State of the Economy

2016

Centrale Bank van Aruba

Contents

Economic stagnation persisted throughout 2016

I. Domestic developments[1]

Economic growth

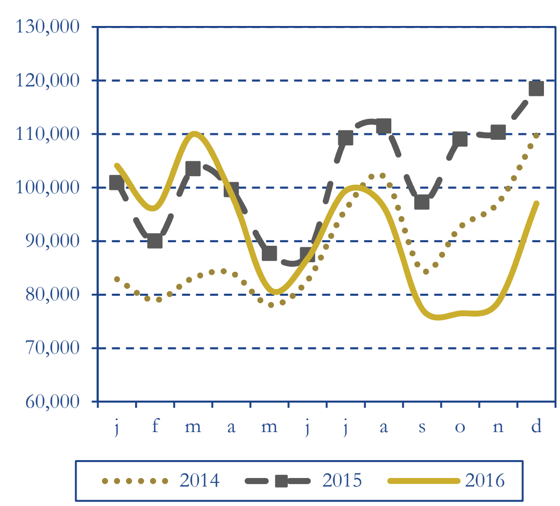
Estimates show that the Aruban economy contracted in 2016 for the second year in a row. The estimated real decline of 0.2 percent is attributed to lower consumption as well as reduced exports. Decreases in consumer credit and consumer confidence suggest a slowdown in domestic consumption while the tourism sector performed less positive than anticipated - from April on, the number of Venezuelan visitors shrank substantially. Private investment activities were virtually flat over 2016, although work continued on several infrastructural and hotel renovation projects. Apart from the start of the construction of the Hyatt Place hotel near the airport late in the year, no new large investment projects were initiated in 2016.

Tourism

After six years of continuous growth, Aruba's tourism sector shrank in 2016. Tourism indicators such as number of visitors, visitor nights, and tourism receipts pointed towards a decline. The decisive factor contributing to this development was the collapse of the Venezuelan tourism market.

The number of stay-over visitors fell by 10.0 percent in 2016, as the fourth quarter saw a continuation of the decline in the number of visitors experienced in the previous quarters (Chart 1).

Chart 1: Stay-over visitors



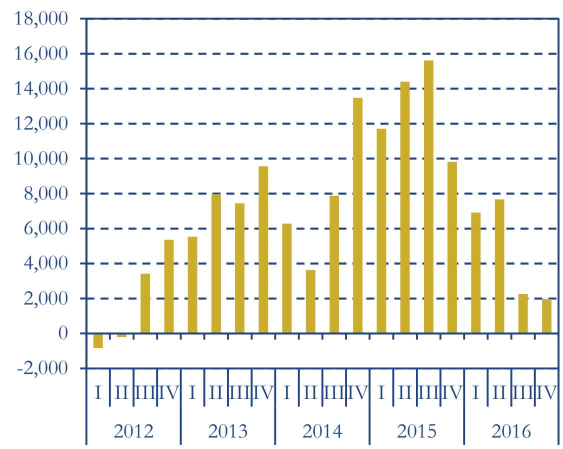
The Venezuelan tourism market dropped 40.4 percent (141,790 visitors) in 2016. This decrease was largely attributable to Venezuela's deepening economic problems, which led to tighter foreign exchange

[1] The cut-off date for information published in the State of the Economy is August 4, 2017.

Tourism sector affected by developments in Venezuela

restrictions by the Venezuelan government and a sharp devaluation of the Venezuelan Bolivar. When Venezuelan visitors are excluded from the data, stay-over visitors grew by 2.2 percent (18,809 visitors), realized mainly in the first half of the year (Chart 2).

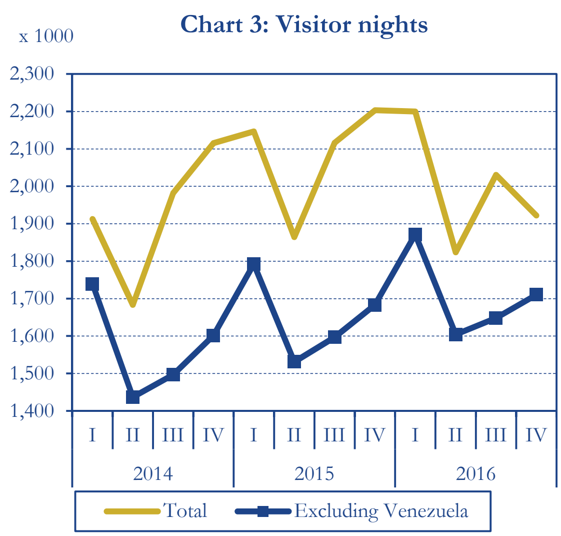
Chart 2: Growth in stay-over visitors excluding Venezuela (as compared to a year earlier)

