

## Cuba

In 2012, as part of the drive to update Cuba's economic model, the government continued to roll out measures to strengthen the non-State sector of the economy and bolster the agricultural sector. It continued to rationalize spending in non-priority areas and focused on the financial strengthening of its business units. Although the fiscal deficit for 2011 was 1.7% of GDP (instead of the expected 3.8%), this was due to a substantial underestimation of non-tax revenue and, to a lesser degree, to the fact that the lack of hurricanes that year made it unnecessary to tap the disaster reserve fund. For 2012 the government is once again projecting a fiscal deficit of 3.8% of GDP because, among other things, spending on the financial overhaul of public enterprises rose by 2 percentage points of GDP (from 14% in 2011 to 16% in 2012). Recovering and rebuilding in the wake of Hurricane Sandy will have a minimal impact on spending in 2012 but is expected to push public expenditure up in 2013, albeit without increasing the deficit because the government can reallocate spending and draw on the disaster reserve. Pursuant to the economic and social policy guidelines approved in April 2011, pilot programmes will be launched at some State-owned enterprises in January 2013 in search of planning and managerial arrangements that will give them more financial autonomy. The economy expanded by 3% in 2012, fuelled by the construction sector, commerce and the manufacturing industry.

On the fiscal policy front, work on rationalizing spending and improving resource management continued. To this end, the office of the Comptroller General of the Republic was set up under the Council of State, and government accounting was implemented at the federal level and for a group of 15 municipalities. Gradual privatization of State-funded budgeted units began in 2011 so that the only recipients would be operations with a strictly social purpose. So, spending on such activities (education, health, social security, culture, art and sports, among others) fell from 70% of the total in 2010 to 66.8% in 2011 and ticked down again, to 64.8%, in 2012. Divestiture decisions were based on the amount (and trend) of own income generated by budgeted units as they grew more self-sufficient, became enterprises and exited the budget. More products were withdrawn from the rationing

system as the drive to replace this social benefit with aid targeting the neediest continued. In the State budget for 2012 there was virtually no change in revenue as a percentage of GDP compared with 2011. Non-priority spending decreased, and transfers to business activities and co-operatives rose in keeping with the goal of bolstering them financially. As a result, 2012 saw a fiscal deficit equivalent to 3.8% of GDP.

The new credit and financial policy (Decree-Law No. 289) entered into force on 20 December 2011. It enables local banks to lend to small farmers, own-account workers and citizens in general. Although the public showed interest in the new credit policy throughout 2012, there was no surge in bank lending although lending to the construction sector did edge up.

Much of the external debt was renegotiated during the year, at lower interest rates and longer terms. The

government is strongly committed to honouring its debts in order to further build the credibility of the national financial system. The international embargo and being on the list of sponsors of terrorism make it hard for Cuba to access external funding. Indeed, it has only the support of the Bolivarian Republic of Venezuela, Brazil, China and Spain for tapping into external sources.

The main exchange-rate policy challenge is the dual-currency system. To date there is no road map for moving towards unification, although tests are being run in a group of enterprises operating with different exchange rates. This will be a key issue in coming years if the distortions caused by operating with two national currencies and different exchange rates are to be eliminated.

Cuba's economy expanded by a modest 3.0% in 2012 as private consumption rose by some 2.5%, net exports increased (although by less than in 2011) and fixed investment jumped by 6.6%. This uptick, however, fell short of the increase called for in the investment plan for 2011-2015 and its ambitious US\$ 20 billion investment programme. The rally in investment was driven, above all, by the Cayería del Norte resort development, the Mariel port upgrade, the rebuilding of the central railroad, the development of the Cienfuegos petrochemical hub and water infrastructure projects. Remittances and tourism also helped spur domestic spending by boosting own-account activities and linkages to other sectors, which had a multiplier effect.

Modest economic growth and the small fiscal deficit (monetized by the central bank because there is no domestic public debt market) helped stabilize prices despite the liberalization of prices for some rationed items and other agricultural products. The State continued to set the price for potatoes (although it recently went up), taro, sweet potatoes, garlic, dried onion, tomatoes, some kinds of fruit, beans, corn and chickpeas. Official estimates put inflation for 2012 in the area of 1.6%, but regulated prices make up about 40% of the official consumer price index and products priced in convertible Cuban pesos are not included. This lack of more extensive published data for gauging inflation suggests that inflation for 2012 might be higher than the official figure. As a result, the purchasing power of real State-sector wages could be declining (the average monthly wage is 455 Cuban

CUBA: MAIN ECONOMIC INDICATORS			
	2010	2011	2012 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	2.4	2.7	3.0
Per capita gross domestic product	2.4	2.7	3.0
Consumer prices	1.5	2.7	2.1 <sup>b</sup>
Real average wage	3.0	0.2	...
<b>Annual average percentages</b>			
Open urban unemployment rate	2.5	3.2	...
Central government			
overall balance / GDP	-3.6	...	...
Nominal lending rate <sup>c</sup>	9.3	...	...

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

<sup>a</sup> Estimates.

<sup>b</sup> Twelve-month variation to August 2012.

<sup>c</sup> Corporate lending rate in convertible pesos.

pesos). Supposedly, wages in the non-State sector (especially those associated with tourism) are higher, and they are expressed in convertible pesos.

The unemployment rate was 3.2% in 2011 and is expected to be the same or slightly higher (3.4%) for 2012 as the reassignment of redundant State-sector workers is scaled back and own-account activities grow. In October 2012 there were 394,867 own-account workers, concentrated in Havana (26%) and engaged in processing and selling food, renting out housing and rooms and transporting goods and passengers. Workers with no prior job history made up 69% of total own-account workers; 16% were retirees and the rest had another job.

Despite a considerable import reduction and substitution drive, rising international prices for many imported products thwarted efforts to bring the food bill down although the volume of some imports did decline. The goods and services trade balance continued to run a surplus in 2012 and reached the equivalent of 1.2% of GDP, driven by services and nickel exports. The current-account-to-GDP ratio remained in surplus and, at 1%, was higher than in 2011.

Tourism is still a significant source of foreign exchange. The increase in tourist arrivals from Canada (39% of the total), China and several Latin American countries (above all, Brazil) during the first nine months of the year more than offset the drop in arrivals from Italy, Spain and the United Kingdom. Tourism revenue climbed 7.7% during the same period; a sharper rise is expected towards year-end, coinciding with the high season.