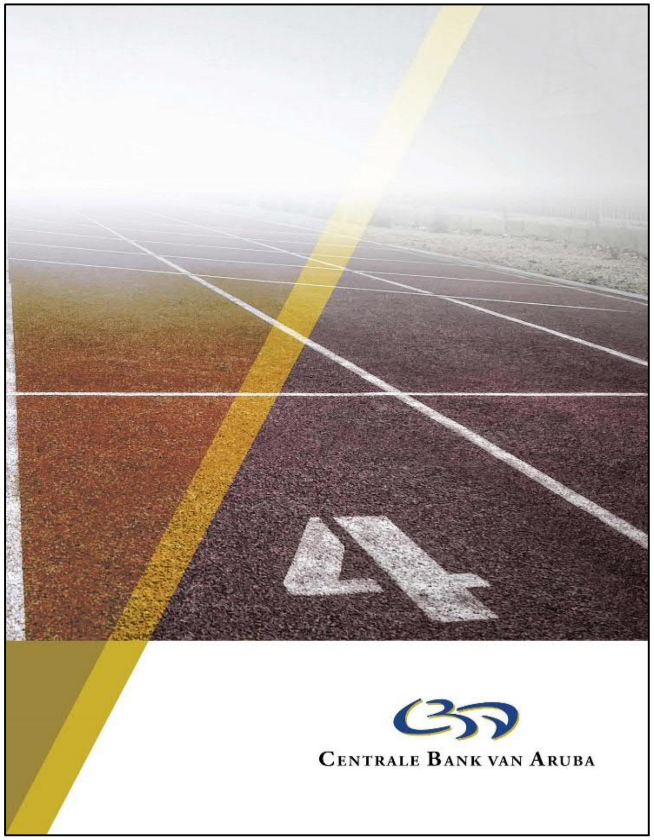


STATE OF THE ECONOMY

First three quarters of 2018

ABSTRACT

In the first nine months of 2018, Aruba's economy continued to perform better than in 2017. Tourism indicators showed positive developments, while consumption and investment indicators displayed a varied picture. Government revenue grew significantly but not sufficient to reach a surplus.

Centrale Bank van Aruba

CONTENTS

I. Domestic developments[1]

Economic growth

In the first nine months of 2018, Aruba's economy continued to perform better than in 2017. Tourism indicators were mostly buoyant, with the number of visitors in the third quarter declining somewhat compared to the corresponding quarter of 2017. Larger cruise ships visited Aruba resulting in a solid growth of cruise passengers. Hotel occupancy and hotel revenues increased significantly, while the foreign exchange earnings from tourism continued to expand.

Consumption indicators revealed a mixed picture in the first three quarters of 2018. Turnover tax and import duties, the main indicators, recorded higher revenues of, respectively, 1.8 percent (when excluding the rise in the tariffs) and 14.4 percent. Indicators on a downward trend were the volume of personal loans (a decline of 6.7 percent) and consumer confidence, remaining persistently negative. Investment indicators, on the other hand, displayed divergent patterns, with, on a positive side, a continuing growth in household and business mortgages and ongoing execution of various large investment projects, combined with weaker business confidence and a slowdown of construction permits granted. Pushed up by higher demand, imports of goods grew significantly. With declining exports of goods, this growth in imports led to a further widening of Aruba's trade deficit.

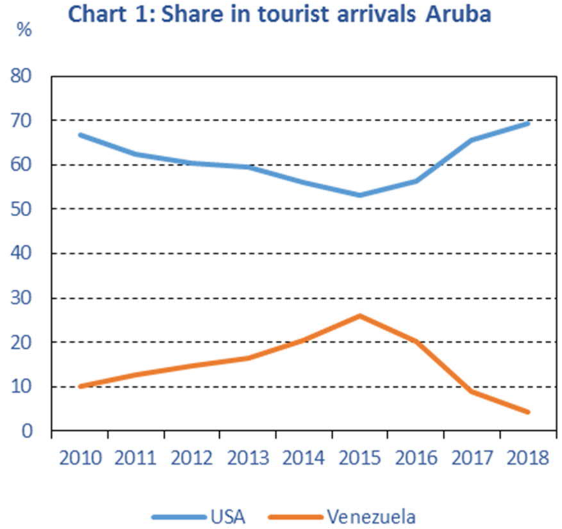
[1] The cut-off date for information published in the State of the Economy is March 1, 2019.

Table 1: Tourism indicators for Aruba and the Caribbean (Jan-Sep 2018 vs. Jan-Sep 2017)

Indicator	Aruba		Caribbean	
	2017	2018	2017	2018
Stay-over visitors (growth)	-6.2	1.5	5.1	-6.1
excl. Venezuela	8.3	6.0	n.a.	n.a.
Average length of stay (days)	7.4	7.4	n.a.	n.a.
Cruise visitors (growth)	22.3	5.8	3.7	4.0
Hotel occupancy (%)	85.4	85.6	67.4	66.9
Average daily rate (US$)	214	269	206	209
Revenue per available room (RevPAR) (US$)	206	230	139	140
Tourism credits commercial banks (growth)	4.7	9.6	n.a.	n.a.

Sources: ATA, AHATA, APA, CTO, STR

Chart 1: Share in tourist arrivals Aruba



Government revenue grew significantly (+8.5 percent). However, this increase was not enough to reach a surplus. The fiscal deficit stood at Afl. 41.2 million. Consequently, total government debt climbed to Afl. 4,389.3 million, expanding by Afl. 230.4 million.

Tourism

Aruba's tourism sector performed positively in the first nine months of 2018. The number of stay-over visitors grew by 1.5 percent (Table 1), while visitor nights recorded a similar result (+1.6 percent). The U.S. market remained the key driver. On the other hand, third-quarter figures for stay-over visitors resulted in a minor decline of 0.7 percent, caused mainly by the Venezuelan market.

