

CUBA

1. General trends

Cuba's gross domestic product (GDP) grew by 1.3% in 2014, down from 2.7% in 2013. This performance reflected real-term falls in both exports and imports of goods and services and, to a lesser extent, in government consumption. Positive growth in both investment (although at a rate lower than planned) and private consumption, however, helped to boost GDP.

GDP growth of 4% is forecast for 2015, chiefly on the back of a rise of over 20% in domestic investment. This would be similar to the level seen in 2008 and the highest in five years.

To improve investment implementation, something that had suffered from organizational deficiencies in previous years because of an inadequate legislative basis, the government applied the general standards and regulations for organizing investment that had been developed following approval in May 2013 of a policy for improving these provisions. The measures concerned are intended to make investment more efficient, rational and comprehensive. To that end, article 5 of Decree No. 327, which entered into force in early 2015, lays down the regulations governing the investment process, with a view to strengthening this.

On the fiscal front, the government expects to run a deficit of 6.2% of GDP (as against 4.1% in 2014), with public spending growing by 10% and revenue by 6%. In line with the implementation schedule for the tax law, a 2% levy on wholesale sales will be applied and the local development property tax will be extended to all municipalities.

Internationally, the announced resumption of diplomatic relations between Cuba and the United States and Cuba's removal from the State Department's list of countries sponsoring terrorism are steps in the right direction, but fall short of normalizing relations between the two countries. It should be stressed that the United States economic, trade and financial embargo against Cuba remains in force, preventing trade from being conducted in accordance with international trading rules.

2. Economic policy

(a) Fiscal policy

The draft State budget for 2014 was predicated on GDP growth of 2.2% and a fiscal deficit of 4.7% of GDP, with 70% of this to be funded by secondary issues and 30% by primary issues of 20-year bonds with an average annual interest rate of 2.5%, purchased by commercial banks and the central bank, respectively. However, the year is estimated to have ended with a fiscal deficit of 4.1% of GDP.

The priorities of the 2014 budget included support for farming (including sugar farming) and increased spending on budgeted activities.¹ The subsidy designed to ensure local availability of food (rice,

¹ Budgeted activities are those undertaken by units and institutions of the Cuban socialist State in areas such as public health, education, culture and sport as part of their respective missions, to meet the needs of the population. To that end, they receive the necessary funds from the budget in accordance with their position in the administrative hierarchy.

beans, pork, milk and sugar, among other things) by promoting import substitution thus increased by 44.6% between 2013 and 2014. Meanwhile, spending on budgetary units rose by 5% on 2013 levels, with growth of 2.5% expected in 2015. The decentralization process also continues, with the aim of giving local governments fiscal autonomy. To this end, in 2015 the property tax for local development will start applying to all municipalities (in 2014 it applied to only three). In 2015, tax raised from own-account workers and non-agricultural cooperatives, along with agricultural producers, is projected to increase by 12% from 2014, thus accounting for 5% of gross revenue and 7% of overall tax revenue.

In 2014, Cuba continued to address the issue of arrears in payments owed to external creditors and succeeded in restructuring some of its obligations, such as official short-term debt owed to credit insurers in the Netherlands (Atradius) and the United Kingdom (UKEF) and to other trade creditors. This was a continuation of restructuring processes concluded in previous years, such as those involving cross-obligations with the Russian Federation, official short-term debt owed to insurance agencies in Europe and Japan, and debts to other creditors in Mexico and China and private sector companies in Japan. In more than a few cases, substantial debt write-downs have been secured.

The fiscal deficit for 2015 is chiefly attributable to current spending, although capital spending and transfers have also increased significantly (30.3%). While a significant proportion of current expenditure goes on incentivizing local production of goods, a considerable amount is spent on unbudgeted activities.²

In 2015, there has been progress in strengthening the economic and financial situation of State enterprises by allowing them to retain the resources to capitalize themselves as necessary, reducing transfers of funds for working capital as a State budget item. Until 2013, State enterprises could retain no more than 30% of their after-tax profits, a share that was increased to 50% in 2014. Another measure taken with effect from 2014 to increase their liquidity was that depreciation and amortization of fixed assets ceased to be charged to them, so that they can now use these resources to finance investment and equipment, for instance.

