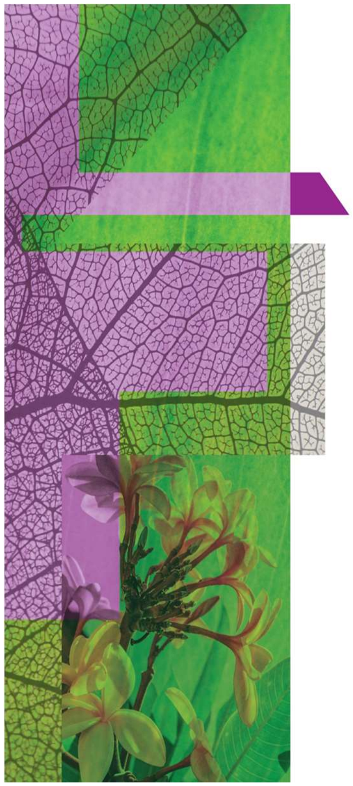


CENTRALE BANK VAN ARUBA

STATE OF THE ECONOMY

2020

ABSTRACT

In 2020, the Aruban economy was heavily impacted by an unprecedented shock when the COVID-19 pandemic hit the island at the end of the first quarter, and several containment measures led to a total lock-down of the economy, including a halt in tourist arrivals. These measures resulted in substantial production loss throughout all sectors, causing an estimated contraction in real GDP of 22.3 percent compared to 2019. The first signs of a rebound were witnessed during the third quarter of 2020 as the economy slowly re-opened, albeit with major challenges as a second wave of COVID-19 contagion swept the island in August. In the fourth quarter, the Aruban economy continued its road to recovery as year-on-year real GDP growth edged up by 5.9 percentage point compared to the previous quarter, ensuing from an increase in tourism arrivals vis-à-vis the third quarter and the relaxation of containment measures.

Centrale Bank van Aruba

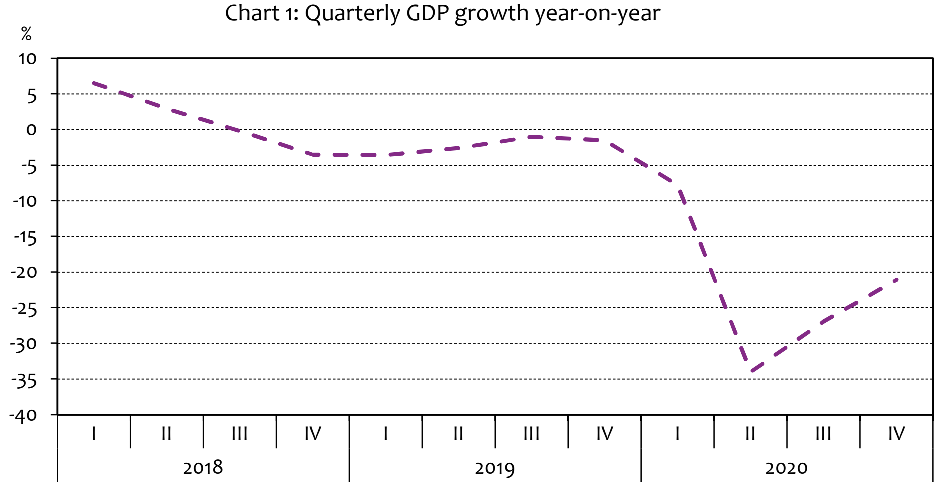
CONTENTS

I. Domestic developments[1]

Economic growth

During the fourth quarter of 2020, the Aruban economy continued its gradual road to recovery amidst continued uncertainties caused by the ongoing COVID-19 pandemic (Chart 1). In this quarter, real GDP contracted by 21.1 percent compared to the same period of 2019, as the impact of the pandemic was still weighing on the economy. However, signs of a gradual recovery were noted, as year-on-year real GDP growth edged up by 5.8 percentage point to -

Chart 1: Quarterly GDP growth year-on-year



Calculations: CBA

[1] The cut-off date for information published in this State of the Economy is April 9, 2021.

21.1 percent compared to the previous quarter. This slight growth was driven largely by an increase in tourism arrivals vis-à-vis the third quarter.

Nonetheless, for the whole of 2020, real GDP shrank by 22.3 percent compared to 2019, as tourism plunged following the COVID-19 pandemic and the resulting measures to contain the virus. Additionally, the re-opening of the border was plagued with challenges as a second wave of the virus hit the island in August of 2020. Moreover, consumption and investments indicators showed the strains on the economy, even though the government financial support and social assistance for businesses and households had helped to cushion some of the impact. Imports dropped amid decreased domestic and tourism demand, which helped to partially mitigate the fall in GDP.

Tourism

Tourism activities significantly underperformed during 2020. When compared to 2019, total stay-over visitors registered a 67.1 percent contraction, while the number of cruise visitors plummeted by 69.3 percent. As a result of these negative developments, total tourism credits noted a 49.3 percent reduction compared to 2019 (Table 1). The downturn in total stay-over visitors resulted from decreases across all markets: North America (-64.6 percent), Latin America (-84.2 percent), and Europe (-69.8 percent). These developments were attributed to the measures implemented to contain the COVID-19 pandemic, which restricted mobility and tourist entrance into the island, bringing tourism activity on the island to a complete stop, particularly in the second quarter of 2020.

December 2020 year-to-date decreases in the hotel sector were recorded based on data published by the Aruba Hotel and Tourism Association (AHATA). As a result of the 2020Q2 border closure and subsequent slow recovery of tourism, revenue per available room (RevPAR) in 2020 decreased by 62.8 percent compared to 2019. The main driver behind this decrease in the RevPAR was the 68.1 percentage point downturn in hotel occupancy. The uptick in the average daily rate (ADR) of 16.8 percent, on the other hand, acted as a counterbalance, mitigating the contraction in the RevPAR.

In 2020, a total of 98 cruise ships made harbor calls. This number amounted to 226 fewer ship calls (-69.8 percent) compared to 2019. As a result, the total number of cruise passengers decreased to 255,384 (-69.3 percent). Cruise tourism was negatively affected by the March 14, 2020 No Sail Order issued by the Centers for Disease Control and Prevention. Even though the cruise ban was lifted on October 31, 2020, Aruba did not welcome any cruise ships in the last quarter of 2020 due in part to the Cruise Lines International Association's voluntarily suspension of cruise operations in the United States through December 31, 2020. Consequently, all cruise activity reported for 2020 pertained to the first quarter of the year.

