

CUBA

1. General trends

In 2021, Cuba confronted the strongest wave of infection from coronavirus disease (COVID-19), and it was only towards the end of the year that it was brought under control by mass application of locally developed vaccines. The measures adopted by the Cuban authorities to cope with the pandemic aggravated domestic macroeconomic imbalances (the fiscal deficit remains in double digits). Monetary unification posed a major macroeconomic management challenge, especially in terms of controlling inflation. Against this backdrop, the Cuban economy achieved GDP growth of 0.1%, following a steep 10.9% drop in 2020.

In December 2021, the general inflation indicator was up by 77.3% year-on-year, reflecting both supply shortages owing to the severe lack of foreign currency, and demand pressures fuelled by excess liquidity in circulation. These factors were compounded by cost increases caused by the depreciation of the peso in the informal foreign exchange market, in the context of a partially dollarized economy.

The recessionary environment and extraordinary disbursements, both to confront the pandemic and for the production and application of vaccines, hampered the recovery of the public finances. Although the fiscal deficit fell back to 11.7% of GDP (compared to 17.7% in 2020), this was due mainly to a reduction in capital expenditure since it proved impossible to execute investment as planned.

In 2021, the current account of the balance of payments recorded a small surplus of around 0.3% of GDP (0.5% in 2020), with a reduction in the value of exports being offset by a contraction in imports. Revenues from tourism activity dropped sharply as the occupancy rate of tourism entities declined from 14.8% in 2020 to 5.8% in 2021.

In May 2022, President Biden announced an end to some of the numerous blockade measures imposed during the Trump Administration. Regular and charter flights from the United States to the different provinces of Cuba (not only to the capital) were authorized, the restriction on family remittances was lifted and donation remittances to Cubans were authorized. The requirements for United States travel to Cuba under certain agreements were also relaxed, but tourism activity and individual travel transactions between individuals are still prohibited. While these measures are positive and headed in the right direction, they are still very limited in scope. Cuba remains on the United States Department of State's list of countries sponsoring terrorism, which hinders financial transactions with the island.

The Economic Commission for Latin America and the Caribbean (ECLAC) expects Cuba's GDP to grow by 3.0% in 2022, following the reopening of borders to international tourism and the removal of restrictions on domestic economic activity. The lifting of some prohibitions by the Biden Administration should boost private sector activity. Meanwhile, the war between the Russian Federation and Ukraine could delay Cuba's economic recovery through three main channels: tourism revenues from the Russian Federation, which in 2021 accounted for 41% of all visitors; rising prices of foodstuffs and other raw materials, including fuel, which Cuba imports in large quantities; and a further upward trend in freight charges, which increases import costs, with disruptions in global supply chains having more profound effects on Cuba because of the blockade.

A small current account surplus is expected, on the order of 0.9% of GDP. Given the modest recovery of the economy, the fiscal deficit is expected to retreat to around 11% of GDP. Inflation is expected to decline in 2022, following the initial impact of exchange rate unification. However, many of the factors that fuelled inflation in 2021 persist in 2022.

2. Economic policy

(a) Fiscal policy

As a result of the implementation of the monetary, exchange and financial reorganization process launched on 1 January 2021, the government's budget was converted to take account of the impact of monetary unification and currency devaluation. Owing to the difficult economic situation, aggravated by the COVID-19 pandemic, it was necessary to make adjustments to the budget in July 2021. Given the contraction in public income, it was necessary to cut expenditures and redistribute funds to priority areas, especially in public health and social assistance, and to support State-owned export enterprises and priority imports. The additional funds disbursed to address the pandemic amounted to more than 17 billion pesos (CUP), equivalent to US\$ 708 million. Starting in the fourth quarter of the year, GDP halted its decline and posted positive growth, which generated additional revenue. However, this was insufficient to fully restore public income, so that in 2021 total net income slipped to 47.1% of GDP (compared to 51.5% in 2020). The monetary realignment resulted in a rebalancing of the contributions of tax revenue and non-tax income, so that the former dropped from 37.7% of GDP in 2020 to 17.8% in 2021, while non-tax income rose from 14.0% to 29.7%. In view of the reduction in public revenues and the necessary rebalancing and reduction of expenditure, compounded by difficulties in executing public investment as planned, public expenditure fell to 58.8% in 2021 compared to the previous year's 69.2%. Thus, the fiscal deficit, while still large, narrowed from 17.7% of GDP in 2020 to 11.7% in 2021.

