

Cuba

The Economic Commission for Latin America and the Caribbean (ECLAC) has lowered its 2018 growth estimate for Cuba from 1.6% to 1.1%, owing to the decline in the number of visitors to the island—because of the travel restrictions imposed by the Government of the United States on its citizens—and to the impact of weather events on the primary sector. This projection factors in the large fiscal stimulus focused primarily on the promotion of exports, food import substitution and infrastructure investment. The State deficit is forecast at roughly 11.5% of GDP, much higher than the already considerable 8.6% recorded in 2017. The tightening of the economic embargo imposed by the United States, worsening economic conditions in the Bolivarian Republic of Venezuela and the weak performance of the primary sector are expected to weigh on the external sector in 2018. Year-on-year growth in consumer prices is expected to remain relatively low (0.6% in 2017) owing to price controls. Although the issuing of permits for some types of own-account work was suspended at the end of 2017, demand for other available permits appears to have supported employment growth in the non-State sector.

The widening of the fiscal deficit reflects an increase in total spending of 1.5 percentage points of GDP, accompanied by a contraction of a similar magnitude in total revenue. On the basis of an assumption of 4% growth in the implicit GDP deflator for 2018, the decline in real revenue reflects mainly the decrease of roughly 7% in real terms of non-tax revenue (3.7% in 2017), equivalent to about 14% of GDP, which appears to have been affected by weaker returns on investment for State-owned companies and softer demand for overseas health-care services. Tax revenue, which amounted to 42.6% of GDP in 2017, is expected to grow by around 0.5% in real terms (4.5% in 2017).

Meanwhile, total spending is expected to grow by 3.3% in real terms (6.1% in 2017), driven mainly by 9.6% growth in resources earmarked for non-budgeted activities (25% of GDP) and, to a lesser extent, by a 17.6% increase in capital spending and transfers (5% of GDP). The priority given to non-budgeted activities reflects the government's efforts to promote exports and substitute imports, to ease the restrictions imposed on growth by foreign-exchange availability. Spending on budgeted activities (equivalent to 38.6% of GDP in 2017) is expected to contract by 2.1% in real terms.

The deficit was financed by issuing bonds in the national banking system with a repayment term of up to 20 years and an average nominal interest rate of 2.5%. Cuba does not publish updated figures on the balance of public debt.

The Central Bank of Cuba reports slower growth in the main monetary aggregates in 2018. In 2017, M2 grew by 8.1%, to 53.8% of GDP. One of the determining factors of this deceleration was weaker demand for cash owing to the loss of momentum in tourism-related activities, which involve a large number of own-account workers who favour cash. The available data also indicate a deceleration in bank lending for production activities.

Under this scenario and given the absence of demand pressures, the central bank made no adjustments to its legal reserve requirements or reference bands for nominal interest rates in 2018. With a view to complementing the changes in regulations governing foreign direct investment (FDI), various mechanisms to encourage the participation of financial and investment institutions in the national financial system came into effect in October. These mechanisms focused on streamlining procedures to approve and implement FDI projects.

The external sector's performance was influenced by the loss of momentum in tourism-related activities. At September 2018, the number of visitors had fallen by about 3% year-on-year owing especially to the 10% drop in visitors from the United States. The decline in visitors was compounded by the fact that the number of those arriving by air, who spend more and stay longer, on average, decreased in relation to those arriving by cruise ship. Exports of other services, especially health care, were also affected by weaker demand.

In 2018, goods exports were weighed down by weather events such as Tropical Storm Alberto in May and Hurricane Michael in October, and by the scarcity of inputs. The impact on the production of sugar and its by-products and on nickel production was particularly heavy. The situation in the export sector was partly offset by the initiatives taken to limit imports, especially of capital goods.

According to figures published in October 2018, despite the negative impact of Hurricane Irma, the Cuban economy grew by 1.6% in 2017 thanks to the performance of tourism-related sectors and reconstruction efforts towards the end of the year. The pace of growth has weakened in 2018, as stagnating visitor flows have weighed on trade, communications and transport, and hotels and restaurants. Sugar production also contracted in the aftermath of Hurricane Irma. However, the construction sector has been boosted by repair work following Hurricanes Irma and Matthew. There are no updated figures on consumer price trends. Nonetheless, given weaker economic activity and price controls, inflationary pressures are not expected.

In 2017, the labour market participation rate continued to trend downwards, driven by population dynamics and migration, and stood at 63.4%. Although the gap between men's and women's participation narrowed slightly, it still exceeds 25 percentage points. The unemployment rate fell from 2% in 2016 to 1.7% in 2017, while the nominal average wage grew by 3.6% in 2017, which indicates a significant slowdown compared to 7.7% in 2016. Changes to regulations governing own-account activities, which involve roughly 12% of the country's employed population, will come into effect in December 2018. These changes include the requirement that transactions relating to own-account activities be conducted through bank accounts.

For 2019, ECLAC forecasts a similar economic growth rate of 1.0%, driven by stronger momentum in tourism-related sectors, which will be partly offset by the gradual winding down of fiscal stimulus and weaker revenue from overseas health-care services.

Cuba: main economic indicators, 2016-2018

	2016	2017	2018 ^a
	Annual growth rate		
Gross domestic product	0.5	1.6	1.1
Per capita gross domestic product	0.5	1.6	1.1
Consumer prices	-3.0	0.6	2.0 ^b
Real average wage	8.2	4.8	...
	Annual average percentage		
Open unemployment rate	2.0	1.7	...

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

a/ Estimates.

b/ Figures as of October.