

CUBA

1. General trends

In 2023 Cuba experienced a very complicated economic situation, and GDP shrank by 1.0%. High inflation eroded people's purchasing power, and the well-being of the population continued to be undermined by the United States' economic, trade and financial embargo of Cuba, which has been in place for more than six decades now and which has been tightened in recent years.

The fiscal deficit in 2023 is expected to be similar to the 2022 deficit (13.0% of GDP). The current account ran a deficit as a consequence of low export levels, the fact that neither tourism nor remittances have made a full recovery and the higher foreign-currency outlays occasioned by the rising prices of various products that the country imports. Shortages of consumer staples continued to put pressure on prices, with the result that inflation remained in the double digits: at the close of 2023, year-on-year inflation amounted to 30.0% (39.07% in 2022). The unemployment rate held steady at the same 1.8% level recorded in 2022.

The Economic Commission for Latin America and the Caribbean (ECLAC) estimates Cuba's real GDP growth for 2024 at 0.5% in view of the sluggishness of both the world economy and the economies of the country's main trading partners, coupled with the persistence of structural weaknesses on the domestic front. The robustness of the private sector (micro-, small and medium-sized enterprises (MSMEs)) will shore up growth, and the construction, commerce, transport and communications sectors are expected to continue to perform well. This growth estimate may be revised depending on trends in international tourism, the nation's energy situation and progress in concluding agreements with strategic partners, however. Agriculture and manufacturing are expected to turn in a lacklustre performance. Inflation is expected to remain high (20%–25%) in 2024, thereby reducing the purchasing power of wages and pensions, while the unemployment rate is likely to remain at broadly the same level as in 2023. The fiscal deficit appears to be headed for a level of 11%–12% of GDP, but there will probably be an improvement in the current account balance measured as a percentage of GDP.

2. Economic policy

After GDP figures for 2023 indicated that the level of economic activity had slipped against a backdrop of continuing high inflation (31% overall and 72% in the agricultural sector) and a deep fiscal deficit, in 2024 the authorities set economic objectives that prioritize progress towards the application of the government's macroeconomic stabilization programme, which is focused on eliminating distortions in the economy. It provides for emergency measures for dampening inflation, generating foreign-currency earnings and strengthening socialist State enterprises and the bankarization process.

(a) Fiscal policy

In 2023 total net public revenues rose by nearly 5.7 billion pesos (a 2.4% increase over the 2022 level) thanks to an upturn in tax revenues (30.5%), while non-tax revenues were down by 21.8%. Revenues from the sales tax and the tax on personal income were up sharply (by 116.6% and 42.7%, respectively).

Total expenditure is estimated to have climbed by 24.6 billion pesos (7.8%), mainly because of increases in capital expenditures and transfers (32.3%), since current expenditure rose by just 5.2%.

The Government of Cuba had initially estimated its fiscal deficit for 2023 at 68.127 billion pesos and set its maximum debt limit at 120.868 billion pesos. However, difficulties in covering public expenditure requirements for the year drove the authorities to raise the maximum limit by over 30 billion pesos to 151.105 billion.

In accordance with the 2023 Budget Act, much of the fiscal deficit was financed by the issuance of sovereign bonds for purchase by the State banking system. Because of the size of the fiscal deficit, domestic borrowing by the public sector outpaced its borrowings in 2022. The absence of a public debt market continues to limit the government's ability to meet its funding needs without increasing the money supply, and monetary issues therefore continue to primarily be a function of the amount of resources needed to finance the public deficit. This situation has been aggravated over the past three years by the decline in tax revenues, which in turn has been the result of slackening economic activity and the need to continue to cover the expenses of vital public services and those of strategic production sectors. The upshot of all this has been an increase in M1 in excess of what would be required to cover the number of transactions taking place in the economy.

(b) Monetary and exchange-rate policy

Monetary policy continued to be expansionary in 2023 and is expected to follow in the same vein in 2024. Cuba's central bank sets the structure and level of interest rates, which have remained unchanged for at least a decade. The minimum interest rate on personal peso-denominated deposits is 0.50% and the top rate is 7.0%. For dollar-denominated loans, for which preferential rates are set for priority sectors, the floor rate is 0.25% and the ceiling is 1.9%. In the case of MSMEs and non-farm cooperatives, the minimum is 0.5% and the maximum is 1.0%.

Interest rates on other kinds of loans are divided into three categories, depending on the type of credit involved. For personal loans categorized as "social loans", rates range from 2.25% to 7.75%, depending on their term. Working capital and investment loans carry minimum interest rates of between 2.50% and 3.50% and maximum ones of between 8.00% and 10.00%. Finally, the floor rates for consumer credit are between 3.00% and 5.00%, and the maximum rates are between 8.50% and 10.50%. Given how high inflation currently is, real interest rates are negative.

