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## Country Report

# Cuba

**Generated on January 25th 2020**

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ISSN 2047-4598

## **Symbols for tables**

"0 or 0.0" means nil or negligible; "n/a" means not available; "-" means not applicable

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# Briefing sheet

Editor: **Mark Keller**

Forecast Closing Date: **January 10, 2020**

## Political and economic outlook

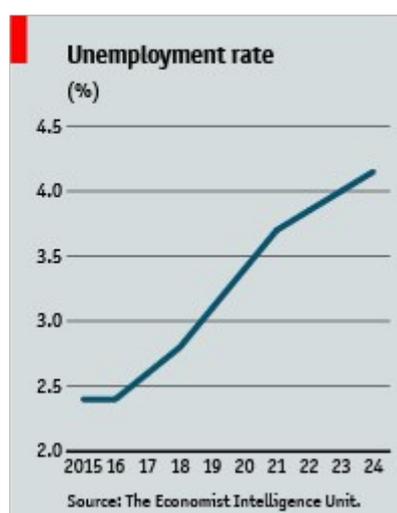
- A constitutional reform has split executive power between the president, prime minister and chair of the ruling party. Although this limits the president's ability to execute rapid change, it also raises risks to political stability as different figures compete for authority.
- Despite changes to the executive structure, the revolutionary leader and former president, Raúl Castro (2008-18), will remain the country's most powerful figure through his position as chair of the ruling party and his close connections with the armed forces.
- US-Cuba relations will remain frosty under the current US president, Donald Trump, although relations are expected to warm up later in the 2020-24 forecast period, assuming that a Democratic candidate wins the US presidency in 2020.
- Economic liberalisation will be cautious. The government will entrench existing reforms rather than introduce major policy changes. The non-state sector will expand, but The Economist Intelligence Unit expects the government to limit the pace of growth.
- The fallout from US sanctions on Cuba and Venezuela will lead to a 0.7% contraction of GDP in 2020. However, positive growth will return in 2021-24, assisted by better access to financing, growth in tourism and progress on economic reforms.
- Currency unification will remain a crucial facet of the reform agenda but is unlikely to be undertaken within the forecast period. This will continue to distort the economy, making it difficult to measure GDP or price levels adequately.

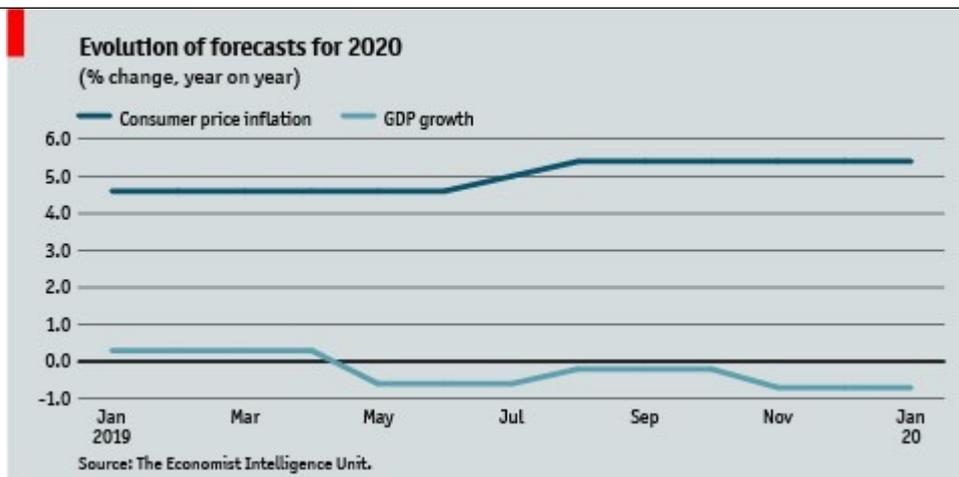
### Key indicators

	2019 <sup>a</sup>	2020 <sup>b</sup>	2021 <sup>b</sup>	2022 <sup>b</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>
Real GDP growth (%)	0.5	-0.7	3.1	3.8	3.9	3.3
Consumer price inflation (av; %)	5.6	5.4	5.2	6.7	6.4	5.4
Government balance (% of GDP)	-6.3	-5.4	-4.9	-4.3	-3.7	-3.3
Current-account balance (% of GDP)	1.4	0.7	0.2	-1.1	-1.9	-1.6
Unemployment rate (%) <sup>c</sup>	3.1	3.4	3.7	3.9	4.0	4.2
Exchange rate CUC:US\$ (av; official rate)	1.00	1.00	1.00	1.00	1.00	1.00

<sup>a</sup> Economist Intelligence Unit estimates. <sup>b</sup> Economist Intelligence Unit forecasts. <sup>c</sup> The official definition of unemployment includes only those laid off from employment who are registered as seeking work.

## Market opportunities





## Key changes since December 6th

- On December 21st Manuel Marrero, the minister for tourism, became Cuba's first prime minister since 1976. His appointment suggests that the government is opting for institutional strengthening over nepotism or cronyism, and we have adjusted our forecasts accordingly.

## The month ahead

- TBC—Constitutional reforms:** Following the ratification of a constitutional reform in 2019, the government will implement elements of it over the coming months. The reforms will devolve more power to the local level and reduce obstacles to domestic business operations and processes for foreign investors.
- TBC—Plans for currency reform:** At a December meeting of the National Assembly, the president said that the government would present long-awaited plans for currency reform in 2020. If plans are presented (which is not a given), they will give a clearer picture of how the government intends to unify the Cuban peso (CUP) and the convertible peso (CUC).

## Major risks to our forecast

Scenarios, Q4 2019	Probability	Impact	Intensity
Partial dollarisation of the economy reduces the possibility of currency unification	High	High	16
Venezuela's political crisis results in regime change and a sudden end to aid inflows	High	High	16
Weather-related shocks cause extensive damage to infrastructure	High	High	16
Cuba defaults on Paris Club debt, triggering a reinstatement of arrears	Moderate	Very high	15
An ageing population, net emigration and "brain drain" add to skilled-labour shortages	High	Moderate	12

Note. Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.

Source: The Economist Intelligence Unit.

# Outlook for 2020-24

## Political stability

The government will institute constitutional reform while managing a difficult international and economic environment amid hostile relations with the US. The reform—to be introduced over the coming months—makes significant changes to the country's political and economic structure. On the political front, the reform divides executive authority, and moves the locus of power away from individual figures and towards institutions. In December the National Assembly appointed Manuel Marrero as Cuba's first prime minister since 1976, after he was selected by the president, Miguel Díaz-Canel, who has been in office since 2018. The prime minister will lead the cabinet in the daily running of the country, whereas the role of president will become more ceremonial.

A third pillar of power will be the chair of the ruling Partido Comunista de Cuba (PCC). This role was traditionally coterminous with that of the president, but is currently held by Raúl Castro, the former president and a revolutionary leader. Mr Castro is expected to step down at the next PCC congress in 2021, and the title is likely to pass to Mr Díaz-Canel. Generational renewal is a goal of the PCC; the constitutional reform has set upper and lower age limits for political posts. As Mr Castro and his contemporaries exit the scene, new leaders will vie for authority (especially given the more decentralised power structure), which will increase risks to stability.

Despite the political changes, social reforms will be gradual, owing to the government's wariness of the destabilising effects of liberalisation. However, access to information will improve in the 2020-24 forecast period through increased mobile and internet penetration. Greater tension with the US—and the economic costs of new US sanctions—raise risks to political stability. However, The Economist Intelligence Unit does not believe that this will result in regime change in 2020-24. The government is skilled at defusing dissent through the domestic security apparatus and neighbourhood-monitoring groups, and the state media are effective at rallying support through propaganda.

