CLIENT ALERT

The Next Two Critical Steps for Cuba: IFIs and Currency

This is a time of profound economic transformation for Cuba. Over the past year, the Obama administration has eased financial restrictions, allowed limited exports, and permitted U.S. banks to conduct business on the island. Promising new trade bills await Congressional approval, and economic relations, both regionally and globally, are looking up.

To build on this momentum, BGC is advocating that Cuba pursue membership in international financial institutions (IFIs) and tackle the challenging issue of currency reform. These two crucial moves would help restructure and reintegrate the economy and improve the quality, reliability, compatibility, and transparency of Cuba's international financial transactions.

Attracting foreign investors remains a fundamental stumbling block to progress. In 2014, hoping to secure $8 billion in new investment, Cuba passed a foreign direct investment law, inaugurated a Special Development Zone at the upgraded Mariel port, and published a prospectus of proposed projects. However, while outside interest has indeed increased, it still falls short of targets. Official aggregate investments have languished at around 10 percent of GDP for the past two decades—half of the regional average and less than a quarter of China's.

To build confidence among the international community and boost investment, Cuba needs to regain access to the IFIs, especially the International Monetary Fund (IMF), The World Bank, and the Inter-American Development Bank (IDB).

In addition, the nation's dual exchange rate is in drastic need of restructuring. Cuba's complex system features two coexisting official currencies: the CUP (Cuban peso) and the CUC (convertible peso) with different fixed exchange rates. This ambiguity creates a high level of risk for investors. While the government has expressed interest in replacing the dual-currency system with a single adjustable exchange rate, concrete steps have yet to be taken, as the process of unification could engender negative economic and social repercussions.

As Havana looks to the future, IFI guidance would greatly benefit the design and construction of a modern monetary and exchange system. Carefully considered reform would establish a solid foundation for foreign investment and spur economic growth. The Atlantic Council suggests three possible approaches: engage in a gradual process of confidence-building between the IFIs and Cuban authorities, with no initial commitment or date for membership; take a more direct and immediate path, beginning with applying for membership; and/or encourage President Obama to publicly support the inclusion of Cuba in the IFIs.

IFI membership and currency reform will give Cuba the stability it needs for steady financial growth and reintegration into the global economy as it advances into the 21st century.