
Cuba

1. General trends

In 2007, the Cuban economy posted GDP growth of 7.3%, with a similar growth rate in per capita GDP, since population growth was almost nil. The overall fiscal deficit increased slightly, from the equivalent of 3.0% of GDP in 2006 to 3.1% in 2007. The rate of inflation rose by 2.8%, which was half the previous year's rate (5.7%). The balance-of-payments current account showed a surplus equivalent to 0.8% of GDP.

Having contracted sharply in the two preceding years because of drought, the agricultural sector was the fastest-growing in 2007 (18%). Community, social and personal services expanded at a lower rate (14.5%) than agriculture, but contributed more to overall growth since they account for a high proportion of output. Conversely, construction and commerce, which had led GDP growth in 2006, lost momentum, shrinking by 8.6% and 0.5%, respectively.

External conditions were less favourable than in previous years owing to the tightening of the United States embargo and rising food prices. The authorities estimate that, since it began, the economic blockade has had a direct cost of over US\$ 90 billion. The rise in international food prices pushed up the value of food imports by almost 24%.

A wide-ranging debate was held in 2007 to identify the population's main problems and compile their recommendations. In response to some of these, a number of measures were taken in the first semester of 2008, such as the lifting of the prohibition on buying cellular telephones, computers, digital video/versatile disks (DVDs) or videos and other electronic articles. Citizens were also allowed to stay in international tourist hotels and hire cars.

The most significant event thus far in 2008 has been Fidel Castro's resignation as President of the Council of State of Cuba; the National People's Assembly elected Raúl Castro in his place for a five-year term. The new President's first measures have been aimed at phasing in changes aimed at improving the Cuban model. The basic purpose is to increase economic efficiency by forging a closer link between income and performance.

For 2008, the government authorities project GDP growth of close to 8%, driven mainly by exports of goods and services. Agriculture is also expected to continue to perform well, thanks to production incentives and the policy of substituting food imports, which has been given a high priority this year.

The excellent performance of the tourism sector, which posted an expansion of around 15% in the first four months of the year (high season) bodes well for the rest of the year. GDP growth in 2008 could be lower than forecast, however, given slacker economic activity in the world economy and in Cuba's two main trading partners, the Bolivarian Republic of Venezuela and the People's Republic of China.

2. Economic policy

The main objective of economic policy in 2007 was to continue with efforts to reduce the imbalances built up during what is known as the “special period”. Specifically, the authorities maintained the medium-term objective of de-dollarizing the Cuban economy and creating the economic conditions for monetary unification.

(a) Fiscal policy

The budget deficit widened slightly, from 3% of GDP in 2006 to 3.1% in 2007.¹ The central government’s primary balance, which excludes interest payments, improved and the deficit narrowed from 2.0% of GDP in 2006 to 1.8% a year later.

The central government’s total revenues were up by 11.1% in real terms; they rose from 40.6% of GDP in 2006 to 43.7% in 2007, reflecting non-tax income and capital revenues. Non-tax income was up by 42.8% thanks to the price differential on external trade, the item “other business contributions” and net external revenues. This last item is significant, since it was equivalent to 11.7% of GDP in 2007. Capital revenues were less substantial (2.2% of GDP), although they expanded by over 50%.

By contrast, tax revenues were flat. Indirect tax receipts were down by 10% in real terms, owing to a sharp 12.3% drop in their main component, circulation and sales taxes. Receipts under this heading had increased by 52.6% in real terms in 2006 because of mass sales of household appliances as part of the energy restructuring programme, but once this process was finished, in 2007 the extraordinary results of the previous year were not repeated.

Income from direct taxes rose at a similar rate to total income. Receipts from profits tax, which represents almost half of direct income, expanded by 51.9% in real terms, as against a reduction of over 10% the year before. Generally speaking, these receipts are volatile because they depend on enterprise results. Conversely, income from social security contributions, which represent the other half of direct income, usually increases at much more stable rates not exceeding single digits in real terms. Last year was no exception, with income in that category rising by 2.6%.

