STATE OF THE ECONOMY

2022 –Q2

CENTRALE BANK VAN ARUBA

STATE OF THE ECONOMY

Second Quarter of 2022

Centrale Bank van Aruba

ABSTRACT

During the second quarter of 2022, the Aruban economy continued on its recovery path as the tourism sector gained increased momentum. Strong tourism performance in terms of stay-over visitors and tourist spending contributed to year-on-year growth in real GDP of 5.7 percent. The positive tourism performance was visible in a surge in all tourism indicators. The growing number of stay-over visitor arrivals and visitor nights boosted hotel operations and tourism revenue. In addition, most consumption- and investment-related indicators showed improvement and thus helped strengthen economic activity. Meanwhile, imports expanded, mirroring consistent hikes in domestic and tourism demand for goods since the reopening of the border. International transactions settled through the banking sector resulted in a significant net inflow of foreign exchange of Afl. 402.7 million in international reserves. The significant rise in international reserves stemmed from a net inflow of tourism revenues registered at commercial banks and government foreign borrowing via a loan agreement with the Netherlands to finance maturing external debt in 2022. Consequently, the level of international reserves remained adequate and well above the benchmarks monitored by the CBA. Higher gasoline prices pushed the 12-month average inflation rate to 3.4 percent at the end of June 2022. Meanwhile, core inflation rose to 1.5 percent in June 2022. The fiscal deficit contracted by Afl. 313.3 million to Afl. 16.8 million in the first half of 2022. The latter came about from declining government expenditures (-Afl. 161.6 million) and more robust government revenues (Afl. 151.2 million). At the end of June 2022, the government debt rose by 5.5 percent, reaching Afl. 5,969.0 million. This resulted in a debt-to-GDP ratio of 101.7 percent, edging up from 101.1 percent at the end of 2021.

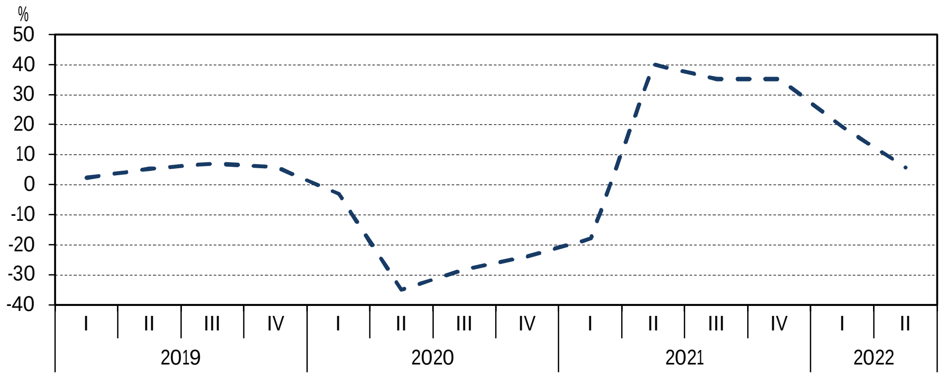
Contents

I. Domestic developments

Economic growth

During the second quarter of 2022, the Aruban economy continued on its recovery path as the tourism sector gained increased momentum. Strong tourism performance in terms of stay-over visitors and tourist spending contributed to year-on-year growth in real GDP of 5.7 percent (Chart 1). The strengthened economic activity reflected a pick-up in investment appetite and more robust consumption despite the absence of government assistance programs. Both investment and consumption indicators essentially pointed to increases in economic activities. Meanwhile, imports expanded, mirroring consistent hikes in both domestic and tourism demand for goods since the reopening of the border.

Chart 1: Quarterly GDP growth year-over-year



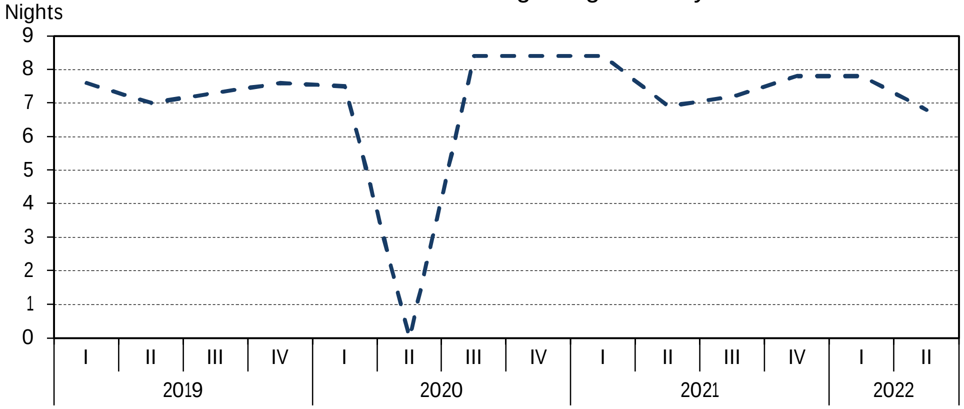
Calculations: CBA

Tourism

During the first half of 2022, strong tourism demand resulted in a surge in all tourism indicators compared to the same period of 2021. The positive performance in stay-over visitor arrivals and visitor nights led to a boost in hotel operations. Furthermore, cruise visitors jumped compared to the first half of 2021, as there were no cruise ship arrivals in the first five months of 2021 (Table 1). In the first half of 2022, Aruba received a total of 528,325 stay-over visitors, an increase of 61.9 percent compared to the same period of 2021, and reached 91.8 percent of the 2019-level (2021 Jan-Jun: 56.7 percent of 2019 levels). The surge in stay-over visitors was primarily pushed up by continued strong growth in U.S. arrivals (+46.5 percent) and led to a U.S. market share of 80.3 percent, albeit a decrease from 88.7 percent in the same period of 2021. Additionally, almost all markets registered expansions in stayover arrivals, with the Canadian (+1,353.1 percent), Dutch (+133.2 percent), and Colombian (+97.6 percent) markets being the most notable.

During the first two quarters of 2022, visitor nights showed strong growth (+57.8 percent), although it remained below the expansion in stayover arrivals. The smaller growth in visitor nights followed from the decline in the (intended) average length of stay (ALOS), which fell to 7.2 nights compared to 7.4 nights during the same period of 2021 (Chart 2). Total visitor nights reached 91.0 percent of the 2019-level, up from 57.6 percent of 2019 levels during the same period of 2021. In the last ten years, the ALOS for the first half of the year averaged 7.3 nights, down from a peak of 7.5 nights in the first half of 2020.

Chart 2: Average length of stay



Source: ATA

The rise in tourism demand was beneficial for the hotel sector as all AHATA indicators recorded increases for the first half of 2022 (Chart 2). Higher tourism demand resulted in an expansion of occupied room nights (+63.1 percent). The latter helped to push up the Average Daily Rate (ADR) to US$316.6 (2021 Jan-Jun: US$255.8) and the Revenue per Available Room (RevPAR) to US$225.2 (2021 Jan-Jun: US$114.4).

In the first six months of 2022, cruise tourism performance continued the improvement that began since the resumption of cruise calls in June of 2021, albeit at a slower pace in the second quarter of 2022 (Chart 2). In the period under review, a total of 162 ship calls were recorded, a hike of 158 ship calls compared to the first half of 2021, which mirrored the absence of ship calls in the first five months of 2021. Consequently, the number of cruise

Table 1: Tourism indicators for Aruba

YTD June 2022 vs. YTD June 2021

	2021	2022
Stay-over visitors	326,383	528,325
Average length of stay (in days)	7.4	7.2
Total visitor nights	2,424,402	3,825,924
Cruise visitors	1,589	263,472
Hotel occupancy rate (%)	44.7	71.1
Average daily rate (in USD)	255.8	316.7
Revenue per available room (in USD)	114.4	225.2
Tourism revenue per night (in Afl.)	451.1	461.6
Tourism revenue* (in Afl. million)	1,093.8	1,766.2

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

passengers soared by 261883 (+16,481.0 percent) to 263,472 cruise passenger. In terms of 2019 levels, the number of ship calls reached 97.0 percent, while the number of passengers reached 60.6 percent. The discrepancy between recovery rates for ship calls and the number of passengers indicates that since the pandemic, the ships Aruba has received so far have been smaller and/or had lower occupancy rates.

