

Big Banks In Small Countries: The Case Of Cyprus[†]

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Abstract

A large banking system has served Cyprus well to date. It has supported the country's outward-oriented, services-driven economic model and has significantly contributed to output and employment. The question going forward is whether banking system growth can continue indefinitely and at what cost. This paper argues that systemic risks are important for Cyprus given its banking system size and structure - in particular, the presence of big domestically-owned banks. It recommends that the authorities take a more macroprudential approach to financial sector oversight, that they engage in an immediate and significant fiscal consolidation effort, and that they introduce a set of prudential measures for systemically important banks that are customized to the needs of Cyprus.

Keywords: financial stability, systemic risk, banking, Cyprus, financial system, systemically important financial institutions, too big to fail.

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