



22

CUBA: THE INTERNATIONAL SITUATION AND THE COMPLEX ECONOMIC SITUATION IN THE FIRST HALF OF 2022

José Luis Rodríguez García

I

Although the first half of 2022 saw the beginning of a modest economic recovery, the difficulties have not ceased, especially in the field of energy.

The **US blockade** continues to be the fundamental obstacle to this recovery, and remains substantially unchanged. Only on 16 May did the US government announce a group of measures to make ties with Cuba more flexible. These included the elimination of the limit imposed by Trump of 1,000 dollars a quarter on remittances; the expansion of airline flights to all the country's provinces; the reestablishment of the family reunification programme, and the encouragement of the growth of the private sector in Cuba through greater access to the internet, among the most significant measures. This was a step in the right direction, but it left intact the 243 measures implemented by Trump that took the financial persecution against Cuba to levels unheard of in recent years.⁸⁴

At the same time, the **dynamics of the world economy** have shown mostly unfavourable trends for Cuban foreign trade in the months that have elapsed in 2022. In this respect, the impact of the crisis generated by the war that broke out on 24 February between Russia and Ukraine is evident.

This conflict had a direct impact on the price of commodities. In the case of Cuba, the increase in the price of nickel is significant. From an average of 18,452 USD/MT in 2021, it closed between January and July 2022 (on average) at 27,612 dollars, an increase of 49.4%, having reached an all-time high of 48,078 dollars per tonne in March 2022.⁸⁵ Meanwhile, the price of raw sugar increased by 5.9%, reaching 18.92 cents per pound during the first half of this year.⁸⁶

On the other hand, we have been very negatively affected by the increase in the price of a barrel of WTI oil, which went from an average of USD 68.21 in 2021 to USD 101.59 in the first six months of 2022, for an increase of 48.9%.⁸⁷ In the case of food, average prices in June 2022 were 23.1% higher than in June 2021 and grew by 22.8% compared to the end

⁸⁴ Ver CUBADEBATE (2022).

⁸⁵ See Temáticas (2022).

⁸⁶ See ASOCAÑA (2022).

⁸⁷ See DATOSMACRO (2022) and the special chapter on the impact of the Ukraine war on oil in this report.

of last year. In this case, the 48.5% increase in wheat prices and the 24.9% increase in dairy products stand out. However, there was a slight decline in food prices at the end of the six-month period, after the peak reached in March.⁸⁸

From the point of view of external finance, the world economy continues to forecast a downward trend and stagnation in **foreign direct investment**, after the peak of 1.6 trillion dollars reached in 2021. In this regard, it was recently reported in Cuba that 57 new businesses with an approximate capital of 5 billion dollars are in the pipeline. However, between 2020 and 2021, only 47 new businesses were approved, of which 25 had been set up. In short, since 2014, only 285 new businesses have been approved, of which 29 were reinvestments, a figure which - in financial terms - is much lower than the estimated needs of between 2 and 2.5 billion dollars a year to achieve growth rates of around 5 per cent each year.⁸⁹

Regarding another aspect of external financing of the Cuban economy, the flow of **remittances** into the country showed a 26 per cent decline between 2019 and 2020, falling from an estimated USD 3.171 billion to USD 2.348 billion, according to unofficial sources. This flow was further reduced in 2021, estimated at only about USD 1 billion.⁹⁰

On the other hand, Cuba defaulted on **debt service payments** already agreed to since the second half of 2019, a situation that worsened 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 a view to restarting them in 2022. However, this was not achieved and only the payments for 2020 were postponed. In this regard, an agreement with the Paris Club has recently been reached that established a supplementary deadline for debt repayment, although no further details are known.⁹¹ It is also known - unofficially - that debt service payments have been postponed until 2027 in the cases of Russia and China, although default interest will be charged for this postponement.⁹²

Today it must be stressed that the renegotiation of overdue and unpaid debt is essential for Cuba under current conditions. New forms of payment - with a minimum of liquidity - such as debt swaps for investments, payments in national currency at preferential exchange rates, issuing public debt bonds, debt repurchases with discounts, debt cancellation under the principle of mutual obligations and debt payment with income flows from certain exports of goods or services, stand out among the variants to be applied as soon as possible to restore the external financial flows that are indispensable. In addition, and beyond the current situation, in a medium- and long-term financial strategy, it is also necessary to pay attention to the necessary sustainability of the external debt process.

In general, the complex international situation that has arisen imposes additional costs on the Cuban economy and is delaying the economic recovery planned to grow by 4% this year, a goal that, at the end of the first half of 2022, is seriously affected by the increase in

⁸⁸ See FAO (2022).