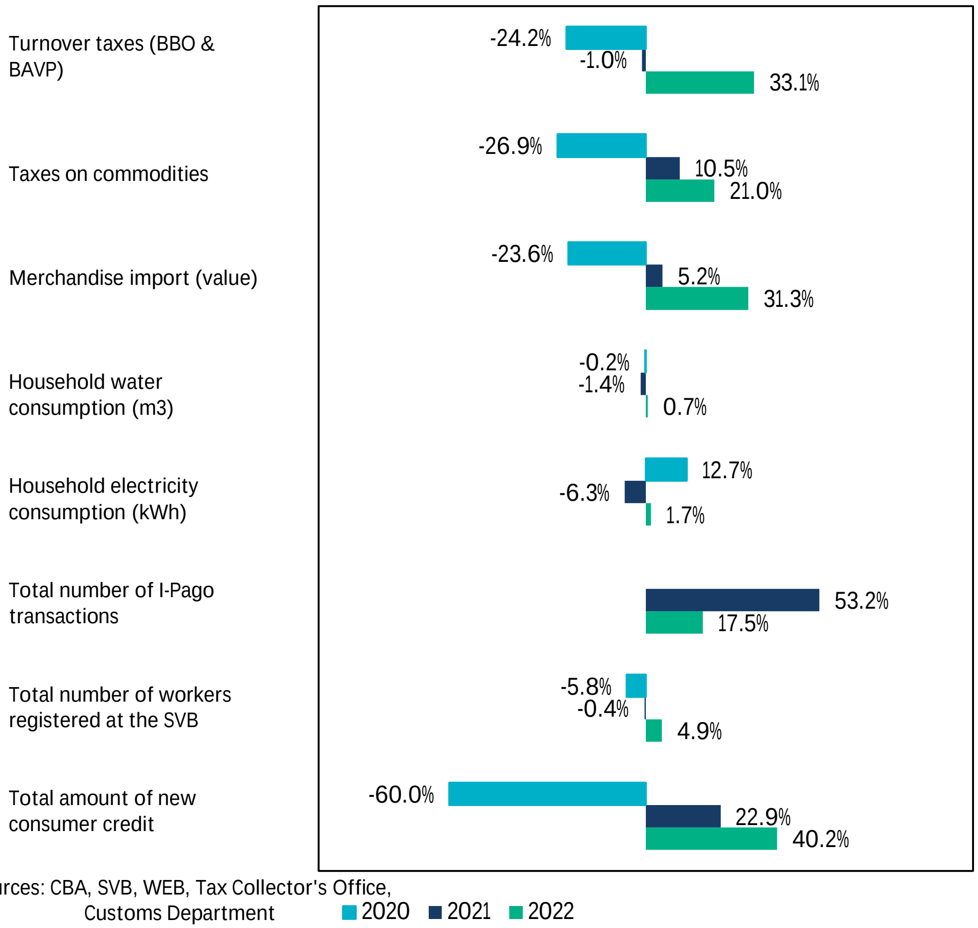
The buoyant performance in the tourism and hotel sector translated into a significant spike in tourism revenue registered at commercial banks (Chart 2). Tourism revenue expanded by 61.5 percent (+Afl. 672.5 million) compared to the first half of 2021[1]. The jump in visitor nights (+57.8 percent) and the improvement in tourism revenue per night (+2.3 percent) drove this expansion. Consequently, tourism revenue reached 115.0 percent of the 2019-level, and compensated for the lower number of visitor nights (91.0 percent of the 2019-level).

Consumption

During the first six months of 2022, most consumption-related indicators showed signs of improvement compared to the same period a year before (Chart 3). Turnover taxes (i.e., +33.1 percent) and taxes on commodities (i.e., +21.0 percent) rose due to continued recovery in tourism performance and boosted domestic consumption. The value of merchandise imports surged by 31.3percent. The upward movement in merchandise import is related to the uptick in local and tourism demand, paired with higher import prices.

[1] Tourism revenue corresponds to the tourism credits definition as defined in the IMF BPM 6 manual.

Chart 3: Consumption-related indicators
(YTD June 2022 vs. YTD June 2021)



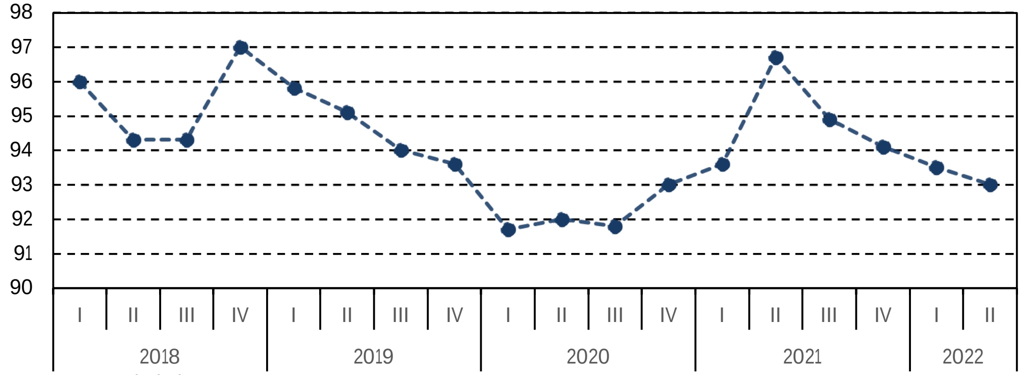
Sources: CBA, SVB, WEB, Tax Collector's Office, Customs Department

Household water consumption (i.e., +0.7 percent) remained relatively unchanged compared to the first two quarters of 2021. Meanwhile, household electricity consumption rose by 1.7 percent during the period under review. The noted expansion in household electricity consumption is due to a rise in household connections (i.e., +1.5 percent) during the first six months of 2022 compared to the same period in 2021. During the second quarter of 2022, household electricity consumption surpassed the level registered during the same quarter of 2019.

Along the same lines, when analyzing the total amount of new consumer credit loans, an increase of Afl. 16.5 million (i.e., +40.2 percent) is observed during the first two quarters of 2022 versus the first two quarters of 2021. This surge is more expansive than that registered in 2021 (i.e., +22.9 percent), while in 2020, a reduction of 56.0 percent was posted. Moreover, the observed decline in outstanding consumer credit (i.e., -3.6 percent) is smaller than the decrease registered a year prior (i.e., consumer credit 2021 Q2: -6.5 percent). This development indicates improved interest in applications for consumer credit and an increased propensity to consume. Nonetheless, the latter could be a reflection of reduced purchasing power and real disposable income related to inflationary pressures.

Still, the Consumer Confidence Survey provided contrasting results as the Consumer Confidence Index continued downward during the second quarter of 2022 (Chart 4). The persistent downward trend in the Consumer Confidence Index is likely the result of heightened uncertainties related to inflation and the proposed fiscal reform. Compared to the second quarter of 2021, the Consumer Confidence Index went down by 3.7 index points to 93.0. In addition, the portion of consumers indicating that taking out a loan is suitable decreased from 10.7 percent in the second quarter of 2021 to 6.3 percent in the second quarter of 2022. In general, the Future Expectation Index was the main culprit for the drop in the Consumer Confidence index as it dropped to 93.2, compared to 101.3 registered in the second quarter of 2021.

