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Rival Ideas for Cyprus Aid Pop Up in Russia

By Anatoly Medetsky

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The sudden prospect that billions of dollars of Russian money might never return to its owners, due to part of the Cyprus bailout plan, evoked a slate of proposals here Tuesday to prevent the damage.

VTB, the country's second-largest lender, which has a subsidiary in Cyprus, laid out a plan to rival that of the European Union. Other ideas came from Gazprombank and a prominent lawyer.

The EU-backed idea is for Cyprus to levy a tax on corporate and private deposits in its banks to contribute to the EU bailout. Russians account for a large portion of the deposits and stand to see $2 billion to $3 billion wiped out as a result of the move.

As the Cypriot parliament prepared to debate the tax Tuesday, VTB chairman Sergei Dubinin said Cyprus should instead nationalize the banks that teeter on the verge of bankruptcy

and hire European managers, including ones from Russia, to run them.

"The responsibility for the state of the banking business must lie primarily with those who took the risks of the business, that is, the owners and shareholders of the banks," Dubinin said in a statement released Tuesday.

As the next step, these banks should split each deposit into portions that are available to draw immediately and at a later time, over a period of up to 15 years, he said.

Gazprombank is ready to come to the aid of Cyprus in exchange for the rights to develop the island's offshore gas fields, Vedomosti reported Tuesday, citing sources at the lender and its biggest shareholder, Gazprom.

The sources did not say how much money the bank could provide. Russian banking regulations would ban the lender from issuing a loan of more than 25 percent of its equity to a single borrower, which would cap the potential Gazprombank loan at $3 billion.

Cyprus is looking to collect about 6 billion euros ($7.7 billion) if it imposes the tax. Europe is willing to give another 10 billion euros for the bailout.

Cyprus estimates its reserves at 3.4 billion cubic meters of gas and 235 million metric tons of oil, and the fields are well positioned for exports to Europe.

Dmitry Afanasiev, chairman of law firm Egorov, Puginsky, Afanasiev & Partners, said the ideal lender to provide the loan would be VEB, the government's development bank. The lender could secure the loan with the rights to Cypriot gas reserves, as well as real estate and bank stocks, he said.

VEB could then issue securities backed with the assets, Afanasiev told The Moscow Times. The plan is common for developing economies that seek to raise money, he said.

The law firm, he said, helped restructure aluminum company RusAl's $17 billion debt following the 2008 global economic meltdown.

Contact the author at medetsky@imedia.ru

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