

## CUBA

### 1. General trends

Official figures show the Cuban economy growing by 1.6% in 2017, compared to the previous year's 0.5%, driven by a robust expansion of tourism activity and strong performances by agriculture and construction. The economy was severely impacted by Hurricane Irma, which caused damage estimated at around 13 billion pesos. It was also harmed by a strengthening of the economic embargo by the United States, and by the ongoing crisis in the country's main trading partner, the Bolivarian Republic of Venezuela. The available figures point to an improvement in the external sector in 2017, where the strength of service exports combined with rising prices for certain export goods and slower growth of imports, which were severely hampered by the scarcity of foreign currency. On the public finance front, the major fiscal stimulus, which generated a deficit close to 8% of GDP, is explained by the effort to promote exports and substitute food imports, and by a surge in infrastructure investment.

In April 2018, the National Assembly of People's Power confirmed Miguel Díaz-Canel, former First Vice President, to succeed Raúl Castro as President of the Council of State and Council of Ministers. Raúl Castro himself will remain head of the Communist Party of Cuba (PCC) until 2021. In the medium term, public policies will continue to abide by economic and social policy guidelines adopted by the National Assembly in June 2017. These include an economy dominated by State enterprises, which enjoy increasing operational autonomy, while explicitly recognizing the role of various forms of non-State production, including cooperatives and self-employment. The aforementioned guidelines prioritize attracting foreign direct investment and rationalizing the monetary system, in which two currencies currently coexist as legal tender.

For 2018, the Economic Commission for Latin America and the Caribbean (ECLAC) projects growth similar to the 1.5% recorded in 2017, driven by a stronger performance in the non-sugar agricultural sector, some growth in tourism activity, and a continued fiscal stimulus targeting infrastructure investment and reconstruction following the damage caused by weather events. Inflation is expected to be stable, with measures to control the prices of certain strategic products remaining in place.

### 2. Economic policy

#### (a) Fiscal policy

The fiscal policy stance in 2017 was expansionary, and the State fiscal deficit widened by about 1.5 percentage points of GDP from the 6.7% of GDP registered in 2016. The deterioration of the fiscal position mainly reflects rising expenditure which moderate revenue growth was unable to compensate.

The growth of total gross revenues gathered pace in 2017 (8.2% compared to the previous year's 2.5%), driven by higher tax proceeds from services and personal income, which offset weaker growth in revenue from sales tax and a reduction in proceeds from the labour-force utilization tax. This partially reflects the upturn in the services sector, especially tourism-related activities, as well as growing participation in economic activity by the non-State sector.

On the other side of the equation, total government expenditure, equivalent to about 63% of GDP, grew by 10.5%, driven by funding for non-budgeted activities, along with capital spending and transfers. Spending on non-budgeted activities, which account for one third of the total, include export financing and import substitution, mainly to support the export of sugar and the domestic production of beans, rice, maize, meat and milk. Capital expenditures and transfers, mainly for investment in hydraulic and transport infrastructure, remained at around 4% of GDP in 2017. In order to cope with the damage caused by Hurricane Irma, which hit the island in September 2017, some expenditure items were retargeted to finance subsidies to enable the people affected to buy construction materials and consumer goods, and to restrain interest rates on bank credit.

The State budget deficit was financed by issuing bonds in the national banking system. As provided for in the budget law, the bonds have a repayment term of up to 20 years and an annual average interest rate of 2.5%. Although there are no up-to-date figures on the trend of the public debt, the available data indicate that domestic debt service absorbed about 1% of GDP in 2017.

The draft budget for 2018 envisages a nominal increase of 18.8% in the State deficit. Income growth will be around 4.3%, driven by revenue from taxes on profits (10%) and on personal income (18.7%). The estimate factors in the impact of administrative improvements to strengthen revenue collection from the non-State sector. Expenditure is expected to grow by 6.4%, with current spending increasing by nearly 6%, and capital expenses and transfers up by around 14%, all in nominal terms.

#### **(b) Monetary and exchange-rate policy**

The Central Bank of Cuba made no adjustments to the available monetary-policy instruments in 2017, namely reference bands for nominal interest rates on loans, both in Cuban pesos and in Cuban convertible pesos (CUC), and legal reserve requirements. In 2017, the M2 monetary aggregate grew by nearly 8%, fuelled mainly by cash in circulation, since the Cuban population makes relatively little use of banks. Credit granted by the national banking system is expected to have grown by a similar proportion. The main credit recipients are State enterprises linked to the agriculture and construction sectors.

