

Economic Outlook

February 2025



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 2024, sustained growth of tourism exports contributed to the estimated expansion of gross domestic product (GDP). An upturn in visitor arrivals and the buoyant performance of the hotel sector drove the results in tourism exports during the period under review. The Centrale Bank van Aruba (CBA) expects that earnings related to tourism activities will continue to push up GDP in the short (2025 - 2026) and medium term (2027 - 2028).

The CBA estimated a real GDP increase of 6.8% in 2024, down from 7.7% growth in 2023. This surge in real GDP was driven by higher real investment and exports. The latter stemmed from greater real tourism and non-tourism exports, with real tourism exports rising due to elevated stay-over visitors. Meanwhile, a boost in public and private investment fueled real investment. Real consumption, on the other hand, likely contracted slightly, as the real private consumption growth was insufficient to compensate for the decreased real public consumption. Following the developments in exports, investment, and consumption, estimated real imports expanded.

Reflecting stronger tourism activities, the balance of payments (BOP) recorded higher tourism revenue inflows in 2024 than in 2023. However, rising investment and consumption pushed nominal imports upward, leading to significant BOP outflows, although still lagging behind tourism revenue growth. Additionally, resident share purchases from nonresidents, along with rising dividend and interest payments amplified outflows. On balance, the BOP recorded a surplus of Afl. 666.2 million in 2024, compared to a deficit of Afl. 308.3 million in 2023.

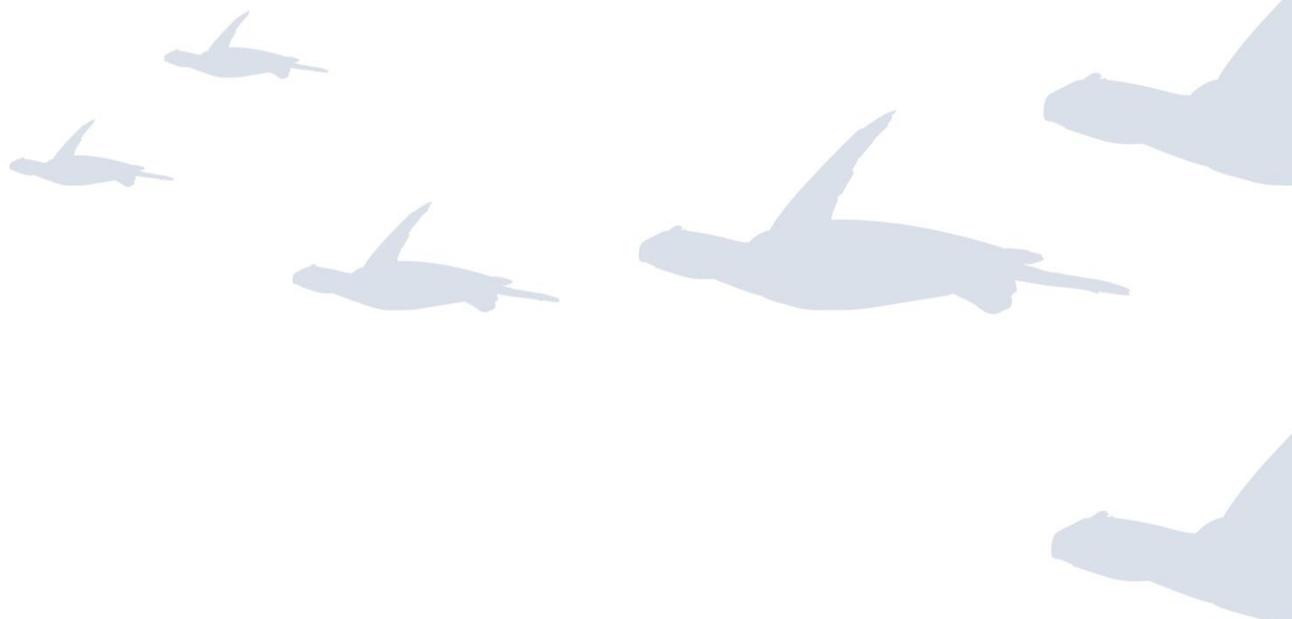
In 2025, the CBA foresees a 2.1% growth in real GDP, reflecting a modest growth in tourism exports. The latter follows from an inching down in real spending per visitor night and a moderate increase in stay-over visitors. A key driver of this moderation in visitor arrivals is air seat capacity constraints. Consequently, the tourism-driven growth in real consumption is forecasted to be more tempered. Additionally, projected real investment are anticipated to grow slightly, as there are relatively less new construction projects to compensate for those finalized in 2024. Moreover, real public sector investment outlays are anticipated to decline. Given the low growth in exports and domestic demand, real imports are projected to inch up in 2025.

