STATE OF THE ECONOMY

The first half of 2021

ABSTRACT

The Aruban economy continued its recovery from the effects of the COVID-19 pandemic during the second quarter of 2021. Real GDP surged during the quarter by 25.1 percent compared to the second quarter of 2020. This surge was driven largely by the strong recuperation in tourism sector activities. In the second quarter of 2021, year-on-year real GDP growth rose by 35.1 percentage points compared to the previous quarter, as the number of stay-over visitors increased by 90.6 percent in comparison to the first quarter of 2021. All tourism indicators with the exception of cruise visitors exhibited signs of remarkable recovery during the first two quarters of 2021. While consumption indicators for the quarter under review painted a mixed picture, investment indicators showed a pick-up in activities compared to the second quarter of 2020.

Centrale Bank van Aruba

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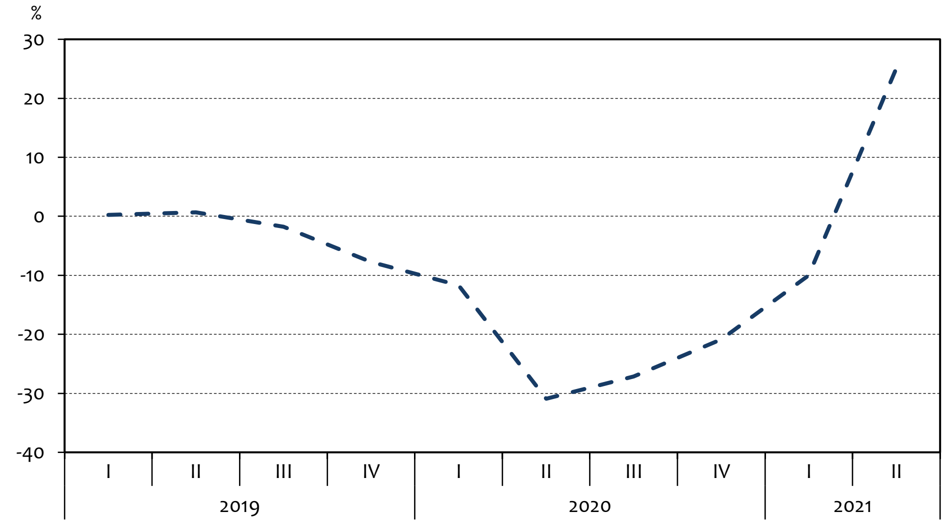
I. Domestic developments

Economic growth

During the second quarter of 2021, the Aruban economy continued its recovery from the effects of the COVID-19 pandemic, driven by the strong recuperation in tourism sector activities. The progressive return of stay-over visitors, complemented by the resumption of cruise tourism in June 2021, pushed up real GDP by 25.1 percent compared to the second quarter of 2020 when the borders were closed to international travel (Chart 1). The mentioned surge in real GDP growth during the second quarter of 2021 takes into account the meager performance of the tourism sector when the effects of the COVID-19 pandemic on the island were at their highest. The quarter under review marked the first quarter that registered growth since the second quarter of 2019. Nonetheless, the economy has shown signs of a consistent recovery since the re-opening of the borders in the third quarter of 2020, with year-on-year real GDP improving continuously each quarter. In the second quarter of 2021, year-on-year real GDP growth rose by 35.1 percentage points compared to the previous quarter as the number of stay-over visitors increased by 90.6 percent in comparison to the first quarter of 2021. While consumption indicators for the quarter under review painted a mixed picture, investment indicators showed a pick-up in activities compared to the second quarter of 2020 when shelter in place measures were in effect. Furthermore, imports registered an upturn compared to the second quarter of 2020, due in part to the dampened domestic and tourism demand during the border closure.

Chart 1: Quarterly GDP growth year-over-year



Calculations: CBA

Tourism

All tourism indicators with the exception of cruise visitors exhibited signs of remarkable recovery during the first two quarters of 2021 compared to the same period a year before (Table 1). Despite the lingering uncertainties related to the COVID-19 pandemic, Aruba remained an attractive tourism destination as the number of stay-over visitors grew by 42.7 percent (YTD June 2021 vs. YTD June 2020).

This recovery occurred mostly in the second quarter of 2021 as the borders were closed during the same quarter a year before. Upward movements were noted in the markets of the United States (+65.4 percent) and the Netherlands (+15.3 percent), when comparing the first six months of 2021 to the same period in 2020.

Along the same lines, data obtained from the Aruba Hotel and Tourism Association (AHATA) showed that the hotel sector performance recuperated during the first half of 2021 compared to the same period a year before. Specifically, the hotel occupancy rate surged to 69.5 percent compared to only 0.6 percent registered a year prior. Furthermore, both the Average Daily Rate (ADR) and the Revenue per available room (RevPAR) increased (the ADR reached $246.1 while the RevPAR amounted to $171.1 at the end of Q2-2021). These developments were the direct effect of the continued recovery in the number of stay-over visitors, which strengthened during the second quarter of 2021, after plunging in the first quarter of 2021 compared to a year earlier. Additionally, the significant improvements in the performance of the hotel sector also are partially the result of the extraordinarily low values registered during Q2 of 2020 when the Aruban borders were closed.

The cruise industry lagged behind the observed optimistic developments in stayover tourism as the number of cruise visitors contracted significantly by 99.4 percent compared to the same period a year before. Although the Centers for Disease Control and Prevention lifted its cruise ban at the end of October 2020, Aruba decided to wait until June 2021 to welcome its first cruise ship since the beginning of the COVID-19 pandemic. As a result, the Aruba Ports Authority (APA) registered a total of only 1,589 cruise passengers YTD June 2021 compared to 255,384 passengers a year earlier when cruise ships and passengers were still arriving largely at a normal rate during the first quarter.

Table 1: Tourism indicators for Aruba

(YTD June vs. YTD June a year prior)

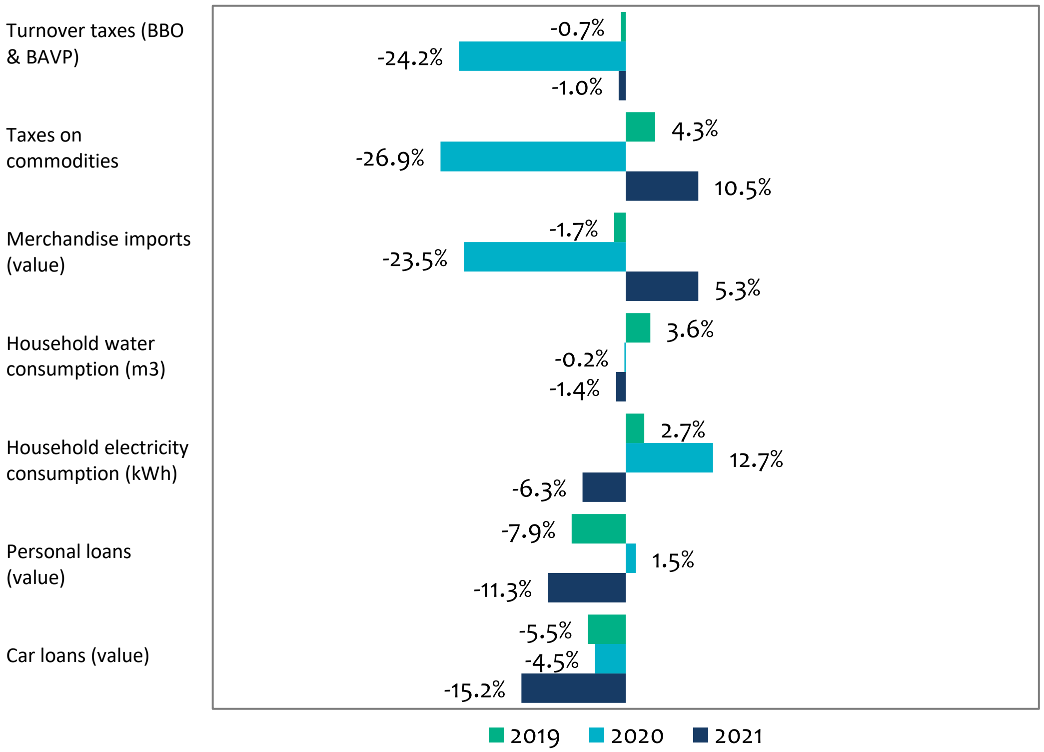
	2020	2021
Stay-over visitors (growth)	-60.3	42.7
Average length of stay (days)	7.5	7.7
Cruise visitors (growth)	-41.3	-99.4
Hotel occupancy (%)	0.6	69.5
Average daily rate (US$)	125.6	246.1
Revenue per available room (RevPAR) (US$)	0.7	171.1
Tourism credits (growth)	-39.9	8.9

Sources: CBA, ATA, AHATA, APA, CTO, STR

Consumption

Consumption-related indicators painted a mixed picture; some categories performed well, while others recorded decreases (Chart 2). The jump in taxes on commodities (10.5 percent) and merchandise imports (5.3 percent) contrasted with the contraction in various other indicators. In particular, the credit market remained muted, considering the respective drop of 15.2 percent and 11.3 percent in car loans and personal loans. Utilities consumption also lagged, possibly due to people working less from home. Similarly, receipts for turnover tax fell behind. The cutback was related to a sharp drop in economic activity due to the COVID-19 crisis, the effects of which became apparent in mid-March 2020. Consequently, income from turnover taxes during the first quarter of 2020 was still largely at pre-crisis levels, and the economic recovery in the first half of 2021 was not enough to bring about an increase vis-à-vis the first half of 2020.