## Election watch

Cuba's one-party system will remain largely unchanged in 2020-24. National and provincial elections are held every five years, most recently in March 2018. Candidates are nominated through municipal councils (elected every two and a half years) and by members of official "mass organisations", including labour unions and organisations for students, women and farmers. Ultimately, the final decision rests with the PCC's candidates' commission. Although it is not a requirement, most of the candidates are PCC members. Only one candidate is nominated for each seat in National Assembly elections, but nominees must be approved by a majority of voters. The National Assembly chooses the president, who is limited to two five-year terms.

## International relations

Following a period of rapprochement, Cuba will face a more hostile US, as the US has reverted to its previous goal of bringing about regime change in Cuba. The US has announced the full implementation of Title III of the 1996 Helms-Burton Act, which allows US citizens with claims to property confiscated by the Cuban government after the 1959 revolution to sue companies currently "trafficking" in that property. This subjects foreign companies operating in Cuba to lawsuits in US courts. The US has announced limits on workers' remittances from Cuban-Americans and several new sanctions on US tourism to Cuba. These measures are in addition to US trade sanctions that have been in place since 1960 (which can be removed only by the US Congress). Given weak popular support for the embargo in the US, our baseline forecast assumes that sanctions will be lifted once the US president, Donald Trump, leaves office. Our current forecast is for a Democratic victory in the 2020 US presidential election, making it likely that some sanctions will be lifted from 2021. However, risks to this forecast are extremely high, and an end to sanctions is unlikely as long as Mr Trump remains president.

Ties with the EU will improve, following a formal reinstatement of relations in 2017, and the EU will continue to be an important investment and lending partner. Cuba will remain a staunch defender of Nicolás Maduro's regime in Venezuela, which is still an important market for Cuban services exports and supplies oil. Cuba will be courted increasingly by global actors seeking to involve it in a resolution to the Venezuelan crisis; the Canadian and EU foreign ministers visited Cuba in late 2019 to discuss the issue. Given diminishing aid from Venezuela, Cuba is also developing investment and commercial ties with other nations, including China, Russia, Japan, Angola and Algeria.

## Policy trends

US sanctions will complicate the five-year economic policymaking framework set out at the PCC congress in April 2016. To mitigate the effect of sanctions, the government will accelerate some liberalising reforms to create more efficient markets and improve productivity. Last year it announced large increases in the minimum and average wages, aimed at boosting consumption. Real purchasing power has declined for several years, demotivating workers and acting as a drag on overall productivity. The reform also permits state firms to reinvest profits, rather than turning them over to the state Treasury, in the hope that this will boost output and export growth. The constitutional reform officially codified the right to private property and private enterprise, along with the centrality of foreign investment into the economy. These changes marked important steps in economic opening, and from January 2020 there will be a "single window" to facilitate foreign investment. In October 2019 the government legalised the use of the US dollar in hard-currency stores (removing the need to convert dollars to local currency) to support the sale of imported consumer goods and make them more affordable. However, the transformation from a communist to a mixed economy will be gradual and will not result in fully fledged capitalism in the forecast period.

Risks to economic liberalisation are substantial, given the state's half-hearted commitment to independent enterprise and hardliners' resistance to reforms. Activity in the non-state services sector has stagnated, and we expect weak growth in 2020, owing to slower tourism growth. Non-state jobs will remain concentrated in restaurants, hotels and other tourism services, but will eventually expand into construction, business services and other sectors. Other challenges include US sanctions and declining support from Venezuela.

## Fiscal policy

Revenue and spending as a share of GDP will fall in 2020-24 as the public sector shrinks. The government will continue to reduce the fiscal deficit after several years of significant shortfalls (averaging an estimated 7.2% of GDP in 2015-19). We forecast a slightly narrower deficit of 5.4% of GDP in 2020 and further gradual progress thereafter, with the deficit shrinking to 3.3% of GDP in 2024. The contraction will be necessitated by the government's meagre access to external finance and limited sources of domestic finance; up to 70% of the deficit is reportedly financed by bonds purchased by state-owned banks (drawing on savings by citizens and state-owned companies), with the remainder monetised. Following the recent spate of large deficits, the government may be close to exhausting domestic financing sources and may therefore be wary of greater monetisation.

We expect Cuba to remain barred from membership of multilateral institutions—such as the World Bank and the Inter-American Development Bank—as long as US sanctions remain in place, given US veto power in both organisations. However, assuming an easing of sanctions, these institutions could give technical advice or lend money later in the forecast period. Lending from other multilateral institutions, such as the Development Bank of Latin America and the Central American Bank for Economic Integration, is possible, particularly for investment projects. EU countries have offered "debt-for-equity" swaps (such as investments in infrastructure projects), following a debt-rescheduling agreement with the Paris Club of bilateral creditors in 2015.

## Monetary policy

The large informal economy and the existence of different markets with divergent prices and exchange rates complicate monetary management. The government currently operates in two currencies—the convertible peso (CUC, set at CUC1:US\$1) and the Cuban peso (CUP, officially CUP1:CUC1, but unofficially set at CUP24:CUC1). However, in response to significant liquidity challenges, it has increasingly permitted the use of foreign currency for electronic purchases (at the expense of the CUC), in a bid to keep foreign-currency spending on consumer goods within Cuba. The government officially aims to unify the two currencies by 2021, but recent developments suggest that it may be encouraging a move away from the CUC, with plans to eventually eliminate it. A clearer picture should emerge in the months leading up to the 2021 party congress.

## International assumptions

	2019	2020	2021	2022	2023	2024
<b>Economic growth (%)</b>						
US GDP	2.3	1.7	1.8	2.0	1.8	2.2
OECD GDP	1.6	1.5	1.8	1.9	1.8	2.0
World GDP	2.3	2.4	2.8	2.9	2.8	2.9
World trade	1.5	2.3	3.6	3.7	3.7	3.8
<b>Inflation indicators (% unless otherwise indicated)</b>						
US CPI	1.8	1.6	1.9	2.1	1.8	1.8
OECD CPI	1.9	1.8	2.0	2.2	2.1	2.0
Manufactures (measured in US\$)	-0.1	1.9	4.0	4.1	3.5	3.1
Oil (Brent; US\$/b)	64.0	63.0	67.0	71.0	73.8	71.0
Non-oil commodities (measured in US\$)	-6.6	0.8	3.9	1.8	0.9	2.5
<b>Financial variables</b>						
US\$ 3-month commercial paper rate (av; %)	2.2	1.5	1.5	1.8	2.2	2.3
Official exchange rate CUC:US\$ (av)	1.00	1.00	1.00	1.00	1.00	1.00
Exchange rate US\$:€ (av)	1.12	1.13	1.16	1.21	1.24	1.24

## Economic growth

The economy will remain under strain in the short term, owing to continued limited access to foreign exchange due to reduced aid and oil shipments from Venezuela, and harsher US sanctions. In view of energy shortages and continued US pressure, we forecast a contraction of 0.7% for 2020, following meagre estimated 2019 growth of 0.5% (the same as the Cuban government's estimate) in 2019. The 2020 contraction will stem from a fall in tourist arrivals (particularly from Europe and the US) and in gross fixed investment as foreign investors are spooked by US sanctions and reconstruction following the 2017 hurricane season concludes. However, the boost to consumption from higher real wages will prevent a deeper contraction; import compression necessitated by hard-currency shortages will also have a net positive effect. We expect growth to accelerate from 2021, assuming an easing of US sanctions under a Democrat-led US administration, which will spur trade, tourism and investment. GDP growth will average 3.5% in 2021-24, assuming that economic reforms advance (albeit slowly), access to international finance and trade improves, and state-sector rationalisation generates efficiency gains and the transfer of more activity to the private sector. However, measuring the size of the Cuban economy is difficult, given various exchange rates and a 1997 base year for Cuban GDP data, which fails to account for structural changes to the economy in recent years.

