

CUBA

1. General trends

Economic growth in Cuba slowed to 1.1% in 2018, following the already meagre 1.8% expansion recorded in 2017. This slower pace of activity reflected reduced visitor flows to Cuba, owing to the impact of Hurricane Irma on tourism infrastructure in late 2017, compounded by the travel restrictions imposed by the United States government on its own nationals and by a moderate fiscal adjustment. As a result, the fiscal deficit edged up to 8.8% of GDP from 8.6% in 2017. The external sector felt the impact of adverse natural phenomena in 2018, along with constraints on input supply, the aforementioned slowdown in tourist arrivals, a downward trend in the international prices of key products, and a weakening of income from professional services abroad.

In keeping with the change in its policy towards Cuba implemented since late 2017, the Government of the United States has tightened the economic and commercial embargo it has maintained since 1962. During 2018, additions were made to the restricted list of entities with which persons and companies under United States jurisdiction may not do business or undertake financial transactions. This includes mainly firms with links to the Cuban armed forces, including the Mariel Special Development Zone and the Mariel and Havana container terminals. In April 2019, it was announced that, for the first time since its enactment in 1996, Title III of the Helms-Burton Act would be allowed to apply, which greatly hinders the chances of attracting foreign direct investment (FDI) to the island. In addition, drastic restrictions were announced both on opportunities for United States citizens to travel to Cuba and on the amounts that may be sent in remittances, which cannot exceed US\$ 1,000 per quarter.

The constitutional reform process that had begun in 2018 was completed in April 2019. Politically, the reform separates head-of-State functions, which will be the responsibility of the President, from those of the head of government, which will rest with the Prime Minister. Power will also be decentralized to the provinces and municipalities. On the economic front, the constitutional reform codifies the recognition of private property and non-State forms of management. It also recognizes the central role of FDI in the development of the national economy.

Given the complex external sector scenario, ECLAC expects economic activity in 2019 to remain at a level similar to that of 2018 in real terms, with a growth rate close to 0.5%. Despite improved prospects for goods exports, the challenges faced by service exports suggest that the overall balance of payments will have worsened by end-2019. The budget for that year envisages a deficit of close to 6% of GDP.

2. Economic policy

Given the hardening of the trade embargo imposed by the United States government, macroeconomic policy was geared towards addressing the constraints imposed by the shortage of convertible currency. This involved transfers aimed at substituting imported intermediate consumer goods for domestically produced alternatives, along with the promotion of exports.

(a) Fiscal policy

The actual deficit is significantly less than the 11.5% of GDP in the budget as initially approved. The discrepancy reflects a smaller-than-expected reduction in earnings from exported professional services and lower-than-expected expenditure on unbudgeted activities, owing to the collapse of sugar production. There were also adjustments in capital expenditure, the buoyancy of which was diminished by administrative difficulties that hindered its implementation, compounded by cash shortages.

ECLAC estimates that total gross income contracted by 0.6% in real terms to 56.6% of GDP, one percentage point lower than in 2017. The lower income reflects a half-percentage-point reduction in tax revenue to 42% of GDP, and an equal contraction in non-tax income.

The main factor underlying the lower tax revenue is the 5.7% drop in real terms in revenues from the merchandise sales tax. Meanwhile, the 1.8% real reduction in non-tax income is due both to a deterioration in the performance of State-owned enterprises and to reduced earnings from the export of Cuban professional services abroad. The latter has been seriously affected by the crisis unfolding in the Bolivarian Republic of Venezuela, which is the main market for such services, compounded by weaker demand from other destinations.

On the expenditure front, ECLAC estimates total spending to have fallen by 0.1% in real terms, which means a reduction of almost half a percentage point to 65.1% of GDP. This mainly reflects the 0.6% reduction in current expenditure in real terms (60.6% of GDP), owing to the 2.5% real contraction in expenditure associated with budgeted activities —mainly health, public administration, education and social security— which was only partly offset by 2.6% real growth in unbudgeted activities. Expenditure on the latter —mainly transfers to public enterprises— had import substitution and export promotion aims. Capital spending growth slowed sharply from the real increase of 18.1% recorded in 2017, to 7.7% in real terms, as a result of which it represented about 4.5% of GDP by the end of 2018.

