

ECONOMIC  
 **TREND**  
REPORT

**THIRD  
QUARTER**

2014





PAVEL VIDAL  
CHIEF ECONOMIST

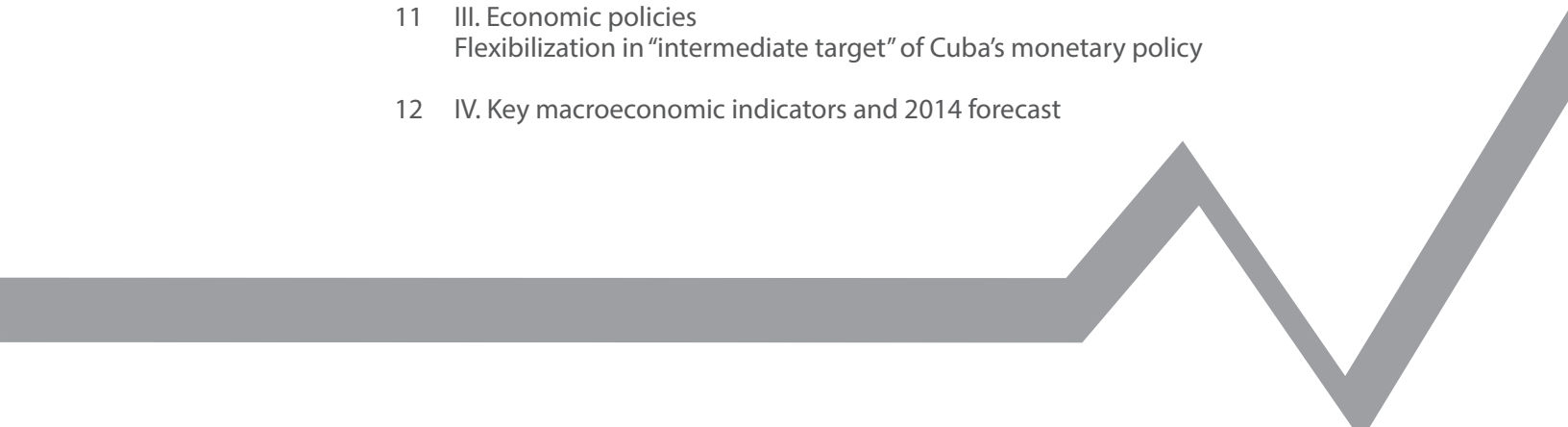
JOHANNES WERNER  
EDITOR

The Economic Trend Report is published by Cuba Standard  
Copyright © 2014, by Cuba Media, LLC  
All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, or otherwise without the prior permission of Cuba Standard.

Cuba Standard Economic Reports are available by annual subscription or per-copy purchase. For more information, go to [www.cubastandard.com](http://www.cubastandard.com), or write to [johanneswerner@cubastandard.com](mailto:johanneswerner@cubastandard.com)

## Contents

- 4 Executive summary
- 5 I. Structural and institutional reforms
  - The sense of inadequate reform increases
  - China and Russia are competing for Cuba
  - New customs regulations for citizens
- 8 II. Real sector
  - GDP growth slows more than planned
  - Cuba Standard Economic Trend Index
  - First estimates of the Cuba Standard Economic Trend Index
  - Trends in tourism in 2014
- 11 III. Economic policies
  - Flexibilization in “intermediate target” of Cuba’s monetary policy
- 12 IV. Key macroeconomic indicators and 2014 forecast



## EXECUTIVE SUMMARY

- The 0.6% GDP growth logged in for the first six months reinforces the perception that the reforms have not yet touched the key points to speed up economic growth. Within the reform program through 2016, foreign investment remains the government's sole option in the next two years to accelerate GDP growth.
- The Cuban government just launched a series of very unpopular customs regulations that restrict even more the import of goods by citizens. They intent to upholding the monopoly of the three state companies that control retail sales in hard currency and they are a new blow for the development of the private sector.
- During the third quarter, the presidents of Russia and China visited the island. As part of both visits, agreements were signed that could alleviate the access to external funding, at a moment in which fear among foreign banks over their ties to Cuba is growing.
- Beginning with this issue, the Cuba Standard Economic Trend Report includes its own economic activity index, taking the monthly pulse of the Cuban economy. The Kalman Filter econometric technique used in the index allows estimating a common component of the evolution of 28 variables.
- In the first three quarters of 2014, the Cuba Standard Economic Trend Index (CSETI) logged in average negative rates of -0.19, -0.17 and -0.13. Of the five categories included in the Index, the only one that showed improvement in 2014 are the terms of trade.
- The evolution of the Index in 2014 suggests that the worst moments of the year for the economy, in terms of foreign exchange constraints, seem to be over. However, there is not enough evidence yet to talk of a recovery. Until now, the CSETI does not offer a clear signal for a GDP acceleration in the second half that would be sufficient to reach the official goal of 1.4% growth this year. According to the data used by the CSETI, the most likely forecast for GDP growth this year is 0.8%.
- Given the sudden stop in the arrival of visitors during the first half, the tourism forecast for 2014 has to be corrected downwards. Most probably, the total for the year will be 2.9 million, barely 2% more than in 2013 and very much below the 10.4% planned by Cuba's economic authorities.
- The "intermediate target" of Cuba's monetary policy (the centrally-managed adjustment of state wages to productivity) has functioned very well in terms of guaranteeing low inflation. However, it has also triggered a vicious circle of low productivity and low wages. With the ongoing reform of state enterprises, there will be a flexibilization of the way in which this target will be controlled.