

**THE  
DIFFICULTIES OF  
INSTITUTIONAL  
CHANGE IN CUBA**

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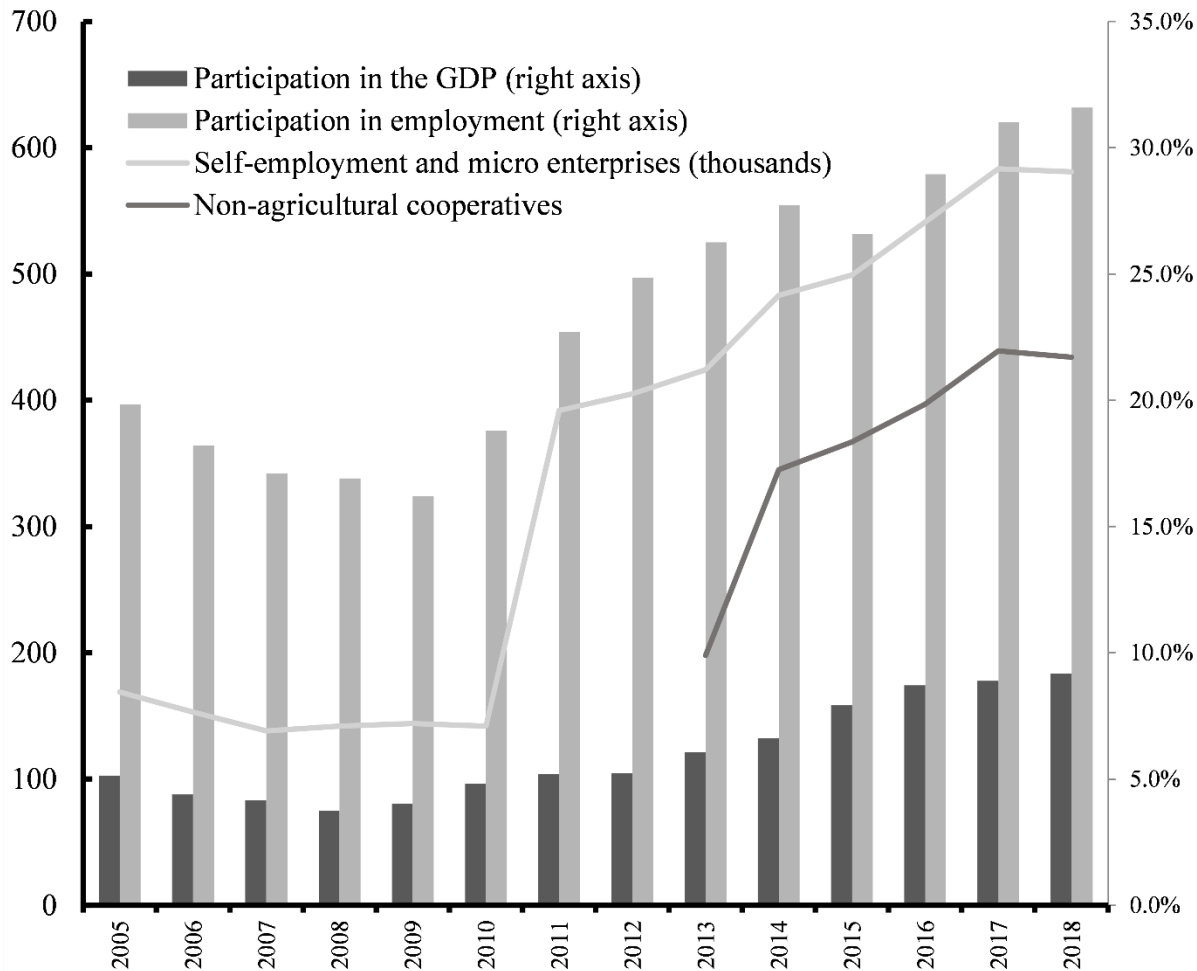
- **Outline**

- Brief diagnosis of the reforms and institutional changes up to 2018
- What has changed in the 2020s?



The **non-State sector** went from representing 17% of employment to 31%, and its share in GDP grew from 4% to 9%.

