

## Havana meets in crisis mode



Plenary session of the Cuban National Assembly in July 2024 (Source: [Cubadebate](#))

A three-day marathon session of the Cuban National Assembly came to an end on Friday in Havana. The focus of the long summer session was the ongoing economic crisis on the socialist island. More than 90 topics were discussed and six new laws were passed.

### Scenario of a war economy

The 469 delegates of the one-party parliament in Havana gathered on Monday to discuss the issues at hand in working groups. A total of 407 delegates were present at the meetings. This meant that attendance at the biannual parliamentary session, which is traditionally accorded great importance in Cuba, was significantly lower than in previous years.

At the beginning of the session on Wednesday, Economy Minister Joaquín Alonso Vázquez [reported](#) on the state of the economy. Cuba's **gross domestic product** shrank by 1.9 percent last year. The renewed decline after a barely noticeable recovery in 2022 is part of a "complex scenario" characterized by a high budget deficit.

"We have insufficient foreign exchange earnings, almost no access to external credit, and a weak recovery in domestic production. At the same time, there are restrictions on fuel and energy, high and persistent inflation, and high foreign debt," he said, summarizing the current situation. In this situation, the central bank is forced to increase the money supply "beyond the recommended level", said Vázquez. Cuba's Prime Minister Marrero once again spoke of the scenario of a "war economy" (*economía de guerra*).

**Imports** were 42 percent lower than planned last year. In the first half of this year, they were 22 percent below the previous year's figure, while **inflation** has eased but remains at a high level of 30 percent. In addition, private sector imports were significantly higher than in 2023

at USD 900 million in the first half of the year, while non-governmental exports remained at a low level with a volume of USD 15.7 million. Overall, however, **exports of goods** increased by 24% (USD 249 million) from a low starting level compared to the first half of 2023, while the more important **exports of services** also showed slight growth on balance: medical services increased by 9% and tourism revenues by 6% compared to the first half of the previous year, while there was a 19% slump in telecommunications services.

Overall, **foreign currency income** in the first half of the year was higher than in 2023, but fell short of the plan by USD 222 million. Nickel, sugar, and a number of other export products in particular suffered losses, while tobacco and charcoal exports developed positively. At 1.8 million, the number of **tourists** last year was only 52% of the 2019 level and barely increased in the first half of the year with growth of just under 2%.

There are still major problems in **agriculture and the food industry**. Almost 100 percent of the products in the state-run *Libreta* supply chain currently have to be imported. Due to a lack of financing and logistics problems, there are repeated delays. Domestic food production is not experiencing a recovery following the sharp declines in 2020-23. For example, pork production fell by 1,800 tons in the first half of the year compared to 2023, with only 3,800 tons of the planned 11,300 tons being produced. Plans for products such as eggs, beans, milk, beef, coffee, and cocoa were also clearly missed this year. There was a slight increase in the production of alcoholic beverages and soft drinks. The late and often non-cost-covering payment of farmers by the state purchase monopoly Acopio, which has been a topic at parliamentary sessions for years, remains a problem.

Despite severely restricted construction activity and probably due to the decline in population, the housing deficit has fallen slightly from 862,000 to 850,000 units.

Vázquez described the ongoing **US trade blockade** as the "main obstacle to development", which causes economic damage of more than six billion US dollars per year and in particular makes access to credit, direct investment, and export revenues more difficult. The full report of the Ministry of Economy can be found here.

## **Restructuring of the state sector**

Most of the available funds currently have to be spent on importing food and fuel, which is why savings are being made in other areas. Important investments are also being postponed in many places.

In order to use the continued high level of social spending as efficiently as possible and counteract growing social inequality, **subsidies** should be more targeted in future. As part of the "macroeconomic stabilization program" adopted in December 2023, studies are currently underway to redesign the prices of the "Libreta" reference booklet, announced Prime Minister Manuel Marrero. The aim of the policy is to subsidize "people instead of products".

**The administration is to be streamlined** and more productive jobs are to be created in state-owned companies instead. Their comprehensive restructuring as part of a planned business law (*Ley de empresas*) was also on the parliament's agenda. A draft of the reform was discussed by MPs, but it is likely to be several months before it is passed.

## Private sector regulations meet with criticism

A **reform of the framework conditions for the private sector and a new foreign currency allocation mechanism** were approved. Surprisingly for observers, Marrero announced an **expansion of dollarization**. In certain areas, such as tourism, foreign currency will also be accepted in the form of cash in future. In addition, private companies are to pay customs duties and port fees in foreign currency in future. "Our vision is by no means the dollarization of the economy, but the opposite," explained Marrero, "but in order to achieve this goal, we need to carry out a partial dollarization that will allow us to increase foreign exchange earnings".

The foreign currency accounts in the state sector will be "cleaned up". The first state export companies are already allowed to work in a "**closed financing system**", which enables them to manage their foreign currency income autonomously.

