Centrale Bank van Aruba

# STATE OF THE ECONOMY*

Contents



## *Overview:*

***Macroeconomic data for the first half of 2013 show a pick-up in economic activities. On the exports side, tourism continued to provide much-needed support to output expansion, with tourism receipts maintaining a strong performance (+6.0 percent). Consumption also appears to have strengthened, as the import of goods and the turnover tax receipts of the government surpassed the levels for similar periods a year earlier. However, according to the consumer confidence survey, consumers were less optimistic about the interim future.***

***Investment activities stayed strong although many projects moved into their finalization phase, as evidenced by the large drop in cement imports. In the business perception survey for the first quarter, businesses likewise signaled prudence in anticipation of the parliamentary elections in September 2013.***

***The average inflation trend continued on a downward trajectory, mirroring particularly the effects of the substantial tariff reductions in water and electricity in, respectively, August and November of 2012.***

***Fiscal deficits (Q1 2013: Afl. 29.5 million) and the economic contraction (with real GDP falling by a cumulative 14.3 percent during 2009-10) contributed to a growing government debt burden, reaching Afl. 3.0 billion at the end of the first quarter of 2013, equivalent to 67.1 percent of the GDP (Q1 2012: 2.7 billion, or 58.8 percent of the GDP).***

***Monetary and prudential indicators remained adequate at the end of June. Net foreign assets (including revaluation differences) increased in the first five months of 2013 by Afl. 15.7 million or 1.0 percent to Afl. 1,524.4 million, and remained adequate.***

** The cut-off date for information published in the State of the Economy is July 22, 2013.*

***Outlook***

***Despite the observed pick-up in economic activity, available data at the time of writing this report reflected uncertainty as to whether these developments would last for the rest of the year. On the one hand, the positive developments in tourism persisted. On the other hand, available data for the construction sector remained ambiguous. Looking further ahead, the manufacturing of refined oil products' sector adds an upside risk as the current projections assume no refining activity. Should the facility resume its operation, this sector could boost the economy significantly.***

***In terms of prices, the outlook signals a deflation in 2013 (-2.3 percent), reflecting, in addition to the behavior of energy components, limited price pressures from domestic demand.***

***Some uncertainty surrounds the outlook for net foreign assets in the medium term due to the absence of the refinery and considering the financial position of the government.***

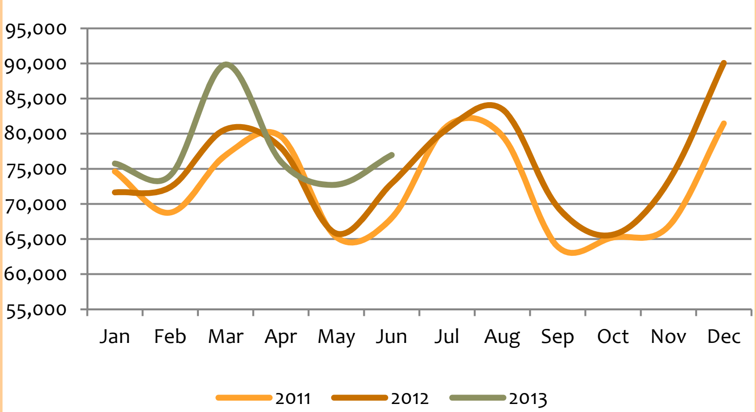
# I Domestic developments

**Tourism remains upbeat**

After finishing 2012 strongly with a 4.0 percent growth in tourism arrivals, the first six months of 2013 yielded a 5.4 percent gain relative to the corresponding months the year before. The month of March in particular stood out (Chart 1). The main driver behind this spike was the timing of the Easter holidays, which occurred in March 2013 (versus April in 2012). This holiday traditionally spurs a sizable influx of visitors from Venezuela. Besides the timing of Easter, the sheer number of visitors from Venezuela traveling to Aruba during this time period was larger than last year. According to the Aruba Tourism Authority, this development could be related in part to intensified promotional efforts and the allocation of additional resources to this market. Overall, stay-over visitors from Venezuela grew by 20.6 percent in the first six months of 2013 (similar period 2012: +22.4 percent), driving the strong performance of the Latin American market (+19.8 percent).

Growth of Aruba's main tourism source country, the United States, was more modest over the first six months of the year (+3.3 percent) than that of Venezuela. However, despite the difference in growth rates between Venezuela and the United States, the observed growth in absolute number of visitors was similar. The Venezuelan market grew by 10,533 visitors and the U.S. market by 9,186 visitors over the first six months of 2013 relative to 2012. Combined, these two markets accounted for 82.1 percent of the previously mentioned 5.4 percent overall growth in arrivals. Tourism from the European market was more timid, registering a decline of 0.3 percent over the first half of 2013 due chiefly to a drop of 5.9 percent in visitors from the Netherlands. The upturn in total visitor arrivals was accompanied by a mere 1.6 percent increase in total visitor nights over the first 6 months of the year. This modest growth can be attributed to a change in the composition of source markets: a big portion of the growth in arrivals was driven by visitors

**Chart 1: Stay-over visitors**

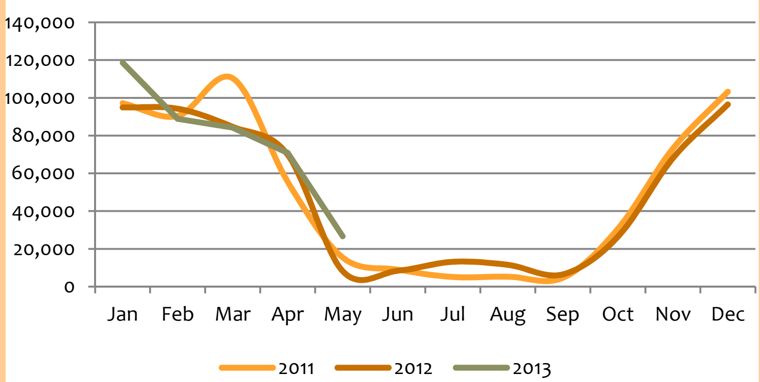


from Venezuela (who on average stay for less time than the overall average), while arrivals from the Netherlands (who tend to stay longer than the overall average) went down. Furthermore, over the first six months of 2013, the average stay of visitors from Venezuela dropped to 5.1 nights, compared to an average of 5.9 nights a year earlier.

