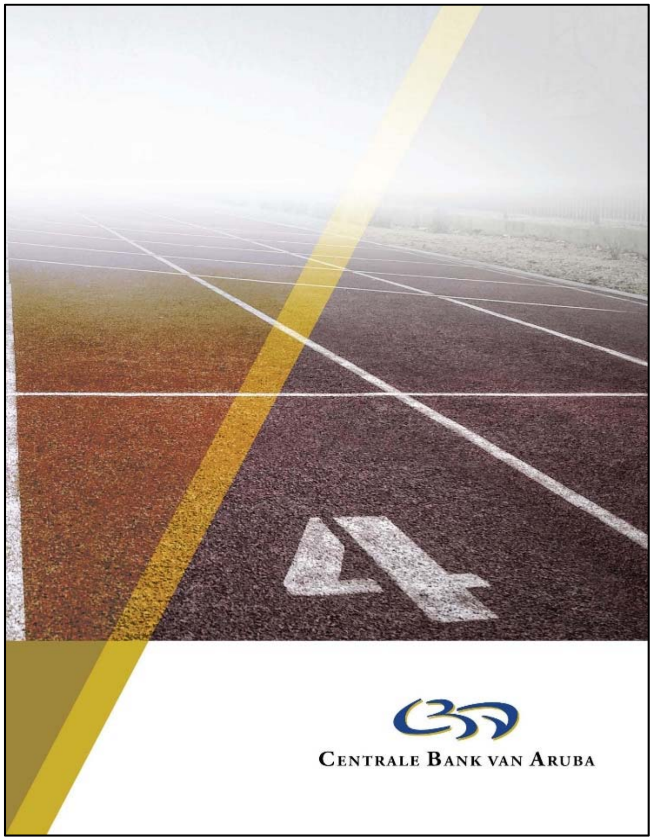


# STATE OF THE ECONOMY

First three quarters of 2017

## ABSTRACT

The Aruban economy showed initial signs of improvement in the first three quarters of 2017. Tourism figures mirrored a relatively strong growth in tourism receipts, spurred by a rebound in the U.S. market that more than compensated for the significant drop in the Venezuelan market. In addition, data on private investment and private consumption pointed towards a more positive development, while the prices remained virtually flat. Nonetheless, caution remains regarding a sustained gain in consumption and investment.

Centrale Bank van Aruba

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# I. Domestic developments: rebound in the U.S. arrivals[1]

## Economic growth

**The Aruban economy showed signs of improvement in the first three quarters of 2017.** Tourism figures strengthened with a sharp growth in tourism receipts, resulting from expansions in arrivals from the North American and (non-Venezuelan) Latin American tourist markets as well as increased cruise arrivals. Data for private investment and private consumption pointed towards a more positive development, while the prices, as measured by the CPI, remained virtually flat. Nonetheless, caution remains as some important consumption indicators, such as tax receipts, reflect in part improved compliance with the regulations, and not necessarily an upturn in purchases. Furthermore, uncertainty persists regarding the planned activities of the refinery, which could have affected investments significantly.

## Tourism

**International tourism worldwide grew by 6.6 percent in the January to August period of 2017 when compared to the same period in 2016.**[2] According to the United Nations World Tourism Organization (UNWTO's) World Tourism Barometer, destinations worldwide received 901 million international tourists, 56 million more in 2017 than in the corresponding period one year earlier. However, in the Caribbean region, two major hurricanes, Irma and Maria, disrupted the industry's performance in September. Though these hurricanes impacted at least 17 Caribbean destinations, Aruba benefitted as many tourists changed their travel plans and visited the island

[1] The cut-off date for information published in the State of the Economy is February 16, 2017.
[2] CTO - *Quarterly Statistical Review*, September 2017.

**Table 1: Tourism indicators for Aruba and the Caribbean (Jan-Sep)**

| Indicator | Aruba | | Caribbean | |
|---|---|---|---|---|
| | 2016 | 2017 | 2016 | 2017 |
| Stay-over visitors (growth) | -4.2 | -6.2 | 4.9 | 4.1 |
| excl. visitors from Venezuela | 2.6 | 7.9 | - | - |
| Average length of stay | 7.1 | 7.4 | - | - |
| Cruise visitors (growth) | 14.2 | 22.3 | 2.5 | 3.2 |
| Hotel occupancy | 80.3 | 84.5 | 68.3 | 67.7 |
| RevPAR (US$) | 184 | 201 | 140 | 141 |

Sources: ATA, AHATA, APA, CTO, STR

**Table 2: Stay-over tourists Aruba per home country (Jan-Sep 2017)**

| Home country | Growth percentage | Market share |
|---|---|---|
| Argentina | 53.9 | 2.8 |
| Germany | 30.4 | 0.5 |
| Colombia | 15.2 | 2.9 |
| Canada | 11.6 | 4.2 |
| United States | 9.2 | 65.5 |
| United Kingdom | 5.1 | 2.0 |
| Netherlands | 3.8 | 3.4 |
| Suriname | -21.2 | 0.5 |
| Curaçao | -23.9 | 1.3 |
| Venezuela | -59.7 | 8.9 |

Source: ATA

**Table 3: Average length of stay tourists in Aruba (Jan-Sep)**

| Country (group) | 2016 | 2017 |
|---|---|---|
| All countries | 7.1 | 7.4 |
| North America | 7.1 | 7.0 |
| Latin America | 6.0 | 7.2 |
| of which Venezuela | 5.3 | 6.7 |
| Europe | 11.3 | 11.2 |
| of which Netherlands | 12.6 | 12.7 |
| Caribbean | 5.8 | 6.4 |
| of which Suriname | 6.8 | 7.7 |
| of which Curaçao | 4.6 | 4.9 |
| Other countries | 11.3 | 9.7 |

Source: ATA

instead. Consistent with the worldwide positive development, the tourism sector performed well in the first three quarters of 2017. The underlying growth of visitors and nights (i.e., excluding Venezuelan visitors) accelerated, tourism spending increased significantly despite a decline in tourist arrivals, and the harbor welcomed more cruise ships and passengers.

