

CUBA

1. General trends

Cuba's real GDP grew by 2.0% in 2022, having expanded by 1.3% in the previous year. The slight acceleration notwithstanding, 2022 was an exceptionally complex year following the impact of a category-4 hurricane in September, which devastated the western part of the country. The more uncertain external context and weaker global momentum owing to the conflict between the Russian Federation and Ukraine, compounded by the persistence of sanctions imposed by the United States and structural challenges of the prevailing economic model, such as low productivity, prevented GDP from growing more vigorously.

The economic, commercial and financial blockade that the United States has maintained against Cuba for more than six decades, and which has been tightened in recent years, continues to cause serious damage to the national economy. The Cuban government's most recent report, covering August 2021 to February 2022, indicates that the blockade cost the country US\$ 3.807 billion during that period, 49% more than estimated for the previous seven months and equivalent to 15% of GDP in 2022. Moreover, in early 2021, the United States Government included Cuba on the list of State sponsors of terrorism, which imposes a further obstacle to participation in international trade and makes it more difficult to conduct financial operations or attract foreign direct investment (FDI).

Although the overall fiscal deficit in 2022 was larger in absolute terms than in 2021, it was smaller in proportion to GDP (11.1% compared to 11.7% in 2021). As a result of weak exports and an insufficient recovery in tourism and remittances, compounded by higher foreign exchange outlays owing to higher prices among several imported products, the current account posted a deficit (as in 2021, when this had occurred for the first time since 2008). The shortage of daily consumer goods in 2022 made it difficult to alleviate pressures on the price level, so inflation remained in double digits. Year-on-year inflation came in at 39.07% (compared to 77.03% in 2021); and the unemployment rate remained around 1.9%, higher than the previous rate reported most recently (1.4% in 2020).

The Economic Commission for Latin America and the Caribbean (ECLAC) expects Cuba's real GDP to grow by 1.8% in 2023, reflecting the slacker pace of activity in the global economy and in those of the country's main trading partners. This figure could be revised, depending on the evolution of international tourism, the country's energy situation and the progress made in reaching agreements with partners such as the Russian Federation and China. Growth in the agriculture and manufacturing sectors is expected to remain subdued. Cuba's persistent inflation means that wages and pensions are losing purchasing power, and the unemployment rate is expected to remain broadly similar to the 2022 figure. The fiscal deficit is also projected to moderate, and the current account deficit could narrow as a percentage of GDP.

2. Economic policy

In 2022, macroeconomic imbalances in the Cuban economy persisted; and they were aggravated further by the effects of the sanctions imposed by the United States, the conflict between the Russian Federation and Ukraine, Hurricane Ian and the energy crisis. These factors have resulted in high inflation, loss of local currency convertibility through formal channels, reduced supply of goods in the traditional retail network, and a continuous depreciation of the exchange rate on informal markets. In the short term,

the main priorities are to stabilize the national electric power system (to reduce supply outages), control inflation and increase supply, especially of food and basic products.

In late 2022, the Cuban authorities announced steps to: (i) implement a macroeconomic stabilization programme; (ii) gradually restore foreign currency financing modalities for the leading exporters; (iii) make progress in consolidating the foreign exchange market; (iv) strengthen fiscal control and tax payments; and (v) implement a price formation and control system that avoids irrational and abusive prices.

It is important to note that nominal GDP in 2021 was 545.218 billion Cuban pesos (CUP), according to official data, which is slightly more than five times its value in 2020 (CUP 107.352 billion). The main reason for this increase was the implementation of monetary-foreign exchange restructuring, as a result of which the GDP percentages of the different macroeconomic variables (including fiscal ones) were also changed as from 2021.

(a) Fiscal policy

In 2022, total net income represented 38.2% of GDP (compared to 47.1% in 2021), following a reduction in non-tax income. This outcome is influenced by the decline in other non-tax income (which represented 25.7% of GDP in 2021 and 16.0% in 2022). In real terms, total income declined by 28.1%, while tax revenue and non-tax income fell by 8.4% and 39.5%, respectively.

