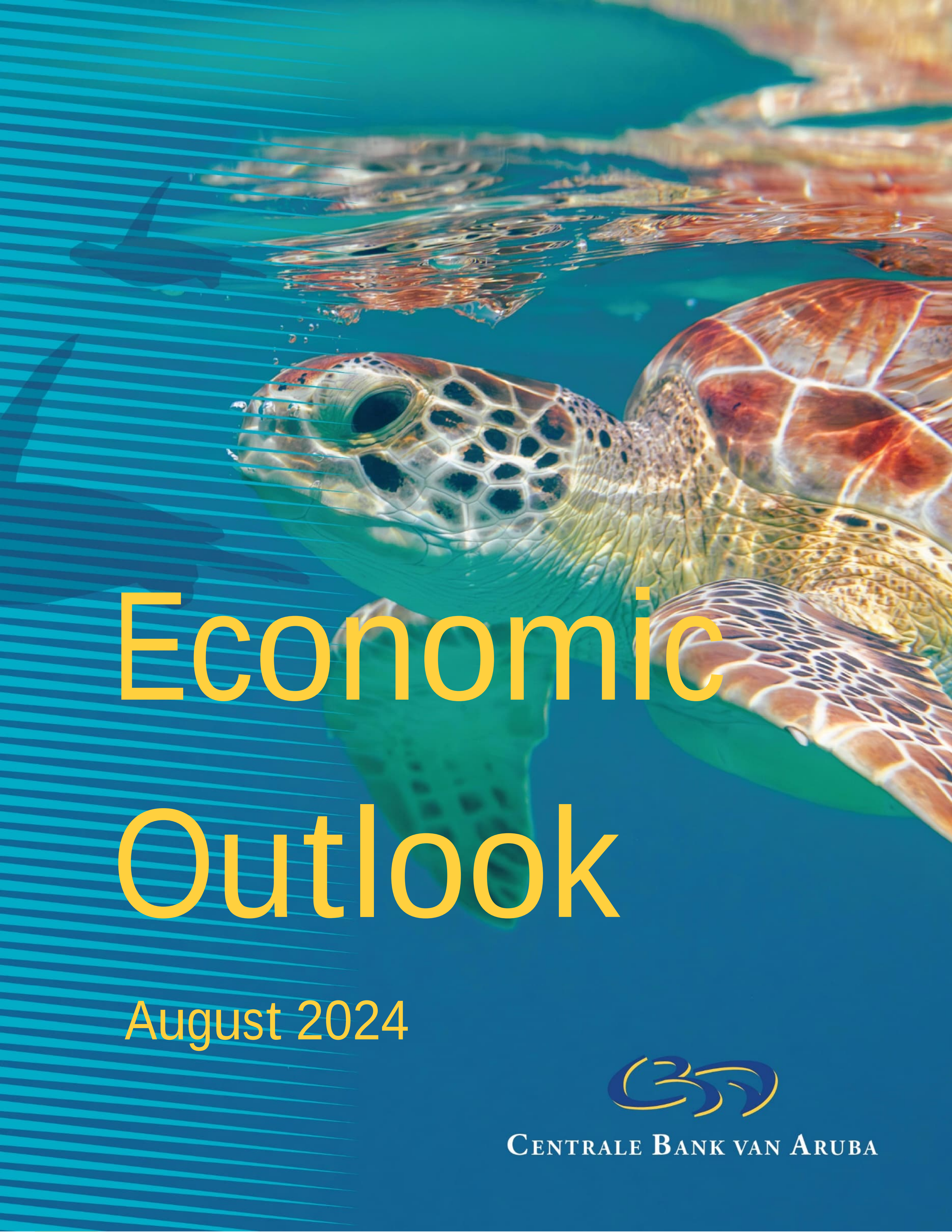

Economic Outlook

August 2024

Centrale Bank van Aruba

Cover design:
Our turtles.
They choose Aruba’s beaches as a safe haven;
They choose Aruba’s beaches as their breeding ground;
They connect and communicate through vocalizations and body language.
Their slow and steady pace represents resilience and endurance.

