

## Cuba

### 1. General trends

Following on from the 1.4% growth recorded in 2009, the economy expanded by 2.1% in 2010. As the population shrank in absolute terms in 2010, per capita GDP grew at a faster rate. The moderate upturn in economic growth in 2010 was attributable mainly to consumption—especially private consumption—which rose by 4.1%, and goods and services exports, which grew by 2.7%. Tourism also flourished and exports, especially of services, benefited from more favourable prices; health services performed particularly well being indexed to the price of oil. For the second consecutive year there was a sharp decline in investment: 7.7% in 2010. This decline and the modest improvement in public-sector consumption made it possible to reduce the fiscal deficit from 4.8% of GDP in 2009 to 3.7% of GDP in 2010, despite a fall in tax revenue. The unemployment rate rose from 1.7% in 2009 to 2.5% in 2010, against the backdrop of significant labour-market reform. The consumer price index<sup>1</sup> had risen by 1.6% in the 12 months to December 2010, compared with a fall of 0.1% in 2009.

The absence of official information on the balance of payments since 2008 precludes a precise analysis of any variations. The extreme shortage of foreign currency, together with higher food and oil prices placed constraints on imports of inputs and equipment, but total imports of goods and services recovered partially in 2010, growing by 19.5% after contracting by 37.4% the previous year.<sup>2</sup> This probably reflects the greater availability of supplier's credit as a result of bilateral negotiations that have helped to improve Cuba's external payments situation.

In this context the government announced and began to implement a series of changes to Cuba's economic policy aiming to improve productivity by expanding the role of the non-State sector. Specifically, the announced changes include: (i) labour reform, for example, the

reassignment of public-sector workers, the authorization of employment in non-State activities and the generation of public revenue by taxing these activities; (ii) expanding the participation of non-State entities, such as cooperatives and semi-public enterprises, in the agro-industry, tourism and housing sectors, by granting State enterprises greater management autonomy; (iii) eliminating certain subsidies for State companies and giving them more leeway in the area of pricing within certain limits; and (iv) making control and planning mechanisms more flexible by decentralizing decision-making on investment. Between October 2009 and the first four months of 2010, 310,000 independent workers were registered, of whom 16% (49,500) were former State workers. A gradual process is under way, seeking to eliminate 1.3 million posts during the current five-year period (2011-2015).

ECLAC is of the view that economic growth could accelerate slightly in 2011 to a rate of about 3%, given

<sup>1</sup> The consumer price index covers only products priced in Cuban pesos.

<sup>2</sup> Food imports make up about 17% of the total.