Chart 4: Consumer Confidence Index



90-100: pessimistic
100-110: optimistic

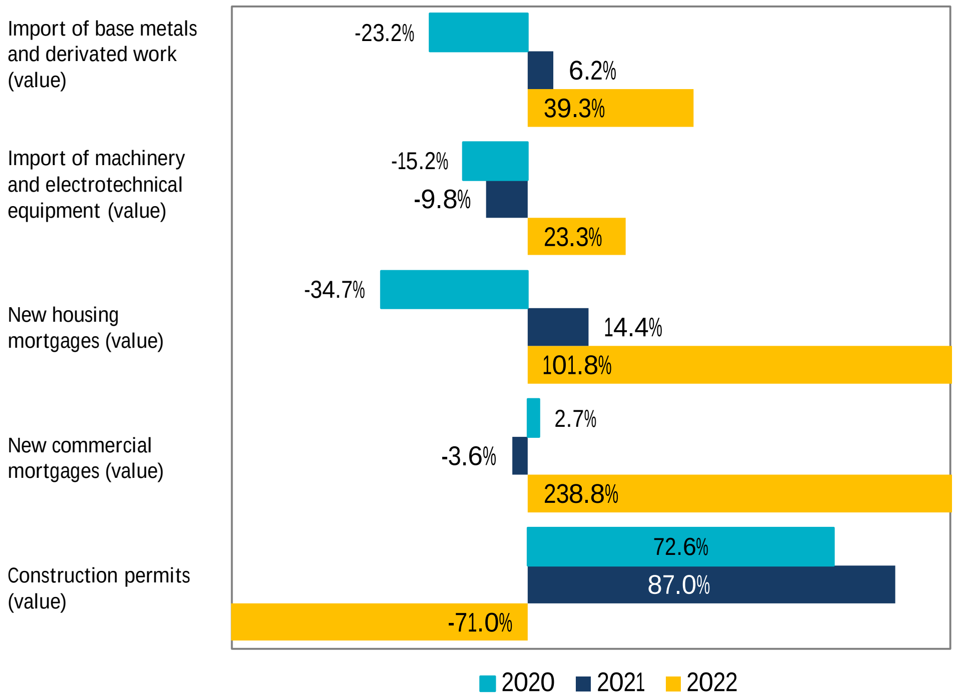
Investment

During the first half of 2022, investment-related indicators, for the most part, pointed to improvement compared to 2021 (Chart 5). Both the value of imported base metals and derivated works (i.e., +39.3 percent) and that of imported machinery and electrotechnical equipment (i.e., +23.6 percent) were higher during the period under review. The development in imported machinery and electrotechnical equipment contrasted that of the corresponding period of 2021 (i.e., a decline of 9.8 percent), while the value of imported base metals and derivated works increased in the first half of 2021 (i.e., a rise of 6.2 percent). In addition, the value of imported cement continued the recovery shown in the first half of 2021 (2022 ytd June: +24.5 percent, 2021 ytd June: 22.9 percent). On the other hand, the value of granted construction permits declined by 71.0 percent during the first half of 2022. This drop was due mainly to a sharp decrease in the ‘other’ (i.e., -82.4 percent) and to a lesser extent ‘apartments’ (i.e., -67.1 percent) components. The plunge in the category ‘other’ was related to an elevated level of construction permits granted in the first and second quarters of 2021, reflecting primarily hotel construction. There were no permits for projects of similar magnitude in the first half of 2022. However, a contraction in the value of total construction permits does not necessarily indicate a decrease in investment during the period under review. Therefore, it may not be in line with the previously reviewed indicators.

New commercial mortgages and new housing mortgages revealed positive developments, surging during the first half of 2022 compared to the same period of 2021[2]. Both the number (+90.5 percent) and value (+238.8 percent) of commercial mortgages expanded. Furthermore, among households a similar development was noted, with an increase in the number (+65.4 percent) and value (+101.8 percent) of housing mortgages. The spike in new commercial and housing mortgages indicates an acceleration in the rebound for investment activities compared to a year earlier when the growth in the value of new housing mortgages was much more moderate (i.e., 14.4 percent). At the same time, new commercial mortgages recorded a contraction in the same period of 2021 (i.e., -3.6 percent). Contrary to the increased mortgage activity, business confidence fell according to the Business Perception Survey (BPS) conducted in 2022 Q2. The worsening of the Business Perception Index resulted in an index of 104.6 compared to 106.5 observed during the second quarter of 2021.

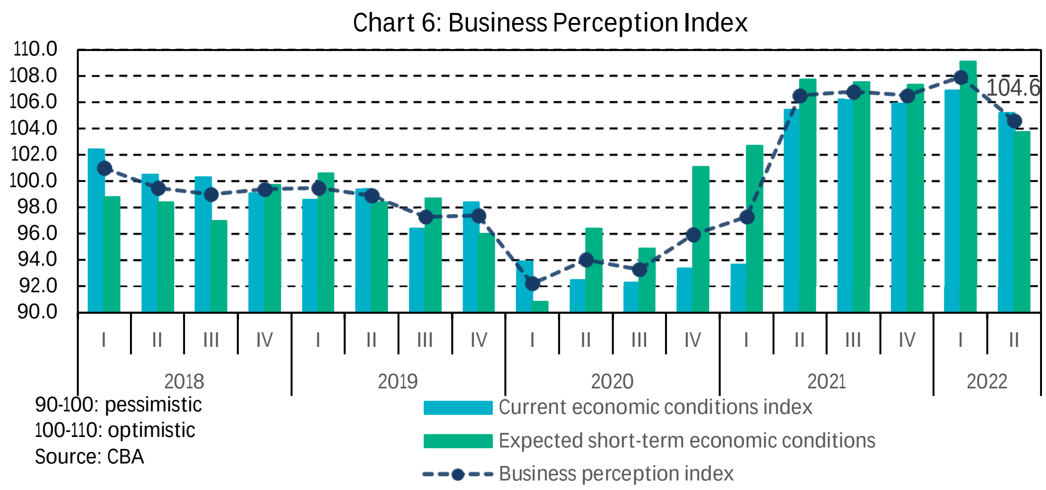
[2] The reclassification of certain commercial loans into new commercial mortgages could alter the interpretation of these numbers.

Chart 5: Investment-related indicators
(Percentage change YTD June 2022 vs YTD June 2021)



Sources: CBA, CBS, DOW

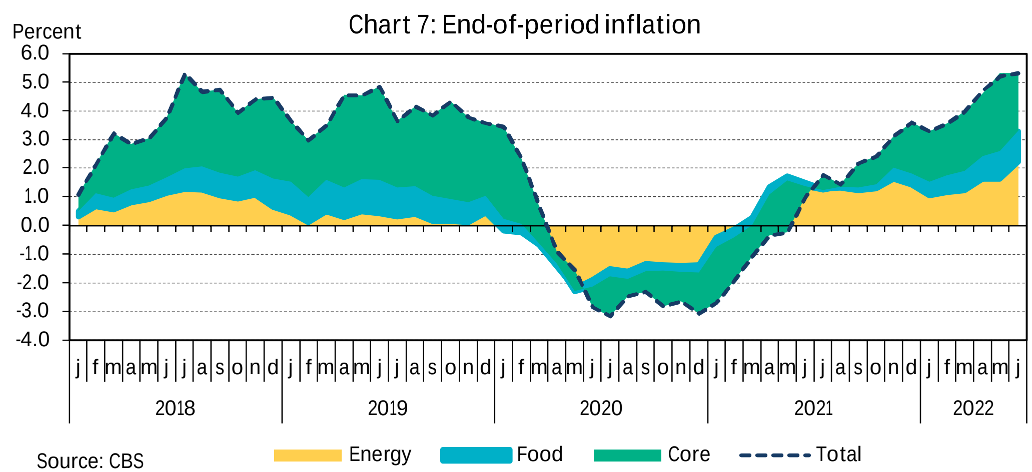
During the second quarter of 2022, the Business Perception Index receded from a peak in the previous quarter — the highest level attained during the past ten years — and was lower than the corresponding period of 2021 (Chart 6), perhaps on account of increasing uncertainties related to price developments and the pending fiscal reform by the Government of Aruba (GoA). In general, the decline in the business perception index (2022 Q2: 104.6, 2021 Q2: 106.5) was attributed to a drop in the short-term future economic condition index (2022 Q2: 103.7, 2021 Q2: 107.7 index points), while the current economic condition index edged down also (2022 Q2: 105.2, 2021 Q2: 105.4). The downturns reflect a more significant percentage of respondents expecting a worsening of short-term business conditions and a smaller fraction of respondents expecting an improvement. Several sectors reported a drop in business confidence, particularly ‘construction’, ‘health, other community, and personal service activities’, and ‘real estate and other business activities’. On a quarterly basis, the Business Perception Index was trending upward since the third quarter of 2020 before falling in the period under review. This drop was associated with less optimistic expectations for economic growth.



Consumer Price Index (CPI)

In June 2022, the consumer price index (CPI) continued trending upward, reaching 103.3. The CPI climbed by 5.3 percent (Chart 7), compared to the same period of the previous year. The rise in the CPI compared to a year earlier stemmed mainly from higher gasoline prices, which also affected the transport component (+2.9 percentage points contribution to inflation). The components food and non-alcoholic beverages (+1.2 percentage points contribution), household operation (+0.5 percentage point contribution), miscellaneous goods and services (+0.4 percentage point contribution), restaurants and hotels (+0.3 percentage point contribution), and housing (+0.1 percentage point contribution) also contributed to the end-of-period inflation at the end of June 2022. On the other hand, the components communication (-0.1 percentage point contribution) and recreation and culture (-0.1

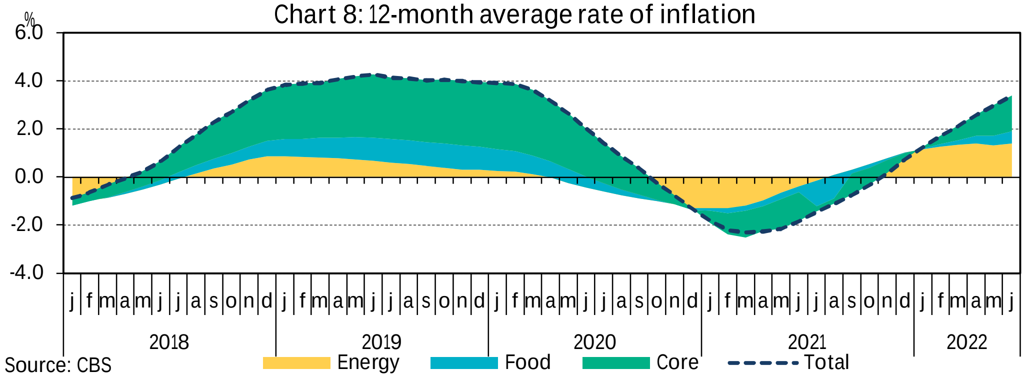
percentage point contribution) slightly mitigated the upward pressures on the end-of-period inflation. The end-of-period core inflation, which excludes the food and energy components, climbed to 2.0 percent at the end of June 2022, from -0.4 percent a year earlier. In June 2021, only gasoline prices drove a wedge between the end-of-period core inflation and total inflation. A year later, the food component complemented gasoline prices delivering a sizeable contribution to overall inflation.



