

EVOLUTION OF THE WORLD ECONOMY IN 2021 AND ITS IMPACT ON CUBA. OUTLOOK FOR 2022

José Luis Rodríguez

I

After 2021 and the first quarter of 2022, the Cuban economy continues to evolve in an external environment that could hardly be imagined to be more complex, and with serious difficulties for moving forward in the current year.

This summary report will show the impact of external factors, together with the internal difficulties, that still hinder the progress of the Cuban economy, and the prospects for 2022.

As facts, the U.S. blockade continues unchanged, and the review of the policy towards Cuba announced by the new U.S. administration not only shows no signs of modification, but there are signs that the Biden administration plans to continue Trump's aggressiveness towards Cuba. Thus, in the report presented to the United Nations General Assembly on June 23, 2021, the U.S. delegation repeated the same arguments of its predecessors to justify the permanency of the blockade against Cuba. This in addition to keeping Cuba on the list of countries sponsoring terrorism that was also adopted by the Biden administration in May. Added to this, new sanctions were applied opportunistically after the events of July 11.

At the United Nations, the Cuban Foreign Minister explained that up to December 2020, the blockade had had a negative impact on Cuba to the tune of 147,853 million dollars in six decades. In the vote held last year, 184 countries declared themselves in favor of the elimination of the US blockade, as has been the case for the majority of countries since 1992.¹

The official U.S. position has distanced itself from the promises of the electoral campaign, when it was stated by Biden that, in essence, he would revert to the fundamental aspects of Barack Obama's policy in relation to Cuba. Thus, hostility towards our country has remained unchanged, despite the fact that many opinions have begun to be expressed by those who are in favor of a change in the relations between the U.S. and our country.

In fact, in June 2021 80 Democratic congressmen asked the U.S. president to reverse Trump's policies towards Cuba, as promised in his election campaign speeches. The litigation by several cruise companies, aiming to obtain authorization to visit the ports on the Island as part of their tours of the Caribbean while they face lawsuits arising from the Helms Burton Act, is also ongoing.²

Again, in December 2021 114 U.S. Congressmen sent a letter to President Biden asking him "...to advance a policy toward Cuba that addresses humanitarian needs, the economic crisis, and engagement in areas of mutual interest."³

¹ MINREX (2021), *"Update to the report of the Secretary-General (A/75/81) on resolution 74/7 of the United Nations General Assembly, entitled "Necessity of ending the economic, commercial and financial embargo imposed by the United States of America against Cuba"*, www.cubaminrex.cu

² Forty-one lawsuits have been filed under that law, but so far no favorable results have resulted for the plaintiffs, and a portion of the claims have been dismissed by the courts both in the U.S. and in other countries.

³ See TELESUR TV (2021).

The blockade thus continued to hit the Cuban economy even harder - if possible - in 2021, with no changes in 2022.

At the same time, the dynamics of the world economy over the past months show trends that are, on average, not favorable to Cuban foreign trade. Foremost is the three-fold increase in maritime freight rates in 2021 compared to the previous year, which creates difficulties for the expansion of international trade, especially for the links with Asian countries.

On the issue of commodity prices, they increased again for almost all items. It was very positive for Cuba that nickel prices increased by 22.2% between December 30, 2020, and December 30, 2021, averaging USD 16,637 per MT for the year, a figure 20.6% higher than the average for 2020. And the price of raw sugar increased by 25.3% at year-end, while it reached an average of 17.86 cents per pound in 2021 compared to 12.88 cents in the previous year, for an increase of 38.7%.⁴

However, we have been negatively affected by the fact that the price of a barrel of WTI crude oil increased to US\$68.21 on average last year, a growth of 74.1% over the previous year.⁵ As for food, according to the FAO prices continued to rise in the last 12 months and averaged a 28.1% increase in 2021, compared to the close of the previous year.⁶ In this last group of products, the estimated growth of 35.6% in the price per ton of rice, 16% in the case of beans, and 43.4% in wheat, stand out. On the other hand, the prices forecast for 2022 originally assumed slight increases in most of the products,⁷ although this situation has been overwhelmed by the events that have occurred in the first quarter of this year.

From the point of view of external finances, a recessionary trend in foreign direct investment continues to be forecast for the world economy, with a decrease of between 5 and 10% over 2020.

