STATE OF THE ECONOMY

2022 –Q3

CENTRALE BANK VAN ARUBA

STATE OF THE ECONOMY

Third Quarter of 2022

Centrale Bank van Aruba

ABSTRACT

In the first nine months of 2022, the Aruban economy grew by an estimated 12.1 percent vis-à-vis the corresponding period of 2021, carried by solid tourism performance in terms of stay-over visitors and tourist expenditures. Throughout the first nine months of 2022, most tourism indicators showed significant improvement, highlighted by the surges in the number of stay-over visitors and visitor nights and higher tourism revenue per night. Moreover, consumption- and investment-related indicators painted a mostly positive picture, thereby contributing to economic activity. Meanwhile, tourism's continued upward path and the associated hike in domestic demand, in combination with elevated international prices, boosted import levels. International transactions settled through the banking sector resulted in a significant net foreign exchange inflow of Afl. 197.6 million in the first nine months of the year. The rise in international reserves was primarily driven by a net inflow of tourism revenues, partially offset by foreign exchange outflows related to the imports of goods and external debt repayments by the Aruban government. Consequently, the level of international reserves remained adequate and well above the benchmarks monitored by the CBA. Increased utility tariffs and higher gasoline, car, and food prices drove the end-of-period inflation to 7.0 percent at the end of September 2022, up from 5.3 percent at end-June 2022. Meanwhile, end-of-period core inflation continued its steady rise since September 2021, reaching 2.4 percent. In the first nine months of 2022, the Government of Aruba's fiscal deficit narrowed to Afl. 54.9 million, i.e., from Afl. 459.3 million in the same period of 2021. This outturn resulted from a sharp decline in government expenditures (-Afl. 205.7 million) and a jump in government revenues (+Afl. 195.7 million). At the end of September 2022, total government debt rose to Afl. 5,816.7 million. Despite the higher debt level, the economic growth led to a decline in the estimated debt-to-GDP ratio as it stood

at 91.2 percent, down from 101.0 percent at the end of 2021.

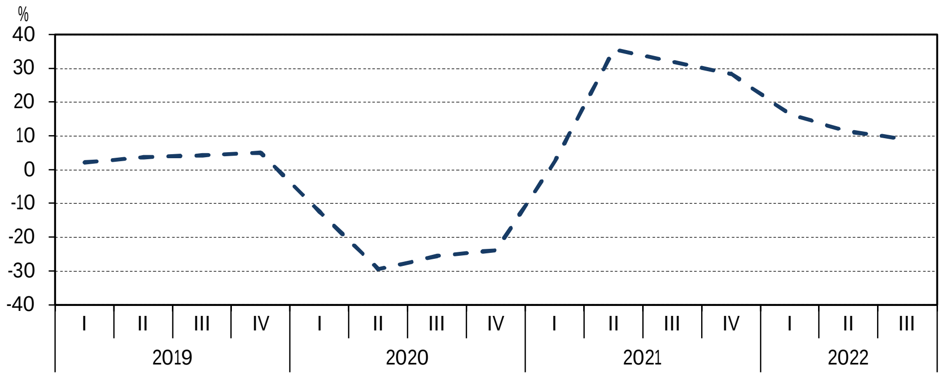
Contents

I. Domestic developments

Economic growth

The Aruban economy – measured in real Gross Domestic Product (GDP) – grew by 12.1 percent in the first nine months of 2022 vis-à-vis the same period in the previous year (Chart 1). This expansion was due principally to solid tourism performance in terms of the number of stay-over visitors and tourism related expenditures. To a lesser extent, private consumption also contributed to the uptick in real GDP, reflecting increased local demand for goods and services. The latter benefitted from the buoyant tourism development. Meanwhile, investments in real terms stayed relatively unchanged. Imports went up, resulting from the expansions in local consumption and tourism demand.

Chart 1: Quarterly GDP growth year-over-year



Calculations: CBA

Tourism

Table 1: Tourism indicators for Aruba

(YTD Sep 2022 vs. YTD Sep 2021)

	2021	2022
Stay-over visitors	567,088	816,362
Average length of stay (in days)	7.3	7.2
Total visitor nights	4,151,036	5,850,732
Cruise visitors	29,480	358,679
Hotel occupancy (%)	53.1	73.7
Average daily rate (US$)	252.8	304.2
Revenue per available room (RevPAR) (US$)	134.1	224.3
Tourism revenue per night* (in Afl.)	441.1	454.9
Tourism revenue* (in Afl. million)	1,831.2	2,661.7

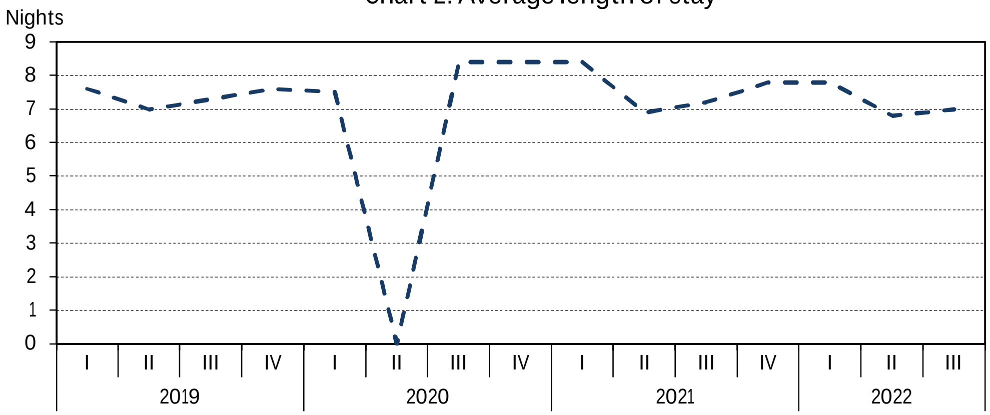
Sources: ATA, AHATA, APA, CTO, STR
*Only those registered at local commercial banks

Throughout the first nine months of 2022, most tourism indicators – except for the average length of stay – showed signs of improvement compared to the same period in 2021 (Table 1). The surges in the number of stay-over visitors (+44.0 percent), total visitor nights (+40.9 percent), and tourism revenue (+45.4 percent) reflected an upbeat tourism performance. Compared to 2019-levels, total stay-over visitors recovered by 96.2 percent (YTD Q3 2022 vs. YTD Q3 2019) and total visitor nights by 94.5 percent (YTD Q3 2022 vs. YTD Q3 2019). During the first three quarters of 2022, the growth in the U.S. market (+153,962 passengers, +31.3 percent) primarily drove the expansion in the number of stay-over visitors. At the same time, the U.S. market share averaged 79.2 percent at the end of the third quarter compared to 86.8 percent in the same period of 2021. Other significant increases were noted in the Canadian (+20,964 passengers, +790.2 percent), Dutch (+11,694 passengers, +49.2 percent), and Colombian (+9,359 passengers, +71.1 percent) markets. On the other hand, the average length of stay (ALOS) went down to 7.2 days in contrast to 7.3 days (i.e., a decline of 1.4 percent) registered during the first nine months of 2021 (Chart 2).

The hotel sector's performance – as indicated in data obtained from the Aruba Hotel and Tourism Association (AHATA) – also perked up during the period under review. In the first nine months of 2022, the average hotel occupancy rate climbed to 73.7 percent, compared to 53.1 percent during the same period in 2021. This improvement is the direct effect of higher tourism demand. Similarly, the average revenue per available room (RevPAR) resulted in US$224.3, in contrast to US$134.1 registered during the same period in 2021. This enhancement mirrored an uptick of 67.3 percent and resulted from a higher occupancy rate paired with a rise in the average daily rate (ADR). The latter jumped from US$252.8 in YTD Q3 2021 to US$304.2 in YTD Q3 2022.

Meanwhile, data from the Aruba Tourism Authority (ATA) on "other accommodations"[1] also showed positive development during the first nine months of 2022. In YTD September 2022, total nights by other accommodations reached 1,687,259 compared to 1,104,121 nights registered in YTD September 2021. This development reflected an increase of 52.8 percent compared to the same period in 2021. The growth registered in other accommodations was more extensive than that of high-rise hotels (+40.8 percent), low-rise hotels (+49.0 percent), and timeshares (+30.4 percent). At the end of September 2022, the resulting market share for other accommodations grew to 28.8 percent compared to 26.6 percent at the end of September 2021.

Chart 2: Average length of stay



Source: ATA

[1] Total accommodations corrected for high rise, low rise, and timeshare hotels.

Similarly, tourist spending data indicated greater expenditures by tourists compared to the same period in 2021. Specifically, tourism revenue registered at commercial banks went up by Afl. 830.6 million (+45.4 percent) compared to the first three quarters of 2021[2]. The surge in tourism revenue was driven by gains in total visitor nights (+40.9 percent) and tourism revenue per night (+3.1 percent). Compared to 2019-levels, tourism revenue recovered by 121.4 percent during the first three quarters of 2022.