**The number of stay-over visitors fell by 6.2 percent in the first three quarters of 2017.** Venezuela's contraction intensified further, falling by 59.7 percent, compared to a 23.5 percent drop in the first three quarters in 2016. Venezuela's market share decreased to 8.9 percent. Nevertheless, the underlying market fundamentals were solid as the number of stay-over visitors excluding Venezuelan residents grew by 7.9 percent (Table 1). A strong U.S. market helped curbing the fall in Venezuelan visitors. The U.S. market has shown consistent expansions since 2013, and recorded a significant (9.2 percent) gain in the first three quarters of 2017. Consequently, the U.S. market share surged to 65.5 percent, from 56.3 percent a year earlier. Furthermore, the European market performed well as the number of visitors from almost all the main European countries expanded, while Colombia and Canada showed similar trends. Noteworthy was the 53.9 percent increase in Argentinian visitors, as it reached its highest level in the last 10 years and became the 6$^{th}$ largest market in tourism arrivals (Table 2).

**Visitor nights followed suit contracting by 2.5 percent year to date September, when compared to the same period of 2016, as Venezuela's influence dominated here as well.** However, the rise in visitor nights from, in particular, the United States, Canada, and Argentina helped to mitigate the decline in Venezuelan nights, as the former visitors tend to stay longer on average. As such, the average length of stay increased to 7.4 nights in the first three quarters of 2017, up from 7.1 nights (Table 3).

**AHATA reported an improved performance of its member hotels in the first nine months of 2017.** Average room occupancy grew by 4.2 percentage points to 84.5 percent, while the average daily room rate strengthened by 3.6 percent to US$ 237. According to ATA, the number of visitors staying at hotels and timeshares increased by 3.5 percent and 2.0 percent, respectively. On the other hand, the number of visitors staying in apartments or private homes fell by 30.7 percent, reflecting the drop of Venezuelan visitors.

**A total of 225 cruise ships made harbor calls in the first nine months of 2017, an increase of 20 ships.** In terms of passengers, the recorded growth was 22.3 percent in the same period, suggesting a higher average capacity of the ships that visited Aruba.

**Tourism receipts (provisional figures) grew by 4.0 percent in the first nine months of 2017.** This indicator is one of the prime engines behind Aruba's economic recovery. Together with the higher hotel occupancy rates and despite the growing hotel and restaurant prices, it can be concluded that tourism activities within Aruba grew in real terms in the period under review.

## Investment

**Investment indicators showed an overall increase in the first three quarters of 2017 compared to the same period of 2016.** The value of granted construction permits rose by 141.4 percent (Chart 1). This increase was related mainly to two large projects, i.e., a new condominium building and a new hotel. However, also permit values for houses, apartments, and office buildings recorded expansions. The number of construction permits granted rose by 14.2 percent, with increases in almost all components. This growth is in stark contrast compared to the same period of 2016, as both the number and value of construction permits declined significantly in that period. Furthermore, imports of *machinery and electrotechnical equipment* expanded by 6.3 percent, pushed upwards by investment projects of the utility companies, WEB and Elmar. On the other hand, the import of *base metals and derivated works* shrank by 4.5 percent. Cements imports contracted by 2.0 percent, due in part to higher cement imports in 2016 related to the Green Corridor project. Looking at bank loans for the first three quarters

**Chart 1: Investment-related indicators (value percentage change 2017Q1-Q3 vs. 2016Q1-Q3)**

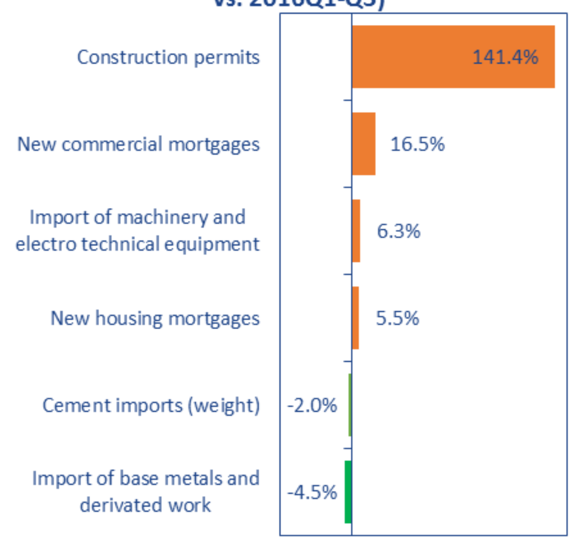
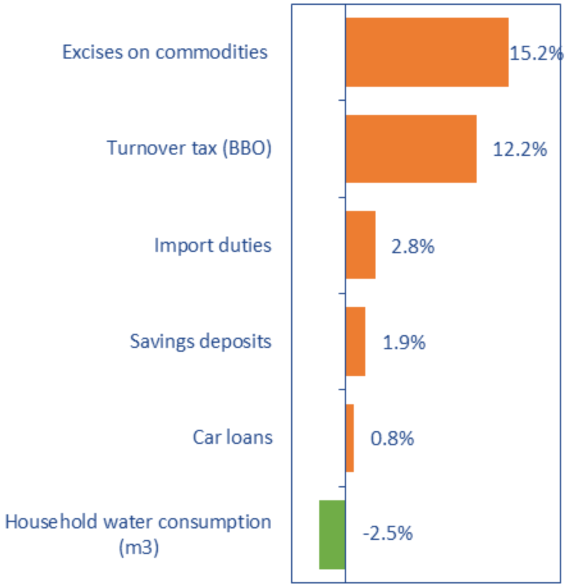


**Chart 2: Consumption-related indicators (value percentage change 2017Q1-Q3 vs. 2016Q1-Q3)**




of 2017, the total amount of new commercial mortgages granted accelerated by 16.5 percent, while the total amount of new housing mortgages granted grew by 5.5 percent. In addition, car sales for commercial use (for instance trucks and pick-ups) went up by 22.4 percent.

