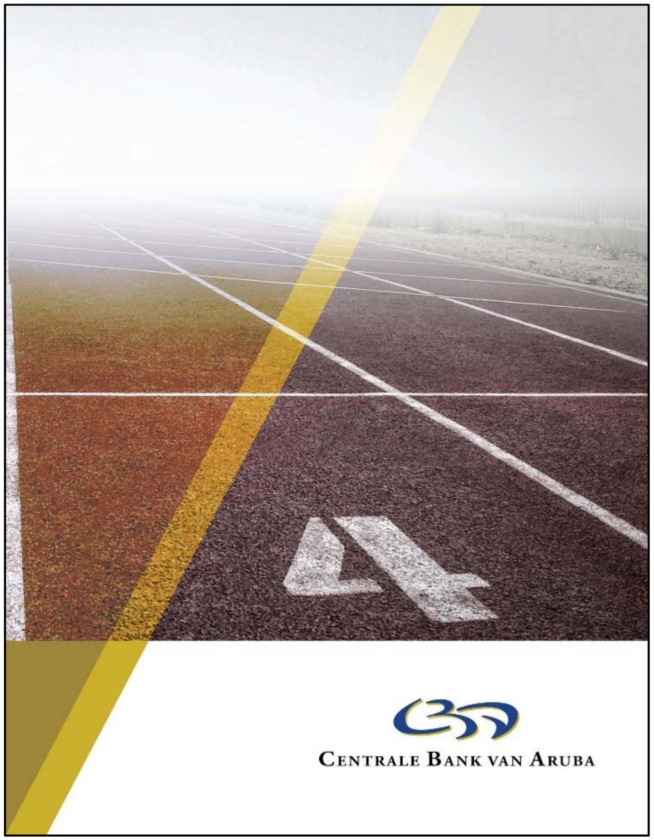


STATE OF THE ECONOMY

First two quarters of 2018

ABSTRACT

Aruba's economy showed initial signs of improvement in the first six months of 2018 compared to 2017, despite the retraction in public and private spending. These were more than compensated for by a buoyant output realization in the tourism sector. Both consumer and business confidence were negative, pushed down by the announced austerity measures by the government of Aruba. International reserves increased slightly while the government debt to GDP ratio fell to 85.6 percent.

Centrale Bank van Aruba

CONTENTS

I. Domestic developments[1]

Economic growth

In the first six months of 2018, Aruba's economy seems to have performed slightly better than in 2017, based on available information. The tourism sector did admirably well compared to 2017 as the number of tourists recorded a 2.6 percent growth, despite the ongoing drop in visitors from Venezuela. Hotel occupancy and hotel revenues increased significantly, indicating that the foreign exchange earnings from tourism expanded even more.

C**onsumption indicators showed mixed results in the first six months of 2018.** The main indicators were increased revenue from consumption-related taxes (+6.7 percent), a decline in the volume of consumer credit (–2.1 percent), and a deterioration in consumer confidence. Investment indicators also displayed a varied picture with business confidence swaying pessimistically despite a protraction of large investment projects and growth of housing mortgages. Imports of goods grew significantly in almost every category. With declining exports of goods, this growth in imports signified a further deterioration of Aruba's trade deficit.

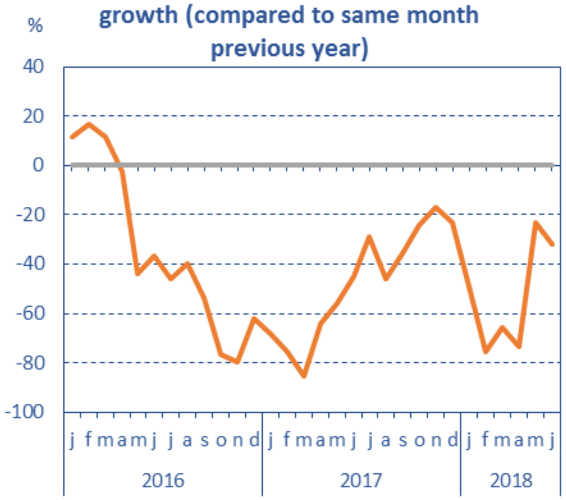
[1] The cut-off date for information published in the State of the Economy is November 19, 2018. Insufficient data were available at the time of writing this report to assess the development of the balance of payments.

Table 1: Tourism indicators for Aruba and the Caribbean (Jan-Jun)

Indicator	Aruba		Caribbean	
	2017	2018	2017	2018
Stay-over visitors (growth)	-8.7	2.6	5.2	-7.4
excl. Venezuela	7.6	6.9	n.a.	n.a.
Average length of stay	7.4	7.4	n.a.	n.a.
Cruise visitors (growth)	15.6	0.5	5.0	-0.3
Average hotel occupancy	85.6	87.8	70.5	70.0
Average daily rate (US$)	262	287	220	221
RevPAR (US$)	224	252	155	154

Sources: ATA, AHATA, APA, CTO, STR

Chart 1: Venezuelan stay-over visitor growth (compared to same month previous year)



Tourism

The tourism sector enjoyed a buoyant performance in the second quarter of 2018. The number of stay-over visitors showed a minor increase of 0.9 percent in the second quarter, while visitor nights recorded a similar result (+0.3 percent). When Venezuelan tourists are excluded from total visitors, the recorded growth for the second quarter reached 4.6 percent. The U.S. market was the key driver for this positive performance, continuing the trend of the last five quarters. For the first half of the year, stay-over visitors increased by 2.6 percent compared to an 8.7 percent contraction in the same period last year (Table 1).

