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## FEATURED Q&A

# Will New Currency Reforms Revive Cuba's Economy?



Cuba's convertible peso will be eliminated under announced monetary reforms. // File Photo: Mich52413 (pixabay.com) via CC license.

**Q Before the end of the year, Cuba's government is planning to unify its dual-currency system by devaluing its peso for the first time since 1959 and eliminating its convertible peso.**

**The U.N. Economic Commission for Latin America and the Caribbean expects Cuba's GDP to contract by 8 percent this year amid the coronavirus pandemic and tougher U.S. sanctions. What effect will the currency reform have on Cuban citizens and on the country's economy? How will the monetary reform influence the country's exports and imports? Will the change lead to significantly higher inflation?**

**A Pavel Vidal, associate professor in the Department of Economics at Pontifical Xavierian University in Cali, Colombia, and former analyst in the monetary policy division at the Central Bank of Cuba:** "The announced monetary reform stands out, first, for its comprehensiveness, by creating a package that includes the elimination of the Cuban convertible peso (CUC), the correction of salaries, pensions and subsidies, the re-dollarization of some markets and the recognition of greater room for the nonstate sector. Secondly, it has as its hallmark the decision to assume a significant and rapid devaluation of the Cuban peso, which is an exceptional characteristic within a reform process whose main drawback has been its exasperating slowness. The devaluation of the national currency seeks to stimulate exports, the substitution of imports, the creation of new domestic value chains and the gradual closure of inefficient state companies. The exchange rate adjustment will bring more transparency for state companies' balance sheets, and many of them are going to struggle to survive without

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## TODAY'S NEWS

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## Latin Americans Speak Out on U.S. Election Choices

Small groups of protesters both for and against the re-election of U.S. President Donald Trump took to the streets in Latin American countries over the weekend.

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### ECONOMIC

## U.S. Moves to Cut Diesel Supply to Venezuela

The U.S. has ended an exemption that it provided for Venezuelan diesel supply transactions, which were allowed on humanitarian grounds despite U.S. sanctions against state oil company PDVSA.

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### ECONOMIC

## Record Number of Brazilians Jobless

Brazil's unemployment rate rose to 14.4 percent in the three-month period from June to August this year, setting a modern record. Special Finance Secretary Waldery Rodrigues also said the treasury is considering taking a \$1 billion loan from the World Bank to help boost recovery.

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Rodrigues // File Photo: Brazilian Government.

## POLITICAL NEWS

## Latin Americans Speak Out on U.S. Election Choices

Small groups of protesters both for and against the re-election of U.S. President Donald Trump took to the streets in Latin American countries over the weekend, just days ahead of the U.S. presidential vote scheduled for Tuesday. On the Mexican border with the United States, several dozen protesters in Tijuana on Saturday burned effigies of Trump and of a U.S. border patrol guard, Reuters reported. "We're calling on people to vote against Trump and in favor of hope," Hugo Castro, a Mexican-American migrant activist, told the news agency. Meanwhile, in São Paulo, supporters of far-right Brazilian President Jair Bolsonaro, who has taken the unusual step of endorsing a U.S. president in this year's election, carried signs with "Trump 2020" through the streets on Sunday, Folha de S.Paulo reported. Demonstrators there were mainly protesting against São Paulo Governor João Dória, who has been feuding with Bolsonaro over a range of issues, including how the Covid-19 pandemic has been handled. Closer to home, people with Cuban, Nicaraguan and Venezuelan ties within the United States have been rallying to support Trump, who has framed the contest in

ideological terms, describing Democratic Party candidate Joe Biden in an ad as "the candidate of Castrochavismo"—a term coined to describe the mix of Cuba's totalitarian communism and Venezuela's kleptocratic socialism, The Wall Street Journal reported recently.

