

STATE OF THE ECONOMY

First two quarters of 2017

ABSTRACT

During the second quarter of 2017, the Aruban economy continued on a path of recovery. Tourism figures improved with growth in tourism receipts, hotel revenue, and expansions in the North American and the (non-Venezuelan) Latin American markets. Both private investment and private consumption increased, while the price level in Aruba remained virtually flat.

Centrale Bank van Aruba

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I. Domestic developments: positive consumption and investment data¹

Economic growth

The Aruban economy continued to demonstrate resilience in the second quarter of 2017. Tourism figures improved with growth in tourism receipts and hotel revenue, resulting from expansions in the North American and the (non-Venezuelan) Latin American tourist markets. Both private investment and private consumption expanded, while the price level in Aruba remained virtually flat.

Tourism

The tourism sector performed well in the first half of 2017. The underlying growth of visitors and nights (i.e., excluding Venezuelan visitors) accelerated, tourism spending soared and the harbor welcomed more ships and passengers. In relative terms, Aruba's tourism performance compares favorably to its competitors in the Caribbean (Table 1).

The number of stay-over visitors fell by 8.7 percent in the first half of 2017 compared to the same period in 2016. Nevertheless, market fundamentals were solid, led by a strong U.S. market that grew by 8.7 percent during the period under review. The European market performed well as the number of visitors from the Netherlands, Germany, and the United Kingdom expanded (Table 2). The decrease in the total number of visitors was caused by the crumbling of the Venezuelan market (i.e., -69.2 percent) in the first half of 2017. The growth in the number of

¹ The cut-off date for information published in the State of the Economy for 2017Q2 was December 6, 2017.

Table 1: Tourism indicators for Aruba and the Caribbean (Jan-Jun)

Indicator	Aruba	Caribbean
Stay-over visitors (growth)	-8,7	3,5
excl. visitors from Venezuela	7,6	-
Average length of stay	7,4	-
Cruise visitors (growth)	15,6	4,4
Hotel occupancy	84,2	70,8
RevPAR (US\$)	218	157

Sources: ATA, AHATA, APA, CTO, STR

Table 2: Growth in stay-over tourists (Jan-Jun) and market share

Country	Growth percentage	Market share (2017)
Argentina	58,3	2,9
Germany	38,3	0,5
Colombia	18,4	2,9
Canada	10,7	5,0
United States	8,7	67,7
United Kingdom	8,5	1,4
Netherlands	5,7	3,4
Suriname	-17,4	0,5
Curaçao	-22,4	1,3
Venezuela	-69,2	7,1

Source: ATA

Chart 1: Stay-over visitors

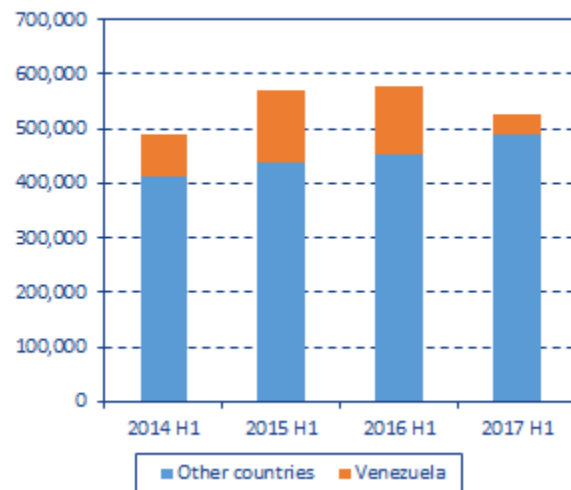


Table 3: Average length of stay (Jan-Jun)

Country (group)	2016	2017
Total	7,0	7,4
North America	7,2	7,1
Latin America	5,4	7,0
of which Venezuela	4,5	6,1
Europe	11,4	11,3
of which Netherlands	12,5	12,6
Caribbean	5,5	6,0
of which Suriname	6,4	7,5
of which Curaçao	4,5	4,8
Other countries	10,8	9,6

Source: ATA

visitors from other Latin American countries, such as Colombia and Argentina, provided a more favorable picture. The number of visitors from Suriname and Curaçao declined substantially, due largely to a lower number of inbound seats. Excluding the Venezuelan market, total number of visitors increased by 7.6 percent (Chart 1).

The impact of the collapse of the Venezuelan market also is noticeable in the overall number of visitor nights, which fell by 3.0 percent. Venezuelan tourists tend to stay for a short time only. The fall-out of Venezuelan tourists visiting Aruba has had an upward influence on the average length of stay of the Latin American visitors (Table 3). Total average length of stay increased from 7.0 to 7.4 days.

AHATA reports indicate that the hotel sector performed well in the first six months of 2017. Average room occupancy grew by 5.6 percentage points to 84.2 percent, while the average daily room rate increased by 3.3 percent to US\$ 259. All the hotel subsectors contributed to this development, with the exception of the smaller independent beach front hotels as one of them was partially closed for renovation.

International indicators suggest that hotels in Aruba outperformed the average Caribbean peer. While the average hotel room occupancy traditionally has been maintained at a higher level in Aruba compared to its Caribbean competitors, the region increased by only 0.2 percentage points during the same period reaching 70.8 percent.

A total of 183 cruise ships entered the harbor in the first six months of 2017, an increase of four ships. However, in terms of passengers the recorded growth was 15.6 percent in the same period, suggesting a higher average capacity of the ships that visited Aruba. Royal Caribbean had considerably more calls during this period compared to last year, thus more than compensating for the loss incurred by the temporary departure of Pullmantur.