In relation to this issue, a significant and comprehensive report on foreign direct investment (FDI) in Cuba was presented to the National Assembly in December 2021, which acknowledged that, despite the actions taken, the desired results have not been achieved.⁸

In the referenced report, it was pointed out that some measures of fiscal stimulus and flexibility have been adopted in the negotiations. In this last aspect, the elimination of the requirement of majority Cuban participation in businesses in the tourism, biotechnology, and wholesale trade sectors stands out.

In total, at the end of last year there were 302 businesses with foreign investment in the country,⁹ compared to 318 in 2020. In the last two years, 47 businesses were approved, of which 25 could not be established and incorporated. Additionally, it has been estimated that out of an annual FDI flow goal of between 2,000 and 2,500 million dollars, only 708 million dollars were received last year.¹⁰ In terms of gross fixed capital formation of FDI in 2020, only 571 million pesos were reached.¹¹

⁴ See BCC (2020 and 2021) and ASOCAÑA (2022).

⁵ See the chapter on energy in this overview.

⁶ See FAO (2021).

⁷ See MEP (2021).

⁸ See CUBADEBATE (2021c).

⁹ Of those, 50 totally foreign capital.

¹⁰ See EIU (2021).

¹¹ See ONEI (2021a)

Among the factors noted in the report that affect FDI, the following were highlighted:

1. Cuba's classification as a high-risk country. In addition to the effects of the U.S. blockade, the presence of high levels of indebtedness in the country was indicted, which have a negative influence on the country's risk rating, on the performance of businesses, on access to foreign credits, and on foreign partners being able to regularly expatriate their dividends.
2. In the Cuban economy there are characteristics that discourage foreign investment and affect the operation of businesses, including their ability to link up with the rest of the economy. Among these characteristics are problems in the convertibility of the Cuban peso, and non-competitive costs of goods and services.
3. The policy towards foreign capital contains principles that are not in line with the interests of foreign investors. Concerning this point, the impossibility of directly hiring Cuban labor, the non-transfer of ownership of certain goods, the non-participation in the retail market, and the definition of the length of the period of validity for a business were highlighted.
4. Errors and deficiencies in the work of the agencies, entities, and companies involved in foreign investment, which is expressed - among other aspects - in the insufficient training of the Cuban personnel, the lengthy negotiation processes, and a complex and extensive business approval process.

The balance made highlighted that since 2014, 285 new businesses and 29 reinvestments have been approved, modest results that demand Cuba overcome the problems raised in the report in everything related to internal factors, in which the country must gain in efficiency and competitiveness.

On the other hand, the COVID 19 crisis imposed on many economies a significant increase in their level of indebtedness, which according to ECLAC is estimated to have reached 79.3% of GDP in Latin America at the end of 2020, with debt service payments equivalent to 57% of exports of goods and services. In view of this situation, the debt relief packages aimed at underdeveloped countries have not yielded the expected results, and a generalized debt crisis, especially for the poorest countries, cannot be ruled out by 2022.

Concerning the external financing of the Cuban economy, the flow of remittances entering the country shows a 26% decrease between 2019 and 2020, falling from an estimated USD 3 171 million to USD 2 348 million according to unofficial sources.¹² Other estimates place remittances in 2019 at USD 2 056 million.¹³ Preliminarily, there is a greater reduction for 2021 due to the impact for a full year under the Biden administration of the unchanged measures adopted by Trump in October 2020 which limited remittances to \$1,000 USD per quarter. On May 16 2022 after a year and a third in office the Biden administration did eliminate this measure and also allowed some increase in the flights to Cuba, but the bulk of not only the Blockade as it had evolved up to 2016, but even of Trump's sharp escalation of it, remains unchanged as of this writing.

¹² See THCG (2020)

¹³ See CNN (2021). According to these estimates by Manuel Orozco of the Inter-American Dialogue, 60% of these remittances reach Cuba through informal channels, almost 84% of them are issued by people residing in the United States from which 65% of Cubans residing there send them, and they are received by about 26% of households in Cuba.

On the other hand, Cuba defaulted on the debt service payments already agreed upon in the second half of 2019, a situation that worsened with COVID 19 in 2020, 2021 and so far in 2022.

