

Cuba

1. General trends

The Cuban economy grew by 4.3% in 2008, down from 7.3% the previous year. For the third consecutive year, per capita GDP rose at the same rate as overall GDP, reflecting zero demographic growth. The consumer price index was practically unchanged, falling by 0.1 of a percentage point, while unemployment contracted from 1.8% in 2007 to 1.6% in 2008. By contrast, both the fiscal deficit and the external deficit worsened. The fiscal deficit rose from 3.2% of GDP in 2007 to 6.7% in 2008. In the same period, the balance-of-payments current account went from a small surplus to a deficit equivalent to several percentage points of GDP.¹

The Cuban economy was hit by three main external shocks in 2008. First, higher food prices, along with the loss of harvests owing to hurricanes, increased the food bill by US\$ 840 million. Second, the international price of nickel, Cuba's principal export product, dropped sharply. Third, borrowing conditions were tightened and access to credit from suppliers was restricted.

Weather phenomena were exceptionally intense in 2008. The country was buffeted by three hurricanes and a tropical storm. The damage and losses were officially estimated at US\$ 9.7 billion (nearly 20% of GDP).

The government had expected GDP to rise by 6% in 2009. ECLAC, however, estimates that it will increase by

about 1% for the year, based on the progressive worsening of both external and domestic conditions and GDP growth of 2.8% in the first quarter of the year. The country is once again facing a situation as difficult as that of the "special period" of the 1990s.

In 2008, a highly significant political change occurred, as Raúl Castro replaced his brother, Fidel Castro, as President of the Council of State. In addition, ties with the European Union returned to normal after five years of friction. In early 2009, under a new government, the United States changed its policy towards Cuba, with the promise of greater economic openness between the two nations in the near future.

2. Economic policy

(a) Fiscal policy

Economic difficulties adversely affected the State's fiscal balance, as the deficit rose from 3.2% of GDP in

2007 to 6.7% in 2008. The reasons for this were lower revenue and higher spending, the latter mostly in response to weather damage.

Total central government revenue increased by 4.5% in real terms, compared with an 11.1% increase the previous year. Indirect tax revenues fell by 16.5% because of a sharp decrease in circulation taxes. In addition, taxes

¹ As of the closing date of this document (30 June 2009), Cuba had not published balance-of-payments figures.

Table 1
CUBA: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 ^a
Annual growth rates^b									
Gross domestic product	5.9	3.2	1.4	3.8	5.8	11.2	12.1	7.3	4.3
Per capita gross domestic product	5.6	2.9	1.2	3.6	5.6	11.1	12.0	7.3	4.3
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	9.1	0.9	-2.5	2.4	0.2	-11.6	-6.0	18.0	1.5
Mining and quarrying	33.2	-3.5	12.4	1.8	-4.7	0.1	1.9	3.4	1.6
Manufacturing	5.1	-0.6	0.2	-2.0	2.5	1.2	2.7	9.9	1.1
Electricity, gas and water	12.8	1.1	2.4	3.1	-2.5	-1.6	3.4	7.9	0.9
Construction	8.4	-5.3	-2.4	4.4	10.0	18.9	37.7	-8.6	3.3
Wholesale and retail commerce, restaurants and hotels	7.6	4.4	2.0	5.0	0.7	4.8	22.7	0.5	-2.6
Transport, storage and communications	5.0	8.4	0.0	2.7	4.8	8.2	9.2	6.7	8.3
Financial institutions, insurance, real estate and business services	0.9	5.4	1.2	0.2	4.9	1.0	2.8	8.1	4.7
Community, social and personal services	3.5	5.6	3.4	7.7	14.2	29.6	8.9	14.5	8.4
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.4	3.7	2.7	6.5	3.7	3.6	15.0	4.4	-0.2
Government consumption	3.0	3.3	4.1	7.3	8.6	10.4	7.9	10.5	7.9
Private consumption	2.1	3.8	2.1	6.2	1.5	0.4	18.7	1.5	-4.4
Gross domestic investment	11.3	0.8	-10.8	-9.6	13.5	33.0	26.0	2.4	7.1
Exports (goods and services)	14.1	-3.6	-3.8	5.8	19.0	47.5	1.3	13.8	16.9
Imports (goods and services)	-0.2	-3.8	-7.3	12.1	13.0	25.8	20.4	-1.1	2.5
Percentages of GDP									
Investment and saving^c									
Gross domestic investment	12.5	11.5	9.2	8.5	8.8	10.8	11.7	10.2	...
National saving	10.2	9.6	8.2	8.6	9.1	11.1	11.3	11.0	...
External saving	2.3	1.9	1.0	-0.1	-0.3	-0.3	0.4	-0.8	...
Millions of dollars									
Balance of payments									
Current account balance	-696	-605	-343	20	116	140	-215	488	...
Goods balance	-3 120	-2 847	-2 388	-2 574	-2 918	-5 235	-6 331	-6 253	...
Exports, f.o.b.	1 675	1 622	1 422	1 671	2 180	2 369	3 167	3 830	...
Imports, f.o.b.	4 796	4 469	3 810	4 245	5 098	7 604	9 498	10 083	...
Services trade balance	2 306	1 931	1 825	2 329	2 710	6 375	6 456	7 900	...
Income balance	-622	-502	-600	-650	-650	-633	-618	-960	...
Net current transfers	740	813	820	915	974	-367	278	-199	...
Capital and financial balance ^d	805	595	300	200	800	...	...	...	...
Overall balance	109	-11	-43	220	916	...	...	...	...
Variation in reserve assets ^e	-109	0	0	0	0	...	...	...	...
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	100.0	90.5	94.1	99.8	106.1	105.4	112.3	115.1	125.9
Official exchange rate (pesos per dollar)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Average unofficial exchange rate (pesos per dollar)	21.00	26.00	26.00	26.00	26.00	24.00	24.00	24.00	24.00
Terms of trade (index: 2000=100)	100	114	105	121	133	130	164	172	113
Gross external public debt (millions of dollars) ^g	10 961	10 893	10 900	11 300	5 806	5 898	7 794	8 908	9 906
Average annual rates									
Employment									
Labour force participation rate ^h	70.1	70.9	71.0	70.9	71.0	72.1	72.1	73.7	74.8
Unemployment rate ⁱ	5.4	4.1	3.3	2.3	1.9	1.9	1.9	1.8	1.6
Annual percentages									
Prices									
Variation in consumer prices ^j (December-December)	-2.3	-1.4	7.3	-3.8	2.9	3.7	5.7	2.8	-0.1
Variation in average real wage	8.7	-3.8	9.3	2.5	6.3	13.0	11.6	-0.9	-1.8
Nominal lending rate ^k	...	...	...	9.6	9.7	9.8	9.4	9.1	9.0