Although rising stay-over visitors will boost BOP inflows in 2025, the ensuing higher tourism exports and private consumption will also spur nominal imports and, thus, BOP outflows. On balance, the CBA projects tourism inflows and other service inflows to exceed import outflows, leading again to a current account surplus. As the current account surplus is expected to outweigh the financial account deficit, the CBA projects an Afl. 923.0 million BOP surplus for 2025.

The CBA projects real GDP growth to amount to 2.9% in 2026, 2.4% in 2027, and 2.0% in 2028. The main drivers of real GDP growth through this forecasting horizon are (tourism) exports, consumption, and investment.

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1. Introduction

The current Economic Outlook (EO) presents an update to the economic projections of the CBA published in August 2024. This outlook contains estimates for 2024, as well as short (2025-2026) and medium-term (2027-2028) projections.

1.1 GDP developments in 2024

The CBA estimated a real GDP growth of 6.9% in 2024 (Table 1). Surges in real exports (+9.9%) and investment (+22.4%) were the main engine of economic growth.

The increase in stay-over visitors was estimated at 14.5% in 2024. However, real spending per visitor night likely inched down. On balance, these two developments point to climbing tourism exports (+9.0%).

The ongoing construction of large projects drove up estimated private investment in 2024 (+19.4%). In addition, due to the budget surplus of the Government of Aruba (GOA), public investment spiked (+345.6%) compared to 2023. As a result of these two developments, the CBA estimates that total investment picked up by 22.4% in 2024.

Upticks in exports and investment advanced employment opportunities, stimulating real private consumption (+2.2%) in 2024. Furthermore, nominal wages likely grew stronger than inflation, as public sector employees received a 6.0% wage indexation, and private sector employees benefited from a tight labor market. Nevertheless, the decline in real public consumption (-7.4%) triggered a minor fall in total real consumption (-0.2%). In view of the developments in domestic demand and exports, estimated real imports gained 7.8%.

With regard to price development, the CBA estimated a twelve-month average inflation rate of 1.9% in 2024. The core component was the primary contributor to overall inflation. To a much lesser extent, the food component also contributed to overall inflation, while the energy component contribution declined.

1.2 BOP developments in 2024

The CBA estimated an overall BOP surplus of Afl. 666.2 million in 2024, reflecting an elevated current account surplus (Afl. 782.0 million). A strong tourism performance pushed up inflows on the private sector current account, while imports bolstered by investment projects partly mitigated the inflows. Private sector dividend payments and loan interest payments by the GOA also partially offset the current account surplus.

For the financial account, the CBA estimated net outflows (Afl. 97.3 million) mostly related to local institutional investors purchasing local hotel shares from nonresidents. Moreover, the GOA contributed to outflows by partially refinancing the maturing external debt on the domestic market. However, compared to 2023, institutional investors had more opportunities to invest locally, which limited financial account outflows. Additionally, fewer domestic refinancing of foreign loans further constrained these outflows.

2. Economic forecast

The results presented in this section depict the most likely outcome based on the most recently available information¹ and assumptions of the CBA. This section includes the projections from 2025 to 2028, and the outlook risks.

