

CUBA

1. General trends

Estimates for 2016 point to negative GDP growth (-0.9%) in Cuba for the first time in more than two decades. The second half of the year was especially difficult owing to the restriction in oil shipments from the Bolivarian Republic of Venezuela, the country's main supplier, and to the financial limitations that resulted from income shortfalls linked to non-payment of exports by some of Cuba's most important trade partners. Despite facing inflationary pressures attributable to hikes in several agricultural products, prices were stabilized through a 20% average price cut on 70 basic consumer products, leaving year-on-year inflation at 3.0%. The fiscal deficit is estimated to have reached 7.1% of GDP in 2016 (compared to 5.8% in 2015) and the current account a surplus of approximately 3.1% of GDP. The general unemployment rate came in at 1.9%, or 0.5% below 2015 levels.

Although the former President of the United States of America, Barack Obama, announced the lifting of some restrictions on Cuba in October 2016, the economic, trade and financial embargo is still in effect and remains an obstacle to trade and financial transactions being conducted in conformity with international standards and practices. Although the international community categorically rejects the embargo, there is no sign of it ending in the short term. On 16 June, the President of the United States announced his country's new policy towards Cuba, forbidding its companies to engage in transactions of any sort with companies linked to the Revolutionary Armed Forces of Cuba (especially the Grupo de Administración Empresarial, S.A.), and imposing additional restrictions on American citizens wishing to travel to Cuba. These policy changes will not come into force until the Treasury and the Department of Commerce of the United States have completed their regulatory changes, which could take several months.

ECLAC projections for 2017 point to positive economic growth of around 1% owing to the recovery of international prices for oil, nickel and sugar and, more importantly, to the expected boost in production on the back of an expansionary fiscal policy. The fiscal deficit is projected to come in at 12% of GDP (a level unseen since 1994), public investment should grow 49% —ensuring the continuity or initiation of major hydraulic, roads and housing infrastructure works— and forecasts point to a 26% jump in production-related spending aimed at boosting import substitution. Similarly, foreign investment is expected to increase in 2017 and 2018 in areas such as renewable energy (wind farms and photovoltaic plants) and tourism infrastructure.

2. Economic policy

(a) Fiscal policy

Official figures for public finances in 2016 have yet to be published and will be subject to analysis, after the accounts close, in the corresponding session of the National Assembly of People's Power at the end of the second quarter of 2017. Nonetheless, general estimates are available for certain items: total fiscal income reached 97% of the State's draft budget target in 2016, 1.9% above 2015 levels. Revenues from taxes levied on profits, on services and on personal income exceeded estimates, while external revenue generated by State-owned companies came in below draft budget forecasts. In October 2016, Cuba began implementing a personal income tax regime (IsIP) and a system of special

contributions to social security (CESS) from workers of State-owned companies. Workers earning more than 500 Cuban pesos (CUP) must contribute 5% of their wages to the CESS system, if they receive income from at least one of the following sources: (i) additional payments linked to enterprise perfection activities, (ii) eligibility for performance-related payments, and (iii) distribution of profits to promote business efficiency. The IsIP tax is enforceable for workers who receive more than CUP 2,500 and whose income has also been obtained through one or several of the aforementioned sources. Income tax is set at 3% for the CUP 2,500 – CUP 5,000 income band and at 5% for income over that level.

The public budget approved included funds for rebuilding areas damaged by Hurricane Matthew, providing subsidies for those who suffered material losses, as well as other measures aimed at cutting prices of food and cleaning products, as well as other fiscal benefits for those affected. The fiscal deficit was financed through the issuance of sovereign bonds.

In keeping with its policy of reordering its external debt and meeting its financial obligations, in 2016 the Government of Cuba completed debt payments totalling US\$ 5.299 billion. This should pave the way for future credit negotiations under more favourable conditions, improve Cuba's credibility and, accordingly, attract more foreign investment. The government has acknowledged delays in payments to suppliers of certain products, but is working to resolve that situation as soon as possible. Updated official information is not available regarding the size of total public debt or its share of GDP.

In 2017, fiscal policy is expected to have a strong impact on economic activity through greater production-related spending. Total spending is forecast to grow 11% over estimated execution levels in fiscal year 2016—in order to boost production aimed at import substitution by 26%— while public investment is projected to expand 49%. Social spending allocations are also guaranteed, mostly in health, social care and education, which generally speaking will remain at 2016 levels. Subsidies to initiate housing construction activities¹ will continue to be funded through taxes collected on sales of construction materials.

