
Country Report

Cuba

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The Economist Intelligence Unit

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Symbols for tables

"0 or 0.0" means nil or negligible; "n/a" means not available; "-" means not applicable

Cuba

Summary

2 [Briefing sheet](#)

Outlook for 2021-25

4 [Political stability](#)

4 [Election watch](#)

5 [International relations](#)

5 [Democracy Index: Cuba](#)

7 [Policy trends](#)

7 [Fiscal policy](#)

8 [Monetary policy](#)

8 [International assumptions](#)

8 [Economic growth](#)

10 [Inflation](#)

10 [Exchange rates](#)

10 [External sector](#)

11 [Forecast summary](#)

Data and charts

12 [Annual data and forecast](#)

13 [Annual trends charts](#)

14 [Monthly trends charts](#)

15 [Comparative economic indicators](#)

Summary

15 [Basic data](#)

17 [Political structure](#)

Briefing sheet

Editor: **Norman McKay**

Forecast Closing Date: **March 1, 2021**

Political and economic outlook

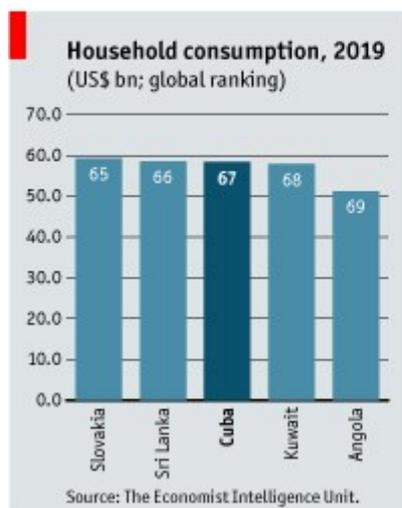
- Cuba's economy is heavily managed by the state. The state's foreign-currency earnings are dependent on a few exports (nickel, tourism and healthcare). Recent currency reform will cause short-term price instability but boost competitiveness over the medium term.
- Raúl Castro is likely to resign as chair of the Partido Comunista de Cuba (PCC) at its 2021 congress and be succeeded by the president, Miguel Díaz-Canel. Risks to stability will rise amid a more decentralised power structure, but the PCC is likely to retain overall control.
- Liberalising economic reforms have materialised only gradually over the past 30 years. The coronavirus (Covid-19) crisis resulted in a landmark currency reform, introduced in early 2021. The state will cautiously pursue further liberalisation in the 2021-25 forecast period.
- The fallout from US sanctions on Cuba, along with the impact of the pandemic, will hamper the pace of recovery following a sharp recession in 2020. Stronger GDP growth is only likely in 2023-25 amid an easing of some restrictions under a new US administration.
- Currency reform will be accompanied by tighter price controls to prevent an inflationary spiral; however, prices will still climb considerably. Substantial economic dislocation will occur, disrupting economic activity and creating hardship for some.
- The government aims to vaccinate its entire population against Covid-19 by end-2021 using a domestically produced vaccine. Once production ramps up, a favourable doctor/patient ratio should allow for a comparatively fast vaccine rollout.
- Rising internet penetration will increase demands for freedoms and accountability; attempts to suppress dissent may well risk renewed sanctions from the US government.

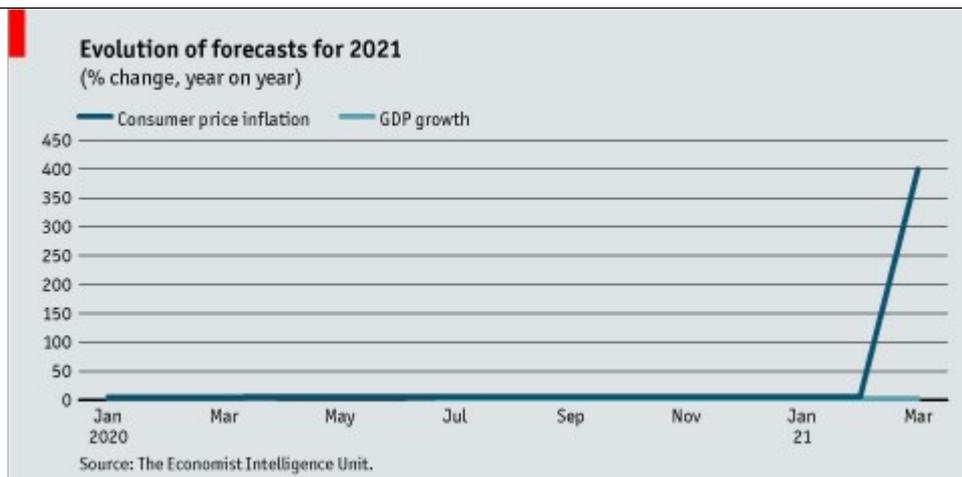
Key indicators

	2020 ^a	2021 ^b	2022 ^b	2023 ^b	2024 ^b	2025 ^b
Real GDP growth (%)	-11.3	2.7	4.8	4.3	3.8	3.5
Consumer price inflation (av; %)	7.7	399.6	32.3	6.3	6.0	5.6
Government balance (% of GDP)	-20.1	-18.3	-13.9	-11.0	-7.9	-4.7
Current-account balance (% of GDP)	0.9	4.0	5.8	5.5	5.7	6.2
Unemployment rate (%)	2.3	3.7	3.9	3.5	3.3	3.1
Exchange rate CUC:US\$ (av; official rate)	1.00	24.00	24.00	24.00	24.00	24.00

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts.

Market opportunities





Key changes since December 1st

- In line with The Economist Intelligence Unit's expectations, the government unified the dual exchange rate in January. The "official" exchange rate changed from CUP1:CUC1:US\$1 to CUP24:US\$1. The government is removing the convertible peso (CUC) from circulation.
- We have incorporated the new currency regime, as well price and salary adjustments intended to prevent an inflationary spiral, into our macroeconomic forecasts. This has given rise to several considerable revisions.
- The significant currency devaluation, combined with substantial adjustments to prices and salaries, will cause a one-off inflation shock. We forecast that inflation will average 399.6% in 2021, before subsiding to 32.3% in 2022 and 6.3% in 2023.
- This surge in prices will send nominal GDP shooting up in local-currency terms, but nominal US dollar GDP will fall sharply. We forecast that nominal GDP in dollar terms will be US\$21.8bn in 2021, compared with an estimated US\$102.7bn in 2020.
- Currency adjustment will weigh heavily on the economy in 2021, but assuming an easing of US sanctions and a successful vaccine rollout this year, we expect the economy to gain momentum heading into 2022. We now expect real GDP to grow by 4.8% in that year.
- The devaluation of the currency will curb import volumes and increase export volumes, and we now expect the current-account balance to be in surplus throughout 2021-25, averaging a healthy 5.4% of GDP (compared with a deficit of 0.1% of GDP previously).
- Our revisions assume that the authorities manage to prevent an inflationary spiral through increased intervention, and that the exchange rate of CUP24:US\$1 is maintained in 2021-25. Should risks to these assumptions emerge, we will make further changes.

