CUBA

COUNTRY REPORT

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To learn more, visit us online at prsgroup.com or contact us at:

TELEPHONE
+1 (315) 431-0511

ADDRESS
290 Elwood Davis Rd, Ste 290, Unit 3
Liverpool, NY 13088-2133 USA

EMAIL
custserv@prsgroup.com

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Cienfuegos
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Las Tunas
Holguin
Manzanillo
Guantanamo
Santiago de Cuba
Isla de la Juventud
Yucatan Channel
CUBA
Caribbean Sea
Jamaica
Haiti

KEY TAKEAWAYS

MOST LIKELY REGIMES & THEIR PROBABILITIES	
18-MONTH	Reform Communist 50%
FIVE-YEAR	Reform Communist 45%

FORECASTS OF RISK TO INTERNATIONAL BUSINESS				
	TURMOIL	**FINANCIAL TRANSFER**	**DIRECT INVESTMENT**	**EXPORT MARKET**
18-MONTH	High	D-	C-	D
FIVE-YEAR	Moderate	C-	C (C+)	C

( ) Indicates change in rating
* Indicates forecast of a new regime

KEY ECONOMIC FORECASTS			
	REAL GDP GROWTH (%)	**INFLATION (%)**	**CURRENT ACCOUNT ($bn)**
2018-2022(AVG)	-1.2	118.8	0.84
2023(F)	0.5	41.8	-0.22
2024-2028(F)	2.0	20.9	0.10

DÍAZ-CANEL OPTS FOR CONTINUITY

Voters went to the polls in March to elect the 470 members of the National Assembly, an exercise that amounted to endorsement of the slate of nominees chosen by the ruling PCC. The following month, the rubber-stamp legislature elected PCC leader Miguel Díaz-Canel to a second five-year term as president, with all but three of the 462 lawmakers present voting in the affirmative. Following a tumultuous first term marked by the worst economic crisis in a quarter century and an eruption of unrest that presented the Communist regime with the most serious domestic challenge to its authority ever, Díaz-Canel began his second term by declaring his commitment to the preservation of the PCC's monopoly on power and an economic strategy guided by the pursuit of socialist aims.

The persistence of widespread discontent is evident from the record numbers of Cubans who are leaving the island. Anecdotal evidence suggests that the emigres represent a broad cross-section of the population. However, the sheer magnitude of the outflow all but ensures a "brain drain" that will pose yet another obstacle to pulling Cuba out of its economic hole.

In short, the political currents all point to the persistence of the repression and poverty inside Cuba that animated the 2021 protests. That creates a dilemma for the president and his colleagues, as there is little chance that economic prospects might improve significantly in the absence of a relaxation of political pressure, but the government will be reluctant (with good reason) to take that step before economic stresses are reduced.

By choosing continuity over reform, Díaz-Canel has probably bought himself protection against near-term disunity within the PCC that might add to political risks. However, the incumbent is not eligible to seek a third term in 2028, and it is unclear who might succeed him. The delay in initiating a grooming process may reflect concern that the anointment of an heir could trigger a revolt by disappointed aspirants who are passed over, but that danger cannot be avoided indefinitely. The PCC could theoretically change the law to enable Díaz-Canel to serve for a third term (assuming a consensus among the party's old guard on that point), but unless the president's second term is far more successful than his first, such a step would carry a risk of reinvigorating public opposition to the Communist regime.

The government unveiled a package or reform measures last year designed to provide some oxygen to a choking economy. However, the success of private businesses is again fueling public complaints and official expressions of concern about excess profits and growing inequality between those Cubans who have access to dollars and the estimated 40% of the population (including many state workers and pensioners) whose income consists entirely of Cuban pesos, creating an ever-present threat of a backlash that prompts the government to crack down on the private sector.

Although the tourism industry showed signs of recovery in 2022, export earnings for the first six months of 2023 totaled $1.3 billion, barely more than one-third of the official projection, while imports amounted to $4.4 billion, greatly exceeding the government's forecast. The high imports bill reflects a significant deterioration of domestic productive capacity that is magnified by power-related disruptions to economic activity.

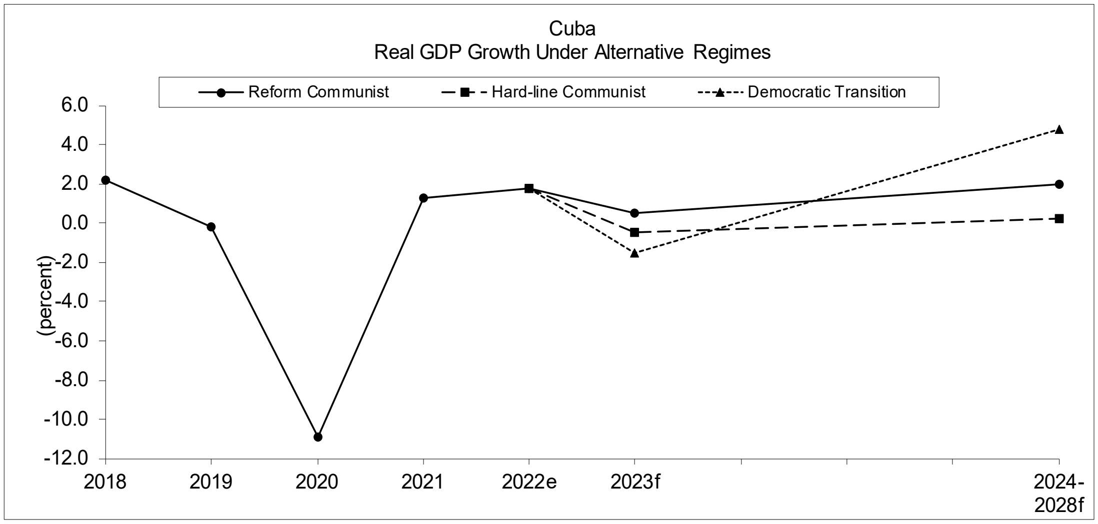
On balance, any real economic growth is likely to be minimal in the near term, and a contraction is a distinct possibility. Although the goods deficit will be mostly offset by large surpluses in the services and transfers balances, the sluggish recovery of tourism and US restrictions on remittances point to a somewhat larger current account deficit in 2023.

