

STATE OF THE ECONOMY

First quarter of 2017

ABSTRACT

Indicators point to a recovery of the economy in the first quarter of 2017. Tourism figures improved with growth in tourism receipts, hotel revenue, and an expansion in the U.S. market. Private investment gained traction, while consumption indicators paint a mixed picture. All in all, the development in tourism exports drove economic activity in the period under review.

Centrale Bank van Aruba

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I. Domestic developments: tourism as the engine of recovery¹

Economic growth

Indicators point to a recovery of the economy in the first quarter of 2017. Tourism figures improved with growth in tourism receipts, hotel revenue, and an expansion in the U.S. market. Private investment gained traction, while consumption indicators paint a mixed picture. All in all, the development in tourism exports drove economic activity in the period under review.

Tourism

The tourism sector is doing better in 2017 than it did last year as the U.S. market is showing improved performance along with higher tourism receipt figures. Other tourism indicators, such as the number of visitors and visitor nights, display a substantial decline in the first quarter of this year. However, hotel revenue and tourism receipts are pointing in the opposite direction. According to AHATA, hotel revenues grew in the first quarter of 2017 by US\$ 7.2 million or 7.2 percent.

In the first quarter of 2017, the number of stay-over visitors fell by 15.0 percent, continuing a trend seen since the second half of 2016. The drop in visitors is attributed fully to the Venezuelan market; in particular, Venezuelans staying at alternative accommodations (private homes, apartments, and guest houses). When the Venezuelan market is excluded, the first quarter actually showed a 5.5 percent growth in the number of visitors (Chart 1).

¹ The cut-off date for information published in the State of the Economy is October 16, 2017.

Chart 1: Stay-over visitors

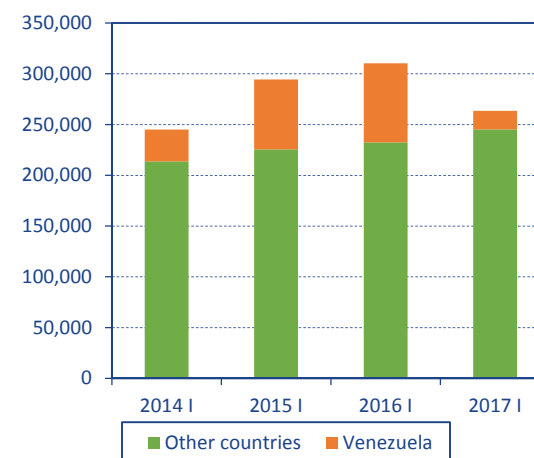


Chart 2: Growth in stay-over visitors from Venezuela (as compared to a year earlier)

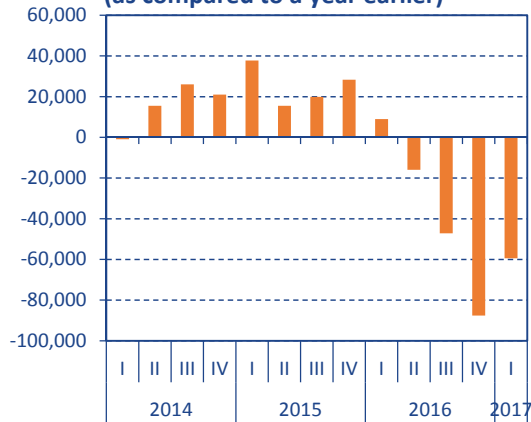
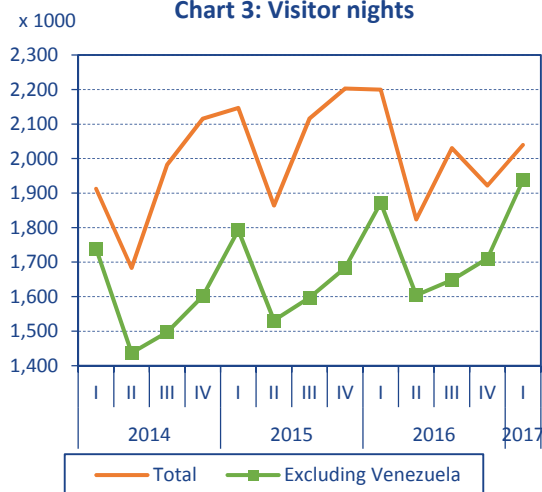


Chart 3: Visitor nights



In the first quarter of 2017, the Venezuelan tourism market dropped 76.4 percent (-59,480 visitors). The worsening of the economic and political situation in Venezuela is the main cause for the decrease in the market. The Venezuelan market boomed in 2014-2015 as Venezuelans traveled to Aruba for what could be classified as nontourism purposes (Chart 2).

In the first quarter of 2017, the U.S. market grew significantly (+7.7 percent or 12,623 visitors), largely attributable to an increase in airlift capacity for the winter season of 2016/2017 (up to March 2017). JetBlue started operations from Fort Lauderdale in early January 2017, after introducing Saturday flights from New York and Boston in late 2016. Furthermore, winter airlift increased from Atlanta (+24 percent), Newark (+12 percent), and Miami (+2 percent). In the first quarter of 2017, the largest growth in absolute number of visitors from the United States was realized in the Massachusetts (+4,148 visitors), Florida (+2,063 visitors), and New York (+1,570 visitors) markets. Non-U.S. markets that eased the overall drop in total tourist arrivals included Argentina (+3,157 visitors) and Canada (+1,373 visitors).

In the first quarter of 2017, the number of visitor nights also declined (-7.3 percent) (Chart 3). In line with the development in stay-over visitors, the Venezuelan market (-68.8 percent) was the main cause of this drop. The Colombian market also decreased (-16.6 percent) in the first quarter of 2017, after growing significantly during 2016. This drop was related to a shorter average length of stay (ALOS) in the first quarter of 2017 than in the corresponding period of 2016 (7.9 days versus 10.2 days). The U.S. market grew exceptionally well (+5.3 percent) along with the Argentinian (+60.3 percent), Canadian (+9.2 percent), and Dutch (+8.8 percent) markets.

