STATE OF THE ECONOMY

2022 –Q4

CENTRALE BANK VAN ARUBA

STATE OF THE ECONOMY

Fourth Quarter of 2022

Centrale Bank van Aruba

ABSTRACT

In 2022, estimated real economic output surpassed pre-pandemic levels as sustained strong tourism performance continued to support growth. In 2022, stay-over visitors and tourism revenue surged, boosted by robust demand from the United States and higher tourism spending. Moreover, solid tourism demand and the resulting rise in domestic demand pushed up real consumption despite inflationary constraints. Investment — weighed down by elevated international prices, tighter global financial conditions, and uncertainty around the 2023 domestic tax reform — remained flat in real terms. Meanwhile, the hike in domestic and tourist demand, combined with higher global commodity prices, raised import levels. International transactions settled through the banking sector resulted in a significant net foreign exchange inflow of Afl. 223.4 million in 2022. The strong activity in the tourism sector drove the rise in international reserves and compensated for the increased foreign exchange outflows on the financial account following the lifting of COVID-19 related capital restrictions in 2021. Consequently, the level of international reserves remained adequate and well above the benchmarks monitored by the CBA. Elevated utility tariffs and higher gasoline, food, and car prices raised the 12-month average inflation to 5.5 percent at the end of 2022, up from 0.7 percent at the end of 2021. Meanwhile, the 12-month average core inflation continued its steady rise since October 2021, reaching 2.2 percent. In 2022, fiscal performance improved significantly, thanks to strong economic activity which boosted government revenues and the withdrawal of pandemic-related social assistance programs. As such, the Government of Aruba's fiscal deficit narrowed to Afl. 79.4 million (on a cash-basis) from Afl. 471.2 million in

2021. At the end of 2022, total government debt rose to Afl. 5,717.6 million, up from Afl. 5,655.6 million in December 2021. Despite the higher debt level, the economic growth led to a decline in the estimated debt-to-GDP ratio to 88.3 percent, down from 100.9 percent at the end of 2021.

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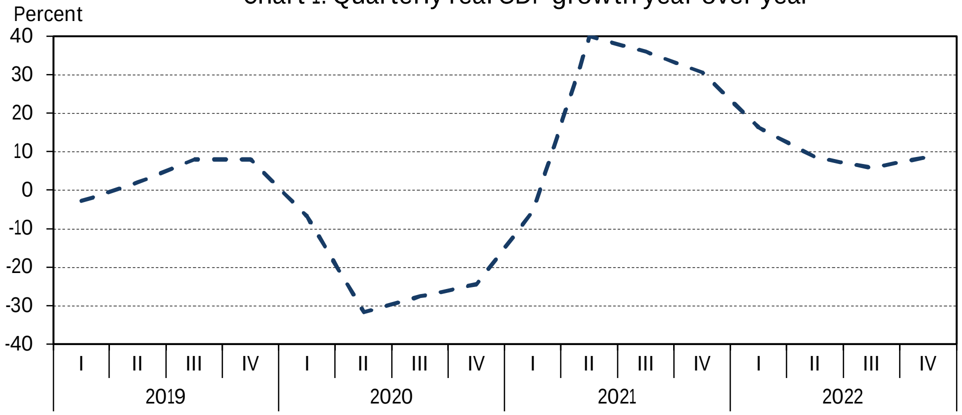
I. Domestic developments

Economic growth

The Aruban economy — measured in real Gross Domestic Product (GDP) — grew by an estimated 9.6 percent in 2022 compared to 2021 (Chart 1). Its growth was mainly attributable to significantly higher stay-over arrivals and tourism-related spending. To a lesser extent, private consumption contributed to the increase in real GDP, indicating extended local demand for goods and services. Local demand benefited from the positive tourism development. Meanwhile, investments in real terms stayed virtually constant. Imports widened as a result of increased domestic consumption and tourism demand.

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



Calculations: CBA

Tourism

Table 1: Tourism indicators for Aruba

	2021	2022
Stay-over visitors	806,555	1,100,997
Average length of stay (in nights)	7.5	7.3
Total visitor nights	6,017,340	8,004,242
Cruise visitors	135,953	610,474
Hotel occupancy (%)	56.5	75.0
Average daily rate (US$)	260.0	309.0
Revenue per available room (RevPAR) (US$)	147.0	231.9
Tourism revenue per night (in Afl.)	438.2	449.9
Tourism revenue (in Afl. million)	2643.1	3,611.1

Sources: ATA, AHATA, APA, CTO, STR
*Only those registered at local commercial banks, available data at the time of writing. For the complete and final data please visit Quarterly tables publications - Centrale Bank van Aruba (cbaruba.org).

During 2022, most tourism indicators – except for the average length of stay – improved compared to 2021 (Table 1). Tourism revenue[1], in particular, jumped by 36.6 percent, reaching Afl. 3,601.0 million. This surge in tourism revenue resulted from the rise in total nights that visitors stayed in Aruba (+33.0 percent), as well as their heightened spending. The latter can be proxied by tourism revenue per night, which rose by 2.7 percent and was likely partially driven by the higher prices for hotel rooms and restaurant services. Increased numbers of stay-over visitors (+294,442 visitors, +36.5 percent) led to a jump in total visitor nights, despite the shorter average length of stay (-2.7 percent). The growth in the U.S. market (+181,341 visitors, +26.8 percent) was the primary driver of the surge in stay-over visitors. Other influential markets were the Latin American market (+43,719 visitors, or +109.7 percent), the European market (+34,447 visitors, or +64.1 percent), and the Canadian market (+28,493 visitors, or +221.2 percent). In terms of 2019-levels, 2022 tourism revenues recovered by reaching 124.1 percent, while total stay-over visitors restored at 98.4 percent. Consequently, stay-over visitors remained below the peaks seen in the last ten years, such as in 2015 (1,224,935) and in 2019 (1,118,944), while tourism spending was at its highest point in the past ten years (tourism spending per night[2]; average 2012-2021: Afl. 351.9, 2022: Afl. 449.9 million).

The hotel sector's performance – sourced from the Aruba Hotel and Tourism Association (AHATA) – also perked up during the period under review. In 2022, the average hotel occupancy rate climbed to 75.0 percent from 56.5 percent in 2021. This gain was the direct effect of a higher number of stay-over visitors. Similarly, the average daily rate rose from US$ 260.0 to US$ 309.0, significantly above the historical average of US$ 252.26 in the last

[1] Tourism revenue corresponds to the tourism credits definition as defined in the IMF BPM 6 manual.
[2] Only those registered at commercial banks.

decennia. The ADR growth of 18.9 percent is also sizable by historical standards: 4.8 percent on average over the last 10 years. Based on CPI data from the CBS, restaurant prices also increased (+5.7 percent) in 2022. Thus, despite tourism-related goods and services being more expensive, the number of stay-over visitor rose, indicating a certain willingness to spend by visitors, mirroring a relatively inelastic tourism demand. Given the hotel occupancy rate and average daily rate developments, the average revenue per available room (RevPAR) marked US$231.9 in 2022, up from US$ 147.0 in 2021.

Meanwhile, other accommodations – including vacation home rentals and short tourism rentals – also marked positive developments in 2022. Specifically, according to Aruba Tourism Authority (ATA) data, total nights at other accommodations reached 2,361,202 in 2022, compared to 1,677,788 in 2021. This development reflected an upturn of 40.7 percent. Moreover, the growth in other accommodations was more pronounced than that for low-rise hotels (+36.2 percent), high-rise hotels (+35.4 percent), and timeshares (+24.1 percent). Accordingly, the market share of other accommodations strengthened the most (+1.6 percentage points, Table 2), followed by low-rise hotels (+0.2 percentage point). In contrast, the market share for high-rise hotels fell by 5.8 percentage points, while that of timeshare hotels dropped by 2.3 percentage points. Thus, other accommodations likely gained market share at the expense of high-rise and timeshare hotels.

Table 2: Accommodation market share

	2021	2022
High rise	35.3%	29.5%
Low rise	8.0%	8.2%
Timeshare	35.1%	32.8%
Other	27.9%	29.5%

Source: ATA

In 2022, cruise tourism continued to recover after its resumption in June 2021. According to the Aruba Ports Authority (APA), Aruba received 474,521 more cruise passengers in 2022 than in 2021, indicating a solid upswing of 349.0 percent. Likewise, ship calls climbed by 209 calls (+215.5 percent). The notable gains illustrated the absence of cruise ship calls during the first five months of 2021, as well as the lower occupancy of ships during the second half of 2021. Compared to 2019, cruise passengers reached 73.4 percent of 2019-levels, while ship calls totaled 94.4 percent of 2019-levels. The gap between the recovery in cruise passengers and the number of ship calls suggests that since COVID-19, the port of Aruba received smaller ships, ships with lower occupancy rates, or both.

