STATE OF THE ECONOMY

The first quarter of 2021

ABSTRACT

Following an unprecedented 35 percent real GDP plunge in the second quarter of 2020, economic output in the first quarter of 2021 regained ground, yet remained negative at an estimated 19.1 percent compared to the same period of 2020. The Aruban economy pulled through as the tourism sector showed signs of a gradual and steady recovery despite lingering effects of the COVID-19 pandemic. The fall in year-on-year real GDP became less pronounced as of the third quarter of 2020 with the reopening of the borders. The year-on-year real GDP growth in the first quarter of 2021 strengthened by 10.0 percentage points compared to the previous quarter, as tourism spending increased vis-à-vis the fourth quarter of 2020. During the first quarter of 2021, most of the consumption and investment-related indicators contracted compared to the same period a year before. Imports receded as domestic and tourism demand remained sluggish compared to the first quarter of 2020.

Centrale Bank van Aruba

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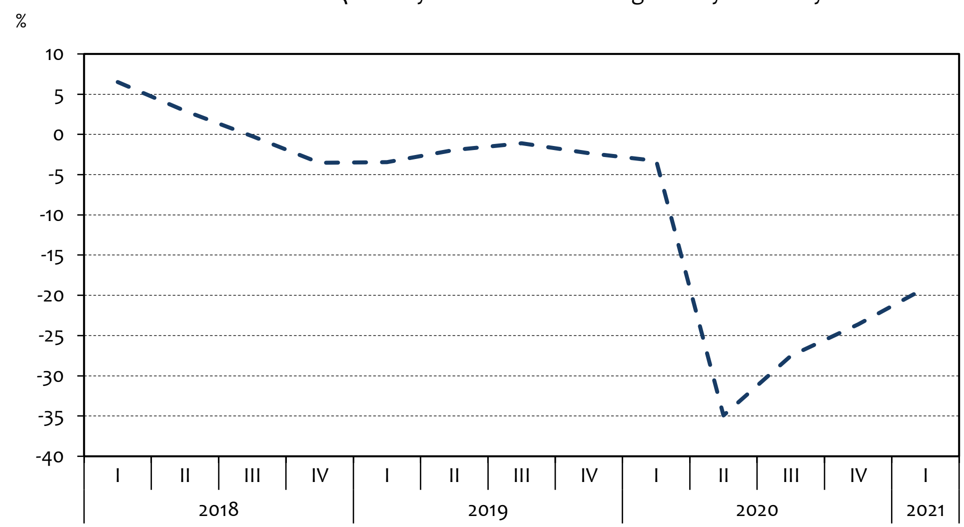
I. Domestic developments[1]

Economic growth

During the first quarter of 2021, the Aruban economy pulled through as the tourism sector showed signs of a gradual and steady recovery despite lingering effects of the COVID-19 pandemic. Despite the recovery in the tourism sector, real GDP contracted by 19.1 percent compared to the first quarter of 2020, as economic disruptions due to COVID-19 were still occurring impacting thereby consumption and investment (Chart 1). A resurgence in infections at the beginning of the year added additional strain on economic activity. Furthermore, this economic retrenchment reflected that in the first quarter of 2020, the effects of COVID-19 were still minimal because the pandemic didn't strike the island until the latter part of March 2020. However, signs of a measured yet consistent economic recovery were noted; the fall in year-on-year real GDP became consistently less pronounced as of the third quarter of 2020 with the re-opening of the borders. In the first quarter of 2021, year-on-year real GDP growth rose by 10.0 percentage points compared to the previous quarter, as tourism arrivals increased vis-à-vis the fourth quarter of 2020 (+18.8 percent). However, consumption and investment indicators remained under pressure as the economy continued to recover amid setbacks and uncertainties related to the COVID-19 pandemic. Imports receded as domestic and tourism demand stayed sluggish compared to the first quarter of 2020.

[1] The cut-off date for information published in this State of the Economy was April 9, 2021.

Chart 1: Quarterly estimated real GDP growth year-over-year



Source: CBA

Tourism

Notwithstanding the ongoing recovery in the tourism sector, tourism activities in the first quarter of 2021 were significantly less than a year earlier. When compared to the first quarter of 2020, total stay-over visitors registered a marked 50.9 percent contraction, while there were no cruise visitors either. This decline reflected the fact that the impact of fewer visitors and the border closure in response to the COVID-19 pandemic only began to materialize towards the end of the first quarter of 2020. Consequently, total tourism credits fell by 45.8 percent compared to the first quarter of 2020 (Table 1). The drop in total stay-over visitors resulted from decreases across all markets: North America (-49.1 percent), Latin America (-66.1 percent), and Europe (-61.7 percent).

Data published by the Aruba Hotel and Tourism Association (AHATA) revealed that in the first quarter of 2021, the hotel sector performance notably worsened compared to the same period in 2020. Given that the tourism sector was still recovering from the impact of the COVID-19 pandemic, revenue per available room (RevPAR) in the first quarter of 2021 plunged by 66.8 percent compared to the corresponding period of 2020. This contraction in the RevPAR was the result of a combination of a 40.9 percentage points downturn in hotel occupancy and a 21.3 percent drop in the average daily rate (ADR).

In the first quarter of 2021, Aruba did not receive any cruise ships with passengers. The absence of ship calls was despite the lifting of the cruise ban by the Centers for Disease Control and Prevention on October 31, 2020. A year earlier, Aruba recorded 98 ship calls and 255,384 cruise passengers.

Consumption

All consumption-related indicators, with the exception of household water consumption, contracted during the first quarter of 2021 compared to the same period a year before (Chart 2). The largest contractions were noted in the following categories: turnover tax (29.0 percent), taxes on commodities (24.0 percent), and merchandise import (23.6 percent). The significant decreases in the mentioned categories were due to the stringent measures (including a full lockdown) imposed by the Government of Aruba to mitigate contagion of COVID-19, the effects of which became apparent in mid-March 2020. Consequently, during the period of January 2020 – March 2020, the values of turnover tax, taxes on commodities, and merchandise import were still largely at pre-crisis levels. Despite the ongoing economic recovery observed in the first

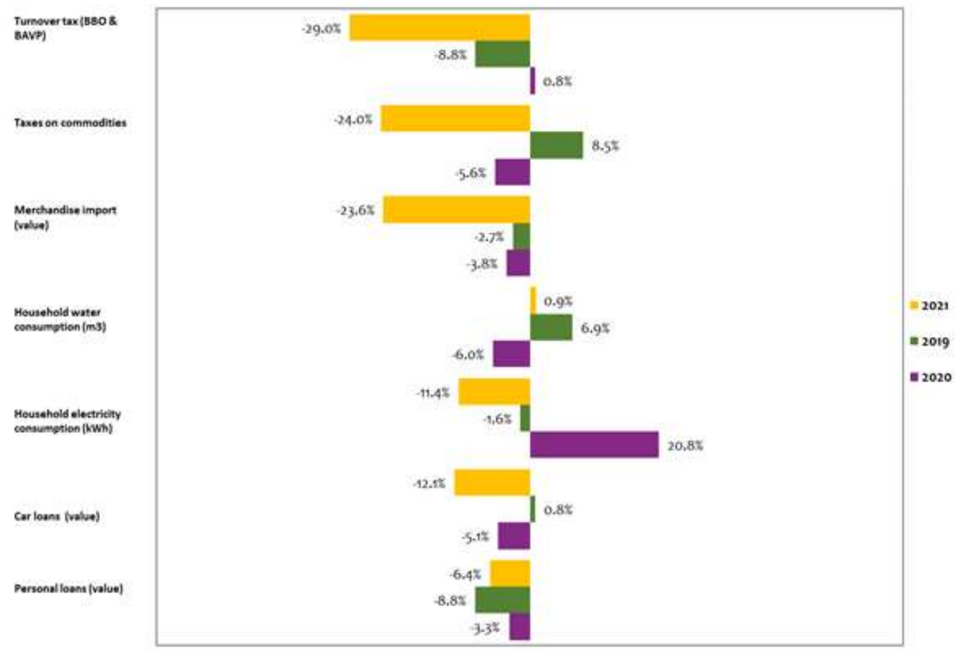
Table 1: Tourism indicators for Aruba
(YTD March 2021 vs. YTD March 2020)

	2020	2021
Stay-over visitors (growth)	-22.2	-50.9
Average length of stay (days)	7.5	8.3
Cruise visitors (growth)	-12.8	-100
Hotel occupancy (%)	70.8	29.9
Average daily rate (US$)	366.8	288.53
Revenue per available room (RevPAR) (US$)	259.84	86.25
Tourism credits (growth)	-6.4	-45.8

Sources: ATA, AHATA, APA, CTO, STR

quarter of 2021, tax collected through the BBO, BAZV, and commodities and merchandise import still did not reach pre-COVID-19 levels.

