

# **Cuba : Current conditions and rapprochement implications for the wider Caribbean**

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# Acknowledgements and sources :

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# Presentation outline :

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- **Cuba - Demographics and labour**
  - **Consumption and investment**
  - **Tourism**
  - **Growth, inflation, fiscal balance**
  - **Trade**
- **Rapprochement implications for Cuba and the rest of the Caribbean**
- **Key takeaways**

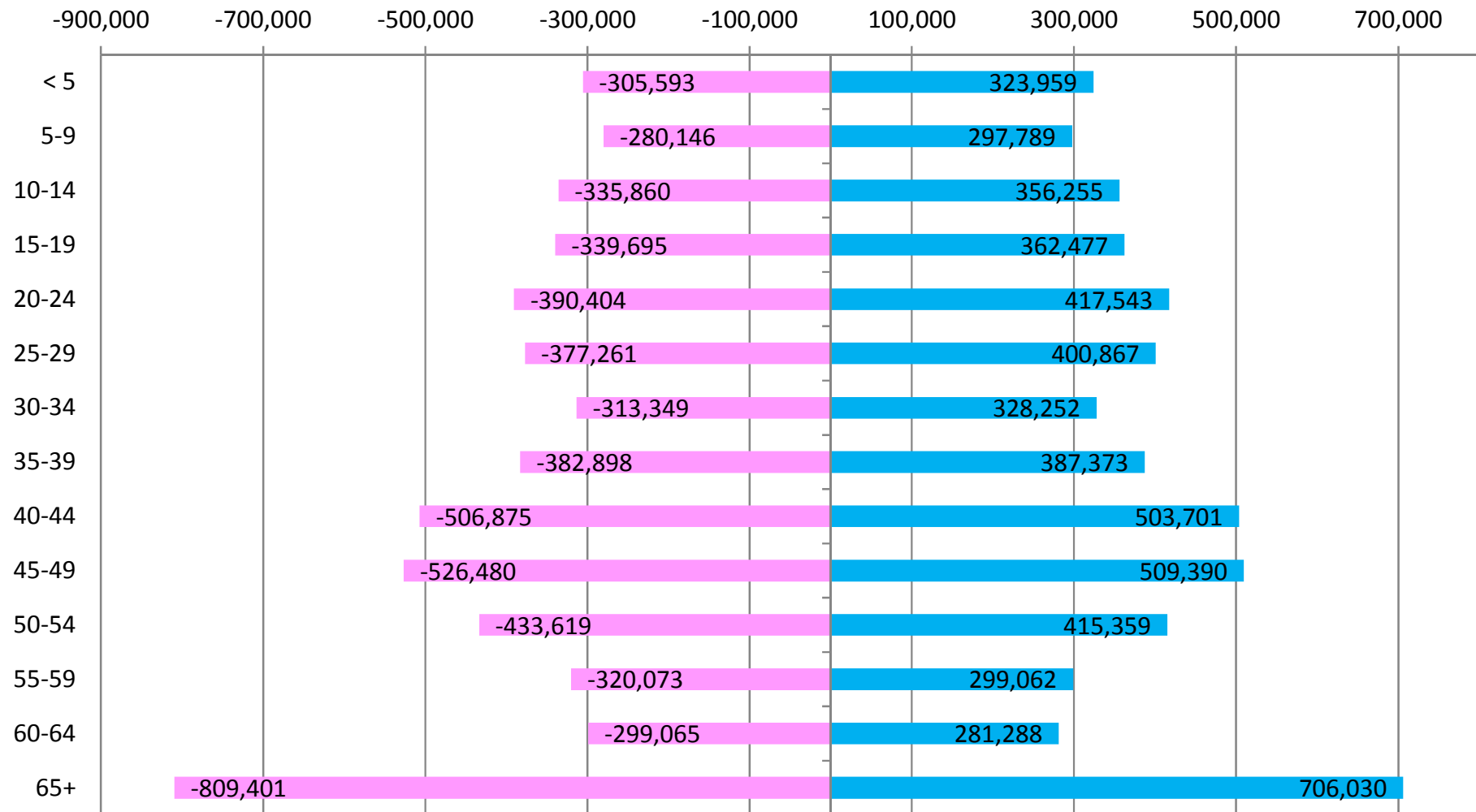
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# Demographics and Labour

Population of roughly 11.2 million – the largest in the Caribbean. Over 1.5MM or 13.5% are in the +65 age group. The female population is slightly higher in the +40 age group, and overall is growing faster than the male population.

## Demographics : Cuba

# of persons by age group



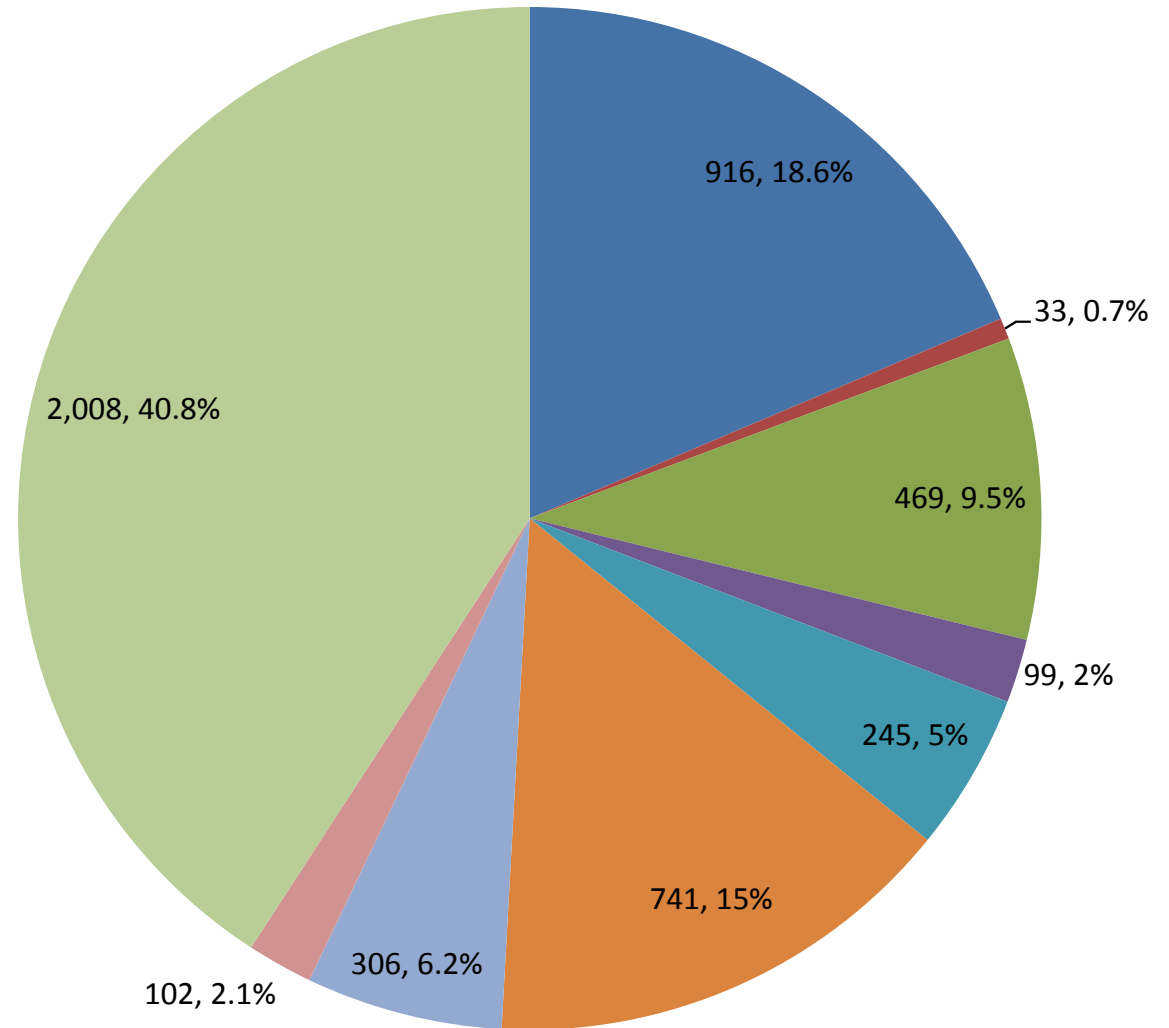
Source: Global News Matters, RBC Financial (Caribbean) Limited

The total workforce stands at just under five million persons. The majority - over 40% - employed in the “other activities, services to commercial and individual” sector, followed by agriculture and retail, hotels and restaurants sectors.

