



Decide with Confidence

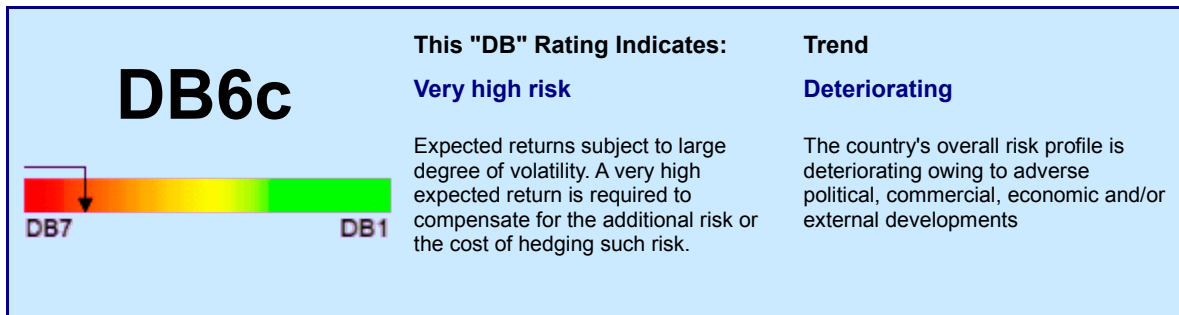
D&B Country RiskLine Report

CUBA

Region : The Americas

Edition : February 2011

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):	55.9bn
GDP per capita (USD):	4,987
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

Nickel prices have made a welcome recovery in recent months and the US has recently eased its restrictions on visas and remittances (up to USD2,000 per year may now be sent to non-family members in Cuba to support private business). However, the government's poor financial situation, amid underlying structural problems of low productivity and inefficiency, exacerbated by a deep economic downturn, continue to underpin the high risk of non-honouring of contractual obligations and transfer risk in the short term. State-owned banks continue to suffer from inadequate FX, while credit rationing for non-favoured sectors of the economy will further destabilise a commercial environment that is already overly burdensome.

Export Credit Agencies

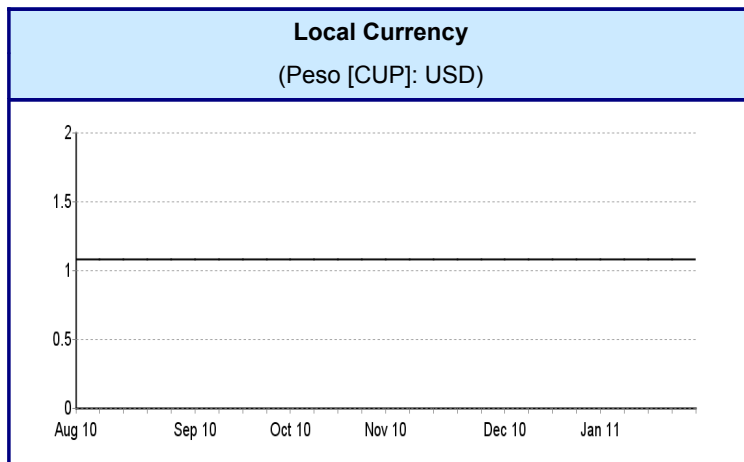
US Eximbank	Cover legally prohibited
Atradius	Cover subject to CLC, no discretionary limits
ECGD	ST cover subject to CLC, restricted MT cover
Euler Hermes UK	Restrictions will apply

Economic Indicators

	2008	2009e	2010e	2011f	2012f
Real GDP growth, %	3.4	-7.5	0.8	2.3	1.9
Inflation, annual ave, %	1.6	4.0	5.5	7.8	6.8
Govt balance, % GDP	-6.7	-8.9	-7.5	-6.8	-7.2
Foreign debt, % GDP	37.5	38.5	38.9	38.2	39.0
C/A balance, % GDP	-2.6	-6.2	-5.2	-2.8	-5.3

