

Chapter 21

EVOLUTION OF THE INTERNATIONAL ECONOMY IN 2023 AND ITS IMPACT ON CUBA.

PROSPECTS FOR 2024¹¹²

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I

Due to the complex situation faced, last year the Cuban economy suffered a significant setback with GDP decreasing between 1 and 2%, according to official estimates, a development that revealed the presence of negative external factors and the consequences of internal errors in the management of the economy. International estimates for 2023¹¹³ had been higher, with a growth of between 1.5 and 2.8%.

Between 2019 and 2023 the country has suffered a loss of more than 3 billion dollars in external revenues, as reported by the Minister of Economy and Planning in the ANPP of December 2023, from a combination of the following causes: the decisive weight of the US economic blockade; the effects of COVID 19 in 2020; the slow recovery in tourism; the high levels of world food prices, which remained 20% above what was recorded in the period 2014-16; the international breaches of agreements that should have guaranteed oil imports; to which were added the consequences of mistakes made in our own management. This situation has led to the need to take urgent measures without delay, which, as President Díaz-Canel has pointed out, should lead us to "...not insist on a route that has proven to be impracticable because it is unsustainable."¹¹⁴

The purpose of this report is to offer a preliminary analysis of the Cuban economy in 2023, as well as the outlook for 2024, taking into account the external and internal factors that have influenced the negative results obtained and the situation presented this year.

As for the **external factors** that have affected the country's economic evolution, the **US blockade** continues to be the main obstacle to our development, which remains without substantial changes. It has an accumulated negative effect of 159,084 million dollars up to February 2023, which includes more than 4,867 million dollars just between March 2022 and February 2023.¹¹⁵

¹¹² The source of data not expressly cited can be found in the following documents: MEP (2023 Y 2023a) as well as in Juventud Rebelde (2023), Granma (2023), CIEM (2024) and ONEI (2023).

¹¹³ See EIU (2023) and ECLAC (2023).

¹¹⁴ See Díaz Canel (2023).

¹¹⁵ See MINREX (2023).

In parallel, the *dynamics of the world economy* registered a weak global growth of GDP of 3.0% in 2022 and an estimated of only 2.7% in 2023, with a forecast of 2.4% in 2024, according to United Nations data.¹¹⁶ For Latin America and the Caribbean these are 2.2, 1.6 and 2.3%, respectively.¹¹⁷ All these largely reflect unfavorable trends for the Cuban external sector, including the negative impact of the war in Ukraine since February 2022, and more recently, the effects of the aggression by Israel against the people of Palestine and its repercussions in the Middle East area and the rest of the world.

These conflicts have had a direct impact on the price of commodities. In the Cuban case, the only favorable result -temporarily- was an increase in the price of nickel, which from an average of \$18,452 USD/MT in 2021, closed 2022 at \$25,841 USD. It then dropped again to \$21,981 USD last year, with production also reduced to an estimated 41,000 MT in 2023.¹¹⁸

The price of raw sugar increased by 5.4%, to 18.82 cents per pound on average in 2022. During the past year, the price rose 27.8%, averaging 24.05 cents.¹¹⁹ In these important productions for the national economy, it is forecast¹²⁰ that in 2024, nickel will fall to \$20,000 dollars per ton and sugar will remain at approximately the same price.

On the other hand, we had already been negatively affected by the increase in the price of a barrel of WTI oil, from \$68.21 USD in 2021, to \$94.91 USD in 2022, a 39% increase, although recent reports stated that in 2023 this price averaged \$77.58 USD as an annual average, a figure that would reach a figure of \$77.99 USD in 2024.¹²¹

In the case of food, average prices in 2022 grew by 14% over 2021. There was a decline at the close of the year, however, with that trend continuing in 2023. Prices fell by 13.7% in 2023 over the previous year's average, although they were still higher than pre-COVID 19 prices.¹²²

In relation to the *external sector*, according to information provided by the Minister of Economy and Planning at the ANPP¹²³ total exports of goods and services reached \$9.07 billion dollars in the year 2023. This was, however, \$770 million below what had been planned.

¹¹⁶ See United Nations (2024).

¹¹⁷ IMF data offer more optimistic global growth figures of 3.5% in 2022, 3.1% in 2023 and 2024 and 3.2% in 2025. In the case of Latin America and the Caribbean, the growth rates were, respectively, 4.2, 2.5, 1.9 and 2.5%. See IMF (2024).

¹¹⁸ See Cuba Información (2023).

¹¹⁹ The impact of higher sugar and nickel prices on income was limited by the contraction of both productions.

¹²⁰ See United Nations (2024).

¹²¹ See EIA (2024).

¹²² See FAO (2024).

¹²³ See MEP (2023 and 2023a).