Consumption

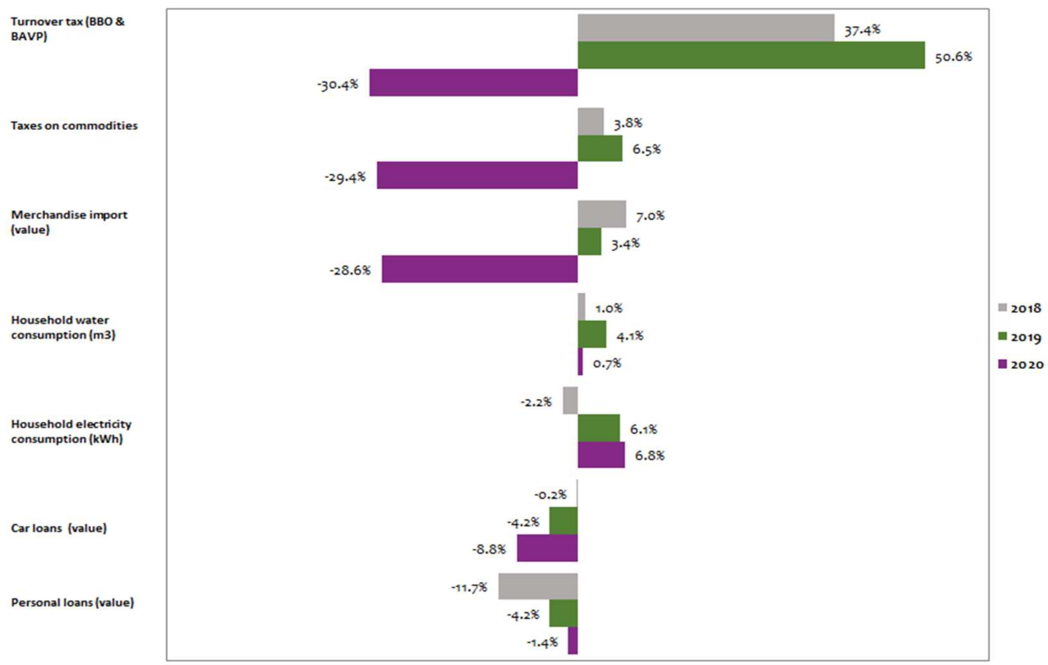
Most consumption indicators contracted in 2020, reflecting the severe impact of the COVID-19 pandemic on the Aruban economy (Chart 2). Turn-over tax revenues fell by 30.4 percent (Afl. 65.5 million), as consumers and businesses adjusted their consumption and expenditure habits due to losses in income and wage, uncertainty, as well as measures to contain the spread of the virus. Furthermore, lower tourism demand also dampened turn-over tax receipts. With the border closure and shelter in place measures turn-over tax revenues plummeted in the second quarter of 2020, and then picked back up slowly in the 3rd and 4th quarters as the border re-opened.

Table 1: Tourism indicators for Aruba (YTD December 2020 vs. YTD December 2019)

	2019	2020
Stay-over visitors (growth)	3.4	-67.1
Average length of stay (days)	7.4	7.9
Cruise visitors (growth)	-3.0	-69.3
Hotel occupancy (%)	84.4	26.9
Average daily rate (US$)	275.44	321.79
Revenue per available room (RevPAR) (US$)	232.52	86.54
Tourism credits (growth)	3.6	-49.2

Sources: ATA, AHATA, APA, CTO, STR

Chart 2: Consumption-related indicators
(Percentage change 2020 vs. 2019)



Sources: CBA, WEB, Tax Collector's Office, Customs Department

Nonetheless, turn-over tax revenue remained well below 2019 levels in both those quarters. Subsequently, the fall in consumption also was reflected in the 29.4 percent (Afl. 99.6 million) decline in taxes on commodities.

The merchandise trade deficit narrowed to Afl. 1,564.6 million (-28.8 percent), as imports dropped across all categories. The latter drop was due primarily to decreases in imports of *other goods (32.7 percent), machinery and electrotechnical equipment (26.5 percent),* and *transport equipment (52.1 percent)*. Moreover, Table 2 shows that the *other goods*[2] category was the largest contributor\ to the fall in imports, accounting for almost half of the decrease (48.7 percent).

Table 2: Merchandise imports (value)
Decomposing percentage change 2020 vs. 2019

	Share of component in total imports of goods 2019	Percentage change	Percentage point contribution to total percentage change	Share in total percentage change
Import of goods (c.i.f.)	100.0%	-28.6%	-28.6%	100.0%
a. Live animals and other animal products	8.5%	-30.5%	-2.6%	9.1%
b. Food products	12.5%	-20.8%	-2.6%	9.1%
c. Chemical products	8.7%	-5.4%	-0.5%	1.7%
d. Base metals and derivated works	4.1%	-26.4%	-1.1%	3.8%
e. Machinery and electrotechnical equipment	16.9%	-26.5%	-4.5%	15.7%
f. Transport equipment	6.6%	-52.1%	-3.4%	12.0%
g. Other goods	42.7%	-32.7%	-13.9%	48.7%

Source: Customs Department

Data on utilities indicated an increase of 6.8 percent in household electricity consumption in 2020, while household water usage was flat with a marginal increase of 0.7 percent (Chart 2).

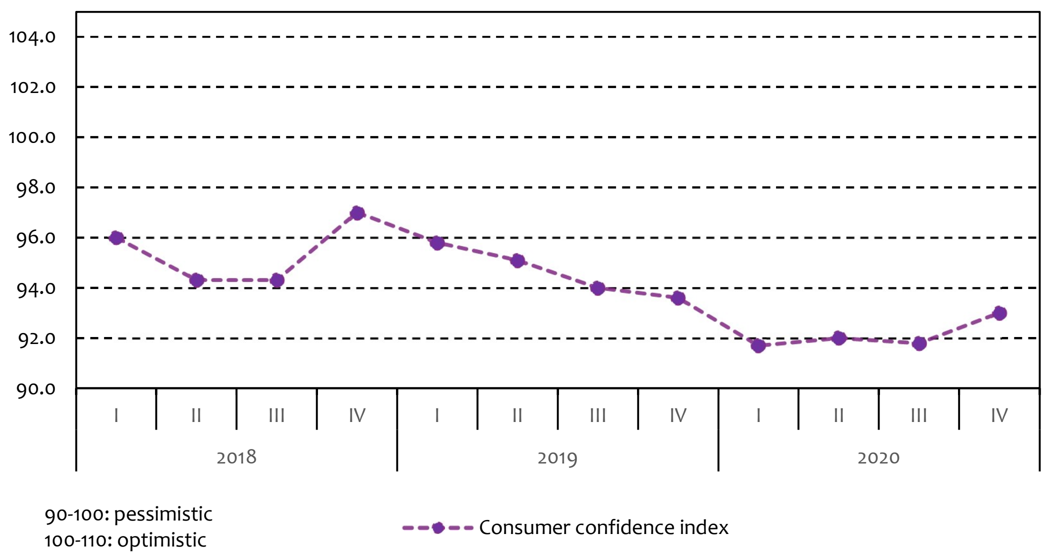
[2] The component "other goods" includes Vegetable products, Fats and oils, Mineral products, Artificial plastic elements, Skins, hides, leather and peltry, Wood, charcoal, and woodwork, Materials for the manufacture of paper, paperwork, Textile fibers and articles, Footwear, headgear, and umbrellas, Works of stone, gypsum, cement, asbestos, Real pearls (natural) and other precious stones, Optical instruments, apparatus and equipment, Arms and ammunition, Various goods and products n.e.s.

Household electricity consumption expanded in 2020, likely due to the electricity tariff reduction as of January 2020, and as a result of people spending more time at home due to the government measures to contain the pandemic. Additionally, the number of household electricity connections increased (+1.8 percent), pushing up electricity demand. Furthermore, commercial electricity consumption plunged in the second quarter (-33.6 percent), as the border remained closed and shelter-in-place measures continued for most of the quarter, with only essential businesses allowed to remain open. The contraction in commercial electricity consumption persisted in subsequent quarters, although declining at lower rates (2020 Q3: 20.2 percent, 2020 Q4: 17.2 percent) as the border re-opened and shelter-in-place measures were lifted. The latter suggests a possible substitution effect of employees working from home instead of at the workplace, as a similar inverse pattern is witnessed in household electricity consumption. On the other hand, household water consumption was flat in 2020. Rainfall more than doubled in 2020 and increased by 114.2 percent, which could have contributed to household water usage being flat.

Consumer credit by commercial banks declined by 6.0 percent in 2020 compared to a year earlier (Chart 2). This declining trend has been consistent in recent years, although it decreased at a faster rate in 2020 (2019: -3.5 percent). In fact, 2020 witnessed the largest drop in consumer credit in the past 10 years. The total amount of new consumer credit loans fell drastically by 57.6 percent (2019: -1.3 percent) to Afl. 65.8 million (2019: Afl. 155.3 million), a record low for the past six years. The latter decreases suggest persistent hesitancy of consumers to take on new loans at financial institutions, as well as possible prudence by commercial banks in granting new loans. All consumer credit components registered contractions; car loans, personal loans, and credit cards contracted by, respectively, 8.8 percent, 1.4 percent, and 4.7 percent. Moreover, consumer credit data from nonmonetary institutions registered a 15.9 percent decrease at the end of 2020.

