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After More than Two Decades, Cuba May End Dual Currency System

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The parallel circulation of two currencies in Cuba seems to have its days numbered, according to announcements by President Raúl Castro’s administration and the government-controlled press, which is advocating for better performance in businesses and a more competitive national economy. But monetary reform is complex; it has been postponed for years in Cuba, and it is feared that the changes could affect vulnerable sectors of society (NotiCen, Sept. 25, 2014).

The plan to eliminate the dual currency system is part of the reforms that Castro launched after he took the presidency in 2008 (NotiCen, July 31, 2008). The system is a legacy of the crisis Cuba suffered beginning in 1991, caused by the demise of the Eastern Europe communist bloc and the dissolution of the former Soviet Union. Euphemistically called the “special period” by the government, the crisis caused the devaluation of the historical Cuban peso (CUP) and led to the emergence of the convertible peso (CUC) (NotiCen, May 5, 2005).

A Communist Party objective

The end of monetary duality was an objective approved by the Sixth Congress of the Communist Party of Cuba (PCC) in April 2011, and was reaffirmed by the government in 2013. Last December, Castro spoke about it to the national parliament, saying, “I must admit that this matter has taken us too much time, and we cannot delay its solution any longer.”

Signs that monetary unification might finally take place have appeared since earlier this year. US Sen. Ron Wyden, a Democrat from Oregon, visited Havana in February and commented that Cuban officials repeatedly stated that 2018 would be the year for monetary reform.

Likewise, Stefano Manservisi, the European Commission’s director-general for International Cooperation and Development, said in February that he has offered the Cuban government technical assistance in implementing the monetary transition. The European Union (EU) began a new stage of relations with Cuba with the enactment of a political dialogue and cooperation agreement signed in 2016.

References to monetary reform have increased in the Cuban press, as if to get everyone ready for the changes to come, although the most important change on the horizon is Castro’s projected retirement on April 19th, when he is scheduled to leave his post as president and the Parliament will approve his successor. Castro will remain in his position as first secretary of the PCC.

An allegory of the crisis

The CUC, basically equal in value to the dollar, was introduced by then-President Fidel Castro (prime minister 1959-76, president 1976-2008) in 1994 to create a stable currency and was initially used by foreign tourists. Since then, the CUC has been seen as an allegory of inequality: Over the years, as social differences have deepened in Cuba, the more privileged have access to CUCs and receive remittances from abroad.
State employees usually receive their salary in CUPs, which they use to pay for the food allowance they are assigned through ration cards (about 25 pesos a month) and for their household expenses in electricity, water, gas, and landline telephones. These services are subsidized in Cuba, where the average salary for a state employee is estimated to be between US$25 and US$30 a month. Other food and goods must be bought in the government-run stores known as TRDs (Tiendas para la Recaudación de Divisas or shops for the collection of foreign currency) using CUCs, or on the black market.

One CUC is equal to US$1.00 or 24 CUPs. The currency exchange house (Casa de Cambio S.A., CADECA) sells each CUC for 25 CUPs, but it buys each CUC for 24 CUPs. (For reference, a bottle of common edible oil costs two CUCs.) In exchanging dollars to CUCs, a commission of 3.5% is charged and, since 2004, an additional 10% tax, because the government argues that the US embargo, which has been in place since 1962, prevents Cuba from using the dollar in international transactions. CADECA does not charge that 10% tax on other currencies.

The enemy’s currency

Over the years, the population has used derogatory terminology to refer to the CUP and the CUC, considered as “colored paper” or “fake money,” given their oscillating value and limited purchasing power, and even their appearance, which is simple compared to the complex designs, high print quality, and sophisticated security thread in US paper currency.

The possession of dollars in Cuba was authorized in 1993 when the government approved the entry of remittances from families abroad. Previously, Cubans who owned US currency were exposed to public discredit and even imprisonment for the “ideological problems” demonstrated by carrying “enemy currency.” But the dollar ceased to be legal tender in 2004, and retail stores stopped accepting them, although the law no longer punishes the possession of dollars.

Cubans who travel abroad, do business, or sell their assets covet the US dollar. Some Cubans who have access to temporary visas or who have multiple citizenship, travel to the US, Ecuador, Russia, or the Caribbean to buy merchandise that they then sell on the black market in Cuba.

Some Cubans say that they avoid accumulating large amounts of CUCs. They distrust the CUC when making expensive transactions for houses, cars, jewelry, or antiques. The self-employed and new entrepreneurs prefer the euro and the dollar, which are exchanged informally for a better rate.

The exchange rate of a dollar on the black market is between CUC0.93 and CUC0.95. In official, exchange offices, the rate is CUC0.87 per dollar.

Benefits and repercussions

Monetary unification would allow the clarification of business accounting at the macroeconomic level. Currently, government-run import businesses benefit from a preferential parity exchange rate for the CUP against the US dollar, and this allows them to reduce costs. But under an exchange rate without this artificial parity, the accounts would be adjusted to reality, and the true competitiveness of the Cuban state sector, which is 85% of the economy, will be evident.

According to observers, without the preferential rate for state-run companies that need imports in their production process, costs would rise and these higher costs would be passed on to consumers through the sale of their products. In contrast, exporting companies would be in a position to obtain
a higher income and increase wages. This readjustment of the national economy could lead to a period of inflation, with the increase in the price of some goods and the shortage of others.

Apparently, under the new plan, the CUC would disappear and the CUP would remain in circulation as the only official currency. Some observers believe that the process of eliminating the CUC will begin in government-run enterprises. Raúl Castro predicted in 2008 that the revaluation of the CUP would be gradual, progressive, and prudent. At that time, it was estimated that the process would take about five years, and would be based on economic recovery, increased production, and productivity.

In a country where inequalities have increased dramatically for almost three decades, the fear is that those most affected by the monetary reform will be the most vulnerable, such as the elderly, women, people without family members abroad, and the non-white population, as well as those who live in the eastern areas of the island, which historically have had less economic development. And this complex adjustment for the economy and society would remain in the hands of Raúl Castro’s replacement.

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