The performance of Aruba's tourism industry was superior compared to that of other Caribbean destinations. The latest CTO[2] figures show that stay-over visitors for the Caribbean region decreased by 7.4 percent in the first half of the year (Table 1); many destinations were still recovering from the effects of hurricanes Irma and Maria, which severely impacted these destinations in September 2017. Furthermore, travel restrictions imposed by the American government to Cuba also influenced the overall results.

The Venezuelan market continued on its downward path in the second quarter of 2018. The Venezuelan market declined in June 2018 compared to the same month of the previous year for the 27th consecutive time (Chart 1). In the first half of 2018, Venezuelan visitors accounted for just 3.2 percent of the total tourism market compared to 28.7 percent in 2015. This development made Canada the second most important market for Aruba with a market share of 5.3 percent. Nearly 77 percent of Aruba's tourists originated from North America.

Total visitor nights recovered from a 3.0 percent contraction in 2017 to 2.8 percent (5.8 percent excluding Venezuela) growth in the first six months of 2018. Both hotels & timeshares

[2] Caribbean Tourism Organization.

(+4.6 percent) and other (alternative) accommodations (+10.2 percent) in particular experienced growth when Venezuelan nights are excluded. The developments in nights including and excluding Venezuela show a completely different picture in the last few years, indicating more stable and consistent growth in the tourism markets outside Venezuela (Chart 2).

The reports from the Aruba Hotel and Tourism Association (AHATA) point to a solid performance of the hotel sector in the first half of 2018. While the average room occupancy experienced an increase of 2.2 percentage points to 87.8 percent, the average daily room rate (ADR) rose substantially by 9.6 percent to US$ 287, compared to the same period in 2017. Total hotel revenues expanded by 17.4 percent, reflected in all resort types. Finally, revenue per available room (RevPar) jumped by 12.4 percent (Table 1) and tourism receipts (as reported by the commercial banks) increased by 10.7 percent, thus indicating that the growth in revenue was driven mostly by tourist spending rather than the greater number of tourists visiting Aruba.

A total of 182 cruise ships made harbor calls in the first half of 2018, one ship less than in the same period of the previous year (-0.5 percent). Cruise passengers, on the other hand, increased by 0.5 percent (+2,108 passengers). For the second quarter, in terms of passengers, a contraction of 16.7 percent was recorded. The year 2017 was an exceptional year for cruise passengers, because of the relative high number of large cruise ships entering the harbor, making it difficult to achieve a similar performance this year. However, 2018's second quarter cruise visitors' performance was significantly better than in previous years (Chart 3).

Consumption

Consumption indicators showed mixed results in the first six months of 2018. Data from the Tax Department revealed higher revenues from the turnover tax (+5.2 percent) and import

Chart 2: Visitor nights growth in percent year to date June

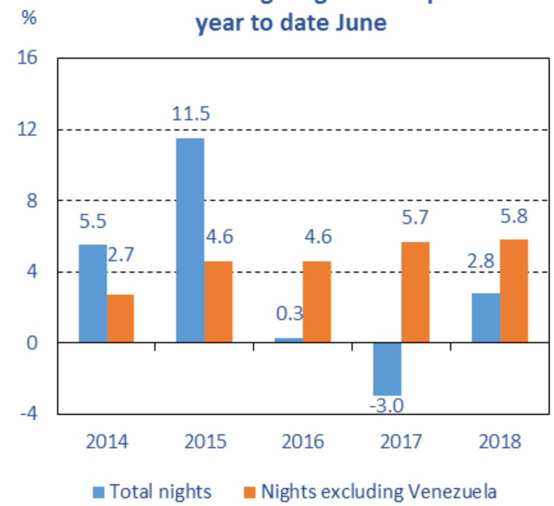


Chart 3: Number of cruise passengers in second quarter of each year

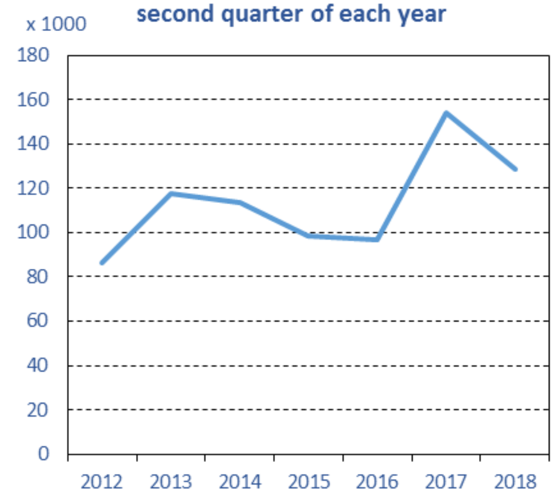
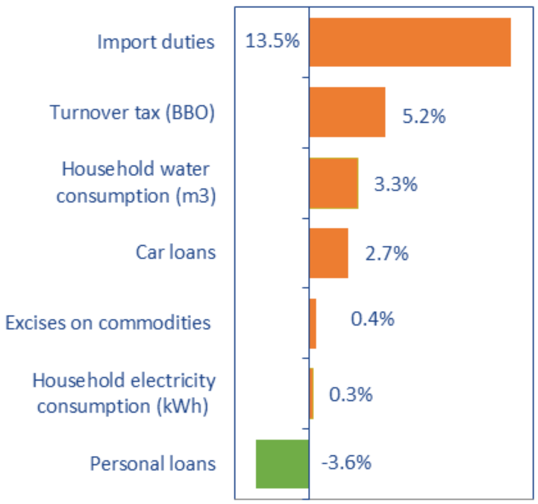
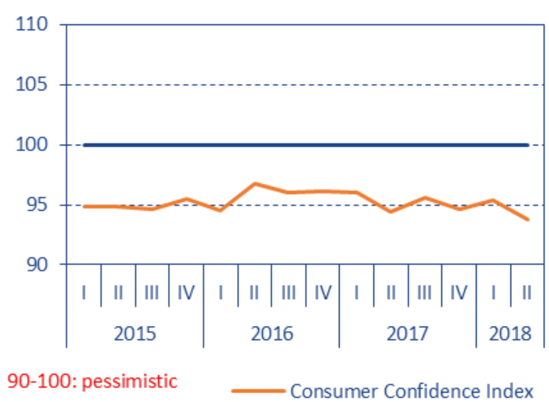