Downside risks to our GDP forecast are elevated and stem from the prospect of further US sanctions on Cuba, a second term for Mr Trump or the possibility that regime change in Venezuela brings a sudden halt in aid to Cuba. If Mr Trump wins a second term, we would expect GDP growth to be 2 percentage points lower per year on average.

### Economic growth

%	2019 <sup>a</sup>	2020 <sup>b</sup>	2021 <sup>b</sup>	2022 <sup>b</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>
GDP	0.5	-0.7	3.1	3.8	3.9	3.3
Private consumption	1.9	0.8	4.3	4.7	4.1	3.3
Government consumption	-0.3	-1.3	2.7	3.9	5.8	3.0
Gross fixed investment	2.5	-1.8	2.1	9.1	8.5	4.6
Exports of goods & services	-7.3	-7.5	8.1	7.7	7.4	4.6
Imports of goods & services	-3.0	-4.4	11.3	15.8	14.4	5.2
Domestic demand	1.5	-0.1	3.6	5.2	5.2	3.5
Agriculture	1.9	1.6	3.8	4.5	3.7	3.0
Industry	-0.5	-2.7	2.9	5.2	4.3	3.5
Services	0.8	-0.3	3.2	3.5	3.8	3.3

<sup>a</sup> Economist Intelligence Unit estimates. <sup>b</sup> Economist Intelligence Unit forecasts.

## Inflation

In the absence of reliable official data, we expect inflation to average 5.3% per year in 2020-21 as a slower economy and lower tourist arrivals offset demand-side pressures from higher wages. Inflation will rise to an average of 6.2% in 2022-24—assuming higher levels of domestic demand—amid the easing of US sanctions. Concerned about the inflationary impact of wage increases, the authorities have administered unorthodox measures such as price freezes, which are likely to exacerbate shortages and perpetuate price distortions, ultimately intensifying price pressures. At the same time the inflationary impact of price liberalisation will prompt the authorities to implement the policy cautiously over many years, but the effect should be partly cushioned by firmer competition and expanded output amid the government's drive to promote exports.

## Exchange rates

The CUP is used for salaries and locally produced goods, and the CUC is used in hard-currency retail outlets, for imports and by tourists. The CUC is fixed at CUC1:US\$1. There are nine exchange rates between the two currencies, the two principal ones being the official rate of CUP1:CUC1, used in the state sector, and the unofficial (but legal) "Cadeca" rate of CUP24:CUC1, used for personal transactions and in the non-state sector. Some sectors of the economy (such as the Mariel Special Development Zone—a manufacturing and port complex—and agricultural sales to the tourism sector) use intermediate rates of CUP10:CUC1 or CUP11:CUC1. The system is distortionary, making it difficult to measure the economy's size or calculate costs and prices.

Officially, the authorities intend to unify the two currencies. Given the recent introduction of the US dollar and other foreign currencies into parts of the economy in October 2019, we now consider unification unlikely in 2020-24. The prevalence of the US dollar in the economy at the expense of the CUC is likely to increase; anecdotal evidence suggests that the CUC is already selling at a rate of CUC1.2:US\$1 on the black market. As such, it now appears more likely that the authorities will eliminate the CUC in favour of a mix of the CUP and foreign currency.

## External sector

US sanctions, which target US tourism, Venezuelan oil shipments to Cuba and workers' remittances from Cuban-Americans, put pressure on Cuba's external sector. The government will be able to moderate the effect of these through import compression and domestic rationing, but the current-account surplus will narrow from an estimated 1.4% of GDP in 2019 to 0.2% in 2021. This will stem from declining services income (from both professional-services sales to Venezuela and tourism) and lower inflows of workers' remittances. The current account will shift into deficit from 2022 as an easing of US sanctions leads to higher import spending and profit repatriation by multinational firms in 2021-24. The effect of wider deficits on the trade and primary income accounts will be offset by growing services and transfers surpluses, amid increasing tourism and remittances.

With the imposition of Title III of the Helms-Burton Act, foreign direct investment (FDI) will slow in 2020, but we believe that it will pick up later in the forecast period (although inflows will continue to fall short of the official goal of US\$2.5bn per year). The authorities do not publish data on international reserves; we estimate an end-2019 level of US\$10.1bn (10.3 months of import cover). Cuba's reserves coverage will decrease significantly owing to pressure on the country's external sector, particularly later in the forecast period as the cost of servicing rescheduled debt increases and import levels rise, but it will remain above four months.

## Forecast summary

### Forecast summary

(% unless otherwise indicated)

	2019 <sup>a</sup>	2020 <sup>b</sup>	2021 <sup>b</sup>	2022 <sup>b</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>
Real GDP growth	0.5	-0.7	3.1	3.8	3.9	3.3
Industrial production growth	-0.5	-2.7	2.9	5.2	4.3	3.5
Gross agricultural production growth	1.9	1.6	3.8	4.5	3.7	3.0
Unemployment rate (end-period)	3.1	3.4	3.7	3.9	4.0	4.2
Consumer price inflation (av)	5.6	5.4	5.2	6.7	6.4	5.4
Consumer price inflation (end-period)	5.7	5.0	5.5	7.1	6.3	5.0
General government balance (% of GDP)	-6.3	-5.4	-4.9	-4.3	-3.7	-3.3
Exports of goods fob (US\$ bn)	2.4	2.5	2.8	3.1	3.5	3.9
Imports of goods fob (US\$ bn)	10.6	10.2	11.9	14.3	16.9	17.9
Current-account balance (US\$ bn)	1.5	0.8	0.3	-1.5	-2.8	-2.6
Current-account balance (% of GDP)	1.4	0.7	0.2	-1.1	-1.9	-1.6
External debt (year-end; US\$ bn)	29.4	29.1	29.7	30.4	30.6	31.0
CUC:US\$ (av)	1.00	1.00	1.00	1.00	1.00	1.00
CUC:US\$ (end-period)	1.00	1.00	1.00	1.00	1.00	1.00
CUP:CUC <sup>c</sup>	24.00	24.00	24.00	24.00	24.00	24.00

<sup>a</sup> Economist Intelligence Unit estimates. <sup>b</sup> Economist Intelligence Unit forecasts. <sup>c</sup> Cadeca rate.

