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from:	General Secretariat of the Council
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Subject:	**Plenary session of the European Parliament** **Current situation in Cyprus** ***Council and Commission statements*** Strasbourg, 17 April 2013

Ms Lucinda Creighton on behalf of the Council made the introductory remarks in Annex I.

Commissioner Olli Rehn, speaking on behalf of the Commission President, delivered the speech in Annex II.

MEPs speaking on behalf of political groups all expressed strong criticism of the handling of the Cypriot banking crisis.

Mr. Gauzès speaking on behalf of the EPP stressed that the EU institutions had lacked vigilance and had acted too late - despite clear signals showing that the model of the CY banking sector was unsustainable. He claimed that the Eurogroup in particular had not used the appropriate decision-making process, had in part taken the wrong decisions and had badly communicated the decisions it had taken.

He stressed the need to regain the confidence of CY citizens who had suffered as a consequence of the measures taken, and to take all possible measures to alleviate the consequences of the severe economic downturn. He considered that the economic model chosen by Cyprus based on an oversized banking sector had been an important factor in the difficulties which it had encountered. He called for both more solidarity and control on the economic course of the Eurozone Member States.

Mr Swoboda, S&D, AT agreed that the initial decision by the Commission to accept a levy on deposits under 100,000 euros had been a serious mistake and had created a lack of trust in the EU institutions. He also criticized the approach followed for taking decisions on Cyprus, and the lack of transparency in communicating decisions and suggested this needed to be reviewed. He was particularly critical of what he described as a heavy-handed approach by the troika, which he said had no democratic legitimacy. He added that the EU ought in future to act without the support of the IMF, and called for the establishment of a subcommittee of the EP to deal with euro-area issues. He also called for the EP to have a genuine dialogue with the Commission and the Eurogroup on the handling of issues related to the Euro-area. He was very critical of the statements made by the German Minister of Finance M. Schaüble on Cyprus. He referred to the great economic potential of the island and called on the Eurogroup and Commission to be active in assisting Cyprus on the road to recovery and to give it more time.

Mr. Verhofstadt, ALDE, BE considered the handling of the Cyprus case to be a disaster and said that a representative of the Eurogroup should participate in the debate rather than the Presidency of the Council. He said that what was failing was an badly-designed inter-governmental system of decision-making on euro-area issues characterized by ill-timed decisions taken at the last moment under pressure from the markets. He urged the Commission to submit further proposals to avoid similar situations in future without waiting to see if the larger Member States were in agreement. He said that the ECON Committee was organizing a hearing the following week to find out what had happened and identify who had been responsible for the initial decisions taken by the Eurogroup.

He warned that he would ask for a committee of inquiry to investigate the issue if the hearing did not produce the required answers. Like the previous speaker, he called for more transparency on the Eurogroup decision-making process in future and for learn the lessons of recent mistakes.

Mr. Cohn-Bendit, Greens/EFA, FR agreed with both previous speakers. He wondered why no decision had been taken earlier given that the crisis had been anticipated some 18 months before. He regretted that Cyprus had been considered "too small to bail", and called for an enquiry into the financial flows operated by foreign banks in Cyprus as well as into tax evasion. He considered that the situation of Cyprus had to be seen in the broader context of its economic prospects related to the future exploitation of gas and oil and with a view to the reunification of the island and a possible new approach to relations with Turkey.

Mr. Zahradil, ECR, CZ considered that the decisions to take levies on private deposits was particularly unfortunate and that the eurozone was characterized by endemic instability. He was critical of any measures limiting the sovereignty on tax policy.

Mr. Farage, EFD, UK considered that the EU undermined democracy. He considered that recent decisions has created a very bad precedent which had signalled the end of the euro. The confidence of investors had been undermined, and money was being removed from EU banks.

Mr. Hadjigeorgiou, GUE/NGL, CY welcomed Parliament's support for Cyprus. He considered that decisions had been announced, but had not then been respected by the participants in the decision-making process. He criticized in particular the EPP group which defended different positions in the European Parliament and in the Council, and the Commission which delivered public statements, but then did not follow them up. He considered that a small country like Cyprus had not been treated fairly, and said that democracy had also been a loser in the process.

Mrs Stassen, NI, NL said that the eurozone was not working, that enormous amounts of money - initially from taxpayers, then from depositors - had disappeared in a never ending bailout process which had left the EU in a deep recession.

