STATE OF THE ECONOMY

Third quarter 2021

Abstract

In the third quarter of 2021, the Aruban economy continued to recover at nearly the same pace as the second quarter of 2021. In the quarter under review, estimated real GDP surged by 31.2 percent, compared to the same quarter of 2020. This growth was fueled by a strong rebound in the numbers of stay-over visitors, who began to return to Aruba once international travel restrictions were lifted in the third quarter of 2020. Year-on-year estimated real GDP growth slowed down by 3.8 percentage points in the third quarter, compared to the second quarter, of 2021. Tourism sector activities continued normalize during the first three quarters of 2021 compared to the same period in 2020, according to available tourism sector indicators. These indicators pointed to recoveries except for the numbers of cruise visitors. Consumption indicators, besides credit, revealed an economic upturn compared to the third quarter of 2020. Investment indicators offered a mixed picture. While the value of imported construction materials fell by 17.8 percent, the value of construction permits grew by 25.0 percent in the period under review.

Centrale Bank van Aruba

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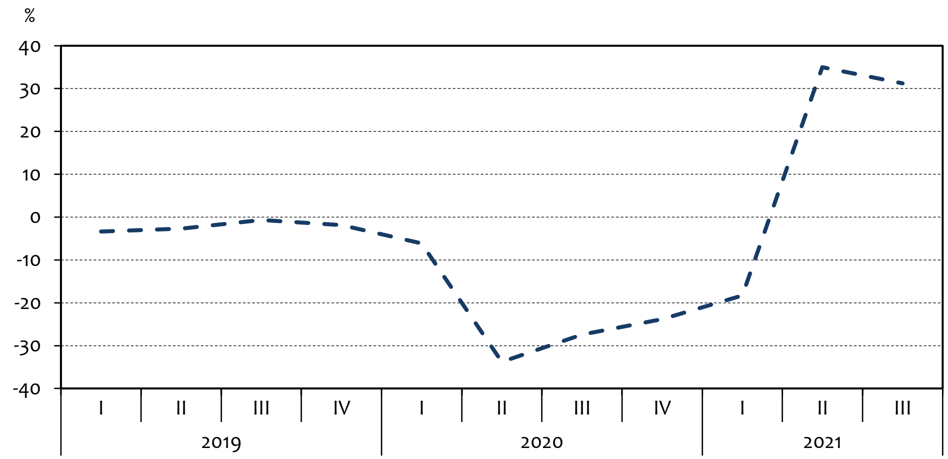
I. Domestic developments

Economic growth

In the third quarter of 2021, the Aruban economy's pace of recovery, while slightly lower, was much the same as that realized during the second quarter of 2021 (Chart 1). During the quarter under review, estimated real GDP surged by 31.2 percent, compared to the same quarter in 2020, due to sharp increases in stay-over visitors once international travel restrictions were lifted in the third quarter of 2020. Observed growth was enhanced by gradual increases in numbers of cruise visitors as cruise ship visits re-started on June 9, 2021. Compared to the second quarter of-2021, however, year-on-year real GDP growth rate decreased by 3.8 percentage points in the third quarter of-2021. The faster growth in the second quarter can be attributed in part to the negligible performance of the tourism sector during the second quarter of 2020 and international travel restrictions and shelter in place measures. In the third quarter of 2020, tourists began to return to Aruba – the island welcomed 45,038 stay-over visitors. Further, the Delta variant outbreak (first case identified in Aruba in July 2021) also lessened growth in the third quarter of 2021.

During the third quarter of 2021, consumption indicators, except for credit, pointed to an upturn in the economy compared to the third quarter of 2020. In turn, investment indicators painted a mixed picture while imports expanded due to sustained increases in domestic and tourism demand for goods following the reopening of the borders.

Chart 1: Quarterly GDP growth year-over-year



Calculations: CBA

Tourism

Available tourism-sector indicators reveal a sustained recovery in tourism-sector activities in the first three quarters of 2021, compared to the same period in 2020 (Table 1). All indicators showed improvements except for numbers of cruise visitors during the period under review.

Despite ongoing COVID-19-related uncertainties, the number of stay-over visitors who visited Aruba expanded by 107.1 percent (YTD September 2021 vs. YTD September 2020). This expansion was mostly driven by upturns in the North American (+113.1 percent), European (+61.7 percent), and Latin American markets (+58.8 percent). The most notable increases were in three groups: U.S. visitors from the United States (+278,329 visitors; +130.0 percent), the Netherlands (+12,153 visitors; +104.7 percent), and Colombia (+9,356 visitors; +245.8 percent). In terms of pre-pandemic levels of tourism in 2019, recovery levels for stay-over visitors reached 66.8 percent (YTD September 2021 vs. YTD September 2019). The North American market made a strong come-back (73.3 percent), followed by the European (48.2 percent) and Latin American markets (28.0 percent). Looking at stay-over visitors, during the third quarter of 2021, average length of stay (ALOS) normalized to pre-pandemic levels. The ALOS indicator registered relatively high values in the quarters following the reopening of the border for international travel. During the third quarter of 2021, however, visitors stayed an average of 7.2 days compared to 8.4 days in the same quarter of 2020.

Equivalent to the recovery in numbers of stay-over visitors, data obtained from the Aruba Hotel and Tourism Association (AHATA) indicated an upswing in hotel-sector performance during the first three quarters of 2021, compared to the same period in 2020. The hotel occupancy rate jumped from 13.3 percent at the end of the third quarter 2020 to 56.3 percent at the end of the third quarter 2021. During the same period, the average daily rate (ADR) grew from $232.40 to $243.30. Consequently, revenue per available room (RevPAR) surged at the end of September 2021, reaching $136.90, in comparison to $31.00 at the end of September 2020.

Continued recovery in stay-over tourism and hotel-sector performance led to a 58.7 percent rise in tourism credits (YTD September 2021 vs. YTD September 2020). During the same period of 2020, tourism credits decreased by 48.1 percent, due primarily to international travel restrictions throughout the second quarter of 2020. The level of tourism credits registered in

Table 1: Tourism indicators for Aruba

(September 2020 vs. September 2021)

	2020	2021
Stay-over visitors (YTD growth)	-67.7	107.1
Q3 Average length of stay (days)	8.4	7.2
Cruise visitors (YTD growth)	-54.0	-88.5
Hotel occupancy (%)	13.3	56.3
Average daily rate (US$)	232.4	243.3
Revenue per available room (RevPAR) (US$)	31.0	136.9
Tourism credits (YTD growth)	-48.1	58.7

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

the first three quarters of 2021 represent an 82.3 percent recovery in pre-pandemic levels of tourism credits in 2019.

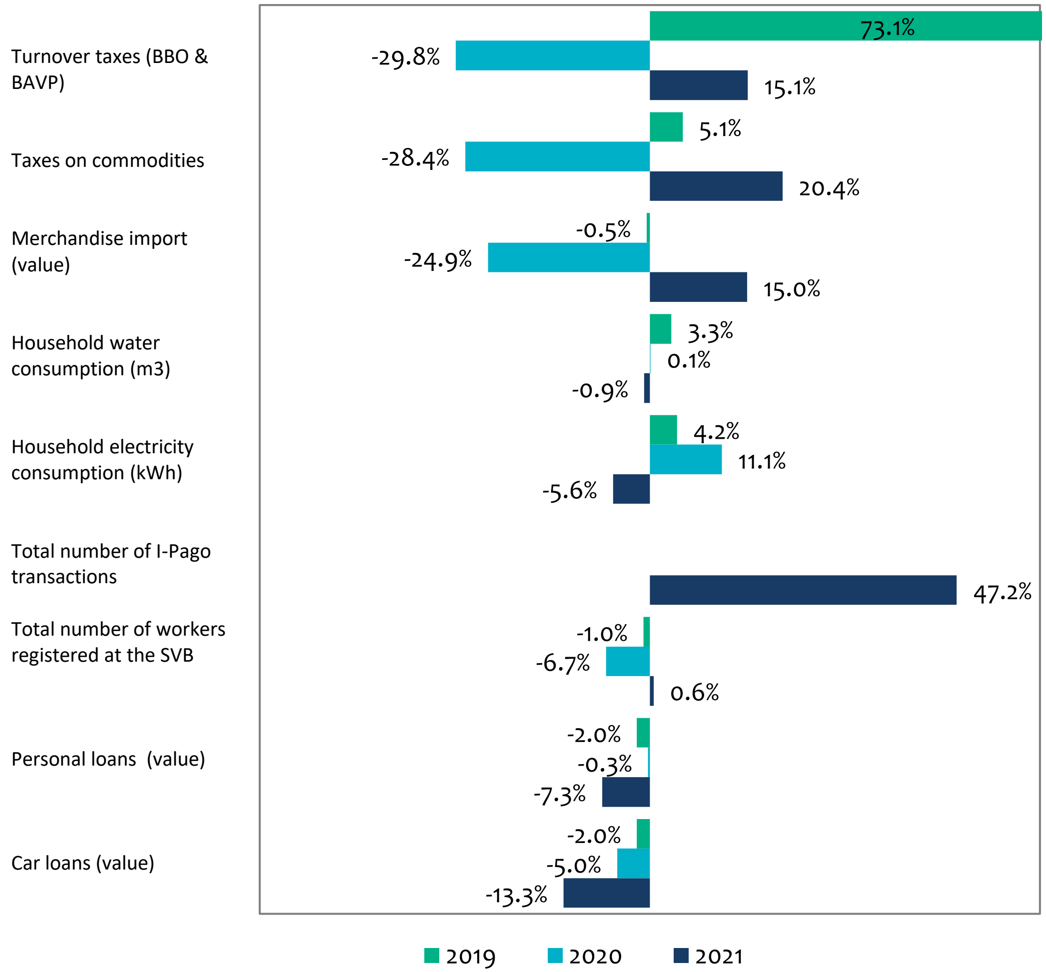
Cruise tourism numbers, which showed signs of recovery with the return of Celebrity Cruises' "Millennium" on June 9, 2021, were behind stay-over tourism numbers. During the first three quarters of 2021, the Aruba Ports Authority (APA) registered 22 ship calls, compared to 98 ship calls in the first three quarters of 2020. During the period under review, the number of cruise visitors totaled 29,480 (-88.5 percent) compared to 255,384 visitors in the same period of 2020. Since the return of cruise ships in June 2021, however, the number of cruise visitors gradually improved, growing from 1,589 passengers in the second quarter of 2021 to 27,891 passengers in the third quarter of 2021.

