

Bailout Deadline Looms After Kremlin Rebuffs Cyprus

By [The Moscow Times](#)

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Russia rebuffed Cypriot entreaties for aid Friday, leaving the island's increasingly isolated leaders scrambling to strike a bailout deal with the European Union by Monday or face the collapse of its financial system.

Russians have billions of euros at stake in Cyprus' outsized and now crippled banking sector, a factor in the EU's unprecedented demand that bigger depositors take a hit in the interests of keeping Cyprus afloat.

Cypriot President Nicos Anastasiades, seeking a last-minute reprieve from financial meltdown at talks in Brussels on Sunday, has a "very difficult task" ahead of him if he is to save the island's economy, a government spokesman said.

With Cyprus facing a Monday deadline to avert a collapse of its banking system and potential exit from the euro, late night talks in Nicosia to seal a bailout from the EU and International

Monetary Fund broke up without result.

Anastasiades then headed to Brussels in a private jet sent by the European Commission to hold talks with EU, European Central Bank and IMF leaders ahead of a crunch meeting of euro-zone finance ministers late Sunday.

The president and his team have a “very difficult task to accomplish to save the Cypriot economy and avert a disorderly default if there is no final agreement on a loan accord,” the spokesman said.

Underlining the gravity of Cyprus’ position, the EU’s economic affairs chief, Olli Rehn, said there were now “only hard choices left” for the latest casualty of the euro-zone crisis.

Cyprus’ overgrown banking sector has been crippled by exposure to crisis-hit Greece, and the EU says the East Mediterranean island must raise 5.8 billion euros on its own before it can receive a 10 billion euro bailout.

Without a deal by the end of Monday, the ECB says it will cut off emergency funds to Cypriot banks, spelling certain collapse and potentially pushing the country out of the euro zone.

Scrambling to find the funds, officials said Cyprus had conceded to a one-time levy on bank deposits over 100,000 euros, a dramatic U-turn from five days ago when lawmakers angrily threw out a similar proposal as “bank robbery.”

A senior Cypriot official said Nicosia had agreed with its lenders on a 20 percent levy over and above 100,000 euros at the island’s largest lender, Bank of Cyprus, and four percent on deposits above the same level at other troubled banks.

On Friday, Russian and Cypriot representatives failed to reach a bailout deal in Moscow.

“The talks have ended as far as the Russian side is concerned,” Russian Finance Minister Anton Siluanov told reporters Friday after two days of crisis talks with his Cypriot counterpart, Michael Sarris.

Siluanov said Russian investors were not interested in Cypriot gas and that the talks had ended without result.

Cypriot lawmakers voted Friday in a late-night session to nationalize pension funds and split failing lenders into good and bad banks — a measure likely to be applied to the second-biggest lender, the largely state-owned Cyprus Popular Bank, also known as Laiki. The parliament also adopted laws creating a “solidarity fund” to pool state assets as the basis for an emergency bond issue and giving the government the power to impose capital controls on banks.

Meanwhile, option investors worried about Russia’s exposure to the banking crisis in Cyprus have been stepping up their bearish bets in one of the largest exchange-traded funds (ETFs) focused on Russian stocks.

There has been a surge in bearish activity in options of the Market Vectors Russia fund on expectations that shares in that country could lose ground if Russian depositors are forced to

pay taxes in Cyprus to help bail out the small Mediterranean island nation.

Activity in bearish put options exceeded bullish call options by a ratio of 40 to 1 on Friday, according to options research firm Trade Alert, as put activity has surged and the ETF's price has dropped.

"A flood of put activity has been evident in the RSX, suggesting continued concerns for the safety of Russian deposits in Cyprus," said Gareth Feighery, a founder of options education firm MarketTamer.com in Philadelphia.

Shares of the RSX ETF are down more than 7 percent this year, and the fund saw more than \$65 million in outflows for the week ended March 20.

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