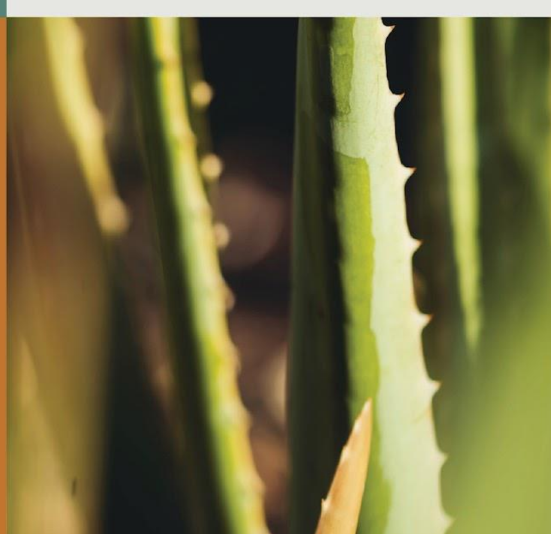
2025

Economic Outlook

Fiscal Sector



Executive Summary

In the first half of 2025, the Government of Aruba (GoA) registered a financial surplus of Afl. 203 million, up by Afl. 43 million compared to the surplus of the first half of 2024. Higher tax revenues (+Afl. 163 million) were a key driver of the surplus, whereas a decline in non-tax revenues (-Afl. 43 million) and higher expenditures (+Afl. 77 million) dampened the overall improvement in the fiscal balance. Income and profit taxes showed the largest expansion, with smaller gains in taxes on commodities and turnover taxes. Expenditures totalled Afl. 804 million, and rose by Afl. 77 million (+10.7%) compared to the first half of 2024 (Afl. 726 million). Higher transfers and subsidies (+Afl. 42 million), personnel costs (+Afl. 16 million) and investments (+Afl. 9 million) were the main drivers of the increased expenditures. Meanwhile, lower spending on goods and services (-Afl. 4 million) and interest payments (-Afl. 3 million) partially offset the hike in expenditure. By the end of the first half of 2025, GoA's estimated debt-to-GDP ratio reached 67.0%, down from 68.6% at the end of 2024. Total government debt shrank with Afl. 170 million and amounted to Afl. 5,280 million by the end of the second quarter of 2025 compared to the same quarter in the previous year(2024 Q2: Afl. 5,450 million).

For the end of 2025, the CBA estimates that the GoA will record an Afl. 174 million (2.1% of GDP) financial surplus, boosted by a growing economy as a result of continued strong tourism performance, albeit moderating. Tax revenues reflecting the tourist and domestic demand will bolster growth in revenues. The latter will be dampened in part by income tax reforms and lower gasoline excise taxes. Increased taxes on income and profit, taxes on commodities and turnover tax (BBO) will likely drive a rise in tax revenues. Similarly, on the expenditures side, the CBA also anticipates a rise in 2025. Higher personnel costs (partly as a result of the 5.7% indexation of government employees), goods and services, and capital expenditures will likely drive the uptick in expenditures. Lower interest payments, resulting from public debt reduction should provide some relief for expenditures. Over the (remainder of the) forecast horizon 2026-2029, the CBA projects financial surpluses to grow, reaching Afl. 257 million (2.8% of GDP) in 2029. Alike, GoA revenues will likely grow, predominantly pushed up by tax revenues amid a growing economy, while expenditures should also rise, although to a lesser extent, mainly relating to higher capital expenditures during the forecast horizon.

Contents

1. Introduction

This publication presents the Centrale Bank van Aruba's (CBA) Government Fiscal Outlook for the period 2025-2029 and forms part of the Economic Outlook series. It provides a baseline assessment of expected fiscal developments under an unchanged policy scenario, based on the most recent macroeconomic projections.

Fiscal developments are assessed within the framework of Aruba's fiscal rules, including the requirement under the LAFT[1] to maintain a minimum fiscal surplus of one percent of GDP.

