

## Changing for the better?

### General Information



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



### Strengths

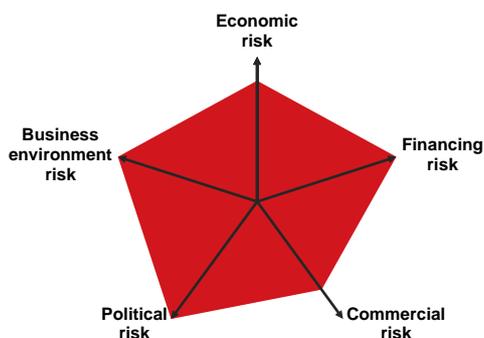
- Skilled human capital
- Abundant natural resources
- High potential for tourism growth
- Close to the U.S. and the Panama canal

### 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

## 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

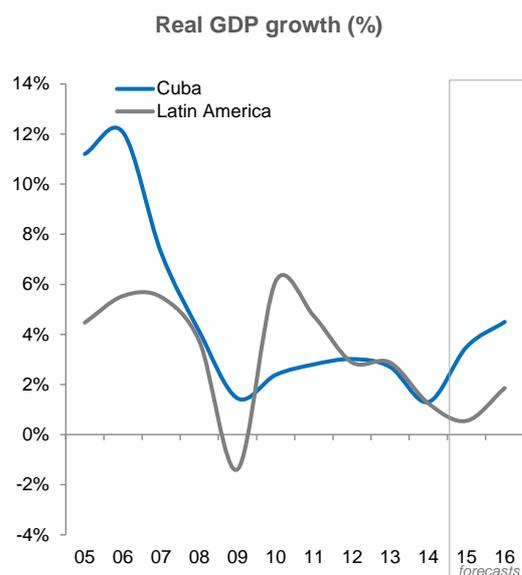
Despite these positive developments, Cuba will remain a very risky country for commercial operations: (i) Risk of transfer and convertibility is extremely high with two official currencies that co-exist, with different exchange rates. The Convertible Peso (CUC), a fully convertible currency that exchanges 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.

#### DISCLAIMER

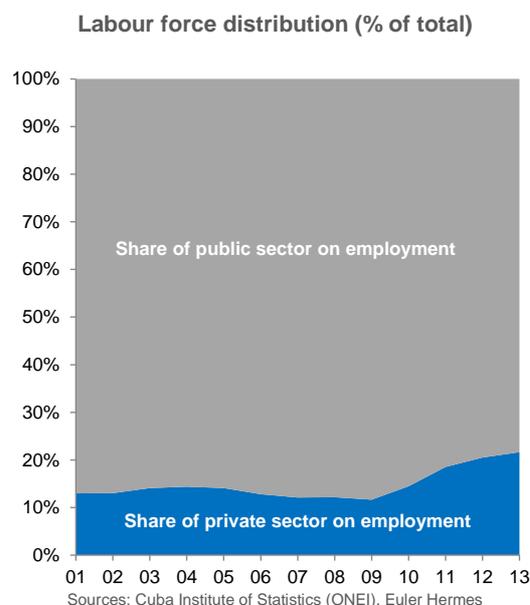
These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2015 Euler Hermes. All rights reserved.



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



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