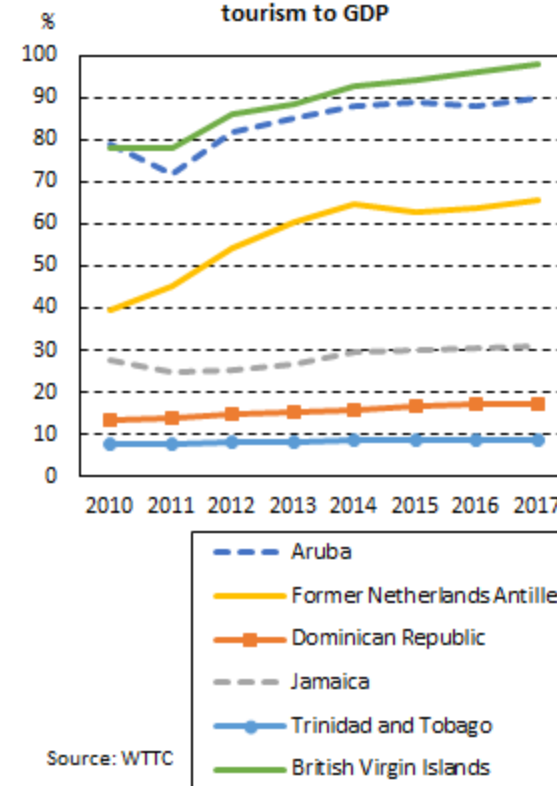
Tourism receipts grew by 4.7 percent in the first six months of 2017 and is one of the prime engines behind Aruba's initial economic recovery. According to estimates by the WTTC, Aruba's economy is one of the most heavily concentrated on tourism. Even compared to its Caribbean peers, Aruba's economy has been relatively concentrated on tourism with an estimated 89.9 percent of economic activity generated either directly, indirectly or induced from this sector. The induced contribution measures the income and jobs supported by the spending of those directly or indirectly employed by the travel and tourism industry. Worldwide, this level of concentration is surpassed only by the British Virgin Islands; most Caribbean island economies depend on tourism for less than half of their output (Chart 2).

Investment

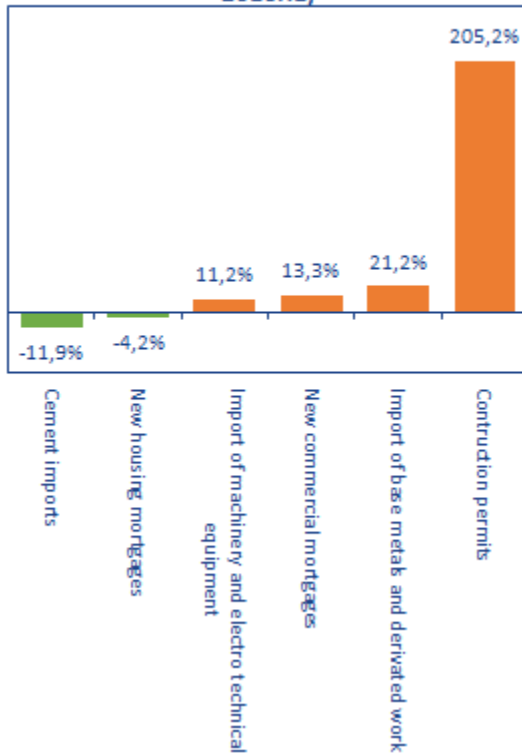
According to several indicators, private investment accelerated in the first two quarters of 2017. Noticeable is the tripling in the value of construction permits compared to the same period of 2016, due to two large tourism-related projects in Oranjestad. In contrast, the number of construction permits grew by 4.7 percent. Imports of machinery, equipment and base metals increased significantly, related to projects from the utility companies WEB and Elmar (Chart 3). Cement imports declined, in part related to the high imports for the Green Corridor in 2016. In the first half year of 2017, the level of cement imports was higher than the corresponding periods of 2014 and 2015.

On the other hand, refinery-related investments remained relatively subdued. Refurbishment activity has been postponed. In May of 2017, preparations started for the construction of the ring road (Watty Vos Boulevard). Significant ongoing projects are the continuation of the Green Corridor, the airport hotel and the Dr. Horacio E. Oduber Hospital.

Chart 2: Total contribution of tourism to GDP



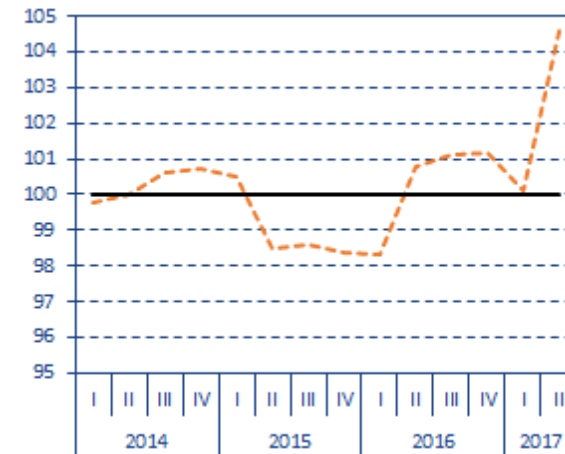
**Chart 3: Investment-related indicators
(value percentage change 2017H1 to
2016H1)**



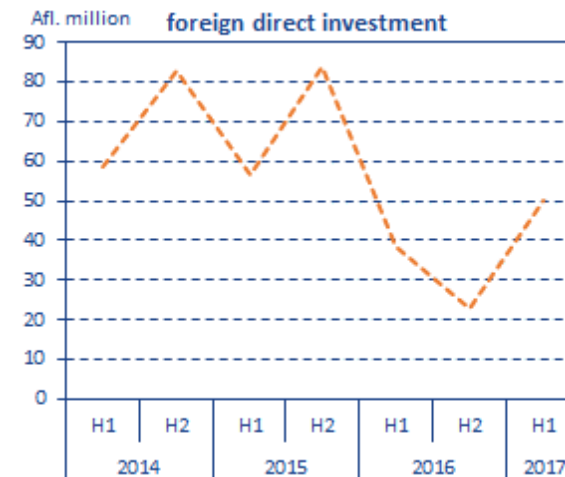
The business perception index showed remarkable improvement in the second quarter of 2017 (Chart 4). The index of 104.6 is the highest recorded figure in more than four years indicating growing confidence in the Aruban economy. This confidence is most apparent in the sectors related to transportation, financial intermediation, and real estate. On the other hand, hotels and restaurants showed relatively less optimism, most likely due to the low season in the second quarter and the continued regional and international geo-political uncertainties.

