STATE OF THE ECONOMY

2023 – Q1

CENTRALE BANK VAN ARUBA

STATE OF THE ECONOMY

First Quarter of 2023

Centrale Bank van Aruba

ABSTRACT

In the first quarter of 2023, solid tourism performance continued to boost growth, albeit at a more moderate pace than in the corresponding period of 2022. Persistent robust travel demand from the United States and higher tourism spending pushed up the number of stay-over visitors and tourism revenue. This combined with the subsequent rise in domestic demand expanded consumption despite inflationary constraints, with the latter brought about in part by the increase in the turnover tax rate at the beginning of the year. Although weighed down by ongoing elevated international prices, tighter global financial conditions and uncertainty about the further implementation of the 2023 domestic tax reform, private investment mostly showed positive signs. Meanwhile, the upsurge domestic and tourist demand, coupled with still elevated global commodity prices, raised import levels. International transactions settled through the banking sector resulted in a net foreign exchange outflow of Afl. 175.4 million in the first quarter of 2023. The domestic refinancing of a foreign loan by the private sector largely drove this net outflow of foreign funds. Nonetheless, the level of international reserves remained adequate and well above the benchmarks monitored by the CBA. Increased utility tariffs and higher gasoline, food, and car prices lifted the 12-month average inflation to 6.2 percent at the end of March 2023, up from 5.5 percent at the end of 2022. During this period, the 12-month average core inflation continued its steady rise from October 2021, reaching 2.4 percent. In the first quarter of 2023, the fiscal performance of the government improved significantly, reflected in a turnaround from an Afl. 52.0 million deficit a year earlier to an Afl. 16.2 million surplus in the period under review. This

improvement resulted from an increase in revenue that more than outweighed a rise in expenditure. At the end of the first quarter of 2023, total government debt rose to Afl. 5,763.2 million, up from Afl. 5,717.6 million in December 2022. Despite the higher debt level, the economic growth led to a decline in the estimated debt-to-GDP ratio to 88.1 percent, down from 90.1 percent at the end of 2022.

Contents

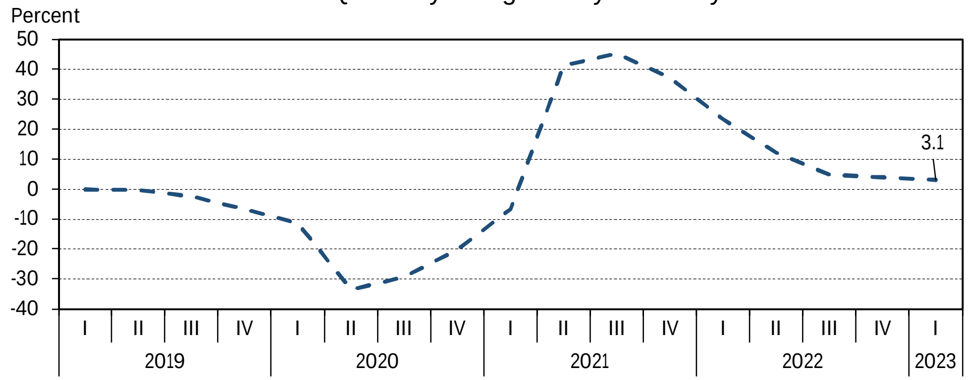
I. Domestic developments

Economic growth

During the first quarter of 2023, steady robust performance in the tourism sector drove the Aruban economy. Growth in stay-over visitors and tourist spending were the main contributors to the year-on-year expansion in real GDP of 3.1 percent (Chart 1). This rise continued the increase in year-on-year real GDP observed since the second quarter of 2021, although at a decelerating pace. Furthermore, consumption indicators also registered gains. Estimated employment[1] rose by 2.9 percent in the first quarter of 2023, although its positive effect on purchasing power was partially offset by an elevated inflation level (2023 March end of period: 5.9 percent). Income from the turnover tax and taxes on commodities also expanded, suggesting heightened consumption. The uptick in taxes was partially due to the turnover tax rate hike as of January 1, 2023. Meanwhile, for the most part, investment indicators pointed to higher investment activities than in the first quarter of 2022. Correspondingly, imports grew (merchandise import: +16.3 percent), reflecting consistent gains in domestic and tourism demand for goods.

[1] Total number of employment relationships registered at the SVB.

Chart 1: Quarterly GDP growth year-over-year

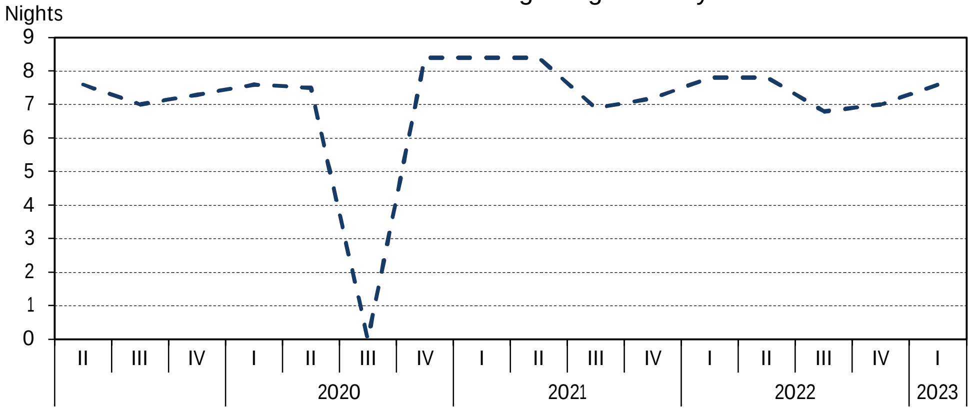


Calculations: CBA

Tourism

During the first quarter of 2023, most tourism-related indicators showed significant improvement compared to the same period of 2022 (Table 1). Total number of visitor nights jumped by 27.8 percent in the first three months of 2023 compared to 2022. An expansion of 31.1 percent in the number of stay-over visitors drove this growth in total visitor nights. The latter occurred despite a small decline in the average (intended) length of stay (ALOS) from 7.8 to 7.6 nights (Chart 2). The rise in stay-over visitors was driven primarily by visitors from the U.S. (+24.8 percent), Canada (+150.9 percent), and Colombia (+60.5 percent). In terms of 2019-levels, stay-over visitors reached 104.1 percent in the period under review, while total visitors' nights amounted to 103.9 percent as the ALOS remained practically unchanged (7.6 days).

Chart 2: Average length of stay



Source: ATA

Data from the hotel sector also revealed buoyant developments in the tourism industry (Table 1). In the first quarter of 2023, revenue per available room (RevPAR[2]) rose by 54.2

[2] RevPAR is the product of the average daily rate and the hotel occupancy rate.

percent compared to the same period of 2022. This jump in RevPAR resulted from a higher hotel occupancy rate in the first quarter of 2023 (83.5 percent) relative to the first quarter of 2022 (62.2 percent). Additionally, a rise in the average daily rate (ADR), i.e., from US$ 355.3 to US$ 407.7, contributed to a higher RevPAR.

Table 1: Tourism indicators for Aruba
YTD March 2019 vs. YTD March 2022 vs. YTD March 2023

	2019	2022	2023
Stay-over visitors	294,183	233,666	306,305
Average length of stay (in days)	7.6	7.8	7.6
Total visitor nights	2,249,443	1,828,141	2,337,016
Cruise visitors	292,922	155,236	357,072
Hotel occupancy (%)	90.3	62.2	83.5
Average daily rate (US$)	349.0	355.3	407.7
Revenue per available room (RevPAR) (US$)	315.2	220.9	340.5
Tourism revenue per night (in Afl.)	381.9	434.9	465.5
Tourism revenue* (in Afl. million)	859.1	795.0	1,087.9

Sources: CBA, ATA, AHATA
*Only those registered at local commercial banks.

Income from tourism revenue[3] registered at local commercial banks soared by 36.8 percent in the first quarter of 2023 compared to the same period in 2022. This rise in tourism revenue was due to the surge in total visitor nights and higher tourism spending per night. Total visitor nights expanded by 27.8 percent, while tourism revenue per night grew by 7.0 percent during the first quarter of 2023 vs. the corresponding period of 2022. Compared to 2019-levels, the opposite can be observed — the sizable gains in tourism revenue per night (21.9 percent) outperformed the growth in total visitor nights (3.9 percent) during the first three months of 2023. The latter development is in line with the strategic direction of the Aruba Tourism Authority (ATA) with its focus on attracting high spending visitors, as published in ATA's 'Corporate Plan 2021'. As such, total reported tourism revenue reached 126.6 percent of the 2019-level during the first quarter of 2023.

