

STATE OF THE ECONOMY

Centrale Bank van Aruba

Economic review
2014

Table of Contents

I. Introduction	3
II. Real sector developments	4
III. Monetary sector developments	8
IV. Fiscal developments	10
V. External sector developments	16
VI. Conclusion	18

Summary:

The year 2014 saw a sharp drop in real output growth, as estimated by the CBA, i.e., from 4.2 percent in 2013 to 0.8 percent. The slowdown in economic activities was attributed mainly to weaker private consumption, lower public consumption, as well as reduced investment. Nonetheless, GDP growth was still sustained by the continuous overall strong performance of the tourism sector.

Public finances entered testing waters in 2014, when the government needed to sharply curtail spending to meet fiscal targets. Nonetheless, required structural changes were made to the general old age pension scheme (AOV), the general health insurance (AZV), and the civil servants' pension fund (APFA) to help secure sustainability of these important funds in the very near future. As a result, the large gap between government revenue and expenditure persisted in 2014, due to the aforementioned further restructuring of the APFA pension fund, which included a one-time Afl. 170.0 million payment to the APFA to bring its gross coverage ratio to 100.0 percent as of January 1, 2015. Consequently, government debt rose further to reach 81.9 percent of the estimated GDP.

On the inflationary front, weak consumption patterns and moderate utility prices kept inflation subdued for most of 2014, only reaching positive terrains with the increase of electricity tariffs in

* Cutoff date for this publication was July 04, 2016. For the complete set of data please see the Annual Statistical Digest 2015 publication, and for the external sector data please refer to the Statistical tables external sector first quarter 2016 July 4, 2016 publication. Both publications are available on the CBA's website at www.cbaruba.org.

October 2014, ending at 0.4 percent as an average for the year.

The buoyant performance of the tourism sector also had positive results for the net foreign assets, leading to a surplus in the balance of payments. The net foreign assets remained at adequate levels throughout the year, when benchmarked against the critical norms used by the CBA, including the number of months of current account payments covered by the net foreign assets.

I. Introduction

The Aruban economy (in real terms) grew at a modest pace in 2014, after a strong rebound in 2013. Available macroeconomic data and estimates by the CBA indicate an expansion in real and nominal GDP of, respectively, 0.8 percent and 2.6 percent (Table 1). The significant lower real output growth is predominantly attributed to a contraction in consumption, attributed to lower government spending, and a further decline of investment activities again pushed down by delays in several large investment projects.

Nonetheless, the continuous expansion in tourism activities, driven primarily by the Venezuelan market, as well as a drop in imports, more than compensated for the contraction in consumption and investment in 2014. Furthermore, economic activities were negatively impacted by flared political uncertainties. These peaked particularly throughout the latter half of the year when the political differences between the Dutch and Aruban governments on the fiscal stance of the government of Aruba (GOA) led ultimately to tighter financial supervision by the Dutch government, and austerity measures by the Aruban government.

Table 1: Real GDP in percentage change

	2012	2013	2014
Real GDP	-1.4	4.2	0.8
Real Consumption	2.2	3.4	-2.1
Real Private Consumption	0.4	4.0	0.5
Real Public Consumption	6.7	1.9	-8.1
Real Investment	-8.4	-8.2	-2.9
Real private investment	-12.3	-3.5	-3.7
Real public investment	69.8	-56.6	16.0
Real Imports	-4.2	0.4	-1.5
Real Exports	-5.8	6.0	3.1

II. Real sector developments

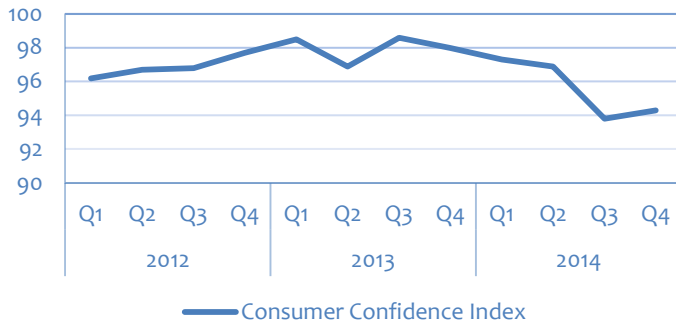
The majority of indicators for consumption in 2014 pointed towards a decline. Telling is that in the year under review import payments of goods by the non-oil sector (excluding the free-zone sector) declined by 2.3 percent, while container imports (measured in tues) were 4.4 percent lower than in 2013. This decrease in imports was reflected in import duties receipts, which showed a 2.8 percent contraction compared to 2013. Furthermore, excises on gasoline showed a slight drop of 0.3 percent when compared to 2013.