Total expenditure also decreased relative to GDP (from 58.8% in 2021 to 49.8% in 2022), declining by 25% in real terms relative to 2021. This result partly reflects the reduction in the budget both for budgeted activities (which depend entirely on funds from the public budget) and for non-budgeted activities.

The fiscal deficit is expected to retreat slightly from the previous year's level, from 11.7% of GDP in 2021 to 11.1% in 2022; and it is set to narrow in 2023 following the restructuring of public expenditure, with an emphasis on reducing transfers to enterprises. This is part of the Cuban authorities' commitment to reducing inflation as part of the macroeconomic stabilization programme, since the fiscal deficit is partly financed by issuing money.

The fiscal deficit was partially financed through the issuance of government bonds that were purchased by the State banking system, in accordance with the 2022 Annual Budget Law. The smaller fiscal deficit meant that the domestic debt grew more slowly than in 2021. The absence of a public debt market continues to limit the government's capacity to meet its needs without issuing new money, so monetary issuance continues to be dictated by the financing needs of the public deficit. This situation has worsened in the last three years because tax revenue has declined in the wake of slacker activity levels, while expenditures on vital public services and strategic sectors of production have been maintained. The result has been a sustained increase in the quantity of money in circulation, in excess of what is required by the number of transactions generated by the economy.

(b) Monetary and exchange-rate policy

The current structure of interest rates in Cuba is set by the central bank. As a result, rates have remained unchanged for at least a decade. The minimum deposit rate for individuals, in Cuban pesos, has been set at 0.5% and the maximum at 7.0%. For loans in dollars, the minimum rate is 0.25% and the maximum is 1.9%. For micro-, small and medium-sized enterprises (MSMEs) and non-agricultural cooperatives, the minimum rate is 0.5% and the maximum is 1.0%.

The interest rates are divided into three groups according to the type of loan. In the case of social loans for individuals, the rates vary from 2.25% to 7.75%, depending on the term granted. For working capital and investment loans, the minimum rate is between 2.5% and 3.5% and the maximum is between 8.0% and 10.0%. Lastly, consumer loans are subject to a floor rate of between 3.0% and 5.0% and a ceiling rate of between 8.5% and 10.5%. Real interest rates are currently negative, owing to the prevailing high level of inflation.

Cuba operates a dual exchange rate regime, segmented by type of economic agent and fixed in both cases. There is an official exchange rate for the foreign exchange operations of the State sector, which is fixed at 24.0 Cuban pesos (CUP) per dollar and is used by most State, foreign and mixed-ownership enterprises, among others. There is also an official exchange rate for foreign exchange operations undertaken by the private sector and households, fixed at CUP 120.00 per dollar. This is used by individuals, private MSMEs, non-agricultural cooperatives, self-employed workers and individual farmers, artists and creators.

The impacts of the crisis have reduced the supply of foreign currency, generating a growing shortage that is having a significant impact on productive activity and the ability of the public sector to meet its external obligations. The purchase of foreign currency is limited by exchange controls. In the case of the public sector, access is determined by the needs and objectives of economic planning. In the private and household sectors, access by individuals is limited to a fixed daily amount of US\$ 100 per person. To date, non-State administrative entities have not been able to purchase foreign exchange on the formal market. In the face of shortages and foreign currency restrictions on the household sector, the informal market has played an increasing role, and the informal exchange rate has been depreciating since the end of 2019.

The dollarization process has grown in scale and scope across different sectors and economic agents, increasingly substituting for the national currency's monetary functions (means of payment, unit of account and store of value). The dollarization of assets and transactions has continued, albeit to a lesser extent, through more complex forms, such as the indexation of prices to the informal exchange rate or price-setting directly in dollars. In these circumstances, the relevant money supply consists of assets held by agents in the form of deposits or cash, in both domestic and foreign currency.

