

## Cuba

### 1.

### General trends

The Cuban economy slowed sharply in 2009 as it struggled to counteract the effects of the international crisis. As the year went on and the global recession continued to worsen, the government had to make adjustments to the country's economic plan and its growth target, reducing the latter from 6% to 2.5% and then to 1.7%. GDP growth was 0.8% in the first half and, after a modest upturn in the second half, averaged 1.4% for the year. This represented a continuation of the slackening trend revealed by the growth figures for the past three years: 12.1% in 2006, 7.3% in 2007 and 4.1% in 2008.

The adjustments took the form of lower investment, which had to prioritize currency-generating initiatives (tourism, nickel and high value added services) or import substitution. Social investment also declined. Procedures for implementing the investment project cycle were strengthened by ensuring that the necessary currency, financing, inputs and environmental impact studies, among other requirements, were put in place in advance.

By contrast with earlier years, in 2009 and 2010 so far the external sector has lost the role it played in spearheading growth, both because the unfavourable conditions under which Cuban external trade operates (in terms of access to markets and financing) have worsened again, and because of the growth slowdown in the international economy and trade.

The consumer price index (CPI) remained virtually unchanged, as in 2008, with a barely perceptible downward movement of 0.1%. As an annual average, consumer prices dropped by 1.2%.<sup>1</sup>

The unemployment rate rose from 1.6% of the economically active population in 2008 to 1.7% in 2009. The fiscal deficit fell from 6.9% of GDP in 2008 to 4.8% in 2009, having been held just below 4% in recent years.

The Cuban economy felt the impact of the international crisis through three main channels whose interaction had the effect of reducing economic activity and employment.

The Cuban financial sector was not badly affected, largely because of a lack of depth and exposure to international financial flows and the absence of a capital market.

In the first place, rising international prices for basic grains, inputs and food products, combined with the loss of crops due to the hurricanes that struck Cuba in 2008, increased the country's already large outlays on food. Although food prices dropped in 2009, they were still 60% higher than in the early 2000s.

In the second place exports declined sharply the value of because of falling demand and, to a lesser extent, supply constraints and the inability of the production system to respond easily to the prevailing volatility with new products and services. The international price of nickel, the country's most important export, fell by about 40% in 2009. It is estimated that the terms of trade index fell by 9% over the year, returning to its 2000 level.

Lastly, already difficult external financing conditions worsened further and there was a reduction in credit from suppliers, who are estimated to be owed between US\$ 600 million and US\$ 1 billion. According to the government, payment retentions accumulating since August 2009 have been reduced in 2010, while there are plans to reschedule debt payments with suppliers.

The Cuban economy is passing through a difficult period in which internal and external factors have combined to thwart the consolidation of high and sustained growth. An important internal factor is the slowness of progress

<sup>1</sup> The CPI covers only products priced in Cuban pesos.

