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SIX DECADES OF FINANCIAL TRANSFORMATIONS IN CUBA (1959–2024): BETWEEN POLITICAL IMPERATIVES, STRUCTURAL CRISES, AND UNFINISHED REFORMS

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ABSTRACT:

This article analyzes the evolution of the Cuban financial system from the republican origins to 2024, articulating a historical-institutional perspective that goes beyond a chronological description to offer a critical assessment of its performance. The central thesis argues that the successive reconfigurations of the system have responded primarily to political and ideological imperatives rather than to criteria of economic efficiency, which has structurally conditioned its limited capacity to mobilize domestic savings, allocate credit productively, and contribute to sustained economic development. The analysis is structured in six stages: the nationalization of the financial system and the implementation of the single-bank model (1959–1975); its consolidation under Soviet influence and integration into the COMECON (1976–1989); the emergency financial opening during the Special Period, with the partial dollarization of 1993 (1990–2000); recentralization and formal monetary duality (2001–2010); and the unfinished reforms that culminated in the 2021 Tarea Ordenamiento and its inflationary consequences (2011–2024). The study identifies five recurring structural patterns: the reactive nature of reform, the lack of comprehensiveness in transformation plans, the use of external financing as a substitute for internal reform, the subordination of the financial system to central planning, and the systematic accumulation of monetary imbalances. It concludes that overcoming the current crisis requires institutional comprehensiveness and macroeconomic stability as prerequisites for any viable financial reform.

Keywords: Cuban financial system, economic history, central bank, monetary policy, financial reform, dual currency system, Tarea Ordenamiento.

JEL Classification: N26, G21, E42, E58, P34, O54

1. INTRODUCTION

The financial system constitutes the backbone of any modern economy. Its ability to efficiently intermediate between savers and investors, allocate resources to the most productive uses, and manage risk largely determines the dynamism and stability of economic activity as a whole (Diamond & Dybvig, 1983; Levine, 1997). In turn, a financial system that is poorly regulated, inadequately capitalized, and concentrated in a few institutions can become a factor that amplifies economic crises (Bernanke, 1983).

From this perspective, the study of the Cuban financial system over more than a century offers a unique case for analysis, as few economies have undergone such radical and frequent institutional transformations, subject to factors exogenous to financial logic proper.

Between 1959 and 2024, Cuba has undergone several reconfigurations of its domestic financial framework. The triumph of the Revolution in 1959 led to the total nationalization of the financial system and the abolition of the capital market in an extraordinarily short period of time. For three decades, the country operated under a single-tier banking system subordinate to Soviet-inspired central planning mechanisms. The collapse of the socialist bloc led to a partial financial opening and the adoption of a dual currency and exchange rate regime that would last for more than two decades, generating structural distortions of considerable magnitude. Reform attempts in the second decade of the 21st century culminated in the 2021 "Tarea Ordenamiento" (Reorganization Task), the implementation of which triggered an inflationary process unprecedented in the island's recent economic history.

The economic literature on Cuba is extensive, though uneven in terms of temporal coverage and analytical depth. However, there is a scarcity of works that articulate a comprehensive view of the Cuban financial system from a long-term perspective, transcending chronological description to offer a critical assessment of its performance and the context in which it operates. This article aims to fill that gap.

The central thesis guiding the analysis is as follows: the successive reconfigurations of the Cuban financial system have responded primarily to political and ideological imperatives rather than to criteria of economic efficiency or financial development, which has structurally conditioned its limited capacity to mobilize domestic savings, allocate credit productively, and contribute to sustained economic development.

From a methodological standpoint, the article adopts a historical-institutional analysis approach (North, 1990; Robinson & Acemoglu, 2012), which allows for an examination of how the institutional structures of the financial system are formed, persist, and transform in response to power relations, incentives, and environmental constraints. The analysis draws on primary sources, such as institutional reports, official statistics, and documents from international organizations, as well as secondary sources, combining historical narrative with the evaluation of relevant economic indicators.

The article is structured into six sections. Section 2 analyzes the process of financial nationalization in the early years of the Revolution (1959–1975). Section 3 examines the Soviet-inspired financial system model and its outcomes (1976–1989). Section 4 addresses the crisis of the Special Period and the emergency financial reforms of the 1990s (1990–2000). Section 5 examines the period of recentralization and monetary duality (2001–2010). Section 6 analyzes the impact of economic reforms on the financial system through 2024. Finally, Section 7 presents the conclusions.

Period	*Years*	*Defining milestone*
Revolution and Break	***1959–1975***	***Nationalization of the banking sector and creation of the unified bank***
Soviet consolidation	***1976–1989***	***Full integration into the COMECON and implementation of the SDPE***
Special Period	***1990–2000***	***Partial dollarization (1993) and creation of the CUC (1994)***

Recentralization	***2001–2010***	***De-dollarization (2004) and banking crisis (2008–2010)***
Unfinished reforms	***2011–2024***	***Guidelines (2011) and the "Tarea Ordenamiento" (2021)***

Table 1. Timeline: Periods of the Cuban Financial System (1959–2024)

2. REVOLUTION AND BREAK: THE NATIONALIZATION OF THE FINANCIAL SYSTEM (1959–1975)

2.1 THE NATIONALIZATION OF THE CUBAN BANKING SYSTEM

The process of nationalizing the Cuban financial system unfolded in several phases between 1959 and 1961, with surprising speed and radicalism. The first phase was marked by agrarian reform measures and specific interventions in companies considered linked to the Batista regime, without directly affecting the structure of the banking system. The decisive break came in 1960, amid the escalating conflict with the United States and the accelerated ideological radicalization of the revolutionary process.