¹ The concept of budget deficit is much broader in Cuba than in other countries. It refers to the totality of State income and expenditure, which amounted to 61.7% and 64.8% of GDP, respectively, in 2007. Although these data are not comparable to those of other countries, since their coverage is wider, they are included in this report as crucial macroeconomic indicators in the Cuban economy.

Total spending was up by 10.1% in real terms. Current spending expanded 14.6% owing to a significant rise in outlays on education, health, culture and art, and science and technology. Transfers to the enterprise and cooperative sector also rose (16.6%). For the second year running, there was a decrease in subsidies for losses (-26.4% in 2007). By contrast, subsidies for price differences and on particular products rose (13.8%), breaking the downward trend of the previous four years. Capital spending was flat.

Spending also included outlays to repair losses caused by flooding in the country’s eastern provinces in the last quarter of 2007, which the authorities estimate at some US\$ 500 million. Efforts were made to increase spending efficiency and sanctions were introduced for misuse of budgetary funds. As well as the flooding, another factor pushing up expenditures was the rise in storage prices for some of the major food products.

One important step has been the adoption of measures to improve investment efficiency and links between labour productivity and wages, and this remained one of the government’s priorities in 2008. Strenuous efforts have also been made to solve some of the basic problems in the agricultural sector, in order to increase production and improve supply. For example, the price of storage for such products as milk and beef doubled. Lastly, in the second half of 2007, a nationwide consultation was carried out on mechanisms to improve the operation of the economy and solve the worst problems faced by the population, some of which were identified as wages, housing, transport and monetary duality. The Communist Party is examining the proposals that arose from this process.

In April 2008 it was decided to increase social security benefits. This involved an unbudgeted expenditure of 837 million pesos, which represented around 1.3% of the GDP forecast for the year.

(b) Monetary and exchange-rate policies

Monetary policy continued to be directed towards de-dollarizing the economy and reducing the imbalances built up during the previous period. No new measures were taken, so the rules of play remained stable in 2007.

The Central Bank of Cuba continued to use legal deposit and credit controls, as well as interest rates, to administer liquidity. Lending rates in Cuban pesos remained the same as in previous years, while the annual average rate in convertible pesos decreased from 9.8% in 2006 to 9.4% in 2007.

Monetary aggregates registered no significant variation in nominal terms. M1 increased by a mere 1.2%, basically because cash in circulation increased by 9.9%. M2 also posted a small variation (4.5%). Both monetary aggregates continued to decrease in GDP terms, however, which reflects efforts to contain surplus liquidity in the economy. This process has been quite considerable, since M1 decreased from the equivalent of 40.5% of GDP in 2005 to 30.6% in 2007. In the same period, M2 declined from 50.3% of GDP to 40.8%.

Conversely, lending to the private sector, which includes credits to loans and services cooperatives, agricultural cooperatives, basic units of cooperative production, private farmers and households, expanded by a significant 56.3%. Even so, this was a smaller increase than that seen in 2006, when lending doubled in comparison with 2005.

The sharp reduction in liquidity put some pressure on the exchange rate. The rate of exchange between the convertible and non-convertible pesos (at 24 to 1) and between the convertible peso and the United States dollar (at 1 to 1, plus a surcharge of 8% for the use of dollars) both remained stable, but expectations of a revaluation of the non-convertible peso translated into occasional liquidity problems in the early months of 2008. The monetary authorities therefore increased the rate of liquidity expansion, which reached 20% in this period.

3. The main variables

(a) Economic activity

The economic growth rate (7.3%) was lower than the figure for 2006 (12.1%) and trends in external and domestic demand switched with respect to the previous year. The strong momentum in domestic demand slackened in 2007 (4.1%) owing to smaller expansion in consumption (4.4%) and investment (2.4%). Exports, on the other hand, left behind the standstill of 2006 and posted a strong 13.8% gain. Imports decreased slightly (-1.1%), as against the sharp rise of the previous year (20.4%).

