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FEATURED Q&A

What's Causing the Decline of the Cuban Peso?

The Cuban peso has fallen to all-time lows against the U.S. dollar on informal markets this month. Cuba's central bank is pictured. // File Photo: Wangkun Jia via Adobe Stock.

Q Cuba's peso has traded at all-time lows on informal markets this month, according to data from independent Miami-based currency tracking site El Toque. The government's recently implemented "partial dollarization" plan, which liberalized certain sectors' use of foreign currency, has coincided with a double-digit depreciation of the peso relative to the U.S. dollar since January. What is causing the peso to decline so sharply? How has the most recent downturn affected daily life for Cubans? What are the main structural trends driving Cuba's economy?

A Emily Morris, honorary senior research fellow at University College London's Institute of the Americas: "In mid-January, the informal exchange rate was 340 pesos per U.S. dollar. By mid-August, the rate had slid to 400 pesos per dollar: a 15 percent depreciation over the period. Exchange rates tend to move in line with relative prices. The exchange rate and inflation were hit by a currency reform in 2021 and have subsequently reflected shortages arising from a persistent lack of foreign exchange. Since mid-January, Cuba's official prices index has risen by around 10 percent, but this understates the rise in the cost of consumer goods, so the fall in the Cuban peso's value is unsurprising. However, exchange rates tend to be more volatile than prices, and this is certainly the case in Cuba, where the peso's value reflects short-term fluctuations in demand and supply of foreign currency, as well as expectations. For example, the temporary appreciation of the peso (to 300 pesos per dollar) in December can be attributed to increased

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TODAY'S NEWS

POLITICAL

Bolivia's MAS Trounced in Legislative Vote

Bolivia's long-ruling Movement Toward Socialism, or MAS, party lost all but two legislative seats in the country's Aug. 17 vote, according to results released Tuesday.

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BUSINESS

Nigeria Eyes Return of Brazil's Petrobras

Brazilian President Luiz Inácio Lula da Silva told Nigerian President Bola Tinubu that state-run oil company Petrobras would "quickly" return to the African nation, Tinubu said Tuesday.

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POLITICAL

Venezuela to Deploy Military Vessels in Key Oil-Producing Area

Venezuelan Defense Minister Vladimir Padrino announced Tuesday that the country would deploy military ships to a main oil-exporting area off of Venezuela's coast. The development followed a U.S. deployment of warships.

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Padrino // File Photo: Mil.ru, CC BY 4.0.

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POLITICAL NEWS

Venezuela to Deploy Military Vessels to Key Oil Area

Venezuela will deploy military ships to a main oil-exporting area off the country's coast, Defense Minister Vladimir Padrino said Tuesday, Bloomberg News reported. The vessels will be positioned north of Lake Maracaibo and the Gulf of Venezuela, Padrino said on social media. His announcement followed the U.S. deployment last week of three warships to international waters off Venezuela's coast, which the Trump administration has said is part of an effort to fight drug trafficking. Venezuelan President Nicolás Maduro responded to the U.S. deployment by calling on Venezuelans to join militias and also by sending 15,000 troops to Venezuela's border with Colombia. Padrino said in an Instagram post that the troops will fight "the armed, terrorist drug-trafficking groups operating on the border" with Colombia, the AP reported. Padrino added that the military ships that are being deployed to Venezuela's territorial waters will be larger than "patrolling" vessels, Bloomberg News reported. Lake Maracaibo is the location of Chevron's Petroboscán venture, which produces about 100,000 barrels a day of crude that the oil major exports from the Gulf of Venezuela, Bloomberg News reported. In April, two of every seven oil-exporting ships leaving Venezuela and headed to refineries in the United States left from Lake Maracaibo, according to data compiled by the news service.

Right-Leaning Parties Trounce MAS in Bolivia's Election

Right-leaning parties won enough legislative seats to secure a coalition supermajority government in Bolivia's general election on Aug. 17, the Associated Press reported, citing data released on Tuesday by Bolivia's electoral authority. Neither party representing the two presidential candidates who are set for a runoff in October won an outright majority of seats in the lower chamber of the legislature. Center-right Senator Rodrigo Paz's Christian Democrat party won more seats than any other party, with 65 out of 166; right-wing former President Jorge "Tuto" Quiroga's Libre party won 51 seats. When also accounting for other smaller parties, right-wing and center-right political vehicles—which have served as the main political opposition after every general election in Bolivia since 2005—won 154 assem-

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seasonal inflows of remittances. The continued depreciation indicates that inflationary expectations have not been dented by the recent 'partial dollarization,' which is supposed to ease price pressures by facilitating producers' access to inputs and boosting supplies of consumer goods. As wages in the formal economy have not risen in line with the huge increase in the cost of living since 2021, most Cuban households are facing severe hardship, which is intensified by every increase in prices; and while shortages in the domestic economy persist, inflation will continue and the informal value of the Cuban peso will fall further."

