
CUBA

1. General trends

The Cuban economy slowed down significantly, as GDP grew by 3% compared to 5.6% the year before, while per capita GDP increased by 2.6%. The faltering international economy put downward pressure on the value of merchandise exports, and the terrorist attacks of 11 September caused a slump in tourism. The scarcity of foreign exchange made it necessary to restrict imports to prevent the balance-of-payments current-account deficit from widening, and the commercial exchange rate depreciated by 24%. Domestic prices, however, remained largely stable.

THE ECONOMIC situation was further complicated at the end of the year by the worsening of the international crisis and the devastation caused by hurricane Michelle, which ravaged the centre of the island in early November, causing direct and indirect damage estimated at US\$ 1 866 billion (6% of GDP), though the full effects will not be felt until 2002.

The international economic crisis was transmitted mainly through trade. Sugar prices improved in the initial months of the year, but their subsequent deterioration reduced earnings from sugar exports by more than US\$ 100 million in comparison to the previous year. International nickel prices also collapsed and external sales of tobacco diminished. These three products account for more than two thirds of the total value of Cuba's merchandise exports. Gross earnings from international tourism, the main source of foreign exchange, rose between January and August but then fell off in the last four months of 2001, ending the year with a considerable decrease (-10%).

The harsh external environment was reflected in GDP growth. In the first half of the year GDP grew by 3.6%, but then slowed down sharply owing to economic measures that paralysed activities consuming large amounts of energy and imported raw materials. Investments were frozen, tourism facilities were temporarily closed and cuts were made in budgetary expenditures, especially those in foreign currency.

The authorities expect the economy to grow by 3% in 2002, though this goal will be hard to attain, particularly as international tourism, the activity that generates most of the country's foreign exchange, continued to decline in the initial months of the year. In addition, the hurricane damaged the supply of sugar, citrus fruit and other agricultural products for export. A further slide in external sales of tobacco and a deterioration in the terms of trade are also expected in view of the upsurge in oil prices and the fall in the market value of sugar and nickel.

2. Economic policy

In 2001 the authorities concentrated on managing the difficult economic situation, and therefore postponed the consolidation of the structural and institutional reforms undertaken in the early 1990s. The economic policy envisaged for 2002 will give priority to repairing the damage caused by the hurricane and maintaining spending levels to supply the population with food, health care and electricity in the context of a serious shortage of foreign exchange. Consequently, the process of economic reform ³/₄to phase out the dual exchange rate and reduce the distortion of relative prices, consolidate the macroeconomic adjustment and further liberalize the self-employment sector³/₄ will be left pending.

(a) Fiscal policy

The fiscal deficit increased slightly in 2001 (2.4% of GDP compared to 2.2% in 2000) as expenses rose faster than income (with growth of 1.2% and 0.8%, respectively). It nevertheless remained within the parameters of the policy to rehabilitate public finances, which allowed for a fiscal gap of less than 3% of GDP. Moreover, public accounting was affected by methodological changes that expanded the use of accrual-basis (rather than cash-basis) accounting.

Current expenditure diminished (-0.4%) owing to the substantial reduction in subsidies to cover losses of State-owned enterprises (-32.9%) and in economic assistance for basic units of cooperative production (UBPCs) (-35.5%). Price-differential and product subsidies also declined (-14.3%).

The provision of basic services to the public (education, social security, health care, culture and art and sports) continued to absorb a high proportion of the government budget. There were significant upturns, however, in spending on defence and public order (45%), owing to payroll increases, and on culture and art (33%) under a cultural development programme that included a new educational television channel. Spending on social welfare increased by 20% as stipends were provided to 70,000 young people who were neither working nor enrolled in school. The increases in spending on education (13%) and administration (12%) reflected wage hikes and infrastructure improvements.

With regard to revenue, current income rose (1%) and capital income fell (-14%). Tax revenues

stagnated (0.2%) owing to the 5% decline in indirect tax receipts, as the circulation and sales taxes fell by 7%. In this area, only the taxes on services increased (10%).

