

## Cuba's economy at the end of the year: The state of affairs



*The current economic crisis has significantly reduced purchasing power in Cuba (source: [Bohemia](#))*

After Cuba survived this summer with only a few power outages for the first time since the start of the current crisis in 2020, one might have assumed that the end of the recession is coming close. However, the slight bloom came to an abrupt end when Energy Minister Vicente de la O Levy had to announce [new energy-saving measures](#) at the beginning of October. Since then, many businesses and offices have only been working part-time, transportation is running on a low flame, the wave of emigration continues and even the basic supply via the Libreta sometimes comes to a standstill. Where does Cuba's economy stand today, at the end of its fourth year of crisis?

### Facets of the crisis

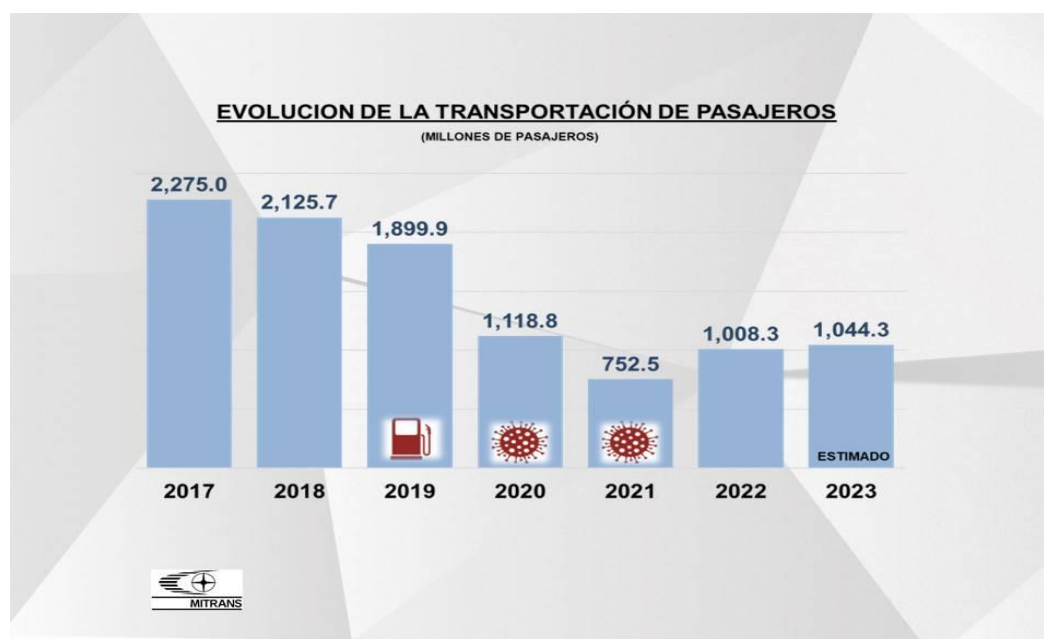
The causes of the crisis are multi-causal and have partly reinforced each other over the past few years. In the first place, Cuba has had a tight financial situation since 2018 at the latest as a result of Trump's sanctions policies, as part of which more than 200 individual measures have been enacted ranging from tourism to international market access. Then came the pandemic, which choked off all key sources of foreign currency for the economy and saw the island once again listed as a "state sponsor of terrorism" by the United States during its most difficult phase. However, the numerous unresolved problems in the economy - excessive bureaucracy, mismanagement, and corruption - could not be brought under control, even with a reform process that is gaining momentum again. The problems are too deep-seated, the financial scope for solutions is too limited - and the fear of real structural change is too great among decision-makers, despite or perhaps because of the nationwide protests in summer 2021. Managing the status quo has once again dominated large parts of the political agenda this year, which - despite a new communications law aimed at renewing the media and communication apparatus - continues to be characterized by an absence of agility and dynamism.

Three years since the start of the current crisis, and at the end of the first year which should have been a "better one" (Díaz-Canel), the results are sobering. The wave of departures in

recent years, the biggest since the Mariel boat crisis in 1994, has left its mark. According to data from the US Border Patrol, around 480,000 Cubans have left the country for the United States since 2020, around four percent of the population. Added to this are those who have migrated to other countries. The census, which was originally planned for 2022 and was recently finally postponed to the first quarter of 2025, should provide more precise information. The consequences of the wave of emigration can also be felt everywhere in the economy and have further exacerbated the crisis. As the Cuban magazine *Bohemia* reports, the shortage of skilled workers is presenting many companies with ever greater challenges, and the social systems are also groaning under the shortfall. The number of doctors has fallen by more than 12,000 since 2020 and over 1,300 university lecturers have left their posts. Triple-digit inflation has caused the purchasing power of wages to shrink to half the level of 2022 this year.

There is also new bad news from the agricultural sector. As Agriculture Minister Ydael Jesús Pérez Brito explained last week in the programme "Mesa Redonda" (Round Table), only 40 percent of the diesel required for tractors, 20 percent of animal feed and only four percent of the necessary fertilizer could be provided this year. Production experienced a correspondingly severe slump: the number of laying hens fell from eight million to three million, while pork production plummeted by 91% from 200,000 in 2017 to 16,500 tons by the end of 2022. The slump in rice and bean cultivation is at a slightly lower level, with declines of 10% and 9% respectively this year. In the meantime, practically the entire basic supply of the state procurement staple "Libreta" has to be imported, which places an additional burden on the budget.