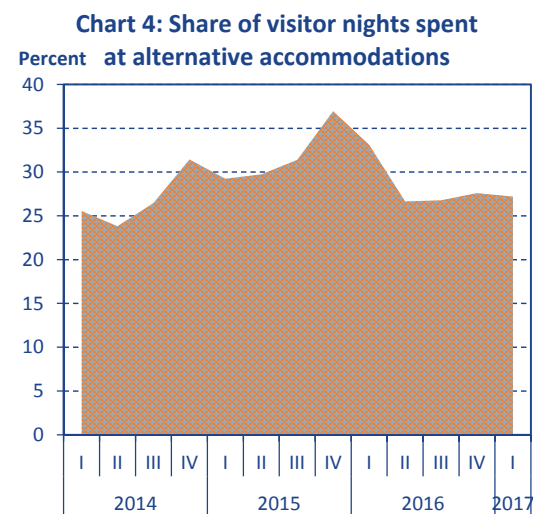
In the first quarter of 2017, the number of visitor nights spent in private homes, apartments, or guest houses (alternative accommodations) increased by 5.4 percent when excluding the Venezuelan market. However, the overall result was a 23.8 percent decrease in the proportion

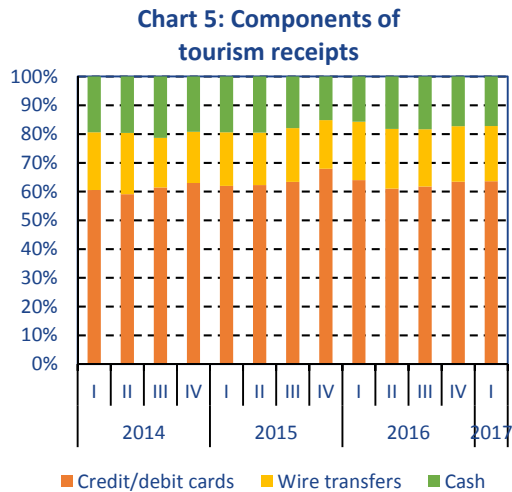
of visitor nights spent in such accommodations, due to the large decline in the number of Venezuelans in that category. The share of visitor nights spent at alternative accommodations in total nights has been relatively stable in the past three quarters (Chart 4).

The main results of a survey on the impact of alternative accommodations:

- 53 percent of the respondents had noticed an increase in the use of alternative accommodations in their neighborhood over the last three years;
- 23 percent indicated that they (or a family member living in the household) offered an alternative accommodation to tourists;
- 65 percent responded that alternative accommodations had no impact on them, 21 percent indicated a negative impact, and 14 percent a positive impact; and
- The most important positive impact was the additional income. Negative impacts included the increase of “strangers” in the neighborhood and the increase of traffic and noise.

The average hotel room occupancy rate surged, along with the revenue per available room (RevPar) while the average daily room rate (ADR) lagged, as corroborated by reports from the Aruba Hotel and Tourism Association (AHATA). In the first quarter of 2017, the room occupancy rate reached 85.7 percent, a 5.6 percentage points increase compared to the same quarter in 2016. RevPAR grew by 6.7 percent during the same period. ADR fell by 0.3 percent, which in essence indicates that rooms were slightly cheaper during this period compared to the first quarter of the previous year. Overall, revenue grew by 7.1 percent in the first quarter of 2017. This growth was reflected in all the different resort categories. The revenue from brand-name beachfront hotels increased by 4.9 percent; this category currently represents 55.6 percent of total revenue. All-inclusive hotel revenue rose by 6.7 percent bringing its share of





total revenue to 26.2 percent. The revenue of the small independent beachfront hotels (6.1 percent market share) and non beachfront resorts (12.0 percent market share) grew by 8.7 percent and 19.8 percent, respectively.

Cruise tourism recorded a decrease of 15 ship calls in the first quarter of 2017. However, the ships that entered the harbor were larger, leading to a 0.4 percent increase in the number of cruise passengers.

In the first quarter of 2017, tourism receipts increased by 3.5 percent. This growth most likely was related to the developments in the strong U.S. market this year compared to last year. Furthermore, tourism receipts per visitor night grew from Afl. 383 to Afl. 428 per night. This expansion in spending per night is attributed to the partial replacement of low-spending Venezuelans (as this market has decreased) by Americans spending more.

Tourism receipts can flow into the country through either credit and debit cards, cash, or wire transfers. In 2014, the share of credit and debit cards within total tourism receipts averaged around 60 percent. This share has grown steadily reaching 63 percent in the current period, a development that comes at the expense of inflow through wire transfers and cash, which currently stand at 19 percent and 17 percent, respectively (Chart 5).

Investment

According to the various indicators, private investment gained traction in the first quarter of 2017 Total outstanding individual housing mortgages for the first quarter showed an increase of 0.7 percent, somewhat lower than the same period last year. On the other hand, total outstanding commercial mortgages declined by 1.3 percent. Cement imports fell by 11.7 percent, related mainly to a substantial amount of imports in the first quarter of last year due

to the construction of the Green Corridor. In the first quarter of 2017, the level of cement imports was higher than the corresponding quarters of 2014 and 2015. Imports of base metals and derivated work rose by 13.7 percent while the import of machinery and electrotechnical equipment expanded by 13.4 percent, associated primarily with imports by utility companies. In contrast, the number of construction permits granted decreased (-11.8 percent) despite the fact that the total value of these permits almost doubled (+97.9 percent). The increase in the value of permits was attributed to the value of new apartments. In the first quarter of 2016, 14 apartment construction permits had a value of Afl. 7.9 million, whereas in 2017, the same number of apartment permits totaled Afl. 53.9 million in value.

At the end of 2016, construction began on the Hyatt Place Hotel project near the airport. Additional ongoing major projects were the expansion of the Dr. Horacio E. Oduber Hospital and the Green Corridor. Other anticipated projects such as the Watty Vos Boulevard and the expansion project of the airport started after the first quarter of the year, whereas the bulk of construction on the refinery is expected to start in September 2017.

The first quarter of 2017 saw an increase in the net inflows related to real estate in foreign direct investments (+Afl. 4.2 million) (Chart 6). Inflows of equity from nonresidents also increased, while some repayments on intercompany loans were made, resulting in an overall decrease in foreign direct investment of Afl. 11.6 million compared to the first quarter of 2016.

In the first quarter of 2017, the assessment of the business sector on the economy of Aruba deteriorated slightly according to the latest Business Perception Survey (Chart 7). Nevertheless, with an index of 100.1, overall sentiment remained slightly optimistic. The driving force behind the worsening in perception was the sentiment concerning the current economic condition in Aruba. The views among the various sectors were diverse; the manufacturing, construction, and wholesale and retail trade sectors had pessimistic views, whereas hotels and

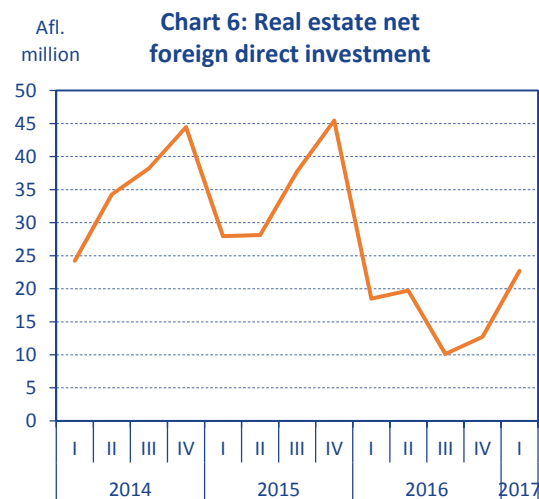
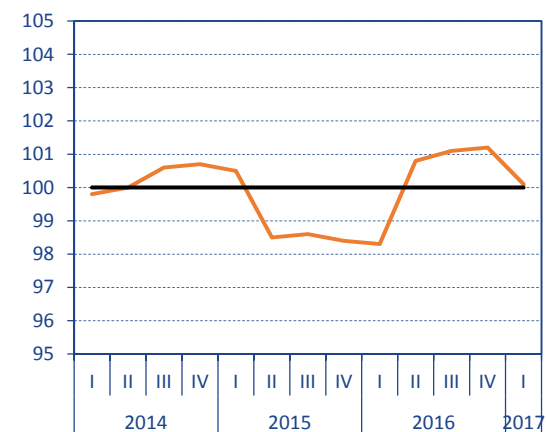


Chart 7: Business perception index



restaurants as well as the transport sector were positive on both current and future economic conditions.