The full text of this report is available on the CBA website

Executive summary

In 2023, estimated Gross Domestic Product (GDP) benefitted from a sustained growth in tourism exports. The latter reflected the buoyant hotel and non-hotel accommodation sector performance, which complemented higher visitor arrivals. The Centrale Bank van Aruba (CBA) expects that the earnings related to tourism activities, and the resulting tourism exports continue to be the strongest contributor to GDP growth in 2024 and 2025, as well as in the medium term (2026 – 2028).

The CBA forecasts a real GDP increase of 6.1 percent in 2024, up from an estimated 4.3 percent in 2023, resulting from upturns in real exports, real investment, and real consumption. Growth in both real tourism exports and non-tourism exports drives the expansion in real exports. The expected strong performance of real tourism exports mainly results from an elevated number of stay-over visitors, while average tourism spending per visitor remains stable. Higher real public and real private investment lead to improvement in real investment. Real consumption is expected to rise as the expansion in real private consumption is partly counterbalanced by a decline in real public consumption. Following the developments in real exports, investment, and consumption, real imports are set to increase. Consistent with the development in tourism activities, the balance of payments (BOP) is anticipated to record higher tourism revenue inflows than in 2023. As a result of elevated investment and increased domestic demand, import payments also rise, leading to significant outflows in the BOP. In addition, the share purchases by residents from nonresidents, dividend payments, and interest payments are anticipated to cause a further increase in outflow of funds. On balance, however, the BOP is likely to record a surplus of Afl. 107.9 million in 2024.

Despite robust tourism performance, the CBA foresees a 1.0 percent growth in real GDP in 2025. The CBA expects expansions in the number of stay-over visitors and tourism spending per visitor. Consequently, a projected increase in real tourism exports and tourism-driven consumption is foreseen. Given these developments, imports are expected to drive further economic outflows. Real consumption grows, as private consumption rises, which partly offsets the expected decline in real public consumption. Notwithstanding the anticipated growth in real (tourism and non-tourism) exports, real investment, on the other hand, is likely to contract in 2025. The latter results from the anticipated decline in public sector investment outlays and the lack of new construction projects to compensate for the stock of large construction projects to be finalized in 2024. The significantly lower level of investment puts a drag on real imports, which are foreseen to decline in 2025. Eventhough the growing number of stay-over visitors and higher tourism spending per visitor contribute to inflows on the BOP, the broader level of tourism exports and private consumption also leads to additional import payments, resulting in outflows on the BOP. On balance, the CBA estimates a surplus of Afl. 645.7 million on the BOP for 2025, as tourism earnings and revenues outpace import payments and drive a large current account surplus. The latter is partially offset by outflows on the financial account.

In the medium term, the CBA anticipates real GDP growth of 2.9 percent (2026), 2.6 percent (2027), and 2.2 percent (2028), mainly due to (tourism) exports, consumption and investment (2026).

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1. Introduction

The current Economic Outlook (EO) presents an update to the Centrale Bank van Aruba's (CBA) economic growth projections published in March 2024. It provides estimates for 2023, as well as projections for 2024, 2025, and the medium-term (2026-2028).

1.1 Economic developments in 2023[1]

In 2023, the tourism sector performed strongly with real tourism exports expanding by 6.7 percent, compared to 28.9 percent in 2022. Total stay-over visitors surged by 14.5 percent compared to the previous year, reaching a total of 1,260,402 visitors. Increases in the number of visitors from the United States (+95.207 visitors; +11.1 percent), Canada (+21.882 visitors; +52.9 percent), and Colombia (+19.265, +57.7 percent) were the main contributors to the growth mentioned above. However, in 2023, tourism spending per visitor declined by 1.2 percent, down from 2.6 percent growth in 2022.