In 2022, gross public revenues are expected to decrease by 5.6% because some items of non-tax income ceased to be captured once the monetary restructuring process was launched. With the recovery of economic activity in 2022, tax revenues are projected to grow by 18.6%, with increases in all revenue items, but mainly profit tax (24%) and sales taxes (43%). Public expenditure in 2022 is forecast to decrease by 2.5%, following a 28% cut in subsidies to the business sector as part of the monetary reorganization, while current spending for social development is expected to rise by 1.6% and public investment is set to grow by 6.1%.

The fiscal deficit is forecast to be around 11% of GDP, less than in the previous year. It will be financed through the issuance of sovereign bonds on the domestic market with maturities of between 1 and 20 years, at an average interest rate of 2.5%.

Public debt in 2022 is expected to peak at around CUP 122 billion, equivalent to approximately 23% of GDP (19.5% in 2021). This amount includes the debt that was assumed in the State budget to advance the monetary reorganization process and absorb its impact on the banking sector.

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

The Central Bank of Cuba sets the current interest rate system for the Cuban economy and has kept interest rates unchanged for at least a decade. In the case of deposits by individuals, the floor rate for CUP deposits has been set at 0.50% and the ceiling rate at 7.0%; for loans in dollars, the floor rate is 0.25% and the ceiling rate is 1.9%. For micro-, small and medium-sized enterprises (MSMEs) and non-agricultural cooperatives, the floor is 0.5% and the ceiling is 1.0%.

Although the lending rate has also remained unchanged, banks have some flexibility depending on the different loans they grant, applying a commercial margin to the rates in force. Thus, depending on the term granted, the prevailing rate on loans to non-financial State-owned legal entities in March 2022 may vary between a minimum of 4.0% (one-year term) and a maximum of 6.92% (seven-year term). In March 2021, the rates for the same maturities were 4.57% and 6.44%, respectively.

As of the end of the first quarter of 2022, financial institutions had lent almost CUP 41 billion, representing a year-on-year reduction of 50.2%. This reflected the granting of bridge loans and compensatory credit financing in the first quarter of 2021, as part of the monetary restructuring initiative. In addition, the shortage of inputs and raw materials has had a negative impact on demand for credit to finance working capital.

In the same period, financing executed by legal entities in pesos accounted for 96.8% of loans, around CUP 40 billion, equivalent to about US\$ 1.651 billion. Of this total, 79.3% went to State-owned enterprises, 12.6% to associations, corporations and Central State Administration Agencies (OACE), and 4.5% to the cooperative sector, dominated by agricultural activity. Financing executed by MSMEs represented 0.3% of the total. Compared to the end of the first quarter of 2021, loans to legal entities decreased by 51.5%.

Lending to individuals amounted to nearly CUP 1.317 billion, equivalent to US\$ 55 million, 167% more than in the first quarter of 2021 and representing 3.2% of total loans. Of this amount, 2.2% was channelled to small farmers, 0.9% to individuals, and 0.1% to the self-employed and other forms of non-State enterprise.

By economic sector, the largest share of credit went to commerce and repair of personal effects (41% of the total), followed by manufacturing industry (22.8%), and agriculture, livestock, hunting and forestry (16.1%).

(c) Other policies

Faced with difficulties to alleviate the high rates of inflation prevailing in the economy, especially in retail markets, and to regain economic momentum in a context of differentiated exchange-rate environments for the State and non-State sectors, in mid-2021 the Cuban authorities announced an update to the economic and social strategy, consisting of 158 measures. These include: (i) gradually and selectively implementing an exchange system for the sale of foreign currency to national State and private suppliers, agreeing on production levels and prices, for sale in Cuban pesos; (ii) improving the performance of State import and export enterprises that manage these foreign trade operations for non-State enterprises; (iii) setting up a mechanism for the selective channelling of donations to persons in vulnerable situations; (iv) increasing trade in goods and services through the Transfermovil and EnZona local platforms, and improving e-commerce through virtual stores; (v) proposing a social vulnerability index that makes it possible to estimate the size of the population in this situation more precisely and (vi) directing the process of creating new economic agents and their effective integration into the national economy.

