

**THE GREAT
LOCKDOWN AND
THE CUBAN
ECONOMY: FIRST
IMPACTS AND
POLICY
RESPONSES**

- Pavel Vidal Alejandro

Pontificia Universidad Javeriana Cali

pavel@javerianacali.edu.co

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ECONOMIC TREND REPORT

SECOND QUARTER

2020



cuba
standard
ECONOMIC REPORTS

- **Motivation**

- What is the size, sectoral impacts and transmission channels of the COVID-related economic shocks?
- What is the actual space for a fiscal and monetary response?



Common grounds in global challenges

- The synchronized nature of the downturn has amplified domestic disruptions
- Combination of a public health crisis with an economic crisis without any recent precedent. Higher-than-usual degree of uncertainty
- There are supply disruptions due to lockdowns combined with an aggregate demand shock
- Long-lasting negative consequences for livelihoods, job security inequality, and productivity
- The policy recommendation is to act now and with sizable and targeted measures to protect firms and family income
- As economies reopen countries should progressively unwind widespread policy support and shift to facilitate resource reallocation across sectors (structural reforms)



Cuba's additional challenges, and some strengths

- The Cuban economy received Covid-19 shock in a weakened macroeconomic positions due to the previous negative impact of the Venezuelan crisis and the US sanctions
- Limited space to deploy relief programs and expansionary policies.
- High reliance on tourism
- Poor IT infrastructure
- Strengths of the health care system: community-based free universal access, very effective in contact tracing and isolation
- Government experience managing different types of crisis in the past. Strong leadership and national coordination



Policy responses

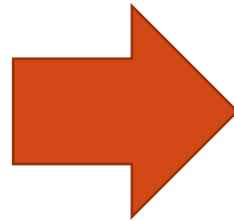
- Partial lockdowns and social distancing measures
- Import compression
- Partial dollarization
- Decentralization and enterprises autonomy
- Fiscal and monetary accommodation (adding temporary tax break and wage subsidies in 2020)
- Foster export of medical services
- Resume structural reforms (execution?)



TRANSMISSION CHANNELS AND SECTORAL IMPACTS (2020): EMPIRICAL STRATEGY

Domestic
social
distancing

Global
recession and
"The Great
Lockdown"