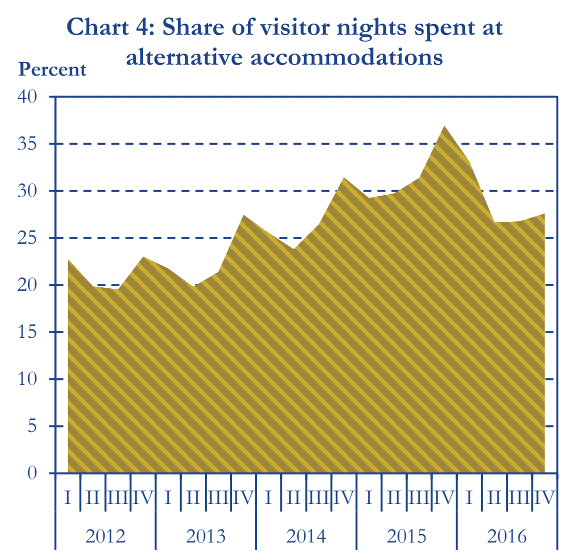


Another notable decrease in 2016 was the number of travelers from Brazil (−36.0 percent or −7,222 visitors). From 2010-2015, Aruba welcomed about 20,000 visitors from Brazil annually. However, in 2016, only 12,858 visitors from Brazil were registered, as evidenced by the cessation of flights by Gol Transportes Aereos during the first quarter of 2016. Gol announced cuts to its routes in an effort to trim costs amid weak demand. Previously Gol flew to Aruba twice each week from Sao Paolo via Caracas. Also in this period, Insel Air Aruba terminated its twice-weekly flights to Manaus. On the other hand, markets that helped offset the fall in overall tourism arrivals included Colombia (+39.7 percent), the United States (+1.2 percent), and the United Kingdom (+49.8 percent). The growth noted in the Colombian market was likely the result of additional seat capacity to and from Colombia and the suspension of visa requirements for Colombian tourists in December 2015.

The number of visitor nights also declined in 2016 (Chart 3). Nevertheless, the 4.3 percent fall was considerably lower than the recorded drop in stay-over arrivals as the average Venezuelan visitor stayed only 5.5 nights. Venezuelan and Brazilian visitor nights saw absolute falls of, respectively, 584,758 and 47,354 nights during 2016, whereas Colombia and the United Kingdom noted surges of, respectively, 94,326 and 73,682 nights. The number of visitor nights spent by visitors originating from the United States increased marginally (+16,866 nights) during the period under review.

Growth in the sharing economy halted in 2016





The share of nights that Venezuelan visitors stayed at private homes, apartments, or guest houses declined from 78 percent in 2015 to 67 percent in 2016. This development halted the growing share of nights spent at these alternative accommodations to total visitor nights in Aruba. This segment stood at 31.9 percent in 2015, but dropped to 28.7 percent during 2016 (Chart 4).

The rise in the number and popularity of alternative accommodations in recent years is due to a worldwide phenomenon known as the "Sharing Economy". Key in this concept is the unlocking of assets not (fully) used, such as houses and cars but also services (for instance internet access). Its rapid growth has been enabled mainly by technology innovations (such as online platforms) and supply-side flexibility. This makes it currently very easy, among others, to list or book a vacation property online.

Tourism receipts declined by 1.2 percent

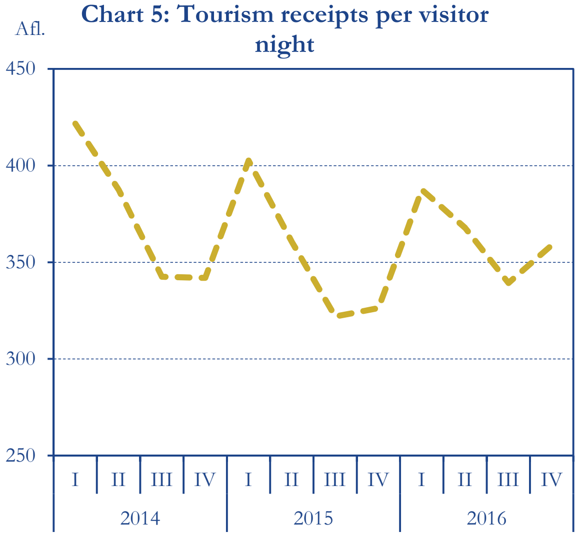
The average hotel room occupancy rate strengthened, while the average daily room rate (ADR) and the revenue per available room (RevPar) weakened, as corroborated by reports from the Aruba Hotel and Tourism Association (AHATA). The room occupancy rate grew to 79.6 percent in 2016, a 1.6 percentage points increase compared to 2015. The rise in the room occupancy rate was not sufficient to compensate for the 4.6 percent fall in the average daily room rate (ADR), leading to a 2.6 percent lower revenue per available room (RevPAR). Nevertheless, total revenue of the hotel sector improved slightly (+1.3 percent) as the total number of rooms grew by 1.3 percent in addition to 2016 being a leap year.

For 2016 as a whole, cruise tourism recorded an increase of 11 ship calls, leading to an 8.1 percent growth in the number of cruise passengers. It is worth noting that, while fewer ship calls arrived in Aruba's port during the fourth quarter of 2016, more cruise passengers were welcomed.

Balance of payments data confirm the developments described previously, as tourism receipts declined by 1.2 percent during 2016, down from 2.6 percent growth in 2015. While the downward trend in tourism receipts in the first two quarters of 2016 was briefly offset by a positive development (+1.1 percent) in the third quarter, the poor performance in the fourth quarter (−4.0 percent) led to the negative result for the year.

The average tourism receipts per visitor night amounted to Afl. 364 in 2016, up from Afl. 353 in 2015. A likely explanation for this development is the smaller share of visitors from Venezuela as generally, they spend less money than the average tourist. The quarterly developments in the last three years are shown in Chart 5. A seasonal effect is noticeable as the first quarter receipts are structurally higher.

