Delaware Review of Latin American Studies

Vol. 7 No. 2 December 30, 2006

Cuba's De-Dollarization Program: Policy Measures, Main Objectives, and Principal Motivations

Mario A. González-Corzo
Department of Economics
Lehman College, City University of New York
Mario.Gonzalez-Corzo@lehman.cuny.edu

Abstract
This paper examines the main characteristics of Cuba's de-dollarization program, the objectives of these policy measures, and their principal causes and motivations. The paper is organized in three sections. The first section describes the policy measures associated with the process of de-dollarization, followed by a detailed account of their main objectives (section two), and an analysis of their principal causes and motivations (section three).

****

Cuba's de-dollarization program

Cuba's "de-dollarization program" was initiated with the approval of Resolution No. 65 by the *Banco Central de Cuba (BCC)* on July 23, 2003. Resolution No. 65 established the convertible peso (CUC) as the only acceptable currency for all entities that had previously accepted U.S. dollars; mandated the conversion of their U.S. dollar holdings to convertible pesos and the sale of any excess foreign currency to the BCC at the official exchange rate; and required state firms to pay the BCC a service fee ranging from 1% to 2% of the value of any hard currency purchases from the Central Bank ("Resolución No. 65" 2003).

The process of de-dollarization was accelerated after the approval of Resolution No. 80 on October 23, 2004. Resolution No. 80 explicitly guaranteed the legal possession of unlimited quantities of U.S. dollars by the population, but required all entities that had previously accepted U.S. dollars to only accept convertible pesos; and established a 10% service charge (*gravamen*) on exchanges of U.S. dollars for convertible pesos and "old" Cuban pesos after November 8, 2004 ("Resolución No. 80" 2004). After this date, foreign visitors and Cuban citizens were encouraged to exchange U.S. dollars for euros, Canadian dollars, British pounds, and Swiss francs, and use any of those currencies to acquire convertible pesos to avoid paying the 10% surcharge ("Resolución No. 80" 2004).

According to Resolution No. 80, withdrawals from existing U.S. dollar bank accounts, and convertible peso fixed term deposits and certificates of deposit (CDs) are exempt from the 10% levy, and their original terms remain unaffected ("Resolución No. 80" 2004). Principal and interest payments for these accounts can be made in U.S. dollars or convertible pesos without incurring the 10% fee ("Resolución No. 80" 2004). Although cash deposits of U.S. dollars into existing bank accounts are no longer permitted, the BCC may permit U.S. dollar deposits into existing accounts on an exceptional basis, but such transactions are subject to the 10% fee ("Resolución No. 80" 2004).

As a complement to Resolution No. 65, the BCC introduced Resolution No. 92 on December 29, 2004. Resolution No. 92 increased the state's control over foreign exchange transactions by creating a centralized hard currency account at the Central Bank to monitor transactions in excess of $5,000 ("Resolución No. 92" 2004). Dividends, royalties, and any other type of earnings from joint ventures between Cuban firms and their foreign partners must be deposited into this account ("Resolución No. 92" 2004). In addition, after February 1, 2005, all foreign exchange transactions by entities from the Ministries of Basic Industry, Construction, Fishing, Food, Informatics and Communications, Iron and Steel, and Tourism, as well as all enterprises operating the international network of stores that accept convertible pesos or hard currency were centralized in the single hard currency account at the BCC. All other enterprises, operating in convertible pesos or foreign exchange, are required to establish contracting committees, with the participation of members of the BCC's Hard Currency Approval Committee (*Comité de Aprovación de Divisas- CAD)* , to monitor foreign exchange transactions, and financial institutions are no longer permitted to conduct any foreign exchange transactions without the approval of the CAD ("Resolución No. 92" 2004).

The process of de-dollarization was intensified with the approval of Agreements 13 and 15 by the Central Bank (BCC). Agreement 13 (March 17, 2005) established a fixed exchange rate of 24 "old" pesos per convertible peso, for sales of convertible pesos, and 25 "old" pesos per convertible peso, for purchases of convertible pesos from state-run CADECA, S.A. ("Acuerdo 13" 2005). Before the implementation of Agreement 13, the official exchange rate at CADECA was 27 "old" pesos per convertible peso, for purchases of convertible pesos, and 26 "old" pesos per convertible peso, for sales of convertible pesos. Agreement 15 (March 24, 2005) increased the value of the convertible peso with respect to the U.S. dollar by 8%, beginning on April 9, 2005, resulting in a new official exchange rate of $1.08/1CUC ("Acuerdo 15" 2005). Prior to this measure, the official U.S. dollar/convertible peso exchange rate was set at parity (i.e., $1/1CUC), and both currencies were accepted as legal tender at the "dollar stores.(**1**) The approval of Resolution No. 80, and Agreement 15 resulted in an effective (official) exchange rate of $0.83/1CUC,(**2**) and the U.S. dollar is no longer accepted at the "dollar stores."

