Centrale Bank van Aruba

Economic outlook[1]

February 2021

[1] **This document includes estimates and forecasts that represent assumptions and expectations of the Centrale Bank van Aruba considering the information available up to and including October 15, 2020 for GDP and November 27, 2020 for BOP.** These estimates and forecasts involve significant uncertainties and are subject to change. Therefore, the actual results may differ from those estimated and projected in this document. Consequently, no guarantee is presented or implied as to the accuracy of specific estimates and forecasts contained herein. The Centrale Bank van Aruba does not assume any liability for any loss that may result from reliance on this information.

Contact:
Centrale Bank van Aruba
Research Department
researchmanagers@cbaruba.org

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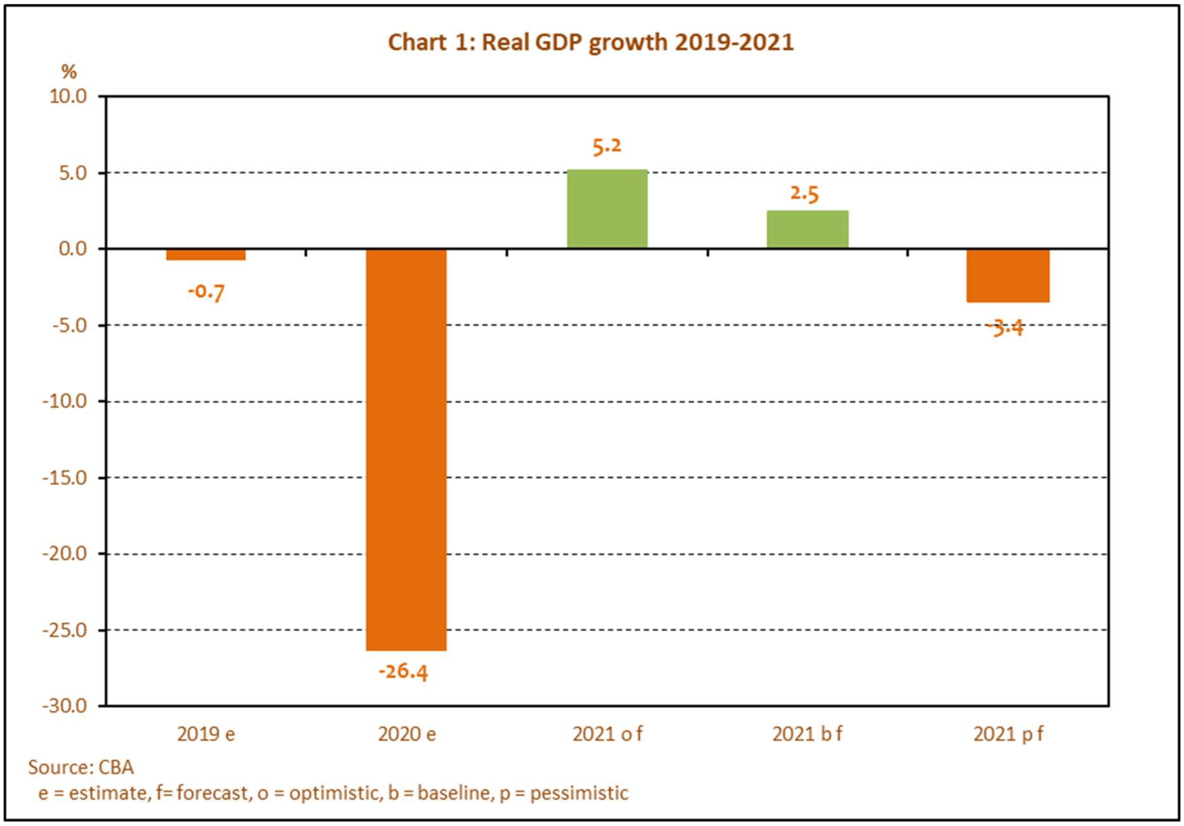
1. Introduction

The Research Department (RD) of the Centrale Bank van Aruba (CBA) recently updated its economic forecast for 2020 based upon *economic developments and available data up to and including October 2020*. In addition, the CBA performed its first projections for 2021**.** Considering the persistence of significant uncertainty in 2021 with regard to how the COVID-19 pandemic will evolve, several scenarios are presented. The baseline scenario is based on assumptions of the most likely developments regarding various important economic aggregates. In addition to the baseline scenario, both a pessimistic and optimistic scenario are included. The pessimistic and optimistic scenarios deviate from the baseline in terms of the speed of the tourism recovery. The latter impacts consumption, investment, and import and export levels.

This update incorporates new information on all components of the Gross Domestic Product (GDP).

In 2020, Aruba experienced a significant economic contraction, whereas the results for 2021 are highly dependent on the depth and length of the pandemic, the strength of the tourism recovery, as well as on the continuation of the government assistance program to businesses and individuals who have lost their job due to the COVID-19. Specifically, real GDP in 2020 is estimated to have crumbled by 26.4 percent. The economic slump in 2020 follows a steep decline in tourism activity, private consumption, and investments triggered by the Covid-19 pandemic and the subsequent measures taken by the Government of Aruba (GoA) to contain its spread. For 2021, real GDP is anticipated to grow by 2.5 percent under the baseline scenario, and 5.2 percent in the optimistic scenario, but would shrink further, i.e., by 3.4 percent in the pessimistic scenario (Chart 1).



