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RECENT MACROECONOMIC PERFORMANCE OF THE CUBAN ECONOMY: 2015–2024

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Abstract: This paper evaluates the macroeconomic performance of the Cuban economy during the 2015–2024 period, a decade marked by the impact of the COVID-19 pandemic, the tightening of U.S. sanctions, and the accumulation of internal imbalances. Through a descriptive analysis based on official statistics and the estimation of the output gap using the Hodrick-Prescott filter, the dynamics of the real sector, the monetary sector, and public finances are examined. The results reveal a context of stagflation: GDP contracted by 10.9% in 2020 and has not managed to recover to pre-pandemic levels, with signs of a loss of installed productive capacity. In the monetary sphere, the 2021 exchange rate unification (Tarea Ordenamiento) triggered an unprecedented inflationary process. Public finances exhibit persistent fiscal deficits, and fiscal policy still lacks the institutional arrangements to limit quasi-fiscal operations and enable it to fulfill its stabilization function. It is concluded that economic recovery, price stabilization, and the transformation of the regulatory framework require interdependent reforms in the fiscal, monetary, and investment spheres, the proper sequencing of which is critical to their success.

JEL: E31, E32, E42, E58, E66

Keywords: macroeconomics, economic crisis, Cuba, inflation, fiscal deficit, quasi-fiscal, central planning.

1. INTRODUCTION

The Cuban economy has faced successive economic crises in a very short period, which has resulted in severe macroeconomic imbalances that have called into question the stability and sustainability of the economic system. Consequently, economic policy measures have been implemented to address adverse domestic and international conditions, which have repeatedly transformed the general economic framework within very short periods. In this context, policymakers have had to balance stabilizing the economy with adapting their regulatory tools to new circumstances.

However, certain elements of the economic framework have remained unchanged, such as: i) the central role of the government in production processes and resource allocation, ii) the high vulnerability and dependence of economic activity on international conditions, and iii) the recessionary impact of the U.S. sanctions regime. These factors highlight the need to reinterpret conventional analytical tools when evaluating the macroeconomic performance of a small, open economy based on centralized planning, as is the case with Cuba.

The Cuban economy has faced unprecedented hardships during the five-year period following 2020. Overall macroeconomic performance has been poor and has shown a tendency toward continuous deterioration as a result of the systematic impact of negative external shocks, such as the health restrictions associated with the COVID-19 pandemic and the tightening of U.S. sanctions. However, one must also acknowledge the impact of accumulated past imbalances, inconsistencies in economic policy management, and the meager results of development plans. The current crisis has confronted Cuban society and policymakers with difficulties very similar to, and even worse than, those that arose during the crisis of the so-called “Special Period” of the 1990s, when the country lost around 80% of its international trade and gross domestic product contracted by approximately 35% in just three years.

This paper aims to evaluate the performance of the Cuban economy based on key macroeconomic variables, as well as to assess the impact of internal and external factors that have influenced it. The document consists of five sections. The first section presents an overview of the Cuban economy. The second section addresses economic performance and its components through the lens of expenditure and the main economic sectors. The third section covers the analysis of the monetary sector and inflation. The fourth section deals with the

performance of public finances. The fifth section presents the main conclusions for the period analyzed.

2. REAL SECTOR

2.1. GROWTH AND COMPONENTS OF EXPENDITURE

According to studies conducted by Vidal & Fundora (2008), the economic cycles of the Cuban economy have been closely linked to fluctuations in the international environment. Expansive phases are strongly associated with Cuba's ability to engage advantageously in trade and financial relations with its foreign partners. Conversely, contractionary phases have been preceded by the weakening or total loss of this link, as occurred when the island lost preferential access to the markets of the member countries of the Council for Mutual Economic Assistance, as well as the subsidies and technology transfers received from the Union of Soviet Socialist Republics (USSR) (ECLAC, 2000).