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 ^a
	Percentages of GDP								
Central government									
Total income	36.2	34.4	35.0	35.7	33.8	44.0	43.2	46.0	45.9
Current income	35.1	33.5	33.9	34.4	32.8	42.5	41.7	43.7	44.1
Tax income	27.5	25.9	26.6	26.9	23.3	28.7	30.0	27.7	23.6
Capital income	1.1	0.8	1.2	1.3	1.1	1.5	1.5	2.3	1.8
Total expenditure	38.4	36.7	38.0	38.7	37.6	48.6	46.4	49.2	52.6
Current expenditure	28.0	28.2	30.7	31.7	30.2	38.9	33.6	38.3	43.1
Interest	0.9	0.9	0.7	0.7	0.7	1.2	1.2	1.4	1.4
Capital expenditure	5.7	6.3	5.8	5.8	6.0	7.2	9.1	8.3	7.2
Primary balance	-1.3	-1.5	-2.3	-2.2	-3.0	-3.3	-2.0	-1.8	-5.3
Overall balance	-2.2	-2.3	-3.0	-3.0	-3.7	-4.6	-3.2	-3.2	-6.7
Liquidity^l									
Currency outside banks and local-currency deposits (M2)	36.8	39.0	40.6	37.7	38.0	46.6	38.6	37.2	40.6
Domestic credit to the private sector	...	...	...	...	...	9.2	15.0	21.0	23.4

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

^a Preliminary figures.

^b On the basis of figures in national currency at constant 1997 prices.

^c Based on figures in local currency expressed in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Provisional figures. Yearly calculation by ECLAC, based on consumer price data and nominal exchange rates provided by the National Statistical Office of Cuba.

^g From 2004, refers only to active external debt; excludes long-term debt, 60.2% of which is official external debt with the Paris Club.

^h Percentage of the economically active population, nationwide total.

ⁱ Economically active population as a percentage of the working-age population; nationwide total.

^j Local-currency markets.

^k Average of loans to enterprises by the country's main banks.

^l The monetary figures are end-of-year stocks.

associated with the massive sale of household items as part of the “energy revolution” also declined, owing to the conclusion of the programme. Direct tax revenue was stagnant owing to the opposing effects of the cut in taxes on company profits (16.2%) and the increase in labour-force utilization taxes (28.6%).