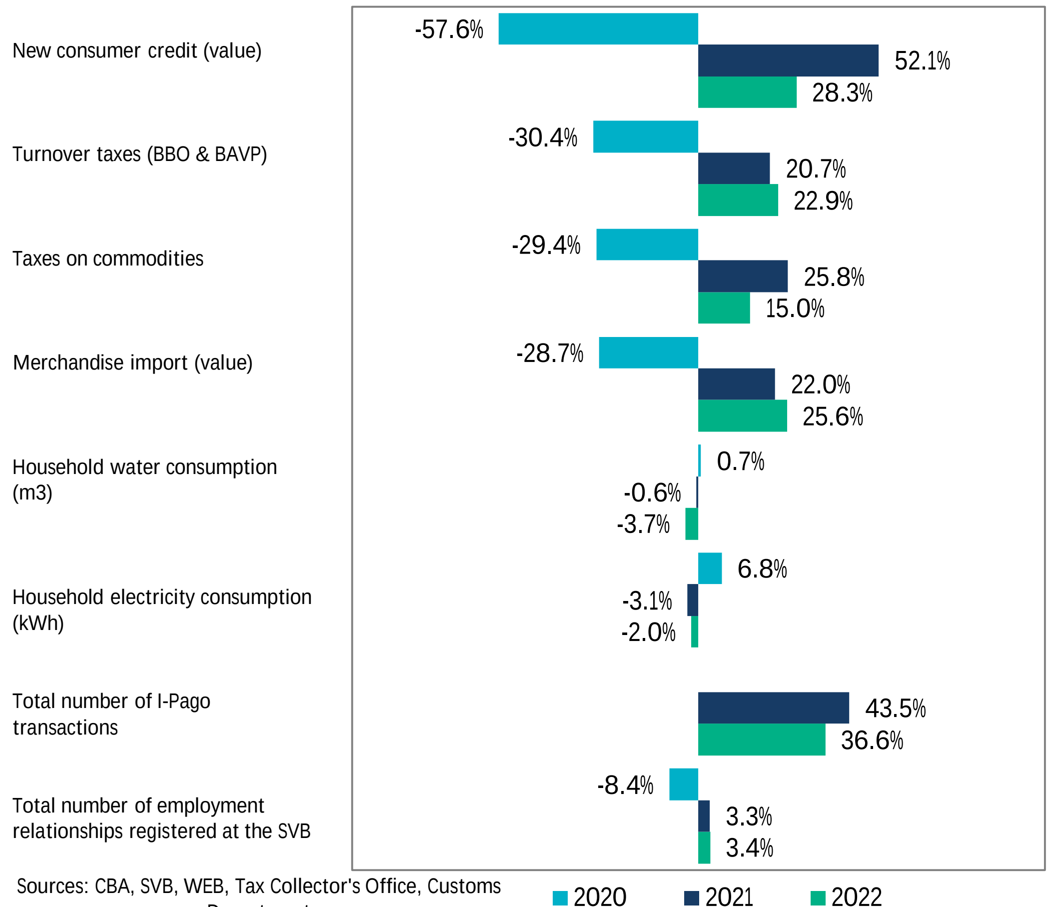
Consumption

In 2022, several consumption-related indicators improved versus 2021 (Chart 2). In particular, income from turnover taxes (+22.9 percent) and taxes on commodities (+15.0 percent) soared. The rise in revenue from turnover taxes and taxes on commodities reflected the buoyant tourism performance, improved domestic consumption, and higher prices throughout 2022. Additionally, the number of employment relationships registered at SVB expanded by 3.4 percent in 2022. The latter was similar to the growth witnessed in 2021 (+3.3 percent). Moreover, in 2022 merchandise imports (+25.6 percent) and iPago transactions (+36.6 percent) surged compared to 2021. Hereby confirming the aforementioned advancement in domestic demand and elevated prices of goods and services.

Household water (-3.7 percent) and electricity (-2.0 percent) consumption decreased in 2022 compared to 2021. This reduction is likely due in part to the utility price hikes in Q3 of 2022, whereby consumers became more aware of their consumption. In addition to the hike in utility tariffs, cooler temperatures may also have contributed to the decrease in household electricity consumption throughout the fourth quarter of 2022 vis-à-vis the same period in 2021. The drop in household electricity consumption was despite an uptick in household connections (+1.5 percent) and user numbers (+1.8 percent) in comparison to the previous year. While water consumption diminished in 2022, the effect of the tariff increases was noticed as the spending remained relatively flat (+0.2 percent) compared to the previous year. During Q4 of 2022, in particular, the price effect was more evident due to a surge in household spending on water (+9.3 percent), despite a drop in consumption (-8.8 percent).

In 2022, new consumer credit jumped by Afl. 28.3 million (+28.3 percent) compared to the previous year. This boost was driven by a 39.9 percent jump in the fourth quarter of 2022. The number of new consumer loans also shot up by an additional 923 loans (+21.2 percent) in 2022 compared to 2021. Between 2015 and 2020, new consumer credit largely decelerated. However, this trend reversed post-Covid, embarking on an upward path in 2021 and 2022. Nevertheless, at the end of 2022, the total value and number of new consumer credit remained below 2019-levels.

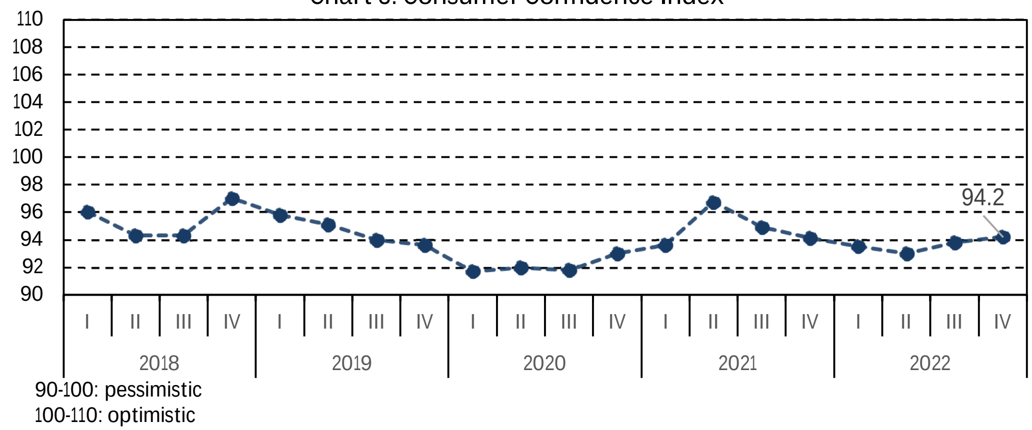
Chart 2: Consumption-related indicators
(YTD December 2022 vs. YTD December 2021)



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

In Q4 of 2022, the consumer confidence index (CCI) stayed virtually flat at 94.2 (+0.1 index point) compared to Q4 2021.(Chart 3). This development was attributed to an increase in the present situation index (+0.8 index point) and the consumption and borrowing index (+1.2 index points), which were almost entirely offset by the future situation index (-2.1 index points). In the consumption and borrowing index, respondents indicated it was more suitable to go on vacation (+5.8 percentage points versus Q4 2022) and take out a mortgage (+4.1 percentage points). Respondents also thought that conditions were more suitable for making large purchases, such as an automobile (+0.6 percentage point) or significant appliances (+1.8 percentage points). Furthermore, they indicated that it was more suitable to take out a loan (+3.8 percentage points). In general, the CCI average for the period 2022 Q1-Q4 amounted to 93.6 index points, indicative of a more pessimistic view than the period 2021 Q1-Q4, which stood at 94.8. In comparison to 2021, the lower 2022 CCI year-average is predominantly due to the relatively high overall index of Q2 2021 (96.7 vs 2022: 93.o index points). The particularly higher-than-average CCI Q2 2021 was related to an optimistic sentiment in the quarter’s future expectation index that amounted to 101.3 index points.

Chart 3: Consumer Confidence Index



Investment

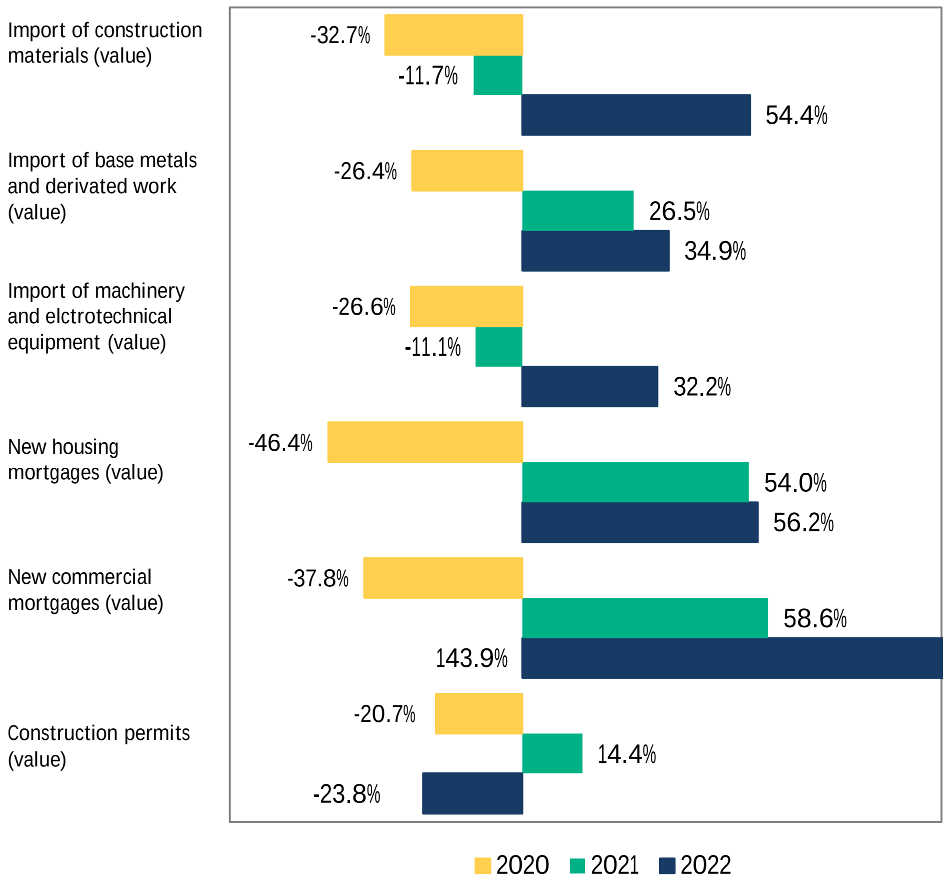
During 2022, almost all investment-related indicators advanced vis-à-vis 2021 (Chart 4). Both housing mortgages and the import of construction-related materials were boosted in 2022. In contrast, the value of new construction permits failed to keep pace.