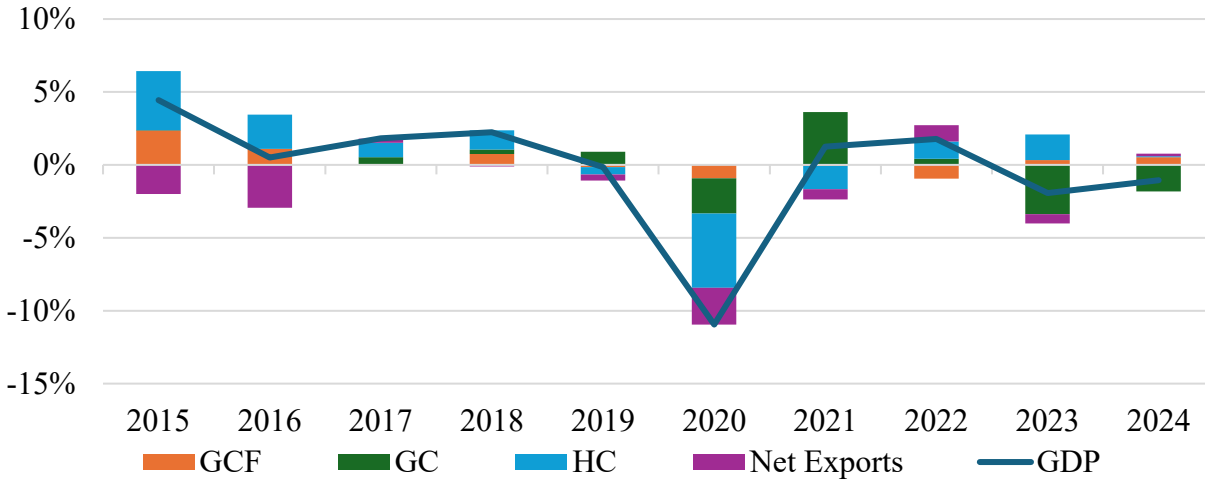
In the first decade of the 21st century, Cuba found a new strategic partner in the Bolivarian Republic of Venezuela, with which it signed a Comprehensive Cooperation Agreement[1] that allowed for the expansion of professional services exports and consequently deepened the trend toward a service-based economy as the main driver of productive activity.

Given this, a slowdown in economic activity was foreseeable when the U.S. government began imposing sanctions on Venezuela starting in 2015. During the 2015–2019 period, average GDP growth was a mere 1.8%, representing one-third of the growth rate that, according to Hidalgo & Cribeiro (2015), needed to be sustained for at least 10 years to achieve the development goals set by the authorities. The impact of this negative external shock far outweighed the positive influence of the brief process of diplomatic and trade opening with the United States that began in 2014 and led to renewed investor interest from foreign partners and the Cuban émigré community (Hidalgo & Triana, 2022).

Figure 1 shows the evolution of GDP growth at constant 1997 prices and the contribution in percentage points (p.p.) of the expenditure components.

[1] This agreement was signed on October 30, 2000, and established a framework for bilateral cooperation in strategic areas such as health, education, energy, science, and technology. Venezuela committed to supplying oil and petroleum products to Cuba on preferential payment terms, while Cuba would provide professional services—particularly medical and educational personnel—as well as technical assistance in various fields.

Figure 1. GDP growth and its components.



Source: Prepared by the author based on data from the Statistical Yearbook of Cuba (ONEI, 2025).

Figure 1 reveals several relevant aspects. Most of the GDP growth during the 2015–2019 period was driven by household consumption, which contributed, on average, 2 p.p. to total growth, followed by fixed capital investment, with 1 p.p. On the other hand, the contribution of government consumption and net exports was zero and negative (-1 p.p.) on average. These data reflect a scenario of weak growth where the use of domestic resources and those obtained from abroad through the trade deficit was primarily directed toward non-productive consumption. It is worth noting that the share of investment spending within GDP remained at around 15% during that period, which is a very low level for an economy in the early stages of development.

This indicates that, prior to the impact of the pandemic, economic growth was already trapped in a spiral of external debt and deteriorating productive capacities, due to sluggish investment. The adverse international context was not the only factor holding back growth. Hidalgo & Triana (2022) point to the pernicious impact of excessive regulation on the private sector and foreign direct investment, as well as the lack of comprehensiveness in the reform process aimed at transforming the economic operating framework—based on central planning—into one based on resource allocation through the market and indirect regulatory instruments.

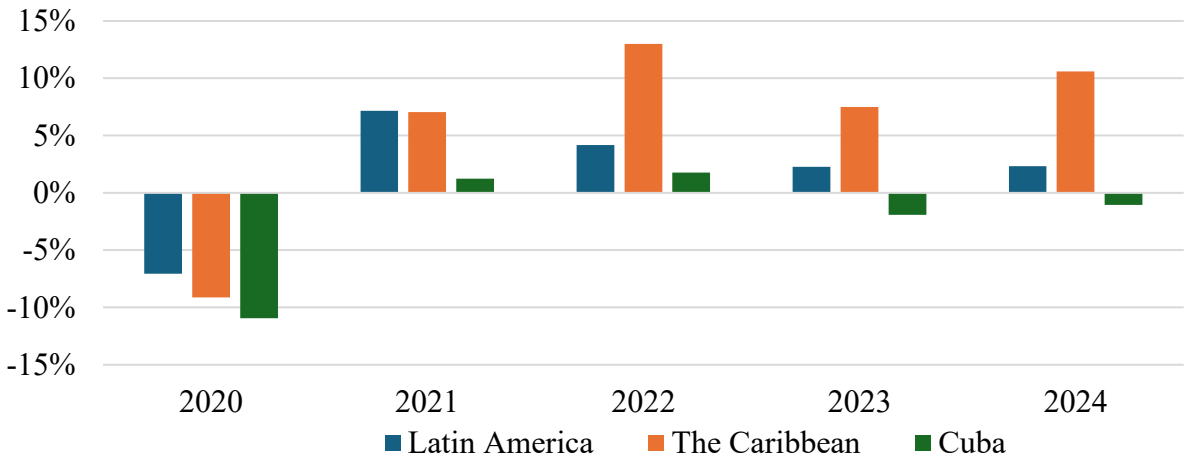
2.2. OUTPUT GAP AND PRODUCTIVE CAPACITY

Consequently, Cuba faces the impact of the COVID-19 pandemic in a very precarious situation with little room to maneuver to cushion the impact of the negative external shock. In 2020, GDP contracted by 10.9%. Health restrictions imposed bans on the movement of people at the

