

## STATE OF THE ECONOMY

2017

### ABSTRACT

In 2017, the economy of Aruba experienced a 1.2 percent growth in real terms. The main engine of the expansion was the favorable development of the tourist sector, with substantial increases in tourism receipts, U.S. arrivals, and cruise visitors. These increases were accompanied by a higher average hotel occupancy and revenues per available room (RevPAR). While consumption increased just slightly, the major cause of the economic growth was tourist spending. The sentiments of local (resident) consumers remained relatively negative during 2017.

Centrale Bank van Aruba



# CONTENTS

---

<b>I. Domestic developments</b> .....	1
Economic growth.....	1
Tourism.....	2
Investment .....	4
Consumption.....	5
Foreign trade.....	7
Consumer Price Index (CPI).....	7
Monetary survey .....	9
Balance of Payments .....	10
<b>II. The State of the Digital Economy</b> .....	14
<b>III. International developments</b> .....	16
<b>IV. Concluding remarks</b> .....	18

---

## I. Domestic developments<sup>1</sup>

### Economic growth

In 2017, the economy of Aruba experienced a 1.2 percent growth in real terms (considerably less than anticipated earlier in the year). The main engine of the expansion was the favorable development of the tourist sector, with substantial increases in tourism receipts, U.S. arrivals, and cruise visitors. These increases were accompanied by a higher average hotel occupancy and revenues per available room (RevPAR). While consumption increased just slightly, the major cause of the economic growth was tourist spending. The sentiments of local (resident) consumers remained relatively negative during 2017.

Total level of investment was subpar as a limited number of large projects were initiated to compensate for the projects that were concluded in 2016. However, the confidence of the business sector boomed, reaching a peak in the third quarter of 2017, most likely affected by heightened expectations for the re-opening of the oil refinery. Domestic credit to the private sector rose by 3.8 percent driven by increases in loans to enterprises as well as to individuals. Aruba's level of net foreign assets declined by 3.6 percent to Afl. 1,824.2 million. Although still significantly above the minimum thresholds used by the Centrale Bank van Aruba (CBA), the downward trend in net foreign assets is a matter of concern. The general price level decreased as a consequence of the lowering of utility prices in January 2017. Core inflation was moderate at 0.2 percent.

---

<sup>1</sup> The cut-off date for information published in the State of the Economy is May 18, 2018.

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

Indicator	Aruba		Caribbean	
	2016	2017	2016	2017
Stay-over visitors (growth)	-10.0	-2.9	4.1	1.7
excl. Venezuela	2.2	9.1	-	-
Average length of stay	7.2	7.4	-	-
Cruise visitors (growth)	8.1	20.8	1.8	2.4
Hotel occupancy	79.9	84.6	67.2	66.4
RevPAR (US\$)	181	201	135	136

Sources: ATA, AHATA, APA, CTO, STR

**Table 2: Stay-over tourists in Aruba by home country (most important countries by quantity)**

Home country	Total visitors	Growth (%)
Total	1,070,548	-2.9
excl. Venezuela	973,895	9.1
United States	695,851	10.6
Venezuela	96,653	-53.8
Canada	47,166	12.1
Netherlands	37,246	2.5
Colombia	33,192	14.7
Argentina	27,769	48.6
United Kingdom	19,201	4.2

Source: ATA

## Tourism

**The tourism sector in Aruba performed well in 2017.** Spending by tourists rose, the number of cruise visitors expanded, and the underlying trend in stay-over arrival and visitor night figures demonstrated a significant growth. Nevertheless, the total number of stay-over visitors contracted by 2.9 percent in 2017. In contrast, tourism activities in the Caribbean produced mixed results in 2017, as 13 of 23 Caribbean destinations monitored by the Caribbean Tourism Organization (CTO) recorded an increase.<sup>2</sup> On average, the region registered a 1.7 percent gain (Table 1).

**A number of hurricanes impacted much of the Caribbean in 2017.** Aruba profited from this impact as tourists changed their travel itineraries towards Aruba. The U.S. market was determinant for the results throughout the Caribbean, growing in half of the Caribbean tourism destinations. The 10.6 percent growth registered in Aruba from the U.S. market was larger than the average growth of this market in the Caribbean. This was also the case for the Canadian and European markets. However, despite the impressive performance from the U.S. market, the setback in Venezuelan arrivals (-53.8 percent) contributed to an overall negative result in tourist arrivals. Excluding the Venezuelan market, tourism in 2017 performed well, with arrivals surging by 9.1 percent. Next to the U.S. market, Argentina, Colombia, and Canada experienced significant growth in 2017 (Table 2).

**Aruba registered the largest decrease in the Venezuelan market.** The political Venezuelan crisis in recent years continues to affect tourism. In 2014 and 2015, Venezuelans came en masse to Aruba to either purchase goods or cash (U.S. dollars) to resell in Venezuela. In subsequent years, when the crisis in Venezuela accelerated, travel and foreign funds restrictions were implemented by the Venezuelan government causing a severe decline in Venezuelan visitors to

<sup>2</sup> CTO – Latest monthly statistics, February 2018.

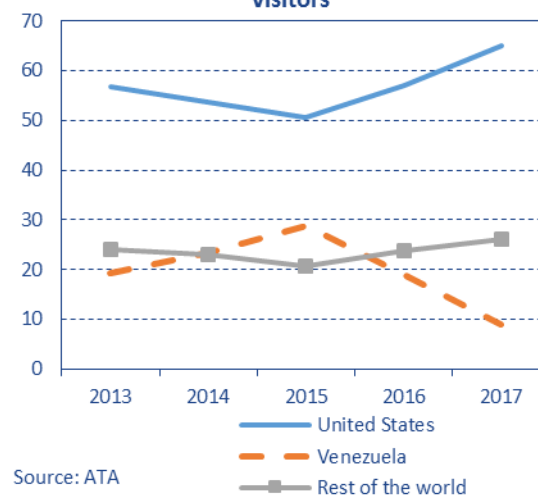
Aruba. This decline, along with the increasing U.S. market, subsequently affected the tourism market in 2017 (Chart 1). Other important markets with a double-digit decline in the number of visitors to Aruba are Curaçao and Suriname.