Cruise tourism performance also continued on its path to recovery since the recommencement of cruise tourism in June 2021. According to the Aruba Ports Authority (APA), the number of cruise passengers went up by 329,199, reflecting a significant upturn of 1,116.7 percent. Similarly, the quantity of ship calls climbed by 172 (+747.8 percent). The notable gains illustrated the absence of cruise ship calls during the first five months of 2021. In contrast to 2019, the number of cruise passengers reached 64.6 percent, while the number of ship calls totaled 93.8 percent. The gap between the recovery in cruise passengers and the number of ship calls indicates that since COVID-19, the port of Aruba received smaller ships, or ships with lower occupancy rates, or both.

Consumption

Consumption-related indicators painted a mostly positive picture of the first nine months of 2022, compared to the same period in 2021 (Chart 3). Turnover taxes (BBO & BAVP) and taxes on commodities recorded increases of 26.7 percent and 13.2 percent, respectively. This

[2] 2 Tourism revenue corresponds to the tourism credits definition as defined in the IMF BPM 6 manual.

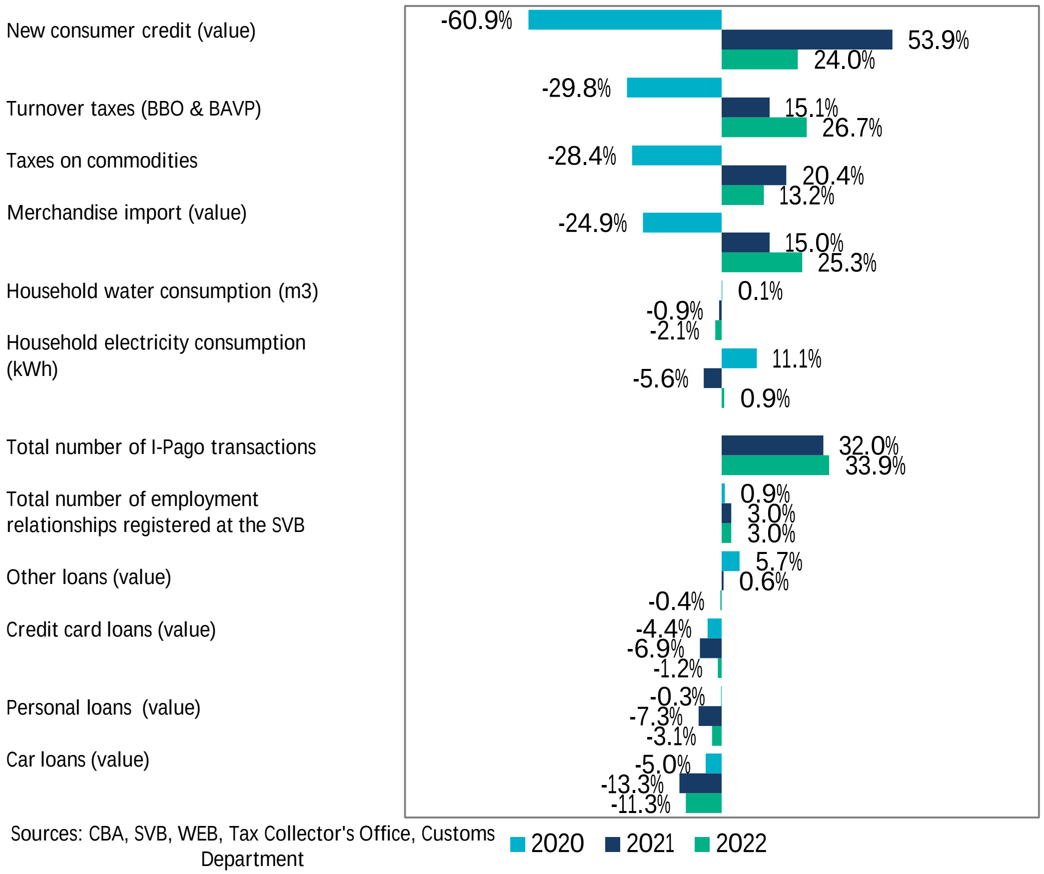
positive development reflected the continued strong performance of the tourism sector and the related boost to domestic consumption, as well as the higher prices of goods and services. Compared to the same period in 2019, turnover taxes (BBO & BAVP) expanded by 2.3 percentage points, while taxes on commodities lagged by 2.4 percentage points. During the first three quarters of 2022, the number of employment relationships registered at SVB expanded by 3.0 percent, indicating improved labor market conditions consistent with the observed performance of the tourism sector. The rise in the total number of I-Pago[3] transactions (+38.1 percent), and the growth in merchandise imports (+25.3 percent), corroborated the uptick in domestic and tourism demand, as well as the higher import prices.

During the first three quarters of 2022, household spending on water declined by 2.6 percent compared to the first three quarters of 2021. During the same period, household water use (in cubic meters) contracted by -2.1 percent. This contraction in the YTD household water consumption is entirely attributable to the third quarter of 2022. The reasons for this decline are related in part to the increased water tariffs in August 2022 and September 2022. The upturn in electricity tariffs in August 2022 may have also impacted household electricity consumption in the third quarter of 2022, thereby partially offsetting the growth in the year's first half and resulting in a moderate YTD growth of 0.9 percent. However, the YoY growth in household electricity consumption had been diminishing throughout the quarters of 2022. Possible reasons may be a lower number of employees working from home, the effect of inflationary pressures on the disposable income of households, and the increased uptake in solar panels. During the period in question, the number of residential electricity connections rose by 1.7 percentage points.

[3] I-Pago is the brand name for the instant payments platform launched by the CBA in January 2020: I-Pago Instant payments in Aruba (cbaruba.org)

In the first three quarters of 2022, the number and value of new consumer credit loans issued increased by 21.2 percentage points and 24.0 percentage points, respectively, compared to the first three quarters of 2021. The expansions follow upturns observed in the same period of the previous year, in which the number and the value of new consumer credit loans grew by 12.9 percentage points and 53.9 percentage points, respectively. This development is indicative of a continued appetite for consumer credit, amplified by the effect of relatively high inflation rates on the purchasing power of consumers.

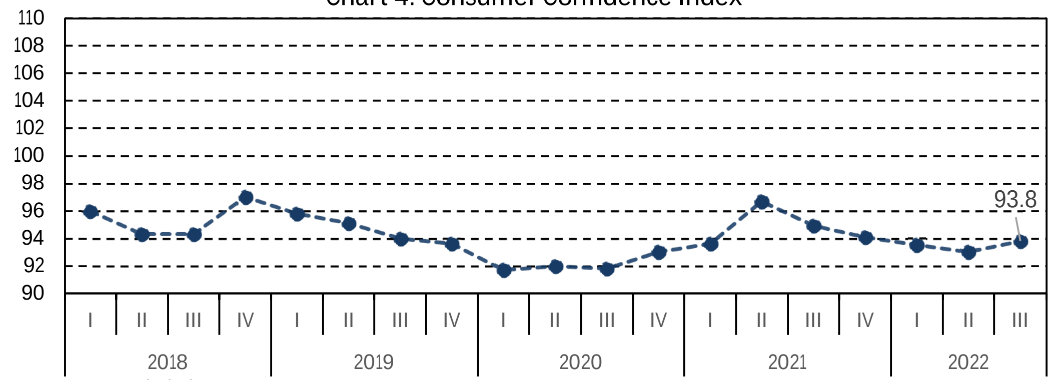
Chart 3: Consumption-related indicators
(YTD September 2022 vs. YTD September 2021)



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

During the third quarter of 2022, the Consumer Confidence Index declined by 1.1 index points to 93.8, displaying worsened consumer sentiments regarding their present and future situation compared to the same quarter in 2021 (Chart 4). The registered downturns in the indices were likely the result of increased uncertainties related to the relatively high inflation rates and the fiscal reform planned for January 1, 2023. During the period under review, fewer respondents believed that large-scale spending, such as on automobiles and vacations, was suitable compared to the same quarter of the previous year.

