

THE CUBAN ECONOMY DURING THE FIRST HALF OF 2023.¹

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I. The weight of external factors

This paper offers a first approach to the development of the Cuban economy at the end of 2022, as well as the progress and prospects for the first half of 2023, considering the external and internal factors that have influenced these results and projections.

The **US blockade** continues to be the fundamental external obstacle for the recovery, which remains without substantial changes, with an accumulated negative effect, up to February 2022, of 154.217 billion dollars.³ On May 16, 2022, the U.S. government announced a few measures in regards to its ties with Cuba, with the elimination of the \$1,000 quarterly limit on remittances, the expansion of airline flights to the country, the reestablishment of the family reunification program with a number of visas issued in Havana, and the encouragement of the growth of the private sector in Cuba through greater access to the Internet among the most significant measures. It was a step in the right direction, but it left intact the 243 measures implemented by Trump that has taken the financial persecution against Cuba to unprecedented levels in recent years.⁴

At the same time, according to World Bank data⁵ **the world economy** registered a global growth of 3.1% in 2022 with a forecast of only 2.1% for 2023 and 2.4% for 2024, while the corresponding figures for the GDP increase in Latin America and the Caribbean were 3.7, 1.5%⁶ and 2%. All these figures spell mostly unfavorable trends for the Cuban external sector, in addition to the negative impact of the international economic crisis, accelerated by the war in Ukraine since February 2022.

This conflict has had a direct impact on the price of commodities. In the Cuban case, the only favorable result was an increase in the price of nickel - the top item in the export of goods - which from an average of 18,452 USD/MT in 2021 closed 2022 at \$25,841 for an increase of 40%, with a record of \$48,078 in March 2022.⁷ However, this price has dropped in the first half of 2023 to an average level of \$24,218, down 6.3% over last year and closing in June at 20,403 USD/MT, which is 21% lower than the 2022 price.⁸ The price of raw sugar increased by 5.4% to 18.82 cents per pound on average in 2022.⁹ During the first half of the current year, the price rose 21.6%, averaging 22.89 cents per pound.¹⁰ The World Bank¹¹ forecasts that by the end of 2023 a ton of nickel will end up at around \$22,000 and a pound of sugar at 20 cents, while by 2024 nickel will fall to \$20,000 dollars and sugar will remain approximately the same.¹²

On the other hand, we have been negatively affected by the increase in the price of a barrel of WTI oil which rose from \$68.21 in 2021 to \$94.91 in 2022, 39% higher, although the World

¹ The sources of the data not expressly cited are found in the report of the Minister of Economy and Planning to the ANPP of December 12, 2022. See Gil (2022), as well as in CUBADEBATE (2022), CUBADEBATE (2022a), MEP (2023 and 2023a), CIEM (2023) and ONEI (2023).

² This article is a sequel to the one published by CIEM in the "Report on the evolution of the world economy in the first half of 2023". www.ciem.cu

³ Last available date.

⁴ See CUBADEBATE (2022d).

⁵ See World Bank (2023).

⁶ ECLAC recently revised its growth forecast for Latin America and the Caribbean for 2023 to only 1.2%.

⁷ See Temáticas (2022).

⁸ See BCC (2023). See chapter on the nickel market in this report.

⁹ See ASOCAÑA (2022).

¹⁰ The impact of higher sugar and nickel prices on income was limited by the contraction of both productions.

¹¹ See World Bank (2023a).

¹² See chapter on the world sugar market in this report.

Bank forecasts¹³ this will be \$80.80¹⁴ for 2023 as an annual average, and then go up to \$82.00 in 2024.¹⁵ This subsequent downward trend was confirmed, since on June 30 of this year WTI was at \$70.44, 25.8% cheaper than at the end of last year. However, following the speculative reduction in supply by OPEC+, WTI prices then rose to \$90.77 per barrel at the end of September.

In the case of food, average 2022 prices were 14% higher than 2021, although there was a decline at the close of the year. This trend then continued, and in June 2023 prices were down 14.9% over the previous year's average. This decline is forecast to continue for the remainder of this year, although it is still higher than pre-COVID 19 prices.¹⁶

In relation to the **external sector**, according to the information provided by the Minister of Economy and Planning at the ANPP [Asamblea Nacional de Poder Popular, Cuba's government – translator],¹⁷ in 2022 exports of goods grew by USD 816 million and total exports of goods and services were USD 8,717 million, which remains USD 3,912 million lower than in 2019. Cuba had higher than expected spending on imports of goods and fuel due to the price increases.

