium-term economic challenges remained. Portugal still needs to sustain efforts to make the tradable sector more competitive, boost long-term growth and further advance fiscal consolidation. Sizable adjustment effort still lies ahead and it is essential to build a broad consensus behind the required reforms since spending is concentrated on sensitive outlays such as social transfers and public wages. The IMF admits that it would be difficult to reduce the overall tax burden in the coming years, while a broader tax base and strengthened compliance could generate space for lower income tax rates. In this respect, the authorities should follow through on measures taken to fight tax evasion. The banks should be well capitalized and adequately financed, while the importance of improved credit conditions to facilitate economic recovery and ensure an orderly deleveraging by highly indebted firms was emphasized.

Hence, in the very words of the Troika partners the MoU did not do much other than inflict pain in the labour market and increase unemployment, poverty and inequality, while fiscal imbalances remain together with the need to service an increased public debt. As in the case of both Cyprus and Greece, the Portuguese economy was subjected to restrictive fiscal measures and overtaxed to a point of suffocation by the Program, which pushed the economy into recession, making difficult private and corporate debt repayment and thus causing problems to bank balance sheets: In other words the well-known vicious circle that is the inevitable outcome of an irrational and socially destructive Troika Program.

TROIKA APPROACH AND MOU PHILOSOPHY

"Two and two makes five", in 1984 by George Orwell.

The Troika approach assumes wrongly that the poor economic outcome in Cyprus and Greece was due exclusively to following bad policies, appearing to be indifferent and / or unaware of the deep-rooted causes of the economic malaise in each case. In the MOUs they propose solutions based on monetarist, rational expectations and supply side economics. It is a harsh rule-based approach, often accompanied with blackmail of not releasing the next disbursement, as shown in the July 2014 5th Review regarding the foreclosure law, in the case of Cyprus. The Troika tactics in Cyprus included a shock to the financial system (bail-in and bank closure followed by capital controls), draconian fiscal discipline and strict austerity. In Greece Troika spared the banks and bailed them out even with the transfer of capital assets from the BoC and the Laiki / Popular Bank.

The MOUs set strict targets regarding cut backs on public expenditure, including health and social welfare as a precondition for a loan. According to Troika, reform measures involve removing barriers to competition by opening closed professions and reducing bureaucracy, reforming labour markets, cutting public expenditure, reforming tax systems and introducing other important structural measures (strengthening public administrations). Such conditionality policies are based on the doctrine of Neoliberalism, while structural adjustment is based on the belief that the role of the state in the economy should be drastically reduced. This means privatization of state assets, prudent fiscal policies and a balanced budget. Essentially, conditionality expanded from required changes in the macroeconomic sphere to changes in microeconomic policies (Robert Gilpin, 2001, pp 309-316).

Troika assumes that the policies chosen were in the best interest of each individual country and of all euro area as a whole. Any other alternative would include the risk of a disorderly exit, or a disintegration of the currency union and would thus be much more costly Troika argues. Troika believes the outcome will be a restoration of competitiveness via a fall of unit labour costs, which in combination with fiscal deficit cuts will impact positively on current account deficits. Unemployment rates will start to fall with a lag due to internal devaluation as external competitiveness is hopefully being restored. With a continued reform drive, Cyprus will follow a similar path. The ESM program has supported Cyprus with a total disbursement of €6.8 bn (out of €10 bn) until now (containing the latest tranches delivered by the IMF and ESM in June and July 2015 respectively), including €1.5 bn for bank recapitalization. As a proportion of total GDP, the Cypriot program is the second highest among the five program countries. (Klaus Regling, ESM, November 2014). However, what Mr Regling fails to mention are the billions of euros of which Cyprus was

cheated due to the Eurogroup decision, which in conjunction with the ELA modalities exceed the amount lent to Cyprus, as analyzed in Chapter 4.

CRITICAL REVIEW OF TROIKA MOU APPROACH

"For one sweet grape who will the vine destroy?", The Rape of Lucrece by William Shakespeare.

The Troika and the MoUs it imposes violate the fundamental principles and tenets of western constitutional democracy. It breaches human rights. It destroys social cohesion. It illegally redistributes income and wealth in a brutal manner not sanctioned by the will of the people or democratically-elected legislatures except under the Damoclean sword of blackmail, bankruptcy and death. Aware of its illegal acts the Troika not only trespasses on Parliaments, but it also ensures they will not be challenged by the judicial authorities or that the courts shall reject any pertinent claims. The MoUs are simply instruments of coercion used by the Troika in order to bypass the legislatures and even the judicial systems and the constitutions of Program countries. The MoUs rupture the will of the people, increase the EU's democratic deficit and hurt the European vision.

As a tyrannical, undemocratic body, the Troika and the political and economic circles behind it use ridiculous "Newspeak" Orwellian language, passed off as jargon, with the explicit but of course unstated aim of dimming or subduing understanding. Everyone knows that one can have a "haircut" at the barber's, or the hairdresser's. Also a "Private Sector Involvement" or "PSI" could refer to involvement in anything. Yet both terms are used to avoid their proper name: Theft of people's property and its illegal transfer to others.

The Troika has not treated Program countries with the respect and the spirit of solidarity required by a "Union". It has followed similar recipes in all program countries including Cyprus and Greece with similar results: Higher unemployment, reduction of wages, increased taxes, reduced social benefits, the shrinking of the welfare state, demographic outflows and loss of wealth, particularly in Cyprus. The austerity packages entrapped both countries in a deep recession that Troika euphemistically calls stabilization. The repercussions included growing indebtedness of households and businesses, likely to lead to property divestment, human misery and social disintegration. The MoUs caused social, economic and specifically in Greece political instability. Economic indicators worsened and prove that austerity is not a growth model.

Cyprus was the worst-treated among all Program countries. Cyprus was manacled, beaten and maltreated in an illegal way, calculated purposefully to deprive it of the pinnacle of its financial system: the banking sector. This is not to deny the criminal sins of corrupt local bankers and politicians, but it does not exonerate the crime of destroying the economy with a blow that destroyed people's savings and investments and buried the country's economic model. They called this a haircut, which is a huge misnomer for outright theft, illegally and without justification decided by

the blackmailing Eurogroup of March 2013 and ignorantly accepted by a fearful, weak and panicky political "leadership", completely unprepared and ready to surrender without a fight.

Capitalism in its political economy and not its ideological sense, as an economic system with its pros and cons holds the respect of property rights at the very crux of its philosophy. Private property and assets are its very essence and quintessence. In fact, private property rights are a pre-condition for capitalism which thrives on the trading of private goods, services and assets in free markets.

In this respect the grabbing of the savings and wealth of Cypriot citizens and foreigners, who trusted their financial assets to the Cyprus banking system went right against capitalist principles. This proves that the system was manipulated at will by the Euro group, which imposed a bail-in in a discriminatory manner, reflecting sheer illegality in order to serve powerful financial interests. Of course, behind the bank interests hide the conservative, neo-liberal circles of the ruling political "elites" of Europe, which found more than willing collaborators in Cyprus: The "haircut" offered them the opportunity to have their cake and eat it too. It would allow them to enjoy their stolen wealth because others would pay for it. It would permit them and their offspring to wallow in luxuries by depriving the people who worked for it of their hard-earned savings and their children of their rightful education. They would have a chance to revel for years and years like Scrooge McDuck by taking pleasurable plunges in their stolen money bins. It should be underlined here that the "haircut" of foreign depositors was just as immoral and criminal a theft of personal property (larceny) as that of Cypriot depositors, bank bond holders and shareholders. This is in response to those who propagated the false "argument" that foreigners would pay a large share of the "haircut". This hurt deeply the country's trustworthiness and reputation and was deeply damaging for a state which prided itself on being a financial centre with high quality professional services.

As a result of the MoUs, essentially fiscal policy in both Greece and Cyprus was taken over by the Troika. Taking over the fiscal policy means controlling the taxation, social and health policy and practically all types of government revenue and expenditure. National sovereignty was all but lost. In order to ensure their repayment the creditors forced Greece to open a neo-colonial special account where tax receipts are deposited (Roumeliotis, 2012). In Cyprus Troika dictated that the proposed National Investment Fund Law which regulates future receipts from hydrocarbons should have as primary objectives "fiscal smoothing" and debt repayment leaving last intergenerational transfers of the Norwegian type. The aim is to ensure that the creditors get their money back. Worried more by the political rather the economic cost, the Cyprus government is seeking an early exit of the bail-out programme, which expires in early 2016.

The Troika is an ad hoc mechanism concocted with the IMF brought in because of its international rescue experience. It has neither legal basis nor any legitimacy. It is composed by experts from the IMF, the Commission and the ECB. It symbolizes the exercise of enormous powers by technocratic actors and, as such, perfectly echoes the traditional critique of the EU's "democracy deficit". The Troika interventions in Greece, Ireland, Portugal and Cyprus have generated long lasting political damage for the image of the EU that need to be fixed or compensated: this requires promoting a European political game organized along national and party lines (Bertoncini and Kreilinger, 2013).

Troika calls the treatment it delivers on program countries "fiscal consolidation" which is a euphemism for internal devaluation based on a concoction of neoliberal monetarist, rational expectations and supply side economics. In fact, internal devaluation plunders the national income and redistributes it away from labour (as a factor of production) and the poor towards capital and the rich, both domestically and abroad. The Troika recipe applied wholesale and without any country-specific countervailing measures, exacerbated the problems instead of resolving them. It increased the divergence in the economic performance among MS. It damaged growth prospects and competitiveness and raised the unemployment, inequality and poverty levels.

Moreover, it destabilized the political systems in program countries with a centrifugal tendency towards extremism and nationalism. Euroscepticism became inevitable and alienated people who displayed their contempt with their low turnout at the last European parliament elections in May 2014.

The current situation is far from promising. Evidently, the EU cannot return to sustainable economic growth on current terms. Public investment in Europe dropped by 15% since the crisis began. The EU budget prior to 2004 was 1.54% of total GDP and was expected to rise to 3-4%. Instead it dropped to 1%, meaning that the objectives of cohesion and solidarity were abandoned. In this respect, the Troika approach backfired against the project of constructing an economic union.

A case in point in both Cyprus and Greece is the heavy increase in the tax burden through multiple new taxes or the rise of old ones which ignores basic taxation principles like efficiency and compliance at a time when disposable income was reduced because of unemployment and the loss of income and wealth. Instead of reducing taxation to encourage private and sectoral demand and allow automatic stabilisers to give a boost to the economy, Troika acted against common economic logic. Tax reduction would stimulate economic activity, enhance consumption and investment and indirectly mitigate the situation of NPLs. It would also encourage tax compliance especially among professional groups which practice tax evasion (doctors, lawyers, accountants) and the self-employed. Depressing even further private demand when public demand is heavily

dampened by fiscal consolidation is definitely a recession recipe and not a therapy. Greece, like Cyprus needs a shift in aggregate supply and in Keynesian aggregate demand through investment both public and private. By reversing Say's law, aggregate demand will trigger aggregate supply and cause the economy to pick up as in the USA in the 1930's with the Roosevelt New Deal.

Troika failed to fix problems and needs to be fixed itself (A. Theophanous**,** 4.12.2014). It has to change its economic paradigm and strive for a new deal like the USA in the 1930s. The limits of Neoliberalism and the excesses of unregulated financial systems were exposed both in the motherland (USA) and its close ally (EU). Neoliberalism, based on false premises and devoid of common economic sense, is dangerous. It is ahistorical and can lead to economic and even military conflict, as proved in Ukraine. Troika has left a destructive trail in its path, trampling on laws and constitutions, stealing the wealth and income from the hard toil and labour of honestly hard-working people and transferring it to corrupt private bankers, crooks, rogues and embezzlers. Troika has to be shown the tombstone of history. The EU democratic deficit needs to be reversed. The rise of protest parties like Podemos in Spain and Syriza in Greece do pose a challenge to the current status quo, even though it will be a hard uphill struggle.

REASONS FOR FAILURE AND THE IMPOSITION OF MOU

Both Greece and Cyprus faced grave problems, including the ineffectiveness of the central institutions. In Greece the public sector was the Achilles heel, while in Cyprus the culprit for the bankruptcy and the collapse of the economy was mainly the banking sector despite important but manageable weaknesses in the public sector. In both cases, the failure was as much economic as political. Both nations failed.

Cyprus

The downfall of the Cypriot economy was due to endogenous and exogenous causes (A. Theophanous, CCEIA, University of Nicosia, May 2013 and September 2013): The former included fiscal profligacy and overspending by both the private and public sectors. There was high imprudence across almost the whole spectrum of public life, reflecting an inadequate and mediocre political system, which lacked understanding of the requirements of participation in an imperial monetary union. Imprudence was even worse in the banking system which engaged in lending malpractices and failed to manage risk, exploiting moral hazard. The latter (exogenous causes) included the Eurozone and the international crises, while the Greek debt haircut decreased the banks' capital adequacy ratio. Even though the Cyprus problem was small, the Troika decided to punish Cyprus given the anti-Greek feeling and the objectives to stop the country from being a financial centre, contain the Russians and use Cyprus for experimentation and as an example for other wayward Eurozone MS too big to touch.

Despite its free market economy and comparatively good political and economic institutions Cyprus failed. The stock exchange bubble of 1999 was a premonition of sinister interests and corruption undermining the foundations of the economy. It marked a headlong decline in moral standards, economic and political ethics. These were replaced by the savage rapacity of the crooks and embezzlers in the financial oligarchy who sought quick enrichment at the expense of the people. Politicians with insider information joined in the party.

Over the decades 1990-2010 the economy achieved good growth rates based mainly on financial and professional services, tourism receipts, construction sector activity and foreign capital inflows including Russian funds. This growth fuelled an expansion of the public and semi-government sector, while the banking system bloated beyond control.