This situation forced Cuba to request a new renegotiation of payments to Paris Club creditors in May 2020, to postpone the debts and payments corresponding to 2021, with an aim to restarting them in 2022. However, this was not achieved and only the payments for 2020 were postponed. In regard to this, an agreement was recently reached with the Paris Club that established a supplementary term for the payment of the debt, although no further details are known.¹⁴ It was also learned unofficially that debt service payments were postponed until 2027 in the cases of Russia and China, although default interest will be charged.¹⁵

Additionally, Cuba was not included in the G-20 agreement to extend a moratorium on debt payments to the 74 poorest countries to help them confront COVID 19.

Another new initiative for the collection of the Cuban debt was reported to have come out of the London Club. According to unofficial information, CRF Ltd., the largest holder of Cuban debt in the collection of private creditors known as the London Club, supposedly offered to convert around US\$1.4 billion of the securities into a zero-coupon bond with no payments until 2026.

Currently, the adequate management of the external debt, both the short-term outstanding debt and the medium and long-term payment programs, constitutes a decisive element in the recovery strategy of the national economy, which must include the sustainability of the external credits received.

On the other hand, in December 2021 there was news of a lawsuit filed by an English bank against the Central Bank of Cuba and the Cuban government for non-payments of foreign debt.¹⁶

In summary, this complex international situation continued to have a negative impact on the performance of the Cuban economy in 2021, in a context where the resurgence of the pandemic has not been controlled and the monetary and exchange unification was being confronted as one of the most complex economic tasks of the Revolution.

Concerning 2022, the international situation worsened as of February with the outbreak of an armed conflict of major proportions between Russia and Ukraine. This is in full swing at the time of the writing this paper, and it has triggered the rise of fuel prices to levels of around 100 USD per barrel of oil and notable increases in the prices of food and other raw materials. In the new price dynamics of the world economy, Cuba could potentially benefit from the increase in the price of nickel. In March 2022 this was quoted at USD 33 924 per MT, compared to an average of USD 16 637 in 2021 for an increase of 100%, and it is expected to close the year at an average of USD 28 000 per MT.

However, fuels (Brent marker) are expected to increase another 42% this year and food is expected to increase by almost 23%, which will further strain the country's balance of payments.¹⁷

¹⁴ See Deutsche Welle (2021).

¹⁵ See On Cuba News (2022).

¹⁶ See Economic Eye on Cuba (2021)

¹⁷ See WB (2022)

In general, the complex international situation that has arisen imposes additional costs on the Cuban economy and may delay the economic recovery planned to grow by 4% this year, especially because of the impact on tourism.

II

The international economic crisis that was already manifesting itself in 2019 increased its effects on Cuba with the irruption of COVID 19 since the beginning of last year. The impacts that have continued into the first quarter of 2022, although a gradual decrease in the number of affected patients and the registered mortality is reported.

Thus, a set of objective factors have been slowing down production and services in 2021. A key element in this regard has been the resurgence of COVID 19, which began to manifest itself from the end of 2020 but then intensified in the first half of 2021, with its maximum impact in August last year. It severely impacted people and their ability to work, and also had an impact via the rising costs of measures for the direct confrontation of the disease.

TABLE Nº 1.- RESULTS OF THE EVOLUTION OF COVID 19 IN CUBA

| <i>Indicator</i> | <i>Until 31 Dec., 2020</i> | <i>%</i> | <i>Until 31 Aug., 2021</i> | <i>%</i> | <i>Until 31 March, 2022</i> | <i>%</i> |
|--|--------------------------------|--------------------|--------------------------------|-------------------------|---------------------------------|-------------------------|
| <i>Cases</i> | <i>12 056</i> | <i>1.07 X 1000</i> | <i>646 513</i> | <i>57.72 X 1000</i> | <i>1 091 063</i> | <i>97.34 X 1000</i> |
| <i>Incidence X 100 000 / 15 days</i> | <i>20.38</i> | <i>---</i> | <i>1 095</i> | <i>---</i> | <i>---</i> | <i>98.65</i> |
| <i>Active Cases</i> | <i>1 551</i> | <i>12.8%</i> | <i>33 874</i> | <i>5.24</i> | <i>3 619</i> | <i>0.33%</i> |
| <i>Recovered</i> | <i>10 345</i> | <i>85.8%</i> | <i>620 157</i> | <i>94.0%</i> | <i>1 078 875</i> | <i>98.8%</i> |
| <i>Deaths</i> | <i>146</i> | <i>1.2%</i> | <i>5 377</i> | <i>0.82%</i> | <i>8 510</i> | <i>0.78%</i> |