2. Economic forecast

2.1 Gross domestic product and its components

In 2020, Aruba experienced a severe economic downturn; real Gross Domestic Product (GDP) is estimated to have faltered by 26.4 percent. For 2020, a decrease of 70.0 percent in stay-over visitors compared to 2019 is assumed, resulting in a decline of 56.6 percent in tourism credits. Moreover, disposable income reflects a loss of purchasing power caused by job loss and reduced wages resulting from the COVID-19 crisis. In response to the crisis, the GoA put in place a financial assistance program, including FASE (a monthly allowance of Afl. 950,-) and a salary subsidy, which mitigated the drop in purchasing power. The unemployment rate is expected to have reached 15.0 percent. Inflation is estimated to be -1.3 percent for 2020. For private investment, the assumption is that no new major construction projects were initiated in 2020. This includes the large hotel constructions of Secrets, St. Regis, and Iberostar. Furthermore, all planned and ongoing projects were assumed to have been delayed by three months, due to the shelter-in-place. The projection of imports results from the anticipated developments in consumption, tourism exports, and investment. Additionally, import payments for fuel oil are capped, based on the hedge agreement entered into by the Water and Energy Company (WEB). Following the forecast of the U.S. Energy Information Administration (EIA), the expected West Texas Intermediate (WTI) oil price for 2020 is US$ 41. Consequently, the forecasted WTI oil price for the year shows a significant decline, down from US$ 65 in 2019.

With regard to the significant uncertainty in relation to the depth and duration of the COVID-19 pandemic and the strength of economic recovery thereafter, several scenarios were produced during the forecast for the year 2021:

1. **Baseline Scenario: The main engine of economic growth, tourism, is expected to remain on the gradual path to resurgence during 2021, with total stay-over visitors projected to reach 60.0 percent of the 2019 level.** Additionally, it is assumed that the GoA will maintain FASE and the wage subsidy program throughout 2021. As a consequence of these developments, the baseline scenario for 2021 assumes a recovery in private consumption, albeit remaining well below the pre-crisis level. Despite the growth of tourism in 2021, the unemployment rate is forecasted to remain stable at 14.0 percent. This is because the level of employment in 2020 is (assumed to be) higher than it would be under the reigning circumstances were it not for the government's assistance program. Therefore, increased activity in the tourism sector will not necessarily lead to job creation, but rather a reduction in the amount of wage subsidy paid by the GoA. Inflation is anticipated to amount to -0.7 percent in 2021, resulting mainly from a continued decrease in prices of CPI components excluding food and energy. With respect to private investment, the baseline scenario assumes a further dampening in investment appetite, caused by enduring high uncertainties related to the COVID-19 pandemic. Furthermore, no new large investment projects are currently expected to start in 2021. Imports are projected to pick up following the gradual recovery within the tourism sector and the subsequent uptick in private consumption. The latter is partially mitigated by expected further abatement in investments.
2. **Pessimistic Scenario: The pessimistic scenario in 2021 assumes a growth in tourism credits that is 10.0 percentage points lower than in the baseline.** In addition, FASE and the wage subsidy provided by the GoA are discontinued under this scenario, leading to a projected unemployment rate of 38.7 percent. Consequently, disposable income and, thus, private consumption are dragged down further. With regard to private investment, a larger portion of projects is assumed to be delayed, resulting in a lower investment amount in comparison to the baseline scenario. The pessimistic scenario foresees a negative growth in imports, which is the result of contractions in consumption and investment, due to the slower recovery in tourism.
3. **Optimistic Scenario: For the optimistic scenario in 2021, tourism credits expands by an additional 10.0 percentage points, leading to higher tourism exports compared to the baseline scenario.** A stronger recovery in the tourism sector is likely to lead to a higher amount of disposable income and private consumption compared to the baseline scenario. Regarding investment, fewer delays are expected, conducing to a higher amount for investment.

2020

In 2020, real GDP is estimated to have plummeted by 26.4 percent. The main culprit of this contraction is a steep decline in tourism exports (-54.6 percent). The drop in tourism exports is the direct effect of the 3-month border closure in response to the COVID-19 pandemic and the slow recovery of the tourism sector in the remainder of the year. Also, the developments in the tourism sector led to significant job loss paired with a reduction in wages. This in turn caused a significant fall in disposable income and, consequently, real total consumption is estimated to have receded by 16.2 percent. The shelter-in-place measures taken by the GoA and delays in large hotel related construction projects (Secrets, Iberostar, and St. Regis) were expected to have had a negative impact on real total investment in 2020 (-22.5 percent). In addition, other large investment projects that were projected to start in 2020, such as the WEB's RECIP project and AAA's Gateway 2030 were postponed. The slow-down in tourism exports, consumption, and investment caused by the pandemic, directly led to a sharp contraction in imports estimated at 36.7 percent.