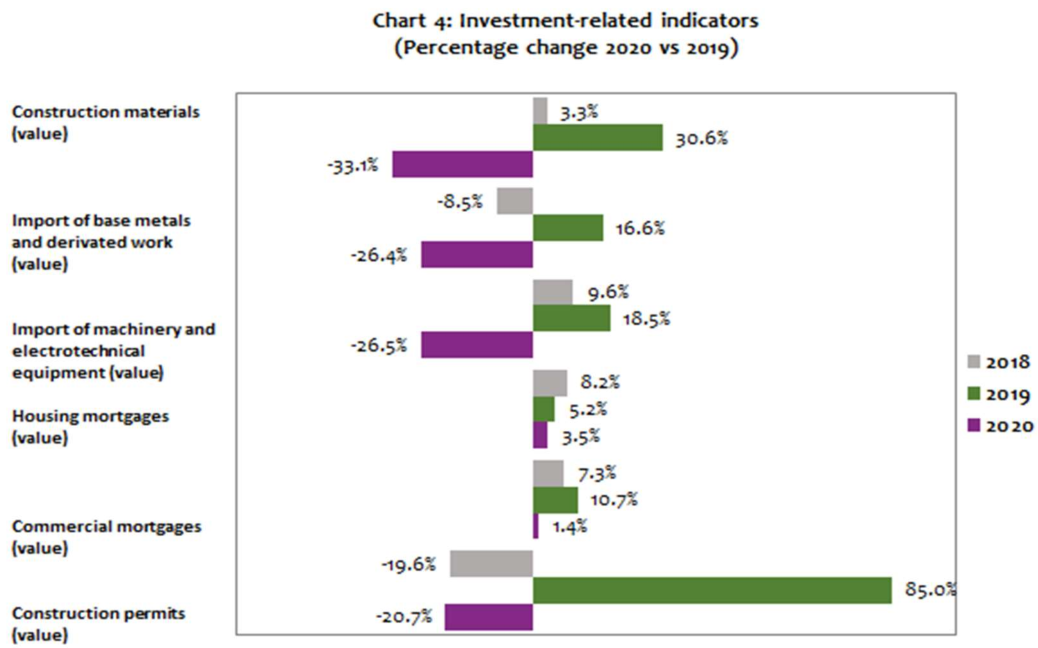
The Consumer Confidence Index reiterated the contractions witnessed in the consumption indicators, as consumers were more pessimistic in 2020. At the end of the fourth quarter, the index stood at 93.0, a drop of 0.6 index point compared to the same period of 2019. In the fourth quarter of 2020, 72.0 percent of consumers reported that buying a car was not suitable, while the same percentage indicated that taking out a loan was not appropriate. Nonetheless, in comparison to the third quarter of 2020, consumers were slightly less pessimistic about the present conditions and future expectations.

Chart 3: Consumer Confidence Index



Source: CBA

Investment

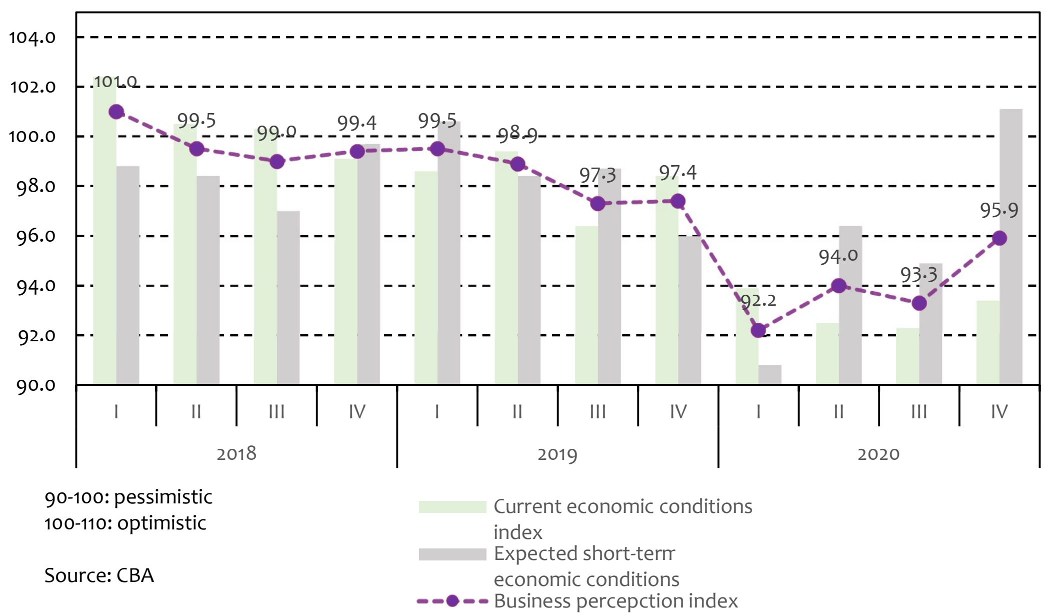


Sources: CBA, CBS, DOW

The majority of investment indicators retracted in 2020 amid economic uncertainty related to the COVID-19 pandemic, as well as several large projects being in their final phase of implementation. All investment-related indicators shrank, except for commercial and housing mortgages (Chart 4). The largest drop was noted in the import of machinery and electrotechnical equipment (-Afl. 102.2 million), after having increased for 3 consecutive years and being at its highest level in the last eight years (2019: Afl. 385.0 million). The import of base metals and derivated work narrowed by Afl. 24.9 million, while imported construction material declined by Afl. 26.4 million. These developments were due mainly to large-scale investments, such as the Watty Vos Boulevard reaching its completion stages and the expansion of the Dr. Horacio Oduber Hospital being delayed. Moreover, although several projects were in the pipeline, no new large-scale investment projects were initiated, considering the 'shelter in place' measures and the elevated uncertainty caused by the COVID-19 pandemic.

The business perception survey edged up in the fourth quarter of 2020 to 95.9 points compared to the previous quarter, although it remained below 2019 levels and had been persistently pessimistic since the second quarter of 2018. Business sentiments dipped in the first quarter of 2020, as the COVID-19 reached Aruba, and uncertainties about its impact were extremely high.

Chart 5: Business Perception Index



90-100: pessimistic
100-110: optimistic

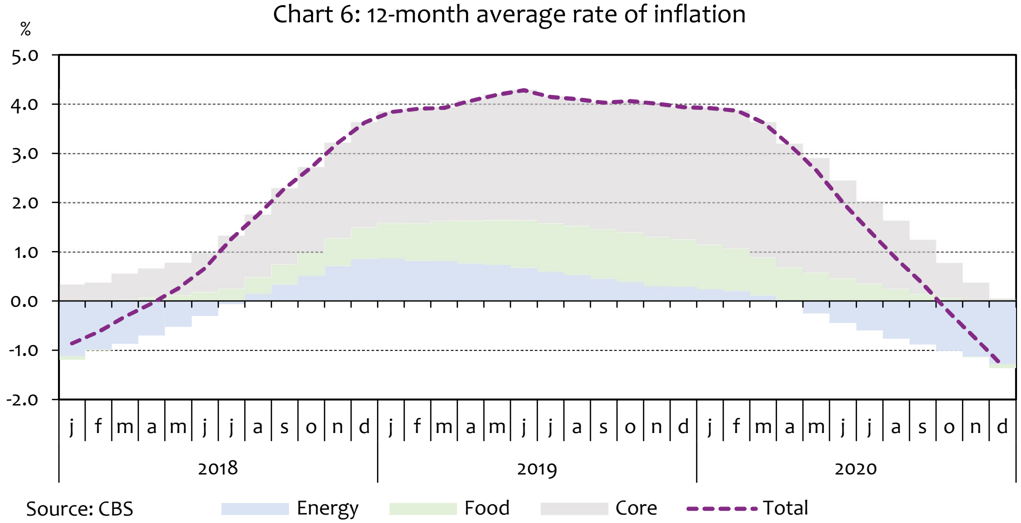
Source: CBA

The increased pessimistic outlook was attributed mostly to worsening perceptions on the current economic conditions, as the current economic conditions index dropped to 93.4 index points at the end of the fourth quarter of 2020 (2019: 98.4 index points). The improvement in the second and fourth quarters, when compared to the previous quarters, likely was linked to the easing of measures in place to contain the virus and to liquidity support agreements reached between the GOA and the Netherlands.

