HENRY MOORE
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Cyprus asks Europe for a bailout of its banks

PARIS

Country is hoping help will come without harsh demands for austerity

BY DAN BILEFSKY

Cyprus on Monday formally asked for a bailout from the European Union in a bid to bolster its struggling banks, making it the fifth euro zone country to request a rescue.

The announcement came after weeks of concern that the crisis in Greece and a potential Greek exit from the euro could bring down the economy in the small island nation, whose banks are heavily exposed to Greece.

The slim victory of a pro-euro party in recent Greek elections helped to temporarily alleviate that concern, even as economists said Cyprus could need as much as €10 billion, or $12.5 billion, to shore up its ailing banks and cash-strapped public sector.

Government officials would not specify how much Cyprus would be seeking from the E.U.'s bailout fund, saying negotiations were continuing. Leaders of the Union were scheduled to meet Thursday.

The bailout request is a blow to the country as it comes just days before it is to take over the rotating E.U. presidency, a rare and proud moment in the international spotlight.

"The purpose of the required assistance is to contain the risks to the Cypriot economy, notably those arising from the negative spillover effects through its financial sector, due to its large exposure in the Greek economy," the government said in a statement.

Cyprus needs to find €1.8 billion, or about 10 percent of its gross domestic product, to recapitalize its second-largest bank, Cyprus Popular, by a June 30 deadline, according to Cypriot officials. In total, Cypriot banks have outstanding loans or other money at risk totaling €152

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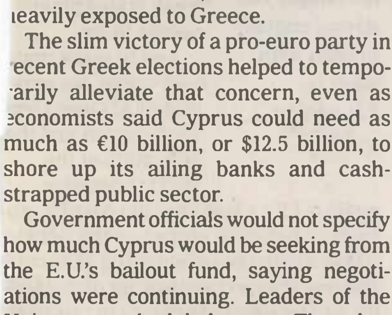

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Michalis Sarris of Cyprus Popular Bank said the nation was also in talks with China.

GREEK FINANCE NOMINEE BOWS OUT
Shortly before an E.U. summit meeting, Greece had to start searching for a new finance minister. *PAGE 14*

TEPID SUPPORT FOR ITALY'S LABOR EFFORT
Proposals to loosen the labor market may not be perfect, but some say that slow change is better than none. *PAGE 3*

FRENCH MINISTER RULES OUT AUSTERITY
The idea of austerity is not in the cards, the new French finance minister says, as he seeks to fill a budget shortfall. *PAGE 3*

Cyprus asks Europe for a bailout of its banks

CYPRUS, FROM PAGE 1

billion, or eight times the size of the country's gross domestic product, according to the International Monetary Fund. Such exposure has made the country vulnerable to financial upheaval.

Cyprus has asked the European Union not to impose demands for harsh austerity and to focus the rescue package on the country's banks, Cypriot officials say. The country has been so determined to avoid Draconian caveats — including calls from some countries that it suspend its 10 percent corporate tax rate — that it had recently sought aid from Russia and China.

Michalis Sarris, a former World Bank economist and finance minister who is now chairman of Cyprus Popular Bank, said Monday that Cyprus was in talks with China over a possible loan. China was potentially interested in a stake in a Cypriot bank, which would help give it a toehold in the country's burgeoning gas industry.

But with time running out, officials said Cyprus, which has been shut out of international markets for more than a year, had little choice but to request aid from the European Financial Stability Facility.

Mr. Sarris said that extensive exposure of Cypriot banks to Greece and the country's exclusion from international financial markets had made asking for a bailout a matter of urgency.

But he also said that Cyprus's problems paled in comparison with Greece and that the country's small size and its lack of relative profligacy compared with Greece made it better positioned to weather the crisis.

''The situation here is different than in Greece,'' he said. ''What we are looking at is a relatively mild adjustment that won't inflict too much pain.''

While Cyprus's problems threatened o add to the financial instability in urope, more concerning for officials nd investors is the fear that Italy, the hird-largest economy in the euro zone, fter Germany and France, will itself nd up needing help.

Cypriot officials said Monday that they would continue to seek loans from Russia and China to buttress potential E.U. financial support. Cyprus last year secured a €2.5 billion loan from Russia at a below-market rate of 4.5 percent to cover its refinancing needs for this year.

Over the weekend, the Cypriot president, Demetris Christofias, the only communist leader in the European Union, railed against the 27-member bloc, noting in an interview with To Vima, a Greek

JARED MOOSSY FOR THE INTERNATIONAL HERALD TRIBUNE

A street in the old town of Nicosia. A former president of Cyprus said the financial markets were unfairly lumping Cyprus with Greece.

newspaper, that the European Commission, the European Central Bank and the International Monetary Fund had operated like a ''colonial force'' by forcing austerity measures and unbridled market freedoms on bailed-out countries.