Table 1  
CUBA: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 <sup>a</sup>
<b>Annual growth rates<sup>b</sup></b>									
<b>Gross domestic product</b>	3.2	1.4	3.8	5.8	11.2	12.1	7.3	4.1	1.4
Per capita gross domestic product	2.9	1.2	3.6	5.6	11.1	12.0	7.2	4.1	1.4
<b>Gross domestic product by sector</b>									
Agriculture livestock hunting forestry and fishing	0.9	-2.5	2.4	0.2	-11.6	-6.0	18.0	0.6	3.4
Mining and quarrying	-3.5	12.4	1.8	-4.7	0.1	1.9	3.4	1.1	-2.6
Manufacturing	-0.6	0.2	-2.0	2.5	1.2	2.7	9.9	5.7	-0.3
Electricity gas and water	1.1	2.4	3.1	-2.5	-1.6	3.4	7.9	0.6	0.8
Construction	-5.3	-2.4	4.4	10.0	18.9	37.7	-8.6	2.4	1.3
Wholesale and retail commerce									
restaurants and hotels	4.4	2.0	5.0	0.7	4.8	22.7	0.5	-0.9	2.0
Transport storage and communications	8.4	0.0	2.7	4.8	8.2	9.2	6.7	6.7	3.2
Financial institutions insurance real estate and business services	5.4	1.2	0.2	4.9	1.0	2.8	8.1	3.5	0.9
Community social and personal services	5.6	3.4	7.7	14.2	29.6	8.9	14.5	7.4	3.1
<b>Gross domestic product by type of expenditure</b>									
Final consumption expenditure	3.7	2.7	6.5	3.7	3.6	15.0	4.4	-0.3	1.2
Government consumption	3.3	4.1	7.3	8.6	10.4	7.9	10.5	2.6	1.7
Private consumption	3.8	2.1	6.2	1.5	0.4	18.7	1.5	-1.8	0.9
Gross capital formation	0.8	-10.8	-9.6	13.5	33.0	26.0	2.4	21.9	-23.9
Exports (goods and services)	-3.6	-3.8	5.8	19.0	47.5	1.3	13.8	11.6	4.1
Imports (goods and services)	-3.8	-7.3	12.1	13.0	25.8	20.4	-1.1	7.4	-17.7
<b>Percentages of GDP</b>									
<b>Investment and saving<sup>c</sup></b>									
Gross capital formation	11.5	9.2	8.5	8.8	10.8	11.7	10.2	...	...
National saving	9.6	8.2	8.6	9.1	11.1	11.3	11.0	...	...
External saving	1.9	1.0	-0.1	-0.3	-0.3	0.4	-0.8	...	...
<b>Millions of dollars</b>									
<b>Balance of payments</b>									
Current account balance	-605	-343	20	116	140	-215	488	...	...
Goods balance	-2 847	-2 388	-2 574	-2 918	-5 235	-6 331	-6 253	...	...
Exports f.o.b.	1 622	1 422	1 671	2 180	2 369	3 167	3 830	...	...
Imports f.o.b.	4 469	3 810	4 245	5 098	7 604	9 498	10 083	...	...
Services trade balance	1 931	1 825	2 329	2 710	6 375	6 456	7 900	...	...
Income balance	-502	-600	-650	-650	-633	-618	-960	...	...
Net current transfers	813	820	915	974	-367	278	-199	...	...
Capital and financial balance <sup>d</sup>	595	300	200	800	...	...	...	...	...
Overall balance	-11	-43	220	916	...	...	...	...	...
Variation in reserve assets <sup>e</sup>	11	43	-220	-916	...	...	...	...	...
<b>Other external-sector indicators</b>									
Real effective exchange rate (index: 2000=100) <sup>f</sup>	90.6	94.2	99.8	106.2	105.1	112.2	115.1	126.1	126.0
Nominal exchange rate (cuban convertible pesos per dollar)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Implicit nominal exchange rate (cuban pesos per dollar)	26.00	26.00	26.00	26.00	24.00	24.00	24.00	24.00	24.00
Terms of trade (index: 2000=100)	114	105	121	133	130	164	172	113	103
Gross external public debt (millions of dollars) <sup>g</sup>	10 893	10 900	11 300	5 806	5 898	7 794	8 908	...	...
<b>Average annual rates</b>									
<b>Employment</b>									
Labour force participation rate <sup>h</sup>	70.9	71.0	70.9	71.0	72.1	72.1	73.7	74.7	75.4
Unemployment rate <sup>i</sup>	4.1	3.3	2.3	1.9	1.9	1.9	1.8	1.6	1.7
<b>Prices</b>									
<b>Annual percentages</b>									
Variation in consumer prices <sup>j</sup> (December-December)	-1.4	7.3	-3.8	2.9	3.7	5.7	10.6	-0.1	-0.1
Variation in average real wage	-3.8	9.3	2.5	6.3	13.0	11.6	-1.5	0.1	4.1
Nominal lending rate <sup>k</sup>	...	...	9.6	9.7	9.8	9.4	9.1	9.0	9.3
<b>Central government</b>									
Total revenue	34.4	35.0	35.7	33.8	44.0	43.2	46.0	49.1	48.5
Current revenue	33.5	33.9	34.4	32.8	42.5	41.7	43.7	47.3	46.7
Tax revenue <sup>l</sup>	25.9	26.6	26.9	23.3	28.7	30.0	27.7	23.3	21.2
Capital revenue	0.8	1.2	1.3	1.1	1.5	1.5	2.3	1.8	1.8