Moreover, public consumption declined (when excluding the one-time Afl. 170.0 million payment to the APFA) by 5.4 percent in nominal terms, due mainly to a sharp drop in government expenditure (on a cash-adjusted basis) on the *goods and services* component (-23.7 percent). In addition, while resident travel to abroad, measured by the number of resident arrivals at the airport of Aruba, grew marginally by 1.3 percent in 2014, the growth in residents' payments abroad for tourism purposes slowed down substantially to 0.8 percent in 2014, down from 15.3 percent in the previous year.

Nonetheless, some indicators of consumption showed positive developments in 2014. For instance, the turnover tax receipts increased by 1.2 percent, although part of this increase may have been due to higher spending by tourists. Moreover, revenue from excises on tobacco, beer, and alcohol all showed upswings. Also, water consumption rose by 1.5 percent, which can be explained to some extent by substantially less rainfall in 2014 in comparison to 2013.

Consumers became more pessimistic about their personal financial position, the general business, economic, and public finance conditions in Aruba, as well as about their own consumption habits. For 2014 as a whole, the consumer confidence index decreased by 2.4 percentage points to an average of 95.6 percent compared to 2013 (Chart 1). Consumers responded particularly negatively on the government's financial position, and as the year progressed, they

Chart 1: Consumer Confidence Index



became even more pessimistic about future (6 months from now) business and economic conditions and job expectations.

The Consumer Confidence Survey (CCS) of the CBA shows that an average of 27.2 percent of respondents in 2014 indicated that their personal financial position had deteriorated compared to six

months earlier (average 2013: 18.0 percent). An average of 43.9 percent of respondents to the CCS experienced a worsening of business conditions compared to the previous six months (2013: 25.9 percent), and 65.0 percent of respondents indicated that on average, the labor market had deteriorated compared to six months earlier (2013: 56.3 percent).

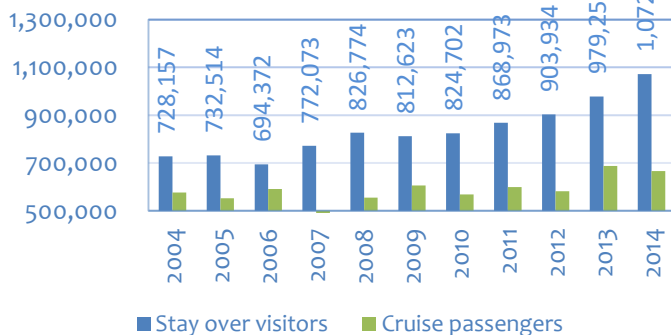
Furthermore, an average of 49.2 percent of respondents felt that the government’s financial position had worsened when compared to the previous six months (2013: 29.6 percent). Overall, the average consumer confidence index for 2014 decreased by 2.4 percentage points to 95.6, with both the present situation and expectations index at their lowest level since the initiation of the consumer confidence surveys (2012).

Tourism continued its strong performance, with growth of stay-over arrivals expanding for the third year in a row and surpassing the 1

million visitor mark for the first time in Aruba’s history. The total number of visitors to Aruba (stay-over and cruise) expanded by 4.3 percent to 1,739,177 in 2014,

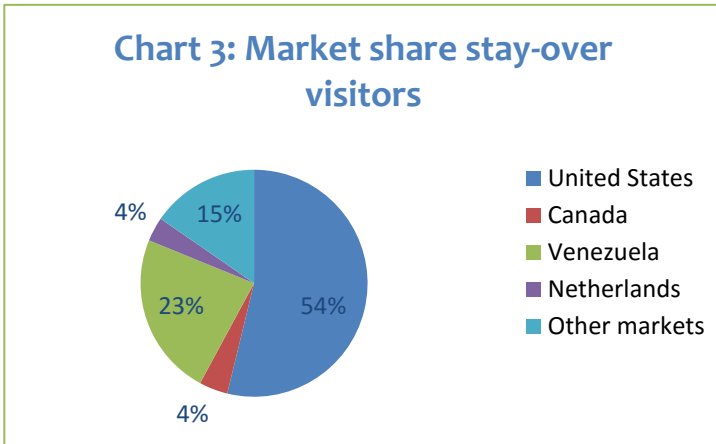
despite a 3.1 percent fall in cruise passengers (Chart 2). The latter decrease had to do with periodic

Chart 2: Stay over visitors

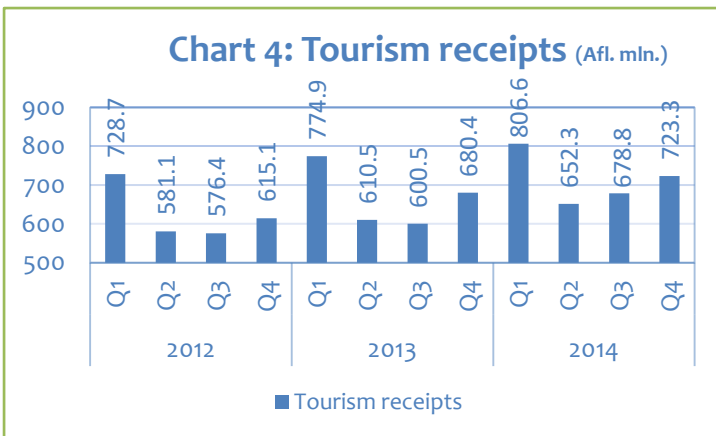


itinerary changes of certain cruise lines.