**On the other hand, refinery-related investments appeared to have remained on a much lower level than previously anticipated in the period under review.** Based on information received most investments were made in the construction of the man camp, inspection, and maintenance. Other major investments ongoing were the continuation of the Green Corridor and the Watty Vos Boulevard, the construction of the airport hotel, and the renovation and expansion of the Dr. Horacio E. Oduber hospital.

## Consumption

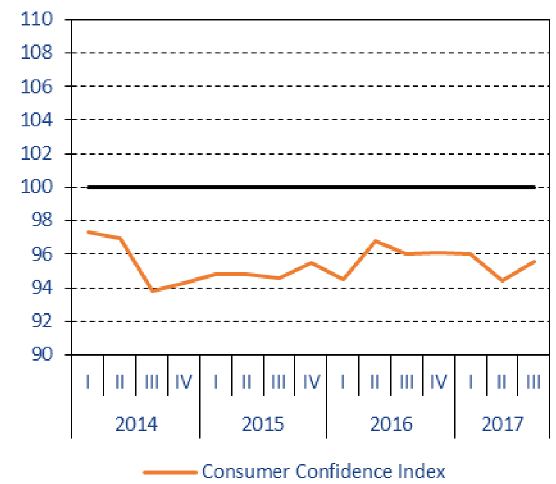
**Consumption indicators showed initial signs of improvement in the first three quarters of 2017, with an increase in consumption-related taxes, as well as a rise in car loans and a slight improvement in the Consumer Confidence Index.** The turnover tax registered a substantial increase of 12.2 percent in the first nine months of 2017, when compared to the same period of 2016 (Chart 2). However, it should be noted that this increase was likely the result of improved tax compliance, and higher tax arrears collection by the Tax Department. Revenues from excises also showed a double digit rise, while import duties expanded more moderately, also due in part to improved compliance. Total outstanding car loans recorded an upswing of 1.2 percent. On the other hand, car sales by dealers, when excluding car sales for commercial use, fell by 6.4 percent. This decrease could be related to the fact that imports of right-hand drive cars rose in the past few years. The market share of hybrid and electric cars is still insignificant.

**Water consumption fell by 2.5 percent over the period under review, when compared to the same period in 2016.** The large increase in rainfall (+50.7 percent), as measured by the

Meteorological Department of Aruba, could explain the decrease in water consumption. Alternatively, households' energy efficiency efforts and continued water-saving efforts also may have moderated water consumption.

**In the third quarter of 2017, consumer sentiment improved somewhat according to the latest results of the Consumer Confidence Survey (CCS).** The Consumer Confidence Index stood at 95.6 compared to 94.4 in the preceding quarter. However, the figure is still indicative of relatively pessimistic sentiments throughout the period under review (Chart 3). The increase in consumer confidence is attributed mainly to improvements in consumers' sentiments on their current and future personal financial situation and vacation sentiments.

Chart 3: Consumer Confidence Index



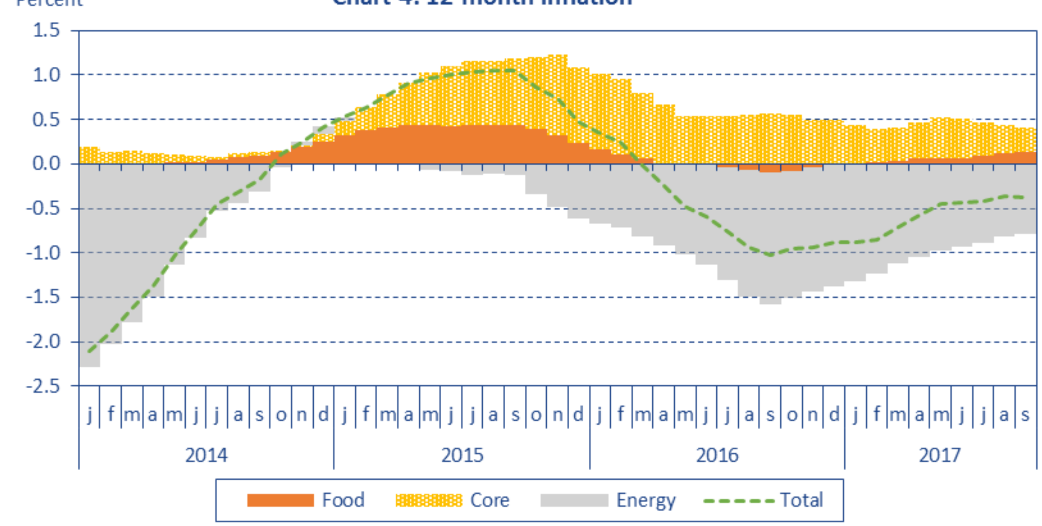

## Foreign trade

**Aruba's trade deficit grew by Afl. 52.0 million year to date September to Afl. 1,369.1 million when compared to the same period of 2016.** Imports of goods (excluding free zone) expanded by 4.1 percent (+Afl. 55.9 million) due largely to an increase in the imports of animal-related goods, investment goods, and other goods, while exports rose by 6.1 percent (Afl. 3.9 million). In the last two years, exports to Taiwan showed a pick up, while exports to the United States and the Netherlands decreased. Furthermore, exports of wood, charcoal, and woodwork expanded significantly. Imports to the Free Zone Aruba rose by 12.7 percent in value in the first three quarters of 2017, after having contracted for three consecutive years, while exports from the Free Zone Aruba declined for the fourth consecutive year (–10.8 percent) as a result of less demand from Colombia and Curaçao. For foreign trade as a whole, the United States remained the largest trading partner, accounting for 55.5 percent of all imports to Aruba and 21.9 percent of all exports.