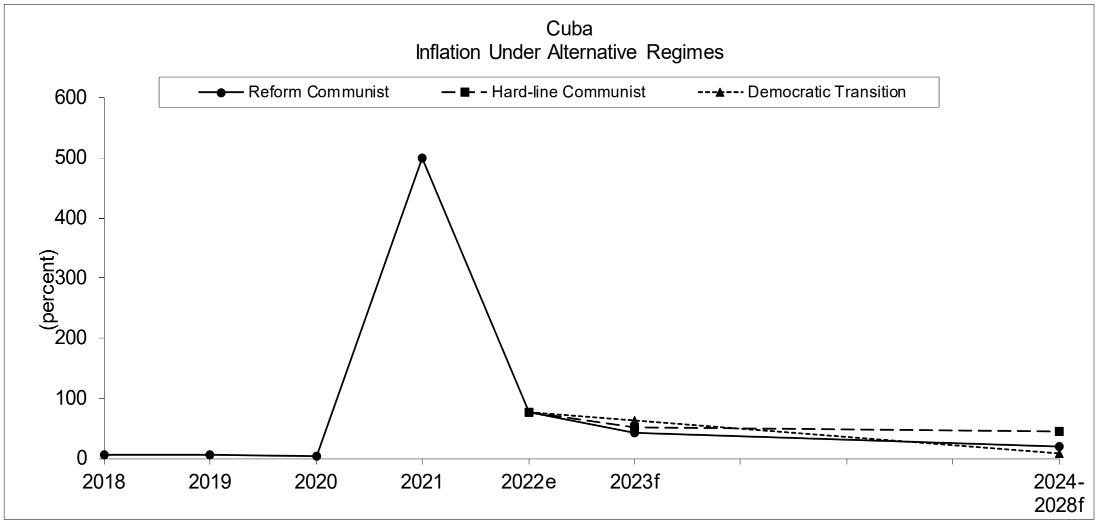
ECONOMIC FORECASTS FOR THE THREE ALTERNATIVE REGIMES									
	Reform Communist			Hard-line Communist			Democratic Transition		
	GROWTH (%)	INFLATION (%)	CACC ($bn)	GROWTH (%)	INFLATION (%)	CACC ($bn)	GROWTH (%)	INFLATION (%)	CACC ($bn)
2023	0.5	41.8	-0.22	-0.5	51.0	-0.28	-1.5	64.0	-0.19
2024-2028	2.0	20.9	0.10	0.2	45.9	-0.30	4.8	9.4	-0.40

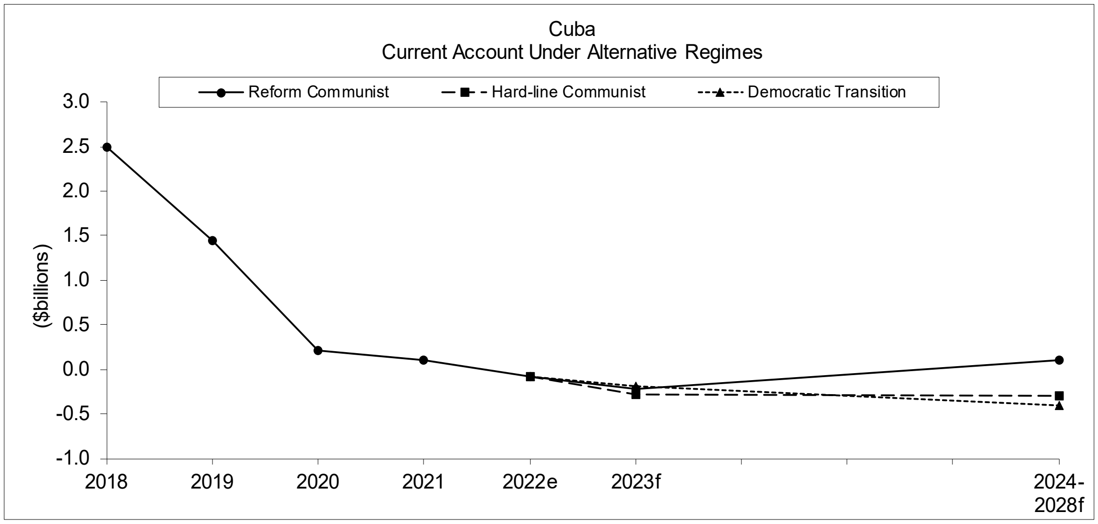
REGIME, BUSINESS & INVESTMENT FORECASTS

SUMMARY OF 18-MONTH FORECAST				
REGIMES & PROBABILITIES		Reform Communist 50%	Hard-line Communist 45%	Democratic Transition 5%
RISK FACTORS	**CURRENT**			
Turmoil	Moderate	SLIGHTLY MORE	MORE	SLIGHTLY MORE
Investment				
Equity	High	SLIGHTLY LESS	SLIGHTLY MORE	Same
Operations	Very High	SLIGHTLY LESS	SLIGHTLY MORE	SLIGHTLY MORE
Taxation	High	Same	SLIGHTLY MORE	Same
Repatriation	High	Same	MORE	SLIGHTLY MORE
Exchange	Very High	SLIGHTLY LESS	MORE	MORE
Trade				
Tariffs	High	SLIGHTLY LESS	Same	SLIGHTLY LESS
Other Barriers	Very High	SLIGHTLY LESS	SLIGHTLY MORE	Same
Payment Delays	Very High	SLIGHTLY LESS	SLIGHTLY MORE	Same
Economic Policy				
Expansion	Very High	SLIGHTLY LESS	Same	SLIGHTLY LESS
Labor Costs	Low	SLIGHTLY MORE	Same	SLIGHTLY MORE
Foreign Debt	Very High	Same	MORE	SLIGHTLY MORE
SUMMARY OF FIVE-YEAR FORECAST				
REGIMES & PROBABILITIES		Reform Communist 45%	Hard-line Communist 40%	Democratic Transition 15%
RISK FACTORS	**BASE**			
Turmoil	Low	SLIGHTLY MORE	MUCH MORE	MORE
Restrictions				
Investment	High	SLIGHTLY LESS	MORE	LESS
Trade	High	Same	SLIGHTLY MORE	LESS
Economic Problems				
Domestic	High	Same	SLIGHTLY MORE	LESS
International	High	Same	SLIGHTLY MORE	LESS

* When present, indicates forecast of a new regime


Cuba
Real GDP Growth Under Alternative Regimes
Reform Communist
Hard-line Communist
Democratic Transition
(percent)
6.0
4.0
2.0
0.0
-2.0
-4.0
-6.0
-8.0
-10.0
-12.0
2018
2019
2020
2021
2022e
2023f
2024-2028f


Cuba
Inflation Under Alternative Regimes
Reform Communist
Hard-line Communist
Democratic Transition
(percent)
600
500
400
300
200
100
0
2018
2019
2020
2021
2022e
2023f
2024-2028f


Cuba
Current Account Under Alternative Regimes
Reform Communist
Hard-line Communist
Democratic Transition
($billions)
3.0
2.5
2.0
1.5
1.0
0.5
0.0
-0.5
-1.0
2018
2019
2020
2021
2022e
2023f
2024-2028f