In the analysis of the data in the table above, it can be seen how a gradual control of the pandemic has been achieved thanks to the massive vaccination of the population that began in the second half of 2021, with a high level of recovery of the sick and a reduction in the case fatality rate.

In 2021, the impact of COVID 19 on economic and social activity was much more negative than in the previous year. When taking stock of the year, it was reported that the disease had reached a cost of about 1.3 billion pesos and 100 million dollars in the country's budgeted expenditures. On the other hand, the expenditure in foreign currency in 2021 already reached 400 million dollars, and the State Budget had to assume more

than 19.7 billion pesos to face the pandemic, according to information offered in June 2021 in this regard.¹⁸

At the present time, everything seems to indicate that only through mass vaccination of the population will it be possible to curb the disease and gradually return to the new normal from the second half of 2022.

In this negative scenario, it is not possible to ignore that 30,407 Cuban health workers fought against the pandemic in 66 countries in 2020. Many continued to do so in 2021, bringing the total of the Cuban medical brigades that were mobilized especially against COVID already to 57, in 40 countries or territories, since the beginning of the pandemic.

III

As a consequence of what has been expressed so far, in 2021 the situation of the national economy continued to reflect strong external impacts due to the international economic crisis and the U.S. blockade, as well as the consequences of the health situation of the country and the rest of the world, despite the efforts made to prevent it.

The macroeconomic development of the country foresaw a growth of 6% in 2021, but official evaluations of it as of May 2022 indicate that it was only able to achieve 1.3%. This modest rate of growth, however, interrupted the negative trend that had gone on from 2019 to the first half of 2021 and led to a 13.1% drop in GDP, and started a gradual recovery, which is estimated will take until 2024 to reach again the level of the GDP in 2019.¹⁹

In summary, at the end of 2021 the *main impacts* on the various sectors of the economy show the following situation.

In the first place, the greatest effects are expressed in the fact that imports, which should have ensured the continuity of the economy's performance during the first months of the year since the end of 2020, were only received at 60% of what was planned, due to the fact that foreign currency revenues only reached 55% of what was forecast for 2020.²⁰ Thus, in that year 2 413 million dollars less were received than in 2019, while in the first semester of 2021, income fell by 481 million, compared to the same period in the previous year. In other words, in 18 months alone, Cuba received 2 894 million dollars less imports than it would have at its 2019 rate.

Table N° 2 shows the enormous drop in exports (-20.5%) and imports (-7.6%) in 2020. In 2021, exports reached some US\$ 8,644 million -a reduction of -1.4% compared to 2020- and are forecast to grow by 9.8% in 2022. In the case of imports -although there are no official data yet for 2021- it is estimated that in the case of goods they fell by 8.5% and should grow by 6.4% in 2022.

Secondly, the impacts of the non-recovery of international tourism already caused a 69.1% drop in visitors in 2021 compared to the same period the year before, registering 573,944 tourists at the end of 2021 compared to 1,856,000 in 2020. Already in 2020, the sector's income was reduced to 1,152 million dollars, representing a drop of 56.4%

¹⁸ See GRANMA (2021).

¹⁹ Estimated by the author.

²⁰ See CUBAVISION (2020)

compared to 2019.²¹ This situation was worse in 2021, with an additional 41.4% reduction in income.