Objectives

According to Cuban authorities, the primary objectives of de-dollarization are: (1) to eliminate the system of monetary dualism, and (2) and reduce the income inequality created by the legalization of the U.S. dollar in 1993 and the reorientation (or transformation) of the Cuban economy since the mid 1990s.(**3**) After the dissolution of the Soviet Union and the Council for Mutual Economic Assistance (CMEA), Cuba lost access to key trading partners, and their generous subsidies (Mesa-Lago 1993). Merchandise exports fell 46%, from $3.5 billion in 1989 to $1.9 billion in 1993; and imports fell 51%, from $4.7 billion in 1989 to $2.3 billion in 1993 (Ritter 2003). This external sector shock significantly reduced the island's hard currency earnings, resulting in the worst economic crisis in recent Cuban history (Ritter 2003). The crisis forced Cuba to procure hard currency to obtain essential inputs (e.g., foodstuffs, machinery, oil, and spare parts) in the international market, and prompted the Cuban leadership to embark on a survival strategy based on legalizing the U.S. dollar, attracting foreign investment, increasing family remittances, and expanding international tourism (Mesa-Lago 1993).

The need to reduce monetary overhang, control the fiscal deficit, and reverse the devaluation of the Cuban peso in the second economy, played a significant role in the legalization of the U.S. dollar. Between 1989 and 1993, excess (monetary) circulation increased from 4.9 billion pesos, or 24% of gross domestic product (GDP), to more than 11.6 billion pesos, or 67% of GDP; the fiscal deficit expanded from 6.7% of GDP to 30.4% of GDP; and the black market exchange rate depreciated from 7 pesos per dollar to more than 160 pesos per dollar during the same period (Jatar-Hausmann 1999).

The legalization of the U.S. dollar was also motivated by the need to expand Cuba's tourism sector in order to earn more foreign exchange. Since the early 1990s, international tourism has been considered as one of the most promising sectors of the Cuban economy (Lage 1992). Between 1990 and 2000, the number of visitors increased from 340,000 to 1, 774,000, reflecting an average annual growth rate of 18% (CEPAL 2000; Mesa-Lago 2005; Rodríguez 2002). During the same period, gross hard currency receipts from tourism increased 682%, from $243 million to $1.9 billion; formal employment in the tourism sector grew 71%, from 39,200 to 68,000; and the number of hotel rooms designated for international tourists increased 100%, from 18,565 to 37,178 (CEPAL 2000).

The need to attract remittances from abroad provided another reason for the legalization of the U.S. dollar. According to estimates by the United Nation's Economic Commission for Latin America and the Caribbean (ECLAC), annual remittances to Cuba increased from $573 million in 1995 to $855 million in 2003 (cited in Mesa-Lago and Pérez-López 2005), and approximately 62% of the population receives remittances on a regular basis (Mesa-Lago 2003). Since the bulk of these funds are used for personal consumption at the "dollar stores," the legalization of the U.S. dollar and the influx of remittances exacerbated the inequalities between those operating in the dollar (or hard currency) sector and those limited to the peso (or state) sector (Barberia 2002; Blue 2004; González-Corzo 2006). (**4**)

Monetary dualism and the influx of remittances have contributed to greater racial inequality in Cuba since the mid 1990s (Mesa-Lago and Pérez-López 2005; Espina Prieto and Rodríguez Ruiz 2006). According to the most recent population census (*Censo de Población y Vivienda)*, Cuba's population reached 11,117,743 in 2002. Whites represented 64.9% of the population in 2002, persons of mixed-race (i.e., *mestizos* and *mulatos*) 25%, and blacks 10.1%. Estimates by Espina Prieto and Rodríguez Ruiz (2006) suggest that between 1996 and 2002 40% of whites received remittances on a regular basis, compared to 15% of mixed-race persons, and only 10% of blacks. Using ECLAC estimates for annual remittances to Cuba in 2002 ($820 million), the per capita annual remittance amount received by whites ($155.79) was 2.6 times greater than the amount received by persons of mixed-race ($60.03), and 6.4 times greater than the amount received by blacks ($24.34).

Assuming that each group's share of the total population remained unchanged between 2002 and 2005, and the percentage that received remittances in 2005 was the similar to estimated percentages for the 1996-2002 period, the difference in per capita annual remittances between whites and non-whites would have remained virtually unchanged in 2005. This suggests that despite de-dollarization the inflow of remittances continues to unevenly affect the distribution of income along racial lines. Table 1 provides an estimate remittance recipients and annual remittances per capita in Cuba during the 1996-2002 period and in 2005.

Table 1. Estimates of Remittances Recipients by Race, 2002 and 2005

Group	Population	Percentage of Population	Percentage that Received Remittances (1996-2002)	Estimated Remittances Recipients	Estimated Remittances per Capita (USD)
2002					
Whites	7,211,926	64.9%	40.0%	2,884,770	$155.79
Mixed-race	2,778,923	25.0%	15.0%	416,838	$60.03
Blacks	1,126,894	10.1%	10.0%	112,689	$24.34
Total	**11,117,743**	**100.0%**	**65.0%**	**3,414,298**	**$240.17**
2005					
Whites	7,297,421	64.9%	40.0%	2,918,968	$187.89
Mixed-race	2,811,025	25.0%	15.0%	421,654	$72.38
Blacks	1,135,654	10.1%	10.0%	113,565	$29.24
Total	**11,244,100**	**100.0%**	**65.0%**	**3,454,188**	**$289.50**

Sources: *Censo de Población y Vivienda 2002,* Oficina Nacional de Estadísticas (ONE); Espina Prieto and Rodríguez Ruiz 2006; *Estadísticas Seleccionadas 2005*, Oficina Nacional de Estadísticas (ONE) 2006; and author's calculations.

