

Cyprus and the reality of capital controls

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As the FT notes in an email this morning:

Cyprus is to become the first eurozone country ever to apply capital controls — with limits on credit card transactions, daily withdrawals, money transfers abroad and the cashing of cheques — intended to prevent a vast outflow of euros when its banks open on Thursday. Under drastic measures that some analysts say are incompatible with monetary union, depositors would be able to withdraw no more than €300 in cash each day, said people familiar with the move. Transfers over €5,000 would require permission of the central bank.

These are draconian measures, clearly intended to stop a run on Cypriot banks, I am certain they will be relaxed over time. That, however, does not reduce the significance of the fact they have been imposed at all. After 30 or more years of capital market liberalisation, beginning with Reagan and Thatcher the evidence that the markets have failed and the free roaming capital can by itself threaten the market system and even bring it down is now clear.

A new era has arrived. I cannot see capital controls, now they're back in the armoury, going away again.