The month ahead

- **TBC—Vaccine approval:** The government is developing four coronavirus vaccines, one of which (Soberana 02) began final trials on March 1st. A successful trial would probably be followed swiftly by regulatory approval, paving the way for a rollout of the vaccine that will be prioritised, partly because it would grant the government political legitimacy.

Major risks to our forecast

Scenarios, Q1 2021	Probability	Impact	Intensity
Unification of the dual exchange rate generates severe economic problems	High	High	16
Weather-related shocks cause extensive damage to infrastructure	High	High	16
Cuba defaults on its Paris Club debt, triggering reinstatement of arrears	Moderate	Very high	15
An ageing population, net emigration and brain drain add to skilled-labour shortages	High	Moderate	12
Poor infrastructure quality and maintenance increase operating costs	High	Moderate	12

Note. Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.

Source: The Economist Intelligence Unit.

Outlook for 2021-25

Political stability

Cuba's government is facing challenges on multiple fronts. On the domestic front, the twin health and economic crises caused by the coronavirus (Covid-19) pandemic have not yet abated. Having registered a comparatively low caseload throughout most of 2020, Cuba's infections leapt up after the borders reopened in November; the government has reintroduced mobility restrictions in the capital, Havana (where most cases have been reported), and imposed new quarantine measures for tourists. The economic fallout from the pandemic was acute in 2020, but economic anxieties will continue in the near term, as the government is implementing a currency unification reform, which was introduced in January 2021 and entails considerable economic dislocation. This suggests that, even with an improvement in international relations under a new US administration and a gradual economic recovery this year as the pandemic wanes, risks to political stability will be elevated.

Against this difficult backdrop, the government will proceed cautiously in implementing a constitutional reform that changes Cuba's political and economic structure significantly. In December 2019 the National Assembly appointed Manuel Marrero as Cuba's first prime minister since 1976, following his selection by the president, Miguel Díaz-Canel, who has been in office since 2018. The prime minister leads the cabinet in the daily running of the country, whereas the role of president has become more ceremonial. A third pillar of power is the chair of the ruling Partido Comunista de Cuba (PCC). This role was traditionally coterminous with that of the president, but is currently held by the former president, Raúl Castro (2008-18), a revolutionary leader who remains influential in the role of elder statesman. Mr Castro is expected to step down at the next PCC congress (in April), and the title of chair is likely to pass to Mr Díaz-Canel. As Mr Castro and his contemporaries leave the scene, new leaders will compete for authority—especially given the more decentralised power structure—which will increase risks to stability.

The Economist Intelligence Unit believes that regime change is unlikely to take place in 2021-25, given the government's ability to defuse dissent through its domestic security apparatus and neighbourhood monitoring groups, and to rally support through state-media propaganda. Nonetheless, frustrations with the government and economic hardship will proliferate through the internet, owing to greater internet penetration and rising social media use. These factors will permit greater citizen communication with the leadership, giving rise to stronger demands for accountability and freedoms, which will increase pressure on the government. Should the government mismanage its liberalising reforms, it will find it increasingly difficult to withstand undercurrents of social opposition.

Election watch

We expect Cuba's one-party system to remain largely unchanged in 2021-25. National and provincial elections are held every five years and are next due in 2023. Candidates are nominated through municipal councils and by members of official "mass organisations", including labour unions and organisations for students, women and farmers. Ultimately, the decision rests with the PCC's candidates' commission. Although it is not a requirement, most candidates are PCC members. Only one candidate is nominated for each seat in National Assembly elections, but nominees must be approved by a majority of voters. The National Assembly chooses the president, who is limited to two five-year terms.

International relations

US-Cuba relations will improve under the new US president, Joe Biden, albeit not at a hurried pace, as we do not expect Cuba to be a high priority for his administration. Some elements of the 2014-17 rapprochement that took place under a former US president, Barack Obama (2009-17), before being reversed by Mr Biden's predecessor, Donald Trump (2017-21), are likely to be restored, especially those concerning travel, investment and remittances. Mr Biden can reverse many of Mr Trump's policies through executive order but is likely to wait until after the April PCC congress to do so. We consider it likely that Mr Biden will suspend Title III of the 1996 Cuban Liberty and Democratic Solidarity (Libertad) Act—also known as the Helms-Burton Act—which Mr Trump activated in 2019. The legislation subjects foreign firms operating in Cuba to lawsuits in US courts by allowing US citizens with claims to property confiscated by the Cuban government after the 1959 revolution to sue companies currently "trafficking" in that property. However, even assuming some easing in policy under Mr Biden, we currently expect trade sanctions in place since 1960 to endure, as they can only be removed by the US Congress.

Ties with the EU will warm (following a formal reinstatement of relations in 2017), and the bloc will continue to be an important partner for investment and development finance. Cuba will remain a staunch defender of the Venezuelan regime of Nicolás Maduro, which continues to supply oil to Cuba (albeit in reduced quantities) and is an important market for Cuban services exports. Given diminishing aid from Venezuela, Cuba will continue to cultivate investment and commercial ties with other countries such as China, Russia, Japan, Angola and Algeria.

Democracy Index: Cuba

Cuba's score in The Economist Intelligence Unit's 2020 Democracy Index held steady at 2.84, after five consecutive years of decline (from 3.52 in 2015 to 2.84 in 2019), and the country is still firmly in the "authoritarian regime" bracket. Cuba is in last place regionally in terms of democracy and is one of Latin America's three authoritarian regimes (along with Nicaragua and Venezuela). Globally, Cuba's ranking improved in 2020, from 143rd to 140th out of 167, reflecting deteriorations in other countries' scores, mainly owing to government-imposed restrictions on individual freedoms and civil liberties in response to the coronavirus (Covid-19) pandemic.

