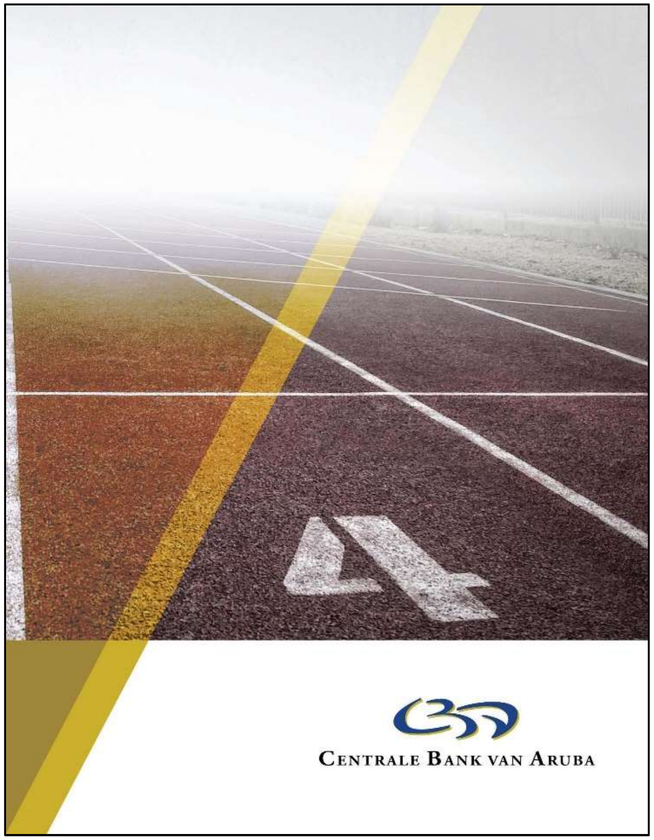


STATE OF THE ECONOMY

2018

ABSTRACT

In 2018, Aruba’s economy expanded (in real terms) by 0.9 percent. The main driver of growth was tourism service exports, which performed admirably well despite the continuous drop of the Venezuelan market. Other sectors of the economy lagged behind, resulting in lackluster investment and consumption behavior. The source market of the tourism sector became even more concentrated as the North American market, especially the United States, grew substantially faster than other markets.

Centrale Bank van Aruba

Contents

I. Domestic developments[1]

Economic growth

In 2018, Aruba's economy is expected to have expanded (in real terms) by 0.9 percent (Table 1). The main driver of growth was tourism service exports, which again performed admirably well despite the continuous drop of the Venezuelan market. Other economic activities lagged behind resulting in lackluster investment and consumption behavior. The source market within the tourism sector has become more concentrated as the North American market, especially the United States, grew substantially faster than other markets, reaching a market share of 73.3 percent at end-2018, up from 69.4 percent at end-2017.

The government financial situation improved in 2018 with the initial implementation of tax reforms to reach a sustainable path for government debt. The government's financial deficit fell to Afl. 45.2 million at the end of 2018, due primarily to a 6.5 percent expansion in government revenues, partly the result of the increase in the tariffs of the BBO, the BAZV and the BAVP as of July 1, 2018. Government expenditure decreased by 0.5 percent. Total government debt expanded by Afl. 127.6million to Afl. 4,286.5 million at the end of 2018, as the government borrowed both externally and domestically. This debt is equivalent to 74.8 percent of Aruba's gross domestic product (GDP) based on the GDP-figures issued recently by the Central Bureau of Statistics (CBS).

Following two years of deflation, the 12-month average CPI inflation accelerated to 3.6 percent in December 2018, caused by increasing gasoline and food prices along with the raise

Table 1: Growth of real GDP and its components

Indicator	2017 r	2018 e
GDP	2.0	0.9
Consumption	n.a.	-0.5
Private consumption	n.a.	-1.7
Public consumption	n.a.	2.3
Investment	n.a.	-0.8
Private investment	n.a.	-1.9
Public investment	n.a.	32.2
Exports	n.a.	2.1
Tourism exports	n.a.	2.7
Imports	n.a.	0.0

Source: CBA (except where indicated CBS)

r = realization (CBS); e = estimate (CBA); n.a. = not available

[1] The cut-off date for information published in the State of the Economy is July 2, 2019.

in indirect tax rates. Energy and food prices contributed to this rate of inflation by 0.7 and 1.0 percentage point, respectively. As a result, the (12-month average) core inflation amounted to 1.8 percent for 2018, up from 0.2 percent in 2017.

Tourism

Aruba's stay-over tourism grew in 2018, despite the continued slump in the Venezuelan market. According to the Aruba Airport Authority (AAA), nonresident airport arrivals reached a level of nearly 1.1 million (+1.1 percent) in 2018 (Table 2). This growth was attributed mainly to the U.S. market (+6.6 percent), which fully counteracted the collapse in the Venezuelan market (−47.7 percent). The North American market (United States and Canada) continued to represent the largest market share, increasing its share to 73.3 percent, followed by Latin America with 15.2 percent, while European countries accounted for 8.3 percent. The number of visitor nights expanded by 1.3 percent in 2018, driven by a 7.1 percent growth in visitor nights from the United States and Canada. The latter increases compensated for the significant contractions recorded in visitor nights from Latin America (−13.9 percent) and Europe (−5.3 percent). The drop in visitor nights from Latin America was explained by the closing of the border between Aruba and Venezuela. Visitor nights from Europe declined due to a significant slump in the U.K. market. The above-mentioned declines show the (risky) sensitivity and dependency of Aruba on the U.S. market, especially after closing borders with Venezuela. The average length of stay in Aruba edged up to 7.5 days. As usual, Dutch visitors stayed the longest although their average stay declined from 12.4 days in 2017 to 11.8 days in 2018.

Table 2: Tourism indicators for Aruba and the Caribbean (2018 vs. 2017)

Indicator	Aruba		Caribbean	
	2017	2018	2017	2018
Stay-over visitors (growth)	-2.9	1.1	2.3	-2.3
excl. Venezuela	9.1	5.9	n.a.	n.a.
Average length of stay (days)	7.4	7.5	n.a.	n.a.
Cruise visitors (growth)	20.8	2.9	2.6	6.7
Hotel occupancy (%)	85.4	84.6	66.0	65.2
Average daily rate (US$)	241	268	204	208
Revenue per available room (RevPAR) (US$)	206	227	135	135
Tourism credits (growth)	5.5	8.2	n.a.	n.a.