But reforms had **lost momentum**, as had the contribution of the non-State sector to the economy



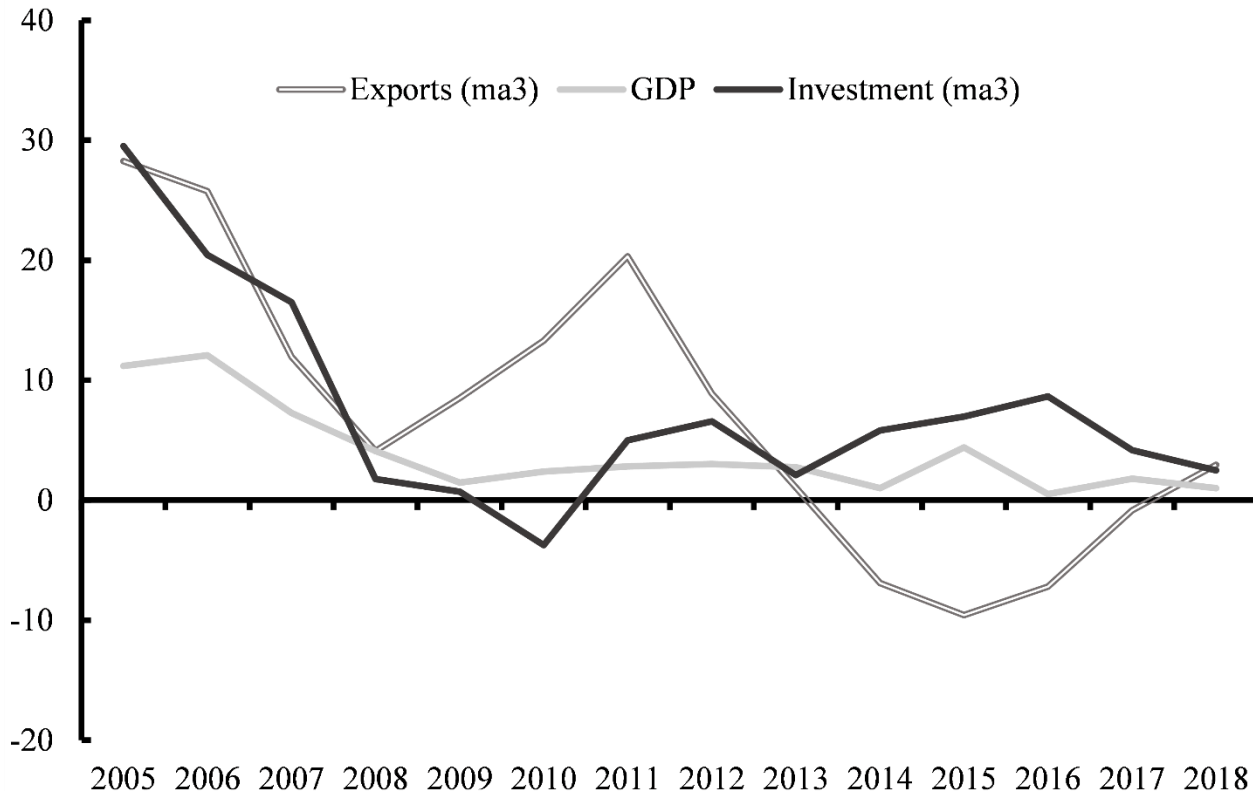
Source: Auhors based on ONEI data

In 2021 the government announced a **new opening** to small and medium-size private enterprise.

For monetary reform, small and medium-sized enterprises are key



In spite of reforms, the **main macroeconomic aggregates** have shown **stagnation**, and their average growth rates remain lower than those seen before Raúl Castro came to power in 2008



