Cuban Economy Today and Perspectives for the Future, Summary of Findings of 28th Annual ASCE Conference

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Discussion Topics

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Measurement of the Performance of the Cuban Economy

- Doubts about Cuba’s reported GDP growth due to the Cuban Government’s:
  - Lack of transparency in its methodology
  - Use of the Cuban Peso being equal to the dollar in this methodology
  - Continuous changes to the methodology calculations

- Using GDP Data, Padel Vial concluded that, at best, actual GDP grew just over 1% for the time period of 1960 – 2015.

- The government has recently dropped their 2018 growth forecast from 2% to 1%, due to a fall in exports (particularly sugar and nickel) and a fall in tourist revenue.

- “Austerity Measures” introduced in 2016, involving cuts in energy and fuel available and reduced imports of consumer goods, will be continued into 2019.

- US & Cuba policy changes are reducing growth expectations for various reasons:
  - Retractions in Liberalizations on Agriculture and CuentaPropistas
  - New tax on Farms
  - US re-imposing some restrictions
Impact of Raul Castro’s 2010 policy reforms

• In 2009, due to a high deficit, 1 million workers were shed from the public sector payroll. To ease the impact, the government authorized some private activities:
  ➢ The number of “Cuentapropistas” grew from 150K in 2010 to 580K in 2017

• Other areas that were eased by the government include:
  ➢ Liberalizing agricultural tenancy rules and marketing of agricultural products.
  ➢ Allowing relatively free foreign travel for most Cubans and allowing limited access to resort hotels
  ➢ Permitting the sale of some residential homes and automobiles

• While these measures had a positive impact on production and economic activity, the persistence of bureaucratic impediments and inconsistent applications of the rules has thwarted a significant increase of productivity overall.

• These measures encouraged the renewal of formal relations between the US and Cuba, which in turn, encouraged new negotiations of the outstanding external debt of Cuba with the Paris Club and other external creditors.
In August 2017, the Cuban authorities retracted some earlier liberalizations:

- Freezing all new “Cuentapropistas” licenses
- In July 2018 the Government issued 129 pages of additional regulations to the cuentapropistas, limiting them to activities that were allowed, one license per family, harsher penalties for violations of the rules, stricter regulatory inspections and increased harassment practices of private entrepreneurs.

Given these developments, the cuentapropistas attending the ASCE Conference were reluctant to expect any improvement coming from the approval of the proposed changes currently being discussed as part of the ongoing reform of the Cuban Constitution.
Agricultural Policies

• Cuba earmarks US$2 billion to import 80% of the food it consumes, however, according to the Cuban Secretary of Agriculture, 60% of food imports could be grown locally.

• Reasons include:
  – Only 2.7 million of its 11 million hectares of arable land is now under cultivation.
  – Ageing farmers, low wages, and the attraction of higher paying tourism jobs, have led to declining employment, inefficiency, low production, and low productivity.
  – Farmers have to sell most of the crop to a government agency that pays low and late.
  – While the original liberalization of 20 years ago were initially helpful, some of these measures have been reversed.
  – most of the land is covered with “marabou” (a wild bush that is difficult to eradicate and that has invaded most of the Cuban countryside).

• Agricultural output now averages only 4% of GDP and Cuba, which pre-Castro imported about 30 percent of its foodstuff—now imports about 80 percent.

• Sugar, for which Cuba was the largest exporter in the world in pre-Castro days, has fallen so dramatically (both in production and productivity) that this year it imported 100,000 tons from France to meet domestic demand.
Tourism

• Tourism has been one of the most important sources of foreign currency during the past 20 years for Cuba, bringing in about US$3 billion yearly, and the government has acknowledged it as an “strategic sector.”

• The government has recognized that private sector involvement in the tourist industry has been beneficial.

• The rise in foreign visitors increased very significantly after the US reestablished relations with Cuba at the end of 2014, however tourist arrivals were down the first half of 2018, partly due to the Trump administration policy changes and the hurricanes that have hit the island.

• Additionally, Cuba’s inadequate infrastructure has affected the tourist flow, especially of repeat visitors.

• Trip Advisor responses rank Cuban hotels below those of Dominican Republic and well below those of Cancun. Moreover, Cuban tourism is highly priced for the type of services rendered. Each tourist is charged a $200 tax.
Petroleum

- Cuba produces less than half of its annual oil products requirements, relying for the most part of the rest on subsidized imports from Venezuela.
  - The availability of Venezuelan oil, however, has recently been reduced by almost 50%, and Russia (another possible source) requires cash payments for the oil it exports to the island.
  - Cuba has been exploring for petroleum offshore, but, so far, there have been no significant findings.

- Cuban government is trying to increase reliance on solar, wind, and LNG (natural gas) sources of energy, but this seems as a non starter. Cuba does not have the financial resources to cover investments in these area or to pay for their import.

- The financing of the purchase of imported LNG would require that the government implement a sharp rise in the price of the electricity to the population, an action that the government does not see as feasible.

