2024-III

STATE OF THE ECONOMY

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.

Executive Summary

Tourism surge boosts consumption and spurs economic growth

In the first nine months of 2024, Aruba's economy demonstrated continued strength. Growth was driven by the robust performance of the tourism sector, which saw increased revenues and a higher number of visitors from the United States and Latin America. This surge in tourism, coupled with rising domestic demand, improved all consumption indicators. Large construction projects, mainly in the tourism sector, also contributed to economic activity and spurred investment. Investment indicators were mixed, however, with some showing declines. At the end of September 2024, the 12-month average inflation rate slowed to 2.0% from 3.4% at the end of 2023, due to the waning impact of the utility tariff hike in August 2022, lower vehicle purchase prices, and a smaller contribution from food prices. Communication services and housing maintenance were the main drivers of inflation in September. The rise in tourism revenues led to a net inflow of Afl. 566.3 million in foreign exchange in the first nine months of 2024. Consequently, by the end of September 2024, international reserves remained more than adequate according to Centrale Bank van Aruba (CBA) benchmarks. Additionally, government tax revenues incurred a boost from the robust performance of the tourism sector, while enhanced labor market conditions and heightened economic activities contributed to increases across all tax revenue categories.

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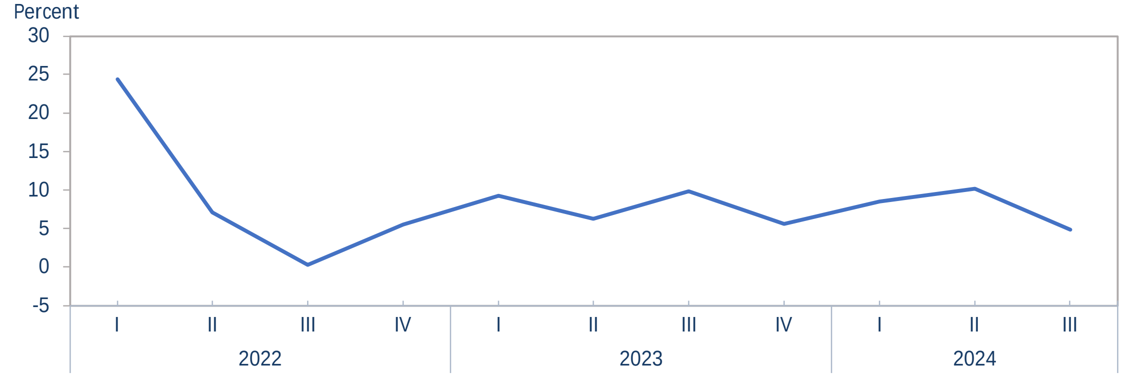
1 Domestic Economy

1.1 Economic Growth

During the third quarter of 2024, quarterly real GDP grew 4.8% compared to the same period of 2023 (see Chart 1). In the previous quarters of 2024, quarterly GDP growth reached 8.5% in the first quarter and 10.2% in the second quarter, respectively. This led to an average real GDP expansion of 7.8% at the end of September 2024. After rebounding in 2021 and decelerating in 2022, growth stabilized yet remained high, hovering around 8% during 2023 and the first three quarters of 2024. In the first three quarters of 2024, tourism drove this rise in economic output due to a significant increase in the number of stay-over (+16.4%) and cruise (+13.2%) visitors. This buoyant hike in the tourism sector also spurred consumption and imports, while investments offered mixed signals as some hotel constructions neared completion.

Chart 1: Quarterly GDP growth year-over-year



Calculations: CBA

1.2 Tourism

Up to September 2024, most of the tourism-related indicators showed double digit expansions compared to YTD September 2023 (Table 1). Stayover visitors, visitor nights, cruise visitors, revenue per available room (RevPAR), and tourism revenue each grew by more than 10%. Meanwhile, hotel occupancy and average daily rate (ADR) also exhibited increases, albeit at a more moderated pace. Tourism revenue per night was virtually unchanged. Contrastingly, the average length of stay (ALOS) decreased during the period under review compared to the first 9 months of 2023.

Table 1: Tourism indicators for Aruba
YTD September

	2022	2023	2024
Stay-over visitors	816,362	930,157	1,082,471
Average length of stay (in days)	7.2	8.0	7.6
Total visitor nights	5,850,732	7,454,903	8,257,671
Cruise visitors	358,679	575,597	651,342
Hotel occupancy (%)	73.7	77.8	82.8
Average daily rate (US$)	304.2	343.3	364.6
Revenue per available room (RevPAR) (US$)	224.3	267.2	301.7
Tourism revenue per night* (in Afl.)	417.6	379.7	380.3
Tourism revenue* (in Afl. million)	2,443.2	2,830.4	3,140.3

Sources: CBA, ATA, AHATA

*Only those registered at local commercial banks.

The strong growth in the number of visitors (both stayover and by cruise) drove up other indicators, such as tourism revenue and visitor nights, during the period under review (see Table 1). The number of stayover visitors registered the most significant growth among all tourism-related indicators, continuing on an upward trend observed since the third quarter of 2021. The number of stayover visitors jumped by 16.4%, reaching 1,082,471 visitors, compared to the first three quarters of 2023 (Chart 2). This expansion is considered sizable when contrasted against the year-on-year (YOY) growth for YTD September 2023 over YTD September 2022. During the aforementioned period, the number stayover visitors increased by 13.9 percent, which including 2022 when the first quarter was still restricted due to Covid-19 related measures. Cruise visitors also exhibited an upturn during the period under review, totalling 651,342 (+13.2%) compared to 575,597 during the same period in 2023. Although still registering strong growth, the uptick is on a normalizing trend when compared to expansions in numbers of cruise visitors for the same periods of 2023 and 2022, (2023-III YTD: +60.5% and 2022-III YTD: +1116.7%). As a result, tourism revenue grew to US$ 3.1 billion (+10.9%), and total visitor nights totaled 8,257,671 (+10.8%). Similar to the trend observed in the figures for cruise visitors, the expansions in tourism revenue and total visitor nights also showed signs of normalization after seeing tourism revenue grow by 15.8 percent in 2023 and 48.0 percent in 2022, while the number of visitor nights leaped by 27.4 percent in 2023 and 40.9 in percent in 2022.

Despite the boost in the number of tourists, the decrease in the ALOS mitigates the magnitude of the expansion in nights during the first 3 quarters of 2024. As per YTD September 2024, the ALOS decreased by 4.8% compared to the same period in 2023. During the first nine months of 2024, the ALOS amounted to 7.6 days, down from 8.0 days during the same period in 2023 (Chart 3). Since 2022, the ALOS followed a decreasing trend for the first two quarters of the year, reversing to an upward trend in the second half of the year (Chart 3). The consistent ebb and flow continued to the third quarter of 2024. For the month of September 2024 compared to September 2023, a shorter ALOS (September 2024: 7.3 nights vs. September 2023: 8.0 nights) contributed to a negative growth of -3.7% in number of visitor nights .

