INTERNATIONAL INVESTMENT BANK

Republic of Cuba |

Investment climate

Economic transformations that Cuban government has been implementing since 2008 affect almost every facet of the country's life. Given that, the government acknowledges the paramount importance of foreign investments for the country's sustainable development. In March 2014, it passed a Foreign Investment Law. The law is supposed to facilitate the inflow of foreign investments and effective utilization of foreign capital. The law provides for attracting investments with the aim to diversify and broaden export markets, gain access to cutting-edge technologies, phase out imports, create new jobs, introduce new governance systems and change the country's energy delivery model by utilizing renewable sources of power. The Law establishes forms of foreign investments. These are joint ventures, international agreements on economic association or foreign-owned businesses. The Law lifts burdensome restrictions, facilitates the establishment of small businesses, and provides tax allowances and tax exemptions for first-time investors during the first eight years of their operations.

The creation of a special economic zone in Port of Mariel should also increase the inflow of foreign investments to the country. The port with its strategically important location between the Panama canal and Miami port will also open up new trade routes between Asia and the Caribbean. The port was launched in 2014, becoming the most advanced structure in the Latin America. A special free-trade zone Mariel will contribute to foreign investment inflow. Companies operating in this zone will enjoy a number of tax allowances and customs privileges as well as free profit repatriation. In order to improve transport access to the port, the government completed the construction of a railway route between Havana and Mariel.

The end of the year 2014 witnessed a major event in the relations between Cuba and the United States of America. In December 2014, the presidents of the two countries announced the restoration of full relations. In January 2015, new trade rules for Cuba were introduced and travel restrictions for American citizens were relaxed. Since the beginning of 2015 American businesses have been allowed to export a number of goods to Cuba as well as provide Internet access services on Cuban territory. American companies were allowed to invest funds in Cuban agricultural businesses and small private companies. Moreover, Cuba was excluded from the list of countries supporting terrorism

Cuban Ministry of Tourism reports that Q1 2015 saw a 14%-increase in tourists, reaching 1 million people (compared to Q1 2014). Growth of tourist numbers was triggered by new marketing activities on various markets. About 3 million tourists visited Cuba by the end of 2014.

Although the attractiveness of Cuban business environment is currently lower than those of other states in the region, its government makes significant efforts to change this situation for the better.

Area 110 860 sq. km

Population (2014) ■ 11.3 million

Unemployment (2014) ■ 3.0%

GDP (2014) ▲ USD 81.3 billion

GDP growth rate (2014) ▲ 2.9%

Inflation (2014) ■ 3.0%

Average annual exchange rate (2014)
■ 1 CUP/USD

Main industries:
- services (medicine)
- tourism
- agriculture
- extraction
- biotech industry
- pharmaceuticals
- construction
- IT

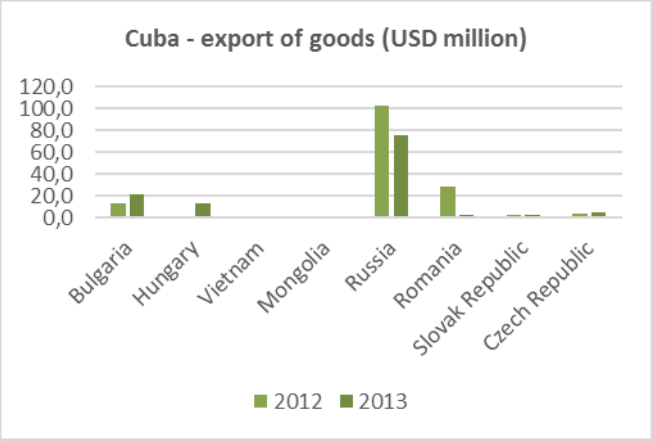
The country is a member of
- Community of Latin American and Caribbean States (CELAC)