Chart 2: Consumption-related indicators
(Percentage change YTD March vs YTD March a year prior)



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

Merchandise imports showed declines across all components when comparing the first quarter of 2021 to the same quarter of 2020 (Table 2). In total, imports of goods plummeted by

23.3 percent, due mainly to less import of 'other goods'[2] (12.4 percent), 'machinery and electrotechnical equipment' (3.0 percent), 'live animals and other animal products' (2.6 percent), and 'food products' (2.4 percent). The reduction in the component 'other goods' was mostly the result of a substantial reduction in the import of real pearls (natural) and other precious stones (i.e., 61.1 percent), likely largely influenced by the full absence of cruise tourism. The decline in the import of machinery and electrotechnical equipment was related mainly to the lack of planned large-scale investments in the current year. The lingering demand for food products and live animals and other animal products (i.e., consisting of live animals, meat, fish and seafood, dairy products, and other) was caused primarily by the reduced tourism activity in the first quarter of 2021 compared to the same quarter a year before. Furthermore, Table 2 indicates that the drop in the component 'other goods' was the largest contributor to the fall in imports, accounting for more than half of the decrease (i.e., 53.2 percent). Altogether, the value of import of goods since the outbreak of COVID-19 in Aruba is significantly lower compared to the pre-pandemic period. To be specific, the period of 2019 Q1 – 2020 Q1 registered a quarterly average of Afl. 555.0 million in import of goods, while the period of 2020 Q2 – 2021 Q1 reached an average of Afl. 377.5 million, an average decrease of 32.0 percent.

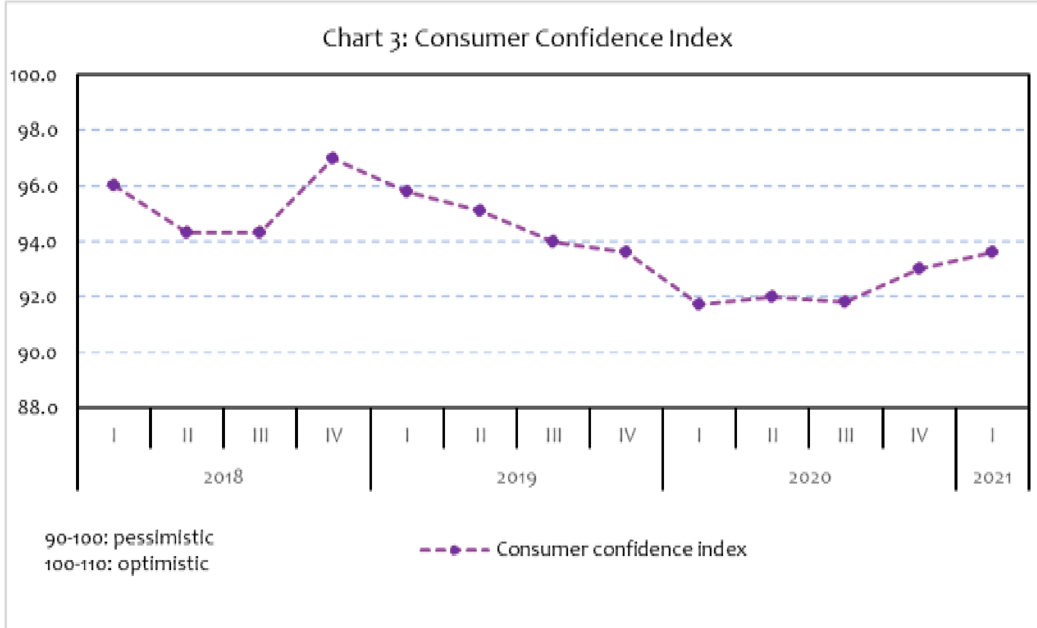
[2] The component "other goods" includes vegetable products, fats and oils, mineral products, artificial plastic elements, skins, hides, leather and peltry, wood, charcoal, and woodwork, materials for the manufacture of paper, paperwork, textile fibers and articles, footwear, headgear, and umbrellas, 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.

Table 2: Merchandise imports value				
Decomposing percentage change YTD March 2021 vs. YTD March 2020				
	Weight of components in YTD 2020	Percentage change	Percentage point contribution to total percentage change	Share in total percentage change
1. Import of goods (c.i.f.)	100.0%	-23.3%	-23.3%	100.0%
a. Live animals and other animal products	9.1%	-28.5%	-2.6%	11.1%
b. Food products	13.4%	-17.7%	-2.4%	10.2%
c. Chemical products	10.2%	-5.5%	-0.6%	2.4%
d. Base metals and derivated works	4.4%	-9.9%	-0.4%	1.9%
e. Machinery and electrotechnical equipment	14.9%	-20.4%	-3.0%	13.0%
f. Transport equipment	5.4%	-35.5%	-1.9%	8.3%
g. Other goods	42.6%	-29.1%	-12.4%	53.2%
Source: CBS				

Data on utilities show a decline of 11.4 percent in household electricity consumption, while household water consumption remained virtually unchanged (Chart 2). The contraction in household electricity consumption is due to lower temperatures during the first quarter of 2021 than in the first quarter of 2020. Despite the lagging consumption in household electricity, the number of connections went up by 1.8 percent, indicative that on average, households were consuming significantly less energy compared to the same period a year earlier. Meanwhile, the number of commercial connections contracted by 3.1 percent, reflecting the dampened business activity due to the lingering effects of the COVID-19 pandemic. In general, electricity consumption in KWh went down across all categories (i.e., residential, commercial, large-scale consumers, street lighting, illuminated advertising, churches, and schools) in the first quarter of 2021 compared to the same quarter a year before. Specifically, the total consumption of electricity in KWh diminished by 10.8 percent compared to the first quarter of 2020.

Consumer credit held at the commercial banks declined by 10.2 percent in March 2021 in comparison to March 2020. This trend has been consistent in recent years and most recently is due largely to consumers being cautious in taking on new loans, and commercial banks being more prudent in granting new loans. Specifically, the wide drop observed in 2021 reflects a larger sum of principal being repaid vis-à-vis new demand for consumer credit. All components of consumer credit showed significant declines during the period under review: personal loans (-6.4 percent), car loans (-12.1 percent), credit cards (-9.8 percent), and other (-21.1 percent) (Chart 2). The decreased demand in consumer credit is in line with reported sentiments in the CBA's Consumer Confidence Survey (CCS). During the first quarter of 2021, 72.0 percent of the respondents indicated that buying a car was not suitable, while 67.0 percent reported that taking out a loan was not appropriate.

The Consumer Confidence Index (CCI) exhibited relatively less pessimistic consumers in the first quarter of 2021 than in the same quarter in 2020 (Chart 3). In general, the CCI has been trending upwards since the third quarter of 2020, indicative of improved sentiments among consumers as the present situation index and the future expectation index rehabilitated. However, the CCI average for 2020 Q1 – 2021 Q1 was 92.4, well below the average of 95.0 observed in the pre-pandemic period (2018 Q1 – 2019 Q4). This finding is in line with the sluggish consumption indicators in Chart 2.



