



Decide with Confidence

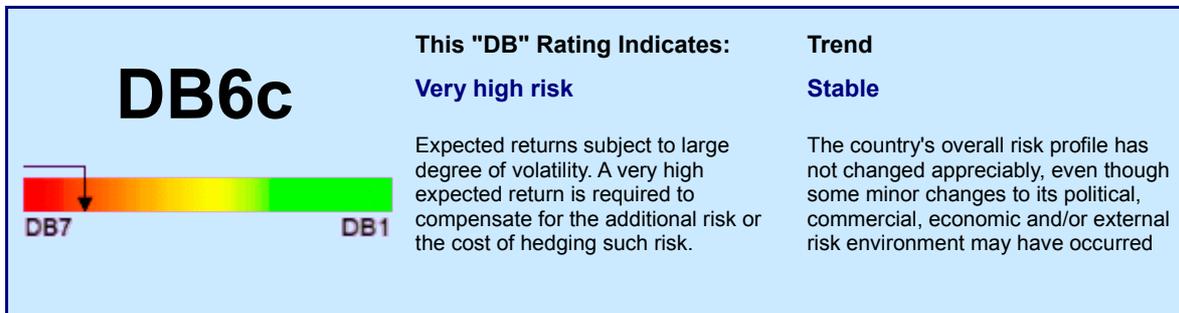
D&B Country RiskLine Report

CUBA

Region : The Americas

Edition : June 2012

D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	11.2m
Surface area (sq km):	110,860
Capital:	Havana
Timezone:	GMT -05:00
Official language:	Spanish
Head of state:	Raul Modesto CASTRO Ruz
GDP (USD):	59.4bn
GDP per capita (USD):	5,303
Life expectancy (years):	77
Literacy (% of adult pop.):	99.8

Country Overview:

With a population of over 11 million, Cuba is the Caribbean's most populous country. Cuba is one of the last remaining single-party Communist states. The government espouses socialist principles, and the economy is largely state-controlled and centrally planned. The US maintains strict restrictions on economic, commercial, financial and travel links with the island.

Fidel Castro became head of state after overthrowing the government in 1959 and remained so until deteriorating health forced him to hand over power to his brother, Raul, in 2006. In early 2008, Raul Castro was elected president by the Cuban Communist Party and has implemented policies that encourage limited liberalisation of the economy.

The economy contracted severely in the early 1990s after the Soviet Union's collapse, prompting some limited market-oriented reforms. The country's key exports include sugar, nickel and, more recently, medical services. Cuba's highly advanced biotechnology and pharmaceutical industry has also gained importance recently.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	CiA
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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:	CiA
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D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms:	0-30 days
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Normal period of credit associated with transactions with companies in the stated country.

Transfer Situation

Local Delays:	3-4 months
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The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays:	3-10 months
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The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

Trade & Commercial Environment

Tourist arrivals continued to grow steadily in Q1, rising by 5.3% year on year (y/y). Tourism earnings, alongside strong remittance flows, should help to cushion slippages in export earnings, but even so D&B still expects the current account to deteriorate in 2012. The price of nickel, Cuba's main commodity export, has fallen substantially since 2011; the country's main nickel miner saw its profits fall by over 25% y/y in Q1. Transfer and payment risks remain very high. The commercial sector is in default on over USD3.8bn in foreign loans, while the government is in default on over USD4.9bn. Delayed payments remain the norm, and the government struggles to pay in a timely fashion even for food staples. We advise companies dealing in Cuba to maintain strict CiA terms.

Export Credit Agencies

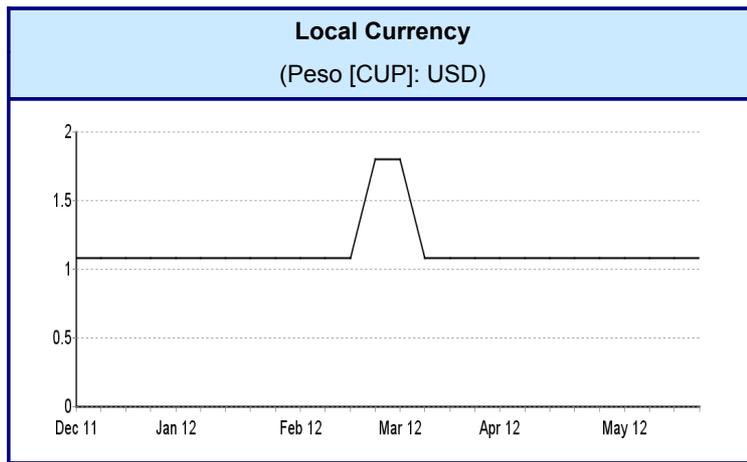
US Eximbank	Cover legally prohibited
Atradius	Cover subject to CLC, no discretionary limits
ECGD	ST cover subject to CLC, restricted MT cover
Euler Hermes UK	Restrictions will apply