In the first quarter of 2023, cruise tourism surpassed 2019-levels, reaching 121.9 percent of cruise visitors compared to the corresponding period in 2019. The Aruba Ports Authority (APA) reported 357,072 cruise visitors and 139 ship calls in the first quarter of 2023 (Table 1). This represents a 130.0 percent surge in cruise visitors compared to the first three months of 2022. The relatively low number of cruise visitors in the first quarter of 2022 stemmed from a resurgence of COVID-19 at the beginning of the year.

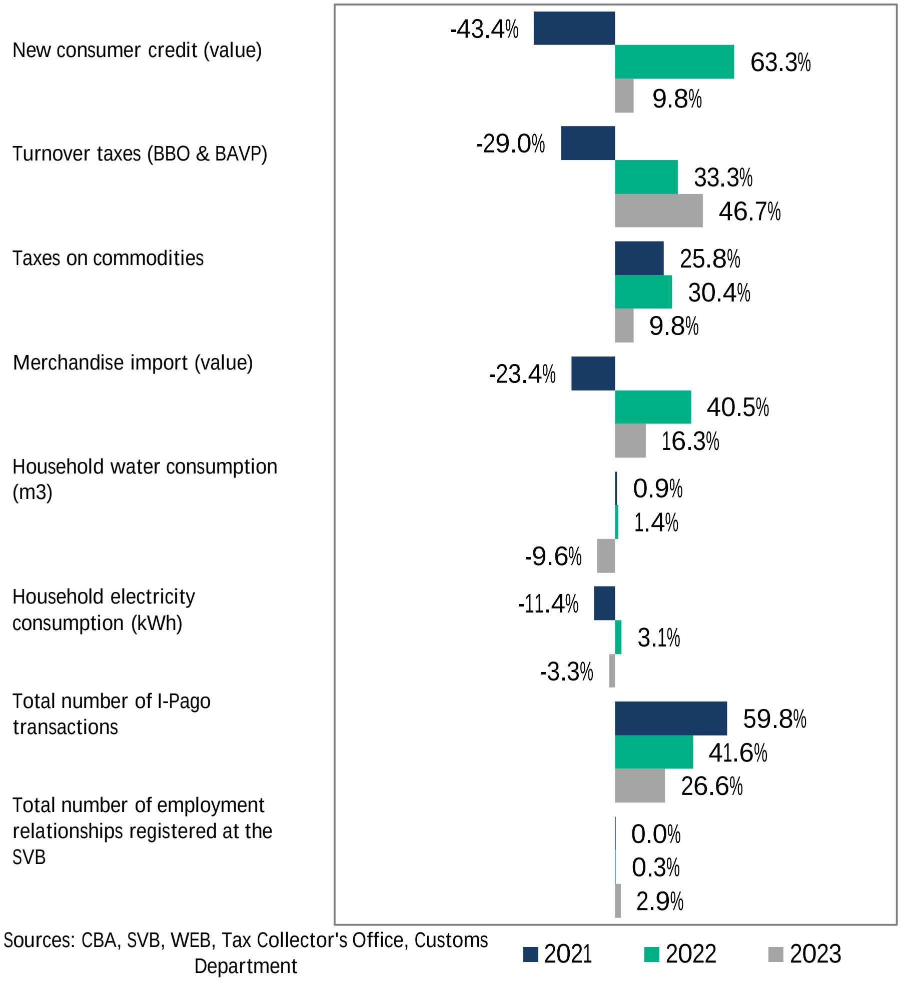
[3] Tourism revenue corresponds to the tourism credits definition as defined by the *IMF BPM 6 manual*. Cut off date for the data used was the end of May 2023.

Consumption

In the first quarter of 2023, consumption-related indicators painted a broadly positive picture of economic activities compared to the same period in 2022 (Chart 3). Income from the turnover tax (BBO & BAVP) and taxes on commodities expanded by 46.7 percent and 9.8 percent, respectively. Buoyant tourism performance continued to boost domestic consumption despite generally higher consumer prices. However, the increase in turnover tax revenue did not reflect solely a pick-up in consumption but was in part related to the hike in the turnover tax rate (BBO +1.0 percentage point) as of January 1st 2023. Compared to the same period in 2019, turnover taxes (BBO & BAVP) grew by 40.1 percent, while taxes on commodities rose by 2.9 percent. Moreover, during the first three months of 2023, the number of employment relationships registered at SVB advanced by 2.9 percent, indicating improved labor market conditions consistent with the observed performance of the tourism sector. Additionally, the jump in the total number of I-Pago[4] transactions (+26.6 percent) and in merchandise imports (+16.3 percent) confirmed the uptick in domestic demand, while the latter also reflected the higher prices.

[4] 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)

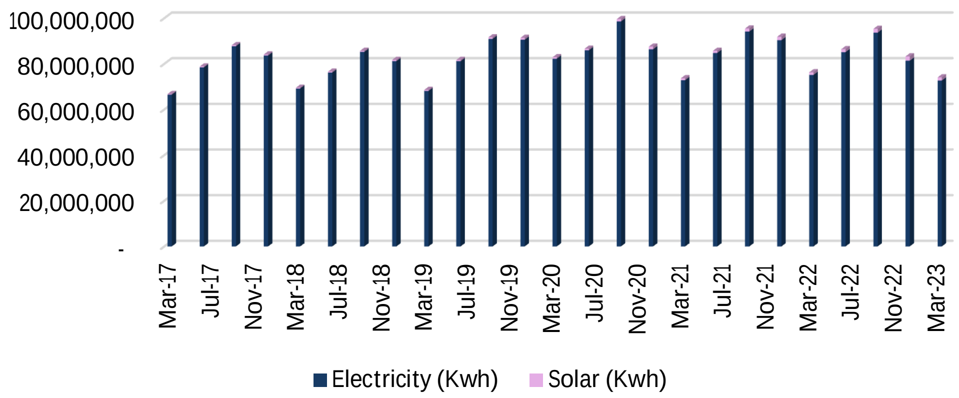
Chart 3: Consumption-related indicators
(YTD March 2023 vs. YTD March 2022)



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

During the first three months of 2023, household energy consumption (kWh, electricity and solar power) decreased by 2.9 percent compared to the same period of 2022. Electricity sales by the utility company to households declined by 3.3 percent (kWh) in the period under review, while the total meter connections issued by the utility company rose by 1.0 percent in the same period. Therefore, it is likely that the upturn in electricity tariffs in August 2022 impacted household electricity consumption. Moreover, the number of installed household solar connections and renewable energy consumption from solar power more than quadrupled since the first quarter of 2017. Furthermore, household solar connections increased by 29.3 percent (+876 household solar connections) in the first quarter of 2023 compared to the first quarter of 2022. The consumption of household solar energy (kWh) expanded by 19.0 percent and may have contributed to the fall in electricity sales to households. In the first quarter of 2023, household solar energy consumption represented merely 1.9 percent of household energy consumption (Chart 4). As such, despite its steady uptake during the last few years, household solar energy still represents a small proportion of household energy consumption.

Chart 4: Household energy consumption (kWh, electricity & solar)



During the first quarter of 2023, household spending on water increased by 9.6 percent compared to the same period of 2022 (Chart 3). During the same period, household water use (in cubic meters) contracted by 9.6 percent. This contraction in quarterly household water consumption started in 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. Water connections by the utility company remained relatively flat and inched up by 0.6 percent in the period under review.