Despite the expectations generated by official statements that have repeatedly emphasized the priority of monetary restructuring as part of updating the economic and social model, details of the exchange-rate unification process have yet to emerge. This issue is very important, because the existence of multiple exchange rates generates major distortions in the labour market and in the external sector; it also entails implicit transfers between different public enterprises, and it segments the domestic market. Given the complexity of this issue, the details of the process could have a significant impact on the economy's short-term prospects. According to the authorities, one of the premises of the restructuring is to minimize the impact on the population in terms of employment, purchasing power and access to public services.

#### **(c) Other policies**

Despite the progress made in bilateral relations since the restoration of diplomatic relations in December 2014, in June 2017 the Government of the United States announced several changes in its policies towards Cuba.

The measures adopted entered into force in November 2017 and include the following: (a) a prohibition on direct financial transactions between persons and enterprises under United States jurisdiction and entities which the United States Department of State considers to be linked to the Cuban

intelligence, security and defence services; (b) the denial of permits for the export of goods and services to entities included on the restricted list, and (c) a prohibition on travel by United States citizens to the island individually. The list of restricted entities includes both the Mariel Special Development Zone (ZEDM) and the Mariel and Havana container terminals. The measures do not directly affect the sending, processing and receiving of family remittances. Both countries, however, have maintained bilateral dialogue on issues of mutual interest, including agriculture, migratory flows and the fight against terrorism, drug trafficking and money laundering.

In addition, the economic embargo is being imposed more stringently and its impact was officially estimated at US\$ 4 billion between April 2016 and June 2017. The losses represent mainly income forgone as a result of being unable to export goods and services to the United States, the need to import supplies from other markets, the cost of conducting financial transactions while avoiding United States institutions, and the impact on private foreign investment caused by the prospect of United States sanctions.

In August 2017, a resolution of the Ministry of Labour and Social Security temporarily suspended authorization for various own-account activities, including housing rental, the preparation and sale of food and beverages, and passenger transportation. In addition, the granting of permits to engage in activities such as the marketing of agricultural products was definitively suspended.

In July 2018, the Government of Cuba announced that authorization of own-account activities will resume as of December 2018, after new permissions were suspended in August 2017. Up to May 2018, own-account work licence-holders numbered some 600,000, representing around 12% of the employed population. The government has indicated that the new measures are intended to organize own-account work, group related activities and recognize new ones, as well as introduce tighter controls to ensure the legality of the equipment and supplies used, compliance with labour regulations and tax obligations, and mechanisms to regulate specific activities. The measures include limitation of licences to one per household, and the requirement that translations relating to own-account activities be conducted through State-owned banks.

### **3. The main variables**

#### **(a) The external sector**

Despite the financial and climatic setbacks, the external sector generally trended positively in 2017. This reflects an improvement in goods and services exports, thanks to a recovery in the international prices of commodities such as nickel and petroleum products, and also to a surge in the flow of visitors to Cuba. According to preliminary estimates, despite the impact of Irma on tourism activity during the latter part of the year, the number of visitors surpassed expectations by half a million as the island received 4.7 million tourists, 11.9% more than in 2016.

The improvement in the external balance was also influenced by a number of factors that reduced import growth. Stronger performances in the production of various agricultural goods allowed Cuba to fully supply the domestic market and import less. Moreover, some imports were affected by the existence of unpaid balances on letters of credit and difficulties in accessing credit, and by fuel supply challenges.

Despite the absence of official figures on family remittance flows, the available information points to ongoing buoyancy. In the case of foreign direct investment, despite the multiple disincentives stemming from the operational difficulties caused by the United-States-imposed economic embargo,

compounded by the distortions of the dual currency and administrative inefficiencies, cumulative investment commitments totalled US\$ 2 billion in 2017. Judging by the content of the most recent edition of the portfolio of foreign investment opportunities, the priority projects are associated with renewable energies, light industry and tourism. There are no up-to-date figures on the trend of the external debt.

For 2018 a relatively favourable scenario is projected for the external sector, driven by tourism, which is forecast to continue performing strongly despite fewer visitors arriving from the United States. Imports are also expected to remain hampered by the foreign-exchange constraint. In this connection, the Central Bank of Cuba requires State enterprises wishing to make imports in excess of US\$ 100,000 to obtain prior authorization.

### **(b) Economic activity**

Revised figures show that the Cuban economy experienced modest growth of 0.5% in 2016, not a contraction of 0.9% as originally reported. Growth in 2017 is thus estimated at 1.6%, which would mean an annual average rate of just 2.1% during the five-year period 2013-2017. From a sectoral standpoint, this meagre outcome reflects the behaviour of tourism-related sectors (transport, storage and communications, commerce, hotels and restaurants), along with agriculture and construction. According to official statements, manufacturing activity has been hampered by input supply constraints, which have particularly affected the production of cleaning and hygiene goods, as well as the production of construction materials.