The projections presented in this outlook are based on current legislation and budgetary parameters at the time of forecasting and do not incorporate additional policy measures beyond those already adopted. As such, the outlook should be interpreted as a baseline scenario, subject to uncertainties related to economic conditions, financing assumptions, and expenditure dynamics.

2. Macroeconomic and Fiscal Assumptions

The government finance outlook projects the fiscal outcome and debt trajectory for 2025-2029. Below are the primary assumptions and the outlook for the forecast horizon.

The baseline scenario considers the approved GOA 'Najaarsnota' (NJN) of 2025 and assumes an unchanged policy scenario. Furthermore, it presumes that nominal GDP grows according to the CBA's 2025-period 1 projection for the period 2025-2029[2] (see Table 1). Inflation projections for 2025 and 2026 are based on the CBA's September 2025 inflation forecast. Beyond 2026, inflation for 2027- 2029, follows the projections of the IMF, as presented in their April 2025 World Economic Outlook (WEO).

Table 1: Nominal GDP and Inflation projections *(Source: CBA, IMF)*

	2025e	2026f	2027f	2028f	2029f
GDP growth (%)	6.2%	3.3%	2.6%	3.1%	3.7%
Inflation (%)	1.1%	1.6%	2.0%	2.0%	2.0%

E: estimate, f: forecast

During the forecast horizon, the outlook assumes government tax revenues to grow according to year-to-date (YTD) June 2025 growth rates. For 2025, tax revenues include the income tax reform and lowering of gasolines excises. Non-tax revenues increase in accordance with the projected 2025 ratios-to-GDP.

Regarding the 2025-2029 government expenditure, the outlook projects personnel expenses to expand with the annual automatic growth rate of 2.0 percent ("periodieken") and the 2nd part of indexation (January 2025: 5.7 percent). On the other hand, CBA calculations indicate

[1] Landsverordening Aruba Tijdelijk Financieel Toezicht.

[2] https://www.cbaruba.org/readBlob.do?id=18219.

that natural attrition, based on available Department of Human Resources (DRH) civil servant data and median wage, should mitigate part of the growth in personnel expenses. Additionally, inflation will likely drive up goods and services and other expenditures. Interest payments reflect the Department of Finance's (DOF) interest schedule, CBA calculations, and the June 2024 agreement with the Netherlands on the COVID-19 liquidity loans. Health transfers' revenue component grow in line with CBA projections, while AZV expenses expand by 4.0 percent annually beyond 2025, and includes projected population growth. Furthermore, the CBA presumes a rise in capital expenditures over the forecast horizon, mainly based on anticipated large fiscal surpluses leading to the implementation of the Protocol 2019-2021 (Protocol) budget rule II.6 (to use any fiscal surplus above the established balance norm through a 50-50% distribution over debt reduction and capital investments). Lastly, there are no government transfers to the SVB, as the SVB projects no deficits for 2025-2029.

Government debt repayments follow the Department of Finance (DOF) principal repayment schedule and CBA calculations. Furthermore, it incorporates the refinancing of the COVID-19 liquidity loans from the Dutch government to the GOA at a 6.9 percent interest rate and annual linear principal repayments. For 2025, the CBA considers that the GOA will meet its refinancing needs (after using the remaining fiscal surplus, following the 50-50% redistribution between debt repayment and investment, for debt repayment) on the domestic and external markets. For 2026-2029, the CBA presumes that Afl. 150.0 million of the GOA refinancing needs will be met on the domestic market, and the remainder will be financed externally. Finally, government lending minus repayment is held constant to the budgeted amount in the approved GOA NJN2025 budget for the entire forecasting period.

3. Fiscal Outlook 2025-2029

3.1 Revenues

The CBA anticipates that government revenues throughout the 2025-2029 forecast horizon will expand as the economy grows by the continuous push of tourism (Chart 1, Table 2). The strong growth in tax revenues sustained by tourist and domestic demand is mitigated by the introduction of the income tax reform (effective January 1, 2025), and lower gasoline excise taxes (effective May 1, 2025). In the CBA's projection, tax revenues increase by 5.8% in 2025 and 3.9% in 2026. The main contributors to the upward push include projected rises in taxes on income and profit, taxes on commodities, and turnover tax (BBO) during the 2025-2029 period.

