



CENTRALE BANK VAN ARUBA

## Economic growth continues but increasing risks

Press release

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Today the Centrale Bank van Aruba (CBA) publishes the State of the Economy of the first three quarters of 2018. This publication provides a synopsis of the local and international economic developments of this period. The domestic highlights are presented below, including a summary of main economic indicators.

In the first nine months of 2018, Aruba's economy continued to perform better than in 2017. The tourism sector did well in the first nine months of 2018. The number of stay-over visitors grew by 1.5 percent, while visitor nights recorded a similar result (+1.6 percent). As in previous quarters, the U.S. market was the key driver for this favorable outcome. The hotel sector reported a solid performance in the first nine months of 2018. While average room occupancy faced a minor increment of 0.2 percentage point to 85.6 percent, both the average daily room rate (ADR) and the revenue per available room (RevPAR) improved significantly (+11.5 percent and +11.7 percent, respectively). Tourism credits, reported by the commercial banks, resulted in an increase of 9.6 percent year-to-date September 2018.

Consumption indicators showed mixed results in the first nine months of 2018. Higher revenues were observed from the turnover tax (+1.8 percent including a correction for the rise in tariffs), as well as import duties (+14.3 percent). Outstanding consumer credit by the commercial banks was 3.4 percent lower in September 2018 compared to December 2017, indicating a downturn in private consumption.

Investment indicators also provided divergent patterns. Both the number as well as the value of granted construction permits decreased. This development was attributed mostly to two large tourism-related projects for which building permits were granted in 2017; no such permits for projects of that scale had been issued in 2018. However, the two large projects led to substantial investments in 2018. Total volume of cement imports grew significantly in the first three quarters (+43.9 percent) of the year, while the total amount of both household and commercial mortgages compared to December 2017 increased steadily. The business perception index (BPI) was relative pessimistic in the third quarter of 2018.

The 12-month average CPI inflation stood at 2.3 percent in September 2018 as the effects of higher gasoline and food prices were further amplified by a tightening of fiscal policy. The introduction of the BAVP and rise of the BAZV rate by 1.0 percentage point to 3.0 percent had an upward effect on prices. Core inflation was 1.2 percent in September 2018. For the first time in three years, the real exchange rate of the florin vis-à-vis the US dollar increased in the third quarter of 2018. This means that Aruba's competitive position deteriorated relative to the United States.

The money supply expanded during the first three quarters of 2018 by 3.2 percent to Afl. 4,373.8 million. The net foreign assets grew by Afl. 39.7 million, meaning that reserves remained at an adequate level throughout the first three quarters of 2018. However, the buffer between the benchmark and the coverage ratio was steadily falling from 2.7 months in January 2017 to 1.8 months in September 2018. Domestic credit extended to the private sector by the banking sector increased to Afl. 3,215.7 million at the end of September 2018, an increase of 2.6 percent compared to December 2017, the result of an expansion in housing mortgages (+6.1 percent) and business loans (1.8 percent), while a contraction was registered for consumer credit (-3.4 percent).

The fiscal deficit (cash basis) stood at Afl. 41.2 million, an improvement of Afl. 99.9 million compared to the same period of 2017. This outcome was driven by an increase in both tax and non-tax revenues, and contracting government expenditures. Total government debt reached Afl. 4,389.3 million, expanding by Afl. 230.4 million.

Table: Main economic indicators first three quarters of 2018

Indicator	2017 Jan-Sep	2018 Jan-Sep	Change
Hotel revenue per available room (US\$)	206	230	24
Stay-over visitors (numbers)	797,457	809,307	11,850
Cruise visitors (numbers)	537,069	568,261	31,192
Construction permits (Afl. million)	442	243	-199
Imports of machinery and electrotechnical equipment (Afl. million)	212	245	33
Turnover tax receipts (Afl. million)	78	94	16
Taxes on income and profit (Afl. million)	344	354	10
Twelve-month average rate of inflation (percent)	-0.4	2.3	2.7
Consumer confidence index (third quarter, index points)	96.5	94.3	-2.2

Sources: CBA, AHATA, ATA, CBS

The complete publication is available on the CBA's website ([www.cbaruba.org](http://www.cbaruba.org)).