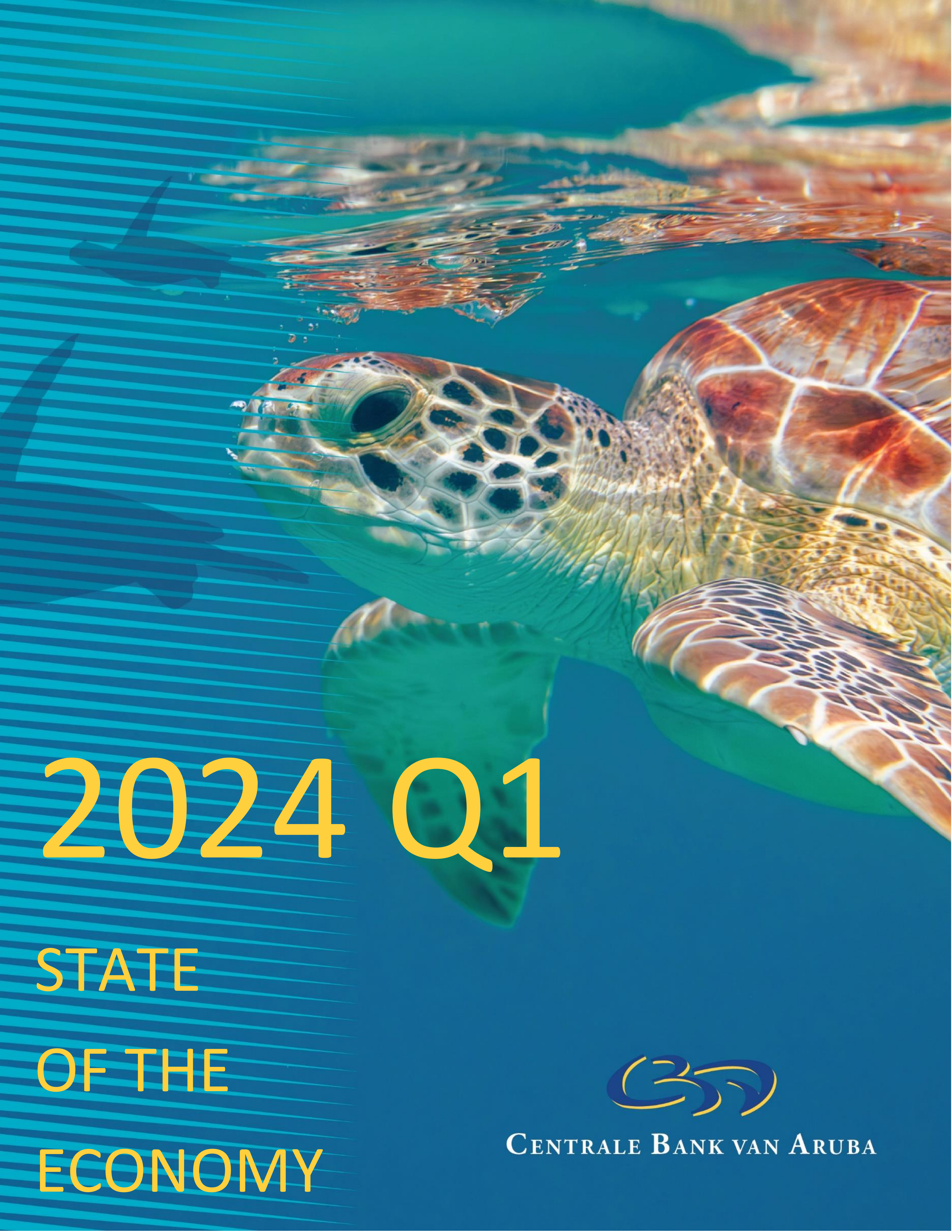


2024 Q1

STATE OF THE ECONOMY

CENTRALE BANK VAN ARUBA

Cover design:
Our turtles.
They choose Aruba's beaches as a safe haven;
They choose Aruba's beaches are their breeding ground;
They connect and communicate through vocalizations and body language.
Their slow and steady pace represents resilience and endurance.

The full text of this report is available on the CBA website.

Executive Summary

Robust tourism performance boosted consumption, leading to further economic growth.

In the first quarter of 2024, the Aruban economy remained buoyant, with growth holding steady as inflation continued to stabilize. Economic growth stayed relatively unchanged compared to the first quarter of 2023, as strong tourism growth in 2023 continued into the first quarter of 2024. Persistent higher tourism revenues and expansion in the numbers of visitors from the United States, Colombia, and Canada drove tourism performance. The expansion in tourism demand and subsequent rise in domestic demand led to an improvement in all consumption indicators. Furthermore, the continuation of relatively large construction projects – mostly related to the tourism sector – added to the vigorous performance of the tourism sector and likely drove up investment. Imports value widened, although lagging behind the surge in tourism arrivals and tourism revenue. Overall, investment indicators painted a mixed picture as several indicators showed decreases. At the end of the first quarter of 2024, the 12-month average inflation rate reached 2.1 percent, down from 3.4 percent at the end of 2023. The downward trend in the 12-month average inflation rate resulted from the diminishing contribution of the utility tariff hike in August 2022, dwindling gasoline and diesel prices, and normalization of food prices. The expansion in tourism revenue was the primary driver of an Afl. 56.6 million net inflow of foreign exchange on the balance of payments in the first three months of 2024. Moreover, at the end of March 2024, international reserves remained adequate according to the benchmarks monitored by the CBA. Government tax revenues benefitted from the robust tourism performance, while improved labor market conditions and heightened economic activities pushed up all tax revenue components.

Contents

1 Domestic Economy

1.1 Economic Growth

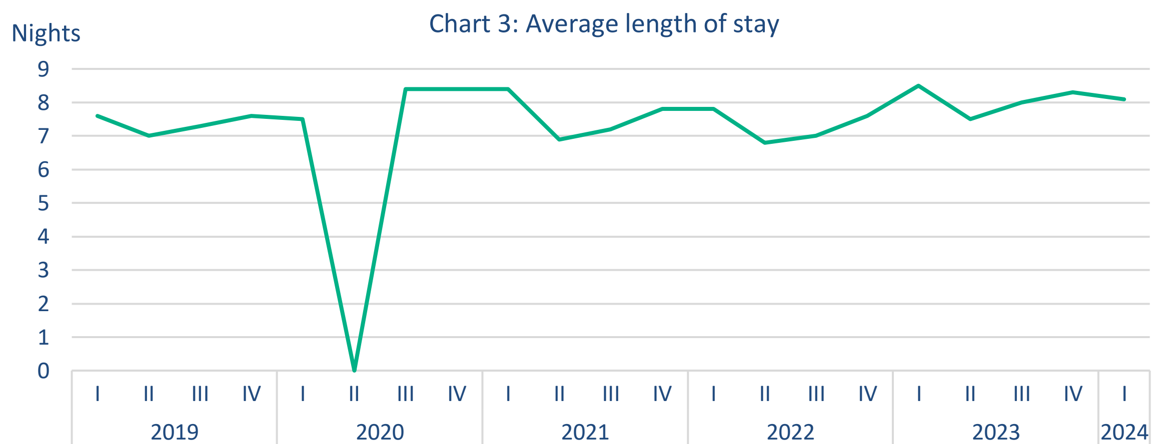
In the first quarter of 2024, the Aruban economy – measured in real Gross Domestic Product (GDP) – grew by an estimated 11.2 percent compared to the same period of 2023 (Chart 1). Tourism, the main contributor to economic growth, recorded significant increases in tourist spending and stay-over visitors. The continuation of relatively large construction projects – mostly related to the tourism sector – added to the robust performance of the tourism sector and likely drove up investment. Nonetheless, investment indicators presented mixed signals, though, as several indicators showed decreases. The latter could be related to the fact that various of these indicators are leading indicators and are more reflective of upcoming investments. Additionally, all consumption indicators registered gains likely boosted by the tourism-driven upturn in private-sector employment and possible wage growth and a tight labor market. Finally, driven by the expansion in tourism and domestic demand, imports also rose.

Chart 1: Quarterly real GDP growth year-over-year

Calculations: CBA

1.2 Tourism

In the first quarter of 2024, most tourism-related indicators continued to show strong improvement compared to the first quarter of 2023 (Table 1). The total number of stay-over visitors expanded by 22.5 percent year-to-date (YTD) March 2024 compared YTD March 2023 (Chart 2). The latter increased mainly due to upturns in the number of visitors from the United States (+51,015 visitors; +21.6 percent), Colombia (+5,265 visitors; +57.7 percent), and Canada (+3,932, +16.7 percent). Further, the number of visitor nights rose by 16.0 percent (+425,590 nights), lagging behind the growth recorded in stay-over visitors. Consequently, visitors' average length of stay (ALoS) was 8.1 nights, marking a decline compared to the ALoS in Q1 2023 (8.5 nights). This drop indicates that, on average, tourists spent slightly less time on the island compared to the same period in 2023 (Chart 3).