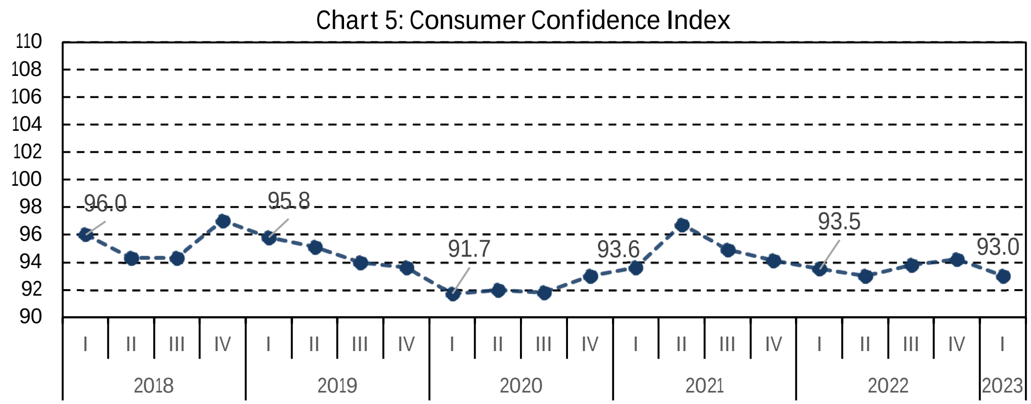
The number and value of new consumer credit loans issued grew by 1.9 percent and 9.8 percent, respectively, in the period under review (Chart 3). The expansions follow upturns observed in the same period of the previous year, albeit at a decreasing rate (2022 Q1: +59.7

percent and +63.3 percent, respectively). These developments are indicative of an ongoing improvement in the appetite for consumer credit as the economy continues to expand, and likely were amplified by the effect of relatively high inflation rates on the purchasing power of consumers.

Nonetheless, the overall level of consumer credit fell by Afl. 5.7 million in the period under review. The latter reflects the higher level of consumer credit repayments compared to the increase in new consumer credit loans. Demand for new consumer credit fell during the pandemic, dropping to a low of Afl. 16.0 million in the first quarter of 2021 (2019 Q1: Afl. 38.9). It improved in the first quarter of 2022 (Afl. 26.1 million) and 2023 (Afl. 28.7 million), but remains below the 2019-level.

On the other hand, repayments on consumer credit loans went up during the pandemic to above the 2019-level (2019 Q1: Afl. 34.3 million), peaking at Afl. 42.8 million in the first quarter of 2022. Moreover, albeit leveling off, it hovered at its 2019-level totaling Afl. 34.4 million in the first quarter of 2023. Consequently, the demand for new consumer credit lagged behind the repayments on consumer credit loans and persisted below its pre-pandemic level.

In the first quarter of 2023, the Consumer Confidence Index fell by o.5 index point to 93.0 compared to the same period of 2022, displaying worsened consumer sentiments regarding their future situation (Chart 5). The registered downturn in the index was likely the result of increased uncertainties related to relatively high inflation rates and the 2023 fiscal reform. During the period under review, fewer respondents indicated that large-scale spending, such as on automobiles, major appliances, and vacations, was suitable compared to the same quarter of the previous year.



90-100: pessimistic
100-110: optimistic

Investment

In the first quarter of 2023, investment-related indicators reflected a mixed image of private investment developments (Chart 6). Credit indicators showed contractions, while import and permits indicators expanded compared to the first quarter of 2022.

The value of new commercial mortgages at local commercial banks fell by 54.9 percent during the quarter under review. Simultaneously, the number of new commercial mortgages decreased by 39.6 percent. This development points to hesitant construction or acquisition of commercial property, which may be related to prices of construction materials remaining elevated. The overall level of commercial mortgages (+1.2 percent), on the other hand, increased during the first quarter of 2023. This development reflected a lag in the level of commercial mortgage repayments, which mitigated the decrease in new commercial mortgages. Commercial mortgage repayments amounted to Afl. 18.1 million in the first quarter of 2023, compared to Afl. 39.4 million in the first quarter of 2022. In the first quarter of 2023, the level of repayments stood in stark contrast to the levels noted in the first quarter of 2020 and 2019. During these periods, commercial mortgage repayments registered Afl. 42.8 million (Q1 2020) and Afl. 100.2 million (Q1 2019), respectively. The drop during the first quarter of 2020 may have been related to the COVID-19 relief plan provided by commercial banks, when clients that suffered a loss of income were temporarily absolved from payments on their outstanding loans. Nonetheless, results from the Centrale Bank van Aruba (CBA)'s Business Perception Survey (BPS) show an uptick in investor sentiment in first quarter of 2023. According to this report, the share of businesses reporting an improvement in investment rose from 29.1 percent in the first quarter of 2022 to 40.0 percent during the first quarter of 2023.

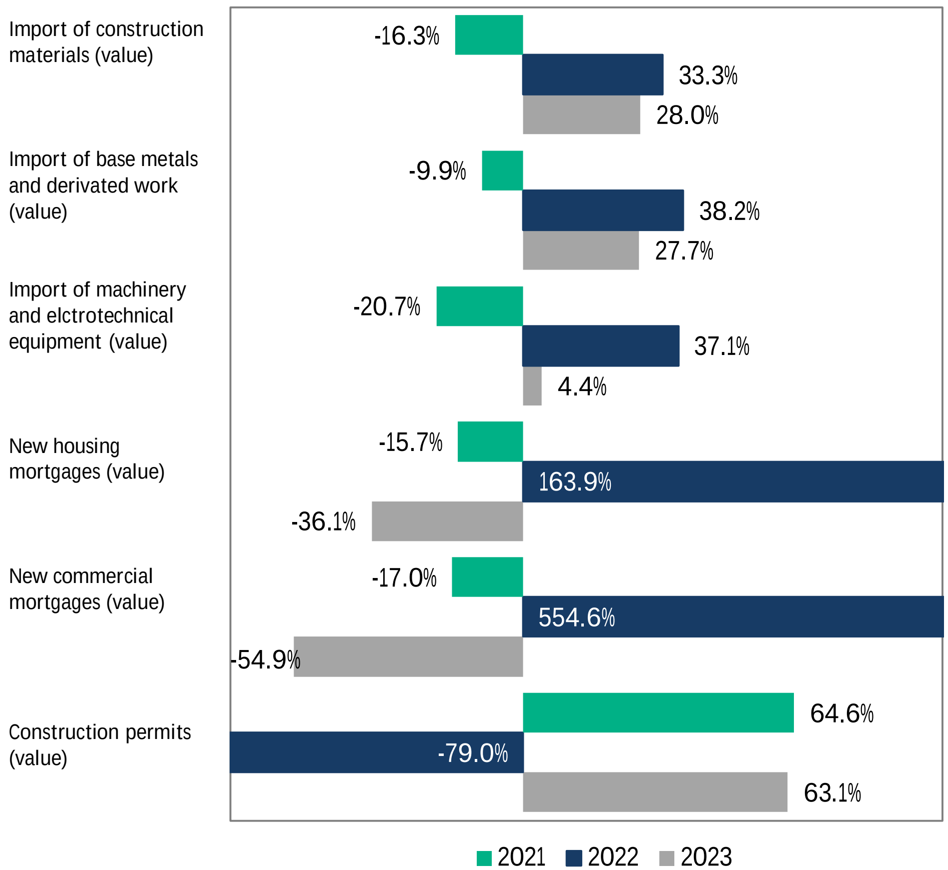
Similar to the value of new commercial mortgages, the value of new housing mortgages shrank in the first quarter of 2023. Following a 38.6 percent decline in the number of new housing mortgages, the value of new housing mortgages contracted by 36.1 percent. At the same time, the overall level of housing mortgages rose by 4.3 percent, indicating that new housing mortgages outpaced repayments. The CBA's Consumer Confidence Survey (CCS) results also reflected the slowed demand for housing in the first quarter of 2023 as observed in the number of new housing mortgages. During the period under review, 65.4 percent of respondents indicated that taking out a mortgage was unsuitable, compared to 62.3 percent in the first quarter of 2022. A plausible explanation for this sentiment related to housing mortgages is the expected price developments. Similar to the first quarter of 2022 when 98.0 percent of respondents expected prices to be higher in the following six months, 91.0 percent of respondents foresaw increased prices in the six months following the first quarter of 2023.

Thus, consumers may wait for prices to normalize before building or purchasing a house. In addition, uncertainty about the implementation of the BBO at the border, scheduled for July 1, 2023, possibly exacerbated the observed hesitancy about house purchases. A base effect may also have been at play due to the significantly elevated value of new housing mortgages in the first quarter of 2022 (Afl. 92.1 million). Meanwhile, the value of new housing mortgages in the first quarter of 2023 (Afl. 58.8 million) was relatively close to the levels recorded in the pre-pandemic first quarter of 2019 (Afl. 51.2 million), as well as the first quarter average for 2015 – 2019 (Afl. 55.7 million).

During the first quarter of 2023, all investment-related import components registered an upturn. The value of imported construction materials increased by 28.0 percent. In addition, the value of imported base metals and derivated works, as well as machinery and electrotechnical equipment, grew by 27.7 percent and 4.4 percent, respectively. The growth of these components may be associated with continued elevated prices of construction-related goods from Aruba's import partners. Furthermore, during the CBA's GDP consultation mission in the first quarter of 2023, stakeholders revealed that while container prices have contracted, they remained elevated compared to their pre-pandemic levels.

