

# CUBA: ACCESS TO CAPITAL MARKETS, EXTERNAL DEBT BURDEN, AND POSSIBLE AVENUES FOR DEBT RELIEF

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This paper analyzes Cuba's financial relations with the rest of the world with a focus on Cuba's external debt. In a world of globalization, countries do not have a choice but to try to integrate their economies as much as possible to the rest of the world in order to grow and improve their living standards. An important aspect of a country's relations with the rest of the world is the amount and the quality of financing a country receives from its partner countries. This paper analyzes the degree to which Cuba has been successful in mobilizing external financing when compared with other developing countries; assesses its external debt burden; discusses the type of analysis that needs to be done to determine the debt relief that Cuba would need to reach external debt sustainability; and discusses possible alternatives that may be opened to Cuba in the future to address its external debt arrears.

Cuba defaulted on its external debt in the 1960s. The information available to the author suggests that Cuba did not try to renegotiate its external debt for about 20 years. This situation was made possible in part by Soviet economic aid. Since the early 1980s, Cuba has been renegotiating its outstanding debt with some of its creditors on a bilateral basis and has generally honored the obligations acquired under that debt restructuring

as well as the new debt obligations acquired from those creditors after bilateral restructurings.

## CUBA'S EXTERNAL DEBT

The analysis of Cuba's external debt is hindered by lack of detailed official economic data. This section of the paper presents information on Cuba's external debt from various sources and derives some working estimates of the stock of Cuba's external debt. The Central Bank of Cuba (CBC) reports information on Cuba's external debt in the *Anuario Estadístico de Cuba*, published by the Oficina Nacional de Estadísticas. This information is reported in Table 1. Contrary to international practices, the information is reported in Cuban pesos and, for purposes of this study, it is assumed that the exchange rate that was used to convert to Cuban pesos was an official exchange rate of Ps1 = US\$1. The latest published information is of a stock of active (performing) debt of US\$7.8 billion. Three-fourths of the debt is medium- and long-term debt. This is the debt that the Cuban government is currently servicing. In addition, the CBC reports a stock of immobilized (nonperforming) debt of US\$7.6 billion, which is the external debt that probably has not been serviced for some time.<sup>2</sup> Sixty percent of this debt is due to Paris Club creditors. Apparently, the stock of

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2. The debt defaulted in 1986 was that of the Banco Nacional de Cuba (the former monetary authority) and of the Republic of Cuba. The CBC makes the point that the new debt it has acquired since 1986 or the restructuring agreements negotiated by Cuba since that time have been serviced on the agreed terms.

the nonperforming debt includes past due interest (PDI).<sup>3</sup> If it does not, the debt could be considerably larger and the PDI will be subject to negotiations in a future restructuring.

**Table 1. Cuba: Official External Debt Statistics, 2004–06<sup>a</sup>**  
(in millions of pesos)

	Total Short Term	Percent		Medium and Long Term	Percent
<b>2004</b>					
Total debt	5,806.0	1,578.8	27.2	4,227.2	72.8
Government credits	2,573.0	797.9	31.0	1,775.1	69.0
Banks' credits	1,311.6	423.7	32.3	887.9	67.7
Suppliers' credits	1,921.4	357.2	18.6	1,564.2	81.4
<b>2005</b>					
Total debt	5,898.2	922.1	15.6	4,976.1	84.4
Government credits	2,787.3	261.0	9.4	2,526.3	90.6
Banks' credits	1,147.1	346.2	30.2	800.9	69.8
Suppliers' credits	1,963.8	314.9	16.0	1,648.9	84.0
<b>2006</b>					
Total debt	7,793.7	1,947.6	25.0	5,846.1	75.0
Government credits	3,945.2	733.7	18.6	3,211.5	81.4
Banks' credits	1,371.2	317.5	23.2	1,053.7	76.8
Suppliers' credits	2,477.3	896.4	36.2	1,580.9	63.8

Source: Central Bank of Cuba.

