



CENTRALE BANK VAN ARUBA

Inflation is expected to weigh down the Aruban economy in 2023

Press release

March 16, 2023

Today, the Centrale Bank van Aruba (CBA) published an update of the Economic Outlook for 2022. In addition, an estimate for 2023 is provided.

In 2022, the Aruban economy expanded by an estimated 15.5 percent in nominal terms to Afl. 6.5 billion (USD 3,6 billion), surpassing 2019 nominal GDP by 7.1 percent. This growth was driven mainly by the sustained upsurge in the amount of stay-over visitors. The robust tourism performance led to a wide current account surplus that amply compensated for the financial account deficit, and thus, resulted in a balance of payments (BOP) surplus of Afl. 227.2 million. Nonetheless, the relatively high level of inflation (5.5 percent) pushed down real Gross Domestic Product (GDP) growth to 9.6 percent in 2022.

In 2023, nominal GDP is projected to expand by 9.1 percent to Afl. 7.0 billion (USD 3.9 billion). This growth is due to the Aruban economy continuing to benefit – albeit at a diminishing rate – from a higher rate of stay-over visitors, in addition to persistent elevated tourism spending per night. Accordingly, the BOP is expected to record significant tourism revenue inflows. In addition to the buoyant developments in the tourism sector, the anticipated rise in private-sector wages, and the complete rollback of the COVID-19-related wage reduction in public sector wages are expected to bolster consumption.

However, the real GDP of Aruba is forecasted to contract by 1.8 percent (baseline) due primarily to persistent and high inflationary pressures. Thus, real GDP contraction is expected to range between 2.4 percent in a pessimistic scenario and 0.9 percent in an optimistic scenario (Table 1).

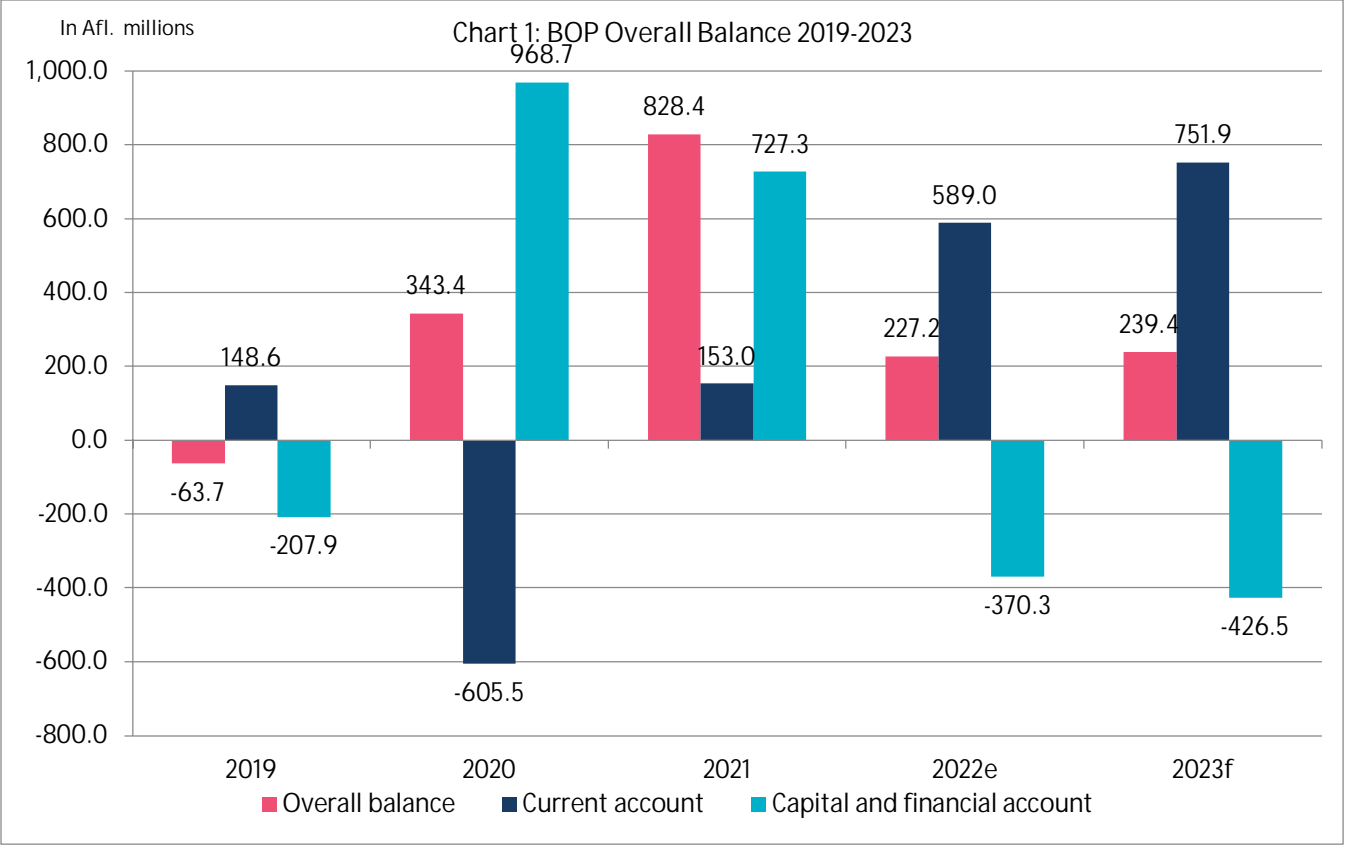
Hence, the nominal gains in tourism exports, consumption, and investment are likely eroded in large part by the anticipated higher level of inflation in 2023 (6.0 percent). Other factors that are expected to contribute to the economic downturn (in real terms) are the real term contraction in the wage bill of the Government of Aruba, reduced health cost coverage of the AZV, domestic red tape, and uncertainty pertaining to the pending implementation of the

2023 fiscal reform in Aruba. With regard to the BOP, nominal inward investment from nonresidents will likely rise. In contrast, outflows related to resident investments abroad are projected to narrow. On balance, the projected BOP is likely to record a surplus of Afl. 239.4 million in 2023 (Chart 1).

Table 1: Growth of real GDP and its components 2022 – 2023 (in percent)				
Indicator	2022 e	2023 p f	2023 b f	2023 o f
Current Outlook				
GDP	9.6	-2.4	-1.8	-0.9
Consumption	4.4	-2.1	-1.7	-0.7
Private consumption	7.0	-2.0	-1.5	-0.1
Public consumption	-2.1	-2.2	-2.2	-2.2
Investment	-0.9	-3.4	-3.4	-3.4
Private investment	-0.2	-3.3	-3.3	-3.3
Public investment	-19.9	-5.0	-5.0	-5.0
Exports	27.5	-0.4	0.5	1.4
Tourism exports	30.2	-0.5	0.5	1.5
Imports	19.3	0.1	0.6	1.4

Source: CBA

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



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