



Cuba Futures Series

FORECASTING CUBA'S ECONOMY

2, 5, and 20 Years

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Comments by Lorenzo Pérez and Pavel Vidal Alejandro

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1 Forecasting Cuba's Economy: 2, 5, and 20 Years

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This paper does not make any claims to predict the future, but aims to offer a framework for discussion of Cuba's many alternative possible economic futures. It offers a projection based on a model and a set of assumptions, with the aim of facilitating debate by identifying factors that will influence performance. The method is influenced by my work on the Cuban economy as an analyst at the Economist Intelligence Unit (EIU) from 1995-2008.

The simple structure of the argument is designed to make it easy to identify and question the assumptions and projections, and so consider alternatives. For each time period—(I) the short term (two years), (II) medium term (five years) and (III) long term (20 years)—the discussion is organised in the same way: (i) an outline of initial conditions; (ii) the assumptions upon which the forecast is made; (iii) the economic forecast (including the average annual GDP growth rate) in a scenario that might result from the set of assumptions; and (iv) risks to the forecast.

Although the economy's workings in Cuba are quite different in so many ways from any other economy, the EIU's forecasting model for Cuba is as consistent as possible with the models applied elsewhere,

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and is linked with the global model that tracked global economic conditions. The advantage of following the EIU method is that the projections for Cuba can be compared with those for other countries. These comparisons are briefly outlined in the final section of this paper.

I. FORECASTING TWO YEARS

Initial conditions, 2011

System. The defining characteristics of the system of Cuban economic management today are well-known. Public ownership is exceptionally dominant, with the only exceptions being the informal sector, small farms (which the revolution allowed to remain), around 200,000 self-employed (most of which have been established since the mid-1990s) and the participation of foreign businesses in joint ventures with Cuban state entities. The system of central planning has been substantially transformed over the past two decades, with greater enterprise autonomy, use of profit and loss accounting, and roles for market prices; but state enterprises continue to receive huge subsidies and administered prices, and the persistence of the dual currency system continues to foster a large informal economy that feeds on the gap between controlled official prices and the much-higher market prices and undermines the usefulness of the price mechanism for resource allocation. Economic decision-making therefore continues to rest heavily on a combination of government direction on the one hand, and large-scale diversion of state resources through the informal economy on the other.

The outcomes of the system, which includes universal provision of basic needs and has so far provided near-full employment even during sharp economic downturns, is that labour productivity growth has lagged while social protection has been relatively strong and educational and health standards are relatively high.

Structure. The most notable characteristic of Cuba's productive structure is the exceptionally large share of economic activity accounted for by services. According to official national income figures, they account for 70% of national income. Although this may be an overstatement,¹ the proportion is nonetheless unusually great. Among services, education and health account employ around 20% of the workforce, and other social and community services account for the same again.² The official data for the GDP shares of agriculture and industry (just 4% and 23% respectively) may understate their importance, but it is nonetheless evident that product diversification is weak and both sectors suffer from chronic problems of low average level of productivity. This reflects both a chronically low level of investment, at an average of only 12% of GDP over the past 20 years, and economic inefficiencies arising from deep-rooted problems in the state-led economic model.

External sector. The Cuban economy has always been an open one, but since the shock caused by the end of Comecon in 1990-91, the degree of trade dependency has diminished. Imports now account for less than 20% of GDP, compared with 40% in 1990. Nonetheless, dependence on imports of essential food and fuel remains high, accounting for almost half of total import spending between them. On the exports side, dependence on a single product and single partner is less than it was before 1990, but it nonetheless represents a vulnerability: then, sugar accounted for 73% of exports of goods and services, and a similar share of all exports were sold to the Soviet bloc; in 2010, the calculation of trade product and partner concentration is difficult due to the lack of transparency surrounding Cuba's trade with

1. This figure, like all the other data used here (unless otherwise stated) is from the Oficina Nacional de Estadísticas (ONE) national income series at nominal prices. The main problems with this series are that (i) it uses the official exchange rate between the Cuban peso (CUP) and convertible peso (CUC) of CUP1:CUC1, which distorts relative sectoral weights; and (ii) it uses an unconventional method to measure the value of public services, which tends to overstate their weight. Nonetheless the large share of employment is confirmed by employment data, which are not subject to such distortions. These show total services (including tourism, transport and others) to account for over 60% of all jobs.

2. ONE data.

it most important partner, Venezuela, but on the basis of the available information I estimate that the largest single export item (professional services) accounted for around 30% of total goods and services earnings³ in 2010 and the next two—tourism and nickel—for 18% and 12% respectively; and the main export destination (Venezuela) accounted for almost 50% of the total. The US market remains closed for tourism and all Cuban exports, and Cuban imports from the US are limited to agricultural products, which must be paid for in advance.

One of the most important unique features of Cuba's international economic relations is its relatively limited access to international finance, either official or private. The most important reason for this is US sanctions, which not only block Cuba's access to official multi-lateral finance from the World Bank, IMF or Inter-American Development Bank but also hamper the flow of finance and investment from international banks and direct investors. The other reason is Cuba's poor payments record which, in turn can in part be attributed to the restricted access to short-term financing to cover emergency needs in the face of exogenous shocks (as in the case in the aftermath of the hurricanes of 2008). The lack of availability and high price of external financing also stems from a lack of transparency and Cuba's debts that have been unpaid since the mid-1980s. The financing constraint has been eased to some extent in the past five years by official support from Venezuela and new financing agreements with China, but it remains exceptionally tight.

Assumptions, 2011-2012

Domestic: political. Raúl Castro (who is 79) has strongly indicated that the old generation of leaders, many of whom have been around since 1959, is ready to hand over to a new generation. While the PCC

3. The exact figure is unknown, as official figures give no breakdown of 'other' (ie non-tourism) services, so this is an estimate. It is based on the assumption that the surge in other services in 2004-05 arose from the deal with Venezuela, and that other services have grown at a modest rate since then.

Congress is to focus on economic reform, the forecast assumes that the handover within the PCC is made within the next year. The most likely moment would appear to be at the PCC 'conference' that will take place some time after the Congress. The next National Assembly elections are not due until early 2013 and, as the President is generally elected by the new Assembly, the forecast anticipates that Raúl Castro will remain President until the end of 2012—on the assumption that his health holds out until then. Like the handover from Fidel to Raúl, this handover is being carefully managed to ensure continuity. The forecast assumes no rupture, which implies that the old leaders will retain influence from the sidelines. A further assumption is that the leadership will continue to encourage debate within system, and that while dissidents will continue to criticise, their influence will remain peripheral. It is assumed that, while the economic reforms will create losers as well as winners and generate frustration and uncertainty, they will not lead to large scale social unrest.

Domestic: economic policy. The government has now embarked on a substantial process of economic reform. The rationalisation of the state sector and expansion of the private sector announced in September 2010, together with the draft guidelines (*'lineamientos'*) document that has been debated in preparation for the 6th PCC Congress in April, indicate the scope of the reforms to the system of economic management we can expect in the next two years. The forecast assumes that the process of rationalisation will continue, even if it is slower than planned (with only around half of the 1.3m people shed from the public sector payroll), and that further economic reforms will be introduced in the next two years, along the lines of the *lineamientos*.

