FOR
AGENDA

EBS/60/66

CONFIDENTIAL

June 27, 1960

To: Members of the Executive Board

From: The Secretary

Subject: Cuba - Exchange Measures

The attached memorandum is circulated for consideration by the Executive Directors at an early meeting.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Cuban Exchange Measures

Prepared by the Exchange Restrictions Department
and the Western Hemisphere Department

(In consultation with the Legal Department)

Approved by Irving S. Friedman and Jorge Del Canto

June 27, 1960

1. Introduction

Cuba accepted the obligations of Article VIII, Sections 2, 3 and 4, in December 1953. In 1952 and in the five years 1954-1958, Cuba incurred large balance of payments deficits, in part attributable to reduced sugar export earnings, but mainly caused by excessive domestic expansion. With these balance of payments deficits, Cuba's official net foreign reserve position deteriorated from about $500 million at the end of 1951 to $72 million at the end of 1958.

At the beginning of 1959 measures were taken to prevent capital flight and tighter surrender requirements for export proceeds were established. Moreover, license requirements were introduced for many import commodities, but these requirements were initially said not to be administered in a restrictive manner. In September 1959 the Government of Cuba requested Fund approval under Article VIII for exchange surcharges applicable to import payments representing about 15 per cent of Cuba's total import value in 1958 at rates of 30 per cent, 40 per cent, 60 per cent, 80 per cent, and 100 per cent. The Fund granted the requested approval on a temporary basis until June 30, 1960 (EBM/59/38, September 24, 1959, as amended in EBM/59/39, October 5, 1959). This decision was as follows:

> "1. Cuba has requested Fund approval for the introduction of exchange taxes of from 20 per cent to 100 per cent on five categories of imports.
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> "2. Cuba is experiencing balance of payments difficulties. The Fund notes that the proposed taxes are one of the measures being adopted by the Cuban authorities to deal with these difficulties and that they state that this measure is intended to be provisional.
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> "3. The Fund does not object to the introduction of these exchange taxes and to their maintenance until June 30, 1960. The Fund will have further discussions with Cuba about these taxes and related matters before that date."

New regulations relating to controls on invisible payments and import licensing were issued on December 4, 1959. The Executive Directors were notified of these changes, on the basis of the information then available to the staff (SM/60/10, February 19, 1960).

Pursuant to the decision taken by the Executive Board on September 24, 1959, the Fund invited the Government of Cuba to enter into consultations concerning the exchange surcharges and other measures subject to Article VIII. These consultations were held in Washington from June 21 through June 24, 1960. Cuba was represented in these discussions by Mr. René Monserrat, the Director of Research of the National Bank of Cuba. This memorandum and the recommendation are based on these conversations.

2. Fund relations with Cuba

Cuba is an original Fund member. The initial par value of one Cuban peso per U.S. dollar has remained unchanged. Cuba assumed the obligations of Article VIII in December 1953. The Fund had authorized Cuba, under Article VIII, to maintain a tax of 2 per cent on most exchange remittances.

Cuba entered the Fund with a quota of $50 million, which is still the effective quota. Cuba consented to a quota increase to $100 million under the Fourth Resolution of the Board of Governors on Increases in Quota, but has not yet paid its additional subscription.

Cuba made use of the Fund's resources in 1956, 1957 and 1958. In December 1956 Cuba made its first purchase from the Fund in an amount of $12.5 million; at the same time, Cuba entered into a six-month stand-by arrangement for the first credit tranche of $12.5 million, and in September 1957 drew $10 million under that stand-by arrangement. Cuba repurchased the equivalent of $22.5 million in June and July 1957. In November 1957 Cuba purchased $25 million and repurchased that amount in May 1958. Cuba's latest use of the Fund's resources was a purchase of $25 million in September 1958, with an undertaking to repurchase this amount within six months. Subsequently, the discharge of the repurchase undertaking was at Cuba's request 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 the 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, with the first payment due on March 12, 1960, and the last payment due on March 12, 1962 (EBM/59/10, April 13, 1959). Before the first payment under that repurchase schedule fell due, the Board of Executive Directors approved Cuba's request for a further postponement of repurchase by changing the initially agreed repurchase schedule to one calling for five semiannual payments of $5 million each, with the first payment due on September 12, 1961 and the last payment due on September 12, 1963 (EBM/60/9, March 11, 1960).

3. Financial developments

As previously indicated, Cuba lost about $425 million in net foreign reserves over the seven years before the present Government came into power. Although in the early years of that period the main cause of the reserve drain was a sharp reduction in export earnings, the principal factor in the persistent deterioration of the exchange position in the latter part of this period was an excessively expansionist credit and fiscal policy.