Chart 4: Consumption-related indicators
(value percentage change Jan-Jun 2018 vs. Jan-Jun 2017)



Sources: CBA, WEB, Tax Collector's Office

Chart 5: Consumer Confidence Index



duties (+13.5 percent) in the first six months of 2018 compared to the same period of 2017. Excises on commodities registered a 0.4 percent increase. Note that the tourism market also influences these indicators and, therefore, their development was not attributable only to consumption. The development of household electricity consumption (kWh) was relatively flat in the first half of the year recording a minor increase of 0.3 percent, while water consumption rose by 3.3 percent (Chart 4).

Bank credit figures indicated a decline in consumption as consumer credit fell by 2.1 percent by the end of June compared to December 2017. The main driver behind the contraction was the reduction of Afl. 8.2 million (–3.6 percent) in personal loans during this period. Credit card loans declined by Afl. 5.8 million. On the other hand, car loans experienced an increase of Afl. 4.7 million (+2.7 percent). This increase was due to a pickup in loans in May and June. A car campaign by a commercial bank, in anticipation of the new tax levy (some consumers wanted to purchase a car before the price increased due to the rise in the tax rate), contributed to the upsurge in the last two months of the second quarter. Another indication suggesting a decline in consumption was the increase in savings by Afl. 25.8 million in June 2018 compared to December 2017.

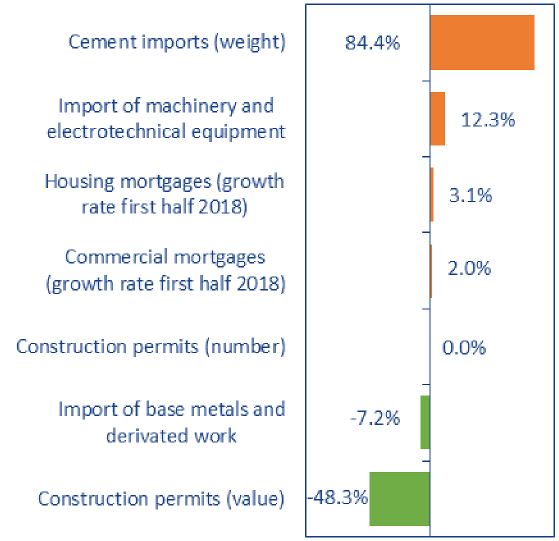
Consumer sentiments maintained a negative trend in the second quarter of 2018. The Consumer Confidence Index (CCI) contracted to 93.8 in the second quarter, down from 94.6 in the last quarter of 2017 equaling the lowest mark set in the third quarter of 2014 (Chart 5). The Consumption Habits Index, a subsection of the CCI, deteriorated in the quarter under review. Consumers were positive only about going on vacation, likely in anticipation of the forthcoming vacation period. Meanwhile, the vast majority of respondents (95.8 percent) expected that prices would rise in the coming six months, leading to a Price Expectations Index of 90.1, most likely related to the new tax levy introduced on the first of July 2018. However, consumers were positive about their present personal financial situation, while reporting a more negative outlook on all the components related to their future expectations. In terms of future jobs expectations, 67.8 percent of respondents indicated that finding a job would be more difficult in the coming 6 months (this expectation stood at 55.9 percent in the last quarter of 2017).

Investment

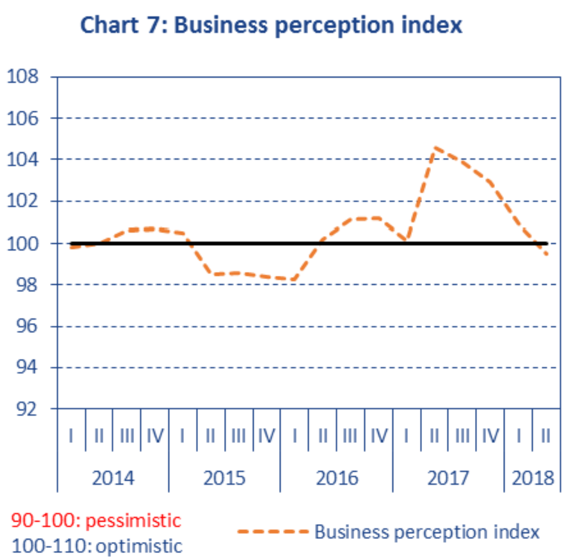
Investment indicators for the first six months of the year also provided a mixed picture for the investment environment. The continuation of the Watty Vos Boulevard and the Embassy Suites, as well as the renovation and expansion of the Dr. Horacio E. Oduber hospital were three of the biggest investment projects ongoing in the first six months of this year. The number of granted construction permits remained at the same level as a year earlier (Chart 6). However, the value in construction permits decreased by 48.3 percent. This drop was attributed to a lower value of permits for apartments (–50.7 percent) and for the "others" section (–71.1 percent), related to two large tourism construction projects in the first half year of 2017. The value for housing permits increased by 11.9 percent, partly mitigating the above-mentioned reductions. The number of approved electrical installations registered a growth of 4.5 percent in the first half year.