We do not have all the elements that allow us to connect the above data, in USD, with the data recently published by ONEI in the Statistical Yearbook of Cuba 2022 (AEC).¹⁸ This last publication reports that exports of goods and services, measured in Cuban pesos and at constant prices, fell by 2.4% between 2022 and 2021, while imports fell by 9.2%, and that as a result of this last fall in foreign purchases, the negative balance recorded in the trade balance decreased from 680 million pesos to 106 million pesos in that period.

In short, as of the end of 2022 revenues were down almost 4 billion dollars generating an external financial deficit, which one also sees in Cuban pesos, and which makes it necessary to work by means of a sustained effort and under emergency conditions.

The external financial gap faced by the country can be expected to continue this year. In fact, according to information provided by the ANPP, at the end of the first half of 2023 exports of goods had amounted to \$1,282 million dollars, equivalent to 35.7% of the annual plan of \$3,587 million dollars, and 6.8% below the income forecast for the first 6 months of 2023. The value of imports in this period was \$4,368 million, 33.8% of the forecast for the year for about \$12,923 million, of which \$1,600 million are needed to cover the standard family basket. This gap could be reduced as income from service exports grows during the second half of the year.

From the point of view of external finances, a downward trend and stagnation in **foreign direct investment** continued in the world economy during 2022, except in Latin America and the Caribbean, after the peak of US\$1.6 billion reached in 2021. In the case of Cuba, 47 new deals were approved between 2020 and 2021, and 35 investment agreements valued at around \$400 million were reported to have been signed in 2022. During the first half of this year, some 15 new deals were signed valued at US\$437 million, which is below expectations.¹⁹ In summary, between 2014 and 2021, 285 deals were approved, which in financial terms averaged an inflow of US\$680 million over the last 5 years. This is below the country's needs, which are estimated at between

¹³ This is the average price of all types of oil.

¹⁴ A more recent forecast puts the average WTI barrel at 74.43 this year. See the oil chapter of this report.

¹⁵ See DATOSMACRO (2022), Net Petroleum Price (2023) and World Bank (2023).

¹⁶ See FAO (2023).

¹⁷ See MEP (2023 y 2023a).

¹⁸ See the National Accounts chapter of the ACS 2022 (ONEI 2023a).

¹⁹ See Cuba Si (2023)

US\$2 billion and US\$2.5 billion per year to achieve growth rates of around 5%, according to studies carried out in this regard.²⁰

The drop in the rate of increase of FDI in the country reflects the uncertainty prevailing in international capital markets and the impacts of the US blockade, but it also shows the difficulties that continue to hinder Cuba's development, taking into account its debts with investors and the limitations of the national economy for the development of new businesses.

Remittances entering the country showed a 26% decrease between 2019 and 2020, according to unofficial sources. This flow was calculated to drop further in 2021 to only about \$1,084 million,²¹ for a drop of 53.8%. This figure appears to have increased in 2022, which augurs an increase in 2023. It should be recalled that remittances play a determining role as working capital for the non-state sector, as well as supporting the level of consumption of the part of the population that accesses the retail market operating in MLC [freely convertible currencies – translator]. A 2021 study concluded that 26% of Cuban households receive remittances, amounting to around 2% of GDP, with 83.72% coming from the US and more than 60% arriving informally.²²

A negative element since 2019, despite the efforts made, has been the default on **debt service payments**, a situation that worsened as of 2020 with the outbreak of the COVID 19 pandemic and continues in 2023. This situation forced Cuba to request a new renegotiation of payments to Paris Club creditors in May 2020, which only succeeded in postponing payments for that year. Recently, a supplementary term for the payment of the debt was established, although no further details are known.²³ It was also reported that payments were postponed until 2027 in the case of Russia and that work is being done to restructure the debt with China.²⁴

In an international tour made in November by President Díaz-Canel to Algeria, Russia, Turkey, and China, the cancellation of interest on the debt payable to Algeria and the indefinite postponement of the resumption of disbursements were achieved. Likewise, it was also agreed to unblock a series of investments agreed with Russia and China that were paralyzed in Cuba due to non-payments. To this was added a donation of 100 million dollars made by the latter country.²⁵