On the other hand, stay-over tourism grew by 9.5 percent in 2014, supported mainly by the Venezuelan market, which was responsible for 67.4 percent of this growth. Venezuela's market share increased for the fourth year in a row to 23.3 percent in 2014, up from 11.0 percent in 2010, which is in line with ATA's diversification efforts (Chart 3). The contribution of the U.S. market to the overall growth in stay-over tourism was 22.1



percent, as the US economy continued to improve in 2014. Better airlift and increased seat capacity supported the positive developments in these two markets. Visitor nights kept close pace with stay-over arrivals, expanding by 7.9 percent in 2014.



In terms of financial impact, tourist receipts grew by 7.3 percent, in line with the growth in number of visitors. The fourth quarter of 2014 is the ninth consecutive quarter in which tourist receipts saw increases (quarter on quarter) (Chart 4).

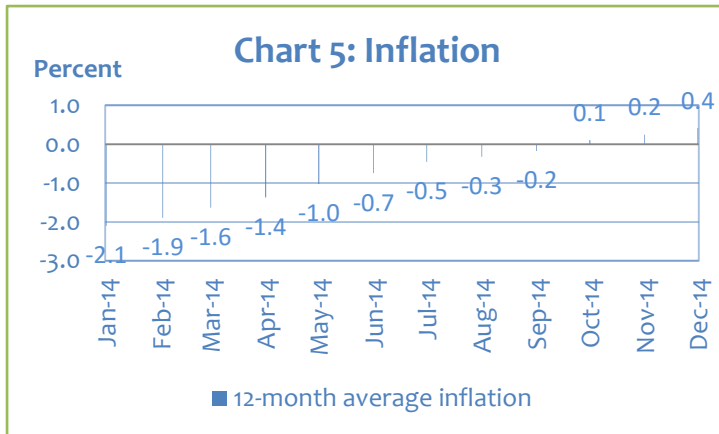
The rise in stay-over visitors, along with fewer available room nights, led to a rise in the room occupancy rate from 77.6 percent in 2013 to 79.3 percent in 2014. This in spite of the fact that a larger share of visitors (22.7 percent), for the most part Venezuelan tourists, chose to stay at apartments or private homes in 2014 than in 2013 (16.9 percent).

Investment activities again contracted in 2014. Data on imported basic metal works and derivated works showed a decline of 11.4 percent in 2014. Moreover, several large projects, in both the public and private areas, suffered significant delays or cancellations in 2014, thereby pushing down the level of investment activities. Examples of these projects are the construction of the JFK building and auditorium, the Green Corridor, the Ring road, the second wind park, and the Hard Rock Hotel.

The Business Perception Survey recorded less optimistic results, with the index for 2014 falling to 101.9 (2013: 104.8), with decreases in both the current and short-term indexes. More businesses than a year earlier perceived a worsening of current and short-term economic conditions, with the current economic conditions deemed particularly bleak by businesses, and the percentage of businesses experiencing a worsening in 2014 jumping to 21.0 percent, up from 12.2 percent in 2013.

Lower activities in consumption and investment were in part reflected in import data. For instance, according to the balance of payments data, import payments of goods (excluding the oil sector) decreased by 5.4 percent in 2014, despite the substantial increase in stay-over visitors mentioned earlier. A drop in import payments from the free-zone sector was the main cause of the decline in imports of goods. The latter is attributed to a reduced demand for alcohol products by Venezuela. As a result, the free-zone sector imported fewer alcohol products for re-export to Venezuela. When excluding the free-zone sector, import payments of goods still decreased by 2.4 percent. Furthermore, as mentioned previously, the growth in residents' payments to abroad for travel and tourism purposes slowed substantially in 2014.

As a result of meager consumption and moderate energy prices for most of the year, inflationary pressures remained subdued in 2014. The 12-month inflation rate slowly made its way out of negative territory in 2014 although staying negative for most of the year (Chart 5). Inflation reached positive terrain when the electricity tariffs



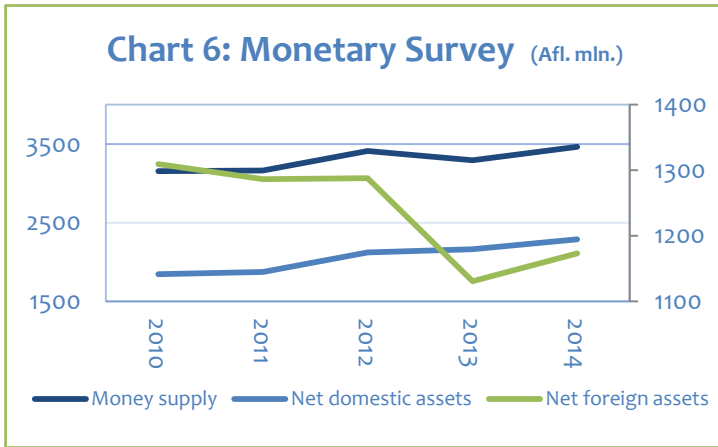
were raised in October 2014, reaching 0.4 percent at the end of the year. Other components in the inflation basket remained more or less the same, with deflationary trends in the components *household operations and clothing and footwear* throughout the year. These kept the 12-month core

inflation close to zero, ending at 0.1 percent for the year 2014.