Data on the value of new housing mortgages at local commercial banks surged during 2022. Specifically, the value of new housing mortgages widened by 56.2 percent, while the number of new housing mortgages went up by 34.9 percent. The positive developments in these indicators pointed to a likely growth in housing demand. The Consumer Confidence Survey (CCS) results on borrowing habits also reflected small progress in housing mortgages. In 2022, the average portion of CCS respondents who indicated that taking out a mortgage loan is “unsuitable” declined to 58.0 percent compared to an average of 59.7 percent in the year before. At the same time, the higher growth rate in mortgage value compared to the growth rate in the number of mortgages indicates that individuals have been building or buying more expensive houses. This tendency could have been related in part to rising prices for building materials, which might have affected the value of new housing mortgages. Furthermore, data on commercial mortgages paint a similar picture. In 2022, the value of new commercial mortgages recorded a 143.9 percent hike compared to 2021. The jump in new commercial mortgages value is the second-highest peak reported during the past decade. Back in 2013, this indicator noted an upswing of 179.3 percent. Parallel to housing mortgages, the development in the number of new commercial mortgages loans lagged behind the uptick in the new commercial mortgages' value. The former displayed a 44.8 percent increase in 2022. The difference in growth rates might also have been related in part to higher prices impacting the value of new commercial mortgages.

In 2022, the import of construction materials grew by 54.4 percent (Chart 4). This occurrence marked the first expansion after the COVID-19 pandemic. To be specific, the import of construction materials dropped by 32.7 percent in 2020 and 11.7 percent in 2021. The elevated growth rate of construction materials brought from abroad may have reflected soaring prices of construction materials in Aruba's import partners. Relevant stakeholders also noted this occurrence during the latest CBA GDP consultation mission in August-September 2022. Similarly, the import of machinery and electrotechnical equipment (+32.2 percent) and base metals and derivated works (+34.9 percent) trended up during 2022. The jump in the import of machinery and electrotechnical equipment was also the first expansion to be registered since COVID-19 (i.e., -11.1 percent in 2021 and -26.6 percent in 2020). Meanwhile, the increase in imports of base metals and derivated works was higher than that registered 2021 and 2020 (i.e., +26.6 percent in 2021 and -26.4 percent in 2020).

The value of aggregated construction permits lagged behind the developments mentioned above. In 2022, the value of construction permits contracted by 23.8 percent after increasing by 14.4 percent in 2021 (Chart 4). Nevertheless, this drop can be attributed to “outliers” in the sub-component “other” in 2021. Specifically, all sub-components of construction permits – houses (+10.3 percent), apartments (+149.0 percent), office buildings (+547.2 percent), as well as stores and shopping malls (+47.0 percent) – except “others” rose during 2022 compared to 2021. Conversely, the sub-category “other,” which mainly contains hotels and condominium projects, plunged by 66.8 percent. This sharp downturn was related to a large hotel permit granted in the second quarter of 2021. It should be noted that approved construction permits might not result in actual investments during that year. Therefore, the realized investment amount would likely differ from the construction permit value. The value of new construction permits, excluding the sub-category “other,” jumped by 78.2 percent in 2022 vis-à-vis 2021.

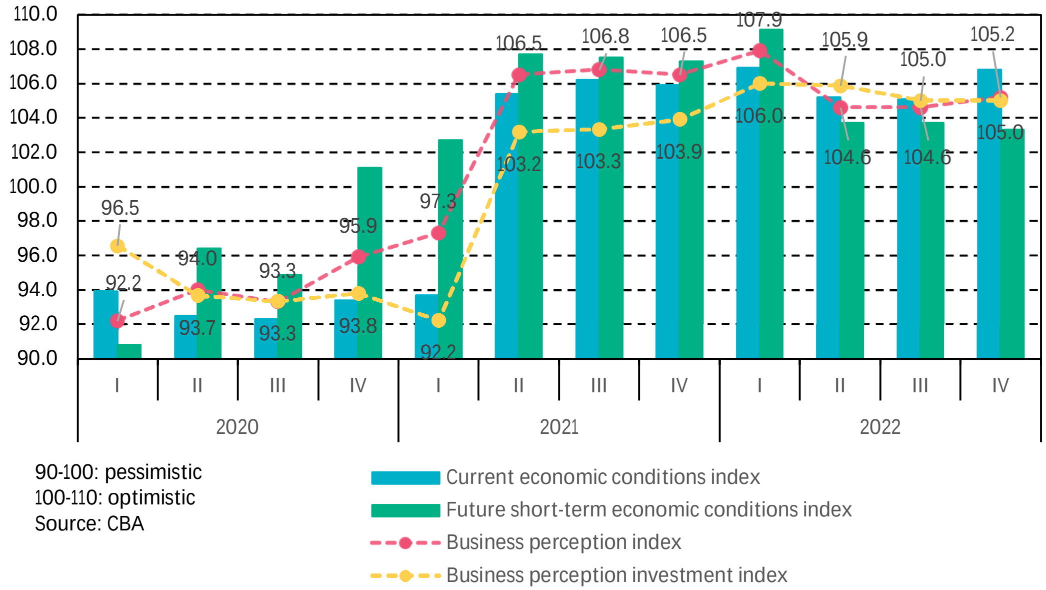
Chart 4: Investment-related indicators
(Percentage change current year vs. prior year)



Sources: CBA, CBS, DOW

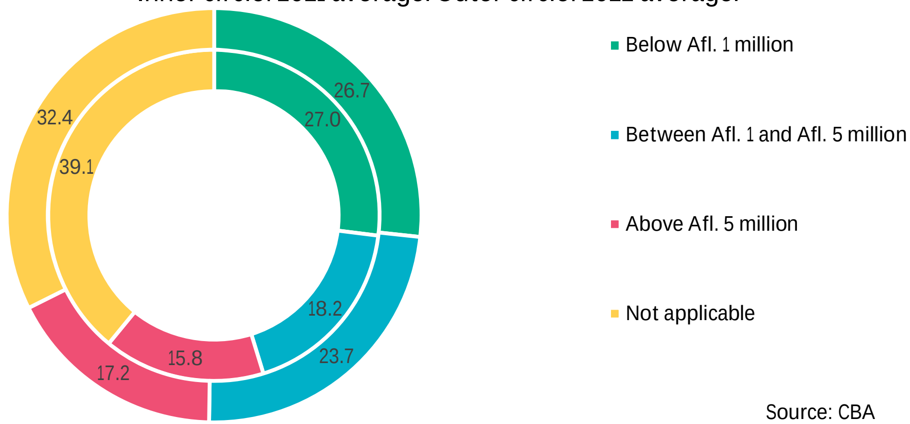
The Investment Index derived from the Business Perception Survey (BPS) mirrored the previously reviewed indicators . In 2022, the average Investment Index was 105.5 compared to 100.7 the previous year. The positive development in the Investment Index reflected improved investment conditions in Aruba. Moreover, in 2022, the BPS index – consisting of the current and future short-term economic conditions index – climbed to 106.7 vis-à-vis 106.4 in 2021 (Chart 5). The enhanced BPS index resulted from a gain in the current economic conditions index (i.e., from 106.1 in 2021 to 106.8 in 2022), while the future short-term economic conditions index remained unchanged at 106.7. In 2022, the BPS index (i.e., 106.7) once again surpassed the pre-COVID-19 levels (i.e., 99.8 in 2019 and 100.8 in 2018), demonstrating that business conditions in Aruba had bettered beyond the pre-pandemic sentiments. Planned investments over the next 12 months also painted a positive picture of the Aruban investment climate (Chart 6). In 2022, the average portion of businesses that do not have investment plans over the next 12 months declined by 6.7 percentage points compared to 2021. At the same time, the portion of businesses with investment plans between Afl. 1.0 and Afl. 5.0 million climbed by 5.5 percentage points, while those with investment plans above Afl. 5.0 million grew by 1.5 percentage points. Investments below Afl. 1.0 million declined by 0.3 percentage point, suggesting a shift from non-investments to investing above Afl. 1.0 million in 2022.