In addition to monetary dualism and the influx of remittances, declines in real wages in the state sector also contributed to greater levels of income inequality during the 1990s. According to Togores (1999), between 1989 and 1998 the average real wage in the state sector declined by 44.4%, from 131 pesos to 73 pesos per month, or from $18.71 to $3.47 per month at the prevailing unofficial exchange rate.(**5**) A 2000 survey of households in the city of Havana found that the average monthly income per capita was 198 pesos, or $9.42 at the unofficial exchange rate of 21 pesos per dollar; 53% of the households included in the survey had per capita monthly incomes ranging from 50 pesos to 150 pesos (or from $2.38 to $7.14 using the unofficial exchange rate); 14% reported per capita monthly incomes of less than 50 pesos (or $2.38); and 77% considered their monthly incomes insufficient to meet basic needs (Perez Villanueva 2001).

While wages in the state sector declined, the earnings of participants in Cuba's private sector rose significantly during the 1990s, particularly in the city of Havana. Based on a series of interviews with Cuban visitors and recent immigrants from Cuba, Mesa-Lago (1998) estimated dollar incomes in 1995 in the city of Havana as follows:

Table 2. Estimates of Monthly Income in the City of Havana, 1995 (USD)	
OCCUPATION	**Monthly Income**
State Sector	
Average wage earner	$6
School teacher	$8 - $9
Doctor	$11 - $12
University professor	$11 - $12
Private Sector	
Taxi driver (tourism)	$100- $467
Private farmer	$187 - $311
Owner of small restaurant (*paladar*)	$2,500- $5,000

Source: Mesa-Lago 1998.

In 2002, Mesa-Lago updated his estimates of monthly income inequalities to reflect the growing differences between incomes (or earnings) in the state and private sectors. The results are shown in Table 3.

Table 3. Estimates of Monthly Income in the City of Havana, 2002		
OCCUPATION	**Monthly Income in pesos**	**Monthly Income in USD (26 pesos = $1)**
State Sector		
Lowest pension	100	$4
Lowest salary	100	$4
School teacher (elementary school)	200-400	$8-$15
University professor	300-560	$12-$22

Engineer, Doctor	300-650	$12-$25
Garbage collector	300-500	$12-$19
Policeman (regular)	200-500	$8-$19
Policeman (tourism)	700-800	$27-$31
Officer, armed forces	350-700	$13-$23
Cabinet minister	450-600	$17-23
Private Sector		
Domestic servant	520-1,040	$20-$40
Private farmer	2,000-5,000	$77-$1,923
Transporter (truck)	10,000-20,000	$385-$770
Landlord (apartment/house renter - tourism)*		$250-$4,000
Owner of small restaurant (*paladar*)*		$12,500-$50,000

Source: Mesa-Lago 2002.

In 1989, the ratio of the highest monthly income to the lowest wage was 4.5 to 1, compared to 829 to 1 in 1995 (Table 2), and 12,500 to 1 in 2002 (Table 3) (Mesa-Lago 2002; Mesa-Lago and Pérez-López 2005).

In 1994, the Cuban government began to pay dollar bonuses to retain and stimulate workers in strategic sectors such as electricity, mining, tobacco, and tourism (Mesa-Lago and Pérez-López 2005). It is estimated that some 1.2 million workers, or 30% of the labor force, received dollar bonuses averaging $19 per month in 2000, while another 1.5 million, or 37.5% of the labor force, received in-kind rewards of clothing and food (Rodríguez 2000; Triana 2000).

Workers employed by joint ventures between Cuban firms and foreign investors normally receive between 15 and 20 convertible pesos per month, plus a basket *(jaba)* containing basic consumer goods such as snacks, toiletries, and other necessities (Mesa-Lago and Pérez-López 2005). In addition, many joint ventures and foreign firms allocate considerable monthly sums, ranging from $20 to $25 for production workers and from $600 to $800 for managerial staff (Mesa-Lago and Pérez-López 2005). Also, in some cases, enterprise managers have access to a company car, and receive an allotment of 200 liters of fuel (Mesa-Lago and Pérez-López 2005).

In addition to de-dollarization, the Cuban government has recently introduced a series of measures to (presumably) reduce existing inequalities. In May 2004, prices at the “dollar stores” were raised between 10% and 35%, with the objective of reallocating some of the resulting revenues to social programs, and increasing subsidies in the peso sector (CEPAL 2005). A month later, the monthly minimum wage was raised from 100 to 225 pesos, and monthly minimum pensions increased from 55 to 150 pesos (Granma 2005). In April 2005, the value of the convertible peso was increased by 8%, and a new “old” peso-convertible peso exchange rate was introduced.(**6**) This last measure has benefited some 38% of the population that operates in the peso sector because they save two “old” pesos when buying convertible pesos, but has affected those that either hold U.S. dollars or convertible pesos because they lose two “old” pesos when they exchange either currency into “old” pesos, and $0.17 for each dollar exchanged for convertible pesos (Mesa-Lago 2005).