As shown in Chapter 3, the banking sector experienced disproportionate growth. Local banks benefited from operating within an oligopolistic and loosely regulated environment and the adoption of the euro. Such a highly concentrated environment led to the acquisition of disproportionate power and political influence and the development of clientelistic relationships between them and political parties. This involved the writing off of debts,

granting of favourable loans and other dubious actions between the two. Unfortunately, such harmful realities and malpractices were ignored by the supervisory and regulatory authorities.

The public sector was unable to withstand the burden of the bank recapitalization needs, as the credit rating agencies had been warning well ahead of Cyprus's exclusion from the debt markets in May 2011, with government bonds reduced to junk status. Irresponsible spending and a structural budget deficit weakened its ability to respond. However, it must be remembered that the public sector suffered from the lack of meritocracy and was used by all political parties, which imposed a clientelism system, i.e. the exchange of goods and services for political support, often involving an implicit or explicit quid-pro-quo. By definition, clientelistic states fail to make rational choices or maximize social welfare. The more competitive the external environment the higher the cost of clientelism.

The private business sector in general behaved opportunistically, ignoring tax compliance and pursuing quick but impermanent profits as in the construction and tourism sectors, trying to lower labour costs by employing foreign workers without investing in technology and innovation, overconsuming often via debt leveraging and expecting the state budget to build vital infrastructures, without contributing fairly towards the cost.

In assessing the root causes behind the derailment of the Cypriot economy, multi-layered and interconnected systemic failures are observed across the political, economic and social systems at both an institutional and individual levels.

The MoU program admittedly failed in Greece and is failing in Cyprus as it ignores the central importance of political institutions (Νίκος Περιστιάνης / Nicos Peristianes, 17.4.2014) and the problematic mentality and corrupt practices of the nonentities in the political and financial systems. Bad leadership played a major cause of the economic collapse which saddled the people with the Troika and the MOU.

There was lack of meritocracy in the political-economic system, including the local government as revealed in the recent Paphos municipality scandal, which is just a manifestation of malpractices everywhere. The political parties continued to appoint incompetent persons in leading posts in the state machinery and the administrative boards of the semi-government organizations, based on political nepotism and the expectation of kickbacks and backhanders. They extracted benefits from the patronage system involved in running and managing state-owned enterprises. They also influenced who would sit on the administrative boards of major banks so that they could get low-interest loans to be later written off or benefit from other illegal deals, as revealed after the bail-in by the long list of politicians who benefited from the party in the banking

system. Incompetence and amateurism reigned supreme. Moved by fear, lack of understanding and micro-political interests, politicians and bankers failed Cyprus and its people and entrapped the nation in an unprecedented misery. Both the previous and the current governments failed to meet their appointment with history in March 2013 and allowed the Eurogroup to crash Cyprus's destiny. Greece was, as always, too weak politically and economically to support Cyprus at that turning point. Worse still, there is evidence that that its politicians and the bankers behind them took advantage, selling off what was for it a dispensable Cyprus for the second time after 1974, too unsophisticated, in contradistinction to Turkey, to realize that in fact it was undermining its own geopolitical security.

Despite Greece's more serious problems the Eurogroup / Eurozone sacrificed Cyprus, not Greece because it was regarded as systemic and its collapse would involve considerable economic losses for the Europeans. Ex post, it remains debatable whether EU and euro area membership has served Cyprus well. No economic or political solidarity was displayed as proved by the bail-in decision and again recently by the violation of the Cyprus EEZ by the Turkish Barbaros research / survey vessel.

Dijsselbloem said on 24.3.2013 to the Financial Times and Reuters that the Cyprus bail-in was a template for resolution of a bankruptcy. Savings accounts in Spain, Italy and other European countries will be raided if needed to preserve Europe's single currency in future crises by propping up failing banks. This statement is sufficient to prove the ulterior motive in the Eurogroup actions against Cyprus. First Germany and its northern allies wanted to force an outflow of Russian funds, which they kept portraying systematically as money laundering. They held that Cyprus was wielding too much financial influence for its size and wished the billions of euros of Russian and other foreign deposits to migrate to their own banks. This was also part of the western policy in the wider context of the geopolitical game of Russian containment. Thus, with the bail-in they killed two birds with one stone. Second, Germany in its drive for greater supervision and control of the European banking system wished to advance the banking Union and used the Cyprus case as a scarecrow, an experiment to soften any resistance to the project. Indeed, Bundestag, the German Parliament wished to send a strong message to Italy and its banks at the time. Some argue that Irish banks were assisted because they were the first and that the Bundestag grew weary and impatient by the time Cyprus's turn came.

In contrast to Spain, which received €90 bn from the ESM for the recapitalisation of its banks without an MOU or a discriminatory and vindictive bail-in, Cyprus was punished severely. According to analysts, apart from the above reasons, the Eurogroup acting under serious misperceptions, exploited the following:

a. The Cypriot society, numbed and misled by its politicians did not resist, having been persuaded the bail-in was the least painful solution.

b. Cyprus failed to argue its case with a narrative and project it internationally.

c. There was resentment in some circles in the EU, which held a grudge against Cyprus for rejecting the Anan plan in 2004 and continuing to cause headaches with regard to NATO, Turkey etc.

d. Cypriots were considered not to play by the rules of the game. Private debt was the highest in the EU, spent in conspicuous consumption like big houses. The demand for salary increases also constituted a provocation. Paying high interest to Russian depositors when the Germans were receiving a nominal interest rate below inflation was also taken as an affront: Cyprus was portrayed as a money laundering centre and a casino economy.

e. General antipathy to orthodoxy and Hellenism by Protestant-Catholic Europe.

There was probably no conspiracy planned by foreigners from the beginning of the financial crisis of 2007-2008 to cause the collapse of the Cyprus banking sector and impoverish the Cypriot people with the imposed haircut. However, foreigners most definitely exploited the criminal weaknesses and ignorance, the rapacity and avarice of traitors in both Greece and Cyprus in the political, economic and financial establishments, in order to accomplish their ends and serve their own interests and plans. These included, beside the objective of abolishing Cyprus as a financial centre, an unjust and unviable solution to the Cyprus problem and a convenient exploitation of its natural gas (and probable oil) resources, in line with the wider geopolitical planning for the East Mediterranean and Middle East region. People on their knees, following the pauperization of the whole nation, would certainly display much lower resistance to the designs and dictates of foreign interests.

Analysts also put forward the view that a sophisticated leadership which had understood the rules of engagement could have prevented the horrible bail-in slaughter if it had attempted a game of brinkmanship. Unfortunately, incompetence was displayed where sophistication was needed.

The financial interconnection between Cyprus and Greece could have caused a systemic collapse of the banks in Greece and then the contagion would have spread to Europe. This might have forced second thoughts by the Eurogroup, which of course could have decided to go ahead with the Cyprus bail-in and support Greek banks even more, making the Greek

debt even more unsustainable than it already is. However, given the harsh conditionality imposed on Greece with the Third MoU of July 2015, which forces the country to create a new collateral fund with valuable state assets that will also share the burden of bank recapitalization that was a plausible line of defence that unfortunately was never utilized.

Greece

Unlike Cyprus, Greece did not fulfill the Maastricht convergence criteria when it joined the Eurozone on 1.1.2001. Greece had huge structural problems and in essence was already a failed state unready for the Eurozone. Prior to the crisis, in 2009, Greece presented to the Eurostat a fiscal deficit of 3%, when in fact the actual deficit was 12.5% and later revised to 15.8%. In early 2010, the then economy Commissioner Olli Rehn stated "Greece has had particularly precarious debt dynamics and Greece is the only member state that cheated with its statistics for years and years”. Of course the question is: What were Eurostat and the other EU Institutions doing? Was it not also their responsibility to stop such cheating?

Until recently Greece did not know how many civil servants it had on its payroll. These constituted indicators of a festeringly diseased administration and state malfunctioning. Greece needed modernization and structural reforms desperately but its politicians continued to whistle indifferently, refusing to take any political cost for three decades since entry into the EU in 1981. They continued watching the country slide into decay for another decade after acceding to the Eurozone in 2001, until judgment day came in spring 2010. Apart from its domestic problems, external factors outside its control made Greece even more vulnerable. Euro has always been a hard currency for Greece. It was never equivalent to the German Euro. Surplus countries refused to reflate and have gathered a large part of available liquidity in the Eurozone. In addition, there was an overreliance on foreign funding, which made Greece extremely vulnerable to changes in international lending conditions.

Greece had problems in its banking sector but also had far worse fiscal problems. Paul de Grauwe (2012, pp 257-258) states that “the Greek government was insolvent before investors made their moves and triggered a liquidity crisis in May 2010”. This caused significant losses on domestic bank balance sheets and a funding problem, turning the sovereign debt crisis into a full-blown banking crisis in the case of Greece and Portugal, in contrast to Ireland where the banking problem triggered the sovereign debt crisis.

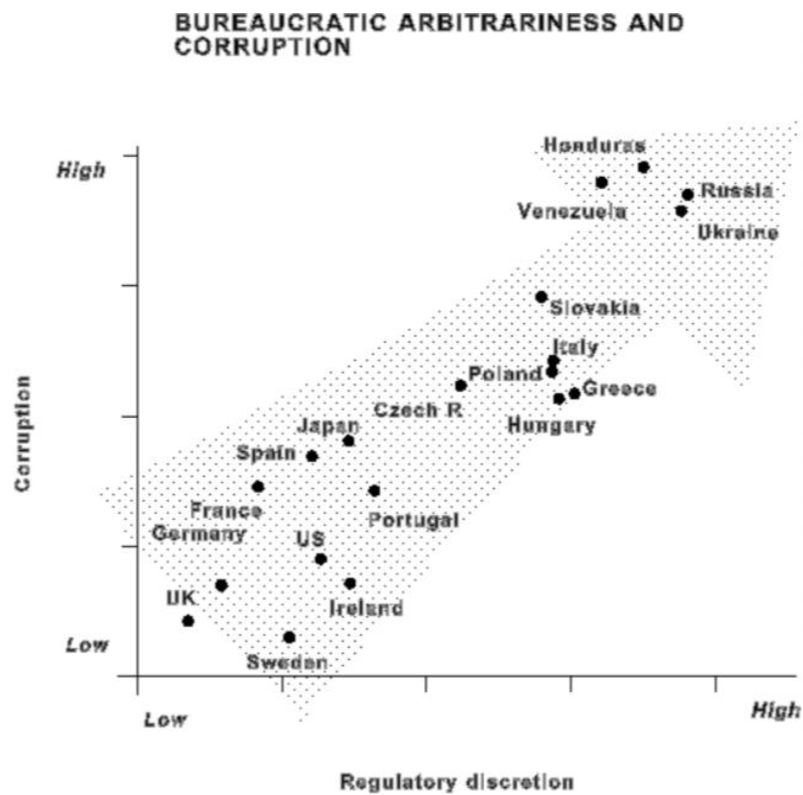
The political and economic failure of Greece was associated with corruption ingrained in the system and a disobedient social attitude towards authority that pre-dated the country’s independence.

As of 2012, tax evasion was widespread, and according to Transparency International's Corruption Perception Index, Greece, with a score of 36/100, ranked as the most corrupt country in the EU. One of the conditions of the bailout was implementation of an anti-corruption strategy. The Greek government agreed to combat corruption, and the corruption perception level improved to a score of 43/100 in 2014, which was still the lowest in the EU, but now on par with Italy, Bulgaria and Romania. It is estimated that the amount of tax evasion by Greeks stored in Swiss banks is around €80 bn and a tax treaty to address this issue is in negotiation between the Greek and Swiss government.

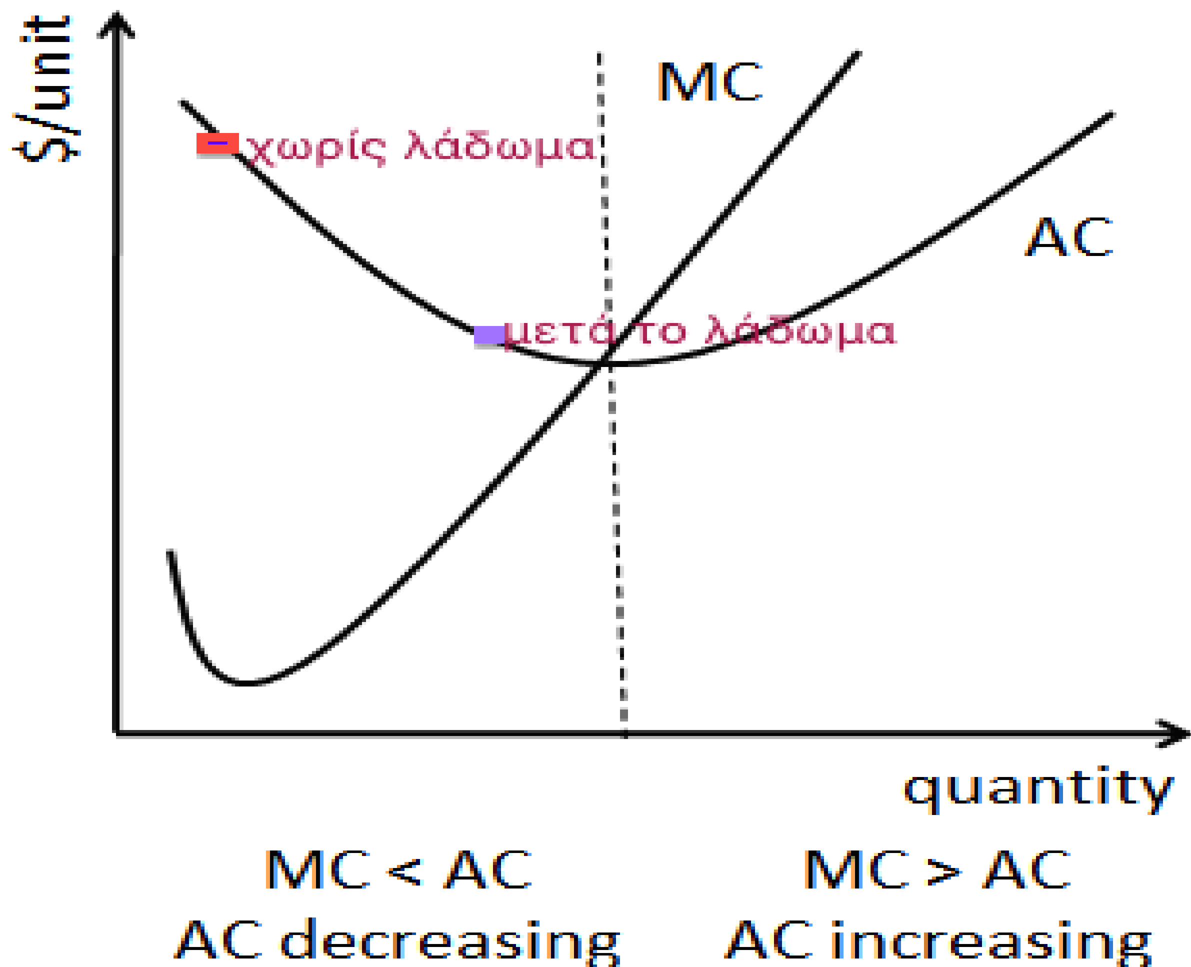
Panayiotis Kamenos, as mentioned before, was founding leader of the right-wing anti-austerity party "Independent Greeks", which split away from the New Democracy party and formed the governing coalition with the Syriza Party. He was appointed Minister of National Defence on 27.1.2015. In this capacity, in early July 2015 he abhorred on the Greek public television (ET) the repugnant and corrupt practice of politicians and civil servants of using National Defence contracts to enrich themselves. Unfortunately, this practice was widespread in the Greek public and private sector and Cyprus was not far behind.

