FEATURED Q&A

How Important Is Debt Relief to Cuba’s Economy?

During his visit to France this month, Cuban Deputy Prime Minister Ricardo Cabrisas met with Franck Riester (L-R), France’s minister delegate for foreign trade and economic attractiveness. // File Photo: @franckiester via Twitter.

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The Paris Club of wealthy nations agreed last week to grant Cuba more time to make payments under a 2015 debt agreement. The decision followed a visit to France by Cuba’s top debt negotiator, Deputy Prime Minister Ricardo Cabrisas. Cuba in 2015 defaulted on payments to the group and only partially met them in 2019. How important is Paris Club debt relief for Cuba? How likely is Cuba’s economy to recover soon from the Covid-19 pandemic, and what are the major factors holding the economy back? How much will the policies of U.S. President Joe Biden affect Cuba’s economy and its ability to return to international credit markets?

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Pavel Vidal, associate professor in the Department of Economics at Pontifical Xavierian University in Cali, Colombia and former analyst in the monetary policy division at the Central Bank of Cuba: “Amending the 2015 arrangement is beneficial for both Cuba and the Paris Club. The Cuban government needs to complete its domestic monetary reform and maintain its commitment to debt payments. And the two things go hand in hand. The devaluation of the exchange rate helps to solve the balance of payments crisis. In turn, international capital is essential to maximize the benefits of the devaluation in exports and minimize inflationary impacts. The Cuban economy had to face the pandemic amid an extremely fragile macroeconomic situation. Cuba’s dependence on tourism deeply affects its private sector. Five years of a balance of payments crisis put into perspective the difficult situation the Cuban economy has been going through after the drop in trade with Venezuela and the tightening of U.S. sanctions.

Continued on page 3
**POLITICAL NEWS**

Peru’s Castillo Claims Victory, Fujimori Not Conceding

Socialist Pedro Castillo on Tuesday claimed victory in Peru’s contested presidential runoff, although right-wing rival Keiko Fujimori has vowed to fight the result and has not conceded, Reuters reported. Castillo maintained a razor-thin lead of 44,058 votes as ballot counting of the June 6 election ended. Fujimori has claimed fraud without providing evidence and is seeking to annul a portion of the votes cast. Electoral authorities have not formally declared a winner. On Twitter, Castillo celebrated, calling himself the country’s president-elect. “A new time has begun,” he wrote, alongside a picture of himself with his arms raised and the word “President” in large font, Reuters reported. He also updated his Twitter profile to include “President-elect of the Republic of Peru (2021-2026).” Fujimori in a rally on Tuesday promised supporters that she would keep fighting to “defend Peru’s democracy.” She is calling for electoral authorities to evaluate the ballots. “We trust the authorities, yes, but we trust more in the popular will,” she told supporters, Reuters reported. “The narrowness of the electoral victory further darkens the prospects for stable democratic governance in Peru,” Cynthia McClintock, professor of political science and international affairs at The George Washington University, told the Advisor in a Q&A published June 8. “Sadly, dissatisfaction with this election is likely to spell dissatisfaction with democracy, too, and democracy is in danger,” she added.

Violence Has Displaced 8,500 in Haiti: UNICEF

A surge in gang violence in the area of Haiti’s capital, Port-au-Prince, has displaced some 8,500 women and children in just the past two weeks, the United Nations Children’s Fund, or UNICEF, said Monday in a report. Since early this month, clashes between rival gangs have exploded in the areas of Martissant, Fontamara and Delmas, leading to hundreds of homes being burned down, said UNICEF. “Every time, clashes between armed groups are more violent and every time more women and children are forced to flee their homes,” said Bruno Maes, the organization’s representative for Haiti. “Since the beginning of this year, insecurity has been escalating. But the capital city is now facing an urban guerrilla, with thousands of children and women caught in the crossfire.” Displaced families have described “urgently” needing clean water, food, hygiene items, clothes, blankets and mattresses, Maes added. In the past two weeks, more than 2,000 women and more than 2,000 children have found refuge in other areas of Port-au-Prince, and more than 5,000 others are believed to be taken in by host families in neighboring Carrefour and elsewhere in the country, UNICEF said. Escalating violence and criminal acts have led to the displacement of more than 13,900 people in the Port-au-Prince area in the past nine months, according to UNOCHA, the U.N. office in charge of humanitarian coordination. Across Haiti, some 650,000 people are displaced, including half a million in and around the capital. In May, UNICEF conducted a study showing that one in five youths in Haiti believes that violence keeps children from attending school.

