

CUBA

1. General trends

In 2013, the Cuban economy recorded 2.7% GDP growth, lower than in 2012 (3.0%), at a time when the terms of trade were worsening. The prices of exportable products such as nickel and sugar fell while those of various foods imported into the country rose in the international market. Tourism earnings, an important source of foreign currency, increased by 1.9%, although tourist arrivals only went up by 0.5%. Exports of services continued to expand, so that the balance of trade in goods and services closed with a surplus of US\$ 1.256 billion.

On the domestic front, GDP growth was hampered by a lower investment rate than expected by the government. Although it is growing at a rate of 8% a year, fixed investment as a percentage of GDP is still low (at around 12.6%). The fiscal deficit closed the year at 1.2% of GDP, much lower than the expected level (3.6%), mostly owing to the fact that, contrary to projections, spending cuts outpaced the decline in revenues. Lastly, in 2013, inflation stood at 0.6% (average from January to December).¹ GDP growth of 1.4% is projected for 2014; the continuing worsening of the terms of trade, the economic embargo, low productivity and adverse weather conditions remain major obstacles to more dynamic growth. At the sectoral level, the Government of Cuba projects positive outcomes in the sugar industry, the agricultural sector and the sector of hotels and restaurants. However, it forecasts sluggish growth in the manufacturing sector.

For 2014, a fiscal deficit equivalent to 4.7% of GDP is predicted (above 1.2% for 2013) and will be financed through the issuance of sovereign bonds. An important feature of the 2014 budget is that current expenses will increase significantly as a proportion of total expenditures: they are projected to reach 94.4% compared with 88.7% in 2013. This higher figure is linked to a significant increase in the area of export financing and import substitution: 41.4% over the 2013 figure.

Non-agricultural cooperatives (CNA), established in July 2013 in the sectors of construction, transport, gastronomy and light industry, among others, are expected to play a more prominent role in the economy in 2014. By the end of 2013, 198 cooperatives of this type had been set up in Cuba. The State budget for 2013 included the establishment of a development fund that provides collateral for loans. This fund will continue to function in 2014. In addition, the process of monetary unification is continuing in the business sector, albeit without a fixed schedule.

Own-account work is continuing to expand as a percentage of total employment. By the end of May 2014, more than 467,000 people were operating under this regime. Thus, non-State employment accounts for a higher proportion of total employment and now stands at 24.8%. The unemployment rate was 3.3% in 2013 and is expected to remain at more or less the same level in 2014.

In the first quarter of 2014 the government passed the new Foreign Investment Act (which replaces the 1995 act). According to a statement by the Minister of Foreign Trade and Foreign Investment, direct investment of the order of US\$ 2 billion to US\$ 2.5 billion is needed each year to boost

¹ It should be noted that the products marketed in convertible pesos (CUC) are not considered in the calculation of this indicator.

the country's economic development. In addition, the government announced important measures designed to strengthen the autonomy and competitiveness of the State-run enterprises. These include the freedom of companies to set prices for their surplus production, payment of workers on the basis of earnings and the retention of a higher percentage of profits.

2. Economic policy

(a) Fiscal policy

While the government had estimated a fiscal deficit equivalent to 3.6% of GDP in 2013, the deficit at year's end was 1.2%, owing mainly to the fact that, contrary to projections, cutbacks in expenditure outpaced the decline in revenues. Both budgeted and unbudgeted expenditures showed decreases,² as did capital expenditures, albeit to a lesser extent. In relation to projections, non-tax revenues decreased more than tax revenues. Unlike the situation in previous years, 51% of the fiscal deficit was financed through loans from commercial banks and the balance through money creation.

For 2014, a fiscal deficit equivalent to 4.7% of GDP is projected and will be financed through the issuance of sovereign bonds. The Ministry of Finance and Prices will be the entity responsible for issuing the 20-year bonds, which will bear an annual average interest rate of 2.5%. These bonds will be purchased by the Central Bank of Cuba (30%) and national banking institutions (70%).

An important feature of the 2014 budget is that current expenses will account for a higher proportion of total expenditures: 94.4%, compared with 88.7% in 2013. This increase has to do with the significant rise in expenditure on unbudgeted activities, especially in the area of financing for export and import substitution, which is expected to show a 41.4% increase over the 2013 figure: this included the resources allocated to the sugar exports compensation fund (1.718 billion Cuban pesos (CUP)) and the amount set aside for the purchase from agricultural producers of 329,000 tons of rice (1.175 billion Cuban pesos), 40,000 tons of beans (820 million Cuban pesos), 155,000 tons of pork meat (651 million Cuban pesos), 112,000 tons of corn for animal feed (331 million Cuban pesos), 24,000 tons of beef and milk for processing (646 million Cuban pesos) and 21,000 tons of canned vegetables (74 million Cuban pesos), among others. It also highlights the significant reduction in the cost of capital and subsidies for business losses. The development fund for non-agricultural cooperatives, created in 2103, which provides collateral for loans, continues to function in 2014.