Chart 5: Business Perception Index



90-100: pessimistic
100-110: optimistic
Source: CBA

Chart 6: Investment plans of surveyed businesses
Inner circle: 2021 average. Outer circle: 2022 average.

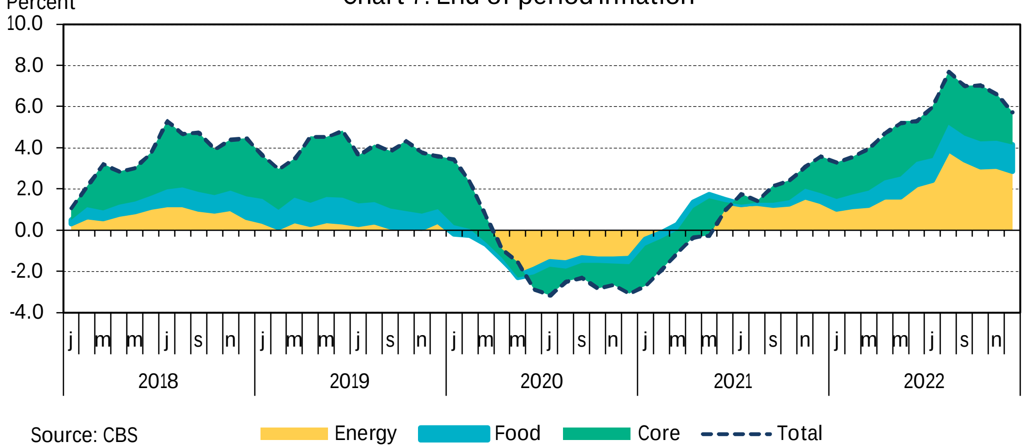


Source: CBA

Consumer Price Index (CPI)

At the end of the fourth quarter of 2022, the consumer price index (CPI) stood at 106.4, accelerating by 5.7 percent compared to the end of 2021 (Chart 7). After registering deflation for most of 2020, rising gasoline prices were the main force pushing inflation into positive terrain as of the second quarter of 2021. In 2022, energy and food prices primarily continued to drive up inflation, which peaked in the third quarter of 2022 (+7.7 percent) before relenting somewhat in the fourth quarter of 2022 (5.7 percent). The latter was principally due to gasoline prices rising at a slower rate compared to the fourth quarter 2021. In December 2022, increases in the housing (+3.0 percent), food and non-alcoholic beverages t (1.5 percent), and transport (+1.5 percent) components mainly spurred inflation compared to a year earlier. The housing component was affected, for the most part, by the tariff increases for water and electricity in August and September of 2022, and the food component was predominantly impacted by meat and bread, and cereal prices. The transport component was largely influenced by vehicle prices and, to a lesser extent, by gasoline prices. Additionally, recreation and culture (+0.1 percent), restaurants and hotels (+0.4 percent), and miscellaneous goods and services (0.1 percent) also contributed to inflation. On the other hand, household operation (-0.3 percent) and communication (-0.7 percent) mitigated the expansion in inflation primarily due to lower household appliance prices and telephone and telefax services prices, respectively. The end-of-period core inflation, which excludes the food and energy components, fell to 1.6 percent at the end of December 2022, down from 1.8 percent a year earlier.

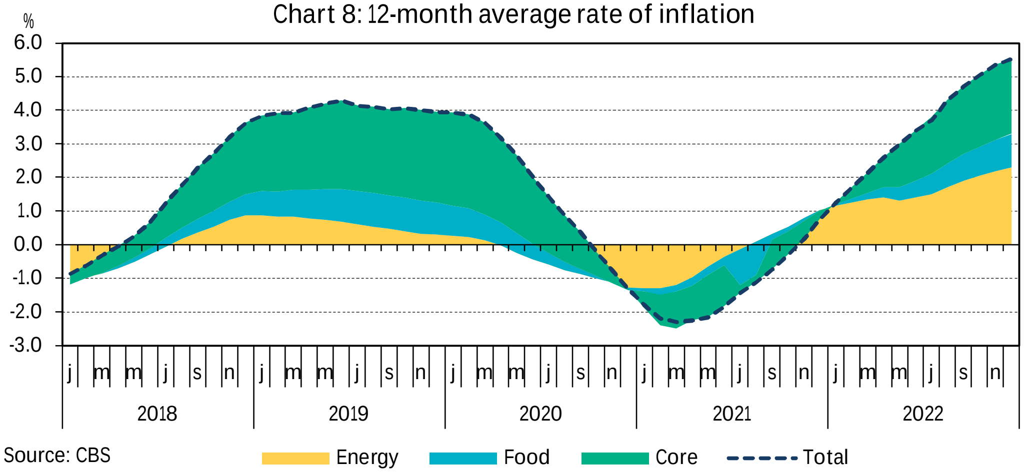
Chart 7: End-of-period inflation



Source: CBS

The 12-month average inflation continued its upward path since May 2021, rising steadily throughout 2022 and reaching 5.5 percent at the end of December 2022, its highest point in the past ten years (Chart 8). In 2021, inflation was primarily driven by higher gasoline prices, reflected in the transport component, while most other components stayed flat (Table 3). In 2022, inflation continued to advance as global supply and demand factors pushed up prices. In 2022, gasoline prices climbed further for the larger part of the year and edged down as of September 2022. As such, the transport component recorded 2.1 percent in December 2022 and remained the largest contributor to inflation. Additionally, in January 2022 food prices started to weigh on the 12-month average inflation, as the war in Ukraine and the drought impacted global food prices. Furthermore, the utility tariff increases in August and September 2022 put additional upward pressure on inflation. Consequently, the housing component contributed 1.3 percentage points at the end of 2022. Moreover, most other components led to higher inflation during 2022. The 12-month average core inflation, which excludes the food and energy components, quickened to 2.2 percent at the end of December 2022, up from -0.2 percent a year earlier.

Chart 8: 12-month average rate of inflation



Source: CBS

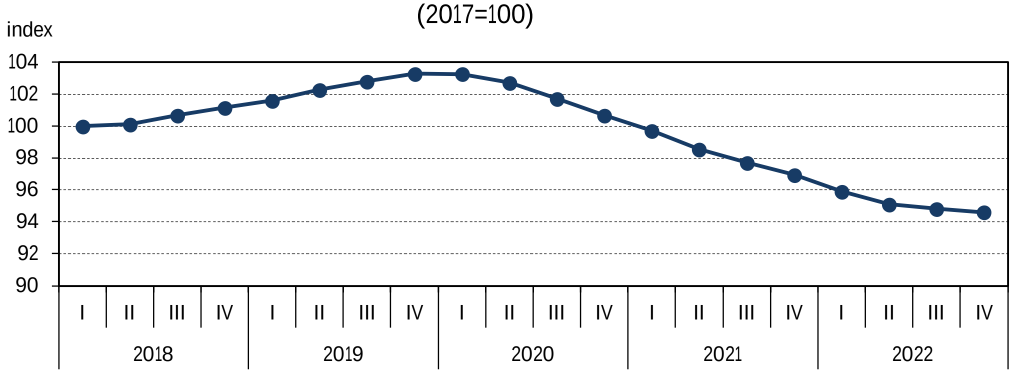
Table 3: 12-month average inflation component contributions

Description	2020	2021	2022
FOOD AND NON-ALCOHOLIC BEVERAGES	-0.1	0.0	1.1
BEVERAGES AND TOBACCO PRODUCTS	0.0	0.0	0.0
CLOTHING & FOOTWEAR	-0.1	-0.2	0.1
HOUSING	-0.4	0.2	1.3
HOUSEHOLD OPERATION	-0.3	-0.1	0.4
HEALTH	0.0	-0.1	0.0
TRANSPORT	-0.7	1.1	2.1
COMMUNICATION	0.0	0.0	-0.2
RECREATION AND CULTURE	0.1	-0.2	0.2
EDUCATION	0.0	0.0	0.0
RESTAURANTS AND HOTELS	0.1	0.0	0.3
MISCELLANEOUS GOODS AND SERVICES	0.0	0.0	0.2

International competitiveness

The real exchange rate for the Aruban florin vis-à-vis the U.S. dollar continued trending downward during 2022 (Chart 9). This downward trajectory had been occuring since the second quarter of 2020, and is indicative of an improvement in the competitive position of Aruba versus the United States. The prolonged improvement in the competitive position of Aruba vis-à-vis that of the United States resulted from consumer prices rising faster in the United States compared to consumer prices in Aruba (Chart 10). At the end of December 2022, the 12-month average for U.S. inflation reached 8.0 percent, driven primarily by energy and food prices[3]. During the same period, the transport and housing components mainly pushed up Aruba's 12-month average inflation rate to 5.5 percent. The latter reflected higher gasoline prices and increased water and electricity tariff rates in August and September 2022.

