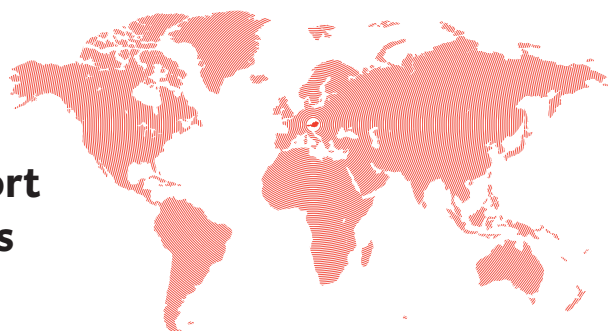


# Oberbank

## Economic and Banking Report

### Global Financial Institutions



## Cuba

### Interview with trade delegate

#### Export business as a challenge

Cuba is considered as a "**big problem child**", as the country has not moved an inch from the now over 60-year-old policy. Despite a newly elected president, the military is in the background and Raúl Castro is still the strong man in the country. Economically, the pinners are tightening as boycott measures and restrictions on tourism are having a massive impact on the economic situation.

The coronavirus crisis increasingly aggravated the situation, as the country completely closed its borders. Overall, Cuba has the pandemic comparatively well under control. However, the factors mentioned earlier are contributing to Cuba heading into a food crisis.

In addition, there is a **shortage of foreign currency**, which makes it difficult to buy food. Cuba is increasingly falling into the debt trap, as 10 billion USD are needed for imports alone.

An interesting aspect is that in Cuba the **central foreign exchange administration office** has all payment flows precisely under control and deci-

des on the allocation of foreign exchange. This means that there is no guarantee that letters of credit will be paid at the agreed time, despite being secured. The foreign exchange is primarily used by the centrally administered agency for urgent goods, such as food. The challenges of the shortage of foreign exchange are also noticeable in payment transactions.

*Payment flows under control of the central foreign exchange management office*

As a result, any letters of credit from private creditors have often not been paid since 2016 or their payments have been postponed for a long time. Therefore, even secured deliveries are a **high-risk transaction**. In addition, due to the non-compliance with the agreed old debt regulation, the security provided by the Austrian Bank for Reconstruction and Development (OeKB) is no longer available.

The **restructuring process** of the Cuban economy called "**lineamientos**", which was already initiated in 2011, is only progressing very haltingly. In general, it should be mentioned that investors have to reckon with great uncertainty. Foreign investments in the created special economic zone "Mariel" make little or hardly any sense, as there is no local purchasing power. The question now is how the situation could improve.

In principle, the Cuba policy in the USA is very controversial. With a democratic president after the 2020 presidential elections, the United States could resume its policy of openness. A lifting of the embargo would also be a desirable possibility for Cuba. However, there has never been a majority for this in the US Congress.

All in all, the current situation in Cuba cannot be considered very satisfactory. Export business with Cuba is therefore a **particular challenge** and there will be no major changes in the short or medium term.

## Political

### No political change in sight – Military and Castro still in the background

In the last election in March 2018, the members of the National Assembly elected Miguel Díaz-Canel to succeed Raúl Castro as head of state. This heralded a generational change in the island state. However, some of Fidel Castro's companions still hold important offices, such as Raúl Castro, who is the

party's secretary general until 2021 and thus still has a lot of power.

In recent years, there have already been some reforms in the constitution, in which, for example, the office of prime minister has been anchored, and the governors of the

individual provinces have been granted more powers. Furthermore, private property and foreign investment are now enshrined in the constitution. These political arrangements are only small steps towards a less centralised system, as a move away from a tightly controlled economy is not yet in sight.

## Economic situation

### Economic growth far behind expectations and foreign exchange shortage as a major weakness

Cuba is one of the last remaining countries in the world with a strongly socialist and centralised economic system.

