**CUBA**

**1. General trends**

In 2011 the Cuban economy grew against the backdrop of a gradual but decisive roll-out of concrete measures to update the economic model. GDP growth for the year was 2.7% (less than the planned 3.0% but more than the 2.1% posted in 2010) thanks to a certain relaxation of external constraints and a moderate upturn in private consumption, even though public investment levels were lower than planned. An improved current account facilitated progress on payments to external creditors. Restrictions on transfers from Cuban banks to foreign suppliers were lifted.

 The fiscal deficit went from 3.5% of GDP in 2010 to 3.8% of GDP in 2011 as non-tax revenues fell, owing primarily to lower-than-expected contributions from State-owned enterprises and revenue from the sale of construction materials, agricultural inputs and personal-hygiene products. Although there was virtually no growth in total expenditure compared with 2010, resources were reallocated towards capitalization of public enterprises.

 Inflation was higher in 2011 than in 2010 due in part to the withdrawal of some personal-hygiene products from the rationing system[[1]](#footnote-1) (since January 2011 they are being sold in shops, at higher prices) and to rising prices for some agricultural and meat products because of smaller supply.

**2. Economic policy**

**a) Fiscal policy**

 Trends in public revenue and spending were shaped above all by measures to update the Cuban economic model. While there was virtually no increase in total spending compared with 2010,[[2]](#footnote-2) there was a shift in resources[[3]](#footnote-3) towards the capitalization of public enterprises. Total revenue was off 0.6% over 2010 because the 12.6% increase in tax receipts did not offset the decline in non-tax revenue and in capital income. The fiscal deficit thus widened from 3.5% of GDP in 2010 to 3.8% in 2011.

**b) Monetary, exchange-rate and credit policy**

 The dual exchange-rate system, consisting of a Cuban peso (CUP) and a convertible peso (CUC) remained unchanged in 2011, so the official exchange rate, which is used for national income, fiscal income and intercompany accounts, remained at 1CUP=1CUC=US$ 1 and the CUP-to-CUC exchange rate, which is used for personal transactions, held at 1CUC= 24CUP.

 The fiscal deficit was covered by issuing currency, apparently without generating inflationary pressures, possibly because of greater demand for money resulting from an increase in retail transactions as own-account activities expanded.

 The new credit policy opens the door to broader use of the banking system by enabling small farmers and own-account workers to open current accounts in banks in Cuban pesos or in convertible pesos. And individuals can now apply for loans of more than 3,000 Cuban pesos to fund working capital for self-employment or farming activities and for home building or repair. All of this gives reason to believe that domestic investment, and therefore economic growth, will be more vigorous in 2012.

**c) Other policies**

 The economic and social policy measures rolled out in May 2011 to update the country’s economic model led to significant agricultural policy measures. These included expanding microcredit for agricultural producers, gradually decentralizing marketing, raising the price that individual producers receive for some products and fast-tracking the granting of rights to use idle land that began in 2008 (under Decree-Law No. 259) to promote the substitution of food imports. By year-end 2011, 1,387,936 hectares had been handed over to individuals, who have mainly used the land for livestock production (59.9% of the total number of hectares turned over are being used for this purpose), assorted crops (24.1%), rice (8.6%), sugar cane (3.1%), coffee (2.3%) and fruit and tobacco (2%).

 In 2011 the traditional system for contracts with producers, which forced the latter to sell 80% of their output to the State stockpiling agency, was replaced by a more flexible system of individually negotiated contracts under which the amount contracted depends on the supply of inputs and producers can sell on the open market the (variable) proportion of their output not covered by the contracts. This system applies to 21 agricultural products. Direct sales from agricultural producers to hotels and restaurants in the tourism sector were authorized in late 2011. According to recent official statements, there are plans to extend land-use rights from 10 years to 20 years and make them renewable, expand the land area involved and make dwellings built on that land eligible for titling and inheritable.

**3. The main variables**

**(a) Economic activity**

 Economic and social policy measures target a range of sectors, but marked external constraints make promoting higher value-added exports and import substitution a priority, especially in view of high international food prices throughout 2011.[[4]](#footnote-4) Other developments in 2011 were further expansion of non-state production modalities, greater management autonomy for State enterprises and further decentralization of investment and production decision-making.

 GDP expanded 2.7% in 2011 as external constraints eased and private consumption edged up slightly, while the level of public investment was lower than planned. The sectors that contributed to GDP growth were agriculture (up by 2.0%), commerce (5.0%) and manufacturing (2.7%). Construction (in terms of completed projects and housing units) contracted sharply, with project completions falling by 12.1% and housing completions down by 4.0% compared with 2010. However, housing completions in the State-owned and co-op sector (72.5% of the total) rose by 5.1%.

