2024-II

STATE OF THE ECONOMY

Centrale Bank van Aruba

Cover design:
Our turtles.
They choose Aruba’s beaches as a safe haven;
They choose Aruba’s beaches as their breeding ground;
They connect and communicate through vocalizations
and body language.
Their slow and steady pace represents resilience and
endurance.

Executive Summary

Tourism surge boosts consumption and spurs economic growth

In the first half of 2024, Aruba's economy showed continued robustness, maintaining steady growth and stabilizing inflation. The economic growth rate remained consistent with the first half of 2023, thanks to the continued strong performance of the tourism sector from 2023 into early 2024. Increased tourism revenues and a higher number of visitors from the United States and Latin America were key drivers. This surge in tourism demand, along with a rise in domestic demand, improved all consumption indicators. Additionally, ongoing large construction projects, primarily in the tourism sector, added to economic activity and likely spurred investment. Although the value of imports increased, it did not keep pace with the surge in tourism arrivals and revenue. Investment indicators were mixed, with some showing declines. By the end of June 2024, the 12-month average inflation rate decelerated to 1.7% from 3.4% at the end of 2023. This decline was due to the reduced contribution of the utility tariff hike introduced in August 2022, lower gasoline and diesel prices, and normalized food prices. Meanwhile, two factors drove the 12-month inflation in June: the prices of communication services, and maintenance and repair of the dwelling. The rise in tourism revenues was the main contributor to a significant net inflow of Afl. 445.2 million in foreign exchange on the balance of payments in the first six months of 2024. Consequently, by the end of June 2024, international reserves remained more than adequate according to Centrale Bank van Aruba (CBA) benchmarks. Moreover, government tax revenues benefited from strong tourism performance, while improved labor market conditions and increased economic activities boosted nearly all tax revenue components.

Contents

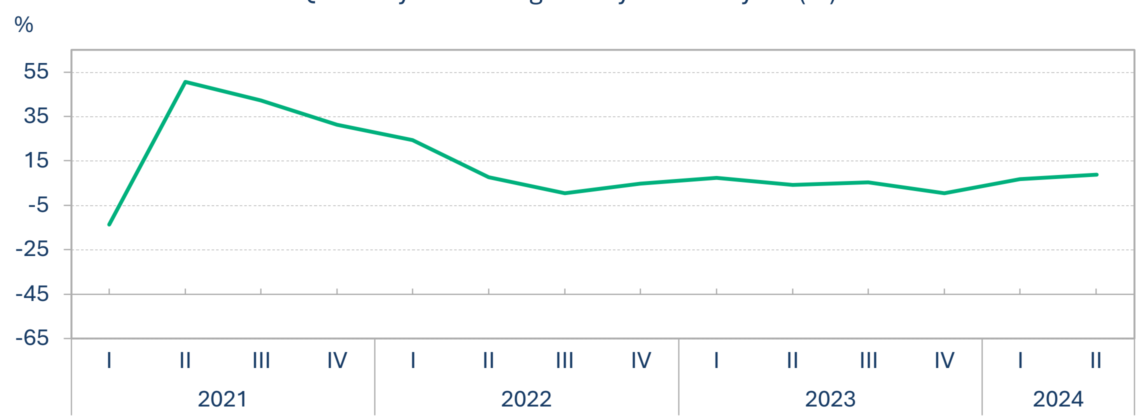
1 Domestic Economy

1.1 Economic Growth

In the first half of 2024, the Aruban economy – measured in real Gross Domestic Product (GDP) – grew year-over-year by an estimated 7.7% (Chart 1). Tourism, the main contributor to economic growth, recorded significant increases in tourist revenues and stay-over visitors. Additionally, all consumption indicators registered gains, signaling economic growth. Consumption was likely boosted by the tourism-driven upturn in private-sector employment and probable wage growth in a tight labor market. Meanwhile, as some hotel constructions approach final phases, investment indicators showed mixed signals. On balance, driven by the expansion in tourism and consumption, imports also rose.

In the period under review, the real growth of 7.7% is part of a wider trend seen since the second quarter of 2021, in which the Aruban economy recorded consecutive positive growth numbers. After growth peaked in the second quarter of 2021, it decelerated before stabilizing at still elevated levels. The first-quarter of 2024 showed a growth of 6.8%, while the second-quarter registered a growth of 8.7%.

Chart 1: Quarterly real GDP growth year-over-year (%).



Calculations: CBA

1.2 Tourism

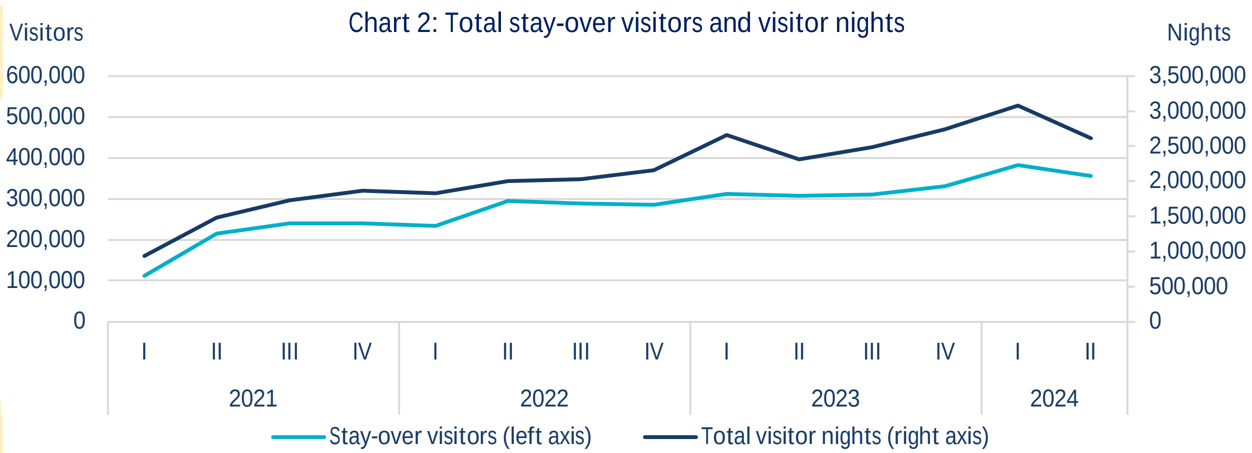
Most tourism-related indicators continued to show strong improvement in the first half of 2024 on a year-over-year basis (Table 1). The total number of stay-over visitors expanded by 19.0% year-to-date (YTD) June 2024 compared to YTD June 2023 (Chart 2). This increase was due to upturns in the number of visitors from the United States (+82,340 visitors; +17.1%) and Latin America (+31,979; +59.4%). Moreover, the number of visitor nights rose by 14.6% (+726,571 nights) and, thus, lagged the growth in stay-over visitors. This shortfall stemmed from the 3.7% decline in the average length of stay (ALoS). Specifically, in the first half of 2024 tourists spent, on overage, 7.7 nights on the island compared to 8.0 nights in the first half of 2023 (Chart 3).

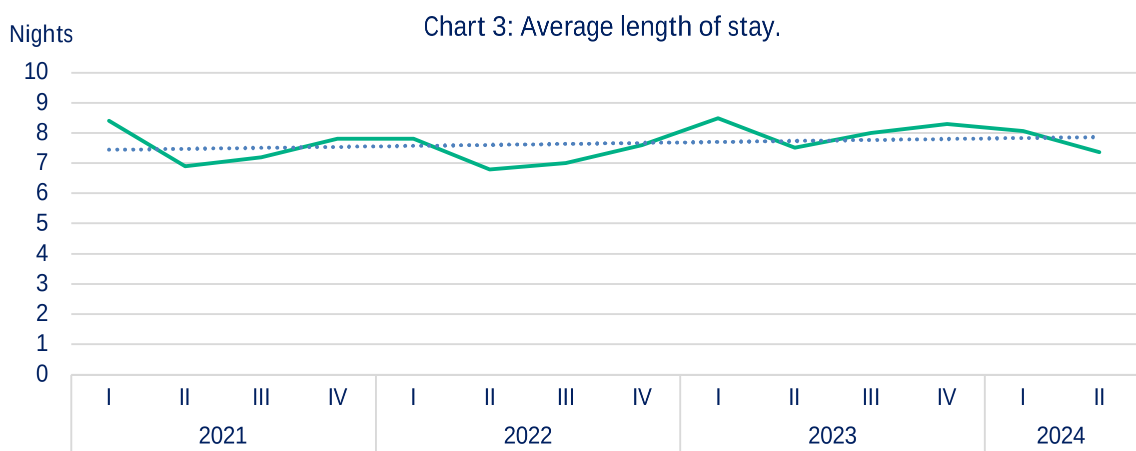
Table 1: Tourism indicators for Aruba
YTD June

	2022	2023	2024
Stay-over visitors	528,325	619,719	737,691
Average length of stay (in days)	7.3	8.0	7.7
Total visitor nights	3,825,924	4,973,234	5,699,805
Cruise visitors	263472	499,442	543,215
Hotel occupancy (%)	71.1	79.3	85.2
Average daily rate (US$)	316.7	364.1	383.3
Revenue per available room (RevPAR) (US$)	225.2	288.8	326.6
Tourism revenue per night* (in Afl.)	424.1	396.5	393.6
Tourism revenue* (in Afl. million)	1,622.6	1,971.9	2,2436

Sources: CBA, ATA, AHATA

*Only those registered at local commercial banks.