The measures adopted to reduce delays in paying producers, together with the rise in storage prices and very favourable weather conditions after a drought of several years, translated into strong growth in agricultural output (18%), breaking the strong downtrend of the previous

(c) Trade policy

Trade policy was directed towards promoting ties with the countries of the Bolivarian Alternative for Latin America and the Caribbean (ALBA) and the People's Republic of China. Relations between Cuba and the Bolivarian Republic of Venezuela have developed in an extraordinary fashion, both as regards trade—making the latter country Cuba's largest trading partner—and in relation to culture, sport and other areas. In 2007, 352 projects representing a value of some US\$ 1.5 billion were carried out in the framework of the integrated convention on cooperation between Cuba and the Bolivarian Republic of Venezuela.

The most significant project was the refurbishment of the Cienfuegos refinery. Once the first phase was completed in December 2007, the refinery began to process 65,000 barrels of petroleum per day and this quantity is expected to increase to 150,000 barrels per day in the second phase. In 2008 other projects were begun around refining activity, in an effort to increase the value added of Cuba's petrochemical output and make it the development hub for that part of the country.

Although the Bolivarian Republic of Venezuela is Cuba's largest trading partner, trade between the two countries is concentrated in just a few goods. Cuba trades a much larger range of goods with the People's Republic of China, its second-largest trading partner. In addition, the Government of Cuba considers China a strategic partner.

two years. The upswing was seen in a range of products including beans, maize, bananas and sugar cane, while the harvest of potatoes, tobacco, vegetables and some fruits was smaller. In the livestock sector, production of pork was up 77% and cow's milk, 16.8%.

After extraordinary growth of 37.7% in 2006, construction slipped by 8.6% in 2007. The 2006 performance had reflected the conclusion of housing projects begun in earlier years and thus represented an exceptional situation that was not repeated in 2007, bringing about a drop in activity levels in the sector. A number of organizational problems and lack of skilled labour also affected the sector's performance.

The manufacturing industry (except the sugar segment) saw a significant upturn of 9.9%, compared with 2.7% in 2006. Six of the seven largest branches posted a positive

