ECONOMIC TREND REPORT

THIRD QUARTER

2020

cuba standard
ECONOMIC REPORTS

PAVEL VIDAL
CHIEF ECONOMIST

JOHANNES WERNER
EDITOR

The Economic Trend Report is published by Cuba Standard

Contents

EXECUTIVE SUMMARY

- For tourism enterprises and all industries connected to the sector to stay afloat, a reopening of borders and international flights is needed — even though this will be the main source of new contagion once visitors from the United States and Europe, two epicenters of the pandemic, begin to arrive again. The government will have to bet, big time, on biosecurity logistics and control mechanisms to isolate cases and avoid contagion.

- The long-awaited monetary reform is around the corner. It will be accompanied by corrections of salaries, prices, pensions and subsidies, as well as more opening towards the private sector, and more structural and regulatory changes.

- The devaluation aims to stimulate exporters, the substitution of imports, the linking of production chains in the domestic market, real salary growth, and the gradual shutdown of unprofitable state enterprises. The option of a nominal or fictitious monetary reform — where an exchange rate adjustment would be followed by subsidies and taxes that would leave things the same — seems to have been discarded.

- For now, we maintain our forecast of an 8.7% drop in GDP for 2020. In comparison to the Special Period, this contraction is bigger than 1990 (-3.0%), but smaller than that of 1991 (-10.7%). The international disruptions and their impact on the balance of payments will contribute 47% of the recession, while domestic disruptions caused by lockdowns account for 53% of the recession.

- Cuba Standard Business Confidence Index (CSCI): In the third quarter, despite all the uncertainty and a complex economic situation, the numbers continue to climb.

- Some key questions about exchange policy have not been answered yet: After Day Zero, will natural persons and the private sector be allowed to buy limitless amounts of dollars and other hard currencies in Cuban banks and exchange houses? Through what channels will state enterprises and joint ventures be able to buy hard currency with their Cuban peso revenues? Will exchange controls in state enterprises for the purchase of hard currency continue to exist? Will controls over international capital movements continue?

I. STRUCTURAL AND INSTITUTIONAL REFORMS

THE RISKY BUT URGENT RESUMPTION OF INTERNATIONAL FLIGHTS

Like in practically all economies, COVID-19 continues to be the main threat to economic activity, jobs and social stability in Cuba. Dependency on tourism adds a level of challenge and triggers major conflicts surrounding the tough choice of saving lives vs. saving livelihoods. For tourism enterprises and all the industries connected to the sector to stay afloat, a reopening of borders and international flights is needed — even though this will be the main source of new contagion once visitors from the United States and Europe, two epicenters of the pandemic, begin to arrive again. The government will have to bet, big time, on biosecurity logistics and control mechanisms to isolate cases and avoid contagion.

The peak of the pandemic was reached in the last week of April. During May and June, the new-contagion curve flattened, and the number of active cases in hospitals declined. The death rate stabilized on a low level. This trend prompted the government to decree on June 18 the start of the "post-COVID recovery", consisting of three phases with a gradual increase of economic and social activities. In the beginning, all provinces except Havana and Matanzas entered the first phase of recovery. Havana and Matanzas joined later, while other provinces progressed to the second and third phase of recovery. Then, towards the end of July cases began to rise again, with outbreaks in Havana and Ciego de Ávila that prompted the need for social distancing.

As of early October, the new outbreaks were somewhat under control. Following a decrease of new contagion in Havana and Ciego de Ávila, officials hope the two provinces will join the rest of the island in November, moving into what the government now calls the "new normal". This includes the reopening of international airports. Since October, international charter and some scheduled flights have begun to arrive in rising frequency, bringing tourists and returning Cubans to the country. Service at Havana airport resumed Nov. 13, the last to reopen.

The Cuban healthcare system has shown great effectiveness in tracing contacts and in quarantining not only confirmed cases but also suspected ones. This has been key to stop the silent spread through asymptomatic cases. While the logistics are organized on a national level, the execution is local. Selective and micro-focused quarantine, implemented with great agility, combined with speedy testing, contact tracing and isolation, has been key to the success of Cuba's response to COVID-19.