# Data and charts

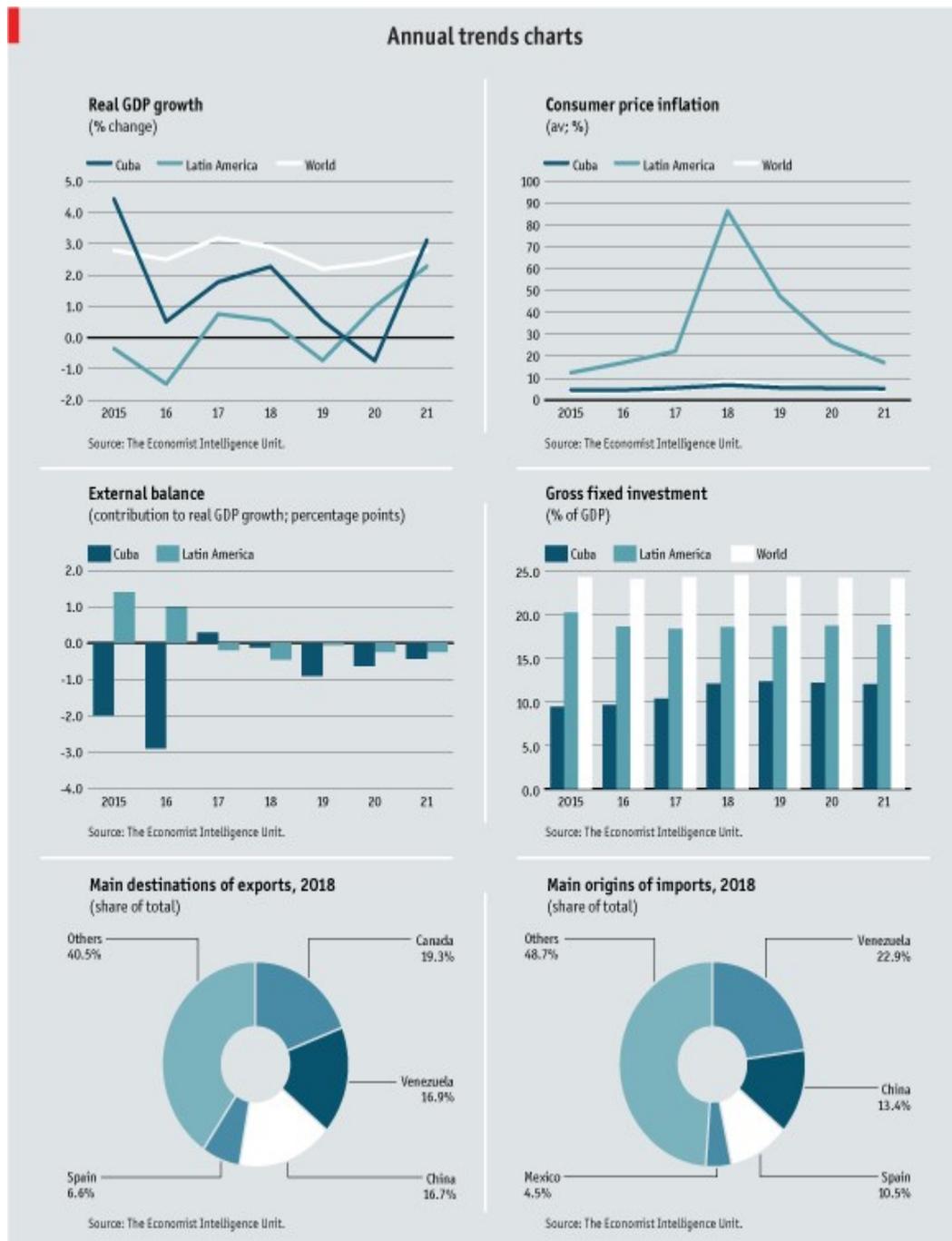
## Annual data and forecast

	2015 <sup>a</sup>	2016 <sup>a</sup>	2017 <sup>a</sup>	2018 <sup>a</sup>	2019 <sup>b</sup>	2020 <sup>c</sup>	2021 <sup>c</sup>
<b>GDP</b>							
Nominal GDP (US\$ m)	87,133	91,370	96,851	100,023	106,295	111,361	120,964
Nominal GDP (CUC m)	87,133	91,370	96,851	100,023	106,295	111,361	120,964
Real GDP growth (%)	4.4	0.5	1.8	2.3	0.5	-0.7	3.1
<b>Expenditure on GDP (% real change)</b>							
Private consumption	7.4	4.1	1.7	2.2	1.9	0.8	4.3
Government consumption	0.0	-0.2	2.2	1.3	-0.3	-1.3	2.7
Gross fixed investment	18.3	7.5	0.2	4.8	2.5	-1.8	2.1
Exports of goods & services	-0.1	-19.7	0.0	-2.4	-7.3	-7.5	8.1
Imports of goods & services	10.1	-10.6	-1.6	-2.0	-3.0	-4.4	11.3
<b>Origin of GDP (% real change)</b>							
Agriculture	2.5	5.8	-1.4	2.6	1.9	1.6	3.8
Industry	8.8	-1.9	2.2	2.5	-0.5	-2.7	2.9
Services	3.2	1.2	2.1	2.1	0.8	-0.3	3.2
<b>Population and income</b>							
Population (m)	11.3	11.3	11.3	11.3	11.3	11.3	11.3
GDP per head (US\$ at PPP)	12,474 <sup>b</sup>	12,656 <sup>b</sup>	13,120 <sup>b</sup>	13,746 <sup>b</sup>	14,166	14,327	15,053
Recorded unemployment (av; %)	2.4	2.4	2.6	2.8 <sup>b</sup>	3.1	3.4	3.7
<b>Fiscal indicators (% of GDP)</b>							
Public-sector revenue	57.4	56.5	57.2	57.1	56.4	55.2	54.3
Public-sector expenditure	63.4	63.3	65.7	65.4	62.7	60.6	59.2
Public-sector balance	-6.0	-6.8	-8.5	-8.3	-6.3	-5.4	-4.9
Net public debt	40.3 <sup>b</sup>	42.7 <sup>b</sup>	46.7 <sup>b</sup>	51.0 <sup>b</sup>	51.9	53.0	53.2
<b>Prices and financial indicators</b>							
CUC:US\$ (official rate; end-period)	1.00	1.00	1.00	1.00	1.00	1.00	1.00
CUP:CUC (secondary rate)	24.00	24.00	24.00	24.00	24.00	24.00	24.00
Consumer prices (av; %)	4.6 <sup>b</sup>	4.5 <sup>b</sup>	5.5 <sup>b</sup>	6.9 <sup>b</sup>	5.6	5.4	5.2
Stock of money M2 (% change)	9.3	13.1	8.1	13.1	3.2	1.8	6.1
<b>Current account (US\$ m)</b>							
Trade balance	-8,173	-7,756	-7,508	-8,785	-8,252	-7,666	-9,098
Goods: exports fob	3,572	2,546	2,704	2,742	2,391	2,503	2,753
Goods: imports fob	-11,745	-10,302	-10,212	-11,527	-10,644	-10,169	-11,851
Services balance	10,509 <sup>b</sup>	10,220 <sup>b</sup>	10,281	10,722 <sup>b</sup>	9,194	8,157	8,702
Primary income balance	-1,119	-1,284	-1,173 <sup>b</sup>	-1,065 <sup>b</sup>	-1,209	-1,162	-1,779
Secondary income balance	219	616	1,191 <sup>b</sup>	1,659 <sup>b</sup>	1,740	1,456	2,465
Current-account balance	1,436 <sup>b</sup>	1,796 <sup>b</sup>	2,790 <sup>b</sup>	2,531 <sup>b</sup>	1,472	785	290
<b>External debt (US\$ m)</b>							
Debt stock	30,327 <sup>b</sup>	29,891 <sup>b</sup>	29,891 <sup>b</sup>	29,890 <sup>b</sup>	29,406	29,118	29,665
Debt service paid	1,826 <sup>b</sup>	4,366 <sup>b</sup>	1,801 <sup>b</sup>	2,007 <sup>b</sup>	1,949	2,026	2,084
Principal repayments	964 <sup>b</sup>	3,524 <sup>b</sup>	954 <sup>b</sup>	1,139 <sup>b</sup>	1,082	1,148	1,152
Interest	862 <sup>b</sup>	842 <sup>b</sup>	847 <sup>b</sup>	868 <sup>b</sup>	867	878	932
<b>International reserves (US\$ m)</b>							
Total international reserves	11,803 <sup>b</sup>	12,003 <sup>b</sup>	11,353 <sup>b</sup>	10,953 <sup>b</sup>	10,053	9,053	8,103