Data for 2012 place the Greek "black economy" at 24.3% of GDP, compared with 28.6% for Estonia, 26.5% for Latvia, 21.6% for Italy, 17.1% for Belgium and 13.5% for Germany (partly in correlation with the percentage of Greek population that is self-employed i.e., 31.9% in Greece vs. 15% EU average, as several studies have shown the clear correlation between tax evasion and self-employment).

The graph below places Greece quite high on corruption and even higher on regulatory discretion which has a correlating feedback on corruption.



Indeed according to the chart below, illegal, secret bribes have an increasing impact on the average cost per unit of production.



In view of the above domestic weaknesses, Greece was inevitably enormously exposed to international pressures once the USA crisis began spreading to Europe owing to the financialization of the real economies and the interlinkages among USA and European banks. Greece never managed to build a state with sufficient finances and fiscal health despite past bankruptcies and historical defeats that should have taught her a lesson. Unfortunately, Greece kept playing hide-and-seek with the EU Authorities believing it was cheating them, while the country and its citizens were only cheating themselves. The markets hit back with a vengeance in an appointment that was preposterously provoked.

THE NATIONAL FAILURE IN HISTORICAL PERSPECTIVE

"Si vis pacem, para bellum", (If you want peace, prepare for war), Publius Flavius Vegetius Renatus in tract "De Re Militari" (4th or 5th century b. C.).
"To history has been assigned the office of judging the past, of instructing the present for the benefit of future ages", Leopold von Ranke (1795-1886).

Starting from the glory of ancient Greece and the unique achievements of Alexander the Great who spread the Greek culture and the common Greek language (Koine Alexandrian dialect, common Attic or Hellenistic) over the East Mediterranean, Central Asia and further on to India, the historical heritage of the nation, the Eastern Roman / Byzantine Empire, was squandered, delivered to the Ottoman Turks. When historical destiny called upon the nation and offered the opportunity to reclaim its lands in Asia Minor including Constantinople, its leaders proved inadequate for the circumstances. Finding themselves in the victors' camp after First World War and Turkey among the defeated, the catastrophe of 1922 reflects the immense incompetence displayed. Eastern Thrace, predominantly Greek-populated was delivered by the Armistice of Moudania signed on 11.10.1922 between Turkey and Britain and France and accepted by Greece on 13.10.1922 without firing a shot and without exploiting the wise British policy to deny Kemal Atatürk's claim to this area of huge geopolitical significance. Britain did not apply its "divide and rule" policy this time as it felt the Dardanelles Strait should be controlled by one country as a bulwark against Russia. Traditionally, Britain's interests in the Balkans derived from its interests in the Eastern Mediterranean, the Middle East and the Far East. Economic interests played a large role, as distinct from geopolitical interests. Britain needed to secure the shipping lanes to India and safeguard its Empire. It always tried to prevent Russia to gain access to the Mediterranean through the Bosporus and the Dardanelles Straits. Despite having troops on the ground and a navy that Turkey lacked, Greece delivered Eastern Thrace as a gift to the Turks with a huge impact on its future fortunes. The Dardanelles constitute one of the world's seven oil maritime transit chokepoints critical to global energy security. The Dardanelles Strait, connecting the Mediterranean to the Black sea, is of equal significance to the Strait of Hormuz, leading out of the Persian Gulf, and the Strait of Malacca, linking the Indian and Pacific Oceans. This was closed by the Ottoman Turks in November 1914 to prevent the supply of munitions to Russia when the Entente powers declared war against them. Control of the straits allows hegemony in the Balkans and the capacity for penetration into Asia Minor. Turkey joined the central powers during the First World War, fearing the designs of the Entente to partition the Ottoman Empire. This proves its strategic value and how stupid and short-sighted the "allies" were to leave the straits in the hands of one country. According to the U.S. Energy Information Administration about 63% (56.5 mn barrels per day) of the world's oil

production in 2013 moved on maritime routes. Besides its economic significance (borders on the Black sea and its EEZ), the military and strategic gravity of Eastern Thrace could not be overemphasized. Energy projects like the South stream (abandoned), the Turkish Stream (natural gas pipeline from the Russian Federation to Turkey across the Black Sea proposed by Putin to replace the cancelled South Stream natural gas project) the Southern corridor (European initiative), TAP and TANAP were all planned / proposed on the world chessboard within the framework of antagonism and energy geopolitics between the USA and Russia. Europe's energy security is absolutely linked to these projects, while international developments in the Middle East and the Gulf are shaped by the great energy "game". Once again in the case of Eastern Thrace, Greece allowed its territory to shrink even further and its strategic significance much more. The loss of Eastern Thrace also exerted a negative impact on the economic viability of the Greek state as it was the economic backyard of the Byzantine Empire together with the heartland of Asia Minor. It should be remembered that prior to the debt crisis of 2010, Greece has defaulted on its external sovereign debt obligations at least five previous times in the modern era (1827, 1843, 1860, 1897 and 1932). By comparison, Germany (Prussia) defaulted in 1807, 1813, 1932, and 1939. The possibility to go high-tech in order to ensure or strengthen economic viability was never even considered as a policy. Yet, it concerned the very survival of the nation. Thus, Greece has never been able to play an effective role in the Middle East, its historic "home", following the conquests of Alexander the Great. This geopolitical absence in conjunction with internal meddling influenced or sealed the destiny of Cyprus. Currently, the main regional actors in the Middle East in the "new great game" rivalry that is unfolding are Iran, Israel and Turkey. The elimination of ISIS (Islamic State) and the setting up of a Kurdish state as a buffer is on the cards. In this respect, there is common ground to be found between the USA and Russia where their interests converge. Turkey is playing a duplicitous role with regard to ISIS even undermining, when it chooses, US foreign policy in the area in its efforts to secure a Turkish-backed "safe zone" in northern Syria, as its preferred objective. By contrast, as Markezinis remarks, Greece has developed a syndrome of "fear of being on the wrong side of America" at the expense of its national interests. However, Israel will never allow Turkey's Neo-Ottoman or Pan-Islamist dreams to come to fruition. More secular-oriented elites like the military regime in Egypt also resist the Turkish plans. That suits the great powers and smaller regional actors in the area. Cyprus, for once, should choose wisely to be on the winners' side. Iran, Israel and friendly states like Egypt could serve Cypriot interests, always rebalancing and soft-balancing in a multilateral way according to developments.

The defeat in Asia Minor had severe economic and geopolitical consequences extending to this day. Strategic and geopolitical importance was lost to Turkey. In the propagated "small but honest Greece" ("μικρά αλλ' έντιμος Ελλάς") the smallness remained but the honesty was

nowhere to be found among its politicians and those citizens who adhered to that mentality. The defeat of 1922 not only impacted on the fate of Cyprus but instilled a miserable stance of defeatism and Turkophobia as professor Ioannis Mazis rightly claims. The Turkish invasion of 1974 and Imia crisis of 1996 are cases in point, not to mention the unchallenged violation of Cyprus's Exclusive Economic Zone by the Turkish research vessel "Barbaros" escorted by the Turkish Navy, for five months starting in October 2014 till April 2015, despite Greece being a guarantor power. The comparison of how dynamically Israel responded regarding the Turkish flotilla / Mavi Marmara apparently delivering aid to the Palestinians, but in fact testing Israel's will and commanding position in the Middle East can sadly not be avoided. This was organized as a provocation or media stunt by Turkey on 31.5.2010 just like the Imia provocation. Furthermore, Greece's systematic refusal to extend its territorial waters to 12 nautical miles in the Aegean Sea could only reflect fear of Turkey's response. And this, despite the fact that the United Nations Convention on the Law of the Sea (UNCLOS) is in its favour and that the country should proceed with oil and gas exploration in the Aegean if only to alleviate its economic predicament and if sufficient quantities are found to increase Europe's energy security.

Evidently the 1922 lesson was not learned and instead of forming a government of national salvation, including all the forces that fought against the Germans a civil War was fought from 1946 to 1949 desolating the economy even more than the ruins left behind by Germany. The civil war divisions led directly to the military junta of 1967 in an attempt to stop the democratization process in its tracks. Cyprus paid the price for the return to democracy as Greece proved yet again too inept, too fearful, too disorganized compared to the readiness and long planning of Turkey to take advantage of the pretext it had been waiting for, following the criminal coup d' état by the colonels, whose incompetence could only be surpassed by their bungling stupidity. It was a matter of time before the riches of Asia Minor, lost forever in 1922, strengthened the economy of Turkey now in the G20. In fact, Turkey now boasts the 16th-largest economy by Gross Domestic Product (GDP). Its economic success and growth easily outshined that of its neighbors in Europe and the Middle East. During the European economic crisis, it managed to sustain growth rates second only to China. But its ambitions reach further, and with a clear vision for growth and development, Turkey has steadily asserted itself as a regional economic and military power with global pretensions. Whether Davutoğlu's foreign policy or geopolitical vision rests on rebuilding and maintaining closer relations with former territories of the Ottoman Empire through a policy known as Neo-Ottomanism (which favours a commonwealth / union with its neighbours and old Ottoman lands) or Pan-Islamist (seeing Islam as a unifying factor within the Middle East), while at the same time advocating a pro-western policy as a NATO member by expressing support for (a la carte) European Union membership, his grand and multi-pronged strategy, shared by

Erdoğan, has all the ingredients of great leadership. Davutoğlu has called for Turkey to become more than just a regional power within Europe and the Middle East and expressed a desire for Ankara to have a far more influential role in world politics. In its search for regional supremacy Turkey is encountering resistance from other regional players like Iran and Israel, both of which have proved that they are not afraid to make sacrifices in order to defend their stake and prevent encroachment in their spheres of influence.

The rise of Turkish power in all its aspects has occurred over the last decades during which the Greek nation was marching inexorably towards its historical nadir. The arrest on 15.2.1999 by Turkish commandos of PKK leader Abdullah Öcalan, who had taken refuge at the Greek Embassy in Nairobi, Kenya, is another shameful incident by which Turkey humiliated the nation, proving once again that Greece was incapable of playing in the same league as Turkey. It is worth citing Professor Vasilis Markezinis comments on 19.3.2010, when he discussed the current state of Greece's foreign relations, the national issues and the impact of the economic crisis on these. Markezinis stated the obvious that the economic crisis may well be used to challenge not only Greece's economic sovereignty, but to pressurize Greece to make national concessions regarding Cyprus, the Aegean and Macedonia. He believes that probably Greece will not develop the will or guts to defend its national interests and that intolerable concessions and national retrenchment await the country. He argued that Greece needs to make alliances where it can, escape its fear of being on the wrong side of America, show courage, vision, imagination and 'balls' including a less supine policy towards Turkey (appeasement). The argument that a Turkey anxious to join the EU would be tamed and less hostile to Greece has been disproved. Turkey's ambitions against Greece, particularly regarding the Aegean and the continental shelf are long term and Turkey shows no signs of abandoning them. It is no secret that Markezinis bemoans the lack of leadership and the undignified fear of Turkey, reminiscent of the Ottoman servility and submissiveness, known as "rayadismos".

Anatolia was the main reservoir of power for both the Byzantine and the ottoman empires. It was the fountain of ancient Greek civilization and the land through which St Paul spread Christianity and brought this religion to Europe. In fact, it was the backbone of ancient and medieval Hellenism. After the country's eviction from Asia Minor, its historic home and source of strength, Greece should have built an impregnable defence based on all types and parameters of hard and soft power and state of the art technology just like Israel. Instead, it was Turkey which advanced on that front, while Greece was relegated by its politicians to the role of a very weak state, depicted by the lousy Psorokostena. But even the poorest woman in Nafplion Mrs (Psoro-)Hadjikostena had the patriotic pride, the dignity, self-respect and the conscience to offer her silver ring and a Turkish "grossi" coin to help liberate Messolonghi in 1826.