The revenues and expenditures budget for 2017 forecasts a fiscal deficit of some CUP 11.5 billion, equivalent to 12% of GDP. Public debt is expected to reach a maximum of CUP 14.193 billion by year-end 2017, the equivalent of the 2017 fiscal deficit, plus payments on previously acquired debts payable this year, plus recoverable collateral. Public debt will be financed through issuance of sovereign bonds, acquired by the national banking system, with 1-year to 20-year maturities and an average annual interest rate of 2.5%.

(b) Monetary and exchange-rate policies

The main monetary policy instruments used by the central bank—controlling interest rates and reserve requirements— remained unchanged in 2016. The monetary aggregate M2_A, which includes the CUP and the convertible Cuban peso (CUC), grew 12.1% in 2016, owing mainly to the expansion of international tourism and its impact on the non-State sectors of the economy. Saving by the population and cash in circulation grew more than 10% in 2016, while lending and savings interest rates remained at levels similar to those of 2012. Lending rates in CUC ranged from 4.5% (minimum) to 5.5% (maximum), while rates in CUP ranged from 4.5% (minimum) to 7.0% (maximum). Lending rates for legal persons in CUC ranged from 1.75% (minimum) to 3.25% (maximum), while rates in CUP for State-owned companies undergoing enterprise upgrading stood at 1.0%. Lastly, interest rates for natural persons stood

¹ There are three types of construction activities in Cuba, depending on the main objective: (i) conservation, (ii) rehabilitation, and (iii) emergency.

between 0.50% (minimum) and 4.25% (maximum) in CUC and between 0.50% (minimum) and 7.0% (maximum) in CUP.

Personal and corporate lending continued to expand in 2016. Compared to 2015, loans to individuals grew 27.7% —mostly used for construction materials and labour costs—, loans to self-employed workers grew 77.5% and loans to companies grew 28.5% in 2016.

The exchange rate remains fixed at 24 Cuban pesos (CUP) to one convertible Cuban peso (CUC) for individuals selling to banks and currency traders (CADECA). Work continues on creating the conditions necessary for monetary and exchange-rate unification.

(c) Other policies

The Seventh Congress of the Communist Party of Cuba, held in Havana on 16-19 April 2016, established the main guidelines for changes in the coming years and proposed the foundations of the National Economic and Social Development Plan in alignment with the desired vision for the country: a sovereign, independent, socialist, democratic, prosperous and sustainable Cuba. The Congress defined the strategic pillars and sectors that would enable the proposed objectives to be reached, and examined the resulting updated theoretical basis and key features of the economic and social model for socialist development. It also carried out a detailed assessment of the fulfilment of the Guidelines of the Economic and Social Policy of the Party and Revolution (LPES), which were adopted by the Sixth Congress in April 2011. Importantly, LPES guidelines constitute the roadmap for bringing the Cuban economic model up to date and for the policies that will be implemented in the next five years.

Important principles discussed by the Congress in relation to making management of the economy more efficient included: (i) the introduction of supply and demand rules must not contravene the principle of planning: the two concepts can coexist and complement each other for the benefit of the country; (ii) the socialist principle of the people's property over the means of production was ratified, as was the need to relieve the State of other activities that are non-determinant to the nation's development; and (iii) co-ops, self-employment structures, SMEs and microenterprises are not inherently antisocialist or counterrevolutionary. After the conclusion of the Congress, a broad section of society analysed the documents containing the guidelines for the National Social and Economic Development Plan and the concepts behind the socialist development model. More than 1.6 million people took part in representation of political and collective organizations, and of civil society, enriching both documents with their different contributions. The two documents were adopted at the end of May in an ad hoc session of the National Assembly of the People's Power.

3. The main variables

(a) The external sector

Cuba's largest goods exports are nickel, oil derivatives and, to a lesser extent, sugar. No definitive information on international trade in 2016 has been published yet, but preliminary information points to a decline in exports of goods and services of approximately 16%. Exports of nickel and oil derivatives fell in terms of both volume and prices. Despite the fact that 2016-2017² sugar harvest was up by 20% on the previous year, only 85% of the planned targets were met, owing mainly to adverse weather

² The sugar harvest starts in mid-November and finishes at the end of April, although some sugar mills may continue operating into early May, depending on weather conditions.

events. Revenues from pharmaceutical exports (including biotechnological products) continued their upward trend.