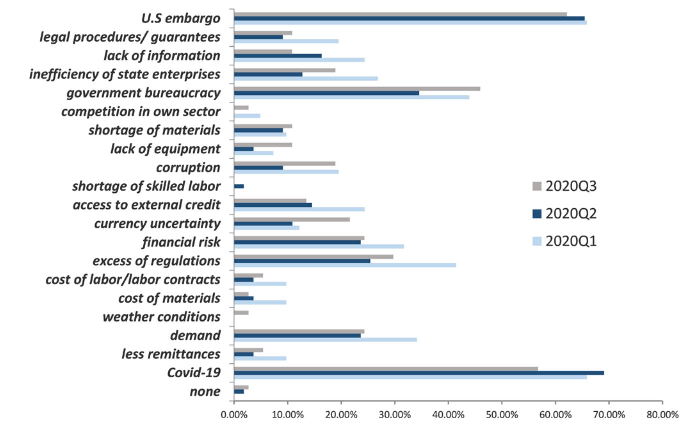
Other countries have expanded virtual teaching, telecommuting, online banking and e-commerce to sustain certain services and economic activity in response to mobility restrictions. However, in Cuba these options are very limited. Due to the poor telecommunications infrastructure and the high cost of Internet connectivity, it would be very difficult for the Internet to keep the country running during a lockdown.

The current strategy has allowed to control the virus with the least economic damage possible; manufacturing, agriculture and mining, as well as other essential activities continue to function. However, while the strategy is more rational economically, it is not completely sustainable in the mid-term because the county needs tourism revenues. The virus containment strategy makes sense as long as contagion and the number of cases remains moderate; this is being put at risk now with the reopening of airports.

The country cannot rely on international financing or hard-currency reserves to fund major relief programs for enterprises and households. In fact, the space to expand fiscal and monetary policy is very limited because the government has been applying these policies to soften the impact of previous shocks — the Venezuelan crisis and tightening sanctions under the Trump administration. In addition, monetary reform is beginning to take shape, which will require additional budget resources to absorb the impact of the devaluation of the official exchange rate. The government understands that it is easier to navigate the imminent monetary reform with a tourism sector in recovery, even if gradual.

If it manages to keep the virus in check, the government could promote tourism presenting the country as a safe destination. Cuba has made major hotel investments in recent years, which could pay off with the victory of Biden-Harris. The U.S. elections again proved decisive for Cuba's short-term future. After four years of hardline stance that returned Cuba to the seemingly unending cycle of political and diplomatic strife, the outcome of the elections points

Figure 1 ***What factors are limiting your ability to increase/develop business activity in/with Cuba? Please check the most important factors (five at most)***

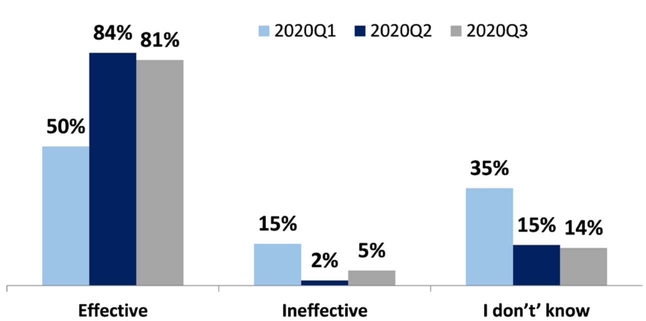


Source: Cuba Standard Business Confidence Survey

towards a return of normalization. This, in turn, would allow a gradual transition towards a future of greater opening and international exchange. Even if this won't remove Cuba's decades-old pile of economic problems, at least the Cuban government for its part announced a transcendental monetary reform and more openings for the private sector. The ideal scenario would also include a new U.S. administration that takes constructive steps.

Cuba's private sector is deeply affected by the pandemic and its dependency on tourism. The experience of the resumption of U.S.-Cuba relations under Obama showed that travel is the easiest tool to promote political and legal change. On a global level, the recovery of travel is expected to be slow, but if the United States reduces or removes obstacles for U.S. travelers, Cuba's recovery in 2021 would be on a higher level with much greater market potential.

Figure 2. Do you consider that the Cuban government's response to Covid-19 has been:



Source: Cuba Standard Business Confidence Survey

Like its peers everywhere, the Cuban government counts on obtaining a vaccine as soon as possible. On Aug. 19, the Instituto Finlay announced that speedy clinical testing for the first vaccine candidate — called Soberana 01 — would begin Aug. 24. First-phase testing is being applied to 676 volunteers divided in two age groups, one of 19 to 59-year olds, the other age 60 to 80. Phase One is scheduled to be completed by January. On Oct. 17, Finlay announced the start of testing of a second vaccine candidate called Soberana 01 A.