Sources: ATA, AHATA, APA, CTO, STR

The figures from the Aruba Hotel and Tourism Association (AHATA) indicate positive results for the hotel sector despite a small contraction in room occupancy. Average room occupancy declined by 0.8 percentage point when compared to the year before; however, the average daily room rate (ADR) jumped by 11.3 percent to US$ 268. The revenue per available room (RevPAR) also rose by 10.3 percent to US$ 227.

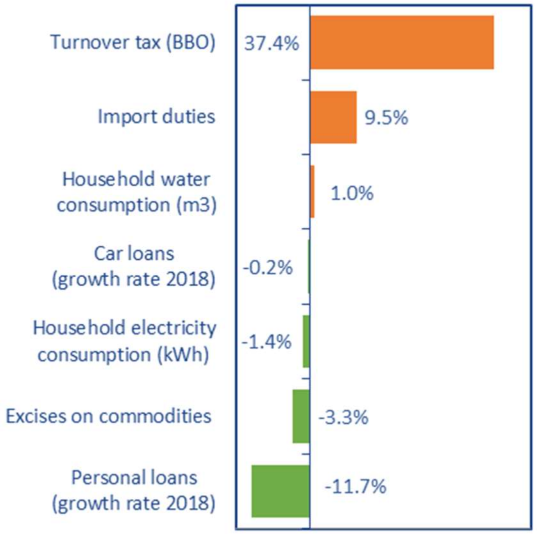
The number of cruise passengers grew by 2.9 percent (to 815,161 passengers) in 2018, despite a slow-down in the last quarter. A total of 334 cruise ships entered the harbor in 2018, 18 ships fewer (–5.1 percent) than in 2017, indicating that larger ships visited Aruba. The income from tourism, as measured in the balance of payments (the so-called tourism credits), expanded by 8.2 percent, up from 5.5 percent in 2017. Tourism credits grew in each quarter of 2018, but especially in the first quarter peaking at a growth rate of 10.3 percent.

Tourism growth in Aruba outpaced that of the Caribbean destinations as a whole. All tourism indicators, with the exception of cruise visitors, show that Aruba outperformed Caribbean destinations on average as indicated by figures from the Caribbean Tourism Organization (CTO) (Table 1). In terms of stay-over visitors, Caribbean destinations recorded a decline of 2.3 percent for 2018, while Aruba registered growth after two years of decline. The hotel sector also outperformed that of the Caribbean as a whole; average hotel occupancy for Aruba reached 84.6 percent, while that of the Caribbean as a whole was 65.2 percent. Both ADR and RevPAR were also significantly higher for Aruba. Aruba’s strong performance might be due in part to tourists seeking alternative holiday destinations after hurricanes Irma and Maria hit the Caribbean in 2017 causing massive destruction (e.g., in Puerto Rico). However, 2019 might bring increased competition for Aruba, following restoration of tourism services in other Caribbean destinations.

Consumption

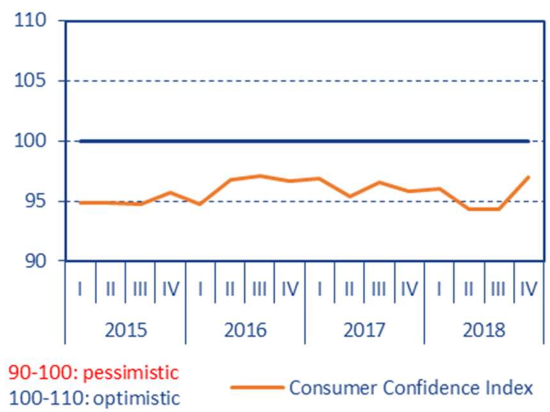
Consumption for the year 2018 contracted at an estimated 1.7 percent in real terms. Tax indicators for consumption show higher revenues from the turnover tax (+37.4 percent) and

Chart 1: Consumption-related indicators
(value percentage change 2018 vs. 2017)



Sources: CBA, WEB, Tax Collector's Office

Chart 2: Consumer Confidence Index



import duties (+9.5 percent), while the proceeds from the excises on commodities noted a decrease (–3.3 percent) compared to 2017. However, interpreting these developments requires some caution. First, the majority of the growth in the turnover tax receipts was related to the new levy “Belasting additionele voorzieningen PPS-projecten” (BAVP), introduced on July 1, 2018. When the BAVP is not taken into account, turnover tax revenues grew by a modest 0.3 percent in the period under review. This minor growth, furthermore, does not indicate an increase in consumption in real terms, when one considers the aforementioned level of inflation for 2018. Also, the expansion in import duties was attributed in part to the Customs Department’s continued efforts to strengthen compliance and import inspections. Last, the decline in excises on commodities is related mainly to gasoline excises which revenue transfers occasionally were delayed causing some uncertainty in the annual growth rate. The indicators with regard to utilities also give an ambiguous indication as water usage registered an upturn of 1.0 percent, while household electricity consumption (kWh) contracted by 1.4 percent (Chart 1).

Bank credit figures suggest a slowdown in consumption as consumer credit decreased by 5.5 percent in 2018, with contractions in all of its components compared to December 2017. The reduced level of consumer credit stemmed mostly from an Afl. 26.8 million (–11.7 percent) downturn in personal loans, which remained on a downward trend to reach the lowest level recorded since the year 2006 (Afl. 202.5 million) in December 2018. Simultaneously, credit card loans recorded an Afl. 2.1 million (–2.1 percent) reduction, while car loans diminished slightly by Afl. 0.3 million (–0.2 percent).

On average, consumer sentiments contracted by 0.8 percentage point in 2018 to 95.4. While all components for the index were pessimistic, the Consumption Habits Index strengthened by 0.8 point. The Expectation Index noted the largest decrease (–2.4 points), followed by the Present Situation Index (–1.1 points) and the Price Expectations Index (–0.6 points). In the last quarter of 2018, consumer sentiments improved compared to the previous quarter with the

Consumer Confidence Index (CCI) increasing by 2.7 percentage points to 97.0 (Chart 2). Nevertheless, all components continued to reflect pessimism. The largest expansion was recorded in the Expectations Index (+3.4 points), as consumers had positive expectations about their personal financial situation.