Chart 5: Tourism receipts per visitor night



Private investment remained virtually flat

Compared to other Caribbean destinations, Aruba's tourism sector did not fare particularly well in 2016. According to the Caribbean Tourism Organization (CTO), Caribbean tourism arrivals grew by 4.2 percent in 2016. Large fast-growing destinations were Cuba (+11.7 percent) and the Dominican Republic (+6.4 percent), while smaller countries like Antigua, Belize, and Turks & Caicos Islands also experienced double-digit growth levels. Next to Aruba, only Curaçao reported a substantial decrease in arrivals, mostly likely also attributable to the situation in Venezuela.

Investment

Private investment remained virtually flat during 2016, although various investment indicators displayed an ambiguous picture. Based upon commercial banking information, the total value of new individual mortgages increased by 7.2 percent, while the value of new commercial mortgages declined by 1.5 percent. Cement imports grew by 8.9 percent, a growth realized mainly in the first quarter. Additionally, imports of base metals and derivated work rose by 9.7 percent. In contrast, both the number of construction permits granted (−22.7 percent) and the total value of these permits (−29.2 percent) contracted significantly. The number of construction permits granted decreased mainly in the housing (−18.3 percent) and the others component (−31.6 percent), with the value falling sharpest in the apartments component (−59.3 percent). Furthermore, the import of machinery and electrotechnical equipment dropped by 4.6 percent.

According to the Aruban Chamber of Commerce, the number of businesses registered increased by 480 to 16,730 at the end of 2016. Nevertheless, the number of new registrations, 1191, was the lowest in the last five years, indicating that the business environment in 2016 was bearish.

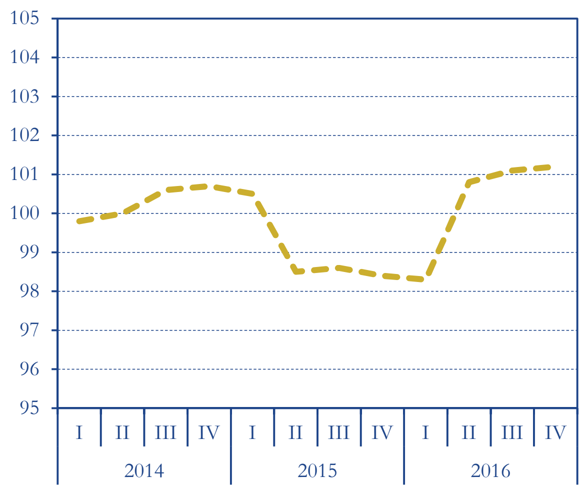
With the operational re-opening of the refinery postponed to 2017, there were only a few major projects ongoing in 2016. The expansion of the Dr. Horacio E. Oduber Hospital and the Green Corridor were two large public/private investment projects while several hotels (such as the Hilton and Marriott) continued to upgrade and/or renovate its facilities. Late in 2016, preparation activities started with respect to the construction of the airport hotel.

In the business perception survey, Aruban enterprises indicated that their views on the Aruban economy and its short-term prospects became more optimistic during 2016 (Chart 6). In the second quarter of 2016, the business perception index surpassed the 100 percent level, meaning that the

A setback in real estate purchases by U.S.-residents

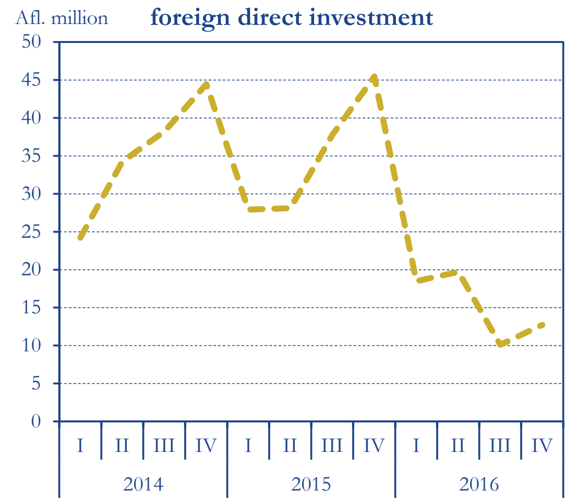
business sector was generally positive. The hotels and restaurants sector was especially optimistic, followed by utilities, real estate, and financial intermediation. The construction sector was the sole sector with a pessimistic view.

Chart 6: Business perception index



Aruba experienced a net direct investment inflow in 2016 of Afl. 37.6 million following one year of net negative foreign direct investment. This inflow was mainly related to acquired intercompany loans during the year. Notable is the setback in real estate (net) purchases by nonresidents from an annual Afl. 140 million in 2015 to Afl. 61 million in 2016 (Chart 7), mainly caused by significant lower acquisitions by residents from the United States.

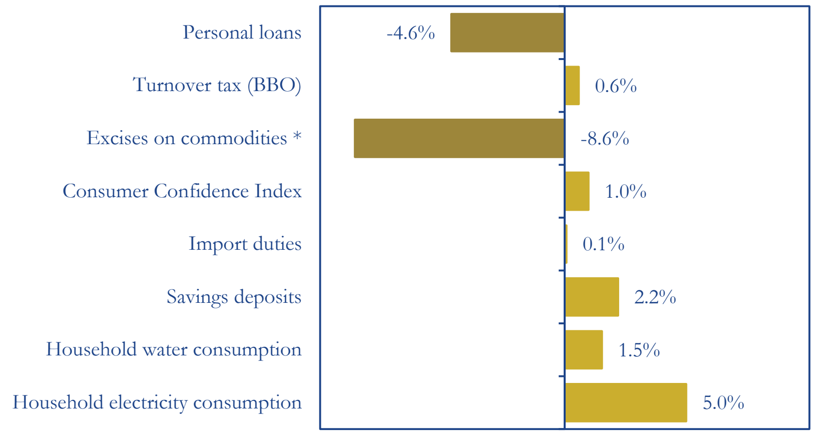
Chart 7: Real estate net foreign direct investment