Source: ATA

Hotel sector data also reflected a buoyant performance by the tourism industry (Table 1). In the first half of 2024, revenue per available room (RevPAR[1]) increased by 13.1% compared to the first half of 2023. A higher hotel occupancy rate (2024 I-II: 85.2% vs. 2023 I-II: 79.3%) and a 5.3% rise in the average daily rate (ADR) led to this surge in the RevPAR. Regarding non-hotels, the category 'other accommodations' registered visitor nights growth of 26.2% in the period under review. As a result, based on registered visitor nights, the market share for 'other accommodations' grew to 36.6% in the first half of 2024, up from 33.3% in the first half of 2023.

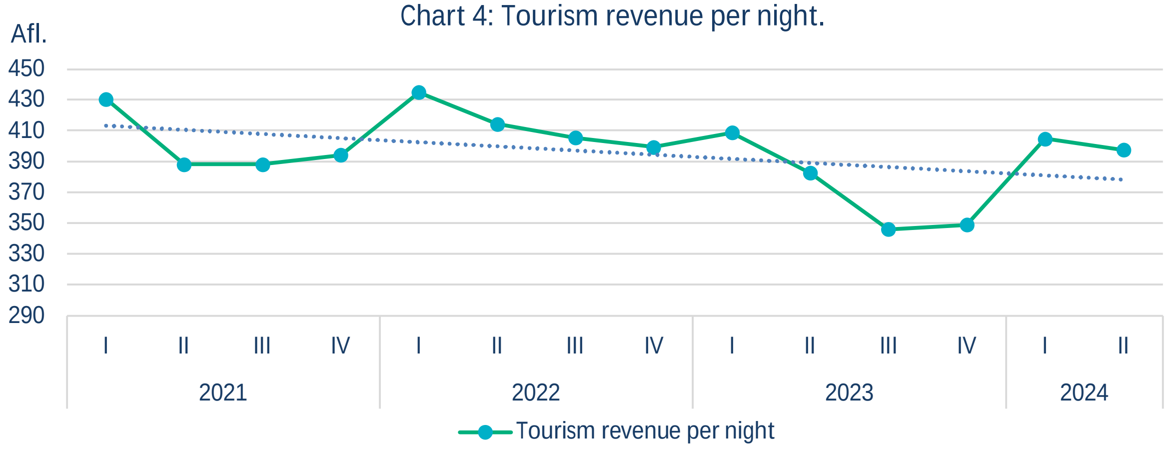
During the period under review, revenue[2] from tourism activities recorded via the local commercial banks[3] grew by 13.8% compared to the same period in 2023. The rise in tourism revenue was attributed to the year-over-year growth in total visitor nights (+14.6%), despite a decline in tourism spending per night (-0.7%). From a trend perspective, tourism spending per night in the second quarter of 2024 (Afl. 397.4) stands above the low of Afl. 346.0 in the third quarter of 2023, but still below the peak of Afl. 434.9 in the first quarter of 2022 (Chart 4).

[1] RevPAR is the product of the average daily rate and the hotel occupancy rate.

[2] Tourism revenue corresponds to the definition of tourism credits as defined by the IMF BPM 6 manual. The cut-off date for the data used was August 28, 2024.

3 Tourism revenue recorded at local commercial banks constitutes about 83 percent of total tourism revenue (incl. tourism revenue recorded at non-banks). At the time of writing, data on tourism revenue recorded from non-banks were not available.

Chart 4: Tourism revenue per night.

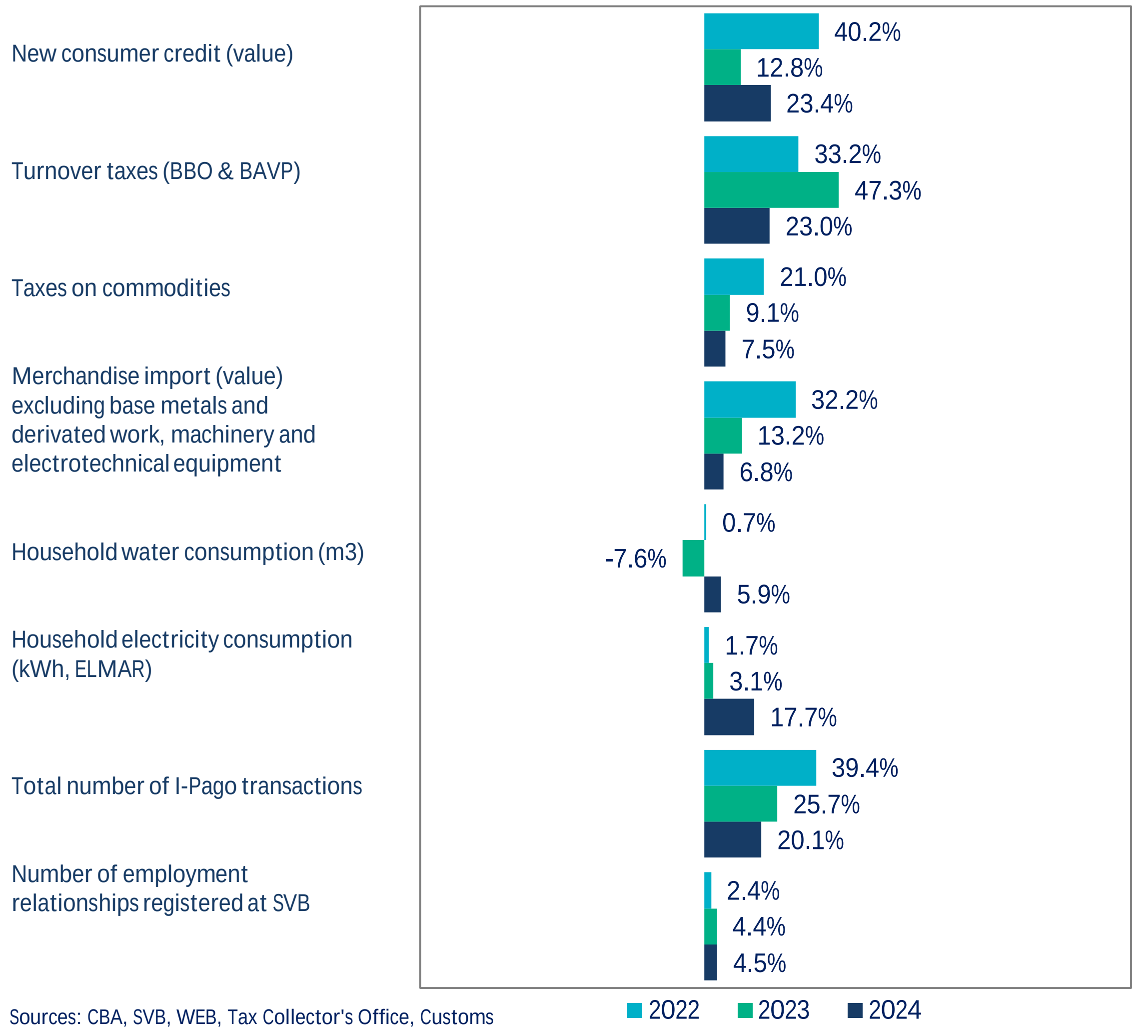


In the first half of 2024, cruise tourism performed well, exceeding the levels observed in the first half of 2023. The total number of cruise visitors amounted to 543,215 from 193 ship calls in the first half of 2024, up from 499,442 passengers from 190 ship calls in the same period of 2023. Consequently, the volume of passengers per ship increased, which signals a rise in capacity, load factor, or a combination of the two.

1.3 Consumption

During the first half of 2024, all consumption-related indicators showed improvement compared to the same period in 2023 (Chart 5). In particular, merchandise imports (excluding imported base metals and derivate works as well as machinery and electrotechnical equipment) rose by 6.8%, likely due to increased domestic consumption and buoyant tourism activity. Further, the value of new consumer credit (+23.4%), turnover taxes (+23.0%), household electricity consumption (17.7%), and the number of I-Pago transactions (+20.1%) saw considerable growth during the first half of 2024.

Chart 5: Consumption-related indicators
(YTD June 2024 vs. YTD June 2023 vs. YTD June 2022)

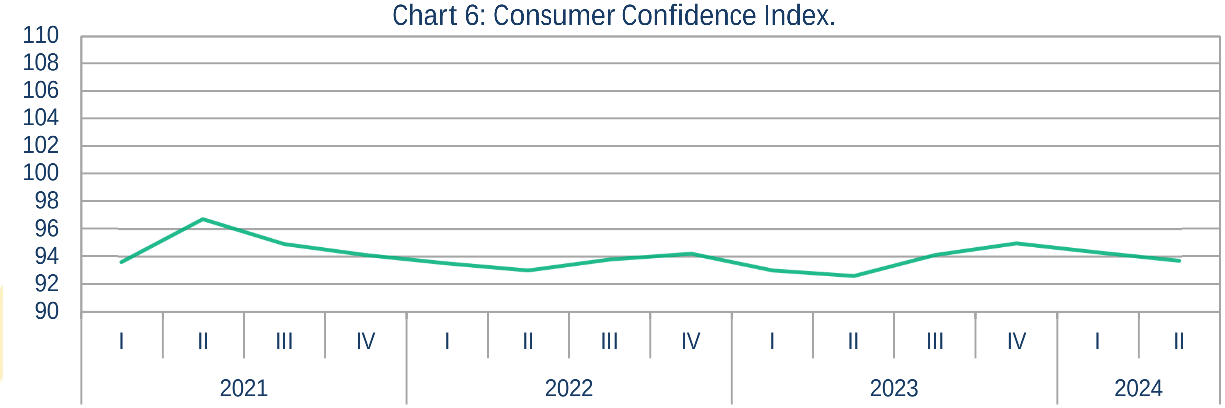


Sources: CBA, SVB, WEB, Tax Collector's Office, Customs Department

Credit data from commercial banks also showed increases up to June 2024. The value of new consumer credit continued to record double-digit percentage growth (+23.4%) in the first half of 2024 compared to the same period in 2023. This growth is stronger than the first six months of 2023 vs. 2022 (+12.8%), but weaker than the same period in 2022 as compared to 2021 (+40.2%). The expansion in car loans (+8.4%) may explain the rise in new consumer credit in the first half of 2024. Moreover, as the prices of vehicles have come down compared to a year earlier (see consumer price index section on page 14), combined with attractive financing conditions for car loans at local commercial banks, consumers may be more inclined to purchase a new vehicle.