Chart 2: Stay-over visitors and visitor night growth (in %)

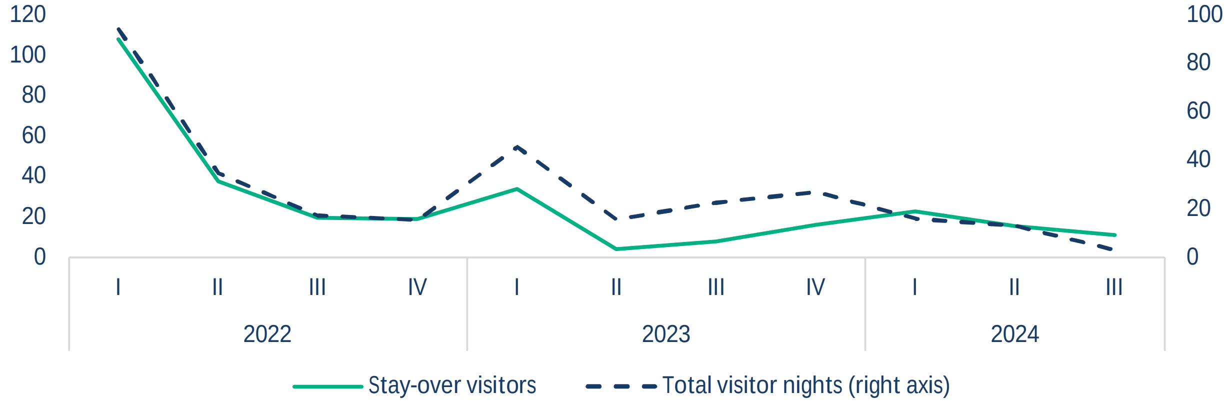
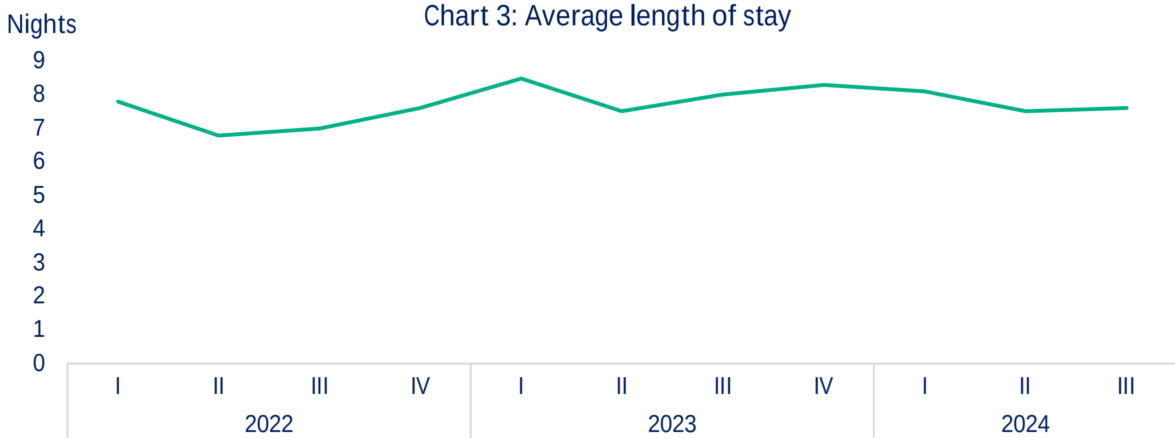


Chart 3: Average length of stay



Source: ATA

Furthermore, hotel sector data also showed indications of a boost in the sector. For the first three quarters, RevPAR registered double digit growth, in line with the aforementioned data on visitors. Furthermore, hotel occupancy reached 82.8%, up from 77.8%, a growth of 6.4%. Exhibiting similar growth, the ADR amounted to US$364.6, up from US$343.3, resulting in an uptick of 6.2%.

During the period under review, revenue[1] from tourism activities recorded via the local commercial banks[2] grew by 10.9% compared to the same period in 2023. The rise in tourism revenue was attributed to the year-over-year growth in total visitor nights and a slight increase in tourism spending per night.

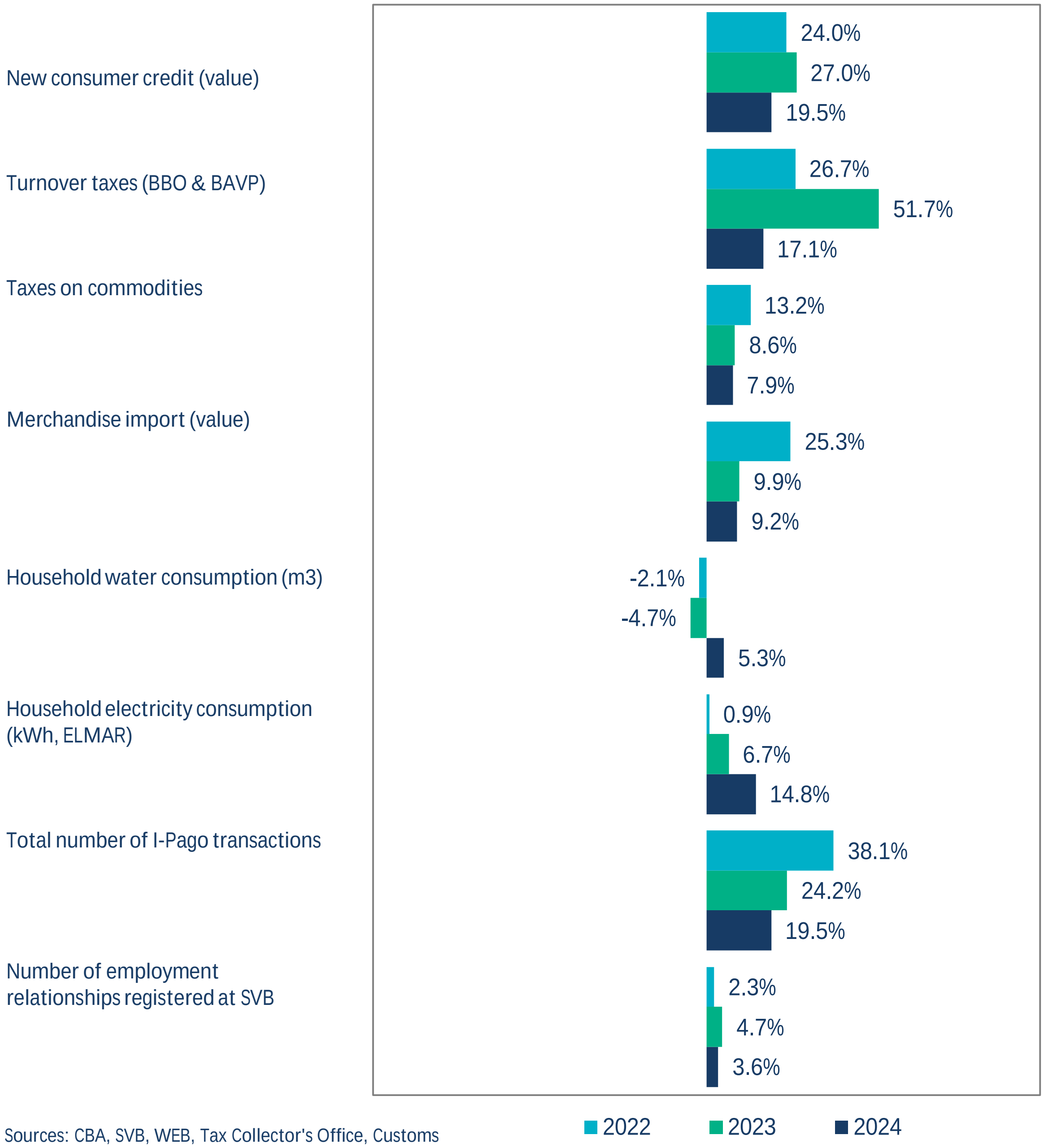
1.3 Consumption

Consumption-related indicators reflect increased consumption during the first three quarters of 2024. During this period, all consumption indicators showed improvements compared to the same period in the previous year. Notable upticks were seen in the aggregated value of new consumer credit (+19.5%), turnover taxes (+17.1%), and household electricity consumption (+14.8%) (Chart 4).

[1] Tourism revenue corresponds to the definition of tourism credits as defined by the IMF BPM 6 manual. The cut-off date for the data used was December 3, 2024.