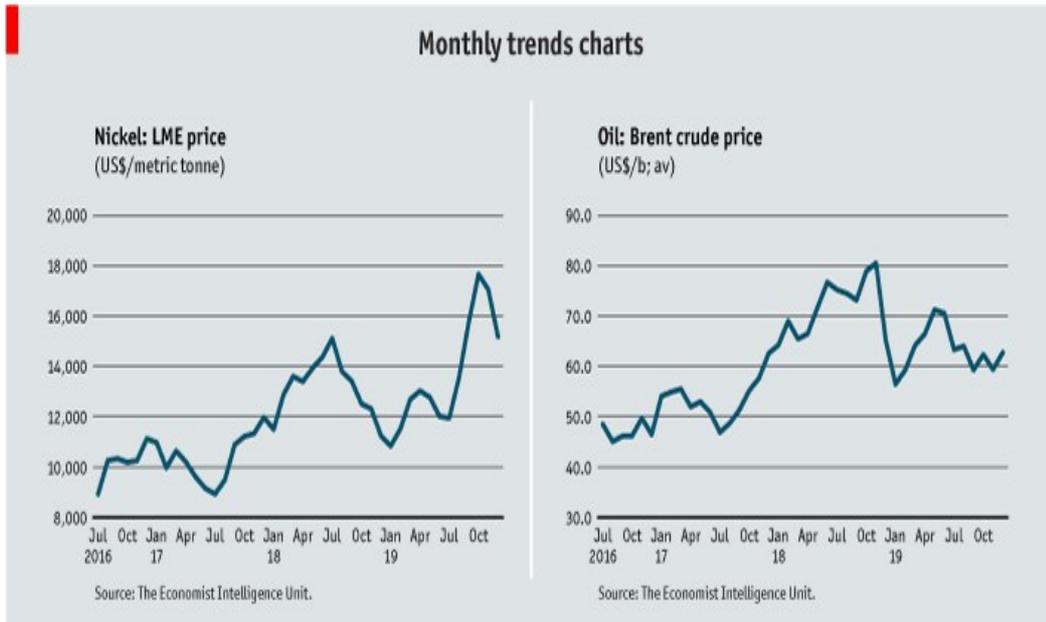
<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit estimates. <sup>c</sup> Economist Intelligence Unit forecasts.

Source: IMF, International Financial Statistics.

# Annual trends charts



# Monthly trends charts



# Comparative economic indicators



## Basic data

### Land area

110,000 sq km: mainland 105,000 sq km; Isle of Youth (Isla de la Juventud) 2,000 sq km; keys 3,000 sq km

### Population

11.2m (2018 estimate)

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## Climate

Subtropical; average temperature 25°C, average relative humidity 81%

### Weather in Havana (altitude 24 metres)

Hottest month, August, 24-32°C (average monthly minimum); coldest months, January and February, 18-27°C; driest months, January and February, 38 mm average rainfall; wettest month, September, 183 mm average rainfall

## Weights and measures

Metric system; also old Spanish units. Sugar is often measured in Spanish tonnes (2,271 lbs), and there is a Cuban quintal of 101.4 lbs, made up of 4 arrobas. For area measurement, one Cuban caballería equals 13.4 ha or 33.16 acres

## Currency

There are currently two domestic currencies: the Cuban peso (CUP), in which prices and wages are denominated within the domestic economy, and the convertible peso (CUC), used in hard-currency retail outlets, and for imports and tourist expenditure. In both currencies, 1 peso is equal to 100 centavos. The official exchange rates, used in national income and fiscal accounting aggregates, are CUP1:CUC1 and CUC1:US\$1. There are nine CUP:CUC exchange rates, the most common being the unofficial but legal rate (known as the "Cadeca" rate) of CUP24:CUC1, used mainly for personal transactions

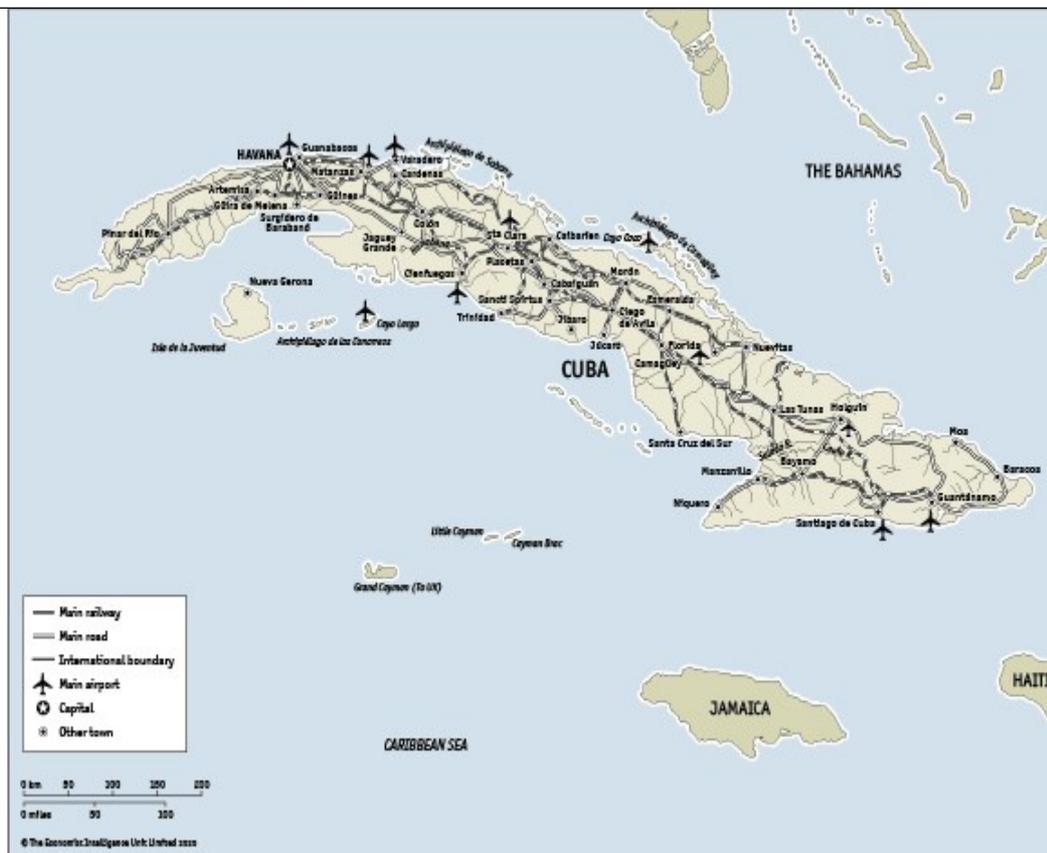
The government plans to eliminate the CUC, but has not given a date for the change, or the proposed value of the Cuban peso. In October 2019 the government legalised the use of the US dollar and other foreign currencies for electronic transactions at hard-currency stores

## Time

4 hours behind GMT (5 hours behind GMT in November-March)

## Public holidays

January 1st (Liberation Day); January 2nd (Victory Day); April 10th (Good Friday); May 1st (Labour Day); July 25th-27th (Anniversary of the Revolution); October 10th (War of Independence); December 25th (Christmas Day); December 31st (New Year's Eve)



## Political structure

### Official name

Republic of Cuba

### Form of government

Centralised political system, with close identification between the Partido Comunista de Cuba (PCC) and the state

### Head of state

The president, Miguel Díaz-Canel, took over from Raúl Castro on April 19th 2018

### The executive

The Council of Ministers is the highest executive body; it is led by the prime minister (nominated by the president). The president, the vice-president and the secretary of the Council of Ministers serve on the Executive Committee of the council.