Cuba
Econometric Data

	2013-2017 Average	2018-2022 Average	2013	2014	2015	2016	2017
Domestic Economic Indicators							
GDP (Nominal, $bn)	86.63	69.95	77.15	80.66	87.13	91.37	96.85
Per Capita GDP ($)	7653	6184	6840	7132	7697	8057	8541
Real GDP Growth Rate (%)	2.1	-1.2	2.7	1.3	4.4	0.5	1.8
Inflation Rate (%)	5.2	118.8	6.0	5.3	5.2	4.5	5.2
Capital Investment ($bn)	7.65	8.98	5.19	6.14	8.18	8.74	9.99
Capital Investment/GDP (%)	8.7	17.5	6.7	7.6	9.4	9.6	10.3
Budget Revenues ($bn)	50.78	38.25	48.84	47.22	50.23	51.68	55.91
Budget Revenues/GDP (%)	58.8	52.5	63.3	58.5	57.7	56.6	57.7
Budget Expenditures ($bn)	55.22	45.78	49.86	49.03	55.28	57.81	64.10
Budget Expenditures/GDP (%)	63.7	63.1	64.6	60.8	63.5	63.3	66.2
Budget Balance ($bn)	-4.44	-7.53	-1.02	-1.81	-5.05	-6.13	-8.19
Budget Balance/GDP (%)	-4.9	-10.6	-1.3	-2.2	-5.8	-6.7	-8.5
Money Supply (M1, $bn)	25.38	28.38	24.12	25.01	25.99	25.78	25.99
Change in Real Wages (%)	0.8	-4.7	-5.6	-6.0	-2.0	5.3	12.2
Unemployment Rate (%)	2.4	2.5	3.3	2.7	2.5	2.0	1.7
International Economic Indicators							
Foreign Direct Investment ($bn)	0.99	0.41	0.95	0.92	1.08	0.98	1.02
Forex Reserves ($bn)	7.38	6.40	6.98	7.34	7.77	7.55	7.26
Gross Reserves (ex gold, $bn)	7.38	6.40	6.98	7.34	7.77	7.55	7.26
Gold Reserves ($bn)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross reserves (inc gold, $bn)	7.38	6.40	6.98	7.34	7.77	7.55	7.26
Total Foreign Debt ($bn)	21.01	22.65	21.18	22.39	23.48	20.19	17.80
Total Foreign Debt/GDP (%)	24.6	67.1	27.5	27.8	27.0	22.1	18.4
Debt Service ($bn)	2.69	1.61	2.75	2.58	2.18	4.18	1.78
Debt Service/XGS (%)	15.3	12.2	13.8	13.5	13.4	25.4	10.3
Current Account ($bn)	2.44	0.84	1.85	3.11	1.93	2.52	2.81
Current Account/GDP (%)	2.8	0.8	2.4	3.9	2.2	2.8	2.9
Current Account/XGS (%)	13.8	5.1	9.3	16.3	11.8	15.3	16.2
Exports ($bn)	3.86	2.15	5.57	5.15	3.57	2.32	2.70
Imports ($bn)	12.03	9.48	14.77	13.10	11.75	10.30	10.21
Trade Balance ($bn)	-8.16	-7.33	-9.20	-7.95	-8.18	-7.98	-7.51
Exports of Services ($bn)	11.92	8.28	13.03	12.66	11.37	11.14	11.39
Income, credit ($bn)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Transfers, credit ($bn)	2.04	2.92	1.31	1.31	1.35	3.00	3.24
Exports G&S ($bn)	17.82	13.35	19.91	19.12	16.29	16.46	17.33
Liabilities ($bn)	0.69	0.82	0.64	0.67	0.70	0.72	0.74
Net Reserves ($bn)	6.69	5.58	6.34	6.67	7.07	6.83	6.52
Liquidity (months import cover)	6.8	7.1	5.2	6.1	7.2	8.0	7.7
Currency Exchange Rate	1.000	10.200	1.000	1.000	1.000	1.000	1.000
Currency Change (%)	0.0	-19.2	0.0	0.0	0.0	0.0	0.0
Social Indicators							
Population (million)	11.32	11.28	11.28	11.31	11.32	11.34	11.34
Population Growth (%)	0.1	-0.3	0.2	0.3	0.1	0.2	0.0
Infant Deaths/1000	4	4	5	5	4	4	4
Persons under Age 15 (%)	17	16	17	17	17	17	16
Urban Population (%)	77	77	77	77	77	77	77
Urban Growth (%)	0.2	-0.2	0.2	0.3	0.1	0.2	0.0
Literacy % pop.	99	99	99	99	99	99	99
Agricultural Work Force (%)	19	18	19	19	19	18	18
Industry-Commerce Work Force (%)	17	17	17	17	17	18	17
Services Work Force (%)	64	65	64	64	64	64	65
Unionized Work Force (%)	0	0	0	0	0	0	0
Energy - total consumption (10^{15} Btu)	0.40	0.36	0.43	0.43	0.44	0.34	0.36
Energy - consumption/head (10^{9} Btu)	0.04	0.03	0.04	0.04	0.04	0.03	0.03

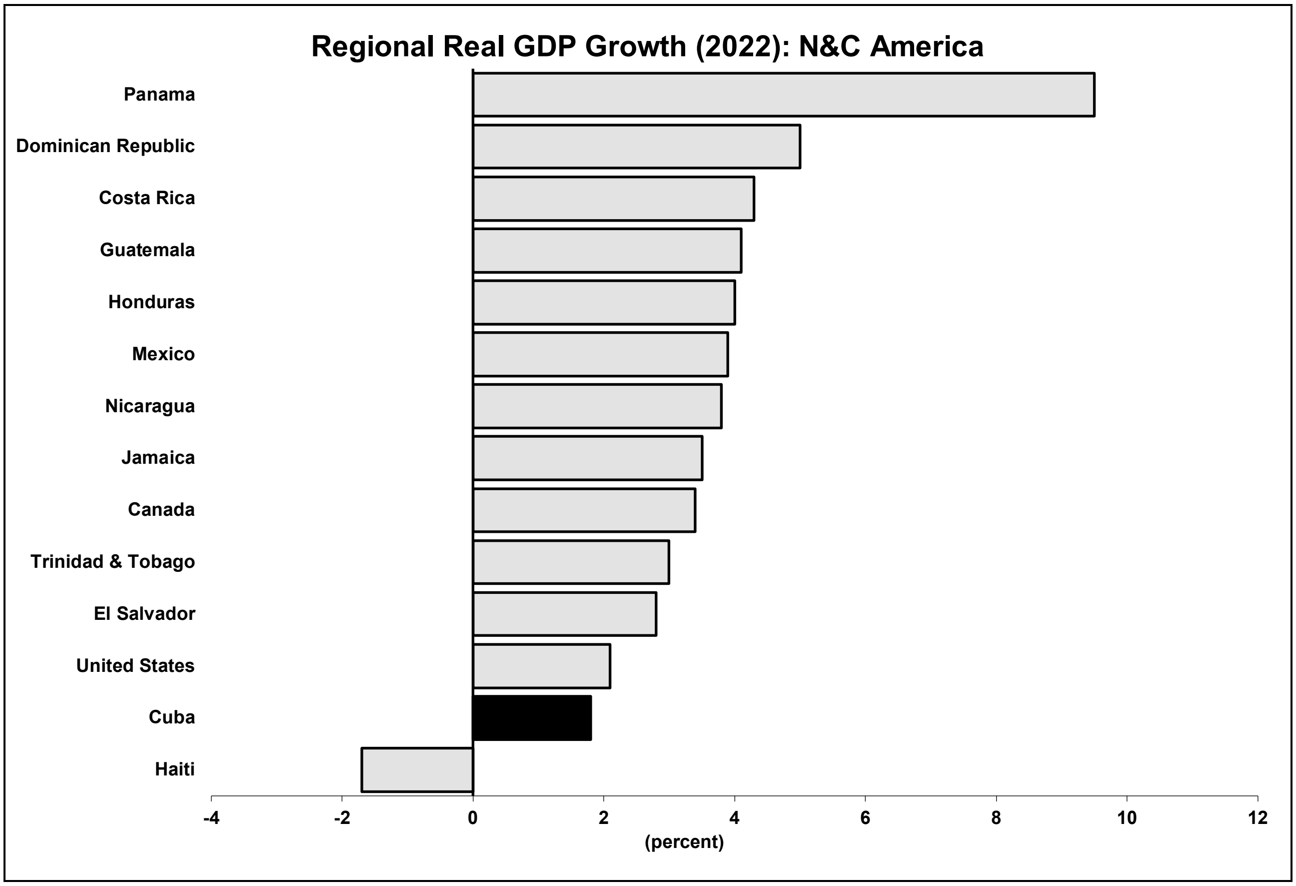
Note: *effective July 2, 1997, peso pegged to the US dollar for international transactions

