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KINGDOM OF THE NETHERLANDS—ARUBA

2021 ARTICLE IV CONSULTATION DISCUSSIONS—PRESS RELEASE; STAFF REPORT; AND STAFF SUPPLEMENT

April 2021

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2021 Article IV consultation with the Kingdom of the Netherlands—Aruba, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on March 5, 2021, with the officials of the Kingdom of the Netherlands—Aruba on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 31, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF.
- A **Staff Supplement** updating information on recent developments.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR21/110

IMF Executive Board Concludes 2021 Article IV Consultation Discussions with the Kingdom of the Netherlands—Aruba

FOR IMMEDIATE RELEASE

Washington, DC – **April 21, 2021:** On April 16, 2021, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation discussions[1] with the Kingdom of the Netherlands—Aruba.

COVID-19 has caused unprecedented disruption to economic activity, triggering Aruba's deepest recession in history, but the policy response was swift. Tourism came to a complete halt during the 2020Q2 causing ripple effects across the economy. Real GDP is estimated to have shrunk by 25.5 percent in 2020, with considerable strain to the labor market and business sector. The Central Bank of Aruba (CBA) eased monetary and macroprudential policies, supporting private credit despite the deep output contraction. The multi-pronged fiscal package has provided essential income and liquidity support to the affected businesses and households and has helped contain bankruptcies and unemployment. However, supportive expenditure policies and large revenue losses turned the fiscal balance from a small surplus in 2019 to a deficit of 17 percent of GDP in 2020. As a result of the large deficit and deep GDP contraction, public debt increased from 72 to 117 percent of GDP.

A moderate recovery is projected for 2021 amid exceptionally high risks. Real GDP growth in 2021 is expected at about 5 percent, supported by Aruba's favorable testing capacity and vaccination prospects compared to other Caribbean countries. The pandemic is likely to have lasting effects on the economy, which is only expected to reach the pre-COVID level of real GDP in 2025. The fiscal deficit is expected to remain elevated in 2021, reflecting continued expenditure support and persisting weakness in tax revenues. Public debt will peak at about 130 percent of GDP in 2021 and gradually decline thereafter. The fiscal adjustment needed over the medium term to restore debt sustainability is sizable both by historical and international standards. Like other countries, downside risks are predominant and primarily stem from the uncertain evolution of the pandemic. Implementation risks to the needed fiscal adjustment and risks to debt sustainability are also high, but are partly mitigated by the sizable share of obligations to the Dutch government.

Executive Board Assessment[2]

The authorities' swift policy response to the COVID-19 pandemic helped contain the human and economic damage. The multi-pronged fiscal package provided temporary income support,

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

wage subsidies, liquidity assistance, and tax deferral measures. In addition, the Central Bank (CBA) eased monetary and macroprudential policies to support private credit and injected liquidity in the banking sector. These measures were instrumental in saving lives and preventing an even sharper downturn.

Policy support remains critical to contain the effect of the pandemic, given the tepid recovery projected in 2021. The decision to extend fiscal support in 2021 is appropriate, in view of continuing economic weakness and elevated risks. Premature retrenchment could hurt the recovery and pose even larger costs on the economy. The authorities are encouraged to prepare a contingency plan if current conditions persist, including the extension of some fiscal support into 2022 if additional financing sources can be identified.

Strict prioritization of spending and revenue mobilization is necessary as the recovery takes hold, in order to contain debt sustainability risks. Expenditure measures should be targeted to households and businesses in immediate need within a generalized effort to improve the efficiency of total spending. Measures to improve tax compliance would broaden the tax base while more fairly distributing the tax burden across the economy. The introduction of a value-added tax (VAT) should be accelerated to offset the revenue shortfall from the recent reduction in direct taxes while protecting the vulnerable, as well as on efficiency grounds.