The total value of construction permits surged in the first quarter of 2023. Unlike the steep contraction (-79.0 percent) observed in the first quarter of 2022, the total value of construction permits rose by 63.1 percent during the first quarter of 2023. This jump was mainly driven by a jump in the value of permits for the construction of stores and shopping malls (+391.0 percent), further amplified by expansions in permits for houses (+96.1 percent) and office buildings (+91.5 percent). The value of construction permits for the category 'other', which includes hotels and condominiums (-41.8 percent) as well as the value of construction permits for apartments (-6.8 percent), on the other hand, mitigated these increases.

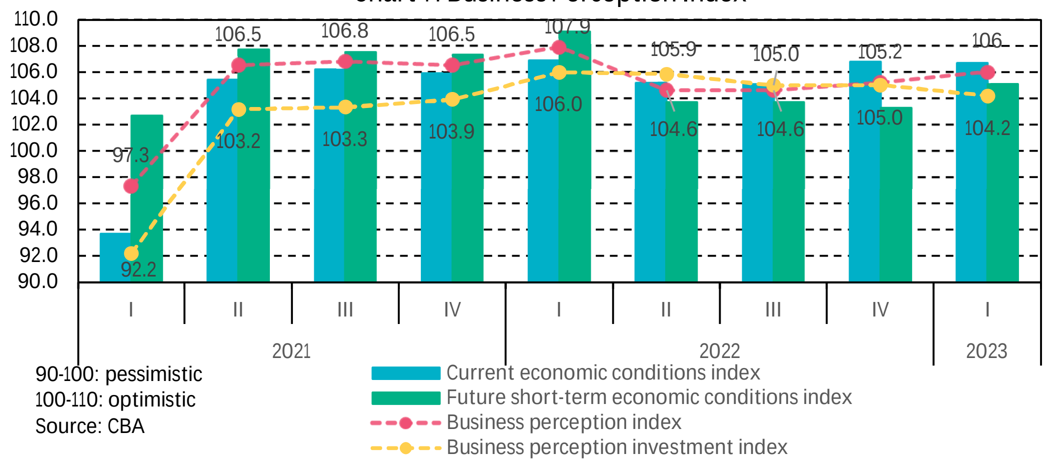
Chart 6: Investment-related indicators
(Percentage change current year vs. prior year)



Sources: CBA, CBS, DOW

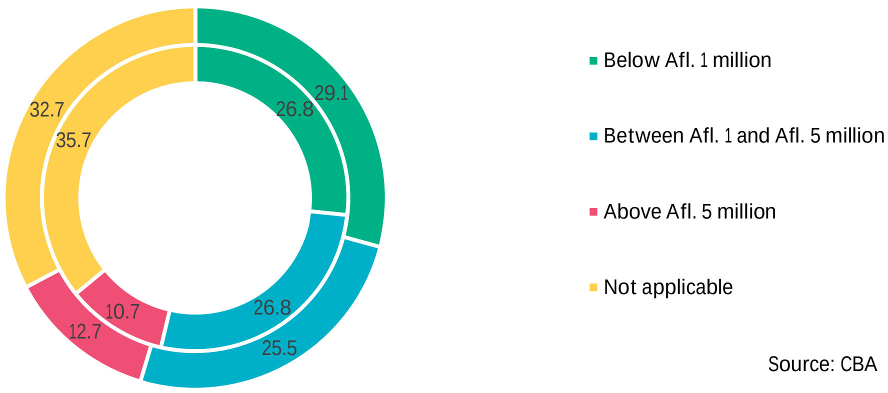
Similar to the value of new commercial mortgages, the Investment Index derived from the Business Perception Survey (BPS) did not reflect the optimism displayed in most of the reviewed indicators. In the first quarter of 2023, the Investment Index reached 104.2, down from 106.0 recorded in the same quarter of 2022. While current investment conditions in Aruba improved, respondents were less optimistic about investment conditions in the short-term future. Indeed, increased pessimism about the short-term future negatively affected the BPS index. During the quarter under review, the BPS index – consisting of the current (Q1-2022: 106.9 vs. Q1-2023: 106.7) and future short-term economic conditions index (Q1-2022: 109.1 vs. Q1-2023: 105.1) – dipped from 107.9 in the first quarter of 2022 to 106.0 in the first quarter of 2023 (Chart 7). Worsening sentiments about the short-term future may have been related to the implementation of the BBO at the border, scheduled for July 1, 2023. However, despite the drop in the BPS index, it remained above its pre-COVID-19 levels (Q1-2019: 99.5; Q1-2018: 101.0), in line with the observation that the Aruban economy improved beyond its pre-pandemic state. Furthermore, planned investments over the next 12 months painted a more positive picture of the short-term future of the Aruban investment climate (Chart 8). During the period under review, the share of businesses with investment plans over the next 12 months increased by 3.0 percentage points compared to the first quarter of 2022.

Chart 7: Business Perception Index



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

Chart 8: Investment plans of surveyed businesses.
Inner circle: Q1-2022 . Outer circle: Q1-2023 .



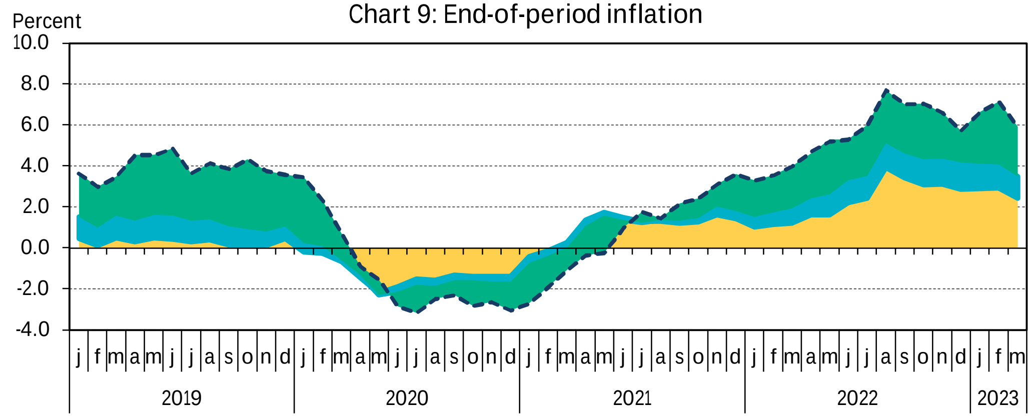
Source: CBA

Consumer Price Index (CPI)

The consumer price index (CPI) climbed by 5.9 percent year-over-year in March 2023 (Chart 9). This end-of-period (EOP) inflation was caused mainly by the energy component (+2.4 percentage points contribution). In particular, following tariff hikes by local utility companies, water supply (+0.8 percentage point contribution) and electricity (+1.6 percentage points contribution) drove energy prices and made housing more expensive.

The core component – which excludes energy and food – also contributed 2.4 percentage points to total EOP inflation. The core components of vehicle purchases (+1.1 percentage points contribution), catering services (0.3 percentage point contribution), and the maintenance and repair of a dwelling (0.3 percentage point contribution) incurred the largest increases. The latter was principally triggered by paint and electrical supplies. Compared to the energy and core component, the food component contributed the least to total EOP inflation at 1.1 percentage points.