Consumer Price Index (CPI)

The 12-month average CPI inflation sustained its downward path since November 2019, falling to -1.3 percent at the end of December 2020 (Chart 6). The deflation was due mainly to the energy component, which pushed inflation down by 1.3 percentage points in December 2020. This drop resulted from the January 2020 cut in the electricity tariff as well as lower gasoline prices. The latter decrease followed from a fall in crude oil prices, as the WTI price per barrel stood, on average, at USD 39.25 in 2020 versus USD 56.84 in 2019.

Chart 6: 12-month average rate of inflation



Source: CBS

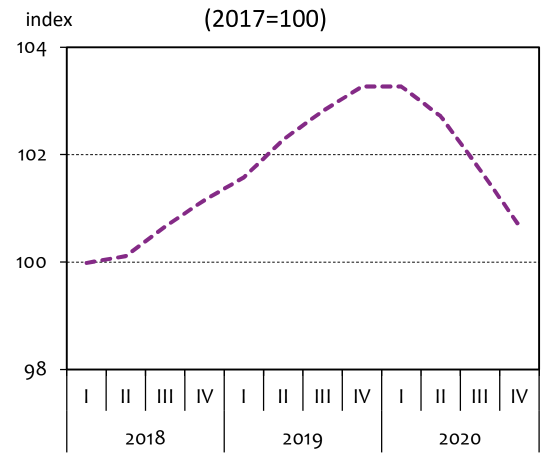
The food component also contributed to the deflation, although markedly less so than the energy component. In particular, the food component maintained its slipping trajectory that begun in November 2019, causing in a -0.1 percentage point contribution to the 12-month average inflation in December 2020. This decrease came with the waning impact of the BAVP introduction and the higher BAZV introduced in July 2018 on food prices.

Furthermore, the core component, i.e., the aggregated items in the CPI basket excluding food and energy, was marginally positive (0.1 percent) in its contribution to the 12-month average deflation in December 2020. The unchanged CPI for the core components was the net effect of the deflation contributions from clothing (0.1 percent), furniture (0.2 percent), household appliances (0.1 percent), household textiles (0.1 percent), vehicles (0.1 percent), and electronics

(0.1 percent), being offset by inflation contributions from various components. Specifically, the components housing rentals, housing repair and maintenance, goods and services for routine household maintenance and cleaning, recreation and culture, and finally catering services all added 0.1 percent to inflation.

International competitiveness

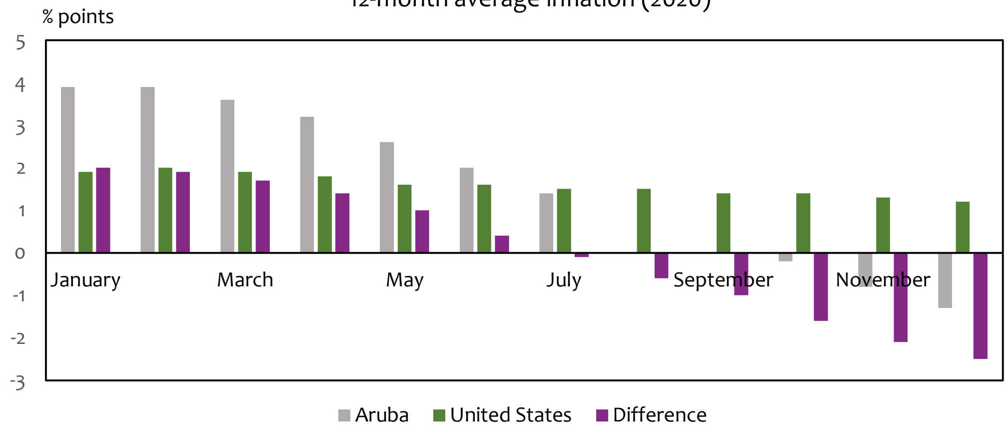
Chart 7: Real exchange rate Aruban florin vis-à-vis the U.S. dollar (2017=100)



Source: CBA

The real exchange rate of the florin against the U.S. dollar continued its depreciating trajectory, which started in the second quarter of 2020 (Chart 7). This downward trend indicates an improved competitive position of Aruba relative to the United States, as the inflation in Aruba is falling at a faster rate than inflation in the United States (Chart 8). The 12-month average U.S. inflation for December 2020 was pushed down by the energy component, as the energy component reached a deflation of –8.5 percent. Nonetheless, the food (+3.4 percent) and core components (1.7 percent) put upward pressure on the inflation rate, as the total 12-month average U.S. inflation rate stood at 1.2 percent in December 2020. The latter suggests that Aruba's deflation in food (-0.1 percent) and energy prices (-1.3 percent), as well as its practically flat price changes in the core component (+0.1 percent) led to an improved competitive position versus the United States.

Chart 8: Inflation differential Aruba - USA:
12-month average inflation (2020)



Calculations: CBA

Foreign trade

Aruba's trade deficit narrowed by 28.8 percent to Afl. 1,564.6 million in 2020, compared to 2019 (Chart 9). The smaller trade deficit resulted from an Afl. 651.2 million (28.6 percent) drop in imports, primarily due to the impacts of the COVID-19 pandemic and the related containment measures on economic activity. The export of goods also recorded a contraction, albeit much smaller, i.e., of Afl. 19.8 million (24.4 percent). The downturns were observed largely in transactions with Aruba's largest trading partner, the United States, with reductions of Afl. 370.2 million (29.6 percent) and Afl. 8.2 million (18.9 percent) in imports and exports, respectively.