⁸⁹ See CUBADEBATE (2022a).

⁹⁰ See Los Angeles Times (2022).

⁹¹ See Cuba Noticias 360 (2022).

⁹² See On Cuba News (2022).

the prices of raw materials and fuel due to the war in Ukraine, the slow recovery of tourism, and the worsening of the current crisis in electricity generation.

In addition to the aforementioned external factors, there was the **outbreak of COVID-19** since the first quarter of 2020, with impacts that have been extended until the first half of 2022. Although a gradual decrease in the number of affected patients and recorded mortality is reported, in the second quarter of the year there was an increase in the number of cases and - in parallel - an increase in the number of dengue cases throughout the country, which requires strict compliance with the sanitary measures and constant monitoring of the evolution of the disease.

In summary, by the end of July 2022, the number of detected COVID-19 patients reached 1,107,985 people, or 9.8% of the population. Deaths amounted to 8,529 people for a case fatality rate of 0.77%, which compares favourably with the global rate of 1.11% as of the aforementioned date.

At this stage, it seems that only through mass vaccination of people - which already reaches about 91% of the population - and which includes several booster doses, will it be possible to curb the disease and gradually return to the new normal from the second half of 2022.⁹³

II

As a consequence of what has been said so far, in the first half of 2022 **the situation of the national economy** continued to reflect strong external impacts due to the international economic crisis and the US blockade, as well as the consequences of the health situation in the country and the rest of the world, despite the efforts made to prevent it.⁹⁴

Thus, the **macroeconomic evolution** in Cuba, which in 2021 was expected to grow by 6%, only reached 1.3%, although this modest rate interrupted the negative trend that led to a 13.1% drop in GDP and that lasted from 2019 to the first half of 2021, starting a gradual recovery, which is estimated to take until 2024-2025 to reach again the GDP level of 2019.⁹⁵

The evolution of the Cuban economy during the first quarter of 2022 shows a growth of 10.9% (latest available figures) in relation to the first quarter of last year, when the economy was still falling, so - although this is a positive figure - it does not yet represent a sufficiently significant advance. On the other hand, the growth achieved shows an important bias as productive and trade activities decreased, including manufacturing industry, trade (retail trade circulation fulfilled the plan at 99.2%) and the supply of electricity, gas and water, while only construction, tourism, communications, transport, education and public health grew.

In relation to **tourism** up to 30 June, 682,411 visitors were received, with a growth of 91.6% in relation to all tourists arriving in Cuba in 2021. However, the figure for the first half of this year represents 26.6% in relation to the same period in 2019, so the pace of recovery is

⁹³ See MINSAP (2022).

⁹⁴ Hereafter, data not expressly quoted are taken from the report of the Minister of Economy and Planning in the ANPP of 21 July 2022. See CUBADEBATE (2022b y 2022c).

⁹⁵ Author's estimate.

slower than in the Americas region, where it reaches 60% in the same period. So far, despite the increases recorded in relation to 2021, current trends show that meeting the target of 2.5 million tourists this year is unlikely, as the figures forecast for the first half of 2022 are not being met.⁹⁶

The slow recovery of tourism so far this year and the prospects of returning in the immediate future to the higher figures achieved in 2018, again raise the need to review the pace of construction of new hotels, which in 2022, is planned to absorb 24%⁹⁷ of the total to be invested by the country this year, taking into account the need to ensure an adequate rate of recovery of the investments made and the urgent need for investments also in food production and in the energy sphere.

Among the deficit activities registered in the first half of 2022 is also sugar production, since of some 911,000 MT planned, 52% was fulfilled, resulting in 474,000 MT, which has forced the importation of sugar for domestic consumption.

A particularly complicated situation has been confronted at the end of the first half of the year regarding fuel availability and electricity generation.⁹⁸

In relation to the availability of fuel, there have been problems with the supply from Venezuela due to the difficulties with hydrocarbon production suffered by that country, which has been subject to US sanctions since 2015, so that during the first half of the year an average of 56,610 barrels of oil per day⁹⁹ were received from Venezuela, compared to some 115,000 barrels per day in 2015. To this has been added the rise in world market prices recorded in the first half of the year - equivalent to almost 49% - which is added to an additional payment by Cuba of around 30% due to the cost of freight and the impact of the blockade on international shipowners.