Chart 1: Government Revenues (*Source: CBA, DOF*)

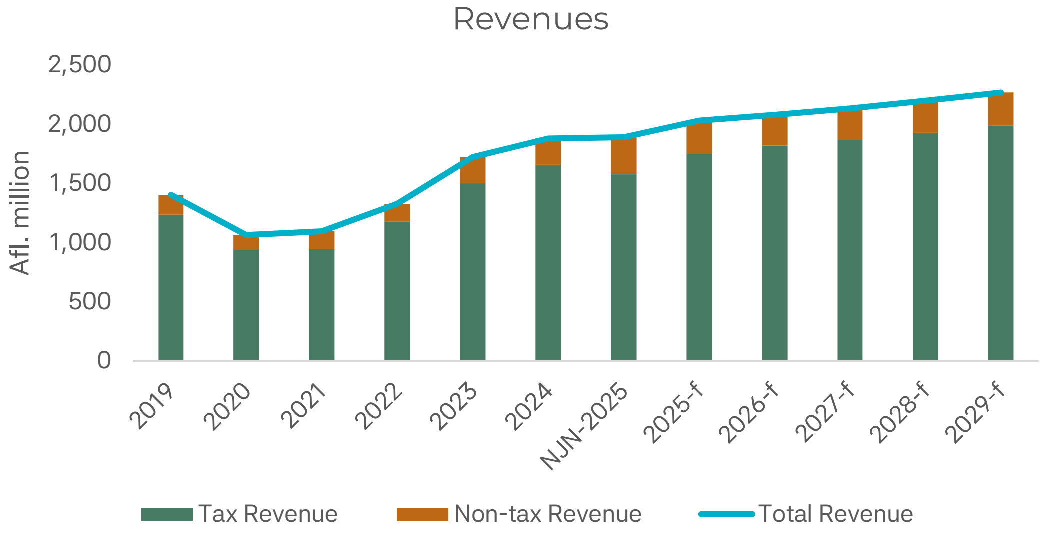


Table 2: Government revenues in percent of (nominal) GDP (*Source: CBA, DOF*)

	2025e	2026f	2027f	2028f	2029f
Tax Revenue	21.5%	21.6%	21.6%	21.6%	21.5%
Non-tax revenue)	3.4%	3.1%	3.1%	3.1%	3.1%
Total revenue	24.9%	24.7%	24.7%	24.7%	24.5%

e: estimate, f: forecast

3.2 Expenditures

The CBA also expects a rise in government expenditure during the forecast horizon (2025-2029). During this period, all components will likely register an uptick, with the exception of interest payments (Chart 2). Personnel costs, consisting of wages, employer's contribution, and wage subsidies will presumably grow by 1.4%, reflecting the 2% 'periodieken' and the indexation of 5.7% received by civil servants in 2025. However, the CBA accounts for natural attrition and early retirement ("VUT") causing the expected outflow of civil servants to partially dampen the anticipated upward pressures on personnel costs mentioned above. Nonetheless, the overall costs of government personnel over the forecast horizon remain elevated. The upturn in goods and services follows the projected inflation rates over 2025–2029. During this period, the CBA anticipates inflation to range between 1.1% and 2.0%. Furthermore, interest payments subside towards the end of the forecast period due to public debt reduction. The CBA presumes total capital expenditure to follow an upward trend as surpluses remain stable and comfortably above the 1.0 percent norm in the medium term, leading to the implementation of the Protocol's budget rule II.6. With regard to the government's costs related to the provision of social security, the outlook does not include transfers to the AZV or to the SVB, reflecting the foreseen absence of deficits at both institutions throughout the forecast period. Lastly, other expenditures grow with inflation, which is expected to reach 1.1% and 1.6% in 2025 and 2026 respectively, before stabilizing around 2.0% in the medium-term (2027-2029).