III. Monetary sector developments

The weaker growth of the economy was also echoed in credit developments. Total business loans grew by 2.7 percent in 2014, about three times less than the growth recorded in the corresponding period of 2013 (+7.5 percent). Consumer credit grew by 9.2 percent, but this outcome was inflated by a reclassification of individual loans from nonresidents to residents and the acquisition of a loan portfolio from abroad. When excluding the reclassification and the acquisition, consumer credit contracted by 0.9 percent, affirming the Consumer Confidence Survey results that more respondents were hesitant about taking on new loans. Housing mortgages, in contrast, rose by 4.3 percent when compared to 2013, continuing its unabated upward trend since 1988.

Total money supply expanded by 5.1 percent in 2014, as opposed to a decrease of 3.5 percent in 2013. This expansion was brought about mainly by a net inflow of foreign funds in 2014 (+Afl. 42.2 million) along with a growth in domestic credit (+Afl.175.6 million) (Chart 6). The increase in domestic credit was brought about mainly by higher claims on the private sector, caused by growths in business loans (+2.7 percent), consumer loans (+9.2 percent), and housing mortgages (+4.3 percent). In addition, a rise in net claims on the public sector



(+Afl. 54.9 million), due in part to the drawing down of government deposits and development funds, further pushed up domestic credit. The strong performance in the tourism sector and external borrowings of the government, along with a smaller outflow of foreign funds by the oil sector and

lower import payments of goods and services, led to the improvement in the net foreign assets position. However, net foreign assets (including revaluation differences of gold and foreign exchange holdings) had been trending downward since February 2012. The deterioration in the net foreign assets position had been due largely to the suspension of refining operations of the oil sector resulting in significantly lower exports and imports related to the refining activities. The imports of fuel oil and gasoline for domestic use, combined with lower exports, resulted in a net outflow of foreign funds by the oil sector since the refinery ceased its refining operations in March 2012. Nevertheless, as per December 2014, net foreign assets (including revaluation differences of gold and foreign exchange holdings) remained at an adequate level when benchmarked against the critical norms used by the CBA, including the number of months of current account payments covered by the net foreign assets.

In 2014, the Monetary Policy Committee (MPC) maintained both the reserve requirement and the advance rate unchanged. The MPC held seven meetings throughout 2014, and the decisions to keep the rates unchanged at, respectively, 11 percent and 1 percent, were based on available domestic indicators and developments in the international economic environment at the time. The committee also took into consideration that net foreign assets stayed at an adequate level when benchmarked against the critical norms monitored by the CBA, including the number of months of current account payments covered by the net foreign assets throughout the monitored period.

Furthermore, domestic price pressures remained muted, as did domestic credit growth (when excluding the previously mentioned reclassifications on page 8).

The average quality of the commercial banking sector's loan portfolio improved in 2014. The average nonperforming loan ratio decreased from 7.5 percent in 2013 to 6.4 percent in 2014, continuing the downward trend since its peak in 2010 at 9.4 percent.

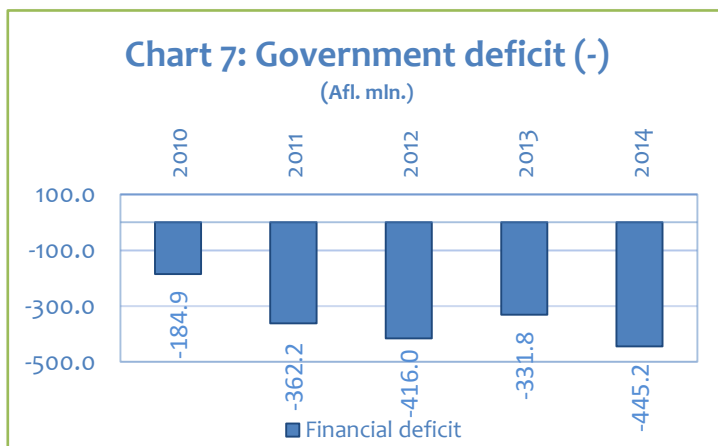
Other prudential indicators remained adequate throughout 2014. The banks' risk-weighted capital asset ratio stood at 23.3 percent at the end of 2014 (required minimum=14.0 percent), up from 22.7 in 2013. The loans-to-deposit ratio rose to 73.6 percent (maximum=80.0 percent) in 2014, from 72.9 percent in 2013. The prudential liquidity ratio of the commercial banks fell slightly in 2014, i.e., to 24.1 percent (minimum requirement=15.0 percent), down from 24.3 percent in 2013.