In short, external revenues in 2023 were reduced by more than \$3 billion dollars in relation to 2019, thus maintaining the financial deficit. That makes it necessary to work with a sustained effort and under emergency conditions.

Likewise, from the point of view of external finances, there was a 3% increase in **foreign direct investment** in the world economy during 2023, although it decreased by 9% in developing countries. In the case of Cuba, in 2022 it was reported that 35 investment agreements valued at around US\$ 400 million had been signed that year, while in the 2023, 42 new agreements were reached, for a total of 343 active businesses at the close of the year. However, these figures were lower than the country's needs, estimated at between US\$2 billion and US\$2.5 billion a year to achieve growth rates of around 5%, according to studies carried out on the subject.¹²⁴

The decrease in the rate of increase of FDI in the country reflects the uncertainty prevailing in the international capital markets and the impacts of the U.S. blockade. But it also shows internal the difficulties that continue to impact its development, the debts with investors and the limitations of the national economy present this year for the development of new businesses. Likewise, an approach that takes into account the risk assumed by the foreign investor in Cuba is required for the increase of FDI, taking into account the effects of the U.S. economic war against our country.

On the other hand, **remittances** entering Cuba showed a 26% decline between 2019 and 2020, falling from an estimated \$3,171 million USD to \$2,348 million USD, according to unofficial sources. This flow was further reduced in 2021 when the same was calculated at only about \$1,084 million,¹²⁵ for a drop of 53.8%. This figure does not seem to have increased in 2023, not even considering that Western Union resumed sending remittances to Cuba, which augured a greater increase. At this point it should be recalled that remittances play a determining role as working capital for the non-state sector¹²⁶ as well as sustaining the level of consumption of the part of the population that accesses the retail market operating in MLC. A 2021 study concluded that 26% of Cuban households receive remittances -computed at around 2% of GDP-, 83.72% coming from the U.S. and more than 60% arriving informally.¹²⁷

A negative element since 2019 -despite the efforts that were made- was the default on external debt service payments. That worsened as of 2020 with the outbreak of the COVID 19 pandemic, and it continued through 2023.

¹²⁴ See CUBADEBATE (2022) and Spadoni (2022).

¹²⁵ See Los Angeles Times (2022).

¹²⁶ This sector had an estimated import volume of US\$1 billion in 2023, a figure that contrasts with a likely decrease in the volume of remittances received.

¹²⁷ See CNN (2021)

As explained in other works, this situation forced Cuba -after the agreement reached in 2015- to request a new renegotiation with the Paris Club creditors in May 2020, which only achieved a postponement of the payments for that year. Recently, a supplementary term was established for the payment of the debt, although no further details are known.¹²⁸ It also transpired that payments were postponed until 2027 in the case of Russia, and work is being done to restructure the debt with China.¹²⁹

On this issue, it was reported that in an international tour carried out in November 2022 by President Díaz-Canel, which included Algeria, Russia, Turkey, and China, the cancellation of interest on the debt payable to Algeria and the indefinite postponement of the resumption of disbursements was achieved. Likewise, it was also agreed to unblock a series of investments agreed to 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.¹³⁰

Today it is necessary to emphasize that -as a significant part of a Macroeconomic Stabilization Program- a more flexible renegotiation of the debt- is indispensable. Today this is estimated -according to creditor sources- at US\$ 29,179 million, which represents an increase of 10.7% over the 2019 balance, and is estimated to be equivalent to more than 40% of Cuba's GDP. At the current juncture, according to several economists, it is necessary to apply new forms of payment -with a minimum of liquidity- to restore external financial flows. Possible variants of this include debt swap for investments,¹³¹ payments in local currency with preferential exchange rates, issuance of public debt bonds (including the so-called green bonds), repurchase of debts with discounts, cancellation of debts for mutual obligations, and payment of debts with income flows from exports of goods or services. Additionally, in a medium and long-term financial strategy, it is necessary to secure funds to cover debt service, which will allow for its sustainability over time.

In summary, the complex international situation that has arisen imposes additional and very heavy costs on the Cuban economy, delaying economic recovery, and making it essential to implement urgent measures to promote it.

In addition to the external factors mentioned above, there was the **onslaught of COVID 19** since 2020 and although a gradual decrease in ill 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 was maintained in 2023.

¹²⁸ See Cuba Noticias 360 (2022).

¹²⁹ See On Cuba News (2022 and 2022a).

¹³⁰ See Sputnik (2022)

¹³¹ According to unofficial information, such an agreement was reached to cancel the debt of some 360 million Canadian dollars with the Sherritt Company of Canada. See Cuba News 360 (2022).