Chart 2: Consumption-related indicators (YTD June 2019, 2020, 2021)



Sources: CBA, WEB, Tax Collector's Office, Customs Department

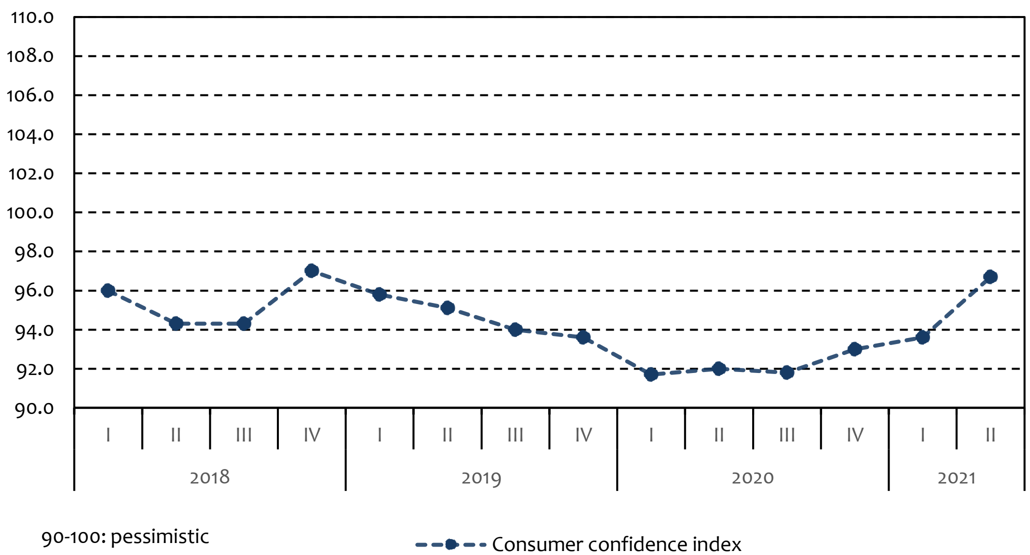
Merchandise imports recorded upswings across almost all categories when comparing the first half of 2021 to the same period of 2020, pointing to higher consumption and tourism-related imports of goods. (Chart 11). Imports of goods grew by 5.3percent, due mainly to expanded food imports. It should be noted that apart from increased domestic demand, part of the rise in food imports was due to higher prices and heightened tourism activity.

Data on utilities showed respective declines of 6.3 percent and 1.4 percent in household electricity and water consumption (Chart 2). The contraction in household electricity consumption occurred despite a 0.4 percent growth in the number of households connected to the electricity network in June-end 2021 compared to June-end 2020. The lower consumption per household was possibly related to the lower temperatures recorded during the first half of 2021 compared to the first half of 2020. Furthermore, people were spending less time at home, in view of looser government measures to contain the spread of COVID-19 compared to the corresponding period of 2020 and fewer employees working from home.

Consumer credit held at the commercial banks declined by 12.0 percent in June 2021 in comparison to June 2020. At a more disaggregated level, all components of consumer credit showed declines during the period under review: car loans (-15.2 percent), personal loans (-11.3 percent), credit cards (-9.3 percent), and other (9.5 percent) (Chart 2). The depressed demand in consumer credit is in line with reported sentiments in the CBA's Consumer Confidence Survey (CCS). A large number of persons have incurred some loss of income, while others significantly. During the second quarter of 2021, 67.0 percent of the respondents indicated that buying a car was not suitable, while 62.0 percent reported that taking out a loan was not appropriate. This trend has been consistent in recent years, and lately is due largely to consumers being cautious in taking on new loans, and commercial banks being more prudent in granting new loans. Specifically, the wide drop in consumer credit observed in 2021 reflects a larger sum of principal being repaid vis-à-vis new demand for consumer credit. Furthermore, principal repayments were presumably more pronounced in the first half of 2021 compared to a year earlier, as the commercial banks in general discontinued the moratorium on repayments in late 2020.

The Consumer Confidence Index (CCI) exhibited relatively less pessimistic consumers in the second quarter of 2021 than in the previous quarter and in the same quarter in 2020 (Chart 3). In general, the CCI has been trending upwards since the third quarter of 2020, indicative of improved sentiments among consumers as the present situation index and the future expectation index rehabilitated. However, the CCI average for 2021Q1 – 2021Q2 was 95.2, just below the average of 95.5 observed in the pre-pandemic period of 2019Q1 – 2019Q2.

Chart 3: Consumer Confidence Index



90-100: pessimistic
100-110: optimistic

Source: CBA

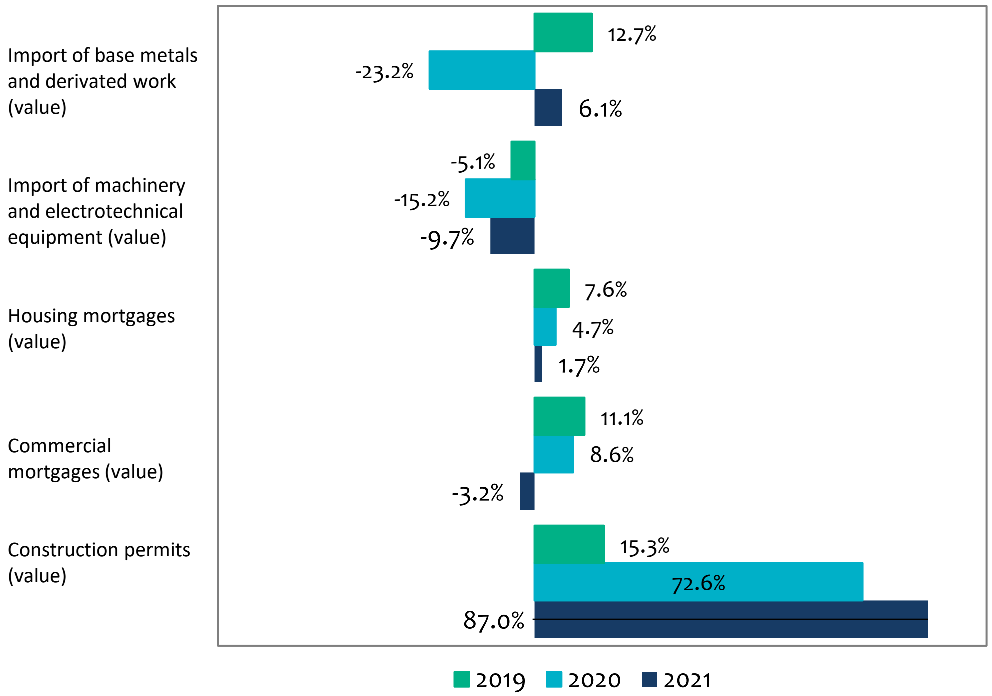
Investment

Investment-related indicators painted a mixed picture of investment activity during the first half of 2021. During the period under review, the value of machinery and electrotechnical equipment imported contracted by 9.7 percent, while the value of base metals and derivated works imported expanded by 6.1 percent (Chart 4). The mentioned indicators, however, showed an improvement compared to the same period of the previous year. During the first half of 2020, the value of machinery and electrotechnical equipment registered a larger reduction compared to the period under review, while the value of base metals and derivated works imported declined contrary to the developments in the first half of 2021. These observations reflected the moderate start of large-scale investment projects being constructed in the first half of 2021 amid a recovering economy and disruptions in global supply chains.

Data on the value of construction permits in the first half of 2021 suggest continued optimism over investment activities (Chart 4). During the period under review, the value of construction permits rose by 87.0 percent, recording a higher growth rate compared to the same period of the previous year. This growth was driven mostly by an upturn in the value of construction permits for apartments (+185.2 percent). It should be noted, however, that developments related to permits do not necessarily coincide with actual cash flows during the period in question.