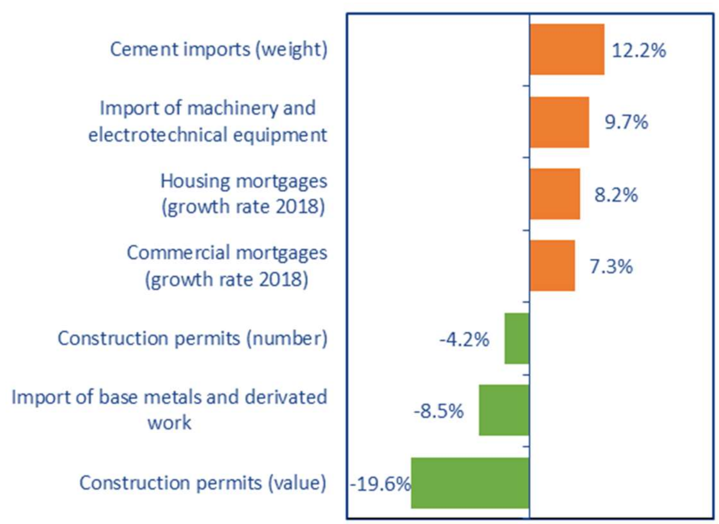
According to the Labor Force Survey (LFS), the number of employed persons was 0.8 percent lower in 2018. Hence, the drop in unemployment, from 8.9 percent in 2017 to 7.3 percent in 2018, did not coincide with an increase in the number of jobs. Instead, there was a 7.6 percent increase in the inactive population.

Investment

According to the latest estimates, the total level of investment (in real terms) contracted with 1.9 percent in 2018. In the year under review, there were no new sizeable infrastructure projects to replace the investment streams from the Green Corridor project, which reached completion in 2017. In addition, the construction of a large tourism project, the Embassy Suites, experienced delays. The timeline of WEB Aruba N.V.'s RECIP project was also moved up to 2019, while other minor projects were put on hold.

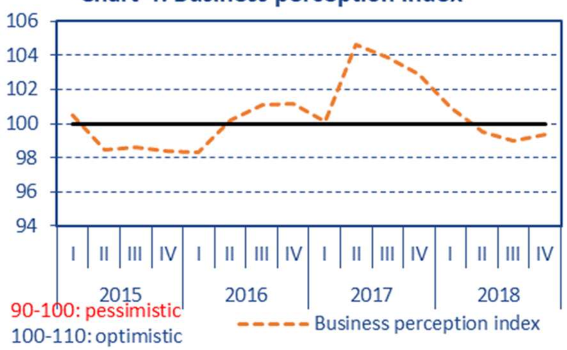
However, the available investment indicators show different trends. On the one hand, the increase in the total volume of cement imports (+12.2 percent) and imports of machinery and electrotechnical equipment (+9.7 percent) (Chart 3) reflects the ongoing activities related to relatively large construction projects, such as the Watty Vos Boulevard, the Embassy Suites, and the Dr. Horacio H. Oduber Hospital. On the other hand, imports of *base metals and derivated works* contracted by 8.5 percent. The available credit indicators related to investment also give an encouraging picture of investment activities, as both the total amount of commercial mortgages and housing mortgages expanded

Chart 3: Investment-related indicators
(value percentage change 2018 vs. 2017)



Sources: CBA, CBS, DOW

Chart 4: Business perception index



significantly in 2018 compared to December 2017, i.e., by 3.7 percent and 8.1 percent, respectively.

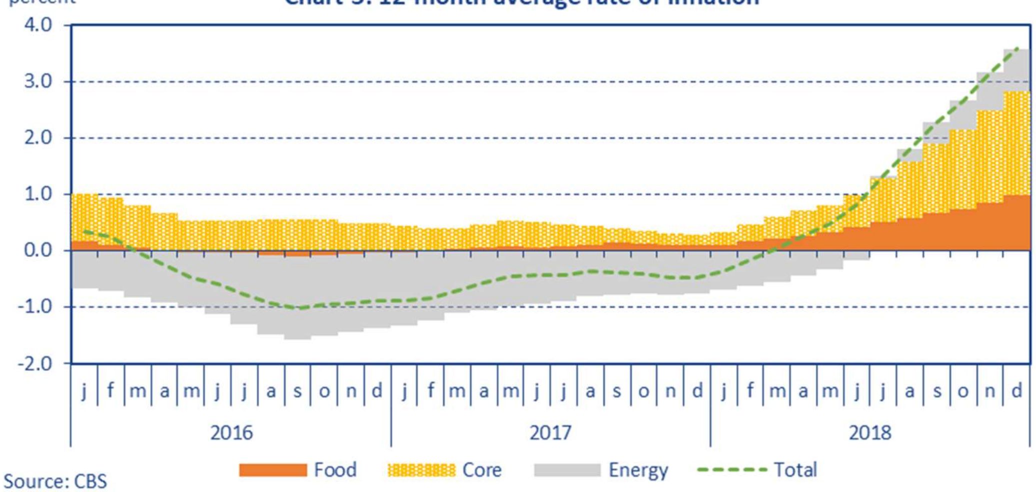
The number and value of newly granted construction permits indicate a slowdown in construction. However, the 19.6 percent drop in the value of construction permits and the 4.2 percent decline in the number of newly granted construction permits in 2018 should be placed in the context of developments that took place in the year 2017 when two projects in the tourism industry were responsible for the issuance of permits with a very high value. In 2018, no permits were issued for projects on that scale; therefore, the 2018 figures necessarily fall behind in comparison to 2017. As can be seen from most of the other investment indicators, the construction of the 2017 projects led to substantial investments in 2018.

The average quarterly business perception index (BPI) worsened in 2018 compared to 2017, but remained optimistic at 100.8. The contraction of 2.7 percentage points resulted from reductions in both the short-term future economic condition index and the current economic condition index. The sectors *utilities*, *hotels and restaurants*, and *financial intermediation* reported a strong sense of pessimism in short-term future conditions. With regard to the current economic condition index, the sectors *financial intermediation*, *real estate and other business activities*, *utilities*, *manufacturing*, and *construction* contributed negatively to the change in the index. The quarterly indexes show that in the fourth quarter of 2018, after a downward trend during the previous five consecutive quarters, confidence again increased slightly (+0.4 percentage point) to 99.4 (Chart 4). While the short-term future economic condition index improved by 2.7 percentage points to 99.7 in the fourth quarter, the current economic condition index declined by 1.2 points to 99.1.