national and international levels, which severely affected the export of tourism services, which since the 1990s had become the main economic driver. This partly explains why exports were the single component of GDP expenditure that contracted the most, by 20.5%. The reduction in external revenues led to fewer resources available to meet final consumption needs, with government spending being the hardest hit, falling by 10.1%, followed by household spending, which decreased by 8.7% that year.

However, the impact of the pandemic is not the only factor explaining the negative trend in economic activity.

Figure 2. Comparison of regional GDP trends

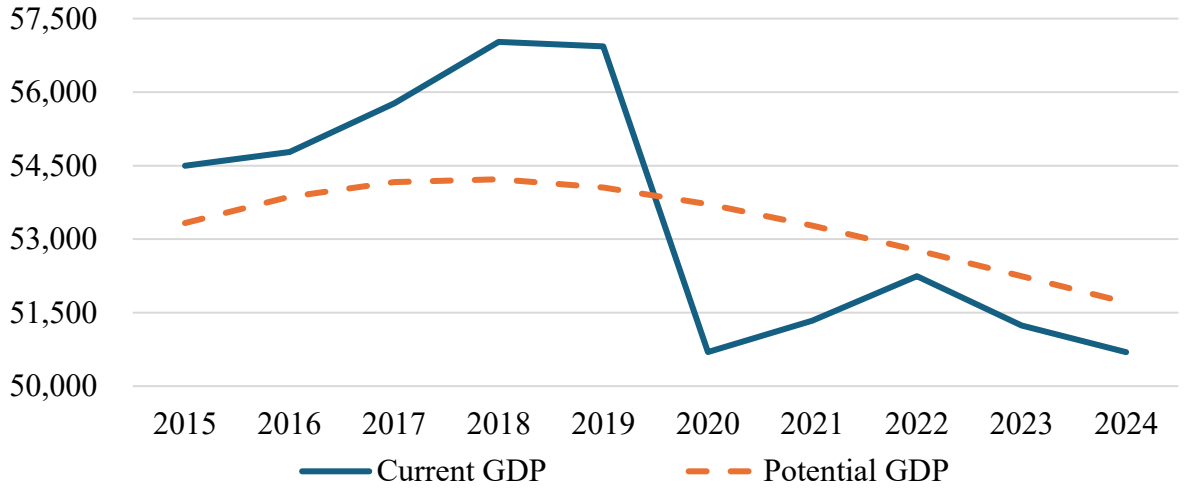


Source: Prepared by the author based on data from the Statistical Yearbook of Cuba and ECLAC.

Figure 2 shows that the Cuban economy has performed well below the average of the rest of the Latin American and Caribbean economies. The average GDP growth of the Cuban economy since 2020 has been -2.3%, while that of Latin America and the Caribbean has been 1.7% and 5.5%, respectively.

The Cuban economy's trajectory, which diverges sharply from that of its regional peers, is due to the persistence of a combination of adverse external conditions and the accumulation of internal imbalances. Beginning in 2019, the administration of President Donald J. Trump tightened the sanctions regime against Cuba, specifically targeting fuel imports and key state-owned enterprises; these measures were maintained by the following administration. On the other hand, the lifting of health restrictions took much longer in Cuba than in its regional competitors, causing the country to lose market share and a significant portion of its revenue from the tourism industry.

Figure 3. Output Gap (millions of Cuban pesos at constant 1997 prices)



Source: Prepared by the author based on data from the Statistical Yearbook of Cuba.

Figure 3 shows the evolution of GDP levels in millions of Cuban pesos at constant 1997 prices relative to potential output. Potential output was estimated using the Hodrick-Prescott filter technique to smooth the data series from 1996 to 2024, with a value of $\lambda = 100$, which is appropriate for annual series according to Choudhary et al. (2014). Following the severe economic downturn in 2020, output has consistently remained below its potential, indicating the persistence of the recessionary cycle. Also of concern is the decline in the level of potential output, a fact that points to a probable loss of productive capacity. Although this argument would need to be cross-checked with other techniques for estimating potential output based on a production function, it is highly plausible given that gross capital formation has been insufficient during the period in question, failing to cover even the expenditure necessary for the replacement of depreciated capital[2]. This issue seriously compromises the future capacity to generate goods and services that would allow for the recovery and increase of real household income, as well as the government's capacity to fund social programs that address the needs of the most vulnerable.

