THE CUBAN ECONOMY IN MID-1997

Jorge F. Pérez-López

In mid-1997, the Cuban economy remains in the doldrums. The economic downturn that began over a decade ago, and intensified in the 1990s, continues to batter the island. While the economic free fall of the early 1990s apparently ended sometime in 1994, positive economic growth recorded since then has not markedly improved the population’s standard of living. As if the average Cuban citizen needed to be reminded, Minister of the Economy and Planning José Luis Rodríguez told a journalist in April 1997 that the “special period has not been overcome yet” and predicted that “in a reasonable time period, which may be a matter of a few years, Cuba will again reach [economic] levels achieved prior to the special period.”

These brief remarks focus on three issues: 1) economic policy developments during the last year or so; 2) macroeconomic performance; and 3) performance of certain critical sectors of the economy.

ECONOMIC POLICIES

Compared to the period 1993-94, when the Cuban government entertained some discussion of economic alternatives and introduced several reform measures, economic policymaking has been paralyzed in recent years. Hard line pronouncements by the leadership, coupled with an unyielding platform for the Fifth Congress of the Cuban Communist Party, evidence retrenchment and do not augur well for future reforms:

- In January 1997, speaking at the 9th Science and Technology Forum, Fidel Castro said: “We’re going to maintain what we have in the form in which we have it, in spite of the measures, the openings we have had to make, etc. Renouncing our doctrine and our socialist cause would be giving ourselves up to fiends who wouldn’t even want the whereabouts known of the remains of those who resisted them with unprecedented heroism, of those that they couldn’t defeat for more than 35 years.”

- In March 1997, at a conference sponsored by The Economist, Carlos Lage restated to journalists that Cuba sought economic transformations “without altering its socialist essence.” A few weeks later, Lage told employees of the Ministry of the Economy and Planning that the establishment of private small and medium-sized enterprises—a long awaited change—was not a high priority of the government and could not be expected until state enterprises developed and became more efficient.

1. These remarks present strictly the opinions of the author.
Meanwhile, General Raúl Castro stated in May 1997 that despite the complex circumstances, Cuba could still build socialism. He ominously warned that “Socialism is here to stay in this land, defended by the people’s guns!”

Finally, the draft platform for the Fifth Congress of the Cuban Communist Party, scheduled to take place October 8-10, 1997, offers no hope of change in economic model: “In the midst of innumerable difficulties, the country has managed in recent years to halt its economy’s free-fall and has adopted the necessary measures for initiating its recovery and finding new markets and economic trading partners. ... Today it is clearer than ever that the Revolution, the homeland and socialism are one and the same. There will be no restoration of capitalism in Cuba because the revolution will never be defeated. The country will continue intact and will continue to be socialist.”

Policy developments since August 1996 include passage of the long-awaited legislation reforming the banking system and regulations limiting internal migration and further tightening activities of the self-employed.

Decree-Law 172, approved by the Council of State in May 1997, established the Banco Central de Cuba as an autonomous and independent entity and assigns to it traditional central banking functions. The Banco Nacional de Cuba, which had performed central and commercial banking functions since 1960, remains in existence, but its role is relegated to commercial banking. Decree-Law 173, approved by the Council of State concurrently with Decree-Law 172, sets out a legal framework for registration and operation of commercial banks and financial institutions under the supervision of the Banco Central.

In April 1997, Fidel Castro complained about pressures being placed on the public services infrastructure of the city of La Habana by “uncontrolled migration” from “the Third World countries of Cuba: Guantánamo, Granma, and others.” He complained that residents of La Habana no longer wished to do construction or police work, with migrants from other parts of the country temporarily coming to fill those positions and eventually settling permanently in La Habana. Castro equated internal migration with “social indiscipline” and linked it to increases in thefts and petty criminal behavior in La Habana. Decree 217, issued in late April 1997, required potential migrants to obtain authorization from the owners of the dwelling where they intended to reside and a document from urban development authorities certifying that the dwelling had space for the migrant and was in adequate condition; violators would be subject to fines, prison sentences and eviction and return to their towns of origin. Reportedly, more than 1600 migrants residing “illegally” in La Habana were expelled in May and returned to their towns of origin.

