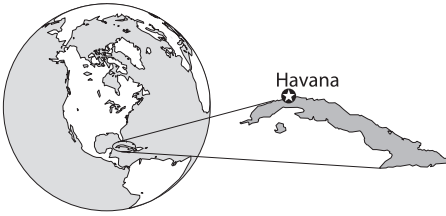


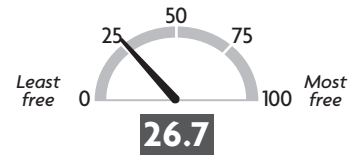
# CUBA



World Rank: **177**

Regional Rank: **29**

## Economic Freedom Score



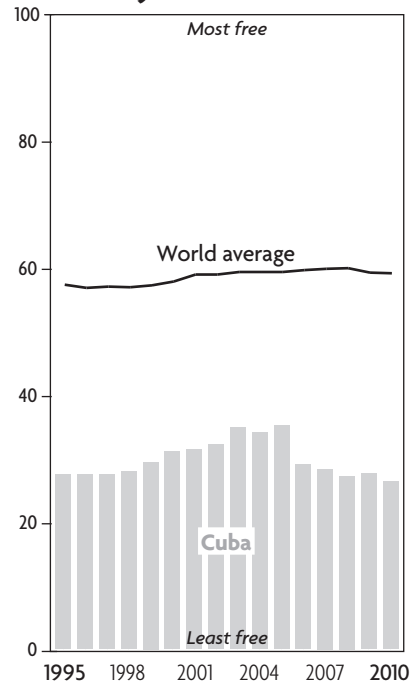
Cuba's economic freedom score is 26.7, making its economy one of the world's least free, ahead of only Zimbabwe and North Korea. Its overall score is 1.2 points lower than last year, reflecting primarily a worsened score in investment freedom. Cuba is ranked at the bottom of 29 countries in the South and Central America/Caribbean region, and its overall score is less than half of the regional average.

Cuba's overall economic freedom remains severely hampered by institutional constraints, and the private sector is very limited. Because the government dictates most economic policies, many aspects of economic activity are tightly controlled by the state. No courts are free of political interference, entrepreneurship is impeded, and private property is strictly regulated. Lack of transparency and excessive regulations limit trade and investment.

The economy performs relatively well in terms of trade and monetary freedom. Cuba has a moderate average tariff rate but maintains very restrictive non-tariff barriers. Inflation is also moderate. In an effort to court foreign investment, Cuba has been building closer ties with China and Venezuela.

**BACKGROUND:** A one-party Communist state with a command economy, Cuba continues to depend heavily on external assistance (chiefly oil provided by Venezuela's Hugo Chávez and remittances from Cubans overseas) and a captive labor force. The regime refuses to allow free elections; restricts freedom of expression, property ownership, and other basic rights; and holds hundreds of political prisoners. In February 2008, Fidel Castro's 75-year-old brother Raul became head of state, but an ailing Fidel reportedly still influences the Communist Party and decision-making from behind the scenes. Little reliable economic information is available, and official figures on per capita GDP may not reflect actual incomes. Damage from hurricanes in 2008, falling revenue from tourism and commodity sales, and an unwillingness to introduce meaningful economic reform have further weakened economic performance.

## Country's Score Over Time



## Quick Facts

**Population:** 11.2 million

**GDP (PPP):** \$108.2 billion  
4.3% growth in 2008  
5-year compound annual growth n/a  
\$9,500 per capita

**Unemployment:** 1.6% (estimate)

**Inflation (CPI):** 3.4%

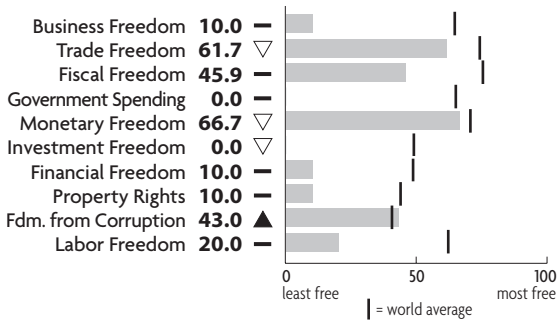
**FDI Inflow:** \$36 million

2008 data unless otherwise noted  
Data compiled as of September 2009

## How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

## CUBA'S TEN ECONOMIC FREEDOMS



### BUSINESS FREEDOM — 10

The overall freedom to start, operate, and close a business remains constrained by the state. Only limited private entrepreneurship exists. Inconsistent and non-transparent application of regulations impedes entrepreneurial activity.