Chart 4: Consumer Confidence Index



90-100: pessimistic
100-110: optimistic

Investment

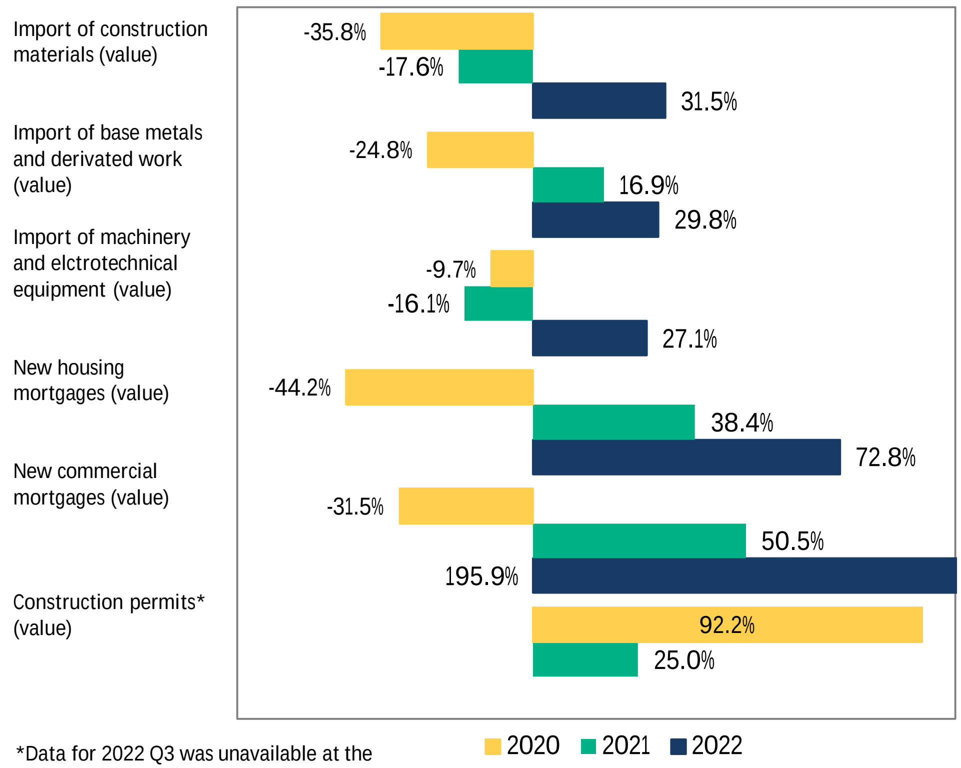
During the first three quarters of 2022, nominal investment-related indicators improved compared to the same period in 2021; however, some gains were inflationary (Chart 5). For example, the nominal import value of construction materials rose by 31.5 percent. On the other hand, the import weight of construction materials (a proxy for real imports) contracted by 4.2 percent in the period under review. Such contractions may be related to the hesitancy induced by the upcoming tax reforms and higher global prices. In the end, nominal imports of construction materials may have grown partly due to elevated prices worldwide for construction materials. In the US, the producer price index for construction materials[4] rose by 17.1 percent in the period 2022Q1-Q3 vs. 2021Q1-Q3. During the CBA's latest GDP consultation mission, stakeholders indeed reported higher prices for construction materials.

The surge in nominal imports of base metals and derivated work (+29.8 percent) complemented the findings about construction material imports. In real terms, the import of base metals and derivated work increased at a lower rate, that is, at 19.1 percent. Similarly, the real import growth of machinery and electrical equipment was smaller than its nominal growth (+19.4 percent vs. +26.8 percent). Hence imported inflation potentially offset some real gains (see Box 1).

The monetary sector also corroborated the results of construction-related imports, as new commercial mortgages jumped by 195.9 percent, more than triple the rate in 2021. New housing mortgages painted a similar picture (+ 72.8 percent). Whereas 2020 saw a drop in the value of new housing and commercial mortgages, the rate of increase had been accelerating since 2021.

[4] https://fred.stlouisfed.org/series/WPUSI012011

Chart 5: Investment-related indicators
(Percentage change YTD vs YTD prior year)

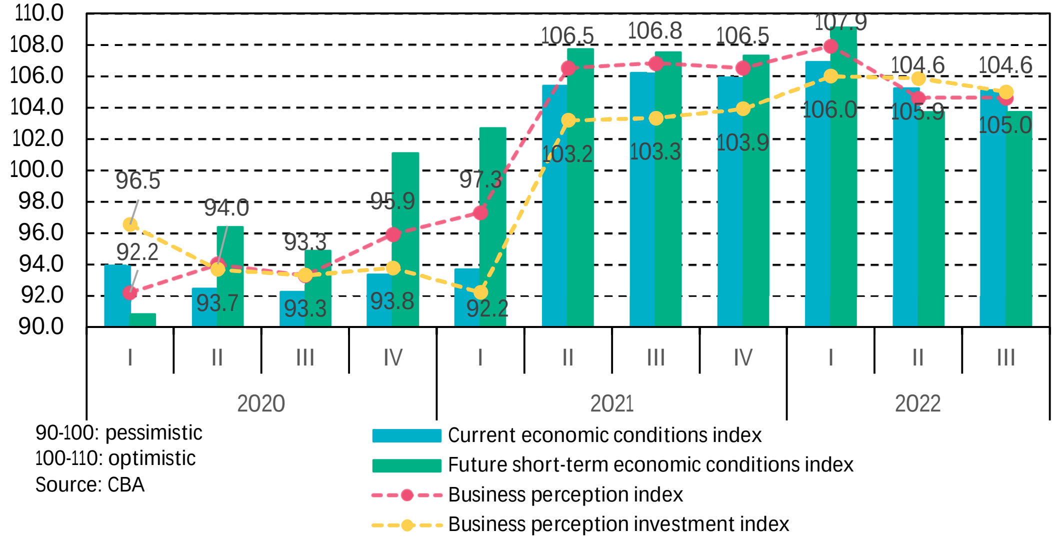


*Data for 2022 Q3 was unavailable at the time of writing.

Sources: CBA, CBS, DOW

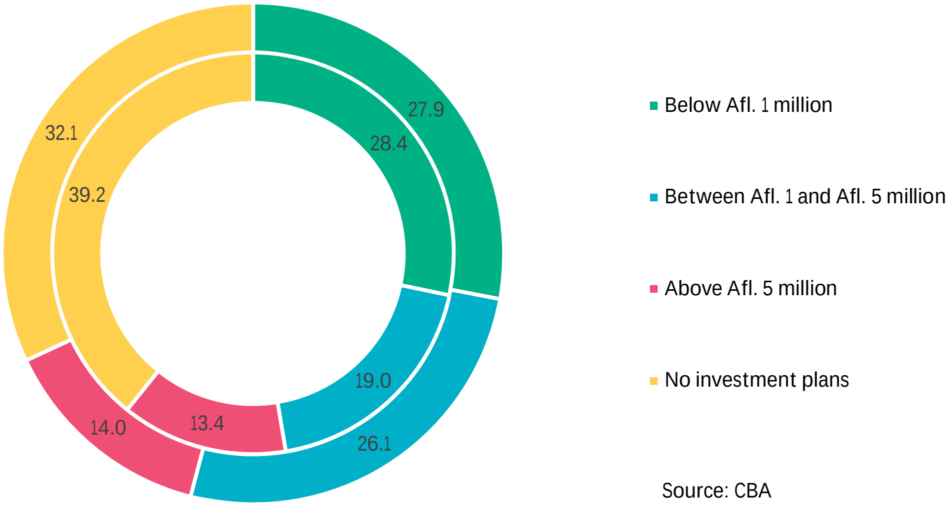
Data from the Business Perception Survey (BPS) align with the other investment-related indicators. In particular, respondents were asked if, compared to the same quarter last year, their business investments have improved, stayed the same, or worsened. The derived BPS investment index rose on average from 99.6 in 2021 Q1-Q3 to 105.6 in 2022 Q1-Q3 (Chart 6). Reported investment plans from the BPS echo the findings from the investment index. Chart 7 shows that more businesses are investing, as the proportion of surveyed companies reporting no investment plans fell from 39.2 percent to 32.1 percent (2021 Q1-Q3 vs. 2022Q1-Q3). Concurrently, the share of businesses that reported investment plans below Afl. 1 million inched down, the share of businesses that indicated investment plans between Afl. 1 million and Afl. 5 million surged by 7.1 percentage points, and the share of businesses that conveyed investment plans over Afl. 5 million inched up by 0.6 percentage point (Chart 7). As such, there might have been a shift from no investment plans to investment plans larger than Afl. 1 million. The improvement in the BPS investment performance indicated a more general positive tendency in the business climate. That is, the business perception index climbed from 103.5 during 2021 Q1-Q3 to 105.7 throughout 2022 Q1-Q3. The latter resulted from the enhanced current economic conditions index. Nevertheless, there was a deterioration in the index for future short-term economic conditions as businesses may be bracing for the upcoming tax reforms.

Chart 6: Business Perception Index



90-100: pessimistic
100-110: optimistic
Source: CBA

Chart 7: Investment plans of surveyed businesses YTD
Inner circle: 2021Q1-Q3. Outer circle: 2022Q1-Q3



Source: CBA

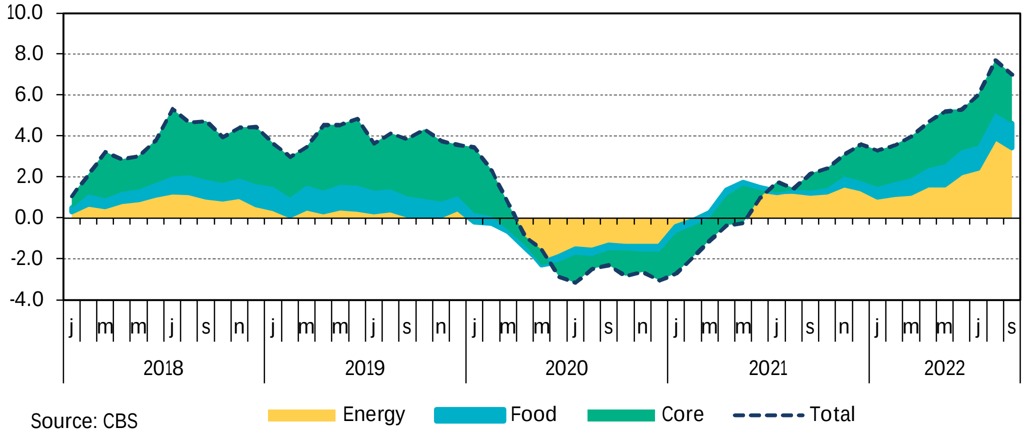
Consumer Price Index (CPI)

At the end of September 2022, the consumer price index (CPI) stood at 106.2, a climb of 7.0 percent compared to the same period in the previous year. The uptick was fueled by a sizable increase (+2.9 percent) in the housing component and a continued expansion in the food and nonalcoholic beverages component (+1.3 percent), accompanied by upticks in the clothing and footwear (+0.2 percent), household operation (+o.1 percent), transport (+2.1 percent), recreation and culture (+0.1 percent) components, compared to the same period in 2021.