There will also be some changes for the **approximately 11,000 small and medium-sized enterprises (SMEs) and 598,270 self-employed people in the private sector**. In the future, decisions on the licensing of new SMEs will be made at the municipal level, whereas previously approval was always required from the Ministry of Economy in Havana. The city of Cienfuegos will be the first to do so this month. Over the course of the year, at least one municipality in each province will be able to decide independently on the licensing of new economic players as part of a test phase.

Also, private companies will have to disclose the origin of their funds. Anyone wishing to import must also prove that they have no tax debts. In turn, payment for imports may only be made via accounts at Cuban banks. The move has met [with criticism from economists](#), as it is currently completely unclear how it will be implemented in practice. Foreign currency cannot be easily transferred from Cuban accounts to foreign partners, and the state does not currently sell foreign currency to non-state actors.

In addition, the number of state-owned companies through which private companies can participate in foreign trade has been [reduced](#) from 73 to 49, as "hardly any activity and poor working practices" have been observed in some companies.

## "No witch hunt"



*Díaz-Canel during his speech at the closing session on July 19 (Source: [Cubadebate](#))*

The **fight against corruption and tax evasion** is a constant topic at every meeting. This year, the state will lose an estimated 50 billion pesos in tax revenue - around a third of the current budget deficit, which at 18 percent of gross domestic product is the highest in the history of the revolution. In future, the Cuban **tax system** is to be professionalized. To this end, the powers of the tax authority ONAT have been expanded and it has been placed under the direct control of the Council of Ministers. In addition, a reform of the tax law introduced in 2013 is to be adopted in the near future.

Following the introduction of new **price caps** for six basic products at the beginning of the month, almost 20,000 inspections have now been [carried out](#), resulting in fines totaling 30 million pesos.

In view of the criticism of the stricter regulations, [President Miguel Díaz-Canel addressed the MPs](#). He criticized the fact that many SMEs had "dedicated themselves to the marketing of imported products", which, however, ran counter to the political development goals with regard to the sector, namely to increase national production in addition to the state sector. In addition, there are phenomena such as "lack of control, illegality, tax evasion, speculation and fraud", which need to be combated in both the state and private sectors. He emphasized that his government was not engaged in a "witch hunt against private SMEs", but that "law and order must prevail if all forms of business are to be successful and strengthened".

## **New migration and citizenship laws passed**

On Friday, MPs [passed](#) a **reform of the migration and aliens law as well as a [new citizenship law](#)**. The latter is the first of its kind in socialist Cuba. The aim is to bring the

legal situation in this area into line with the constitution adopted in 2019 and current international practices.

In future, Cubans will be able to stay abroad for longer than 24 months at a time without fear of losing their residence permit or property. A new category of investors and business people will also be introduced for Cubans living abroad, opening up the possibility of direct investment from the exile community. In future, it will be easier for foreigners to obtain a permanent residence permit and they will also have the opportunity to become Cuban citizens. Another new feature is that dual nationals will be able to give up their Cuban citizenship for the first time and will then be treated as foreigners in Cuba. Anyone who receives asylum in Cuba as a humanitarian refugee will in future be allowed to take up employment. In addition, not only children of Cubans living abroad will be able to obtain Cuban citizenship, but also their grandchildren.

As the Vice President of the national statistics authority ONEI, Juan Carlos Alfonso, [explained](#), Cuba is facing enormous **demographic challenges**. The population of the archipelago shrank by 10.1 percent between 2020 and 2023, which corresponds to a decline of 1.12 million people in absolute terms. He cited the wave of emigration as the main cause, but the low birth rate in an increasingly ageing society will ensure that this trend continues in the long term.

The reform of migration laws is also taking place in this context. According to Alfonso, the island's population has fallen below the 10 million mark this year, bringing it back to 1985 levels. The number of foreigners with temporary residence permits has almost halved from around 25,000 before the pandemic to 13,981. In addition, there are currently 8,169 foreigners living in Cuba with permanent residence permits.

## Other topics

In addition to these laws, the MPs also passed a new "Law on Transparency and Access to Public Information" and the revision of the system of honorary titles and orders of the state. The former is intended to strengthen citizens' right to information from government agencies and reduce the often criticized *secretismo* (secrecy). In line with the constitution, the new "Law on the Regulation of Administrative Procedure" declares human dignity to be the "basis of all administrative procedures".

All 407 deputies present took part in the new secret ballot of the National Electoral Council, and all five candidates were elected unanimously. Gladys Bejerano was replaced after 14 years at the head of the National Audit Office; she is now succeeded by Mirian Marbán González, who has been deputy head of the authority since 2018, at the suggestion of President Díaz-Canel. In addition, four new members of the 23-member State Council and new Supreme Court judges were appointed and a minute's silence was held for Vietnamese Communist Party General Secretary Nguyễn Phú Trọng, who passed away on July 19. ([Cubaheute](#))