The result will be that market forces will have a greater influence on prices, both through the expansion of the private sector and adjustment of administered prices towards market levels. Subsidies will be cut and the rations will dwindle, with social protection depending more heavily on targeted welfare assistance. There will be closures and mergers of state enterprises and the private sector—including self-

employment, cooperatives and small privately-owned businesses—will grow.

The forecast assumes that the unification of the exchange rate will remain an unfulfilled objective in the short term, but that monetary policy will aim to achieve stability in the *Cadeca* exchange rate consistent with the accumulation of international reserves, in order to create conditions for eventual unification. The pace of reduction of price subsidies will be constrained by concern to keep increases in the cost of living in line with nominal income growth. The quantity and range of goods supplied at market prices in Cuban pesos will steadily increase. The prices of domestically-produced goods will initially be close to the price of imported equivalents (using the *Cadeca*-rate Cuban peso equivalent), but assuming that there is a trend of increasing supply and growing competition, prices will gradually fall.

Finally, although the discussion document for economic reforms includes signs that the opening to foreign private investors will widen, the forecast is based on the assumption that the overall policy will remain unchanged and the level of FDI inflows will remain around the current level, at an estimated average annual level of around US\$600m in 2011-12. With no improvement in access to international financing, the current account will remain close to balance, as any increase in import spending will need to be paid for from export earnings growth.

External conditions. The forecast uses the Economist Intelligence Unit assumption that GDP growth in both OECD and non-OECD economies will slow in 2011, reducing the rate of global economic expansion from 4.9% in 2010 to 4.3% in 2011. China will continue to lead, growing by around 9% compared with only 2.5% in the US and 1.4% in the EU. In 2012 a slight improvement in the EU is more than offset by a deceleration in the US and China, to reduce global growth very slightly, to 4.2%. These assumptions imply a slow-down in world trade growth, from 12.5% in 2010 to 7% in 2011 and 2012. The EIU's global assumptions also envisage a deterioration in Cuba's overall

terms of trade in 2011 followed by recovery in 2012, with higher prices of its main commodity export, nickel (up 20%) in 2011 more offset by rising costs of its essential imports of food (up 30%) and fuel (up 27%), and a reversal in each case (with an 11% fall in nickel prices and food and fuel costs down by 12% and 16% respectively) in 2012. Given the outcome of the US mid-term elections, the forecast assumes that neither US restrictions on tourist travel to Cuba nor any other sanctions will not be lifted in 2011-12. It also assumes that there is no interruption of Cuba's economic relations with Venezuela.

Forecast, 2011-2012

Under the current conditions—with a substantial mismatch between Cuba's high quality of human capital and low average productivity—there is a possibility that the reform process could have a strong impact on productivity on the supply side. However, the reforms will also create some losses from disruption. The shedding of around one million workers from the state sector in 2011-12 will raise average productivity per worker but reduce total output in the sector. If total national output is to increase, the new private sector businesses will need to establish themselves and grow quickly. For those constituted as private operators in the same activity as before (eg taxis, hairdressers and caterers), the transition will be relatively smooth, with premises, equipment and supplies already established; but new businesses will require investment of time and effort to get started. The disappointing results of the redistribution of idle agricultural land in 2009-2010 illustrate the difficulties of establishing new businesses. A process of learning through trial and error on the part of both state agencies (including tax offices, regulators and bankers) and the new entrepreneurs is an inevitable part of the creation of a dynamic and efficient private sector, and the errors will impose costs. It will also take time to establish a critical mass of producers to create the competitive markets needed to push down prices and stimulate productiv-

ity gains. Average labour productivity in the private sector will therefore take time to grow.

TABLE 1. Output

| | 2010 | 2011 | 2012 |
|-------------|-------------|-------------|-------------|
| Agriculture | -2.9 | 2.0 | 5.1 |
| Industry | -2.7 | 4.2 | 5.4 |
| Services | 3.9 | 2.4 | 3.8 |

The forecast envisages that the growth of the private sector will result in an increase in productivity in agriculture and non-government services in 2011-12, but the forecast rate of output expansion is not spectacular. The productivity gains will come from three sources: the transfer of some activities from the public sector to the private sector; capacity expansion arising from previous investments; and the emergence into the formal economy of activity that was previously informal. In agriculture, results will strengthen over time as the farmers work to improve their land and distribution systems develop. For services, the overall more modest growth disguises divergent trends within the sector. There will be little growth for public services amidst rationalisation of the workforce and stringent fiscal discipline, while the reforms will expand other services, partly by shifting existing services activity from the informal sector in to the formal economy. In industry, the relatively strong growth in 2011 will come from recent investment in new capacity, which will continue to rise in 2012.

On the demand side, the main driver of growth in the short term is expected to be a surge in the level of investment, both public and private. The forecast envisages growth of total investment of 15% a year in 2011-12, to lift the investment/GDP ratio from 10% in 2010 to 13% by 2012. In public administration lower state subsidies and labour rationalisation will free up fiscal resources for capital spending on infrastructure and housing. Meanwhile, the state enterprises that become more profitable thanks to rationalisation will no longer have

to depend on state-allocated subsidy or financing, and will have greater freedom to expand capacity and upgrade technology by borrowing from state banks or reinvestment of retained profits. The forecast assumes that the new government income stream derived from the taxation of the new private enterprises will be matched by business support programmes in the short term. Finance for investment by the new small business sector will also come from household savings (either in bank deposits or in hoarded cash) and remittances from family and friends abroad. Although FDI will continue to be significant, it is not expected to increase. Within the total Venezuela's share, which increased greatly in 2004-08, will be reduced by deals signed with China, Russia, Brazil, India and other emerging economies. In most cases, state companies have been important partners.

TABLE 2. Domestic demand (% growth)

| | 2010 | 2011 | 2012 |
|-----------------------------|------|------|------|
| Consumer spending | 1.5 | 2.0 | 2.8 |
| Current government spending | 4.5 | 1.8 | 1.2 |
| Investment | 0.3 | 10.0 | 20.0 |

The other components of domestic demand make little contribution to forecast growth. The increase in real consumer spending will depend mainly on the level of average real incomes, and we expect these to grow little in 2011-12. A rising cost of living, arising mainly from the removal of subsidies, will erode the real value of nominal public sector pay and private sector earnings growth. There will be some downward pressure on prices in the private sector arising from increased supply and more intense competition in an expanded free market, although this effect will be relatively weak in the short run. Government consumption will fall, as the state sector payroll shrinks and price subsidies are halved. The decline in spending is only partially mitigated by a doubling of the cost of social assistance, to provide a

safety net for the newly unemployed and additional support for low-income households to compensate for the removal of subsidies.

