Panic Grips Europe as Cyprus, EU, and IMF Confiscate Savings

Panic-stricken bank depositors in Cyprus emptied ATM machines across the nation after the surprise announcement Saturday that, as part of an extremely controversial European Union and International Monetary Fund bailout deal, authorities would seize up to 15 percent of all savings deposited in Cypriot banks. Markets across Europe plunged as fears of contagion or even a large-scale bank run in the region plagued investors, with the single euro currency falling to multi-month lows and gold rising back above $1,600 following news of the $13 billion scheme.

Critics ranging from banks and market analysts to politicians and even establishment media outlets lambasted the EU and IMF plan, saying it creates uncertainty and amounts to brazen wealth confiscation. Citizens and foreigners with money deposited in Cyprus, meanwhile, expressed outrage over the controversial scheme as well, demanding that it be halted immediately. Aside from Cypriots, Russians and Britons are expected to be among the hardest hit.

Despite imposing a $500 limit on withdrawals and a ban on online transfers, most ATM machines in Cyprus were completely drained of funds over the weekend as nervous depositors lined up to save what they could before the confiscation begins. March 18 is a national holiday, meaning financial institutions are closed. However, banks in Cyprus may also face an extended so-called “banking holiday” as national politicians iron out the details of the supposed one-time “stability” tax with EU and IMF policymakers.

The original EU-IMF plan would see accounts with less than $130,000 taxed at almost seven percent, while those above that threshold would have 10 percent confiscated by authorities. Anyone with more than 500,000 euros could lose 15 percent. However, some reports indicate that the initial EU-IMF plan called for seizing up to 40 percent of all savings.

The Parliament of Cyprus delayed a Saturday vote on the plan until March 18, reportedly because supporters of the scheme had not yet lined up enough votes to ram the wealth confiscation through. The vote is currently set for Tuesday. Recent news reports, however, say that vote could now be delayed until as late as Friday, and that changes in the exact confiscation figures could be forthcoming.

Some political leaders are scrambling to restructure the controversial plan, hoping to protect at least very small depositors from the savings grab, perhaps making up for it with a higher “tax” on wealthier individuals and larger accounts. Russian authorities — whose citizens have a significant amount of money deposited in Cypriot banks — are reportedly working to come up with an alternative bailout scheme.

Across the EU, however, the brazen confiscation of hard-earned savings was met with a mixture of seething anger and outright terror — fury over the confiscation of wealth that has already been taxed, and fear that similar plots could be hatched in countries such as Greece, Italy, Spain, Portugal, or even in Northern Europe. Top officials have declined to say whether the “tax” on deposits could be forced on other nations, too.

On Saturday, euro-area ministers group President Jeroen Dijsselbloem, for example, refused to rule out similar “taxes” — critics are calling it outright theft — in other nations with governments drowning in debt. He did say, however, that such “taxation” schemes were not currently being considered beyond Cyprus, at least not yet.

Still, analysts say once the metaphorical genie has been let out of the bottle, there may be no way to put it back. In other words, bank deposits are no longer safe anywhere — but especially not in the EU and within its more troubled member nations. Remaining trust in the entire system, meanwhile, which was already at a historic low, has all but evaporated, according to experts.

“I believe it could be the beginning of the end for the Eurozone as this is an unbelievable blow to the already challenged trust that might be left among investors,” explained Saxo Bank CEO Lars Seier Christensen on his blog, suggesting the EU may no longer be considered civilized or democratic following the move. “This is a breach of fundamental property rights, dictated to a small country by foreign powers and it must make every bank depositor in Europe shiver.”

Blasting the measure as “full-blown socialism,” Christensen noted that if the EU can do this once, it could most certainly be done again — and the implications are terrifying for anyone with savings. “If you can confiscate 10 percent of a bank customer’s money, you can confiscate 25, 50 or even 100 percent,” he continued, calling the plan a game changer with fallout that will be around for a long time to come — an “own goal” scored by the EU against its own dubious system. “I now believe we will see worse as the panic increases, with politicians desperately trying to keep the EUR alive.”

Even major establishment banks were skeptical of the move. JPMorgan economist Alex White, for example, wondered in a note to clients whether Europe had just “bazookaed itself in the foot.” The short answer: yes. “It is difficult to over-state the extent of popular anger in Cyprus over the bailout deal which was pulled together on Friday evening,” White explained, citing myriad and significant near-term risks after what he called the “flawed” Cypriot deal.

Among the most significant potential effects of the measure could be a run on Cypriot banks, though the EU has apparently promised to shore up the banking sector in Cyprus to prevent that if possible in exchange for approving the confiscation plan. Even more serious, however, is that the panic could spread to other countries in the region as terrified depositors flock to get their savings out of banks from Greece to Portugal before the EU and the IMF move in to seize more wealth.

If that were to happen, the financial sector could implode altogether — regardless of how much currency the increasingly discredited European Central Bank (ECB) conjures into existence, according to some analysts. More than a few economists even warned that the confiscation plan in Cyprus — demanded by the EU, the IMF and especially authorities in Germany — could fatally undermine confidence in the entire banking system, sparking possible bank runs all across the euro-zone.

In Cyprus, citizens reacted with disbelief as protesters gathered in front of the presidential palace while outraged victims of the scheme sought to smash their way into shuttered banks. “They shouldn’t touch the deposits. They’re just killing the people,” an unemployed construction worker named Miltiades Papamiltiades, 58, told the English-language *Cyprus Mail*. “No-one will ever deposit money again into the banks on the island. It is the end of our economy.”

Countless citizens echoed those remarks in interviews with reporters. Some analysts even suggested the confiscation could run afoul of European human rights treaties. Politicians however — apparently surprised at the boiling rage — are fiendishly working to rework the deal in a way that would decrease the pain felt by small depositors while increasing the amount to be confiscated out of larger bank accounts.

Analysts say a vote on the deal in the Cypriot Parliament may be delayed until later this week — as long as it takes to ensure majority support among lawmakers for the confiscation plan. In the meantime, panic will continue to spread throughout Europe and global markets as citizens in other countries wonder whose wealth will be seized next. Talk of seizing 15 percent of Italians' savings is already in the press. Even outside of Europe, fear is spreading.

By Monday morning, stocks across Europe and even Asia had taken a severe beating, with experts predicting further downward pressure in the wake of the unprecedented confiscation scheme. Gold and non-EU countries such as Switzerland, meanwhile, are expected to continue benefiting in the interim as investors flock to perceived safety.

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