



CENTRALE BANK VAN ARUBA

## **Strong fourth quarter economic rebound; however, not enough to compensate for the lockdown impacts in the previous months**

Press release

June 23, 2021

*Today the Centrale Bank van Aruba (CBA) published the State of the Economy for the fourth quarter of 2020. 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.*

### **Economic activities bounced back in the fourth quarter of 2020**

During the fourth quarter of 2020, the Aruban economy continued its steady path to recovery amidst continued uncertainties caused by the COVID-19 pandemic. Signs of a gradual recovery were noted, as tourism picked up vis-à-vis the preceding quarter. Tourism credits per night in the third and fourth quarters of 2020 reached historically high levels, supported in part by a higher ADR and buoyant spending by visitors. This finding shows once more that the gains from tourism can be captured with fewer visitors, even though tourist spending could flatten out again in the medium term. For the year 2020, however, the total number of stay-over visitors registered a significant contraction, while the number of cruise visitors plummeted. As a result of these developments, total tourism credits noted a 49.2 percent reduction compared to 2019.

Nonetheless, for the year 2020, estimated real GDP shrank by 22.3 percent compared to 2019, as reflected by available consumption, investment and export indicators. The government policy actions to contain employment and social fallout during the crisis, specifically the Small and Medium Enterprise Schemes (SME), the unemployment benefits (FASE), the wage subsidy (LSR) were necessary to prevent further harm to the economy in the short-term. The programs were mostly financed by the Dutch government through the provision of loans. In the medium-term, however, fiscal risks exist, which can be attenuated by some form of debt forgiveness, buoyant economic rebound, and timely implementation of structural (tax) reforms.

### **Inflation turns negative**

The 12-month average CPI inflation sustained its downward path that begun in November 2019, reaching -1.3 percent at the end of December 2020. The deflation was due mainly to the energy

component, due to a downward adjustment of electricity tariffs in January 2020, which pushed inflation down by 1.3 percentage points in December 2020. This development reveals the high susceptibility of Aruba's inflation to cost-push factors. Oil prices are anticipated to increase throughout 2021, while price hedging to some extent can cushion these swings, as can a further transition to sustainable energy.

#### **Net borrowings from abroad partly offset current account deficit**

The current account of the balance of payments recorded an Afl. 580.5 million deficit in 2020. This outcome was spurred primarily by a severely reduced surplus on the services account, resulting from the plunge in tourism credits, following the COVID-19 travel restrictions. Nevertheless, the smaller deficit on the goods account offset some of the movements on the services account, resulting from lackluster consumption due to loss in income and less tourists in relation to the impact of the pandemic.

The financial account registered a net borrowing of Afl. 579.4 million from abroad during 2020. The outcome on the financial account for 2020 reflected primarily increases in financial liabilities related to portfolio investment, other investment, and direct investment. The increases in the other investment and portfolio investment liabilities were associated largely with liquidity support from the Netherlands to the Government of Aruba and other foreign borrowing by the Government of Aruba.

#### **International reserves remained above benchmarks**

When compared to end 2019, broad money expanded by Afl. 223.2 million, reaching Afl. 4,792.0 million at the end of the fourth quarter of 2020. The expansion was attributed to a growth in international reserves (excluding revaluation differences), offset partly by a contraction in net domestic assets. As a result of the depressed domestic import demand, government loans received from abroad, and the imposed foreign exchange restrictions, international reserves remained above the benchmarks monitored by the CBA at the end of 2020.

#### **Government financial deficit worsened**

The pandemic had a deep toll on government finances during 2020. The financial deficit reached Afl. 813.5 million, contrasted to an Afl. 3.1 million deficit in 2019. The jump in the financial deficit was due to substantially higher expenditures related mainly to the COVID-19 liquidity support measures to various groups in the Aruban community, including businesses, combined with a sharp drop in revenues in 2020. As a result of the widened deficit, total government debt surged by Afl. 826.7 million (+19.1 percent) to Afl. 5,145.6 million in 2020, when compared to the year before.

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