But on Monday, as the ratings agency Fitch downgraded Cyprus debt to ''junk'' status, prompted by the amount of rescue money that would be needed to bail

> **"What we are looking at is a relatively mild adjustment that won't inflict too much pain."**

out its banks, economic necessity appeared to trump all other considerations.

As in the bailout for Spain, Cypriot officials said privately that they hoped the rescue package for ailing banks would come with fewer conditions than the bailouts of Greece, Ireland and Portugal. Spain has asked for an injection of €100 billion for its banks without the onerous conditions attached to other countries.

Cyprus is unique in the euro zone, divided as it is between a larger Greek portion and a smaller Turkish part that is recognized internationally only by Ankara. The country, cut in two after the 1974 invasion by Turkey, has a United Nations peacekeeping force on its territory.

Greece was seen as an obvious market for Cypriot banks to expand by extending loans to Greek businesses and consumers and amassing Greek government debt. But the Greek crisis has laid bare the risks of that strategy.

George Vasiliou, a former president of Cyprus and a leading economist, said during an interview before the bailout request that the financial markets were unfairly lumping Cyprus with Greece when Cyprus had stronger economic fundamentals and a thriving financial services industry anchored by thousands of foreign investors.

''Cyprus's problems are the result of a Greek tragedy, and the ratings agencies are not distinguishing between Greek-speaking people, whether we are in Athens or Nicosia,'' Mr. Vasiliou said. ''But if Greece has to exit the euro, it will not be the end of Cyprus.''

Cyprus's deficit jumped to 6 percent of gross domestic product in 2011, but officials say austerity measures introduced last December — including a two-year public-sector wage freeze and a sales tax increase — should help it achieve its target of reducing the deficit to 2.5 percent later this year.

Unemployment of 10 percent, while worrying, is far below Greece's 22 percent or Spain's 24 percent.

The island's economic prospects have also recently been lifted following the discovery of large reserves natura gas, which many here are hoping wi bring a large injection of revenue. Neok lis Sylikiotis, the country's minister c commerce and energy, said during an in terview that it could take six to eigh years before estimated annual revenu of €3 billion to €4 billion began to pour ir

Nevertheless, Cypriot officials hav expressed concern that a potential Gree exit from the euro could dent the coun try's prospects, severely undermining investor confidence and foreign deposits which so far have remained stable.

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Germany urged to plan for energy needs

FRANKFURT

REUTERS

Germany needs a master plan that brings together central and local government policy and provides certainty for investors and project companies if it is to find the €335 billion needed to pay for a radical shift toward green energy, a study released Monday said.

HypoVereinsbank, a unit of the Italian lender UniCredit, estimated that the funds, equivalent to $420 billion, would allow the country to pursue what Germans call the "energy U-turn" — its move to decommission the country's nuclear plants, increase wind and solar power generation and improve power grids.

Germany needs substantial investment to build up its renewable energy capacity and connect its grid with the nine countries on its borders, HypoVereinsbank, or HVB, said.

The study estimated that investments in plant and infrastructure would amount to €85 billion and that €250 billion would be needed for payments to support the development of renewable energy.

After the nuclear disaster in Fukushima, Japan, in 2011, Germany decided to phase out nuclear power by 2022. Nuclear reactors provided 23 percent of the country's power supply in 2010. The government wants 35 percent of all the electricity used in Germany to come from renewable resources by 2020, compared with 20 percent now.

The HVB study, conducted jointly with the HWWI economic research institute in Hamburg, said a master plan was needed to bring together central government and state strategies, to ensure the integration of new power sources and to clarify the jobs to be undertaken by private versus public partners.

One obstacle to obtaining financing for renewable projects is that income from wind and solar power can be unpredictable because they rely on the weather.

For offshore wind farms in particular, questions remain about liability for technical problems and maintenance and the lack of cable connections to onshore grids.

HVB recommended that some mechanism be found to protect cash flow from projects that account for at least half of the overall investment volume.

HVB said that new international banking rules, called Basel III, would make lending to renewable energy and grid projects, which tend to be for the long term and which involve high risk, even more difficult and expensive.

Basel III requires banks to improve their risk-management systems and hold more capital as a safety buffer in case of economic or financial downturn, raising the bar for outlays on uncertain risks.

HVB recommended that banks, as well as making loans, should act as intermediaries to help raise financing from investors for projects.

"A successful implementation also hinges on acceptance by the population," said Michael Bräuninger, lead author at the HWWI research institute. "So far, there are big discrepancies between the public perception and the realities of the energy shift."

The authors were also concerned about the need for speed in creating storage for power and in building up transmission networks in time to prevent Germany from having to import more power.