

CUBA

1. General trends

The decisive roll-out of new measures continued in 2013 as part of the drive to update the Cuban economic model. Of particular note was the implementation, early in the year, of a policy for granting subsidies to individuals for building or repairing housing, which contributed to 18% growth in the construction sector. New rules on land-use rights (Decree-Law No. 300) took effect towards the end of the year, increasing the area of land handed over, permitting housing construction, and extending the duration for which the land can be worked. To boost economic activities in the non-State sector, the creation of 230 experimental non-farm co-operatives was authorized in December 2012. They will be independently managed and engage in 47 activities relating to transport, construction services and materials production, personal, domestic and professional services (translation, information technology and accounting). The first ones will start to operate in July 2013.

Tax System Law No. 113 in line with Cuba's new economic reality came into force on 1 January 2013 (the previous law dated back to 1994). A new migration policy was also introduced, making it easier to travel abroad and for emigrants to return to Cuba, although some restrictions remain. Despite external conditions remaining unfavourable owing to the crisis in a number of European countries and the continuation of the economic, trade and financial embargo against Cuba, GDP was expected to expand by 3.5%, slightly up on the 2012 figure (3.0%). However, cooling economies in several South American countries, and the delay in Cuba carrying out its investment and construction plan, have reduced its growth prospects to 3.0%.

In 2013 the policy of spending restraint in non-priority areas continued. Despite this, the projected fiscal deficit is similar to that of 2012 at 3.6% of GDP, resulting from the need to allocate resources to State enterprises, the creation of a development fund to increase bank lending, payments to agricultural producers and the increase in the contingency reserve fund. The withdrawal in previous years of some products from the rationing system drove their prices up, so inflation was higher in 2012 than in 2011 (2.0% and 1.3%, respectively). The economic-trade-financial embargo and the lingering adverse effects of the 2009 financial crisis for the global economy require that Cuba make an extra effort to balance its external accounts. In this respect, exports of services, pharmacological and biological products and nickel, as well as tourism revenues (which increased by 7.2%) and remittances, allowed the country to balance its services account as a proportion of GDP in 2012.

2. Economic policy

(a) Fiscal policy

In keeping with the goal of reallocating expenditure and using resources more efficiently, in 2013 cuts are planned —against the estimated figures for 2012— in social welfare (by 2.2%), community services (9.0%), culture and sport (9.1%), science and technology (14.2%), and basic services (19.8%). These categories together represent 32.4% of total spending. Meanwhile, public spending is due to increase considerably in housing (113.7%) and, to a lesser extent, public administration and defence (9.4%) and education (3.6%). It is therefore projected that public expenditure for 2013 will increase by 1.5% compared with the estimate for 2012. Total revenues are expected to fall by 0.3%, largely owing to a reduction of almost 8% in non-tax revenues, resulting in the projected fiscal deficit of 3.6% of GDP.

The amount allocated to subsidizing loss-making enterprises is expected to decline (by almost 38%) in 2013, and a 532 million peso development fund will be set up to stimulate production and service sector activities.

The entry into force of the new tax law and the surge in own-account activities are reflected in higher personal income tax receipts (up 17.5%). However, this tax still accounts for only a small share of total revenue (2%).

The new Tax System Law has been in force since 1 January 2013 in accordance with the economic and social policy guidelines, specifically numbers 55 to 60. The taxes described therein are denominated in pesos (CUP). Any income received by individuals or legal entities in convertible pesos (CUC) is converted to pesos at the current exchange rate. The law sets out the rules on the payment of taxes and contributions to the State budget. According to the government, the new law is more comprehensive and flexible than the previous one, insofar as it includes “special regimes and tax benefits justified by economic policy reasons”, notably a special regime for the agricultural sector and a section for own-account workers. In general, the new tax law establishes taxes on personal income, profits, sales, the use of labour, land transport, the ownership or possession of agricultural land and idle agricultural land, among others.

The following taxes will not enter into force in 2013: (i) the tax on sales, services, retail goods and services in convertible pesos, or wholesale goods; (ii) the tax on the ownership and possession of agricultural land; (iii) the tax on the ownership of vacant housing or lots; (iv) the tax on idle agricultural and forested land; (v) the tax on the use of beaches; (vi) the tax on the approved discharge of wastewater in river basins, and (vii) the tax on the right to use inland waters.