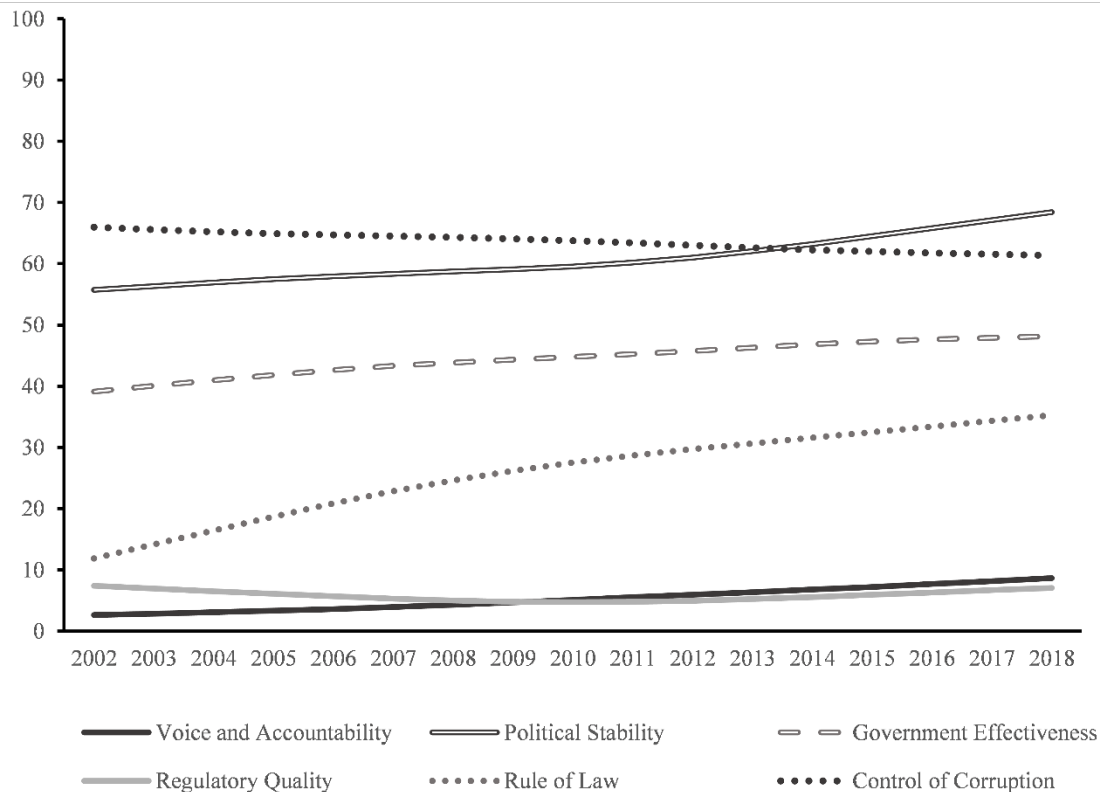
Source: Auhors based on ONEI data

**In 2020 the GDP contracted 10.9%**, one of the largest contractions in the region.

Compared to the Special Period, this contraction is like the one that occurred in 1991 (-10.7%).



## Worldwide Governance Indicators (WGIs) of the World Bank: Cuba ranks among the bottom 10% worldwide in Voice and Accountability and Regulatory Quality, but ranks within the top 50% in Control of Corruption and Political Stability



Source: Authors based on World Bank data

Only one WGI presented a statically significant improvement: Rule of Law, boosted by openings in the housing and car markets, by changes in the foreign investment law, and by the growth of private business under Raúl Castro, all of which imply recognition of property rights in the Cuban market

Main takeaway: Failure of the Cuban government to produce substantial change in the institutional framework



# Social protests

For Cuba it is historic, unprecedented. It has the potential to be a turning point in the evolution of institutions and in the dynamics of economic reforms

The current political system in Cuba cannot coexist with repetitions of manifestations of dissidence and discontent on a scale seen on July 11

Violent repression of protests will remain an option, but at a **very high political cost** to the Diaz-Canel government

Internal support for the Cuban government could be solely explained by privileges to those closer to power. It cannot be ignored that a large part of the **support for the government is still based on ideals**