Most individual interventions echoed the group positions, in particular in :

- Criticizing either the method (timing, rhythm, lack of transparency and democratic legitimacy) and/or substance (levies on bank depositors) of the decisions taken in response to the banking crisis in Cyprus (Ferreira, S&D, PT, Bowles, ALDE, UK, Lamberts, Greens/EFA, BE, Eppink, ECR, BE, Borghesio, EFD, IT, Triantaphyllides, GUE/NGL, CY, Le Pen, NI, FR, Papadopoulou, S&D, CY, Kleva, S&D, SI, Toia, S&D, IT, Rangel, EPP, PT, Lopez Aguilar, S&D, ES, Trautmann, S&D, FR, Giannakou, EPP, EL, Podimata, S&D, EL, Chadjimarkakis, ALDE, DE, Chrisogelos, Greens/EFA, EL);

- calling for lessons to be learnt from the handling of the Cypriot crisis and in stressing the need for further EU legislation on banking resolution (Bowles, ALDE, UK, Lamberts, greens/EFA, BE);

There was broad support for Cyprus and for genuine solidarity instruments in support of countries in difficulty (Stolojan, EPP, RO, Pitsillides, EPP, CY, Grossetête, EPP, FR).

Mrs. Theocharous, EPP, CY, while recognizing the mistakes made by the previous leadership in Cyprus, highlighted the very difficult situation currently being experienced by her country, as well as the social consequences and economic constraints resulting from the division of the island as a consequence of the military occupation of part of its territory and infrastructures, which had led it to adopt a flawed economic model. Mrs. Grossetête, EPP, FR considered that there was a collective responsibility towards Cyprus, including of the European Parliament, to try and find a sustainable and viable solution to the longstanding problems caused by the division of the island. Mr. Chrisogelos, Greens/EFA, agreed that the unification of the two Cypriot communities would be a positive development. Mr. Borghesio, EFD, IT suggested that Cyprus had been used as a guinea pig to test a new bail-in policy model and Mrs. Le Pen, NI, FR criticized the methods of unelected bureaucrats and the ECB decision by which it blocked access to liquidity for Cyprus. Mr. Triandaphyllides, GUE/NGL, CY expressed concerns at the viability of Cyprus' sovereign debt resulting from the recession created by the sudden reduction in the banking sector, which is one of the two major sources of income for the island.

Mrs Creighton on behalf of the Council said in her concluding remarks that she drew a strong message from the discussion, i.e. that the efforts by the EU to break the links between sovereign debt and banks, complete the banking union and agree on a Resolution Mechanism and a Joint Deposit Scheme should be pursued with determination and without delay.

Mr. Rehn on behalf of the Commission reassured the Parliament that he had taken good note of the critical remarks by MEPs and that the Commission would take them into account in its future course of action. He stressed that the bail-in was not a new concept as it had already been used to find specific solutions to the situation in Ireland, but that the solution designed for Cyprus was tailored to its specific needs and situation. On the criticisms that different figures had been put forward on Cyprus' financing needs, he specified that the figures were referring to different scenarios and that this discrepancy was due to rumors fed by leaked documents. He agreed on the need to continue on reform of the Eurozone. He promised that the Commission would do its utmost to alleviate the social consequences for the Cypriot people.

Mr. Barnier on behalf of the Commission stated that in times of crisis, action had to be taken to tackle urgency measures as a first step, which were potentially painful for the population, and that the second step was to take preventive and long-term action. He said that the Cyprus case was not a template, but agreed that there were lessons to be learnt. He agreed with MEPs that the work on banking reform had to be accelerated and completed with determination and he looked forward to the European Parliament's support for this objective.

Current situation in Cyprus

Statement by Mrs. Lucinda Creighton on behalf of the Council

European Parliament, 17 April 2013

President,

Honourable Members,

The agreement of a Cypriot macroeconomic adjustment programme has been the focus of much energy and attention over recent weeks.

I feel it important at the outset to recall that I am here as the representative of the Council and I am happy to be here in that capacity to discuss the matter. However, the discussions surrounding Cyprus were not conducted under the stewardship of the Irish Presidency and so, as I do not speak for the eurogroup, I am clearly greatly constrained in the contribution I can make to this important debate.

