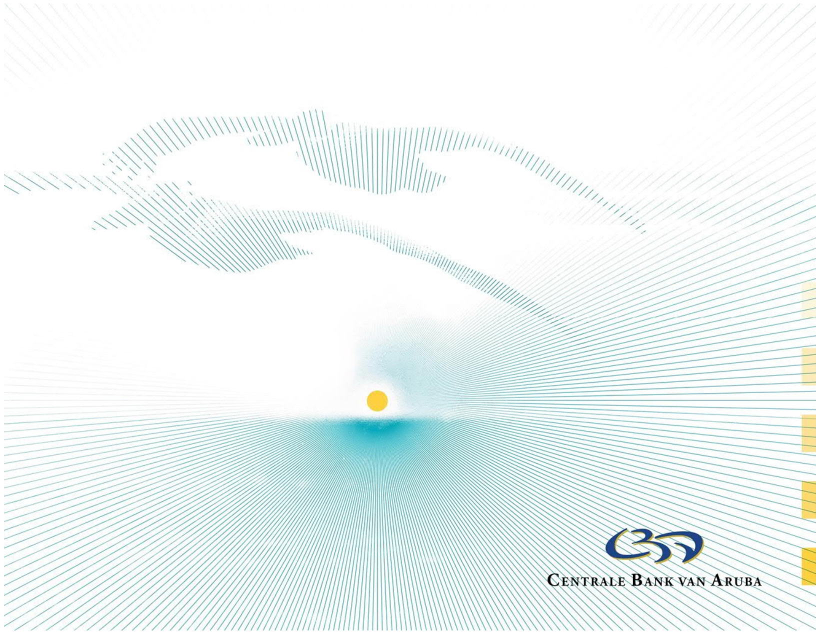

STATE OF THE ECONOMY

2021

ABSTRACT

In 2021, the Aruban economy likely grew along a path consistent with the optimistic scenario in the December 2021 issue of the CBA's Economic Outlook. Real economic growth in 2021 was driven mainly by the strong recovery of stay-over visitors, which increased tourism and domestic consumption. In terms of pre-pandemic levels, 2021 recorded a recovery rate of 72.1 percent of total stay-over visitors vis-a-vis 2019. Furthermore, data from the Aruba Hotel and Tourism Association showed a boost in revenue per available room in 2021. In all, tourism credit expanded by 72.4 percent in 2021 compared to 2020. Commensurately, merchandise imports expanded across nearly all categories when comparing 2021 to 2020, indicating strengthened domestic and tourism-related imports of goods. At the end of 2021, end-of-period inflation, which has been positive since June 2021, rose 3.6 percent compared to the end of 2020. The upward trend in inflation was mainly driven by higher gasoline prices. The economic recovery also drove the improved performance in government finances, with a contraction in the government financial deficit of Afl. 338.4 million. Moreover, the level of international reserves remained well above adequate levels, bolstered by the inflow of tourism credits and the short-term loans provided by the Netherlands to the Government of Aruba.

Centrale Bank van Aruba

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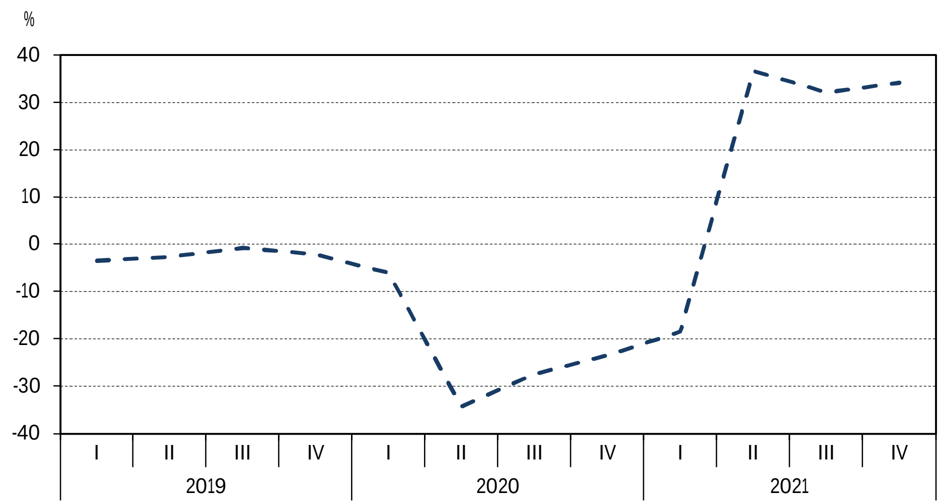
I. Domestic developments

Economic growth

During 2021, growth in the Aruban economy largely coincided with the optimistic scenario in the December 2021 Economic Outlook (EO) by the Centrale Bank van Aruba (CBA). This growth of 17.9 percent (in real terms) was driven mainly by the recovery in numbers of stay-over visitors. Another driver of growth was consumption, which was sustained by government support measures such as the Emergency Social Assistance Fund (FASE) as well as the wage subsidy program. Various consumption indicators pointed to an upturn in the economy compared to 2020, while investment indicators painted more of a mixed picture. Meanwhile, imports expanded against the backdrop of consistent increases in domestic and tourism demand for goods since the reopening of the border.

Quarterly GDP estimates of the CBA nowcast model are consistent with the yearly growth estimate in the EO. In the first quarter of 2021, real GDP shrank compared to 2020 when tourism activities were still at more or less pre-pandemic levels (Chart 1). In the second quarter of 2021, year-on-year real GDP growth peaked as international travel restrictions and shelter-in-place measures were still in place in the same quarter of 2020. In the third quarter of 2021, real GDP growth decelerated compared to the second quarter of 2021. This was related to Aruba already welcoming tourists in the third quarter of 2020. Furthermore, the Delta variant outbreak also lessened growth in the third quarter of 2021. In the final quarter of 2021, real GDP growth reached 34.1 percent due to strong tourism spending, despite the onset of the Omicron wave.

Chart 1: Quarterly GDP growth year-over-year



Calculations: CBA

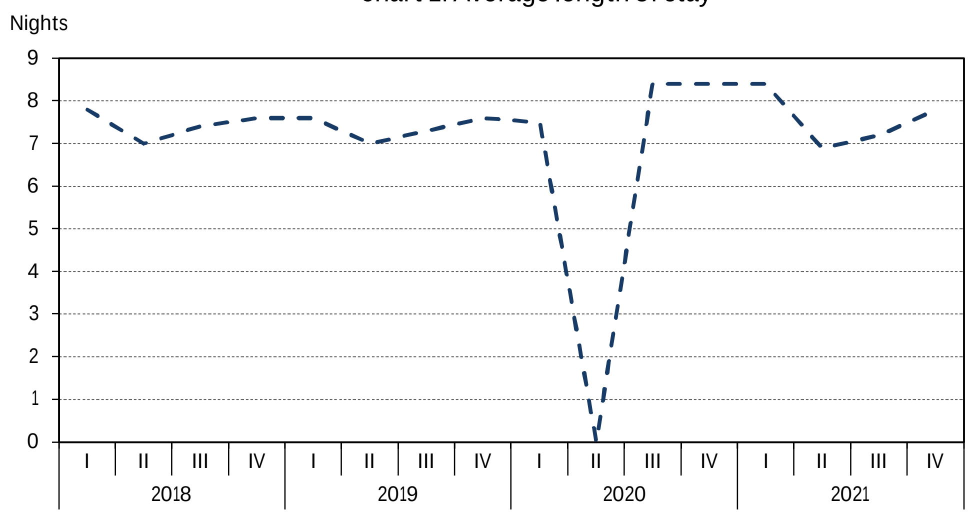
Tourism

In general, tourism indicators show robust tourism growth in 2021 compared to 2020 (Table 1). This is illustrated by the increase in total visitor nights, which was more than twice the 2020 numbers despite COVID-19-related uncertainties (Table 1). This surge in total visitor nights[1] was driven completely by higher stay-over visitors, as the (intended) average length of stay (ALOS) declined from 7.9 nights.

[1] Total visitor nights can be derived by multiplying the number of stay-over visitors by the average length of stay.

in 2020 to 7.4 nights in 2021. Specifically, the number of stay-over visitors jumped by 119.0 percent, driven by the North American market (contribution = 102.0 percentage points). This surge of 119.0 percent equates to a 2021 recovery in stay-over visitors of 72.1 percent in 2019 levels. Total visitors nights also recovered at a level similar to that of stay-over visitors, as the ALOS returned to pre-pandemic levels in 2021 (Chart 2).