**Visitor nights in 2017 followed suit contracting by 0.1 percent, compared to 2016, as Venezuela’s influence dominated here as well.** However, once the Venezuelan nights are excluded, tourism nights expand by 7.0 percent in 2017. Once again the U.S. market made the largest contribution to this development. U.S. nights grew both in hotels & timeshares (7.6 percent) and in other (alternative) accommodations (20.7 percent). This trend is in line with the emergence of the sharing economy. Chart 2 shows the (slowly) growing trend in the share of U.S. nights at alternative accommodations reaching 10.8 percent in 2017. The majority (63.7 percent) of Venezuelan nights and 22.5 percent of the nights from other markets were at alternative accommodations in 2017, a market expected to continue on an expanding path.

**The reports from the Aruba Hotel and Tourism Association (AHATA) point to a solid performance by the hotel sector in 2017 compared to 2016.** Average room occupancy grew by 4.7 percentage points to 84.6 percent, while the average daily room rate (ADR) increased by 4.6 percent to US\$ 237. Total hotel revenues expanded by 12 percent, and this expansion was experienced in all the resort types though the share of revenues did not change significantly compared to last year. Brand name beachfront resorts still hold the largest share of hotel revenues (Chart 3). A total of 352 cruise ships entered the harbor in 2017, an increase of 45 ships (14.7 percent). In terms of passengers, the recorded growth was 20.8 percent, suggesting a higher average capacity of the ships that visited Aruba.

**Finally, balance of payments data show that tourism receipts grew by 6.5 percent in 2017.** Considering the development of the tourism market diversification index, which yielded more tourism market concentration during 2016 and 2017, the American tourism market likely contributed heavily towards this increase in tourism receipts in 2017. Thus, the U.S. market was

**Chart 1: Market share of stay-over visitors**



**Chart 2: Share of U.S. nights at alternative accommodations**

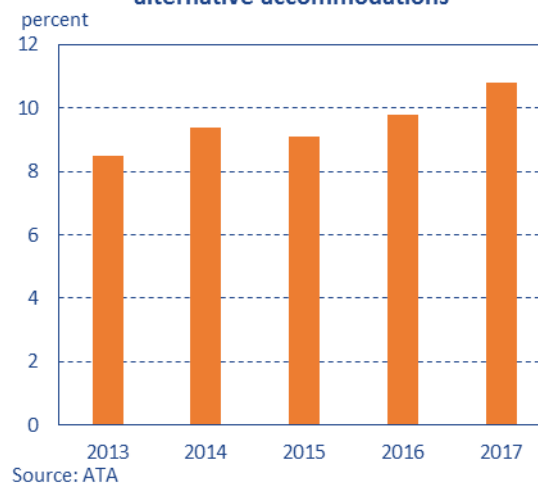


Chart 3: Share of revenue in 2017

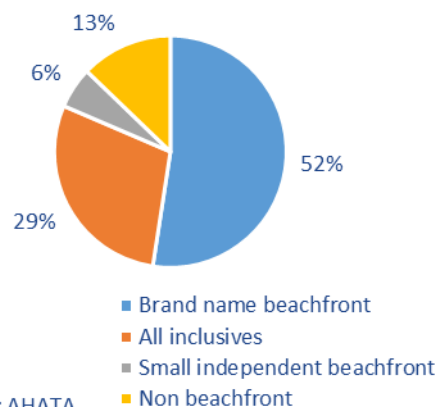
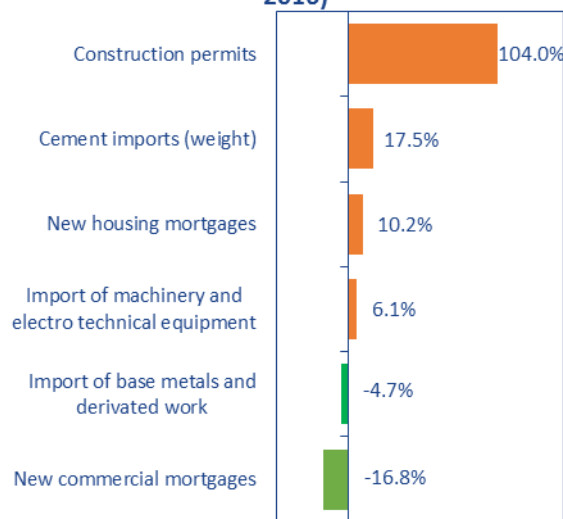


Chart 4: Investment-related indicators (value percentage change 2017 vs. 2016)



the main engine of tourism and economic growth in 2017, expanding its penetration and strength.

## Investment

Recent estimations by the CBA indicate that in 2017 total investment in Aruba amounted to Afl. 1,038 million, a slight decline of 0.5 percent compared to 2016. Nevertheless, many investment-related indicators show an upturn in 2017. The value of granted construction permits rose significantly (Chart 4). The 104 percent increase was related mainly to two large projects, a new condominium building and a new hotel. Additionally, the values of permits granted for houses, apartments, and office buildings also grew.

The number of construction permits granted displayed a 19.7 percent growth with almost all components contributing. Imports of *base metals and derivated works* declined by 4.7 percent. In contrast, imports of *machinery and electrotechnical equipment* increased by 6.1 percent. Another construction indicator, the weight of cement imports, expanded by 17.5 percent, related in part to larger imports for the construction of the mentioned hotel and also the Watty Vos Boulevard. The total amount of new commercial mortgages decreased by 16.8 percent, while the total amount of new housing mortgages grew by 10.2 percent, not surprising considering the expansions of permit values for houses and apartments.

The list of investment projects for 2017 shows a 5 percent decrease in the total amount invested compared to 2016. Several large new projects in 2017, such as the commencement of the Watty Vos Boulevard, the 330 room Embassy Suites hotel project, and the airport hotel were insufficient to compensate for several other hotel renovation and enlargement projects that were concluded in 2016.

