

The extent of the economic recession dependent on tourism resilience

Press release

October 7, 2020

Today, the Centrale Bank van Aruba (CBA) published an update to the Economic Outlook for 2020.

Based on available data and considering the significant level of uncertainty regarding the COVID-19 pandemic and its impact on economic recovery, the CBA updated its estimates for the economic output based on different scenarios for the year 2020. This update follows new information on public consumption and the expectations regarding the recovery of the tourism sector. More specifically, public consumption was adjusted downwards to more accurately reflect actual government consumption in the respective scenarios. In addition, a slower recovery of tourism activity is assumed in comparison to the previous forecast (of July 2020).

Due to measures to protect human lives from the COVID-19 pandemic, the Aruban economy continues to be severely affected despite the reopening of our borders to tourism and travel. The depth and extent of the economic crisis depend largely upon the duration of the COVID-19 pandemic and the subsequent tourism recovery trajectory in addition to future government financing arrangements. Consequently, for 2020 the real Gross Domestic Product (GDP) for Aruba is currently projected to contract between 25.4 percent (Scenario A: no significant tourism activity for 3 months) and 32.3 percent (Scenario C: no significant tourism activity for 9 months), compared to an estimated growth of 2.8 percent in a scenario where, among other things, the pandemic would not have occurred. The revised forecasted economic contraction is the result of a deep drop in tourist arrivals, private consumption (and related imports), and, in scenarios B and C, investment.

The 12-month average inflation rate for 2020 in the various scenarios is estimated at 1.4 percent. This is significantly lower than the 4.3 percent recorded in 2019. The expected lower rate of inflation results from the decrease in electricity tariffs as of January 1, 2020, as well as the assumption of lower stable oil prices, and no tax increases. Potential price effects from a decrease in demand due to the pandemic were not taken into account. The latter implies that the inflationary pressures could even be lower.

The significant drop and lagging recovery in tourism activity causes a large current account deficit in 2020 in all scenarios. The deficit is partially offset by a slump in imports resulting from a decline in both domestic and tourism demand. The loss in tourism credits is further compensated by reduced services payments, and lower income and current transfer outflows.

The capital and financial account is expected to record a significant surplus in all scenarios in 2020. This is due to the surge in the fiscal deficit, which is expected to cause substantial foreign government borrowing. The latter would compensate for a slowdown in incoming investment flows as several investment projects would undergo delays.

The level of net foreign assets (excluding revaluation differences) is projected to reach a level between Afl. 2,151.8 million and Afl. 2,505.2 million in 2020. The forecasted increase in 2020 is due mainly to an expected increase in government foreign borrowing, as well as a sharp drop in imports, which compensates for the deterioration in the current account due to the steep decline in tourism demand. NFA are estimated in all scenarios to remain above the minimum required current account coverage ratio of three months in 2020.

Table 1: Growth of real GDP and its components 2019-2020 (in percent)

Indicator	2019 ^e	2020 ^f	2020 Scenario A ^f	2020 Scenario B ^f	2020 Scenario C ^f
Current Outlook (September 2020)					
GDP	-0.7	2.8	-25.4	-28.4	-32.3
Consumption	-0.3	-0.2	-12.0	-12.9	-14.5
Private consumption	-0.1	3.0	-12.8	-14.4	-17.6
Public consumption	-0.9	-10.6	-9.7	-8.0	-4.7
Investment	-0.9	17.8	11.4	-1.9	-5.3
Private investment	1.7	19.4	11.1	-2.6	-6.2
Public investment	-46.9	-34.4	21.9	21.9	21.9
Exports	1.7	-0.9	-62.5	-67.0	-71.9
Tourism exports	2.7	-1.4	-61.3	-65.4	-71.2
Imports	2.0	0.7	-36.4	-41.9	-44.3

Sources: CBA.

e = estimate; f = forecast.

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