Chart 2: Average length of stay



Source: ATA

Table 1: Tourism indicators for Aruba

2020 vs. 2021

	2020	2021
Stay-over visitors	368,322	806,540
Average length of stay (in days)	7.9	7.4
Total visitor nights	2,895,628	6,007,047
Cruise visitors	255,384	135,953
Hotel occupancy rate (%)	34.9	69.0
Average daily rate (in USD)	275.91	337.38
Revenue per available room (in USD)	96.30	232.93
Tourism credits per night (in Afl.)	522.58	431.89
Tourism credits* (in Afl. million)	1,513.2	2,594.4

Sources: CBA, ATA, AHATA, APA, CTO, STR
*Only those registered at local commercial banks.

Data from the Aruba Hotel and Tourism Association (AHATA) also showed positive developments in the hotel sector. Specifically, revenue per available room (RevPAR[2]) increased

[2] RevPAR is the product of the average daily rate and the hotel occupancy rate.

by 141.9 percent in 2021 compared to 2020. This boost in RevPAR was moved by the higher hotel occupancy rate in 2021 (69.0 percent) relative to 2020 (34.9 percent), as the Average Daily Rate (ADR) rose from $275.91 in 2020 to $337.38 in 2021.

In 2021, tourism credits registered at local commercial banks jumped by 71.5 percent compared to 2020, echoing the developments in total visitor nights. This increase in tourism credits[3] was due to the uptick in total visitor nights, which outweighed the fall-off in tourism credits per night. Zooming in on the two components reveals that in 2021 tourism credits per night contracted by 17.4 percent compared to 2020, while total visitor nights boomed at 107.5 percent. Possible explanations for the lower tourism credits per night are the diminishing pent-up demand — initially induced by the COVID-19 (restrictions) — a shift in the type of tourists and markets, and/or depressed ADR. In 2019 terms, tourism credit in 2021 recovered by 89.1 percent, as the gains in tourism credits per night (122.3 percent), compensated for the deprived recovery in total visitor nights (72.8 percent).

In contrast to other tourism indicators, the cruise segment remained subdued in 2021, recording a substantial contraction of 46.8 percent compared to a year earlier. However, cruise ship arrivals did not resume until June 9, 2021, after being halted since the onset of the COVID-19 pandemic. The Aruba Ports Authority (APA) also reported one less cruise ship arriving in 2021 compared to 2020. This indicates that smaller cruise ships were arriving and/or there was a lower cruise ship occupancy in 2021 compared to 2020, which drove the decline in the number of cruise visitors.

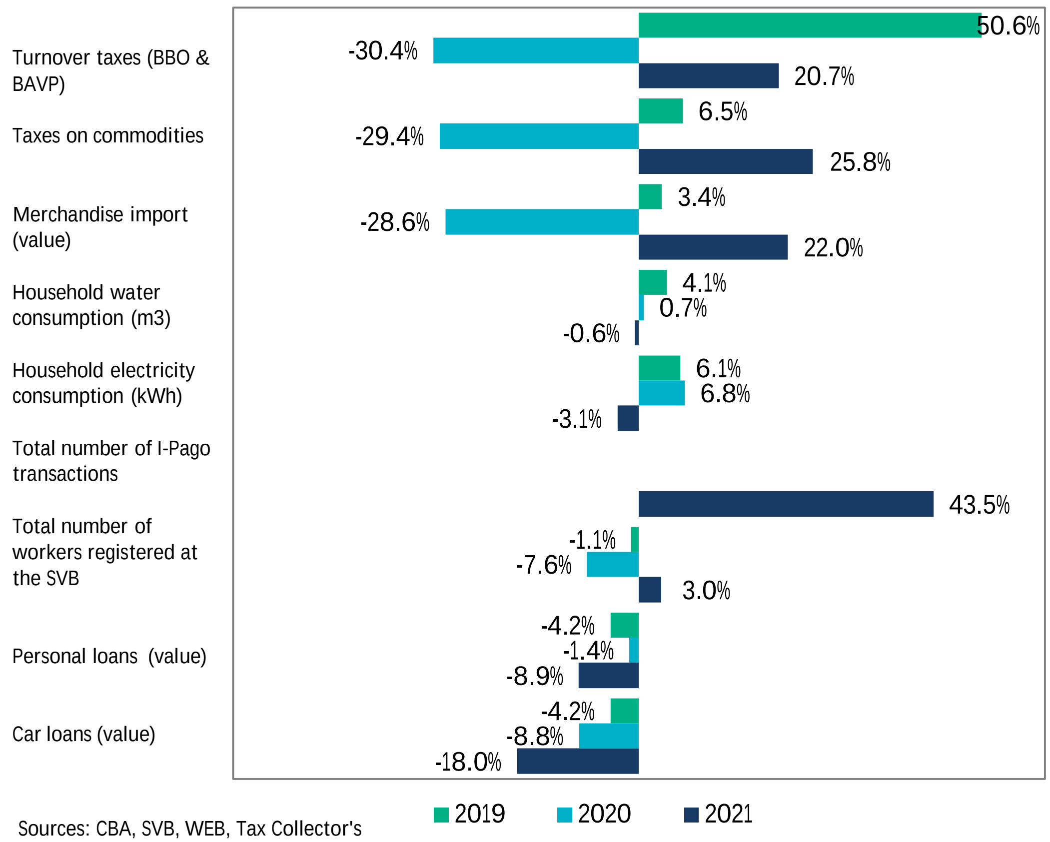
[3] Tourism credits equals tourism credits per night multiplied by total visitor nights.

Consumption

During 2021, consumption-related indicators were ambiguous — some categories performed positively, while others recorded decreases (Chart 3). On the one hand, revenue for taxes on commodities (+25.8 percent), turnover taxes (+20.7 percent), and merchandise imports (+22.0 percent), and number of I-Pago transactions[4] (+43.5 percent) surged, while employment[5] rebounded and tourism continued to recover. On the other hand, other indicators pointed to a contraction. In particular, utilities consumption was down, possibly a reflection of people working less from home in 2021 than in 2020. Moreover, credit market developments continued to be muted as mirrored by the respective drop in personal loans and car loans — 8.9 percent and 18.0 percent, respectively. The decline in these two credit components has been ongoing since 2018 — in the case of personal loans as far back as 2010 —, and is perhaps more indicative of structural rather than cyclical factors.

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

Chart 3: Consumption-related indicators
(YTD December 2020 vs. YTD December 2021)



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

Merchandise imports expanded across nearly all categories when comparing 2021 to 2020, indicating strengthened domestic consumption and tourism-related imports of goods in 2021. Imports of goods surged by 22.0 percent, due mainly to a hike in imports of 'other goods'[6] related to higher imports in the categories real pearls (natural) and other precious stones, mineral products, various goods and products n.e.s., optical instruments, apparatus and equipment, and textile fibers and articles. Besides improved consumption, the higher outlays for imports likely also reflected increased import prices.

Available data revealed that household consumption of water and electricity fell by 0.6 percent and 3.1 percent, respectively. Household electricity consumption receded despite a 1.7 percent uptick in the number of households connected to the electricity network at the end of 2021 compared to a year earlier. Moreover, the relaxation of government measures to contain the spread of COVID-19 and employees physically returning to work meant that people were likely spending less time at home.

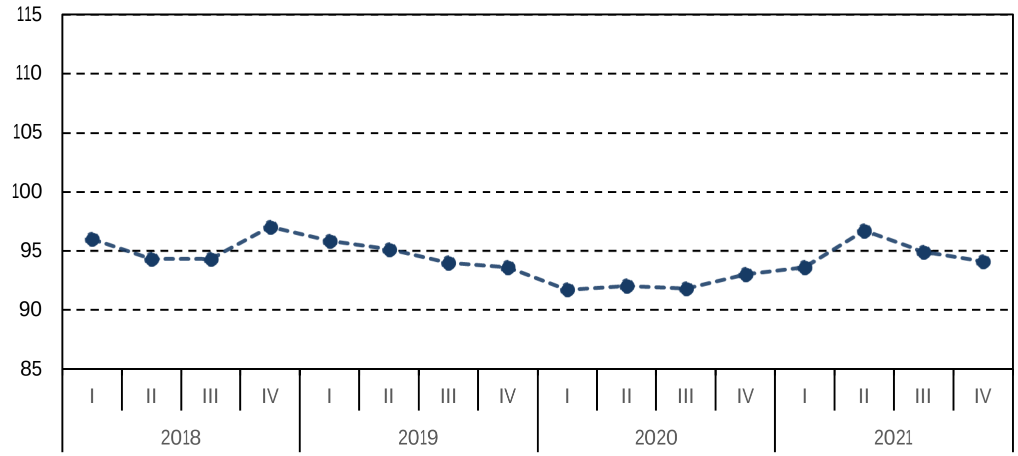
Consumer credit held at commercial banks fell by 10.8 percent in 2021 compared to year-end 2020. This contraction was reflected in all components of consumer credit during the review period: personal loans (-8.9 percent), car loans (-18.0 percent), credit cards (-6.0 percent), and other (-2.6 percent) (Chart 3). In addition, consumer credit provided by the nonmonetary financial institutions slackened by 0.2 percent. This apparent weak demand for consumer credit is consistent with the reported developments and sentiments in CBA's Consumer Confidence Survey (CCS). Specifically, the CCS reported that during the fourth quarter of 2021, 66.1 percent of respondents indicated that buying a car was not suitable, while 66.6 percent reported that

[6] 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.

taking out a loan was not appropriate. The reluctance to take out a loan has been reported repeatedly in previous quarters.