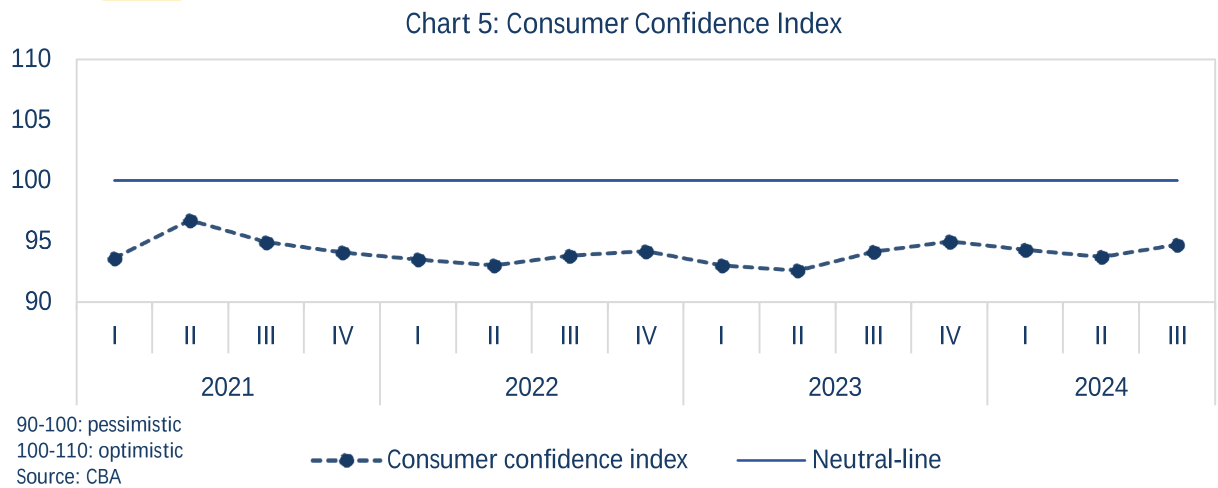
2 Tourism revenue recorded at local commercial banks constitutes about 83% of total tourism revenue (incl. tourism revenue recorded at non-banks). At the time of writing, data on tourism revenue recorded by non-banks were not available.

Chart 4: Consumption-related indicators
(YTD Sep 2024 vs. YTD Sep 2023 vs. YTD Sep 2022)



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

The large expansion in new consumer credit is likely due to the sharp rise in (the outstanding value of) car loans, which rose by 21.6% during the same period. The upsurge in car loans might be explained by consumers' higher interest in purchasing new cars, as indicated by the Consumer Confidence Survey (CCS). The survey showed that a larger proportion of respondents considered it suitable to buy a new car (an average of 9.6% YTD 2024 compared to 7.8% YTD 2023 [Chart 5]). Moreover, the number of car sales reported by the Aruba Car Dealers Association (ACDA) went up by 15.5 percent during the same period. The drop in vehicle prices during the first half of 2024 may have contributed to the spike in car purchases.



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

Despite these positive developments, the aggregated value of new consumer credit pointed to a slowdown compared to previous years. During the same period in 2023, new consumer credit surged by 27.0% and in 2022 by 24.0%. Therefore, while consumer credit grew in 2024, its increase was lower than in previous years.

Turnover taxes (+17.1%) and taxes on commodities (+7.9%) collected by the Government of Aruba also indicated higher consumption during the first three quarters of 2024. Robust tourism performance and higher domestic consumption seemingly contributed to the rise in turnover taxes and taxes on commodities. However, compared to 2023, both tax components exhibit a slower growth rate. Specifically, in 2023, turnover taxes grew by 51.7% and taxes on commodities by 8.6%. The downturn in turnover tax growth can be attributed to the BBO rate increase from 6% to 7% as of January 1, 2023 and the implementation of BBO at the border as of August 1, 2023, which boosted turnover taxes in 2023 compared to 2022. The growth in taxes on commodities in 2023 likely reflects increased imported consumption as a result of import duty tariffs decline in 2023.

Up to and including September 2024, data from utility companies also paint a positive picture of consumption. During the first three quarters of 2024, household electricity consumption in KwH (+14.8%) and household water consumption in m3 (+5.3%) rose. Household electricity consumption climbed by 14.8%, following increases of 6.7% in 2023 and 0.9% in 2022. The higher household electricity consumption may be attributed to warmer average temperatures (+1.7°F) in Aruba during the first three quarters of 2024 compared to the same period in 2023. Notably, household water consumption expanded after decreasing during the same period in 2023 and 2022.

Other consumption-related indicators also point to higher consumption. Consistent with prior years, the number of employment relationships registered at the Sociale Verzekeringsbank (SVB) continued on an upward path. The latter rose by 3.6% in the first nine months of 2024 compared to the end of December 2023[3]. Additionally, the number of processed I-Pago transactions widened by 19.5%, mainly pushed up by transactions between Afl. 0 and Afl. 250, which surged by 25.4%. Meanwhile the growth in the number of transactions above Afl. 250 contributed to a lesser degree (+13.8%). Merchandise imports, spurred by higher domestic demand and the thriving tourism sector, also saw an uptick of 9.2%, remaining close to the growth rate of 9.9% in 2023.

1.4 Investment

Investment-**related indicators painted a mixed picture of investment activity in Aruba in the first nine** months of 2024. The value of construction materials brought from abroad decreased by 0.8% during the period under review, as opposed to the same period of 2023 (+30.4%) and 2022 (+12.4%) (Chart 6). A similar development is evident in the import value of base metals and derivative works. According to data obtained from the Central Bureau of Statistics (CBS), the import value of base metals and derivative works contracted by 9.6% in the first three quarters of 2024, contrasting the upturns registered during the corresponding months of 2023 (+40.5%) and 2022 (+29.8%). On the other hand, the import value of machinery and electrotechnical equipment rose by 14.7% during the first nine months of 2024. This growth was in line with the increase registered in the same period of 2023 (+16.2%), albeit smaller than the expansion observed in the first nine months of 2022 (+27.1%). The slowdown in investment-related import indicators may reflect the completion of ongoing hotel sector projects scheduled for opening in the beginning of 2025, as the completion phases might not require as many imported construction materials as the initial construction phases.

Data from the commercial banking sector related to mortgage activities point to smaller investment projects during the first three quarters of 2024 compared to the same period of 2023. The number of new commercial mortgages rose by 6.9%, while the value of new commercial mortgages contracted by 37.5%. The aforementioned contraction in the value of new commercial mortgages is a reversal of the developments in new commercial mortgages witnessed in the same period of 2023, and indicates construction of smaller projects. Furthermore, data on new housing mortgages show a decline in the number of new housing mortgages (-5.0%), while the value of new housing mortgages increased by 2.0%. In the corresponding period of 2023, both the number (+3.5%) and value (+13.1%) of new housing mortgages increased.