## Workforce by Sector : Cuba

'000 of persons employed, and % of total

- Agriculture, Livestock, Forestry and Fisheries
- Mining & Quarrying
- Manufacturing
- Electricity, Gas & Water
- Construction
- Retail, Hotels & Restaurants
- Transport, Storage & Communications
- Business Svcs, Real Estate and Rentals
- Other Activities, Svcs to Comm/Indiv

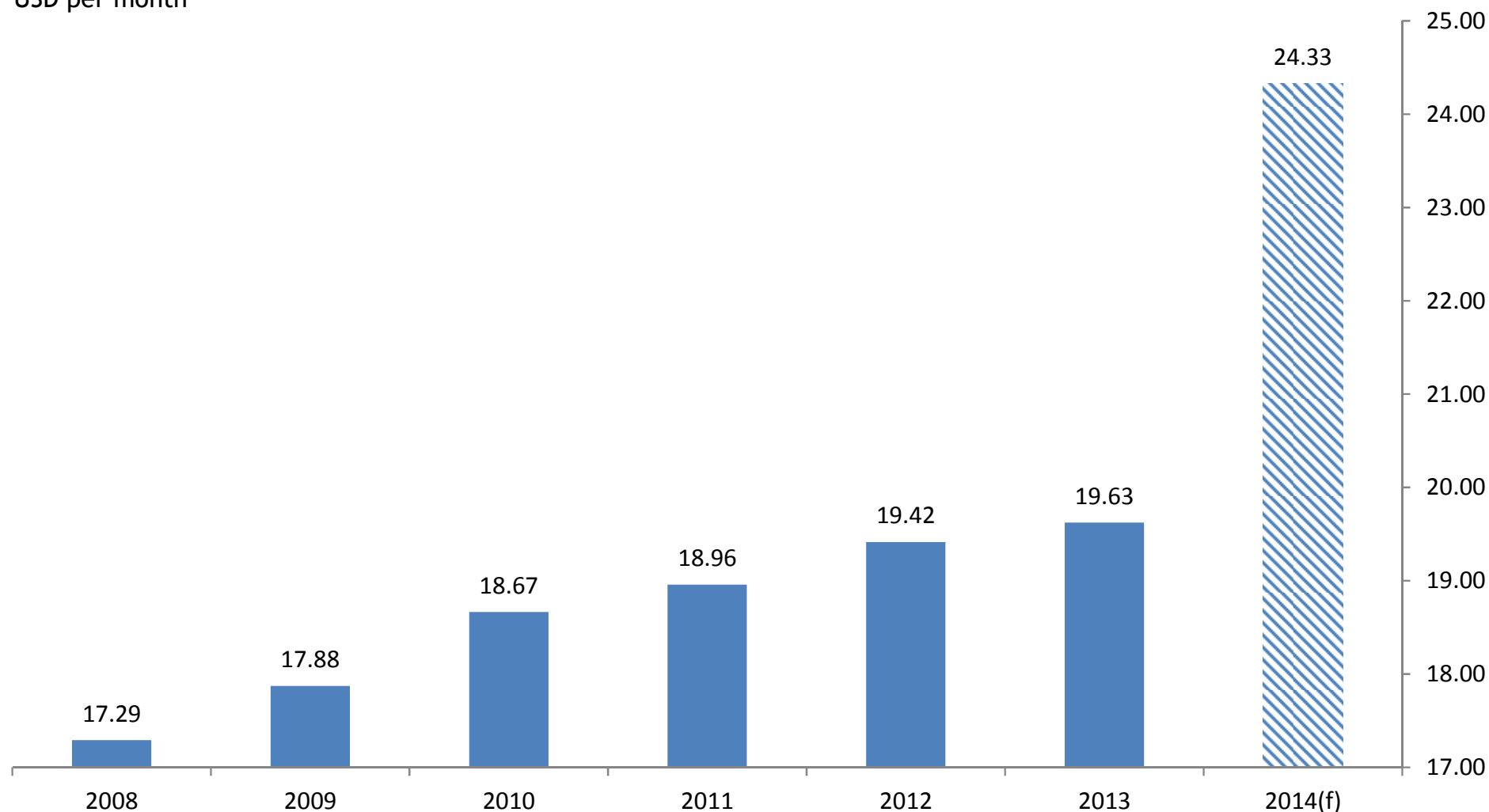


Source: Global News Matters, RBC Financial (Caribbean) Limited

The average monthly salary has grown by roughly 13% from 2008 to 2013 to USD19.63/month. The highest wages are earned in the construction sector at USD24.25/month, and the lowest in retail, hotels and rest. at USD16.29/month.

## Average Monthly Salary in State and Mixed Entities : Cuba

USD per month



Source: Global News Matters, RBC Financial (Caribbean) Limited

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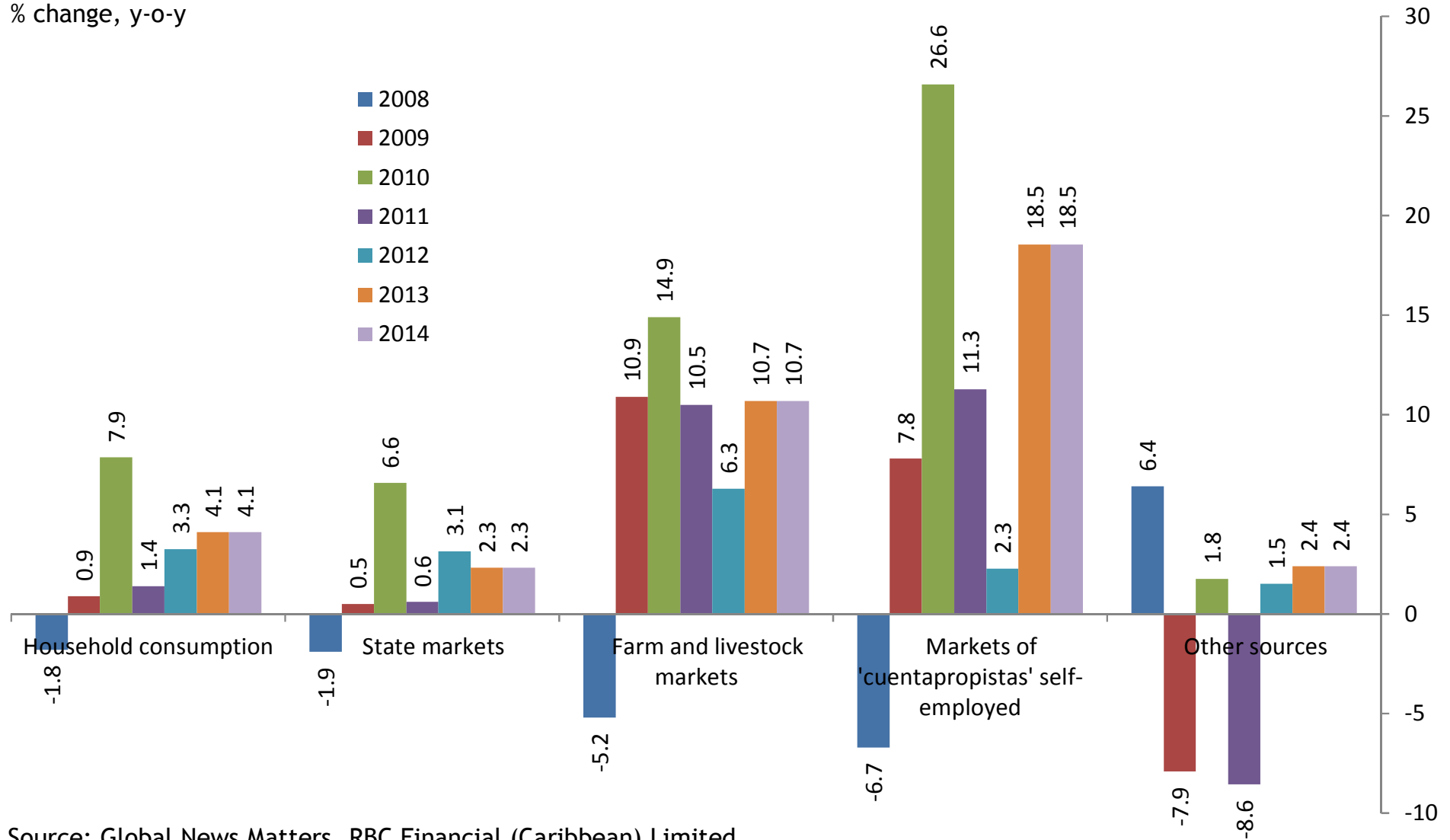
# Consumption and Investment



Household consumption has grown from CUP29.8 billion in 2008 to CUP44 in 2014 – an increase of over 40%. In real terms, the increase was just 18% to CUP27.3 billion. Note CUP1.00 = USD1.00 (officially)

