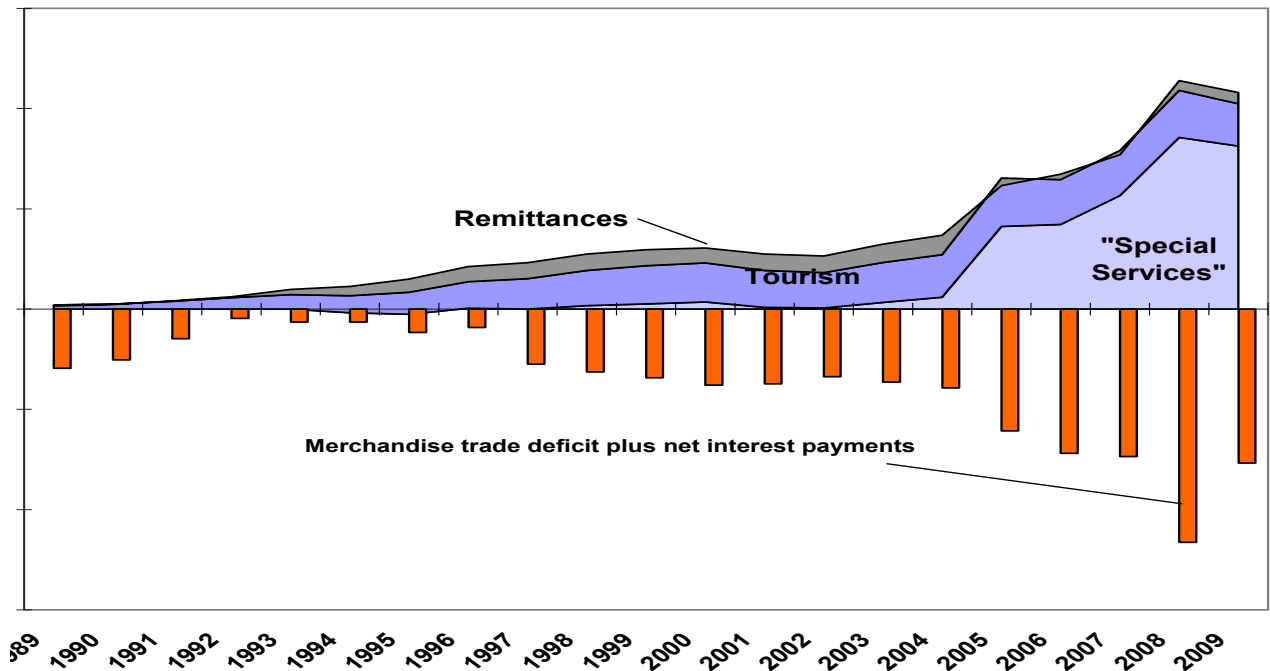


## Is Cuba's Balance of Payments Position Sustainable?

*Two critical components of Cuba's external position (the trade deficit and the payment of interest to foreigners) have increased very rapidly in recent years. So far this trend has been offset by the emergence of non-traditional categories of services, including the income of Cubans working in Venezuela and other countries, raising questions about the sustainability of the country's balance of payments position.*

Over the past two decades, the Cuban balance of payments has shown a rising trend in two important items: (i) the merchandise trade deficit; and ii) interest payments on Cuba's external debt.<sup>1</sup> The trade deficit reflects large (and growing) imports of fuels and foods (about one half of total imports in recent years) as well as the depressed level of exports.

### The Current Account of the Cuban Balance of Payments



The twenty-year period illustrated in the chart can be broken down into three sub-periods.

(1) From 1989 to 1993 the trade deficit narrowed as the disappearance of Soviet assistance forced a sharp contraction of imports.

<sup>1</sup> For a comprehensive analysis of recent developments, see Jorge Pérez-López, "Cuba's External Sector and the VI Party Congress", presented at the 21<sup>st</sup> Annual Conference of the Association for the Study of the Cuban Economy". Miami, Florida, August 2011.

(2) From 1994 to 2003 the combined negative items rose and then stabilized at a high level, as the trade balance deteriorated. But this was compensated by a strong rise in tourism, and later by the rapid increase in remittances received by Cuban residents from their relatives abroad following the de-criminalization of the U.S. dollar in 1993-94.

(3) From 2004 to 2009 the negative items surged while foreign remittances declined following the restrictions imposed in 2005 and tourism ran out of steam around the turn of the century. All of this, however, was offset by an explosion in a new category of non-tourism services: receipts from the activities of Cuban doctors, teachers, and military and security personnel stationed in Venezuela, Bolivia and other 'friendly' countries. Given Cuba's inability to sustain a massive increase in foreign borrowing and/or a huge loss in reserves, this "Venezuelan miracle" obviated the need to slash imports or interest payments, both of which would have been highly problematic given Cuba's circumstances.

The miraculous advent of the new "special transactions" has again prevented the Cuban balance of payments from crashing. Whether or not these transactions represent economic value is a matter of taste (it might be argued that some of them represent *negative* value). What is clear is that if these transactions were to disappear, or to fall substantially, Cuba would face a severe balance of payments crisis that could, as it did after the fall of the Soviet Union, bring about a deep economic contraction...

...or will there be another miracle? Off shore oil, perhaps? Or an end to the overvaluation of the peso and the state controls that stifle Cuba's capacity to export?

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September 2011