Democracy Index

	Regime type	Overall score	Overall rank
2020	Authoritarian	2.84 out of 10	140 out of 167
2019	Authoritarian	2.84 out of 10	143 out of 167
2018	Authoritarian	3.00 out of 10	142 out of 167

Political transition unlikely to lead to further democratisation

Cuba's poor score relates to a particularly low performance for electoral process and pluralism, given its one-party state and elections that are neither free nor fair. The government describes its political system as participatory, in contrast to the representative model of liberal democracy. However, the scope for debate is set by the political leadership. In 2018 Cuba saw the transfer of executive power away from a member of the Castro family for the first time since the 1959 revolution, with Miguel Díaz-Canel elected president by the National Assembly in April of that year. In 2019 the country introduced a constitutional reform that will decentralise executive decision-making between the president, prime minister and chair of the ruling Partido Comunista de Cuba (PCC). The goal is to move the locus of power away from individuals and towards institutions. A new prime minister was selected by the president and ratified by the National Assembly at end-2019, but the process surrounding this was opaque. The constitutional reform has not led to greater political opening or a real change in authority. For example, the authorities did not incorporate citizen proposals for electing a president into the reform. The revolutionary leader, Raúl Castro, left the presidency in 2018 but continues to exercise power as PCC chair, thereby retaining control of the Politburo (Cuba's highest decision-making body). He is likely to resign as PCC chair at its April 2021 congress and be succeeded by Mr DíazCanel. This will constitute a milestone in the shift towards a more decentralised power structure, but the PCC is likely to retain overall control.

Cuba also scores poorly for civil liberties. Opposition activities are suppressed by the authorities under laws forbidding "enemy propaganda", "disrespect" and "acts against the independence or territorial integrity of the state", as well as public-order legislation. This is unlikely to change given the strong domestic security apparatus, which will be sensitive to any hint of instability. Still, the rise in internet penetration and social media use will increasingly test officials' ability to quell public discontent. This was demonstrated by the largest spontaneous protest on the island in decades in November 2020, when about 300 people gathered to demand greater freedoms. The protest was short-lived, as was the dialogue between the government and protestors, but it showed how social media and internet use will increase pressure on the government for more open debate and transparency from the authorities.

Political culture is relatively strong

Cuba's scores for functioning of government, political culture and political participation are below the regional average but represent the country's strongest categories in the Democracy Index. This reflects highly centralised policymaking and a relative lack of official corruption at high levels of government. There is a system of popular consultation, which supports participation in national policy debates; an example is the public consultation period for the constitutional reform presented in late 2018 and into 2019, which engendered some public debate. Nevertheless, top political and ruling party leaders control decision-making. With the expansion of internet access and a gradual relaxation of official views on freedom of expression, the space for debate is growing, but no real political opposition is allowed. Institutions should be strengthened via the constitutional reform, which will enshrine economic reforms, as well as promote a separation of powers between the PCC and the government, and a gradual decentralisation of authority to the provincial level. However, there is unlikely to be a major improvement in Cuba's democracy score in the short term.

Democracy Index 2020 by category

(On a scale of 0 to 10)

Electoral process	Functioning of government	Political participation	Political culture	Civil liberties
0.00	3.57	3.33	4.38	2.94

A free white paper containing the full index and detailed methodology, can be downloaded from www.eiu.com/democracy-2020

Note on methodology

There is no consensus on how to measure democracy, and definitions of democracy are contested. Having free and fair competitive elections, and satisfying related aspects of political freedom, is the sine qua non of all definitions. However, our index is based on the view that measures of democracy that reflect the state of political freedom and civil liberties are not "thick" enough: they do not encompass sufficiently some crucial features that determine the quality and substance of democracy. Our index therefore also includes measures of political participation, political culture and functioning of government, which are, at best, marginalised by other measures.

Our index of democracy covers 167 countries and territories. The index, on a 0-10 scale, is based on the ratings (0, 0.5 or 1) for 60 indicators grouped in five categories: electoral process and pluralism; civil liberties; functioning of government; political participation; and political culture. Each category has a rating on a 0-10 scale, and the overall index of democracy is the simple average of the five category indices.

The category indices are based on the sum of the indicator scores in the category, converted to a 0-10 scale. Adjustments to the category scores are made if countries do not score a 1 in the following critical areas for democracy:

- whether national elections are free and fair;
- the security of voters;
- the influence of foreign powers on government; and
- the capability of the civil service to implement policies.

If the scores for the first three questions are 0 (or 0.5), one point (or 0.5 points) is deducted from

the index in the relevant category (either electoral process and pluralism or functioning of government). If the score for question 4 is 0, one point is deducted from the functioning of government category index.

The index values are used to place countries within one of four types of regime:

- full democracies—scores greater than 8;
- flawed democracies—scores greater than 6, and less than or equal to 8;
- hybrid regimes—scores greater than 4, and less than or equal to 6; and
- authoritarian regimes—scores less than or equal to 4.

Policy trends

More liberalising measures are likely to be introduced at the next party congress in April, but the transformation from a communist to a mixed economy will be gradual and will not result in fully fledged capitalism in the 2021-25 forecast period. The demands of the economic fallout from the pandemic and the need to cushion the impact of the currency adjustment mean that some measures will be rolled back at the same time as other piecemeal reforms are implemented. For example, a partial liberalisation of the labour market was introduced in February. Under this reform, the government will allow private-sector employment in almost 2,000 professions, reserving 124 of the most strategic activities for state involvement. The state will return to areas in which it had sought to reduce its role, including rationing and distribution of food. The unification of the dual exchange-rate system will require more extensive price controls to contain the impact on inflation; we believe that this tightening of controls will be temporary, however, and that the government will maintain its efforts to gradually allow the private sector to play a greater role in the economy.

In the short term, the government is likely to support greater import substitution (particularly in agriculture, given that an estimated 80% of Cuba's food is imported) through production incentives. We expect the government to seek to allow state-owned enterprises greater autonomy in decision-making and business planning. It will also implement announced reforms allowing private-sector enterprises and co-operatives to import and export outside the state monopoly. However, given the state's half-hearted commitment in the past to independent enterprise, and hardliners' resistance to reforms, risks to economic liberalisation are substantial.

Fiscal policy

The fiscal deficit is forecast to narrow steadily but remain wide after ballooning to an estimated 20% of GDP in 2020. We forecast a slightly narrower deficit in 2021, of 18.3% of GDP, on the assumption that revenue will remain weak and that spending commitments will remain elevated. As economic activity strengthens in 2022—buoyed by an easing of US sanctions and coronavirus restrictions—fiscal revenue is likely to pick up more firmly, aided by government efforts to increase tax collection and a resumption of long-running efforts (which were interrupted by the pandemic) to roll back state support. We expect the fiscal deficit to narrow to 4.7% of GDP in 2025.

Fiscal retrenchment will be necessary, partly because the government has meagre access to external finance and limited sources of domestic finance; up to 70% of the deficit is reportedly financed by bonds purchased by state-owned banks (drawing on savings by citizens and state-owned companies), with the remainder monetised. Given the wider estimated deficit in 2020, we consider it likely that the government is resorting to greater monetisation, but this will not be feasible in the long run, as it will put pressure on inflation and cause broader economic problems.