### TRADE FREEDOM — 61.7

Cuba's weighted average tariff rate was 9.1 percent in 2008. The trade regime remains largely non-transparent, customs corruption is common, rules and regulations are burdensome, and imports and exports are dominated by the government. Twenty points were deducted from Cuba's trade freedom score to account for non-tariff barriers.

### FISCAL FREEDOM — 45.9

Cuba has a high income tax rate of 50 percent. The top corporate tax rate is 30 percent (35 percent for companies with entirely foreign capital). In the most recent year, tax revenue as a percentage of GDP was 44.8 percent. Other taxes include a tax on property transfers and a sales tax.

### GOVERNMENT SPENDING — 0

Total government expenditures, including consumption and transfer payments, are very high. In the most recent year, government spending equaled 68.2 percent of GDP. Expansive government employment commitments are an obstacle to sound fiscal management.

### MONETARY FREEDOM — 66.7

Inflation has been moderate, averaging 4.4 percent between 2006 and 2008. Official year-end inflation of only 0.8 percent in 2008 was achieved by imposing price caps in agricultural markets to suppress real food costs; average inflation, which reflects the underlying trend in market prices over the year, was 3.4 percent. The government determines prices for most goods and services and subsidizes much of the economy, although some private and informal market retail activity is not government-controlled. Twenty points were deducted from Cuba's monetary freedom score to adjust for measures that distort domestic prices.

### INVESTMENT FREEDOM — 0

The Foreign Investment Act theoretically guarantees transferability of profits to foreign countries, bans expropriation without compensation, allows transfer of ownership

to other foreign investors, and permits three types of foreign investment: international association contracts, joint ventures, and totally foreign-owned companies. In practice, investment is inhibited by a lack of business policy, arbitrary and non-transparent regulation, discrimination against foreign and private domestic investment, and state control of the economy. Private-sector opportunities are limited. The government is aggressively pursuing recentralization of economic activity and maintains strict capital and exchange controls. Some restrictions have been loosened to permit investment commitments and credit lines from China and Venezuela. There is no foreign ownership of land.

### FINANCIAL FREEDOM — 10

Cuba's financial sector remains underdeveloped, and credit for entrepreneurial activity is seriously impeded by inefficient regulation and bureaucracy. Despite a decade of incremental changes, the government remains firmly in control. The Cuban peso is the domestic currency; a separate convertible peso is required for foreign exchange and nonessential retail purchases. Over a dozen foreign banks have opened offices but are not allowed to operate freely. New products, such as travel and medical insurance and personal pensions, are being introduced. The government established a central bank in 1997 and converted the Banco Nacional de Cuba into one of a new set of state banks. Central bank authority was enhanced in 2005 to allow closer control of the use of hard currency and convertible pesos. Credit and insurance markets remain government-controlled.

### PROPERTY RIGHTS — 10

Cuban citizens may own land and productive capital for farming and self-employment. The constitution subordinates the courts to the National Assembly of People's Power and the Council of State. The NAPP and its lower-level counterparts choose all judges. The law and trial practices do not meet international standards for fair public trials.

### FREEDOM FROM CORRUPTION — 43

Corruption is perceived as significant. Cuba ranks 65th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Customs officials reportedly have requested unauthorized fees or have confiscated the belongings of citizens legally residing overseas who were returning to Cuba after visiting relatives, and senior officials in large state-run tourism organizations have been jailed for corruption.

### LABOR FREEDOM — 20

Rigid labor regulations hinder employment and productivity growth. The formal labor market is not fully developed, and the government-controlled labor market has helped to create a large informal economy. A labor code aimed at improving the efficiency of entrepreneurial activities and providing strict penalties for the use of work time for personal benefit took effect in 2007.