

Changing for the better?

General Information



GDP	USD68.2 bn (World ranking 69, World Bank 2013)
Population	11.27 mn (World ranking 76, World Bank 2013)
Form of state	Republic
Head of government	Raul Castro (Communist party)
Next elections	2018, presidential



Strengths

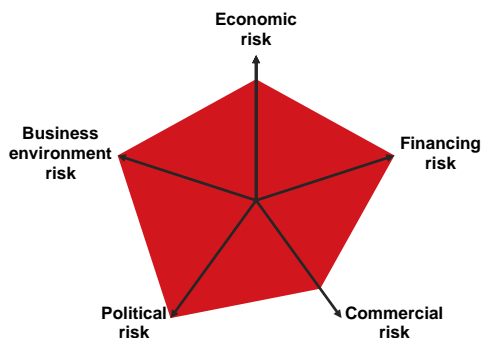
- Skilled human capital
- Abundant natural resources
- High potential for tourism growth
- Close to the U.S. and the Panama canal

Weaknesses

- Economic sanctions imposed by the U.S.
- Limited access to foreign financing
- Dual FX system
- Entirely State-driven economy
- Rationed economy, price controls, black market
- Poor infrastructure
- Closed economy
- High subsidies

Country Rating

D4



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank			Imports
Venezuela	43%	1	33%	Venezuela
Canada	9%	2	10%	China
The Netherlands	9%	3	8%	Spain
China	7%	4	4%	Brazil
Spain	3%	5	3%	Mexico

By product (% of total)

Exports	Rank			Imports
Metalliferous ores	21%	1	23%	Petroleum products
Sugar & sugar products	16%	2	9%	Iron and steel
Petroleum products	11%	3	5%	Electrical machinery
Tobacco	9%	4	5%	Cereals
Pharmaceutical products	9%	5	4%	Manufactures of metal

Source: 2012, UNCTAD, ONEI Cuba



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Economic Overview

Things are changing quickly, for the better

The last six months have seen a positive wind of change in Cuba, with three key game changers: (i) The progressive easing of the economic restrictions imposed by the U.S. with the removal of Cuba from the list of State Sponsors of Terrorism at the end of May 2015; and a significant easing of the U.S. Embargo (in place since 1960), although a complete removal of the embargo will require a vote in Congress; (ii) The adoption in 2014 of a new law for foreign investment with a much more favourable and pragmatic framework than the previous 1995 regulations; and (iii) The portfolio of investment opportunities launched in late-2014 by the Cuban government available to foreign investors, consisting of around USD15bn in total amongst the 246 projects on offer. It covers critical sectors for the island such as energy, food, construction, pharmaceutical and biotechnology industry, among others, and gives a special emphasis to the development of Special Zone of Mariel.

Under this new environment, we expect Cuban real GDP accelerates in coming years, with exports and, especially, investment being the main engines of growth. Consumption should also accelerate but less than investment, as the internal market will continue to be highly State-driven. After more than 50 years under a US embargo, this will give a boost to imports, mainly of capital goods, machinery and fuels. Consequently, the current account deficit is expected to widen significantly (above -10% of GDP) over next years.

But the way ahead is still very long

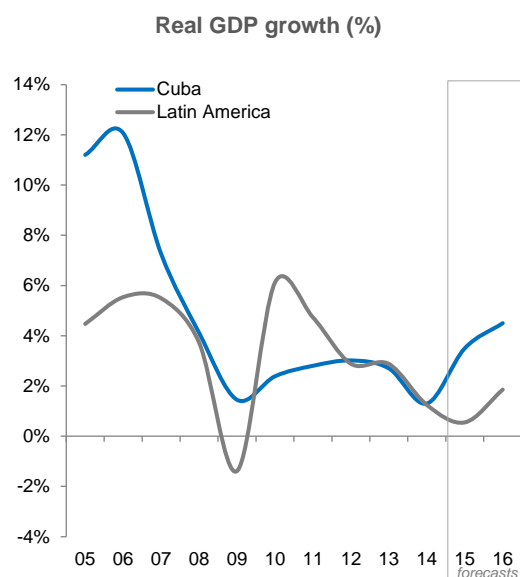
Despite these positive developments, Cuba will remain a very risky country for commercial operations: (i) Risk of transfer and convertibility is extremely high with two official currencies that co-exist, with different exchange rates. The Convertible Peso (CUC), a fully convertible currency that exchanges 1 to 1 to the USD, is used in the tourism sector and to pay exports and imports. The Cuban Peso (CUP), that can only be exchanged against the CUC at 24CUP/1CUC for households and at 1CUP/1CUC for Public enterprises, is used in Cubans daily life (pensions and wages in the public sector, subsidies and most of current goods and services are paid CUP); (ii) The economy will continue to be rationed, with labour, wages and price controls. The business environment will remain overall adverse, with high risk of expropriation or nationalization; (iii) Political tensions among Cuban authorities should not be underestimated. While the President Raul Castro has asserted his will to 'upgrade the Cuban economic model to be better integrated into the world', not all the politicians from the Party fully agree with these developments.

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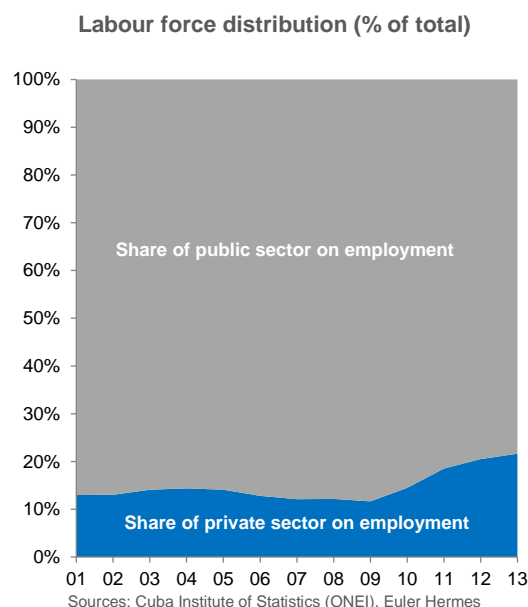
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Sources: Cuba Institute of Statistics (ONEI), Euler Hermes estimates and forecasts



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