Cement imports by weight grew significantly in the first six months (+84.4 percent). Imports of "base metals and derivated works" shrank by 7.2 percent. In contrast, imports of "machinery and electrotechnical equipment" rose by 12.3 percent. The total value of commercial mortgages in the first six months of the year compared to the amount in December 2017 registered an increase of 2.0 percent, while the total value of housing mortgages grew by 3.1 percent, not surprising considering the expansion of the value for housing permits.

Chart 6: Investment-related indicators
(value percentage change Jan-Jun 2018 vs. Jan-Jun 2017)



Sources: CBA, CBS, DOW

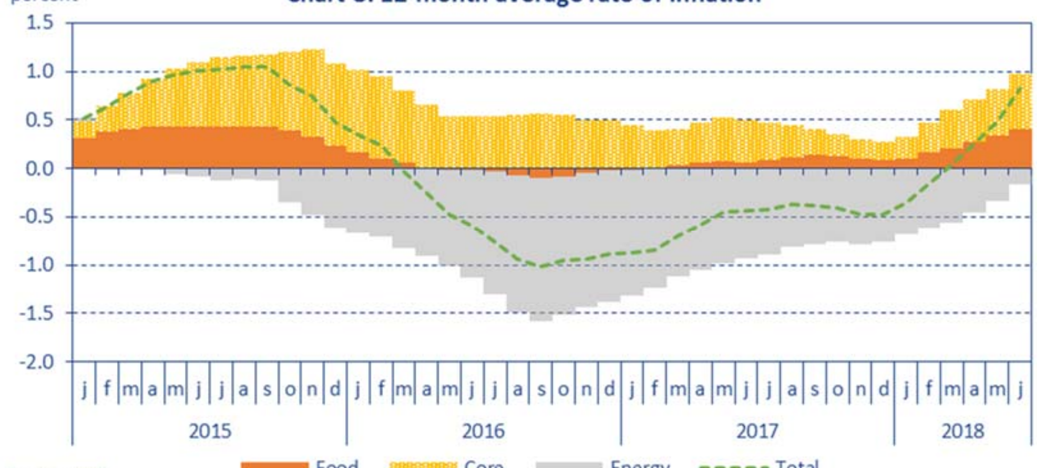


The business perception index (BPI) turned slightly pessimistic in the second quarter of 2018. The BPI comprising the current and short-term economic conditions decreased by 3.4 percentage points, from 102.9 in the last quarter of 2017 to 99.5 in the second quarter of 2018 (Chart 7). The BPI dipped into negative territory for the first time since the first quarter of 2016 when it had been negative for four consecutive survey periods. Of the various sub-components of the BPI, the current economic condition index registered a downturn of 2.2 percentage points, from 102.7 to 100.5 (thus less optimistic), while the short-term future economic condition index fell by 4.6 percentage points, from 103.0 to 98.4. The sectors manufacturing, utilities, and real estate, including other business activities, were the three sectors that reported being pessimistic with regard to the current conditions. Meanwhile, the construction sector joined this group in indicating pessimism towards the future.

Consumer Price Index (CPI)

Following a steady decreasing trend in the past two years, the 12-month average CPI inflation accelerated to 0.8 percent at the end of the second quarter of 2018 as a consequence of rising gasoline and food prices. However, the 14 percent electricity tariff reduction in January 2017 still had a dampening effect on the 12-month inflation. After excluding energy and food related components, core inflation registered an increase of 0.6 percent (Chart 8).

Chart 8: 12-month average rate of inflation



Source: CBS

CPI inflation saw an upward trend in the first half of 2018 resulting in an end-of-period inflation of 3.4 percent in June. Gasoline prices on average picked up by 10.6 percent in the first two quarters of 2018. Food prices (primarily fruit) experienced a spike of 4.0 percent in February 2018 compared to January. This price rise was due to the closure of the Venezuelan border, which forced importers to bring in more expensive fruits and vegetables from other countries. This additional expense resulted from higher prices of the products themselves in combination with higher transportation costs. Inflation is anticipated to rise further with the higher turnover tax rate and BAZV rate as of July 1, 2018.

The real exchange rate of the Aruban florin relative to that of the U.S. dollar dropped by 1.4 percentage points in the current period compared to the second quarter of 2017 (Chart 9). The large discrepancy between rising energy prices in the United States and the reduction in Aruban electricity tariffs in January 2017 helped improve Aruba's competitive position relative to the United States. This position is expected to reverse by the end of the year, due to the inflationary

Chart 9: Real exchange rate Aruban florin vis-à-vis the U.S. dollar (1995=100)

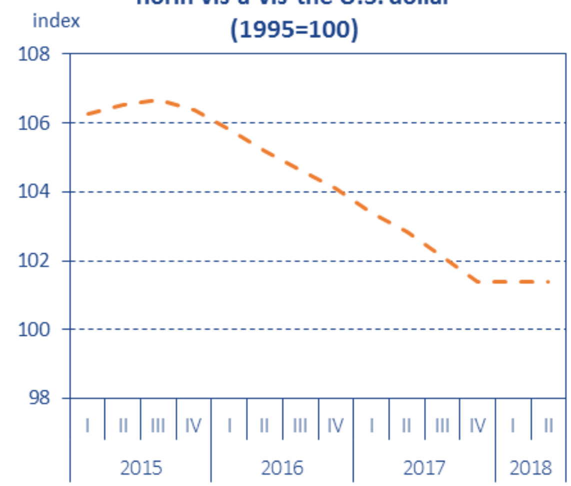


Table 2: Share of (non-free zone) imports of goods by country of origin (%)