Chart 9: Foreign trade

Source: CBS

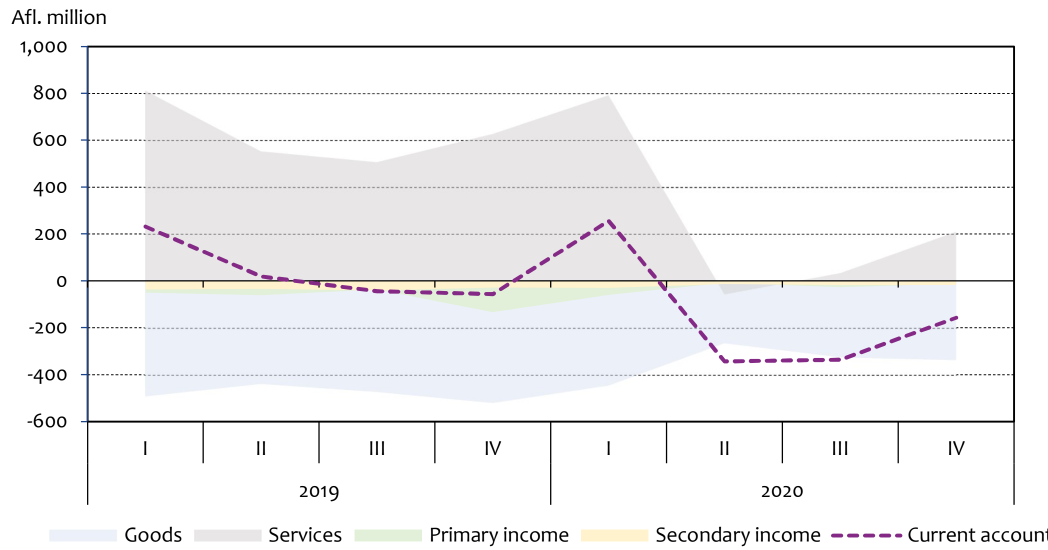
Balance of payments

The current account of the balance of payments recorded an Afl. 580.5 million deficit in 2020. This deficit resulted from the deficits incurred starting in the second quarter of 2020. The second and third quarters saw the largest deficits since the first quarter of 2011 (Afl. 478.6 million), i.e., Afl. 343.1 million and Afl. 335.7 million, respectively. In the fourth quarter of 2020, the current account deficit narrowed to Afl. 157.6 million, reflecting the gradual recovery of tourist arrivals and spending. The deficit realized in 2020 represents a sharp turnaround from the Afl. 151.4 million surplus observed in 2019. This deterioration was spurred primarily by a severely reduced surplus on the services account resulting from the plunge in tourism services (-Afl. 1,843.7 million) following the COVID-19 related travel restrictions (Table 3; Chart 10).

In contrast, the goods account registered a smaller deficit in 2020 compared to 2019, i.e., Afl. 1,372.7 million in 2020 compared to Afl. 1,921.9 million a year earlier. The smaller deficit in the goods account partially offset the drop in the services account surplus. The narrowing of the deficit on the goods account was attributed to an Afl. 608.2 million (-28.2 percent) contraction in import payments compared to 2019. The 2020 level of import payments also was 27.1 percent lower than the average for the period 2017-2019. The largest share of this reduction occurred beginning in the second quarter of 2020 and import payments remained at lower levels throughout the rest of the year.

Compared to a year earlier, import payments of goods fell by Afl. 195.7 million in the second quarter of 2020, by Afl. 174.5 million in the third quarter, and by Afl. 197.5 million in the fourth quarter. The fall-off was fully associated with depressed tourist demand and local demand for goods, as a result of the COVID-19 travel restrictions and the significant reduction in domestic disposable income. In 2020, the primary income deficit shrank compared to 2019 by Afl. 174.4 million (61.7 percent) to Afl. 108.3 million, while net secondary income payments outflow declined by Afl. 62.3 million (44.1 percent) to Afl. 79.0 million. The decrease in the primary income deficit was due mostly to a steep drop in interest and dividend payments (Afl. 191.5 million) to nonresidents related to direct investment. Similarly, the fall in net secondary income payments outflow was attributable mainly to a drop in workers' remittances to abroad (Afl. 25.7 million) and outflows related to other current transfers (Afl. 30.8 million). The latter was associated mainly with reinsurance payments.

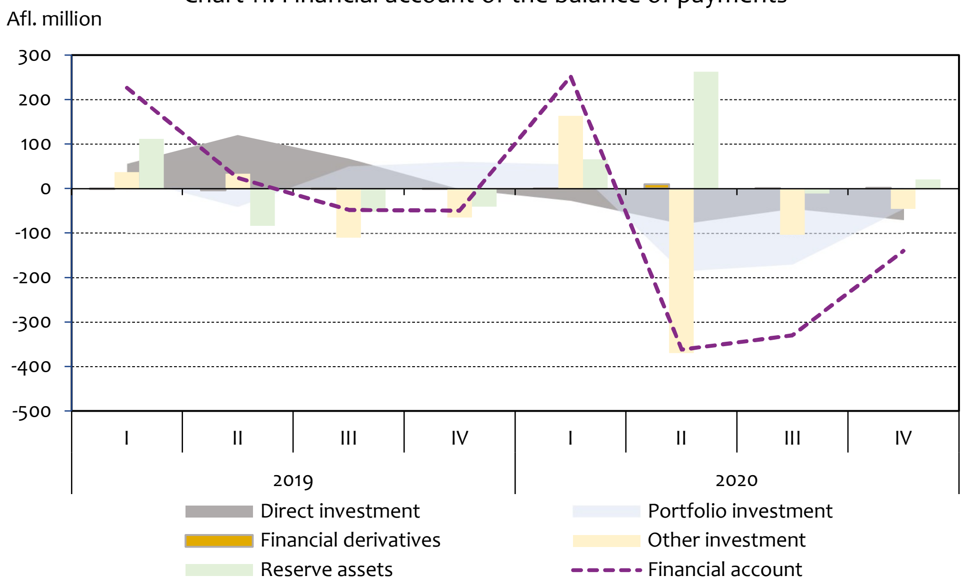
Chart 10: Current account of the balance of payments



Source: CBA

The financial account registered a net borrowing of Afl. 579.4 million during 2020 compared to a net lending of Afl. 153.0 million a year earlier (Chart 11). In the second and third quarter of 2020, the net borrowing on the financial account reached the highest values recorded since the first quarter of 2012 (Afl. 411.4 million). In the fourth quarter, net borrowing was mitigated by transfers to foreign bank accounts by residents. The outcome on the financial account for 2020 reflected primarily inflows from portfolio investment (Afl. 306.8 million), other investments (Afl. 224.0 million), and direct investment (Afl. 245.8 million). The inflows on the portfolio investment and other investment accounts were associated largely with incoming liquidity support from the Netherlands and other foreign borrowing by the GoA. In addition, residents transferred Afl. 147.6 million from their accounts held abroad to their domestic accounts, thus contributing to the inflow on the other investment account. Moreover, the inflow on the direct investment account reflected mostly nonresident affiliated companies providing loans and capital to Aruban subsidiaries. Reserve assets increased by Afl. 337.2 million due mainly to the purchase of foreign bonds on the international financial market.

Chart 11: Financial account of the balance of payments

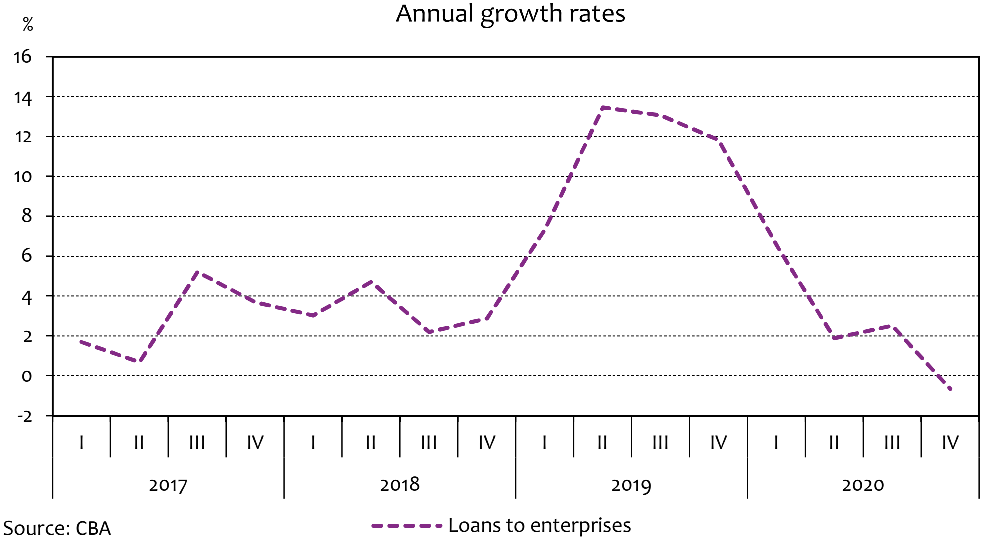


Source: CBA

Monetary survey

Broad money expanded by Afl. 223.2 million at the end of the fourth quarter of 2020 compared to end-2019, reaching Afl. 4,792.0 million. This resulted from an Afl. 343.4 million growth in international reserves (excluding revaluation differences), offset in part by an Afl. 120.1 million decrease in net domestic assets. The surge in international reserves during 2020 was in part caused by a net inflow of tourism credits, albeit much smaller than in the previous year due to the impact of the COVID-19 pandemic. Moreover, higher government foreign borrowing and financial support from the Netherlands contributed to the hike in international reserves. Also, the slowdown in imports caused by reduced domestic and tourism demand, as well as outbound capital payment restrictions introduced by the CBA, dampened foreign funds outflows. At the end of the fourth quarter, international reserves remained adequate and above the benchmarks monitored by the CBA. The current account coverage ratio rose to 7.9 months of current account payments at the end of December 2020 (4.9 months of current account payments end-2019). In addition, at the end of December 2020, official reserves were within the optimal range of the IMF Assessing Reserve Adequacy (ARA) metric (104.2 111.9%), which serves as a guideline for analyzing developments in the official reserves.