Economic growth in Cuba was 1.8 % in 2017 and 1.2 % in 2018. Last year, there was **slight growth** of around **0.7 %**. Nevertheless, economic growth is far from the great expectations of recent years. Cuba is still very much affected by the **crisis of its partner Venezuela** and the low commodity prices, although China is increasingly replacing the insecure Venezuela as the **most**

**important trading partner.**

Even before the outbreak of the pandemic, the forecasts for economic output in 2020 were a minus of 0.7 %, according to the Economist Intelligence Unit. Despite travel restrictions for US citizens, tourism remains the country's most important **foreign exchange earner**. At the same time, the growing importance of tourism shows **Cuba's weakness**, as the country is dependent on foreign exchange from tourism and remittances from Cuban exiles.

#### Summary:

- Cuba as a "problem child"
- Imminent food crisis
- Slight GDP growth of around 0.7 % in 2019
- China replaces Venezuela as new main trading partner
- Foreign exchange shortage continues to be Cuba's weakness
- Hedged deliveries are a high-risk business

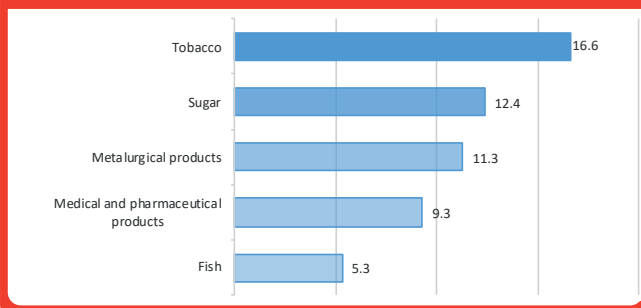
Key economic figures	2016	2017	2018	2019
Nominal GDP in billion USD	91.37	96.85	100.02	-
GDP/capita (market prices) in USD	8.060	8.541	8.821	-
Population in millions	11.34	11.34	11.34	11.33
Real economic growth (%)	0.5	1.8	1.2	0.7
Inflation rate (average) in %	4.5	5.5	6.9	5.4
Unemployment rate in %	2.0	1.7	1.7	-
Exchange rate - national currency EUR/CUP	-	-	-	0.84 (2020)
Goods exports of the country in billion USD	2.3	2.7	2.7	2.4
Goods imports of the country in billion USD	10.2	10.2	11.5	10.7

Source: Economic Report Cuba, WKO, April 2019, Economist Intelligence Unit, Statista

## Exports/Imports

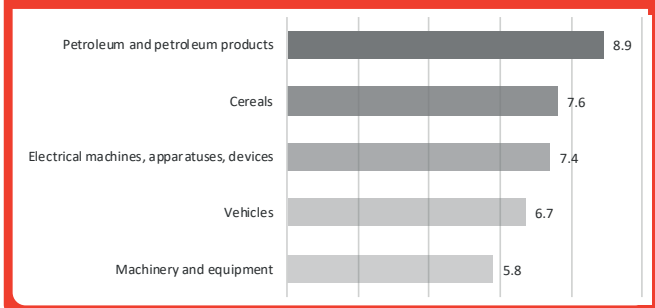
Cuba has been running a trade deficit for years. In 2019, the negative trade balance was USD 7.4 billion. In order to keep the balance of payments and current account in equilibrium, imports have been very heavily restricted since 2016, and due to the shortage of foreign currency they remain limited to the bare necessities.