Chart 2: Government expenditures including capital (*Source: CBA, DOF*)

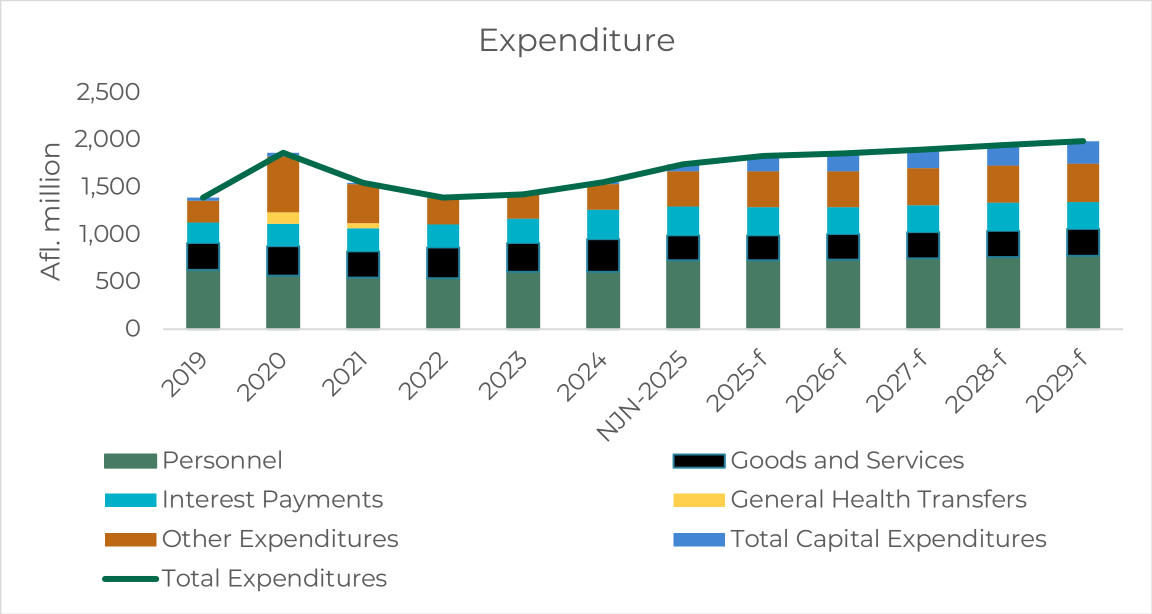


Table 3: Government expenditures to (nominal) GDP (percent) (*Source: CBA, DOF*)

	NJN-2025	2025	2026	2027	2028	2029
Personnel	9.9%	8.9%	8.8%	8.7%	8.5%	8.4%
Goods and Services	3.6%	3.3%	3.2%	3.2%	3.2%	3.1%
Interest Payments	4.1%	3.6%	3.4%	3.3%	3.3%	3.1%
General Health Transfers	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Expenditures	5.1%	4.6%	4.5%	4.5%	4.5%	4.4%
Total Capital Expenditures	1.0%	2.1%	2.2%	2.3%	2.4%	2.6%

3.3 Fiscal Balance and Public Debt

Based on projected government revenue and expenditure trends, the CBA estimates a fiscal surplus of Afl. 174.0 million (2.1% of GDP) in 2025, resulting in a debt-to-GDP ratio of 62.5% (Chart 3). Over the medium term, the debt-to-GDP ratio should decline steadily, supported by continued fiscal surpluses. The fiscal balance will presumably reach 2.8% of GDP in 2029. The outlook foresees that surpluses exceeding 1% of GDP are allocated equally between debt reduction and capital investment, enabling the debt ratio to fall to 45% by 2029.