3. The main variables

(a) The external sector

In 2021, exports of goods (in current dollars) decreased by 5.8% relative to the previous year. However, one of Cuba's main export products, nickel, posted 8.3% growth on the back of a 22.2% rise in

the international market price, between 30 December 2020 and 30 December 2021 (the average price for the year was US\$ 16,637 per metric ton). Exports of key products such as tobacco and alcoholic beverages were down by 3.3% and 4.6%, respectively. Meanwhile, international tourist arrivals dropped by 60.2% in 2021, owing to the pandemic and the closure of Cuban airports to tourism, until they reopened in October of that year.

In the first quarter of 2022, goods exports recorded year-on-year growth of 38%, due mainly to the rise in international prices of nickel, tobacco and honey, as well as volume increases in items such as rum and fishery products. The sugar sector has performed poorly for the last five years, owing to a lack of cane and shortages of fuel and inputs. Charcoal exports also declined in the wake of the international logistics crisis, compounded by internal problems (few containers and insufficient decision-making autonomy). Exports of services fell by 0.71%, largely owing to fewer tourist arrivals.

Given the contraction of external sales and the lack of domestic economic buoyancy in 2021, imports decreased by 2.8%, with a sharp 22.4% drop in the machinery and heavy equipment category. Because of this and the currency devaluation, the trade deficit for 2021 is estimated to have improved during the year.

At the end of the first quarter of 2022, imports (in current dollars) were up by 52%, concentrated particularly in fuels (+74%), machinery, mechanical appliances and devices and their parts (+63.8%) and cereals. The 10 leading imported products accounted for 72.2% of the total, with 9 of them recording positive growth.

The increase in imports and the decrease in exports of services generated a larger trade deficit at the end of March 2022. Total trade (exports plus imports) was up by 23% relative to the same period in 2021.

Expectations for foreign direct investment (FDI) flows to Cuba are not promising. In addition to the adverse effects of the pandemic and the negative repercussions of the conflict between the Russian Federation and Ukraine, the extraterritorial nature of the blockade imposed by the United States continues to hinder the attraction of capital. In particular, the activation of Title III of the Helms-Burton Act as of May 2019, and the inclusion of Cuba on the list of countries sponsoring terrorism, in January 2021, have made it harder to do business with foreign capital. There are also domestic challenges that the government authorities have diagnosed; to remedy them, more profound changes are needed in the FDI attraction policy, an issue on which the country is working. As of end-2021, there were 302 businesses with foreign investment in the country, compared to 318 in 2020. In the last two years, 47 businesses were approved, 25 of which have been unable to set up.

In the first five months of 2022, seven new investment projects were approved —more than the two projects that were finalized in the year-earlier period, but still insufficient. In addition, three more projects are under consideration for approval, and around 20 are in advanced stages of negotiation. The approved projects are in the light industry, construction, mining services, information technology and tourism sectors.

The measures adopted to encourage FDI inflows include the operation of the Foreign Investment Single Window (VUINEX), and improvement of the catalogue of opportunities web platform, following its launch in late November 2021.

(b) Economic activity

In 2021, Cuba's GDP expanded by 1.3% following the previous year's sharp contraction. Sectors contributing to this growth included public health and social assistance (14.3%), education (9.4%), transport, storage and communications (5.9%) and hotels and restaurants (5.3%). However, a more vigorous economic performance was impossible owing to contractions in several of the country's production sectors: manufacturing industries (15.2%), agriculture, livestock and forestry (13.3%), fishing (8.3%), sugar industry (31.8%), electricity, gas and water (5.3%), as well as mining and quarrying (1.2%). Of the components of aggregate demand, only final consumption posted positive growth in 2021 (2.4%), thanks to a 15.0% increase in general government consumption. Exports of goods and services recorded the greatest reduction (9.1%), although imports also contracted (4.6%). Gross fixed capital formation retreated by 0.4%.

The economy started to recover gradually as from the fourth quarter of 2021, and GDP is expected to expand by 3% in 2022, on the back of recoveries in investment, private consumption and exports of goods and services.

(c) Prices, wages and employment

Cumulative inflation at the end of 2021 was 77.3%, compared to the 60% forecast in the monetary reorganization plan. The strongest inflationary pressures originated in the retail market. According to the available information, cumulative inflation was 13.5% up to June, with a significant 21.7% increase in the prices of foodstuffs and non-alcoholic beverages.