I think there is very little if any disagreement but that the situation in Cyprus is extremely regrettable, and the human consequences of it for the Cypriot people are the most regrettable elements of all.

It is important to emphasise and for us to note, I think, that the situation in Cyprus was, and is, exceptional.

A combination of a number of factors, including the size of the financial sector, the nature of risks assumed, and other issues including supervision issues, left the country particularly vulnerable to financial market turbulence. When two of Cyprus'largest banks ran into trouble, the cost of recapitalizing them was such that Cyprus was left with no alternative but to seek assistance from other euro area member states.

To resolve an exceptional situation, country specific measures for a macroeconomic adjustment programme were agreed by the Troika and the Cypriot authorities and subsequently by the Eurogroup. I do not intend to comment in depth on those measures, but elements of the programme include a restructuring of the banking sector, an audit of the anti money-laundering framework, fiscal consolidation and economic restructuring.

On the basis of the programme, the Euro area agreed - in principle - to provide an amount of up to €10bn in financial assistance to Cyprus subject to the IMFs contribution.

The Eurogroup has since been able to welcome a staff level agreement between Cyprus and representatives of Troika institutions on the policy conditionality underlying the macroeconomic adjustment programme.

National procedures required for the approval of the European Stability Mechanism (ESM) financial assistance can now be launched. I understand that what is now envisaged is that a final agreement by the ESM board of governors should be reached by the end of April and that the first ESM disbursement is scheduled for mid-May.

Mr. President,

Clearly the road ahead for Cyprus will be very challenging. But this should not prevent us recognising that these measures, however difficult, grant real assistance to Cyprus, assistance which is necessary both to allow Cyprus the chance to get its public finances and economy back on a sustainable path, but also to safeguard stability inside the monetary union. This is both in the Cypriot and in the European interest.

While the news in recent weeks may have been of Cyprus, it is true to say that the wider difficulties which have faced a number of euro area countries have taken place against a backdrop in which financial turmoil has exposed significant weaknesses in our monetary union.

As Presidency, our focus has been in advancing the measures which are designed to redress those shortcomings. This effort goes to the heart of the Union's efforts to restore stability.

Above all, this has meant work on banking union, work in which we would want again to acknowledge the central role and constructive engagement of this Parliament.

In adopting that focus, our Presidency has followed the lines of the priorities outlined by the European Council. Banking Union is important because it will reinforce confidence in the European Banking system and its supervision. It will also help to break the link between sovereigns and banks and foster the reintegration of financial markets.

During the Irish Presidency good progress has been made on the Banking Union dossiers. To date the Capital Requirements Directive (CRD IV) proposal has been finalised and the agreement on the Single Supervisor Mechanism (SSM) is being finalised.

Political agreement on the SSM was reached at the informal ECOFIN council in Dublin last week where Ministers also reaffirmed their commitment to the urgent completion of all the agreed elements of banking union. The setting up of the supervisor will also pave the way for the European Stability Mechanism (ESM) to take on the direct recapitalisation of banks.

The remaining elements of the Banking Union package include the Bank Recovery & Resolution (BRR) proposal, consideration of which has been accelerated by the Irish Presidency to meet the deadline of June set by the European Council for its agreement with the European Parliament. Bank Recovery and Resolution will lay the foundation for a Single Resolution Mechanism, a detailed proposal on which we expect to see published by the Commission shortly.

Thank you.

Statement on Cyprus in the European Parliament by Commissioner Olli REHN

Vice-President of the European Commission and member of the Commission responsible for Economic and Monetary Affairs and the Euro

European Parliament Strasbourg

17 April 2013

President, Honourable Members,

As President Barroso is attending the funeral of Baroness Thatcher today, I am presenting the Commission's views in this important debate together with my colleagues Joaquin Almunia and Michel Barnier, with whom we have worked very closely as a team in the past years.

We are about to finalise a support programme for Cyprus. It will enable Cyprus to avoid a disorderly default with all its dramatic ramifications for the Cypriot people. This marks the beginning of a joint effort to bring Cyprus onto the path of sustainable growth and job creation.

The process that led us to this agreement has been very difficult, and not without mistakes. The Cypriot authorities, the Member States and the EU Institutions had to find unique solutions to exceptional problems. They had to do so without previously tested instruments and – in the final stages of negotiations – under enormous time pressure.