In the first half year of 2017, net inflows related to real estate in foreign direct investments were Afl. 50.2 million, Afl. 12.0 million higher than the half-yearly net inflows in 2016. Nevertheless, the higher level of net inflows in 2014 and 2015 were not realized (Chart 5).

Chart 4: Business perception index



**Chart 5: Real estate net
foreign direct investment**



Consumption

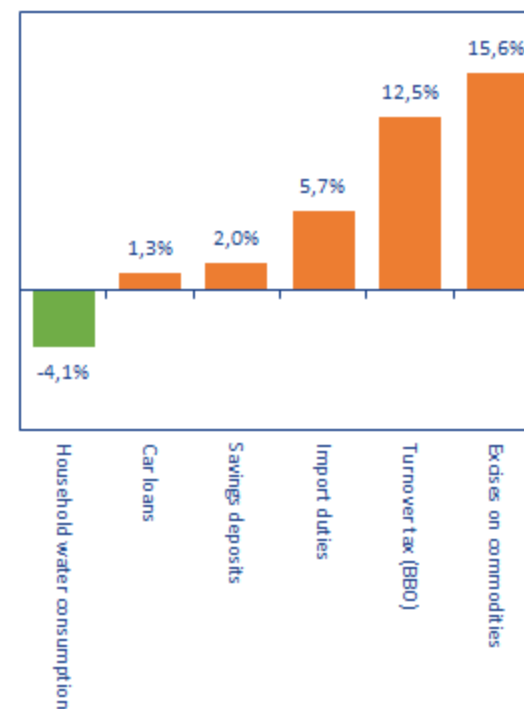
After a lackluster start in 2017, the level of consumption picked up in the second quarter of the year. Consumption-related taxes such as the turnover tax and excises increased significantly. However, it is likely that this increase also was influenced by higher compliance rates due to increased collection efforts by the Tax Department. The value of total outstanding car loans grew modestly (+1.3 percent). Car sales by dealers jumped in the second quarter of the year (+27.6 percent). Noticeable is the quadrupling of sale of hybrid cars. However, the share of hybrid cars in the total number of cars sold by dealers in the first half of 2017 remained relatively low (0.9 percent).

Water consumption by households decreased considerably in the period under review. This is not surprising as data from the Meteorological Department of Aruba show that the amount of rainfall in the first six months of 2017 was considerably higher - on average 181 mm against 40 mm in 2016. Furthermore, continued energy- and water-saving efforts by Aruban households also may influence water consumption.

Unlike business perception, the consumer confidence index deteriorated in the second quarter of 2017. Consumer sentiment stood at 94.4, indicative of relatively pessimistic sentiments. Nevertheless, consumers were positive about their present personal financial situation. Most other components in their present situation also had less pessimistic outcomes. The expectations of consumers dropped significantly, driven largely by a negative outlook on the government's financial position and future job prospects.

On balance, individuals were saving in the period under review. Total savings deposits at the end of the second quarter of 2017, compared to December 2016, showed an increase of 2.0 percent. The increase in savings was much larger in the same period of 2016 suggesting that

Chart 6: Consumption-related indicators (percentage change 2017H1 vs. 2016H1)




while consumers are still saving, they are saving at a relatively slower pace. A summary of the main consumption indicators can be found in Chart 6.

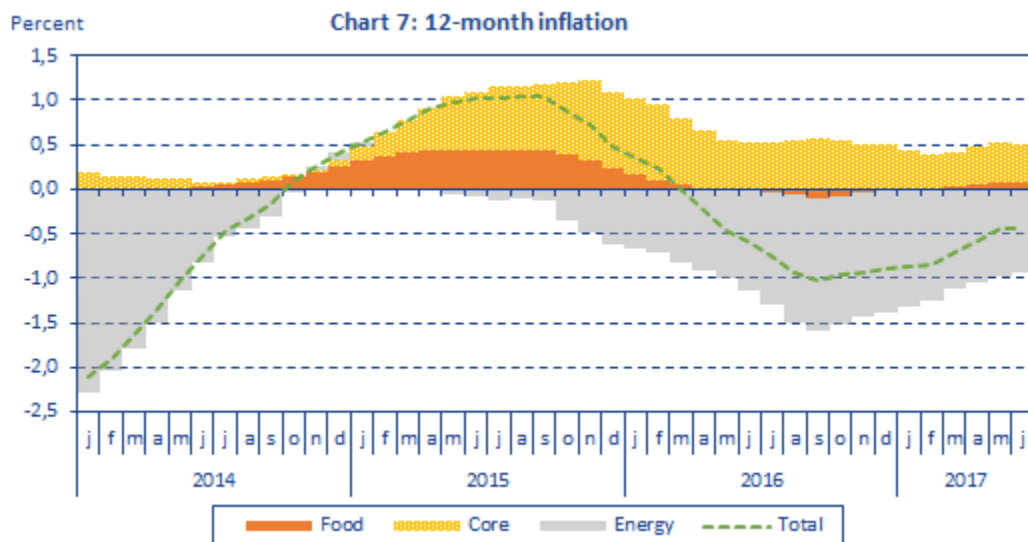
Foreign trade

In the first two quarters of 2017, Aruba's foreign trade deficit was Afl. 72.4 million larger than in the corresponding period of 2016. An increase in imports of goods along with stable exports resulted in a deficit of Afl. 929.7 million. All the main import categories posted growth figures. Next to investment goods, the import value of animal-related goods grew substantially (+9.7 percent). By far the largest trading partner remains the United States, with a market share of 57.7 percent, followed by the Netherlands (12.5 percent). The total value of exports increased by Afl. 0.7 million (+1.5 percent).

