

Cuba

The Economic Commission for Latin America and the Caribbean (ECLAC) expects the Cuban economy to grow by 2.0% in 2022, after expanding by 1.3% in the previous year. Cuba faced an exceptionally complex economic scenario in 2022, especially as from September, when a category four hurricane hit the western part of the country. The storm had devastating consequences for housing, electricity infrastructure and access to drinking water, destroyed thousands of hectares of crops along with agricultural and fisheries production, and damaged food storage and distribution facilities. All of this was exacerbated by a more uncertain external environment with global economic momentum dampened as a result of the war between the Russian Federation and Ukraine, and by the sanctions that continued to be imposed by the United States.

The economic, trade and financial blockade imposed by the United States for more than six decades continues to cause tremendous damage to the country's economy; between August 2021 and February 2022, the impact is estimated at US\$ 3.806 billion, or 16.8% of GDP in 2021, 49% more than in the previous period (January–July 2021). Moreover, in early 2021, the Government of the United States added Cuba to the list of State sponsors of terrorism, which hinders its participation in international trade and makes it more difficult to conduct financial operations or attract foreign direct investment (FDI).

Cuba will continue to run a large fiscal deficit in 2022, equivalent to about 10% of GDP (compared to 11.7% in 2021), and the external strangulation of the Cuban economy is expected to continue. The general shortage of daily consumer goods makes it difficult to control prices, so inflation is expected to remain in the double digits in 2022. The growth of non-State forms of economic activity, including micro, small, and medium-sized enterprises (MSMEs) and non-agricultural cooperatives, is facilitating job creation; therefore, the unemployment rate is expected to remain at 1.5%.

Between January and August 2022, public sector income grew by 6% year-on-year, mainly driven by increases in revenues from taxes on earnings and on services, and contributions representing the return on investment of State-owned enterprises. Sales tax revenues grew by 9%, but fell short of the amount initially envisaged in the economic plan, while income tax revenues shrank by 4%. Total expenditure fell by 5% and its composition changed as a result of a reduction in capital expenditure owing to the cancellation of certain investments. Education, public health, and social assistance and social security continued to be priority spending areas. Business financing accounts for 12% of total current expenditure, while social activities account for 81%.

The fiscal deficit will be financed mainly through the issuance of sovereign bonds on the domestic market, with maturities of between 1 and 20 years and an average interest rate of 2.5%. The 2022 State Budget Law sets a borrowing ceiling of 122 billion Cuban pesos, higher than in 2021, in line with the larger fiscal deficit planned.

In early August 2022, Cuba returned to a dual exchange rate system, differentiated according to economic sector. For the State sector, the official exchange rate remained at 24 Cuban pesos per dollar, while a new rate of 120 Cuban pesos per dollar was established for the general population and the non-State sector. Both exchange rates are fixed and administered by the Central Bank of Cuba. The changes are intended to reactivate the foreign-exchange market for the non-State sector and the population at large, and to formalize flows generated by the informal foreign-exchange market. This is part of a long-term transformation that will also involve part of the State-owned business sector. The ultimate goal is to formalize foreign-exchange flows, stabilize the exchange rate, and move towards convertibility of the national currency.

Cuba's current interest rate structure is set by the central bank, and rates have remained constant for at least a decade. The minimum deposit rate for individuals, in Cuban pesos, has been set at 0.50% and the maximum at 7.0%. For loans in dollars, the minimum rate is 0.25% and the maximum is 1.9%. For MSMEs and non-agricultural cooperatives, the minimum rate is 0.5% and the maximum rate is 1.0%.

The interest rate on loans has also remained unchanged. However, banks have some flexibility according to the different types of loan, which allows them to add a commercial margin to the interest rates they charge. Thus, depending on the maturity, the current rate applied to the financing of non-financial State-owned legal entities can vary between 4.0% (one year) and 6.92% (seven years).

As of the end of September 2022, exports were up by 28% year-on-year. The products with the highest export volumes included those related to mining, rum, honey and tobacco. The sugar sector continued its downward trend of the past five years, reflecting shortages of sugar cane, fuel and inputs. Service exports, which account for 70% of the total, were 2% lower in value terms. Imports were 26% higher year-on-year, mainly due to increased foreign purchases of fuel (28%) and machinery, mechanical appliances and parts (18%). The trade balance remained negative in the same period.

In the second quarter of 2022, Cuba's GDP grew by just 1.7% year-on-year, following an increase of 10.9% in the previous quarter. This sharp slowdown coincides with difficulties in electricity generation and distribution. There were significant contrasts at the sectoral level, as basic manufacturing (excluding construction) contracted, while education, culture and sports grew strongly, as did services such as hotels and restaurants, transport, storage and communications, and business services, real estate and rental activities.

Prices continued to rise significantly, especially in the non-State market, but at a slower pace than in 2021. At the end of November 2022, cumulative inflation was 34.1%, down from 69.5% a year earlier. However, the figures are not directly comparable, as the monetary restructuring process began in January 2021, with the removal of subsidies on certain products

Cuba: main economic indicators, 2020-2022

	2020	2021	2022 ^a
	Annual growth rate		
Gross domestic product	-10.9	1.3	2.0
Per capita gross domestic product	-10.9	1.3	2.1
Consumer prices	18.5	77.3	37.2 ^b
	Annual average percentage		
Open unemployment rate	1.4

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

a/ Estimates.

b/ Figures as of September.

and increases in wages and pensions to compensate for price rises. The steepest increases are in food and non-alcoholic beverages, which account for 70.2% of the total price increase.

Unemployment at the end of 2022 is expected to be similar to last year's rate of 1.5%. Employment is set to be slightly higher than a year earlier, based on the positive development of the non-State sector. The minimum monthly wage in 2022 will be 2,100 pesos (US\$ 87.50), and the average wage at year-end is expected to be 4,100 pesos (US\$ 171), 280 pesos higher than in 2021.

According to ECLAC projections, Cuba's GDP will grow by 1.8% in 2023, in a context of weaker economic activity, both among its main trading partners and globally. The agriculture and manufacturing sectors are expected to remain subdued, owing to persistent inflation and the reduced purchasing power of wages. Nevertheless, the unemployment rate is expected to remain at 1.5%, similar to its 2022 level. A moderation in the budget deficit and an improvement in the current account balance relative to GDP are also projected.