### National legislature

National Assembly of People's Power; 612 members elected by direct ballot. The full Assembly meets twice a year, and extraordinary sessions can be called. National Assembly working commissions operate throughout the year

### Legal system

A People's Supreme Court oversees a system of regional tribunals; the Supreme Court is accountable to the National Assembly

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## National elections

Provincial and National Assembly elections last held in March 2018; next due in 2023

## National government

The organs of the state and the Partido Comunista de Cuba (PCC) are closely entwined, and power devolves principally from the Executive Committee of the Council of Ministers

## Main political organisation

The PCC is the only legal political party. Official "mass organisations" (including labour unions, and organisations for students, women and farmers) are a feature of the Cuban political system

## Key ministers

President of the republic: Miguel Díaz-Canel Bermúdez

Prime minister: Manuel Marrero Cruz

Vice-president: Salvador Valdés Mesa

Secretary of the Council of Ministers: Homero Acosta Álvarez

President of the National Assembly: Esteban Lazo Hernández

Agriculture: Gustavo Rodríguez Rollero

Communications: Jorge Luis Perdomo Di-Lella

Culture: Alpidio Alonso Grau

Domestic trade: Betsy Díaz Velázquez

Economy & planning: Alejandro Gil Fernández

Education: Ena Elsa Velázquez Cobiella

Energy & mines: Raúl García Barreiros

Finance & prices: Meisi Bolaños Weiss

Foreign relations: Bruno Rodríguez Parrilla

Foreign trade & investment: Rodrigo Malmierca Díaz

Higher education: José Ramón Saborido Loidi

Industry: Alfredo López Valdés

Interior: Julio César Gandarilla Bermejo

Justice: Oscar Silveira Martínez

Labour & social security: Margarita González Fernández

Public health: José Ángel Portal Miranda

Revolutionary armed forces: Leopoldo Cintra Frías

Science, technology & the environment: Elba Rosa Pérez Montoya

Tourism: Juan Carlos García Granda

Transport: Eduardo Rodríguez Dávila

## Central bank president

Irma Martínez Castrillón

# Recent analysis

Generated on January 25th 2020

The following articles have been written in response to events occurring since our most recent forecast was released, and indicate how we expect these events to affect our next forecast.

## Politics

### Forecast updates

#### US sanctions Cuban defence minister over Venezuela

January 10, 2020: International relations

### Event

On January 2nd the US government issued sanctions against the Cuban defence minister, General Leopoldo Cintra Frías, and two of his children—barring them from entering the US.

### Analysis

General Cintra is a career military officer and member of the revolutionary old guard. He fought alongside Cuban revolutionary leader Fidel Castro (1959-2006) since 1957, in the uprising against former Cuban dictator Fulgencio Batista (1952-59). General Cintra has held the position of defence minister since 2011.

The US secretary of state, Mike Pompeo, said that the new sanctions were being implemented because of the support provided by the Cuban Revolutionary Armed Forces to the leader of the Venezuelan regime, Nicolás Maduro. The Cuban Revolutionary Armed Forces has, according to the US state department, been involved in "gross human rights violations" including "torturing" Venezuelans and subjecting them to "cruel, inhumane or degrading treatment or punishment for their anti-Maduro stances."

Although there is anecdotal evidence of Cuban military officials embedded into the upper ranks of the Venezuelan armed forces, there is no concrete evidence of Cuban officials torturing Venezuelans. Officials in the administration of the US president, Donald Trump, have claimed that there are between 20,000 and 25,000 Cuban security officials in Venezuela, although the Cuban Revolutionary Armed Forces total between 55,000 and 60,000. The CIA believes that Cuba is far less militarily implicated in Venezuela than the Trump administration suggests.

Nevertheless, the sanctions are the latest iteration of the Trump administration's claim that the Cuban government "props up" the Maduro regime. Last September the state department banned the previous Cuban president (2008-18) and current chairman of the ruling Partido Comunista de Cuba, Raúl Castro, along with his four children, from entering the US because of Cuban involvement in Venezuela. The Cuban interior minister, Julio César Gandarilla, has been barred on the same grounds.

Given the already frosty relations between Cuba and the US following several new rounds of sanctions introduced by the Trump administration over the past two years, they are unlikely to significantly affect either US-Cuban relations or Cuban support for Venezuela. Unlike Venezuelan officials (who have been targeted by similar sanctions) Cuban officials rarely travel to the US, given over 60 years of mutual hostility between the two countries.

### Impact on the forecast

We expect the sanctions to have little material effect on US-Cuban relations. As such, our forecasts remain unchanged.

## Provincial governors selected for first time since 1959

January 23, 2020: Political stability

### Event

On January 18th Cuba's provincial assemblies selected governors and deputy governors in line with a recent constitutional reform that devolves more power to the local level. The leaders will take office on February 8th.

### Analysis

In line with the country's recent constitutional reform, candidates for governor and vice-governor were selected by the president, Miguel Díaz-Canel, but required ratification by Cuba's 168 Municipal Assemblies of People's Power (local governments), who number about 12,000 delegates. In total, 16 governors and 16 deputies were ratified (one of each for every one of Cuba's 15 provinces, plus the special municipality of the Isla de Juventud). State media emphasised that the lawmaker's votes were "free, equal, direct and secret", but as there was only one candidate per ballot, the race was not competitive. All candidates received well over 50% of the votes required to secure their position and will serve terms of five years.

The role of provincial governor was reintroduced in the country's new constitution, in force since April last year, for the first time since 1959. The role replaces the Provincial Assemblies of People's Power. As per the constitutional reform, the governor will be the highest executive-administrative post in the province, responsible for the economic and social development of his or her territory. They will be expected to act as "the co-ordinator between the central structures of the state and the municipalities", meaning executing the government's development plans at the local level. Governors will be answerable to the National Assembly of People's Power, the Council of State, the Council of Ministers and their provincial council.

The move is part of an ongoing effort in the constitutional reform to devolve more power and responsibility to the local level. Governors will have their own budgets with autonomy on spending. Cuban planners hope that "street-level bureaucrats" will be better placed than functionaries in the capital, Havana, to rationally allocate resources, allowing for better policy execution.

### Impact on the forecast

Although this modest shift away from a command economy is welcome, we do not envision that this restructuring of executive power will significantly alter Cuba's sluggish bureaucracy, which remains one of the largest impediments to more rapid policy execution, including necessary structural reform. As such, our forecasts remain unchanged.

# Economy

## Forecast updates

### US judge dismisses lawsuits against cruise lines

January 13, 2020: External sector

#### Event

A federal judge in the US state of Florida has dismissed lawsuits filed against two cruise lines—US-based Norwegian Cruise Lines and Swiss-based MSC Cruises—for docking at the port of Havana (the capital).