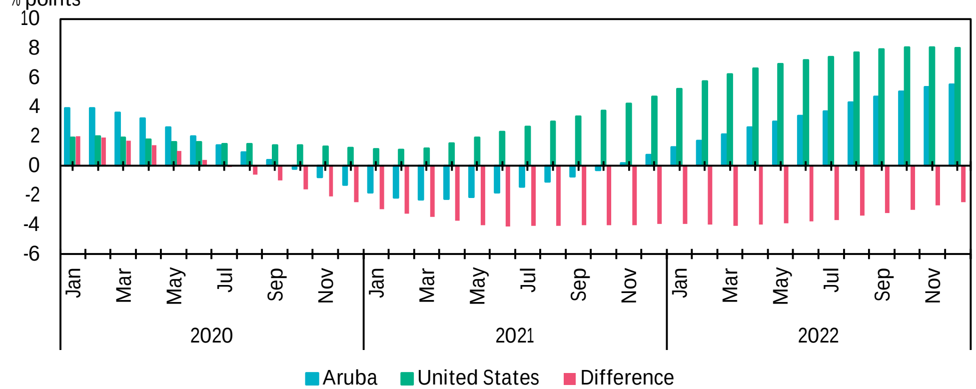
Chart 9: Real exchange rate Aruban florin vis-à-vis the U.S. dollar (2017=100)



Source: CBA

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

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



Calculations: CBA

Foreign trade

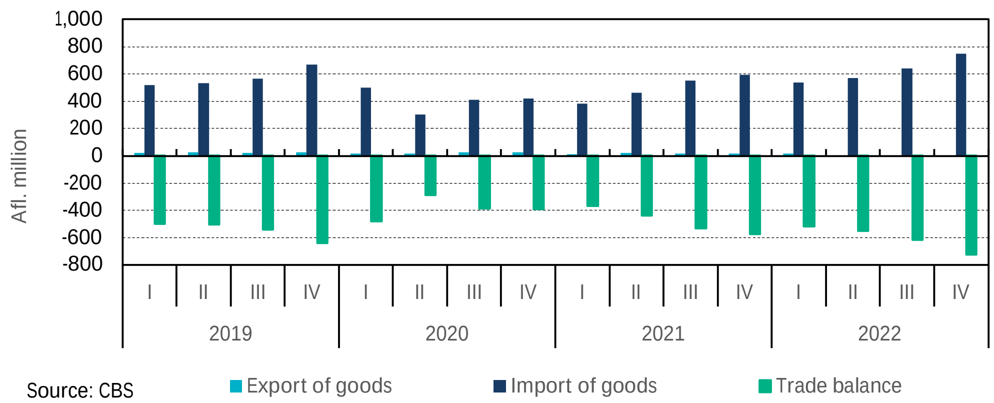
At the end of 2022, the trade balance deficit reached Afl. 2,420.4 million, translating to an Afl. 496.7 million or 25.8 percent expansion compared to 2021 (Chart 11). The registered trade balance deficit, the highest amount recorded from 1996 to 2022, has been trending upwards since 2021 after experiencing a steep contraction (i.e., -29.3 percent) in 2020.

This growing trade balance deficit resulted from soaring imported goods (i.e., +Afl. 506.9 million or +25.6 percent in 2022 versus 2021). The latter was likely related to the continued recovery in the tourism sector, paired with higher domestic consumption and investments. In addition, global inflation (i.e., an annual average of 8.8 percent in 2022 [IMF, 2023])[4], also put upward pressure on the value of imported goods. All import components – except for chemical products – grew during 2022 compared to 2021. The following growth rates were noted: transport equipment (+51.4 percent), base metals and derivated works (+34.9 percent), machinery and electrotechnical equipment (+32.2 percent), other goods (+30.2 percent), live animals and other animal products (+25.5 percent), and food products (+14.6 percent). The rising import of other goods was mainly the result of imports of mineral products (+57.9 percent), real pearls (natural) and other precious stones (+57.6 percent), and skins, hides, leather, and peltry (+42.7 percent). Conversely, the import of chemical products dwindled by 0.5 percent in 2022.

At the same time, the export of goods widened by Afl. 10.2 million (i.e., 17.4 percent) in 2022. Notable rises were recorded in the export of machinery and electrotechnical equipment (+62.5 percent) and live animals and other animal products (+35.1 percent).

[4] World Economic Outlook January 2023. The full report is available on: https://www.imf.org/en/Publications/WEO/Issues/2023/01/31/world-economic-outlook-update-january-2023

Chart 11: Foreign trade



Source: CBS

Balance of payments

In 2022, international transactions settled through the banking sector led to a net foreign exchange inflow of Afl. 223.4 million (Table 4). As a result, international reserves (excluding revaluation differences) amounted to Afl. 3,111.5 million at the end of December 2022. This outcome was related to a net inflow on the current account (Afl. 473.2 million), which more than offset the net outflows on the financial (Afl. 187.2 million) and capital (Afl. 10.4 million) accounts.

Table 4: Balance of payments (in Afl. million)

	2021	2022
Current account	83.8	473.2
Goods	-1,673.4	-2,099.9
Services	1,874.0	2,719.4
Primary income	-109.7	-160.2
Secondary income	-7.0	13.9
Capital account	29.3	-10.4
Financial account	777.4	-187.2
Direct investment	136.7	205.0
Portfolio investment	-57.4	-312.3
Financial derivatives	59.2	-6.4
Other investment	442.6	-61.2
Foreign accounts	196.3	-19.1
Items not yet classified	-59.0	-52.1
Change in international reserves (excluding revaluation differences)	831.5	223.4

Source: CBA

The Afl. 473.2 million net foreign exchange inflow on the current account stemmed predominantly from the Afl. 2,719.4 million net inflow on the services account (Table 4). Tourism revenue[5] (Afl. 3,611.1 million) was the principal contributor to the surge in the services account. Nevertheless, the exuberant tourism performance, responsible for elevated tourism

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

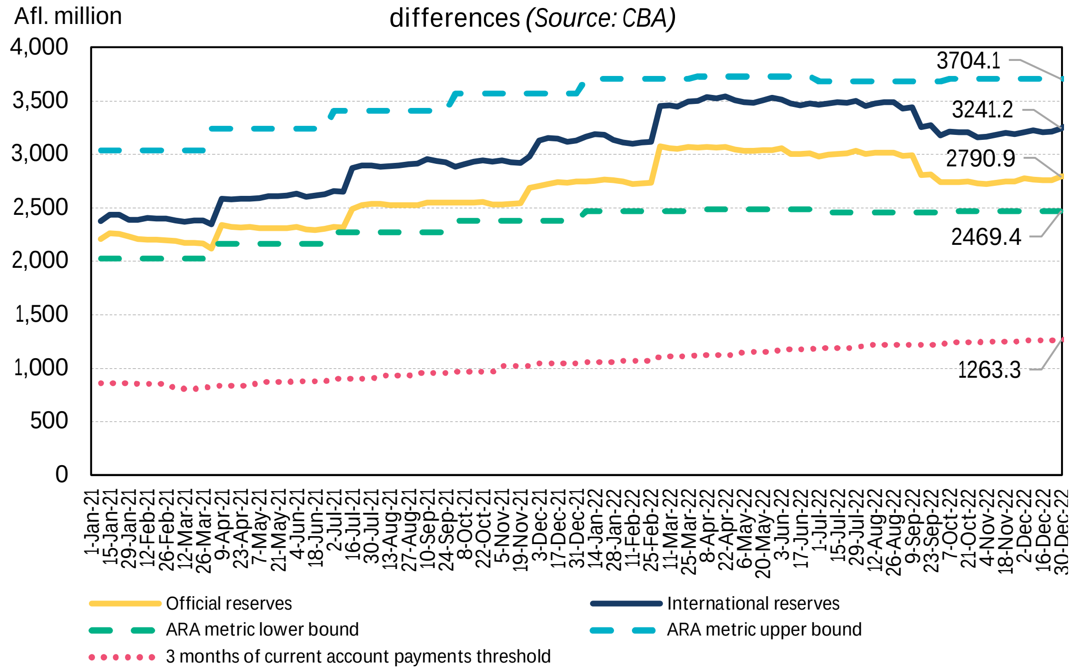
revenues, also drove the increase in foreign exchange outflows for the import of goods (Afl. 2,405.9 million). Consequently, the corresponding uptick in domestic consumption led to a registered net outflow of Afl. 2,099.9 million on the goods account. During the period under review, dividend payments and the government's interest payments on foreign loans contributed to a net outflow on the primary income account (Afl. 160.2 million). Hereby, it mitigated in part the net inflow on the current account.

In 2022, the financial account registered a deficit of Afl. 187.2 million and partially offset the net inflow on the current account (Table 4). The aforementioned deficit resulted from net outflows in all components of the financial account except for direct investment (Afl. 205.0 million). The positive outcome for direct investment reflected the real estate investments made by non-residents. Portfolio investment recorded a net outflow of Afl. 312.3 million, mainly driven by the repayment of maturing external debt by the government. The repayment of government bonds was financed through a loan between the Netherlands and the GoA, and was stated in the other investment account. However, the latter was offset in part by loan repayments made by the private sector, contributing to a net outflow on the other investment account (-Afl. 61.2 million). The outcome on the foreign accounts (-Afl. 12.3 million) mirrored for the most part hotels transferring funds to their foreign accounts. Note that the other investment account and the foreign accounts registered net outflows compared to net inflows in 2021. This reversal reflects the lower amount of Dutch loans (other investment account) and higher foreign exchange outflows to notified foreign bank and intercompany accounts (foreign accounts) in 2022 compared to 2021. The cessation of the COVID-19 related capital restrictions also played a role in the reversal seen in the foreign accounts.