Consumption

In the first nine months of 2021, consumption-related indicators were mixed, with some categories performing well while others were at lower levels (Chart 2). The jump in taxes on commodities (20.4 percent), turnover taxes (15.1 percent) merchandise imports (15.0 percent), and number of I-Pago transactions[1] (47.2 percent) – as well as the uptick in employment[2] -- contrasted with the contraction in other indicators. In particular, utilities consumption lagged, perhaps because people were returning to the office in 2021. Furthermore, the credit market remained muted, as shown by the 7.3 percent and 13.3 percent drop in personal loans and car loans, respectively, during the first three quarters of 2021. At the same time, the slump in these two credit components has been visible since 2018 – in the case of personal loans as early as 2010 -- and may relate to structural factors rather than to the business cycle.

[1] As the I-Pago system was implemented in 2020, no data are available prior to that year
[2] Proxied by the total number of workers registered at the SVB.

Chart 2: Consumption-related indicators (YTD September vs. YTD September a year prior)



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

Merchandise imports increased across nearly all categories when comparing the first three quarters of 2021 to the first three quarters of 2020, pointing towards greater domestic consumption and tourism-related imports of goods (Chart 2). Goods imports grew by 15.0 percent, due mainly to expanded imports of 'other goods'[3]. The hike is in all likelihood not solely related to higher consumption, but also to higher prices for imports.

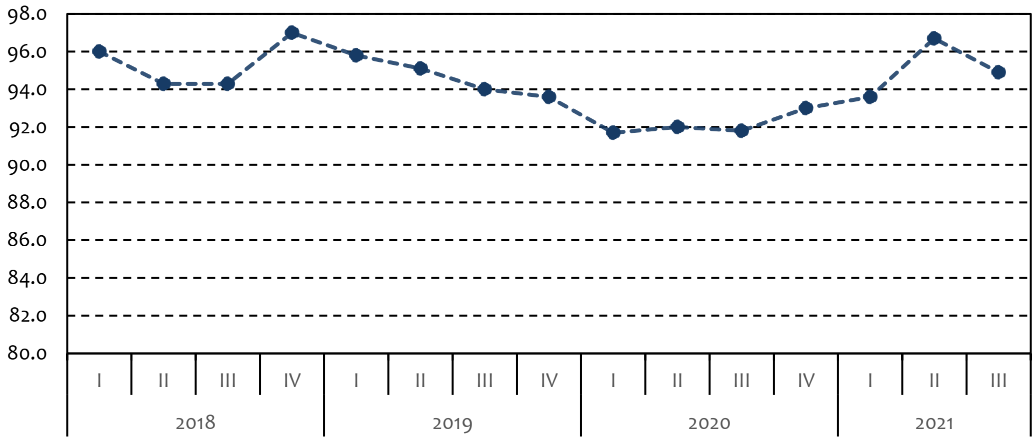
Data denote lower utility consumption levels — 0.9 percent and 5.6 percent, respectively, for household water and electricity (Chart 2). The contraction in household electricity consumption occurred despite a 2.0 percent growth in the number of households connected to the electricity network at the end-of September 2021 compared to 2020. In other words, the decrease in household electricity consumption per household was greater than the increase in the number of connected households. Lower electricity consumption per household may be due to people spending less time at home once COVID-19 restrictive measures were relaxed. The lifting of restrictions meant that fewer employees worked from home during the period under review.

Consumer credit held at commercial banks slipped by 8.6 percent in September 2021 compared to September 2020. At a more disaggregated level, all components of consumer credit declined during the review period: personal loans (-7.3 percent), car loans (-13.3 percent), credit cards (-6.9 percent) (Chart 2). The drop observed in consumer credit reflected a larger sum of repaid principals and write-offs (together Afl. 113.7 million) compared to newly issued consumer credit (Afl.73.0 million). Further, commercial banks discontinued the moratorium on repayments in late 2020, lowering pressure on outstanding consumer credit. In addition, the

[3] The component 'other goods' includes vegetable products, fats and oils, mineral products, artificial plastic elements, skins, hides, leather and peltry, wood, charcoal, and woodwork, materials for the manufacture of paper, paperwork, textile fibers and articles, footwear, headgear, and umbrellas, works of stone, gypsum, cement, asbestos, real pearls (natural) and other precious stones, optical instruments, apparatus and equipment, arms and ammunition, various goods and products n.e.s.

weak demand for consumer credit was consistent with developments and sentiments reported by CBA Consumer Confidence Survey (CCS) participants. CCS findings showed that a large number of people had suffered some loss of income, while others had lost significant amounts of income. During the third quarter of 2021, 66.7 percent of the respondents reported being unable to purchase a car, while 64.5 percent could not take out a loan. The reported reluctance to apply for a loan was not specific to the period under review.

Chart 3: Consumer Confidence Index



90-100: pessimistic
100-110: optimistic

Notwithstanding the 4th COVID-19 wave and ensuing government containment measures, the Consumer Confidence Index (CCI) showed that consumers were less pessimistic in the third quarter of 2021 relative to the third quarter in 2020 (Chart 3). In general, the CCI has been trending upwards since the third quarter of 2020, pointing to increased consumer confidence as evidenced by recovery in the present situation index and the future expectation index. Moreover, the average of the CCI for the period of the first to the third quarter of 2021 amounted to 95.1, which, for the first time since the onset of the pandemic, surpassed the pre-pandemic average of 95.0 recorded during the period of the first to the third quarter of 2019.

