

CUBA'S FINANCIAL SYSTEM

By Chloe Hayward

Several key creditors have funded Cuba's banking system and development in recent years. Cuba's main source of credit is China. Chinese authorities have promised a \$70 million loan for a telecommunications cable project. China is also understood to have provided a high proportion of the export finance that led to a record \$1.8 billion-worth of Cuban exports in 2006, a figure that increased in 2007.

Cuba's capitalist evolution

Other countries are offering substantial support. Iran, for example, is providing funds to the Cuban government and has extended a \$900 million credit line for agricultural products. Brazil has extended a \$1 billion food credit line and another \$700 million for infrastructure projects. Russian credit enabled Cuba to buy several passenger aircraft in 2007.

In addition, private commercial banks, mainly from France, Spain and Canada, such as National Bank of Canada, BNP Paribas and Société Générale, offer credit to Cuban banks and corporates. The biggest recipients in the local banking sector are Banco Internacional de Comercio (Bicsa) and Banco Exterior de Cuba (BEC), which, like all state-owned banks, have maintained a clean repayment record since 1993. "The banks are eager to get a good reputation – they wouldn't default on a \$10 million loan and risk losing this," says one businessman. One particular focus of the foreign banks is trade finance.

A route that foreign banks could use to get into the Cuban banking market is through a joint venture. The Spanish bank Caja Madrid has established a new company with a Cuban state bank. The new financial company, Corporación Financiera Habana, is 60% owned by Caja Madrid and 40% by Cuban state savings bank Banco Popular de Ahorro (BPA).

But while some banks are entering Cuba, others have been leaving. ING was in Cuba until it left the island in 2007 after the US government apparently pressured it to withdraw, according to Anaiza Rodriguez, investment director at Cuba's foreign investment ministry.

Cuba's relationship with the financial markets is limited but cordial. In 2006 and 2007, Cuba issued one-year euro-denominated bonds that were sold privately with a 9% coupon and listed in London. Both bonds were paid in full and on time. "The Cubans proved with these issues that they could raise money internationally, although whether these were proper commercial transactions is another matter," says Stuart Culverhouse, chief economist at Exotix. "At this stage, the best way to invest in Cuba is through the debt, both new performing paper and non-performing".

Locally, the authorities are trying to instill greater discipline into the financial system.

Perhaps the biggest barrier to the system's development is the existence of a dual-currency system. The government wants to unite the currencies, but this will be a difficult and expensive process. Cuba has the Cuban peso (CUP), with which the subsidized domestic economy operates, and the convertible peso (CUC), which is used as the hard currency in retail outlets. But, as more Cubans get access to CUC – through tourism, restaurant sales and farm produce sales – huge discrepancies are appearing. Many Cubans make vast profits by selling goods at an inflated CUC price and then change this into CUP before using that currency to buy subsidized goods. This system is inefficient and expensive and prevents a proper price mechanism from operating.

In addition, foreign investors and banks are unable to access the internal, subsidized economy. This barrier to development is one reason why subsidized goods are potentially under the hammer, and a unified currency has risen up the agenda. But to achieve currency unification, Cuba's central bank will need large reserves and a productive economy that can hold up the value of a new currency.

Insurance companies

The business organizations engaged in the insurance activity are the following:

- Seguros Internacionales de Cuba, S.A. (ESICUBA).
- Empresa Estatal Nacional (ESEN).
- Aseguradora del Turismo, S.A. (La Isla, S.A).

Insurance mediation is carried out by a network of insurance agents, including:

- Natural persons.
- Banco Popular de Ahorro (People's Saving Bank)
- Compañía de Asistencia al Turista (ASISTUR, S.A.).
- Grupo Nueva Banca.
- Banco de Crédito y Comercio (Credit and Trade Bank).

There are also entities that render insurance-related services, such as:

- INTERMAR, S.A.
- ASISTUR, S.A.

Banks

Banco Central de Cuba (Central Bank of Cuba): governing body of the Cuban State's credit and monetary policy; all its provisions are mandatory for the companies operating in the national territory. It comprises:

Nine commercial Banks:

- Banco Nacional de Cuba
- Banco Popular de Ahorro
- Banco de Inversiones, S.A.
- Banco Metropolitano, S.A.
- Banco Internacional de Comercio, S.A.
- Banco Financiero Internacional, S.A.
- Banco de Crédito y Comercio
- Banco Exterior de Cuba
- Banco Industrial de Venezuela-Cuba, S.A.

Fifteen non-banking financial institutions:

- Grupo Nueva Banca, S.A.
- Compañía Fiduciaria, S.A.
- Rafin, S.A.
- Fimel, S.A.
- Cadeca, S.A.
- Corporación Financiera Habana, S.A.

- Fincimex, S.A.
- Finatur, S.A.
- Financiera Iberoamericana, S.A.
- Compania Financiera, S.A.
- Arcaz, S.A.
- Fintur, S.A.
- Gilmar Projet, S.A.
- Servicios de Pago Red, S.A.
- Finexim, S.A.

Ten representative offices of foreign banks in Cuba:

- HAVin BANK, LTD.
- National Bank of Canada
- Banco Bilbao Vizcaya Argentaria, S.A.
- Banco Sabadell,S.A.
- Societé Généralé
- Fransabank SAL
- Bankia, S.A.
- Republic Bank Limited
- BPCE International et Outre-Mer (BPCR IOM)
- Banco the Nova Scotia (Scotiabank)

Three representative offices of non-banking financial institutions:

- Fincomex, Ltd.
- Novafin Financiera. S.A.
- Caribbean Tulip Finance Inc-Representative Office

Banco Nacional de Cuba (National Bank of Cuba): it has the duties of a commercial bank; it keeps record of and controls the foreign debt of the Cuban state.

Banco Financiero Internacional, S.A. (International Financial Bank): it is a non-state-owned bank in charge of the bank operations of the Cuban economy in freely convertible currency.

Banco Popular de Ahorro (People's Savings Bank): it is devoted to collecting the financial resources of the population and giving them loans. It can carry out any kind of transaction.

Banco de Crédito y Comercio (Credit and Trade Bank): it is state-owned and carries out the duties of a commercial bank.