Monetary survey

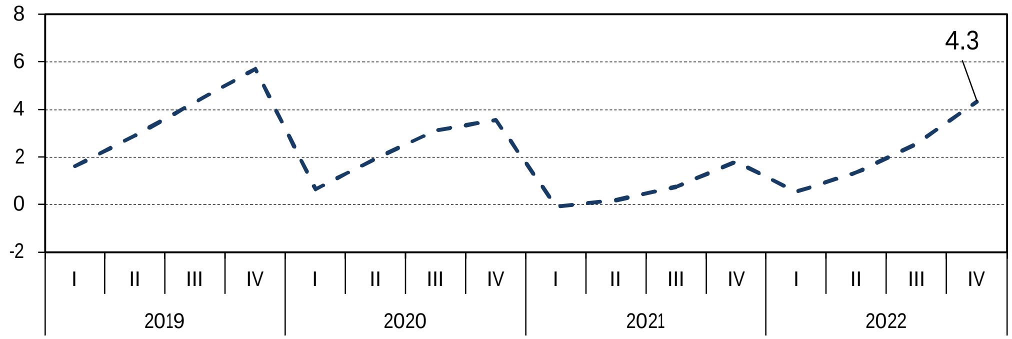
At year-end 2022, broad money expanded to Afl. 5,546.1 million (+Afl.180.6 million), up from Afl. 5,365.5 million at the end of 2021. The expansion resulted from a surge in net foreign assets (NFA) of Afl. 227.2 million, and was partly mitigated by an Afl. 46.6 million diminution in net domestic assets (NDA). The increased inflow of foreign funds related to tourism revenues and direct investment was the main contributor to an elevated level of NFA. As a result, official and international reserves continued to be adequate given the benchmarks the CBA observes (Chart 12). The International Monetary Fund's (IMF) Assessing Reserve Adequacy (ARA) metric was 113.0 percent at the end of December 2022 (end-2021:115.3 percent), while the current account coverage ratio fell to 7.6 months at year-end 2022 (end-2021: 9.0 months).

Chart 12: Official- and international reserves including revaluation differences *(Source: CBA)*



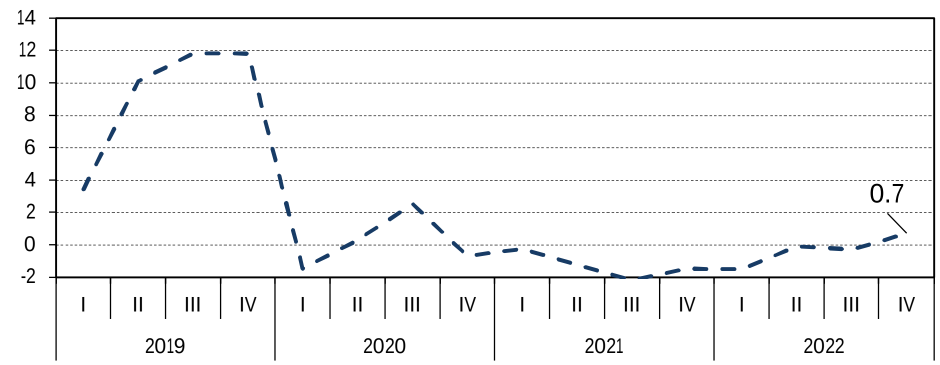
In 2022, net domestic assets continued its decreasing trend, falling to Afl. 2,434.6 million (-1.9 percent) in December 2022 compared to end-2021. The reduction was driven by a contraction in net claims on the public sector, mainly due to an increase in government deposits (+Afl. 63.7 million compared to 2021). Conversely, claims on private sector surged at the end of 2022, reaching Afl. 3,481.4 million (+58.1 million compared to the end of 2021). Loans to individuals largely propelled this increase (+Afl. 47.4 million), particularly, housing mortgages (+Afl.64.5) (Chart 13), and offset in part by consumer credit (-Afl. 17.1 million). Additionally, loans to enterprises contributed to the uptick during 2022 with Afl. 10.8 million compared to 2021 (Chart 14).

Chart 13: Housing mortgages - monetary survey
(year-to-date growth rates)



Source: CBA

Chart 14: Loans to enterprises - monetary survey
(year-to-date growth rates)

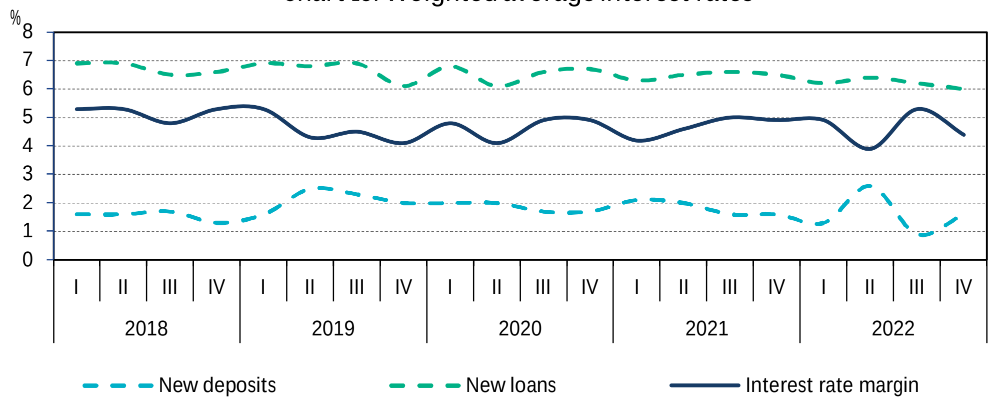


Source: CBA

At year-end 2022, the aggregated balance sheet for the nonmonetary financial institutions dropped to Afl. 6,995.8 million, a decrease of Afl. 29.9 million compared to year-end 2021. In terms of assets, the decline was brought about by foreign assets (-Afl. 166.3 million), while claims on both enterprises (-Afl. 6.8 million) and government also recorded declines (-Afl. 13.6 million). The reduction in assets was mitigated mainly by higher other domestic claims (+Afl. 128.2 million) and claims on individuals (+Afl. 20.4 million). On the liabilities side, the fall-off was caused by total other domestic liabilities (-Afl. 261.0 million), mostly due to a drop in capital and reserves. The latter was largely offset by the insurance reserve fund (+Afl.113.1 million) and pension fund provision (+Afl. 108.0 million).

The weighted interest rate margin shrank by 0.2 percentage point, reaching 4.5 percent at end-2022 compared to 4.7 percent at end-2021 (Chart 15). The contraction stems from a decline in the weighted average interest rate on new loans from 6.5 in 2021 to 6.2 in 2022 and a weighted average rate of interest on new deposits reduction of 0.1 percentage point compared to 2021. The decrease in the interest rate on new loans was due to a 0.4 percentage point decline in interest charged on consumer credit versus the rate charged in 2021. Additionally, fall-offs in interest rates charged on housing mortgages (-o.2 percentage point) and commercial mortgages (-0.3 percentage point) contributed to this drop. Conversely, interest rates on commercial loans remained unchanged compared to 2021. Meanwhile, the average interest rate on deposits decreased by 0.1 percentage point in 2022, compared to the previous year. This resulted from a downturn in interest rates on time deposits greater than 12 months, while interest rates on time deposits less than 12 months stayed unchanged in 2022 versus 2021. Furthermore, savings deposits also saw a downturn of 0.2 percentage point in 2022 compared to 2021.

Chart 15: Weighted average interest rates



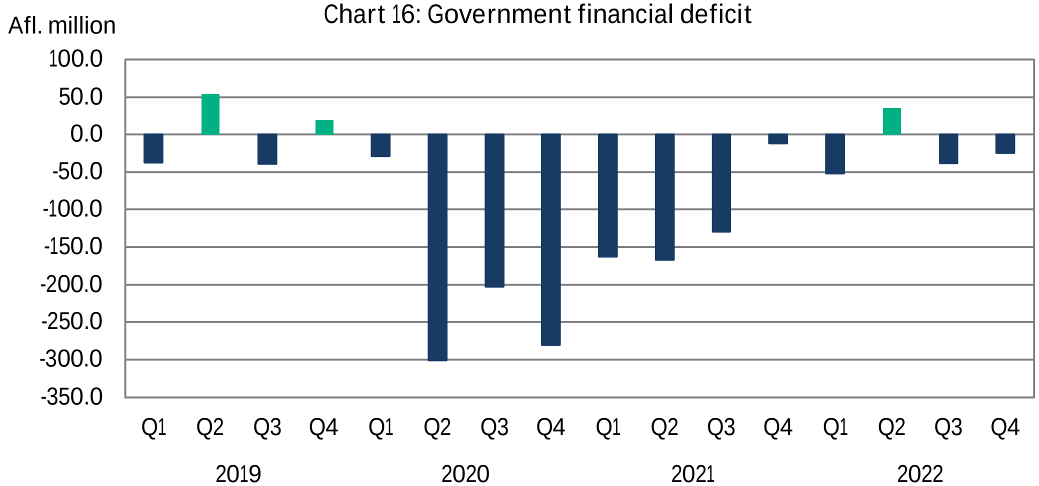
Source: CBA

The financial soundness indicators denoted a more robust performance of commercial banks throughout 2022 versus 2021. The capital adequacy ratio continued to increase during 2022. Overall, indicators of the quality of assets held by commercial banks also performed well. Nonperforming loans (NPL) contracted to 3.5 percent in 2022 compared to 4.7 percent in 2021. At the same time, the Prudential Liquidity Ratio (PLR) fell to 29.8 percent at year-end 2022, representing an 8.2 percentage points reduction from year-end 2021. However, earnings and profitability indicators either remained unchanged or decreased in 2022, versus 2021, except for noninterest expenses to gross income (+2.0 percentage points).