The 12-month average inflation rate, following an upward path as of May 2021, reached 3.4 percent at the end of June 2022 (Chart 8). The 12-month average inflation rate at the end of

June 2022 resulted mostly from higher gasoline prices. These prices also impacted transportation costs, contributing 1.9 percentage points to the 12-month average inflation rate. The aforementioned increases were complemented by higher prices for the components food (+0.5 percentage point contribution), as well as housing, household operation, recreation and culture, restaurants and hotels, and miscellaneous goods and services, each contributing 0.2 percentage point to the 12-month average inflation rate. The component clothing and footwear also registered an upturn (+0.1 percentage point contribution), while the only component contributing negatively to the 12-month average inflation rate was communication (-0.1 percentage point contribution). The 12-month average core inflation went up from -1.2 percent in June 2021 to 1.5 percent in June 2022.

Chart 8: 12-month average rate of inflation



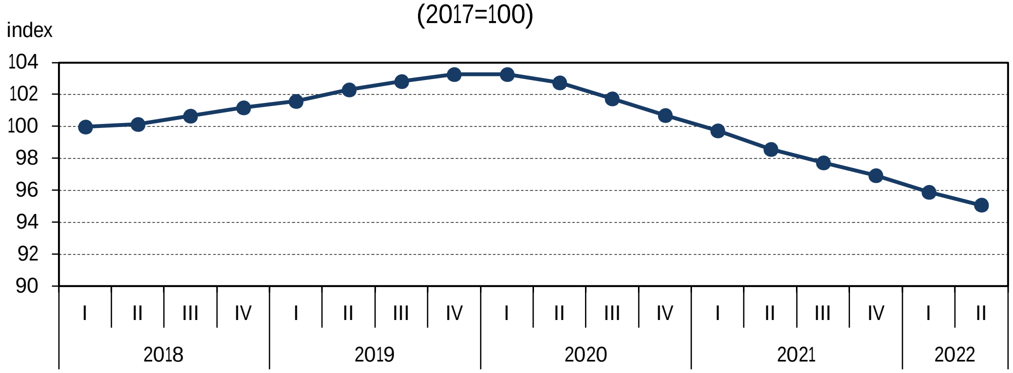
Source: CBS

International competitiveness

The real exchange rate for the Aruban florin vis-à-vis the U.S. dollar continued on a downward path during the first six months of 2022 (Chart 9). This downward trajectory has continued since the second quarter of 2020 and indicates an improvement in the competitive position for Aruba against the United States. The prolonged improvement in the competitive position of Aruba vis-à-vis that of the United States is the result of consumer prices rising faster in the United States compared to consumer prices in Aruba (Chart 10). At the end of June 2022, the 12-month average for U.S. inflation reached 9.1 percent, driven primarily by energy and food prices[3]. During the same period, Aruba's 12-month average inflation rate grew to 3.4 percent, pushed upward by the transport component, with the latter due to increased gasoline prices.

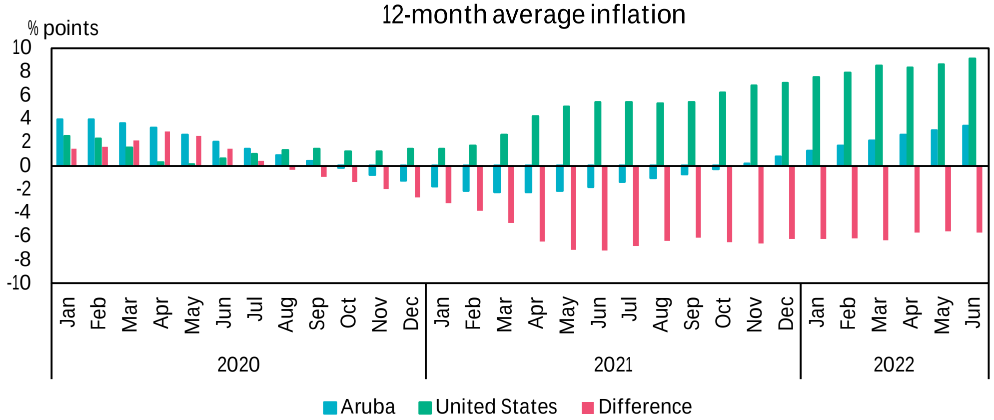
[3] Consumer Price Index, June 2022, Bureau of Labor Statistics

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



Source: CBA

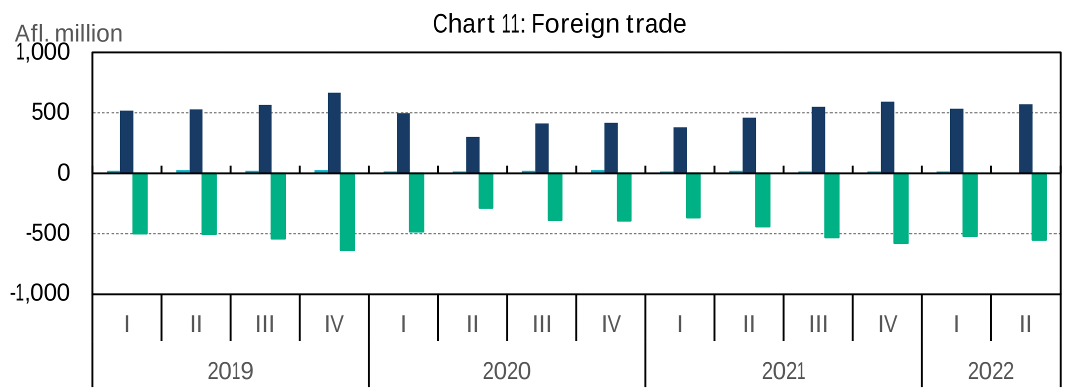
Chart 10: Inflation differential Aruba - USA: 12-month average inflation



Calculations: CBA

Foreign trade

In the first half of 2022, Aruba's trade deficit widened by Afl. 263.5 million (Chart 11) compared to the first half of 2021, expanding from Afl. 810.4 million to Afl. 1073.8 million. The larger deficit stemmed from a surge in imports.



Source: CBS

During the first half of 2022, merchandise imports reached Afl. 1,105.9 million, an advancement of Afl. 263.7 million (+31.3 percent) compared to the first half of 2021. Imports grew broadly across all categories (Table 2), except for fats and oils. The most significant contributors to the import expansion were non-food related imports (categories 3 and 5 through 21). Non-food imports rose by Afl. 197.3 million, accounting for 74.8 percent of the total import growth. In particular, investment-related imports like machinery and electrotechnical equipment surged by Afl. 27.8 million, while base metals and derivated works climbed by Afl. 14.1 million.

In the first two quarters of 2022, (non-food) consumption-related products[4] rose with Afl. 74.6 million, consisting of textile and fibers (clothing), transport equipment (primarily cars), various goods, n.e.s. (furniture, articles for lighting), and natural pearls and other precious stones (jewelry). The higher (non-food) consumption-related imports were caused partly by the elevated demand by tourists and locals.

In addition, mineral products (including salt, sandstone and cement, metal-ore, and petrochemical products) increased by Afl. 33.4 million, indicating improved investment and consumption. Specifically, more imports of sandstone and cement would be in line with the uptick in housing mortgages, a proxy for investment. Higher imports of petrochemical products (for gasoline consumption) partially revolve around elevated oil prices worldwide.

Food products and other food-related products — consisting of live animals and other animal products, vegetable products, and food products — expanded by Afl. 66.4 million, roughly a quarter of the Afl. 263.7 million in overall growth. Accelerating food-related imports stem partly from heightened consumption by locals and tourists. Higher food import prices are another contributing factor, considering the significant inflation in major source markets such as the United States and Europe.