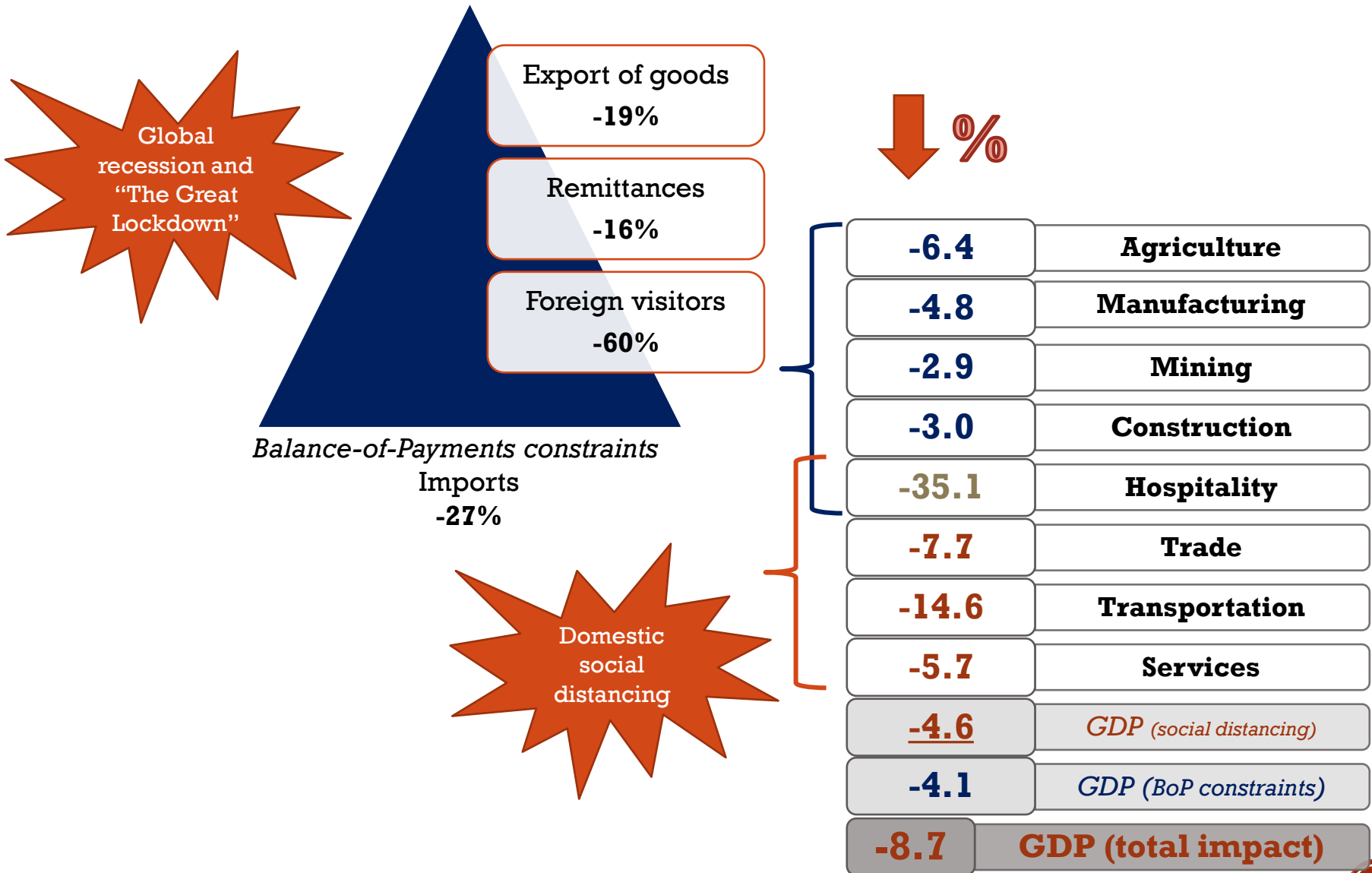


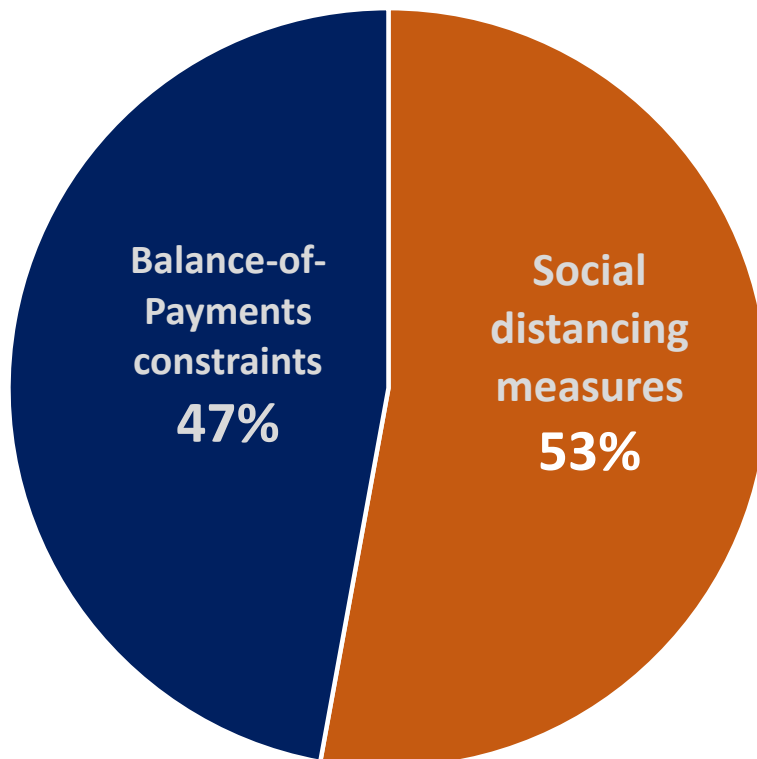
	Agriculture
	Manufacturing
	Mining
	Construction
	Hospitality
	Trade
	Transportation
	Services
	<i>GDP (social distancing)</i>
	<i>GDP (BoP constraints)</i>
	GDP (total impact)