Despite the beginning of the 5th COVID-19 wave, consumers were relatively less pessimistic in the fourth quarter of 2021 than in the same quarter of 2020 (Chart 4). In general, the Consumer Confidence Index (CCI) has been on an upward trend since the third quarter of 2020, pointing to improved sentiments among consumers as the present situation index and the future expectation index recovered. Moreover, the average of the current CCI for the period 2021 Q1-Q4 amounted to 94.8 index points, surpassing the pre-pandemic average of 94.6 index points recorded during the period 2019 Q1-Q4.

Chart 4: Consumer Confidence Index



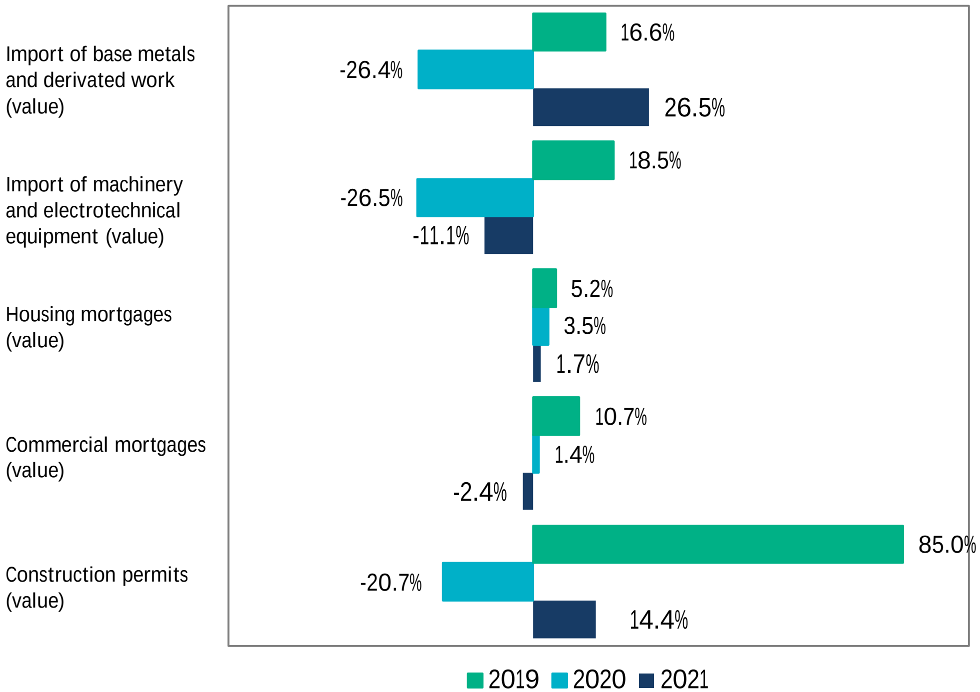
90-100: pessimistic
100-110: optimistic

Investment

The investment-related indicators gave mixed signals during 2021 (Chart 5). The value of imported base metals and derivated work (i.e., 26.5 percent) rose during the period under review, after contracting by 26.4 percent in 2020. Meanwhile, the import of machinery and electrotechnical equipment (i.e., -11.1 percent) hinted towards retracted investment activities. Nevertheless, the decline in this component was smaller than that registered one year before (2020 vs. 2019: -26.5 percent). Moreover, data obtained from the CBS also indicated sluggish investment activities as the import of construction products dropped by 11.9 percent during the period under review. On the other hand, the value of construction permits picked up by 14.4 percent in the same period, mainly driven by the (potential) construction of apartments (+78.5 percent), houses (+16.9 percent), and other (+11.6 percent). The noted increases in these components mitigated the significant declines in the construction permits of office buildings (-70.2 percent) and stores and shopping malls (-39.0 percent). Still, the expansion in total construction permits' value must be interpreted with caution as it does not necessarily mean that there were investment cash flows during the period under review as the majority of the previously reviewed indicators showed declines. Therefore, the development in total construction permits' value might not be in line with the previously reviewed indicators.

Commercial banking data revealed that commercial mortgages shrank by 2.4 percent, after increasing by 1.4 percent in 2020 and by 10.7 percent in 2019. This marks the first contraction since 2014, during which year it dropped by 1.6 percent. This development also was noticeable in the Business Perception Survey (BPS) — during the fourth quarter of 2021, only 29 percent of the respondents noted an improvement in their investment outlays. Meanwhile, the outstanding balance on housing mortgages in 2021 inched up by only 1.7 percent, after significant growth rates were observed in previous years (i.e., 3.5 percent in 2020 and 5.2 percent in 2019). The development in housing mortgages was directly mirrored in the results of the Consumer Confidence Survey (CCS), where during the fourth quarter of 2021 more than half of the respondents (i.e., 60 percent) indicated that taking out a housing mortgage was unsuitable. Moreover, data on house construction activities demonstrate that people are building smaller houses as the increase in the number of house construction permits (i.e., +35.6 percent) was significantly higher than the expansion in the value of house construction permits (i.e., +16.9 percent). Nevertheless, data on new housing mortgages revealed an upsurge of Afl. 71.8 million (i.e., 35.1 percent) in 2021. This development suggests that despite the sluggish outstanding balance on housing mortgages and the negative sentiments portrayed in the CCS' results, there was an uptick in housing construction activities during the year. Moreover, principal repayments partially mitigated the uptick in new housing mortgages as the change in the outstanding balance of housing mortgages in 2021 increased only slightly. Another contributing factor to this development might have been the write-off of loans at local commercial banks.

Chart 5: Investment-related indicators
(YTD December 2021 vs. YTD December 2020)

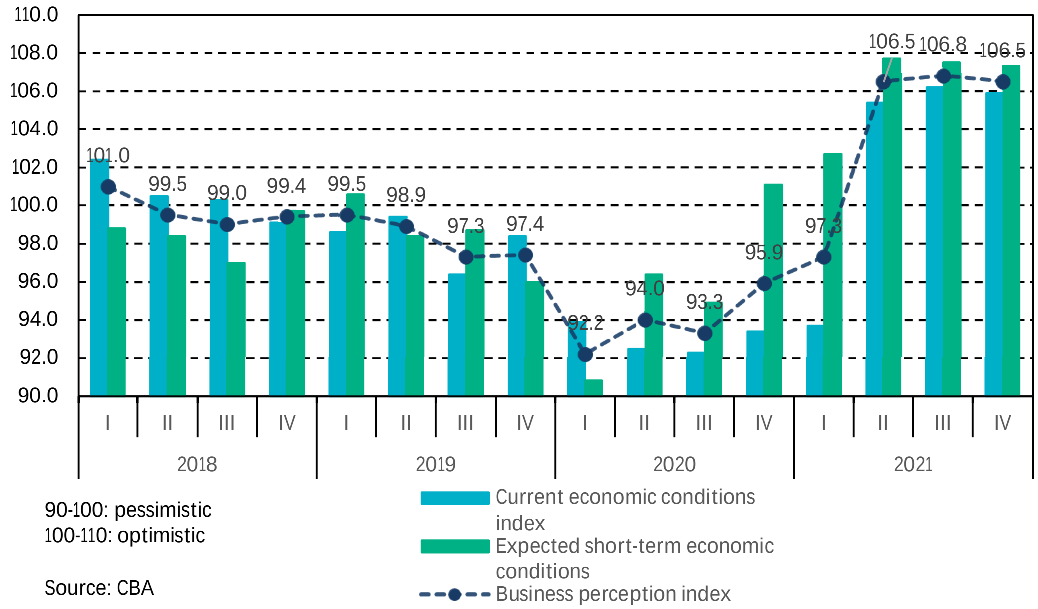


Sources: CBA, CBS, DOW

The Business Perception Index reached 106.5 index points in the fourth quarter of 2021 compared to 95.9 index points registered during the same quarter a year before (Chart 6). The improved sentiment was most evident during the third quarter of 2021, when the index spiked to 106.8 index points. The Business Perception Index registered its highest level in ten years — likely the result of tourism recovery. In general, the improvement in the Business Perception

Index (Q4 2021 vs. Q4 2020) was attributed to boosts in the current Economic Condition Index (2020 Q4: 93.4 index points, 2021 Q4: 105.9 index points) and in the short-term future Economic Condition Index (2020 Q4: 101.1 index points, 2021 Q4: 107.3 index points). However, on a quarterly basis, the Business Perception Index eased up somewhat during the last quarter of 2021. This tempering could have been associated with the effects of the Omicron variant, which spiked during the last month of 2021, dampening business sentiments.