As of December 31, 2023, COVID-19 patients totaled 1,115,183 people, affecting about 10% of the population, with a 99.2% recovery. Deaths reached 8,530, with a case fatality rate of 0.77%, compared to a global rate of 1.01% and 1.55% in the Americas. At present, only through mass vaccination of people - which has already reached about 90% of the population and includes several booster doses - is it possible to curb the disease and return to normalcy.¹³²

II

The situation of the economy in 2023 worsened significantly, reflecting strong external shocks, to which was added the effect of a group of internal economic policy measures that did not yield the expected results.

Thus, the ***macroeconomic evolution*** in Cuba which in 2021 foresaw a growth of 6% only reached 1.3%. In 2022 it only achieved a growth of 1.8% compared to the planned 4%. Last year, compared to an expected growth of 3%, the economy decreased between 1 and 2%. All these evidence a planning that underestimated the difficulties.

In fact, the growth of the new value created in 2022 was already concentrated in service activities, and there were serious effects on productive activities. According to the AEC, in 2022 there was a 5.3% drop in the agricultural sector; mining decreased by 15.3%; the 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%. The transportation and communications sectors grew by 25.8%, tourism by 23.8%, education by 52.7%, and culture and sports by 12.5%. In relation to 2019, a gap of 8.2% in GDP remained, as the primary sector was 32.8% below that year, the secondary sector 17.9%, and social services 6.8%.

Investments between January and September 2023 grew by 27.3%, 34.2% of which continued to be concentrated in tourism, while agriculture received only 2.8%,¹³³ a situation that calls for an urgent increase in the latter sector to support food production. It is also necessary to ensure the necessary resources to guarantee the stability of electricity generation in the country, which received 10.8% of the total invested in the year.

In 2023, according to preliminary information provided by the ANPP, continued declines were reported in key sectors such as food production, including viands, corn, pork, milk, and eggs. In this regard, it is worth noting that - in relation to 2019 - there were accumulated decreases of 81% in rice production, 61% in egg production, and 49% in milk production, among the products that suffered the greatest impacts.

¹³² See MINSAP (2023).

¹³³ See ONEI (2023a).

In relation to **tourism**, 2 million 436,979 visitors were received in 2023, a growth of 51% compared to 2022 but with a slower recovery than in the Americas, and an occupancy rate of 28% in the first half of the year. Although double that achieved in the same period of 2022 it failed to reach the planned figure, which was adjusted from 3.5 to 2.5 million visitors.¹³⁴ Among the visitors, the increase of 3.4 times of Russian tourism, which reached 184,819 people, stands out. The slow recovery of tourism once again raises the need to prioritize extra-hotel investments and adopt other measures to ensure greater profitability of the sector, which is estimated to have increased its gross income by US\$400 million this year, to an estimated US\$1.2 billion.

Among the industrial activities that registered a deficit in 2023 is sugar production, which of the 455 thousand MT planned, reached 340 thousand MT, which shows a significant non-compliance due to the lack of the necessary assurances for production. The 2024 harvest also assumes the operation of only 23 plants and a planned sugar production figure of 412 thousand MT.

A particularly complicated situation was faced from the end of the first half of 2022 regarding fuel availability and **electricity generation**.¹³⁵ Thus, as reported in the ANPP, only 88% of the planned electricity was generated during the year,¹³⁶ with an overspending of 43% in diesel, and only 4.4% of generation done with renewable energy sources. Nevertheless, a successful strategy to deal with the crisis allowed for a reduction of about 68% in blackouts during the year.

As a result, the financing to ensure the operation of the generating plants has not been sufficient, which has required exceptional measures, such as the contracting of eight floating generation plants,¹³⁷ located in the bays of Mariel, Havana, and Santiago de Cuba. In this regard, UNE reported that for several months, out of a nominal installed capacity of 6,558 MW, availability was only 2,500 MW, equivalent to 38% of that capacity.¹³⁸ This situation improved at the end of 2022, but with a tense demand coverage even in 2023, although the operation and stability of the system improved.

In relation to the availability of **fuel**, there have been problems with the supply from Venezuela which, according to PDVSA sources, delivered an average of 55,615 barrels per day due to difficulties with its hydrocarbon production,¹³⁹ which forced the purchase from other suppliers such as PEMEX. It is also worth noting that -as already

¹³⁴ See Terrero (2022) and REPORTUR (2023).

¹³⁵ See CIEM (2023).

¹³⁶ Already, generation had fallen 16.4% between 2016 and 2021.

¹³⁷ In July 2023, 6 plants remained leased.

¹³⁸ 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.