William M. LeoGrande, professor of government at American University: "The main structural problems facing Cuba's economy include low productivity, a chronic shortage of foreign exchange earnings, deteriorating infrastructure, growing inequality and a persistent fiscal deficit fueling inflation. Among the obstacles to solving these problems are U.S. economic sanctions, policy restrictions on the growth of the private sector and an apparent lack of consensus among senior leaders on economic policy. The result has been a sharp decline in domestic productivity and

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NEWS BRIEFS

Villagers Acting on Rebels' Orders Kidnap 34 Colombian Soldiers

Villagers acting on the orders of a rebel group have kidnapped 34 soldiers in Colombia's Guaviare department, the country's defense minister said Tuesday, the Associated Press reported. "This is an illegal action," said Defense Minister Pedro Sánchez. "These people are interrupting a military operation against the principal threat in the region," he added. The soldiers were kidnapped on Sunday near the village of El Retorno, said Sánchez.

Father of Slain Colombian Senator Launches Campaign for Presidency

Miguel Uribe Londoño, the father of slain presidential hopeful Senator Miguel Uribe Turbay, on Tuesday launched his own campaign for the presidency, the Associated Press reported. Uribe Londoño said he wants keep alive his son's legacy and also build a safer and more prosperous country. Uribe Turbay died Aug. 11, more than two months after being shot at a campaign rally in Bogotá. Police have arrested six people, including a 15-year-old boy, in connection with the shooting, CNN reported.

Renewables Account for 70% of Regional Power Production: OLADE

Renewable energy accounted for more than 70 percent of electricity production across Latin America and the Caribbean in April, according to a report released this week by the Latin American Energy Organization (OLADE), news site Renewables Now reported on Tuesday. Hydroelectric dams across the region saw their electricity output increase by 7 percent and wind power production rose by 42 percent between March and April; electricity generation from solar energy declined by 28 percent between the two months.

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bly seats, giving them control of more than 90 percent of the chamber. The results reflect a cratering of public approval for the ruling left-wing Movimiento al Socialismo party (MAS), which enjoyed legislative supermajorities throughout former President Evo Morales' three terms in office. MAS' support ebbed sharply under the administration of current President Luis Arce amid escalating economic instability and infighting between top leaders, including Arce and Morales, the AP reported. Arce and Paz met with one another in La Paz on Tuesday to discuss a peaceful transition of power; Quiroga declined to attend the meeting, according to the AP. Also on Tuesday, a Bolivian judge ordered the release from pretrial detention of Luis Fernando Camacho, an influential conservative politician who had been imprisoned since 2023. Camacho remains under house arrest amid other investigations, Agence France-Prese reported Tuesday.

BUSINESS NEWS

Nigerian Gov't Ready for Petrobras' Return to Country: President

Brazilian President Luiz Inácio Lula da Silva has "promised" that state-run oil firm Petrobras will return to major operations in Nigeria "quickly," Nigerian President Bola Tinubu said Tuesday in a statement posted to social media site X during an official state visit to Brasília. The announcement confirmed Nigerian Foreign Minister Yusuf Tuggar's statement in May that Petrobras was in talks to explore for oil off of Nigeria's coast; the move would mark the oil giant's return to Nigeria's upstream oil sector after a five-year absence. Tinubu did not commit to a specific timeline for Petrobras' return to major oil and gas operations in Nigeria, saying that Lula hoped it would happen "as soon as possible." The Nigerian president said that recent capital market reforms have made the country more attractive for major oil and gas firms since Petrobras exited the country. The Brazilian firm completed its divestment from three offshore production facilities in Nigerian waters in 2020; at the time, the firm said that it made the move in order to raise capital for new ventures in Brazil, Reuters reported. Nigeria's potentially most productive oil deposits share similar geology with the pre-salt region off of Brazil's southeastern coast.

THE DIALOGUE CONTINUES

What's the Future of China-Brazil Economic Ties?

