

Cuba

In 2008, the Cuban economy posted GDP growth of 4.3%, with a similar growth rate in per capita GDP. The fiscal deficit is estimated to have widened to the equivalent of 4.2% of GDP.

The year got off to an auspicious start, buoyed by a 15% increase in tourism during the high season, which took the first-semester economic growth rate to 6%. In the second semester, however, higher international prices for food and petroleum were added to considerable losses caused by an unusually active hurricane season, along with a drop in the price of nickel, Cuba's principal export product. With respect to political affairs, in February Raul Castro was appointed President of the Council of State of Cuba.

An economic growth rate of 4% is projected for 2009. The reconstruction work in hurricane-damaged areas will boost growth in the construction sector, particularly housing. The drop in international food and oil prices will free up resources to increase imports of intermediate and capital goods, which are necessary to step up investment. The Cuban authorities also hope that the change of administration in the United States in January will lead to a softening of that country's embargo, particularly regarding the prohibition on travel to the island and on family remittances, which would benefit the Cuban economy.

The overall deficit of the central government increased from the equivalent of 3.2% of GDP in 2007 to 4.2% in 2008, owing to a combination of negative factors on the income and expenditure sides alike.

Growth in revenues was healthy in the first semester, but then slowed as a result of slacker economic activity and losses caused by the hurricanes, and a drop of 2% in real terms has been estimated for the year overall. Income from circulation and sales taxes was down slightly in 2008, after being driven in the previous two years by massive purchases within the framework of the energy modernization programme. Income from other taxes also grew little or even fell.

Total spending was slightly down as a percentage of GDP, reflecting a significant drop—of almost 40%—in capital spending. Current spending expanded by 10% owing to expenditure on evacuations and rehabilitation work in the hurricane-struck areas, higher subsidies to the population to cover the differences between the higher cost of food, particularly imports, and the subsidized basic food basket;

and a rise in storage prices for a number of agricultural products aimed at stimulating production.

The monetary authorities adopted a policy of moving gradually towards the elimination of monetary duality. Monetary aggregates grew slightly above the nominal increase in GDP. In the first three quarters M1 recorded a nominal rise of 10%, while M2 was up by around 15% owing to the large increase in fixed-term deposits.

Since financial equilibrium was sustained, inflationary pressures occurred on the supply side. Shortages of some agricultural products in the wake of the hurricanes pushed up their prices. In response, the economic authorities were forced to impose price controls on these products, using as a ceiling the last price reached prior to the storms.

Lending rates for business loans in convertible pesos dropped from 9.1% to 9%, equalling the maximum rates in Cuban pesos. Interest rates fell in real terms, given the inflation rate of 4.9%. Exchange-rate policy remained unaltered in 2008.

Trade policy was directed towards deepening established ties with the Bolivarian Republic of Venezuela and the People's Republic of China, as well as strengthening trade and investment links with other countries. Close ties were also forged during 2008 with Brazil and the Russian Federation, two very important emerging economies. With both Cuba signed cooperation agreements heralding enhanced economic links in the future. Full diplomatic relations were also re-established with Mexico in 2008, which is expected to lead to an increase in bilateral economic relations.

The economic growth rate (4.3%) fell short of both the figure for 2007 (7.3%) and the authorities' initial estimate for the year (8%). This performance was partly attributable to five extreme weather events (tropical storms Fay and Hanna and Hurricanes Gustav, Ike and Paloma), which caused large-scale damage and losses, estimated at around US\$ 10 billion. Three million people, representing almost a third of the island's total population, were evacuated and more than 500,000 homes were damaged or destroyed.

Agriculture was badly hit by the storms, with around 113,000 hectares damaged and losses of at least 53,000 tons of food. Consequently, the agricultural sector grew by just 1.5%, well below the 18% growth registered in 2007. Production of ground provisions, vegetables, cereals and fruit dropped, while that of sugar cane grew by around 33% and livestock production expanded strongly.

Growth in manufacturing slumped from 9.9% in 2007 to 1.1% in 2008. The production of metal products and some non-metal goods fell by close to 30%. Construction expanded by 3.3%, thus reversing the contraction witnessed in 2007. Transport, storage and communication grew by almost twice the average for the economy as a whole, thanks to considerable investment in road and rail transport. Commerce sustained a decline, while tourism improved on its 2007 performance.

In 2008, the rate of inflation, measured by the consumer price index, reflected external shocks, such as that caused by international food and oil prices, as well as the reduced supply of agricultural products in the wake of the hurricanes and storms. The surge in inflation eased off in the course of the year, however. The unemployment rate dropped by 0.2 percentage points to 1.6%, while real average wages declined by 1.8% and the minimum wage by 3.2%.

Exports and imports of goods recorded opposite trends to the previous year. The value of exports grew by just 9.3% (compared to 26.6% in 2007), mainly because of a drop in prices, particularly for nickel, whose prices slipped by 30%. In contrast, imports increased by 43.8%, following a much lower rate of 6.2% in 2007. A significant leap was posted for intermediate and consumer goods (65% and

CUBA: MAIN ECONOMIC INDICATORS

	2006	2007	2008 ^a
Annual growth rates			
Gross domestic product	12.1	7.3	4.3
Per capita gross domestic product	12.0	7.3	4.3
Consumer prices ^b	5.7	2.8	0.4 ^c
Average real wage	11.6	-0.9	-1.8
Money (M1)	-2.6	5.6	...
Real effective exchange rate ^d	2.1	3.0	2.7
Terms of trade	26.3	5.2	...
Annual average percentages			
Urban unemployment rate	1.9	1.8	1.6
Central government			
overall balance / GDP	-3.2	-3.2	-4.2
Nominal deposit interest rate ^e	4.0	4.0	...
Nominal lending interest rate ^f	9.4	9.1	...
Millions of dollars^g			
Exports of goods and services	9 834	12 022	...
Imports of goods and services	9 709	10 375	...
Current account	-215	488	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the National Statistics Office.

^a Preliminary estimates.

^b Local-currency markets.

^c Twelve-month variation to October 2008.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Average of minimum and maximum rates on time deposits.

^f Average of minimum and maximum rates on loans to enterprises by the country's main banks.

^g Calculated using the official rate of one peso to the dollar.

20%, respectively), reflecting the increase in the prices of food and petroleum. Even with the large drop in food prices in the second semester, the food bill is estimated to have increased by a third in 2008.

Cuba's external debt rose from US\$ 8.9 billion to US\$ 9.9 billion, with 80% of this increase corresponding to medium- and long-term debt.