Exchange rate policy faces challenges that have a similar origin. The existence of a monetary overhang generates demand pressures in most markets, especially the foreign exchange market. This has been reflected in a continuous and steep depreciation of the Cuban peso on informal exchange markets, and the national currency remains unconvertible. The sluggish recovery of the supply of foreign exchange (associated with tourism, remittances and exports) and the increased demand for foreign currency (linked to imports and migration) have contributed to this situation. Pressure from the population's expectations has also played a role in the peso's depreciation.

In April 2023, the Cuban authorities announced that dollar cash deposits would once again be accepted in the country's banks. This decision aimed to increase cash liquidity to facilitate the foreign exchange market operations undertaken by households and private agents, and to satisfy the cash needs of holders of foreign currency accounts.

Bank lending in the first quarter of 2023 totalled 67 million pesos, 42.9% less than in the year-earlier period. Of this amount, 69.7% was financing in Cuban pesos and 30.3% in freely convertible currency, the latter expressed in national currency at the official exchange rate. In the first quarter of 2023, legal entities accounted for 97.6% of loans granted. Of this percentage, State-owned enterprises absorbed

83.4% followed by other legal entities (associations, commercial companies, agencies of the central State administration and others), with 8.3%. Private individuals absorbed just 2.4% of total financing, and within this category the largest share, 1.7%, went to small-scale farmers.

3. The main variables

(a) The external sector

At the end of 2022, exports of goods and services were up by 10.3% year-on-year, associated with a price effect. The strongest performing goods exports were honey, charcoal and seafood; in the services sector, revenues were lower in tourism and telecommunications. The sugar sector continued the downward trend of the past five years, affected by shortages of sugar cane, fuel and inputs. Imports were 10.1% higher than in the previous year.

In 2022, modest progress was made in attracting new foreign enterprises compared to 2021. Thirty-five new firms were approved (18 more than in 2021), with over US\$ 400 million of capital committed (US\$ 200 million more than in the previous year). The main sectors in which foreign enterprises were approved included tourism, manufacturing, food production, energy and mining.

In the first quarter of 2023, nine new foreign firms were approved for a total of US\$ 125 million, compared to seven new firms approved for US\$ 28 million in the year earlier period.

Complementary measures have been adopted to develop FDI with the non-State sector, promote the substitution of tourism imports, develop consignment sales of imported products, implement a new structure for allocating foreign currency to State and mixed-ownership entities, and relax the rules governing non-commercial imports by private individuals. It is also planned to make foreign currency more easily available through the development of export-oriented MSMEs and the creation of mixed State and private enterprises.

(b) Economic activity

Persistent problems of energy supply, especially since late in the first half of 2022, affected the production of goods and services. Industrial output declined sharply in the steel, construction materials, and oil refining sectors. In the agriculture sector, the production of foodstuffs, vegetables, rice, citrus and other fruits all decreased, while maize, sorghum, beans and soybeans fulfilled the forecasts of the economic plan. In general, agricultural production did not attain the volumes planned for 2022, owing partly to fertilizer, pesticide and fuel shortages, and also of components and spare parts. Hotels and restaurants, transport, storage and communications, business services, real estate and renting, and education, culture and recreation all posted positive growth. Sugar production was among the under-performing activities, as only 480,000 metric tons of the planned total of 911,000 metric tons (or 53%) were produced.

In the first half of 2023, economic activity is estimated to have recovered slowly, despite persistent diesel and gasoline shortages. Although the deficit in electric power generation has been reduced since late-2022, the country continues to suffer outages, which undermine production activity. The Cuban government is working to stabilize the national electric energy system. Financing has been provided for mobile generation; supplies for the repair of engines, components and parts of power plants; components for photovoltaic solar parks, networks, transformers and substations.

(c) Prices, wages and employment

Prices have continued to rise significantly, particularly in the non-State market, but at a slower pace than in 2021. In December 2022, year-on-year inflation was 39.1%, compared to the previous year's rate of 77.3%. However, these figures are not directly comparable, because the "monetary restructuring" began in January 2021, which included the elimination of subsidies for certain products and hikes in wages and pensions to compensate for higher prices. The largest increases occurred in food and non-alcoholic beverages, which accounted for 70.2% of the total rise in the price level.

