Cypriot Financial Crisis, 2012-2013 [Κυπριακή Οικονομική Κρίση 2012-2013]

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Spiros and Petros' book contribute significantly to informing the public on the Cypriot Financial Crises that peaked on 25 March 2013 when a €10 billion international bailout by the Eurogroup, European Commission (EU), European Central Bank (ECB) and International Monetary Fund (IMF) was announced. In return, Cyprus agreed to close the country's second-largest bank, the Cyprus Popular Bank , imposing a one-time bank deposit levy on all uninsured deposits there, and possibly around 48% of uninsured deposits in the Bank of Cyprus (the island's largest commercial bank). The purpose of the book is to record the events during the 2012-2013 that plagued and continue to plague the Cypriot Economy. It is known that, during this period, events which shocked the Cypriot Financial and Banking System occured, resulting in decisions that affect the future of Cypriot Economy and Society.

Spiros and Petros' contribution stems from a chronological recording of the historical moments that Cyprus and its financial system went through. They make a considerable effort to reveal the truth of the events, and they attempt to help the reader to understand the mistakes, actions and decisions that may have negatively affected the Cypriot Economy. The book provides a very comprehensive historical timeline of the events, as it aims to inform the citizens directly impacted by the haircut and educate the new generation to avoid any similar mistakes in the future.

Part I of the volume presents the events which led to the Cypriot banking crisis. The chapter reveals that the main causes of the catastrophe in Cyprus were the losses of the Cypriot banks due to the cutting of the Greek government bonds. The Cypriot financial institutions were highly exposed in the Greek financial system compared to a nominal GDP of €19.5b. The banks had amassed €22 billion of Greek private-sector debt with bank deposits of $120b, including $60b from

Russian business corporations. Repousis and Lois provide a comprehensive and meticulously documented overview of the various events that took place during the critical period of negotiations. Those were a traumatic outcome for the Cypriot Banks as they had to sell their branches in Greece. The sale of the branches was set as a precondition by the creditors of Cyprus for the provision of financial support. The Central Bank of Cyprus played a key role in the negotiations, mainly due to its know-how. The authors reveal that Laiki Popular Bank in just eighteen months moved from emergency liquidity supply of €490m to €9.1b. This fact came into the limelight with the statement of the President of Cyprus that problematic banks should initially address their old and new shareholders for financial injection prior to turning to the State. The book reveals that a major reason behind the collapse of the banking system in Greece was the gap between lending and deposits.

Part II presents the expansion of Cypriot Banks. Strategically, the Banks in Cyprus expanded in Greece and in the emerging economies of Eastern Europe. Prior to 1955, the Bank of Cyprus expanded in London to serve the large Cypriot community. Efforts took place to penetrate the large market of Russia with the opening of a branch in 2007. The book reveals that 'Uniastrum', the targeted bank, was the 9th largest banking company in Russia. Its competitive advantages were the large amount of deposits in comparison to borrowings. Furthermore, the Bank of Cyprus was involved into an investment in Banca Transylvania in Romania which had its headquarters in Cluz-Napoka. Spiros and Petros indicate that the Hellenic Bank, which is the third largest in the country, has expanded in Russia and started the operations in a self-owned property.

Part III discusses the role of Cyprus Cooperative Bank (CCB) in the Cypriot Financial Market. The bank was established in 1937 and covered a wide range of services. The financial crises affected the bank, and it has been the Hellenic Bank that acquired a part of the assets of CCB (i.e. €10.3b including loans of €4.6b, bonds of Cypriot government of €4.1b, cash of €1.6b and deposits of €9.6b) in an effort to save it from bankruptcy. Spiros and Petros nicely present all the events that took place and inform the reader on the deal. In addition, Hellenic Bank was given access to an additional 400,000 customers of CCB. The book indicates that Hellenic Bank was going for a share capital injection of €150m to serve the agreement. The CCB will continue its mission to serve the communities and small medium enterprises.

Part IV provides a thorough event study using the efficient-market hypothesis of Fama (1970). The book nicely categorises the empirical tests of efficiency into 'weak-form', 'semi-strong-form', and 'strong-form' tests. It is widely known that weak-form tests study the information contained in historical prices. Semi-strong form tests study information (beyond historical prices) publicly available. Strong-form tests regard private information. Later, the chapter explains the method of business fact analysis. This one builds on the use of econometric models which calculate the projected returns of companies' share.

Part V is a very interesting inclusion in the book. It provides the daily stock-closing prices of Piraeus Bank, Bank of Cyprus, and Cyprus Popular Bank. The observable period of the event window is 10 days before the announcement (i.e., 15 March 2013). The authors do not examine the period following the announcement, as the trading of shares was suspended. The readers can extract very useful conclusions from the deep observation of the stock movements. The chapter proceeds with tests on cumulative abnormal returns of the observable banks.

Part VI provides a review of the preliminary report of the parliamentary committee that investigated the matter and its causes. Based on the information presented to the committee and the initial findings of the special audits carried out by the Central Bank of Cyprus on the matter, the committee concluded that serious issues arose from the investigation of possible responsibilities on the critical issue of bankruptcy of Cyprus Popular Bank of Cyprus. For 18 months, the agency based its sustainability policy on a tool that should only be used in the short term, since by its very nature Emergency Liquidity Assistance (ELA) is given to banks only for emergency liquidity response. The authors highlight that the committee expressed strong dissatisfaction with the lack of information received by the Parliament.

On the important issue of funds outflow from deposits in the financial institutions of the Republic, it can be said that the amounts of these outflows were not examined in depth. The authors examined the returns of the banks, and they reached the conclusions that they were not statistically significant. Cyprus Popular bank that has been acquired by Piraeus Bank showed positive but non-statistically significant cumulative abnormal returns during the 10 days prior to the event. The results for the Bank of Cyprus have been similar.

In sum, this excellent book explores the extremely critical situation in which the Cypriot economy found itself in 2012-2013. This is the second biggest catastrophe in Cyprus' modern history that the island Cyprus suffered after the tragic events of 1974. The book narrates the events with special care without assuming a stance. The judgment of the conclusions is left to the reader.

By also taking into account the education foundations of the authors and their academic credentials, it is to be expected that there are no surprises in the neutral position that the authors advocate. Spiros and Petros have produced this very interesting book that can be read for many years ahead, as it will be a very good example for the future generation of what to do and how a bank should be protected from bankruptcy. The authors reach the conclusion that further research is requested and take it upon themselves to pursue this task in the years to come.

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