According to official statements, in the first half of 2018, the economy grew by a modest 1.1%. Growth has been affected by a slowdown in visitor arrivals, mainly from the United States, as a result of the restrictions imposed by the Administration of Donald Trump, as well as a heavy contraction in sugar production and the impact of weather events such as the prolonged drought and the Tropical Storm Alberto in May.

The authorities anticipate growth close to 2% in 2018 fuelled by the continuing strength in tourism- and construction-related activities. By contrast, ECLAC projects a rate of 1.5%, given the uncertainties surrounding fulfilment of the investment plan and the impact on visitor flows of the tightening of the economic embargo by the United States.

### **(c) Prices, wages and employment**

Despite the lack of up-to-date figures, the available information suggests only marginal increases in consumer prices at the national level in 2017. This is the overall result of the price controls implemented to mitigate the effects of Hurricane Irma on consumption, combined with regional heterogeneity that saw prices rising faster in the more tourism-intensive regions.

With the economically active segment shrinking as Cuba's population ages, and the non-State sector gaining an increasing share of employment, official estimates for 2017 point to an unemployment rate of 2.4%, above the previous year's 2.0%. The nominal average wage in the State sector of the economy is expected to rise by 1.6% (to 750 Cuban pesos), compared with the 7.7% increase in 2016. For 2018, official projections foresee unemployment broadly the same as in 2017, together with a slight (2.2%) rise in the nominal average wage.

Table 1  
CUBA: MAIN ECONOMIC INDICATORS

	2009	2010	2011	2012	2013	2014	2015	2016	2017 a/
Gross domestic product	1.5	2.4	2.8	3.0	2.8	1.0	4.4	0.5	1.6
Per capita gross domestic product	1.4	2.3	2.7	2.8	2.6	0.9	4.3	0.5	1.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-0.2	-6.0	4.4	0.7	4.7	2.2	2.5	5.8	...
Mining and quarrying	-3.3	7.4	1.4	2.1	-2.3	-0.7	-2.0	-3.7	...
Manufacturing	0.9	1.1	3.9	2.2	2.1	-3.6	6.3	-5.2	...
Electricity, gas and water	0.8	-1.7	2.7	4.4	3.7	0.7	4.3	1.2	...
Construction	0.6	-7.5	-7.3	11.3	7.9	-2.3	17.0	4.7	...
Wholesale and retail commerce, restaurants and hotels	2.2	3.1	6.3	5.3	3.4	3.2	6.3	1.0	...
Transport, storage and communications	2.5	2.6	3.6	6.2	3.2	4.3	6.5	3.4	...
Financial institutions, insurance, real estate and business services	0.9	3.4	2.4	8.0	2.0	4.6	3.9	1.5	...
Community, social and personal services	3.2	4.9	0.6	-0.6	1.4	0.7	-0.2	0.5	...
Gross domestic product, by type of expenditure									
Final consumption expenditure	1.2	5.9	0.5	1.9	3.7	2.8	5.1	2.9	...
Government consumption	1.7	2.3	-1.2	-0.6	0.8	-1.0	0.0	-0.2	...
Private consumption	0.9	7.9	1.4	3.3	5.2	4.6	7.4	4.1	...
Gross capital formation	-19.0	-0.7	8.5	7.2	4.0	-4.9	18.3	7.5	...
Exports (goods and services)	3.1	13.8	5.5	0.4	1.7	-2.8	-0.1	-19.7	...
Imports (goods and services)	-14.9	35.7	1.0	-2.1	6.1	-1.5	10.1	-10.6	...
Investment and saving c/									
Gross capital formation	10.9	10.1	8.5	8.6	9.4	7.6	9.4	9.6	...
Employment									
Labour force participation rate d/	75.4	74.9	76.1	74.2	72.9	71.9	67.1	65.2	...
Open unemployment rate d/	1.7	2.5	3.2	3.5	3.3	2.7	2.5	2.0	...
Prices									
Variation in consumer prices (December-December) e/	-0.1	1.5	1.3	2.0	0.0	2.1	2.4	-3.0	0.6
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	49.1	45.4	51.4	54.5	43.1	31.3	33.5	...	...
Tax revenue	21.4	17.8	24.0	30.6	22.3	19.4	...	...	...
Total expenditure	53.9	49.0	48.4	47.8	41.1	30.7	33.9	...	...
Current expenditure	43.0	40.0	40.2	32.7	32.6	27.5	29.7	...	...
Interest	1.1	1.3	0.0	...	...	...	...	...	...
Capital expenditure	8.2	6.1	5.7	8.8	7.4	3.1	3.9	...	...
Primary balance	-3.8	-2.2	...	0.0	...	...	...	...	...
Overall balance	-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.