The developments in the tourism sector ultimately resulted in a 6.0 percent increase in tourism receipts during the first half of 2013. The prospects for the remainder of 2013 are positive based, among other things, on increased inbound seat capacity due to improved airlift. In the short term, an expansion in room inventory is expected with the Ritz Carlton hotel becoming operational in November 2013.

Cruise tourism registered a 13.7 percent increase over the first six months of 2013, as 37 more cruise ships visited the island compared to last year (Chart 2). The positive numbers are an improvement versus the year before, and the May figure points to a strong performance at the start of the low season, which runs from May to end-September. According to the Aruba Ports Authority, part of this development relates to a change in itineraries of U.S. based cruise lines in the first months of 2013. The attempt of cruise lines to reach out to an international audience has resulted in a 5 percent growth of cruise passengers from South America, as some new ship itineraries venture to South American shores, thereby including Aruba as a port of call. Furthermore, based on current reservations, the authorities expect a continued hike in the number of ship calls for the remainder of 2013 and the start of 2014.

**Chart 2: Cruise visitors**




**Early encouraging economic signs**

In addition to the tourism sector, other recent data for the Aruban economy showed positive signals in the first four months of 2013. The turnover tax receipts[1] of the government, a commonly used indicator for economic activity, registered a 3.4 percent increase over the first four months of 2013 relative to 2012.

[1] Turnover tax receipts are lagged by one month to reflect business activity in the corresponding month.

The level of import of goods in the first quarter of 2013 even surpassed the level of the previous year by 1.2 percent, reflecting increased domestic and tourism demand. In addition to the observed rise in imports. Import duties surged by 12.4 percent in the first five months of 2013. Further, the utility burden of households was reduced significantly as water tariffs were reduced by 30.8 percent (as of August 2012) and electricity tariffs by 15.6 percent (as of November 2012). Despite increases in the volume of water consumption (+3.1 percent) and electricity consumption (+3.3 percent) during the first six months of 2013, the value of water and electricity consumption fell by 28.2 percent and 4.7 percent, respectively.[2] The lower utility bills may have broadened the financial space of households, possibly leading to higher consumption levels in the first two quarters of 2013. Results from the CBA's Consumer Confidence Survey for the first half of this year further support this notion. For example, respondents were more positive in the first quarter of 2013 on questions relating to consumption habits, such as the suitability of purchasing major appliances and going on vacation, relative to the same period of 2012. This more positive outlook is consistent with a 3.3 percent increase in resident arrivals, an indicator of domestic consumption of nonessential goods, during the first five months of 2013 compared to the year before.

Activity in the construction sector also was considered positive in the first quarter of 2013--the import of construction materials recorded an increase, following a drop over the first quarter a year earlier. However, the short-term outlook for this sector is uncertain because, on the one hand, the number and value of construction permits granted and the total value of construction permits granted grew relative to the first quarter of 2012 (respectively, +17.9 percent and +17.7 percent) while, on the other hand, the total volume of imported cement for the first quarter of 2013 was 24.9 percent below that of the corresponding period the year before. That not all of these three important indicators for activity in this sector point in the same direction reflects the ambiguity of the developments in the construction sector.

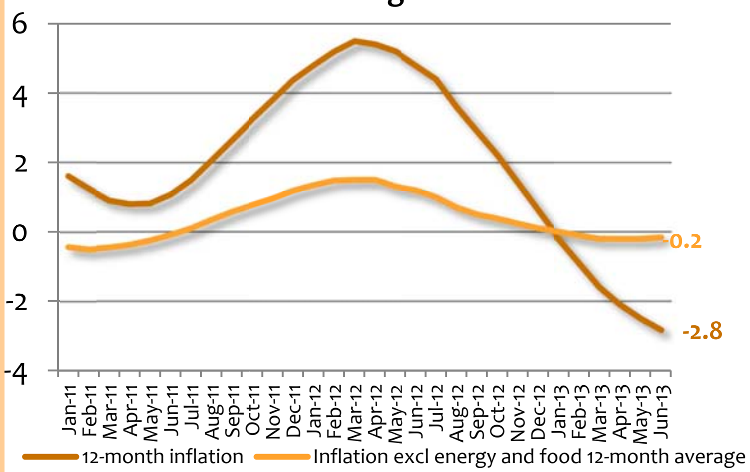
[2] Please note that the consumption and value of consumption for electricity includes all sectors, not just households.

Furthermore, businesses generally point out that they will proceed with caution in the coming months, as it remains unclear to them whether the government will take cost-raising measures following the parliamentary elections in September 2013. Businesses also indicated their uncertainty about the impact of recently amended labor regulations, which could potentially raise wage costs and curtail labor demand. The latter concern appears consistent with the results of the consumer confidence survey showing a higher portion of respondents anticipating a worsening of job prospects in the first quarter of 2013 (65.5 percent vs. 61.2 percent in the fourth quarter of 2012). This pessimism was also reflected in the index on short-term future economic conditions of the business perception survey, which stood at 100.9 during the first quarter of 2013, compared to 105.6 in the previous quarter. However, the index on current economic conditions improved from 103.2 throughout the fourth quarter of 2012 to 104.1 during the first quarter of 2013.

## Deflationary path sustained

The 12-month inflation trend continued its downward trajectory, already visible in the final five months of 2012, following the previously mentioned substantial tariff reductions in water and electricity. While the average inflation for 2012 was marginally positive at 0.6 percent, the effects of the tariff reductions pulled the overall 12-month average inflation down to negative territory in 2013. The 12-month inflation rate has shown decreases in the overall price level since January 2013, reaching -2.8 percent in June 2013 (Chart 3). The average core inflation[3] also turned marginally negative, registering -0.2 percent in June 2013, compared to 1.2 percent in the corresponding period a year earlier. Deflation is often associated with weak domestic demand, although in this particular case, the drop in the overall price levels was driven largely by a very specific component, namely, energy. However, as Chart 4 and Table 1 indicate, the growth of the other components within the measured basket of goods has been limited since 2011, suggesting that over a longer time span, domestic price pressures may have remained subdued due to low demand.

**Chart 4: 12-month average percentage change**




[3] Inflation excluding food and energy components (i.e., water, electricity, and gasoline).