## Consumer Price Index (CPI)

**In September 2017, the 12-month average of the CPI remained in negative territory, resulting primarily from continued low electricity tariffs following the reduction of about 14 percent in January 2017.** Core components, on the other hand, were consistently slightly positive, registering an increase of 0.3 percent in September 2017 (Chart 4). Electricity prices have weighed down on the 12-month inflation, driven by the aforementioned decrease in January 2017. On the other hand, the prices for gasoline and diesel on average picked up over the first 9 months of 2017. Prices in Aruba's both main trading partners, i.e., the United States and the Netherlands, accelerated as the period average CPI in those countries rose by 2.1 percent and 1.2 percent, respectively.

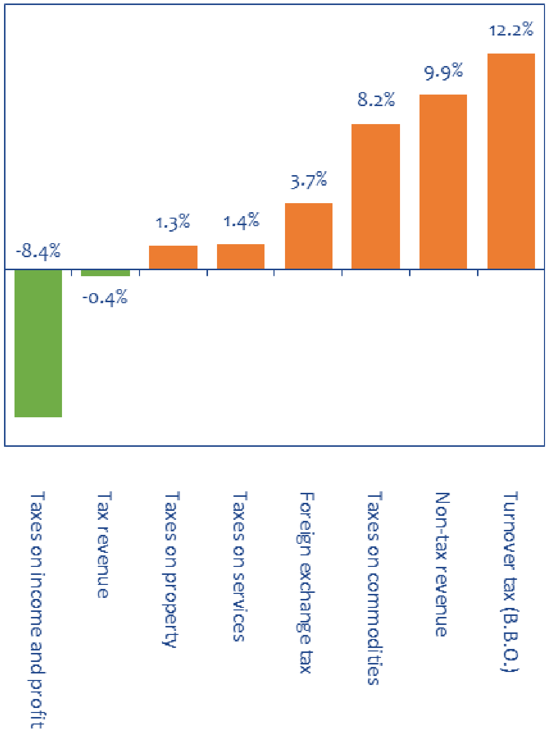
**Chart 4: 12-month inflation**



## Government

**Government revenue edged up slightly by 0.6 percent in the first three quarters of 2017 as a result of an Afl. 8.6 million increase in non-tax revenue, resulting from an Afl. 6.9 million grant related to the European Development Fund (EDF).** Tax revenue registered a decline of 0.4 percent, driven for the most part by an Afl. 54.2 million contraction in profit tax receipts. It should be noted, however, that in 2016 incidental profit tax income was received from 2015 due to an extension in the deadline (Chart 5). Expansions in almost all other tax components helped to partially offset the fall in income from profit taxes, but in particular, increased income from the wage tax (+Afl. 13.9 million), taxes on commodities (+Afl. 16.8 million), and the turnover tax (+Afl. 8.5 million). These increases reflect the continued efforts of the Tax Department to increase compliance, as well as the intensified efforts to collect tax arrears. Furthermore, the Customs Department's investments in human capital have led to better controls, resulting in better compliance.

**Chart 5: Government revenue (percentage change 2017Q1-Q3 vs 2016Q1-Q3 )**

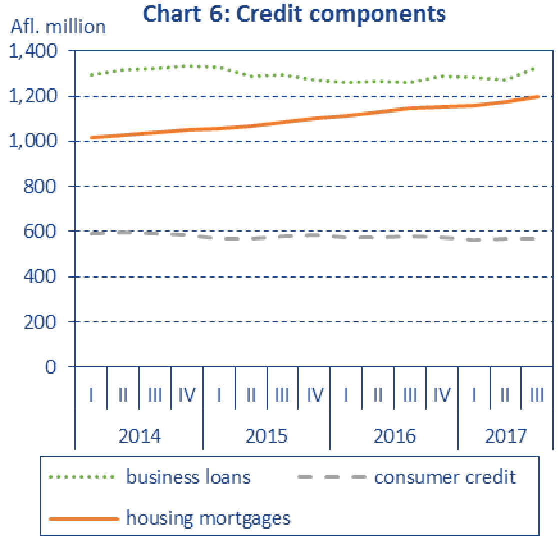



## Monetary survey

**During the first three quarters of 2017, the money supply contracted marginally by 0.2 percent to Afl. 4,157.5 million.** This decrease resulted from a net outflow of Afl. 118.3 million in foreign funds, which was largely mitigated by an Afl. 108.0 million increase in net domestic assets. The latter increase was due to a rise in domestic credit in the period under review. While the net foreign assets position remained well above the critical norms monitored by the Monetary Policy Committee (MPC) of the CBA, the declining trend is a cause of concern for the MPC.

**Domestic credit extended to the private sector by the monetary sector rose by 3.0 percent to Afl. 3,109.0 million at the end of September 2017 compared to December 2016.** This growth was driven by higher loans to enterprises and individuals, with increases of Afl. 42.6 million and

Chart 6: Credit components




Afl. 46.7 million, respectively (Chart 6). Outstanding loans to businesses rose primarily in the transport, storage, and communications sector, as well as the real estate, renting, and business activities sector. The housing mortgages component continued its upward trend expanding by 4.2 percent, while consumer credit fell by 0.2 percent.

**The weighted average interest rate on new loans declined from 7.5 percent in the fourth quarter of 2016 to 6.5 percent in the third quarter of 2017.** Interest rates on commercial loans and housing mortgages fell, while rates on consumer credit loans increased. The weighted average interest rates on deposits shrank in the first quarter of 2017, but increased in the last two quarters to 1.8 percent at the end of the third quarter, remaining unchanged compared to December 2016. As a result, the interest rate margin dropped to 4.7 percent from 5.7 percent at the end of 2016.