2021 Baseline Scenario

For 2021 under the baseline scenario, a real GDP growth of 2.5 percent is projected, mainly triggered by an increase in real tourism exports (+11.4 percent). The improved performance of the tourism sector is expected to support the recovery of real private consumption (+3.7 percent), leading to a 2.4 percent increase in real total consumption. However, real investment is projected to record negative growth in 2021, shrinking by 12.0 percent. The latter is due to the relatively low level of both private and public investment foreseen for 2021. Given the gradual recovery in the tourism sector and the subsequent uptick in private consumption, mitigated by the expected further abatement in investments, imports are expected to rise by 2.2 percent.

2021 Pessimistic Scenario

The pessimistic scenario for 2021 assumes a significantly slower recovery of tourism as well as the discontinuation of FASE and the wage subsidy program provided by the GoA. In this scenario, real GDP would shrink further, i.e., by 3.4 percent, following a contraction in real consumption of 5.2 percent. The latter is mainly driven by reduced private consumption, which will likely result from a decrease in disposable income, caused by additional job loss as wage subsidies are removed and FASE is no longer provided. Moreover, real private investment is projected to experience a steeper drop, leading to a 13.4 percent decline in overall investment. In addition, the growth in real total exports is lower compared to the baseline scenario, following the previously mentioned slower rate of recovery in real tourism exports. The pessimistic scenario foresees a negative growth of 6.4 percent in imports, which is attributed to contractions in consumption and investment, due to the slower recovery in tourism.

2021 Optimistic Scenario

The optimistic scenario results in a real GDP growth of 5.2 percent for 2021. This outcome is caused by significant increases in tourism and consumption. The improved performance of the tourism sector is mostly related to a sharp projected increase in tourism arrivals and spending, resulting in higher aggregate disposable income and private consumption. Meanwhile, the total amount of real investment is expected to be at a higher level relative to the baseline. Finally, resulting from the changes in the other GDP components, imports are projected to grow by 6.9 percent.

Table 1: Growth of real GDP and its components 2019-2021 (in percent)					
Indicator	2019 e	2020 e	2021 o f	2021 b f	2021 p f
Current Outlook (October 2020)					
GDP	-0.7	-26.4	5.2	2.5	-3.4
Consumption	-0.3	-12.9	4.0	2.4	-5.2
Private consumption	-0.1	-16.2	5.9	3.7	-6.8
Public consumption	-0.8	-2.5	-1.1	-1.1	-1.1
Investment	-0.9	-22.5	-10.6	-12.0	-13.4
Private investment	1.7	-20.3	-10.7	-12.0	-13.4
Public investment	-46.9	-94.3	-0.3	-0.3	-0.3
Exports	1.7	-52.4	18.2	9.8	1.4
Tourism exports	2.7	-54.6	21.1	11.4	1.6
Imports	2.0	-36.7	6.9	2.2	-6.4
Source: CBA (except where indicated CBS)	e = estimate, f= forecast, o = optimistic, b = baseline, p = pessimistic				

Nominal growth rates

GDP in nominal terms is estimated to have decreased by 29.5 percent in 2020 (Table 2). For 2021, the nominal GDP growth range varies between a contraction of 3.7 percent and an expansion of 5.0 percent. The outcome will depend largely on which scenario plays out.

Table 2: Growth of nominal GDP and its components 2019-2021 (in percent)					
Indicator	2019 e	2020 e	2021 o f	2021 b f	2021 p f
Current Outlook (October 2020)					
GDP	2.7	-29.5	5.0	2.2	-3.7
Consumption	1.4	-15.0	2.6	1.0	-6.2
Private consumption	2.2	-17.3	5.2	3.0	-7.4
Public consumption	-0.4	-9.0	-3.4	-3.4	-3.4
Investment	1.7	-22.9	-10.4	-11.8	-13.2
Private investment	4.5	-20.7	-10.4	-11.8	-13.2
Public investment	-45.5	-94.3	0.0	0.0	0.0
Exports	4.3	-53.8	20.8	12.1	3.4
Tourism exports	5.2	-56.6	24.4	14.4	4.4
Imports	2.7	-36.8	8.2	3.4	-5.2
Source: CBA (except where indicated CBS)	e = estimate, f= forecast, o = optimistic, b = baseline, p = pessimistic				

Box A: GDP and its components

This box serves as an explanatory note to the components of GDP. The components are explained below:

Private consumption: the monetary value of all goods and services purchased by consumers.
Public consumption: government spending, in monetary value, on goods and services.
Private investment: monetary value of investment made by the private sector.
Public investment: monetary value of investment made by the public sector (government).
Tourism exports: Expenditures, in monetary value, made by inbound visitors.
Imports: Purchases made from abroad, in monetary value.

2.2 Balance of payments and net foreign assets

The latest estimation points to an Afl. 277.9 million surplus in the balance of payments of 2020. This is mainly the result of an anticipated Afl. 937.4 million surplus in the financial account, partially offset by an expected Afl. 692.1 million deficit in the current account. The former is related to the government foreign borrowing inflows, while the latter is associated with the steeper decline in tourism credits relative to goods import. The surplus in the balance of payments, accordingly, pushed up the net foreign assets (excluding revaluation differences) to Afl. 1,990.4 million.

In view of the uncertainty surrounding the economic recovery path, the balance of payments for 2021 is forecasted in three scenarios, i.e., a baseline scenario, as well as an optimistic and a pessimistic scenario.