Soon after the new Government came into power it suspended most of the costly public works projects inherited from the predecessor Government which had not been completed. Moreover, one of its early major economic measures was a fiscal reform which simplified the tax structure and increased the tax yield. However, the cessation of public works, the effect on private construction activity of a sharp reduction in rents decreed by the Government, a reduction of other private investment activity, and a loss of more than $100 million in export income compared with 1958, depressed the level of economic activity and restricted employment opportunities. In the face of these developments, the Government undertook new public works in the latter part of 1959, and stimulated a fuller use of existing productive facilities. With these measures, a real national income growth of about 2-1/4 per cent was reportedly achieved in 1959. The 1959 real national income was still significantly lower than its peak level in 1957, after it had declined rather sharply in 1958. However, the large public expenditures were responsible for a substantial budgetary deficit which for fiscal 1959-60 is estimated to be about $200 million.

Total bank credit (excluding credit of the government banks) expanded in 1959 by 15 per cent, which was a slightly smaller credit expansion in percentage terms than in 1958. All of the credit expansion in 1959 originated with the National Bank. Total National Bank credit expanded in 1959 by 55 per cent, as compared with a 33 per cent expansion in 1958. Of the $200 million central bank credit expansion in 1959, $150 million went to the public sector, roughly the same absolute amount as in 1958.

Total money and quasi-money (excluding the obligations of the government banks to the private sector) expanded in 1959 by 6 per cent, which was significantly in excess of the estimated national income growth. Unlike 1958, when money did not expand but private time and savings deposits increased by 11 per cent, such deposits declined by 19 per cent in 1959, while money expanded by 18 per cent, with the bulk of the monetary expansion occurring in the second half of the year.

The Cuban representative indicated that the decline in time and savings deposits reflected uncertainties regarding future government policy with respect to such deposits as well as an increased preference for cash on the part of the public. According to him, the changes introduced in the agricultural sector plus the redistribution of incomes that had occurred had resulted in a further monetization of the economy. Other factors responsible for the increased preference for liquid assets were the decline in inventories and capital flight. The internal price level apparently did not increase in 1959. Extensive price controls were introduced during that year.

The net official foreign reserve position deteriorated further in 1959, but the net foreign reserve loss of about $25 million in 1959 was moderate compared with the record loss of $180 million in 1958. However, the real balance of payments deficit in 1959 was probably larger than indicated by the deterioration in the net official foreign reserve position because of the accumulation of commercial arrears.

The relative balance of payments improvement in 1959 was achieved, in spite of a decline of about $105 million, or 14 per cent, in total export earnings below their already reduced level in 1958, by stopping capital flight and reducing other foreign payments. It is estimated that the net capital flight in 1958 may have been of the order of $100 million. The value of f.o.b. imports in 1959 was 14 per cent smaller than in 1958, when it was already 19 per cent below the peak level of 1957.

The Cuban representative stated that exchange surcharges were not a major factor in the further import reduction in 1959, since these taxes came into effect late in the year and were applied only to goods which constitute less than 2 per cent or 3 per cent of the 1959 value of imports. He ascribed the decline in imports mainly to the decline in economic activity in the first half of the year and the effectiveness of the government campaign to discourage purchases of certain types of foreign durable goods. During the first quarter of 1960, bank financing of the public sector continued to exert inflationary pressures, and direct restrictions of import demand have been tightened in this period. The Cuban representative stated, however, that greater financial restraint has been observed more recently. In the first half of 1960, the net official foreign reserve position improved by about $150 million. At least part of this improvement is of a seasonal character, but in the corresponding period of 1959 the net foreign reserve position improved by less than $50 million.

In the fiscal field, a basic tax reform was, as already mentioned, introduced in 1959. This tax reform is likely to have a considerably larger effect on tax yields in 1960 than it had in 1959. On the expenditure side, a Central Planning Board was established to screen the expenditure programs of the various government departments. The Cuban representative stated that the recent reorganization of official institutions, including the government banks, was regarded as another step toward more effective control of total public sector expenditures. The Government also intends to cut substantially the salaries of government employees when the new budget takes effect on July 1, 1960. With these measures, the Government hopes to achieve independence of the public sector from bank borrowings by the end of 1960. The Cuban representative was not able to give any specific information on the next budget which will cover only the second half of 1960. In view of the lack of information on the Government's finances, as well as the other domestic policies which the Government is contemplating, it does not appear likely that the objective of budgetary balance will be achieved.

According to the Cuban representative, the Government has adopted various other measures to mobilize domestic savings and to insure that the official institutions will finance themselves through noninflationary methods. The trade unions have agreed that workers will contribute 4 per cent of their wages to buy industrial development bonds issued by the National Institute for Agrarian Reform. The system of contributory retirement funds has been extended and at present all workers have to contribute about 5 per cent of their wages toward retirement benefits. Considering that taxes on wages and salaries absorb about 3 per cent of the income of wage earners, it would appear that in these different forms workers are currently contributing through direct taxes, retirement contributions and savings about 12 per cent on the average of their incomes.

In the field of wage policy, the Government has, in addition to the measures affecting wage earners described above, decreed the freeze of all wages and salaries.

In the field of credit policy, various quantitative and qualitative credit control measures were introduced in early 1960. Commercial banks were directed not to expand credit to the private sector by more than 10 per cent over the December 1958 level. Certain types of credits, such as the financing of imports subject to surcharges and installment credit financing, were prohibited. Specific limits were established on certain other types of credits, such as for oil imports.