Aruba's growth outpaced that of the Caribbean as a region. The latest CTO[2] figures for the Caribbean destinations show that stay-over visitors for the Caribbean region decreased by 6.1 percent in the first nine months of 2018. The figures for September alone were positive for the Caribbean as a whole (+3.0 percent), a not surprising result given that September 2017 was the month when hurricanes Irma and Maria hit the Caribbean. Because of the devastation, Aruba experienced a surge in arrival numbers as tourists sought other holiday destinations. Meanwhile, many resorts in the Caribbean have been rebuilt or already have re-opened, while airports are beginning to operate at full capacity, which bode well for the countries affected.

The Venezuelan market continued its downward path through three quarters of 2018. When Venezuelan tourists are excluded from total visitors, the recorded growth reaches 6.6 percent. The Venezuelan market has been in decline since 2016. Venezuela had a market share of 4.3 percent in the third quarter year-to-date, only a fraction compared to 26.0 percent in 2015

[2] Caribbean Tourism Organization.

(Chart 1). The U.S. market share grew by 3.8 percentage points to 69.4 percent. Meanwhile, the North American market (United States and Canada) accounted for 73.9 percent of the market share. This lack of diversification creates vulnerabilities for the Aruban economy in the case of negative shocks in North America. The Herfindahl index, which measures market concentration, has been rising slowly since 2015, indicating less diversification (Chart 2). Aruba's tourism market index has always had a level above the 30 percent mark indicating high concentration. Yet, this concentration also may explain the growth in tourism credits[3], particularly as U.S. consumers remained optimistic during the third quarter of 2018.

Visitor nights increased by 1.6 percent (4.9 percent excluding Venezuela) in the first three quarters of 2018. With a growth rate of 8.0 percent, the U.S. market carried the development in visitor nights. Hotels and timeshares together (+1.6 percent) and other (alternative) accommodations (+1.5 percent) experienced modest expansions. Reports from the Aruba Hotel and Tourism Association (AHATA) confirm a solid performance by the hotel sector in the first nine months of 2018. While average room occupancy faced a minor increment of 0.2 percentage point to 85.6 percent, both the average daily room rate (ADR) and the revenue per available room (RevPAR) improved significantly (+11.5 percent and +11.7 percent, respectively). Finally, tourism credits, reported by the commercial banks, resulted in an increase of 9.6 percent year-to-date September 2018. Nevertheless, monthly tourism credits development was volatile in the first three quarters of 2018. Some months showed extraordinary growth vis-à-vis the corresponding month in 2017, while other months were more moderate (Chart 3).

A total of 228 cruise ships entered the harbor in the first three quarters of 2018, only 3 ships more than in the corresponding period of 2017 (+1.3 percent). In terms of passengers, however, the recorded growth was 5.8 percent. This higher growth implies that the ships in 2018 had

Chart 2: Diversification index tourist arrivals Aruba

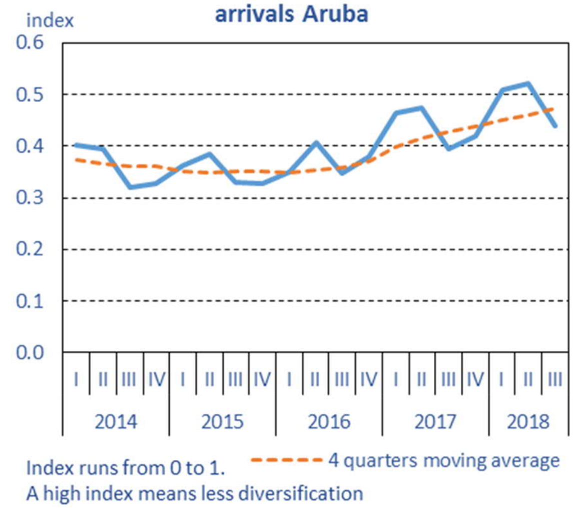
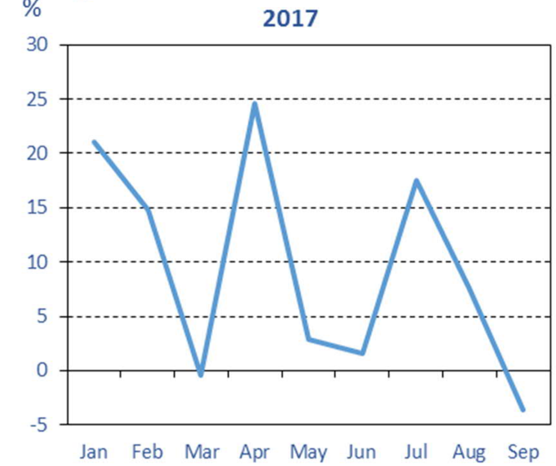


Chart 3: Tourism credits monthly growth rate 2018 vis-à-vis same month 2017



[3] The term used in the balance of payments for the consumption of goods and services acquired by nonresidents during their visit to Aruba, including the maintenance fees paid by timeshare owners.

Chart 4: Cruise visitors monthly growth rate 2018 vis-à-vis same month 2017

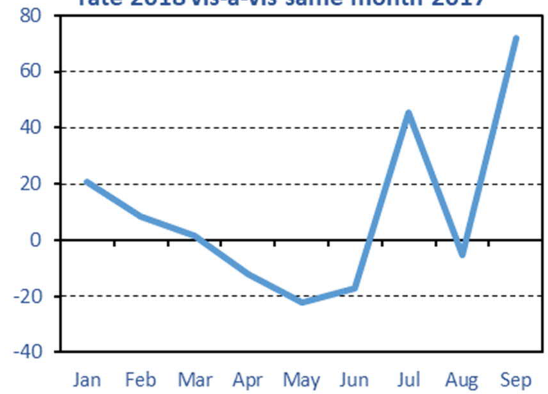
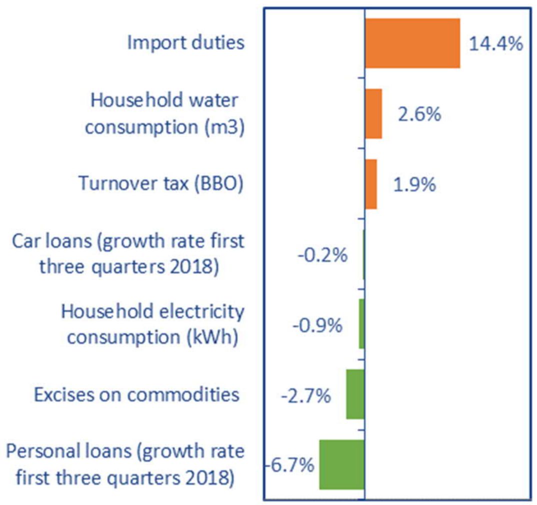