In the three updates of our Business Confidence Survey in 2020, COVID-19, together with the U.S. embargo, ranks as the top obstacle for business in Cuba. These two are followed by government bureaucracy and an excess of regulations, which underlines the need to deepen Cuba's reforms (see Fig. 1). On the other hand, the survey reveals appreciation for the Cuban government's response to COVID-19. Eighty-one percent consider it effective; only 5% consider it ineffective (see Fig. 2).

Government confirms progress of structural reforms

Since the end of 2019, the government has tried to promote certain changes as part of its economic agenda. Initially, the main focus was on efforts to improve efficiency at state enterprises, based on the formula decentralization + dollarization.

This strategy continues, but there will be other changes as well, including the long-awaited monetary reform, which will be accompanied by corrections of salaries, prices, pensions and subsidies, as well as more opening towards the private sector, and more structural and regulatory changes.

These changes happen simultaneously to the big adjustment in import spending that had to be set in motion, and to the strengthening of the ration system and an empowered libreta de racionamiento, which the government said would not be eliminated in the short and mid-term. Amid the spending adjustment, the government has tried to make available supplies for food production, personal hygiene goods, medicine, as well as all the input needed by the healthcare system and the construction sector.

The economic plan was adjusted, and it was decided that, rather than setting new investments in motion, the most advanced projects that can be completed this and next year are being prioritized. To be sure, no official data about the new Plan has been published, nor do we know anything about the new budget or about GDP trends. In fact, we don't even have the national-accounts chapter for the statistical yearbook of 2019. These delays in publishing data have become official routine, and they are getting worse.

As early as mid-year, the government announced that it is seeking to "defend domestic production and send the import mentality packing", regulate the market through indirect methods, change the logic of centralized planning, promote more interaction between the state and private sector, and stimulate domestic demand. In recent months, the government broadened a bit the information about its new reform agenda. In addition to clarifying the monetary reform program, the government confirmed some changes that had been mentioned earlier, and others in agriculture and state enterprises have been described in more detail.

Food production and distribution

- The Labor and Social Security Ministry already published Resolution 24/2020, which grants more flexibility to hiring in agriculture by allowing to directly contract personnel during peak times such as harvests.

- There will be fiscal incentives for agricultural mini-producers, on a provincial basis.

- Dollar sales of agricultural supplies to farmers has begun in three provinces — La Habana, Villa Clara, and Santiago de Cuba. Available goods in that program will soon include tractors and other machinery.

- Exports of privately produced agricultural goods, through state enterprises as intermediaries, are being promoted. Private producers can also sell directly in the Mariel Special Development Zone, for hard currency. In both cases, the farmers get to keep 80% of their hard-currency revenues.

- First steps have been taken to provide farm credit, with support from the state budget. For now, rather than creating a new bank, the existing network of the state-owned Banco de Crédito y Comercio will be used.

- Agricultural product distribution is being restructured, eliminating the state monopoly Acopio and implementing a system of pricing that is managed at a provincial level, with input from all economic actors.

- Strengthening a territorial development policy with more autonomy for local governments, particularly in agriculture.

- State farms will continue to exist, as "agroindustrial enterprises organized in productive hubs that include cooperatives and individual producers".

Transformation of the enterprise sector

- More autonomy for state enterprises through more flexible salaries, profit distribution among workers, hiring of retirees, empowering "base enterprise units" (UEB), and the option of state enterprises to create subsidiaries that report to other state enterprises.

- Partial dollarization and organizing a new system of hard-currency allocation in the economy (see section 3 of this Report).

- Legal framework for micro-, small and midsize enterprises.

- Improving the rules of self-employment ("trabajo por cuenta propia"). A list of prohibited activities will replace the list of 127 activities that are currently permitted. The tax system will be changed, and the application process for business licenses will be simplified. Cuentapropistas will be allowed to perform different activities. Wholesale stores for private businesses will expand, as resources become available to fund these stores.

The planned monetary adjustments and announced reforms demonstrate the government's disposition to assume more risk to continue the transformation of the economic model, thus improving Cuba's image with creditors and investors. Of course, many will see it with skeptical eyes, as previous reforms remained below expectations. The main obstacles to these changes will be institutional and political, and the resistance will emanate from the Party bureaucracy and even the National Assembly. It will be crucial to observe the kind of political and ideological support these new policies receive at the upcoming PCC Congress in 2021.

