Country Report

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The Economist Intelligence Unit

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

Cuba

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Summary

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Briefing sheet

Editor: **Norman McKay**
Forecast Closing Date: **November 6, 2020**

Political and economic outlook

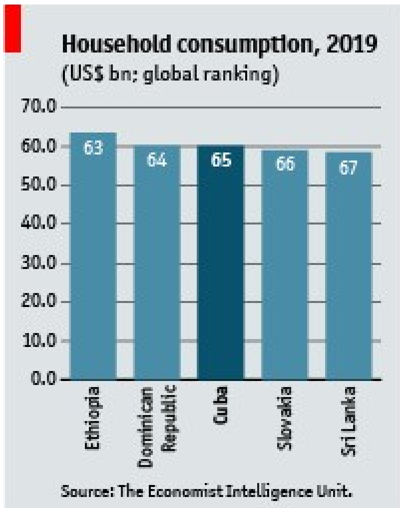
- Raúl Castro is likely to resign as chair of the Partido Comunista de Cuba (PCC) at its 2021 congress and be succeeded by the president, Miguel Díaz-Canel. Risks to stability will rise amid a more decentralised power structure, but the PCC is likely to retain overall control.
- Economic liberalisation has been put on hold but is likely to resume when the coronavirus (Covid-19) pandemic eases. However, reforms will move slowly. The private sector will suffer amid a collapse in tourism, but will recover later in the 2021-25 forecast period.
- The fallout from US sanctions on Cuba, along with the impact of the pandemic, will hamper the pace of recovery following a sharp recession in 2020. Stronger GDP growth is only likely in 2023-25 amid an easing of some restrictions under a new US administration.
- Unification of the two official Cuban currencies—the convertible peso (CUC) and the Cuban peso (CUP)—is likely in the coming months, accompanied by tighter price controls to prevent an inflation spiral. Over time, this will help to reduce economic distortions.
- The current account will remain slightly in surplus in 2021-22, as still low oil prices and import compression will offset weak earnings from tourism. The Economist Intelligence Unit expects a narrow deficit in 2023-25 as an easing of US sanctions sucks in imports.

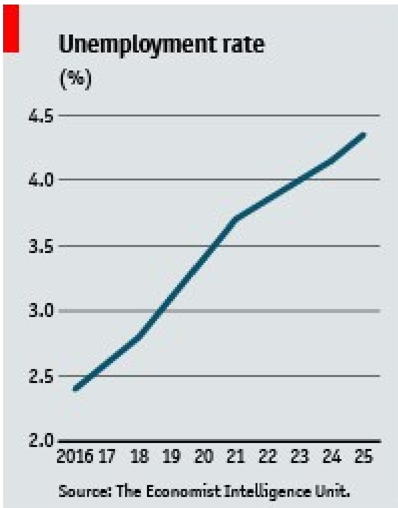
Key indicators

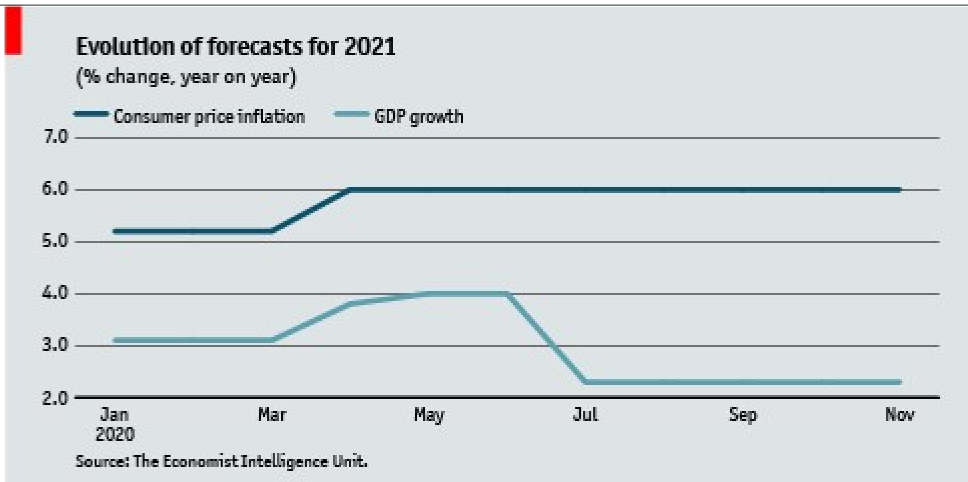
	2020[a]	2021[b]	2022[b]	2023[b]	2024[b]	2025[b]
Real GDP growth (%)	-8.3	2.3	2.9	3.3	3.8	4.2
Consumer price inflation (av; %)	4.2	6.0	6.1	6.3	6.0	5.6
Government balance (% of GDP)	-9.5	-5.5	-4.7	-3.7	-2.9	-2.1
Current-account balance (% of GDP)	0.2	0.2	0.2	-0.4	-0.3	-0.1
Unemployment rate (%)	3.4	3.7	3.9	4.0	4.2	4.4
Exchange rate CUC:US$ (av; official rate)	1.00	1.00	1.00	1.00	1.00	1.00

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts.

Market opportunities







Key changes since September 27th

- We now expect the government to unify the dual exchange rate, removing the convertible peso (CUC) from circulation. The new fixed exchange rate has not been announced yet, nor has the date of unification, but early 2021 appears most likely.
- Unification has huge implications for our macroeconomic forecasts. Given that we do not yet know what exchange rate the government will choose, it is impossible to factor in currency unification into our US dollar forecasts.

The month ahead

- **TBC—Details on currency reform:** Unifying the exchange rate is a huge task and will require massive financial support for importers (as their preferential exchange rate will be devalued) and large salary rises for public-sector workers. Prices will need to be managed to an even greater extent to prevent an inflation spiral.
- **TBC—Renewed restrictions:** The recent spike in Covid-19 cases has prompted the introduction of measures in affected areas, including in Havana (the capital). Our forecasts remain unchanged given that the new restrictions fall short of a broad-based lockdown, but we will continue to monitor the situation closely.

