

# Medvedev Calls Cyprus Plan 'Absurd'

By [Irina Filatova](#)

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Police detaining an Other Russia activist who penetrated the Central Bank on Thursday to protest government support of oligarch money on Cyprus. **Pawel Kopczynski**

Prime Minister Dmitry Medvedev on Thursday intensified his criticism of a plan by European financial authorities to rescue the Cypriot economy, labeling it as "completely absurd," in the most colorful response yet by Russian officials to the controversial measures.

The proposal to impose a one-time levy on deposits in Cypriot banks came as a surprise, with the scheme being "unpredictable and inconsistent," Medvedev said.

"I went online this morning; it turns out that yet another Plan B or C has been published," he told participants in the international conference on partnership with the European Union.

Nicosia is seeking to produce a new bailout plan after its parliament defeated an initial proposal to impose up to 9.9 percent in tax on bank deposits — a move that had been agreed upon with European finance ministers — or Eurogroup, the European Central Bank and the International Monetary Fund, but not with Russia.

Medvedev warned that measures that hit account holders' interests pose a threat to global financial stability, since they undermine confidence in the financial sector. He called for "all interested parties," including Russia, to be involved in producing a plan to resolve Cyprus' financial problems.

The Mediterranean country is placing bets on Russia's financial aid, as Cypriot Finance Minister Michalis Sarris held a second day of negotiations in Moscow with government officials on Thursday.

The meeting with his Russian counterpart Anton Siluanov and First Deputy Prime Minister Igor Shuvalov on Wednesday proved fruitless, and no official announcements on any agreements came Thursday.

Meanwhile, Medvedev said Russia should take a back seat in solving the island's problems, which he said should be resolved by its own residents and the European Union and only then "by third parties with their own interests."

In exchange for cash, Cyprus is looking to interest Russia in stakes in its financial sector and offshore gas reserves, Sarris said Thursday, confirming rumors that swirled earlier this week.

"The banks are the ultimate objective in any support we get, so it'll either be a direct support to the banks, or the support that we get through other sectors will be channeled to the banks," he said Reuters reported.

The clock is ticking for Cypriot officials to win Kremlin support, with the European Central Bank having set a deadline for the start of next week to cut the cash flow to local banks.

The Frankfurt-based regulator will maintain the current liquidity volume it channels to Cyprus till Monday, with further injections to be made only after a new bailout plan is approved, Bloomberg reported, citing the ECB's statement.

A deal with Russia that involves the Kremlin negotiating access for Russian companies is possible, but it will be very hard to achieve in the timeframe dictated by the European Central Bank, said Dmitry Polevoi, chief economist at ING Bank in Moscow.

"All these deals [involving energy or banking assets] require intensive due diligence processes ... and usually require much more time than Cyprus has," he said.

Commenting on possible gas deals, Medvedev said the issue requires careful consideration, since the value of the gas fields remains unclear.

"But we are clearly ready to listen to any ideas coming from the Cypriots, and we'll try to understand their argumentation," he said in an interview with foreign media Wednesday.

However, Russia's three largest state-owned banks, Sberbank, VTB and Gazprombank, were uncompromising, as they denied any interest in acquiring Cypriot financial assets.

"We don't, of course, have any plans of that sort," said Andrei Kostin, head of Russia's

second-biggest bank, VTB, Interfax reported. "Our interests are that we are given the opportunity to carry out payments and access the accounts of our clients."

The head of Sberbank, German Gref, told journalists Wednesday night that he had been approached with an offer to buy into Cypriot banks but had turned it down.

State development bank Vneshekonombank, or VEB, could be used as an instrument to raise up to \$7.5 billion for Cyprus, secured against assets that could be sold later, Reuters reported Wednesday, citing unidentified sources.

Cyprus' crisis could be exploited very effectively by the Kremlin, experts said.

"Moscow has been gifted an opportunity to have a say in a sensitive intra-EU matter," Philip Hanson, an associate fellow at Chatham House's Russia and Eurasia Program, wrote in a research note Thursday. "It is quite likely that the Cyprus crisis will lead to Russia gaining a greater degree of influence."

Russian officials claimed earlier this week that imposing the deposit levy had been agreed upon without their consultation.

In an effort to justify the quick decision, European Commission President Jose Manuel Barroso pointed out that there was no chance to agree on the measures with Russia, since European officials had come out with the plan only during negotiations about the situation in Cyprus that ended early Saturday.

"Russia was not informed because the governments of Europe were not informed. Let's be completely open and honest about that issue. There was not a pre-decision before the Eurogroup meeting," he said at the EU-Russia conference. "The decision was the result of a compromise between the countries in the Eurogroup."

Barroso added he was "open to listen to the concerns of our Russian partners."

Barroso spoke amid protests by activists of leftist group Other Russia, who stormed into the Central Bank headquarters in the center of Moscow and blocked the doors from inside, demanding repatriation of Russian money from Cypriot offshore accounts.

In Wednesday's interview, Medvedev pointed out that the size of illegal Russian funds hidden in Cypriot bank accounts is exaggerated.

Cyprus is a "convenient jurisdiction for transactions," which makes it attractive to many domestic private and public companies, he said, adding that many Russian businessmen also have their money deposited in Cypriot banks. "Not all of them are trying to hide behind the screen of Cyprus' special jurisdiction," he said.

Contact the authors at [irina.filatova@imedia.ru](mailto:irina.filatova@imedia.ru) and [h.amos@imedia.ru](mailto:h.amos@imedia.ru)

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