



CENTRALE BANK VAN ARUBA

Economic Snapshot

*The current GDP outlook for Aruba,
more than one year into the COVID-19 pandemic.*

July 2021



Executive Summary

The latest projections by the Centrale Bank van Aruba (CBA) foresee a rebound in output in terms of real Gross Domestic Product (GDP) for 2021. Specifically, real GDP is expected to grow by 15.5 percent under the optimistic scenario, 12.7 percent under the baseline scenario, and 8.2 percent under the pessimistic scenario.

Total inflation in 2021 is estimated at 0.0 percent, as a result of the diminishing effect of the electricity tariff reduction in January 2020, as well as the anticipated gradual increase in the price of gasoline. However, core inflation is expected to become negative in 2021, reaching -0.1 percent at the end of the year. In conjunction with pay cuts in the public sector, and the anticipated drop in the Average Daily Rate (ADR), a negative deflator for overall GDP is observed.

The main driver for the 2021 envisaged recovery in economic activities is the tourism sector, as it continues its path to a relatively strong recovery. Each scenario deviates from the baseline based upon the expected number of stay-over visitors in 2021 and its impact on the export of services, benchmarked against the 2019-level. The optimistic scenario assumes stay-over visitors to recover to 58.0 percent of the 2019-level, the baseline 55.0 percent, and the pessimistic scenario 49.0 percent.

The execution pace of the construction projects related to private investments differs in each scenario. In addition, a different unemployment rate, given the recovery of the tourism sector is assumed in each scenario. Therefore, the performance in private consumption is dependent on developments in the labor market, which in turn are determined by the strength of tourism recovery. The Emergency Social Assistance Fund (FASE) program and the wage-subsidy program, which are assumed to be available throughout the year, also positively contribute to private consumption.

This document includes estimates and forecasts that represent assumptions and expectations of the Centrale Bank van Aruba considering information available up to and including April 2021. These estimates and forecasts involve uncertainties. Therefore, the actual results may eventually differ from those estimated and projected in this document. Consequently, no guarantee is presented or implied as to the accuracy of specific estimates and forecasts contained herein. The Centrale Bank van Aruba does not assume any liability for any loss that may result from reliance on this information.



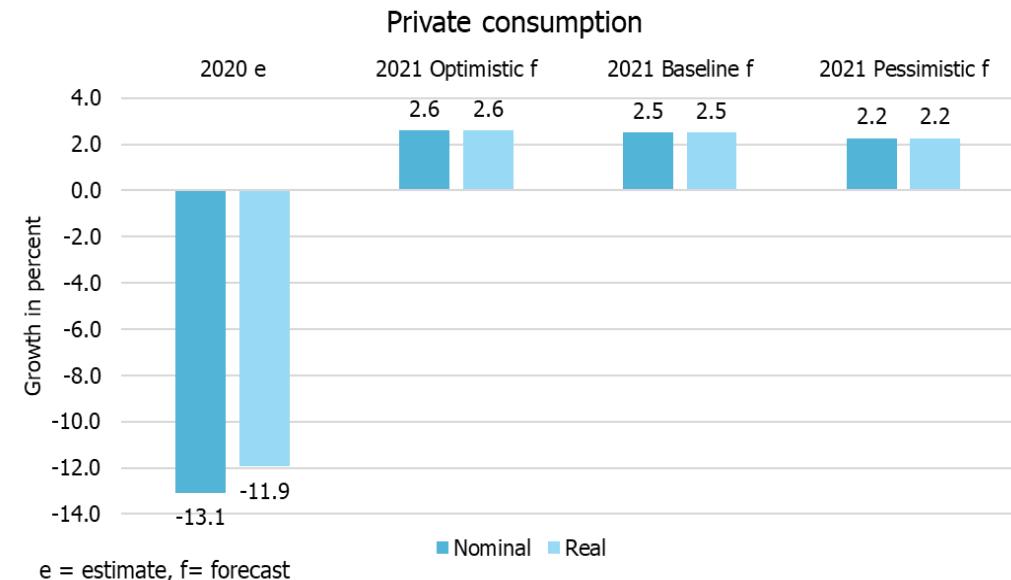
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Private Consumption