Chart 3: Fiscal balance and debt-to-GDP (Source: CBA, DOF)

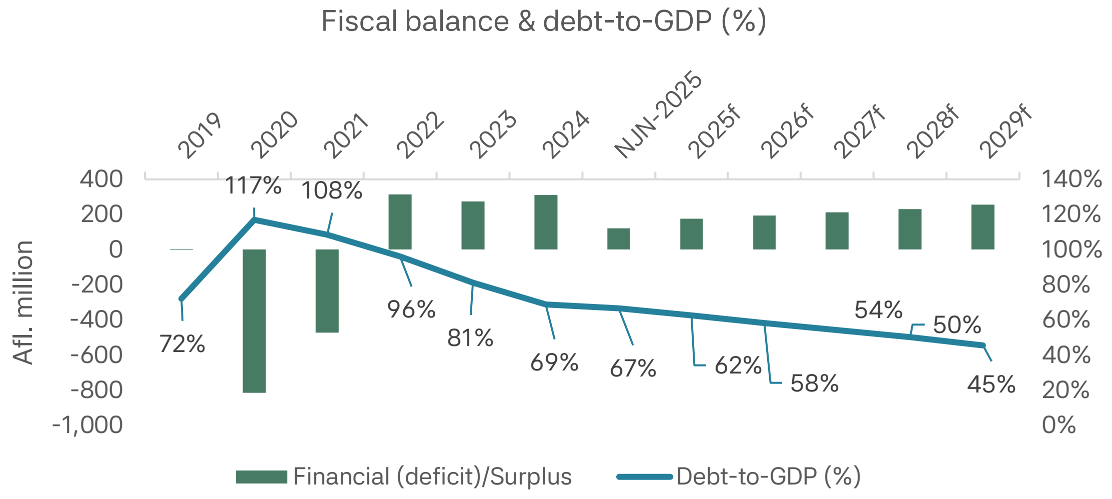


Table 4: Key fiscal indicators for the outlook 2025-2029 in ratio-to-GDP (Source: DOF, CBA)

Outlook	NJN-2025	2025e	2026f	2027f	2028f	2029f
Total revenue	25.7%	24.9%	24.7%	24.7%	24.7%	24.5%
Tax revenue	21.4%	21.5%	21.6%	21.6%	21.6%	21.5%
Non-tax revenue	4.3%	3.4%	3.1%	3.1%	3.1%	3.1%
Total expenditure	23.7%	22.5%	22.1%	22.0%	21.9%	21.5%
Fiscal balance-to-GDP	1.7%	2.1%	2.3%	2.4%	2.6%	2.8%
Debt-to-GDP	66.7%	62.5%	58.2%	54.3%	50.0%	45.5%

e: estimate, f: forecast

4. Compliance with Fiscal Framework

Under an unchanged policy scenario, the CBA foresees that the GoA will comfortably meet the LAFT requirement of a fiscal surplus equal to 1.0% of GDP in 2025 (Chart 4). Looking ahead, fiscal surpluses will likely strengthen over the medium term, reaching Afl. 257.0 million (2.8% of GDP) by 2029. This trajectory would ensure continued compliance with LAFT norms throughout the forecast period.

Chart 4: LAFT norm gap with projected fiscal outlook (Source: CBA, DOF, LAFT)

