

Cyprus is just one centre for 'round tripping'. Three s...

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As the [FT reports this morning](#):

In June, Cyprus became the fifth country in the eurozone to [request an international bailout](#) after lenders got caught up in the debt restructuring of Greece's banks. Seven months later, the island is still waiting for funding amid EU fears that the island is a haven for Russian dirty money. Such fears are particularly strong in Germany and will need to be assuaged if Berlin is to back a bailout.

Estimates of the size of Russia's deposits in Cyprus range from $\hat{\text{€}}8\text{bn}$, according to some experts, to up to $\hat{\text{€}}35\text{bn}$, according to a German intelligence report cited in Der Spiegel magazine.

In 2011, Cyprus was the number-one destination for Russian money being sent abroad and the number-one direct investor in Russia, with more than \$13bn in investments, according to Russia's Central Bank.

My friends at Global Witness have been saying this for sometime. Indeed, so have I. This is a phenomena known as 'round tripping'. Money leaves a country, almost certainly illicitly. And then it is reinvested back into the country with disguised ownership and often qualifying for the investment incentives given to foreign direct investment in the process. That's a curious anomaly: the money leaves under some form of tax abuse and returns to take advantage of a tax loophole: it's a double win for those playing the game.

It has long been known that this is a problem with Cyprus and Russia.

Now [the Chinese are beginning to use Cyprus too](#).

And have no doubt that Cyprus is not alone in being used for this purpose. The Crown Dependencies have always been used for round tripping into the UK. Cayman and Bermuda have played the role for the USA. The BVI do it for China right now. This is standard tax haven abuse.

And it's profoundly corrupting. A state like Cyprus becomes dependent upon the round tripped cash. The state that is suffering the round tripping loses tax revenues, often twice. And it's domestic economy is corroded by the unlevel playing field created by the unfair competition provided by businesses founded tax free through illicitly round tripped funds.

What to do about it? Actually the answer is relatively simple. There are three measures required:

- 1) Automatic information exchange, that is a place like Cyprus would have to tell a country like Russia if a Russian resident had an interest in a company, trust, bank account or other arrangement in Cyprus. Whether or not the full scale of income was disclosed or not is almost irrelevant: simply telling will have a massive deterrent effect. [I explain more here.](#)
- 2) Put the beneficial ownership of all companies on public record. The crooks would have nowhere to hide then. Oh, and since round tripping involves tax evasion I am right to use a criminal term.
- 3) Require tax withholding on payments to locations like Cyprus that encourage this activity. The days when the free movement of capital could be assumed to be beneficial are over.