(b) Monetary policy

The trend towards greater bankarization of the economy continues, following the launch of the new credit policy in late 2011. The central bank reported that almost 210,000 loans were granted in 2012, for a total of 1.20 billion pesos. Most of these were for home building and repair. Faster lending growth is expected in 2013, owing to the entry into force of credit arrangements that widen the range of guarantees that can be used to obtain bank financing, and to the expansion of loans for non-State economic management through a revolving fund.

In 2012 there was a 4.5% increase in monetary liquidity held by individuals in pesos, in keeping with the brisker growth of non-State economic activities. This trend is likely to sharpen in 2013. Consumer loans will become operational in the medium term. Annual nominal interest rates in sectors such as agriculture and sugarcane production are currently verging on 3%, with the same rate being offered to the beneficiaries of land-use rights during the first two years.

(b) Exchange-rate policy

One of the most debated issues at national level is the gradual elimination of the dual currency. The Cuban government has been extremely cautious in implementing measures towards this goal. While there is talk of a pilot programme in a small number of enterprises, designed so that they can operate using differentiated exchange rates, this has not yet been fully implemented. Broader and more specific measures towards eliminating the dual currency may be expected in late 2013.

(c) Other policies

A new Migration Law (Decree-Law No. 302) was approved in October 2012 and entered into force in early 2013. It is intended to make procedures and requirements more flexible, both for travelling abroad and for entering Cuba. Among the most important changes it introduces are the following:

- i) Normalizing the temporary entry of those who emigrated illegally after the Migration Accords of 1994. The same situation will apply to the health professionals and star athletes who abandoned their mission while overseas or who left the country illegally after 1990; if more than eight years have elapsed since then, they may return to the country temporarily, with the exception of those who departed via the Guantánamo naval base;
- ii) Expanding the grounds for repatriation of Cubans residing overseas; for example, those who left the country before turning 16 years of age and individuals wishing to return for humanitarian reasons, including looking after family members in need, or on other justified grounds;
- iii) Abolishing the exit permit and the letter of invitation required to be able to leave the country;
- iv) Extending the time (from 11 months to 24 months) that Cubans can spend abroad without being considered emigrants. This measure offers self-exiled Cubans the chance to travel to Cuba to benefit from the fledging yet dynamic real-estate and automobile markets, and to take advantage of the new, non-State forms of economic management.

3. The main variables

(a) The external sector

Cuba is increasingly vulnerable to external shocks since, despite the ongoing embargo, the island has an open economy. Its exports and imports of goods and services represent 50% of GDP; therefore the fluctuations of the business and financial markets, such as those of 2009, seriously affect its external position. Nevertheless, a number of countries—and trading partners— have been able to offer financing in difficult times.

Services currently account for 65% of total Cuban exports (including donations).¹ They are also a relatively stable source of income, unlike key products such as nickel and sugar, whose prices tend to be volatile. Nevertheless, the serious crisis in some European countries means that this important source of foreign exchange is unlikely to exceed its 2011 level. Although considerable efforts have been made to reduce goods imports, the rising prices of various foods and raw materials from abroad—around 20% of the total— prevented any reduction in their dollar value in 2012. Services exports offset the goods trade deficit in 2012, which, combined with remittances and tourism revenues (up 7.2%), delivered a balanced current account as a percentage of GDP.

Three million international visitors are expected to arrive in Cuba in 2013, boosting tourism revenues by 12.5%. Tourism is a significant source of foreign exchange and is one of the areas that the

¹ The main services exports include medical and other professional services, as well as those related to IT and communications.

Cuban government is banking on to increase its income. In this regard, the recently announced Marina Gaviota Varadero project will be the largest marina in Cuba and the Caribbean.

Other major projects, involving foreign capital from Brazil and the United Kingdom, were unveiled in late 2012. Contracts were signed with Brazil to increase sugar production by investing in the sugar mill in Cienfuegos province. A contract was also signed with the British company Havana Energy to build a biomass power plant. Brazilian investments for upgrading five Cuban airports were announced in mid-2013 under an agreement by which Cuba will send 6,000 doctors to poor and marginalized areas of Brazil in exchange for a US\$ 176 million loan.