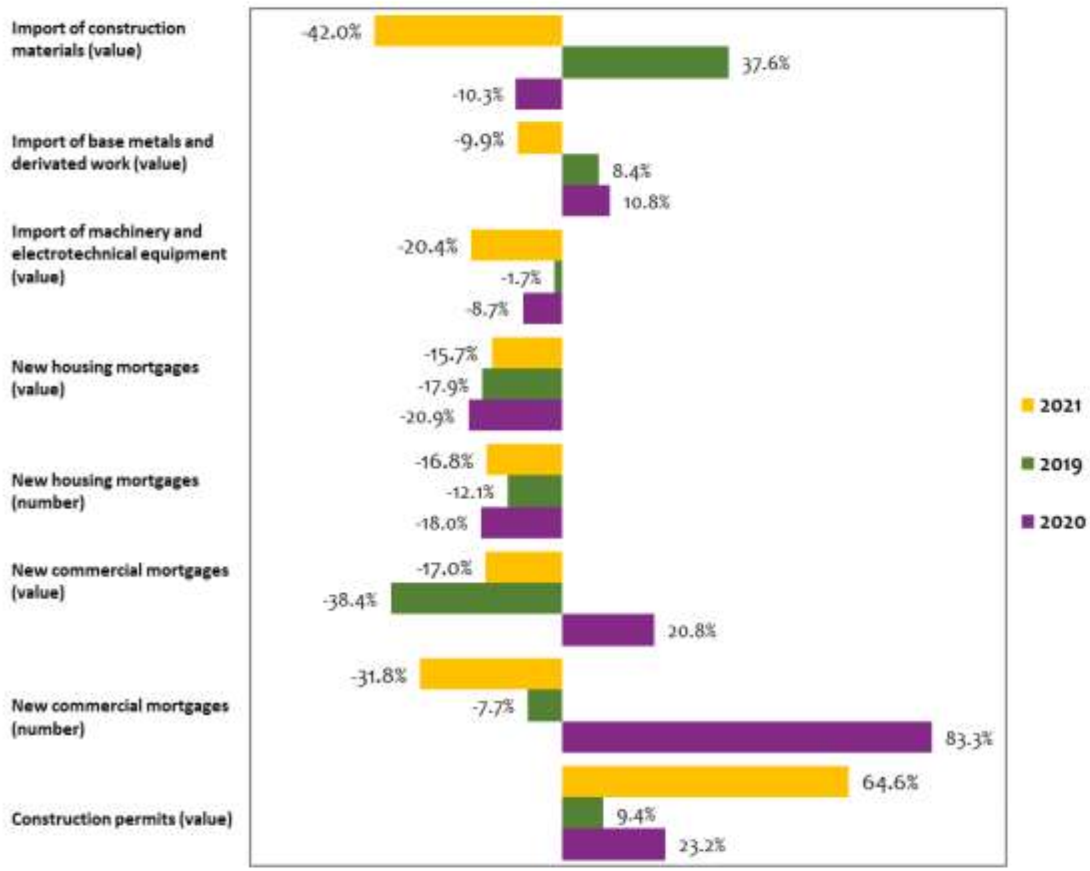
Investment

The majority of the imported investment-related indicators exhibited decreased activity during the first quarter of 2021. The value of construction materials as well as that of machinery and electrotechnical equipment decreased by 42.0 percent and 20.4 percent, respectively (Chart 4). The same observation holds for the import of base metals and derivated work, which registered a contraction of 9.9 percent during the period under review. In addition, the mentioned indicators declined more rapidly compared to the same period a year earlier. The observed findings resulted from no new large-scale investment projects being initiated in the first quarter of 2021, mainly as a result of the lingering uncertainties brought on by the COVID-19 pandemic.

On the other hand, the data on the value of construction permits showed heightened investment activities (Chart 4). Specifically, the value of construction permits rendered an expansion of 64.6 percent in the first quarter of 2021 compared to 2020, a jump more than double that of the previous year. This increase was mostly the result of a surge (488.1 percent) in the value of construction permits for apartments. However, this significant spike must be interpreted with caution as a permit does not necessarily indicate actual investment expenditures flow during the period.

Data from the commercial banking sector also indicate stagnated investment activities as both the value and the number of new commercial mortgages in March 2021 deteriorated compared to March 2020 (Chart 4). Along the same lines, the value and number of new housing mortgages fell compared to the same period in the previous year. The downturns observed in commercial and housing mortgages are most likely related to the uncertainty provoked by the COVID-19 crisis and the subsequent sluggish demand. The development in housing mortgages is reflected also in the results of the CCS, as almost 62.0 percent of the participants indicated that taking out a mortgage was unsuitable.

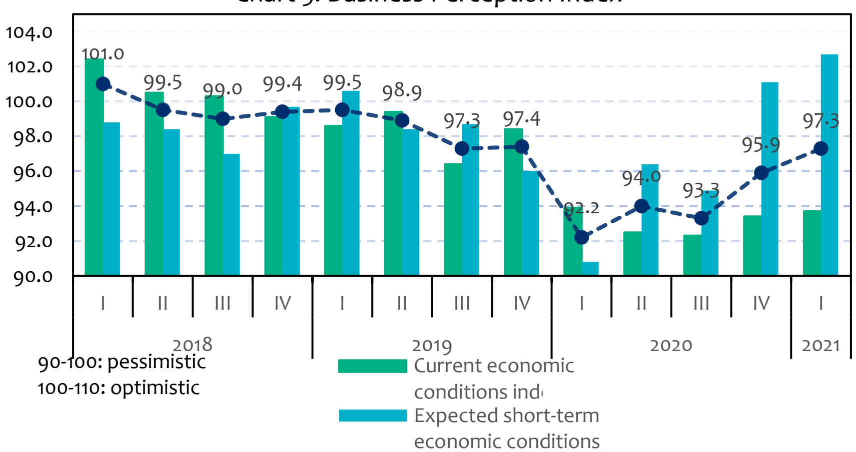
Chart 4: Investment-related indicators
(Percentage change YTD March vs YTD March a year prior)



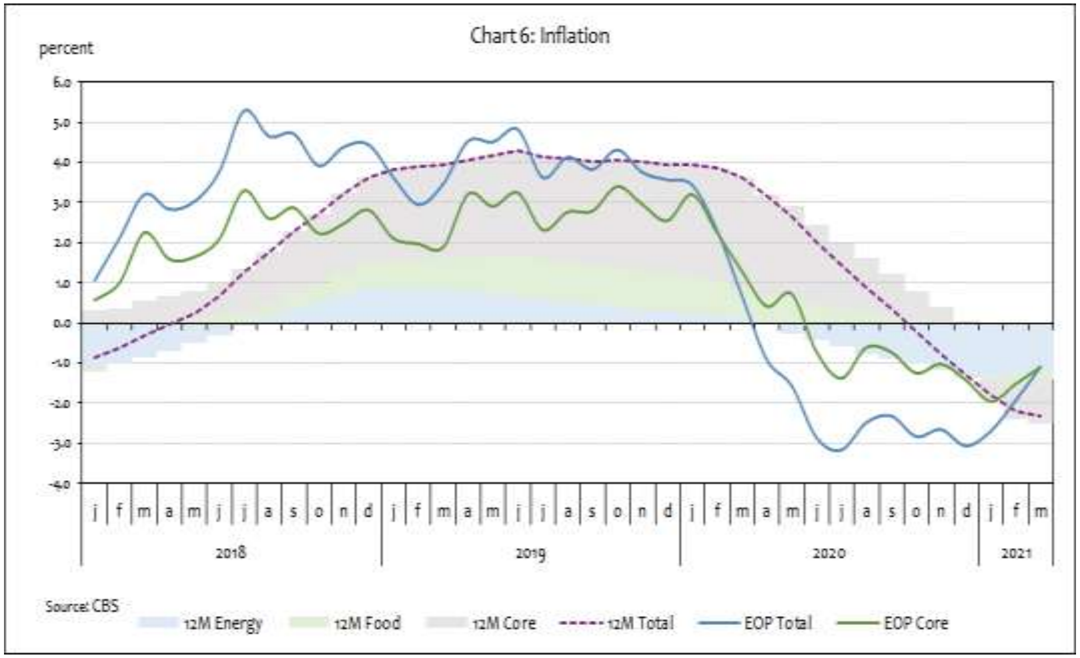
Sources: CBA, CBS, DOW

Meanwhile, the Business Perception Index (BPI) improved significantly during the first quarter of 2021 (Chart 5). The BPI edged up to 97.3 points compared to 92.2 points registered during the same quarter a year earlier. In general, this improvement is due to improvements in the expected short-term economic conditions index as it rose to 102.7 points in the first quarter of 2021 compared to 90.8 points in the first quarter of 2020. However, the BPI still remained below the neutral benchmark (100 points). Moreover, the BPI average since the start of the pandemic (i.e., average BPI of 94.5 observed during 2020 Q1 – 2021 Q1) is lower than the period before the COVID-19 pandemic (i.e., average BPI of 99.0 noted during 2018 Q1 – 2019 Q4). The BPI contracted significantly during the first quarter of 2020, as Aruba faced the COVID-19 mid-March and the uncertainties carried by the ongoing pandemic were extremely high. In general, the BPI gradually improved in the second quarter (94.0 points) and the fourth quarter (95.9 points) of 2020. These improvements were the result of boosted sentiments in the sectors of hotels and restaurants, manufacturing, and transport, storage, and communication.

