CUBA'S HARD CURRENCY DEBT

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This paper focuses on Cuba's hard currency debt with Western creditors and not on debt in non-convertible currencies with the former Eastern bloc countries. It also provides an overview of the island nation's political and economic history over the past 37 years.

Information on Cuba's hard currency debt is hard to come by, particularly for United States citizens. This is because Cuban debt is not traded in New York and is only thinly traded abroad, primarily in London and Madrid. My first goal in writing this report was to gather information on Cuba's hard currency debt. My second goal relates to the notion that the bond market represents a consensus of investor's expectations. If this is true, what can the bond market, through its historical prices, tell us about prospects for reform in Cuba?

In November of 1995, the Economist Intelligence Unit ran a report on Cuba with the headline, "Cuba: Caribbean Tiger or Basket Case?" The title aptly describes Cuba's current paradoxical situation. As an emerging market, Cuba has as much long-term growth potential as any of the Asian tiger nations. It is rich in natural resources such as nickel, has the climate and soil fertility to become an agricultural powerhouse, is rich in human capital (with a literacy rate over 90 percent), and is only 90 miles from the vast U.S. markets.

Why, then, is Cuba so poor? The three reasons most often given by analysts are: 1) Cuba's hugely inefficient thirty-seven year old statist economy; 2) the thirty-five-year old U.S. trade embargo; and 3) the blow the Cuban economy received from the loss of its largest trading partner, the Soviet Union, in 1990. Today, the island nation faces a dire economic outlook. Given the slow pace of reform, little relief is in sight.

Expectations about Cuba as a Caribbean tiger or basket case are reflected in the bond market's price of Cuba's hard currency debt. When investors are encouraged about the prospects for change in Cuba, Cuban debt prices rise. Conversely, prices fall along with investors' pessimism.

Cuban debt instruments, all of which are in default, are grouped in a class of debt instruments known as "the exotics." Here, Cuba keeps company with debt from Nicaragua, North Korea, Yemen, Iran and Laos. Exotics are highly speculative, and not for the risk averse. Their price movements are sudden and dramatic, and their liquidity is low.

From 1800-1992, Cuba has defaulted three times on its debt.[2] In 1994, according to Institutional Inves-

1. No work is ever done in a vacuum, and this paper is no exception. Thanks to Professor Abraham Ravid of NYU's Stern School of Business, Anna Szterenfeld of the Economist Intelligence Unit, Mark Siebel of the Miami Herald, and Leo Guzman of Leo Guzman and Associates for their thoughts on the subject. Special thanks go to Dr. Jerome Booth of London's ANZ Grindlays Bank whose input and comments were invaluable.

2. *Institutional Investors 1994 Country Risk Ratings.*

tors Country Risk Ratings, Cuba had one of the lowest country ratings in the world, barely ahead of Iraq, Sudan, and Haiti. The September, 1994 edition of the magazine *Euromoney* concurred with this finding, rating Cuba as the riskiest country to invest in out of the 167 countries it surveyed. To aggravate this already dismal credit history, the investment situation is complicated by unpredictable political factors.

HISTORICAL OVERVIEW

In January 1959, Fidel Castro, a guerrilla leader, assumed power from General Fulgencio Batista after waging a six-year-long military struggle. Castro proceeded to transform the existing market-oriented Cuban economy to one based on collective ownership of the means of production and centralized control.

The United States severed relations with Cuba in 1961 following the expropriation of assets belonging to U.S. enterprises then worth over $1 billion.[3] (At 6 percent compounded interest, these assets are today worth approximately $7.7 billion). A full trade embargo, which is still in effect, was imposed on Cuba by the United States in 1962. The embargo prohibits U.S. citizens from having direct commercial dealings with Cuba. Prior to 1959, the U.S. was Cuba's largest trading partner and its largest source of foreign investment. In defiance of the U.S., Cuba aligned itself with the Soviet Union. Cuba retained a close relationship with the Soviet Union until the latter's demise in 1990.[4]

For three decades, the Soviet Union subsidized Cuba, primarily by bartering oil for sugar at below world market prices. In exchange for this and other economic subsidies, estimated to be worth $4 billion per year, Cuba acted as the Soviet Union's surrogate, fomenting communism in Africa and Latin America. By 1990, due to the deteriorating domestic situation, the Soviet Union was unable to maintain its high level of aid to Cuba.