The Consumer Confidence Index (CCI) supports the credit data. During the second quarter of 2024, the CCI increased to 93.7 index points, compared to 92.6 in the second quarter of 2023 (Chart 6). This was the first increase after two consecutive years of declines in the index during the second quarter. Even though the index remained pessimistic – below 100.0 index points – the upward movement in the index (+1.1 index points) indicated less pessimism among consumers. In relation to the credit data, the percentage of respondents who stated that buying an automobile was suitable only inched up from 5.7% in the second quarter of 2023 to 6.0% in the second quarter of 2024. However, the portion reporting that purchasing a car would be unsuitable was significantly smaller in the second quarter of 2024 than a year earlier (-12.4 percentage points). Consequently, a significant part of consumers who are now unsure (+12.1 percentage points) likely moved from unsuitable to unsure and may be swayed by enticing car loan campaigns from the commercial banks.

Chart 6: Consumer Confidence Index.



Source: CBA

The developments in turnover taxes and taxes on commodities painted a positive picture up until June 2024. Both tax indicators recorded persistent year-on-year growth since 2022. While part of the upward trend may be the result of heightened domestic consumption and robust tourism performance, it is likely that, the increasing revenue was not solely the result of increased consumption. As part of a broader fiscal reform package, the implementation of the BBO at the border (as of August 1, 2023) pushed up the turnover taxes. However, the changes to taxes on commodities was limited to amendments in the import duty brackets with an ambiguous net result. Thus, the 7.5% rise in taxes on commodities may reflect increased consumption with more certainty.

Other consumption indicators that pointed to strengthened consumption were the number of transactions processed by I-Pago, which soared by 20.1%, and the number of employment relationships[4], which grew by 4.5%. While I-Pago transactions have been on a diminishing growth trend, the number of employment relationships have recorded a positive effect as of 2022. Transactions between Afl. 0 and Afl. 250 expanded

[4] The number of employment relationships registered at the Sociale Verzekeringsbank (SVB) denotes the numer of employments contracts between employers and employees recorded at the SVB.

significantly (+26.9%) in the first half of 2024, while those above Afl. 250 also climbed, albeit to a lesser extent (+13.7%). At the end of the second quarter of 2024, compared to the second quarter of 2023, the number of employment relationships registered at the Sociale Verzekeringsbank (SVB) remained similar to the growth pattern (+4.5%) experienced year to date (YTD) June 2023 compared to YTD June 2022. The improved employment conditions denoted by a rise in employment likely contributed to elevated consumption.

Furthermore, a surge in utility consumption data aligns with other consumption indicators. The household consumption of water (in cubic meters) increased by 5.9%, whereas that of electricity (in kWh) soared by 17.7% during the first half of 2024. Throughout recent years, although water consumption has varied, electricity consumption has been on an exponentially increasing trend (see Chart 5). Heightened consumption may have resulted from warmer average temperatures (+2.5 °C) in Aruba up to June 2024 compared to the corresponding period of 2023.

1.4 Investment

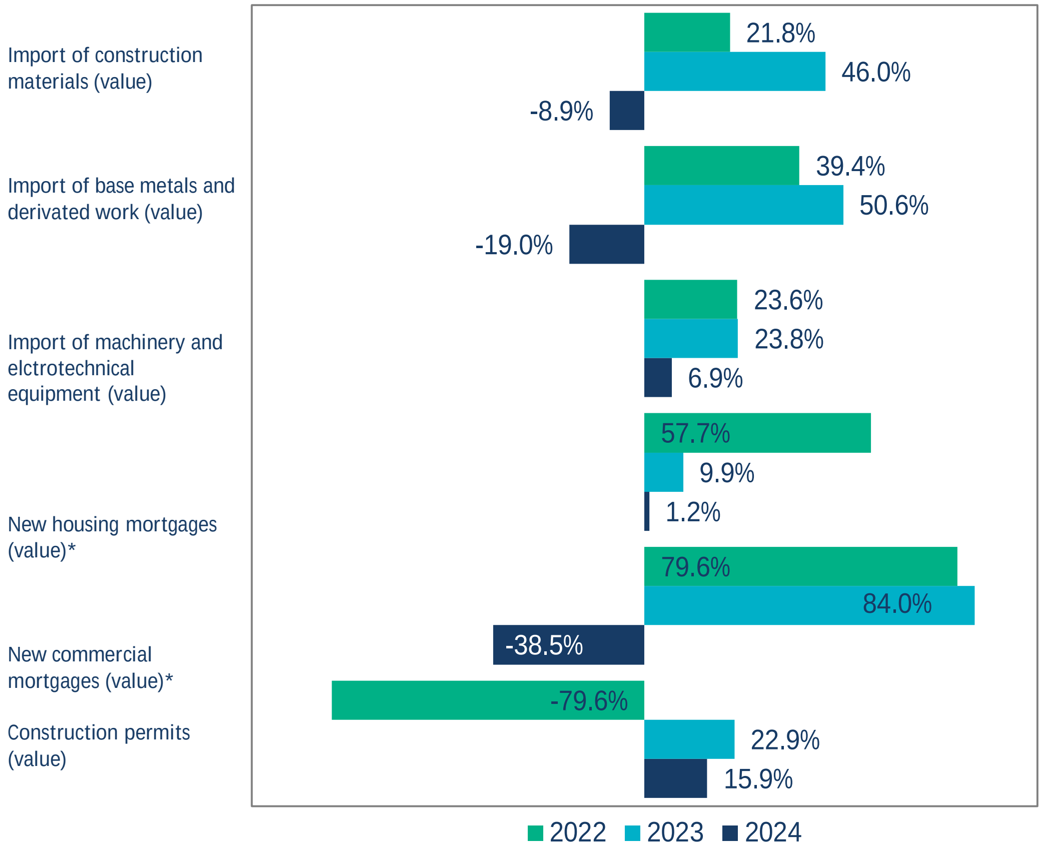
Investment-**related indicators painted a mixed picture of investment activity in Aruba in the first half of** 2024. The value of imported construction materials declined by 8.9% during the first six months of this year compared to the same period in 2023 (Chart 7). This contraction starkly contrasts the 46.0% jump in the corresponding period of 2023 and the 21.8% rise in the first half of 2022. The import value of base metals and derivative works, widely used in construction activities, showed a similar development. Specifically, data obtained from the Central Bureau of Statistics (CBS) portrayed a decline of 19.0% in the period under review vis-à-vis an uptick of, respectively, 50.6% and 39.4% in the corresponding months of 2023 and 2022. While the import value of machinery and electrotechnical equipment rose by 6.9% during the period under review, its increase was significantly smaller than the growth seen in the same period of 2023 (+23.8%) and 2022 (+23.6%). The slowdown in investment-related import indicators is likely related to the ongoing hotel sector projects scheduled to be completed in 2024. Presumably, most of the construction materials were imported at the earlier stages of construction activities, while the completion phase does not require as many materials.

Data from the commercial banking sector denoted **a slowdown in mortgage activities.** While the number of new commercial mortgages jumped by 12.5%, the value of new commercial mortgages dropped by 38.5% in the first half of 2024 compared to the same period in 2023. This occurrence mirrors a decrease in the value of the average new commercial mortgage (-50.3%), indicating that investors may have been buying or constructing smaller commercial properties. The contraction in the value of new commercial mortgages marks a reversal in the trend of increasing demand for new commercial mortgages in the first half of 2023 (+84.0%) and of 2022 (+79.6%). With regard to the value of new housing mortgages, the data shows a slight gain of 1.2% in the first two quarters of 2024 compared to the same quarters in 2023. This growth is smaller than the uptick in the corresponding period of 2023 (+9.9%) and 2022 (+57.7%), hinting towards diminished growth and possible saturation in the demand for housing mortgages.

Conversely, the value of construction permits soared by Afl. 24.1 million (+15.9%) in the first half of 2024. This increase was driven primarily by construction permits related to apartments (+Afl. 40.0 million; +123.7%) and 'others' (Afl. 22.2 million; +139.6%). The upward movement in 'others' is mostly related to construction permits of condominiums. Nevertheless, the significant upturns must be interpreted with caution as there might be a time lag between when the construction permit is granted and when the actual investment takes place. Therefore, a construction permit does not necessarily indicate investment expenditures during the period under review. A contraction in the construction permits for houses (Afl. -24.1 million; -30.4%) and stores and shopping malls (-Afl. 14.0 million; -70.4%) mitigated the expansions above.

