

## Cuba

The global economic crisis has had a profound effect on Cuba's economy in 2009. The official growth target set for 2009 was reduced, first from 6% to 2.5%, then to 1.7%. The economy expanded by only 0.8% in the first half of the year. ECLAC estimates that growth through year-end will be 1%, much lower than in 2008, when it was 4.1%. Once again, the balance of payments posted a deficit equivalent to several percentage points of GDP which, given the scant possibilities of external borrowing, represented the main hindrance to growth. Inflation was negative, at -3.3%, while unemployment remained similar to its 2008 rate, at 1.6%. The fiscal deficit narrowed slightly from 6.9% of GDP in 2008 to 5% in 2009.

The Cuban economy encountered turbulence coming from three major external channels. First, the food bill rose because of higher prices and the loss of crops damaged by hurricanes that pummelled the country in 2008. Though international food prices dropped in 2009, they are still 60% higher than they were in 2000. Second, the value of exports fell significantly. The international price of nickel, Cuba's leading export, was down about 40% in 2009 following a similar decline in 2008. Third, the conditions for external financing tightened, as did access to credit from suppliers. Debt to suppliers is estimated to be between US\$ 600 million and US\$ 1 billion.

Fiscal revenues decreased as a result of the crisis. Meanwhile, expenditures increased, especially in the first half of 2009, as a result of damage from the hurricanes that struck in 2008, causing losses worth 20% of GDP. In response, the government tightened its policy stance and in April conducted a thoroughgoing revision of budget expenditures and revenues, in order to identify additional savings and implement a leaner budget.

Other measures were taken, such as the rationing of electricity, which further stunted economic growth because it encompassed both the people and businesses. In July, the government implemented a second round of budget cuts, which meant a new and even more stringent electricity-rationing plan and a reduction in the food products delivered to families. In both rounds of budget cuts the government sought to avoid negative impacts on investments that drive exports or promote import substitution.

In 2009, the government continued to restructure the Cabinet and State apparatus, seeking to streamline

bureaucracy and make it more efficient, avoid duplication and reduce the number of State institutions. Furthermore, a new agency, the Comptroller General of the Republic, was created to oversee the proper functioning of all of Cuba's political, administrative and economic institutions. Subsidies and bonuses (including those for culture, sports and food) are under review so as to narrow their focus and lower costs to the State. Also under review is the list of products included on the ration card Cubans receive each month. Lastly, during the second half of the year, workplace lunches began to be replaced by a small wage increase.

In 2009, Cuba had difficulty not only in borrowing new money, but also in servicing its existing debt. Therefore, the government has tried to renegotiate the external debt, postpone payments and seek extensions from creditors. The financial situation improved somewhat, thanks to a loan of approximately US\$ 600 million from the People's Republic of China.

Monetary and exchange-rate policy was aimed at maintaining domestic equilibrium in the context of severe external disequilibrium. This goal was met, insofar as inflation was very low and the exchange rate remained steady. A new system for controlling foreign-currency expenditures was announced, to be administered in a decentralized fashion through ministries, rather than through the Currency Approval Committee. In the second half of 2009, the central bank authorized payment of arrears to about 600 of Cuba's supplier accounts, but only those that agreed to keep doing business with the country.

After almost 50 years, Costa Rica and El Salvador re-established diplomatic ties with Cuba, leaving the United

States as the only country in the hemisphere that still does not have diplomatic relations with the country. However, the Government of the United States softened some measures of its economic embargo that had been toughened by the previous administration. Restrictions were eased for travel by Cuban-Americans to the island and for sending family remittances and some items for personal use.

Government consumption increased 3.4% and was the main driver of the positive growth rate. On the other hand, gross investment plunged by almost 25%. Exports were up 7.7%, while imports were down by 9.7%. By sector, goods declined by 3.6% and services registered positive growth.

Agriculture was the only sector whose growth figures matched those of initial estimates by authorities, up 7% during the first half of the year. Short-cycle crops posted positive, and in some cases, high output growth, whereas longer-cycle crops, such as bananas, oranges, lemons, and pineapples—which are Cuba's main exports—declined. Additionally, over 100,000 people were given rights to use some of the State's land, which should lead to higher agricultural production in 2010.

Growth in manufacturing fell owing to a drop in imports of inputs. The production of nickel, which generates as much foreign-currency revenue as tourism, also declined. Construction was down because of a shortage of workers and the suspension of most investment projects, but this was partially offset by reconstruction projects in hurricane-damaged areas. On the other hand, communications performed well because restrictions were lifted on cellular telephone purchases. The public sector's renovated fleet of vehicles spurred growth in the transport sector.

The number of tourists was up slightly, though revenues dropped because of lower average spending by tourists. Government services continued to grow, though at a slower rate than in prior years.

#### CUBA: MAIN ECONOMIC INDICATORS

	2007	2008	2009 <sup>a</sup>
<b>Annual percentage growth rates</b>			
Gross domestic product	7.3	4.1	1.0
Per capita gross domestic product	7.2	4.1	1.0
Consumer prices <sup>b</sup>	10.6	-0.1	-1.7 <sup>c</sup>
Average real wage	-0.9	-1.8	...
Money (M1)	3.9	9.9	...
Real effective exchange rate <sup>d</sup>	2.5	9.4	...
Terms of trade	5.2	...	...
<b>Annual average percentages</b>			
Urban unemployment rate	1.8	1.6	...
Central government overall balance/GDP	-3.2	-6.7	...
Nominal lending interest rate <sup>e</sup>	9.1	9.0	...

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the National Statistics Office.

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Local-currency markets.

<sup>c</sup> Twelve-month variation to October 2009.

<sup>d</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>e</sup> Average of minimum and maximum rates on loans to enterprises.

The government announced an increase in the monthly wages of Cuba's 545,000 teachers and education employees, to begin in September. This increase of between 93 and 166 pesos (or between US\$ 4 and US\$ 7.20) will cost the government 820 million pesos (or US\$ 35.4 million) annually. Inflation was negative in markets that use domestic currency (the Cuban peso), while the unemployment rate remained low.

Imports fell by more than one third, owing to slacker economic activity and the policy of doing away with non-essential imports. The contraction in exports was somewhat smaller and largely reflected the drop in value of nickel and citrus fruit exports. The rise in international sugar prices did not benefit the country because of its low production levels. For the second year in a row, the terms of trade suffered a significant deterioration.