[4] Assuming the abovementioned product categories largely reflect consumption.

Table 2: Import to Aruba (excluding free zone) by category	Change in Afl. million	Percentage change
01 Live animals and other animal products	29.7	40.0%
02 Vegetable products	10.5	20.4%
03 Fats and oils	-0.0	-100.0%
04 Food products	26.1	21.3%
05 Mineral products	33.4	63.7%
06 Chemical products	3.4	3.3%
07 Artificial plastic elements	7.2	23.2%
08 Skins, hides, leather, and peltry	6.2	83.7%
09 Wood, charcoal, and woodwork	1.4	10.7%
10 Materials for the manufacture of paper, paperwork	5.5	22.5%
11 Textile fibers and articles	20.8	60.3%
12 Footwear, headgear, and umbrellas	4.5	50.7%
13 Works of stone, gypsum, cement, asbestos	8.0	53.2%
14 Real pearls (natural) and other precious stones	17.3	87.4%
15 Base metals and derivated works	14.1	39.3%
16 Machinery and electrotechnical equipment (new & renewed)	27.8	23.6%
17 Transport equipment	12.4	28.3%
18 Optical instruments, apparatus, and equipment	5.6	13.1%
19 Arms and ammunition	0.0	106.6%
20 Various goods and products n.e.s.	24.0	67.7%
21 Art-objects and collector's items	3.5	141.0%
Total nominal value	261.7	31.3%

Source: CBS

Balance of payments

International transactions settled through the banking sector resulted in a significant net inflow of foreign exchange of Afl. 402.7 million in international reserves[5] pushing the level of international reserves to Afl. 3,286.8 million (incl. gold and excl. revaluation differences) in the first half of 2022 (Chart 12). Both the current and financial accounts contributed to this outcome, recording net foreign exchange inflows of, respectively, Afl. 315.0 million (2021 first half: Afl. 17.6 million net outflow) and Afl. 107.4 million (2021 first half: Afl. 364.2 million net inflow). During the first half of 2022, the registered financial account inflow reflected mainly a loan from the Netherlands to the GoA to cover its maturing external debt in 2022 and real estate investments in Aruba by non-residents. The loan is classified as 'other investment' in the Balance of Payments, and led to an Afl. 155.7 million net inflow on the other investment account in the period under review. Moreover, the direct investment account showed a net inflow of Afl. 118.2 million, mirroring these real estate investments. In contrast, outgoing payments related to government bond repayments contributed to an Afl. 99.3 million net outflow on the portfolio investment account. Meanwhile, transfers from and to foreign accounts resulted in a net outflow of Afl. 72.0 million, reflecting largely net transfers by the hotel sector to its foreign accounts. Finally, the financial derivatives account recorded a net inflow of Afl. 4.7 million (2021 first half: Afl. 19.4 million).

Activities in the tourism sector drove a surplus on the current account, resulting in a net inflow of Afl. 315.0 million of foreign exchange. During the first half of 2022, the recovery in the tourism sector drove this net inflow — net tourism revenue amounted to Afl. 1,474.0 million (a surge of Afl. 611.8 million vis-à-vis the same period in 2021) during the first six

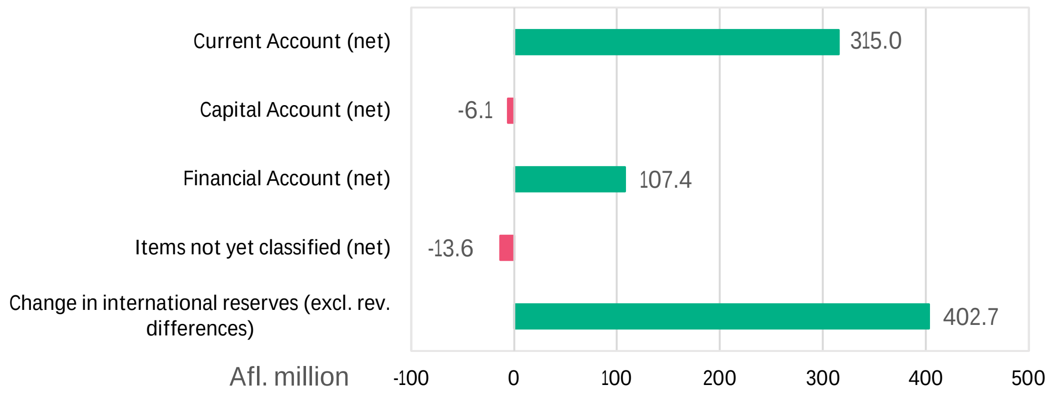
[5] According to preliminary balance of payments data.

months of 2022[6]. On the other hand, the net outflow of foreign exchange related to the goods account (i.e., a net outflow of Afl. 979.1 million during the first half of 2022) had an offsetting effect on tourism revenue. This outflow was due to the import of goods increasing by Afl. 283.4 million compared to the first half of 2021. The higher outflow was likely attributed to an increased demand for imported products related to the ongoing tourism recovery and elevated prices reflecting the inflation in Aruba's main import markets. Moreover, net payments for other services led to an Afl. 178.2 million outflow of foreign exchange related primarily to telecommunication and operational lease services. In addition, net outflow related to primary income amounted to Afl 56.7 million (2021 first half: Afl. 48.4 million) brought about by investment income payments. Meanwhile, the net inflow of secondary income amounted to Afl. 16.3 million in the first half of 2022 (2021 first half: Afl. 11.0 million net outflow).

The capital account registered a net outflow of foreign exchange during the first half of 2022. The capital account posted a net outflow of Afl. 6.1 million (2021 first half: Afl. 34.1 million), resulting from transfers to abroad related to large gifts and inheritances. Meanwhile, the items not yet classified came to a net outflow of Afl. 13.6 million.

[6] Tourism revenue corresponds to the tourism credits definition as defined by the IMF BPM 6 manual. However, this analysis is based on preliminary tourism credits data from commercial banks only.

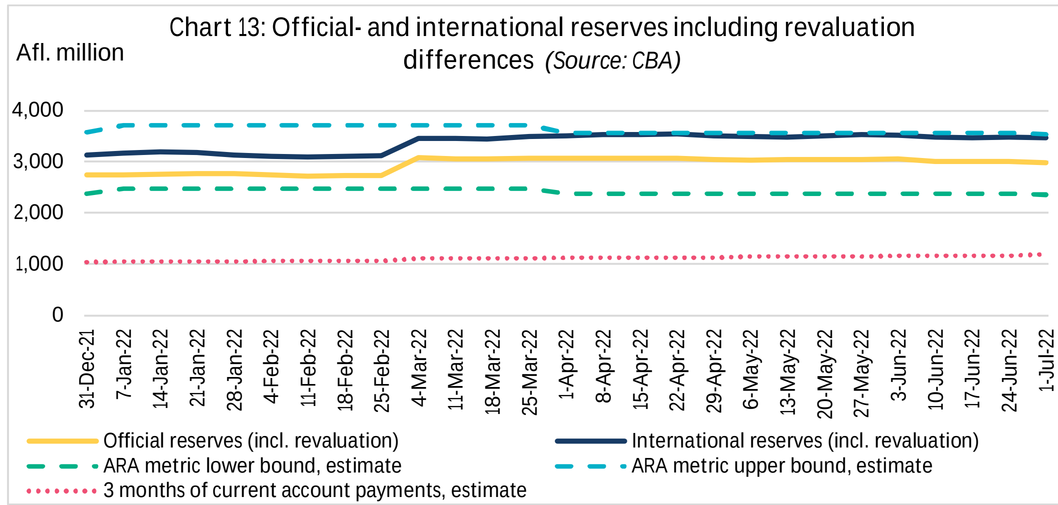
Chart 12: International transactions through the banking system (2022 Q1-Q2)