Source: ATA

Hotel sector data also reflected a buoyant performance by the tourism industry (Table 1). In the first quarter of 2024, revenue per available room (RevPAR[1]) increased by 12.5 percent compared to the first quarter of 2023. This development resulted from a higher hotel occupancy rate (Q1 2024: 88.7 percent vs. Q1 2023: 83.5 percent) and a 6.0 percent rise in the average daily rate (ADR). Moreover, the category 'other accommodations' also registered growth in terms of stay-over visitors (+38.7 percent) and visitor nights (+27.7 percent) in the period under review. As a result, the market share for 'other accommodations' grew to 35.1 percent up from 31.0 percent in the first quarter of 2023. Consequently, in the first quarter of 2024, total revenue from short-term rental properties expanded by 23.4 percent compared to the same period a year earlier.

[1] RevPAR is the product of the average daily rate and the hotel occupancy rate.

During the period under review, revenue[2] from tourism activities recorded at local commercial banks[3] grew by 11.5 percent compared to the same period a year prior. The rise in tourism revenue was attributed to the growth in total visitor nights, partially mitigated by lower tourism spending per night. In the first quarter of 2024, tourism spending per night amounted to Afl. 393.0, compared to Afl. 408.7 million in the corresponding period of 2023 (-3.8 percent).

In the first quarter of 2024, cruise tourism performed well, exceeding the levels observed in the first quarter of 2019 for the third consecutive year. During the period under review, the total number of cruise visitors amounted to 369,461 from 143 ship calls. This development signifies a growth of 3.5 percent in the number of passengers and four additional ship calls compared to the same period of 2023. Compared to the first quarter of 2019, the number of passengers jumped by 26.1 percent and 25 additional ship calls in the period under review.

Table 1: Tourism indicators for Aruba
YTD March

	2022	2023	2024
Stay-over visitors	233,666	312,359	382,723
Average length of stay (in days)	7.8	8.5	8.1
Total visitor nights	1,828,141	2,659,353	3,084,943
Cruise visitors	155,236	357,072	369,461
Hotel occupancy (%)	62.2	83.5	88.7
Average daily rate (US$)	355.3	407.7	432.0
Revenue per available room (RevPAR) (US$)	220.9	340.5	383.2
Tourism revenue per night (in Afl.)	434.9	408.7	393.0
Tourism revenue* (in Afl. million)	795.0	1,086.9	1,212.4

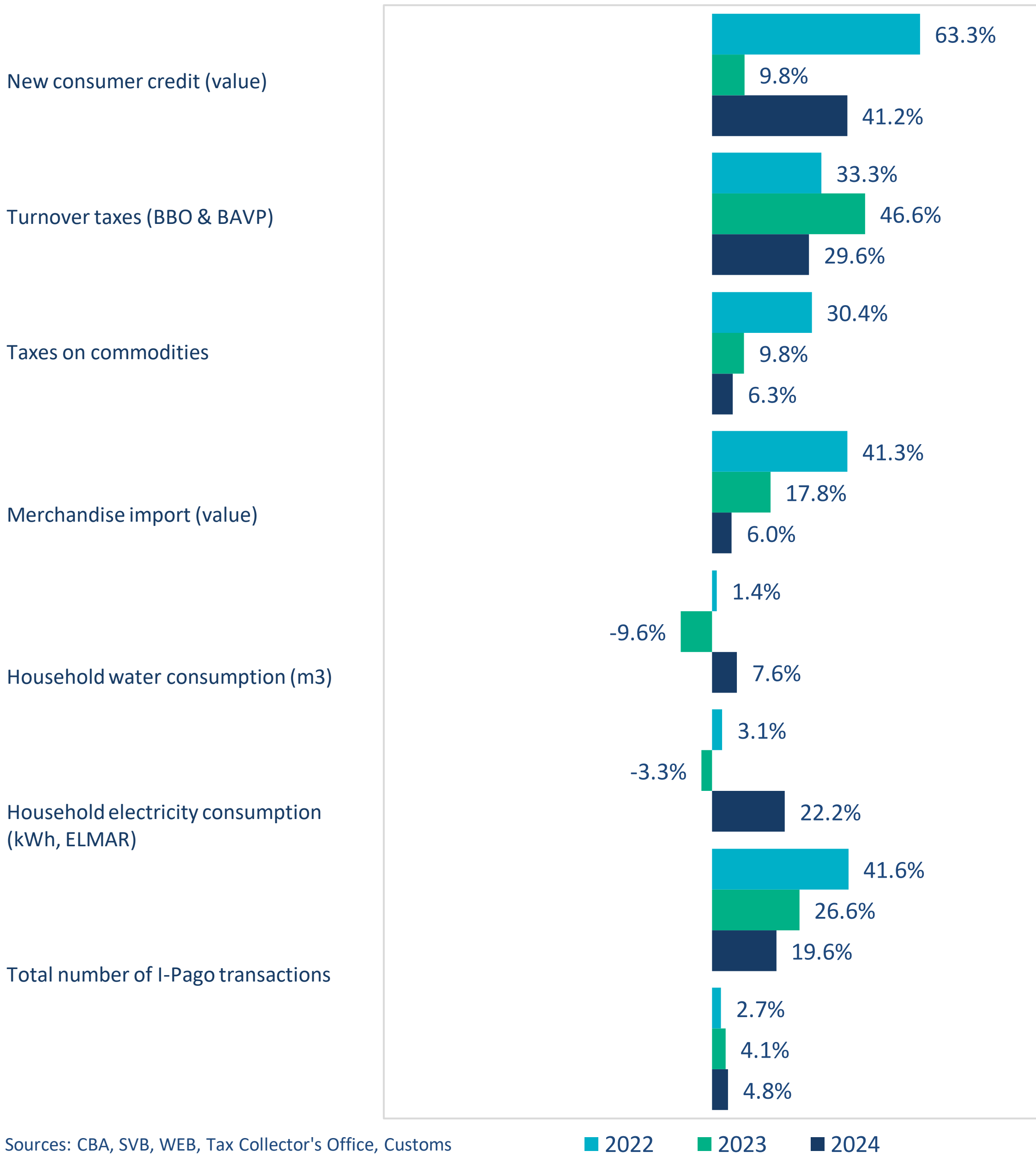
1.3 Consumption

In the first quarter of 2024, the majority of consumption-related indicators improved on a year-over-year basis (Chart 4). For example, merchandise imports (excluding imported base metals and derivated works as well as machinery and electrotechnical equipment) expanded by 6.0 percent, following the rise in domestic consumption and buoyant tourism activity.

[2] Tourism revenue corresponds to the definition of tourism credits as defined by the IMF BPM 6 manual. The cut-off date for the data used was May 30, 2024.

3 Tourism revenue recorded at local commercial banks constitutes about 83 percent of total tourism revenue (incl. tourism revenue recorded at non-banks). At the time of writing, data on tourism revenue recorded from non-banks was not available.

Chart 4: Consumption-related indicators
(YTD Mar 2024 vs. YTD Mar 2023 vs. YTD Mar 2022)



Sources: CBA, SVB, WEB, Tax Collector's Office, Customs Department

Regarding tax developments, turnover taxes surged by 29.6 percent between the first quarters of 2023 and 2024. Heightened domestic consumption and robust tourism performance positively affected turnover tax revenues. However, the increasing revenue was not solely the result of increased consumption. First, the Tax Department raised the BBO rate by one percentage point as of January 1, 2023, with visible effect in the reporting month of February and onwards. Second, the implementation of the BBO at the border as of August 1, 2023, significantly enhanced turnover taxes. Meanwhile, taxes on commodities further indicated improved consumption, increasing by 6.3 percent.

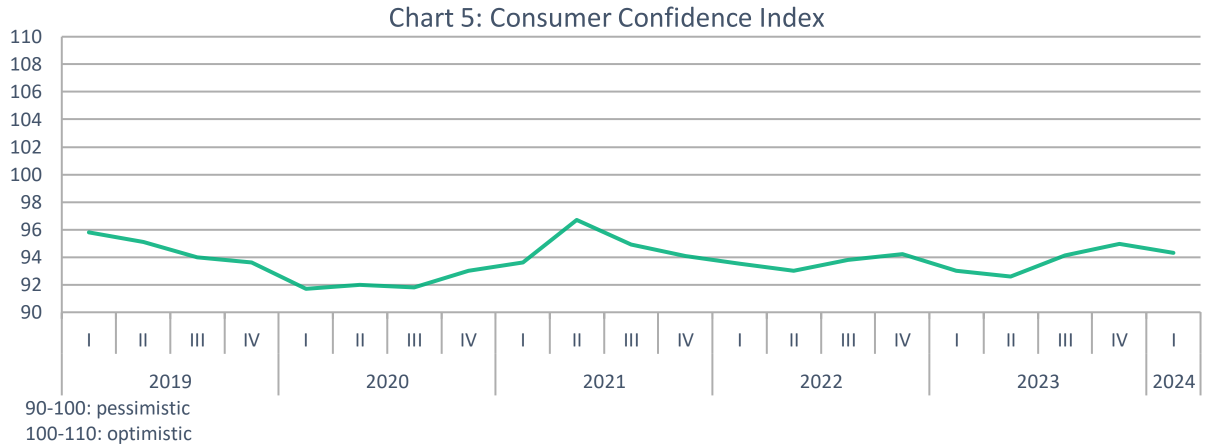
Data from commercial banks generally complemented the tax and import indicators mentioned above. New consumer credit loans soared by 41.2 percent in the first quarter of 2024 compared to the first quarter of 2023. This surge may be related to car loans, as its stock rose 5.3 percent up to March 2024, compared to a decrease of 1.0 percent up to March 2023. The expansion in car loans reflected in part the improved availability of cars, in turn, due to the easing of global semiconductor shortages. Additionally, lower import duties on vehicles may have contributed to this growth. Other sources, such as the Consumer Confidence Survey (CCS), also matched the car loan data. The proportion of respondents who indicated that buying an automobile was suitable increased from 5.3 percent in the first quarter of 2023 to 7.3 percent in the first quarter of 2024. Nevertheless, all consumer credit components except car loans pointed to contractions up to March 2024.