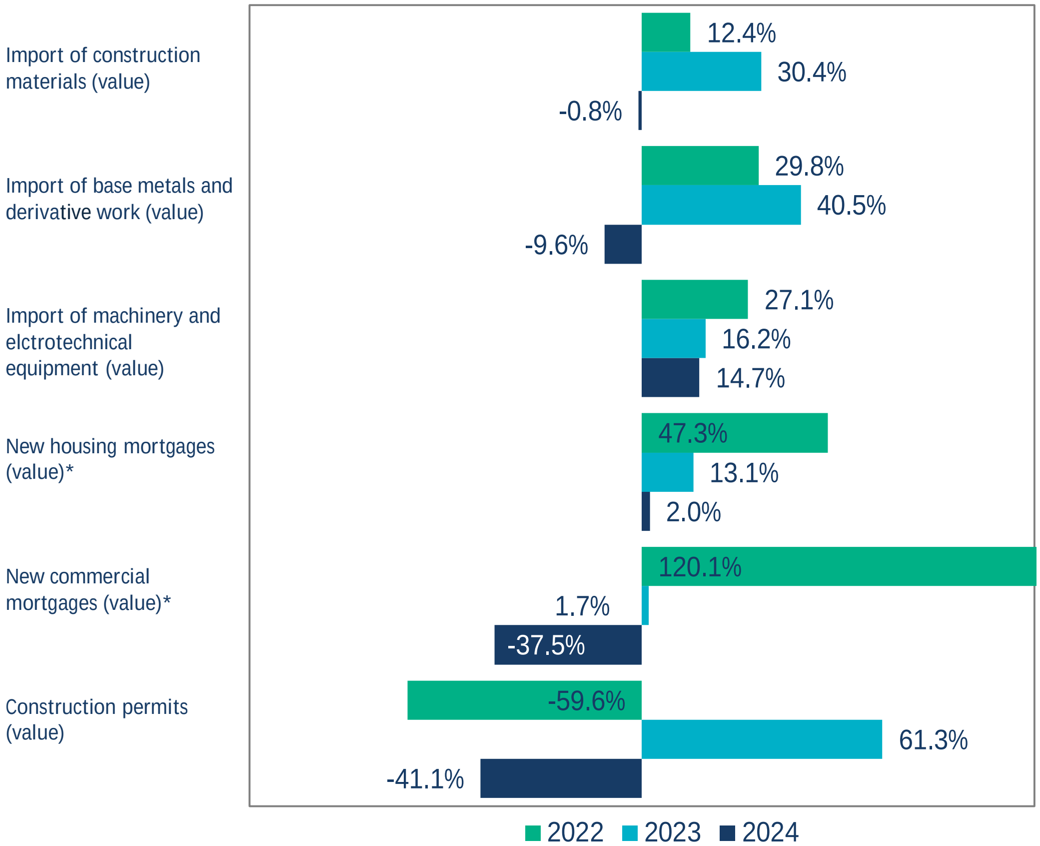
In the first nine months of 2024, the number and value of construction permits declined by 23.2% and 41.1%, respectively. The largest contributor to the contraction in the number of construction permits was the category 'houses' (-115 permits; -25.2%). The decrease in the value of construction permits, on the other hand, stemmed mainly from construction permits in the category 'others' (-Afl. 150.3 million; -68.8%). The latter includes construction permits for condominiums. The substantial drop in the aforementioned category primarily reflects the incidentally large value for the category 'others' registered in Q3 2023 (Afl. 202.4 million) compared to Q3 2024 (Afl. 29.9 million). It should be noted, that construction permits data are to be interpreted with caution, due to the potential time lag between the

[3] Retrieved from https://www.svbaruba.org/organisacion/estadistica/ on January 28, 2024.

issuance of permits and actual investment. Consequently, the value of construction permits does not necessarily equal investment expenditures during the period under review.

The Business Perception Index (BPI) reported in the CBA's **Business Perception Survey (BPS), reached** 106.3 at the end of the third quarter of 2024, entailing an improvement of 1.0 index point compared to the third quarter of 2023 (Chart 7). The upturn in the BPI was driven by a stronger short-term economic conditions index (+0.5 index points) and the current economic conditions index (+1.3 index points). The enhancement in these indices reflects increased optimism in local businesses' perceptions of current and future economic conditions. The BPS Investment Index, in turn, contracted from 107.1 at the end of the third quarter of 2023 to 105.0 in the third quarter of 2024. The latter occurred as more respondents reported a worsening in current investment conditions in the third quarter of 2024 compared to the same quarter of the previous year (2024-III: 13.5% vs. 2023-III: 6.4%). The latter outweighed the rise in the number of respondents, indicating an improvement in current investment conditions (2024-III: 40.4% vs. 2023-III: 38.3%). With regard to short-term investment plans, a larger share of respondents declared investment plans in BPS 2024 Q-III (69.3%) vs. BPS 2023-III (53.1%) (Chart 8).

Chart 6: Investment-related indicators
(Percentage change YTD Q3 2024 vs. YTD Q3 2023 vs. YTD Q3 2022)



*Corrected for 2022 loan portfolio takeover.

Sources: CBA, CBS, DOW

Chart 7: Business Perception Index

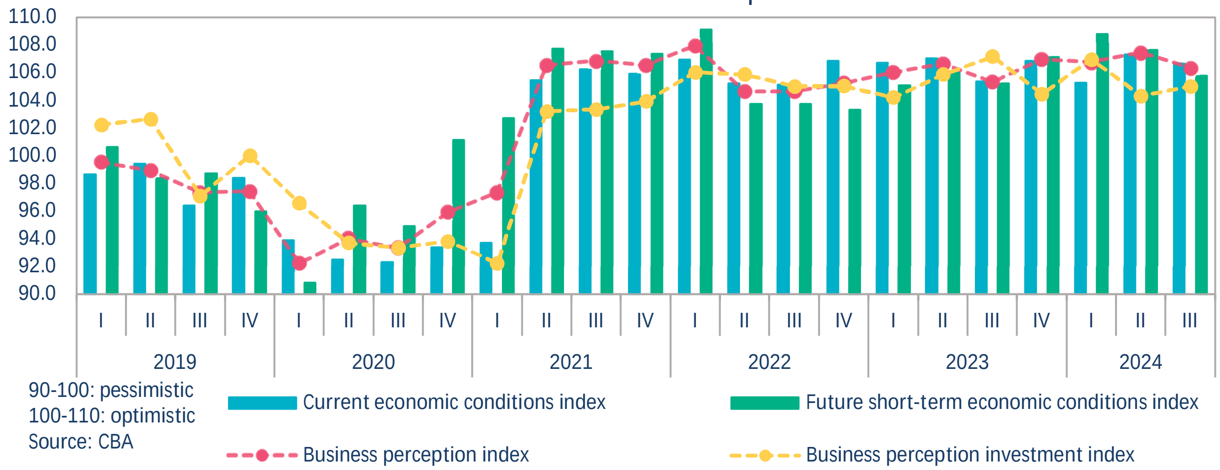
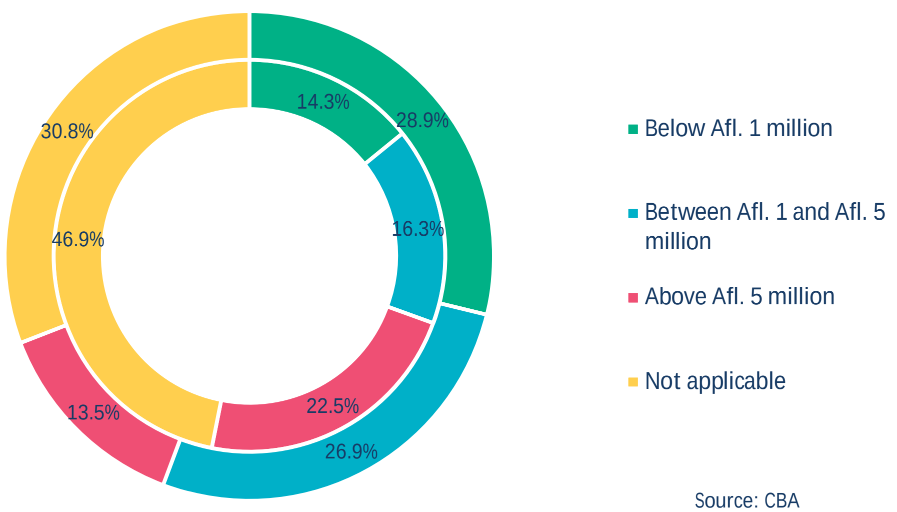


Chart 8: Share of businesses responses on their investment plans
Inner circle: Q3 2023. Outer circle: Q3 2024.