**ECONOMIC NEWS**

Brazil’s Central Bank Expected to Raise Key Interest Rate

Brazil’s central bank is expected to raise interest rates for the third time in a row in its meeting today, Bloomberg News reported. The bank is likely to hike the benchmark Selic rate by 75 basis points to 4.25 percent, as policymakers have previously signaled. All analysts in a Bloomberg survey agreed on the expected increase. Brazil is facing a deteriorating infla-

**NEWS BRIEFS**

Biden Taps Salazar as U.S. Ambassador to Mexico

U.S. President Joe Biden on Tuesday nominated former Interior Secretary Ken Salazar to be the U.S. ambassador to Mexico, CNBC News reported. Salazar’s appointment, pending congressional confirmation, was among the president’s first slate of political ambassadors, as Biden’s previously announced ambassadors have all been career foreign service officers. Salazar is a former Colorado state attorney general, and he was a Democratic senator before leaving Congress to join the Obama administration as interior secretary.

USAID Chief Meets With Salvadoran, Guatemalan Presidents During Trip

The head of the U.S. Agency for International Development, Samantha Power, said Tuesday that she had met with Salvadoran President Nayib Bukele, who she said had shown readiness to discuss a “better path forward,” Reuters reported. She described the meeting as “frank, wide-ranging talks.” Also on Tuesday, Power called on Guatemala to fight corruption seriously. She met with Guatemalan President Alejandro Giammattei and separately with the country’s attorney general as well as the head of the special prosecutor’s office against impunity.

Biden’s Banco Inter Launches Share Offering For Up to $1.09 Billion

Brazil-based digital lender Banco Inter has launched a share offering in which it is seeking to raise as much as 5.5 billion reais ($1.09 billion), Reuters reported, citing a securities filing. The price per unit, which is comprised of one common share of stock and two preferred shares, was established at 57.84 reais. In May, Banco Inter said payments company StoneCo Ltd. would buy a stake of up to 4.99 percent.


**BUSINESS NEWS**

**Mexican Start-Up Credijusto Buys Banco Finterra**

Credijusto, a Mexico-based small-business lender, has bought local bank Banco Finterra in what Credijusto said was the first acquisition of a bank by a Mexican financial technology start-up, Reuters reported Tuesday. The acquisition, which was underway for a year and a half, closed last week. The deal was worth less than $50 million, though the combined assets of the companies are worth approximately $300 million, Credijusto’s co-chief executive, David Poritz, told Reuters in an interview. Through the deal, Credijusto is planning to increase its services for Mexican companies that sell goods to the United States, he said. The fintech also is seeking to serve U.S.-based companies that have trade with Mexico and other countries in Latin America, Poritz added. “There are tremendous financing needs for small businesses exporting into the United States, and vice versa,” he said, adding that Credijusto is hoping to grow its portfolio into the billions of dollars across the region in coming years. Combined, Credijusto and Banco Finterra have loaned in excess of $2 billion to small and medium-sized businesses, Poritz added. In the next couple of years, Credijusto might consider a bank acquisition in the United States, Poritz added. “It’s a very logical evolution,” he told Reuters. [Editor’s note: See Q&A on private-sector lending in Mexico in the May 6-19 issue of the Financial Services Advisor.]

**FEATURED Q&A / Continued from page 1**

Defauling on commitments to international creditors traps the economy in a vicious circle. The shutout from international financial markets makes it more difficult to attract capital to reactivate the economy, thus further reducing future income needed to put international payments in order. Some positive events are likely to help the economy to get through the current crisis: achieving herd immunity thanks to domestic vaccines, a faster-than-expected tourism recovery and the materialization of the announced opening of small and medium-sized private enterprises. The ideal scenario would also include the U.S. administration taking constructive steps. If these events were to occur at the same time, they would amplify and complement each other, thus increasing the possibility of pulling the economy out of the current crisis.”