The kotzabasides (Greek: κοτζαμπάσηδες / proestoi / demogerontes, Turkish: hocabaşı) who came to power upon Greek independence in 1828 introduced a clientilist state wherein their exclusive objective was to share money, wealth and power among themselves. These were rich landowners who collaborated with the Turks in order to enjoy financial and other privileges like tax collection at the expense of the enslaved people. In their efforts to retain their previous preponderance and power, they came into conflict with the military leaders drawn from the klephts, causing the outbreak of civil wars in the 1820's that almost led to the failure of the Greek War of Independence that had started in 1821. Had it not been for the assistance of the foreign powers at the naval battle of Navarino (British, French and Russian fleets that defeated the Egyptian-Turkish fleet on 20.10.1827) and foreign military assistance in 1828 to expel the Turks from the Peloponnese the defeat of the revolution would have been inevitable because of these internal divisions and conflicts. But the lesson of the cost of national disunity and discord was not learned and was to be repeated 100 years later, ending with the catastrophe in Asia Minor. As mentioned above, even the loss of the ancestral lands in Asia Minor did not prevent the fomenting of internal discord and self-destruction as proven by the Greek civil war of 1946-1949 and the traitorous so-called "EOKA B" in Cyprus whose aim was the destabilization of the state, thus preparing the ground for the Turkish invasion on 20.7.1974. As admitted by a scholarly documentary program (Μηχανή του Χρόνου - Mehane tou Hronou) on the "kotzabasides" by the Greek state television (ET), their self-interested mentality and the clientelism they established and imposed on the Greek polity still permeates every aspect of the political culture. The first governor Ioannis Kapodistrias was murdered in Nafplion in 1831 by their kind (Mavromichaleoi) because he wished to abolish their tax collection priveleges and set up a state. This is symbolic of the malaise that would befall the nation in its future path. It is as if nothing has changed ever since even though almost 200 years have elapsed. The Greek state still faces grave difficulty in collecting its taxes. This is the rottenness, the corruption, the decay, the foulness, the impurity and the contagion that has plagued Greece since its very inception, as Michael Economides explains below. At primary school the plastic figurines of all those Greek revolution heroes were displayed on window sills and their pictures hung on the wall. Similarly at secondary school where the true history of the Greek revolution was diligently hidden, while the catastrophe of 1922 in Asia Minor was expunged from the history books altogether as if this was likely to obliterate the shame of such a tragic historical loss. A history that is not learned is bound to repeat itself and this was nowhere as true and applicable as in the case of Greece and Cyprus.

The handling of the Cyprus issue in Greek foreign policy constitutes a sorry tale of unbelievable bungling, repeated blunders and missed opportunities, mirroring the economic mismanagement. All that Turkey

had to do was to lurk for the next error. But Turkey did much more than wait in ambush: She was calculatingly preparing for the fools to trip themselves. If a prize were offered for the greatest historical botch-up, then the nation fully deserves it, though even today it is not clear whether Greece realizes how important Cyprus is for its own security. One of the worst errors was the refusal of the offer of Cyprus to Greece by Prime Minister Herbert Henry Asquith and the British foreign secretary Sir Edward Grey on 16.10.1915 in an attempt to gain Greek support for Serbia (Roy Jenkins, 1986). Eight days later the new Greek government of Alexander Zaimis, backed by the king Constantine, formally refused the offer. The British offer of Cyprus to Greece on condition of her joining the Allies in the First World War was genuine as her majesty's government held at the time that "financially Cyprus is a loss to this country. Strategically, HM understands that it has proved a failure, the harbours impracticable and ships obliged to lie off six miles from the coast". Researchers, who studied British foreign policy documents, confirmed that the offer was sincere as at the time the strategic role of Cyprus as a military airbase could not have been foreseen. A string of incompetent blunders, misjudgments and miscalculations ensued that culminated in the coup d' état against president Makarios on 15.7.1974 by the colonels' military junta that sealed Cyprus' fate with the Turkish invasion on 20.7.1974 and the occupation of 36.2% of its territory. Unfortunately, the solution of the Cyprus problem will painfully reflect this fait accompli and the imbalance of power between Turkey on the one hand and Greece and Cyprus on the other.

In a similar manner that the ground for the Turkish invasion in 1974 was being prepared with the destabilization of the state in the preceding years, the ground for the economic invasion of Cyprus was also being laid out for some years prior to the catastrophic Euro group decision of March 2013. There are additional similarities: On both occasions there were criminal traitors in both Greece and Cyprus in the political and financial establishments, whose foolishness, brainlessness, ignorance, mindlessness and dull-wittedness was exceeded only by their rapacity and avarice as well as their lack of any concern for the survival of the nation. In their pursuit of self-interest these traitors of the nation were more than willing to be bribed in order to carry out foreign plans or even consciously or unconsciously facilitate them.

There is a constant tendency to blame the bad / evil foreigners, who are always to blame for the misfortunes of the nation, forgetting that the primary responsibility rests with it. Even as the Greek Parliament voted the second package of the economic reforms imposed by the Troika / Institutions on 23.7.2015, the complaints were widespread that foreigners are to blame for the predicament and the embarrassing financial situation of the nation. In connection with this, it is worth quoting the prophetic words of Michael Economides in his article entitled "Greece to be the New Phoenix (29.6.2011)":

«Under enormous international pressure the Greek Parliament just passed an austerity package (1st MoU). The world can now breathe a temporary sigh of relief but it will not last too long. The problem will not go away. It used to be that being a Greek had a cachet, a source of historical pride bordering on arrogance. "When our ancestors were building the Parthenon yours were living in caves". But there is "something rotten" in Greece, that is putting an unsavory stop to all this even if my compatriots, as usual, want to blame foreigners who for some inexplicable reason hate, or are jealous of, the Greeks. The country is, in all but name, bankrupt and is certain to default no matter how many stop gap measures are taken. The only reason it has not happened yet is because of the fear of what misfortunes may befall other countries. There is also no precedent where a region, under a monetary union like the EU, can default… The Greek problem started almost 200 years ago… Greece was the classic patronage state. Landlords formed many of the political families and political parties were fashioned along ideological lines but still tied with prominent persons. Governing was for the sake of governing. There was never really any effort to develop the country economically or industrially. Business was never encouraged. Greeks were supposed to be eternally admired by foreigners for their ancient contributions but the country was OK to be always poor. Greeks would not waste time to make the country prosperous. That would be too trivial and plebian… With little due diligence, looking the other way of the obvious structural differences from northern European countries, they were eventually allowed to accede to the group (Euro zone), a reward for their democratization. Their obvious shortcomings were papered over… Greek problems are nothing new. Only their airing is new and only after a much ballyhooed monetary union brought the question of what happens when a country in default can no longer do what many had done before: print more money. But in some ways this creates an obvious way out. Let the country default and from the immolation Phoenix will emerge. That's the only solution and it would serve as an example for the rest of the world to take measures to avoid its recurrence in other countries. The world may grow again to owe the Greeks gratitude».

Despite its electoral rhetoric and the revolt from its far-left wing, the Tsipras government shied away from defaulting believing that swallowing the bitter pill of the 3rd MoU is the lesser of the two evils and that the uncertainty of the uncharted territory after leaving the Euro zone was too frightening to consider. Of course this simply postponed the problem. It was characterized as a return to "political realism". Like the Cypriot president Anastasiades, Tsipras claimed he was blackmailed and that his conscience did not allow him to contemplate bankruptcy and the grabbing of people's deposits. Thus, he averted the most extreme outcome. During the relevant Parliament debate he pledged to fight corruption, organized interests and tax evasion, change the political system, support weaker groups and attract investment. The probability of Grexit may have lowered for 2015 but it will reappear in 2016 and afterwards unless a

generous debt relief is granted. However, Tsipras did at least save his people from a disastrous haircut and secured EU investment Funds under a development plan. Moreover, he contributed to a relaunch of the debate on the Eurozone faulty architecture.

As for Cyprus, the wooden language boasting of the incumbent politicians keeps repeating that all is going well, that the economy is doing marvelously and that a solution of the Cyprus problem will create jobs and lift the economy out of its current miserable state. There is a conspiratorial hushing by the guilty financial oligarchy and political establishment of the fact that the wealth and savings of the current generation have been stolen and ended up in the pockets of private bankers, crooks, rogues and embezzlers in both Greece and Cyprus.

Meritocracy, which is most important in failed states has not been introduced despite the economic crush and the political failure. On the contrary, clientelism continues to permeate the body politic, causing a suboptimal malfunctioning of the state and perpetuating the tendency to failure, as if nothing has happened. The ethical decay and the crisis in the value system are going on without any visible change in political culture. Such conditions, attitudes and stances simply help the enemies of Cyprus to achieve their maximal objectives of turning Cyprus into a protectorate with our official signature-as happened with the catastrophic acceptance of the Greek PSI and the bail-in. Safeguarding the Cyprus national interest should be the essence, the quintessence, the foundation and the working hypothesis for our policies. The position that any solution to the Cyprus problem is better than the status quo is dangerous. The propagated economic paradise from a unified Cyprus under a weak confederation may turn out to be hell. A confederation presented as a federal solution shall legalize Turkey's political and economic control. It shall introduce a form of suzerainty, turning Cyprus into a protectorate, a subservient nation with limited autonomy and sovereignty. Under such circumstances, the internationally recognized Republic of Cyprus will not exist to offer any protection. The 1960 constitution despite its unique rigidity, with its partial recognition of the majority population was at least workable. The confederal one that is to be imposed with a 50:50 equality against any principle of justice is most likely to lead to deadlocks. Turkey will legalize its maximal strategic objectives, under continued British hegemony, while Greece will simply accept yet another blow to its own national security. This is the price of incompetence and lack of strategic planning. Cyprus is currently going through its biggest crisis since the Turkish invasion of 1974 in both the political and the economic fields. In the light of the above, visionary and honest leaders, who will tell the truth to the people are required and the people must be vigilant.

The hubris brought its nemesis in the form of the huge failure of both Greece and Cyprus as states. The downfall was as heavy as the degree of arrogance, self-conceit and kleptomania that seized the foolish rulers, who led both nations to a historic catastrophe.

The critique of this paper derives from true concern about the future of the Greek nation its historical contraction and moral decline, which unfortunately has also been pulling down Cyprus, enclaved as it is in its orbit. It is guided by the absolute necessity for a historic change since both Greece and Cyprus now find themselves at a critical juncture and a historic turning point. The critique is justified not because Caesar is loved less but because Rome is loved more, in the words of Shakespeare. Rome is the nation, the future of its descendants, its historic continuity and destiny, its ancient greatness and eternity. It is its historic mission guided by the Hegelian weltgeist and submitted to the teleological principle of history, reason and realism, which is led by great men and applied by people of vision and not the nonentities that have destroyed the nation and that history has relegated to damned oblivion. Foreign intervention cannot be used as an excuse for the nation's morbidity. Great power interests have always played a role but they cannot be used as an alibi to cover the nation's severe and deadly shortcomings. The long decay that led to the nation's failure and downfall must be reversed. The nation needs to reestablish the long-lost contact with the past and be inspired by the ancient spirit of courage and strength. Strong economies enable the projection of power and ensure the nation's security. If the threat of even worse suffering and evils that may befall the nation are not used as an opportunity to reform from within and rise like a phoenix from its death ashes, then history will be unforgiving and there will be no future for our children.

CONCLUSION

"The aim of tyranny is to impoverish the citizens, using their money on the one hand in order to maintain the guard of the regime, and on the other, in order to keep them occupied, without time to pose any threat".
Aristotle, Politics

There is a truth, a falsehood and an admission in the statement of the German Economy Minister and Vice Chancellor that "The Greek elite have plundered the country for years and Europe stood by and watched them do it". The truth is that what he said is a fact. The falsehood is that the word "elite" to characterize such criminal and irresponsible crooks, which instead of strengthening the country and empowering the nation, only cared for corrupt self-enrichment, is wrong. There was nothing "elitist" about such criminal behaviour. The admission reveals the guilt of the institutions of the EU and the Eurozone, which instead of protecting the people allowed them to be plundered and then forced them to pay the bankruptcy bill. The pillage from this incompetence was harshest for the people of Cyprus who saw their lifetime savings from hard work stolen and illegally transferred in various ways without any respect for their constitutional and inalienable human rights.

The years of crisis have revealed the Eurozone's defective architecture, and not just because of Greece, which is a unique case. Portugal, Ireland, Spain and Cyprus are in essence confronting different facets of the same problem: The faulty Eurozone architecture. It is doubtful whether the Eurozone can be sustained over time unless its faulty structure changes and the EMU advances towards a Fiscal Union with enhanced political union elements.

Portugal like Cyprus and Greece went through a similar grinding Troika austerity program with similarly catastrophic results: Weakening of the economy and fragmentation of the social cohesion. Cyprus was the most discriminated against of all the program countries as it was given an illegal bail-in as well as a bail-out. The Cyprus bail-in was legally wrong, economically dangerous and socially unjust. The security of Cyprus bank deposits did not carry more than normal market risk. Hence, their haircut was inadmissible. The main reason for the outright theft was to lower the amount of bail-out, ensure debt repayment to the official creditors and apparently to reward local banks for their imprudent practices, matched only by the incompetence of the Central bank of Cyprus and the ECB to execute their prudential supervision mandates. Moreover, the EU did not wish a strong banking sector in Cyprus. This was considered the prerogative of the strongest states. Luxembourg was the hypocritical exception to serve the interests of powerful European "elites".