Consumer Price Index (CPI)

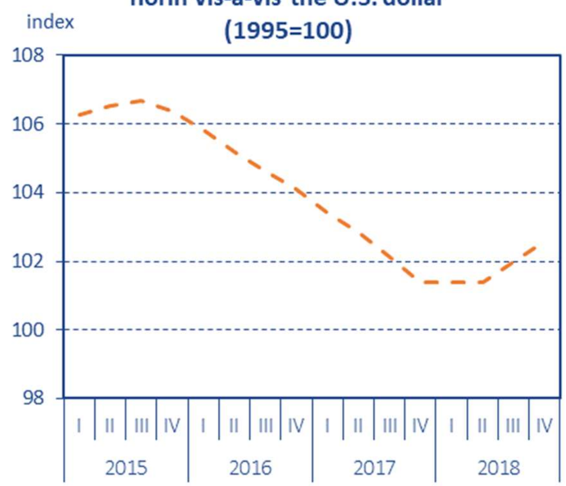
In 2018, the 12-month average CPI inflation accelerated to 3.6 percent following declines in the previous two years. The acceleration was caused by increased gasoline and food prices along with an expansion in indirect tax rates. CPI inflation continued in the direction of previous quarters: a rising trend that led to an end-of-period inflation of 4.6 percent in December 2018. Energy and food prices increased by 0.8 and 1.0 percentage point, respectively. Despite the re-opening of the Venezuelan border in June 2018, the domestic prices of imported food and vegetables continued to rise throughout the year. Also, the introduction of BAVP and a higher BAZV tariff pushed up core inflation to 1.8 percent for 2018 (Chart 5), up from 0.2 percent in 2017.

Chart 5: 12-month average rate of inflation



Source: CBS

Chart 6: Real exchange rate Aruban florin vis-à-vis the U.S. dollar (1995=100)



For the second consecutive quarter, the real exchange rate of the florin vis-à-vis the US dollar increased in the fourth quarter of 2018, after being on a downward trend since the third quarter of 2015 (Chart 6). This turnaround indicates a deterioration in Aruba's competitive position relative to the United States, explainable by the tightening in fiscal policies. However, no significant change was observed in the real exchange rate index in the longer term as the index stood at 102.6 (1995 = 100) in 2018.

Foreign trade

Aruba's trade deficit climbed to Afl. 2,129.8 million in December 2018, an increase of Afl. 158.4 million (8.0 percent) compared to December 2017. The widening in the trade deficit was caused primarily by an expansion in imports of Afl. 148.8 million (Table 3). Notable increases were registered in the imports of *machinery and electrotechnical equipment* (+Afl. 28.7 million, possibly related to infrastructural projects), *mineral products* (+Afl. 16.8 million, explained by world oil price rise), *food products* (+Afl. 14.1 million, caused largely by the closing of the border between Venezuela and Aruba), and *optical instruments* (+Afl. 13.9 million), as well as the miscellaneous category *various goods and products* (+Afl. 26.2 million). Furthermore, exports of goods declined by Afl. 10.0 million, fully attributable to the category *base metals and derivated work*.

The United States remained Aruba's largest trading partner, responsible for 57.9 percent of all imports up to the fourth quarter. Other countries with a substantial growth in the share of imports are Mexico, China, Canada, and Brazil. The share of imports from Venezuela continued to decline as a result of trade sanctions imposed by the Venezuelan government.

Table 3: Share of imports of goods by country of origin (%)

Country of origin	2017	2018
United States	57.6	57.9
Netherlands	13.5	12.9
China	2.4	2.8
Panama	2.7	2.6
Colombia	2.0	2.1
Brazil	1.8	2.1
Mexico	1.3	2.0
Spain	1.5	1.4
Curaçao	1.3	1.3
Switzerland	1.1	1.1
Korea Republic (South)	1.3	1.1
Japan	1.1	1.1
Canada	0.6	0.9
Venezuela	1.6	0.6
Other countries	10.0	10.2
Total (Afl. million)	2,056.7	2,205.1
Source: CBS Aruba		

Monetary survey

The total money supply increased in 2018, predominantly because of an expansion in savings and time deposits. Total credit granted by the commercial banking sector also noted an expansion during this period, reflecting primarily a continued growth in housing mortgages. During the same period, net claims on the public sector expanded. The weighted average interest rate fluctuated during the year, but ultimately rose while the financial soundness indicators measured improvements during 2018.

At the end of 2018, the total money supply reached a level of Afl. 4,376.9 million, a gain of Afl. 137 million over the Afl. 4,239.9 million registered in 2017. This increase in 2018 was attributed to an expansion of Afl. 124.9 million (+6.9 percent) in quasi-money resulting from Afl. 38.7 million higher saving deposits and Afl. 86.3 million higher time deposits held at the commercial banks. The domestic component of money creation contributed approximately

Chart 7: Housing mortgages (commercial banks)
(annual growth rate)

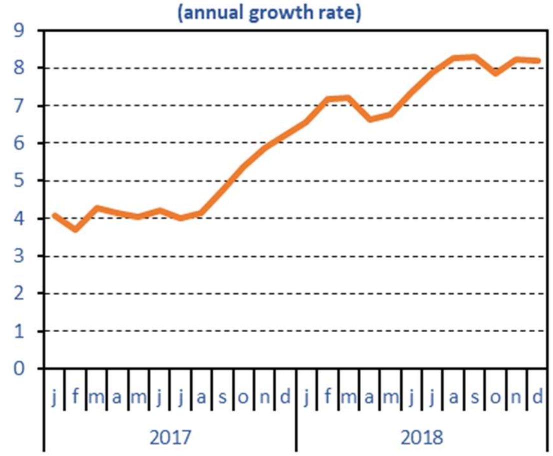
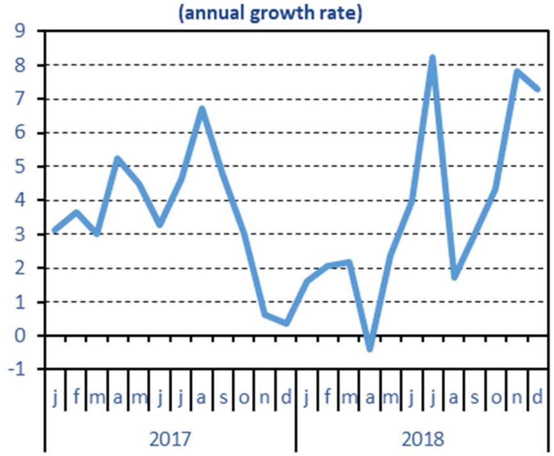


Chart 8: Commercial mortgages (commercial banks)
(annual growth rate)



one-third of the broad money growth (+Afl. 45.7 million), the remainder being the inflow of foreign funds (+Afl. 91.4 million). Gross official reserves reached a level of Afl. 1,778 million, which is estimated to be 87.4 percent of the minimum adequacy requirements according to the IMF Assessing Reserve Adequacy (ARA) metric, introduced as an additional benchmark to assess the foreign reserve holdings of Aruba.