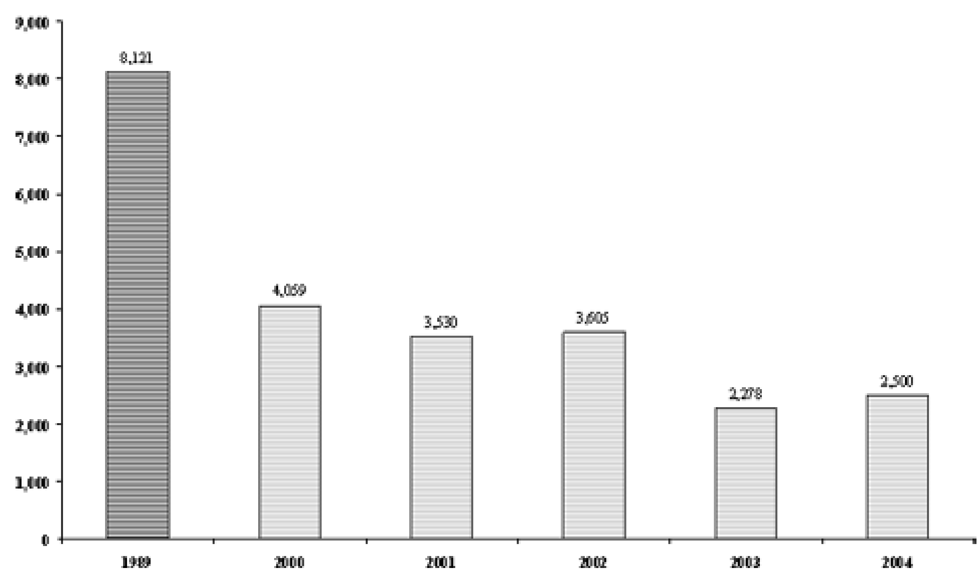
Causes and motivations

In addition to the need to reduce the inequalities caused by monetary dualism and the influx of remittances, Cuban authorities cited increasing tensions with the United States as one of the principal causes of de-dollarization. According to the Cuban Central Bank (*Banco Central de Cuba – BCC)*, de-dollarization was caused by "U.S. government pressure on foreign banks to prevent Cuba from making deposits in dollars in order to fulfill its financial obligations, as well as the U.S. State Department's creation of the "Cuban Assets Targeting Group" to stop the flow of hard currency" (Mesa-Lago 2005).

Tensions between Cuba and the United States intensified after the approval of a series of remittance and travel restrictions (RTRs) by the U.S. government on June 30, 2004. These restrictive measures sought to curtail the flow of hard currency (mainly U.S. dollars) to Cuba by: (1) limiting remittances and to immediate family members (i.e., children, parents, siblings, and spouses), (2) preventing U.S. citizens from sending remittances to members of the Cuban Communist Party (*Partido Comunista de Cuba – PCC*), (3) reducing the number of days U.S. citizens can visit immediate relatives in Cuba from 21 to 14 days every three years, and (4) reducing the amount of U.S. dollars authorized users may bring to the island from $3,000 to $300 per visit (Office of Foreign Assets Control [OFAC] 2004).

From an economic perspective, however, de-dollarization seems to have been primarily motivated by the growing scarcity of foreign exchange receipts caused by falling sugar output, a slowdown in international tourism, the impact of natural disasters, and the deterioration of Cuba's external sector performance during the 2000-2004 period. Sugar production declined 60%, from 4.0 million tons in 2000 to 2.5 million tons in 2004. In 2002, the Cuban government announced a plan to restructure the sugar industry, calling for a 50% reduction in the area dedicated to sugarcane cultivation, downsizing the workforce, and shutting down inefficient mills (Valenzuela 2002; Varela-Pérez 2002). As a result of this plan, the area used for sugarcane cultivation fell 33%; the lands under irrigation declined 40%; and sugar yields fell 46% (Mesa-Lago 2005). Even though sugar production increased from 3.5 million tons in 2001 to more than 3.6 million tons in 2002, output was 54% lower than the 8.1 million tons produced in 1989 (Pérez-López 2004). This trend continued in 2003 and 2004, with sugar production reaching 2.2 million tons, and 2.5 million tons, respectively. Figure 1 shows Cuba's sugar production during the 2000-2004 period.

Figure 1. Cuba: Sugar Production, 2000-2004
(million metric tons)



Sources: Anuario Estadístico de Cuba (AEC) 2004; Mesa-Lago 2005; Pérez-López 2004; and author's calculations.

Cuba's ability to generate (earn) foreign exchange was also affected by declines in physical output during the 2000-2004 period. Table 4 shows output statistics for Cuba's principal commodities for domestic production (and consumption) and exports during the 2000-2004 period.

Table 4. Cuba: Selected Physical Output Indicators, 2000-2004 metric tons, unless otherwise specified)

	2000	2001	2002	2003	2004	Pct. Growth Rate 2000-2004
Sugar	4,057,000	3,748,000	3,522,000	2,278,000	2,500,000	-38.38%
Nickel	71,000	77,000	76,000	72,000	76,600	7.89%
Oil	2,621,000	2,773,000	3,533,000	3,691,000	2,195,000	-16.25%
Cement	1,633,000	1,324,000	1,327,000	1,331,000	1,401,300	-14.19%
Textiles (million sq. meters)	47	47	30	27	30	-36.17%
Fertilizers	118,000	93,000	95,000	n.a.	49,100	-58.39%
Cigars (million units)	246	339	327	310	404	64.23%
Citrus fruits	998,000	957,000	478,000	817,000	792,000	-20.64%
Milk (cow)	614,000	621,000	590,000	607,000	512,700	-16.50%

Source: Anuario Estadístico de Cuba (AEC) 2004; CEPAL 2005; Mesa-Lago 2005; Pérez-López 2004, and author's calculations.