Over the medium-term, Aruba will need a substantial and sustained fiscal consolidation to restore sustainability and rebuild fiscal buffers. A credible, growth-friendly and inclusive medium-term consolidation plan will be essential to set public debt on a firm downward trajectory. Key elements would include: (i) enhancing the tax system to raise revenues while minimizing distortions and protecting vulnerable groups; (ii) containing the public wage bill; and (iii) reforming the social safety net.

Strengthening the fiscal policy framework will help guide fiscal policy. Adopting a well-designed medium-term budget framework would strengthen fiscal planning and help achieve multi-year fiscal discipline. Enhancing the debt management strategy would guide financing decisions and mitigate refinancing risks arising from the bunching of maturity in 2022/23 when the loans received from the Netherlands come due under current terms.

Monetary and macroprudential polices should remain accommodative to support the recovery. The current level of foreign reserves is adequate, but should be increased over the medium term in view of the high uncertainty regarding the resumption of tourism receipts. The CBA is encouraged to remove the recently imposed capital flow management measure once economic conditions normalize. Premature tightening of macroprudential policies should be avoided to prevent adverse macro-financial feedback effects that might weaken the financial system and reduce welfare. As conditions for approval of the new exchange restrictions are not met, staff does not recommend their approval.

Banks are liquid and well-capitalized, though continued CBA vigilance for emerging financial vulnerabilities would be appropriate. Non-performing loans (NPLs) were contained at 5 percent at end-2020. However, provisions for deteriorating asset quality are affecting profits and NPLs could rise significantly once the fiscal support to households and businesses is lifted. Close monitoring is essential to ensure early intervention and maintain financial stability. Adoption of Basel II would further improve the financial sector's resilience.

Comprehensive structural reforms are key to diversifying the economy and boosting potential growth. COVID-19 brought to the fore the urgency of advancing diversification efforts to help contain tourism-related output volatility and catalyze growth. In the short-term, shifting to lower density tourism models would help reduce permanent scarring while decreasing negative environment externalities. Labor market reforms that foster flexibility would boost potential growth and improve external competitiveness. Strengthening the link between education, training, and skill demand and broadening access to digital infrastructure will reduce the long-term impact of COVID-19, particularly for unskilled, more vulnerable workers, helping alleviate inequalities and spur equitable growth. Policies that tackle inequality and strengthen resilience to climate risks should be continued, along with structural reforms that improve the business environment, including anti-corruption and AML/CFT measures.

Table 1. Aruba: Selected Economic Indicators

Basic Data, Social and Demographic Indicators

Area (sq. km)	180		
Population (thousands, 2020q3)	111.9	Literacy rate (percent, 2018)	97.8
Population growth rate (percent, 2016-20 average)	0.5	Percent of population below age 15 (2019)	17.2
Nominal GDP (millions of U.S. dollars, 2019)	3,342	Percent of population age 65+ (2019)	15.2
GDP per capita (thousands of U.S. dollars, 2019)	29.9	Life expectancy at birth (years, 2018)	76.2
Unemployment rate (percent, 2019)	5.2		

