

Problems of the monetary reform in Cuba. Lessons from China and Vietnam.

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Why monetary and exchange rate unification in Cuba are necessary?

- ▣ All prices are established in a single currency.
- ▣ To establish an appropriate relationship between prices and incomes of residents in Cuba.
- ▣ To measure the cost of living and incomes in real terms.
- ▣ Convertibility will establish direct connections between domestic and international prices.
- ▣ Measures the international competitiveness of domestic production in terms of relative prices.

Problems of the monetary unification.

- ▣ What would be the exchange rate for the unification process?
- ▣ At this exchange rate all prices will be adjusted or this will occur at different exchange rates
- ▣ How to minimize the inflationary effect of monetary unification?
- ▣ The big difference between exchange rates of CUC and CUP.

Experiences of China and Vietnam.

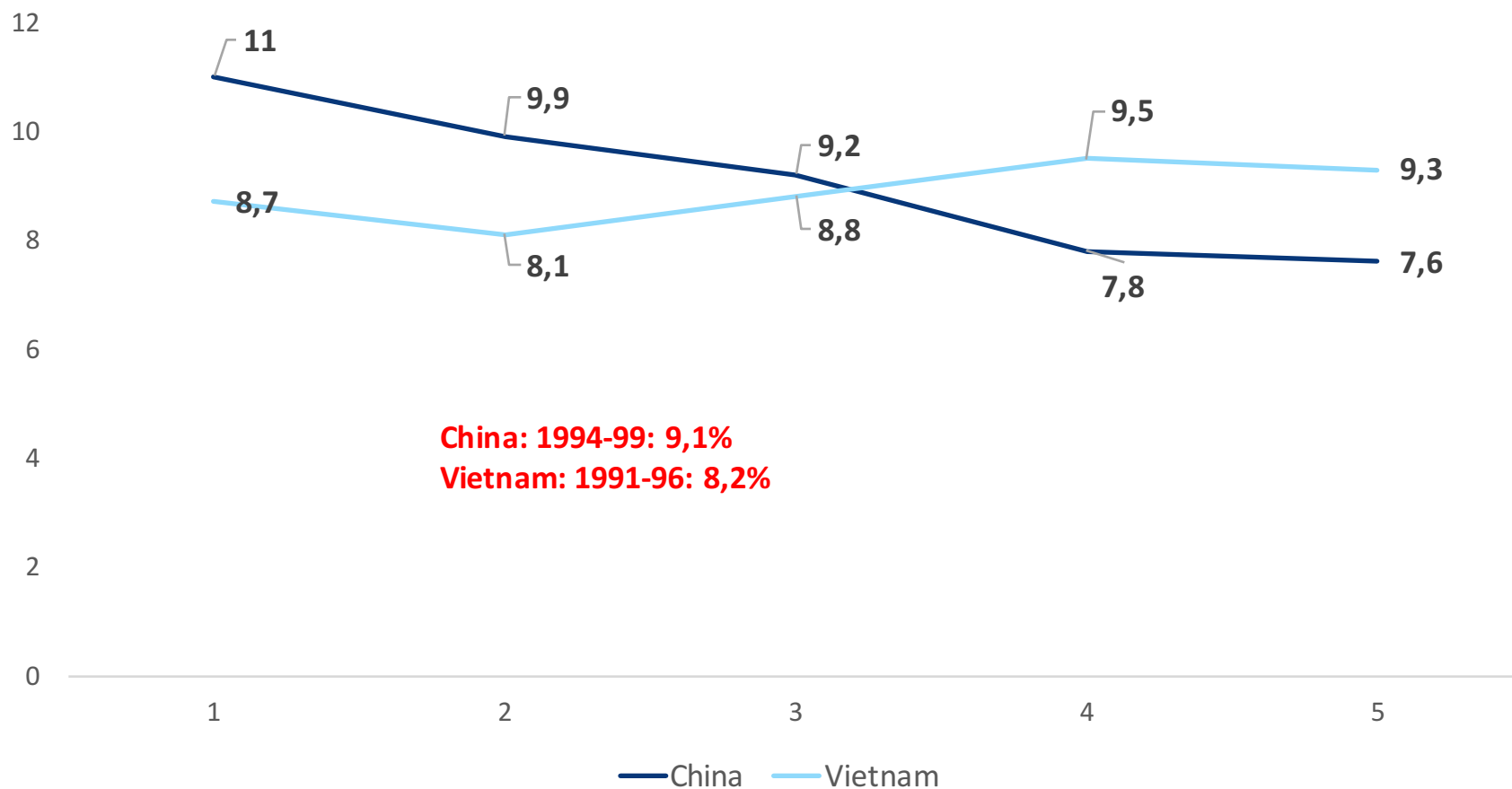
China

- Duality was in the exchange rate. For domestic transactions and foreign exchange certificates.
- In the 80's, foreign exchange markets (foreign exchange swaps centers) were created. Devaluation from 2,80 RMB/USD to 5,80 RMB/USD.
- 1994. Exchange rate unification. Devaluation from 5,80 RMB/USD to 8,70 RMB/USD.
- Exchange rate system has shifted from fixed exchange rate anchored to USD to a basket of currencies and later flexible exchange rate managed by the People's Bank anchored to USD again.