In June 2023, year-on-year inflation was 45.0%, compared to 28.9% in the same month of 2022. The increase in the cost of living was driven mainly by higher prices paid for food and non-alcoholic beverages (+63.7%), along with restaurant and hotel services (+67.5%) and transportation (+33.2%).

The unemployment rate for 2022 came in at 1.8% and was higher for women (2.0%) than for men (1.7%). The labour force participation rate decreased from 66.9% in 2020 to 65.6% in 2022 and was lower for women (52.7%) than for men (77.1%).

The minimum monthly wage in 2022 was CUP 2,100 (US\$ 87.5), while the average wage was CUP 4,219 (US\$ 175.8), or CUP 365 more than in 2021.

Table 1
CUBA: MAIN ECONOMIC INDICATORS

	2014	2015	2016	2017	2018	2019	2020	2021	2022 a/
Annual growth rates b/									
Gross domestic product	1.0	4.4	0.5	1.8	2.2	-0.2	-10.9	1.3	2.0
Per capita gross domestic product	1.0	4.4	0.5	1.8	2.3	-0.1	-10.8	1.7	2.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.2	2.5	5.8	-1.4	2.6	-10.9	-22.9	-13.2	...
Mining and quarrying	-0.7	-2.2	-3.7	-1.3	-3.6	-14.5	0.9	-1.3	...
Manufacturing	-3.6	6.3	-5.2	-1.1	-0.9	-6.1	-14.6	-15.8	...
Electricity, gas and water	0.7	4.2	1.2	1.4	1.2	-0.6	-6.0	-5.3	...
Construction	-2.3	17.0	4.7	9.0	9.3	0.4	0.5	4.1	...
Wholesale and retail commerce, restaurants and hotels	3.2	6.3	1.0	2.5	0.7	-2.7	-15.7	-3.7	...
Transport, storage and communications	4.3	6.5	3.4	3.7	6.4	2.0	-4.7	5.9	...
Financial institutions, insurance, real estate and business services	4.3	3.4	2.4	1.5	1.5	-0.1	-2.3	1.8	...
Community, social and personal services	0.7	-0.2	0.5	1.6	1.8	4.9	-11.8	9.9	...
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.8	5.1	2.9	1.8	2.0	0.5	-9.1	2.4	...
Government consumption	-1.0	0.0	-0.2	2.2	1.3	3.9	-10.1	15.0	...
Private consumption	4.6	7.4	4.1	1.7	2.2	-0.9	-8.7	-2.7	...
Gross capital formation	-4.9	18.3	7.5	0.2	4.8	-1.0	-5.9	-0.4	...
Exports (goods and services)	-2.8	-0.1	-19.7	...	-2.4	-4.6	-20.5	-9.1	...
Imports (goods and services)	-1.5	10.1	-10.6	-1.6	-2.0	-2.9	-7.6	-4.6	...
Investment and saving c/	Percentages of GDP								
Gross capital formation	7.6	9.4	9.6	10.3	12.0	11.5	9.9	23.8	...
Employment d/	Average annual rates								
Labour force participation rate	71.9	67.1	65.2	63.4	63.8	65.2	66.4	...	...
Unemployment rate	2.7	2.46239	2.0	1.7	1.7	1.3	1.4	...	...
Prices	Annual percentages								
Variation in consumer prices (December-December) e/	2.1	2.4	-3.0	0.6	2.4	-1.3	18.5	77.3	39.1
Central government	Percentages of GDP								
Total revenue	...	...	...	...	...	...	...	...	...
Tax revenue	...	...	...	...	...	...	...	...	...
Total expenditure	...	...	...	...	...	...	...	...	...
Current expenditure	...	...	...	...	...	...	...	...	...
Interest	...	...	...	...	...	...	...	...	...
Capital expenditure	...	...	...	...	...	...	...	...	...
Primary balance	...	...	...	...	...	...	...	...	...
Overall balance	...	...	...	...	...	...	...	...	...

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.