On the other hand, due to the increase in the US blockade and the fall in the Cuban economy's income, the financing necessary to ensure the operation of the electricity generating plants has not been sufficient, as a result of which the country has already faced a reduction in generation equivalent to 16.4% between 2016 and 2021. This situation has recently required the adoption of exceptional measures, such as the contracting of five floating generation plants that have been installed in the bays of Mariel, Havana and Santiago de Cuba. In addition, so far this year there have been unscheduled outages and shutdowns, which have made a generation deficit inevitable during the summer. In this regard, it was reported that of an installed capacity of 6,558 MW, availability is only about 2,500 MW, equivalent to 38% of that capacity.¹⁰⁰

In relation to the **external sector**, in the first three months of the year exports grew by 300 million dollars and foreign exchange earnings during the first half of the year reached 2.5 billion dollars, a figure - however - lower than the 4 billion achieved in 2019. It should also be taken into account that 50% more than expected has been spent on food and fuel

⁹⁶ See Terrero (2022).

⁹⁷ In fact, tourism-related investments absorbed 35% of the total in the first half of the year.

⁹⁸ CUBADEBATE (2022d).

⁹⁹ See La Patilla (2022).

¹⁰⁰ This was the capacity available in 1994 in the middle of the Special Period, in this case due to a lack of fuel to generate electricity.

imports due to the price increases already mentioned.

For its part, total exported services - mainly medical services - reached a value of USD 6.767 billion in 2021 and are planned to grow by 7.3% to USD 7.26 billion in 2022. However, this year's forecast figure is 26.4% less than what was achieved in 2019.

In short, in 18 months, revenues were reduced by 3 billion dollars, which means that there is currently a deficit in external financing that does not allow the country's economic activity to normalise and forces it to work under emergency conditions.

In terms of addressing **social problems**, the information provided at the July 2022 National Assembly also shows some difficulties, especially with regard to housing construction and the availability of medicines.

In the first case, there has been a slowdown in the completion of housing in the last two years, as in 2021 the plan was only 42% complete. This delay continued in the first half of 2022, as halfway through the year, only 33% of the 36,831 homes planned for completion in 2022 have been built.¹⁰¹ Meanwhile, the availability of medicines showed a shortage of some 142 items on average per month in the first half of the year, which represents 22.9% of the country's basic list of medicines, which includes 619 products, of which around 62% are produced in Cuba.¹⁰²

III

In view of the complex economic situation facing the Cuban economy, at the ANPP session on 21 July the Minister of Economy and Planning announced the adoption of 75 measures "... aimed, among other things, at increasing foreign exchange earnings and increasing and diversifying exports".

These measures should continue to address some of the unresolved aspects of the *Reordering Task (Tarea Ordenamiento)*, especially with regard to the increase in external financial flows and persistent inflation in the first half of 2022.

Specifically, the information provided by the Minister of Economy and Planning at the July ANPP referred to a part of the 75 measures adopted, which imposes restrictions to assess their feasibility, taking into account their sequence and interrelation with different spheres of the national economy. However, it is possible to emphasise that the measures outlined in the area of the problems addressed by these decisions should contribute to possible solutions to achieve a stable macroeconomic equilibrium in the shortest possible time.

Taking into account the above, the analysis will concentrate on several blocks that cover the most important and complex measures.

First, in a **first block of measures** of major importance, the implementation of a new foreign exchange market¹⁰³ "...for the purchase and sale of foreign currency to the population with an "economically based" exchange rate and where we can work with all

¹⁰¹ See Cuba Noticias 360 (2022a).

¹⁰² See INFOBAE (2022).

¹⁰³ See CUBADEBATE (2022c y 2022e). In the following, all information whose source is not expressly cited is taken from these publications.

foreign currency, including dollars in cash", according to the Minister of Economy and Planning. This was an aspect not addressed by the *Reordering Task* and constitutes a fundamental link for the country's monetary-financial equilibrium.

This market is based on the fundamental premise that the population and the non-state sector - it was later clarified that international travelers can also gain access - sell their dollars or other convertible currencies in order to acquire pesos, which would have greater purchasing power in the domestic market. Thus, the Minister pointed out, "The Cuban pesos obtained by exchanging foreign currency must guarantee a purchasing capacity, otherwise there is no incentive to make that exchange".

In continuity with the implementation of the measures, the reopening of the foreign exchange market was announced on 3 August as a means of obtaining foreign currency, in this case that which is currently circulating through the informal economy and which does not have an impact on the solution of essential problems for the country's population in the current circumstances. In explaining the measure, the Minister of Economy and Planning pointed out that this would be a gradual process given its complexity and risks at this time.