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 <sup>a</sup>
Total expenditure	36.7	38.0	38.7	37.6	48.6	46.4	49.2	56.0	53.3
Current expenditure	28.2	30.7	31.7	30.2	38.9	33.6	38.3	45.1	42.4
Interest	0.9	0.7	0.7	0.7	1.2	1.2	1.4	1.4	1.4
Capital expenditure	6.3	5.8	5.8	6.0	7.2	9.1	8.3	8.1	8.2
Primary balance	-1.5	-2.3	-2.2	-3.0	-3.3	-2.0	-1.8	-5.5	-3.5
Overall balance	-2.3	-3.0	-3.0	-3.7	-4.6	-3.2	-3.2	-6.9	-4.8
<b>Liquidity<sup>m</sup></b>									
Currency outside banks and local-currency deposits (M2)	39.0	40.6	37.7	38.0	46.6	38.6	37.2	41.9	41.5
Domestic credit to the private sector	...	...	...	...	9.2	15.0	21.0	24.1	25.0

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

<sup>a</sup> Preliminary figures.

<sup>b</sup> On the basis of figures in national currency at constant 1997 prices.

<sup>c</sup> Based on figures in local currency expressed in dollars at current prices.

<sup>d</sup> Includes errors and omissions.

<sup>e</sup> A minus sign (-) denotes an increase in reserves.

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

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

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

<sup>h</sup> Percentage of the economically active population nationwide total.

<sup>j</sup> Local-currency markets.

<sup>k</sup> Corporate lending rate in Cuban convertible pesos.

<sup>l</sup> After devolutions.

<sup>m</sup> The monetary figures are end-of-year stocks.

with competitiveness and productivity, which has led the authorities to recognize that remedying structural shortcomings in this area is a priority. The volatility of the international economy and the cumulative consequences of the embargo and the lack of external financing have come together to exacerbate external constraints and create the current environment of slow growth and low productivity. Everything would seem to indicate that, going forward, economic policy will continue to give priority to improving the workings of the production system, relying substantially on a high value added services exporting sector that needs to become larger and more dynamic so that its multiplying effects can spread to the rest of the economy.

Some important changes were made in the country's economic cabinet in 2009 and a stronger role was given to the Ministry of Economic Affairs and Planning in the running of the economy and in the task of coordinating, promoting and overseeing the implementation of actions to meet whatever targets may be set for 2015. The measures announced since late 2009 by the President of the Council of State, Raúl Castro, are designed to infuse efficiency and competitiveness into the economy on the basis of a long-term vision, in what has been termed a process of economic modernization.

Economic difficulties have persisted in 2010, and the government has accordingly indicated that investment planning will continue to pursue export promotion and import substitution. The intention is to persevere with the creation of a production base that accords with the Cuban model of social development. Priority is being given to food production to reduce dependence on external supplies, and financing facilities for farm producers are being enhanced.

Another proposal is to decentralize production to local areas so that local governments become more involved in management and so that provision can be organized at the municipal level.

Also on the table is the creation of an inputs market where producers can acquire the resources they need for agricultural production, replacing the current centralized allocation mechanism. Another proposed measure would give priority to the biofertilizer development programme.

The government projects growth of 1.9% in 2010, with the public-sector deficit estimated to fall to 3.5% of GDP as superfluous spending is reduced and public resources are applied more efficiently.

The 2010 State budget is 2.9% lower than that of 2009 and provides for a reduction in the financing of current expenditure on budgeted activities, in spending on the system of enterprises and in funding for investment (-33%). Although the State budget devotes 1.98 billion current pesos to sustaining sales of regulated products to the population, abolition or drastic curtailment of the rationing system (ration card) is being contemplated.

As indicated in the guidelines for preparation of the 2010 plan, the anticipated volume of foreign-currency expenditure is less than the revenue the country expects to receive. Cuts are planned in social spending, among other things, since the economy is not in a position to afford these large subsidies. This is a far-reaching decision for the Cuban system, entailing rationalization even in the use of medical and hospital services and medicines. Meanwhile, the foreign-currency budget for 2010 has had to include substantial provision for repayment of bilateral debt falling due and sums owed to suppliers.