In contrast, direct tax receipts grew by 8% because, under the new tax system, all State-owned enterprises are now subject to taxation. Profit tax receipts climbed again (12%) and became the country's second largest source of tax revenue (5.5% of GDP), surpassed only by the circulation and sales tax (18.3%). Similarly, payroll tax receipts rose by 14% and social security contributions, by 6%.

Personal income tax receipts, however, were down by almost 2% owing to a further decrease in the total number of own-account workers (-2.4%). At the same time, compliance with fiscal obligations on the part of these independent workers, whose activities were authorized in 1994, improved from 98.7% in 2000 to 99.3% in 2001.

(b) Foreign-exchange and monetary policy

The amount of currency outside banks increased by 14.4%. The liquidity ratio rose to 36.4% of GDP, after six years of decline. Wage and salary increases and the issuance of more pesos to enable the State to purchase dollars on the parallel market accounted for much of this expansion. While these monetary outflows from the State rose by 13%, factors tending to reduce liquidity grew by only 9%, owing to the meagre increase (2.5%) in income from commercial sales of goods and food items and from charges for housing, electricity, gas and water and transport services.

There was a significant increase in saving through fixed-term deposits, which ended the year with a balance of 1.118 billion pesos, 71% of which were in three-year deposits. Under the policy for reducing the Cuban economy's dollarization, interest rates on time and fixed-term deposits in Cuban pesos must be higher than those on dollar and convertible peso deposits with the same maturity periods.

In 2001 the dual exchange rate system was maintained. The official exchange rate remained at 1 Cuban peso to the dollar. As a result of the decline in foreign-currency receipts and the expansion of liquidity in local currency, the average commercial exchange rate rose from 21 to 26 pesos to the dollar.