Monetary reform is taking shape, raising doubts about the future of state enterprises

Even though the date of "Day Zero" and the CUC-Peso exchange rate are still unknown, Marino Murillo — the head of the commission in charge of implementing reforms — has shed a lot of light on the kind of monetary reform the government is envisioning. Recent official announcements by economic authorities make it clear that the imminent currency merger has, in many aspects, absorbed the proposals that have emerged for many years from academic circles and the institutions in charge of currency and finance. The explanations show that different possible scenarios and ripple effects have been taken into account, including details and exceptions that are very important for a correct implementation. In the run-up to the merger, simulation scenarios have been elaborated that consider the specifics of economic sectors, households and workers affected by the measures.

The design of the reform stands out, first of all, due to its comprehensiveness. The package includes not only the elimination of the CUC and the correction of the official exchange rate for the peso, but also salaries, pensions, subsidies, state enterprise autonomy, and more space for private business. In other words, it goes way beyond monetary policy.

A second element that makes it stand out is the intent to prompt real — rather than nominal — change in the economic variables. The real devaluation of the national currency aims to stimulate exporters, the substitution of imports, the linking of production chains in the domestic market, real salary growth, and the gradual shutdown of unprofitable state enterprises. The option of a nominal or fictitious monetary reform — where an exchange rate adjustment would be followed by subsidies and taxes that would leave things the same — seems to have been discarded.

However, real effect can come in different degrees. The main gauge on the structural and real effect of the monetary reform will be the number of state enterprises that close down, merge, or transition to the private sector. This will show the impact of monetary reform on economic efficiency, as many state enterprise groups were kept afloat during decades at levels of efficiency and competitivity that do not justify their existence. Their survival costs the country millions of dollars in subsidies every year, hidden behind the overvalued exchange rate of the Cuban peso. Starting on Day Zero, the balance sheets of state enterprises will show the true cost of imported goods and services, the new relative prices, and the size of labor costs, making evident how many millions of dollars it costs to support these unproductive state enterprises.

In a recent speech, Murillo used the example of state retailers, explaining that the government will not subsidize these enterprises forever. However, the problem of inefficiency goes beyond retail. Devaluation will reveal the loss-making of many manufacturing undertakings, as well as of a broad spectrum of other businesses that have suffered continued de-capitalization and technological obsolescence of their infrastructure, equipment, and machinery, making it difficult for them to compete with imported goods.

Murillo explained that a state fund will be created to subsidize state enterprises post-Day Zero, but he specified that this will be for only one year. Neither did he provide any specifics about the functioning of this support fund, nor did he talk about how the process of shutting down, merging, or conversion of non-viable state enterprises will play out after the first year.

Official announcements clarified that there will indeed be considerable price increases on the wholesale level, as well as in the majority of the retail sector. A major concern is about price rises above the exchange rate adjustment. Ideally, the translation (pass-through) of devaluation into inflation will be low. To achieve that, the government says it established maximum increases of wholesale prices in the state enterprise system, and that some basic products will continue to be rationed and subsidized through the libreta. However, achieving a low rate of pass-through will be very complicated in an economy dominated by state monopoly market structures with a low degree of competence.

Unless they are told to, none of the more than 50 OSDE's will renounce their monopoly power to increase prices in order to stay afloat and be able to pay higher wages. The maximum wholesale price increases set by the Ministry of Economy and Planning (MEP) and the Ministry of Finance and Prices (MFP) will end up defining the bottom line, which brings us back to the starting point: centralized setting of relative prices by the MEP and MFP. The private sector and informal markets, on the other hand, could react to devaluation with price increases beyond government limits. Inflation management will indeed be among the trickiest issues after Day Zero.

In addition to its comprehensive and structural character, the monetary reform stands out for the decision to push through a significant and rapid devaluation of the Cuban peso, which is exceptional in the context of a desperately slow reform process. In other words, the government did not choose the option of gradual devaluation(s) but rather a "big bang", albeit mitigated by a regulatory framework in which the state enterprise continues to dominate, and without financial liberalization.

Comparing the impacts of the "big bang"-type of exchange rate adjustment between the formerly Communist economies in Europe and that of Vietnam, the latter prevails. In no small order, this can be explained with a productive structure based on family enterprises, private farmers, and small and midsize businesses. The literature providing this comparison emphasizes that these smaller economic units managed to adapt with more ease, being able to take advantage of the opportunities presented by devaluation better than larger entities. Meanwhile, state enterprises — burdened by bureaucracy and used to working under a central plan — reacted very badly to radical change in the monetary environment. The Cuban government hopes that this will play out differently in the island, with state enterprises reacting by increasing their exports, substituting imports, and strengthening productive links within the domestic economy.