Lastly, the ambitious infrastructure project at the Port of Mariel² is nearing completion and is likely to be partially operational before the end of 2013. Once up and running in 2014, it is expected to generate 3,000 direct jobs and 5,000 indirect ones. Commercial shipping from the Port of Havana will be shifted to Mariel. The first quarter of 2013 saw the announcement of regulations for operating in the Mariel special development zone, where an industrial platform is envisaged for imports, production and domestic and external sales. Companies operating in the zone will be exempt from import duties on certain merchandise, which could be re-exported with higher value added.

(b) Economic growth

GDP growth was 3.0% in 2012, below the initial target of 3.4%. This was partly because fixed investment growth, although brisk, did not reach the planned level of 34%. Hurricane Sandy destroyed various crops, which hampered production and ultimately led to a 1.2% contraction in agricultural activity. One of the most dynamic sectors was construction, which grew by 18%. Commerce expanded by 6.4%, transport and communications by 2.8% and the manufacturing industry by 1.8%.

Growth of 3.0% is forecast for 2013, partly sustained by the boom in construction which, despite falling short of the plan in the first semester, continued to perform vigorously on the back of public policies introduced to revitalize the sector. Burgeoning domestic investment is also a contributing factor in achieving positive GDP growth. While there were some delays in completing the investment plan in the first semester, it continues to grow at a healthy pace. Investment for modernizing the railway system and improving the water and sewerage system picked up, as did investments in renewable energy sources (photovoltaic, biogas, wind and biomass). Private consumption is also expected to help boost GDP growth as own-account activity (which now accounts for more than 414,000 workers) expands and non-farm co-ops start operating.

While agriculture did not perform well in the first quarter of 2013, it is expected to improve as the year goes by thanks to the adoption of new measures to revive the sector. The granting of land-use rights, a policy initiated in 2008, was modified in December 2012 to include additional benefits such as permitting house building; increasing the area of land handed over; and extending the time that the land can be worked. In the sphere of farm co-ops, a regulation was also created to place basic cooperative production units on equal terms. Although the agricultural sector has faced some transport problems, producers are making significant progress in direct sales to hotels. In 2012, these sales totalled more than 12 million pesos. Wholesale markets for the purchase of inputs and machinery are being created, along with a new marketing system for agricultural products, without intermediaries and with prices set freely (except for rice, peas and potatoes).

² Located 50 kilometres west of Havana.

(c) Prices, wages and employment

Moderate economic growth and the small fiscal deficit (monetized by the central bank since there is no domestic public debt market) helped stabilize peso prices following the lifting of price controls on various products that were previously included in the rationing system and on other agricultural products. The State continued to set the price for potatoes, taro, sweet potatoes, garlic, dried onion, tomatoes, some types of fruit, beans, corn and chickpeas. Other products are offered on different markets with differentiated pricing (in pesos and convertible pesos), although it is expected that greater competition will tend to make these prices fall and converge. The inflation rate in 2012 (2.0%) was higher than in 2011 (1.3%) and is likely to rise again in 2013.

The Ministry of Labour and Social Security reports that almost 8,000 workers —many of them from the Ministry of Domestic Trade— have moved from State employment into non-State activities such as self-employment and working for cooperatives. This figure is quite small compared with the target of transferring just over a million State workers (20% of the total labour force). This process has been unable to keep up the desired pace in the absence of effective ways to move these workers into other economic activities efficiently and with adequate remuneration.

Authorizations of own-account activities have continued steadily since the final quarter of 2010. As of March 2013, 414,926 workers were engaged in own-account activities, mainly processing and selling food; transporting passengers and leasing housing units. Although employment is growing in the non-State sector, public-sector employment is falling, leading to a 3.8% unemployment rate. The average monthly wage was 466 pesos in 2012, which represents a nominal increase of 2.4% compared with 2011; in real terms it remained practically unchanged.

The unemployment rate is likely to be driven down in 2013 by the start-up of non-farm co-ops and the transfer of non-strategic activities (such as barbers' shops and cafés) from the State to individuals. The changes in Cuba's employment landscape, with a lighter public sector, call for tweaking the Labour Code; a proposed update will therefore be submitted in the second half of the year.