Monetary policy

Cuba's large informal economy, small banking sector, and the existence of different markets with divergent prices and exchange rates have long complicated monetary management, but the unification of the dual currency system will begin to straighten out some of these distortions within the forecast period. However, significant liquidity challenges will persist; the government has increasingly allowed the use of foreign currency, and in July 2020 increased the scope for the use of US dollars in an ongoing effort to keep more hard currency in the country. Dollar liquidity challenges will slow government efforts to withdraw the convertible peso (CUC) from circulation entirely in the coming months. This will aggravate price instability and could risk slowing the currency unification as the authorities employ a mix of heterodox measures to temper a rise in prices, including the use of distortionary direct controls on foreign exchange, prices, wages and credit. Assuming that the authorities successfully bring inflation down relatively quickly after an initial price shock, monetary policy should gradually shift towards indirect measures, with increasing use of market-led financial institutions and instruments. However, the fact that the banking sector remains extremely small will limit the effectiveness of monetary policy management.

International assumptions

	2020	2021	2022	2023	2024	2025
Economic growth (%)						
US GDP	-3.5	4.3	3.0	2.0	1.8	1.9
OECD GDP	-5.0	3.8	3.5	2.1	2.0	1.9
World GDP	-4.0	4.5	3.7	3.0	2.8	2.7
World trade	-9.6	6.7	6.5	5.2	4.6	3.8
Inflation indicators (% unless otherwise indicated)						
US CPI	1.2	1.6	1.8	2.2	1.9	2.0
OECD CPI	1.2	1.6	1.9	2.1	2.0	2.1
Manufactures (measured in US\$)	-1.3	6.3	1.7	2.2	1.8	1.5
Oil (Brent; US\$/b)	42.3	57.0	59.0	58.0	55.0	52.0
Non-oil commodities (measured in US\$)	2.9	16.9	0.1	-6.8	0.8	1.6
Financial variables						
US\$ 3-month commercial paper rate (av; %)	0.6	0.2	0.2	0.2	0.6	1.0
Official exchange rate CUC:US\$ (av)	1.00	24.00	24.00	24.00	24.00	24.00
Exchange rate US\$:€ (av)	1.14	1.21	1.19	1.15	1.17	1.22

Economic growth

In 2021-25 real GDP will stage a gradual recovery following a sharp coronavirus-induced contraction (estimated at 11.3% in 2020), although we do not expect real GDP to return to 2019 levels until early 2024. The pace of the recovery will be constrained in the short term by currency adjustment, which will entail an inflationary spike that reduces purchasing power, and by US sanctions. The latter will have a direct impact on investment and trade, as well as an indirect impact on government revenue, limiting the government's ability to inject stimulus and to engineer a rapid recovery.

Although we expect the economy to gradually emerge from the cloud of the pandemic, and despite the dramatic fall in GDP in 2020, we forecast that real GDP will grow by a meagre 2.7% in 2021 as the country struggles with the economic shock caused by currency reform. Economic activity will gain momentum thereafter. This forecast is based on various assumptions, including the expectation that the Biden administration will restore elements of the rapprochement introduced under Mr Obama. This should boost private consumption, investment and export growth at a time when the economy is already benefiting from a cyclical upturn amid a global recovery from the pandemic (assuming that the tourist sector picks up more firmly from 2022). Given Cuba's limited agricultural and manufacturing capacity, this will draw in imports, tempering the pace of growth. We expect real GDP growth to average 4.1% in 2022-25.

Downside risks to GDP are substantial and stem from a weaker recovery in tourism, dislocation owing to the currency unification process and the possibility of regime change in Venezuela leading to a halt in aid to Cuba. Weather-related issues and continued disruption to the tourism

sector also pose persistent risks.

Monetary realignment: adjustments to GDP estimates and forecasts

January 1st 2021 was the long-awaited día cero (day zero) for a radical exchange-rate reform. On that day the official value of the Cuban peso (CUP) was devalued substantially, from CUP1:US\$1 to CUP24:US\$1. Such an abrupt currency reform—a 96% devaluation of the official rate—is clearly a major economic shock, and will be inflationary and disruptive. However, the unique features of Cuba's monetary system mean that the effect of such a radical devaluation will be unconventional.

Inflation and nominal GDP

Prior to the reform there were two legal exchange rates: the official one was used only in the state sector (by state-owned enterprises and public administration), whereas the Cadeca rate, which was already CUP24:US\$1, was used by Cuban households and in the private sector. The most severe impact of the unification will therefore be felt by state enterprises, but the government will seek to manage prices and wages. Average state wages (and benefits) were increased fourfold in December 2020. Meanwhile, price increases are being restrained in an attempt to control inflation, with transitional subsidies during the restructuring to mitigate the rate of layoffs. Private-sector prices are expected to adjust, but the process is being monitored, with penalties for profiteering. Increased competition in the expanding private sector will also help to mitigate inflationary pressures. The Economist Intelligence Unit expects the reform to result in a nearly 500% increase in retail price inflation in 2021, with the inflationary leap reflected in a fivefold rise in nominal GDP. Owing to the dramatic devaluation, nominal US dollar GDP will, by contrast, fall sharply, from US\$102.7bn in 2020 to US\$21.8bn in 2021. Nonetheless, under our current forecasts, the combined effect of inflation and a real GDP recovery in the coming years should bring nominal US dollar GDP back to US\$39.2bn by 2025.

Real GDP

The process of managed adjustment is a difficult one, involving sharp changes in relative incomes, the creation of new economic distortions and opportunities for black markets. It also carries the risk of setting off an inflationary spiral and disruption to supply chains. However, our forecast is based on the assumption that the state has the capacity to keep adequate (albeit far from complete) control of the process. We expect that this—together with the beginning of an upturn in international arrivals and remittances (as the impact of the coronavirus (Covid-19) pandemic abates and some easing of US sanctions begins)—will be sufficient to ensure a modest rise in real output in 2021. We forecast that real GDP growth will strengthen in 2022, as the unified exchange rate begins to feed through to economic restructuring and efficiency gains, and as inflation subsides.