Cuba does not have access to financial support by the IMF or any other multilateral institution to manage its monetary reform. International reserves and maneuver room for fiscal policy have been depleted by the response to the Venezuelan crisis, tightened U.S. sanctions, and the pandemic. The intelligent implementation of the new regulatory framework and structural changes that accompany monetary policy actions is therefore key to success.

In the new framework, small and midsize enterprises could play a central role, if the government manages to overcome political and ideological obstacles and grants them the kind of freedom they need. In all economies, this segment of the economic fabric, even though it is not the biggest producer of added value, always is the biggest job creator. As inefficient state enterprises shut down, small and midsize businesses could absorb a good proportion of workers that must find new jobs. Small and midsize businesses would also help foster competitiveness and could adapt better to the new monetary environment, thus helping to achieve the benefits sought with the exchange-rate adjustment.

President Miguel Díaz-Canel already gave the monetary transformations that have been underway since 2019 the proper name, calling them “partial dollarization”. He also said it was an undesirable but necessary decision, given the complexities of the economic situation. Undesirable or not, the Central Bank was able to de-dollarize the economy in 2004 after a decade of fiscal and monetary stability (see Q2 2020 Report). If the dollar ends up making its re-entry into the Cuban economy, it will take a few years of waiting before the Central Bank may consider proposing another de-dollarization. A currency merger is ruled out in the short and mid-term. The CUC will be taken out, and there will be exchange rate corrections on Day Zero, but the CUP-dollar duality will be maintained for quite a while.

.II. REAL SECTOR

WE MAINTAIN THE GDP SCENARIO FOR 2020

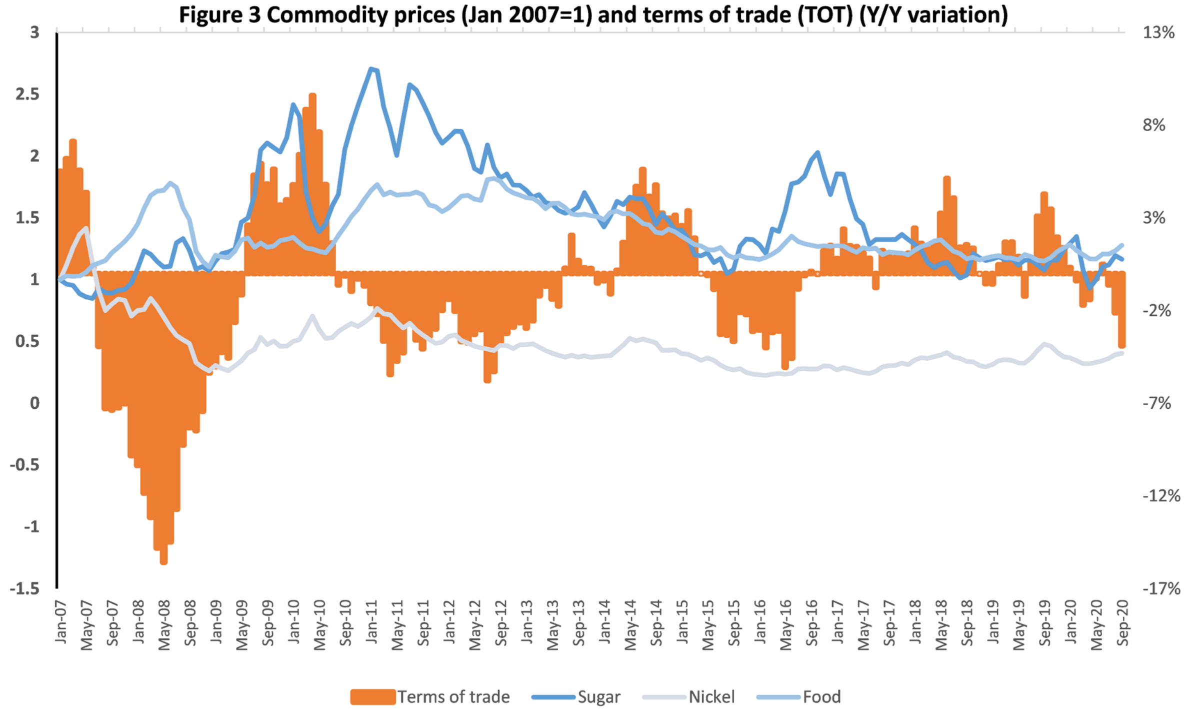
In 2020, the Cuban economy is suffering the double impact of national and international disruption caused by the pandemic. On one hand, there is the direct impact of the social distancing measures that particularly affect transportation, trade and services. On the other hand, there is the effect of the global recession, the stop to international flights, and the drop in demand and prices for prime materials, and its implications for Cuba's balance of payments. The balance of payment constraints are hardest felt in agriculture, manufacturing and mining, which depend on commodity exports. This, in turn, does not allow them to operate at maximum capacity, even if they are not subject to any lockdowns. Meanwhile, hospitality is affected by both channels of transmission — the drop in international tourism, as well as social distancing measures in the island. In fact, this is the sector that is most vulnerable to these kinds of shocks, producing what will likely be the biggest contraction this year (-35.1%, see Q2 2020 Report).