Today it is necessary to stress that, as a significant part of a Macroeconomic Stabilization Program, a more flexible renegotiation of the debt is indispensable for Cuba, with a view to gradually reopening external financial flows and restoring the confidence of our partners. Various specialists have proposed new forms of payment such as debt swap for investments,²⁶ payments in national currency with preferential exchange rates, issuance of public debt bonds, debt repurchase with discounts, cancellation of debts for mutual obligations, and debt payment with income flows from exports of goods or services, as variants to be applied to restore external financial flows. Additionally, in a medium and long term financial strategy it is necessary to secure funds to cover debt service, which will allow for the sustainability of external indebtedness.

In general, the complex international situation that has arisen imposes additional costs on the Cuban economy and is delaying its economic recovery. Thus, it was planned to grow by 4% in 2022 but only 1.8% was actually achieved. Its performance last year was seriously affected by the effect of the blockade, the increase in the prices of raw materials and fuel, the war in Ukraine, the

²⁰ See CUBADEBATE (2022a) y Spadoni (2022).

²¹ See Los Angeles Times (2022).

²² See CNN (2021).

²³ See Cuba Noticias 360 (2022).

²⁴ See On Cuba News (2022 y 2022a).

²⁵ See Sputnik (2022).

²⁶ According to unofficial information, an agreement of this type was reached to cancel the debt of approximately 360 million Canadian dollars with the Sherritt Company of Canada.. See Cuba Noticias 360 (2022).

slow recovery of tourism, and the crisis in the generation of electric energy which then also worsened in 2023.

In addition to the aforementioned external factors, there was the **irruption of COVID 19** since 2020. Although a gradual decrease in the number of sick people and mortality was reported, at the end of 2022 there was an increase in pandemic cases and an increase in dengue cases. Constant monitoring of the disease is being maintained in the current year.

By the end of September 25, 2023, the number of COVID 19 patients totaled 1,111,161, affecting 10% of the population. With a recovery rate of 99.2%, deaths reached 8,530. Cuba's has had a case fatality rate of 0.77%, compared to the global rate of 1% and 1.53% in the Americas. At present, only through mass vaccination of people, which has already reached about 90% of the population and which includes several booster doses, is it possible to curb the disease and return to normality.²⁷

II. The impact of internal factors

The situation of the economy in 2022 continued to reflect strong external impacts, added to which was the unfavorable outcome of a group of internal economic policy measures that did not give the expected results for the year.

The macroeconomic evolution in Cuba which in 2021 expected a growth of 6% only achieved 1.3%, and in 2022 only 1.8% compared to a planned 4%. This has established slow pace of recovery, which will take until 2026 to reach the 2019 GDP level.²⁸

Moreover, the growth of new value created last year was concentrated in service activities while serious distortion effects continued in productive activities. Thus, in 2022 there was a 5.3% drop in the agricultural sector, mining decreased by 15.3%, manufacturing industry fell by 6%, the sugar industry by 33.6%, construction by 5.2%, electricity, gas and water supply by 13.2%, and public health by 16.6%. Only transportation and communications grew by 25.8%, tourism by 23.8%, education by 52.7% and culture and sports by 12.5%.

The GDP in 2022 was 32.8% below 2019, a result of declines of 32.8% in the primary sector, 17.9% in the secondary sector, and 6.8% in the social services.

Investments last year – in terms of gross capital formation – were reduced by 19%. Of those 37.4% continued to be concentrated in tourism while agriculture received only 2.6%, a situation that demands an increase in the latter sector to support the production of food. It is also necessary to secure the necessary resources to guarantee the stability of electricity generation in the country.

As to **tourism**, 1,014,087 visitors were received in 2022. This was a growth of almost three times compared to 2021, but a slower recovery than in the Americas, an occupancy rate of 15.6%, and with a failure to meet the planned goal of 2.5 million visitors.²⁹ As of June 2023 there were around 1,298,000 thousand visitors, a figure 20% lower than expected to reach the 3.5 million tourists planned this year. The occupancy rate was around 27%,³⁰ which led to modifying the plan to 2.6 million visitors this year. The slow recovery of tourism once again raises the need to slow down construction of hotels in the face of other urgent needs for the economy, such as food production and generation of electricity, and to prioritize more non-hotel investments to ensure greater profitability of the sector.