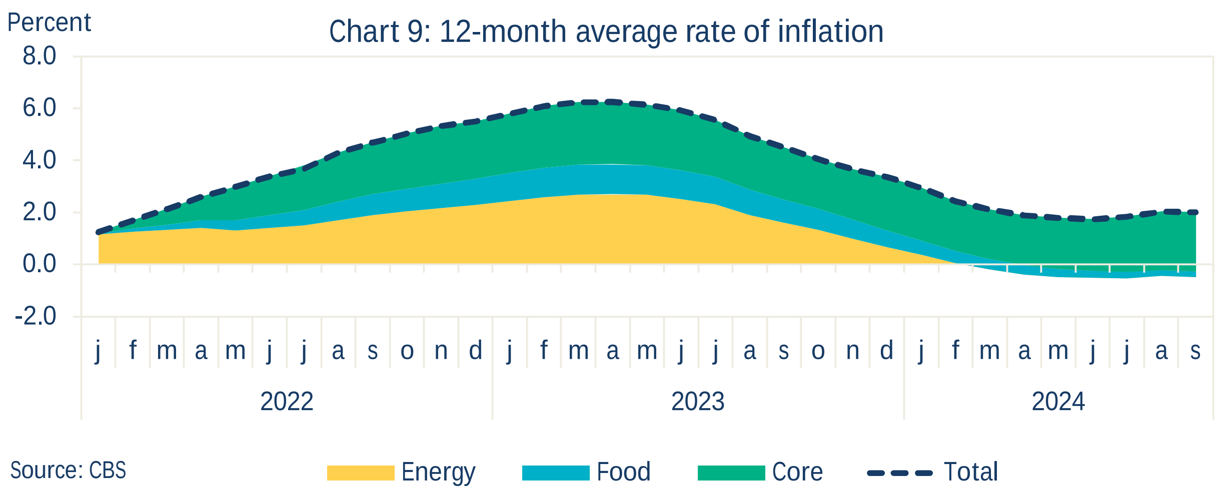


1.5 Consumer Price Index

At the end of September 2024, the 12-month average inflation reached 2.0%. The latter reflects an increase compared to second quarter (1.7%) yet remained below the first quarter (2.1% [Chart 9]). The declining trend in Aruba's 12-month average inflation rate started in May 2023. This mirrors the diminishing contribution of the utility tariff hike in August 2022, reduced gasoline and diesel prices, and a smaller contribution from food prices. Compared to December 2023, the 12-month average inflation contracted by 1.3 percentage points in September 2024. The lower level of inflation resulted from the reduced contribution of utility prices and food prices to the consumer price index.

The communications (+1.2 percentage points) and housing (+0.4 percentage point) components contributed substantially to the 12-month average inflation rate in September 2024. The contribution of the communication component reveals increased prices for telephone services (+1.2 percentage points). The expansion in the housing component, in turn, was due to higher prices for the maintenance and repair of dwelling (+0.6 percentage point). The latter mitigated the effect of the decreasing contribution of electricity prices on the 12-month inflation rate (-0.3 percentage point). In addition, the food and non-alcoholic beverages (+0.3 percentage point), miscellaneous goods and services (+0.3 percentage point), restaurants and hotels (+0.2 percentage point), education (+0.2 percentage point), and health (+0.1 percentage point) components also exerted upward pressure on the 12-month average inflation rate. On the other hand, transport (-0.6 percentage point), recreation and culture (-0.1 percentage point), offset in part the 12-month average inflation rate during the period under review.

The 12-month average core inflation – inflation excluding energy and food – amounted to 2.3% in September 2024. Consequently, it surpassed the total 12-month average inflation by 0.3 percentage point, playing a more prominent role in the 12-month average inflation rate than in the first quarter of 2024. Compared to the end of December 2023, the 12-month average core inflation edged up by 0.2 percentage point.

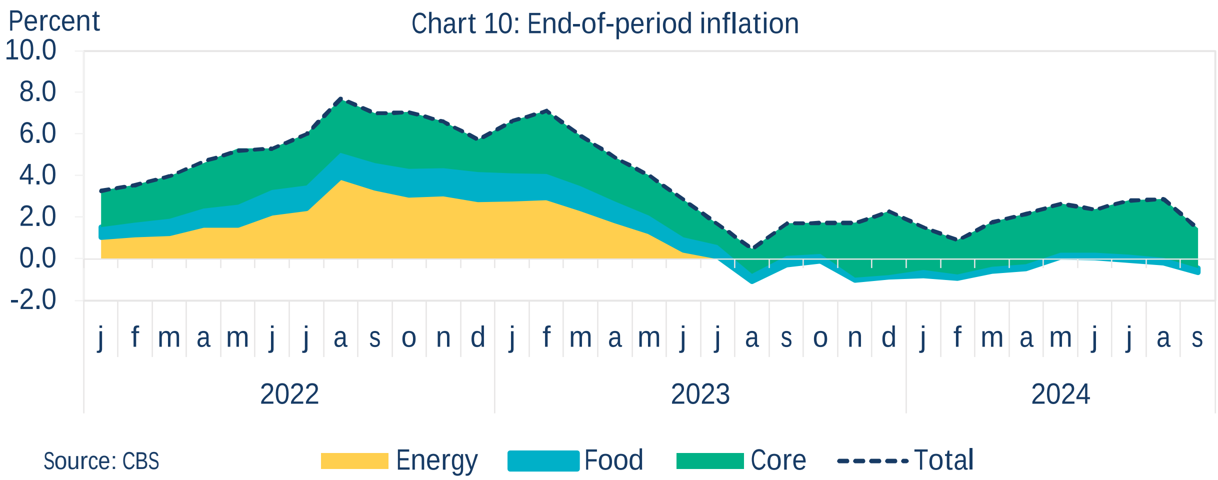


Source: CBS

The end-of-period (EOP) inflation rate rose in July (2.8%) and August (2.9%) 2024 before falling to 1.5% in September 2024 (Chart 10). Lower gasoline prices, smaller contributions for maintenance and dwelling repair prices, and vehicle purchases led to the drop in the EOP inflation rate in September compared to August. Compared to December 2023, the EOP inflation rate contracted by 0.8 percentage point. The downward pressure on the EOP inflation rate mainly resulted from the lower contribution of prices for telephone services. The EOP inflation rate in July and August mainly reflect higher prices of maintenance and repair of dwellings, vehicle purchase prices, and telephone services.

For the EOP inflation rate for September 2024, the communication (+0.5 percentage point), miscellaneous goods and services (+0.4 percentage point), and food and non-alcoholic beverages (0.3 percentage point) components were the main contributors. Similar to the 12-month average inflation rate developments described above, increased prices for telephone services (+0.5 percentage point) influenced the rise in the communication component, while higher prices for personal effects (+0.3 percentage point) affected the expansion in the miscellaneous goods and services component.

The EOP core inflation rate – inflation excluding energy and food – amounted to 1.9% in September 2024 down from 3.1% at the end of 2023. Similarly to the 12-month average core inflation, the EOP core inflation rate surpassed the total EOP inflation rate (+0.4 percentage point) during the period under review.



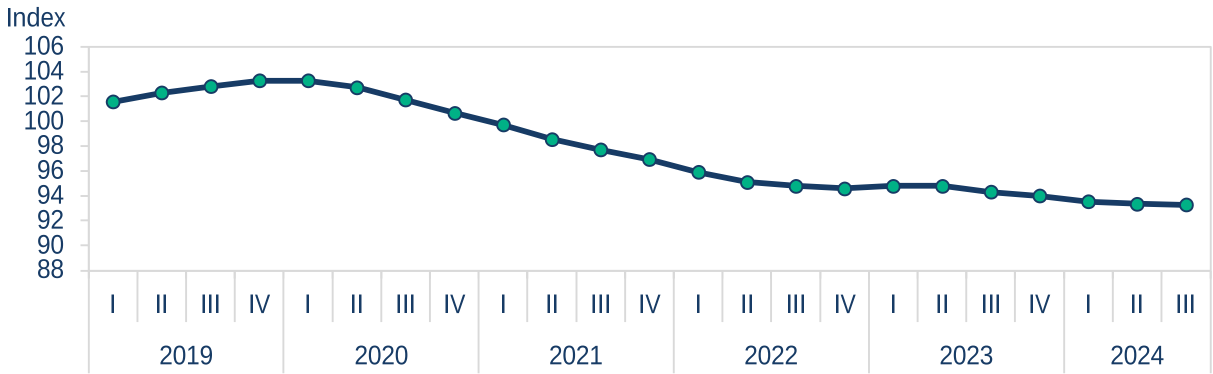
1.6 International Competitiveness

At the end of September 2024, the real exchange rate (RER) contracted to 93.3. Therefore, the third quarter of 2024 marks the fifth consecutive quarter that registered a reduction (Chart 11). The RER followed a downward path since the beginning of the COVID-19 crisis (i.e., 2020-I). In the first two quarters of 2023, the RER grew but resumed its downward trajectory as of the third quarter of 2023. The RER's declining trend suggests that Aruba's competitive position against the U.S. dollar improved since the onset of the COVID-19 pandemic.