Major risks to our forecast

Scenarios, Q3 2020	Probability	Impact	Intensity
Weather-related shocks cause extensive damage to infrastructure	High	High	16
An ageing population, net emigration and "brain drain" add to skilled-labour shortages	High	Moderate	12
Poor infrastructure quality and maintenance increase operating costs	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 2021-25

Political stability

The Cuban government is instituting constitutional reform while managing a difficult international and economic environment, amid hostile relations with the US and the coronavirus (Covid-19) pandemic. Despite a robust public health response, there has been a fresh spike in cases in recent weeks, resulting in new restrictions in the capital, Havana, where most new cases have been recorded. Even assuming that the government manages to prevent a damaging and extensive second wave of the virus, the country will suffer an economic blow, which will affect the political and economic situation during the early part of the 2021-25 forecast period. The ongoing difficult economic situation raises some risks to political stability, but The Economist Intelligence Unit does not believe that this will result in regime change in 2021-25. The government is skilled at defusing dissent through the domestic security apparatus and through neighbourhood monitoring groups, and the state media are effective at rallying support through propaganda.

Against this difficult backdrop, the government will proceed cautiously in implementing a constitutional reform that changes Cuba's political and economic structure significantly. In December 2019 the National Assembly appointed Manuel Marrero as Cuba's first prime minister since 1976, following his selection by the president, Miguel Díaz-Canel, who has been in office since 2018. The prime minister leads the cabinet in the daily running of the country, whereas the role of president is becoming more ceremonial. A third pillar of power is 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 the previous president, Raúl Castro (2008-18), a revolutionary leader who remains influential in the role of elder statesman. Mr Castro is expected to step down at the next PCC congress (in April 2021), and the title of chair is likely to pass to Mr Díaz-Canel. As Mr Castro and his contemporaries exit the scene, new leaders will compete for authority (especially given the more decentralised power structure), which will increase risks to stability. Despite the political changes, reforms will proceed gradually, owing to the government's wariness of the destabilising effects of liberalisation. However, access to information and to social media is growing amid increased mobile and internet penetration, permitting greater citizen communication with the leader-ship and stronger demands for accountability.

Election watch

We expect Cuba's one-party system to remain largely unchanged in 2021-25. National and provincial elections are held every five years and are next due in 2023. Candidates are nominated through municipal councils and by members of official "mass organisations", including labour unions and organisations for students, women and farmers. Ultimately, the decision rests with the PCC's candidates' commission. Although it is not a requirement, most 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

Cuba has faced a more hostile US while the US president, Donald Trump, has been in office, but under the likely leadership of Joe Biden, the bilateral relationship should improve. Under Mr Trump, the US has authorised the 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 firms operating in Cuba to lawsuits in US courts. Under Mr Trump, the US has also announced tighter restrictions on remittances and fresh sanctions on US tourism to Cuba. These measures add to US trade sanctions that have been in place since 1960 (which can be removed only by the US Congress). Under Mr Biden, some elements of the 2014-17 rapprochement that took place under the former US president, Barack Obama (2008-16), would be likely to be restored, particularly those concerning travel, investment and remittances. However, even assuming some easing in policy under the next US government, we currently expect trade sanctions to remain in place.

Ties with the EU will warm (following a formal reinstatement of relations in 2017), and the bloc will continue to be an important partner for investment and development finance. Cuba will remain a staunch defender of the Venezuelan regime of Nicolás Maduro, which continues to supply oil to Cuba (albeit in reduced quantities) and is an important market for Cuban services exports. Given diminishing aid from Venezuela, Cuba will continue to cultivate invest-ment and commercial ties with other countries such as China, Russia, Japan, Angola and Algeria.

Policy trends

More liberalising measures are likely to be introduced at the next party congress in April 2021, but the transformation from a communist to a mixed economy will be gradual and will not result in fully fledged capitalism in the 2021-25 forecast period. The demands of the pandemic mean that some measures may even be rolled back as the state returns to areas in which it had sought to reduce its role, including rationing and distribution of food. A likely unification of the dual exchange-rate system will also require more extensive price controls, in order to prevent an inflationary spiral. However, we believe that this tightening of control will prove temporary and that the government will return to efforts to push through some liberalising reforms in the medium term.

The government will support greater import substitution (particularly in agriculture, given that an estimated 80% of Cuba's food is imported) and will seek to allow state-owned enterprises greater autonomy in decision-making and business planning. In addition, the government has said that it will expand the categories for self-employment and allow private-sector enterprises and co-operatives to import and export outside the state monopoly. However, in view of the state's half-hearted commitment in the past to independent enterprise and hardliners' resistance to reforms, the risks to economic liberal-isation remain substantial.

Fiscal policy

The fiscal deficit is forecast to narrow steadily during 2021-25, albeit from a wide base; the deficit has expanded sharply in 2020 as a result of the pandemic and will reach an estimated 9.5% of GDP, reflecting revenue shortfalls amid reduced economic activity and the increased costs of healthcare and wage guarantees. We forecast a narrower deficit in 2021, of 5.5% of GDP, on the assumption that revenue will remain weak but that spending commitments will ease. As economic activity strengthens in the second half of the forecast period, fiscal revenue is likely to pick up more firmly, aided by government efforts to increase tax collection. The government will continue long-running efforts (which were interrupted by the pandemic) to roll back state support, resulting in a steady decline in the expenditure/GDP ratio. We expect the fiscal deficit to narrow to 2.1% of GDP in 2025.

Fiscal retrenchment will be necessary, partly because the government has 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. Given the wider estimated deficit in 2020, we consider it likely that the government is resorting to greater monetisation, but this will not be feasible in the long run, as it will pressurise inflation and cause broader economic problems at a time when the authorities are trying to address price and currency dislocations.

