Chapter 18

Macroeconomic Policy in Cuba: History, Problems, and the Agenda for the Future

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ABSTRACT

This chapter examines the evolution of macroeconomic policies in Cuba during the past 25 years. It analyzes the changes in fiscal policy from its wild gyrations in the early 1990s to the period of stability from 1994 to 2004, and to the crisis of 2008 and its sequel. It then examines the strategy of the Central Bank of Cuba and the tension between its anti-inflationary objective and its obligation to finance a substantial part of the fiscal deficit. It also emphasizes the need for new, modern instruments of monetary control, and the need to equip the central bank to become a lender of last resort. Finally, the chapter discusses the current multiple exchange rate system, its discriminatory nature, and its harmful effects on resource allocation, equity, and the interpretation of statistics.

INTRODUCTION

This chapter examines the record of macroeconomic policies in Cuba over the period 1990 to 2013. It analyzes its achievements and difficulties, and then evaluates how these policies should evolve in the future to contribute to the stability and the growth of the Cuban economy. The paper covers three areas: fiscal policy, monetary policy, and exchange rate policy.

FISCAL POLICY

A Brief History

Fiscal policy in Cuba went through considerable changes in the period under review.

- Following the elimination of Soviet aid in 1990, Cuba’s budget deficit surged as the authorities foolishly sought to replace real...
Soviet subsidies with domestic budgetary subsidies financed by monetary expansion (Figure 1). They only succeeded in aggravating an already deep contraction, as the interaction between widespread price controls and high monetary growth resulted in a huge monetary overhang, forced saving, inflationary taxation and extensive rationing.

- In 1994 someone (it may have been Spanish advisor Solchaga or future Cuban Prime Minister Lage, or both) convinced the authorities they were approaching a cliff at a breakneck pace. Somehow, the government agreed and moved decisively to stabilize the economy: subsidies for enterprise losses were slashed and the fiscal position was dramatically improved. In turn, the sharply reduced financing requirement of the government made it possible to lower the rate of monetary expansion.

- From 1995 to 2004 the fiscal position was under control. As shown in Figure 1, the overall fiscal deficit was kept in the range of 2% to 3½% of GDP while the current transactions balance (the overall balance minus government investment) went into surplus, and has remained in surplus ever since except for the crisis year 2008. (This concept of current surplus has some theoretical merits, as it represents the change in government net worth, but its validity hinges crucially on the assumption that government investment is productive).

- In 2004-2005, the government backtracked on many of the measures of liberalization and reform adopted in the previous period, and the overall deficit moved a little above the upper end of its apparent policy range for the first time in a decade. Then, in 2008 during the middle of a world financial crisis, devastating hurricanes, a plunge in the

Figure 1. Overall fiscal deficit and current transactions’ balance (in percent of GDP)