**CUBAN ECONOMY TODAY AND PERSPECTIVES FOR THE FUTURE, SUMMARY OF FINDINGS OF 28THANNUAL ASCE CONFERENCE**

***(An Excellent Summary Overview on the Cuban Economy. A.R.)***

*By Joaquín P. Pujol*

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The 28th Meeting of the Association for the Study of the Cuban Economy  (ASCE) was held in Miami, Florida, July26-28, 2018. This conference differed slightly from prior meetings in that it had a higher participations from Cuban-based economists and students. In fact the two students that won the competition for the student essay awards live in Cuba.

The papers presented summed up the disastrous state of the Cuban economy and the very poor prospects for the immediate future, short of finding a new Sugar Daddy like the Soviet Union or Venezuela to subsidize Cuba.

**Measurement of the performance of the Cuban Economy**

In this conference we had the opportunity to discuss the calculations of the measurement of the National Income Accounts of Cuba, as we benefited from the presence in the Conference of two Cuban economists from the island, Padel Vial and Oscar Everleny, who had done extensive work on the subject, as well as of Carmelo Mesa Lago, Jorge Perez Lopez, Ernesto Hernandez Cata and other members of ASCE, who also had done studies on the measurement of the Cuban economy over the years.

The Cuban authorities claim that its real GDP grew by around 0.5 percent in 2015, and 1.8% in 2017, but there are strong reasons to doubt this. Those calculations are the product of a methodology that have never been clearly spelled out, due in part to the use of a valuation for the Cuban peso as equal to the US dollar, the use of the Soviet system of calculating Material Product-- which is not compatible with the National Income Accounts calculations used by other nations, and other unexplained modifications from the usual National Income Account methodology. The methodology for the calculations of the Cuban national income accounts has been changed frequently with no effort to explain the implications in the changes in the methodology and to make possible comparisons in the results over the years. In addition, for some years there is no reported data at all. The problem of having a dual currency and multiple exchange rates tends to distort the real results, and most analyst consider that the growth rates reported by the government over the years are grossly overstated.

Using Cuban DGP data, Padel Vidal concluded that at best Cuba’s GDP grew just over 1% from 1960-2017. In a study sponsored by the Inter American Development Bank (IDB) a Purchasing Power Parity (PPP) analysis was done, using Cuban product prices compared to American prices and an estimated foreign exchange rate (combining the official with black market rates). This study concluded that the per capita GDP for 1985, which had been estimated at US$9,516, had fallen by over US$3,000 (over 30%) as a result of the removal of the Soviet subsidies, and that Cuba’s per-capita GDP for 2014, which had been reported as US$7,200 per capita, should just be about US$3,000 per capita (less than half of what has been reported by the Cuban authorities).

Another participant calculated the UN’s Human Development Index (HDI), using per capita GDP data, life expectancy and schooling indices, to measure relative welfare. If we take the authorities data, Cuba’s Human Development Index varied incredibly over the years, from 2012 t0 2013 it went from 5,539 to an incredible 18,844 and recently was ranked second among the Latin America countries (just below Chile). By using the more recent Purchasing Power Parity estimates, Cuba would drop to 12th place instead (Which, in the view of some of the analyst, would even be an overestimation in view of recent decline of the quality of education in Cuba).

The government has recently dropped their forecast of growth for 2018, from 2% to 1%, due to a fall in exports (particularly of sugar and nickel) and a fall in tourist revenue. The Government also has announced that the “Austerity Measures” which were introduced in 2016, involving cuts in energy and fuel made available to State companies and reduced imports of consumer goods and inputs for the economy, will be continued into 2019.

Much of the reduced expectations by the participants in the Conference for the future growth of the Cuban economy stemmed from analyses of policy changes in both the US and Cuba.

The Cuban authorities have recently retracted some of their earlier liberalizations with respect to agriculture and to the activities of the “cuentapropistas” (private activities on own account), which should negatively affect the future performance of the economy.

A new tax has been introduced on the farms and restrictions were re-imposed on direct sales to consumers.

It should be noted that the activities of the cuentapropistas has been the only sector of the economy that has shown a significant growth in the Cuban economy over the past few years.

**Impact of the 2010 policy reforms of Raul Castro’s**

In 2009, given the high deficit of the public finances, Raul Castro decided that they needed to shed 1 million workers from the public sector payroll. To ease the impact on the population of that measure the government decided to authorize the operation of some private activities. As a result the number of individuals requesting authorization to become  “*cuentapropistas” rose from 150,000 in 2010 to over 580,000 in 2017, accounting for about*10% of the economically active population.  The type of authorized activities is very limited and mostly menial in character since professional private activities are not permitted in Cuba, but average Income in this sector is greater than in the State sector.