Data from the commercial banking sector provide signals of stagnation in investment activities. The value of new commercial mortgages in June 2021 contracted (-3.2 percent) compared to June 2020, while the value of housing mortgages increased by 1.7 percent (Chart 4). The developments in both indicators showed a deterioration compared to those registered in the same period of the previous year, pointing to the lingering uncertainty brought about by the COVID-19 crisis. Indeed, the results from the CCS for the second quarter of 2021 captured this uncertainty to an extent, showing that halfway through 2021, 57.0 percent of respondents still reported that taking out a mortgage was unsuitable.

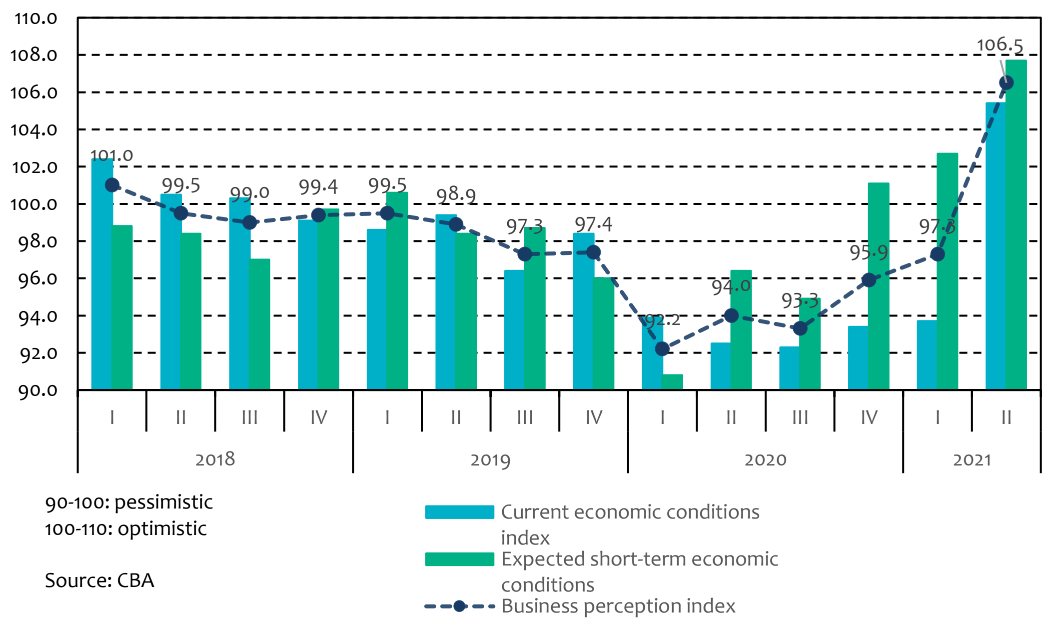
Chart 4: Investment-related indicators
(Percentage change YTD June 2021 vs YTD June 2020)



Sources: CBA, CBS, DOW

At the same time, the Business Perception Index (BPI) showed a significant improvement during the second quarter of 2021 (Chart 5). During the period under review, the BPI jumped by 9.2 index points to 106.5, surpassing an index of 100.0 (i.e., neutral sentiment) for the first time since the first quarter of 2018. The vast improvement in business sentiments could be observed across all sectors and resulted from a strengthening in both current and short-term future economic conditions. Despite this development, the BPI average since the start of the pandemic (i.e., average BPI of 96.5 observed during 2020 Q1 – 2021 Q2) remains lower than the period before the COVID-19 pandemic (i.e., average BPI of 99.0 noted during 2018 Q1 – 2019 Q4).

Chart 5: Business Perception Index

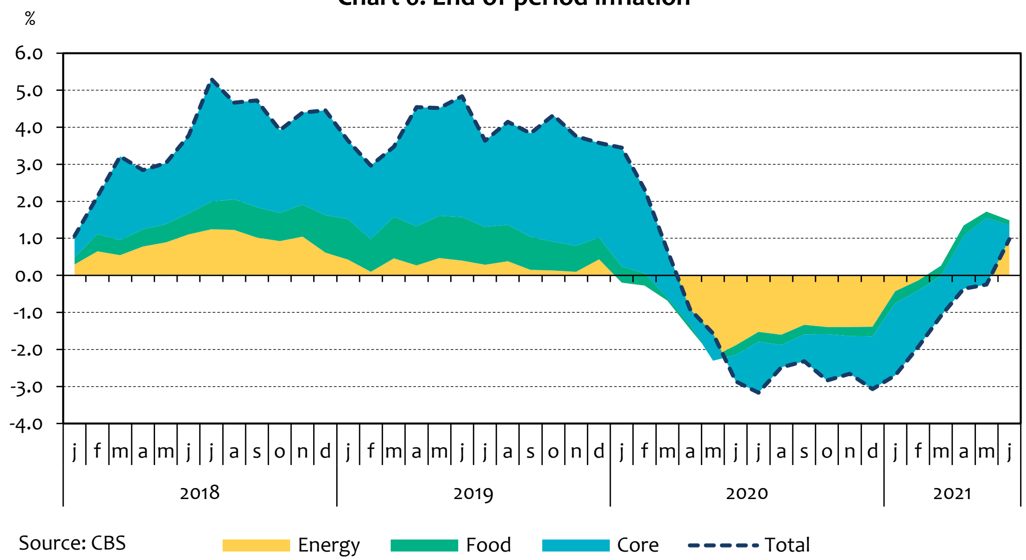


90-100: pessimistic
100-110: optimistic

Source: CBA

Consumer Price Index (CPI)

Chart 6: End-of-period inflation



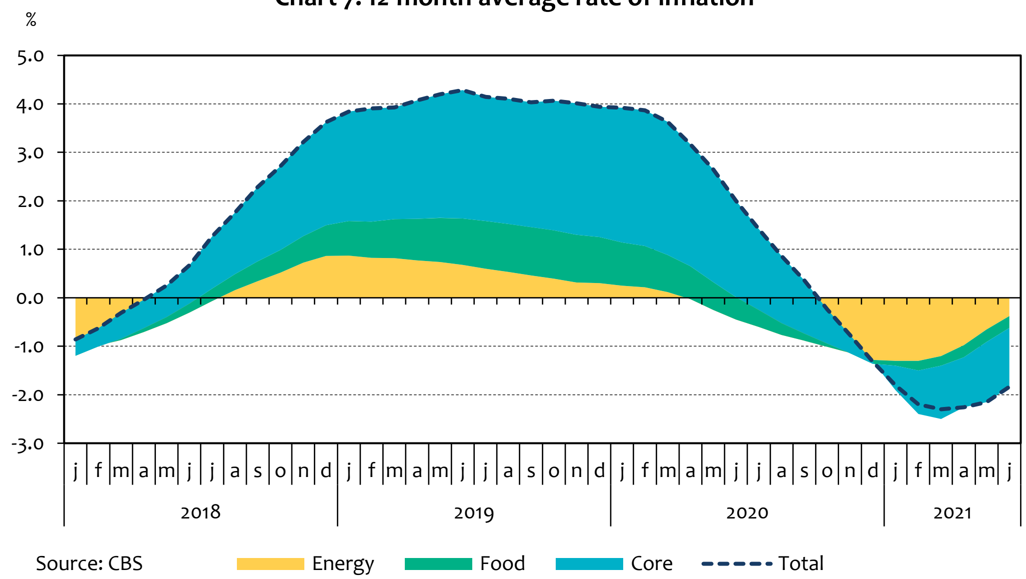
Source: CBS

The consumer price index (CPI) at the end of June 2021 recorded a 1.0 percent increase compared to a year earlier (June 2020: -2.9 percent end-of-period inflation)(Chart 6). This was the first year-on-year rise in the CPI since March 2020 at the onset of the COVID-19 pandemic. The rise in prices was due mainly to a hike in gasoline prices and more expensive household appliances. These developments were partially offset partially by lower prices for recreation and culture and clothing and footwear. The end-of-period inflation has been trending upward since July 2020 when prices for gasoline and household appliances, which plummeted in the first months after the start of the pandemic, began to recover. In addition, the reduction of electricity tariffs that took place in January 2020 was no longer weighing down inflation as of January 2021.

In contrast to overall inflation, when excluding food and energy, the core CPI was 0.4 percent lower in June 2021 than in June 2020. The difference between headline inflation and core inflation reflected the large contribution of higher gasoline prices in the overall CPI. Year-on-year core inflation has been negative since June 2020.

Contrary to the energy component, the food component had a slight drag on end-of-period inflation with a -0.1 percentage point contribution. This negative contribution was a continuation of the trend observed since May 2020 as most food items in the CPI basket either recorded a small decline or remained unchanged.