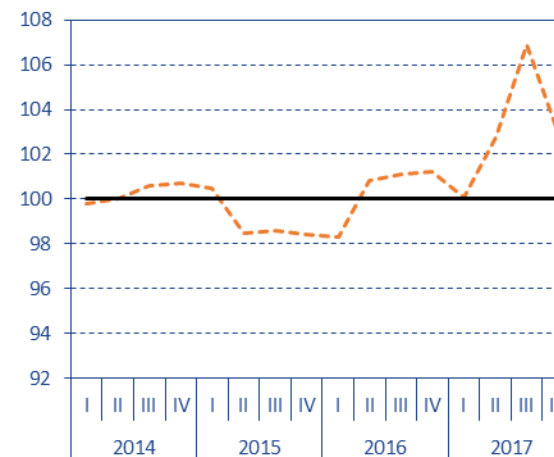
**The business perception index (BPI) displayed a remarkable improvement in the second and third quarters of 2017.** The BPI reached 106.9 index points in the third quarter (Chart 5), the highest figure recorded in more than twelve years, indicating growing confidence by Aruba's business community. Nevertheless, this confidence was mitigated in the last quarter of the year when the index dropped to 102.9 index points. The rise and fall in relative business sentiments likely are due to a confluence of factors including the initially heightened expectations surrounding the re-opening of the oil-refinery, tourism developments, and government elections. The optimism is most apparent in the sectors related to tourism, transportation, financial intermediation, and real estate. On the other hand, the manufacturing and construction sectors indicated relatively more pessimism, most likely due to the subsequent uncertainty with respect to the future of the refinery.

**A total of 1,350 new company registrations was recorded in 2017 by the Chamber of Commerce compared to 1,191 in 2016.** Slightly more than half of the new registrations were businesses with sole proprietorship. The most popular sectors were restaurants, cafés, takeout and snack trucks (170 new registrations) and holdings, consultancy and trust companies (157 new registrations). According to the Chamber of Commerce, Oranjestad remains the most popular district for establishing a business, while commercial development in San Nicolas continues to be limited. On the other hand, the number of business terminations (715) also grew, albeit at a slower pace.

## Consumption

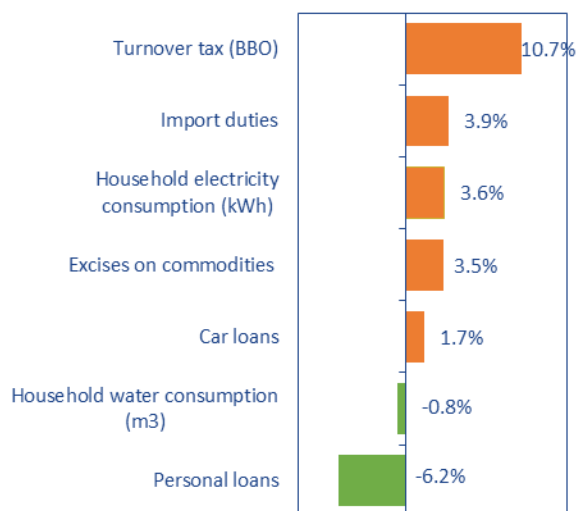
**Total consumption in Aruba amounted to Afl. 4,010 million in 2017, on average Afl. 3,000 per capita per month.** Compared to 2016, a nominal growth of 2.2 percent was recorded in 2017, part of which can be attributed to increased tourist spending. In general, consumption indicators displayed a mixed picture in 2017. The receipts in turnover tax registered a substantial

Chart 5: Business perception index



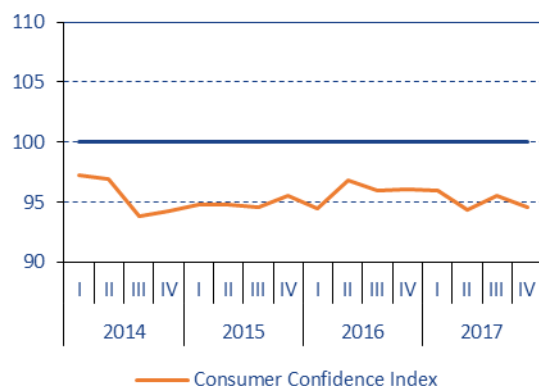


**Chart 6: Consumption-related indicators (value percentage change 2017 vs. 2016)**



Sources: CBA, WEB, Tax Collector's Office

**Chart 7: Consumer Confidence Index**



rise of 10.7 percent in 2017 (Chart 6). However, an estimated 0.4 percentage point was due to a higher compliance rate. Note that the developments in the tourism sector had some positive effects on the turnover tax. Excise revenues grew somewhat (excises on gasoline fell by 6.6 percent mitigating growth in other categories), while import duties expanded by 3.9 percent, largely a consequence of the increase in imports.

**Credit figures indicate a downturn in consumption in 2017 as consumer credit by monetary institutions fell by 1.3 percent, triggered by a substantial decline in personal loans.** Car loans, however, recorded a 1.7 percent increase, despite the competition of the RHD car market during recent years. The subcompact and the compact SUV were the most popular classes sold in 2017, holding their market share of sold cars in 2017. These sales include cars sold to car rental companies, leases to the government, and cars sold for commercial use.

**Household water consumption fell by 0.8 percent over the period under review, despite the 8.5 percent decline in yearly rainfall, when compared to the same period in 2016.** Specifically, it rained significantly less in November and December. Undoubtedly, the decrease in household water consumption also was influenced by the drop in the number of Venezuelan tourists who stayed mostly in residential houses. Electricity consumption by households, on the other hand, strengthened by 3.6 percent compared to 2016.

