

Cuba

Cuba faced an adverse economic situation in 2021 due to the negative effects of the more than 240 measures activated as part of the embargo by the Trump Administration, which were maintained by the Biden Administration. These were compounded by the strong surge in COVID-19 infections on the island—again forcing border closures and the stoppage of non-essential economic activities—and by the impact of the currency regime restructuring. Cuba began a gradual process of economic recovery in the last two months of 2021, thanks to the opening of its borders and the arrival of international tourists, exports of domestically produced COVID-19 vaccines and a slight rebound in both the State and non-State sectors of the economy. With this, the country's GDP is expected to grow by 0.5% in 2021, compared to a contraction of 10.9% in 2020.

The fiscal deficit will remain high in 2021, at around 16% of GDP (compared to 17.7% of GDP in 2020). The current account balance will remain slightly positive and similar to that of the previous year (0.5% of GDP). Inflation in retail markets has been the main adverse effect of the currency regime restructuring, which involved the withdrawal from circulation of the Cuban convertible peso (CUC) and the devaluation of the Cuban peso (CUP). The basic basket of goods and services now costs almost double the planned target level, as the prices of transport services, housing and food rose much faster than the 60% growth forecast in the currency regime guidelines.

Fiscal policy remained expansionary in 2021 to cope with the effects of both the currency reorganization and the pandemic. Net revenues are projected to equal 53.3% of GDP (compared to 51.5% in 2020) and, while the share of tax revenues in GDP is expected to fall to 21.1% (against 37.7% in 2020), non-tax revenues should increase considerably (32.8%, up from 14.0%). The currency reorganization is a key element behind this significant shift in the tax structure. Prior to 2020, sales taxes accounted for around 38% of tax revenues; in 2021, the first year of the new currency regime, they fell to 5%, and the profit tax became the leading item with 45%. As part of the reorganization process, the prices of goods and services previously sold in convertible pesos were restated in regular pesos (1 CUC = 24 CUP), which generated levels of income for the selling entities that did not reflect their commercial performance. These surpluses of liquidity—which were paid into the State budget—were reported as non-tax income in 2021. At the same time, total projected spending for 2021, as a percentage of GDP, is the same as in 2020 (69.4%). Peak domestic public debt is expected to stand at around 24.5% of GDP (against 22.1% in 2020). The debt has been financed through bond placements in the domestic banking system, with amortization periods of between 1 and 20 years and an average interest rate of 2.5%. To address the pandemic, some US\$ 667 million were invested in health services and supplies, in a context of reduced investment spending.

Monetary and exchange-rate policy faces important challenges, including fiscal dominance, the partial dollarization of the economy, the non-convertibility of the national currency, the growth of the informal foreign-exchange market and the misalignment between exchange rates in the informal market and the official rate.

Interest rates remained unchanged in 2021. State-owned companies account for 99.3% of financing, with the remainder held by individuals. In 2021, the Government of Cuba tackled the challenge of controlling the pace of inflation, especially in retail markets, which was largely caused by the shortage of goods denominated in Cuban pesos in retail businesses and the illegal foreign-exchange market. The government adopted a series of measures for the short-term alleviation of the shortages and

high prices of certain staple products consumed by families. Thus, it allowed the free importation—without tariffs or volume restrictions—of food, medicines and toiletries by travellers arriving at airports and also by State entities, joint ventures and companies working under international economic association contracts. It also temporarily lifted the duty on supplies and goods imported by private companies and cooperatives through State importers; it authorized duty-free imports of renewable energy and energy efficiency equipment for non-commercial purposes by private citizens; and it issued ration cards to 200,000 people lacking them in their current places of residence. Other medium-term measures were also activated to positively impact job creation, productivity and economic recovery: (i) authorization for own-account workers, micro-, small and medium-sized enterprises (MSMEs) and non-agricultural cooperatives to pursue a broader range of economic activities, (ii) legalization of private MSMEs, (iii) increased flexibility of agricultural marketing mechanisms (without eliminating the dominant role of the State’s bulk purchaser and distributor) and temporarily eliminating price ceilings in agricultural markets, (iv) devaluation of the currency, leading to fluctuations in relative prices, and (v) restructuring and resizing of the State-owned business sector, partly as a consequence of the above measures.

Cuba: main economic indicators, 2019-2021

	2019	2020	2021 ^a
	Annual growth rate		
Gross domestic product	-0.2	-10.9	0.5
Per capita gross domestic product	-0.1	-10.9	0.6
Consumer prices	-1.3	18.5	70.9 ^b
	Annual average percentage		
Open unemployment rate	1.3	1.4	...

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

a Estimates.

b Figures as of November.

Exports of goods and services have been falling over the past two years, but a gradual recovery has been under way since the end of 2021. Imports in September 2021 rose 2% in year-on-year terms due to the increase in international prices for fuels, certain foodstuffs (such as beef, soybeans and rice), chemicals and various other products. Vaccine exports have risen significantly in recent months, as have international tourism and remittances, so a positive—albeit minimal—current account balance will be maintained.

During the first half of 2021, GDP decreased by 3.8% in year-on-year terms. This was a consequence of the tightening of the embargo, the steps taken to curtail the spread of COVID-19 infections, the beginning of the currency reorganization process and the subsequent worsening of the Cuban economy’s structural imbalances.

In November 2021, the official consumer price index (CPI) posted a year-on-year increase of 70.9% (compared to 10.1% in 2020). The three top sectors responsible for the rise were transport, housing, and food and non-alcoholic beverages. Significantly, the official statistics do not take into account the expansion of the informal market, which currently plays a major role in satisfying household consumption and in setting prices.

According to the information available as of September 2021, the benchmark basic basket of goods and services was most expensive in Havana, at CUP 3,250, compared to CUP 3,057 in the eastern provinces, whereas the cost forecast for it as part of the currency reorganization process was CUP 1,528. Average monthly wages stood at CUP 3,900 (US\$ 162.50) and the minimum wage was CUP 2,100 (US\$ 87.50).

Wage increases, the result of the December 2020 wage reform, have been extremely weakened in terms of their purchasing power, and the impact of this was felt by lower income sectors in particular. In the so-called informal markets, prices have risen at rates never before seen. Triple-digit inflation is expected for 2021 (close to 500%, compared to 18.3% in 2020).

By the end of September, 200,000 jobs had been created (48% in the non-State sector). The temporary closure of non-essential businesses due to the pandemic reduced the number of workers in the non-State sector; as a result, in net terms, the 2021 unemployment rate could be close to 1.5% (against 1.4% in 2020).

The Economic Commission for Latin America and the Caribbean (ECLAC) forecasts a 4.0% increase in GDP for Cuba in 2022; this is primarily due to a statistical effect, given the almost zero growth recorded in 2021. In addition, the opening of the country's borders to international tourists — made possible by the full inoculation of close to 90% of the island's population— and the increased exports of goods and services, public spending and the recovery of the non-State sector's dynamism are expected to contribute to its economic reactivation. Faster economic growth and recovering revenues will facilitate a drop in the fiscal deficit. The current account surplus is projected to increase (2% of GDP) as goods and services exports recover. The brighter economic outlook and the maturation and refinement of anti-inflation measures should reduce the inflation rate to the double-digit level, and a recovery in employment is expected as more MSMEs and non-agricultural cooperatives begin operations.