Chart 5: Consumption-related indicators
(value percentage change
Jan-Sep 2018 vs. Jan-Sep 2017)



Sources: CBA, WEB, Tax Collector's Office

more passengers on board and/ or had a higher passenger carrying capacity. The Caribbean region as a whole performed somewhat less well than Aruba (+4.0 percent growth) due to the severe damage to a number of ports caused by the hurricanes in 2017. In the meantime, however, cruise business returned to a pre-hurricane level, with cruise arrivals growing since May 2018, as ports were repaired. Aruba's 2018 performance on a monthly basis was volatile with some months performing exceptionally well and others performing poorly (Chart 4).

Consumption

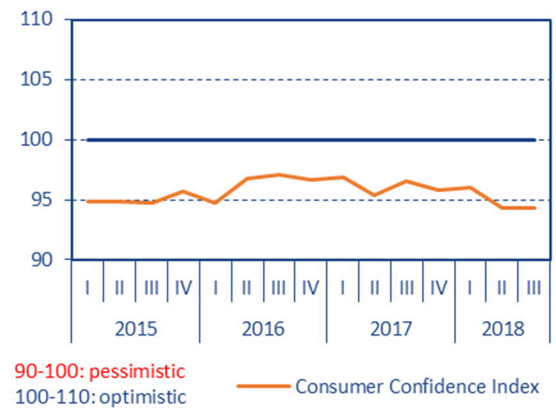
Consumption indicators showed mixed results in the first nine months of 2018. Tax Department data revealed increased revenues from the turnover tax (+20.6 percent) and import duties (+14.3 percent), compared to the same period of 2017. The overall growth in turnover tax receipts, however, cannot be used as an indicator, as 18.8 percent of the expansion in turnover tax is related to the introduction of the new levy "Belasting additionele voorzieningen PPS-projecten" (BAVP), introduced on July 1, 2018. Excluding this new levy, the turnover tax registered a rise of just 1.9 percent in the period under review. Excises on commodities noted a 2.7 percent decline, related to high incidental gasoline excises received in the first quarter of 2017. The tourism market also influences these indicators; thus, their development does not reflect residential consumption only. With regard to utility consumption, water use registered an upturn of 2.6 percent, while household electricity consumption (kWh) contracted slightly in the first nine months of the year, recording a decline of 0.9 percent (Chart 5).

Bank credit figures indicated a downturn in consumption as consumer credit decreased by 3.4 percent in the first three quarters of the year compared to December 2017. The decline in consumer credit resulted mostly from an Afl. 15.4 million (–6.7 percent) contraction in the personal loans category, which continued its descending trend to reach a level of Afl. 213.9

million in September 2018. Meanwhile, credit card loans noted an Afl. 3.2 million (–3.1 percent) reduction, while car loans edged down by Afl. 0.4 million (–0.2 percent).

Consumer sentiments continued pessimistic in the third quarter of 2018. The Consumer Confidence Index (CCI) was stable at 94.3 in the quarter under review (Chart 6), remaining at its lowest point in four years. The components of expectations, consumption habits, and price index improved, but all remained in negative territory. The Consumption Habits Index showed the largest increase (1.5 percentage points). Both the Expectations Index and the Price Expectations Index edged up, the latter to 90.4 (very negative) as a large majority of respondents expected that prices will rise in the coming six months. The only component with a falling trend was the Present Situation Index, which declined by 2.4 percentage points to 92.6, indicating mostly a more pessimistic view on their current personal financial situation.

Chart 6: Consumer Confidence Index

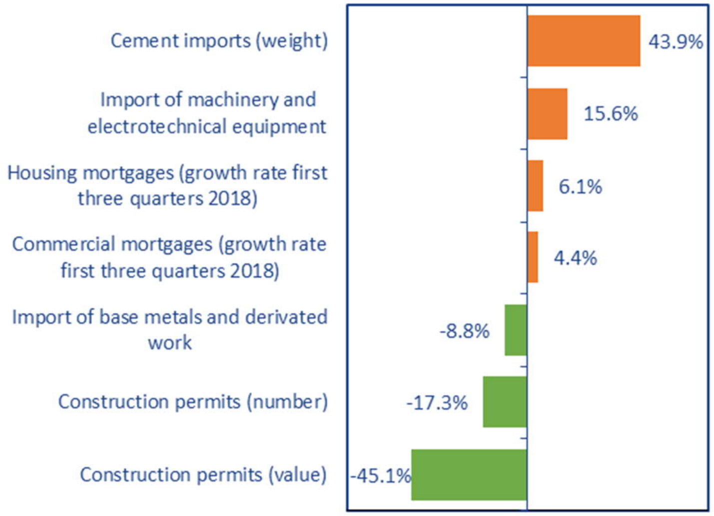


Investment

Investment indicators for the first nine months of the year yielded a divergent picture for the investment environment. Both the number and the value of new granted construction permits decreased (Chart 7). This was mostly due to a high value of the permits granted in 2017 for two large tourism-related projects. Conversely, no permits for projects of that scale were issued in the first three quarters of 2018. However, the actual construction of these projects led to substantial investments in 2018.