Hotel sector performance was buoyant in 2023. During the year under review, revenue per available room (RevPAR) rose by 14.7 percent compared to 2022 (+56.0 percent). The aforementioned rise was due to a higher hotel occupancy rate (2023: 78.0 percent vs. 2022: 75.0 percent) and a 10.4 percent surge in the average daily rate (ADR). Simultaneously, the category 'other accommodations' also registered growth in terms of stay-over visitors (+26.5 percent). Furthermore, the monthly ADR for short-term rental properties in 2023 consistently outperformed the monthly ADR for short-term rental properties reported during the previous year. Consequently, in 2023, total revenue from short-term rental properties expanded by 42.2 percent compared to 2022. Amplified by a rise in the ADR and in the general level of prices of goods and services, tourism revenue[2] rose by 14.6 percent compared to the previous year (2022: 38.4 percent).

In 2023, almost all investment-related indicators suggested an improvement in investments. The imported value of base metals and derivative works (+17.2 percent), machinery and electrotechnical equipment (+9.2 percent), and construction materials (+14.2 percent) climbed compared to 2022. Furthermore, new housing mortgages (+5.0 percent) and new commercial mortgages (+5.4 percent) expanded compared to 2022. In contrast to the indicators mentioned above, the value of construction permits – a leading investment indicator - fell by 9.4 percent compared to 2022.

Indicative of consumption growth, employment contracts registered at the Social Insurance Bank of Aruba (SVb Aruba) rose by 5.2 percent in 2023 compared to 2022 (2.0 percent). Furthermore, the CBA's Business Perception Survey indicated an improvement in wage conditions during the period under review. The aforementioned developments, supported by the Government of Aruba's (GOA) complete roll-back of the COVID-19-related public sector wage cuts, point to an increase in consumption in 2023.

At the end of 2023, the 12-month average inflation rate slowed down to 3.4 percent. The latter represented a 2.1 percentage points decrease compared to the end of 2022. The components housing – still reflecting the hike in utility tariffs of August 2022 – as well as food and non-alcoholic beverages were the main drivers of the 12-month average inflation. The End of Period (EOP) inflation rate

[1] For an ample discussion of economic developments in 2023, please consult the CBA's Q4-2023 State of the Economy publication.

[2] Only those registered at commercial banks.

amounted to 2.3 percent at the end of 2023, 3.5 percentage points lower than at the end of 2022. The component communication was the primary factor pushing the EOP inflation. Overall, the observed economic indicators reflect an exuberant 2023.

2. Economic forecast

2.1 Projections for 2024 and 2025

The results presented in this section depict the most likely outcome based on the most recently available information and data[3], as well as on the assumptions of the CBA.

2.1.1 Real economic growth

The CBA forecasts a real GDP increase of 6.1 percent in 2024, and 1.0 percent in 2025. The expected activities related to tourism continue to be the strongest contributor to Gross Domestic Product (GDP) growth in 2024 and 2025. In 2024, average daily spending by stay-over visitors will likely remain stable, edging up by 0.1 percent to Afl. 457.0, compared to the previous year. In 2025, average daily spending by stay-over visitors will likely grow by 1.1 percent, reaching Afl. 462.0. The number of stay-over visitors in 2024 and 2025 are projected to increase by, respectively, 12.8 percent and 2.0 percent. As a result, the CBA foresees a nominal growth in tourism revenues of 10.8 percent in 2024 and 3.1 percent in 2025. Following the above-mentioned developments, real tourism exports are foreseen to expand by 8.3 percent in 2024 and 2.1 percent in 2025. Pushed up by non-tourism export growth (2024: +3.1 percent, 2025: +2.6 percent) in both years, total exports are projected to increase in 2024 (+7.1 percent) and 2025 (+2.2 percent).

The continuation of relatively large construction projects – mostly related to the tourism sector – drives investment throughout 2024. Furthermore, as a consequence of the relatively significant budget surplus registered by the government in 2024, public investment also receives a boost in 2024. However, the completion of most of the ongoing construction projects in 2024, in combination with the lack of (currently) available information on new (sizeable) private investment projects, are expected to dampen real private investment in 2025. The latter is exacerbated by a decrease in investment outlays by the public sector. Accordingly, the expectations for real private investment (2024: +14.3 percent, 2025: -8.0 percent) and real public investment (2024: +346.3 percent, 2025: -25.8 percent) described above result in real investment growth for 2024 (+17.6 percent), while real investment is anticipated to contract in 2025 (-8.7 percent).

