Cuba

The Economic Commission for Latin America and the Caribbean (ECLAC) expects the Cuban economy to contract by 8.5% in 2020, following growth of 0.5% in 2019. The measures adopted to address the coronavirus disease (COVID-19) pandemic have generated significant expenditures, and border closures have drastically reduced income from tourism. Revenues from the non-State sector of the economy were also severely affected. At the height of the pandemic, more than 250,000 self-employed workers had their work permits suspended.

The government's fiscal deficit will be around 9% of gross domestic product (GDP) in 2020. The current account is also expected to deteriorate; but it is likely to remain just in surplus (0.3% of GDP, compared to 1.4% in 2019) because the collapse of tourism revenues and remittances will be partially offset by a reduction in imports, and by the suspension of, or delay in, some foreign debt payments and income from exports of drugs and medical services. Inflation could gather pace in the last quarter of the year despite the slump in economic activity —as imports contract owing to the scarcity of foreign exchange, and agricultural production declines. Unemployment is expected to increase, mainly because of the situation of self-employed workers.

The economic impact of the pandemic is being compounded by the tightening of the economic, commercial and financial blockade imposed by the Government of the United States. This has had serious consequences for the Cuban population, by restricting fuel supplies, reducing the flow of visitors, limiting foreign investment and the export of medical services, and impeding the sending of remittances (as from the end of November).[1] The Government of Cuba noted that the damage caused by the embargo exceeded US$ 5 billion in a single year (April 2019–March 2020), for the first time ever.

The strategy announced to address the crisis, which will be implemented as from the second half of the year, prioritizes increasing food production, boosting and providing incentives to exports (from both the State and the non-State sectors), strengthening State enterprises, gradually decentralizing the allocation of foreign-currency financing to the economy, improving the economic environment of the non-State sector, promoting territorial development, implementing a process of monetary and foreign-exchange reorganization, and promoting the digitalization of society.

According to the State Budget Execution Report, the 2019 fiscal deficit represented 6.2% of GDP, nearly 2 percentage points of GDP less than in 2018. This reduction was mainly due to a cut in expenditures, together with measures adopted by the government to find alternative sources of income and a slight recovery in revenues.

Total government revenues increased by just 0.2% in real terms in 2019, compared to 2.2% growth in the previous year. This result is explained by an 8.6% reduction in sales tax revenue, which was impacted by the sharp reduction in the number of visitors to tourism-related activities. This was compensated by increased revenue from other taxes, especially those related to labour-force use

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1 On 23 November 2020, the United States firm Western Union closed its 407 branches in Cuba, after the Trump administration imposed sanctions on the Cuban financial company, Fincimex, which manages the firm's operations in the country, on the grounds that it belongs to a conglomerate controlled by the Armed Forces.

(+7.8%), and personal income tax (+15.4%). Tax revenue represented 42.2% of GDP (compared to 42.5% in 2018).

Cuba: main economic indicators, 2018-2020

	2018	2019	2020 [a]
	Annual growth rate		
Gross domestic product	2.2	0.5	-8.5
Per capita gross domestic product	2.3	0.5	-8.5
Consumer prices	2.4	-1.3	-0.3 [b]
	Annual average percentage		
Open unemployment rate	1.7	1.3	...

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

a/ Estimates.

b/ Figures as of September.

Total government expenditures decreased by 2.6% in real terms in 2019, following the previous year's growth of 1.5%, owing to a 19.2% real reduction in spending on non-budgeted activities (production subsidies for State enterprises and farmers) and to the operations of organizations, associations and budgeted units that receive special treatment, which posted negative earnings.

As a result of the COVID-19 health emergency, the fiscal deficit ceiling for 2020 was raised from 7.095 billion Cuban pesos (CUP) (equivalent to 6.9% of GDP) to CUP 13.984 billion (13.5% of GDP). The public debt outstanding at end-2020 is subject to a ceiling of CUP 18.284 billion (17.7% of GDP). The Ministry of Finance has been authorized to issue sovereign bonds in the national banking system to finance part of the public debt resulting from the increased deficit. These have a repayment term of 1–50 years and an average interest rate of 0.5%.

The monetary and (fixed) exchange-rate regime continues to involve the coexistence of two legal currencies —CUP and CUC (Cuban convertible peso)— with multiple exchange rates between them. As part of the economic and social strategy to promote recovery, in early October the Cuban authorities announced the start of the monetary and exchange reorganization process, with the aims of eliminating the dual currency regime (the Cuban convertible peso will be taken out of circulation) and adjusting the official exchange rate. The process entails the targeting of subsidies and bonuses, the reform of prices in the basic shopping basket, a public sector wage hike and transparency over the real profitability of public sector enterprises.

As of end-2019, the current account surplus represented 1.4% of GDP, down from 2.4% in 2018; and a confluence of factors is expected to reduce the surplus further in 2020. First, the economic situation of the Bolivarian Republic of Venezuela, one of Cuba's major trading partners and main oil supplier, continues to worsen. Second, international tourism —which was already showing a deterioration in 2019, when it fell by 9.3 percent— has collapsed following the restrictions imposed in response to the pandemic. At the end of May, visitor arrivals were down by 57% year-on-year, and subsequently they ground to a total halt. Third, major export markets for medical services and medicines have been lost, including Brazil, Ecuador, El Salvador and the Plurinational State of Bolivia. Fourth, exports of a number of key goods (such as tobacco and rum) have been affected, and the international price of commodities such as nickel has fallen. Nonetheless, exports of products including alcohol, bee honey, certain medical services and some biotechnological medications, have increased. Fifth, family remittances from the United States have declined owing to that country's restrictive policies.

In the complex external and domestic context prevailing in 2020, some sectors —such as industries related to the biotechnology sector, health services and telecommunications— are likely to have grown. The telecommunications sector has also been buoyant during the pandemic. In contrast, agriculture, along with the construction and manufacturing industries, have remained partially operational, but are unlikely to post positive growth, given the foreign-exchange constraints affecting raw material imports. In 2019, construction grew by 4.5%, but manufacturing (excluding sugar cane) fell back by 8.3% and the agriculture sector did not perform well overall: production of tubers and plantains, vegetables and cereal crops dropped by 3.3%, 14.5% and 20.8%, respectively.

In the short term, the prices of products in the basic food basket will remain under upward pressure, owing to supply constraints (food products account for 20% of Cuba's total imports), despite the contraction in aggregate demand. In 2020, the government maintained its policy of tightening control over commodity prices, in both the State and the non-State markets, a measure that had been announced in mid-2019. However, the persistence of difficulties in goods supply makes price control less effective. Inflation in 2019 came in at 1.6% (December 2018–December 2019), but in 2020 it is expected to be higher.

In 2020, unemployment is forecast to increase, especially in the non-State employment segment (such as rental housing, transportation and restaurant activities), owing to the closure or reduction of production activities and services. In 2019 the official unemployment rate was 1.3%.

Considering the expected improvement in the international economic environment in 2021 and, conversely, the effects of the economic, commercial and financial blockade imposed against Cuba by the Government of the United States, ECLAC expects the Cuban economy to grow by around 3.0% in 2021. This forecast could be modified, depending on the agenda of priorities that the new United States administration sets for reviewing the various policies applied by President Trump under the blockade. It will also depend on the extent to which the resurgence of COVID-19 —both in Cuba and, particularly, in countries that are its main trading partners and tourist sources— can be managed without causing additional damage to economic activity. Cuba's economic growth forecast will also depend on the progress it achieves with the four COVID-19 vaccines it currently has under development.