Government

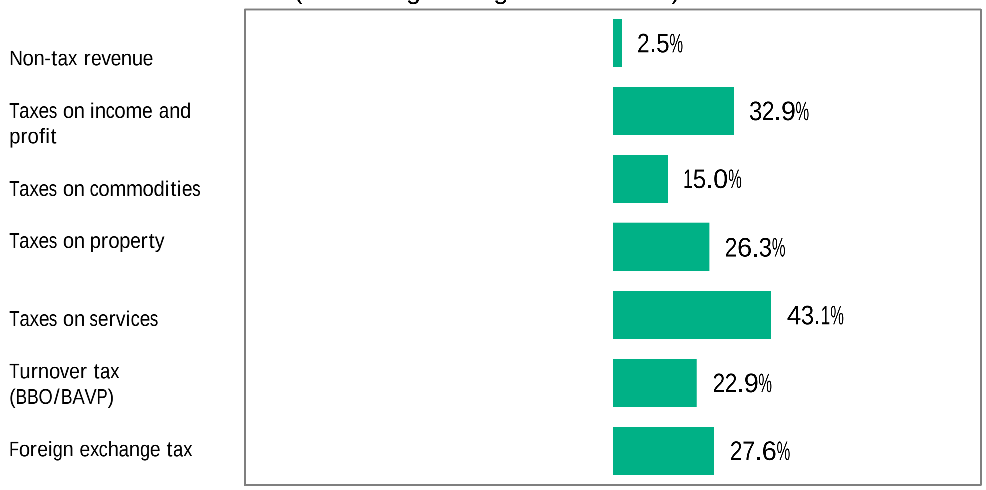
In 2022, government finance data show a marked improvement in the government's financial position, as the fiscal deficit amounted to Afl. 79.4 million, compared to Afl. 471.2 million in 2021 (Chart 16). The reduction in the government deficit stemmed primarily from an Afl. 235.7 million upturns in government revenues, while government expenditures went down by Afl. 153.0 million. These positive developments reflect the solid economic performance driven by the sustained recovery of the tourism sector and the absence of the government's COVID-19-related financial assistance programs. These generous programs targeted individuals and businesses during 2020 and 2021.

Chart 16: Government financial deficit



In 2022, government revenues expanded by Afl. 235.7 million (+21.6 percent) to Afl. 1,326.4 million, from Afl. 1,090.7 million in 2021. This expansion came about from an Afl. 232.0 million (+24.6 percent) increase in tax revenues, complemented by an Afl. 3.8 million (+2.5 percent) rise in nontax revenues. All tax components registered an upturn (Chart 17) in line with the sustained economic recovery driven by the buoyant tourism sector performance. Non-tax revenues rose largely due the reclamation of wage subsidies that were unduly paid out during the pandemic. Higher income from taxes on income and profit (+Afl. 93.7 million; +32.9 percent), taxes on commodities (+Afl. 45.0 million; +15.0 percent), and the turnover tax (+Afl. 41.5 million; +22.9 percent) contributed significantly to the overall growth in tax revenues. In 2022, the expansion in the profit tax collected (+Afl. 48.2 million; +60.2 percent) reflected improved economic conditions during the previous year. Furthermore, the strengthening of the transfer tax income (+Afl. 21.7 million; +85.6 percent), which is a sub-component of taxes on property (+Afl. 26.2 million; +26.3 percent), pointed to a booming real estate market. Nevertheless, tax (-Afl. 63.2 million; -5.1 percent) and nontax (-Afl. 12.8 million; -7.7 percent) revenues fell short of their pre-pandemic 2019 values. With regard to tax revenues vis-à-vis 2019-levels, the improvements in revenue from taxes on property (+Afl. 33.7 million; +36.7 percent), taxes on commodities (+Afl. 6.9 million; +2.0 percent), the turnover tax (+Afl. 7.0 million; +3.2 percent), and the foreign exchange tax (+Afl. 3.2 million; +6.2 percent) did not suffice to counterbalance the declines in income from taxes on income and profit (-Afl. 108.0 million; -22.2 percent) and taxes on services (-Afl. 6.1 million; -11.7 percent).

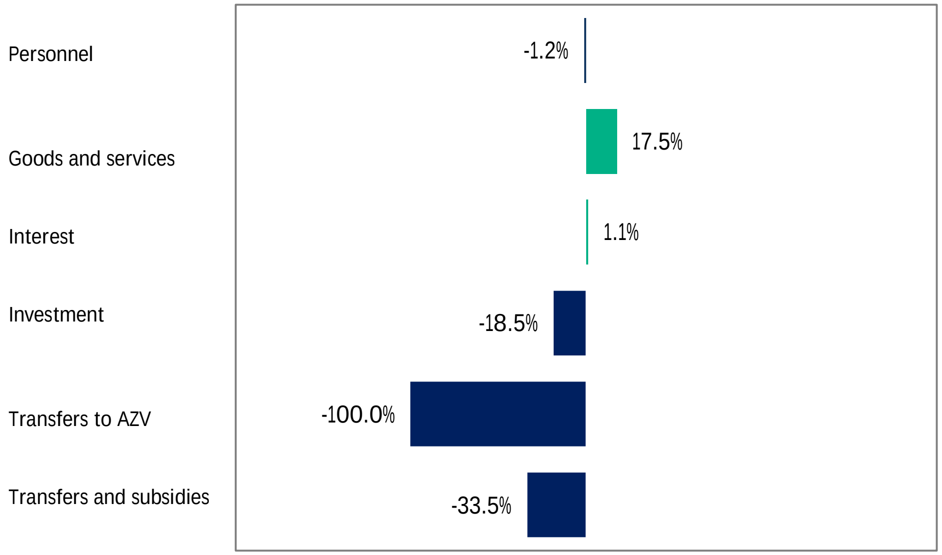
Chart 17: Government revenues
(Percentage change 2022 vs. 2021)



Source: Tax Collector's Office

In 2022, government expenditures contracted by Afl. 153.0 million (-6.6 percent) to Afl. 1,393.4 million, from Afl. 1,546.6 million in 2021. Lower spending on transfers and subsidies (-Afl. 138.0 million; -33.5 percent), transfer to General Health Insurance (AZV) (-Afl. 56.2 million; -100.0 percent), and wage subsidies (-Afl. 7.0 million; -6.5 percent) mostly drove the decreases mentioned above (Chart 18). These declines point to the post-pandemic economic recovery and the termination of the government's COVID-19-related financial assistance programs. On the other hand, spending on goods and services registered a notable upturn (+Afl. 47.7 million; +17.5 percent), which partially mitigated the downturns in the transfers and subsidies components. The year 2022 recorded slightly elevated total government expenditures (+Afl. 3.9 million; +0.3 percent) compared to the pre-pandemic 2019-level. Spending on transfers and subsidies (+Afl. 47.8 million; +21.1 percent), goods and services (+Afl. 36.8 million; +13.0 percent), and interest (+Afl. 28.0 million; +12.9 percent) surpassed their respective 2019-level, and personnel costs declined (-Afl. 86.4 million; -Afl. 13.8 percent). The latter reflects the COVID-19-related public-sector wage cuts partly in place in 2022.