The Cuban economy took a direct hit in 1990, plunging by 40 percent since then.[5] The privileged trading relations with the Soviet Union which Cuba enjoyed abruptly ceased. Trade between Russia and Cuba fell from a high of $9 billion in 1990 to $506 million in 1994.[6] Until 1988, 85 percent of Cuban two-way trade was with the former Soviet Union; by 1993, the eastern bloc accounted for 20 percent of Cuban trade. In 1991, Cuba was the world's largest exporter of sugar, producing 6.7 percent of total world output.[7] In 1993, sugar production dropped to 50 percent of its 1991 levels. The collapse of the socialist bloc barter system starved the sugar sector of key inputs and contributed to poor sugar harvests.

A SEARCH FOR SOLUTIONS

Since the collapse of the Soviet Union, Cuba has been trying to re-orient its economy. Efforts have been directed at encouraging direct foreign investment, implementing modest market reforms, and finding new trading partners.[8] The tourism, telecommunications, and agricultural sectors have been targeted for foreign participation. The health, defense, and sugar industries remain closed to foreign activity, as these sectors are seen as vital to Cuba's national interests.

Reforms from 1993 include legalization of the dollar, the allowance of independent workers, and the establishment of agricultural cooperatives. In May 1994, Cuba's National Assembly approved a far-reaching austerity package. It was designed to cut subsidies to unprofitable state-owned companies, make cuts in

3. The Economist Intelligence Unit, *Country Profile: Cuba,* 1995-96.

4. Archibald Ritter, ed., *Cuba in the International System.* New York: St. Martin's Press, 1995.

5. According to the Economist Intelligence Unit, Cuban GDP fell by 2.9 percent in 1990, 10.7 percent in 1991, 11.6 percent in 1992, and 14.9 percent in 1993; in 1994 and 1995, GDP experienced positive growth rates of 0.7 and 2.0 percent, respectively.

6. *The Reuters Business Report* (October 9, 1995).

7. The Economist Intelligence Unit, *Country Profile: Cuba,* 1995-96.

8. Jaime Suchlicki and Antonio Jorge, editors, *Investing in Cuba: Problems and Prospects.* New Brunswick: Transaction Publishers, 1994.

the bloated government bureaucracy, and reinstate income taxes.

Throughout 1994, representatives from nearly one hundred U.S. businesses, including Radisson Hotels, the Ford Motor Company, Archer-Daniels, and General Motors, visited Cuba on business exploration trips.[9] They came to Cuba on the heels of business representatives from Canada, Spain, Italy, France, Great Britain, Mexico, Japan, and Argentina.

In response to these developments, prospects for economic recovery brightened. The Cuban peso, the exchange rate of which is officially pegged at par with the U.S. dollar, increased in value on the Cuban black market from a low of 120 pesos to the U.S. dollar in July, 1994, to 35 pesos to the dollar by December of that same year. The modest economic growth of 0.7 percent in 1994 and 2 percent in 1995 indicated that the economy was starting to respond positively to the reforms after having hit bottom in 1993.