As has happened in recent years, the government deficit was financed by issuing bonds in the national banking system, with repayment terms of up to 20 years and an average nominal yield of 2.5%, together with financing provided by the Central Bank of Cuba. In 2018, the cost of servicing the debt placed in the domestic market was equivalent to 1.3% of GDP. Cuba does not publish up-to-date figures on the public debt stock.

The 2019 budget envisages a fiscal deficit of 6.187 billion pesos, equivalent to roughly 6% of GDP and nearly three GDP points less than in 2018. This reduction stems from a reallocation of public enterprise financing towards export promotion and import substitution. Starting in 2019, such financing, which largely reflects the distortions that result from the dual currency system, will be provided through the banking system.

(b) Monetary and exchange-rate policy and financial policies

In a context of central planning, characterized by price control and a monetary regime in which two currencies coexist with multiple exchange rates between them, the main tools available to the central bank to manage liquidity are the reference bands for nominal interest rates on loans in both currencies and legal reserve requirements. These remained unchanged during 2018.

Although up-to-date figures are not available, the central bank reports that the growth of the main monetary aggregates slackened in 2018. In 2017, the monetary aggregate M2 grew by 8.1%, to represent

53.8% of GDP. One of the key factors explaining the slowdown is likely to have been weaker demand for cash in response to depressed tourism-related activities, which occupy a large proportion of the self-employed, who display a strong preference for cash. At the same time, bank lending for production activities also appears to have lost momentum.

With a view to simplifying procedures for the approval and execution of projects financed with FDI, in October 2018 a number of regulations governing participation in the national financial system by foreign financial institutions and investors came into force. Cuba does not publish updated figures on the trend of FDI flows or on international reserve balances.

(c) Other policies

Since 1996, successive United States presidents have suspended the application of Title III of the Helms-Burton Act, which codifies the conditions of the embargo imposed since 1962. Title III empowers United States businesses and citizens to bring legal actions in respect of property that was nationalized in 1959. There are currently 6,000 recognized claims amounting to US\$ 8 billion (including interest). Nonetheless, it is estimated that there could be up to 200,000 claims awaiting recognition, for an amount that could reach the tens of billions of dollars. Although the impact on existing ventures that have been financed with FDI is uncertain, the application of Title III as from May 2019 creates a significant disincentive to new FDI in Cuba, which is considered a priority for the country's economic development.

The main foreign investors in Cuba, which include Canada and the European Union, strongly rejected the provision and announced that they would use all measures at their disposal to avoid its application. These include bringing a case against the United States before the World Trade Organization, and leveraging existing legislation that suspends the application of Helms-Burton-related court orders in their respective territories and allows Canadian and European Union firms to lodge counterclaims.

The main effects of the embargo include losses resulting from the lack of access to international markets for Cuban exports, constraints in terms of having to import goods and services from distant markets, and restrictions on access to productive financing due to the impossibility of channelling financial transactions through United States entities. Moreover, the application of the Helms-Burton Act will have an impact on Cuba's already sparse FDI, and also on the consumption and capital formation of self-employed workers who depend largely on remittances from abroad. As a reference, according to official estimates, the trade embargo generated losses totalling US\$ 4.321 billion in 2018, equivalent to 4.2% of GDP.

3. The main variables

(a) The external sector

The trend of the external sector largely reflects the behaviour of tourism-related services. According to official figures, Cuba received 4.7 million visitors in 2018. The increase in arrivals for the year (1.3%) represents a drastic slowdown from the average annual growth of 15.6% recorded in 2015–2017. The slowdown resulted from a 2.2% reduction in the number of Canadian visitors, who represent 23.5% of the total, which was attenuated by the flow of visitors of Cuban origin from the United States and of other Americans who arrived by cruise ship owing to the travel restrictions.