Vietnam

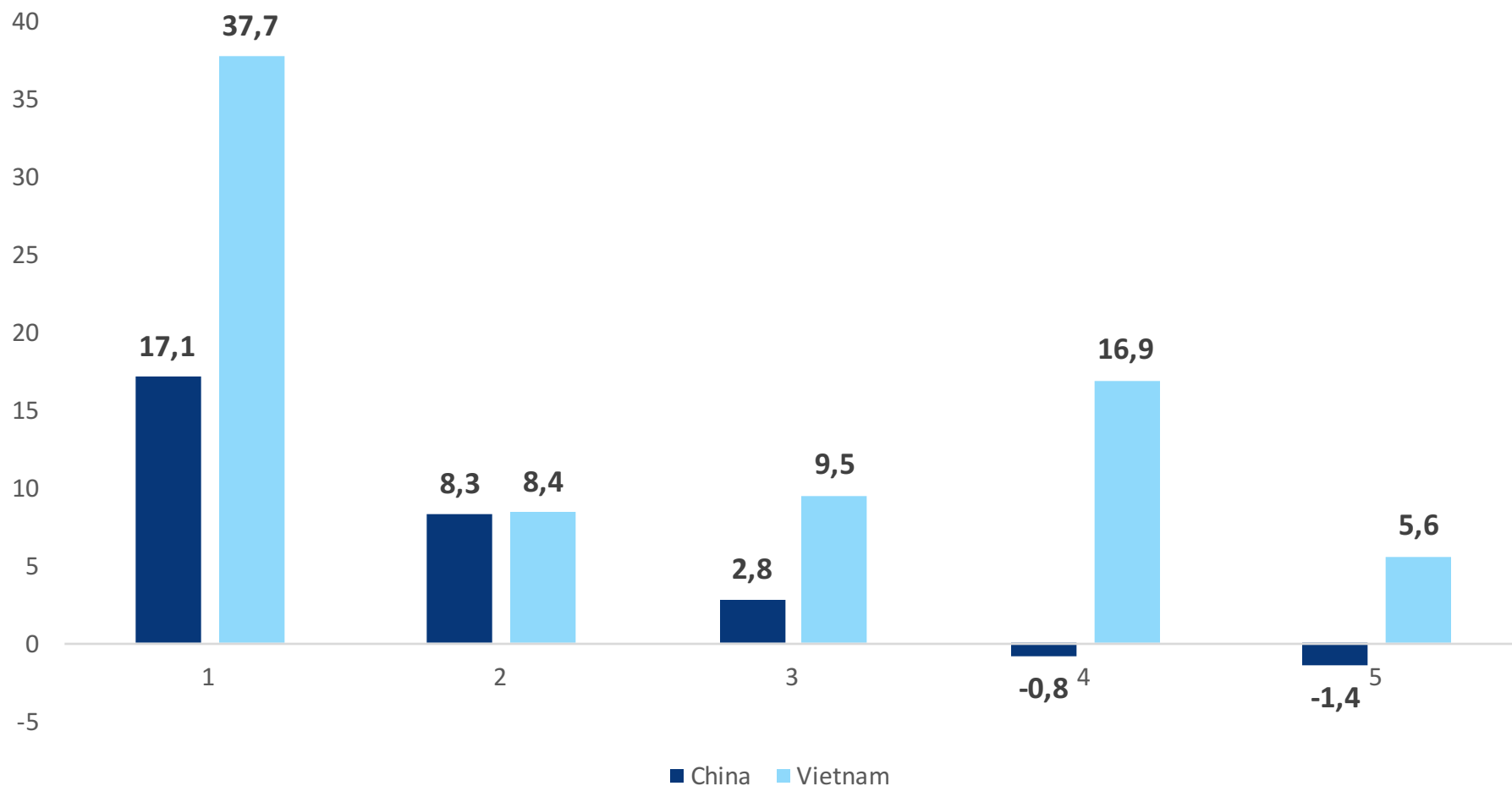
- Duality in the exchange rate. For domestic and foreign transactions
- 1988. Devaluation from 225 to 900 VND/USD in external transactions and from 368 to 3.500 VND/USD in domestic transactions (Vo et al, 2000)
- 1989. Unification of multiple exchange rates at a devaluated rate (4.500 VND/USD). Floating exchange rate with movable bands. Persistence of black market.
- 1992-98. Fixed exchange rate with fluctuation band. Auctions of foreign currencies.
- From 1999. Flexible exchange rate managed by the State Bank, using the interbank foreign market as reference.