Total volume of cement imports grew significantly in the first three quarters (+43.9 percent), related mostly to the continuation of large construction projects, such as the Embassy Suites and the Dr. Horacio H. Oduber Hospital. Imports of base metals and derivated works shrank by 8.8 percent. In contrast, imports of machinery and electrotechnical equipment increased by 15.6 percent. Credit indicators related to

Chart 7: Investment-related indicators
(value percentage change
Jan-Sep 2018 vs. Jan-Sep 2017)



Sources: CBA, CBS, DOW

Chart 8: Commercial mortgages

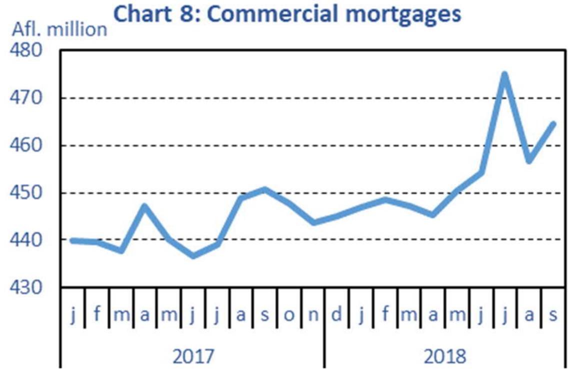


Chart 9: Housing mortgages

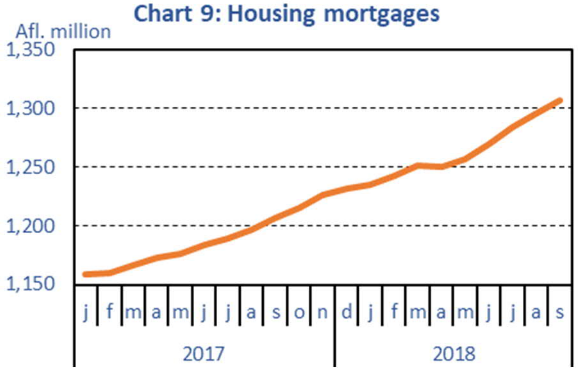
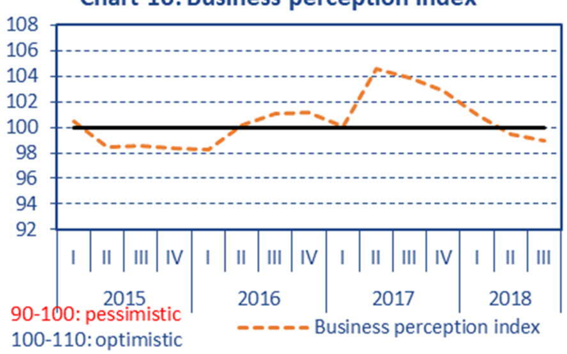


Chart 10: Business perception index



investments were positive. In the first nine months of 2018, the total amount of commercial mortgages (Chart 8) and housing mortgages (Chart 9) rose by 4.4 percent and 6.1 percent, respectively, compared to December 2017.

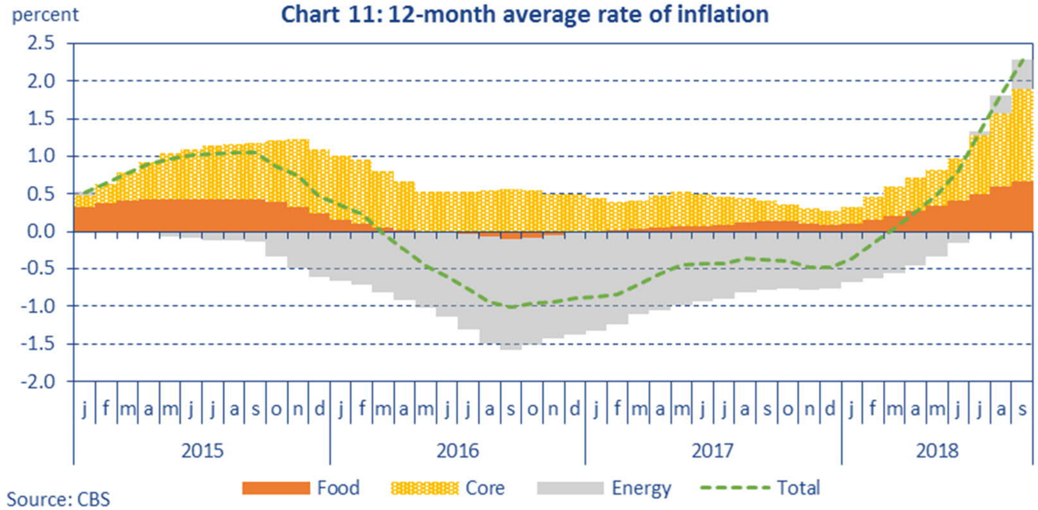
The business perception index (BPI) reflected pessimism in the third quarter of 2018. The BPI, comprising the current and short-term economic conditions, decreased by 0.5 percentage point to 99.0 in the third quarter of 2018 (Chart 10), staying thereby in negative territory for two consecutive quarters. The current economic condition index edged down by 0.2 percentage point to 100.3 in the quarter under review, while the short-term future economic condition index contracted by 1.4 percentage points to 97.0. The sectors manufacturing, utilities, construction, and financial intermediation showed pessimism with regard to the current conditions. Meanwhile, the sectors wholesale and retail trade, repair of motor vehicles and household goods, hotels and restaurants and transport, storage and communications joined this group, revealing pessimism towards the future. In the third quarter, more than half (53.8 percent) of the respondents indicated that short-term investment conditions remained unchanged. Nevertheless, 76.9 percent stated that they have investment plans in the coming 12 months, suggesting a relatively more positive outlook.

Consumer Price Index (CPI)

In September 2018, the 12-month average CPI inflation stood at 2.3 percent, as the effects of higher gasoline and food prices were amplified further by the increase in the indirect taxes. While the effects of the 14 percent electricity tariff reduction in January 2017 still weighed down overall inflation, CPI inflation followed a rising trend in the first three quarters of 2018, evident from the 4.9 percent end-of-period inflation in September 2018. On average, gasoline and food prices inched up by 0.7 percent. The Venezuelan border re-opened in the beginning of June 2018, providing importers access to relatively cheaper fruits and vegetables, as well as lower transportation costs. As of July 1, 2018, however, the BAVP was introduced, and the BAZV rate was raised by 1.0 percentage point to 3.0 percent. These developments had an upward effect on prices. Core inflation noted a 1.2 percent growth in the first nine months of 2018 (Chart 11).

