

CUBA

1. General trends

In 2020, the Cuban economy shrank by 10.9% and per capita GDP fell by 10.8%. This was the steepest drop in nearly two decades and the third-sharpest decline since records began to be kept. While the economic contraction had begun in the second half of 2019, it sped up significantly with the arrival of the coronavirus disease (COVID-19) pandemic, the tightening of the economic and trade blockade, and the deepening of domestic imbalances.

The inflation rate of 18.5% between December 2019 and December 2020 was a result of supply-side constraints generated by foreign exchange shortages. Public finances were eroded in 2020 by recessionary trends, the commencement of the monetary restructuring process, which entailed disbursements to cover partial advances on pension and wage hikes, and the additional expenses occasioned by the pandemic. The fiscal deficit widened considerably, reaching 17.7% of GDP in 2020 from its 2019 starting point of 6.2%.

A surplus of around 0.9% of GDP on the current account in 2020 followed upon the surplus of 1.9% of GDP recorded in 2019. In the complex external environment associated with the COVID-19 pandemic, the decline in the value of total exports was offset by the contraction of imports.

It was in this macroeconomic setting that the government chose to undertake the most far-reaching changes yet implemented under its programme for updating Cuba's economic model. After having stated in 2011 that it would work towards monetary unification and having presented a timetable for the transition to monetary and exchange rate unification in 2013, on 1 January 2021 the Cuban government announced that the convertible Cuban peso (CUC) would be discontinued, with the only remaining local currency in the country therefore being the Cuban peso (CUP) (the currency used to pay government salaries and pensions and to charge for basic utilities and some locally produced goods). The core components of this monetary reorganization process are: (i) monetary unification by means of the elimination of the convertible peso and circulation of a single national currency (the Cuban peso, or CUP), combined with a single exchange rate of 24 CUP to the United States dollar for all economic transactions (a devaluation of the official exchange rate); (ii) reform of the price, wage and social security systems; (iii) a reform of the distribution system entailing a transformation of social and personal consumption patterns to be brought about by reducing the items provided free of charge, raising the prices of standard consumption goods and public rates and charges, and replacing universal consumption subsidies with family-focused subsidies; and (iv) institutional changes involving modifications in the institutional planning and macroeconomic policy framework, new business-friendly regulations and regulations promoting local decentralization, greater productivity and competitiveness incentives, and measures to foster the development of inter-agency market relations as a means of reducing segmentation.

The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that Cuba's GDP will grow by 2.2% in 2021, with the expansion being driven by public spending and higher exports of goods and services. The economic reactivation will be dampened somewhat, however, by the new waves of COVID-19 seen in the country since the beginning of 2021, which has prevented the full reopening of economic activities and the reactivation of national and international tourism, and by the difficulties

associated with the implementation of the monetary overhaul in the presence of shortages of goods. Nevertheless, the vaccination drive is progressing and is expected to be completed by October. This does seem to indicate, however, that economic activity will not return to normal until the end of the year.

A slight increase in the current account surplus as a percentage of GDP is expected, given the devaluation of the exchange rate and the improved outlook for international trade. Owing to the moderate recovery of the economy, additional public health outlays to cope with the pandemic and expenditures associated with the monetary consolidation effort, the fiscal deficit is estimated at 18.3 per cent of GDP. A record three-digit inflation rate is projected for 2021 as a consequence of the launch of the monetary reorganization drive and the country's foreign-exchange shortages.

2. Economic policy

(a) Fiscal policy

In 2020, fiscal policymakers adopted a countercyclical approach for dealing with the pandemic in what was already a recessionary economic environment. Expenditures associated with the monetary reorganization effort, such as increases in government wages and pensions, had an impact on public finances in December 2020. Total government revenues plunged by 20.1% in real terms as a result of decreases in both tax and non-tax revenues, which were down by 20.6% and 18.6%, respectively. Meanwhile, total expenditure fell by 3.1% as current spending declined by 1.5% and capital expenditures and transfers by 22.4%. Public spending was higher in real terms in such areas as social security, science and technological innovation, education, public health and social assistance. As was to be expected, the fiscal deficit expanded considerably, widening from 6.2% of GDP in 2019 to 17.7% of GDP in 2020. The deficit was financed with sovereign bond issues, with a maturity range of from 1 to 20 years and an average interest rate of 2.5% per bond issue.

As of early 2021, public finances had not improved. Revenues were still depressed as the upturn in economic activity was still just beginning, and spending levels had to be raised to cope with the resurgence of the pandemic from January onward. One of the factors behind these higher levels of expenditure was investment in the development and implementation of clinical trials of five candidate COVID-19 vaccines. Two of those vaccines —Abdala and Soberana 02— completed the third phase of their clinical trials and began to be administered as an emergency measure in May. Public health expenditures represent 27% of total expenditures according to the most recent data released by the Cuban government for 2021.