3. MONETARY SECTOR

Changes to the monetary and exchange rate regime have been varied and recurrent over the past three decades. The Cuban economy underwent a process of *de facto* partial dollarization during the crisis of the 1990s. Subsequently, it regained monetary sovereignty in 2004 through the de-dollarization of the economy. Finally, as a result of an acute foreign exchange liquidity crisis, a

[2] Hidalgo & Triana (2022) state that adjusting spending on productive investments has consistently been the primary adjustment variable used to address the adverse circumstances the Cuban economy has faced.

balance of payments deficit, and high external debt, the government resumed de jure partial dollarization as a mechanism to recover foreign exchange earnings.

Similarly, it is important to note that under the institutional framework of a centrally planned economy, the Cuban financial system plays a secondary role in resource allocation, and its primary function is to provide the means of payment to execute the transactions outlined in the economic plan. This creates a situation of fiscal dominance in which the money supply responds to the government's needs and monetary policy objectives are subordinated to those of fiscal policy, as outlined by Hidalgo & Barceló (2013), Lage (2016), and Lage & Cruz (2022).

In turn, one of the most important characteristics has been monetary and exchange rate duality. Monetary duality referred to the situation following the 2004 de-dollarization, in which the U.S. dollar (USD) was replaced by the Cuban convertible peso. As a result, two different national currencies remained in circulation within the national economy: the Cuban peso (CUP) and the Cuban convertible peso (CUC). On the other hand, exchange rate duality refers to the system of multiple exchange rates in which the CUP had two different prices against the USD, depending on the sector of the economy where it was used. In the household and private enterprise sector, the exchange rate was approximately 25 USD/CUP, while in the segment where government agencies, state-owned enterprises, and foreign companies operated, the reference exchange rate was 1 USD/CUP.

This monetary-exchange regime served as a tool for the government to arbitrarily determine the transfer of resources between segments of the economy by deciding who participated in one segment or the other. In practice, this allowed the authorities to redirect resources from the most dynamic sectors —those generating foreign exchange revenue— to the less productive and more vulnerable ones. This scheme was accompanied by a complex system that included a state monopoly on foreign trade, administrative and price-setting for wholesale and retail sales, and strict regulation of monetary flows between the state and non-state segments of the economy.

The complexity of the imposed system led to an overvaluation of the official exchange rate and distortions in relative prices that spread to all sectors of the economy. This prevented accurate economic calculations, leading to an inadequate allocation of resources, a deterioration in incentives to export, and an increased propensity to import; it also created an environment unfavorable for attracting foreign investment, as well as shortages and rationing of foreign exchange—all of which reinforced the incentive for authorities to tighten direct and strict

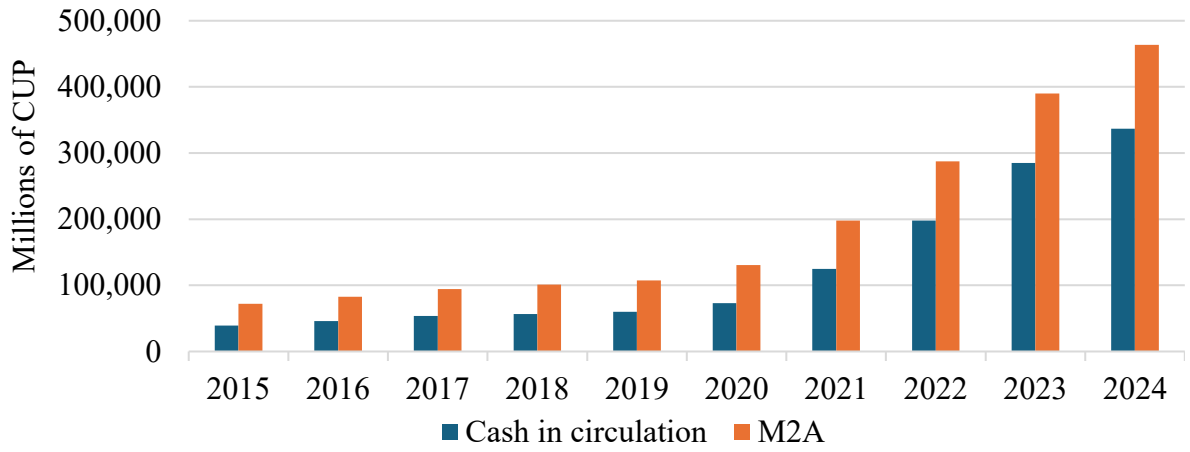
control over the economy. On these points, leading policymakers and authors such as Vidal (2008) and Hidalgo & Doimeadios (2003) agreed, arguing for the urgent need to take action toward monetary and exchange rate unification.

