

Cyprus Looks in Both Directions for Support

By [The Moscow Times](#)

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Cyprus President Demetris Christofias meeting with former President Dmitry Medvedev in 2008

NICOSIA, Cyprus — From the sharply dressed ‘biznesmeny’ in their black BMWs to the grocery selling imported vodka and whole smoked whitefish to the Soviet-educated Communist president, the Mediterranean island country of Cyprus speaks with an unmistakable Russian accent.

And as the latest troubled EU nation hurtles toward a seemingly inevitable financial rescue, it finds itself teetering between Moscow and Brussels.

“They have to decide whether they want to be part of the European Union or of the Soviet Union,” said Fiona Mullen, economist at Sapienza, a consultancy.

Cyprus took a 2.5 billion euro (\$3.15 billion) loan from Russia last year. It now urgently needs at least 1.8 billion euros by the end of this month to rescue its banking sector, torpedoed by its

exposure to its bigger brother, Greece.

The actual bill is likely to be several times as high, and if Greece were to exit the eurozone it could run into double digits, a huge sum for a country with barely a million people.

Many in Cyprus think the only place where the country could find that kind of cash would be Moscow.

Especially if President Demetris Christofias, the EU's only Communist leader and a fluent Russian speaker from his Moscow university days, wants to avoid the tight conditions that Brussels normally attaches to its rescue funds.

Before seeking assistance from the euro area, which would come with strict conditions, Cyprus is approaching countries including Russia for loans, government spokesman Stefanos Stefanou said this week, declining to elaborate.

The Cypriot newspaper Alithia reported on June 12 that Cyprus was asking Russia for 5 billion euros. The Politis daily said three days later that Christofias was leading the loan talks.

The Russian Finance Ministry's press office didn't immediately reply to questions about the reports.

Pavel Medvedev, an adviser to Central Bank Chairman Sergei Ignatyev, said he "wouldn't be surprised" if Russia extended a second loan to Cyprus.

President Vladimir Putin "recently spoke about the euro countries in very kind terms," Medvedev said. "If a loan is given, it won't be the kind of assistance that will be an economic turning-point, but psychologically it will be extremely important."

The questions are: What would Russia get in return? And how would that affect relations with the rest of the European Union?

If Cyprus, which assumes the EU's rotating presidency on July 1, becomes so deeply in hock to Moscow, it would be an enormous embarrassment, both to Brussels and to many in Cyprus who see its long term future with the West, not the East.

"You don't want to have all of your money owed to one country," said Mullen. "Two thirds of your GDP is owed to Mr. Putin? That's something that even worries Russian businesses here, who worry that if Cyprus falls out with Russia they will have to do what Moscow says."

Still, others say Russian funding would be easier for Nicosia to accept than funding from Brussels, which would require Christofias to make budget cuts that would hurt the economy and enrage voters ahead of the election in February.

It isn't hard to find reasons why Moscow would be willing to be generous and more lenient with its terms than Brussels.

Although the debt would be huge, in the long term, loans to Cyprus are probably a safe bet.

Despite its dire cash flow problems now, Cyprus expects to see a windfall of wealth in the next

decade, following the discovery of giant natural gas fields offshore in the eastern Mediterranean.

Russian firms are among the bidders for gas concessions in coming months.

Russia also shares the Cypriot government's desire to protect Nicosia from intrusive fiscal conditions and regulations that might come with a bailout package from Brussels.

With its 10 percent corporation tax, the EU's lowest, Cyprus serves as the perfect offshore base for Russian money, much of which is then reinvested back in Russia.

Cyprus played an identical role for wealthy Arabs in earlier decades.

"Cyprus will go for any deal that allows them to avoid changing laws and regulations that make it the tax haven that it is," said Hubert Faustmann, a politics professor at the University of Nicosia.

It helps that many of the rich Russians who have become residents on the sunny island — they are known for paying in cash for newly built seaside villas — are "close to the power centers in Moscow," he added.

It may not be a question of either Brussels or Moscow. Cyprus might need help from both.

One solution, said Stelios Platis, who runs a financial consultancy in Cyprus, would be for Cyprus to turn to the European Union's EFSF rescue fund to bail out its banking sector's exposure to Greece — a problem arguably not of Cyprus's own making — while continuing to look to Moscow for loans to balance its state budget.

And any Russian loans would have to be on terms that Cyprus could still afford to repay.

"It would be optimal for Cyprus to meet some of its financing needs through a bilateral loan while applying to the EFSF for banking recapitalization," Platis said. "The devil is in the details. It depends on what the terms are of the bilateral loan."

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