However, Cuban debt speculators should not be too buoyed by this news. Talk of reform in Cuba needs to be taken with a grain of salt. Statements in the press by Cuban officials speak of their ambivalence towards change. Roberto Robaina, Cuba's foreign Minister, says that although Cuba is making market-oriented reforms, "still, Cuba doesn't plan to create a stock exchange and has not focused on bonds."[10]

Fidel Castro stresses that "Cuba won't give up socialism just because it is entering into joint ventures, and allowing foreign investment, self-employment and agricultural cooperatives."[11] In a decree that must create expropriation anxiety for foreign investors, the Cuban government retains the right to nationalize any company that goes against "the national interest."[12]

Because of the collapse of its economy and the decline in foreign trade, Cuba has little hard currency. The level of foreign reserves in the *Banco Nacional de Cuba*, Cuba's central bank, were estimated to be about US$100 million in 1994.[13] Roberto Robaina, Cuba's foreign minister, says: "Cuba simply doesn't have the money to pay," its defaulted debt.[14]

Cuba has been holding bilateral talks with Mexico, Argentina, and Brazil aimed at negotiating repayment terms on official debt. Because of the weakness of the Cuban economy, negotiations revolve around when Cuba can afford to start making payments. The form of commercial debt restructuring is still open to question. Because Cuba is not a member of either the International Monetary Fund (IMF) or the World Bank, guarantees normally available to foreign investors are not available in Cuba.

With small amounts of hard currency reserves, and low export revenues from an ailing economy, the Cuban government has tried getting out of its debt problem by offering debt-for-equity swaps in state-owned companies that are being privatized. In a swap, a buyer purchases debt at a discount, offering to cancel the debt in exchange for an ownership stake in the government company. Debt-equity swaps are also attractive to Cuba, because they reduce the amount of debt trading on the market, increasing prices.

A highly visible debt-for-equity case involved Cuba's telephone company, *Empresa de Telecomunicaciones de Cuba*, or Emtel. In 1994, forty-nine percent of Emtel was purchased for $1.5 billion by *Grupo Domos* of Mexico.[15] In late 1995, this deal collapsed, a

9. *Bloomberg Business News* (June 14, 1995).
10. *American Banker-Bond Buyer* (April 18, 1994).
11. *American Banker-Bond Buyer* (April 18, 1994).
12. *American Banker-Bond Buyer* (October 2, 1995).
13. *Moody's International Manual*, Volume 1, 1994.
14. *American Banker-Bond Buyer* (October 2, 1995).
15. *Business Week* (March 4, 1996).

victim of the Mexican financial crisis, when Domos failed to make a $320 million installment to the Cuban government. Domos, under financial distress, subsequently sold 25 percent of its share of Emtel at a deep discount to Stet, an Italian telecommunications concern.[16] Because Emtel was the flagship sale in Cuba's privatization program, it was very important to the country symbolically. Domos' default was a major setback for the reform program.

Another debt-for-equity swap case, currently in negotiation, involves Argentine creditors. Instead of a cash settlement, Argentine businesses would use Cuban debt as credit to invest in Cuba.[17] In April of 1995, the Banco Nacional de Cuba recognized $1.28 billion in principal, interest, and arrears owed to the Argentine government.[18]

In June of 1994, Cuba and Brazil reached an agreement to settle Brazil's debt claim totaling $40 million.[19] In the deal, Cuba agreed to a debt repayment plan through the export of Cuban medicines to Brazil.

Cuban officials met with Paris Club members on the subject of Cuban debt in October 1995. Cuba owes the Paris Club group of creditors US $2.9 billion.[20] The last time Cuba spoke with the Paris Club was in 1986. While investors were encouraged by Cuba's interest in resuming talks, expectations for debt resolution were not high. The Paris Club can only deal officially with countries which are members of the International Monetary Fund, to which Cuba does not belong. Any attempt to hold formal talks between Cuba and the Paris Club would almost certainly be blocked by the United States.

