16 March 2013

Eurogroup Statement on Cyprus

The Eurogroup welcomes the political agreement reached with the Cypriot authorities on the cornerstones of the policy conditionality underlying a future macroeconomic adjustment programme. The programme will be based on ambitious measures to ensure the stability of the financial sector, determined action to carry out the required fiscal adjustment and structural reforms to support competitiveness as well as sustainable and balanced growth, allowing for the unwinding of macroeconomic imbalances.

The Eurogroup welcomes the Terms of Reference for an independent evaluation of the implementation of the anti-money laundering framework in Cypriot financial institutions, involving Moneyval alongside a private international audit firm, and is reassured that the launch of the audit is imminent. In the event of problems in the implementation of the framework, problems will be corrected as part of the programme conditionality.

The Eurogroup commends the Cypriot authorities on the steps already taken to adopt fiscal measures agreed with the Commission, in liaison with the ECB, and the IMF. This notably concerns the adoption of consolidation measures amounting to 4 ½ % of GDP. The Eurogroup welcomes the Cypriot authorities' commitment to step up efforts in the area of privatisation

The Eurogroup further welcomes the Cypriot authorities' commitment to take further measures mobilising internal resources, in order to limit the size of the financial assistance linked to the adjustment programme. These measures include the introduction of an upfront one-off stability levy applicable to resident and non-resident depositors. Further measures concern the increase of the withholding tax on capital income, a restructuring and recapitalisation of banks, an increase of the statutory corporate income tax rate and a bail-in of junior bondholders. The Eurogroup looks forward to an agreement between Cyprus and the Russian Federation on a financial contribution.

The Eurogroup is confident that these initiatives as well as a strict implementation of the agreed policy conditionality will allow Cyprus' public debt, which is projected to reach 100% of GDP in 2020, to remain on a sustainable path and enhance the economy's growth potential. The current fragile situation of the Cypriot financial sector linked to its very large size relative to the country's GDP will be addressed through an appropriate downsizing, with the domestic banking sector reaching the EU average by 2018, thereby ensuring its long-term viability and safeguarding deposits. Moreover, the Eurogroup welcomes that an agreement could be reached on the Greek branches of the Cypriot banks, which protects the stability of both the Greek and the Cypriot banking systems, and does not burden the Greek debt-to-GDP ratio.

Against this background, the Eurogroup considers that – in principle - financial assistance to Cyprus is warranted to safeguard financial stability in Cyprus and the euro area as a whole by providing a financial envelope which has been reduced to up to EUR 10bn. The Eurogroup would welcome a contribution by the IMF to the financing of the programme.

The Eurogroup calls upon the authorities and the Commission, in liaison with the ECB, and the IMF to swiftly finalise the MoU. The Eurogroup will review the programme documentation prepared by the Commission, in liaison with the ECB, and the IMF as well as the ESM once it becomes available. The relevant national procedures required for the approval of the ESM financial assistance facility agreement will be launched.

The Eurogroup expects that the ESM Board of Governors will be in a position to formally approve the proposal for a financial assistance facility agreement by the second half of April 2013 and subject to completion of national procedures.