

Cuba

Data provided by the National Bureau of Statistics show that the Cuban economy continued to grow strongly in 2006 (12.5% as compared to 11.8% in 2005), fuelled by a burgeoning external sector and more widely available foreign exchange. This result was assisted by the expansion of trading relations with the Bolivarian Republic of Venezuela and China; and, once again, a substantial increase in the sale of professional services abroad, particularly health care, and larger exports of nickel and medicines. In contrast, foreign-exchange earnings from international tourism grew more slowly. The robust growth rate also reflected a substantial increase in construction investment. Although sugar exports were down in volume terms, improved terms of trade and the larger volume of nickel sales helped to generate a trade surplus in goods and services. Earnings from medicine exports were another contributory factor. Surpluses on the current and capital accounts allowed for an increase in international reserves and a slight reduction in the balance of outstanding debt, which also improved its maturity profile.

The fiscal deficit narrowed to 3.4% of GDP, compared to 4.2% in 2005; but monetary liquidity increased (6%) despite an increase in retail sales. Inflation gathered pace somewhat, rising to 5.5% from 4.2% in the previous year.

No new economic reform measures were introduced in 2006, and economic policy continued to focus on combating corruption, strengthening electricity services, reviving the transport sector, making progress with programmes to improve housing and living standards, and expansion of social programmes. Progress was also made in terms of control and centralization of foreign currency, better control of foreign trade and budgetary resources, and supply improvements in the distribution system for regulated goods, mainly in the electrical appliance and services sectors.

The budget deficit narrowed to 3.4% of GDP as revenues rose faster (35.5%) than expenditure (31.9%). Tax revenues increased, while non-tax income declined. The former included higher revenue from indirect taxes, such as taxes on circulation and on sales and services. The direct taxes generating the most revenue included those levied on profits and labour-force use, and social security contributions. Nonetheless, personal income taxes declined because of the restrictions placed on own-account work. Expenditure on public health, education and sports grew significantly.

Monetary policy continued to focus on consolidating measures implemented earlier, such as de-dollarization of the domestic economy, exchange-rate stability and centralized use of foreign exchange. Wage and pension increases in 2005 helped to fuel retail sales and increase liquidity in the hands of the population. No changes in interest rates or the nominal exchange rate were reported during the year: the official exchange rate remained pegged at one Cuban peso to the dollar, while the commercial rate was held at 24 Cuban pesos per dollar.

Financial relations between Cuba and two Swiss banks, UBS and Credit Suisse, were broken off following pressure from the Government of the United States as part of a tightening of the economic embargo, whose direct and indirect damage since 1959 is officially estimated at US\$ 86 billion.

Aggregate supply grew as a result of a substantial increase in imports of goods and services, including larger purchases of foreign capital and intermediate goods, although consumer goods also grew significantly. On the demand side, expansion was driven more by domestic demand than the external sector, while investment grew faster than consumption, and household spending outpaced government consumption.

At the sector level, construction grew strongly (30%) for the fourth straight year, thanks to the completion of 100,000 homes following a long period in which housing construction had been flat. Another contributory factor was the completion of substantial civil works in the health and education sectors, and the development of tourist infrastructure.

The agriculture sector declined again (-7%) despite abundant rainfall and the absence of hurricanes. This reflected lower levels of crop farming activity, both sugar and otherwise, while livestock activity recovered on the back of higher production of milk, eggs, pigmeat and chicken. Output of rice and bananas also expanded, while citrus fruit production declined.

Mining grew by just 1.5% after two years in the doldrums, with the extraction of nickel, petroleum, gas and, in particular, construction materials all increasing.

Following several years of stagnation, manufacturing industry grew by 2% despite the reduced sugar harvest; chemicals, oil refining and medicines all recorded higher levels of activity.

Among basic utilities, production increased in the electricity, gas and water sectors. The programme to modernize the national electric power system was boosted, and power outages were significantly reduced.

Community, social and personal services again performed strongly, while transport, storage and communications, commerce and financial services all expanded more modestly.

The slow growth of tourist services in 2006 reflects greater competition from other Caribbean destinations, shortcomings in hotel and extra-hotel services and a revaluation of the convertible peso. Health tourism fell back sharply, since patients are being treated by Cuban health-care staff in their own countries.

Inflation (5.5%) picked up as a result of price rises among various products and services on the formal market, such as eggs, rice, coffee, electricity and inter-provincial transport fares. There were no wage increases; and the unemployment rate held steady at

Table 1
CUBA: MAIN ECONOMIC INDICATORS

	2004	2005	2006 ^a
Annual growth rates			
Gross domestic product ^b	5.4	11.8	12.5
Consumer prices ^c	2.9	4.2	5.5
Annual average percentages			
Urban unemployment rate	1.9	1.9	1.9
State fiscal balance/GDP	-3.5	-4.2	...
Millions of dollars^d			
Exports of goods and services	5 630	7 200	10 443
Imports of goods and services	5 838	7 963	10 352
Current account	116	7	141
Capital and financial account	800	500	500
Overall balance	916	507	641

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

^a Preliminary estimates.

^b Figures provided by the National Statistical Office of Cuba and undergoing assessment by ECLAC.

^c Local-currency markets.

^d Calculated using the official rate of 1 peso to the dollar.

1.9%, unchanged from its level in the previous two-year period.

The balance of payments recorded a surplus on the current and capital accounts, and international reserves expanded. The trade account was in surplus as a result of exports of goods and services growing faster (45%) than imports (30%). Merchandise exports were up by 27% and foreign goods purchases by 30%. Exports of generic and biotechnological medicines moved up to second place behind nickel.

The merchandise terms of trade improved thanks to a rise in the international prices of nickel and sugar, despite higher foreign prices for oil and food products.

Exports of services grew by 53%—mainly professional services provided to other countries—while tourism growth was sluggish. Family remittances fell back sharply in the wake of restrictions imposed by the Government of the United States.

Net factor service payments increased because of interest payments on the external debt and profit repatriation by foreign firms established on the island.