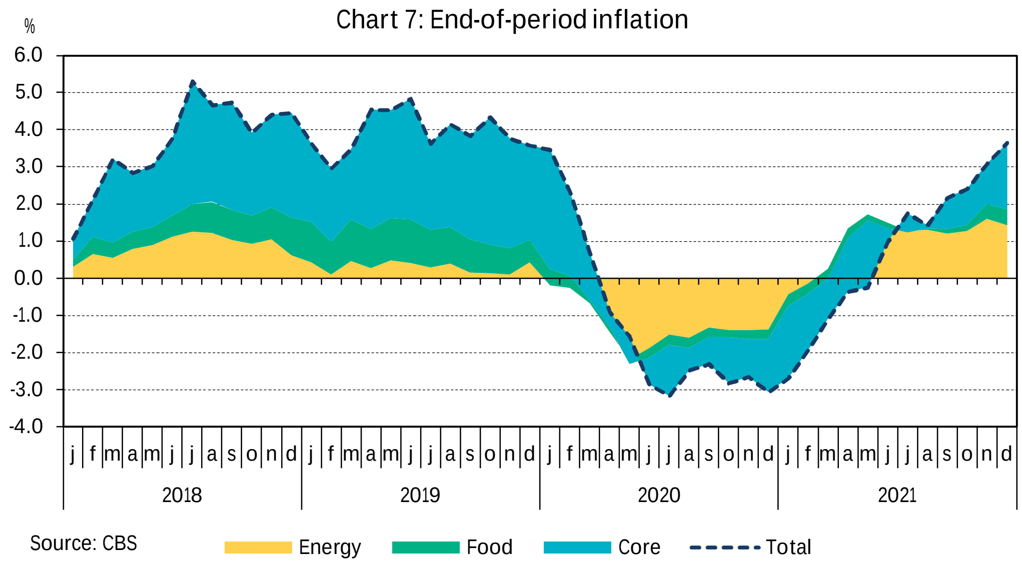
Chart 6: Business Perception Index



90-100: pessimistic
100-110: optimistic

Source: CBA

Consumer Price Index (CPI)



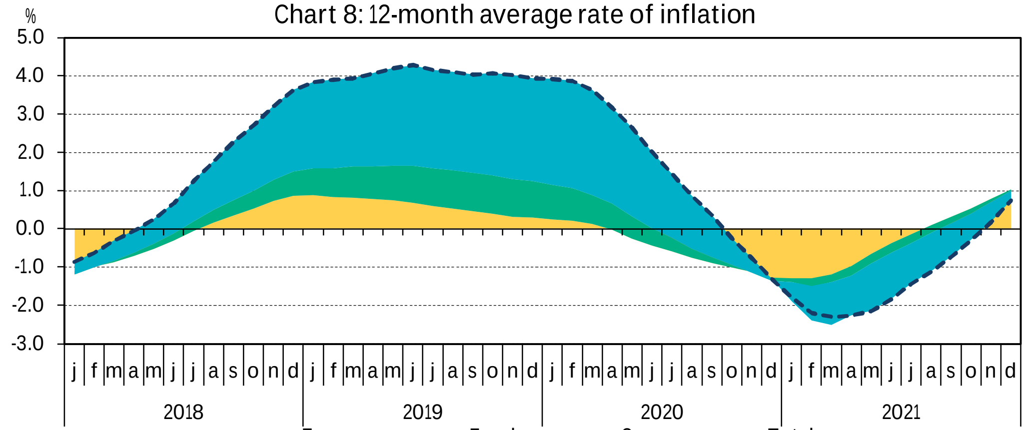
Source: CBS

At the end of the fourth quarter of 2021, the consumer price index (CPI) stood at 100.6, resulting in an increase of 3.6 percent compared to the end-of 2020 (Chart 7). The rise in end-of-period inflation, which has been trending upward since December 2020 and in positive territory since June 2021, was driven mainly by higher gasoline prices. These higher prices also affected the transport component, which contributed 1.9 percentage points to the end-of-period inflation in December 2021. The components household operation (+0.6 percentage points), food and non-alcoholic beverages (+0.5 percentage points), recreation and culture (+0.3 percentage points), miscellaneous goods and services (+0.2 percentage points), housing (+0.1 percentage points), and restaurants and hotels (+0.1 percentage points) also added positively to inflation at the end of the fourth quarter of 2021. The component health (-0.1

percentage points), on the other hand, slightly mitigated these upward pressures on the end-of-period inflation, while all other components remained unchanged.

The end-of-period core inflation, which excludes the food and energy components, amounted to 1.8 percent at the end of December 2021. The end-of-period core inflation turned positive in June 2021 after having registered consecutive negative values since April 2020. The relatively large difference between total and core end-of-period inflation (1.8 percentage points at the end of 2021) emphasizes the substantial contribution of gasoline prices to overall inflation.

Chart 8: 12-month average rate of inflation



Source: CBS

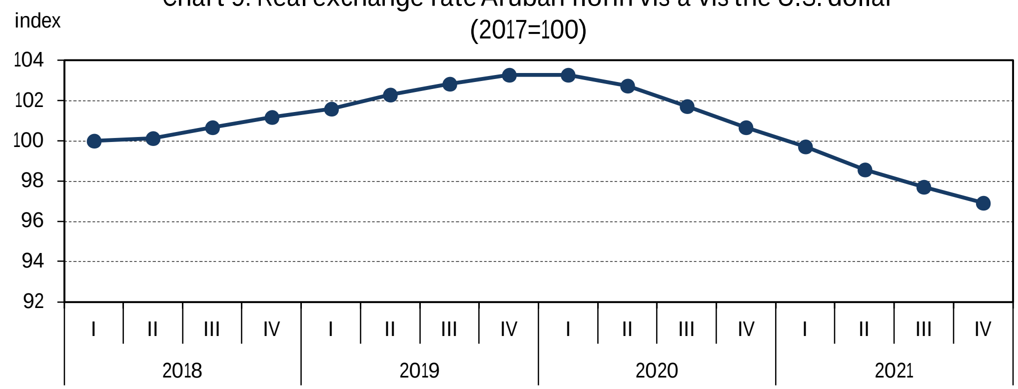
The 12-month average inflation rate, which started trending upward in May 2021, reached 0.7 percent at the end of December 2021 (Chart 8). In comparison to 2020, the growth in the 12-month average inflation rate at the end of 2021 was mostly caused by higher gasoline prices, which also affected the transport component. The latter contributed to the 12-month average inflation rate with 1.1 percentage points, and was complemented by higher prices for the component housing (+0.2 percentage point). The components clothing and footwear (-0.2

percentage point), recreation and culture (-0.2 percentage point), household operation (-0.1 percentage point), and health (-0.1 percentage point), partly offset the aforementioned upturns. The 12-month average core inflation inched down from 0.1 percent in December 2020 to -0.2 percent in December 2021.

International competitiveness

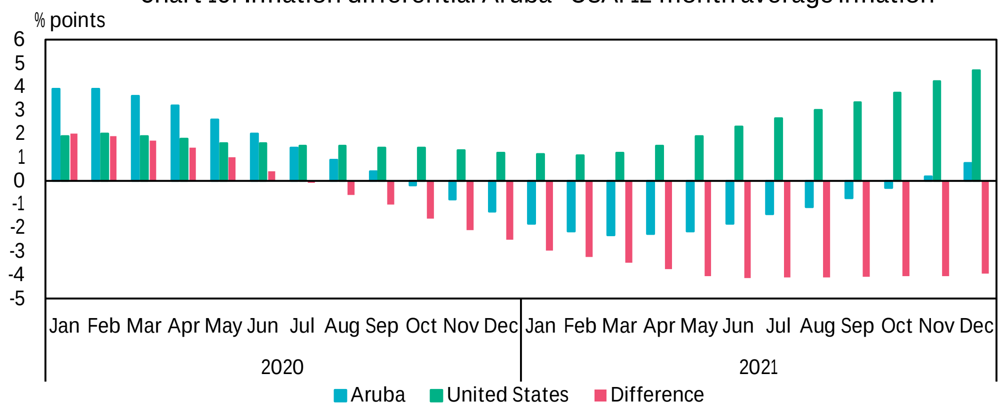
The real exchange rate of the Aruban florin vis-à-vis the U.S. dollar remained on its downward trajectory in the fourth quarter of 2021 (Chart 9). This descending trend, which began in the second quarter of 2020, points to an improved competitive position of Aruba compared to the United States. The improvement in the fourth quarter of 2021 was the result of consumer prices in the United States rising faster than those in Aruba (Chart 10). The 12-month average U.S. inflation for December 2021 amounted to 4.7 percent. The increase in U.S. consumer prices was led by higher prices for shelter and used vehicle, while food and energy prices were also key drivers. Meanwhile, Aruba's 12-month average inflation reached 0.7 percent in December 2021, driven mainly by higher prices for gasoline. The inflation differential between the United States and Aruba was largely the result of Aruban utility prices being insulated from price hikes in the international oil market due to favourable hedging contracts. The mentioned developments led to an improved competitive position for Aruba vis-à-vis the United States.