As Table 4 demonstrates, with the exception of nickel and cigar production, various sectors of the Cuban economy experienced significant declines in output during the 2000-2004 period. The most notable were: fertilizers (-58.4%), sugar (-38.4%), textiles (-36.2%), and citrus fruits (-20.6%).

The impact of five hurricanes, and the worst drought in a century dealt a devastating blow to the Cuban economy during the 2000-2004 period. In 2001, Hurricane Michelle affected 45% of the national territory, and 53% of the population (Pérez-López 2002). The losses caused by this natural disaster were estimated at 1.8 billion pesos, or 6% of GDP (Pérez-López 2002). Cuba was hit by Hurricanes Isidore and Lili in 2002, and Hurricanes Charley and Ivan struck in 2004, causing an estimated $2 billion in damages, destroying more than 54,000 hectares of crops, and damaging some 100,000 residential structures (Mesa-Lago 2005).

The island experienced the worst drought in its recent history during 2003 and 2004. In 2004, the average rainfall recorded was 69% below the normal average, and the losses caused by the drought exceeded $800 million (Rodríguez 2004). The Institute for Hydraulic Resources indicated that 15 out of 73 dams used to provide water for the population had exhausted their reserves by early 2005, and close to two million people were affected by the lack of water (Mesa-Lago 2005).

Lower physical output and natural disasters contributed to the deterioration of Cuba's macroeconomic performance during the 2000-2004 period, and provided another reason for de-dollarization. The island's GDP growth rate fell from 6% in 2000 to 3% in 2001, and 1% in 2002 (CEPAL 2005; Mesa-Lago 2005; Pérez-López 2004). Although GDP expanded 2% in 2003, and 3% in 2004, these figures overstate actual growth because the base year for estimating GDP in constant prices was changed in 2001 (Mesa-Lago 2005).(7) Gross capital formation fell 9.7%, from 13.3% of GDP in 2001 to 12% in 2002; and the cost of natural disasters and increases in social spending raised the fiscal deficit from 2.5% of GDP in 2001 to 3.4% in 2003, and 4.2% in 2004 (CEPAL 2005). Table 5 presents Cuba's principal macroeconomic indicators during the 2000-2004 period.

Table 5. Cuba : Selected Macroeconomic Indicators, 2000 - 2004						
	2000	**2001**	**2002**	**2003**	**2004**	**2000-2004 Average**
GDP growth rate	6.1%	3.0%	1.1%	2.6%	3.0%	**3.2%**
Gross domestic investment/GDP	14.3%	13.3%	12.0%	10.3%	n.a	**12.5%**
Monetary liquidity/GDP	38.0%	42.0%	45.2%	41.0%	43.0%	**41.8%**
Budget balance/GDP	-2.3%	-2.5%	-3.4%	-3.3%	-4.2%	**-3.1%**

Sources: Anuario Estadístico de Cuba (AEC) 2004; CEPAL 2005; Mesa-Lago 2005; Pérez-López 2004, and author's calculations.

Cuba's worsening external sector performance between 2000 and 2004 served as another reason for de-dollarization. Tourist arrivals fell 6%, from 1,775,000 in 2001 to 1,656,000 in 2002; gross hard currency receipts declined 5.5%, from $1.8 billion to $1.7 billion; and hotel occupancy rates fell from 74% in 2000 to 57% in 2002. Although the number of visitors recovered in 2003 and 2004, the annual growth rate declined 46%, from 14.7% to 7.9%. The annual growth rate for gross hard currency earnings also declined between 2003 and 2004, reflecting the higher costs of servicing the tourism sector. Table 6 presents Cuba's principal tourism indicators during the 2000-2004 period.

Table 6. Cuba: Selected International Tourism Indicators, 2000-2004						
	2000	**2001**	**2002**	**2003**	**2004**	**Average Annual Growth Rate 2000-2004**
Tourist Arrivals (000)	1,774	1,775	1,656	1,900	2,050	
Growth rate	-	0.1%	-6.7%	14.7%	7.9%	**4.0%**
Convertible Currency Revenue (million USD)	1,948	1,840	1,769	1,996	2,205	
Growth rate	-	-5.5%	-3.9%	12.8%	10.5%	**3.5%**
Occupancy rate	74.2%	58.0%	57.0%	n.a	n.a	
Growth rate	-	-21.8%	-1.7%	-	-	**-11.8%**

Sources: Anuario Estadístico de Cuba (AEC) 2004; Mesa-Lago 2005; and author's calculations.

Similarly, merchandise exports fell 0.8% in 2001, and 13% in 2002, reducing foreign exchange earnings and the island's ability to obtain imports. Although the value of merchandise exports reached 1.6 billion pesos in 2003, representing an increase of 14% over 2002, this amount was 69% lower than the 5.4 billion pesos exported in 1989. Merchandise exports increased to 2.2 billion pesos in 2004, but were still 59% below 1989 levels. Cuba's hard currency debt grew slightly during the 2000-2004 period, and remittances continued to play a key role as a primary source of convertible currency. Table 7 presents Cuba's principal external sector indicators during the 2000-2004 period.