**Domestic credit extended by the nonmonetary sector expanded by 5.0 percent to Afl. 2,688.6 million at the end of September 2017 when compared to December 2016, in contrast to a decline at the end of September 2016.** The growth was due largely to credit extensions to the government, which increased by 6.9 percent, while credit to the private sector rose by 2.7 percent. The share of credit extended by the nonmonetary financial institutions constitutes 43.1 percent of the financial sector, a one percentage point increase compared to the same period of 2016.

## Balance of Payments

**The balance of payments posted an Afl. 118.3 million deficit in the first three quarters of 2017, according to preliminary commercial bank data available.** This deficit was due mainly to net outgoing transfers from notified foreign accounts held by residents (Afl. 244.5 million), as well as a net outflow resulting from other capital and financial account transactions (Afl. 155.6

million), which was partially compensated by a surplus on the current account (Afl. 293.5 million).

**The current account registered an increase in both export (+Afl. 50.3 million) and import payments (+Afl. 70.7 million) when compared to the same period of 2016, leading to a deficit of Afl. 1,039.3 million on the goods account.** Net services recorded a surplus (Alf. 50.0 million), as opposed to a deficit in 2016, as a result of higher inflows from the export of services (+6.0 percent). Furthermore, both income and current transfers posted deficits, as income and current transfer payments grew compared to the same period of 2016.

**The financial account had a net outflow of funds (Afl. 148.4 million), due mainly to repayments on foreign government bonds.** Furthermore, the government did not issue any bonds on the external capital market. In addition, outflows related to the hedging of fuel oils contributed to the deficit.

Foreign reserves play a central role in Aruba's monetary policy, considering its importance in the small and open economy pegged to the U.S. dollar. The Monetary Policy Committee (MPC) of the Centrale Bank van Aruba (CBA) currently monitors several reserve adequacy metrics during its meetings, being the 3 months of current account norm, the Guidotti-Greenspan rule, and the 20% of broad money level.
During its last Article IV mission, the International Monetary Fund (IMF) staff proposed the introduction of an additional reserve adequacy metric, the IMF's ARA metric. This metric has been in use by the IMF since 2013, against the backdrop of other traditional metrics, as a way to have a metric that encompasses a broad set of risks. The ARA metric aims to balance simplicity and completeness, while permitting comparability across countries.

The ARA metric comprises four components reflecting potential drains on the balance of payments: (i) export income to reflect the potential loss from a drop in external demand or a terms of trade shock; (ii) broad money to capture potential residents' capital flight through the liquidation of their highly liquid domestic assets; (iii) short-term debt to reflect debt rollover risks; and, (iv) other liabilities to reflect other portfolio outflows. The risk weight for each individual component varies according to the economic situation and the exchange rate regime of the country in question. Reserves in the range of 100-150 percent of the composite metric are considered broadly adequate for precautionary purposes.

In the case of Aruba, the variables and their coefficients are the ones developed for a small emerging country with a fixed exchange rate (Table 1).

**Table: Variables and coefficients IMF ARA metric formula**

| Variable | Coefficient | Comments |
| --- | --- | --- |
| Exports of goods and services | 10% | To reflect the potential loss from a drop in external demand or a terms of trade shock |
| Broad money | 10% | To represent resident capital flight risk |
| Short-term debt (remaining maturity) | 30% | To account for external liability shocks |
| Medium and long-term debt and equity liabilities | 20% | To account for external liability shocks |

The CBA is currently evaluating the proposed ARA metric under the conditions prevalent for Aruba, such as the fact that the CBA has several capital controls in place, and that it considers the international reserves (e.g., the official reserves and the net foreign reserves held at the commercial banking sector) when assessing reserve adequacy. Given these conditions, the risk weights for the components may vary from the guidelines in the Table, and the CBA is reviewing these in close contact with the IMF regarding this matter.

## II. State of Innovation 2017

**Recently the CBA concluded its State of Innovation Survey 2017.** The objective of the Innovation Survey was to explore the current state of our increasingly disruptive economy, and provide policies and pathways for unleashing digital transformation and inclusive growth. Respondents were mainly senior executives from micro and small enterprises (80 percent), predominantly from the services industry (60 percent) (Chart 1).

### A challenging business environment

**The results indicate that innovation is essential for improving industry productivity and providing new opportunities for economic development.** More specifically, the economic outlook for 2018 remains cautiously optimistic, with 52 percent of respondents expecting economic growth in the next 12 months. The other half of the executives expect either a deceleration or a status quo of their economic activities (Chart 2).

**Executives indicate, however, that several inhibiting factors affect doing business in Aruba.** These factors include (a) government administration, (b) business costs and finance, and (c) fiscal and labor regulations (Chart 3). In terms of main challenges, well over 80 percent of respondents consider the government administration as burdensome, with a similar percentage viewing the current level of taxes as limiting their investments. Less than 15 percent of executives experience the management of public finances as well as the customs procedures for imports and exports as efficient. Only three (3) in ten (10) companies assess access to capital and starting a business as easy. The majority of businesses thus face significant financial challenges as they seek to improve efficiency and grow their business (Chart 4).