Consumption

Consumption indicators for the first quarter of 2017 continue to paint a mixed picture.

Consumer credit recorded a decrease of 2.3 percent in the first quarter compared to December 2016. The categories personal loans, credit cards, and car loans registered declines. The decline in car loans may be related to the booming market in right-hand drive (RHD) cars. According to experts on the RHD market, individuals can buy these types of vehicles for less than Afl. 9,000 and in most cases do not use a loan at a bank to finance this purchase. Rather, purchasers of RHDs usually borrow informally through family, friends, and employers or use cash from their savings account. From anecdotal information, we estimate that RHD cars currently form approximately 8-10 percent of the total number of vehicles in Aruba, a figure that is projected to continue expanding in the coming years.

Tax revenue data seem to point towards consumption growth in the first quarter of 2017. The revenues from the turnover tax (BBO) and import duties showed increases of, respectively, 9.6 percent and 2.9 percent. However, the former could be related in part to increased collection efforts by the tax department. The proceeds from excises grew by 48.9 percent, fueled by a significant increase in excises on tobacco (due to the pre-purchase of stamps) along with overdue payments related to excises on gasoline. However, even without these one-time effects, estimates are that the earnings from excises would still show substantial growth. Worth mentioning is that, even though these indicators exhibit a positive picture for consumption, tourism spending also influences these indicators.

In the first quarter of 2017, the Consumer Confidence Index edged down by 0.1 index point compared to the fourth quarter of 2016. The index has hovered around the 96 point mark for the last three quarters, remaining below the 100 mark, thus denoting persisting pessimistic consumer sentiment (Chart 8). Consumers reported a worsening of their personal finance, economic and business conditions, the government’s financial position, and job expectations compared to 6 months previous. This was also the case with respect to consumers’ perceptions of the coming 6 months with the exception of the job market. A little over a third (37.5 percent) of consumers expressed the view that finding a job in the coming 6 months would be harder, while 32.5 percent felt that job expectations would be the same, and 16.5 percent believed that finding a job would be easier. The Consumption Habits Index, a subindex of the Consumer Confidence Index, improved in the first quarter of 2017 after reaching a record low last quarter. Even though most consumers still think it was not a good time to purchase a car, or major appliances, or take out a loan or a mortgage, their perception improved drastically in the first quarter of 2017 (from 10.3 percent to 26.3 percent) compared to the fourth quarter of 2016. Consumers also were asked if they could purchase as much with their income as 6 months previously; 63 percent perceived that this was not the case (an improvement of 7 percentage points compared to the fourth quarter).

In the first quarter of 2017, water consumption by households decreased by 6.6 percent. This fall is probably partly related to a larger quantity of rainfall during this period; Meteo Aruba recorded over 900 percent more precipitation compared to the same quarter in 2016. The electricity consumption by households fell slightly by 0.2 percent in the first quarter of 2017. Since 2016 was a leap year, the first quarter of 2017 did have one fewer day, explaining roughly 1 percent of the decline.

On balance, individuals were saving in the period under review. Total savings deposits at the end of the first quarter of 2017 compared to December 2016, showed an increase of 1.5 percent.

Chart 8: Consumer Confidence Index

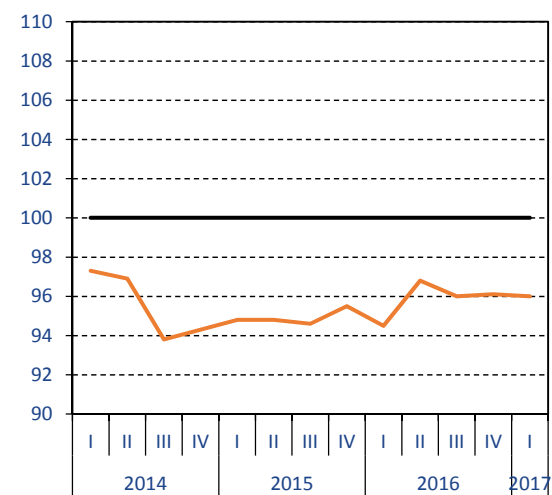
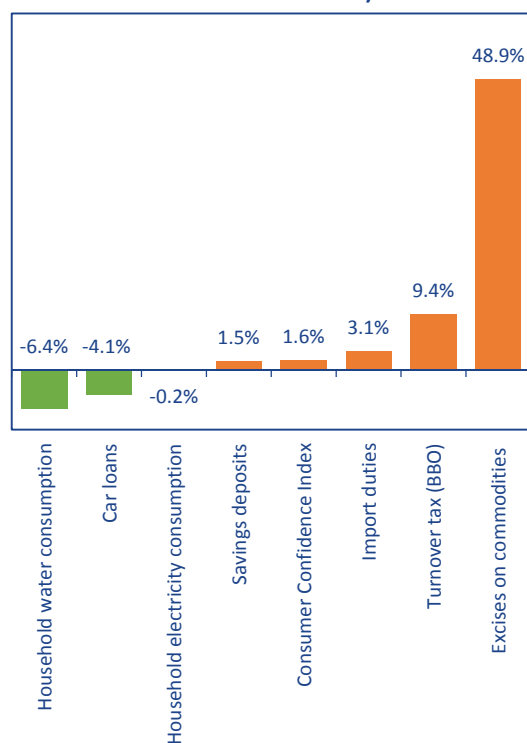


Chart 9: Consumption-related indicators (percentage change 2017-1 vs. 2016-1)



The increase in savings was much larger in the same period of 2016 indicating that, even though consumers are saving more, they are doing this at a slower pace than last year.

A summary of the main consumption indicators can be found in Chart 9.