Monetary policy

The large informal economy, a small banking sector, and the existence of different markets with divergent prices and exchange rates have long complicated monetary management, but the unification of the dual currency system will start to tackle some of these distortions during the forecast period. 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 with a parallel rate of CUP24:CUC1 for non-state transactions). However, in response to significant liquidity challenges, the government has increasingly allowed the use of foreign currency. In July the government increased the scope for the use of US dollars in an ongoing effort to keep more hard currency in the country. The move has essentially reduced the importance of the CUC and we now expect the government to withdraw the CUC from circulation entirely in the coming months. This will create some price instability, to which the authorities are likely to respond with a heterodox mix of measures, including the use of distortionary direct controls on foreign exchange, prices, wages and credit. After the initial shock, monetary policy will gradually shift towards indirect measures, using increasingly market-led financial institutions and instruments. However, the fact that the banking sector remains extremely small will limit the effectiveness of monetary policy management.

International assumptions

	2020	2021	2022	2023	2024	2025
Economic growth (%)						
US GDP	-4.6	3.6	2.6	2.3	2.0	2.0
OECD GDP	-6.1	4.0	2.7	2.2	2.0	1.9
World GDP	-5.0	4.4	3.3	3.0	2.8	2.7
World trade	-11.6	7.1	5.0	3.9	4.0	3.8
Inflation indicators (% unless otherwise indicated)						
US CPI	0.7	1.7	1.9	2.2	1.9	1.8
OECD CPI	1.0	1.7	2.0	2.1	2.0	2.1
Manufactures (measured in US$)	-1.1	3.7	3.1	4.1	2.4	2.0
Oil (Brent; US$/b)	42.0	45.0	55.0	60.0	57.0	51.0
Non-oil commodities (measured in US$)	0.0	5.8	3.0	-4.8	1.9	1.0
Financial variables						
US$ 3-month commercial paper rate (av; %)	0.6	0.1	0.2	0.6	1.0	1.5
Official exchange rate CUC:US$ (av)	1.00	1.00	1.00	1.00	1.00	1.00
Exchange rate US$:€ (av)	1.14	1.17	1.15	1.19	1.21	1.23

Economic growth

In 2021-25 real GDP will stage a gradual recovery following a sharp coronavirus-induced contraction (estimated at 8.3% in 2020), although we do not expect real GDP to return to 2019 levels until 2024. The pace of the recovery will be subject to several structural constraints, mainly US sanctions, which have a direct impact on investment and trade, but also an indirect impact on government consumption (as low levels of fiscal income limit the government's ability to inject stimulus and to engineer a rapid recovery). Reduced aid and oil ship-ments from Venezuela will cause additional problems, and a reduction in tourism will affect service sector activity, at least during 2021.

We forecast that economic activity will grow weakly in 2021, before picking up pace during 2022-25. This is based on our expectation that a Biden administ-ration will restore elements of the rapprochement introduced under Mr Obama. This will provide a boost to private consumption, investment and export growth at a time when the economy is already benefiting from a cyclical upturn amid a global recovery from the pandemic (assuming that the tourist sector picks up more firmly from 2022). However, it will also draw in imports, given Cuba's limited agricultural and manufacturing capacity, tempering the pace of growth. We expect real GDP growth to pick up from 2.3% in 2021 to 4.2% in 2025.

Downside risks to GDP are substantial and stem from a weaker recovery in tourism, dislocation from the currency unification process and the possibility of regime change in Venezuela leading to a halt in aid to Cuba. Weather-related issues and continued disruption to the tourism sector also pose a persistent risk.

Economic growth

%	2020[a]	2021[b]	2022[b]	2023[b]	2024[b]	2025[b]
GDP	-8.3	2.3	2.9	3.3	3.8	4.2
Private consumption	-7.0	1.5	2.4	5.3	4.6	5.1
Government consumption	4.1	-0.9	1.3	2.2	1.1	2.0
Gross fixed investment	-20.0	7.0	4.5	8.1	6.1	7.2
Exports of goods & services	-15.1	6.1	11.2	4.8	4.1	5.1
Imports of goods & services	-5.1	2.2	8.7	13.8	4.9	7.3
Domestic demand	-6.6	1.6	2.4	4.9	4.0	4.7
Agriculture	-2.5	2.0	2.4	2.6	3.0	3.5
Industry	-3.5	1.4	2.3	3.0	3.1	3.7
Services	-10.0	2.6	3.1	3.5	4.1	4.5

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts.

Inflation

There are no official inflation data available; we estimate that despite greater monetisation of the fiscal deficit, lower oil prices (Cuba is a net fuel importer) and suppressed domestic demand have brought about weaker inflation this year, averaging an estimated 4.2%. We forecast that inflation will rise to 6% in 2021 as economic activity begins to recover, shortages increase and tourism starts to put pressure on local prices. Inflation will average 6% in 2022-25 as demand increases amid an easing of US restrictions.

The authorities have administered unorthodox measures such as price freezes and rationing to deal with the coronavirus pandemic. These are likely to be expanded next year in order to manage the impact of currency unification. In the second half of the forecast period, the authorities will seek to ease these restrictions cautiously, but the effect of liberalisation should be partly cushioned by firmer competition and increased output amid the government's export promotion drive.

Exchange rates

Unification of the dual exchange rate, which the government has been seeking to do (but repeatedly delaying) for many years, is finally likely to occur. The government has confirmed that one of the two local currencies in circulation, the CUC (which is used in hard-currency retail outlets, for imports and by tourists) will be withdrawn imminently, although no date has been given. The CUP (which is used for salaries and locally produced goods) will remain as the sole local currency. Huge uncertainties persist about when this will occur, at what rate the government will fix the CUP against the US dollar and the type of fiscal and monetary policy support that will be necessary to accompany the shift. It also remains unclear whether use of the US dollar in the local economy (which has expanded recently) will continue to spread. Although we now expect currency unification, we have not altered our underlying exchange-rate forecasts given the extent of these uncertainties. Once the government provides a firmer idea of the likely timeline and, more importantly, the likely exchange rate, we will incorporate the full economic impact of these changes into our forecasts.

