CENTRALE BANK VAN ARUBA

Continued solid tourism sector performance boosted economic growth in the first half of 2023

Press release

November 6, 2023

Today, the Centrale Bank van Aruba (CBA) published the State of the Economy report for the second quarter of 2023. The publication contains a review and analysis of national and international economic developments. The highlights of this publication are presented below.

In the first two quarters of 2023, tourism remained the main engine of economic growth, although showing initial signs of pre-pandemic normalization in Q2 2023. During the first six months of 2023, almost all tourism-related indicators improved compared to the same period of 2022 (Table 1). The total number of stay-over visitors jumped by 15.6 percent year to date (YTD) June 2023 compared to the same period of 2022. Nonetheless, the strong jump experienced in the first quarter of 2023 (+31.1 percent YoY) leveled out in the second quarter of 2023 (+3.3 percent YoY). As for the hotel industry indicators, hotel occupancy rose to 79.3 percent YTD June 2023 compared to 71.1 percent during the same period in 2022. Additionally, the average daily rate (ADR) strengthened significantly (+15.0 percent) while the average length of stay decreased from 7.2 to 7.1 nights in the first half of 2023 compared to the same period of 2022. As a result, revenue per available room (RevPAR) expanded by a marked 28.2 percent. Following the above-mentioned developments, tourism revenue climbed by 22.5 percent in the first half of 2023.

Table 1: Tourism indicators for Aruba
YTD June

	2019	2022	2023
Stay-over visitors	575,649	528,325	610,582
Average length of stay (in nights)	7.3	7.2	7.1
Total visitor nights	4,205,785	3,825,924	4,355,396
Cruise visitors	435,112	263,472	499,442
Hotel occupancy (%)	86.2	71.1	79.3
Average daily rate (US$)	301.0	316.7	364.1
Revenue per available room (RevPAR) (US$)	259.3	225.2	288.8
Tourism revenue per night (in Afl.)	337.1	424.1	456.2
Tourism revenue* (in Afl. million)	1,417.9	1,622.6	1,987.0

Sources: CBA, ATA, AHATA. Table shows 2019 for comparison with pre-COVID period.

*Only those registered at local commercial banks.

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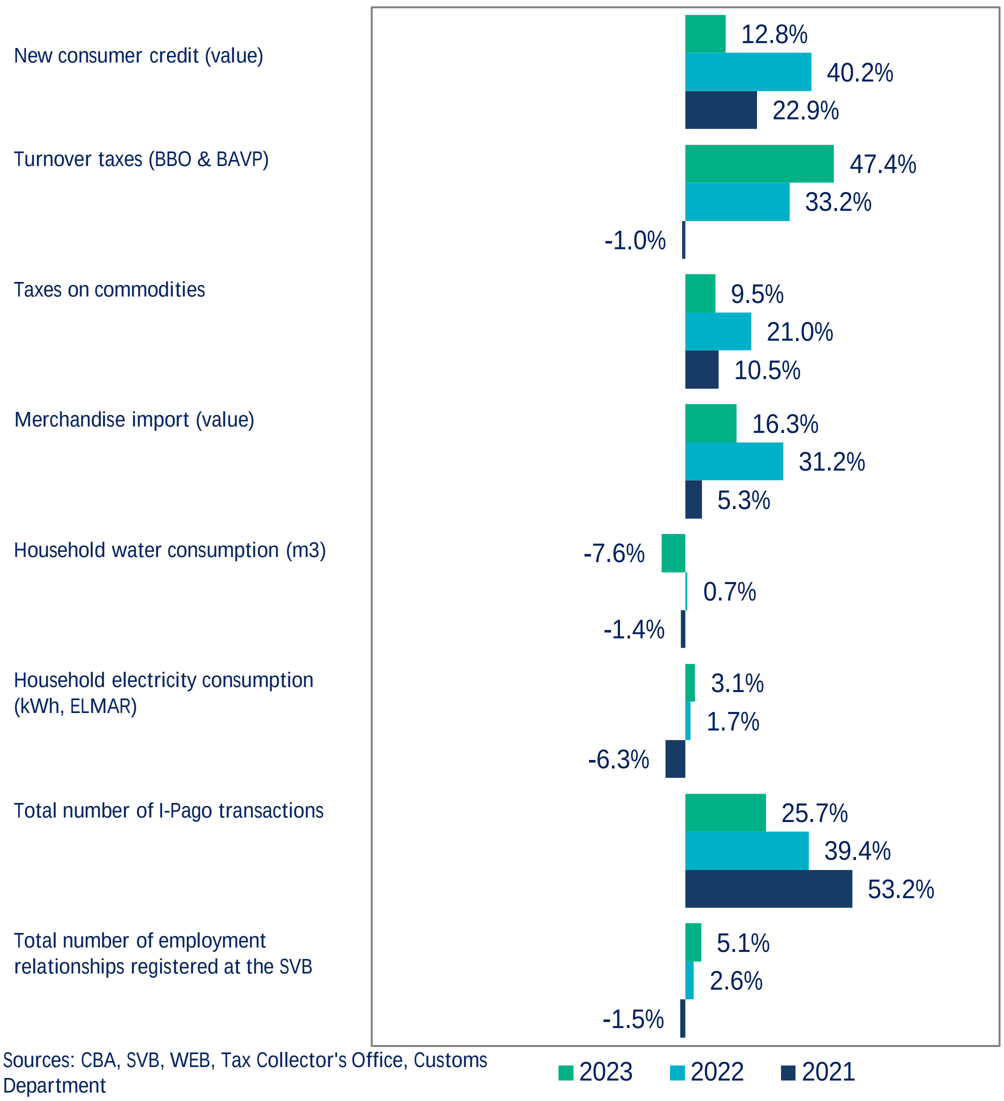
In the first two quarters of 2023, most consumption-related indicators signaled stronger economic conditions (Chart 1). Income from the turnover tax (BBO & BAVP) and taxes on commodities expanded due to heightened economic activity, higher prices, and the 1.0 percent B.B.O. rate hike implemented on January 1, 2023. Moreover, the total number of employment relationships registered at SVB advanced by 5.1 percent, indicating enhanced labor market conditions, consistent with the observed performance of the tourism sector. Data from local commercial banks corroborate the indicated growth in domestic demand, as the total number of I-Pago transactions, as well as the total number and value of new consumer credit loans rose compared to the first two quarters of 2022.