Chart 5: Business Perception Index



Consumer Price Index (CPI)



The 12-month average CPI inflation continued its downward trajectory since November 2019, falling to -2.3 percent at the end of March 2021 (Chart 6). The deflation was due mainly to the energy component, which pushed inflation down by 1.2 percentage points in March 2021. The drop in the energy component resulted both from the January 2020 cut in the electricity tariff, which also affected the housing component and lower gasoline prices, which impacted the transport component.

Other components that also pushed down inflation were household operation (-0.4 percent), food (-0.2 percent), clothing and footwear (-0.2 percent), recreation and culture (-0.2 percent), as well as miscellaneous goods and services (-0.1 percent). These decreases were partially mitigated by increases in restaurants and hotels (+0.1 percent) and miscellaneous goods and services (+0.1 percent).

Regarding the 12-month average core inflation, i.e., the aggregated items in the CPI basket excluding food and energy, a negative (-0.9 percent) contribution to the 12-month average inflation was observed in March 2021.

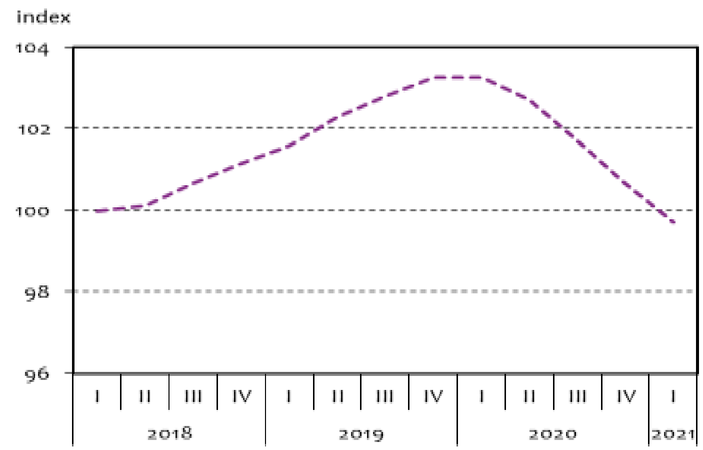
The end of period (EOP) inflation amounted to -1.1 percent at the end of March 2021, after following an upward trend as of January 2021 (Chart 6). The components recreation and culture (-0.5 percent), clothing and footwear (-0.4 percent), food (-0.3 percent), health (-0.1 percent), restaurant and hotels (-0.1 percent), as well as miscellaneous goods and services added deflationary pressures to inflation. These were partially offset by upwards pressure from the housing (+0.1 percent) and transport (+0.1 percent) components.

The EOP core inflation registered –1.1 percent at the end of March 2021, matching total EOP inflation for the month under review.

International competitiveness

The real exchange rate of the Aruban florin vis-à-vis the U.S. dollar continued its downward trend in the first quarter of 2021 (Chart 7). This descending trend started in the second quarter of 2020 and indicates an improved competitive position of Aruba compared to the United States, as the Aruban inflation rate declined while that of the United States trended upwards **(Chart 8)**. The 12-month average U.S. inflation for March 2021 stood at 1.2 percent, mainly pushed up by the food component recording a 3.9 percent increase. In contrast, Aruba's 12-month inflation was -2.3 percent in March 2021, depressed by lower prices in the energy component, which recorded a deflation of 1.2 percent. The mentioned developments led to an improved competitive position for Aruba in comparison to the United States.

Chart 7: Real exchange rate Aruban florin vis-à-vis the U.S. dollar (2017=100)



Source: CBA

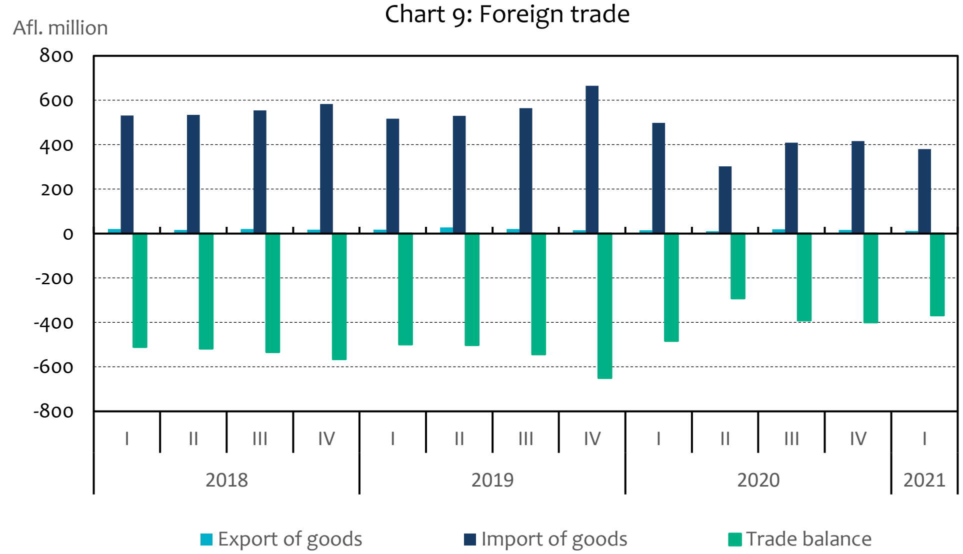
Chart 8: Inflation differential Aruba - USA:
12-month average inflation (2021)

Calculations: CBA

Foreign trade

Aruba's trade deficit reached Afl. 367.9 million in the first quarter of 2021, a narrowing of 23.8 percent compared to the same quarter in 2020 (Chart 9). The smaller trade deficit resulted from imports falling significantly more than exports. Imports receded by Afl. 117.5 million (23.6 percent) due to the impact of the COVID-19 pandemic and the related containment measures on economic activity. The export of goods recorded an Afl. 2.9 million contraction. The downturns were related mostly to Aruba's largest trading partner, the United States, with reductions of Afl. 77.4 million and Afl. 2.2 million in imports and exports, respectively.

Chart 9: Foreign trade



Source: CBS

Balance of payments

The current account of the balance of payments recorded an Afl. 55.9 million deficit in the first quarter of 2021 (Table 3). Despite the receipts from tourism export surpassing import payments of goods, a deficit was recorded because (a) primary income paid to nonresidents was larger than that generated by residents and (b) secondary income payments (such as worker remittances and tax transfers) were larger than inbound income of the same kind. As a result of the tourism credit rebound, the trend of narrowing current account deficits seen since the third quarter of 2020 (see Chart 10) extended to the first quarter of 2021.