The country has a dual fixed exchange-rate regime, which is segmented by the type of economic agent involved. The official exchange rate for the State sector is fixed at 24 Cuban pesos to the dollar. This rate applies to most foreign, mixed and State enterprises, among others. The official rate for exchange operations by private sector agents and households is fixed at 120 Cuban pesos to the dollar and applies to natural persons, private sector MSMEs, non-farm cooperatives, own-account workers, and individual farmers, artists and creators.

As a consequence of the economic crisis, foreign currency is in increasingly scarce supply, and this has had a strong impact on production activity and the public sector's ability to meet its external obligations. The purchase of foreign currency is subject to exchange controls. In the case of the public sector, access is determined by economic planning needs and objectives. In the private and household sectors, access is limited to a fixed daily amount of US\$ 100 per person. As of the time of writing (July 2024), non-State administrative entities were not permitted to purchase foreign exchange on the formal market.

The dollarization process has increased in both scale and scope across different sectors and economic agents, with dollars increasingly taking over the national currency's monetary functions. The dollarization of assets and transactions has also continued, although on a much more limited basis thus far, in more complex forms, such as the indexation of prices to the informal exchange rate or in the more straightforward form of price-setting directly in dollars. Under these circumstances, the relevant money supply consists of assets held by agents in the form of peso or dollar deposits or cash.

The existence of a monetary overhang puts demand pressures on most markets, especially the foreign-currency market. This has been reflected in an unrelenting, steep depreciation of the Cuban peso on informal exchange markets while the peso remains inconvertible. The sluggish recovery of the supply of foreign exchange (mainly derived from tourism, remittances and exports) and the increased demand for it (linked to imports and migration-associated expenses) have contributed to this situation. The pressure exerted by the Cuban 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 was taken with a view to increasing liquidity to cover the foreign-exchange market operations undertaken by households and private agents and to meet the needs for cash of holders of foreign-currency accounts.

The banking system granted loans totalling 253.003 billion Cuban pesos in 2023. Between January and April 2024, it extended a total of 96.939 billion pesos in financing, and total credit continues to trend upward.

Credit to the private sector totalled 10.054 billion pesos in 2023. Between January and April 2024, 3.716 billion pesos in financing had been extended.

(c) Other policies

The energy situation in Cuba in 2023 was already very difficult given the country's shortage of foreign currency. Then, in March 2024, the public sector's financial situation obliged the authorities to raise fuel prices by eliminating direct and indirect fuel subsidies and to reorganize the petrol market in order to boost supply. They also raised electricity prices by 25% for consumers using more than 500 kWh (a level far above average use levels in the country). Lastly, they did away with the subsidy for liquified gas, hiking the price from 180 to 225 pesos per tank.

Until their prices changed, fuels were not a direct source of inflationary pressure, but the price hike will no doubt have a noticeable impact. If the government succeeds in securing the necessary fuel supplies and reducing the size of the informal market, it will have made great strides towards overcoming the imbalances existing in the economy. The non-State sector will receive the strongest price pressures, since the areas of activity directly covered by the government's budget have reserve funds to help them cope with any price increases and the elimination of the petrol and natural gas subsidies will ease the pressure on public finances by targeting assistance to the most vulnerable segments of the population more selectively.

In a further step to help dampen inflation, in 2024 the government cut tariffs on imports of inputs and raw materials for use in production by 50%.

3. The main variables

(a) The external sector

The trade balance for goods and services closed out 2023 with a deficit. As of December 2023, international merchandise trade had fallen off by 11% since December 2022, mainly as a result of a 32% drop in exports of nickel and nickel products. External sales of alcoholic beverages and liquids and of sugar were also down, by 28% and 82%, respectively, but tobacco exports were slightly higher than their end-December 2022 level.

The value of the country's goods imports was also lower in 2023, chiefly because of a 31% decrease in fuel imports, despite a 45% increase in value terms of imports of alcoholic beverages and liquids, which were primarily purchased by the non-State sector.

External trade in services for 2023 was up by 1.7% over its 2022 level thanks to an upswing in human health services and a somewhat lesser increase in tourism services. The main services imported by Cuba were electricity, natural gas and the category of miscellaneous services, which includes engineering, telephony and other telecommunications services.

The value of service exports represented 76% of the total value of the country's exports of goods and services, while imports of goods represented 88% of the total value of its imports of goods and services.

Cuba saw a modest increase in the number of new foreign direct investment projects in 2023.

Ever since 2019, the country has been having to deal with the consequences of having defaulted on its external debt. It has succeeded in rescheduling its debt payments up to 2027, but its debt burden has been increased by the additional interest it must pay on its arrears.

(b) Economic activity

In December 2023, at the most recent session of the National People's Assembly, it was reported that the economy was gravely impacted by shortages of essential inputs, such as diesel fuel, with supplies covering only 34% of demand. This has hurt sectors such as agriculture, the sugar industry, transport and electricity generation. As a result, in 2023 the country saw a contraction of key activities, including the production of foodstuffs such as root vegetables, maize, pork, milk and eggs.