Note: The Central Bank of Cuba notes that there is inactive debt in the amount of 7,591.7 million pesos. This is debt that has not been serviced since 1986 when Cuba started restructuring its foreign debt.

a. Includes active external debt (debt currently being serviced by the Cuban government). While there is no mention of the exchange rate used to convert the external debt to pesos, one of the official exchange rates that was probably used is Ps 1 = US\$1 or Ps 0.93 = US\$1.

There are other estimates available on Cuba's external debt, reported in Table 2. The Economist Intelligence Unit (EIU) reports a total of US\$16.6 billion for end-2006, slightly higher than the official numbers. The Cuba Transition Project of the University of Miami reports a figure of US\$23.8 billion at the end of 2007. This estimate has been put together using newspaper reports and it has valuable creditor information. It indicates that Venezuela is by far the main external creditor of Cuba with some US\$8 billion in credits.<sup>4</sup> Another report from the Cuba Transition Project notes that since 2005 Cuba has received the equivalent of approximately \$1.2 billion in credits from Iran. That would put Iran ahead of Russia and Mexico in the list of the main external creditors of Cuba.<sup>5</sup> Unfortunately, it is not possible to reconcile the various sources of information. Information available from the Bank for International Settlements (BIS) on bank credits from some 24 countries with large bank centers shows similar information regarding Cuba's short-term external debt (less than one year) to that provided by the CBC.

Finally, there is the debt of Cuba to the former Soviet Union that Russia inherited after the breakup of the Soviet Union in the amount of some 21.5 billion rubles. The issue here is what is the exchange rate that should be used to convert the stock of this debt to U.S. dollars or any other convertible currency. This is an issue that Russia will bring up in future multilateral debt restructuring negotiations but this debt will have to be subjected to a huge discount and/or an exchange rate favorable to Cuba, if not completely written off, to make an agreement possible.<sup>6</sup> Interestingly, this has not stopped Russia from providing credits to Cuba in recent years. The data of the Cuba Transition Project

3. This is not clear from the CBC data, but Stuart Culverhouse provides an estimate of PDI of US\$1.8 billion as part of the stock of nonperforming debt in "Cuba: Closer but still no cigar," September 4, 2006, Sovereign Fixed Income Research, Exotix Limited.

4. It would not be surprising that official external debt statistics of Cuba do not include the debt to Venezuela given that this is likely to have arisen from Venezuela's oil shipments to Cuba. Unfortunately, official data do not provide detailed information to allow a cross check with the University of Miami data. Information available from audited statements of PDVSA (the state petroleum company of Venezuela) indicate that shipments of petroleum to Cuba are likely to amount to over \$7.5 billion during 2006–2008. These oil shipments are financed by Venezuela at highly concessional terms.

5. "Islamic Investment in Cuba," Cuba Transition Project of the University of Miami, Staff Report, Issue 99, August 11, 2008.

6. For a discussion of Cuba's debt to the Soviet Union, see "External Debt Problems and the Principle of Solidarity: The Cuban Case" by Alberto Martínez-Piedra and Lorenzo L. Pérez, pp. 33–34 in *Cuba in Transition—Volume 6*, 1996, Association for the Study of the Cuban Economy.

**Table 2. Cuba: Unofficial Estimates of External Debt (in Billions of U.S. dollars)**

	2003	2004	2005	2006	2007
Total external debt	11.3	13.8	14.5	16.6	16.8

Source: The Economist Intelligence Unit.

	2007
Total external debt	23.8
Main creditors	
Venezuela	8.0
Spain	3.2
Japan	2.4
Argentina	2.0
China	1.8
France	1.7
Russia (post-Soviet)	0.8
Mexico	0.5

Source: Cuba Transition Project, Institute for Cuban and Cuban-American Studies, University of Miami.

	2000	2005	2006	2007
Consolidated foreign claims of reporting banks (immediate borrower basis)	1.6	1.8	1.9	2.2
Of which:				
France	0.5	0.5	0.5	0.7
Germany	0.1	0.2	0.2	0.3
Mexico	...	0.3	0.3	0.3
The Netherlands	0.3	0.2	0.2	0.1
Spain	0.3	0.3	0.4	0.4
By maturity				
Up to and including one year	1.3	1.4	1.1	1.4
Over one year up to two years	0.1	0.1	0.2	0.3
Over two years	0.3	0.6	0.8	0.8
By borrowing sectors				
Banks	...	0.6	0.8	1.1
Public sector	...	0.2	0.2	0.2
Nonbank private sector	...	0.5	0.5	0.5

Source: Bank for International Settlements.

of the University of Miami reports that Russia's credits to Cuba in the post Soviet period already amount to some US\$800 million.

