Europe threatens Cyprus with bankruptcy in power struggle with Russia

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The European Central Bank told Cyprus yesterday to find funding to secure a €10 billion ($12.9 billion) European Union (EU) bailout by Monday, or face a cut-off of ECB credit and the bankruptcy of Cyprus' banks and government.

Last night Cyprus' parliament passed legislation granting the state emergency powers, including capital controls to block sudden outflows of money from Cyprus, amid mass protests and withdrawals of cash at banks' ATMs by Cypriot depositors.

On Wednesday, the Cypriot parliament voted 36-19 to reject an EU bailout demanding a €5.8 billion contribution from Cyprus. This was to be paid by taking money from all bank accounts in Cyprus—both small depositors and larger account holders, primarily Russians and British, who use the island country as an offshore financial center.

Cypriot bank workers fearing the loss of their jobs protested in front of the Cypriot Parliament in Nicosia yesterday, clashing with riot police. They held signs reading "Merkel = fascist," attacking German Chancellor Angela Merkel, whose government was the key force behind EU demands that the bailout be paid for by confiscating money from Cypriot bank accounts.

Yesterday the government also announced the formation of a so-called National Solidarity Fund. This misnamed entity would take money from Cypriot pensions, the Church of Cyprus, and donations from private citizens to help fund bank bailouts.

Central Bank of Cyprus Governor Panicos Demetriades also announced that Laiki Bank would be restructured and merged with Bank of Cyprus. These banks, the country's two largest private banks, have been hit hard by the economic crisis and EU austerity measures in nearby Greece, relying on emergency funding from the Central Bank of Cyprus to avoid bankruptcy. As Cyprus uses the euro, however, the ECB can order its central bank to cut off so-called Emergency Lending Assistance (ELA) to the country's private banks.

Cypriot Finance Minister Michalis Sarris and Energy Minister George Lakkotrypis were both in Moscow yesterday, trying to obtain Russian funding. Cyprus is reportedly considering offering Russia partial ownership of its financial sector, access to offshore natural gas deposits near Cyprus, and the use of a naval base at Limassol.

Currently, Russia's only naval base in the Mediterranean is at Tartus in nearby Syria—now the target of a US- and EU-led proxy war against Russian-backed Syrian President Bashar al Assad.

Russian Deputy Prime Minister Arkady Dvorkovich warned that the EU's move to confiscate money from depositors in Cyprus undermined confidence in the global banking system: "If such a solution is possible in Cyprus, it's possible everywhere … It will mean there's no place to keep money and that the banking system has stopped working."

Major Russian banks, including Alfa Bank and VTB, stand to lose large sums if Cyprus' banks collapse or Cypriot capital controls cut them off from their assets in Cyprus.

Cypriot workers and pensioners are being looted by the extension of reactionary EU austerity measures to Cyprus, which is also caught in the rising confrontation between NATO and Russia in the eastern Mediterranean. This not only takes the form of US and European imperialism's bloody proxy war in Syria, but of European capitalism's moves to destroy Cyprus' financial system.

EU officials' attempts to present their attack on Cyprus as a popular measure—aimed at taxing Russian oligarchs with billions stashed in Cyprus—are cynical and false. This campaign received perhaps unwitting assistance from Russian President Dmitri Medvedev, who absurdly denounced the EU bailout as a reminding him of "decisions made by Soviet authorities."

The looting of Cyprus has nothing to do with expropriating capitalists in the interests of working people. While workers lose their savings and pensions, the EU is seeking to force the transfer of cash and business from Cyprus and Russia to the wealthiest, most powerful sections of finance capital.

EU officials have made quite clear that they want to significantly reduce the size of Cyprus' financial sector. On Tuesday, German Finance Minister Wolfgang Schäuble said that the Cypriot banking system was simply "not sustainable." He said, "Cyprus has a banking sector that is way too big and they are insolvent with that model, and no one outside of Cyprus is at fault for that."

Financial commentators noted that the Cypriot crisis effectively forces businesses now banking in Cyprus to move their financial operations into larger Western European countries. These countries' banks themselves are desperate for such an infusion of cash, amid an accelerating economic downturn driven by deep austerity measures across the continent.

The *Moscow Times* cited financier Michael Pugh, who had worked in Russia and Cyprus: "It is difficult to imagine that the EU and the IMF believed that the cap on deposits would stabilize the situation … [T]hey picked up Cyprus like a dusty rug to give it a good shake and drive certain businesses over to what appear to be more stable Western European jurisdictions."

Emotions reportedly ran "very high" at Wednesday night's teleconference of the Eurogroup Working Group of euro zone deputy finance ministers, discussing Cyprus. Cyprus' deputy finance minister did not bother to attend the call, which participants described as "a mess."

Participants asked whether a financial collapse in Cyprus would hit the entire euro zone or whether it would be possible to "ring-fence" the losses. Others openly discussed whether the collapse of the Cypriot banking system would force Nicosia to leave the euro, allowing its central bank to begin printing money—though these would be Cypriot pounds, not euros.

One participant reportedly warned that investors might be underestimating the risks posed by the deep international tensions driving the Cypriot crisis: "Markets believe that we will find a solution and that we will provide the money, and this might not be the case."