Arturo Lopez-Levy, assistant professor of politics and international relations at Holy Names University in Oakland, Calif.: “After the historic 2015 debt negotiation agreement with the Paris Club, Cuba made a sustained effort to pay its financial obligations. Presidents Raúl Castro and Miguel Díaz-Canel acknowledged the importance of honoring debt obligations to restore Cuba’s financial credibility and ease the road for anticipated significant macroeconomic reforms. Cuba’s 2019 constitution signaled a transition toward a mixed economy. In the middle of the Covid-19 pandemic, the Díaz-Canel administration launched a massive devaluation of the Cuban peso and implemented a long-postponed currency reuniﬁcation. These new reforms ease the Cuban state’s roles as regulator, ﬁscal authority and entrepreneur, which is indispensable to integrating a mixed-market economy. Other recent measures expand the private sector and the creation of small and medium-sized companies. Cuba’s default after 2019 didn’t surprise anyone. The Trump administration tightened the economic siege with 240 new economic and ﬁnancial sanctions. Trump rolled back Obama’s opening and activated Title III of the Helms-Burton law. In 2020-21, the Covid-19 pandemic wiped out most of Cuba’s tourism revenues. By postponing his rapprochement promises, Biden is aggravating the sequels of Covid-19 and obstacles to economic reform. Such neglect pushes Cuba into close relations with Russia and China. Saving the 2015 agreement is a ﬁrst step toward a viable Cuban economy and realistic debt servicing, a goal that international creditors share. The resurgence forecast expects a rise in tourism revenue next year because Cuba and its most important markets (Europe and Canada) would be fully vaccinated. The government announced a new dialogue with the diaspora, anticipating a focus on economic opportunities to Cubans living abroad. The Cuban economy still has serious problems, such as excessive reliance on food imports, an aging population, limited investments and an expected rise in inﬂation. But the devaluation placed economic reform at an inflection point toward better measurement and management of its fundamentals. The devaluation should attract remittances, foreign investments and tourists.”

Robert Lajous, former Mexican ambassador to Cuba: “Like all Caribbean countries, Cuba faces a debt crisis due to dependence on tourist income. But the case of Cuba is cumbersome due to restrictions applying to U.S. citizens traveling to the island. Neighboring countries have generated income by applying a smart visa policy for U.S. citizens able to ‘work from home’ in a relaxed seaside setting. But Cuba depends on European and Canadian travelers subject to strict pandemic lockdown regulations. Economic reform has stalled in Cuba under the dire circumstances prevailing, just after a single currency was ﬁnally accomplished. No single issue could be more significant.

Continued on page 4
to improving the lives of the Cuban people and stimulating market-oriented reform than the lifting of all U.S. travel restrictions to the island. The Obama administration engaged in exchange policy with Cuba that benefited all involved, but that came to a halt under Trump. Timing is of the essence. If the Biden administration does not move fast, somebody else will offer other sources of income for strategic reasons. Cuba can further economic and political reform given the right incentives, thanks to an educated population. Relations with Cuba could be normalized by eliminating the embargo, which has come in handy to justify Cuba’s lack of advancement in human rights and democracy. If the United States is preparing to engage in a dialogue with Venezuela, why not with Cuba? Both countries have acted in tandem for almost two decades now.”

Carmelo Mesa-Lago, professor emeritus of economics and Latin American studies at the University of Pittsburgh: “The Paris Club’s postponement of Cuba’s debt payment was based, according to Minister Cabrisas, on the ‘unprecedented penuries’ caused by Covid-19 and its impact on tourism, former U.S. President Donald Trump’s strengthening of the U.S. embargo and 54 hurricanes since 2000. But two other causes were not mentioned: the worst economic crisis in Venezuela’s history, which has reduced buying of Cuban medical services and oil supply, and the island’s inefficient economic system, which despite some structural reforms has been unable to stop the GDP decline. Cabrisas and the Paris Club have so far not revealed the terms of the agreement, but it’s certainly a relief for Cuba, which has been suffering its worst economic crisis since the 1990s. The government is inoculating the population with its own vaccine, but still we lack reliable data on its results. Even if successful, Cuba is confronting severe obstacles for a recovery: 1.) the monetary and exchange-rate unification has provoked at least a 500 percent increase in inflation, generating open protests by Cubans; 2.) the most important monetary-unification measure, the closing of state enterprises in the red and the subsequent rise in open unemployment, has been postponed for one year, hence fiscal subsidies (18 billion pesos) will continue; 3.) tourism that generated about $3 billion annually—the second-largest source of hard currency—has been virtually closed for more than one year and will take time to recover; and 4.) President Biden has not removed any of the damaging measures that Trump imposed.”

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— Carmelo Mesa-Lago