## Real Growth in Household Consumption and the Sources : Cuba

% change, y-o-y

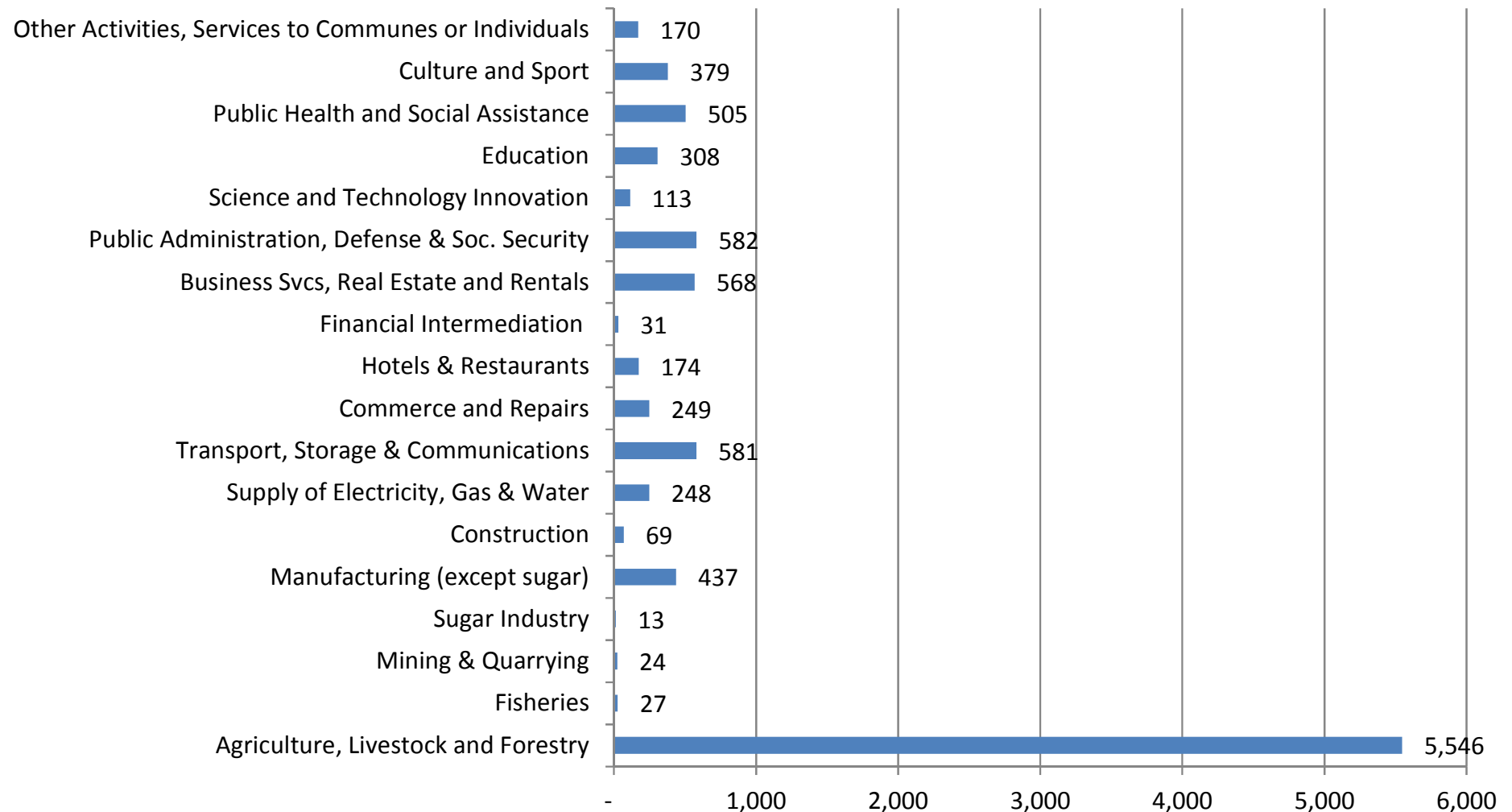


Source: Global News Matters, RBC Financial (Caribbean) Limited

Of roughly 10,000 registered businesses, over half are in the Agriculture, Livestock and Forestry sector. Roughly 2,000 businesses are registered companies, 5,500 are cooperatives, and 2,300 are subsidized entities.

## Registered Businesses : Cuba

# of registered businesses by sector



Source: Global News Matters, RBC Financial (Caribbean) Limited

Investment mainly via the state reached USD5.2 billion in 2013, up roughly 13% y-o-y, following 6% growth in 2012 and 2.2% in 2011. Hotels and restaurants saw the highest level of investment in 2013 for the first time.

<b>INVESTMENT</b>	<b>--- Investment USD MM ---</b>	<b>Investment USD MM V % YoY</b>
	<b>2013</b>	<b>2013</b>
Total	5,191.4	12.9%
Agriculture, Livestock, Forestry and Fisheries	411.1	34.0%
Mining & Quarrying	209.5	-7.0%
Sugar Industry	172.4	31.5%
Manufacturing (except sugar)	277.9	-8.9%
Supply of Electricity, Gas & Water	773.1	6.6%
Construction	493.1	-27.1%
Commerce and Repairs	108.8	-10.2%
Hotels & Restaurants	802.6	33.0%
Transport, Storage & Communications	711.5	36.3%
Financial Intermediation	12.0	57.9%
Business Svcs, Real Estate and Rentals	465.2	23.1%
Public Administration, Defense & Soc. Security	458.3	23.4%
Research and Development	39.9	50.6%
Education	57.5	59.7%
Public Health and Social Assistance	101.6	41.3%
Culture and Sport	54.5	22.2%
Other Activities, Svcs to Comm/Indiv	42.4	-10.7%

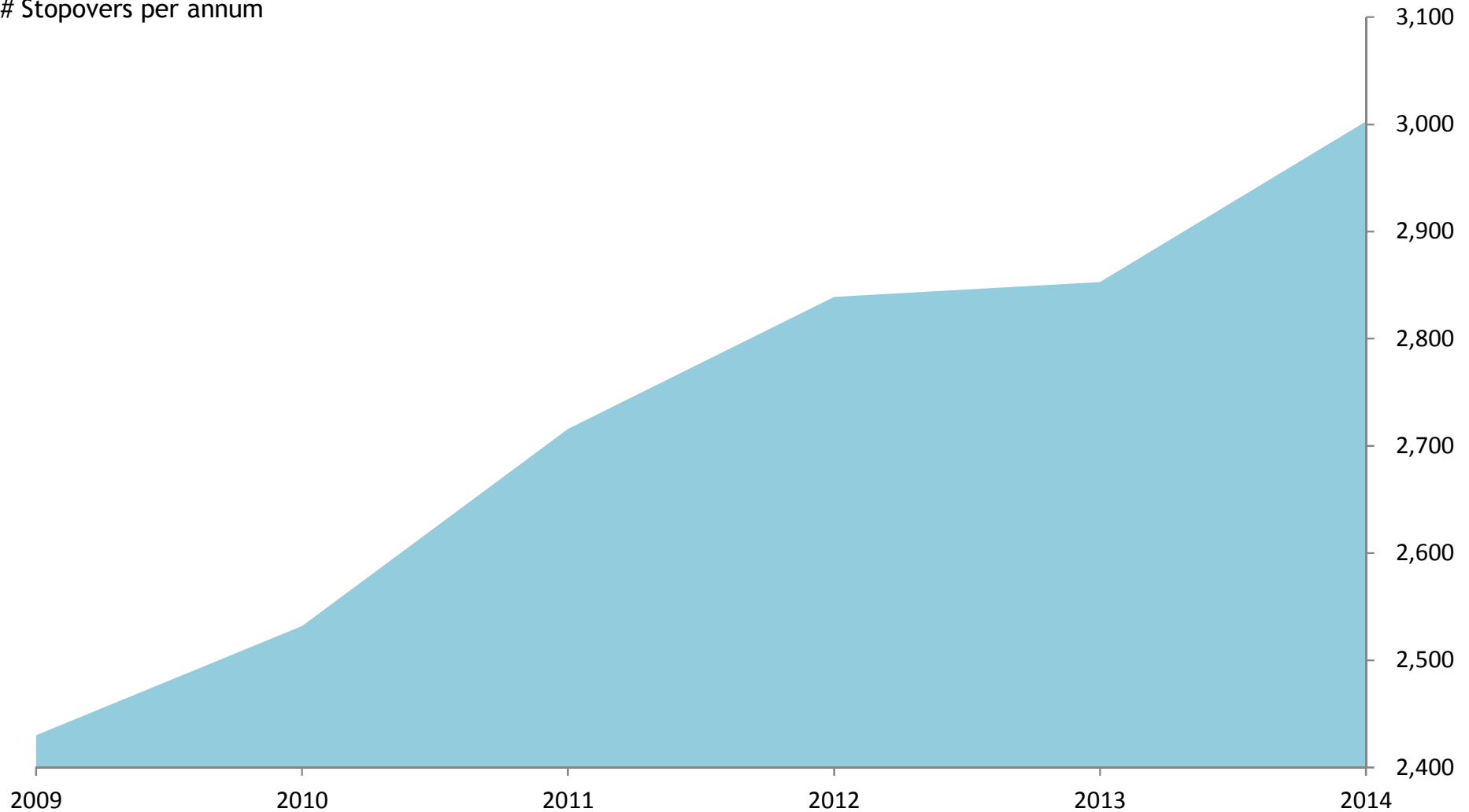
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# Tourism

Cuba's stopover arrivals crossed 3MM in 2014 (up 5.3% over 2013) and are second only to the Dominican Republic's - without meaningful airlift from the USA. By March 2015, stopovers reached 1,135,610 – up 14.1% y-o-y (CTO).