Chart 9: End-of-period inflation

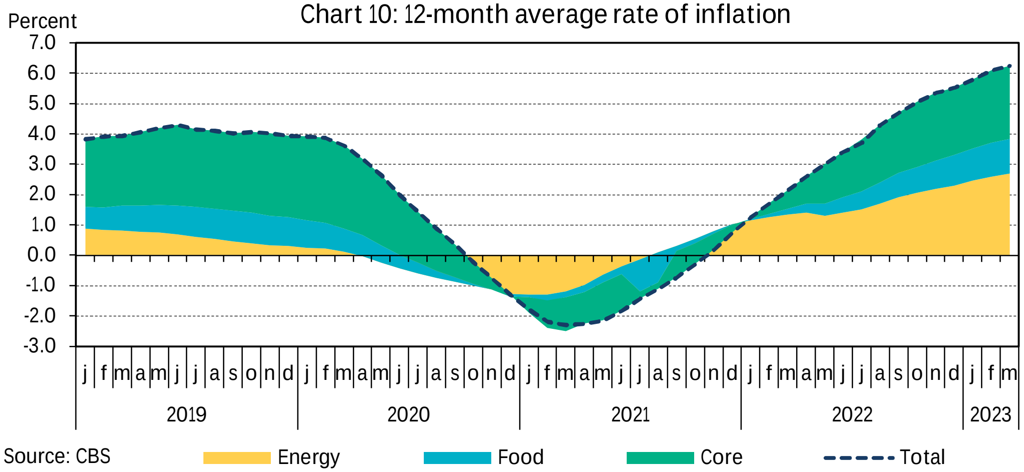


Source: CBS

The 12-month average inflation stayed on its upward path from May 2021 and reached 6.2 percent at the end of the first quarter of 2023 (Chart 10). In the period under review, the energy component primarily pushed up the 12-month average inflation (+2.7 percentage points contribution). Multiple subcomponents, in turn, moved the energy component, i.e., electricity, water supply, and gasoline. Specifically, the increases in utility tariffs in August and September 2022 caused electricity (+1.1 percentage points) and water supply (+0.6 percentage point) to put upward pressure on inflation. Accordingly, housing became more expensive. Furthermore, gasoline prices grew during most of 2022, before reducing their pace in September 2022. Consequently, gasoline contributed 0.9 percentage point to inflation, and made transport more costly.

After the energy component, the core component contributed the next most to the 12-month average inflation (+2.4 percentage points). In particular, household operations added 0.5 percentage point to total inflation, owing to household appliances, furniture and the like, tools and equipment for house and garden, and goods and services for routine household maintenance and cleaning. Moreover, the purchase of vehicles became more expensive (+0.8 percentage point), exacerbating transport inflation. Lastly, in January 2022, food prices started to weigh on inflation, as drought and, as of February 2022, the war in Ukraine impacted global food prices. Accordingly, the food component advanced the 12-month average inflation by 1.1 percentage points.

Chart 10: 12-month average rate of inflation



Source: CBS

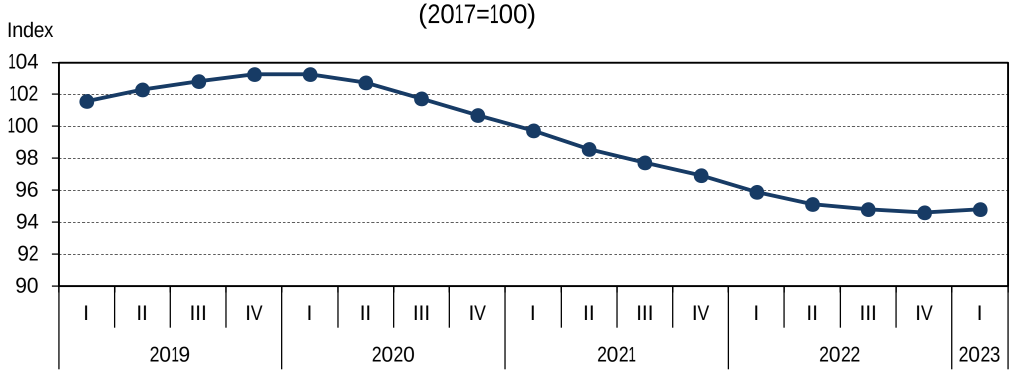
International competitiveness

The real exchange rate for the Aruban florin vis-à-vis the U.S. dollar was relatively flat during the first quarter of 2023 (Chart 11). Although trending downwards since the second quarter of 2020, the real exchange rate showed signs of deceleration in the third quarter of 2022. The downward trajectory marked an improvement in the competitive position of Aruba vis-à-vis the United States as consumer prices in the United States rose faster than consumer prices in Aruba (Chart 12). However, the inflation differential has narrowed since April 2022, stabilizing the real exchange rate for the Aruban florin vis-à-vis the U.S. dollar.

At the end of March 2023, the 12-month average for U.S. inflation reached 7.4 percent[5]. The core component (+3.8 percentage points contribution), food (+1.8 percentage points), and energy (+1.8 percentage points) all contributed to total U.S. inflation. During the same period, the energy (+2.7 percentage points contribution) and core component (+2.4 percentage points contribution) were the primary drivers of Aruba's 12-month average inflation rate, pushing it up to 6.2 percent. The energy component reflected higher gasoline prices and increased water and electricity tariff rates as of August and September 2022.

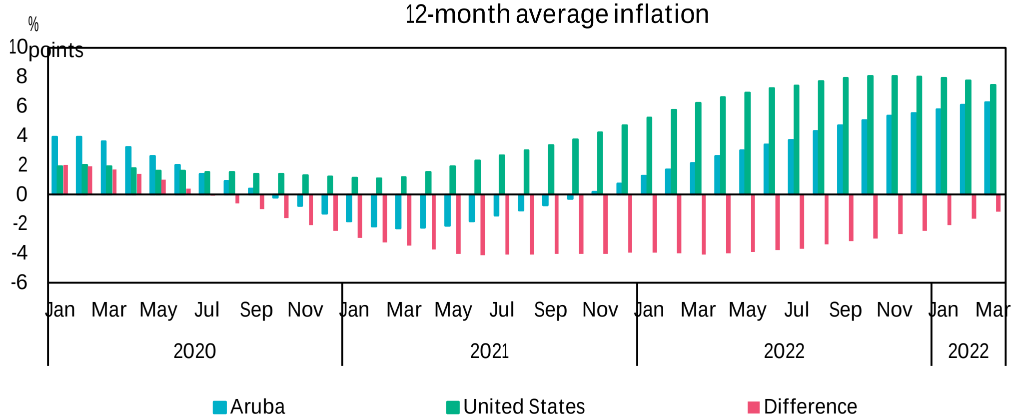
[5] Consumer Price Index, March 2023, Bureau of Labor Statistics

Chart 11: Real exchange rate Aruban florin vis-à-vis the U.S. dollar (2017=100)



Source: CBA

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



Calculations: CBA

Foreign trade

At the end of March 2023, the trade balance recorded an Afl. 607.5 million deficit, i.e., an Afl. 85.2 million (+16.3 percent) expansion compared to the end of March 2022 (Chart 13). The latter is attributed to the continued gain in economic activities.

During the first quarter of 2023, the import of goods increased (+Afl. 87.3 million; +16.3 percent), driving the uptick in the trade balance. The sustained buoyant performance of the tourism sector, amplified by increased domestic demand, contributed to the expanded goods imports. Furthermore, global inflation, projected to reach 7.0 percent in 2023 [IMF, 2023][6], also put upward pressure on the value of imported goods. In the first quarter of 2023, all import components grew compared to the first quarter of 2022, except for art objects and collector items, and wood, charcoal, and woodwork. The following components registered notable growth during the period under review: transport equipment (+68.7 percent), food products (+18.1 percent), mineral products (+23.2 percent), live animals and other animal products (+17.1 percent), base metals and derivated works (+27.8 percent), and real pearls and other precious stones (+38.5 percent).

Simultaneously, the export of goods grew by Afl. 2.1 million (+15.7 percent) during the first quarter of 2023. The main contributors to this growth were the components base metals and derivated works (+39.1 percent), food products (+155.1 percent), as well as skins, hides, leather, and peltry (+1,727.0 percent).

[6] World Economic Outlook April 2023. The full report is available on: World Economic Outlook, April 2023: A Rocky Recovery (imf.org)

Chart 13: Foreign trade

Source: CBS

Balance of payments

International transactions settled through the commercial banking sector gave rise to a net foreign exchange outflow of Afl. 175.4 million during the first three months of 2023 (Table 2). Consequently, international reserves (excluding revaluation differences) amounted to Afl. 2,936.1 million at the end of March 2023. The financial account predominantly caused this outcome as it incurred a net outflow of Afl. 315.1 million during the period under review (2022 Q1: Afl. 250 million surplus). The net inflow on the current account (i.e., Afl. 155.7 million) could not completely mitigate the financial account deficit. Moreover, both the capital account (i.e., -Afl. 5.5 million) and “items yet not classified” (i.e., -Afl. 10.5 million) registered net outflows during the first quarter of 2023.

