



CENTRALE BANK VAN ARUBA

Economy inched forward as inflation rose in 2018

Press release

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Today the Centrale Bank van Aruba (CBA) published the State of the Economy of 2018. This publication provides a synopsis of the local and international economic developments of this period. The domestic highlights are presented below, including a summary of main economic indicators.

In 2018, Aruba's economy experienced an estimated real growth of 0.9 percent. The main driver of growth was tourism services exports, which performed admirably well in 2018 despite further contraction in the Venezuelan market. Other sectors of the economy lagged behind resulting in lackluster investment and consumption behavior. Tourism growth in Aruba outpaced that of the Caribbean destinations as a whole. All tourism indicators, with the exception of the number of cruise visitors, show that Aruba outperformed Caribbean destinations on average, as indicated by figures from the Caribbean Tourism Organization.

According to the latest estimates, real consumption in 2018 declined by 1.7 percent. On average, in 2018 consumer sentiment contracted by 0.8 percentage point to 95.4. Partly due to delays and lack of new sizeable investment projects, the total level of investment (real terms) fell by 1.9 percent in 2018.

The 12-month average CPI inflation stood at 3.6 percent in December 2018, the effect of increased gasoline and food prices along with an expansion in indirect tax rates. Energy and food prices rose by 0.7 and 1.0 percentage point, respectively. Also, the introduction of BAVP and a higher BAZV tariff resulted in a core inflation of 1.8 percent for 2018. For the second consecutive quarter, the real effective exchange rate of the florin vis-à-vis the U.S. dollar increased in the fourth quarter of 2018. This indicates a deterioration in Aruba's competitive position relative to the United States, explained mainly by the tightening in fiscal policies by the Aruban government.

The total money supply increased in 2018, predominantly because of an expansion in savings and time deposits. Total credit granted by the commercial banking sector also expanded during this period, caused primarily by a continuing growth in housing mortgages. During the same period, net claims on the public sector grew. The weighted average interest rate

fluctuated during the year, and at year-end was higher than the year before. Meanwhile, the financial soundness indicators measured improvements during 2018. Gross official reserves reached Afl. 1,778 million at end-2018, equal to 87.4 percent of the Assessing Reserve Adequacy (ARA) metric applied by the IMF as an additional benchmark to assess the adequacy of Aruba's foreign reserve holdings. Therefore, it is imperative that the level of the official foreign reserves is increased over time.

The government's financial deficit fell by Afl. 87.2 million to Afl. 45.2 million at the end of 2018, due primarily to a 6.5 percent expansion in revenues, partly the result of the increase in the tariffs of the BBO, the BAZV and the BAVP as of July 1, 2018. Additionally, the rise in the BAZV rate reduced the general health insurance's (AZV) deficit, and thus diminished the transfer by the government to the AZV to cover the deficit. Total government debt expanded by Afl. 127.6 million to Afl. 4,286.5 million at the end of 2018 as the government entered into several external and domestic borrowings.

The current account of the balance of payments recorded an Afl. 24.4 million deficit in 2018, the first deficit in four years. The first quarter of 2018, with tourism at its peak level, was the only quarter with a current account surplus.

Table: Main economic indicators 2018

Indicator	2017	2018	Change
Hotel revenue per available room (US\$)	206	227	21
Stay-over visitors (number)	1,070,548	1,082,003	11,455
Cruise visitors (number)	792,384	815,161	22,777
Tourism credits (Afl. million)	3,299	3,569	270
Construction permits (Afl. million)	576	463	-113
Imports of machinery and electrotechnical equipment (Afl. million)	297	325	28
Turnover tax receipts (Afl. million)	104	143	39
Taxes on income and profit (Afl. million)	486	499	13
Twelve-month average rate of inflation (percent)	-0.5	3.6	4.1
Consumer confidence index (annual average, index points)	96.2	95.4	-0.8

Sources: CBA, AHATA, ATA, CBS.

The complete publication is available on the CBA's website (www.cbaruba.org).