Consumption

Consumption indicators showed a mixed picture during 2016 but generally pointed to a further slowdown in domestic consumption. Overall average consumer credit recorded negative growth (−1.6 percent) during 2016, while the earnings from the turnover tax (BBO) and import duties recorded sluggish gains of, respectively, 0.6 percent and 0.1

Chart 8: Consumption-related indicators (percentage change 2016 vs. 2015)



* excluding Valero settlement

percent. The proceeds from excises on commodities (excluding the Valero settlement on excises on gasoline) fell by 8.6 percent.

The consumer confidence indicator displayed a 1.0 percent improvement during 2016 in comparison to the previous year. This minimal change is related to a higher positivism of the present situation of consumers and their perceived higher expectations on the medium-term. However, the overall index remained significantly below 100 at 96.1, denoting persisting pessimistic consumer sentiment.

Water consumption by households increased by 1.5 percent in 2016, particularly during the first two quarters. This growth is probably related to the limited rainfall during this period as Meteo Aruba recorded 20.2 percent less precipitation from January to June 2016 than in the same months of 2015. The electricity consumption by households soared by 5.0 percent in 2016. This development did not lead to higher costs as electricity tariffs were reduced by 9.9 percent on January 1, 2016.

The conclusion of a slowdown in consumption is corroborated by a 2.2 percent growth in total savings deposits at the end of 2016 compared to 2015. A summary of the main consumption-related indicators can be found in Chart 8.

Online consumption is part and parcel of our economy. In 2016, a consumer study by the CBA revealed that a majority of consumers (57 percent) make use of e-commerce to purchase products and services online (Graph 9). The results indicate that while 33 percent of consumers sometimes shop on-line, 9 to 14 percent of consumers use e-commerce on a regular basis. Additionally, the findings suggest that close to 40 percent of consumers use internet banking, with an estimated 21 percent using their mobile phone or bank app for financial transactions.

Chart 9: Percentage of consumers that make use of e-commerce (2016)

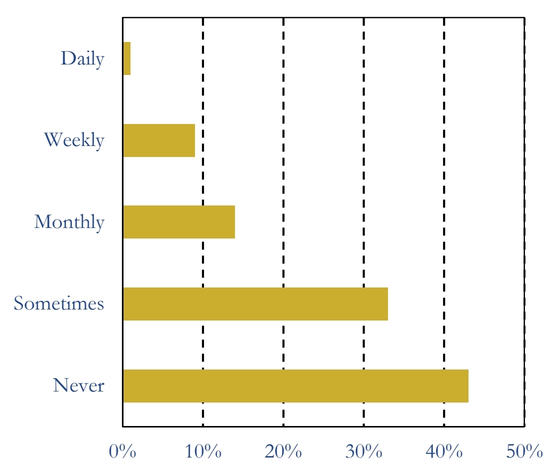
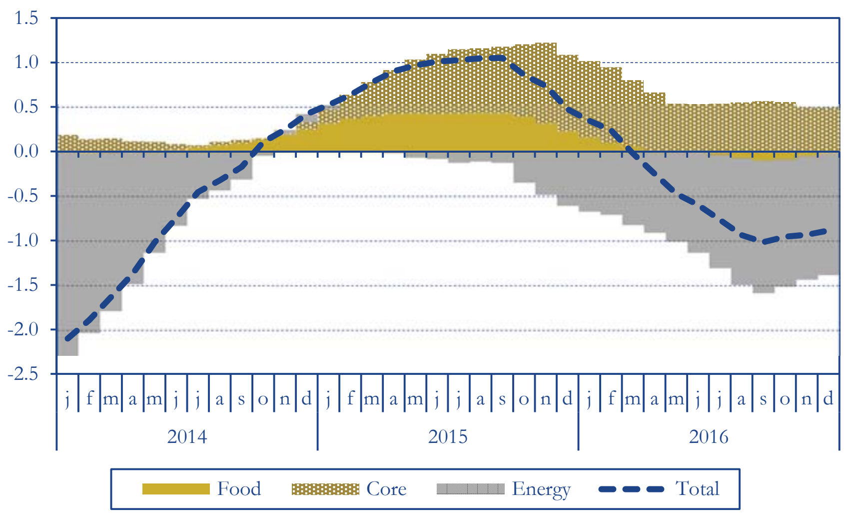


Chart 10: 12-month inflation



Foreign trade

Aruba's trade balance, measured by the Central Bureau of Statistics (CBS), was less negative in 2016 than in 2015. Lower imports of goods combined with higher exports resulted in a trade deficit of Afl. 1,836.0 million (2015: Afl. 1,908.9 million). Especially imports of nonfood products declined, more specifically electrical and IT products, fuels, precious stones, and jewelry. On the other hand, the import value of transport equipment (including parts) increased by 8.5 percent. This development is possibly related to the growing interest for RHD-cars. The total value of imported food products during 2016 grew by 2.4 percent compared to 2015.

The total value of merchandise exports in the period under review rose by Afl. 23.9 million to Afl. 82.0 million, attributable to higher exports of base materials, precious stones, machinery, and optical instruments. In absolute terms, exports of goods continued to be low while the export growth is mainly attributable to goods not manufactured or produced in Aruba (re-exports).