¹³⁹ See PDVSA data in Panam Post (2022).

noted- an energy supply agreement was signed with Russia in 2023, which has not yet been implemented, and offers better prospects for 2024.¹⁴⁰

In addition to the complex logistics of the oil imported by Cuba, there is the increase in transportation costs in the market that has been registered since 2020. And there is also an additional payment by Cuba of around 30% from the impact of the blockade on international shipowners.

The fuel situation reached a critical point in the first half of 2023 with an availability of only 400 MT of gasoline compared to a daily need of between 500 and 600 MT. Added to this was the overconsumption of diesel for electricity generation,¹⁴¹ and an availability in the year of only 34% of the total consumption of diesel in the country, with imports falling by 25%. This situation lasted throughout the second quarter of the year, causing significant effects on the economy and the population.

However, in the case of industry, the compliance with the crude oil production plan of three million 164 thousand MT stands out positively, which ensures the national electricity generation in thermoelectric plants, among other destinations.

The information available for other sectors of the economy in 2022 showed that there were significant drops in relation to the forecast, and this situation worsened throughout 2023.

In the attention to **social problems**, the information for December 2023 in the ANPP also showed difficulties, especially regarding the construction of housing and the availability of medicines.

In the first case, there has been a slowdown in the last two years, with a plan for 2021 that was only 42% completed. In 2022, 20,232 of the 36,831 homes planned were completed, for 55%. By October 2023, 13,300 were completed for 54% of the annual plan, due to the lack of construction materials such as steel and cement. There was also a low level of recovery of housing affected by weather events in recent years, which was 33%.¹⁴²

For the second case, according to MINSAP, the availability of medicines in pharmacies showed a shortage of some 219 items at the end of 2022, representing 35.4% of the basic list of medicines, which includes 619 products, 62% of which are produced in Cuba. It was reported in the ANPP that the shortage of medicines worsened in the first half of 2023, with 251 medicines reported missing, which

¹⁴⁰ See Deutsche Welle (2024)

¹⁴¹ 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 their commitments".

¹⁴² See Granma (2023a).

represents about 40% of the total.¹⁴³ As basic health indicators, the infant mortality rate was reduced to 7.1 per 1000 live births, while the maternal mortality rate per 100,000 dropped to 38.7.¹⁴⁴

With regard to pensions, 44% of retirees continue to receive the minimum pension or less (1,528 pesos per month). The number of people classified as vulnerable has also increased, despite the efforts made to assist the most sensitive segments of society. In this regard, clothing, footwear, and kitchen utensils were delivered to 66,626 families, and temporary assistance was provided to some 317,555 recipients of social assistance and to 29,771 social security pensioners. Notwithstanding the actions carried out, an analysis of people in vulnerable situations is necessary in order to better meet their essential needs, since -according to estimates that take into account people currently receiving social assistance, pensioners who receive less or below the minimum pension, and people who receive minimum wages- the figure may be above 20% of the population.¹⁴⁵

In 2022 the unemployment rate remained at 1.8%, the average salary in the state sector increased and reached 4,219¹⁴⁶ pesos per month. Non-state employment accounted for 35.7% of the total.¹⁴⁷ Among state-owned companies, 26% apply flexible salaries, which covers 37% of the workers who improved their income in the year. In the first half of 2023 the average state wage rose to 4,856, growing by 18.6% through May, with an average productivity of 27,159 pesos. This last figure represents an increase of 2.4 times over what was reported last year, which will require further revision.

III

As mentioned above, several measures adopted as part of the economic policy during the past year did not provide the expected results in the short term. Thus, at the end of 2022, 480 state-owned companies remained loss-making and labor productivity only reached 11,251 pesos per worker. By the end of 2023, the situation improved and the number of state-owned enterprises with losses was 338, 13.4% of the total, while 685 MSMEs (micro, small and medium-sized enterprises) reported losses, 7% of the total. Other efficiency indicators show that in 2022 profit over net sales in state-owned enterprises reached 17.2% and average profitability in 2023 was 16%.

An element of great importance due to its negative effects on the economy and the population was the increase in the ***inflation rate*** in 2023, 31.34% higher in December 2023 than December 2022. This was less than the increase in the rate of inflation of

¹⁴³ The U.S. blockade is having a strong impact on this aspect, since even though the country has sufficient financing, the doors of suppliers to Cuba are closed due to U.S. pressure.

¹⁴⁴ See Juventud Rebelde (2024).

¹⁴⁵ Author's estimate. For more information on the subject, see Pérez (2023).

¹⁴⁶ This figure is estimated not to cover the cost of the basic food basket, which continued to increase during 2022.

¹⁴⁷ The private sector accounted for 23.6% of this total.