Chart 7: 12-month average rate of inflation



Source: CBS

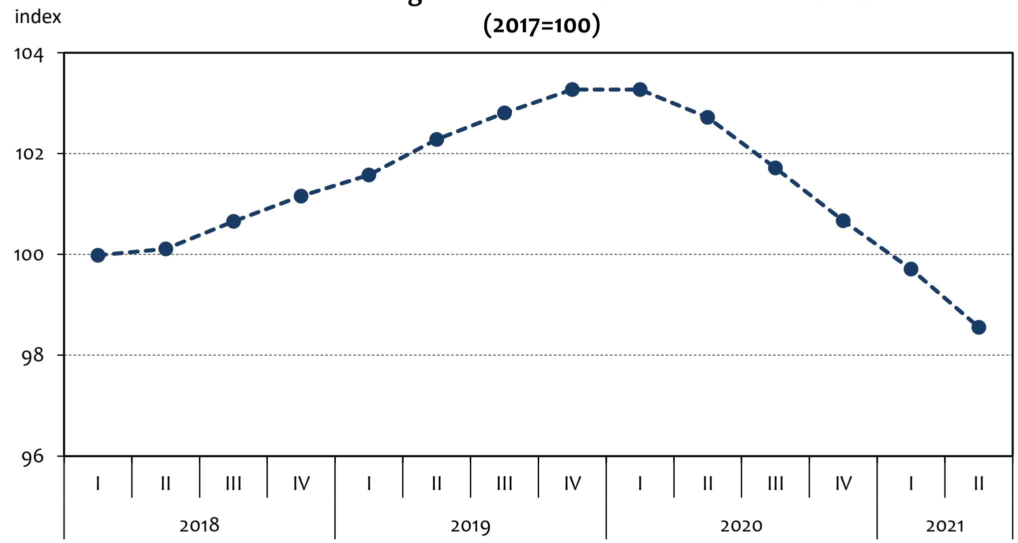
The 12-month average CPI inflation was still negative at end-June 2021, despite beginning to reverse its downward trajectory seen since November 2019, reaching -1.8 percent at the end of the second quarter of 2021 (Chart 7). The deflation in June 2021 was due mainly to reduced electricity tariffs and lower prices for recreation and culture, both of which pushed inflation down by 0.4 percentage point in June 2021. Several other components also contributed to the deflation. The reversal in the downward trend of the 12-month average inflation could be explained largely by the energy component having a less negative contribution as gasoline prices have been steadily rising, and the impact of the electricity tariff reduction of January 2020 was wearing off. The 12-month average core inflation stood at -1.2 percent, pulled down primarily by the components recreation and culture, household operation, and several others.

The food component also pushed down inflation, albeit less strongly than the energy component. The food component has recorded a negative contribution since December 2020, with a -0.2 percentage point contribution to the 12-month average inflation in June 2021.

International competitiveness

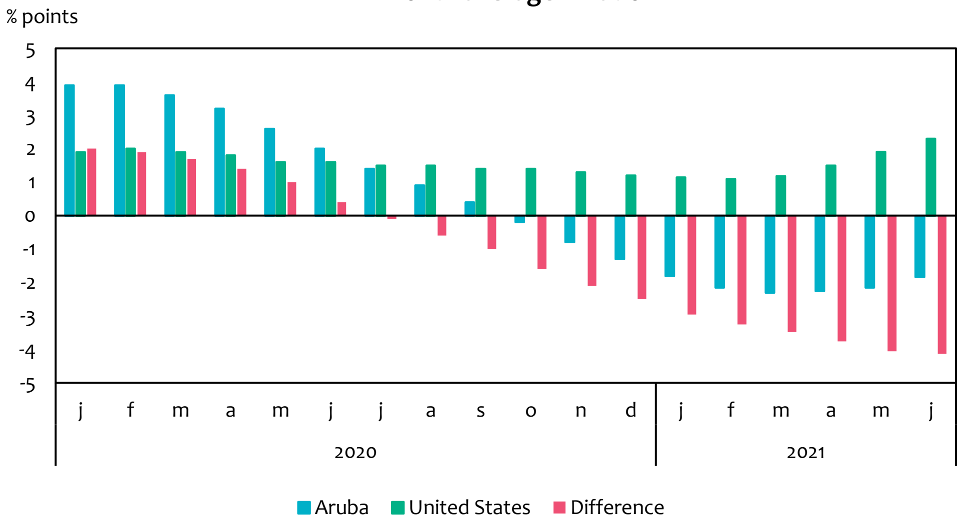
The real exchange rate of the Aruban florin vis-à-vis the U.S. dollar continued its downward trend in the second quarter of 2021 (Chart 8). This descending trend started in the second quarter of 2020 and indicates an improved competitive position of Aruba compared to the United States. This improvement in the second quarter of 2021 stems from the inflation in the United States growing faster than the deflation decline in Aruba (Chart 9). The 12-month average U.S. inflation for June 2021 stood at 2.3 percent pushed up mainly by the core component as it reached an inflation contribution of 1.4 percent. In contrast, Aruba's 12-month inflation was -1.8 percent in June 2021, depressed by lower prices in the core component, which recorded a deflation contribution of 1.2 percent. The mentioned developments led to an improved competitive position for Aruba in comparison to the United States.

Chart 8: Real exchange rate Aruban florin vis-à-vis the U.S. dollar (2017=100)



Source: CBA

Chart 9: Inflation differential Aruba - USA: 12-month average inflation

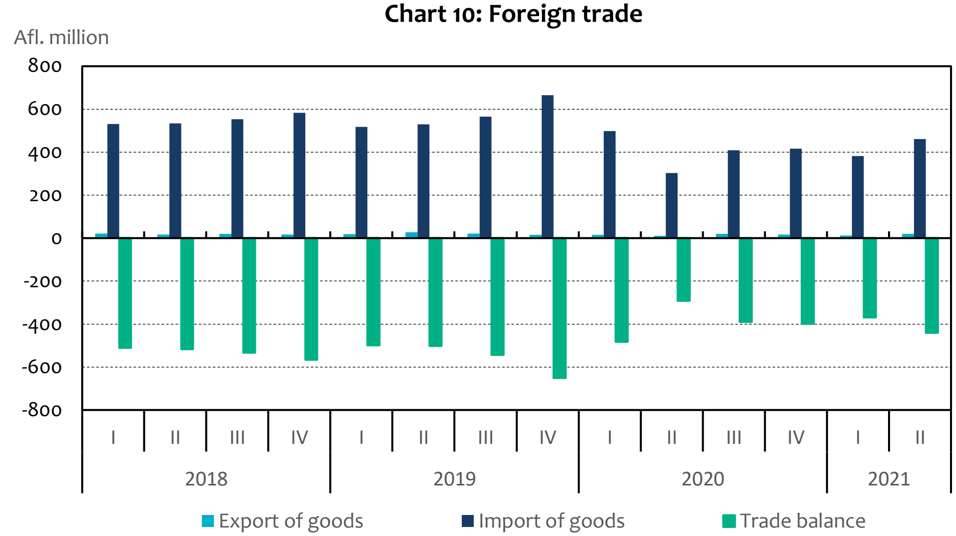


Calculations: CBA

Foreign trade

Merchandise trade improved in the first half of 2021 compared to the same period of 2020 as the tourism sector recovery gained momentum during the second quarter of 2021. Nonetheless, although imports expanded, the value of imports did not reach that of 2019, remaining at 80.5 percent of 2019 levels (YTD 2020 Q2: 76.4 percent of 2019 levels). The value of imports picked up by Afl. 42.1 million (+5.3 percent) to Afl. 842.8 million in the first 6 months of 2021, with most import components recording increases (Chart 10). The growth in import components was attributed mainly to higher imports of *other goods* (+6.1 percent), *food products* (+ 11.5 percent), and *chemical products* (+ 12.0 percent) (Chart 11). The rise in *other* *goods* was largely the result of more imports of *optical instruments, apparatus and equipment* (+24.3 percent). Furthermore, the increased demand for food products was most likely triggered by the pick-up in tourism activity in the second quarter of 2021 compared to the same quarter of 2020. In addition, the increase in the value of food imports may also have been influenced by rising global food prices. World food prices rose by 37.9 percent at the end of the second quarter of 2021, following its trough in the second quarter of 2020[1].

