From Cyprus to Asia, lessons from a European banking disaster

APR. 08: Those who have visited Cyprus for business, or vacationed on this divided Mediterranean island's superb beaches will be aware that its bubble inflated banking sector had, for a long time, lost touch with reality.

Whilst this country of 800,000 inhabitants had a financial sector weighing up to €128 billion (US$166.55 billion), it only had a GDP of €17 billion. Cypriots banks were living in a fantasy world, betting on an “unbreakable” eurozone safety net, which the Greek debt crisis has blown to pieces.

Addicted to the island’s lax banking laws, low tax rates, questionable rule-of-law and high return promises, billions flew in since Cyprus entered the EU in 2004, from Russia, the former-Yugoslavia, Greece, the Middle East (Nicosia, don’t forget, stands closer to Damascus than Athens) and even Turkey, whose government is closing its eyes to Turkish controlled Northern Cyprus casinos and vast money laundering operations.

Despite the presence of an impressive British air force base on the island, suspected mafia money, from cigarette trafficking in the Balkans to weapons smuggling from the ex-socialist bloc to the Middle East, was omnipresent and has been successfully tracked by investigators to Cyprus shores, discreet warehouses and high-end luxury sea-view condominiums.

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