Currency unification

Unification of the dual exchange rate, which the government has been seeking to do (but repeatedly delaying) for many years, is finally likely to occur. Recent speeches confirm that the government is now poised to change the ‘official’ Cuban peso (CUP) exchange rate, which is currently CUP1:US$1, but still no date has been set. This ‘official’ rate has been used by state enterprises and in government accounts, but the ‘Cadeca’ rate, which is available to Cuban households and private businesses, is CUP24:US$1. This is not a direct conversion, as the CUP is not convertible into US dollars, but the CUP can be exchanged for ‘convertible pesos’ (CUC), which are officially valued at par with the US dollar.

Huge uncertainties persist about when the unification will occur, the new CUP:US$ rate, and the associated fiscal and monetary adjustments. It also remains unclear whether use of the US dollar in the local economy (which has expanded recently) will persist. The Economist Intelligence Unit now expects currency unification in the near future. However, given the extent of these uncertainties, we have not altered our underlying exchange-rate forecasts. Once the government provides a firmer idea of the likely timeline and, more importantly, the likely exchange rate, we will be able to factor in the full economic impact of these changes to our forecasts.

A complex system

The two main exchange rates are the ‘official’ rate of CUP1:CUC1, used in the state sector, and the Cadeca rate of CUP24:CUC1, used for personal transactions and in the non-state sector. In recent years, other rates have been introduced for specific activities (there are currently nine of them). The system is distortionary, making it difficult to measure the economy's size or calculate costs and prices, and has damaged productivity and development for many years. The move to unify the currency is therefore likely to be positive for the economy in the long term. In the short term, however, the process is likely to generate fresh economic dislocation, with which the government may struggle to deal.

We expect that the currency reform will involve two actions: the elimination of the convertible peso (leaving the Cuban peso as the sole local currency) and the devaluation of the ‘official’ rate. The first of these will be relatively straightforward. Confidence in the CUC, which has been used in a chain of state retail outlets since the mid-1990s, has declined over the past year, with Cubans choosing to convert their holdings into US dollars or Cuban pesos. This shift reflects an expectation that the CUC will be eliminated, and has been encouraged by the opening of new stores selling goods in US dollars and by the acceptance of Cuban pesos—at the Cadeca rate of exchange—in the stores that formerly traded only in CUCs.

The second measure will be much more disruptive, precipitating a radical adjustment in relative prices throughout the economy and necessitating a complete overhaul of national accounts. Given the enormous uncertainties that remain—regarding the way in which the devaluation will be managed, and the price and wage adjustments that will accompany the change—we have not yet incorporated a single Cuban currency into our macroeconomic forecasts.

What rate?

Although government statements have been ambiguous, there appears to be a widespread expectation that currency unification will be at CUP25:US$1. If this were done in one step, it would require massive, immediate fiscal and monetary support to prevent a shock to supply chains, sustain employment, contain inflation and maintain the social safety net during a period of adjustment. While exporting state enterprises would enjoy a windfall, import-dependent enterprises would incur huge balance-sheet losses requiring large financial support to prevent halts in production, closures and mass redundancies. Prices would rise steeply, necessitating extensive price controls to prevent an inflationary spiral, and spikes in public-sector wages and social security benefits to protect living standards.

Currently, our US dollar calculations of the economy's size use the official rate at which the CUP is equal to the CUC (and hence, to the US dollar). This rate overvalues the Cuban peso and implies that nominal GDP stood at about US$106bn in 2019 (high by regional comparison). If the government opts to fix the CUP at CUP at 25:US$1, this would dramatically reduce the size of the economy. However, given that prices in most of the domestic economy are currently hugely understated, unification at such a weak rate would see an upward leap in prices (and thus in nominal output, expenditure and income), which would lift measures of nominal GDP.

A half-way house?

The government has indicated that it is preparing a set of transitional measures, including a mechanism for transferring windfall profits from ‘winner’ enterprises that benefit to support ‘losers’, new credit facilities to speed a supply-side response, a fivefold nominal increase in state salaries, and a package of measures to protect vulnerable households. However, it has also acknowledged the risks, and it is possible that it might choose to mitigate these by opting for a transitional dual exchange-rate system. An ‘official’ rate devalued from CUP1:US$1 to somewhere around the CUP10:US$1 mark would mean less dramatic (albeit still substantial) disruption and more time for economic actors to adjust; but this would be at the cost of continued uncertainty and speculation about subsequent adjustments, and perpetuation of the distortions of dualism for a while longer and so postponing the positive effects of export growth, productivity gains, and more decentralisation and dynamism.

External sector

The current account is forecast to remain in slight surplus in 2021-22, before slipping into deficit in 2023-25. The coronavirus-led collapse in tourism has put pressure on Cuba's external sector, which was already facing challenges from US sanctions and a decline in Venezuelan oil. However, we believe that a combination of import compression, domestic rationing, the suspension or delay of some payments on foreign debt, as well as lower oil prices will continue to offset weak services exports in 2021 (arising from still low tourism earnings). The current account will shift into deficit in 2023-25 as the trade deficit widens amid an easing of US restrictions, which will lift import spending. Higher international oil prices will also be a factor.

The authorities do not publish data on international reserves; we estimate an end-2020 level of US$8.3bn (9.7 months of import cover), although it could be significantly lower. Looking ahead, we expect Cuba's reserves coverage to decrease significantly. This will be particularly true later in the forecast period as the cost of servicing rescheduled debt increases and import levels rise, but we expect reserves coverage to remain comfortable (at just under five months in 2025). However, depending on what rate the authorities choose to fix the single exchange rate, reserves coverage could fall in response to intervention in the foreign-exchange market.