Chart 9: Real exchange rate Aruban florin vis-à-vis the U.S. dollar (2017=100)



Source: CBA

Chart 10: Inflation differential Aruba - USA: 12-month average inflation



Calculations: CBA

Foreign trade

Merchandise trade expanded by 23.0 percent in 2021 compared to 2020, as the tourism sector recovery gained momentum as of the second quarter of 2021 (Chart 11). Nevertheless, the value of imports remained below 2019-levels and the 10-year average pre-pandemic level, at 87.1 percent and 96.8 percent of these levels, respectively. The value of imports grew by Afl. 357.4 million to Afl. 1.983,7 million in 2021 compared to 2020, with almost all import components recording increases (chart 12). The growth in import components was mainly attributed to larger imports of other goods (+30.5 percent), food products (+26.6 percent), and live animals and other animal products (+39.8 percent) (chart 12). The rise in other goods was largely the result of more imports of real pearls (natural) and other precious stones (+112.6 percent), mineral products (+28.1 percent), various goods and products n.e.s. (+27.8 percent), optical instruments, apparatus and equipment (+32.8 percent), and textile fibers and articles (+31.6 percent). Furthermore, the increased demand for food products was most likely triggered by the pick-up in tourism activity as of the second quarter of 2021 compared to the same quarter of 2020. In addition, the increase in the value of food imports also may have been influenced by rising global food prices. According to the FAO food price index, international food prices surged by 28.2 percent in 2021.

On the other hand, the expansion in imports was partially mitigated by the decline in imports of machinery and electrotechnical equipment (-11.1 percent). The latter was likely related mainly to the slowdown in investments recorded during 2021. Meanwhile, exports of goods contracted in 2021, decreasing by Afl. 2.6 million (-4.2 percent).

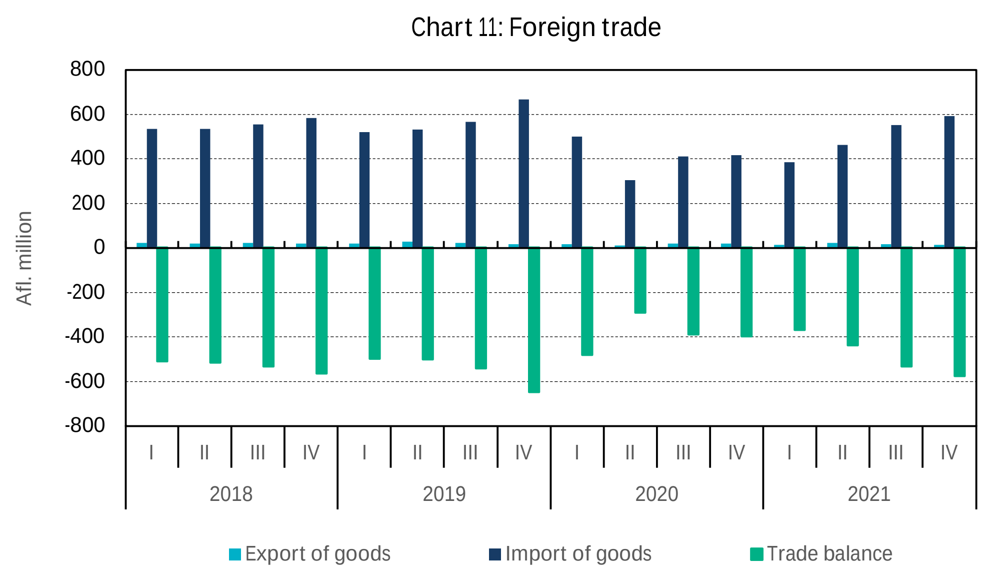
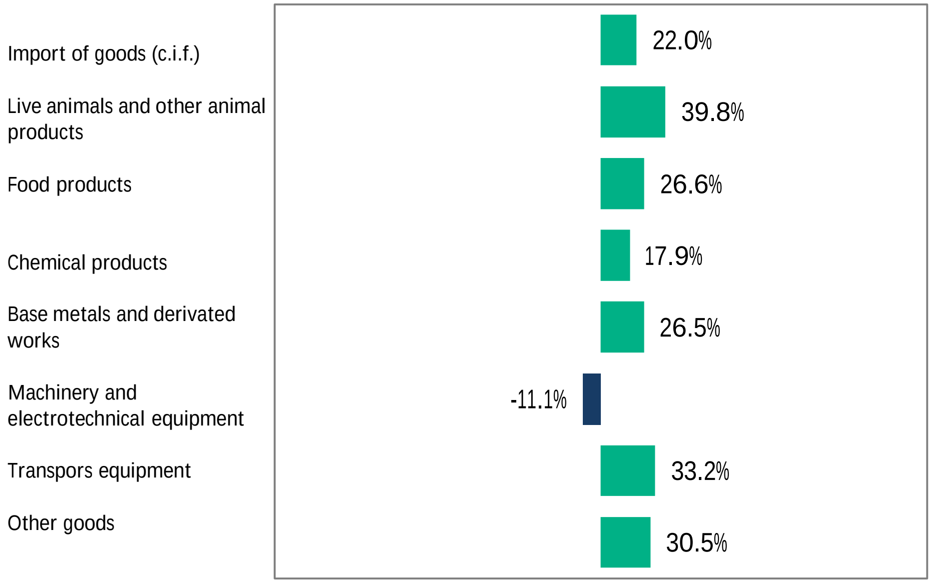


Chart 11: Foreign trade
800
600
400
200
0
-200
-400
-600
-800
Afl. million
I
II
III
IV
2018
2019
2020
2021
Export of goods
Import of goods
Trade balance
Source: CBS

Chart 12: Merchandise trade
(Percentage change YTD December 2021 vs. YTD December 2020)



Source: CBS

Balance of payments[7]

Provisional data for 2021 indicate that international transactions settled through the banking system resulted in an Afl. 830.3 million increase in international reserves (excluding revaluation differences), including a build-up of Afl. 588.0 million in reserve assets (Chart 13). The resulting uptick in the international reserves was primarily driven by the financial account, as it recorded a net inflow of foreign exchange of Afl. 919.1 million during the period under review (2020: Afl. 996.3 million surplus). This net inflow of foreign exchange during the year was largely attributed to the short-term loans received from the Netherlands (registered as 'other investment' in the Balance of Payments) to the Government of Aruba to improve its liquidity position. On balance, other investment reached a net inflow of Afl. 529.8 million in 2021 (2020: Afl. 265.5 million).