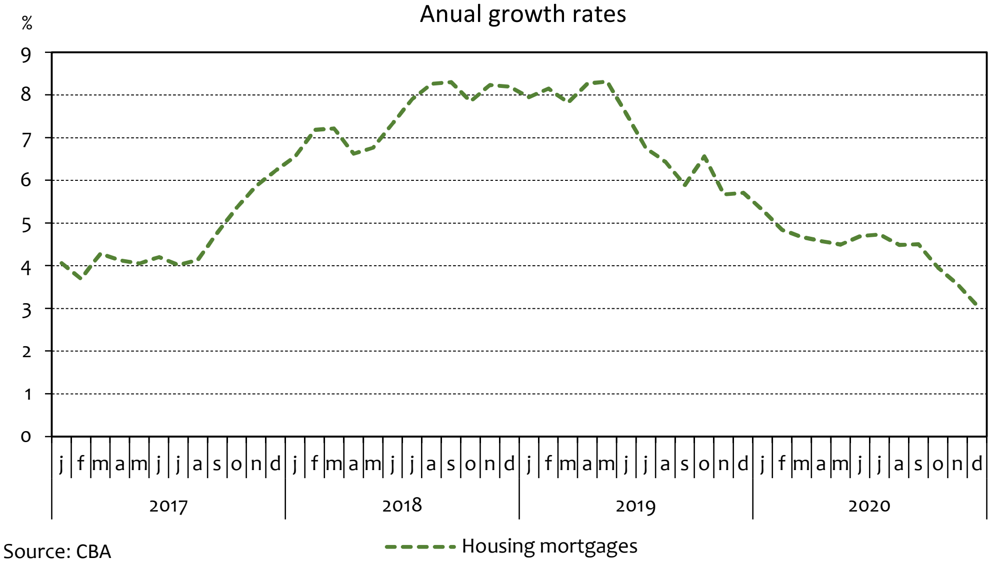
Chart 12: Loans to enterprises from commercial banks
Annual growth rates



Source: CBA

Net domestic assets contracted by Afl. 120.1 million at the end of December 2020 compared to December 2019. The contraction was driven mostly by an Afl. 94.8 million decrease in noncredit related balance sheet items (mainly related to shareholders' equity as well as accounts receivables and prepayments), further amplified by an Afl. 25.3 million decline in domestic credit. The decrease in domestic credit resulted from an Afl. 34.9 million reduction in the net claims on the public sector, mitigated in part by an upturn of Afl. 9.7 million in claims on the private sector. In turn, the fall in the net claims on the public sector was caused by an Afl. 18.8 million expansion in government deposits and a contraction in gross claims on the government (Afl. 16.0 million). With regard to bank claims on the private sector, the registered growth was related mainly to an Afl. 19.5 million rise in loans to individuals that was partly offset by an Afl. 10.1 million downturn in loans to enterprises (see Chart 12). Loans to individuals rose as housing mortgages grew by Afl. 50.1 million, while consumer credit fell by Afl. 30.5 million. The growth in housing mortgages in 2020 resulted in lower rise than in 2019, while consumer credit followed the negative trend observed in recent years.

Chart 13: Housing mortgages from commercial banks
Anual growth rates

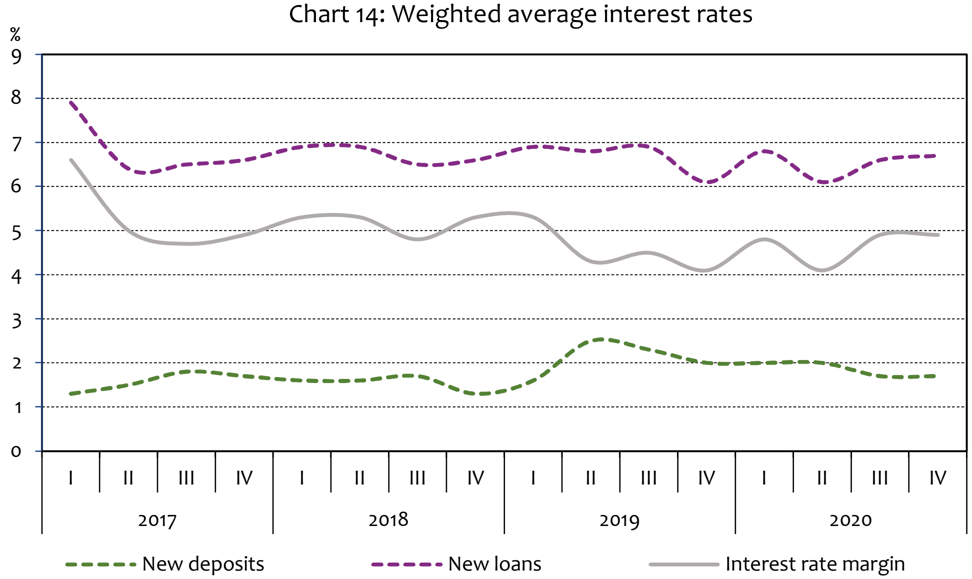


Source: CBA

The aggregated balance sheet of the nonmonetary financial institutions stood at Afl. 6,692.9 million at the end of December 2020, an expansion of Afl. 340.7 million compared to December 2019. The upturn was brought about by increases in foreign assets (+Afl. 127.3 million), other domestic assets (+Afl. 121.7 million), and domestic assets (+Afl. 91.6 million). On the liabilities side, the spike was related to increases in other domestic liabilities (+Afl. 183.6 million), pension fund provisions (+Afl. 80.0 million), insurance reserve fund (+Afl. 65.3 million), and foreign liabilities (+Afl. 19.2 million).

The weighted average interest rate on new loans inched up to 6.7 percent at the end of 2020, up from 6.6 percent at the end of 2019. The weighted average interest rate edged down in all categories except other commercial loans, where it grew by 0.7 percentage point to 6.8 percent. In contrast to the weighted average interest rate on loans, the weighted average interest rate on new deposits decreased to 1.7 percent at the end of 2020, down from 2.2 percent at the end of 2019. The contraction was driven mainly by the decline in interest rates on time deposits longer than 12 months (-0.4 percentage point), while the interest rates on savings deposits and time deposits shorter than 12 months edged up by 0.2 percentage point and 0.1 percentage point, respectively. As a result of the mentioned developments, the interest rate margin rose by 0.5 percentage point to 4.9 percent at the end of 2020 compared to 4.4 percent at the end of 2019.