In addition, the Government liberalized the rules of agricultural tenancy and the marketing of agricultural products. It also started permitting relatively free foreign travel for most Cubans, as well as allowing Cuban private citizen’s limited access resort hotels, which previously had been prohibited to ordinary citizens. It also permitted the sale of some residential homes and of automobiles. While these measures had a positive impact on production and economic activity, particularly by private individuals, the persistence of bureaucratic impediments and inconsistent applications of the rules has thwarted a significant increase of productivity as a whole.

It was these sort of measures that encouraged the then Obama administration to seek a renewal of formal relations between the US and Cuba in the hope that some political laxity, as well as further economic reforms, would follow.

The announcement of the restorations of diplomatic relations between the US and Cuba, encouraged new negotiations of the outstanding external debt of Cuba with the Paris Club and other external creditor. At the time Cuba had outstanding debts with almost all countries in the world except for the US (No credits were allowed by US companies to Cuba under the Helms Burton law that regulates the embargo of US financial transactions with Cuba). These negotiations eventually led to a forgiveness of about US$8 billion dollars from the Cuban external debt and a very favorable re-structuring of the remaining obligations.

But in August 2017 the government froze all new “Cuentapropistas” licenses and no new ones have been issued since. In July 2018 the Government issued 129 pages of additional regulations to the cuentapropistas in the Official Gazette establishing new restrictions on their activities, including limiting them to one license per family, fewer activities were allowed, harsher penalties were established for violations of the rules (including a two year ban from prior licensed activities for those that violated the rules), and it also implemented far more strict regulatory inspections and increased harassment practices of private entrepreneurs.

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

**Agricultural Policies**

Cuba has recently backtracked its reforms to free agriculture activities, and this has resulted in a fall of available agricultural products.  At this point, Cuba assigns over US$2 billion to import 80% of the food it consumes. According to the Cuban Secretary of Agriculture, 60% of food imports could be grown locally.  But that is daydreaming.  The obsolete economic pattern that the Castro regime embraced has never been able to feed the people, in contrast with pre-Castro era when Cuba exported not just sugar, tobaccos and coffee, but also beef, vegetables, fruits, fish, etc. Today the island no longer has a fishing fleet.

Only 2.7 million hectares of its 11 million hectares of arable land is now under cultivation. About 80% is land cultivated by the non-state sector (including 58% by cooperatives.) Yet, the ageing of the farmers, low wages, and the attraction of tourism jobs, have led to declining employment, inefficiency, low production, and low productivity. Farmers are not allowed to have a free marketing of their produce and have to sell a good part of the crop to a government agency (the Acopio) that pays low and late. While the original liberalization of twenty years ago (allowing higher prices for some agricultural products, somewhat better access to the markets and private sales, and semi ownership of some lands were initially helpful, some of these measures have been reversed. Agricultural output and employment continues to fall, as does land under cultivation, and 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% of its foodstuff—now imports about 80%.

Cuba used to be the largest sugar exporter in the world before the take over of the government by Castro. In fact, before 1959 the Cuban producers made sure that total production would not exceed 7 million tons per year once the US quota was met to avoid a depressing world marked price. After Fidel’s disastrous effort to produce 10 million tons sugar, output and productivity declined steadily. In 2002 the authorities decided to rationalize the sugar industry in an effort to increase productivity. Many sugar mills were closed, some were sold to Venezuela and a Brazilian Sugar Company was brought in to manage some of the largest sugar mills. However, the attempts to improve the low productivity of the sugar sector by having a Brazilian company handle the production of sugar have not given a favorable result. Productivity and production have continued to decline. In recent years the annual production has dropped to less than 2 million tons (1.1 million tons in 2018). Since Cuban consumption is about 700,000 tons, only about 400,000 were available to meet export commitments. This year not only Cuba was not able to meet commitments of 400,000 tons of sugar that had already been sold, but it had to import 100,000 tons of sugar (from, of all countries, France), in order to meet domestic requirements. The global average for cane harvested per hectare around the world is about 78, compared to an average in Cuba of between 24 and 42, and an average of 80 for Dominican Republic, 95 for Guatemala, and 128 for Peru. Equally poor is the yield from cane, which used to be 14% and has now dropped to 11%. As a result Sugar is no longer a major crop for Cuba. Meanwhile, activities such as coffee and cacao, which used to be a source of exports, have now practically disappeared. While the government claims that the poor harvest stemmed from bad weather, there has been an abject failure that is difficult to justify.