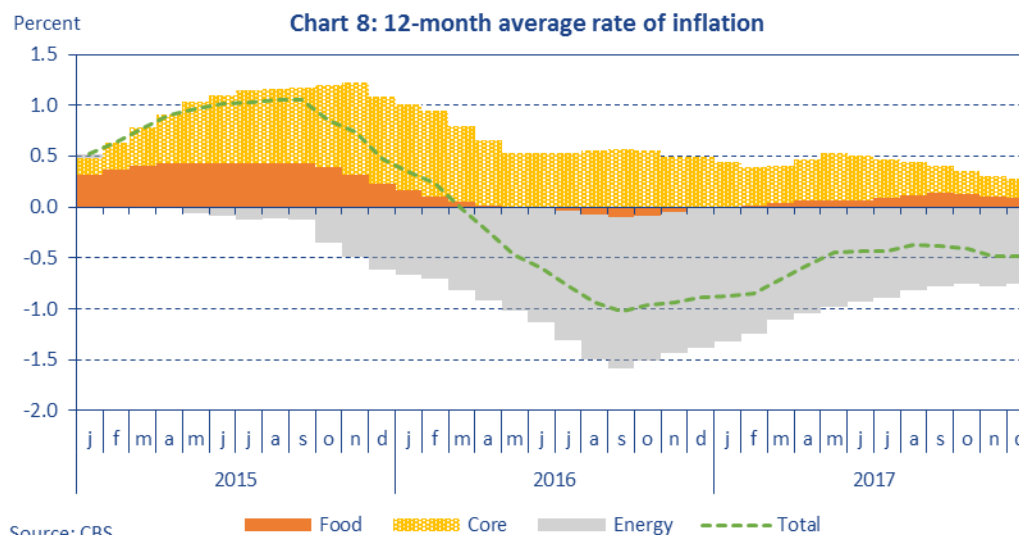
**In the fourth quarter of 2017, consumer sentiment worsened according to the latest results of the Consumer Confidence Survey (CCS).** The Consumer Confidence Index stood at 94.6 compared to 95.6 in the preceding quarter. The position of the index indicates relatively pessimistic sentiments, which deteriorated throughout the year (Chart 7). The decrease in consumer confidence was attributed mainly to worsening in consumers' sentiments about the policy positions of future governments and taking out loans or mortgages.

## Foreign trade

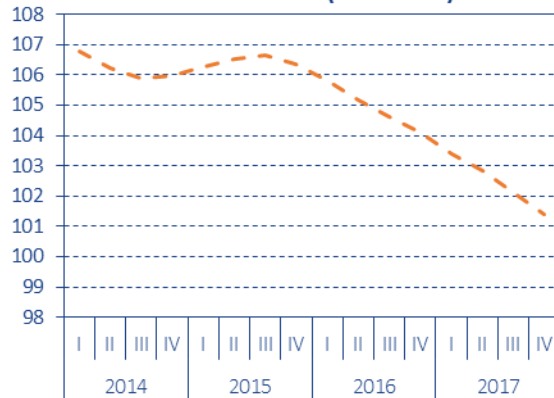
**Aruba's trade deficit expanded by Afl. 100.1 million in 2017 reaching a level of Afl. 1,959.9 million.** The imports of goods increased by 5.3 percent (+Afl. 103.6 million) due largely to a hike in the imports of animal-related goods, food and vegetable products, investment goods, and other goods, while exports rose by 4.2 percent (+Afl. 3.5 million). Free-zone exports dropped by 14 percent in 2017, continuing a trend that has been occurring for the last five years. In 2017, the total value of free-zone exports was less than half that of 2012, predominantly stemming from fewer exports to Colombia and Venezuela. The United States remained the largest trading partner, accounting for more than half of all imports to Aruba (57.5 percent).

## Consumer Price Index (CPI)

**The 12-month average CPI for 2017 resulted in a deflation of 0.5 percent primarily from continued low electricity prices following the 14 percent tariff reduction in January 2017.** On the other hand, the components of core inflation edged up slightly, registering an increment of 0.2 percent in 2017 (Chart 8). Energy prices weighed down the 12-month inflation rate, driven by the mentioned fall off in January 2017. On the other hand, the prices for gasoline and diesel on average picked up in 2017 (+0.5 percent). Prices of Aruba's main trading partners, the United States and the Netherlands, both increased as the period average CPI in those countries rose by 2.1 percent and 1.4 percent, respectively.



**Chart 9: Real exchange rate vis-à-vis the United States (1995=100)**

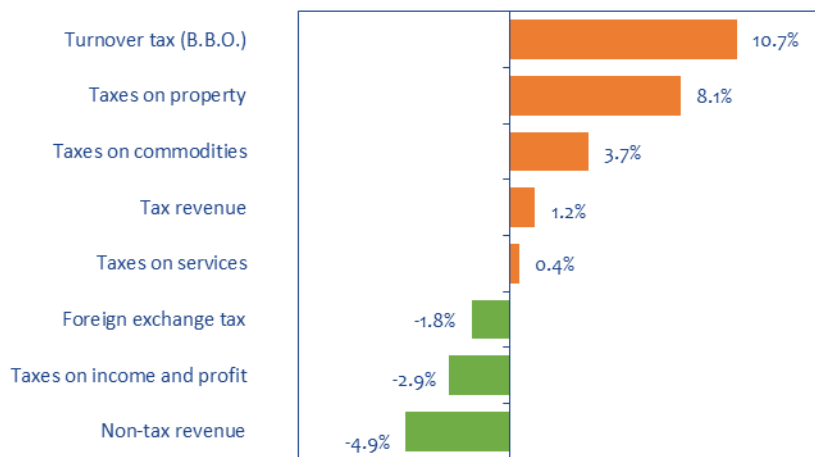


Aruba's real exchange rate relative to the United States dropped by 2.7 percentage points in 2017 compared to 2016 (Chart 9). The reduction in electricity tariffs in January 2017 helped improve Aruba's competitive position relative to the United States.

## Government

Government revenues edged up by 0.5 percent in 2017 compared to 2016, as higher tax revenues compensated for the drop in non-tax revenue. From 2016 to 2017, tax revenues rose by Afl. 12.6 million to Afl. 1,087.5 million as most tax components expanded. Receipts from taxes on commodities increased by 3.7 percent primarily due to a turnaround in excises on tobacco and import duties. The proceeds from taxes on property expanded, pushed up by a rise in land tax and motor vehicle fees. Turnover tax growth accelerated by 10.7 percent, while taxes on services remained practically flat. On the other hand, taxes on income and profit fell by 2.9 percent, as the receipts from profit tax fell by Afl. 39.7 million, compensated in part by gains in the proceeds from wage tax and income tax. Furthermore, non-tax revenues dropped by 4.9 percent in 2017 (Chart 10).

