



CENTRALE BANK VAN ARUBA

State of the Economy

Press Release¹

During 2012, the Aruban economy was impacted by the suspension and ceasing of the operations of the oil refinery. A strong growth in tourism demand partly cushioned the output loss related to oil refining activities. However, the effects of the cessation of these activities were still major. On balance, the CBA estimates that the economy in real terms contracted by 1.2 percent. The labor market was negatively affected as the unemployment rate rose from 8.9 percent in 2011 to 9.6 percent in 2012 due to direct and indirect job losses following the closure of the refinery. The upbeat performance in tourism was mainly driven by the Venezuelan market (+21.5 percent), while the U.S. market stayed flat. Cruise tourism had less favorable results in 2012, registering a decline of 2.9 percent. Average inflation in 2012 decelerated from 4.4 percent to only 0.6 percent, which was largely pushed down by significant reductions in the water (as of August 2012) and electricity (as of November 2012) tariffs.

Government finances remained on a fragile path, with the financial deficit (on a cash-adjusted basis as calculated by the CBA) reaching Afl. 413.7 million in 2012 (9.1 percent of GDP). The combination of fiscal deficit and economic contraction have contributed to a growing debt burden, which at end-2012 stood at 67.2 percent of GDP. Taking into account the small size of the Aruban economy, additional short-term measures should be taken to curb the expansionary pace of government debt with the medium-term aim to stabilize it at more sustainable levels.

The balance of payments recorded a surplus in 2012. This was the result of a stronger drop in imports compared to exports related to the activities of the oil sector, the further strengthening of the tourism sector, and the proceeds from a bond issue by the government on the international capital market. Meanwhile, monetary and prudential indicators remained adequate.

Looking forward, the CBA projects, based on currently available information, the economy to grow in real terms by 2.6 percent in 2013, after aforementioned GDP contraction in 2012. Also, reserves are expected to increase in 2013, supported by further gains in the tourism sector. In addition, the CBA expects deflationary pressures to persist, resulting in a 1.5 percent deflation in 2013, associated mainly with major and structural reductions in the water and electricity tariffs.

The complete publication is available on our website (www.cbaruba.org).

Centrale Bank van Aruba

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¹ The English text prevails.