

The Collapse of the Cypriot Banking System: A Bird's Eye View

Summary

The depositor bail-in of March 2013 was an unprecedented event that shocked Cyprus and reverberated around the world. Up until 2000, Cyprus ran a closed and tightly controlled financial system and its banks were conservative, inward-looking institutions. The turn of the century brought the liberalization of the financial system, EU entry and adoption of the euro. These watershed events drastically altered the environment. Banks, supervisors and the political system did not handle this transition well, setting the stage for a major crisis. Government inability to act decisively when problems first appeared gave the crisis catastrophic proportions.