**Chart 10: Government revenue (percentage change 2017 vs 2016)**



Source: Tax Collector's Office

Government expenditures (on a cash basis) fell to Afl. 1,331.7 million in 2017, a 3.0 percent decrease from 2016. The main driver was a reduction in outlays on goods and services, which fell by 11.2 percent to Afl. 204.6 million. Furthermore, other expenditure components also recorded contractions, with drops in all personnel-related expenditures. Wages and employers' contributions lessened by 2.0 percent and 4.2 percent, respectively. Wage subsidies recorded a significant decline of Afl. 42.7 million related to a shift

in expenditures. This was due mostly to a decline in wage subsidies to foundations. This is likely the result of new government policies, according to which these wage subsidies are now incorporated into the general subsidies and transfers to foundations. As such, a substantial expansion (+35.7 percent) can be noticed in the transfers and subsidies component. Investments fell by Afl. 3.3 million in 2017, and transfers to the AZV decreased by Afl. 5.7 million. In addition, net lending dropped by Afl. 4.7 million, due primarily to an increase in student loan payments received.

**As a result, in 2017 the government financial deficit contracted by Afl. 51.4 million to Afl. 132.3 million (on a cash basis), down from Afl. 183.7 million in 2016.** Government debt rose by 4.3 percent to Afl. 4,199.0 million in 2017. Domestic debt increased by Afl. 271.2 million as the government financed almost all of its financing needs on the domestic market in 2017. On the other hand, foreign debt eased by Afl. 97.5 million to Afl. 2,111.6 million. This led to a more equal distribution of the debt composition compared to the previous year, with 49.7 percent in total domestic debt and 50.3 percent in foreign debt. A confrontation of the total government debt with the recently re-estimated GDP of Afl. 4,834 million in 2017 leads to a debt-to-GDP ratio of 86.9 percent, 1.1 percentage point below its highest level reached earlier in 2017 (Chart 11).

### Monetary survey

**During 2017, the money supply expanded by 1.7 percent to Afl. 4,239.9 million.** This increase resulted from an upturn in net domestic assets (+Afl. 226.4 million), which was partly offset by a net outflow of Afl. 92.7 million in foreign funds. The increase was due to a rise in domestic credit in the period under review. While the net foreign assets position remained well above the critical norms monitored by the Monetary Policy Committee (MPC) of the CBA, the declining trend is a matter of concern for the MPC.

**Chart 11: Estimated debt-to-GDP ratio**  
Aruba

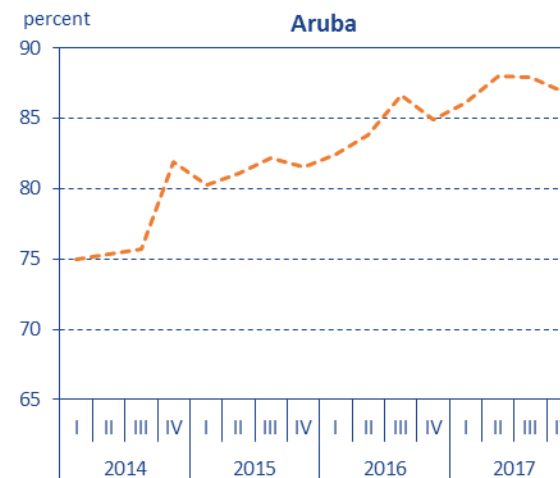
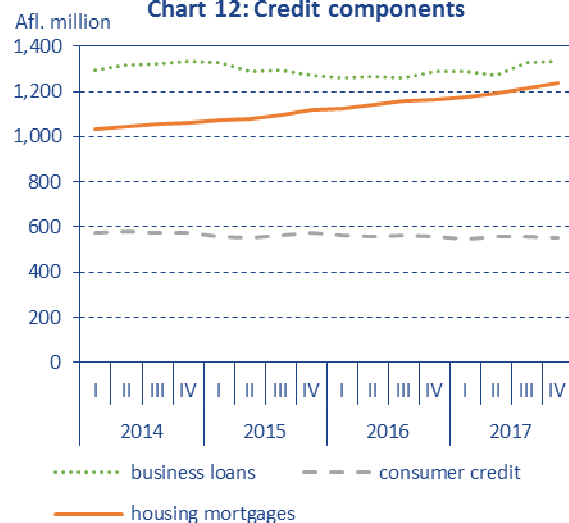


Chart 12: Credit components



Domestic credit extended to the private sector by the monetary sector rose by 3.8 percent to Afl. 3,133.0 million at the end of December 2017 compared to December 2016. This growth was driven by an increase in loans to both enterprises and individuals, with gains of Afl. 48.2 million and Afl. 65.1 million, respectively (Chart 12). Outstanding loans to businesses picked up primarily in the real estate and financial intermediation sectors. The housing mortgages component continued its upward trend expanding by 6.4 percent, while consumer credit fell by 1.5 percent.

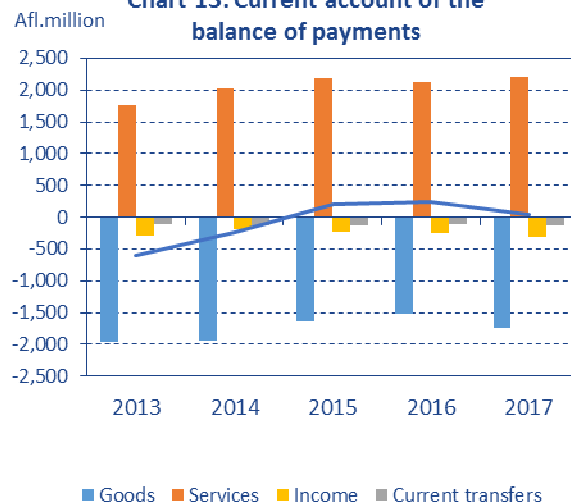
The weighted average interest rate on new loans fell off from 7.7 percent in 2016 to 6.7 percent in 2017. Interest rates on all loan instruments slackened in 2017 compared to 2016. Whereas some volatility was noted in the weighted average interest rates on new deposits throughout 2017, interest rates continued the declining path noted in recent years, falling by 0.3 percentage points compared to 2016. As a result, the interest rate margin dropped from 5.9 percent to 5.1 percent in 2017.