Chart 10: Foreign trade



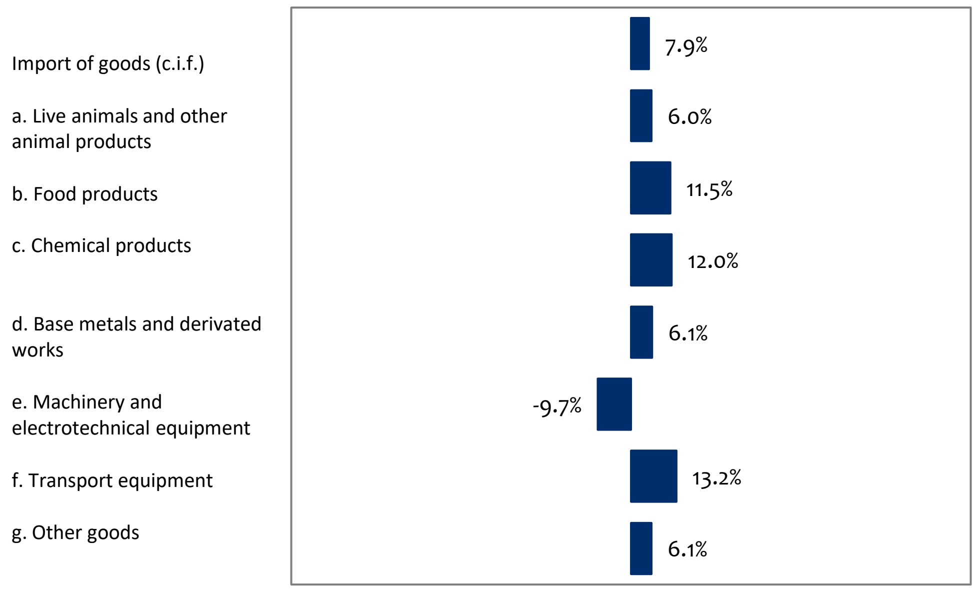
Source: CBS

On the other hand, the expansion in imports was mitigated in part by the drop in imports of *machinery and electrotechnical equipment*. The latter decrease was related mainly to the delays

[1] Indices of Primary Commodity Prices, IMF.

in investments as of the start of the COVID-19 pandemic. Exports of goods also rose in the first half of 2021, increasing by Afl. 6.1 million (+23.7 percent).

Chart 11: Merchandise trade
(Percentage change YTD June 2021 vs. YTD June 2020)



Source: CBS

Balance of payments[2]

Available data on the international transactions settled through the banking system during the first half of 2021 showed that these transactions resulted in an Afl. 350.1 million increase in international reserves (excluding revaluation differences) (Chart 12). This outcome was attributed to a net inflow of foreign funds of Afl. 410.6 million on the financial account (2020 YTD June: Afl. 444.1 million surplus), largely because of the short-term loans received from the Netherlands as liquidity support to the Government of Aruba. These loans from the Netherlands led to a net inflow of other investment of Afl. 233.7 million.

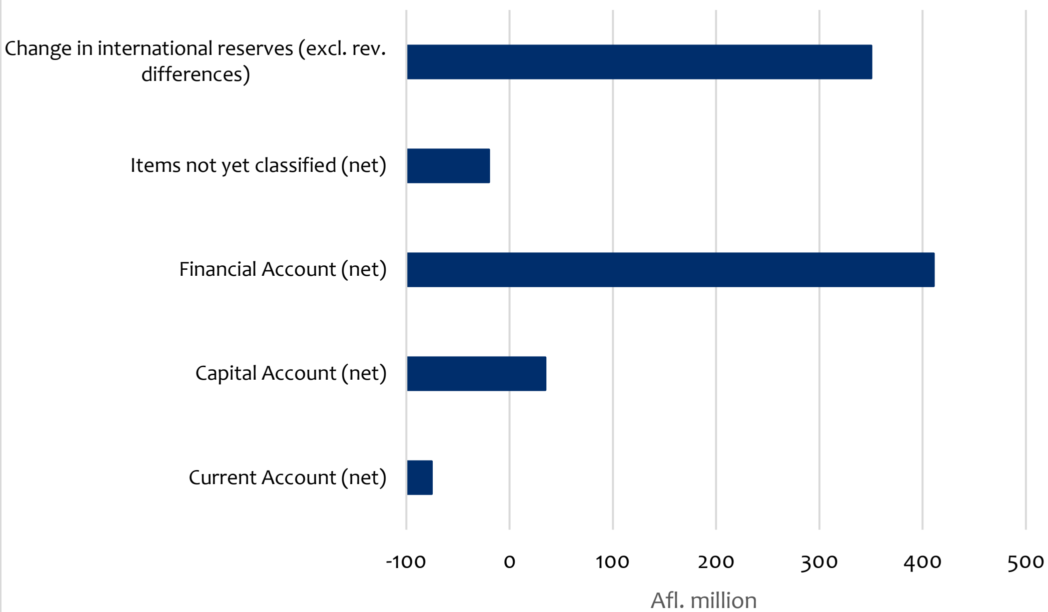
Moreover, all financial account components registered a net inflow of foreign funds, with the exception of the portfolio investment. Transfers to and from notified foreign account resulted in an Afl. 125.7 million net inflow of foreign funds. Direct investment recorded a net inflow of Afl. 63.6 million resulting from real estate transactions, while financial derivatives related to risk management showed a net inflow of Afl. 19.4 million. On the other hand, the portfolio investment noted an Afl. 31.8 million net outflow of foreign funds associated with outgoing payments in connection with investments in securities abroad. Furthermore, the capital account recorded a net inflow of Afl. 34.8 million related largely to humanitarian aid received from the Netherlands.

In contrast, the current account resulted in an Afl. 75.4 million deficit as the tourism recovery was still insufficient to compensate for the outflow of funds for the import of goods and services as well as net income payments. Net service receipts related to tourism expanded by Afl. 105.6 million to Afl. 808.8 million in the first six months of 2021 (+15.0 percent) compared to the corresponding period of 2020, as tourism arrivals gained momentum in the second

[2] International transactions through the banking system.

quarter of 2021. Import payments rose marginally by Afl. 3.9 million (+0.5 percent) over the first half of 2021 compared to the same period of 2020.

Chart 12: International transactions through the banking system



Monetary survey

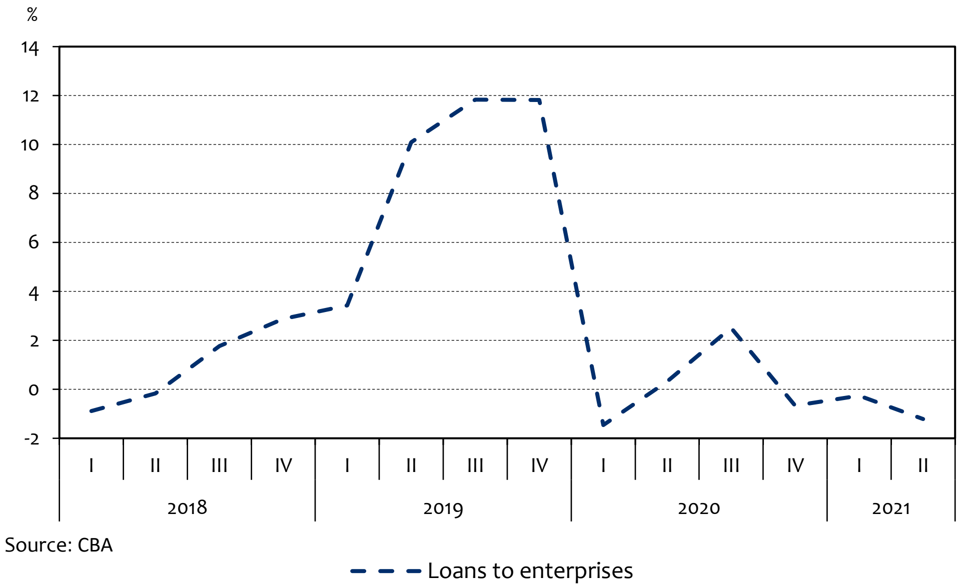
Broad money reached Afl. 5,056.3 million at the end of the second quarter of 2021 compared to Afl. 4,797.4 million at the end of December 2020, indicating an increase in the amount of money circulating in the Aruban economy. This expansion was the result of an Afl. 349.0 million surge in international reserves (excluding revaluation differences), partly offset by an Afl. 90.0 million reduction in net domestic assets. The growth in international reserves during the first two quarters of 2021 was associated predominantly with the short-term loans received by the Government of Aruba (GoA) from the Dutch government for liquidity purposes and inflows attributed to tourism credits. International reserves proved resilient despite the ongoing pandemic and foreign exchange payments related to the partial de-escalation, as of the first of June 2021, of the previously introduced foreign exchange restrictions.[3] At the end of June 2021, the current account coverage ratio rose to 9.0 months compared to 7.5 months of current account payments registered at the end of December 2020. Furthermore, at the end of the second quarter of 2021, official reserves remained in compliance with the IMF Assessing Reserve Adequacy metric (i.e., 107.0 percent).