Both Cyprus and Greece failed as nations because of systemic failures almost at all levels, notwithstanding the different modalities of the economic collapse. Both Cyprus in 2008 and Greece in 2001 wished to join the Eurozone with great enthusiasm but little understanding of its functioning, its weaknesses and the rules and the risks it entailed. There was a misguided belief that the European structures would solve domestic economic problems. Thus, both were entrapped in a suffocating grip, stuck in a process they could not control.

Eurozone's major predicament is that it has a currency without a state with a deflationary bias that imposes a fiscal discipline without a growth counterpart. Moreover, financial markets can exert centrifugal forces on an incomplete and imperfect monetary and economic union as explained in Chapter 1. Hence, the Eurozone was a challenging place for uncompetitive economies as the EMU lacks a crisis resolution mechanism or antidotes or a common public debt policy. This perpetuates a vicious fiscal cliff-debt dynamics-recession circle and makes Troika programs not only unresponsive but also irresponsible. Fiscal discipline is necessary but not sufficient: Growth initiatives are equally important. The ECB should act as 'lender of last resort' and eliminate the ECB monetary policy "deflationary bias". If the Eurozone's current philosophy and practices are not reversed, strains are likely to become deeper. Depression is likely to exert a contagion effect, spreading the recessionary pressures further afield even reaching Germany. There are some encouraging recent developments in this area promoted by Draghi, who insisted on monetary reflation despite German objections, at least in public. Draghi began quantitative easing (QE) trying hard to prove his own claim that the Euro is irreversible. The European QE program, called the Public Sector Purchase Program (PSPP), started on 9 March 2015 and will last at least until September 2016. Purchases will be composed of sovereign bonds and securities from European institutions and national agencies. However, Greece that needs most this assistance is currently excluded from the Program unless it agrees to further measures demanded by Troika. Even though belated, hopefully, the new philosophy will mark the start of a new Eurozone policy approach, with changes that encourage growth without downplaying the need for economic restructuring and rationalization. Also, countries like France and Italy are asserting their sovereignty by proclaiming their right to set national priorities.

In the light of the preceding analysis, evidently Troika austerity policies do not work. The principle of the Aristotelian golden mean was forgotten and policies applied verge on irrationality rather than common sense. In the Troika philosophy the welfare of numbers takes precedence over the welfare of people. The Eurozone needs a new model of economic governance in order to survive. After all, the EU is not only an economic but also a political project. However, the EU also has a leadership deficit. Germany refuses to play the role of a benevolent hegemon. The Eurozone is facing its greatest crisis since its inception with an unknown outcome. It

needs to set priorities. The structural imbalances emanating from current account deficit and surplus countries should be reduced in order to fix the North-South divide and asymmetries. The Troika acts on the Monetarist school belief that activist policy is wrong. It also adopts the New Classical Economics "policy ineffectiveness proposition", unless unanticipated, coupled with the belief that Markets will always clear and reach equilibrium and hence discretionary monetary or fiscal policies are useless. But classical and neoclassical economic policies do not work, particularly if there is widespread lack of confidence. Some kind of Keynesian targeted expansionary policy in conjunction with debt monetisation is more likely to give the stimulus needed (A. Theophanous, CCEIA, University of Nicosia, May 2013 and 13.6.2014).

The continuation of Germany's obsessive policy approach will instill more friction and increased risk of Eurozone exits, by design or accident. The clash between the two economic philosophies is likely to continue. As professor Andreas Theophanous remarks this reflects "deep differences over substance and status that are far from being resolved" (A. Theophanous, April 2015). The first approach espouses austerity that leads to recession and the second emphasizes growth. But surely there is a middle path: This is a growth-oriented policy path which does not ignore the necessity for structural reform. The QE program, which the ECB started implementing in March 2015, is a step in the right direction, even though it is perhaps too little too late. Change will require Germany to adapt its philosophy and return to the EU initial vision: Reconstruction and prosperity for all. All the more so, since western democracy dislikes poverty, which undermines it and opens up new threats on the political far right and left, terrorism etc.

Greece despite the financial support of its banks and two bail-out programs, which ended by June 2015, so far is in a mess, as the MOU failed to touch the real weaknesses and sources of the problem. Despite the agreement in July 2015 for a third 3-year MOU there is uncertainty as to its fate. Critical factors for success would be the maturity of the political system, good leadership instead of populist demagogues, effectiveness of government, rule of law and the control of corruption. Sine qua nons include the rationalization of the state, regulatory quality, state asset management, the cut of wasteful public expenditure, the closing of tax loopholes and the combating of tax evasion. The infamous Lagarde list with the names of 2,200 suspected of tax evasion, along with other domestic and international measures should be used to repatriate untaxed capital, employing stick and carrot policies like heavy penalties and partial tax amnesties. Professor Pelagides suggests additional growth enabling actions as a way forward such as improving financing, upgrading existing research capacity and innovation performance and improving the quality of physical infrastructure. In order to strengthen competitiveness Greece needs to eliminate barriers to private investment and open up or liberalize the markets for goods, services, professions and labor. Above all, Greece

must first build a state. Tsipras himself underlined during his campaign prior to the parliamentary elections of 20.9.2015 that Greece must be reborn in order to stand on its feet.

The ruin of the Cyprus economy was precipitated by that of Greece but this does not absolve the criminal inadequacy of those in charge of the wider political, economic and social institutions. The systemic failure was multidimensional. The bankers amassed huge risks and exposure to Greece and the politicians failed to extract a program that would safeguard the economy in October 2011 prior to signing the Greek "PSI". Worse still, they always lacked a narrative to tell. This deprived Cyprus from any negotiating leverage and allowed the Europeans to deny solidarity. Cyprus as a small player was disposable for them. Accepting the Greek sovereign bond "PSI" / haircut, which caused Cyprus bank losses of €4.5 bn, without a quid pro quo, was one of the gravest mistakes reflecting official incompetence and complete lack of understanding both at the central bank and government level. Greece, which was the beneficiary, took care to replenish the losses of its banks with a €50 bn recapitalization deal for them. By contrast, Cypriot banks were exposed to such heavy losses due to official inefficiency, inadequacy, inexpertness and sheer amateurishness. The ex-post realization of the huge damage precipitated another mistake: Capital adequacy was temporarily restored through the nationalization of Laiki by means of a €1.8 bn government bond on 30.6.2012, at a time when Laiki was clearly insolvent. The €1.8 bn plus interest payments of around another €0.5 bn were shoveled onto the shoulders of the taxpayer. However, official ineffectiveness and mistakes do not acquit the criminal deficiencies of bankers who, despite abundant market evidence of the immense risk taken, were purchasing or repurchasing Greek sovereign bonds unloaded onto the market by German and French banks, evidently informed or aware of the coming haircut. The German and French banks took a loss of about 25%, while the sinful Cypriot bankers inflicted a loss on their banks of around 75% on the Greek bond nominal value at maturity. Of course, the sins of the bankers' idiocy were paid for by the depositors, bank bond holders and shareholders, while they amassed riches in their pockets and paid themselves huge golden bonuses and handshakes.

The waves of liquidity of the prosperous years battered the reflex of the market economy and gradually led Cyprus astray from the path of sound economics and fiscally responsible governance. There was and there is still widespread corruption practiced by kleptocratic interest groups in a rent seeking economy in both countries. In its Global Corruption Report (GCR) of 2014 Transparency International places Cyprus in the 31st position and Greece in the 69th position, rising from 80th in 2013. Among the EU-28 Cyprus is number 13 and Greece number 28. But such numbers and positions most probably underestimate the depth of the disease. Given the hidden scandals and acute political corruption, that is, the abuse of entrusted power by political leaders for private gain and corruption in

political finance i.e. the abuse of state resources, both countries could well be placed even much higher in the corruption scale. The vicious circle starts from the lack of meritocracy, a nepotism that spawns a clientelistic system, which in its turn breeds corruption. Corruption leads to system exploitation, failure and systemic collapse.

Unlike the more liberal British system, the German economic model that hegemonically drives EU affairs proved unpalatable for Cyprus. Institutional and leadership failures, coupled with an opportunistic, tax-evading private enterprise sector and an imprudent bank system brought the economy to its knees. Clientelism and cronyism promoted by the deep state, as well as complacency prevailed. The Cyprus economy problems were serious but manageable. The politicians instead of offering a visionary lead were engrossed in corrupt self-enrichment, of which the few cases led to justice are just the tip of the iceberg. Political expedience and party interests and ideology prevailed over the nation's interests. Both politicians and society lacked sophistication and knew no limits. The politicians failed to understand the issues and effect minimal delivery. They forced society to pay an extreme price. (A. Theophanous, CCEIA, University of Nicosia, 15.5.2014).

While statistics and numbers were presented as part of the analysis, it is impossible to quantify all of the costs and economic consequences of the still-unfolding crisis. Worse still are the qualitative costs. These involve the extremely negative impact on people's health and well being as the theft of lifetime savings caused enormous suffering and incalculable anguish to the majority of the people and dealt a serious blow to social cohesion. The faith of people in institutions and the trust of others hit bottom with all its sociological ramifications. The weakening of the economy is likely to have repercussions on the solution of the Cyprus problem, the exploitation of the country's natural resources and the role that Cyprus could potentially play at a time of turmoil in the Middle East.

Thus, by any measure, partial or complete, it is undeniable that the financial collapse, the ensuing economic crisis and the MOU have cost Cyprus hugely. Despite the damage inflicted by MOU, Cyprus arguably has several fundamental strengths like its skilled professional services sector and the country is an important example of political stability in the region. The exact potential from hydro-carbon reserves is yet uncertain but it remains a potential upside. Optimists believe that taken together, these advantages should enable Cyprus to reposition itself so that during the coming decade it can build a more diversified, balanced and prosperous economy with sustainable growth and high employment.

However, such optimism has its detractors who doubt it. The heavy blow to the wealth position and incomes of the middle class, which is the backbone of any healthy economy and society, has exerted negative catalytic effects. Financial stability and fiscal sustainability are unlikely to

return even in the medium term. Today, the debt, financial and economic crises have brought the economy to new crossroads. The coming years will differ markedly from the recent past of illusory economic abundance. In the face of a challenging external environment, fiscal adjustment, the severe shock to the banking sector and the absence of trust, economic activity is unlikely to revive at any significant rate without a substantive change of course. Cooperation within the EU framework does not preclude the formation of strategic alliances in the best interests of the country. A monolithic policy could well place a small state in peril. Unfortunately, no structural shift is being observed in the Cypriot political system, despite its manifest failures, as has occurred in Greece with the meteoric rise of Syriza and the collapse of PASOK prompted by the crisis. The centre does not seem to be strengthening, while the parties on the left and right of the political spectrum remain entrapped in their party-line rhetoric and wooden language doublespeak, trying to win the impressions and justify their guilty records and their mistakes, which let down the people of Cyprus. This reduces hopes for a better future of the Cypriot people. The political parties continue to cater for their clientele and despite pent up anger and resentment there is no observable alteration of political culture.

A key question is whether Cyprus can get out of the depression within the framework of the philosophy of the Memorandum and the current architecture of the Eurozone. Arguably, it is unfortunately not possible to return to reasonably positive growth rates in the medium term, because of the huge fiscal cliff, the great negative wealth effect, capital restrictions (the last restrictions on international transfers were lifted on 6.4.2015, more than two years after the bail-in, while domestic capital controls ended in May 2014) and the crippled financial sector, all of which feed the recession. For Cyprus to address its depression there must be a fundamental change in the philosophy of the Troika so as to allow a generous Marshall Plan, unconditional liquidity and discretionary fiscal policy. The Cypriot economy does not have structural depth and therefore it may not withstand big and sudden economic shocks (A. Theophanous, CCEIA, University of Nicosia, 14.6.2013). What is crucial to realize is that the nation-state should always safeguard its sovereignty even when a member of a regional bloc like the EU. Win-win situations may not hold in such blocs, especially in the age of globalization. This is why it is important for the Cypriot government to possess the analytical understanding of issues and be on guard to protect its society under whatever circumstances. Propagating that whatever Troika prescribes is good reveals an inferiority complex and an intellectual weakness rather than reflecting the power asymmetry. Instead of accepting ever harsher conditionality in the updated MOUs, the government must have the courage to demand a change of course based on convincing arguments derived from the bad results so far.

In the end, we can only hope that the string of past policy failures will give turn to a more prudent, fairer and far-sighted governance. This is not going to be an easy task as long as the economic and political situation in Cyprus, Greece, the Southern MS in general and the EU remains highly uncertain. Nonetheless, in the light of the preceding analysis, it is hoped that benevolent policymakers, who are willing to accept how economies function and respond to policy actions in specific circumstances, would seek to balance the need for faster recovery from the multi-faceted economic crisis while maintaining social cohesion.

Shared prosperity is the only way the EU project can survive in line with the vision of its founding fathers. Nevertheless, change will require Germany to adapt its philosophy and return to the EU initial vision: Reconstruction and prosperity for all. All the more so, since western democracy dislikes poverty, which undermines it and opens up new threats on the political far right and left, terrorism etc. However, the faults of the Eurozone and the refusal of Germany to enact its historic role as a benevolent hegemon does not excuse the downfall of Greece and Cyprus, who failed ineptly as states. There will always be carnivorous hyenas ready to devour weaker animals. Often, victories, political, diplomatic, military and economic, are won by the miscalculation of the enemy, provided there is an effective leadership which acts upon carefully-designed short-, medium and long-term planning. In this respect, both Greece and Cyprus have been inflicted repeated defeats because of their miscalculations and reactions to events. It is the responsibility of the nation to select visionary and competent leaders, who will protect and advance its legitimate interests. There is an absolute need for a benevolent leadership to manoeuvre the state ship with care and wisdom in constantly turbulent waters. Unless the vicious circle of clientelism-nepotism-corruption-state failure is ended, the nation has no future because no competent leadership will be forthcoming under the current failed model to guide the people through the danger of the Scylla and Charybdis, that is, its internal and external enemies. The following Chapter contains some specific policy proposals of vital importance to combat state failure in the case of Greece and particularly Cyprus.