39.07% in 2022, and further, according to available information, the rate of increase in inflation was already beginning to slow in the second half of the year, but the perception of the population is that the increase in prices was greater in 2023.¹⁴⁸ It was also reported that inflation by management segments of the economy was 6.3% in the state segment, 62% in the non-state segment, and 72% in the agricultural segment. Also above the total inflation average were food and non-alcoholic beverages with 36.36%, transportation with 37.52%, and restaurants and hotels with 47.18%.¹⁴⁹ It is also worth noting that -according to other specialists- inflation could have reached close to 60% by 2023.¹⁵⁰

This level of inflation is reflected in the depreciation of the Cuban peso against the dollar, whose exchange rate on the informal market rose from 170 pesos per USD in 2022 to around 275 pesos at the end of 2023.¹⁵¹

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

On the other hand, the **fiscal deficit in 2023**, which was expected to reach 68,126.6 billion pesos, rose -due to the fall in revenues- to 98,363.8 billion, for an increase of 44.4%, which raised the public debt to 151,104.9 million pesos. The deficit recorded is estimated to have reached 15% of GDP, which makes it a factor of enormous importance, putting pressure on the inflation rate.¹⁵²

Another consequence of the high rate of inflation accumulated since the first half of 2023 is that there was a severe shortage of cash in circulation. In early August this forced a set of administrative measures to accelerate the **bankarization** of monetary operations in the country,¹⁵³ a measure that would modernize the system of collections and payments in the economy, providing greater control over tax evasion and money laundering. There is no disagreement as to its convenience. However, there is a debate about the consequences of applying this measure at this time, given the serious difficulties faced by the Cuban economy. At the end of the year, progress had not been made as planned.

There are also concerns that this decision will increase pressure on the infrastructure of the banking system and existing payment gateways, and it is estimated that it may lead

¹⁴⁸ 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 and 2023. See the methodological note of the CPI in ONEI (2024).

¹⁴⁹ See ONEI (2024).

¹⁵⁰ See United Nations (2024).

¹⁵¹ Author's estimate based on various sources.

¹⁵² See Granma Digital (2023).

¹⁵³ See BBC (2023)

to a fall in the supply from the non-state sector, which would potentially increase inflation, and may also lead to greater pressure on savings deposits currently held in banks, among other negative consequences.

However, it should be noted that among the measures announced by the banks in this process, no mention has been made of the possibility of raising the interest rate, nor of issuing public debt bonds -which could be sold to both legal and natural persons-¹⁵⁴ as measures -both- that promote the withdrawal of cash from circulation through economic stimuli.

The control of inflation demands the urgent application of a comprehensive anti-inflationary program¹⁵⁵ that allows gradually facing the problem in all its complexity and that is part of the first priority of the medium-term Macroeconomic Stabilization Program. In this sense, it must be taken into account that such a complex phenomenon cannot be reversed in the short term and implies assuming costs that must be socially assimilated, for which the indispensable 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 -as already mentioned- grew by 44.4% in 2023 and whose inflationary effects were reinforced with the approval of a deficit in the 2024 Budget of 147,390,800 million pesos, which represents an additional increase of 49.8% over the deficit of 2023, estimated to be equal to 18% of GDP.¹⁵⁶

It will also be necessary to implement mitigation measures to mitigate the impact on prices caused by the need to reduce excessive liquidity in the face of insufficient supply, especially in vulnerable and low-income sectors of society, with priority given to social security and social assistance pensioners. The successful experience of the Internal Financial Reorganization Program applied during the Special Period may serve as an experience in this sense.¹⁵⁷

On the other hand, and in view of the complex economic situation faced by the economy, already at the ANPP session of July 21, 2022, the Minister of Economy and Planning announced the adoption of 75 measures "... aimed, among other things, at increasing foreign exchange income and increasing and diversifying exports."

¹⁵⁴ The issue of Sovereign Bonds of the Republic of Cuba is contemplated in the 2024 Budget Law, but only for sale to the BCC with a view to obtaining financing to cover the fiscal deficit, so these bonds are not quoted in the financial market since they cannot be sold to other entities or individuals. This constitutes an untapped potential at this time, which should be reviewed.

¹⁵⁵ For further analysis of this issue, see Lage and Cruz (2022).

¹⁵⁶ See Official Gazette (2024).

¹⁵⁷ See also the analysis of this experience by Vidal (2023).

These measures were to give continuity to the solution of part of the unresolved aspects of the Ordering Task, especially regarding the increase in external financial flows and the inflation that continued growing in the first half of 2022.

During the past year 2023, these objectives were not achieved, and other more comprehensive decisions are required in order to move forward.

In effect, the volume of operations carried out through the exchange market created in 2022 did not allow competing and regulating the exchange rate of the informal foreign exchange market, which has developed illegally since 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.¹⁵⁸ In addition, the Cuban government has been using part of the foreign currency purchased through the exchange market to directly finance certain production and services, which reduces the capacity to sell foreign currency to the population in the market.