Economic growth

%	2020 ^a	2021 ^b	2022 ^b	2023 ^b	2024 ^b	2025 ^b
GDP	-11.3	2.7	4.8	4.3	3.8	3.5
Private consumption	-15.0	5.0	2.4	5.3	4.6	5.1
Government consumption	2.0	-11.3	6.5	4.1	1.3	-2.3
Gross fixed investment	-20.0	7.0	4.5	8.1	6.1	7.2
Exports of goods & services	-19.3	6.7	10.8	5.4	4.7	3.7
Imports of goods & services	-22.3	-6.0	5.3	13.8	5.9	4.7
Domestic demand	-11.6	0.7	3.7	5.4	4.0	3.6
Agriculture	-12.0	2.0	2.4	2.6	3.0	3.5
Industry	-11.2	-1.2	2.9	2.9	3.1	3.6
Services	-10.4	2.6	5.4	4.8	4.1	3.5

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts.

Inflation

Currency unification and its accompanying adjustments will cause a surge in inflationary pressures in 2021; we forecast that inflation will rise from an estimated average of 7.7% in 2020 to 399.6% in 2021. To compensate for the significant devaluation of the peso, the government has hiked state salaries and pensions by four to five times their previous level (about two-thirds of Cuban workers are employed by the state). Overall inflation will lag these adjustments owing to price capping, retention of subsidies for basic goods and a slower adjustment in private-sector incomes. We expect that the government will intervene successfully to prevent an inflationary spiral and that inflationary pressures will subside quickly following the 2021 devaluation-related spike; this will lead to average inflation of 32.3% in 2022 (primarily owing to base effects) and then 6% in 2023-25. Nonetheless, there is a risk that state-led adjustments are insufficient to stymie an inflationary spiral, owing to a scarcity of basic goods.

Exchange rates

On January 1st the authorities unified the dual exchange rate. The official exchange rate was devalued by 96%, from CUP1:CUC1:US\$1 to CUP24:US\$1. The CUC (which was used in hard-currency retail outlets, for imports and by tourists) will be phased out. The Cuban peso (CUP, used for salaries and locally produced goods) will remain as the sole local currency. This process will take time to implement, given a lack of dollar liquidity. Although the move will be positive for the economy in the long run, as it reduces economic distortions and increases efficiency, the short-term consequences of the transition will be difficult to manage (both economically and politically) and painful, as those not employed in the public sector will struggle as prices surge. The government will intervene to mitigate the negative shock to supply chains, employment, inflation and the social safety net during the adjustment period. This will prove challenging, and excessive adjustments will risk slowing the shift, thereby delaying the benefits of improved competitiveness.

External sector

The unification of the dual exchange-rate system will moderate balance-of-payments risks stemming from the current account. The steep devaluation of the currency will curb import volumes and support export volumes. The backdrop of domestic rationing and the suspension or delay of some payments on foreign debt will also help to offset weak services exports in the short term (arising from low tourism earnings). Assuming that US sanctions ease, supporting the domestic economy, import demand will pick up, but the current-account balance will remain in surplus, supported by a recovery in services export earnings.

The authorities do not publish data on international reserves; we forecast an end-2021 level of US\$7.2bn (nine months of import cover), although it could be significantly lower. Looking ahead, we expect Cuba's reserves coverage to fall. This will be particularly true later in the forecast period as the cost of servicing rescheduled debt increases and import levels rise, but we expect reserves coverage to remain comfortable (at five months in 2025). Nonetheless, reserves coverage could fall in response to intervention in the foreign-exchange market.

Forecast summary

Forecast summary

(% unless otherwise indicated)

	2020 ^a	2021 ^b	2022 ^b	2023 ^b	2024 ^b	2025 ^b
Real GDP growth	-11.3	2.7	4.8	4.3	3.8	3.5
Industrial production growth	-11.2	-1.2	2.9	2.9	3.1	3.6
Gross agricultural production growth	-12.0	2.0	2.4	2.6	3.0	3.5
Unemployment rate (end-period)	2.3	3.7	3.9	3.5	3.3	3.1
Consumer price inflation (av)	7.7	399.6	32.3	6.3	6.0	5.6
Consumer price inflation (end-period)	10.8	505.6	6.2	6.6	5.6	5.4
General government balance (% of GDP)	-20.1	-18.3	-13.9	-11.0	-7.9	-4.7
Exports of goods fob (US\$ bn)	2.0	2.1	2.4	2.6	2.8	2.9
Imports of goods fob (US\$ bn)	7.5	8.2	8.8	9.8	10.4	10.8
Current-account balance (US\$ bn)	0.9	0.9	1.8	1.8	2.1	2.4
Current-account balance (% of GDP)	0.9	4.0	5.8	5.5	5.7	6.2
External debt (end-period; US\$ bn)	28.7	28.6	28.3	27.8	27.5	27.1
CUC:US\$ (av)	1.00	24.00	24.00	24.00	24.00	24.00
CUC:US\$ (end-period)	1.00	24.00	24.00	24.00	24.00	24.00
CUP:CUC ^c	24.00	24.00	24.00	24.00	24.00	24.00

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts. ^c Cadeca rate.

