Dual Currency

Between 1959 and 1965, Ernesto “Che” Guevara, president of Cuba’s Central Bank, set up Cuba’s budgetary finance system with the aim to prove that it was necessary and possible to develop socialist political consciousness and productivity simultaneously. The goal was to achieve economic development with equity from a position of underdevelopment without relying on capitalist mechanisms. According to his vision, money was to serve as a means of account rather than as a means of payment or as a form of financial compulsion. Less than a year after the nationalization of the bank, Che pulled all existing banknotes out of circulation and replaced them with newly minted national pesos (CUP), in order to take control of the money supply, stop capital flight, and remove funding sources for the counter-revolution.

For the next decades, this national currency – which was not weighted to international markets or currencies – remained Cubans’ only legal form of money. However, when the Soviet Union collapsed, the economy became precarious and this system was no longer workable; Cubans needed a means to purchase from and interact with other foreign markets. In response, Cuba adopted a dual currency system. First, in 1993, Cuba legalized the possession and use of US dollars. Then, in 2004, the government banned their use in shops and other businesses and replaced them with a second Cuban currency: convertible pesos (CUC). The government implemented this system in order to counteract hyperinflation of its Cuban peso (CUP), protect a separate domestic economy, and regain monetary stability. However, the prolonged simultaneous circulation of two different currencies for two different sectors has hindered potential economic growth and produced unfavorable economic effects and incentives.

Now, Cuba faces the challenges of merging the two currencies.

Legal Framework

Created in 1997 to replace the National Bank of Cuba (Banco Nacional de Cuba), the Cuban Central Bank (Banco Central de Cuba, BCC) operates the dual monetary and exchange rate system.

The Peso Cubano (CUP) cannot be exchanged directly into foreign currency and is fixed at a rate of 24 to 1 Peso Cubano Convertible (CUC). The CUC is fixed to the US dollar, and is currently exchanged at a rate of 0.97 CUC per 1.00 USD plus a 10% tax. While the CUC trades at about 25 CUPs, for personal transactions the rate is 1 to 1. This works well for state enterprises importing goods like food and medicine, and it keeps these items cheap for consumers, but it undermines state companies producing for export, and it is expensive for foreign investors.

Social Costs and Daily Life

The dual currency policy was undoubtedly functional and perhaps necessary at the time of its establishment, but it has had an exceedingly high social cost. It has generated a degree of social inequality that contradicts and places a serious strain on one of the most fundamental principles of socialism and the Revolution.

The large earnings gaps between state employees (paid in CUP) and workers within the tourist and foreign investment sectors (paid in CUC) has created an inverted pyramid where highly trained professionals, such as doctors, lawyers and professors, earn less than unskilled workers, such as taxi drivers, tour guides and doormen. The dual currency system has acted as a powerful disincentive for citizens to work for state enterprises or institutions, since workers are paid in national currency, but obliged to purchase certain needed goods and services in CUC.
In 2017, official average monthly salary was 767 CUP—equivalent to 28 CUC. Considering that imported goods are sold at global market rates, it makes it logical that many Cubans are seeking service sector work that pays in CUC or relying more heavily on remittances and work in the informal sector, than they are on their own salaries and chosen professions. To illustrate the everyday financial landscape: a typical citizen may purchase a coffee for 1 CUP, bus fare for less than 1 CUP, and a basic lunch for 10 CUP—but then have to save up a month’s salary for a new pair of shoes sold in CUC, or hundreds of CUC for home repairs.

The dual currencies have created a two-tier class system in Cuba, which favors those with access to foreign remittances, international work, or the lucrative tourist sector. As income inequality has risen, race-based and other forms of historic, structural discrimination have crept deeper into a society that claimed to have ended these inequalities with the triumph of the Revolution. For instance, family remittances come largely from white Cubans living abroad, making white families more likely to have access to capital. Moreover, Afro-Cubans are reporting less access to jobs in private restaurants and hotels.

**Currency and Exchange Rate Unification**

In late 2013, the government announced that currency and exchange rate unification were in the works, but, thus far, very few details about the government’s plans for this process have been released. As stated by former President and First Secretary of the Communist Party Raul Castro in 2017, the phenomenon of dual currency constitutes one of the most important obstacles to national progress, and while its elimination will not solve all economic problems, it would impact all spheres of society and advance the current economic model.\(^{14}\)

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