Chart 14: Weighted average interest rates



Source: CBA

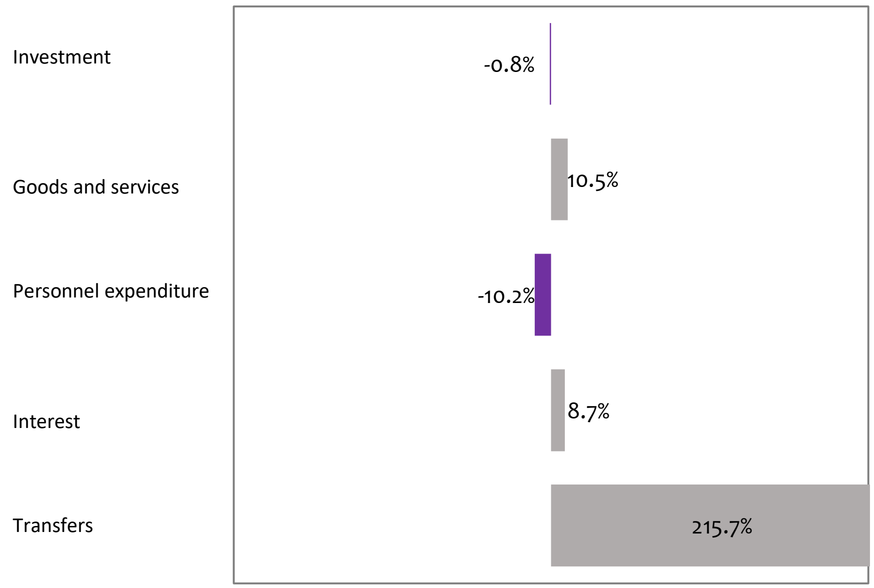
Financial soundness indicators remained adequate throughout 2020. The capital adequacy ratio rose by 2.5 percentage points to 33.5 percent at the end of December 2020, remaining well above the required 14.0 percent. In addition, the commercial banks' aggregated prudential liquidity ratio (PLR) amounted to 33.7 percent (minimum required PLR: 15.0 percent), up by 4.4 percentage points from end-2019. The development in both indicators is partly the result of the CBA's lowering of the reserve requirement and the minimum required PLR in response to the COVID-19 pandemic. As of the second quarter of 2020, nonperforming loans increased, reaching 5.0 percent at the end of 2020 (end-2019: 3.2 percent). Despite the notable uptick in nonperforming loans, it is likely that without the moratorium on loan repayments introduced by the commercial banks in March 2020, a larger rise in the NPL ratio would have been registered. The commercial banking sector recorded positive earnings and profitability during 2020, but to a lesser extent than during 2019. Return on assets (before taxes) contracted by 1.1 percentage points to 0.6 percent at the end of 2020, down from 1.7 percent at the end of 2019. Return on equity (before taxes) also decreased, dropping 7.0 percentage points to 3.6 percent at the end of 2020, down from 10.6 percent at the end of 2019.

Government

The government's financial deficit worsened during 2020 compared to the year before. Specifically, the financial deficit reached Afl. 813.5 million during 2020, contrasted with a deficit of just Afl. 3.1 million in 2019. The significant jump in the financial deficit is due to a sharp rise in expenditures (+Afl. 471.3 million) related mainly to the COVID-19 response measures, combined with a sharp decline in revenues (-Afl. 340.2 million) in 2020.

The increase in government expenditures was driven mainly by transfers to provide support to the Fondo Asistencia Social di Emergencia (FASE), wage-subsidy arrangement (LSR), Small and Medium Enterprises Support (MKB-regeling), General Health Insurance (AZV), and the Sociale Verzekeringsbank (SVB) (Chart 15). The transfers to the FASE totaled Afl. 42.7 million during the year, those to the LSR reached Afl. 271.3 million, and the support to the MKB-regeling added up to Afl. 22.7 million. The Government of Aruba (GoA) transferred a total of Afl. 122.7 million to the AZV during 2020, the first such transfer since the third quarter of 2018. The transfer to AZV was to mitigate for the losses of premium income and BAZV revenue, as well as additional health costs emerging from the COVID-19 pandemic. The transfers to the AZV took place in the second quarter (Afl. 26.2 million), third quarter (Afl. 4.0 million), and fourth quarter (Afl. 92.5 million) of 2020. Similarly, the transfers to SVB (total of Afl. 10.0 million) aimed to compensate for the loss of premium income as the entity also incurred a deficit of Afl. 9.8 million for the year 2020. To a lesser extent, interest expenditures (+Afl. 19.0 million/+8.7 percent) and expenditures on goods and services (+Afl. 29.7 million/+10.5 percent) contributed

Chart 15: Government expenditure
(Percentage change YTD 2020 vs. YTD 2019)

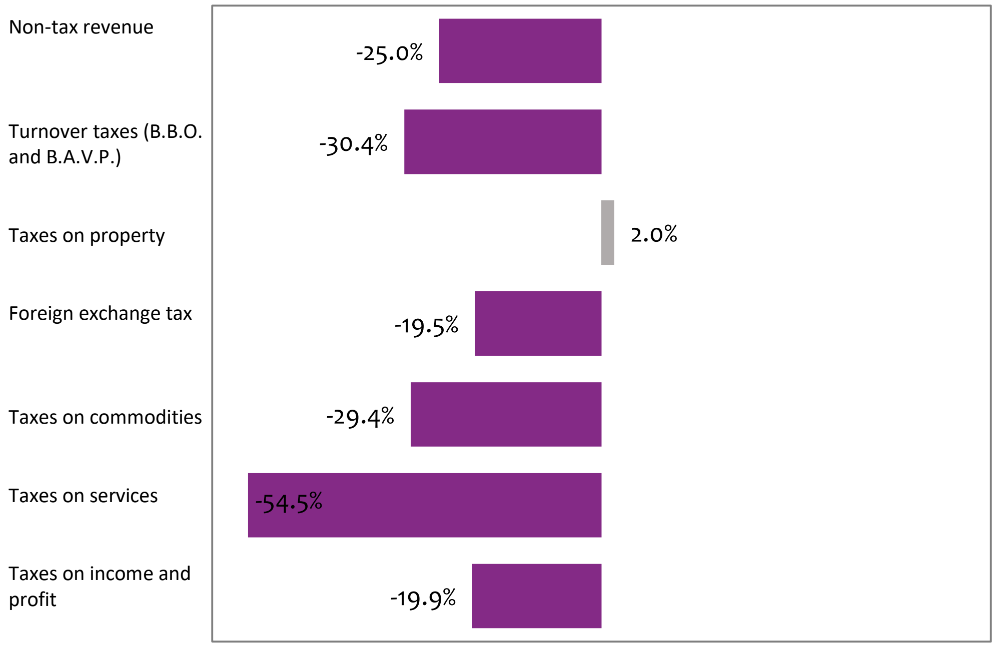


Source: Tax Collector's Office

to higher government expenditures. On the other hand, personnel expenditures and investment both registered downturns. The decrease in personnel expenditures was due to the 12.6 percent cut in wages of civil servants as of May 1, 2020, and the drop in investment was due to limited investments resulting from GoA's liquidity constraints.

The slow-down in revenue was reflected by contractions in all tax categories and non-tax revenue, with the exception of income from taxes on property (Chart 16). The largest revenue contraction transpired in the categories 'taxes on commodities' (-Afl. 99.6 million), followed by

Chart 16: Government revenue
(Percentage change YTD 2020 vs. YTD 2019)



Source: Tax Collector's Office

'taxes on income and profit' (-Afl. 97.0 million), and 'turnover taxes' (-Afl. 65.5 million). The lower revenue for the different tax components was attributable to (actions taken in response to) the COVID-19 crisis. Particularly, the extension on tax payments, the lockdown, the lingering effects on tourism after border reopening, and shelter-in-place diminished receipts from profit tax, turnover taxes, taxes on services, and taxes on commodities. Furthermore, the foreign exchange restriction imposed by the Central Bank of Aruba (CBA), adversely affected the revenue from the foreign exchange tax during 2020.