²⁷ See MINSAP (2023)

²⁸ Author's estimate.

²⁹ See *Terrero (2022)* and *REPORTUR (2023)*

³⁰ What was achieved represents 51.1% compared to the same stage in 2019.

Sugar production was also among the deficit activities in 2022, producing only around 480 thousand MT of the planned 911 thousand MT. The sector needs to be recapitalized to overcome the current situation. The 2023 plan of 455 thousand MT was not met as the necessary assurances were not in place, with production only reaching about 370 thousand MT. The 2024 harvest could also only achieve a figure similar to that of 2023.

A particularly complicated situation has been faced since the end of the first half of 2022 in relation to the availability of fuel and **electricity generation**.³¹ Thus, as reported in the ANPP, only 88% of the planned electricity was generated for the year,³² with an overspending above the plan of 43% on diesel and only 4.4% generation with renewable energy sources.

Thus, the financing to ensure the operation of the generating plants has not been sufficient, which has demanded exceptional measures, such as the contracting of eight floating generation plants,³³ located in the bays of Mariel, Havana, and Santiago de Cuba. In this regard, the UNE [Unión Eléctrica de Cuba – translator] reported that, of a nominal installed capacity of 6,558 MW in 2016, the availability was only about 2,500 MW today.³⁴ This situation improved at the end of 2022, but in the first half of 2023 coverage of demand remained tense, although the operation and stability of the system improved. Nevertheless, at the end of September it was necessary to take exceptional measures because of the foreseeable insufficient generation due to a lack of diesel fuel.

In relation to the availability of **fuel**, there have been problems with the supply from Venezuela due to difficulties with its hydrocarbon production. This covered only an estimated 57,720 barrels per day during the first half of the year, which has forced purchase from other suppliers such as PEMEX of Mexico. However, according to other more recent estimates, between July and September Venezuelan shipments rose to about 68,000 barrels per day.³⁵ Added to the aforementioned difficulties are the increased transportation costs in the market since 2020 meaning an additional payment by Cuba of around 30%, where the impacts of the blockade on international shipowners is a factor.

The fuel situation reached a critical point in the first half of 2023, especially with an availability of only 400 MT of gasoline compared to a daily need of between 500 and 600 MT, to which was added the overconsumption of diesel for electricity generation.³⁶ This situation lasted throughout the second quarter of the year, causing significant damage to the economy and the population. Additionally – as mentioned above – fuel availability became more critical at the end of September, which forced other emergency measures to be taken.

Additionally, the information available from various sectors of the economy in 2022 showed that there were significant shortfalls compared to what was expected. This situation continued during the first half of 2023.³⁷ In the case of industry, the fulfillment of the crude oil production plan of 3,118,000 MT stands out positively.

In general for 2023, according to international estimates³⁸ GDP will grow 2.8%,³⁹ agricultural production 2.2%, industrial production 0.2%, and services 3.1%.

³¹ CUBADEBATE (2022d)

³² Generation had already fallen by 16.4% between 2016 and 2021.

³³ In July 2023, 6 plants were rented.

³⁴ That was approximately the capacity available in 1994 in the middle of the Special Period, in that case due to lack of fuel to generate electricity.

³⁵ These data are based on the author's calculations based on unofficial PDVSA figures cited by the REUTERS agency.

³⁶ See CUBADEBATE (2023a) In this regard, the president pointed out the weight of factors external to the country: "...the gasoline deficit is due to the fact that several of the countries that have contracts with the country are going through complex energy situations and have not been able to meet the commitments made."

³⁷ A detail of the fall of the most significant productions can be seen in the report presented in May to the ANPP. See MEP (2023).

³⁸ See EIU (2023)

³⁹ The ECLAC growth forecast for Cuba for 2023 is 1.5%. See ECLAC (2023).

Addressing **social problems**, the information for December 2022 in the ANPP also showed difficulties, especially in relation to the construction of housing and the availability of medications.

In the case of housing construction, a slowdown has occurred in the last two years. The 2021 plan was only 42% fulfilled, and in 2022 only 20,232 of the planned 36,831 housing units were completed, 54.9%. In the first half of 2023 8,736 units were completed, 34.8% of the annual plan, due to lack of construction materials, such as steel and cement. Likewise, there was a low level of restoration of homes affected by weather events in recent years, which was 33%.

