

## Cuba

Data provided by the National Statistical Office show that, in 2007, the Cuban economy posted GDP growth of 7%, with a similar growth rate in per capita GDP. According to public budget data, the fiscal deficit widened slightly from 3.2% of GDP in 2006 to 3.4% in 2007. Inflation came in at 2.5%, which was about half the 5.7% recorded in 2006. The external deficit narrowed slightly thanks to improved export performance.

In 2007, GDP growth was mainly the result of buoyant agriculture, manufactures and especially community, social and personal services. Given that these services represent a high proportion of total GDP (37%), they were responsible for 70% of the country's economic growth. Agriculture picked up compared to the previous year to become the fastest growing sector in 2007. Construction and commerce, which had registered the highest levels of growth in 2006, turned in adverse performances. Construction declined considerably while commerce stagnated.

For 2008, the government authorities project GDP growth of 8%. Exports of goods and services, as well as investment in sectors where the country wishes to substitute imports (food and light industry), are expected to be the driving forces of economic growth. Agriculture is also expected to perform well, driven by production incentives introduced in 2007.

In 2007, measures were adopted to improve investment efficiency and strengthen the link between labour productivity and wages. Attention was directed at solving some of the major problems of the agricultural sector, with a view to increasing production and improving supply.

The fiscal deficit for 2007 was similar to the previous year but wider than forecast, mainly due to expenditure to mitigate the damage caused by floods in the western provinces during the final quarter. According to preliminary estimates, the floods are thought to have caused losses of US\$ 500 million.

According to information from the budget, public-sector current revenues rose by 23.6% in 2007. The fastest growth was posted by non-tax revenues (which include the price differential of external trade) with an increase of 53%, while other headings recorded more modest rates of growth. Total expenditure was in turn up by 23.2%. Current outlays were up by 28% and capital expenditure fell by 4%. Greater emphasis was placed on spending efficiency and sanctions were introduced for inefficient use of budget money. The rise in expenditure was due, in addition to spending implemented to alleviate the effects of flooding, to higher prices paid on the parallel agricultural market for some of the main foodstuffs. Health spending climbed as a result of the construction of new hospitals and repairs to clinics, while education spending also increased.

Monetary aggregates displayed a moderate expansion. Cash in circulation increased by 3.5% in real terms, while M1 and M2 grew by 0.4% and 3.8%, respectively. These aggregates only reflect changes in the non-convertible Cuban peso used for transactions among the general population. Inter-company transactions are carried out in convertible pesos, which are not expressed in monetary aggregates. There was no change in nominal interest rates or in the exchange rate between the non-convertible and convertible peso (24:1).

The trade policy continued the course initiated at the end of 2004, concentrating on trade with certain

countries from within the region (Bolivarian Republic of Venezuela, Bolivia, Ecuador, Nicaragua) and beyond (China). Cuba's trade relations with the Bolivarian Republic of Venezuela expanded substantially, making it the country's main trading partner.

Community, social and personal services were highly buoyant (13.6%), which was attributable to increased health and education spending. Agriculture managed to turn around the negative performance of the previous year thanks to measures adopted to reduce delays in payments to producers, higher prices on the parallel agricultural market and extremely favourable weather conditions. Agricultural production (pork, ground provisions and legumes) soared by 22.4% to offset the reduction observed in the year-earlier period (-6%). Despite the considerable damage caused by flooding during the final quarter, the sector expanded considerably in 2007. However, the impact on overall output was limited as the sector represented only 4% of GDP. Manufacturing (except sugar production) also performed well, with growth of 7%. The most buoyant sectors were pharmaceuticals, food and household equipment production. Value added for transport, storage and communications was up by 6.3% thanks to improvements in road freight transport, maritime transport and urban transport in Havana. Growth in mining was also higher, with an increase of almost 4% (twice as much as in the previous year).

In 2007, the production of electricity, gas and water (6.9%) benefited from high rainfall. Improvements to the electrical system and higher levels of production resulted in the elimination of blackouts that had previously been a daily occurrence. Construction, on the other hand, declined by 9% after having expanded by 37.7% in 2006. Commerce also sustained a decline

(-1.8%) in 2007. Tourism fell again (-1.8%), owing to something of a Caribbean-wide slowdown in the industry and a reduction in "health tourism", with many patients now treated by Cuban medical staff in their countries of origin. Lastly, the public health and social assistance sector grew by 21.7%.

Following a hike of 5.7% in 2006, the consumer price index (CIP) posted lower growth (2.5%) in 2007. There was no repeat of the increase in wages and pensions that had contributed to the rise in 2006. Between January and September 2007, average real wages dipped by 0.4%. Employment was up by 1.7%, while unemployment remained at 1.9%.

The total value of merchandise exports from January to September swelled by over 40% on the strength of price increases, as export volumes dropped slightly. Particularly striking was the 74% rise in the price of nickel and, to a lesser extent, higher prices for tobacco (12%), which more than offset the 35% fall in the price of sugar. Additionally, as import prices registered only a small increase, the terms of trade were improved substantially. The value of merchandise imports climbed by only 2.6% in the same period, compared with rates of over 20% in the three previous years.

In terms of non-traditional exports, medicines turned in another excellent performance. As far as traditional exports are concerned, nickel was boosted by high international prices, while export volumes also rose slightly. Tobacco also fared well, while sugar export volumes continued to shrink.

The value of imports of consumer and capital goods decreased by around 6%, as it proved impossible to repeat the extraordinary results of the previous year when huge quantities of household equipment and power units were imported. Intermediate goods, on the other hand, expanded by 9.8%.