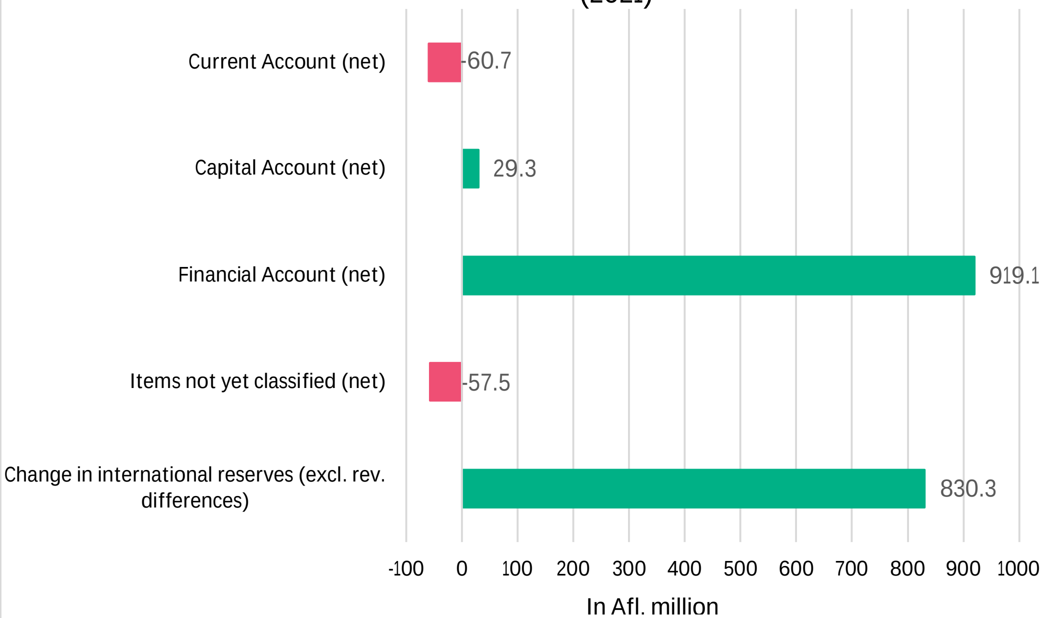
All other components of the financial account, with the exception of 'portfolio investment', logged net inflows of foreign funds during 2021. Specifically, net inflows were registered in three components: direct investment (Afl. 139.1 million), financial derivatives (Afl. 59.2 million), and foreign accounts (Afl. 248.4 million). The latter referred to the net inflow of foreign exchange resulted from the transfers to and from notified foreign bank and intercompany accounts. Direct investment showed a net inflow of funds caused by real estate transactions, while the component of financial derivatives recorded a net inflow due to income related to a hedging contract. On the other hand, the portofolio investment account had a net outflow of foreign funds of Afl. 57.4 million associated with government bond repayments. Moreover, the capital account noted a net inflow of Afl. 29.3 million, caused by humanitarian aid received from the Netherlands for the Red Cross Aruba.

On the flip slide, the current account transactions led to an Afl. 60.7 million net outflow of foreign exchange during 2021. This net outflow is the result of tourism credits not fully

[7] International transactions through the banking system.

mitigating the outflow of foreign exchange related to the import of goods and to income payments. Tourism services recorded a net inflow of Afl. 1,988.1 million in 2021, i.e., an increase of Afl. 948.1 million compared to 2020. Meanwhile, the import and export of goods resulted in a net outflow of Afl. 1,675.1 million. This net outflow was Afl. 306.5 million higher than that in the previous year, and is likely related to the ongoing tourism recovery that created a greater demand for imported products.

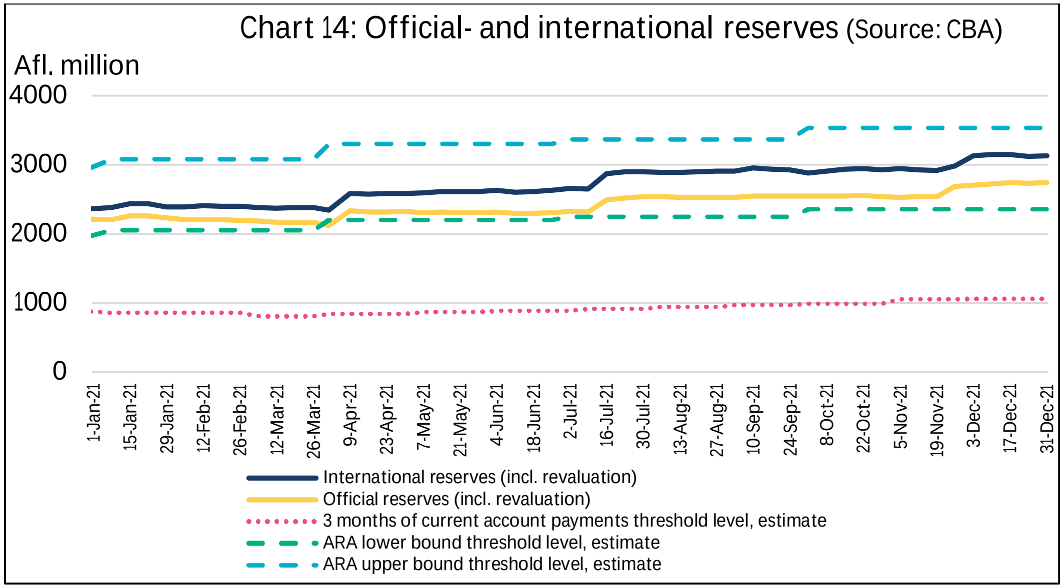
Chart 13: International transactions through the banking system (2021)



Monetary survey

Broad money climbed from Afl. 4,797.4 million at the end of December 2020 to Afl. 5,368.1 million at the end of the fourth quarter of 2021. Broad money — the amount of money circulating in the Aruban economy — increased because net foreign assets (NFA) surged by Afl. 828.4 million, while net domestic assets contracted by Afl. 257.7 million. The main drivers of growth in international reserves throughout 2021 were the short-term loans received by the Government of Aruba (GoA) for liquidity purposes from the Dutch government. These were complemented by inflows related to tourism services. Consequently, the level of international reserves covered 9.0 months of current account payments, significantly above the 3-months threshold monitored by the CBA (Chart 14). Official reserves also remained within the optimal bandwidth[8] of the IMF's Assessing Reserve Adequacy (ARA) metric, registering 115.5 percent at the end of the fourth quarter of 2021.

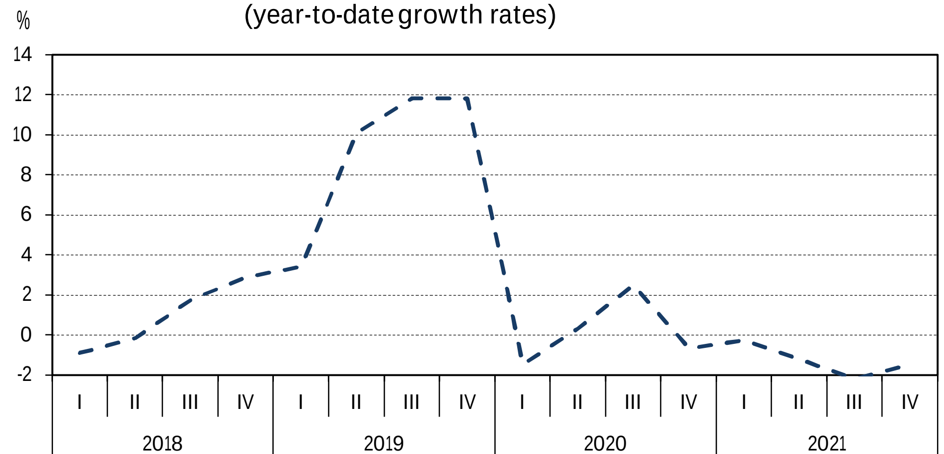
[8] The optimal bandwidth is a level of official reserves that lies between 100 and 150 percent of the IMF ARA metric.



The decrease in net domestic assets was caused mainly by an Afl. 150.8 million downturn in domestic credit. Domestic credit fell mainly due to lower gross claims on the public sector (Afl. 110.8 million), and to a lesser extent as a result of reduced gross claims on private sector (Afl. 47.4 million). The latter in turn was related mainly to a dip in credit to individuals (Afl. 25.0 million). Moreover, the drop in domestic credit also is explained by a decrease in credit to private enterprises (Afl. 22.4 million) (Chart 15).Credit to individuals fell because of decreased consumer credit (Afl. 51.4 million). In contrast, housing mortgages increased by Afl. 26.2 million (Chart 16). Furthermore, net domestic assets were pushed downwards by the drop in non-credit related balance sheet items (other items, net: Afl. 106.9 million). This drop was mostly the result of an appreciation in shareholders' equity of commercial banks (Afl. 105.9 million).

The aggregated balance sheet of the nonmonetary financial institutions (NMFIs) reached Afl. 7,002.2 million at the end of December 2021 – an increase of Afl. 309.8 million compared to the end of December 2020. Since domestic claims remained more or less flat, this balance sheet increase mostly was related to an upturn in foreign assets (Afl. 202.6 million). Furthermore, other domestic claims[9] rose by Afl. 113.7 million, which also contributed to the balance sheet hike. Other domestic claims expanded mainly due to an appreciation in other domestic assets (Afl. 50.5 million), as well as an increase in investments of NMFIs through local commercial banks of Afl. 33.6 million.