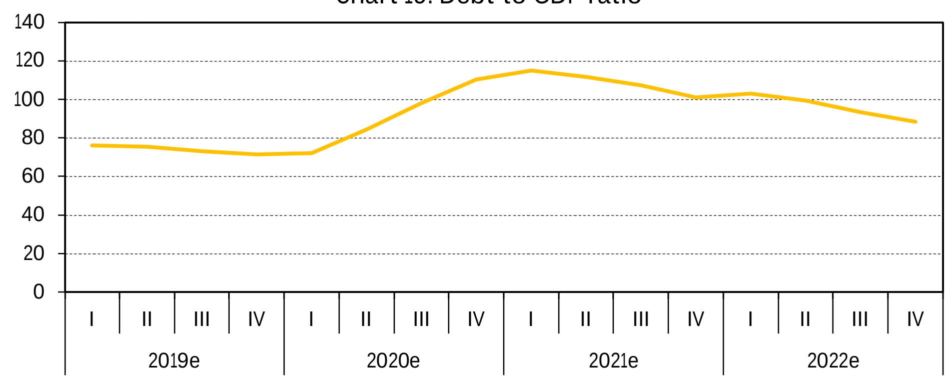
Chart 18: Government expenditure (Percentage change 2022 vs. 2021)



Source: Tax Collector's Office

At the end of December 2022, government debt rose by Afl. 62.0 million (+1.1 percent) to Afl. 5,717.6 million, compared December 2021. This upturn was the outcome of an increase in domestic (+Afl. 36.0 million; +1.7 percent) and foreign (+Afl. 26.1 million; +0.7 percent) debt. The issuance of government bonds (+Afl. 76.4 million; +6.3 percent) in the fourth quarter of 2022 pushed up domestic debt, despite an Afl. 40.5 million (-5.1 percent) contraction in non-negotiable debt. Foreign debt expanded, mainly due to an Afl. 354.8 million (+32.5 percent) surge in debt to the government of the Netherlands. This debt is related in large part to an external loan agreement and a short-term liquidity loan related to COVID-19. Meanwhile, financial distribution in debt to the United States (-Afl. 206.5 million; -20.5 percent) and other outstanding debt (-Afl. 121.5 million; -8.5 percent) decreased. On a quarter-on-quarter basis, the end of December 2022 marked the third consecutive quarter in which the outstanding level of government debt contracted after a sustained pandemic induced expansion in government debt since the second quarter of 2020. Nonetheless, the end-of-December 2022 government debt level surpassed all previous debt levels, pushing up debt servicing costs and adversely impacting economic growth. However, the estimated debt-to-GDP ratio at the end of December 2022 shrank to 88.3 percent, down from 100.9 percent at the end of December 2021 (Chart 19), which is related to higher economic output during 2022. The share of domestic debt stood at 37.7 percent, while that of foreign debt amounted to 62.3 percent.

Chart 19: Debt-to-GDP ratio



Calculations: CBA
e = estimated

II. International developments

Global growth is estimated to have slowed to 2.9 percent in 2022. The fight against inflation contributed to worsening global financial conditions, which had a drag on economic activities and output (Table 5)[6]. Moreover, asset prices declined, investment weakened, and housing markets in many countries deteriorated. Furthermore, the war in Ukraine shocked commodity markets, particularly in energy. In all, confidence fell markedly in 2022. Financial conditions worsened, especially for less creditworthy emerging markets and developing

[6] According to the *Global Economic Prospects* published by the World Bank in January 2023.

economies (EMDEs). Narrowed fiscal space brought about concerns over debt sustainability, as global financial conditions made it more difficult to service debt loads. Commodity prices eased in the second half of the year, owing largely to the slowdown in global growth. However, these prices remained high by historical norms and prolonged challenges associated with energy and food security. In 2023, global growth is projected to slow further to 1.7 percent, reflecting more aggressive monetary policy tightening, deteriorating financial conditions, and declining consumer and business confidence.

Table 5: Projections for the world economy and selected economies (Real GDP growth, in percent)

Indicator	2022e	2023f
World	2.9	1.7
United States	1.9	0.5
Euro Area	3.3	0
Latin America and the Caribbean	3.6	1.3

Source: World Bank

For 2022, advanced economies are estimated to have grown by 2.5 percent, as conditions worsened sharply after mid-2022. High inflation eroded household purchasing power and weakened confidence. Furthermore, rapid monetary tightening weighed on demand, and housing prices and property-related activity cooled. In the United States, growth is estimated to have slowed to 1.9 percent. Rising food and energy prices, together with a tight labor market, pushed inflation to multi-decade highs in 2022, leading to aggressive monetary policy tightening. As such, economic activity contracted, as domestic demand weakened, and residential investment softened. In the euro area, soaring energy prices and supply uncertainties undermined activity substantially. Consequently, euro area growth is estimated at 3.3 percent for 2022, down from 5.3 percent in 2021.

In 2022, activity in EMDEs decelerated sharply, slowing growth to an estimated 3.4 percent. Global financial conditions tightened, while high inflation weighed on consumer demand. Furthermore, weakness in the world's largest economies dampened exports and spillovers from the war in Ukraine persisted. In many EMDEs, inflation outpaced nominal wage growth, denting real incomes and slowing consumption. Higher borrowing costs, weaker confidence, and elevated uncertainty reduced investment. Nonetheless, a rebound in tourism led to stronger-than expected growth in tourism-reliant economies.

In Latin America and the Caribbean (LAC), growth is estimated at 3.6 percent for 2022, resulting from robust expansion in the first half of the year. Steady labor markets and lagged effects of fiscal transfers boosted consumer spending. However, in late 2022 activity weakened across most large LAC economies, as the global economic slowdown spilled into the region. Subdued industrial production contributed to the economic deceleration, as rising domestic and global interest rates tightened financial conditions. Energy exporters continued to benefit from high fossil fuels prices, while slowing external growth weighed on metal prices and the export earnings of metal producers. Surging tourism led to an estimated growth in the Caribbean of 7.7 percent for 2022. However, for some Caribbean countries that are highly indebted, external financing needs appear large relative to GDP.

III. Conclusion

In 2022, the Aruban economy grew by an estimated 9.6 percent in real terms compared to 2021. This real output was mainly carried by solid tourism performance. To a lesser extent, Private consumption also contributed to the uptick in real GDP, albeit to a lesser extent, reflecting increased local demand for goods and services. The latter was likewise evident in higher imports, while investments remained relatively flat.

Most tourism indicators surged during 2022, driven largely by buoyant tourism demand from the United States. The hikes in the number of stay-over visitors (+36.5 percent), total visitor nights (+33.0 percent), and tourism revenue (+36.6 percent) reflected enhanced tourism-related activities performance, positively impacting hotel-sector performance. Consequently, the average hotel occupancy rate reached 75.0 percent (+18.5 percentage points), while the average RevPAR strengthened to $231.9 (+57.7 percent) compared t0 2021. Compared to 2019-levels, tourism revenue recovered by 124.1 percent, driven by boosted tourism revenue per night (+27.8 percent), despite a decline in total visitor nights (-3.0 percent) during 2022 compared to 2019.

Consumption-related indicators painted a mostly positive picture of 2022 compared to the same period in 2021. Improved income from taxes on commodities (+15.0 percent), and the turnover tax (BBO/BAVP) (+22.9 percent) mirrored elevated economic activity, as well as the higher prices for goods and services. Furthermore, the number (+21.2 percent) and value of new consumer credit loans (28.3 percent) grew compared to 2021. Moreover, total number of employment relationships registered at SVB expanded by 3.4 percent, indicating gains in the labor market conditions, consistent with the observed performance of the tourism sector. Furthermore, the Consumer Confidence Survey rose marginally by 0.1 index point to 94.2 in the last quarter of 2022 compared to the same quarter in 2021.

During 2022, investment-related indicators improved compared to the same period in 2021; however, most gains were inflation-driven. Data from the Business Perception Survey (BPS) align with the other investment-related indicators as the derived BPS investment index rose on average from 100.7 in 2021 to 105.5, remaining positive since the second quarter of 2021.

At the end of 2022, the end-of-period inflation climbed to 5.7 percent, pushed mostly by higher food, housing, and transport prices compared to the same period in 2021 (December 2021: 3.6 percent). Furthermore, the 12-month average inflation rate rose from 0.7 percent in December 2021 to 5.5 percent in December 2022.

During 2022, the real exchange rate for the Aruban florin vis-à-vis the U.S. dollar followed a downward path, which started in the second quarter of 2020. This indicated an improved competitive position of Aruba vis-à-vis the United States. The prolonged strengthening in the competitive position of Aruba compared with the United States resulted from consumer prices rising faster in the United States than in Aruba (Chart 10).

International transactions settled through the banking sector led to a significant net foreign exchange inflow of Afl. 223.4 million in 2022. This outcome stemmed from a net inflow on the current account boosted by tourism sector activities. The latter was mitigated by recorded net outflows on the financial and capital accounts following the lifting of the pandemic-related capital restrictions.

In 2022, finance data of the government indicate a significant improvement in the government's financial position, as the fiscal deficit amounted to Afl. 47.5 million, compared to Afl. 494.8 million in 2021 (Chart 16). The reduction in the government deficit resulted from an Afl. 235.7 million upturns in government revenues, while government expenditures went down by Afl. 153.0 million. These developments reflect a solid economic performance driven by the sustained recovery of the tourism sector, as well as halting of the government's COVID-

19-related financial assistance programs. These relative generous programs targeted individuals and businesses during 2020 and 2021.

At the end of September 2022, government debt expanded by Afl. 62.0 million to Afl. 5,717.6 million compared to December 2021. Since the second quarter of 2020, the pandemic caused a steady climb in government debt quarter-on-quarter. However, the continued strong economic recovery led to a significant reduction in the GoA liquidity needs and subsequent borrowing needs in 2022. Despite the higher debt level, economic growth effected a decline in the estimated debt-to-GDP ratio as it stood at 88.3 percent, down from 100.9 percent at the end of 2021.

In January 2023, the World Bank released its most recent global economic prospects, which showed that the global growth projection remained at 2.9 percent for 2022, while for 2023, the projection was revised downward to 1.7 percent (-1.3 percent from the June 2022 outlook). The fight against inflation contributed to worsening global financial conditions that dragged down global economic activity and output.

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