Consumption will likely expand in 2024 and 2025, due to developments in both the private and the public sector. Given the anticipated strong performance of the tourism sector, employment is expected to expand by 1.6 percent in 2024 and by 1.5 percent in 2025, as the uptick in tourism-driven private-sector employment counterbalances the presumed contraction in public-sector employees. Moreover, wages are likely to go up by 2.7 percent in 2024, and 0.5 percent in 2025, following inflation indexation

[3] Cutoff date: May 2024.

and tight labor market conditions in the private sector, as well as the agreed upon indexation agreement (2024: +6.0 percent, 2025: +5.7 percent) related to public sector wages. In 2024 and 2025, the enhancement in real private consumption (2024: +1.4 percent, 2025: +1.1 percent) is partly counterbalanced by a decline in real public consumption (2024: -0.6 percent, 2025: -1.3 percent). As a result, real consumption rises in both years (2024: +0.9 percent, 2025: +0.5 percent).

Import follows the developments in consumption, investment, and exports. In 2024, the anticipated upturns in exports, investment, and consumption push up imports, while the contraction in investment in 2025 is expected to diminish real imports in that year. Consequently, real imports are likely to increase by 5.3 percent in 2024, and decrease by 1.2 percent in 2025.

The CBA projects a twelve-month average inflation rate of 1.6 percent in 2024 and 0.5 percent in 2025, with the core component of inflation being the main determinant of total inflation.

Table 1 summarizes the predicted growth in GDP and its components.

Table 1: Growth of real GDP and its components 2023 – 2025 (in percent)

Indicator	2023 e	2024 f	2025 f
Current outlook			
GDP	4.3	6.1	1.0
Consumption	-0.5	0.9	0.5
Private consumption	0.8	1.4	1.1
Public consumption	-4.2	-0.6	-1.3
Investment	10.1	17.6	-8.7
Private investment	10.1	14.3	-8.0
Public investment	6.3	346.3	-25.8
Exports	6.6	7.1	2.2
Tourism exports	6.7	8.3	2.1
Non-tourism exports	6.4	3.1	2.6
Imports	3.4	5.3	-1.2

Source: CBA e = estimate, f = forecast

2.1.2 Nominal economic growth

The CBA expects nominal economic growth to amount to 10.0 percent in 2024 (Afl. 653.6 million) and 2.1 percent (Afl. 150.3 million) in 2025. The latter indicates that the post-pandemic economic growth surges observed since 2021 are gradually subsiding.

Table 2: Growth of nominal GDP and its components 2023 – 2025 (in percent)			
Indicator	2023 e	2024 f	2025 f
Current outlook			
GDP	11.3	10.0	2.1
Consumption	3.8	4.9	2.5
Private consumption	4.2	3.0	1.6
Public consumption	2.6	10.1	4.6
Investment	14.1	20.1	-7.6
Private investment	14.2	16.8	-6.9
Public investment	10.2	356.0	-24.9
Exports	12.2	10.1	3.1
Tourism exports	13.1	11.4	3.1
Non-tourism exports	8.6	4.7	3.1
Imports	6.2	8.3	0.7