## 2.

# Economic policy

### (a) Fiscal policy

Fiscal revenues were reduced by the crisis. Conversely, spending increased in the first half of 2009 because of the need for assistance and reconstruction in the aftermath of the hurricanes that struck the country in 2008 and caused losses estimated by the government at some 20% of GDP. In the face of this situation, the government adopted a restrictive policy in the second half of the year and in April it carried out an exhaustive review of budgeted spending and revenue to identify saving measures and implement an adjustment plan. The smaller deficit in 2009 was achieved thanks to a far-reaching programme of energy saving, reductions in subsidies to State-owned firms and health expenditure, and cutbacks in investment (-16%) and imports (-37.3%). Fiscal policy was also affected to some extent by the availability and orientation of bilateral external financing sources. Reforms to tax law meant that 150,000 wage earners in the countryside were able to start paying into the social insurance system for the first time.

In 2009, the creation of the Comptroller General of the Republic was approved. The function of this body will be to oversee the operation of all the country's political, administrative and economic structures. Subsidies and free provision in the areas of culture, sport and food, among others, are also being reviewed with an eye to better targeting and cost reductions. The items included in the ration card are being reviewed as well.

During 2009 and 2010 so far, some far-reaching measures have been successively introduced in different areas. In particular, they include giving State-owned firms greater independence (to manage foreign currency, for example), creating greater scope for non-State economic activity, withdrawing the subsidy for canteens in public-sector organizations and enterprises, reiterating the need to put the public finances on a sound footing by making savings on the expenditure side and collecting taxes effectively, providing incentives for agricultural production and productivity, chiefly in the form of bank loans for producers and the granting of land usage rights, and extending work in the construction industry to two shifts to speed up implementation of investments in the sector. Meanwhile, owners of microenterprises can now rent public premises, pay taxes and contributions to the social security system, set their own prices and take out loans from commercial banks at real interest rates.

By mid-2010, 250,000 employees at various workplaces, mainly foreign currency-generating organizations, had lost the right to a daily free lunch. Instead, each employee is being given 14.40 convertible Cuban pesos (CUC) a month, covering approximately half the cost of what was formerly provided in kind. Pay canteens are still operating in workplaces; however, the service is no longer provided by the organizations on whose premises they are located but by different enterprises created for the purpose. In addition, 125,000 recipients of student grants will now have to pay for their own food, and consideration is being given to the best way of providing access to education in rural schools with few children (1,700 schools with just one pupil have been identified) that until very recently had a full teaching staff and distance learning services.

Other measures were also adopted, one example being electricity rationing, which adversely affected economic growth because it affected both firms and the population at large. A second budgetary adjustment was carried out in July, the result being a new and more stringent electricity rationing plan and a reduction in the provision of food items to families.

In 2009, Cuba struggled not only to obtain new loans but even to service its existing debt. Under these circumstances, the government has sought to renegotiate the external debt, defer payments and obtain extensions from creditors. The financial situation was relieved somewhat by a loan of some US\$ 600 million from China.

### (b) Monetary and exchange-rate policy

Monetary and exchange-rate policies were oriented towards maintaining internal balance in a context of severe external imbalances. This goal was achieved insofar as prices and the nominal exchange rate remained unaltered. A new system of foreign-currency spending controls was announced, the plan being for such spending to be managed on a decentralized basis by different ministries instead of the Currency Approval Committee. In the second half of 2009, the central bank authorized payment of arrears on about 600 supplier accounts on condition that the suppliers concerned continued to do business with Cuba.

Costa Rica and El Salvador re-established diplomatic ties with Cuba after almost 50 years. The United States government eased some of its economic embargo

measures, which had been tightened under the previous administration. Restrictions on travel to the island by Cuban-Americans were reduced and it was made easier to send family remittances and some items for personal

use. Nonetheless, remittances are estimated to have fallen because of the financial and economic crisis in the United States, coinciding with a drop in sales at foreign-currency stores in Cuba.

### **3. The main variables**

#### **(a) Economic activity**

Consumption rose by 1.2%, driven by the 1.7% rise in government consumption, which was what tipped the economy into positive growth. By contrast, gross fixed investment plunged by 24%. Goods and services exports (in constant Cuban pesos) registered positive growth (4.1%) and imports negative growth (-17.7%). By sectors, value added in goods production rose by 0.4% while in basic services it rose by 2.9%.