- Consider the situation of each economic sector during the social distancing measures and reopening
- Check out the mirror statistics of Cuban foreign trade
- Estimate the sensitivity of each economic sector to de Balance-of-Payments constraints
- Consider the interconnectedness among the economic sectors



TRANSMISSION CHANNELS AND SECTORAL IMPACTS (2020): ESTIMATION RESULTS





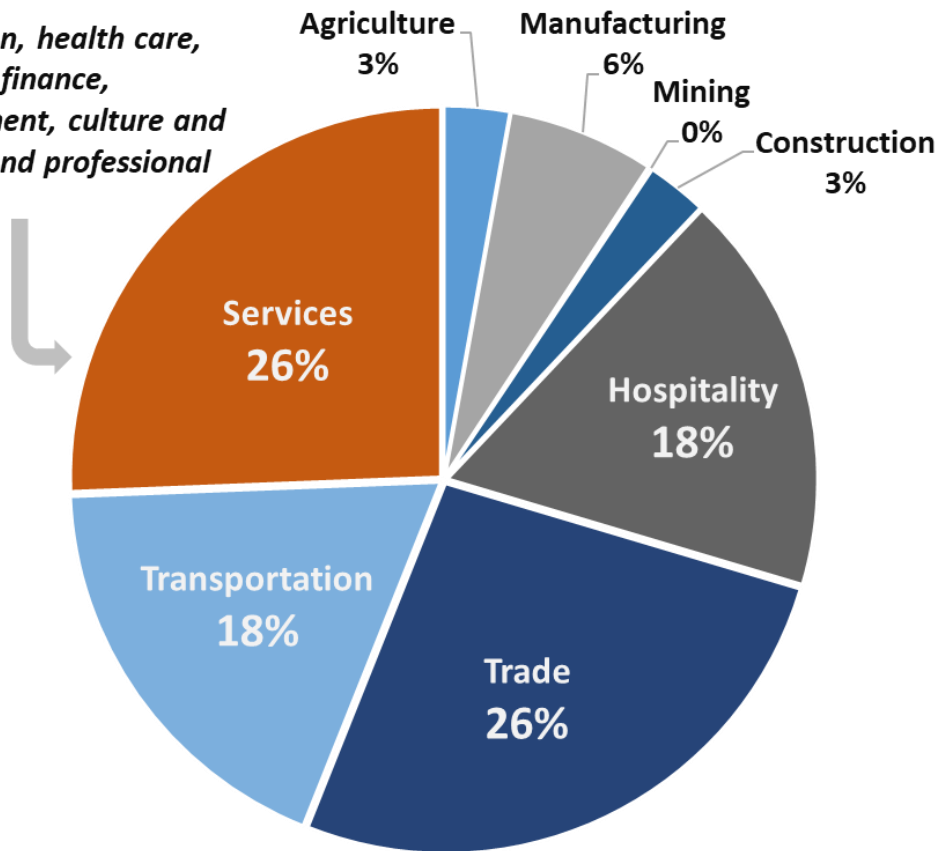
Source: Cuba Standard Economic Trend Report

CONTRIBUTION TO GDP CONTRACTION BY TYPE OF SHOCK (2020)

GDP -8.7%



*education, health care,
utilities, finance,
government, culture and
sports, and professional
services*