**Table 1: Contributors to inflation**

| Sector June 2013 | Weight coefficient | 12-month percentage change | Excl. energy and food |
|---|---|---|---|
| **Transport** | **1,815.4** | **0.2** | **0.3** |
| Food and non-alcoholic beverages | 1,125.3 | 0.1 | 0.1 |
| **Restaurants and hotels** | **373.7** | **0.1** | **0.1** |
| Alcoholic beverages and tobacco products | 81.9 | 0.1 | 0.0 |
| **Communication** | **706.3** | **0.0** | **0.0** |
| Education | 83.0 | 0.0 | 0.0 |
| **Health** | **235.8** | **0.0** | **0.0** |
| Miscellaneous goods and services | 767.0 | 0.0 | 0.0 |
| **Recreation and culture** | **891.2** | **-0.1** | **-0.1** |
| Household operation | 741.3 | -0.2 | -0.2 |
| **Clothing and footwear** | **625.9** | **-0.5** | **-0.5** |
| Housing | 2,553.3 | -2.5 | 0.1 |
| **Total** | **10,000.0** | **-2.8** | **-0.2** |

**Government finances**

Total government tax revenue rose by 7.9 percent to Afl. 388.5 million in the first five months of 2013 compared to the same period a year earlier. Higher tax revenues were visible across the board, with the only notable exception a marginal drop in turnover tax, due to lower January turnover tax figures reflecting slower business activity in December 2012 compared to a year earlier. The increase in tax revenue was driven in large part by a growth of Afl. 16.3 million (+33.7 percent) in profit tax, related in part to the government's tax settlement programs aimed at collecting overdue taxes in an efficient and effective manner. Moreover, the government obtained an Afl. 18.2 million receipt associated with a contribution of the Dutch government to the development fund (FDA) in February 2013.

Over the first quarter of 2013, total expenditures on a cash-adjusted basis amounted to Afl. 318.9 million (Q1 2012: Afl. 324.1 million), primarily the result of an Afl. 18.8 million decline in the transfer to the General Health Insurance (AZV) and an Afl. 16.8 million drop in items n.i.e. This decrease was offset in part by expansions in personnel-related expenditures (+Afl. 18.8 million) and interest payments (+Afl. 9.2 million). Consequently, the government recorded a financial deficit (on a cash-adjusted basis, including net lending) of Afl. 29.5 million in the first quarter of 2013, down from Afl. 84.9 million in the previous year. The government's gross liquid position, comprised of the domestic deposits of the government at the central bank and commercial banks, decreased from Afl. 206.3 million in December 2012 to Afl. 172.4 million in May 2013, consistent with higher government spending relative to revenue during the period under review. The fiscal deficits and economic contraction contributed to a growing government debt burden. Total government debt reached Afl. 3.0 billion at the end of the first quarter of 2013, compared to Afl. 2.7 billion a year before. This level of debt is unsustainable in the medium term, as the interest burden stemming from the debt position gains position on the budget, posing further risks to future economic development. According to the International Monetary Fund, measures on both the revenue and expenditure sides are needed to achieve fiscal consolidation (see Box 1). Failure to improve government finances in a timely manner could pose a risk of further downgrading of Aruba's rating, as suggested by the S&P following their latest rating exercise (see Box 2).

**Box 1: The IMF publishes its preliminary findings at the conclusion of its 2013 article IV consultation mission.**

On April 25th, 2013, the International Monetary Fund (IMF) wrapped up its bi-annual staff consultation mission in Aruba. In its concluding statement, the IMF noted that Aruba has weathered two major shocks in recent years: the global financial crisis and the shutdown of the oil refining operations. Nonetheless, real GDP contracted by a cumulative 15 percent during 2009-10. These shocks have substantially eroded the authorities' fiscal policy space, and public debt climbed to 67 percent of GDP at end 2012. Tourism, the mainstay of Aruba's economy, has rebounded quickly, due in part to strong policy actions. The banking sector also has withstood the recession well, and unemployment has significantly decreased. Nonetheless, the overall economic recovery is progressing gradually, and output is still 12 percent below its pre-crisis level. The IMF expects that it will be 2018 before Aruba's output reaches this pre-crisis level. Aruba faces the challenge of rebuilding its lost fiscal space without jeopardizing a relatively weak recovery. Both expenditure and revenue measures will be needed to achieve the envisaged consolidation. Fiscal deficit is projected to decline in 2013, and a daunting task lies ahead. Ensuring a steady recovery will require maintaining competitiveness through further diversification of tourism markets and keeping wage growth in line with productivity developments.

**Box 2: Standard & Poor's Rating Services (S&P) downgrades the long-term foreign and local currency sovereign credit ratings on the government of Aruba to 'BBB+' from 'A-'.**

On June 14th, 2013, S&P published an update on the long-term foreign and local currency sovereign credit ratings on the government of Aruba to 'BBB+'. The outlook is noted as stable.

The rationale behind the downgrade is a reflection of deteriorating fiscal and external balance sheets. On the fiscal side, S&P noted that large fiscal deficits over the last three years raised gross general government debt (excluding public sector pension holdings of government debt) to an estimated 60 percent of GDP in 2013. Fiscal deficits are projected at 4 to 5 percent of GDP for the next few years. The closure of the island's oil refinery and spending pressures in health care and pensions have contributed to weakening Aruba's public finances in recent years.

The stable outlook reflects the expectation that the government will continue its dialogue with unions and employers after the election later this year in order to agree on further measures to address long-term weaknesses in public finances, reduce general government deficits over the next three years, and stabilize its debt burden. Such measures would include additional reforms to the public sector health and pension systems as well as efforts to raise additional government revenues and contain current expenditures.

Failure to stanch the erosion of the government's fiscal profile in a timely manner would lead to higher government debt, as well as put pressure on the country's external indicators. Under such a scenario, S&P could consider a further downgrade of the Aruban rating. On the other hand, S&P deems that a reopening of the oil refinery would boost exports and GDP growth prospects as well as sustain fiscal revenues. That, plus continued growth in tourism earnings and effective implementation of the public sector investment program, would give greater scope for the government to reverse the recent erosion of the government's financial profile, resulting in an upgrade.

Source: Research Update: Aruba Downgraded to 'BBB+' On Fiscal Erosion; Outlook Stable, Standard & Poor's Rating Services, June 14, 2013.