The expected progress was also not achieved with the complementary measures aimed at increasing external financing through the development of export oriented MSMEs,¹⁵⁹ developing foreign direct investment with the non-state sector, promoting the substitution of tourism imports, developing consignment sales of imported products, implementing a new foreign currency allocation scheme for state and mixed entities, and making non-commercial imports by individuals more flexible.

The measures announced had to do with changes in the relationships between the different forms of ownership, including the creation of joint state-private enterprises and the development of foreign direct investment in the non-state sector, all of which will be carried out by the State. in a context in which there was an expansion of the private and cooperative non-agricultural sector.

However, this increase in the role of the so-called "new actors" of the Cuban economy requires incentives through -among other things- new considerations in terms of credit policy and fiscal policy, so that they play the complementary role defined for them in the already approved Conceptualization of the Cuban Economic Model. By the end of 2023, close to ten thousand MSMEs (micro, small and medium-sized enterprises) - mostly private-¹⁶⁰ and NACs (non-agricultural cooperatives) had been created,

¹⁵⁸ This demand -among other factors- is fed by sales in MLC by state-owned chains, which covered 19.5% of retail trade in 2022, a figure of around 46.75 billion pesos, equivalent -at the official exchange rate- to an estimated 1.948 billion in MLC. If the exchange rate of 120 pesos per USD is used, the figure is 389.6 million in MLC (Author's estimate). Additionally, it is known that there is a delay in the purchase of foreign currency by the population, which is estimated at three months of waiting to be able to access the official exchange house (CADECA).

¹⁵⁹ Exports of the non-state sector up to the first semester of 2023 reached around US\$6 million, while imports of MSMEs reached US\$246 million, a figure that rose at the end of the year to around US\$1 billion.

¹⁶⁰ Only 161 state-owned MSMEs have been created during this period.

estimating the weight of the non-state sector in the GDP at over 15%, according to unofficial estimates. These actors carry out their activities mainly in gastronomy and lodging (22.1%), construction (19.5%), manufacturing industry (18.4%), and industrial production of food and beverages (12.7%). However, many of these entities also develop a commercial activity, which undoubtedly allows a faster turnover of the invested capital and is carried out with fewer operational difficulties than the production of goods or services.

In addition, and to the same extent that non-state entities operate in a market where -on many occasions- state enterprises are not present, they enjoy an oligopolistic or monopolistic position, which guarantees high profits. To this should be added the fact that most of them count on external financing through remittances, which face fewer difficulties in order to obtain credits than from the financing that the State must manage in the face of the U.S. blockade and other difficulties with the foreign debt.

The results of the performance of the new economic actors, so far, with the creation of some 189,000 new jobs, with a remuneration -in general- higher than that offered by the state sector, have not been favorably appreciated by the population, which, although they observe an increase in the supply of goods and services, these are sold at prices higher than the purchasing power of the majority of the population. A direct impact on the production of food and other consumer goods is yet to be achieved and will depend to a great extent on the actions implemented by the State to adequately encourage state enterprises and the potential of the private and cooperative sector - which currently also includes some 596 thousand self-employed workers- with a view to meeting the needs of our development.

On the other hand, in order to improve the proper functioning of the non-state sector, it is necessary to implement the necessary legislation to materialize the creation of joint ventures between the State and the non-state sector, as well as direct foreign investment with it. It will also be essential to clearly establish the objectives to be achieved by incorporating the non-state sector into the country's development projections up to the year 2030.

In evaluating the results of the economy last year, it is necessary to review the extent to which the main objectives of the Plan 2023 were achieved, which were to achieve greater macroeconomic stability, consolidate the restructuring of different mechanisms for the allocation of foreign currency, advance in the recovery of the National Electric System and in the introduction of renewable energy sources (REF), advance in the reduction of inequalities, consolidate the process of decentralization of competences to the territories and advance in the transformation of the socialist state-owned enterprise.

In this sense, it is evident that most of these objectives were not achieved or were only partially achieved. Extraordinarily negative circumstances marked the performance of

the economy during 2023, so it was necessary to design a new strategy that would allow -in the short term- to halt the crisis and recover the pace of development that the country demands.

In order to design these measures, it is essential to concentrate resources and efforts on what is strategically fundamental, changing everything that is necessary.

These strategic directions imply, according to their more general macroeconomic formulation, taking the following decisions with a sense of urgency, in order of priority and appropriate sequence.

