

European Union Imposes Bank Bailout on Cyprus, Pending Conflicts with Moscow

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The Cypriot government and the European Union (EU) arrived at an agreement early yesterday morning to secure a bailout of Cypriot banks and avert state bankruptcy in Cyprus.

The terms set by the bailout amount to the economic devastation of the island country in the interests of Europe's financial elite. Cyprus's financial sector, accounting for around half of economic output, will immediately be reduced by up to half. Laiki bank, the second largest, is to be wound up with its debts to the ECB taken on by the Bank of Cyprus. Further losses are inevitable, as banking done in Cyprus is shifted to other euro zone countries' banks.

The dictates of the EU and the criminal financial practices of Cyprus's ruling elite alike have paved the way for massive attacks on working people. With unemployment at more than 14 percent, there will inevitably be thousands of job losses in banking, Cyprus's main employer, and from restructured companies and privatised services.

The bailout, which is massively opposed by the Cypriot population, is to be imposed without a vote in the Cypriot parliament. To this end, the original proposal to impose a levy on bank deposits, which had been rejected by the Cypriot parliament, was removed from the final agreement. The new plan provides for the freezing of all deposits over €100,000 to cover the bailout. Depositors and shareholders in Laiki will see their assets transferred to a "bad bank" and could lose everything.

These measures, together with a privatisation programme and tax increases, are projected to raise the €7 billion Cyprus has been asked to contribute to the €17 billion bailout from the EU, ECB and International Monetary Fund.

Ahead of the final round of discussions on Sunday, EU officials insisted on installing an economic dictatorship over the Cypriot economy. The measures included controls to prevent large-scale capital flight, restrictions on the use of bank accounts, and the imposition of limits on the amount of money withdrawn from ATM machines. Anti-democratic regulations passed by the parliament in a late-night sitting on Friday also included the provision for the Central Bank to adopt any steps "for reasons of public order or safety."

The main demand was the winding up of Laiki bank. In addition, German and IMF officials demanded the adoption of a higher levy on large, mainly Russian, depositors—with Cyprus reportedly told to adopt this proposal or leave the currency union. Reports circulated late on Sunday evening that President Nicos Anastasiades, confronted with the intransigence of EU demands, had offered to resign.

Early reports following the deal struck with the “troika”—the EU, European Central Bank and International Monetary Fund—gave mixed messages.

The measure targeting investors that have deposited over €100,000 was palatable to the European bourgeoisie, as it would primarily hit medium-size depositors unable to shift their assets overseas and would force the weakening of Russian influence over the island.

The *Financial Times* reported on bankers in other tax havens, such as Andorra, courting Russian businessmen seeking to quit Cyprus.

While the immediate target of the bailout was Cyprus, the ruling elite is clearly sending a message that no other country facing a financial crisis would be allowed to remain a euro zone member without submitting to the demands of the troika.

When Euro Group head Jeroen Dijsselbloem proclaimed a levy on depositors in a bank bailout for Cyprus a model for the rest of the euro zone, the continent’s markets began to fall. This comes as banking systems across the euro zone—including in Spain, Portugal, Italy, Ireland, and Greece—are on the verge of bankruptcy and kept afloat by emergency bailouts.

Dijsselbloem’s comments raised the question: would depositors in these countries’ banks also be pillaged to pay for criminal banking practices in these countries?

Dijsselbloem indicated they would be. “If there is a risk in a bank, our first question should be ‘Okay, what are you in the bank going to do about that? What can you do to recapitalise yourself?’” he said.

“If the bank can’t do it, then we’ll talk to the shareholders and the bondholders, we’ll ask them to contribute in recapitalising the bank, and if necessary the uninsured deposit holders.”

“The consequences may be that it’s the end of story, and that is an approach that I think, now that we are out of the heat of the crisis, we should take,” he warned.

This amounts to a license for the European financial aristocracy to freely loot the deposits of workers and small savers. It also sets the stage for bitter struggles inside the European bourgeoisie over whose deposits will be raided.

Wolfgang Münchau entitled his comment in the *Financial Times*, “Euro zone break-up edges ever closer.”

The market reaction, with falls of around 2.5 percent in Spain and Italy, underscores how precarious the economic situation in Europe has become—especially given that the ostensible trigger of the falls was Cyprus, whose economy is miniscule as a proportion of that of the European Union.

With reports that the Spanish government is set to impose heavy losses on investors in five nationalised banks, with shareholders of Bankia nearly wiped out and others facing 60 percent losses, the euro and European shares both fell. Several Italian banks were suspended after falling more than 5 percent.

Speculation grew over whether the Kremlin could adopt retaliatory measures against

European firms. A former Kremlin adviser, Alexander Nekrassov, commented, "Then, of course, Moscow will be looking for ways to punish the EU. There are a number of large German companies operating in Russia."

"In my view, the stealing of what has already been stolen continues," declared Russian Prime Minister Dmitry Medvedev. Russian President Vladimir Putin nevertheless ordered his government to negotiate the restructuring of a bailout loan it granted to Cyprus in 2011 in an attempt to maintain influence over the island.

Two geo-strategic issues are at stake in this conflict.

As yet unverified supplies of gas off the coast of Cyprus are only likely to be extracted by 2018-19 at the earliest. But conflict over access to them is a major consideration. The bailout of Cyprus by the troika will be used as a mechanism to strengthen the control of European and US firms over these resources, and potentially create an alternative supply of gas for the European market to that controlled by Russia.

This strategy is not only dangerous because of the conflicts it will provoke with Moscow, but because the gas deposits are in disputed waters also claimed by Turkey. Ankara has threatened that any exploitation of energy reserves in "Turkish" waters would be deemed an act of war.

Secondly, there is a political imperative to deny Russia access to the Cypriot port of Limassol as a naval base. With Russia presently reliant upon a base at Tartus in Syria to access the Mediterranean, US-led moves to depose the regime of President Bashar al-Assad and then target Iran in order to establish undisputed hegemony over the Middle East's oil riches require the exclusion of any counter-offensive by Moscow.

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