Table 2: Balance of payments (in Afl. million)	YTD Q1 2022	YTD Q1 2023
Current account	161.5	155.7
Goods	-453.2	-529.1
Services	642.3	873.5
Primary income	-31.5	-179.2
Secondary income	3.9	-9.5
Capital account	-9.4	-5.5
Financial account	250.0	-315.1
Direct investment	56.2	31.7
Portfolio investment	-41.3	-67.4
Financial derivatives	4.7	0.7
Other investment	274.1	-59.0
Foreign accounts	-43.9	-221.1
Items not yet classified	0.7	-10.5
Change in international reserves (excluding revaluation differences)	402.8	-175.4

Source: CBA

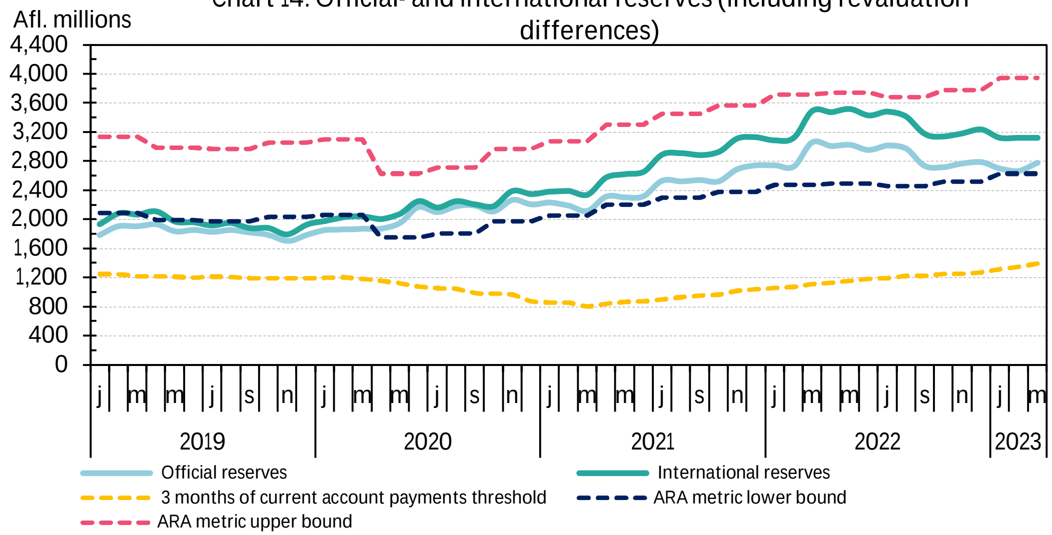
The current account had a net foreign exchange inflow of Afl. 155.7 million in the first quarter of 2023. This result was chiefly caused by a net inflow related to tourism for the amount of Afl. 947.6 million. Compared to the same period in 2022, the larger net inflow related to tourism services was due to the growing number of stay-over visitors and their higher spending. This gain, paired with heightened local consumption and raised import prices also affected the goods account. During the first three months of 2023, the goods account showed a net outflow of Afl. 529.1 million (2022 Q1: Afl. -453.2 million), partially mitigating the large inflow on the services account. Additionally, primary income registered a large net outflow of Afl. 179.2 million . This stemmed primarily from high dividend payments by the private sector and the GoA's interest payments on foreign loans. Moreover, the secondary income account also recorded a net outflow (i.e. Afl. -9.5 million).

The financial account experienced a net outflow of Afl. 315.1 million, dampening gains in the current account. This outcome was the result of net outflows across most components, except for direct investment and financial derivatives. Specifically, foreign accounts had a net outflow of Afl. 221.1 million. A local refinancing of a foreign loan by the private sector mainly drove the latter. Portfolio investment showed a net deficit of Afl. 67.4 million predominantly due to the GoA's repayments on maturing foreign loans. Additionally, other investments added Afl. 59.0 million to the outflows on the financial account, owing to outflows by the private sector. On the other hand, a net inflow of Afl. 31.7 million on direct investment partly mitigated the outflows mentioned above. This expansion largely ensued from real estate purchases in Aruba and capital contribution by non-residents. Financial derivatives, which are substantially influenced by hedging, had a minor role with an inflow of only Afl. 0.7 million.

Monetary survey

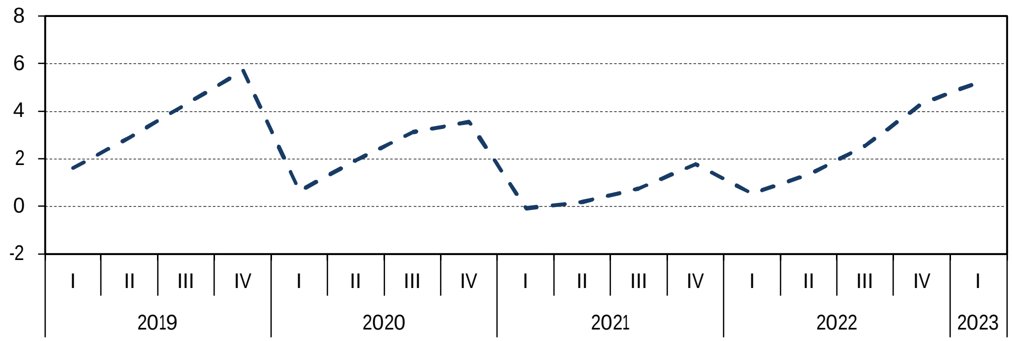
At the end of March 2023, broad money amounted to Afl. 5,675.4 million compared to Afl. 5,546.1 million at the end of December 2023. An expansion of Afl. 304.8 million in net domestic assets (NDA) pushed up broad money, offsetting a decline of Afl. 175.4 million in net foreign assets (NFA). The upward movement in the NDA level was due in to the domestic refinancing of a foreign loan by the private sector, as well as lower retained earnings by deposit money banks. The official and international reserves (incl. revaluation differences) remained well above the benchmarks that the CBA monitors at the end of the first quarter of 2023 (Chart 14). The International Monetary Fund (IMF) Assessing Reserve Adequacy (ARA) stood at 106.2 percent (2022 Q1: 123.6 percent), while the current account coverage ratio reached 6.5 months (2022 Q1: 9.0 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)



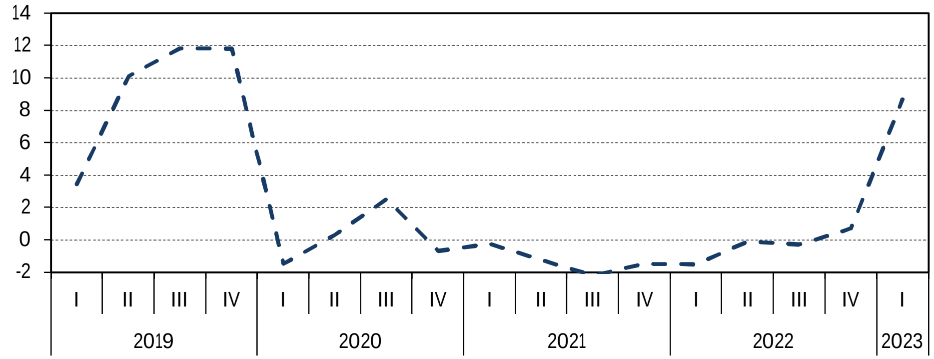
NDA jumped by Afl. 304.8 million to Afl. 2,739.4 million in March 2023 compared to December 2022. The domestic refinancing of a foreign loan by the private sector hiked up net claims on the private sector by Afl. 127.6 million and helped to push up NDA. The growth in government deposits partially mitigated this rise. At the end of March 2022 vis-à-vis December 2021, credit to individuals went up by Afl. 7.7 million due to increased housing mortgages (+Afl. 13.3 million) (Chart 15). The uptick in housing mortgages offset the decreasing trend in consumer credit (-Afl. 5.7 million). Meanwhile, credit to enterprises expanded by Afl. 119.8 million compared to December 2022 (Chart 16) after remaining relatively flat since 2020. Moreover, non-credit related balance sheet items increased by Afl. 217.8 million in the period under review, largely due to lower retained earnings by deposit money banks. It was the largest contributor to the rise in NDA.