Along with the lacklustre growth in tourist numbers, the shift in the mode of arrival from air to cruise ship has reduced the average number of overnight stays, which dropped from 4.3 nights per visitor

in 2017 to 4.1 in 2018. This explains drops of almost 10% in the occupancy rate and over 5% in nominal income earned from tourism activities. Compounding this is the adverse effect on service exports resulting from weaker demand for Cuban professional services abroad, which has been affected by the difficult economic situation in the Bolivarian Republic of Venezuela, and also by the departure of Cuban doctors from other countries.

In 2018, merchandise exports were hampered by the impact of various meteorological phenomena on the production of key products such as sugar and its derivatives —Hurricane Irma in late 2017, and then, in 2018, Tropical Storm Alberto in May and Hurricane Michael in October. This was further compounded by negative trend of international prices for sugar and nickel, and restrictions on the supply of production inputs. The situation in the export sector has been partially offset by efforts to contain foreign purchases, which have affected capital goods imports in particular.

The first five months of 2019 saw robust 5.9% growth in visitor arrivals relative to the year-earlier period. This expansion is partly explained by a low comparison base, because of the impact of Hurricane Irma on the figures for early 2018; but it also reflects a tentative recovery in tourist arrivals from Canada. Visitor arrivals are expected to slacken over the rest of the year owing to travel restrictions imposed by the United States. As regards exports of professional services, the departure of Cuban doctors from Brazil and decreased demand from the Bolivarian Republic of Venezuela will likely weigh on the aggregate figures.

Although there are no up-to-date figures, the expected recovery in the production of primary goods, together with a rise in international sugar and nickel prices and initiatives that are under way to contain imports, should support a year-on-year improvement in the trade balance by end-2019. Nonetheless, this could be hampered by the United States-imposed restrictions on crude oil shipments from the Bolivarian Republic of Venezuela, which would force Cuba to turn to other sources under less favourable conditions.

(b) Economic activity

According to official information, the economic slowdown in 2018 stems from a contraction in agricultural output, mainly in the sugar sector as a result of the effects of Hurricane Irma in late 2017, and slower growth in services, such as public health and those linked to tourism. These factors were partially mitigated by a recovery in the non-sugar manufacturing industry, which is estimated to have grown by 3.7% (following a 1.8% decline in 2017), and an acceleration from 3.6% in 2017 to 5.7% in 2018 in transport, storage and communications activities, driven by expansion of the coverage of the telecommunications network.

Although demand-side figures for 2018 are not available, sectoral data suggest that the meagre growth during the year reflects a slowdown in the gross investment rate (1.3% in 2017), weaker consumption growth than the previous year's 1.6%, and a deterioration in the contribution made by net exports to overall growth.

Within the framework of the 2019 economic plan published in late 2018, the Cuban authorities projected growth of close to 1% on the basis of an expansion in manufacturing and tourism-related activities. Nonetheless, in view of the effects of the hardening of the United States embargo on tourism flows, the materialization of FDI-financed projects, capital formation in non-State sectors of the economy and the availability of inputs for the production process, ECLAC is forecasting a growth rate of around 0%.

As a result of the slowdown in economic activity, compounded by the restrictions imposed by the trade and financial embargo, shortages of certain foodstuffs have been reported in the first few months of

2019. As a result, the Ministry of Domestic Trade decided to manage the supply of products such as chicken and eggs through a regulated family basket.

Despite the complex economic situation, public policy is expected to continue working along the lines announced in the 2019 plan: export promotion and diversification; more efficient management of investment, including FDI; curtailment of imports; rationalization of new supplier credits, and management of accounts receivable abroad and inventories, which represent a quarter of GDP at current prices.

(c) Prices, wages and employment

Although there is no up-to-date information on the trend of consumer prices, the economic slowdown and the relatively high proportion of administered prices in the economy would suggest that inflation has remained broadly similar to the 0.6% recorded in 2017.

On the employment front, ECLAC estimates that the unemployment rate in 2018 was similar to the previous year's 1.7%. This figure must be interpreted in a context in which the participation rate has fallen by more than 10 percentage points in the five-year period starting in 2012, to a level of 63.4% in late 2017, indicating that an increasing proportion of the working-age population does not engage in economic activity.