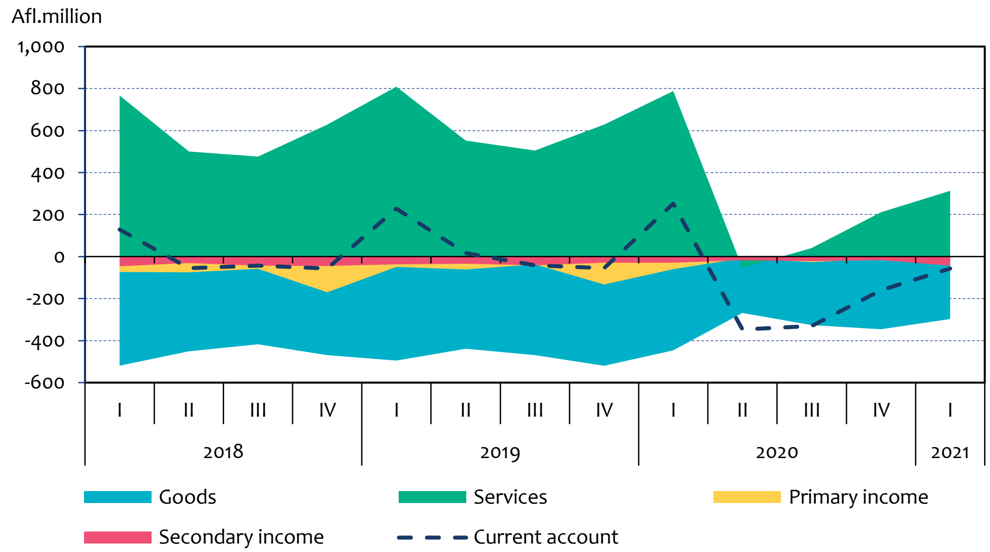
Table 3: Balance of payments (in Afl. Million)

	2020Q1	2021Q1
Current account	252.1	-55.9
Goods	-445.8	-296.0
Services	787.4	312.6
Primary income	-60.2	-28.8
Secondary income	-29.4	-43.7
Financial account	251.2	-30.6
Direct investment	-27.9	-56.9
Portfolio investment	53.5	50.5
Financial derivatives	-3.0	-6.9
Other investment	162.9	19.6
Reserve assets	65.7	-36.8

Source: CBA

Despite a narrowing current account deficit, the outcome of the first quarter of 2021 is a turnaround from an Afl. 252.1 million surplus in the same quarter of 2020. This turnaround in the current account balance was spurred primarily by a plunge in tourism credit (Afl. 468.7 million) and, thus, was reflected in the services account following the COVID-19-related travel restrictions. However, since import payments decreased by Afl. 166.4 million, the goods account deficit contracted, thereby partially offsetting the drop in the services account. The lower import payments in turn were related to weakened local and tourist consumption, also due to the impact of COVID-19. In addition, the primary income account deficit shrank by Afl. 31.4 million, thus also mitigating the contraction in the services account. The decrease in the primary income deficit was due mostly to curtailed dividend payments (Afl. 38.1 million) to nonresident shareholders. This decrease was to be expected as a hefty recession in 2020 weighed on business profits, translating to little or no profits sent abroad. Furthermore, dividend payments were restricted as part of the CBA's foreign exchange measures to safeguard the peg in the face of the COVID-19 pandemic.

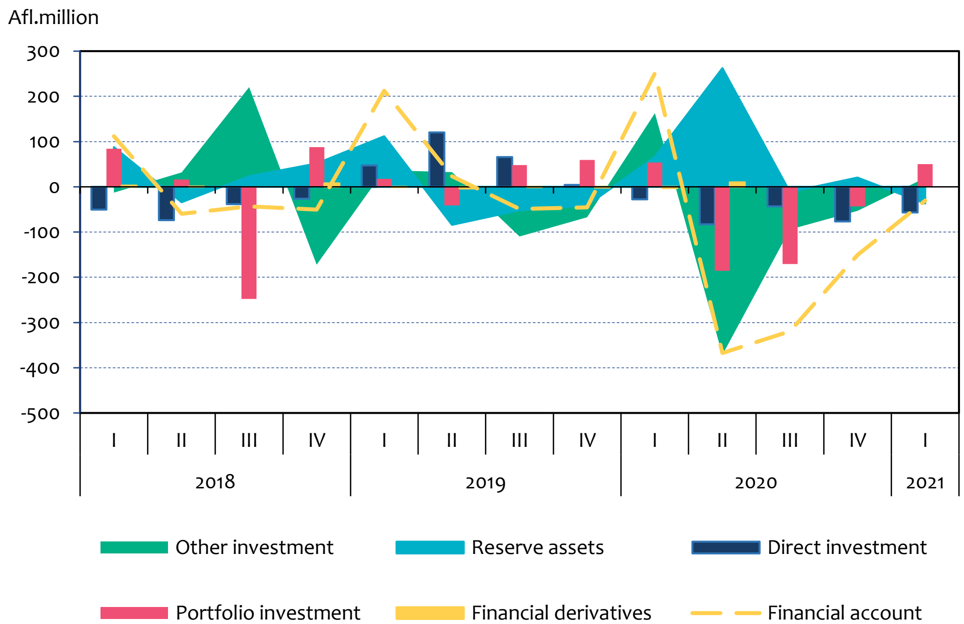
Chart 10: Current account of the balance of payments



Source: CBA

The financial account registered a net borrowing of Afl. 30.6 million in the first quarter of 2021, compared to a net lending of Afl. 251.2 million a year earlier (Chart 11). After peaking in the second quarter of 2020, the amount of net borrowing has declined steadily. The first quarter outcome reflected primarily the Dutch liquidity support of Afl. 71.4 million recorded on the other investment liabilities. Moreover, net inflows from the direct investment account (Afl. 56.9 million) reflected foreigners investing in Aruban real estate (Afl. 31.4 million) and borrowing through debt instruments from foreign affiliates (Afl. 16.4 million). Furthermore, the CBA's reserve assets decreased Afl. 36.8 million, arising mainly from a drop of Afl. 44.7 million in foreign currency and deposits held abroad. However, the net outflows from the portfolio investment account (Afl. 50.5 million) offset some of the mentioned inflows. These outflows were associated largely with foreign debt security investments made by resident companies, mainly financed with their own foreign funds. Likewise, foreign currency and deposits held abroad by residents improved by Afl. 74.1 million.

Chart 11: Financial account of the balance of payments

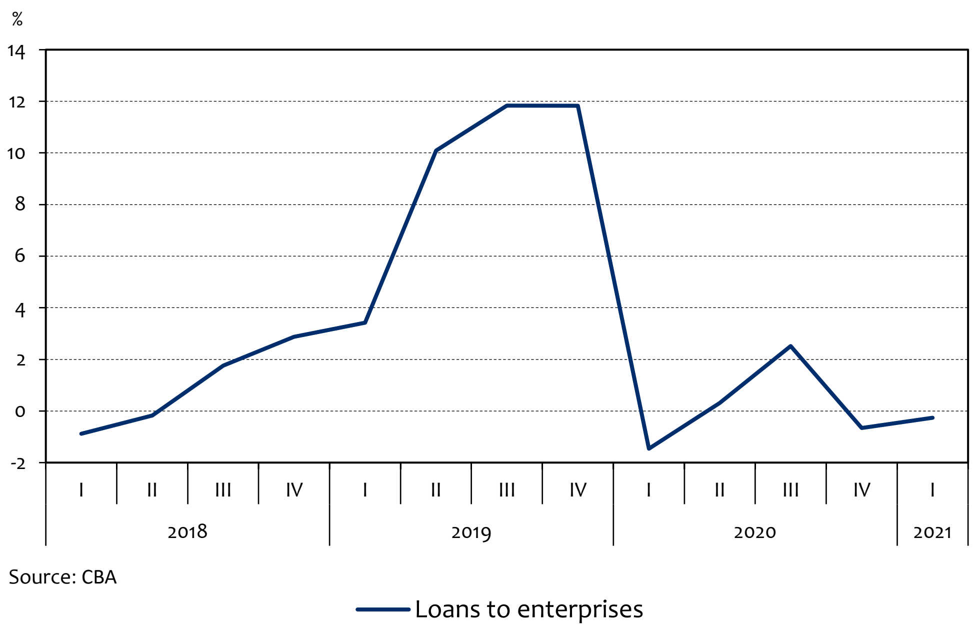


Source: CBA

Monetary survey

Broad money widened by Afl. 60.1 million at the end of the first quarter of 2021 compared to end-2020, reaching Afl. 4,857.5 million. This increase resulted from an Afl. 41.0 million rise in international reserves (excluding revaluation differences) and an Afl. 19.1 million increase in net domestic assets. The hike in international reserves during the first quarter of 2021 was related primarily to the receipt by the GoA of liquidity support from the Netherlands and a net inflow of tourism credits, albeit much smaller than in the previous year due to the impact of the COVID-19 pandemic. In addition, net inbound transfers from resident accounts held abroad contributed to the inflow of foreign funds. Moreover, the slowdown in imports caused by reduced domestic and tourism demand, and outbound capital payment restrictions introduced by the CBA mitigated foreign funds outflows. At the end of the first quarter of 2021, international reserves remained adequate and above the benchmarks monitored by the CBA. The current account coverage ratio rose to 8.3 months of current account payments at the end of March 2021 (7.5 months of current account payments end-2020). In addition, at the end of March 2021, official reserves were in compliance with the IMF Assessing Reserve Adequacy (ARA) metric (102.9 percent).