CUBAN DEBT

For the purposes of this paper, Cuban debt is divided into pre-Castro government and Castro government debt. The Castro government debt, in turn, is broken down into hard and soft currency debt. Exact debt amounts are difficult to come by because the quality of financial reporting out of Cuba is poor. The figures for the London and Paris Clubs, and the commercial trade debt, are based from the last official figures published in June, 1990 by the Banco Nacional de Cuba. Arrears owed to the London and Paris Clubs are estimated to be $2.5 billion. An additional $1.6 billion in arrears is owed on the commercial trade debt.[21]

Table 1. Cuba's Hard Currency Debt

Creditor	$ Billions
Pre-Castro Government	$0.052
Paris Club	$2.900
London Club	$2.100
Commercial Trade Debt	$1.400
Subtotal	$6.452
London and Paris Club Arrears	$2.500
Commercial Trade Debt Arrears	$1.600
Total Debt	$10.552

Cuba's debt to the former Soviet Union is estimated at Rb 15 billion.[22] Russia, which assumed the Soviet Union's debt burden, granted Cuba a moratorium on its debt in 1991, knowing that its debt is unlikely to be repaid in the near future.[23]

Pre-Castro Government Debt

During the 1950's, Cuba maintained good fiscal accounts. Its average total debt/GNP ratio was under

16. *The Financial Times* (February 8, 1996).
17. *Reuters Money Report* (April 9, 1994).
18. *Bloomberg Business News* (April 25, 1995).
19. *Bloomberg Business News* (June 2, 1994).
20. *Bloomberg Business News* (June 26, 1995).
21. *Bloomberg Business News* (October 20, 1995).
22. The Economist Intelligence Unit, *Country Profile: Cuba, 1995-96.*
23. The Economist Intelligence Unit, *Country Profile: Cuba, 1995-96.*

30 percent.[24] Foreign debt averaged 10 percent of total debt and about 3 percent of GNP. In Latin America, Cuba's foreign exchange reserves of $505 million were second only to Venezuela's.

For U.S. citizens wishing to speculate on Cuban debt, the U.S. trade embargo makes it legally impossible. Until recently, the loophole in the law was to buy pre-Castro Cuban government bonds. In 1994, Moody's International Manual described two pre-Castro government dollar bonds totaling $52 million in default.

In June, 1937, the Republic of Cuba floated a $44.4 million note with a forty-year maturity and a 4½ percent coupon. It is noteworthy that Cuba was able to issue a note with a forty year maturity, reflecting the bond market's faith in the long term stability of the Cuban Republic. The 4½ percent coupon, which is low by today's standards, was offered at 175 basis points above the current twenty-year U.S. Treasury note.[25] My sense is that with the 1937 Republic of Cuba debt, implied in the price is the backing of the United States government, if not financially then through military intervention.

In March of 1953, the Republic of Cuba floated a $39 million note with a thirty-year maturity and a 4 percent coupon. Again, it is significant that Cuba was able to issue a note with a thirty-year maturity. The 4 percent coupon, also low by today's standards, was offered at 150 basis points above the current twenty-year U.S. Treasury note.[26]

On Wall Street, pre-Castro government notes are referred to as "Batista bonds." This is a misnomer because the 4½s issued in 1937 pre-date the Batista regime. Both the Republic of Cuba 4½s of 1937 and the 4 percent bonds of 1953 have been in continuous default since the 1959 Cuban revolution. A total of $640,098 had been paid into the defaulted notes' sinking fund before 1960. In 1988, a bondholder was unsuccessful at accessing the sinking fund's money, and that account remains frozen.[27]