## Stopover Arrivals : Cuba

# Stopovers per annum



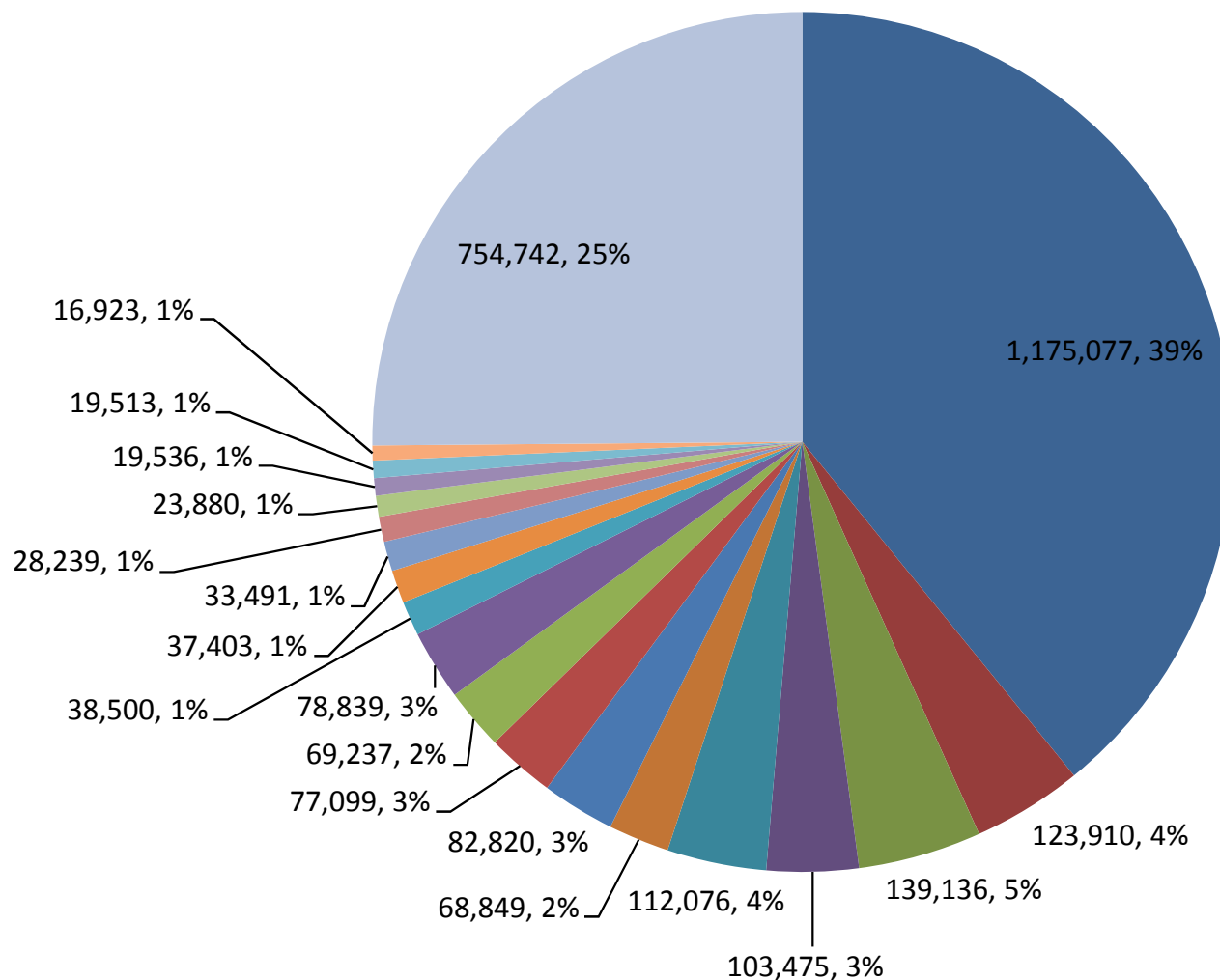
Source: Global News Matters, RBC Financial (Caribbean) Limited

Canada is by far the largest source market for stopover arrivals, accounting for 39% of total arrivals - more than all other visitors combined except for the USA (#2), which is captured under “other”, and accounts for 25% of total arrivals.

## Stopover Arrivals by Source : Cuba

# Stopovers per annum and % of total

- Canada
- England
- Germany
- France
- Italy
- Argentina
- Mexico
- Spain
- Russia
- Venezuela
- Chile
- Colombia
- Holland
- China
- Switzerland
- Peru
- Brazil
- Austria
- Other



Source: Global News Matters, RBC Financial (Caribbean) Limited

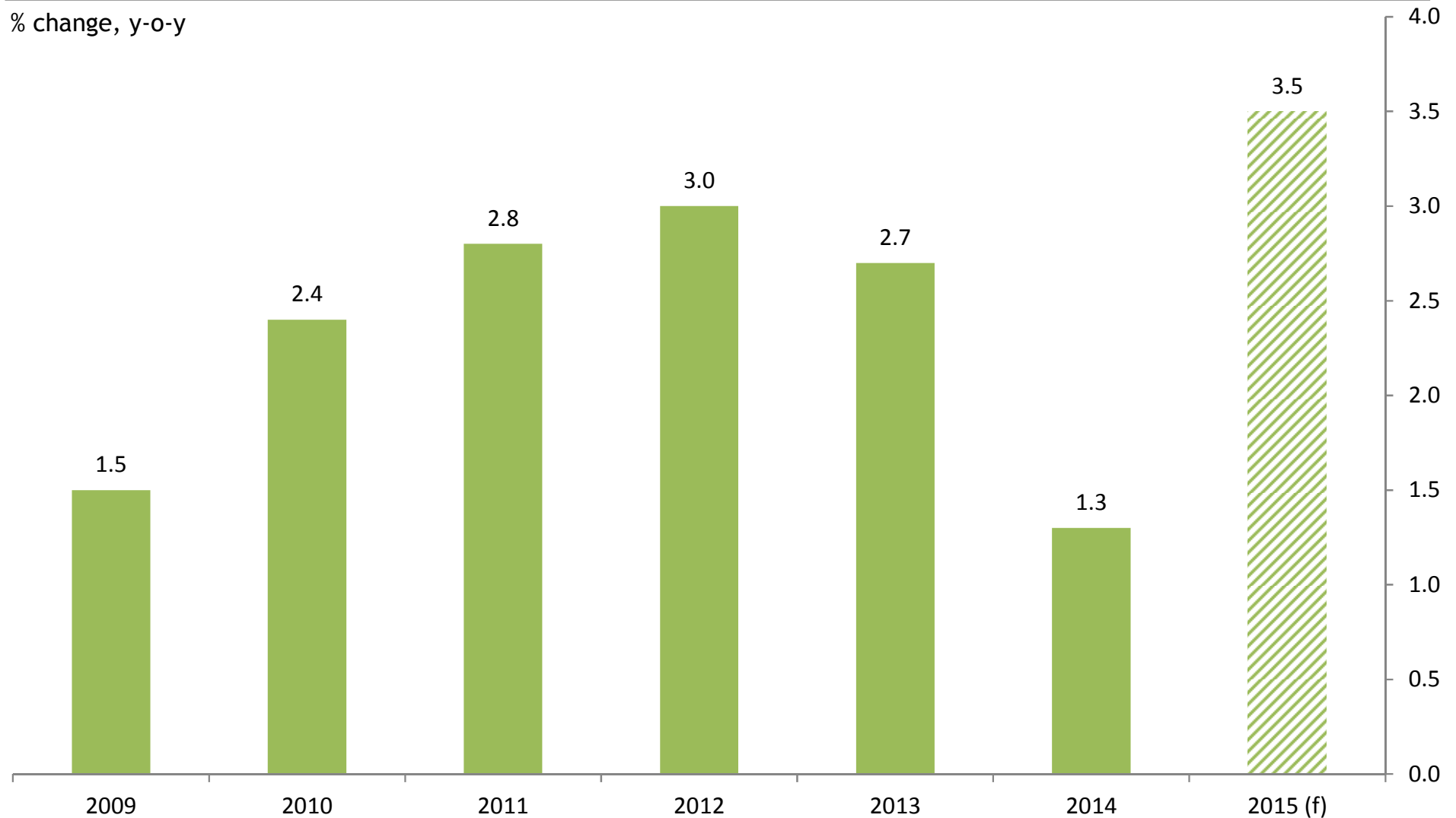
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# Growth, inflation and fiscal balance

The impact of long-term and mounting economic malaise in Venezuela has contributed to declining growth in Cuba. Fuel shipments from Venezuela had fallen from an average of roughly 100K bpd to 77K bpd in late 2014.