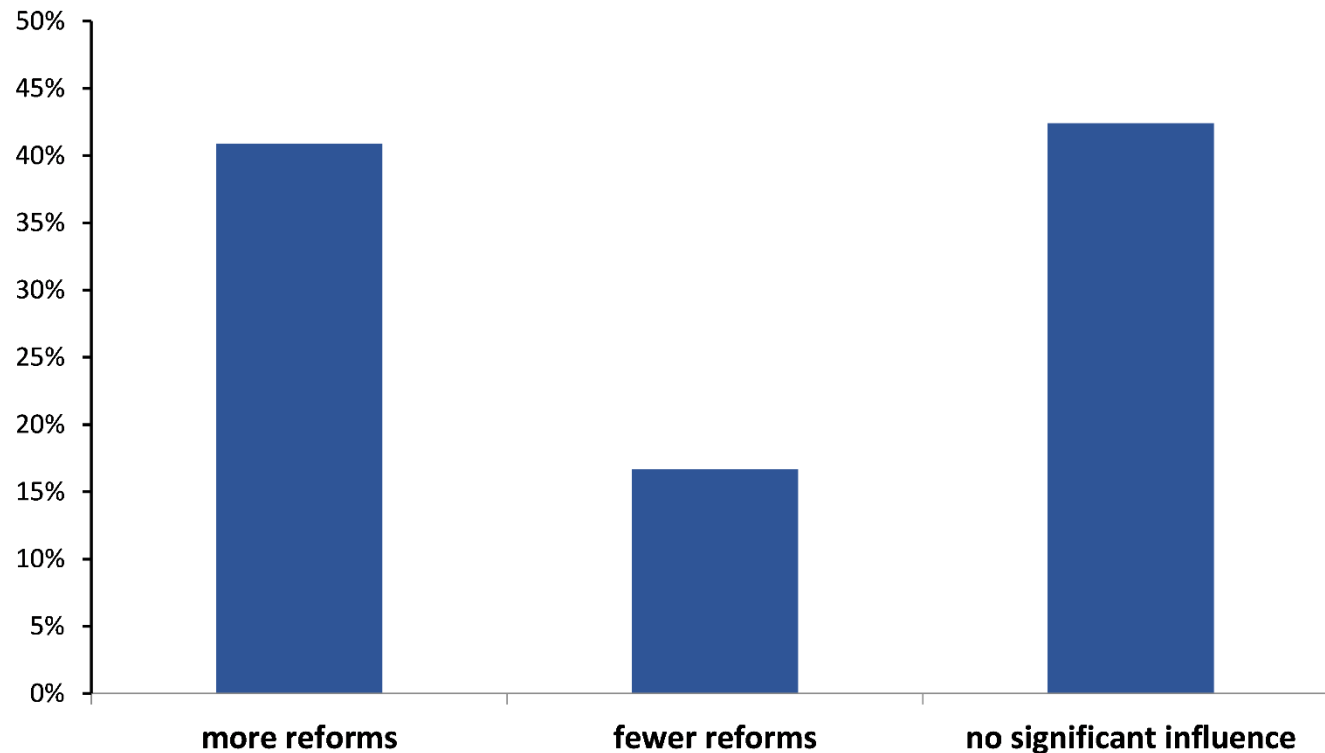
For many supporters of socialism and the ideals of the revolution, the videos showing the violence used to contain the protests produce **disillusion** that could lead to alienation

The Cuban political system, in some way, will have to **evolve and adapt** — first, **accepting** the fact that a significant proportion of the population does not share the same ideas of the Communist Party; and second, expanding political **participation** in some way.



In the **Cuba Standard Business Confidence Survey**, we asked about it and obtained a tie between those who think the protests will have an influence on increasing economic reforms (41%) and those who think it will not have a significant influence (42%)

**Figure 2. What influence do you expect recent protests will have on the pace of economic reforms?**



Source: Cuba Standard Business Confidence Survey

The survey consists of eight-eleven questions ([https://www.cubastandard.com/?page\\_id=12796](https://www.cubastandard.com/?page_id=12796)) conducted quarterly via email to a random sample of around 70 businesspeople and analysts connected to the Cuban economy



# Monetary reforms

The key measure that unlocks the current monetary reform process is the 24-fold devaluation of the official exchange rate. Even within the triple-digit inflation rate there is room for a **real depreciation of the Peso**

An **incomplete pass-through** from the exchange rate to inflation creates new economic incentives, greater **financial transparency** and fosters structural reforms. The monetary reform further exposes the cost of continuing to postpone necessary structural reforms

The devaluation of the official exchange rate **reveals losses in many state companies**. Lasting solutions involve a restructuring of the state sector. To facilitate the **downsizing of the state sector** and labor realignment, the Cuban government allowed in 2021 the incorporation of small and medium-size private businesses

One of the main benefits of monetary reform is already here: **moving Cuba towards a mixed-economy model**