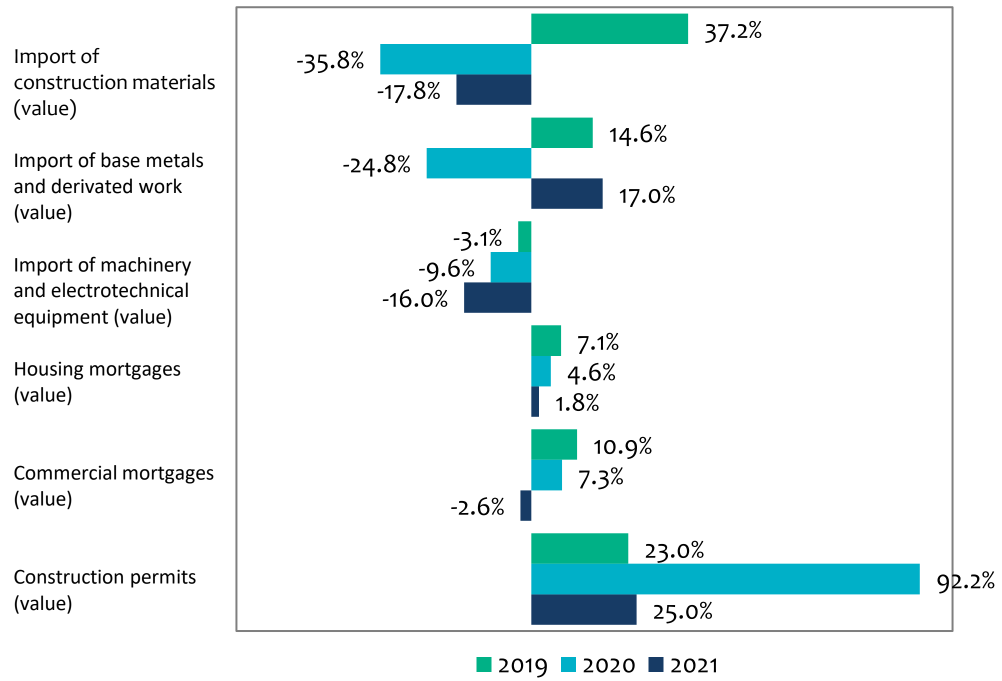
Investment

Investment indicators appeared mixed in the first three quarters of 2021, amid lingering economic uncertainty related to the COVID-19 pandemic. The value of imported construction materials fell by 17.8 percent (-Afl. 7.2 million). This contraction was much smaller than the decrease in the same period of 2020 (-35.8 percent). On the other hand, the value of construction permits grew by 25.0 percent in the same period (Chart 4). Note, however, that construction permits do not indicate project initiation or cash flows during the report period. As such, these data do not necessarily accord. The import of base metals and derivated work expanded by 16.9 percent (+Afl. 8.7 million), while imports of machinery and electrotechnical equipment contracted by 16.0 percent. In other words, few new investment projects were initiated during the economic recovery due to lingering uncertainties, higher costs of building materials, disruptions in global supply chains, and decreased business investment.

Commercial banking data showed signs of expanded residential investment in the first nine months of 2021, as housing mortgages rose by 0.7 percent compared to the end of 2020. From 2011 to 2020, household mortgages grew annually, while growth intensified in 2018 (+8.2 percent) with the introduction of policies to reduce the backlog in land permit requests. On the other hand, the pace of growth has been decreasing since 2019, returning to levels present before the introduction of policies to reduce land permit requests. Annual data for new housing mortgages point to similar patterns, with growth peaking in 2018 and then falling in 2019 and 2020. However, data for the third quarter of 2021 indicated an increase of Afl. 11.1 million in new housing mortgages compared to the same period in 2020. The number of new mortgages grew again in the second quarter of 2021, after declining each quarter since the start of the pandemic when compared to the same quarter of the previous year (first quarter 2020: -Afl. 3.0 million). Moreover, according to the Consumer Confidence Survey (CCS), the majority of respondents (61 percent) were unlikely to apply for a mortgage in the third quarter of 2021. Commercial mortgages declined for the first time since 2014, decreasing by 2.7 percent in the period under review. This finding was evident in the Business Perception Survey (BPS) — respondents reported making fewer business investments in the third quarter of 2021.

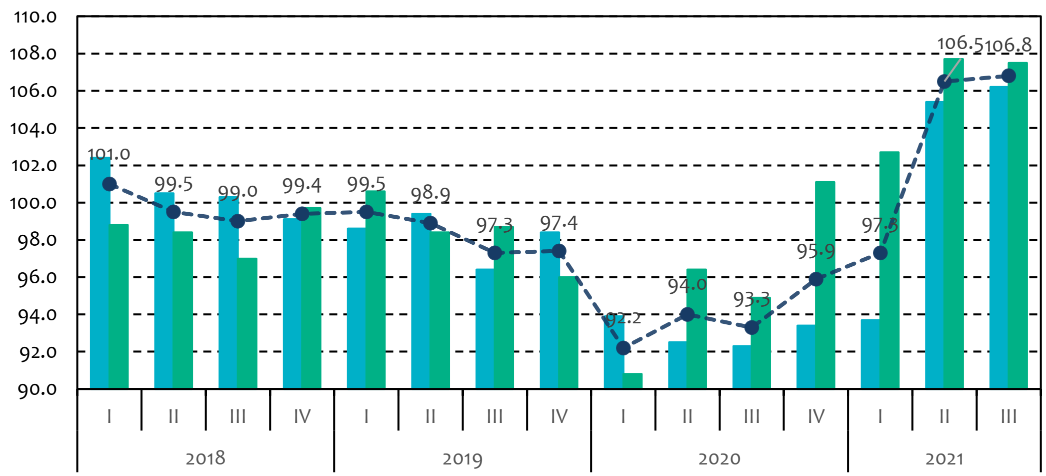
The business perception index edged up to 106.8 index points in the third quarter of 2021 compared to the previous quarter, remaining at its highest level in the past ten years. Business sentiments jumped in the second quarter of 2021, when the tourism recovery gained significant momentum. The reason for the increased optimism was due mainly to improved conditions — the current economic conditions index rose by 0.8 to 106.2 index points at the end of the third quarter of 2021 compared to the previous quarter (2020: 92.3 index points). However, according to 28 percent of respondents, the COVID-19 pandemic continued to have a significant impact on their business sales. Nonetheless, the latter began to decrease in the second quarter of 2021. Moreover, continued improvements in profitability and sales were witnessed in the third quarter of 2021.

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



Sources: CBA, CBS, DOW

Chart 5: Business Perception Index



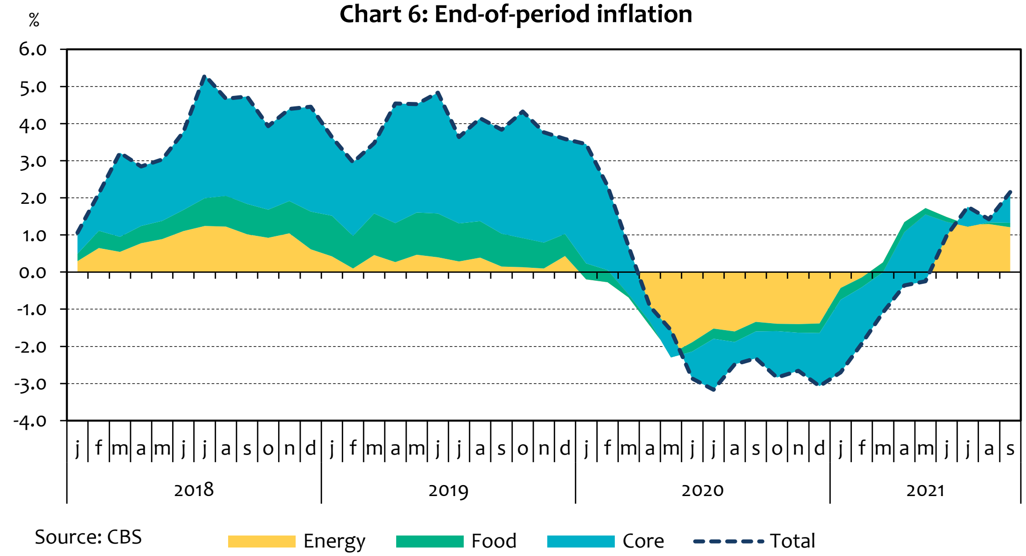
90-100: pessimistic
100-110: optimistic

Source: CBA

Current economic conditions index
Expected short-term economic conditions
Business perception index

Consumer Price Index (CPI)

Chart 6: End-of-period inflation



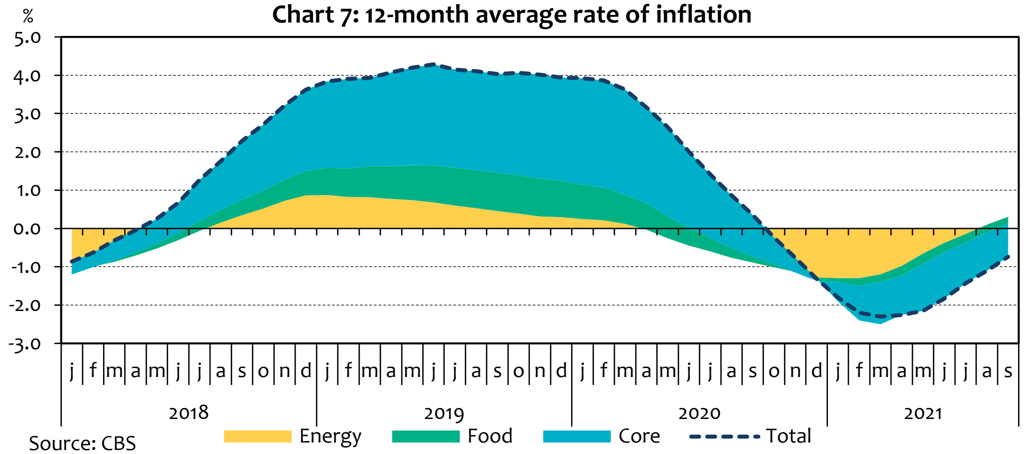
Source: CBS

The consumer price index (CPI) rose by 2.2 percent at the end of the third quarter of 2021 compared to the third quarter of 2020 (Chart 6). In 2020, end-of-period inflation stood at -2.3 percent. Generally, the end-of-period inflation has been trending upwards since December 2020 and stayed in positive territory starting June 2021. The rise in the CPI in September 2021 compared to September 2020 was due mainly to higher prices in the components of transport and household operations. In September, the former contributed to the end-of-period inflation by 1.3 percentage points and was related to the hike in gasoline prices, while the latter contributed by 0.5 percentage point and was linked to higher prices of household appliances, likely due to ongoing global supply chain issues. The increases in the aforementioned components' prices were slightly mitigated by the category clothing and footwear, which had a negative contribution to end-of-period inflation in September 2021 (i.e., -0.1 percentage point). The other components of the CPI either recorded a small rise compared to September 2020 or remained unchanged at the end of the third quarter of 2021.