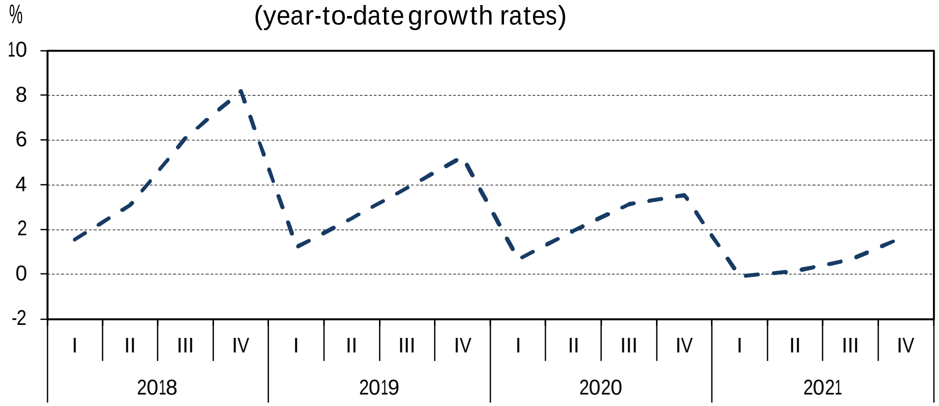
Chart 15: Loans to enterprises from commercial banks
(year-to-date growth rates)



Source: CBA

[9] Other domestic claims of NMFIs include cash and deposits, investments through domestic deposit money banks, investments and loans between NMFIs, fixed assets, and other assets.

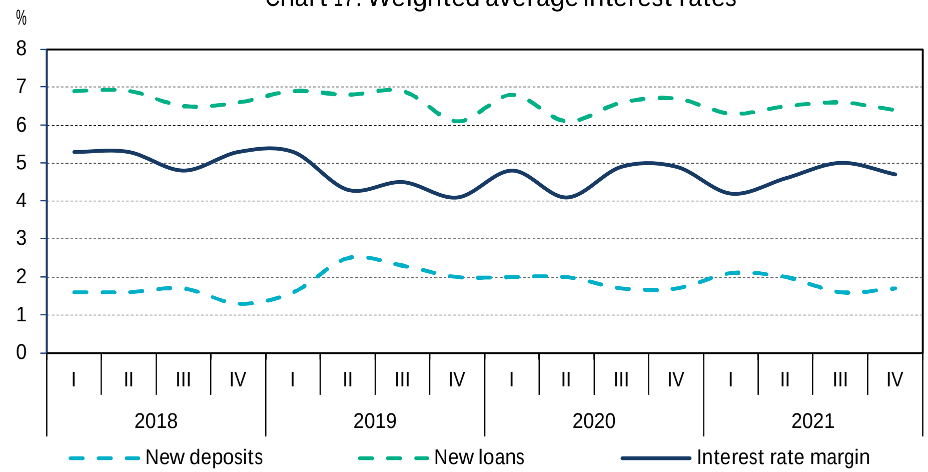
Chart 16: Housing mortgages from commercial banks
(year-to-date growth rates)



Source: CBA

The interest rate margin of commercial banks stood at 4.9 percent in the fourth quarter of 2020 and remained so in the fourth quarter of 2021 (Chart 17). This was the result of the weighted average rate of interest on new loans edging down from 6.7 percent in the fourth quarter of 2020 to 6.5 percent in the fourth quarter of 2021, while the weighted average interest rate on loans decreased slightly (0.1 percentage point). The former was driven by housing mortgages and other commercial loans (including current account facilities). The components that brought about the minute change in the rate on new deposits are time deposits with a duration equal to or smaller than 12 months, those with a duration of more than 12 months, and savings deposits.

Chart 17: Weighted average interest rates



Source: CBA

Available financial soundness indicators imply that Aruban commercial banks were sound during 2021. The capital adequacy ratio rose by 3.7 percentage points to 37.0 percent at the end of December 2021. In all, the observed ratio amply surpassed the required minimum, which widened from 14.0 percent to 16.0 percent on September 1, 2021. Concurrently, commercial banks' aggregated prudential liquidity ratio (PLR) expanded by 4.3 percentage points to 38.0 percent, from 33.7 percent at the end of December 2020. It remained substantially higher than the minimum required PLR, which increased from 15.0 percent to 18.0 percent on September 1, 2021. Nonperforming loans (NPLs) fell by 0.3 percentage point to 4.7 percent at the end of December 2021, perhaps due to improved economic conditions. The lower NPLs are reflected in bank profitability, as return on assets (before taxes) (+1.6 percentage points) and return on equity (before taxes) (+10.3 percentage points) improved, compared to their respective values at the end of December 2020.

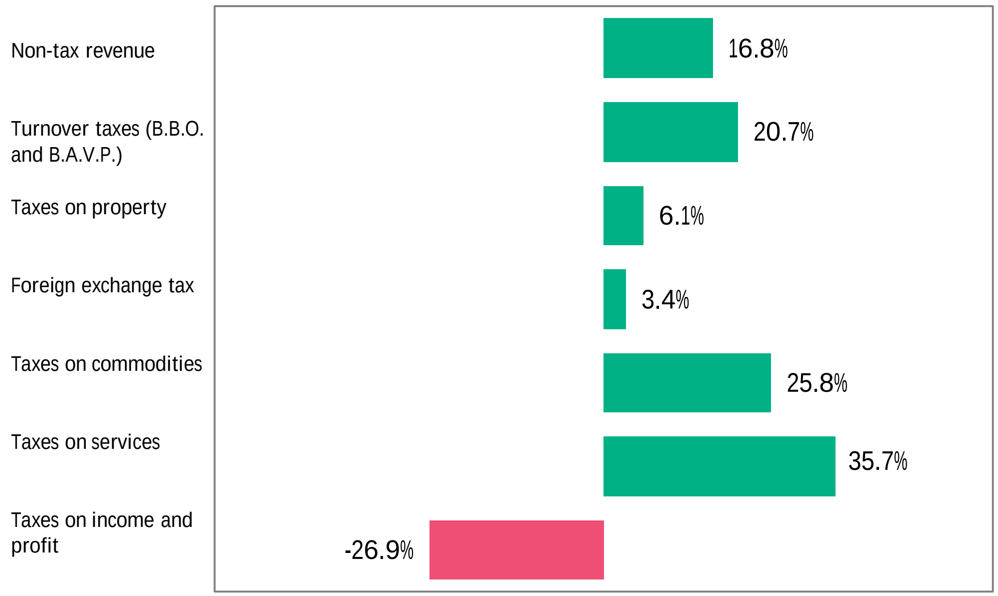
Government

Government finance data for 2021 revealed that the financial deficit narrowed to Afl. 475.2 million from Afl. 813.6 million in 2020. While still large, the relatively smaller deficit is a reflection of the economic recovery gaining momentum as of the second quarter of 2021. This outturn resulted primarily from a sharp decline in government expenditure (-Afl. 314.4 million), stemming from reduced transfers and subsidies related to government support programs and in transfers to the general health insurance. Furthermore, government revenues rose by Afl. 24.5 million, spurred primarily by increased demand for imports and commodities.

Government revenues inched up to Afl. 1,086.7 million (+2.3 percent) in 2021 from Afl. 1,062.2 in 2020. This was largely brought about by an expansion in non-tax revenue receipts of Afl. 21.0 million (+16.8 percent), while tax revenues grew by Afl. 3.5 million (+0.4 percent) (Chart 18). Almost all tax components recorded income hikes, as the economic recovery accelerated with the improved performance of the tourism sector in the last three quarters of 2021. One exception was revenue for taxes on income and profit (-Afl. 104.7 million), brought about largely due to the contraction in profit tax income (-Afl. 55.0 million). The decline in profit tax collected in 2021 reflected profits of 2020. Furthermore, revenues from wage tax and income tax fell by, respectively, Afl. 29.0 million and Afl. 20.7 million. The drop in receipts from wage tax and income tax was attributed to the lowering of the wage and income tax rates by the GOA, as part of its tax reform plans and of the fiscal relief response to increase disposable income to help compensate for the loss in income due to COVID-19. The reduction in these tax rates partially lessened tax revenue collections in this component, as did the loss in income due to COVID-19. Additionally, the redemption of pension in 2020 led to incidental income and wage tax revenue, which was no longer the case in 2021. Taxes on commodities rose by Afl. 61.6

million (+25.8 percent), mainly as a result of an Afl. 29.3 million increase in import duties collected. Furthermore, the remainder of the tax components all recorded revenue expansions: turnover tax +Afl. 31.1 million (+20.7 percent), taxes on property +Afl. 5.7 million (+6.1 percent), taxes on services +Afl. 8.5 million (+35.7 percent), and the foreign exchange tax +Afl. 1.4 million (+3.4 percent).