Monetary survey

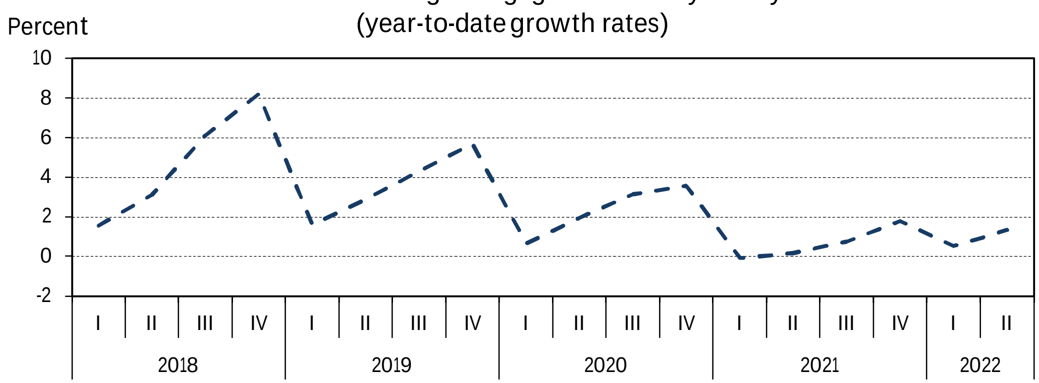
Broad money expanded by Afl. 40.4 million and reached Afl. 5,408.5 million at the end of June 2022 compared to the end of 2021. The widening in broad money resulted from an increase in net foreign assets (NFA) of Afl. 402.5 million, mitigated by an Afl. 362.1 million contraction in net domestic assets. The significant rise in international reserves stemmed from a net inflow in tourism revenues registered at commercial banks and government foreign borrowings via a loan agreement with the Netherlands to finance maturing external debt in 2022. As such, the level of international reserves remained adequate and well above the benchmarks monitored by the CBA (Chart 13). The current account coverage ratio fell slightly to 8.8 months of current account payments at the end of June 2022 (end-2021: 9.0

months of current account payments). Additionally, official reserves stayed between the optimal bandwidth of the IMF's Assessing Reserve adequacy (ARA) metric at 128.6 percent.



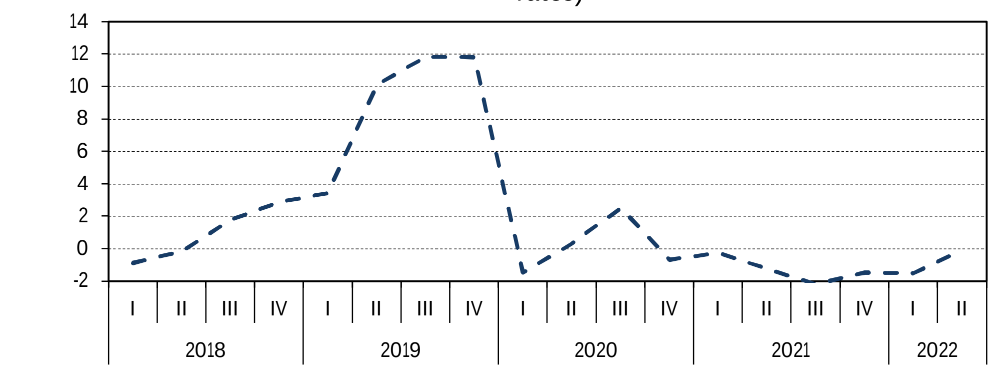
As of the second quarter of 202o, net domestic assets embarked on a decreasing trend driven primarily by shrinking net claims on the public sector. At the end of June 2022, net claims on the public sector fell by Afl. 313.7 million compared to the end of 2021. This drop primarily reflected an increase in government deposits of Afl. 301.3 million, peaking at Afl. 436.8 million, its highest point in the past five years. This was brought about by a(n) (earmarked) loan disbursement received by the GoA from the Netherlands for the repayment of maturing external debt due throughout 2022. Furthermore, non-credit related balance sheet items fell by Afl. 52.2 million. On the other hand, claims on the private sector inched up by Afl. 3.8 million, pushed up by a rise in housing mortgages (+Afl. 19.9 million), as housing mortgage growth picked up compared to the same period of 2021 (Chart 14). The uptick in housing mortgages was partially mitigated by declines in loans to enterprises (-Afl. 0.9 million) and consumer credit (-Afl. 15.3 million) (Chart 15). Nonetheless, both loans to enterprises and consumer credit were less negative as they contracted at a slower pace compared to the same period of 2021.

Chart 14: Housing mortgages - monetary survey
(year-to-date growth rates)



Source: CBA

Chart 15: Loans to enterprises - monetary survey (year-to-date growth rates)

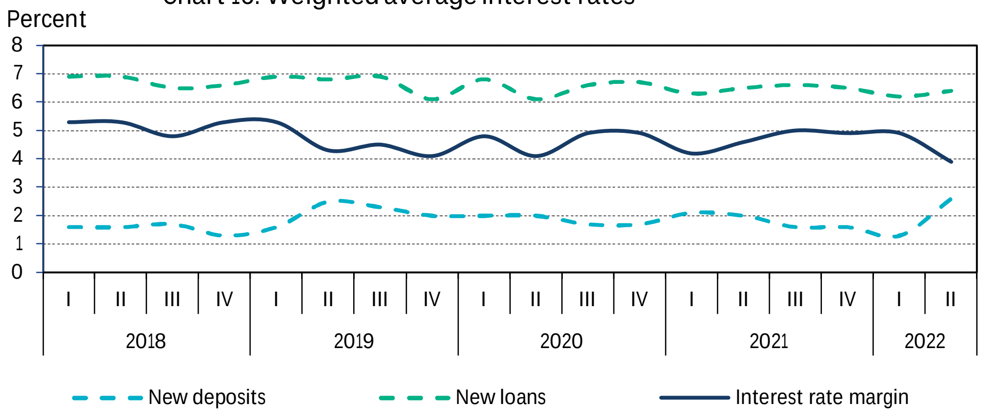


Source: CBA

The aggregated balance sheet of the nonmonetary financial institution stood at Afl. 7,002.4 million at the end of June 2022, a decline of Afl. 23.3 million compared to the end of 2021. This drop was brought about by foreign assets (-Afl. 191.9 million) and partially mitigated by increases in other domestic claims (+Afl. 163.9 million). On the liabilities side, the contraction was related to other domestic liabilities (-Afl. 126.8 million) and foreign liabilities (-Afl. 9.7 million).

The quarterly weighted average interest rate on loans fell to 3.9 percent in the second quarter of 2022, down from 4.9 percent in the fourth quarter of 2021 (Chart 16). The weighted average interest rate on deposits grew by 1.0 percentage point, while that of loans inched down by 0.1 percentage point. In particular, the weighted average interest rate for time deposits less than 12 months widened by 1.3 percentage points. This higher interest rate was mitigated by decreases in time deposits longer than 12 months (-0.3 percentage point) and savings deposits (-0.1 percentage point). The lower rate on new loans was driven primarily by loans to individuals. Consequently, the interest rate margin fell by 1.0 percentage point compared to the end of 2021.

Chart 16: Weighted average interest rates



Source: CBA

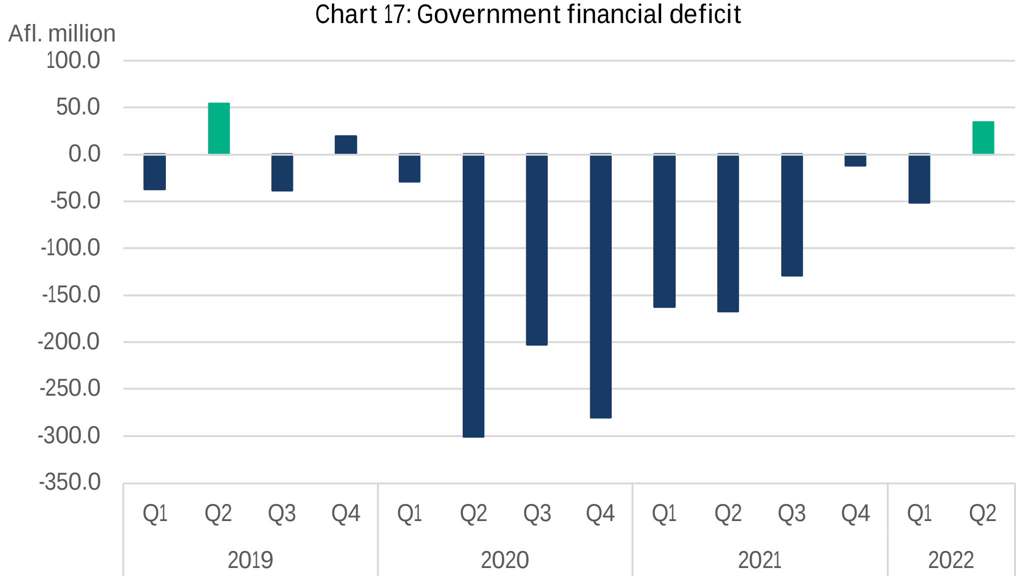
Financial soundness indicators remained adequate during the first two quarters of 2022. The capital adequacy ratio inched up by 1.6 percentage points to 38.6 percent at the end of June

2022, remaining well above the required 18.0 percent. Furthermore, the commercial banks' aggregated prudential liquidity ratio (PLR) attained 31.4 percent (minimum required PLR: 18.0 percent), dropping 6.6 percentage points from the end of 2021. The PLR has been decreasing as of the fourth quarter of 2021, and reflects in part the CBA's steady increases in the reserve requirement rate since September 2021. Nonperforming loans fell by 0.3 percentage point to 4.4 percent at the end of June 2022 compared to the end of 2021. Nonperforming loans trended downwards as of the second quarter of 2021, likely related to the pick-up in tourism and economic activities as of the second quarter of 2021. The commercial banking sector's earnings and profitability stayed unchanged compared to December 2021.