In 2021, private consumption is projected to rise by 2.5 percent (in the baseline scenario) resulting from a recovery in tourism arrivals and reported gains in export services weighed down by persisting unemployment. In order to facilitate job retention, the Government of Aruba (GoA) introduced a wage-subsidy program for employers in 2020, as a response to the COVID-19 crisis. It is assumed that the wage-subsidy program will remain in place throughout 2021. Although the lasting impact of the pandemic on the domestic service industry employment is not fully crystalized yet, there are some indications that perhaps a stronger recovery is needed to structurally bring employment to pre-COVID levels. Furthermore, it is assumed that the FASE of the GoA is extended until December 2021. Depending on the tourism recovery scenario that plays out, growth in private consumption is expected to range between 2.2 percent and 2.6 percent in real terms.

Results



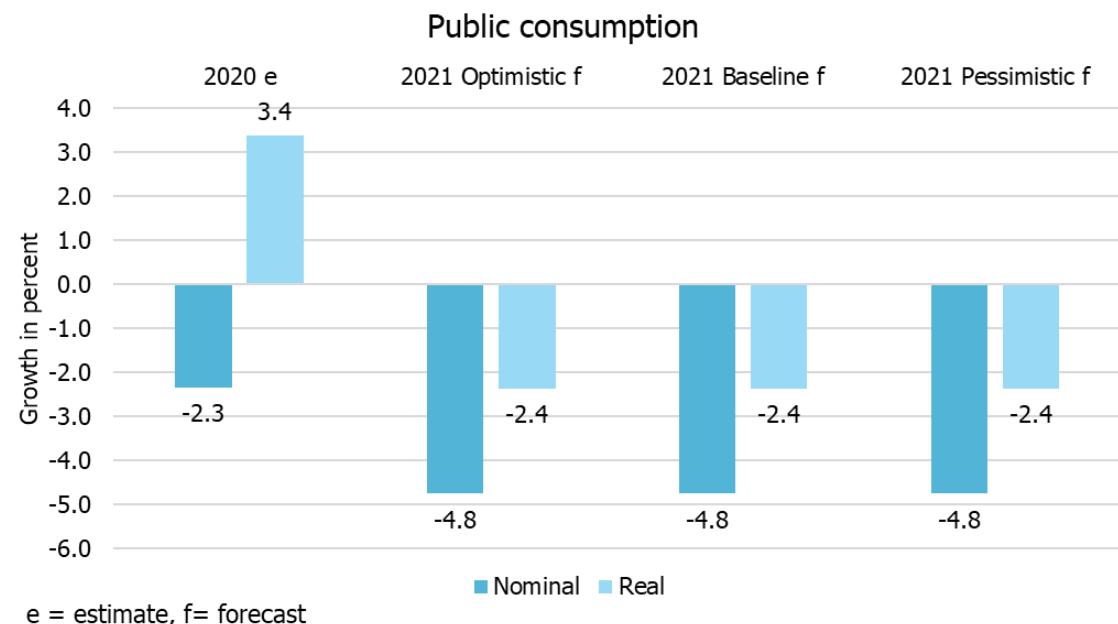
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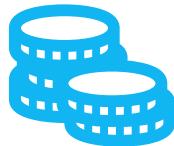
Public Consumption

Real public consumption is assumed to contract by 2.4 percent under all scenarios in 2021. The forecasted decrease is based on a reduction in the GoA's expenditure on goods and services.