Major shifts in fiscal policy in 2021 associated with the first year of the implementation of the monetary reorganization plan include the following: (i) a gradual correction of wholesale and retail prices as a result of the devaluation; (ii) the implementation of a wide-ranging wage and pension reform; (iii) elimination of excessive price subsidies for non-essential products; (iv) the establishment of a reserve fund in local government budgets for the protection of vulnerable individuals and groups and a reserve fund in the central government budget for temporary financial support for businesses hurt by rising costs; (v) establishment of total or partial rebates on sales and service taxes in non-State areas of activity with the objective of arriving at suitable consensus price levels for goods and services having an impact on the population; (vi) adjustments in the tax system, including the rescaling of tax bases, the reduction of tax rates and increases in expense deductions and the floor level for exemptions for both State and non-State enterprises; (vii) exemption from the annual personal income tax for self-employed workers whose work has been suspended for six months or more as a result of the pandemic; and (viii) authorization for local governments to take out short-term bank loans to finance temporary cash imbalances in their accounts while the regulations are being drawn up for the introduction of Treasury bills as a short-term debt instrument.

Taking these changes into account, total expenditure is estimated at 79.1% of GDP (compared with 69.2% of GDP in 2020), while net revenues are expected to amount to 60.8% of GDP (compared with 51.5% of GDP in 2020). The estimated fiscal deficit for 2021 is 18.3% of GDP (compared with 17.7% of GDP in 2020). It should be noted that the new exchange rate now applies to State-run enterprises and the civil service, which, for the most part, previously conducted their transactions in dollars at a rate of 1:1. The exchange rate of 24 CUP to the dollar applied to Cuban households and the private sector.

(b) Monetary and exchange-rate policy and financial policies

Interest rates remained unchanged in 2020: for loans in CUC, the floor rate was 4.5% and the ceiling was 5.5% while, for loans in CUP, the floor rate was 4.5% and the ceiling was 7.0%.

The M2A (population) aggregate held steady in early 2020 but then began to climb so steeply that the growth rate for the year as a whole came to 51.0%, compared to 10.3% in 2019. If this situation persists, inflationary pressures are likely to heat up in unregulated markets as monetary factors such as repressed inflation, forced saving and supply shortages continue to make themselves felt. In recent years, the growth of M2A has mainly been associated with the trend of cash in circulation. This trend tends to reflect the level of activity in the private sector, which generally operates outside the financial system's payment channels.

In 2020, bank credit in Cuban pesos for the national economy, including natural persons, shrank by 6.4% relative to the volume of credit extended in 2019. The largest decreases corresponded to other non-State businesses, non-agricultural cooperatives and own-account workers. This was largely a reflection of the epidemiological situation in the country, which triggered a sharp reduction in activity in these sectors.

Credit granted to corporate entities slackened by 6.1% relative to the 2019 level. A full 93.1% of total financing went to State-owned enterprises, while 6.7% went to agricultural activities not associated with the government. Loans to private persons were down by 10.7% from their 2019 level.

In 2021 the monetary authorities face the challenge of bringing inflation under control in the wake of the initial price shock generated by the monetary reorganization and the widespread shortages associated with the pandemic. The dollar liquidity crunch is fuelling price volatility despite the authorities' efforts to dampen it by imposing direct controls on foreign exchange, prices, wages and credit. The sharp contraction in the supply of foreign exchange widened the differential between the official rate and the informal market rate, which was then increased even further by the stronger demand for dollars triggered by the return to a system of dollar-denominated transactions on State-run goods and service markets. Both of these factors have an impact in terms of price stability, especially in deregulated markets in the non-State sector (including the market for agricultural goods and services) and the informal market.

On 10 June 2021, the central bank announced that, as of 21 June 2021, Cuban and foreign persons and corporate entities would no longer be able to make deposits or any other cash transaction in United States dollars in Cuban banking institutions. This decision was prompted by the additional constraints imposed by the United States blockade on the Cuban banking system's ability to make cash deposits abroad of the United States dollars that are taken in by banks in the country. The United States' inclusion of Cuba on the list of State sponsors of terrorism in January 2021 exacerbated this situation.

(c) Other policies

During the Administration of President Trump in the United States, more than 240 coercive measures were activated under the United States blockade of Cuba, and those measures remain in force.

These restrictions augment the multiple challenges posed by the COVID-19 pandemic for the country and magnify the pandemic's adverse social, economic, health-related and financial impacts. The measures have also repeatedly hindered the arrival of humanitarian aid. According to the most recent report of the Government of Cuba, between April and December 2020, the blockade occasioned some US\$ 3.587 million in losses, which is more than twice the total value of Cuba's merchandise exports in 2020.