Table 1
CUBA: MAIN ECONOMIC INDICATORS

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 ^a |
|--|--------|--------|--------|--------|--------|--------|--------|--------|-------------------|
| Annual growth rates ^b | | | | | | | | | |
| Gross domestic product | 6.2 | 5.9 | 3.2 | 1.4 | 3.8 | 5.8 | 11.2 | 12.1 | 7.3 |
| Per capita gross domestic product | 5.9 | 5.6 | 2.9 | 1.2 | 3.6 | 5.6 | 11.1 | 12.0 | 7.3 |
| Gross domestic product, by sector | | | | | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | 11.6 | 9.1 | 0.9 | -2.5 | 2.4 | 0.2 | -11.6 | -6.0 | 18.0 |
| Mining | 2.7 | 33.2 | -3.5 | 12.4 | 1.8 | -4.7 | 0.1 | 1.9 | 3.4 |
| Manufacturing | 7.2 | 5.1 | -0.6 | 0.2 | -2.0 | 2.5 | 1.2 | 2.7 | 9.9 |
| Electricity, gas and water | 8.1 | 12.8 | 1.1 | 2.4 | 3.1 | -2.5 | -1.6 | 3.4 | 7.9 |
| Construction | 7.5 | 8.4 | -5.3 | -2.4 | 4.4 | 10.0 | 18.9 | 37.7 | -8.6 |
| Wholesale and retail commerce, restaurants and hotels | 0.7 | 7.6 | 4.4 | 2.0 | 5.0 | 0.7 | 4.8 | 22.7 | 0.5 |
| Transport, storage and communications | 17.6 | 5.0 | 8.4 | 0.0 | 2.7 | 4.8 | 8.2 | 9.2 | 6.7 |
| Financial institutions, insurance, real estate and business services | 12.7 | 0.9 | 5.4 | 1.2 | 0.2 | 4.9 | 1.0 | 2.8 | 8.1 |
| Community, social and personal services | 4.7 | 3.5 | 5.6 | 3.4 | 7.7 | 14.2 | 29.6 | 8.9 | 14.5 |
| Gross domestic product, by type of expenditure | | | | | | | | | |
| Consumption | 5.1 | 2.4 | 3.7 | 2.7 | 6.5 | 3.7 | 3.6 | 15.0 | 4.4 |
| General government | 5.1 | 3.0 | 3.3 | 4.1 | 7.3 | 8.6 | 10.4 | 7.9 | 10.5 |
| Private | 5.1 | 2.1 | 3.8 | 2.1 | 6.2 | 1.5 | 0.4 | 18.7 | 1.5 |
| Gross domestic investment | 0.5 | 11.3 | 0.8 | -10.8 | -9.6 | 13.5 | 33.0 | 26.0 | 2.4 |
| Exports (goods and services) | 12.8 | 14.1 | -3.6 | -3.8 | 5.8 | 19.0 | 47.5 | 1.3 | 13.8 |
| Imports (goods and services) | 2.4 | -0.2 | -3.8 | -7.3 | 12.1 | 13.0 | 25.8 | 20.4 | -1.1 |
| Percentages of GDP | | | | | | | | | |
| Investment and saving ^c | | | | | | | | | |
| Gross domestic investment | 11.9 | 12.5 | 11.5 | 9.2 | 8.5 | 8.8 | 10.8 | 11.7 | 10.2 |
| National saving | 10.2 | 10.2 | 9.6 | 8.2 | 8.6 | 9.1 | 11.1 | 11.3 | 11.0 |
| External saving | 1.6 | 2.3 | 1.9 | 1.0 | -0.1 | -0.3 | -0.3 | 0.4 | -0.8 |
| Millions of dollars | | | | | | | | | |
| Balance of payments | | | | | | | | | |
| Current account balance | -462 | -696 | -605 | -343 | 20 | 116 | 140 | -215 | 488 |
| Goods balance | -2 909 | -3 120 | -2 847 | -2 388 | -2 574 | -2 918 | -5 235 | -6 331 | -6 253 |
| Exports, f.o.b. | 1 456 | 1 675 | 1 622 | 1 422 | 1 671 | 2 180 | 2 369 | 3 167 | 3 830 |
| Imports, f.o.b. | 4 365 | 4 796 | 4 469 | 3 810 | 4 245 | 5 098 | 7 604 | 9 498 | 10 083 |
| Services trade balance | 2 163 | 2 306 | 1 931 | 1 825 | 2 329 | 2 710 | 6 375 | 6 456 | 7 900 |
| Income balance | -514 | -622 | -502 | -600 | -650 | -650 | -633 | -618 | -960 |
| Net current transfers | 799 | 740 | 813 | 820 | 915 | 974 | -367 | 278 | -199 |
| Capital and financial balance ^d | 485 | 805 | 595 | 300 | 200 | 800 | ... | ... | ... |
| Overall balance | 23 | 109 | -11 | -43 | 220 | 916 | ... | ... | ... |
| Variation in reserve assets ^e | -23 | -109 | 0 | 0 | 0 | 0 | ... | ... | ... |
| Other external-sector indicators | | | | | | | | | |
| Real effective exchange rate (index: 2000=100) ^f | 102.7 | 100.0 | 90.6 | 94.2 | 99.8 | 106.1 | 105.3 | 106.2 | 110.8 |
| Terms of trade (index:2000=100) | 104.2 | 100.0 | 114.0 | 105.1 | 121.0 | 133.3 | 129.8 | 164.0 | 172.6 |
| Official exchange rate (pesos per dollar) | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Average unofficial exchange rate (pesos per dollar) | 20.00 | 21.00 | 26.00 | 26.00 | 26.00 | 26.00 | 24.00 | 24.00 | 24.00 |
| Gross external public debt (millions of dollars) ^g | 11 078 | 10 961 | 10 893 | 10 900 | 11 300 | 5 806 | 5 898 | 7 794 | 8 908 |
| Average annual rates | | | | | | | | | |
| Employment | | | | | | | | | |
| Labour force participation rate ^h | 70.6 | 70.1 | 70.9 | 71.0 | 70.9 | 71.0 | 72.1 | 72.1 | 73.7 |
| Unemployment rate ⁱ | 6.3 | 5.4 | 4.1 | 3.3 | 2.3 | 1.9 | 1.9 | 1.9 | 1.8 |
| Annual percentages | | | | | | | | | |
| Prices | | | | | | | | | |
| Variation in consumer prices ^j (December-December) | -2.9 | -3.0 | -1.4 | 7.3 | -3.8 | 3.0 | 3.7 | 5.7 | 2.8 |
| Variation in average real wage | 10.4 | 8.7 | -3.8 | 9.3 | 2.5 | 6.3 | 13.0 | 11.6 | -0.9 |
| Nominal lending rate ^k | ... | ... | ... | ... | 9.6 | 9.7 | 9.8 | 9.4 | 9.1 |