The end-of-period core inflation, which excludes the components of food and energy, stood at 0.8 percent in September 2021. In general, the end-of-period core inflation has been above zero since the beginning of the third quarter of 2021. During July 2021, core inflation stood at 0.5 percent after registering consecutive negative values since June 2020. The relatively large gap (i.e., 1.4 percentage points at the end of the third quarter of 2021) between the total end-of-period inflation and core inflation illustrates the significant contribution of gasoline prices to overall inflation.

Contrary to end-of-period inflation, the 12-month average for inflation was still in negative territory (i.e., -0.7 percent) in-September 2021 (Chart 7). Deflation was mainly caused by a drop in recreation and culture prices (i.e., -0.4 percent) and household operations (i.e., -0.3 percent). Other contributing components were: clothing and footwear (i.e., -0.2 percent), food and non-alcoholic beverages (i.e., -0.2 percent), health (i.e., -0.1 percent), and miscellaneous goods and services (i.e., -0.1 percent). However, 12-month average inflation trended upward since April 2021 due to rising gasoline prices paired with the decreased impact of the electricity tariff reduction in January 2020.

Chart 7: 12-month average rate of inflation

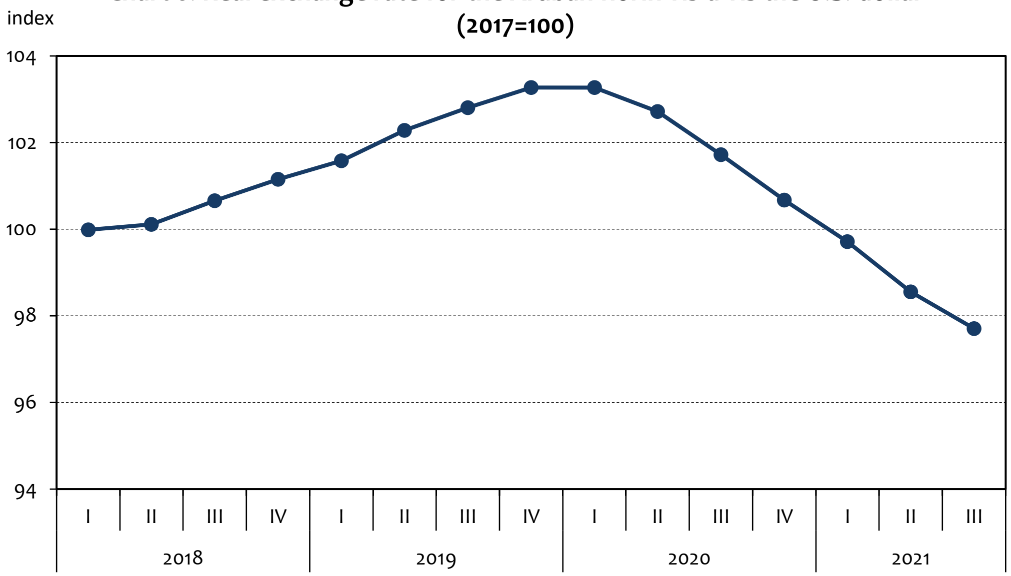


Source: CBS

International competitiveness

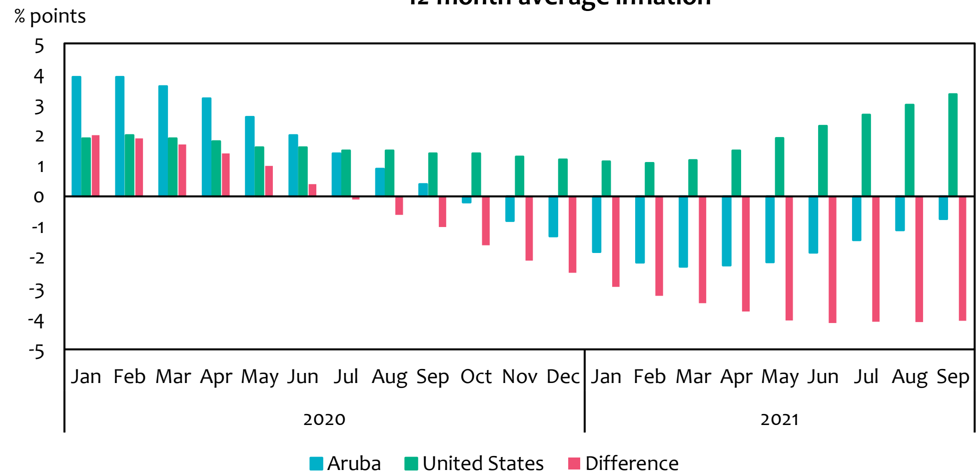
The real exchange rate for the Aruban florin vis-à-vis the U.S. dollar continued its downward trend in the third quarter of 2021 (Chart 8). This descent began in the second quarter of 2020 and exhibits Aruba's greater competitive position compared to the United States. The improvement in the third quarter of 2021 was due to rapid accelerations in U.S. inflation rates (Chart 9), making the U.S. inflation rates much higher than those of Aruba. The 12-month average for U.S. inflation in September 2021 stood at 3.3 percent, pushed up mainly by the core components of the CPI basket, which contributed 1.8 percentage points to headline inflation. In addition, energy added another 0.9 percentage point to inflation. In contrast, Aruba's 12-month inflation average reached -0.7 percent in September 2021. These developments improved Aruba's competitive position vis-à-vis the United States.

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



Source: CBA

Chart 9: Inflation differential between Aruba and the U.S.: 12-month average inflation

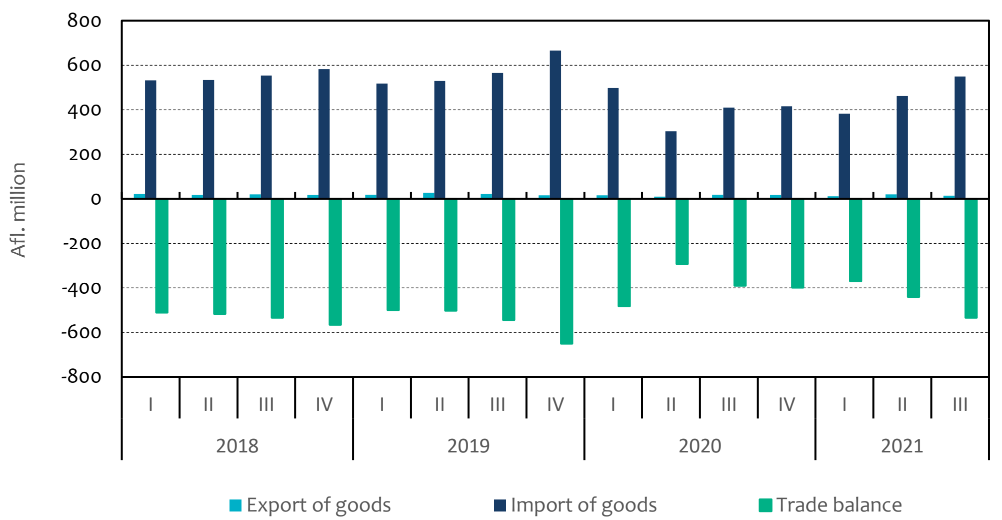


Calculations: CBA

Foreign trade

The merchandise-related trade deficit widened during the first nine months of 2021 compared to the same period of 2020. The main reason was a rebound in import levels during the second and third quarters of 2021, spurred largely by the recovery in the tourism sector (Chart 10). However, the expansion in import values did not reach that of 2019, remaining at 86.4 percent of 2019-levels (YTD 2020 Q3: 75.1 percent of 2019-levels). The value of imports grew by Afl. 181.4 million (+15.0 percent) to Afl. 1,391.8 million in the first nine months of 2021, with most import components reporting increases except for machinery and electrotechnical equipment (Chart 11). Imports growth was attributed mainly to increased imports of other goods (+22.0 percent), food products (+ 21.7 percent), live animals and other animal products (+28.9 percent), and chemical products (+ 15.0 percent) (Chart 11). Other goods Include several products, particularly furniture, mattresses, articles for lighting, and prefabricated buildings. Moreover, the higher demand for food products may be linked to greater tourism activity in the second and third quarters of 2021 compared to the corresponding quarters of 2020. Rising global food prices also may have led to a higher value of food imports. World food prices rose by 31.8 percent year-on-year at the end of the third quarter of 2021, following a trough in the second quarter of 2020.