1. *Baseline scenario*: **Tourism credits are assumed to grow by 14.4 percent in 2021, compared to a year earlier.** The additional tourists, as well as the associated additional cumulative income for domestic employees, push up the demand for goods and by extension, the import of goods by 5.6 percent. Despite the stronger upswing in tourism credits relative to the import of goods, the level of tourism exports is too low to compensate for the outflows of mainly import payments for goods and services and bring about a current account surplus. As for the financial account, investment inflows are projected to record a mild increase as delayed projects start picking up again. Furthermore, large inflows arising from foreign borrowings by the GoA to cover its deficit are assumed, to the extent that they more than cover the current account deficit. As such, the balance of payments is forecasted to record a surplus.

2. *Optimistic scenario:* **The expectation is that tourism credits expand in 2021 by an additional 10.0 percentage points compared to the baseline scenario.** The import of goods is then anticipated to be also higher. While tourism credits are projected to reach a level higher than the import of goods, it will not be enough to realize a current account surplus. In terms of the financial account, investment inflows are expected to be larger vis-à-vis the baseline scenario. However, in the optimistic scenario, government inflows are relatively more subdued, due to

a fiscal balance improvement and, thus, a lesser need for foreign borrowing. Despite being more muted, government inflows are still sufficiently large to result in a financial account surplus and compensate for the current account deficit. Thus, a surplus on the balance of payments is foreseen.

3. ***Pessimistic scenario*****: Tourism credits are projected to rise in 2021, although by 10.0 percentage points less compared to the baseline scenario.** Against this background, the import of goods is slightly lower, yet at a higher level than tourism credit. Therefore, a deficit in the current account is anticipated. With regard to the financial account, investment inflows are expected to be smaller vis-à-vis the baseline scenario, in stark contrast to government inflows. Overall, the relatively large government inflows lead to a financial account surplus in excess of the current account deficit, resulting in an even wider surplus in the balance of payments compared to the baseline scenario.