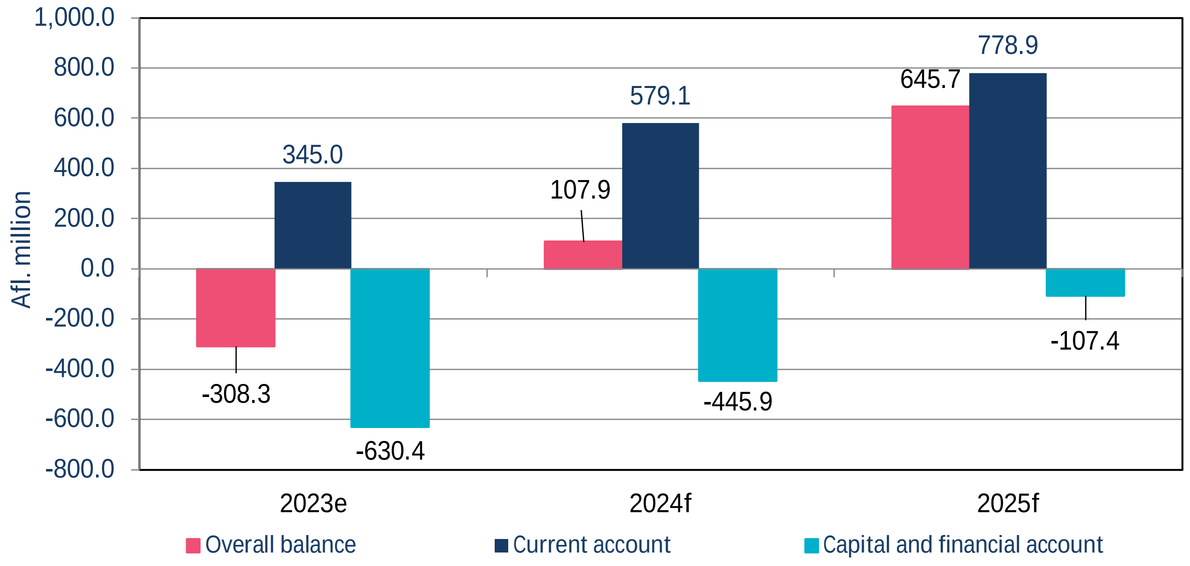
Source: CBA e = estimate, f = forecast

2.1.3 Balance of payments and international reserves

For 2024, the CBA estimates that the overall BOP will register an Afl. 107.9 million surplus, driven by an elevated current account surplus (Afl. 579.1 million). In 2024, strong tourism performance continues to push up inflows on the private sector current account, while imports bolstered by investment projects partly mitigate the inflows. Furthermore, private sector dividend payments and loan interest payments by the GOA lead to outflows on the current account. For the financial account, the CBA projects net outflows (Afl. 447.9 million) mostly related to the purchase of hotel shares by local institutional investors from nonresidents. Moreover, the GOA is expected to spur outflows (Afl. 499.5 overall GOA deficit) due to partially refinancing the maturing external debt on the domestic market. However, compared to 2023, increased opportunities for institutional investors to invest in domestic hotels and lower expected refinancing of foreign loans domestically limit the outflows from the financial account.

In 2025, the CBA anticipates an Afl. 645.7 million BOP surplus. This surplus results from the presumption of a current account surplus (Afl. 778.9 million), spurred by the tourism sector, outweighing the diminishing financial account deficit. The financial account deficit narrows (by Afl. 109.8 million) due to a smaller net GOA outflow from portfolio investments. This projection reflects the assumption that the GOA will finance its maturing external debt payments with proportionally more external borrowing in 2025 than in 2024. Nevertheless, private sector outflows related to portfolio investments (Afl. 189.7 million) are presumed to expand (by Afl. 118.2 million more net outflow) compared to 2024, as local investment opportunities in hotel projects dwindle in 2025, and institutional investors divert their investments abroad to a larger extent. The key assumption is that institutional investors in Aruba view local hotel project investments as alternatives for portfolio investments on the external market.

Figure 1: Overall balance of payments



The current account surplus is likely to reach Afl. 579.1 million in 2024, and is anticipated to amount to Afl. 778.9 million in 2025. The growing surpluses in both years are likely the result of service inflows expanding due to strong tourism exports, while a growing economy and rising global prices for services payments – although decelerating – spur outflows. Moreover, growth in domestic consumption and private investment projects are expected to push up import of goods in 2024. In 2025, similar to in 2024, domestic consumption likely to grow, however an expected drop in investments is foreseen to cause a relatively flat goods import. Furthermore, against the background of robust tourism growth, subsequent higher hotel dividend payments will likely narrow the current account surplus.