2.1 Short-term outlook (2025-2026)

2.1.1 Real GDP growth

The CBA anticipates a real GDP growth of 2.1% in 2025 and 2.9% in 2026 (Table 1). Specifically, increases in real exports (2025: +2.2%, 2026: +2.4%) and investment advancements (2025: +0.3%, 2026: 7.0%) are expected to drive the economic growth. Additionally, real consumption is projected to support GDP growth, rising by 0.7% in 2025 and 0.8% in 2026.

Visitor arrivals will likely continue to increase in the short term. In 2025, forecasted stay-over visitors extend by 2.6%, slightly softening to 2.0% growth in 2026. Concurrently, the changes in real spending per stay-over visitor are marginal in both 2025 (-0.2%) and 2026 (+0.1%). Consequently, real tourism exports is anticipated to expand by 2.3% in 2025 and 2.1% in 2026.

The finalization of major construction projects in 2024, along with limited available information on new large ones, suggest a modest increase in private investment (+0.7%) in 2025. Furthermore, real public investment are set to fall by 9.6%. Therefore, the CBA expects total real investment to heighten only slightly by 0.3%. In 2026, the outlook for real investment is more favorable (+5.8%), principally due to the planned construction of a new hotel.

In the short term, the CBA forecasts a rise in real consumption. This outcome results from the stronger growth in real private consumption (2025: +1.4%, 2026: +1.3%) compared to the decline in real public consumption (2025: -1.3%, 2026: -1.2%). In particular, the new jobs created by hotel openings exceed the outflow of public sector (early) pensioners.

Considering the domestic demand growth across consumption, investment, and exports, real imports are foreseen to rise throughout 2025 (+0.3%) and 2026 (1.8%). The higher import growth in 2026 is occasioned by the more robust increase in real investment compared to 2025.

Regarding inflation, the CBA projects a twelve-month average inflation rate of 0.9% in 2025, driven by the core component. Consistent with the longer-term average, inflation is forecasted to reach 2.0% in 2026.

¹ Cutoff date: January 2025.

Table 1: Growth of real GDP and its components 2024 – 2026 (in %)

Indicator	2024 e	2025 f	2026 f
Current outlook			
GDP	6.8	2.1	2.9
Consumption	-0.2	0.8	0.7
Private consumption	2.2	1.4	1.3
Public consumption	-7.4	-1.3	-1.2
Investment	22.4	0.3	7.0
Private investment	19.4	0.7	5.8
Public investment	345.6	-9.6	43.6
Exports	9.8	2.2	2.4
Tourism exports	9.0	2.3	2.1
Non-tourism exports	13.0	1.7	3.8
Imports	7.8	0.3	1.8

Source: CBA

e = estimate, f = forecast

2.1.2 Nominal GDP growth

The CBA projects nominal economic growth of 3.8% in 2025 and 4.5% in 2026. This development suggest that the post-pandemic growth persists, albeit at lower levels than in recent years.

Table 2: Growth of nominal GDP and its components 2024 – 2026 (in %)

Indicator	2024 e	2025 f	2026 f
Current outlook			
GDP	11.2	3.8	4.5
Consumption	3.9	3.0	2.8
Private consumption	4.2	2.3	3.3
Public consumption	3.0	4.8	1.6
Investment	25.3	1.8	9.1
Private investment	22.2	2.1	7.9
Public investment	356.0	-8.3	46.5
Exports	13.4	3.7	4.1
Tourism exports	13.0	4.1	4.0
Non-tourism exports	15.1	2.1	4.2
Imports	10.9	2.3	4.0