Forecast summary

Forecast summary

(% unless otherwise indicated)

	2020[a]	2021[b]	2022[b]	2023[b]	2024[b]	2025[b]
Real GDP growth	-8.3	2.3	2.9	3.3	3.8	4.2
Industrial production growth	-3.5	1.4	2.3	3.0	3.1	3.7
Gross agricultural production growth	-2.5	2.0	2.4	2.6	3.0	3.5
Unemployment rate (end-period)	3.4	3.7	3.9	4.0	4.2	4.4
Consumer price inflation (av)	4.2	6.0	6.1	6.3	6.0	5.6
Consumer price inflation (end-period)	3.8	6.5	6.2	6.6	5.6	5.4
General government balance (% of GDP)	-9.5	-5.5	-4.7	-3.7	-2.9	-2.1
Exports of goods fob (US$ bn)	2.2	2.2	2.5	2.8	3.0	3.2
Imports of goods fob (US$ bn)	9.2	9.8	11.4	13.3	14.0	14.8
Current-account balance (US$ bn)	0.2	0.3	0.3	-0.6	-0.5	-0.2
Current-account balance (% of GDP)	0.2	0.2	0.2	-0.4	-0.3	-0.1
External debt (year-end; US$ bn)	28.7	28.3	28.3	27.8	27.6	27.2
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[c]	24.00	24.00	24.00	24.00	24.00	24.00

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Cadeca rate.