IV. Fiscal developments

Government finances remained under significant stress in 2014 with the budgetary process under unprecedented constraints, especially when increased political pressures from the Dutch government took hold throughout the last half of the year. A fall in government revenues (-Afl. 25.0 million), accompanied by a rise in government expenditures on a cash-adjusted basis, (+Afl. 92.8 million), led to an Afl. 113.4 million increase in the

government financial deficit to Afl. 445.2 million in comparison to 2013 (-Afl. 331.8) (Chart 7). A slight contraction in net lending (-Afl. 4.2 million) partially mitigated the mentioned increase in the deficit.

The financial deficit for 2014 was equal to 9.4 percent of GDP. It should be noted,



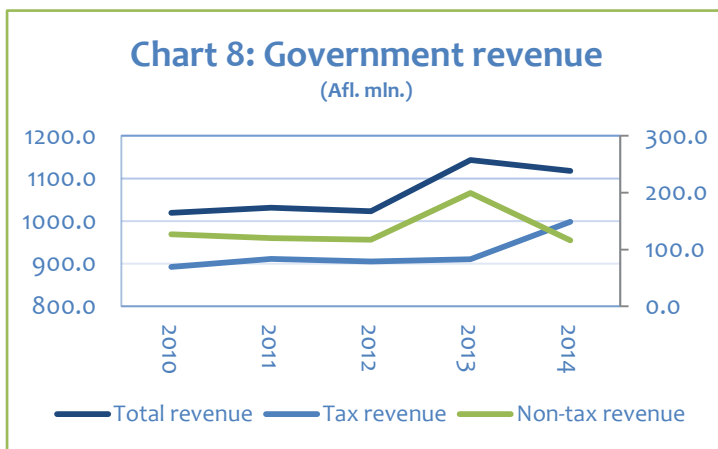
however, that government expenditure for 2014 included the one-time Afl. 170.0 million payment to the APFA to bring the APFA's gross coverage ratio to 100 percent. When excluding this payment, the financial deficit for 2014, as measured by the CBA, stood at Afl. 275.2 million, or 5.8 percent of GDP.

Tax revenues increased as a result of the government's intensified efforts to raise receipts to adequate levels; nonetheless, the drop in non-tax income led to a contraction in total revenues. Total government revenues registered an Afl. 25.0 million decline (-2.2 percent) relative to 2013, dropping to Afl. 1,117.9 million at the end of 2014 (Chart 8). This decrease was brought about, for the most part, by a fall in non-tax revenue (-Afl. 83.5 million).

Tax receipts increased by Afl. 58.5 million to Afl. 1,001.8 million, and partially mitigated the fall in non-tax revenue. Tax revenues increased

for a third consecutive year, with growth in all components, but boosted mainly by receipts from taxes on income and profit (+Afl. 37.5 million). The latter boost was due largely to wage tax receipts with an increase of Afl. 25.1 million, pushing up total revenue from wage tax to Afl. 262.2 million, its highest level since 2006. The special rate regarding the redemption of

pension rights, which was abolished at the end of 2013, and the introduction of the sequential liability act helped bolster wage tax income. Furthermore, the tax department's intensification efforts to collect arrears partially drove up the profit tax receipts by Afl. 12.1 million to Afl. 169.9 million in 2014 when compared to 2013. Receipts from taxes on services also posted their largest rise (+Afl. 9.1 million) in the past ten years, primarily because the so-called "*Belasting op Bijzonder Verblijf*" (BBV) was in effect for the whole of 2014 (+Afl.7.5 million) compared to 2013. An environmental levy on car

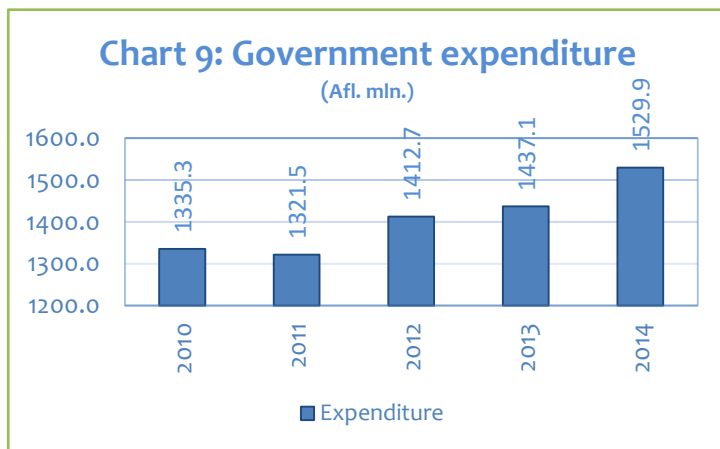


rentals was also introduced as of January 01, 2014, and recorded Afl. 0.8 million in collected revenue. The rest of the components registered marginal increases, with income from taxes on commodities and taxes on property rising by, respectively, Afl. 3.7 million and Afl. 3.1 million.