In terms of transaction volume, the number of transactions processed by I-Pago jumped by 19.6 percent, mainly driven by transactions between Afl. 0 and Afl. 250 (+27.6 percent). Transactions above Afl. 250 also climbed, albeit to a lesser extent (+12.3 percent).

With regard to employment conditions, the number of employment relationships registered at the Sociale Verzekeringsbank (SVB) extended by 4.8 percent at the end of the first quarter of 2024 compared to the first quarter of 2023. This expansion, which is in line with the growth recorded in the corresponding period of 2023 (+4.4 percent), likely intensified the propensity to consume.

Utility consumption data further suggested strengthened consumption. For instance, household water consumption (in cubic meters) steepened by 7.6 percent. To a more considerable extent than water consumption, household electricity consumption (in kWh) surged by 22.2 percent, owing principally to greater consumption per user (+20.0 percent), as the number of users only grew by 1.9 percent in the first quarter of 2024 relative to the first quarter of 2023. On average, the Aruban temperature was 2.6 °C warmer than the first quarter of 2023. The latter may partially explain the higher electricity consumption per user for solar and non-solar households. Solar households have steadily become more relevant in the electricity consumption mix due to the exponential growth in solar installations. For example, the proportion of solar households in total net electricity sales to households (in kWh) increased to 3.1 percent in the first quarter of 2024, up from 1.9 percent in the first quarter of 2023.

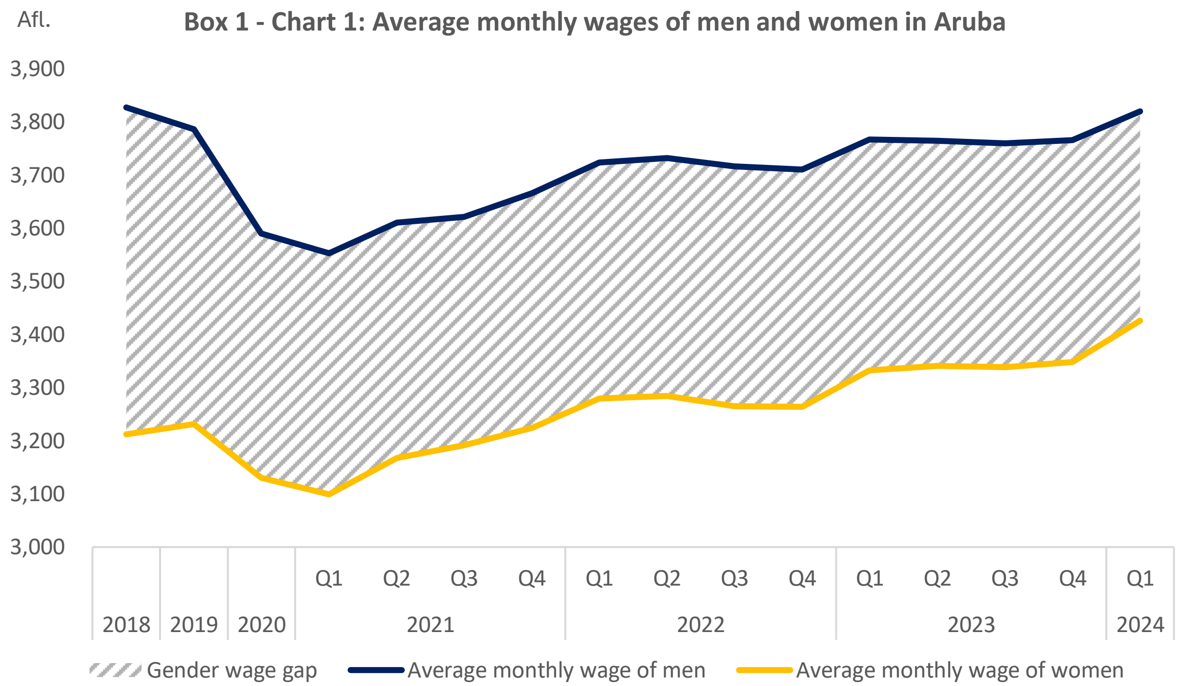
The consumer confidence index (CCI) reflected the tendencies in most consumption-related indicators (Chart 5). Explicitly, consumers were less pessimistic in the first quarter of 2024 (CCI: 94.3), compared to the same quarter of 2023 (CCI: 93.0). The rise in the CCI followed improved consumer sentiments regarding their present situation and their expectations for the future. The uptick in the future expectation index, from 93.9 in the first quarter of 2023 to 94.8 in the first quarter of 2024, may be due to less uncertainty about price developments and the implementation of the BBO at the border as of August 1, 2023. Furthermore, the progressed consumption and borrowing habits index (Q1 2023: 92.5; Q1 2024: 94.5) contributed to the improved CCI, since more respondents found it suitable to purchase automobiles, major appliances, go on vacations and take out loans.



Box 1: A short reflection on Aruban gender inequality in the context of the gender wage gap

Gender inequality is the absence of gender equality. The latter concept suggests that women and men, girls and boys, have equal conditions, treatment, and opportunities for realizing their full potential. In this state, they have equal human rights and dignity in contributing to and benefiting from economic, social, cultural, and political development. A gender gap – a disproportionate difference between men and women – indicates gender inequality.

A gender wage gap exists when there is a difference between the average earnings of women and men. Data obtained from the Sociale Verzekeringsbank (SVb) Aruba indicate a consistent gap (i.e., the area shaded gray) between the average monthly wages of men and women in Aruba (Figure 1).

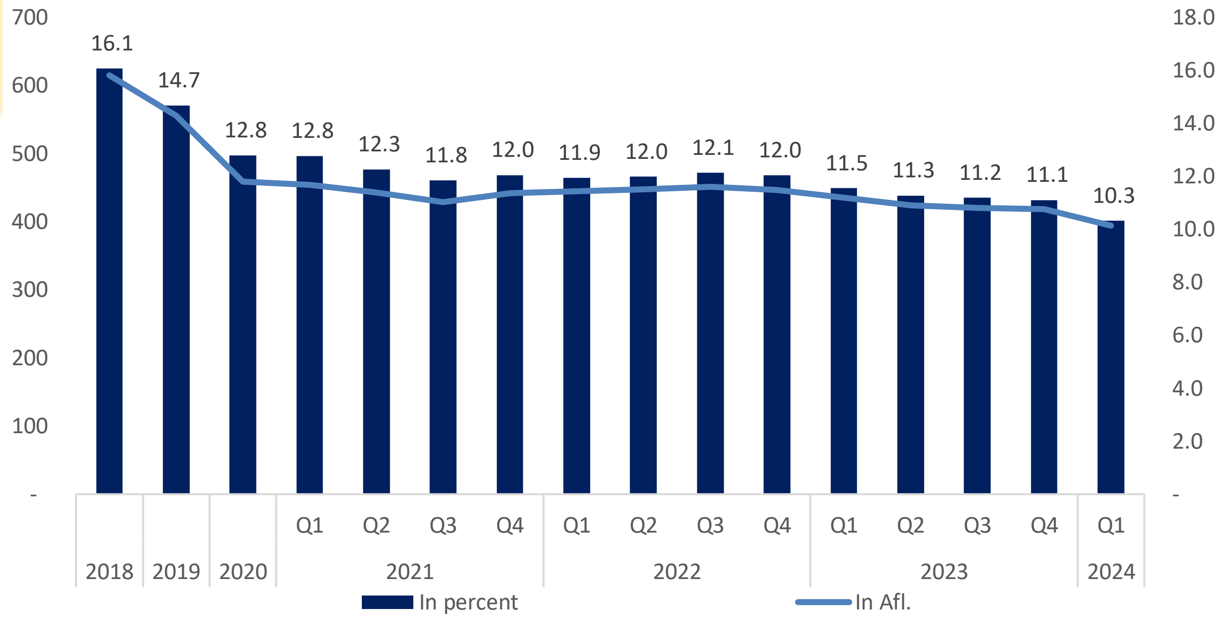


Note. This data is not corrected for education, job similarity, nor work experience. The data includes wages of employees that are covered under the accident insurance ("ongevallenverzekering").

Source: Sociale Verzekeringsbank Aruba

The development in Box 1-Chart 1 illustrates that in Aruba, men – for the period for which data are available – have always earned more than women. During this period, men earned, on average Afl. 455 more. Note that these data have not been corrected for education, job similarity, or work experience. It is important to point out that, Aruban women tend to be overrepresented in sectors such as the accommodation and food service activities. This sector scores among the lowest in monthly wages . This overrepresentation might push down the average wages of women. The specific gender wage gap, which is calculated as the difference between the average earnings of men and women, is illustrated in Box 1-Chart 2.