Country of origin	2017 Jan-Jun	2018 Jan-Jun
United States	58.4	57.2
Netherlands	12.7	13.5
China	2.3	2.7
Panama	2.7	2.5
Colombia	2.1	2.1
Brazil	1.6	2.1
Japan	1.2	1.3
Korea Republic	1.4	1.2
Switzerland	1.2	1.1
United Kingdom	0.4	0.4
Venezuela	1.7	0.3
Other countries	14.4	15.7
Total (Afl. million)	961.6	1,054.4

Source: CBS Aruba

impact from food prices in the first quarter, the developments in gasoline prices, and the mentioned tax measures.

Foreign trade

Aruba's trade deficit in the first six months of 2018 expanded by Afl. 88.0 million reaching a level of Afl. 1,016.8 million compared to the same period in 2017. The import of goods increased by 7.3 percent (+Afl. 72.9 million). This increase was reflected in all import components with the exception of mineral products and base metals and derivated works, which recorded declines. Food products also recorded a small decline (–2.7 percent) attributed solely to imports related to the free zone (–42.8 percent) as non-free zone imports to Aruba increased by 8.9 percent. Exports on the other hand, fell by 20 percent (–Afl. 15.1 million) in the period under review, in both free-zone exports (–29.4 percent) and non-free zone exports from Aruba (–13 percent).

The United States remained Aruba's largest trading partner. In the first half of 2018, the United States accounted for 57.2 percent of all non-free zone imports to Aruba. Imports from the Netherlands grew by 0.8 percentage point to a market share of 13.5 percent. The share of imports from Venezuela dropped considerably from 1.7 percent to 0.3 percent as a result of the trade sanctions set by the Venezuelan government in January 2018 (Table 2).

Monetary survey

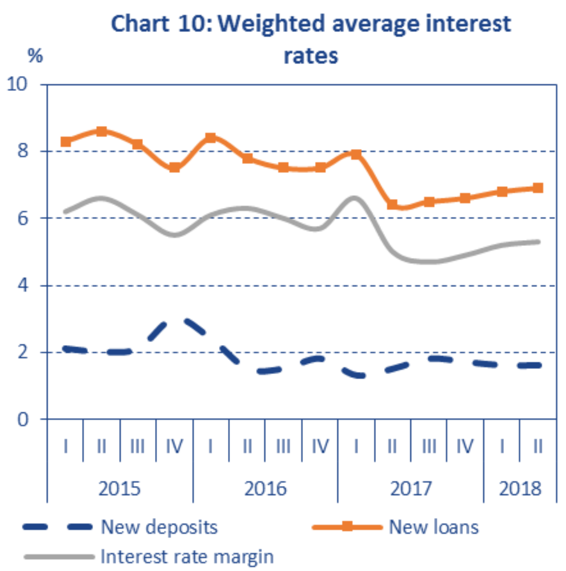
Total money supply increased to Afl. 4,330.7 million at the end of the second quarter of 2018, i.e., a 2.1 percent increase compared to the fourth quarter of 2017. This increase was caused mainly by a net expansion in domestic assets (+Afl. 75.6 million) due largely to an Afl. 126.2 million growth of net claims (i.e., credit) on the public sector in the first two quarters of 2018.

The rise in net foreign assets had a smaller effect (+Afl. 15.2 million) on the money supply. The growth in foreign assets was triggered largely by an increase in tourism exports, offset in part by the payments related to imports of goods, net transfers to foreign accounts, current transfers, and transactions on the income account related to interest payments on government bonds. Overall, the development of the foreign assets' position was above the critical norms traditionally monitored by the Monetary Policy Committee (MPC) of the Centrale Bank van Aruba. Additionally, the current level of official reserves was just high enough to meet the minimum required reserve adequacy as stipulated by the IMF ARA metric.[3] This metric has been in use by the IMF since 2013, against the backdrop of other traditional metrics, as a way to have a metric that encompasses a broad set of risks. The overall conclusion is that reserves remained at an adequate level throughout the first two quarters of 2018.

Domestic credit extended to the private sector expanded by 0.8 percent to Afl. 3,159.2 million at the end of the second quarter of 2018 compared to the fourth quarter of 2017. This gain stems from a rise in housing mortgages (+3.1 percent), while contractions were recorded in consumer credit (–2.1 percent) and business loans (–0.2 percent).

Net claims on the public sector rose to Afl. 526.3 million (+31.6 percent) at the end of the second quarter of 2018, a surge of Afl. 126.3 million compared to the fourth quarter of 2017. This rise was caused mainly by a surge of Afl. 139.5 million in gross claims and a growth of Afl. 23.1 million in government deposits. The growth in the gross claims was attributed to an expansion of Afl. 90.0 million in the 3-month treasury bills issued on behalf of the government and an increase of Afl. 10.2 million resulting from the participation of local commercial banks in government bonds issued in June 2018.

[3] ARA is an acronym for "assessment of reserve adequacy". It was developed by the IMF in the aftermath of the latest financial crisis. For more information on the ARA metric: CBA - *State of the Economy, first three quarters of 2017*.