For now, we maintain our forecast of an 8.7% drop in GDP for 2020. In comparison to the Special Period, this contraction is bigger than 1990 (-3.0%), but smaller than that of 1991 (-10.7%). The international disruptions and their impact on the balance of payments will contribute 47% of the recession, while domestic disruptions caused by lockdowns account for 53% of the recession.

The Cuban government has not given any official GDP figure, nor has it provided data about the impact on specific sectors, on components of aggregated demand or on the balance of payments. In other words, there is no data or evidence to change the scenario we laid out in the previous Report.

A downside risk is the possibility that strict lockdowns will be imposed on large parts of the island again; however, this is not likely to happen. Another element of uncertainty has to do with the official accounting of the impacts. The low availability of telecommuting opportunites and online clases has a major effect on the volumen and added value of social services, particularly education during times of restricted movement. We do not know how the National Statistics Office (ONEI) will exactly account for this effect; however, ONEI has recently interpreted economic reality in a way that reduces the negative impact on the total GDP. Until now, we have no clue how ONEI will exactly account for this effect on the 2020 GDP.

Figure 3 Commodity prices (Jan 2007=1) and terms of trade (TOT) (Y/Y variation)



As to the balance of payments, we maintain a scenario where Cuban goods exports drop by around 19% (in current prices), international visitors plummet by 60%, remittances are down 16%, and imports 27% from 2019.

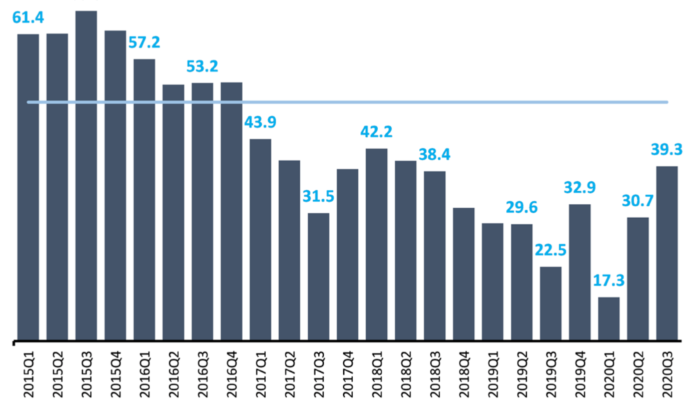
Fortunately for Cuba's balance of payments, there is no significant shock in terms of trade. Economists hope that the impact on the trade balance will be due more to volumen than to prices. Even though there is no favorable trend in international prices for Cuban trade, the drops are less steep than in previous years. Through September, the international sugar price was only 2% below the 2019 average, while nickel prices were 6% lower. On the other hand, the food price index (as calculated by the World Bank) was 3% above the 2019 average. Clearly, this implies fewer external revenues from goods exports for Cuba and higher bills for food imports. However, the combined effect of these prices (considering each segment in the trade balance) is only a 1% drop in the terms of trade for 2020. Fig. 3 shows that this shock is much more moderate than that of 2008, than in 2011-12, and than in 2015-16. In other words, 2020 does not add anything much worse to a situation of low commodity prices that has affected Cuba since 2015.