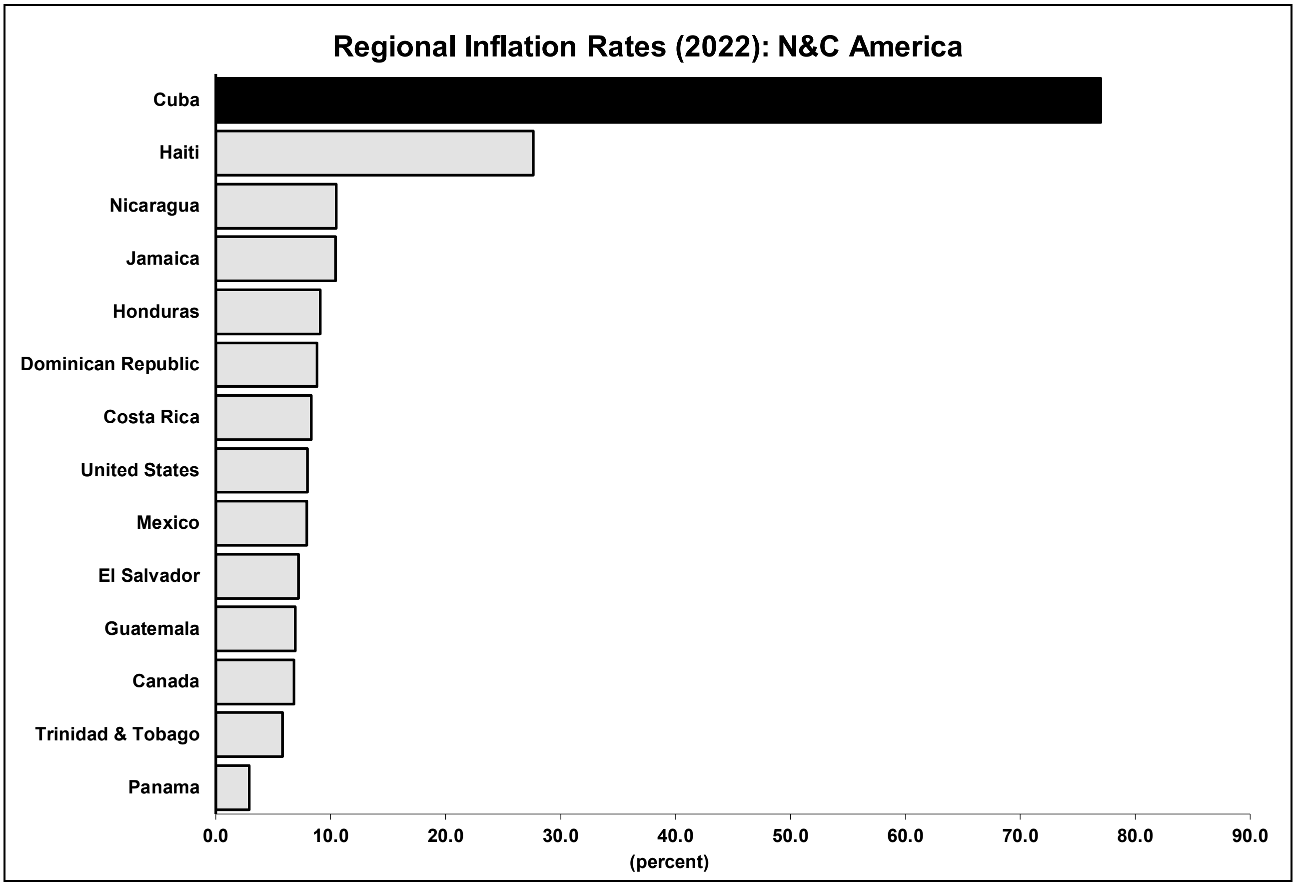
Cuba
Econometric Data

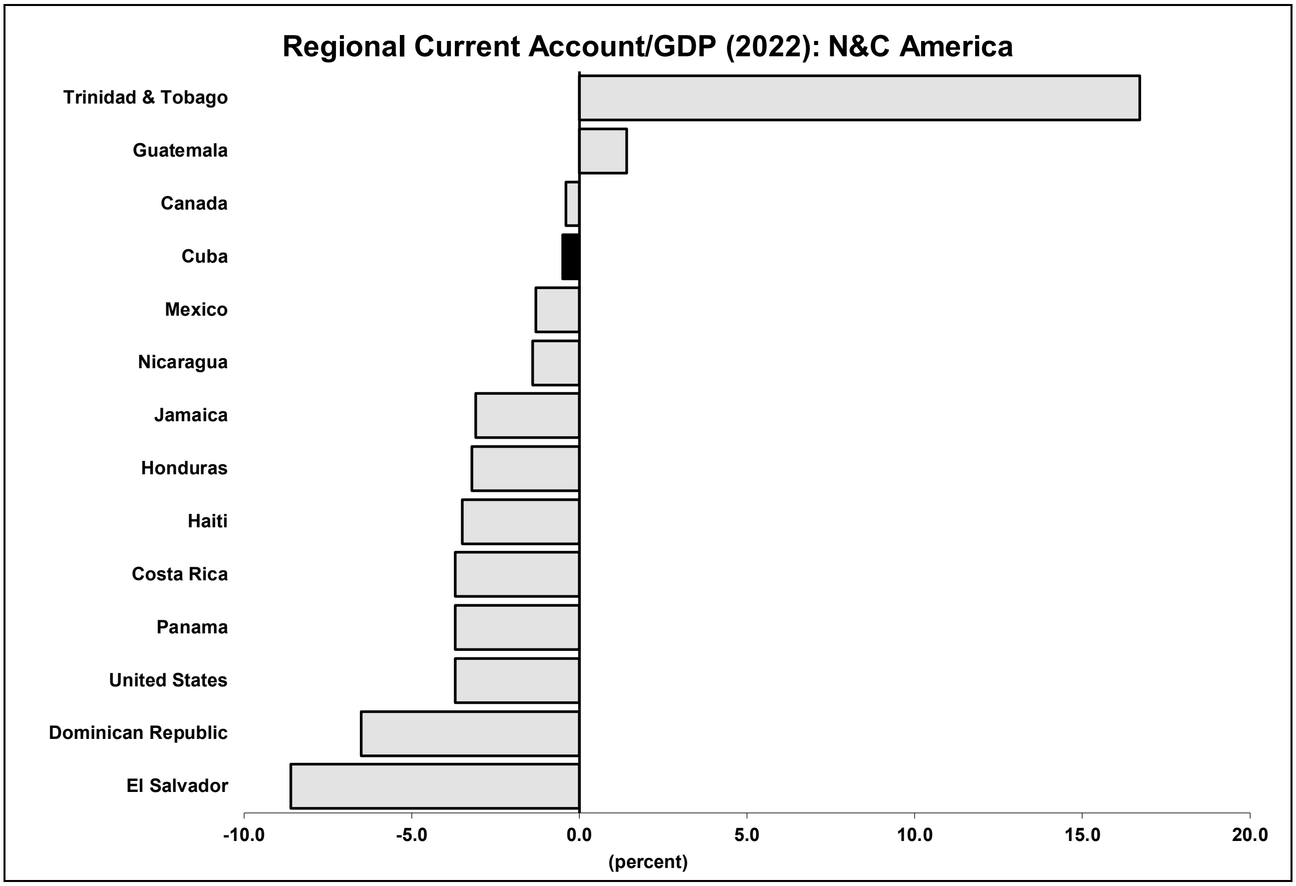
	2013-2017 Average	2018-2022 Average	2018	2019	2020	2021	2022
Domestic Economic Indicators							
GDP (Nominal, $bn)	86.63	69.95	100.02	103.42	107.35	22.72	16.25
Per Capita GDP ($)	7653	6184	8820	9128	9492	2027	1452
Real GDP Growth Rate (%)	2.1	-1.2	2.2	-0.2	-10.9	1.3	1.8
Inflation Rate (%)	5.2	118.8	6.9	5.6	4.5	500.0	77.0
Capital Investment ($bn)	7.65	8.98	12.04	11.95	10.63	5.41	4.89
Capital Investment/GDP (%)	8.7	17.5	12.0	11.6	9.9	23.8	30.1
Budget Revenues ($bn)	50.78	38.25	57.64	59.54	55.45	10.79	7.85
Budget Revenues/GDP (%)	58.8	52.5	57.6	57.6	51.7	47.5	48.3
Budget Expenditures ($bn)	55.22	45.78	65.73	65.98	74.43	13.44	9.33
Budget Expenditures/GDP (%)	63.7	63.1	65.7	63.8	69.3	59.2	57.4
Budget Balance ($bn)	-4.44	-7.53	-8.09	-6.44	-18.98	-2.65	-1.48
Budget Balance/GDP (%)	-4.9	-10.6	-8.1	-6.2	-17.7	-11.7	-9.1
Money Supply (M1, $bn)	25.38	28.38	26.13	26.98	28.10	29.90	30.78
Change in Real Wages (%)	0.8	-4.7	-2.0	-1.6	-2.6	-15.3	-1.8
Unemployment Rate (%)	2.4	2.5	1.7	1.2	3.9	2.8	3.0
International Economic Indicators							
Foreign Direct Investment ($bn)	0.99	0.41	0.70	0.68	0.29	0.17	0.22
Forex Reserves ($bn)	7.38	6.40	7.13	7.00	5.90	6.10	5.85
Gross Reserves (ex gold, $bn)	7.38	6.40	7.13	7.00	5.90	6.10	5.85
Gold Reserves ($bn)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross reserves (inc gold, $bn)	7.38	6.40	7.13	7.00	5.90	6.10	5.85
Total Foreign Debt ($bn)	21.01	22.65	18.50	20.56	21.99	25.51	26.67
Total Foreign Debt/GDP (%)	24.6	67.1	18.5	19.9	20.5	112.3	164.1
Debt Service ($bn)	2.69	1.61	2.02	1.95	1.40	1.37	1.33