Table 7. Cuba: Select External Sector Indicators, 2000-2004

	2000	2001	2002	2003	2004
Merchandise Exports (million pesos)	1,675	1,661	1,446	1,678	2,223
Merchandise Imports (million pesos)	4,877	4,838	4,128	4,625	5,286
MerchandiseTrade Balance (million pesos)	-3,202	-3,177	-2,682	-2,947	-3,063
Foreign Investment (million dollars)	448	39	100	-	-
Hard Currency Debt (million dollars)	10,961	10,893	10,900	11,000	12,000
Remittances (million dollars)	740	812	820	855	1,000

Sources: Anuario Estadístico de Cuba (AEC) 2004; CEPAL 2005; Mesa-Lago 2005; Pérez-López 2004, and author's calculations.

Finally, the state's desire to capture a larger share of the convertible currency generated by the influx of remittances provided another motive for de-dollarization. In the early 1990s, Cuba embarked on a two-tiered strategy to attract remittances from abroad. The first part of this strategy consisted of the legalization of the U.S. dollar (1993), the expansion of the "dollar stores" (1993), and the creation of government-run foreign exchange bureaus (or CADECA, S.A.) (1995) (Barberia 2002). The second tier was comprised of the transformation of the banking sector (1997), and the expansion and modernization of the formal infrastructure to process remittance payments (1999) (Barberia 2002). As a result of these measures, family remittances increased from $744 million in 1996 to an estimated $1 billion in 2004; and the ratio of remittances to merchandise exports increased from 39% to 45% (CEPAL 2001, 2002, and 2005). Table 8 shows the estimated value of annual remittances, and Cuba's principal macroeconomic indicators during the 2000-2004 period.

Table 8. Cuba: Remittances and Select Macroeconomic Indicators, 1996-2004

	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Remittances (million USD)	**$744**	**$792**	**$813**	**$799**	**$740**	**$812**	**$820**	**$855**	**$1,000**
Gross Domestic Product (GDP) (million pesos)	14,218	14,572	14,754	15,674	16,556	27,267	27,686	28,406	29,258

Merchandise Exports (million pesos)	1,900	1,800	1,500	1,400	1,675	1,661	1,446	1,678	2,223
Tourism Gross Revenues (million pesos)	1,380	1,515	1,759	1,901	1,948	1,846	1,769	1,996	2,205
Ratios									
Remittances / GDP	5%	5%	6%	5%	4%	3%	3%	3%	3%
Remittances/Exports	39%	44%	54%	57%	44%	49%	57%	51%	45%
Remittances/Tourism Gross Revenues	54%	52%	46%	42%	38%	44%	46%	43%	45%

Sources: CEPAL 2005; Mesa-Lago 2005; and author's calculations.

The growing importance of remittances in the Cuban economy contributed to the expansion of formal channels, online money transfer agents, and other remittance service providers (Barberia 2002). Despite the growth of these formal channels, *mulas*, or informal money couriers, accounted for a significant share of remittances sent to Cuba) prior to the implementation of new U.S. travel and remittance restrictions (RTRs) on June 30, 2004 (Orozco 2003; Puerta 2003). In 2002, remittances to Cuba reached an estimated $820 million, or 8% of the total for Central America and the Caribbean (Orozco 2003). Approximately 46% of this amount ($377 million) was sent via informal couriers; 30% ($246 million) was sent through Western Union; and the rest ($197 million) was sent using other channels, including online remittance service providers (Orozco 2003).

Assuming that the share of remittances sent via formal and informal channels remained unchanged between 2002 and 2004, an estimated $460 million were sent using *mulas*; $300 million via Western Union, and $240 million through other intermediaries, including online money transfer operations (MTOs). Since informal channels and intermediaries are often difficult to monitor and regulate, the proliferation of their activities represented a challenge to the hegemony of the state, and prompted the Cuban government to implement new policy measures to undercut their activities by drastically reducing their competitive advantage. Therefore, the need to (at least) partially replace informal money couriers with formal (mostly Internet-based) remittance service providers appears to be another cause of de-dollarization.(**8**)

Conclusion

The approval of Resolution No. 65 on July 21, 2003 marked the beginning of Cuba's "de-dollarization program." Resolution No. 65 established the convertible peso (CUC) as the only acceptable method of payment for all business entities operating in the island's hard currency sector; required all firms to convert their dollar holdings into convertible pesos; and granted the *Banco Central de Cuba (BCC)* complete control over all foreign exchange transactions. These measures were followed by the approval of Resolution No. 80 on October 23, 2004. Resolution No. 80 imposed a 10% surcharge on all exchanges of U.S. dollars for convertible pesos and "old" Cuban pesos; prohibited additional U.S. dollar deposits in existing bank accounts (with some exceptions); and required all entities that had previously accepted U.S. dollars to only accept convertible pesos.

The approval of Resolution No. 92 on December 2004 accelerated the process of de-dollarization by centralizing all foreign exchange transactions greater than $5,000 under a single hard currency account monitored by the Central Bank. This was followed by the approval of Agreements 13 and 15 on March 2005. Agreement 13 established a new exchange rate between the "old" peso and the convertible peso, and Agreement 15 established a new official exchange rate of $1.08/1CUC after April 9, 2005.