Consumer Price Index (CPI)

As a result of falling energy prices and subdued prices of food and other goods, deflationary pressures were experienced throughout 2016. The reduction of the electricity tariffs in January 2016 and the continuation of falling gasoline prices (on average 7.7 percent lower in 2016) put downward pressure on the 12-month inflation rate, which reached negative territory in April 2016, ending at −0.9 percent at the end of 2016. Marginal price increases in the components *Housing, Restaurants and Hotels, and Transport* kept the 12-month core inflation above zero, ending at 0.5 percent in December 2016. A year earlier, core inflation stood at 0.9 percent (Chart 10).

Aruba's real exchange rate relative to that of the United States dropped by 2.3 percentage points in 2016 in comparison to 2015 (Chart 11). The reduced electricity tariffs at the beginning of the year, which pushed Aruba's inflation downwards, helped to improve Aruba's competitive position relative to that of the United States.

Chart 12: Government revenue (percentage change 2016 vs. 2015)

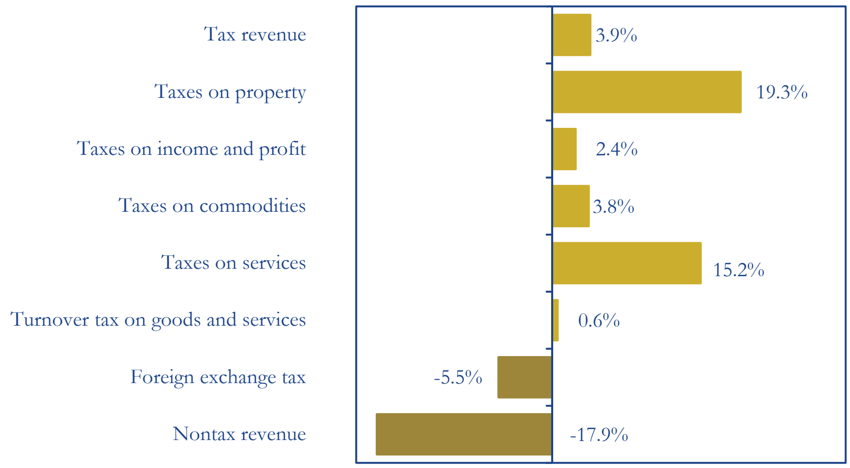
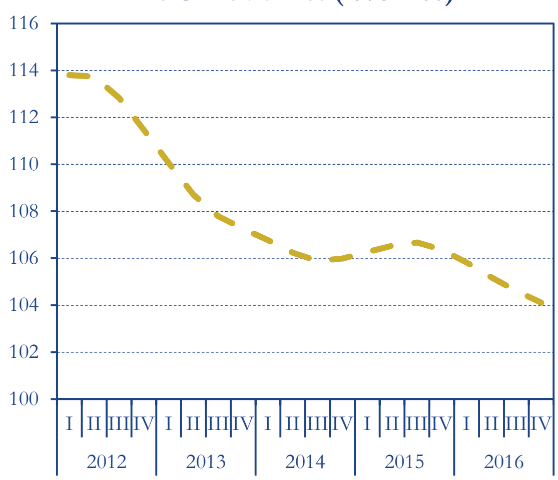


Chart 11: Real exchange rate vis-à-vis the United States (1995=100)



Government

Total government revenue increased marginally by 0.7 percent during 2016 to a total of Afl. 1,220.3 million. Tax revenue grew by 3.9 percent (Chart 12) fueled by substantially higher proceeds from wage tax (+Afl. 13.6 million or 5.5 percent) and excises on gasoline (+Afl. 13.8 million or 23.4 percent). The expansion the receipts of gasoline excises resulted from the Afl. 21 million settlements of accounts for excises between Valero and the government. Other contributors to the rise in tax revenue included land tax and transfer tax, which grew by, respectively, 24.6 percent (+Afl. 8.5 million) and 16.1 percent (+Afl. 2.8 million) during 2016, primarily as a result of intensified tax collection. On the other hand, the receipts from income tax, foreign exchange tax, and excises on tobacco were lower in 2016 than in 2015, whereas proceeds from turnover tax (BBO) remained virtually unchanged. Nontax revenue fell considerably in 2016 after receipts were particularly high in 2015 as a result of an Afl. 60.5 million debt forgiveness agreement between the government and the Social Security Bank (SVB).

In 2016, total government expenditure (cash adjusted) amounted to Afl. 1,378.6 million, i.e., Afl. 35.8 million or 2.7 percent higher than in 2015. The main reasons for the recorded growth were interest payments made by the government (+Afl. 17.0 million), personnel-related expenses (wages, employer contributions, and wage subsidies) (+Afl. 12.9 million), and development fund spending (+Afl. 9.8 million). Included in total expenditure recorded is an Afl. 5.3 million change in unmet financing requirements, resulting in payment arrears of Afl. 89.9 million at the end of 2016.