In January 1960, the basic rediscount rate of the National Bank was raised from 5 per cent to 6 per cent, and commercial banks were directed to raise their lending rates for most commercial loans from 6 per cent to 7 per cent. The staff has also been told that the rediscount policy of the National Bank was made more restrictive and selective, with a view to encouraging the diversion of credit to agriculture and other productive fields. The Cuban representative indicated that the above-described selective and quantitative controls made it difficult for the commercial banks to reach the 10 per cent ceiling. Consequently, there was a reduction of almost 15 per cent in commercial bank credit to the private sector in the first quarter of 1960.

4. Developments in the restrictive system

At the end of 1958 Cuba began to establish controls on foreign transactions; these have been progressively intensified over the last 18 months. Initially only capital controls were introduced. After the new regime took over in early 1959, the controls were intensified; they were made more detailed in January, April, and August 1959 when over-all ceilings were established for certain invisibles and other transfers abroad. In September 1959 exchange surcharges ranging from 30 per cent to 100 per cent were applied to imports of luxury and semiluxury goods, amounting to about 15 per cent of total 1958 imports. The surcharges were given temporary Fund approval on September 24, 1959 (EBM/59/38) until June 30, 1960. On December 4, 1959, all imports were made subject to prior license, limits were established on payments for certain invisibles, and all other invisible payments were made subject to prior approval. Full surrender requirements applied to all exchange proceeds. In early 1960, Cuba increased considerably its reliance on bilateral trade and payments agreements by concluding agreements with four Soviet bloc countries. A detailed description of the Cuban restrictive system is given in the Appendix. A summary of the present system, based on the staff discussions with the Cuban representative, is given below.

a. Exchange rate system

The par value is one Cuban peso per U.S. dollar. Multiple currency practices arise from a 2 per cent tax on most payments and transfers abroad, and five exchange surcharges (30 per cent, 40 per cent, 60 per cent, 80 per cent, and 100 per cent) on the f.o.b. value of payments for imports of luxury and semiluxury goods. The Cuban representative indicated that there has been no change in the import surcharges, or in the commodities included in the various surcharge categories, since these were introduced in September 1959.

The exchange surcharges were originally established mainly to restrict import demand but the Cuban representative stated that their present function is purely a fiscal one since the restrictive function is now performed by quantitative restrictions; this is indicated by the fact that licenses for only $5 million of goods subject to surcharges have been issued since September 1959. On an annual basis, imports of these goods may now run at a rate as low as 2 per cent or 3 per cent.

The Cuban authorities indicated that the exchange surcharges are regarded as a temporary measure necessary to obtain urgently needed revenues. Originally it was the intention of the authorities to absorb these surcharges in a revised tariff, but the Cuban representative indicated that, at present, there seemed little likelihood that negotiations for a revised tariff could be held in the near future.

b. Import licensing

All private imports are subject to licenses. For the purpose of import licensing, imports may be classified into three broad categories: (1) nonessential imports, (2) imports for which licenses are issued on a restrictive basis for protective reasons, and (3) all other imports. Licenses for Category 1 imports are, in general, severely restricted and subject to surcharges; licenses for Category 2 imports are generally issued in relation to availability of supplies in the domestic market; and for Category 3 imports, licenses are in practice said to be issued freely, provided they are not for speculative build-up of inventories and provided that the terms of payment are not deemed by the authorities to involve a capital flight. In granting licenses there is no discrimination based on country of origin or the currency used for payment (see Appendix for details).

The criteria for the issue of licenses are said to be to restrict as far as possible nonessential imports, to protect local production and to prevent capital flight. In a broad sense, however, over-all balance of payments considerations seem to govern licensing policy.

Following the establishment of the licensing system in December 1959, considerable difficulties were experienced in the initial stages in the smooth operation of import controls. The staff representatives were informed that difficulties in recruiting competent personnel and other administrative bottlenecks were responsible for some delays in licensing procedures in the initial stages, however, at present the time period involved for licenses which are granted does not exceed 3-4 days for most imports. Where a license is not granted, there is no outright refusal but simply indefinite delay.

Future policy with respect to import licensing is currently being studied in the light of possible alternatives. The Cuban representative indicated, however, that the authorities looked upon the economy as being in a state of national emergency close to a state of war. In view of this situation, there was pressure to cut down on all nonessential imports and to save foreign exchange.

The staff was informed that the application of controls has resulted in the accumulation of certain arrears. These fall into three groups: (1) those relating to imports made in 1958, (2) those relating to imports (except petroleum) contracted in the few months before December 4, 1959, and (3) petroleum arrears. As regards the first group, the Cuban representative explained that before December 1958 there was no exchange control for current payments and during 1959 some traders presented import documents for approval of payment which the authorities believed had already been fully paid for. Unless these were proved to be bona fide payments, they would not be sanctioned. The second group reflected a backlog of payments falling due in the last quarter of 1959 and in early 1960, due to imports made before the licensing system was introduced.