The export and import of merchandise have diminished over the last 3 years. Imports of merchandise dropped from $15.6 billion in 2013 to $11.3 billion in 2017. In 2016 exports fell by 12%. In 2017 exports of goods reached only $2.4 billion, or only 43% of what they had been in 2012. Of the total exports in 2017, only 1% represented agricultural products. In an effort to substitute imports, the level of imports has been administratively controlled, and in 2017 was the lowest in the last eight years, but even then the balance of trade was still negative and the total exports were lower in nominal dollars than they had been in 1958, the last year before Castro reached power).

**Tourism**

Tourism has been one of the most important sources of foreign currency during the past 20 years for Cuba, bringing in about US$3,000 million yearly, and the government has acknowledged it as an “strategic sector.” The government has recognized that private sector involvement in the tourist industry helps to warrant lodging, renewal visits, leisure and recreation activities that satisfy the growing demands of the visitors, which the government has difficulty in taking care of, and it has therefore relaxed the controls it tends to apply to these activities for the private sector.

The rise in foreign visitors increased very significantly after the US reestablished relations with Cuba at the end of 2014. Tourist arrivals in 2015 grew by double digits, with a steady but declining expansion in 2016 and 2017. Cuba received some 3.8 million foreign visitors in 2017 and expected 5 million in 2018, but tourist arrivals were down by 5,7 percent in the first half of 2018.  The decline was not only in Americans (a drop of 25%) but also in Europeans and Canadians. The flow was affected because of the changes in the policies of the American government under Trump, and by the Hurricanes that have hit the island. The government had to spend a good deal of money repairing Tourist Hotels and roads after Irma. Recently, work has been called on for substantial repairs in some deteriorated buildings in Old Havana as to please the tourists, and there is a construction project of new buildings along the Malecón.  According to official reports, 70 per cent of buildings along the Malecón have to be demolished totally or partially. But Cuba’s inadequate infrastructure has affected the tourist flow, especially of repeat visitors. The problems in the infrastructure: electric stoppages, poor roads, water and sewerage problems, a badly maintained and inadequate domestic airline, poor sanitary and health services, and poor personal service have affected tourism.

Hotel and other service employees are paid in Cuban pesos, equivalent to only US $25/month, while the hotels are charged by the government in US dollars about $400/month, with the government keeping the difference,

Trip Advisor responses rank Cuban hotels at an average of 3.5 as compared to 4,0 for hotels in Dominican Republic and well above 4 for hotels in Cancun. Moreover, Cuban tourism is highly priced for the type of services rendered. Each tourist is charged a $200 tax for visiting the country and good resort hotels during the winter charge top dollars.

Despite the large number of visitors to Cuba since the political openings enacted by President Obama towards the end of 2014, (which allowed for the expansion of private restaurants, lodging offers [B&B’s], and other services for visitors), independent estimates of Cuba’s GNP (Gross National Product) indicate a fall in 2016 and, according to Cuban statistics a bare expansion in 2017 and 2018.

**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.  Political disturbances in Venezuela and the fall in Venezuelan of oil production foretells a decrease in oil imports from that country.  Cuba has been exploring for petroleum offshore but so far there have been no significant findings.

The developments in Venezuela has led the Cuban government to try 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 areas. In particular 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. Far more useful would be efforts to find ways to save energy.

**The issue of the 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 the 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).

Despite much talk and discussion within the government the currency unification has not been undertaken. I suspect that there are conflicting views within the administration given the impact that it would have in various sectors of the economy, and in particular in showing the clear inefficiency of the state run companies and the large implicit subsidies that they receive. Moreover, while back in 2014-15 the Cuban government’s holding of foreign reserves may have been sufficient to ease the impact of a unification or even a dollarization of the exchange market, the smaller reserve base prevailing now make this type of action more painful and difficult. Event the hint of unification has led to panic in the population, which has been tampered by government assurances that the process would not involve a major financial shock.

**Public Sector Finances**

It is estimated that the fiscal deficit rose from 550 million pesos in 2006 to 888 million in 2016, and to above 8 billion pesos in 2017  (that is, from the equivalent of 2.9% of the GNP to about 15% in 2017). And it has continued to increase in 2018. This has resulted in an accumulation of public bonds in the hands of state banks. That level of a fiscal deficit is unsustainable.