Source: CBA

e = estimate, f = forecast

2.1.3 BOP and foreign reserves

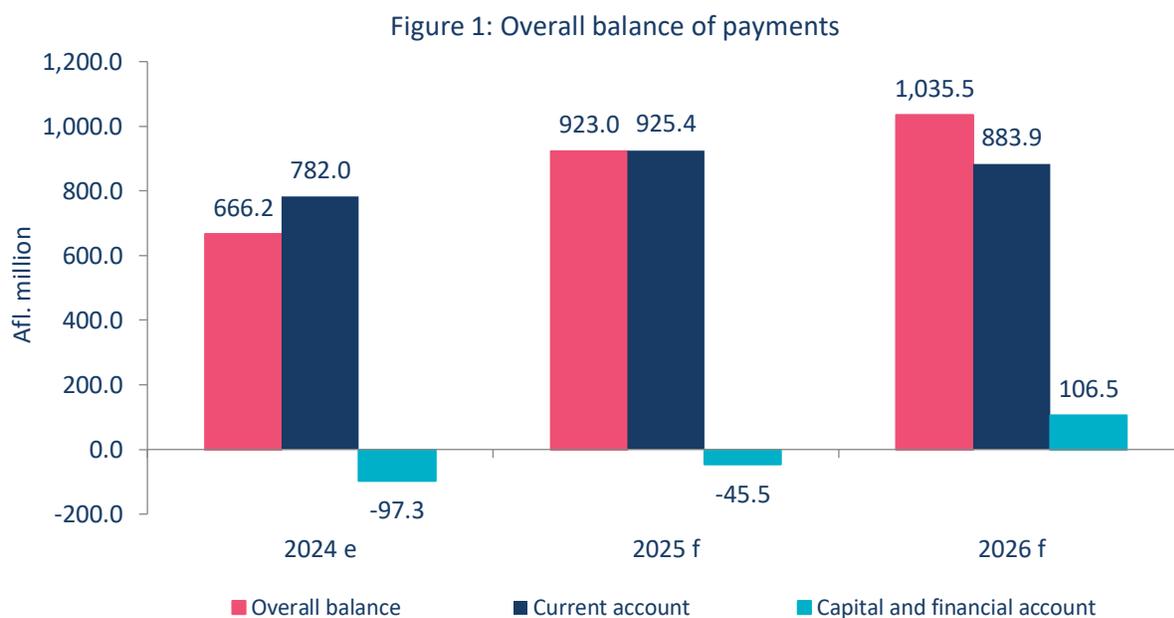
The CBA anticipates large BOP surpluses of Afl. 923.0 million in 2025 and Afl. 1,035.5 million in 2026. These surpluses result from consecutive current account surpluses (2025: Afl. 925.4 million, 2026: Afl.

883.9 million), spurred by service inflows. Specifically, service inflows (2025: Afl. 6,276.6 million, 2026: Afl. 6,531.8 million) are projected to expand due to strong tourism exports.

Nevertheless, the expectation of a growing local economy and rising global prices for services induce service payment outflows (2025: Afl. 2,470.2 million, 2026: Afl. 2,579.8 million). Moreover, growth in tourism exports, consumption, and investment push up outflows related to goods import (2025: Afl. 2,875.4, 2026: Afl. 2,991.7). In particular, broader investments in 2026 cause higher goods import, which partially explains the lower current account surplus. Furthermore, against the background of robust tourism growth, subsequent higher dividend payments will likely narrow the current account surplus.

The financial account is projected to reach a deficit of Afl. 48.4 million in 2025, before recording a surplus of Afl. 103.7 million in 2026. This contrast in the financial account explains the larger overall balance in 2026. Specifically, more domestic investment opportunities in 2026 may entice institutional investors to allocate their resources locally, leading to less outflows. The key assumption is that institutional investors in Aruba view local hotel project investments as alternatives to foreign investments. Under this assumption, private direct investment shifts from a small deficit (2025: Afl. 13.1 million) to a surplus (2026: Afl. 77.3 million). Following the same reasoning, the private portfolio investment deficit is forecasted to contract (2025: Afl. 164.0 million, 2026: Afl. 82.9 million). As for other investments of the private sector, similar surpluses are anticipated (2025: Afl. 219.9 million, 2026: Afl. 229.8 million) as hotel companies continue to transfer funds from their foreign accounts to their domestic bank accounts.