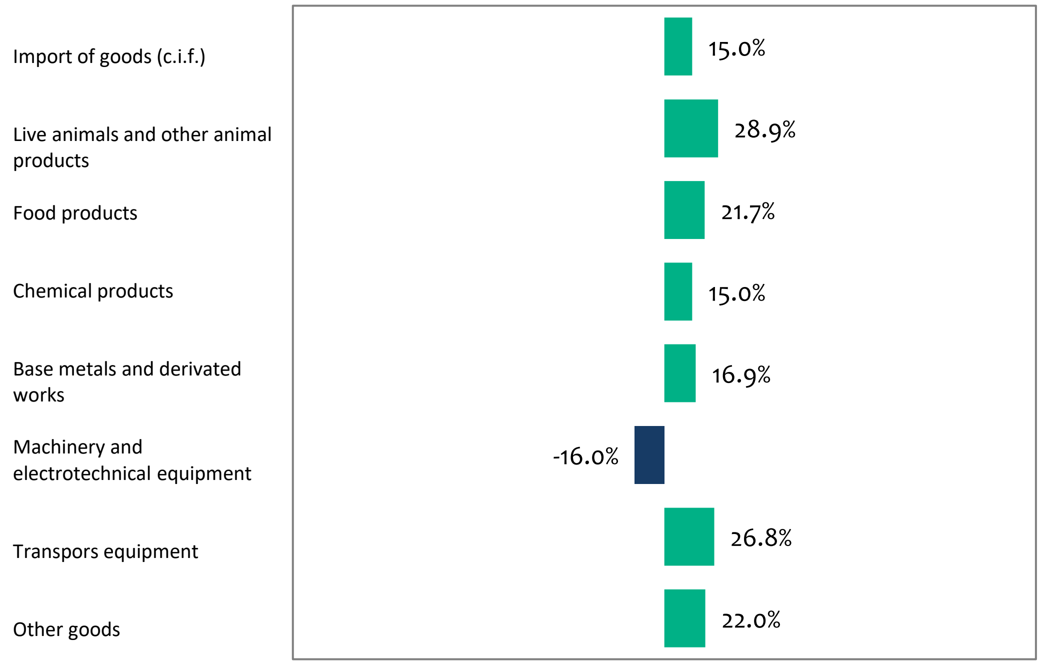
Chart 10: Foreign trade



Source: CBS

On the other hand, the expansion in imports was offset in part by the drop in *machinery and electrotechnical equipment imports.* The latter was likely related to delayed investments. Meanwhile, exports of goods edged up in the first nine months of 2021 by Afl. 1.4 million (+3.1 percent).

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



Source: CBS

Balance of payments[4]

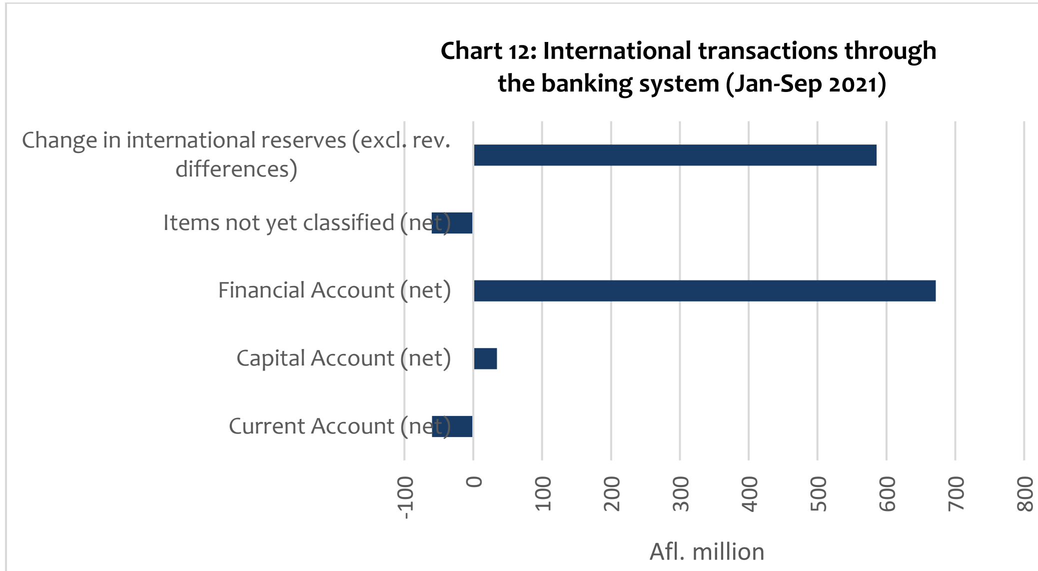
According to available data on international transactions settled through the banking system during the first nine months of 2021, international reserves widened by Afl. 585.5 million (excluding revaluation differences) (chart 12). This outcome was attributed to a net inflow of foreign funds of Afl. 671.8 million on the financial account (2020 YTD September: Afl. 671.6 million surplus), largely because of the short-term loans received from the Netherlands to support the government liquidity needs. These short-term loans led to a net inflow of other investment of Afl. 547.5 million.

Moreover, all financial account components registered a net inflow of foreign funds with the exception of the portfolio investment account. Transfers to and from notified foreign account led to an Afl. 150.8 million net inflow of foreign funds. Direct investment caused a net inflow of Afl. 115.8 million due to real estate transactions, while financial derivatives related to risk management resulted in a net inflow of Afl. 37.5 million. On the other hand, the portfolio investment account showed an Afl. 179.8 million net outflow of foreign funds associated with outgoing payments in connection with government bond repayments. Furthermore, the capital account had a net inflow of Afl. 34.2 million due largely to humanitarian aid received from the Netherlands for the Red Cross Aruba's food assistance program.

In contrast, the current account had an Afl. 60.0 million deficit, as the rate of tourism recovery could not fully compensate for the outflow of funds related to the import of goods and services and net income payments. Net service receipts related to tourism expanded by Afl. 584.1 million to Afl. 1,390.1 million in the first three quarters of 2021 (+72.5 percent), compared to the corresponding period of 2020, as tourism gained momentum in the second and third quarters of 2021. Import payments rose by Afl. 174.6 million (+15.7 percent) over the first nine

[4] International transactions through the banking system.

months of 2021 compared to the same period of 2020, while service payments increased by Afl. 167.9 million (+22.0 percent).