In the span of just two years, Cuba transitioned from a mixed banking system to a system of wholly state-owned banks, with no capital market, no private banking, and no autonomous price-setting mechanisms. The Economic Commission for Latin America itself described the first signs of structural transformation, documenting the onset of nationalizations and their effects on monetary and balance-of-payments indicators (ECLAC, 1960).

The legal framework for nationalization rested on three legal instruments. Law No. 851 of July 6, 1960, authorized the compulsory expropriation of U.S. properties; Law No. 890 of October 13, 1960, nationalized large companies owned by U.S. nationals; and Law No. 891 of the same day declared banking a public function and proceeded to nationalize the entire banking system. In September 1960, through the Nationalization Laws, the major foreign banks operating in Cuba were nationalized: the National City Bank of New York, the First National Bank of Boston, the Chase Manhattan Bank, and the Royal Bank of Canada, among others. In October of that same year, nationalization was extended to Cuban private banks. By the end of 1960, the banking system had been fully nationalized (Boorstein, 1969; Mesa-Lago, 1981).

As a result of the nationalization of the banking sector, the Havana Stock Exchange ceased operations that same year. With it disappeared equity and corporate debt instruments, secondary securities markets, and private mechanisms for pricing financial assets. The elimination of capital markets dismantled the institutional infrastructure—legal, accounting, regulatory, and informational— that underpinned the financial intermediation system based on market signals. Lage & Cruz (2022), in diagnosing the challenges of the Cuban financial system six decades later, identify the absence of functional financial markets as one of the most persistent determinants of its underdevelopment.

The logic driving this process was predominantly political rather than technical-financial. The nationalization of the banking sector served three objectives. First, the need to control financial flows in the context of the confrontation with the United States and the break with the previous economic model. Second, the growing influence within the revolutionary leadership of positions that identified state ownership of the means of production as a *sine qua non* of socialism. Third, the pressure of internal political dynamics, which pushed toward increasingly radical measures as a way to consolidate popular support and dismantle the social sectors linked to the bourgeoisie. However, the nationalization of the banking sector lacked a well-thought-out strategy on how to manage a state-run banking system, the alternative to market-based credit allocation mechanisms, or how to preserve the institutional technical capabilities accumulated during the republican period.

2.2 The single-bank system

The banking system that replaced the previous one was radically different, organized around the principle of a "single bank," which entailed the concentration of the functions of currency issuance, deposit-taking, lending, and the processing of international payments within a single state-owned institution. The institutional architecture that emerged throughout the 1960s revolved around the National Bank of Cuba (BNC), which concentrated the functions of central banking, investment, and commercial banking, as well as the management of international reserves and external financial relations for the financing of state-owned enterprises. In turn, the fiscal functions of the Ministry of Finance were assumed by the BNC (MEP, 2025). From then on, a single institution concentrated the functions of monetary issuance, distribution, and oversight of monetary resources. Thus, the dividing line between monetary and fiscal policy was eliminated.

Similarly, the state financial institutions that existed before the revolutionary triumph underwent a reorganization process. The Economic and Social Development Bank and the National Finance Corporation of Cuba were dissolved. The Fund for the Promotion of Insured Mortgages was liquidated. The Bank for Agricultural and Industrial Development of Cuba was incorporated into the National Institute of Agrarian Reform, creating the Department of Agricultural and Industrial Development Credit within that state agency. The Cuban Bank for Foreign Trade was transformed into the Bank for Foreign Trade of Cuba, with new powers to assume control of foreign trade activity in accordance with the interests of the Revolutionary Government.

The new economic management mechanism meant that the Economic Plan determined prices, production quantities, and household income and expenditure flows in advance. Therefore, money and the banking system did not fulfill the functions of resource allocation through price signals, but rather simply recorded transactions in the accounts and provided the means of payment for the execution of transactions predefined by the planning apparatus (Mesa-Lago, 1981).

Credit ceased to be an instrument for selecting profitable projects and became an accounting record of decisions made elsewhere. The interest rate lost its function as the price of capital. Monetary policy was reduced to accommodating the financing needs of the state sector, with money issuance serving as a residual variable that covered imbalances between the plan’s revenues and expenditures.

2.3 Critical Assessment

The balance sheet for the 1959–1975 period from the perspective of financial development is unequivocally negative, although the assessment must be nuanced to avoid oversimplifications. Financial nationalization responded to the needs of the socialist transition, in which the government had to fully control monetary flows to integrate them into the logic of centralized planning. In this sense, the nationalization of the banking sector was not a technical error but an economic policy choice.

The problem did not lie in nationalization itself, but in two aspects that do warrant rigorous critical evaluation. First, the speed and radical nature of the process, which did not allow for the preservation of institutional technical capacities or the design of functional alternative mechanisms for the allocation of financial resources before dismantling the existing ones. Second, the conception of the financial system as a mere executor of payments and auditor of monetary flows between firms and the government deprived economic authorities of the information tools and incentives that any economic management system needs to function efficiently. The combination of these two factors resulted in a financial system incapable of efficiently mobilizing domestic savings, evaluating the profitability of investments, controlling monetary expansion, or generating the information necessary for rational economic decision-making. This led to the silent accumulation of monetary imbalances (ECLAC, 1979).

3. CONSOLIDATION AND DEPENDENCE: THE FINANCIAL SYSTEM UNDER SOVIET INFLUENCE (1976–1989)

3.1 The institutionalization of the model

Beginning in 1976, with the approval of the new Constitution and the formal adoption of the System of Economic Management and Planning (SDPE) inspired by the Soviet model, the Cuban financial system entered a phase of institutional consolidation. The creation of the State Finance Committee and the reorganization of the National Bank of Cuba formalized the subordination of the financial apparatus to the logic of central planning. The state budget became the fundamental financial instrument, while bank credit operated as an accounting mechanism to support plan allocations (Mesa-Lago, 1981; Yordanov, 2023).