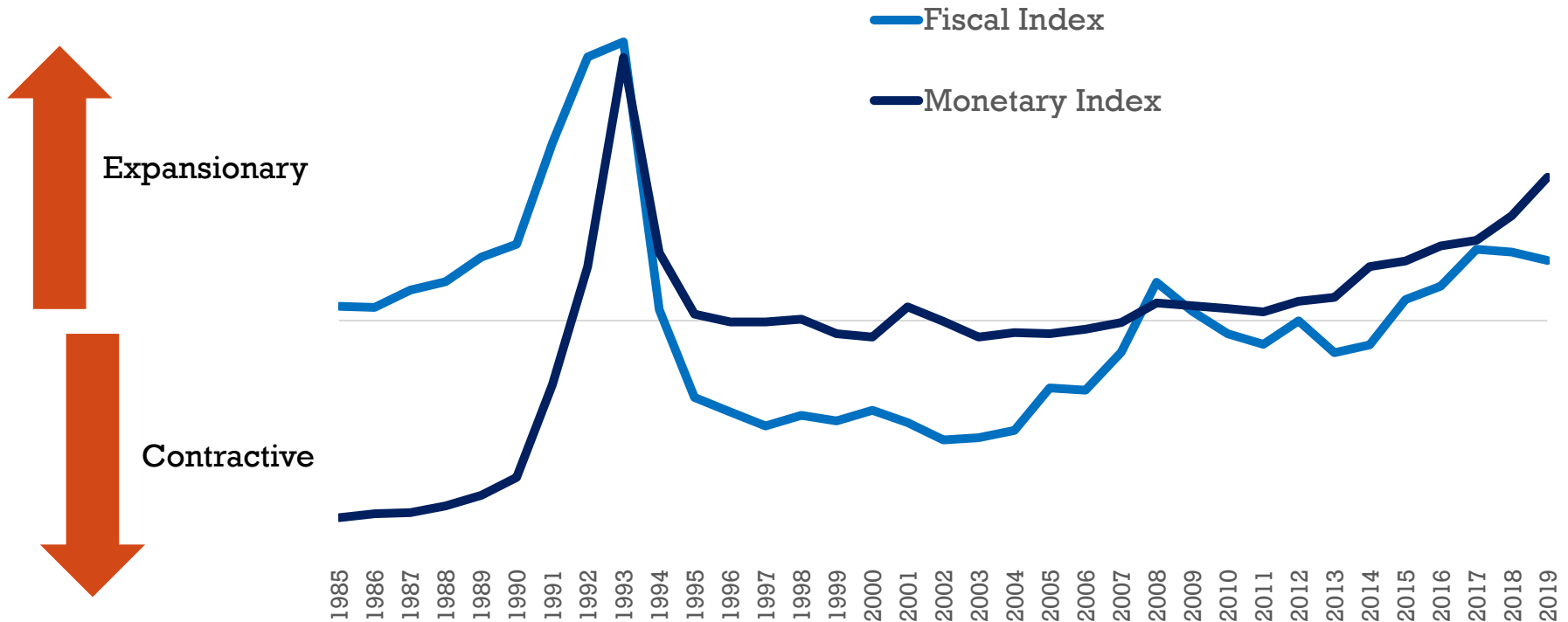
Source: Cuba Standard Economic Trend Report

CONTRIBUTION TO GDP CONTRACTION BY SECTOR (2020)

GDP -8.7%



CUBA: FISCAL AND MONETARY POLICY STANCE



Source: Cuba Standard Economic Trend Report

Fiscal policy Index: Total fiscal expenditure, subsidies to SOEs, fiscal deficit (all three as percentage of GDP) and average salary in the state sector.

Monetary policy Index: Money circulation, individuals' savings accounts (as percentage of GDP) the consumer price index and the exchange rate of the Cuban peso against the US dollar for individuals.



- Cuban GDP is projected to contract -8.7% in 2020 (high uncertainty around this projection). IMF projection for LAC is -9.4% in 2020. Cuban GDP fell 10.7% in 1991.
- Social distancing measures and BoP constraints are equally important in explaining the GDP contraction
- Services, trade, transportation and hospitality account for 88% of total GDP contraction
- Cuba authorities have very limited space to continue accommodating fiscal and monetary policies without risking higher inflation
- The structural reforms should facilitate reallocation of resources toward sectors with growing demand after the pandemic



FINAL REMARKS