## Real GDP Growth : Cuba

% change, y-o-y



Source: Global News Matters, RBC Financial (Caribbean) Limited



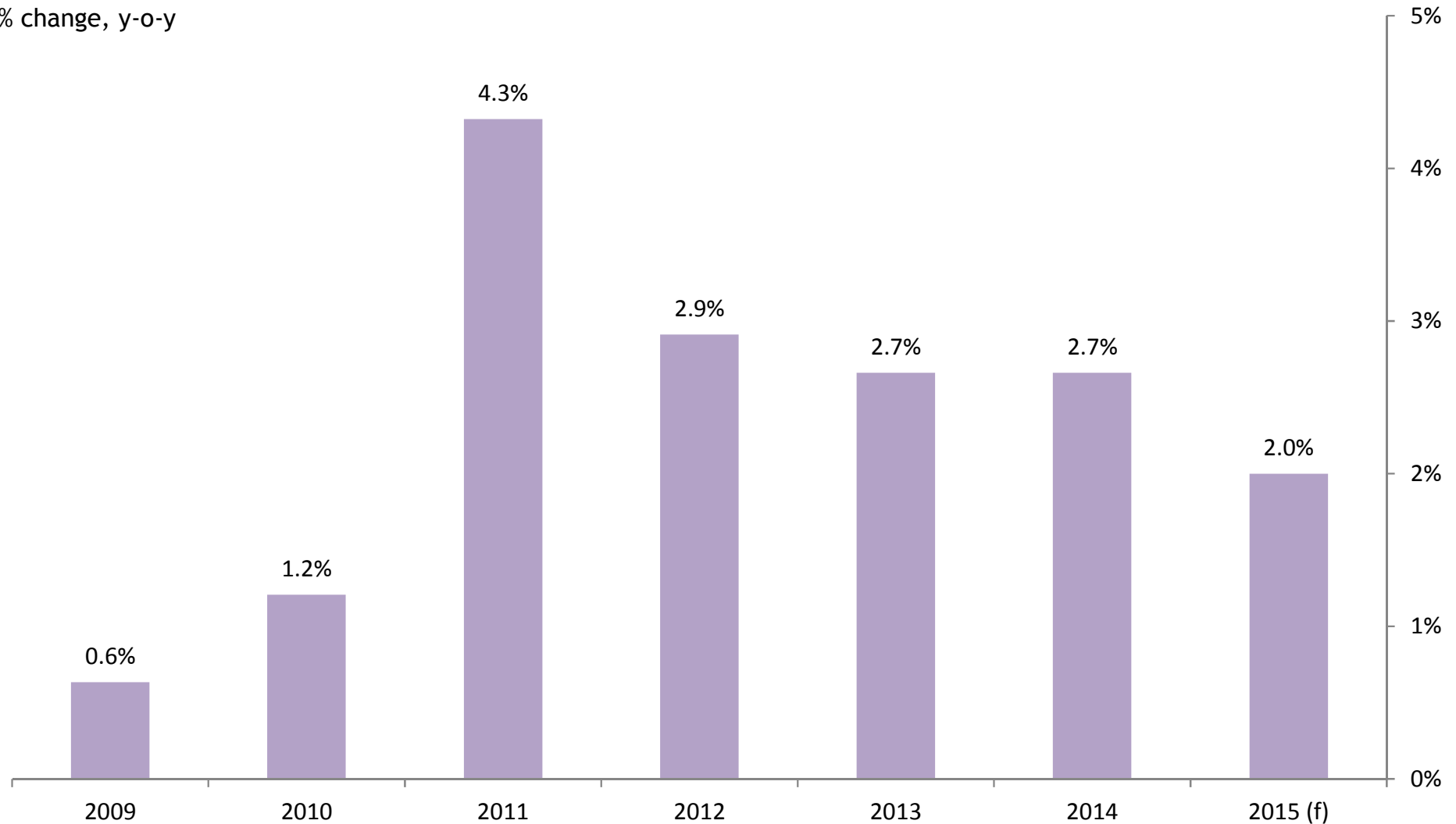
Commerce and repairs (19%), Public Health and Social Assistance (17%) and Manufacturing (ex. Sugar) (13%) are the largest sectors. Science and tech, hotels and restaurants, business services, real estate and rentals grew fastest.

<b>GDP</b>	'08-'14	'08-'14
<b>Real GDP (at 1997 prices)</b>	<b>CAGR</b>	<b>% of total</b>
Agriculture, Livestock and Forestry	1.7%	3.7%
Fisheries	-13.6%	0.1%
Mining & Quarrying	0.6%	0.6%
Sugar Industry	1.4%	0.5%
Manufacturing (except sugar)	1.1%	13.2%
Construction	0.2%	5.7%
Supply of Electricity, Gas & Water	1.8%	1.4%
Transport, Storage & Communications	3.7%	9.1%
Commerce and Repairs	3.3%	18.6%
Hotels & Restaurants	6.1%	5.5%
Financial Intermediation	1.5%	2.6%
Business Svcs, Real Estate and Rentals	5.2%	3.1%
Public Administration, Defense & Soc. Security	1.6%	3.9%
Science and Technology Innovation	6.2%	0.5%
Education	-0.6%	7.5%
Public Health and Social Assistance	2.8%	17.4%
Culture and Sport	2.2%	3.9%
Other Activities, Svcs to Comm/Indiv	2.1%	1.5%
Import Rights	-3.2%	1.2%

The relatively low levels of inflation reflect strict price controls, but changes to the dual exchange rate regime announced in mid-2014 may spur higher inflation, along with reduced fuel shipments from Venezuela.

## Inflation: Cuba

% change, y-o-y

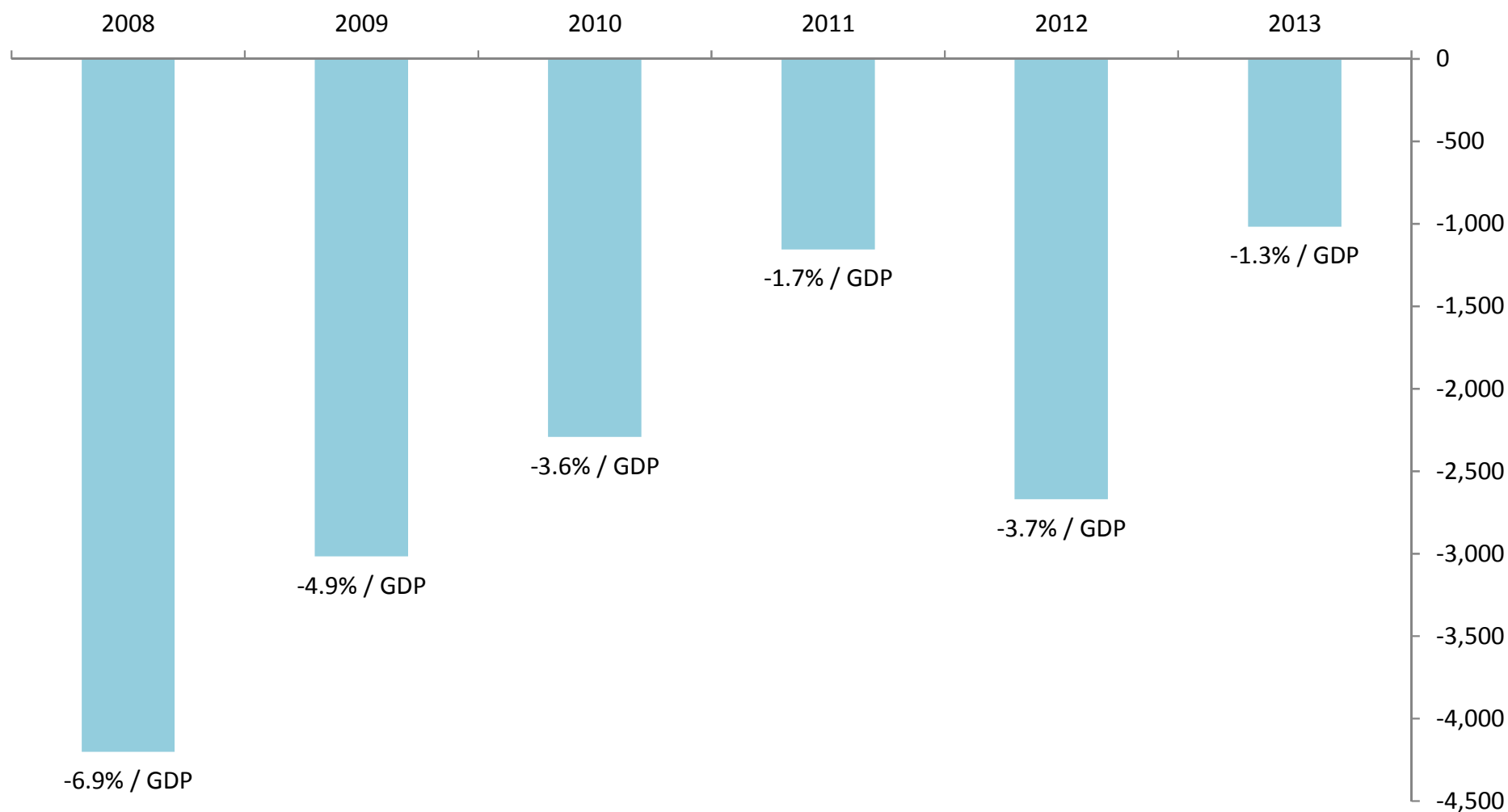


Source: Global News Matters, RBC Financial (Caribbean) Limited

Data challenges make the assessment of Cuba's fiscal performance difficult and not easily comparable to other countries. Available data show that Cuba's fiscal balance has been largely negative but moderate since 2008.