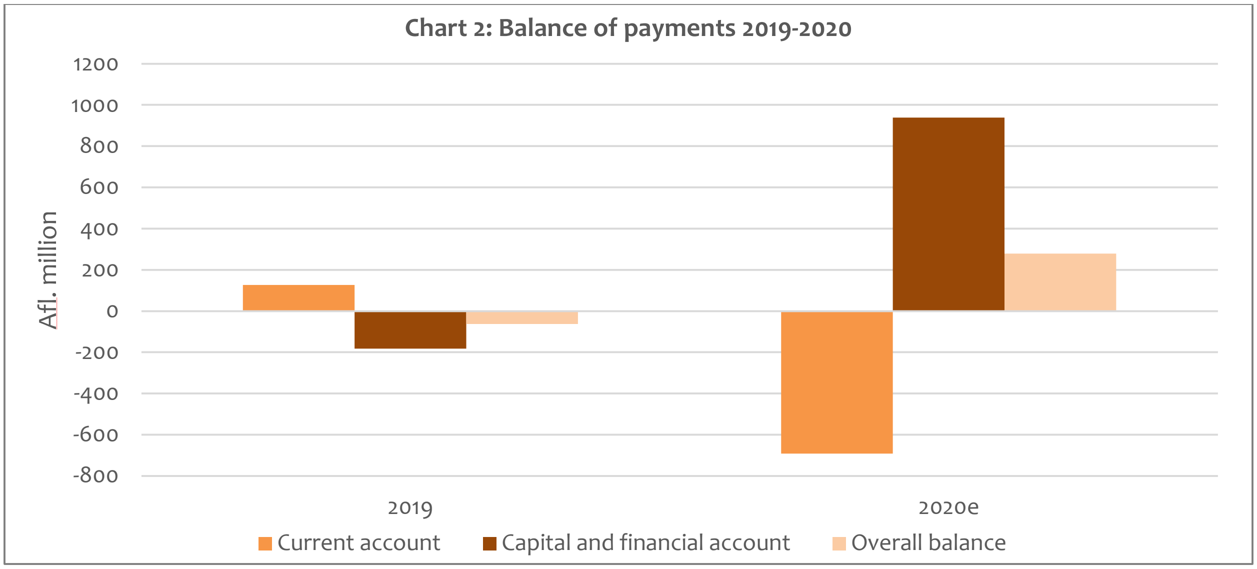
2020

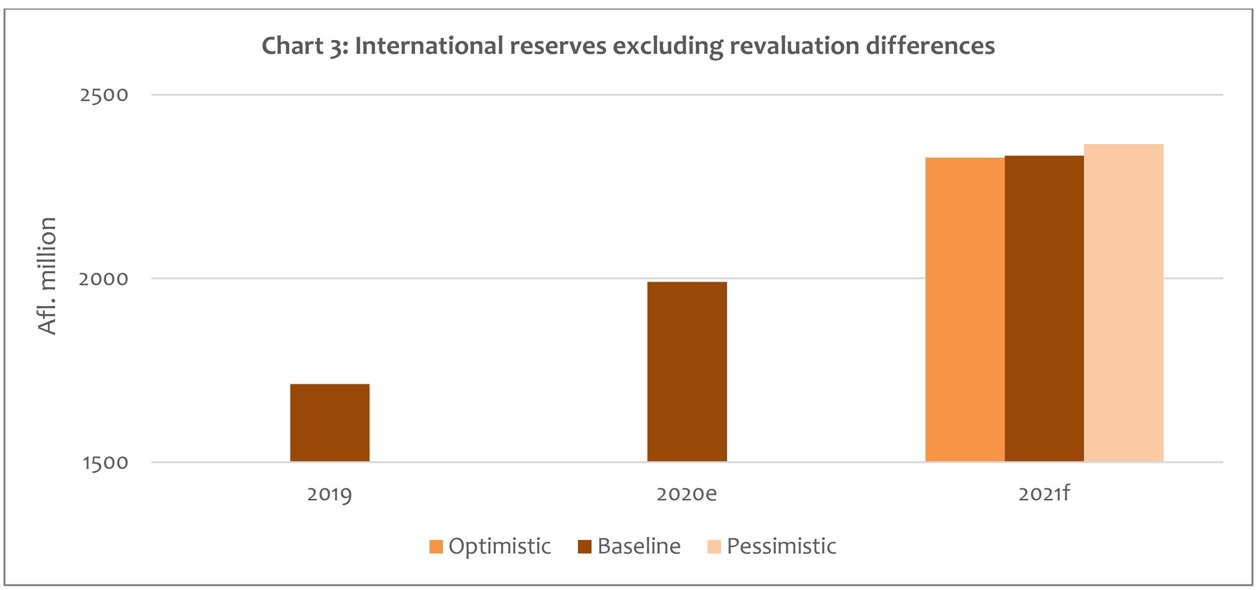
The current account is estimated to have recorded a deficit of Afl. 692.1 million in 2020 (Chart 2). This was principally driven by the sharper decrease in tourism credits relative to the import of goods. In particular, inbound tourism credits are totaled an estimated Afl. 1,616.5 million after an anticipated 56.6 percent plunge compared to 2019. Meanwhile, the weakened tourism and domestic demand mainly drove down the import of goods by 25.3 percent to Afl. 1,597.4 million. In addition, outbound payments related to investment income (Afl. 223.5 million), tourism (Afl. 433.8 million), and other services[2] (Afl. 477.9 million) contributed to the current account deficit.

The capital and financial account balances registered an estimated Afl. 937.9 million surplus in 2020. This was chiefly related to the Dutch liquidity support and foreign private placement, which prompted a net inflow to the portfolio and other investment accounts, of, respectively, Afl. 457.8 million and Afl. 357.1 million.

Owing to the current, financial, and capital account balances, the overall balance marked an estimated surplus of Afl. 277.9 million. Consequently, the international reserves (excluding revaluation differences) are estimated to have increased by that same amount, reaching Afl. 1,990.4 million at end-2020 and comfortably surpassing the required current account coverage ratio, while also being above the 100 percent mark of the IMF's ARA metric (Chart 3).

[2] Other services include among others, construction, financial, insurance and telecommunication services.