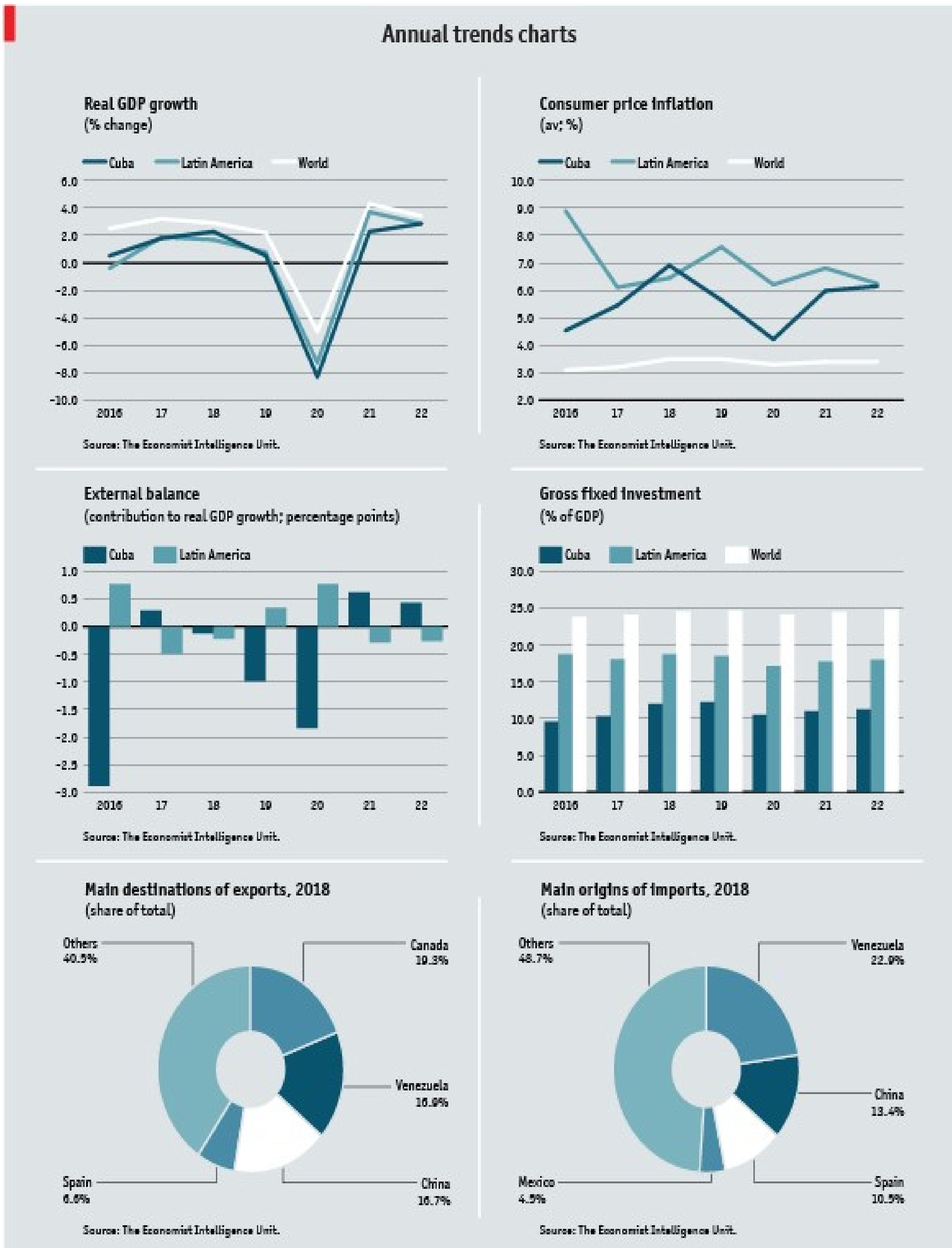
Data and charts

Annual data and forecast

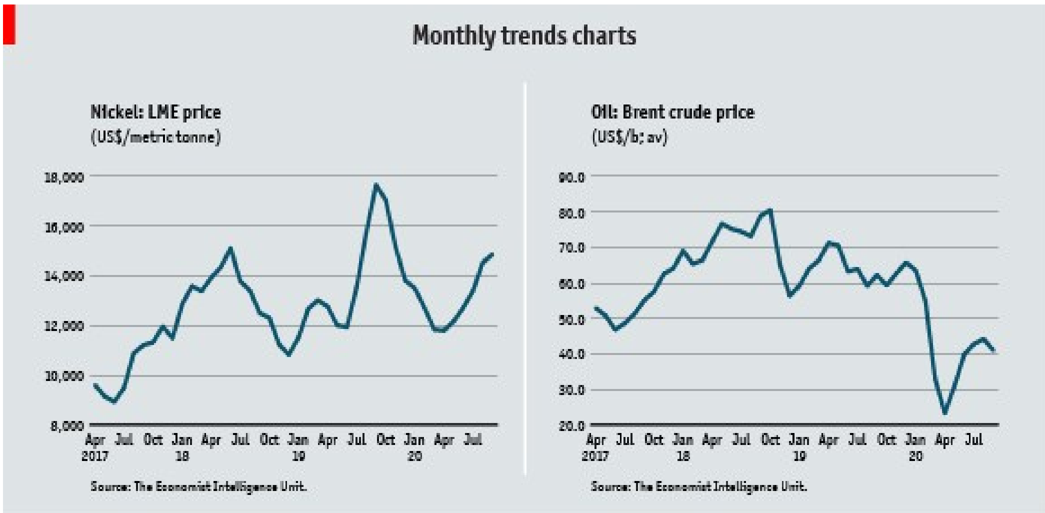
	2016[a]	2017[a]	2018[a]	2019[b]	2020[b]	2021[c]	2022[c]
GDP							
Nominal GDP (US$ m)	91,370	96,851	100,023	106,343	103,515	111,618	121,556
Nominal GDP (CUC m)	91,370	96,851	100,023	106,343	103,515	111,618	121,556
Real GDP growth (%)	0.5	1.8	2.3	0.5	-8.3	2.3	2.9
Expenditure on GDP (% real change)							
Private consumption	4.1	1.7	2.2	1.9	-7.0	1.5	2.4
Government consumption	-0.2	2.2	1.3	0.1	4.1	-0.9	1.3
Gross fixed investment	7.5	0.2	4.8	2.5	-20.0	7.0	4.5
Exports of goods & services	-19.7	0.0	-2.4	-7.6	-15.1	6.1	11.2
Imports of goods & services	-10.6	-1.6	-2.0	-2.8	-5.1	2.2	8.7
Origin of GDP (% real change)							
Agriculture	5.8	-1.4	2.6	1.9	-2.5	2.0	2.4
Industry	-1.9	2.2	2.5	-0.5	-3.5	1.4	2.3
Services	1.2	2.1	2.1	0.8	-10.0	2.6	3.1
Population and income							
Population (m)	11.3	11.3	11.3	11.3	11.3	11.3	11.3
GDP per head (US$ at PPP)	12,647[b]	13,110[b]	13,731[b]	14,065	12,961	13,494	14,127
Recorded unemployment (av; %)	2.4	2.6	2.8[b]	3.1	3.4	3.7	3.9
Fiscal indicators (% of GDP)							
Public-sector revenue	56.5	57.2	57.1	56.4	59.6	58.2	57.8
Public-sector expenditure	63.3	65.7	65.4	62.7	69.1	63.7	62.5
Public-sector balance	-6.8	-8.5	-8.3	-6.3	-9.5	-5.5	-4.7
Net public debt	42.7[b]	46.7[b]	51.0[b]	51.9	59.3	59.0	57.9
Prices and financial indicators							
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; %)	4.5[b]	5.5[b]	6.9[b]	5.6	4.2	6.0	6.1
Stock of money M2 (% change)	13.1	8.1	13.1	3.3	-6.5	5.2	6.2
Current account (US$ m)							
Trade balance	-7,756	-7,508	-8,785	-8,248	-6,942	-7,579	-8,877
Goods: exports fob	2,546	2,704	2,742	2,364	2,212	2,227	2,539
Goods: imports fob	-10,302	-10,212	-11,527	-10,612	-9,153	-9,806	-11,415
Services balance	10,220[b]	10,281	10,722[b]	9,194	7,450	7,951	8,843
Primary income balance	-1,284	-1,173[b]	-1,065[b]	-1,214	-953	-1,145	-1,481
Secondary income balance	616	1,191[b]	1,659[b]	1,740	658	1,047	1,766
Current-account balance	1,796[b]	2,790[b]	2,531[b]	1,473	213	274	252
External debt (US$ m)							
Debt stock	29,891[b]	29,891[b]	29,890[b]	29,439	28,709	28,302	28,260
Debt service paid	4,366[b]	1,801[b]	2,007[b]	1,950	1,997	2,003	2,087
Principal repayments	3,524[b]	954[b]	1,139[b]	1,082	1,148	1,152	1,162
Interest	842[b]	847[b]	868[b]	868	849	851	925
International reserves (US$ m)							
Total international reserves	12,003[b]	11,353[b]	10,853[b]	9,753	8,253	7,303	7,403

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.
Source: IMF, International Financial Statistics.