Foreign trade

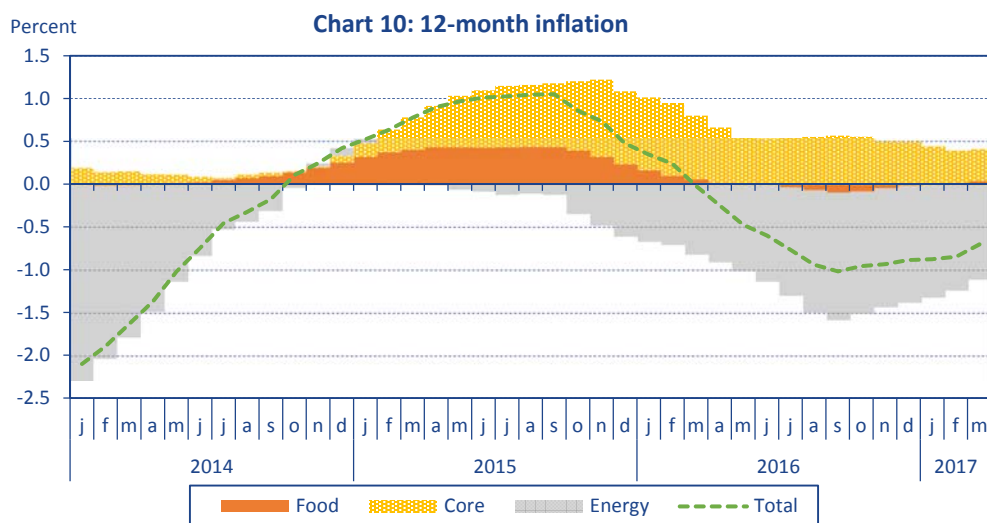
In the first quarter of 2017, Aruba's foreign trade deficit was larger compared to the first quarter of 2016. An increase in imports of goods along with stable exports resulted in a deficit of Afl. 470.9 million (Q1 2016: -Afl. 426.3 million). Imports of both food and nonfood products increased in the first quarter, i.e., by 9.2 percent and 7.5 percent, respectively. The import value of, among other things, textiles, real pearls (+22.4 percent), and mineral products expanded significantly in the first quarter while transport equipment was the only large import category that recorded a contraction.

The total value of exports increased by Afl. 4.4 million, attributable to higher exports of art objects and collectors' items and precious stones. In absolute terms, exports of goods continued to be low, and many of the (re-exported) goods were not manufactured or produced in Aruba.

Consumer Price Index (CPI)

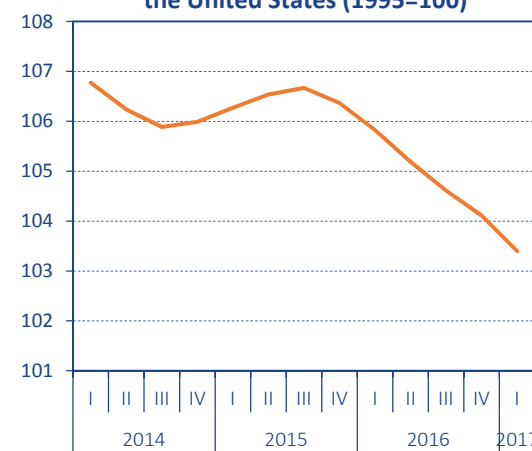
In the first quarter of 2017, decreasing energy prices continued to exert deflationary pressures. Electricity tariffs were reduced by around 14 percent in January 2017, pushing the 12-month inflation rate, which had been in negative territory since April 2016, to -0.7 percent at the end of March 2017. Marginal price increases in the components *Housing, Restaurants, and*

Hotels kept the 12-month core inflation above zero, reaching 0.4 percent in March 2017 (Chart 10).



In the first quarter of 2017, Aruba’s real exchange rate relative to that of the United States dropped by 2.4 percentage points compared to the same quarter in 2016 (Chart 11). According to the latest IMF Article IV report, Aruba’s real effective exchange rate had depreciated since mid-2012 and was undervalued by around 17 percent in 2016. The economic and political situation in Venezuela was the main reason for this development as tourism exports to Venezuela collapsed along with that country’s high inflation. The IMF assesses that the real effective exchange rate has appreciated somewhat in recent years when excluding Venezuela. With the Aruban florin fixed to the U.S. dollar, the slight appreciation of the REER poses little

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



The discrepancy between measured and perceived inflation rate

Between 2006 and 2016, Aruba experienced an average annual rate of inflation of 1.7 percent. Those years recorded months with high inflation (up to 12.7 percent in August 2008) and periods with declining prices (deflation). From October 2015 on, the Central Bureau of Statistics has measured almost continuously declining prices. The underlying reason is the lower world oil prices, which have had advantageous effects on the domestic prices of gasoline, diesel, and electricity.

Yet, the general feeling is that the cost of living in Aruba has become more expensive each year. Additionally, the expectation is that this perception will continue in the near future as evidenced by the answers provided in the quarterly consumer confidence survey.

The discrepancy between the measured inflation rate and the perceived inflation rate may be explained by the fact that the price level of many products bought on a regular basis has increased at a more than average rate. A striking example is fresh fruit (such as bananas, mangos, watermelon, papayas, avocados, and strawberries) with an average annual price increase of 7.7 percent. The impact of these products on the general price level is limited, however, as their weight in the basket is only 0.7 percent. Other food products with higher than average price increases are bread, rice, and various meat products.

On the other hand, some products have become considerably cheaper in recent years. These are mostly electronic and telecommunication goods (mobile phones, TVs, stereo systems) and household furniture and appliances. Typically, these goods are not bought frequently. Therefore, the impact of these kinds of goods on the price level of Aruba is not strongly felt.

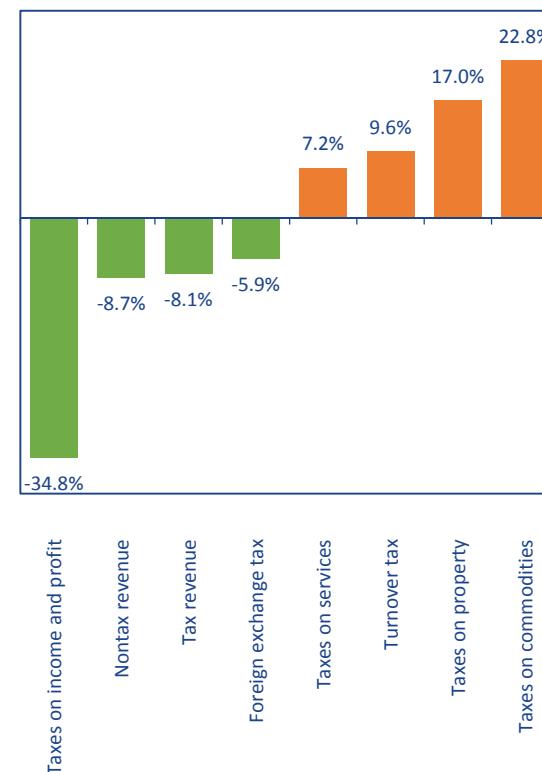
risk to competitiveness, as the U.S. market still has the largest share of trade and of tourist arrivals.²

