



Euler Hermes Switzerland

# Trade Credit Risk in Cuba

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## Customers

We have over 52,000 clients worldwide

- ✓ 6,000+ employees
- ✓ €789 billion business transactions protected around the globe
- ✓ 1,700 claims indemnified per week
- ✓ 20,000 credit limit requests received per day



## Expertise

We monitor over 40 million companies internationally

- ✓ 1,500 risk experts in more than 50 countries
- ✓ We are the world market leader in trade credit insurance
- ✓ 245 countries rated
- ✓ 85% of credit limit requests processed within 48 hours
- ✓ 34% market share globally
- ✓ 380,000 debt collections handled in 130 countries



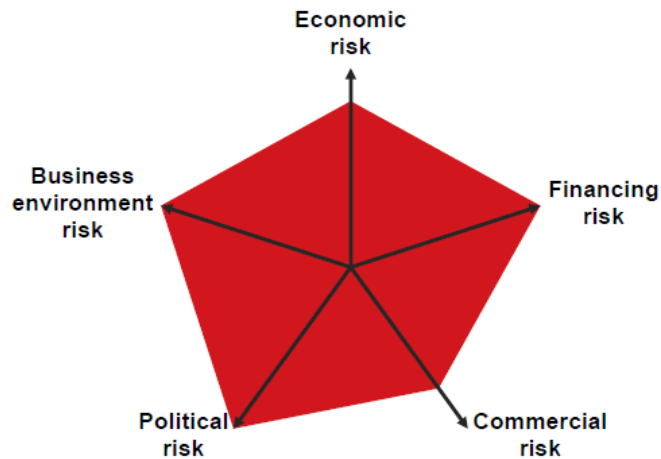
## Solidity

We are rated AA– by **Standard & Poor's** and **Dagong Europe**

- ✓ 2016 consolidated turnover: €2,3 billion
- ✓ 2016 net income: €373,3 million
- ✓ A company of Allianz

## Country Rating

**D4**



## Strengths

- Skilled human capital
- Abundant natural resources
- High potential for tourism growth
- Close to the U.S. and the Panama canal

## Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
Venezuela	43%	1	33%	Venezuela
Canada	9%	2	10%	China
The Netherlands	9%	3	8%	Spain
China	7%	4	4%	Brazil
Spain	3%	5	3%	Mexico

By product (% of total)

Exports		Rank		Imports
Metalliferous ores	21%	1	23%	Petroleum products
Sugar & sugar products	16%	2	9%	Iron and steel
Petroleum products	11%	3	5%	Electrical machinery
Tobacco	9%	4	5%	Cereals
Pharmaceutical products	9%	5	4%	Manufactures of metal

## Weaknesses

- Economic sanctions imposed by the U.S.
- Limited access to foreign financing
- Dual FX system
- Entirely State-driven economy
- Rationed economy, price controls, black market
- Poor infrastructure
- Closed economy
- High subsidies

# Things were changing quickly, for the better...

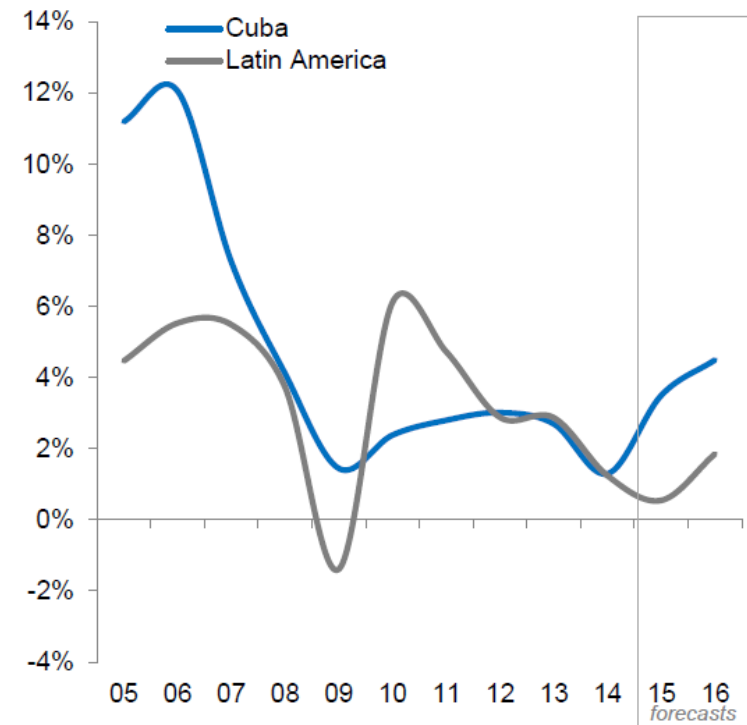
The **last 18 months have seen a positive wind of change** in Cuba, with **3 key game changers**:

1. The **progressive easing of the economic restrictions imposed by the U.S.** with the removal of Cuba from the list of State Sponsors of Terrorism at the end of May 2015; and a significant easing of the U.S. Embargo (in place since 1960);
2. The **adoption in 2014 of a new law for foreign investment** with a much more favorable and pragmatic framework than the previous 1995 regulations;
3. The **portfolio of investment opportunities launched in late-2014 by the Cuban government** available to foreign investors, consisting of around USD15bn in total amongst the 246 projects on offer.