Domestic credit extended to the private sector by the monetary sector went up by 3.6 percent to Afl. 3,245.5 million at the end of December 2018 compared to December 2017. This expansion was caused mainly by a rise of Afl. 100.2 million (Chart 7) in housing mortgages, while a contraction of Afl. 27.1 million was registered for consumer credit. Consumer credit continued on a downward slope for the third consecutive year, whereas housing mortgages rose steadily during the same period. Business loans increased by Afl. 38.3 million primarily because of continued growth of commercial mortgages (Chart 8).

Total housing mortgages (including other financial institutions) expanded by 5.3 percent to Afl. 1,919.0 million at end-2018. The share of the commercial banks in housing mortgages granted stood at 69.5 percent at the end of 2018, and is slowly but surely growing. Consequently, the importance of the other suppliers in this market is gradually diminishing: the mortgage banks currently have a share of 10.3 percent, while the pension funds have a somewhat higher market share at 14.2 percent.

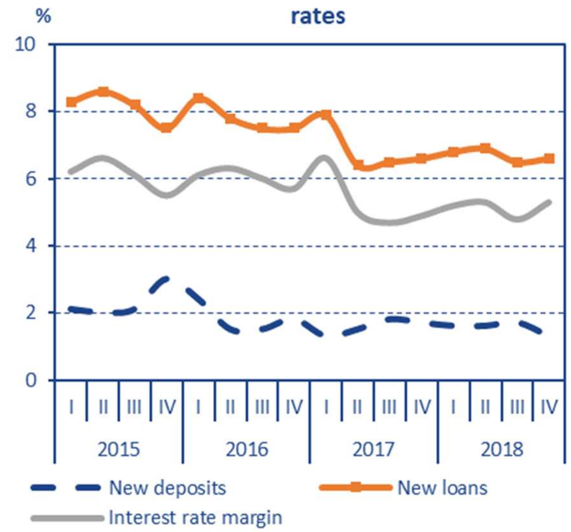
The net claims on the public sector by the monetary sector grew by 8.5 percent to Afl. 434.1 million at the end of 2018 compared to end-2017. This development was triggered by large purchases of treasury bills from the government by the commercial banks in November and December 2018. On the other hand, government deposits grew by Afl. 22.8 million during 2018.

The aggregated balance sheet of the nonmonetary financial institutions widened by 3.0 percent in 2018 to a total of Afl. 5,958.7 million. On the assets side, this increase was due mainly to higher domestic claims on other financial institutions. On the liabilities side, total pension fund provisions grew by 2.5 percent to Afl. 3,061.8 million in December 2018 compared to December 2017. At the same time, total insurance reserve funds measured Afl. 1,246.9 million, an expansion of 8.0 percent.

The quarterly weighted average interest rate on new loans fluctuated slightly during 2018, but edged up from 6.5 percent year-end in 2017 to 6.6 percent towards the end of 2018. That of the new commercial term loans and current account overdrafts declined, accompanied by a reduction in rates on new commercial mortgages. In contrast, both new consumer credit as well as housing mortgages registered an increase in interest rates during the year. The weighted average interest rate on new deposits fell to 1.3 percent. The resulting interest rate margin[2] fluctuated during 2018, but ultimately increased to 5.3 percent (Chart 9).

The financial soundness indicators improved during 2018. The capital adequacy ratio recorded a 1.5 percentage point increase to reach 32.2 percent, more than twice as high as the minimum required ratio of 16 percent. The nonperforming loans (NPLs) ratio for 2018 contracted by 0.1 percentage point towards 3.9 percent, indicating a minor loan performance enhancement. The profitability within the commercial banking sector, as measured by the return on assets (before taxes), declined by 0.3 percentage point during 2018.

Chart 9: Weighted average interest rates



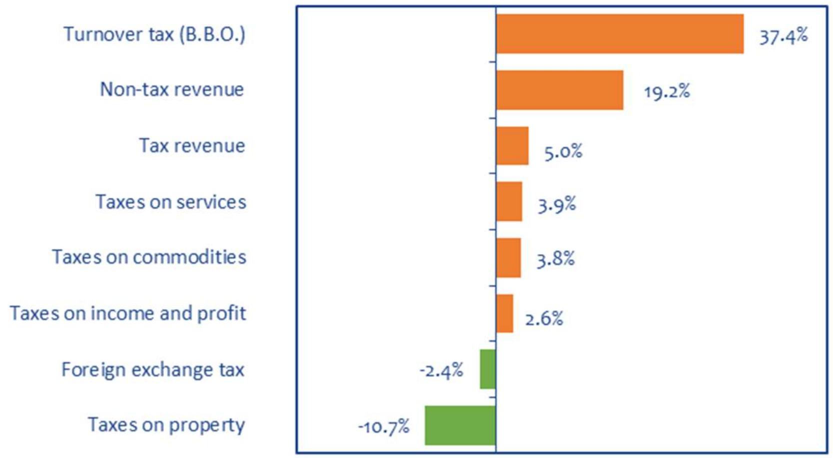
Government

The government financial situation improved in 2018 as the government began implementing new fiscal policies and tax reforms aimed at reaching a more sustainable path for government debt. The government's financial deficit fell by Afl. 87.2 million to Afl. 45.2 million at the end of

[2] 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 paid on new deposits.

2018, due primarily to a 6.5 percent expansion in government revenues. This expansion in government revenues was partly the result of the increase in the tariffs of the BBO, the BAZV and the BAVP effective July 1, 2018. Additionally, the rise in the BAZV rate reduced the general health insurance (AZV) deficit, and thus diminished the transfer by the government to the AZV to cover the deficit.