The housing component saw a marked increase in 2022 Q3 (+1.8 percent) compared to 2022 Q2. This was primarily due to an expansion in the *electricity, gas, and other fuels* component in August 2022 (+1.6 percentage points compared to the previous month) and a hike in the *water supply and miscellaneous services relating to the dwelling* component in August 2022 (+0.8 percentage point compared to the previous month). The previous upturns are related to the tariff rises in August and September of 2022. Furthermore, a pick-up in the *maintenance and repair of the dwelling* component in September 2022 (+0.2 percentage point compared to the previous month) also pushed up the housing component.

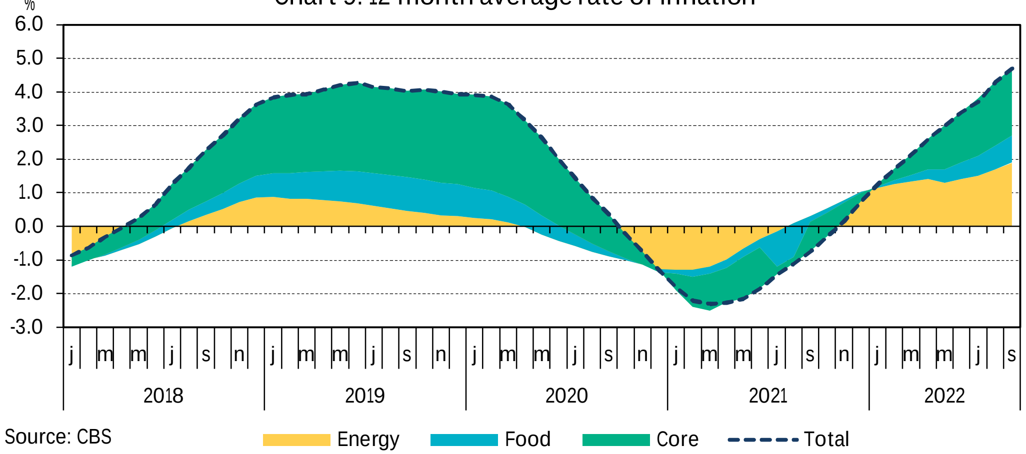
In September 2022, the end-of-period inflation grew to 7.0 percent (+4.9 percentage points) compared to the same period in 2021, and the end-of-period core inflation (excluding food and energy components) continued its rise to 2.4 percent (+1.6 percentage points) compared to September 2021 (Chart 8). Furthermore, keeping its upward trend, the 12-month average inflation rate reached 4.7 percent in September 2022 (Chart 9). A combination of gasoline prices (+1.3 percent contribution), increases in electricity (+0.3 percent contribution), and water supply (+0.1 percent contribution) were the main drivers, alongside food (+0.8 percent contribution) which had seen a steady increase since February 2022, and purchase of vehicles (+0.4 percent contribution). The 12-month average core inflation also rose to 2.0 percent (+2.9 percentage points increase compared to the previous period).

Chart 8: End-of-period inflation



Source: CBS

Chart 9: 12-month average rate of inflation



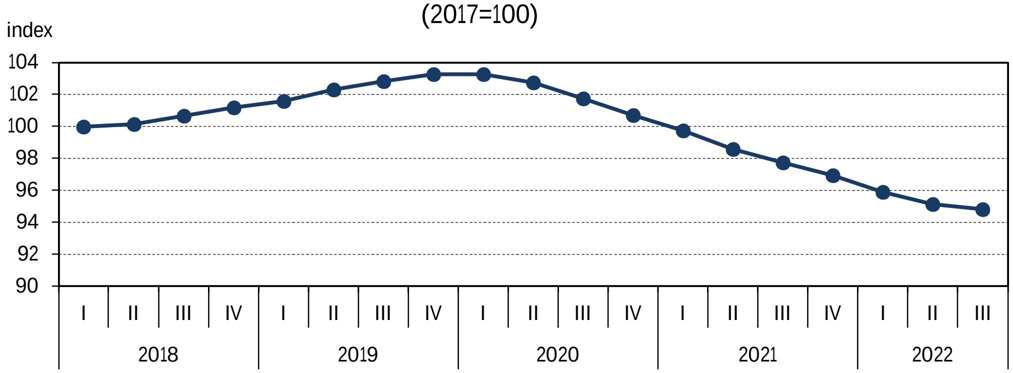
Source: CBS

International competitiveness

During the first nine months of 2022, the real exchange rate for the Aruban florin vis-à-vis the U.S. dollar has been following a downward path (Chart 10). The downward trend started in the second quarter of 2020 but showed signs of deceleration in the third quarter of 2022. This latest development indicated a slowdown in the improvement in the competitive position of Aruba against the United States due to a convergence in the inflation rates of the United States and Aruba (Chart 11). At the end of September 2022, the 12-month average for U.S. inflation reached 7.9 percent, driven primarily by energy and food prices[5]. During the same period, Aruba's 12-month average inflation rate grew to 4.7 percent, mainly due to increased gasoline prices.

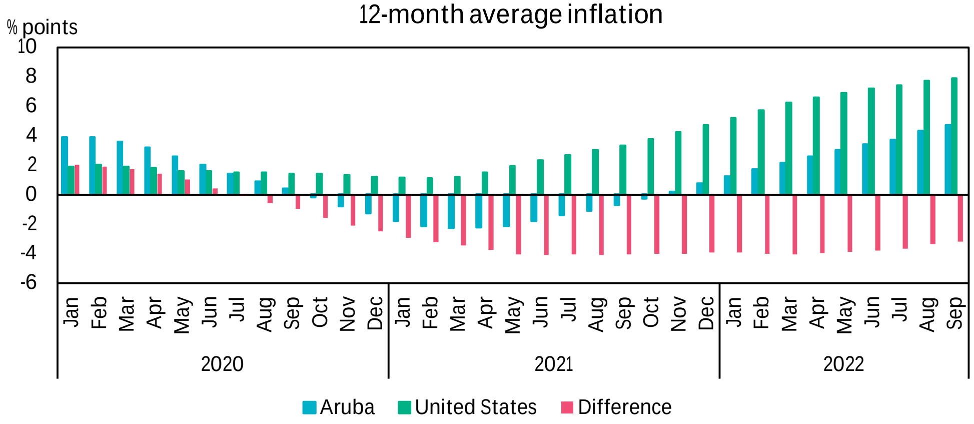
[5] Consumer Price Index, September 2022, Bureau of Labor Statistics

Chart 10: Real exchange rate Aruban florin vis-à-vis the U.S. dollar (2017=100)



Source: CBA

Chart 11: Inflation differential Aruba - USA: 12-month average inflation



Calculations: CBA

Foreign trade

In the first nine months of 2022, the merchandise trade deficit expanded by 25.9 percent (-Afl. 348.8 million) compared to the same period in 2021, as merchandise imports jumped by 25.4 percent (Chart 12). The continued gains in the tourism sector and related expansion in domestic consumption, in combination with higher import prices, boosted import value levels (Box 1). Consequently, merchandise imports grew to Afl. 1,744.8 million and surpassed the 2019-level by Afl. 133.2 million (108.3 percent of 2019 Q1-Q3 level). All import components recorded growth, but the main contributors were greater imports of other goods (+31.2 percent), machinery and electrotechnical equipment (+27.1 percent), and live animals and other animal products (+33.1 percent). The rise in other goods was largely the result of imports of mineral products (+68.3 percent), textile fibers and articles (+43.7 percent), real pearls (natural) and other precious stones (+66.5 percent), and various goods and products n.e.s. (+20.7 percent),

Chart 12: Foreign trade

Source: CBS

Balance of payments

International transactions settled through the banking sector resulted in a significant net foreign exchange inflow of Afl. 197.6 million in the first three quarters of 2022 (Table 2). Consequently, international reserves (excluding revaluation differences) grew to Afl. 3,087.2 million at the end of September 2022. This outcome resulted from a net inflow to the current account, partially offsetting net outflows from the financial and capital accounts.

Table 2: Balance of payments (in Afl. million) *(Source: CBA)*

	2021Q1-Q3	2022Q1-Q3
Current account	1.8	383.5
Goods	-1,179.9	-1,534.5
Services	1,281.5	2,000.5
Primary income	-87.4	-100.5
Secondary income	-12.5	13.5
Capital account	34.9	-6.9
Financial account	599.8	-125.4
Direct investment	108.2	166.3
Portfolio investment	-177.2	-288,2
Financial derivatives	37.5	4.7
Other investment	500.3	36.2
Foreign accounts	131.1	-44.4
Items not yet classified	-47.4	-53.6
Change in international reserves (excluding revaluation differences)	589.1	197.6

The net foreign exchange inflow on the current account of Afl. 383.5 million was mainly driven by the services account. In particular, tourism revenue amounted to Afl. 2,666.9 million (Afl. 835.7 million more than the previous year), which caused a net inflow on the services account of Afl 2,005.0 million. However, partly due to the strong tourism recovery and associated domestic consumption hike, foreign exchange outflows related to the import of goods equaled Afl. 1,755.6 million. Additionally, higher import prices explain in part the heightened level of goods import (refer to Box 1). As such, the goods account recorded a net outflow of Afl. 1,534.5 million. The net outflow of foreign funds on the primary income account mitigated in part the net inflow on the current account. The primary income result was mainly related to the government's interest payments on foreign loans.