TABLE 2.- EVOLUTION OF THE CUBAN ECONOMY 2019-2021 AND FORECASTS FOR 2022

| <i>Indicators</i> | 2019 | 2020 | 2021 | 2022 (P) |
|---|-------------|-------------|---------------------|-----------------|
| <i>GDP</i> | -0.2% | -10.9% | 6.0 (P) / 2.0% | 4.0 |
| <i>Agriculture</i> | -10,9 | -23.5 | 2.1 (E) | 3.0 (E) |
| <i>Industry</i> | -7.0 | -14.7 | -1.7 (E) | 2.6 (E) |
| <i>Sugar Production MTM</i> | 1 371 | 1.100 (E) | 1200 (P) / 800 (E) | 911 |
| <i>Nickel Production MTM</i> | 48 868 | 50 300 (E) | 52 600 | --- |
| <i>Investments MMP</i> | 9 485 | 9 068 | 11 063 (P) | 113 676 (P) |
| <i>Tourism (V) M</i> | 3 071 | 1 856 | 2 200 (P) / 574 (E) | 2 500 (P) |
| <i>Tourism Income MMUSD</i> | 2 645 | 1 152 | 675 (E) | 1 159 (P) |
| <i>Petroleum Production MTM</i> | 3 323 | 3 206 (E) | 3 069 | --- |
| <i>Fiscal Deficit / GDP</i> | -6.2 | -17.7 | -18% (P) | -13.1 (E) |
| <i>Exports G&S</i> | -4.6% | -20.5% | -1.4% | 9.8% (P) |
| <i>-of those: Exports of services MMUSD</i> | 9 867 | 6 880 | 6 767 (E) | 7 260 (E) |
| <i>Imports G&S</i> | -2.9% | -7.8% | -8.5% (E) | 2.8 (E) |
| <i>Comercial Balance MMUSD</i> | +1 661 | + 902 | +110 (E) | +281 (E) |
| <i>Current Account MMUSD (E)</i> | +2 273 | +500 | -40 | +171 |
| <i>External Debt MMUSD (E)</i> | 30 212 | 29 234 | 29 205 | 29 083 |
| <i>FDI MMUSD (E)</i> | 805 | 644 | 708 | 921 |
| <i>International Reserves</i> | 9 753 | 8 253 | 7 203 | 6 553 |

²¹ See ONEI (2021).

| | | | | |
|-----------|--|--|--|--|
| MMUSD (E) | | | | |
|-----------|--|--|--|--|

NOTE: (E) Estimate (P) Plan

SOURCES: ONEI *Anuario Estadístico de Cuba 2020* (2021) www.onei.gob.cu, EIU *Cuba Country Report* March 2022 www.eiu.com, and *Cuba Country Risk Report* October 2020 www.eiu.com, "Díaz Canel: Potenciar lo enaltecedor y "combatir la burocracia, la mediocridad, el acomodamiento" July 3 2021 www.cubadebate.cu, MEP "Principales Aspectos del Plan de la Economía Nacional 2022" December 2021 www.mep.gob.cu, and author's estimates.

With the situation of a new outbreak of the pandemic facing the world at the beginning of 2022, a slow recovery of the sector to pre-crisis levels can be expected, which is expected to be achieved only in 2024.²² Preliminary estimates show that the projected visitor figures for the first quarter of 2022 are not being met. This projection raises the need to review the pace of construction of new hotels, which in 2022 are planned to absorb 24% of the total to be invested by the country this year, taking into account the need to ensure an adequate rate of recovery of investments.

Thirdly, total exported services - mainly medical services - reached a value of US\$6,767 million in 2021, and are planned to grow by 7.3% and reach US\$7,260 million in 2022. However, the figure forecast for 2022 represents 26.4% less than what was achieved in 2019.

Fourthly, the limitations in the domestic production of oil and in the import of fuel, taking into account the difficulties of Venezuelan production - largely due to the sanctions and the blockade of the US government - have also had a negative impact on various productions. In this sense, it was reported that the import of Venezuelan oil in June was only 35,300 bpd, compared to a delivery of 67,000 bpd in May, according to PDVSA data,²³ maintaining its instability in the second half of the year. However, according to REUTER agency data, at the end of the year Venezuelan fuel supplies to Cuba increased.²⁴

However, unofficial forecasts estimate that Venezuela may produce between 950,000 and 1,400,000 barrels per day by 2022. Likewise, growth estimates for the Venezuelan economy are between 1.5% calculated by the IMF and 20% issued by the Credit Suisse bank. If this recovery occurs, the energy supply to our country could improve in the short term.

The impact of this set of factors - in addition to the increased consequences of the U.S. economic blockade and the effects of the pandemic - has led to the non-fulfillment of multiple production plans.