## Balance of Payments

The balance of payments posted an Afl. 92.7 million deficit for 2017. This overall deficit was due mainly to an Afl. 119.6 million deficit on the financial account. The relatively small surplus of the current account was insufficient to fully compensate this deficit.

The surplus on the current account of Afl. 40.2 million was considerably lower than in the two previous years (Chart 13). Export of goods collapsed in 2017 (-52 percent) due to the termination of the oil transit trade activities at the end of 2016. The similar decrease in the imports of oil was mitigated by a 7 percent rise of imports by the non-oil sector. The surplus of the service account grew by Afl. 98.9 million. Both service receipts and service payments increased throughout the year, but the favorable development in tourism receipts (+6.5 percent) was decisive in obtaining this result. The contribution of tourism receipts to the

Chart 13: Current account of the balance of payments



current account grew to 73.1 percent. The income account posted a deficit of Afl. 305.3 million in 2017 (+Afl. 63.3 million compared to 2016), partly related to higher outflows of dividend payments and branch profits. The deficit on the current transfers account widened by Afl. 11.3 million to Afl. 123.5 million.

**The financial account had a net outflow of funds (Afl. 119.6 million) due mainly to the net purchase of foreign government bonds by resident investors.** Outflows related to the hedging of fuel oil and repayment of loans and other financial transactions contributed to the deficit, while inflows related to foreign direct investments mitigated the mentioned deficit.

**Box: Highlights of the Household Survey (CBA, 2017)**

In the period September 30<sup>th</sup> to December 2<sup>nd</sup> of 2017, the CBA conducted its household survey “Nos Cartera y Nos Finansa” where 1,400 households were visited and asked about, among other things, their income, spending and borrowing. A total of 824 households responded to the survey resulting in a response rate of 58.9 percent. The average size of the households surveyed was 3 persons.

When asked whether at least one member in the household had a stable (periodical) income, 95.2 percent of respondents answered “yes”. The main source of income for households was wages followed by pension payouts and tips/commissions. Around 54 percent of households reported having a monthly income under Afl. 4,500. This income was calculated by adding all the incomes of the individual members of a household.

Households have different types of expenses, including consumption spending (groceries, gasoline, etc.) and monthly fixed spending (utilities, rent, etc.). Table B1 presents an overview of a selected number of household expenses. Households spend on average the most money on groceries with the exception of the households that rent their dwelling. On average, housing rent is the highest expense recorded. Yet, only 31 percent of households have rent expenses, whereas nearly 100 percent of households spend on groceries.

**Table B1: Average household monthly consumption expenses**

Expense	Households with expense	Average expense in Afl.
Groceries	100%	760
Gasoline	87%	335
Recreation	67%	256
Utilities	97%	437
Rent	31%	937
Telephone & Internet	88%	191

Households were asked for a number of indicators regarding the credit instruments that they use, including which type of instruments, original loan amounts, monthly payments, outstanding amount. Table B2 shows the average monthly debt payment for three (there are 9 credit instruments in total) of the most popular credit instruments (excluding credit cards) among households. Overall, the average total monthly debt payments for households (including the households without debt) was Afl. 909.

**Table B2: Average household monthly debt payment**

Type of instrument	Households with debt instrument	Average payment in Afl.
<b>Mortgage</b>	24%	1,686
<b>Personal loan at commercial bank</b>	16%	674
<b>Car loan</b>	15%	868

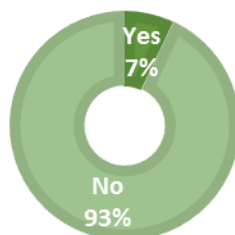
In total, 27 percent of households spent more than they earn (all of a household's expenses and payments were added and then compared with the household's income). It is possible that households have savings to compensate for their overspending or that they have arrears. Households could also take on a loan to cover their overspending.



**Chart 1: In the past six months, how often did you purchase products/ services online?**



**Chart 2: Cryptocurrency ownership? (%)**



## II. The State of the Digital Economy

It is no secret that digital technologies are transforming our business landscape and community. We live in challenging, yet exciting times of fundamental societal and technical innovation, i.e., in a dynamic state of flux. This rapid ‘digitization’ is changing the way we live, work, and spend our leisure time. 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. During the course of 2017, the Centrale Bank van Aruba (CBA) conducted several surveys on the state and flux of the evolving economy.

The results of ongoing investigations into the Aruban digital economy indicate that electronic commerce is expanding, albeit at a relatively slow rate (Chart 1). On average, at least 50 percent of consumers purchase products and services online, with a steady 40 percent indicating that they never make use of electronic commerce. Interestingly enough, the percentage of consumers who make frequent use of electronic commerce, either monthly or weekly, seems to be rising, thus suggesting a digital acceleration amongst ‘digital natives’, who additionally are more likely to own cryptocurrencies, such as bitcoin (Chart 2).

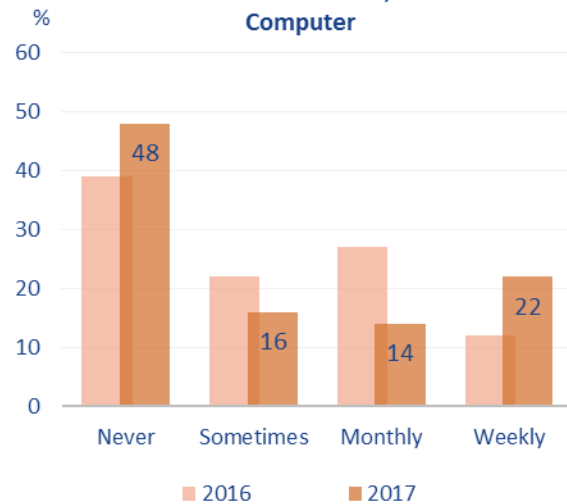
In terms of personal (consumer) banking, the findings confirm a digital divergence between early adopters and laggards in using smartphones and mobile apps for digital payments (Chart 3). Whereas early adopters are more frequently using mobile technologies (+35 percent), an estimated 50 percent of consumers has never used their smartphone for mobile banking.