Debt Service/XGS (%)	15.3	12.2	11.3	12.3	12.5	12.7	12.1
Current Account ($bn)	2.44	0.84	2.50	1.45	0.21	0.11	-0.08
Current Account/GDP (%)	2.8	0.8	2.5	1.4	0.2	0.5	-0.5
Current Account/XGS (%)	13.8	5.1	14.0	9.2	1.9	1.0	-0.7
Exports ($bn)	3.86	2.15	2.74	2.39	1.78	2.06	1.78
Imports ($bn)	12.03	9.48	11.53	9.94	7.26	9.51	9.17
Trade Balance ($bn)	-8.16	-7.33	-8.79	-7.55	-5.48	-7.45	-7.39
Exports of Services ($bn)	11.92	8.28	11.79	10.24	6.99	5.96	6.41
Income, credit ($bn)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Transfers, credit ($bn)	2.04	2.92	3.39	3.20	2.40	2.80	2.83
Exports G&S ($bn)	17.82	13.35	17.92	15.83	11.17	10.82	11.02
Liabilities ($bn)	0.69	0.82	0.77	0.79	0.86	0.83	0.85
Net Reserves ($bn)	6.69	5.58	6.36	6.21	5.04	5.27	5.00
Liquidity (months import cover)	6.8	7.1	6.6	7.5	8.3	6.6	6.5
Currency Exchange Rate	1.000	10.200	1.000	1.000	1.000	24.000	24.000
Currency Change (%)	0.0	-19.2	0.0	0.0	0.0	-95.8	0.0
Social Indicators							
Population (million)	11.32	11.28	11.34	11.33	11.31	11.21	11.19
Population Growth (%)	0.1	-0.3	0.0	-0.1	-0.2	-0.9	-0.2
Infant Deaths/1000	4	4	4	4	4	4	4
Persons under Age 15 (%)	17	16	16	16	16	16	16
Urban Population (%)	77	77	77	77	77	77	77
Urban Growth (%)	0.2	-0.2	0.0	-0.1	0.0	-0.9	-0.2
Literacy % pop.	99	99	99	99	99	99	99
Agricultural Work Force (%)	19	18	18	18	18	18	18
Industry-Commerce Work Force (%)	17	17	17	17	17	17	17
Services Work Force (%)	64	65	65	65	65	65	65
Unionized Work Force (%)	0	0	0	0	0	0	0
Energy - total consumption (10^{15} Btu)	0.40	0.36	0.38	0.37	0.35	0.35	0.35
Energy - consumption/head (10^{9} Btu)	0.04	0.03	0.03	0.03	0.03	0.03	0.03