Cuba's full integration into the Council for Mutual Economic Assistance (CMEA) in 1972, institutionally consolidated during this period, provided the financial system with a stable and predictable framework for external economic relations. Preferential trade agreements with the Soviet Union, particularly the sugar price subsidy and the supply of oil at favorable prices, generated a flow of foreign exchange that, when channeled through the National Bank, made it possible to finance imports of capital goods and inputs necessary for the economy's operation. According to ECLAC estimates, Soviet subsidies accounted for between 20% and 30% of Cuba's GDP during the 1980s (Mesa-Lago, 1993).

This dependence on Soviet financing had a paradoxical consequence. By ensuring balance of payments solvency and macroeconomic stability, it eliminated the pressures that in other economies drive the modernization of the financial system. The absence of effective budgetary constraints in the business sector, the lack of exchange rate risk within the COMECON space due to a fixed parity regime among member economies, and the availability of soft external financing made the development of sophisticated domestic financial instruments unnecessary.

3.2 The Functioning of the Financial System During the Central Planning Era

During the period 1976–1989, the Cuban financial system operated as a passive component of the central planning mechanism. The National Bank of Cuba maintained its triple function as central bank, commercial bank, and financial agent of the State, but was dedicated solely to providing the means of payment necessary to execute the intersectoral transactions previously determined by the planners and to auditing their strict compliance.

Nevertheless, some progress was made in the specialization of financial activities with the creation of new institutions. In 1983, the Banco Popular de Ahorro (BPA) was founded, and in 1984, the Banco Financiero Internacional (BFI). The former was created to attract household deposits, the volume of which was growing steadily as spending opportunities were limited by the rationing system and the scarce supply of consumer goods on the free market. The latter was established as an instrumental entity to circumvent U.S. sanctions on Cuba's financial transactions with foreign partners. In this way, progress was made toward partially relaxing the "single-bank" system, in which the BNC was the institution that concentrated all financial services.

On the other hand, credit to the state-owned business sector was granted in accordance with plan allocations, without risk assessment or profitability analysis. State-owned enterprises operated under soft budgetary constraints, so that accumulated losses were absorbed by the state budget or offset through inter-enterprise transfers. In this context, the banking system lacked the information and incentives necessary to exercise a disciplinary function over the use of financial resources. The chain of defaults among state-owned enterprises became an endemic phenomenon whose exact magnitude was difficult to estimate, given the opacity of financial statistics from the period.

In the external sector, financial relations with the Soviet Union functioned as a system of implicit transfers that served the role of international financial intermediation. Trade relations were conducted using the transferable ruble, which served as a unit of account for the settlement of commercial transactions among member countries, but did not constitute a reserve currency or an instrument of exchange rate policy in the conventional sense (Pérez-López, 2003). Cuba accumulated significant debt to the Soviet Union denominated in transferable rubles, the servicing of which was repeatedly postponed through bilateral agreements. According to estimates by Mesa-Lago (1993), the total amount of Soviet financing from 1960 to 1990 amounted to 25 billion USD.

By the late 1980s, the collapse of the Soviet model began to manifest itself in financial indicators. The process of Rectification of Errors and Negative Trends, launched in 1986, implicitly acknowledged the shortcomings of the SDPE, but did not address reform of the financial system. Excess monetary liquidity in the hands of the population accumulated without any real opportunities for spending, generating forced savings that by the end of the decade represented a growing proportion of GDP. At the same time, recurring current account deficits led to an unsustainable increase in external debt, resulting in the suspension of interest and principal payments in July 1986. The total amount of external debt service in convertible currencies amounted to nearly US$6.2 billion in 1989 (Pérez-López, 2003).

3.3 Critical Assessment

The period 1976–1989 represents the stage of greatest stability in the Cuban financial system, but also that of greatest functional atrophy. Nominal macroeconomic stability—low official inflation, a fixed exchange rate, and the absence of visible banking crises—was the artificial result of Soviet subsidies and administrative price controls, not of the financial system's soundness. In an environment where prices did not reflect real shortages, exchange rates did not signal external imbalances, and interest rates did not reflect the cost of capital or intertemporal consumption preferences, the financial system lacked the functions that economic theory attributes to efficient financial intermediation.

The main consequence of this period for the subsequent trajectory of the Cuban financial system was the accumulation of hidden vulnerabilities. Internal monetary imbalances, dependence on Soviet external financing, the absence of credit risk assessment mechanisms, and institutional inexperience in managing market financial instruments constituted weaknesses that would only become visible when the external protection architecture collapsed. In this sense, the Soviet period not only failed to prepare the Cuban financial system to face the challenges of an open economy, but also deepened its vulnerability by eliminating incentives for modernization. When the collapse of the socialist bloc abruptly eliminated external compensation mechanisms, these structural weaknesses manifested themselves in full force during the crisis of the Special Period.

4. THE SPECIAL PERIOD AND DOLLARIZATION (1990–2000)

4.1 The Collapse of External Financing

The collapse of the socialist bloc precipitated an unprecedented crisis in the Cuban economy. Cuba lost approximately 85% of its foreign trade, as well as the ability to access inputs and technology on favorable terms within the Soviet sphere and the flow of soft external financing to meet balance-of-payments needs (ECLAC, 2000). In turn, GDP contracted by 35% between 1989 and 1993 (ONEI, 2025).