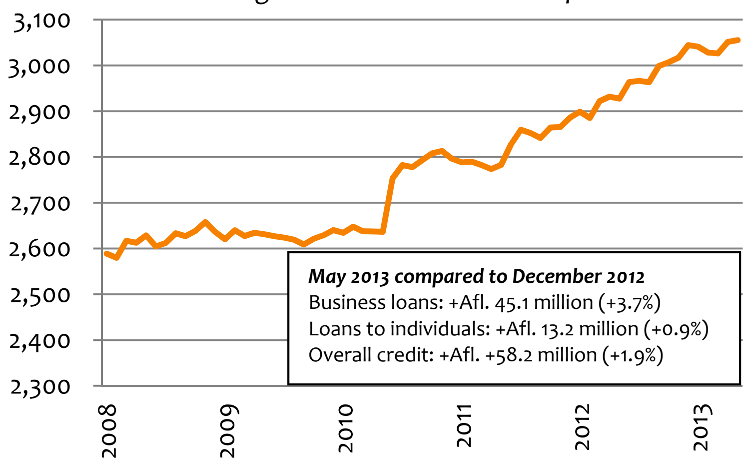
**Monetary indicators remain adequate**

In the first five months of 2013, net foreign assets (including revaluation of gold, official foreign exchange, and security holdings) increased by Afl. 15.7 million or 1.0 percent to Afl. 1,524.4 million. This growth occurred in spite of a decrease in the revaluation differences of gold caused by a fall in the gold price and a net outflow of foreign funds due to external transactions of the oil sector. The expansion in international reserves reflected in part the strong tourism performance, as well as a one-off inflow related to the Dutch government contribution to FDA. When benchmarked against GDP and money supply, as well as when measured in number of months of current account payments, net foreign assets remained at an adequate level.

**Chart 5: Total credit**

*(in Afl. million)*

*According to the credit measure report*




Net domestic assets expanded by Afl. 70.8 million (+3.3 percent) in the first five months of 2013, reflecting both a rise in claims of the banking sector on the private sector (Chart 5) and the drawing down of government deposits. The private sector credit growth was pushed up by increased business loans (+Afl. 45.1 million) and higher housing mortgages (+Afl. 14.7 million). Consumer credit, on the other hand, continued its decreasing trend and contracted by Afl. 4.0 million during the first five months of 2013.

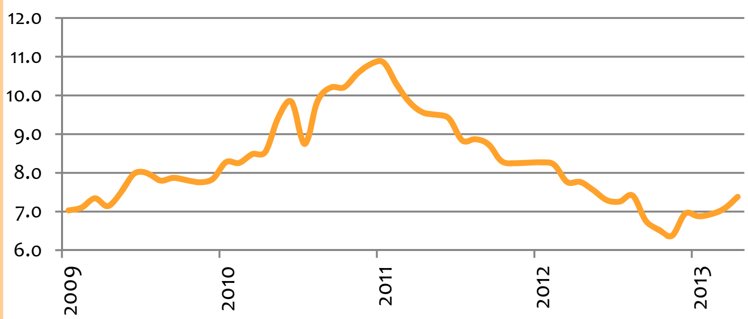
**Monetary Policy Committee meetings and decisions**

Up to June 2013, the Monetary Policy Committee (MPC) of the CBA decided at its regular meetings to leave both the reserve requirement and the advance rate unchanged at, respectively, 11 percent and 1 percent. These decisions were based on available domestic indicators and developments in the international economic environment at the time. These decisions also took into consideration that net foreign assets continued at an adequate level when benchmarked against GDP and money supply, as well as the number of months of current account payments covered by the net foreign assets throughout the monitored period. Domestic price pressures also remained subdued, while the expectation was maintained that overall domestic credit would grow at a modest level. It was noted that excess liquidity was present in the domestic banking sector, but the factors mentioned above did not warrant an adjustment to the reserve requirement at that time.

**Sound prudential indicators**

The quality of the overall loan portfolio of the commercial banking sector credit declined slightly, with the nonperforming loan ratio increasing from 6.9 percent in December 2012 to 7.3 percent in April 2013 (Chart 6). Though the trend for the nonperforming loan ratio is on the rise again after having bottomed out in November 2012 at 6.4 percent, it has stayed well below its peak level of 10.9 percent in January 2011. Also, the other prudential indicators of the commercial banks showed adequate levels. The banks' risk-weighted capital asset ratio was 22.4 percent (required minimum=14.0 percent) in the first 4 months of 2013. The loans-to-deposit ratio stood at 68.4 percent in April 2013 (maximum=80.0 percent), while the prudential liquidity ratio of the commercial banks reached an average 27.3 percent in the period January-April 2013 (minimum requirement=15.0 percent). This

**Chart 6: Nonperforming loans**
*(in percent)*



is 0.1 percent point higher than the average in the corresponding period of 2012 (27.2 percent).

**Balance of payments**

The balance of payments posted an Afl. 16.6 million surplus in the first quarter of 2013 (2012: Afl. 62.1 million deficit), generating a net inflow of funds from abroad of the equivalent amount. However, due to the revaluation differences of gold and foreign exchange holdings diminishing by Afl. 14.9 million, the increase in net foreign assets[4] was only Afl. 1.7 million. Consequently, the total net foreign assets of the commercial banks (including revaluation differences of gold and official foreign exchange holdings) rose by Afl. 2.6 million to Afl. 105.5 million at the end of March 2013, while the official reserves of the CBA dropped Afl. 0.8 million in the same period. At the end of March 2013, total reserves stood at an equivalent of 4.8 months of current account payments (12-month average, excluding the oil sector), compared to 4.9 at the end of 2012.

The capital and financial account registered a net outflow of Afl. 49.9 million, related mainly to net outflows of other investment and portfolio investment. In the first quarter of 2013, other investment recorded a net outflow of Afl. 132.5 million, compared to a net inflow of Afl. 18.2 million in the same quarter of 2012. This turnaround was caused mainly by the oil sector related to a reduction in trade credits received and extended due to the closure of the oil refinery in March 2012. On the other hand, other investment of the non-oil sector posted an Afl. 153.8 million lower net outflow, reflecting largely reduced increases in balances on currency and deposits of residents companies. Portfolio investment showed a similar pattern; in the first quarter of 2013, a net outflow of Afl. 20.1 million was recorded against an Afl. 209.9 million net inflow in the first quarter of 2012. This result was largely due to smaller net sales of foreign equity securities and the net purchase of foreign debt securities by the non-oil sector. Direct investment reflected a net inflow of Afl. 100.6 million compared to a large net outflow of Afl. 650.0 million in the first quarter of 2012. This

[4] It should be noted that the net foreign assets development referred to in the balance of payments differs from that mentioned in the monetary sector due to the different time periods under review.

was mainly due to decreased trade credits of the oil sector related to the mentioned closure of the oil refinery. Net inflow of direct investment of the non-oil sector grew by Afl. 86.3 million to Afl. 104.1 million, mainly attributable to higher intercompany loan receipts and equity contributions.