Chart 10: Government revenue (percentage change 2018 vs 2017)



Source: Tax Collector's Office

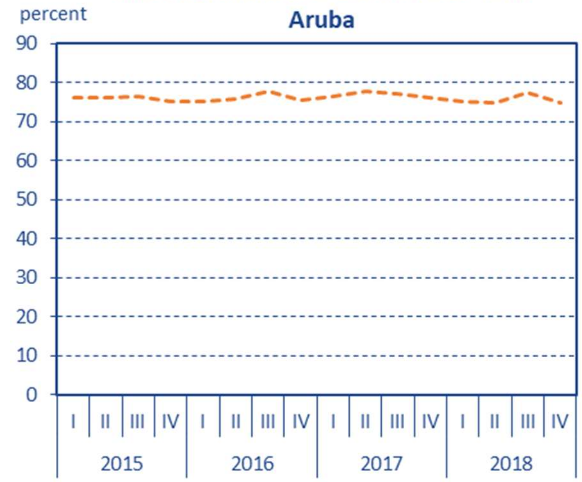
Total government revenue amounted to Afl. 1,299.4 million in 2018, an increase of Afl. 79.4 million compared to 2017. Both tax revenues (+5.0 percent) and non-tax revenues (+19.2 percent) contributed to this upward development (Chart 10). Tax revenues grew primarily by receipts from the turnover tax (BBO and BAVP; +37.4 percent), which was raised by 1.5 percentage point, with the introduction of the BAVP as of July 1, 2018. When excluding the introduction of the BAVP and the raise in the BBO rate, the BBO-proceeds remained, with a marginal increase of 0.3 percent, relatively flat. Furthermore, receipts from taxes on income and profit picked up (+2.6 percent), pushed up by a rise in the wage tax component (+4.5 percent) as a result of heightened compliance and tax arrears collection efforts. Income from taxes on commodities picked up (+3.8 percent), spurred by an expansion in receipts from import duties (+9.5 percent) likely due to a rise in imports as well as increased compliance and improved controls and registration of the Customs Department. Taxes on services rose (+3.8 percent) with gains recorded in all components. On the other hand, revenues from taxes on property declined (–10.6 percent), primarily because of a drop in land tax revenues that resulted from the tax assessments being sent out late in the year by the Tax Department. Additionally, income from the foreign exchange tax declined (–2.4 percent).

Government expenditure decreased by 0.5 percent to Afl. 1,325.6 million in 2018 compared to 2017. Development fund spending halted in the fourth quarter of 2017, which led to a drop of Afl. 32.0 million compared to 2017 spending. Furthermore, transfers to the AZV contracted by

Afl. 32.7 million, mainly as a result of the BAZV rate increase in July 2018. On the other hand, outlays on goods and services and transfers and subsidies expanded by Afl. 28.1 million and Afl. 13.2 million, respectively. Furthermore, personnel expenses grew in 2018 by Afl. 11.2 million after decreasing in 2017, due in part to financial settlements with contract-based employees. At the end of 2018, the Aruban government had the equivalent of 3,851 full-time employee (fte) civil servants on the wage bill. When teachers and coast guard staff are included, the figure was 4,823 fte's in 2018, 46 fewer than at the end of 2017.

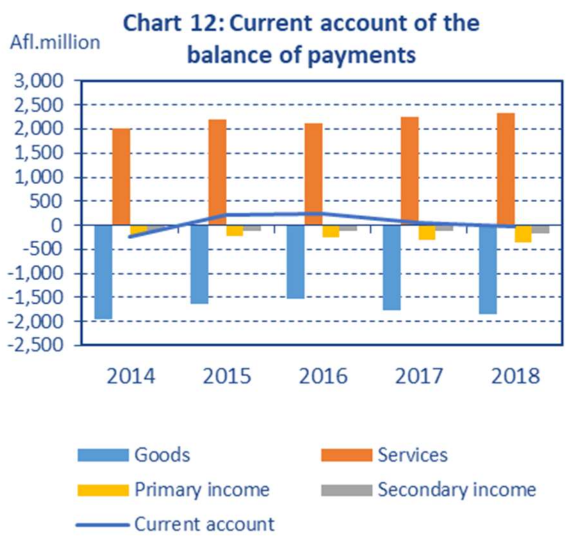
Total government debt expanded at the end of 2018, the result of external and domestic borrowing by the government. Total debt registered Afl. 4,286.5 million, an increase of Afl. 127.5 million compared to the end of 2017. This debt is equivalent to 74.8 percent of Aruba's estimated GDP (Chart 11). Compared to 2017, domestic debt edged up slightly by Afl. 1.5 million, while foreign debt rose by Afl. 126.1 million in 2018. These figures represent an upward shift in the share of external debt (+1.5 percentage point) to 52.5 percent. In 2018, the government placed domestic bonds in June and October for a total amount of Afl. 154.0 million and external bonds in August and December for Afl. 331.2 million. The bond placements were for coverage of the financial deficit as well as repayments due in 2018.

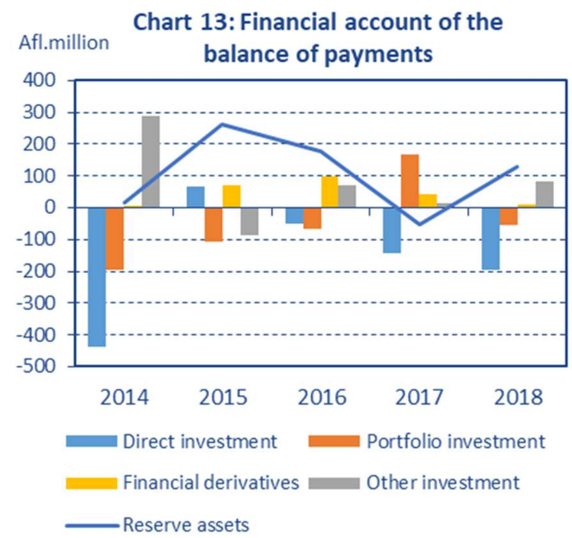
Chart 11: Estimated debt-to-GDP ratio Aruba



Balance of Payments

The current account of the balance of payments recorded an Afl. 24.4 million deficit in 2018 (Chart 12). This deficit was the first in four years and the continuation of a declining trend. The first quarter of 2018, with tourism at its peak level, was the only quarter with a current account surplus.





Import payments of goods increased by 9.4 percent, hitting as high as Afl. 2.2 billion. Export receipts of goods grew relatively faster (+44.2 percent) in 2018 than in 2017. But because of the low export volume, this growth had considerably less impact. The deficit on the goods balance grew to nearly Afl. 1.9 billion, up from nearly Afl. 1.8 billion in 2017. The surplus on the services account widened to Afl. 2.3 billion (+4.0 percent) thanks to Afl. 269.9 million higher income from tourism (+8.2 percent). The deficit on the primary income account (consisting mainly of cross-border income from labor, investment, and rent) expanded by 14.5 percent to Afl. 349.9 million. The deficit on the secondary income account (previously current transfers) expanded significantly (+34.3 percent) 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. In short, the growth of tourism income was insufficient to counteract the continuing expansion in payment outflows, mainly related to the imports of goods and services.