Meanwhile, net domestic assets contracted by Afl. 90.0 million at the end of June 2021 compared to December 2020. This contraction was caused by a reduction of Afl. 33.5 million in domestic credit paired with an expansion of Afl. 56.5 million in 'other items, net'. The expansion was influenced mostly by a boost of Afl. 196.3 million in demand deposits of commercial banks held at the CBA. The decrease in domestic credit was the result of an Afl. 46.7 million drop in net claims on the private sector, which outweighed the increase (i.e, +Afl. 13.3 million) in net claims on the public sector. The upturn in net claims on the public sector was due to a drawing down of government deposits. On the other hand, net claims on the private sector dipped as a result of less appetite for commercial bank credit. In particular, credit to enterprises contracted by Afl. 18.5 million (Chart 13), while credit to individuals was reduced by Afl. 28.3 million during the period of December 2020 to June 2021. The decline in credit to enterprises might have been the direct effect of continued business liquidity support given by the GoA to Aruban businesses.

[3] Considering the positive economic development in the Aruban economy, the CBA decided to gradually relax the foreign exchange restrictions implemented in March last year in March beginning as of June 1, 2021 (see CBA Public Announcement, June 1, 2021).

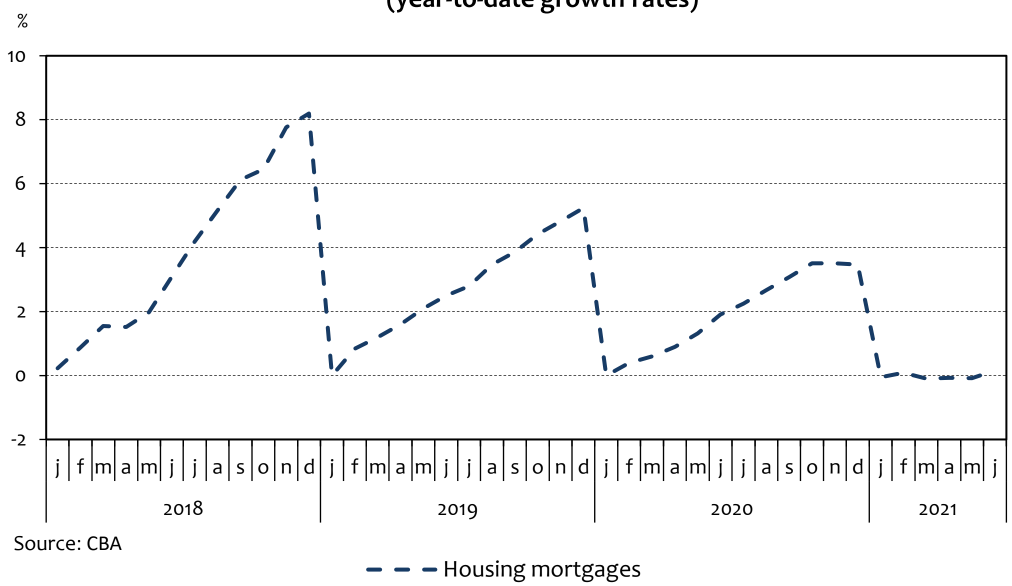
Meanwhile, credit to individuals plummeted due to reduced demand for consumer credit (i.e., Afl. -31.1 million) in June 2021 vis-à-vis December 2020. Housing edged up by Afl. 2.7 million year to date in June 2021 compared to an Afl. 27.5 million jump during the same period a year before (Chart 14). Furthermore, the pattern in Chart 14, which reflects the cummulative growth compared to December of the previous year, shows that YTD growth of housing mortgages (+0.2 percent) was considerably lower compared to previous years. In general, the YTD growth of housing mortgages has been steadily decreasing over the past three years. The diminished growth in housing mortgages might be the result of the lingering uncertainty with regard to the COVID-19 crisis, which was also noted in the latest CCS results of the CBA. The majority of the respondents to the CCS indicated in the CCS that they found it unsuitable to take out a mortgage during these times.

Chart 13: Loans to enterprises from commercial banks (year-to-date growth rates)



Source: CBA

Chart 14: Housing mortgages from commercial banks (year-to-date growth rates)

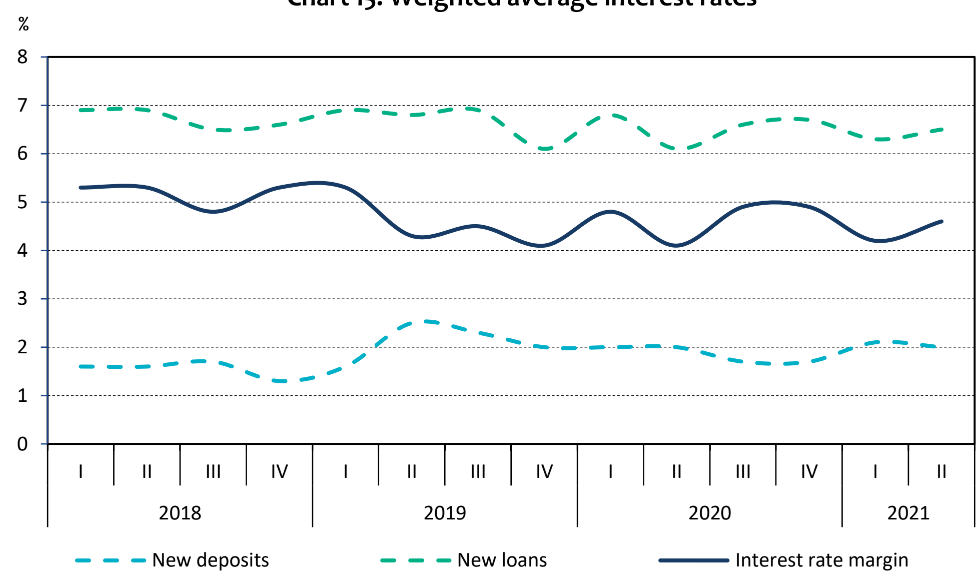


Source: CBA

The aggregated balance sheet of the nonmonetary financial institutions reached Afl. 6,872.2 million at the end of June 2021, an increase of Afl. 179.3 million compared to end-2020. This development was mostly the result of upturns in foreign assets (+Afl. 127.6 million), other domestic claims (+Afl. 38.6 million), and domestic claims (+Afl. 13.2 million). At the same time, liabilities rose due to upward movements in other domestic liabilities (+Afl.120.8 million), the insurance reserve fund (+Afl. 46.4 million), and pension fund provision (+Afl. 35.6 million). On the flip side, both foreign liabilities (-Afl. 16.5 million) and deposits and borrowings (-Afl. 7.0 million) decreased during the first two quarters of 2021.

The weighted average rate of interest on loans narrowed by 0.2 percentage point from 6.7 percent to 6.5 percent in June 2021 compared to December 2020 (Chart 15). The observed drop was a consequence of reduced interest rates on other loans to enterprises (-0.5 percentage point) and on housing mortgages (-0.1 percentage point). At the same time, the weighted average rate of interest on deposits expanded by 0.3 percentage point from 1.7 percent to 2.0 percent during the period under review. The hike in the weighted average rate of interest on deposits was caused solely by a jump (i.e., 0.2 percentage point) in the interest rate on time deposits shorter than or equal to 12 months. As a result, the interest rate margin decreased from 4.9 percent at end-December 2020 to 4.6 percent in June 2021.

