

**REASONS AND AFTERMATH OF THE CYPRUS FINANCIAL CRISIS****Shreider A. S.****scientific adviser PhD in Economics Rouiga I. R.***Siberian Federal University*

The Republic of Cyprus is the famous holiday destination and the center of shippings, it has offshore economy model. A significant part of all services that are rendered by Cyprus is connected with residents of the Russian Federation. Cyprus leads world in foreign direct investment in Russia. According to the IMF, 438 billion dollars were transferred from Cyprus to Russia in 2009-2011. By the same token, Cyprus is the major recipient of Russia's investments, during the same period Cyprus got more than 395 billion dollars from Russia. Therefore banking crisis of Cyprus is the one of the most topical issues for the Russian business.

Cyprus faced economic problems in 2012. First of all, economic crisis in Greece produced negative effects on economy of Cyprus, because the majority of Cypriot banks were Greek bond holders. Under the treatment of assistance to Greece banks of Cyprus had to write off a half of par value of Greek bonds.

Secondly, the country's foreign debt has been rising annually. According to the data of the agency Eurostat, the highest annual increase of sovereign debt in relation to GDP amount among countries of European Community was reached by Cyprus. Its national debt increased from 12,777 million Euro to 15,400 million Euro, i.e. from 71 percent to 86 percent of GDP amount, in 2009 this indicator was 58 percent and in 2010 – 61 [1].

Tab. 1 – dynamics of GDP amount during 2005 – 2012 in millions, data is provided by Cyprus's department of statistics [2].

<b>Year</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Nominal GDP</b>	17886,8	17979,3	17406,0	16853,5	17157,1	15829,7	14432,5	13402,0
<b>Change in percentage</b>	-0,5	3,3	3,3	-1,8	8,4	9,7	7,7	7,0
<b>Real GDP in constant values (base year 2005)</b>	14817,6	15186,0	15105,6	14910,5	15192,3	14666,3	13955,4	13402,0
<b>Change in percentage</b>	-2,4	0,5	1,3	-1,9	3,6	5,1	4,1	3,9

As we can judge on the basis of analyzing macroeconomic indices and according to preliminary estimates, in 2012 Cyprus's GDP in current values is worth 17,886,8 million Euro, by comparison in 2011 it was worth 17,979,3 million Euro. After an augmentation to 3,3 percent in 2011, but in 2012 a slowdown in growth rates to 0,5 percent is observed. As for real GDP, slowdown in its growth started in 2008. From 2011 to 2012 GDP in constant values lessened to 2,4 percent.

Negative growth rates were recorded by the secondary sector of the economy (Construction, Manufacturing), as well as in the sectors of Trade, Transport and Services (Public Administration, Recreational and Cultural Activities). Positive growth rate was presented by the sector of Legal & Accounting Activities [3].

Thirdly, increasing part of government expenditure in the structure of GDP is also a problem. Rising of government spending and growth of budget deficit have been observed

since 2009, and in 2011 it reached 6 percent. However, government reduced it to 4,9 percent in 2012.

The banking crisis in March 2013 we can treat as a consequent of instability. Immediately the support package was created by EC, under which Cyprus has to reorganize banks. This project implies liquidation of the one of two recessionary banks – Cyprus Popular Bank (Laiki) and provision of assistance to another - Bank of Cyprus using money of stockholders, whose capital is more than 100 thousand Euro. Cyprus Popular Bank (Laiki) was liquidated, its guaranteed deposits (which are less than 100 thousand Euro) were transferred to Bank of Cyprus. Non-guaranteed deposits (which are more than 100 thousand Euro) are used to recapitalization of Bank of Cyprus.

Aftermath of the banking crisis will be significant for the Cyprus's economy. To start with, a decline of banking sector can cause decreasing of GDP worth in 2013. Reduction of GDP worth can reach 4 or 5 percent. The rate of unemployment can increase and reach 20 percent to the end of the year.

Moreover, Cyprus will lose its position of the leader on the offshore business. After an implementing the anti-crisis means, risks became over high, so business will be going to refuse investing their finances into the state's economy.

Therefore, we can speak about a change of the Cyprus's offshore model and high probability of substitution it for the resource-based economy. Earlier offshore sector covered almost 60 percent of GDP worth, the size of this sector is lessening and government is going to focus on developing the energy industry, it is may be perspective, because Cyprus's Ministry of Trade values gas and other hydrocarbon compounds reserves in the shelf area as 300,5 trillion Euro.

#### **Source list:**

1) Reporting of Government Deficits and Debt Levels. EXCESSIVE DEFICIT PROCEDURE, OCT 2012 // The Statistical Service of Republic of Cyprus website. URL: [http://www.cystat.gov.cy/mof/cystat/statistics.nsf/economy\\_finance\\_12main\\_en/economy\\_finance\\_12main\\_en?OpenForm&sub=2&sel=2](http://www.cystat.gov.cy/mof/cystat/statistics.nsf/economy_finance_12main_en/economy_finance_12main_en?OpenForm&sub=2&sel=2)

2) NATIONAL ACCOUNTS, 1995-2012 // The Statistical Service of Republic of Cyprus website. URL: [http://www.mof.gov.cy/mof/cystat/statistics.nsf/economy\\_finance\\_11main\\_en/economy\\_finance\\_11main\\_en?OpenForm&sub=1&sel=2](http://www.mof.gov.cy/mof/cystat/statistics.nsf/economy_finance_11main_en/economy_finance_11main_en?OpenForm&sub=1&sel=2)

3) Latest Figures: GDP Growth Rate, 4th Quarter 2012 // The Statistical Service of Republic of Cyprus website. URL: <http://www.cystat.gov.cy/mof/cystat/statistics.nsf/All/7F691CFF03786EC9C2257AC60038D90A?OpenDocument&sub=1&sel=1&e=&print>