In both years, the GOA is expected to partially finance its maturing external debt payments with foreign borrowing. Since GOA's external debt repayments are higher in 2026 than in 2025, while borrowings remain roughly the same, the projected GOA financial account deficit is larger in 2026 (Afl. 116.8 million) than in 2025 (Afl. 90.3 million).



Given the forecasted BOP surpluses, international reserves, excluding revaluation differences, raise to Afl. 4,391.4 million in 2025 and Afl. 5,426.9 million in 2026. To assess reserve adequacy, revaluation differences are included. International reserves, including revaluation differences, are anticipated to cover 8.4 months of current account payments in 2025, remaining well above the minimum of 3 months (Figure 2). Furthermore, official reserves are projected to stay within the optimal bandwidth of the IMF ARA metric up to the second quarter of 2025, before surpassing the upper bound (Figure 3).

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

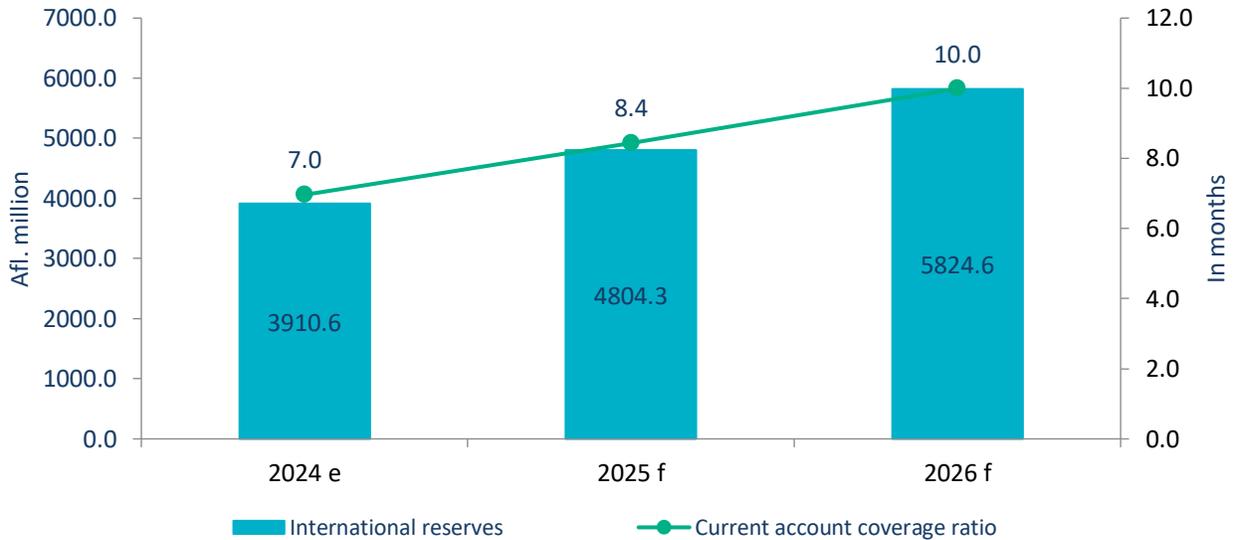
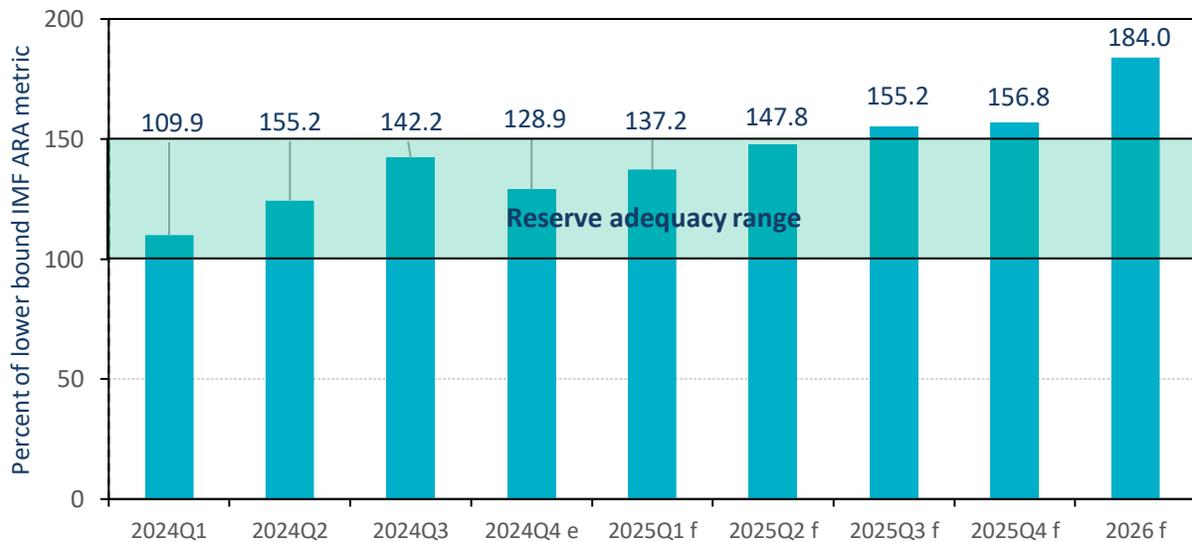