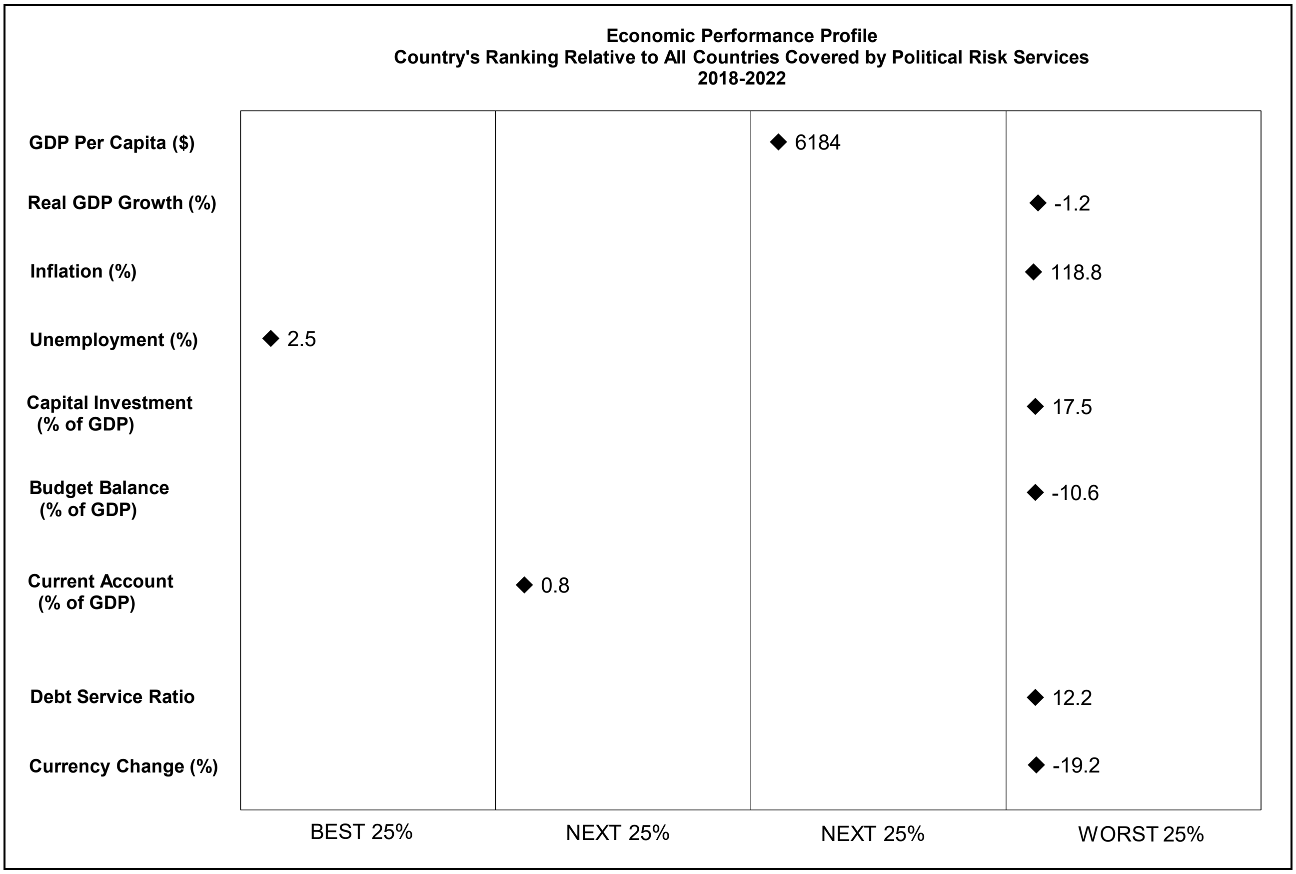
Note: *effective July 2, 1997, peso pegged to the US dollar for international transactions

INTRA-REGIONAL COMPARISONS






Regional Current Account/GDP (2022): N&C America
Trinidad & Tobago
Guatemala
Canada
Cuba
Mexico
Nicaragua
Jamaica
Honduras
Haiti
Costa Rica
Panama
United States
Dominican Republic
El Salvador
-10.0
-5.0
0.0
5.0
10.0
15.0
20.0
(percent)


Economic Performance Profile
Country's Ranking Relative to All Countries Covered by Political Risk Services
2018-2022
GDP Per Capita ($)
6184
Real GDP Growth (%)
-1.2
Inflation (%)
118.8
Unemployment (%)
2.5
Capital Investment (% of GDP)
17.5
Budget Balance (% of GDP)
-10.6
Current Account (% of GDP)
0.8
Debt Service Ratio
12.2
Currency Change (%)
-19.2
BEST 25%
NEXT 25%
NEXT 25%
WORST 25%

GEOPOLITICAL & ECONOMIC ANALYSIS

AFTER TUMULTUOUS FIRST TERM, DÍAZ-CANEL OPTS FOR CONTINUITY

Voters went to the polls in March to elect the 470 members of the National Assembly, an exercise that amounted to endorsement of the slate of nominees chosen by the ruling Communist Party of Cuba (PCC). The following month, the rubber-stamp legislature elected PCC leader Miguel Díaz-Canel to a second five-year term as president, with all but three of the 462 lawmakers present voting in the affirmative. Lacking even the pretense of genuine democracy, the stage-managed character of the elections served to highlight how little has changed since Díaz-Canel became Cuba's first leader not named Castro in nearly six decades in 2018.

Hopes that the transfer of power to a president with no direct connection to the 1959 revolution might herald a period of meaningful political and economic reform have been sorely disappointed. Following a tumultuous first term marked by the worst economic crisis in a quarter century and an eruption of unrest that presented the Communist regime with the most serious domestic challenge to its authority ever, Díaz-Canel began his second term by declaring his commitment to the preservation of the PCC's monopoly on power and an economic strategy guided by the pursuit of socialist aims. The confirmation of a new Cabinet with few changes underscored the clear message of continuity.

The government responded to the mass protests that erupted in mid-2021 with brute force. While that addressed the immediate problem, the regime's heavy-handedness obviated any chance of a significant easing of US sanctions under President Joe Biden, who replaced Donald Trump in January 2021, thereby prolonging the economic hardships at the root of the unrest.

The persistence of widespread discontent is evident from the record numbers of Cubans who are leaving the island. Based on the figures for arrivals in destination countries, an estimated 225,000 Cubans (equivalent to about 2% of the island's population) departed from their homeland in 2022 alone.

The magnitude of the exodus is in part attributable to the complicity of a government that is happy to see the back of malcontents who might otherwise create political problems at home, and there are reports that the regime is trying to cash in on the phenomenon by charging exorbitant rates for travel to the US, Canada, and other destinations favored by Cubans who have no immediate plans to return home. Anecdotal evidence suggests that the emigres represent a broad cross-section of the population. However, the sheer magnitude of the outflow all but ensures a "brain drain" that will pose yet another obstacle to pulling Cuba out of its economic hole.

In short, the political currents all point to the persistence of the repression and poverty inside Cuba that animated the 2021 protests. That creates a dilemma for the president and his colleagues, as there is little chance that economic prospects might improve significantly in the absence of a relaxation of political pressure, but the government will be reluctant (with good reason) to take that step before economic stresses are reduced.

By choosing continuity over reform, Díaz-Canel has probably bought himself protection against near-term disunity within the PCC that might add to political risks. However, the incumbent is not eligible to seek a third term in 2028, and it is unclear who might succeed him. An age restriction on the presidency (candidates must be younger than 60 years old at the start of a first term) rules out most of the other figures in the upper levels of the government and the party, and the very limited post-election Cabinet reshuffle provided no clues as to whom the president might prefer to follow him in office.

The delay in initiating a grooming process may reflect concern that the anointment of an heir could trigger a revolt by disappointed aspirants who are passed over, but that danger cannot be avoided indefinitely. The PCC could theoretically change the law to enable Díaz-Canel to serve for a third term (assuming a consensus among the party's old guard on that point), but unless the president's second term is far more successful than his first, such a step would carry a risk of reinvigorating public opposition to the Communist regime.