The financial account deficit is forecasted at Afl. 445.9 million in 2024. This deficit is caused primarily by the net outflow on the direct investment account (Afl. 284.6 million). This projected net outflow reflects hotel sector investments by residents from nonresidents. The expected net outflow on the portfolio account by the GOA (Afl. 166.4 million) due to repayments on foreign loans also contributes to the financial account deficit. Specifically, this forecast presumes that the GOA will cover maturing external debt through less foreign financing than in 2023 (when excluding the COVID-19 liquidity support loan), which coincides with a larger net outflow. Additionally, the impact of the private sector on the portfolio account (Afl. 71.5 million deficit) contributes to the financial account deficit, although considerably less so than the government's effect on the portfolio account. The expectation of smaller portfolio investment outflows by the private sector stems from institutional investors having more local investment opportunities in 2024, resulting in reduced investments abroad. The private sector's other investments are the only component anticipated to record a net inflow on the financial account (Afl. 134.9 million), due to the hotel companies transferring funds from their foreign accounts to their domestic bank accounts.

The financial account is projected to incur a deficit of Afl. 107.4 million in 2025. The smaller net financial account deficit, compared to 2024, follows from the portfolio account being subject to the GOA financing more maturing debt externally than in the previous year. Consequently, the forecasted net outflows from the GOA's portfolio investment account diminish considerably to Afl. 4.6 million in 2025. Additionally, the net outflow from private sector direct investments is also foreseen to lessen, as the CBA expects fewer foreign maturing debts to be refinanced domestically. However, less anticipated local investment opportunities stimulate more outflows from the financial account in search of higher investment returns abroad. Concurrently, in combination with the expected higher for longer US interest rates, the projected net outflow on the private sector portfolio investment account will expand to Afl. 189.7 million in 2025.

In 2024, the projected Afl. 107.9 million surplus in the overall BOP results in an increase in international reserves (excluding revaluation differences), i.e., from Afl. 2,802.2 million in 2023 to Afl. 2,910.1 million in 2024. Furthermore, a continued rise in the overall BOP surplus is forecasted to further raise international reserves to Afl. 3,555.8 million in 2025. To assess reserve adequacy, revaluation differences are included. International reserves, including revaluation differences, are anticipated to stay adequate, with the current account coverage ratio – averaging 7.1 months in 2025 – remaining well above the basic minimum of 3 months of current account payments (Figure 2). Furthermore, official reserves are projected to stick within the optimal bandwidth of the IMF ARA metric in 2024 and 2025 (Figure 3).

Figure 2: Past and projected International reserves (including revaluation differences) relative to the current account coverage ratio