#### Analysis

The lawsuits were brought by a descendant of a previous owner of the port of Havana, Havana Docks Corporation (HDC), after the US president, Donald Trump, allowed Title III of the 1996 Helms-Burton Act [to come into effect](#) in April 2019. Title III—which previous US presidents had not enforced—permits US nationals with claims to property confiscated by the Cuban government after 1959 to sue companies currently "trafficking" in that property.

HDC claims to be the legitimate owner of the Port of Havana, which is used by cruise companies upon docking. The company's claim, however, was weak. The federal judge, Beth Bloom, dismissed HDC's lawsuit against the cruise lines, noting that the plaintiff's concession on the property expired in 2004. Norwegian Cruise Lines, for example, only started operating cruises to Cuba in 2017.

Earlier this month, another Florida federal judge, Cecilia Altonaga, froze a claim made by the Sánchez Hill family against Spain's Meliá Hotels for using the family's former property in the city of Cienfuegos, which is now the Meliá San Carlos hotel. The judge also rejected the family's claim against several travel booking websites that advertised the hotel. This marks the second victory for Meliá after a Spanish court threw out a similar lawsuit last year.

More than 20 claims that draw on Title III of the Helms-Burton Act have been filed in federal courts since Mr Trump granted its implementation. Trials against Carnival Cruise Lines (US), American Airlines (US) and Société Générale (France), among others, are working their way through the legal system. Although out-of-court settlements are likely to have taken place, as yet, no company operating in Cuba has been forced to pay damages.

#### Impact on the forecast

So far, no defendant has been forced to pay damages under Title III. However, our forecast remains unchanged that the threat of lawsuits from US nationals will depress foreign investment in Cuba in 2020.

## US bans most charter flights to Cuba

January 16, 2020: External sector

### Event

On January 10th the US Department of State announced a ban on charter flights between the US and all Cuban destinations except for Havana, the capital. This follows the implementation of a similar ban on commercial flights to Cuban destinations (apart from Havana) in October 2019.

### Analysis

The measure will mostly affect Cuban-American passengers, who remain the largest users of charter flights to Cuba. From January to November 2019, some 568,978 Cubans living abroad (which includes Cuban-Americans) visited the island, making them the second-largest source of foreign visitors, after Canada. This equated to growth of 5% year on year, compared with double-digit declines for the US (non-Cuban-Americans) and most European source markets. Cuban-Americans favour charter routes as these companies accept excess baggage for more reasonable rates, which allows them to carry "remittances in kind"—goods that are scarce in Cuba, or that can be used as inputs in independent enterprise in the country.

Nine Cuban airports that currently receive flights will be affected by this measure. The US government says that charter flight operators will have 60 days to discontinue routes; charter operators previously took the place of commercial operators on some of these routes after they were cancelled by the US in October 2019. In addition, the US Department of Transportation will limit the number of round-trip flights to José Martí International Airport in Havana to 3,600 per year. With Havana as their only point of entry, Cuban-Americans headed to central and eastern Cuba will face more obstacles when visiting family. Domestic flights have been reduced and roads are in bad condition. Driving from Havana to the eastern city of Santiago de Cuba takes approximately 12 hours by road.

Similar to all US-Cuba sanctions announced over the past 12 months, the state department rationalised the latest measures by pointing to Cuba's domestic "repression" and the country's support for the regime of the Venezuelan president, Nicolás Maduro.

### Impact on the forecast

To some extent, the measure will reduce Cuban hard-currency inflows, Cuban-American spending on the island and remittances in kind. We expect more sanctions on Cuba to be enforced by the US administration between now and the US presidential elections in November. At present, our main forecasts remain unchanged.

## Tourist arrivals continue to fall

January 24, 2020: External sector

### Event

Cuba registered another decline in tourist arrivals in November 2019, with the total number standing at 333,863—14.4% less than in November of 2018, according to ONEI (the national statistics institute).

### Analysis

Arrivals have been falling by double digits year on year every month since June 2019. Although the 14.4% decline in November 2019 (compared with the same month in 2018) was less dramatic than the 27.8% contraction registered in October year on year, the cumulative figures for the January-November 2019 period were worse. Total arrivals during those 11 months stood at almost 3.9m, 8.5% below that of the same period in 2018. The decline for January-October 2019 year on year was 7.9%.

During January-November 2019, the steepest contractions were for arrivals from the UK (-32.4%), Italy (-26.1%), the US (-17.6%) and Germany (-15.4%). The decline in arrivals from the US was the most significant in absolute terms—a loss of 101,581 tourists. This was only partly offset by an increase of 5.3% (28,665) in visits by Cuban nationals living abroad (mostly in the US), which are reported separately. The US (excluding Cuban-Americans) is Cuba's second-largest market for tourism after Canada. (Canadian arrivals grew by a marginal 0.1% in January-November 2019.)

Russian visitors increased by 25.4% in the 11-month period, reflecting the fact that Cuba's ties to its former benefactor have grown closer, as trade and financial assistance from Venezuela have deteriorated.

Relations with the US have continued to worsen, with spillover into the tourism sector.

The decline in US arrivals results from measures by the administration of the US president, Donald Trump, to tighten restrictions on travel to Cuba by US residents. It has also suspended all ports in Cuba for US cruise ships, banned commercial flights to cities outside of Havana (the capital), and most recently, [ended all charter flights](#) to the island except to Havana. These factors have discouraged US tourists and will also make it more difficult for Cuban-Americans (who face fewer legal restrictions on their travel) to visit the island.

### Impact on the forecast

Our estimate for total arrivals of 4.3m in 2019 was in line with that of the Cuban government, but we expect further declines in 2020, with arrivals falling below 4m. This is already reflected in our external sector forecast, where we expect a continued erosion of services inflows and, hence, a smaller current-account surplus in 2020.

## Analysis

### Government announces 2019 growth data and 2020 policy plans

January 17, 2020

**At the annual late-December meeting of the National Assembly (the rubber stamp legislature) the Cuban president, Miguel Díaz-Canel, and the economy minister, Alejandro Gil, announced the government's growth estimates for 2019 and economic agenda for 2020. After estimating disappointing growth for 2019, the government expects a moderate acceleration for the year ahead. However, we remain more pessimistic in our forecast.**

Mr Gil said that he estimated real GDP at 0.5% in 2019—in line with our own estimate. However, the year-end estimate and final real GDP—usually announced later the following year—have in the past diverged widely, and significant revisions are therefore likely.

Economic growth occurred in a very difficult environment, including increased US sanctions (on tourism and remittances) from April 2019, and energy rationing necessitated by reduced flows from Venezuela that were instituted in September and October of last year. The year also saw the

US president, Donald Trump, lift the traditional waiver on Title III claims under the 1996 Helms-Burton Act, which allows US nationals with property in Cuba that was confiscated after the 1959 revolution to sue companies currently "trafficking" in that property. Some 20 lawsuits have so far been filed.

The government reported that 4.3m tourists visited Cuba in 2019. This was below the planned 5m arrivals, and marked the first time that Cuba has recorded a decline in arrivals since 2009. The decline across the year was partly on the back of US sanctions prohibiting cruise arrivals to Cuba (although these were only introduced in June 2019), but also stemming from a steep drop in arrivals from Europe. It was also partly a consequence of the bankruptcy of UK package holiday providers Thomas Cook and Jet2holidays (which helped underscore a 32% year on year decline in arrivals from the UK). However, other European source markets also registered notable declines, including Italy (down by 26%) Germany (15%), France (14%) and Spain (14%). The imposition of US sanctions and the reduction in US arrivals (which fell by 18% year on year) may have taken away the impetus of European tourists to see Cuba "before it changes". Arrivals from Canada—Cuba's largest source market—were essentially flat year on year, halting many years of declining arrivals.