Table 1  
CUBA: MAIN ECONOMIC INDICATORS

|  | 2002   | 2003   | 2004   | 2005   | 2006   | 2007   | 2008  | 2009  | 2010 <sup>a</sup> |
|--|--------|--------|--------|--------|--------|--------|-------|-------|-------------------|
| <b>Annual growth rates<sup>b</sup></b>                               |        |        |        |        |        |        |       |       |                   |
| <b>Gross domestic product</b>  | 1.4    | 3.8    | 5.8    | 11.2   | 12.1   | 7.3    | 4.1   | 1.4   | 2.1               |
| <b>Per capita gross domestic product</b>                             | 1.2    | 3.6    | 5.6    | 11.1   | 12.0   | 7.2    | 4.1   | 1.4   | 2.1               |
| <b>Gross domestic product, by sector</b>                             |        |        |        |        |        |        |       |       |                   |
| Agriculture, livestock, hunting, forestry and fishing                | -2.5   | 2.4    | 0.2    | -11.6  | -6.0   | 18.0   | 0.6   | 3.4   | -2.9              |
| Mining and quarrying   | 12.4   | 1.8    | -4.7   | 0.1    | 1.9    | 3.4    | 1.1   | -2.6  | 5.3               |
| Manufacturing  | 0.2    | -2.0   | 2.5    | 1.2    | 2.7    | 9.9    | 5.7   | -0.3  | 0.5               |
| Electricity, gas and water   | 2.4    | 3.1    | -2.5   | -1.6   | 3.4    | 7.9    | 0.6   | 0.8   | -0.8              |
| Construction   | -2.4   | 4.4    | 10.0   | 18.9   | 37.7   | -8.6   | 2.4   | 1.3   | -12.2             |
| Wholesale and retail commerce, restaurants and hotels                | 2.0    | 5.0    | 0.7    | 4.8    | 22.7   | 0.5    | -0.9  | 2.0   | 2.7               |
| Transport, storage and communications                                | 0.0    | 2.7    | 4.8    | 8.2    | 9.2    | 6.7    | 6.7   | 3.2   | 3.2               |
| Financial institutions, insurance, real estate and business services | 1.2    | 0.2    | 4.9    | 1.0    | 2.8    | 8.1    | 3.5   | 0.9   | 0.6               |
| Community, social and personal services                              | 3.4    | 7.7    | 14.2   | 29.6   | 8.9    | 14.5   | 7.4   | 3.1   | 5.4               |
| <b>Gross domestic product, by type of expenditure</b>                |        |        |        |        |        |        |       |       |                   |
| Final consumption expenditure  | 2.7    | 6.5    | 3.7    | 3.6    | 15.0   | 4.4    | -0.3  | 1.2   | 4.1               |
| Government consumption   | 4.1    | 7.3    | 8.6    | 10.4   | 7.9    | 10.5   | 2.6   | 1.7   | 3.2               |
| Private consumption  | 2.1    | 6.2    | 1.5    | 0.4    | 18.7   | 1.5    | -1.8  | 0.9   | 4.6               |
| Gross capital formation  | -10.8  | -9.6   | 13.5   | 33.0   | 26.0   | 2.4    | 21.9  | -19.0 | -7.7              |
| Exports (goods and services)   | -3.8   | 5.8    | 19.0   | 47.5   | 1.3    | 13.8   | 11.6  | 3.1   | 2.7               |
| Imports (goods and services)   | -7.3   | 12.1   | 13.0   | 25.8   | 20.4   | -1.1   | 7.4   | -14.9 | 5.2               |
| <b>Percentages of GDP</b>  |        |        |        |        |        |        |       |       |                   |
| <b>Investment and saving<sup>c</sup></b>                             |        |        |        |        |        |        |       |       |                   |
| Gross capital formation  | 9.2    | 8.5    | 8.8    | 10.8   | 11.7   | 10.2   | 14.8  | 10.3  | ...               |
| National saving  | 8.2    | 8.6    | 9.1    | 11.1   | 11.3   | 11.0   | ...   | ...   | ...               |
| External saving  | 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  | -343   | 20     | 116    | 140    | -215   | 488    | ...   | ...   | ...               |
| Goods balance  | -2 388 | -2 574 | -2 918 | -5 235 | -6 331 | -6 253 | ...   | ...   | ...               |
| Exports, f.o.b.  | 1 422  | 1 671  | 2 180  | 2 369  | 3 167  | 3 830  | ...   | ...   | ...               |
| Imports, f.o.b.  | 3 810  | 4 245  | 5 098  | 7 604  | 9 498  | 10 083 | ...   | ...   | ...               |
| Services trade balance   | 1 825  | 2 329  | 2 710  | 6 375  | 6 456  | 7 900  | ...   | ...   | ...               |
| Income balance   | -600   | -650   | -650   | -633   | -618   | -960   | ...   | ...   | ...               |
| Net current transfers  | 820    | 915    | 974    | -367   | 278    | -199   | ...   | ...   | ...               |
| Capital and financial balance <sup>d</sup>                           | 300    | 200    | 800    | ...    | ...    | ...    | ...   | ...   | ...               |
| Overall balance  | -43    | 220    | 916    | ...    | ...    | ...    | ...   | ...   | ...               |
| Variation in reserve assets <sup>e</sup>                             | 43     | -220   | -916   | ...    | ...    | ...    | ...   | ...   | ...               |
| <b>Other external-sector indicators</b>                              |        |        |        |        |        |        |       |       |                   |
| Real effective exchange rate (index: 2000=100) <sup>f</sup>          | 94.2   | 99.8   | 106.2  | 105.1  | 112.2  | 115.1  | 126.0 | 126.0 | 124.7             |
| Nominal exchange rate<br>(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<br>(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<br>(index: 2005=100)                                  | 80.9   | 93.2   | 102.7  | 100.0  | 126.3  | 132.9  | ...   | ...   | ...               |
| Gross external public debt (millions of dollars) <sup>g</sup>        | 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>                         | 71.0   | 70.9   | 71.0   | 72.1   | 72.1   | 73.7   | 74.7  | 75.4  | 74.9              |
| Unemployment rate <sup>i</sup>                                       | 3.3    | 2.3    | 1.9    | 1.9    | 1.9    | 1.8    | 1.6   | 1.7   | 2.4               |
| <b>Annual percentages</b>  |        |        |        |        |        |        |       |       |                   |
| <b>Prices</b>  |        |        |        |        |        |        |       |       |                   |
| Variation in consumer prices <sup>j</sup><br>(December-December)     | 7.3    | -3.8   | 2.9    | 3.7    | 5.7    | 10.6   | -0.1  | -0.1  | 1.5               |
| Variation in average real wage                                       | 9.3    | 9.3    | 9.3    | 9.3    | 9.3    | 9.3    | 9.3   | 9.3   | 9.3               |
| Nominal lending rate <sup>k</sup>                                    | ...    | 9.6    | 9.7    | 9.8    | 9.4    | 9.1    | 9.0   | 9.3   | 9.3               |