The current account of the balance of payments recorded a surplus of Afl. 75.3 million in the first quarter of 2013 compared to a surplus of Afl. 361.2 million in 2012. This 2013 figure reflected an Afl. 160.6 million surplus in the non-oil sector (2012 Q1: Afl 162.7 million) and an Afl. 85.3 million deficit in the oil sector (2012 Q1:Afl. 198.5 million surplus). The surplus in the non-oil sector was mainly the result of an improvement in tourism receipts, which grew by 5.9 percent in the first quarter of 2013. Whereas during the first quarter of 2012, the oil sector was a net exporter, the activity in the oil sector during the first quarter of 2013 resulted in an Afl. 85.3 million net import. During the first quarter of 2012, the oil sector conducted refining activity; in 2013 exports were limited to the sales of jet fuel and transshipment activity, while imports for domestic use surpassed the level exported. This situation drove a bigger deficit in the goods account (Afl. 478.4 million in the first quarter of 2013 compared to Afl. 118.8 million in the corresponding period a year earlier), which was mitigated by the mentioned improvement in the services account.

**Outlook**

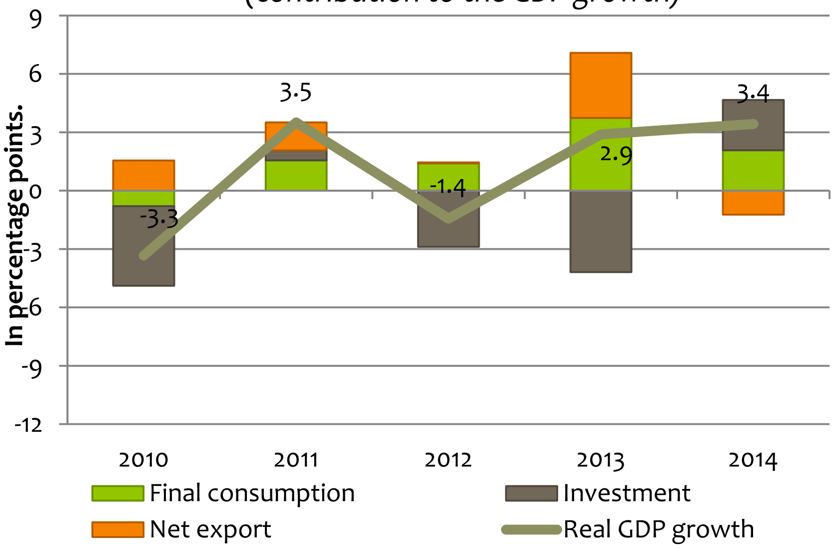
After witnessing an economic contraction of -1.4 percent in 2012, the CBA forecasts a rebound in economic activity of 2.9 percent in real terms in 2013 (Table 2), largely because of strong consumption and tourism demand. While the projection assumes that tourism sector is the main driver of output in 2013, further delays in the execution of several investment projects (Green Corridor, Ringroad 3, and the Hospital renovation), will likely cause a decline in private investment activities in 2013.

| Table 2: Economic growth for Aruba in real terms, expressed in percentages | 2012 | 2013 | 2014 |
|---|---|---|---|
| Real GDP | -1.4 | 2.9 | 3.4 |
| Real Consumption | 1.6 | 4.2 | 2.3 |
| Real Investment | -8.4 | -13.1 | 9.6 |
| Real Imports | -4.5 | -0.4 | 5.1 |
| Real Exports | -5.8 | 4.3 | 4.6 |
| | | | |
| 12-month Inflation | 0.6 | -2.3 | 1.2 |
| GDP deflator | 0.9 | -2.1 | 1.4 |

Nevertheless, this outlook takes into account a number of sizable investment projects in 2013, including the completion of the Ritz Carlton, and the initiation of the renovation and expansion of the hospital. Furthermore, the significant reductions in the water tariffs (as of August 2012) and in the electricity tariffs (as of November 2012) caused a decrease in the general price level in 2013, which could have a positive impact on consumer purchasing power and, subsequently, on real consumption as well as real output. Moreover, increased economic activity likely created jobs and, thus, more income for households, resulting in more consumption. Despite the projected growth, the real GDP level in 2013 is projected to remain below the levels achieved before 2008.

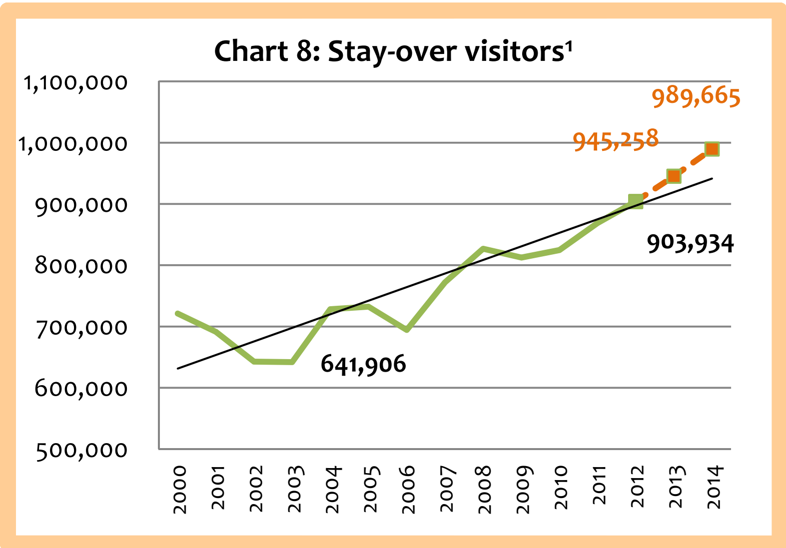
For 2014, the expected real GDP growth is 3.4 percent. A 9.6 percent increase in investment activities will be the driving force. A number of projects that were delayed in recent years are expected to materialize or continue in 2014. In addition, the economy is expected to be supported by the tourism sector, which is anticipated to receive a boost from the opening of the Ritz Carlton hotel in late 2013. Given the hike in investment activities and the buoyant performance in the tourism sector, the number of employed persons will likely rise, which will probably spark an upturn in private consumption of 3.6 percent. The level of consumption will also be bolstered by the inflation rate, which is currently expected to remain subdued at 1.2 percent in 2014. The contribution of each GDP component during the period 2010-2014 is presented in Chart 7.