Results



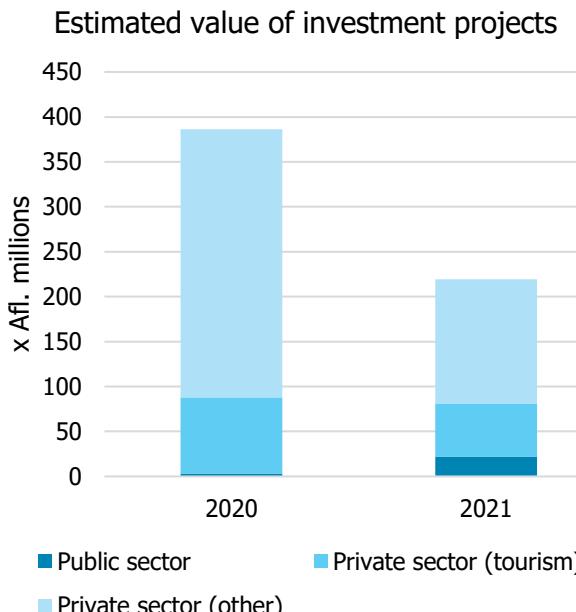
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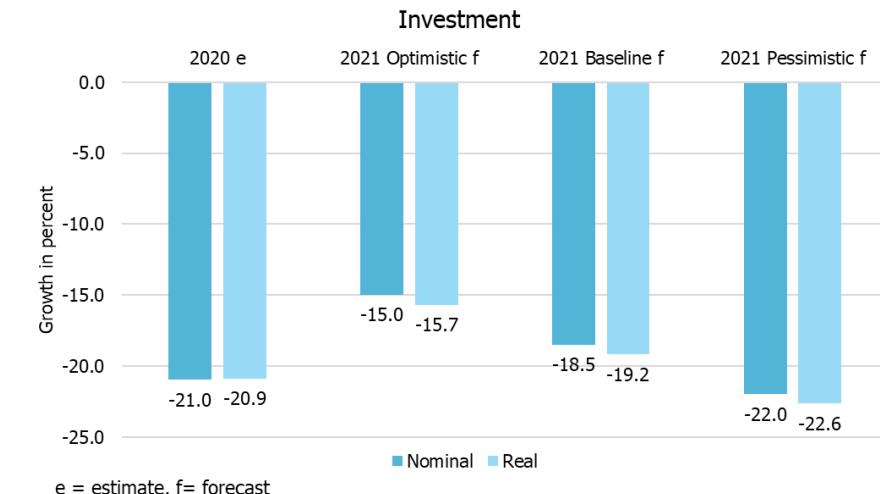
Investment

Real total investment is expected to decline under all scenarios in 2021, with baseline investment assumed at -19.2 percent. The marked contraction in real total investment is mostly the effect of finalization of numerous (large) construction projects in 2020, coupled with the start of relatively few new construction projects in 2021 (e.g., Gateway 2030). Each scenario entails a different pace of execution of planned investments.

Developments



Results



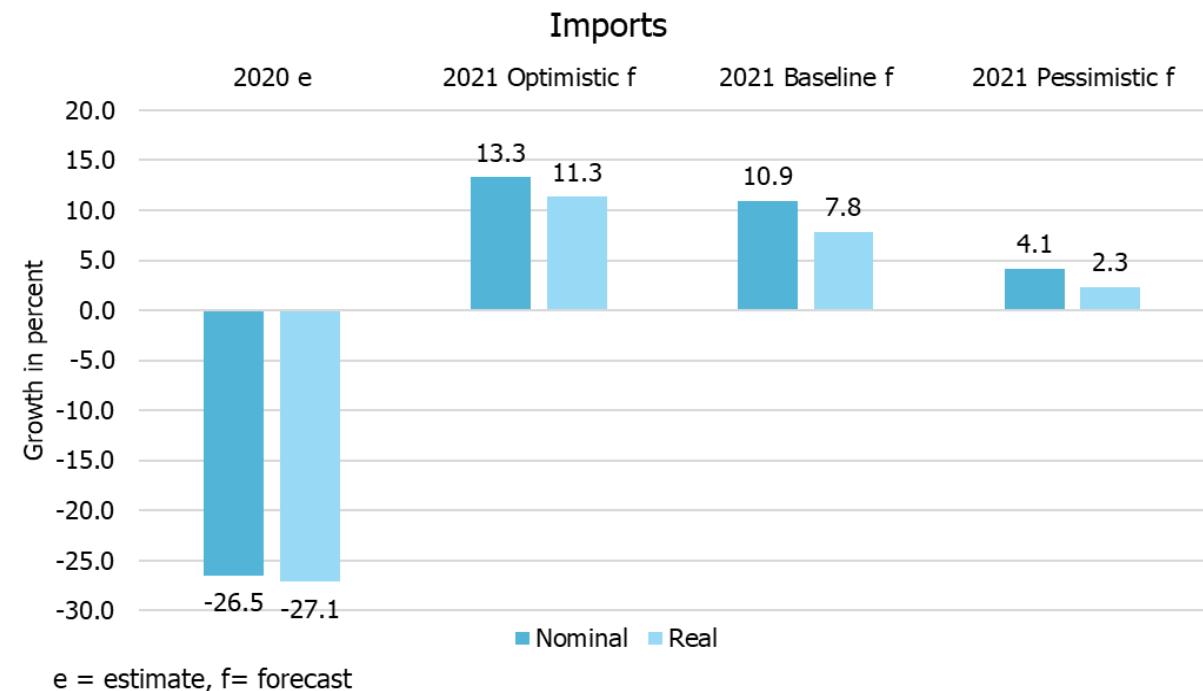
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Imports