SOME POLICY CONSIDERATIONS FOR CYPRUS AND GREECE

"Let us sow faith where there is doubt, hope where there is despair, let us bring light where there is darkness, joy where there is sadness".
Paraphrase of the Prayer of Saint Francis of Assisi, also known as "Make Me an Instrument of Your Peace".

"Ἀγνοεῖς ὅτι τοῦ λόγου μέτρον ἐστὶν οὐχ ὁ λέγων, ἀλλ' ὁ ἀκούων;", Πλάτων (Στοβαίου ανθολόγιον, XXXVI. 22).
"Do you ignore that the judge of the speech / word is not the speaker but the listener?", Plato (Joannes Stobaeus Anthology).

"Blood demands blood. Your blood will dishonour the sand". From Spartacus (TV series), Season 1: Blood and Sand, Episode 13.

Both Greece and Cyprus failed badly as states. As analysed in this Policy Paper / Study the causes are multifaceted but deeply interconnected in a vicious circle of clientelism-nepotism-corruption-state failure. These weak links in the chain perpetuate the deeply ingrained state morbidity rendering continued failure inevitable. The size of the failure reflects the degree of incompetence of the so-called "elites", political, economic and financial. Finding themselves in a prisoner's dilemma decision-making environment, the ruling "elites", basically lightweight, mediocre nonentities, have tried over decades to be full maximisers, forgetting that their behaviour was anything but rational, since by destroying the social contract on which the progress of society and the economy depended they jeopardised their own position. Greed and rapacity prevailed against reason, common sense and a minimally required cooperative stance, with a totally destructive result. Political, economic and financial immoralism and amoralism prevailed and people were predominantly coaxed into them. The inevitable downfall came with a vengeance.

Politicians in both Greece and Cyprus serve primarily if not exclusively their personal interests and in the second place their party to the extent that it can help them prolong their incumbency. The national interest, the soul of the nation, its history, its culture, its civilisation and above all the nation's survival hardly come into their consideration. This is the rule. Historically, especially in the past there may have been exceptions.

In the vicious circle of clientelism-nepotism-corruption politicians, in order to prolong their stay in power, showered benefits on people such as early retirements and a generous pension system, the loopholes of which were fully exploited with borrowed money. The Greek social security system is certainly not viable, especially given the widespread tax evasion, the size of the black economy and of undeclared work.

The statement of Theodoros Pangalos leading member of the Panhellenic Socialist Movement (PASOK), who served as Foreign Minister and Deputy Prime Minister of Greece is a revealing reflection of the morbid and diseased state to which the country was reduced: "We have spent the money together" / "Μαζἰ τα φάγαμε" or literally all of us had a dip in spending / eating the money (borrowed).

Notwithstanding the interlinked causes of failure, the main cause that prompted the collapse of Greece is its fiscal bankruptcy, in contrast to Cyprus where the main cause was the excesses of the financial system. There is no doubt that Greece is the economically sick man of Europe. Ever since the murder of governor Ioannis Kapodistrias in 1831, who launched a major reform and modernization program that was stopped in its tracks, Greece never managed to become a modern European state. This is as far as German mistrust goes with some justification, since Greek governments dragged their feet on certain reforms agreed in order to avoid the high political costs. That is the reason why the "Institutions" insisted on Greek "ownership" of the 3rd MoU austerity measures.

Even if Greece survives with some form of debt restructuring or yet another write off, at the expense of creditors, it will still have to at last build a properly-functioning state. As the Irish statesman and philosopher Edmund Burke stated, "A state is its revenue". Greece must fight tax evasion, corruption and clientelism which caused its state failure due to absolute ineffectiveness – three great evils that unfortunately crossed over to Cyprus and by association with Greece brought Cyprus down as well. Even with the drachma, Greece cannot overcome its economic disease unless it first builds a state. Greece requires a new economic model and a drastic change of political culture. More concretely, a change of political culture means that the rule of law should apply, justice should be delivered and not let the crooks go unpunished, taxes should be paid and corrupt politicians should have no place in the system. Above all, citizens should be respected and if that is the case, it is most likely that the majority shall reciprocate the respect to the state. The same prescription applies to Cyprus.

Unfortunately, Cyprus copied the worst evils of Greece but none of its goods. For instance, in contrast to Greek politicians, Cypriots lack the capacity to be articulate and communicate effectively a convincing argument or a coherent and clear narrative. This worked destructively against the interests of the Cypriot people in both the Greek "PSI" of October 2011 and the Eurogroup bail-in decision of March 2013. This weakness, certainly not the only or the major one, links back to the lack of meritocracy and the consequent incompetence.

Generally the public holds a negative view about the Cyprus civil service. Even though this attitude is not entirely unjustified, it is definitely misguided and selfishly-prejudiced. It is not based on the valid demand

for the introduction of meritocracy in the system but on jealousy, envy and resentful longing for a coveted position in the public sector (even after the Troika assailed savagely the public sector salaries, especially of the scientific salary scale personnel) using the current clientelism mechanism. The majority is discontented because it is others and not them. Businessmen and their associations use the current unmeritocratic system but hypocritically and self-interestedly are angry with it because they feel it exerts an upward pressure on the wage level, which they do not apply in any case. Instead, they tend to employ low-skilled, low-productivity foreign workers. Hence, the Troika, which lowered the salary level by internal devaluation was a Godsend for them, which should have been invented if it had not existed. This is an entirely wrong approach, which perpetuates the suboptimal and inefficient outcome. Basically, the Cyprus civil service has a decent standard and performs quite well, even in hard-pressed areas dealing with the public, like hospitals, land registry, tax department, social services etc. It is the lack of meritocracy which bedevils the system like a plague. The stranglehold of the political parties on the public sector and the implicit agreement between them on sharing the spoils, with the lion's share going to the incumbent government is the major evil that must be stopped if Cyprus is to see better days. In order to infuse competence in the public sector all civil servants must be appointed on the basis of achievement in written exams. This was introduced for secretarial and lower scale personnel and is now being discussed for application up to the salary scale A13. But this will definitely not resolve the problem because the major evil is done at the upper echelons where the political parties intervene to interweave their interests with the management of the civil service by planting their preferred appointees. Hence, in order to resolve the problem of corruption in the public sector this linkage between directors and permanent secretaries appointed through nepotism and clientelism should be broken. Clientelism operates through the quasi-hidden antidemocratic structures of power and the deep state (βαθὺ κράτος) which overshadow the rule of law. Thus, nepotism pre-fixes or influences the outcome of appointments to important posts by illegal or underhand means. This can only be remedied via written exams set by a university collaborating with foreign universities or civil service institutes in order to ensure foolproof methods, objectivity and impartiality. After all, this is the method used in all international organizations and the European Union. Human Resource Planning should guide Organizational Staffing, which should be based on job analysis clarifying the Major Job Requirements (MJRs) and the Knowledge, Skills and Abilities (KSAs) necessary for the duties and responsibilities of the specific post in the public sector. Only after written exams testing the KSAs of the candidates, including linguistic and communication skills, should an oral interview take place with a weight not exceeding 10%. Besides written exams a fairer system of objective evaluation would be the granting of automatic credits for additional qualifications a person possesses beyond those required by the scheme of service. In fact, such an obviously equitable policy was recently introduced

in the case of the appointment of secondary school teachers, following the revision of the infamous "waiting list or register".

In fact, the current system of pre-selecting favoured directors permits the "pushing" of candidates not on merit but by political interference through the nefarious and malevolent practice of the so-called consultative committees provided for in the civil service law. These more often than not downgrade or exclude from the short list the most competent candidates who do not belong to the clique. They operate on pre-agreed, pre-decided and wicked terms on the basis of a quid pro quo expressed by the self-interested stance "Scratch my back and I'll scratch yours". Their short lists of candidates recommended for promotion are invariably biased, prejudiced, partisan and one-sided, without any trace of impartiality. This evil-intentioned practice presents the civil service commission, itself also a victim of political interference before a fait accompli. Conclusively, written exams are the only objective method to recruit and promote competent staff for the civil service and this applies with an even greater force for the managing personnel. Written exams should also be used as important "Evaluation and Quality Ranking Factors" for personnel performance in order to diminish the current pernicious and often revengeful subjectivism of directors appointed mostly through political connections and not on merit. Instead, a completely irrational, evil-minded and malevolent system of percentages is being promoted, whereby a director will be obliged to classify a certain percentage of the personnel as less competent. This not only ignores the problem of inter-comparability across the various sections of the civil service but also goes in precisely the opposite direction, enhancing rather than eliminating subjectivism. Even if a normal distribution of competence is assumed such an evaluation method is inherently unjust, partial and arbitrary and simply strengthens the existing failed system of subjective favouritism. It will definitely impel to a Procrustean bed and massacre all manner or trace of meritocracy.

Of course corruption is probably much more widespread in the private sector as proven by the banking scandals that brought Cyprus to its knees. The interconnection with the established political, legal and accounting cabals influenced who was appointed on the Boards of Directors of banks and semi-government organizations and the party at the expense of the people knew no bounds. The results are there for all who have eyes to see. High costs and hence charged prices by profitable semi-government organizations like the EAC and CYTA and low productivity everywhere. The stock exchange scandal of 1999 is another case in point. The lack of punishment of this major wave of theft undermined the foundations of the economy and launched the country on its final plummeting path. We observe that in other countries the rule of law is applied by the Authorities and that is why they advance in the international community of states. For instance financial crimes are not

tolerated and swift punishment is inflicted on the offenders. Examples of such countries are the USA, the UK, Iceland etc.

It is painful to mention the closing down of Cyprus Airways in January 2015, a symbol of national pride and a strategic asset in terms of the tourist sector but also for reasons of national security. Cyprus Airways was one of Europe's oldest airlines closed down after being milked to death by all governments which used taxpayer money for bribing and keeping their electoral clientele into the sheepfold. One cannot disregard how easily politicians use false arguments to effect their agenda: Now there is talk of bringing into the semi-government organizations to be privatized (EAC and CYTA, Ports Authority) strategic investors. But when British airways had a share stake in Cyprus airways the Board of Directors did everything they could to clear the British company out, so that the destructive, corrupt and incompetent mismanagement could continue without any outside monitoring.

Tax evasion is the one unforgivable sin of any well-organized state where the rule of law prevails. Tax-evaders are free riders who exploit services and benefits paid by law-abiding citizens. Therefore, tax-evaders rob not exactly the state but their fellow citizens. In the search for tax compliance, efficiency and optimality the Laffer curve logic should be applied in the sense that lower taxes improve tax revenues. In addition they sustain consumption and higher economic growth because they bolster disposable incomes. If all citizens pay their taxes the mean effective tax rate could be lowered for everybody. For example for every 1% increase of the VAT rate the Cyprus budget revenue rises by about €90-95 mn (since annual VAT revenues amount to €1750 mn at the 19% VAT rate, which implies €1750 / 19 = €92.1 mn). Hence, for every €90 mn the government collects from tax-evaders the VAT rate could drop by 1%. Lowering the VAT rate, an easy source of revenue raised by the Troika from 17% to 19%, despite being an indirect regressive tax with a greater burden for lower-income families, could even raise the economy's competitiveness and assist the economy's growth by increasing the marginal propensity to consume.

It is estimated that the Cypriot black economy is about the same as the Greek one, standing at around 25% of GDP. In absolute sums this translates to approximately €4.5 bn out of which the state should receive at least €1 bn in additional annual tax revenues simply by tackling tax evasion. This represents about 6% of GDP and eliminates an equivalent fiscal deficit. Tax evasion can easily be combated since where there is a will there is also a way. The interconnection of the electronic data processing systems of the Tax department, including the VAT System and the Social Security System with a risk module throwing out all the inconsistent cases suspect of tax evasion is a reform that should have been implemented long ago.

Cypriot businessmen resort to regular tax evasion supported by their accountants. In addition they employ foreign workers massively in an effort to reduce costs and gain competitiveness. For instance, foreign workers numbered 92,9 thousand or 27.4% out of a total of gainfully-employed population of 339,5 thousand in 2014 (Economically-active population, including the unemployed, army and British Sovereign Base Workers was 418,6 thousand in 2014). The state should enforce their tax compliance and there are several ways and means to that effect. It is the willingness that is lacking. Tax evasion and cheap foreign labour is not the right way to decrease business costs and raise competitiveness. Innovation and investment in new technology are more likely to bring in long-lasting profits. Tax evasion by professionals and the self-employed should also be tackled. For instance lawyers, accountants and doctors should be obliged by law to accept visa card payment for any sum above €50. Professionals should be given incentives to accept visa card payment by making 3-5% of such income verified through banks tax deductible. Their visa card bank accounts should be linked to their individual ledger or log at the Tax department. Lifting the individual bank account secrecy was enforced by the Cyprus Ministry of labour, welfare and social insurance in the context of the "minimum guaranteed income" policy in order to capture those not entitled to the meagre supplementary social assistance. Hence, there is no legal or moral argument why this policy should not be introduced to capture the tax-evaders that deprive the state of billions of euros every year.

It should be underlined that tax evaders are invariably entitled to state or social benefits, like child benefits and student grants, passing the means tests precisely because their real incomes are not declared. Thus they double cheat the state. It is remarked that child benefits and student grants used to be given without any income criteria, since they were initially given under the income tax legislation as allowances, subtracted from the taxable income, and thus benefiting the higher-income persons, or as tax credits subtracted from the payable tax. Even though means testing is correct as a policy, provided the administrative cost is not prohibitive, it can only be socially fair if tax evasion is tackled at the same time. Unfortunately and tragically the fight against tax evasion has always stalled, obstructed by the established interests. People should be given incentives to demand receipts from doctors by making an annual sum of say €3.000 or €10.000 in case of an operation tax deductible per person. In this way a health policy, a tax policy and a social policy will be implemented simultaneously with synergy benefits for the state. It is noted that according to the World Bank public health expenditure in Cyprus was at 46.8% of total health expenditure in 2013 and private 53.2%, while the absolute sum exceeded €1.2 bn. Hence the sums spent in the private health sector are huge and doctor incomes should be duly taxed.