Meanwhile, public services –mostly in health and education – have deteriorated.  According to Carmelo Mesa-Lago expenses earmarked for education have diminished by the equivalent of 4% of GNP in the last 10 years.  The quality of education has deteriorated, as well as the resources to fund it.   Since teacher salaries are kept very low, most teachers have gone to work as *cuentapropistas,*in the tourist industry, or have left the country, thus leading the government to depend on “emerging teachers” *(maestros emergentes)*who are very young and ill-prepared individuals. Many parents have had to hire private “repasadores” to  teach their children outside the public schools.

Transportation, power, sewers, water distribution and other systems have significantly deteriorated due to lack of maintenance, to the point where they have become an obstacle to the tourism industry and other private endeavors.  The health system, which is used by most of the population, is in a state of chaos with closing and consolidating hospitals, while Cuban doctors are sent by the Cuban Government (under government to government contracted arrangements) 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). For the teachers it was 549 pesos per month (US$19.46) and for workers in the health sector $833 pesos per month (US$25.84). Deflated by inflation, real salary currently is about one third of what it was in 1989.  The average pension is US$10 per month, so small that no one who earns it can afford the basic breadbasket.

However, salaries in privately run enterprises and income of a small segment of the population is much higher off due to the existence of so-called *(actividades por cuenta propia)*“non-governmental entrepreneurs” activities. But this generates a political problem for the government particularly  with the public sector workers who try to improve their lot by looting the public enterprises where they work.

**The Demographic situation**

Cuba faces a serious demographic problem. It has the largest proportion of senior citizens in the hemisphere, and some 160,000 Cubans suffer from senile dementia.  In the meantime, the young people tend to escape from the country.  There are too few children and too many grownups.  We have before us a demographic “ticking time-bomb.” The joy of the Revolution affected Cuba’s bedrooms and there was a massive baby boom in the early 1960’s (about 55 years ago). These Cubans are now about to retire and they will be less productive in years to come. However, the boom turned into a bust with the proliferation of liberal abortion practices, declining fertility, and continued emigration of younger Cubans, so there are not enough younger Cubans to take their places.

The results from calculations from demographic models are scary. The problem stems from the expectation that the number of working Cubans will begin to decline very soon (the base of the demographic pyramid is a shiny trunk. With no changes, the dependency ratio (aged 65 plus over those in ages 15-64) in thirty years is almost 50%, one working Cuban having to support one old 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.

Not only has the birthrate decreased to 1.04 per woman (when the replacement rate should be approximately 2.1), but, immigration has worsened the situation.

Recent studies have estimated that over 50,000 Cubans have left the island per year.  The emigration of so many skilled and experienced workers has had an impact on the quality of teachers, the capacity of the government to address certain problems and the general productivity of the economy. A variety of recent estimates of Cuba’s GDP seem to show that per capita incomes may be either similar to those prevailing in 1959, when Fidel Castro first took office, or at most had an annual growth of only 1 percent over the last 60 years. Real salaries remain well below those in the 1980’s-before the end of the Soviet aid. The index of the economically active population is falling faster; from 5.17 in 2011 to 4.87 in 2016. Despite this, we have not seen a rise in reported employment. Open and “hidden” unemployment is currently estimated to be around 28%, because many young Cubans prefer to be officially unemployed that to work for the government.

Cuba once ranked in per capita income equal to Spain, Italy, or Argentina. Now it is about equal to some of the poorest Central American countries, and surveys of those Cubans born after 1990 now show that they have little hope of an economic recovery, and thus they want to leave the island.

The steady net disinvestment in many areas—transport, energy, water and sewerage infrastructure, let alone housing (with a current deficit of over 880,000 units) continues. The rigidity of the bureaucracy, the reversal of some reforms and the continued drop in expectations among the young for political and economic reforms has continued to incent the departure of the young Cubans from the island.

Damage to basic infrastructure is obvious in Cuba.  This includes housing, public buildings, schools, aqueducts, sewer systems, sidewalks, streets, highways, public transportation (railways included), and electrical systems. But Cuba is not a member of the World Bank or the Inter American Development Bank who are the most usual sources of international finance for large governmental infrastructure projects.

Cuba’s housing situation on the whole is in a critical condition. At the beginning of the Revolutionary government, the State stripped most property owners of their properties, which it then proceeded to distribute to their followers. Due to lack of maintenance and repairs, and the impact of the hurricanes, most of these properties are now in ruins. Meanwhile, building new homes has been insufficient and declining over time.  The average annual rate of housing construction for the period of 2010-2015 (28,500 new units per year) was half what was done for the period corresponding to 1984-1990, and 2017 only saw about less than 22,000 units constructed, but 47 % of available housing is inadequate.  The housing deficit has risen from to 550,000 units in 2006 to close to 900,000 last year.  That does not take into account the destruction of 100,000 units caused by Hurricane Irma. Recently the government announced that it may be turning over the responsibility for housing repairs and construction to the local authorities, but no provision of funding has been made to permit the carry out these activities.

