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Cuba to issue domestic sovereign bonds to bridge budget deficit

Cuba is to bridge its financing gap by issuing sovereign bonds to Cuban entities, according to the Director General Director of Budget Execution at the Ministry of Finance and Prices, Jesus Matos.

Speaking to the Cuban news agency Prensa Latina, he said that the Cuban government will need the domestic peso equivalent of US\$11.7bn, a figure converted at the official rate, to finance its anticipated 2018 fiscal deficit and CUP 4.2bn for the amortisation of previous sums.

This, he said, will be managed through the issuance of Sovereign Bonds.

According to Mr Matos, Cuba's fiscal deficit amounts to 12% of GDP and the overall financing needed to balance the budget including amortisation of debts due in 2018

will require the equivalent of 23% of planned budgetary expenditures.

The article notes that although elsewhere in the world the financing gap would be closed through the sale internationally of treasury bonds, in Cuba's case, by law, Cuban Sovereign Bonds can only be acquired by the national banking system, including commercial banks and other banking financial institutions. Prensa Latina said that the bonds would carry 2.5% annual interest and appeared to suggest they will have a twenty-year maturity.

"The Cuban State contemplates repayment terms of up to 20 years", so that "future generations will have the responsibility to honour such commitments", the report quoted Mr Matos as saying.

Noting that such taxpayer resources were not destined for social spending and will impact both present and future generations, the news story quoted the Budget Execution Director as observing 'there are discordant views on the subject'.

While market economies usually resort to public spending cuts, in Cuba, he observed, because 85% of government revenue originates through the state sector, the country would have to work to achieve greater efficiencies and productivity and to increase exports and to replace imports.

New US internet task force convened

A first meeting of the new US task force to develop recommendations as to how the US might expand internet access in Cuba has agreed to work towards the presentation of a report by February 2019.

At a highly politicised meeting held at the US State Department on 7 February, it was decided to create two subcommittees: one to evaluate the role of the media in Cuba, and the other on Cuban access the Internet. The two groups are expected to present their views within six months, analyse them in October, and then deliver a final report with recommendations to the US Secretary of State Rex Tillerson, and President Trump early next year.

The task force, which is advisory, includes senior officials from the State Department, the Commerce Department, the Federal Communications Commission and the US Agency for International Development, and experts from academic and scientific institutions. It reportedly has no budget. It is chaired by the Assistant Deputy Secretary for the Western Hemisphere, John Creamer.

Reports of the first meeting describe participants including Cuban dissidents and those opposed to the US embargo expressing a range of views, with a majority arguing that being seen to utilise the internet and to encourage alternative voices in Cuba would be counterproductive, undermining the perceived independence and credibility of independent and online media in Cuba.

At the meeting Mr Creamer said that Cuba's government "filters and blocks websites" in a bid to impede the Cuban people's ability to criticize government institutions and policies. "Such acts of aggression have a chilling effect on the exercise of the fundamental freedom of expression," he said. Despite this, internet use in Cuba is developing rapidly and most Cubans have access to the country's intranet which is largely uncensored.

What emerged at the first meeting was the likelihood that the focus may be on technical recommendations for expanding access, as at present direct cable and satellite links between Cuba and the US are limited.

Cuba has previously protested formally about the establishment of the task force (*Cuba Briefing January 29, 2018*) seeing it as a violation of its sovereignty and aimed at achieving regime change.

Separately, Reuters quoted Alan Gross, who worked in Cuba in 2009 for a US government funded programme to promote political change by increasing internet access, as expressing disbelief at the new US approach. "We are supposed to learn from our mistakes I learned the hard way that it's illegal to distribute anything in Cuba that's funded in full or part by the US government," he was quoted as saying. Mr Gross was imprisoned in Cuba for his actions and subsequently became a central figure as the US and Cuban governments agreed a number of carefully calibrated steps towards détente.

The Caribbean Council is able to provide further detail about all of the stories in our Cuba Briefing publication. If you would like a more detailed insight into any of the content of today's issue, please get in touch [here](#).