The financial account registered a deficit of Afl. 125.4 million, partially offsetting the net inflow to the current account. The principal driver of this outturn was the net outflow of Afl. 288.2 million from the portfolio investment account, related to the Government of Aruba (GoA) repaying external debt that matured in 2022. Specifically, maturing foreign debt amounted to Afl. 348.1 million in 2022, of which Afl. 268.0 million in principal repayments were completed in the year-to-date. To a lesser extent, transfers to and from foreign accounts added Afl. 44.4 million to the outflows from the financial account. The latter mainly reflected hotels transferring funds to their foreign accounts. Nevertheless, some components of the financial account recorded net inflows. In particular, direct investments incurred a net inflow of Afl. 166.3 million, associated with real estate investments made by non-residents. Furthermore, other investments marked a net inflow of Afl. 36.2 million, due primarily to an Afl. 358.0 million loan from the Netherlands to the GoA to finance the maturing external debt. This inflow was in part offset by loan repayments by the rest of the economy.

Box 1: Demand and price factors affecting import

An import price index is necessary to discern the effects of demand and prices on imports. This index enables the deflating of nominal imports to analyze real imports. Real imports reflect demand factors only, while nominal imports follow price and demand movements.

The Research Department (RD) of the CBA has recently estimated a proxy for the import price index, which has a statistically significant effect on CPI inflation. This proxy essentially follows from a price per kilo for each import category, exploiting quarterly merchandise trade data (excluding free zone) from the CBS. To assess whether this proxy likely co-moves with the actual import price index, the RD has looked at whether this proxy has a statistically significant effect on CPI inflation. After all, Aruba imports much of its inflation[6]. The regression results are encouraging. This proxy has a statistically significant effect on CPI inflation under various specifications (Table 3). For example, specification (1) indicates that if the EOP import inflation proxy expands by 1 percentage point, EOP CPI inflation rises by 0.05 percentage point. Thus, considering that Aruba imports a significant portion of its inflation, the proxy probably harmonizes with the true import price index.

[6] See for instance: https://www.government.aw/news/news_47033/item/presentation-about-inflation-by-the-central-bureau-for-statistics_58823.html and Fostering economic resilience: From roots to routes (CBA, 2019).

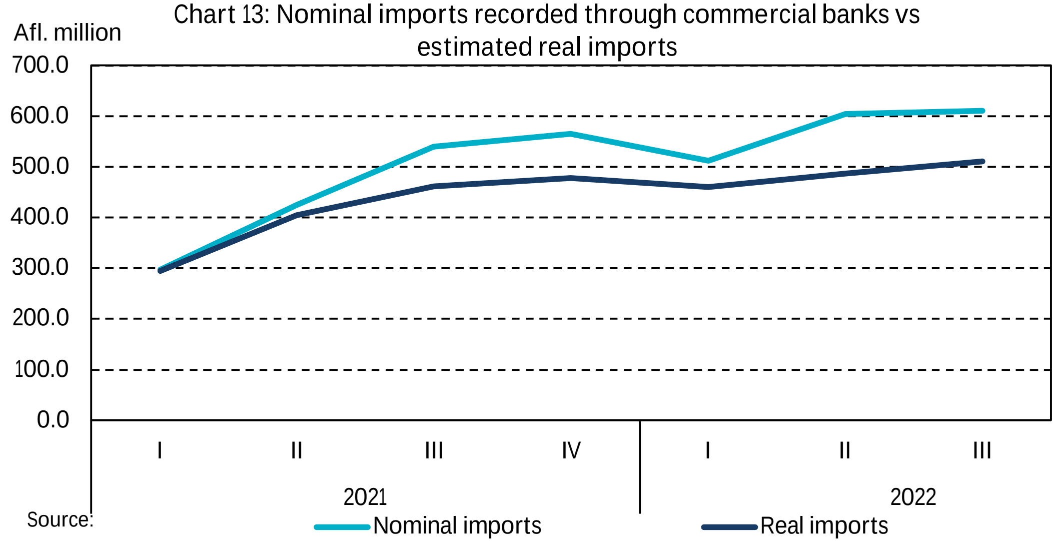
Table 3: EOP CPI inflation regressed against (lagged values of) EOP import inflation proxies

	(1)	(2)	(3)	(4)
EOP CPI inflation (lag 1)	0.44(0.05)*	0.46(0.05)*	0.56(0.09)*	0.54(0.09)*
EOP imp. inflation proxy	0.05(0.01)*		0.05(0.02)*	
EOP imp. inflation proxy (lag 1)		0.04(0.01)*		0.04(0.02)**
EOP imp. inflation proxy (lag 2)				
EOP imp. inflation proxy (lag 3)				
EOP imp. inflation proxy (lag 4)	0.03(0.01)**			
Y-o-y growth in electricity tariff	0.10(0.05)**	0.12(0.05)**	0.06(0.06)	0.08(0.06)
Y-o-y growth in water tariff	0.01(0.00)*	0.01(0.00)*	0.01(0.00)*	0.01(0.00)*
Y-o-y growth in turnover taxes	0.01(0.00)*	0.01(0.00)*	0.01(0.00)**	0.00(0.00)**
Y-o-y growth in real GDP	3.10x10^-5(0.00)*	3.27x10^-5(0.00)**	3.42x10^-5(0.00)**	3.91x10^-5(0.00)*
C	0.00(0.00)*	0.01(0.00)*	0.00(0.00)	0.00(0.00)
Estimated partial effects are reported along with standard errors in parenthesis				
Adjusted R-squared	0.88	0.87	0.87	0.80
Period	2003Q1-2022Q2	2003Q1-2022Q2	2010Q1-2022Q2	2010Q1-2022Q2

*p-value<0.01, **p-value<0.05, ***p-value<0.10

Using the proxy, the RD deflated nominal imports to derive real imports (Chart 13). The next graph shows that both nominal and real imports extended in 2022 Q1-Q3 compared to 2021 Q1-Q3. However, the growth in nominal imports was more pronounced (+36.8 percent) than for real imports (+25.7 percent). This outcome implies that in addition to elevated demand, higher import prices (+8.9 percent) contributed to increased nominal imports.

Chart 13: Nominal imports recorded through commercial banks vs estimated real imports

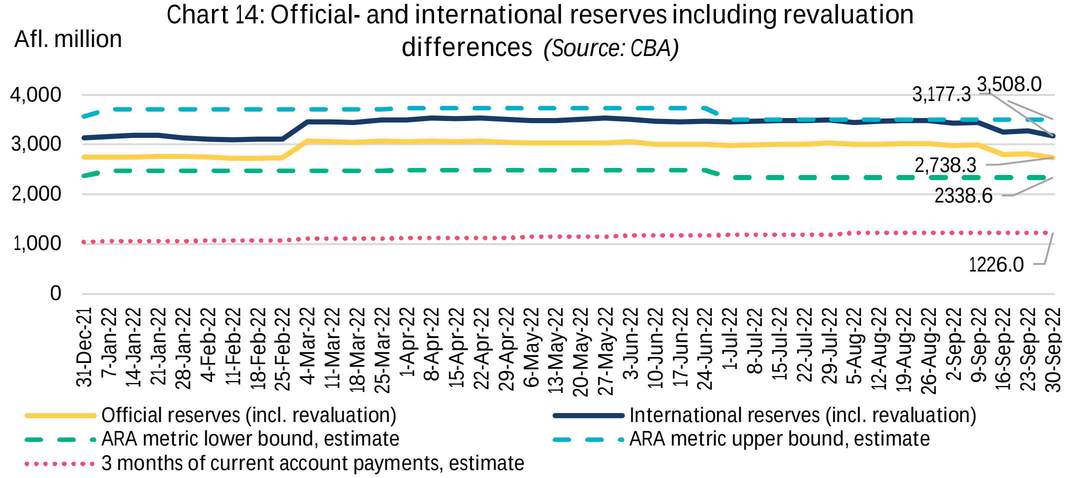


Source:

Monetary survey

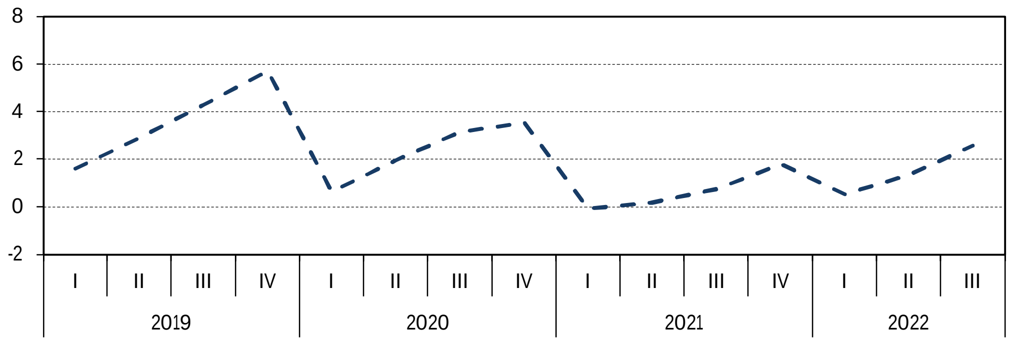
At the end of September 2022, broad money amounted to Afl. 5,394.3 million compared to Afl. 5,368.1 million at the end of December 2021. This development mirrored a surge of Afl. 26.2 million, resulting from an expansion of Afl. 202.9 million in net foreign assets (NFA). The latter mitigated a decline of Afl. 176.7 million in net domestic assets (NDA). The upward movement in the level of NFA is the effect of higher tourism revenues paired with borrowings from the Dutch Government to the GoA to cover maturing foreign debts in 2022. Following these developments, official and international reserves remained well above the benchmarks that the CBA monitors at the end of the third quarter of 2022 (Chart 14). The International Monetary Fund (IMF) Assessing Reserve Adequacy (ARA) soared to 117.3 percent (2021 Q3: 111.8 percent), while the current account coverage ratio reached 7.8 months (2021 Q3: 9.1 months). The diminished current account coverage ratio reflected increased import demand attributed to the recovery within the tourism sector.