The Business Perception Index (BPI), reported in the Business Perception Survey (BPS) of the CBA, continued on its upward trend and reached 107.4 at the end of the second quarter of 2024, marking a rise of 0.8 index point compared to the second quarter of 2023 (Chart 8). This expansion was driven by a growing future short-term economic conditions index (+1.6 index points), while the current economic conditions index contributed marginally (+0.3 index point). These improvements reflect heightened optimism in local businesses' perception of current and future economic conditions. An increasing trend in the BPI is notable since the fourth quarter of 2022, although there was a drop in the third quarter of 2023 and the first quarter of 2024. On the other hand, the BPS Investment Index went down from 105.9 at the end of the second quarter of 2023 to 104.3 in the second quarter of 2024. This contraction reflects a smaller portion of respondents (27.8% in the second quarter of 2024), indicating improvement in current investment conditions compared to the second quarter of 2023 (39.0%). However, when asked about investment plans over the next 12 months, a larger share of respondents declared investment plans in the BPS 2024-II (75.0%) vis-à-vis the BPS 2023-II (66.7%) (Chart 9). Contrary to the BPI, the BPS Investment Index does not exhibit a clear trend.

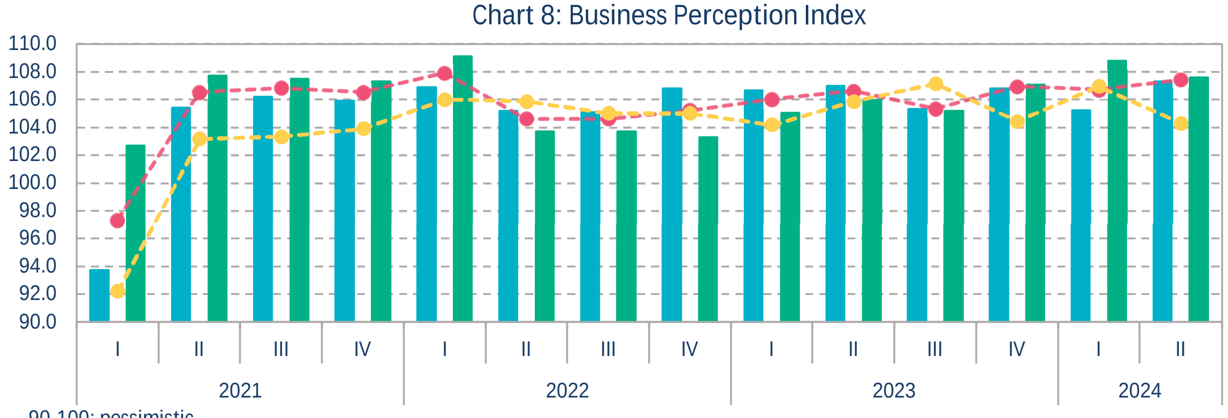
Chart 7: Investment-related indicators
(Percentage change YTD Q2 2024 vs. YTD Q2 2023 vs. YTD Q2 2022)



*Corrected for 2022 loan portfolio takeover.

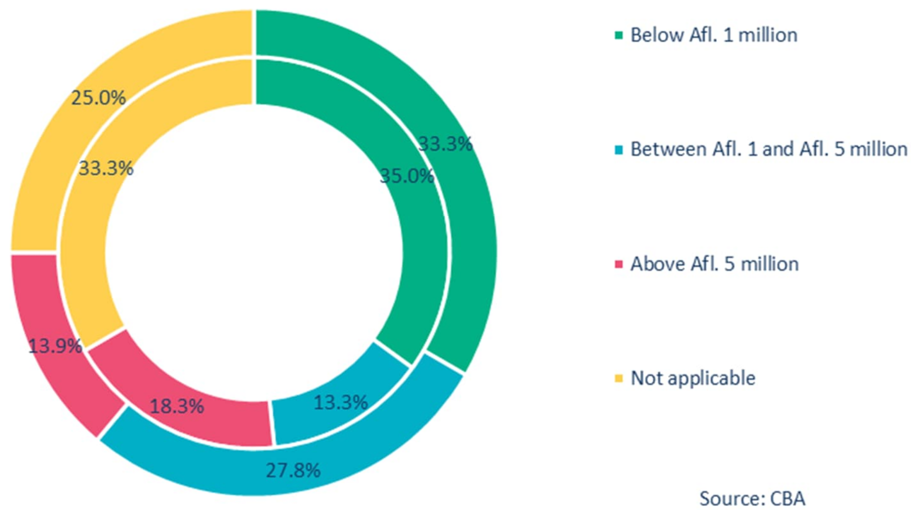
Sources: CBA, CBS, DOW

Chart 8: Business Perception Index



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

Chart 9: Share of businesses responses on their investment plans
Inner circle: Q2 2023. Outer circle: Q2 2024.



Source: CBA

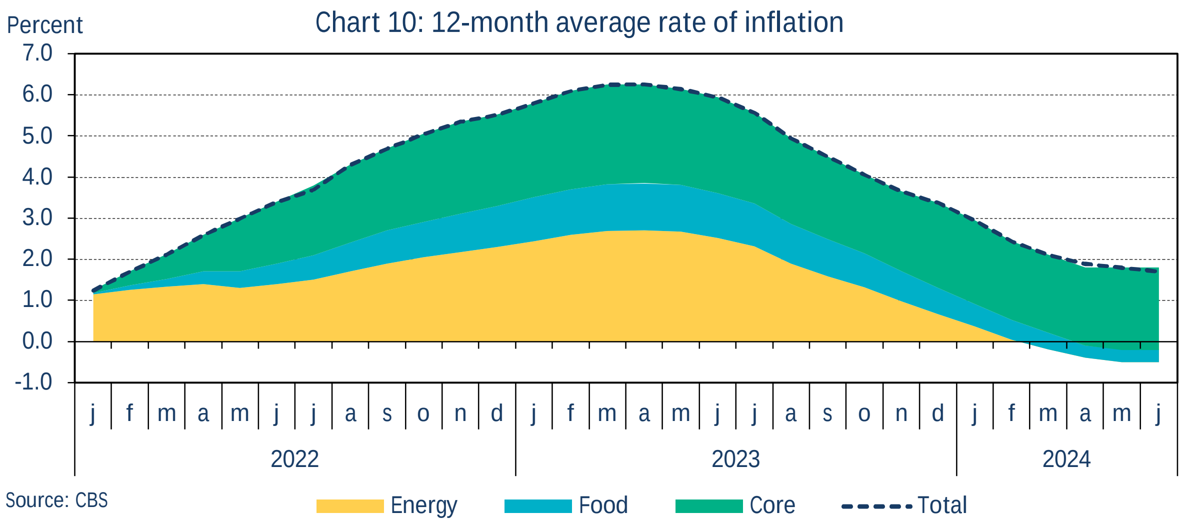
1.5 Consumer Price Index

In June 2024, the 12-month average inflation rate sustained its downward trajectory, reaching 1.7%. The latter reflects a 0.4 percentage point decrease compared to March 2024 (Chart 10). The declining trend in Aruba's 12-month average inflation rate started in May 2023, and mirrors the diminishing contribution of the utility tariff hike in August 2022, reduced gasoline and diesel prices, and a stabilization of food prices. Compared to December 2023, the 12-month average inflation contracted by 1.6 percentage points in June 2024. The lower level of inflation resulted from the reduced contribution of utility prices and food prices to the consumer price index.

The communication (+1.2 percentage points) and housing (+0.5 percentage point) components contributed substantially to the 12-month average inflation rate in June 2024. The contribution of the communication component reveals increased prices for telephone services (+1.2 percentage points). The expansion in the housing component, in turn, was due to higher prices for the maintenance and repair of dwelling (+0.6 percentage point). The latter mitigated the decreasing contribution of electricity prices on the 12-month inflation rate (-0.3 percentage point).

In June 2024, the food (+0.4 percentage point), restaurants and hotels (+0.3 percentage point), miscellaneous goods and services (+0.3 percentage point), education (+0.2 percentage point), and health (+0.1 percentage point) components also exerted upward pressure on the 12-month average inflation rate. On the other hand, transport (-0.9 percentage point), recreation and culture (-0.2 percentage point), and clothing and footwear (-0.1 percentage point) offset in part the 12-month average inflation rate during the period under review.

The 12-month average core inflation – inflation excluding energy and food – amounted to 2.0% in June 2024. Consequently, it surpassed the total 12-month average inflation by 0.3 percentage points, playing a more prominent role in the 12-month average inflation rate than in March 2024 (core inflation: 1.9%).Compared to the end of December 2023, the 12-month average core inflation remained stable at 2.1%.

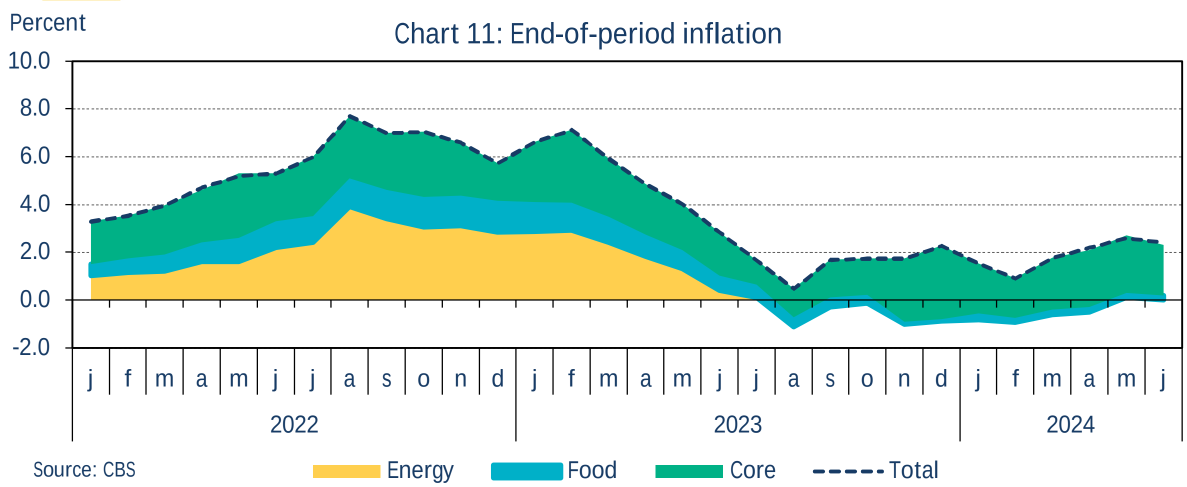


Contrary to the 12-month average inflation rate, the end-of-period (EOP) inflation rate started trending upward in February 2024. However, the latter peaked in May 2024 before falling back to 2.4% in June 2024, marking a 0.6 percentage point increase compared to March 2024 (Chart 11). The developments mentioned above – in line with the movements in core inflation – mainly reflect the prices of maintenance and repair of dwellings. Compared to December 2023, the EOP inflation rate expanded by 0.1 percentage point. The upward pressure on the EOP inflation rate resulted from higher prices for the purchase of vehicles, and the extinguished effect of the electricity tariff decrease of May 2023 on the consumer price index.