For the first time in three years, the real exchange rate of the florin vis-à-vis the US dollar increased in the third quarter of 2018 (Chart 12). This means that Aruba's competitive position deteriorated relative to the United States, partly as a result of changes in fiscal policies. In the last three years, Aruba's position was impacted positively by the low domestic inflation.

Chart 11: 12-month average rate of inflation



Source: CBS

Foreign trade

Aruba's (non-free zone) trade deficit in the first nine months of 2018 expanded by Afl. 163.1 million, reaching a level of Afl. 1,539.6 million compared to the same period in 2017. The import of goods increased by 10.7 percent (+Afl. 154.3 million). This expansion was reflected in all import components with the exception of base metals and derivated works, which recorded an 8.8 percent decline. The volume of exports fell by 13 percent (–Afl. 8.7 million) in the period under review to a total amount of Afl. 58.0 million, attributable to declines in the exports of base metals and derivated works, live animals and other animal products, as well as other goods.

The United States remained Aruba's largest trading partner, accounting for 56.6 percent of all non-free zone imports to Aruba. Imports from the Netherlands grew by 0.5 percentage point

Chart 12: Real exchange rate Aruban florin vis-à-vis the U.S. dollar (1995=100)

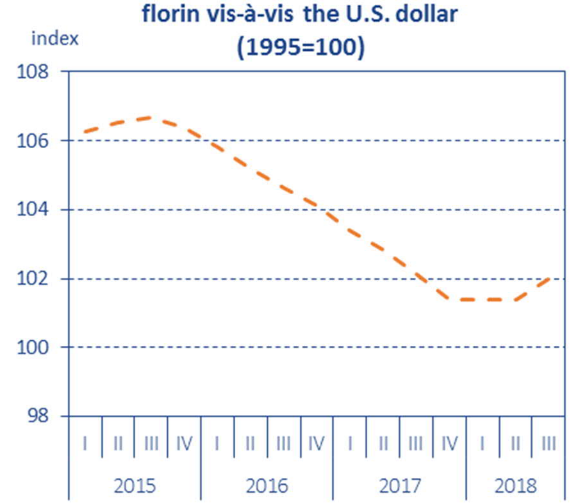
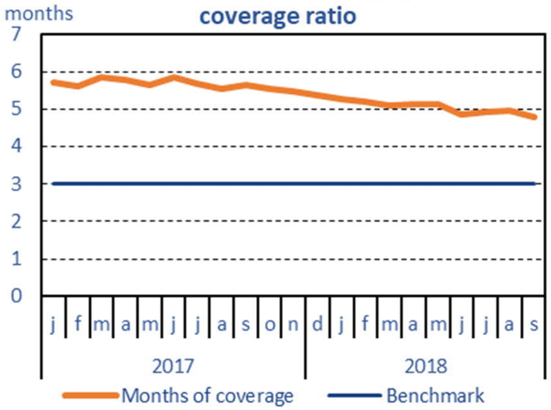


Table 2: Share of (non-free zone) imports of goods by country of origin (%)

Country of origin	2017 Jan-Sep	2018 Jan-Sep
United States	57.7	56.6
Netherlands	13.2	13.7
China	2.3	2.7
Panama	2.7	2.6
Brazil	1.7	2.2
Colombia	2.2	2.2
Japan	1.1	1.2
Korea Republic	1.5	1.1
Switzerland	1.1	1.0
Venezuela	1.8	0.5
United Kingdom	0.4	0.3
Other countries	14.3	15.9
Total (Afl. million)	1,443.3	1,597.7
Source: CBS Aruba		

Chart 13: Current account payment coverage ratio



to a market share of 13.7 percent. The share of imports from Venezuela dropped considerably from 1.8 percent to 0.5 percent as a result of the trade sanctions set by the Venezuelan government in January 2018 (Table 2).

Monetary survey

During the first three quarters of 2018, the money supply expanded by 3.2 percent to Afl. 4,373.8 million compared to the fourth quarter of 2017. This outcome resulted from an expansion in domestic assets (+Afl. 94.2 million), caused predominantly by a rise of Afl. 118.1 million in net claims on the public sector for the first three quarters of 2018. This rise in net claims was accompanied by an increase of Afl. 39.7 million in net foreign assets. The net foreign assets remained above the traditional norms monitored by the Monetary Policy Committee (MPC) of the Centrale Bank van Aruba. It should be noted, however, that the buffer between the benchmark and the current account coverage ratio diminished from 2.7 months in January 2017 to 1.8 months in September 2018 (Chart 13). Also, the IMF introduced a new risk-based benchmark to assess the adequacy of foreign reserve holdings, the IMF ARA metric.[4] The latest available data indicate that Aruba's net foreign assets are below this metric.

Domestic credit extended to the private sector by the monetary sector expanded to Afl. 3,215.7 million at the end of September 2018, a 2.6 percent growth compared to December 2017. This development is the result of growths in housing mortgages (+6.1 percent) and business loans (+1.8 percent), while a contraction was registered for consumer credit (–3.4 percent).

[4] See State of the Economy 2017 (first three quarters) for a description of this new metric.

Net claims on the public sector noted an increase to Afl. 518.1 million at the end of the third quarter of 2018, +29.5 percent compared to end-2017. This outcome resulted from an Afl. 99.9 million expansion in gross claims, complemented by the continued winding down of development funds, and an Afl. 7.5 million reduction in government deposits. The mentioned growth in gross claims was attributed to an Afl. 90.0 million issue of 3-month treasury bills.

The weighted average interest rate on new loans fluctuated during the first nine months of 2018 between 6.2 and 7.2 percent. The interest rate on commercial loans and account overdrafts recorded an increase, mitigated, however, by a reduction in rates on commercial mortgages. The interest rate on new consumer credit went up by more than 1 percentage point, while interest rates on individual mortgages remained flat during this period. The weighted average interest rate on new deposits stayed practically unchanged at 1.7 percent. As a result, the interest rate margin[5] remained at 4.8 percent during the third quarter of 2018 (Chart 14).