## Fiscal Deficit : Cuba

USD Millions and % of GDP



Source: Global News Matters, RBC Financial (Caribbean) Limited

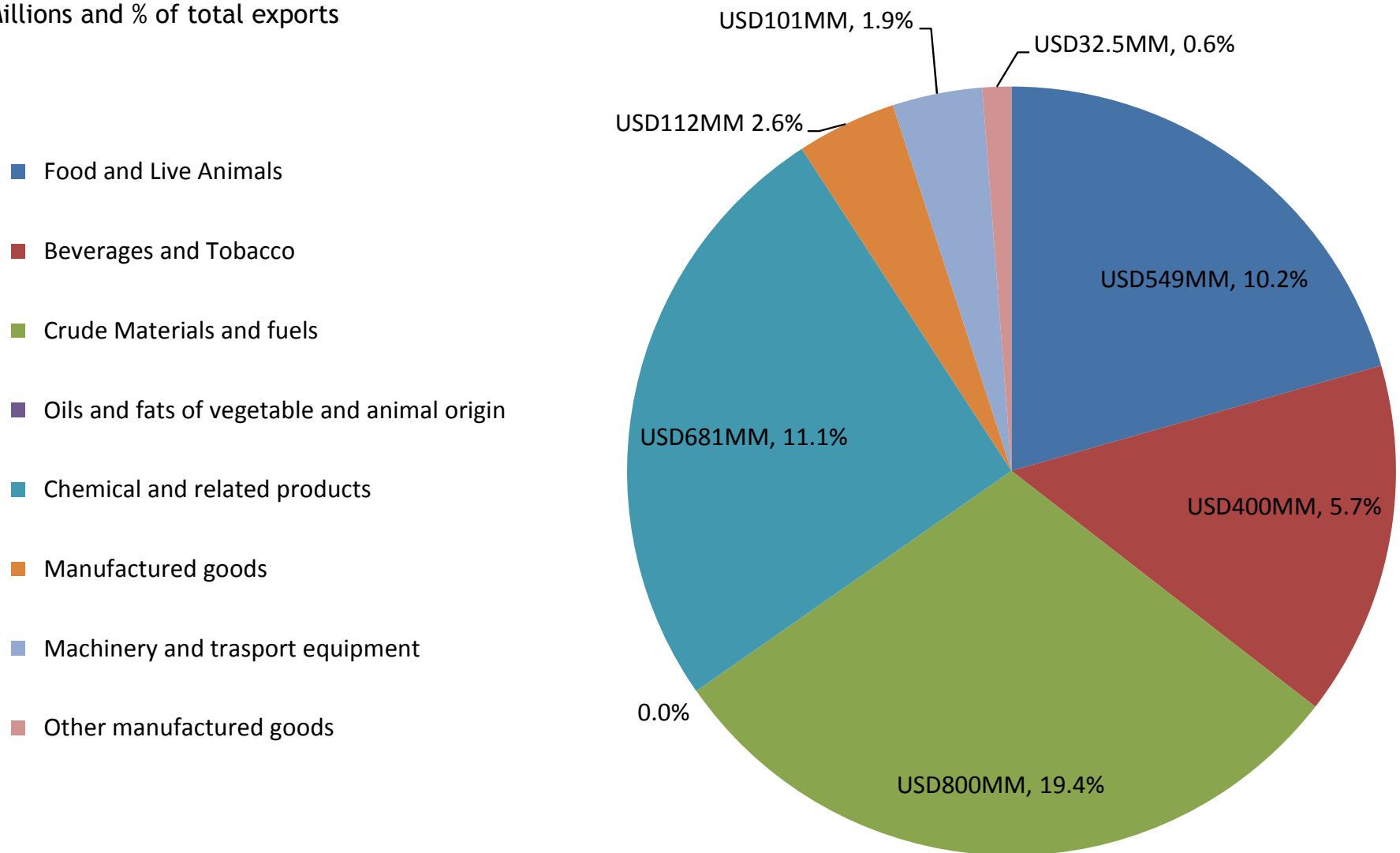
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# Trade

Cuba has a relatively well diversified export base, including minerals, agricultural produce and livestock, tobacco products etc. Cuba's most important goods exports are minerals, nickel being the most prominent.

## Exports in 2013 : Cuba

USD Millions and % of total exports

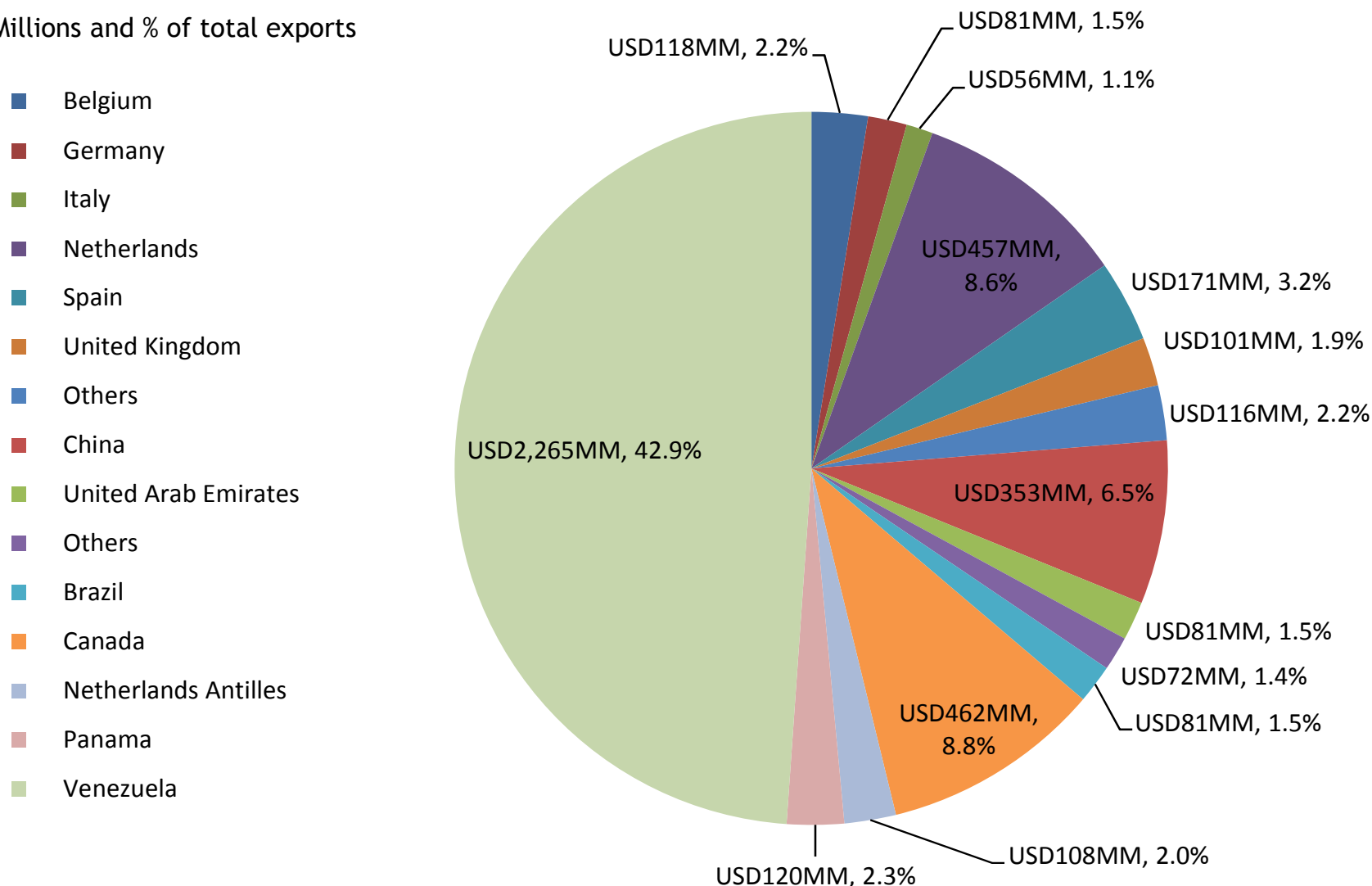


Source: Global News Matters, RBC Financial (Caribbean) Limited

Venezuela is by far the largest trading partner (43%), followed by Canada (8.8%), the Netherlands (8.6%) and China (6.5%). In 2012 and 2013, exports declined by about 5% p.a., mainly to these largest destinations.