Chart 18: Government revenue
(Percentage change YTD December 2021 vs. YTD December 2020)



Source: Tax Collector's Office

Government expenditures (including lending minus repayments) fell from Afl. 1,860.9 million in 2020 to Afl. 1,546.4 million (-16.9 percent) in 2021. The reduction in government outlays was due to decreased spending on all components except for interest expenses (Chart 19). Interest expenses grew by Afl. 6.3 million (+2.6 percent) due to new government debt issued in 2020. Government subsidies and transfers contracted by Afl. 178.7 million (-30.3 percent), mainly attributable to lower demand for government financial assistance in the second and third quarters of 2021 and the cessation of this assistance during the last quarter of 2021. The drop in personnel costs (-Afl. 15.8 million) pointed to the 12.6 percent cut in civil servant wages since May 1, 2020. The government also spent less on investments (Afl. 19.1 million) and goods and services (-Afl. 40.6 million). Furthermore, transfers to the AZV declined by Afl. 66.5 million (54.2 percent), reflecting regained income by the AZV as the economy recovered, as well as expenditure measures implemented by the AZV.

Chart 19: Government expenditures
(Percentage change YTD December 2021 vs. YTD December 2020)

Source: Tax Collector's Office

Government debt expanded by Afl. 506.8 million to Afl. 5,652.5 million at the end of 2021 compared to December 2020, as the debt burden continued to grow due to the COVID-19 pandemic. Foreign debt rose by Afl. 591.8 million as a result of short-term loans received in 2021 from the Netherlands in response to the COVID-19 pandemic. During 2021, the GOA received Afl. 489.0 million in short-term loans from the Netherlands. Short-term loans obtained since 2020 could pose a significant challenge for government finances in the medium-term when these loans mature. Meanwhile, domestic debt fell by Afl. 84.9 million, caused by a decrease in outstanding government treasury bills and government bonds. In 2021, the share of foreign government debt continued its steady ascent to 62.7 percent. The share of government foreign debt has risen continuously as of the second quarter of 2020 (2020 Q2: 55.3 percent), as the government began receiving short-term loans from the Netherlands. The estimated debt-to-GDP stood at 108.7 percent at the end of the period under review.

II. International developments

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

Indicator	2021e	2022f	2023f
World	5.5	4.1	3.2
United States	5.6	3.7	2.6
Euro Area	5.2	4.2	2.1
Latin America and the Caribbean	6.7	2.6	2.7

Source: World Bank

e = estimate; f = forecast

Global growth is estimated to have surged to 5.5 in 2021, as a relaxation of pandemic-related lockdowns in many countries helped boost demand [10] (Table 2). Nonetheless, an emergence of COVID-19 variants and supply bottlenecks weighed down global activity in the second half of 2021. Global trade rebounded along with the increase in economic activity. Moreover, goods trade has experienced a swift recovery, while service trade has firmed up, but is still lagging. Inflationary pressures across the world have intensified due to the rebound in demand, supply disruptions, and rising food and energy

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

prices. The latter has led various central banks to unwind their accommodative monetary policies. Consequently, the potential for rising interest rates can exacerbate debt-related risks, as government spending in response to the pandemic has led to record high debt-to-GDP levels. Growth is projected to decline to 4.1 percent in 2022, resulting from continued COVID-19 outbreaks, reduced fiscal support, and persistent supply bottlenecks. In 2023, growth is expected to decline further to 3.2 percent, due to depleting pent-up demand and continued slowdown of supportive macroeconomic policies.

Growth in advanced economies is estimated to have reached 5.0 percent in 2021, although it weakened in the latter half of 2021. The lower growth was due to a resurgence in the pandemic, widespread supply constraints, and rising inflation. A recovery of demand, supply constraints, and commodity price increases contributed to inflationary pressures in most countries. Economic activity in the United States was soft in the second half of 2021, as private consumption and manufacturing production slowed down. In addition to previously mentioned causes, a waning boost to incomes from pandemic-related fiscal support contributed to these slowdowns. As such, U.S. output is estimated to have expanded by 5.6 percent in 2021.

Growth in the emerging market and developed economies (EMDE) is estimated to have rebounded at 6.3 percent in 2021. The latter resulted from a pick-up in domestic demand driven by a recovery in labor markets, robust external demand, and resilient remittances. However, the rebound in growth last year was not sufficient to return output to 2019 levels in many EMDEs. In China, growth decelerated more than expected, as mobility restrictions related to the pandemic and regulatory curbs on the property and financial sectors contained consumer spending and residential investment. Nonetheless, manufacturing activity has been generally solid and export growth has picked up. As a result, growth is estimated at 8.0 percent for 2021.

In the Latin America and Caribbean region, it is estimated that growth rebounded by 6.7 percent in 2021. This stemmed from supportive external conditions as well as significant improvements in COVID-19 vaccinations and lower numbers of new cases. Strong growth in key export destinations (the United States and China), high commodity prices, and continued strong remittance inflows to Central American and Caribbean countries supported LAC growth in 2021. The recovery in tourism has been uneven. International arrivals in Mexico and the Dominican Republic have expanded close to pre-pandemic levels, while remaining much lower in most other tourism-reliant Caribbean countries. Inflation has risen across the region, resulting in policy interest rate hikes in various LAC countries.

III. Conclusion

At the end of 2021 the Aruban economy showed signs of recovery driven mainly by the recovery in stay-over visitors. According to Centrale Bank van Aruba estimates, real GDP was expected to grow by 17.9 percent in 2021[11], after contracting by 22.3 percent in 2020. In the fourth quarter of 2021, real GDP grew by 34.1 percent due to strong tourism spending.

Stay-over tourism in Aruba performed well in 2021 compared to 2020, but did not reach pre-pandemic levels. In 2021, numbers of stay-over visitors recovered by 72.1 percent in 2019 terms. In general, hotel reservations in Aruba improved in 2021 compared to 2020. Revenue per available room jumped by 141.9 percent in 2021 compared to 2020, moved by the higher hotel occupancy rate in 2021. During 2021, tourism credit rose by 71.5 percent compared to 2020, reaching a level of Afl. 2,594.4 million at the end of 2021. Cruise tourism to Aruba in 2021 lagged

[11] According to the optimistic scenario in the CBA's Economic Outlook for December 2021.

behind the low performance displayed in 2020. The first cruise ship to arrive in Aruba docked on June 9, 2021.

Inflation in Aruba is trending up, primarily attributed to higher gasoline prices. At the end of the fourth quarter of 2021, end-of-period inflation in Aruba rose by 3.6 percent compared to the fourth quarter of 2020, while the 12-month average inflation rate accelerated to 0.7 percent at the end of December 2021. When excluding the impact of food and energy components on the inflation in Aruba, the resulting end-of-period core inflation amounted to 1.8 percent at the end of December 2021, while the 12-month average core inflation decreased by 0.2 percent. Consumer prices in the USA are rising faster than those in Aruba, creating an improved competitive position for Aruba compared to the United States.

Government finance data for 2021 revealed that the financial deficit narrowed in 2020, as the economic recovery gained momentum in the second quarter of 2021. This outturn was due predominantly to a sharp decline in government expenditures and a rise in government revenues spurred largely by increased demand for imports and commodities. Government debt expanded at the end of 2021 compared to December 2020, as the debt burden continued to grow as a result of the COVID-19 pandemic. Short-term loans received from the Netherlands in response to the COVID-19 pandemic significantly pushed up foreign debt. At the end of 2021, the share of foreign government debt reached 62.7 percent, up from 57.4 percent at the end of 2020. The estimated debt-to-GDP moved from 114.9 percent at end-2020 to 108.7 percent at the end of the period under review.

Provisional data on international transactions settled through the banking system demonstrate that international reserves (excluding revaluation differences) surged by Afl. 830.3 million in 2021. This was driven primarily by the financial account. The capital account noted a net inflow caused by humanitarian aid received from the Netherlands for the Red Cross Aruba. The current account recorded a net outflow of foreign funds during 2021. The resulting net outflow of foreign funds in the current account is the consequence of tourism credits not fully mitigating the outflow of foreign exchange related to the import of goods and income payments.

Broad money climbed from Afl. 4,797.4 million at the end of December 2020 to Afl. 5,368.1 million at the end of the fourth quarter of 2021. Broad money increased because net foreign assets (NFA) surged by Afl. 828.4 million. The main drivers of growth in international reserves throughout 2021 were the short-term loans received from the Dutch government by the Government of Aruba (GoA) for liquidity purposes. These were complemented by inflows related to tourism services. Consequently, the level of international reserves covered 9.0 months of current account payments — significantly above the CBA's benchmark of 3 months. Official reserves also remained within the optimal bandwidth of the IMF's Assessing Reserve Adequacy (ARA) metric, registering 115.5 percent at the end of the fourth quarter of 2021.

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