Chart 12: Loans to enterprises from commercial banks (year-to-date growth rates)

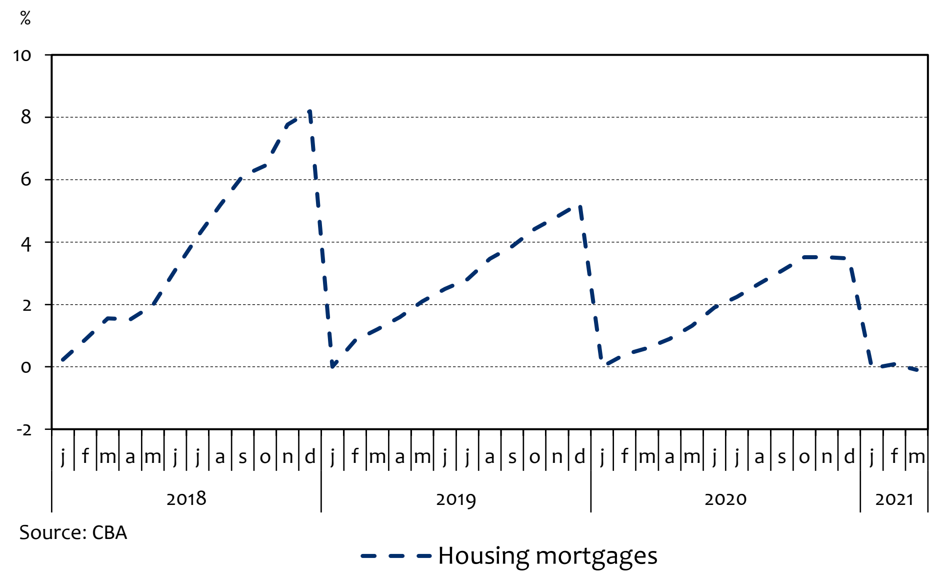


Source: CBA

Net domestic assets grew by Afl. 19.1 million at the end of March 2021 compared to December 2020. The expansion was caused mainly by an Afl. 43.9 million increase in domestic credit, partially offset by an Afl. 24.8 million growth in noncredit-related balance sheet items. The widening in domestic credit resulted from an Afl. 68.5 million hike in the net claims on the public sector, mitigated in part by an Afl. 24.5 million contraction in claims on the private sector. The rise in the net claims on the public sector was due to an Afl. 88.3 million drawing down of government deposits, partially mitigated by a downturn in gross claims on the government (Afl.

19.9 million). Meanwhile, the narrowing of bank claims on the private sector was the result of an Afl. 20.8 million decrease in commercial bank loans to individuals and an Afl. 3.9 million downturn in loans to enterprises (Chart 12). Loans to individuals reflected a fall-off in both consumer credit (Afl. 19.8 million) and housing mortgages (Afl. 1.1 million). The decline in housing mortgages in the first quarter of 2021 was the first after a prolonged period of steady growth, while consumer credit followed the negative trend observed in recent years (Chart 13).

Chart 13: Housing mortgages from commercial banks
(year-to-date growth rates)

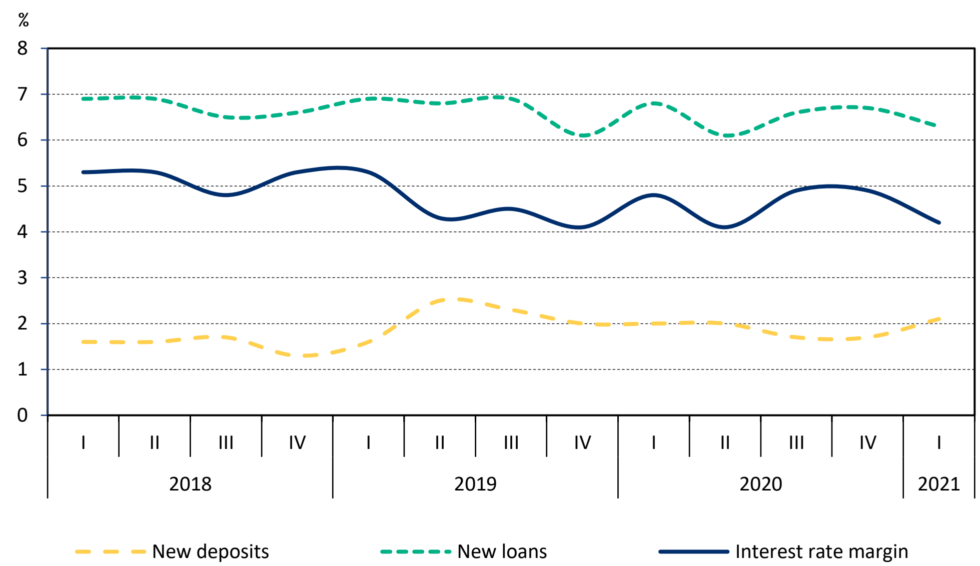


Source: CBA

The aggregated balance sheet of the nonmonetary financial institutions stood at Afl. 6,765.1 million at the end of March 2021, an expansion of Afl. 72.2 million compared to December 2020. The upturn was brought about by increases in foreign assets (+Afl. 42.4 million), other domestic assets (+Afl. 16.2 million), and domestic assets (+Afl. 13.8 million). On the liabilities side, the jump was related to increases in other domestic liabilities (+Afl. 37.5 million), pension fund provisions (+Afl. 16.0 million), and the insurance reserve fund (+Afl. 36.2 million). On the other hand, foreign liabilities shrank (+Afl. 25.3 million) during the first quarter of 2021.

The weighted average interest rate on new loans fell to 6.3 percent at the end of March 2021, down from 6.7 percent at the end of 2020 (Chart 14). The weighted average interest rate edged down in all categories except consumer credit, where it rose by 0.7 percentage point to 9.5 percent. In contrast to the weighted average interest rate on loans, the weighted average interest rate on new deposits climbed to 2.1 percent at the end of the first quarter of 2021, up from 1.7 percent at the end of 2020. This increase was due mainly to higher interest rates on time deposits shorter than 12 months (0.1 percentage point), while the interest rates on both savings deposits and time deposits longer than 12 months edged down by 0.3 percentage point. Consequently, the interest rate margin narrowed by 0.7 percentage point to 4.2 percent at the end of March 2021 compared to 4.9 percent at the end of 2020.