This decision offers a number of advantages. First, it implements "...a missing cog in the wheel, in the mechanism of the functioning of the economy," which was not included in the Ordering Task.¹⁰⁴ Second, it will allow the purchase and sale of foreign exchange to the segment of the population, the non-state sector and foreign visitors through a legal and secure mechanism. Third, it will stimulate international transactions through remittance transfers.

In the gradual establishment of this exchange market, it has been decided to begin with a phase in which foreign exchange is purchased from the population, foreign visitors, and the non-state sector, but without moving - for the time being - to the sale of foreign exchange, since it is assumed that the exchange market itself - in its operations - is capable of generating foreign exchange. This approach is based on the realisation that it is not possible for the country to divert scarce foreign exchange from core objectives - such as the purchase of food and fuel - to feed the foreign exchange market.

To achieve the objective of the first stage of the exchange market, an exchange rate of 120 pesos per USD was established, based on the need to create a strong stimulus for the sale of foreign currency by the participants in that market, by receiving a higher number of pesos than those offered in the informal economy, pesos which - on the other hand - would increase their purchasing power in national currency by increasing the volume of sales in that currency in the domestic market, financed with part of the foreign currency obtained, assuming that prices do not increase. "The success lies in having a level of supply in national currency that generates the incentive for people who have foreign currency to exchange it for Cuban pesos, because with these they will have a level of consumption in the country", said the Minister of Economy and Planning.

This operating logic is based on another set of assumptions that need to be examined in the

¹⁰⁴ In the case of the *Reordering Task*, the objective was to eliminate the country's monetary and exchange rate duality, which meant that there would be no foreign exchange market until the economy was stabilised and the national currency was strengthened. As is well known, this objective was not achieved.

light of the risks involved. In the first place, it cannot be ignored that throughout the world the USD or the euro are strong currencies and act as refuge or reserve currencies against devalued currencies, so that their sale to the State in the exchange market would have to be sustained with a very strong stimulus for it to actually take place. Secondly, there is currently a segment of the Cuban market that sells in convertible currencies (representing approximately 24% of the country's retail circulation) and that -if maintained, even temporarily- demands foreign currency to access it, which could inhibit its sale in the state exchange market.¹⁰⁵ Thirdly, with the reintroduction of the foreign exchange market by the state, competition from the informal market is intensifying, as can already be seen in the fact that the sale of foreign currency in the market - according to unofficial data - increased the purchase price in local currency by 7.5% in the case of the USD and 5.7% in the case of the euro from 3 to 10 August, with a greater increase in the selling price of the currency than the increase in the purchase price.¹⁰⁶

Finally, the time it takes for the increase in the supply of domestic currency to be reflected in the market - without price increases - will modulate the role of this important element as a stimulus for the sale of foreign exchange to the State by the population. If this does not happen within a reasonable period of time, the liquidity in national currency, which is increased by the sale of foreign currency by the population itself, will be an inflationary factor, which can be aggravated if there is an additional growth of prices in the non-state economy that cannot be fully controlled. This last aspect was another element that was not solved by the *Reordering Task*, as it designed a price increase that fell short of reality.

The control of inflation -a need that was taken up by the Minister of Economy and Planning in his speech on 3 August- calls for the elaboration of an anti-inflationary programme that would allow the problem to be tackled in all its complexity and forms part of a medium-term macroeconomic stabilisation programme. Similarly, the implementation of this measure is linked to the need to re-establish external financial flows, which are currently unavailable due to the level of external debt faced by the country, as analysed earlier in this paper.

The reopening of the foreign exchange market is undoubtedly a complex process and subject to risks of various kinds, but it is necessary for the proper functioning of the Cuban economy.

In the external sector, complementary measures were also reported, aimed at the indispensable increase of exportable funds through the development of export-oriented MSMEs, developing foreign direct investment with the non-state sector, boosting import substitution in tourism, developing consignment sales of imported products, implementing a new foreign exchange allocation scheme for state and mixed entities, and making non-commercial imports by natural persons more flexible.

All this is desirable and will help, but it must also be considered to what extent it will be possible or not possible to carry out these decisions without rethinking the need to make the state monopoly on foreign trade more flexible, a question that - at the very least - requires

¹⁰⁵ In this regard, the Minister of Economy and Planning said "Today, probably, the demand to buy foreign currency is higher than the supply...today there is a demand for foreign currency by the population, because there is a domestic consumption in foreign currency and a demand for emigration, which is very probably above the level of supply".

¹⁰⁶ See *El Toque* (2022).

reconsideration.