Consumer Price Index (CPI)

In June 2017, the 12-month average of the CPI remained in negative territory, resulting primarily from continued low electricity tariffs, which were reduced about 14 percent in January 2017. Core components have been consistently positive, registering an increase of 0.4 percent in June 2017 (Chart 7). Energy prices weighed down the 12-month inflation, driven by the reduction of the electricity tariffs. On the other hand, the prices for gasoline and diesel increased over the first 6 months of 2017 but their influence on the 12-month CPI was minor (+0.1 percent).





In the second quarter of 2017, Aruba’s real exchange rate relative to that of the United States dropped by 2.3 percentage points compared to the same quarter in 2016 (Chart 8). According to the latest IMF Article IV report, Aruba’s real effective exchange rate has been depreciating 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 risk to competitiveness, as the U.S. market still has the largest share of trade and tourist arrivals.²

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

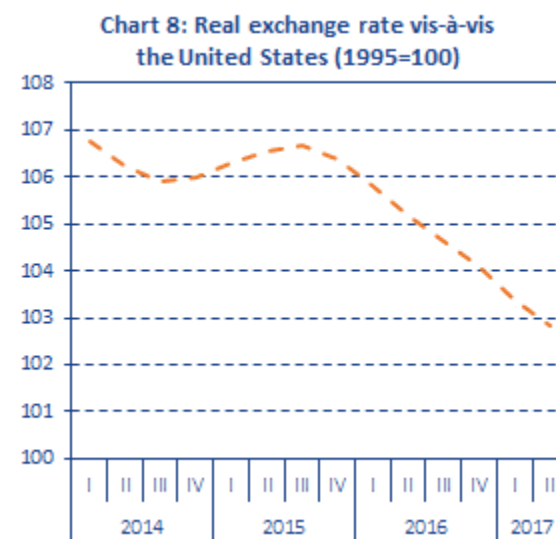
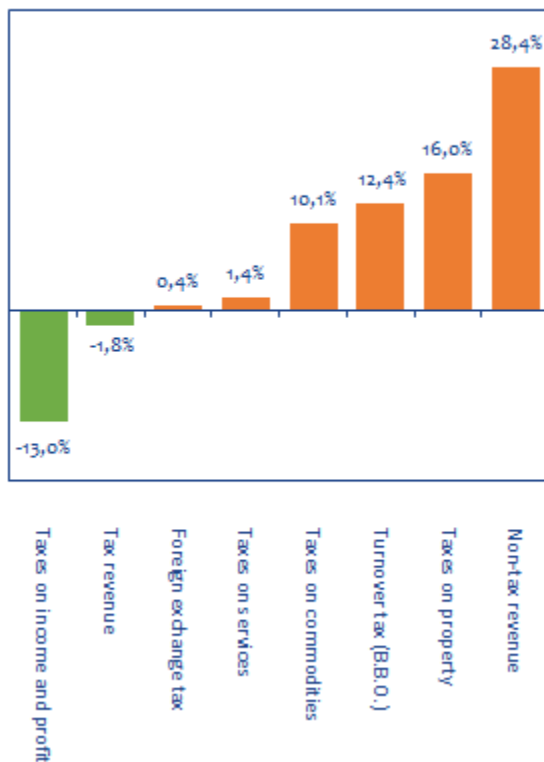


Chart 9: Government revenue
(percentage change 2017H1 vs 2016H1)



Government

In the first two quarters of 2017, total government revenue increased by 0.8 percent to a total of Afl. 607.4 million. Tax revenue fell by 1.8 percent driven by a significant decline in the proceeds from the profit tax (-Afl. 42.0 million) mitigated by increases in, among other things, income from taxes on commodities (+Afl. 13.2 million), taxes on property (+Afl. 7.1 million), and the turnover tax (+Afl. 5.8 million). Although a change in the profit tax law means that profit taxes are now due in the second quarter, the expected pick-up in profit tax revenue materialized only partly in this quarter. The increase in the proceeds from taxes on commodities is incidental in part because of higher collection efforts, a significant rise in excises on tobacco (due to the pre-purchase of stamps) and beer and import duties. Foreign exchange tax income remained virtually the same in the reporting period. Nontax revenue increased by Afl. 14.7 million in the first half year of 2017 (Chart 9).

Total government expenditure (cash adjusted) amounted to Afl. 681.4 million, which is Afl. 7.4 million (or 1.1 percent) lower than in the same period in 2016. Declines in personnel expenses (-Afl. 17.5 million) and in transfers to the AZV (-Afl. 8.9 million) caused the decrease in government expenditure. On the other hand, increases were recorded in transfers and subsidies (+Afl. 17.2 million) and development fund spending (+Afl. 8.6 million). Total unmet financial requirements reached Afl. 71.3 million at the end of the second quarter of 2017, a decrease of Afl. 11.1 million. Mainly because of lower unmet financing requirements, the cash-adjusted financial deficit of the government declined from Afl. 23.7 million in June 2016 to Afl. 4.9 million at the end of the second quarter of 2017.

At the end of June 2017, total government debt amounted to Afl. 4,188,6 million, an increase of Afl. 163.3 million in the half year under review. Total foreign debt of the government declined by Afl. 37.9 million to Afl. 2,171.2 million. In February, April, and June 2017, the government issued bonds on the local market with an aggregated amount of Afl. 314.1 million (10-year maturity), thereby expanding the domestic component of its debt to 48.2 percent. As a result, the debt-to-GDP ratio rose to an unprecedented 87.7 percent (Chart 10).

Monetary survey

Money supply decreased by 0.8 percent to Afl. 4,134.2 million in June 2017 compared to December 2016. This drop was due mainly to an Afl. 39.6 million contraction in domestic assets caused predominantly by an increase in government deposits from Afl. 57.8 million in December 2016 to Afl. 156.1 million in June 2017. The foregoing was mitigated in part by the drawing down of development fund deposits from Afl. 48.8 million to Afl. 16.1 million in the same period. The net foreign assets had only a marginal effect (+Afl. 6.3 million) on the money supply. Overall, the favorable development during the period under review resulted in the maintenance of the net foreign assets position comfortably above the critical norms monitored by the Monetary Policy Committee (MPC) of the CBA.

