

CUBA

1. General trends

Cuba's GDP growth climbed from 1.3 in 2014 to 4.3% in 2015. Some of the contributing factors of this stronger performance were: (i) an advance in import funding in the fourth quarter of 2014, which boosted production at the beginning of 2015; (ii) a 24.9% jump in investment in 2015, compared with an 8.9% decline a year earlier; (iii) a higher volume of imported intermediate goods, thanks to lower raw material import prices which in turn stemmed from lower international prices; and (iv) the adoption of a performance-based payment system for businesses to increase corporate productivity, which strengthened the link between producers and profits. Prices edged up 2.8% in 2015 (versus 2.1% in 2014).

The government recorded a fiscal deficit of 6.1% of GDP at the end of 2015, which included a 24.7% jump in spending on unbudgeted activities.¹ Cuba has boosted its financial credibility thanks to streamlined spending and effective use of public resources since 2011, as well as the government's firm commitment to meeting its external debt payment obligations (for which it also prioritizes the current account surplus). This has aided in the renegotiation of external debt and improved Cuba's standing with its largest creditors, the clearest example being the renegotiation of debt held by the Paris Club in December 2015.

GDP is forecast to edge up roughly 1.0% in 2016. The slacker performance versus 2015 stems essentially from weaker foreign-exchange earnings owing partly to an expected decline in prices for some of the country's exports, such as nickel and sugar. Reduced fuel shipments from the Bolivarian Republic of Venezuela are another negative factor and have forced the Cuban government to announce energy rationing measures for the second half of the year; national electricity consumption, for example, is set to diminish by 6%. The government had forecast investment of 7.841 billion pesos (mainly through external financing) in 2016, but this figure is likely to be tweaked downwards, probably to 6.510 billion pesos (17% lower). In contrast, income from tourism receipts and remittances will continue to rise. Tourist receipts grew by 11.0% year-on-year in the first quarter of 2016.

The fiscal deficit is expected to represent 7.1% of GDP in 2016, financed by 1-year to 20-year sovereign bonds at an average annual interest rate of 2.5%. The increase compared with the 2015 deficit reflects higher funding for State-owned companies to support import substitution (up 31.4% compared with the year-earlier period) and more generous subsidies for the average basket of household goods (up 5.7%). The government has stressed that it will prioritize a healthy balance between borrowing amounts and terms, payment of restructured debt, current debt and fulfilment of the repayment plan, which will see any external borrowing based on repayment capacity. The current account is expected to maintain a surplus similar to that seen in 2015 (as a percentage of GDP).

The lifting of some restrictions —such as allowing Cuba to carry out foreign transactions in dollars— announced after the visit to Cuba by the President of the United States in March 2016, has yet to take place. The economic, trade and financial embargo is still in effect and continues to hamper commercial and financial transactions conforming with international standards and practices.

¹ Unbudgeted activities correspond to the resources allocated to guarantee national production and cover subsidized prices, and those derived from the dual currency system and other sources approved under State budget law.

2. Economic policy

(a) Fiscal policy

Total spending jumped 10% in nominal terms in 2015. Current spending swelled 10.3%, with clearly weaker growth in spending on budgeted activities² (7.2%) and a sharp increase in spending on unbudgeted activities (24.7%), which in turn stemmed from greater funding for export production and import substitution (22.2%) and subsidization of retail prices (32.5%). Total net income rose 4.6%, with non-tax income down 7.0% owing to weaker earnings in the main segments; in particular, contributions from State-owned companies slumped by 7.6%. At the same time, tax revenues expanded by 11.3% and the main contributor, sales tax, jumped 8.3%. Lastly, capital spending grew by 5.6% in 2015.