It is useful to compare Cuba's external debt to its economic size and the value of its foreign trade. This analysis can be put in an international perspective to determine the degree that Cuba is integrated into the world economy. For purposes of this analysis, the paper uses the figure for the external debt of Cuba in 2006 of US\$16.6 billion published by the EIU (thus ignoring Russia's claims from the Soviet time) and the GDP number in U.S. dollars also published by the EIU of US\$41.7 billion. This indicates that Cuba's external

debt is about 40 percent of its GDP. If one were to use a figure of US\$51 billion for the GDP of Cuba in PPP terms published in the Central Intelligence Agency's *World Fact Book* for Cuba, the ratio declines to 33 percent. Table 3 shows that Cuba's external debt in terms of GDP at market prices and in PPP terms is not very different from that of a sample of Asian, Central Asian, Eastern European, Caribbean, and Central American countries that have gone through experiences similar to that of Cuba or have similar types of economies. The share of imports of Cuba financed by short-term credits from the sample of banks of the BIS compares favorably to the other countries—about 12 percent at the end of 2006 (Table 4).

**Table 3. External Debt as a Percentage of GDP in 2006 for Cuba and Selected Countries**

	(In percent of U.S. dollar GDP)
Cuba	40
Asian countries	48
Central Asia and Eastern Europe	57
Caribbean and Central American countries	48

  

	(In percent of U.S. dollar GDP in PPP terms)
Cuba	33
Asian countries	21
Central Asia and Eastern Europe	29
Caribbean and Central American countries	25

Source: World Economic Outlook database of the International Monetary Fund.

Note: The sample of Asian countries includes Cambodia, Maldives, Philippines, Sri Lanka, and Vietnam. The Central Asian and Eastern European countries comprise Albania, Armenia, Bulgaria, Czech Republic, Estonia, Georgia, Kyrgyz Republic, Latvia, Poland, and Romania. The Western Hemisphere countries comprise Barbados, Belize, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, and St. Lucia.

When the comparison of external debt stocks is done in terms of exports of goods and services, the conclusion is strikingly different. Cuba's ratio is considerably higher than that of other countries. Table 5 shows that Cuba's external debt in relation to exports of goods and services (although declining in recent years, as the value of export services has increased) at 173 percent, is one of the highest of the countries in the sample. Indeed, only Latvia, the Dominican Republic and El Salvador have higher ratios. This is an important result. This ratio considers how large is the debt in terms of

**Table 4. Consolidated Claims of Reporting Banks—Immediate Borrower Basis on Individual Countries by Maturity and Sector/Amounts Outstanding and In Percent of the Value of Imports (*International claims over—up to 1 year*)**

