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Cuba Uneasily Awaits Currency Unification "Day Zero" with Many Questions

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Cubans await the arrival of "Day Zero" with uncertainty about the fate of their savings and their future purchasing power. The still-to-be-established date will end the simultaneous circulation of two currencies (the Cuban peso and the convertible peso) and is a measure that, according to the communist government, has been considered necessary for two decades to make the economy more efficient.

In the past six months, official pronouncements about the imminent removal of the Cuban convertible currency (CUC) have become more frequent. The CUC is pegged to the US dollar and its exchange rate is 1 CUC per 25 Cuban pesos (CUP). Currently, state salaries on the island are around 20 CUCs per month, but paid in CUPs. Occasionally, some state companies provide monetary stimulus in CUCs to their employees.

The population purchases CUCs at the state-controlled casas de cambio known as CADECAS. This currency exchange is unavoidable to buy nonsubsidized products sold in the state-controlled markets, Tiendas Recaudadoras de Divisas (TRD). The absurdity of state salaries paid in CUPs and staples sold in CUCs has generated strong criticism against the government.

The CUC was established in Cuba in 1994 when then President Fidel Castro tried to stabilize the domestic currency amid the crisis arising from the collapse of the Eastern European socialist bloc and the lack of inputs after the end of three decades of multimillion-dollar Soviet aid that assured the island fuel, machinery, and desirable items, from food to books and magazines.

At the height of the economic crisis in 1993, the exchange rate for local currency was 140 pesos per US$1.00. It was during that time that the salary of a recent college graduate was 198 pesos a month for two years of "compulsory social service," barely enough to buy a bottle of cooking oil. The country's panorama at that time was one of overwork and a precarious supply of goods. Such inflation was one of the triggers of the exodus of some 140,000 people in 1994 bound for the US.

Since 1994, the population has used CUPs to pay for public transportation, subsidized agricultural goods, and products for the basic family shopping basket, some grains, bread, and coffee, which barely offer a week of poor nutrition; meanwhile, CUCs are used to purchase unsubsidized products such as meat, household appliances, household cleaning items, and personal hygiene products.

The CUC is the currency used in the private market, such as restaurants and hotels, as well as for the services of mechanics, plumbers, masons, and carpenters. However, as part of the process for removing the CUC, the TRDs have already started selling their products in both CUCs and CUPs and maintain the official exchange rate between the two currencies.

Uncertainty breeds fear
Announcements of the imminent demise of the CUC have driven the population to try to divest savings kept in that currency and instead try to acquire US dollars. Several Havana residents
interviewed by this journalist have many doubts about holding on to savings in CUPs because of their uncertainty as to what the fixed parity between the Cuban peso and the convertible currency will be on Day Zero.

Some small-business owners in Havana, such as owners of private restaurant and hospitality businesses who now have legal coverage because of economic changes in the country, wonder if their savings will be challenged as "legitimate" when the forced change of the CUC for the CUP comes into effect. "I keep my money in dollars and euros to prevent the government from casting doubt on the honesty of my savings," says Julian, who has a successful private restaurant in Havana thanks to the seed money sent to him by his brothers in Florida.

The first official announcements about the end of the CUC date back to Oct. 22, 2013. Granma, the daily newspaper of the Partido Comunista de Cuba (PCC), says the measure could take effect at any time because it is "an unavoidable decision." Last August, President Raúl Castro addressed the issue in the biannual session of parliament and affirmed that the people's savings will be respected.

Local analysts agree that monetary unification will have to start with the business system and then move into the public sphere, which will require a highly coordinated and meticulous process that could last for two or three years.

Marino Murillo, vice president of the island's Consejo de Ministros, said in August that the authorities are working on the monetary-unification schedule. His words sought to rule out "emergency measures," traumatic changes, and more deterioration in purchasing power. The Havana Consulting Group says most of the population manages to feed themselves and meet their needs through remittances sent from relatives abroad, which reached US$2.77 billion in 2013 (NotiCen, Nov. 4, 2010).

**Currency and tweaking the economic model**

Since 2006, when Fidel Castro gave the reins of power to his brother Raúl (NotiCen, Aug. 3, 2006, and Feb. 21, 2008), the government has taken steps to improve finances, increase productivity, promote foreign investment, and boost agricultural production (NotiCen, April 25, 2013). Change has not been as fast as the population desires, and even the president has publicly complained about the slowness of the results.

Elimination of the dual currency is inevitable, according to Cuban economists, because of the distortions created by the corporate state system, whose balances are attained by giving equal value to both currencies currently in circulation. One consequence has been that domestic products are overvalued and prices of imports are reduced.

The measures will have an impact on state companies whose expenses in convertible money are higher than their income in that currency but so far are considered profitable because their products are overpriced as a result of the deceptive accounting practices that employ an exchange rate of 1 CUP to 1 CUC. Monetary reunification will help identify less-productive firms and should adjust the state's perspective when allocating state resources.

Local analysts say the benefits of eliminating a dual currency would include providing a fair measurement of profitability and accountability of production, a more objective measure of the macroeconomic indicators, a boost to productivity and labor efficiency, and a more reliable picture for foreign investors.
Since 2011, the government has tested a new exchange rate of 10 CUP per CUC for agricultural products, tourism, and firms linked to the sugar industry. The aim of this experiment was to revalue the price of the CUP and stimulate economic output in those sectors. However, the success of eliminating the dual currency necessarily depends on a genuine increase in the production of goods and the supply of services.

Authorities announced that the next printing of domestic currency (CUP) would include new security measures in the form of watermarks for the higher denominations of 20, 50, and 100 pesos. The use of these high-denomination notes has become much more common this year given that the TRDs are marketing unsubsidized products in CUPs, while the price remains at an equal exchange to the CUC. The announcement is intended to prevent rumors and fears about the circulation of counterfeit currency on the island.

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