The communication (+1.5 percentage points) and housing (+0.7 percentage point) components contributed the most to the EOP inflation rate in June 2024. Similar to the 12-month average inflation rate developments described above, increased prices for telephone services (+1.5 percentage points) influenced the rise in the communication component, while higher prices for maintenance and repair of dwellings (+0.6 percentage point) affected the expansion in the housing component.

Additional components positively contributing to the EOP inflation rate in June 2024 were food and non-alcoholic beverages (+0.3 percentage point), restaurants and hotels (+0.3 percentage point), miscellaneous goods and services (+0.3 percentage point), and education (+0.2 percentage point). In contrast, the transport (-0.7 percentage point) and household operation (-0.2 percentage point) components partially counterbalanced the EOP inflation rate in June 2024. The negative contributions of the components mentioned above resulted from lower purchasing prices of vehicles (-0.8 percentage point), and household appliances (-0.2 percentage point), respectively.

The EOP core inflation – inflation excluding energy and food – amounted to 2.1 percent in June 2024. Thus, core inflation constituted a substantial part of total EOP inflation during the period under review.



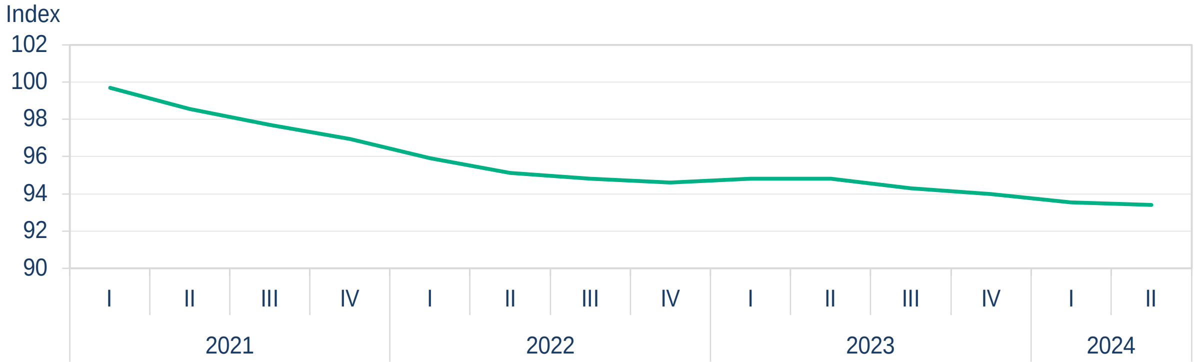
1.6 International Competitiveness

The Real Exchange Rate (RER) provides insight into the competitive position of the Aruban florin vis-à-vis the U.S. dollar. Notably, a decrease in the RER points to an improvement in Aruba's competitive position, while an increase indicates a deterioration in the latter.

At the end of June 2024, the RER contracted to 93.4. Therefore, the second quarter of 2024 marks the fourth consecutive quarter that registered a reduction (Chart 12). The RER has been following a downward path since the beginning of the COVID-19 crisis (i.e., 2020-I). In the first two quarters of 2023, the RER grew, but resumed its downward trajectory as of the third quarter of 2023. The RER's declining trend suggests that Aruba's competitive position against the U.S. dollar has improved since the onset of the COVID-19 pandemic.

On a quarter-to-quarter basis, the RER edged down by 0.1 in the second quarter of 2024. The latter resulted from a slightly wider inflation differential compared to the first quarter of 2024 (i.e., -1.6 percentage points in June 2024 compared to -1.4 percentage points in March 2024). Specifically, the 12-month average inflation rate in the United States (3.3%) was higher than in Aruba (1.7%) during the period under review. It should be noted that the 12-month average inflation rates in both countries have dwindled in recent months, with inflation in Aruba falling faster than in the United States.

Chart 12: Real exchange rate Aruban florin vis-à-vis the U.S. dollar (2017=100)



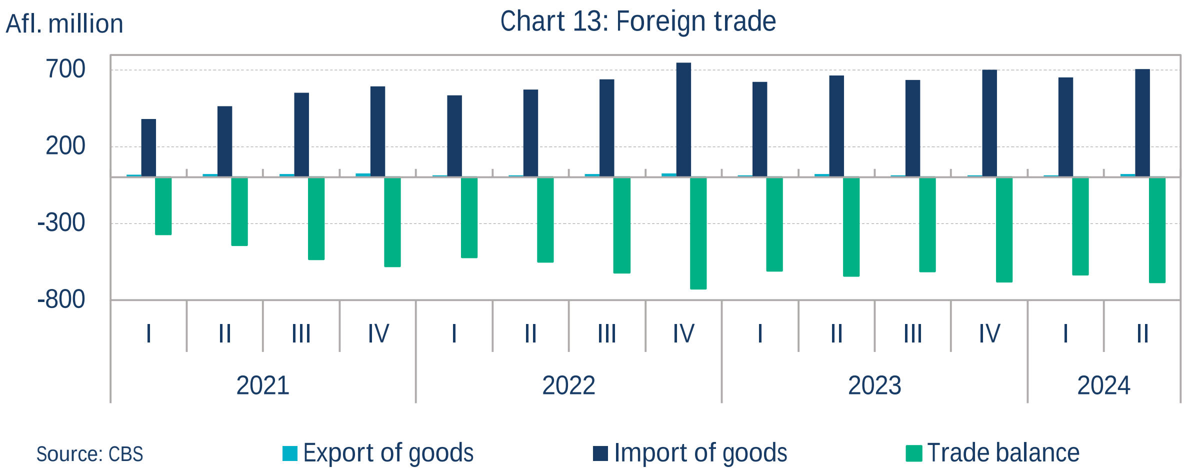
Source: CBA

1.7 Foreign Trade

During the first six months of 2024, Aruba's trade deficit expanded to Afl. 1,317.9 million, marking **a deterioration of Afl. 68.8 million (+5.5**%) compared to the same period in 2023. The growing trade deficit was solely the result of higher imports of goods (+Afl. 68.3 million) while the exports of goods remained relatively unchanged, with a slight decrease of Afl. 0.6 million (Chart 13).

The import of 'other goods' (+Afl. 29.5 million), transport equipment (+Afl. 21.9 million), and machinery and electrotechnical equipment (+Afl. 12.5 million) were the primary drivers of the jump in total imports. On the other hand, fewer imports of base metals and derivative works (-Afl. 14.3 million) mitigated the aforementioned increases. The rise in import of 'other goods' was mainly caused by 'various goods and products not elsewhere specified' (+ Afl. 14.0 million) and artificial plastic elements (+Afl. 7.6 million).

The Q2 YTD trade deficit has been on the rise in recent years (2022: Afl. 1,073.3 million/38.4% of nominal GDP, 2023: Afl. 1,249.0 million, 39.0% of nominal GDP, 2024: Afl. 1,317.9 million, 36.4% of nominal GDP). This development primarily mirrors the higher import of goods to Aruba, as movements in exports were marginal during the past years. The larger import of goods is likely related to higher local and tourist demand. On the other hand, inflation abroad also drives up the value of imported goods.



1.8 Balance of Payments

International transactions settled through the commercial banking sector resulted in a net foreign exchange inflow of Afl. 317.3 million during the first half of 2024 (Table 2). This development entailed a turnaround of Afl. 445.2 million compared to a net outflow registered for the same period of 2023 (YTD June 2023: -Afl. 127.9 million). The net foreign exchange inflow was largely affected by the continuous strong performance of the tourism sector. The current account was the main driver of the net foreign exchange inflow during the period under review — incurring a net inflow of Afl. 607.5 million. Furthermore, the capital account registered a moderate net inflow (+Afl. 9.2 million). An Afl. 216.3 million net outflow on the financial account partially mitigated the current account surplus, while "Items not yet classified" recorded a net outflow of Afl. 73.8 million.

Table 2: Balance of payments (in Afl. million)*	YTD 2023-II	YTD 2024-II
Current account	199.6	607.5
Goods	-944.3	-932.4
Services	1397.3	1611.9
Primary income	-225.2	-53.7
Secondary income	-28.2	-27.5
Capital account	-7.0	9.2
Financial account	-367.9	-216.3
Direct investment	27.8	-71.4
Portfolio investment	-87.1	-144.0
Financial derivatives	-1.2	0.3
Other investment	-77.5	-72.6
Foreign accounts	-229.8	71.4
Items not yet classified	47.3	-73.8
Change in international reserves (excluding revaluation differences)	-127.9	317.3

Source: CBA
*Transactions recorded through local commercial banks.