The weighted average interest rate on new loans continued on its upward trend since the second quarter of 2017; it widened from 6.5 percent in the fourth quarter of 2017 to 6.9 percent in the second quarter of 2018, reflecting mainly higher interest rates on commercial loans. This increase was driven by interest rate increases in current account overdrafts and commercial term loans. On the other hand, the weighted average interest rate on new deposits registered a minimal decline from 1.7 percent to 1.6 percent, reflecting a drop in the interest rates on new time deposits. The resultant interest rate margin expanded to 5.3 percent in the second quarter of 2018 (Chart 10).

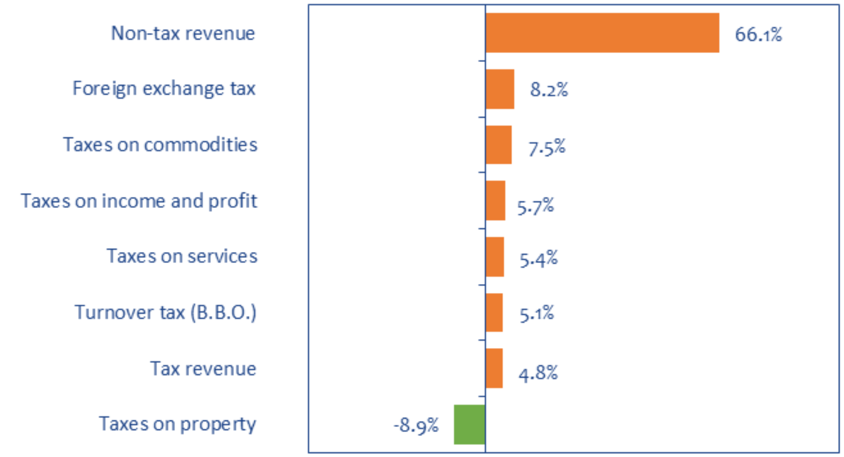
The financial soundness indicators registered minor changes during the first six months of 2018. The capital adequacy ratio recorded a growth, and the aggregated regulatory capital (Tier I and II) to risk-weighted assets ratio expanded by 1.1 percentage points in the second quarter of 2018 to 31.8 percent. The nonperforming loans to gross loans ratio (NPL) remained constant at 4.0 percent in the first half of 2018. This was the outcome of movements in both total NPLs and total gross loans that were less pronounced during the second quarter of 2018. The profitability within the commercial banking sector registered a contraction within the second quarter of 2018 as the return on assets, which had been maintained at 0.6 percent since March 2017, fell to 0.4 percent. The commercial banks' aggregated prudential liquidity ratio measured an increase of 1.3 percentage points to 29.9 percent at the end of the second quarter of 2018, compared to end-December 2017, remaining well above the minimum requirement of 16 percent.

Government

The fiscal deficit (on a cash basis) stood at Afl. 2.9 million or –0.1 percent of GDP for the first half of the year, an improvement of Afl. 79.2 million compared to the same period of 2017. This outcome was driven by a gain in both tax and non-tax revenues, while expenditure dropped slightly.

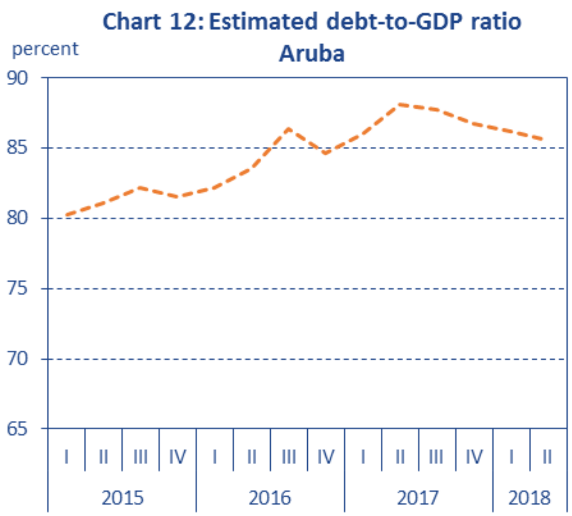
Revenues showed significant growth in the first six months of 2018, rising by 10.9 percent (+Afl. 65.7 million) compared to the first half of 2017. Driving this revenue increase was an expansion in both tax revenues and non-tax revenues (Chart 11). Stronger compliance bolstered tax revenue collection, to some extent supported by the continued efforts to collect tax arrears. Government tax revenues rose by 4.8 percent in the first half of the year (+Afl. 26.0 million) to Afl. 566.7 million compared to the same period of 2017. Largely underpinning this growth was an increase in revenues from taxes on income and profit (+Afl. 13.9 million), as wage tax revenues showed a rise of Afl. 11.7 million. In addition, income tax revenues picked up by Afl. 8.5 million, as payments other than restitutions were received in the period under review. On the other hand, profit tax fell by Afl. 6.4 million (–6.0 percent). Meanwhile, taxes on commodities rose by Afl. 10.9 million, pushed up primarily by an expansion in revenues from import duties (+Afl. 10.6 million), as human capital investments by the Customs Department continued to yield results. Furthermore, revenues from taxes on services and the foreign exchange tax increased slightly, while the turnover tax revenues expanded by Afl. 2.7 million. On the other hand, revenues from property taxes fell by Afl. 4.6 million (–8.9 percent). Growth in non-tax revenues added further compared to the same period of 2017, growing by 66.1 percent or Afl. 39.7 million (2017: +16.3 percent or Afl. 8.4 million).

