CUBA

1. General trends

In early 2020, Cuba's economic situation became highly complex owing to the previous year's tightening of the sanctions imposed by the United States, which greatly restricted the supply of oil, the arrival of visitors from the United States and the sending of remittances. The reactivation of Title III of the Helms-Burton Act has also hindered investment and financial transactions with the Caribbean island. The list of Cuban entities and firms with which United States citizens are prohibited from engaging in economic, commercial or financial transactions continues to grow: it currently contains more than 230, including hotels, entertainment facilities and non-bank financial entities.

The Economic Commission for Latin America and the Caribbean (ECLAC) expects Cuba's GDP to shrink by 8.0% in 2020, as a result of the tightening of the blockade, the imposition of lockdown and mobility restrictions, and the collapse of foreign trade in goods (which account for 17.0% of total exports). In contrast, services do not seem to be affected, apart from tourism which represents 28.0% of total service exports.

Although the Cuban government had been forecasting a fiscal deficit of 6.8% of GDP in 2020, it is likely to be greater owing to a drop in tax revenues, increased public spending on health and social security, and wage guarantees for laid-off workers.

Although the current account balance will be adversely affected by the sharp drop in tourism revenues, it should still post a small surplus thanks to the buoyancy of export earnings associated with health care (medical services and pharmaceuticals), which generate 48% of total export earnings. A contraction in imports owing to the shortage of foreign currency, together with a modest increase in agricultural output, could accelerate inflation in the last quarter of the year, despite the sharp fall in economic activity. The unemployment rate is expected to rise, mainly owing to the situation of own-account workers, of whom 39% had temporarily suspended their activities as of end-May. The worst affected are transport operators, persons who rent out housing for tourists and those who provide food services, along with the workers employed in these activities.

Since January 2020, Cuba has been implementing surveillance measures in response to the coronavirus disease (COVID-19) outbreak. On 20 March, the Office of the President of the Republic announced stricter measures to control the pandemic, such as allowing only Cuban citizens and residents to enter the island, suspending classes at all levels of education and reducing non-essential movement across the country. The latter included regulating the departure of all Cuban citizens abroad and cancelling domestic journeys on public and private transport. On 7 April, it was announced that Cuba had entered stage 2 (local community transmission of the virus), for which five key health measures were adopted: (i) suspension of the consumption of alcoholic beverages in public places; (ii) restrictions on urban passenger transport; (iii) closure of non-essential workplaces and centres (such as sports, cultural and other venues); (iv) quarantining of certain localities in the country; and (v) mandatory use of masks in public spaces.

Cuba began implementing its progressive reopening plan on 18 June after having controlled the COVID-19 epidemic, maintaining restrictions in Havana and Mayabeque only. The actions announced included opening tourist activities to nationals only and reserving the northern and southern keys for international tourism, with strict health protocols in place in both cases.

Within the framework of the economic and social strategy to boost recovery, and following the launch of the reopening plan, the Government of Cuba announced a series of measures in July aimed mainly at activating the non-State sector of the economy, together with fiscal instruments that seek both to encourage exports and to improve the sustainability of public finances. The most important ones include: (i) authorizations for non-State companies to carry out foreign trade activities, through contracts with specially-designated State companies; (ii) promoting the creation of new non-agricultural cooperatives and greater flexibility and expansion of self-employment; (iii) the increase in the supply of products in foreign currency, including food and hygiene products; (iv) the elimination of the (10%) tax on transfers in United States dollars; (v) the creation of a wholesale market in foreign currency; (vi) tax incentives for producers who generate exportable funds and reduce the imported coefficient; (vii) tax incentives to stimulate the development of strategic activities, in areas such as high technology, agricultural production or renewable energy sources, among others; (viii) the creation of sovereign bonds to help finance budget activity; and (ix) the decentralization of tax management and budget execution, in order to boost the autonomy of local entities.

In 2019, the Cuban economy posted only modest growth of 0.5%, compared to the previous year's 2.2% expansion. This slacker pace of activity mainly reflected the tightening of the blockade, which has had a major impact on tourism, investment, external financing and other variables that are important for the country's economic development. Fuel shipments to the Caribbean island also fell sharply as a result of the sanctions imposed by the United States on vessels carrying oil from the Bolivarian Republic of Venezuela. This became apparent from June 2019 and has been particularly acute since September. The central government deficit came in lower at 6.1% of GDP (8.1% in 2018), owing to a decrease in financing for export subsidies and import substitution, which amounted to about 14.357 billion Cuban pesos in 2018 and some 11.985 billion pesos in 2019, according to estimates. This represents a reduction of approximately 2.372 billion pesos. The reduction in expenditure on export subsidies and import substitution responded to a fine-tuning of budgetary allocations, whereby non-fiscal expenditure is not financed through the State budget but through the banking system.