Government

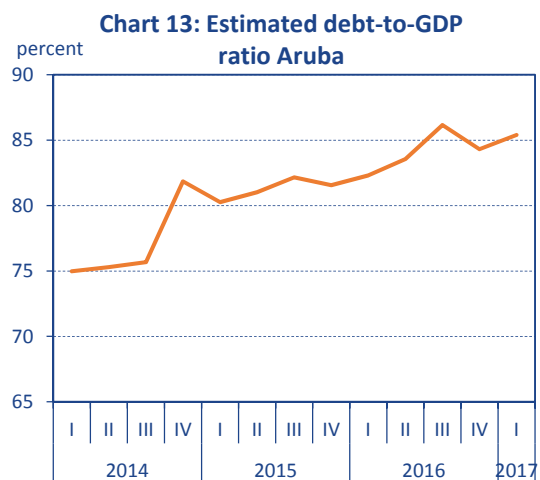
In the first quarter of 2017, total government revenue decreased by 5.8 percent to a total of Afl. 257.4 million. Tax revenue fell by 8.1 percent (Chart 12) driven by a significant decline in the proceeds from the profit tax (-Afl. 41.4 million) mitigated by increases in, among other things, income from taxes on commodities (+Afl. 14.3 million), taxes on property (+Afl. 3.9 million), and the turnover tax (+Afl. 2.2 million). Due to a change in the profit tax law, an adjustment was made in the tax collection pattern, so profit taxes are now due in the second quarter. It is expected that profit tax revenue will pick up in the second quarter. The increase in the proceeds from taxes on commodities is partly incidental due to higher collection efforts, a significant rise in excises on tobacco (due to the pre-purchase of stamps), and overdue payments by the FMSA (Fuel Marketing & Supply Aruba) related to excises on gasoline. Foreign exchange tax income fell by 5.9 percent; which in absolute terms was just Afl. 0.7 million. Nontax revenue decreased by Afl. 2.5 million in the first quarter of 2017.

In the first quarter of 2017, total government expenditure (cash adjusted) amounted to Afl. 335.5 million, which is Afl. 8.7 million (or 2.5 percent) lower compared to the same quarter in 2016. Declines in personnel expenses (-Afl. 19.5 million) and goods and services expenditure (-Afl.5.3 million) caused the decrease in government expenditure. On the other hand, increases were recorded in development fund spending (+Afl. 6.1 million) and transfers to the AZV

**Chart 12: Government revenue
(percentage change 2017-I vs. 2016-I)**



² Excerpts from the IMF's Article IV consultation report on Aruba.



(+Afl. 6.4 million). Total unmet financial requirements reached Afl. 105.1 million in the first quarter of 2017, a decrease of Afl. 6.1 million.

At the end of the first quarter of 2017, the cash-adjusted financial deficit of the government totaled Afl. 93.4 million, which is 39.4 percent higher than the deficit at the end of the first quarter of 2016. This deficit was financed mainly through a government bond issue on the domestic market. Furthermore, the government withdrew Afl. 15.8 million from its banking deposits. Net foreign borrowing fell by Afl. 30.1 million because of the repayment of foreign loans.

At the end of March 2017, total government debt amounted to Afl. 4,090.8 million, an increase of Afl. 65.5 million during the quarter under review. In February 2017, the government issued a bond of Afl. 125 million with a 10-year maturity and an annual yield of 4.25 percent, thereby expanding the domestic component of its debt significantly. Total foreign debt of the government declined by Afl. 26.1 million. As a result, the foreign component in total debt fell to 53.4 percent while the debt-to-GDP ratio again surpassed the 85 percent mark, reaching 85.4 percent (Chart 13).

Monetary survey

In the first quarter of 2017, the money supply edged up marginally by 0.3 percent to Afl. 4,180.9 million. This increase was brought about by an Afl. 41.7 million net inflow of foreign funds, related mainly to tourism receipts and lower imports, which helped maintain the net foreign assets position above the critical 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. The inflow of foreign funds was mitigated partially by a decline of Afl. 27.1 million in

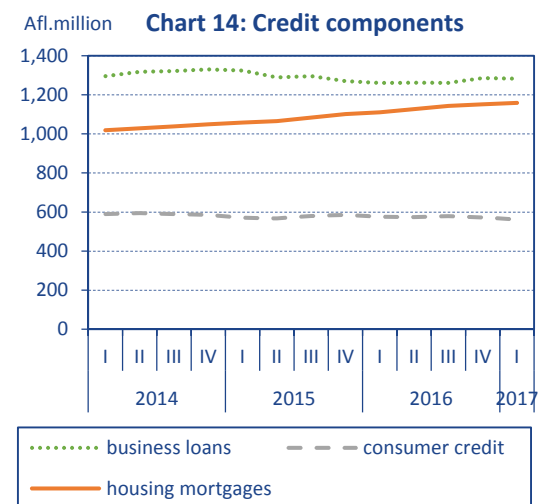
net domestic assets due to an Afl. 60 million decrease in non-credit related balance sheet items, offset by the strengthening in domestic credit of Afl. 32.8 million. The decline in non-credit related balance sheet items was caused mainly by higher the balance sheet items of shareholders' equity, other liabilities, and borrowings.

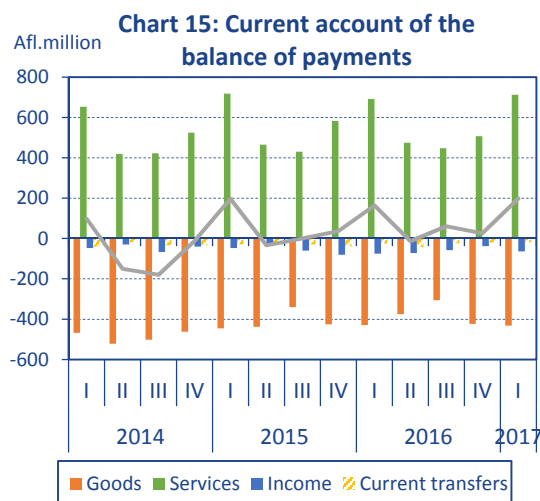
In the first quarter of 2017, domestic credit extended to the private sector by the monetary sector expanded by 0.5 percent to Afl. 3,386.2 million. Business loans were virtually flat in the first quarter of 2017 at Afl. 1,282.7 million. The level of loans to enterprises remained almost the same in the last four years. The only business sectors with a substantial increase in outstanding loans were the transport and construction sectors (+10.5 percent and +8.1 percent, respectively). Housing mortgages continued to increase slightly while consumer credit fell (Chart 14).

In the first quarter of 2017, the interest rate margin of the commercial banks on new loans was 6.6 percent. This margin is calculated as the differential between the weighted average rate of interest paid on new loans and the weighted average rate of interest offered on new deposits. The 6.6 percent interest rate margin was the highest margin recorded since the second quarter of 2015. The weighted average rate of interest offered on new deposits fell to 1.3 percent, whereas the weighted average rate of interest charged on new loans increased to 7.9 percent.

Balance of payments

In the first quarter of 2017, the balance of payments registered an Afl. 41.7 million surplus, compared to an Afl. 103.1 million surplus in the first quarter of 2016. The former was the result of a current account surplus, its effects partially offset by a deficit in the capital and financial account.