Annual GDP growth in China and Vietnam in the first five years after the unification of exchange rates.



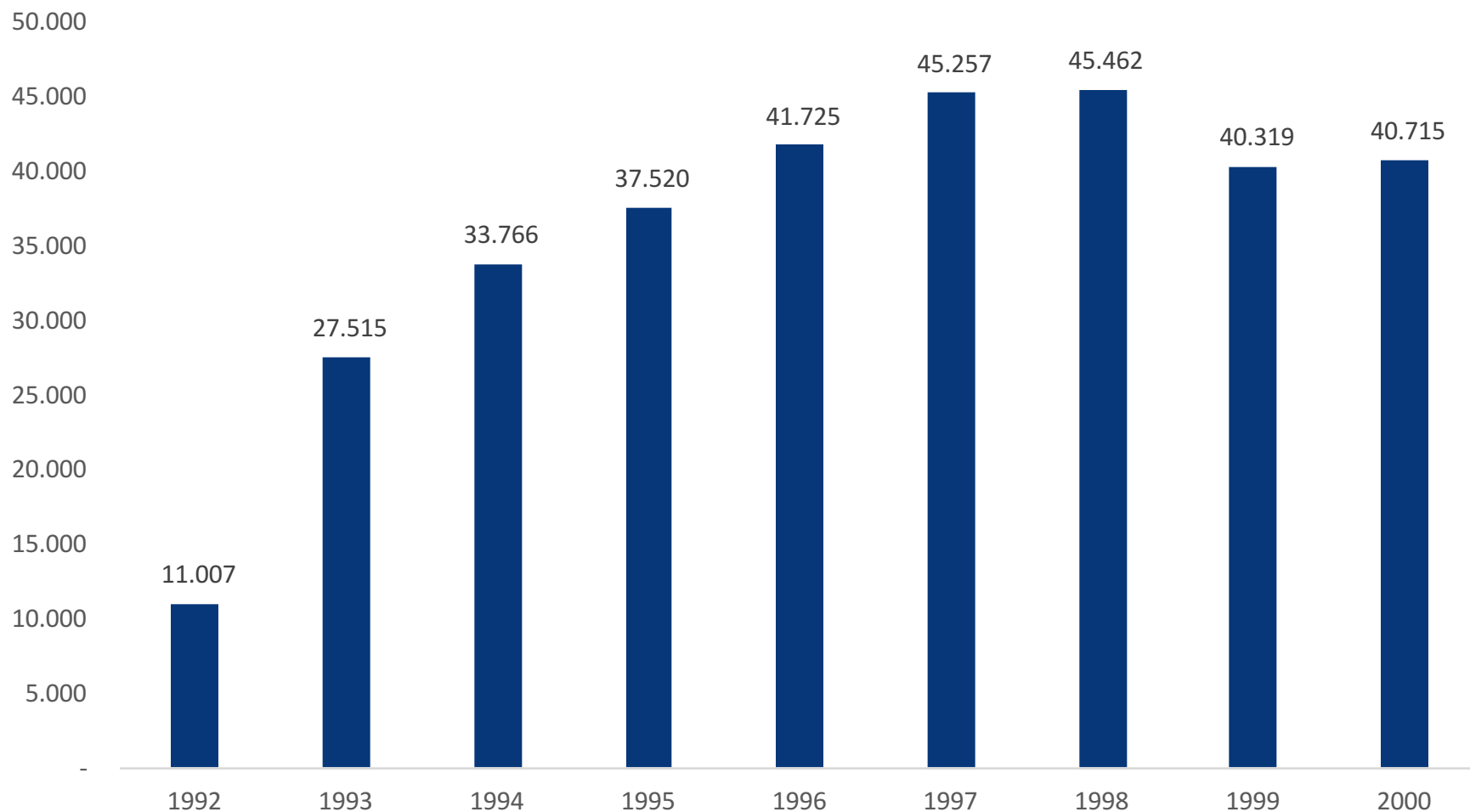
Source: IMF (2016) WEO Database. www.imf.org

China and Vietnam inflation in the five years after the exchange rates unification (%).