	December 2000	December 2006	December 2007		December 2000	December 2006	December 2007
	In millions of U.S. dollars				In percent of imports of goods		
<b>Cuba</b>	<b>1,300</b>	<b>1,100</b>	<b>1,400</b>	<b>Cuba</b>	...	<b>11.6</b>	...
<b>Asia</b>				<b>Asia</b>			
Cambodia	4	2	7	Cambodia	0.10	0.04	0.12
Maldives	8	11	17	Maldives	1.22	1.35	1.82
Philippines	810	547	973	Philippines	1.69	1.03	1.69
Sri Lanka	94	185	138	Sri Lanka	1.06	1.80	1.21
Vietnam	152	272	507	Vietnam	0.44	0.64	0.85
<b>Central Asia and Eastern Europe</b>				<b>Central Asia and Eastern Europe</b>			
Armenia	10	13	29	Armenia	0.63	0.68	1.04
Georgia	15	2	37	Georgia	0.55	0.05	0.74
Kyrgyz Republic	2	1	16	Kyrgyz Republic	0.18	0.06	0.61
Latvia	1268	1989	3906	Latvia	15.09	17.73	26.42
Albania	19	69	190	Albania	0.76	2.37	5.01
Bulgaria	578	862	1572	Bulgaria	3.35	3.91	5.51
Czech Republic	1082	1409	2178	Czech Republic	1.43	1.53	1.87
Estonia	1212	1823	2165	Estonia	12.50	14.48	15.14
Poland	2451	2563	4734	Poland	2.47	2.06	2.97
Romania	1103	2560	4984	Romania	2.94	5.42	7.74
<b>Western Hemisphere</b>				<b>Western Hemisphere</b>			
Barbados	40	245	282	Barbados	2.73	16.88	18.26
Belize	13	26	15	Belize	2.34	4.25	2.34
Costa Rica	188	188	313	Costa Rica	2.03	1.73	2.56
Dominican Republic	246	141	217	Dominican Republic	2.49	1.17	1.61
El Salvador	162	97	79	El Salvador	2.48	1.34	0.98
Guatemala	152	172	120	Guatemala	1.77	1.74	1.04
Honduras	51	30	79	Honduras	0.78	0.41	0.92
Jamaica	97	42	62	Jamaica	2.28	0.90	1.10
Nicaragua	15	23	16	Nicaragua	0.51	0.67	0.39
St. Lucia	6	5	40	St. Lucia	1.43	0.96	8.80

Source: Bank for International Settlements (BIS).

the foreign exchange generating capacity of the country and indicates that Cuba has a large external debt burden.

Comparing directly Cuba's external debt service burden—in terms of exports of goods and services—confirms that the country is at a relative disadvantageous situation. No information is available regarding the amortization schedule of Cuba's external debt or the interest rate that is charged on these loans. We assume two scenarios: a 5-year amortization schedule and a 10-year amortization schedule for both performing and nonperforming debt. Under both scenarios we assume an interest rate of 5 percent (this may be an optimistic assumption). In 2006, Cuba would have had a debt service ratio of 20 percent on the performing debt under the 5-year repayment scenario or 12 percent

under the 10-year repayment scenario. However, if the same assumptions are applied to the non-performing debt, this would essentially double the debt service ratio, to 40 percent of exports of goods and services and 24 percent, respectively. The latter results are really the more relevant if one is trying to assess Cuba's creditworthiness in capital markets. Table 6 shows that the debt service ratio of the comparator countries range from single digits to the mid 20s, with only a few countries showing a debt service burden exceeding 30 percent.

Another important indicator of the external debt burden is the share of government revenues that have to be dedicated for this purpose. External debt service of Cuba's performing and nonperforming debt in terms of total state budget revenues in 2006 was 12 percent

**Table 5. External Debt: Cuba and Comparator Countries (In percent of exports of goods and services)**

	2003	2004	2005	2006
<b>Cuba</b>	243	400	220	173
<b>Asia</b>				
Cambodia	68.6	60.2	52.7	45.1
Maldives	49.6	48.3	100.6	105.2
Philippines	162.1	142.8	137.5	114.2
Sri Lanka	175.8	175.8	165.4	167.3
Vietnam	57.0	50.3	46.7	41.1
<b>Central Asia and Eastern Europe</b>				
Armenia	107.9	105.2	82.7	83.7
Georgia	136.8	111.4	78.9	68.7
Kyrgyz Republic	240.9	205.9	200.4	159.2
Latvia	200.1	222.3	201.4	271.4
Albania	118.5	97.6	81.3	74.6
Bulgaria	126.8	121.4	109.4	116.9
Czech Republic	61.8	58.8	51.8	53.5
Estonia	93.4	103.8	108.4	122.3
Poland	148.6	136.2	117.9	122.6
Romania	97.0	99.7	118.7	134.1
<b>Western Hemisphere</b>				
Barbados	55.9	54.9	54.4	50.3
Belize	191.6	195.0	177.2	147.9
Costa Rica	68.0	63.3	61.3	59.5
Dominican Republic	75.6	78.7	78.1	65.4
El Salvador	209.0	199.6	199.9	190.7
Guatemala	150.7	166.8	173.9	171.6
Honduras	115.0	102.7	76.3	55.6
Jamaica	118.4	131.3	132.5	130.5
Nicaragua	560.9	376.4	153.6	140.3
St. Kitts and Nevis	194.4	176.3	163.3	153.2
St. Lucia	87.3	79.8	80.6	93.2