Table 1
CUBA: MAIN ECONOMIC INDICATORS

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 ^a |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------------------|
| Annual growth rates^b | | | | | | | | | |
| Growth and investment | | | | | | | | | |
| Gross domestic product | -14.9 | 0.7 | 2.5 | 7.8 | 2.5 | 1.2 | 6.2 | 5.6 | 3.0 |
| Per capita gross domestic product | -15.4 | 0.2 | 1.9 | 7.3 | 2.0 | 0.8 | 5.8 | 5.2 | 2.6 |
| Gross domestic product, by sector | | | | | | | | | |
| Goods | -16.7 | 4.2 | 7.1 | 11.8 | 6.0 | 1.9 | 7.5 | 6.4 | 0.8 |
| Agriculture | -22.7 | -4.9 | 4.1 | 17.5 | -0.2 | -5.2 | 10.4 | 11.6 | -1.7 |
| Mining | -8.8 | 1.1 | 56.0 | 16.6 | 2.6 | 1.2 | 1.0 | 14.4 | 3.1 |
| Manufacturing | -11.5 | 7.6 | 6.4 | 7.9 | 8.3 | 3.3 | 7.1 | 4.3 | 0.5 |
| Construction | -36.1 | -0.5 | 7.3 | 30.7 | 3.2 | 5.7 | 7.5 | 9.7 | 3.6 |
| Basic services | -17.2 | -0.9 | 7.0 | 7.0 | 4.6 | 1.2 | 4.7 | 9.0 | 3.7 |
| Electricity, gas and water | -11.4 | 4.4 | 9.8 | 3.6 | 6.0 | 1.2 | 0.8 | 8.8 | 2.7 |
| Transport, storage and communications | -19.6 | -3.4 | 5.6 | 8.7 | 3.9 | 1.2 | 6.6 | 9.1 | 3.9 |
| Other services | -13.4 | -1.2 | -1.3 | 5.2 | -0.6 | 0.7 | 5.5 | 4.4 | 4.4 |
| Commerce, restaurants and hotels | -27.5 | 0.0 | 1.7 | 8.9 | -2.3 | -2.7 | 9.1 | 5.4 | 2.7 |
| Financial establishments, insurance real estate and business services | -5.6 | -4.1 | -1.7 | 7.2 | 5.0 | 10.1 | 6.3 | 5.3 | 2.4 |
| Consumption | -5.6 | 0.8 | 1.4 | 3.3 | 3.0 | 3.4 | 1.4 | 3.5 | 2.9 |
| General government | -1.1 | -1.9 | -0.6 | 4.0 | 0.6 | 1.8 | 2.7 | 2.8 | 3.5 |
| Private | -9.3 | 3.2 | 3.0 | 2.7 | 4.9 | 4.3 | 0.6 | 4.0 | 2.5 |
| Gross domestic investment | -39.7 | 1.9 | 35.2 | 22.8 | 18.0 | 16.8 | 5.1 | 9.2 | 2.1 |
| Exports of goods and services | -24.9 | 9.1 | 4.3 | 24.6 | 2.7 | -5.8 | 12.8 | 3.0 | 3.5 |
| Imports of goods and services | -5.4 | 19.2 | 11.5 | 24.3 | 10.5 | 3.3 | -1.8 | -5.3 | 2.9 |
| Employment | | | | | | | | | |
| Rate of unemployment | 6.2 | 6.7 | 7.9 | 7.6 | 7.0 | 6.6 | 6.0 | 5.5 | 4.1 |
| Prices (December-December) | | | | | | | | | |
| Consumer prices | ... | ... | -11.5 | -4.9 | 1.9 | 2.9 | -2.9 | -3.0 | -0.5 |
| External sector | | | | | | | | | |
| Terms of trade (index: 1985=100) | 54.4 | 65.9 | 73.9 | 66.7 | 67.0 | 64.2 | 53.2 | 47.4 | 47.5 |
| Official exchange rate (pesos per dollar) | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Informal exchange rate (pesos per dollar) ^c | 78.0 | 95.0 | 32.1 | 19.2 | 23.0 | 21.0 | 20.0 | 21.0 | 26.0 |
| Millions of dollars | | | | | | | | | |
| Balance of payments | | | | | | | | | |
| Current account | -372 | -260 | -518 | -167 | -437 | -392 | -462 | -687 | -650 |
| Trade balance | -371 | -308 | -639 | -419 | -746 | -757 | -747 | -837 | -830 |
| Exports of goods and services | 1,968 | 2,542 | 2,926 | 3,707 | 3,974 | 4,132 | 4,311 | 4,798 | 4,667 |
| Imports of goods and services | 2,339 | 2,849 | 3,565 | 4,125 | 4,720 | 4,889 | 5,057 | 5,635 | 5,497 |
| Capital and financial accounts | 356 | 262 | 596 | 174 | 457 | 409 | 485 | 717 | 740 |
| External debt | | | | | | | | | |
| Gross debt (as a percentage of GDP) ^d | 52.9 | 44.6 | 45.6 | 42.7 | 41.1 | 43.3 | 40.1 | 36.7 | 35.1 |
| State income and expenditure | | | | | | | | | |
| Total revenue | 57.3 | 62.6 | 56.6 | 50.0 | 49.5 | 48.3 | 48.6 | 48.5 | 48.2 |
| Total expenditure | 87.7 | 69.6 | 60.0 | 52.3 | 51.3 | 50.5 | 50.8 | 51.0 | 50.5 |
| Financial balance | -30.4 | -2.6 | -3.3 | -2.3 | -1.9 | -2.2 | -2.2 | -2.2 | -2.4 |
| Money | | | | | | | | | |
| Liquidity | 66.5 | 48.8 | 40.2 | 38.9 | 38.3 | 37.5 | 35.9 | 35.1 | 36.4 |
| Cash outside banks | 27.4 | 17.7 | 15.4 | 16.3 | 16.3 | 16.6 | 16.6 | 16.9 | 20.8 |
| Regular savings deposits | 39.0 | 31.1 | 24.8 | 22.7 | 22.0 | 21.0 | 19.3 | 18.2 | 15.6 |

Source: ECLAC, on the basis of official figures and ECLAC estimates.

^a Preliminary figures. ^b Based on series at constant 1981 prices. ^c Average exchange rate. ^d Calculated on the basis of the official rate of 1 peso to the dollar.