According to official sources, de-dollarization was primarily motivated by the desire to reduce the inequalities caused by the legalization of the U.S. dollar in 1993, the need to eliminate the system of monetary dualism created by semi-official dollarization of the Cuban economy, and mounting tensions between Cuba and the United States. From an economic perspective, however, de-dollarization seems to have been primarily motivated by the scarcity of hard currency (or foreign exchange) caused by declines in sugar output, a slowdown in international tourism, the impact of natural disasters, deteriorating macroeconomic conditions, and poor external sector performance during the 2000-2004 period. Given the important role of remittances in the Cuban economy, the need to increase the state's earnings from this activity, and partially replace informal money couriers with online remittance service providers, appears to be have served as another motive for de-dollarization.

Notes

1 The term "dollar stores" refers to the nationwide network of state-run *Tiendas de Recaudación de Divisas (TRDs)* established in 1995, known in the popular lexicon as " *lashopin*," where Cuban citizens, foreign residents, and tourists can purchase a wide range of consumer products using the U.S. dollar. The approval of Resolution No. 80 on October 23, 2004 replaced the U.S. dollar with the Cuban convertible peso; therefore, the terms "convertible peso stores" or "hard currency stores" provide a more current definition of these establishments. Return

2 For example, someone wishing to convert $100 into convertible pesos after April 9, 2005 would receive 92.59 CUC at the official exchange rate of $1.08 per 1CUC. Resolution No. 80 (2004) stipulates that such conversion is subject to a surcharge of 10%, which equals 9.26CUC (92.59 multiplied by 10%) in this case. As a result, he or she only receives 83.33CUC, or an effective exchange rate of $0.8333 per 1CUC.Return

3 The U.S. dollar was legalized after the approval of Decree-Law No.140 in September 1993. Return

4 A comparative analysis of Cuba's Gini coefficient reveals its growing income inequality during the post-Soviet era. In 1989, the national Gini coefficient was 0.22, and the poorest decile of the population received 3.7% of total income, while the richest decile received 30% (Mesa-Lago and Pérez-López 2005). The Gini coefficient in Cuba increased from 0.22 in 1986 to 0.55 in 1995 (Mesa-Lago and Pérez-López 2005), and the share of total income earned by the top 5% of the population was 31% in 1995, compared with 11% ten years earlier. (For more about income inequality in Cuba, see Brundenius 1987, Espino Prieto 2004, Ferriol 2002, and Fabienke 2001.)Return

5 The unofficial (or black market) exchange rate in 1989 was 7 pesos per dollar. In 1998, the average exchange rate at state-run CADECA, S.A. was 21 pesos per dollar.Return

6 See "Acuerdo 13." 2005. Havana: Banco Central de Cuba, March 17.Return

7 The GDP growth figures officially reported by Cuban sources are not comparable with the previous GDP series published in the *Anuario Estadístico de Cuba* (AEC) because the 1981 base used to calculate GDP at constant prices was changed to a 1997 base starting in 2001. According to Mesa-Lago (2005), this change resulted in a 60% increase in the value of GDP reported for each year during the 1996-2000 period, overstating actual GDP figures and annual growth rates.Return

8 At the present time, remittances sent via Internet-based service providers (e.g., www.cash2cuba.com, www.familyremittances.com, etc.), many in which the Cuban government has sizable interests, are exempt from the 10% surcharge stipulated by Resolution No. 80. As a consequence, these (alternative) formal channels enjoy a 10% cost advantage over their competitors. Return

Rerences

"Acuerdo 13." 2005. Havana: Banco Central de Cuba, March 17.

"Acuerdo 15." 2005. Havana: Banco Central de Cuba, March 24.

"Anuario Estadístico de Cuba." 2004. Havana: Oficina Nacional de Estadísticas, 2005.

Barberia, Lorena. 2002. "Remittances to Cuba: An Evaluation of Cuban and U.S. Government Policy Measures." Working Paper #15.

http:// web.mit.edu/cis/www/migration/ pubs/rrwp/15_remittances.doc

Blue, Sarah A. 2004. " State Policy, Economic Crisis, Gender and Family Ties: Determinants of Family Remittances to Cuba." *Economic Geography* , vol. 80., no.1, 63-83.

Brundenius, Claes. 1987. *Revolutionary Cuba: The Challenge of Economic Growth with Equity.* Boulder, CO: Westview Press.

Comisión Económica para América Latina y el Caribe (CEPAL). 2000. "La economía cubana: Reformas estructurales y desempeño en los noventa." Segunda Edición. Mexico. D.F.: Fondo de la Cultura Económica.

___________. 2001. "Cuba: Evolución económica durante 2001. Mexico D.F.: LC/MEX/L.

___________. 2002. "Cuba: Evolución económica durante 2001. Mexico D.F.: LC/MEX/L. 465-525, mayo 21 y junio 6.

___________. 2005. "Cuba: Rasgos generales de la evolución reciente. Santiago de Chile: febrero.

Espino Prieto, Mayra. 2004. "Social Effects of Economic Adjustment: Equality, Inequality, and Trends toward Greater Complexity in Cuban Society." In *The Cuban Economy at the Start of the Twenty-First Century,* 209-243. Cambridge, MA: David Rockefeller Center for Latin American Studies/Harvard University Press.

Espina Prieto, Rodrigo, and Pablo Rodríguez Ruiz. 2006."Raza y desigualdad en la Cuba actual." *Temas* 45 (enero-marzo):44-54.