Cuba

- **Number of wholesale markets to be expanded.** To the extent that conditions permit, Cuba is to expand the number of wholesale markets to meet the needs of the private sector and non-state enterprises, according to Mary Blanca, the Minister of Domestic Trade (Mincin). The Minister said that sustainability of such markets would depend on having a stable supply of goods, without which it was not worth opening them. According to the Cuban state media new regulations establish wholesale distribution options that include a 20% discount for purchases by cooperatives and self-employed workers and a 30% concession on replacement parts that relate to the country's energy saving programme.
- **New rules for all CUC rental vehicles.** The Council of Ministers has introduced new rules on all rental vehicles operating in CUC, the majority of which are taxis. The new regulations which have been gazetted require all such vehicles to have an official meter, a 'Taxi' badge and a distinctive sign or a sticker that authorises them to provide an agreed service. The new rules also make clear that entities, their employees, and self-employed workers who operate such vehicles, whether leased or owned, must have them painted in yellow with a white roof except for those vehicles manufactured before 1960. The new regulation also allows a taxi agency to hire workers, notes that tariff categories will be established that will be applicable to different types of client, and requires taxi service providers to guarantee their vehicles maintenance and repair. In addition, a system of allowances for fuel will be established.
- **Taxes now make up majority of budget revenues.** Cuba expects to receive the equivalent of US\$43bn from taxes in 2018 or the equivalent of 75% of the gross revenues forecast by the country's Budget. The figure is 9.5% higher than in 2017 according to Vladimir Regueiro, a specialist in the fiscal policy unit of the Ministry of Finance and Prices. He added that in 2018, income from non-state sources will rise to 15% of all tax revenues or 11% of the total budget. He told the Cuban media that the state system will provide around 80% of government's tax revenues. For the time being, the tax on the ownership or possession of unoccupied homes, lots and land cannot be introduced as Government has not yet the technical ability or public records to implement the measure. A separate

report citing comments by the Deputy Minister of Finance and Prices, Meisi Bolaños, said that likely shortfalls in the country's tax reinforced the importance of fiscal discipline and the compliance with directives to ensure that tax evasion is kept to a minimum .

- **First mechanical marabou harvester in operation soon.** Cuba expects to have a first prototype marabou harvester in operation this year. The machine, which is intended to extract the woody weed which grows on fallow land across Cuba, has a high calorific value if converted to charcoal or pellets. In the past it has proved hard to remove from the soil. Reports in the state media said that the choice of harvesters has still to be evaluated but will initially be manufactured in China. Designed by Cuban engineers, there are three different technologies which have been tested in the provinces of Camaguey and Ciego de Ávila. It is anticipated that the final model selected will eventually be produced at a plant in Holguín.
- **More money for regional administrations.** In 2018 the sums provided by central government to Cuba's regional administrations is set to increase by 12% to around the equivalent of US\$1bn in local currency. According to Meisi Bolaños, the Deputy Minister of Finance and Prices, this will result in greater powers being transferred to territorial governments when it comes to the management of resources. The objective is to boost the economy of the municipality, generate new revenues that support its budget, create jobs and provide better and more extensive services. Under Cuban law, provinces have the power to use a percentage of their financing for the most economically and socially deprived areas.
- **Measures to stop Havana's Malecón flooding a priority.** A report in Granma has said that mitigating the effects of flooding along the Malecón, Havana's sea wall, is a priority for the capital's principle administrative bodies. Noting that ten-meter-high waves flooded a large area of the capital's coast and penetrated as far as 2km inland during the passage of Hurricane Irma, the report said that the sea wall would have to be raised 1.25m above its present level. It also noted that among other related measures being taken in Havana would see the introduction of new regulations for investment projects, the better regulation of the construction of new homes and the restoration of other buildings; and the constant maintenance of at risk existing buildings. It also said that the regular maintenance of drainage systems in areas prone to flooding was a priority as was the construction of breakwaters away from the coast to act as a buffer against storm surges. The report quoted specialists as saying that all such modifications must not affect the image of the city, or its architectural qualities.
- **Concern about mass tourism and the environment expressed.** Cuban agencies have highlighted the damage that tourism may cause to environmentally sensitive areas such as the Viñales Valley, a UNESCO World Heritage Site in Pinar del Rio. An article published in Juventud Rebelde said that the demand from travellers from all over the world to visit the location and others in the West of the country had raised concern about their protection. The newspaper said that the Viñales Valley was visited by more than 0.7m tourists in 2016 and 0.6m in 2017. It quoted the President of the Municipal Assembly for the area, José Antoni, as saying that protecting the region should be a high priority. It also