Table 1 (concluded)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 ^a |
|---|---------------------------|------|------|------|------|------|------|------|-------------------|
| | Percentages of GDP | | | | | | | | |
| Central government | | | | | | | | | |
| Total income | 35.6 | 36.2 | 34.4 | 35.0 | 35.7 | 33.8 | 44.0 | 43.2 | 46.0 |
| Current income | 34.0 | 35.1 | 33.5 | 33.9 | 34.4 | 32.8 | 42.5 | 41.7 | 43.7 |
| Tax income | 28.6 | 27.5 | 25.9 | 26.6 | 26.9 | 23.3 | 28.7 | 30.0 | 27.7 |
| Capital income | 1.6 | 1.1 | 0.8 | 1.2 | 1.3 | 1.1 | 1.5 | 1.5 | 2.3 |
| Total expenditure | 37.7 | 38.4 | 36.7 | 38.0 | 38.7 | 37.6 | 48.6 | 46.4 | 49.2 |
| Current expenditure | 27.0 | 28.0 | 28.2 | 30.7 | 31.7 | 30.2 | 38.9 | 33.6 | 38.3 |
| Interest | 0.9 | 0.9 | 0.9 | 0.7 | 0.7 | 0.7 | 1.2 | 1.2 | 1.4 |
| Capital expenditure | 7.3 | 5.7 | 6.3 | 5.8 | 5.8 | 6.0 | 7.2 | 9.1 | 8.3 |
| Primary balance | -1.3 | -1.3 | -1.5 | -2.3 | -2.2 | -3.0 | -3.3 | -2.0 | -1.8 |
| Overall balance | -2.2 | -2.2 | -2.3 | -3.0 | -3.0 | -3.7 | -4.6 | -3.2 | -3.2 |
| Liquidity^l | | | | | | | | | |
| Currency outside banks and local-currency deposits (M2) | ... | 36.8 | 39.0 | 40.6 | 37.7 | 38.1 | 46.2 | 38.2 | 37.3 |
| Domestic credit to the private sector | ... | ... | ... | ... | ... | ... | 9.2 | 15.0 | 21.0 |

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

^a Preliminary figures.

^b On the basis of figures in national currency at constant 1997 prices.

^c Based on figures in local currency expressed in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Provisional figures. Yearly calculation by ECLAC, based on consumer price data and nominal exchange rates provided by the National Statistical Office of Cuba.

^g From 2004, refers only to active external debt; excludes long-term debt, 60.2% of which is official external debt with the Paris Club.