On a quarter-to-quarter basis, the RER edged down by 0.1 in the third quarter of 2024. The latter resulted from a slightly wider inflation differential with the United States compared to the second quarter of 2024. Specifically, the 12-month average inflation rate in the United States (3.1%) was higher than in Aruba (2.0%)

during the period under review. It should be noted that the 12-month average inflation rates in both countries have been lower in 2024, with inflation in Aruba falling faster than in the United States.

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



Source: CBA

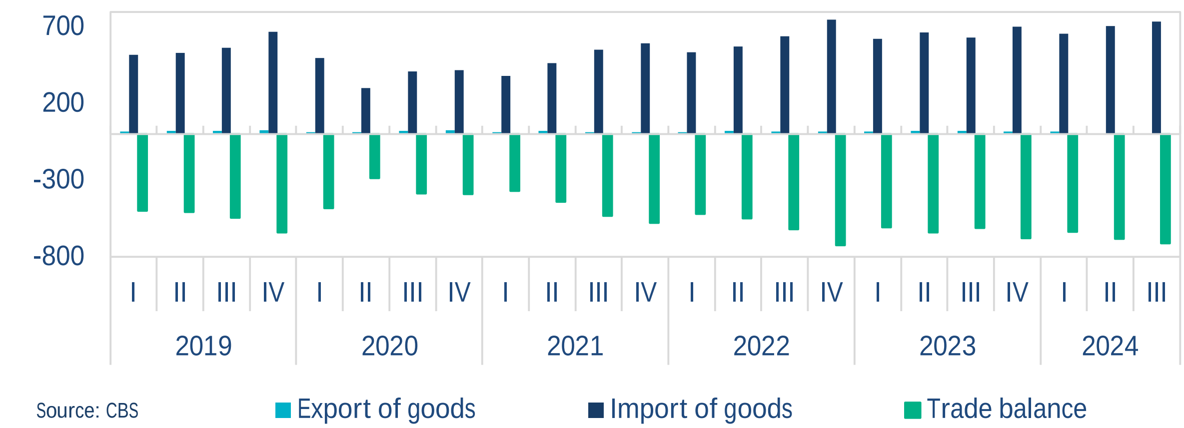
1.7 Foreign Trade

During the first three quarters of 2024, Aruba's trade deficit totaled to Afl. 2,034.7 million — a bigger deficit compared to the first three quarters of 2023 (+Afl. 174 million; +9.4%). The expanded trade deficit resulted from growth in the imports of goods (+Afl. 175.6 million; +9.2%) partially offset by a small increase in the exports of goods (+Afl. 1.6 million; +2.8%) (Chart 12).

Upturns in the import of 'other goods' (+Afl. 76.5 million; +9.4%), machinery and electrotechnical equipment (+Afl. 39.8 million; +15.0%), transport equipment (+Afl. 27.6 million; +19.4%), and live animal and other animal products (+Afl. 20.8 million; +12.8%) were the main drivers of the expansion in total imports. The aforementioned increases were mitigated in part by a decline in the import of base metals and derivative works (-Afl. 11.0 million; -10.0%). Increased imports of 'various goods and products not elsewhere specified' (+Afl. 26.8 million; +29.0%) and artificial plastic elements (+Afl. 13.1 million; +20.5%) were the primary reason for the rise in the import of 'other goods'.

The Q3 year to date trade deficit is following an upward trend (2022: Afl. 1,693.2 million, 2023: Afl. 1860.7 million, 2024: Afl. 2,034.7 million). The latter points to the rising imports of goods to Aruba, given negligible movements in exports during the years under review. Higher numbers of visitors, the related heightened demand from the local population, and inflation abroad have likely stimulated the growth in the value of imported goods in recent years.

Chart 12: Foreign trade



1.8 Balance of Payments

International transactions settled through the commercial banking sector exhibited a net foreign exchange inflow of Afl. 566.3 million in the first three quarters of 2024 (Table 2). This net inflow marks a turnaround from the Afl. 306.3 net outflow registered in the first three quarters of 2023. In turn, the shift in the financial account from a net outflow to a net inflow was the primary factor in this reversal. Additionally, stronger tourism performance contributed to the turnaround in the balance of payments. Tourism credits increased from Afl. 2,830.4 million to Afl. 3,194.6 million following the increase in tourism arrivals by 16.4%.

The Afl. 69.1 million net inflow on the financial account further boosted the expansion in **international reserves**. The financial account recorded large net inflows from foreign accounts (Afl. 171.2 million). Nonetheless, net outflows related to other investments and direct investments were a mitigating factor. The latter was due primarily to a resident company's purchase of hotel shares from a non-resident company.

The higher level of tourism credits helped push up the current account net inflow to Afl. 612.9 million in the first three quarters of 2024. However, the goods account registered a net outflow of Afl. 1,487.9 million. Notably, despite a stronger economy, the net outflow of goods increased marginally compared to the first three quarters of 2023. Furthermore, primary income showed a net outflow of Afl. 104.9 million, which was substantially lower than the previous year due to decreased dividend payments.

Table 2: Balance of payments (in Afl. million)*	YTD Q3 2023	YTD Q3 2024
Current account	169.9	602.2
Goods	-1458.9	-1,487.9
Services	1966.4	2,264.8
Primary income	-303.2	-104.9
Secondary income	-28.9	-69.8
Capital account	-5.5	10.8
Financial account	-443.2	69.1
Direct investment	58.3	-29.5
Portfolio investment	-208.6	21.0
Financial derivatives	3.3	-1.7
Other investment	-95.8	-91.7
Foreign accounts	-200.3	171.2
Items not yet classified	-33.1	-115.7
Change in international reserves (excluding revaluation differences)	-306.3	566.3

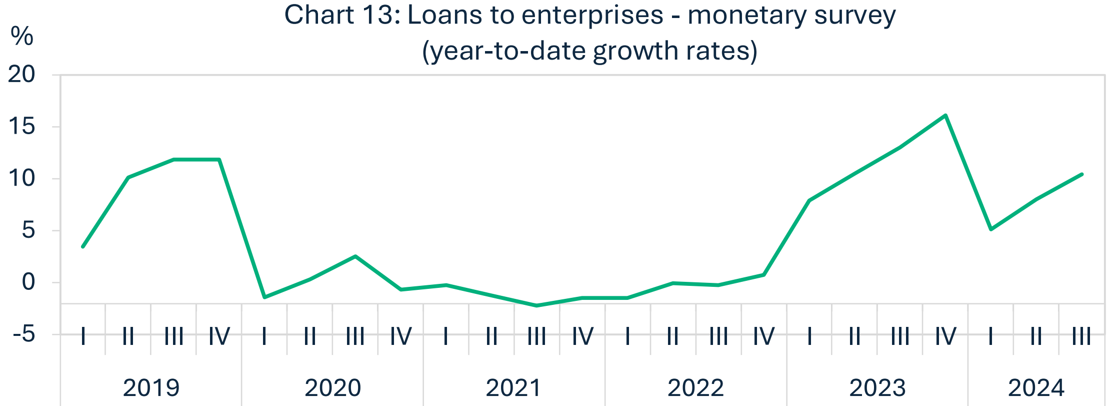
Source: CBA
*Transactions recorded through local commercial banks up to September 27, 2024.