This delay was due to the fact that in this period the authorities were facing difficult administrative problems, foreign exporters were curtailing commercial credit facilities, and in general the pressure of events did not allow enough time to study these transactions. The authorities believed, however, that a significant element of capital flight was included in these payments. The present policy was to pay quickly all arrears due to importers who were not branches, subsidiaries, distributors or agents of parent firms abroad. So far, arrears of this group of importers had been substantially cleared up. In the case of other firms, arrears are being cleared on a monthly basis.

As regards petroleum arrears, which are the largest in amount, the Cuban representative stated that the Government recently reached an agreement on the payment of its arrears with the three oil companies involved. The Cuban representative added that there were no arrears, except for petroleum, relating to imports contracted after the introduction of import licensing.

c. Invisibles

All invisibles are subject to scrutiny by the authorities. Certain transactions (e.g., travel funds, remittances abroad for family subsistence up to $150) do not require prior approval of the Monetary Stabilization Fund itself, but detailed information must be furnished about these transactions. For all other invisibles (profits, dividends, commissions, film rentals, etc.) prior approval is necessary (see Appendix for details).

The Cuban representative indicated that the controls on invisibles were designed merely to stop capital flight and were not intended to restrict current payments. Permission is granted quickly for invisible payments incidental to trade, such as shipping and insurance. Remittances for interest and royalties are in practice said to be freely permitted but profit transfers are carefully scrutinized in order to prevent unauthorized capital movement. This frequently results in long delays. The Cuban representative stated that requests for exchange on account of invisibles are generally sanctioned if considered "bona fide" and "reasonable". In addition, the Cuban representative stated that there was no discrimination in the controls applied to invisible payments.

Certain other nontrade payments, e.g., amortization for investments, are not at present authorized.

The Cuban authorities feel that the need for controls on invisibles would remain as long as there was a danger of capital flight which, in turn, was affected by the social revolution which the country was currently experiencing.

d. Bilateralism

In 1960, Cuba concluded new trade and payments agreements with four Soviet bloc countries: U.S.S.R., Eastern Germany, Poland, and Czechoslovakia. Cuba has also maintained a bilateral trade and payments agreement with Spain since 1953. The agreements provide for a central account denominated in dollars, and for swing credit facilities. Only state trading between the bilateral partners is contemplated under the agreements with the Soviet bloc countries.

The Cuban authorities believe that the new bilateral agreements may change the pattern of Cuban trade, and eventually they would lead to a substantial net expansion of exports. Through these bilateral agreements, the Government is attempting to increase sugar exports to countries which could substantially increase their net sugar consumption. As a result of these agreements, Cuba expects to export to its bilateral partners a very substantial share of its total world free market quota under the International Sugar Agreement. According to the Cuban authorities, this would represent a net increase in world sugar consumption and trade since these Soviet bloc countries were previously not consuming as much sugar.

The Cuban representative stated that there was no discrimination involved in these agreements since the Cuban authorities were determined to import from bilateral partners only if the goods were competitive on quality and price terms. The Government had announced this as its firm policy in view of the fact that these agreements had aroused considerable public discussion.

The Cuban representative expressed awareness that certain other countries which had entered into similar agreements had become unduly dependent on bilateral trading and had been compelled to accept very unfavorable terms of trade. However, he maintained that this was so far not the case with Cuba, and that if in the future it appeared that imports from bilateral partner countries were not competitive, the agreements would probably be revised.

On the Spanish bilateral payments agreement, the Cuban representative stated that the Spanish market was a very strategic market for Cuban tobacco, and the concessions which Cuba obtained in this respect were dependent on the existence of the bilateral agreement.

e. State trading

The extent of state trading has increased substantially in Cuba. The imports subject to state trading so far are grains, beans and rice. Of the exports, the Agrarian Reform Institute has had so far a monopoly of the export of tobacco, coffee, meat and eggs. In addition, the Sugar Institute exports directly a large share, approximately two thirds, of total sugar exports. A Foreign Trade Bank was established recently; it will be the agent of the Government for trading purposes and might take over certain parts of private import trade. Its policies have not yet been fully determined. The Cuban representative foresaw some further increase in the extent of state trading.

The Government of Cuba has declared that one of the reasons for the exchange and import restrictions which are being applied is to protect the balance of payments and that they are imposed for a temporary period until such time as Cuba emerges from its present payments difficulties. In this context, it is noted that since the beginning of this year reserves have increased, partly seasonally. The Government of Cuba has adopted several measures in the fiscal and credit fields which have been designed to bring about an improvement in the country's internal and external financial situation. On the other hand, in the present emergency and in view of the desire to carry out a program of drastic reforms, the Government of Cuba has so far been unable to avoid domestic monetary expansion. The staff does not have sufficient information to form a judgment with regard to the Government's financial position and the budget for the second half of 1960. Similarly, other factors affecting the balance of payments outlook are inadequately known at this time. While the Government has indicated that it intends to achieve budgetary balance by the end of 1960 there is not enough evidence to indicate that this goal will be reached. In addition, further disinflationary measures seem likely to be needed to make possible an elimination of existing restrictions.