Chart 1: Consumption-related indicators
(YTD June 2023 vs. YTD June 2022 vs. YTD June 2021)



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

During the period under review, investment-related indicators continued to show mixed developments. Business credit indicators registered contractions, while import and permits indicators rose compared to the same period in 2022. Data from the CBA's Business Perception Survey (BPS) sided with the credit indicators, as they also did not reflect optimism with regard to investment. Consequently, in the first two quarters of 2023, the Investment Index fell to 105.0, down from 105.9 recorded during the first two quarters of 2022. While the respondents indicated that current investment conditions in Aruba had improved, the share of businesses with investment plans over the next 12 months inched down compared to the same period in 2022.

In the first half of 2023, the 12-month average inflation inched down after reaching its peak of 6.3 percent in April 2023. The 12-month average inflation totaled 5.9 percent in June 2023. The upward pressure on prices mostly came from the components housing (following the increase in utility tariffs of August and September 2022) and transport, as well as food and non-alcoholic beverages. Meanwhile, the 12-month average core inflation accelerated to 2.3 percent at the end of June 2023, up from 1.5 percent at the end of June 2022.

Analyzing the results of the balance of payments, international transactions settled through the commercial banking sector gave rise to a net foreign exchange outflow of Afl. 106.3 million during the first half of 2023 (Table 2). The financial account predominantly caused this outcome as it incurred a net outflow of Afl. 379.6 million during the period under review. The latter was largely driven by the local refinancing of a foreign loan by the private sector. The net inflow on the current account, related to tourism services, only partially mitigated the financial account deficit. Moreover, the capital account recorded a net outflow, while "items yet not classified" registered a net inflow during the first two quarters of 2023.

Table 2: Balance of payments (in Afl. million)*	YTD Q2 2022	YTD Q2 2023
Current account	180.8	216.2
Goods	-979.0	-1,024.0
Services	1,197.5	1,494.7
Primary income	-54.0	-235.9
Secondary income	16.3	-18.6
Capital account	-6.1	-6.3
Financial account	-144.7	-379.6
Direct investment	113.9	88.8
Portfolio investment	-102.0	-97.9
Financial derivatives	4.7	-1.2
Other investment	-86.9	-110.1
Foreign accounts	-74.5	-259.1
Items not yet classified	4.7	63.4
Change in international reserves (excluding revaluation differences)	34.7	-106.3

Source: CBA
*Transactions recorded through local commercial banks.

Up to the end of June 2023, the financial position of the GoA, on a cash basis, registered a financial surplus of Afl. 133.2 million. following an Afl. 16.8 million deficit a year before. This turnaround represented a jump in revenues, which was partly mitigated by higher government expenditures. Moreover, government revenues exceeded the level registered during the first half of 2019.

Data on outstanding government debt shows that total government debt fell to Afl. 5,633.1 million in June 2023, down from Afl. 5,717.6 million in December 2022. This reduction was brought about by lower foreign and domestic debt, while the debt owed to the Dutch government for liquidity support (Afl. 915.5 million) stayed unchanged compared to December 2022. Total government debt continued to be above the pre-pandemic level of Afl. 4,318.9 million (Q4 2019), highlighting the pandemic induced expansion in government debt. The combination of GDP growth and debt contraction, reduced the debt-to-GDP ratio to 90.4 percent by June 2023, marking a narrowing of 8.1 percentage points compared to December 2022.

The complete publication is available on the CBA's website (*https://www.cbaruba.org/document/state-of-the-economy*).