**Chart 7: Real GDP and its components**
*(contribution to the GDP growth)*




The outlook for prices shows an expected deflation of 2.3 percent for 2013 mainly the result of the mentioned reduction in the tariffs of water and electricity. In addition, gasoline prices in the first half of 2013 have remained largely in line with the corresponding period of 2012. Meanwhile, the other components of inflation have also been subdued so far in 2013 with the components other than food and energy contributing -0.2 percent to the 12-month average inflation in June 2013. Given that the water and electricity tariffs are fixed for the remainder of 2013 and the developments in the price of the other CPI components, the CBA foresees average core inflation reaching 0.2 percent at end 2013. For 2014, the underlying assumption is that the tariffs for water and energy will remain unchanged in 2014. In addition, no large changes are expected in international oil and food prices. Therefore, the CBA projects moderate inflation in 2014 at 1.2 percent, with average inflation excluding food and energy reaching 1.6 percent.

For the tourism sector, the CBA projects a growth of 6.1 percent for the year 2013 and 4.0 percent for 2014 for total stay-overs. This projection implies a continuation of the strong growth seen over the last two years. The main driver behind this growth in 2013 is the Latin American market and the North American market in absolute terms. Moreover, the opening of the Ritz Carlton hotel in late 2013 is also expected to contribute.




In 2014, with the opening of Ritz, demand from the North American market is expected to regain momentum, and the North American market is expected to contribute to growth, along with the Latin American market.

Tourism receipts are projected to expand by 4.5 percent in 2013, and by 5.8 percent in 2014. Receipts growth is estimated to accelerate in 2014, driven in part by the assumption that Ritz Carlton guests are higher spenders than the current average visitor.

es are
imated

Cruise tourism is projected to increase by 14.1 percent in 2013, and -4.2 percent in 2014.

From a sectoral perspective, tourism-related sectors, "hotel and restaurants" and "transport, storage and communication", are expected to benefit from the previously mentioned positive projections for both stay-over tourism and cruise tourism for 2013-2014. The prospects for the construction sector are less certain due to the noted ambiguity. However, for 2014, CBA projects this sector will rebound, aided by a number of large investments in the pipeline for the year. The "manufacture of refined oil products" sector provides an upside risk, as the current projections assume limited activity of the Valero oil refinery. Should the facility resume its refining operation, this sector could provide a sizable boost to the economy. The sector "Wholesale and retail trade, repair of motor vehicles and household goods" is also expected to gain in 2014, because of both the improved tourism performance and the increased overall economic activity accompanied by additional job creation.

## II International developments

In the first months of 2013, the world economy continued its slow and bumpy recovery with a growing divergence between countries. However, global economic prospects have improved thanks to policy actions that defused two of the biggest short-term threats to the global recovery: a euro area break-up and a sharp fiscal contraction in the United States. This improvement in global prospects has led to overall better financial conditions and improved confidence. Nonetheless, downside risks remain even though the short-term risks have narrowed. In its World Economic Outlook (WEO), the IMF points out an increasing difference between advanced economies, with strong private demand boosting U.S. growth despite fiscal headwinds, while sluggish private demand, among other things, is limiting euro area growth.[5] While growth remains strong in emerging markets and developing economies, with China leading this group, more recent data suggest the pace of this growth is somewhat slower than expected. At the same time, growth in some emerging economies is constrained by structural factors.[6] The IMF notes that given the strong interconnections between countries, an uneven recovery also entails more spillover risk. In addition, recent data show slower-than-expected growth in the US and emerging market economies, as well as a deeper-than-projected recession in the euro area. For this reason, the IMF adjusted its forecast downwards slightly in its July 2013 update--to 3.1 percent (-0.2 percent point) in 2013 and 3.8 percent (-0.2 percent point) in 2014.[7]

In the United States, economic activity accelerated in the first months of 2013, albeit at a slower pace than previously expected, with an annualized growth rate of 1.8 percent in the first quarter of 2013

[5] World Economic Outlook, July, 2013. International Monetary Fund.
[6] Economic Outlook No. 93, May 29, 2013. Organization for Economic Co-operation and Development.
[7] World Economic Outlook Update, Press Release, July 09, 2013. International Monetary Fund.

(0.4 percent in the fourth quarter of 2012).[8] The pick-up in real GDP reflected mainly an upturn in private inventory investment, an acceleration in personal consumption expenditures, as well as a smaller decrease in federal government spending and exports. Accommodative monetary policies have led to a pick-up in credit growth, while bank lending conditions have eased. Consumer confidence also is on the mend, reaching a five-year high in June 2013.[9] The housing market has boosted activity with a rebound in real estate prices and improvements in housing sales and starts. Furthermore, personal consumption is supported by continued, albeit modest, job gains. The unemployment rate stood at 7.6 percent in June 2013, 0.6 percentage point lower than a year earlier.[10] In addition, productivity is on the rise.[11] In its July 2013 update to the WEO, the IMF expects GDP growth to be 1.7 percent in 2013 and accelerating to 2.7 percent in 2014, as private demand will more than offset the drag on growth from fiscal consolidation.[12] The projection assumes that the automatic spending cuts, which went into effect in March 2013 as a result of the Budget Control Act of 2011, will stay in place till 2014, longer than previously projected, although the pace of fiscal consolidation will still slow. Furthermore, as noted in a recent speech by the Managing Director of the IMF, Mrs. Christine Lagarde, the United States also needs a durable solution to raise the debt ceiling and a credible medium-term roadmap in place to bring down the debt.[13]

Strong policy actions have diminished acute crisis risks and increased confidence in the euro area. However, the inconclusive outcome of Italy's elections in February 2013 followed by weeks of deadlock, and the banking crisis in Cyprus that finally led to a bailout from the European Union in April and a subsequent ratings downgrade in June have brought about renewed concerns. Real GDP for the euro

[8] National Income and Product Accounts, Press Release, June 26, 2013. Bureau of Economic Analysis.
[9] Consumer Confidence Survey, Press Release, June 25, 2013. The Conference Board.
[10] Regional and State Employment and Unemployment Summary, Press Release, July 05, 2013. U.S. Bureau of Labor Statistics.
[11] Productivity and Costs, Press Release, June 05, 2013. U.S. Bureau of Labor Statistics.
[12] World Economic Outlook Update, Press Release, July 09, 2013. International Monetary Fund
[13] Policy Steps Toward a Full-Speed Global Economy, Speech by Mrs. Christine Lagarde, June 04, 2013. Brookings Institution.