Economic Indicators

	2019	Est. 2020	Projections 2021	2022
		(Percent change)		
Real economy				
Real GDP	0.4	-25.5	5.0	12.0
GDP deflator	3.9	-1.3	0.1	2.0
Consumer prices				
Period average	3.9	-1.3	0.1	2.0
End-period	3.6	-3.1	1.3	2.5
		(Percent of GDP)		
Central government operations				
Revenues	23.7	24.4	21.6	21.7
Expenditures	22.9	40.6	39.7	28.1
Of which: capital	0.5	0.8	0.5	0.5
Overall balance	0.3	-17.0	-18.6	-6.9
Primary Balance	4.2	-11.7	-13.0	-0.6
Cyclically adjusted primary balance (percent of potential GDP)	4.1	-4.8	-7.7	0.8
Gross central government debt	72.2	117.0	130.3	121.4
Savings and investment				
Gross investment	21.1	11.3	11.9	17.3
Of which: public	0.5	0.8	0.5	0.5
External saving	-2.5	16.3	13.7	3.8
Domestic saving	23.7	-5.0	-1.7	13.5
Balance of payments				
Current account balance	2.5	-16.3	-13.7	-3.8
Oil	-4.5	-3.8	-4.6	-4.6
Non-oil	7.0	-12.5	-9.1	0.8
FDI	-4.0	4.4	3.3	2.0
Gross official reserves (millions of U.S. dollars)	999	1,151	1,189	1,239
Gross official reserves (months of next year's imports)	7.5	8.6	7.3	6.7
External debt	89.0	131.2	132.3	128.6
	(Millions of Aruban florins, unless otherwise indicated)			
Monetary				
NFA of Banking System	1,713	2,056	2,160	2,466
NDA of Banking System	2,857	2,736	2,875	3,282
Credit to private sector (percent change)	6.6	0.5	5.2	14.2
Broad money	4,569	4,792	5,034	5,748
Deposits (percent change)	8.0	4.3	5.1	14.2
Memorandum items				
Nominal GDP (millions of Aruban florins)	5,982	4,399	4,621	5,277
Nominal GDP (millions of U.S. dollars)	3,342	2,458	2,582	2,948
Unemployment rate (percent)	5.2	14.0	…	…

Sources: Aruban authorities and IMF staff estimates and projections.

KINGDOM OF THE NETHERLANDS—ARUBA

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION DISCUSSIONS

March 31, 2021

KEY ISSUES

Context. Aruba managed to contain the pandemic in the first months of the outbreak but experienced a resurgence of new infections in the summer. The economic impact of COVID-19 is particularly severe given Aruba's high dependency on tourism. While the authorities' swift response has helped contain the human and economic damage, it could not avoid a severe GDP contraction.

Outlook and Risks. Real GDP is projected to have contracted 25½ percent in 2020, followed by continued weakness in 2021. Public debt spiked to 117 percent of GDP and is projected to peak at about 130 percent in 2021, exacerbating risks to debt sustainability. The outlook is subject to exceptionally high risks, reflecting the uncertain evolution of the COVID-19 pandemic and its impact on the tourism industry.

Policy Recommendations. The authorities appropriately provided essential support to households and businesses. Facilitating the recovery while ensuring debt sustainability will require that:

- *Fiscal policy* continues meeting immediate health and economic needs while narrowing the targeting of support measures to the most vulnerable sectors and individuals, given very limited fiscal room. Once the pandemic is in under control and the recovery is underway, the focus should move toward restoring debt sustainability and, subsequently, rebuilding buffers.
- *Monetary policy* stays accommodative to uphold the recovery while maintaining reserve adequacy to safeguard the peg.
- *Financial policies* remain supportive while closely monitoring financial stability risks and continuing enhancing the AML/CFT framework.
- S*tructural reforms* that limit permanent scarring on the tourism industry and labor market, catalyze economic diversification and productivity, and enhance governance are steadily implemented to foster resilient and inclusive medium-term growth.

Approved By
Aasim M. Husain (WHD) and Martin Sommer (SPR)

The team comprised Valentina Flamini (head), Ali Al-Sadiq, Pablo Bejar and Olga Bespalova (all WHD) and Robin Sykes (LEG). Discussions took place virtually during February 22–March 5. Aasim M. Husain (WHDIA) and Jesper Hanson (OED) attended key meetings. The mission held discussions with Prime Minister Evelyn Wever-Croes, Central Bank President Jeanette R. Semeleer, Minister of Finance Xiomara J. Ruiz-Maduro and their teams, and other public and private sector counterparts. Grey Ramos (WHD) assisted with the preparation of this report.