Likewise, the use of *internet banking* is more likely to resonate and grow amongst early adopters (+35 percent), and less likely to be used amongst the majority of consumers (Chart 4). These traditional consumers, however, do favor card-based means of personal

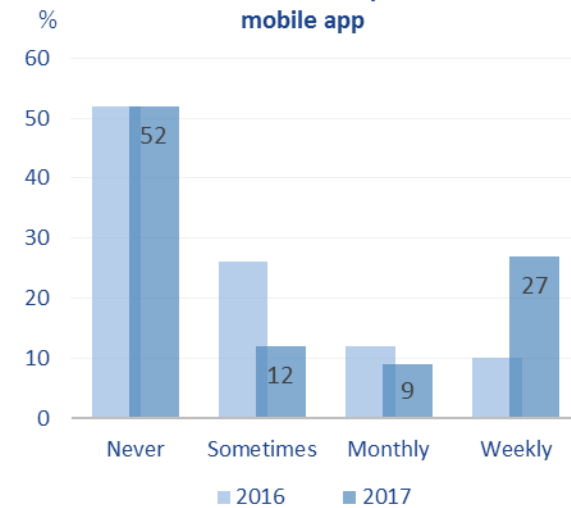
payment (Chart 5), and an estimated 40 percent makes regular use of branch offices for personal banking.

**In conclusion, while the digital economy continues to unfold, the findings of the CBA’s surveys suggest that digitization may not be equally distributed across consumers.** An estimated 40 percent of consumers leans strongly towards the (early) adoption of digital technologies, and an equal percentage seems to be leaning in the opposite direction with the usage of traditional (analog) means of personal banking. While it is premature to presume a ‘digital divide’, prudence is required to foster financial inclusion, especially in light of the modernization of Aruba’s payments infrastructure. The CBA recognizes that digital transformation creates unprecedented opportunities and an accelerated need for economic innovation. Innovation is fundamental to a nation’s progress in this digital era. Creating the conditions necessary to foster inclusive growth of the Aruban economy through innovation is imperative to enhance Aruba’s competitiveness and to ensure long-term sustainability and prosperity.

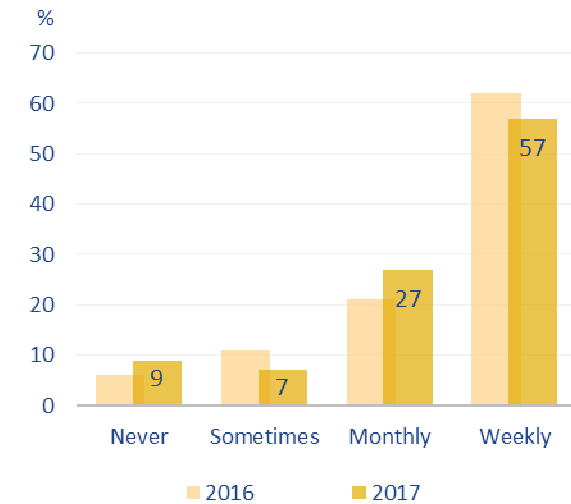
**Chart 4: Use of Internet, Web & Computer**



**Chart 3: Use of smartphone & mobile app**



**Chart 5: Use of ATM & POS**



---

### III. International developments

**In its latest World Economic Outlook, the IMF concludes that international economic activity in 2017 ended on a high note.** Growth in the second half of the year was above 4 percent, the strongest since the second half of 2010, supported by a recovery in investment. This outcome exceeded the forecasts of the IMF for the euro area, Japan, the United States, and China, and continued to improve gradually for commodity exporters. Financial conditions remain supportive, despite the volatility in equity markets and increases in bond yields following signs of firming inflation in advanced economies.<sup>3</sup>

**Not all is rosy, however.** The United Nations state that the recent acceleration in world gross product growth stems predominantly from firmer growth in several developed economies, although East and South Asia remain the world's most dynamic regions. Cyclical improvements in Argentina, Brazil, Nigeria, and the Russian Federation, as these economies emerge from recession, also explain roughly one-third of the rise in the rate of global growth between 2016 and 2017. But recent economic gains remain unevenly distributed across countries and regions, and many parts of the world have yet to regain a healthy rate of growth.<sup>4</sup>

**Real gross domestic product (GDP) in the United States increased by 2.3 percent in 2017, according to the latest data from the Bureau of Economic Analysis.** The increase in real GDP in 2017 primarily reflected positive contributions from personal consumption expenditures, nonresidential fixed investment, and exports. In the fourth quarter of 2017, real GDP increased at an annual rate of 2.9 percent.<sup>5</sup> The growth is underpinned by a sustained pace of expansion in household spending, estimated at 2.6 percent in 2017, following growth of 2.7 percent in

---

<sup>3</sup> International Monetary Fund (IMF), *World Economic Outlook*, April 2018, p. xvi.

<sup>4</sup> United Nations, *World Economic Situation and Prospects 2018*, p. vii.

<sup>5</sup> Bureau of Economic Analysis (BEA), *New Release BEA 18-14*, March 28, 2018.

---

2016. However, over the same period, real personal disposable income growth averaged a mere 1.1 percent. This slow growth indicates that consumers have drawn down savings to sustain expenditure growth, resulting in a deterioration of the savings rate by nearly 3 percentage points since 2015. In mid-2017, the unemployment rate in the United States declined to its lowest level since 2001, and is hovering below what is considered its long-run equilibrium level.<sup>6</sup>