area contracted by 0.3 percent in the first quarter of 2013, declining for the fifth consecutive quarter.[14] The European Central Bank (ECB) notes that sluggish domestic demand and exports were the main contributors behind the decline in output in the first quarter of 2013. Available data suggest that euro area trade remained subdued in the second quarter of 2013. Furthermore, labor market conditions remain weak as the level of employment fell for the seventh consecutive quarter. The IMF has revised its near-term outlook for the euro area downwards, with economic activity now expected to contract by 0.6 percent, down by 0.2 percentage point compared to its April 2013 published WEO.[15] This revision is due in part to the persistent effects of the disappointing growth in emerging market economies and a weaker than expected growth in the United States, as well as expected delays in policy implementation in key areas. In addition, growth will remain subdued as improvements in private sector borrowing are hampered by financial market fragmentation, ongoing balance sheet repair in the periphery economies, and continued fiscal adjustment.[16]

The economic performance in Asia was subdued in 2012, as real GDP growth stood at 5.3 percent following broad-based weakening of exports both within and outside Asia and China's implementation of policies aimed at moderating and better balancing its growth.[17] Economic activity had stabilized in Asia by early 2013, and growth is set to pick up gradually during the year to 5.7 percent, on strengthened external demand and continued robust domestic demand.[18] In Japan, growth is projected to be 2.0 percent in 2013 as a result of new fiscal and monetary stimuli.[19] The IMF projects China's growth to remain at 7.8 percent in 2013, a 0.3 percentage point downward revision from the previous forecast as a result of slower than expected external demand growth and lower commodity prices, among other things.[20] Nonetheless, the forecasted growth reflects sustained strong

[14] Monthly Bulletin, July, 2013. European Central Bank.
[15] World Economic Outlook, Press Release, July 09, 2013. International Monetary Fund.
[16] World Economic Outlook, April, 2013. International Monetary Fund.
[17] World Economic Outlook, April 2013. International Monetary Fund.
[18] World Economic Outlook, April 2013. International Monetary Fund.
19 World Economic Outlook Update, Press Release, July 09, 2013. International Monetary Fund
20 World Economic Outlook Update, Press Release, July 09, 2013. International Monetary Fund.

domestic demand in both consumption and investment, as well as external demand, albeit at a lower pace. In India, growth will rise to 5.6 percent due to improved external demand and recently implemented pro-growth measures.[21]

Real GDP growth in the Latin American and Caribbean region declined to 3.0 percent in 2012, from about 4.6 percent in 2011, due to a slowdown in external demand and, in some cases, the impact of domestic factors.[22] Growth is projected to stay at 3.0 percent in 2013, supported by a pickup in external demand, favorable financing conditions, and the impact of earlier policy easing in some of the region's countries. In Brazil, growth is projected to strengthen to 2.5 percent as a result of the lagged impact of domestic policy easing and measures targeted at boosting private investment. A notable exception is Venezuela, where growth is expected to decelerate from 5.5 percent in 2012 to 0.1 percent in 2013, as the pace of fiscal spending declines.[23] The recovery will continue in much of the Caribbean, with a gradual pickup in tourism flows. However, high debt levels and weak competitiveness will continue to constrain growth. As a result, growth in the Caribbean is projected at 2.2 percent in 2013.

21 World Economic Outlook Update, Press Release, July 09, 2013. International Monetary Fund.
22 World Economic Outlook Update, Press Release, July 09, 2013. International Monetary Fund.
23 World Economic Outlook, April 2013. International Monetary Fund.

| Key economic figures | 2008 | 2009 | 2010 | 2011 | 2012 | Year to date 2012 | Year to date 2013 |
|---|---|---|---|---|---|---|---|
| *Prices 1]* | | | | | | | |
| Inflation (period average) | 9.0 | -2.1 | 2.1 | 4.4 | 0.6 | 3.5 | -3.4 |
| Core inflation (period average) 2] | 3.3 | 1.8 | -0.3 | 1.2 | 0.1 | 0.6 | 0.2 |
| Inflation (end of period) | -1.9 | 6.8 | -0.7 | 6.1 | -3.7 | -0.1 | 0.5 |
| Inflation United States (period average) | 3.8 | -0.4 | 1.6 | 3.2 | 2.1 | 2.3 | 1.5 |
| Inflation differential with the USA (period average, percentage points) 2] | 5.2 | -1.7 | 0.5 | 1.2 | -1.5 | 1.2 | -4.9 |
| Core inflation differential with the USA (period average, percentage points) 2] | 1.0 | 0.1 | -1.3 | -0.5 | -2.0 | -0.8 | -0.9 |
| *Tourism* | | | | | | | |
| Stay-over tourism 1] | 826,774 | 812,623 | 824,702 | 868,973 | 903,937 | 441,341 | 465,375 |
| Visitors' nights 3] | 6,264,689 | 6,172,913 | 6,466,217 | 6,685,807 | 6,907,143 | 3,354,956 | 3,406,959 |
| Cruise tourism 1] | 556,090 | 606,768 | 569,424 | 599,893 | 582,309 | 360,201 | 409,381 |
| Tourism receipts (in Afl. million) 4] | 2,412.8 | 2,183.7 | 2,236.2 | 2,414.5 | 2,504.8 | 729.5 | 772.5 |
| Tourism receipts in percent of GDP 4] 5] | 49.1 | 48.8 | 52.3 | 52.9 | 55.2 | 63.2 | 64.3 |
| Tourism price index 1] | 110.6 | 112.6 | 108.8 | 116.0 | 114.3 | 99.5 | 100.4 |
| *Monetary developments 3]* | | | | | | | |
| Money supply (in Afl. million) | 2,990.3 | 3,163.5 | 3,154.6 | 3,160.0 | 3,410.4 | 3,216.0 | 3,509.9 |
| Net domestic assests (in Afl. million) | 1,721.4 | 1,688.4 | 1,845.3 | 1,873.9 | 2,122.7 | 2,021.4 | 2,193.6 |
| Credit (percentage change) 6] | 4.0 | -0.9 | 1.1 | 3.5 | 2.6 | 1.2 | 2.0 |
| Businesses (percentage change) 6] | 7.1 | -3.2 | -0.5 | 5.7 | 4.5 | 2.1 | 3.4 |
| Individuals (percentage change) 6] | 2.3 | 1.0 | 2.2 | 2.4 | 1.4 | 0.7 | 0.9 |
| Consumer credit (percentage change) 6] | 4.1 | -1.9 | -2.9 | -1.1 | -3.2 | -1.3 | -0.3 |
| Housing mortgages (percentage change) 6] | 1.0 | 3.2 | 5.8 | 4.6 | 4.3 | 1.9 | 1.6 |
| Net foreign assets (Excluding revaluation differences, in Afl. million) | 1,268.9 | 1,475.1 | 1,309.3 | 1,286.1 | 1,287.7 | 1,194.7 | 1,316.5 |
| Net foreign assets in months of current account payments (Excluding oil sector) 4] | 3.7 | 5.8 | 6.1 | 4.7 | 4.9 | 4.8 | 4.8 |
| *Macroprudential indicators 3]* | | | | | | | |
| Capital/risk-weighted assets ratio | 14.7 | 17.8 | 18.5 | 18.9 | 19.4 | 21.0 | 22.4 |
| Loan/deposit ratio | 69.4 | 67.1 | 66.5 | 71.0 | 68.0 | 70.6 | 68.4 |
| Liquidity ratio | 34.7 | 30.1 | 28.6 | 26.1 | 27.4 | 26.1 | 27.2 |
| Nonperforming loans 7] | 6.9 | 7.9 | 10.7 | 8.2 | 6.9 | 7.7 | 7.3 |
| *Balance of payments 4] 8]* | | | | | | | |
| Current account (net) | 7.7 | 336.3 | -776.3 | -431.2 | 224.2 | 361.2 | 75.3 |
| Current account in percent of GDP 5] | 0.2 | 7.5 | -18.1 | -9.4 | 4.9 | 31.3 | 6.3 |
| Capital and financial account (net) 9] | 544.6 | -130.0 | 610.4 | 408.0 | -222.7 | -423.3 | -58.7 |
| Net foreign direct investment in percent of GDP 4] 5] | 0.5 | -1.3 | 6.6 | 18.2 | -13.8 | -56.3 | 8.4 |
| Overall balance (in Afl. million) 9] | 552.3 | 206.2 | -165.8 | -23.1 | 1.6 | -62.1 | 16.6 |