Data and charts

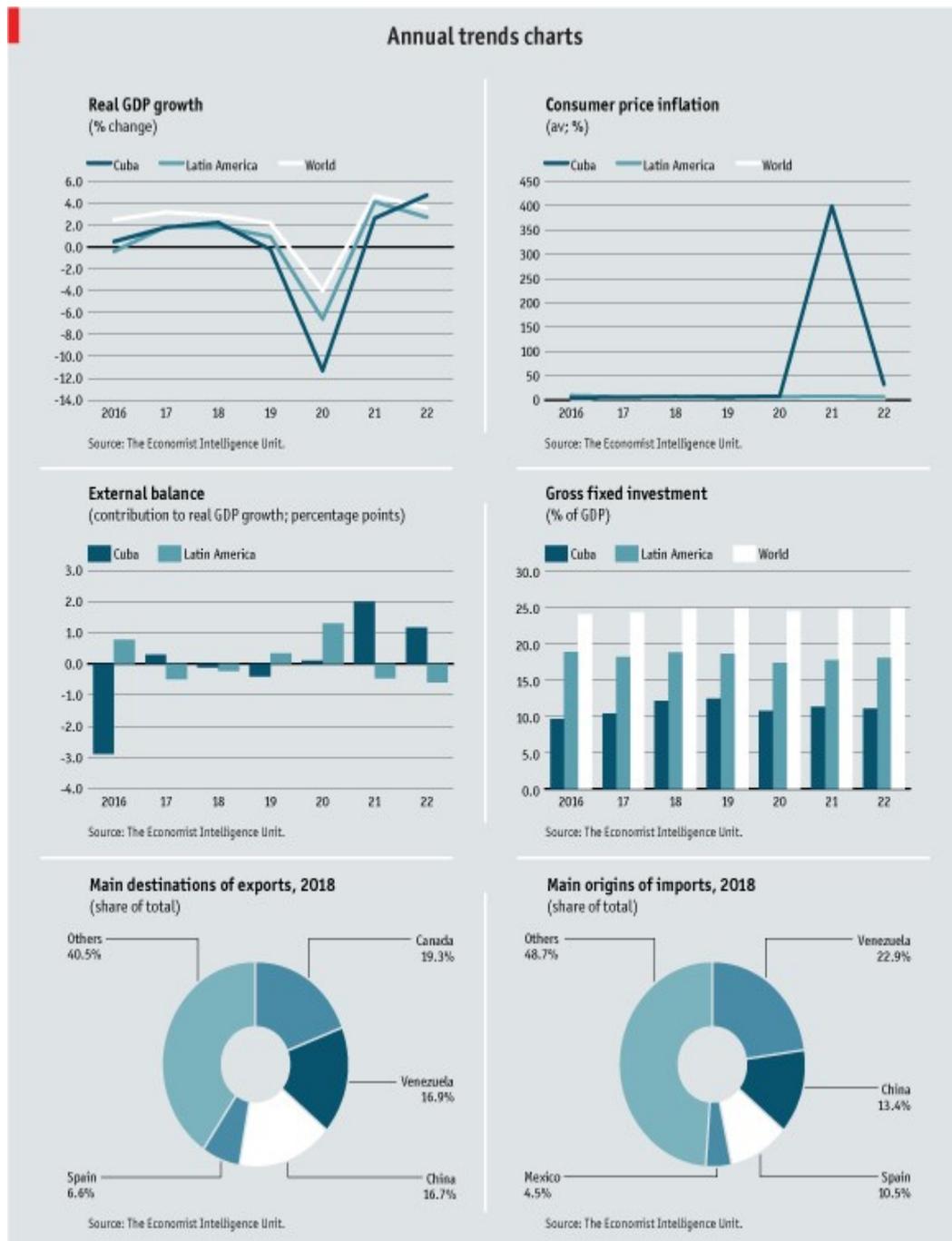
Annual data and forecast

	2016 ^a	2017 ^a	2018 ^a	2019 ^b	2020 ^b	2021 ^c	2022 ^c
GDP							
Nominal GDP (US\$ m)	91,370	96,851	100,050	103,131 ^a	102,669	21,770	30,783
Nominal GDP (CUC m)	91,370	96,851	100,050	103,131 ^a	102,669	522,490	738,792
Real GDP growth (%)	0.5	1.8	2.2	-0.2 ^a	-11.3	2.7	4.8
Expenditure on GDP (% real change)							
Private consumption	4.1	1.7	2.2	-1.3 ^a	-15.0	5.0	2.4
Government consumption	-0.2	2.2	1.3	3.9 ^a	2.0	-11.3	6.5
Gross fixed investment	7.5	0.2	4.8	0.3 ^a	-20.0	7.0	4.5
Exports of goods & services	-19.7	0.0	-2.4	-4.6 ^a	-19.3	6.7	10.8
Imports of goods & services	-10.6	-1.6	-2.0	-2.9 ^a	-22.3	-6.0	5.3
Origin of GDP (% real change)							
Agriculture	5.8	-1.4	2.7	-12.4 ^a	-12.0	2.0	2.4
Industry	-1.9	2.2	2.5	-3.6 ^a	-11.2	-1.2	2.9
Services	1.2	2.1	2.1	1.4 ^a	-10.4	2.6	5.4
Population and income							
Population (m)	11.3	11.3	11.3	11.3	11.3	11.3	11.3
GDP per head (US\$ at PPP)	12,647 ^b	13,113 ^b	13,731 ^b	13,958	12,628	13,182	14,084
Recorded unemployment (av; %)	2.0	1.7	1.7 ^b	1.3	2.3	3.7	3.9
Fiscal indicators (% of GDP)							
Public-sector revenue	55.8	56.7	56.7	56.9	55.2	57.7	58.1
Public-sector expenditure	63.3	65.7	65.4	64.6	75.2	76.1	72.1
Public-sector balance	-7.5	-9.0	-8.7	-7.7	-20.1	-18.3	-13.9
Net public debt	44.8 ^b	48.4 ^b	53.0 ^b	56.2	69.4	154.0	119.3
Prices and financial indicators							
CUC:US\$ (official rate; end-period)	1.00	1.00	1.00	1.00 ^a	1.00	24.00	24.00
CUP:CUC (secondary rate)	24.00	24.00	24.00	24.00 ^a	24.00	24.00	24.00
Consumer prices (av; %)	4.5 ^b	5.5 ^b	6.9 ^b	5.6	7.7	399.6	32.3
Stock of money M2 (% change)	13.1	8.1	13.1	1.3	-7.4	207.2	35.4
Current account (US\$ m)							
Trade balance	-7,756	-7,508	-8,786	-7,545	-5,482	-6,155	-6,359
Goods: exports fob	2,546	2,704	2,742	2,392	2,024	2,059	2,411
Goods: imports fob	-10,302	-10,212	-11,527	-9,937	-7,506	-8,214	-8,769
Services balance	10,220 ^b	10,281	10,273 ^b	8,833	6,654	7,145	7,853
Primary income balance	-1,284	-1,354 ^b	-1,096 ^b	-1,111	-956	-1,156	-1,481
Secondary income balance	616	1,191 ^b	1,659 ^b	1,740	658	1,047	1,766
Current-account balance	1,796 ^b	2,610 ^b	2,050 ^b	1,918	873	881	1,780
External debt (US\$ m)							
Debt stock	30,965 ^b	30,388 ^b	30,478 ^b	29,785	28,696	28,552	28,332
Debt service paid	4,402 ^b	1,863 ^b	2,078 ^b	1,997	2,008	2,028	2,097
Principal repayments	3,524 ^b	954 ^b	1,139 ^b	1,082	1,148	1,152	1,162
Interest	878 ^b	909 ^b	939 ^b	915	860	876	935
International reserves (US\$ m)							
Total international reserves	12,003 ^b	11,353 ^b	10,853 ^b	9,753	8,253	7,203	6,553