Q Brazilian President Luiz Inácio Lula da Silva and Chinese President Xi Jinping discussed bilateral business opportunities and the role of the BRICS group of developing nations during a phone call on Aug. 12. During the call, which was reportedly held at Lula's request, the two leaders also discussed the war in Ukraine and preparations for the United Nations' COP30 climate summit in Brazil, to which China plans to send a delegation. What are the most promising areas of deeper cooperation between Brazil and China? Why has Brazil been reluctant to join China's Belt and Road Initiative, and to what extent is Brazil's stance on the initiative affecting Chinese investment in Brazil? How are U.S. tariffs on imports from Brazil affecting the South American country's relationship with China?

A Ana Saggioro Garcia, associate professor of international relations at the Federal Rural University of Rio de Janeiro: "China is Brazil's main trading partner, accounting for around 24 percent of all Brazilian exports. However, this high volume is concentrated in just a few products. According to a recent study I conducted, around 80 percent of Brazilian exports consist of soybeans, iron ore and mineral oils. Conversely, Brazil imports high-value products from China, including electrical machinery, nuclear reactors and vehicles. China seems to understand that maintaining countries in the Global South as exporters of raw materials could become problematic if China is to be seen as a legitimate global power. China is gradually demonstrating its commitment to supporting industry in the Global South. Brazil should seize this opportunity to strengthen its relationship with China. Promising areas include renewable energy, infrastructure, health, services and manufacturing. However, wind power plants in the states of Ceará and Piauí, for example, have had socio-environmental impacts. Workers in poor conditions were found at BYD. In order to ensure free and informed consultation with local communities and enforce social, environmental and labor rights, it is necessary to increase and improve the quality of cooperation with China in areas strategic to Brazilian reindustrialization. Brazil has been following the principle of multi-alignment, seeking to maintain good, open relations with the United States, the European Union and China while also aiming to remain a regional leader in South America. For this reason, it concluded that it would be better not to join the BRI and continue to maintain relations with all these partners. However, international polarization may nevertheless push it toward joining the BRI in the medium term and move closer to China. The 50 percent tariffs imposed on various Brazilian products will inevitably lead to trade diversion. It is already clear that the Chinese and other Asian markets are the most promising for coffee and meat. The Lula administration has reached out to the heads of state of the BRICS countries, but it is unlikely that there will be a joint BRICS strategy to confront U.S. tariffs, given that each country has a different reality."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in Tuesday's issue of the Advisor.

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the capacity to import resulting in pervasive shortages of basic necessities—food, fuel, medicine and necessary inputs for farms and factories. The recent fall in the value of the peso reflects a rising demand for U.S. dollars. The rapidly growing private sector now imports as much as the state. Private retailers pay in dollars (or other foreign currency) to import goods, then sell them in pesos. Since there is no formal foreign exchange market, retailers must purchase dollars on the informal market in order to restock. The government's recent partial dollarization of the economy, opening gasoline stations and retail stores that only accept foreign exchange currencies, is also driving up demand for dollars. The state's fiscal deficit, 12 percent of GDP in 2024, is increasing the money supply when lagging production means fewer available goods. The resulting inflation, which has reduced real purchasing power some 90 percent since 2021, makes dollars an attractive inflation hedge. Finally, a record number of Cubans have emigrated over the past four years, and those still planning to depart need dollars to pay the costs of transit and resettlement."

Jorge Salazar-Carrillo, distinguished emeritus professor of economics at Florida International University: "This is all a result of lack of foreign earnings. Cubans who are abroad have lost all faith in the official economy and prefer to help emigration instead. Remittances to Cuba are declining alongside the Cuban population. Also, the rate of unemployment in the Miami-Dade area is 2.3 percent: the lowest in Florida. Yet, all of the above does not match the ultimate crisis of petroleum. Since there is minimal national production, it is practically all imported. In practice, this is increasingly impossible due to the lack of foreign exchange reserves. In the past, sugar production helped in generating excess power that was distributed in the rest of the economy. But the production of sugar is now less than 10 percent of what it used to be. The generation of electricity is also in crisis, as Venezuelan petroleum can only help to a marginal extent. Other suppliers, like Turkey, have to be paid. On top of that, the infrastructure for the supply of power is also in dereliction. It is becoming more common in Cuba to be without electricity rather than with it. Perhaps the most damaging factor is the crisis of foreign exchange, as declining remittance volumes from foreign workers become increasingly problematic. Sending countries are becoming aware that what they are paying the Cuban workers is mostly going to the Cuban government, and they are cutting them. Expect continual depreciations and devaluations as foreign earnings continue to dissipate."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

Upcoming Event

ONLINE EVENT: Citizen Security in Context—Local Solutions and Cross-Border Collaboration

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