In the first quarter of 2017, the surplus on the current account of the balance of payments amounted to Afl. 198.2 million (2016Q1: Afl. 163.3 million) (Chart 15). Stronger inflows related to tourism and to a lesser extent, lower payments for oil imports were primarily responsible for this larger surplus. In contrast, non-oil imports increased. Aruba's net income from services rose by 4.2 percent to Afl. 1,105.7 million in the first quarter, attributed mainly to a rise in net tourism services (2.8 percent) and a 13.3 percent smaller net deficit in other services. The reduction in other services was caused by, among other things, lower payments for construction services along with higher receipts for construction services and lower financial services payments. Net transportation services also recorded a somewhat higher surplus compared to the first quarter of 2016.

The income account displayed a deficit of Afl. 63.6 million, somewhat lower than the deficit in the first quarter of 2016 (Afl. 75.3 million). Lower dividend payments to abroad from resident companies in the first quarter of 2017 were the main reason for this decline. The development within the current transfers is determined mainly by income transfers abroad of foreign personnel in Aruba (workers' remittances). The net outflow in the first quarter of 2017 decreased slightly by Afl. 4.9 million to Afl. 19.1 million, compared to a year earlier.

In the first quarter of 2017, the capital and financial account registered an Afl. 147.0 million deficit, significantly higher than the deficit in the first quarter of 2016 (Afl. 55.3 million). This development was due mainly to substantially lower inflows in the direct investment account and the portfolio investment account. The capital account balance remained virtually unchanged in the first quarter of 2017, as it recorded a deficit of Afl. 1.3 million in the quarter under review versus a deficit of Afl. 1.1 million in the same quarter of 2016.

Direct investments saw a net outflow of Afl. 24.9 million, reported in both the oil and non-oil sectors. Investments in the oil sector were related mainly to trade credit transactions, while the

non-oil sector saw a lower inflow of loans from parent companies from abroad. Portfolio investment registered an Afl. 45.0 million deficit in the first quarter stemming from the repayment of local government debt securities to nonresidents and purchases of foreign bonds by residents. The financial derivatives account recorded an Afl. 15.0 million outflow in the period under review, related to hedging expenses for the acquisition of Heavy Fuel Oil (HFO). The Afl. 60.8 million outflow in the other investment account was mainly the result of enterprises transferring funds to their foreign accounts.

In the first quarter of 2017, official reserves realized a small growth (+Afl. 18.8 million). Consequently, total foreign assets reserves (including revaluation differences) reached Afl. 1,952.7 million. The import coverage ratio stood at 5.4 months, which is 0.2 months lower than at the end of the first quarter of 2016.

II. Trends in digital consumption

With the introduction of new digital technologies and a new generation of consumers, Aruba's business landscape is experiencing disruptive changes. The adoption and diffusion of digital innovation - *digitization* - has been evolving for over a decade, albeit at a relatively slow pace. Reflecting on the technology adoption lifecycle of localized digital technologies, Aruban consumers are well versed in internet, social media, and smart phone technologies, which form the base of digital transformation in Aruba's economy. These digital technologies have matured and enjoy the highest rate of usage, ranging from 80 percent to well over 90 percent (Chart 16).

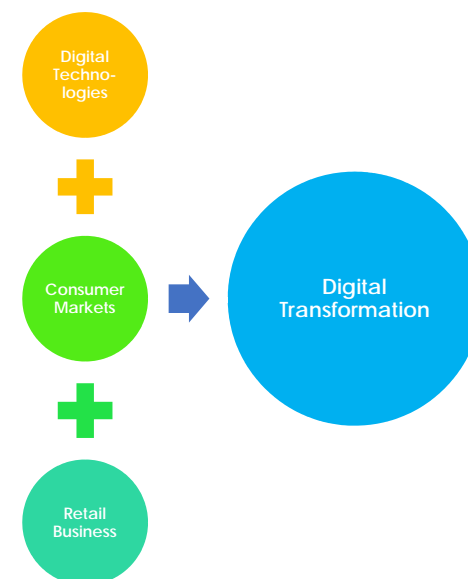
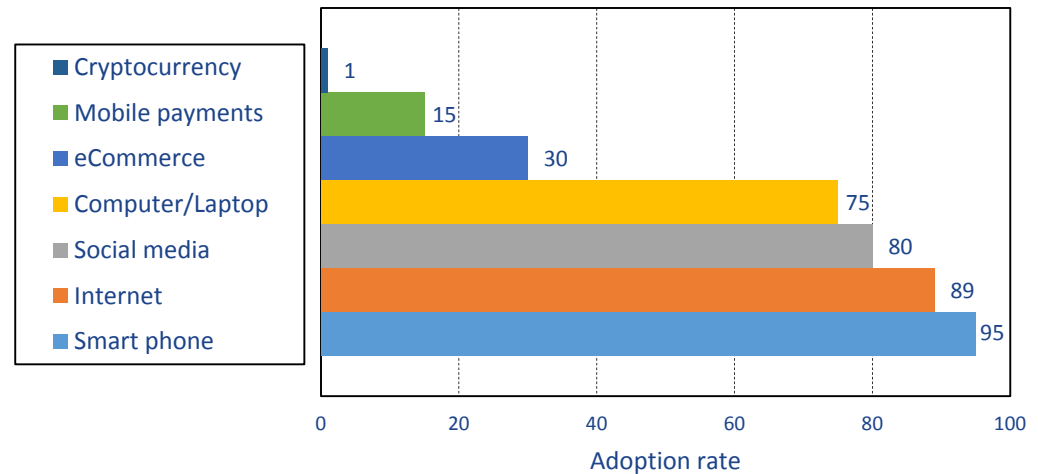


Chart 16: Aruban consumer adoption rate of digital technologies

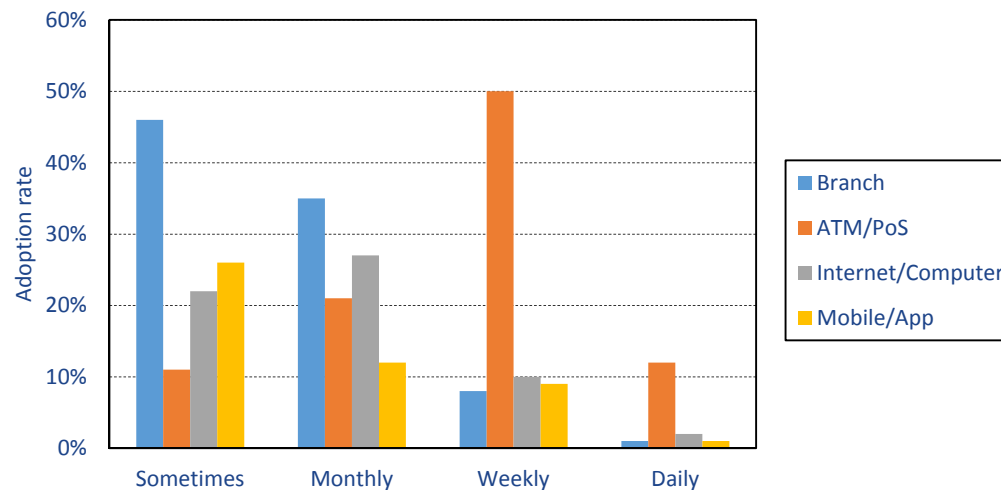


An acceleration of digital transformation is now being witnessed. Contemporary digitization is influenced by a confluence of supply and demand forces, including new digital technologies, as well as a growing market of ‘digital natives’, i.e., a generation of relatively younger, higher-educated, more-demanding, and tech-literate consumers, including predominantly millennials.