The set of measures aimed at unifying official exchange rates was launched in January 2021 under the name "Tarea Ordenamiento," which unified the dual system of official exchange rates. However, this took place in an extremely complex context, marked by economic recession, the rise in the fiscal deficit associated with spending on medical supplies and the resulting increase in money supply, and the resumption of partial dollarization.

The complexity of the measures associated with exchange rate unification and the precariousness of the general economic context entailed a massive adjustment in employment and economic activity, particularly in those sectors that were net importers and benefited from the overvaluation of the exchange rate. This entailed an economic (a 2,300% devaluation) and political cost that the authorities were unwilling to bear, as evidenced by the fact that twelve months after the devaluation, approximately 450 large and medium-sized state-owned enterprises with operating losses remained in operation[3] , sustained by government transfers and soft loans granted by state-owned financial institutions. These circumstances prevented the exchange rate unification program from achieving its primary objective.

The most compelling evidence of the accumulation of monetary imbalances can be seen in the trajectory of the main monetary aggregates.

Figure 4. Major monetary aggregates (outstanding end of December)



Source: Prepared by the author based on data from the Central Bank of Cuba.

[3] As stated by the Minister of Economy and Planning during a session of the Council of Ministers. (Tamayo, 2022)

The designation of monetary aggregates in Cuba follows the segment-based classification that was common in centrally planned socialist economies[4] . Subindex A refers to money held by households and the private sector, while B is used to identify the amount of money held by government agencies and state-associated enterprises. Thus, M2A encompasses cash in circulation outside the vaults of financial institutions[5] and demand deposits, checking accounts, and time deposits held by the non-state sector.

The amount of money held by the non-state sector (M2A) grew at an average annual rate of 10.6% during the 2015–2019 period, while in the years following 2020, this growth accelerated to 33.9%. By the end of 2024, the M2A aggregate had increased 3.5-fold compared to the same date in 2020. This triggered the onset of an inflationary spiral fueled by the contraction in the supply of goods and services and the underdeveloped financial system through which to channel excess monetary and[6] balances (Lage & Cruz, 2022).

In 2021, there was a significant jump in the general price level due to the administrative increase in government-set prices and wages by approximately fivefold.

Table 1. Annual variation in selected price indices.

Years	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
GDP Deflator	3.4%	4.3%	4.1%	1.0%	3.5%	16.6%	401.6%	14.1%	33.6%	32.2%
HC Deflator	1.8%	0.9%	4.4%	1.1%	1.9%	5.3%	442.1%	33.9%	66.6%	46.3%
CPI (average)	1.9%	0.0%	-1.3%	0.8%	0.9%	3.8%	51.2%	31.1%	39.9%	29.9%

Source: Prepared by the author based on data from the Statistical Yearbook of Cuba.

However, following this initial "controlled" increase, prices continued their rapid upward trend, as shown in Table 1. Several price indices were selected to analyze the dynamics of inflationary pressures, given that the consumer price index (CPI) has serious shortcomings in capturing the evolution of final prices[7] .

[4] To delve deeper into this topic, we recommend reading Lage (2016) and Pérez (2011).

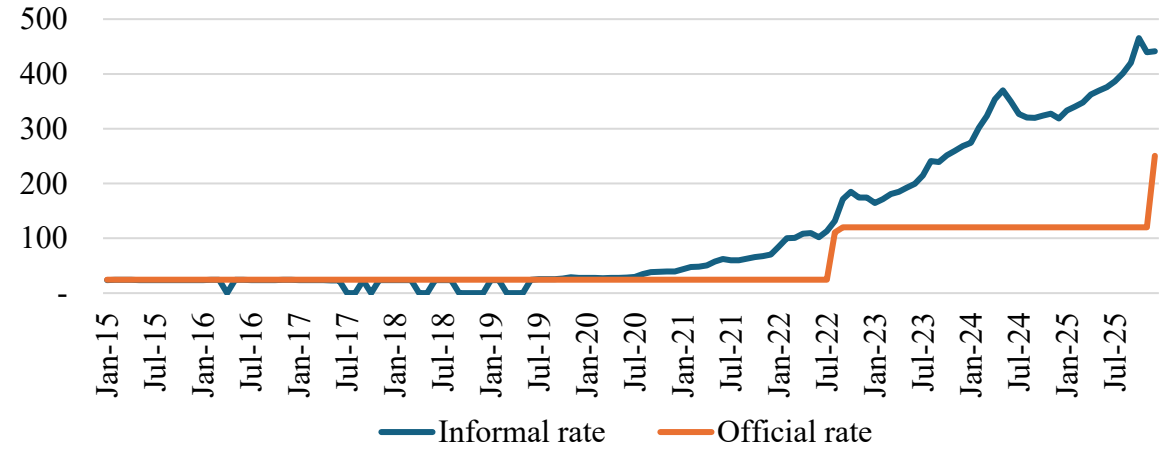
[5] It is assumed that all cash in circulation is held by the non-state sector, given that the operations of the government and its enterprises are almost entirely bank-based. (Lage, 2016)

[6] The existence of a wide variety of savings and investment instruments would have partially cushioned the inflationary impact of money supply growth, as savers would have options for where to place their surpluses; however, this is not possible in the Cuban context, where practically the only alternatives for asset accumulation are the purchase of durable goods or foreign currency.