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)

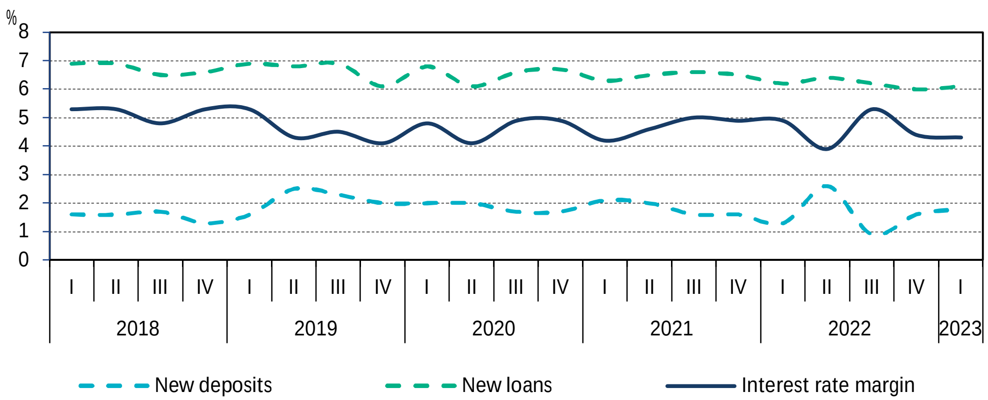


Source: CBA

At the end of March 2023, the aggregated balance sheet for nonmonetary financial institutions reached Afl. 7,100.6 million, reflecting an increase of Afl. 101.2 million compared to December 2022. On the assets side, this rise stemmed from expanding domestic claims (+Afl. 150.4 million) and foreign assets (+Afl. 59.9 million), partly mitigated by a decline in other domestic claims (-Afl. 109.0 million). The expansion in domestic claims was primarily due to a rise in domestic claims on enterprises (+Afl. 132.2 million). On the liabilities side, this upturn was mostly caused by an surge in other domestic liabilities (+Afl. 71.0 million).

The quarterly weighted interest rate margin went down by 0.1 percentage point to 4.3 percent in the first quarter of 2023 compared to the fourth quarter of 2022 (Chart 17). The drop in the interest rate margin resulted from an increase in interest on new deposits, which offset the rise in interest on new loans. The quarterly weighted average rate of interest on new deposits grew by 0.2 percentage point to 1.8 percent during the period under review. A widening of the interest rates of time deposits under 12 months of 0.3 percentage point pushed up the interest on deposits. Compared to end-December 2022, the quarterly weighted average interest rate on new loans inched up by 0.1 percentage point to 6.1 percent. This development was due to the upturn in the interest rate charged on consumer credit and other commercial loans.

Chart 17: Weighted average interest rates



Source: CBA

The financial soundness indicators remained adequate during the first quarter of 2023. The capital adequacy ratio decreased to 31.4 percent compared to 39.7 percent registered during the fourth quarter of 2022. Nonperforming loans inched down by 0.3 percentage point to 3.2 percent at the end of March 2023 compared to December 2022. 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. In tandem, return on assets and equity (before and after taxes) showed declines, while the ratio of noninterest expenses to gross income rose. The commercial banks' aggregated prudential liquidity ratio (PLR) stood at 27.3 percent (minimum required PLR: 18.0 percent), dropping 2.5 percentage points from December 2022. The PLR had been trending downwards since the fourth quarter of 2021, and echoed in part consecutive increases in the Reserve Requirement (RR) rate by the Monetary Policy Committee (MPC) of the CBA since September 2021.

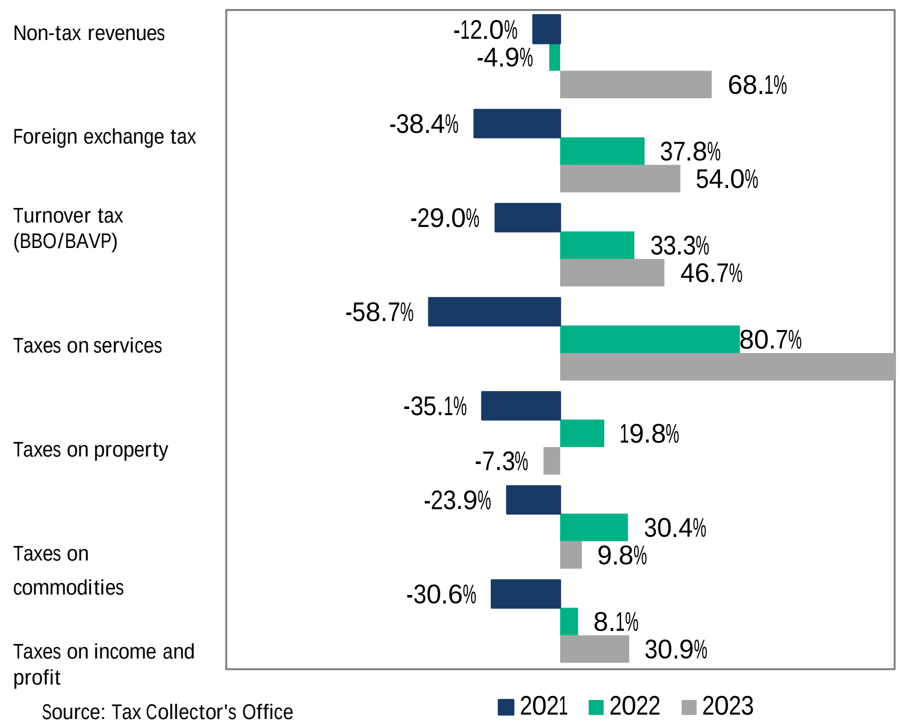
Government

During the first quarter of 2023, the GoA recorded a financial surplus of Afl. 16.9 million. A year before, the GoA ran a deficit of Afl. 52.0 million. This turnaround was completely driven by a jump of Afl. 88.0 million in revenues, which was partly mitigated by higher government expenditures. The latter rose by Afl. 20.2 million (Q1 2023 vs. Q1 2022).

Government revenues rose by Afl. 88.0 million (i.e., +32.4 percent) in the first quarter of 2023 vis-à-vis the same period in 2022 (Chart 18). An uptick of Afl. 73.6 million (i.e., +29.4 percent) in tax revenues largely drove this expansion. Moreover, at the end of the first quarter of 2023, total tax revenues (i.e., Afl. 322.7 million) exceeded the level (i.e., Afl. 282.3 million) registered in the first quarter of 2019, indicating that tax-generating activities had recovered beyond the pre-pandemic level. Nontax revenue, chiefly driven by "other resources" and reclamation of wage subsidies related to COVID-19, also contributed with Afl. 14.4 million to the expansion in government receipts.

Almost all tax components registered an expansion during the period under review. Income from turnover taxes rose by Afl. 24.4 million (+46.7 percent), likely due to heightened local consumption, boosts in tourism spending, and increased prices for goods and services. In addition, the increase in the turnover tax rate at the beginning of the year also contributed to the hike in turnover tax revenue. Similarly, receipts from taxes on income and profit showed a spike of Afl. 20.6 million (+30.9 percent), resulting to a great degree from elevated income tax (+Afl. 10.2 million, +210.3 percent) and wage tax (+Afl. 8.0 million, +14.2 percent) revenues. The receipts from income and wage tax growth reflected higher income earned and improved employment conditions. Meanwhile, revenues from taxes on services grew by Afl. 16.6 million (+154.9 percent), primarily due to expansion in the collection of hotel room tax revenues. Apart from the improved tourism activities and associated hike in hotel rates, this development concorded with the rise in the hotel room tax from 9.5 percent to 12.5 percent, as well as the larger share of the total hotel room tax collections that the government receives as of the first of January 2023. Income from taxes on commodities exhibited a growth of Afl. 7.6 million (+9.8 percent), principally due to elevated income collected from import duties (+Afl. 11.1 million, +27.8 percent). The latter aligns with the increased value of imported goods in merchandise trade data. Moreover, foreign exchange tax also jumped by Afl. 6.7 million (i.e., +54.0 percent). On the other hand, receipts from taxes on property decreased by Afl. 2.2 million (-7.3 percent) principally due to less revenue from the transfer tax (-Afl. 4.6 million, -42.7 percent).