Box 1 - Chart 2: Gender wage gap in Aruba



Note. This data is not corrected for education, job similarity, nor work experience. The data includes wages of employees that are covered under the accident insurance ("ongevallenverzekering").

Source: Sociale Verzekeringsbank Aruba

The gender wage gap has been declining consistently since the fourth quarter of 2022. In the first quarter of 2024, the gender wage gap declined to Afl. 394 (or 10.3 percent) from Afl. 418 (or 11.1 percent) in the last quarter of 2023. In the first quarter of 2024, women earned on average Afl. 3,426 and men earned on average Afl. 3,820.

In the first quarter of 2024, the gender wage gap marks the lowest amount registered in the period for which data are available. At the start of this data series – 2018 – the gender wage gap was Afl. 615 (or 16.1 percent), Afl. 221 higher than the gap in the first quarter of 2024. The downward trend in the gender wage gap stems from a sharper rise in the average wages of women compared to men. This may reflect employers' decision to increase women's wages to motivate their labor force participation rate in light of the tight labor market in Aruba particularly after the COVID-19 pandemic. For the specific case of Aruba, the labor force participation rate of women has always been higher than that of men.

At first glance, the decrease in the gender wage gap indicates more equality for Aruban women in terms of income. However, more action is needed to bring women's and men's wages into parity, including policy measures initiated by the Government of Aruba to address gender inequality.

1.4 Investment

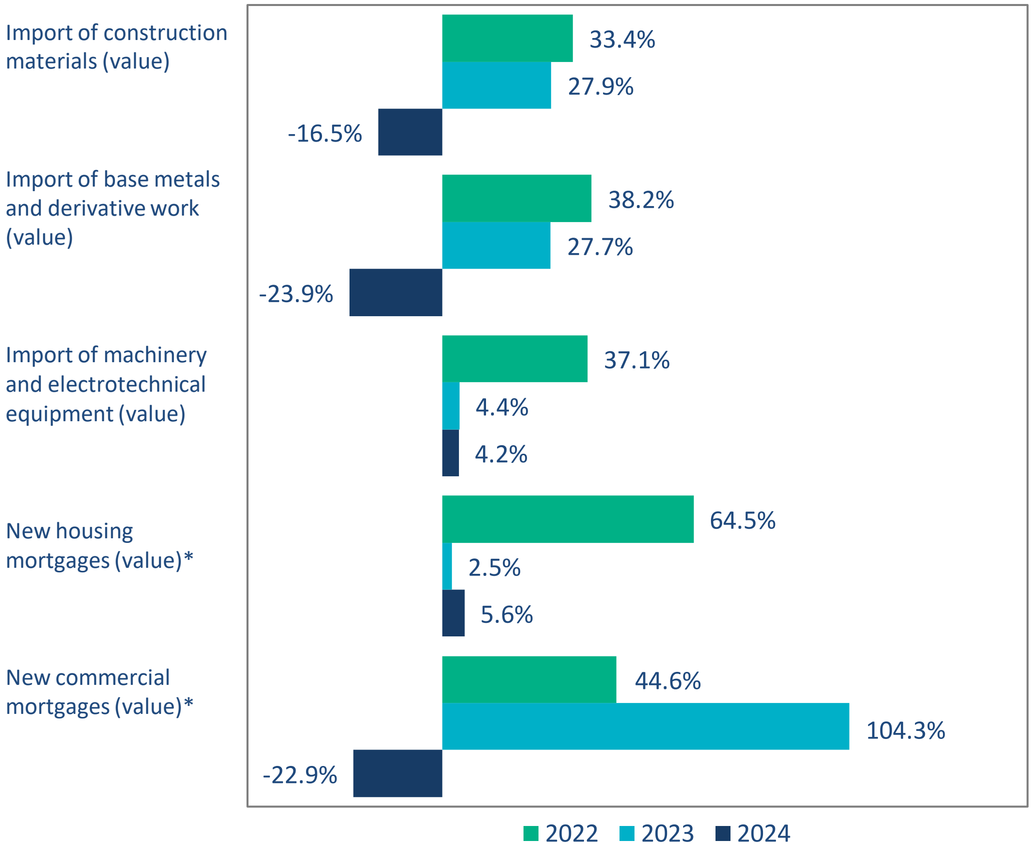
During the first quarter of 2024, investment indicators offered mixed signals when compared to the first quarter of 2023 (Chart 6). Some indicators registered upticks including the value of new housing mortgages (+5.6 percent) and imports of machinery and electrotechnical equipment (+4.2 percent). However, three out of the five indicators registered downturns, including the value of imports in base metals and derivative works (-23.9 percent), import of construction materials (-16.5 percent) and new commercial mortgages (-22.9 percent).

While new housing mortgages grew, new commercial mortgages contracted during the first quarter of 2024, compared to the same period of 2023. More specifically, the value of new housing mortgages reached Afl. 62.1 million, compared to Afl. 58.8 million during the first three months of 2023. In terms of quantity, however, the number of new housing mortgages decreased (-2.0 percent). As a result, the value of new housing mortgages per mortgage rose by 7.8 percent. Against the backdrop of the lower imported value of construction materials, but increasing price levels for the component maintenance of the dwelling[4], this development could indicate that domestically-driven inflationary pressures for construction materials were driving the increasing (average) value of new housing mortgages. The decrease in the value of new commercial mortgages amounted to Afl. 5.6 million, down from Afl. 24.4 million in the first quarter of 2023. Similarly, the number of new commercial mortgages decreased (-6.3 percent) in the first quarter of 2024. As such, the value of new commercial mortgages per mortgage fell by 17.7 percent in the first quarter of 2024, compared to the first quarter of 2023.

Import indicators of investment also reflected ambiguity about investment activities. The imported value of base metals and derivative works contracted by 23.9 percent, while that of imported construction materials decreased by 16.5 percent compared to the first quarter of 2023. In contrast, the value of machinery and electrotechnical equipment rose by 4.2 percent. The observed drop in imports, particularly in materials, is consistent with hotel sector investment projects originally scheduled for completion in 2023 that were carried over into 2024. Accordingly, the bulk of metals and other construction materials were likely imported in the earlier construction phases, while the final (pre-opening) phases may require fewer of the aforementioned materials.

[4] The CPI subcomponent 'maintenance of the dwelling' falls under the component 'housing', and includes materials such as cement, concrete blocks, roofing, wood, paints and varnishes, flooring, electrical supplies, and plumbing supplies. Additionally, the subcomponent also includes services by plumbers and electricians for regular maintenance.

Chart 6: Investment-related indicators
(Percentage change Q1 2024 vs. Q1 2023 vs. Q1 2022)

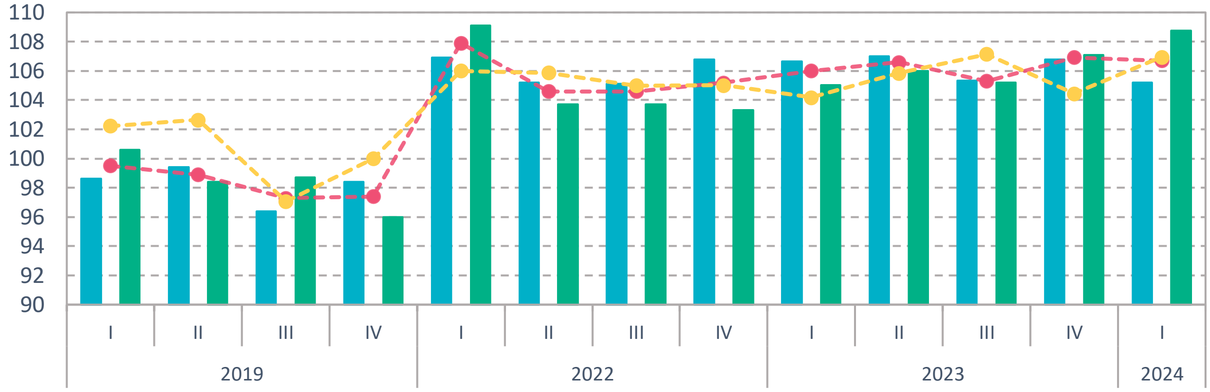


Sources: CBA, CBS, DOW

Business Perception Survey (BPS) data tilted to the positive, as three out of four indices indicated greater optimism compared to the first quarter of 2023. In particular, through the BPS, businesses are asked if their investments had improved, stayed the same, or worsened compared to the same quarter last year. From the answers received on those questions, the CBA derived a BPS investment index, which improved to 106.9 in 2024 Q1 from 104.2 in 2023 Q1 (Chart 7). Likewise, the BPS index inched up to 106.7 from 106.0 in Q1 2023, primarily due to the expanded index for future short-term economic conditions. In contrast, the current economic conditions index showed a deterioration.