[7] The CPI price weights are calculated based on a representative household consumption basket from 2010, making them significantly outdated relative to the current consumption structure. Furthermore, the extensive use of administrative price controls leads to rationing in goods and services markets that is not adequately captured by the index.

The monetary imbalance was not limited to runaway inflation. The Cuban peso experienced a rapid loss of value against the U.S. dollar.

Figure 5. Average Monthly USD/CUP Exchange Rate



Source: Prepared by the author based on data from the Central Bank of Cuba and the website www.eltoque.com.

This was accompanied by a boom in the informal currency market, which is primarily used by individuals and private entrepreneurs. This was due to rationing in the official foreign exchange market, resulting from the de facto implementation of a fixed exchange rate regime amid acute foreign exchange shortages and a surge in demand for foreign currency driven by the process of partial dollarization, which left financial institutions unable to meet their clients' foreign exchange needs.

The cumulative depreciation of the national currency in the informal market from December 2020 to December 2025 is 1,025.3%, as it rose from 39 USD/CUP to 442 USD/CUP. Following the devaluation of the official exchange rate in January 2021, the central bank has devalued the exchange rate twice more for transactions carried out by individuals and private companies in order to narrow the gap with the informal exchange rate and bring the exchange rate system into line with market realities, thereby progressively restoring the peso's convertibility and correcting relative price distortions. This marked a return to the pre-2021 multiple exchange rate regime.

It can be argued that, in the current context, monetary authorities have lost their three anti-inflationary anchors: control over monetary aggregates, exchange rate stability, and the ability to set prices in the retail market (Truebas, 2023). Stabilizing inflation remains a priority for the central bank, but it faces the complexity of prevailing external shocks and the need to rebuild monetary policy transmission mechanisms.

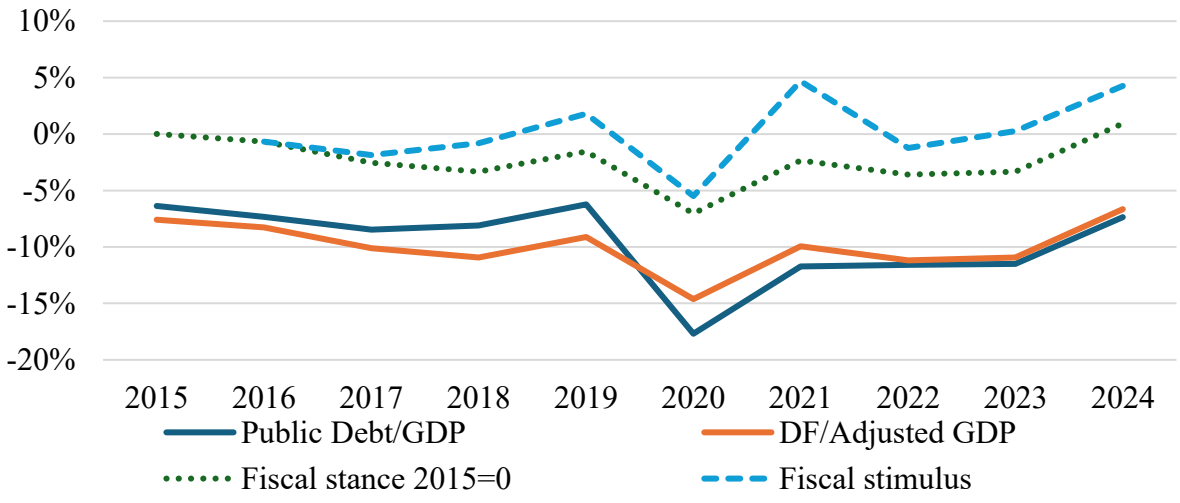
4. FISCAL SECTOR

The State Budget has been the primary tool for allocating monetary resources, serving to validate the prior allocation of material resources by the central planner. This is evidenced by the fact that over the past thirty years, final government consumption has accounted for an average of more than 30% of nominal GDP. Therefore, public finance items reflect the events occurring in the economy. Similarly, taxation and public spending measures have a major influence on economic activity.

Cuban fiscal institutions have gradually evolved to adapt to an economy where market relations play a more prominent role. In the 1990s, as part of the measures to address the crisis of the Special Period, the National Tax Administration Office was created as the government agency responsible for collecting the new taxes being implemented. Subsequently, in 2012, government bonds were issued for the first time to finance the fiscal deficit without having to resort to overdrafts on the government's account at the central bank. This marked a very important step in the institutionalization of relations between the Ministry of Finance and the Central Bank, as it created an instrument that allowed the government's financing needs to be met without, in the first instance, affecting the size of the monetary base.