Chart 14: Official- and international reserves including revaluation differences *(Source: CBA)*



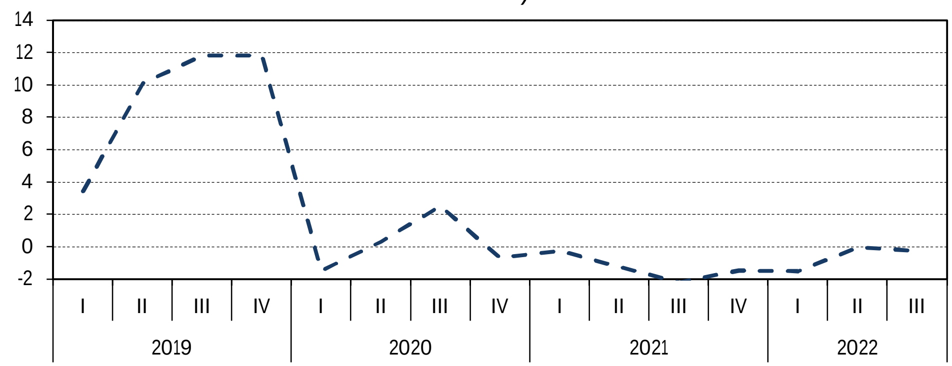
Meanwhile, NDA declined by Afl. 176.7 million in September 2022 compared to December 2021. This contraction was caused by a downturn in net claims on the public sector (-Afl. 132.4 million), mainly due to an increase in government deposits (+Afl. 114.2 million) in September 2022 versus December 2021. The uptick in government deposits was in large part the result of a loan received in March 2022 from the Dutch government to refinance existing loans and pending to-be-transferred premiums (i.e., BAZV, ATA, AZV, and SVB). A rise in non-credit-related balance sheet items (+Afl. 57.9 million) further pushed down NDA. On the other hand, claims on the private sector recorded an expansion (+Afl. 13.6 million). In September 2022 vis-à-vis December 2021, credit to individuals went up by Afl. 17.4 million due to increasing housing mortgages (+Afl. 38.2 million) (Chart 15). The uptick in housing mortgages mitigated the decreasing trend in consumer credit (-Afl. 20.8 million). Meanwhile, credit to enterprises remained virtually unchanged (-Afl. 3.9 million) compared to December 2021 (Chart 16). NDA had been following a decreasing trend since the first quarter of 2021. In the third quarter of 2022, this trend seems to have reverted due to payments made by the GoA for maturing foreign debts. These disbursements resulted in a lower amount of government deposits in the third quarter of 2022 versus the second quarter of 2021.

Chart 15: Housing mortgages - monetary survey
(year-to-date growth rates)



Source: CBA

Chart 16: Loans to enterprises - monetary survey (year-to-date growth rates)



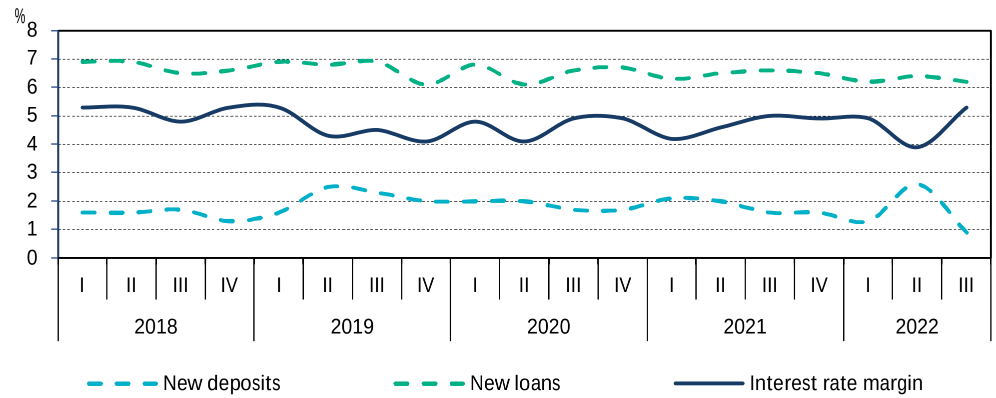
Source: CBA

At the end of September 2022, the aggregated balance sheet for nonmonetary financial institutions reached Afl. 6,950.6 million, reflecting a decrease of Afl. 75.1 million compared to December 2021. On the assets side, this decline was the result of contracting foreign assets (-Afl. 247.9 million), which was partly mitigated by an upturn in total domestic claims (+Afl. 62.4 million) at the end of the third quarter of 2022. The expansion in total domestic claims was due to increases in other domestic claims (+Afl. 62.9 million), domestic claims on other financial institutions (+Afl. 52.7 million), claims on enterprises (+Afl. 25.7 million), and claims on government (+Afl. 18.4 million). On the liabilities side, this downturn was caused by declines in total other domestic liabilities (-Afl. 273.2 million), mainly stemming from lower capital and reserves (-Afl. 334.2 million). Foreign liabilities also recorded a decline of Afl. 3.0

million. The contraction in other domestic liabilities was offset in part by rising insurance reserve funds (+Afl. 148.0 million) and pension fund provisions (+Afl. 53.3 million).

The quarterly weighted interest rate margin went up from 4.9 percent in the fourth quarter of 2021 to 5.3 percent in the third quarter of 2022 (Chart 17). The uptick in the interest rate margin resulted from a contraction in interest on new deposits. The quarterly weighted interest on new deposits decreased by 0.7 percentage point to 0.9 percent during the period under review. This downturn was caused by a decline in the interest rates of all deposit components: time deposits equal to or lower than 12 months (Q3 2022 vs. Q4 2021: -0.8 percentage point), time deposits longer than 12 months (Q3 2022 vs. Q4 2021: -0.4 percentage point), and savings (Q3 2022 vs. Q4 2021: -0.1 percentage point). Compared to end-December 2021, the quarterly weighted average interest rate on loans decreased by 0.3 percentage point to 6.2 percent. This reduction was due to slight decreases in the interest rate charged on all loan components.

Chart 17: Weighted average interest rates

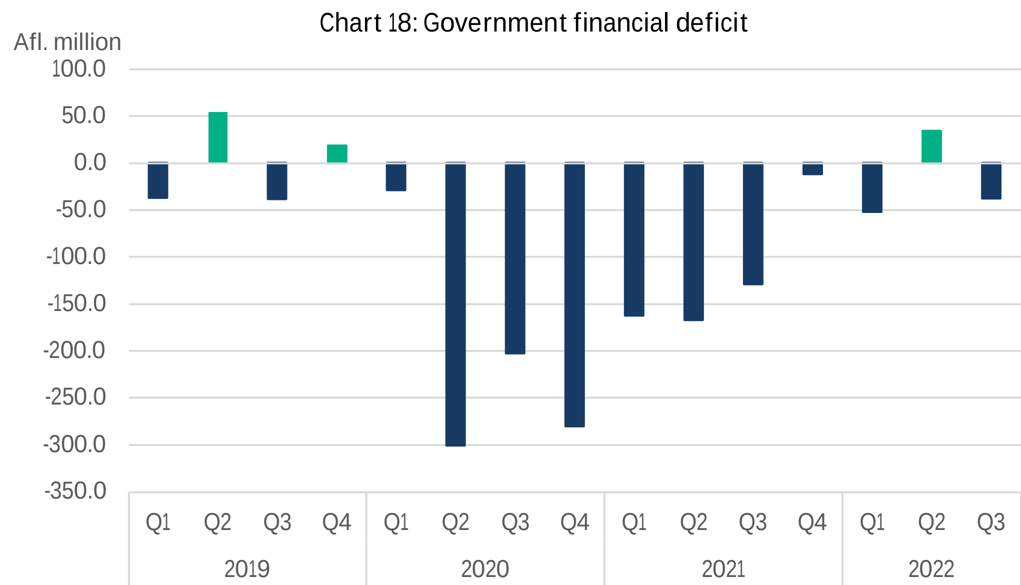


Source: CBA

The financial soundness indicators remained adequate during the first three quarters of 2022. In the third quarter of 2022, the capital adequacy ratio increased to 39.5 percent compared to 37.0 percent registered during the fourth quarter of 2021. The quality of assets held by the local commercial banks also improved during the period under review. Specifically, the nonperforming loans fell by 1.3 percentage points to 3.4 percent at the end of September 2022 compared to December 2021. In general, nonperforming loans have been following a decreasing trend since the fourth quarter of 2021, likely related to the recovery in the tourism sector. At the same time, all earnings and profitability indicators – except for the interest margin to gross income and noninterest expenses to gross income – went up in the third quarter of 2022 compared to the end of 2021. The commercial banks' aggregated prudential liquidity ratio (PLR) reached 29.7 percent (minimum required PLR: 18.0 percent), dropping 8.3 percentage points from December 2021. The PLR had been following a downward trend since the fourth quarter of 2021 and partly echoed consecutive increases in the Reserve Requirement (RR) rate by the Monetary Policy Committee (MPC) of the CBA since September 2021.