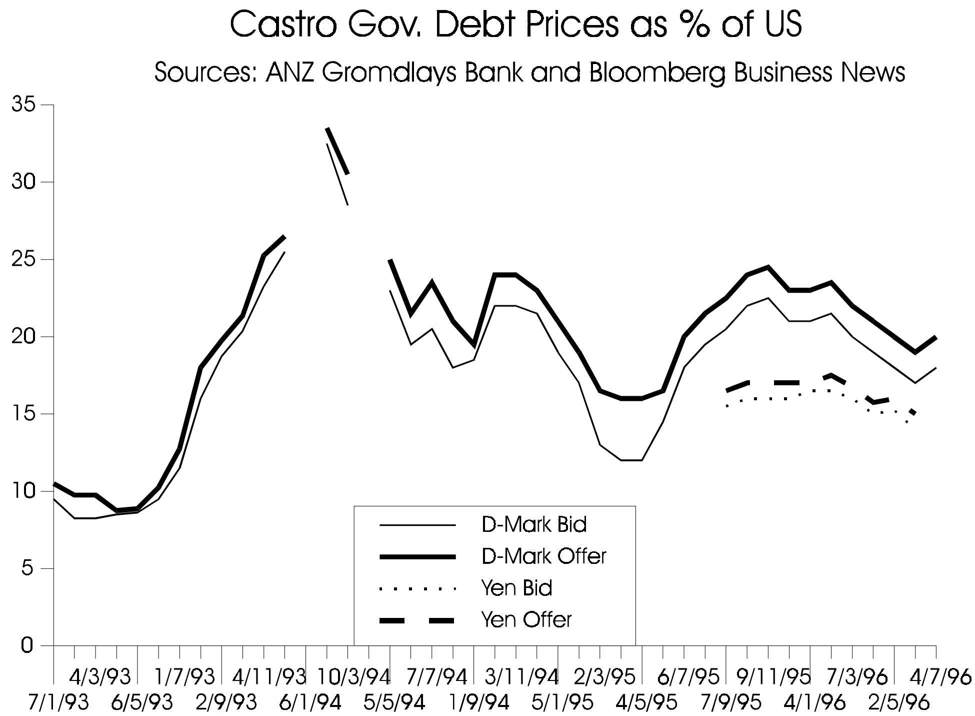
Trading in pre-Castro bonds on the New York Stock Exchange was halted on July 6, 1995 pending regulatory review by the U.S. Treasury concerning the "appropriateness of the continued listing of the notes."[28] The trading halt appeared to have been linked to a sudden rise in the price of the bonds in late June, 1995 from 41.5 to 54 percent on the dollar. The price increase surrounded speculation that Cuba was entering into debt restructuring negotiations as a way to access fresh credit. The suspension of trading, which destroys a note's value through illiquidity, thus pre-empts Cuba's re-entry into the debt markets. In 1995, a total of 803 trades occurred prior to the suspension of trading worth $803,000 in face value.

Castro Government Hard Currency Debt

Cuba's hard currency debt is with Western governments and commercial banks from Japan, Germany, Italy, France, Spain, United Kingdom, Canada, Argentina and Mexico. These loans originated during the 1970's, when Cuba took advantage of a wave of bank lending to Latin America.[29]

Castro government debt instruments are traded abroad in low volume. In 1995, the Emerging Markets Traders Association recorded $1.2 billion face value in trades of Cuban instruments in only 12 debt markets. Fifty-four percent, or $652 million of that amount, was in trades that averaged less than $2 million each.[30] In 1994, $652 million in Cuban debt

24. Philip Newman, *Cuba Before Castro*. New Delhi: Foreign Studies Institute, 1965.
25. *The Wall Street Journal* (March 1, 1953).
26. *The Wall Street Journal* (March 1, 1953).
27. *Bloomberg Business News* (August 28, 1995).
28. *The Financial Times* (August 25, 1995).
29. The Economist Intelligence Unit, *Country Profile: Cuba, 1995-96.*
30. *American Banker-Bond Buyer* (January 15, 1996).



was traded in 384 trades.[31] Buyers include the Standard Bank Group of South Africa, Banque Indosuez and ANZ Grindlays Bank.

The benchmark price of Cuban debt is set by trades in deutsche mark denominated loans totaling U.S. $1 billion that were refinanced in the early 1980's, with Credit Lyonnais as the agent bank.[32] Under the refinancing agreement, semi-annual installments were to commence on January, 1986 at the contractual interest rate of LIBOR +2.25 percent. To date, no interest payments have been made on the refinanced notes.

Other syndicates of Cuban debt include Barclays and the Bank of Tokyo. The notes of the latter creditor, denominated in Yen, are small relative to the Credit Lyonnais debt, have not been refinanced, and trade far less frequently. Because of these factors, the debt with Japanese creditors tends to be valued at a discount of 200 to 400 basis points to the refinanced Credit Lyonnais notes.

