

Cuba

ECLAC expects the Cuban economy to grow by a 0.5% in 2019 —significantly below the 2.2% recorded in 2018, which proved higher than initially expected. The main cause of the slowdown is the tightening of the economic and trade embargo imposed by the United States, which has impeded both visitor and remittance flows and has also hampered fuel supplies. This has been compounded by the crisis prevailing in Cuba's main trading partner, the Bolivarian Republic of Venezuela. The government's fiscal deficit is estimated at around 6% of gross domestic product (GDP). Although the effort to contain merchandise imports and a recovery in certain commodity exports, mainly sugar and nickel, may improve the merchandise trade account, a reduction in service exports and a slacker flow of remittances will undermine the current account balance. Persistent problems in the supply of consumer goods throughout the year mean that inflation is likely to end the year above the 2.4% recorded in 2018, despite the slowdown in economic activity.

In addition to activating Title III of the Helms-Burton Act in April 2019, in June the Government of the United States banned its citizens from travelling to the island on educational trips to promote “person-to-person” contact. In practice, this meant the end of cruise ship arrivals. In October, restrictions on sending remittances also came into force, limitations on aircraft leasing were announced and flights from the United States to destinations other than Havana were suspended. In addition, sanctions on the transport of oil and other hydrocarbon products from the Bolivarian Republic of Venezuela have had an impact on fuel supplies.

According to the State Budget Execution Report, the fiscal deficit for 2018 was equivalent to 8.1% of GDP —half of a percentage point lower than the previous year's figure since expenditure decreased by more than income in real terms.

Total income shrank by 2.2% (-4.3% in 2017), with revenue from the merchandise sales tax down by 2.9%, partly owing to a reduction in the number of visitors in tourism-related activities. By contrast, receipts from the labour force utilization tax stabilized (down by just 0.2% compared to a drop of 2% in 2017). Total tax revenues represented 42.5% of GDP, while total expenditure grew by 1.5% in real terms in 2018, compared to 6.2% in the previous year. This slowdown reflects real expenditure cuts in education (-2.8%) and in public health and social assistance (-2.6%), with spending on non-budgeted activities also down to 3% (following a 23.9% rise in 2017).

The 2019 budget envisages a fiscal deficit of 6.187 billion pesos, nearly 2 percentage points of GDP smaller than in 2018. However, the forecast for 2019 cannot be compared with those of earlier years, since a change was made to the method of recording transfers to non-budgeted activities, which are expected to contract by 8.8% in nominal terms. As from 2019, losses associated with exchange-rate spreads prevailing in the purchase of inputs and the sale of finished goods will be financed through the banking system.

The monetary and exchange-rate regime continues to involve the coexistence of two currencies of legal tender, with multiple exchange rates between them. The main tools used by the central bank to manage liquidity in the banking system are the reference bands for nominal lending rates in both currencies and the legally required reserve ratios. In 2019, the lower limits for financing priority sectors such as tourism, the medical-pharmaceutical industry, the food industry and the agribusiness sector, were all eliminated.

In 2018, the M2 monetary aggregate grew by 13.1% (compared to the previous year's 8.1% expansion), owing mainly to an increase in the amount of cash in circulation. For 2019, the Central Bank of Cuba expects the demand for cash to decline owing to the slowdown in tourism-related activities. Over the course of 2019, measures were implemented to encourage greater use of banking services and electronic payments, including a requirement to have a bank account for managing the finances of own-account activities and for the purchase of household appliances with convertible currency.

At the end of 2018, the goods and services trade surplus was one percentage point smaller at 1.9% of GDP. This deterioration mainly reflects a 16.9% increase in the value of intermediate goods imports, resulting from a reduction in the supply of oil on favourable terms from the Bolivarian Republic of Venezuela. Service exports shrank by 0.4% in real terms, owing to the sharp slowdown in the number of visitors to the island (up by just 1.3%, compared to the previous year's 16.1% increase).

Although visitor flows recovered in the first half of 2019, the situation worsened significantly in the third quarter as cruise ship arrivals were suspended. As a result, up to September 2019, the number of visitors was down by 6%. The situation could be further exacerbated by the impact of the restriction on family remittances from the United States, which are capped at US\$ 1,000 per quarter.

On the demand side, the uptick recorded in 2018 is explained by a slight recovery in domestic demand. Stronger private consumption growth (2.2%, compared to 1.7% in 2017) was supported by a modest increase in the total number of persons employed in the economy; and this offset a deceleration in government consumption which grew by just 1.3% (2.2% in 2017). As a result, total consumption grew by 2% (1.7% in 2017). Investment also picked up considerably, growing by 4.8% compared to the previous year's 0.2%, driven by construction (up 9%) and a smaller contraction in gross fixed capital formation in machinery and equipment (-2%, compared to -11% in 2017). For 2019, despite the stimulus provided by the wage hike in the budgeted sector, private consumption is expected to lose momentum owing to the collapse of tourism-related activities.

The uptick in inflation in 2018 (2.4%, compared to the previous year's 0.6%) reflects the impact of problems in the supply of consumer goods since late 2017, together with improvements in capturing price trends in the non-State sector. No information is available regarding the evolution of inflation during 2019.

While unemployment held steady at 1.7% in 2018, the labour market participation rate rose by almost half a percentage point to 63.8%, thus reversing the declining trend that had prevailed since 2015. This is explained by a 2% increase in the number of persons employed in the non-State sector, which offset a slight reduction in those working in the State sector. The participation rate could rise again in 2019, in response to the incentives provided by the wage hike for budgeted activities.

Pursuant to the policy of wage increases in the context of updating the economic model, in July 2019 the wages of nearly 1.5 million workers in the budgeted sector of the economy were increased, bringing the average wage in this sector to 1,065 pesos —68% above the 634 pesos average that had been in force until June. The minimum wage in the budgeted sector was also raised significantly by 77%, to reach 400 pesos per month.

Cuba: main economic indicators, 2017-2019

	2017	2018	2019 ^a
	Annual growth rate		
Gross domestic product	1.8	2.2	0.5
Per capita gross domestic product	1.8	2.3	0.6
Consumer prices	0.6	2.4	0.8 ^b
Real average wage	4.8	-1.1	...
	Annual average percentage		
Open unemployment rate	1.7	1.7	...

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

a/ Estimates.

b/ Figures as of August.

With the global economic slowdown as a backdrop, and considering the effects of the economic, trade and financial embargo imposed by the Government of the United States, ECLAC expects the Cuban economy to continue growing by around 0.5% in 2020, probably accompanied by a weakening of the external sector and the persistence of inflationary pressures.