Chart 11: Government revenue (percentage change 2018H1 vs 2017H1)



Source: Tax Collector's Office

Expenditure outlays fell slightly by Afl. 4.9 million to Afl. 675.2 million in the period under review, as development fund spending halted with the cessation of the fund. Government expenditure registered upturns in most components; however, these were offset by an Afl 21.6 million drop in "Development fund spending" as the funds of the multi-annual development



plan Fondo Desaroyo Aruba (FDA) were exhausted. In addition, "Transfer to the General Health Insurance" decreased by Afl. 7.9 million. On the other hand, all other components recorded expansions. Both "Interest expenses" and "Transfers and subsidies" increased by Afl. 7.7 million and 7.8 million, respectively, while outlays on goods and services rose by Afl. 4.3 million.

In the first half of the year, government debt expanded by Afl. 20.0 million to Afl. 4,178.9 million, equal to 85.6 percent of GDP (Chart 12), a decline of 1.2 percentage points compared to the end of 2017. Domestic debt increased by Afl. 81.5 million to Afl. 2,118.0 million, expanding the share of domestic debt to 50.7 percent (+1.7 percentage points compared to the end of 2017). This increase was due to a domestic bond issue of Afl. 100.0 million with a 15- year maturity, and a treasury bills expansion of Afl. 130.0 million, partly mitigated by domestic principal repayments. No external debt was issued in the first six months of 2018 while there were some foreign debt repayments. As a result, total volume of foreign debt contracted by Afl. 61.5 million.

II. International developments

The global economy is projected to increase by 3.1 percent for 2018, but slower growth is expected for 2019.[4] This is the outcome of a stronger outlook for developed economies, which shows rising wages, favorable investment conditions, and also short-term impacts of fiscal stimulus measures in the United States.[5] The forecasts, however, point towards a peak in economic growth in 2018, resulting in a gradual slowdown over the next two years. In advanced economies, growth rates are expected to contract from a 2.2 percent rate in 2018 to 2.0 percent in 2019. This contraction will occur as central banks slowly remove monetary stimulus

[4] The World Bank Press Release – June 5, 2018.
[5] United Nations World Economic Situation and Prospects: June 2018 Briefing, no. 115.

implemented in the past. An economic improvement is projected for emerging markets and developing economies, where the expansion is estimated to reach 4.5 percent at the end of 2018, before accelerating to 4.7 percent in 2019. Underlying this estimate is the assumption that the recovery in commodity exports matures and commodity prices level off following the increase in 2018. Note that these forecasts are subject to considerable downside risks. The possibility of disorderly financial market volatility has escalated. The projected deceleration in global commodity demand also can impact commodity price prospects, where deceleration can affect future economic development in commodity-exporting countries.

The United States maintains one of the longest economic expansions on record with a rise in GDP for the first half of 2018. The longevity of the growth was enabled by the slow and steady nature of the recovery that the United States has experienced since the last recession. The Bureau of Economic Analysis anticipates an increase in real GDP at an annual rate of 4.2 percent in the second quarter of 2018.[6] The development of the real GDP growth in the second quarter is attributed mainly to accelerations in personal consumption expenditures, exports, federal government spending, state and local government spending, and a reduction in residential fixed investment. As a result, the substantial boost has contributed to solid job creation, which has helped bring people back into employment and reduce the unemployment rate in the United States to 3.9 percent in the second quarter of 2018.[7] Record levels of oil production by the United States also have contributed to the improvement of the GDP. These record levels are caused mainly by refineries along the Gulf Coast being better equipped to handle medium and heavy grades of crude oil.[8]

OECD states that the resilience in the euro area needs further strengthening with fiscal and banking reforms. The output growth within the euro area has slowed down since the first

[6] U.S. Department of Commerce – The Bureau of Economic Analysis
[7] U.S. Department of Labor – Bureau of Labor Statistics
[8] U.S. Energy Information Administration

quarter of 2018, specifically in the industrial sectors that are challenged with lower external demand. However, economic growth is projected to remain close to 2 percent for the ensuing period of 2018 and towards the end of 2019.[9] This anticipated growth is being underpinned by accommodative monetary policy, mild expansionary fiscal policy, a strong decline in the unemployment rate, and favorable financing conditions. Household final consumption expenditure contributed positively to the GDP increase in the euro area. Although the resilience and architecture in the euro area have noted improvements in recent years, concerns remain with regard to fiscal and financial instability due to uncertainties from policy choices and future agreements between the United Kingdom and the European Union following the Brexit.

The economic growth for Latin America and the Caribbean stood at 1.5 percent in the first half year of 2018.[10] Specific performance varies among the countries and sub-regions due to the diverging impacts of international conditions. The advancement in economic development for the Latin America and the Caribbean region was more moderate than anticipated, as the outcome reflects external financial conditions tied to individual countries. In the Caribbean, the GDP increase is projected at 1.7 percent in 2018, compared to a flat development in 2017. This projection is a result of growth in both the tourism-dependent and commodity-exporting economies. Latin America recorded a gain in export values (+0.9 percent) combined with a modest recovery in domestic demand and a rise in oil prices, resulting in a projected GDP increase of above 9.5 percent. The international reserves within the region improved during the first half of 2018, however at a less momentous pace than in the corresponding period of 2017. This slower growth is a result of various central banks' aiming to ease their exchange rate by intervening in foreign exchange markets. Across the Caribbean region, a number of countries have continued to tackle the heavy burden of public debt by focusing on generating

[9] OECD Economic Outlook Report
[10] Economic Survey of Latin America and the Caribbean 2018

surpluses. These surpluses are primarily the outcome of disbursements needed for reconstruction requirements after various natural disasters in the region.

