

Crisis in Cuba: What Are We Talking About?

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As we move through the third decade of the 21st century, Cuba remains entrenched in a severe economic crisis, which has now extended into social and political realms. The government's so-called "Special Period" has become interminable for many households.

While traditional indicators show the current crisis is less severe, the situation remains dire. The GDP in 2023 is 10.1% below 2018 levels. This is better than the early 1990s collapse when the GDP fell nearly 40% in four years. However, most other aspects have worsened.

In 1990, Cuba enjoyed relative prosperity with robust social services and low-income inequality. By 2019, after nearly three decades of economic stagnation and growing social inequality, many people had not regained their previous living standards. Healthcare and education systems have deteriorated. The rationing system provides only what it used to and is increasingly unreliable. The "pie" has shrunk and is distributed less equitably.

Other indicators highlight the severity of the crisis. The industrial production index (1989=100) was only 46 in 2022, and the sugar sector, once the economy's engine, was at 7. The latest harvest was even worse. The contraction in consumer goods and input production is more profound. Agricultural production has significantly declined from 2018 to 2022: root vegetables (-19%), vegetables (-42%), rice (-69%), beans (-57%), milk (-36%), eggs (-15%), and pork (-90%). These already insufficient volumes have further decreased due to reduced imports and continued production decline in 2023. Passenger transport dropped by 53% and cargo by 38%, partly reflecting the lower sugar production.

The external sector shows similar challenges. Exports have halved since their 2013 peak, and imports are down 37%, with even lower volumes due to higher prices. Current account surpluses turned into deficits from 2020, and after successfully renegotiating external debt with Paris Club countries in 2015, Cuba has again suspended payments to creditors and suppliers. Some debts have been renegotiated with Russia and China, but external finances are in very bad shape. Foreign investment has fallen short of government aspirations, and remittances have declined (with varying estimates).

Macroeconomic imbalances are worsening. Inflation has surged since 2021, with estimated rates suggesting it exceeds official reports (2021 +77%; 2022 +39%; 2023 +31%), reaching triple digits. The Cuban peso (CUP) has depreciated dramatically, from 40 per dollar in January 2021 to 340 in April 2024, losing 88% of its value. The immediate causes include large fiscal deficits, reduced foreign currency income, and a severe contraction in goods and services supply. Authorities plan a public deficit equivalent to nearly 20% of GDP this year.

Origins of the Crisis

The crisis has two main origins. Firstly, Cuba has followed a Soviet-style economic model since 1959, characterized by a bloated public sector, few inefficient state enterprises with little competition, low productivity, stagnant real incomes for most employees, bureaucratic allocation of resources, egalitarianism, and low external competitiveness. This model, beyond idealistic aspirations, cannot develop productive forces in a small, resource-poor country near its natural market, the U.S., which it cannot access.

Secondly, Cuba's leaders responded to the Soviet Union's collapse with incremental changes to stop the decline keeping intact the essence of the old system. This avoided collapse but did not achieve sustained progress. The leadership seems to believe that development alternatives entail unacceptable political risks.

Venezuela under Hugo Chávez and the first "pink wave" in Latin America improved Cuba's political environment, leading to advances with the European Union and the U.S. during the "Obama era." However, since 2016, domestic and external factors have led to new hardships. Partial, inconsistent reforms failed, and conservative sectors raised fears about the strengthening of a private sector aligned with U.S. interests.

The economic crisis in Venezuela severely affected Cuba, reducing joint programs and crude oil shipments. From over 90,000 bpd a decade ago, deliveries fell to 50-55,000 bpd in 2023. The lack of maintenance and logistical issues worsened the situation, leading to daily power cuts for most Cubans in 2024.

The arrival of Donald Trump buried the benefits of the thaw with the U.S. He reintroduced most sanctions and added new ones, such as activating Title III of the Helms-Burton Act, re-listing Cuba as a terrorism sponsor, and suspending remittance services to Cuba.

The COVID-19 pandemic was the final blow. It devastated an already weak economy. International tourism plummeted to nearly zero in 2021, and the recovery has been slow, lagging behind other Caribbean competitors. Cuban expats, especially from the U.S., were significant remittance sources and brought various goods, but most of these networks disappeared in months.

Recent economic policy mistakes, like the "Ordering Task" that restructured the monetary-exchange system at the worst time, led to rampant inflation and peso depreciation. Scarce resources were invested in unnecessary high-standard hotels, hoping for a tourism recovery that didn't materialize. Supply chain disruptions and the Russian invasion of Ukraine worsened foreign trade issues, critically affecting food, fertilizer, and fuel imports.

Social and Political Consequences

The crisis has severe social and political consequences. Agricultural and import declines risk basic nutritional needs for many. The government sought World Food Program help for powdered milk for children under seven. Medicine shortages are alarming in pharmacies and hospitals. Cuba's Human Development Index ranking fell from 51st in 1990 to 83rd in 2021. Public confidence in government reforms has eroded, leading to protests in July 2021 and March 2024. New generations equate "socialism" and the "Revolution" with ongoing hardships.

Emigration is seen as a solution. Conservative estimates suggest over half a million Cubans have left since 2021, the largest migration wave since 1959.

Some believe the Communist Party's power ensures the "Revolution's" survival. Despite U.S. sanctions, the current model can't meet Cubans' progress aspirations. Its economic unviability is acknowledged even by allies like China and Vietnam. The authorities remain resistant to substantial reforms, unable to create a recovery plan suited to current conditions. The future looks bleak without external concessional support to mitigate severe crisis impacts like food, medicine shortages, and power outages.

A new development paradigm is essential, allowing Cubans to determine their direction.