In the case of availability of medications, according to the MINSAP [Ministry of Public Health – translator], there was a shortage of about 219 line items in pharmacies at the end of 2022. This represents 35.4% of Cuba’s list of 619 basic medications, 62% of which are produced in Cuba. The shortage of medicines worsened in the first half of this year increasing to 251 missing medications reported to the ANPP, around 40% of the total.⁴⁰ As basic health indicators, an infant mortality rate of 7.5 per thousand live births was recorded in 2022, remaining at a figure higher than that in 2019. The maternal mortality rate per 100 thousand was reduced to 40.9, compared to 176.6 registered in the exceptional year of 2021 because of, like for infant mortality, COVID 19.⁴¹

In the first half of 2023, progress was made in providing care to 1,180 vulnerable communities, Among other decisions, 205.2 MMP of basic necessities have been delivered, and financial aid cover the cost of the standard family basket to 328,320 people who receive social assistance and 33,814 pensioners, worth 414.8 MMP. As to pensions, 44% of retirees continue to receive the minimum pension or below it (1,528 pesos per month). The number of people classified as vulnerable has also increased, despite the efforts made to care for the most vulnerable segments of society.

In 2022, the unemployment rate remained at 1.8% while the average salary in the state sector increased to 4,219⁴² pesos per month. Non-state employment represented 35.7% of the total.⁴³ Among state companies, 26% apply flexible salaries, which covers 37% of workers who improved their income during the year. In the first half of 2023, the average state salary rose to 4,856, up 18.6% by May, with a reported average productivity of 27,159 pesos. This last figure, however, represents an increase of 2.4 times over what was reported last year, an indicated level of growth that will have to be reviewed.

III. The implemented economic policies

As already noted, various measures adopted as part of Cuba’s economic policy last year did not generate the results expected in the short term. Thus, at the end of the year there were 480 state companies with losses, and labor productivity only reached 11,251 pesos per worker. At the end of the first half of this year, the situation improved with only 285 companies with losses, a reduction of 40.6% compared to 2022.⁴⁴ Other efficiency indicators show that in 2022 the profit on net sales in state companies reached a 17.2%, and the record of losses was calculated at 20,900 million pesos.

An element of great importance due to its negative effects on the economy and the population was the increase in the **inflation rate** in 2022, which increased during the year, although at lower rates

⁴⁰ In this aspect, the United States blockade is having a strong impact, since even though the country has sufficient financing, the doors of suppliers to Cuba are closed due to North American pressure.

⁴¹ See CUBADEBATE (2023)

⁴² This figure is estimated to not cover the cost of the basic basket, which continued to increase during 2022.

⁴³ The private sector represented 23.6% of that total.

⁴⁴ This will require a more detailed analysis at a later date.

than in 2021. According to official records, it reached a cumulative level by December⁴⁵ of 39.07% with a similar year-on-year increase. However, the population's perception is that the price increases were greater.⁴⁶

According to data from the ONEI,⁴⁷ the situation between January and June 2023 shows an inflation growth of 44.98% at the end of the semester, a higher figure compared to the same period of the previous year, and according to various estimates this figure will remain above the 40% this year. This level of inflation is revealed in the depreciation of the Cuban peso against the dollar, whose price in the informal market went from 170 pesos per USD in 2022, to more than 200 pesos at the end of the first half of 2023, and to 250 pesos in September.⁴⁸

A determining element in the increase in the inflation rate in 2022 was the increase in liquidity in the hands of the population, which reached some 287,319 million pesos, 50% more than the previous year. This figure shows that the increase in savings was 33%, while cash in circulation grew by 59.3%.

A consequence of the high inflation rate over the first half of this year is that there was a severe shortage of cash in circulation. In response to this in the first days of August a set of administrative measures were announced to accelerate the **use of the banking system (bancarization)** for monetary operations in the country,⁴⁹ a measure that would modernize the collection and payment system in the economy, and about whose benefits there are no disagreements. However, there has been a debate about the consequences of applying this measure at this time, given the serious difficulties facing the Cuban economy. In this regard, there are concerns that this decision will increase the pressure on the infrastructure of the banking system and existing payment gateways, as well as cause greater pressure on the savings deposits currently in banks and possibly cause a drop in the supply from the non-state sector which would potentially raise inflation, among other impacts. If this measure is successful, however, it will allow greater agility in collections and payments, as well as greater control over tax evasion and money laundering.⁵⁰

Nevertheless, it should be noted that among the measures announced by the banks in this process, it is striking that no mention has been made of the possibility of raising the interest rate, nor of issuing public debt bonds, both of which are measures that promote the withdrawal of cash from circulation through economic stimuli.