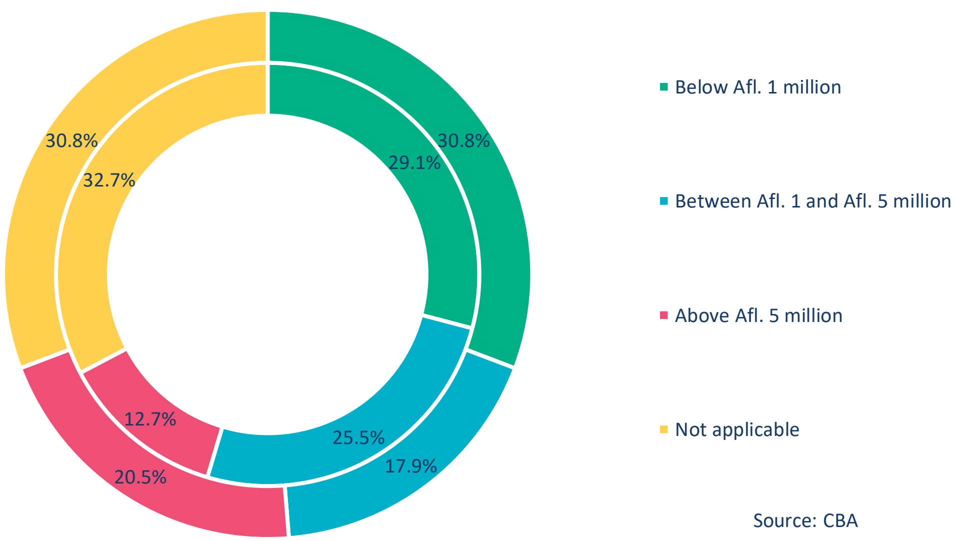
Additionally, reported investment plans suggest increased investment intensity. Chart 8 shows that the share of businesses declaring investment plans over the next 12 months increased to 69.2 percent from 67.3 percent in Q1 2023. Furthermore, in the first quarter of 2024, the proportion of businesses with large (more than Afl. 5 million) investment plans totaled 20.5 percent — 7.8 percentage points higher than in the same period of 2023 (Chart 8). Meanwhile, businesses with small (less than Afl. 1 million) investment plans grew marginally (+1.7 percentage points), and those with medium (Afl 1 - 5 million) investment plans declined (-7.6 percentage points). Overall, 1.9 percentage points fewer businesses indicated that the question did not apply to them. An important caveat is that the BPS investment plans are a forward-looking indicator of business expectations over the next 12 months.

Chart7: Business Perception Index



90-100: pessimistic
100-110: optimistic
Source: CBA

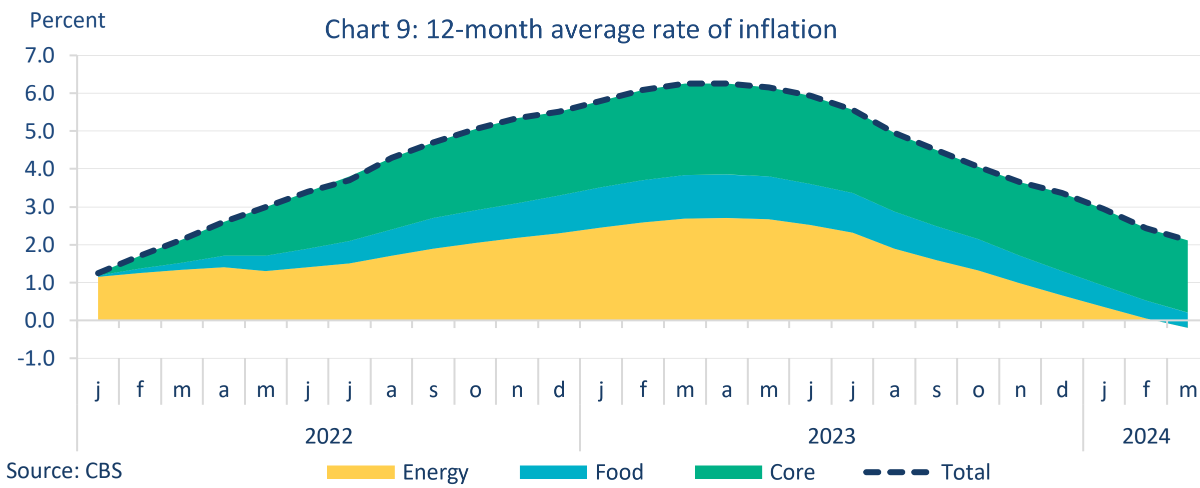
Chart 8: Share of businesses responses on their investment plans
Inner circle: 2023. Outer circle: 2024.



Source: CBA

1.5 Consumer Price Index

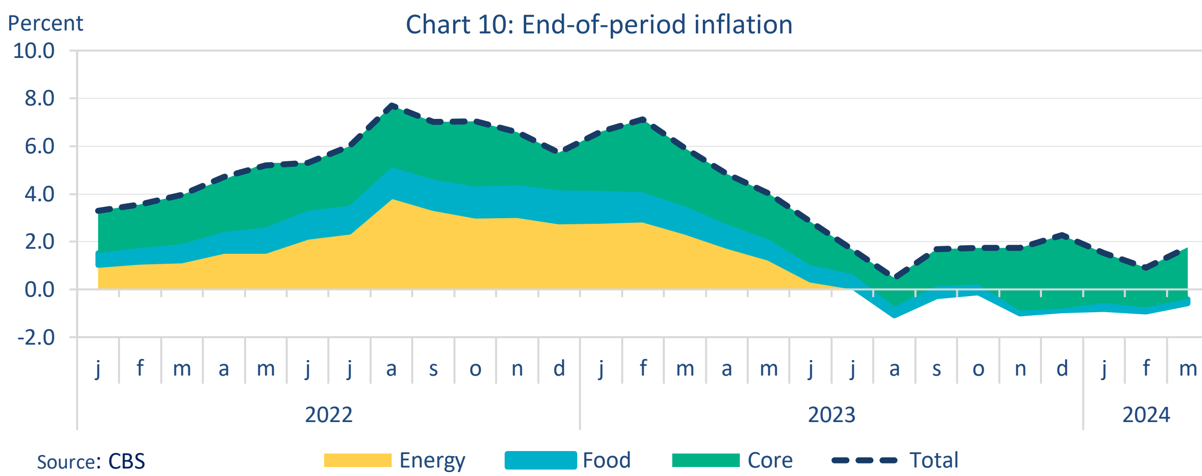
In March 2024, the 12-month average inflation rate continued downward and reached 2.1 percent, mirroring a 1.3 percentage points decline compared to December 2023 (Chart 9). The Aruban 12-month average inflation rate has followed a downward trend since May 2023, mainly reflecting the diminishing contribution of the utility tariff hike in August 2022, dwindling gasoline and diesel prices, and normalization of food prices. Moreover, core inflation – inflation excluding energy and food – contributed to a lesser degree to the 12-month inflation rate chiefly due to the lowered purchasing cost of vehicles. The latter is likely the result of the Government of Aruba reducing the import duties on cars as of August 1, 2023.



The March 2024 12-month average inflation rate was largely pushed up by the housing (+1.0 percentage point) and communication (+0.8 percentage point) components. The change in the housing component was, to a significant extent, the result of rising prices for maintenance and repairs related to the dwelling (+0.5 percentage point) and water supply (+0.3 percentage point). Therefore, albeit with a decreasing contribution, the hike in water tariffs of August 2022 still exerted upward pressure on the 12-month inflation rate. The contribution of the communication component was solely the outcome of price hikes in telephone and telefax services (+0.7 percentage point). In March 2024, other components that positively contributed to the 12-month inflation rate were food and non-alcoholic beverages (+0.5 percentage point), restaurant and hotels (+0.3 percentage point), miscellaneous goods and services (+0.3 percentage point), education (+0.2 percentage point), household operation (+0.2 percentage point), and health (+0.1 percentage point).

On the other hand, the components of transport (-0.9 percentage point), recreation and culture (-0.2 percentage point), and clothing and footwear (-0.1 percentage point) mitigated the 12-month average inflation in March 2024. The transport component's negative contribution was mainly due to falling purchasing prices for vehicles (-0.5 percentage point) and gasoline and diesel prices (-0.5 percentage point).

The end-of-period (EOP) inflation dropped to 1.8 percent in March 2024 compared to 2.3 percent in December 2023 (Chart 10). This decrease was caused by a diminishing contribution of core inflation to the total EOP inflation (i.e., 2.2 percentage points contribution in March 2024 vis-à-vis 3.1 percentage points contribution in December 2023). Similar to the 12-month core inflation, the downturn in the EOP core inflation is mainly the outcome of lowered prices for vehicles. These developments indicate that car dealers lessened the prices of new cars after the August 1, 2023, reduction in car import duties.



In March 2024, the principal contributor to the EOP inflation was the communication component (+1.5 percentage points). The latter was influenced for the most part by telephone and telefax services (+1.5 percentage points). Several other components contributed – albeit to a lesser degree – to the EOP inflation in March 2024: housing (+0.3 percentage point), miscellaneous goods and services (+0.3 percentage point), food and non-alcoholic beverages (+0.3 percentage point), education (+0.2 percentage point), restaurant and hotels (+0.2 percentage point), household operation (+0.2 percentage point), and clothing and footwear (+0.1 percentage point).