In 2021, imports, measured on a real basis, is expected to increase by 3.7 percent in the baseline scenario, varying between 2.3 percent (pessimistic) and 11.3 percent (optimistic). All scenarios presume an expansion in real imports. The projected growth rates follow primarily from the recovery in tourism exports, which mitigates the impact of the projected decline in investment.

Results

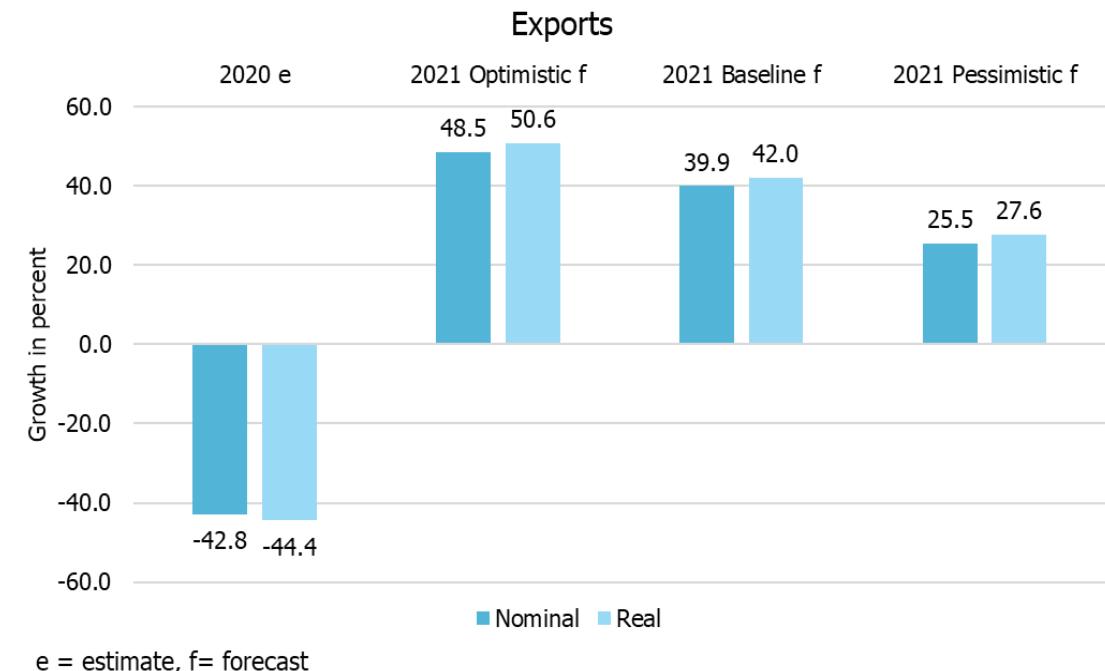


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Exports

Results



The expansion in exports in 2021 is highly bound by the recovery of the tourism sector. Depending on the strength and pace of tourism recovery – especially stemming from the USA – , real exports is projected to rise by an estimated 42.0 percent (baseline), ranging from 27.6 percent (pessimistic) to 50.6 percent (optimistic).