For the financial system, the external collapse had immediate consequences, as the BNC found itself deprived of the foreign exchange needed to honor its commitments, and the financing of the growing fiscal deficit fell entirely on money issuance, given the absence of a domestic public debt market and the impossibility of placing debt in international financial markets (ECLAC, 2000). This caused an extraordinary increase in the money supply in circulation against a backdrop of a drastic contraction in the supply of goods. The ratio of money in circulation to goods available in the rationed market deteriorated alarmingly. Initially, this manifested as the accumulation of forced savings in the financial system and long lines at retail outlets. Subsequently, this situation led to the emergence of parallel markets for goods and foreign currency, where inflation and the peso's loss of value against the U.S. dollar were openly evident (Hidalgo et al., 2000; Pérez, 2011)

4.2 The 1993 Financial Reforms

Faced with the magnitude of the crisis, the Cuban government adopted a series of emergency economic reforms beginning in 1993 that structurally transformed the financial and e y system, albeit in an unplanned manner. The measure with the greatest scope and most lasting implications was the decriminalization of foreign currency holdings, approved in August 1993 through Decree-Law No. 140. Until that time, the possession of dollars or other foreign currencies by the Cuban population constituted a crime. This decision, adopted against a backdrop of a sharp decline in foreign revenue and the growth of the black market for foreign currency, acknowledged a reality that already existed in practice and introduced the U.S. dollar as legal tender, officially initiating the partial dollarization of the economy.

The magnitude of the impact of partial dollarization on the economy was difficult to gauge at the time of its adoption. At the time, it entailed the creation of new institutions to attract foreign currency, such as currency exchange offices (CADECA S.A.), where households could buy and sell foreign currency at the daily exchange rate, which was substantially lower than the official rate (Hidalgo, 2008). On the other hand, domestic financial institutions were authorized for the first time to open deposits and provide financing in U.S. dollars to companies. This led to the creation of new financial institutions focused on foreign trade management and foreign currency financing in the following years.

The legalization of the dollar in 1993 was complemented in 1994 by the creation of the Cuban convertible peso (CUC), initially conceived as a substitute for the dollar in foreign trade and tourism transactions. The CUC was pegged to the U.S. dollar for the general population and set at a rate of 1 Cuban peso (CUP) per CUC in the state-owned business sector, which introduced exchange rate distortions, as the 1:1 exchange rate in the business sector coexisted with a market exchange rate in the non-state sector of around 24 CUP per CUC.

Dimension	*State sector*	*General population*
Currencies in circulation	***CUP and USD***	***CUP, CUC, and USD (until 2004)***
Official exchange rate	***1 CUP = 1 CUC***	***1 CUC ≈ 24 CUP***
Agents	***State-owned and foreign companies, government agencies***	***Households and private-sector producers***

Table 2. Architecture of the dual currency and exchange rate system (1994–2020)

Structurally, the foundations were laid for the dual currency and exchange rate system that would persist for more than two decades and that Pérez (2011) identifies as the most important determinant of distortions in the Cuban financial system in the years that followed. Under this scheme, the financial system operated in two financially isolated segments. Monetary aggregates in Cuban pesos and in foreign currency evolved with distinct dynamics and responded to different determinants; the transmission mechanisms of monetary policy were radically different in each segment (state and non-state, CUP and foreign currency); and aggregate financial information lost analytical coherence when combining variables expressed in currencies with vastly different exchange rates. The persistence of this regime generated relative price distortions and macroeconomic measurement problems of such complexity that they limited the possibilities for economic growth.

4.3 Restructuring of the Financial System

As part of the measures to address the economic crisis, the government promoted the creation of new financial institutions to channel external financing and facilitate the reconnection of the

Cuban economy with the external sector. In 1993, the Banco Internacional de Comercio S.A. (BICSA) was founded with the purpose of enabling this institution to negotiate with foreign banks and companies, as well as to conduct foreign exchange operations. This institution was complemented by the founding of Banco de Inversiones S.A. (BANCOI S.A., 1996) to advise the government and companies on the placement of financial securities in international markets. In turn, Banco Metropolitano S.A. (BANMET S.A., 1996) and Banco de Crédito y Comercio S.A. (BANDEC S.A., 1997) were created to attract savings from the public and businesses.

At the same time, non-bank financial institutions specializing in granting loans to specific sectors were established for the first time. Notable among these are Financiera para el Turismo (FINATUR, 1992), Financiera CIMEX S.A. (FINCIMEX S.A., 1995), Compañía Fiduciaria (1996), and RAFIN S.A. (1997). These institutions represented a significant step forward in the professionalization and streamlining of credit provision to emerging sectors, particularly those operating in foreign currency.

However, the most significant transformation came with the approval of Decree-Laws No. 172 and 173, which established the Central Bank of Cuba (BCC) as the new institution that would replace the BNC in the functions typical of a central bank. From that point on, the BNC became a commercial bank specializing in the management of Cuba's external debt. The BCC was established with the powers of a modern central bank, granting it the traditional instruments of monetary policy (reserve requirements, discount rate, open market operations) and with explicit objectives of price stability and the promotion of economic growth. Similarly, it was tasked with supervising financial institutions based in Cuba in response to the financial risks associated with currency mismatches resulting from the dollarization of liabilities linked to the opening of foreign currency accounts (López, 2020).

4.4 Critical Assessment

The reforms adopted were sufficiently far-reaching to prevent the total collapse of the system, but insufficiently coherent to lay the foundations for a functionally efficient financial system. Cuba emerged from the Special Period crisis with a financial system that was institutionally and technically more complex than that of the Soviet era. A two-tier financial system was established with a central bank distinct from the rest of the financial institutions; new specialized banking and non-banking financial institutions were created; and the monetary authority was equipped with new instruments for monetary regulation and supervision. However, new structural distortions of enormous magnitude also emerged from the dual currency system and financial segmentation across sectors.