The draft State budget for 2016 forecasts a fiscal deficit of 7.1% of GDP owing to export funding and import substitution, which generates savings in foreign currency but a deficit in current operations given the dual currency system. The main products affected by import substitution and export funding are pork, rice, corn for animal feed, beans, coffee and sugar. Subsidization of retail prices rose by 5.7% to ensure that basic goods remained affordable for the general population; some of the products that weighed the most in this category were meat, milk, sugar, bread, rice, eggs and household fuel.

The draft budget for 2016 projects a 6.5% nominal increase in net income compared with the final estimate for 2015. Tax income is set to swell by 11.1%, while non-tax income is expected to rise by 5%. The weight of taxes on non-State activity has been increasing gradually, and this category is expected to represent 8% of tax receipts in 2016. Total spending is set to rise by 8.6% and the government plans to raise capital spending (mainly on infrastructure) by 25.3%.

With a view to fine-tuning financial management, in 2016 the government began preparing savings, investment and borrowing statements, showing that 8.538 billion pesos at most are needed to cover the fiscal deficit and debt payments for 2016.

Nonetheless, all fiscal forecasts are likely to be revised downward as economic growth has slowed since the draft budget was presented at the end of 2015 and is expected to be weaker in 2016.

(b) Monetary policy

Since 2009, Cuba's monetary policy has consisted in controlling monetary aggregates. Transactions demand generated by the non-State sector, for example own-account work and non-agricultural cooperatives, has influenced money supply trends, but is consistent with economic expansion.

Since the adoption of the new credit policy at the end of 2011, lending to both the corporate sector and individuals has increased gradually. Lending to individuals soared 206% in 2015 (from a low initial base), compared with the year-earlier period. Roughly 59% of those loans went towards housing construction, 34% to small farmers and 6.7% to own-account workers. Lending to businesses rose by 6.8% and was directed mainly towards agriculture, trade and manufacturing.

² Budgeted activities are those undertaken by units and institutions of the Cuban socialist State in areas such as public health, education, culture and sport. They receive the necessary funds from the budget.

(c) Exchange-rate policy

The exchange rate remains fixed at 24 Cuban pesos (CUP) to one convertible Cuban peso (CUC) for individuals selling to banks and currency traders. No official announcements have been made about monetary or exchange-rate unification taking effect in 2016. The government has said that the process is moving forward and that it is seeking the option that would have the least negative impact on individuals' purchasing power. The decision to guarantee foreign currency bank deposits, CUC, CUP and cash in circulation was ratified once again in the report of the seventh Congress of the Communist Party of Cuba in April 2016.

(d) Other policies

Recognizing the difficulty of sustaining economic growth momentum without increasing investment (gross domestic investment as a percentage of GDP stands at roughly 13%), the government unveiled the new Foreign Investment Act in 2014. With a view to attracting foreign capital, the government has been working since 2010 on a number of measures to improve the country's external finances, particularly by restructuring external debt, and has managed to increase investment in Cuba gradually. About 47 investment projects have been confirmed and are set to launch in the second half of 2016 in the Mariel special economic development zone established in 2013 and the rest of the country. Australia, Brazil, Canada, China, Mexico, Viet Nam and several European countries are investing in Cuba and United States-based Starwood Hotels is partnering with local companies Gaviota and Gran Caribe (in the first deal of its kind since 1959) to build and manage hotels in Cuba. Since 2014, Cuba has maintained an investment portfolio of specific projects in various sectors of the economy, which is updated yearly and currently includes 326 projects (versus 246 initially). Foreign investors can decide which sectors they are interested in, although investments are not limited to any one portfolio. The updated portfolio includes projects in health, tourism and transport (shipbuilding); construction and building materials; iron and steel; and the food and audiovisual industries.

