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LADB Staff

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Responding to the current economic crisis, the Cuban government ordered unprecedented price hikes in dollar stores (Tiendas de Recaudacion de Divisa, TRD), increases in gasoline prices, cuts in energy use, and a radical restructuring of the sugar industry. The economy was projected to grow 3% this year, but few economists think there will be any growth at all.

Among the factors pushing the economy into crisis are the effects of Hurricane Michelle and the subsequent large expenditures of hard currency on food imports from the US (see NotiCen, 2002-11-19), the suspension of oil imports from Venezuela after the April coup attempt against President Hugo Chavez (see NotiSur, 2002-04-19, NotiCen, 2002-06-13), declining world prices for sugar, nickel, and tobacco, and the closing of the Russian electronic listening post at Lourdes, which brought in US$200 million a year in rent money. Tourism, which has surpassed sugar exports as the prime earner of foreign exchange, declined by 14% in the first quarter following the Sept. 11 attacks in the US. Dollar remittances have also declined substantially.

Juan Triana, who heads the University of Havana's Center for the Study of the Cuban Economy, said the economic situation was the worst since the cutoff of economic cooperation with the former Soviet Union in the early 1990s. But, in an interview with Reuters, Triana cautioned not to equate the current crisis with that period. "Anyone who thinks it is remotely similar knows nothing about the transformation of our economy over the last 12 years," he said. "Trade declined 70%, the gross domestic product 35%, and industrial production nearly 80% between 1989 and 1994. Nothing like that is happening now."

"Since 1993 we have recovered most of the lost ground, and more importantly the structure of the economy has substantially changed." Sugar exports accounted for 90% of Cuba's foreign exchange, said Triana, but half of Cuba's foreign exchange now comes from tourism and nickel, citrus, and pharmaceutical exports. To hold spending of foreign reserves down, authorities are taking the most radical steps since the economic reforms of the early 1990s. First came rumors, then government confirmation of impending price hikes.

The Ministry of Economy and Planning announced the coming price changes May 31. However, since the government provided no price list, consumers began buying appliances and other expensive goods in the TRDs largely on rumors without knowing which prices would go up. Sales in the TRDs reached record proportions. The logic of the dollar stores was that they would soak up dollars that entered private hands through tourism and remittances from the US, allowing the government to plan the use of those dollars for the general social good. The benefits were to be directed to "the majority of the population with fewer possibilities of acquiring dollars," said the Ministry. So, increasing consumer prices had more to do with managing foreign exchange than responding to the supply-demand nexus.

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The price increases do not affect the basic basket of consumer goods, which has been kept substantially unchanged for decades. The ministry's May 31 communique promised to hold prices steady on those essentials by increasing government subsidies and imports at a rate of US$600 million per year. Basic-basket goods are sold at prices held artificially low and rationed by means of the consumers' ration book (libreta de abastecimientos). P

reparing for the price changes, the government studied 1,092 products and found that 75% were sold in TRDs and that the majority of those sales (51%) was for food and items of personal hygiene. The government then lowered prices on most of those goods but not by much powdered milk went down by 1.7%, condensed milk by 1%, and frozen chicken by 9%. But the increases on the less essential goods like appliances, electronics, and clothing tended to be greater, some going up by as much as 30%. Gasoline was supposed to go up by about 40%, but the increase was suspended indefinitely. The suspension may have resulted from concern that higher prices for gasoline would force price spirals elsewhere in the economy and shift a heavier load of passengers on to the already overburdened public transportation system. The government has not said whether the suspension is temporary or permanent.

Signs government is unsure about price changes

The hesitant manner in which the government made the price changes has led to speculation that the move is now being reconsidered. First, the expected increase in gasoline was shelved. Then, according to a June 12 Inter Press Service report, the price changes on some goods were reversed and some were not implemented in all dollar stores. An economist told Inter Press Service that authorities might have been taken aback by the unpopularity of the price hikes and thought better of the plan. The economist predicted a drop in consumer spending and unsold inventories in warehouses. However, that outcome depends partly on how much unaccounted dollar savings consumers may have at their disposal.

The Mexican daily La Jornada suggested that the panic buying in late May showed that some Cubans had dollars in reserve. Behind the price hikes, said the newspaper, was a government expectation that it could draw dollars from private savings to reduce international obligations and reduce the volume of pesos in circulation to head off inflationary pressures.

Sugar mills shut down

Simultaneously with the price increases, the official government newspaper Granma announced June 1 that the sugar industry would be restructured to fit the realities of the world market, meaning that Cuba's vast production capacity would be slashed to fit the global demand. The Sugar Ministry announced the closure of 71 of Cuba's 156 mills. Fourteen more are to become centers for the production of sugar derivatives. There are 400,000 sugar workers, and those who are displaced are to be put to work elsewhere in the industry or retrained.

With the announcement, Sugar Minister Ulises Rosales del Toro announced a new stage of diversification, spelled out in an eight-year plan for diversification and adjustment to the market. In remarks during the Feria Internacional de la Agroindustria Azucarera in June, Rosales del Toro

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said Cuba had to enter the competitive world sugar market with a high quality product produced at a cost consistent with price. Cuba's milling capacity is around 10 million metric tons, while recent harvests have been less than 4 million MT.

Production this year was 3.6 million MT, exceeding the previous harvest by about 80,000 MT. With the closure in previous years of inefficient mills and other changes, the industry produced more sugar at a lower cost. However, with prices as low as US$120 per MT, income from the current harvest was US$120 million less than the year before.

Starting with the next harvest, said the Sugar Ministry announcement, the industry will first meet domestic demand of about 700,000 MT, fulfill contracts, and enter the world market only when prices are high enough to cover production costs and make a profit. With mill closures expected to bring production capacity into line with world prices, land once used for sugar production will be turned over to cattle production, feed, and food crops.

Economist Triana acknowledged that closing mills could present a serious problem in local communities, but he said the impact on the economy would be positive. "In a capitalist economy, mills are privately owned and closing them means a loss of capital, output, and jobs. Here the mills are owned by the state and closing some of them means moving resources to more efficient mills," he said.

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