**Key economic figures** *(continued)*

| | 2008 | 2009 | 2010 | 2011 | 2012 | Year to date 2012 | Year to date 2013 |
|---|---|---|---|---|---|---|---|
| *Government financial operations 4] 10 ]* | | | | | | | |
| Revenue and grants | 1,365.1 | 1,108.9 | 1,183.9 | 978.4 | 1,017.4 | 239.7 | 297.7 |
| Revenues and grants in percent of GDP 5] | 27.8 | 24.8 | 27.7 | 21.4 | 22.4 | 20.8 | 24.8 |
| Expenditure | 1,290.5 | 1,229.1 | 1,337.1 | 1,282.5 | 1,436.6 | 316.3 | 324.5 |
| Expenditure in percent of GDP 5] | 26.3 | 27.5 | 31.2 | 28.1 | 31.6 | 27.4 | 27.0 |
| Interest expenses in percent of GDP 5] | 2.8 | 2.6 | 3.0 | 3.0 | 3.0 | 2.5 | 0.0 |
| Lending minus repayments | 23.1 | 42.9 | 35.4 | 21.1 | 24.1 | 0.5 | 8.2 |
| Financial deficit (-) | 51.4 | -163.1 | -188.6 | -325.2 | -443.3 | -77.0 | -35.0 |
| Financial deficit in percent of GDP 5] | 1.0 | -3.6 | -4.4 | -7.1 | -9.8 | -6.7 | -2.9 |
| Memorandum items | | | | | | | |
| Unmet financing requirements 11] 12] | 64.4 | 63.8 | 60.1 | 97.1 | 74.5 | 104.9 | 69.0 |
| Expenditures (incl. net lending) on a cash-adj. basis | 1,181.7 | 1,271.3 | 1,368.6 | 1,340.7 | 1,438.2 | 324.3 | 327.1 |
| Financial deficit (-) 11] 12] | 183.4 | -162.6 | -184.9 | -362.2 | -420.7 | -84.9 | -29.5 |
| Financial deficit in percent of GDP 11] 12] 5] | | | | | | | |
| *Total debt* | 2,049.7 | 2,226.2 | 2,394.4 | 2,793.4 | 3,062.5 | 2,731.6 | 3,046.7 |
| Domestic debt | 990.8 | 1,139.6 | 1,275.2 | 1,635.7 | 1,614.5 | 1,580.5 | 1,603.7 |
| Foreign debt 14] | 1,058.9 | 1,086.6 | 1,119.3 | 1,157.7 | 1,448.0 | 1,151.1 | 1,443.0 |
| Debt-to-GDP ratio (percent) | 41.7 | 49.8 | 56.0 | 61.2 | 67.5 | 58.8 | 67.1 |
| Domestic debt to GDP (percent) 5] | 20.2 | 25.5 | 29.8 | 35.8 | 35.6 | 34.0 | 35.3 |
| Foreign debt to GDP (percent) 5] 14] | 21.5 | 24.3 | 26.2 | 25.4 | 31.9 | 24.8 | 31.8 |

Source: CBA; Aruba Tourism Authority; Cruise Tourism Authority; Central Bureau of Statistics; US Bureau of Labor Statistics; Department of Finance; Tax Collector's Office; APFA.

1] Jan. - Jun. figure.
2] Excluding food and energy components.
3] Jan. - May figure.
4] Jan. - Mar. figure.
5] As a percentage of the nominal GDP estimated by the CBA.
6] Compared to December of previous year.
7] Jan. - Apr. figure.
8] Excluding revaluation differences of gold and official foreign exchange holdings.
9] Including items not yet classified.
10] Preliminary figures on a cash basis, including imputed noncash transactions.
11] Includes payment arrears due to loans made and equities purchased from official entities, minus receipts and repayments and equities sold to these entities. A (-) sign indicates that extended loans were less than the repayments received.
12] At the end of the period. The unmet financing requirements comprise all unsettled payment obligations to other sectors, irrespective of the time frame in which they mature, registered by the Department of Finance.
13] Including the change in unmet financing requirements.
14] At end-of-period exchange rates.