Thus, there are at least two key lessons to be learnt from this difficult process. First, there must be absolute clarity about secured deposits. In this respect, the Eurogroup and Cyprus took rapid corrective action and underlined that secured deposits indeed are secured in Europe.

Second, the developments in Cyprus demonstrate the reasons why a Banking Union is a necessary element of a true EMU. We need a well-functioning Single Supervisory Mechanism with a single rulebook to prevent the emergence of an unsustainable banking sector like in Cyprus. And we must ensure that even if the reinforced supervision fails, we have a Single Resolution Mechanism to provide the instruments for a timely and effective restructuring and resolution of the problem banks.

But these instruments are not yet there, and in this process we had to work with the less sufficient ones that we have today.

The problems of Cyprus built up over many years. At their heart was an oversized banking sector that thrived on attracting foreign deposits with very favourable conditions. These capital inflows also contributed to a property boom and the accumulation of external imbalances.

The depth of banking problems stemmed from the poor practices of risk management. Lacking adequate oversight, the two largest Cypriot banks were allowed to build up by far too concentrated risk exposures. It was the problems in these banks that caused the troubles for the sovereign and the economic decline of Cyprus – not the other way round.

The Commission had alerted Cyprus on its problems early on. Warnings and policy guidance were included in the reports and Country-Specific Recommendations under the first European Semester in May 2011.

Then, in November 2011, we communicated to the Cypriot authorities that a financial assistance programme would be unavoidable, unless the persistent economic problems were immediately addressed.

Eventually, Cyprus asked for financial assistance, but only in June 2012. After half a year of talks, a staff-level agreement on the necessary structural reforms and fiscal measures was reached. Many of them, including anti-money laundering measures, were adopted by the Cypriot Parliament before the end of 2012.

The Commission's goal during the whole process of agreeing a support programme for Cyprus has been three-fold: to help Cyprus to the path of sustainable growth, to preserve financial stability in Cyprus and in the eurozone and to protect the integrity of the euro and the single market.

The Commission's preferred scenario was a more gradual adjustment of the Cypriot banking system and real economy, while ensuring debt sustainability.

However, there was a very firm financial constraint. The euro area member states were ready to commit official support up to 10 billion euros, whereas the total financing needs had been estimated at 17 billion euros. This constraint severely limited the options available.

As the time was running out, the scenario of the more gradual economic adjustment was not on the cards anymore. The state of banks deteriorated rapidly. Soon it became clear that the second biggest bank, Laiki, had to be resolved immediately. The risk of a complete collapse of the entire banking system – and thus a sweeping loss of deposits and savings and a disorderly default of the sovereign – was indeed very real. That would have been a disaster to Cyprus and to the Cypriots.

Without a bank resolution law and without a programme in place, banks remained closed and the bank holidays were extended. The Cypriot authorities imposed capital controls to avoid the flight of deposits.

The Commission, as the guardian of the Treaties, is closely monitoring the impact of capital controls in Cyprus. The temporary restrictions were justified in the given circumstances, but they are a very serious limitation to the free movement of capital. Therefore, the Commission will ensure that these measures last no longer than strictly necessary.

President, Honourable members,

The support programme will enable Cyprus to restore the health of the economy and to create a more sustainable economic model. The loans of up to 10 billion euros equal to more than half of Cypriot GDP.

I agree with the Minister of Finance of Cyprus, Haris Georgiades, who said yesterday that he wants to shun the blame game and focus on the future. He said as follows: "We are determined to adopt and implement all those reform measures, which we should have adopted a long time ago, but we failed to do so".

Indeed, we now have to concentrate all our efforts to facilitate the emergence of new sources of economic activity and to alleviate the social consequences of the economic shock.

The Commission decided on the 27 of March to set up a Support Group for Cyprus with the implementation of the adjustment programme. The Commission is now mobilising its resources to provide technical assistance. The Support Group will rely on expertise from across the Commission services. An immediate priority is to identify the relevant resources available from the current structural funds.

The Commission stands by the Cypriot people in this time of deep trouble. We are committed to help Cyprus to get through the tough times and overcome the current difficulties. I trust that we can count on the support of the European Parliament in together mobilising the available resources for Cyprus, as quickly and as effectively as possible.

I am looking forward to a constructive dialogue on the matter.

Thank you for your attention.