

Banking Crisis in Cyprus and in the Eurozone†

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Abstract

The paper describes the interaction of sovereign debt, fiscal and banking crisis in the Eurozone and how the Eurozone is responding to these challenges. These events affect Cyprus in the longer term by affecting banking supervision and fiscal policy. In the shorter run, however, lessons from implementing Troika programmes in other Eurozone countries need to be learned fast, both for the Cypriot government and the Troika itself. Focusing on one particular example, I argue against the Troika recommendation that bank core tier I ratios should be raised from 8% to 10% in the midst of a severe economic crisis.

Keywords: sovereign debt, banking crisis, countercyclical capital buffers.

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