# New Phase in the Global Financial Crisis: EU Summit Sparks Run on Cyprus Banks

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*It took until Saturday morning for the European summit to agree to a much reduced €10 billion ($13 billion) loan to bail out the banks in Cyprus, the fifth euro zone country after Greece, Ireland, Portugal and Spain to apply for aid.*

Within hours, the decision to levy a tax on Cyprus bank deposits to pay for the rescue package resulted in a stampede to withdraw cash from the country's banks via ATMs.

The EU's aim is to raise €6 billion by levying a one-off 10 percent tax on savings over €100,000 and a 6.75 percent tax on small depositors. Senior bank bondholders and investors in Cyprus' sovereign debt will be left untouched.

The response of the financial magazine *Forbes* was scathing, denouncing the "German-led group of EU officials" for "probably the single most inexplicably irresponsible decision in banking supervision in the advanced world since the 1930s." Another *Forbes* columnist entitled his comment, "Welcome to Another Great Depression." *Business Insider* noted the "multiple reports which indicated that Germany told Cyprus: Confiscate your depositors' money or leave the euro zone. That's a terrible political dynamic, and on top of Italy it exacerbates a bad overall political situation."

The summit was the first to be held following elections in Italy that recorded a decisive "no" vote against the austerity policies imposed by the technocratic government of Mario Monti and the European Union (EU).

With Italy still lacking a viable government, Monti, in his role as caretaker leader, appealed to EU leaders to soften their austerity course or face the same fate. In a letter to the summit, he declared that the election result showed "public support for the reforms, and worse, for the European Union, is dramatically declining" as part of a "trend which is also visible in many other countries across the Union."

Luxembourg Prime Minister and European Council President Jean-Claude Juncker warned at the start of the summit, "I have big worries about the coming economic developments. I won't exclude that we run the risk of a social revolution, a social rebellion."

French President Francois Hollande, whose implementation of strict budgetary measures has led to an unprecedented plunge in his popularity ratings, urged leniency for France after Finance Minister Pierre Moscovici warned that the EU's actions "risk a loss of social and political confidence across Europe."

Germany led the way in opposing any shift, with Bundesbank head Jens Weidmann warning, “The deficit countries must act. They must address their structural weaknesses. They must become more competitive and they must increase their exports.”

The head of the European Central Bank, Mario Draghi, was equally adamant that there be no change of course. In two separate speeches Thursday he addressed the 27 leaders of the EU and the 17 members of the euro zone on the need to further drive down their labour costs and increase productivity. German Chancellor Angela Merkel declared that Draghi’s “very interesting” reports made clear that it was “productivity levels and wages in a number of countries that were responsible for the high unemployment today.”

The International Monetary Fund (IMF) stepped in to insist that what was required was not less austerity for the working class, but more money for the bankers. It issued a 69-page report on the second day of the summit warning that hundreds of billions of euros in toxic loans remained on the books of European banks and that further action was needed to shore up the continent’s financial sector.

The IMF report, commissioned by the EU, declared that priority had to be given to “moving banks and sovereigns jointly to safety.”

In the end, France secured what was reported to be a concession for itself and Italy. The summit’s concluding statement acknowledged “possibilities offered by the EU’s existing fiscal framework to balance productive public investment needs with fiscal discipline objectives” within the Stability and Growth Pact. The statement added, however, that any such leeway would have to be approved by the European Commission and fellow euro zone states.

Germany carried the day not merely because it is Europe’s strongest economy, but because its demands echoed most closely those of major financial institutions and global speculators.

Once again, as has been the case in the numerous European summits held since the onset of the global financial crisis five years ago, European leaders, under pressure from the financial elite, dropped or sidelined calls for “growth.” The subordination of the EU to the banks was summed up by European Council President Herman Van Rompuy, who denied that fostering employment and growth was the task of governments. “Growth and jobs are not things governments can buy or summon,” he said in his concluding remarks.

> “We are all fully conscious of the debate, the mounting frustrations and even despair of the people,” he told the media. “We also know there are no easy answers. The only way out of the crisis is to keep tackling its root causes.”

The summit duly pledged to introduce backstops to prop up the continent’s banking system. A lengthy paragraph inserted into the Conclusion of the Summit statement stipulated a timetable for measures to ensure the recapitalisation of the banks and create a safety net for creditors.

In contrast, the one concrete measure taken by the summit on jobs—to free up around €6 billion as part of the EU’s Youth Employment Initiative—is a drop in the bucket, amounting to about €100 for each young unemployed person in the EU.

Even before the summit began, significant voices in the international media were warning of an impending disaster without a change of course. Peter Speigel in the *Financial Times* asked "what happens when an electorate decides to vote out leaders for economic policies they disagree with—only to find their new leaders are forced to implement the same exact policies?" He described this as "a recipe for social explosion."

With millions having already protested or voted against austerity measures in Greece, Portugal, Spain and now Italy, the EU summit draws the possibility of a social explosion engulfing the continent that much closer.

The summit also saw a widening of divisions on key foreign policy issues. On Syria, Hollande followed UK Prime Minister David Cameron in urging the abandonment of the EU ban on directly arming the opposition. Hollande and Cameron were given the unequivocal backing of Washington. US State Department spokeswoman Victoria Nuland stated that "the kinds of support that the UK and France have spoken publicly about wanting to provide to the Syrian opposition we would certainly support… we encourage them to continue to have that conversation."

A majority of EU countries, again led by Germany, turned down Hollande's appeal. "Just the fact that two have changed their position is not sufficient for 25 others to follow suit completely," declared Merkel.

Germany has stressed the danger of arming Islamic fundamentalists and sparking a wider regional war. The head of Germany's Federal Intelligence Service (BND), Gerhard Schindler, spoke again Saturday of a rift in the Syrian opposition and the presence of tens of thousands of militants, including the al-Nusra Front.

While supporting the destabilisation of the regime of Syrian President Bashar al-Assad, Germany is focused on involving Russia in negotiations for a possible transition government consisting of approved oppositionists and members of the Baathist regime.

The alliance between Berlin and Moscow was evidenced in separate talks centering on Europe's strategic relationship with Russia, following which Merkel noted the significance of Russian energy supplies to Europe and declared, "We see Russia as a strategic partner."



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