**Chart 1: Respondents by company size, function, and sector (%)**

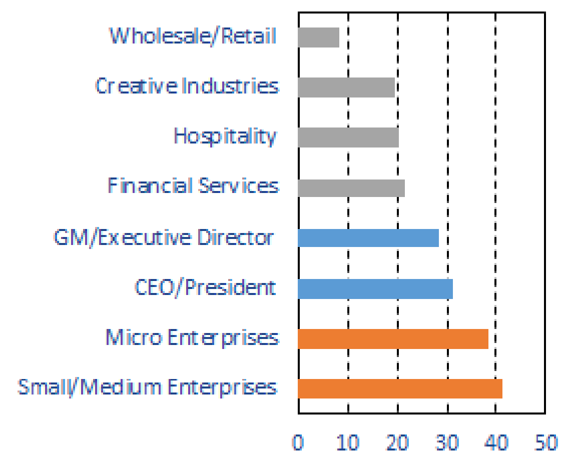



**Chart 2: Economic outlook for the next 12 months**

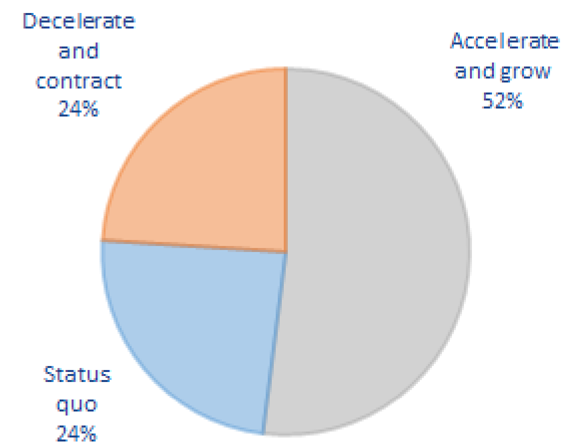


Chart 3: Single most problematic factor for doing business

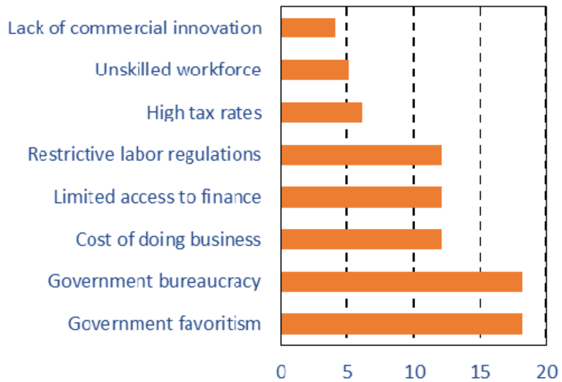
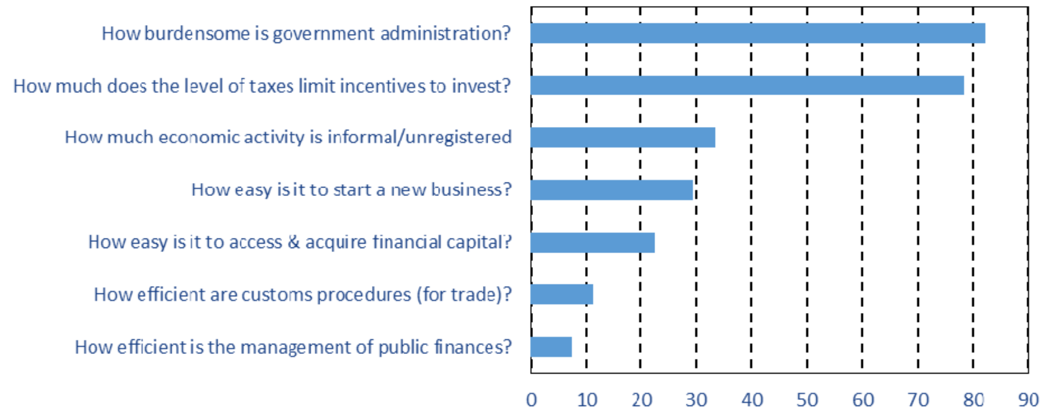



Chart 4: Main challenges faced by businesses



## Financial inclusion of enterprises

**In terms of the financial inclusion of Aruban businesses, almost all companies (95 percent) have a deposit account at a local commercial bank.** Nevertheless, less than half of businesses (48 percent) report having an insurance account or a local loan account (35 percent). In fact, the vast majority (57 percent) of local businesses indicate that it is very difficult to access and acquire financing and capital (Chart 5).

**Furthermore, only one (1) in every four (4) businesses experience frictionless financial transactions.** Whereas making inter-bank payments are rated as relatively easy by 40 percent of executives, less than one-third of businesses consider making and receiving online payments as (very) easy (Chart 6).

Chart 6: Ease of conducting financial transactions?
(Percentage rating easy to very easy)

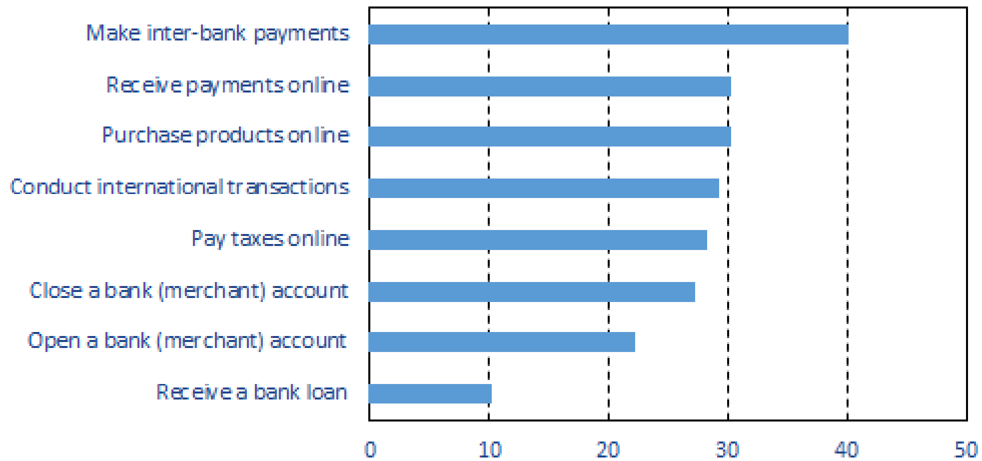



Chart 5: How easy is it to access and acquire financing & capital?

