



Reordering the monetary and financial sector in Cuba

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**Characteristics of the Cuban
monetary-financial environment**

Recent transformations

Final comments



Characteristics of the Cuban monetary-financial environment

Slightly developed financial system



Few actors, dual monetary scheme;
high segmentation



Limited traditional monetary policy
instruments



Monetary policy subordinated to
central planning

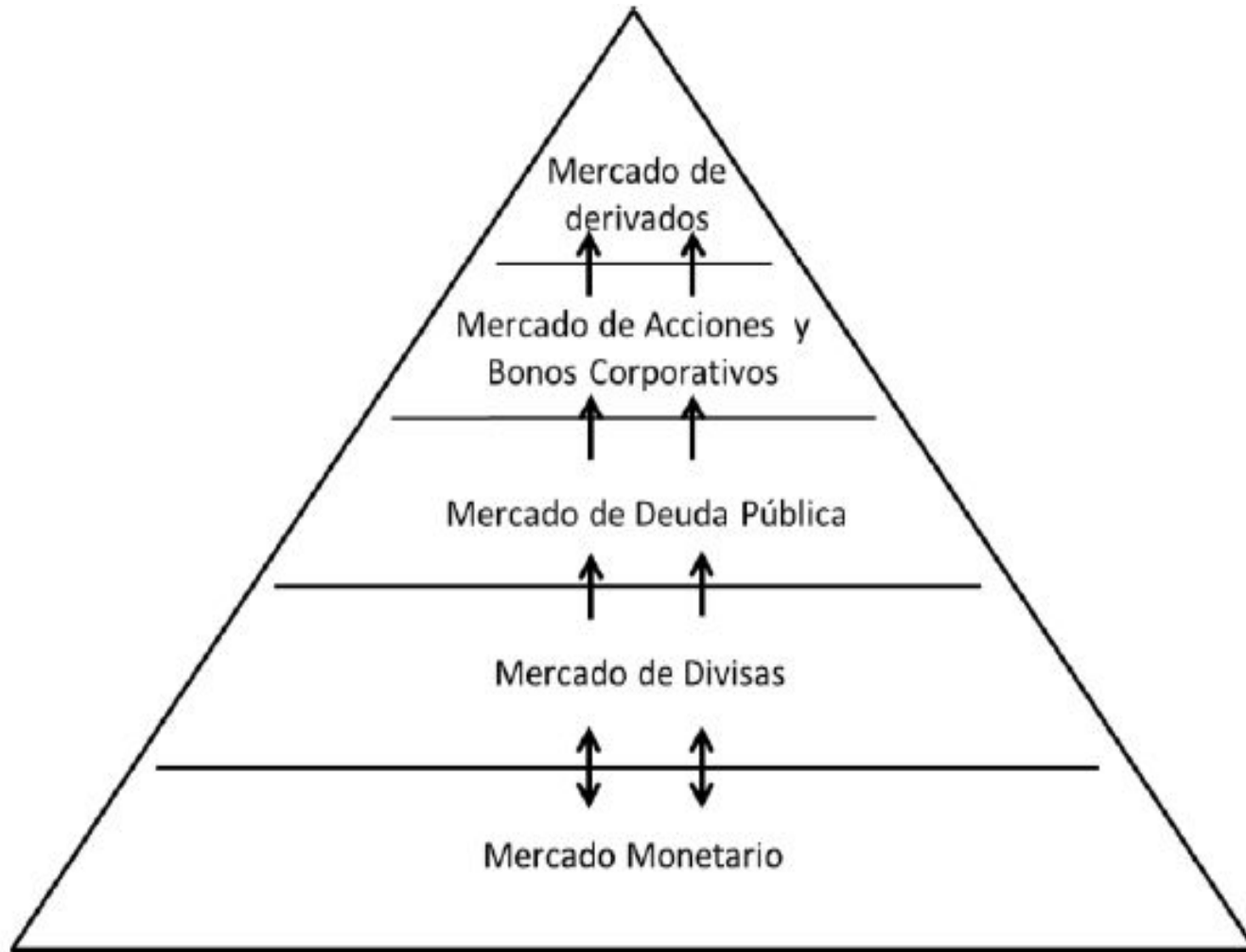


Announced transformations in the monetary and financial environment

- Internal (prices, exchange rate) and external (balance of payments) monetary equilibrium.
- Adequate rules and instruments for monetary emission.
- Rational interest rate system.
- New credit policy for fostering national production and household consumption.
- To move forward toward monetary and exchange unification.



Hierarchical order in financial markets



Fuente: Karacadag, et al (2003)



Interbank Market

	BANDEC	METRO	BPA
<u>Activos</u>	Créditos empresas	Créditos empresas y población	Créditos población
	Ingresos altos	Ingresos medios	Ingresos bajos
<u>Pasivos</u>	Cuentas corrientes	Depósitos empresas y población	Ahorro población
	Costos bajos	Costos medios	Costos altos
<u>Rentabilidad</u>	Alta	Media	Baja
<u>Liquidez</u>	Baja	Media	Alta



Why Interbank market is crucially urgent

- Eliminates source of primary emission: excess monetary flows can be canalized to other banks with deficits.
- Strengthens interest rate role.
- Offers more solid signals of availability and liquidity on the financial system.