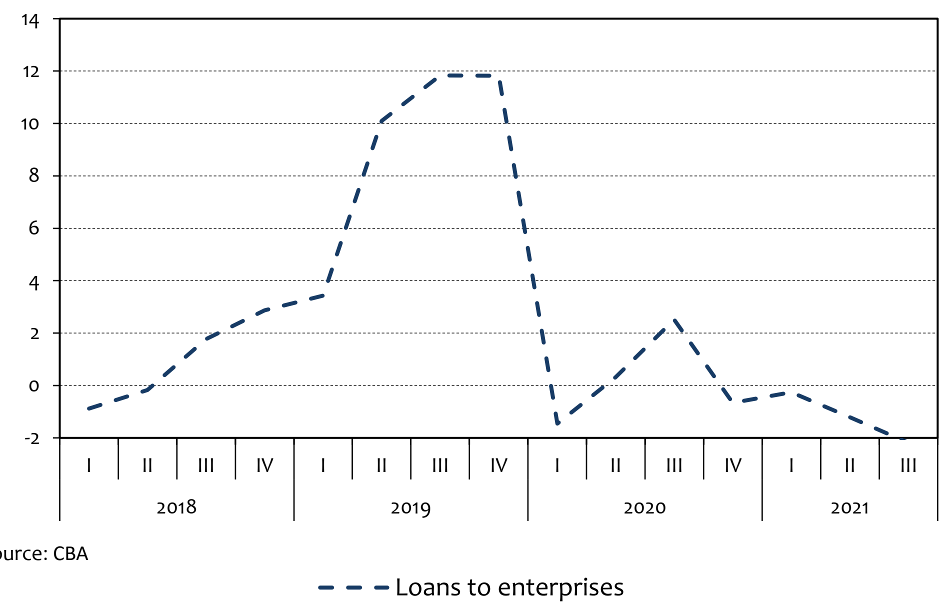
Monetary survey

Broad money totaled Afl. 5,154.7 million at the end of the third quarter of 2021, compared to Afl. 4,797.4 million at the end of December 2020, denoting an expansion in the amount of money circulating in the Aruban economy. The reason was an Afl. 586.2 million surge in international reserves (excluding revaluation differences), partially mitigated by an Afl. 228.9 million decrease in net domestic assets. The main drivers of growth in international reserves during the first three quarters of 2021 were the short-term loans received by the Government of Aruba (GoA) from the Dutch government for liquidity purposes. These were complemented by inflows related to tourism services. Consequently, international reserves remained adequate in light of the ongoing pandemic as well as foreign exchange payments related to the complete de-escalation, as of the first of September 2021, of the foreign exchange restrictions introduced in March 2020. At the end of September 2021, the current account coverage ratio reached 8.9 months compared to 8.0 months of current account payments recorded at the end of December 2020. Official reserves also continued to comply with the IMF Assessing Reserve Adequacy metric, registering 113.3 percent at the end of the third quarter of 2021.

The contraction in net domestic assets was caused by an Afl. 129.8 million downturn in domestic credit, while 'other items, net' rose by Afl. 99.2 million. Domestic credit decreased due to lower net claims on both the public (-Afl. 66.7 million) and private sectors (-Afl. 63.1 million). Reduced net claims on the public sector were due to an Afl. 38.3 million decline in gross claims, while government deposits expanded by Afl. 28.4 million. Net claims on the private sector diminished as both credit to enterprises (-Afl. 33.3 million) (Chart 13) and individuals (-Afl. 29.8 million) were lower at the end of September 2021, compared to the end of December 2020. While the developments in credit to enterprises may be related to the liquidity support provided to Aruban businesses by the GoA, the drop in credit to individuals was attributable mainly to consumers' decreased appetite for credit (-Afl. 40.8 million), offset in part by an Afl. 10.9 million upturn in housing mortgages (Chart 14). Developments in housing mortgages reported at the end of September 2021 led to a YTD growth in housing mortgages of 0.7 percent compared to December 2020. This is noticeably lower than in previous years, but points to an uptick in comparison to the growth range observed so far during the first two quarters of 2021 (between -0.1 percent and +0.2 percent). Indeed, while lingering uncertainty about the COVID-19 crisis may be slowing growth in housing mortgages, the third quarter of 2021 CCS results from the CBA indicate that fewer respondents (61.0 percent) were reluctant to take out a mortgage during these times, compared to 66.0 percent in the fourth quarter of 2020. The rise in ‘other items, net’, was mainly due to an Afl. 318.0 million surge in demand deposits at commercial banks held at the CBA.

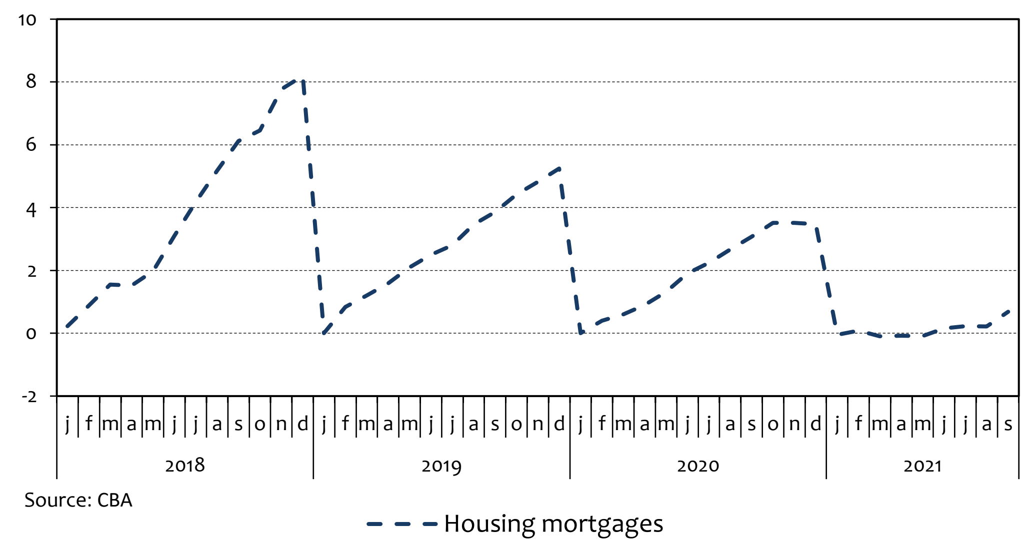
The aggregated balance sheet of the nonmonetary financial institutions amounted to Afl. 6,923.9 million at the end of September 2021 — an increase of Afl. 231.0 million compared to the end of December 2020. This was attributable to upturns in foreign assets (+Afl. 142.7 million) and other domestic claims (+Afl. 92.4 million), slightly counterbalanced by a contraction in domestic claims (-Afl. 3.9 million). Simultaneously, liabilities increased due to expansions in other domestic liabilities (+Afl. 172.9 million), the insurance reserve fund (+Afl. 61.9 million), and pension fund provisions (+Afl. 39.9 million), while foreign liabilities (-Afl. 34.5 million) and deposits and borrowing (-Afl. 9.5 million) decreased in the first three quarters of 2021.

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



Source: CBA

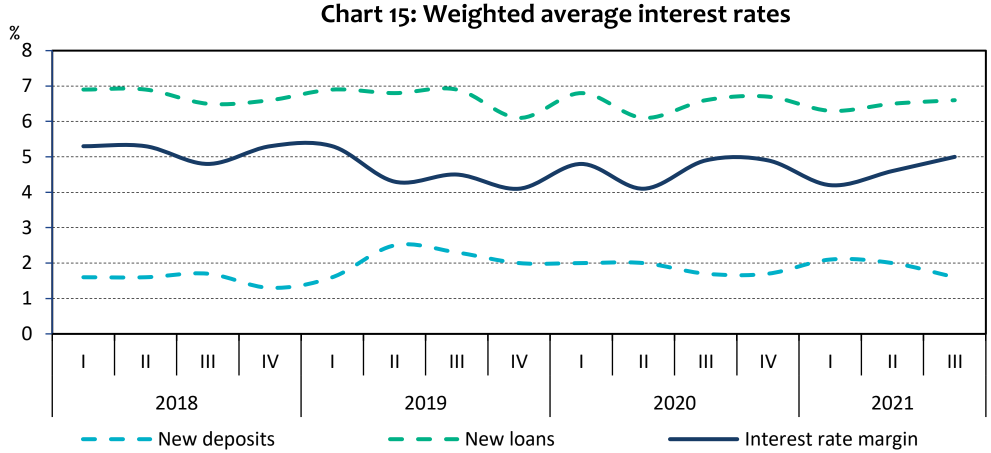
Chart 14: Housing mortgages from commercial banks (year-to-date growth rates)



Source: CBA

During the period under review, both the weighted average rate of interest on deposits and the weighted average rate of interest on loans edged down by 0.1 percentage point (Chart 15). The weighted average rate of interest on deposits fell from 1.7 percent in the fourth quarter of 2020 to 1.6 percent in the third quarter of 2021, as the interest rate on time deposits decreased (≤ 12 months: -0.2 percent; > 12 months: -0.6 percent), while that on savings deposits increased (+ 0.1 percent). Consequently, the interest rate margin picked up from 4.9 percent at the end of December 2020 to 5.0 percent at the end of September 2021. The weighted average rate of interest on loans slipped from 6.7 percent at the end of the fourth quarter of 2020 to 6.6 percent at the end of the third quarter of 2021. This change stemmed from lower interest rates on other loans to enterprises (-0.5 percentage point) and on housing mortgages (-0.1 percentage point). On the other hand, interest rates on consumer credit rose by 0.6 percentage point.