1.- To achieve a growing external financial flow, restoring -first and foremost- the links with our partners through flexible formulas, which reactivate payments of the overdue and unpaid debt, while negotiating -on new bases- foreign direct investment and concentrating the investment plan strictly on objectives of the highest priority and rapid recovery. With the resources thus obtained, secure the indispensable funds to sustain and increase the export of goods and services and to substitute imports, using non-bank financial institutions for this purpose. Parallel to the above, increase the collection of remittances through the creation of earmarked investment funds, with state sponsorship, to facilitate the solution of problems such as the construction of housing, schools, and community centers for local development, among other possibilities.

2.- To gradually implement the Macroeconomic Stabilization Plan (PEM) starting with its dissemination and discussion with the population in order to achieve the indispensable consensus in its support. As a first priority within the PEM, an Emergency Anti-Inflationary Program should be implemented. As its central axis this should contemplate the reduction of the budget deficit, not only through price or tax increases, but also through the reduction of expenses, including the rationalization of subsidies to products and their substitution by subsidies to individuals, the sale of public debt bonds to individuals and legal entities at stimulating interest rates, ensuring the supply of the retail and wholesale market in MLC through its self-financing, and restructuring the foreign exchange market to gradually transition to including the participation of all economic actors and individuals with the goal of reaching -in stages- a single exchange rate.

3.- To increase the supply of food to the population, ensuring a self-financing scheme in foreign currency for its production and the commercialization of imports, with the support of a non-bank financial institution for these purposes.

4.- To stabilize the energy situation of the country by preserving the indispensable resources for the generation of electricity and the operation of transportation in the country, and promoting Cuba's gradual electrification. To develop oil production

through association projects with foreign capital. To promote the development of renewable energy sources through the issuance of "Green Bonds".

That was the experience of the Special Period: to concentrate efforts on the essential, modifying everything necessary in the institutional structure and in the functioning of the economic model to ensure what is urgently required, at the lowest possible social cost.

IV

The plan approved for the year 2024 assumes a 2% GDP growth, which must meet the following objectives: (See Table below, Cuba: Economic Indicators 2023- 2024).

- 1.- To advance in the implementation of the Macroeconomic Stabilization Plan.
- 2.- To increase and diversify the country's external income.
- 3.- To promote productive activity with an emphasis on increasing food production, taking advantage of the installed industrial capacities, and sustaining the national electric system.
- 4.- To advance in the development of the country's entrepreneurial system and the integration of all economic actors.
- 5.- To improve the mechanisms of social protection.

As part of the Government's work projections, on December 20, 2023, the Prime Minister announced at the ANPP a set of measures, which constitute a break with the nature of the decisions that had been being adopted, by focusing on a more comprehensive approach to the solution of the problems faced by the country.¹⁶¹

Of the set of measures proposed, which constitute a strategic guide for short-term work to face the most serious urgencies facing the country, the following issues stand out.

- 1.- Increase foreign exchange income to the country.

This point -the first among the priorities- includes essential aspects that were included in point No. 1 of the 4 main strategic directions described above: Renegotiate debts with suppliers and strategic countries for the Renegotiate debts with suppliers and strategic countries for the development of the country, including various forms of participation, payment amortization, and debt management. Resize the foreign exchange market. Implement the new mechanism for the allocation and management of liquidity for all economic actors. Develop business projects to ensure market liquidity in MLC, and increase FDI participation in this area.

¹⁶¹ See Granma (2023)

2.- Increase national production.

In this topic it is worth mentioning point N°3 of the strategic directions: Establish a differentiated financial mechanism for national food production, which starts from the income generated. (This implies having available 433 million USD from the exports from MINAGRI in 2024.) Favor - in terms of tariffs - the import of raw materials for domestic production, and penalize the import of finished products. (This measure runs the risk of generating inflation by raising the costs of those finished goods.) Develop the ability to pay for imports with exports. Promote businesses for the recovery of the sugar industry, and achieve a food balance at the municipal level.

3.- Reduction of the budget deficit.

In this topic what is referred to by point N°2 -although it also affects point N°4- of the strategic directions is emphasized, the need to increase of income to the Budget: Apply subsidies to people and not to products. To review tax exemptions. Also included with much greater weight are measures aimed at raising prices -particularly in the case of fuels- with which other measures must be adopted to avoid the risk of increasing inflationary pressures.

4.- Economic actors.

This topic emphasizes aspects that involve the four points of the strategic directions practically, especially when addressing the state enterprises and their institutional organization. However, key elements of the functioning of the state sector are not addressed, such as the rationalization of the current institutional structure, or the decentralization of business management. In relation to the non-state sector, the measures refer mostly to strengthening its control and increasing its fiscal burden through taxation, so that essential aspects regarding the role to be played by the non-state sector -and particularly MSMEs- are not addressed in all their complexity.