Although a revival of certain commodity exports, especially sugar and nickel, in conjunction with measures to contain merchandise imports, improved the merchandise trade balance, dwindling levels of service exports and remittances eroded the current account. As consumer supply problems persisted during the year, inflation (2.4% in 2018) is estimated to have risen in 2019, despite the economic slowdown. While there is no official data on the unemployment rate for 2019 (1.7% in the previous year), own-account employment is likely to have suffered given the slump in tourism activity.

2. Economic policy

(a) Fiscal policy

On 20 March 2020, the government announced a series of tax measures aimed at softening the impact of the partial closure of activities and the restrictions imposed on both State-owned and non-State-owned enterprises. The measures adopted include the following: the payment of wage guarantees received by workers laid off in firms and in the budgeted sector will not be liable for personal income tax or the special social security contribution; firms will not pay the tax on labour force use or the social security contribution for the remunerations in question; and the budgetary financing granted to firms to pay wage guarantees to workers laid off owing to the impact of COVID 19 will be maintained

The government also announced that the payments that individuals would normally be making of monthly tax instalments, taxes on sales and services, labour force use, sworn statements and others would continue to be deferred. It was reported that municipal administrative councils had the power to reduce monthly tax payments by up to 50% for affected activities, based on the gradually adopted measures.

In early May, the Minister of Economy and Planning reported that, for the duration of the pandemic, a bonus of 250 Cuban pesos (equivalent to US$ 10) would be paid to all comprehensive health assistants and laundry teams working in the 31 hospitals set up in Cuba to care for patients with COVID-19. The government has paid out more than 1 billion pesos to tackle the pandemic.

The tightening of the blockade, together with the consequences of the measures designed to deal with the pandemic, have exacerbated the restrictions on access to foreign currency in the Cuban economy. This is further aggravated by the fact that Cuba cannot access any clearing mechanism or external funding from the main international financial organizations. Nonetheless, it met its renegotiated debt service obligations in 2019, paying US$ 70 million to the Paris Club countries, which included the implementation of debt swaps with a group of creditors.

In 2019, although gross revenue increased by 3.1% year-on-year, it was less than anticipated in the government's income and expenditure plan. This occurred mainly because of commercial developments, as there was a shortfall of around 2.3 billion pesos in income obtained from business profits, as a result of the reduced activity levels in certain production and service sectors. Current expenditure, meanwhile, grew by 1.6%, while investment and capital transfer expenditures declined by 4.7%.

Wages in the budgeted sector were increased in 2019—requiring additional revenues of 4.3 billion Cuban pesos— and pensions for retirees receiving monthly payments of less than 500 pesos were also raised. The government's income and expenditure plan for 2019 proposed that these amounts would be financed without adding to the budget deficit, through a combination of higher taxes and contributions associated with the wage measure, supported by improved revenue management and a reduction and redistribution of public expenditure. As a result of various factors —including a sharp drop in revenue performance— the budget deficit expanded to 842.2 million pesos above the level specified in the plan, which increased the public debt. This will be funded with bonds issued by the Ministry of Finance and Prices and paid for by the Central Bank of Cuba.

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

Among the financial measures designed to offset the impact of the pandemic on the economy, the Central Bank of Cuba has authorized financial institutions to suspend principal and interest payments due from customers who are laid off because of the partial or total suspension of their work activities, until the epidemiological situation in the country has returned to normal. Since 2019, there has been no change in the interest rate on borrowing, which in convertible pesos has ranged between 5.5% and 4.5%, while in Cuban pesos it has reached a maximum of 7.0% and a minimum of 4.5%. The monetary and exchange-rate regime continued to involve the coexistence of two legal currencies, with multiple exchange rates between them.

In late May, with a view to encouraging foreign exchange inflows from abroad, the Central Bank of Cuba authorized non-resident citizens to open bank accounts in United States dollars, which they could use under the same conditions as residents. These accounts operate through magnetic cards that can be used to make transactions in dollars, Cuban pesos and convertible pesos, through ATMs, point-of-sale terminals and other payment channels.

Deposits in foreign currency accounts held at authorized banks (Banco Metropolitano, Banco Popular de Ahorro, and Banco de Crédito y Comercio) may be made through bank transfers from abroad, transfers from other foreign currency accounts operated in national territory, transfers from the financial corporation CIMEX S.A. (FINCIMEX), or a Cuban non-bank financial institution, for remittances and cash deposits in United States dollars, euros, pounds sterling, Canadian dollars, Swiss francs, Mexican pesos, Danish kroner, Norwegian kroner, Swedish kroner and Japanese yen. A 10% levy is charged in the specific case of cash deposits in United States dollars.