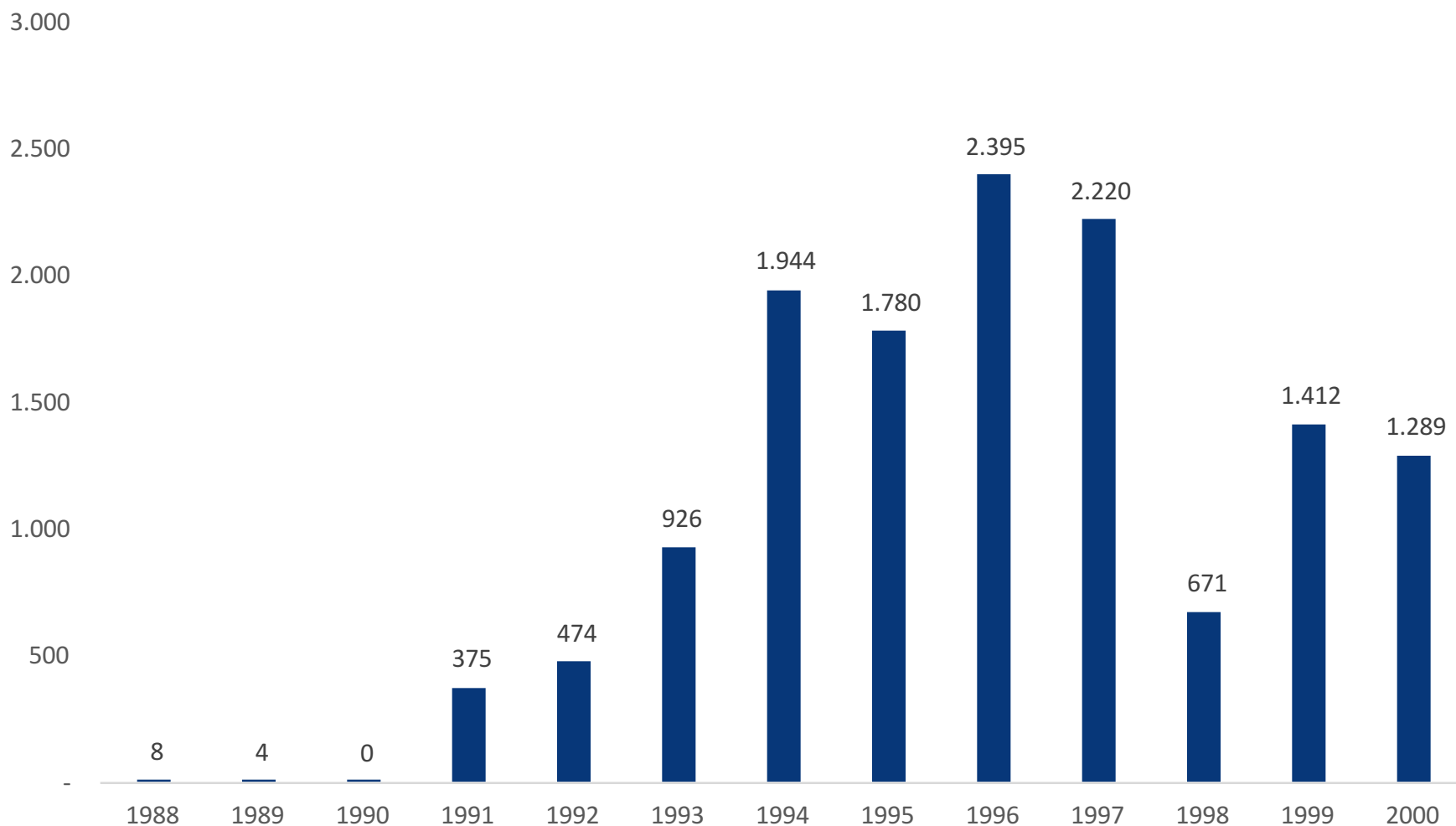
Source: IMF (2016) WEO Database. www.imf.org

FDI received by China in previous years and after the exchange rate unification (million of USD)



Source: UNCTAD (2016) UNCTADSTAT. www.unctad.org

FDI in Vietnam in the previous years and after the exchange rates unification (million of USD)



Fuente: UNCTAD (2016) UNCTADSTAT. www.unctad.org

Monetary unification in Cuba. Proposals sequence.

Price adjustment depending on the market.

collapse of external finances. Loan resources could support the convertibility of the unified national currency.

Creating a NEW CUBAN PESO around the current CUC to avoid a nominal inflationary spiral. Definition of the monetary system: basket of currencies (USD, EUR, CNY, CAD, GBP)?
against other currencies?

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