A **second block of measures** concerns changes in the relationships between different forms of ownership. This includes the creation of mixed state-private enterprises and the development of foreign direct investment in the non-state sector, already mentioned above, all in a context in which there is an expansion of the private and cooperative sector. This increased role of the so-called "new actors" in the Cuban economy requires - among other things - new considerations in terms of credit policy and fiscal policy so that these actors play the complementary role that has been defined for them in the Conceptualisation of the Cuban economic model already approved.

A **final block of measures** involves, rather than new decisions, the enhancement of the efficiency of decisions already adopted previously and which will undoubtedly contribute positively to our development, but do not have the same significance as the measures included in the two blocks analysed above. Among them, it is worth highlighting due to its importance, is the resizing of the state budget sector, a measure that should perhaps be seen together, as it was also done in the 1990s, with the business resizing, that the process of change that is being planned imposes.

This opens up today a process of transformations that are indispensable to confront the adverse situation the country is facing and which implies decisions such as the ones proposed, always assessing the risks faced and the necessary balance between costs and benefits that the proposed changes imply.

Finally, all of this requires a social communication process that ensures the inclusion and active participation of all economic actors and the population. For this it will be necessary to explain in detail the objectives to be pursued and how to achieve them, with the participation of the specialists who deal with the complex issues we face and also with the mass media.

In this regard, we must not forget the lessons of the Special Period and - especially - the ideas of the Commander-in-Chief for the introduction of highly complex measures that require the consensus of the population.¹⁰⁷

Closing date for information: August 10, 2022

BIBLIOGRAFÍA

ASOCAÑA (2022) "Precio internacional del azúcar" Julio 31 2022 www.asocaña.org

CUBADEBATE (2022) "Anuncia Estados Unidos limitadas medidas hacia Cuba"
Mayo 16 del 2022 www.cubadebate.cu

CUBADEBATE (2022a) "Inversión extranjera en Cuba. En negociación 57 proyectos en sectores priorizados" Julio 20 2022 www.cubadebate.cu

CUBADEBATE (2022b) "Ministro de Economía: En el primer trimestre de 2022 creció el PIB, pero no alcanza los niveles prepandemia" Julio 21 2022
www.cubadebate.cu.

CUBADEBATE (2022c) "Aprueban nuevas medidas para recuperar la economía"

¹⁰⁷ See Fidel's speech delivered on 6 August 1995 in www.discursos.cu

- cubana” Julio 21 2022 www.cubadebate.cu
- CUBADEBATE (2022d) “Ministro de Energía: Situación del sistema eléctrico nacional es compleja, pero tiene solución” Julio 18 2022 www.cubadebate.cu
- CUBADEBATE (2022e) “¿Cómo se implementará el nuevo mercado cambiario en Cuba?” Agosto 3 de 2022 www.cubadebate.cu
- Cuba Noticias 360 (2022a) “Informan sobre atraso en el plan anual de viviendas en Cuba” Julio 21 de 2022 www.cubanoticias360.com
- Cuba Noticias 360 (2022) “Cuba debe 5 211 millones al Club de París” Junio 17 2022 www.cubanoticias360.com
- DATOSMACRO (2022) “Preciopetróleo West Texas Intermediate 2022” Julio 31 2022 www.datosmacro.expansion.com
- El Toque (2022) “Tasas de cambio de monedas en Cuba hoy” Agosto 7 2022 www.eltoque.com
- FAO (2022) “El índice de referencia de la FAO de los precios de los alimentos muestra una caída de los precios internacionales de los cereales, los aceites vegetales y el azúcar” Julio 8 de 2022 www.fao.org
- INFOBAE (2022) “Crisis en Cuba: Hay escasez de los medicamentos del cuadro básico y advierten que la situación es “muy compleja” Julio 19 de 2022 www.infobae.com
- La Patilla (2022) “Cuba obligada a comprarle fuel oil a Rusia porque PDVSA casi no produce” Julio 14 de 2022 www.lapatilla.com
- Los Angeles Times (2022) “Aún no hay claridad sobre la situación de las remesas en Cuba” Mayo 24 2022 www.latimes.com
- MINSAP (2022) “Cuba reporta 97 nuevos casos de COVID-19 y ninguna persona fallecida” Julio 30 2022 www.cubadebate.cu
- On Cuba News (2022) “Rusia aprueba una prórroga hasta 2027 del pago de los créditos otorgados a Cuba” Febrero 22 del 2022 www.uncubanews.com
- Temáticas (2022) “Precio del níquel en 2022” Julio 27 2022 www.tematicas.org
- Terrero, Ariel (2022) “Tibia reanimación del turismo en Cuba” Julio 22 de 2022 www.cubayeconomia.blogspot.com