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GDP 2019 – 2021 including Scenarios

Scenario	2019 e	2020 e	2021 o f	2021 b f	2021 p f
<i>Percentage change</i>					
Nominal GDP	3.4	-24.6	14.8	10.8	6.6
Nominal Total Consumption	2.5	-10.1	0.4	0.3	0.1
Nominal Private Consumption	5.2	-13.1	2.6	2.5	2.2
Nominal Public Consumption	-3.8	-2.3	-4.8	-4.8	-4.8
Nominal Total Investment	2.8	-21.0	-15.0	-18.5	-22.0
Nominal Private Investment	4.5	-21.5	-13.6	-17.2	-20.8
Nominal Public Investment	-35.3	-0.9	-54.4	-54.4	-54.4
Nominal Imports	3.4	-26.5	13.3	10.9	4.1
Nominal Total Exports	4.5	-42.8	48.5	39.9	25.5
Nominal Tourism Exports	3.6	-49.2	64.4	54.4	36.2
Nominal Other exports	8.2	-16.8	9.0	4.0	-1.0

e = estimate, f = forecast, o = optimistic, b = baseline, p = pessimistic

Scenario	2019 e	2020 e	2021 o f	2021 b f	2021 p f
<i>Percentage change</i>					
Real GDP	-2.2	-22.3	15.5	12.7	8.2
Real Total Consumption	-1.6	-7.7	1.0	1.0	0.8
Real Private Consumption	1.3	-11.9	2.6	2.5	2.2
Real Public Consumption	-8.3	3.4	-2.4	-2.4	-2.4
Real Total Investment	-0.2	-20.9	-15.7	-19.2	-22.6
Real Private Investment	1.5	-21.4	-14.3	-17.9	-21.5
Real Public Investment	-37.2	-0.7	-54.8	-54.8	-54.8
Real Imports	1.9	-27.1	11.3	7.8	2.3
Real Total Exports	0.6	-44.4	50.6	42.0	27.6
Real Tourism Exports	-0.6	-51.9	70.2	59.8	41.0
Real Other exports	5.4	-16.9	9.1	4.1	-0.9

e = estimate, f = forecast, o = optimistic, b = baseline, p = pessimistic



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Forecast risks

Risk	Upside	Downside
Duration of the pandemic:	Steady improvement in vaccination rates.	New variants of COVID-19.
Investment projects:	Faster implementation.	Uncertainty and delays.
Oil and other import prices:	Decrease in prices.	Increase in prices.
Tourism recovery and spillovers to the labor market and consumption:	Stronger tourism recovery.	Slower tourism recovery.
Government measures:	Additional measures to cope with the health and economic crisis as well as measures related to the planned structural reforms. Liquidity support from the Netherlands.	Additional measures to cope with the health and economic crisis as well as measures related to the planned structural reforms. Discontinuity of the liquidity support from the Netherlands
Wage subsidy scheme and spillovers in unemployment:	Lower unemployment rate.	Higher unemployment rate and potential labor market scarring.



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Concluding Remarks

Based upon available data, the Aruban economy is forecasted to continue its recovery path during 2021. Real GDP is expected to grow by 12.7 percent under the baseline scenario, by 15.5 percent under the optimistic scenario, and by 8.2 percent under the pessimistic scenario. The positive performance of the tourism sector is pushing this growth. Stay-over visitors are expected to recover by between 49.0 percent and 58.0 percent in 2021, benchmarked against the 2019-level.

Developments in unemployment have a substantial impact on consumption. Particularly, the continuation of the GOA's wage subsidy is essential in supporting employment and thereby private consumption, if the labor market does not recover strong enough to reach pre-COVID employment levels. FASE and the drawing down of savings, also help to maintain the level of private consumption.

The cutbacks in government spending as aspired in the government's draft budget for 2021, as well as liquidity constraints dampen public consumption and public investment. Meanwhile, private investment is foreseen to contract in 2021.



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Economic Outlook

*The current GDP outlook for Aruba, more
than one year into the COVID-19
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Research Department
Centrale Bank van Aruba

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