The difficulty in coming to a conclusion in this case arises from the fact that from the viewpoint of current payments there are many unknown factors with regard to the actual implementation of the extensively restrictive system now in force in Cuba. It is also difficult to judge to what extent the exchange practices are likely to be temporary or not. There are, it seems, conflicting factors influencing the development of the situation. That being the case, the Cuban authorities should be urged to proceed vigorously with measures that will make possible the early elimination of the exchange practices. Until the situation becomes clearer, no further action is recommended which means that under existing circumstances the required approval cannot be recommended.

The following decision is recommended for consideration by the Executive Board.

> Cuba has consulted with the Fund with respect to its existing exchange practices. The Fund notes that Cuba maintains exchange practices constituting restrictions on current payments and transfers and multiple rates requiring Fund approval. The Fund believes that the early elimination of these practices is desirable and therefore urges the adoption of measures which will remove the need for such practices and make possible their elimination.

The Restrictive System[1/]

1. Exchange rate system

The par value is Cuban pesos 1.00 = US$1. Multiple currency practices consist of a 2 per cent tax on most payments and transfers, and five exchange surcharges ranging from 30 per cent to 100 per cent of the f.o.b. value on payments for imports of luxury and semiluxury goods.

2. Administration of controls

The Central Planning Board recently established general directives for the issue of import licenses. These directives are implemented by the Monetary Stabilization Fund and, on behalf of the latter, by the Exchange Department of the National Bank. The Monetary Stabilization Fund, the administration of which is entrusted to a committee consisting of the Minister of Finance, the President of the National Bank, and the Director of the Stabilization Fund, operates the exchange control directly or through the National Bank and other authorized banks.

3. Prescription of currency

All exchange proceeds must be in convertible currencies, except that: (1) under the terms of a payments agreement with Spain concluded in 1953, settlements between Spanish and Cuban residents are made through clearing accounts expressed in Cuban pesos; (2) settlements with Czechoslovakia, Eastern Germany, Poland, and the U.S.S.R. are made through bilateral agreement accounts kept in U.S. dollars. Payments to residents of Mainland China and North Korea must be made by bank transfer through a bank located in the United States.

4. Nonresident accounts

Nonresident accounts in pesos or foreign currencies, may be opened and operated only with the prior authorization of the Monetary Stabilization Fund. The sums deposited in these accounts may be used only for expenditures in Cuba. No transfer abroad is permitted.

5. Imports and import payments

a. Current imports

The newly established Foreign Trade Bank has the monopoly of imports of grains, beans, and rice, and of all government imports, including all imports effected under bilateral agreements with Eastern European countries.

1/ Some of the statements made in the description of the restrictive system, particularly those relating to the application of recently introduced controls, are based on information provided by the Cuban representative.

Imports of those goods subject to State Trading are effected when they are competitive on quality and price terms.

All private imports are subject to license. For the purpose of import licensing, imports may be subdivided into three broad categories:

(1) Nonessential imports

These represent imports which are currently subject to surcharges. There is a general directive from the Central Planning Board to restrict severely such imports. For a few items in this category, however, licenses are issued rather liberally. During 1958 these imports represented about 15 per cent of total imports. In 1959 they declined to about 10 per cent of the total, and it is estimated that in 1960 they may fall to a level as low as 2 per cent.

(2) Imports for which licenses are issued on a restrictive basis for protective reasons

These include imports of textiles, confectionery, wearing apparel, wood, paper, plastics, metals and metal manufactures, soaps, and so forth. In the case of these goods licenses are issued in relation to availabilities in the domestic market.

(3) All other imports

These include foodstuffs, beverages, raw materials, machinery and equipment. Licenses for these imports are in practice issued freely provided that they are not for speculative build up of inventories, and provided that the terms of payment are not deemed by the authorities to involve a capital flight.

The Exchange Department of the National Bank in deciding whether or not to grant an import license for goods subject to restrictions not for protective reasons, follows the general directive of the Central Planning Board to save as much as possible foreign exchange. There is no exchange budget, nor is there a predetermined figure either for total import licenses, or for import licenses of certain groups of commodities.

The import procedure, although not strictly formalized, involves the following. An importer applies for an import license at an authorized bank, which transmits the application to the Exchange Department of the National Bank. The Exchange Department examines the application, and if it decides favorably, it grants the licenses within a period of about two days in the case of essential food items and raw materials, and within about four days in all other cases. If the licenses are not granted, there is no outright rejection of the application which thus remains formally pending.

In granting import licenses there is no discrimination based on country of origin or the currency used for the payment.

An importer may not conclude an import contract before having obtained the import license.

The import license does not carry the right to obtain foreign exchange. Application for foreign exchange to pay for approved current imports, however, are processed without restriction or delay. In fact payments are usually made on the basis of (1) letter of credit, (2) open account, and (3) commercial drafts. In the case of imports on a letter of credit basis, the importer applies for the import license as well as the authorization for opening a letter of credit, at the same time. After the commercial bank presents the documents to the National Bank for verification, the transfer may be effected.