Revenue from the turnover tax (BBO) grew by Afl. 1.1 million (+1.2 percent) in 2014, which is only a third of the growth recorded in 2013 as consumption and investment further declined in 2014. Foreign exchange tax receipts rose by Afl. 4.1 million (+8.5 percent), up from 6.2 percent registered in 2013.

Non-tax revenue fell by Afl. 83.5 million to Afl. 116.1 million in 2014, due mainly to the effect of several windfalls in 2013. The government received the partial proceeds of the 2012 sale of the hospital building in 2013, as well as a one-off contribution by the Dutch government to the Aruba development fund (FDA). When excluding these incidentals received in 2013, non-tax revenue fell by Afl. 21.0 million in 2014.

Government expenditures (on a cash-adjusted basis) fell for most of 2014, as a result of measures taken by the government to reduce the



deficit and reach a more sustainable fiscal balance in the medium term. However, actions taken by the government late in the year to secure the sustainability of the civil servants' pension funds (APFA) led to a substantial rise in other expenditures.

Government expenditures recorded an Afl. 92.8 million increase in 2014, reaching Afl. 1,529.9 million (+6.5 percent) in 2014 (Chart 9). Nonetheless, government endeavors to rein in expenses had led to contractions in the majority of expenditure components.

In 2014, personnel expenses reached Afl. 679.0 million, a drop of Afl. 17.2 million compared to 2013, largely as a result of the reforms

concluded upon in the bilateral agreement with the APFA on May 28, 2014. The latter agreement helped to lower employers' contributions to Afl. 119.2 million (-15.1 percent) relative to the previous year. Wage subsidies also contracted slightly by Afl. 1.7 million (-1.0 percent), while wages rose by Afl. 5.8 million (+1.5 percent). Wage outlays still represent the largest share (26.6 percent) of total expenditures, while personnel expenses continue to comprise almost half of all expenditures (45.9 percent).

Outlays on goods and services recorded a significant drop of Afl. 48.6 million (-18.9 percent) in 2014, while total investment (investment and development fund spending) fell by Afl. 39.4 million (-42.2 percent) to Afl. 54.0 million, as many projects incurred delays. Transfers to the AZV increased minimally by Afl. 0.8 million to Afl. 99.1 million, as a result of higher AZV income.

On the other hand, interest expenses rose by nearly 50.0 percent in the past five years (+44.3 percent), to Afl. 187.1 million in 2014. The 2009 closure of the refinery, in combination with the global financial crisis in 2008, resulted in an expansionary policy stance by the GOA to help boost the economy during the double dip recession. This policy stance led to widening financial deficits during these years (2009-2013) and increased borrowing needs, as well as higher interest expenses.

Items not included elsewhere (other expenditure) shows a significant rise, due mainly to the one-time Afl. 170.0 contribution of the government to the APFA to bring its gross coverage ratio up to 100 percent as of January 1, 2015.

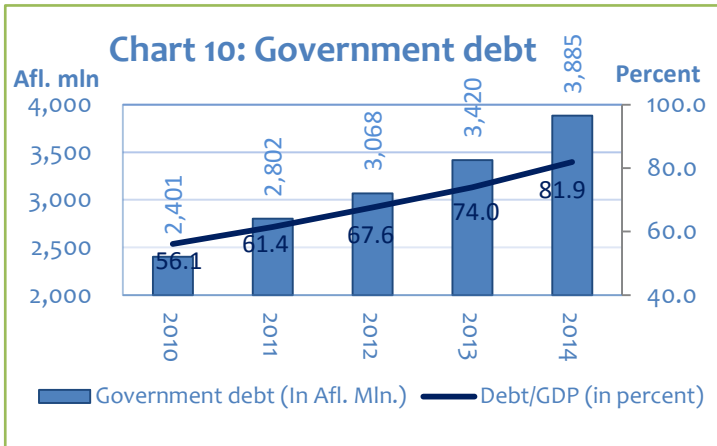
Persistent gaps between government revenues and expenditures, as well as less favorable economic conditions, led to a growing government debt burden in recent years. The overall debt level reached 81.9 percent of GDP in 2014, and rose to Afl. 3,884.6 million (+Afl. 465.0 million) when compared to 2013 (Chart 10). This persistent increasing pattern is worrisome as it can render government finances unsustainable.