Nevertheless, important investments have continued to advance. Such is the case for electricity generation, which throughout the year will add 400 MW to the installed capacity of the country's thermoelectric plants. Similarly, the production of medical equipment to face the pandemic continues at an accelerated pace, and tests of vaccines manufactured domestically to ensure sufficient production are progressing successfully, which will allow the total immunization of the population by 2022 and a higher level of exports of medical products.²⁵

²² See Preferente (2021).

²³ See CESLA (2021).

²⁴ See Havana Live (2021). Another source indicates that during the first half of 2021, Venezuelan supplies averaged 58,780 barrels per day. See Descifrado (2021).

²⁵ See Radio Reloj (2021).

The impact of this set of factors - in addition to the growing consequences of the U.S. economic blockade and the effects of the pandemic - has led to the non-fulfillment of multiple production plans.

Taking into account the increase in expenditures imposed by the pandemic and the foreseeable reduction in fiscal revenues, an increase in the budget deficit was to be expected, although a reduction of some \$17 billion is recorded in the negative balance of the 2021 budget due to the non-execution of a group of other expenditures. By 2022, the fiscal deficit is estimated to be reduced to a level of 13.1% of GDP. Likewise, the estimates reflect a significant decrease in the favorable balance of the trade balance, which, although remaining positive, has a negative impact on the current account balance, which is expected to improve in 2022.

Compared to the forecast of the external debt and its service, the results of the different renegotiation processes undertaken as of June with the Paris Club and their impact in 2022 should be included in the analysis. It is also necessary to know the situation of the short-term commercial debt, which is key to ensure Cuban imports.

Finally, the estimate of international reserves shows a balance of USD 2.56 billion less compared to 2019 and a reduction of USD 4.8 billion in the last five years, which must correspond to the enormous financial stress the country has suffered especially in the last two years and the emerging use of these resources.

In summary, after a first half of the year in which the GDP fell by 2%, the economy began a gradual period of recovery. A fundamental element was the control of the pandemic, based on the massive immunization of the population with domestic vaccines from the development of Cuban science. These results could have been better if inflationary pressures had not been higher than expected, which will be discussed below.

Indeed, in the Council of Ministers of June the Minister of Economy and Planning would highlight that "We have supply shortages, mainly of food and medicines; there is a growth of retail prices above the levels designed in the "Ordering Task" (Tarea Ordenamiento, an extensive package of monetary, exchange rate, salary and other related economic reforms launched January 1, 2021 – A.C.); and phenomena of speculation, resale, hoarding occur, which make the real prices paid by the population exceed the official calculations".²⁶

IV

Throughout 2021, probably the most complex economic policy of recent years was applied in Cuba.

This is the "**Ordering Task**", designed with the purpose of advancing in the monetary and exchange rate unification of the country -after a duality in force since the summer of 1993-, with the objective of achieving the transformations of the economy's management system that will allow it to operate with a higher level of efficiency, an indispensable requirement to achieve the expected development. The main macroeconomic impact expected from this policy was a stimulus to exports and curb of imports, but this effect will only be achieved in the medium term.

The starting point was to create at a system for measuring the Cuban economy that would realistically reflect the true magnitude of the values created in production and

²⁶ CUBADEBATE Op. Cit.

services, devaluing the exchange rate against other currencies - in this case, the US dollar - to arrive at a situation in which the true purchasing power of the Cuban peso (CUP) could be known.

Thus, the monetary and exchange rate reunification that began in 2021 was preceded by several years of analysis, with the development of various models that took into account the cost of this adjustment in the short term and included compensatory elements to deal with it. With this objective, in view of the inflationary effect of any devaluation, the starting point -in the case of Cuba- was to raise the income of the population through salaries and pensions, together with the elimination of generalized subsidies and unsustainable gratuities.

These measures in a parallel process of structural changes were to ensure a level of decentralized management in state enterprises and a productive linkage with the non-state sector in order to achieve a sufficient growth in labor productivity. The goal was to balance the income that was anticipated as compensation for the adjustment, and simultaneously to generate a redistribution of the existing wealth, to stimulate a more productive economic management in the future.

Logically, this dynamic required a period of time to develop, but this did not correspond to the expectations that were created in the population and also in a group of businessmen.