Inflation control demands the urgent application of a comprehensive anti-inflationary program⁵¹ that allows the problem to be gradually faced in all its complexity, and that is part of the first priority of the Macroeconomic Stabilization Program in the medium term. In this sense, it must be taken into account that such a complex phenomenon is cannot be reversed in the short term, and that it involves assuming costs that must be socially absorbed. For this an essential consensus must be forged with the population, which must understand its nature and support its implementation.

Among the measures that must be part of the fight against inflation is the reduction of the fiscal deficit, which in 2022 reached 70,376.3 million pesos - around 11.1% of GDP -, a figure 10.5% higher than in 2021, although lower than the 75,827 million pesos approved. For this year the expected deficit is 68,126 million pesos, which is estimated to be around between 5.3 and 8.1% in

⁴⁵ See *ONEI (2023)*. For an analysis of the historical trend of the inflationary process in recent years, see *CEEC (2022)*.

⁴⁶ This perception is supported by the fact that the basis for weighting the different markets used by ONEI is 2010, a situation that has changed substantially by 2022. See the CPI methodological note in *ONEI (2023)*.

⁴⁷ See *ONEI (2023)*

⁴⁸ See *El Toque (2023)*

⁴⁹ See *BCC (2023)*

⁵⁰ There is a strong debate among various economists about the macroeconomic consequences of banking at this time.

⁵¹ The analysis on this topic can be expanded in Lage and Cruz (2022).

relation to GDP.⁵² It will also be necessary to apply mitigation measures to the results produced by the measures taken to reduce the effects of excessive liquidity in the face of insufficient supply. This is especially important for vulnerable and lower-income sectors of society, with priority for social security pensioners and recipients of social assistance. The successful experience of the Internal Financial Restructuring Program that was applied in the Special Period can serve as experience in this regard.

Prior to the most recent decisions and given the complex economic situation that the economy was facing, in the ANPP session on July 21, 2022, the Minister of Economy and Planning announced the adoption of 75 measures "... directed, among other things, to increase foreign currency earnings and increase and diversify exports." These measures should provide continuity to the solution of part of the unresolved aspects of the Monetary Ordering Task,⁵³ especially with regard to the increase in external financial flows and to the inflation that persisted in the first half of 2022.

In this regard, it is possible to emphasize that, in regard to the problems addressed by these decisions, the measures set out should contribute to possible solutions for achieving a stable macroeconomic balance in the shortest possible time. In this sense, **a first block of measures** of the greatest importance stands out. It was proposed to implement a new exchange market⁵⁴ "... for the purchase and sale of currencies to the population with an "economically based" exchange rate and where we can work with all currencies, including dollars in cash". This is an aspect not addressed by the Monetary Ordering Task, and which would constitute a fundamental link for the monetary-financial balance of the country. In this way, on August 3, 2022, the purchase and sale of foreign currency and Cuban pesos in the exchange market - popularly known as CADECA - was reopened for natural persons, as a way to obtain convertible currency, which previously circulated through the informal economy and did not impact the solution of essential problems for the country's population.

To achieve the objective of the first stage, an exchange rate of 120 pesos per USD was established, to create a strong stimulus for the sale of foreign currency by participants in that market from receiving a much greater number of pesos than the official rate of 24 pesos for one dollar. At the same time, this rate should be higher than that of the informal economy, which would increase purchasing power in national currency by making it possible to increase the volume of sales in that currency in the domestic market, self-financed with the foreign exchange obtained, assuming no prices increases.

However, to date the volume of operations carried out has not allowed us to compete and regulate the exchange rate of the informal foreign exchange market, which is fueled by the fact that there is a strong unsatisfied demand for foreign currency by the population to buy in the market that operates in that currency and to travel abroad.⁵⁵ Added to this is that part of the currency purchased through the exchange market has been used to directly finance certain production and services, which reduces the ability to sell currency to the population in the market.

