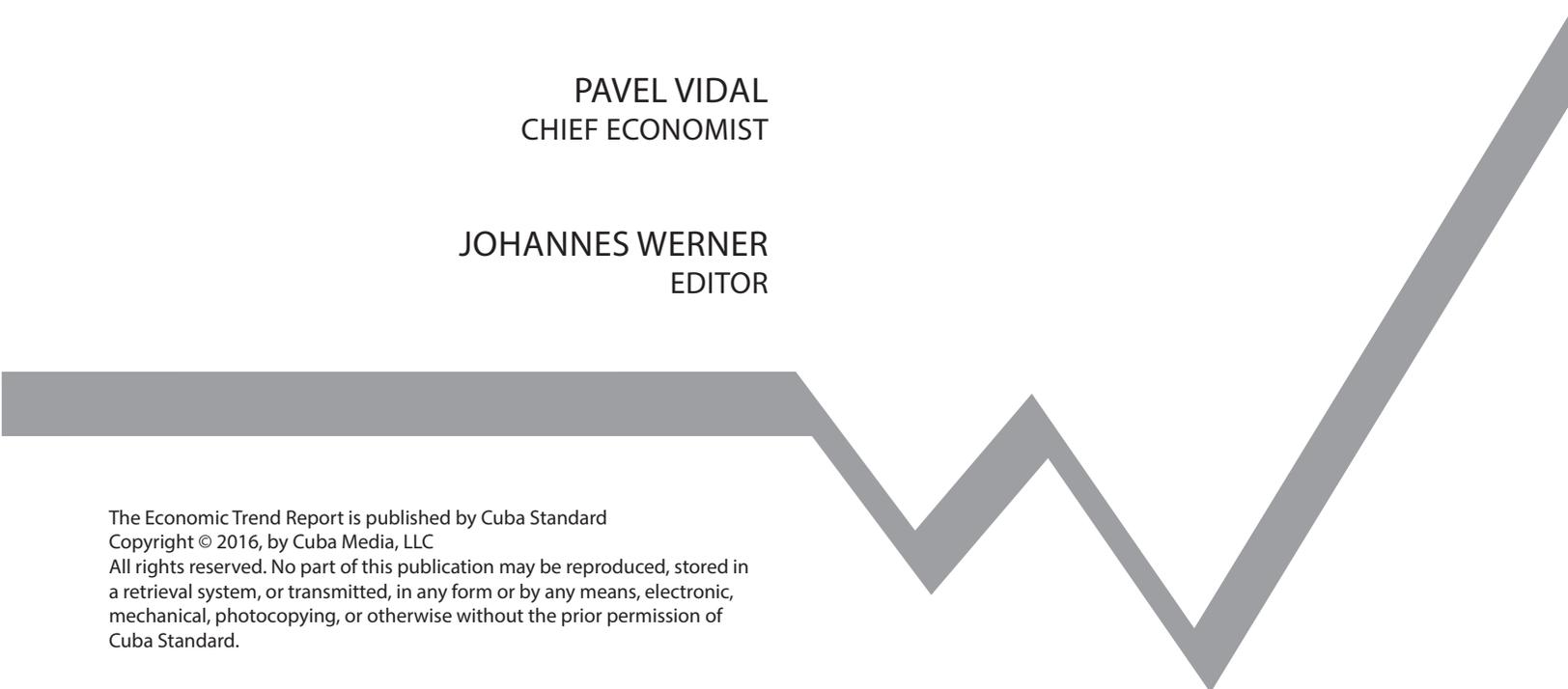


ECONOMIC
 **TREND**
REPORT

**SECOND
QUARTER**

2016



PAVEL VIDAL
CHIEF ECONOMIST

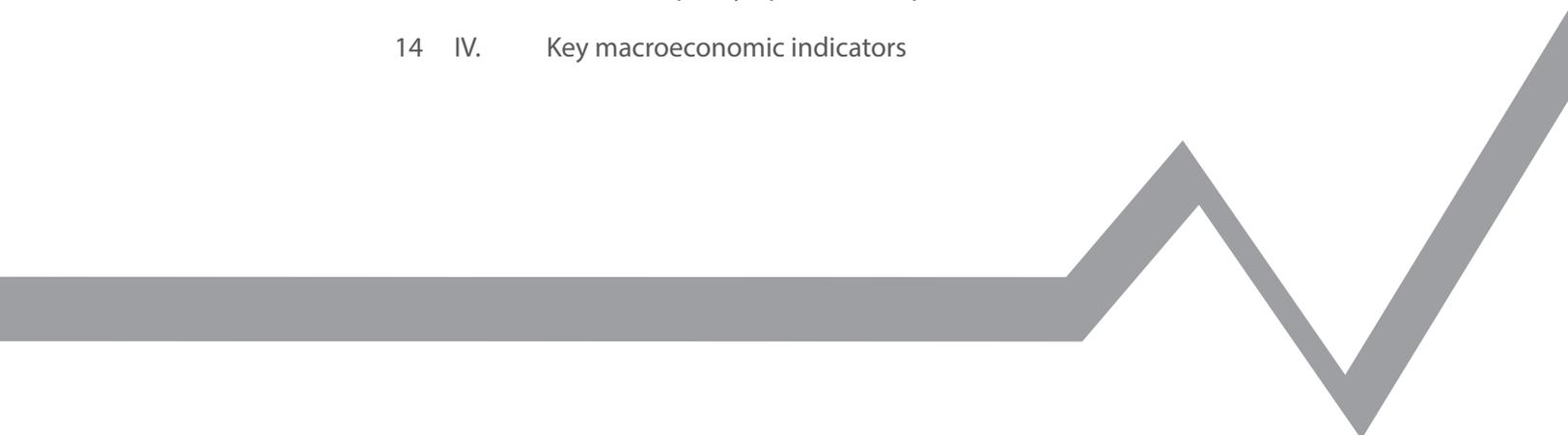
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EDITOR

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EXECUTIVE SUMMARY

- Documents approved by the 7th Congress of the Communist Party of Cuba are subject to popular discussion.
 - In the first half of this year, the Cuban government has slammed the brakes on agricultural reform.
 - Cuban officials confirmed that a contraction of the agreed fuel supplies from Venezuela is already happening. The degree of trade and financial dependency on Venezuela continues to be high.
 - The impact the Cuban economy confronts beginning in 2016 will be severe and protracted; in any scenario this will lead the country to a recession.
 - GDP growth will remain very close to zero or slightly negative this year (in the first half, the GDP grew 1%, according to an official announcement) and will drop by around 2.9% in 2017. In 2016, Cuban enterprises can dampen the shock with supply inventories and final goods at disposal, as well as by delaying payments to suppliers. But in 2017, they will have to make a much bigger spending adjustment.
 - Both agriculture and industrial activities will contract more rapidly in 2017, at -9% and -7.3% respectively. Tourism, in contrast, will be a life raft for the economy.
 - Given that the authorities will try to avoid having the adjustment weigh too much on consumption, investments will bear the brunt of cutbacks.
 - The balance of goods and services will change from surplus to deficit, putting payments to foreign lenders under risk.
 - The Cuba Standard Economic Trend Index (CSETI) reveals a new deterioration of balance of payment conditions and confirms projections towards a slowdown of economic activity.
 - The Cuba Standard Business Confidence Index (CSCI) drops significantly for the third consecutive quarter. The deterioration in perceptions and expectations regarding the Cuban economy continues.
 - The Cuban government's first economic policy response to the Venezuela shock has been to design a spending reduction program and a program for fuel supply cuts in 2016, and imposing price caps on food and private transportation.
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