**Source:** World Economic Outlook (WEO) for Asia, Central Asia and Eastern Europe, and Western Hemisphere. For Cuba, the external debt stocks of the Economist Intelligence Unit are used and the information on exports of merchandise and services are obtained from Jorge F. Pérez-López, "Recent Cuban Foreign Trade Patterns" (manuscript).

under the 5-year amortization scenario and 7 percent in terms of the 10-year scenario. These are not relatively large ratios.<sup>7</sup> This compares favorably to the ratios of the comparator countries (Table 7). However, this is converting the government revenues to U.S. dollars at the official exchange rate of Ps 1 = US\$1.

**Table 6. Debt Service (in percent of exports of goods and services)**

	2000	2001	2002	2003	2004	2005	2006	2007
<b>Asia</b>								
Cambodia	0.7	1.0	0.9	1.0	0.8	0.7	0.6	0.5
Maldives	4.8	4.8	4.6	3.8	4.1	6.7	5.5	6.1
Philippines	14.9	19.1	19.7	20.6	19.7	18.5	18.6	17.9
Sri Lanka	13.2	14.3	12.3	10.9	10.1	7.4	11.5	12.0
Vietnam	10.5	10.6	8.6	7.8	6.0	5.6	5.3	5.4
<b>Central Asia and Eastern Europe</b>								
Armenia	10.6	9.7	9.9	11.2	5.7	4.2	4.1	3.3
Georgia	9.6	9.1	7.2	5.8	10.3	7.7	7.1	5.4
Kyrgyz Republic	21.7	21.4	14.0	14.3	8.7	7.1	6.0	5.3
Latvia	16.6	22.8	16.6	20.6	21.2	36.2	36.2	43.9
Albania	4.1	4.4	6.8	5.3	4.5	4.5	6.1	5.9
Bulgaria	16.3	20.0	15.9	14.0	21.6	42.2	24.0	29.5
Czech Republic	37.7	32.1	31.9	32.9	31.0	26.6	24.8	25.1
Estonia	7.5	13.4	16.3	20.5	26.0	27.1	30.6	37.9
Poland	19.0	26.9	22.9	23.7	17.1	14.7	17.0	12.8
Romania	13.2	16.6	17.9	14.9	14.1	18.1	20.6	19.7
<b>Western Hemisphere</b>								
Barbados	5.7	6.2	10.4	10.6	9.9	8.5	9.8	7.5
Belize	11.7	18.0	35.3	26.2	40.6	37.8	19.3	13.6
Costa Rica	8.2	7.9	7.4	10.3	7.5	5.4	4.1	3.6
Dominican Republic	6.4	9.7	10.8	11.6	8.6	10.3	15.7	13.6
El Salvador	14.2	16.4	20.6	24.0	33.5	25.9	25.9	27.0
Guatemala	10.1	8.3	9.0	9.9	11.5	13.5	17.7	15.2
Honduras	12.5	4.9	4.4	4.3	3.8	4.2	3.2	2.4
Jamaica	13.4	17.6	24.7	23.0	20.4	21.1	22.3	19.1
Nicaragua	14.9	23.0	13.5	8.9	5.5	5.0	5.1	5.1
St. Kitts and Nevis	14.1	18.8	21.0	25.5	26.2	24.1	25.1	25.3
St. Lucia	9.3	9.2	20.5	12.9	15.7	14.4	18.9	23.5

**Source:** World Economic Outlook (WEO).

The Cuban peso is probably seriously overvalued, and at a more realistic exchange rate, the debt service in terms of government revenues would indicate a very different situation. Assuming that the exchange rate were to be Ps 10 = US\$1, about the mid-point between the official rate and the level that the parallel market rate has been hovering around in recent years, the external debt service would have been the equivalent of 120 percent of total state budget revenues in 2006.