The government also said that it had completed an investment project of CUP10bn (US\$10bn at the official exchange rate, or 9.4% of GDP), which was below the original investment plan as a result of fuel shortages.

## Government cautiously optimistic for 2020

Mr Gil said that the government aims for muted growth of 1% in 2020, driven by the expectation of 4.5m tourist arrivals, and a spur to consumption from [last year's salary increase](#) (which will affect 1.4m workers), as well as the beginning of sales in foreign currency at government stores (aimed at making imported goods more affordable). The government also hopes that some constitutional reforms will ease the business environment, helping state enterprises to become more productive—with a view towards increasing their export capacity. The government is aiming for export growth of 3.7% this year, driven by growth in tourism, as well as Cuba's traditional goods exports, such as pharmaceuticals, nickel and sugar. The finance minister added that the government has released a CUP12bn (or 11.2% of GDP) public-investment plan.

However, we are much less optimistic, forecasting a contraction of 0.7% this year. We expect much more muted arrivals growth, falling to 4m tourists, with risks tilted to the downside, especially given that there will be no US cruise arrivals (which drove arrivals growth in the first half of 2019), and probable reduced arrivals of Cuban-American tourists—one of last year's few growth categories—given a [recent restriction on charter flights](#). Persistent US sanctions will also continue to drive less of an impetus for European tourists, as will an overall expected softer global economic environment. The effect of lower tourism will be felt across the economy, offsetting the otherwise positive spurt from last year's salary increase.

We are also more pessimistic on the investment drive, as the government has often missed its targets in the past, given limited execution capacity. This should be more acute in 2020, owing to our expectation that oil supplies will continue to be erratic as a result of the ongoing crisis in Venezuela; although we expect the Venezuelan president, Nicolás Maduro, to remain in power, US sanctions and Venezuela's own declining production indicate that it will be difficult for Cuba to access Venezuelan oil. It will also drag down economic growth. Given the dual hit to both tourism and the country's production capacity, we expect exports to once again fall this year (in 2014-18 they fell by an annual average of 5% per year, and we estimate that they contracted by 7.3% in 2019). This, together with a mild contraction in investment, will cause the economy to contract in 2020.

## Caribbean in 2020: economic diversification in the spotlight

January 23, 2020

**As the Caribbean enters the next decade, the trends for 2020 are becoming clear. As ever, tourism trends will be a major theme, given the importance of the industry to most regional economies. However, many countries will focus on diversifying away from tourism, for example by attempting to attract international financing or developing a renewable energy sector. In addition, major oil discoveries in nearby Guyana are set to spur a round of oil and gas**

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**exploration in the Caribbean, with Barbados and Grenada indicating that they are looking into the possibility.**

Events outside the region will also have an impact on the Caribbean in 2020. The ongoing political and economic crisis in Venezuela will continue to affect the region through the flow of Venezuelan refugees, reduced trade and potential further sanctions on the country. In addition, the outcome of the US elections in November will be keenly watched by the region, and particularly by Cuba, given the ongoing deterioration of US-Cuban relations.

**Tourism will be about retaining market share**

Tourist arrivals and spending will continue to be the main determinants of economic growth for many islands, particularly the larger tourist markets of the Dominican Republic, Cuba, Jamaica, Puerto Rico and the Bahamas. For these islands in 2020, it will be important to retain market share, with the Dominican Republic struggling to overcome negative publicity regarding the deaths of several tourists in resorts during 2019. In addition, Puerto Rico will spend the first part of the year recovering from a series of earthquakes in late December and early January; this will only serve to exacerbate the island's critical fiscal situation.

Other islands are still struggling to recover from major hurricane damage, including the Bahamas, which remains in a period of reconstruction following Hurricane Dorian in September 2019. Smaller islands such as Sint Maarten are still recovering from the September 2017 hurricanes, with tourist arrivals and economic growth projections for 2020 masking the extent of the economic damage still being felt.

**Economic diversification will continue to be a challenge**

Efforts to diversify away from dependence on the tourism industry will also drive economic policies across the region in 2020. Some islands are looking to reinvigorate their financial sectors—previously another major regional source of revenue—in the wake of increasingly stringent global guidelines and regulation designed to crack down on tax evasion. This may take the form of passing legislation to meet these standards; in 2019 Aruba, Bermuda and Barbados were removed from the EU's blacklist of non-cooperative tax jurisdictions owing to their efforts to appease regulators through legislation or other good-faith efforts. The islands will hope to attract investment away from those that remain on the blacklist, such as Trinidad and Tobago and the Dominican Republic. With global transparency standards rising, blacklisted countries risk deterring investment if they continue to be classed as "non-cooperative".

As well as reforming their financial sectors, countries may seek to capitalise on other emerging sectors. The renewable energy sector is continuing to expand in the region, in part driven by concerns about climate change (potentially a factor behind increased hurricane force) and the ongoing cost of traditional fuel imports. Several islands are planning to embark on renewable energy initiatives in 2020, such as the installation of new photovoltaic systems, and Barbados has pledged to become 100% energy efficient by 2030.

Other emerging sectors are harnessing increased global connectivity, taking the region into non-traditional areas. For example, internet-based industries are expanding in the Caribbean; there are moves to facilitate online gambling in countries such as Barbados and Puerto Rico, and to support the growth of cryptocurrencies based in the Caribbean, particularly in countries such as Puerto Rico. The British Virgin Islands is also looking to expand its internet-based industries.

The oil and gas sector also looks set to expand this year. Although this sector has historically been small in the Caribbean—limited mainly to Trinidad—the success of offshore oil exploration efforts in Guyana has spurred renewed interest in Caribbean waters. Suriname announced a major offshore oil discovery in early January, Barbados is planning to restart offshore oil exploration in 2020 and both Jamaica and Grenada have indicated that they plan to undertake exploratory assessments of potential offshore deposits. The Bahamas is also set to investigate potential exploration opportunities, building on its proximity to the Gulf of Mexico.

**External factors will be closely watched**

Beyond these regional issues, external events will also affect the Caribbean in 2020. The ongoing crisis in Venezuela will continue to weigh on economic performance for those islands closest to it,

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such as Aruba and Curaçao, in both tourism and investment terms. In addition, those islands, along with Trinidad and Tobago, will be affected by illegal migration from Venezuela, with migrants dispersing across the region from these hub arrival countries.

US elections in November will have significant implications for the Caribbean. Cuba is the most likely to be affected, given the ongoing rollback of bilateral mechanisms under the administration of the US president, Donald Trump. The consequent decline of tourism and investment from the US has dealt a severe blow to Cuba's economy, meaning that its government will hope that a Democratic candidate wins the presidency. Other islands may also be hoping that Mr Trump does not win a second term; for example, in January 2021 Haiti is set to lose the Temporary Protected Status (TPS) that protects many of its nationals living in the US.

Although the main regional preoccupations of 2020 are set to be tourism and Venezuela, the potential for economic upset remains. These are most likely to come in the second half of the year in the form of hurricanes, which pose a recurrent and rising threat to the region. There are also upside risks from the incipient round of oil and gas exploration, although any discoveries made in 2020 are unlikely to be exploited until later in the decade.