And lastly, the time it takes for the increase in supply in national currency to be reflected in the market – without an increase in prices – will modulate the role of this important element as a stimulus factor for the sale of foreign currency to the State.

⁵² author's estimates

⁵³ This is the name given to the decision to move towards monetary and exchange reunification with a multilateral program of measures to be applied from January 1, 2021.

⁵⁴ See *CUBADEBATE (2022c y 2022e)*. From now on, all information whose source is not expressly cited comes from these publications.

⁵⁵ This demand - among other factors - is fueled by sales in MLC by state chains, which covered 19.5% of retail mercantile circulation last year, a figure of around 46,750 million pesos, equivalent – at the official exchange rate - to an estimated 1,948 million in MLC. If the exchange rate of 120 pesos per USD is used, the figure is 389.6 million in MLC (estimated by author). Additionally, it is known that there is a delay in the limited purchase of foreign currency by the population, which is estimated to be a three-month wait to access CADECA.

Also linked to the external sector, complementary measures were reported aimed at increasing external financing through the development of MSMEs [micro, small, and medium enterprises – translator] aimed at export,⁵⁶ developing foreign direct investment with the non-state sector, promoting the substitution of tourism imports, developing the consignment sale of imported products, implementing a new foreign currency allocation scheme for state and mixed entities, and increasing the flexibility of non-commercial imports by natural persons.

The announced measures had to do with changes in the relations between the different forms of ownership, including the creation of mixed state and private companies, and the development of foreign direct investment in the non-state sector, all in a context in which there is an expansion of the private and cooperative non-agricultural sector. This increase in the role of the so-called “new actors” in the Cuban economy requires incentives through – among other things – new considerations regarding credit policy and fiscal policy, so that they play the complementary role that has been defined for them in the Conceptualization of the Cuban Economic Model already approved in 2016. At the end of June 2023, more than 8,590 MSMEs⁵⁷ (micro, small, and medium-sized enterprises) - mostly private⁵⁸ - and CNAs (non-agricultural cooperatives) had been created. The weight of the non-state sector in the GDP is estimated to be between 12% and 14% according to unofficial calculations, and with a strong impact on non-state employment, which today is around 35% of workers.

The results of the actions of the new economic actors, so far, have not been seen favorably by the population, because, although they observe an increase in the supply of goods and services, these are sold at prices higher than the purchasing capacity of majority of the population. A direct impact on the production of food and other consumer goods has yet to be achieved. It will largely depend on the actions implemented by the State to adequately incentivize state-owned companies and the potential of the private and cooperative sector - which currently also includes some 596 thousand self-employed workers - with a view of satisfying the needs of our development.

IV.- Some final considerations

The main objectives of Plan 2023 – set out in the ANPP – envisaged achieving greater macroeconomic stability, consolidating the restructuring of different foreign exchange allocation mechanisms, advancing the recovery of the National Electrical System and the introduction of renewable energy sources (FRE), advancing in the reduction of inequalities, consolidating the process of decentralization of powers to the territories, and advancing in the transformation of the socialist state companies.

However, extraordinary circumstances have had an effect on the performance of the economy during the first nine months of 2023. It has had to face a greater deficit in fuels which has seriously affected production and services including electricity generation itself, difficulties in the supply of water to the population and the economy, tourism that is recovering at a lower rate than expected in the annual plan, and an inflation rate higher than that of the previous year which has affected the population and the general functioning of the economy, all of which demands the adoption of additional measures to confront the complex situation at this time.

⁵⁶ Exports from the non-state sector until the first half of 2023 were around 6 million dollars, while imports from MSMEs were 246 million dollars.

⁵⁷ Only 1.2% work in the primary sector.

⁵⁸ Only 119 state MSMEs have been created in this period.

These measures entail - first of all and as already explained - achieving an external financial flow - which does not exist today - by restoring links with our external partners through formulas that reactivate payments of the overdue and unpaid external debt. As already mentioned when analyzing the external debt, this can be achieved by applying measures that immediately increase those minimum resources that are required for the export of goods and services, and increasing foreign direct investment, as well as obtaining the fundamental means to as quickly as possible increase the population's food consumption and the fuel for the functioning of the country. That was the experience of the Special Period: concentrating efforts on what was essential, modifying everything necessary institutionally and in the functioning of the economic model to ensure what is urgently required, at the lowest possible social cost.