Since the renewal of diplomatic ties between the United States and Cuba in December 2014 and President Obama's visit to the country in March 2016, some restrictions on travel, telecommunications, financial services, remittances and aviation are being lifted gradually (or conditions are being eased). Nonetheless, some of the announced measures have not been implemented yet. For example, although the United States government has authorized Cuba to use dollars in international transactions through third-country banks, this has not materialized as foreign banks still fear receiving multimillion dollar fines for processing transactions from Cuba. And Cuban banks are still not allowed to establish correspondent banking relationships with United States financial institutions. The few investments announced have been authorized by the United States Office of Foreign Assets Control (OFAC) on a case-by-case basis. United States citizens can still only travel to Cuba with general licences in 12 categories (although the conditions for receiving these licences have been eased) including family visits, official business of the United States government, professional research and meetings, athletic competitions and exhibitions.

3. The main variables

(a) The external sector

Over the past few years Cuba has had to keep its current account in surplus (by about 1.5% of GDP) to cover external debt servicing, given that it is not a member of international financial institutions. The structural deficit on the goods trade balance is more than offset by the services trade surplus. In 2015, goods exports slumped 24.2% (in millions of pesos) while imports edged up 2.9%. That same year, exports of medical and tourism services continued to expand (both categories account for more than half of Cuba's foreign-exchange income) and tourism receipts jumped 10.7%.

The current account surplus is expected to hold steady in 2016, owing partly to the services trade surplus and the higher income projected in international tourism (although that increase is set to moderate in the light of the weaker euro versus the dollar, as a large percentage of tourists visiting Cuba are European). Cuba is expected to receive roughly 3.8 million tourists in 2016.

(b) Economic activity

Many of the production sectors grew in 2015, although a few missed their targets. The strongest-performing sectors included sugar (up 16.9%, although it contributed just 0.5% to GDP), construction (up 11.9%, 5.9% of GDP), manufacturing (up 9.9%, 13.2% of GDP) and trade and personal effects repair (up 8.6%, 20.3% of GDP). In contrast, sectors such as public administration, defence and social security; education; public health and social assistance; and culture and sports, which collectively represented 30% of GDP, were down by 3.6%, 0.4%, 1.1% and 0.4%, respectively.

The sectors forecast to post the strongest growth in 2016 are construction (13.4%), hotels and restaurants (11.2%) and agriculture, livestock and forestry (5.9%). In contrast, mining and quarrying and manufacturing are set to decline.

Investment of 6.510 billion pesos (mainly through external financing) is expected in 2016, 17% lower than the figure forecast at the start of the year. Almost 60% of this investment will be linked to tourism, oil, drought infrastructure, sanitation, infrastructure for the Mariel special economic development zone, production of sugar and its by-products, telecommunications, greater construction capacity, production of building materials and renewable energy sources. About 600 million pesos will be allocated to the agricultural sector to support food production, which enables import substitution (Cuba currently imports roughly US\$ 2 billion worth of food items).

(c) Prices, wages and employment

The rise in inflation in 2015 stemmed mainly from higher agricultural product prices and to a lesser extent higher wages in the health and sports sectors.³

³ The goods and services included in the consumer price index, which is used to calculate official inflation, are the most representative of consumer spending. They comprise a group of universally available price-controlled basic products and services, together with a number of variable or unregulated goods and services (convertible Cuban peso-denominated prices are excluded).

In 2016 inflation is expected to remain at a similar level to that seen in the year-earlier period (2.8%). Since 2015 there have been concerns about the higher prices of several agricultural products in different market segments —particularly those that are not State-run— which stemmed partly from the involvement of intermediaries, although the drought seen over the past two years (resulting in shortages of some agricultural products) also contributed. As a result, the government adopted a series of measures in early May to increase the supply of high-demand agricultural products and sell them to individuals at fixed prices.

The total number of employed remained at a similar level to that seen in recent years, with a trend towards diminishing employment in the State sector and increasing employment in the non-State sector. At the end of 2015, total employment stood at 4.86 million workers, of which 71% worked in the State sector (versus 81.2% in 2010). The unemployment rate edged down from 2.7% in 2014 to 2.4% in 2015. The sectors that generate most jobs are agriculture and construction (18.0% and 6.0% of the total, respectively). In 2015 the minimum wage stood at 225 Cuban pesos (the same as in 2014) and the average wage rose 17.6% in nominal terms compared with the previous year, to 687 pesos.