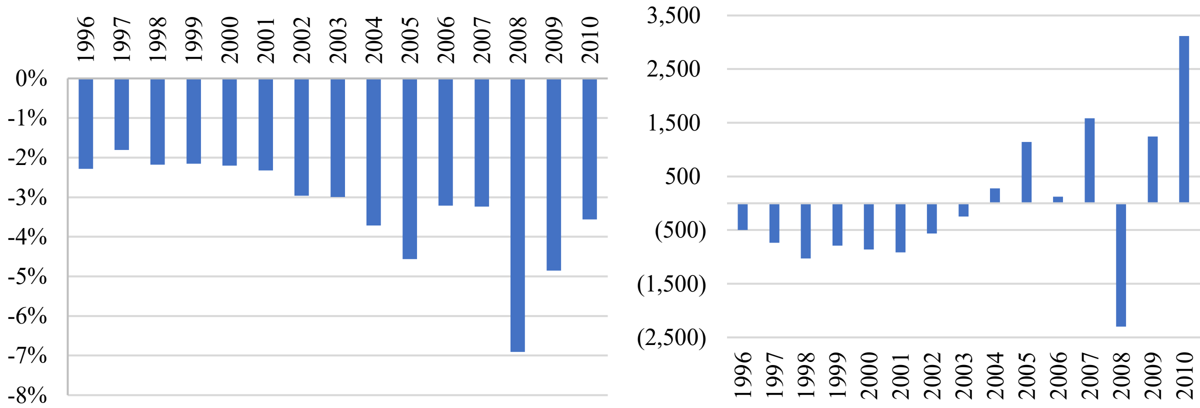
The reforms of the 1990s were largely emergency management measures adopted under the pressure of the crisis, without a coherent strategy for transforming the economic model or the financial system (ECLAC, 2000). This assessment is fully consistent with the central thesis of this article, given that the transformations of the Cuban financial system during the Special Period responded, once again, to political imperatives and short-term pressures rather than to a strategic vision of financial development. The result was a set of reforms that resolved the most urgent problems—hyperinflation, the collapse of the balance of payments, and the paralysis of the external sector— but which generated new long-term distortions whose management would occupy Cuban economic authorities for the next two decades.

5. RECENTRALIZATION AND MONETARY DUALITY (2001–2010)

5.1 The Context of the New Millennium

Cuba entered the new millennium in a state of partial economic recovery, but with the structural distortions of the Special Period far from resolved. In this context, the first decade of the 21st century was marked by two parallel and, to some extent, contradictory trends: the deepening of external dependence through the strategic alliance with Venezuela, and the process of economic recentralization that reversed part of the liberalizing reforms of the 1990s.

Between 2000 and 2016, the consolidation of the alliance with Venezuela provided Cuba with a new preferential external financing scheme that partially replicated the essential features of Soviet-era dependence through the supply of oil at subsidized prices in exchange for professional services—primarily medical and technical—financing for investment projects on concessional terms, and reciprocal political and diplomatic support.



a) Fiscal Deficit as a Percentage of Nominal GDP **b) Trade balance (millions of USD)**

Figure 1. Indicators of internal and external balance.
Source: Prepared by the author based on data from ONEI.

Official figures from the National Office of Statistics and Information document positive progress in the indicators related to macroeconomic balances shown in Figure 1. The ratio of the fiscal deficit to nominal GDP remained around an average of -3.3% during the 1996–2010 period. The strong performance of public finances was supported by positive figures in the Cuban economy's net trade balance, which turned substantially positive starting in 2004. This was very important for improving the external position of Cuban banks, which helped support the existing exchange rate regime. An important factor contributing to the strong performance of macroeconomic indicators was the consolidation of Venezuelan cooperation. In turn, specialization in the export of highly complex tourism and professional services enabled official GDP growth figures exceeding 10% in 2005 and 2006 (ECLAC, 2005).

The containment of inflationary pressures stemming from public finances and the strong performance of economic activity, as well as the increased availability of foreign exchange resulting from the improvement in the external balance, made it possible to maintain an appropriate relationship between aggregate supply and demand. This was reflected in relatively stable price levels and exchange rates during the period, as shown in Figure 2.

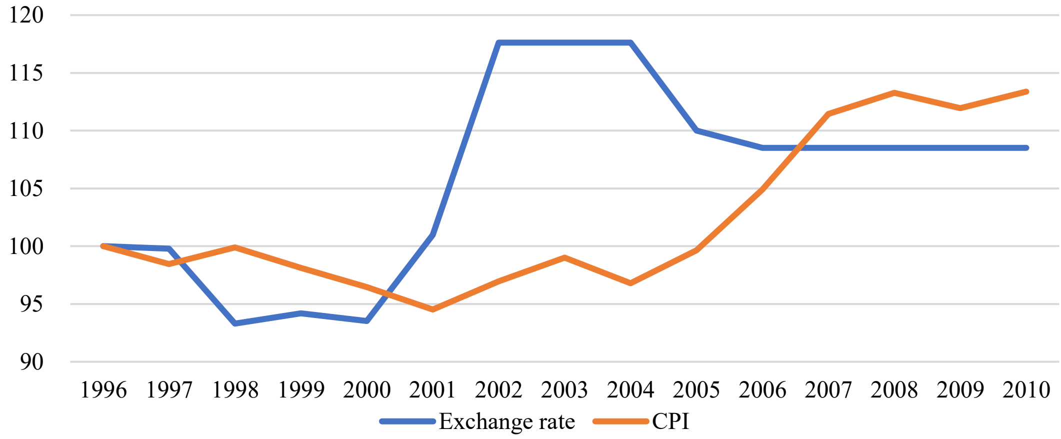


Figure 2. Evolution of the exchange rate and the consumer price index (annual average, 1996=100)
Source: Prepared by the author based on data from ONEI.