Domestic credit extended to the private sector by the monetary sector expanded by 0.3 percent to Afl. 3,027.3 million in June 2017 compared to December 2016. This increase was carried by an increase of 2.1 percent in housing mortgages, while consumer credit and business loans contracted by 0.5 and 1.1 percent, respectively (Chart 11).

The weighted average interest rate on new loans declined from 7.5 percent in the fourth quarter of 2016 to 6.4 percent in the second quarter of 2017, reflecting mainly lower interest rates on commercial loans. Consequently, the interest rate margin decreased to 5.0 percent,

Chart 10: Estimated debt-to-GDP ratio
Aruba

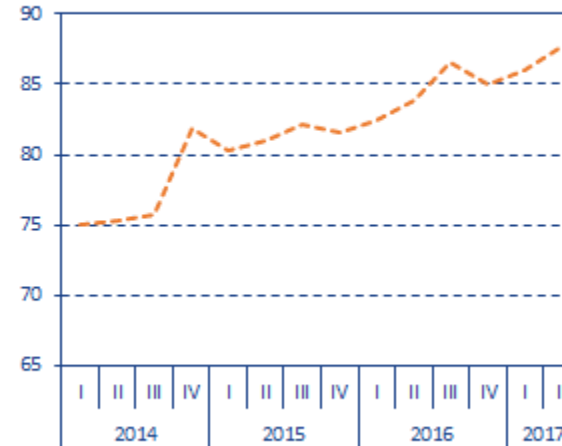
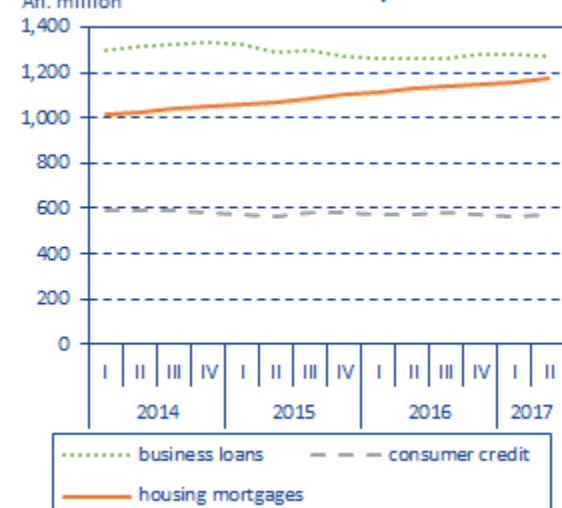
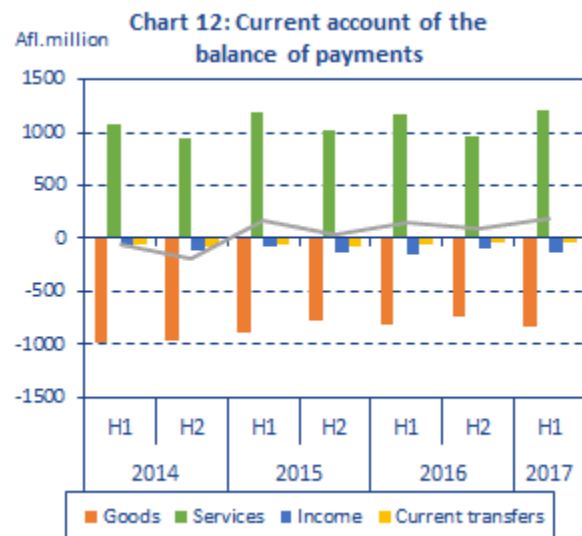


Chart 11: Credit components





the lowest margin recorded since 1998. 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.

Balance of payments

In the first two quarters of 2017, the balance of payments registered an Afl. 6.3 million surplus compared to an Afl. 345.5 million surplus in the first two quarters of 2016. The smaller surplus of 2017 was realized because a large current account surplus was largely offset by a deficit in the capital and financial account.

The surplus on the current account of the balance of payments amounted to Afl. 170.7 million (2016H1: Afl. 149.2 million) (Chart 12). Stronger inflows related to tourism (+Afl. 71.7 million) were the main reason for this surplus. These tourism-related inflows more than compensated for a worsening of the goods deficit and higher payments for travel and transportation services. Aruba's net income from services rose by 3.2 percent to Afl. 1,202.1 million in the first two quarters of 2017.

The income account displayed a deficit of Afl. 136.2 million, somewhat lower than the deficit in the first half year of 2016 (Afl. 146.8 million). Lower dividend payments to abroad from resident companies were the main reason for this decline. The development within the current transfers is determined mainly by income transfers to abroad by foreign personnel in Aruba (workers' remittances). Compared to a year earlier, the corresponding half-yearly net current transfers outflow decreased by Afl. 16.6 million to Afl. 49.5 million.

The capital and financial account registered an Afl. 151.3 million deficit, compared to an Afl. 216.6 million surplus in the same period of 2016. This deficit was due mainly to substantially

lower incoming foreign direct investment as well as net outflows in the portfolio investment account. An Afl. 15.4 million outflow related to migrants' transfers and an Afl. 6.9 million capital transfer inflow by the government resulted in an Afl. 8.5 million deficit on the capital account.

Direct investments (non-oil sector) saw a net inflow of Afl. 32.1 million. This surplus was caused mainly by net real estate investment. Next to the Afl. 50.2 million net inflows related to real estate, inflows of other equity from nonresidents amounted to Afl. 31.8 million, while intercompany loans were granted to the net amount of Afl. 57.0 million. Compared to 2016, this surplus in the first half of 2017 was much lower as the levels of flows related to intercompany loans were considerably lower in 2017. The oil sector noted a small deficit in the direct investment account, fully related to trade credit transactions. The balance of the portfolio investment account turned around from a large surplus (Afl. 162.6 million) to a deficit of Afl. 81.4 million. The main explanation for this reversal is that in May 2016 two large US\$-denominated local government debt securities were issued while no government debt securities were issued in 2017. The deficit in the portfolio account was caused mainly by the net purchase of long-term foreign debt securities by local investors (in the amount of Afl. 57.6 million) and the repayment of matured local government bond securities to nonresidents (Afl. 36.5 million). The financial derivatives account recorded an Afl. 25.0 million outflow in the period under review, related to hedging expenses for the acquisition of Heavy Fuel Oil (HFO). The Afl. 61.9 million outflow in the other investment account was mainly the result of changes in foreign bank accounts.