Government

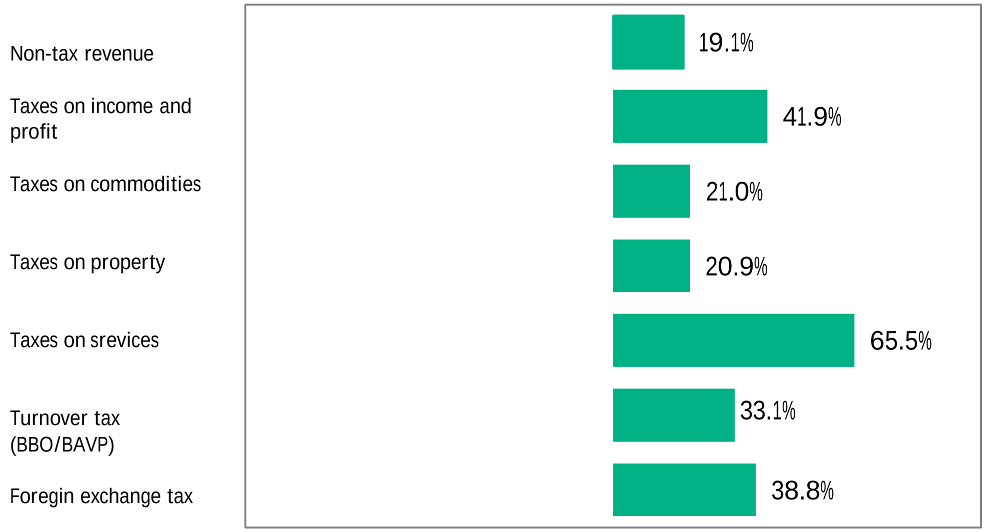
During the first half of 2022, based on available information, the fiscal deficit reached Afl. 16.8 million, Afl. 313.3 million less than in the first half of 2021 (Chart 17). This outturn resulted from declining government expenditures (-Afl. 161.6 million) and more robust government revenues (+Afl. 151.2 million). The former stemmed from decreases in government outlays on all categories except goods and services. The latter exemplifies the economic recovery, with government revenue firmed up in all categories.

Chart 17: Government financial deficit



In the first half of 2022, total government revenue tallied Afl. 643.6 million, a rise of Afl. 151.2 million compared to the first half of 2021. Government revenue strengthened due to boosts in tax revenues (+Afl. 141.2 million; +32.1 percent). Tax revenues surged mainly because of higher receipts from taxes on income and profit, which grew by Afl. 59.5 million (+41.9 percent) (Chart 18). Elevated tax revenues on income and profit stemmed from the spike of Afl. 72.7 million in the profit tax collected in May 2022, since many businesses complied with the May 2022 deadline of the preliminary assessment ('voorlopige aanslag'). Consequently, less revenue is expected in November 2022, when the deadline for the final assessment ('definitieve aanslag') passes. Improved employment and business activity also may have led to more substantial income and profit tax revenue, given the tourism recovery. The growth in tax revenue from commodities (+Afl. 27.4 million, 21.0 percent) additionally contributed to the increased tax income. This development is due to bolstered import duties (+Afl. 18.7 million) and, to a lesser extent, excises (+Afl. 8.7 million). Surges in real imports likely explain this development, consistent with tourism recovery. The tourism-driven economic recovery also fortified turnover taxes (+Afl. 27.1 million, +33.1 percent), invigorating tax revenues. Non-tax revenues also improved (+Afl. 10.0 million; +19.1 percent). The latter may have resulted from higher dividend distributions. Despite positive signs in total government income compared to 2021, 2022-figures are still 90.3 percent of 2019.

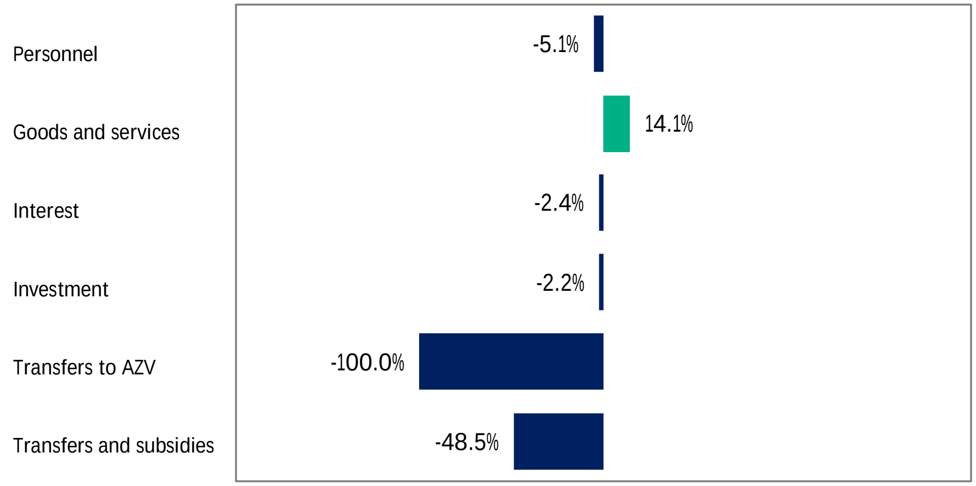
Chart 18: Government revenue
(Percentage change YTD June 2022 vs. YTD June 2021)



Source: Tax Collector's Office

Government expenditure amounted to Afl. 657.3 million in the first half of 2022, Afl. 161.6 million less than in the corresponding period of 2021. The tighter deficit was mainly due to contracting transfers and subsidies (-Afl. 119.6 million, -48.5 percent), as the GoA no longer offered COVID-19 financial assistance in 2022 (Chart 19). Further, as tourism and employment improved, the AZV premium collection strengthened. Consequently, the GoA did not need to transfer funds to the health insurance provider AZV (-42.2 million, -100.0 percent). In addition, personnel expenses fell by Afl. 14.4 million (-5.1 percent), principally due to a decrease of Afl. 11.1 million for wage subsidies. Investments (-Afl. 0.1 million) and interest payments (-Afl. 2.9 million) also dropped, but not to the same pace as the other categories. Meanwhile, goods and services outlay increased by Afl. 17.5 million (+14.1 percent) due to electricity, telephone, internet, and expert advice costs.

Chart 19: Government expenditure
(Percentage change YTD June 2022 vs. YTD June 2021)



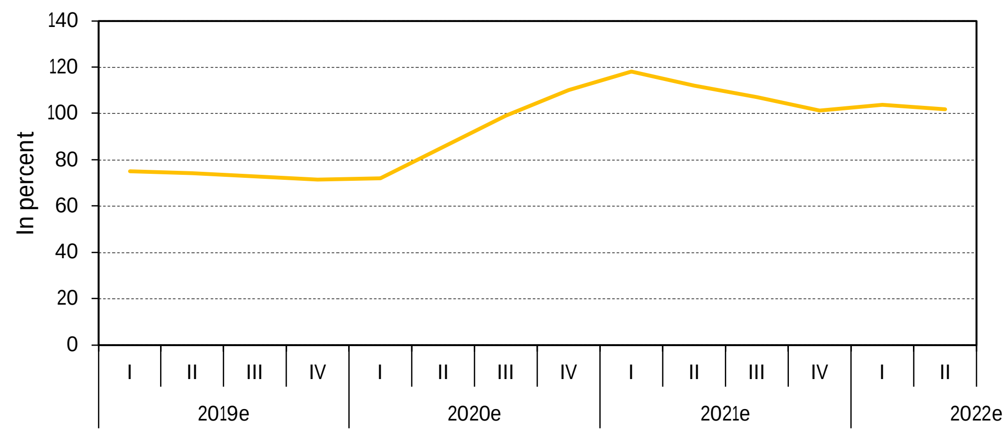
Source: Tax Collector's Office

In June 2022, government debt climbed to Afl. 5,969.0 million, up from Afl. 5,655.6 million in December 2021. An expansion of Afl. 243.5 million in foreign debt was the chief reason for the higher debt stock. In particular, the GoA received Afl. 358.0 million in loans from the Netherlands in March 2022. These loans are primarily for the financing of the maturing external debt in 2022 (Afl. 348.1 million). Year-to-date, foreign debt repayments amounted to Afl. 97.9 million, mitigating a further increase in the debt stock.