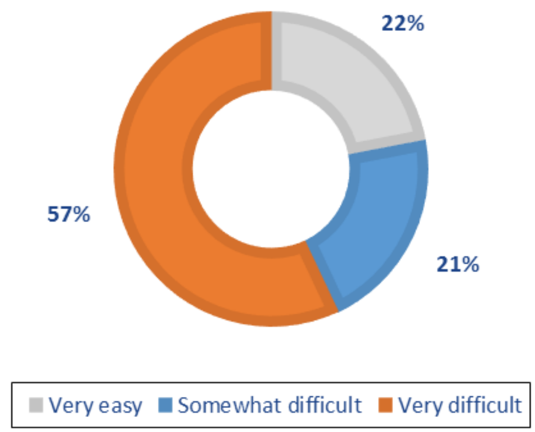
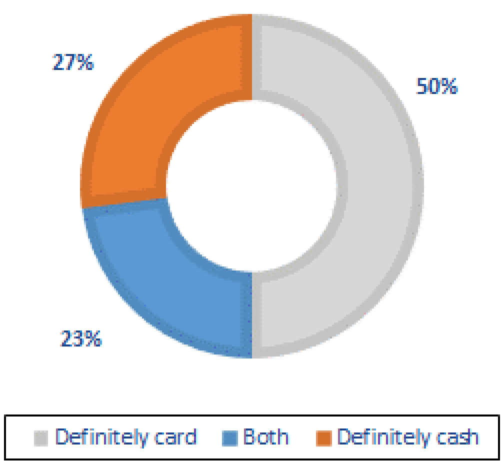


Chart 7: How do customers usually pay?




**On average, 21 percent of businesses make use of digital payments, with an estimated 8 percent owning a digital wallet.** For the majority of businesses, payments by (credit and/or debit) card dominate (50 percent), with one in four consumers paying in cash (Chart 7). In terms of future expectations, a solid two-thirds (66 percent) of executives believe that digital currencies will be part of the Aruban landscape in the next five (5) years. An estimated 19 percent of business executives consider digital currencies to be a hype.

# III. International developments

**The global economy gathered further steam throughout 2017 and is expected to gain additional momentum in 2018.** This acceleration is being led mainly by stronger domestic demand growth in advanced economies as well as some large emerging markets. Global investment continued on an increasing path, which stimulated manufacturing activity while world trade grew at the fastest pace since the crisis during the first eight months of 2017.[3] The IMF revised its global growth projections based on recent information. The world GDP is now estimated to grow by 3.7 percent and 3.9 percent in 2017 and 2018, respectively, whereas medium-term risk to growth is skewed to the downside.[4]

**The general outlook for advanced economies continued improving throughout the third quarter of 2017**. However, inflation remained weak in a number of countries, reflecting slack within the output potential.[5] In the United States, the Bureau of Economic Analysis reported that real GDP reached 3.2 percent during the third quarter, slightly lower (–0.1 percent) than previously projected, but maintaining the overall expectation. Drivers for this growth included, among other things, positive contributions from consumption, investment, and exports, primarily reflecting acceleration in private inventory investment and an upturn in state and local government spending.[6] Despite the marginally lower outcome in GDP performance, the third quarter's growth rate stood higher than the rates registered in the preceding two quarters.

**Labor market conditions in the United States also showed progress as the unemployment rate dropped further by 0.5 percentage point to 4.2 percent at the end of September 2017,**

[3] United Nations - *Global Economic Situation and Prospects 2018*, December 2017.
[4] IMF - *World Economic Outlook*, January 2018.
[5] IMF - *World Economic Outlook*, January 2018.
[6] Bureau of Economic Analysis, *New Release BEA 17-69*, December 21, 2017.

**compared with December 2016.**[7] While a general pick-up was noted in the labor market indicators, mitigating effects were felt in the food and beverage service segments where steep declines were recorded, primarily due to the impact of the hurricanes that hit the United States. The IMF estimates that the growth of the U.S. economy will amount to 2.3 percent in 2017 attributable to supportive financial conditions and strong business and consumer confidence.[8]

**In Europe, the euro area economy continued to demonstrate robustness during the third quarter of 2017, as the GDP expanded by 2.5 percent compared with the same quarter of the previous year.**[9] According to the ECB, domestic demand persisted as the main driver for the expansion in the third quarter.[10] The growth in private consumption slowed slightly during the third quarter when compared to its preceding quarter, but was still supported by recovery in the labor market.[11] The ECB has revised its projections for the euro area upward to a growth of 2.4 percent in 2017.

**An uptick is projected for other advanced economies in 2017**. The economies of Canada, the United Kingdom, and Japan are all anticipated to grow in 2017.[12] The 3.0 percent projected expansion of the Canadian economy is related to oil developments and adjusted fiscal and monetary policies. The U.K.'s moderated growth of 1.7 percent will be driven by softer growth in private consumption due to a depreciation of the British pound. Japan is forecasted to grow by 1.5 percent because of, among other things, global demand and fiscal policy actions.

**China's growth is estimated to have strengthened (+6.8 percent) during 2017**. This growth was boosted mainly by services and some strategic industries, yet is projected to soften in 2018 (+6.5