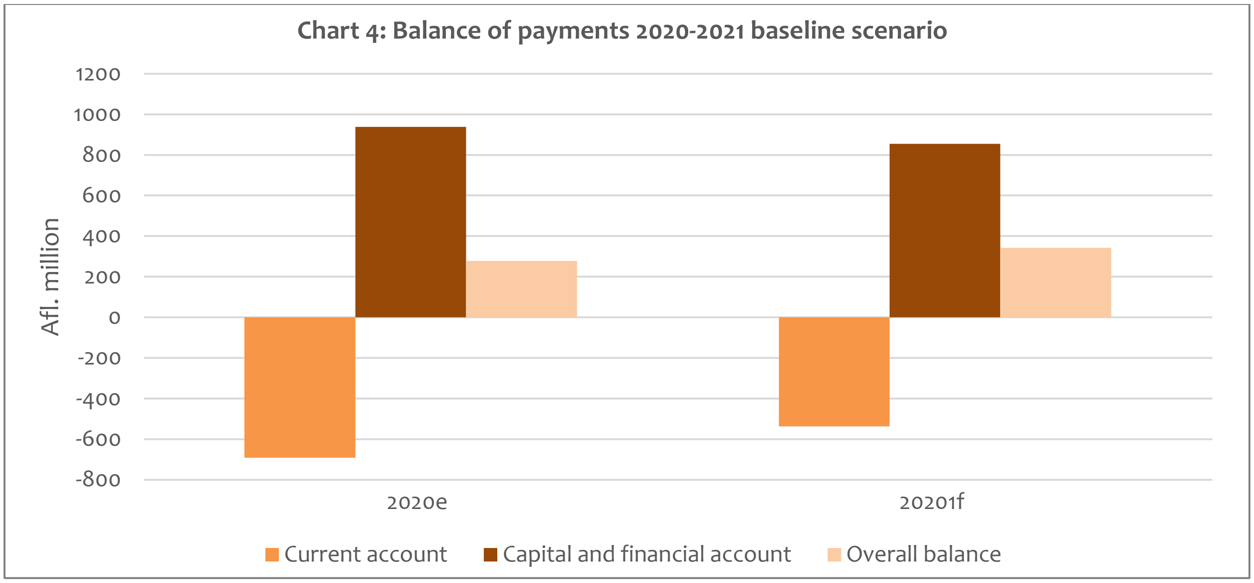


2021 Baseline Scenario

The projected current account amounts to an anticipated deficit of Afl. 537.2 million in 2021 (Chart 4). This will be mostly due to the import of goods totaling Afl. 1,597.4 million, up by 5.6 percent and consistent with the assumed gradual economic recovery. This gradual recovery would then also bring about higher outgoing payments related to other services, equaling Afl. 510.6 million. At the same time, investment income declines further to Afl. 124.7 million, since the assumption is that there are little to no profits made in 2020. Incoming tourism credits are anticipated to stand at Afl. 1,849.3 million or 49.6 percent of the 2019 level, representing a 14.4 percent expansion vis-à-vis 2020. Consequently, 2021 tourism credit levels are inadequate to completely offset outgoing payments related to the import of goods, investment income, and other services.

The capital and financial account balances are expected to record an Afl. 853.8 million surplus in 2021. This is primarily linked to expected continued Dutch financial support to GoA, leading to a projected net inflow of Afl. 947.3 million on the other investment account. Nevertheless, foreign debt repayments (Afl. 180.6 million) are anticipated to be a partially offsetting factor, bringing the portfolio account to a net outflow of Afl. 232.6 million.

Against this backdrop, the projected overall balance surplus stands at Afl. 342.9 million (Chart 3). As a result, international reserves (excluding revaluation differences) will reach Afl. 2,333.5 million in 2021 and exceed the required current account coverage ratio and be within the optimal bandwidth of the IMF ARA metric.



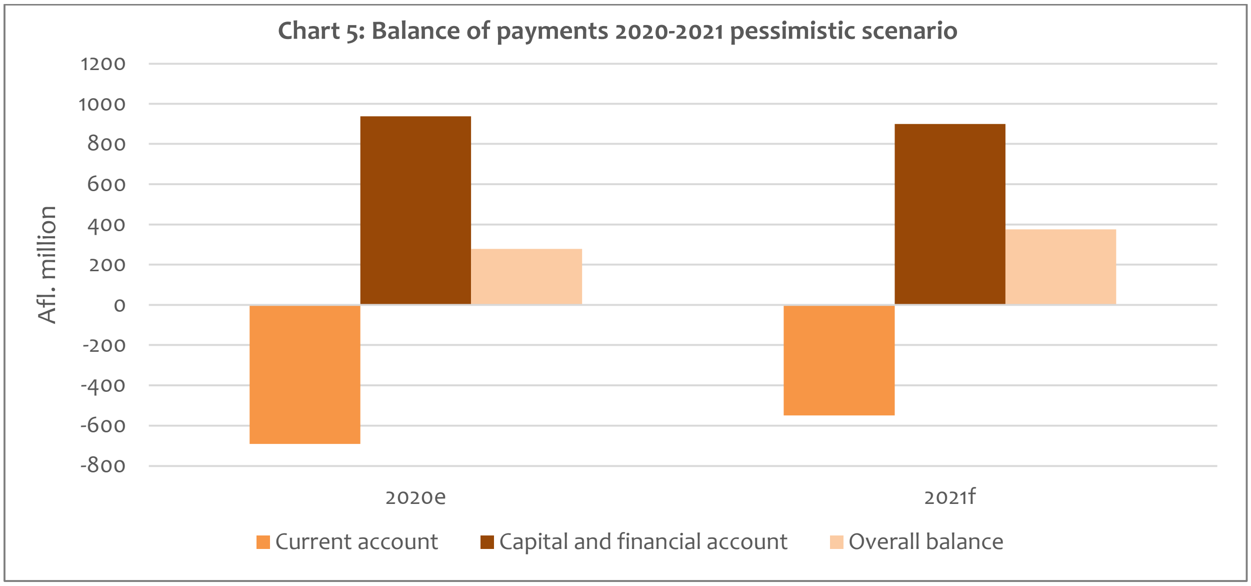
2021 Pessimistic Scenario

The current account is forecasted to register a deficit of Afl. 549.7 million in 2021 (Chart 5). This deficit can be largely linked to the import of goods, valued at Afl. 1,573.4 million, hence slightly below the baseline scenario. Similarly, outgoing payments related to other services (Afl. 475.0 million) and investment income (Afl. 124.7 million) are expected to further widen the current account deficit. These outflows are still lower than the baseline scenario, in connection with the assumption of unfavorable economic conditions. Amid forecasted tourism credits reaching Afl. 1687.7 million -- 10 percent below the baseline scenario --, there will be insufficient momentum in tourism activity to reverse the current account deficit.

The capital and financial account balances are expected to attain an Afl. 898.6 million surplus in 2021. This will be primarily associated with a greater government foreign borrowing need compared to the baseline scenario, which in turn emerges from the fiscal balance deterioration. This entails a net inflow to the other investment account of Afl. 997.2 million. Still, foreign debt repayments are forecasted at

Afl. 180.6 million, conducing to a net outflow of Afl. 229.6 million from the portfolio account and thus forms a mitigating factor.

All in all, the overall balance is anticipated to record a surplus of Afl. 375.3 million. Consequently, the international reserves (excluding revaluation differences) will reach Afl. 2,365.2 million in 2021 and remain higher than the required current account coverage ratio.