### Top 5 Exported goods



Source: WKO country profile; 2020, in %

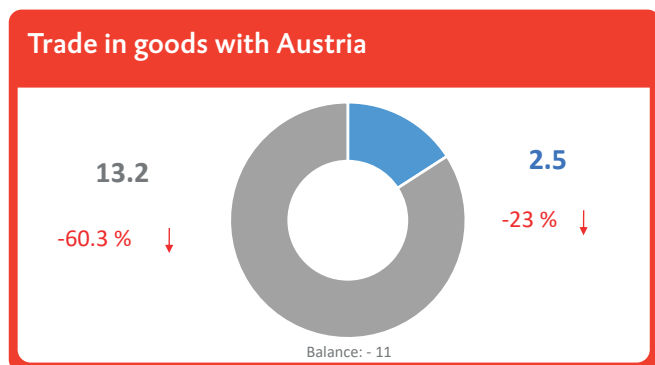
### Top 5 Imported goods



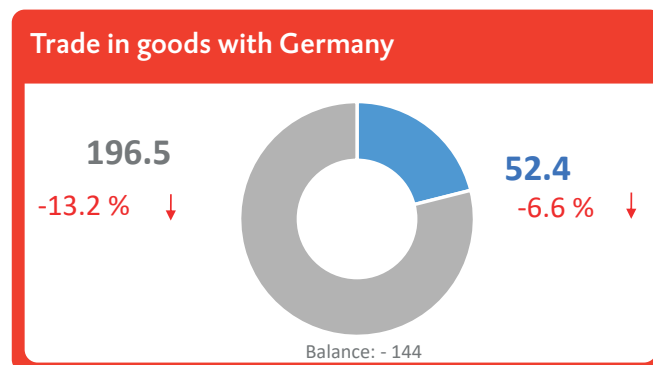
## Economic relations with Austria

Austrian companies mainly export standard goods to Cuba. These include, for example, machinery (mining, excavators, railways), raw materials for water pipelines, etc. Austrian exports have definitely increased in recent years, but one or more large machine deliveries can cause a very serious upward swing. The export volume in recent years has been between EUR 10 million and EUR 30 million.

## Cuba's foreign trade



Source: WKO, preliminary results from Cuba's perspective; own presentation



Source: ITC, <https://www.trademap.org>, Exports 2019 from Cuba's perspective

## Assessment of the business environment

	Cuba
Ease of Doing Business 2020	-
Global Competitiveness Index 2019	-
Corruption Perceptions Index 2019	Rank 60 out of 198
Rule of Law Index (World Justice Project)	-
Goods export market (from AT)	Rank 114
Goods export market (from DE)	Rank 102

When assessing the business environment, Cuba is ranked 60th out of 198 in the **Corruption Perceptions Index**. The country is not listed in the other indices. The extremely low importance of Cuba as an **export market** for Austria and Germany is also striking, as the island state is only ranked 114th and 102nd in these indices.

Current rankings of Oberbank regions in the Rule of Law Index:

Germany	9
Czech Republic	43
Hungary	91
Slovakia	64
Austria	70

## Rating Cuba

> Extremely speculative grade

Agency	Rating	Outlook	Date
Moody's	Caa2	Stable	13.09.2019

*Caa2 rating with stable outlook from Moody's*

The Cuban **Caa2 rating** by Moody's was only given a "**stable**" outlook in mid-September 2020. The rating agency's rating is based on several

parameters, such as moderate economic performance and a very weak track record of timely and full debt repayment.

## Banks

### Modernisation measures in the outdated banking system

Cuba's banking sector is still **state-owned** and the island's banking system is also very outdated. Basically, the **Cuban banking system enjoys little trust** among the population and is not geared towards investing in private companies. The banks in the country

have little experience with lending to independent entrepreneurs. Therefore, since 2016, the German Federal Ministry for Economic Development and Cooperation has been promoting the Cuban Central Bank and supporting it in modernising the Cuban

banking system. Furthermore, the Cuban Central Bank Minister has announced further innovations in the banking sector. The state financial system is to be recapitalised through a public debt market and the promotion of transactions between banks.

## Largest banks

Rank	Bank	Total Assets
1	Banco de Credito y Comercio, La Habana	29,191
2	Banco Popular de Ahorro, La Habana	22,452
3	Banco Internacional de Comercio SA, La Habana	7,229*/**
4	Banco Exterior de Cuba, La Habana	1,877*
5	Banco de Inversiones SA, La Habana	82**

Total Assets in USD million as of 31.12.2018, \* consolidated,  
 \*\* Total Assets in USD million as at 31.12.2019  
 Source: Bankers Almanac, Download on 31.08.2020

### Oberbank expertise

#### Banks shaded in grey:

Oberbank has an active relationship with these relationship banks (SWIFT/RMA) and is thus able to provide documentary business for customers.

Payment transactions are also possible with all Cuban banks via our clearing partners.

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