Total spending increased by 13.2%, in real terms, exceeding the previous year’s increase. Current spending rose 16.2%, because of increases both in budgeted activities (including education, health, culture and sports) and in subsidies in response to higher prices for food and petroleum, given the government’s intention of maintaining the population’s consumption levels. The costs of evacuation, protection, repairs and replacement that the country had to incur also pushed up spending.

In the past 18 months, public policy has focused on agricultural production. Since the State system’s output was insufficient, food has increasingly been imported and imports now account for about 80% of total consumption. Higher international food prices moved agriculture to the top of the list of priorities.

The government plans to replace imported food with domestically-grown food, especially from the non-government sector. To this end, small producers were given idle State-owned lands for their private use, producer prices for key products such as milk and beef were raised, and individual producers were permitted to purchase inputs.

Another important decision taken in 2008, with potentially far-reaching effects, was the change in the wage system. The wage ceiling was eliminated, and pay will now depend on productivity and individual performance.

In 2008, in light of the rapid ageing of the population and the resulting costs, a new social security law was passed. The most noteworthy changes include the raising by five years of the retirement age, to 65 for men and to 60 for women. In addition, pensioners will be allowed to earn work-related income without forfeiting their pensions.

Other measures in this period include the elimination of the ban on selling computers, DVD players and appliances, and on staying at hotels intended for foreign tourists. Mobile phone purchases are now allowed, which is expected to be highly beneficial given the difficulty of using the landline network.

The continued deterioration of the fiscal situation in 2009 made it necessary for the authorities to revise the budget in the first half of the year.

(b) Monetary and exchange-rate policy

Monetary policy in 2008 continued to follow the guidelines set in previous years. Prices were stabilized not only in sectors in which price controls are in effect but also in sectors, such as agriculture, where market forces play a greater role in determining prices. The hurricanes caused shortages of some food products in September. The

resulting strong hikes in the prices of these items made it necessary for the authorities to impose temporary controls and lower prices to their pre-hurricane levels.

Monetary aggregates increased slightly more than nominal GDP. Nominal M1 expanded 10%, whereas M2 expanded 17%, driven by a 33% increase in term deposits. However, the country's monetary indicators exclude transactions in hard currency as well as in convertible pesos.

Although the authorities still planned to gradually abandon the two-tier monetary system—characterized, mainly, by an overvalued official exchange rate—no steps were taken in this direction in 2008. The exchange rate between the convertible and the non-convertible peso remained at 24 to 1. The exchange rate of the convertible peso to the United States dollar also remained unchanged, at 1 to 0.92. A 10% surcharge is levied for using dollars in cash.

Given that there was some expectation that the peso might be revalued in the first half of 2008, demand for it temporarily rose, causing a slight change in the ratio of convertible to non-convertible pesos in circulation. Interest rates remained unchanged, except for a slight decrease in the rate on convertible pesos, from 9.1% to 9.0%, the same rate in effect for non-convertible pesos.

The Currency Approval Committee was eliminated to gradually loosen government controls on using foreign currency. Ministries now have the authority to decide on how they use foreign currency and must take responsibility for managing financial variables.

In the first few months of 2009, the country's external solvency continued to deteriorate, which led to a shortage of hard currency. The fall in exports and in foreign-exchange earnings from international tourism has caused a delay in payments and led to the freezing of the bank accounts of some foreign companies that operate in Cuba.

The government has responded by reviewing the budgeted revenue and expenditure of all State agencies and companies to identify savings, and adopt an adjustment plan. The number of subsidized food products was reduced and measures to curb energy consumption by 12% were

announced. These measures will have repercussions on expected GDP growth for the year.

(c) Other policies

In 2008, Cuba continued to step up cooperation with China, its second-largest trading partner. This led to the visit of the Chinese President and the signing of several bilateral agreements. Progress was also made on an economic cooperation programme with Brazil.

Cuba was admitted as a full member of the Permanent Mechanism for Consultation and Policy Co-ordination (Rio Group). In June 2009, the 1962 resolution by which the Organization of American States had excluded Cuba was rescinded.

Although the re-establishment of bilateral cooperation between the European Union and Cuba will not usher in profound, long-term changes, the measure may partially ease the country's current financial difficulties. One example is the 2009 donation of 30 million euros by the European Union to rebuild hurricane-damaged areas. Cuba is negotiating a € 270 million support plan with Spain, to open new lines of credit, write off part of its debt and modify the terms for the repayment of the rest.

Also significant is the change in the policy of the United States government towards Cuba. The administration of President Barack Obama has announced a policy that departs substantially from that of the previous administration. Restrictions on sales of food and medicine to Cuba were eased, as were limitations on travel by Cuban-Americans to the island. In addition, sending remittances has been made easier, and limits on the amount that may be sent have been relaxed. Nevertheless, the depth and scope of the changes are not yet clear.