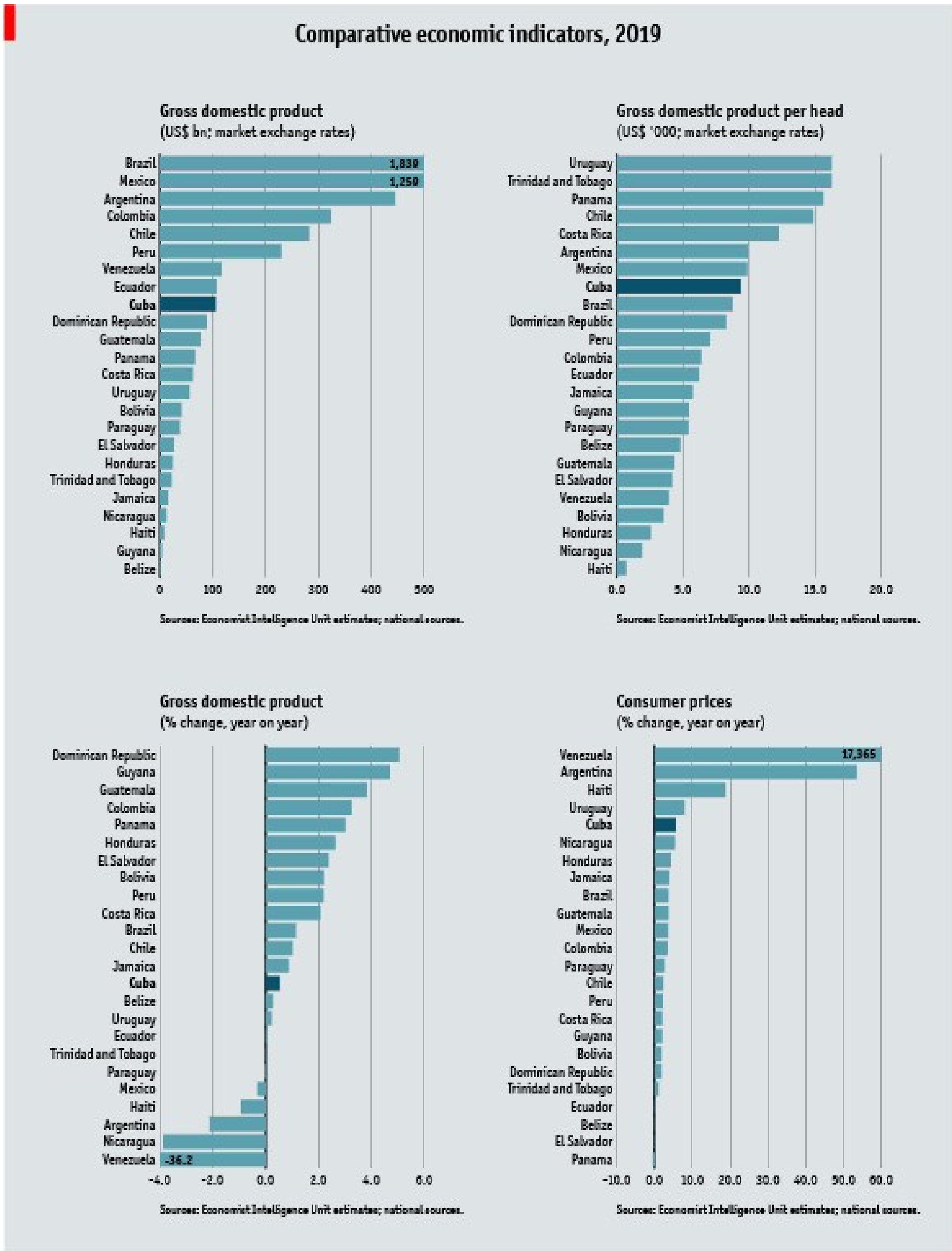
Annual trends charts



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

11.3m (2020, World Bank estimate)

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 parallel legal rate (known as the Cadeca rate) of CUP24:CUC1, used mainly for personal transactions

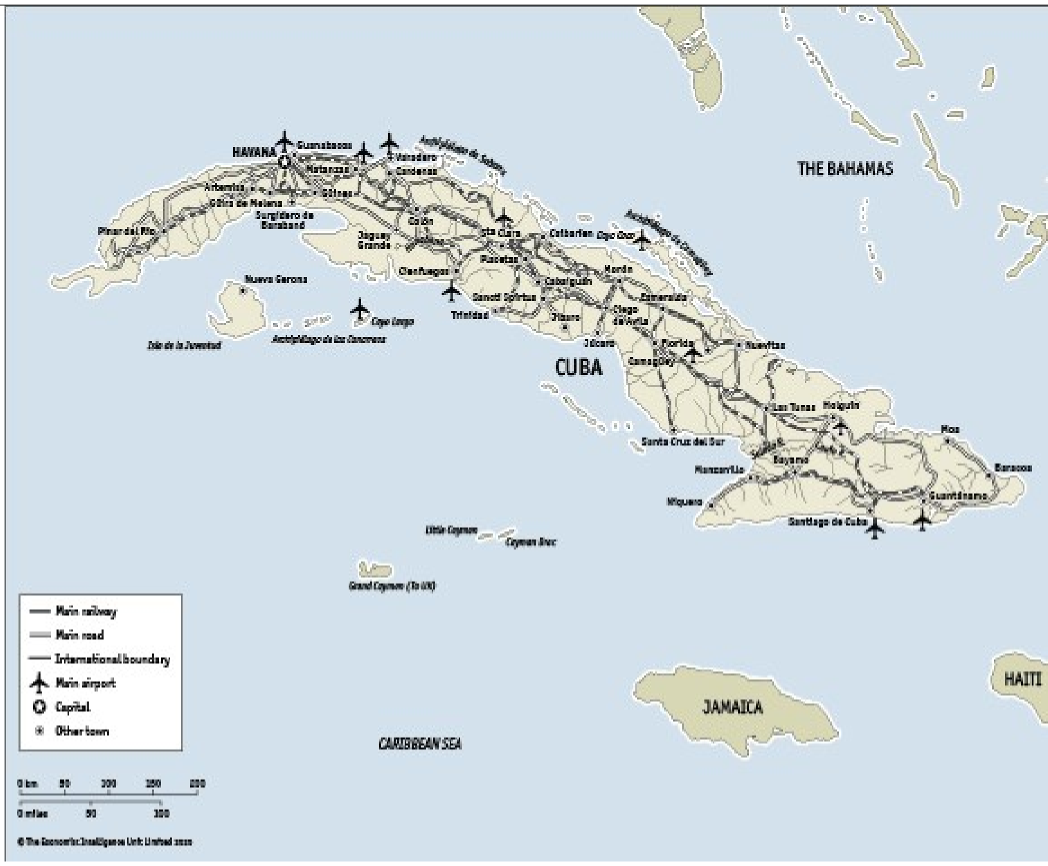
The government plans to eliminate the CUC, but has not given a date for the change, or the proposed value of the Cuban peso. In October 2019 the government legalised the use of the US dollar and other foreign currencies for electronic transactions at hard-currency stores

Time

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

Public holidays in 2020

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; 605 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

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 Barreiro

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 governor

Marta Sabina Wilson González

Recent analysis

Generated on November 12th 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.