The government has continued to hinder activities of the self-employed. Both Fidel Castro and Carlos Lage lashed at “irregularities” of self-employed workers and vowed to use the full force of the law to ensure that they paid all fees and taxes and did not engage in illegal activities. Regulations passed in May

---

1997 set limitations on the rental of rooms to citizens or foreigners, requiring a permit for such rental activities and payment of a tax.\footnote{12} While the government justified the regulations on the grounds that it was intended to keep a better control of internal migrants and foreign citizens, it appears that the objective was also to discourage the rental of space in private homes to foreign visitors and businessmen, forcing them to live in state-operated tourism hotels or rent more expensive space from state authorities.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross domestic product (GDP)</td>
<td>19586</td>
<td>19088</td>
<td>16976</td>
<td>15010</td>
<td>12777</td>
<td>12868</td>
<td>13185</td>
<td>14212</td>
<td></td>
</tr>
<tr>
<td>% growth</td>
<td>NA</td>
<td>-3.0</td>
<td>-10.7</td>
<td>-11.6</td>
<td>-14.9</td>
<td>0.7</td>
<td>2.5</td>
<td>7.8</td>
<td>4.0-6.0</td>
</tr>
<tr>
<td>GDP per capita (pesos)</td>
<td>1865</td>
<td>1795</td>
<td>1590</td>
<td>1394</td>
<td>1177</td>
<td>1174</td>
<td>1192</td>
<td>1275</td>
<td></td>
</tr>
<tr>
<td>% growth</td>
<td>NA</td>
<td>-3.8</td>
<td>-11.4</td>
<td>-12.3</td>
<td>-15.6</td>
<td>-0.3</td>
<td>1.5</td>
<td>7.0</td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>5400</td>
<td>5415</td>
<td>2980</td>
<td>1779</td>
<td>1136</td>
<td>1331</td>
<td>1479</td>
<td>1966</td>
<td>2200</td>
</tr>
<tr>
<td>Imports</td>
<td>8140</td>
<td>7416</td>
<td>4233</td>
<td>2315</td>
<td>2036</td>
<td>2017</td>
<td>2772</td>
<td>3438</td>
<td>3830</td>
</tr>
<tr>
<td>Trade turnover</td>
<td>13540</td>
<td>12831</td>
<td>7213</td>
<td>4094</td>
<td>3172</td>
<td>3348</td>
<td>4251</td>
<td>5404</td>
<td>6030</td>
</tr>
<tr>
<td>Hard currency debt (million U.S. dollars)</td>
<td>6200</td>
<td>6400</td>
<td>8785</td>
<td>9083</td>
<td>10504</td>
<td>11000\textsuperscript{b}</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget deficit</td>
<td>1390</td>
<td>1958</td>
<td>3765</td>
<td>4869</td>
<td>5051</td>
<td>1421</td>
<td>766</td>
<td>569</td>
<td>461</td>
</tr>
<tr>
<td>% GDP</td>
<td>7.1</td>
<td>10.3</td>
<td>22.2</td>
<td>32.4</td>
<td>39.5</td>
<td>11.0</td>
<td>5.8</td>
<td>4.0</td>
<td></td>
</tr>
<tr>
<td>Liquidity</td>
<td>4163</td>
<td>4986</td>
<td>6563</td>
<td>8361</td>
<td>11044</td>
<td>9944</td>
<td>9251</td>
<td>9200</td>
<td>8920</td>
</tr>
<tr>
<td>% GDP</td>
<td>21.2</td>
<td>26.1</td>
<td>38.7</td>
<td>55.7</td>
<td>86.4</td>
<td>77.3</td>
<td>70.2</td>
<td>64.7</td>
<td></td>
</tr>
<tr>
<td>Average exchange rate (pesos per U.S. dollar)</td>
<td>78.0</td>
<td>95.0</td>
<td>32.1</td>
<td>19.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sugar (million metric tons)</td>
<td>8.1</td>
<td>8.0</td>
<td>7.6</td>
<td>7.0</td>
<td>4.3</td>
<td>4.0</td>
<td>3.3</td>
<td>4.5</td>
<td>4.2\textsuperscript{c}</td>
</tr>
<tr>
<td>World market price (cents/pound)</td>
<td>12.8</td>
<td>12.5</td>
<td>9.0</td>
<td>9.1</td>
<td>10.0</td>
<td>12.1</td>
<td>13.3</td>
<td>12.0</td>
<td>10.9</td>
</tr>
<tr>
<td>Nickel (thousand metric tons)</td>
<td>46.6</td>
<td>40.7</td>
<td>33.3</td>
<td>32.4</td>
<td>30.2</td>
<td>29.9</td>
<td>42.9</td>
<td>53.7</td>
<td></td>
</tr>
<tr>
<td>World market price (cents/pound)</td>
<td>603.9</td>
<td>402.0</td>
<td>318.2</td>
<td>240.8</td>
<td>287.2</td>
<td>373.0</td>
<td>340.0</td>
<td>343.2\textsuperscript{c}</td>
<td></td>
</tr>
<tr>
<td>Oil (million metric tons)</td>
<td>0.7</td>
<td>0.7</td>
<td>0.5</td>
<td>0.9</td>
<td>1.1</td>
<td>1.3</td>
<td>1.5</td>
<td>1.6</td>
<td>64.4</td>
</tr>
<tr>
<td>World market price (dollars/barrel)</td>
<td>17.2</td>
<td>22.1</td>
<td>19.3</td>
<td>19.0</td>
<td>16.8</td>
<td>15.9</td>
<td>17.2</td>
<td>20.4</td>
<td>21.0\textsuperscript{c}</td>
</tr>
<tr>
<td>Number of foreign tourists (thousands)</td>
<td>326</td>
<td>340</td>
<td>418</td>
<td>455</td>
<td>544</td>
<td>617</td>
<td>740</td>
<td>1000</td>
<td>1200</td>
</tr>
<tr>
<td>Gross income from tourism (billion U.S. dollars)</td>
<td>0.17</td>
<td>0.24</td>
<td>0.39</td>
<td>0.57</td>
<td>0.72</td>
<td>0.85</td>
<td>1.1</td>
<td>1.3</td>
<td></td>
</tr>
</tbody>
</table>


