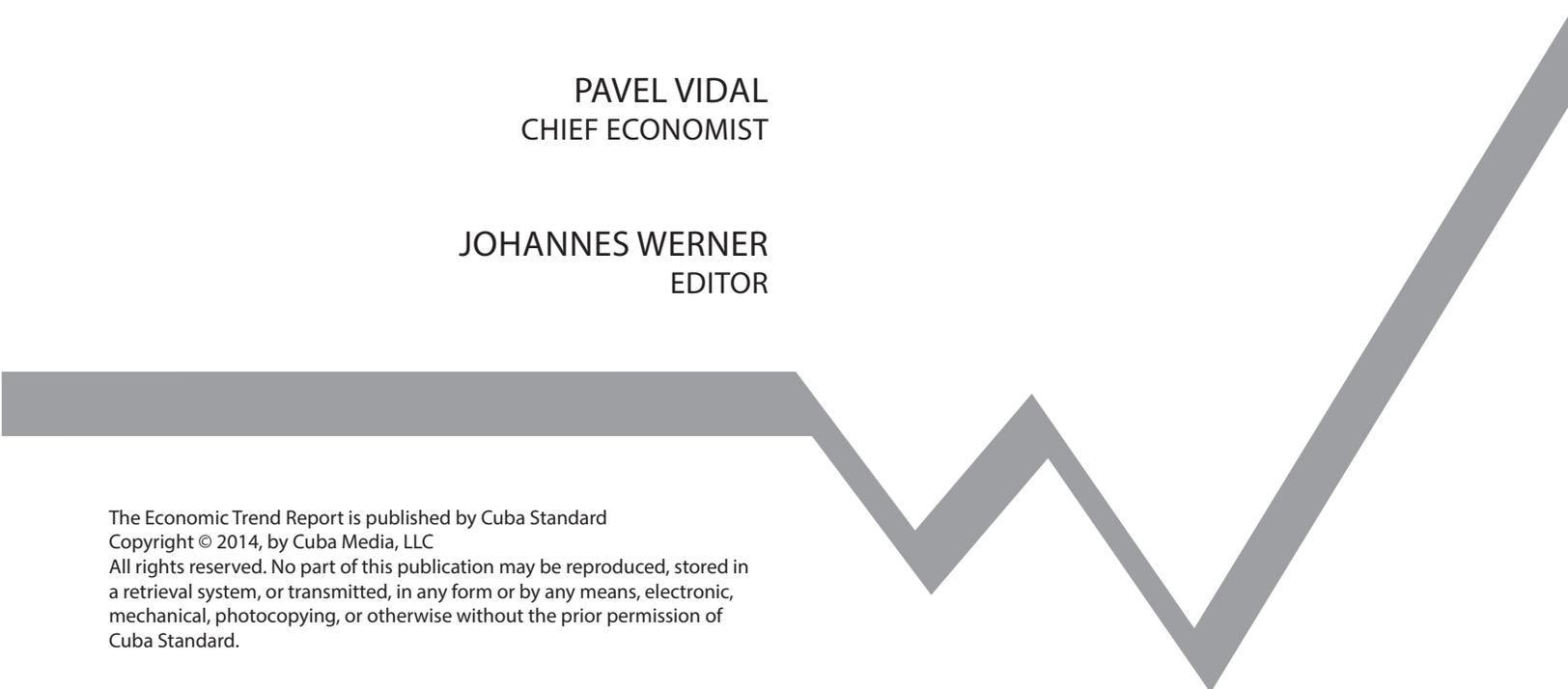


ECONOMIC
 **TREND**
REPORT

**FIRST
QUARTER**

2015



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Contents

- 4 Executive summary
- 6 I. Structural and institutional reforms
 - Entering the eighth year of Raúl Castro's reforms
 - Cuba Standard Business Confidence Survey
 - "Rational optimism" towards the Obama administration's new policy
 - New procedures for investments
- 10 II. Real sector
 - Official projections for 2015
 - Business climate and balance-of-payment conditions in the first quarter of 2015
 - Uncertainty about future GDP growth
- 13 III. Economic policies
 - Monetary reform continues to be delayed, and new 'noises' are heard
 - Salary expansion and doubts about inflation data
- 15 IV. Key macroeconomic indicators

EXECUTIVE SUMMARY

- The year 2015 has begun with hopes for economic improvement, based on the speeches by Presidents Barack Obama and Raúl Castro on Dec. 17. Given the new tone in bilateral relations and the measures announced by the U.S. government, favorable impacts are expected on tourism, on the private sector, and on the overall functioning of the Cuban economy. We estimate that the way in which Cuba's GDP growth will be most favored by the new measures is through investment. The new optimism awakened among businesspeople could propel foreign investment on the island.
- In this first quarter of 2015, we are presenting the *Cuba Standard Business Confidence Survey*, the first poll of this kind used in Cuba. Half of respondents (50.5%) said that their company has increased its intentions to invest in Cuba. Sixty-one percent of respondents believe that economic conditions on the island will improve in the coming 12 months.
- Survey takers were asked to mark the five biggest obstacles to developing and expanding their business in Cuba. The three factors that were selected by most respondents were government bureaucracy (62.2%), excess of regulations (49.5%), and guarantees and legal procedures (43.4%). None of the three factors refers to clear economic problems, but rather to the quality of institutions in the Cuban system.
- Despite the opening of new opportunities in global markets, we foresee slow reaction speed by the Cuban authorities to the new scenarios and institutional weaknesses that will delay Cuba's international insertion.
- The Cuban authorities have made evident their optimism regarding the macro economy and the main sectors in their perspectives for 2015. The government is planning an acceleration of GDP growth from 1.3% in 2014 to 4% in 2015. Again, the GDP growth plan is based on a "spectacular" acceleration of investments; this year, the government expects an expansion of investments by 27%.
- We also predict an acceleration of GDP growth in 2015, albeit somewhat less optimistic than the government. Our forecast of 3.4% is based mainly on the possible rebound of investments (even if they don't match the plan), improved access to external financing (thanks to foreign debt renegotiation agreements the government is pursuing), and the benefits of a relaxation of import and fiscal spending controls
- The *Cuba Standard Economic Trend Index* (CSETI) indicates that the favorable effects of the new international scenario have not impacted yet the Cuban economy. The February 2015 estimate is -0.14, which suggests that balance-of-payment conditions continue to be unfavorable for GDP growth. Even so, they are less negative than those of the first half of 2014.

- The government is unifying distinct legal rules for the presentation and execution of investments. Regulations for both domestic and foreign investments are being standardized, including for the domestic non-state sector. Two of the intentions behind the new regulations is to gradually decentralize investment decisions and the creation of more transparent conditions.
- For now, monetary reform continues to be an unknown. Two new hypotheses appear: That the CUC will not be eliminated in one fell swoop from retail markets, and that the government opts for multiple exchange rates.
- Assuming an annual inflation in Cuba of 4%, we estimate that the real average salary of the state sector had a declining tendency during the period of the reform, rather than a rising one, as official sources suggest.