The financing constraint means that import spending will be limited by the pace of export earnings, so with terms of trade remaining relatively steady the net contribution to growth from external demand will be slight. With benign though not strongly favourable international assumptions and no lifting of the US travel ban, international arrivals are forecast to grow by 4-5% per year: a far cry from the rapid growth of the 1990s (with an annual rate of over 25%), when the industry was taking off from a very small base, but sufficient to provide steady income growth. No significant growth in the export of professional services is expected, as their volume is close to its limit, but there will be some reduction in dependence on Venezuela, as other markets are developed. Other services income streams, including transport services and cultural exports, as well as income from the licensing of overseas production of Cuban-patented medicines, are on a rising trend, increasing by 2-3% a year in 2011-12 to reach an estimated US\$1.6bn.

Of goods exports nickel, which accounts for one-tenth of the export earnings total (for goods and services), is the most important. Ongoing work to expand existing mines will lift production and exports by an annual average of around 3% in 2011-12. Exports of oil products and medicines, which now earn around 3% of the total, are likely to show firm growth in 2011-12 thanks to ongoing investments in oil refinery capacity and medical export agreements with China, India, Brazil and other partners. The forecast includes 10-15% growth in earnings for both products. In contrast, it assumes that earnings from the other traditional export goods (sugar, tobacco, coffee, and citrus), which together amounted to only around 7% of total earnings from goods and services, will be flat.

With a slight rise in oil production, a strong policy emphasis on energy conservation and expansion of domestic food production the forecast anticipates an increase in Cuba's capacity to import other

TABLE 3. **Export earnings**

| | 2010 | 2011 | 2012 |
|-------------------------------------|------|------|------|
| Total exports of goods and services | 11.8 | 12.5 | 12.7 |
| Nickel | 1.4 | 1.8 | 1.6 |
| Other goods | 2.3 | 2.9 | 2.9 |
| Tourism | 2.1 | 2.3 | 2.4 |

products, including investment goods. The forecast includes a rise in net remittances, due to (a) recent changes that allow US citizens other than Cuban-Americans to send money; and (b) the expansion of the legal private sector, which provides a new incentive for senders (from the US and other countries) to provide financing to enable their friends and families to establish small businesses. The forecast rise in remittance inflows would outstrip a forecast rise in net outflows of interest and profit remittances.

TABLE 4. **Import capacity and composition (\$ bn)**

| | 2010 | 2011 | 2012 |
|--------------------------------------|------|------|------|
| Exports of goods and services | 11.8 | 13.4 | 12.9 |
| Net factor income flows | -1.4 | -1.6 | -1.6 |
| Net current transfers | 0.7 | 1.1 | 1.2 |
| Net current foreign exchange inflows | 11.1 | 12.9 | 12.5 |
| Imports of goods and services | 10.9 | 13.3 | 13.1 |
| Fuel | 3.4 | 4.4 | 3.6 |
| Food | 1.7 | 1.8 | 1.5 |
| Other goods and services | 5.7 | 7.2 | 8.1 |
| Current-account balance | 0.3 | -0.9 | -0.9 |

According to this forecast, the two leading drivers of Cuban economic growth in the next two years will be: on the supply side, the ini-

tial rise in output in agriculture, industry and non-public services resulting from the reform process; and on the demand side, a surge in both state and private investment. Growth is also underpinned by a shift in state spending from consumption to investment and continued (though relatively modest) progress in the expansion of exports and import substitution. A cautious approach to price reform and fiscal and monetary management will keep inflation in check.

TABLE 5. Two year forecast

| | 2010 | 2011 | 2012 |
|-------------------------------------------|------|------|------|
| Real GDP (% growth) | 2.1 | 3.5 | 4.2 |
| Inflation (year-end, %) ^a | 6.3 | 7.2 | 5.5 |
| Average labour productivity (% growth) | 4.2 | 5.9 | 4.5 |
| Government spending/GDP ratio (%) | 66.5 | 63.8 | 60.4 |
| Investment/GDP ratio (%) | 10.5 | 11.1 | 12.5 |

a. This inflation figure is based on an estimated average household cost of living index that takes into account a reduction in the amount of basic goods available at heavily subsidised prices on the ration. The impact of the shift from subsidised consumption to market prices will vary widely between households, with the percentage rise in the cost of living being greater for those at the lower end of the income scale, who spend a higher proportion of their income on basic goods.

Risks in the short term

Political risks arise from the process of transferring leadership from the old guard to a new generation. Evidently conscious of the hazards, the old guard are seeking to closely manage the generational handover, but their control will diminish. So far signs of dissent within the government have been rare and weak, but in 2011 the situation will begin to change radically. At the special conference of the PCC that will take place after the sixth PCC congress in April 2011, it seems likely that a new set of leaders will take up their posts. None of them will have the authority of the Castro brothers, and so for the first time for fifty years there is a possibility of the emergence of factionalism. In the

context of the rapid changes taking place in the economic sphere, 2012 is likely to be a testing year. Despite its efforts to dampen expectations, there is a sense among the Cuban public that they should see material benefits from the economic reforms. If these hopes are dashed, the government could face a serious crisis of public confidence.

In the economic sphere, there are many hazards arising from the process of transformation. There are risks that monetary growth will outstrip that of supply so that inflationary pressures could build, at a time when the government is losing its power to directly control prices. The extent to which the government will be able to manage the fiscal challenge it has set itself—to achieve sufficient savings and raise sufficient tax revenue to maintain welfare provision whilst phasing out the existing apparatus of social protection—will depend on its ability to respond quickly to difficulties as they arise. A major fiscal crisis would jeopardise the reform process, and hamper the government's ability to respond to social pressures created by the extensive realignment of relative incomes that will result from the changes.

External risks are heightened by Cuba's lack of access to emergency financing in the case of unanticipated shocks. The largest single risk comes from Cuba's high degree of dependency on Venezuela, and in particular on earnings from the export of professional services. Hugo Chávez, on whom the relationship rests, does not face re-election until 2012 but if anything were to befall him before then, the Cuban economy would suffer. The high degree of uncertainty about the global economy also presents risks, with the recovery in OECD countries fragile and signs of strain within the economies of the growth leaders, China and India.

FORECASTING FIVE YEARS

Initial conditions

This forecast follows on from the two-year scenario. It therefore begins from the assumption that by the end of 2012 the transition to a new generation of political leaders has been achieved without rupture, a major reform process (along the lines outlined in the *lineamientos* document that has been discussed in preparation for the April 2011 PCC congress) has been undertaken, and that the economy has survived the disruptions.

The private sector has grown to account for around a quarter of the economy, an increase in the rate of investment has expanded productive capacity and is beginning to generate new employment opportunities. There has been neither recession nor runaway inflation, average living standards have improved a little and the welfare safety net has been retained. The new private sector has broadened the range of goods and services available in the domestic market, food import dependency has diminished and trade concentration has been slightly reduced through an expansion of medical exports, pharmaceuticals licensing and the sale of professional services to countries other than Venezuela. An increase in the rate of investment in productive capacity, together with an improvement in the incentives structures, has begun to ease the supply side constraints on growth.

Although the real wages of public employees having risen a little relative to those working in the private sector, wage earners in the public sector are still close to subsistence level. With the dual exchange rate still in place, Cuban peso incomes remain paltry compared with the incomes of those with access to Convertible pesos, so work incentives remain weak. The dual currency system also continues to distort economic decision-making and disadvantage state enterprises competing with private businesses in the domestic convertible peso market, as the private businesses operate using the *Cadeca* rate (CUP20:CUC1) while the state businesses use the official rate (1:1). Meanwhile the

25% of the working population who are now working outside the public sector are pressing against what they perceive as bureaucratic restrictions. They are paying their taxes (more or less) and feel that they are being restricted by over-regulation. They would like to be able to expand their businesses, and broaden the range of activities.