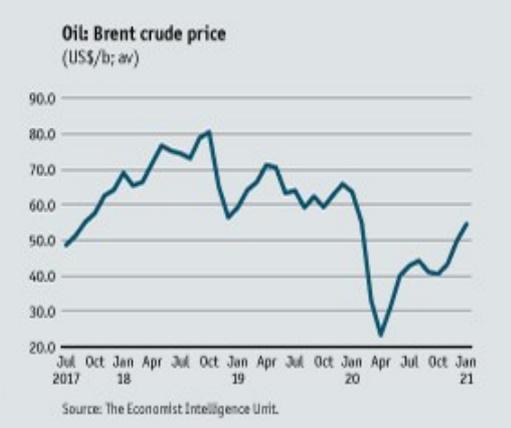
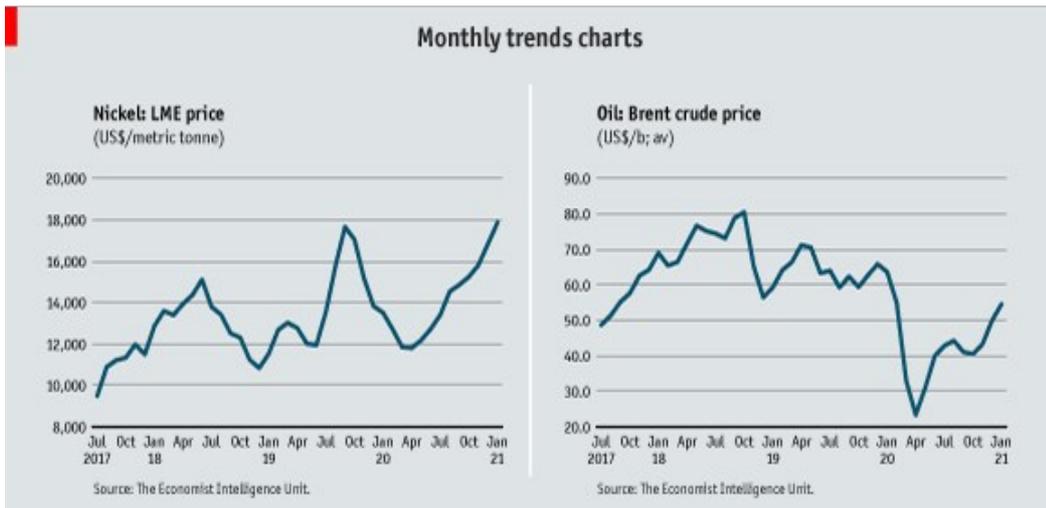
^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Source: IMF, International Financial Statistics.

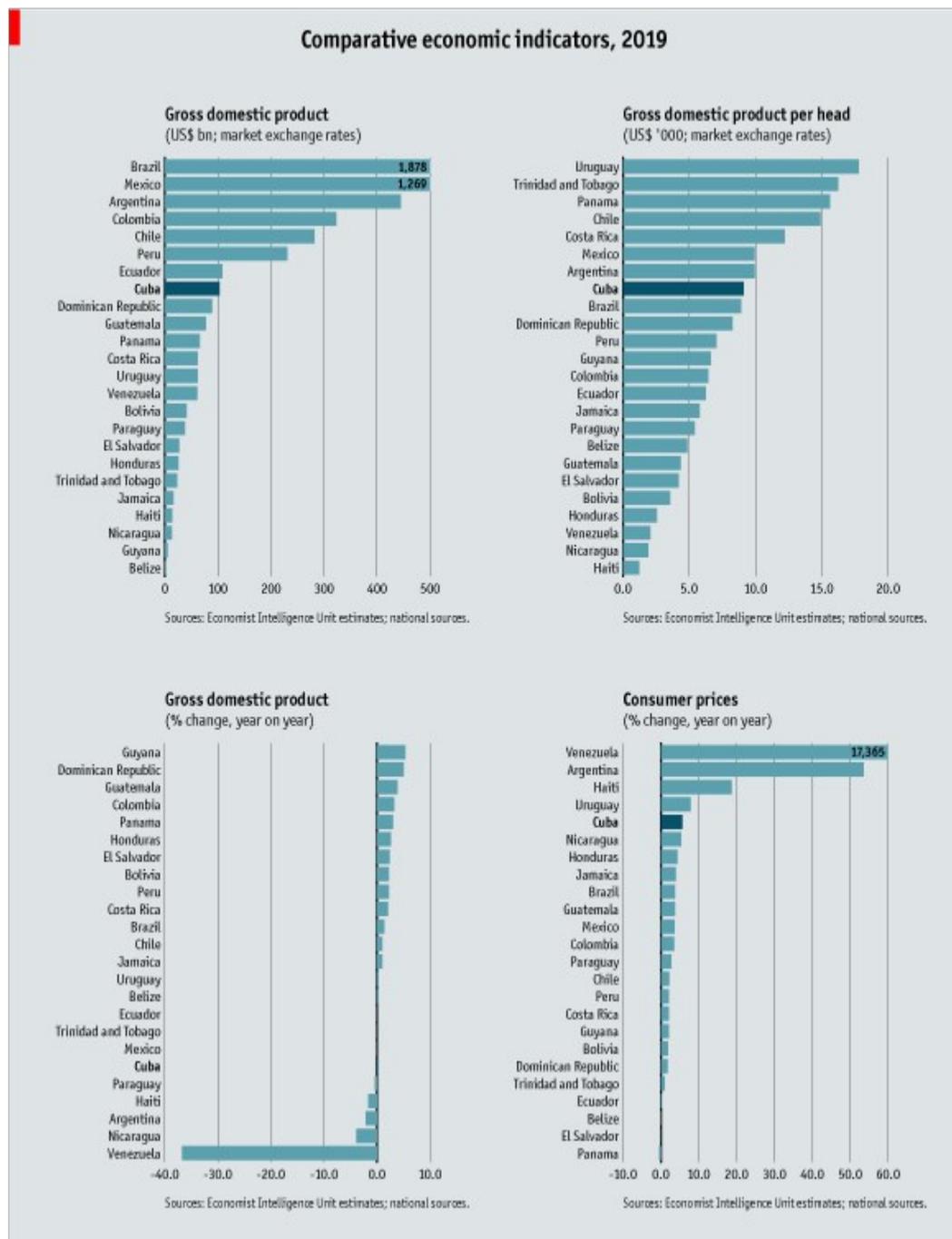
Annual trends charts



Monthly trends charts



Comparative economic indicators



Basic data

Land area

110,000 sq km: mainland 105,000 sq km; Isle of Youth (Isla de la Juventud) 2,000 sq km; keys 3,000 sq km

Population

11.3m (2020, World Bank estimate)

Climate

Subtropical; average temperature 25°C, average relative humidity 81%

Weather in Havana (altitude 24 metres)

Hottest month, August, 24-32°C (average monthly minimum); coldest months, January and February, 18-27°C; driest months, January and February, 38 mm average rainfall; wettest month, September, 183 mm average rainfall