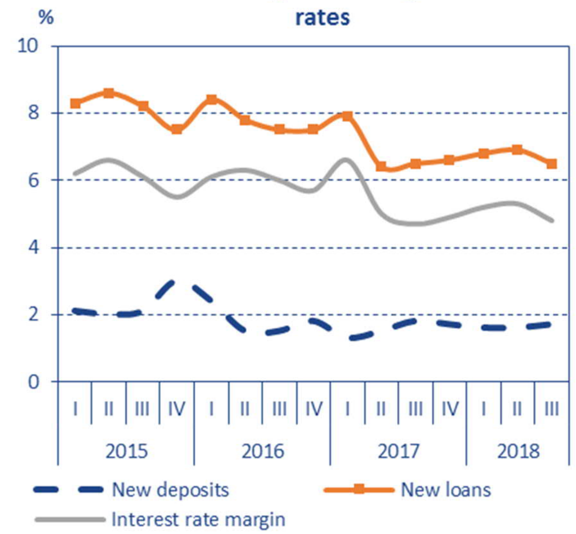
The financial soundness indicators improved during the first three quarters of 2018. The capital adequacy ratio recorded a growth, with the aggregated regulatory capital (Tier I+II) to risk-weighted assets ratio expanded by 1.8 percentage points to 32.5 percent. The nonperforming loans (NPLs) ratio for the third quarter of 2018 contracted (-0.3 percentage point) to 3.7 percent, reflecting stronger loan performance.

Government

The fiscal deficit (on a cash basis) stood at Afl. 41.2 million, or 0.8 percent of GDP, for the first nine months of 2018, an improvement of Afl. 99.9 million compared to the same period of 2017. This outcome was driven by an increase in both tax and non-tax revenues, while

[5] This margin is calculated as the differential between the weighted average interest rate on new loans and the weighted average interest rate on new deposits.

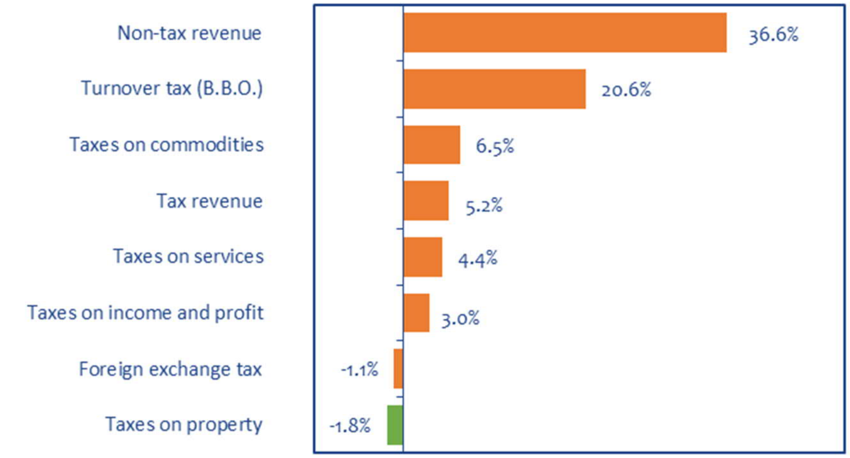
Chart 14: Weighted average interest rates



expenditures contracted. Total government debt reached Afl. 4,389.3 million, expanding by Afl. 230.4 million compared to end-December 2017.

Government revenue rose by Afl. 74.7 million (+8.5 percent) in the first nine months of 2018, registering a total of Afl. 950.9 million compared to the same period of 2017. Revenues were pushed up by both tax revenues (+5.2 percent) and non-tax revenues (+36.6 percent). Almost all tax components expanded, except for taxes on property and the foreign exchange tax. Income from taxes on property contracted by 1.8 percent (Afl. 1.2 million), due mostly to an Afl. 2.9 million drop in revenue from land tax, as many tax assessments for the land tax were not sent by the Tax Department until October 2018. Receipts from taxes on income and profit grew by 3.0 percent (+Afl. 10.3 million), driven largely by a rise in the wage tax component as a result of higher compliance and an increase in tax arrears collection. Furthermore, revenue from taxes on commodities rose (+6.5 percent), as income from import duties (+14.3 percent) accelerated in comparison to 2017. The investments in personnel training of the customs department are showing results through improved compliance. Proceeds from the turnover tax rose significantly by Afl. 16.1 million (+20.6 percent), due primarily (as noted above) to the introduction of the BAVP in July 2018. Non-tax revenues surged by Afl. 33.8 million, pushed up for the most part by dividend payments from state-owned entities.

Chart 15: Government revenue (percentage change 2018 Jan-Sep vs 2017 Jan-Sep)



Source: Tax Collector's Office

Outlays on expenditure (on a cash basis) fell by Afl. 23.5 million (–2.3 percent) to Afl. 976.9 million in the first three quarters of 2018 compared to the same period of 2017. The effect of the cessation of the development fund is still noticeable, as development fund spending dropped by Afl. 32.0 million compared to the first nine months of 2017. Development fund spending halted in the fourth quarter of 2017 as was agreed at its initiation. Furthermore, transfers to the general health insurance (AZV) contracted by Afl. 19.4 million, most likely due to the rise of the BAZV rate in July 2018.

Additionally, goods and services registered a marginal decrease of Afl. 1.2 million. On the other hand, transfers and subsidies expanded by Afl. 12.8 million (+8.5 percent). Furthermore, all personnel-related components noted growths, in part due to financial settlements with contract-based employees.