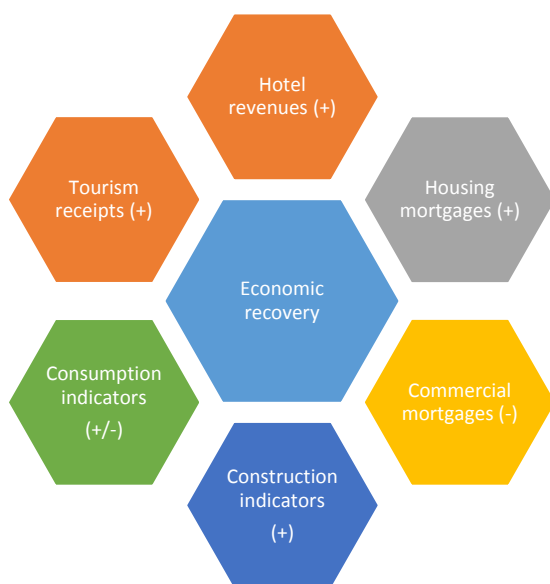
**The European Central Bank (ECB) stated that economic expansion in the euro area continued strong and broad-based across countries and sectors in 2017.** Real GDP in the last quarter of the year increased at an annual rate of 2.7 percent. Private consumption is supported by rising employment, which is also benefiting from past labor market reforms, and by growing household wealth. Business investment has continued to strengthen on the back of very favorable financing conditions, rising corporate profitability, and solid demand, while housing investment has improved further over recent quarters. In addition, the broad-based global expansion is providing impetus to euro area exports.<sup>7</sup> In general, inflation in the euro area remained subdued at 1.5 percent while the total (and in particular, youth) unemployment continued to fall during the year to 8.6 percent. In some countries this decreasing unemployment rate has been facilitated by labor market reforms undertaken in previous years. Nevertheless, the unemployment rates in countries like Spain and Greece are still above the 16 percent mark.

**After two years of contraction, economic growth for Latin America and the Caribbean turned positive in 2017 (1.3 percent), as a result of increases in both domestic demand and export volumes.** Despite this slow economic recovery in 2017, the average urban unemployment rate in Latin America and the Caribbean rose from 8.9 percent in 2016 to an estimated 9.4 percent, the result of a decline in the employment rate and an increase in the number of people seeking

---

<sup>6</sup> United Nations, *World Economic Situation and Prospects 2018*, p. 89-90.

<sup>7</sup> European Central Bank (ECB), *Economic Bulletin*, Issue 2 / 2018.



work (participation rate). In 2017, average inflation in Latin America and the Caribbean continued the downward trend that started in mid-2016. Current inflation levels in the region are the lowest they have been since the end of 2013.<sup>8</sup>

#### IV. Concluding remarks

**In 2017, Aruba's economic developments were diverse.** After two consecutive years of economic contraction, a path to recovery, albeit tepid, was commenced. An estimated real growth rate of 1.2 percent is below the Caribbean average though comparable to peer countries like the Bahamas and Barbados.

**Tourism is, once again, the main engine of the Aruban economic growth.** Despite a fall in the number of visitors, Aruba experienced a growth in income from tourism emanating from higher spending per tourist, partially related to higher hotel room prices. Also, cruise tourism flourished. Other economic activities contributed little to Aruba's foreign exchange earnings as non-tourism exports collapsed to a marginal level due to the disappearance of the oil transit trade activities.

**Investment and consumption remained subdued in 2017.** Several large new projects, such as the commencement of the Watty Vos Boulevard, the 330 room Embassy Suites hotel project, and the airport hotel were insufficient to compensate for several other hotel renovation and enlargement projects concluded in 2016. Nevertheless, business confidence, especially in the construction industry, displayed a remarkable improvement during the course of 2017.

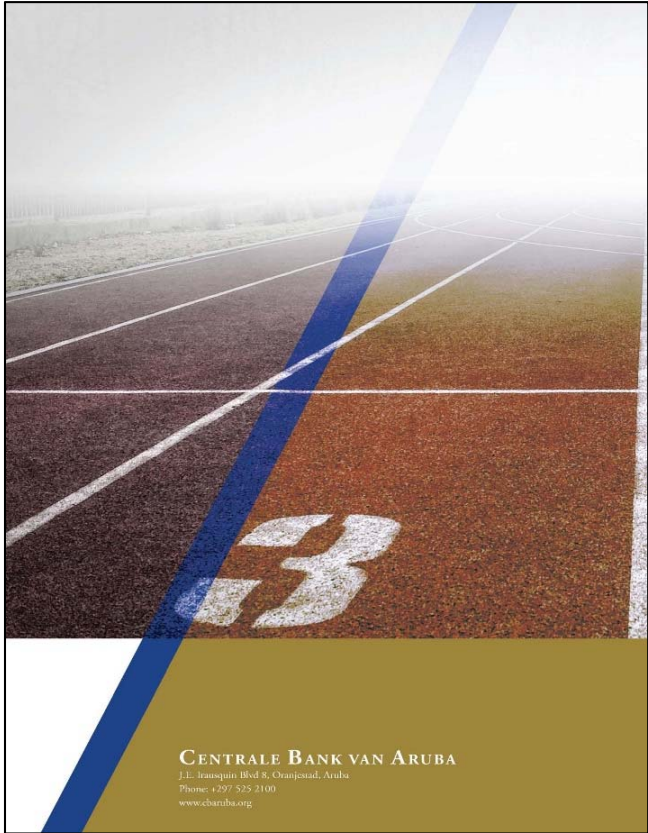
<sup>8</sup> Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean, 2017* (LC/PUB.2017/28-P), Santiago, 2018, pp. 9-14.

**On the other hand, consumer confidence deteriorated further.** This was attributed mainly to a worsening in consumers' sentiments on the governments' future financial position and regarding taking out loans or mortgages. Consumption indicators, such as turnover tax receipts, excises, and import duties, generally were positive, partly the result of higher tourism expenditures and also improved compliance. Credit developments were also indicative of a restrained economic climate. Total credit growth was limited and confined mainly to housing mortgages. Consumer credit again fell significantly during the course of 2017.

**Government finances weakened further during the first half year of 2017.** A slight improvement was noticeable in the latter half of the year, leading to a debt ratio of 86.9 percent at the end of 2017. Although the financial situation of the government of Aruba showed signs of improvement, the fundamentals remain weak.

**Lastly, Aruba's level of net foreign assets declined by 3.6 percent in 2017.** Although still well above the minimum threshold used by the CBA, the downward trend in net foreign assets remains a matter of concern. Structural economic policy measures are needed to diversify the economy and to enlarge the (foreign exchange) earning capacity of the economy.





**CENTRALE BANK VAN ARUBA**  
J.E. Raaijmakers Blvd 8, Oranjestad, Aruba  
Phone: +297 525 2100  
[www.cbaruba.org](http://www.cbaruba.org)