Tourism is not picking up either. Despite new flight routes, Cuba has disappeared from many travel brochures in recent months, as the recession is also having an impact on the quality of the tourism product - probably the most serious exacerbating factor of the current crisis, as important and firmly budgeted foreign currency reserves are missing. The island had 1.8 million visitors by September. Although this is two thirds more than last year, it is still only 55% of the 2019 figure. The target of 3.5 million will be missed in any case.



Development of the transportation sector in Cuba (million passengers), 2017 to 2023, source: [Cubadebate](https://www.cubadebate.com)

A good indicator of the status of the Cuban economy is the transportation sector. When the country is doing relatively well and the economy is growing, investments are made in maintenance and acquisition and the fuel supply is secured, which is reflected in rising passenger numbers. In times of crisis, savings are made relatively proportionately, as the development of the 1990s showed. Between 2010 and 2017, the sector was able to grow substantially and by the end of this period had returned to around two thirds of its value in the late 1980s, before the "special period" following the dissolution of the socialist camp. From then on, there was an initial slight decline in foreign currency income as a result of the crisis in Venezuela and new sanctions. Since then, the number of passengers transported has declined, which accelerated again with the fuel crisis in 2019. The years 2020 and 2021 marked the low point in the context of Covid lockdowns and recession. According to the ministry's estimate, the slight recovery in 2022 will continue minimally this year and is expected to remain below the 2020 figures. From this perspective, 2023 is likely to be another de facto zero round for the Cuban economy. The Ministry of Economy is also expecting slight growth, although, as Minister Gil emphasizes, this will be "not noticeable".

### **What next?**

So what happens now? The government's latest reform initiative, the bankarization of the economy, which aims to reduce corruption, the shortage of cash, and digitize the economy, has stalled. The announcement that all payment flows in the commercial sector would in future only be processed using cashless methods had led to great uncertainty among the 8964 small and medium-sized enterprises (SMEs). The main problem is still that the official exchange rate cannot be used, and the state does not issue foreign currency for this sector of the economy. As long as these issues remain unresolved, implementation will probably have to be postponed. Progress has been made in the state sector, but here too the transition is sluggish. Instead of providing an impetus for growth, the announcement has mainly led to more uncertainty in the short term, partly due to the way it was communicated.

In a rare television interview on October 16, Cuba's President Díaz-Canel commented on criticism of his economic policy and the country's general situation. "Everyone has the right to criticize us, and I think it would also be very idealistic to claim that everything has been done well, that we are right about everything," explained the head of state when journalist Arleen Rodriguez confronted him with criticism of the timing of the currency reform. We are currently in times of "maximum pressure", said Díaz-Canel, referring to the ongoing US sanctions. The government is studying all proposals from economists and the population, with which it largely agrees. "We are neither closed-minded nor dogmatic," he explained and announced a comprehensive review of the mistakes of the currency reform. A major problem was the lack of foreign currency, which made it difficult to implement many economic policy measures, including those relating to the exchange rate issue. When asked where the results of the numerous foreign trips and economic agreements (including with China, Russia, Algeria, and Vietnam) were, Díaz-Canel replied that these would only have a positive impact in the "medium term". Almost as a side note, he made an astonishing announcement during the interview: The transition from general price subsidies to targeted support for groups of people in need, one of the core fiscal policy elements of the reform process, the implementation of which has been repeatedly postponed, should come "sooner rather than later". This is also part of the "macroeconomic stabilization programme", which was announced months ago and is still awaiting implementation. It remains to be seen when the first steps will be taken. Díaz-Canel at least gave an approximate indication when he told

the National Assembly in the summer that a "profound transformation" of the Cuban economy was in the cards for next year.

Despite all the problems, it should be noted that the approval and establishment of new SMEs continues to progress. They now employ 260,000 people and, together with production and service cooperatives, contribute around 13% to gross domestic product and 8% to imports. In the midst of the current crisis, they are one of the few sectors in which new, generally above-average paid jobs are being created. With increasing professionalization, the sector is also already contributing to the formation of new value chains. The supply of consumer goods has continued to expand and stabilize in recent months thanks to private imports. The high prices in this area have not risen any further but, as in the case of rice and beer for example, have fallen as supply has increased.

Another signal that has so far received little attention landed in the legal gazette last week: in a new version of the law on agricultural cooperatives, the possibility of forming second-degree cooperatives (i.e. mergers of several cooperatives in supra-organizations) was introduced for the first time, and their autonomy was reaffirmed. This means that larger, non-state actors could emerge in Cuban agriculture in the future, which are able to interact with other companies largely autonomously. The regulation is due to come into force next January. A game changer? As always, the same applies here: "The proof of the pudding is in the eating". And will the upcoming structural reforms be enough to lead the economy out of the crisis? That too is - as things stand today - still written in the stars. The only thing that can be said for sure is that when the Cuban economy emerges from its current infirmity, the model that will enable it to do so will necessarily be a different one. ([Cubaheute](#))