Government

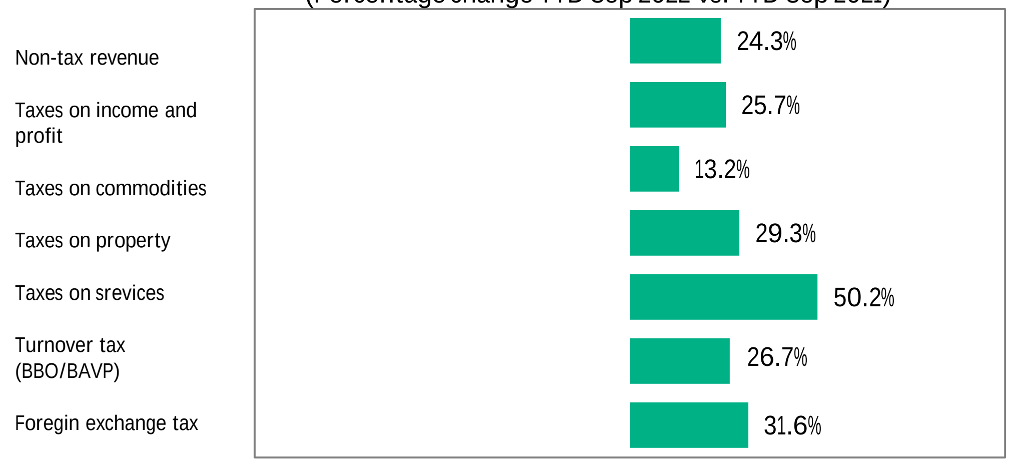
In the first nine months of 2022, government finance data revealed that the financial deficit narrowed to Afl. 54.9 million from Afl. 459.3 million in the same period of 2021 (Chart 18). This outturn resulted from a sharp decline in government expenditures (-Afl. 205.7 million) and a jump in government revenues (+Afl. 195.7 million). This significant improvement in government finance stemmed from recovered economic performance related to the continued strong recovery of the tourism sector, as well as the absence of social and business assistance programs in place during 2020 and 2021.



Source: CBA, DoF

In the first three quarters of 2022, government revenues increased to Afl. 961.5 million (+25.6 percent) from Afl. 765.8 in the same period in 2021. A significant rise in tax revenue receipts of Afl. 174.2 million (+25.7 percent) largely drove this expansion, while nontax revenues grew by Afl. 21.5 million (+24.3 percent). All tax components recorded hikes as the economic recovery continued on its strong upward path with the bettered performance of the tourism sector (Chart 19). The main factor behind the increase in tax revenues were income and profit tax (+Afl. 66.9 million) and the turnover tax (+Afl. 35.2 million). The expansion in profit tax collected in the period under review (+Afl. 38.4 million) mirrored the enhanced economic conditions of 2021. Furthermore, wage tax and income tax revenues rose by, respectively, Afl. 21.5 million, and Afl. 6.9 million. Despite the advancement, taxes on income and profits still fell short of the corresponding 2019-level (2019 Jan-Sep: Afl. 338.5 million) at 79.1 percent. Turnover tax revenues improved substantially and surpassed the levels of the first nine months of 2019 (102.3 percent of the 2019 Jan-Sep level). Moreover, the remainder of the tax components recorded expansions: taxes on commodities +Afl. 28.2 million (+13.2 percent), taxes on property +Afl. 22.8 million (+29.3 percent), taxes on services +Afl. 11.5 million (+50.2 percent), and the foreign exchange tax +Afl. 9.6 million (+31.6 percent).

Chart 19: Government revenue
(Percentage change YTD Sep 2022 vs. YTD Sep 2021)

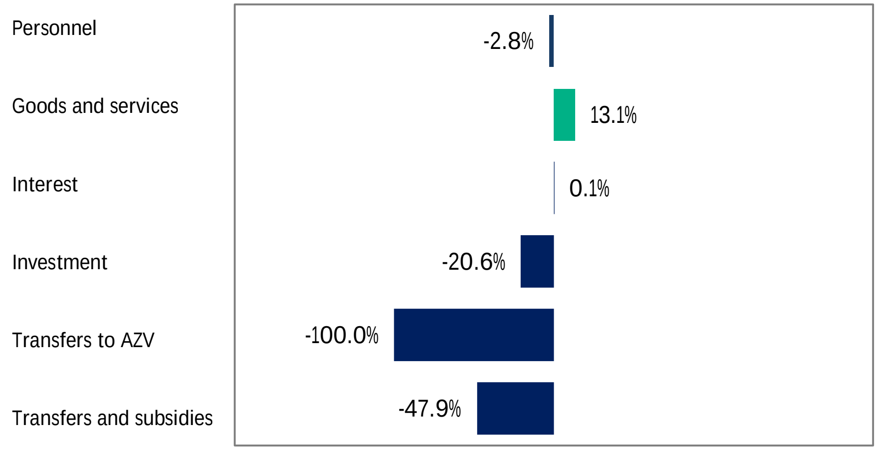


Source: Tax Collector's Office

In the period under review, government expenditures (on a cash basis and including lending minus repayments) fell to Afl. 1,016.4 million (-17.0 percent) from Afl. 1,225.1 million in the first nine months of 2021. The reduction in government outlays was due to decreased spending on almost all components except goods and services, while employer's contribution and interest expenses remained flat. Government subsidies and transfers contracted by Afl. 162.1 million (-47.9 percent), related mainly to the absence of government financial assistance programs in 2022 (Chart 20). Furthermore, transfers to the AZV declined completely to zero (-Afl. 56.2 million, -100.0 percent), attributed to regained income by the AZV as the economy recovered. Interest expenses were relatively flat, inching up by Afl. 0.2 million (+0.1 percent) associated low-interest and zero-interest short-term loans received from the Netherlands to, respectively, refinance external debt and finance the government financial deficit in 2021. The government also spent less on wage subsidies (-Afl. 10.5 million) and investments (-Afl. 2.2

million). On the other hand, higher expenses on electricity, expenses related to previous years, other outsourcing, and expert advice were the primary drivers of higher goods and services outlays.

Chart 20: Government expenditure
(Percentage change YTD Sep 2022 vs. YTD Sep 2021)

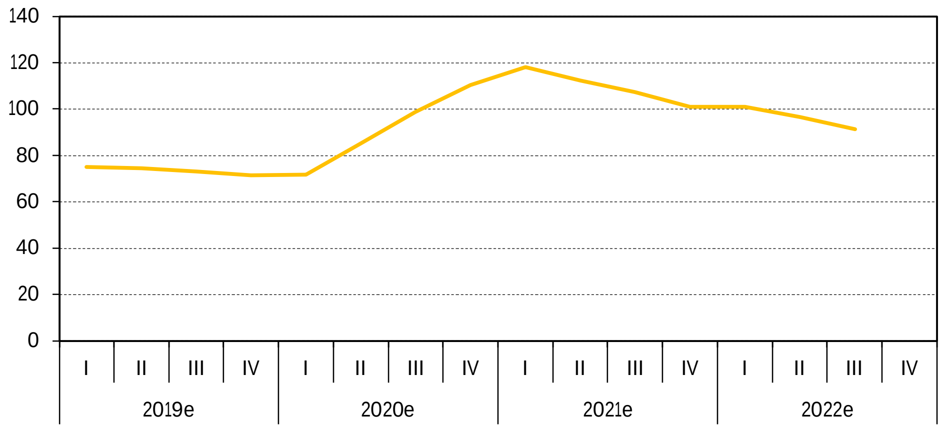


Source: Tax Collector's Office

At the end of September 2022, government debt expanded by Afl. 161.1 million to Afl. 5,816.7 million compared to December 2021. Since the second quarter of 2020, the pandemic induced a steady ascent in government debt, quarter-on-quarter, from Afl. 4,666.1 million to its peak of Afl. 6,013.0 million in the first quarter of 2022. In the first quarter of 2022, the GoA received loans from the Netherlands to repay external debt due during 2022 and for its liquidity needs

(Afl. 12.0 million), increasing government debt by Afl. 357.4 million. While the latter pushed up government debt, repayments on maturing debt led to a drop in total government debt, quarter-on-quarter, in the second and third quarters of 2022. The continued strong economic recovery led to a significant reduction in GoA liquidity needs and subsequent borrowing needs in 2022. Nonetheless, the short-term loans for liquidity financing received from the Netherlands during 2020-2022 totaled Afl. 915.5 million and are due in late 2023, which could pose a significant challenge for government finances (contingent on negotiations with the Netherlands). Meanwhile, the share of domestic debt stood at 38.4 percent while the share of foreign debt totaled 61.6 percent. At the end of the period under review, economic growth led to a decline in estimated debt-to-GDP, bringing it down to 91.2 percent from 101.0 percent at the end of 2021 (Chart 21).

