

Cuba

ECLAC estimates GDP growth of 0.4% for Cuba in 2016. This was a particularly difficult year for the country's economy, in an international context where economic expansion was still slow and foreign trade continued to weaken as a driver of growth. A fiscal deficit of 6% is projected (compared with 5.8% in 2015). The current account is expected to yield a surplus again in 2016, but a smaller one of about US\$ 1.9 billion. Although economic conditions have caused prices for some agricultural products to rise, price levels generally have remained fairly stable and inflation in 2016 is expected to be similar to the previous year's (2.8%). The total number of employed remained unchanged, with a tendency for employment to fall in the State sector and increase in the non-State sector. The unemployment rate is projected to be 2.4%.

The State budget was prepared on the basis of 2% economic growth. Despite the slackening of the economy, the fiscal deficit will remain below the approved ceiling (7.0% of GDP). As in recent years, this deficit will be financed by issuing 1-year to 20-year sovereign bonds at an average annual interest rate of 2.5%.

In 2016, stress was placed on the policy of improving public spending efficiency without neglecting the State's fundamental education, health and social security obligations. Cuts of about 17% to the original public investment plans (leaving social investment untouched) were announced by the government in the second half of the year as a measure to reduce the effect of decreased oil imports from the Bolivarian Republic of Venezuela, among other things. In the same period, the government began to levy the personal income tax and special social security contribution for employees of State enterprises who receive not only their basic pay but also pay benefits for business development, performance bonuses and a profit share. This was provided for in Law No. 120 of the State budget for 2016.

The existence in Cuba of different markets with their own pricing and two currencies with different exchange rates complicates monetary management. The central bank is trying to balance the supply of and demand for the two currencies with a view to eventual monetary unification. Lending to both businesses and individuals has progressively increased. Lending to natural persons was up by 45.6% from January to September 2016 on the same period the year before (with construction activity being particularly buoyant), while lending to legal persons increased by 55.4%.

The exchange rate is still fixed, with a ratio of 24 Cuban pesos (CUP) to one convertible Cuban peso (CUC) for individuals selling to banks and bureaux de change (CADECA). The government has said that the monetary and exchange-rate unification process is moving forward and that it is seeking the option that will least harmfully affect individuals' purchasing power. The decision to guarantee bank deposits in foreign currencies, CUC and CUP and cash held by the population was ratified once again in the report to the seventh Congress of the Communist Party of Cuba in April 2016.

Cuban GDP grew by 1% in the first half of the year, in the context of weaker foreign-exchange earnings owing to the decline in the international nickel price, among other factors. Moreover, a reduction in fuel shipments from the Bolivarian Republic of Venezuela (the main supplier to Cuba) was announced at the beginning of the second half of the year, so that during that semester the Cuban economy had to cope with additional constraints which prevented the original investment plan from being implemented, among other things. In addition, although the 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.

Tourist arrivals and revenues generated by the sector have continued to grow vigorously, increasing by 11.7% and 15.0%, respectively, in the first half of the year. However, the contribution of this sector to national income has decreased significantly, as much of the demand for goods from tourists cannot be met by local suppliers, and they have to be imported.¹ The goods trade balance remains in deficit, being offset by the services trade surplus.

Foreign investment is gradually coming to Cuba, although the extraterritorial character of the embargo and internal problems attributable to a lack of efficiency and economic structures which present obstacles to productivity improvements lessen the incentives for investors. Foreign investment is nonetheless expected to become a strategic source of economic dynamism in the future, especially that from Europe following the signing of the Political Dialogue and Cooperation Agreement (PDCA) between Cuba and the European Union on 12 December 2016, which will put an end to the so-called “common position” which restricted relations with Cuba.

Hurricane Matthew struck the island’s eastern end at the beginning of October, severely damaging crops (cocoa, coffee, coconuts and bananas), homes and infrastructure in four municipalities; various measures have been implemented to begin reconstruction. This situation will impact GDP, chiefly in 2017, with the net effect likely to be positive.

The main growth sectors in 2016 were hotels and restaurants (due to tourism), commerce and telecommunications. On the other hand, activity shrank in the mining and quarrying sector and in manufacturing industry particularly.

Investment of 6.51 billion Cuban pesos is expected, some 17% less than estimated at the beginning of the year. The weak economic growth expected for this year is mainly the result of higher non-State consumption, associated with purchases made by non-State businesses: own-account workers, agricultural and non-agricultural cooperatives and small farmers.

No information is available on the number of employed in 2016, but it is estimated to be about the same as the figure of 4,860,500 workers recorded for 2015. The minimum wage was set at 225 Cuban pesos in 2016, while the average wage could be in excess of 687 Cuban pesos (the 2015 figure for budgeted State enterprises).

There was growth in non-State employment, such as own-account work. The number of own-account workers rose from 500,512 at the end of October 2015 to 526,953 in October 2016, a 5.3%

Cuba: main economic indicators, 2014-2016

	2014	2015	2016 ^a
	Annual growth rate		
Gross domestic product	1.0	4.3	0.4
Per capita gross domestic product	0.9	4.2	0.4
Consumer prices	2.1	2.8	-0.8 ^b
Real average wage	22.5	15.4	...
	Annual average percentage		
Open urban unemployment rate	2.7	2.4	...
Central government			
Overall balance / GDP	0.6	-0.4	...

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

a/ Estimates.

b/ Figures as of September.

¹ Most imports are from countries such as Vietnam, China, the Republic of Korea and European countries, owing to the extraterritorial character of the embargo against Cuba maintained by the United States. This generates significant financial costs for the country.

increase. The most salient activities were food preparation and selling (11% of the total) and passenger and cargo transport (10%).

Economic growth will gradually begin to pick up speed in 2017 (fuel shipments by the Bolivarian Republic of Venezuela are expected to be regularized), driven by the telecommunications and tourism sectors and, to a lesser extent, by construction and agriculture.

Better prospects for nickel and sugar prices mean that foreign-currency revenue will rise slightly. GDP growth of around 0.9% is expected, while household consumption, which includes intermediate consumption,² will be dynamic without inflationary pressures.

² There are no wholesale markets in Cuba, which is why owners of small, non-State restaurants get their supplies from the same markets as common consumers to satisfy their customer demand. Thus, final consumption includes this intermediate consumption.