

## Cuba

In 2015, Cuba is set to post GDP growth of 4%, up from 1% in 2014 and fuelled by a 3.2% expansion in domestic household consumption. Domestic investment, another driver of the Cuban economy, is estimated to have grown by around 20% in a reversal of the negative rate (-4.9%) recorded in 2014. Public expenditure increased, so the fiscal deficit for 2015 is expected to come in above 4% of GDP. The expectation of better relations with the United States and the easing of certain restrictions announced by the government of that country, have enhanced Cuba's international visibility, with the result that tourist arrivals are looking strong. Nonetheless, the economic, trade and financial embargo remains in place, despite the December 2014 announcement of the restoration of diplomatic relations between the two countries; and the use of the dollar in Cuba's financial and trade transactions continues to be prohibited.

In 2014, the fiscal deficit amounted to 1.813 billion pesos (CUP), representing 47% of the amount approved and equivalent to 2.3% of GDP at current prices. Although this result is founded on revenue growth, it also reflects expenditure that was not executed, and other failures to achieve the activity levels which the State budget had been designed to support. As provided in the budget, the financed and unexecuted portion of the deficit, amounting to CUP 2.077 billion, is taken as advance financing for the fiscal deficit approved for 2015.

This year's widening of the fiscal deficit in relation to GDP (over 4%) is consistent with higher levels of funding for business activity to support import substitution. The deficit will be financed basically by government bond issues taken up by the banking system.

State revenues were boosted by larger contributions from State enterprises (which now enjoy greater autonomy) through profits tax and performance-based contributions, and the stronger growth of non-State management modalities (own-account work and non-agricultural cooperatives), through income tax. As a result, tax revenue obtained from personal income generated almost 6% of total State income and nearly 9% of total tax revenue in 2015.

Measures continue to be adopted in preparation for monetary unification. These include actions to enable individuals to pay for goods purchases in either currency or using a combination of the two, which has made it necessary to issue high-denomination banknotes in Cuban pesos (CUP). The intention is to make the CUP Cuba's single currency, although exactly when monetary unification will occur has not yet been defined. In the meantime, the central bank is working on liquidity control, developing the country's interbank market, and achieving more widespread use of banking services throughout the economy.

Following the approval of the new credit policy in late 2011, by September 2015 over CUP 5 billion had been lent to private individuals. Between January and September 2015 alone, new credit amounted to more than CUP 2 billion, extended mainly to individuals for construction activities (61.2%), small-scale farmers (34.0%) and own-account workers (4.4%). Lending is expected to continue growing as credit conditions are made more flexible.

In 2015, the prices of export products such as nickel and sugar fell, so goods exports posted a year-on-year decline of 14.4% over the period between January and September, while merchandise imports fell by 8.2%. The surplus on services trade offsets the merchandise trade deficit; and income from tourism, in particular, is trending positively, so the current account balance with respect to GDP is expected to record a small surplus.

In the framework of the Foreign Investment Act, which came into force in April 2014, the new investment portfolio was published in November 2015, containing 246 projects, 80 more than in the previous year. Under the Act, 36 new businesses have been approved (including six in the Mariel Special Development Zone), of which 22 involve investments in the hotel sector. In addition, five oil exploration contracts have been signed.

The quickening of economic growth is due partly to stronger household consumption (3.2%), in conjunction with purchases of inputs needed for production in non-State management modalities (own-account workers, non-agricultural cooperatives and small-scale farmers) in retail trade, owing to the lack of a wholesale market. Significantly, people working in these modalities represent nearly 30% of the country's total labour force. Investment also expanded, linked to higher public spending, following the under-execution recorded in 2014.

The sectors sustaining the expansion of economic activity are manufacturing, commerce and construction, which jointly account for 37.5% of GDP. The sugar industry, which generates only a small proportion of GDP, will grow by around 20%, and agriculture by 6%. This sector could have achieved more vigorous growth but for drought damage to several crops, including rice, where a considerable impact is expected. International tourism, which grew by 18% between January and September relative to the year-earlier period, also contributed to the economic upturn.

Inflation, measured in CUP through the consumer price index (IPC), is stable at around 2% (it was 2.1% in 2014). Although the figure rises if the prices of agricultural products in non-State markets are taken into account, it is still between 3.0% and 5.0% per year.

The unemployment rate in 2015 is likely to be around 2.7%, similar to the previous year's level. The minimum wage in 2015 will be CUP 225, with the average wage reaching a level of CUP 658. Productivity and average wage growth are trending positively in a correlated fashion, in accordance with the planned ceiling on wage expenses per peso of value-added.

Own-account activity provides a source of work for 502,000 individuals, 10% of the total employed. Since September 2014, the number of own-account workers has grown by just over 25,800.

In 2016, GDP growth is expected to slightly top 4%, driven by increases in both consumption and investment. Foreign investment is also expected to play a more important role in the growth of the Cuban economy.

#### Cuba: main economic indicators, 2013-2015

	2013	2014	2015 <sup>a</sup>
	<b>Annual growth rate</b>		
Gross domestic product	2.7	1.3	4.0
Per capita gross domestic product	2.6	1.1	3.9
Consumer prices	0.0	2.1	1.7 <sup>b</sup>
Real average wage	0.3	22.3	...
	<b>Annual average percentage</b>		
Open urban unemployment rate	3.3	2.7	...
Central government			
Overall balance / GDP	1.9	0.6	-0.5

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

a Estimates.

b Figures as of September.