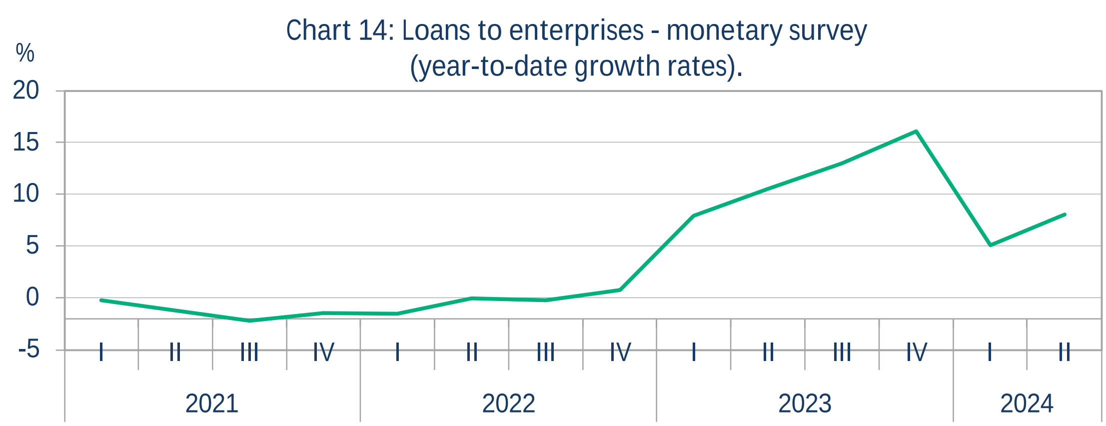
The current account displayed a net foreign exchange inflow of Afl. 607.5 million in the first half of 2024. Since 2022, the current account has recorded surpluses bolstered by the buoyant tourism rebound and steady growth in tourism arrivals and nights. An Afl. 1,861.7 million net inflow related to tourism services fueled the aforementioned surplus. Compared to the same period in 2023, the more extensive tourism services net inflow reflected an expansion in the number of stay-over visitors and nights. Despite this development, the goods account – which registered a net outflow of Afl. 932.4 million – recorded a somewhat smaller net outflow compared to the same period of 2023. The latter has lagged behind tourism exports growth in recent years. Furthermore, primary income showed a net outflow of Afl. 53.7 million. The aforementioned net outflow – which is substantially lower compared to the Afl. 225.2 million net outflow registered in the first half of 2023 – reflects lower dividend payments compared to the same period in 2023. Meanwhile, the secondary income account remained virtually unchanged, with a net outflow of Afl. 27.5 million compared to an Afl. 28.2 million net outflow in the same period of 2023.

The financial account registered a net outflow of Afl. 216.3 million, partially offsetting the gains in the current account. The primary driver of this outflow was the government's debt repayments, as reflected in portfolio investments. Additionally, a one-off domestic loan by a resident company to finance a share purchase from a non-resident company contributed to the net outflow in the financial account, which showed net outflows in direct investment. Since 2022, the high-interest rate environment in the United States and a significant interest rate differential with Aruba have led to increased domestic (re)-financing of foreign loans or domestically financed investments by the hotel sector, resulting in higher net outflows on the financial account.

1.9 Monetary Survey

Compared to December 2023, the money supply expanded from Afl. 5,587.5 million to Afl. 5,984.4 million in June 2024. This expansion was primarily due to the increase in net foreign assets (excluding revaluation differences), which surged to Afl. 3,121.8 million from Afl. 2,802.2 million in December 2023. In June 2024, the net domestic assets also increased by Afl. 77.3 million, which was related to a rise in domestic credit of Afl. 171.7 million. The latter was partially mitigated by a fall in other items (-Afl. 94.4 million). When including revaluation differences, the net foreign assets (Afl. 3,452.9 million) covered 7.0 months of current account payments. Meanwhile, the gross foreign assets of the CBA (Afl. 3,056.0 million) were 23.6% above the lower bound of the IMF ARA metric. Thus, foreign reserves adequately conformed to the benchmarks monitored by the CBA.

Primarily driven by a rise in business loans, commercial bank credit provided to residents grew by 4.9% (+Afl. 212.2 million) in the first half of 2024 compared to December 2023. The growth in business loans (+8.0%; +Afl. 141.0 million) stemmed mainly from a sizeable incidental loan (Chart 14). Excluding the latter, the expansion in loans to enterprises is related to loans for real estate activities. Additionally, loans to individuals (+1.4%; +Afl. 29.7 million) also contributed to the rise in overall credit.



Source: CBA

Term loans longer than two years (+10.4%; +Afl. 104.4 million), complemented by commercial mortgages (+4.7%; +Afl. 29.2 million), drove the YTD June 2024 growth in business loans. Meanwhile, term loans shorter than two years and current account loans rose less markedly. Furthermore, the slight increase in loans to individuals was due to an Afl. 26.8 million (+1.7%) rise in housing mortgages during the period under review (Chart 15). Likewise, driven primarily by car loans (+8.4%; +Afl. 11.7 million), consumer credit edged up by 0.7%, from end-2023 to mid-year 2024. All other components of consumer credit decreased, including personal loans, credit cards, and other loans.

Chart 15: Housing mortgages - monetary survey (year-to-date growth rates).

Source: CBA

During the second quarter of 2024, the quarterly weighted average interest rate margin decreased to 3.4% compared to 3.8% in the last quarter of 2023. The lower interest rate margin resulted from increased average interest rates on new deposits (2023-IV: 2.3%; 2024-II: 3.1%), while the average interest rate on new loans mitigated the effect partially (2023-IV: 6.1%; 2024-II: 6.5%). The interest rates on deposits rose mainly due to the rates of time deposits over 12 months (+1.4 percentage points). Concurrently, rates on other commercial loans went up by 0.9 percentage point, driving the upturn in interest rates on loans.

Up to June 2024, the financial soundness indicators continued performing satisfactorily. Nonperforming loans to gross loans, as a measure of asset quality, continued its downward trend – as it has since April 2021 - reaching 1.5% at the end of June 2024, down from 1.7% at year-end 2023. The capital adequacy ratio reached 32.5%, double the minimum of 16%. As for the prudential liquidity ratio (PLR), the ratio of liquid assets to total net assets stood at 27.5%, while the minimum required PLR is 18.0%. The PLR end-June 2024 was 2.0 percentage points higher than at the end of 2023.

1.10 Government

During the first half of 2024, total tax revenue expanded by Afl. 31.0 million (+4.1%) compared to the same period of 2023[5]. Since 2022, tax revenues have shown strong growth as the economy rebounded. The tax revenue were further bolstered by the tax reform implemented at the beginning of 2023. As such, total tax revenue amounted to Afl. 786.0 million. Almost all tax categories registered upturns, with turnover tax receipts (+Afl. 36.9 million; +23.0%) being the most significant contributor to the rise in total tax revenue (Chart 16). The latter benefited from the tourism sector's strong performance, through elevated tourist spending and local consumption during the quarter under review. Additionally, the introduction of the B.B.O. at the border further

5 At the time of writing data for non-tax revenues and expenditure were not available.

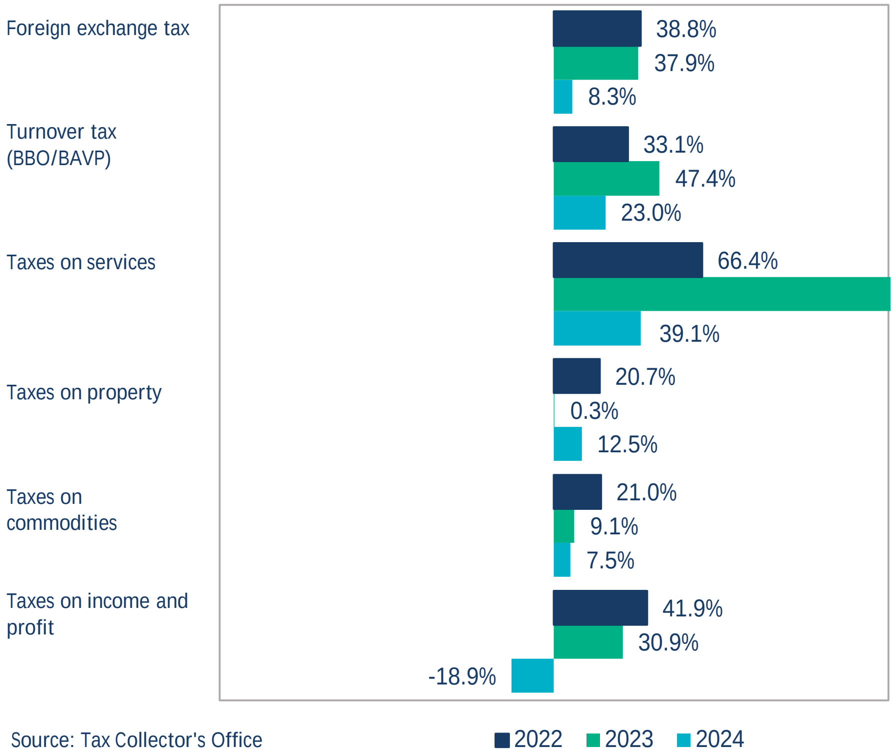
boosted the income from the turnover tax. Receipts from taxes on services grew by Afl. 16.2 million (+28.0%) compared to the first half of 2023. The increased taxes on services resulted mainly from boosts in revenue from the hotel room tax (+Afl. 13.9 million; +39.4%), gained from higher numbers of tourism arrivals and elevated hotel room rates during the first six months of 2024.