Assumptions, 2013-15

Domestic: political. The hazards of projecting political developments clearly increase with time, but for the purposes of this forecast we assume that there are no major political shocks. It is assumed that there are no deep ruptures within the new leadership, and that differences concerning economic policy are resolved through debate. As the old leaders disappear, the legitimacy of the government will no longer rest on the victories of the past but on the performance in the present. With less public tolerance of autocratic leadership and restrictions on debate, tensions may arise. Our forecast assumes that social unrest is avoided through a broadening of the scope for dissent 'within the revolution', thanks in part to sustained pressure and negotiation by the intelligentsia.

Domestic: economic policy. The forecast anticipates that the reforms initiated in 2010-11 herald a new phase of adjustment that will continue in 2013-15, spurred by the economic pressures and growing appetite for further extension of the private sector described above. However, the need to achieve consensus for economic reform implies that further liberalisation will be gradual. The most important of the 'second wave' of reforms will be the elimination of the dual currency system which, as noted above, is already a stated objective of economic policy. We assume that the exchange rate adjustment will start to happen in 2013. There are many ways that the currency adjustment could be done. The *Cadeca* rate of exchange is supposed to be a floating market rate, but its stability since 2005 indicates that a system is more like a currency peg. This forecast assumes that a series of adjustments are made in the *Cadeca* rate, beginning in January 2013. As

the supply of domestically-produced goods for the Cuban consumer market has increased, demand for Cuban pesos has grown. When the *Cadecas* have accumulated a level of CUC reserves considered sufficient to underpin exchange rate stability, the Cuban peso's value will be allowed to rise. In the forecasting model there is an appreciation of the Cuban peso:convertible peso rate from 24:1 to 15:1 in 2013. There is another adjustment, to 10:1 in 2014 and another, to 8:1 in 2015. At this point, we estimate that the Cuban peso will be close to its purchasing power parity level, and unification could be achieved by removing either the Cuban peso or the convertible peso from circulation.

In this forecast the three-stage currency adjustment paves the way for further measures to expand the role of markets, but further reforms to the economic system continue to be piecemeal. We assume that the process will be marked by continued reluctance and trepidation, not only on the part of the authorities but also with state sector employees, the official trade unions and the welfare dependent quick to express dissatisfaction at any threats to living standards. The forecast is based on a scenario in which these frustrations are primarily channelled through official channels, rather than leading to broad political mobilisation against the government.

With the value of the Cuban peso moving closer to its purchasing power equivalent, there would be greater scope for reducing the use of administered prices and allocating goods through the price mechanism rather than the planning apparatus. This would facilitate the further removal of restrictions on the expansion of private business sector, progressive corporatisation of state enterprises, decentralisation of public administration and a greater role for banking and finance, leaving the Cuban economy with a still-large state sector but a far smaller role for the central planning authorities. The progressive reduction of price distortions would lift average productivity.

The forecast assumes that while the ration is phased out, all Cubans continue to be entitled to the 'social wage' in terms of access to public

services, cheap or free housing and welfare benefits, and that targeted assistance will be available for the most vulnerable households. If the savings arising from the removal of subsidies are more than the cost of targeted assistance, government savings and investment could rise. However, the forecast assumes that the government will struggle to meet expectations for social protection, so that most of the investment will come from the enterprise sector, both public and private.

External conditions

The external conditions used for this forecast are taken from the EIU's global assumptions, with a pattern of relatively slow OECD growth accompanied by stronger expansion of emerging economies. Within this, it is assumed that China and Brazil will continue to provide strong markets and sources of new finance for Cuba. Their growth will also underpin commodity prices, so that Cuba's high oil import costs will be balanced by continued strong prices for its commodity exports (mainly nickel and sugar).

The forecast assumes that the Cuban economy will receive very little stimulus from the US, with its relatively slow growth and continuance of sanctions. Although a change in policy is possible, the forecast is based on the assumption that the persistent reluctance on the part of the US government to inflame the influential Cuban-American lobby will preclude any bold moves to remove restrictions on travel, trade or financing flows.

Forecast, 2013-15

In the medium term, the scope for increasing in productivity within the domestic economy is greater than in the short term. On the basis of the assumptions above, growth will be led by the sectors in which productivity has previously been most severely inhibited, namely agriculture and industrial sectors, while the expansion of the services sector is expected to be weak. After the adjustment costs and learning

processes of 2011-12, our forecast scenario envisages that agricultural production from the newly expanded private farming sector will start to accelerate. With agricultural credits, insurance, supply chains and distribution networks finally in place, more food will be produced and more of what is produced will get to market. The price-setting and monopoly control of the *acopio* system will become a distant memory. Along with this process, competition among farmers will intensify and the least efficient will begin to be forced out, creating new challenges for policy-makers in terms of providing social protection and managing the process of bankruptcy and takeover.

In the manufacturing sector there will also be wide differences between the fortunes of enterprises and industries, with the successful ones having improved access to both domestic and foreign finance for investment, and the loss-making ones facing closure or takeover. In these circumstances, inflows of foreign capital will increase, with companies requiring large investments in new equipment and technology turning to overseas partners. Foreign investors' interest in Cuban consumer goods producers will be spurred by prospects for growth of the domestic market for consumer and producer goods. The comparative advantage of the high educational level of Cuban employees will be a positive factor, at least partially offsetting concerns about the continued tight regulatory restrictions on the activities of international business.

The resources available to the government for the expansion of public services—which are already exceptionally extensive compared with the size of the economy—will be restricted by the continued burden of social protection. Lay-offs from failing state enterprises will add to these costs, as they will tend to reduce labour participation rates. Among tradable services, the forecast envisages some diversification but little overall growth. Cuba's capacity for providing medical services will not diminish, but the share of Venezuela in the total will decline as new markets are found in Latin America and beyond. Foreign exchange earnings from other services will grow, but at an unspectacular pace.

These changes would represent a gradual shift in economic structure to reduce the share of services in the total. At the same time they will bring about a realignment of relative incomes, creating winners and losers. The overall trend would be a narrowing of the gap between the real value of public sector wages and the purchasing power of foreign currency earnings in the private sector. Nominal wages in the public sector will be increased in line with (i) the rise in the cost of living arising from the removal of items from the ration, and (ii) an additional amount reflecting the increase in average public sector productivity resulting from rationalisation and investment. The growth of average earned incomes in the private sector will be restrained by an increase in competition among producers and service providers. The Cuban peso equivalent value of convertible currency income (whether earned or unearned) will diminish as the Cadeca value of the Cuban peso appreciates.