Economic Indicators

	2009	2010	2011	2012f	2013f
Real GDP growth, %	-7.5	2.1	2.7	3.2	3.6
Inflation, annual ave, %	4.0	5.5	7.8	6.8	8.0
Govt balance, % GDP	-8.9	-7.5	-6.8	-6.5	-7.5
Foreign debt, % GDP	38.5	38.9	38.2	39.0	40.0
C/A balance, % GDP	-6.2	-5.1	-2.7	-5.1	-4.6

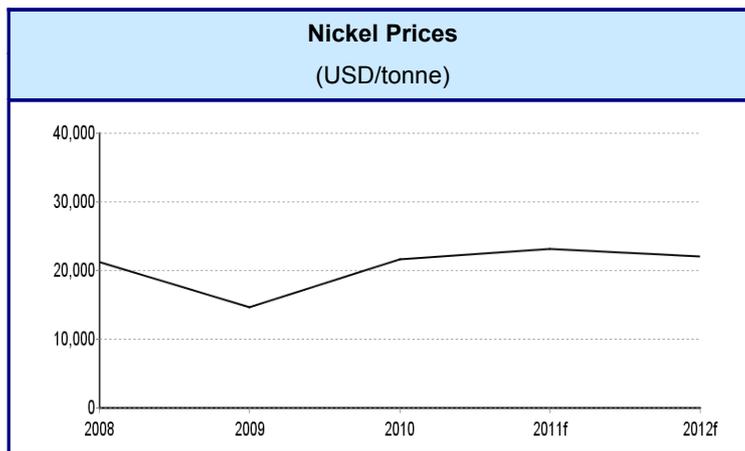
Currency Information

Exchange Rates	
(London, 21 May 12)	
EUR	1.2722
GBP	1.5807
JPY*	1.2617
USD	1.08
*(x 100)	



Local Currency (Peso [CUP]: USD)						
	Dec 11	Jan 12	Feb 12	Mar 12	Apr 12	May 12
Week 1	1.080	1.080	1.080	1.800	1.080	1.080
Week 2	1.080	1.080	1.080	1.080	1.080	1.080
Week 3	1.080	1.080	1.080	1.080	1.080	1.080
Week 4	1.080	1.080	1.800	1.080	1.080	1.080
Week 5		1.080			1.080	

Nickel Prices



Data Table				
2008	2009	2010	2011f	2012f
21111.0	14655.0	21600.0	23050.0	22000.0

Risk Factor

Over the past year, Cuba's introduction of market reforms has given rise to a rapidly growing private sector. By May, over 370,000 people were employed in the private sector, up from about 160,000 a year earlier. Officials suggest that as many as 240,000 more private sector jobs could be created by end 2012. Cuban government officials want to accelerate a shift from the state to the private sector in order to reduce state expenditures (on unproductive state-owned enterprises) and boost tax revenues (from new private sector sources). Officials want the private sector to account for 40-45% of GDP within five years, up from its current 5%. This rapid growth of the private sector will provide some upside to the economy's growth prospects.

Despite some reasons for optimism, massive state-sector retrenchment will simultaneously create a huge drag on the overall economy. The government intends to reduce its payroll by nearly 1m from the current 4.5m by 2015. The reforms will increase insecurity and risk triggering social dislocation and unrest. Moreover, many ex-state employees will fail to become successful, profitable entrepreneurs. Anecdotal reports suggest that nearly 25% of the new businesses formed since late 2010 have failed. This is not entirely surprising, with most of the country's newly self-employed crowding into just a few sectors (for example food and hospitality, and transportation). Meanwhile, taxes and administrative cost are high. The activities of these new enterprises are also still heavily restricted in many respects. For instance, entrepreneurs are not allowed to contact foreign suppliers directly and must still go through official intermediaries, limiting the scope for increased trade flows.

Despite the reform programme also including plans for boosting foreign investment, there has been little progress here. In fact, over the past year, Cuba has closed more joint ventures with foreign enterprises than it has opened, including some with global blue-chip companies. Meanwhile, the number of foreign companies operating in the country is less than half what it was in the early 2000s. Foreign investment in larger enterprises is essential to lift productivity and efficiency across the economy. Despite its overall poor record on attracting fresh foreign investment, the government has managed to garner substantial interest in the country's oil sector. Seismic work indicates that Cuba's territory in the Gulf of Mexico could hold substantial commercial oil deposits. Since January, a Chinese-built oil rig has been drilling exploration wells for a consortium of multinational energy companies. A major oil find would significantly improve Cuba's external accounts, provide the country with fresh access to new international lines of credit and limit its dependence on Venezuela (for oil imports on concessionary terms).

Glossary & Definitions

DEFINITIONS

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Usual Terms:

Normal period of credit associated with transactions with companies in the stated country.

Local Delays:

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

F/X Bank Delays:

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

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Rest of World

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