

CUBA

TRANSFORMACIÓN

EDITION 2

STOPPING THE FREEFALL: CUBA'S EMERGENCY STABILIZATION PHASE

This article examines why the Cuban economy requires an initial phase of stabilization and emergency transformations to halt the deterioration accumulated over recent years. It analyzes the collapse of key sectors such as energy, transportation, healthcare, and infrastructure, as well as the impact of the productive crisis, external sanctions, and the loss of state capacity on both public welfare and the functioning of the economy.

The paper proposes a staged roadmap for a potential economic transformation, beginning with urgent measures aimed at restoring minimum conditions of stability and confidence. It also assesses the potential role of the private sector, the Cuban diaspora, and a possible easing of sanctions as factors that could facilitate the initial recovery and lay the groundwork for broader structural reforms.



Pavel Vidal

**Professor of Economics at Pontificia
Universidad Javeriana in Cali, Colombia**

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In 2026, several geopolitical and diplomatic factors seem to be converging that could open a window of opportunity for transforming the Cuban economy. How that transformation would take place from a political standpoint, and what its institutional and power implications would be, remains unclear. If conditions for change do emerge, it is important to have clear priorities and sequencing for implementation.

The challenge is enormous. The Cuban economy no longer has the political, social, or material time to keep postponing structural and institutional reforms. Nor does it make sense to continue with the fragmented, partial, and excessively slow reforms that have predominated in the past. The magnitude of the crisis demands moving forward decisively, though not in a haphazard or improvised way.

It is essential to recognize that not all reforms can be implemented simultaneously. Priorities must be set, the transformations organized in stages, and an order defined that maximizes results, reduces transition costs, and concentrates institutional and financial capacities where they can have the greatest impact.

From that perspective, a reasonable roadmap would consist of three stages. Each would respond to different objectives, depending on the urgency of the problems, the capacities available to confront them, and the type of results expected at each moment. The three stages are:

- **Stabilization and emergency transformations** (approximately two to three years): Halting macroeconomic deterioration, correcting the most critical imbalances and shortages, and restoring minimum conditions for the functioning of the economy.
- **Productive reactivation**: Advancing the structural and institutional transformations needed to substantially improve the efficiency of resource allocation, competitiveness, and financial credibility, achieving a sustainable recovery of productive capacity, investment, employment, and household income.
- **A strategic vision of the economic and social development model**: Defining a clear path toward international reintegration, strategically productive sectors, the mechanisms for redistributing wealth, the role of the state in the economy, and other elements of a new social contract.

While these stages would necessarily be interconnected and each would contribute to the success of the others, defining this roadmap helps organize, sequence, and provide coherence to the set of changes the country needs.

A DIFFICULT STARTING POINT, BUT WITH SOME OPPORTUNITIES

The initial phase of stabilization and emergency transformations begins from an especially critical starting point. The Cuban economy has accumulated more than a decade of significant deterioration, which worsened sharply after 2020 and has become even more severe in 2026. In addition to the productivity crisis and the decline in exports and tourism, there has been a tightening of U.S. sanctions, the interruption of oil shipments from Venezuela following the political events of January 2026, the suspension of supplies from Mexico, and a deepening of the energy crisis. The electric power grid, transportation infrastructure, water systems, health services, housing, and industrial factories, are all in highly deplorable condition.

Thus, the objectives of this first stage must be realistic and consistent with that starting point. They should not be framed as overly ambitious or unattainable short-term goals, but rather as emergency objectives aimed at halting deterioration and rebuilding the minimum conditions for economic functioning and building investor confidence.

This critical starting point coexists with three elements that could strengthen the positive effects of reforms in this initial phase:

- **The first is the existence of a private sector** that – despite operating under severe regulatory, banking, exchange-rate, and tax restrictions – has shown a significant capacity to adapt, innovate, and respond to the crisis. The expansion of the private sector is one of the few internal drivers with immediate potential to reactivate supply, employment, the availability of goods, and income generation. This is not a fully developed private sector, nor one free of obstacles, but it is an existing economic base on which an important part of the initial transformation can be built.
- **The second element is the contribution of a significant part of the Cuban diaspora.** Many Cuban Americans, and emigrants in other regions have business experience, financial and commercial connections, and capital that could be of great help grow the private sector on the island. In some cases, precedents of investment or economic ties with the private sector in Cuba already exist. A credible process of economic liberalization would strengthen the use of these capacities.

- **The third element is the possibility of windfalls from negotiations with the United States;** that is, short-term relief or extraordinary benefits associated with a possible easing of sanctions. Depending on the scope of the negotiation, those windfalls could translate into better conditions for access to foreign exchange, tourists, remittances, investment, trade, external financing, and energy supplies. This represents a possible window of opportunity that, if properly leveraged, could increase the likelihood of success for the emergency measures and reduce some transition costs.

THE HARDEST PART OF THE ADJUSTMENT HAS ALREADY TAKEN PLACE

In designing the measures and policies for the first phase, it must be recognized that a distorted and socially very costly adjustment has already been taking place in the Cuban economy. The state has been withdrawing from goods and services markets, reducing its capacity to provide through the ration book (or “la libreta”) to a minimum, and deteriorating the coverage, quality, and real value of essential services such as health care, education, transportation, electricity, and waste collection. To this must be added the near disappearance of public investment in infrastructure and housing, as well as the pulverization of the real value of public-sector wages and pensions. In aggregate terms, this has meant a very significant contraction in the state's real spending, shifting an increasing share of the costs of the crisis onto households.

Part of the fiscal and monetary imbalances has already been correcting itself, but not as a result of a coherent stabilization program. Rather, the correction has come through an asymmetric adjustment that has befallen consumption, real income, and general well-being. Inflation and the pace of depreciation of the Cuban peso have tended to moderate relative to their previous peaks, but largely because the deterioration in real wages, pensions, and public spending has compressed domestic demand and forced an adjustment through impoverishment.

This is why the first phase of stabilization should not be understood in the conventional sense of a program focused exclusively on reducing inflation, the fiscal deficit, or the government debt. Under Cuba’s current conditions, stabilization must be understood in a broader sense.

SIX GENERAL OBJECTIVES FOR STABILIZATION

Under this logic, over an approximate three-year horizon, the stabilization and emergency transformation phase could focus on the following objectives.

- Halt the productive contraction and lay the foundations for a gradual recovery of supply in some industries.
- Promote the expansion of the private sector as a driver of productive reactivation, employment generation, and expanded domestic supply.
- Foster the correction of relative prices and the exchange rate so that market economic signals can be established for resource allocation.
- Transform the labor market to facilitate the reallocation of employment while preserving the stability of the average real wage.
- Generate minimum conditions of confidence and predictability for the arrival of foreign capital and the reactivation of investment.
- Maximize the economic opportunities arising from a possible easing of sanctions and greater external openness.

Given the difficult initial conditions, marked by the deterioration of economic and social infrastructure, market reforms and the lifting of sanctions alone are unlikely to produce sufficient results in the short term. This first phase will very likely require some form of extraordinary support from the international community, ideally through a multilateral emergency fund to sustain minimum living conditions for the population and support the initial stage of productive reconstruction.