## ECONOMIC NEWS

## U.S. Ends Exemption for Diesel Supply to Venezuela

The administration of U.S. President Donald Trump last week did not renew an exemption from sanctions for diesel supplied to Venezuela by non-U.S. companies, Argus Media reported. The transactions had been allowed on humanitarian grounds despite U.S. sanctions against Venezuelan state oil company PDVSA since early 2019. India's Reliance Industries has been supplying diesel to the Andean nation in exchange for Venezuelan crude, while Spain's Repsol and Italy's Eni have been lifting oil in the country as payment from PDVSA for historical debts, shipping back diesel to balance the books, Argus Media reported. The Trump administration's move to block diesel swaps is its latest effort to pressure the government of Venezuelan President Nicolás Maduro, Bloomberg News reported. "We are

## NEWS BRIEFS

## China's Goldwind Signs Turbine Deal in Brazil

China-based wind turbine maker Goldwind has signed a new contract to supply 18 new machines in Brazil, REVE reported Saturday. The deal was signed with power company CGN Energy, which is also under Chinese control. Delivery of the wind turbines should begin in 2021. Goldwind said the deal will bring its negotiated capacity in Brazil to almost 500 megawatts. According to the Brazilian Wind Energy Association, wind power has become the second-largest source of electricity in Brazil.

## Mexican Economy Grows 12 Percent in Q3

Mexico's economy grew 12 percent during the third quarter of the year, state statistics agency INEGI said Friday, Reuters reported. Stronger demand from the United States helped its southern neighbor gain back some of the 17 percent its economy lost from April to June due to the coronavirus pandemic and economic lockdown. Exports gained strength in the quarter, especially in the automotive industry, while domestic demand lagged behind. In related news, Banxico said Friday that consumer lending fell 10 percent in September as compared to the same month last year.

## Hurricane Eta on Track to Hit Nicaragua, Honduras

The U.S.-based National Hurricane Center today upgraded tropical storm Eta to hurricane status, the Associated Press reported. The storm was located about 155 miles east of the border of Nicaragua and Honduras, with landfall expected early Tuesday. Forecasters said central and northern Nicaragua and much of Honduras could get 15 to 25 inches of rain, with a storm surge up to 15 feet above normal tides. Eta is the 28th named Atlantic storm this season, tying the 2005 record for named storms.

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the subsidy implicit in the current exchange rate. The Cuban government is using the worrying economic scenario to gain political consensus in favor of deeper reforms, and it seems more willing to take the risk of complex reforms such as the exchange rate adjustment. Cuba does not have the financial support of the IMF or any other multilateral institution to manage the monetary reform. International reserves and policy spaces have been exhausted after confronting the impacts of the Venezuelan crisis, the United States sanctions and the pandemic. There-

fore, the intelligent organization of the new regulatory framework and of the structural changes that accompany monetary policy actions are the key to success, and in that regard, small- and medium-sized private companies have much to contribute."

**A**ngela Mariana Freyre, principal at Squire Patton Boggs and former special advisor for Cuba policy at the U.S. National Security Council: "The long anticipated end to Cuba's dual currency system, which is

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trying to stop the export of crude by the Maduro regime in Venezuela, and one of the ways we are trying to stop it is to prevent people from swapping various products for it, not just paying cash for it. So, swapping debt, swapping diesel,” U.S. special envoy to Venezuela Elliott Abrams told reporters last week. U.N. High Commissioner for Human Rights Michelle Bachelet had called on the U.S. government to maintain the exception on humanitarian grounds. As the Andean nation faces severe fuel shortages, imported diesel in Venezuela is used for power generation, municipal water supply, agricultural activity, as well as food distribution and public transport. The Venezuelan opposition’s envoy to the United Nations, Miguel Pizarro, had made similar calls, as had local farmers and businessmen, Argus Media reported.

## Brazil Employment Data Sets Records

Brazil’s unemployment rate rose to 14.4 percent in the three-month period from June to August this year, setting a record for the highest level since comparable data started tracking in 2012, state statistics agency IBGE announced Friday. Some 13.8 million Brazilians are out of work, according to the release, with 81.7 million Brazilians employed, a decline of 5 percent as compared to the previous three-month period. The “underutilized population” also set a record in the period, rising 9.7 percent to 33.3 million people. The informality rate reached 38 percent of the employed population, at 31 million informal workers, according to IBGE. “The already weak labor market softened further in August ... and may weaken more in coming months as a number of discouraged workers start to look for a job and return to the active labor force,” Goldman Sachs economist Alberto Ramos told clients in a research note. Despite the grim employment figures, an economy ministry official said Friday the government may revise upward its official 2020 economic growth forecast of -4.7 percent, citing momentum from a strong “V-shaped” economic recovery underway, Reuters reported. In a presentation,

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## Online Event: Innovating Healthcare in Latin America and the Caribbean