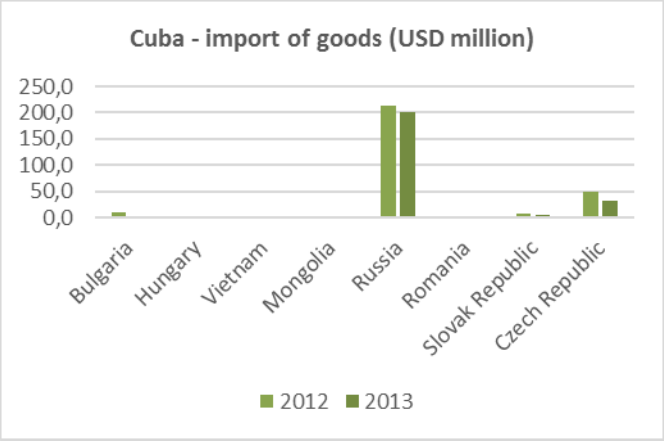
Exports / Imports (2014):
Total: ▲ USD 14.9 billion/
▲ USD 12.0 billion

Exports / Imports, Cuba's share (2013):

Bulgaria	0.4% / 0.0%
Hungary	0.2% / 0.0%
Vietnam	0.0% / 0.0%
Mongolia	0.0% / 0.0%
Russia	1.4% / 1.4%
Romania	0.0% / 0.0%
Slovak Republic	0.1 % / 0.0%
Czech Republic	0.1% / 0.2%

Trade and economic relations with other Member States of the Bank[1]





Economic development forecast

Cuban economy is forecasted to grow by 3.1% in 2015[2] (compared to 2.9% in 2014) owing to expanding state and private investments as well as consumer spending growth. A trend of attracting more foreign investments to the economy as well as further growth of consumer sector will slightly speed up the economic growth in the nearest future. Average annual growth figures in 2016-2019 will reach 3.2%. Prices grew by 3.0% in 2014.

Consumer spending growth generally contributes to economic development; however, it also boosts growth of imports. Trade deficit at the end of 2014 reached USD 7.2 billion and current account balance amounted to 3.8%. Trade deficit shrank to USD 1.7 billion in 2015 owing to external trade growth.

Amidst steady economic growth and government's conservative plans with regard to capital expenses, budget shortfall shrank by 3.2% at the end of 2014 (compared to 3.4% in 2013). The National Statistics Office reported that capital expenses reached USD 2.5 billion at the end of 2014, showing a double reduction compared to the figures of 2013. In 2015-2016, budget shortfall will grow to 3.9-4% due to the government's plans to increase borrowing in international capital markets as well as raising state spending for infrastructure projects.

A major milestone on the way to achieve market growth and effectiveness (especially given growing cooperation between Cuba and international community as well as the country's growing involvement in the global economy) is a governmental financial reform launched at the end of 2013. The reform is aimed at a gradual transition from a double-currency system (Cuban peso and Cuban convertible peso) to a unified peso. Taking into account the cautiousness of Cuban government's activities aimed at meeting this target, practical steps in its realisation might happen in 2015.

Banking sector

Cuban banking system comprises the Central Bank, 9 commercial banks, 15 non-banking financial institutions, 10 representative offices of foreign banks and 4 representative offices of foreign financial institutions. Financial institutions are authorized to perform financial intermediary transactions, excluding depositary transactions. Their activities are associated with vectors adopted by specific industries. Now financial companies are actively working to attract foreign capital through the creation of joint financial ventures in cooperation with foreign partners.

Economic reforms, which are currently unfolding in the country, also affect the process of financial and banking sector transformation. Recently, access to personal loans has been facilitated and guarantee span has been broadened. These guarantees could be utilised to obtain finance from banks. It has become possible to use personal possessions as a loan security. The amount of loans covering the expenses for acquiring technical documentation and licenses have been increased. In the medium term, it is planned to introduce consumer lending.

[1] Source: UNCTAD.

[2] Source hereinafter, if not mentioned otherwise - Business Monitor International – Cuba, Dominican Republic and Puerto Rico Business Forecast Report Q3 2015.