

Cuba

Following a 0.9% contraction in 2016, ECLAC expects the Cuban economy to recover slightly to post growth of 0.5% in 2017. This performance reflects a balance between the larger flow of tourists into the country plus the fiscal stimulus, albeit partially offset by a hardening of the United States blockade, and the difficult economic situation prevailing in the Bolivarian Republic of Venezuela (one of Cuba's main trading partners) plus the effects of extreme weather events on agricultural activity.

In view of the adverse economic situation, which reduced government revenue, the State's fiscal deficit was equivalent to 6.8% of GDP in 2016, slightly below the 7.1% of GDP forecast in that year's budget law. For 2017, the budget envisages a deficit of close to 11.5 billion pesos (12% of budgeted GDP), which is more than 5 billion pesos higher than in 2016. The labour-force utilization tax was cut to 5% of the wage earned; and there were increases of 29.2% in spending on non-budgeted activities and 42.9% in expenses and capital transfers relative to execution in 2016. The available information indicates that while the deficit is not expected to exceed the budgeted level, some expenditure items have been retargeted towards the reconstruction of homes and key infrastructure following the damage caused by Hurricane Irma.

As the first half of 2017 ended, public income was slightly above the budgeted amount, thanks to the revenue performance of personal and corporate income taxes. In contrast, expenditures undershot, owing to less-than-budgeted growth in items such as construction maintenance and intermediate inputs. As a result, the cumulative fiscal deficit for the first half of the year was around 4.5 billion pesos, which has been financed by issuing sovereign bonds in the national banking system. During the same period, a US\$ 2.306 billion payment is reported to have been paid on the public-sector debt.

On the monetary policy front, the instruments available to a central bank in a centrally planned economy are control of the exchange rate, management of interest rates and legal reserve requirements, which remained unchanged during the reporting period. In 2016, the monetary aggregate M2 grew by 13.1% in nominal terms, owing to a 15.9% expansion of cash in circulation, which partly reflects the trend of working capital among non-State sector workers.

In November 2017, several measures adopted by the Government of the United States entered into force, imposing additional restrictions on investment, trade and travel by its citizens to Cuba. In early November, however, announcements were made of the signing of an agreement to export charcoal to the United States, and the opening of a distributor of a United States industrial equipment firm in the Mariel Special Development Zone (ZEDM). On 1 November, the political dialogue and cooperation agreement with the European Union entered into force.

In October, a framework agreement was signed with China, which includes concessional credit lines for investment in the energy sector. In early November, the portfolio of foreign investment opportunities was updated, incorporating 156 projects targeting the tourism, agribusiness, food, energy and construction sectors. The end of that month saw the launch of the political process that will elect a new president in February 2018.

Despite a fall of almost 30% in merchandise exports in 2016, owing to lower production volumes and an adverse price scenario, the merchandise trade deficit narrowed by nearly US\$ 400 million, due to a sharp reduction in goods imports owing to difficulties in accessing trade credit associated with unpaid balances on letters of credit. In the first half of 2017, goods exports made a slight recovery, driven by the

dynamics of international prices; but this upturn could be compromised by the damage caused by Hurricane Irma in the second half of the year. In the case of services, tourist flows kept up their momentum; and the 2016 record figure of 4 million arrivals was surpassed in early November, so the year is expected to end with over 4.7 million visitors. The way health services are exported has also been changes in order to promote the health tourism modality among visitors who travel to the island.

According to figures from the Ministry of Foreign Trade and Foreign Investment, foreign direct investment (FDI) projects totalling US\$ 2 billion have been announced in 2017, mainly in tourism and energy infrastructure. These include various Russian investments.

After the Cuban economy (according to preliminary figures) entered recession in 2016 due to contractions in the manufacturing (-3%), construction (-4.6%) and public health (-5.3%) sectors—which were only partly offset by expansions in transport, storage and communications (5%) and hotels and restaurants (5.1%)—the growth path was resumed in the first half of 2017 with a year-on-year expansion of 1.1%. The upturn in economic activity seems to have been sustained by still-buoyant tourism despite the recommendation of the United States government to its citizens not to travel to the island, a strong performance by the transport sector, an upturn in agricultural activity and recovery in the construction sector. During the second half of the year, however, economic activity was undermined by Hurricane Irma's impact on the agricultural sector.

The available reports show that consumer price inflation remained subdued in the first half of the year due to better supply conditions. Nonetheless, this trend may have been reversed in the second half by the hurricane's impact on the food supply.

Although the unemployment rate eased down from 2.4% in 2015 to 2.0% in 2016, this coincides with a declining trend in the participation rate since 2011, which reflects demographic dynamics and international migration patterns. According to figures from the Ministry of Labour and Social Security (MTSS), the number of own-account workers at the end of the third quarter of 2017 was up by 10.8% year on year. The buoyancy of employment in the non-State sector could be affected in the short term by the government's decision to temporarily stop issuing permits for various activities. In terms of wages, official sources report that the nominal average wage, which in 2016 rose by 7.7%, will have fallen by 1.2% in the first half of 2017 owing to a 0.6% fall in labour productivity.

For 2018, ECLAC sees the growth rate picking up somewhat to 1%, based on the continued strength of tourism activity, regularization of the supply of energy products, a modest improvement in the international prices of Cuba's main export products, and additional expenditure on reconstruction work to repair the damage caused by Hurricane Irma.