The financial account resulted in a net borrowing of Afl. 28.8 million in 2018, compared to a net lending of Afl. 29.6 million in 2017. Aruban residents invested a net amount of Afl. 270.5 million abroad, mainly the result of Afl. 95.0 million net purchases of foreign equity and debt securities by resident private investors, as well as an Afl. 107.7 million acquisition of foreign debt securities by the CBA. Foreigners invested a net amount of Afl. 299.2 million in Aruba, stemming from the issuance of intercompany debt by resident companies (Afl. 124.3 million), the purchase of real estate by nonresidents (Afl. 81.3 million), but above all, by the Afl. 151.5 million net purchase of Aruban government paper by foreign investors. In general, the direct investment and portfolio investment accounts recorded a net outflow of, respectively, Afl. 194.0 million and Afl. 56.5 million, while net inflows were noted in the financial derivatives (Afl. 11.0 million), other investment (Afl. 82.5 million) accounts, and the reserve assets (Afl. 128.3 million) (Chart 13).

Box: Real Estate Demand Price Survey

The CBA has been conducting the so-called Real Estate Demand Price Survey (REDPS) since the third quarter of 2012. Each quarter, the asking prices of 400 randomly selected houses are collected from real estate websites to determine the real estate demand price in Aruba. In the following, the median house demand price for each quarter of collected data is presented.

The median real estate price rose from Afl. 530,000 in the last quarter of 2017 to Afl. 550,000 in the last quarter of 2018 (Chart B1). Hence, the increasing trend observed since the end of 2012 continued; since 2012 the median house price rose by 11.1 percent, an annual average of 1.7 percent.

Table B1 shows the median price for each region in the last quarters of 2012, 2015, and 2018. Noord/Tanki Leendert remains the region with the highest house prices and San Nicolas (Noord and Zuid) the lowest. Note that the median price for San Nicolas Zuid tends to move erratically, probably because the housing market is relatively thin, and houses vary greatly in quality.

Chart B1: House demand price Aruba, median

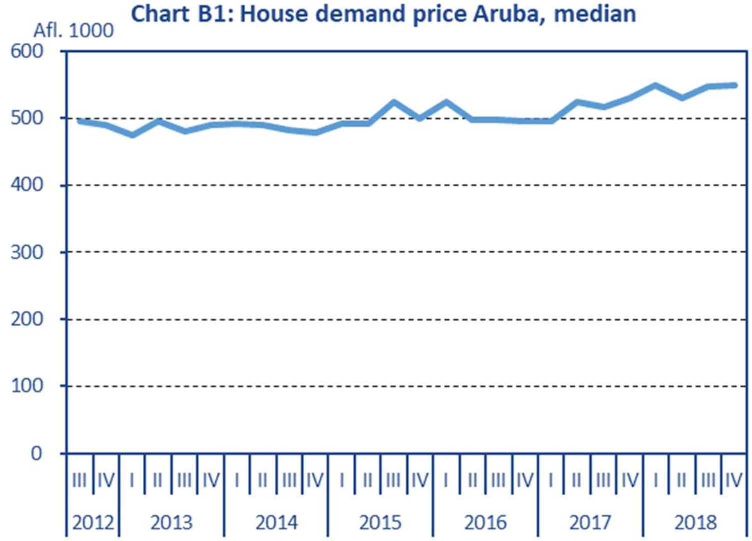


Table B1: House demand price per region (median) (Afl. 1000)

Region	2012 IV	2015 IV	2018 IV
Noord/Tanki Leendert	586.8	615.0	681.0
Oranjestad West	425.0	597.5	570.0
Oranjestad Oost	500.0	497.0	498.0
Paradera	475.0	450.3	608.8
Santa Cruz	432.5	447.3	510.2
Savaneta	346.5	346.5	391.9
San Nicolas Noord	337.5	375.0	398.5
San Nicolas Zuid	517.7	304.7	350.0
Aruba	489.3	500.0	550.0

II. International developments

Global economic expansion slowed down in 2018.[3] The IMF reduced its global (real) growth estimate for 2018 by 0.1 percentage point to 3.6 percent, reflecting weakness in the second half of 2018 which resulted from growing trade tensions and tariff hikes between the United States and China, reduced business confidence, tightening fiscal conditions, and higher policy uncertainties across many countries. The IMF notes that industrial production decelerated, notably across advanced economies, amid high policy uncertainty and weakening prospects for global demand. In addition, trade slowed as U.S. imports from China declined. Furthermore, energy prices dropped towards the end of 2018, as weakening global growth added downward pressure on prices. Consumer price inflation remained muted across advanced economies, given the drop in commodity prices.

The World Bank also reported that global trade decelerated more rapidly than expected, alongside softening industrial activity.[4] Trade policy uncertainty remained elevated, dampening global investment and trade. Furthermore, borrowing costs generally tightened in emerging markets and developing economies following a broad-based appreciation of the U.S. dollar, bouts of investor risk aversion, and increased focus on country-specific vulnerabilities.

Growth in Latin America and the Caribbean stalled at a subdued 0.6 percent in 2018, reflecting softening global trade and tighter external financing conditions, according to the World Bank. Developments in Brazil, Argentina, and Venezuela hindered regional growth. Growth moderated in Central America and strengthened in almost all Caribbean economies amid rebuilding after the severe 2017 hurricane season. A second-half bounce back allowed growth

[3] IMF, World Economic Outlook, April 2019.
[4] World Bank, Global Economic Prospects, January 2019.

in Brazil to accelerate slightly in 2018 to an estimated 1.2 percent. Argentina's currency crisis, associated sharp tightening of monetary and fiscal policies, and a severe drought led to an estimated 2.8 percent contraction. Venezuela's collapse continued as that nation's economy shrank 18 percent in 2018.

The ECB notes that growth weakened notably in the second half of 2018 and exhibited increased divergence among the largest euro area countries.[5] Growth in the euro area slowed down from quarterly rates of 0.4 percent in the first half of the year to 0.2 percent in the second half. In Germany, the sharp slowdown in the second half of the year was related in part to disruptions in the car industry, but also reflected broader weakness across sectors. In Italy, uncertainty, financial market volatility, and deterioration in business confidence had an increasingly adverse impact on economic activity. On the other hand, quarterly GDP growth in France and Spain in the second half of 2018 slightly exceeded the pace in the first half of the year.