Services represent close to 70% of Cuba's total exports in value terms, of which medical services are the most important; these suffered significant drops in 2016. Tourism continued growing thanks to a 14.5% increase in international visitor arrivals (reaching a record level of 4 million) and a 7% increase in gross revenues, compared to 2015. It is estimated that the net balance of services exports fell 11.8%, owing mainly to shrinking revenues from medical services exports.

With regard to imports of goods, the government's first-half expectations were for a 3.3% decline for the year overall, but the sharp deterioration in the economy in the second half of the year makes it highly likely that official readings will show a sharper fall. Food imports, representing almost 20% of the total, fell by US\$ 1.668 billion and were 14% below original forecasts for 2016. Partly as a result of these factors, the current account surplus was expected to rise to 3.1% of GDP.

With regard to foreign investment, there were approximately 250 foreign companies operating in Cuba towards the end of 2016. Of these, 19 were operating in the Mariel Special Development Zone (ZEDM), with aggregate investments totalling US\$ 923 million; 10 are foreign-owned, 4 are joint ventures with the government, 4 are made up of domestic capital and one operates under the international economic partnership contract modality. Since the new Foreign Investment Act came into force in July 2014, foreign investment has risen to US\$ 1.3 billion. The government acknowledges that this figure, as a percentage of total investment (4.6%), is too low and hopes to increase it through new measures in 2017 aimed at accelerating negotiation processes and signing of agreements with foreign investors. In spite of the slow pace of foreign investment project approvals in 2016, negotiations have picked up in the first months of 2017 and agreements have been finalized for investment projects in renewable energy (wind parks and photovoltaic plants) and tourism. Towards mid-2017 an additional 70 projects were under negotiation.

(b) Economic activity

The fastest-growing sectors in 2016 were hotels and restaurants (thanks to tourism), commerce and telecommunications. Conversely, mining and quarrying, as well manufacturing, posted contractions. Despite the negative impact of adverse weather conditions, agriculture registered a slightly positive growth rate. Sugar production (of little weight in GDP) also fell, with an estimated production of 1.5 million tons. Fuel shipments from the Bolivarian Republic of Venezuela (Cuba's main supplier) were cut early in the second half of 2016, leaving Cuba facing additional limitations during the rest of the year that prevented it from reaching, among other things, its initial investment plans and the import levels needed to support its production targets. Similarly, in 2016 Cuba recorded a decline in revenues from exports of goods (nickel, sugar and oil derivatives) and certain services, and an increase in outlays linked to the restructuring of its external debt.

Official aggregate supply or aggregate demand data have yet to be published for 2016. Preliminary data indicate that private consumption (which includes intermediate consumption)³ continued growing in 2016, while consumption by the State sector declined. Net exports of goods and services were down on 2015 levels, while expectations pointed to moderate growth of gross fixed investment compared to year-before levels.

³ Because the wholesale market is quite limited and small non-State restaurants buy their inputs and products at the same markets as final consumers, final consumption includes intermediate consumption.

(c) Prices, wages and employment

Several agricultural products registered significant price increases in 2016, to which the government responded by ordering a 20% average reduction on the prices of 70 agricultural products, thus facilitating price stabilization. Inflation in 2017 is forecast to be around 3%.

Average wages have gradually increased, in accordance with the general principle of hikes going hand-in-hand with productivity improvements. The average wage in the budgeted State sector grew by CUP 216 in 2015 compared to 2013 levels, and it is expected to rise more in 2016. Average wages are higher in the business sector, at around CUP 800. The general unemployment rate stood at 1.9% in 2016, 0.5% below 2015 levels, with unemployment at 2.0% for women and at 1.8% for men.

Worth noting has been the gradual rise in the number of self-employed workers since this modality was approved towards the end of 2010. In October 2010, self-employed workers numbered 157,300, growing to 540,784 by the end of 2016. In March 2017 (the most recent figure available), the number of self-employed workers had grown to 553,221, equivalent to 9,676 additional workers under this modality compared to the year-earlier period. The main activities in which these workers were involved included: food preparation, freight and passenger transportation, room rentals, telecommunications agents and hired labour (in restaurants, construction and agriculture, among others). In 2016, employment in the non-State sector increased to represent 30% of total employment.

