Europe braced for renewed turmoil as outrage in Cyprus over an unprecedented levy on bank deposits threatened to derail the nation’s bailout. European shares and the euro tumbled.

Cypriot President Nicos Anastasiades, who bowed to demands by euro-area finance ministers to raise 5.8 billion euros ($7.6 billion) by taking a piece of every bank account in Cyprus, appealed to lawmakers in Nicosia to ratify the levy today. The vote was delayed from yesterday over the opposition of the European Central Bank amid talks to restructure the tax.

While Cyprus accounts for less than half a percent of the 17-nation euro economy, the raid on bank accounts risks triggering new convulsions in the financial crisis that began in 2009 in Greece. Moody’s Investors Service said that the move is a significant step toward limiting support for bank creditors across Europe and shows that policy makers will risk financial-market disruptions to avoid sovereign defaults.

The tax is “a worrying precedent with potentially systemic consequences if depositors in other periphery countries fear a similar treatment in the future,” Joachim Fels, chief economist at Morgan Stanley in London, wrote in a client note.

Scenes of Cypriots lining up at cash machines raised the specter of capital flight elsewhere and threatened to disrupt a market calm since the ECB’s pledge in September to backstop troubled nations’ debt. With no government in Italy, Spain in the throes of a political scandal and Greece struggling to meet the terms of its own bailout, more turmoil could hamper efforts to end the crisis.

**Euro’s Decline**

The Euro Stoxx 50 Index fell 1.6 percent and the euro slid as much as 1.9 percent; the currency was trading at $1.2960, down 0.9 percent at 9:45 a.m. in Frankfurt.

Borrowing costs in other debt-strapped nations rose. Italian 10-year bond yields climbed 13 basis points to 4.73 percent, adding to last week’s 10 basis point climb. The rate on similar-maturity Spanish yields jumped 14 basis points to 5.06 percent, while Germany led gains among higher-rated nations’ securities.

“Traders and investors are aghast as these measures,” Michael McCarthy, a chief market strategist at CMC Markets in Sydney, told Bloomberg Television.
Anastasiades exhorted political factions to support the deposit levy, which he pledged is a one-off measure that will avert a collapse of the financial system that in turn would have led to the country’s exit from the euro.

“A bank collapse would cause indescribable misery,” Anastasiades said in the televised address. He called the crisis the country’s worst moment since the 1974 Turkish invasion that has left the country divided.

**Depositor Swap**

In a bid to ease a run on banks, depositors who keep their account for two years will receive securities linked to future revenue from the country’s gas reserves, the president said.

He said he would also seek to soften the impact on savers. The potential changes include taxing deposits less than 100,000 euros at a 3 percent rate, while setting the levy at 10 percent between 100,000 euros and 500,000 euros and at 12 percent for deposits greater than that, Antenna TV reported, without saying how it got the information.

The levy -- as of now 6.75 percent of all deposits up to 100,000 euros and 9.9 percent above that -- whittled the euro-area’s bailout of Cyprus to 10 billion euros, down from an original figure of about 17 billion euros, near the size of the nation’s 18 billion-euro economy.

**‘Better Deal’**

“Obviously, people would have preferred to pay nothing, but it’s a better deal than it could have been,” said Marshall Gittler, head of global foreign-exchange strategy at Limassol, Cyprus-based IronFX. “It’s unusual to ask depositors to take a hit, but if they hadn’t then the hit would have fallen uniquely on Cypriot taxpayers, so in a sense it’s fairer.”

Cyprus is considering changing the structure of the taxes to charge big depositors more and small account-holders less, a European official said. The European Commission, the IMF and the ECB would support that as long as the amount raised stayed the same, the official said.

The bank tax was the alternative to imposing losses on investors in a so-called bail-in, a step opposed by the Cypriot government, the European Commission and the ECB, German Finance Minister Wolfgang Schaeuble said on ARD television last night.

“It’s up to them to explain it to the Cypriot people,” Schaeuble said. “Clearly, the taxpayer should not be asked” to rescue banks from insolvency, he said, adding that Cyprus faced a “very difficult time” unless it accepts the tax.

**Smaller Bailout**

Euro finance ministers reached agreement early on March 16 after 10 hours of talks. Cypriots awoke to find bank transfers already frozen as the government prepared to impose the tax before banks reopen tomorrow. Today’s bank holiday in Cyprus may be extended by at least one day, state-run
broadcaster CYBC reported, without saying where it got the information.

Anastasiades, whose minority government took office less than three weeks ago, said the ECB would have stopped providing liquidity to one of the country's banks on tomorrow, leading to its collapse, he said.

The president will meet with lawmakers today before parliament’s session on the measure begins at 4 p.m. His Disy party holds 20 seats in the 56-seat legislature. The third-biggest faction, Diko, which supported him in his February election, holds eight seats. Cyprus's communist Akel party, with 19 seats, plans to vote no.

Afxentis Afxentiou, the governor of Central Bank of Cyprus from 1982 until 2002, told the state-run broadcaster CYBC that failure to enact the legislation “opens the road to chaos.”

‘Normal Course’

“Cyprus will turn into Libya,” Afxentiou said. “Even with the pain, we need to follow a normal course, with hope we’ll see better days.”

Jeroen Dijsselbloem of the Netherlands, who leads the group of euro-area finance ministers, sought to highlight the rescue package’s “unique measures” that address the “exceptional nature” of Cyprus. Its banking system's assets are about five times the size of the economy. Instead of targeting the country's wealthiest depositors, which include Russian billionaires, the tax also stings ordinary savers.

The ECB's pledge to buy bonds should prevail over market panic, though the tax on deposits brings the euro area into “uncharted territory again,” Holger Schmiding, chief economist at Berenberg Bank in London, wrote in a note.

“Given the fragile state of the banking systems, especially in Greece and Spain, anything that can impede the needed rebuilding of confidence in these banking systems can potentially cause financial and economic damage,” he said.

Public Opposition

In Cyprus, where a poll showed 71 percent of Cypriots said parliament should reject the levy, the immediate effects were on display. Many cash machines ran out of money, including cooperative bank ATMs, Erotokritos Chlorakiotis, the general manager of the Cooperative Central Bank, told CYBC.

A man in the coastal city of Limassol drove a bulldozer into a bank branch to protest the levy, CYBC reported. At a cooperative-bank branch in the capital Nicosia, a sign informed customers that it was shut on instructions from the Central Bank of Cyprus. Nicos Nicolaou, 57, said he hoped his deposits would not be affected.

“All my life I never had deposits in banks because I didn’t trust them,” he said. “I only worked with
co-ops.”

Andreas Andreou, a 48-year-old public servant, said he felt betrayed by Anastasiades’s concession.

“We voted for him to save us and instead he’s disappointed us,” Andreou said.

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