Additionally, receipts from taxes on commodities (+Afl. 12.9 million; +7.5%) were primarily pushed up by revenues from import duties (+Afl. 5.5 million; +5.5%), excises on tobacco (+Afl. 3.0 million; +80.1%), and excises on liquor (+Afl. 2.2 million; +15.0%). Moreover, income from taxes on property (+Afl. 11.7 million; +18.1%) widened, mainly due to an uptick in the transfer tax (+Afl. 7.0 million; +67.6%). This development points to revived interest in the real estate market, which showed signs of partial cooling in 2023, after peaking in 2022. Furthermore, income from the foreign exchange tax rose by Afl. 3.0 million (+8.3%) to Afl. 39.0 million in the first half of 2024.

Contrarily, gains from taxes on income and profit (-Afl. 49.8 million; +18.9%) partially mitigated the increase in tax revenues in the period under review. The former contracted due to a decrease in receipts from the profit tax (-Afl. 69.0 million; -56.8%) and the income tax (-Afl. 1.5 million; -6.2%). Lower levels of profit taxes stemmed from an extension in the deadline to file profit tax returns from May 2024 to July 2024. Nonetheless, improvements in the wage tax (+Afl. 20.8 million; +17.6%) partially mitigated the fall in receipts from taxes on income and profit. The observed surge in wage taxes mirrored the buoyant economic conditions and heightened level of employment (+ 1,855 employment relationships; + 4.3%)[6]. The latter, based on data obtained from the Sociale Verzekeringsbank (SVb), shows that the number of employment relationships augmented from 42,685 at end 2023-II to 44,540 at end 2024-II.

6 SVB data accessed on October 8, 2024, Statistieken |

Chart 16: Government tax revenue
(Percentage change YTD Jun 2024 vs. YTD Jun 2023).



Source: Tax Collector's Office

1.11 *Special feature*: Beyond Gross Domestic Product: Alternative measures for economic growth in Aruba.

Economic growth is a concept of great interest as a powerful instrument for reducing poverty and improving people's quality of life (Rodrik, 2007). To determine economic growth, it is important to have reliable and comparable statistics about the economy. The most frequently used measure for the size of an economy is Gross Domestic Product (GDP). GDP stems from the System of National Accounts (SNA), which is the internationally agreed standard set of recommendations on how to compile measures of economic activity in accordance with strict accounting conventions based on economic principles (United Nations, et al., 2009). GDP measures the gross monetary value of final goods and services produced in a country in a given period (Callen, 2012). It provides insight into all gross output generated within the geographical borders of a country.

However, some production takes place via resources located outside of a country's geographical borders, — for example, sometimes enterprises or workers settle in foreign countries. To capture this production, it is necessary to look further than GDP. One measure that provides insight into the production or income that is earned using a country's resources, even when these resources are located abroad, is Gross National Income

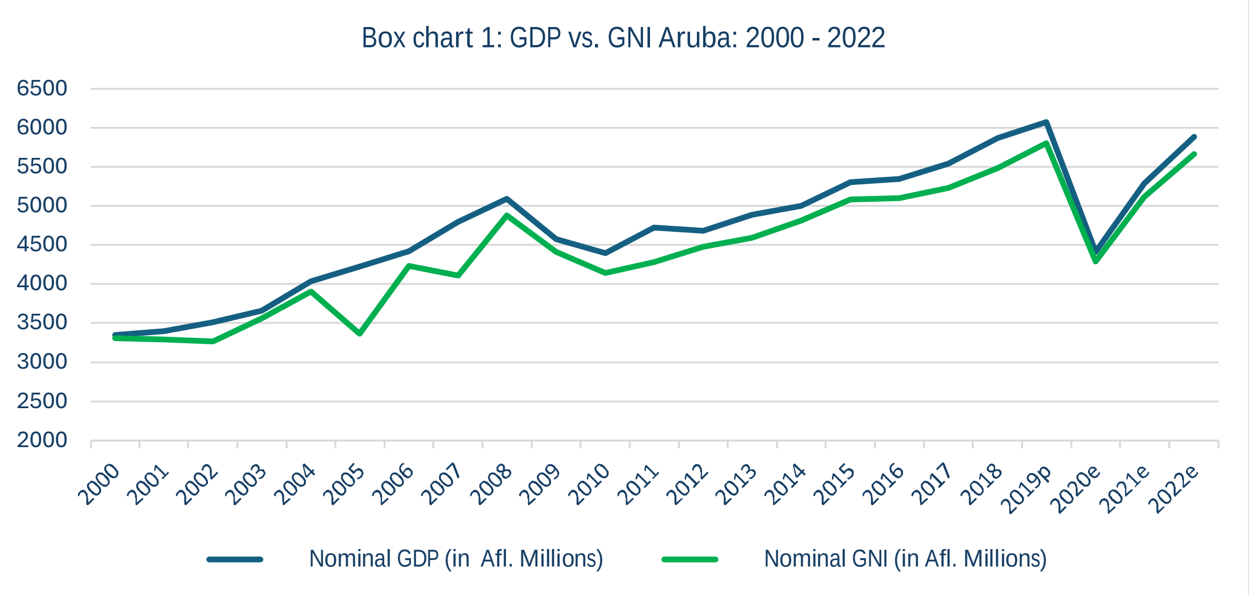
(GNI). GNI is defined as GDP plus net receipts from abroad of compensation of employees, property income, and net taxes, less subsidies on production (OECD, 2023). GNI reflects the net sum of incomes of residents of an economy from the provision of labor, capital, and natural resources during a given period.

To arrive at the GNI, it is necessary to consult the Balance of Payments (BOP), which is a statistical statement that summarizes transactions between residents and non-residents during a period (International Monetary Fund, 2009). Cross-border primary income flows provide the link between GDP and GNI. Primary income represents the return that accrues to institutional units[7] for their contribution to the production process or for the provision of financial assets and renting natural resources to other institutional units (International Monetary Fund, 2009).

There may be significant differences between GDP and GNI. Specifically, GNI is larger (smaller) than GDP if more (less) income is generated from the provision of labor, financial resources, and natural resources owned by residents than similar income payable to non-residents (International Monetary Fund, 2009). Hence, for the largely tourism-driven Aruban economy, home to (among others) several international hotel chains, a comparison of GDP and GNI is certainly of interest.

Comparing GDP and GNI for Aruba over the period 2000 – 2022 shows, that the two measures follow a similar trend and are relatively close to one another (see Box Chart 1). Aruba's GNI was on average 5.6% (Afl. 262.5 million) lower than its GDP during the period under review. This percentage is in line with the average divergence between GNI and GDP in Caribbean Island economies (see Table 1, column 2), in contrast to developed economies such as the United States (average divergence between GNI and GDP: 1.0%; with GDP surpassing GNI in 6 of the 23 years during the period 2000 – 2022).

[7] Households, as well as (quasi-)corporations, non-profit institutions, and government units (International Monetary Fund, 2009).



Source: CBA, CBS

The third column of Box Table. 1 shows the number of years in which GDP surpassed GNI for a selection of Caribbean Island economies, during the period 2000 – 2022, stated as a percentage. Aruba's 100.0% means that GDP surpassed GNI in all years from 2000 – 2022. The fact that Aruba's GNI is structurally smaller than its GDP points to the contribution of foreign factors of production in the output generated by Aruba (capital, for the most part), which seem to be relatively more (profitable) compared to domestic factors of production deployed abroad.

Box Table 1: Average divergence between GNI and GDP of selected countries: 2000 - 2022

Caribbean islands	Average divergence GDP vs. GNI: 2000 - 2022	GDP > GNI: 2000 - 2022 (%)
Aruba	-5.6%	100%
Antigua and Barbuda	-4.7%	100%
The Bahamas	-2.9%	74%
Barbados	-4.9%	100%
Dominica	-3.7%	78%
Dominican Republic	-5.2%	91%
Grenada	-7.7%	96%
Haiti	-4.0%	70%
Jamaica	-4.3%	83%
Puerto Rico	-34.4%	100%
St. Kitts and Nevis	-4.9%	87%
St. Lucia	-5.7%	100%
St. Vincent and the Grenadines	-2.7%	83%
Trinidad and Tobago	-6.6%	83%
Latin America & Caribbean	-5.2%	78%

Source: World Bank, CBS, CBA.

Taking a more detailed look at the primary income account of Aruba – which explains the discrepancy between GDP and GNI, – one can see that investment income is the component contributing the most to the Primary Income Balance (PIB). On average[8], (net) negative investment income – largely driven by (net) income payments stemming from direct investment[9]– accounts for 97.7% of the PIB outflow. The latter led to a notable divergence between GDP and GNI in the years 2005 and 2007. In 2005, the large net outflow on the PIB was mainly caused by the oil sector's payment of Afl. 706.0 million in dividends abroad (CBA, 2006). The substantial

[8] 2000 – 2022 average.

[9] Direct investment income includes income on equity and investment fund shares, as well as interest income related to investments in which an investor has control or a significant degree of influence on the management of the enterprise.

