

Cuba

The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that GDP growth in Cuba amounted to 1.5% in 2023 (compared to 1.8% in 2022). The country's economic recovery is proceeding at a slow pace in an inflationary context. Activity in the agricultural and industrial sectors has failed to pick up, given the country's weakening import capacity and energy shortages, which have led to power cuts in both production facilities and in the country's households. The pace of inflation is the consequence of enormous shocks that have reduced the supply of goods and driven up the fiscal deficit. That deficit remained at double-digit levels (around 10% of GDP) in 2023. As a result of flagging goods exports and the halting recovery of tourism and remittances, the deficit on current account seen in 2022—for the first time since 2008—remained in evidence in 2023. Shortages of consumer staples made it difficult to ease price pressures, and inflation therefore remained in the double digits in 2023. Year-on-year inflation (to October) stood at 34.13% (37.24% in 2022), and the unemployment rate held steady at the same level (1.8%) as in 2022.

The economic, trade and financial embargo of Cuba maintained by the United States for more than six decades continues to do serious damage to the Cuban economy. Losses during the most recent period (March 2022 to February 2023) are officially estimated at US\$ 4.867 billion, or more than double the value of the country's total goods exports in 2022. The United States government also maintains Cuba on its list of State sponsors of terrorism, which has serious ramifications for the banking and financial sectors, in particular.

Government revenues in 2023 are projected to have declined by 13.8% in real terms from the previous year's level, with the largest drop being in non-tax revenues (-22.5%). Total expenditure is expected to be down by 17.7% in real terms year-on-year as a result of lower spending in sectors that are funded directly from the national budget (education, health and others), as well as transfers to State-owned enterprises and subsidies for public goods. While there has been a large increase in nominal terms in the amount allocated for capital expenditure and transfers (37.2%), in real terms these allocations are estimated to have increased by only 2.3%. The projected fiscal deficit of 68.126 billion Cuban pesos is 2.25 billion Cuban pesos less than the 2022 deficit. In the medium term, the Cuban government expects to be able to reduce the deficit thanks to the prospects for a recovery of economic growth and the measures that are planned for reducing tax evasion and the underreporting of income by self-employed persons, micro- and small enterprises, agricultural cooperatives and private-sector farmers.

Most of the fiscal deficit will be financed by the issuance of sovereign bonds purchased by the banking system with a term of between 1 and 20 years at an average interest rate of 2.5%. The public debt contracted in 2023 amounts to 120.9 billion Cuban pesos, which is below the ceiling set by the National Assembly of People's Power at the end of 2022 (122 billion Cuban pesos).

The central bank is in charge of setting the interest rate structure in Cuba, and that structure has remained unchanged for at least a decade now. The bulk of all loans go to State enterprises (79.0%), while very little credit is channelled into the non-State sector (1.9%).

A dual exchange rate system, which is differentiated according to the type of economic agent concerned, has been in place since July 2022. There is an official exchange rate for transactions conducted by the State sector (24 Cuban pesos to the dollar), which is used by most government-run

institutions, and an official exchange rate for transactions conducted by the non-State sector and households (120 Cuban pesos to the dollar), which is used by individuals, private-sector microenterprises and small and medium-sized enterprises, non-agricultural cooperatives, own-account workers and individual farmers, among others. Both are fixed exchange rates. The average rate for the year (January–November) in the informal market was 212 Cuban pesos to the dollar.

In 2023, the monetary authorities worked on gradually restoring the convertibility of the Cuban peso on a segmented basis and on reinstating the exchange rate as a tool of monetary policy. Against a backdrop of monetary disequilibria, the Central Bank of Cuba is gradually making headway in institutionalizing the foreign-exchange market and providing easier access to economic agents.

At the end of the first half of 2023, goods exports were exhibiting a year-on-year decline of 7%. The factors underlying this downswing were the sharp drop in nickel prices from their levels in the first half of 2022, lower exports of alcoholic beverages and liquids, and the shrinkage of the sugar industry, which has been on a downward trend for the last five years as a consequence of the reduction of sugar cane production and shortages of fuel and other inputs.

Service exports were up by 8.1% during the same period. Services represent approximately 75% of the country's total exports, with the main service items having to do with human health, followed by tourism. Medical services continue to be the biggest category of service exports, thanks to the number of Cuban health professionals working abroad and the strategic alliances that have been established with different sectors in the country.

As of June 2023, the value of imports was lower than it had been for the same period in 2022. The biggest changes were seen in imports from the Bolivarian Republic of Venezuela, China, Argentina and Spain.

The trade balance for goods and services closed out June 2023 with a deficit. The reasons for this result included a shortage of the foreign currency needed to secure the inputs needed to produce exports and the cross-cutting impact of the energy crisis on all economic activities in the country.

At the time of writing, official figures for 2023 on the economic performance of the different sectors of activity in the country were not yet available, but it is estimated that tourism, construction, commerce, and transport and communications, among others, all expanded, while agriculture, the sugar industry, and supplies of electricity, natural gas and water, along with public health and education, will all have seen downturns.

Prices, especially in the non-State sector, are expected to have continued to rise at rates similar to those seen in 2022. At the end of October 2023, the cumulative increase in price levels amounted to 24.19%, compared to the 23.56% rate registered the year before. The steepest increases were observed in food and non-alcoholic beverages, which accounted for 40.45% of the total increase in prices, followed by transport, with a rate of increase of 24.73%.

The labour force participation rate for 2022 (the latest year for which exact statistics are available) was 65.6% (a 52.7% rate for women and one of 77.1% for men), but this rate is thought to have fallen in 2023, since the working-age population and the economically active population have both shrunk, with the decrease being more pronounced in the latter than in the former. The monthly minimum wage was 2,100 Cuban pesos and the average wage was 4,555 Cuban pesos. Wage hikes are expected to come in 2024 on the back of strong economic growth in the business system.

ECLAC estimates that Cuba's real GDP growth will come to 1.4% in 2024 owing to slower growth in the world economy and in the economies of Cuba's main trading partners and to the persistence of structural weaknesses in the domestic economy. This figure may need to be revised, however, depending on trends in international tourism, the country's energy situation and the progress it makes in reaching agreements with strategic partners. Agriculture and manufacturing are expected to continue to perform poorly as a result of inflationary pressure and a decline in the purchasing power of wages and pensions in the country. The 2024 unemployment rate is expected to remain at much the same level as in 2023. Projections point to a moderation of the fiscal deficit, along with an improvement in the balance on current account as a percentage of GDP.