Reorganization of fiscal financing: public debt market

2013: 51% emission with payment commitment
49% credits from commercial banks



2014: Titularizar bank credits and start to finance deficit with public debt bonds emission (venc. 20 years, 2.5%)



Future: Public debt secondary market: commercialize emitted bonds, ads liquidez

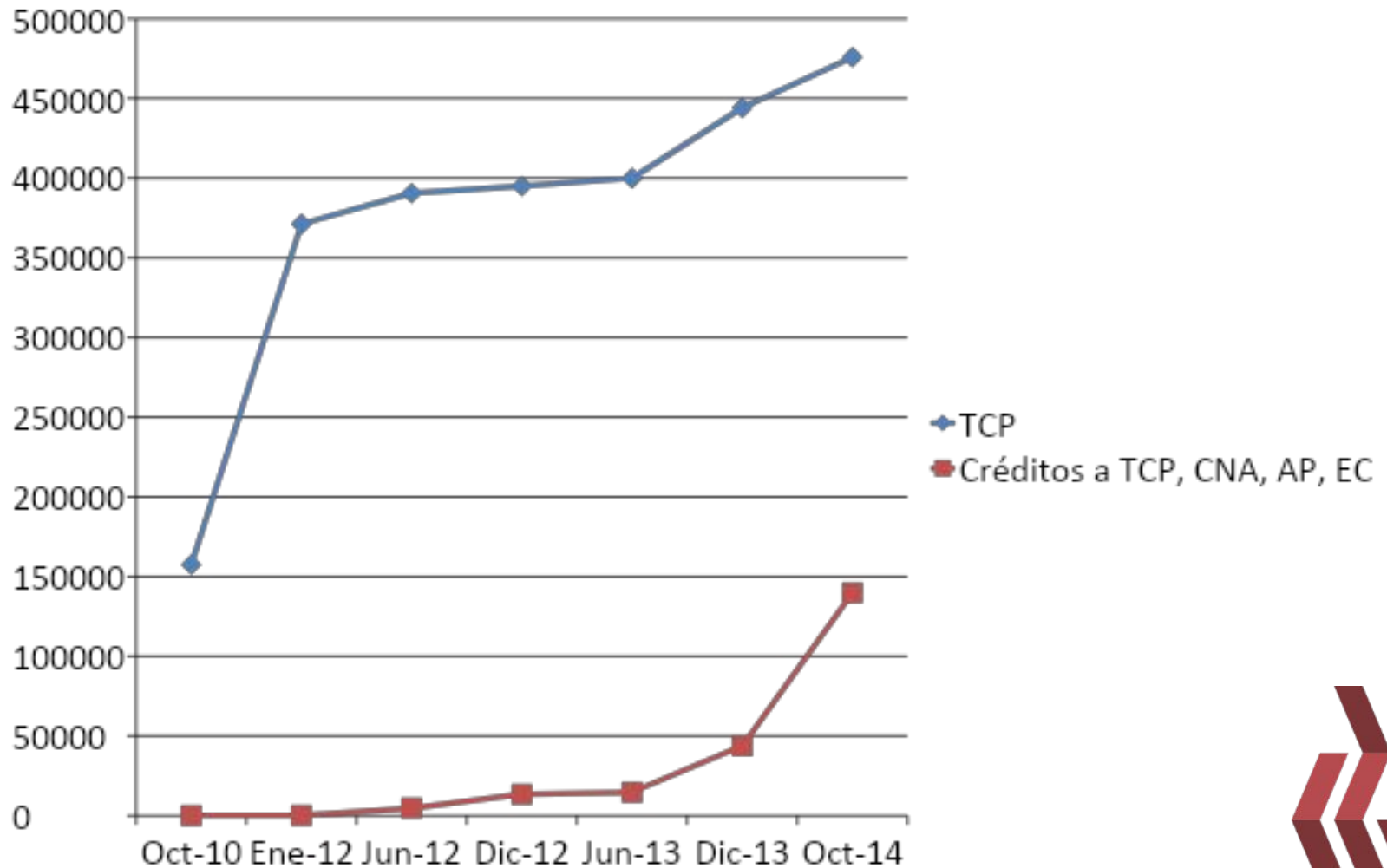


Why Public Debt Market is important

- Fiscal discipline.
- Greater control of monetary emission.
- It provides the financial system of tradable assets: improve liquidity management



New credit policy (2011)



Source: The author, based on official information and estimations



Some causes of the credit policy ineffectiveness

- High requirements in terms of collaterals and guarantors.
- Stable business prove required.
- Delayed credit processes.
- Highly homogeneous financial product vs. Highly heterogeneous TCP.
- Scarce incentives for TCP for revealing their balances to commercial banks.



Consequences

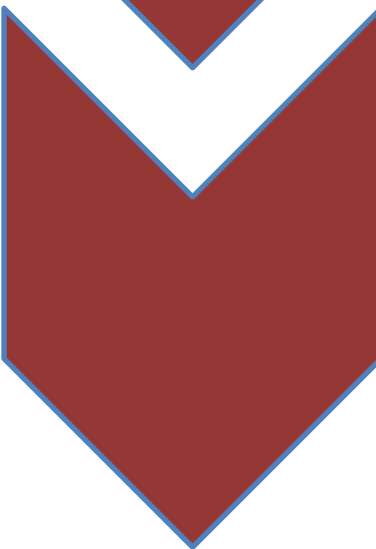
Financing demand
reoriented toward
informal
endogenous
sources or flows
from abroad

- **Danger!!!** Financial system incapable of perceiving transactions associated to the engines of growth of this market



Possible solutions

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- Bring on internationally validated practices: microcredits, microfinances

- 
- Creation of specialized institutions linked with foreign organizations



Final comments

- Main changes more oriented to strengthen Central Bank monetary policy instruments than to a deepening of the financial system.
- Urgent changes are required in the composition and efficiency of intermediation toward long-term assets, and less distorted interest rates for a better capital allocation.
- **Monetary and exchange unification???**