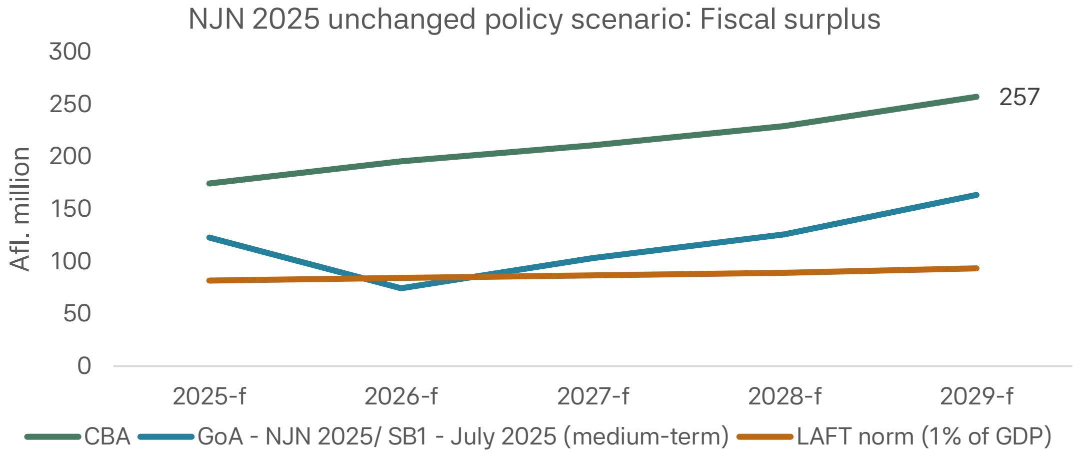


Table 5: CBA projections (2025-2029) and the LAFT agreement on surplus exceeding 1.0 percent of GDP (Source: CBA, DOF)

	2025e	2026f	2027f	2028f	2029f
Fiscal balance*	174	195	211	229	257
1. Surplus excl. 50-50 agreement	267	309	335	370	422
2. of which: 1% laft	81	84	86	89	92
3. of which: >1%, 50% towards investment	93	114	124	140	165
4. of which: >1%, 50% towards debt repayment	93	114	124	140	165
*Fiscal balance = 1-3					

e: estimate, f: forecast

Table 6: Fiscal balance projections (Source: CBA, DOF)

	2025e	2026f	2027f	2028f	2029f
CBA	174	195	211	229	257
GoA - NJN 2025/ SB1 - July 2025 (medium-term)	123	74	103	126	163
LAFT norm (1% of GDP)	82	84	87	89	93

e: estimate, f: forecast

5. Risks to the Outlook

While the baseline outlook indicates sustained fiscal surpluses and declining public debt, a range of factors, favorable and adverse, could lead these outcome to deviate from the projected path:

- Deviations from projected economic growth. The fiscal outlook is sensitive to deviations from the assumed nominal GDP growth path. A faster (or slower) normalization of tourism demand could dampen (or further boost) economic activity, and in turn, government revenues.
- External shocks. Global economic developments, geopolitical tensions, or financial market volatility could affect tourism flows, trade, and financing conditions, with spillovers to fiscal outcomes.
- Health and social security expenditures. While the outlook assumes no transfers to the AZV or SVB in the baseline scenario, higher than expected costs or demographic pressures could give rise to additional fiscal demands in the future.
- Timing of investment projects. The projected increase in capital expenditures assumes timely and effective implementation of investment projects. Delays in execution could result in lower or shifted capital expenditure, while earlier-than-planned or more efficient execution could lead to higher or accelerated capital expenditure outcomes.
- Financing risks. The debt outlook is based on assumed refinancing terms and interest rates. Changes in global or regional financial markets, such as shifts in interest rates, investor sentiment, or credit spreads, could lead to refinancing terms that are either more favorable, or less favorable, than projected. Additionally, the ongoing negotiations with the Netherlands regarding the kingdom law could affect the projected debt path, as a successful outcome in negotiations with the Netherlands would likely improve financing conditions and result in a more favorable debt trajectory.

These risks highlight the uncertainty surrounding the fiscal projections and underscore that actual fiscal outcomes may differ from the forecasted fiscal path presented in this outlook.

6. Conclusion

This government finance outlook presents the CBA's baseline projections for government finances over the period 2025-2029 under an unchanged policy scenario. Based on the current macroeconomic outlook and budgetary parameters, the projections indicate sustained fiscal surpluses throughout the forecast horizon, supported by continued economic growth and elevated government revenues.

On the expenditure side, the CBA projects outlays to remain elevated, reflecting higher personnel costs, other expenditures, and capital expenditures. Nonetheless, the projected fiscal surpluses should remain comfortably above the minimum requirement of 1% of GDP as stipulated under the LAFT, allowing for continued compliance with Aruba's fiscal framework over the medium term.

Consequently, the debt-to-GDP ratio will presumably decline steadily over the outlook period, reaching lower levels by 2029, reflecting an improvement in the overall fiscal position.

While the baseline points to a favorable fiscal path, the projections remain subject to uncertainty. Deviations in economic growth, external shocks, or financing conditions, among others, could lead to a differing fiscal outcome to the forecast presented in this outlook.

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