Chart 15: Weighted average interest rates



Source: CBA

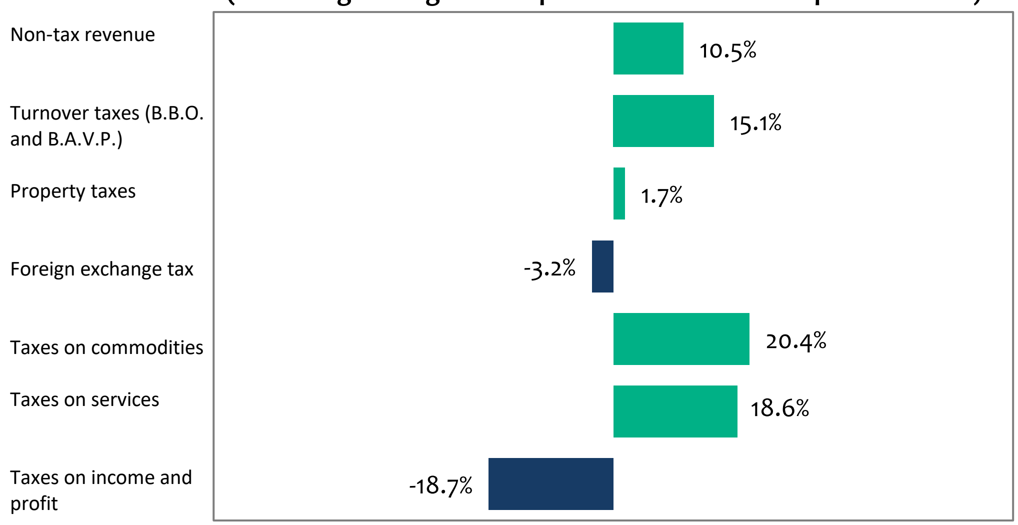
According to financial soundness indicators, Aruban commercial banks were sound during the first three quarters of 2021. The capital adequacy ratio rose by 2.9 percentage points to 36.1 percent at the end of September 2021. In all, the observed ratio amply surpassed the required minimum, which increased from 14.0 percent to 16.0 percent on September 1, 2021. Concurrently, commercial banks' aggregated prudential liquidity ratio (PLR) expanded by 4.7 percentage points to 38.4 percent, from 33.7 percent at the end of December 2020. It remained substantially higher than the minimum required PLR, which grew from 15.0 percent to 18.0 percent on September 1, 2021. Nonperforming loans climbed by 0.8 percentage point to 5.8 percent at the end of September 2021, as the general moratorium on loans applied in connection with the COVID-19 pandemic was lifted. At the same time, however, return on assets (before taxes) (+0.5 percent) and return on equity (before taxes) (+3.1 percent) improved, compared to their respective values at the end of December 2020.

Government

During the first nine months of 2021 the government's financial deficit narrowed to Afl. 459.3 million compared to the corresponding period of 2020 (Jan.-Sept. 2020: Afl. 533.3 million). While the deficit in the first quarter of 2021 was much larger than a year earlier due to COVID-19-related economic disruptions, available data for the second and third quarters showed that the fiscal deficit during that period had tapered to Afl. 296.6 million from Afl. 504.1 million in the corresponding period of 2020. The smaller deficit in 2021 was sparked by the ongoing economic recovery. The latter spurred higher revenue and led to smaller outlays for government financial assistance programs. The smaller fiscal deficit in the first nine months of 2021 stemmed from a gain in government revenues (Afl. 19.6 million) and a fall-off in government expenditures (including lending minus repayments) (Afl. 54.4 million).

Government revenues strengthened from Afl. 746.2 in the first nine months of 2020 to Afl. 765.8 million (2.6 percent) in the period under review. This outcome reflected upticks in both tax revenue receipts and non-tax revenues totaling Afl. 11.3 million (1.7 percent) and Afl. 8.4 million (10.5 percent), respectively. Most tax components exhibited growth once Aruba began to recover from the impact of COVID-19 during the second and third quarters of 2021 (Chart 16). One exception was the component taxes on income and profit (-Afl. 46.1 million); revenue from wage and income taxes fell by Afl. 35.0 million and Afl. 15.8 million, respectively. The decrease was due in part to the ongoing impact of the COVID-19 pandemic on economic activities. In addition, revenue collection reflected a decrease in wage and income tax rates effective January 1, 2021 as part of the GOA's tax reform plans and the fiscal relief plan to increase disposable income to compensate for income losses due to COVID-19. On the other hand, the profit tax edged up by Afl. 4.8 million. Income from the turnover tax and taxes on services grew by Afl. 17.3 million (15.1 percent) and Afl. 3.6 million (18.6 percent), respectively, while revenue from foreign exchange tax fell by Afl. 1.0 million (-3.2 percent). Meanwhile, taxes collected on commodities climbed by Afl. 36.2 million (20.4 percent), due mainly to higher amounts collected for import duties (Afl. 16.9 million), and excise taxes on liquor (Afl. 9.7 million), gasoline (Afl. 5.2 million), and beer (Afl. 4.6 million). Taxes on property edged up by Afl. 1.3 million (1.7 percent).

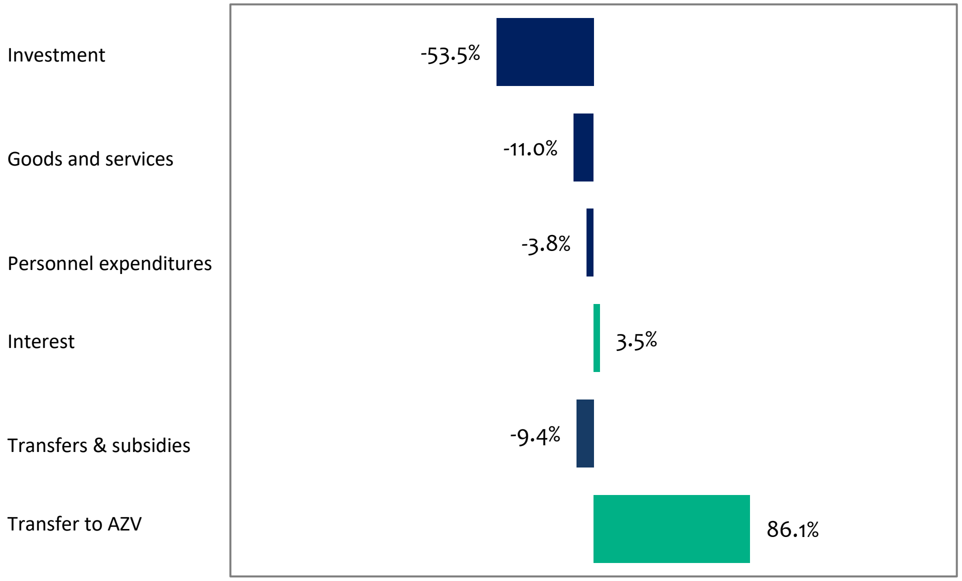
Chart 16: Government revenue
(Percentage change YTD September 2021 vs. YTD September 2020)



Source: Tax Collector's Office

Government expenditures (including lending minus repayments) fell from Afl. 1,279.4 million in the corresponding period of 2020 to Afl. 1,225.1 million (-4.2 percent) in the first nine months of 2021. The reduction in government outlays was due to decreased spending on subsidies and transfers, goods and services, and personnel costs. Government subsidies and transfers contracted by Afl. 35.1 million (-9.4 percent), due mainly to decreased demand for government financial assistance in the second and third quarters of 2021 as the economy recovered. The lower personnel costs are related to the 12.6 percent cut in civil servant wages on May 1, 2020. The government also spent less on investments, but increased its transfers to the AZV by Afl. 26.0 million (86.1 percent) to compensate for lost income from premium collection, as well as to cover additional healthcare costs related to the COVID-19 pandemic.

Chart 17: Government expenditures
(Percentage change YTD September 2021 vs. YTD September 2020)



Source: Tax Collector's Office

Government debt expanded by Afl. 493.5 million to Afl. 5,639.1 million in the first nine months of 2021 compared to December 2020, as the debt burden continued to grow as a result of the COVID-19 pandemic. Foreign debt climbed by Afl. 490.4 million, reflecting the short-term loans received from the Netherlands in response to the pandemic. During the first three quarters of 2021, the GOA borrowed Afl. 664.3 million from the Netherlands, bringing the total borrowed from the Netherlands since the beginning of the Covid-19 pandemic to Afl. 1,091.9 million (including Afl. 178 million to refinance maturing loans). These loans are for the most part scheduled to mature in 2022, and thus put significant pressure on government financing needs in the short-term. Domestic debt edged up by Afl. 5.4 million due to an increase in non-negotiable short-term debt, which was largely offset by a decrease in total outstanding Treasury bills. In the first nine months of 2021, the share of foreign government debt continued a steady ascent to 61.0 percent, up from 55.3 percent in the second quarter of 2020, when the government began to receive loans from the Netherlands to mainly support income lost by households and businesses. The developments in government debt resulted in an estimated debt-to-GDP ratio of 117.9 percent at the end of the third quarter of 2021.