Lastly, resources in the amount of 50 million pesos have been set aside since the 2014 budget for a fund to stimulate production development. In particular, this fund is intended to stimulate the production and services sector, which also encompasses non-agricultural cooperatives.

(b) Monetary policy

The announcement of monetary unification in October 2013 heralded a shift in the composition of people's savings from convertible Cuban pesos (CUC) to Cuban pesos (CUP). Cash in circulation increased significantly from 2013 to 2014, as did sight deposit and current accounts. The new credit policy adopted in late 2011 and consolidated in early 2013 has led to a gradual increase in lending to the population, something that has also been boosted by the dynamism of the non-State sector of the economy in the form of own-account workers, small farmers and non-agricultural cooperatives. Some 243,000 loans totalling over 2 billion Cuban pesos were thus granted up to December 2013. Up to October 2014 (the latest month for which data are available), a total of 378,011 loans worth 3.231 billion Cuban pesos were granted.

Activity in the non-State sector has helped increase the number of current accounts in both convertible Cuban pesos and Cuban pesos, and the ratio of bank deposits (sight savings deposits, current

² Spending on unbudgeted activities essentially means various types of subsidies covering, for example, the losses of State enterprises and subsidies to budgetary units qualifying for special treatment, organizations and associations. It also includes the "other current transfers" budget item.

accounts and time deposits) to GDP rose from 23.9% to 26.7% between 2013 and 2014. This increase in bank usage reflects a shift away from cash and towards savings, and does not necessarily mean that liquidity is more abundant. Similarly, the increase in liquidity in Cuban pesos comes as a result of the shift from one national currency to the other because of expectations following the announcement of monetary unification. Total M2A (taking pesos and convertible pesos together at the relevant exchange rate) grew at a pace similar to that of previous years.

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.

(c) Exchange-rate policy

The government announced in late October 2013 that the dual currency system was to end, indicating that the principal changes in the first stage of the process would concern legal entities. The start of the implementation timetable was also notified, although the timetable itself was not made public. In March 2014, resolutions on prices and accounting methods to be implemented once abolition of the dual currency was decreed were made public, and wholesale and resale pricing methodologies for legal entities were likewise established.

In the run-up to monetary unification, steps have been taken to enable people to buy goods and merchandise in either currency without distinction (or a combination of the two), making it necessary to issue large-denomination Cuban peso banknotes. The purpose of all these measures is to establish the Cuban peso as the country's sole currency. It has still not been decided when monetary unification will actually occur, but work to prepare for it has been under way since the announcement.

(d) Other policies

The Cuban Government has overhauled its foreign investment policy with a view to attracting investment financing and thereby increasing the rate of gross capital formation and boosting the economy.

Eleven priority sectors for attracting foreign capital have been identified, including agrifood, industry in general, renewable energy, tourism, oil and mining, construction and the pharmaceutical and biotechnology industry, as have 246 investment opportunities. All this information has been published in a portfolio of opportunities that is to be updated each year. At the same time, a new and more attractive legal regime has been set up, with substantial fiscal incentives and guarantees for investors.

The announcement of the restoration of diplomatic relations between Cuba and the United States also specified measures to lift some restrictions on remittances and travel to Cuba, which came into effect on 16 January 2015. Of the 12 categories of authorized travel, the rules concerning business trips and academic visits have been loosened, and travellers may now bring up to US\$ 400 worth of Cuban products through customs as souvenirs, of which US\$ 100 worth may be tobacco products and rum.

As for remittances, the amount of money that American citizens may send to people in Cuba has been increased from US\$ 500 to US\$ 2,000 per quarter. Travellers going to the island on one of the 12 categories of authorized trips may now also take up to US\$ 10,000 into the country with them, a large increase on the previous limit of US\$ 3,000.