Chart 21: Debt-to-GDP ratio



Calculations: CBA
e = estimated

II. International developments

In October 2022, the IMF released its most recent global economic outlook. The IMF global growth projection remained at 3.2 percent for 2022, while for 2023, the projection was revised downward to 2.7 percent (-o.2 percent from the July 2022 outlook) (Table 4). The Russian invasion of Ukraine, the lingering effects of the Covid-19 pandemic (on supply chains and in China), the cost of living crisis due to the highest inflation in two decades, and the tightening of financial conditions around the world all weighed on the outlook. The global outlook represents the “weakest growth profile” since 2001, except for the global financial crisis period and a short period during the height of the Covid-19 pandemic[7].

Table 4: Projections for the world economy and selected economies (Real GDP growth, in percent)

Indicator	2022f	2023f
World	3.2	2.7
United States	1.6	1.0
Euro Area	3.1	0.5
Latin America and the Caribbean	3.5	1.7

Source: International Monetary Fund

As for global inflation, the expectation is that it will reach 8.8 percent in 2022, slowly decrease to 6.5 percent in 2023, and reach 4.1 percent in 2024 (-0.6 percentage point compared to the 2021 level). High inflation impacted high-income countries the most and emerging markets unequally.

While the October 2022 Outlook includes an upward revision for emerging markets and developing economies (EMDE) for 2022, 2023 growth projections for EMDE markets have decreased compared to the previous outlook. In 2022, EMDE countries are expected to grow by 3.7 percent (+0.1 percentage point compared to the July 2022 outlook), while in 2023, a

[7] International Monetary Fund. 2022. World Economic Outlook: Countering the Cost-of-Living Crisis. Washington, DC. October.

growth of 3.7 percent is projected (-0.2 percentage point compared to July 2022 outlook) . The upward revision in the 2022-projections is due to a less severe contraction than expected for emerging and developing Europe, particularly in Russia, and stronger than expected activity in the LAC region in the first half of 2022, with favorable commodity prices and pent-up demand for services associated with travel. On the other hand, tightening financing conditions, tempering commodity prices, persistent inflation, and the global slowdown are considered in the downward revision of growth projections for EMDEs in 2023. China, in particular, also had seen downward revisions to previous growth projections. The Chinese government's zero-COVID-19 policy and a property crisis that threatens to seep into its financial sector led to a relatively small reduction in the 2022 growth projection from 3.3 percent to 3.2 percent.

The growth forecast for the Latin America and Caribbean region has seen positive momentum amid rebounding tourism and high commodity prices, resulting in an upward revision to the IMF'S latest economic outlook compared to the July 2022 outlook. For 2022, an increase of 0.5 percentage point is forecasted, to reach a 3.5 percent growth projection for the region. However, with persistent inflation and tightening financial conditions, the outlook for 2023 was revised downward to 1.7 percent (-0.3 percentage point) compared to the July 2022 forecast. In Latin America, the inflation levels reached 10.0 percent in the largest economies, including Brazil, Chile, Colombia, Mexico, and Peru ("LA5"), which is a two-decade high. The inflation forecasts in the October 2022 economic outlook have therefore been adjusted to 7.8 by end-2022 and slowly decrease to 4.9 percent by end-2023[8].

[8] Acosta-Ormaechea, S., Adler, G., Goldfajn, I., & Ivanova, A. (2022, October 13). *Latin America faces a third shock as global financial conditions tighten*. IMF. Retrieved from: https://www.imf.org/en/Blogs/Articles/2022/10/13/latin-america-faces-a-third-shock-as-global-financial-conditions-tighten.

III. Conclusion

In the first nine months of 2022, the Aruban economy grew by 12.1 percent vis-à-vis the same period in 2021, bolstered by solid tourism performance. To a lesser extent, private consumption also contributed to the uptick in real GDP, reflecting increased local demand for goods and services. The latter also was evident in higher imports, while investments remained relatively flat.

Most tourism indicators showed significant improvement during the first nine months of 2022. The surges in the number of stay-over visitors (+44.0 percent), total visitor nights (+40.9 percent), and tourism revenue (+45.4 percent) reflected enhanced tourism performance, and led to improved hotel sector performance. The average hotel occupancy rate reached 73.7 percent (+20.6 percentage points), while the average RevPAR resulted in $224.3 (+67.3 percent) compared to the same period in 2021. Compared to 2019-levels, tourism revenue recovered by 121.4 percent, driven by total visitor nights (+40.9 percent) and tourism revenue per night (+3.1 percent) during the first three quarters of 2022.

Consumption-related indicators painted a mostly positive picture of the first nine months of 2022, compared to the same period in 2021. Improved turnover taxes (BBO & BAVP) (+26.7 percent) and taxes on commodities (+13.2 percent) mirrored the continued strong performance of the tourism sector and the related boost to domestic consumption, as well as the higher prices for goods and services. Furthermore, the number (+21.2 percent) and value of new consumer credit loans (24.0 percent) grew compared to the first three quarters of 2021. Moreover, the number of workers registered at SVB expanded by 3.0 percent, indicating improved labor market conditions, consistent with the observed performance of the tourism sector. Notably, the Consumer Confidence Survey provided contrasting results declining by 1.1 index points to 93.8 and, thereby, displaying worsened consumer sentiments regarding their present and future situation compared to the same quarter in 2021.

During the first three quarters of 2022, nominal investment-related indicators improved compared to the same period in 2021; however, some gains were inflationary. The nominal import value of construction materials rose by 31.5 percent. However, the import weight of construction materials (a proxy for real imports) contracted by 4.2 percent in the period under review. Similar trends were noticed in the nominal and real imports of base metals and derivated works, as well as the import of machinery and electrical equipment. Hence, imported inflation potentially offset some real gains. Data from the Business Perception Survey (BPS) align with the other investment-related indicators as the derived BPS investment index rose on average from 99.6 in 2021 Q1-Q3 to 105.1 in 2022 Q1-Q3, becoming positive since the second quarter of 2021.

At the end of September 2022, the consumer price index (CPI) stood at 106.2, pushed mainly by higher food, housing, and transport prices, climbing 7.0 percent compared to the same period in 2021, up from 5.3 percent at end-June 2022. Furthermore, continuing its upward trend, the 12-month average inflation rate rose from 3.4 percent in June 2022to 4.7 percent in September 2022.

During the first nine months of 2022, the real exchange rate for the Aruban florin vis-à-vis the U.S. dollar had been following a downward path, which started in the second quarter of 2020. Still, signs of deceleration in the third quarter of 2022 indicated a slowdown in the improvement in Aruba's competitive position vis-à-vis the United States due to a convergence in the inflation rates of the United States and Aruba.

International transactions settled through the banking sector caused a significant net foreign exchange inflow of Afl. 197.6 million in the first three quarters of 2022. Consequently, international reserves (excluding revaluation differences) climbed to Afl. 3,087.2 million at the end of September 2022. This outcome resulted from a net inflow on the current account boosted by tourism sector activities. The latter was mitigated by recorded net outflows on the financial and capital accounts originating primarily from government debt repayments.

In the first nine months of 2022, government finance data revealed that the financial deficit narrowed to Afl. 54.9 million from Afl. 459.3 million in the same period of 2021. This outturn was the outcome of a sharp decline in government expenditures (-Afl. 205.7 million) and a jump in government revenues (+Afl. 195.7 million). This major enhancement in government finance stemmed from improved economic performance related to the continued strong recovery of the tourism sector and the absence of social and business assistance programs in place during 2020 and 2021.

At the end of September 2022, government debt expanded by Afl. 161.1 million to Afl. 5,816.7 million compared to December 2021. Since the second quarter of 2020, the pandemic induced a steady ascent in government debt quarter-on-quarter. However, the continued strong economic recovery led to a significant reduction in the GoA liquidity needs and subsequent borrowing needs in 2022. Despite the higher debt level, economic growth led to a decline in the estimated debt-to-GDP ratio as it stood at 91.2 percent, down from 101.0 percent at the end of 2021.

In October 2022, the IMF released its most recent global economic outlook, which showed that the global growth projection remained at 3.2 percent for 2022, while for 2023, the projection was revised downward to 2.7 percent (-o.2 percent from the July 2022 outlook). The Russian invasion of Ukraine, lingering effects of the Covid-19 pandemic (on supply chains and in China), cost of living crisis due to the highest inflation in two decades, and tightening of financial conditions around the world all weighed on the outlook.

CENTRALE BANK VAN ARUBA

J.E. Irausquin Blvd 8
P.O. Box 18
Oranjestad, Aruba
Phone: (+297) 525 2100