To encourage the use of digital payment platforms, bonuses are given to users who carry out e-commerce and card payment operations through point-of-sale terminals.

Bank lending expanded in 2019, with credit to corporate entities growing by 12.4% relative to the previous year's level, while credit to individuals expanded by 10.9%, although 87.8% of this was channelled to the State sector of the economy. The M2 monetary aggregate grew by 3.9% (following a 13.1% increase in 2018), owing mainly to 6.5% growth in currency in circulation.

3. The main variables

(a) The external sector

In 2020, the Cuban external sector is being affected through various channels. First, the intensification of the blockade has continued even in the humanitarian emergency caused by COVID-19. Second, the economic crisis in the Bolivarian Republic of Venezuela, one of the island's main partners, persists: Venezuela's GDP contracted by 28.0% in 2019 and is expected to shrink by a further 25.0% in 2020. Third, international tourism —which, owing to the travel restrictions imposed by the United States Government on its own citizens, had already declined by 9.3% in 2019 —has collapsed as a result of the restrictions imposed in response to the pandemic. At the end of February 2020, international tourism was down by 16.5% year-on-year, and in late March it had come to a complete standstill. Fourth, major export markets for medical services have been lost, including those of Brazil, Ecuador and the Plurinational State of Bolivia.

The fifth factor affecting Cuba's external sector is that goods exports have been severely hit: foreign sales of rum and tobacco (Cuba's star products) are vulnerable to the prolonged closures of bars, restaurants and other leisure and entertainment activities. In the case of hand-rolled tobacco, most shipments are made by air, and commercial aviation has come to a virtual halt. In addition, the prices of commodities such as sugar and nickel have also been lower in 2020. The nickel price fell by 11.4% in the first quarter, while food prices dropped by 4.3% in March. The price of sugar recorded the steepest fall in that month, of 19.0%. The sixth factor affecting the external sector is the reduction in remittances: ECLAC expects these to be about 15.0% lower in 2020.

The Minister of Foreign Trade and Foreign Investment (MINCEX) announced that new projects totalling US$ 600 million in committed capital had been approved in the first few months of 2020, and more than US$ 1 billion in projects already under way were being negotiated. Accordingly, the Government of Cuba noted that, despite the adverse impact of the intensification of the blockade, the returns on foreign investment in Cuba in the last five years have been better than in the past. Nonetheless, it recognizes that the proposed target (a minimum of US$ 2 billion per year) is far from being met. In MINCEX, a number of measures have already been put in place to attract foreign investment, including the Foreign Investment Single Window, which has been operating since the start of the year. Moreover, a group of fiscal and other incentives are being studied, such as allowing firms with foreign capital to have more flexible corporate purposes, in order to foster linkages with the rest of the economy (in both the State and the non-State sector).

Exports of a group of pharmaceuticals and health services are expected to increase in 2020. According to the latest data from 2018, 48% of Cuba's total exports are linked to human health, distributed between medical services (US$ 6.4 billion) and pharmaceuticals, including generic and biotechnological products (US$ 400 million).

Cuba continues to play an active role in international medical cooperation and currently has 34 medical teams (2,500 health professionals) working in 26 countries to help them contain the pandemic. In addition, the Centre for Genetic Engineering and Biotechnology (CIGB) has received requests from more than 45 countries for recombinant human interferon alpha 2b, which many countries have included in their COVID-19 treatment protocols.

In view of its foreign exchange shortage, Cuba will have to redesign its import plan and retarget it towards priority industries, such as food, medicines, water supply and construction, among others.

(b) Economic activity

In 2020, a number of sectors, such as the aforementioned health services, are expected to trend positively in a complex external and internal environment. The telecommunications sector has also been buoyant during the pandemic, and the agriculture, construction and industrial sectors have continued to operate at reduced capacity. This will prevent the Cuban economy from contracting still further.

With regard to economic activity in 2019, information is available on the construction, agricultural and electricity sectors. In the first of these, the value of construction and assembly increased by 4.5% over the previous year. However, the national production of basic inputs for construction declined: of the nine items listed, only metal roofs posted higher production (64.6%). Similarly, the indicator for investment execution in construction was negative (-2.5%). In the agriculture sector, disaggregated information shows that production declined in all subsectors, except for beans, bananas, and sheep and goat meat, which expanded by 5.2%, 4.3%, and 2.0%, respectively. Factors driving the reduction in agricultural activity included weather conditions, problems with the storage system and difficulties in obtaining fertilizers on time. The execution of investments was also weak: according to the available information, investment in agriculture, livestock and forestry was 0.8% lower than in the previous year; and in the electricity, gas and water supply sector, execution was down by 8.0%.