There was growth in non-State sector employment, such as own-account work. At the end of March 2016, 507,342 people worked in this sector (versus 499,452 in April 2015), of whom 155,574 were young people and 158,308 were women (31% of the total). Some of the most important activities are: food preparation and sale (11%), cargo and passenger transport (10%), property rental (6%), telecommunications services (5%) and contract work (23%) mainly associated with the first two activities.

Table 1
CUBA: MAIN ECONOMIC INDICATORS

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
	Annual growth rates b/								
Gross domestic product	7.3	4.1	1.5	2.4	2.8	3.0	2.7	1.0	4.3
Per capita gross domestic product	7.2	4.1	1.4	2.3	2.7	2.8	2.6	0.9	4.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	18.0	0.6	-0.2	-6.0	4.4	0.7	4.7	2.2	...
Mining and quarrying	4.0	3.2	-3.3	7.4	1.4	1.9	-2.3	-0.7	...
Manufacturing	9.6	5.2	0.9	1.1	3.9	2.2	2.1	-3.6	...
Electricity, gas and water	7.9	0.6	0.8	-1.7	2.7	4.4	3.7	0.7	...
Construction	-8.6	2.4	0.6	-7.5	-7.3	11.3	7.9	-2.3	...
Wholesale and retail commerce, restaurants and hotels	0.6	-0.8	2.2	3.1	6.3	5.3	3.4	3.2	...
Transport, storage and communications	6.4	6.6	2.5	2.6	3.6	6.2	3.2	4.3	...
Financial institutions, insurance, real estate and business services	8.1	3.5	0.9	3.4	2.4	8.0	2.0	4.6	...
Community, social and personal services	14.6	7.5	3.2	4.9	0.6	-0.6	1.4	0.7	...
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.4	-0.3	1.2	5.9	0.5	1.9	3.7	2.8	...
Government consumption	10.5	2.6	1.7	2.3	-1.2	-0.6	0.8	-1.0	...
Private consumption	1.5	-1.8	0.9	7.9	1.4	3.3	5.2	4.6	...
Gross capital formation	2.4	21.9	-19.0	-0.7	8.5	7.2	4.0	-4.9	...
Exports (goods and services)	13.8	11.6	3.1	13.8	5.5	0.4	1.7	-2.8	...
Imports (goods and services)	-1.1	7.4	-14.9	35.7	1.0	-2.1	6.1	-1.5	...
Investment and saving c/	Percentajes of GDP								
Gross capital formation	10.2	14.8	10.9	10.1	8.5	8.6	9.4	7.6	...
Employment	Average annual rates								
Labour force participation rate d/	73.7	74.7	75.4	74.9	76.1	74.2	72.9	71.9	...
Open unemployment rate d/	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/	10.6	-0.1	-0.1	1.5	1.3	2.0	0.0	2.1	2.8
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	-1.5	0.2	4.5	3.1	0.2	0.5	0.5	22.3	...
Central government	Percentajes of GDP								
Total revenue	46.0	49.1	49.1	45.4	51.4	54.5	43.1	31.3	34.2
Tax revenue	27.7	23.3	21.4	17.8	24.0	30.6	22.3	19.4	...
Total expenditure	49.2	56.0	53.9	49.0	48.4	47.8	41.1	30.7	34.6
Current expenditure	38.3	45.1	43.0	40.0	40.2	32.7	32.6	27.5	30.3
Interest	1.4	1.4	1.1	1.3	...	...	...	...	...
Capital expenditure	8.3	8.1	8.2	6.1	5.7	8.8	7.4	3.1	3.9
Primary balance	-1.8	-5.5	-3.8	-2.2	...	...	...	...	...
Overall balance	-3.2	-6.9	-4.9	-3.6	3.0	6.7	1.9	0.6	-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.