Simultaneously, beginning in 2003, the Cuban government undertook a deliberate process of economic recentralization that dismantled part of the liberalization of the 1990s. Activities permitted in the private sector were restricted, foreign currency bank accounts of state-owned enterprises were seized, and foreign exchange management was centralized at the central bank.

The recentralization measures reduced the operational autonomy of commercial banks; business credit was once again subordinated to the priorities of the Economic Plan, and the management of all foreign assets was concentrated in bureaucratic bodies.

5.2 The 2004 De-dollarization and the Architecture of Duality

In 2003, the Cuban government undertook a process of de-dollarization that culminated in October 2004. This process was supported by the considerable macroeconomic stability achieved in previous years and by the increase in U.S. sanctions against international banks that had relations with Cuba. This decision sought to reduce dependence on the U.S. dollar for domestic transactions. It can be said that this constituted the most important monetary policy decision of the period.

Measures for the de-dollarization of the economy included: i) the conversion of foreign-currency-denominated bank accounts held by state-owned enterprises into convertible pesos, ii) the replacement of the U.S. dollar with the convertible peso in all inter-enterprise transactions and for payments in the retail sector, iii) restructuring of deposit interest rates to increase the yield on bank deposits in national currency and the imposition of a 10% tax on cash foreign exchange purchases, and iv) appreciation against the U.S. dollar of the two currencies issued by the Central Bank of Cuba, the Cuban peso and the Cuban convertible peso (Hidalgo, 2008). These measures helped restore the monetary functions of the national currency and monetary sovereignty by consolidating the central bank's power to manage the relevant money supply in the economy.

However, de-dollarization did not eliminate the dual currency system but rather reconfigured it by replacing the U.S. dollar with the convertible peso. The same segmentation structure was maintained, but this time with a currency issued by the national monetary authority (Hidalgo, 2008; Vidal & González-Corzo, 2010).

5.3 The Banking Crisis of 2008–2010

The second half of the decade was marked by a banking crisis of considerable magnitude, the analysis of which is the central focus of the article by Vidal & González-Corzo (2010). The crisis, which the authors situate within the context of the macroeconomic and financial developments that had accumulated since de-dollarization, was immediately triggered by a combination of three simultaneous external shocks: i) the impact of Hurricanes Gustav and Ike in 2008—which caused damage estimated at over $10 billion—ii) the fall in international nickel prices as a result of the 2008 global financial crisis, and the contraction in tourism revenues stemming from the global recession.

The government's response was to maintain public spending despite the decline in tax revenues, causing the fiscal deficit to reach 7% of GDP (ONEI, 2025). The resulting increase in money supply sustained demand for foreign currency for imports, which, within the context of a fixed exchange rate regime, led to the depletion of international reserves. In turn, the decline in foreign exchange earnings weakened the financial system's international position. This situation led to the partial suspension of payments to suppliers and external creditors, which severely affected the country's external financial relations and its international credit reputation. Vidal & González-Corzo (2010) and Lage (2016) document that in the face of the emergency, the BCC opted for greater centralization of foreign exchange management. The central bank's new regulations stipulated that all foreign currency transactions by the state-owned business sector be processed through an exchange control mechanism in the form of a foreign exchange purchase right, known as a liquidity certificate, which granted access to foreign exchange based on administratively defined sectoral priorities. The tightening of exchange controls was the policy response chosen as an alternative to devaluing the official exchange rate to restrict demand for foreign currency.

This response, consistent with the system's political logic but dysfunctional from a financial perspective, had lasting consequences. The centralization of foreign exchange eroded the confidence of Cuba's international trading and financial partners, made access to external credit more expensive, and created an incentive structure that discouraged exports—whose foreign exchange earnings were captured centrally—and penalized efficiency in the use of imports.

5.4 Critical Assessment

The recentralization of 2003–2004, adopted at the height of Venezuelan cooperation, illustrates that the availability of external resources reduced reform- y pressure and allowed for the maintenance of a dysfunctional financial model at a cost that, as long as the flow of financing was sustained, was politically acceptable.

The de-dollarization of the economy allowed for the recovery of monetary sovereignty, but the functions of the Cuban peso remained constrained due to the persistence of the dual currency and exchange rate system and administrative price controls.

The 2008–2010 crisis revealed the fragility of this strategy by exposing the limits of a banking system lacking any real capacity for risk management or autonomous access to external financing. Although the measures to manage the banking crisis succeeded in stabilizing the situation in the short term, they did not address the structural causes of the problem, which were the dual currency system, the peso's inconvertibility, the administrative centralization of foreign exchange, and the confusion of institutional roles within the banking system.

6. UNFINISHED REFORMS AND SYSTEMIC CRISIS (2011–2024)

6.1 The 2011 Guidelines and the Promise of Structural Transformation

The adoption of the Guidelines for Economic and Social Policy at the 6th Congress of the PCC in April 2011 constituted the most significant economic policy event since the emergency reforms of the 1990s. For the first time, the government adopted a programmatic document that explicitly recognized the need to transform the economic model.

Among the objectives outlined in the programmatic document were the transformation of monetary policy and the institutional restructuring of the financial system to adapt it to the new circumstances of an economy where the market would play a more important role in the allocation of resources.