U.S. economic growth abated to 2.2 percent in the fourth quarter of 2018, from 3.4 percent in the third quarter according to the Bureau of Economic Analysis (BEA). [6] The decelaration in real GDP growth in the fourth quarter reflected a slowdown in private inventory investment, personal consumption expenditures, federal spending, and a downturn in state and local government spending. These movements were offset partly by an upturn in exports and a deceleration in imports. For 2018, real GDP expanded by 2.9 percent compared with a growth of 2.2 percent in 2017, and was the strongest since 2015.

[5] ECB, Staff Macroeconomic Projections for the Euro Area, March 2019.
[6] BEA, News Release BEA 19-12, March 28, 2019.

III. Concluding remarks

In 2018, Aruba's economy experienced an estimated real growth of 0.9 percent. The main driver of growth was tourism services exports, which performed admirably well in 2018 despite further contraction in the Venezuelan market. Other sectors of the economy lagged behind resulting in lackluster investment and consumption behavior.

Tourism growth in Aruba outpaced that of the Caribbean destinations as a whole. All tourism indicators, with the exception of cruise visitors, show that Aruba outperformed Caribbean destinations on average, as indicated by figures from the Caribbean Tourism Organization (CTO). However, Aruba's buoyant performance in 2018 might have been due to tourists seeking alternative holiday destinations after hurricanes Irma and Maria hit the Caribbean in 2017 causing massive destruction (e.g., in Puerto Rico). Thus, 2019 may bring increased competition for Aruba, following restoration of tourism services in various Caribbean destinations.

Real consumption for 2018 declined by 1.7 percent. On average, in 2018 consumer sentiment contracted by 0.8 percentage point to 95.4. Partly due to delays and lack of new sizeable investment projects, the total level of investment (real terms) fell by 1.9 percent in 2018, according to the latest estimates. Despite this development, various other investment indicators show an inconclusive picture. The average business perception index (BPI) declined in 2018 compared to the previous year but remained at 100.8, still in the optimistic domain.

The 12-month average CPI inflation stood at 3.6 percent in December 2018, the effect of increased gasoline and food prices along with an expansion in indirect tax rates. Energy and food prices rose by 0.7 and 1.0 percentage point, respectively. Also, the introduction of BAVP and a higher BAZV tariff resulted in a core inflation of 1.8 percent for 2018. For the second consecutive quarter, the real effective exchange rate of the florin vis-à-vis the U.S. dollar increased in the fourth quarter of 2018. This indicates a deterioration in Aruba's competitive position relative to the United States, explained mainly by the tightening in fiscal policies.

The total money supply widened in 2018, predominantly because of an expansion in savings and time deposits. Total credit granted by the commercial banking sector also expanded during this period, caused primarily by a continuing growth in housing mortgages. During the same period, net claims on the public sector grew. The weighted average interest rate fluctuated during the year, but ultimately increased. Meanwhile, the financial soundness indicators measured improvements during 2018. Gross official reserves reached Afl. 1,778 million at end-2018. This level is estimated to be 87.4 percent of the minimum adequacy requirements according to the IMF Assessing Reserve Adequacy (ARA) metric, introduced as an additional benchmark to assess Aruba's foreign reserve holdings.

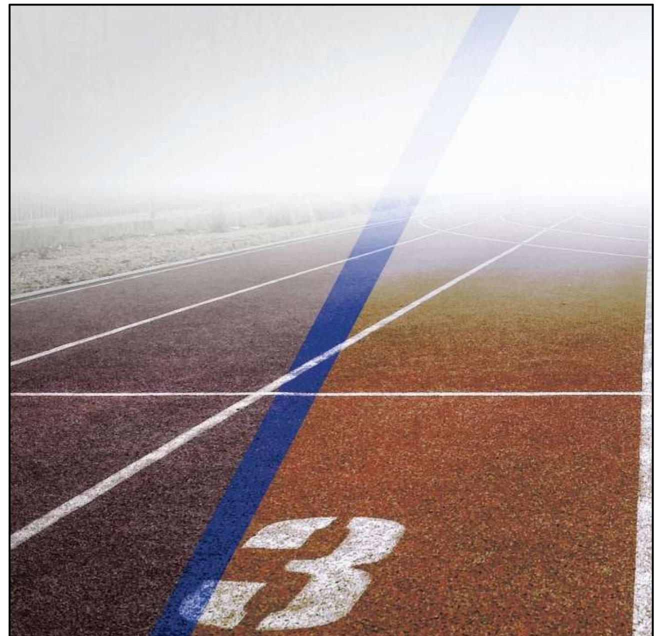
The government's financial situation improved in 2018, as it began tightening fiscal policies and reforming the tax system to reach a sustainable path for government debt. The government's financial deficit fell by Afl. 87.2 million to Afl. 45.2 million at the end of 2018, due primarily to a 6.5 percent expansion in revenues, partly the result of the increase in the tariffs of the BBO, the BAZV and the BAVP as of July 1, 2018. Additionally, the rise in the BAZV rate reduced the general health insurance's (AZV) deficit, and thus diminished the transfer by the government to the AZV to cover the deficit. Total government debt expanded by Afl. 127.6 million to Afl. 4,286.5 million at the end of 2018 as the government made several external and domestic borrowings.

The current account of the balance of payments recorded an Afl. 24.4 million deficit in 2018, the first deficit in four years. The first quarter of 2018, with tourism at its peak level, was the only quarter with a current account surplus.

Table 4: Main economic indicators 2018

Indicator	2017	2018	Change
Hotel revenue per available room (US$)	206	227	21
Stay-over visitors (number)	1,070,548	1,082,003	11,455
Cruise visitors (number)	792,384	815,161	22,777
Tourism credits (Afl. million)	3,299	3,569	270
Construction permits (Afl. million)	576	463	−113
Imports of machinery and electrotechnical equipment (Afl. million)	297	325	28
Turnover tax receipts (Afl. million)	104	143	39
Taxes on income and profit (Afl. million)	486	499	13
Twelve-month average rate of inflation (percent)	−0.5	3.6	4.1
Consumer confidence index (annual average, index points)	96.2	95.4	-0.8

Sources: CBA, AHATA, ATA, CBS.



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