

## Cuba

Cuba's GDP grew 1.3% in 2014 (versus 2.7% in 2013). While the agricultural and construction sectors continued to do well, activity in manufacturing (except the sugar industry) and mining and quarrying was down. Nickel production declined, owing in part to maintenance work on the Che Guevara plant. The sugar industry grew less than the government had planned, because of low yields, bad weather and logistical issues. The lack of financing for the necessary investments in technology upgrades –and the economic, financial and trade embargo, still in place in spite of the recent announcement restoring diplomatic relations between the United States and Cuba– exacerbates the external constraints on expansion and act as structural factors that keep the Cuban economy from reaching its growth potential.

In the second half of the year the new Foreign Investment Act came into force. In order to attract foreign capital, the act made a portfolio of 246 investment projects amounting to US\$ 8.700 billion available to foreign investors.

In keeping with the economic and social policy guidelines aimed at increasing the non-State-owned sector's share of total employment, 314 non-farm cooperatives were operating as of September. Most of them were concentrated in the commerce, hotel and restaurant sectors and in the repair of personal effects. Non-State sector jobs account for 26% of total employment. The process of rationalizing public expenditure, supporting enterprise capitalization and separating business-related and State-related functions within ministries continues.

The draft State budget for 2014 was based on GDP growth of 2.2% and a fiscal deficit of 4.7% of GDP, with 70% funded by secondary issues and 30% funded by primary issues (both in 2.5% 20-year bonds) purchased by commercial banks and the central bank, respectively. Slower economic growth brought revenue shortfalls and non-execution of some expenses, leading to an estimated fiscal deficit of around 3% of GDP. Budget priorities include supporting agricultural activity (including the sugar sector) and cutting back the spending earmarked for budgetary units.<sup>1</sup> The subsidy to ensure local availability of food (rice, beans, pork, milk and sugar, among others) therefore increased by 24.6% between 2013 and 2014. Meanwhile, spending on budgetary units decreased by 1.6% compared with the figure for 2013, although it might be somewhat higher due to pay hikes in the public health sector.

The decentralization process seeking financial autonomy for local governments continues. To this end, in 2015 the property tax for local development will begin to apply to all municipalities (at present it only applies to three). The self-employment tax and the tax on non-agricultural cooperatives are expected to increase in 2015, to 11% of gross income.

Since the October 2013 announcement of currency unification, the composition of individual savings has been shifting from convertible pesos (CUC) to Cuban pesos (CUP). One of the current monetary policy objectives is to increase participation in the formal banking system. The number of current accounts increased in both CUC and CUP because own-account worker and non-farm cooperative accounts operate with checks and cards. With regard to lending, as of the end of September 378,011 loans amounting to 3.231 billion pesos had been granted; 63% of these loans were for housing construction work.

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<sup>1</sup> Some examples are social security, education, public health, social welfare, culture and sports.

In October 2014, the International Financial Action Task Force announced that Cuba was no longer subject to its monitoring process, in recognition of the country's efforts to prevent money laundering and terrorist financing.

External debt servicing and the fact that Cuba is not a member of international financial institutions have held its current account balance to GDP ratio at about 1% in recent years. In addition, tourist arrivals were dynamic, posting a growth rate of 5.3% in 2014. Exports of medical and biotechnological services keep growing (in 2014 revenue from services will total about US\$ 12.000 billion), and progress continues to be made in diversifying destination markets. Exports of goods are set to reach US\$ 5.500 billion. Food imports, which account for about 20% of total imports, stood at US\$ 2.057 billion.

In 2014, Cuba continued to look for a realistic solution for its external obligations to its creditors and managed to restructure its short-term debt with the Netherlands insurer Atradius, some Japanese companies and other trade creditors. This was a continuation of restructuring efforts in previous years involving cross-obligations with the Russian Federation, official short-term secured debt with Japan and private entrepreneurs, as well as with Mexico (which pardoned a substantial portion) and China (Cuba's second-ranking trading partner and its main source of funding). Negotiations for an agreement on short-term secured debt with other European insurers are nearing completion.

Growth in the agricultural sector (which employs about 20% of the population) and construction was not enough to offset declines in manufacturing, quarrying and mining activity. While investment continued to show positive growth rates, its share of GDP is still low (14%).

The agricultural sector received special attention, for reasons of food security and import substitution. In 2014 more than US\$ 2.000 billion dollars was spent on importing food. According to official figures, in the first half of the year the agricultural production volume index (which excludes sugar cane and small home and lot gardens) was 17.6% higher than in the same period in 2013. Crops such as corn, beans, rice, meats, vegetables and tubers and roots were up by between 15% and 17%. Milk production held steady, but production of tomatoes, onions, peppers and citrus declined –onions and tomatoes by more than 10% in the first half of the year. Agricultural sector growth during the second half of the year is not forecast to be as robust as in the first half, because the planting season begins in September.

The unemployment rate is set to remain between 3.3% and 3.5% for 2014 (in 2013 it was 3.3%). The number of own-account workers continues to rise and totalled 476,197 at the end of September 2014 (50,000 more than in 2013).

Prices are rising as subsidized items are removed from the ration book system, triggering adjustments in supply and demand (especially for agricultural products). Prices are expected to stabilize in the short term, so inflation is forecast to be close to 3% at the end of 2014.

#### Cuba: main economic indicators, 2012-2014

	2012	2013	2014 <sup>a</sup>
	<b>Annual growth rate</b>		
Gross domestic product	3.0	2.7	1.1
Per capita gross domestic product	3.0	2.8	1.1
Consumer prices	2.0	0.0	1.2 <sup>b</sup>
Real average wage	0.5	0.5	...
	<b>Annual average percentage</b>		
Open urban unemployment rate	3.5	3.3	...
Central government			
Overall balance / GDP	-4.5	1.2	-0.3

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

a/ Estimates.

b/ Figures as of September.