Agriculture was the only sector where growth was close to the authorities' estimate, with output rising by 3.4%. Short-cycle crops posted positive output growth, whereas longer-cycle crops (bananas, oranges, lemons and pineapples), which are Cuba's main agricultural exports, experienced slower growth. Additionally, over 100,000 people were given usage rights over some State land, which should lift agricultural production from 2010 onward. A total of 116,000 people had benefited as of April this year, 8% of them women, and 54% of idle land had been allocated. The government has identified the farming sector as one of those which most urgently need to raise their output and productivity, and one where the measures are starting to show results, such as higher output of milk, vegetables and some tubers.

The hope is that these alterations can help to reduce the country's dependence on food imports, estimated at US\$ 1.4 billion or about 60% of total external purchases. In 2010, the government has announced investments in agroindustrial production to replace some food imports, including those required by the tourism sector.

Manufacturing output fell by 0.3% because of the decline in imports of manufacturing inputs. Production of nickel, which generates foreign-currency revenue on a level with tourism, was also adversely affected by the fall in international demand and the price of the metal, which has started to recover in 2010.

Construction grew by just 1.3% because of a shortage of workers and the suspension of many investment projects,

but this was partially offset by reconstruction projects in hurricane-affected areas. Communications performed well because restrictions on mobile telephone purchases were lifted, while renewal of the public-sector vehicle fleet spurred growth in the transport sector. Government services continued to grow, albeit at a slower rate than in previous years.

Cuba received 2.429 million tourists in 2009, 3.5% more than in 2008. The main countries of origin were Canada (37.7% of the total), the United Kingdom (7%), Spain (5.3%), Italy (4.9%) and Germany (3.9%). Revenues fell by 10.2% owing to a decline in the average spend because of the global economic crisis and exchange-rate effects. These tourists included 296,000 Cubans resident abroad (12% of the total), a record. In April 2010, the government announced that it was continuing to expand the number of hotel rooms and a modest recovery in tourism currency revenues was expected for the year. There are projects to build five five-star hotels this year and next in Holguín, Trinidad, Cayo Coco and Varadero.

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

The average monthly wage increased by 2.9% from 415 pesos in 2008 to 427 pesos in 2009. The government announced an increase in the monthly pay of the 545,000 teachers and employees in the education sector, effective from September. This rise of between 93 pesos and 166 pesos (between US\$ 4 and US\$ 7.20) represents an annual cost to the government of 820 million pesos (US\$ 35.4 million).

Inflation was negative in markets where the domestic currency (Cuban peso) is used, while the unemployment rate remained low. Labour productivity is estimated to have fallen by 1.1% because of underemployment and overstaffing in most of the country's activities. This led to a decision by the authorities to allow workers to hold more than one job, and is one of the issues the government will have to address as part of its production strategy for 2010.

### (c) The external sector

The value of imports fell 37.4% as a consequence of reduced economic activity and the cancellation of non-essential imports. Exports fell by 21.4% because of lower sales of nickel and citrus fruits. Falling prices in the international market were one reason for the decline in trade, although in the case of imports volumes also fell because of the plan adjustments. Higher international sugar prices could not be taken advantage of because of low production levels. The terms of trade deteriorated sharply for the second year running, by almost 9%.

The country's international trade strategy has been promoting exports of services, which now account for some 70% of the total; indeed, the service sector produces 75% of GDP. Leading exports in this category include professional services, which are being promoted with a view to capitalizing on the competitive advantages of Cuba relative to Caribbean competitors in areas such as

health care, engineering, software, studies and projects. Biotechnology in particular is a high-productivity sector, although its linkages with the wider production system are few. Gross currency earnings per employee are calculated to be twice as high in the biotechnology sector as in tourism and six times as high as in the sugar complex.

Industry and agriculture have not proved able to embark upon a modernizing path in the way professional services have succeeded in doing. However, the latter's exports do not have the linkages and multiplying effect in the domestic economy of sugar agroindustry and tourism, for example, the drivers of growth in earlier decades.

Foreign direct investment flows are estimated to have declined in 2009, although by somewhat less than the Latin American average, partly because of the emergence of major partners such as Brazil, which is now the fifth-largest investor in the country behind the Bolivarian Republic of Venezuela, China, Canada and Spain.