In the case of Cyprus the Pangalos dictum is less valid, as it is mostly the insiders, the established kleptocratic interest groups who like vampires drank the blood out of the body politic, leaving a drained out corpse to be buried: The wealth grabbed was not shared with the people but to a minor extent compared to Greece. The corrupt behaviour of the kleptocrats based on intertwined interests was bottomless, like the Danaids' jar (pithos), exerting a deleterious voracity effect on the economy. The pursuit of huge and easy money made quickly was the main objective of the kleptocratic interest groups which increased by leaps and bounds following the Turkish invasion of 20.7.1974 in conditions of steadily declining and deteriorating governance. This was reflected in land values not warranted by land rent fundamentals and of course in the Stock exchange scandal of 1999-2000, both of which represented immense redistributions of income and wealth. My study on the "Financial Assets Participation by Cypriot Households - Focus on Stockholding" and its associated Presentation (uploaded on the Internet) are pertinent regarding the transfer of wealth via the Stock exchange swindling and defrauding of the people by sheer deception.

Nonetheless, it is estimated that around €21 bn were transferred from Cyprus to Greece in various forms over a period of years up to and including the Euro group decisions of March 2013, which is tantamount to an economic invasion. This sum of money constitutes about 120% of the Cyprus GDP and is equivalent to around $4.5 trillion of the 2013 GDP of Germany ($3.7 trillion), $5.9 trillion of the 2013 GDP of Japan ($4.9 trillion) and $20.2 trillion of the 2013 GDP of the USA ($16.8 trillion). If this money had been transferred to enhance the nation's defences and capabilities to project power then as the Arabs say, it would have been "Halal". But knowing where the money ended up certainly causes justified indignation. Specifically, it cannot be morally justified that money saved by Cypriot people after decades of hard work should have gone to enrich corrupt bankers and politicians and to pay for early Greek retirees with just ten-twelve years (4500 days, such a the special scheme for parents in the public and private sectors) of social security contributions, who would be receiving a pension for probably the next forty years. Anyone understands that such a social security system is not viable. The Greek taxi driver who was certified to be "blind" by the mayor eye doctor who wished to be re-elected and the people who do not declare the death of their parents in order to continue receiving their pensions are simply indicative cases of the morbid disease of a malfunctioning state. The Pangalos dictum reflects the corruption mentality implanted by dishonest politicians and a system that cultivated fraudulent attitudes. The Klepht / "brigand" mentality of the anti-Ottoman insurgents, of denying allegiance to the state and not paying taxes still constitutes part of modern Greek political culture.

The bail-in robbed depositors, bank security holders and shareholders, in fact a large majority of the Cypriot people, as well as foreigners of their lifetime savings. It was an illegal and criminal act for which the bankers are overwhelmingly responsible since their banking practices and behaviour were illicit, felonious, delinquent, negligent, culpable, villainous, nefarious, corrupt and fraudulent. In particular, concerning the sale of bank bonds / securities to savers without a true and fair view or disclosure of the banks' financial situation, including the sizable and highly risky exposure to Greece, is yet another proof that bankers acted fraudulently and dishonestly to cheat people out of their funds so as to fill in the big holes they ruptured in their balance sheets. In fact, the Cyprus Securities and Exchange Commission (CySec) imposed huge administrative fines on the two Cypriot banks, Bank of Cyprus and defunct Cyprus Popular Bank, members of their Boards and executive officials for providing misleading information and manipulation through misleading financial figures over their investment in Greek bonds. The swindling bankers took care not to reveal their banks' dire conditions in the issued prospectuses and thus deceived savers by exploiting completely their asymmetric information advantage.

The only reason why bankers are not held to be exclusively responsible for the losses and misery brought upon the people is that the CBC did not exercise its role diligently as a supervisory authority and that the government legitimised the illegal Eurogroup bail-in by putting its signature and thus accepting the enforced theft. This is why it is morally justifiable that when the government achieves fiscal surpluses by fighting tax evasion effectively and from future natural resource revenues it should gradually compensate the fleeced depositors, bank security holders and shareholders, taking into account of course that depositors were already partially compensated by becoming shareholders. The same applies for the banks, which grabbed money that did not belong to them either in the form of deposits, securities or shares. As part of corporate social responsibility they should at least share the burden with the government over the years when they realise profits. The self-serving bankers drew blood from the people of Cyprus and they should be forced to return it with interest. This should include not only the capital stolen but also the unjustified remuneration or rewards that they granted themselves over so many years. The bankers and their banks are jointly and severally liable for full repayment of the money stolen. They should at long last be held accountable for their deeds. If the new bank owners behave selfishly and refuse to do so, they should be forced by law or be nationalised. As underlined above in this paper, the financial costs did not result from an ordinary business bankruptcy in which the lenders and shareholders and depositors should accept their losses because they made a bad choice. It was an illegal deprivation of private property imposed exogenously, in violation of human and constitutional rights.

The investigation into the banking scandals, like the purchase of the Russian Bank Uniastrum by the BoC in 2008, begun by the Law Office of the Republic of Cyprus should go deep. So should the legal inquiry concerning the infamous Focus Maritime Corporation, which was allegedly serving as a slush fund for bribing political parties and state officials, and its effect or role in Laiki Bank's collapse, including the scandal of the €720 mn unserviced loan granted to Focus by Laiki. In essence, people's own money was siphoned off and used for illicit purposes and political bribery. Afterwards, the cost of the embezzled money was shifted onto the bailed-in victims. Many other scandals and horrendously bad investments by Laiki and BoC should also be thoroughly investigated. There are highly plausible suspicions and sufficient evidence that behind such enormously risky deals with no commercial sense whatsoever lay simply the embezzlement objective of those who promoted them. The bankers acted parasitically and they calculatingly manipulated affairs and circumstances, such as the highly suspect bank bond issuances, which were designed to cheat the purchasers, and the deals for expansion abroad, which made no commercial sense and behind which lay illicit payments kickbacks, backhanders and inflated fees. The domestic and foreign bank accounts of those bankers, their relatives and close friends should be opened over a long period of time with court orders / writs and all the sums of money and property acquired via abuse of power in a corrupt manner should be forfeited. Since the state has introduced heavy means testing for benefits granted, with a high administrative cost, there is no ethical reason why lifting the individual bank account secrecy of highly suspected embezzlers in the financial sector should not be lifted. Investigations should include the debt write-offs, and the loans on preferential terms to members, relatives and close friends of the Boards of Directors of banks and politicians in lists already revealed but also non-revealed. All kinds of embezzlements and abuse of power and position should be probed and scrutinized and money stolen should be returned and / or repatriated. The money should go into a special State Fund and be used to compensate pro rata people whose savings were stolen like the depositors, bank bond holders and shareholders. The Fund should also benefit from the charge of market interest illegally forgone by the banks and of kickbacks, backhanders, bribes and other illegal payments or assets siphoned off. The ex mayor of Paphos Vergas case constitutes a good start for the return of assets illegally acquired at the expense of others. If not voluntarily returned, illegally-acquired assets and embezzled funds should be expropriated.

Classical economics assumes market clearance and welfare maximization provided laissez-faire and free competition prevail. This can only go wrong when governments interfere, thus distorting rational choices. However, in considering the political economy of the public sector market failures, such as the existence of public goods and externalities cannot be ignored. For free markets to work properly the internalization of the cost of externalities and the provision of public goods are important. Only if such

failures are dealt with will the famous invisible hand of Adam Smith and the fictional auctioneer of Walras allocate resources efficiently. Hence, the free market is not a panacea. Such a neoliberal approach to economics ignores the misallocation of resources that results from the costs of externalities, the existence of public goods (i.e. defence expenditure, roads, public lighting, health and education for the poor because of the beneficial externalities etc) and monopoly abuse, while assuming that perfect information is available to everybody continuously (time invariance) and without any cost (an unrealistic assumption) that facilitates market clearance. Just a look on the behaviour of the labour market and financial markets (which as the financial crisis of 2007-2008 has proved can be hugely abused and manipulated), among others, proves that the state does have a regulatory, allocative and redistributive role.

The argument that people deserve the politicians that they elect despite carrying some apparent weight is mostly misleading, since the political market is axiomatically among the most imperfect, loaded with all kinds of risks. Elections are by their nature discrete events and politicians cannot be under continuous monitoring by the average citizen nor be punished till the next election, by which time huge damage may already have been done. Hence, prompting citizens to choose their leaders wisely shall not yield an answer to the problem. The vote, the right to elect one's representatives is very dangerous in the context of western indirect democracy. Plato's philosopher-kings exist only in an ideal utopia. People can be misled or bribed by clientelism with public or corrupt money or politicians will simply serve their own agenda after election ignoring the general will until the next election. Hence, a country needs strong institutions in order to be properly-run.

People in Greece and particularly in Cyprus are to blame only to the extent that, having been the victims of so much mismanagement, which has deprived them of their savings and transferred their wealth they remain complacent feeling powerless to do something about it. Indeed it is the purpose of this Study / Paper to enable people to draw their own conclusions by pointing out some facts and undisputed truths regarding the subject matter treated. Thucydides the father of political realism underlined the value of historical truth, which should serve as "a possession for all time" (Κτῆμά τε ἐς αἰεῖ). The truth can liberate and empower people to demand change. Change is possible. Nothing is impossible. Empowered and willing citizens can overthrow a corrupt, decaying, putrid and rotten system, both economic and political that has destroyed their lives, the prospect for a better future for them and their families and the survival of the nation. It is a real tragedy of life when people are afraid of the light because they lack courage. The words of Thucydides in Pericles' Funeral Oration in "The Peloponnesian War" come to mind: "Judging happiness to be the fruit of freedom and freedom of valor, never decline the dangers of war" (Τὸ δ᾽ εὔδαιμον τὸ ἐλεύθερον, τὸ

δ' ἐλεύθερον τὸ εὔψυχον κρίναντες μὴ περιορᾶσθε τοὺς πολεμικοὺς κινδύνους). A valiant fight is necessary to clean up the Augean stables because there is a big accumulation of filth and corruption. These, in combination with incompetence resulting from nepotism and lack of meritocracy constitute a morbid, deadly and disastrous recipe leading to state failure. Notwithstanding the fall of the nation, effecting a revolutionary paradigm shift in its historical path is a feasible Herculean task. The system can be changed if everyone wills to make a small contribution. Choosing to be free riders will only imprison us in our dilemmas and condemn us to be losers.