Table 1 (concluded)

|   | 2002                      | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 <sup>a</sup> |
|---|---------------------------|------|------|------|------|------|------|------|-------------------|
|   | <b>Percentages of GDP</b> |      |      |      |      |      |      |      |                   |
| <b>Central government</b>                               |                           |      |      |      |      |      |      |      |                   |
| Total revenue   | 35.0                      | 35.7 | 33.8 | 44.0 | 43.2 | 46.0 | 49.1 | 48.9 | 45.2              |
| Current revenue   | 33.9                      | 34.4 | 32.8 | 42.5 | 41.7 | 43.7 | 47.3 | 47.1 | 43.3              |
| Tax revenue <sup>l</sup>                                | 26.6                      | 26.9 | 23.3 | 28.7 | 30.0 | 27.7 | 23.3 | 21.3 | 18.2              |
| Capital revenue   | 1.2                       | 1.3  | 1.1  | 1.5  | 1.5  | 2.3  | 1.8  | 1.8  | 1.9               |
| Total expenditure                                       | 38.0                      | 38.7 | 37.6 | 48.6 | 46.4 | 49.2 | 56.0 | 53.8 | 48.7              |
| Current expenditure                                     | 30.7                      | 31.7 | 30.2 | 38.9 | 33.6 | 38.3 | 45.1 | 42.8 | 40.8              |
| Interest  | 0.7                       | 0.7  | 0.7  | 1.2  | 1.2  | 1.4  | 1.4  | 1.1  | 1.3               |
| Capital expenditure                                     | 5.8                       | 5.8  | 6.0  | 7.2  | 9.1  | 8.3  | 8.1  | 8.2  | 5.1               |
| Primary balance   | -2.3                      | -2.2 | -3.0 | -3.3 | -2.0 | -1.8 | -5.5 | -3.8 | -2.1              |
| Overall balance   | -3.0                      | -3.0 | -3.7 | -4.6 | -3.2 | -3.2 | -6.9 | -4.8 | -3.4              |
| <b>Money and credit<sup>m</sup></b>                     |                           |      |      |      |      |      |      |      |                   |
| Currency outside banks and local-currency deposits (M2) | 40.6                      | 37.7 | 38.0 | 45.9 | 38.1 | 36.8 | 41.5 | 41.2 | 40.7              |

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

<sup>i</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.

that no significant increase in public investment is planned for 2011 and the projected fiscal deficit is similar to that recorded in 2010 as a percentage of GDP. The factors contributing to this faster growth are the upturn in total consumption and exports, associated with the expansion of the non-State sector and a certain level of financial autonomy granted to State and semi-public enterprises in the export sectors, including nickel, sugar, tourism and other services. Lending to self-employed

workers and agricultural producers, authorized since March 2011, as well as higher remittances and a more flexible tax policy, could help to increase consumption and investment; however, the amounts involved remain small as the transition is a gradual process. With regard to the external accounts, the surplus in the goods and services trade balance recorded in 2010 is expected to narrow in 2011, in particular as a result of additional disbursements on food imports.

## 2. Economic policy

Despite lower fiscal revenues, the reduction in public spending made it possible to narrow the fiscal deficit in 2010, while a new tax regime was applied to own-account activities. The dual exchange-rate system remained unchanged; it consists of a convertible peso and a non-convertible peso—the latter being used only for domestic transactions. The convertible peso was devalued by 8% in nominal terms to put it on a par with the United States dollar.

### (b) Fiscal policy

The public-sector balance improved, as the fiscal deficit narrowed from 4.8% of GDP in 2009 to 3.7% of GDP in 2010. A fiscal deficit of 3.8% of GDP is projected for 2011. The deficit was cut in 2010 as public spending was reduced by more than the decrease in fiscal revenue. In 2010 fiscal revenues fell by 2.7%, following the 5.1% decline in tax revenues due to the 17.4% slump

in taxes on sales and goods and services. At the same time direct taxes went up by 6.8%. Non-tax revenues, which represented 27.3% of total fiscal revenues in 2010, remained virtually unchanged, contracting by only 0.2%.