Electronic commerce reaches the tipping point. Although still relatively embryonic, e-commerce accounts for almost one third of this new wave in digitization and is nearing a tipping point towards future growth. The adoption of mobile apps and payment systems, while accelerating, remains in the early stages of digital innovation, whereas the introduction of cryptocurrency (e.g., bitcoin) is experiencing an early birth. The Aruban digital ecosystem thus comprises different interconnected technologies, with varying degrees of adoption and usage by consumers.

Payments and payment channels have not remained immune to digital disruption. Recent studies indicate that whereas consumers are increasingly adopting and using new digital technologies, traditional consumption habits still prevail. Not surprisingly, the use of (bank) branches and ATM machines remains the dominant payment channel for more than half of Aruban consumers (Chart 17).³

Chart 17: Frequency of use of payment technology in Aruba



Close to 60 percent of consumers make use of ATM and PoS machines on a weekly to daily basis, testifying to the maturity of ‘card-based’ payments in the Aruban economy. The internet and electronic banking (e-banking) account for a good 30 percent of consumers. Consistent with the technology adoption lifecycle, usage of mobile applications (smartphone) for consumer payments remains relatively nascent (12 percent). The findings suggest that

³ Based upon a consumer survey (with 400 participants) held by the CBA at the end of 2016.

consumers are concurrently using multiple payment and purchasing channels. **Retail markets and business are not impervious to digital transformation of consumption.** The accelerating convergence of digital technologies and digitally literate consumers has left a mark on local businesses. Developing the requisite resilience to innovate and transform digitally is pivotal. With total consumption accounting for well over 60 percent of Aruba's gross domestic product, and considering the accelerating pace of digital transformation, Aruba's small open economy is indeed experiencing a fundamental transformation, one which will require resilience on the part of both the private and public sectors, in tandem.

III. International developments: recovery gains momentum, but downside risks remain

The world economy is continuing on its path towards recovery and has picked up steam this year with a strengthening of global growth. Trade and manufacturing activities have strengthened, helped along by bolstering investment and an improvement in confidence. Nonetheless, risks that remain are tilted towards the downside due to increased trade protectionism, high policy uncertainty, and persistent structural issues. In its latest Global Economic Prospects, the World Bank estimates global growth to reach 2.7 percent in 2017, up from 2.4 percent in 2016, and increase to 2.9 percent in 2018-2019.⁴

Developing and advanced economies show signs of economic resilience. In the emerging market and developing economies, obstacles to growth among commodity exporters are diminishing gradually, while activity in commodity importers remains generally robust.

⁴ Global Economic Prospects, June, 2017. World Bank Group.

Furthermore, in 2017, economic activity in advanced economies is expected to gain momentum, supported by an upturn in the United States.

Likewise, the OECD denotes that demand growth in the advanced economies has stabilized at around 2 percent.⁵ Both demand and output are expanding slowly in the emerging and developing economies, helped by stronger policy-supported public infrastructure investment in Asia, especially China. The latter also contributed to an upturn in commodity prices.

In its second estimate for the first quarter of 2017, the Bureau of Economic Analysis (BEA) revised the United States growth upwards from 0.7 percent to 1.2 percent on an annual basis. This adjustment was due to larger increases in nonresidential fixed investment and personal consumption expenditures (PCE), as well as smaller decreases in state and local government spending.⁶ The deceleration in real GDP in the first quarter, when compared to the last quarter of 2016, reflected primarily a downturn in private inventory investment and a slowdown in PCE that were offset partially by an upturn in exports and an acceleration in nonresidential fixed investment. The World Bank expects growth in the United States to recover to 2.1 percent in 2017, based on an appreciable pickup in private investment. Upside risks to the United States recovery are tax cuts and infrastructure programs that could lead to stronger than expected growth in the short term. On the other hand, substantial changes in trade policies pose a downside risk to growth.

The ECB notes the ongoing economic expansion in the euro area is increasingly resilient and has broadened across sectors and countries. In the first quarter of 2017, the euro area real GDP increased by 0.6 percent (Q-o-Q), after growing 0.5 percent in the last quarter of 2016.⁷

⁵ OECD Economic Outlook, Volume 2017, Issue 1. OECD 2017

⁶ National Income and Product Accounts News Release, May 26, 2017. Bureau of Economic Analysis.

⁷ Economic Bulletin, Issue 4, 2017. European Central Bank.

Domestic demand remained the main engine behind growth in the first quarter of 2017. Euro area labor markets continue to improve, thus supporting income and spending.

An improved external environment has led to a rebound in euro area export momentum, and incoming data point to solid growth in the second quarter of 2017. The World Bank expects the accommodative monetary policy to help sustain domestic demand in the near term. Additionally, the recovery in private investment and export growth is expected to continue, while private consumption decelerates. On balance, growth is projected to remain at 1.7 percent in 2017. In 2018-19, growth is expected to moderate to 1.5 percent, as economic slack diminishes and the ECB gradually unwinds exceptional policy measures. However, policy uncertainties cloud the prospects and remain a risk to the projected economic expansion.

Growth in Japan accelerated in 2017, supported by a recovery in external demand. Business investment has gained momentum, and the pickup in capital spending has been supported by elevated corporate profits as well as preparations for the 2020 Tokyo Olympics. While headline inflation was positive, inflation expectations remain low. Moreover, continued accommodative monetary and fiscal policies should support growth. As such, the World Bank projects growth to edge up to 1.5 percent in 2017 and moderate to 1.0 percent in 2018. In 2019, growth is forecast to slow to 0.6 percent, as a planned consumption tax hike is implemented. In China, steady growth continued in early 2017. Easing state-driven investment growth was offset by bolstering export growth against the backdrop of robust consumption growth and still-weak private sector investment growth. The World Bank projects growth to slow to 6.5 percent in 2017 and expects trade to strengthen, imports to experience a moderate recovery, and exports to accelerate gradually. Growth is expected to ease to 6.3 percent on average in 2018-19, as stimulation policies are slowly withdrawn.