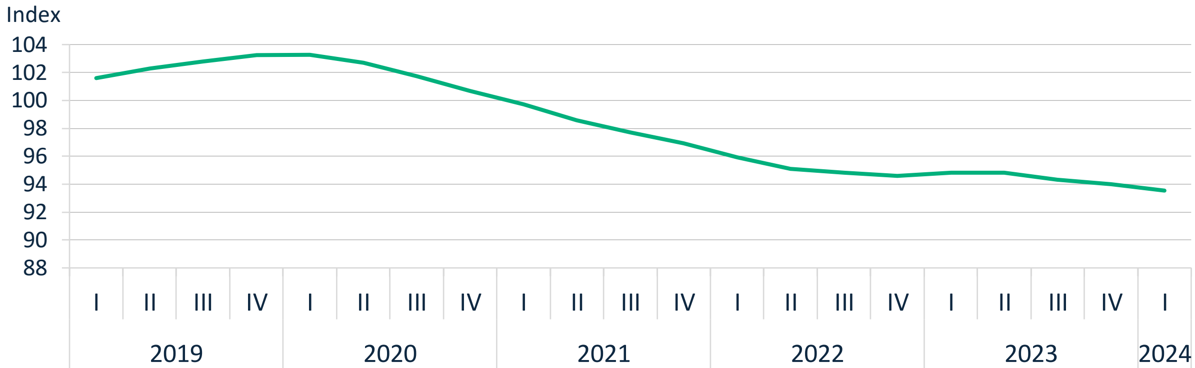
In contrast, the transport component (-1.3 percentage points) moderated the EOP inflation in March 2024. The negative contribution of this component is a consequence of lower purchasing prices of vehicles (-1.3 percentage points).

1.6 International Competitiveness

The Real Exchange Rate (RER) reflects the competitive position of the Aruban florin vis-à-vis the U.S. dollar. As such, a decrease in the RER is interpreted as an improvement in Aruba's competitive position and a rise is viewed as a deterioration.

At the end of the first quarter of 2024, the RER shrunk to 93.5, marking the third consecutive quarter of decline (Chart 11). The RER has been exhibiting a decreasing tendency since the start of the COVID-19 crisis (i.e., 2020 Q1) except for the first two quarters of 2023, where it first increased, albeit marginally, and then stabilized at 94.8. The generally decreasing trend of the RER indicates that Aruba's competitive position against the U.S. dollar has improved since the onset of the COVID-19 pandemic.

Chart 11: Real exchange rate Aruban florin vis-à-vis the U.S. dollar (2017=100)



Source: CBA

On a quarter-to-quarter basis, the RER contracted by 0.4 in the first quarter of 2024. This development stems from a wider inflation differential that favors Aruba (i.e., -1.4 percentage points in March 2024 compared to -0.7 percentage point in December 2023). In other words, the United States inflation rate was higher than Aruba's inflation rate in the first quarter of 2024. Specifically, the 12-month average inflation rate for the United States reached 3.5 percent (mainly driven by rising prices for shelter and gasoline) while that for Aruba lagged at 2.1 percent in March 2024. Both countries' 12-month average inflation rates have been waning in recent months, with that for Aruba decreasing faster than the US.

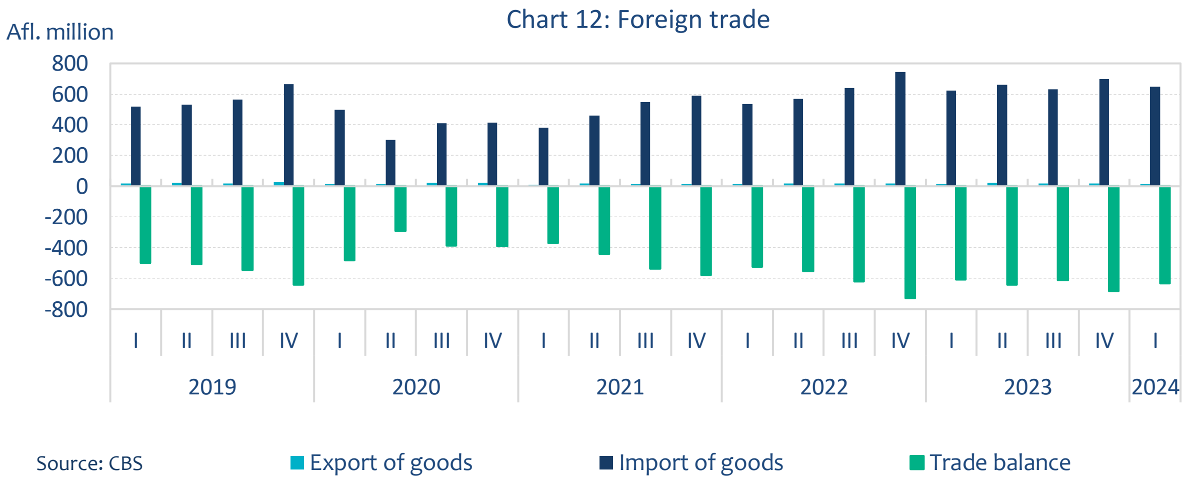
1.7 Foreign Trade

During the first quarter of 2024, the trade deficit widened to Afl. 632.0 million from Afl. 607.5 million during the first three months of 2023 (Chart 12). The broadening deficit resulted from an Afl. 25.3 million increase (+4.1 percent) in the import value of goods, while the exports value of goods grew by Afl. 0.8 million (+5.2 percent).

In the first three months of 2024, 15 of the 21 components of imported goods (in terms of value) registered increases compared to the same period in 2023. The main drivers of this expansion were the sections transport equipment (Afl. +10.4 million; +23.4 percent), real pearls and other precious stones (+Afl. 7.4 million; +28.8 percent), and live animals and other animal products (Afl. +7.1 million; +13.3 percent). On the other hand, the decline in the value of imported base metals and derivative works (Afl.- 8.3 million; -23.9 percent) mitigated the upward pressure. Additionally, mineral products (Afl.- 6.4 million; -12.5 percent) and textile fibers and articles (Afl. -3.4 million; - 11.3 percent) also fell compared to the first quarter of 2023.

However, in terms of weight, imported goods to Aruba registered a decrease of 28.9 million kg (- 17.4 percent) during the first three months of 2024 compared to the same period of 2023. The decline resulted from lower imported weight of goods in the sections mineral products (-34.8 million kg; -34.8 percent) which includes salt, sandstone, cement, metal-ore, and petrochemical products. Dampening the contraction in the import weights of goods were the components live animals and other animal products (+2.4 million kg; +44.8 percent) and wood, charcoal, and woodwork (+1.3 million kg; +57.1 percent).

As for exported goods, increases were registered both in terms of value (Afl. +0.8 million; +5.2 percent) and weight (+0.5 million kg; +9.7 percent) during the period under review. In terms of value, a rise in transport equipment (Afl. +2.4 million; +3564.1 percent) predominantly led to the increase in exported goods. Meanwhile, the most notable decrease reducing the expansion was the section base metals and derivative works (Afl. -1.9 million; -51.8 percent). As for the weight of exported goods, the growth can be predominantly attributed to the section base metals and derivative works (+0.5 million kg; +23.1 percent). Abating this increase were the sections machinery and electrotechnical equipment (-0.2 million kg; -60.0 percent) and works of stone, gypsum, cement, and asbestos (-0.1 million kg; -67.7 percent) compared to the same quarter in 2023.



1.8 Balance of Payments

International transactions settled through the commercial banking sector resulted in a net foreign exchange inflow of Afl. 56.6 million during the first quarter of 2024 (Table 2). Compared to the first quarter of 2023, which recorded a net foreign exchange outflow of Afl. 174.5 million, the developments in the first quarter of 2024 entailed a turnaround of Afl. 231.1 million. The net foreign exchange outflow for the first quarter of 2023 was largely impacted by the refinancing of foreign loans on the domestic market, and by dividend payments. The current account was the main driver of the net foreign exchange inflow during the period under review — incurring a net inflow of Afl. 316.9 million. An Afl. 261.2 million net outflow on the financial account partially mitigated the current account surplus, while the capital account registered a moderate net inflow (+Afl. 1.0 million). “Items not yet classified” recorded a marginal net outflow of Afl. 0.1 million.

Table 2: Balance of payments (in Afl. million)*	YTD Q1 2023	YTD Q1 2024
Current account	**112.2**	**316.9**
Goods	-539.0	-514.7
Services	842.1	909.9
Primary income	-199.3	-40.5
Secondary income	8.4	-37.9
Capital account	**-5.5**	**1.0**
Financial account	**-281.2**	**-261.2**
Direct investment	26.2	-177.8
Portfolio investment	-37.3	-96.6
Financial derivatives	0.7	-0.3
Other investment	-30.5	-7.8
Foreign accounts	-240.3	21.4
Items not yet classified	**0.0**	**-0.1**
Change in international reserves (excluding revaluation differences)	**-174.5**	**56.6**

Source: CBA
*Transactions recorded through local commercial banks.

The financial account registered a net outflow of Afl. 261.2 million, which partially offset the recorded gains in the current account. Domestic financing of company share purchases by residents from non-residents was the primary reason for the net outflow in the financial account, which showed net outflows across all components except foreign accounts.