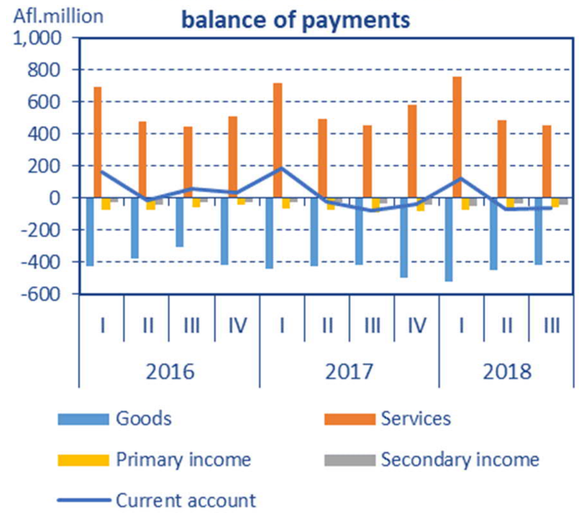
In the first three quarters of the year, government debt rose by Afl. 230.4 million to Afl. 4,389.3 million. Domestic debt increased by Afl. 58.9 million to Afl. 2,095.4 million compared to end-December 2017. The share of domestic debt stood at 47.7 percent. In the third quarter of 2018, there was an external bond issue for the amount of Afl. 223.8 million with an eleven-year maturity and an annual yield of 6.5 percent.

Balance of Payments

In 2018, the CBA introduced a revised balance of payments presentation based on the latest IMF guidelines. Consequently, the overall balance of payments is presented without a surplus or deficit. The most important change in the presentation of the balance of payments is that banking transactions, as well as the change in the official reserves, are now included in the financial account. A complete description of the changes can be found in the note "New classifications and presentation of the balance of payments for Aruba", available on the website of the CBA.

In the first three quarters of 2018, the current account recorded an Afl. 10.5 million deficit instead of a surplus in the corresponding period of the previous two years (Chart 16). Import payments of goods increased by 14.8 percent, hitting a high of Afl. 1,650.0 million. Export payments of goods grew relatively faster (+63.8 percent), but because of the low export volume, this growth had considerably less impact. The deficit on the goods balance grew to Afl. 1,382.8 million. The surplus on the services account widened to Afl. 1,693.4 million (+1.7

Chart 16: Current account of the balance of payments



percent) thanks to Afl. 221.5 million higher income from tourism (+9.1 percent). The deficit on the primary income account (consisting mainly of cross-border income from labor, investment, and rent) shrank by 8.5 percent to Afl. 204.1 million. The deficit on the secondary income account (previously current transfers) expanded significantly compared to the first half of 2017 because of the relatively large insurance claims vis-à-vis domestic insurers in 2018 (+Afl. 40.2 million) related to the hurricane damage in Sint Maarten last year.

The financial account resulted in a net borrowing of Afl. 38.3 million in the first three quarters of 2018, compared to new lending of Afl. 70.9 million in the same period of 2017. Aruban residents invested a net amount of Afl. 346.3 million abroad, mainly the result of an Afl. 192.4 million net acquisition of currency & deposits and net purchases of foreign debt securities (+Afl. 43.8 million) and reserve assets (+Afl. 104.6 million in debt securities). Foreigners invested a net amount of Afl. 384.5 million in Aruba, stemming from the purchases of intercompany debt securities (Afl. 123.2 million) and real estate (Afl. 72.4 million), but above all the Afl. 192.7 million net purchase of Aruban government paper.

II. International developments

Internationally, the latest view is that global expansion has weakened.[6] The IMF estimated that global growth for 2018 will probably amount to 3.7 percent. Third-quarter growth was disappointing in some economies, partly due to incidental factors such as new fuel emission standards in Germany and natural disasters in Japan. But these developments occurred against a backdrop of weakening financial market sentiment, trade policy uncertainty, and concerns about China's outlook. The IMF also pointed out that crude oil prices have been volatile lately

[6] IMF World Economic Outlook, update January 2019.

and that prices of metals and agricultural commodities have softened slightly. Consumer price inflation in advanced economies has generally remained contained in recent months.

The Bureau of Economic Analysis (BEA) estimated that the U.S. real gross domestic product (GDP) increased at an annual rate of 3.4 percent in the third quarter of 2018.[7] This growth reflected positive contributions from personal consumption expenditures, private inventory investment, nonresidential fixed investment, and government spending that were partly offset by negative contributions from exports and residential fixed investment. Imports, which have a negative contribution to GDP, increased. Second-quarter growth was 4.2 percent, which means that although economic expansion is slowing, the United States currently recorded higher growth rates than posted in the last three years.

The OECD also noted a reduction in GDP growth rates in a majority of the G20 economies.[8] Growth of real gross domestic product (GDP) in the G20 area eased to a quarterly rate of 0.8 percent in the third quarter of 2018, compared to 1.0 percent in the previous quarter. Growth slowed significantly in Australia, and, to a lesser extent, in India, Canada, Russia, China, and the United States. GDP contracted in four G-20 countries (Turkey, Japan, Germany, and Italy). On the other hand, growth rebounded in Mexico, South Africa, and Brazil, and, to a lesser extent, in the United Kingdom and France. Year-on-year GDP growth for the G20 area slowed to 3.6 percent in the third quarter of 2018 (from 3.8 percent in the previous quarter).

Quarterly data from ECLAC show that Latin America's GDP growth also slowed down throughout 2018, as the year-on-year rates for the second and third quarters were both down on the previous quarter.[9] Private consumption remained the strongest growth driver within domestic demand, although it began to slow in the second quarter. For the year 2018 overall,

[7] BEA, Press release BEA 18-71, Gross Domestic Product, 3rd quarter 2018 (third estimate) (December 21, 2018).
[8] OECD Press release, GDP growth weakens in a majority of G-20 economies (December 18, 2018).
[9] ECLAC, Preliminary Overview of the Economies of Latin America and the Caribbean 2018.

economic growth is estimated at 1.2 percent in Latin America and the Caribbean, down slightly from the 1.3 percent achieved in 2017. In the Caribbean, recovery from the impact of the natural disasters that occurred in 2017 contributed to producing a stronger growth rate in 2018, at 1.9 percent, compared to 0.2 percent in 2017. ECLAC figures show that public debt in the Caribbean fell by 1.8 percentage points from its 2017 level to 72.1 percent of GDP in 2018 (second quarter). However, some countries still have debt levels exceeding 100 percent of GDP; this is the case for Barbados and Jamaica, albeit both countries have reduced their indebtedness considerably.