The fiscal path has been an issue of concern for ratings agencies as well (see Box 1). A high debt level impairs the government's ability to

respond effectively to future economic shocks and adverse events, thereby exacerbating an economy's vulnerability to shocks, such as interest rate hikes and economic slowdowns or contractions. However, the efforts already made by the GOA to achieve fiscal sustainability, such as the recent tax reforms and policy measures, are commendable and

necessary. In addition, the reforms in the APFA, as well as the general old age pension scheme (AOV) helped reduce fiscal risks and further strengthened government finances.

Nonetheless, in view of the further fiscal consolidation necessary for the GOA to achieve a balanced budget and with due consideration of the important role sound government finances have in the ratings outlook, and hence the country's ability to obtain financing at reasonable interest rates, it is crucial that the GOA maintains its efforts to manage government finances on a sustainable path, and reduces the debt-to-GDP ratio to a level commensurate with its peer group and its economic future.



Box 1: Fitch Ratings (Fitch) downgrades long-term foreign and local currency ratings, while Standard & Poor's rating services (S&P) affirms Aruba's ratings and maintains outlook as stable.

On June 16, 2014, S&P released an update on the long-term foreign and local currency sovereign credit ratings on the government of Aruba in which it affirmed its 'BBB+' rating and maintained the outlook as stable. On July 23, 2014, however, Fitch downgraded the long-term foreign and local currency Issuer Default Ratings (IDRs) from 'BBB' to 'BBB-' but revised its outlook on Aruba's ratings from negative to stable.

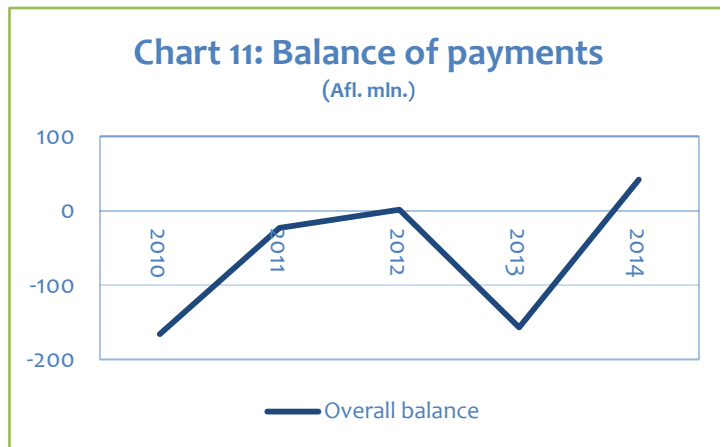
Fitch stated that its downgrade reflected the negative impact of recurrent suspensions of the Valero refinery on growth, investment, the current account, and foreign reserves. In addition, the fiscal stimulus increased the challenges to reduce Aruba's large fiscal imbalances and rising public debt burden. S&P also noted the closure of the refinery as a cause for concern, stating that it had left the Aruban economy even more dependent on the tourism industry. Furthermore, the closure weakened external indicators, and it does not expect external indicator ratios to improve significantly over the next three years despite the continued robust performance of tourism. On the fiscal side, Fitch notes that material deviations from official targets have reduced confidence in the authorities' commitment to fiscal consolidation, as the budget deficit averaged 6.8 percent of GDP in 2010-2013, and public debt jumped from 40.0 percent of GDP to 60.0 percent.

S&P's ratings affirmation is underpinned by Aruba's stable parliamentary government, its status as a member of the Kingdom of the Netherlands, and its relatively high per capita GDP. Moreover, it notes that the fiscal consolidation focus of the government's second term and recent efforts to address long-term fiscal challenges in pensions and health care should strengthen public finances over the long term, which is reflected in its stable outlook. As a result, S&P expects the general government deficit to fall to 3.0 percent of GDP in 2014, where it will remain over the next three years. Consequently, the gross general government debt burden is expected to stabilize at nearly 60.0 percent of GDP. Fitch's revision of the outlook to stable reflects its expectation that economic growth will gain pace and that Dutch oversight should result in adherence to stricter deficit reduction and debt sustainability standards in the coming years. Fitch also cites that the comprehensive package of entitlement reforms has mitigated the risk of unfunded pension liabilities and reduced the burden of the universal healthcare system on public finances.

Both agencies note that further escalation in the public debt burden and a fall in foreign reserves could result in a downgrade of the ratings. In addition, Fitch also mentions deterioration in the institutional relationship between Aruba and the Netherlands as a risk factor for a downgrade. On the other hand, Fitch could consider an upgrade in the case of successful fiscal consolidation or a sustained faster growth trajectory, while S&P would consider an upgrade in the case of a better fiscal position combined with improved external liquidity.

V. External sector developments

The positive developments in the international reserves were mirrored in the balance of payments. The financial transactions



between Aruban residents and the rest of the world resulted in an Afl. 42.2 million surplus in 2014, an improvement of the overall balance when compared to 2013 (-Afl. 157.0 million) (Chart 11). The latter was primarily due to higher service receipts, related for the most part to the strong tourism performance.