(c) Economic reforms

The reform of the non-State sector remained at a standstill in 2001. No new opportunities were provided for legal own-account employment, and foreign investment projects in the real estate sector were frozen. However, progress was made in opening the economy to foreign investment, and State-owned entities continued the process of corporate development. In addition, the Ministry of Auditing and Control was created for the basic purpose of consolidating oversight functions and directing, executing and monitoring the application of State policy.

The corporate development programme was extended to 205 State-owned entities and the financial reform was consolidated in more than 20 additional institutions. The more widespread adoption of the new system of charges and payments improved the

financial discipline of businesses, the turnover of money and the settlement of outstanding commercial transactions.

With regard to foreign direct investment, the number of joint ventures and partnership agreements increased to 405, from 395 at the close of the previous year. Capital commitments total some US\$ 5.4 billion, half of which has already been disbursed. Spain, Canada and Italy are the countries with the most joint ventures in Cuba. To facilitate dealings with foreign investors, the one-stop system was strengthened.

In 2001 Cuba signed nine reciprocal investment promotion and protection agreements (with Denmark, Croatia, Cambodia, Qatar, Mexico, Honduras, the Caribbean Community, Mozambique and Finland) and two double taxation agreements (with China and Lebanon).

3. The main variables

Owing to the slowdown in GDP growth, the country's total supply expanded by only 3%, despite the 2.9% increase in the volume of imported goods and services, which was facilitated by the slide in international oil prices. On the demand side, external demand grew faster than domestic demand (3.5% versus 2.8%).

Domestic demand was influenced by the considerable downturn in investment (2.1%). In these circumstances, priority was given to capital formation in certain sectors: energy, nickel, the sugar industry, aquaculture, tourism and telecommunications.

(a) Economic activity

In terms of sectors, growth was highest in services, especially government services, which expanded by 8%. In contrast, industry stalled (0.5%) and agriculture contracted (-1.7%).

Construction was up by 3.6%, owing to projects carried out in areas of activity that generate foreign exchange and the reconstruction work needed after the hurricane. The number of rooms available for international tourism rose by 6.5% during the year (37,700), while housing completions declined.

The feeble increase in manufacturing (0.5%) reflected lower sugar output in the 2000/2001 season (3.5 million metric tons) because of adverse weather conditions. Although this resulted in low agricultural

yields, it also pushed down production costs, as only the most efficient refineries remained in operation. Other segments of agribusiness and manufacturing production turned in widely varying results.

Tourism grew briskly (9%) in the first eight months of 2001, but then fell off, ending the year with virtually the same number of visitors as in 2000 (1.8 million). In response, the authorities stepped up international promotional campaigns but did not lower prices. To reduce costs, 20 of the country's 225 hotels and one third of the rooms available for international tourists were temporarily closed. This provided an opportunity to repair and remodel hotel facilities and to retrain workers in the sector.

Extractive activities increased, especially nickel, oil and gas extraction. Nickel output rose by 7.2% to reach a record 76,500 tons. The El Cobre mine in the province of Santiago de Cuba was closed in response to excessively high copper production costs. In the energy sector, gas was supplied to 78,000 more consumers and electric power, to 65,000 more families. Petroleum output increased by 2.9% to reach 2.77 million tons, while gas production increased by 3.7%, totalling 595 million cubic metres, thanks to the import substitution policy.

The agricultural sector contracted (-1.7%), after having experienced a growth spurt in the previous biennium, owing to the drop in sugar cane and livestock

production. There were downturns in the production of beef (-5%), pork (-7%), poultry (-3.1%) and eggs (-12.1%), although the production of cow's milk increased. A number of food items showed positive results, with a few exceptions (including the fall in potato production).

The gross fish catch was smaller because of the fall in lobster, aquaculture and shrimp production, which had an adverse impact on external sales and domestic supply. The lobster catch declined owing to cases of non-compliance with earlier periods of restriction and the effects of hurricane Michelle in a critical month for that activity. Aquaculture was damaged by drought and the low level of sowing in previous years. The production of sea and farmed shrimp decreased because of a lack of working capital and technological problems.

