

A Reflection on Cuba's Current Economic Situation and Policymaking

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The Cuban economy is facing a significant downturn. A combination of internal and external factors has severely impacted an economic model that still fails to meet the country's developmental needs or generate the growth necessary to overcome the conditions of underdevelopment. The clearest signs of this are a sustained slowdown in GDP growth, a widening current account deficit, the decline of key productive sectors, rampant inflation that shows no sign of abating, an uncontrollable wave of emigration, and a deteriorating social sector, particularly in health care and education, where indicators have worsened alarmingly.

The U.S. government's sanctions have ceased to be a temporary challenge and have become a constant burden, undermining any attempt to reverse the crisis Cuba is experiencing. Undertaking adjustment processes—of any scope—in a country facing Cuba's current circumstances would require access to financing from international financial institutions under certain conditions. Achieving a better balance in the national economy also demands fair trade conditions with foreign counterparts. However, the sanctions imposed as part of broader U.S. government policy inhibit natural commercial relations and prevent the development of economic policies in Cuba. Nevertheless, external factors are not the sole obstacles to essential reforms.

Mismanagement within the economy exacerbates the situation, rooted in the lack of socioeconomic rationality in decision-making processes. The Cuban economy is fundamentally a political economy and must be analyzed as such. Any genuine economic adjustment—without labeling it as neoliberal or other unnecessary terms—must be deep, comprehensive across all sectors, and multidirectional, impacting every structure and institution in the country. Such an adjustment would entail significant social costs and, consequently, a substantial political impact, which requires strong leadership that is not currently clear on the nation's political landscape.

Revitalizing the country's productive sector requires the establishment of clear and simple rules, understandable to both domestic and foreign investors. Ensuring due process and complete transparency in economic transactions between agents must be the state's primary responsibility amidst the current reform process. Economic mechanisms cannot be subordinated to political interests at the expense of the economic rationality needed for effective decision-making.

Institutional reform, including the creation of new institutions and the strengthening and modernization of existing ones, is critical. The role of the state business sector, its transformation, and its promotion are also key to moving in the right direction. Without strong companies—whether private or state-run—and robust institutions, no transformation program can succeed.

Any chosen path, whether new or a continuation of the previous approach, must start with a clear definition of economic policy priorities, an issue that has remained unresolved in recent times. Nearly six years after the review of the National Economic Development Plan's objectives for 2030, it is becoming evident—if we follow the trends of the past five years—that meeting those goals is impossible. The limited revenues in hard currency, available financing, and reserves must be managed with the utmost rationality, aiming to strengthen the national economy and subjecting these processes to constant review and public auditing. Without such guarantees, the necessary speed and impact of changes will remain elusive.

Simplifying and organizing the country's currency exchange system—whether through partial or full dollarization of the national economy—along with formalizing the foreign exchange market and restructuring the financial system, are essential first steps to create the space for future reforms and clear incentives for international engagement.

Establishing financial discipline and autonomy—if not full independence—is a crucial objective that must result from the effective separation of business and administrative functions, which are still intertwined in state institutions. The Cuban state business sector continues to suffer from inefficiency, with profitable companies frequently subsidizing unprofitable ones. It is essential to formalize labor market dynamics and ensure the reduction of the state business sector to levels that guarantee the normal functioning of society. The experience during the near-total economic paralysis of 2020 and 2021 demonstrated that it is possible to significantly reduce the size of the state sector.

One of the most important, necessary, and progressive reforms in recent years has been the approval and promotion of small and medium-sized national private enterprises. After nearly three years of operation, it is time to actively regulate their role in the national economy and curb any unjust demonization. Fiscal and administrative incentives should be used to promote the most critical productive sectors, expand the range of activities these businesses can engage in, and adjust their relationships with other economic agents and foreign entities. This is one of the least disruptive ways to achieve a natural balance while making broader adjustments to the national economy.