Total public spending declined by 4.0% in 2010 as a result of cost-cutting and efficiency measures, especially in relation to health, culture and art, and owing to lower capital spending. Public health was allocated 10.9% less of the budget than the previous year as a consequence of rationalization measures, which included the reassignment of support staff (but not medical or nursing staff), and the establishment of a new financial regime for pharmacies in order to make them less dependent on the budget. Action was also taken to promote the self-financing of art and cultural activities.

Spending commitments in relation to education declined owing to a drop in enrolments in primary schools (because of demographic changes), higher education (as a result of new entrance examinations) and adult education (as temporary programmes drew to a close). However, the increase in wages for teaching staff far outweighed these savings and spending on education therefore rose by 1.4% in 2010. Certain subsidies were reduced and capital spending diminished by 23.8%, as companies turned more to banking credit to finance their investments. Even though fiscal revenues are projected to increase in 2011, a similar deficit to that of 2010 is expected as additional resources are being allocated to capitalizing State companies with a favourable outlook that are currently experiencing financial problems.

The increase in the number of self-employed workers, as well as the government's announcement in 2011 that it was authorizing the buying and selling of automobiles and houses, should lead to higher government revenues in the next five-year period. There are currently four types of tax in Cuba: (i) income tax, by activity; (ii) sales tax; (iii) public services tax; and (iv) payroll tax, which is applied to employers. The new arrangement

establishes that all self-employed Cubans must set aside 25% of their income for social security so that they can claim a pension. In 2011, it was announced that this regime was to be made more flexible, for example, by including a possible grace period for own-account companies during the initial start-up phase, changes to take account of the specific economic conditions of the different municipalities and lower charges for companies who rent premises.

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

The dual exchange-rate system remained unchanged in 2010; it consists of a convertible peso and a non-convertible peso—the latter being used only for domestic transactions. Monetary aggregates measured as a percentage of GDP contracted over the year as a whole. M1 went from representing 25.5% of GDP in 2009 to 24% of GDP in 2010, while M2 dropped from 41.2% to 40.6%. The central bank has thus been able to maintain a supply/demand balance for both currencies and to avoid exchange-rate fluctuations.

In 2010, the government continued the bilateral process of renegotiating its external debt, which began in 2009 as part of its foreign-exchange management strategy, seeking more flexible repayment terms in 2010 than in 2009. In addition, it also began to reintroduce convertibility in the business sector; a process that had been partially suspended in 2009 because of the extreme scarcity of foreign exchange. In the first quarter of 2011, the government devalued the Cuban convertible peso by 8%, thus bringing the currency back on a par with the United States dollar, as it had been until 2005.

In March 2011, the government announced a new banking and loans policy making it possible to provide microcredit to agricultural producers and self-employed workers. The first microcredits are already being used to purchase equipment and inputs from retail outlets.

## 3. The main variables

### (a) Economic activity

Consumption rose by 4.1%, driven in particular by the 4.6% expansion in private consumption as a result of increased remittances, an increase in public-sector wages and higher earnings among producers in rural areas. Together with the upturn in exports, this factor contributed significantly to higher economic growth in

2010 than in 2009. Public consumption grew to a lesser extent (3.2%). There was no halt in the decline in gross domestic investment, which fell by 7.7% in 2010. There is an ambitious portfolio of investment projects (relating to petrochemicals, mining, cement and port facilities) to be undertaken by State and semi-public enterprises, but the shortage of foreign currency and delays in the design of certain components have prevented them from

being started in 2011; however they are expected to begin in 2012. Goods and services exports, which make up about a quarter of GDP, expanded by 2.7% in 2010, while imports rose by 5.2%, after falling sharply in 2009.

The goods sector posted zero growth in 2010, while the basic services sector (which includes electricity, gas, water, construction, transport and communications) shrank by 3.1%. Only the category of other services (which includes commerce, hotels and restaurants, financial intermediation, education, public health and professional services) recorded growth (4.0%). Agriculture and forestry fell by 2.8% overall, with the drop in the production of potatoes, taro, tomatoes, onions, rice, beans, oranges, mangoes and guavas contributing to this decline. Sugar cane exports plummeted: only 560 tons were exported from the 2009/2010 sugar cane harvest, compared with 740 tons from the previous harvest and 804 tons from the 2007/2008 harvest; however, the decline in volumes was more than offset by the higher prices in 2010. The production of poultry and cow's milk also fell. Manufacturing grew slightly (1.5%), while the construction sector slumped by 12.2% owing to diminishing public investment.