III. International developments

The global economy is estimated to have rebounded by 5.5 percent in 2021[5] — the highest post-recession growth rate recorded in the past eighty years (Table 2). This stemmed primarily from the loosening of lockdowns, which augmented global demand. Yet, global growth was mitigated by COVID flare-ups (e.g., the Delta variant) paired with supply chain bottlenecks that significantly tamped down global activity in the third quarter of 2021.

After a steep contraction in 2020, 2021 exhibited signs of recovery — many countries experienced growth. During 2021, advanced economies and numerous middle-income countries achieved substantial vaccination rates; international trade improved; and rising commodity prices benefited many developing countries. In addition, there were fewer domestic financial crises and foreign debt restructurings than typically expected during drastic global (economic) shocks.

[5] According to the Global Economic Prospects Report published by the World Bank Group in January 2022.

Notwithstanding the global economic recovery in 2021, developing countries' economic recuperation has been impeded by several challenges. The Global Economic Prospects by the World Bank (2022) identified three obstacles. First, macroeconomic imbalances (i.e., government spending, government deficit, and government debt in terms of GDP) of advanced economies surged in 2021 due to economic support provided during the crisis. As a result, the fiscal and monetary policy of advanced economies moved into uncharted territories that carried risk for developing countries. Second, the COVID-19 crisis increased income inequality across and within countries. This was especially true for developing country households that suffered employment and earning losses. The widening income inequality was primarily evident in the employment and income of women, and the unskilled and informal workers. Furthermore, inflationary pressures and rising asset prices boosted the wealth of the richer classes were at play. Third, the continuing emergence of COVID-19 variants reminded the world that the pandemic is still not over. This amplified previous supply bottlenecks, including ports operating below capacity. These disturbances had negative effects on developing countries that often find themselves last in the global supply line. Moreover, low-income countries had limited access to vaccine doses during 2021, increasing disruptions in mobility and supply-chain logistics.

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

Indicator	2021e	2022f
World	5.5	4.1
United States	5.6	3.7
Euro Area	5.2	4.2
Latin America and the Caribbean	6.7	2.6

Source: World Bank

e = estimate; f = forecast

According to the latest estimates from the World Bank Group, the global economy will grow by 4.1 percent in 2022, down from an estimated expansion of 5.5 percent in 2021. The projected increase recognizes continuing impacts from COVID-19 variant outbreaks, reduced fiscal support, and supply chain disruptions pushing up inflation. In fact, the rapid spread of new variants may force more countries to reintroduce (lockdown) measures to contain COVID-19 and alleviate pressures on healthcare systems. Moreover, the emergence of new variants linked with inequities in global vaccine coverage amplify the risks that attend the emergence of new strains. Meanwhile, uncertainties in supply chain functioning could further challenge international trade and amplify inflationary pressures. Other downside risks accompanying this forecast include financial stress, climate-related disasters, and a collapse of long-term growth drivers. An example of the latter – for the specific case of Aruba – would be the tourism sector.

III. Conclusion

In the third quarter of 2021, the Aruban economy's pace of recovery, while slightly lower, was much the same as that realized during the second quarter of 2021. Estimated real GDP surged by 31.2 percent compared to the same quarter in 2020, due to sharp increases in stay-over visitors. Aruban tourism benefited from the lifting of international travel restrictions in the third quarter of 2020. Furthermore, observed growth was enhanced by gradual increases in cruise visitors since June 9, 2021, when cruise ships restarted their visits to the Aruban port. Compared to the second quarter of 2021, however, the year-on-year real GDP growth decreased by 3.8 percentage points in the third quarter of 2021.

Turning to consumption indicators, with the exception of credit these indicators showed an upturn during the third quarter of 2021, compared to the third quarter of 2020. Investment indicators, in turn, painted a mixed picture, while imports expanded due to sustained increases in domestic and tourism demand for goods following the reopening of the borders.

The available tourism sector indicators pointed to sustained recovery in tourism-sector activities during the first three quarters of 2021, in comparison to the same period in 2020. Except for number of cruise visitors, all indicators showed improvement. The number of stay-over visitors to Aruba expanded by 107.1 percent, mostly driven by upturns in the North American, European, and Latin American markets. These developments indicated a recovery of 66.8 percent by stay-over visitors.

Data obtained from the Aruba Hotel and Tourism Association attest to an upswing in hotel-sector performance during the first three quarters of 2021, compared to the same period in 2020. The hotel occupancy rate increased from 13.3 percent at the end of the third quarter of 2020 to 56.3 percent at the end of the third quarter of 2021. The average daily rate grew from $232.40 to $243.30. Consequently, revenue per available room more than quadrupled at the end of September 2021, reaching $136.90 in comparison to $31.00 at the end of September 2020.

Continued improvement in stay-over tourism and hotel-sector performance was evident in a 58.7 percent jump in tourism credits in the period January up to and including September 2021. During the same period in 2020, tourism credits decreased by 48.1 percent, mainly due to the international travel restrictions in place throughout the second quarter of 2020. The level of tourism credits registered in the first three quarters of 2021 represent an 82.3 percent improvement over pre-pandemic levels of tourism credits in 2019.

Investment indicators appeared mixed in the first three quarters of 2021, amid lingering economic uncertainty related to the COVID-19 pandemic. The value of imported construction materials fell by 17.8 percent. On the other hand, the value of construction permits grew by 25.0 percent in the same period. Few new investment projects were initiated during the

economic recovery due to lingering uncertainties, higher costs of building materials, disruptions in global supply chains, and decreased business investment.

Commercial banking data showed signs of an increased appetite for expanded residential investment in the first nine months of 2021, as number of housing mortgages rose by 0.7 percent. Growth in housing mortgages intensified in 2018 with the introduction of policies to reduce the backlog in land permit requests. Yet, the pace of this expansion has been decreasing since 2019, pointing to a potential return to pre-permit alleviation levels. Annual data regarding the number of new housing mortgages show similar patterns, with growth peaking in 2018, followed by negative growth in 2019 and 2020. However, data for the third quarter of 2021 indicated an increase of Afl. 11.1 million in number of new housing mortgages compared to the same period of 2020.

The Consumer Price Index (CPI) rose by 2.2 percent at the end of the third quarter of 2021 compared to 2020. A year earlier, the end-of-period inflation stood at -2.3 percent. End-of-period inflation had been trending upwards since December 2020, and was back in positive territory since June 2021. The rise in the CPI in September 2021 compared to 2020 was mostly due to increased transport and household operations prices.

The end-of-period core inflation, which excludes food and energy, stood at 0.8 percent in September 2021. This inflation rate has been above zero since the beginning of the third quarter of 2021. The relatively large gap between the end-of-period inflation and core inflation illustrates the significant contribution of gasoline prices to overall inflation.

Contrary to end-of-period inflation, the 12-month average inflation was still in negative territory at the end-of September 2021. The deflation in September 2021 was due mainly to lower prices in recreation, culture, and household operations. However, the 12-month average inflation moved upward since April 2021. This development is due to rising gasoline prices, paired with the softening impact of the electricity tariff reduction as of January 2020.

The merchandise trade deficit widened during the first nine months of 2021 compared to the same period in 2020. The increase in the trade deficit stemmed mainly from a rebound in import levels during the second and third quarters of 2021, spurred by recovery in the tourism sector. Despite the expansion in the value of imports, it remained at 86.4 percent of 2019 levels. The value of imports grew by Afl. 181.4 million to Afl. 1,391.8 million in the first nine months of 2021. Rising global food prices also influenced the higher value of food imports. World food prices rose by 33.4 percent year-on-year at the end of the third quarter of 2021.

International transactions settled through the banking system during the first nine months of 2021 led to an Afl. 585.5 million jump in the international reserves (excluding revaluation differences). This outcome was attributed to a net inflow of Afl. 671.8 million in foreign funds on the financial account, due in large part to the short term loans received from the Netherlands to cover the government liquidity needs.

All financial account components registered a net inflow of foreign funds, with the exception of the portfolio investment account. The capital account recorded a net inflow of Afl. 34.2 million, stemming in large part to COVID-related humanitarian aid from the Netherlands. In contrast, the current account had an Afl. 60.0 million deficit, as the rate of tourism recovery could not fully compensate for the outflow of funds related to the import of goods and services and net income payments. Import payments rose by Afl. 174.6 million over the first nine months of 2021 compared to the same period in 2020.

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