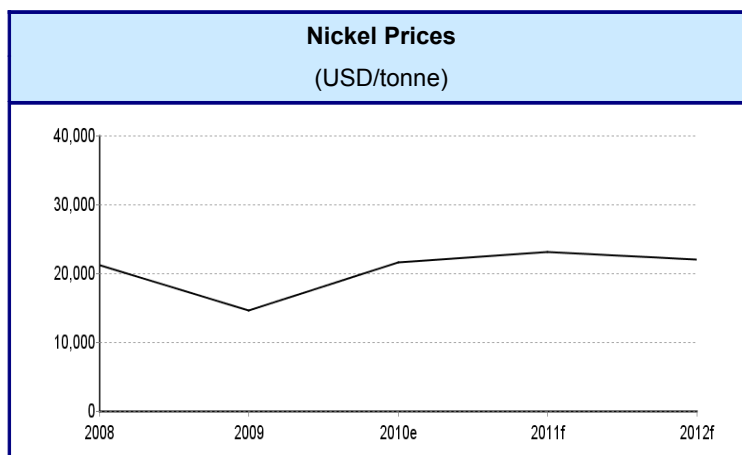
Currency Information

Exchange Rates	
(London, 17 Jan 11)	
EUR	1.3362
GBP	1.5881
JPY*	1.3362
USD	1.08
*(x 100)	



Local Currency (Peso [CUP]: USD)						
	Aug 10	Sep 10	Oct 10	Nov 10	Dec 10	Jan 11
Week 1	1.080	1.080	1.080	1.080	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	1.080	1.080	1.080	1.080
Week 5	1.080			1.080		1.080

Nickel Prices



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

Risk Factor

President Raul Castro began the new year by announcing a cabinet reshuffle; the main change involved the removal of the construction minister, Fidel Figueroa de la Paz, for “unspecified errors”. Ramiro Valdes, a leader of the Revolution, and a figure close to Castro as a vice-president of the Council of Ministers, was shifted from his ministerial responsibilities for communications to take on an oversight role encompassing his old ministry as well as the portfolios for construction and basic industries. Although Castro has announced changes in responsibilities before, these appear to reflect the re-organisation required to carry out a landmark reform of the public sector. Around half a million state sector employees are to be shifted into the private sector by March 2011 in an attempt to improve the public finances (rather than as an embracing of free markets); we have yet to see a major ideological shift akin to that in China.

The government is nevertheless seemingly more inclined to accept that Cuba’s planned economy has reached its limits, with 90% of workers now relying on the state for their livelihoods. The reforms are ambitious and unprecedented; the government ultimately wishes to remove 1m workers from the civil service and create a small business sector, amid wider plans to encourage some new foreign investment. The government is slowly dispensing with state subsidies and licensing new, mostly small-scale private sector firms, representing a dramatic shake-up of the statist economic model. Around 30,000 Cubans have so far received licences to work in occupations as diverse as hairdressing, car repairs, street vending and restaurateurs. In theory this could also encourage black marketeers to move into formal employment. However, steep taxes and restrictions on additional hiring will be imposed to preserve socialist ideals and guard against wealth accumulation.

More details of the government’s plans are expected when an overdue Sixth National Congress of the Communist Party of Cuba is held in April, the first since 1997. D&B expects the dislocation to cause considerable economic pain for many workers in the short term, particularly in light of the meagre compensation of one month’s salary (around USD20) being offered for every ten years in employment. Many workers will earn even less in the private sector, with the inability to purchase land and buildings, or set up larger companies, constraining economic development. Encouragingly, nickel prices have recovered, easing the state’s cash-flow problems and promising speedier payments to foreign suppliers. Nevertheless, D&B does not expect particularly strong GDP growth to emerge in 2011-12. Moreover, the budget and current account deficits will remain fairly large, and we are also concerned by the potential for the removal of state subsidies to boost inflation.

Glossary & Definitions

DEFINITIONS

Minimum Terms:

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Recommended Terms:

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:

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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