NO RELIEF ON THE HORIZON

The COVID-19 pandemic delivered a hammer blow to an economy that is heavily dependent on income from tourism and remittances from relatives living outside of Cuba, both of which decreased significantly as a result of health restrictions and a global recession triggered by the pandemic. Although official figures indicate that the economy registered modest real growth in 2021-2022, soaring inflation (in large part attributable to ill-conceived government policies) and the debilitating effects of US sanctions have contributed to continued severe hardship for Cuban households and businesses.

After concluding a comprehensive review of its Cuba policy in May 2022, the Biden administration did ease some restrictions, such as permitting direct flights from the US to Cuban airports outside of Havana and relaxing the limits on remittances. In early 2023, the US Embassy in Cuba resumed visa and consular services for the first time since 2017, when most of the diplomatic staff were ordered home amid an outbreak of unexplained illnesses dubbed "Havana syndrome." However, the resumption of services has focused mainly on facilitating the reunification of Cuban emigres with relatives already living in the US, and the Biden administration has made clear that the continued imprisonment of hundreds of dissidents on charges related to the 2021 protests poses an obstacle to a broader thaw.

The government unveiled a package or reform measures last year designed to provide some oxygen to a choking economy. The changes included the lifting of restrictions on foreign investment in the domestic retail and wholesale trade, which had been fully controlled by the public sector since the start of

Communist rule in 1959. But as has been the case with the overall program of liberalization launched by former President Raúl Castro in 2015, the reforms amount to a patched-up response to an immediate political problem, rather than the thoughtful and deliberate implementation of a coherent economic strategy.

Private grocery stores have proliferated under the relaxed rules, their operations facilitated by an exception to the US trade embargo that permits exports of food to Cuba and the increasingly common practice of Cuban Americans electronically purchasing food from private businesses that is then delivered to relatives on the island, thereby circumventing restrictions on family remittances. However, the success of private businesses is again fueling public complaints and official expressions of concern about excess profits and growing inequality between those Cubans who have access to dollars and the estimated 40% of the population (including many state workers and pensioners) whose income consists entirely of Cuban pesos, creating an ever-present threat of a backlash that prompts the government to crack down on the private sector.

The latest tweaks to the currency rules, including last year's five-fold increase in the exchange rate (120 pesos) at which the state purchases dollars and the more recent lifting of restrictions on deposits of US dollars into bank accounts, have similarly failed to produce the desired result. The setting of an official exchange rate close to the black-market value of the US currency was designed to channel circulating dollars generated by remittances and tourism into the formal economy, where they could be recovered by the central bank. Critics warned that the currency reforms would merely increase the supply of pesos chasing too few goods, resulting in a renewed surge in the cost of dollars in the informal market that would stoke already very high inflation and erode the spending power of peso-dependent households, while making little positive contribution to economic performance.

Independent tracking of the informal currency market indicates that those fears have been realized, with the informal exchange rate plummeting to an estimated CUP250 to the dollar. For public employees who receive no remittances, average earnings of CUP5,000 per month will purchase just $20 in the black market with which to purchase items that are in short supply (if not completely unavailable) in state stores.

DISMAL ECONOMIC CONDITIONS

In his mid-year assessment of the economy in July, Economy Minister Alejandro Gil reported that real GDP growth for the first half of the year was less than 2%, following annual growth of 1.8% in 2022, while inflation has accelerated to 45%, up from an average of 39% last year. Neither of those figures can be reconciled with other figures reported by Gil—who revealed that activity in the primary sector is at just 65% of the pre-pandemic level and manufacturing is down by 20% compared to 2019—or the reports of the plummeting value of the peso in the informal market, the persistence of chronic power outages, and widespread shortages of basic goods. Indeed, many economists contend that current conditions are worse even than those of the so-called “special period” that followed the collapse of the Soviet Union in the early 1990s.

Although the tourism industry showed signs of recovery in 2022, the occupancy rate at hotels was just 15.6%, indicating that the number of visitors was still a small fraction of the 4.6 million recorded in the peak year of 2017. According to Gil, export earnings for the first six months of 2023 totaled $1.3 billion, barely more than one-third of the official projection, while imports amounted to $4.4 billion, greatly exceeding the government’s forecast.

The high imports bill reflects a significant deterioration of domestic productive capacity that is magnified by power-related disruptions to economic activity. The inadequacies of the electricity supply stem mainly from a lack of investment in the upkeep of generation and distribution infrastructure and the dependence on fossil fuels to produce electricity. Unfortunately, those weaknesses do not lend themselves to quick fixes.

On balance, any real economic growth is likely to be minimal in the near term, and a contraction is a distinct possibility. Although the goods deficit will be mostly offset by large surpluses in the services and transfers balances, the sluggish recovery of tourism and restrictions on remittances point to a somewhat larger current account deficit in 2023.

The high cost of food imports will sustain upward pressure on the consumer price index. The official inflation rate is determined using metrics that do not capture many economic transactions. Independent estimates based on other factors such as the value of the peso on the black market, which contributes to a much higher cost of goods purchased with dollars in the informal economy, suggest that the actual inflation rate was 75%-80% in 2022 and will remain in high double digits this year.

INTERNATIONAL COUNTRY RISK GUIDE (ICRG) RATINGS

PRS' Country Reports and Economic Forecasts (CREF) and the International Country Risk Guide (ICRG) have been independently back-tested for accuracy and relevance for over 40 years.

In a landmark 2014 study published in the International Journal of Business Studies* – using data on political risk clams and a unique textual-based database of risk realizations – both CREF and ICRG forecasts were found to have "predictive power for both political risk insurance claims as well as political risk events measured by news coverage."

It is therefore instructive to present the scores from Table 1 of the ICRG for a complimentary look at the composite risk scores – calculated by using a combination of the overall political, financial, and economic risk metrics – for the 141+ countries covered each month. Please contact custserv@prsgroup.com for more information.

TABLE 1
COUNTRY RISK, RANKED BY COMPOSITE RISK RATING
SEPTEMBER 2023 VERSUS OCTOBER 2022

RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
		Very Low Risk			
1	Norway	86.8	86.3	0.5	2
2	Switzerland	86.0	87.0	-1.0	1
3	Luxembourg	85.8	85.5	0.3	4
4	Denmark	84.8	83.8	1.0	6
5	Taiwan	84.5	83.8	0.8	6
6	Singapore	84.3	85.8	-1.5	3
7	Ireland	83.8	81.8	2.0	9
8	Saudi Arabia	82.5	85.5	-3.0	4
9	Brunei	81.5	79.5	2.0	15
10	Canada	80.8	81.3	-0.5	10
10	Iceland	80.8	80.0	0.8	14
10	Qatar	80.8	78.8	2.0	17

* C Harvey, et al., "Political Risk Spreads," Journal of International Business Studies, (2014), 471-493.

