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**FOR
AGENDA**

EBS/60/23

CONFIDENTIAL

March 8, 1960

To: Members of the Executive Board

From: The Secretary

Subject: Cuba - Postponement of Repurchase

The attached request from Cuba, together with the staff's analysis and recommendation, is circulated for consideration by the Executive Directors at the meeting scheduled for Friday, March 11, 1960.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Request by Cuba for Postponement of Repurchase

Prepared by the Western Hemisphere Department

(In Consultation with the Legal Department
and the Office of the Treasurer)

Approved by Jorge Del Canto

March 7, 1960

The Government of Cuba has requested a deferment of one and one half years of the repurchase schedule agreed by the Fund on April 13, 1959 (EBM/59/10, April 13, 1959). The letter from the President of the National Bank of Cuba is attached to this memorandum.

The repurchase commitment arose from a drawing by Cuba of \$25 million on September 12, 1958. Cuba's request for the drawing, which represented 50 per cent of Cuba's quota, included an undertaking by Cuba to repurchase not later than six months after the date of the purchase (EBM/58/44, September 10, 1958). Subsequently, at the request of Cuba, the discharge of the repurchase undertaking was deferred temporarily until the return of a staff mission simultaneously requested by the Cuban authorities (EBM/59/9, March 25, 1959). After the return of this staff mission, the Board of Executive Directors approved Cuba's request that the repurchase commitment be changed into a fixed repurchase schedule calling for five semiannual payments of \$5 million each, beginning on March 12, 1960 and ending on March 12, 1962 (EBM/59/10, April 13, 1959).

The deferment of the repurchase schedule agreed in April 1959, which the Government of Cuba now requests, would provide for the first installment to be paid three years after the drawing and for the repurchase to be completed five years after the drawing. In their request, the Cuban authorities have cited the low level of reserves and the continued payments difficulties experienced by Cuba as a reason for their inability to repurchase in accordance with the three first maturities under the repurchase schedule established in April 1959.

According to the information available to the staff, Cuba incurred in 1959 a balance of payments deficit of about \$25 million. The total value of exports in 1959 was \$660 million, which represented a reduction of 14 per cent from their 1958 value. The f.o.b. value of imports in 1959 was \$670 million, which also represented a reduction of 14 per cent from their 1958 level.

Cuba's net gold and foreign exchange reserves as of the end of 1959 amounted to \$41 million, which is about 5 per cent or 6 per cent of normal annual imports. The National Bank's gross gold and foreign exchange reserves amounted to \$257 million at the end of 1959, and of these reserves an amount of \$188 million was pledged as collateral against credit received in previous years from foreign banks. The foreign liabilities of the National Bank and those of the other government banks guaranteed by it amounted to \$215 million (including the \$25 million liability to the Fund) on December 31, 1959. An amount of about \$110 million of these foreign liabilities is payable in 1960.

The present level of Cuba's disposable gold and exchange reserves is very low and some time will be required to restore these reserves to an adequate level. In view of these considerations, the following decision is recommended for the consideration of the Executive Board:

The Government of Cuba has requested postponement of a repurchase commitment calling for five semiannual payments of \$5 million each, beginning on March 12, 1960 (EBM/59/10, April 13, 1959). The Government of Cuba proposes to discharge the \$25 million repurchase commitment by five semiannual payments of \$5 million each, beginning on September 12, 1961. The Fund agrees to the proposal.

The President of the
Banco Nacional de Cuba

Havana, March 4, 1960
"YEAR OF THE AGRARIAN REFORM"

Mr. Per Jacobsson
Managing Director
International Monetary Fund
19th and "H" Streets, N.W.
Washington 25, D.C.

Dear Sir:

In March 1959 the Banco Nacional de Cuba and the International Monetary Fund agreed on a schedule for the repurchase of \$25 million Cuba drew from the Fund in September 1958. The arrangement called for repayments of \$5 million at intervals of six months beginning March 12, 1960.

At that time it was noted that Cuba's situation was such that a longer settlement period might well be advisable. Since the reserve position, instead of improving, has worsened despite the efforts made to avoid it, I propose that the entire schedule of repurchases be postponed for a period of eighteen months, thus providing the necessary accommodation while the efforts toward improving the Cuban exchange position are being continued.

According to the suggestion made above, the first payment would be due September 12, 1961, the modified schedule of payments being set up as follows:

September 12, 1961	\$5 million
March 12, 1962	\$5 million
September 12, 1962	\$5 million
March 12, 1963	\$5 million
September 12, 1963	\$5 million
	<u>\$25 million</u>

I hope this proposal will be acceptable to the Fund.

Very truly yours,

/s/

Dr. Ernesto Guevara Serna