

Cuba

In 2011 the Cuban economy grew against the backdrop of a gradual but decisive roll-out of concrete measures to update the economic model. GDP growth of about 2.5% is projected for 2011 (2.1% in 2010) owing to a certain relaxation of external constraints and a moderate upturn in both public and private consumption, even though investment levels remained low. An improved current account facilitated progress on payments to external creditors. The fiscal deficit went from 3.5% of GDP in 2010 to 3.8% of GDP in 2011, which was higher than the 3.6% originally planned because increased spending (especially on the financial overhaul of public enterprises) outpaced the rise in revenues. The consumer price index¹ is expected to rise slightly by about 2% (0.6% higher than the increase in 2010). Nevertheless, the withdrawal of certain products from the rationing system could have generated higher inflationary pressures.

In April 2011, measures for updating the Cuban economic model were formally adopted at the sixth congress of the Communist Party, even though the phase-in of some of those measures had already started in 2010. Noteworthy among these measures were further labour-market reform and the expansion of non-State production, more managerial autonomy for public enterprises and greater decentralization of investment and production decision-making.

The improvement of the external sector can be attributed to the increase in tourism, goods exports and possibly remittances, which are increasingly being used to finance small investments in the non-State sector. Goods and services exports grew by an estimated 10% in 2011. Imports fell off slightly owing to decreasing acquisition of machinery and equipment attributable to persistently low investment levels. However, the value of imports rose on the back of higher prices for imported food, which accounts for some 80% of domestic food consumption in Cuba. The merchandise trade deficit narrowed thanks to improved performance of goods exports (which by the third quarter of the year had jumped by 27% compared with the same period the previous year) and the containment of imports. The strong performance of trade in services—especially

tourism, which expanded from 2.5 million tourists in 2010 to approximately 2.7 million in 2011—led to an overall trade surplus.

The exchange-rate policy, based on a dual system, did not change in 2011. The fiscal deficit was covered by issuing currency without generating inflationary pressures, possibly because of greater demand for money resulting from an increase in retail transactions as own-account activities expanded. Trends in public spending were shaped above all by measures to update the Cuban economic model. The widening of the fiscal deficit to 3.8% of GDP and the simultaneous rise in tax revenues, by 2.215 billion Cuban pesos, fed an increase in public spending. That increase came with a shift towards the capitalization of public enterprises, specifically to ensure the payment of debts to providers, the treasury and banks. This is part of a process of strengthening public enterprises that also includes a plan to grant greater managerial autonomy. The 2011 creation of the AZCUBA Sugar Industry Business Group to replace the Ministry of Sugar can be seen as a step in that direction, as was the elimination of the Ministry of Fisheries and the creation of other business groups in 2010.

Almost half of the increase in tax revenue that made it possible to expand public spending came from taxes on the sale of products such as flour, rice, beans, sugar and eggs, reflecting a likely rally in private spending.

¹ The consumer price index covers only products priced in Cuban pesos.

Because the new credit and financial policy (Decree-Law No. 289) entered into force on 20 December 2011, the uptick in activity in the sector might have been bolstered in part by remittances channelled increasingly towards investment (which remains at a low level because this is an incipient sector) instead of consumption.

The new credit policy opens the door to broader use of the banking system in the Cuban economy by enabling small farmers and own-account workers to open current accounts in banks in Cuban pesos or in convertible pesos. The fact that individuals can now apply for loans of over 3,000 Cuban pesos (which was the limit before the decree) gives reason to believe that economic growth will be more vigorous in 2012.

The containment of public spending on education and health, which in the past represented about a third of GDP, means that other sectors have contributed to economic growth. Services associated with tourism, such as restaurants and hotels, as well as agriculture, construction and the production of construction materials, are among the best performing sectors. The announcement and subsequent authorization of the buying and selling of housing, under certain conditions, is giving a lift to housing construction and private improvement projects. The rise in employment and wages in these sectors has offset, at least partially, the diminishing public-sector wage bill.

In the case of agriculture, the updating of the economic model has been reflected in two particularly significant policy measures. One of them involves fast-tracking, starting in 2010, the granting of rights to use idle land for a period of 10 years, which is intended to promote the substitution of food imports. As at 30 September 2011, 1,313,000 hectares had been handed over to 147,000 individuals, who have mainly used the land for livestock production and for growing crops such as rice. The need to invest in order to expand output, a scarcity of credit and a largely urban population have been reflected in a gradual, but as yet uneven, increase in the area under cultivation.

In 2011 the traditional system for contracts with producers, which forced the latter to sell 80% of their output to the State stockpiling agency, was replaced by a more flexible system of individually negotiated contracts under which the amount contracted depends on the supply of inputs and producers can sell on the open market the (variable) proportion of their output

CUBA: MAIN ECONOMIC INDICATORS

	2009	2010	2011 ^a
Annual growth rates			
Gross domestic product	1.4	2.1	2.5
Per capita gross domestic product	1.4	2.1	2.5
Consumer prices	-0.1	1.5	1.7 ^b
Real average wage	4.6	3.0	...
Money (M1)	1.7	1.7	...
Real effective exchange rate ^c	0.0	-1.0	...
Annual average percentages			
Open unemployment rate	1.7	2.4	...
Central government			
overall balance / GDP	-4.8	-3.4	...
Nominal lending rate ^d	9.3	9.3	...

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

^a Preliminary estimates.

^b Twelve-month variation to March 2011.

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

^d Corporate lending rate in Cuban convertible pesos.

that is not covered by the contract. This system applies to 21 agricultural products; direct sales from agricultural producers to hotels and restaurants in the tourism sector were authorized in late 2011.

Labour-market reform has promoted the gradual transfer of public employees to the non-State sector and the reassignment of staff within the State sector. As part of the rationalization of public-sector activities, various measures are being taken in the health sector, including the strengthening of preventive care to decrease demand for more expensive curative care in hospitals, and in the education sector, such as ending certain care services in isolated rural areas in order to concentrate them in urban areas.

However, in 2011, it was announced that the pace at which State-sector workers were being reassigned to the non-State sector would be scaled back because of difficulties in guaranteeing the rapid absorption of those workers by the non-State sector. Although the number of public employees was originally estimated to fall by 500,000 during the initial stage, the process has slowed in 2011. Nevertheless, there was rapid growth in own-account activities authorized by the government as a result of the aforementioned measures: by the end of September there were 338,000 own-account workers, almost 181,000 more than in the same month in 2010.