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	**COUNTRY**	**COMPOSITE RISK RATING 09/23**	**COMPOSITE RISK RATING 10/22**	**09/23 VERSUS 10/22**	**RANK IN 10/22**
13	Japan	80.5	75.8	4.8	25
13	Netherlands	80.5	79.3	1.3	16
13	United Arab Emirates	80.5	82.3	-1.8	8
16	Korea, Republic	80.3	77.0	3.3	23
17	Kuwait	80.0	80.8	-0.8	11
17	Sweden	80.0	80.3	-0.3	13
	Low Risk				
19	Australia	79.5	80.8	-1.3	11
19	Botswana	79.5	76.3	3.3	24
21	Germany	79.3	78.3	1.0	18
22	Finland	78.8	78.0	0.8	20
23	Hong Kong	78.0	73.8	4.3	36
24	New Zealand	77.8	74.8	3.0	32
25	Portugal	77.0	75.0	2.0	31
25	Trinidad & Tobago	77.0	77.5	-0.5	22
27	Austria	76.5	78.0	-1.5	20
27	Oman	76.5	78.3	-1.8	18
29	Czech Republic	76.0	75.5	0.5	28
30	Kazakhstan	75.5	75.5	0.0	28
31	Guyana	75.3	75.8	-0.5	25
32	Malaysia	75.0	73.0	2.0	40
33	Uzbekistan	74.8	72	2.5	43
34	Bahamas	74.5	70.8	3.8	55
34	Belgium	74.5	74.0	0.5	35
34	Italy	74.5	72.8	1.8	41
37	Israel	74.3	74.8	-0.5	32
38	Slovenia	74.0	72.3	1.8	43
38	United Kingdom	74.0	75.8	-1.8	25

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
40	Azerbaijan	73.8	73.3	0.5	38
40	Croatia	73.8	73.3	0.5	38
40	Libya	73.8	70.5	3.3	59
40	Malta	73.8	74.3	-0.5	34
40	Panama	73.8	73.5	0.3	37
40	Uruguay	73.8	75.5	-1.8	28
46	Costa Rica	73.0	72.0	1.0	45
47	Latvia	72.8	71.0	1.8	52
48	France	72.5	71.8	0.8	48
48	Jamaica	72.5	72.0	0.5	45
50	Chile	72.0	70.5	1.5	59
50	Dominican Republic	72.0	72.5	-0.5	42
50	Spain	72.0	72.0	0.0	45
53	Philippines	71.8	70.0	1.8	61
54	Bulgaria	71.5	70.0	1.5	61
54	Vietnam	71.5	70.8	0.8	55
56	Poland	71.3	70.8	0.5	55
57	Brazil	71.0	69.0	2.0	70
58	Hungary	70.8	71.3	-0.5	50
59	Thailand	70.5	64.3	6.3	91
60	Guatemala	70.3	71.0	-0.8	52
60	India	70.3	69.5	0.8	64
60	United States	70.3	71.5	-1.3	49
63	Cyprus	70.0	69.5	0.5	64
63	Gabon	70.0	66.0	4.0	85
	Moderate Risk				
65	China, Peoples' Rep.	69.8	69.5	0.3	64
65	Lithuania	69.8	69.8	0.0	63

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
67	Greece	69.5	67.3	2.3	78
68	Bahrain	69.3	68.8	0.5	71
68	Estonia	69.3	70.8	-1.5	55
68	Indonesia	69.3	68.3	1.0	73
68	Papua New Guinea	69.3	69.3	0.0	67
72	Namibia	69.0	71.0	-2.0	52
73	Iraq	68.8	71.3	-2.5	50
74	Congo, Republic	68.5	63.8	4.8	96
74	Mexico	68.5	68.8	-0.3	71
74	Peru	68.5	68.0	0.5	75
77	Algeria	67.8	69.3	-1.5	67
78	Slovakia	67.5	68.3	-0.8	73
79	Romania	67.3	66.3	1.0	84
79	South Africa	67.3	66.8	0.5	81
81	Honduras	67.0	66.8	0.3	81
82	Gambia	66.8	65.8	1.0	88
82	Russia	66.8	66.0	0.8	85
84	El Salvador	66.5	63.5	3.0	98
84	Mongolia	66.5	65.5	1.0	89
84	Serbia	66.5	66.8	-0.3	81
87	Morocco	66.3	64.3	2.0	91
88	Ecuador	66.0	67.5	-1.5	76
88	Tanzania	66.0	64.8	1.3	90
90	Guinea-Bissau	65.3	62.5	2.8	103
90	Jordan	65.3	64.0	1.3	95
92	Paraguay	65.3	64.3	1.0	91
93	Albania	64.8	67.5	-2.8	76
94	Bolivia	64.5	66.0	-1.5	85

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
95	Nicaragua	63.8	62.8	1.0	100
96	Bangladesh	63.5	62.5	1.0	103
96	Cote d'Ivoire	63.5	61.0	2.5	107
96	Togo	63.5	62.8	0.8	100
99	Colombia	63.3	63.8	-0.5	96
100	Iran	63.0	67.0	-4.0	79
101	Madagascar	62.8	62.8	0.0	100
102	Angola	62.3	67.0	-4.8	79
103	Zambia	62.0	63.0	-1.0	99
104	Belarus	61.8	56.5	5.3	126
104	Cuba	61.8	69.3	-7.5	67
104	Ghana	61.8	59.0	2.8	114
107	Cameroon	61.5	59.8	1.8	110
108	Moldova	61.3	58.8	2.5	116
108	Ukraine	61.3	56.3	5.0	127
110	Armenia	61.0	60.5	0.5	108
111	Guinea	60.0	57.3	2.8	124
111	Mozambique	60.0	53.5	6.5	132
111	Uganda	60.0	59.3	0.8	112
High Risk					
114	Tunisia	59.8	61.3	-1.5	106
115	Burkina Faso	59.0	58.3	0.8	118
116	Suriname	58.8	59.0	-0.3	114
117	Senegal	58.5	58.0	0.5	122
118	Ethiopia	58.0	58.0	0.0	122
119	Mali	57.8	58.3	-0.5	118
120	Zimbabwe	57.5	61.5	-4.0	105
121	Congo, Dem. Republic	57.0	60.3	-3.3	109

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
121	Kenya	57.0	58.3	-1.3	118
121	Myanmar	57.0	55.8	1.3	128
124	Haiti	56.5	54.8	1.8	130
125	Argentina	56.3	64.3	-8.0	91
125	Sierra Leone	56.3	53.8	2.5	131
127	Egypt	56.0	59.3	-3.3	112
128	Yemen, Republic	55.8	48.3	7.5	138
129	Nigeria	55.5	59.8	-4.3	110
130	Turkey	55.3	55.8	-0.5	128
131	Liberia	55.0	58.3	-3.3	118
131	Venezuela	55.0	58.5	-3.5	117
133	Sri Lanka	54.5	48.5	6.0	137
134	Malawi	52.8	51.0	1.8	135
135	Somalia	51.8	52.0	-0.3	133
Very High Risk					
136	Korea, D.P.R.	49.3	51.0	-1.8	135
136	Pakistan	49.3	52.0	-2.8	133
138	Niger	46.8	56.8	-10.0	125
139	Syria	45.0	43.8	1.3	139
140	Sudan	44.8	43.0	1.8	140
141	Lebanon	35.0	41.5	-6.5	141