(b) Monetary and loan policy

The economy continues to see broader use of the banking system, which began with the entry into force in late 2011 of Decree Law No. 289 and several resolutions covering the granting of credit and the opening of current accounts for individuals, own-account workers, small farmers and other workers of the non-State sector. Similarly, February 2013 saw the entry into force of credit facilities that extend the range of guarantees needed in order to obtain a bank loan, as well as the options for insuring payments. According to Cuban authorities, more than 243,000 individuals had received financing between December 2011 and December 2013 for a total of 2.062 billion Cuban pesos, of which 63.8% was intended for housing construction. In July 2013 credit measures entered into force in support of the non-

² Expenditure on unbudgeted activity refers basically to different types of subsidies designed to cover, for example, losses incurred by State-owned enterprises, as well as subsidies paid to units subject to special treatment, and organizations and partnerships. Other current transfers are also included under this heading.

agricultural cooperatives, in particular for the financing of working capital and investments. By the end of 2013, loans totalling 9.4 million pesos had been granted.

The expansion of liquidity in Cuban pesos (the M2A aggregate (CUP)) in the hands of the population was 7.1% at the end of 2013. The slight amelioration in this indicator is due mainly to the similar trend in cash in circulation. As from October, both cash and savings grew more rapidly, possibly owing to the announcement of the start of the process of monetary unification.

(c) Exchange-rate policy

Progress towards monetary unification is set as a priority in the economic and social policy guidelines adopted in April 2011; it is also recognized that this is a complex process, so that rigorous preparation is needed before implementing it. There was no official statement about the start of monetary union in 2011 and 2012. However, in those years, a different exchange rate was established implicitly for the direct sale of agricultural products to hotels and restaurants dedicated to tourism. At the end of 2011, a different exchange rate was announced for this type of transaction in the Official Gazette of the Government of Cuba (7 Cuban pesos (CUP) = 1 convertible Cuban peso (CUC)). Subsequently, in January 2013, the government increased the amount of compensation from 7 to 9 Cuban pesos as an incentive to producers.

In October 2013, the authorities announced the start of the process of monetary unification. According to the official communiqué, the main changes in this initial stage will affect legal persons. The measures announced included the extension of the option for stores that sell in convertible Cuban pesos to accept payments made with electronic cards denominated in non-convertible pesos. In addition, it was approved that in selected places and on an experimental basis, cash payments in non-convertible Cuban pesos will be made using the exchange rate of Casas de Cambio, S.A. (CADECA): 25 CUP = 1 CUC.

At the beginning of March 2014, three resolutions amending the Cuban accounting standard for transactions in foreign currency and convertible pesos were announced. This was necessary in advance of the imminent signing of the monetary unification decree (referred to as "day zero") and, therefore, the elimination of the CUC. Also, methods were established to enable companies to work out wholesale and retail prices. These regulations are the first price and accounting regulations issued as part of the complex process towards monetary unification.

(d) Other policies

The new Foreign Investment Act was adopted in March 2014 by the National Assembly of the People's Power of Cuba and published in April 2014 along with its rules of procedure. It allows the foreign investor to enter most sectors of the economy (excepting education, health and the armed forces). The government establishes investment guarantees and offers attractive tax benefits to external investors. Under the new law, investors operate in one of the following arrangements: (i) a joint venture; (ii) an international economic partnership contract; and (iii) a fully foreign-owned capital enterprise. It should be noted that this last modality does not enjoy the tax benefits granted to the other two forms of foreign investment.

The government introduced this new Act because, according to statements by the Minister of Foreign Trade and Foreign Investment, Cuba requires direct investment inflows of between US\$ 2 billion and US\$ 2.5 billion per year to boost its development. This initiative comes in the wake of the creation of the Mariel Special Development Zone, decreed by the Government in September 2013, whose main

objectives are: (i) to generate exports and promote import substitution; (ii) to attract foreign direct investment; (iii) to encourage the establishment of national or foreign companies; and (iv) to coordinate its activities with the rest of the economy.

3. The main variables

(a) The external sector

In 2013 the value of goods exports fell by 5.3% and that of imports increased by 6.6%. A number of factors contributed to this outcome. In principle, it was attributable to the lower international price for nickel as well as to the decline in domestic production of this metal due to a shutdown for maintenance at the Che Guevara plant in Holguín. Furthermore, the international sugar price fell and harvest projections were not met. In addition, the prices of many imported food items, accounting for about 20% of total imports, shot up. Therefore, the merchandise trade balance was a deficit which was offset by the surplus on the services balance (due to the export of high value added services), so that the goods and services trade balance ended with a surplus of US\$ 1.256 billion, albeit a lower one than in 2012.