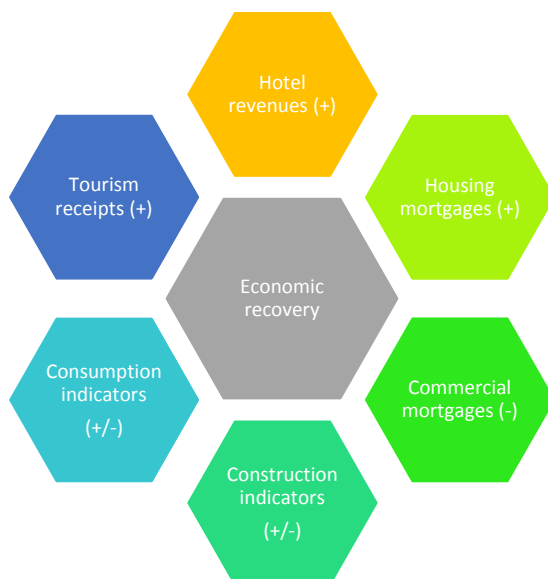
Although recent data suggest that the Latin American and Caribbean economy is stabilizing after two years of contraction, the recovery is expected to be subdued in the short term. The World Bank projects real growth to reach 0.8 percent in 2017, supported by ascending private consumption and a decelerating contraction in investment, despite a slowdown in Mexico as uncertainty about U.S. economic policy dents confidence. Regional growth is expected to accelerate to an average of 2.3 percent in 2018-19, as the recoveries in Brazil and other commodity exporters advance. The main downside risks to the outlook arise from domestic political and policy uncertainty, and from possible policy changes in the United States.

According to the United Nations, Caribbean economies are projected to grow in real terms by an average of 2.4 percent in 2017.⁸ This rebound is predicated essentially on the recovery of the Caribbean goods producers coupled with quickening growth among the service economies, mainly through increased tourism activity. However, there are several downside risks to this relatively optimistic forecast. These risks include uncertainty with respect to U.S. trade, immigration and economic policy; the continued threat of de-risking by international correspondent banks; the region's debt burden; and relatively low commodity prices.

IV. Concluding remarks

In the first quarter of 2017, economic indicators pointed towards an initial recovery of the economy with the buoyant development in the tourism sector as the largest driver. Tourism receipts and hotel revenue increased indicating that the expansion in the U.S. market was sufficient to cancel out the negative effects of the collapse of the Venezuelan market. According to the various indicators, private investment gained traction. The imports of base

⁸ Studies and Perspectives Series, the Caribbean, No. 55. ECLAC.



metals, machinery and electrotechnical equipment expanded substantially. In contrast, the number of construction permits granted decreased (-11.8 percent), although the total value of these permits almost doubled (+97.9 percent). Meanwhile, individual housing mortgages showed a 0.7 percent increase, but commercial mortgages fell by 1.3 percent.

Consumption indicators continued to paint a mixed picture in the first quarter of 2017.

Consumer credit recorded a decrease of 2.3 percent in the first quarter compared to December 2016. Tax revenue data on the other hand does seem to point towards consumption growth. The revenues from the turnover tax (BBO) and import duties showed increases of 9.6 percent and 2.9 percent, respectively, in part due to higher collection efforts. The proceeds from excises grew by 48.9 percent fueled by a significant rise on excises on tobacco (due to the pre-purchase of stamps) along with overdue payments by the FMSA (Fuel Marketing & Supply Aruba) related to excises on gasoline. Without these one-time effects, it is estimated that the earnings from excises would still show a substantial growth.

At the end of the first quarter of 2017, the cash-adjusted financial deficit of the government totaled Afl. 93.4 million, financed mainly through a government bond issue on the domestic market. Total government debt amounted to Afl. 4,090.8 million, an increase of Afl. 65.5 million during the quarter under review. As a result, the debt-to-GDP ratio again surpassed the 85 percent mark, reaching 85.4 percent.

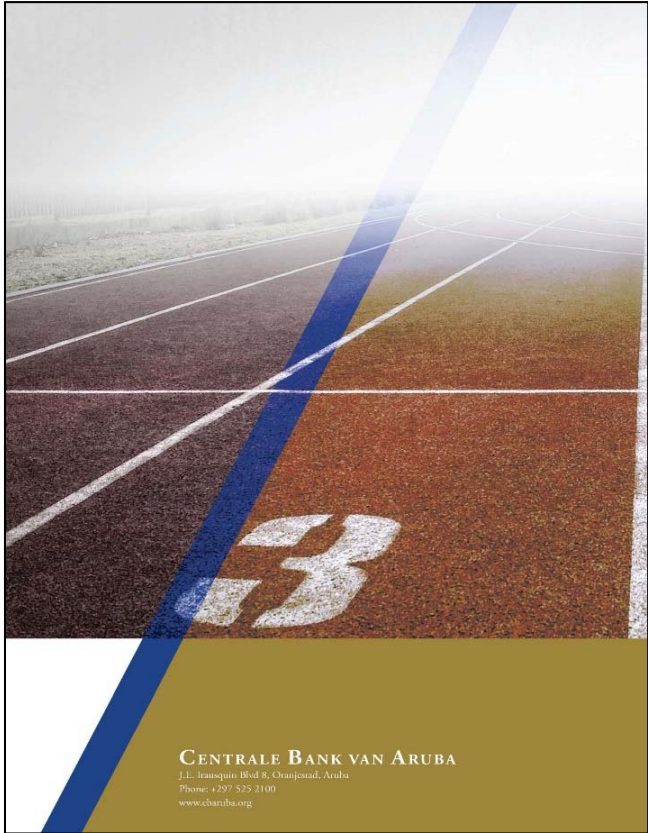
In the first quarter of 2017, the balance of payments registered an Afl. 41.7 million surplus compared to an Afl. 103.1 million surplus in the first quarter of 2016. The former surplus was the result of a current account surplus, partially diminished by a deficit in the capital and financial account. Stronger inflows related to tourism and to a lesser extent, lower payments for oil imports were primarily responsible for the current account surplus. Official reserves realized a small growth in the first quarter of 2017 (+Afl. 18.8 million). Consequently, total reserves (including revaluation differences) reached a level of Afl. 1,952.7 million. The import

coverage ratio stood at 5.4 months, which is 0.2 months lower than at the end of the first quarter of 2016.

Table: Main economic indicators first quarter of 2017

Indicator	2016 Jan-Mar	2017 Jan-Mar	Change
Tourism receipts (Afl. million)	842.8	872.5	29.7
Stay-over visitors	310,255	263,565	-46,690
Total cement imported (1000 kg.)	15,449	13,639	-1,810
Turnover tax receipts (Afl. million)	23.4	25.6	2.2
Taxes on income and profit (Afl. million)	117.9	76.9	-41.0
Twelve-month average rate of inflation (end-of-period, percent)	0.0	-0.7	-0.7
Consumer confidence index (first quarter, index points)	94.5	96.0	1.5
Government debt (end-of-period, Afl. million)	3,952.1	4,090.8	138.7

Sources: CBA, ATA, CBS.



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