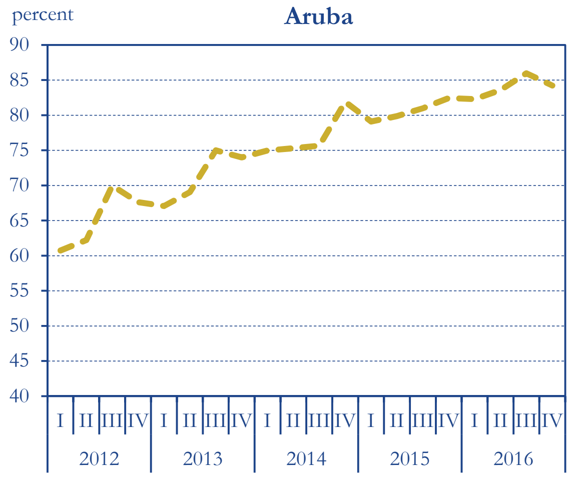
The cash-adjusted financial deficit of the government at the end of 2016 amounted to

Credit to the private sector expanded by 1.8 percent

Afl. 183.6 million, which is 22.6 percent higher than the deficit at the end of 2015. This deficit was financed mainly through net foreign lending of Afl. 163.2 million. Furthermore, the government withdrew Afl. 67.0 million from its banking deposits. Net domestic lending from the nonmonetary sectors fell by Afl. 90 million, while commercial banking loans to the government grew by Afl. 30.2 million, mainly through the purchase of government bonds.

Total government debt declined by Afl. 99.2 million to Afl. 4,021.3 million during the fourth quarter of 2016, mainly as a result of Afl. 70.8 million repayments of domestic bond debt**.** Despite this drop, total debt stood Afl. 47.2 million higher than the level observed at the end of 2015, because of an Afl. 140.2 million expansion of foreign debt, which was partly offset by an Afl. 93.0 million fall in domestic debt. The growth in foreign debt is attributed to two large private placements on the international market in May 2016 with maturities of, respectively, 8 and 12 years. As a result, the debt-to-GDP ratio reached an estimated 84.2 percent as of end-December 2016 (2015: 82.5 percent) (Chart 13).

Chart 13: Estimated debt-to-GDP ratio Aruba



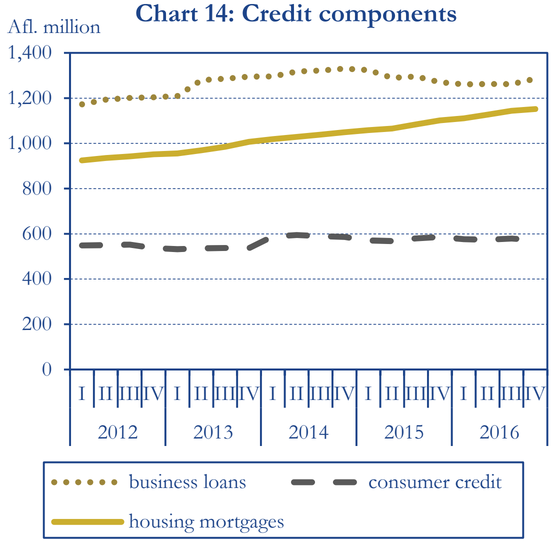
Monetary survey

Domestic credit of the banking sector given to the private sector expanded by 1.8 percent in 2016 to Afl. 3,020.5 million. Business loans accelerated during the fourth quarter of 2016, thus resulting in an expansion of 1.2 percent to Afl. 1,286.0 million when compared to 2015. Housing mortgages also supported the increase noted in domestic credit by persisting on the steady rising path observed in recent years,

The balance of payments recorded a surplus

expanding by 4.5 percent in 2016, compared to 2015 (Chart 14).

Chart 14: Credit components



Consumer credit by commercial banks, on the other hand, contracted by 2.3 percent, continuing its downward trend that has persisted since 2009 (when correcting for certain reclassifications in 2014). Net claims on the public sector picked up (+Afl. 91.4 million) during 2016, mainly the result of lower deposits and development funds held by the government at the banking sector.

Money supply rose by 9.5 percent in 2016. This rise was caused by an Afl. 261.8 million net inflow of foreign funds and an Afl. 99.7 million increase in net domestic assets. The inflow of foreign funds was related mainly to tourism receipts and government foreign borrowing. The foreign borrowing, along with a fall in imports, helped to maintain the net foreign assets position well above the norms monitored by the Monetary Policy Committee (MPC) of the CBA throughout the period under review. As such, the MPC decided to keep both the reserve requirement and the advance rate unchanged at, respectively, 11.0 percent and 1.0 percent.

Balance of payments

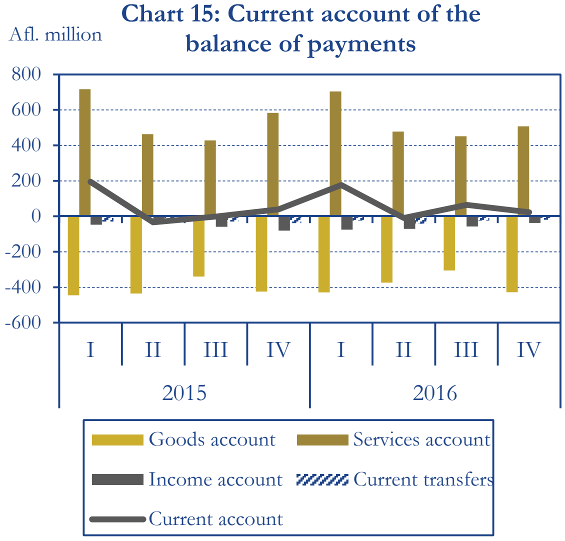
The overall balance of the balance of payments registered an Afl. 261.8 million surplus in 2016, compared to an Afl. 342.7 million surplus in 2015. Both the current account as well as the capital and financial account contributed to the surplus realized.