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PRE-COVID: A SLOW-PACED RECOVERY

1. The Aruban economy was gaining momentum before the pandemic.[1] Several recessions since 2008 had weakened activity and the fiscal accounts, but a slow-paced economic recovery was underway. Real GDP growth is estimated to have softened to 0.4 percent in 2019, as private consumption was held back by increases in indirect taxes, but was projected to firm at about 1 percent in the medium term, underpinned by resilient tourism activity and the coming on stream of large investment projects. As the positive output gap narrowed and energy prices remained at record lows, inflation decreased to 3.6 percent at end-2019 from 4.5 percent at end-2018 and was projected to converge to 2 percent. The unemployment rate declined to 5.2 percent despite increased labor force participation, but per capita real GDP in 2019 was about 14 percent below its 2007 level.

2. Increased tourism inflows from the US turned the current account into a surplus of 2.5 percent of GDP in 2019. Following a small deficit of 0.5 percent of GDP in 2018, improvements in the service account driven by strong tourism receipts more than offset a slight deterioration in the merchandise trade deficit.[2] Significant direct investment outflows due to repayments of foreign short-term loans and equity withdrawals from non-residents led to a moderate loss of US$36.5 million in reserves. Nevertheless, at 30 percent of GDP and 88 percent of the ARA metric, the stock of foreign reserves remained broadly adequate by a variety of simple measures[3] while external debt fell by 2.3 percentage points to 89 percent of GDP.

3. The authorities were pursuing an ambitious fiscal consolidation. Faced with deteriorating debt sustainability, the government embarked on a fiscal consolidation program that formed the basis of the 2018 agreement with the Netherlands. The agreement pinned down fiscal targets for 2019–21, consistent with reducing public debt over the medium- and long-term. The authorities increased the turnover tax rate and started to implement various fiscal measures beginning in 2019, aiming to boost tax revenues and contain the wage bill. They met the 2019 target with a comfortable margin and set public debt on a downward trajectory.

4. Implementation of past Fund advice was broadly on track. Recommendations focused on ensuring fiscal sustainability and advancing reforms to diversify the economy (Annex I). Fiscal policies have resulted in a marked improvement in the public balance in 2019. On the structural front, the authorities' reform agenda has rightly prioritized pursuing new engines of growth and developing the renewable energy sector to reduce oil-dependency. However, implementation slowed amid the COVID-19 crisis, and the second phase of the fiscal reform was delayed. Continued

[1] These consultation discussions form part of the Article IV consultation with The Kingdom of the Netherlands.

[2] All ratios to GDP reflect the revised nominal GDP series published by the Aruba Central Bureau of Statistics on February 22: https://cbs.aw/wp/index.php/2021/02/22/gdp-data-series-2000-2018/. Hence, these ratios are not comparable with those published in previous Staff Reports.

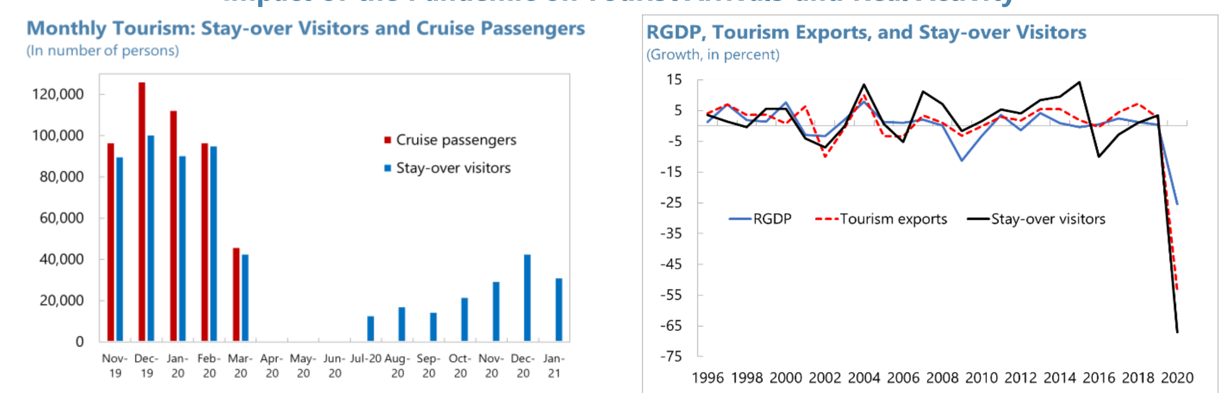
[3] Given the import compression (tourism and FDI related) in 2020 encompassing the pandemic effects, the stock of reserves increased to 7.5 months of next year imports at end-2019 compared to 5.3 in 2018.

execution of the reform agenda may also suffer setbacks as the next general elections approach in September 2021.