Chart 14: Weighted average interest rates



Source: CBA

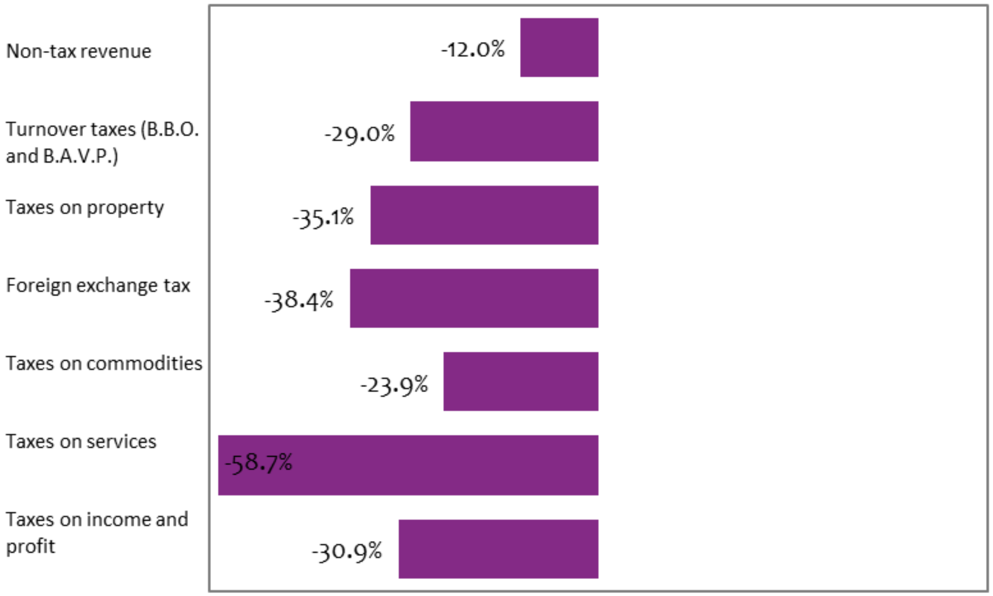
Financial soundness indicators remained adequate in the first quarter of 2021. The capital adequacy ratio rose by 0.5 percentage point to 33.7 percent at the end of the first quarter of 2021, remaining well above the required 14.0 percent. In addition, the commercial banks' aggregated prudential liquidity ratio (PLR) stood at 34.8 percent (minimum required PLR: 15.0 percent), up by 1.1 percentage points from end-2020. Nonperforming loans continued a rising trend since the second quarter of 2020, reaching 6.1 percent at the end of March 2021 (end-2020: 5.0 percent). The notable uptick in nonperforming loans seen in the last two quarters may reflect the winding down of the moratorium on loan repayments introduced by the commercial banks in March 2020. The commercial banking sector recorded positive earnings and profitability during the first quarter of 2021. Return on assets (before taxes) edged up by 0.1 percentage point to 0.4 percent at the end of March 2021, up from 0.3 percent at the end of 2020. Return on equity (before taxes) also went up, rising 0.6 percentage point from 1.8 percent at the end of 2020 to 2.4 percent at the end of March 2021.

Government

Government finance data for the first quarter of 2021 revealed that the financial deficit had widened to Afl. 162.7 million from Afl. 29.1 million in the same period of 2020. This outturn resulted primarily from a sharp decrease in government revenues (-Afl. 92.7 million), reflective of the economic disruption related to COVID-19. Furthermore, government expenditures rose by Afl. 40.8 million as healthcare costs and government support programs related to COVID-19 continued to put pressure on government financial operations.

Government revenues fell to Afl. 223.0 million (-29.4 percent) in the period under review from Afl. 315.6 in the first quarter of 2020. The latter was attributed to a contraction in tax revenue receipts of Afl. 89.6 million (-30.9 percent), while non-tax revenues declined by Afl. 3.0 million (-12.0 percent). All tax components recorded decreases as the impact of COVID-19 continued to bear down on the Aruban economy throughout the first three months of 2021 (Chart 15). A surge in infections at the beginning of 2021 led the Government of Aruba (GOA) to reinstate certain measures to contain the virus, which constrained economic activity. Furthermore, it should be noted that the impact of COVID-19 was minimal during the first quarter of 2020 (the comparison period) since the pandemic didn't strike the island until towards the end of the first quarter. The largest drop in the first quarter of 2021 was registered in the component taxes on income and profit (-Afl. 27.2 million); both wage tax and income tax fell by, respectively, Afl. 16.4 million and Afl. 13.8 million. Moreover, as of January 1st, 2021, the GOA lowered the wage and income tax rates as part of its tax reform plans, as well as part 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 lowered tax revenue collections in this component, in addition to the loss in income due to COVID-19. Taxes on commodities contracted by Afl. 18.7 million (-23.9 percent), mainly related to a drop of Afl. 11.0 million in import duties collected. Furthermore, the remainder of the tax components incurred significant reductions: turnover tax receipts -Afl. 15.9 million (-29.0 percent), taxes on property -Afl. 13.8 million (-35.1 percent), taxes on services -Afl. 8.4 million (-58.7 percent), and the foreign exchange tax -Afl. 5.6 million (-38.4 percent).

Chart 15: Government revenue
(Percentage change YTD March 2021 vs. YTD March 2020)

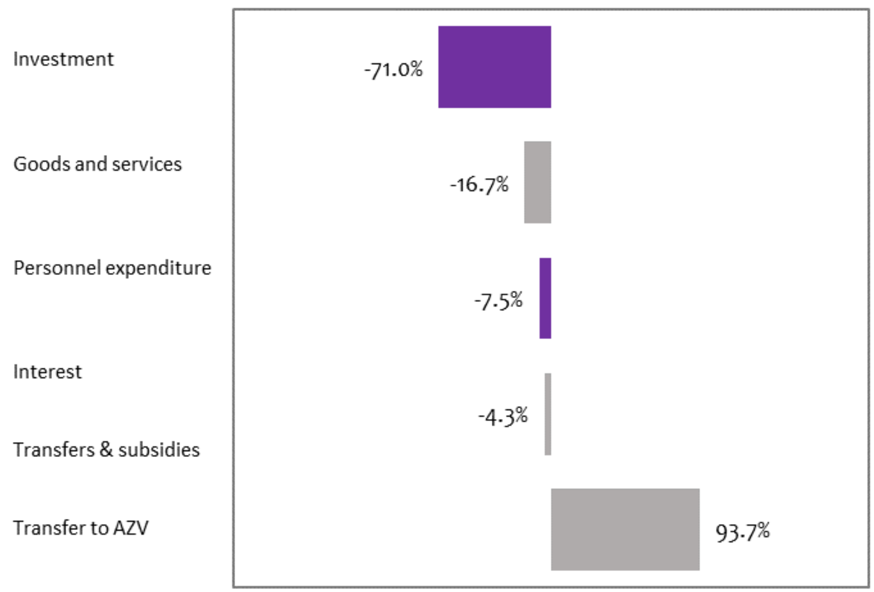


Source: Tax Collector's Office

Government expenditures jumped to Afl. 383.2 (+11.9 percent) in the first quarter of 2021 from Afl. 342.4 in the same period of 2020. The expansion in government outlays was caused by a continuing need for government financial support as the economy remained weak amid persisting COVID-19 effects and a resurgence in COVID-19 cases. Government subsidies and transfers rose by Afl. 50.0 million (+93.7 percent) due mainly to transfers to government financial assistance programs, such as FASE, and transfers to the SVB to offset its loss in premium income (Chart 16). Furthermore, the government transferred Afl. 21.0 million to the

AZV to cover its loss in income and additional healthcare costs related to the COVID-19 pandemic. The growth in government outlays was partially mitigated by reduced personnel costs and lower expenditures on goods and services. The narrowing in personnel costs was attributed mostly to the 12.6 percent cut in civil servant wages as of May 1, 2020, while the narrowing in goods and services was due largely to a decline in electricity costs.

Chart 16: Government expenditure
(Percentage change YTD March 2021 vs. YTD March 2020)



Source: Tax Collector's Office

Government debt increased by Afl. 84.2 million to Afl. 5,229.8 million in the first quarter of 2021 compared to December 2020, reflective of the higher deficits incurred by the GOA. Foreign debt rose by Afl. 68.2 million due to the liquidity support received from the Netherlands under stringent loan conditions in response to the COVID-19 pandemic. During the first quarter of 2021, the GOA received Afl. 71.0 million in liquidity support from the Netherlands, totaling Afl. 490.6 million in loans received up until the end of the first quarter of 2021. The latter poses a significant challenge for government finances in the short-term, as these loans will mature in 2022, thereby putting additional strains on government financing needs next year. Furthermore, domestic debt grew by Afl. 16.1 million caused by a rise in government short-term debt. In the first three months of 2021, the share of foreign government debt continued its steady ascent to 57.7 percent. The share of foreign debt has risen continuously as of the second quarter of 2020 (2020 Q2: 50.3 percent) as the government began receiving liquidity support from the Netherlands. The estimated debt-to-GDP ratio stood at 125.0 percent at the end of the period under review, up from 73.9 percent in the first quarter of 2020.