In the case of imports on open account, the importer obtains authorization for imports according to the terms involved. On the completion of the terms, the importer requests authorization for the payment, which is given after verification by the National Bank. An identical procedure is followed in the case of imports financed by commercial drafts.

Payments for imports of certain luxury and semiluxury goods are subject to exchange surcharges, calculated on the f.o.b. value of the import at port of origin, as follows:

Category 1 (frozen foods, fresh fruit, fruit juices, prepared meats, etc.): 30 per cent

Category 2 (mineral water, beer, wine, perfume, electric typewriters, calculating machines, other office equipment): 40 per cent

Category 3 (gasoline and diesel motors, air conditioning units of less than 2 horsepower and various other electrical appliances, television sets with 17-inch screens or smaller, automobiles with a factory value of not more than $750, low-priced photographic equipment, record players with a factory price of not more than $75, tape recorders, etc.): 60 per cent

Category 4 (china and porcelain articles, refrigerators and freezers, television sets with screens larger than 17 inches, cameras with a factory value of more than $20, automobiles with a factory value of more than $750 but not more than $2,300, wood, aluminum, and bamboo furniture, etc.): 80 per cent

Category 5 (jewelry, precious stones, automobiles with a factory value of more than $2,300, light airplanes, fancy leather goods, etc.: 100 per cent.

Imports from Spain (with which Cuba has a payments agreement) may be cleared only upon the presentation of an authorization from the Monetary Stabilization Fund.

b. Past imports

There are pending applications for payments for imports effected at various dates in the past.

(1) Application for about $10 million refer to imports effected in 1958 before controls were introduced. Unless it is fully proved that these are bona fide payments the transfer will not be allowed.

(2) Applications for about $26 million relate to non-petroleum imports authorized before import licensing was introduced on December 4, 1959. Upon verification that the applications do not involve capital flight, exchange is granted fairly quickly to importers who are not branches, subsidiaries, distributors or agents of foreign firms. So far arrears in this group have been cleared on a chronological basis up to payments due in April 1959. In the case of other firms (which import mainly on an open account basis) arrears will be cleared on a monthly basis. No more detailed information is available.

(3) Applications for about $56 million correspond to payments for petroleum imports effected during 1959 and the first months of 1960. An agreement has been reached recently with three major refining companies on the payment of these arrears. Details are not available.

6. Payments for invisibles

All payments for invisibles are subject to scrutiny by the authorities to insure that no capital movement is involved. Certain transactions do not require approval of the Monetary Stabilization Board, but documentation must be furnished in respect to these transactions, the more important of which are as follows:

(i) Payments to Cuban diplomatic personnel abroad.

(ii) Sales of exchange to foreign diplomatic personnel accredited to Cuba.

(iii) Remittances abroad for family subsistence, limited to $150 per month.

(iv) Travel funds limited to a maximum of $150 per person during a period of 12 months; only one sale may be made without prior permission during the 12-month period. Also the sale of tickets not exceeding $500 covering travel abroad and payable in pesos may be made only once each 12-month period without prior approval of the Fund.

(v) The sale of exchange may be made without prior approval for the purchase of books up to $25 a month, and for payment of subscriptions up to $50 during a period of 12 months.

Invisibles incidental to trade are treated in the same manner as payments for the related trade transactions.

The prior approval of the Monetary Stabilization Fund is required before exchange may be made available for the following transactions, and specific documentation must also be presented to that institution:

(i) Payment of royalties.

(ii) Payment of premiums, commissions, and indemnities under insurance and reinsurance contracts.

(iii) Transfers abroad in payment of freight and passages.

(iv) Payment of freight and other expenses abroad in respect of merchandise imported to Cuba.

(v) Payments for the rental of foreign films exhibited in Cuba.

(vi) Alimony and pension payments abroad to former residents.

(vii) Remittances in payment for tuition and accommodation of Cuban nationals studying abroad.

(viii) The sale of exchange in payment of the services in Cuba of entertainers, musicians or professional athletes, as well as remittances abroad to their families.

(ix) The payment to foreign residents of rents or interest derived from property in Cuba not exceeding $250 monthly. This limit may be exceeded if the total remittance during a period of 12 months does not exceed $750.

(x) Remittances to cover the cost of maintaining offices, branches, or agencies abroad, or for salaries or commissions due to persons resident abroad.

(xi) Remittances to cover loan redemptions and payments of interest due abroad.

(xii) Remittances of dividends and profits.

(xiii) Remittances in payment of amounts due under installment sale contracts if the contracts were signed before January 1, 1959.

(xiv) Payment of commissions to persons resident abroad on the sale of Cuban products.

Transfers for business profits and dividends are subject to careful scrutiny which results sometimes in delays in granting approval which is granted only up to an amount which does not involve capital transfer. It is estimated that applications amounting to not more than $13 million are pending.

Transfers for amortization of capital are not permitted at present.

Foreign persons working in Cuba are permitted to transfer abroad a portion of their salaries and wages according to a formula which is indicated to be fairly flexible.

Persons migrating abroad may not take their assets out of Cuba.