III. Concluding remarks

In the first nine months of 2018, Aruba's economy continued to perform better than in 2017. The tourism sector did well in the first nine months of 2018. The number of stay-over visitors grew by 1.5 percent, while visitor nights recorded a similar result (+1.6 percent). As in previous quarters, the U.S. market was the key driver for this favorable outcome. The Venezuelan market stayed on its downward path through three quarters of 2018. When Venezuelan tourists are excluded from total visitors, the recorded growth reaches 6.6 percent. The North American market accounted for 73.9 percent of the market share. This lack of diversification creates vulnerabilities for the Aruban economy in the case of negative shocks in North America. The hotel sector reported a solid performance in the first nine months of 2018. While average room occupancy faced a minor increment of 0.2 percentage point to 85.6 percent, both the average daily room rate (ADR) and the revenue per available room (RevPAR) improved significantly (+11.5 percent and +11.7 percent, respectively). Tourism credits, reported by the commercial banks, resulted in an increase of 9.6 percent year-to-date September 2018.

Consumption indicators showed mixed results in the first nine months of 2018. Higher revenues were observed from the turnover tax (+1.8 percent including a correction for the rise in tariffs), as well as import duties (+14.3 percent). Bank credit figures reflect a downturn in consumption as consumer credit moved downwards by 3.4 percent in the first three quarters of the year compared to December 2017. Consumer sentiments continued pessimistic in the third quarter of 2018. The components of expectations, consumption habits, and price index showed improvements, but all of them stayed in negative territory. The only component with a falling trend was the Present Situation Index, which declined by 2.4 to 92.6.

Investment indicators also provided divergent patterns. Both the number as well as the value of granted construction permits decreased. This development was attributed mostly to two large tourism-related projects for which building permits were granted in 2017; no permits for projects of that scale had been issued in 2018. However, the two large projects led to substantial investments in 2018. Total volume of cement imports grew significantly in the first three quarters (+43.9 percent) of the year, while the total amount of both household and commercial mortgages compared to December 2017 increased steadily. The business perception index (BPI) was relative pessimistic in the third quarter of 2018.

The 12-month average CPI inflation stood at 2.3 percent in September 2018 as the effects of higher gasoline and food prices were further amplified by a tightening of fiscal policy. The introduction of the BAVP and rise of the BAZV rate by 1.0 percentage point to 3.0 percent had an upward effect on prices. Core inflation noted a 1.2 percent growth in the first nine months of 2018. For the first time in three years, the real exchange rate of the florin vis-à-vis the US dollar increased in the third quarter of 2018. This means that Aruba's competitive position deteriorated relative to the United States.

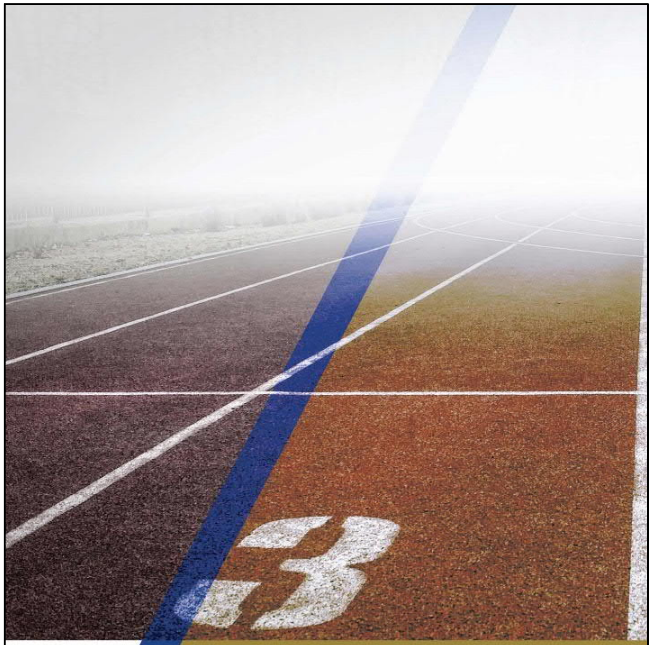
The money supply expanded during the first three quarters of 2018 by 3.2 percent to Afl. 4,373.8 million, compared to the fourth quarter of 2017. The net foreign assets grew by Afl. 39.7 million, meaning that reserves remained at an adequate level throughout the first three quarters of 2018. However, the buffer between the benchmark and the coverage ratio was steadily falling from 2.7 months in January 2017 to 1.8 months in September 2018. Domestic credit extended to the private sector by the banking sector increased to Afl. 3,215.7 million at the end of September 2018, +2.6 percent compared to December 2017, the result of an expansion in housing mortgages (+6.1 percent) and business loans (1.8 percent), while a contraction was registered for consumer credit (–3.4 percent).

The fiscal deficit (cash basis) stood at Afl. 41.2 million, or 0.8 percent of GDP, for the first nine months of 2018, an improvement of Afl. 99.9 million compared to the same period of 2017. This outcome was driven by an increase in both tax and non-tax revenues, and c ontracting government expenditures. Total government debt reached Afl. 4,389.3 million, expanding by Afl. 230.4 million.

Table: Main economic indicators first three quarters of 2018

Indicator	2017 Jan-Sep	2018 Jan-Sep	Change
Hotel revenue per available room (US$)	206	230	24
Stay-over visitors (numbers)	797,457	809,307	11,850
Cruise visitors (numbers)	537,069	568,261	31,192
Construction permits (Afl. million)	442	243	–199
Imports of machinery and electrotechnical equipment (Afl. million)	212	245	33
Turnover tax receipts (Afl. million)	78	94	16
Taxes on income and profit (Afl. million)	344	354	10
Twelve-month average rate of inflation (percent)	–0.4	2.3	2.7
Consumer confidence index (third quarter, index points)	96.5	94.3	–2.2

Sources: CBA, AHATA, ATA, CBS



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