

Currency Reform and Pricing and Salary Policy

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Motivation

- Three resolutions (19, 20 and 21) were published by the Ministry of Finance and Prices (MFP) in the *Gaceta Oficial Extraordinaria* No. 12 in March.
- The resolutions are aiming to regulate pricing and accounting practices once the CUP is re-established as the only currency for transactions in the business sector.

Day zero

- The texts refer to a “Day Zero”, without mentioning the moment in which the currency will be substituted.
- But somehow they suggest that the currency reform will be quite swift in the business sector, and may occur as early as this year, or the beginning of 2015.
- Whether the CUC will also be substituted in unison for the general population is not mentioned.

Opportunities for speculation

- Even though the resolutions only refer directly to the business sector, they have triggered expectations and reactions among citizens.
- Certainly, one of the disadvantages of a step-by-step, anticipated currency reform is more uncertainty and opportunities for speculation.
- Cuba's economic authorities count as a factor in their favor their control over capital flows

Joint ventures and foreign companies

- “Joint ventures, totally foreign-owned companies, as well as the subsidiaries and representative offices of judicial and foreign persons located on national territory, are obliged to use the Cuban Peso (CUP) as currency to keep record of the economic facts.”
- “... the entity may conserve the currency of origin of the transaction.”
- Foreign enterprises will begin to be more interested in monetary policy and the macroeconomic balances that sustain the value of the Cuban Peso

Salary Policy

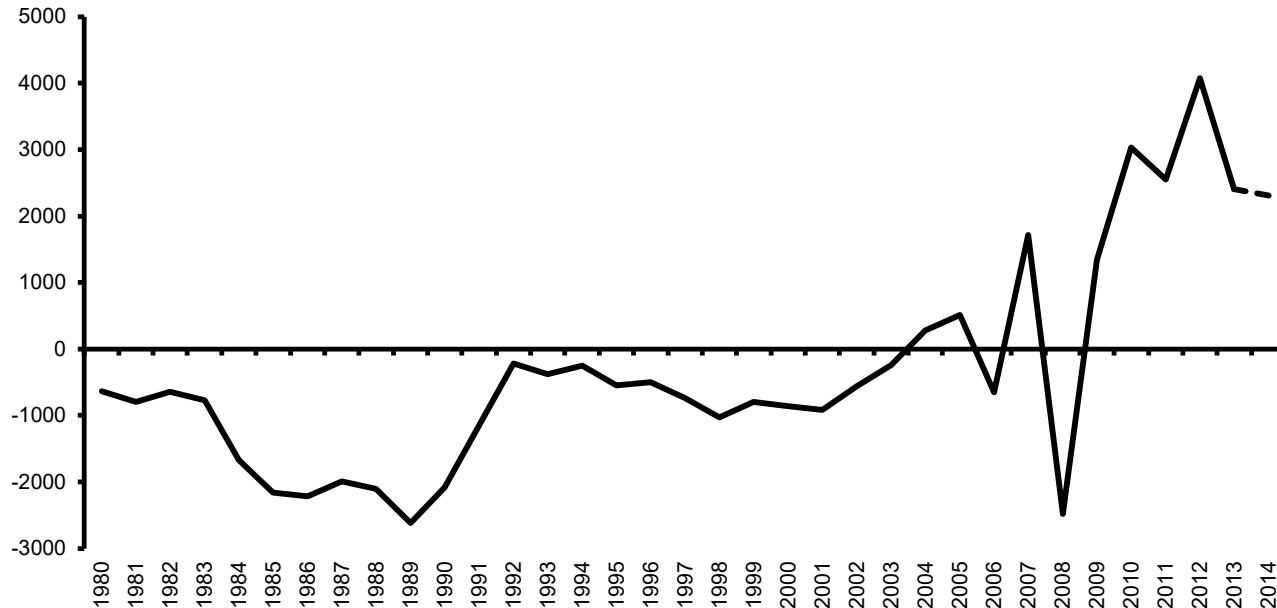
- In the case of the Mariel Special Development Zone (ZEDM), the state agency only withholds 20% of the salary, and for the conversion of the salaries to Cuban pesos, an exchange rate was established that is closer to market rate (10CUP:1USD).
- For the remainder of companies with foreign capital, there will be changes in salaries, but their magnitude have yet to be known.
- State companies will be able to decide their compensation system and increase salary levels according to their financial capacity, as long as the relation median salary-productivity doesn't deteriorate

Pricing Policy

- The resolutions propose two methods for pricing: a) by correlation, or b) by spending method.
- In the *correlation method*, enterprises will determine their prices referencing the prices of equivalent products and services in internal or external markets. Under the *spending method*, a profit margin approved by the MFP is added to the total cost of the producer or distributor.
- After the elimination of the dual monetary system, the government will be flexibilizing wholesale and retail prices. The new regulations seek to ensure that prices cover the costs and that they maintain a relationship with market signals. It remains to be seen whether bureaucratic control mechanisms won't affect too much their flexibility.

Surplus in external trade!!

Figure 5: Trade Balance (Goods and Services), 1980-2014
USD Million



Source: Cuba Standard, Economic Trend Report, May 2014

- Increasing fiscal and financial responsibility under the government of Raúl Castro.
- Is the central bank accumulating foreign reserves for the currency reform?

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