7. State budget total revenues for 2006 are reported as Ps 31.9 billion in the *Anuario Estadístico de Cuba*.

**Table 7. Debt Service (in percent of government revenue and grants)**

	2000	2001	2002	2003	2004	2005	2006	2007
<b>Asia</b>								
<b>Cambodia</b>	2.8	4.1	3.8	4.9	4.4	3.8	2.9	2.5
Maldives	11.0	10.7	10.8	9.1	10.7	8.9	6.4	10.8
Philippines	51.8	58.8	67.4	68.7	66.9	55.9	51.4	44.1
Sri Lanka	30.5	32.9	26.1	24.1	23.2	14.2	20.1	20.0
Vietnam	29.8	28.4	22.9	20.8	16.1	15.8	15.4	17.2
<b>Central Asia and Eastern Europe</b>								
Armenia	15.0	14.4	15.5	20.3	10.4	7.3	5.6	4.2
Georgia	20.5	16.8	13.0	10.7	16.4	13.1	10.9	7.8
Kyrgyz Republic	59.9	46.2	29.2	32.4	20.5	14.6	13.0	10.8
Latvia	24.9	35.5	25.2	31.9	33.5	58.5	53.8	60.1
Albania	3.3	3.5	5.8	4.8	4.3	4.4	6.4	6.3
Bulgaria	23.4	28.6	22.6	19.7	31.8	63.1	39.6	45.0
Czech Republic	86.2	73.3	67.8	69.8	73.6	67.8	68.5	73.4
Estonia	34.4	59.1	61.6	71.5	93.1	101.1	109.9	122.4
Poland	28.2	40.2	36.9	43.7	38.1	29.8	36.8	26.2
Romania	13.9	18.5	21.3	18.1	16.9	19.8	21.3	19.2
<b>Western Hemisphere</b>								
Barbados	9.1	9.7	15.6	16.3	15.7	14.5	18.3	14.2
Belize	28.0	37.4	72.9	63.0	93.0	89.5	48.4	33.5
Costa Rica	31.9	24.6	23.5	34.4	25.4	18.8	14.2	11.4
Dominican Republic	18.0	22.5	24.7	39.1	26.9	19.9	30.4	22.0
El Salvador	32.9	35.7	43.7	49.5	74.0	51.3	49.6	49.7
Guatemala	20.7	15.6	16.2	16.4	19.8	23.2	29.6	28.9
Honduras	43.3	15.3	15.0	14.1	13.0	14.4	9.7	6.7
Jamaica	20.7	27.0	35.7	35.5	29.6	30.2	32.1	31.6
Nicaragua	23.5	35.8	20.8	15.2	10.0	9.6	10.5	11.5
St. Kitts and Nevis	21.7	29.1	26.1	34.6	37.1	28.8	28.1	28.2
St. Lucia	19.7	18.1	35.3	25.4	34.7	32.3	34.2	38.3

Source: World Economic Outlook (WEO).

An analysis of the debt relief that Cuba needs to attain external debt sustainability is beyond the scope of this paper, particularly in light of the lack of reliable data. Debt sustainability can be defined as a situation in which a borrower is expected to be able to continue servicing its debt without an unrealistically large correction to the balance of income and expenditure. Sustainability thus encompasses the concepts of solvency and liquidity, without making sharp distinctions among them. Assessing debt sustainability is highly sensitive to the assumptions underlying projections of

growth, inflation, interest, and exchange rates. For Cuba to come up with a defensible debt relief proposal, it would be necessary to put together a macroeconomic scenario for the medium to long term showing how the economy would grow (at a politically acceptable rate that permits a significant increase in living standards), how its external current account balance will evolve, and the degree of foreign exchange receipts that could be expected to be available during this period to service the external debt. On the domestic side of the economy, such a scenario will need to show that a sufficiently high fiscal primary balance would be generated by the government to service its debt.<sup>8</sup>

#### CUBA'S ATTEMPTS TO RESTRUCTURE ITS EXTERNAL DEBT AND OPTIONS OPEN UNDER EXISTING PRACTICES BY THE INTERNATIONAL COMMUNITY