quoted the Vice-President of the National Heritage Council, Nilson Acosta, as saying that because of the expansion of self-employment, the absence of resorts and beaches, and the region's world heritage status, people from other parts of Cuba had arrived to create facilities linked to tourism, such as restaurants, bars and accommodation. The article suggested that appropriate regulatory measures be taken. 'Viñales should be protected', the article concluded.

United States

- **Cuba says Tillerson's pre-tour comments 'arrogant'.** Cuba has described statements made by US Secretary of State, Rex Tillerson, at the beginning of a five-nation tour of Latin American and Caribbean, as being arrogant and disdainful.

A declaration from Cuba's Ministry of Foreign Relations accused Mr Tillerson of encouraging the Venezuelan military to consider regime change. It also criticised his reference to the importance of the Monroe Doctrine and of meddling in Cuban internal affairs through criticising its present electoral process.

Speaking on February 1 at the University of Texas Mr Tillerson had urged nations "who disregard their people and ignore this democratic moment in Latin America, to give their people the freedom that they deserve".

On Cuba had said: "Cuba has an opportunity in (its) transfer of power from decades of the Castro regime to take a new direction", before going on to speak about President Trump's "new vision for our approach to Cuba" through a policy that supports the Cuban people by steering economic activity away from named groups within Cuba.

In answer to a question about how he regarded the 1823/1904 US Monroe Doctrine, Mr Tillerson praised it as "clearly ... a success."

"I think it's as relevant today as it was the day it was written," he said in what appeared to be a considered repudiation of the Obama administration's approach, and that of his predecessor, John Kerry, who in 2013 declared "the era of the Monroe Doctrine is over."

Cuba's statement also accused President Trump of discrediting the peoples of the nations of Latin America and the Caribbean, 'every time he has the chance'. It warned that 'our America has awakened and will not easily be forced to her knees'.

The Monroe Doctrine asserted US authority in the Western Hemisphere over European powers but is now widely regarded by many as a form of US imperialism.

- **Cuba agrees to new US Chargé.** Cuba has agreed to the appointment of Philip Goldberg as Chargé d'affaires at the US Embassy in Havana. He will be taking up his post at a time when the Embassy staff has been drastically reduced following the still unexplained illnesses suffered by several US and other diplomats in 2016 and 2017. Mr Goldberg is a senior career diplomat having served previously as US Ambassador in the Philippines,

Chief of the US mission in Kosovo, and Assistant Secretary of State for Intelligence and Research. He was expelled in 2008 from Bolivia for what the country's President Evo Morales described as creating social unrest. Although US-Cuba relations have deteriorated since President Trump took office, high level exchanges on matters of security and common concern have largely been unaffected.