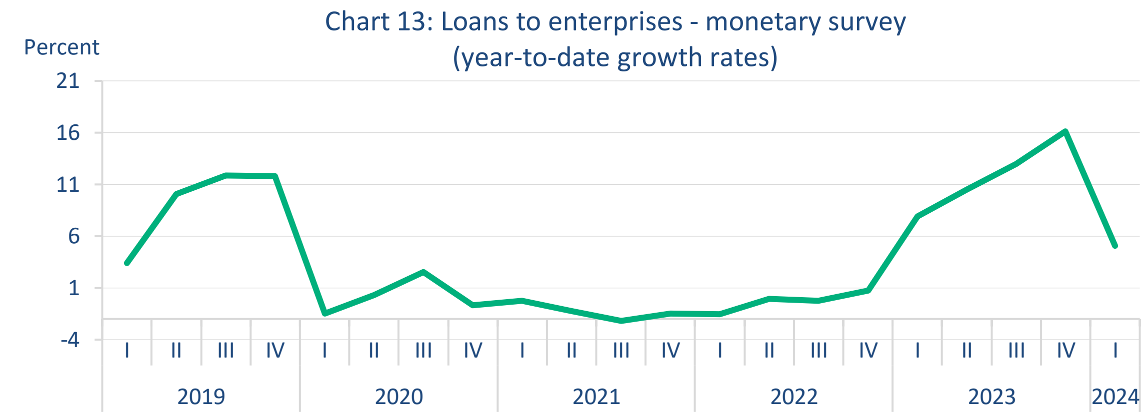
The current account displayed a net foreign exchange inflow of Afl. 316.9 million in the first quarter of 2024. An Afl. 989.0 million net inflow related to tourism services fueled the aforementioned surplus. Compared to the same period in 2023, the more extensive tourism services net inflow reflected an expansion in the number of stay-over visitors and higher tourism spending per night. Despite this development, the goods account – registering a net outflow of Afl. 514.7 million – recorded a smaller net outflow compared to the first quarter of 2023. Furthermore, primary income showed a net outflow of Afl. 40.5 million. The aforementioned net outflow – substantially lower compared to the Afl. 199.3 million net outflow registered in the first quarter of 2023 – reflects lower dividend payments compared to the same period in 2023. Meanwhile, the secondary income account noted a net outflow of Afl. -37.9 million, compared to an Afl. 8.4 million net inflow in 2023. The latter was mainly brought about by an elevated level of outflows in 2024 compared to the previous year, while the level of inflows remained relatively stable.

1.9 Monetary Survey

The money supply expanded from Afl. 5,587.5 million in December 2023 to Afl. 5,812.9 million in March 2024. This growth was principally related to the increase in net domestic assets, owing in turn to an upturn in domestic credit of Afl. 156.5 million. Additionally, the net foreign assets (excluding revaluation differences) advanced from Afl. 2,802.2 million in December 2023 to Afl. million 2,889.9 March 2024. When including revaluation differences, the net foreign assets (Afl. 3,198.8 million) cover

6.8 months of current account payments. Meanwhile, the gross foreign assets of the CBA (Afl. 2,818.5 million) are 7.9 percent above the lower bound of the IMF ARA metric. Thus, foreign reserves are adequate conform to the benchmarks monitored by the CBA.

Up to March 2024, commercial bank credit provided to residents grew by 2.5 percent (+Afl. 97.0 million) compared to December 2023, largely driven by a rise in business loans. The financing of a hotel share purchase, in turn, led to an increase in business loans (5.1 percent) (Chart 13). To a lesser extent, loans to individuals (+0.4 percent) pushed up overall credit.

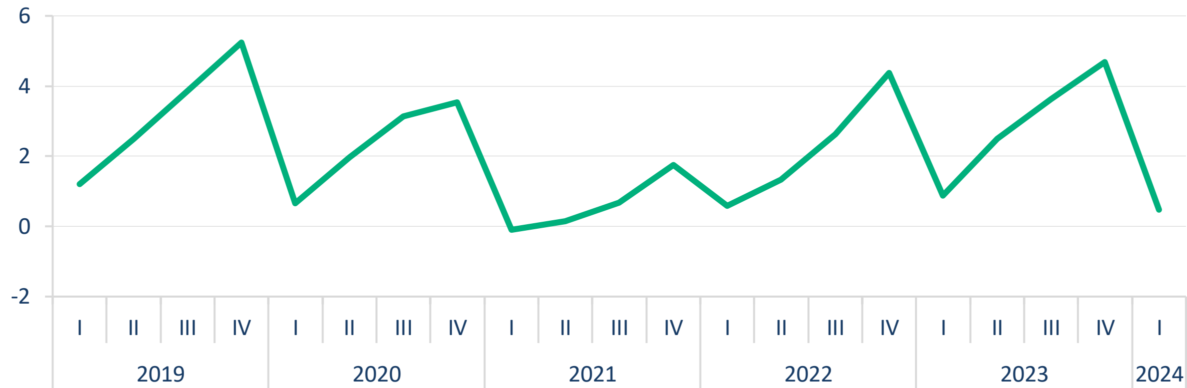


Source: CBA

Term loans longer than two years (+9.1 percent; +Afl. 91.5 million), complemented by commercial mortgages (+1.1 percent; +Afl. 6.9 million), drove the year-to-date March 2024 growth in business loans. In contrast, term loans shorter than two years and current account loans contracted.

Loans to individuals inched up (+0.4 percent; +Afl. 7.4 million) due to a rise of Afl. 7.7 million in housing mortgages in the period under review (Chart 14). However, consumer credit could not carry the momentum from end-2023 to the first quarter of 2024, as consumer credit edged down by 0.1 percent. All components of consumer credit decreased, except for car loans (+5.3 percent; +Afl. 7.3 million).

Chart 14: Housing mortgages - monetary survey
(year-to-date growth rates)



Source: CBA

In the first quarter of 2024, the quarterly weighted average interest rate margin rose to3.9 percent, up from 3.8 percent in the last quarter of 2023. The higher interest rate margin resulted from increased average interest rates on new loans (Q4 2023: 6.1 percent; Q1 2024: 6.6 percent), while the average interest rate on new deposits was a partial mitigating factor (Q4 2023: 2.3 percent; Q1 2024: 2.7 percent).

The financial soundness indicators remained adequate up to March 2024. For instance, the capital adequacy ratio reached 32.3 percent, amply above the minimum of 16 percent. Meanwhile, asset quality, measured as nonperforming loans to gross loans, marginally improved from 1.7 percent at the end of 2023 to 1.6 percent in the first quarter of 2024. Since April 2021, nonperforming loans have been following a downward trend, likely due to the resilient rebound of the Aruban economy after the COVID-19 pandemic. At the end of March, the prudential liquidity ratio (PLR) stood at 26.1 percent (minimum required PLR: 18.0 percent), 0.6 percentage point higher than at the end of 2023.

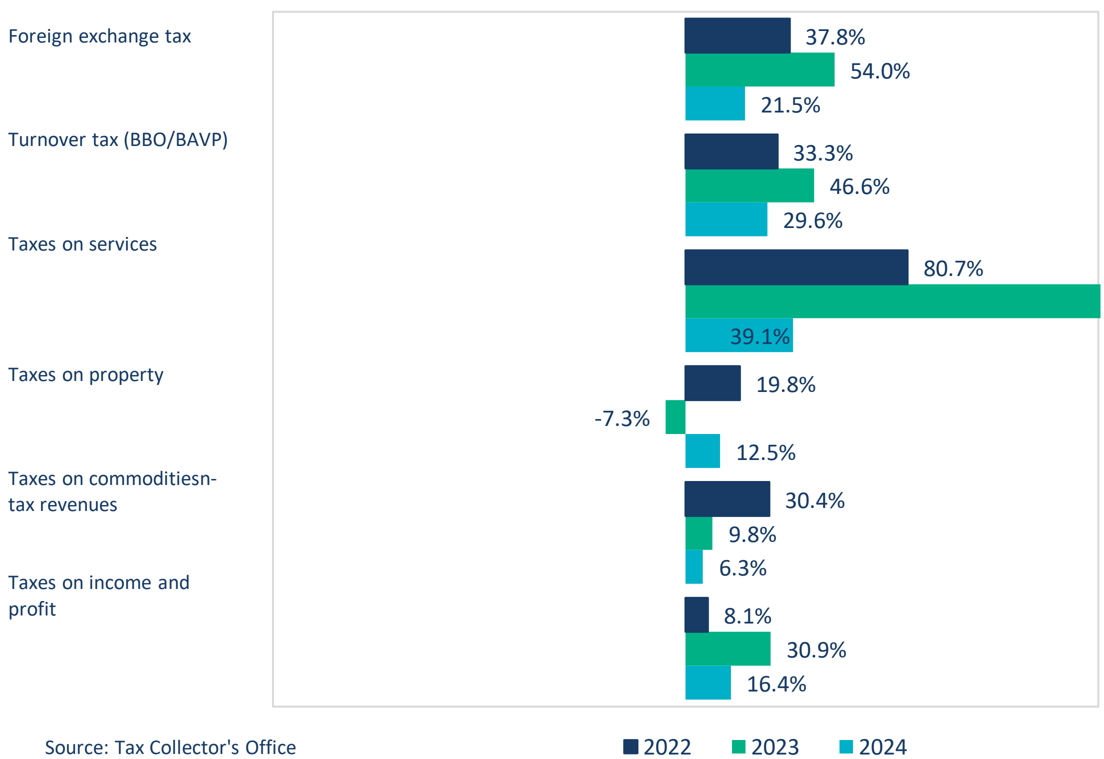
1.10 Government

During the first quarter of 2024, total tax revenue jumped by Afl. 60.6 million (+18.7 percent) compared to the first quarter of 2023. Consequently, total tax revenue amounted to Afl. 384.2 million. All tax categories registered upturns, with turnover tax receipts (+Afl. 22.6 million; +29.6 percent) being the most significant contributor to the expansion in total tax revenue (Chart 15). The latter benefited from the tourism sector's robust performance, through elevated tourist spending and local consumption during the quarter under review. Receipts from taxes on services, in turn, rose by Afl. 10.7 million (+39.1 percent) compared to the same quarter of the previous year. The increased taxes on services resulted mainly from enlarged revenue from the hotel room tax (+Afl. 9.8 million; +62.5 percent), gained from heightened numbers of tourism arrivals and elevated hotel room rates during the year's first quarter. Furthermore, income from the foreign exchange tax rose by Afl. 4.1 million (+21.5 percent) to Afl. 23.2 million in the first quarter of 2024.