The transport, storage and communications sector lost momentum (3.9%, compared to 9.1% in 2000). There were increases in the transport of both passengers (13.3%) and freight (3.2%). In the area of passenger transport, urban buses turned in the best performance (19.2%), while that of automobiles was much more modest (1.8%) and air transport declined (-7.1%). The fall in tourism from September onward resulted in a 14% decline in the number of passengers transported on international flights by Cuban airlines. There were increases in the freightage carried by trucks (5%), ships on international routes (12.3%) and aircraft (0.9%), and a decrease in that carried by rail (-10.4%).

The telecommunications sector expanded in response to demand from the international tourism industry and for long-distance calls from Cubans living abroad to relatives on the island. Installed telephone lines increased by 17.5% and the level of digitalization rose to 69% of all lines, compared to 51.6% in 2000. This resulted in an increase in telephone density from 4.3 per 100 inhabitants in 2000 to 5.1 in 2001, though these figures are still low in comparison to those for the rest of the region.

(b) Prices, wages and employment

Local currency-denominated markets experienced deflation for the third year in a row, as regulated prices remained stable and prices in the free agricultural markets slipped owing to the larger supply of products. The maintenance of the price control policy caused prices to dip slightly (-0.5%) and resulted in an improvement in real wages, after nominal wages were raised. Nevertheless, devaluation made purchases in foreign currency 24% more expensive in terms of pesos.

While the supply of agricultural products is still insufficient to reduce high prices, average market prices

fell by 4.5%, while the volume sold was 7% higher than in 2000. Although the share of private producers declined, they accounted for 60% of sales on the agricultural market, while the State and cooperative sectors accounted for 36% and 4%, respectively, even though they hold 24% and 70% of the land area under cultivation. The latter two sectors, however, also provide supplies for social consumption (hospitals, schools, etc.) and to meet ration book requirements.

In the cooperative sector, the basic units of cooperative production (UBPCs), which hold 47% of the island's farmland, are plagued by problems such as inadequate business management and poor efficiency; it is estimated that 30% of them failed to turn a profit.

The unemployment rate declined for the sixth year running to reach 4.1%. According to official calculations, labour productivity rose by 2.3% for the economy as a whole.

(c) The external sector

The balance-of-payments current-account deficit shrank to US\$ 650 million, which is equivalent to 2.1% of GDP, compared to 2.3% the year before. Import restrictions resulted in a modest reduction of the trade deficit in goods and services, to US\$ 830 million. Net current transfers edged upward, to US\$ 850 million, and net factor service payments dropped to US\$ 670 million. Despite the slide in international nickel prices, the terms of trade improved slightly thanks to the rise in sugar prices in the initial months of the year and the downturn in oil prices.

The value of exports of goods and services slipped by 2.7% as a result of the drop in external sales of both goods (-1.5%) and services (-3.4%). Among traditional goods exports, nickel showed a volume increase and a value decrease, while sugar was sold in lower volumes but at higher prices. International nickel prices fell to US\$ 2 a pound, compared to US\$ 4 in 2000, bringing the value of nickel sales down by about US\$ 150 million. Among non-traditional exports, health care products such as medical equipment and medicines, which have a higher value added, were particularly successful.

International tourism suffered as a result of the events of 11 September. The number of visitors plunged by more than 20% in the last four months of 2001, whereas it had risen by 10% between January and August. Income from international telecommunications services increased.

The value of imports of goods and services contracted (-2.4%) as a result of the austerity measures necessitated by the worsening shortage of foreign exchange, especially in the second half of the year. The petroleum and

petroleum products bill rose to over US\$ 1 billion, while purchases of food and raw materials for food production amounted to some US\$ 600 million.

The capital-account surplus swelled to US\$ 740 million, which was sufficient to finance the current-account deficit and slightly raise (by US\$ 90 million) the low level of international reserves.

The government's external debt, not including debt

contracted with countries members of the now-defunct Council for Mutual Economic Assistance (CMEA), remained at around US\$ 11 billion, which is equivalent to 35% of GDP calculated at the official exchange rate. The country's liabilities consist mainly of government-insured export credits (33%), intergovernmental loans (17%) and medium- and long-term bilateral and syndicated loans (16%).