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Cuba has abandoned the US dollar as a national currency alongside the peso. As of Nov. 8, the dollar is out and the convertible peso faux dollars circulating on par with the dollar is in. While the dollar still has a place in Cuba's international transactions, so does the euro, the Canadian dollar, and other hard currencies. President Fidel Castro and top officials outlined the new monetary regimen Oct. 25. An official notice from Francisco Soberon, head of the Central Bank, said the dollar would cease to be legal tender in Cuba as of Nov. 8. Cubans as well as tourists must use only the convertible peso everywhere that payments have been required in dollars such as hotels, bars, restaurants, and taxis. The euro continues to be acceptable in Varadero and other tourist resorts.

Studies are underway to extend its use to other parts of the island. The peso continues to circulate at the current exchange rate of 26 to US$1. Dollar holders were given until Nov. 14 to turn in their dollars for convertible pesos. After the deadline, said Soberon, Cubans could still exchange dollars but would have to pay a 10% surcharge to cover the costs and risks Cuba incurs from US aggression against Cuba's dollar use. Or, they could simply hold on to their dollars since there is no prohibition against their possession. Cubans may maintain dollar bank accounts and withdraw dollars without paying a surcharge. Likewise, bank credit-card transactions are not subject to the surcharge nor are all other hard currencies. Remittances sent to Cuba from abroad have to be made in hard currencies. US measures against the dollar Soberon explained the reforms as a necessary defense against US measures to shut down Cuba's ability to manage its dollar assets.

The US has been pressuring foreign banks to refuse Cuban dollar deposits used to pay for imports and other obligations. The State Department set up the Pursuance of Cuban Assets Group to block the flow of dollars in and out of Cuba. In May, the Federal Reserve fined the Swiss banking group Union de Banques Suisses (UBS) US$100 million for allowing Cuba and three other blacklisted states to turn in old dollar notes for new ones. Treasury and Federal Reserve officials suggested that Cuba was using the Swiss banks to launder drug money. What is certain is that Cuba needs dollars to pay for its imports of US agricultural products, valued so far at about US$1 billion since 2000. So, while the US government allows its exporters to sell to Cuba, it attempts to cut off Cuba's ability to pay for them.

On the same day that Cuban officials announced the reforms, the US Treasury Department's Office of Foreign Assets Control (OFAC) blocked remittances from the US through the online service serCUBA. SerCUBA is a company set up by the Cuban Telecommunications Company (ETECSA), a Cuban-Italian joint venture, to counter the remittance restrictions President George W. Bush decreed in August (see NotiCen, 2004-05-27). SerCUBA operates in Italy and Spain handling electronic debit-card transfers to offices in Havana. OFAC has forbidden serCUBA to operate in the US and ordered its US assets frozen. OFAC gave out no information on whether anyone in the US was using serCUBA's Web site to send money to Cuba through Italy or Spain or whether any serCUBA assets are in the US to freeze.

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A Treasury press release said serCUBA was one of the "schemes" the Castro regime uses "to feed its military and security infrastructure instead of the Cuban people." Treasury official Juan Zarate said, "We are financially isolating serCUBA to make it more difficult for the Cuban regime to obtain the hard currency it uses to oppress it own people and to prop up its government."

US gloats

While the Cubans say the monetary reforms are designed to counter the US assault on its money, State Department spokesman Adam Ereli said they showed that Bush's policies were working, "squeezing the regime and causing them to take extreme measures that underscore its own inherent weaknesses." Following the State Department's line, the US media focused on the surcharge, presenting it as a way to bilk Cubans out of their dollars and to devalue them by a permanent 10% tax. A recent Associated Press story was headlined "Dollar Worth Only 90 cents in Cuba." Soberon replied to this by saying that the surcharge applied only to dollars exchanged after Nov. 14, and not at all on other kinds of dollar transactions. He said that a sign of success would be that the bank collected no surcharge payments at all.

Policy long in the making

Much of the media coverage gave the impression that the reforms were unanticipated. However, since the Cuban government legalized private possession of the dollar in 1993, it has regarded its use as a temporary measure to halt the decline of the peso following the loss of economic support from the Soviet Union. In 2001, the Central Bank began redefining the dollar's role by abolishing the use of US coins. Replacing them were the convertible peso coins in denominations of less than a dollar. The circulation of dollar notes was not affected.

Discussing the measure, Soberon promised that the government would never again prohibit the private holding of dollars as it had prior to 1993, but he did not rule out any future discontinuance of the dollar as legal tender and the reintroduction of the peso as the sole national currency. The bank took another step in 2003, when it announced that state-owned companies had to exchange dollars they earned for convertible pesos. This meant all state businesses, but not some 400 joint enterprises, would have to conduct their domestic financial affairs in convertible pesos and go to the Central Bank for foreign exchange to make external payments. Soberon said the new rules would give the bank greater control of its dollar reserves and help ensure that state businesses paid their bills. Later that year, he said the new procedures had increased reserves, given the government greater control over corruption, and had caused no delays in the importation of food and other basics.

Dollar in decline

Aside from US attacks on Cuba's dollar transactions, much of the impetus for de-dollarization lies in the dollar itself. Continued use of the dollar would tie the Cuban economy to the fate of the dollar, now undergoing rapid devaluation. As the reforms were being announced, the dollar was moving to new lows against the euro, dropping to a record 1.30 euros to US$1 in November. Four years ago the dollar was at a record high of 0.83 euros to US$1. One of the strongest pressures on the dollar is the

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current account deficit requiring ongoing sales of long-term Treasury bonds, which are becoming harder to sell.

In August, selloffs by foreign bondholders were greater than purchases. Some of the foreign money that used to go to the Treasury is moving instead into euros. Major bondholders China and India have increasingly put their dollars into domestic projects instead of investing them in the US, adding to a decline in capital flows into the US and applying further downward pressure on the dollar. By moving away from the dollar, Cuba, in effect, is doing what foreign bondholders are doing. While de-dollarization has risks, especially if it discourages remittances, it also reduces the risks associated with dollar devaluation and the powerlessness of Havana to influence monetary policy set in Washington.

Cuban strategy

How de-dollarization will work is open to speculation. Observers who see it as an act of desperation are predicting disaster. They tend to see the reforms as a means of centralizing all currency in government hands, ignoring the reality that all governments seek sovereignty over their currencies. Critics also focus on the surcharge as a tax mainly affecting Cubans who receive remittances and a burden on relatives abroad who must pay transaction fees to send remittances in other currencies. The Treasury's assault on serCUBA is in its own way another form of taxation because the company charges a smaller commission on money transfers to Cuba than do other channels. Not to be overlooked are subtler forms of taxation.

A return to the peso as the sole national currency would bring revenue from seigniorage profits gained from the issuance of currency and end such hidden payments to the US Treasury. Seigniorage is essentially a tax on every dollar accepted anywhere as an interest-free loan to the Treasury. Canadian economists Archibald Ritter and Nicholas Rowe explain how seigniorage affects Cuba: "For every dollar that stays in Cuba...the US Federal Reserve can print one more dollar for domestic circulation, without causing domestic inflation, and so one dollar's worth of goods and services gets transferred from Cuba to the US government."

Since much of Cuba's dollar stock comes from remittances, say the economists, "the transfer of resources is from the individual foreign donor to the US government." De-dollarization can be viewed as an act of petulance or desperation or as a considered strategy as much as dollarization was. The current phase of that strategy is to develop the economy, most importantly to balance its current account, and to cultivate the peso to where it can drive out the dollar and the convertible peso.

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