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### SPEAKERS

<p><b>Rifat Atun</b> Professor of Global Health Systems, Harvard University</p> <p><b>Rolf Hoenger</b> Latin America Head, Roche Pharmaceutical</p>	<p><b>Amanda Glassman</b> EVP, Center for Global Development</p> <p><b>María del Rocío Saénz Madrigal</b> Former Health Minister of Costa Rica</p>
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**November 4, 2020**

**2:00 pm - 3:00 pm Eastern Standard Time (US)**

This event is free and open to the public.  
For more information and to register, click [here](#)

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Special Finance Secretary Waldery Rodrigues also said the treasury is considering taking a \$1 billion loan from the World Bank to help boost recovery.

### BUSINESS NEWS

## Chile’s NotCo Enters U.S. Food Market

NotCo, a Chilean food technology company making plant-based milk and meat replacements, today announced it has entered the United States in a deal with grocery retailer Whole Foods. “We know 33 percent of plant-

based milk consumers in the U.S. move back to dairy because of compromises in taste. We are here to change that,” Lucho Lopez-May, CEO of NotCo for North America, said in a statement. The company recently announced an \$85 million Series C Round with industry investors including Bezos Expeditions, Future Positive and L Catterton, as well as follow-on investment from all its previous-round investors. The company said it will soon open a new office in New York to host its U.S. commercial operations. The company also has operations in Argentina and Brazil. Over the past two years, the plant-based food industry has grown 29 percent, as compared to 2.2 percent growth in general food retail, according to information contained in a NotCo statement.

## FEATURED Q&amp;A / Continued from page 3

expected to result in monetary and exchange rate unification, is having a negative short-term effect but, assuming successful implementation, will have a positive long-term effect on Cubans and the Cuban economy as the country becomes more integrated into the global marketplace and economy. Ideally, this significant reform will assist Cuba in transitioning from state-subsidized salaries, prices, pensions and other factors directly affecting the Cuban citizen, to a partially market-driven system. It has been announced that certain tax benefits would favor Cuban exports and develop the international market for such exports. The reform should also enhance the ability of 'cuentapropistas' to import needed goods. In addition, attempting to attain certain international financial standards will assist in attracting foreign direct investment to Cuba. Ultimately, the formalizing of the Cuban

“One could say that the Cuban government has chosen an ideal time to make this transition...”

— Angela Mariana Freyre

economy and the removal of cash from the markets will devolve to the benefit of exporters, importers and Cubans generally. That said, somewhat higher rates of inflation are expected, ration books will be eliminated, and the continued adverse effect of the pandemic coupled with an increasingly aggressive U.S. embargo will make this transition deeply challenging for Cubans. One could say that the Cuban government has chosen an ideal time to make this transition given the already adverse landscape facing the Cuban economy. In any event, the government has the means to offset the worst effects on the Cuban population and has assured the public that every Cuban will be protected. It

is significant and interesting that the Cuban government is undertaking these reforms at a time when U.S.-Cuba relations are at a historically low point, thus avoiding the appearance of a causal relationship, which could be politically charged.”

**A** **Jorge Sanguinetti, chairman and senior advisor at DevTech Systems:** “The currency reform in Cuba is expected to have two aspects: the elimination of the deceptive and burdensome convertible peso, and the concomitant correction and unification of the exchange rates between the peso and the U.S. dollar, and between the convertible peso and the regular peso, as applied to take the former out of circulation. The citizens who hold balances in convertible pesos may lose part of their value depending on the rate the government finally decides to apply when exchanging them for pesos. Presumably, there will be some losses as the convertible peso has been depreciating considerably since its inception, when its value was closely pegged to the dollar. The reform will not have an immediate, direct or automatic impact on the Cuban economy unless the government takes additional measures on the real economy to increase the overall supply of goods and services, such as allowing state and private producers more flexibility in the management of its enterprises. The monetary reform will help the enterprises to have more accurate accounting of costs and revenues, allowing them to have better financial and management systems, conditions that should improve productivity and therefore increase production levels and even real salaries. The reform’s impact on exports and imports will be felt after the enterprises are granted more autonomy to negotiate sales, purchases and prices under the new conditions. The effects on inflation will depend primarily on how the government manages its fiscal and monetary affairs and succeeds in controlling budget deficits.”

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