TABLE 6. **Five year forecast**

| | 2011-2012 | 2013-15 |
|---------------------------------------|-----------|---------|
| Real GDP growth (%) | 3.8 | 4.0 |
| Domestic demand | 3.4 | 4.2 |
| Private consumption | 2.4 | 4.3 |
| Government consumption | 1.5 | 3.1 |
| Gross fixed investment | 15.0 | 5.4 |
| Exports of goods & services | 6.9 | 4.9 |
| Imports of goods & services | 6.2 | 6.5 |
| Agriculture | 3.6 | 4.5 |
| Industry | 4.8 | 5.5 |
| Services | 3.1 | 3.6 |
| Current-account balance (% of GDP) | -0.3 | 0.0 |

In the external sector, the still-heavy external dependence on tourism, nickel and non-tourism services means that the prospects for each of these sectors will have a strong influence on the medium term

forecast. In general, the global tourism market is expected to continue to grow faster than total GDP in the source countries, so we can expect a continued stimulus from that sector. Apart from the expected steady growth in the number of visitors from the US (despite the continued prohibition on tourist travel), much of the expansion of Cuban tourism will come from the non-OECD countries, in which income growth is expected to be faster than in the traditional markets of the EU and Canada. Cuba's substantial nickel reserves (known reserves of 800m tonnes estimated to be one third of the world's total) provide room for new investments and strong expansion of production over the next five years. Although the Venezuelan market for professional services has now 'matured' and will recede, the global market for Cuba's non-tourism services is expected to expand, helped by diversification of markets and an increasing contribution from licensed production of Cuban-patented products. The Chinese market is likely to be particularly important. The forecast assumes that Cuban oil production will increase only slightly, with no major finds in the Mexican Gulf.

Risks in the medium term

Five years is a very long time in politics, and with the near certainty of both a generational transition and a deep and disruptive overhaul of the system of economic management and structure of relative prices, forecasting is particularly hazardous. The one-party political system will be severely tested. If the government were to collapse, the range of possible scenarios would be huge: the economy might collapse in to chaos and hyperinflation amidst violent conflict, or enjoy a US-financed boom, depending on the circumstances. However, It is worth noting that, as ever, the probability of government collapse remains smaller than is estimated by those hoping for a political transition. If it were not, the exercise of forecasting a survival scenario would perhaps be a futile one.

Even in the absence of political collapse, there remain substantial risks of economic instability and weakness. The reform process, which includes the removal of subsidies and extensive realignment of relative prices and incomes, will create inflationary pressures that will be hard to contain. The forecast of a steady rise in average productivity is derived from an expectation that the positive impact of the introduction of market signals and improvement in incentives will outweigh the disruption costs. The slow rate of average real income growth would imply continued pressure on the government to maintain subsidies for basic goods and extend welfare provision to households struggling to adapt to the new conditions, draining fiscal resources and increasing the temptation to raise taxes on productive activity to levels that discourage innovation and enterprise, or push activity back from the formal economy to the informal sector.

If Cuba's reform wave were to coincide with deteriorating external conditions, rather than the relatively benign scenario presented in the EIU's global assumptions, the political and economic risks would be greater. The danger of upsets in the global economy remains heightened by concerns about high debt levels and sluggish growth in the EU and Europe, and inflated asset prices among the rapidly-growing economies of the developing world. A deterioration in global conditions might feed through to Cuban economic performance through collapse in the nickel price or surge in oil or food prices, or a sudden contraction in tourist arrivals.

The single event that would have the greatest negative impact on Cuba's economic prospects, however, would be the replacement of Hugo Chávez with a hostile regime in Venezuela, particularly if this were to coincide with high international oil prices. A similar degree of shock, but on the positive side, would arise from the lifting of the US travel ban, opening of the US market to Cuban exports or removal of restrictions on US and multilateral financial flows to Cuba.

FORECASTING TWENTY YEARS

Initial conditions

Long-term growth trends are even more hazardous, and the exercise has little validity except as a discussion of possible scenarios. The model outlined here is based on the one used by the Economist Intelligence Unit. It strips out the possibility of catastrophic political upheaval, and concentrates instead on the economic variables that determine long-term GDP growth performance. The model tracks the GDP growth of 86 countries was compared with a series of variables in an attempt to identify which of them influenced the outcome. That is, it is based on the “estimation of the pooled, cross-section, panel data is conducted on the basis of a statistical technique called Seemingly Unrelated Regressions”. The list of determinants of growth that are fed in to the model are:

1. the scope for convergence (based on initial GDP per worker at the start of a period);
2. demographic variables (population growth rates, participation rates and dependency ratios);
3. a set of policy variables (measuring the fiscal stance, openness to trade, and the government regulatory burden in product, credit and labour markets);
4. a measure of institutional quality (the rule of law, quality of the bureaucracy, corruption, the risk of expropriation and the risk of government repudiation of contracts);
5. geography (climate, location and the degree of primary export orientation);
6. education levels and labour quality (as measured by mean years of schooling and life expectancy);
7. the external economic environment (projected changes in the terms of trade);
8. the level of development of information and communications technology (ICT); and
9. historical legacies (history of independent statehood).

The findings of the EIU study of the past 30 years are that: income per head and human capital are found to be important determinants of growth (suggesting a modest pace of convergence), as are institutional quality, government regulation, government savings and openness; the openness variable finds that a high level of distortion is more important than the trade/GDP share; and a tropical climate, the share of primary exports in GDP and a colonial past (pre-1945) are found to have a negative impact on growth.

An assessment of Cuba's initial conditions suggests that the few positive characteristics are offset by many negative ones. On the plus side are: (1) a relatively low level of GDP per head (estimated at purchasing power parity, or PPP), at about half the average for the countries surveyed; and (6) high education levels and life expectancy. At first glance, most of the other variables would appear to be negative. In particular, demographics (2) are unfavourable, with a lack of population growth (close to zero) and an ageing population will depress Cuban long-term GDP growth relative to the average; policy (3) is characterised by heavy state intervention and severe price distortions; institutions (4) are generally characterised as being bureaucratic, unaccountable, inefficient and arbitrary; geography (5) is not favourable, with a tropical climate susceptible to hurricanes, a location far from major trading partners (with the US closed) and relatively high dependence on nickel exports; and the availability of information technology (8) is among the worst in the world, with computer ownership and access to the internet still at exceptionally low levels.

Assumptions

However, the picture changes when we consider the position after five years based on our medium-term forecast, and the trajectory of development. Most importantly, the degree of market distortion arising from government policy (3), is changing. Already, the distortions that were there in 1990 have been significantly reduced by the reforms in the past twenty years, and the forecast presented above suggests fur-

ther progress in the next five. Whereas in 1990 Cuba's external trade was almost all with the Soviet bloc, at highly distorted prices, by 2010 its foreign exchange earnings are mostly earned by competing in global markets—with the earnings from professional services sold to Venezuela now the only exception. On the imports side, only oil imports from Venezuela enjoy preferential terms; indeed, the greatest trade distortion remaining is the blockage of trade with Cuba's most important natural trade partner, the US. The persistence of the dual currency system represents a major distortion of both external and domestic trade, but if unification is achieved by 2015, as anticipated, the Cuban economy can be expected to enjoy a windfall gain from the adjustment, to the extent that it facilitates the diversification of both exports and imports. A heavy government regulatory burden certainly exists in product, credit and labour markets, but here, too, the direction of change is towards the cautious but progressive lifting of restrictions. The forecast assumes that even if the Communist Party refuses to relinquish the one party system (in the face of perceived external and ideological threats) or introduce a sudden liberalisation programme that might permit a sharp economic take-off, the current process of transformation is the start of a deeper change in which reforms will result in productivity gains and a permanent increase in the investment:GDP ratio.