In the first half year of 2017, official reserves realized a small decline (-Afl. 11.8 million). Consequently, total foreign assets reserves (including revaluation differences) reached Afl. 1,917.9 million. The import coverage ratio stood at 5.5 months, which is 0.2 months lower than at the end of 2016.

II. Results of the credit card survey

Introduction

The level and development in credit and consumer credit, particularly at the commercial banks, is monitored on a regular basis. One type of consumer credit gaining more attention from the Monetary Policy Committee (MPC) of the Centrale Bank van Aruba (CBA) is credit card loans granted to consumers. The increased interest on these cards is because this instrument is a relatively expensive form of debt. Credit card loans account for about 18 percent of the total consumer credit portfolio of the commercial banks and thus are a significant source of funding of the household sector (Table 1). Given the importance of this form of loan and the lack of information on movements in outstanding credit card loans from existing reporting forms, the Credit Card Survey (CCS) was introduced for the banking sector. The results of the CCS for the fourth quarter of 2015 up to and including the second quarter of 2017 are presented here.

Table 1: Consumer credit and credit card loans (Afl. millions)

	2015	2016				2017	
	IV	I	II	III	IV	I	II
Total credit card loans	103,9	104,4	107,4	108,3	106,5	104,0	103,8
Total consumer credit	618,8	602,9	596,8	597,8	587,6	574,1	579,8
Credit card loans to total credit (%)	16,8	17,3	18,0	18,1	18,1	18,1	17,9

Credit card portfolio

The number of credit cards issued by the commercial banks rose albeit slowly during the period under review, from 40,912 active credit cards in the last quarter of 2015 to 45,896 active credit cards in the second quarter of 2017 (Table 2). The Visa credit card is the preferred brand amongst the customers of the banking sector with a market share of 68 percent, followed by the MasterCard with 28 percent as of the second quarter of 2017. Other credit cards have only a small market share (Chart 1).

During the last seven quarters, newly issued credit cards varied somewhat but peaked at 2,514 issued credit cards in the second quarter of 2017. The number of inactive credit cards (credit cards that have yet to be activated or have expired) remained relatively stable but accelerated in the second quarter of 2017. This acceleration probably was caused by the high number of newly issued cards, some of them not yet activated. The number of accounts linked to a credit card account grew consistently during the period under review; the largest change was recorded again in the second quarter of 2017, up by 2,198 credit card accounts to 45,896 accounts.

Chart 1: Credit cards issued by commercial banks

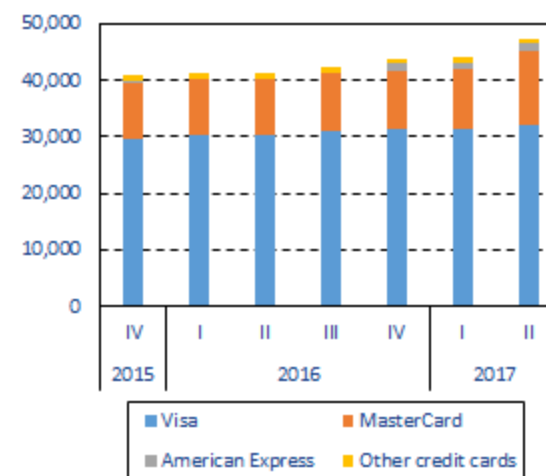
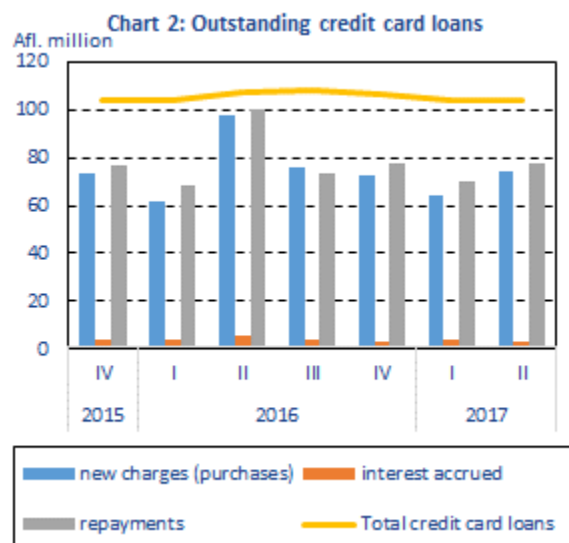


Table 2: Number of active credit cards and credit card cardholders (absolute figures)

	2015	2016				2017	
	IV	I	II	III	IV	I	II
New credit cards issued	834	773	1,116	1,033	723	647	2,514
Inactive credit card accounts	8,079	8,866	8,565	8,326	9,246	9,866	12,013
Total credit card accounts	40,912	41,638	41,785	42,734	43,279	43,698	45,896



Outstanding credit card loans

Outstanding credit card loans grew consistently in the first three quarters of 2016. The highest growth was recorded in the second quarter of 2016 with an Afl. 3.5 million increase. This increase was attributed mainly to an Afl. 35.5 million increase in purchases or charges made to credit cards and was offset largely by higher credit card repayments of Afl. 32.1 million. Outstanding credit card loans declined slightly in the last three quarters under review to Afl. 103.8 million. In addition, outstanding credit card loans pertains overwhelmingly to the household sector, as their share in credit card loans is more than 90 percent. The average level of credit card loans granted to clients by the commercial banks can be estimated by dividing the total outstanding credit card loans by the total number of credit cardholder accounts. The average credit card loan per borrower varied between a low of approximately Afl. 2,262 in the second quarter of 2017 and a high of Afl. 2,570 in the fourth quarter of 2016.