The total government debt surged by Afl. 826.7 million (+19.1 percent) in 2020, compared to the debt the year before. During 2020, domestic debt rose by Afl. 85.7 million (+4.1 percent), while foreign debt grew by Afl. 741.0 million (+33.5 percent). The spike in foreign debt is the result of liquidity support received from the Dutch government in response to the COVID-19 crisis and foreign lending from international financial institutions. Consequently, the share of foreign debt in total government debt increased by 6.2 percentage points to 57.4 percent when compared to 2019. The debt-to-GDP ratio reached 115.2 percent at the end of 2020, up from 72.9 percent in 2019.

II. International developments

The IMF World Economic Outlook (WEO) of April 2021 projected a global economic contraction of 3.3 percent in 2020, representing a 0.2 percentage point upward revision from the January WEO estimate (Table 3). The upward revision follows from the stronger-than-expected recovery across most countries in the second half of 2020. This recovery was spurred by easing of lockdowns and countries getting accustomed to new ways of working, although a jump in 2020Q4 COVID-19 cases and renewed lockdown restrictions were mitigating factors. Growth is projected to reach **6.0 percent in 2021 and 4.4 percent in 2022, reflecting upwards revisions of** respectively, 0.5 and 0.2 percentage point, reflecting additional fiscal support in some large economies and a vaccine-driven impetus to output in the second half of 2021.

Table 3: Projections for the world economy and selected economies (Real GDP growth, in percent)

	2020e	2021f	2022f
World	-3.3	6.0	4.4
United States	-3.5	6.4	3.5
Euro Area	-6.6	4.4	3.8
Latin America and the Caribbean	-7.0	4.6	3.1

Source: IMF

e = estimate; f = forecast

Nevertheless, growth prospects in the short-term are asymmetrical between and within countries. Economic rebound hinges on the spread of the novel COVID-19 strains, vaccine access, the vaccine effectiveness against those new strains; health, fiscal, and monetary policy actions; the capacity of businesses to adapt to COVID-19 containment measures; commodity prices, and the openness of an economy.

In advanced economies, governments were able to provide ample fiscal support through transfers, wage subsidies, and liquidity support. This support supplemented other safety net aspects such as unemployment insurance and food assistance. In addition, fiscal support was complemented by an accommodative stance by central banks. Monetary support included quantitative easing, low interest rates, easing of standards for collateralized loans, direct lending to banks – in the United States to major corporate employers as well—relaxation of regulatory requirements, and the opening of currency swap lines**.** As advanced economies have more means to offer supportive policies and better access to vaccines, the projected output loss for those economies is smaller vis-à-vis developing countries. Significant variability also exists within the advanced economies group. For instance, the United States and Japan are projected to reach year-end 2019 activity levels in the first and second half of 2021, respectively, while activity in the Euro area and the United Kingdom is expected to surpass end-2019 levels after 2022.

Across emerging markets and developing economies, divergent recovery paths are anticipated. A strong 2021 rebound is expected in China, as a result of effective containment measures, a substantial public investment commitment, and central bank liquidity support. In contrast, a mild 2021 recovery is expected in Latin America and the Caribbean, as most countries there have not secured enough vaccines (except Chile, Costa Rica, and Mexico), and a slow normalization of international travel will delay the recovery of tourism-dependent economies. However, a supportive factor to the recovery was the rebound in global manufacturing, benefiting large export countries in the region such as Argentina, Brazil, and Peru. Within emerging markets and developing economies, incongruent patterns emerge in terms of job and earnings losses among workers. Lower-skilled women and youth have been affected disproportionately in part due to their more frequent employment in the contact-intensive and informal sector. Workers in the contact-intensive sector were hit harder by COVID-19 containment measures, while informal workers likely faced eligibility issues surrounding government aid.

III. Conclusion

During the fourth quarter of 2020, the Aruban economy continued its gradual road to recovery amidst enduring uncertainties regarding the COVID-19 pandemic. Signs of a gradual recovery were noted, as tourism picked up vis-à-vis the third quarter. Tourism credits per night in the third and fourth quarters of 2020 reached historically high levels, supported in part by a higher ADR and buoyant spending by travelers. This finding shows once more that the gains from tourism can be captured with fewer visitors, even though tourist spending could flatten out again in the medium term. For the year 2020, however, the total number of stay-over visitors registered a significant contraction, while the number of cruise visitors plummeted. As a result of these developments, total tourism credits noted a 49.2 percent reduction compared to 2019.

Nonetheless, for the whole of 2020, real GDP shrank by 22.3 percent compared to 2019, as reflected by available consumption, investment, and export indicators. The government policy actions to contain employment and social fallout during the crisis, specifically the Small and Medium Enterprise Scheme (SME), the unemployment benefits (FASE), the wage subsidy (LSR) were necessary to prevent further harm to the economy in the short-term. The programs were mostly financed by the Dutch government through the provision of loans. In the medium-term, however, fiscal risks exist, which can be attenuated by some form of debt forgiveness, buoyant economic rebound and timely implementation of structural tax reforms.

The 12-month average CPI inflation sustained its downward path that begun in November 2019, reaching -1.3 percent at the end of December 2020. The deflation was due mainly to the energy component, which pushed inflation down by 1.3 percentage points in December 2020. This development reveals the susceptibility of Aruba's inflation to cost-push factors. Oil prices are anticipated to increase throughout 2021, while price hedging to some extent can cushion these swings, as can a further transition to sustainable energy.

The real exchange rate of the florin against the U.S. dollar continued its depreciating trajectory, which started in the second quarter of 2020. This downward trend indicates an improved competitive position of Aruba relative to the United States, as local inflation is falling at a faster rate than inflation in the United States. The stronger descending inflationary trajectory came about primarily through a fall in energy prices, highlighting not only the role of cost-push factors in local inflation, but also in Aruba's competitive position.

The current account of the balance of payments recorded an Afl. 580.5 million deficit in 2020. This outcome was spurred primarily by a severely reduced surplus on the services account, resulting from the plunge in tourism credits, following the COVID-19 travel restrictions.

Nevertheless, the smaller deficit on the goods account offset some of the movements on the services account, resulting from lackluster consumption due to loss in income and less tourists in relation to the impact of the pandemic.

The financial account registered a net borrowing of Afl. 579.4 million from abroad during 2020. The outcome on the financial account for 2020 reflected primarily increases in financial liabilities related to portfolio investment, other investment and direct investment. The increases in the other investment and portfolio investment liabilities were associated largely with liquidity support from the Netherlands to the Government of Aruba and with other foreign borrowing by the Government of Aruba.

Broad money expanded by Afl. 223.2 million, reaching Afl. 4,792.0 million at the end of the fourth quarter of 2020 compared to end-2019. The expansion was attributed to a growth in international reserves (excluding revaluation differences), offset partly by a decrease in net domestic assets. As a result of the depressed import demand, government loans received from abroad, and the imposed foreign exchange restrictions, international reserves remained above the benchmarks monitored by the CBA at the end of 2020.

The government's financial deficit worsened during 2020, in comparison to the year before. The pandemic had a deep toll on government finances during 2020. The financial deficit reached Afl. 813.5 million, contrasted to an Afl. 3.1 million deficit in 2019. The jump in the financial deficit is due to substantially higher expenditures related mainly to the COVID-19 liquidity support measures to various groups in the Aruban community, including businesses, combined with a sharp drop in revenues in 2020. As a result of the widened deficit, total government debt surged by Afl. 826.7 million (+19.1 percent) to Afl. 5,145.6 million in 2020 compared to the year before.

The IMF World Economic Outlook of April 2021 projected a global economic growth of 6.0 percent in 2021 and 4.4 percent in 2022 after an estimated 3.3 percent contraction in 2020. Nevertheless, growth prospects in the short-term are asymmetrical between countries, as advanced economies have more means to offer supportive policies and better access to vaccines. In advanced economies, governments had more resources to offer fiscal support, and central banks had a larger array of monetary tools at their disposal.

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