The Cuba Standard Business Confidence Index (CSCI) detects more optimism

The Cuba Standard Business Confidence Index (CSCI)[1] hit rock bottom in the first quarter, clearly reflecting the problems caused by COVID-19 (Fig. 4). However, at the end of the second quarter, economic expectations rose as the government began to reopen some sectors, and various provinces rapidly advanced through the three phases of easing set by the Cuban government. In the third quarter, despite all the uncertainty and a complex economic situation, the CSCI numbers continue to climb.

The third-quarter CSCI figures rise to the highest point in two years, possibly due to optimism prompted by a new administration in the White House and by the reforms announced by the Cuban government, including the much anticipated monetary reform. Even so, the CSCI still is below 50, which means that the percentage of negative responses

Figure 4 Cuba Standard Business Confidence Index (CSCI)
2015Q1-2020Q3



Source: Cuba Standard Business Confidence Survey

in the Business Confidence Survey is much higher than that of positives responses.

In the responses to the Business Confidence Survey, which is the base for the CSCI, the number of businesspeople who believe that the economy will continue to deteriorate in the next 12 months continues to decline — from 87.8% in the first quarter to 30% in the third quarter. Forty-nine percent of respondents believe that the economy will improve in the next year, and 21% believe that it will remain the same. Seventy-one percent say that the volume of their economic activity with/in Cuba declined in the third quarter, a similar decline to the previous quarter. In the short term, only 39% believe that their business volume will improve in the next three to four months — a similar percentage than in the previous quarter — while 22% believe in further decline.

Sixty-six percent checked the box that the financial situation of their business in/with Cuba is "bad", more proof to the financial dimension of this crisis. But the same number — 66% — say that they maintain or increased their intentions to invest in the Cuban economy, which 34% says their investment intentions are lower.

1 The CSCI estimates the business climate based on qualitative information collected by survey. The survey consists of eight questions (https://www.cubastandard.com/?page_id=12796). For the design of the survey, we based ourselves on international standards presented in the 2003 OECD document titled Business Tendency Surveys: A Handbook. The survey is conducted quarterly via email to a random sample of around 100 businesspeople connected to the Cuban economy. The results allow the construction of a confidence or economic optimism index. CSCI calculates the difference between the percentage of positive and negative responses to each question, which we then average out. The index is calculated to fall within a range between 0 and 100%. It would get a value of 100 if all answers were positive, and zero if the opposite occurs.

III. ECONOMIC POLICIES

WHERE IS THE NEW EXCHANGE-RATE POLICY HEADED?

IIn addition to the unknown exchange rate, there is preciously little information about the exchange regime for the Cuban peso after Day Zero of monetary reform. Marino Murillo has said that we are not headed towards a flexible exchange rate system, but that there will be a continued fixed-rate regime, with possibilities of discretionary, well-spaced adjustments. Equally discarded seem to be the options of an exchange-rate system that uses a basket of currencies as reference, or a managed float, both of which have reportedly been pondered among Cuba's leadership.

However, more important than the degree of exchange-rate flexibility is opening up convertibility of the Cuban peso, and the possibility of reforming the current exchange control system. There are key questions about the exchange policy that have not been answered yet by the authorities: After Day Zero, will natural persons and the private sector be allowed to buy limitless amounts of dollars and other hard currencies in Cuban banks and exchange houses? Through what channels will state enterprises and joint ventures be able to buy hard currency with their Cuban peso revenues? Will exchange controls in state enterprises for the purchase of hard currency continue to exist? Will controls over international capital movements continue?

The responses to these questions, all related to the convertibility of the Cuban peso, are key to gauging the credibility of the new national currency, and they are important to understanding the impact monetary reform will have on the future functioning of the economy. In fact, the only way for the central bank to slow down an accelerated dollarization of the economy is the creation of a Cuban peso that is convertible. Without that, all economic actors will always prefer to operate and save in dollars. State and private businesses will always prefer a currency that allows them to pay for imports and service international debt. No foreign investor will want to put their money in Cuban-peso projects if that currency does not guarantee them the repatriation of their profits.

Obviously, the exchange setup will be conditioned mainly by the way in which monetary policy operates, to set limits to peso emission. The transparency and autonomy of monetary policy will be fundamental to guarantee the stability and credibility of the national currency. The failure of the CUC was precisely due to faults in the design of the monetary and exchange policy that accompanied that currency since the mid-2000s (see Q2 2020 Report). Both instances when the Central Bank decided to dollarize (1994 and 2019) were preceded by major fiscal and monetary imbalances. These imbalances affect the credibility and convertibility of the national currency. The Cuban authorities should try to avoid repeating these same errors.