Nonperforming credit card loans

Nonperforming credit card loans rose steadily in the first two quarters of 2016 and stood at Afl. 10.4 million as per end-June 2016. This upward trajectory came to a halt as it declined to Afl. 8.6 million at the end of 2016. In the first two quarters of 2017, it increased again to Afl. 9.7 million. The largest nonperforming credit card loans category pertained to the “loss” class (more than 365 days past due), which ranged between Afl. 3.3 million and Afl. 5.0 million. However, in the fourth quarter of 2016, the “doubtful” category (181-365 days past due) became the largest category.

Allocated loan loss provisions on credit card loans

The balance of the allocated loan loss provisions remained relatively stable during the entire period surveyed. Nevertheless, in the second and fourth quarter of 2016, some noteworthy movements were recorded. In the second quarter of 2016, Afl. 0.7 million was charged to the income statement, while in the fourth quarter of 2016, provisions were charged to the income statement as well as write offs of Afl. 1.6 million and Afl. 1.4 million, respectively.

The level of nonperforming credit card loans surpassed the provisions against these loans. However, the level of provisions was relatively high and has been increasing, reaching 87.8 percent in the second quarter of 2017 (Table 3). Furthermore, the nonperforming credit card loans (gross) to total credit card loans (gross) was relatively steady with limited movement. The level of nonperforming credit card loans (gross) to total credit card loans (gross) varied between a low of 8.1 percent and a high of 9.6 percent. As noted, the nonperforming credit card loans net of provisions were lower, as the provisions formed against the credit card loans were relatively high.

Table 3: Nonperforming credit card loans gross ratios

	2015	2016				2017	
	IV	I	II	III	IV	I	II
Nonperforming credit card loans to credit card loans	8,9	9,4	9,6	9,4	8,1	8,4	8,1
Provisions to nonperforming credit card loans	73,1	70,8	72,8	70,1	80,4	83,2	87,8
Nonperforming credit card loans to credit card loans (net of provisions)	2,4	2,7	2,6	2,8	1,6	1,4	1,0

III. International developments

The global economy gained momentum in the first half year of 2017. This momentum was reflected in stronger domestic demand growth in advanced economies and also in some emerging markets. Global investment continued on an increasing path, which stimulated manufacturing activity while world trade was more subdued in the second quarter. Indicators show that growth developments will continue in the third quarter of 2017. The IMF has revised its global growth projections based on recent information with world GDP estimated to grow by 3.6 percent in 2017.³

Several advanced economies grew in the second quarter, the United States among them. Consumption and business investments strengthened in the second quarter, related to a recovery in the energy sector. Labor market conditions also intensified resulting in an increase in the overall labor force participation rate in June.⁴ In the second quarter of 2017, GDP grew by 3.1 percent, significantly higher than the growth rate of 1.2 percent in the first quarter. The third quarter will be challenging for some parts of the United States due to the hurricanes that hit the country. Labor conditions continued their path in the second quarter, and GDP appears likely to expand according to data before the hurricanes. Preliminary data indicate that the hurricanes (Harvey and Irma since estimations for the full effect of Maria were beyond the scope of the data) will have only a negative economic effect in the short term.⁵ The IMF has projected the U.S. economy will grow by 2.2 percent in 2017 attributable to supportive financial conditions and strong business and consumer confidence.⁶

³ World Economic Outlook, October 2017, IMF

⁴ Minutes of the Federal Open Market Committee, July 25-26, 2017, FED

⁵ Minutes of the Federal Open Market Committee, September 19-20, 2017, FED

⁶ World Economic Outlook, October 2017, IMF

In Europe, the euro area economy continued to expand in 2017. According to the ECB, domestic demand was the main driver for the expansion in the second quarter when real GDP grew by 0.6 percent. Private consumption was supported by gains in employment (attributed to past labor market reforms). In addition to domestic demand, minor contributions from net exports pushed this growth, which materialized in the industry, construction, and services sectors.⁷ The IMF projects that exports will pick up due to global trade developments and will push the euro area growth to 2.1 percent in 2017.⁸

Growth is projected for advanced economies in 2017. The economies of Canada, the United Kingdom, and Japan are all anticipated to grow in 2017. The projected expansion of the Canadian economy (3.0 percent) is related to oil developments and adjusted fiscal and monetary policies. The U.K.'s moderated growth of 1.7 percent will be driven by softer growth in private consumption due to a depreciation of the British pound. Japan is forecasted to grow by 1.5 percent because of, among other things, global demand and fiscal policy actions.⁹

High domestic demand supported China's growth in the first half of 2017. Growth for 2017 is expected to reach 6.8 percent due to a strong first half of 2017 highlighted by policy easing and supply-sided reforms. The rest of emerging Asia also is projected to grow strongly, with India's GDP reaching 7.1 percent in 2017.¹⁰

Latin America and the Caribbean are projected to grow by 1.1 percent in 2017. All the Latin American countries are expected to grow in 2017 with the exception of Venezuela. Private consumption and investment are the main drivers of the growth in South American countries. Central American countries also are projected to grow with Panama and the Dominican

⁷ Economic Bulletin, Issue 6, 2017, ECB

⁸ World Economic Outlook, October 2017, IMF

⁹ World Economic Outlook, October 2017, IMF

¹⁰ World Economic Outlook, October 2017, IMF

Republic expanding substantially. The growth in this sub region is driven by remittances and favorable economic conditions of the region's trading partners (including the United States). Caribbean countries, Suriname, and St. Lucia are anticipated to contract in 2017 while other English- and Dutch-speaking Caribbean economies are projected to expand by 1.2 percent.¹¹

IV. Concluding remarks

During the second quarter of 2017, the Aruban economy continued on a path of recovery. Tourism figures improved with growth in tourism receipts, hotel revenue, and expansions in the North American and the (non-Venezuelan) Latin American markets. Both private investment and private consumption increased, while the price level in Aruba remained virtually flat.

The tourism sector performed well in the first half of 2017. The underlying growth in the number of visitors and nights (i.e., excluding Venezuelan visitors) has accelerated, tourism spending soared and the harbor welcomed more ships and passengers. In relative terms, Aruba's tourism performance stands favorably compared to its competitors in the Caribbean, when excluding the Venezuelan market.