The other countries of the hemisphere continued to normalize their relations with Cuba, as Costa Rica re-established its ties with Havana in early 2009. When El Salvador followed suit in June, the United States was left as the only country not to have diplomatic relations with Cuba.

3. The main variables

(a) Economic activity

The economy grew by 4.3% in 2008, three percentage points less than in 2007, mainly owing to adverse external conditions and weather phenomena. Consumption dropped slightly (0.2%), because the increase in public consumption

(7.9%) was insufficient to offset lower private consumption (4.4%). The two components' rates of growth were below their 2007 level.

One reason for the drop in private consumption in 2008 was the massive purchase of appliances in 2006-2007 under the household energy saving programme.

Gross investment rose 7.1%, substantially higher than the 2.4% increase in 2007. Exports increased by 16.9% and imports rose by 2.5%.

Of the major areas of activity, basic services posted the strongest gain (7.2%). The increases in goods (1.8%) and other services (3.9%) were almost four points lower than in 2007. Because of adverse weather, value added in agriculture, hunting, forestry and fishing grew only 1.5%, less than one tenth the increase recorded the previous year. Sugar cane and potatoes, the output of which rose more than one third, were the only crops to post high rates of growth. Although the output of vegetables, cereals, tobacco, citric and other fruits decreased, that of milk, beef and pork rose.

Manufacturing grew by only 1.1%, far below the 2007 figure of 9.9%. By contrast, the output of several foodstuffs, including raw and refined sugar, wheat meal, cheese and pasta rose sharply. The value added of metal and non-metal goods, chemicals, leather goods and wood products diminished. The results for construction were mixed, with a decrease in housing and an increase in non-housing construction, for an overall growth rate of 3.3%.

The 8.3% growth in transportation, storage and communication, largely the result of the acquisition of buses and trucks, eliminated a significant bottleneck in the economy. The commerce, restaurant and hotel sector decreased at a rate 2.6% since it was compared with the high level posted in 2006 and 2007 owing to the massive sales of appliances during that period as part of the energy modernization programme. Community, social and personal services increased 8.4%, continuing the strong performance of previous years.

Official estimates put the cost of damage from weather events in 2008 at US\$ 9.7 billion—higher than the cost of all such damage in Cuba from 2000 to 2007, calculated at US\$ 9.1 billion. The hardest-hit sectors were agriculture and housing (with 530,000 homes affected, including 90,000 destroyed). The Cuban economy has a production capacity of 50,000 housing units a year. The losses in agriculture made it necessary to step up food imports.

(b) Prices, wages and employment

Inflation, as measured with the December-to-December consumer price index, fell slightly to a negative level (-0.1%) in 2008 in markets in which the national currency

(non-convertible peso) is used. The annual average increase was 2.2%, reflecting the impact of food prices as a result of the hurricanes in the third quarter. Nevertheless, government price controls lessened inflationary pressure in the fourth quarter.

The unemployment rate fell two tenths of a percentage point to end the year at 1.6%. The female unemployment rate (2%) remained slightly above the rate among males (1.3%). Nevertheless, according to official figures, there are 189,000 working-age persons who neither work nor study. This is a source of concern for the authorities, because this population segment receives public services and other State benefits without contributing to society.

Average real wages in non-convertible pesos, were slightly down (0.5%) in 2008. The average for wages that are partly in non-convertible pesos and partly in convertible pesos (which was introduced to stimulate productivity) posted a slight increase of 0.2%. The minimum wage declined by 2.2%.

(c) The external sector

The global economic crisis caused the balance-of-payments current account to go from a surplus equivalent to 0.8% of GDP in 2007 to a deficit equivalent to several points of GDP in 2008.

The value of goods exports fell 0.6% in 2008, despite an increase in the volume exported (12.2%). The main determinant of this result was the sharp drop in the international price of nickel, Cuba's leading export. At its peak, during the recent boom, the value of nickel was close to US\$ 50,000, but by early 2009, the cost had fallen to less than one fifth of that (US\$ 9,000). Exports of fish and seafood, citrus fruits, preserved fruit, tobacco and medicine also contracted.

By contrast, the import bill jumped sharply (41.3%). Nearly all of this increase was due to higher prices, given that the volume imported rose only 4.4%. Whereas the cost of intermediate goods imports soared 61.7%, owing to high petroleum and food prices, that of capital goods imports fell slightly (0.4%). Given these trends and their negative effect on trade, the country's terms of trade worsened by 34.5%. The country was unable to make up for the trade deficit with earnings from services, a sector that had traditionally run a surplus on the strength of tourism and medical services.