- Cuba is unable to pay for commercially generated electricity, and a devaluation of the Cuban currency would make that option even more unaffordable.
Multiple Currency Regime

• Despite Raúl Castro’s 2013 announcement regarding the elimination of the double currency monetary system, there has been no advance in the unification of the double currency system or in the elimination of multiple exchange rates.

• The double currency system hides the inefficiency of the State companies and set a very high tax on employees, while granting high subsidies to certain activities (like tourist hotels that receive a substantial part of its income in foreign currency).

• The disparity in the type of exchange rates has given rise to massive corruption, to “economic benefits” for some, and high taxation for others (particularly the workers) as well as to distortions in the functioning of the economy.

• It should be noted that the Armed Forces, and in particular the family of Raúl Castro, control most of the activities that generate foreign currency.
Public Sector Finances

• The fiscal deficit rose from ~550 million pesos in 2006 to 888 million in 2016, and to above 8 billion pesos in 2017, and it has continued to increase in 2018.
  ➢ This is not sustainable!

• Meanwhile, public services – mostly in health, education and transportation, have significantly deteriorated.

• The health system is in a state of chaos with closing and consolidating hospitals, while Cuban doctors are sent by the Cuban Government (as “indentured labor”) to other countries to generate foreign exchange for the Cuban government.

• The average monthly salary in 1970 was 740 pesos (equivalent to US$26.50) and the average pension is US$10.
  • Deflated by inflation, real salary currently is about one third of what it was in 1989.

• Salaries in privately run enterprises is much higher due to non-governmental entrepreneurial activities
  ➢ This generates a political problem for the government, particularly with public sector workers who try to improve their lot by looting the public enterprises where they work.
The Demographic Situation

• Cuba has the largest proportion of senior citizens in the hemisphere, and some 160,000 Cubans suffer from senile dementia.

• Additionally, the revolution’s baby boomers (born in the early 1960’s) are about to retire and will be less productive in the years to come.
  ➢ The proliferation of declining fertility, liberal abortion practices and continued emigration of younger Cubans, means that there are not enough younger Cubans to take their places.

• With no changes, the dependency ratio (age 65+ / age 15-64) in thirty years will become almost 50%, one working Cuban having to support one older Cuban, a ratio difficult to sustain.
  ➢ The problem can become even worse if there is continued emigration of the young Cubans and no significant immigration taking place.

• Cuba, once ranked in per capita income equal to Spain, Italy, or Argentina, now is equal to the poorest Central American countries; surveys of Cubans born after 1990 show that they have little hope of an economic recovery, and therefore want to leave the island.
Trade & Foreign Debt

• The Castro government has never achieved a favorable trade balance. It was always dependent on subsidies from various countries.
  – First, the Soviet Union paid for sugar above premium market price and financed the Castros’ military adventures in Africa.
  – Then Chávez gave Cuba received oil subsidies and Cuba sent its doctors and military to Venezuela and other countries under a “program of contracted workforce (indentured labor).

• In 2016, ~US$3.5 billion+ in financial remittances and goods were sent by the exiled community from the US.

• Currently, Cuba’s balance on international economic transactions is negative by about $8 billion.
  ➢ This is being covered by the above mentioned export of indentured medical services, subsidies from Venezuela, remittances of the exiled Cubans and from tourism receipts

• Last year, due to a re-negotiation with the Paris Club, US$8.5 billion in foreign debt was forgiven and the remaining debt was restructured until 2033.
  ➢ However imports to Spanish enterprises already ran in arrears by some 40 million euros. Delays were also reported in payments to Chinese exporters.
  ➢ Additionally, Cuba has an outstanding debt with the Brazilian Development Bank of about $600 million and is looking to restructure over $110 million whose payments have already run into arrears as well.
The Impact of Hurricane Irma

- Hurricane Irma affected a third of the population of the island resulting in:
  - Damage to 150,000 homes
  - Damage to 25% of tourist hotels
  - Destruction of means of communication
  - Damage to the electric infrastructure
  - 40% of the sugar mills being damaged and some 430 hectares of sugar cane being destroyed
  - Great losses to plantations of rice, bananas, mangoes, and other agricultural products.

- Priority was given by the government to repair tourist facilities after Hurricane Irma, particularly the hotels owned by the military.

- The total cost repairs will lie in the billions of dollars.
Political Oppression

- Meanwhile, political repression continues to thrive in Cuba.

- The Seventh Congress of the Communist Party was called after Obama’s visit.
  
  ➢ It’s only the 7th meeting held during the 58 years of the Castro’s regime.

  ➢ Congress reaffirmed that property and State administration shall be supreme and that property or private administration of basic means of production shall be “temporary”.
Conclusion

- Cuba needs to save 1/4\(^{th}\) of its GNP to finance the investments needed to obtain a 5% GNP annual growth desired by the authorities.

  ➢ Small private companies are not going to be able to rescue Cuba from the economic disaster of the failed government policies.

- The government is bent of controlling all the economic activities of the nation, persecuting those who dare dissent and insisting on revolutionary myths and slogans, and on socialist control of the economy, which has already proved to prevent growth.

  ➢ Therefore, it is doubtful that, lacking great policy changes, the country will achieve a significant increase in economic growth during the next 5 years.