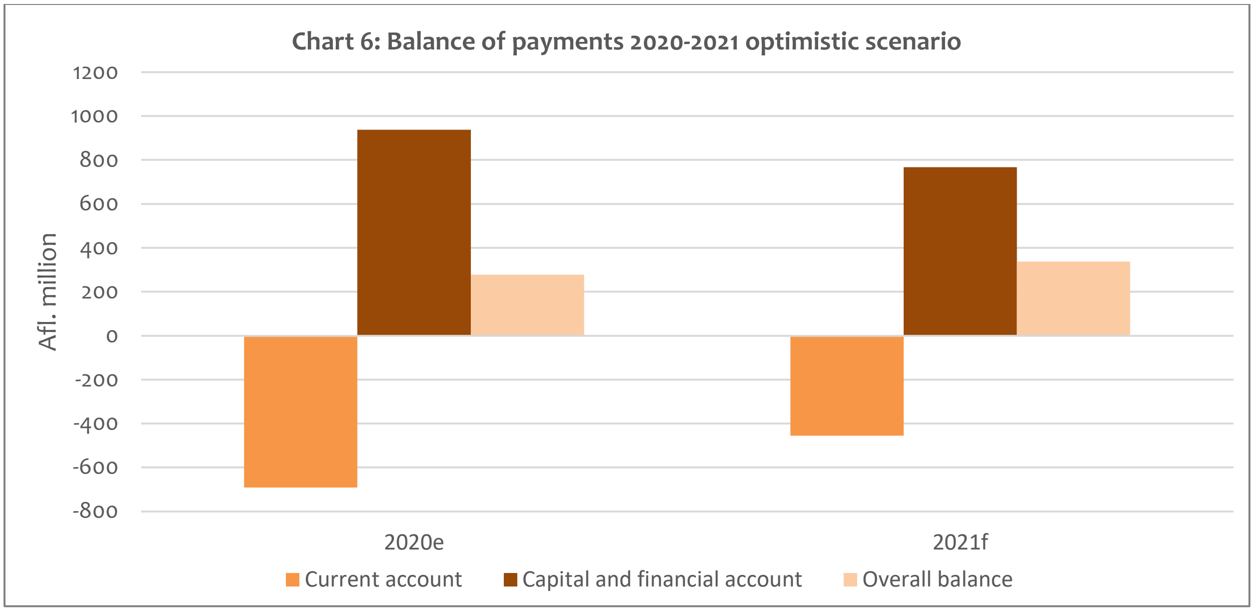


2021 Optimistic Scenario

A current account deficit of Afl. 456.0 million is projected in 2021 (Chart 6). This deficit is chiefly related to the import of goods, amounting to Afl. 1,714.8 million. Furthermore, outgoing payments related to investment income (Afl. 150.5 million) and other services (Afl. 537.1 million) also contribute to the current account deficit. These outflows are comparatively higher than the baseline scenario, owing to the presumption of improved economic conditions. Despite tourism credits being forecasted at Afl. 1,687.7 million -- 10 percentage points above the baseline scenario -- a current account deficit still results, albeit a smaller one than in the baseline. This results from the assumed faster recovery in tourism credits than import of goods in comparison to the baseline.

The capital and financial account balances are expected to attain an Afl. 767.5 million surplus in 2021. This will be primarily due to a lesser foreign borrowing need as opposed to the baseline scenario, following a fiscal balance improvement. On those grounds, the other investment account is forecasted to incur a net inflow Afl. 858.7 million, reflecting the still large foreign borrowing need of the GoA to finance its deficit. Nevertheless, offsetting activities are anticipated to the extent of Afl. 180.6 million in foreign debt repayments, conducing to a net outflow of Afl. 234.0 million from the portfolio account.

As a result, the forecasted overall balance arrives at a surplus of Afl. 337.9 million. The international reserves (excluding revaluation differences) will then reach Afl. 2,328.7 million in 2021 and lie above the required current account coverage ratio.



2.3 Outlook assumptions and risks

Given the uncertainties related to the further evolution of the COVID-19 pandemic and its effects on the Aruban economy, as well as many doubts surrounding the pace of economic recovery, a number of assumptions were made to estimate the different scenarios. The main assumptions and risks to this outlook scenarios are:

- **Duration and depth of the pandemic.** In all scenarios, the duration and depth of the pandemic are important factors underlying the outcomes. The duration and impact of new waves of contagion and the speed of the vaccine roll-out may have significant effects on output.

- **Speed of recovery.** The specific assumptions regarding the recovery of hotel occupancy rates are instrumental for the outcomes in each scenario. If tourists turn out to be more reluctant to travel and/or spend less during their stay-over than in these assumptions, this could mean lower receipts from tourism activities, unemployment remaining at higher levels for an extended period, delayed recovery in consumption, and in turn a weaker rebound in economic output. Conversely, if the propensity to travel and/or visitor spend is larger than assumed in the scenarios, GDP growth could be higher. Note also that the estimations assume a similar spending pattern by tourists at given occupancy rates and do not take into account the loss in revenues or additional costs related to a 6-feet economy and other social distancing measures.