The current account of the balance of payments recorded an Afl. 244.6 million deficit, considerably smaller than in 2013 (Afl. -592.9 million). This decrease was attributed largely to a higher surplus on the services account and a decline in the deficit on the income account. These were partially offset by an increased deficit on the current transfers account.

The surplus on the services account rose by Afl. 247.4 million, largely caused by transactions of the non-oil sector. The services account of this sector recorded an Afl. 201.3 higher surplus, following the buoyed performance in the tourism sector boosting tourist receipts by 7.3 percent (+Afl. 195.1 million), as well as an increase in transportation (52.8 percent). The latter was largely associated with higher receipts from passenger fares. On the other hand, non-oil sectors' import of services grew by Afl. 35.3 million, mainly because of higher payments for construction and professional and technical services. Additionally, the services account of the oil-sector turned from an Afl. 6.1 million deficit into an Afl. 40.1 million surplus, due largely to the transshipment activities of this sector.

The income account deficit declined by Afl. 110.1 million, associated mostly with contractions in dividend payments by resident companies

to their foreign shareholders and interest payments on intercompany loans.

In contrast, the goods account deficit contracted by Afl. 10.4 million, caused mainly by trade transactions of the oil sector. The deficit on the goods account of this sector increased by Afl. 51.9 million, resulting from a 8.9 percent growth in imports of goods and a 0.8 percent rise in exports of goods. The non-oil sector goods account deficit fell by Afl. 62.0 million, largely attributed to an Afl. 100.0 million (-5.4 percent) decline in the imports of goods by this sector.

The current transfers account deficit increased by Afl. 19.7 million, mainly brought about by an Afl. 18.2 million decline in current transfers receipts by the non-oil sector, largely related to contributions and subsidies.

The surplus on the capital and financial accounts shrank by Afl. 97.0 million in 2014, compared to 2013. Other investment related transactions of both the non-oil and oil sectors were the main drivers. Other investment net outflow expanded by Afl. 174.7 million as currency and deposits balances of residents held abroad strengthened. In contrast, direct investment and portfolio investment related transactions led to higher net inflows. The growth in net direct investment inflow was associated mainly with a rise in foreign liabilities related to trade credits of the oil sector and purchases and sales of real estates by the non-oil sector. The increased net inflow of portfolio investment was caused by Afl. 81.1 million less payments on matured government bonds held by nonresidents and Afl. 12.6 million lower receipts from domestic government bond issuances.

VI. Conclusion

The 2014 estimated real output growth, although at a slower pace, was once more underpinned by a robust tourism sector, which compensated for a further contraction in consumption and investment. Overall consumption struggled in 2014, as private consumption growth declined and public consumption fell. Public consumption particularly weakened, as the government reduced its expenditures (excluding its one-time Afl. 170.0 million contribution to the APFA) to reach a sustainable fiscal path in the medium-term. Furthermore, both private and public investment continued to wane as many projects incurred delays or postponement.

The economy once again was driven mainly by the robust performance in the tourism sector, carried for the most part by the Venezuelan market, as the increase in tourist receipts accelerated further. Yet again, the growth in stay-over visitors from the Venezuelan market endured that country's socio-political turmoil. Nonetheless, ATA's diversification efforts should be upheld, as this expansion in Venezuelan tourist arrivals might not be sustainable in the future.

The twelve-month inflation continued its way out of negative terrain; however, it remained subdued in 2014 due to the decline in consumption and modest utility prices for the better part of the year.

Despite fiscal pressures, the government took steps to meet its self-imposed targets by cutting expenditures in several components and continuing its tax collection intensification efforts on the revenue side. In addition, for the first time a medium-term budget framework was introduced by the government, underpinning its plan to reduce the financial deficit. Furthermore, several structural changes were made to the general old age pension scheme (AOV), the general health insurance (AZV), and the civil servants' pension fund (APFA) to improve their long-term sustainability and to reduce the government's medium-term contribution to these funds.

The net foreign assets remained at adequate levels in 2014, when benchmarked against the critical norms used by the CBA, including the

number of months of current account payments covered by the net foreign assets. However, since the cessation of refining activity by Valero, the net foreign assets position has been sustained primarily by the tourism sector and the foreign borrowings of the government.

In summary, moving the economy forward, proper assessment of relevant factors and structural reform are required to address the rising challenges in the tourism sector, the balance of payments, and the public finance. Given the share of the Venezuelan market in the growth of the tourism sector and the unstable political and economic situation of that country, further diversification of the tourism source markets is essential, as well as efforts to target higher spending tourists. Furthermore, joint collaborative and intensified efforts to find other income sources of foreign funds should be pursued even more, as well as to reduce domestic dependency on the consumption of oil products.

Additionally, while the GOA has taken specific steps to reach a more sustainable fiscal path, continuous efforts and assessments should be made to gauge the effected and proposed measures to assure that the set medium-term fiscal targets remain attainable.