

Cuba

The Cuban economy registered GDP growth of 1.9% in 2010 (1.4% in 2009), fuelled by goods and services exports and tourism services; at the same time, investment levels fell once again and consumption remained virtually unchanged. Inflation is expected to close the year at 1.4% (-0.1% in 2009), with the fiscal deficit at 3.4% of GDP (4.8% in 2009). The trade deficit narrowed in 2010 and the current account deficit will be equivalent to 0.3% of GDP, attributable to the external constraints that continue to stymie the country's economic growth.

The update of the Cuban economic model announced in the fourth quarter of 2010 includes several measures designed to ease those constraints. The early results in 2011 are expected to emerge amid a strong rally in investment and improvements in the domestic market, albeit with some deterioration (only temporary) in the labour market due to the reassignment of approximately 500,000 State-employed workers. Against this backdrop, the Cuban economy should record growth of 3% in 2011, and the fiscal deficit should not vary significantly from the 2010 level (3.5% of GDP).

With total public sector revenue down by 1.9% in 2010, the government had to cut back even more on its total expenditure (3.5%) in order to achieve a fiscal deficit of 3.5% of GDP.¹ The drop in revenue was due mainly to the diminished intake from the circulation and sales taxes (-11.2%), which was in turn the result of a slow-down in retail activity as foreign currency became scarce.

The reduction in government spending took the form of sharp cut-backs in capital expenditure (-36.7%), transfers to the production sector (-62.1%) and, to a lesser extent, financial operations (-17.5%) and transfers to the business and cooperative sector (-6%). Spending on education, social security, culture and art, and science and technology picked up to some degree, while expenditure on health diminished slightly. As part of the adjustment process, the government decided that all allocations not used by the end of each quarter would be reassigned from the respective unit and set aside as a

budgetary reserve. Consequently, total public expenditure as a percentage of GDP is expected to decline from 75.3% in 2009 to 70.6% in 2010.

In 2010, 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 forecast for the year as a whole is for a contraction of the monetary aggregates measured as a percentage of GDP. The central bank has thus been able to maintain a supply/demand balance for both currencies and to avoid exchange rate fluctuations. Meanwhile, the government continued to renegotiate the external debt in order to stem the outflow of foreign exchange, seeking more flexible repayment terms than in 2009.

The lacklustre performance of the Cuban economy can be traced to downswings in construction (almost 10%), agricultural production (2.4%) and mining and quarrying (1.5%) and to a stagnant manufacturing sector. Services (commerce, restaurants and hotels, and community, social and personal services) showed slight growth. The decline in the construction sector was a reflection of the housing slump, while agricultural performance reflected the impact of the drought and missed targets under the sugar production plan. Difficult access to inputs, associated with the scarcity of foreign exchange, had repercussions for both agriculture and industry.

In 2010, the external adjustment continued, albeit with less intensity than in 2009, thanks to a 28.7% rebound in goods exports (-21.8% in 2009) and a slight decrease in goods imports (1%, compared with 37.5% in 2009). Although the trade deficit diminished as a proportion of GDP, in 2010 the serious external constraints persisted

¹ The public sector includes the central government as well as local governments.

with limited access to foreign exchange and international resources. In addition, the year 2010 saw more robust demand for imported food items, which accounted for 20% of total imports.

The higher value of goods exports recorded in 2010 stems mainly from the increase in nickel prices, which more than compensated for the lower export volumes (nickel exports rose in value by 50%, to US\$ 1.5 billion, but were not as high as the record earnings of US\$ 2.7 billion registered in 2007). Another factor was the value of medical and biotechnological exports, which recovered to levels similar to those of previous years. Supply-side difficulties hampered attempts to expand sugar production, which remained at approximately 1 million tons; the industry was thus unable to make the most of the strong international prices. Other minor exports, such as marine products, showed only a partial recovery.

Tourist arrivals were higher than in 2009 and are expected to top the 2 million mark, contributing to a 5.5% rise in revenue under this heading. This points to the possibility of a slight improvement in the balance of trade in goods and services, which, together with the favourable pattern of remittance flows, should yield a current account deficit equivalent to 0.3% of GDP.

The 2008-2009 crisis underscored the magnitude of certain structural constraints that are holding back economic growth in Cuba. At the end of the third quarter of 2010, after recognizing these constraints and in an attempt to overcome them, the government announced the discussion and launching of an unprecedented process for the gradual restructuring of the economy. The process would comprise the following main components:

- Labour reform aimed at boosting productivity, whereby workers would be reassigned and authorized to work independently, coupled with an adjustment to the tax system so as to capture part of the income generated;
- Expansion of non-State production arrangements (such as semi-public enterprises and cooperatives) in the agro-industry, tourism and housing sectors, and a parallel push for greater efficiency in State

CUBA: MAIN ECONOMIC INDICATORS

	2008	2009	2010 ^a
Annual percentage growth rates			
Gross domestic product	4.1	1.4	1.9
Per capita gross domestic product	4.1	1.4	1.9
Consumer prices ^b	-0.1	-0.1	1.7 ^c
Average real wage	0.1	4.1	...
Money (M1)	9.9	-5.9	...
Real effective exchange rate ^d	9.5	-0.0	...
Terms of trade	-34.5	-8.8	-3.3
Annual average percentages			
Urban unemployment rate	1.6	1.7	...
Central government overall balance / GDP	-6.9	-4.8	-3.4
Nominal lending interest rate ^e	9.0	9.3	...

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 September 2010.

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

^e Average of minimum and maximum rates on loans to enterprises, annualized.

enterprises by granting them more financial and management autonomy and winding up companies running regularly at a loss;

- Creation of special development zones to stimulate exports and import substitution, together with a process to gradually unify the two exchange rates and a complete recasting of the pricing system. Consideration is also being given to eliminating company subsidies and giving State-run firms more leeway in the area of pricing;
- Changes in State planning and control of economic activity, including progressive decentralization of the investment plan to provincial bodies and to enterprises and the transfer of a greater degree of control to the local level, e.g., allowing municipal councils to levy local taxes on firms operating in their area without intervening in business management.

In general, economic policy will be based on the principle that socialism is the only way of overcoming difficulties and consolidating the achievements of the Revolution, with emphasis placed on planning.