- Plan
- Estimated; for sugar, estimated production of 1996-97 zafra
- First quarter 1997

\footnote{12} “Cortan alas al negocio de alquilar viviendas,” \textit{El Nuevo Herald} (17 mayo 1997), p. 6A.
The corresponding growth rate in GDP per capita was 7.0 percent.

Thus, 1996 was the third consecutive year of positive economic growth (Cuban official statistics reported growth rates of 0.7 percent for 1994 and 2.5 percent for 1995). Cumulative GDP growth during 1994-96 was 11.2 percent and 5.3 percent in per capita terms, compared to declines during 1990-93 of 34.8 percent and 36.9 percent, respectively. That is, the 1994-96 “recovery” has regained only about one third of the ground that was lost in national production during 1990-93. GDP per capita in 1996 has been estimated at 1275 pesos, 31.6 percent lower than the 1865 pesos recorded in 1989.

As has become the practice in the 1990s, Cuba has not provided detailed statistics to support the GDP growth rate reported for 1996. Even the report by Minister of the Economy and Planning José Luis Rodríguez to the National Assembly of People’s Power in the closing days of 1996, perhaps the most comprehensive account of the performance of the economy in 1996, presents sparse statistics that do not permit substantiation of the reported overall macroeconomic results. Respected scholars have raised fundamental questions about the reliability of Cuban macroeconomic statistics for 1996 and, by extension, about those for earlier years and the Cuban system of national accounts at large.

Cuba’s 1996 merchandise trade deficit amounted to nearly 1.5 billion pesos, 13.7 percent higher than a year earlier. The value of merchandise imports grew by 24 percent, in part because of higher world market prices for imports of foodstuffs and of oil; according to Minister Rodríguez, foodstuffs imports were $118 million higher and oil imports $108 million higher than in 1995 because of higher world market prices. Meanwhile, the value of merchandise exports grew by nearly 33 percent, despite the fact that world market prices for Cuba’s two main exports—sugar and nickel—were lower in 1996 than in 1995. According to Minister Rodríguez, external financing remains the main limitation on sustained recovery; in 1996, Cuba was forced to rely on short-term financing at very high interest rates. The hard currency debt at the end of 1996 has been estimated at about $11 billion, 4.7 percent higher than at year-end 1995.