Private investment accelerated in the first two quarters of 2017. Both construction permits and investment-related imports increased significantly. On the other hand, refinery-related investments remained relatively subdued. A pickup in investment and refurbishment activity is expected towards late 2017 and early 2018. The business perception index showed remarkable growth in the second quarter of 2017, signifying a growing confidence in the Aruban economy.

¹¹ Economic Survey of Latin America and the Caribbean, 2017, ECLAC

This confidence is most apparent in the sectors related to transportation, financial intermediation and real estate.

Consumption indicators suggest that the level of consumption picked up in the second quarter of the year, yet remains subdued. Consumption-related taxes such as turnover tax and excises increased significantly, likely also influenced by higher compliance rates due to increased collection efforts by the Tax Department. Consumer sentiment was relatively pessimistic. Nevertheless, consumers were positive about their present personal financial situation. The expectations of the consumers dropped significantly, driven largely by a negative outlook on the government's financial position and future job prospects.

In June 2017, the 12-month average of the CPI remained in negative territory, primarily because of continued low electricity tariffs. Aruba's real exchange rate relative to that of the United States dropped by 2.3 percentage points compared to the same quarter in 2016. This slight appreciation poses little risk to competitiveness, as the U.S. market still has the largest share of trade and of tourist arrivals.

In the first two quarters of 2017, total government revenue decreased by 0.8 percent to a total of Afl. 607.4 million. Total government expenditure (cash adjusted) amounted to Afl. 681.4 million, which is Afl. 7.4 million (or 1.1 percent) lower than in the same period in 2016. Mainly because of lower unmet financing requirements, the cash-adjusted financial deficit of the government declined from Afl. 23.7 million to Afl. 4.9 million at the end of the second quarter of 2017. At the end of June 2017, total government debt amounted to Afl. 4,188,6 million, an increase of Afl. 163,3 million in the half year under review. Due to three government bond issuances on the local market, the domestic component of governmental debt expanded significantly, thereby rising the debt-to-GDP ratio to an unprecedented 87.7 percent.

The money supply decreased by 0.8 percent to Afl. 4,134.2 million in June 2017 compared to December 2016. Domestic credit extended to the private sector by the monetary sector expanded by 0.3 percent to Afl. 3,027.3 million in June 2017 compared to December 2016. This increase was carried by a 2.1 percent increase in housing mortgages. The weighted average quarterly interest rate on new loans declined significantly to 6.4 percent in the second quarter of 2017, reflecting mainly lower interest rates on commercial loans. Consequently, the interest rate margin decreased to 5.0 percent, the lowest quarterly margin recorded since 1998.

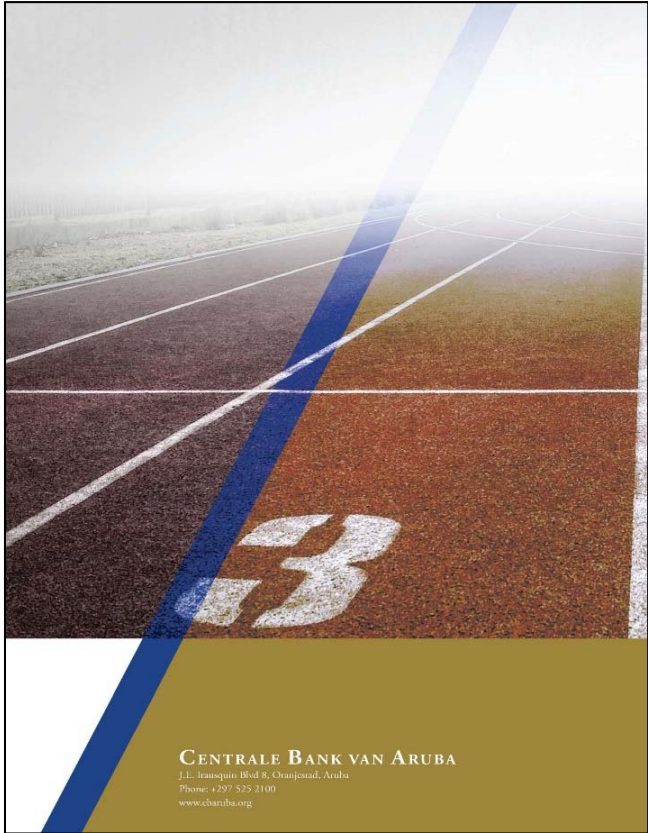
In the first two quarters of 2017, the balance of payments registered an Afl. 6.3 million surplus, compared to an Afl. 345.5 million surplus in the first two quarters of 2016. The (small) surplus of 2017 was the result of a large current account surplus, related to stronger inflows from tourism. Its effects were largely offset by a deficit in the capital and financial account, due mainly to substantially lower incoming foreign direct investment as well as net outflows in the portfolio investment account.

Official reserves realized an Afl. 11.8 million decline. Consequently, total foreign assets reserves (including revaluation differences) reached Afl. 1,917.9 million. The import coverage ratio stood at 5.5 months, 0.2 months lower than at the end of 2016.

Table: Main economic indicators first two quarters of 2017

Indicator	2016 Jan-Jun	2017 Jan-Jun	Change
Hotel revenue per available room (US\$)	197.12	218.14	21.02
Stay-over visitors	576,739	526,743	-49,996
Cruise visitors	376,337	435,137	58,800
Business perception index (second quarter, index points)	100.2	104.6	3.8
Imports of machinery and electrotechnical equipment (Afl. million)	130.4	145.0	14.6
Turnover tax receipts (Afl. million)	46.5	52.3	5.8
Taxes on income and profit (Afl. million)	280.7	244.3	-36.4
Twelve-month average rate of inflation (end-of-period, percent)	-0.6	-0.4	0.2
Consumer confidence index (second quarter, index points)	96.8	94.4	-2.4

Sources: CBA, ATA, CBS.



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