**(b) Prices, wages and employment**

 A rising employment rate and higher self-employment earnings offset, at least in part, the decline in the ranks of public-sector employees. Despite original estimates that the number of State employees would decline by 500,000 during the initial stage, this process has slowed. Nevertheless, there was rapid growth in own-account activities authorized by the government under its economic and social policy measures. By the end of December there were 362,355 own-account workers (twice the December 2010 count of 157,371); 66% had no other labour relationship, 16% were retirees and the remaining 18% were State employees. As part of the rationalization of public-sector activities, various measures have been taken in the health sector, including the strengthening of preventive care to decrease demand for more expensive curative care in hospitals, and in the education sector, such as ending certain services in isolated rural areas in order to concentrate them in urban areas.

**(c) The external sector**

 The improvement in the external accounts is largely due to the increase in revenue from tourism, goods and services exports and remittances. Remittances are increasingly being used to finance small investments in the non-State sector. According to data from the Ministry of Foreign Trade, exports grew by 20% in 2011, driven by service exports –70% of total revenue from external sales in 2011 was from health, tourism-related and computer services.

 Tourism revenue rose by 11.9% as arrivals jumped 7.3%. In 2011, Cuba received 2,716,317 international tourists. Remittances were up 19.5% over 2010.

 The expansion of imports lost some steam, with machinery and equipment purchases declining because of low levels of public investment. That said, US$ 48.9 million worth of food had to be imported (2.9% of total imports) because production targets for beef, pork, cow’s milk, beans, corn, coffee and citrus were not met. The combination of rising exports and declining imports helped narrow the goods trade balance deficit. Strong trade in services, including the surge in tourism, contributed to a goods and services trade surplus equal to 1% of GDP.

**4. General trends during the first quarter of 2012**

GDP growth is expected to be in the area of 3.0% for 2012 on the strength of rising public investment and robust private consumption boosted by an easing of external constraints on minor food imports and by increasing service exports. The government plans to import US$ 1.717 billion worth of food in 2012. This is less than in 2011 because of higher domestic output of rice (117,000 tons), grain (45,500 tons), powdered milk (2,000 tons) and other items.

 The authorities acknowledge that there will still be financial tensions in 2012, forcing them to continue to rationalize spending in some areas. Nevertheless, public resources will be transferred to budgeted and business activities. The fiscal deficit will hold at 3.8% of GDP.

 One of the measures recently implemented by the Cuban government was to restructure its economy-related ministries. The Ministry of Basic Industry was eliminated and the Ministry of Industries was reestablished, combining the iron and steel, light manufacturing and chemical indutries. At the same time, the Ministry of Energy and Mining was created, which will be overseeing oil, power and mining operations.

 Another policy measure taken to stimulate Cuba’s domestic market was the experimental creation of non-farm co-ops to be regulated by the State. Before this measure was announced in April, the only production cooperatives allowed were in the agricultural sector. There were three kinds: credit and services co-ops (created 50 years ago), agricultural production co-ops (created in 1976) and basic cooperative production units (created in 1993). In April 2012 the government announced major changes in how the basic cooperative production units are to be operated and managed. These changes, which will take effect in August 2012, include lifting restrictions on providing services and selling inputs directly to basic cooperative production units.

 The figures available for Cuba for the first quarter of 2012 cover only agriculture and livestock, tourism, goods and services exports and the number of self-employed persons. Agriculture is particularly high on the list of Cuba’s priority sectors, mainly because of its role in the outflow of foreign exchange for food imports, which account for some 20% of total imports. During the first quarter of 2012, non-sugar agricultural production posted a slight 0.9% increase while livestock output slid 11.6%. Non-sugar agricultural output jumped 9.8% as production of food staples like rice and beans soared. Cow’s milk production through March totalled 85.2 million litres, 7.8 million litres less than the same period in 2011. Beef and pork production declined as well.

 According to official reports, international tourist arrivals rose by 5.3% over the same period in 2011, with revenue up 12%. Canada is the leading country of origin for tourists visiting Cuba (48%). Tourist arrivals for all of 2012 are expected to reach 2.9 million, which is 200,000 more than in 2011.

 Exports of goods and services performed well during the first quarter; preliminary figures point to an overall increase of 11%, with service exports up by 10% and goods exports climbing 15%. The rise in goods exports would seem to be linked to higher prices for products like sugar, which accounts for 9% of total goods exports. Most of the increase in service exports is in the areas of tourism and health.

 Own-account activities were authorized in September 2010 due to the need to reorganize the labour market and, above all, provide an alternative for government employees being laid off after the government acknowledged that public entities had too many workers on the payroll. As of April 2012, there were 385,775 registered self-employed persons; 67% of them had no prior labour relationship. Among the main activities are processing and selling food, transporting cargo and passengers and leasing housing units.

1. Bathroom bar soap, laundry soap, toothpaste and liquid detergent were removed from rationing cards. [↑](#footnote-ref-1)
2. The data on public finances for 2011 refer to the budget for income and expense planned in late 2010 and published in the official gazette of the Government of Cuba. [↑](#footnote-ref-2)
3. The reassigned resources came from budget savings and non-execution of some activities thanks to a lack of hurricane damage. [↑](#footnote-ref-3)
4. The food bill is hovering at the US$ 1.5 billion mark, equivalent to 18.5% of total imports. Adding animal feed imports brings it up to 21% of total imports. [↑](#footnote-ref-4)