On 'institutional quality' (4), while the absence of an independent judiciary, the lack of transparency in government and the history of expropriation and repudiation of contracts will continue to weigh on performance, Cuban experience with foreign economic partners over the past 20 years is already bringing about a profound change in the way that business is conducted in those pockets of international economic activity. Cuban officials and enterprise managers have a far clearer understanding of the law and practice of international business, trade and finance than before, and have learned the benefits of building trust. With the ongoing rationalisation and corporatisation of state enterprises and the expansion of the private sector in the next five years, the learning process that has hitherto been restricted to

enclaves will be generalised. Moreover, compared with most countries of the region Cuba has an extensive infrastructure for effective law enforcement, data collection and tax administration, as well as for the delivery of public services.

Cuba's score on the measure of the development of information and communications technology (5) for the long-term forecast is also less gloomy than the current extremely low level of computer ownership and internet access would suggest. The strategy of providing a nationwide programme to provide ICT facilities in educational institutions and creating an army of computer technicians and software designers before the hardware and connections are available has created the potential for explosive growth in the use of ICT once incomes rise and connectivity is in place. Once the first fibre-optic cable comes in to use by the end of 2011, more will follow. A big question mark hangs over the extent to which the government will allow free use of the internet, but given the nature of the web and the resourcefulness and skills that are in place it is difficult to imagine that Cubans will remain unable to gain access to the information they want. Already, small private businesses have found ways to set up websites and payment systems to circumvent controls, and a rapidly growing proportion of young people have found ways to join the Facebook world.

The forecast for Cuba's terms of trade (7) and impact of the historical legacy of having been a colony (9) are, in this forecast, considered to have little impact. A slight deterioration in Cuba's overall terms of trade (which mainly measures the relationship between the prices of nickel exports and oil and food imports) in 2011-20 is expected to be reversed in 2020-30, giving an overall neutral effect on the long-term forecast. After more than one hundred years of independence from Spain, and having survived the rupture of two post-colonial dependent relationships (with the US and the Soviet bloc) since that time, the influence of Cuba's colonial legacy is considered to have receded.

Forecast: long term and comparative

The lack of population growth will depress the headline real GDP growth rate over the long term relative to countries with faster-growing populations. However, an ageing population and associated rise in the dependency ratio do not prevent Cuba's real GDP growth rate *per head*—the figure that tells us the scope for rising living standards—from showing a relatively strong performance in the forecast. In the medium-term, its GDP growth forecast of 38% puts it above the global average of 30%, but still weaker than the 43% average for non-OECD countries.

The global average growth rate for 2010-2015, at 30%, is the same as the EIU's weighted average for all the countries of Latin America and the Caribbean. For the twenty year forecast, the EIU has no weighted average as it does not forecast all countries of the 12 Latin American and Caribbean countries for which a 20-year forecast is generated, Cuba appears among the top four, along with Brazil, Chile and the Dominican Republic.

In global comparisons, Cuba's projected growth of 172% for the twenty year period 2010-2030 ranks within the top one-third of the 80 countries covered: below India and China, both with growth of more than 200% but a long way above most OECD countries, with growth of around 100% (the US 116%, the UK 98%).

That is, in the EIU model the positives in terms of Cuba's initial level of national income, its resource endowments (particularly in terms of human capital), and policy and institutions (most importantly the trajectory of change) outweigh the negatives.

The assumptions that feed in to the model, as well as the model itself and the usefulness of the exercise, are open to question. It is arguable that a scenario in which not only are there no major political shocks but also no serious economic instability is unreasonably unrealistic. In particular, the economic reform task of the next five years—overhauling the economic system at the same time as realigning the

TABLE 7. GDP per capita/averages, PPP US\$

| | % change, 2010-2015 | % change, 2010-2030 |
|--------------------|------------------------|------------------------|
| Dominican Republic | 33 | 178 |
| Cuba | 38 | 172 |
| Brazil | 35 | 162 |
| Chile | 39 | 156 |
| Costa Rica | 30 | 144 |
| Peru | 36 | 141 |
| El Salvador | 33 | 133 |
| Argentina | 34 | 124 |
| Colombia | 35 | 121 |
| Mexico | 27 | 111 |
| Ecuador | 25 | 103 |
| Venezuela | 15 | 99 |

Source: Economist Intelligence Unit: CountryData

hugely distorted set of prices in the domestic economy—would be a difficult and hazardous one at any time, and with a change in leadership and sudden opening of international communication even more so. However, the aim here has been to present a scenario that is internally consistent, and plausible given the information known at the time of writing. We know Cuba's current economic structure and it is also certain that economic reforms are in the pipeline. The rest is unknown.

EIU reports include a disclaimer: 'All information in this report is verified to the best of the author's and the publisher's ability. However, the Economist Intelligence Unit does not accept responsibility for any loss arising from reliance on it.' This exercise has a similar disclaimer: the forecast presented here is not intended to be relied on, but to offer a useful exercise as a framework for discussion.

*Lorenzo L. Pérez**

Dr. Morris has to be praised for the effort that she has made to spell out possible scenarios of how the Cuban economy will evolve over the short, medium, and long term. In doing this, she relies on her knowledge of the structure and institutions of the Cuban economy, of Cuba's current challenges, and of the economic policy dilemmas facing the Cuban authorities.

Dr. Morris's paper provides information on today's economic conditions in Cuba in a concise manner and clearly highlights the assumptions that she makes in putting together the short term and the medium term scenarios. In reading her paper one can find out what are the economic prospects for Cuba and what are the various risks that the economy faces.

I do not have any major problems with her overall projections for the Cuban economy for the short and medium term. Her projections are sensibly. It has to be pointed out, however, that Dr. Morris uses as a basis for her work the published official statistics of Cuba and, to the extent that these statistics have been manipulated, her projections may have a positive bias. I prefer not to comment on the 20-year projections given the degree of uncertainty in this time frame.

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My comments can be put into two categories: methodological comments and comments on the economic policy assumptions.

Methodological comments

1. The paper states that the projection is based on a model and a set of assumptions. However, no information is provided on the model (the type, its robustness, etc.) so it is very difficult for the reader to assess “how everything hangs together” and whether these are scenarios rather than projections. Maybe the discussion of the model was excluded to make the paper accessible to more readers, but a few pages on the nature of the model could be added to this paper without necessarily making the paper too technical.

2. A more detailed discussion of how some economic variables interact with each other would be useful. For example, how the projections (assumptions) of the projected rise in investment and the pick-up in economic growth comes to mind in this respect. From the information provided by Dr. Morris, it is not possible to form a judgment if the growth projection is a reasonable one given the amount of investment that it is expected to occur in the future. Even if the growth projection is done from the “bottom up” starting at a sectoral level, analyzing the assumed impact of investment on growth would be a useful double check.