One of the bright spots seems to be the domestic stabilization program. The budget deficit, which had ballooned to over 5 billion pesos in 1993 (nearly 40 percent of GDP), has been reduced sharply since then, to 570 million pesos in 1996 (4 percent of GDP). Similarly, liquidity (currency in circulation) has also fallen steadily since 1993, to 9.2 billion pesos in 1996 (about 65 percent of GDP). The annual average unofficial exchange rate (recall that, officially, the Cuban peso is still valued at par with the U.S. dollar) fell in 1996 to 19.2 pesos/U.S. dollar from

---

13. “Economy grows by 7.8 percent,” report on 1996 economic results and 1997 economic and social plan, presented to the National Assembly by Minister of the Economy and Planning José Luis Rodríguez, Granma International Electronic Edition, no. 2 (1997). The most detailed passage of the report dealing with sectoral output growth reads: “there was a 17.3 percent rise in agricultural production, including hunting, forestry and fishing, comparing well with the planned increase of eight percent; manufacturing grew by 7.8 percent, less than the 9.7 percent increase expected, basically due to financial difficulties. Construction, for its part, saw growth of 30.8 percent, compared to the planned increase of 21.6 percent.” Not only are some critical sectors (e.g., services) missing altogether, but the relative weights of the sectors are not known. Along the same line, there is no information on how the sectoral growth indices mentioned by Rodríguez were produced and how output of joint ventures, of the self-employed and of agricultural cooperatives were recorded. The same is true for sales in agricultural markets outside of government control.


15. The GDP series in Table 1 is reportedly at constant prices of 1981, while the budget deficit and liquidity figures are reportedly at current prices. Since time series of GDP at current prices are not available, the budget deficit/GDP and liquidity/GDP ratios in Table 1 combine current and constant price data. They should therefore be used only as measures of general trends rather than point estimates.
32.1 pesos/U.S. dollar a year earlier. While the strengthening of the Cuban peso *vis-a-vis* the U.S. dollar may be interpreted as an increase in the confidence of the population regarding the buying power of the peso, further research is needed to determine whether the strengthening of the peso reflects manipulation by the Cuban government through its network of Currency Exchange Houses.

Minister Rodríguez reported to the National Assembly highlights of the economic plan for 1997. Some of those highlights are:

- GDP growth rate of 4-5 percent;
- growth in exports of 12 percent and in imports of 11.5 percent; net income from tourism expected to increase by 50 percent compared to 1996;
- reduction in the state budget of 19 percent and of money in circulation of 3 percent;
- growth in domestic investment of about 9 percent, focused on the international tourism, sugar, nickel, electronics and fisheries industries; no increase over 1996 for investment in housing construction; and
- growth in agriculture of 4.6-5.6 percent, manufacturing of 6-7 percent, and construction of 4.1-5.1 percent.

Lest there be some doubt that the Cuban economy remains centrally planned, Minister Rodríguez described the following procedure for developing the 1997 projections:

In June [1996], well ahead of time, the government drew up a set of directives for drawing the plan. At that time, based on the framework contained in those directives, discussion meetings were held in each enterprise, to evaluate the plan’s potential from the grass roots upwards. On the basis of those meetings, the agencies and administrative councils in each province presented their planning proposals in September. These proposals were evaluated by the Ministry of the Economy and Planning and were submitted to the Executive Committee of the Council of Ministers, which defined the necessary priorities and adjustments that were subsequently worked out in detail with every entity and administrative council in a discussion process that, for the first time this year, permitted the plan to be structured in sectoral and territorial terms.