Under this new environment, **we were expecting Cuban real GDP accelerates in coming years**, with exports and investment being the main engines of growth. Unfortunately, **President Trump announced a partial reversal of the 2-year warming of relations between the U.S. and Cuba.**

The **economy is also being strongly hit by the crisis in Venezuela**, a key trade partner, after it slashed its oil supply to Cuba, generating energy shortages and restrictions on the island.

Real GDP growth (%)



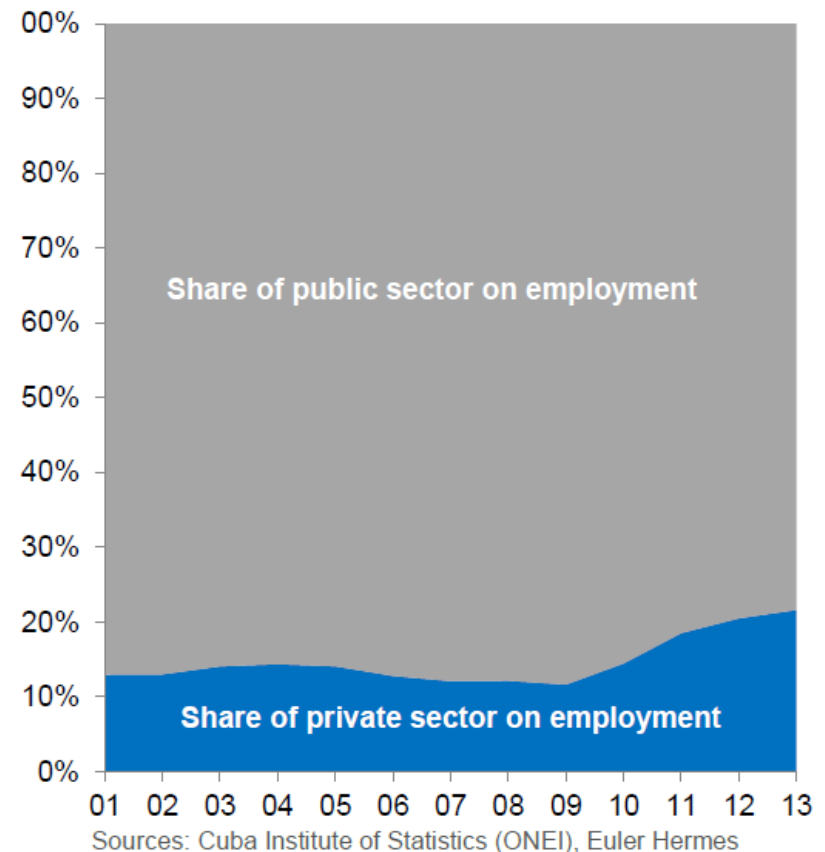
Sources: Cuba Institute of Statistics (ONEI), Euler Hermes estimates and forecasts

# ...but the way ahead is still very long

Despite these positive developments, **Cuba will remain a very risky country for commercial operations:**

- 1. Risk of transfer and convertibility is extremely high** with 2 official currencies that coexist, with different exchange rates: (i) The Convertible Peso (CUC), a fully convertible currency that exchanges 1 to 1 to the USD, is used in the tourism sector and to pay exports and imports and (ii) the Cuban Peso (CUP), that can only be exchanged against the CUC at 24CUP/1CUC for households and at 1CUP/1CUC for Public enterprises, is used in Cubans daily life (pensions and wages in the public sector, subsidies and most of current goods and services are paid CUP);
- 2. The economy will continue to be rationed**, with labour, wages and price controls. The business environment will remain overall adverse, with high risk of expropriation or nationalization;
- 3. Political tensions among Cuban authorities should not be underestimated.** While the President Raul Castro has asserted his will to 'upgrade the Cuban economic model to be better integrated into the world', not all the politicians from the Party fully agree with these developments

Labour force distribution (% of total)



# What we recommend...

**Cuba is no longer an off-cover country for EH but our risk appetite to cover Cuban companies is extremely limited.** This is due to the very low transparency of companies, very difficult doing business in the country and rising political uncertainty in the relationship with the new US government.

**To do business in Cuba, first you have to be very clear that trading activity on the Island answers only to the political decisions of the Government,** and to the State budget, in that order, the first deciding what company does business, and the second determines what the company is paid.

**Approx. 50% of companies exporting to Republic of Cuba have used invoice-at-a-discount transactions.** Only 20% of these account receivables are eligible to be discounted and 80% of them are non-eligible (not considered creditworthy to obtain financing). So, the exporters have the financial means to absorb delay-of-payment and/or losses.

Republic of Cuba government-operated companies have been requesting **payment terms of 1 year to three 3 years,** whether the product value is US\$5k 0 or US\$ 1 Mio or more.

Increasing use by suppliers to Cuban government-operated companies offloading the account receivable on a non-recourse basis to a third-party financier, which purchases the receivable at a discount to its face or future value. **The discount has generally ranged from 14% per annum** with consistent problematic repayment histories (18%-20%).



# Q&A



*«Take care of your account receivables!  
In case you might need help, just call me.»*

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