3. While the scenarios presented by Ms. Morris give a disaggregated projection of the economy, both from the demand and the supply sides, there are important sectors that do not receive adequate treatment in the paper. Following the practice of the Cuban government only the external current account is discussed in the projections and only a vague reference is made to the availability of external financing from China and Brasil. No explanation is given on the net factor payments which are part of the external current account but which depends on large part on the amount of financing available to Cuba and the results of the recent debt renegotiations. The reader is also left wondering whether the various policy actions assumed in the projec-

tions (e.g., maintenance of the social wage) are possible from a fiscal perspective. The short and medium term scenarios assume explicitly or implicitly a fiscal stance and the fact that the paper does not discuss this is a major omission. The same could be said about the monetary framework that depends crucially on what is the fiscal stance. Whether or not the Central Bank is able to maintain the growth of monetary aggregates under control to keep inflation on check will depend on large part on the amount of credit provided to the government and the scenarios need to address this explicitly.

Comments on the Economic Policy Assumptions

1. An increasing importance of private sector activity is envisaged in the scenarios. However, the paper only asserts that this is going to happen and makes a reference to the “lineamiento paper” prepared for the meeting of the communist party this month. However, the actions taken so far by the Cuban government to open up activities to the private sector are clearly inadequate--the number and the narrowness of activities that have been opened up for the private sector, the potential confiscatory nature of the announced taxes, the lack of appropriate institutions to support private activity, the lack of credit for private activity are some concerns. How to address these problems is one of the most important economic policy question facing the Cuban officials and the discussion of the results of the model does not acknowledge this uncertainty which could seriously undermine the basis for the scenarios.

2. Price liberalization is another thorny issue faced by Cuba at the present time. It is difficult to envisage the economy growing faster unless there is a drastic reduction in central planning mechanisms and prices are allowed to be determined freely to guide the allocation of resources in an efficient way--this is not a matter of ideology but of practicality and rationality. The paper notes that “market forces will have a greater influence on prices in the short run, both through the expansion of the private sector and adjustments of administered

prices.” But my point is that this is not guaranteed. For example, in the lineamiento document it is stated that public enterprises will be allowed to have more say in the prices of their products but under the framework of central planning. It is not clear what this means and private sector activities are unlikely to grow in a significant way unless prices are liberalized first. I understand that Dr. Morris is envisaging in her scenarios what would be a reasonable evolution in policy making in Cuba but the paper could point to the uncertainty still existing regarding price liberalization.

3. The discussion of exchange rate policy appears misguided. The paper assumes that the elimination of the dual currency system will only start happening in 2013 and that once a level of CUC reserves (convertible Cuban pesos supposedly backed by foreign exchange) have been accumulated considered sufficient to underpin exchange rate stability, the Cuban peso's value will be allowed to rise. But clearly given the balance of payments conditions of Cuba, the Cuban peso is overvalued and the initial movement of the value of the Cuban peso versus convertible currencies has to be a devaluation. Perhaps, once economic reforms are implemented and the balance of payments and the reserve position strengthened, the value of the Cuban peso would settle somewhere between the one-to one official parity versus the US dollar and the 25- to- one rate of the unofficial internal exchange rate but as part of the reform effort an effective real depreciation of the peso is needed.

4. The assumption that, as rationed goods are reduced, an adequate level of public services, free housing, welfare benefits and targeted assistance for the most vulnerable households over the medium term are available may be too optimistic. In fact, the paper does not acknowledge the decline in living standards that is occurring in Cuba now and the deterioration that has taken place in basic infrastructure and in education and health services. This has implications for various aspects of the projections. For example, the expectation that there may not be political shocks of the type observed in the Middle East over the medium term may prove to be unrealistic with a decline in

public services. The expansion of exports of medical services may not proved to be realistic because of the ongoing deterioration of medical education in Cuba.

5. The projections assume a very static situation regarding the relations of Cuba with the United States over the medium and long term. It is assumed that no dramatic change is made in US policy versus Cuba. But it would have been interesting to at least explore qualitatively what an unfreezing of relations between Cuba and the United States would imply for the economic prospects of Cuba. The same way that Cuba is taking steps to modify its economic system, it could take steps to improve relations with the United States and improve its economic prospects.

*Pavel Vidal Alejandro**

Primero que todo debo felicitar a Emily Morris por su excelente artículo. Conozco el trabajo de Emily durante su tiempo en Economist Intelligent Unit (EIU), donde creo que se han realizado los mejores análisis de coyuntura de la economía cubana. Ahora, en este artículo, sus análisis se disfrutan más en un lenguaje que no está atado a la frialdad de un reporte de coyuntura. Creo que el artículo logra presentar las mayores fuerzas que podrían definir las tendencias de la economía cubana en los próximos años. Es un trabajo que no se logra con una investigación de unos meses, sino que en este caso, es el acumulado de su monitoreo y evaluación sistemática de la economía cubana por más de una década para los reportes de EIU.

Voy entonces a dividir mis comentarios en tres partes. Primero referirme a los temas metodológicos. Segundo, expresar mi opinión sobre algunos contenidos de las proyecciones efectuadas. Y tercero, hablar sobre la reforma institucional, un aspecto que Emily menciona pero sobre el cual creo oportuno hacer un examen más amplio pues es fundamental para el feliz avance de la reforma económica y que condiciona las predicciones que en el artículo se realizan.

Desde el punto de vista metodológico creo que la principal sugerencia sería recomendar una mejor explicación del modelo que se utiliza

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para la construcción de los escenarios de corto y mediano plazo. Sólo en la proyección de largo plazo se especifica el modelo utilizado. La explicación del modelo no sólo serviría para cumplir con requerimientos académicos sino que permitiría además entender mejor los mecanismos de transmisión que están detrás de las predicciones. Una segunda sugerencia sería la presentación de las proyecciones con bandas de confianza y las probabilidades asociadas. En la medida de lo posible, de acuerdo a la metodología empleada, sería útil poder disponer, al menos en un anexo, de algunas pruebas estadísticas que verifiquen las relaciones que se están utilizando para las predicciones. Esto último tal vez más factible para la predicción de largo plazo donde sí hay un modelo y menos en el corto y mediano plazo donde, al parecer, las relaciones principales consideradas responden a las identidades de las cuentas nacionales.

Mi percepción sobre el escenario de corto plazo es menos optimista que la expresada por Emily (3,5% de crecimiento para el PIB en 2011). Concuerdo en que los impulsos al crecimiento vendrán dados por el lado de la demanda de inversiones públicas y privadas, a partir de los mega-proyectos que planifica el gobierno cubano (polo petroquímico en Cienfuegos, puerto del Mariel, entre otros) y la apertura a la microempresa privada y eventualmente a las cooperativas. Pero no estoy seguro que otros factores negativos no vayan a anular este impulso.