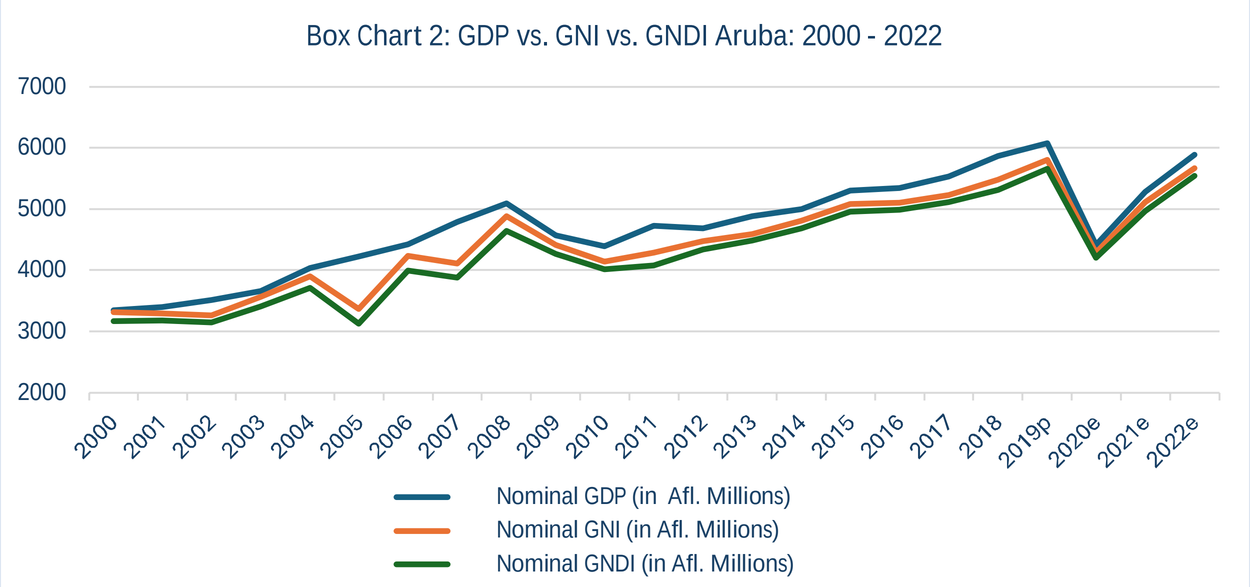
gap between GDP and GNI in 2007 also resulted for a large part from the oil sector's transactions, namely an Afl. 540.4 million outflow in the first quarter of the respective year. The closure of the oil refinery in March 2012 stopped transactions affecting the PIB, as had occurred in 2005 and 2007. It should be noted, however, that following the COVID-19 pandemic in 2020, the difference between the GDP and GNI narrowed, partly due to capital outflow restrictions imposed by the CBA as of March 17, 2020, which among others affected dividend and profit payments. The restrictions were gradually lifted in the following year, with all COVID-19 related capital restrictions lifted on September 1, 2021.

In addition to GDP and GNI, there is Gross National Disposable Income (GNDI). GNDI is measured by adding net current transfers[1] from abroad to GNI and reflects the income available to the total economy for final consumption and gross saving (United Nations, et al., 2009).

Current transfers entail all transfers that are not capital transfers[2]. These include worker's remittances, social contributions and benefits, donations, and aids. They directly affect the level of disposable income and influence the consumption of goods or services. Specifically, current transfers reduce the donor's income and consumption possibilities and increase the recipient's income and consumption possibilities (IMF, 2009).

The Secondary Income Balance (SIB) for Aruba over the period 2000 – 2022 consistently recorded deficits. The latter ranged between Afl. 81.0 million and Afl. 237.2 million, which resulted in an average deficit of Afl. 152.9 million during the period under review. For the most part, only government current transfers contributed positively to the SIB. Personal transfers – which include workers' remittances – and other current transfers largely registered net outflows.

Based on the developments in the SIB, Aruba can be classified as a donor economy. The negative SIB over 2000 – 2022 amplified the effects of the PIB on GDP. Consequently, GNDI persistently underperformed GDP and GNI (Box Chart 2). During the period under review, GNDI was on average 8.9% lower than GDP, and 3.6% lower than GNI. The latter suggests that, overall, the living condition of the population lags behind the domestic productive capacity of the economy. Particularly, as part of the production generated by the domestic factors of production is sent abroad to subsidize living standards of residents of other economies.



Source: CBA, CBS

[1] Current transfers other than taxes, less subsidies, on production and imports.

[2] Capital transfers are transfers in which the ownership of an asset (other than cash or inventories) changes from one party to another; or that oblige one or both parties to acquire or dispose of an asset (other than cash or inventories); or where a liability is forgiven by the creditor. Cash transfers involving disposals of noncash assets (other than inventories) or acquisition of noncash assets (other than inventories) are also capital transfers. A capital transfer results in a commensurate change in the stocks of assets of one or both parties to the transaction without affecting the saving of either party.

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2 International Developments

According to the June 2024 Global Economic Prospects from the World Bank Group (WBG)[10], the global economy is stabilizing. Global economic growth is foreseen to remain at 2.6% in 2024 compared to 2023 (Table 3). However, compared to the 2010-2019 average, the global growth outlook over the forecast horizon (2024 – 2026) is subdued, mainly due to heightened geopolitical risks.

Like 2023, Advanced Economies (AE) are expected to expand by 1.5% on aggregate. Despite this anticipated growth, the WBG projects notable differences in the economic performance of different countries. Strong consumer spending will likely contribute to a 2.5% growth in the United States. In 2024, due to the ongoing recovery in real income in the Euro area, real GDP growth is forecasted to reach 0.7% up from 0.5% in 2023. On the other hand, Japan is projected to record slower growth (from 1.9% in 2023 to 0.7% in 2024) resulting from weakened consumption and exports as auto production and tourism demand normalize.

The expected aggregate output growth of Emerging Market and Developing Economies (EMDEs) edges down from 4.2% in 2023 to 4.0% in 2024. Despite the anticipated growth in several EMDEs, driven by improvements in domestic demand and recovery in trade, decelerating activity in China pushes down aggregate EMDE output. Indeed, excluding China, aggregate EMDE output growth goes up by 3.5% in 2024 compared to 3.4% in 2023. In 2024, the forecasted output growth in Latin America and the Caribbean (LAC) lags aggregate EMDE output growth. Anticipated real GDP growth in LAC decelerates from 2.2% in 2023 to 1.8% in 2024, due to elevated real interest rates in 2023 and weak trade growth.

Global inflation is forecasted to decline to 3.5% in 2024. The anticipated slowdown in inflation reflects an easing in services demand, wage growth, and commodity prices. Inflation in some countries, particularly in South Asia and Sub-Saharan Africa, will remain elevated. The higher level of inflation in these countries reflects adverse food supply shocks (partly due to drought) and currency depreciations.

The risks to the outlook have become more balanced but remain tilted to the downside. These risks include heightened geopolitical tensions, more persistent inflation, weaker-than-anticipated activity in key economies, and extreme weather related to climate change. Considering the risks mentioned above, the WBG calls for global efforts to safeguard trade, support green and digital transitions, deliver debt relief, and improve food security. Furthermore, the WBG underscores the need for various policies to meet development goals, such as policies geared toward raising productivity growth, improving the efficiency of public investment, building human capital, and closing gender gaps in the labor market.

[10] Global Economic Prospects - June 2024 (worldbank.org)

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

Indicator	2023e	2024f
World	2.6	2.6
United States	2.5	2.5
Euro Area	0.5	0.7
Latin America and the Caribbean	2.2	1.8

Source: World Bank

e = estimate; f = forecast

3 Conclusion

During the first half of 2024, the Aruban economy – as measured in real Gross Domestic Product (GDP) – grew by an estimated 7.7% compared to the same period of 2023. Tourism, which is the main contributor to economic growth, recorded significant increases in tourism revenue and stay-over visitors. Consumption indicators were primarily positive due to increased local demand for goods and services, and more optimistic business sentiments regarding current economic conditions.

In the first half of 2024, tourism indicators extended the strong performance witnessed in 2023. The US market was the primary driver of tourism demand growth, followed by Latin American markets. Moreover, the hotel sector performance reflected robust tourism-related activities. The hikes in the number of stay-over visitors, total visitor nights, and tourism revenue led to a strengthening of the average hotel occupancy rate, average daily rate (ADR), and revenue per available room (RevPar).

At the end of June 2024, the diminishing contribution of the utility tariff hike in August 2022, dwindling gasoline and diesel prices, and stabilization of food prices led to the continued downward trend in the 12-month average inflation. The latter reached 1.7%, down from 3.4% at the end of 2023. Contrarily, the End-of-Period (EoP) inflation edged up to 2.4% at the end of June 2024, from 2.3% at the end of 2023.

During the period under review, the real exchange rate for the Aruban florin vis-à-vis the U.S. dollar fell by 0.6 index point compared to the last quarter of 2023. The continued descent of the real exchange rate reaching 93.4 index points follows sustained improvement in the competitive position of Aruba vis-à-vis the United States, which began in the second quarter of 2020 and started to slow down in 2022.

International transactions settled through the commercial banking sector led to a net foreign exchange inflow of Afl. 317.3 million during the first half of 2024. This outcome was largely related to the strong tourism performance, resulting in a current account surplus. The latter was partially mitigated by a net outflow on the financial account primarily due to a one-off domestic loan for a share purchase from non-residents. Moreover, at the end of June 2024, international reserves (incl. revaluation differences) reached Afl. 3,452.9 million and, thus, remained more than adequate according to the benchmarks monitored by the CBA.

In the first six months of 2024, overall credit increased mainly due to augmented business loans. The latter is principally the consequence of a large incidental loan.

Government revenues (excluding non-tax revenue) rose in the first half of 2024 vis-à-vis the same period in 2023. Total tax revenues expanded by 4.1%, benefitting from the tourism sector's strong performance.

According to the June 2024 Global Economic Prospects from the World Bank Group (WBG), the global economy is stabilizing. Global economic growth is foreseen to remain at 2.6% in 2024 compared to 2023 (Table 3). However, compared to the 2010-2019 average the global growth outlook over the forecast horizon (2024 – 2026) is subdued, mainly due to heightened conflict and violence.

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