Meanwhile, domestic debt ascended by Afl. 69.9 million, marking 2,184.1 million in June 2022. This expansion is linked to increased accounts payable (Afl. 59.1 million) in the category 'other'[7]. Moreover, long-term domestic debt rose with Afl. 24.0 million, another significant contributor to the higher domestic debt. Taking stock of domestic and foreign debt together, the share of foreign government debt was 63.4 percent, while the debt-to-GDP ratio stood at 101.7 percent in June 2022. The debt-to-GDP ratio grew by 0.6 percentage point compared to December 2021 — the economic recovery was sturdy enough to offset the growing government debt (Chart 20).

[7] The category includes government institutions and organizations who collect premiums or levies (excluding APFA).

Chart 20: Debt-to-GDP ratio



Calculations: CBA
e = estimated

II. International Developments

In July 2022, the IMF updated its growth projections for the global economy for 2022. Whereas in April 2022 a growth rate of 3.6 percent[8] was foreseen, the IMF's most recent

[8] See World Economic Outlook, April 2022

World Economic Outlook publication forecasts a growth rate of 3.2 percent[9] in 2022 (see Table 3). For 2023, an even lower rate of growth is anticipated — 2.9 percent. The revised expectations for global economic growth are based on three major shocks to a recovering world economy: 1) higher than anticipated inflation across the globe (particularly in the United States and Europe), 2) a COVID-19 related slowdown in China that was worse than previously envisioned, and 3) additional negative cross-border spillovers from the Russia-Ukraine war. These developments led to a contraction in world GDP in the second quarter of 2022, resulting in the first contraction in global economic growth since 2020.

Table 3: Projections for the world economy and selected economies (Real GDP growth, in percent)

Economy	2022f	2023f
World	3.2	2.9
United States	2.3	1.0
Euro Area	2.6	1.2
Latin America and the Caribbean	3.0	2.0

Source: IMF

e = estimate; f = forecast

[9] See World Economic Outlook, July 2022

Headline inflation in several economies surged as food and energy prices continued to rise. The upward pressure on prices was amplified by supply constraints across sectors, as well as the impact of the war in Ukraine. In addition, the pass-through of costs related to supply chain disruptions and tight labor markets pushed up core inflation. In the second quarter of 2022, large economies such as the United States and the United Kingdom registered their highest rate of inflation in the past 40 years, while euro area inflation also reached the highest level observed since the establishment of the monetary union.

Economic activity in China decelerated due to COVID-19 outbreaks and the resulting mobility restrictions, as well as the sustained crisis in the Chinese real estate sector. As a result, global supply chain disruptions worsened, while the decline in domestic consumption and investment also negatively affected the demand for goods and services from trade partners.

The economic impacts of the Russia-Ukraine war persisted in food and energy prices, specifically due to the higher prices for wheat and fossil fuels. While some of the restrictions imposed on Russia have already expired, additional pressure on prices might come from the European Union’s embargo on imports of coal (as of August 2022) and Russian seaborne oil (2023), as well as its block on insuring and financing the maritime transport of Russian oil to third countries (end-2022).

Against this gloomy backdrop, however, the outlook for Latin America and the Caribbean shone. In light of a stronger than previously expected recovery in large Latin American economies, particularly Brazil (+0.9 percentage point) and Mexico (+0.4 percentage point), the July 2022 outlook improved by 0.5 percentage point in comparison to April 2022. However, the recovery in Caribbean economies lagged. Except for the Dominican Republic, which benefitted from the swift recovery in the United States, tourism has not yet reached pre-pandemic levels.[10] In addition, the global rebound in commodity prices that underpinned the commodity exporters' recovery in the region put tourism-dependent Caribbean economies reliant on commodity imports at a disadvantage.

III. Conclusion

During the second quarter of 2022, the Aruban economy continued on its recovery path as the reinvigoration in the tourism sector persisted at a firm pace. Strong tourism performance in terms of stay-over visitors and tourist spending contributed to year-on-year growth in real GDP of 5.7 percent. Strengthening economic activity also reflects a pick-up in investment appetite and more robust consumption.

Strong tourism demand led to a surge in all tourism indicators compared to the same period of 2021. The positive performance in stayover visitor arrivals and visitor nights fortified hotel operations. The surge in stayover visitors primarily increased due to continued strong growth in U.S. arrivals. Greater tourism demand expanded the number of occupied room nights (+63.1 percent). The latter helped to push up the Average Daily Rate (ADR) to US$316.6 (2021 Jan-Jun: US$255.8) and the Revenue per Available Room (RevPAR) to US$225.2 (2021 Jan-Jun: US$114.4). Buoyant performance in the tourism and hotel sector translated into a significant spike in tourism revenues registered at commercial banks — by 61.5 percent (+Afl. 672.5 million) compared to the first half of 2021. The increase in visitor nights (+57.8 percent) and

[10] See Shifting Global Winds Pose Challenges to Latin America – IMF Blog

improvement in tourism revenue per night (+2.3 percent) drove this expansion. Consequently, tourism revenues reached 115.0 percent of the 2019-level.

During the first six months of 2022, most consumption-related indicators showed signs of improvement compared to the same period in 2021. Receipts from turnover taxes (i.e., +33.1 percent) and taxes on commodities (i.e., +21.3 percent) increased due to continued improvement in tourism performance and boosts in domestic consumption. In addition, the total amount of new consumer credit loans grew by Afl. 16.5 million (i.e., +40.2 percent) during the first two quarters of 2022 versus the first two quarters of 2021. On the other hand, the amount of outstanding total consumer credit by commercial banks fell by 3.6 percent, in line with the declining trend in consumer credit over the last ten years. Notably, the Consumer Confidence Survey provided contrasting results as the Consumer Confidence Index continued on its downward path in the second quarter of 2022.

During the first half of 2022, investment-related indicators, for the most part, pointed to gains compared to a year earlier. The number and value of new commercial mortgages (i.e., +90.5 percent and 238.8 percent, respectively) and outstanding housing mortgages (i.e., +65.4 percent and 101.8 percent, respectively) surged during the first half of 2022. Contrary to the increased mortgage activity, business confidence fell according to the Business Perception Survey (BPS) conducted in 2022 Q2.

In June 2022, the CPI continued trending upward. Compared to the same period in 2021, the CPI climbed by 5.3 percent, stemming mainly from higher gasoline prices. The 12-month average inflation rate, following an upward path as of May 2021, reached 3.4 percent.

The real exchange rate for the Aruban florin vis-à-vis the U.S. dollar continued downward during the first six months of 2022. This trajectory has been occurring since the second quarter of 2020 and indicates an improved competitive position for Aruba versus the United

States. This continued improvement is the result of faster increases in consumer prices in the United States than in Aruba.

International transactions settled through the banking sector resulted in a significant net inflow of foreign exchange of Afl. 402.7 million in international reserves in the first half of 2022. Both the current and financial accounts contributed to this outcome, recording net foreign exchange inflows of, respectively, Afl. 315.0 million and Afl. 107.4 million. During the first half of 2022, the registered financial account inflows were mainly due to a loan from the Netherlands to the GoA to cover its maturing external debt in 2022 and real estate investments in Aruba by non-residents. Meanwhile, tourism sector activities drove the surplus on the current account.

During the first half of 2022, the fiscal deficit fell to Afl. 16.8 million, Afl. 313.3 million less than in the first half of 2021 (Chart 17). This outturn stemmed from declining government expenditures (Afl. 161.6 million) and more robust government revenues (Afl. 151.2 million). The former resulted from lower government outlays on all categories except goods and services. The latter highlights the economic recovery, with government revenue increases seen in all categories.

In June 2022, government debt climbed to Afl. 5,969.0 million, up from Afl. 5,655.6 million in December 2021. An expansion of Afl. 243.5 million in foreign debt chiefly caused this higher debt stock. In particular, the GoA received Afl. 360.7 million in loans from The Netherlands in March 2022. These loans primarily finance the maturing external debt in 2022 (Afl. 348.1 million). The debt-to-GDP ratio stood at 101.7 percent in June 2022, an increase of 0.6 percentage point compared to the end of 2021.

With regard to the world economy, the IMF downgraded its 2022 growth projections in July 2022. The revised expectations for global economic growth were based on three major shocks to a recovering world economy: 1) higher than anticipated inflation across the globe (particularly in the United States and Europe), 2) a COVID-19-related slowdown in China that was worse than previously envisioned, and 3) additional negative cross-border spillovers from the Russia-Ukraine war.

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