Creo que se le debería otorgar una mayor ponderación al impacto negativo del aumento internacional en los precios internacionales de los alimentos, toda vez que el país mantiene una muy alta dependencia a las importaciones y las reformas en la agricultura no ofrecen aún un despegue del sector. Se ha corroborado empíricamente que las restricciones de balanza de pagos (también llamadas restricciones de divisas) logran explicar un porcentaje importante de la evolución del PIB cubano (Moreno-Brid, 2000, Mendoza y Robert, 2002, Alonso y Sánchez-Egozcue, 2005 y Vidal y Fundora, 2008). Un aumento del precio de los alimentos provocaría una nueva caída en los términos de intercambio similar a la ocurrida en 2008, agudizando las restricciones de

divisas en un país que todavía no logra salir de su crisis financiera doméstica, teniendo ello previsible impactos negativos para el crecimiento económico.

Otro factor negativo para el escenario de corto plazo es el procíclico ajuste fiscal que está efectuando el gobierno como vía inevitable para recobrar los equilibrios macro-financieros. Este factor, al igual que el aumento de los precios de los alimentos, se menciona en el artículo, pero mi criterio es que ambos deberían tomarse con una mayor ponderación. El control de los gastos fiscales, la reducción de subsidios (incluyendo la eliminación gradual de la libreta de racionamiento) y la racionalización del empleo estatal tendría un efecto contractivo no despreciable sobre la demanda, que incluso le ponen un techo a la creación de nuevas empresas privadas y generan presiones deflacionarias. No se debe olvidar el alto peso que tienen los servicios sociales dentro del PIB y que no están exentos del ajuste de los gastos fiscales.

En la elaboración del escenario de mediano plazo, lo que más salta a la vista es la predicción de una revaluación del tipo de cambio del peso cubano en las casas de cambio (Cadeca). Para ello hay un buen argumento, y es que el aumento de la actividad privada generará una demanda adicional de pesos cubanos que presiona a la revaluación de la moneda. Sin embargo, creo que la crisis financiera doméstica y las restricciones de balanza de pagos son más fuertes. Se debe más bien esperar que la convergencia de los tipos de cambio ocurra mediante una devaluación del tipo de cambio oficial en la empresa y no mediante una revaluación del tipo de cambio en las casas de cambio. El tipo de cambio del peso cubano en la empresa se encuentra en el nivel que presentaba en los años ochenta. Por tanto, el mayor ajuste cambiario que deberá enfrentar la economía provendrá de la devaluación de este tipo de cambio llamado oficial y que es 24 veces más fuerte que el tipo de cambio para la población en las casas de cambio.

Finalmente, quisiera profundizar en el tema de la reforma institucional que se esboza en el artículo pero sin dedicársele demasiado espacio, lo cual es natural dado que hay muchos aspectos que están detrás

de los distintos escenarios y para cumplir con los requerimientos de cantidad de páginas deben ser tratados de forma resumida.

Las predicciones más bien optimistas (*best-case scenario*) para el mediano plazo se sustentan en el hecho de que la reforma económica debe generar ganancias de productividad y eficiencia. Pero para que se produzca la reforma económica se necesita avanzar en la reforma institucional, considerando en un sentido amplio la definición del término institución que incluye reglas, valores, creencias y organizaciones. Una vez que el gobierno ha mostrado su disposición a efectuar una reforma económica, creo que es importante mirar hacia los cambios institucionales, hay que ver si se logra gestionar exitosamente el cambio propuesto, en especial, superar las distintas fuentes de resistencia.

Toda reforma lleva ganadores y perdedores y estos últimos, como es natural, ofrecen una resistencia legítima a los cambios. Los desempleados estatales, los jubilados y las familias más dependientes de los subsidios estatales parecen integrar el grupo más vulnerable. Para superar esta resistencia, la política social debe ser capaz de apoyarlos. Cuba es reconocida internacionalmente por sus logros en política social, pero el escenario ahora es diferente, pues por primera vez desde el triunfo de la revolución se está ejecutando una política de ajuste que se plantea, a gran escala y al mismo tiempo, un programa de racionalización del empleo, y de reducción de subsidios y gastos fiscales. Las autoridades económicas no pueden confiarse en los instrumentos y mecanismos que han estado funcionando hasta el momento para la asistencia social.

No es un secreto que la reforma se está llevando adelante sin recursos, en medio de un ajuste económico, de una crisis financiera sin prestamista de última instancia. Hay poco financiamiento para apoyar desde las políticas públicas al nuevo sector privado y cooperativo. Tendrán que subsistir con limitaciones de crédito, insumos y una demanda restringida por el ajuste. Asimismo, es muy estrecho el margen fiscal para la protección de los grupos vulnerables, y apenas quedan recur-

sos para invertir en el desarrollo de capacidades en las organizaciones que diseñan y ejecutan las transformaciones. La gestión del cambio se hace mucho más compleja en este contexto.

¿De dónde saldrían entonces los recursos para la reforma? En el corto plazo, podría ser del nuevo sistema tributario (el fisco debe ser capaz de captar un porcentaje de los ingresos de los ganadores en el proceso de reforma), y también, mediante el programa que se viene implementando a favor de una mayor eficiencia del gasto fiscal que incluye una mejor sistema de asignación de subsidios. En el mediano plazo, los recursos provendrían principalmente de las ganancias de productividad y eficiencia que logre promover la reforma.

Para el avance de la reforma institucional es fundamental que las transformaciones sean creíbles y brinden a los perdedores un horizonte donde ellos también se vean ganadores. Se requiere una mayor definición, no sólo de los temas puntuales que abordan los Lineamientos sino del modelo al que se quiere llegar, se necesita proveer un marco de incentivos bien definido. El VI Congreso del Partido Comunista es clave en este sentido. De este modo, la reforma podría adjudicarse un carácter inclusivo a pesar de que en el corto plazo no todos ganan.

Otro reto de la reforma institucional radica en el cambio de mentalidades. El miedo al cambio de la población es una fuente importante de resistencia. De por sí, las instituciones son resistentes al cambio y tienden a estar atadas por fuerzas inerciales. En los valores y creencias de gran parte de los ciudadanos pesan cincuenta años de un sistema con pleno empleo, subsidios generalizados y muy poca presencia de relaciones mercantiles y formas no estatales de producción.

Otra fuente de resistencia viene ocurriendo desde lo que en Cuba se ha nombrado como "la burocracia". Son los típicos buscadores de renta (rent seeking) que emplean sus energías no en desplazar la frontera del bienestar colectivo sino en mejorar y defender su posición a costa de otros. Las fuerzas inerciales y la mentalidad retardaría también condicionan el comportamiento de la burocracia.

En resumen, Raúl Castro tiene ante sí el desafío de formar consensos y gestionar las tensiones redistributivas para poder conservar la estabilidad del país, pero sin ceder en los cambios que son indispensables para aumentar de forma significativa y sostenible el bienestar de los cubanos, algo imposible de lograr con el modelo actual.

Todo lo anterior le imprimiría a los pronósticos de Emily una mayor incertidumbre muy difícil de cuantificar en un momento donde se avecinan profundos cambios estructurales e institucionales. Es por ello que el ejercicio de predicciones tiene una mayor valía al tratar de organizar los distintos impactos e interacciones entre las principales variables macroeconómicas a partir de definir determinados supuestos, y como dice la propia autora "aim of facilitating debate by identifying factors that will influence performance."