As noted above, Cuba has negotiated some restructuring agreements with bilateral creditors, and some export credit agencies of industrialized countries provide cover for short-term transactions. Medium-term coverage is available on a case-by-case basis from some countries such as Germany. In 1983 and 1984, medium-term "Credit Lyonnais" loans and short-term non-trade loans originally denominated in various currencies were rescheduled. These rescheduled loans have guarantees from the Republic of Cuba and have the advantage of an official agent (Credit Lyonnais). These are Cuba's obligations that are traded with some degree of regularity in the secondary market.<sup>9</sup> In 1998, Cuba negotiated some loans with Japan amounting to some ¥ 100 billion and in recent years there have announcements of debt restructuring with Mexico, Spain, and other countries.

Recently, the CBC attempted to improve the creditworthiness of Cuba by establishing a presence in the international bond market by issuing one-year bonds in the London market for a value of Euros 400 million on February 14, 2006, at a nominal interest rate of 7 percent. The prospectus of the bond issue made it clear that the bonds were issued by the CBC without a

8. The fiscal primary balance is total revenues minus government expenditures excluding interest payments on government debt.

9. *Exotix Emerging Market Debt Guide 2005*.

guarantee by the Republic of Cuba and that the proceeds of the bonds would be used to redeem two bonds issued on December 5, 2005 and February 5, 2006.<sup>10</sup> The offer was undermined by the limited economic information provided in the prospectus. For example, the balance sheet of the CBC did not have information on net international reserves and this was justified by the existence of the “commercial and financial blockade” of the United States and the risks that it means for Cuban assets held in foreign countries. At the end, these bonds were reportedly bought by banks in Cuba owned by the government and the bonds were redeemed on time. This type of financial operation did not appear to improve Cuba’s creditworthiness in financial markets. In August, 2008, there were press reports that Cuba was having difficulties in paying off its short term debt to Japan and that the export credit agency of Japan might withdraw insurance coverage to Cuba. Problems regarding Cuba’s paying for the oil extracted by a Canadian company in Cuban territory and delivered to Cuban companies have also been reported.

It is not clear whether Cuba has negotiated a multilateral debt restructuring on its nonperforming debt with Paris Club creditors.<sup>11</sup> There is documentation of an exchange of information between Cuban officials and representatives of the Paris Club regarding a possible rescheduling of the obligations falling due to Paris Club creditors in 1983. In these documents a reference is made to apparently existing rescheduling of the obligations falling due in 1982. Apparently, the negotiations for the 1983 rescheduling were not concluded successfully.

Given Cuba’s external debt service burden, it is clear that a multi-creditor, multi-year debt restructuring agreement would need to be worked out. This will undoubtedly improve the terms under which Cuba can have access to international capital markets. Although the servicing of external debt is being facilitated by the

increase in service receipts, particularly from the tourism sector, it would best serve Cuban interests if the country were able to negotiate a comprehensive restructuring agreement, including the Soviet era debt.

Paris Club creditors have two preconditions for debt restructuring under their aegis: the creditors must be convinced that a debtor country would be unable to meet its external payments obligations unless it receives debt relief (financing need); and that the debtor country seeking a restructuring take the steps necessary to eliminate the causes of its payments difficulties in order to achieve a durable improvement in its external payments position. Thus, the country is expected to undertake an adjustment effort, typically in the context of a program supported by the International Monetary Fund (IMF). The terms of a Paris Club restructuring (i.e., grace period, maturity profile, interest rate) typically depend on the income level of the debtor country, as well as the category of debt involved, for example commercial debt with market-related interest rates, Official Development Assistance (ODA), debt on concessional terms. Paris Club creditors decide on a case-by-case basis whether a specific country receives non-concessional or concessional terms largely on the basis of the income level of the debtor country.

Cuba’s income per capita using the EIU data is about US\$3,800 and would not qualify Cuba to receive debt relief in highly concessional terms. Rescheduling terms for low-income countries have become increasingly concessional over time. A reduction in the present value of eligible debt (NPV) of 67 percent has been done in recent years under the so-called Naples terms. In addition, the international community recognized in 1996 that the external debt situation for a number of low-income countries (Highly Indebted Poor Countries—HIPC), mostly in Africa, had become extremely difficult and influenced the prospect for economic development. For these countries, even full use of traditional mechanisms of rescheduling and debt reduc-

10. The author does not have information on how these two bonds were issued or on whether other bonds were issued prior to 2005.