The measures adopted at that time expanded the economic activities permitted for non-state forms of management and recognized them as legitimate components of the Cuban socialist model. Similarly, it established monetary and exchange rate unification as one of the priority reforms. The Guidelines represented, according to Hidalgo & Triana (2022), an assessment of what had been achieved up to 2010 and a roadmap for the necessary transformations, structured around three lines of action: i) transformations in the structure of ownership, ii) restructuring and modernization of the state apparatus, and iii) eradication of prohibitions that limited opportunities for the population.

The Guidelines established specific objectives for the financial system:

- Expand the role of bank credit in the economy.
- Promote the development of financial markets
- Encourage greater access to banking services
- Reorganize the financial system as a whole.

Based on these provisions, measures were implemented to achieve the established objectives. A new banking policy was approved to stimulate the private sector's access to financial services and products. In 2014, the interbank market was launched, and government bonds were issued for the first time to finance the fiscal deficit. In 2018, Decree-Laws No. 361 and No. 362 were approved to reorganize the operations of the BCC and the rest of the financial system.

However, these measures yielded limited results and failed to strengthen the financial system's role as the linchpin of resource allocation. The policy of fixed interest rates and the rigidity of credit requirements limited the supply and demand for financing. The lack of progress in the basic infrastructure of the financial market prevented the creation of secondary markets for financial instruments, which, in practice, limited monetary policy instruments to the management of bank reserves. No institutional mechanisms were designed to resolve the overlap in the BCC's institutional roles as both regulator and supervisor of financial institutions, which in practice limited the autonomy of the latter. (Lage & Cruz, 2022)

6.2 The Regulatory Reform: Design, Implementation, and Results

Monetary and exchange rate unification was the most widely announced measure and, at the same time, the one that was most frequently postponed. Between 2011 and 2020, the government made repeated public announcements about the imminent start of the unification process, but in no case did these announcements translate into effective action. This repeated postponement was driven by political and social risk management considerations rather than technical obstacles, given the significant adjustment in terms of inflation and economic activity that devaluing the official exchange rate from 1 USD/CUP to 24 USD/CUP might require.

On January 1, 2021, the "Tarea Ordenamiento" program took effect amid the most adverse economic context in the last three decades, marked by the COVID-19 pandemic crisis, the tightening of U.S. sanctions under the Donald Trump administration, and the surge in demand for foreign currency related to the partial dollarization restarted in October 2019 as a measure to attract foreign exchange. Monetary unification was formally implemented by establishing a single exchange rate of 24 USD/CUP. The program comprised four pillars: monetary unification, price and wage reform, reform of the distribution system, and institutional transformations. Prices and wages were administratively adjusted upward to approximately five times their value at the end of 2020. Budgetary guarantees and flexible credit facilities were established to support businesses affected by the devaluation.

However, the process did not achieve the expected results. The 2,300% devaluation was implemented amid a supply shock which, combined with a surge in the fiscal deficit—around 16% of GDP—generated inflationary pressures far greater than anticipated (ECLAC, 2021). The informal exchange rate climbed to over 80 USD/CUP that same year. Unofficial estimates pointed to inflation of 505.6% for 2021, as documented by Hidalgo & Triana (2022). The BCC faced the task of containing inflationary pressures with interest rates that continued to be set administratively without responding to market signals. Fiscal dominance over monetary policy was not only not corrected but actually intensified, as financing the state sector's losses through the budget required additional monetary expansion that fueled the inflationary spiral. More than 500 state-owned enterprises reported losses, accounting for 25% of the total, of which 82% belonged to the agricultural sector. The economic cost was so great that all financial support measures were activated, leading to a growth in the money supply of around 51% in 2021 compared to 2020.

The impact on the financial system was severe. The contraction in economic activity and soft financing to the government and its enterprises deteriorated the loan portfolio, while the shortage of foreign currency exacerbated the convertibility problems that prevented banks from meeting their external obligations (Borrás & Hung, 2021). On the other hand, inflation and the advance of dollarization increased the demand for Cuban pesos in cash and foreign currency to such an extent that it compromised the ability of financial institutions to meet their customers' demands. The shortage of cash and foreign currency effectively forced the imposition of restrictions on cash withdrawals from bank accounts in Cuban pesos and on foreign currency sales to individuals.

These conditions severely damaged the credibility of financial institutions in the eyes of their domestic and foreign clients. As a result, the public has increasingly preferred to hold foreign currency and local currency in cash to safeguard their wealth as an alternative to bank deposits. Similarly, both private and foreign companies have tended to seek ways to operate using foreign currency accounts held in foreign banks to circumvent existing exchange controls. This situation has led to a decline in the financial system's capacity to mediate monetary flows in the economy and, consequently, in the allocation of resources.

6.3 Institutional Challenges of the Financial System

Lage & Cruz (2022) conducted the most rigorous and up-to-date academic analysis of the causes of the underdevelopment of the Cuban financial system. Their analysis identifies four groups of institutional distortions:

- Property rights: there is an overlap of roles between the BCC as a regulator and as the entity responsible for the banks' business results. They conclude that the BCC ends up subordinating its regulatory function to its responsibility for the results of the institutions under its supervision.
- Contractual compliance: Persistent easing of budgetary constraints. Banks finance projects of dubious profitability but that are politically desirable. State-owned enterprises negotiate bank financing from a position of advantage because they know that, as government-owned entities, they will always receive preferential treatment or guarantees of restructuring, which leads to a situation of moral hazard.
- Macrofinancial stability: the Cuban peso's inability to fulfill its functions, caused by the administrative setting of interest rates, its non-convertibility, and the underdevelopment of market relations, resulting in the Cuban peso being an undesirable asset as a financing instrument.
- Informal restrictions: the deep-rooted nature of the informal economy as an intrinsic feature of Cuba's economic operations creates an environment in which the formal banking system operates on the margins of a growing portion of economic transactions.

