Centrale Bank van Aruba

The tourism sector spurred economic growth in the first three quarters of 2023

Press release

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

Tourism was pivotal to economic growth during the first three quarters of 2023, although both indicators have shown signs of pre-pandemic normalization since the second quarter of 2023. The estimated year-over-year (YoY) real GDP growth peaked at 8.5 percent in the first quarter of 2023 before slowing down to 5.5 percent and 4.2 percent in the second and third quarters, respectively. Accordingly, the average year-to-date (YtD) growth in GDP amounted to 6.1 percent, fueled mainly by increased stay-over visitors and higher tourist spending (Table 1).

Stay-over visitors advanced by 12.4 percent up to September 2023 compared to the same period of 2022. However, the year-over-year (YoY) surge of 31.1 percent in the first quarter of 2023 decelerated to single-digit growths in the second and third quarters of 2023. Regarding tourism spending per night, the CBA noted a 5.1 percent rise up to September 2023. Considering the developments in stay-over visitors and tourism spending per night, tourism revenue registered at commercial banks climbed by 15.8 percent. The developments in the hotel sector corroborated the augmented tourism revenue, with revenue per available room (RevPAR) expanding from USD 224.3 YtD September 2022 to USD 267.2 YtD September 2023. Progression in hotel occupancy and the average daily rate (ADR) supported the broadened RevPAR.

Table 1: Tourism indicators for Aruba
YTD September

	2019	2022	2023
Stay-over visitors	848,841	816,362	917,739
Average length of stay (in nights)	7.3	7.2	7.0
Total visitor nights	6,191,419	5,850,732	6,446,572
Cruise visitors	555,525	358,679	575,597
Hotel occupancy (%)	85.7	73.7	77.8
Average daily rate (US$)	278.5	304.2	343.3
Revenue per available room (RevPAR) (US$)	238.7	224.3	267.2
Tourism revenue per night (in Afl.)	323.6	417.6	439.1
Tourism revenue* (in Afl. million)	2,003.4	2,443.2	2,830.4

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

*Only those registered at local commercial banks.

During the first three quarters of 2023, nearly all consumption-related indicators hinted towards improved consumption. Income from the turnover tax (BBO & BAVP) and taxes on commodities grew due to heightened economic activity; the 1.0 percentage point BBO rate increase implemented on January 1, 2023, as well as the implementation of the BBO at the border as of August 1, 2023. Moreover, the number of employment relationships registered at SVB advanced, implying enhanced labor market conditions consistent with the tourism sector's performance. Data from local commercial banks align with the strengthened consumption, as I-Pago transactions accelerated, and new consumer credit loans widened compared to the first three quarters of 2022.

During the first nine months of 2023, investment indicators generally reflected an improvement. For instance, the value of new construction permits reached Afl. 466.8 million in the first three quarters of 2023, exhibiting a growth of 61.3 percent compared to the same period in 2022. Similarly, the imported value of base metals and derivative works expanded by 40.6 percent, while that of machinery and electrotechnical equipment increased by 16.4 percent compared to the first three quarters of 2022. As for new housing and commercial mortgages, commercial banks incurred decreases in these components because of artificial (non-investment related) surges in the first quarter of 2022.

The 12-month average inflation descended to 4.5 percent in September 2023, after reaching its highest point in April 2023. The upward pressure on prices mostly resulted from the components housing (following the increase in utility tariffs of August and September 2022), as well as food and non-alcoholic beverages. Meanwhile, the 12-month average core inflation reached 2.0 percent at the end of September 2023, down from 2.2 percent at the end of December 2022.

International transactions settled through the commercial banking sector led to a net foreign exchange outflow of Afl. 298.4 million during the first three quarters of 2023 (Table 2). Global financial tightening resulted in the domestic refinancing of foreign loans, leading to large net outflows on the financial account. As such, the financial account recorded an Afl. 439.6 million net outflow (Q1-Q3 2022: Afl. 85.9 million net inflow). In contrast, continued strong tourism performance primarily led to an Afl. 138.0 million net inflow on the current account and partially mitigated the financial account deficit. Meanwhile, the capital account registered a small net outflow (i.e., -Afl. 5.5 million), while "items yet not classified" recorded a net inflow of Afl. 8.6 million.

Table 2: Balance of payments (in Afl. million)*	YTD Q3 2022	YTD Q3 2023
Current account	160.9	138.0
Goods	-1,534.5	-1600.5
Services	1,782.4	2065.5
Primary income	-100.5	-305.8
Secondary income	13.5	-21.1
Capital account	-6.9	-5.5
Financial account	85.9	-439.6
Direct investment	166.3	53.1
Portfolio investment	-288.2	-205.9
Financial derivatives	4.7	3.3
Other investment	244.4	-103.4
Foreign accounts	-41.3	-186.6
Items not yet classified	-42.4	8.6
Change in international reserves (excluding revaluation differences)	197.6	-298.4

Source: CBA
*Transactions recorded through local commercial banks.

Almost all government tax components listed expansions up to the third quarter of 2023, leading to an Afl. 238.9 million (+28.1 percent) gain in tax revenues. Revenues from the turnover tax and taxes on income and profit were the main engines of growth in tax revenues. Income from turnover taxes rose by Afl. 86.5 million (+51.8 percent), likely due to heightened local consumption, boosts in tourism spending, and increased prices for goods and services. In addition, the higher turnover tax rate at the beginning of the year also contributed to the hike in turnover tax revenue as did, to a lesser degree, the implementation of the BBO at the border in August 2023.

Compared to December 2022, total government debt shrank by Afl. 226.7 million to Afl. 5,490.9 million in September 2023. Lower foreign debt owed to the United States (-Afl. 171.2 million) predominantly brought about the decline in government debt. Meanwhile, the debt owed to the Dutch government for liquidity support (Afl. 915.5 million) stayed unchanged compared to December 2022. Domestic debt contracted (-Afl. 64.9 million). Due to the combination of nominal GDP growth with the debt contraction, the debt-to-GDP ratio fell to 84.9 percent by end-September 2023, marking a reduction of 12.2 percentage points compared to end-December 2022.

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