1.9 Monetary Survey

In September 2024, money supply expanded to Afl. 6,001.8 million from Afl. 5,583.4 million in December 2023. This expansion was primarily the result of a surge in net foreign assets (excluding revaluation differences) to Afl. 3,388.5 million compared to Afl. 2,802.2 million at end-2023. On the other hand, net domestic assets contracted by Afl. 167.9 million, primarily due to a decrease in domestic credit caused by lower net claims on the public sector in the first three quarters of 2024. The latter reflected a rise in government deposits of Afl. 312.3 million, which overshadowed the small jump in gross claims on the government (+Afl. 8.9 million). Contrary to net claims on the public sector, claims on the private sector widened by Afl. 254.1 million. Meanwhile, foreign reserves were amply above the benchmarks monitored by the CBA. Including revaluation differences, the net foreign assets (Afl. 3,824.4 million) covered 7.8 months of current account payments. In addition, the gross foreign assets of the CBA (Afl. 3,457.2 million) were 41.1 % above the lower bound of the IMF ARA metric.

In the first nine months of 2024, credit to the private sector rose by 6.6% (+Afl. 254.1 million), spurred predominantly by a jump in loans to enterprises. The growth in business loans (+10.4%; +Afl. 182.9 million) was due mainly to a hike in loans to the real estate, renting, and business activities sector and was in part the result of incidental transactions (Chart 13). Moreover, loans to individuals (+3.5%; +Afl. 71.2 million) also contributed to the rise in private sector credit.

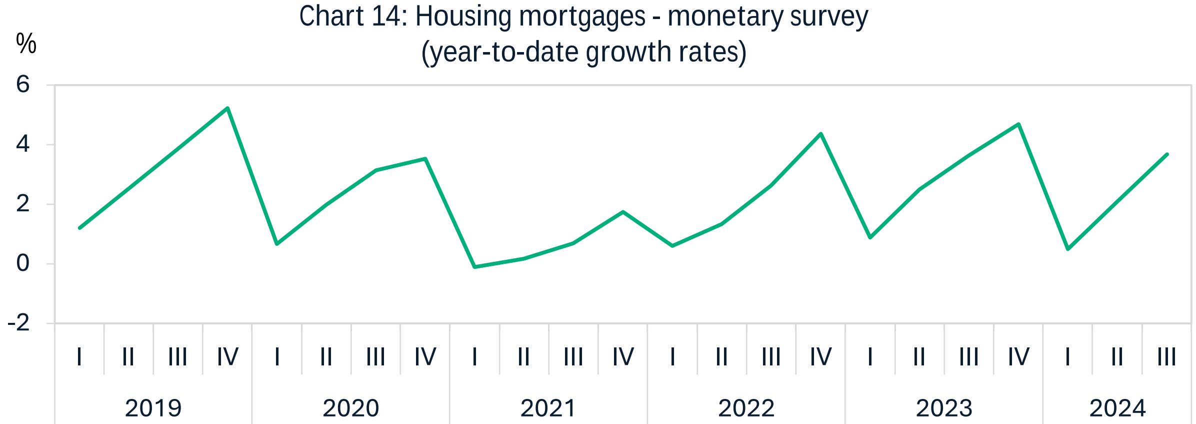
Chart 13: Loans to enterprises - monetary survey
(year-to-date growth rates)



Source: CBA

Term loans longer than two years (+12.2%; +Afl. 122.6 million) and to a lesser extent commercial mortgages (+7.4%; +Afl. 45.8 million), were the main drivers of the growth in business loans. Meanwhile, term loans shorter than two years and current account loans also picked up, but much more modestly. Furthermore, the increase in loans to individuals was attributable mostly to expansions in housing mortgages (Chart 14) and consumer credit of, respectively, Afl. 52.4 million (+3.2%) and Afl. 18.8 million (+4.3%). Both accelerated in the third quarter of 2024. An increase in car loans (+21.1%; +Afl. 29.3 million) was almost solely responsible for the jump in consumer credit. The other components of consumer credit decreased except for personal loans, which edged up slightly.

Chart 14: Housing mortgages - monetary survey
(year-to-date growth rates)



Source: CBA

During the third quarter of 2024, the quarterly weighted average interest rate margin fell to 3.0% compared to 3.8% in the fourth quarter of 2023. The reduced interest rate margin resulted from increased average interest rates on new deposits (2023-III: 2.3%; 2024-III: 3.1%), while the average interest rate on new loans was unchanged (2023-III: 6.1%; 2024-III: 6.1%). The interest rates on deposits rose mainly due to the rates of time deposits shorter than 12 months (+0.9 percentage point).

Up to September 2024, financial soundness indicators continued performing satisfactorily. Nonperforming loans to gross loans, as a measure of asset quality, continued a downward trajectory – as it has since April 2021 – reaching 1.4% at the end of September 2024, down from 1.7% at year-end 2023. The capital adequacy ratio stood at 32.1%, amply above the minimum of 16%. As for the prudential liquidity ratio (PLR) – the ratio of liquid assets to total net assets – amounted to 28.0%, while the minimum required PLR is 18.0%. The PLR for September 2024 was 2.5 percentage points higher than at the end of 2023.

1.10 Government

During the first three quarters of 2024, total tax revenue expanded by Afl. 162.8 million (+14.9%) compared to the same period of 2023[4]. As such, total tax revenue amounted to Afl. 1,254.7 million. All tax categories registered upturns, with taxes from income and profit (+Afl. 50.3 million; +14.4%) contributing the most to tax revenue growth (Chart 15).

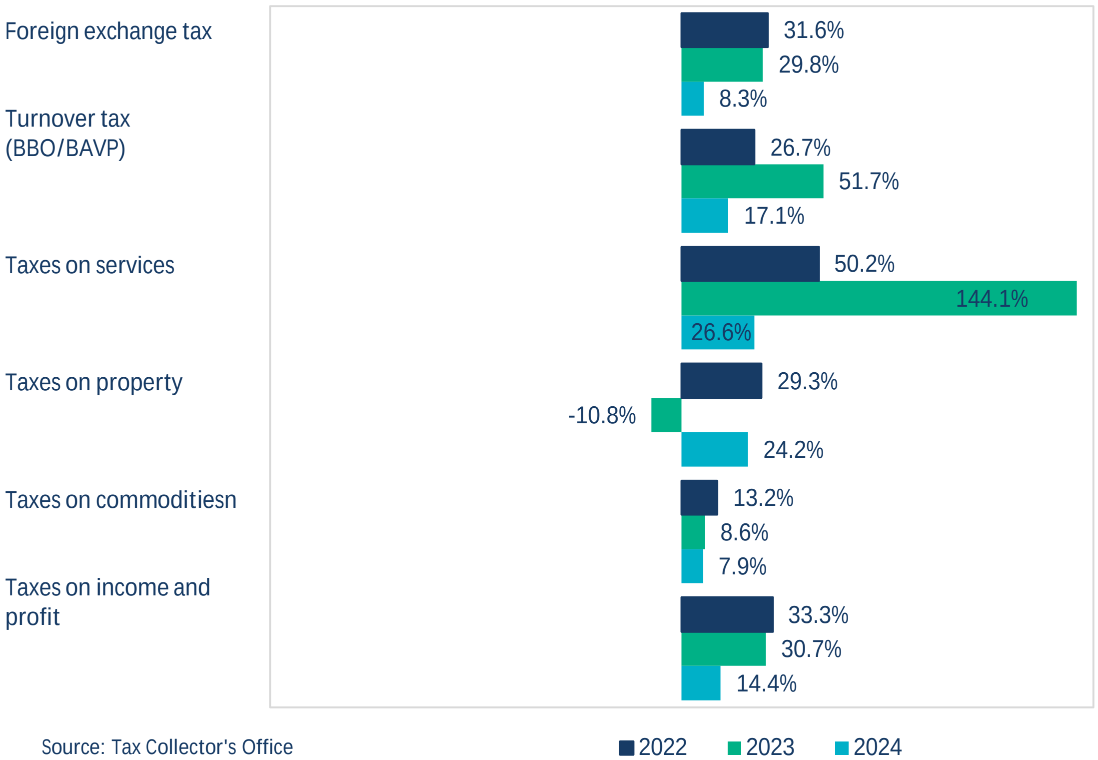
The boost in income and profit taxes can be attributed to two main factors. First, wage tax revenues rose considerably (+Afl. 25.9 million), mirroring the buoyant economic conditions and the heightened level of employment. In particular, data from the Sociale Verzekeringsbank (SVb)[5] reveal that the number of employment relationships grew from 43,583 on January 1, 2024, to 45,149 on October 1, 2024 (+3.6%). Second, profit taxes surged (+Afl. 22.4 million), which likely benefited from elevated spending in the tourism sector and positive spillovers to local consumption.