The surplus of the current account of the balance of payments amounted to Afl. 252.8 million in 2016 (2015: Afl. 198.1 million) (Chart 15). Lower import payments of both oil and non-oil goods were largely responsible for this larger surplus. Oil import payments fell because of the lower world market oil prices, while the payments for imports of other goods declined mainly because of lower quantities imported, a sign of

The import coverage ratio improved to 5.1 months

weakening local consumption activities. Aruba's net income from services decreased by 2.3 percent to Afl. 2,140.8 million, reflecting drops in the income related to tourism (−1.2 percent) and other services (−6.9 percent). On the other hand, transportation and international travel payments to nonresidents dropped by, respectively, 4.4 percent (due to the reduced import payments of goods) and 8.5 percent. Payments for international construction services were reduced by 24.5 percent primarily because of the completion of the new container terminal.

Chart 15: Current account of the balance of payments



The income account displayed a deficit of Afl. 241.3 million (2015: Afl. 223.3 million) related to higher dividend payments to abroad from resident companies in 2016. The development within the current transfers is determined mainly by income transfers of foreign personnel in Aruba (workers' remittances): the 2016 annual outflow was Afl. 121.7 million, a slight decline of Afl. 2.6 million from 2015.

The capital and financial account showed an Afl. 39.4 million surplus in 2016, notably lower than the Afl. 143.8 million surplus observed in 2015. This development is mainly due to substantially lower flows in the other investment account because in 2015 high transactions were recorded in trade credit granted as well as other investment assets.

The capital account recorded a relatively large net inflow (Afl. 15.5 million) in 2016, primarily the result of an incidental revenue (Afl. 13.6 million) related to patent rights.

In 2016, there was a net inflow of Afl. 36.7 million related to direct investments, reported primarily in the non-oil sector. These investments were mainly credit-related transactions. The inflow in portfolio investments (Afl. 69.9 million) stemmed from net sales of government debt securities issued on the local market but bought by nonresidents (Afl. 151.6 million)

The NPL-ratio decreased to 4.4 percent

partly offset by purchases of foreign equity and (mainly) debt securities by Aruban residents (Afl. 81.7 million). The financial derivatives outflow of Afl. 97.9 million in 2016 was, as in 2015, related to hedging expenses for the acquisition of Heavy Fuel Oil (HFO). The relatively low inflow (Afl. 15.2 million) in the other investments was mainly the result of large loans (Afl. 253.4 million) granted to resident companies partly replacing maturing loans (Afl. 190.4 million).

Strong growth took place in the official reserves (+Afl. 173.7 million). Consequently, total reserves (including revaluation differences) stood at Afl. 1,892.4 million at the end of December 2016; the import coverage ratio improved from 4.6 months at the end of December 2015 to 5.1 months. The recorded balance of payments surplus was Afl. 261.8 million; therefore, the net asset position of Aruba's commercial banks increased by Afl. 88.1 million.

Financial Soundness Indicators

The financial soundness indicators remained adequate throughout 2016. The banks' risk-weighted capital asset ratio stood at 27.9 percent at the end of December 2016 (required minimum 14.0 percent), up from 26.0 at the end of 2015. The loans-to-deposit ratio fell to 66.1 percent (maximum 80.0 percent), down from 70.0 percent in December 2015. The prudential liquidity ratio of the commercial banks rose to 30.6 percent (minimum requirement 15.0 percent), up from 27.3 percent. In addition, the quality of the commercial banking sector's loan portfolio improved as the per ultimo nonperforming loan ratio decreased by 0.3 percentage point to 4.4 percent compared to 2015.

II. International developments

According to the April 2017 update of the IMF's World Economic Outlook, global output growth was estimated at about 3.1 percent in 2016.[2] However, this development masks divergent developments in different country groups. A stronger-than-expected pickup in growth was seen in advanced economies, due mostly to a reduced drag from inventories and some recovery in manufacturing output. This positive development has been offset by an unexpected slowdown in some emerging market economies. Economic activity in both advanced economies and emerging market and developing economies is forecast to accelerate in 2017–18, with global growth projected at 3.5 percent and 3.6 percent, respectively.

[2] IMF – World Economic Outlook, April 2017.

Caribbean economies expected to grow by 2.3 percent

The United States economy is estimated to have expanded at a modest pace of 1.6 percent in 2016. This growth momentum was considerably weaker than had been anticipated when the Fed raised interest rates in December 2015 — the first rise since rates were reduced to near zero levels at the height of the global financial crisis in December 2008. With the change in administration in January 2017, considerable uncertainty exists regarding the future direction of policy in the United States — including fiscal, trade, immigration, environmental, and foreign policy prospects. This uncertainty is expected to have restrained investment in the short run. The GDP projection for the United States assumes a fiscal stimulus that leads growth to rise to 2.3 percent in 2017 and 2.5 percent in 2018.

Economic activity in Europe will remain subdued, with growth expected to stay around 1.8 percent in the EU for the period from 2016 to 2018. A number of factors will continue to prevent a more vibrant economic revival across the region. These factors include the major uncertainty surrounding Brexit, which has already dented business investment in some key sectors both in the United Kingdom and its major European trading partners. In addition, structural issues such as a need for labor market reforms impede the development of small- and medium-sized companies in several countries. Linked to this structural issue, unemployment still remains high in several countries, with negative effects on overall growth. High public and private debt levels constrain investment in some countries and lingering balance sheet problems in the banking sector put a drag on the proper functioning of the banking system.