Other issues that were mentioned that referred to more specific or less significant aspects in relation to the aforementioned topics, such as: the situation of employment, territorial development, consolidating the bankarization process, improvement of the activities of government, attention to people with disabilities, and demographic dynamics.

In **summary**, the issuance of this set of measures is a step in the right direction and marks a break with respect to the sectoral treatment of the economy's problems, which materialized in a list of measures that suffered -in most cases- from a lack of comprehensiveness and coherence.

This does not mean that the list of problems requiring attention in the short-term to complement or support what has been proposed has been exhausted. For example, key issues such as the need to modify the country's investment structure, which does not

correspond to the most urgent needs of the moment, were not addressed. Nor did it address an element that was one of the priority objectives of this year's plan, which is to improve the social protection mechanisms and, in particular, the attention paid to people in vulnerable situations.

The progress in the urgent treatment of the issues presented by the Prime Minister as part of a Macroeconomic Stabilization Program and its basic component which is the anti-inflationary program, supported essentially by a volume of additional financial resources, will not be able to advance as needed either the supply of food or the energy security of the country.

This opens a process of transformations that are indispensable to face the very adverse situation that the country has been facing and that requires bold and quick decisions, always taking into account the risks faced and the necessary balance between costs and benefits implied by the proposed changes.

Finally, all this requires a ***social communication process*** that ensures the inclusion of all economic actors and residents in the country in the economic and social management of the country. To this end, it will be necessary to explain in detail how the expected results of the measures being promoted can be achieved, as well as the objectives being pursued and how to achieve them, with the participation of the specialists who deal with the complex issues that we are facing and also with the mass media. This task is of the utmost importance, taking into account the campaigns that are being developed against Cuba in the social networks and that it is necessary to confront with all the arguments at our disposal.

In this sense, we must not forget the teachings 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 to have the success we need.¹⁶²

President Díaz Canel's indications have been clear and precise in this regard when he said: "We are aware of the seriousness of the economic situation and that in order to solve it, it is necessary to act. Bad, to remain paralyzed or to insist on following a route that has proven to be impracticable because it is unsustainable would be very bad news." To the above was added the self-critical acknowledgment of core aspects that have not yielded the expected results by stating: "...we recognize errors in the design of the Ordering Task and its inadequate implementation, we have questioned the approval of new economic actors without the precision of the rules for their activities, which could have avoided numerous deviations." Finally, the President also highlighted the importance of an adequate political communication, and "...insisted on the necessary

¹⁶² See especially Fidel's speeches delivered on August 6, 1995, and November 17, 2005, at www.discursos.cu.

discussion that must be made in the Party's nuclei, in the labor collectives, and in the communities, and explain, argue, so that our people understand the benefits."¹⁶³

We must achieve that the year 2024 marks a substantial change in basic elements of our development process, and that we all feel that the effort of many years of struggle has not been in vain.

We have the means to do it and we will know how to do it if we concentrate on the most urgent and priority issues, working better.

CUBA: ECONOMIC INDICATORS 2023-2024

<i>INDICADORES</i>	<i>2023 (P)(E)</i>	<i>2024 (P)</i>
<i>PIB</i>	<i>3.0 / (-1/-2%)</i>	<i>2.0%</i>
<i>AGRICULTURA</i>	<i>(-)</i>	<i>---</i>
<i>INDUSTRIA</i>	<i>(-)</i>	<i>---</i>
<i>PROD. AZUCAR MTM</i>	<i>455 / 340</i>	<i>412</i>
<i>PROD. NIQUEL MTM</i>	<i>41 000 (E)</i>	<i>(+)</i>
<i>INVERSIONES MMP</i>	<i>101 931 (P)</i>	<i>125 365 (+23%)</i>
<i>TURISMO (V) M</i>	<i>3 500(P) 2 436</i>	<i>3 100</i>
<i>TURISMO INGRESO MMUSD</i>	<i>1200 (E)</i>	<i>(+)</i>
<i>P. PETROLEO MTM</i>	<i>3 164</i>	<i>3 100 (E)</i>
<i>CMM MMM</i>	<i>363 336</i>	<i>480 000 (+32%)</i>
<i>DEFICIT FISCAL / PIB</i>	<i>-15.0 (E)</i>	<i>-15 / 18</i>
<i>EXPORTACIONES B&S</i>	<i>9 755 /9 070</i>	<i>9 700</i>
<i>DEUDA EXTERNA MMUSD (E)</i>	<i>29 300</i>	<i>30 191 (E)</i>
<i>IED MMUSD (E)</i>	<i>1 197</i>	<i>1 295 (E)</i>

Sources: MEP (2023 and 2023a), ONEI (2023) and EIU (2023).

¹⁶³ See Díaz Canel (2023) and CUBADEBATE (2023).

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