31. *American Banker-Bond Buyer* (October 2, 1995).

32. *Bloomberg Business News* (October 20, 1995).

Hard Currency Debt Timeline: January 1993-July 1996

The following chart, describing Cuba's monthly European debt prices, looks like a roller coaster. Prices as a percent of face value go from a low of 8.25 bid 9.75 offer in February of 1993 to a high of 32.5 bid 33.5 offer in February of 1994. In July 1996, the debt was trading at 18 bid 20 offer. It should be noted that all exotics, despite the improbability of repayment, exhibit a price level floor, meaning a point below which the debt price will not fall. In Cuba's case, 8 percent of face value appears to be the lowest point that the debt will trade. Prices have clearly been influenced by historical events (see also the appendix):

- In January 1993, Cuban debt was trading at 9.5 bid 10.5 offer. This low price reflects the market's low expectations that the debt will be repaid since the contraction of the Cuban economy following the collapse of the Soviet Union.
- July 1993 marks the beginning of a six-month-long surge in prices. The start of this increase co-

incides with the announcement in Cuba of the Dollarization Plan. Prices increased further in October 1993—to 20.375 bid 21.375 offer—following the announcement that individuals could open private businesses and work for themselves.

- The increases culminated at 32.5 bid 33.5 offer in February 1994 after President Clinton normalized trade relations with Vietnam. Cuban debt prices rose following expectations that Clinton would, in turn, normalize U.S./Cuba relations. Vietnamese debt increased from 15 to 80 percent of face value in the months prior to U.S./Vietnam trade normalization. Today, Vietnamese debt trades at 66 percent of face value.
- During the first six months of 1994, Cuban debt fell, bottoming at 18 bid 21 offer in August 1994. This fall is coincident with the rise in U.S. interest rates beginning in January 1994 and the subsequent flight to quality. The price decrease occurred despite Grupo Domos' purchase of 49 percent of Emtel in March, the passage of an austerity package by the Cuban National Assembly in May, and Cuba's agreement in June to settle Brazil's bilateral debt.
- Cuban debt prices troughed in August 1994, reflecting the uncertainty surrounding that month's large anti-government demonstration in Havana and the subsequent two-week-long "balsero" or rafter crisis. Prices increased modestly in the last quarter of 1994—to 22 bid 24 offer—as the "balsero" crisis stabilized and a new immigration agreement between the U.S. and Cuba was reached. This modest price increase was followed by a plunge during the first six months of 1995 to 14.5 bid 16.5 offer in June of 1995. This fall is coincident with the 1994 Mexican meltdown.
- In the second half of 1995, debt prices began to steadily increase again. On June 26, 1995, *Bloomberg Business News* reported that Cuba was looking to restructure its $6.4 billion hard currency debt.
- During the week of September 5, 1995, prices climbed to 20.5 bid 22.5 offer as a new foreign investment law was passed in Cuba. The new law allows 100 percent foreign ownership of enterprises except in health, education and defense, and permits investment in property and free trade zones.
- On September 22, 1995, the U.S. House of Representatives passed a bill allowing Americans to sue third parties for trafficking expropriated property and preventing traffickers from entering the U.S. The new legislation did not affect Cuban debt prices however, apparently because the bond market expected the bill to be vetoed by President Clinton.
- On October 6, 1995, Cuban debt prices climbed to 22 bid 24 offer as President Clinton announced a change in U.S./Cuba policy. The new policy allowed U.S. media to set up in Cuba, and charities and other non-governmental organizations to operate in the country.
- During November 1995, the price of debt continued to increase—to 22.5 bid 24.5—offer as Castro visited China and Vietnam. The purpose of the trip was to see what Cuba could learn from those two nations, which had revitalized their economies by making a transition from a command economy to market socialism.
- Debt prices peaked during the week of February 22, 1996—at 21 bid 23 offer—after Patrick Buchanan won the New Hampshire Republican primary. Buchanan's victory increased the market's expectations that President Clinton would be re-elected and that the embargo would be lifted.
- Debt prices fell to 20 bid 22 offer during the week of February 27, 1996, when Cuba shot down two planes belonging to the humanitarian group "Brothers to the Rescue." President Clinton responded to the shooting by restricting entry of Cuban diplomats into the United States and halting direct charter flights.
- During the week of March 12, 1996, prices fell to 19 bid 21 offer in response to President Clinton's signing of the Helms-Burton legislation.