- **Employment restoration.** The assumption in the estimations is that as tourism gradually recovers and economic activity picks up, persons who were furloughed or lost their jobs will gradually go back to work. This assumption does not, however, consider a plausible situation where businesses that employed these people before the crisis, have gone out of business and their former job no longer exists. Moreover, the planned flexibilization of the labor laws is not taken into account. This situation could lead to a slower recovery of the labor market, and, thus, the economy. Moreover, many employees who manage to keep their jobs, may experience increased job insecurity and lower wages, which would likely lead to a much more cautious spending pattern, thereby negatively impacting private consumption.

- **Investment projects.** The timely execution of relatively large investment projects is always a source of risk for GDP projections. In these scenarios, this risk is amplified due to a significant dampening of profits, a lower investment appetite, and the ability to obtain financing. Furthermore, the conditions for obtaining financing in a post-pandemic economic recovery period may not be favorable. Moreover, setbacks in these investments projects also could reduce FDI inflows and, thus, international reserves.

- **Additional government measures.** The government may introduce additional measures to reduce its deficit, such as further lowering personnel expenses and/or introducing tax and other income generating measures for the general public. Such measures could have a dampening effect on private consumption. This effect would be even larger if the government is unable to obtain full financing of its deficit or short-term liquidity support. In that case, more stringent measures could be necessary, and the government would not be able to provide ample social assistance to vulnerable groups and to those who lose their jobs. Furthermore, the expected government financial position and associated government foreign borrowing have a significant impact on the net foreign assets. Thus, deviations in the expected fiscal outcome and external financing would affect the net foreign assets position.

- **World oil prices.** Oil prices have been quite volatile over time and have fallen at unprecedented rates since the beginning of 2020 and the onset of the COVID-19 pandemic. Due to the inherent volatility of oil prices, exacerbated by the uncertainty of the duration of this crisis and the strength of the subsequent economic recovery, current oil price projections seem even more uncertain than usual. Oil prices at low levels for a prolonged period potentially could influence local utility and gasoline prices, as well as import prices for goods and thus the inflation rate.

- **Tourism resurgence.** An important risk to economic growth and the level of the NFA is tourism performance. In the past years, Aruba experienced stronger than expected tourism growth. However, the COVID-19 pandemic and the subsequent measures taken by the government to contain its impact on public health, have led to the restriction of mobility, particularly that of international travel. The duration of travel restrictions around the world influences tourism services exports. Furthermore, travel rules that consider social distancing measures may cause limitations on, e.g., the seat capacity that airlines are able to offer. The Aruba Tourism Authority (ATA) at the time of this forecast expected a slow and gradual recovery in 2021, i.e., for stay-over visitors to reach 60 percent of the level recorded in 2019. However, the actual number of tourist arrivals is dependent on a variety of factors, such as the softening of travel restrictions in different markets, the appetite of tourists for international travel, the seat capacity that airlines would be able to offer, and the household financial situation of potential visitors, particularly from the U.S.A, which is Aruba's main market.

3. Concluding remarks

As a result of the COVID-19 pandemic and the drastic measures taken to contain the spread of the virus, real GDP is estimated to have slumped by 26.4 percent in 2020. In nominal terms, this comes to a contraction of 29.5. Uncertainties related to how the pandemic will further evolve in the coming year are expected to persist, leading to a gradual tourism recovery in 2021. Depending on the pace hereof, as outlined in the three scenarios used by the CBA, the real GDP could narrow again to -3.4 percent or pick-up to 5.2 percent in 2021. In nominal terms, this reflects a range between -3.7 and 5.0 percent.

The resurgence of the tourism sector is the main driver in all scenarios, with the scenarios differing from one another in terms of the speed of the recovery. The improved performance of the tourism sector is expected to support the recovery of real private consumption, leading to an increase in real total consumption. However, real investment is projected to record a negative growth in 2021. The latter is due to the relatively low level of both private and public investment foreseen for 2021. Given the gradual recovery in the tourism sector and the subsequent uptick in private consumption, mitigated by the expected further abatement in investments, imports are expected to rise.

The level of NFA is expected to expand to Afl. 1,990.4 million in 2020. The forecasted increase is related to government foreign borrowings, besides a steeper decline in tourism credits relative to the import of goods. For 2021, the forecasted level of NFA varies between Afl. 2,328.7 million and Afl. 2,365.2 million across three scenarios. This anticipated upswing in all scenarios is mainly due to government foreign borrowings.

Due to the open nature of the Aruban economy and its huge tourism dependency, international developments, especially in the United States, play a significant role in its economic output. Recovery from the COVID-19 pandemic is, thus, dependent on the softening of travel restrictions in other countries, their economic recovery, potential new travel rules in place, the successful roll-out of the vaccine, and the willingness of people to travel once travel restrictions are lifted. This willingness relates to potential safety concerns, but also to the adverse impact that the crisis may have had on their disposable income. Moreover, the IMF expects global economic growth to be 5.2 percent in 2021, which is slightly lower compared to the June 2020 update.[3]

The risks to this forecast lie mainly on the downside. Tourism projections are constantly being updated with several downward revisions already in place. Moreover, structural reforms are highly necessary to strengthen economic resilience in the short to medium term. Without their implementation, these downside risks are likely to materialize and exacerbate pre-existing economic vulnerabilities.

[3] World Economic Outlook 2020; Washington D.C. October, 2020.