A positive signal favoring a partial flexibilization of exchange control mechanisms can be found in Resolution 115 of this year, published by the Ministry of Economy and Planning in the Gaceta Oficial 60. This resolution reforms the super centralized hard-currency assignment mechanisms that were imposed in the mid-2000's after de-dollarization and rapprochement with Venezuela. The new regulatory framework of 2020 implies progress for the autonomy of some state enterprises — not for all, but for those able to directly generate hard-currency revenues.

In the following cases, the Economy Ministry and Central Bank guarantee that revenues will be backed in hard currency and that enterprises will be able to use that for international payments, without the need to go through exchange controls:

- Exports, including online sales (e-commerce) with payments from abroad;
- Sales to entities located in the Mariel Special Development Zone;
- Sales of goods and services in dollars in domestic markets;
- Sales to joint venures;
- International cooperation projects; and
- Domestic sales to exporters of goods and services that substitute imports.

Previously, hard currency revenues flowed into a "joint purse" connected to the Central Plan. Enterprises did not know whether they would be able to purchase hard currency to comply with their international obligations. Now this hard currency is guaranteed, through accounts with liquidity certificates that function like a currency board with 100% backing in dollars, thus eliminating the financial risk associated with the lack of convertibility of the national currency. Enterprises with liquidity certificate accounts may import and pay bills in hard currency without having to wait for authorization through the Central Plan from the exchange control mechanisms.

It is notable that this decentralization is not done by granting enterprises the use of dollar accounts, but rather through national currency accounts with 100% dollar backing. Liquidity certificate accounts have been used in Cuba since the mid-2000's, and now this instrument is being used again to flexibilize exchange controls.

It is important to note that these rules only apply to new hard-currency revenues; they do not resolve the millions of CUC emitted in previous years that have been piling up in enterprises' accounts because they are not convertible. Nor does this arrangement apply to all enterprises, but only to those that have direct revenues in dollars and other hard currencies.

It should be assumed, therefore, that this mechanism will undergo another transformation after Day Zero. This transformation will mark the exchange regime of the Cuban peso. The following questions remain: Will this mechanism expand to all other enterprises after Day Zero, or will those without hard-currency revenues be subject to different treatment? Supposedly, the devaluation and everything that will be done as part of monetary reform is to advance to monetary and exchange unification, and hopefully this will be the case. But dualities and segment-by-segment and discretional management of the economy are so rooted in the way of thinking of the Cuban authorities that we cannot discard the possibility that — although we will see some convergence and unification — there will be continuity of differentiation and fragmentation after Day Zero.

IV. KEY MACROECONOMIC INDICATORS

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
GDP (constant prices, % change)	4.1	1.4	2.4	2.8	3.0	2.7	1.0	4.4	0.5	1.8	2.2
Investment (constant prices, % change)	21.9	-19.0	-0.7	8.5	7.2	4.0	-4.9	18.3	7.5	0.2	4.8
Exports (constant prices, % change)	11.6	3.1	13.8	5.5	0.4	1.7	-2.8	-0.1	-19.7	0.0	-2.4
Imports (constant prices, % change)	7.4	-14.9	35.7	1.0	-2.1	6.1	-1.5	10.1	-10.6	-1.6	-2.0
Terms of trade (% change)	-29.5	10.3	31.5	-12.2	7.0	-10.0	-6.0	-0.5	5.5	0.0	-7.5
Fiscal balance (% of GDP)	-6.9	-4.9	-3.6	-1.7	-3.7	-1.3	-2.2	-5.8	-6.7	-8.6	-8.1
Inflation (%)	-0.1	-0.1	1.6	3.6	2.0	0.6	2.1	2.8	-2.9	0.6	2.4
Unemployment rate (%)	1.6	1.7	2.5	3.2	3.5	3.3	2.7	2.4	2.0	1.7	1.7

Source: ONEI data

PAVEL VIDAL

Vidal is currently a professor at Universidad Javeriana in Colombia. From 2000 to 2006, he worked at the Banco Central de Cuba, and from 2006 to 2012 he was a researcher at the Centro de Estudios de la Economía Cubana at the University of Havana.

JOHANNES WERNER

Werner has worked for 20 years as a business/economic journalist in Europe, Latin America and the United States. His award-winning articles cover a wide range of beats. He has been covering the Cuban economy since 1998.