No rules have been established for transfers of inheritances.

Except for transfers of profits, dividends, amortization, salaries, remittances, emigrants' assets, and inheritances which are dealt with as described above, applications for amounts exceeding the established limits, if any, and applications for all other invisible transfers are granted only if they do not involve an element of capital transfer. In the administration of these controls the criterion followed is that the request for transfer must be a "reasonable" one.

Banks are permitted to sell foreign exchange to tourists and other foreign residents just prior to their departure from Cuba, up to an amount of US$200, without obtaining the prior approval of the Stabilization Fund. However, banks may only engage in this transaction if they had previously purchased from the parties a larger amount in the same currency. Sales of exchange in excess of the equivalent of US$200 require prior approval. Not more than US$50 of the funds sold may be in cash.

The export of domestic banknotes is prohibited.

7. Exports and export proceeds

The Sugar Institute is responsible for controlling sugar exports. It assigns quotas to sugar producers on a pro rata basis, in the light of its allocation of sugar for the U.S. market, the free world market, and for domestic consumption in Cuba. These arrangements are made in accordance with the International Sugar Agreement. The Sugar Institute also exports sugar directly, and its share of total sugar exports has been rising recently, and may accordingly be estimated at about two thirds of total exports.

The Agrarian Reform Institute has so far had a monopoly of exports of tobacco, coffee, meat, and eggs. The newly established Foreign Trade Bank is expected to take over these functions.

All other exports do not require a license. The proceeds of all exports must be surrendered to the Monetary Stabilization Fund within three days after collection.

8. Proceeds from invisibles

Exchange earnings from invisibles must be surrendered to the Monetary Stabilization Fund for Cuban pesos within three days after collection. The import of Cuban banknotes is prohibited.

9. Capital

There are no exchange control requirements on incoming capital payments by either residents or nonresidents. Outgoing capital payments of more than US$100 in any six-month period require the Monetary Stabilization Fund's prior approval, the granting of which is subject to indefinite delay.

A 2 per cent exchange tax is charged on the export of capital, on withdrawals of actual U.S. currency from banks in Cuba, even if made from U.S. dollar accounts, and on the export of securities. The tax is refunded when it is proved that the proceeds from the sale of the securities have been returned to Cuba within a specified period of time.

When duly registered with the Monetary Stabilization Fund, capital imported for investment (1) in industrial, agricultural, or other enterprises or undertakings in Cuba, (2) in securities issued by such enterprises, or (3) in securities of the State of Cuba, the Cuban Bank for Agricultural and Industrial Development, or other similar institutions, is exempt from the 2 per cent tax when it is re-exported.

10. Bilateral agreements

Cuba has five bilateral trade and payments agreements, four of which are with Eastern European countries: Czechoslovakia, Eastern Germany, Poland, and the U.S.S.R. These agreements have been concluded during 1960, and their operation has just started. The other agreement is with Spain, and dates from 1953. Payments for transactions under these agreements are effected through clearing accounts which, in all cases, are kept in U.S. dollars. Swing margins amounting to a total of $20 million are provided for in the agreements with Eastern European countries. The main characteristics of the trade agreements with these countries are that Cuba exports to them sugar, tobacco, coffee, some minerals, and other primary products. Cuba imports capital goods and a variety of industrial goods, except in the case of the U.S.S.R. where the trade agreement provides mainly for imports of petroleum and petroleum products, wheat, timber, and a number of other raw materials.

Bilateral Trade and Payments Agreements

(as of June 24, 1960)

Date of Conclusion and Duration	Trade Agreements	Payments Agreements	Commodities Traded
Czechoslovakia Trade and payments agreement signed June 10, 1960. Valid until December 31. 1965. Renewable by agreement of both contracting parties.	Indicative commodity lists.	Settlement through clearing account in U.S. dollars. A swing credit of US$4 million is provided. In case of swing excess, representatives of the contracting parties will meet to liquidate the excess. Such excess may be transferred to the credit of a third party, subject to prior agreement of the contracting parties. Settlement of debt balance at termination of the agreement in merchandise within 15 months. Any remaining balance after that period to be settled by mutual agreement of the parties.	Cuban exports: Iron ore, nickel oxide, electrolytic copper and copper concentrates, manganese, chrome, salted skins, rayon cord for tires, hennequen, tobacco leaf, cigars, cocoa beans, coffee, fresh and preserved tropical fruits, fruit juices, oilseeds, raw and refined sugar, etc. Cuban imports: Installations for steam plants, mineral processing installations, tractor plant installations, diesel motors, trolleybuses, telephone equipment, laboratory equipment, office machines, photographic equipment, automobiles, motorcycles and spare parts, anilin dyes, abrasives, glass and glass products, musical instruments, cotton yarn, phonographs, malt, etc.

Bilateral Trade and Payments Agreements (Cont'd.)