In terms of labour policy, new provisions were introduced on the protection of maternity and childcare rights, aimed at keeping women in the workforce and ensuring their return to work after maternity leave; for example, the minimum monthly maternity benefit cannot be lower than the current minimum wage. These measures will also allow mothers to return to work before their children are one year of age and to combine social benefits with wages, among other benefits. These provisions are linked to measures aimed at improving fertility levels in Cuba, in the framework of the country's population policy. Most recent figures (2015) indicate that the overall fertility rate (children per woman) stands at 1.72, while the gross reproduction rate (daughters per woman) stands at 0.83, one of the lowest in Latin America and the Caribbean.

Table 1
CUBA: MAIN ECONOMIC INDICATORS

	2008	2009	2010	2011	2012	2013	2014	2015	2016 a/
	Annual growth rates b/								
Gross domestic product	4.1	1.5	2.4	2.8	3.0	2.8	1.0	4.3	-0.9
Per capita gross domestic product	4.1	1.4	2.3	2.7	2.8	2.6	0.9	4.2	-0.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.6	-0.2	-6.0	4.4	0.7	4.7	2.2	...	...
Mining and quarrying	3.2	-3.3	7.4	1.4	2.1	-2.3	-0.7	...	...
Manufacturing	5.2	0.9	1.1	3.9	2.2	2.1	-3.6	...	...
Electricity, gas and water	0.6	0.8	-1.7	2.7	4.4	3.7	0.7	...	...
Construction	2.4	0.6	-7.5	-7.3	11.3	7.9	-2.3	...	...
Wholesale and retail commerce, restaurants and hotels	-0.8	2.2	3.1	6.3	5.3	3.4	3.2	...	...
Transport, storage and communications	6.6	2.5	2.6	3.6	6.2	3.2	4.3	...	...
Financial institutions, insurance, real estate and business services	3.5	0.9	3.4	2.4	8.0	2.0	4.6	...	...
Community, social and personal services	7.5	3.2	4.9	0.6	-0.6	1.4	0.7	...	...
Gross domestic product, by type of expenditure									
Final consumption expenditure	-0.3	1.2	5.9	0.5	1.9	3.7	2.8	...	...
Government consumption	2.6	1.7	2.3	-1.2	-0.6	0.8	-1.0	...	...
Private consumption	-1.8	0.9	7.9	1.4	3.3	5.2	4.6	...	...
Gross capital formation	21.9	-19.0	-0.7	8.5	7.2	4.0	-4.9	...	...
Exports (goods and services)	11.6	3.1	13.8	5.5	0.4	1.7	-2.8	...	...
Imports (goods and services)	7.4	-14.9	35.7	1.0	-2.1	6.1	-1.5	...	...
Investment and saving c/	Percentajes of GDP								
Gross capital formation	14.8	10.9	10.1	8.5	8.6	9.4	7.6	...	...
Employment	Average annual rates								
Labour force participation rate d/	74.7	75.4	74.9	76.1	74.2	72.9	71.9	69.1	...
Open unemployment rate d/	1.6	1.7	2.5	3.2	3.5	3.3	2.7	2.4	1.9
Prices	Annual percentages								
Variation in consumer prices (December-December) e/	-0.1	-0.1	1.5	1.3	2.0	0.0	2.1	2.4	3.0
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
Variation in average real wage	0.2	4.5	3.1	0.2	0.5	0.5	22.5	15.4	...
Central government	Percentajes of GDP								
Total revenue	49.1	49.1	45.4	51.4	54.5	43.1	31.3	35.7	...
Tax revenue	23.3	21.4	17.8	24.0	30.6	22.3	19.4	...	...
Total expenditure	56.0	53.9	49.0	48.4	47.8	41.1	30.7	36.2	...
Current expenditure	45.1	43.0	40.0	40.2	32.7	32.6	27.5	31.7	...
Interest	1.4	1.1	1.3	...	...	...	...	...	...
Capital expenditure	8.1	8.2	6.1	5.7	8.8	7.4	3.1	4.1	...
Primary balance	-5.5	-3.8	-2.2	...	...	...	...	...	...
Overall balance	-6.9	-4.9	-3.6	3.0	6.7	1.9	0.6	-0.5	...

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.