In effect, popular expectations from the monetary and exchange rate adjustment focused -mostly- on the fact that it would reduce prices and improve the economic situation in the short term. They did not take into consideration the cost of this operation in the short term, and they did not clearly recognize that only through greater economic efficiency -which would take time to achieve- would more be produced at lower costs and prices.

On the other hand, initiating the monetary adjustment process under the conditions of 2021 was a bold but very risky decision, since it would be implemented in a situation marked by the strong imbalance in the national economy that preceded the application of the adjustment. It was certainly a decision that could not be postponed for the economic stimuli to work, if the Cuban economy was to advance solidly on a basis more in line with reality, and if the indispensable structural changes were to be carried out.

However, this strategy was also deployed under the negative impact, impossible to predict, of COVID 19, and in a context of an increased economic blockade and a worsening international economic crisis. This led to a sharp fall in GDP until the first half of 2021, as mentioned above.

In the midst of these difficult circumstances, several effects of the Ordering Task have been rectified and corrected, but there are still important adjustments to be made to reduce the costs of monetary and exchange rate adjustment in the short and medium term.²⁷

Regarding the results of the Ordering Task, the information provided by Marino Murillo to the National Assembly in October 2021, and especially what refers to the expected inflation and what actually happened, is very useful.²⁸ In this regard, he pointed out that the expected adjustment in the economy, with wholesale prices growing less than the designed level of devaluation, was achieved, but he stressed: "The problem is in retail

²⁷ See CUBADEBATE (2021a).

²⁸ See CUBADEBATE (2021d).

inflation, not in wholesale inflation". In this regard, he pointed out that "Although retail inflation behaves as designed, that 60% does not match what people are experiencing. People are experiencing prices seven, 10 times higher". Delving into this issue Murillo explained that "...the prices of transportation and housing services, and food have growths much higher than the 60% designed (...) the basket of goods and services of reference reaches its highest cost in Havana, with 3 250 pesos, and in the eastern provinces with 3 057, when its designed value was 1 528 pesos".

When referring to the supply deficit he pointed out that it reached 60 billion pesos, and that for there to be monetary balance, the State should collect 92% of the money in circulation, but it was collecting 67%.

Subsequently, this issue was taken up again by the Minister of Economy and Planning in the National Assembly session of December 2021. On this occasion it was pointed out that it was expected to close the year with an inflation rate of 70% in retail prices, which finally reached an index of 77.33% in December.²⁹ However, the price index of transportation services reached 188.60%, housing services 153.54% and food and non-alcoholic beverages 113.95%. The analysis of the ONEI figures should be deepened, since the basis of CPI calculations used here dates from 2010, when the weight of the non-state sector in the analysis was only 18%, while currently it is estimated to exceed 30%. Calculations made by international observers indicate that the inflation rate in 2021 should have reached 235%.³⁰

Reinforcing this process of transformations, in April 2021 a set of 63 measures aimed at strengthening food production and distribution were approved, which give continuity to the adjustments in agrarian policy that have resulted from the Ordering Task.³¹ Also, as of August, greater flexibility in the marketing of agricultural products was approved.

Another measure of singular importance in 2021 has been the approval by the Ministry of Economy and Planning of Resolution 115, which deals with the general bases for the improvement of the system of allocation of liquidity of the National Economy Plan. This regulation is governed "...by the principles of providing entities with greater autonomy to manage foreign currency and assume responsibility for their economic and productive results." According to this regulation, retentions by the entities may reach up to 100% of the currency deposited.³²

More recently, the beginning of the process of incorporation of MSMEs (micro, small and medium-sized enterprises) in the country was approved, a decision that also contributes to a better conduct of business activity, both in state-owned and non-state-owned companies. These new economic actors totaled -up to mid-April 2022- some 3,074 entities, 96.7% of which are private MSMEs and 1.7% are state-owned, while 1.6% are non-agricultural cooperatives. On the other hand, 56% are reconversions of existing businesses and 45% are new ventures.³³

A positive impact of the Ordering Task manifested itself in the increase of job applications. It is estimated that by the end of 2021 the number of people employed in the economy had increased by 14%.³⁴ However, the activity of self-employed workers

²⁹ See ONEI (2022)

³⁰ See EIU (2022).