The international prices of nickel and sugar rebounded in the first quarter of 2014 (by 38% and 6%, respectively) compared with the figures at the end of 2013. However, imported food prices for products, such as milk, also rose steeply. International tourist arrivals showed a 6% increase (comparing the period January-May 2014 with the same period of the previous year) and a 10% increase is expected in 2014, so international tourism will need to be more vibrant over the rest of the year in order to achieve this goal.

(b) Economic activity

The official projection for GDP growth in 2014 is 1.4%, one of the main factors being weak manufacturing activity due to financial constraints. The low rate of economic growth is attributable to weak investment flows, compared with the level considered necessary, along with the resurgence of the economic embargo and adverse weather conditions. For 2014, the Government of Cuba projects positive outcomes in the sugar industry, the agricultural sector and the sector of hotels and restaurants. External constraints on growth continue to weigh on the Cuban economy.

The crop-farming, livestock and forestry sector rallied in 2013 (by 2.6%) but will need to exceed this level of growth in the coming years, as it is still plagued by considerable deficiencies. It is hoped that 2014 will see actions on a larger scale, as set out in the economic and social policy guidelines, as this sector is pivotal to the economy. Suffice it to say that 127 of the 169 municipalities are agricultural and that the agriculture sector employs close to 1 million workers (20% of the total work force). In 2014, the farming supply market will be strengthened; in this regard, the free sale of inputs was launched in the special Isla de la Juventud municipality and a supply store is planned for each municipality.

In the economic plan for 2014, it was established that State-owned enterprises would have a greater capacity for implementation. Thus, at the end of April 2014, the modifications and additions to the rules for the establishment and consolidation of the management system for State-owned businesses were published (the previous rules dated back to 2007). These rules are designed to bring the system in line with the new Cuban economic model and to provide greater autonomy to these businesses.

One of these modifications relates to the approval of the corporate plan, which previously was given either by the minister of that sector or by the Chair of the Provincial Administration Board, as appropriate, but at present is the responsibility of the Chair of the Higher Business Management Agency (OSDE). Similarly, it has been established that State-owned businesses are free to set prices for their excess output, once they have fulfilled the State quota. Guidelines on State reserves are also included as well as distribution of after tax profits. State-owned businesses may retain up to 50% of after-tax profits at the close of the year, that is, 20% more than the proportion previously established. In addition, all businesses now have the option of sharing profits among the workers as an incentive for economic efficiency, provided that they have undergone a financial audit during the previous 18 months with satisfactory or acceptable results, that they comply with the guidelines and that the correlation between average income and productivity has not deteriorated.

Business reserves will be used to increase working capital and finance investments and the work of research, development and skills training, as well as to pay back bank loans. In the same way, a compensation fund may be set up to cover financial imbalances in the Higher Business Management Agency and to build up other reserves for specific use by the higher agency. In addition, provision is made for performance-based compensation for workers in State enterprises, subject to certain efficiency indicators and standards, in order to boost worker productivity. In the case of workers of budgeted units, payment based on time has been established as a rule, that is, wages are due on the basis of the number of hours worked.

(c) Prices, wages and employment

In 2013, inflation was 0.6% (average for January to December), below the level in 2012 (1.9%), although this measurement does not include products sold in convertible pesos, since the official statistical institute does not make this information public.

In 2013 and in the first few months of 2014, the number of workers, in particular own-account workers, in the non-State sector continued to rise. Thus, up to December 2013, 447,835 persons were engaged as own-account workers (in October 2010 the figure was 157,000 and in December 2012 it was 362,355 workers). By the end of May, the number exceeded 467,000; 65% of these workers are concentrated in the provinces of Havana, Matanzas, Villa Clara, Camagüey, Holguín and Santiago de Cuba. The main activities that these workers carry out are as follows: labour force hiring (19%), food preparation and sale (12%), goods and passenger transport (10%) and housing rentals (6%). In this way, the weight of non-State employment in total employment increased and now stands at 24.8%. The unemployment rate was 3.3% in 2013 and, according to forecasts, will remain at much the same level in 2014. This year the non-agricultural cooperatives are expected to be an important source of job creation. Up to May 2014, 249 non-agricultural cooperatives had been set up in sectors such as commerce, gastronomy, goods and passenger transport, construction and energy.

In March 2014, the Council of Ministers approved a substantial wage increment for the more than 440,000 workers in the health sector, amounting in some cases to more than double the previous level; the raise was due to become effective in June 2014. Furthermore, the night shift rate for doctors, nurses, technicians and other health workers was doubled. Payments in CUC to medical staff working in missions abroad, in particular in the Bolivarian Republic of Venezuela, will be doubled.