Table 1
CUBA: MAIN ECONOMIC INDICATORS

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 a/ |
|---|-------------------------------|--------|--------|--------|-------|-------|-------|-------|---------|
| | Annual growth rates b/ | | | | | | | | |
| Gross domestic product | 5.8 | 11.2 | 12.1 | 7.3 | 4.1 | 1.5 | 2.4 | 2.8 | 3.0 |
| Per capita gross domestic product | 5.5 | 11.0 | 12.0 | 7.2 | 4.1 | 1.5 | 2.4 | 2.8 | 3.0 |
| Gross domestic product, by sector | | | | | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | 0.2 | -11.6 | -6.0 | 18.0 | 0.6 | -0.2 | -6.0 | 4.4 | -1.1 |
| Mining and quarrying | -11.8 | 0.3 | 6.5 | 4.0 | 3.2 | -3.3 | 7.4 | 1.4 | 2.0 |
| Manufacturing | 3.0 | 1.3 | 4.7 | 9.6 | 5.2 | 0.9 | 1.1 | 3.9 | 2.3 |
| Electricity, gas and water | -2.5 | -1.6 | 3.4 | 7.9 | 0.6 | 0.8 | -1.7 | 2.7 | 4.0 |
| Construction | 10.0 | 18.9 | 37.7 | -8.6 | 2.4 | 0.6 | -7.5 | -7.3 | 18.0 |
| Wholesale and retail commerce, restaurants and hotels | 0.8 | 4.7 | 22.7 | 0.6 | -0.8 | 2.2 | 3.1 | 6.3 | 4.9 |
| Transport, storage and communications | 4.5 | 8.2 | 9.1 | 6.4 | 6.6 | 2.5 | 2.6 | 3.6 | 2.8 |
| Financial institutions, insurance, real estate and business services | 4.9 | 1.0 | 2.8 | 8.1 | 3.5 | 0.9 | 3.4 | 2.4 | 3.7 |
| Community, social and personal services | 14.3 | 30.2 | 8.0 | 14.6 | 7.5 | 3.2 | 4.9 | 0.6 | 0.4 |
| Gross domestic product, by type of expenditure | | | | | | | | | |
| Final consumption expenditure | 3.7 | 3.6 | 15.0 | 4.4 | -0.3 | 1.2 | 5.9 | 0.5 | ... |
| Government consumption | 8.6 | 10.4 | 7.9 | 10.5 | 2.6 | 1.7 | 2.2 | -1.2 | ... |
| Private consumption | 1.5 | 0.4 | 18.7 | 1.5 | -1.8 | 0.9 | 7.9 | 1.4 | ... |
| Gross capital formation | 13.5 | 33.0 | 26.0 | 2.4 | 21.9 | -19.0 | -0.7 | 7.1 | ... |
| Exports (goods and services) | 19.0 | 47.5 | 1.3 | 13.8 | 11.6 | 3.1 | 13.8 | 3.9 | ... |
| Imports (goods and services) | 13.0 | 25.8 | 20.4 | -1.1 | 7.4 | -14.9 | 35.7 | -1.9 | ... |
| Investment and saving c/ | | | | | | | | | |
| | Percentajes of GDP | | | | | | | | |
| Gross capital formation | 8.8 | 10.8 | 11.7 | 10.2 | 14.8 | 10.9 | 10.6 | 8.3 | ... |
| National saving | 9.1 | 11.1 | 11.3 | 11.0 | ... | ... | ... | ... | ... |
| External saving | -0.3 | -0.3 | 0.4 | -0.8 | ... | ... | ... | ... | ... |
| Balance of payments | | | | | | | | | |
| | Millions of dollars | | | | | | | | |
| Current account balance | 116 | 140 | -215 | 488 | ... | ... | ... | ... | ... |
| Goods balance | -2 918 | -5 235 | -6 331 | -6 253 | ... | ... | ... | ... | ... |
| Exports, f.o.b. | 2 180 | 2 369 | 3 167 | 3 830 | ... | ... | ... | ... | ... |
| Imports, f.o.b. | 5 098 | 7 604 | 9 498 | 10 083 | ... | ... | ... | ... | ... |
| Services trade balance | 2 710 | 6 375 | 6 456 | 7 900 | ... | ... | ... | ... | ... |
| Income balance | -650 | -633 | -618 | -960 | ... | ... | ... | ... | ... |
| Net current transfers | 974 | -367 | 278 | -199 | ... | ... | ... | ... | ... |
| Other external-sector indicators | | | | | | | | | |
| Real effective exchange rate (index: 2005=100) d/ | 101.4 | 100.0 | 101.1 | 104.9 | 120.1 | 113.5 | 112.6 | 121.1 | 119.6 |
| Terms of trade for goods (index: 2005=100) | 102.7 | 100.0 | 126.3 | 132.9 | ... | ... | ... | ... | ... |
| Net resource transfer (millions of dollars) | 150 | -633 | -618 | -960 | ... | ... | ... | ... | ... |
| Gross external public debt (millions of dollars)e/ | 5 806 | 5 898 | 7 794 | 8 908 | ... | ... | ... | ... | ... |

