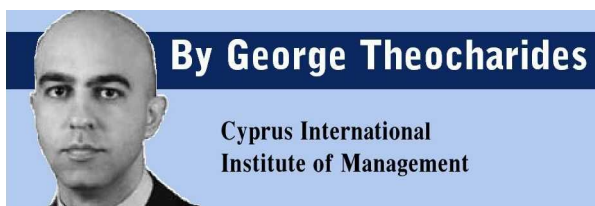




The road ahead for our economy



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After the tragic events of March and the Eurogroup's decisions on the fate of the Cyprus economy, we finally signed the Memorandum of Understanding with the Troika. It calls for drastic changes in our economy that involves structural, fiscal, and banking reforms. The road ahead for recovery is difficult and we will face many obstacles, but we have to be resilient and forceful in order to turn around the negative situation that we are faced with. I think many of us would agree that, to a large extent, these reforms are necessary and we should have started implementing them on our own, long before Troika has forced us to do.

Right now, we have been provided with the first tranche of the EUR 10 billion bailout money from the Troika, which covers immediate government obligations. The next tranche will probably be provided at the beginning of the Fall after Troika's evaluation of the progress in the implementation of the agreement we signed.

The programme calls for a number of austerity measures to reduce expenditure and government deficit, which are essential, although in the short-run it will inevitably worsen the situation causing more unemployment and deeper recession. To offset the negative effects of austerity, the government has come up with various sets of measures to encourage growth which are in the right direction but will take some time to provide substantial results.

At the same time, the banking sector, so vital for the rest of the economy, is facing considerable challenges after Eurogroup's decisions in late March. The new Bank of Cyprus Group is now undergoing a major restructuring, with a new Board of Directors and a new CEO that will lead the bank out of the resolution status, create a healthier and well capitalised institution so that by the Fall it can be handed to the new shareholders. Furthermore, restrictive measures have been put in place by the Central Bank until the banking sector regains its lost credibility and trust from the depositors and investors. This will require some time and lots of effort, but I am optimistic that with the right actions by the banking

institutions and other related parties (Central Bank, Ministry of Finance) we will achieve this necessary goal.

I should point out here that lots of other parties can help to bring back the trust to our banking system, starting from the media by reporting positive actions that are taking place, service firms by promoting the restructuring of the banking sector to their foreign clients, as well as the political parties. I believe politicians should realise that once they have voted for the memorandum which implies remaining in the Eurozone, they should stop this unnecessary discussion about a possible return to the Cyprus pound, and start emphasising the positive aspects of this programme (it's not all negative!). That can help the banking sector regain its lost trust sooner than later.

Undoubtedly, many challenges and obstacles lie ahead. However, we should understand that since we ended up in this situation this was the only choice we could have. We can blame the Troika and the Europeans for the way they treated us, but at the end of the day, the biggest blame lies on our own shoulders. We were given multiple warnings but we ignored them.

Now, instead of arguing between us, we should think positive and realise that we are given an opportunity to rebuild our economy on healthier grounds by correcting long-standing structural, fiscal, and banking problems. Outside of Troika's imposed measures, we should also create a medium to long-term strategy of how we would like to see the economy in the next 3-5 years (i.e. what areas/industries we should promote) and start working on that plan.

As long as we are positive, work hard and smart, concentrate on the medium to long-run, with the understanding that the short-run will probably become worse before the economy can start improving, then we can be optimistic that we will correct the situation and get our economy back on track for recovery.

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