Likewise, the robust tourism sector bolstered the turnover tax revenues (+Afl. 43.3 million; +17.1%), which were amplified by the introduction of the B.B.O. at the border. Taxes on services also experienced a notable growth (+Afl. 22.4 million; +26.6%), primarily due to higher hotel room taxes (+Afl. 18.7 million). The latter reflected increased numbers of stayover visitors and elevated hotel room rates.

To a lesser extent, receipts from taxes on commodities (+Afl. 20.8 million; +7.9%) strengthened tax revenues. Taxes on commodities grew across all components although the growth in import duties (+Afl. 11.4 million) was the most significant. Moreover, income from taxes on property (+Afl. 21.7 million; +24.2%) widened, mainly due to an uptick in the transfer tax (+Afl. 15.0 million). This development points to revived interest in the real estate market, which showed signs of cooling in 2023 after peaking in 2022.

4 At the time of writing data for non-tax revenues and expenditure were not (fully) available.
5 Retrieved from on January 28, 2024.

Chart 15: Tax revenue growth for YTD September
(current year vs. prior year)



Source: Tax Collector's Office

2 International Developments

According to the International Monetary Fund's (IMF) October World Economic Outlook, the economic landscape has experienced significant shifts over the past few years, driven largely by the divergent approaches to fiscal and monetary policies since the pandemic. Central banks in emerging markets took the lead in tightening monetary policy before their counterparts in advanced economies, leading to higher real policy rates and increased borrowing costs, which have cooled economic activity and brought inflation closer to targets. In contrast, fiscal policy has remained relatively loose, particularly in advanced economies like the United States where fiscal easing has complicated the task of monetary authorities and contributed to the appreciation of the dollar in 2024. Projections indicate that necessary fiscal consolidation in many economies is expected to slow down growth. This slowdown prompts looser monetary policy to help governments trim deficits more easily. The global economy has shown remarkable resilience during the disinflationary period. Global growth is expected to remain steady at 3.2% in 2025, equal to the estimated growth for 2024.

Geopolitical tensions have yet to significantly impact global trade volumes, but signs of geoeconomic fragmentation are emerging. Trade is increasingly occurring within geopolitical blocs rather than between them, a trend reminiscent of the Cold War era. This fragmentation could disrupt global supply chains, increase funding costs, and slow the transfer of knowledge between advanced and developing economies, posing risks to market efficiency and economic resilience. The shift toward intrabloc trade, while not necessarily leading to deglobalization, could impose significant economic costs, particularly in the context of the green transition. Growth in global goods trade is estimated to have declined by approximately 2.5% more between geopolitically distant blocs than within blocs.

Growth in advanced economies markedly slowed in 2023 and is projected to remain steady at 1.8% for 2024 and 2025. In the United States, growth is expected to decelerate, with output falling to potential by 2029. In the United Kingdom and the euro area, activity is projected to accelerate, closing the output gap from below. In Japan, GDP is expected to grow in line with potential as the output gap has already closed. Projected growth for the United States in 2024 has been revised upward to 2.8%, driven by stronger consumption and non-residential investment. A slowdown to 2.2% is expected in 2025 as fiscal policy tightens and a cooling labor market slows consumption. In the euro area, growth is expected to pick up to 0.8% in 2024 and rise to 1.2% in 2025, supported by better export performance and stronger domestic demand.

The growth outlook for emerging market and developing economies remains stable for the next two years, hovering around 4.2% in 2024 and 2025. Emerging Asia's strong growth is expected to subside from 5.7% in 2023 to 5.0% in 2025, with India's GDP growth moderating from 8.2% in 2023 to 7.0% in 2024 and 6.5% in 2025. China's growth is projected to slow to 4.8% in 2024 and to 4.5% in 2025 due to persisting real estate sector weakness and low consumer confidence. In contrast, growth in the Middle East and Central Asia is expected to rise from 2.1% in 2023 to 3.9% in 2025, as temporary disruptions to oil production and shipping fade.

In Latin America and the Caribbean, economic growth is forecasted to decrease from 2.2% in 2023 to 2.1% in 2024, with a rebound to 2.5% expected in 2025. Brazil's growth outlook for 2024 has been revised upwards to 3.0%, attributed to stronger private consumption and investment due to a tight labor market, government transfers, and minimal disruptions from floods. However, growth is expected to slow to 2.2% in 2025 due to restrictive monetary policy and a cooling labor market.

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

Indicator	2024e	2025f
World	3.2	3.2
Advanced economies	1.8	1.8
Emerging Market and Developing economies	4.2	4.2
United States	2.8	2.2
Euro Area	0.8	1.2
Latin America and the Caribbean	2.1	2.5

Source: International Monetary Fund

e = estimate; f = forecast

3 Conclusion

During the first nine months of 2024, the Aruban economy – as measured in real Gross Domestic Product (GDP) – grew by an estimated 7.8% compared to the same period of 2023. Tourism, the main contributor to Aruba's economic growth, recorded significant increases in tourism revenue and numbers of stay-over visitors. Consumption indicators were primarily positive due to higher demand for goods and services.

During the first three quarters of 2024, tourism performance remained robust. The U.S. market was the main driver of tourism demand growth, followed by Latin American markets. Additionally, the hotel sector's performance mirrored the robust tourism activities. Increases in the number of stay-over visitors, total visitor nights, and tourism revenue contributed to higher average hotel occupancy rates, average daily rates (ADR), and revenue per available room (RevPar).

At the end of September 2024, the expired contribution of the utility tariff hike in August 2022, dwindling vehicle purchase prices, and a smaller contribution from food prices led to a reduction in the 12-month average inflation compared to the end of 2023. The latter reached 2.0%, down from 3.4% at the end of 2023. Similarly, the End-of-Period (EoP) inflation receded to 1.5% at the end of September 2024, from 2.3% at the end of 2023.

During the period under review, the real exchange rate for the Aruban florin vis-à-vis the U.S. dollar fell by 0.7 index point compared to the last quarter of 2023. The continued descent of the real exchange rate reaching 93.3 index points follows sustained improvement in the competitive position of Aruba vis-à-vis the United States, which began in the second quarter of 2020 and started to slow down in 2022.

International transactions settled through the commercial banking sector led to a net foreign exchange inflow of Afl. 566.3 million during the first nine months of 2024. This outcome was largely related to the strong tourism performance, resulting in a current account surplus. The latter was partially mitigated by a net outflow on the financial account primarily due to a one-off domestic loan for a share purchase from non-residents. Moreover, at the end of September 2024, international reserves (including revaluation differences) reached Afl. 3,824.4 million and thus remained more than adequate according to the benchmarks monitored by the CBA.

In the first nine months of 2024, overall credit increased mainly due to augmented business loans. The latter is principally the consequence of a large incidental loan.

Government revenues (excluding non-tax revenue) rose in the first three quarters of 2024 vis-à-vis the same period in 2023. Total tax revenues expanded by 14.9%, benefitting from the tourism sector's strong performance.

According to the September 2024 World Economic Outlook from the International Monetary Fund (IMF), the global economy showed remarkable resilience during the disinflationary period, successfully avoiding a global recession. Global growth is expected to remain steady at 3.2% in 2025, equal to the estimated growth for 2024. Nonetheless, downside risks, such as an escalation in regional conflicts, are rising and now dominate the outlook.

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