Nonetheless, the United States economic, trade and financial embargo on Cuba remains in force, preventing trade from being conducted in accordance with international trading rules. For example, Cuba is still debarred from entering into international transactions in United States dollars and United States banks are prohibited from maintaining correspondent banking relationships with their Cuban counterparts, Cuban exports remain banned in the United States, and subsidiaries of United States companies based in third countries are still forbidden to trade with Cuba. What is more, exports of agricultural goods from the United States to Cuba remain subject to a number of conditions laid down by a 2000 law, which prevents United States exporters from providing credit and requires advance payment in cash, among other restrictions preventing normal trade.

3. The main variables

(a) The external sector

External debt servicing and the fact that Cuba is not a member of the international financial institutions have held its current account surplus at about 1% of GDP in recent years. The country's goods trade was in deficit by 7.927 billion Cuban pesos in 2014 (which was less than in 2013). The export sectors suffering the steepest falls were citrus fruits, alcoholic drinks and cement, while some exports of goods such as fresh fish and seafood and honey registered positive growth. Meanwhile, imports of intermediate goods fell by 15.1% and those of consumer goods rose by 4.5%.

The goods and services trade balance remained positive in 2014 at an estimated US\$ 1.591 billion, 47% less than in 2013. This positive result was possible thanks to exports of services, chiefly health care and tourism, which account for 70% of total exports, and remittances. 2015 is expected to end with a trade surplus of around US\$ 1.378 billion and a current account that is practically in balance. In the first five months of the year, tourist arrivals were up by 15.3%. The United States Government continues to impose some restrictions on travel to Cuba by United States citizens.

The changes announced in the rules governing remittances to Cuba are expected to push these up to an annual US\$ 1.8 billion or so in 2015.

(b) Economic activity

GDP growth slowed to 1.3% in 2014 from 2.7% in 2013. By sector of activity, farming, sugar, and business services and real estate and rental activities maintained positive growth rates of 2.0%, 4.2% and 4.9%, respectively, while basic services and other services closed the year with growth of 3.6% and 2.5%, respectively. Manufacturing industry, construction, and mining and quarrying, meanwhile, contracted by 3.8%, 2.3% and 1.4% respectively.

Growth in the farming sector was held back by droughts that affected, for instance, the production of rice (thus obliging Cuba to set aside significant sums of money to import this), and by a blight that had a major impact on citrus fruit production. Plans for 2015 include expansion of 4% in the farming sector, with substantial growth in rice production, but around US\$ 2.2 billion in food imports are also expected in 2015 (up from US\$ 2.1 billion in 2014).

The sugar industry grew by less than the government had planned because of low industrial output, bad weather and logistical issues, while nickel production was down, due in part to maintenance works at the Che Guevara plant.

Cuba's GDP is projected to grow by around 4% in 2015. The government expects positive growth in industry (of the order of 11% or 12%), sugar (22%), construction (15%), commerce (8%) and hotels and restaurants (7.6%), on the back of a planned annual investment increase of more than 20% and buoyant growth in the non-State sector of the economy. Planned investment includes building projects in the tourism sector, modernization of the port of Santiago, improvements to the air terminals serving Havana and investments in the Mariel Special Development Zone.

The projected 4% GDP growth also relies on greater income from tourism (tourist arrivals were up by 15.3% in the first five months of the year) and increased production in many sectors of the economy, such as manufacturing industry, construction, commerce, farming, stockbreeding and forestry, an outlook supported by increased access to external financing in the wake of the debt restructuring agreements that the government began negotiating some years ago.

(c) Prices, wages and employment

The average inflation rate in 2014 was 2.5%, and this is expected to hold steady in 2015. The goods and services chosen to make up the consumer price index, which is used to calculate official inflation, are those most representative of people's consumption. This basket comprises a group of universally available price-controlled basic products and services, together with a number of variable or unregulated goods and services (centrally controlled convertible Cuban peso-denominated prices are excluded from this indicator).

While the number of people in employment rose only slightly (by 1.0%), the unemployment rate fell from 3.3% to 2.7%, since the economically active population grew more slowly (0.4%). The number of own-account workers has continued to swell, however. Thus, there were 483,396 people working on this basis at the end of December 2014, but 499,452 in April 2015. The latter figure includes workers in catering, commerce and services units that were previously run by the State and are now operated by non-agricultural cooperatives or private individuals. Thus, 28% of all workers in Cuba are now in the non-State sector of the economy.