II. International developments

In its July 2021 Economic Outlook, the IMF maintained its projected 2021 growth of the global economy at 6.0 percent. For 2022, the global economy is projected to grow by 4.9 percent, a 0.5 percentage point upward revision from the January 2021 World Economic Outlook (WEO) forecast. The 2021 forecast remained unchanged from WEO April 2021, but due to differences in pandemic developments and policy shifts, some offsetting revisions had to be made across advanced economies, emerging markets, and developing economies (Table 4).

Table 4: Projections for the world economy and selected economies (Real GDP growth, in percent)

Indicator	2020e	2021f	2022f
World	-3.2	6.0	4.9
United Stat	-3.5	7.0	4.9
Euro Area	-6.5	4.6	4.3
Latin America and the Caribbean	-7.0	5.8	3.2

Source: IMF

e = estimate ; f = forecast

Based on expected normalization in the second half of 2021 as the vaccine rollout proceeds and with additional fiscal support, the growth prospects have been revised up for 2021 – 2022. The significantly improved outlook for the US economy derives from the impact of anticipated legislation boosting infrastructure investment and strengthening the social safety net in the second half of 2021. This legislation is expected to lift the 2021 US GDP growth by 0.3 percentage point and the 2022 US GDP growth by 1.1 percentage points, with positive spillovers to trading partners.

The forecast for emergent market and developing economies has been adjusted downwards to 0.4 percentage point in 2021, mainly because of growth markdowns for emerging Asian economies. China's 2021 forecast has been revised down 0.3 percentage point on a scaling back of public investment and overall fiscal support, while the Latin America and the Caribbean forecast upgrade results mostly from upward revisions in Brazil and Mexico. The upward revision for Brazil and Mexico reflects better than expected first quarter outturns, favorable spillovers to Mexico from the improved outlook for the United States, and booming terms of trade in Brazil. Global trade volumes are projected to expand by 9.7 percent in 2021 and then moderate to 7.0 percent in 2022.

Recent price pressures mainly reflect pandemic-related developments and transitory supply demand mismatches. For 2022, inflation is expected to return to its pre-pandemic ranges in most countries once these disturbances work their way through prices. However, inflation is expected to remain elevated into 2022 in some emerging market and developing economies, related in part to continued food price pressures and lagged passthrough from high oil prices for importers.

Uncertainty surrounding the global baseline remains high, primarily related to prospects of emerging market and developing economies. Better global cooperation on vaccines could help prevent renewed waves of infections and emergence of new variants. Such cooperation also could help end the health crisis sooner and allow for faster normalization of activity, particularly among emerging market and developing economies. If logistical hurdles in procuring and distributing vaccines in emerging market and developing economies lead to a slower pace of vaccination than assumed, growth would be less firm than projected. Growth could disappoint if the assumed fiscal impulse in the United States is weaker than expected, or if the multiplier effect on activity is weaker than assumed. Growth also could disappoint if financial conditions were to tighten abruptly, for example, if inflationary pressures persist longer than expected and lead to another reassessment of the monetary policy outlook, corporate bankruptcies tick up markedly, or price corrections in segments such as crypto assets trigger broader selloffs.

III. Conclusion

During the first quarter of 2021, the economic activities gained track as tourist arrivals showed signs of a gradual and steady recovery despite lingering effects of the COVID-19 pandemic. In the first quarter, real GDP contracted by 19.1 percent compared to the same period of 2020 as economic disruptions due to COVID-19 were still evident. However, the year-on-year real GDP growth rose by 4.6 percentage points compared to the previous quarter as tourism arrivals increased vis-à-vis the fourth quarter of 2020.

Notwithstanding the strong rebound in the tourism sector, tourism activities in the first quarter of 2021 were significantly less than a year earlier. When compared to the first quarter of 2020, total stay-over visitors registered a 50.9 percent contraction, while total tourism credits fell by 45.8 percent. The drop in total stay-over visitors resulted from noted decreases across all markets: North America (-49.1 percent), Latin America (-66.1 percent), and Europe (-61.7 percent). Hotel sector performance worsened in the first quarter of 2021, compared to the same period in the year before. Revenue per available room (RevPAR) plunged by 66.8 percent, attributable to a combination of a 40.9 percentage points downturn in hotel occupancy and a 21.3 percent drop in the average daily rate (ADR).

The 12-month average CPI inflation continued its downward trajectory since November 2019, falling to -2.3 percent at the end of March 2021. The deflation was due mainly to the energy component, which pushed inflation down by 1.2 percentage points in March 2021. The drop in the energy component resulted both from the January 2020 cut in the electricity tariff, which also affected the housing component and lower gasoline prices, which impacted the transport component.

The end of period (EOP) inflation amounted to -1.1 percent at the end of March 2021, after following an upward trend as of January 2021. The components recreation and culture (-0.5 percent), clothing and footwear (-0.4 percent), food (-0.3 percent), health (-0.1 percent), restaurant and hotels (-0.1 percent), as well as miscellaneous goods and services added deflationary pressures to inflation. These were partially offset by upwards pressure from the housing (+0.1 percent) and transport (+0.1 percent) components.

Merchandise imports contracted across all components when comparing the first quarter of 2021 to the same quarter of 2020. In total, imports of goods plummeted by 23.6 percent. The period of 2019 Q1 – 2020 Q1 registered a quarterly average of Afl. 555.0 million in import of goods, while the period of 2020 Q2 – 2021 Q1 reached an average of Afl. 377.5 million, an average decrease of 32.0 percent.

Data on utilities revealed a reduction of 11.4 percent in household electricity consumption, while household water consumption remained virtually unchanged. The number of commercial connections narrowed by 3.1 percent, reflecting the dampened business activity due to the effects of the COVID-19 pandemic, while a year ago these grew by 1.4 percent. In general, electricity consumption in KWh decreased across all categories in the first quarter of

2021 compared to the same quarter a year before. The total consumption of electricity in KWh diminished by 10.8 percent, down from 190.1 thousand KWh in the first quarter of 2020.

The current account of the balance of payments recorded an Afl. 55.9 million deficit in the first quarter of 2021. Despite the receipts from tourism export surpassing import payments of goods**,** a deficit was recorded because (a) primary income paid to nonresidents was larger than that generated by residents and (b) secondary income payments (such as worker remittances and tax transfers) were larger than inbound income of the same kind. As a result of the tourism credit rebound, the trend of narrowing current account deficits observed since the third quarter of 2020 extended throughout the first quarter of 2021.

The financial account registered a net borrowing of Afl. 30.6 million in the first quarter of 2021 compared to a net lending of Afl. 251.2 million a year earlier. After peaking in the second quarter of 2020, the amount of net borrowing has steadily declined.

Government finance data for the first quarter of 2021 revealed that the financial deficit widened to Afl. 162.7 million from Afl. 29.1 million in the first quarter of 2020. Government revenues fell to Afl. 223.0 million (-29.4 percent) in the period under review, from Afl. 315.6 in the first quarter of 2020. All tax components recorded decreases as the impact of COVID-19 continued to bear down on the Aruban economy throughout the first three months of 2021.

Government expenditures increased to Afl. 383.2 (+11.9 percent) in the first quarter of 2021 from Afl. 342.4 in the same period of 2020. This expansion in government outlays was caused by a continuing need for government support as the economy remained weak amid persisting COVID-19 effects and resurges in COVID-19 cases.

Government debt expanded by Afl. 84.2 million from December 2020 to Afl. 5,229.8 million in the first quarter of 2021 as a result of the COVID-19 pandemic. Foreign debt rose by Afl. 68.2 million due to the liquidity support received from the Netherlands under strict loan conditions in response to the COVID-19 pandemic. Loans received from the Netherlands totaled Afl. 490.6 million at the end of the first quarter of 2021, which pose a significant challenge for government finances in the short-term as these loans will mature in 2022, putting additional strains on government financing needs next year. The domestic debt grew by Afl. 16.1 million, caused by a rise in government short-term debt. The estimated debt-to-GDP ratio stood at 125.0 percent at the end of the first quarter of 2021.

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