Economy

Forecast updates

Tighter US measures force closure of remittance outlets

November 6, 2020: Policy trends

Event

Just before the US presidential election, the Cuban government announced that the 407 remittance outlets operated by US-based Western Union will be shut and that US remittances sent to the island will be "completely discontinued".

Analysis

The development comes in response to a steady tightening of restrictions by the US administration that has sought to eliminate the transfer of funds from the US to Cuba. In 2019 the US Treasury Department's Office of Foreign Asset Control (OFAC) eliminated "donative remittances" (a category that allowed US residents to send money to friends and acquaintances on the island), restricting Cuban Americans to transfer money only to "close relatives". Remittances were also capped at US$1,000 per sender to any recipient every three months.

In June 2020 the US Department of State added Fincimex, a Cuban enterprise owned by military conglomerate GAE (which acts as Western Union's agent on the island) to its "Cuba Restricted List". On June 23rd OFAC announced that as of November 27th, US firms would be forbidden from processing remittances to Cuba via any entity on that list. The US Secretary of State, Mike Pompeo, said that the measure was necessary to cut the Cuban military out of the process of sending remittances. Cuba refused to transfer remittance processing to a non-military-controlled entity, arguing that Fincimex has handled remittances for more than 20 years, and that the configuration of the country's financial system is a "sovereign decision".

We estimate that remittances bring in approximately US$4bn annually, representing the island's third-largest source of foreign currency, after the export of medical services and tourism. Unlike medical services and tourism, both of which bring in substantial revenue directly to the Cuban state, the majority of remittances go directly to the Cuban population, supporting consumption and private enterprise.

Impact on the forecast

Our forecasts remain unchanged. On the assumption that the US Democratic candidate, Joe Biden, is confirmed as the winner of the US presidential election, we expect the recent measures relating to remittances to be reversed. This will not occur immediately (which is part of the reason that we expect a particularly weak economic recovery in 2021), but if there is little progress on easing US policy towards Cuba in 2021, we may downgrade our medium-term growth projections.

Cuba seeks to restart its tourist sector

November 9, 2020: External sector

Event

Tourists have begun returning to Cuba for the first time since March, when the island closed its border owing to the coronavirus (Covid-19) pandemic.

Analysis

Cuba appears to have run a successful campaign to contain the pandemic so far. The island is currently averaging confirmed daily cases of five per million people, compared with 39 per million in the Dominican Republic, 40 per million in Mexico and 299 per million in the US. In contrast to many developing countries, where the number of confirmed cases appears low but only because testing capacity is very weak, Cuba has been testing extensively.

The authorities are now seeking to capitalise on the low number of cases to reopen its tourism sector. International borders had been closed since March, but reopened for commercial flights in mid-October, with international airports in 13 out of Cuba's 16 provinces currently operating. UK and German airlines have started running weekly flights from London to Varadero (the main tourist hub). Havana (the capital), which was affected by a spike in cases in August-September, is still out of bounds for international tourists but, with the number of new cases falling, the government recently announced that the airport will reopen later in November, receiving several daily flights from Miami, Florida.

The government is stepping up efforts because it wants the island to receive significant numbers of tourists during peak season (usually November-April). Tourism is Cuba's second-largest source of hard currency after the export of medical services. It has introduced a number of measures to reassure tourists about the safety of visiting Cuba, including coronavirus tests for tourists upon arrival, regular testing for staff and the creation of resort 'bubbles'.

Impact on the forecast

Our forecasts are unchanged. Just less than 1m tourists visited Cuba in the first quarter of 2020; we estimate that very limited numbers of arrivals in the fourth quarter will lift full-year arrivals to just over 1m (a fraction of the 4.3m arrivals in 2019). We maintain our forecast for 2.1m arrivals in 2021, based on the limited number of arrivals in the first quarter and larger numbers towards the end of next year. However, the sector will recover slowly, with arrivals not returning to pre-coronavirus levels until 2023. This will keep the current-account surplus low in 2021-22, at just 0.2% of GDP.

Non-payment of Paris Club debt is set to incur hefty charge

November 9, 2020: External sector

Event

Cuba is set to incur a hefty 9% interest charge following non-payment of an annual debt repayment to the Paris Club on October 31st.

Analysis

This is the first time Cuba has missed an entire annual payment of about US$80m since it renegotiated its debts with the Paris Club in 2015. That year, the Cuba Group (comprising 14 of the 19 upper-income nations of the Paris Club: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Britain, Italy, Japan, the Netherlands, Spain, Sweden and Switzerland) forgave US$8.5bn of the US$11.1bn that the island owed (including charges accumulated through interest and penalties following default). The remaining US$2.6bn is payable in annual instalments until 2033. According to the terms of the agreement, there was no interest until 2020, with interest rates set at 1.5% from 2020 onwards.

Cuba initially made scheduled repayments, but in 2019 the government paid only US$50m of an estimated US$80m due: some countries were paid in full but others—including Spain, France and Japan—were not. In May, citing the economic damage sustained as a result of the coronavirus (Covid-19) pandemic, the island requested a moratorium on repayments until 2022. In June the Paris Club countered with an offer of a one-year moratorium on debt payment. However, diplomatic sources reported indicate that Cuba will be charged extra interest despite the moratorium: under the terms of the agreement, 9% interest rates kick in if Cuba does not meet its annual payment obligations.

Impact on the forecast

Given severe shortages of foreign exchange amid a fall in tourism earnings, the non-payment comes as little surprise and has already been factored into our 2020 estimates, which remain unchanged. On the assumption that tourism revenue starts to recover from 2021 and that some of the restrictions introduced by the current US administration are reversed by the next government led by Joe Biden, we continue to expect Cuba to be able to make scheduled repayments during the 2021-25 forecast period.