The average monthly wage in Cuba increased by 24% in nominal local-currency terms between 2013 and 2014. However, this nominal increase is less pronounced in real terms given that, for example, the implicit GDP deflator rose by nearly 6% between 2013 and 2014.

Table 1
CUBA: MAIN ECONOMIC INDICATORS

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
	Annual growth rates b/								
Gross domestic product	12.1	7.3	4.1	1.4	2.4	2.8	3.0	2.7	1.3
Per capita gross domestic product	12.0	7.2	4.1	1.4	2.4	2.8	3.0	2.8	1.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-6.0	18.0	0.6	-0.2	-6.0	4.4	0.7	4.7	...
Mining and quarrying	6.5	4.0	3.2	-3.3	7.4	1.4	1.9	-2.4	...
Manufacturing	4.7	9.6	5.2	0.9	1.1	3.9	2.2	2.1	...
Electricity, gas and water	3.4	7.9	0.6	0.8	-1.7	2.7	4.4	3.7	...
Construction	37.7	-8.6	2.4	0.6	-7.5	-7.3	11.3	8.0	...
Wholesale and retail commerce, restaurants and hotels	22.7	0.6	-0.8	2.2	3.1	6.3	5.3	3.4	...
Transport, storage and communications	9.1	6.4	6.6	2.5	2.6	3.6	6.2	3.2	...
Financial institutions, insurance, real estate and business services	2.8	8.1	3.5	0.9	3.4	2.4	8.0	2.0	...
Community, social and personal services	8.0	14.6	7.5	3.2	4.9	0.6	-0.6	1.4	...
Gross domestic product, by type of expenditure									
Final consumption expenditure	15.0	4.4	-0.3	1.2	5.9	0.5	1.9	3.0	...
Government consumption	7.9	10.5	2.6	1.7	2.2	-1.2	-0.6	0.8	...
Private consumption	18.7	1.5	-1.8	0.9	7.9	1.4	3.3	4.1	...
Gross capital formation	26.0	2.4	21.9	-19.0	-0.7	8.5	7.2	8.0	...
Exports (goods and services)	1.3	13.8	11.6	3.1	13.8	5.5	0.4	1.7	...
Imports (goods and services)	20.4	-1.1	7.4	-14.9	35.7	1.0	-2.1	6.1	...
Investment and saving c/	Percentajes of GDP								
Gross capital formation	11.7	10.2	14.8	10.9	10.1	8.5	8.6	8.9	...
Employment	Average annual rates								
Labour force participation rate d/	72.1	73.7	74.7	75.4	74.9	76.1	74.2	72.9	71.9
Open unemployment rate d/	1.9	1.8	1.6	1.7	2.5	3.2	3.5	3.3	2.7
Prices	Annual percentages								
Variation in consumer prices (December-December) e/	5.7	10.6	-0.1	-0.1	1.5	1.3	2.0	0.0	2.1
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	13.0	11.6	0.2	4.5	3.1	0.2	0.5	0.5	...
Central government	Percentajes of GDP								
Total revenue	43.2	46.0	49.1	49.1	45.4	51.4	54.5	43.1	...
Tax revenue	30.0	27.7	23.3	21.4	17.8	24.0	30.6	22.3	...
Current expenditure	46.4	49.2	56.0	53.9	49.0	48.4	47.8	41.1	...
Interest	33.6	38.3	45.1	43.0	40.0	40.2	32.7	32.6	...
Capital expenditure	1.2	1.4	1.4	1.1	1.3	0.0	0.0	0.0	...
Primary balance	9.1	8.3	8.1	8.2	6.1	5.7	8.8	7.4	...
Overall balance	-2.0	-1.8	-5.5	-3.8	-2.2	...	0.0	0.0	...
	-3.2	-3.2	-6.9	-4.9	-3.6	3.0	6.7	1.9	...

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.