Additionally, gains from taxes on income and profit (+14.3 million; +16.4 percent) contributed to the increase in tax revenues in the period under review. The former inched up due to improvements in the wage tax (+Afl. 9.9 million; +15.4 percent), the profit tax (+Afl. 3.1 million; +39.5 percent), and the income tax (+Afl. 1.2 million; +8.2 percent) collections. The observed enhancement in the income and wage taxes mirrored the buoyant economic conditions and the heightened level of employment (+2,049 employment relationships; +4.8 percent). The latter, based on data retrieved from the Sociale Verzekeringsbank (SVb) , shows that the number of employment relationships augmented to 44,409 at end-Q1 2024 from 42,360at end-Q1-2023. During the first quarter of 2024, the rise in registered receipts from profit taxes also resulted from improved economic activity.

In the first quarter of 2024, receipts from taxes on commodities (+Afl. 5.4 million; +6.3 percent) were primarily pushed up by revenues from excises on tobacco (+Afl. 2.1 million; +175.8 percent) and excises on liquor (+Afl. 1.6 million; +23.2 percent). Moreover, income from taxes on property (+Afl. 3.5 million; +12.5 percent) widened, mainly due to an uptick in the transfer tax (+Afl. 2.3 million; +37.5 percent). This development points to revived interest in the real estate market, which showed signs of partial cooling in 2023, after peaking in 2022.

Chart 15: Government revenue
(Percentage change YTD Mar 2024 vs. YTD Mar 2023)



Source: Tax Collector's Office

2 International Developments

The world is on a steady but slow recovery, according to the latest IMF World Economic Outlook of April 2024[5]. Global economic growth is expected at 3.2 percent in 2024, identical to the expansion observed in 2023 (Table 3). However, when benchmarked against historical standards, the IMF concludes that global economic growth is sluggish owing to several factors such as the withdrawal of fiscal support, longer-term effects of COVID-19, high borrowing costs, lagging productivity, and increasing geoeconomic fragmentation.

In 2024, the economic expansion in the Advanced Economies (AE) will likely lag vis-à-vis the Emerging Market and Developing Economies (EMDE). AE growth is foreseen to reach 1.7 percent in 2024, with the United States (+2.7 percent) mainly pushing up the forecast. The foreseen uptick in the output of the United States is a 0.6 percent upward revision, driven by a stronger-than-expected growth outcome during the last quarter of 2023 and persistently stronger momentum in 2024, compared to the January 2024 World Economic Outlook Update. Other economies driving up the output in AE include but are not limited to 'other AE' (+2.0 percent), Spain (+1.9 percent), and Canada (+1.2 percent).

The output surge in the EMDE is anticipated at 4.2 percent. The development in the EMDE is chiefly driven by Emerging and Developing Asia (+5.2 percent) and Sub-Saharan Africa (+3.8 percent). With regard to Emerging and Developing Asia, India's output is expected to grow 6.8 percent in 2024, reflecting continued upward pressures in domestic demand and an increasing working-age population. In addition, output in China is predicted to rise by 4.6 percent in 2024, marking a slowdown compared to the 5.2 percent observed in 2023. The IMF notes that the deceleration in China's growth is driven by the easing of the positive effects of one-off factors, such as the post-pandemic boost to consumption and fiscal stimulus, in addition to the weakness in the property sector. Meanwhile, the subsiding effects of earlier weather shocks and improvement in supply issues push up Sub-Saharan Africa's output results. The economic output of Latin America and the Caribbean is expected to go up by 2.0 percent in 2024, after climbing by 2.3 percent in 2023.

In 2024, global headline inflation is foreseen to reach 5.9 percent, a decrease compared to the 6.8 percent observed in 2023. This decline in global headline inflation mirrors a broad-based reduction in global core inflation. The drivers of the diminishing core inflation include the effects of 1) a continuation of tight monetary policies, 2) softening in labor markets, and 3) fading pass-through effects from past contractions in relative prices. The IMF expects that in 2024, AE will take a more front-loaded decline in inflation vis-à-vis EMDE. As a result, AE are predicted to return sooner to rates near their pre-pandemic average. In 2024, the predicted headline inflation is revised upward compared to the IMF World Economic Outlook from January 2024. The latter results from a higher forecast for the EMDE (notably Iran and other low-income countries).

The risks to the global economic outlook are now broadly balanced compared to past reports. Risks to the downside include new price pressures emerging from geopolitical tensions that could increase interest rate expectations and decrease asset prices. Moreover, high government debt in several economies could initiate tax hikes and spending cuts that could weaken economic activity and erode confidence. On the

[5] The International Monetary Fund (IMF) recently published the World Economic Outlook update of July 2024. According to the publication, global growth – including growth for the Advanced Economies (AE) and the Emerging Market and Developing Economies (EMDE) – is foreseen to be in line with the IMF World Economic Outlook of April 2024.

upside, the IMF expects that looser than necessary fiscal policy could raise economic activity in the short term, while risking more costly policy adjustments later on. Other upside risks, include but are not limited to, developments in artificial intelligence that could be a stimulus to productivity.

Table 3: Projections for the world economy and selected economies (Real GDP growth, in percent)

Indicator	2023e	2024f
World	3.2	3.2
United States	2.5	2.7
Euro Area	0.4	0.8
Latin America and the Caribbean	2.3	2.0

Source: IMF

e = estimate ; f = forecast

3 Conclusion

During the first quarter of 2024, the Aruban economy – measured in real Gross Domestic Product (GDP) – grew by an estimated 11.2 percent compared to the same period of 2023. Tourism, which is the main contributor to economic growth, recorded significant increases in tourist spending and stay-over visitors. Consumption indicators were primarily positive due to increased local demand for goods and services, and more optimistic business sentiments regarding current economic conditions.

In the first quarter of 2024, tourism indicators extended the strong performance witnessed in 2023. The US market was the primary driver of tourism demand growth, followed by the Colombian and Canadian markets. Moreover, the hotel sector performance reflected robust tourism-related activities. The hikes in the number of stay-over visitors, total visitor nights, and tourism revenue led to a strengthening of the average hotel occupancy rate, average daily rate (ADR), and revenue per available room (RevPar).

At the end of March 2024, the diminishing contribution of the utility tariff hike in August 2022, dwindling gasoline and diesel prices, and normalization of food prices led to the continued downward trend in the 12-month average inflation. The latter reached 2.1 percent, down from 3.4 percent at the end of 2024. The End-of-Period (EoP) inflation slowed to 1.8 percent at the end of March 2024, from 2.3 percent at the end of 2023.

During the period under review, the real exchange rate for the Aruban florin vis-à-vis the U.S. dollar fell by 0.5 index point compared to the last quarter of 2023. The continued descent of the real exchange rate reaching 93.5 index points follows the sustained improvement in the competitive position of Aruba vis-à-vis that of the United States, which began in the second quarter of 2020 and started to slow down in 2022.

International transactions settled through the commercial banking sector gave rise to a net foreign exchange inflow of Afl. 56.6 million during Q1 2024. This outcome was largely related to strong tourism performance, resulting in a current account surplus. The latter was partially mitigated by a net outflow on the financial account primarily due to the domestic financing of hotel share purchases by residents from non-residents. Moreover, at the end of March 2024, international reserves (incl. revaluation differences) reached Afl. 3,198.8 million and remained adequate according to the benchmarks monitored by the CBA.

In the first three months of 2024, overall credit increased mainly due to augmented business loans. The latter is principally the consequence of the domestic financing of hotel share purchases due to lower interest rates in the domestic market vis-à-vis those abroad.

Government revenues (excluding non-tax revenue) surged in the first quarter of 2024 vis-à-vis the same period in 2023. Total tax revenues expanded by 18.7 percent, benefitting from the tourism sector's strong performance. This led to elevated tourist spending and local consumption during the quarter under review.

In April 2024, the International Monetary Fund (IMF) published its World Economic Outlook (WEO). The IMF predicts that global growth will reach 3.2 percent in 2024 — remaining equal to the 3.2 percent estimated for 2023. When benchmarked against historical standards, however, the IMF concludes that global economic growth is sluggish owing to several factors such as the withdrawal of fiscal support, longer-term effects of COVID-19, high borrowing costs, lagging productivity, and increasing geoeconomic fragmentation.

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