The case of the Banco de Crédito y Comercio is paradigmatic. This institution provides the most financing to enterprises, especially those engaged in agricultural production, which in turn are the least profitable. This illustrates the persistence of a politically determined financing pattern that compromised bank profitability and distorted the allocation of resources (Lage & Cruz, 2022).

The financial system's ability to adapt to the operational dynamics of private companies has also been limited. This was the result of applying the same rules designed for the state sector to economic agents with radically different organizational structures, which significantly hindered the creation of incentives for these agents to voluntarily access banking services (Lage & Cruz, 2022). Between 2011 and the first half of 2020, bank loans to the private sector accounted for just 11.4% of the total portfolio (González, 2020), demonstrating that the banking penetration of new private economic actors remained more of a programmatic aspiration than an operational reality.

Borrás & Bermúdez (2020) identify as urgent transformations of the Cuban banking system the need to overcome the passivity of financial institutions inherited from the period of central planning, the development of a banking system oriented toward identifying and financing business opportunities rather than merely executing plan instructions, and the granting of greater real decision-making autonomy in the face of pressures from administrative credit allocation. Borrás & Escobedo (2020) note that bank credit to Cuban state-owned enterprises continues to operate under the umbrella of easing budgetary constraints.

6.4 Critical Assessment

The transformations of the financial system at this stage were more numerous and technically more elaborate than in any previous period, as there was a detailed academic diagnosis of the problems, as well as solid technical proposals regarding the necessary reforms. Furthermore, the government itself had formally recognized the priority of monetary unification and the strengthening of the financial system. However, the measures implemented did not produce the expected results.

The reforms focused on regulatory aspects without addressing the rest of the components of the institutional framework—incentives, rules, capacities, and organizations. The measures had a partial focus and were adopted to address problems with multiple causes. Consequently, the stated objectives were not achieved, and in some cases, new distortions were created.

7. CONCLUSIONS

A historical review spanning more than a century confirms the central thesis that the successive reconfigurations of the Cuban financial system have responded primarily to political and ideological imperatives rather than to criteria of economic efficiency, structurally limiting its capacity to mobilize domestic savings, allocate credit productively, and contribute to sustained economic development. External factors, such as the U.S. economic blockade, the volatility of commodity prices, and dependence on external partners, have played an important role, but domestic financial policy decisions exhibit a systematic pattern of subordinating economic rationality to politics.

Historical analysis allows us to identify five recurring patterns that constitute the structural regularities of the Cuban financial system in the long term:

1. Reactive nature of reform. In all the periods analyzed, significant transformations occurred in response to crises or short-term pressures rather than as a result of a proactive strategy. The nationalization of 1960, the dollarization of 1993, the creation of the BCC in 1997, the de-dollarization of 2004, and the Tarea Ordenamiento of 2021 all follow this logic.
2. Lack of comprehensiveness in economic reform plans. None of the major transformations has fully achieved its stated objectives. This pattern stems from the structural tension between the technical logic of financial reform—which demands coherence and sustainability—and the political logic that determines its pace and scope.
3. External financing as a crutch to avoid internal reforms. For several years, Cuba resolved its financing problems through external dependence: the subsidies from the Soviet bloc between 1960 and 1991, and Venezuelan cooperation between 2000 and 2016. In each case, the availability of external resources reduced pressure for reform and allowed distortions to accumulate.
4. Subordination of the financial system to central planning. From 1960 to the present, the financial system has operated as an instrument for implementing political and administrative decisions, curtailing its autonomy to adequately perform its financial intermediation function.
5. Accumulation of monetary imbalances. In all periods of administrative price controls, monetary expansion generated imbalances that manifested as forced savings and shortages, which subsequently led to open inflation and the development of the informal market.

Pattern	*Manifestation*	*Key historical example*
1. Reactive reform	***Structural changes in response to crises, not to planning***	***1993 dollarization, 2021 Tarea Ordenamiento***
2. Lack of comprehensiveness	***Reforms incomplete in their stated objectives***	***2011 Guidelines without effective monetary unification***
3. External financing as a wild card	***External resources replace pressure for reform***	***Soviet subsidies (1960–1991), Venezuelan cooperation (2000–2015)***
4. Subordination to central planning	***Financial system as executor of political-administrative decisions***	***Monobank 1959–1989; soft budgetary constraints***
5. Accumulation of monetary imbalances	***Monetary expansion without real counterpart → forced savings, inflation***	***Compulsory savings in the 1980s; post-Tarea Ordenamiento inflation***

Table 3. Summary of the five recurring patterns and their historical manifestation

In 2024, the Cuban financial system faces the most demanding combination of challenges in its history: high inflation, the enormous gap between the informal exchange rate and the official, restricted access to international financing, the deterioration of banks' loan portfolios, and the financial exclusion of the expanding non-state sector.

Two lessons emerge from this historical analysis that remain relevant for the years ahead. First, financial reform requires a comprehensive institutional approach; the system's problems cannot be resolved solely within the system itself, as they are the result of structural dysfunctions that extend beyond it and affect all sectors of the economy. Second, macroeconomic stability is essential to restoring the monetary functions of the Cuban peso and, therefore, its capacity to serve as an instrument in the allocation of resources, which will allow progress in reforms to grant greater autonomy to financial institutions and create financial markets.

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