## Exports in 2013 by Destination : Cuba

USD Millions and % of total exports



Source: Global News Matters, RBC Financial (Caribbean) Limited

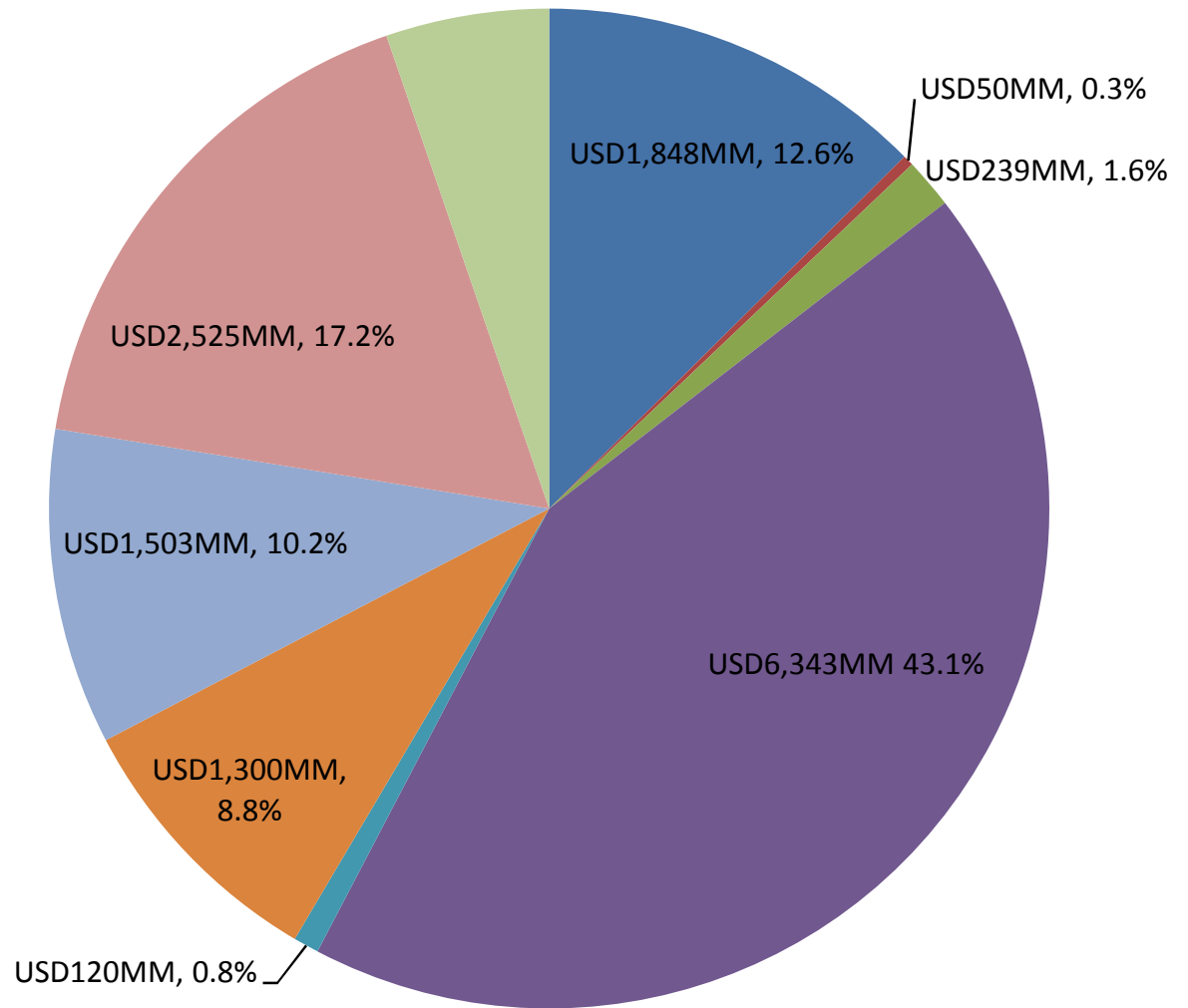
Fuel, oil and minerals account for 43% of Cuba's imports, largely from Venezuela. Cuba sources the majority of its imports from Venezuela (44%), followed by NAFTA countries (10%, roughly 3% each), and China (9%).

## Imports in 2013 : Cuba

USD Millions and % of total imports

USD776MM, 5.3%

- Food and Live Animals
- Beverages and Tobacco
- Crude Materials, non edible except fuel
- Fuel, oil and minerals
- Oils and fats of vegetable and animal origin
- Chemical and related products
- Manufactured goods
- Machinery and transport equipment
- Other manufactured goods



Source: Global News Matters, RBC Financial (Caribbean) Limited

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# US / Cuba Rapprochement



# Some official / bilateral agreements and proposals :

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- US / Cuba agreement to renew diplomatic relations.
- Bipartisan legislation aimed at lifting the trade embargo, allowing U.S. exports to Cuba, removing financial restrictions on business transactions, but would not lift travel restrictions.
- New regulations on trade, remittances, expenditures, credit cards facilities. Remittance caps lifted from USD500 / quarter to USD2,000 per quarter, per family.
- Bilateral talks in Telecommunications and Human Rights
- Proposal to remove Cuba from terrorism list.
- Cuba's private business sector can export to the USA.

# Some private sector initiatives to date :

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- US / Cuba direct telecommunications restored. Boost Mobile connects Miami customers with Cuba
- New charters from New York, Orlando, Tampa, San Juan. Ferry permissions granted.
- Netflix and Apple removed Cuba from restricted list
- Cuba added to Twitter, Kayak, Airbnb country lists
- Banking relationships established with US banks. American Express and MasterCard to launch in Cuba.
- Cuban lung cancer vaccine to undergo clinical trial in the United States.

# Some legal / official issues yet to be addressed :

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- The actual trade embargo has not yet been lifted and US travel restrictions not yet removed, though this is the intention. Enforcement of these restrictions will likely be more relaxed. But will Cuba have enough USD?
- Moody's : any rapprochement progress could be severely limited by more than 5,900 official claims initially valued (over 50 yrs ago) at USD1.9 billion, for expropriation of American-owned property following the Cuban revolution.
- Eight out of the nine banks in Cuba are 100% state-owned, while the ninth is owned by the Venezuelan government. The financial regulatory environment may pose challenges for correspondent banking relationships.

# The need for urgent reforms - some possible challenges for Cuba :

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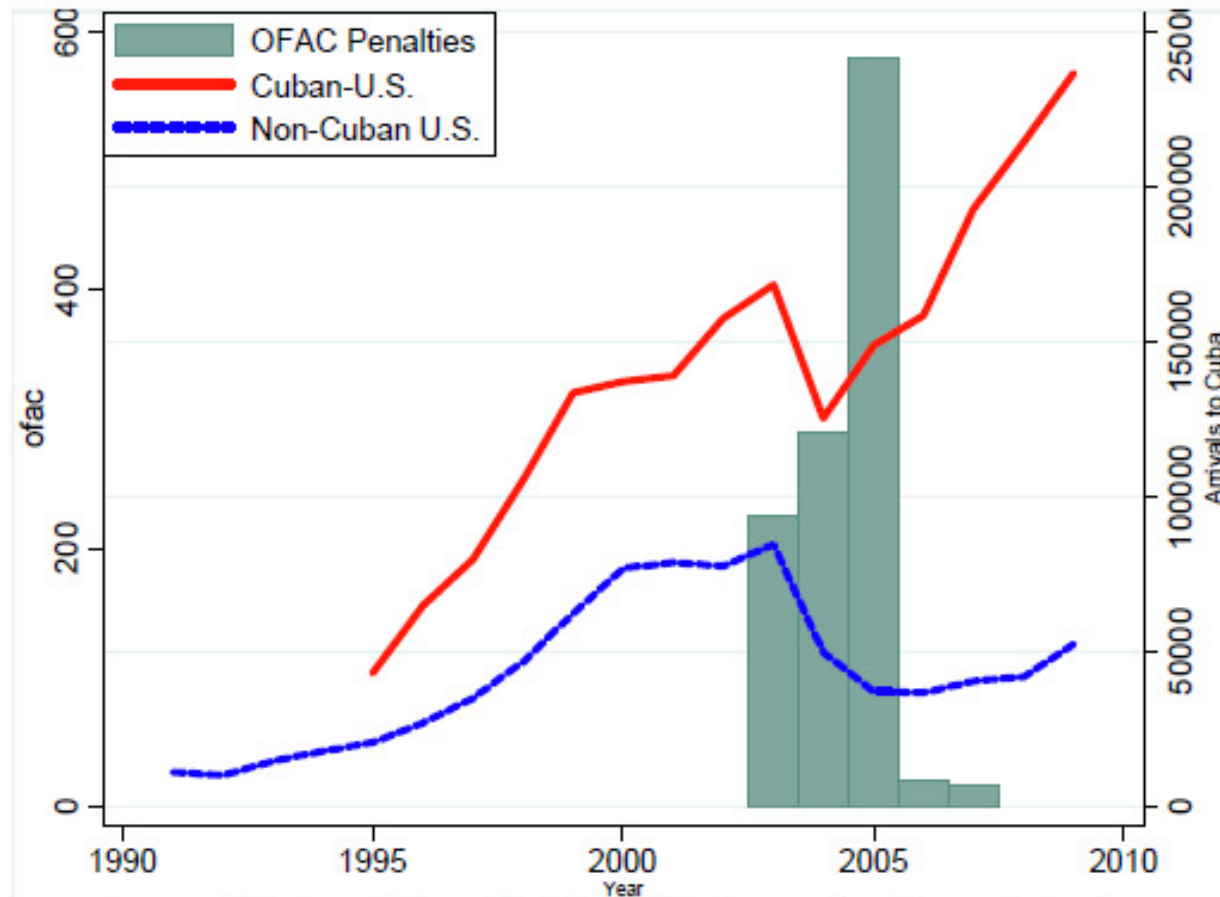
- Migration impact possible – esp. to USA and neighbours.
- Unification of dual currency is a potentially disruptive but necessary reform.
- State control of banking sector a possible hindrance to trade, FDI flows, international financial transactions.
- Labour productivity and weak institutions could affect FDI
- High level of uncertainty regarding political transition
- Further spillovers from Venezuela's economic challenges
- Greater trade with USA is now possible, but availability of USD is key.