The process of granting land usage rights, which began in September 2008, was 57% complete, according to the original plans, by June 2011. Of the land that has already been handed over (1,007,112 hectares), 59.6% has been designated for livestock production, 26.8% for tubers and vegetables, 7.7% for rice, 3.4% for coffee and cacao, 1.2% for fruit trees and forests and 1.5% for tobacco and sugar. According to the National Centre for Land Control, 46% of the land that has been distributed is already in use. The factors delaying the use of the remaining land include high levels of infestation of marabou and other weeds; a lack of resources, equipment and labour; and the drought that hit Cuba in 2009 and the first half of 2010. During the first quarter of 2011, crop production (excluding sugar) went up by 14%, reflecting higher production in the non-State sector, which can be attributed to the incentive that the government gave by increasing the price it pays farmers for their produce. Nevertheless, as a consequence of the severe drought that once again hit Cuba in the first half of 2011 the initial pace of growth is unlikely to continue throughout the rest of the year.

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

The consumer price index increased by 1.6% in 2010, compared with a decline of 0.1% in 2009.<sup>3</sup> This may be partly due to the gradual withdrawal of products

from the rationing system, as well as higher food prices on the international markets. The average monthly wage rose by 4.4% in nominal terms in 2010, increasing from 429 Cuban pesos to 448 Cuban pesos; teachers' monthly wages also improved.

As a result of the readjustment of the labour market, the number of employed persons fell in absolute terms in 2010 and the unemployment rate increased from 1.7% to 2.5%. The unemployment rate for men rose by more than that for women: almost 1 percentage point compared with an increase of 0.7 percentage points for women. Of the 310,000 self-employed workers registered at the end of the first four months of 2011, 21% of them are in Havana and one fifth are involved in the preparation and sale of food products. Of all the self-employed workers, 16% were former State employees and the same percentage were retirees. As it has proved difficult to quickly absorb workers from the public sector into the non-State sector, in April 2011 the government agreed to slow the pace with which it is reducing the State payroll.

### **(c) The external sector**

In 2010 Cuba's trade balance improved in relation to 2009. The value of goods exports shot up by 59.7%, while good imports rose by 19.5%. The expansion of goods exports is attributable in particular to the favourable prices for products such as nickel and sugar. Services exports also rose owing to growth in tourism and the higher value of other exported services (such as health services) as a result of indexing prices for services to the oil price. The government's strategy for international integration has focused on boosting services exports —of which tourism made up approximately 25% in 2010— which represented about 70% of total goods and services exports in 2010.

Imports expanded by 19.5%, but did not return to pre-2009 levels, which clearly shows the impact of the external restrictions on the performance of the Cuban economy, despite the substantial renegotiation of its external financial commitments in 2010. Despite the significant effort that has been made to use energy more efficiently, as seen in the reduction of thermal energy use, higher oil prices led to a steeper bill for this commodity, which accounted for 42.0% of total goods imports in 2010, compared with 29.7% in 2009. This, along with increased imports of wheat and maize, led to the contraction of the share of other imports.

Remittances are playing a significant role in injecting vigour into the domestic market, particularly in view of the updating of the Cuban economic model. Remittances increased by an estimated 13.7% in 2010, in part because the United States relaxed its restrictions,

<sup>3</sup> See footnote 1.

totalling some US\$ 2 billion, which is 50% higher than the official figure. They are expected to continue rising in 2011, following the announcement in early 2011 by the United States government that non-family remittances up to US\$ 2,000 per year would henceforth be permitted. Religious institutions were authorized to receive unlimited remittances to finance their activities. Previously, only Cuban-Americans could send money (an unlimited amount) from the United States to family members in Cuba.

In 2010, Cuba received 2.5 million tourists, 4.2% more than in 2009. The main countries of origin of those tourists were Canada (37.3% of the total), the United Kingdom

(6.9%), Italy (4.4%), Spain (4.1%) and Germany (3.7%). As a result of this increase in numbers, foreign exchange inflows from tourism rose by 5.3% compared with 2009. In the first five months of 2011, the number of tourists was approximately 10% higher than in the same period in 2010. The relaxation of the restrictions on travel to Cuba announced by the President of the United States may result in a higher number of tourists from the United States visiting the island in 2011. In addition, the Government of the United States announced that all international airports in the United States could apply to offer charter flights to and from Cuba (until now only airports in Miami, New York and Los Angeles offered flights to Havana).