^h Percentage of the economically active population, nationwide total.

ⁱ Economically active population as a percentage of the working-age population; nationwide total.

^j Local-currency markets.

^k Average of loans to enterprises by the country's main banks.

^l The monetary figures are end-of-year stocks.

performance, with tobacco the only segment to return a negative variation. The value added of the transport, storage and communications sector rose by 6.7%, owing to advances made in road transport, urban transport in Havana and maritime transport. The rationalization of transport, through substantial reductions in the number of buses produced in local factories, contributed to the positive result in this sector.

The production of electricity, gas and water increased by 7.9%, thanks to the modernization of the energy system, as a result of which the power blackouts that used to occur on a daily basis were almost completely eliminated. Commerce, however, recorded a slight downturn (-1.8%) in 2007 after the exceptional results of 2006, when the sector expanded by over 20% thanks to the massive sale of household appliances as part of what was dubbed the “energy revolution”.

Once again, tourism results were slightly down on the previous year. The number of visitors decreased by 3.1% and average income per visitor stagnated (0.1%). This largely reflected a drop of 60% in the number of visitors from the Bolivarian Republic of Venezuela owing to the decline in “health tourism”, since new clinics with Cuban doctors were opened in that country. Lastly, community,

social and personal services again expanded strongly (14.5%). The fastest-growing were social services and entertainment, leisure and cultural services.

(b) Prices, wages and employment

The variation in the consumer price index, measured from December to December, was 5.7% in 2006, but a year later had returned to levels more usual for the Cuban economy (2.8%). The average annual rate, however, rose by 6.4%. One of the factors driving the rise in 2006 and early 2007 was the sharp increase in wages and pensions. This effect was absent during the rest of the year, however, so inflation is forecast to remain low in 2008, despite the strong rise in international prices for petroleum and foods. This is borne out by the 12-month variation of 1.6% recorded in May 2008.

Real average wages remained unchanged. These represent the sum of income in non-convertible and convertible pesos received by around 19% of the employed as a stimulus. The real average wage of employees paid only in non-convertible pesos decreased by 1% in 2007. Employment rose by 2.4%, with the result that the unemployment rate decreased slightly from 1.9% in 2006 to 1.8% in 2007.

(c) External sector

There was a turnaround in the external position in 2007, since the recorded surplus of US\$ 488.5 million contrasted with a deficit of US\$ 214.6 million in 2006. This reflected faster growth in exports and a notable reduction in the growth rate of imports.

After the excellent results of the previous year (35.4%), merchandise exports posted growth of 26.6% in 2007. This was due to a rise in prices (which surged in the case of nickel), since the volume exported increased at a lower rate (6.2%). The total value of sugar exports decreased by 10%, even though there was a slight increase in the volume exported. The value of nickel exports was 27.8% higher than the figure for 2006. The largest increases in export values were recorded in alcoholic beverages (96.5%), iron and steel (34.4%) and medicines (28.9%). This last category became the second largest in merchandise exports, after minerals.

Goods imports were up only 6.2%, after rates of over 20% in the three previous years. Contrasting with this general picture of slower import growth, the food bill rose 24%. Imports of consumer goods (-0.3%) and capital goods (-1.8%) were down, reflecting the impossibility of repeating the extraordinary leap of the year before, when millions of household appliances and hundreds of diesel generators were imported. Imports of intermediate goods, conversely, rose by 11.5% owing to the higher prices for oil and foods.

Exports of services climbed by 22.9%, reflecting an increase in professional and technical services. The deficit on the income balance widened from US\$ 618 million in 2006 to US\$ 960 million in 2007. Current transfers moved from a surplus of US\$ 278 million in 2006 to a deficit of US\$ 199 million in 2007.

In 2007 Cuba conducted two bond issues on the London Stock Exchange, both with a two-year maturity: one for 150 million euros (€), with an interest rate of 9%, and another for €50 million, with a rate of 8.5%.