- **Cuban experts say nature of 'attacks' on diplomats remains uncertain.** Five senior member of Cuba's investigatory team trying to find the cause of the mysterious incidents affecting US and Canadian diplomats' health (*Cuba Briefing September 4, 2017 and subsequent issues*) have told the Miami Herald they don't believe health symptoms suffered by US Embassy personnel were caused by a sonic weapon or sound waves. The Cuban experts said that they had over 80 specialists working on the issue, but that the information shared by the FBI and the State Department had been limited. Unless the US shares more data on their investigation, the Cuban investigators told the publication, whatever caused the health symptoms may remain an unsolved mystery. The report said that the Cuban investigators had come up with 14 hypotheses from mass hysteria to a toxin or virus. They also noted that not all the Americans affected suffered hearing loss. They said that in contrast to the US related investigations, those with Canada were characterised by cooperation and exchange.
- **Cuba unlikely to host major baseball events until US relationship improves.** The President of the Caribbean Confederation of Professional Baseball (CBPC), Juan Francisco Puello, has said that Cuba is not likely to be able to host any event in the Caribbean Baseball Series until differences between it and the United States are resolved. Only when such differences are fixed, he said, will Cuba be automatically admitted as a full member of the organisation. Recently, the President of the Cuban Baseball Federation, Higinio Vélez, was reported to have said that Cuba was interested in being the location for the Caribbean Series after 2020.

Europe

- **London Club want to strike a deal on commercial debt.** The London Club of creditors holding Cuban commercial debt have said that they want to begin discussions to resolve the US\$1bn plus that has been owing since the 1980s.

MSNBC has reported that members of the group had put 'a good faith offer' to Cuba in January giving the island 50 days from February 5 to respond. They have also retained the US attorney, Lee Buchheit of Cleary Gottlieb who was previously involved in debt restructurings including that for Greece.

MSNBC reported that the London Club creditors would prefer a negotiated settlement, but could resort to the courts and the seizure of assets or interrupting Cuba's international payments and trade. The offer to the Cuban government is said to be more generous than that agreed to by Paris Club members when Cuba agreed to restructure its official debt in late 2015 (*Cuba Briefing January 4, 2016 and December 14, 2015*).

As in the case with the official debt, commercial creditors are proposing an extended date of a first repayment and are said to be proposing that the Cuban government swap equity for a proportion of the debt. Cuba's commercial debt has recently traded at a discount of up to 94% but some reports suggest that London Club members may be prepared to settle at a figure above 25 cents on the dollar.

- **France to strengthen academic exchange.** Cuba and France have signed a cooperation agreement that will strengthen academic exchanges between the two countries. The agreement allows for the development of professional and technical training. The Agreement was signed in Paris by the Cuban Ambassador to France, Elio Rodríguez, and Gilles Pécout, the Rector of the Academy of Paris and the Chancellor of the Universités de Paris which oversees the Sorbonne and twelve other universities in Paris.
 - **Construction agreement signed for Meliá Trinidad.** Dinvai Construcciones an entity of the Cuban Ministry of Construction and the Italian TOMA Group which specialises in infrastructural work have signed an agreement to construct a 400-room hotel. Called The Meliá Trinidad, it will be situated on the Ancón Peninsula on Cuba's south coast, near the city of Trinidad. The agreement follows one reached in 2017 between Meliá Cuba and the Cubanacán Group to expand Meliá's presence in Cuba. Three other hotels, the South Coast, the Ancon and the Trinidad del Mar are already operating in the area which is a designated tourism development area.
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The Americas

- **Mexican group sign hotel management contracts.** Grupo Posadas from Mexico has signed a contract to operate two Fiesta Americana all-inclusive hotels in Cuba. The hotel operator told the Mexican Stock Exchange that it expects to begin operating the Fiesta Americana Punta Varadero, and Fiesta Americana Holguin Costa Verde, later this year.
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Rest of the World

- **Support for Cambodian government reported.** A report in Cambodia's English language Khmer Times has said Cuba supports actions being taken by the Cambodian government to halt any attempt by a foreign power to undertake regime change there. The independent publication said that following a meeting between the country's Foreign Affairs Minister, Prak Sokhonn, and Juan Carlos Marsan, the Deputy Head of the Cuban Communist Party Central Committee's Department for External Relations, Cuba's stance was to respect Cambodia's sovereignty and to prevent a regime change through the intervention of foreign powers. Allegations about US support for the country's main opposition party, the Cambodia National Rescue Party, led last year to its dissolution by Cambodia's Supreme Court.

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