**SECTORAL PERFORMANCE**

**Sugar:** To date, the Cuban government has not released official information on the results of the 1996-97 *zafra*. Coming on the heels of a “successful” 1995-96 sugar campaign, when 4.45 million tons of sugar were produced, the government had vowed to increase production by 20 percent, or to about 5.3 million tons. In early May, Fidel Castro admitted that the sugar campaign was in trouble—he blamed hurricane Lily, transportation problems, and the late arrival of imported supplies and inputs essential for the sugar industry—and the best scenario would be to match the previous year’s production level. Industry analysts are predicting a harvest of about 4.2 million tons.

To finance the 1996-97 *zafra*, the Cuban government borrowed about $300 million in short-term loans at high interest rates. Cuba was counting on a large harvest in 1996-97 to repay the loans and to fulfill delivery contracts it had already made.

16. “Successful” in the sense that it reversed the downward trend in production that began in 1992. Production in 1995-96 was still substantially lower than the 7-8 million tons per annum produced in the second half of the 1980s.


19. “Zafra termina con cifras en rojo.”

Tourism: According to official statistics, over one million foreign tourists traveled to Cuba in 1996; gross revenues from international tourism were reported at $1.3 billion. Cuba reportedly had 27,000 rooms in 174 hotels suitable for international tourism. Construction is underway to increase the number of hotel rooms to 50,000 by the year 2000, when 2.5 million visitors are expected.\(^{21}\)

For 1997, Cuban authorities expected 1.2 million tourists, a 20 percent increase over 1996.\(^{22}\) These expectations may have to be tempered depending on how tourists respond to bombs that went off at two tourism hotels in La Habana—Hotel Nacional and Hotel Capri—in July, coinciding with the time when European tourists book their winter vacations.\(^{23}\)

Foreign investment: Vice President Carlos Lage reported that at the beginning of 1997, there were more than 260 joint ventures with foreign investors: 45 of the joint ventures were in the tourism industry, 30 in oil prospecting, 5 in nickel mining, 33 in other mining activities, 85 in industry, and 12 in transportation and communications. Furthermore, 42 of the joint ventures were reportedly initiated after the coming into effect of the Helms-Burton legislation in the United States in March 1996.\(^{24}\)

Cuba’s response to the Helms-Burton Act was Law No. 80, the Reaffirmation of Cuban Dignity and Sovereignty Act, passed by the National Assembly in December 1996. The Helms-Burton “antidote” legislation establishes sanctions against those who facilitate the execution of the Act within Cuba, protects overseas businesspeople who have or wish to have commercial links with Cuba, updates Cuba’s claims for damages resulting from the U.S. embargo and other U.S. policies, and expresses the willingness to negotiate “equitable compensation” with former U.S. owners of property, subject to conditions.\(^{25}\) In the summer of 1997, Cuba mounted a diplomatic campaign to build support against the Helms-Burton Act and potential amendments to strengthen the Act being considered by the U.S. Congress, sending diplomatic representatives to over 20 countries in Latin America and Europe.\(^{26}\)

There were significant developments regarding the long-standing joint venture agreement between Mexico’s Grupo Domos and the Empresa Telefónica de Cuba, S.A. (ETECSA), in which Domos was reported to have pledged to invest $750 million. First, in early 1997, Grupo Domos withdrew from the joint venture, selling its participation to the Italian telephone company STET International; Domos had been notified by the United States that it would be subject to sanctions under the Helms-Burton Act for using properties confiscated from U.S. owners.\(^{27}\) And second, in July 1997, the United States approved a private agreement between STET International and New York-based ITT whereby STET agreed to pay ITT approximately $25 million for the right to use the property in Cuba claimed by ITT. As a result of the agreement, STET is no longer subject to sanctions under the Helms-Burton Act.\(^{28}\)

---

24. Lee, “We have initiated economic reforms within socialism.”
CONCLUSION
The attitude of the population toward the current economic situation is best described by a Cuban engineer who makes clay ashtrays and sells them to foreign tourists: “We are depressed and repressed.”

The economy is operating at a very low level of capacity; government intervention in the economy has intensified; and, more importantly, there is nothing in sight that suggests a willingness on the part of the leadership to consider meaningful economic and political reforms that would lead the island out of the low growth trap in which it now lingers.