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APPENDIX II: CYPRUS: SELECTED ECONOMIC INDICATORS 2008-20

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
								Projections					
Real Economy					(Percent change, unless otherwise indicated)								
Real GDP	3.6	-1.9	1.3	0.4	-2.4	-5.4	-3.2	0.4	1.6	2.0	2.2	2.1	1.8
Domestic demand	8.0	-7.0	1.9	-1.5	-3.8	-10.1	-4.3	-0.4	0.9	1.7	1.9	2.0	1.7
Consumption	7.4	-4.6	1.4	1.0	-2.4	-5.6	-2.9	-0.6	0.5	1.3	1.5	1.6	1.2
Private consumption	7.8	-7.5	1.5	1.3	-2.0	-5.7	-2.4	-0.1	1.5	1.7	1.9	1.8	1.4
Public consumption	6.1	6.8	1.0	-0.3	-3.8	-5.0	-4.7	-2.1	-3.2	-0.6	-0.3	0.5	0.6
Fixed investment	6.0	-9.7	-4.9	-8.7	-18.3	-21.6	-13.4	1.3	3.9	4.6	4.9	4.9	4.8
Inventory accumulation 1/	0.9	-1.5	1.8	-0.7	1.3	-2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign balance 1/	-5.1	6.0	-0.7	2.0	1.6	5.0	1.0	0.8	0.7	0.4	0.3	0.2	0.2
Exports of goods and services	-0.5	-10.7	3.8	4.4	-2.5	-4.2	0.4	1.5	2.8	3.1	3.3	3.0	2.9
Imports of goods and services	8.5	-18.6	4.8	-0.2	-5.4	-14.1	-1.8	-0.1	1.5	2.5	2.8	2.8	2.7
Potential GDP growth	2.4	1.7	1.6	1.7	-1.5	-5.4	-3.1	-0.2	0.5	1.0	1.6	1.9	1.8
Output gap (percent of potential GDP)	2.8	-0.8	-1.2	-2.4	-3.3	-3.3	-3.4	-2.8	-1.8	-0.9	-0.3	-0.1	0.0
HICP (period average)	4.4	0.2	2.6	3.5	3.1	0.4	0.0	0.7	1.3	1.5	1.7	1.9	1.9
HICP (end of period)	1.8	1.6	1.9	4.2	1.5	-1.3	0.0	0.7	1.3	1.5	1.7	1.9	1.9
Unemployment rate EU stand. (percent)	3.6	5.4	6.3	7.9	11.9	15.9	16.6	16.1	15.0	13.7	12.5	11.3	10.3
Employment growth (percent)	1.7	0.0	1.4	-1.5	-3.3	-5.2	-2.8	0.2	1.4	1.6	1.7	1.6	1.5
Public Finance						(Percent of GDP)							
General government balance	0.9	-6.1	-5.3	-6.3	-6.4	-4.9	-4.4	-3.9	-1.3	-0.8	0.6	0.2	-0.1
Revenue	43.1	40.1	40.9	39.9	39.4	41.5	42.3	41.8	42.1	41.5	41.7	41.9	41.9
Expenditure	42.1	46.2	46.2	46.3	45.8	46.4	46.7	45.7	43.3	42.3	41.1	41.7	42.0
Primary Fiscal Balance	3.8	-3.6	-3.0	-4.0	-3.2	-1.9	-1.0	-1.0	1.7	2.5	4.0	4.0	4.0
General government debt	48.9	58.5	61.3	71.5	86.6	111.5	117.4	126.0	122.5	116.4	111.1	106.5	102.6
Balance of Payments						(Percent of GDP)							
Current account balance	-15.6	-10.7	-9.8	-3.4	-6.9	-1.9	-1.1	-0.8	-0.3	-0.1	-0.2	-0.2	-0.2
Trade Balance (goods and services)	-11.4	-5.5	-6.2	-4.3	-3.1	1.9	2.6	3.2	3.8	4.1	4.3	4.2	4.2
Exports of goods and services	45.0	40.2	41.3	42.9	42.9	43.9	45.5	46.3	46.9	47.3	47.6	47.9	48.2
Imports of goods and services	56.4	45.7	47.5	47.2	46.0	42.0	42.8	43.1	43.0	43.2	43.4	43.6	44.0
Goods balance	-32.4	-25.5	-26.8	-24.3	-21.8	-17.8	-16.7	-16.4	-16.2	-16.2	-16.3	-16.4	-16.5
Services balance	21.0	19.9	20.6	20.1	18.7	19.7	19.3	19.7	20.1	20.3	20.5	20.6	20.7
Income, net	-3.9	-4.1	-2.2	2.0	-2.6	-2.7	-2.7	-3.1	-3.2	-3.3	-3.5	-3.5	-3.5
Transfer, net	-0.4	-1.1	-0.7	-1.1	-1.2	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Capital account, net	0.0	0.3	0.2	0.3	0.1	1.5	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Financial account, net	16.1	10.9	9.5	4.4	4.8	-26.3	-11.4	-16.8	-2.2	0.0	0.4	0.7	0.9
Direct investment	-5.2	13.2	0.4	0.7	6.8	1.0	0.5	4.4	4.7	3.1	3.0	4.0	4.0
Portfolio investment	-74.2	-101.1	-11.1	32.2	30.1	71.1	15.6	-5.2	-1.6	-2.2	1.6	10.0	3.0
Other investment	93.8	98.2	19.0	-28.8	-32.4	-98.6	-27.4	-16.0	-5.3	-1.0	-4.3	-13.3	-6.0
Reserves (- inflow; + outflow)	1.7	0.6	1.1	0.2	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	0.0	0.0	0.0	0.0	0.0	29.3	12.3	17.5	2.3	0.0	-0.3	-0.6	-0.8
European Union	0.0	0.0	0.0	0.0	0.0	27.8	10.2	15.4	1.8	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.0	1.5	2.1	2.1	0.5	0.0	-0.3	-0.6	-0.8
Errors and omissions	-0.5	-0.5	0.2	-1.3	2.0	-2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Savings-Investment Balance													
National saving	7.7	8.6	10.0	13.2	8.3	8.6	8.6	9.1	10.0	10.8	11.3	11.8	12.4
Government	4.9	-0.6	-0.1	-1.8	-2.6	-1.9	-0.7	-0.3	1.9	2.3	3.7	3.3	3.0
Non-government	2.8	9.2	10.0	15.0	10.9	10.5	9.3	9.4	8.2	8.5	7.6	8.5	9.3
Gross capital formation	23.3	19.4	19.8	16.6	15.2	10.5	9.7	9.9	10.4	10.9	11.5	12.0	12.6
Government	5.0	5.1	5.0	5.0	5.3	6.1	5.1	5.1	4.5	4.2	3.9	4.2	4.4
Private	18.3	14.3	14.8	11.6	9.9	4.4	4.6	4.8	5.9	6.7	7.6	7.8	8.3
Foreign saving	-15.6	-10.7	-9.8	-3.4	-6.9	-1.9	-1.1	-0.8	-0.3	-0.1	-0.2	-0.2	-0.2
Memorandum Item:													
Nominal GDP (billions of euros)	17.2	16.9	17.4	17.9	17.7	16.5	15.8	15.9	16.4	17.1	17.8	18.5	19.2

Sources: Eurostat, Central Bank of Cyprus, and IMF staff estimates.
1/ Contribution to growth.

APPENDIX III: GREECE: SELECTED ECONOMIC INDICATORS 2010-2015

	2010	2011	2012	2013	2014		2015
				Prel.	Prog.	Proj.	Proj.
	(Percentage change, unless otherwise indicated)						
Domestic economy							
Real GDP 1/	-4.9	-7.1	-7.0	-3.9	0.6	0.6	2.9
Output gap (percent of pot. output)	3.2	-2.7	-8.4	-10.5	-9.5	-9.4	-6.8
Total domestic demand	-7.0	-8.7	-12.2	-5.8	-1.1	-1.0	2.0
Private consumption	-6.2	-7.7	-9.3	-6.0	-1.6	-1.8	1.7
Public consumption	-8.7	-5.2	-6.9	-4.1	-6.2	-1.7	-2.0
Gross fixed capital formation	-15.0	-19.6	-19.2	-12.8	8.4	5.9	9.7
Change in stocks (contribution)	0.7	-0.4	0.9	0.8	0.0	-0.1	-0.1
Foreign balance (contribution)	3.0	2.4	3.9	2.0	1.8	1.5	0.8
Exports of goods and services	5.2	0.3	-1.7	1.8	4.6	4.1	5.2
Imports of goods and services	-6.2	-7.3	-13.8	-5.3	-1.9	-1.3	2.2
Unemployment rate (percent) 2/	12.5	17.7	24.2	27.3	26.0	25.8	23.8
Employment 2/	-2.7	-6.8	-8.0	-4.0	0.6	1.3	2.6
Unit labor costs	0.1	-2.4	-5.1	-6.9	-1.6	-1.8	-0.3
Consumer prices (national definition), period	4.7	3.3	1.5	-0.9	-0.4	-0.8	0.3
Consumer prices (HICP), period average	4.7	3.1	1.0	-0.9	…	...	...
Core prices, period average 3/	2.6	1.1	-0.3	-2.4	…	...	...
GDP deflator	1.1	1.0	-0.3	-2.1	-0.4	-0.7	0.4
	(Percent of GDP, unless otherwise indicated)						
Balance of payments							
Current account	-10.1	-9.9	-2.4	0.7	-0.3	0.7	0.2
Structural current account balance	-8.6	-10.7	-5.3	-4.0	-4.2	-3.3	-2.5
Trade balance	-6.8	-6.0	-2.3	-0.2	1.5	1.1	2.1
Export of goods and services	20.5	23.4	25.6	27.6	28.3	28.6	29.2
Imports of goods and services	-27.3	-29.5	-27.9	-27.9	-26.8	-27.5	-27.1
Total transfers	0.1	0.3	0.7	2.5	1.5	2.2	1.5
Net income receipts	-3.5	-4.1	-0.8	-1.5	-3.2	-2.7	-3.4
Net international investment position	-98.4	-84.5	-109.1	-116.4	-117.3	-114.1	-108.7
Public finances (general government)							
Total revenues	40.4	42.2	43.8	44.0	43.6	44.6	43.2
Total expenditures 4/	51.4	51.9	50.2	47.2	46.8	47.3	45.1
Primary expenditures 4/	45.5	44.7	45.1	43.2	42.1	43.1	40.2
Overall balance	-11.0	-9.6	-6.4	-3.2	-3.2	-2.7	-1.9
Primary balance	-5.1	-2.4	-1.3	0.8	1.5	1.5	3.0
Cyclically-adjusted primary balance	-6.3	-1.3	2.5	5.7	5.9	6.0	6.1
Gross debt	148.3	170.3	157.2	175.1	174.0	174.2	171.0
Interest rates and credit							
Lending interest rate (percent) 5/	6.1	6.8	5.8	5.1	…	5.4	...
Private credit growth (percent change) 6/	0.0	-3.1	-4.0	-3.9	-4.0	-3.7	-1.6
Exchange rates, end-period (percent change) 5/							
Nominal effective exchange rate	-3.7	0.0	-0.5	2.2	…	1.2	...
Real effective exchange rate (CPI-based)	-1.2	-0.7	-2.0	-1.1	…	-1.3	...
Real effective exchange rate (man. ULC-based)	0.8	-6.1	-8.4	-2.4	…	-2.1	...
Memorandum items:							
Nominal GDP (billions of euros)	222.2	208.5	193.3	182.1	184.0	181.9	187.9
Nominal GDP (percent change)	-3.9	-6.1	-7.3	-5.8	0.2	-0.1	3.3

Sources: Elstat; Ministry of Finance; Bank of Greece; and IMF staff projections.

1/ Starting from 2013 projections GDP components are weighted using weights from the previous year. 2/ Based on Labor Force Survey.
3/ Core prices exclude energy, food, alcohol, and tobacco. 4/ Includes unidentified measures for 2015.
5/ Data for 2014 as of February.
6/ Includes securitized or otherwise transferred loans from 2010 onward.

APPENDIX IV: PORTUGAL: SELECTED ECONOMIC INDICATORS 2004-2010

	2004	2005	2006	2007	2008	2009[1/]	2010 [1/]
Real economy (change in percent)							
Real GDP	1.5	0.9	1.4	1.9	0.0	-2.7	0.5
Domestic demand	2.7	1.6	0.7	1.7	1.3	-2.9	0.3
CPI (year average, harmonized index)	2.5	2.1	3.0	2.4	2.7	-0.9	0.8
Unemployment rate (percent)	6.7	7.6	7.7	8.0	7.6	9.6	11.0
Gross national saving (percent of GDP)	15.5	13.1	12.2	12.8	10.2	8.9	8.5
Gross domestic investment (percent of GDP)	23.1	22.6	22.2	22.2	22.3	18.8	18.7
Public Finance (percent of GDP)							
General government balance	-3.4	-6.1	-3.9	-2.6	-2.7	-8.0	-8.6
General government balance [2/]	-5.5	-6.1	-3.9	-2.7	-3.4	-8.1	-8.6
Primary balance [2/]	-2.8	-3.5	-1.2	0.1	-0.5	-5.0	-5.2
Public debt	58.3	63.6	64.7	63.6	66.3	75.8	83.3
Money and credit (end-of-period, percent change)							
Credit to the nonfinancial private sector[3/]	6.1	7.7	8.7	9.9	7.1	...	...
National contribution to euro area M3 [4/]	5.5	6.1	3.1	8.1	12.9	...	...
Interest rates (end-period)							
Deposit rate, up to two years	2.0	2.1	2.7	3.6	4.0	...	...
10-year government bond yield	3.6	3.5	4.0	4.5	4.0	...	...
Balance of payment (percent of GDP)							
Trade balance	-10.3	-11.0	-10.8	-10.8	-12.8	-10.2	-10.1
Current account (including capital transfers)	-6.1	-8.3	-9.2	-8.1	-10.5	-8.6	-8.9
Net official reserves (billions of U.S. dollars, end of period)	10.7	10.9	9.4	10.8	12.6	...	...
Exchange rate							
Exchange rate regime -- euro-area member							
Present rate (December 7, 2009) U.S.$1.48 per euro							
Nominal effective rate (2000=100)	100.2	100.0	100.2	101.5	103.4	...	...
Real effective rate (2000=100)	100.1	100.0	100.7	102.4	103.6	...	...

Sources: Bank of Portugal; Ministry of Finance; and IMF staff estimates and projections.
[1/] Figures for 2009 and 2010 are projections.
[2/] Excludes one-off measures.
[3/] Includes securitized loans and corrected for loan write-offs and reclassifications.
[4/] Excludes currency in circulation held by nonbank private sector.

APPENDIX V: PORTUGAL: SELECTED ECONOMIC INDICATORS 2014-2017

Portugal: Selected Economic Indicators

(Year-on-year percent change, unless otherwise indicated)

		Projections 1/		
	2014	**2015**	**2016**	**2017**
Real GDP	0.9	1.6	1.5	1.4
Private consumption	2.1	1.8	1.6	1.5
Public consumption	-0.7	-0.5	0.0	0.4
Gross fixed capital formation	2.3	2.8	2.6	2.4
Exports	3.4	5.1	4.8	4.5
Imports	6.2	3.7	4.4	4.5
Contribution to growth (percentage points)				
Total domestic demand	2.0	1.0	1.4	1.4
Foreign balance	-1.1	0.5	0.1	0.0
Resource utilization				
Employment	1.6	0.2	0.6	0.5
Unemployment rate (percent)	13.9	13.1	12.6	12.1
Prices				
GDP deflator	0.9	1.0	1.3	1.3
Consumer prices (harmonized index)	-0.2	0.6	1.2	1.3
Money and credit (end of period, percent change)				
Private sector credit	-5.7	-2.8	0.3	0.8
Broad money	-0.2	2.5	2.5	2.4
Fiscal indicators (percent of GDP)				
General government balance 2/	-5.0	-3.2	-2.7	-2.2
Primary government balance	0.1	1.7	1.9	2.2
Structural primary balance (percent of potential GDP)	2.7	2.4	2.2	2.3
General government debt	128.7	125.8	124.8	123.6
Current account balance (percent of GDP)	0.6	1.1	0.6	0.3
Nominal GDP (billions of euros)	174.4	178.9	184.0	189.0

Sources: Bank of Portugal; Ministry of Finance; National Statistics Office (INE); Eurostat; and IMF staff projections.

1/ Projections for 2016 and 2017 reflect current policies.
2/ In 2014, includes one-off measures from SOE and banking sector support operations, CIT credit, and the upfront costs of mutual agreements for 1.1 percent of GDP.

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