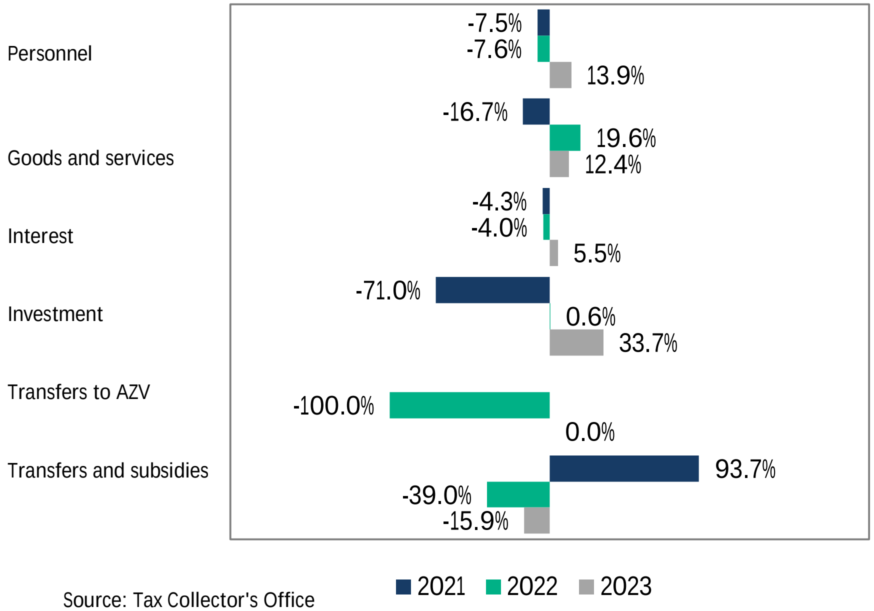
Chart 18: Government revenue (Percentage change 2023 Q1 vs. 2022 Q1, 2022 Q1 vs. 2021 Q1, 2021 Q1 vs. 2020 Q1)



Source: Tax Collector's Office

Government expenses reached Afl. 339.9 million at the end of March 2023. This marked an expansion of Afl. 20.2 million or 6.3 percent compared to the first quarter of 2022. All components of government expenditures, except for ‘transfers and subsidies’, showed an uptick compared to the same period in 2022 (Chart 19). The largest movements were noted in wage subsidies (+Afl. 13.5 million/+75.8 percent), goods and services (+Afl. 8.3 million/+12.4 percent), and interest payments (+Afl. 3.2 million/+5.5 percent). Wage subsidies rose as a result of higher outlays related to the salary subsidies for education personnel. Meanwhile, goods and services expanded primarily due to increasing healthcare costs.

Chart 19: Government expenditure
(Percentage change 2023 Q1 vs. 2022 Q1, 2022 Q1 vs. 2021 Q1, 2021 Q1 vs. 2020 Q1)



Source: Tax Collector's Office

Total government debt increased to Afl. 5,763.2 million in the first quarter of 2023 compared to Afl. 5,717.6 million in December 2022. This jump was brought about by higher domestic debt (+Afl. 79.9 million). The latter rose mainly due to increases in non-negotiable short-term debt (+Afl. 79.9 million) on the local market. On the other hand, foreign debt mitigated this expansion, contracting by Afl. 34.4 million. The downturn resulted from lower outstanding debt due to "other" (-Afl. 18.1 million) and to the United States (-Afl. 16.3 million). The level of Aruban debt to the Dutch government stayed unchanged compared to December 2022. Total government debt remained above the pre-pandemic level of Afl. 4,311.6 million (Q1 2020), highlighting the pandemic induced expansion in government debt. At the end of the first quarter of 2023, the debt-to-GDP ratio reached 88.1 percent, marking a contraction of 2.1 percentage points compared to the last quarter of 2022 as GDP growth outpaced debt expansion.

II. International developments

In April 2023, the IMF released its most recent World Economic Outlook (WEO). IMF's 2022 global growth estimate remained at 3.4 percent, equal to the January 2023 edition of the WEO. For 2023, the IMF projected global growth of 2.8 percent, representing a slight downward revision of 0.1 percentage point (Table 3).

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

Indicator	2023f
World	2.8
United States	1.6
Euro Area	0.8
Latin America and the Caribbean	1.6

Source: International Monetary Fund

Notably, emerging markets and developing economies (EMDEs) are expected to lead growth ahead of advanced economies in 2023. Specifically, the IMF forecasts output to grow by 3.9 percent in EMDEs. Supply-chain disruptions caused by the pandemic have been easing, thereby reducing the drag on real growth. Furthermore, the war-induced turbulence in energy and food markets subsided. However, robust growth was not uniform across EMDEs. For example, the IMF anticipates that the Latin American and Caribbean (LAC) economies to grow by 1.6 percent in 2023 — markedly lower than emerging and developing Asia at 5.3 percent, as China reopens its economy.

In LAC countries, the World Bank foresaw tempered growth resulting from weaker external demand growth, combined with tightening global and domestic monetary policy. In addition, policy uncertainty in some countries was hurting business and consumer confidence. The outlook for LAC countries seemed mixed. On the one hand, the United Nations World Trade Organization anticipated a continued recovery in tourism, with tourism arrivals reaching between 80 and 95 percent of 2019-levels in 2023, up from 63 percent in 2022[7]. On the other hand, U.S. dollar prices for LAC's primary export commodities were expected to fall for the most part. Specifically, projected metal prices remained broadly stable while agriculture and energy prices fell. Although the World Bank anticipated Chinese economic activity to pick up in 2023 -- LAC's main trading partner -- China's recovery would likely be services-driven. This presumption would restrict the benefits of increased Chinese demand to commodity exporters.

In 2023, growth in advanced economies was expected to fall by half, i.e., to 1.3 percent, as major central banks tightened monetary policy to combat inflation. Furthermore, the IMF projected 90 percent of advanced economies to incur a drop in growth, with the anticipated slowdown being most noticeable in Europe (0.8 percent). With the substantial deceleration, the forecasted unemployment in advanced economies was expected to increase on average by 0.5 percentage point from 2022 to 2024.

Despite major central banks' efforts to steer inflation back toward their targets, core inflation had yet to peak in many countries. For 2023, the IMF foresaw EOP core inflation falling to 5.1 percent in the fourth quarter (quarter over quarter), a 0.6 percentage point upward adjustment from the January 2023 WEO. Accordingly, 2023 global inflation was projected to soften more slowly than anticipated, from 6.6 percent initially (WEO, January 2023) to currently 7.0 percent (WEO, April 2023). The sharp policy tightening of the past 12 months also exposed vulnerabilities within the financial sector, including the recent collapse of several U.S. regional banks. Further downside risks exist for the financial sector.

[7] World Trade Organization (2023). Tourism set to return to pre-pandemic levels in some regions in 2023.

III. Conclusion

In the first quarter of 2023, the Aruban economy grew by an estimated 3.1 percent in real terms compared to the same period in 2022. This real output was mainly carried by a continued solid performance in the tourism sector. Consumption and investment indicators exhibited primarily positive signs, reflecting increased local demand for goods and services, and more optimistic investments plans, despite the mitigating effects of elevated prices. The latter was likewise evident in higher imports.

Tourism indicators surged during the first three months of 2023, driven largely by buoyant tourism demand from the United States. The hikes in the number of stay-over visitors, total visitor nights, and tourism revenue reflected an enhanced performance in tourism-related activities, boosting hotel-sector performance. Consequently, the average hotel occupancy rate reached 83.5 percent, while the average RevPAR strengthened to $340.5 compared to the same period in 2022.

At the end of March 2023, the end-of-period inflation climbed to 5.9 percent, pushed mostly by the energy component compared to the same period in 2022 (March 2022: 4.0 percent). Furthermore, the 12-month average inflation rate rose from 2.1 percent in March 2022 to 6.2 percent in March 2023.

The real exchange rate for the Aruban florin vis-à-vis the U.S. dollar continued trending downward during the first quarter of 2023. The prolonged improvement in the competitive position of Aruba vis-à-vis that of the United States stemmed from a faster rise in consumer prices in the United States compared to consumer prices in Aruba. However, the inflation differential has been narrowing since April 2022.

International transactions settled through the banking sector led to a net foreign exchange outflow of Afl. 175.4 million in the first quarter of 2023. This outcome was due mainly to domestic refinancing of a foreign loan by the private sector. The latter mitigated the net inflow of foreign funds on the current account stemming from the buoyant tourism performance.

During the first quarter of 2023, the GoA recorded a financial surplus of Afl. 16.9 million compared to a deficit of Afl. 52.0 million a year prior. This turnaround was completely driven by a jump in revenues, which was partly mitigated by higher government expenditures.

Total government debt remained above the pre-pandemic level of Afl. 4,311.6 million (Q1 2020), highlighting a pandemic induced expansion in government debt. At the end of the first quarter of 2023, the debt-to-GDP ratio reached 88.1 percent, marking a contraction of 2.1 percentage points compared to the last quarter of 2022 as GDP growth outpaced debt expansion.

In April 2023, the IMF released its most recent World Economic Outlook (WEO). IMF's 2022 global growth projection remained at 3.4 percent, equal to the January 2023 edition of the WEO. For 2023, the IMF projected global growth of 2.8 percent, representing a slight downward revision of 0.1 percentage point.

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