

COMMENTS ON

**“A Conceptual Sketch of the New Financial
and Development Institutions for the Cuba in Transition
and the Future Cuba” by Alberto Luzárraga**

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Mr. Luzárraga's paper presents a sketch of the financial and developmental problems facing the post-Castro Cuba and makes a number of proposals to address these problems. The paper touches upon many important issues including the importance of creating an efficient financial system in Cuba, the promotion of capital markets, the establishment of a viable social security system, and the development strategy for key sectors of the economy. There is much I agree with in Mr. Luzárraga's paper and given the limitation of time, I will limit my remarks to areas of the paper that I feel should be highlighted or where some of the conclusions of the paper can be questioned.

In analyzing the problems of the public finances and the role that a central bank can play in a post-Castro Cuba, I would have stressed more the limitations that a central bank has in providing financing to the public sector. At the outset the basic objectives of the central bank should be to protect the value of the currency and its international reserves to ensure that an appropriate framework of price and external stability is fostered under which economic development can occur. It might be unavoidable that the central bank provide credit to the public sector for a transitional period, particularly if the central bank continues to receive most of the deposits of the financial

system. However, this should not detract from serious efforts to strengthen the finances of the public sector which is one of the major challenges facing Cuba today.

Mr. Luzárraga proposes that initially in the reconstruction period we must be prepared to accept the coexistence of private banks with certain specialized entities necessary for the reconstruction process. Some of the possibilities that the author discusses are a housing bank, an agricultural bank, and an industrial bank. He feels that the need arises because many of the risks with granting credit in Cuba will not be suitable for private commercial banks due to the lack of credit records, legislation, courts, etc. I am not sure, however, that the creation of state banks is the solution to these problems even with private individuals in their board of directors. A fear I have is that these institutions tend to perpetuate themselves, are not usually transitory as Alberto envisages them, and can be the source of corruption. An alternative that should be given serious consideration is establishing portfolio requirements for private banks for an initial period to try to channel credit to some socially desirable endeavors. The availability of official or multilateral credits from abroad could also make possible

1. The views expressed herein are those of the author and in no way represent the official views of the International Monetary Fund.

on-lending operations through private banks without necessarily creating state banks.

The author emphasizes that banking licenses have to be given out with very strict criteria, while allowing a wide range of action for banks. I believe that we can support this proposal and that it has to be accompanied by a modern banking supervision which emphasizes the valuation of the loan portfolio of banks and that ensures that banks are appropriately capitalized. I agree with the author that deposit insurance is not

substitute for properly capitalized and well run banks. Deposit insurance has to be limited to a reasonable amount per depositor per financial institution taking into account the income per capita level of the country and the size of the financial market. In this context, I agree with the author that it would be better for Cuba if a strategy is designed to allow the operation of both foreign banks and domestic banks. Competition on this sector would be very important to ensure that credit is available at reasonable costs.