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LADB Staff

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Cuban Economy in Recession

by LADB Staff

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The Cuban economy grew by a feeble 1.1% in 2002, well below the projected 2.5% to 3.0%. But the government insisted on placing the disappointing macroeconomic statistics within the broader picture of the worse showing elsewhere in Latin America and sluggish growth worldwide.

Economy officials said the impact on Cubans would have been worse had the country passed the year under a free-market system without state social protections. Officials say Cuba's major economic problem is financing imports such as oil, but they expect the pressure to ease in the next few years as a result of increased exports, import substitution, greater production efficiencies, and the renegotiation of foreign debt.

Among the factors hurting the economy:

Hurricane Michelle struck Cuba in November 2001, causing US\$1.8 billion in losses.

Two other hurricanes only 11 days apart swept through the prime tobacco areas in Pinar del Rio Province in November 2002 causing US\$800 million in losses. Orlando Lugo, head of the Asociacion Nacional de Agricultores Pequenos (ANAP) said 11,000 of the province's 14,000 curing houses were damaged or destroyed.

Tourism revenues dropped by 5%, a loss attributed to the aftereffects of the Sept. 11, 2001, attacks in the US.

Because of rising oil prices, Cuba spent US\$1 billion on imported oil. Officials have not glossed over the bleak energy forecast that has resulted. President Fidel Castro advised the National Assembly that 2003 would be another crisis year as oil prices continue to rise as a result of the impending US war against Iraq and the political crisis in Venezuela, which has interrupted oil shipments to Cuba.

Sugar, tobacco, and nickel prices continued in decline. Production last year was about the same for these exports as it was in 2001, but income was lower.

Dollar remittances declined as Cubans living in the US sent less money to relatives because of the US recession.

Results of the downturn in Cuba showed up in higher consumer prices in the free markets (see NotiCen, 2002-06-27), deterioration of public transportation, and fuel shortages. A report by the UN's Economic Commission for Latin America and the Caribbean (ECLAC) said that conditions were worse on average among Latin American economies, which contracted by 0.5% in 2002 while Cuba's economy grew by an estimated 1.4%. In the period 1998-2002, Cuba's average GDP rose by

3.4%; ECLAC's figure for Latin America is 1.3%. Gains seen in employment, oil Cuba saw some gains in the economy. Unemployment dropped from 4.1% in 2001 to 3.3% in 2002. In the region as a whole, ECLAC says unemployment was 9.1%. and the number of people living in poverty grew by 7 million last year.

Oil production also made gains, increasing by 26% over 2001 totals to 4.1 million metric tons. Cuban-produced high- sulphur oil goes largely to electric generating plants and now supplies 92% of generating needs. But dependence on foreign oil for higher grades of refined derivatives remains high. Another positive indicator was monetary stability.

Central Bank president Francisco Soberon reported that the peso remained relatively stable at around 27 per US\$1 and that amounts held in foreign currency had increased. He attributed the stability in part to a regulatory system put in place during 2002 to monitor all financial institutions. Soberon said the banking system had managed pension-fund bonds, offered consumer credit, given out stipends to students, and helped restructure the sugar industry.

Government confident about sugar industry

The biggest change in the economy last year was the restructuring of the sugar industry as 70 of Cuba's 156 mills were closed. The Ministry of Sugar expects to lower production costs, match production to world demand, expand the more lucrative derivatives industry, and turn more land over to food production thereby reducing imports (see NotiCen, 2002-06-27). Estimates are that the mill closures reduced spending on fuel, machinery, and spare parts at a savings of US\$173 million. The restructuring was made inevitable by the long-term worsening of the terms of trade as fuel costs doubled in relation to sugar prices over the past 40 years.

Other factors include increased output from other countries, particularly Brazil, and subsidies protecting domestic production in developed nations. Despite accusations in the foreign media that 100,000 cane workers have been laid off without protection, the government says all have been placed in jobs elsewhere and given salary guarantees and opportunities to retrain for work in such industries as information technology. Organizing for the 2002-2003 harvest is being described as "exquisite." Production is projected to reach 4 million MT compared to the previous harvest of 3.6 MT.

The Sugar Ministry says costs will be considerably less than last year with energy costs alone cut in half. Cost per ton is expected to drop by 27%. Government says GDP is not the best measurement. While acknowledging the seriousness of the economic crisis, officials are reluctant to fully accept the standard macroeconomic measurements of the economy. They argue that such yardsticks largely ignore social well-being.

Economy and Planning Minister Jose Luis Rodriguez said in an interview with the weekly Bohemia in December that economic recovery since the Special Period of the mid-1990s is not measured solely in neoliberal terms of production and profit but also in terms of social and human development.

Osvaldo Martinez, chair of the National Assembly's Economic Affairs Committee, put aside "the fetish" of the standard GDP measurement, which he called "a methodology conceived in economies that are structured to obtain market profits." While macroeconomic measures are important, Martinez said, more important was the growth in public services and cultural values. If free public services were included in GDP at their actual value, he said, Cuba's economic growth would have been much greater.

Social spending increased in 2003 budget

Despite anemic growth, the government continued to invest in social programs during 2002. Rodriguez said that expenditures increased in such areas as medicines, energy consumption, and rationed consumer goods. Rather than cutting spending, the National Assembly approved increases in social expenditures in the 2003 budget. The education allocation the budget's largest rose by 7.5% over 2002. The major increases are for pensions and unemployment, disability, and death benefits. A special allocation is for workers laid off during the restructuring of the sugar industry.

In preparing the 2003 budget, the National Assembly included a deficit of 3.4% of GDP and a growth projection of 1.5%. The UN Development Program (UNDP) uses such social measures in its annual Human Development Index (HDI), which takes into consideration life expectancy, educational attainment, and adjusted income, supplemented by other indicators such as poverty rates. This year's HDI survey of 173 countries shows Cuba in 55th place just behind Mexico. The US was in 6th place, having dropped four places since 1990; Nicaragua was in 118th place.

Minister lectures on supply and demand

Asked during the Bohemia interview why consumers still faced shortages in basic consumer goods despite considerable growth in the past several years, Economy Minister Rodriguez suggested the two things were not directly linked. When GDP declined by 2% between 2000 and 2001, caloric intake, median wages, and basic social services continued to expand, he said. Several of his comments underlined the balancing act between the command side of the economy and the free-market side. While the more market-based economy of tourism and exports sinks, the state sector invests more in social necessities.

Bohemia's question, then, refers mainly to the market and Rodriguez was quick to acknowledge that some rules of the marketplace are violated only at great risk. He pointed out the potential disaster of artificially pegging the peso to the US dollar as El Salvador and Ecuador have done, with mixed results. Exchange rates, he said, cannot be set at will. "Former socialist states tried it and now we know the disaster it produced there; it has happened with devaluation policies in Latin America for more than 30 years, and we have seen that in those places the economy has not progressed." Explaining the rising prices in Havana in consumer markets not under state control, Rodriguez referred to the rules of supply and demand. "If you have a lot of money and little supply...prices will rise. Prices can't be lowered if production is not increased, he said.

As for the ongoing campaign to squeeze more efficiency out of Cuba's productive enterprises (perfeccionamiento empresarial), Rodriguez said the 350 businesses involved in the effort have

shown positive results, increasing production, lowering costs per unit, and raising workers' salaries. "Still," he said, "there are 3,000 businesses in the country, and therefore, we have only taken the first steps toward the necessary changes."

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