3. The main variables

(a) The external sector

In 2020, Cuba's foreign trade performance was seriously eroded both by the tightening of the economic, commercial and financial blockade imposed by the United States and by the slump in world trade caused by the measures taken to contain the COVID-19 pandemic. Exports of goods plunged by 17.4% for the year. Some of the main product groups that suffered the most were pharmaceuticals, alcoholic beverages and liquids, sugar, zinc and zinc products, lead and lead products, and tobacco. Services were also down, particularly those associated with human health and tourism activities, with an annual drop of 74.6% in international tourism being recorded for the year. The 57 Henry Reeve medical brigades sent out by Cuba to help combat the pandemic in 40 countries clearly represent an export of services, but the country did not necessarily receive monetary compensation for those services in all cases. Imports fell by 27%. Some of the steepest drops were in beverages and tobacco (-32.2%), machinery and transport equipment (-29.7%), and chemicals and related products not elsewhere specified (-21.9%). The balance on current account therefore deteriorated in 2020 and, although it still shows a slight surplus (0.9% of GDP), that surplus was smaller than it had been in 2019 (1.9% of GDP).

In 2021, the government has placed special emphasis on the promotion of exports from both the State and non-State sectors in its bid to pull the economy out of the recession. The measures it has adopted are aimed at giving greater autonomy and managerial leeway to State-owned businesses and at boosting non-State exports. These production incentives include: (i) allowing companies in the export chain to retain a portion of the liquidity obtained in the form of export earnings, which gives them some degree of autonomy in their financing; (ii) measures enabling companies engaging in foreign trade to provide export services to non-State businesses; (iii) initiatives for the formation of export production clusters; (iv) promotion of strategic partnerships and production linkages between dynamic sectors to promote the production of exportables with greater value added; (v) incentives for companies and academic institutions to locate their facilities in science and technology parks; and (vi) promotion of e-commerce sales using Cuban or foreign platforms to bring in revenues from abroad.

Despite the adverse international environment, which was made even worse by the United States blockade, 33 new foreign investment projects were approved in 2020, 4 of them in the Mariel Special Development Zone, totalling more than US\$ 2.45 billion. These projects will bring new investments into the tourism, construction, renewable energy and manufacturing sectors. In addition, several extensions were approved for established businesses.

The Government of Cuba has continued its efforts to set up projects in strategic sectors in 2021, especially in the agrifood, pharmaceuticals and biotechnology, renewable energy and tourism sectors. It has also continued to work to consolidate the operation of its one-stop foreign investment window, as well as other initiatives aimed at facilitating the inflow of foreign direct investment. To further this effort, the design and publication of a new edition of its catalogue of foreign investment opportunities are under way. This portfolio is focused on local development projects, infrastructure investments, the establishment of technology parks and the provision of export-oriented professional services.

(b) Economic activity

In 2020, the level of economic activity was lower in all sectors except mining and quarrying (0.7%), construction (0.5%) and science and technological innovation (0.3%). Particularly sharp drops were seen in education (28.8%), agriculture, livestock and forestry (23.5%), hotels and restaurants (24.5%), manufacturing (14.7%), trade and repair of personal effects (12.2%) and the sugar industry (11.0%). The economy is expected to start making a recovery in 2021, with sectors such as telecommunications and biotechnology showing some strength.

In terms of aggregate supply and demand, final consumption fell by 9.1% as a result of declines in both government (10.1%) and household (8.7%) consumption. Gross capital formation fell by 5.9%, while exports of goods and services were down by 20.5% and imports of goods and services by 7.6%. Border closures intended to help curb the spread of COVID-19 were one of the factors contributing to the adverse international situation.

(c) Prices, wages and employment

The trend of inflation during 2020 is mainly accounted for by the increase in agricultural prices despite the government controls in effect. In December, the agricultural consumer price index (CPI) showed a 44.7% year-on-year increase. The CPI for the non-State sector continued to climb, with the year-on-year increase amounting to 11.6%.

Notably, the CPI in convertible pesos rose (by 0.08%, year on year) for the first time since January 2012, when a steady deflationary trend had begun that lasted until October 2020. Year-on-year headline inflation, measured in both currencies, stood at 7.2% (versus -1.3% in 2019).

There was a significant upswing in inflationary pressures in 2020 as supply shortages were compounded by the health emergency, the depreciation of the informal exchange rate and expectations associated with wage and pension reforms. The launch of the monetary and exchange rate reorganization effort in 2021 has not been free of difficulties; problems in its implementation have forced the government to modify the prices of goods and services and to raise subsidies. The government's efforts to stop prices from climbing has clearly fallen short of the mark, as price controls may be effective in the short run, but they do not correct structural supply problems; in addition, they create distortions in resource allocation and send inaccurate signals to economic agents.