III. Concluding remarks

In comparison to 2017, Aruba's economy seems to have performed marginally better in the first six months of 2018. The available tourism indicators show consistent buoyant developments as the number of stay-over and cruise visitors, nights spent, as well as hotel occupancy and hotel revenues turned into markedly strong growth figures. Likewise, tourism receipts as reported by commercial banks trended strongly in the first six months of 2018. The upbeat effects of tourism development are, however, mitigated in part by the mixed results emanating from the various consumption and investment indicators. Consumer confidence declined, while business confidence contracted. On the other hand, the proceeds from consumption-related taxes increased, while on-going large investment projects continued, and the value of housing mortgages grew. Imports expanded significantly in almost every category, likely driven by higher demand from tourists and large investment projects. Combined with declining exports, this increase in imports signified a further deterioration of Aruba's trade deficit.

CPI inflation saw an upward trend in the first half of 2018 resulting in an end-of-period inflation of 3.4 percent in June. Gasoline prices on average picked up by 10.6 percent in the first two quarters of 2018. Fruit prices experienced a spike of 4.0 percent from January to February 2018 (month on month) due to the closure of the Venezuelan border for trade with Aruba. This closure forced importers to bring in more expensive fruits and vegetables from other countries due to higher prices of the products themselves and/or higher transportation costs. Inflation is anticipated to rise further, pushed up by the higher turnover tax rate and BAZV rate as of July 1, 2018.

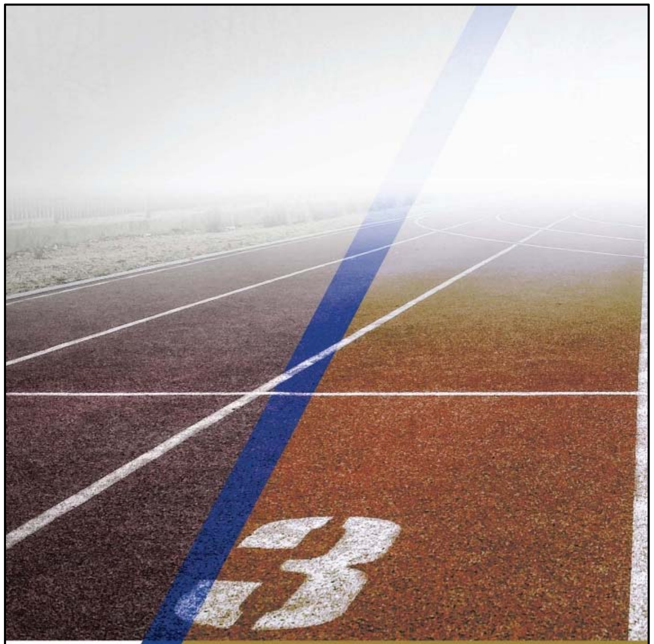
Total money supply widened to Afl. 4,330.7 million by end-June 2018. This was caused mainly by an Afl. 126.2 million net expansion of credit to the public sector as a result of the net purchase of issued government paper. The development of the net foreign assets' position is above the critical norms monitored by the Monetary Policy Committee (MPC) of the Centrale Bank van Aruba. Additionally, the current level of official reserves is just high enough to meet the minimum required reserve adequacy as stipulated by the IMF ARA metric. In other words, reserves remained at an adequate level throughout the first two quarters of 2018. Domestic credit extended to the private sector expanded by 0.8 percent to Afl. 3,159.2 million at the end of the second quarter of 2018 compared to end of the fourth quarter of 2017.

The fiscal deficit (on a cash basis) of the Government of Aruba improved to Afl. 2.9 million, or –0.1 percent of GDP, for the first half year of 2018. Revenues showed a significant growth, rising by 10.9 percent (+Afl. 65.7 million) compared to the first half of 2017. Driving this revenue growth was an expansion in both tax revenues and non-tax revenues. Stronger compliance helped to bolster tax revenue collection, to some extent supported by the continued efforts to collect tax arrears. The jump in non-tax revenue was due mainly to higher dividend income revenue from state-owned companies (+Afl. 49.6 million). Expenditure outlays fell slightly by Afl. 4.9 million to Afl. 675.2 million in the period under review, as development fund spending halted with the cessation of this fund. The government debt reached Afl. 4,178.9 million, expanding by Afl. 20.0 million. As a result, the debt-to-GDP ratio stood at 85.6 percent at the end of the period, 1.2 percentage points lower than at the end of 2017. Domestic debt increased to Afl. 2,118.0 million, expanding the share of domestic debt to 50.7 percent. This increase was due to a domestic bond issue of Afl. 100.0 million with a 15-year maturity, and a treasury bills expansion of Afl. 130.0 million, partly mitigated by domestic principal repayments. No external debt was issued in the first six months of 2018 while there were some foreign debt repayments. As a result, total volume of foreign debt contracted by Afl. 61.5 million.

Table: Main economic indicators first two quarters of 2018

Indicator	2017 Jan-Jun	2018 Jan-Jun	Change
Hotel revenue per available room (US$)	224	252	28
Stay-over visitors (numbers)	526,743	540,377	13,634
Cruise visitors (numbers)	435,137	437,245	2,108
Construction permits (Afl. million)	313	162	-151
Imports of machinery and electrotechnical equipment (Afl. million)	145.0	162.8	17.8
Turnover tax receipts (Afl. million)	52.3	55.0	2.7
Taxes on income and profit (Afl. million)	244.3	258.1	13.9
Twelve-month average rate of inflation (percent)	−0.4	0.8	1.3
Consumer confidence index (second quarter, index points)	94.4	93.8	−0.6
Government debt-to-GDP ratio	88.1	85.6	−2.5

Sources: CBA, AHATA, ATA, CBS



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