In Latin America, output contracted in 2016 (between −0.5 percent and −1.0 percent according to different projections) with a modest recovery expected in 2017. The deep contractions in Brazil and Venezuela, which account for nearly 45 percent of gross domestic product (GDP) in the Latin American region, largely explain aggregate performance in the region.

After widely divergent economic experiences in 2016, virtually all Caribbean countries are projected to grow in 2017.[3] Growth averaged only 0.9 percent in 2016, dragged down by falling output on average among commodity exporters (including Suriname, and Trinidad and Tobago). Caribbean economies are now projected to grow by 2.3 percent in 2017. Commodity-exporting economies, which contracted by 1.4 percent in 2016, are anticipated to rebound by an average 2.4 percent in 2017 (although growth is expected to remain

[3] Caribbean Corner – IMF Newsletter for the Caribbean Region, Issue 08, March 2017.

subdued in Trinidad and Tobago and in Suriname). This recovery is expected amid a modest increase in commodity prices. Tourism-based economies are expected to experience faster growth, from 1.9 percent to 2.3 percent between 2016 and 2017, as buoyant North American economies continue supporting tourist arrivals.

III. Concluding remarks

In 2016, for the second year in a row, the Aruban economy contracted. The foremost reason was a withering of the tourism sector, primarily due to the economic and political situation in Venezuela. The growth realized by other tourism markets, such as the United States, was not sufficient to fully offset this negative development. Likewise, local conditions also affected the economy negatively as domestic consumption slowed down, while private investment was virtually flat as the start of the anticipated full rehabilitation of the oil refinery was postponed to 2017.

Despite the economic slowdown, confidence of local businesses and consumers in the short-term prospects of the Aruban economy weathered well throughout 2016. Nevertheless, businesses and consumers continue to express concerns about future prospects and lingering uncertainties. Recent market studies also indicate that a majority of local consumers currently make use of e-commerce to buy directly from abroad, which significantly impacts local (retail) businesses. Likewise, offering private accommodations to foreign visitors remains a growing trend in the last few years.

Overall, domestic credit of the banking sector to the private sector expanded by 1.8 percent in 2016. Both business loans and housing mortgages contributed to the growth of domestic credit. On the other hand, consumer credit contracted, continuing its downward trend that has persisted since 2009.

In 2016, total government revenue as well as expenditure increased marginally, leading to a (cash-adjusted) financial deficit of Afl. 183.5 million (2015: Afl. 161.0 million). This deficit was financed mainly through net foreign lending. Total government debt grew by Afl. 47.2 million to Afl. 4,021.3 million in 2016, mostly the result of an Afl. 140.2 million expansion of foreign debt attributable to two large private placements on the international market in May 2016. With these developments, the debt-to-GDP ratio reached an estimated 84.2 percent as of end-December 2016 (2015: 82.5 percent).

As a result of falling energy prices and subdued prices of food and goods, deflationary pressures

were experienced throughout 2016. Towards the end of 2016, the 12-month inflation rate stood at –0.9 percent. This development helped to improve Aruba's competitive position relative to that of its main trading partner, the United States.

Money supply grew by 9.5 percent in 2016. This rise was caused by an Afl. 261.8 million net inflow of foreign funds, related mainly to tourism receipts and government foreign borrowing.

The overall balance of payments registered an Afl. 261.8 million surplus in 2016, compared to an Afl. 342.7 million surplus in 2015. Both the current account as well as the capital and financial account contributed to the surplus realized. Strong growth took place in the official reserves. Consequently, total reserves (including revaluation differences) stood at Afl. 1,892.4 million at the end of December 2016; the import coverage ratio improved from 4.6 months (end-December 2015) to 5.1 months.

Annex: The refinery and the investment assumptions

In the course of 2016, Valero, the owner of the oil refinery of Aruba, reached an agreement with the government of Aruba to transfer the ownership of the refinery to the government. After complete refurbishment of the refinery, it will be operated by Citgo, a U.S.-daughter company of PdVSA, the Venezuelan state-oil company.

The initial scheme was to start the refurbishment activities in the second half of 2016. Given the significant investment required, it was assumed by the Centrale Bank van Aruba (CBA) that these investment activities were the primary factor driving private investment in 2016. With the continuation of several projects, such as the extension of the Dr. Horacio E. Oduber hospital and the Green Corridor, 2016 nominal private investment growth was forecasted at 24.6 percent. Nevertheless, the CBA projected a nominal contraction of the economy largely attributed to an expected disappointing performance of the tourism sector. Furthermore, a large part of the investment constitutes the purchase of investment goods imported from abroad.

As 2016 drew to a close, it became apparent that the identified main risk to the above-mentioned outlook −delays to investment projects− had crystalized. The operational start of the overhaul activities was postponed to June 2017, with limited (preparatory) activities taking place at the refinery at the end of 2016. Consequently, the CBA revised its nominal investment growth projection downwards to 1.4 percent and thus, also projected a negative effect on the GDP estimate for 2016.

In the preliminary assessment of the project's potential contribution to its nominal GDP estimates, the CBA assumed an imminent start of construction activities. Furthermore, several other assumptions were made, including phased refinery investments over a period of 48 months starting in July 2017 and a fully operational refinery in 2021, after starting in 2018 at partial capacity.

The additional growth spurred by the rehabilitation of the refinery would lead to an initial upward shift in GDP levels in 2017 and 2018. However, it is important to note that operation of the refinery does not necessarily imply higher growth rates in the longer run when refining output increases.

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