(as of June 24, 1960)

Date of Conclusion and Duration	Trade Agreements	Payments Agreements	Commodities Traded
Eastern Germany Trade and payments agreement signed February 20, 1960. Valid for one year. Tacitly renewable for yearly periods unless terminated on three months' notice.	Indicative commodity lists.	Settlement through clearing account in U.S. dollars. A swing credit of US$3 million is provided. Settlement of debit balance at termination of the agreement in merchandise within 12 months. Any remaining balance after that period to be settled by mutual agreement of the parties.	Cuban exports: Sugar, tobacco, bee honey, coffee, cacao, tripe, pepper and other spices, textile and natural fibers, hides and skins, minerals, tropical and citrus fruit, fruit juices, scrap iron, rayon cord for tires, etc. Cuban imports: complete industrial installations, hardware and metal products, agricultural machinery, printing presses, typewriters, pumps and compressors, machinery for the food, meat and tobacco industries, textile machinery, electric appliances, electric motors, laboratory and x-ray equipment, organic and inorganic chemical products, insecticides, hunting arms and ammunition, glass and glass or ceramic products, livestock for breeding purposes, etc.

Bilateral Trade and Payments Agreements (Cont'd.)

(as of June 24, 1960)

Date of Conclusion and Duration	Trade Agreements	Payments Agreements	Commodities Traded
Poland Trade and payments agreement signed March 31, 1960. Valid for one year. Renewable by exchange of notes 30 days prior to expiration.	Indicative commodity lists, but exchange of goods outside the lists may also take place.	Settlement through clearing account in U.S. dollars. A swing credit of US$3 million is provided. In case of swing excess, representatives of the contracting parties will meet to liquidate the excess. Such excess may be transferred to the credit of a third party, subject to prior agreement of the contracting parties. Settlement of debit balance at termination of the agreement in merchandise within six months. Any remaining balance after that period to be settled by mutual agreement of the parties.	Cuban exports: sugar, green hides, coffee, preserved tropical fruits, rayon cord for tires and textiles, copper, iron, nickel and chrome ores, hennequen, tobacco leaves, cigars, powdered milk, etc. Cuban imports: navigation ships, fishing boats, plants and complete industrial installations, machinery, diesel motors, airplaines, helicopters, construction materials, material for highway construction, textile machinery, laboratory equipment, electrical equipment, etc.

Bilateral Trade and Payments Agreements (Cont'd.)

(as of June 24, 1960)

Date of Conclusion and Duration	Trade Agreements	Payments Agreements	Commodities Traded
Spain Trade and payments agreement signed August 18, 1953. Valid for two years. Renewable by written agreement of both contracting parties prior to expiration date.	Indicative commodity lists.	Accounts in U.S. dollars in a Cuban "Depository Bank" designated by the Spanish Government in the name of the Spanish Foreign Exchange Institute. These accounts are titled "General Account" and "EP Account". The General Account is credited with all commercial and freight payments in favor of Spain, and is subdivided in two subaccounts: A and B. Subaccount A is credited with various percentages of all commercial payments, these sums to be freely used by the Spanish Foreign Exchange Institute for expenditure in Cuba or transfer abroad. Subaccount B is credited with the remaining part of all commercial payments to be used exclusively for the purchase of Cuban products to be used only in Spain. The "EP Account" is credited with all payments to Spain not related to commercial transactions, and may be freely used by the Spanish Foreign Exchange Institute for the settlement of all current obligations in Cuba. Settlement of debit balances at termination of the agreement in goods acceptable to the creditor, within six months.	Cuban exports: leaf tobacco, cigarettes, henequen, tripe and sheepskins, raw sugar and centrifuge sugar. Cuban imports: glycerin, pharmaceutical products, corn, minerals, hunting firearms, cork, dried fruit, chestnuts, olives, olive oil, anchovies, canned fish, wines and vermouth, cider, mineral water, etc.

Bilateral Trade and Payments Agreements (Cont'd.)

(as of June 24, 1960)

Date of Conclusion and Duration	Trade Agreements	Payments Agreements	Commodities Traded
U.S.S.R. Trade and payments agreement signed on February 13, 1960. Valid for five years. Three months prior to the expiration of this agreement, negotiations will be undertaken for its renewal. The U.S.S.R. will purchase 425,000 tons of Cuban sugar in 1960, in addition to 575,000 tons previously acquired. The sugar purchased during 1961-64 will be paid for by the U.S.S.R. 20 per cent in currencies freely convertible in U.S. dollars, and the rest by delivery of goods. The 425,000 tons purchased in 1960 will be paid for entirely by delivery of goods.	Indicative commodity lists.	Settlement through clearing account in U.S. dollars. A swing credit of US$10 million is provided. In case of swing excess, representatives of the contracting parties will meet to liquidate the excess. Settlement of debit balance at termination of the agreement in merchandise within six months. Any remaining balance after that period to be settled by mutual agreement of the parties.	Cuban exports: sugar, fresh fruits, fruit juices, cord nets, henequen, spices, skins, etc. Cuban imports: petroleum and fuel oil, wheat, timber, newsprint, steel laminates, superphosphates, ammonium phosphate, caustic soda, aluminum ingots, sulphur, dyes, machinery and equipment with their spare parts, etc.