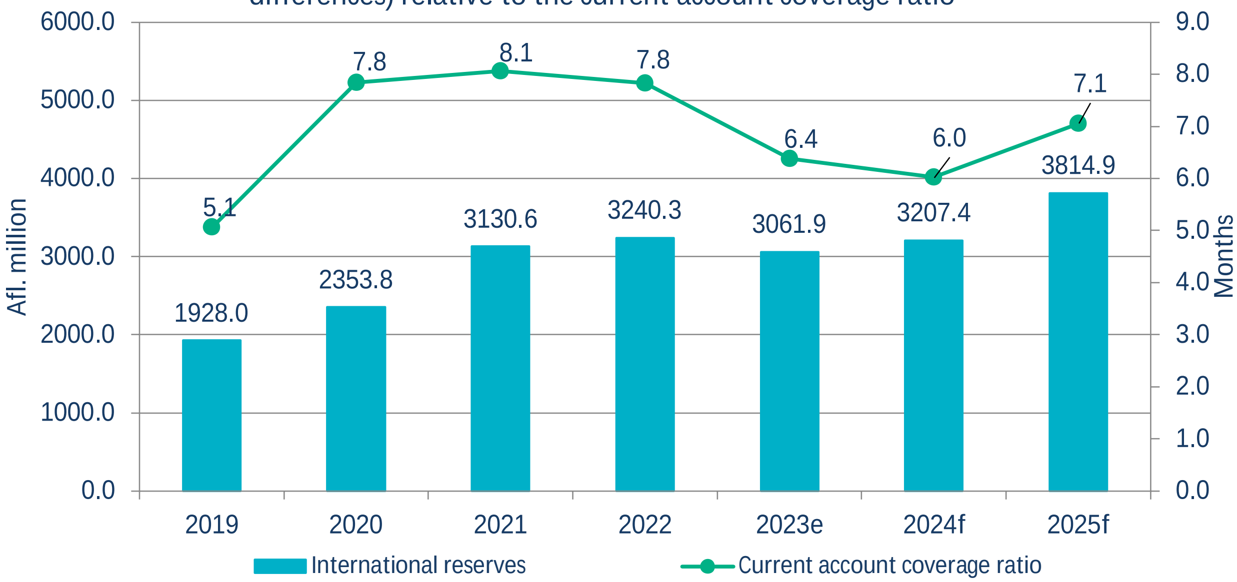
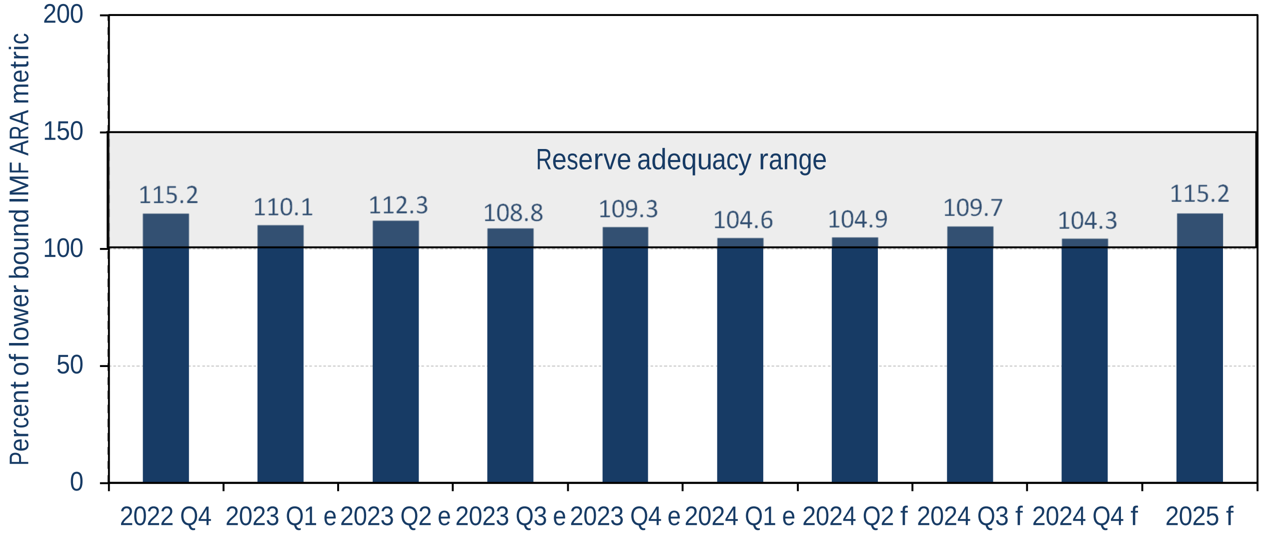


Figure 3: Past and projected Official Reserves including revaluation differences benchmarked against the IMF ARA metric



2.3 Medium-term outlook

The CBA foresees moderate real GDP growth in the medium term. For the years 2026-2028, real GDP will likely increase by, respectively, 2.9 percent (2026), 2.6 percent (2027), and 2.2 percent (2028). Consistent with developments in the short term, tourism exports remain the main driver of medium-term real GDP, albeit at a lower rate. Considering Aruba Airport Authority's (AAA) planned capacity expansion for accommodating more visitors, tourist arrivals are anticipated to grow by 2.0 percent per year. Additionally, higher expected (hotel and non-hotel) ADR and non-accommodation spending suggests a rise in tourism spending per night. Furthermore, there are various (tourism-related) construction projects that contribute to investment in the medium term, among others, the APA Port City project. Following an expected slowdown in investment in 2025, investment is likely to pick up once more in 2026. The materialization of the foreseen construction projects, in addition to the import of labor to cater to the new room inventory that comes onboard, enhance private consumption in the medium term. Considering that medium-term real import is a function of consumption, investment, and exports, medium-term import payments are projected to rise commensurately. Taking into account the cumulative impact of medium-term tourism export, import and (foreign direct) investment projections, the CBA anticipates, based on currently available data and assumptions, adequate official and international reserves in the medium run.