(c) Prices, wages and employment

Despite the contraction of aggregate demand, the prices of products in the basic goods basket will be subject to upward pressure in the short term owing to supply constraints. This will occur despite incipient efforts by the Cuban authorities to set up online retail platforms to speed up the distribution of products and prevent hoarding. In 2020, the government tightened control over commodity prices in both the State and non-State markets, as had been announced in mid-2019. Nonetheless, problems with the supply of goods have persisted, thereby diminishing the effectiveness of such controls. In 2019, despite the economic slowdown, the Cuban economy is likely to have been subject to upward price pressures (inflation came in at 2.4% in 2018).

The unemployment rate is expected to rise in 2020, especially in the housing rental, transportation and restaurant segments, following the closure or significant decrease in productive activities and services.

In June 2020, 39% of the country's 246,000 self-employed workers were idle and may apply for a temporary cash benefit from the State. In the case of the State sector, unemployed workers are guaranteed their wages in full for the first month and then 60% for the duration of the stoppage period.

Following the July 2019 wage hikes, the average wage in the budgeted sector rose by 68%, from 634 to 1,065 Cuban pesos. The minimum wage in the budgeted sector was also raised by a substantial 77%, to a level of 400 Cuban pesos per month.

Table 1

CUBA: MAIN ECONOMIC INDICATORS

	2011	2012	2013	2014	2015	2016	2017	2018	2019 a/
Gross domestic product	2.8	3.0	2.8	1.0	4.4	0.5	1.8	2.2	0.5
Per capita gross domestic product	2.7	2.8	2.5	0.8	4.3	0.4	1.8	2.3	0.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	4.4	0.7	4.7	2.2	2.5	5.8	-1.4	2.6	...
Mining and quarrying	1.4	2.1	-2.3	-0.7	-2.0	-3.7	-1.4	-3.6	...
Manufacturing	3.9	2.2	2.1	-3.6	6.3	-5.2	-1.1	-0.9	...
Electricity, gas and water	2.7	4.4	3.7	0.7	4.3	1.2	1.3	1.2	...
Construction	-7.3	11.3	7.9	-2.3	17.0	4.7	9.0	9.3	...
Wholesale and retail commerce, restaurants and hotels	6.3	5.3	3.4	3.2	6.3	1.0	2.5	0.7	...
Transport, storage and communications	3.6	6.2	3.2	4.3	6.5	3.4	3.6	6.4	...
Financial institutions, insurance, real estate and business services	2.4	8.0	2.0	4.6	3.9	2.4	0.5	2.2	...
Community, social and personal services	0.6	-0.6	1.4	0.7	-0.2	0.5	1.6	1.9	...
Gross domestic product, by type of expenditure									
Final consumption expenditure	0.5	1.9	3.7	2.8	5.1	2.9	1.8	2.0	...
Government consumption	-1.2	-0.6	0.8	-1.0	0.0	-0.2	2.2	1.3	...
Private consumption	1.4	3.3	5.2	4.6	7.4	4.1	1.7	2.2	...
Gross capital formation	8.5	7.2	4.0	-4.9	18.3	7.5	0.2	4.8	...
Exports (goods and services)	5.5	0.4	1.7	-2.8	-0.1	-19.7	...	-2.4	...
Imports (goods and services)	1.0	-2.1	6.1	-1.5	10.1	-10.6	-1.6	-2.0	...
Investment and saving c/									
Gross capital formation	8.5	8.6	9.4	7.6	9.4	9.6	10.3	12.0	...
Employment									
Labour force participation rate d/	76.1	74.2	72.9	71.9	67.1	65.2	63.4	63.8	...
Open unemployment rate d/	3.2	3.5	3.3	2.7	2.4	2.0	1.7	1.7	...
Prices									
Variation in consumer prices (December-December) e/	1.3	2.0	0.0	2.1	2.4	-3.0	0.6	2.4	-1.3
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	51.4	54.5	43.1	31.3	33.5	33.5	...	...	...
Tax revenue	24.0	30.6	22.3	19.4	0.0	...	...	...	...
Total expenditure	48.4	47.8	41.1	30.7	33.9	33.9	...	...	...
Current expenditure	40.2	32.7	32.6	27.5	29.7	29.7	...	...	...
Interest	...	...	...	...	...	...	...	...	...
Capital expenditure	5.7	8.8	7.4	3.1	3.9	3.9	...	...	...
Primary balance	...	...	...	...	...	...	...	...	...
Overall balance	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.