However, public finances face several vulnerabilities that have not been adequately addressed. The absence of clear and explicit fiscal rules has exacerbated the procyclical nature of the fiscal deficit, as public spending expands when economic activity grows and undergoes corrective adjustments when the economy weakens (Hidalgo, 2021). In this regard, there are concerns about the sustainability of public debt and the high level of fiscal deficits.

Figure 6. Fiscal Deficit



Source: Author's own compilation based on data from the Statistical Yearbook of Cuba.

As shown in Figure 6, the ratio of the fiscal deficit to nominal GDP has deteriorated throughout the analysis period. Even before the pandemic, signs of a strain on state finances were already evident. This was the result of the combined effect of sanctions imposed on Venezuela in 2014 and the tightening of sanctions against Cuba since 2017. The decline in exports of professional services to the Venezuelan market reduced tax revenues, and the reduction in Venezuelan oil shipments forced the government to purchase fuel on the international market at a price far higher than that agreed upon with Venezuela, which increased public spending.

Both the unadjusted and the cyclically adjusted deficit-to-GDP ratios[8] indicate that the public finance gap absorbed more than 10% of nominal GDP, which had a significant impact on the expansion of the money supply and inflation. The fiscal stance indicator[9] shown in Figure 6 indicates that fiscal policy has been expansionary throughout the period.

On the public spending side, it is worth noting the government's decision to protect economic sectors affected by the crisis through subsidies. Over the 2020–2024 period, these transfers accounted for approximately 20% of public spending. It should be noted that this pattern is not a temporary phenomenon; historically, budgetary transfers to companies in financial difficulty have accounted for around 30% of public spending, reflecting a classic case of budgetary constraint softening as described by Kornai (1986). It is also worth noting the rising cost of external debt, which is entirely borne by the government, following the devaluation of the official exchange rate. Finally, wage pressures among public sector employees significantly increased budget expenditure items, as this group of employees was the most affected by the decline in real wages amid rising inflation. Consequently, specific increases in wages and pensions were approved in the education, public health, and armed forces sectors.

On the revenue side, tariff reductions and tax exemptions for companies were introduced as part of the "Tarea Ordenamiento" initiative to limit the inflationary impact of the devaluation, but these measures remained in place over time. It is also important to note that the dollarization of retail trade has reduced fiscal resources for the budget, since the 10% sales tax does not apply

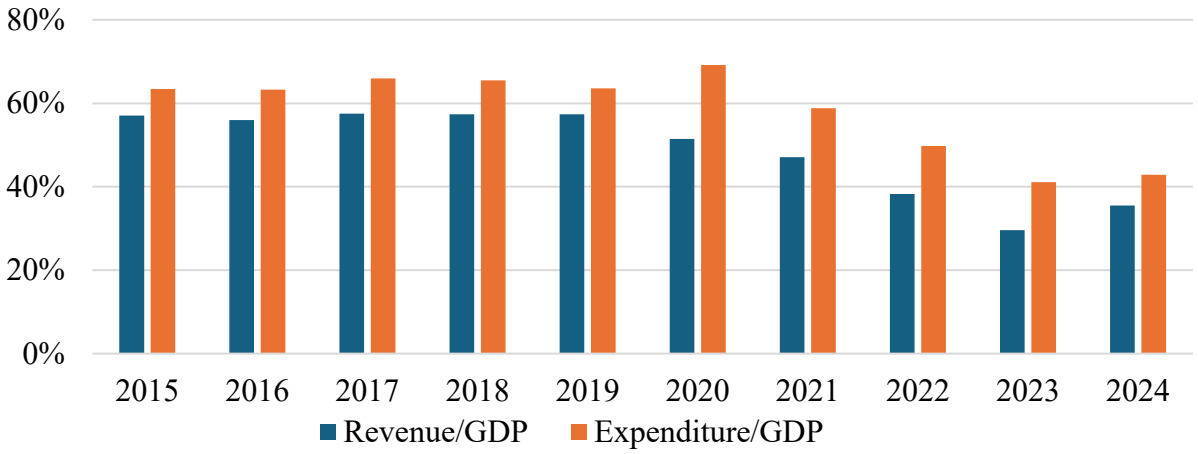
[8] The estimate of the cyclically adjusted fiscal deficit was based on the methodology established by the International Monetary Fund. A coefficient of 1 was assumed for the elasticity of tax revenue with respect to the output gap, while 0 was assumed for public spending, as recommended in (Fedelino et al., 2009).

[9] The fiscal position is calculated as the difference in percentage points between the current year's cyclically adjusted fiscal deficit-to-GDP ratio and that of a base year. The base year chosen is 2015, as real GDP for that year was at its potential level, as recommended by Fedelino et al. (2009).

to products sold in stores in foreign currency. In turn, the tax system's lag behind inflation has led a large portion of the private sector to operate in the informal economy to evade tax payments.