Weights and measures

Metric system; also old Spanish units. Sugar is often measured in Spanish tonnes (2,271 lbs), and there is a Cuban quintal of 101.4 lbs, made up of 4 arrobas. For area measurement, one Cuban caballería equals 13.4 ha or 33.16 acres

Currency

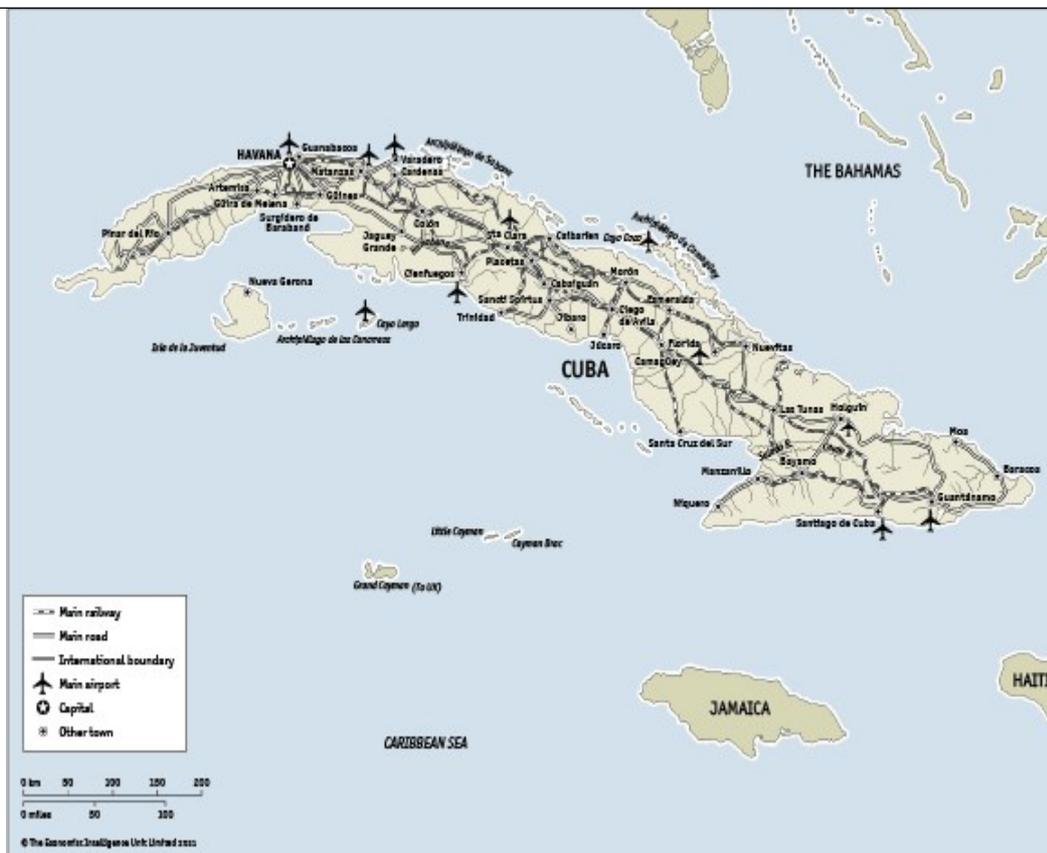
On January 1st 2021 the official exchange rate changed from CUP1:CUC1:US\$1 to CUP24:US\$1. The authorities are in the process of removing the convertible peso (CUC) from circulation. Previously there were two domestic currencies: the Cuban peso (CUP), in which prices and wages are denominated within the domestic economy, and the CUC, used in hard-currency retail outlets, and for imports and tourist expenditure. In both the CUP and CUC, 1 peso is equal to 100 centavos. The exchange rates, used in national income and fiscal accounting aggregates, were CUP1:CUC1 and CUC1:US\$1. There were nine CUP:CUC exchange rates, the most common being the parallel legal rate (known as the Cadeca rate) of CUP24:CUC1, used mainly for personal transactions

Time

4 hours behind GMT (5 hours behind GMT in November-March)

Public holidays

January 1st (Liberation Day); January 2nd (Victory Day); April 2nd (Good Friday); May 1st (Labour Day); July 25th-27th (Anniversary of the Revolution); October 10th (War of Independence); December 25th (Christmas Day); December 31st (New Year's Eve)



Political structure

Official name

Republic of Cuba

Form of government

Centralised political system, with close identification between the Partido Comunista de Cuba (PCC) and the state

Head of state

The president, Miguel Díaz-Canel, took over from Raúl Castro on April 19th 2018

The executive

The Council of Ministers is the highest executive body; it is led by the prime minister (nominated by the president). The president, the vice-president and the secretary of the Council of Ministers serve on the Executive Committee of the council

National legislature

National Assembly of People's Power; 605 members elected by direct ballot. The full assembly meets twice a year, and extraordinary sessions can be called. National Assembly working commissions operate throughout the year

Legal system

A People's Supreme Court oversees a system of regional tribunals; the Supreme Court is accountable to the National Assembly

National elections

Provincial and National Assembly elections last held in March 2018; next due in 2023

National government

The organs of the state and the Partido Comunista de Cuba (PCC) are closely entwined, and power devolves principally from the Executive Committee of the Council of Ministers

Main political organisation

The PCC is the only legal political party. Official "mass organisations" (including labour unions, and organisations for students, women and farmers) are a feature of the Cuban political system

Key ministers

President of the republic: Miguel Díaz-Canel Bermúdez

Prime minister: Manuel Marrero Cruz

Vice-president: Salvador Valdés Mesa

Secretary of the Council of Ministers: Homero Acosta Álvarez

President of the National Assembly: Esteban Lazo Hernández

Agriculture: Gustavo Rodríguez Rollero

Communications: Jorge Luis Perdomo Di-Lella

Culture: Alpidio Alonso Grau

Domestic trade: Betsy Díaz Velázquez

Economy & planning: Alejandro Gil Fernández

Education: Ena Elsa Velázquez Cobiella

Energy & mines: Raúl García Barreiro

Finance & prices: Meisi Bolaños Weiss

Foreign relations: Bruno Rodríguez Parrilla

Foreign trade & investment: Rodrigo Malmierca Díaz

Higher education: José Ramón Saborido Loidi

Industry: Alfredo López Valdés

Interior: Julio César Gandarilla Bermejo

Justice: Oscar Silveira Martínez

Labour & social security: Margarita González Fernández

Public health: José Ángel Portal Miranda

Revolutionary armed forces: Leopoldo Cintra Frías

Science, technology & the environment: Elba Rosa Pérez Montoya

Tourism: Juan Carlos García Granda

Transport: Eduardo Rodríguez Dávila

Central bank president

Marta Sabina Wilson González