It was also decided to increase economic incentives to high-performance sportsmen and women in Cuba; moreover, the support staff who accompany them, including therapists and masseurs, have been given salary increments as well.

Table 1
CUBA: MAIN ECONOMIC INDICATORS

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a)
	Annual growth rates b/								
Gross domestic product	11.2	12.1	7.3	4.1	1.5	2.4	2.8	3.0	2.7
Per capita gross domestic product	11.0	12.0	7.2	4.1	1.5	2.4	2.8	3.0	2.7
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-11.6	-6.0	18.0	0.6	-0.2	-6.0	4.4	0.7	2.7
Mining and quarrying	0.3	6.5	4.0	3.2	-3.3	7.4	1.4	2.1	-5.2
Manufacturing	1.3	4.7	9.6	5.2	0.9	1.1	3.9	2.2	2.3
Electricity, gas and water	-1.6	3.4	7.9	0.6	0.8	-1.7	2.7	4.4	3.0
Construction	18.9	37.7	-8.6	2.4	0.6	-7.5	-7.3	11.3	13.4
Wholesale and retail commerce, restaurants and hotels	4.7	22.7	0.6	-0.8	2.2	3.1	6.3	5.3	4.5
Transport, storage and communications	8.2	9.1	6.4	6.6	2.5	2.6	3.6	6.2	1.8
Financial institutions, insurance, real estate and business services	1.0	2.8	8.1	3.5	0.9	3.4	2.4	8.0	0.1
Community, social and personal services	30.2	8.0	14.6	7.5	3.2	4.9	0.6	-0.6	0.9
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.6	15.0	4.4	-0.3	1.2	5.9	0.5	1.9	...
Government consumption	10.4	7.9	10.5	2.6	1.7	2.2	-1.2	-0.6	...
Private consumption	0.4	18.7	1.5	-1.8	0.9	7.9	1.4	3.3	...
Gross capital formation	33.0	26.0	2.4	21.9	-19.0	-0.7	7.1	8.6	...
Exports (goods and services)	47.5	1.3	13.8	11.6	3.1	13.8	3.9	1.9	...
Imports (goods and services)	25.8	20.4	-1.1	7.4	-14.9	35.7	-1.9	0.8	...
	Percentajes of GDP								
Investment and saving c/									
Gross capital formation	10.8	11.7	10.2	14.8	10.9	10.6	8.3	...	...
National saving	11.1	11.3	11.0	...	...	...	...	...	...
External saving	-0.3	0.4	-0.8	...	...	...	...	...	...
Other external-sector indicators									
Terms of trade for goods (index: 2005=100)	100.0	126.3	132.9	...	...	...	...	...	...
Net resource transfer (millions of dollars)	-633	-618	-960	...	...	...	...	...	...

Table 1 (concluded)

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
Employment	Average annual rates								
Labour force participation rate d/	72.1	72.1	73.7	74.7	75.4	74.9	76.1	74.2	...
Open unemployment rate d/	1.9	1.9	1.8	1.6	1.7	2.5	3.2	3.5	3.4
Prices	Annual percentages								
Variation in consumer prices (December-December) e/	3.7	5.7	10.6	-0.1	-0.1	1.5	1.3	2.0	0.0
Nominal exchange rate (cuban convertible pesos per dollar)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Implicit nominal exchange rate (cuban pesos per dollar)	26.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	26.5
Variation in average real wage	6.3	13.0	11.6	-1.5	0.1	4.6	3.0	0.2	0.3
Central government	Percentajes of GDP								
Total revenue	44.0	43.2	46.0	49.1	49.1	45.4	46.7	37.4	43.3
Tax revenue	28.7	30.0	27.7	23.3	21.4	17.8	24.0	15.1	22.2
	48.6	46.4	49.2	56.0	53.9	49.0	48.4	41.9	42.1
Current expenditure	38.9	33.6	38.3	45.1	43.0	40.0	40.2	35.9	35.6
Interest	1.2	1.2	1.4	1.4	1.1	1.3	0.0	0.0	0.0
Capital expenditure	7.2	9.1	8.3	8.1	8.2	6.1	5.7	5.6	5.3
Primary balance	-3.3	-2.0	-1.8	-5.5	-3.8	-2.2	...	...	...
Overall balance	-4.6	-3.2	-3.2	-6.9	-4.9	-3.6	-1.8	-4.5	1.2
Money and credit	Percentages of GDP, end-of-year stocks								
Monetary base	31.6	26.0	60.4	31.1	24.5	23.0	...	...	...
M2	45.9	38.1	0.8	41.5	41.3	40.6	...	...	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1997 prices.

c/ Based on values calculated in national currency and expressed in current dollars.

d/ Nationwide total.

e/ Refers to national-currency markets.