Table 1 (concluded)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 a/ |
|---|---|------|------|------|------|------|------|------|---------|
| Employment | Average annual rates | | | | | | | | |
| Labour force participation rate f/ | 71.0 | 72.1 | 72.1 | 73.7 | 74.7 | 75.4 | 74.9 | 76.1 | ... |
| Open unemployment rate f/ | 1.9 | 1.9 | 1.9 | 1.8 | 1.6 | 1.7 | 2.5 | 3.2 | 3.8 |
| Prices | Annual percentages | | | | | | | | |
| Variation in consumer prices (December-December) g/ | 2.9 | 3.7 | 5.7 | 10.6 | -0.1 | -0.1 | 1.5 | 1.3 | 2.0 |
| Nominal exchange rate (cuban convertible pesos per dollar) | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | ... |
| Implicit nominal exchange rate (cuban pesos per dollar) | 26.0 | 26.0 | 24.0 | 24.0 | 24.0 | 24.0 | 24.0 | 24.0 | ... |
| Variation in average real wage | 6.3 | 13.0 | 11.6 | -1.5 | 0.1 | 4.6 | 3.0 | 0.2 | 0.3 |
| Central government | Percentajes of GDP | | | | | | | | |
| Total revenue | 33.8 | 44.0 | 43.2 | 46.0 | 49.1 | 49.1 | 45.4 | 46.7 | 39.0 |
| Tax revenue | 23.3 | 28.7 | 30.0 | 27.7 | 23.3 | 21.4 | 17.8 | 24.0 | ... |
| Current expenditure | 37.6 | 48.6 | 46.4 | 49.2 | 56.0 | 53.9 | 49.0 | 48.4 | 43.2 |
| Interest | 30.2 | 38.9 | 33.6 | 38.3 | 45.1 | 43.0 | 40.0 | 40.2 | 34.5 |
| Capital expenditure | 0.7 | 1.2 | 1.2 | 1.4 | 1.4 | 1.1 | 1.3 | ... | ... |
| Primary balance | 6.0 | 7.2 | 9.1 | 8.3 | 8.1 | 8.2 | 6.1 | 5.7 | 5.8 |
| Overall balance | -3.0 | -3.3 | -2.0 | -1.8 | -5.5 | -3.8 | -2.2 | ... | ... |
| | -3.7 | -4.6 | -3.2 | -3.2 | -6.9 | -4.9 | -3.6 | -1.7 | -3.8 |
| Money and credit | Percentages of GDP, end-of-year stocks | | | | | | | | |
| Monetary base | 31.6 | 31.6 | 26.0 | 24.6 | 31.1 | 24.5 | 23.0 | ... | ... |
| M2 | 38.0 | 45.9 | 38.1 | 36.8 | 41.5 | 41.3 | 40.6 | ... | ... |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1997 prices.

c/ Based on values calculated in national currency and expressed in current dollars.

d/ Preliminary figures. Yearly calculation by ECLAC, based on consumer price data and nominal exchange rates provided by the National Statistical Office of Cuba.

e/ Refers to active external debt; excludes other external debt, 60.2% of which is official debt owed to the Paris Club.

f/ Nationwide total.

g/ Refers to national-currency markets.