Fabienke, Rikke. 2001. "Labour Markets and Income Distribution During Crisis and Reform." In *Globalization and Third World Socialism: Cuba and Vietnam*, Claes Brundenius and John Weeks, Eds, 102-128. Houndmills, England: Palgrave.

Ferriol, Ángela. 2002. "Explorando nuevas estrategias para reducir la pobreza en el actual contexto internacional: Experiencias de Cuba." Presented at the Seminario Internacional "Estrategias de Reducción de la Pobreza." La Habana: CLACSO/CROP.

González-Corzo, Mario A. 2006. "Dolarización: Definición, costos y beneficios: El caso de Cuba." *Delaware Review of Latin American Studies*, vol. 6, no.2.

Granma. 2005. "Nuevos incrementos salariales." Noviembre 23, 2005.http: www.granma.cu/espanol/2005/noviembre/mier23/nuevos.html .

Jatar-Hausmann, Ana Julia. 1999. *The Cuban Way: Capitalism, Communism and Confrontation.* West Hartford, CT: Kumarian Press.

Lage Dávila, Carlos. 1992. *El desafio económico de Cuba.* La Habana: Ediciones Entorno.

Mesa-Lago, Carmelo. 1993. *Cuba After the Cold War.* Pitt Latin American Series. Pittsburgh, PA: University of Pittsburgh Press.

___________. 1998. "Assessing Economic and Social Performance in the Cuban Transition of the 1990s." *World Development* 26(5): 857-76.

___________. 2002. "Growing Economic and Social Disparities in Cuba: Impact and Recommendations for Change." Prepared for the *Cuba Transition Project (CTP).* Institute for Cuban-American Studies. Miami, FL: University of Miami.

___________. 2003. *Economía y bienestar social en Cuba a comienzos del siglo XXI.* Madrid: Editorial Colibrí.

___________. 2005. "The Cuban Economy: Salvation or Damnation." Prepared for the *Cuba Transition Project (CTP).* Institute for Cuban-American Studies. Miami, FL: University of Miami.

Mesa-Lago, Carmelo and Jorge F. Pérez-López. 2005. *Cuba's Aborted Reform: Socioeconomic Effects, International Comparisons, and Transition Policies*. Gainesville, FL: University Press of Florida.

Office of Foreign Assets Control [OFAC]. 2004. "An Overview of Cuban Asset Control Regulations." Washington, DC: http://www.ustreas.gov/offices/enforcement/ofact/program/cuba/cuba/shtml

Orozco, Manuel. 2003. "The Impact of Migration in the Caribbean and Central American Region." FOCAL Policy Paper. FPP 03-03. Canadian Foundation for the Americas.

Pérez-López, Jorge F. 1995. *Cuba's Second Economy: From Behind the Scenes to Center Stage.* New Brunswick, NJ: Transaction Publisers.

___________. 2002 . "The Cuban Economy in an Unending Special Period." *Cuba in Transition,* vol. 12. Washington, D.C.: ASCE.

___________. 2004. "The Cuban Economy in 2002-2003." *Cuba in Transition,* vol. 14. Washington, D.C.: ASCE.

Pérez Villanueva, Omar Everleny. 2001. "Ciudad de La Habana: Desempeño económico y situación social." In *La* *economía cubana, coyuntura, reflexiones y oportunidades,* 17-41. Havana: Centro de Estudios de la la Economía Cubana/Fundación Friedrich Ebert.

Puerta, Ricardo A. 2003. "Remesas familiares y la política pública cubana." *Cuba in Transition,* vol. 13. Washington, D.C.: ASCE.

"Resolución No. 65." 2003. Havana: Banco Central de Cuba, July 16.

"Resolución No. 80." 2004. Havana: Banco Central de Cuba, October 23.

"Resolución No. 92." 2004. Havana: Banco Central de Cuba, December 29.

Ritter, Archibald, R.M. 2003. "The Cuban Economy in the Twenty-first Century." In *The Cuban Economy.* Archibald R.M. Ritter, ed. Pittsburgh, PA: University of Pittsburgh Press.

Rodríguez, José Luis. 2000. "Informe sobre la economía cubana." *Granma*, December 23.

___________. 2002. "Informe sobre los resultados económicos de 2002 y el Plan Económico y Social de 2003." *Granma*, 26 December.

___________. 2004. "Informe sobre los resultados económicos de 2004 y el Plan Económico y Social de 2005." *Granma*, 24 December.

Togores González, Viviana. 1999. "Cuba: Efectos sociales de la crisis y el ajuste económico de los 90s." In *Balance de la economía cubana a finales de los 90s,* 82-112. Havana: Centro de Estudios de la Economía Cubana.

Triana Cordoví, Juan. 2000. "La economía cubana en 1999." In *La economía cubana, coyuntura, reflexiones y oportunidades,*1-16. Havana: Centro de Estudios de la la Economía Cubana/Fundación Friedrich Ebert.

Valenzuela, Lídice. 2002. "Seguridad para los azucareros." *Trabajadores* (18 July)

http://www.trabajadores.cubaweb.cu/2002/julio18/portada/seguridad.html

Varela-Pérez, Juan. 2002. "Vamos a moler la caña que económicamente se justifique." *Granma* (23 August) http://www.granma.cubaweb.cu/2002/08/23/nacional/articulos09.html