Finally, the agreements that are being implemented to analyze various alternatives in the field of foreign trade, finance and foreign direct investment with the Russian Federation are in full development, under the direct supervision of President Vladimir Putin.⁵⁹ In this regard, trade between the two countries tripled in 2022 reaching 452 million dollars, which includes the ongoing supply of four generating blocks for Cuban thermoelectric plants, as well as an investment for the production of steel and the development of a program for the modernization of the Cuban transportation system. Additionally, Russian tourism averaged 117,994 visitors between 2018 and 2022,⁶⁰ placing Russia among the five most important partners and one of the fastest growing sources for the Cuban market in recent years. Added to this is an agreement in preparation to send 1,640,000 MT of oil this year, which makes Russia a supplier of around 20% of Cuban needs, to be accompanied by the supply of wheat and other foods on a regular basis. There has also been the donation of nearly 70,000 MT of wheat between 2022 and so far in 2023, as well as medications among other essential products. Also notable is the signing of a protocol for the reorganization of the debt, unofficially estimated at about 2.3 billion dollars.

Consolidating economic relations with Russia at this time is of great importance for Cuba. To achieve this, it will be necessary to increase the volume of Cuban exports with a view to achieving balanced trade and avoiding new trade debts, which have been present in recent years. There will be possibilities for immediate advances in tourism and medicines, as well as growth in the export of traditional products, such as tobacco, rum, sugar, and tropical fruits, as well as clothing and footwear, among other areas with possibilities. All this must be done on the basis of mutual benefits, and without reducing our already achieved presence in other markets. Such a promising expansion requires a notable effort on the part of Cuban producers, but achieving it is possible, and it can reach a level of significant importance in the external financial balance that our economy requires.

To the extent that progress is made in this direction, a Macroeconomic Stabilization Program and its basic component, which is the anti-inflationary program, can be adequately implemented. The results obtained will allow us to prioritize our needs more, which today is not possible if fresh resources do not enter the economy.

Thus opens – in the second half of the year – a process of essential and urgent transformations to face the very adverse situation that the country has been facing, and which involves bold and quick decisions, always assessing the risks faced and the necessary balance between costs and benefits implied by the proposed changes. And all this ultimately demands a social communication process that ensures the inclusion of all economic actors and the population in

⁵⁹ See *Sputnik News (2023)*, *AFP (2023)*, *Prensa Latina (2022 and 2023)*, *Cuba y Economía (2023)* and *Granma (2023)*. There were 67,615 tourists from Russia were during the first half of 2023, almost 80% more than in the same period of the previous year.

⁶⁰ Tourists from Russia were 67,615 during the first half of 2023, almost 80% more than in the same period of the previous year.

the economic and social management of the country. To do this, it will be necessary to explain in detail the objectives and the results of the measures that have been applied, and how to achieve them, with the participation of specialists who handle the complex issues that we face, and also with the mass media. This task is of the greatest importance, taking into account the campaigns that are developed against Cuba on social networks and that must be faced with all the arguments available.

In this sense, 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 in order for them to have the success we need.⁶¹

FOREIGN TRADE GOODS CUBA-RUSSIA (MMUSD)				
	TOTAL EXCHANGE	EXPORTS	IMPORTS	BALANCE
1992	1 141.7	607.3	534.4	72.9
1995	251.3	194.5	56.8	137.7
2000	384.7	80.7	304	-223.3
2005	180.8	52.5	128.3	-75.8
2010	284.8	57.5	227.3	-169.8
2015	135.4	48.4	87	-38.6
2021	633.4	5.4	628	-622.6
2010-2019	2 411.7	349.9	2 061.8	-1 711.9

Source: Author estimates based on data from the AEC of the ONEI (Various years)

⁶¹ See especially Fidel's speeches delivered on August 6, 1995, and November 17, 2005, at www.discursos.cu

RUSSIAN TURISM IN CUBA (VISITORS)	
2005	20 711
2010	56 245
2016	63 386
2017	105 946
2018	137 440
2019	177 977
2020	74 019
2021	146 151
2022	54 383
ANNUAL AVERAGE 2018-2022	117 994
2023 (UNTIL AUGUST)	106 495

Source: Author's estimates based on data from the AEC of the ONEI (Various years).

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