The official unemployment rate for 2020 was 1.4% (compared to 1.3% in 2019). Own-account work as an employment option has been steadily gaining in popularity and now represents 13% of total employment in the country's economy. At the end of 2020, there were 602,415 self-employed workers in Cuba, but by the end of March 2021, that number had climbed to 607,429 people, of whom 212,536 were women (35%). In February 2021, the government announced that it was doing away with its list of authorized self-employment activities, which had contained 127 occupations. Now, as a result of this decision, only 124 of the more than 2,000 categories of activities in the economy are subject to such limitations, in whole or in part.

Protective measures for workers prevented from attending their place of work by the pandemic were increased in 2020. These measures covered 100% of workers' wages during the first month and 60% thereafter for as long as the situation that prevents them from attending work continues.

In December 2020, the minimum wage in the budgeted State sector was raised to 2,100 CUP (US\$ 87.5), up from 400 CUP in 2019. With the launch of the monetary reorganization process, which entails changes in wage and pension policies, the average basic wage in the State sector (which varies significantly depending on the area of economic activity) rose to 1,094 CUP (US\$ 45.6, compared with 879 CUP in 2019). Under this new system, a 32-level salary scale is being established for different occupations and types of professional activity, with a wage ceiling of 9,510 CUP (US\$ 396).

Table 1
CUBA: MAIN ECONOMIC INDICATORS

	2012	2013	2014	2015	2016	2017	2018	2019	2020 a/
Gross domestic product	3.0	2.8	1.0	4.4	0.5	1.8	2.2	-0.2	-10.9
Per capita gross domestic product	2.8	2.5	0.8	4.3	0.4	1.8	2.3	-0.2	-10.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.7	4.7	2.2	2.5	5.8	-1.4	2.7	-12.4	...
Mining and quarrying	2.1	-2.3	-0.7	-2.2	-3.7	-1.4	-3.5	-14.5	...
Manufacturing	2.2	2.1	-3.6	6.3	-5.2	-1.1	-0.9	-6.1	...
Electricity, gas and water	4.4	3.7	0.7	4.2	1.2	1.3	1.2	-0.6	...
Construction	11.3	7.9	-2.3	17.0	4.7	9.0	9.3	0.4	...
Wholesale and retail commerce, restaurants and hotels	5.3	3.4	3.2	6.3	1.0	2.5	0.7	-2.7	...
Transport, storage and communications	6.2	3.2	4.3	6.5	3.4	3.7	6.4	2.0	...
Financial institutions, insurance, real estate and business services	7.9	2.1	4.3	3.4	2.4	0.4	2.4	0.3	...
Community, social and personal services	-0.7	1.4	0.7	-0.2	0.5	1.6	1.8	4.9	...
Gross domestic product, by type of expenditure									
Final consumption expenditure	1.9	3.7	2.8	5.1	2.9	1.8	2.0	...	...
Government consumption	-0.6	0.8	-1.0	0.0	-0.2	2.2	1.3	...	...
Private consumption	3.3	5.2	4.6	7.4	4.1	1.7	2.2	...	...
Gross capital formation	7.2	4.0	-4.9	18.3	7.5	0.2	4.8	...	...
Exports (goods and services)	0.4	1.7	-2.8	-0.1	-19.7	...	-2.4	...	...
Imports (goods and services)	-2.1	6.1	-1.5	10.1	-10.6	-1.6	-2.0	...	...
Investment and saving c/									
Gross capital formation	0.7	4.7	2.2	2.5	5.8	-1.4	2.7	-12.4	...
Employment d/									
Labour force participation rate	74.2	72.9	71.9	67.1	65.2	63.4	63.8	65.2	...
Open unemployment rate	3.5	3.3	2.7	2.4	2.0	1.7	1.7	1.2	...
Prices									
Variation in consumer prices (December-December) e/	2.0	0.0	2.1	2.4	-3.0	0.6	2.4	-1.3	18.5
Nominal exchange rate (cuban convertible pesos per dollar)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Central government									
Total revenue	54.5	43.1	31.3	33.5	...	...	...	...	...
Tax revenue	30.6	22.3	19.4	...	...	...	...	...	...
Total expenditure	47.8	41.1	30.7	33.9	...	...	...	...	...
Current expenditure	32.7	32.6	27.5	29.7	...	...	...	...	...
Interest	...	...	...	...	...	...	...	...	...
Capital expenditure	8.8	7.4	3.1	3.9	...	...	...	...	...
Primary balance	...	...	...	...	...	...	...	...	...
Overall balance	6.7	1.9	0.6	-0.4	...	...	...	...	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1997 prices.

c/ Based on values calculated in national currency and expressed in current dollars.

d/ Nationwide total.

e/ Refers to national-currency markets. e/ Refers to national-currency markets.