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# The likely impact on the rest of the region

# The IMF view on the tourism impact (Romeu 2008, 2011) :

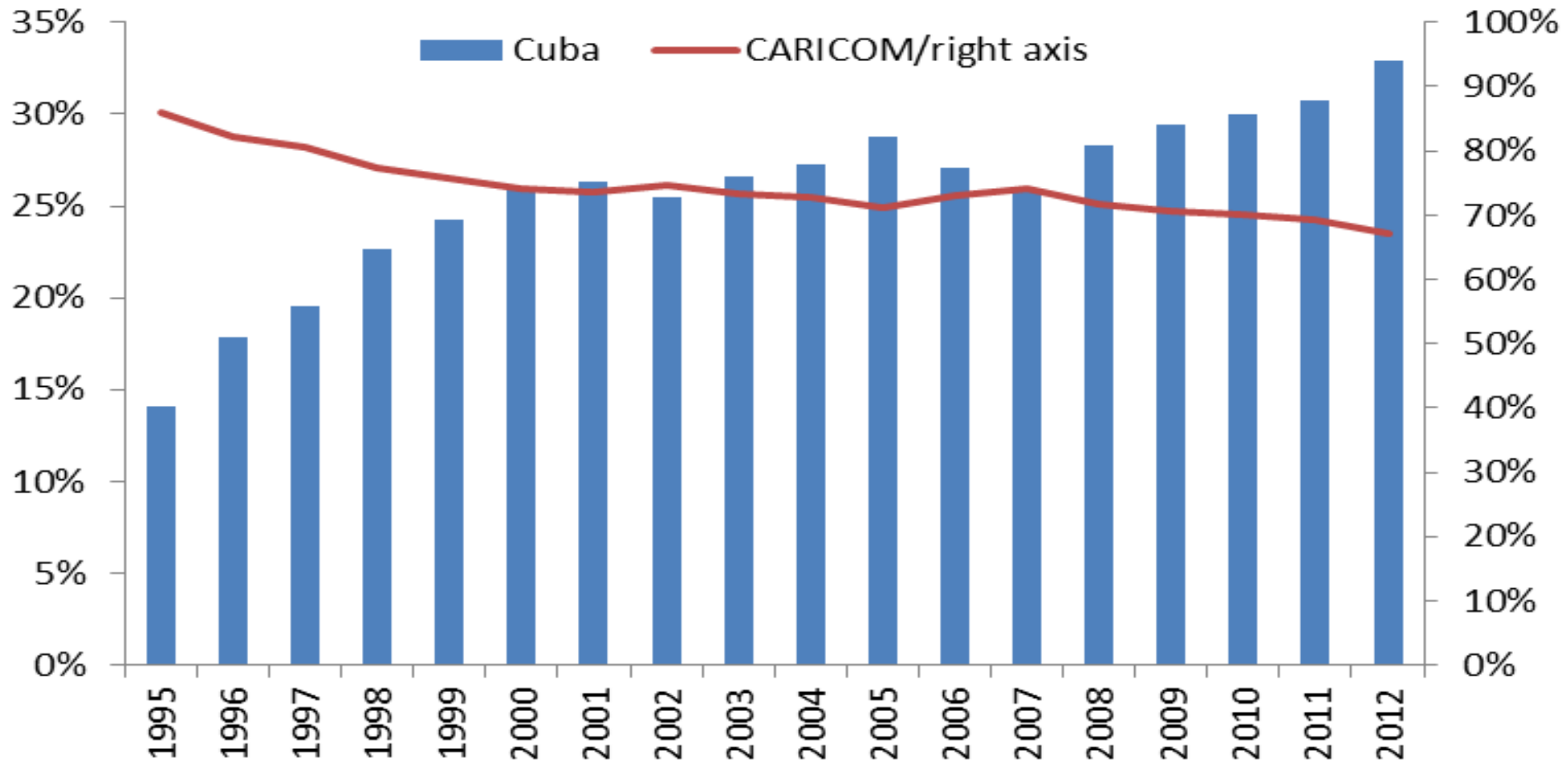
Figure 5. Arrivals from U.S. and Close Relatives to Cuba, 1990-2009



Sources: U.S. General Accounting Office, U.S. Congressional Research Service, and WTO.

Note: The graph superimposes the number of tourists arriving from the U.S. to Cuba, both U.S. citizens (blue, right scale) and Cubans residing abroad (persons under U.S. jurisdiction with three degrees of family separation from Cuban citizens, red, right scale) on the estimated number of penalties imposed by the U.S. Office of Foreign Assets Control for Cuba-related travel restriction violations.

# IDB : Cuba is already gaining tourism market share



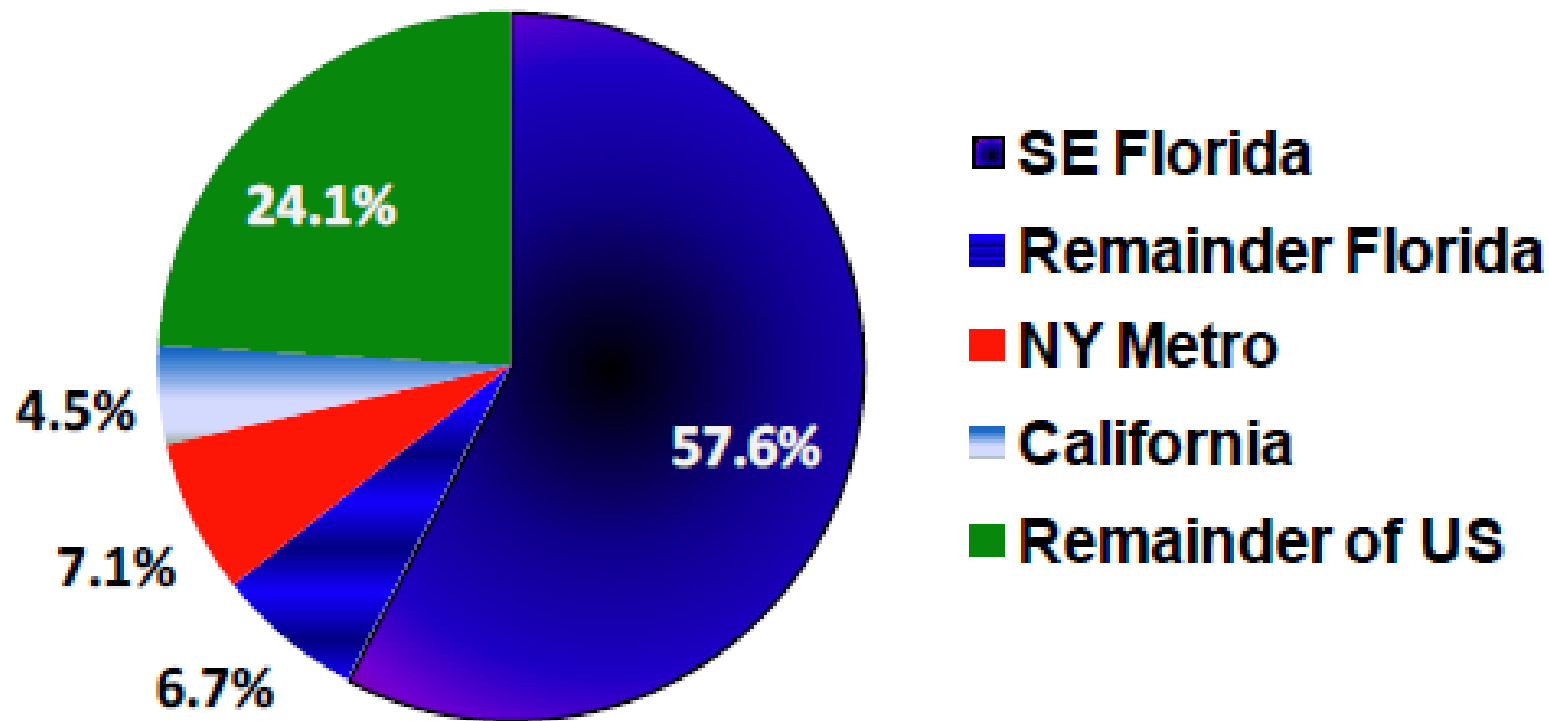
Source : Inter-American Development Bank



# Boyd Group Int'l suggests that Cuba's ability to harness the potential uptick in tourism from the USA is severely limited based on structural deficiencies

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## Cuban-American Distribution



Source : Boyd Group International



# Key takeaways : it's complicated!

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- There is massive potential for Cuba, once the necessary reforms to harness these opportunities are implemented
- For the rest of the region, there are both potential risks and opportunities.
- We need to collectively prepare to harness the potential trade and other opportunities, and to mitigate the possible risks.
- The process involved will be lengthy and complicated

# Thank you for your attention!

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“...delaying until a time when this policy (embargo) is potentially reversed, is a missed opportunity that could prove costly—deliberately acting to reform ahead of this large loss in implicit trade preferences is crucial.”

*Romeu, 2008*

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