Chart 15: Weighted average interest rates



Source: CBA

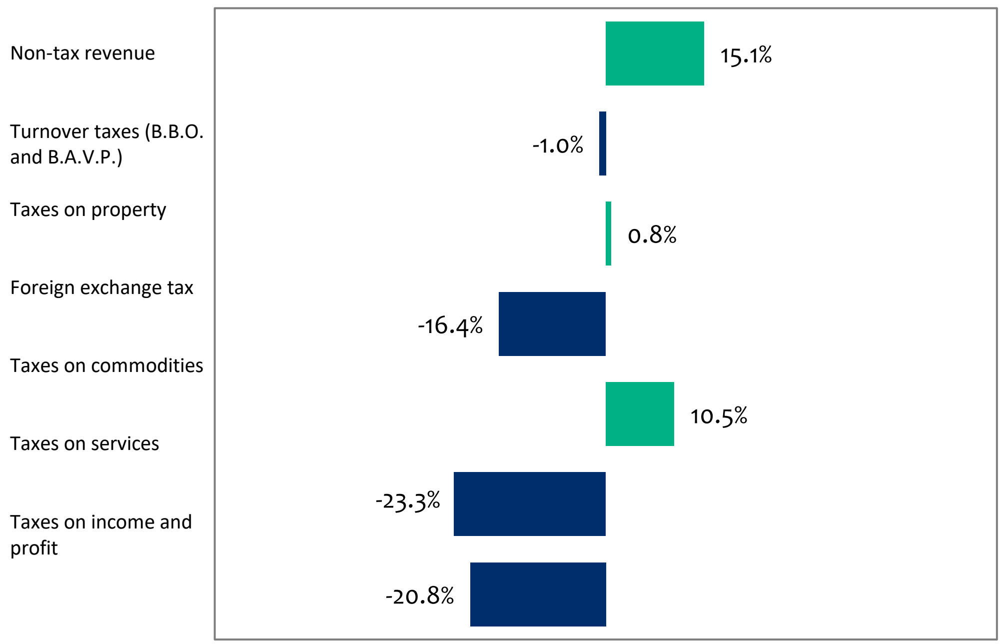
The financial soundness indicators reveal sound Aruban commercial banks during the first two quarters of 2021. The capital adequacy ratio went up by 1.4 percentage points to 34.5 percent at the end of the second quarter of 2021, standing well above the required minimum of 14.0 percent. At the same time, the commercial banks' aggregated prudential liquidity ratio (PLR) rose to 37.4 percent from 33.7 percent in December 2020. Nonetheless, the PLR of the commercial banks remained well above the minimum required PLR of 15.0 percent. On the other hand, nonperforming loans increased by 0.3 percentage point to 5.3 percent at the end of June 2021. However, the nonperforming loans did decrease in the second quarter of 2021 compared to the first quarter as the indicator stood at 6.1 percent during the first three months of 2021. Meanwhile, return on assets (before taxes) remained equal to the value recorded at the end of 2020 (i.e., 0.3 percent). Return on equity (before taxes) displayed improved profitability as it progressed by 0.3 percentage point from 1.8 percent at the end of 2020 to 2.1 percent in the period under review.

Government

During the first six months of 2021 the financial deficit of the government remained virtually unchanged compared to the corresponding period of 2020 at Afl. 330.6 million (first half 2020: Afl. 330.3 million). This outcome conceals significant differences from the first to the second quarter of 2021. While the deficit in the first quarter of 2021 was much larger than a year earlier due to the economic disruption related to COVID-19, available data for the second quarter showed that the financial deficit of the government had narrowed to Afl. 167.9 million from Afl. 301.1 million in the same period of 2020. The smaller deficit in the second quarter reflected the ongoing economic recovery, which led to higher revenue and smaller outlays on government financial assistance programs. The outcome for the first half of the year was the result of a drop in government revenues (-Afl. 26.2 million) combined with a similar fall in government expenditures (including lending minus repayments) (-Afl. 25.9 million).

Government revenues fell to Afl. 491.8 million (-5.1 percent) in the period under review from Afl. 518.0 in the first half of 2020. This decrease was the result of a contraction in tax revenue receipts of Afl. 33.0 million (-7.0 percent), partially offset by an uptick in non-tax revenues of Afl. 6.8 million (+15.1 percent). Several tax components recorded a decline as the impact of COVID-19 felt during the first quarter of 2021 outweighed the recovery during the second quarter (Chart 16). The largest drop during the first half of 2021 was observed in the component taxes on income and profit (-Afl. 37.2 million); both revenue from wage tax and income tax fell by, respectively, Afl. 26.2 million and Afl. 14.6 million. The income reduction was due in part to the ongoing COVID-19 pandemic still impacting economic activities. In addition, the revenue collection in this component reflected the lowering of the wage and income tax rates effective January 1, 2021 as part of the GOA's tax reform plans, as well as part of the fiscal relief response to increase disposable income to help compensate for the loss in income resulting from COVID-19. Income from taxes on services, foreign exchange tax, and the turnover tax fell by, respectively, Afl. 4.1 million (-23.3 percent), Afl. 3.7 million (-16.4 percent), and Afl. 0.9 million (-1.0 percent), as the contraction in these categories in the first quarter could not be compensated fully by the increase in the second quarter. In contrast, taxes collected on commodities rose by Afl. 12.4 million (+10.5 percent), due mainly to hikes in import duties (+Afl. 4.6 million), excises on liquor (+Afl. 4.3 million), excises on gasoline (+Afl. 2.6 million), and excises on beer (Afl. 1.7 million) collected. Furthermore, taxes on property edged up by Afl. 0.4 million (+0.8 percent).

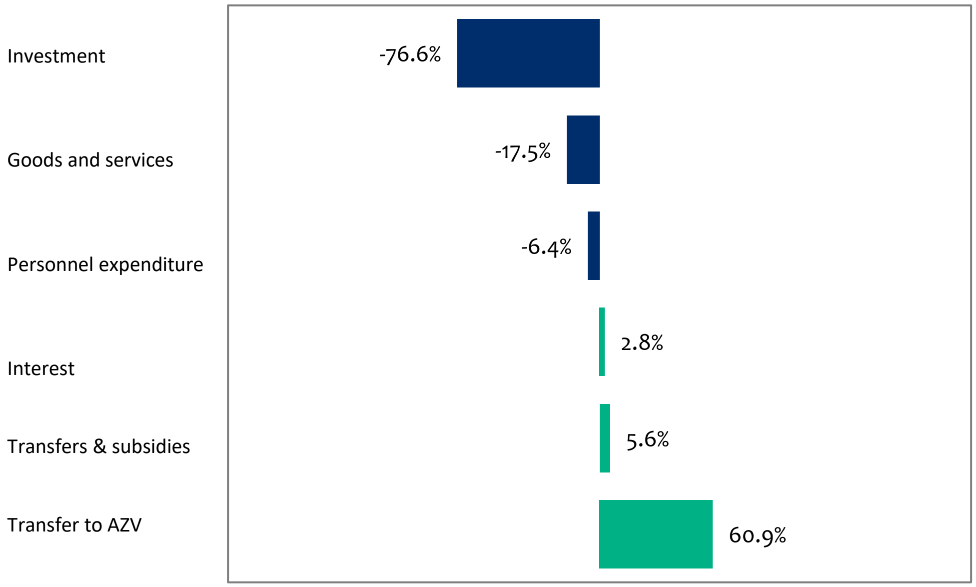
Chart 16: Government revenue
(Percentage change YTD June 2021 vs. YTD June 2020)



Source: Tax Collector's Office

Government expenditures (including lending minus repayments) decreased to Afl. 822.4 million (-3.0 percent) in the first half of 2021 from Afl. 848.3 million in the same period of 2020. The contraction in government outlays was caused by reduced spending on goods and services and personnel costs. The decrease in personnel costs was attributed mostly to the 12.6 percent cut in civil servant wages as of May 1, 2020. Moreover, investment by the government also was lower. Meanwhile, government subsidies and transfers rose by Afl. 13.1 million (+5.6 percent) due mainly to transfers to government financial assistance programs, such as FASE, and transfers to the SVB to offset its loss in premium income (Chart 17). This increase was realized in the first quarter after which the second quarter recorded a decline, reflecting less demand for government financial assistance as the economy recovered. In addition, the government raised its transfers to the AZV by Afl. 16.0 million to cover its loss in income and additional healthcare costs related to the COVID-19 pandemic.

Chart 17: Government expenditure
(Percentage change YTD June 2021 vs. YTD June 2020)



Source: Tax Collector's Office

Government debt rose by Afl. 308.7 million to Afl. 5,454.3 million in the first half of 2021 compared to December 2020, as the debt burden continued to swell as a result of the COVID-19 pandemic. Foreign debt surged by Afl. 288.2 million owing to short-term loans received from the Netherlands in response to the COVID-19 pandemic. During the first two quarters of 2021, the GOA borrowed Afl. 308.6 million from the Netherlands, totaling Afl. 725.1 million in loans received up until the end of the second quarter of 2021. While these loans were necessary to meet urgent liquidity needs, they do pose a challenge in the short-term for government finances, as they will already mature in 2022, thus putting an unsustainable strain on government financing needs next year. Domestic debt rose by Afl. 20.6 million caused by a rise in non-negotiable short-term debt. In the first six months of 2021, the share of foreign government debt continued its steady ascent to 59.4 percent. The share of government foreign debt has grown steadily since the second quarter of 2020 (2020 Q2: 55.3 percent), as the government began receiving loans from the Netherlands to meet liquidity needs to mostly support income loss of households and businesses. The estimated debt-to-GDP ratio stood at 120.2 percent at the end of the second quarter of 2021, as estimated 2nd quarter 2021 GDP reaches Afl. 4539.03 million.

III. International developments

In its October 2021 Economic Outlook, the IMF revised its projected 2021 growth of the global economy to 5.9 percent, down slightly from the 6.0 percent projection in the July 2021 World Economic Outlook (WEO). The projected growth for 2022 remained unchanged at 4.9 percent. The projections reflected a recovering global economy challenged by a highly transmissible Delta variant and supply chain disruptions that pushed up inflation in various countries. This landscape was characterized by increased risks to economic prospects, and policy trade-offs that have become more complex. It should be noted, however, that while the revision of the 2021 forecast was modest, it did entail large downward revisions for certain countries (Table 2).