Figure 3: Official reserves (including revaluation differences) benchmarked against the IMF



2.2 Medium-term outlook (2027-2028)

The CBA expects real GDP to continue growing in the medium term. For the years 2027 to 2028, real GDP is anticipated to increase by 2.4% (2027), and 2.0% (2028). Reduced capacity constraints of the Aruba Airport Authority (AAA) enhances the ability to accommodate stay-over visitors, fueling tourism exports and, in turn, real GDP. Moreover, higher employment due to new planned hotel rooms, will likely increase real private consumption, further supporting real GDP. However, real investment is projected to contract in 2027 and 2028 as several large projects are completed. Despite these investment contractions, growth in real consumption and real exports is expected to consistently drive an increase in medium-term imports. Considering the medium-term projections of tourism exports, imports and (foreign direct) investment, the CBA anticipates adequate foreign reserves in the medium term, based on currently available data and assumptions.

2.3 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, post-election 2024 policy changes in the United States, as well as geopolitical tensions and wars, may affect the forecasted GDP growth and the current account of the BOP.
- **Inflation.** Overall inflation will likely unwind in 2025. Nevertheless, an inflation surge constitutes a risk to the forecast. Factors that could potentially conduce to the mentioned risk include the ongoing Russia-Ukraine and Israel-Hamas wars, post-election 2024 policy changes in the United States, supply chain disruptions, 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.
- **Investment outflows.** 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 materialization rate 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 the anticipated additional room inventory on the island. Furthermore, the CBA also takes into account inflation indexation, resulting in higher wages. Any

departure from the CBA's 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 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 the 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 (US) foreign inflation, and, consequently, sustained higher interest rates, external financing conditions may strengthen or weaken the GoA's fiscal position.

3. Concluding remarks

Estimated real GDP growth amounted to 6.9% in 2024, primarily driven by (tourism) exports and (private) investment. In 2025, real GDP growth will probably slow down to 2.1%, as the anticipated upturns in tourism exports and, particularly, investment are significantly smaller than in 2024. In 2026, the outlook for real investment is more favorable than in 2025, leading to a higher real GDP growth of 2.6%. The CBA further anticipates that real GDP in the medium-term will range between 2.0% and 2.4%, due to higher (tourism) exports and consumption.

In 2024, the BOP is estimated at an Afl. 666.2 million surplus, driven by an elevated current account surplus. This BOP surplus is due to the 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. 923.0 million surplus, as the current account surplus outweighs the small financial account deficit. In 2026, the projected BOP surplus of Afl. 1,035.5 million results from a forecasted current account surplus alongside a financial account surplus. The latter stems from reduced private sector outflows, as more domestic investment opportunities are anticipated.



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