2.4 Outlook risks

The results presented in this Economic Outlook are subject to various domestic and international risks:

- Strength of tourism growth. The assumed tourism spending per night, resulting from the volume of stay-over visitors, their average length of stay and expenditures significantly impact the forecast results. Any deviation from the presumed propensities to travel, lodge, and spend, caused by, among others, a potential economic recession in the United States, geopolitical tensions and wars, as well as the 2024 United States presidential election, may affect the forecasted GDP growth and the current account of the BOP.

- Inflation. The general level of prices of goods and services will likely normalize in 2024 and 2025. Despite the expected lower level of inflation in 2024 and 2025 compared to 2023, inflation surge constitutes a risk to the forecast. Factors that potentially conduce to the aforementioned risk include the ongoing Russia-Ukraine and Israel-Hamas wars, supply chain disruptions – such as those resulting from attacks on vessels in the Red Sea –, oil market volatility, adjustments to domestic utility tariffs, upward pressures on domestic wages due to tight labor market conditions, as well as weather events that threaten agriculture and the availability and prices of food items. In addition, the path of US inflation affects the yields on US treasuries. This development impacts the decision of Aruban institutional investors to purchase US treasuries and, consequently, has a bearing on the gross outflows from the BOP financial account.

- Investment projects. The projected results reflect the CBA's inferences on the timing and construction speed of investment projects. These suppositions entail a source of risk to the GDP, BOP, and foreign exchange projections. The execution of investment projects may be affected by numerous factors, such as (perceived) red tape, available fiscal space, inflation, labor market conditions, financial market conditions, and the availability of construction materials.

- Labor. The CBA assumes a given volume and timing of labor imports to accommodate the projected growth in tourism, as well as additional room inventory on the island. Furthermore, inflation indexation will likely lead to higher wages. However, any departure from the presumed labor market conditions may affect the projected GDP growth rates.

- Additional government measures. The GOA agreed to increase public sector wages in 2024 and 2025, in order to compensate for purchasing power lost during 2018 – 2023. The implementation of additional measures, including the introduction of income-generating or expenditure reducing measures, could impact private and public consumption. Furthermore, the GOA's financial position could affect its foreign borrowing and, consequently, the BOP and international reserves.

- External financing conditions. While the governments of Aruba and the Netherlands have reached a preliminary agreement regarding the refinancing of COVID-19 related debt at lower and interim interest rates, risks remain pending the approval of the Parliaments of Aruba and the Netherlands, as well as the implementation of the new Kingdom law. In addition, risks associated with changing external financing conditions could impact the GOA's fiscal position. Depending on the persistence of inflation globally, and, consequently, persistent higher interest rates, external financing conditions may have a positive or negative effect on the GOA's fiscal position.

3. Concluding remarks

The CBA foresees a robust performance of the tourism sector in 2024 and 2025. As a result, tourism continues to be the main driver of GDP growth in both years. Real GDP growth will likely amount to 6.1 percent in 2024, driven in large part by tourism exports and private investment. In 2025, real GDP growth will probably decelerate to 1.0 percent, as the anticipated upturns in tourism exports and private consumption are partly mitigated by a forecasted decline in investment. The CBA further anticipates that real GDP in the medium-term will range between 2.2 percent and 2.9 percent, due to higher (tourism) exports, consumption, and investment (2026).

In 2024, the overall BOP is likely to register an Afl. 107.9 million surplus driven by an elevated (net) current account inflow. The latter results in part from strong tourism performance in the private sector current account, while imports, bolstered by investment projects, partly mitigate the inflows. In 2025, the BOP is expected to register an Afl. 645.7 million surplus, as the current account surplus outweighs the financial account deficit. As for the financial account in 2025, the assumption is that the GOA will borrow more externally compared to 2024 to pay off maturing foreign debt, and private sector outflows are projected to expand due to fewer domestic investment opportunities.

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