**Trade & Foreign Debt**

The Castro government has never achieved a favorable trade balance.  It was always dependent on subsidies.  At first, the Soviet Union paid for sugar above premium market price and financed the Castros’ military adventures in Africa. It also subsidized military groups in Latin America plus domestic expenses in education and health.  With the collapse of the Soviet Union, Cuba underwent a hard adjustment period from which it never fully recovered.  Then came Chávez, and Cuba received oil subsidies and sent its doctors and military to Venezuela and other countries under a “program of contracted workforce (indentured labor)” in which the Cuban government received up to 90% of the funds paid by the receiving countries, paying the doctors and other participants only about 10%. That program was also used in Brazil and other countries throughout Latin America and Africa.

In 2016, income for medical professional services generated 1.5 billion dollars.  Recently, this figure has fallen because Venezuela cannot afford to pay for it, numerous physicians have left the project in Brazil and the newly elected President of Brazil has already announced that he may suspend this program, and Angola and Mozambique have ceased to participate in the project with physicians.

Another important source of outside financing is the sending of financial remittances and goods by those Cubans who have left the country.  In 2016, it was estimated that over US$3.5 billion was sent to Cuba by the exiled community from the US and, since authorized limits were increased by the Obama Administration, this is turning into a very important source of financing towards the balance of payments of the island.

Cuba’s balance on international economic transactions is negative by about 8 billion dollars and is currently being covered by the above mentioned export of indentured medical services, subsidies from Venezuela and remittances of the exiled Cubans as well as from tourism.

Last year, thanks to the reestablishment of relations with the United States, Cuba was able to negotiate a new agreement with the Paris Club (the fourth since the Castro’s took over), through which US$8,500 million in foreign debt was forgiven, out of the $11 billion Cuba had not paid since 1986.  The repayment of the remaining debt was restructured until 2033.  As part of the restructuring, the creditors agreed that $750 million could constitute collateral to finance joint projects, which these countries could do in Cuba.  This has given Cuba the possibility of accessing new credit with creditor countries, but the agreement commits the Cuban government to make partial repayments during the next few years.  Recently, Cuba paid US$2.6 billion to 14 creditor countries with the hope it would free part of the $750 million in “funds which can be turned from a debt to investment”, by the creditor countries.   However around the same time it was reported that payment for imports to Spanish enterprises had already run in arrears by some 40 million euros which caused the Compañía Española de Créditos a Exportación to temporarily close the credit line which it gives Cuba until a meeting was arranged at the Ministerial level between Spain and Cuba to find some solution to the problem. Delays were also reported in payments due to Chinese exporters.

More recently Cuba has been seeking a re-structuring of $110 million in debt with Brazil (most of it acquired as part of the work in the Port of Mariel) whose payments also had run into arrears. Cuba’s has an outstanding debt with the Brazilian Development Bank of about $600 million.

**The Impact of the Hurricane Irma**

Hurricane Irma affected a third of the population of the island, resulting in damage to 150,000 homes, causing damage to 25% of tourist hotels, destroyed means of communication, damaged the electric infrastructure, damaged 40% of the sugar mills and some 430 hectares of sugar cane, and caused 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 oppression continues to thrive in Cuba.  The Seventh Congress of the Communist Party was called shortly after Obama’s visit.  Its importance is relevant because only seven meetings have been 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”. The government expects that Foreign Investment shall stimulate the rise of economic growth.

**Investment Requirements for Growth**

Looking at the future, economic growth on the island does not offer an optimistic perspective.  Despite the stimulus received as a result of the decisions taken by President Obama, the decline in the economy has not ceased.

The government has tried to promote foreign investments that would help the economy to increase.  Three years ago, the approval of a new law regulating foreign investments granted ample tax benefits in projects financed by foreign funds and promoted investments in the Port of Mariel area, and the development of a free zone for the purpose of attracting new activities for the island.  However, the result of these initiatives, have not been very productive. Out of the projects proposed during the past three years, only a small number have been approved by the Cuban Government and there are only a very few firms operating at Mariel (some are Cuban plants that were relocated from another part of the country).  The illusion that investing in Cuba would be a chance to get rich has rapidly vanished.

It is difficult to see how Cuba could handle saving a fourth of its GNP to finance the investments needed to obtain the 5 percent of its 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.