11. The Paris Club is an informal group of creditor governments (mainly from industrialized countries) that has met regularly in Paris since 1956 to reschedule bilateral debts. The French Treasury provides the Secretariat. The core creditors are mainly OECD countries, but other creditors relevant for a particularly debtor country are frequently invited to participate. Russia became a full time member of the Paris Club in September 1997.

tion (Naples terms), together with continued provision of concessional financing and pursuit of sound economic policies, may not be sufficient to attain sustainable external debt levels within a reasonable period of time and without additional external support. In the context of the HIPC Initiative, creditors agreed in November 1996 to increase the NPV reduction up to 80 percent on eligible debt (also known as Cologne terms). Creditors can choose from a menu of options to implement debt relief: debt reduction option, debt-service reduction option, and capitalization of moratorium interest option.

More recently, in October 2003, Paris Club creditors established the Evian approach, which is the new framework for treating debts of non-HIPC countries. This approach aims to tailor better debt treatment to the specific circumstances of the debtor country. Creditors consider the debtor's economic potential, fiscal adjustment effort, the existence and magnitude of external shock, and previous as well as future recourse to the Club. Creditors take into account whether the country requesting a debt treatment is facing a liquidity problem in which case debt-service reduction and/or capitalization of moratorium interest may be more appropriate or a solvency one that may require a debt reduction option (this is to be granted on exceptional circumstances). To decide on what type of debt relief to offer, creditors develop their own view on the debt sustainability situation, in close coordination with the staff of the IMF and based on the IMF's debt sustainability analysis (DSA).

Nine countries have benefited from debt treatment under the Evian approach so far: Kenya and Moldova faced liquidity problems and received debt service reductions; Iraq and Nigeria were judged to have unsustainable debt and were provided with upfront debt stock reduction. For the Dominican Republic, Gabon, Georgia, Kyrgyz Republic and Grenada, the Paris Club followed a phased debt reduction approach. In these cases, a "goodwill clause" stating that creditors would reconsider the debt sustainability situation at a later stage was included in the agreed minutes of the original Paris Club agreement that granted the initial debt relief. The income per capita of these countries ranged

from \$6,600 for Gabon to \$900 for Kenya and the Kyrgyz Republic.

The best strategy for Cuba to become creditworthy would appear to be to seek a comprehensive debt restructuring from the Paris Club under the Evian approach that provides complete flexibility to Paris Club creditors. To do this, Cuba would need to take significant steps to improve its relations with the United States and become a member of the IMF. Short of this, the only avenue open to Cuba is to try to continue to restructure its external debt on a bilateral basis. The Paris Club members have recognized that there may be circumstances under which the conditions of the Paris Club for debt relief are not met, in particular whether a country has a relationship with the IMF. If this situation is formally recognized by the Paris Club, Paris Club members are free to pursue bilateral negotiations. It appears that this has been the case of Cuba and that some Paris Club members are willing to negotiate with Cuba on a bilateral basis. For Cuba, however, this approach is not optimal because it is likely to be more costly and will continue to delay universal access to capital markets.

## CONCLUSIONS

This paper has shown that Cuba has been able to obtain external financing in the last 20 years. While no information is available on the terms of the financing, Cuba's borrowing costs are likely to be high given the existing external debt arrears which have limited its access to capital markets. The external debt burden appears to be high, particularly if measured by debt service payments as a percentage of exports of good and services or as a percentage of government revenue. To have a sustainable debt service situation, Cuba needs to achieve debt relief. So far the revolutionary government has been trying to negotiate debt restructuring agreements on a piecemeal basis that does not address the problem in a comprehensive way and continues to limit the efficient participation of Cuba in international capital markets. An optimal approach would be a comprehensive debt restructuring with Paris Club creditors, but this is not possible unless dramatic changes in policy occur in Cuba. In the foreseeable future, the piecemeal approach is likely to continue.