Hopes in Cuba for progress through liberalizing reforms were squashed later in the month. Fearing that they were losing control over the economic activity unleashed through liberalization, the Cuban government expressed strong opposition to change and began a crackdown on dissent and reforms.[33]

- During the week of May 30, 1996 debt prices continued to fall—to 18 bid 20 offer—as the U.S. State Department issued its first letters under Helms-Burton, warning foreign firms investing in or doing business with Cuba about the possibility of U.S. sanctions.

A Debt Timeline Analysis

Because prices in July 1996 were 10 percent of face value higher than in January 1993, the bond market does believe that Cuba is making internal progress, that Cuba's integration into the world economy is forthcoming, and that rapprochement with the U.S. is possible. High, stable prices, which we have not seen, would indicate that the market is willing to believe in Cuba's recovery, even with Fidel Castro in power. The dramatic volatility of prices reflects the bond market's assessment of Cuba as a high risk creditor.

Based on the evidence, the market is able to respond quickly to new internal and external developments. The sudden price increases in 1993 and 1995 indicate that the market believes that once the process of change begins in earnest, significant change in Cuba will happen quickly. However, the fact that Cuban debt today trades at a deep discount says that the market thinks Cuba still has a long way to go on the road towards meaningful reform.

The differences in trading prices between pre-Castro government and Castro government debt are of interest. When trading of pre-Castro debt was halted on July 6, 1995 by the New York Stock Exchange, it was trading at 54 percent of par. This is a significant premium over the 18 bid 20 offer price of Castro government debt trading on the same day in Europe. One possible explanation for the differences in prices is a difference in liquidity. Because U.S. citizens are by law prohibited from trading in Castro government debt, these instruments are shut out of the large U.S. capital market, and their liquidity is low relative to pre-Castro debt.

The changes in the bid-asked spread are also worthy of note. A narrow bid-asked spread indicates high liquidity and continuity of pricing between sellers, while a wide spread indicates the exact opposite. Unlike highly liquid U.S. Treasury notes, where it is common to see bid-asked spreads of a fraction of a point, a two point bid-asked spread is not uncommon with exotic debt issues. The wide bid-asked spread encourages long-term speculation of exotics and discourages in-and-out trading. This is because large pricing gains must occur to offset transaction costs.

When Cuban debt prices climbed rapidly during the second half of 1993, the bid-asked spread narrowed to under one percent of face value, indicating increased demand. The spread opened up to its widest point—four percent of face value—following the 1994 Mexican financial meltdown as investors worldwide panicked and sold emerging market debt. Throughout 1996, the bid-asked spread has maintained a constant two percent of face value.

WHY DO INVESTORS BUY CUBAN DEBT?

Due to the lack of a Cuban stock market, direct equity investment is not possible in Cuba. Cuban debt thus offers investors the potential to enjoy significant capital appreciation as an equity-proxy. Cuban debt is usually a long-term hold position, held in the context of an emerging market debt portfolio.

Other reasons why investors buy Cuban paper include the possibility of a debt-equity swap, increased debt price through a successful debt restructuring, and price appreciation following rapprochement with the U.S. and a lifting of the embargo.

33. *The New York Times* (March 31, 1996).