In late 2022, the unemployment rate is expected to be 1.5%, similar to the previous year's rate. The economic activity rate, which stands at around 65%, and 52% in the case of women, has remained low in recent years, although the latest available data, for 2020, point to an uptick. The implementation of policies approved in 2021, including an increase in economic agents operating in the non-State sector, made it possible to incorporate workers into the labour market. It is estimated that around 65% of the total number of employed workers are occupied in the State sector in 2022, similar to the 2021 figure. The non-State sector is expected to grow relative to the previous year, mainly owing to the creation of MSMEs (as from September 2021) and non-agricultural cooperatives, and to an increase in the number of self-employed workers.

In 2022, the minimum monthly wage is unchanged from its 2021 level of CUP 2,100 (US\$ 87.50). The average wage is expected to rise to CUP 4,100 (US\$ 170.80), which represents an increase of CUP 280 (US\$ 11.70) relative to its level in 2021. Given the prevailing inflationary environment, the purchasing power of wages in Cuba clearly deteriorated in both 2021 and 2022.

Table 1
CUBA: MAIN ECONOMIC INDICATORS

	2013	2014	2015	2016	2017	2018	2019	2020	2021 a/
Gross domestic product	2.8	1.0	4.4	0.5	1.8	2.2	-0.2	-10.9	0.1
Per capita gross domestic product	2.5	0.8	4.3	0.4	1.8	2.3	-0.1	-10.8	0.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	4.7	2.2	2.5	5.8	-1.4	2.7	-11.0	-22.9	...
Mining and quarrying	-2.3	-0.7	-2.2	-3.7	-1.4	-3.5	-14.5	0.7	...
Manufacturing	2.1	-3.6	6.3	-5.2	-1.1	-0.9	-6.1	-14.6	...
Electricity, gas and water	3.7	0.7	4.2	1.2	1.3	1.2	-0.6	-6.0	...
Construction	7.9	-2.3	17.0	4.7	9.0	9.3	0.4	0.5	...
Wholesale and retail commerce, restaurants and hotels	3.4	3.2	6.3	1.0	2.5	0.7	-2.7	-15.7	...
Transport, storage and communications	3.2	4.3	6.5	3.4	3.7	6.4	2.0	-4.8	...
Financial institutions, insurance, real estate and business services	2.1	4.3	3.4	2.4	0.4	2.4	0.3	-1.8	...
Community, social and personal services	1.4	0.7	-0.2	0.5	1.6	1.8	4.9	-11.8	...
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.7	2.8	5.1	2.9	1.8	2.0	0.5	-9.1	...
Government consumption	0.8	-1.0	0.0	-0.2	2.2	1.3	3.9	-10.1	...
Private consumption	5.2	4.6	7.4	4.1	1.7	2.2	-0.9	-8.7	...
Gross capital formation	4.0	-4.9	18.3	7.5	0.2	4.8	-1.0	-5.9	...
Exports (goods and services)	1.7	-2.8	-0.1	-19.7	...	-2.4	-4.6	-20.5	...
Imports (goods and services)	6.1	-1.5	10.1	-10.6	-1.6	-2.0	-2.9	-7.6	...
Investment and saving c/									
Gross capital formation	4.7	2.2	2.5	5.8	-1.4	2.7	-12.4	-12.4	-12.4
Employment d/									
Labour force participation rate	72.9	71.9	67.1	65.2	63.4	63.8	65.2	66.4	...
Open unemployment rate	3.3	2.65792	2.5	2.0	1.7	1.7	1.3	1.4	...
Prices									
Variation in consumer prices (December-December) e/	0.0	2.1	2.4	-3.0	0.6	2.4	-1.3	18.5	77.3
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	43.1	...	...	...	...	...	...	...	...
Tax revenue	22.3	...	...	...	...	...	...	...	...
Total expenditure	41.1	...	...	...	...	...	...	...	...
Current expenditure	32.6	...	...	...	...	...	...	...	...
Interest	...	...	...	...	...	...	...	...	...
Capital expenditure	7.4	...	...	...	...	...	...	...	...
Primary balance	...	...	...	...	...	...	...	...	...
Overall balance	1.9	...	...	...	...	...	...	...	...

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.