The growth prospects were revised for 2021 – 2022 based on expected developments in vaccine rollout, policy support and financial conditions. The 2021 outlook for advanced economies deteriorated, for the most part reflecting a downward revision for the United States. This revision resulted from large inventory drawdowns in the second quarter of 2021 due to supply chain disruptions, as well as weakened demand in the third quarter of 2021. The outlook for the US economy did consider the infrastructure bill passed by the Senate and anticipated legislation to strengthen the social safety net, amounting to about $4 trillion in spending over the coming 10 years.

Table 2: Projections for the world economy and selected economies (Real GDP growth, in percent)

Indicator	2020e	2021f	2022f
World	-3.1	5.9	4.9
United States	-3.4	6.0	5.2
Euro Area	-6.3	5.0	4.3
Latin America and the Caribbean	-7.0	6.3	3.0

Source: IMF

e = estimate; f = forecast

The 2021 forecasts for emerging market and developing economies were revised upward. While China's 2021 forecast was marked down due to the scaling back of public investment, improved assessments for some commodity exporters (Latin America and the Caribbean, Middle East and Central Asia, sub-Saharan Africa), as well as stronger-than-expected demand in key regional economies led to upward revisions in other regions.

In the October 2021 WEO, the IMF addressed several areas of concern related to the projected global economic growth rates. First was a persisting divergence between advanced economies, and the emerging market and developing countries. This divergence was driven by differences in vaccine access, as well as in policy support between the two groups. Second, labor market recovery was uneven both between and within countries. While labor market recovery was underway (although expected to lag output recovery), emerging market and developing economies were hit harder on average than advanced economies. According to the

International Labour Organization (ILO), the Latin America and the Caribbean region, as well as the South Asian region experienced particularly large decreases in working hours in 2020.

A third concern of the IMF was rising inflation. Rapidly increasing inflation rates were observed in the United States as well as in some emerging market and developing economies. This development was fueled by pandemic induced supply and demand mismatches, rising commodity prices and policy related developments. A final IMF concern was supply chain disruptions. COVID-19 outbreaks and weather disruptions resulted in shortages of key inputs and dragged down manufacturing activity lower in several countries.

III. Conclusion

The Aruban economy continued on its path of stronger than expected recovery from the effects of the COVID-19 pandemic during the second quarter of 2021, driven by a resurge in tourism sector activities as the U.S. economy gained pace. The progressive return of stay-over visitors pushed up real GDP by 25.1 percent compared to the second quarter of 2020. In the second quarter of 2021, year-on-year real GDP growth rose by 35.1 percentage points compared to the previous quarter, as the number of stay-over visitors jumped by 90.6 percent in comparison to the first quarter of 2021.

All tourism indicators other than cruise visitors exhibited signs of remarkable recovery during the first two quarters of 2021 compared to the same period a year before. Upward movements were noted in the markets of the United States (+65.4 percent) and the Netherlands (+15.3 percent) when comparing the first six months of 2021 to the same period 2020.

Consumption-related indicators paint a mixed picture; some categories performed well, while others recorded decreases. The jump in taxes on commodities (10.5 percent) and merchandise imports (10.5 percent) contrast with the contraction in various indicators. In particular, the credit market is still looking weak, considering the respective drop of 11.3 percent and 15.2 percent in car loans and personal loans due to still suppressed salaries. Utilities consumption is also lagging, but this may be due to people working less from home. Similarly, income collected from turnover taxes has fallen behind. The income cutback in turnover taxes was related to a drop in economic activity due to the COVID-19 pandemic, the negative effects of which became apparent in mid-March 2020. Consequently, turnover tax revenues during the first quarter of 2021 were still largely at pre-crisis levels, and the economic recovery in the first half of 2021 was not enough to bring about an increase in turnover taxes vis-à-vis the first half of 2020.

Data obtained from the Aruba Hotel and Tourism Association (AHATA) show that the hotel sector performance recuperated during the first half of 2021 compared to the same period a year before. Specifically, the hotel occupancy rate surged to 69.5 percent compared to only 0.6 percent recorded a year prior. Both the Average Daily Rate (ADR) and the Revenue per available room (RevPAR) increased. The ADR reached $246.1 and the RevPAR amounted to $171.1 at the end of Q2-2021.

In June 2021 Aruba welcomed its first cruise ship since the beginning of the COVID-19 pandemic in June 2021. As a result, the Aruba Ports Authority (APA) registered a total of only 1,589 cruise passengers YTD June 2021 compared to 255,384 passengers a year earlier when cruise ships and passengers were still arriving at a largely normal rate during the first quarter.

The consumer price index (CPI) at the end of June 2021 recorded a 1.0 percent increase compared to a year earlier. This was the first year-on-year rise in the CPI since March 2020 at the onset of the COVID-19 pandemic. The end of period inflation has been trending upward since July 2020 when prices for gasoline and household appliances began to recover. In addition, the reduction of electricity tariffs that took place in January 2020 was no longer weighing down inflation as of January 2021. When excluding food and energy, the CPI was 0.4

percent lower than June 2020. The difference between headline inflation and core inflation reflected the large contribution of higher gasoline prices in the overall CPI. Year-on-year core inflation has been negative since June 2020.

The 12-month average CPI inflation was still negative at end-June 2021, despite beginning to reverse the downward trajectory seen since November 2019, reaching -1.8 percent at the end of the second quarter of 2021. The reversal in the downward trend of the 12-month average inflation could be largely explained by the energy component having a less negative contribution as gasoline prices have been steadily rising, while the impact of the electricity tariff reduction of January 2020 was wearing off. The 12-month average core inflation stood at -1.2 percent, pulled down primarily by the components recreation and culture, household operation, and several others. The food component also pushed down inflation, albeit less so than the energy component.

The real exchange rate of the Aruban florin vis-à-vis the U.S. dollar continued its downward trend in the second quarter of 2021, indicating an improved competitive position of Aruba compared to the United States. This improvement in the second quarter of 2021 stems from the inflation in the United States growing faster than the deflation decline in Aruba. The mentioned developments led to an improved competitive position for Aruba in comparison to the United States.

Available data on the international transactions settled through the banking system during the first half of 2021 show that these transactions resulted in an Afl. 350.1 million increase in international reserves. This outcome was attributed to a net inflow of foreign funds of Afl. 410.6 million on the financial account (2020 YTD June: Afl. 444.1 million surplus), largely because of the short-term loans received from the Netherlands. The loans received from the Netherlands led to a net inflow of other investment of Afl. 233.7 million. All financial account components registered a net inflow of foreign funds except for the portfolio investment. In contrast, the current account resulted in an Afl. 75.4 million deficit, as the tourism recovery is still insufficient to compensate for the outflow of funds for the import of goods and services as well as net income payments.

During the first six months of 2021 the financial deficit of the government remained virtually unchanged compared to the corresponding period of 2020 at Afl. 330.6 million. While the deficit in the first quarter of 2021 was much larger than a year earlier due to the economic disruption related to COVID-19, available data for the second quarter showed that the financial deficit of the government had narrowed to Afl. 167.9 million from Afl. 301.1 million in the same period of 2020. The smaller deficit in the second quarter reflected the ongoing economic recovery, which led to higher revenue and reduced outlays on government financial assistance programs. The outcome for the first half of the year was the result of a drop in government revenues (-Afl. 26.2 million) combined with a similar fall in government expenditures (including lending minus repayments) (-Afl. 25.9 million).

Government revenues fell to Afl. 491.8 million (-5.1 percent) in the period under review from Afl. 518.0 in the first half of 2020. Several tax components recorded revenue decrease as the impact of COVID-19 felt during the first quarter of 2021 outweighed the recovery during the second quarter. Government expenditures (including lending minus repayments) fell to Afl. 822.4 million (-3.0 percent) in the first half of 2021 from Afl. 848.3 million in the same period of 2020.

The government debt rose by Afl. 308.7 million to Afl. 5,454.3 million in the first half of 2021 compared to end-December 2020, as the debt burden continued to increase as the government needed to borrow to financially assist businesses, as well as the SVB and the AZV, respectively, which incurred steep output and premium losses a result of the COVID-19 pandemic. Foreign debt surged by Afl. 288.2 million owing to the short-term loans received from the Netherlands to finance aforementioned support. Domestic debt rose by Afl. 20.6 million caused by a jump in non-negotiable short-term debt. In the first six months of 2021, the share of foreign government debt continued its steady ascent to 59.4 percent. The share of government foreign debt grew significantly as of the second quarter of 2020, mostly from borrowing from the Netherlands. The estimated debt-to-GDP ratio stood at 120.2 percent at the end of the period under review.

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