RECENT FINANCINGS

Cuba currently has a modest short-term credit line with France of $150 million.[34] French banks and trade houses agreed to prefinance inputs for the 1995/96 sugar crop. This deal, which is worth over $100 million, must be repaid with proceeds from sugar sales.[35] The Dutch ING Bank, Britain's ED&F Man Sugar, and Vitol, the Anglo-Dutch company, also helped fund Cuba's 1995-96 sugar crop and are expected to provide credits for the 1996-97 harvest.[36] Short-term financing to Cuba is not without risks. On September 19, 1995, *The Financial Times* reported that most of Cuba's hard currency earnings from its sugar harvest were targeted to pay off its short-term debt payments, leaving Cuba with a shortage of hard currency to pay for imported fuel and basic foods.

FINAL THOUGHTS

As to Cuba's future, at least this much is known: relations between the United States and Cuba remain the key to positive change on the island. This is because of the proximity of the U.S. to Cuba, the vast size of its markets, and its influence on world affairs. Pressure is being exerted now, by the U.S. government and by prominent groups within the Cuban-American community, for Cuba to go the way of a free-market democracy.

When will a major change will occur in Cuba? No one can say for sure. In the late 1980's, as the regimes of eastern Europe toppled like dominoes, it was popularly believed that the regime in Cuba too would fall. This seemed sensible, given the importance of the Soviet Union's subsidies to Cuba's economy.

The Berlin Wall fell in 1989. Seven years later, in 1996, and Fidel Castro is still in power. One current joke is that the Cuban government has already fallen—its demise is tied up in the Cuban bureaucracy. So much for sensible predictions. Certainly the bond market is a good way to monitor future expectations, but when it comes to predictions, it is not infallible. Cuban debt speculators, beware!

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34. *Columbia Journal of World Business* (March 22, 1995).
35. The Economist Intelligence Unit, Country Profile: Cuba, 1995-96.
36. Bloomberg Business News, June 5, 1996.

Appendix—Castro Government Cuban Debt Prices as a Percent of US$

Date	D Mark Bid	D Mark Offer	Yen Bid	Yen Offer
7-Jan-93	9.500	10.500		
4-Feb-93	8.250	9.750		
4-Mar-93	8.250	9.750		
1-Apr-93	8.500	8.750		
6-May-93	8.625	8.875		
3-Jun-93	9.500	10.250		
1-Jul-93	11.500	12.750		
5-Aug-93	16.000	18.000		
2-Sep-93	18.750	19.750		
7-Oct-93	20.375	21.375		
4-Nov-93	23.250	25.250		
2-Dec-93	25.500	26.500		
6-Jan-94				
3-Feb-94	32.500	33.500		
10-Mar-94	28.500	30.500		
7-Apr-94				
5-May-94	23.000	25.000		
2-Jun-94	19.500	21.500		
7-Jul-94	20.500	23.500		
4-Aug-94	18.000	21.000		
1-Sep-94	18.500	19.500		
6-Oct-94	22.000	24.000		
3-Nov-94	22.000	24.000		
1-Dec-94	21.500	23.000		
5-Jan-95	19.000	21.000		
2-Feb-95	17.000	19.000		
2-Mar-95	13.000	16.500		
6-Apr-95	12.000	16.000		
4-May-95	12.000	16.000		
1-Jun-95	14.500	16.500		
6-Jul-95	18.000	20.000		
3-Aug-95	19.500	21.500		
7-Sep-95	20.500	22.500	15.500	16.500
5-Oct-95	22.000	24.000	16.000	17.000
9-Nov-95	22.500	24.500	16.000	17.000
14-Dec-95	21.000	23.000	16.000	17.000
4-Jan-96	21.000	23.000	16.500	17.000
1-Feb-96	21.500	23.500	16.500	17.500
7-Mar-96	20.000	22.000	16.000	16.750
4-Apr-96	19.000	21.000	15.000	15.750
2-May-96	18.000	20.000	15.250	16.000
6-Jun-96	17.000	19.000	14.000	15.000
4-Jul-96	18.000	20.000		