Figure 7 shows the evolution of the tax burden over the past decade. Although levels remain extremely high for a small, underdeveloped economy, a marked downward trend is evident.

Figure 7. Tax burden



Source: Prepared by the author based on data from the Statistical Yearbook of Cuba.

In 2019, the government collected nearly 60% of the gross value added generated in the economy while spending approximately 64%. By the end of 2024, the government had lost 24 percentage points in tax revenue relative to GDP and 21 percentage points in spending capacity. These figures reflect a reduced government role in resource allocation, stemming from measures aimed at granting greater autonomy to state-owned enterprises, but also from the growing importance of other resource transfer mechanisms such as dollar-denominated commercial transactions between companies and individuals, as well as informal markets for goods and foreign currency. In practice, this means that fiscal instruments have lost their effectiveness in influencing the economy, so the authorities will need to find other regulatory mechanisms.

The government has been taking measures aimed at achieving macroeconomic stabilization with a significant focus on fiscal consolidation. Some of these actions have been based on adjusting subsidized prices to reduce public transfers and, in turn, increase tax revenues. Some public utility rates, such as those for electricity, water, and gas, were also increased; fines for violations were raised; and tax exemptions applied to the private sector were eliminated. Adjustments have also been made on the expenditure side, but these have occurred more

naturally than through the conscious actions of the authorities. A significant portion of the reduction in government spending is attributed to unspent budget allocations caused by a shortage of supplies that could be purchased with the allocated funds. The other major area of adjustment is the public employee payroll, as many employees have moved to other sectors or emigrated to other countries due to the decline in the purchasing power of their wages. Significant progress has been made in reducing the fiscal deficit. In 2024, the fiscal deficit stood at 7.4% of GDP, falling into single digits for the first time in four years.

However, further institutional reforms are needed to ensure that fiscal policy fulfills its role in macroeconomic stabilization.

The first of these must be the elimination of quasi-fiscal operations, particularly those involving the financial system that allow the government to obtain monetary resources beyond what is authorized by law. Among those identified by Hidalgo & Barceló (2013) and Lage & Cruz (2022) are financial subsidies and exchange rate differentials. The interest rates charged by financial institutions to businesses fall within a fixed range approved by the Central Bank of Cuba, which, under conditions of high inflation, effectively becomes a subsidy from the financial system to the business sector through the charging of a negative real interest rate. Similarly, banks face moral hazard pressures from the authorities to continually renegotiate and refinance state-owned enterprises facing economic difficulties, which affects the banks' balance sheets and culminates in the central bank injecting liquidity to maintain the stability of the financial system. Meanwhile, the exchange rate differential means that the central bank incurs losses by buying foreign currency at a high price and selling it to the government at a lower price, which in itself implies a net increase in primary issuance.

5. FINAL REFLECTIONS

The Cuban economy retains the characteristics of a small economy vulnerable to fluctuations in the international environment. Although it formally maintains a model based on central planning, the gradual introduction of market elements has limited the effectiveness of traditionally available regulatory instruments.

Macroeconomic data shows a clear picture of stagflation. Economic activity has failed to recover from the impact of the pandemic and the tightening of U.S. sanctions. It is even likely that there has been a loss of installed capacity, which negatively compromises future economic growth.

Inflation levels are extremely high compared to previous years, and monetary authorities lack the necessary tools to achieve their monetary policy objectives. Fiscal dominance, partial dollarization, and exchange and price controls undermine the central bank's ability to protect the monetary functions of the Cuban peso.

Public finances are in a highly vulnerable situation, with high fiscal deficits and low revenue-raising capacity. Fiscal tools have lost their effectiveness in influencing the economy. Fiscal authorities must undertake institutional reforms that limit the inflationary impact of public financing and restore the budget's capacity as an instrument of economic stabilization.

Policymakers face three major challenges: reviving economic activity, stabilizing macroeconomic conditions, and transforming economic regulatory instruments within a context of greater openness to market relations.

Several priority courses of action emerge from the analysis. In the fiscal sphere, it is essential to eliminate quasi-fiscal operations —particularly hidden financial subsidies and exchange rate differentials absorbed by the central bank— and to institutionalize explicit fiscal rules that limit the procyclical nature of the deficit. In the monetary sphere, restoring the central bank's capacity to stabilize prices requires addressing the roots of fiscal dominance and moving toward an exchange rate regime that reflects the real conditions of the economy and allows for the restoration of the Cuban peso's convertibility, while progressively reducing the multiplicity of exchange rates. In the real sector, the level of gross capital formation must rise substantially above the levels required to replace depreciated capital, which requires relaxing regulatory conditions for foreign direct investment and the domestic private sector. These reforms are interdependent: without fiscal consolidation, monetary stabilization will be unsustainable; and without monetary stability, the necessary conditions for increasing productive investment will not exist.

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