

ECONOMIC  
 TREND  
REPORT

**FOURTH  
QUARTER**

2016



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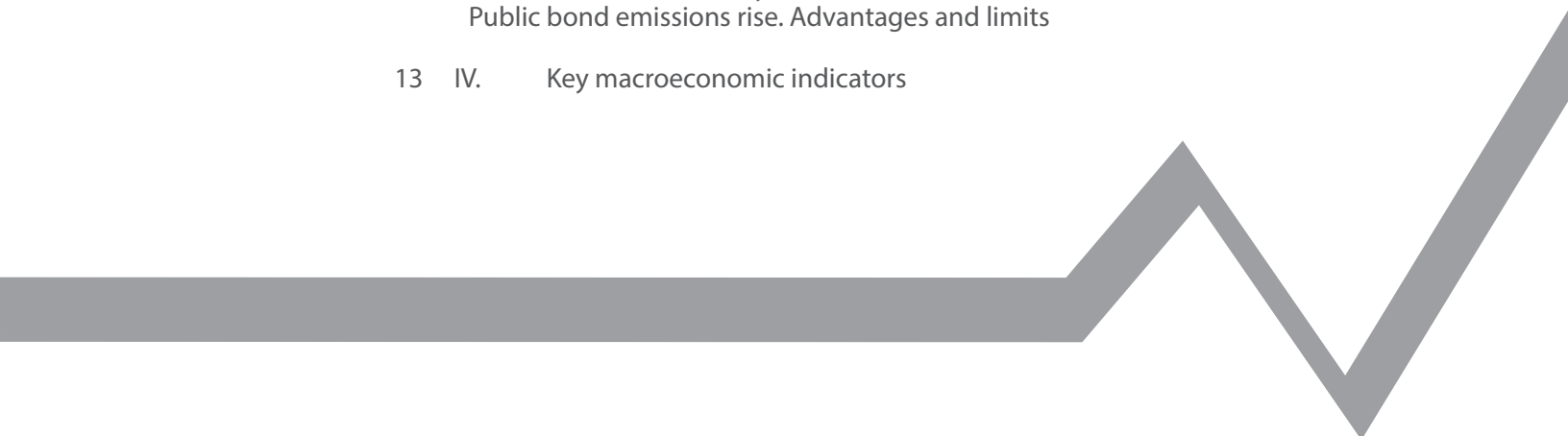
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## Contents

- 4 Executive summary
- 5 I. Structural and institutional reforms
  - The last year of Raúl Castro's reforms begins, amid a recession
  - And again, a financial crisis
  - The private sector: resilient, but hobbled by low productivity
- 8 II. Real sector
  - CSETI and CSCI: Both anticipated the recession
  - Great uncertainty about GDP growth
  - A narrowing trade balance
  - Are international prices the cause of the recession and the Cuban financial crisis?
- 11 III. Economic policies
  - The end of fiscal austerity
  - Public bond emissions rise. Advantages and limits
- 13 IV. Key macroeconomic indicators



## EXECUTIVE SUMMARY

- The reform had promised a GDP growth of 5.1%, but the true average growth from 2008 to 2016 was barely 2.3%. The ending couldn't have been any more discouraging, with a recession in 2016 (-0.9%), and very uncertain projections for 2017.
- CSETI and the CSCI provided advance warning about the recession, which wasn't officially announced until the end of 2016.
- In 2016, the financial adjustment fell mostly on the shoulders of foreign suppliers and on short-term debt. Our unofficial estimate of financial non-compliance is for around \$800 million.
- Whether Cuba overcomes its economic and financial crisis or whether it deepens will depend, more than anything, on what happens with the Venezuela agreements. For the 2005-2016 period, the correlation between GDP growth of Cuba and Venezuela is 81%.
- The government plans with 2% GDP growth in 2017, based, first, on the hope that the economic situation in Venezuela improves after recent price increases for oil; and two, the implementation of an anticyclical expansive fiscal policy.
- After years of fiscal austerity, the government uses fiscal spending to soften the effects of the Venezuelan crisis. For 2017 a "fiscal hole" of 11.5 billion pesos — the equivalent to 12% of GDP — has been budgeted. In proportion to GDP, this is the highest fiscal deficit since 1993.
- Due to the heavy weight of the public sector in the economy, any increase in public spending has an important accounting effect on the GDP. Tourism can also continue to give an impulse to the economy. We therefore make an upward correction of the 2017 GDP projection from -2.9% to a range between -1.4 and -0.3%.
- Export and import price trends since 2016 do not suggest a significantly unfavorable situation for Cuba's terms of trade. The terms of trade in 2016, considering prices of the three main tradeable products, only decreased 2% compared to 2015.
- Cuba's emerging private sector until now shows a quite high level of resiliency to the crisis. Its tax contributions to the treasury rose 33% in 2016, and the number of jobs (licenses) rose 7.2%.
- Cuban authorities announced that they are doing everything possible to realize some pending foreign investment projects, and that 2017 will be a decisive year in that regard.