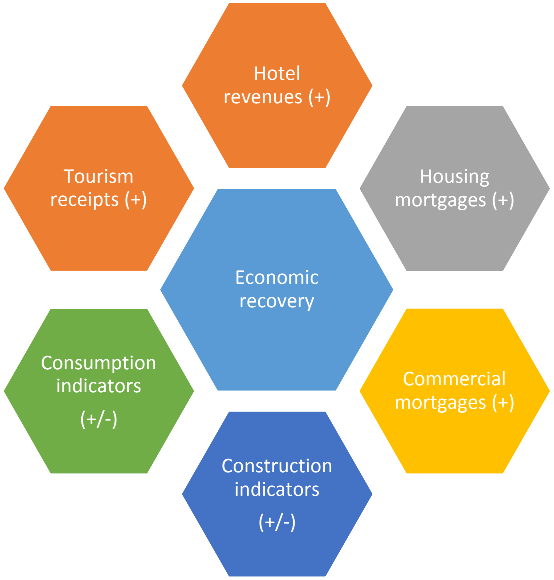
[7] Bureau of Labor Statistics - *News Release*, October 6, 2017.
[8] IMF - *World Economic Outlook*, January 2018.
[9] Eurostat - *News Release: Euro indicators*, November 14, 2017.
[10] ECB - *Economic Bulletin*, Issue 8, 2017.
[11] ECB - *Economic Bulletin*, Issue 8, 2017.
[12] IMF - *World Economic Outlook*, January 2018.

percent) as a result of a deceleration in exports.[13] The rest of emerging Asia also is projected to grow strongly at 6.5 percent in the coming years, with India's GDP reaching 6.7 percent in 2017 and broadening to 7.4 percent in 2018.[14]

**Latin America and the Caribbean are projected to grow in 2017 and 2018 by, respectively, 1.2 percent and 2.1 percent**.[15] Following a six-year period of economic slowdown, two years of which included recessions, all the Latin American countries are expected to grow in 2017 with the exception of Venezuela. Private consumption and investment are the main drivers of the growth in South America, as countries continue to recover gradually. Central American countries also are projected to grow with Panama and the Dominican Republic expanding at a solid pace. The growth in this subregion is driven by remittances and favorable economic conditions of the region's trading partners (including the United States). Notwithstanding the recent hurricanes in the region, tourism-dependent Caribbean economies are generally expected to expand by 2.4 percent between 2017 and 2018, whereas commodity-exporting countries are expected to grow by 1.3 percent over the same period.[16] Substantial variation exists within the anticipated growth levels amongst Caribbean countries, especially in areas directly impacted by the hurricanes, such as Sint Maarten where the CBCS foresees contractions of 4.0 percent and 9.1 percent in 2017 and 2018, respectively.[17]

[13] OECD - *Developments in Individual OECD and Selected Non-Member Economies: China,* http://www.oecd.org/eco/outlook/economic-forecast-summary-china-oecd-economic-outlook.pdf.
[14] IMF - *World Economic Outlook*, January 2018.
[15] World Bank - http://www.worldbank.org/en/region/lac/overview.
[16] IMF Western Hemisphere Department - *Regional Economic Outlook*, October 2017.
[17] Centrale Bank van Curacao and Sint Maarten, - *Economic Developments in 2017 and Outlook for 2018*, December 2017.

## IV. Concluding remarks




**The Aruban economy showed initial signs of improvement in the first three quarters of 2017.** Tourism-related output strengthened with substantial growth in tourism receipts, improved hotel performance, a rebound in U.S. arrivals as well as increased cruise visitors. Data for private investment and private consumption point towards a positive development, but caution is warranted with regard to its sustainability. Furthermore, the domestic price level remained virtually flat.

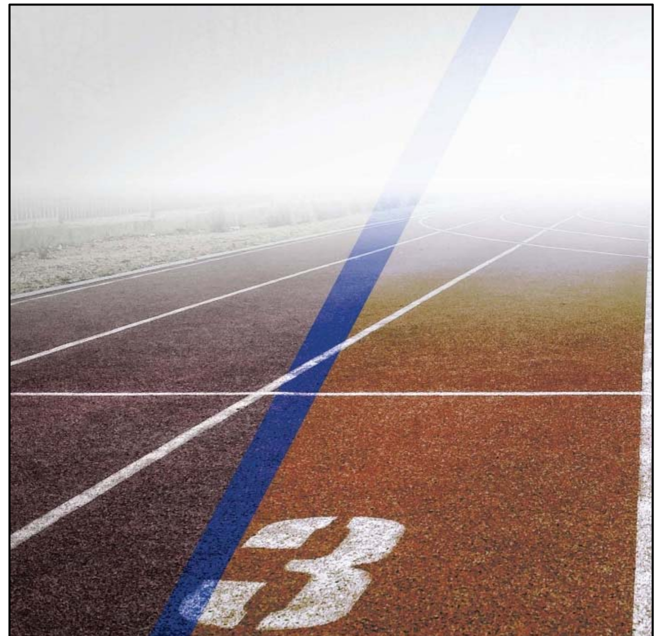
**Investment indicators revealed an overall upswing in the first three quarters of 2017 compared to the same period of 2016.** Both the number and value of construction permits expanded, while investment-related imports picked up. On the other hand, anticipated refinery-related investments appeared to not have fully materialized.

**Consumption strengthened in the first three quarters of 2017, based upon available indicators.** Income from consumption-related taxes increased, although possibly due to a rise in compliance and arrears collection. Furthermore, car loans grew, while the Consumer Confidence Index improved slightly from the second to the third quarter. Nevertheless, it stayed below the 2016 level as well as in the pessimistic territory.

**Aruba's trade deficit, as reported by the CBS, grew in the first nine months of 2017.** The total value of import of goods expanded, due largely to a gain in the imports of animal-related goods, investment goods, and mineral products, while the value of exports also rose but at a lower pace.

**The balance of payments posted a deficit in the first three quarters of 2017, according to the preliminary commercial bank data available.** This deficit was due mainly to net outgoing transfers from notified foreign accounts held by residents, as well as net outflows resulting from other capital and financial account transactions. This deficit was partially compensated by a surplus on the current account. Although the net foreign assets declined, they stayed above the critical norms monitored by the Monetary Policy Committee (MPC) of the CBA.

**In summary, the economy seemed to be on a rebound for the first nine months of 2017.** Nevertheless, caution remains because of considerable downside risks such as the sustainability of consumption and investment, the weak financial position of the government, the downward trend in the international reserves, and the fragile political situation in Venezuela.



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