The agricultural sector's performance in 2023 was impaired by shortages of inputs (fertilizers and pesticides) and of power (solid, liquid and gaseous fuels) for use in sowing and irrigating crops.

Meanwhile, activity in the social (health and education) sector was hurt by the shortage of foreign exchange and the emigration of workers, among other factors.

The Cuban government's latest report on the impact of the embargo states that in the space of a single year (from March 2022 to February 2023), the economic damages sustained by the country amounted to approximately US\$ 4.867 billion, which was equivalent to 19.2% of its 2022 GDP and 55.8% of its total exports for that year. Since the policy on the embargo has changed very little, it is expected that the economic harm done by the embargo in the period from March 2023 to February 2024 will have been of much the same magnitude.

(c) Prices, wages and employment

Prices continued to rise considerably in 2023, especially in the non-State market, but more slowly than they had in 2022. As of December 2023, the year-on-year inflation rate was 31.3%, as compared with 77.3% for 2022. The steepest increases were seen in food and non-alcoholic beverages, which accounted for 79.1% of the total price increase.

The year-on-year inflation rate in July 2024 was 30.4%, compared with 41.8% in July 2023. The increase in the cost of living was mainly a reflection of price rises in the categories of food and non-alcoholic beverages (34.4%) and restaurants and hotels (27.0%).

The unemployment rate for 2023 was 1.8%, with the female jobless rate (2.0%) being higher than the rate for males (1.7%). The labour force participation rate slipped from 66.9% in 2020 to 65.6% in 2022 (most recent information available) and was lower for women than for men (52.7% versus 77.1%).

The minimum monthly wage in 2023 was 2,100 pesos, and the average wage was 4,648 pesos, which was 439 pesos higher than it had been the year before. The minimum wage remained at the same level in the first quarter of 2024, but the average wage came to 5,495 pesos for that quarter. Midway through 2024 the government approved wage hikes for healthcare operators and workers and for teachers.

Table 1
CUBA: MAIN ECONOMIC INDICATORS

	2015	2016	2017	2018	2019	2020	2021	2022	2023 a/
Annual growth rates b/									
Gross domestic product	4.4	0.5	1.8	2.2	-0.2	-10.9	1.3	1.8	-1.0
Per capita gross domestic product	4.4	0.5	1.9	2.3	-0.1	-10.8	1.7	2.2	-0.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.5	5.8	-1.4	2.6	-10.9	-22.9	-13.2	-6.1	...
Mining and quarrying	-2.2	-3.7	-1.3	-3.6	-14.5	0.9	-1.3	-15.3	...
Manufacturing	6.3	-5.2	-1.1	-0.9	-6.1	-14.6	-15.8	-6.8	...
Electricity, gas and water	4.2	1.2	1.4	1.2	-0.6	-6.0	-5.3	-13.2	...
Construction	17.0	4.7	9.0	9.3	0.4	0.5	4.1	-5.2	...
Wholesale and retail commerce, restaurants and hotels	6.3	1.0	2.5	0.7	-2.7	-15.7	-3.7	3.0	...
Transport, storage and communications	6.5	3.4	3.7	6.4	2.0	-4.7	5.9	25.8	...
Financial institutions, insurance, real estate and business services	3.4	2.4	1.5	-6.1	0.5	-2.0	0.7	2.1	...
Community, social and personal services	-0.2	0.5	1.6	3.4	4.8	-11.7	9.8	-1.8	...
Gross domestic product, by type of expenditure									
Final consumption expenditure	5.1	2.9	1.8	2.0	0.5	-9.1	2.4	1.9	...
Government consumption	0.0	-0.2	2.2	1.3	3.9	-10.1	15.0	1.5	...
Private consumption	7.4	4.1	1.7	2.2	-0.9	-8.7	-2.7	2.1	...
Gross capital formation	18.3	7.5	0.2	4.8	-1.0	-5.9	-0.4	-5.8	...
Exports (goods and services)	-0.1	-19.7	0.0	-2.4	-4.6	-20.5	-9.1	-2.4	...
Imports (goods and services)	10.1	-10.6	-1.6	-2.0	-2.9	-7.6	-4.6	-9.2	...
Investment and saving c/									
Percentages of GDP									
Gross capital formation	9.4	9.6	10.3	12.0	11.5	9.9	23.8	16.6	...
Employment d/									
Average annual rates									
Labour force participation rate	67.1	65.2	63.4	63.8	65.2	66.4
Unemployment rate	2.5	2.0	1.7	1.7	1.3	1.4
Prices									
Annual percentages									
Variation in consumer prices (December-December) e/	2.4	-3.0	0.6	2.4	-1.3	18.5	77.3	39.1	31.3

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.