As part of the adjustments planned with a view to a future restructuring of the monetary system, public sector labour income is expected to undergo a number of gradual adjustments. At the end of 2018, the average wage of workers in State and mixed-ownership entities was 777 pesos, representing a nominal increase of 1.3% over the previous year.

In December 2018, a set of guidelines came into force on self-employment, which accounts for about 13% of total employment. The main changes include the grouping and modification of authorized activities, a relaxation of limits on the capacity of premises, and a requirement that a proportion of transactions related to self-employment activities be conducted through a bank account.

Table 1
CUBA: MAIN ECONOMIC INDICATORS

	2010	2011	2012	2013	2014	2015	2016	2017	2018 a/
Gross domestic product	2.4	2.8	3.0	2.8	1.0	4.4	0.5	1.8	1.1
Per capita gross domestic product	2.3	2.7	2.8	2.6	0.9	4.3	0.5	1.8	1.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-6.0	4.4	0.7	4.7	2.2	2.5	5.8	...	...
Mining and quarrying	7.4	1.4	2.1	-2.3	-0.7	-2.0	-3.7	...	...
Manufacturing	1.1	3.9	2.2	2.1	-3.6	6.3	-5.2	...	...
Electricity, gas and water	-1.7	2.7	4.4	3.7	0.7	4.3	1.2	...	...
Construction	-7.5	-7.3	11.3	7.9	-2.3	17.0	4.7	...	...
Wholesale and retail commerce, restaurants and hotels	3.1	6.3	5.3	3.4	3.2	6.3	1.0	...	...
Transport, storage and communications	2.6	3.6	6.2	3.2	4.3	6.5	3.4	...	...
Financial institutions, insurance, real estate and business services	3.4	2.4	8.0	2.0	4.6	3.9	1.5	...	...
Community, social and personal services	4.9	0.6	-0.6	1.4	0.7	-0.2	0.5	...	...
Gross domestic product, by type of expenditure									
Final consumption expenditure	5.9	0.5	1.9	3.7	2.8	5.1	2.9	...	...
Government consumption	2.3	-1.2	-0.6	0.8	-1.0	0.0	-0.2	...	...
Private consumption	7.9	1.4	3.3	5.2	4.6	7.4	4.1	...	...
Gross capital formation	-0.7	8.5	7.2	4.0	-4.9	18.3	7.5	...	...
Exports (goods and services)	13.8	5.5	0.4	1.7	-2.8	-0.1	-19.7	...	...
Imports (goods and services)	35.7	1.0	-2.1	6.1	-1.5	10.1	-10.6	...	...
Investment and saving c/									
Gross capital formation	10.1	8.5	8.6	9.4	7.6	9.4	9.6	...	...
Employment									
Labour force participation rate d/	74.9	76.1	74.2	72.9	71.9	67.1	65.2	63.4	63.8
Open unemployment rate d/	2.5	3.2	3.5	3.3	2.7	2.5	2.0	1.7	1.7
Prices									
Variation in consumer prices (December-December) e/	1.5	1.3	2.0	0.0	2.1	2.4	-3.0	0.6	2.4
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
Central government									
Total revenue	45.4	51.4	54.5	43.1	31.3	33.5	33.5	...	...
Tax revenue	17.8	24.0	30.6	22.3	19.4	0.0	...	...	...
Total expenditure	49.0	48.4	47.8	41.1	30.7	33.9	33.9	...	...
Current expenditure	40.0	40.2	32.7	32.6	27.5	29.7	29.7	...	...
Interest	1.3	0.0	0.0	...	...	...	...	...	...
Capital expenditure	6.1	5.7	8.8	7.4	3.1	3.9	3.9	...	...
Primary balance	-2.2	...	0.0	0.0	...	...	...	...	...
Overall balance	-3.6	3.0	6.7	1.9	0.6	-0.4	-0.4	...	...

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.