Cuba legalizes foreign currency transactions in the economy

Cuban peso banknotes: Cuba has formalized the use of multiple currencies with a new package of laws.

On Thursday, the Cuban government published a comprehensive package of laws in the official gazette that allows transactions in foreign currencies in the country. This officially recognizes and regulates the partial dollarization of the economy that has been progressing for years for the first time since the failed currency reform of 2021.

According to the announcement, Decree-Law 113 and three supplementary regulations from the Ministry of Economy and the Central Bank are intended to create a legal framework for the “administration, control, and allocation of foreign currency.” The aim is to increase the country's foreign exchange earnings and make their use more efficient, reported the state news portal *Cubadebate*. The legislative package is set to come into force on December 17.

Return to a multi-currency economy

Economy Minister Joaquín Alonso Vázquez explained that the regulation creates a “legal umbrella” for foreign exchange transactions that are already taking place in practice. “We must use the economic capacities within the current situation so that the various players in the economy, who are currently working in different exchange rate scenarios, can network and ensure that their monetary trade relations do not disadvantage either party,” said Alonso Vázquez.

Central Bank President Juana Lilia Delgado Portal confirmed to *Cubadebate* that the measures were a response to the “partial dollarization of some sectors.” However, she emphasized: “A time limit will be set because we have not given up on the goal of restoring a monetary environment in which the Cuban peso is the center of the monetary and financial system."

The legislative decree explicitly refers to the authorization of foreign currency transactions as a "temporary measure to stimulate economic activity" that will remain in effect "until the existing macroeconomic imbalances are resolved." Most recently, dollarization expanded with the opening of new supermarkets in foreign currency at the beginning of this year.

Who is allowed to trade in foreign currency?

The new regulations apply to legal entities – both Cuban and foreign – as well as to natural persons engaged in economic activities, local development projects, and international cooperation projects. With the reform, the Ministry of Economy will be authorized to approve foreign exchange transactions, while the Central Bank will be able to allow other currencies besides the Cuban peso as legal tender.

According to the Minister of Economy, exporters, recipients of foreign financing, online traders, companies engaged in import substitution, and foreign investors will benefit most from the new rules.

The regulations specify the "legitimate sources" from which economic actors can obtain access to foreign currency. These include export proceeds, e-commerce revenues, foreign financing, donations, and sales in the Mariel Special Economic Zone (ZEDM).

The move is particularly relevant for the private sector, which has been exempt from partial dollarization until now. However, it remains to be seen how freely licenses for foreign currency transactions will be issued in practice.

80/20 rule

A key component of the system is the state's retention of foreign currency. Economy Minister Alonso Vázquez explained that state exporters receive individual self-financing schemes that allow them to retain the foreign currency necessary for their production cycle. The regulation stipulates that state-owned companies can generally retain 80 percent of their foreign exchange earnings from exports, while 20 percent is transferred to the central treasury. In other cases, the remaining 20 percent is credited to the actor in pesos at the official exchange rate.

According to Alonso Vázquez, the transfers are intended to finance the country's "basic social programs," such as food subsidies via the *Libreta* ration book, energy subsidies, and the construction and maintenance of schools and health facilities.

No new exchange rate (yet)

Although the new regulations repeatedly refer to the exchange rate, they do not set a new rate. Prime Minister Manuel Marrero had announced in the summer that this would happen in the second half of the year. However, Alonso Vázquez assured that the measure was "linked to the relaunch of the foreign exchange market" and would "lay the foundations for the future currency transformations required by the government program."

With Regulation 126, the central bank is also introducing a new instrument: the "allocation of foreign exchange access capacity" (ACAD). This serves to allocate foreign exchange to economic actors who do not generate it themselves but need it for priority economic activities. The allocations are non-transferable and expire after 30 days if they are not used.

US applies pressure

Economy Minister Alonso Vázquez rejected criticism that the measures would “build capitalism with the partial dollarization of the economy.” He emphasized that the regulation was based on the experiences of the last ten years and was necessary to revive the economy.

The legislative changes are taking place against the backdrop of a worsening economic crisis with stagnating foreign exchange earnings. Cuba's gross domestic product has shrunk by 11 percent over the past five years. The daily electricity deficit recently stood at around 50 percent of demand, which repeatedly leads to grid failures.

In addition to the structural problems of currency reform, the tightening of US sanctions and increasing pressure on Venezuela have recently contributed to the ongoing energy crisis. This week, the US military stormed a Venezuelan tanker that had loaded oil for Cuba. Caracas and Havana spoke of “piracy.” The US announced its intention to seize more tankers in the future. As energy expert Jorge Piñon explained to *Reuters*, Venezuela is once again Cuba's most important energy supplier due to declining supplies from Russia and Mexico. “Times are tough and will get even tougher,” Piñon said.

Due to the “difficult situation in the country,” it was decided that both the upcoming Central Committee meeting on Saturday and the parliamentary session on December 18 would be held in a reduced form as video conferences. (Cubaheute)