³¹ See CUBADEBATE (2021b).

³² See MEP (2021).

³³ See MEP (2022)

³⁴ See ONEI (2021) y ACN (2021).

remains depressed and also in part of the state sector -which closes the year with more than 500 companies registering losses- due to the effect of the pandemic and the other restrictions that still remain. These loss-making companies began to be evaluated on a case-by-case basis in March 2022 in order to make a decision on their management.

V

The tensions in the economy that increased throughout the first half of the year, together with the increase in aggressions of all kinds -especially through social networks- promoted by the US government, led to the outbreak of a series of social disorders on Sunday, July 11, which tried to be repeated unsuccessfully on November 15, a phenomenon that the external and internal counterrevolution tried to capitalize on with the aim of destroying the Revolution. Faced with this new situation, it will be necessary to immediately study the factors that led to this situation in order to quickly take the necessary decisions with a view to correcting the errors committed and providing a concrete response to the legitimate demands of the population, a task that is already being carried out, especially in the attention to the marginal neighborhoods.

An example of the difficulties that continue to affect the progress of the country is the discreet progress of the Guidelines for Economic and Social Development for the period 2021-2026, agreed to at the VIII Congress of the PCC in 2021. In fact, it was recently announced that five guidelines (2.5 %) are "no progress", 79 (39.3 %) are qualified as "low progress", 104 (51.7 %) as "medium progress", and 13 (7 %) with "high progress".³⁵

In addition, the priority objectives of the Economic and Social Development Strategy were updated as follows:

Objective Nr. 1 - To advance, as part of the gradual revival of the economy, in the process of macroeconomic stabilization, in the recovery of the role of the Cuban peso as the center of the financial system, and in the rationalization of the prices of products and services, prioritizing those that are more sensitive for the population.

Objective Nr. 2 - Stabilize the National Electric System.

Objective Nr. 3 - To give priority attention to people, households, and communities in vulnerable situations.

Objective Nr. 4 - To transform the state business system, the main subject of the economic model.

Objective Nr. 5 - To decentralize powers and responsibilities in terms of greater autonomy in the municipalities, in order to promote territorial development.³⁶

³⁵ See CUBADEBATE (2022).

³⁶ Ibidem.

At a juncture at which it is necessary to unite all possible efforts to move forward, some issues deserve the greatest attention and among them we can highlight the following.

- As a measure of the highest priority and as part of the economic order, it is necessary to examine, in the shortest possible time, a process of reordering and flexible renegotiation of the public and foreign debt, in order to recover the country's capacity to obtain domestic and foreign financing.
- Taking into account the domestic monetary-financial situation, a plan of anti-inflationary measures must be prepared and implemented rapidly. Among them, a thorough review of the cost and profitability sheets designed for the state-owned companies is necessary, especially in the case of those that have been prepared in a decentralized manner, and the application of the necessary measures - taking into account the experience of the Special Period - to stop the increase in the value of the USD in the informal economy and reduce the fiscal deficit, among other measures that should be part of a macroeconomic stabilization plan for the country.
- As part of the necessary reorganization of the Cuban economy in the short term, a **review of the investment policy** and its effectiveness in terms of profitability and recovery of invested capital, including foreign direct investment, is required. It is necessary to immediately prioritize investments in food production and in the energy sector.
- Considering the level of the effect on savings accounts in CUP as a result of the devaluation, measures should be applied immediately to again stimulate savings through appropriate interest rates, as well as the sale of public debt bonds to individuals, with adequate yields, aimed especially at savers.
- It is advisable to expand the possibilities of highly qualified employment through the creation of cooperatives, particularly in the non-agricultural sector.
- In general, greater agility is required in the implementation of the decisions adopted, in the short term, eliminating all types of obstacles and bureaucratic hurdles to that end.
- It is also essential to monitor the situation of the vulnerable and low-income segments of the population in order to ensure that they receive appropriate attention in the current circumstances.
- Finally, there is a need for greater discussion of the country's economic situation with the economic actors and the population in order to achieve a consensus of indispensable support for the measures that will make it possible to rectify deficiencies and errors, and especially for the support of a program of anti-inflationary measures to be implemented.

Closing date for information: May 31, 2022

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