COVID-19: THE UNPRECEDENTED SHOCK

5. COVID-19 has halted the ongoing recovery, triggering Aruba's deepest recession in history. One of the most tourism-dependent economies globally, with tourism direct and indirect contribution to GDP and employment estimated at around 90 percent, Aruba is among the worst affected by the standstill in travel and collapse of related economic activities induced by the pandemic. International tourism arrivals dropped by 67 percent in 2020. Stay-over tourism began to recover in July but remained at about 43 percent of its 2019 level as of December 2020, while cruises have not resumed. Voluntary social distancing and domestic containment measures compounded the impact on domestic activity.

Impact of the Pandemic on Tourist Arrivals and Real Activity

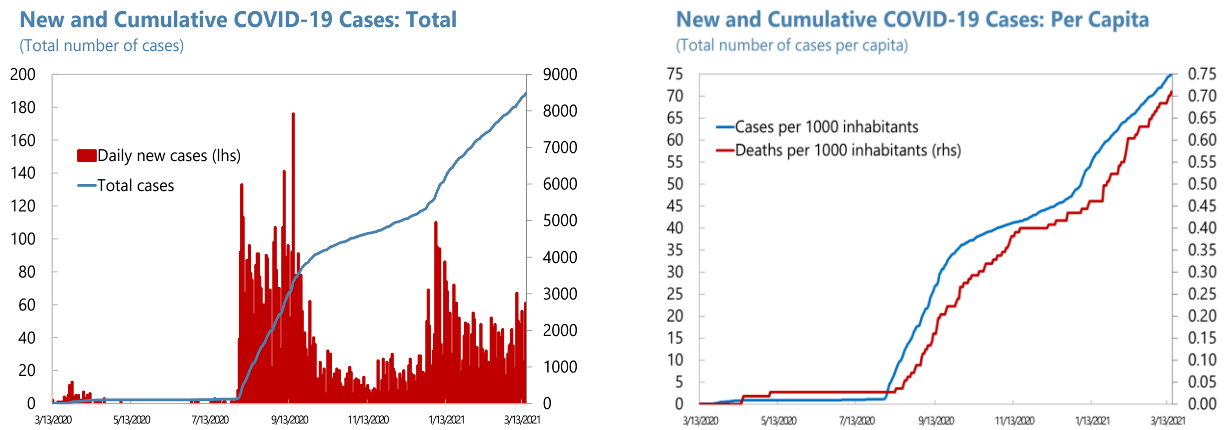


Sources: Central Bank of Aruba and IMF staff calculations.

6. Real output is estimated to have contracted by 25½ percent in 2020. As all demand components except public investment plunged, inflation turned negative to -3.1 percent as of end-2020. The unemployment rate is estimated to have increased to about 14 percent but the strain to the labor market and business sector is likely understated by the wage subsidies and quarterly financial assistance to SMEs extended by the government (¶9). Therefore, no significant increase in bankruptcies has been recorded in 2020.

7. A resurgence of new COVID-19 cases slowed the gradual reopening of the economy. A full resumption of domestic economic activities and reopening of borders to international travel was planned by end-June after a phased reopening. However, to contain a second and third wave of infections that proved to be worse than the first, the authorities reintroduced some temporary mobility restrictions in H2. All travel restrictions were lifted in early December subject to strict health and safety protocols. Voluntary COVID-19 immunization provided by the Netherlands started in February 2021, so far, about 10 percent of the population received the first dose (Annex II).

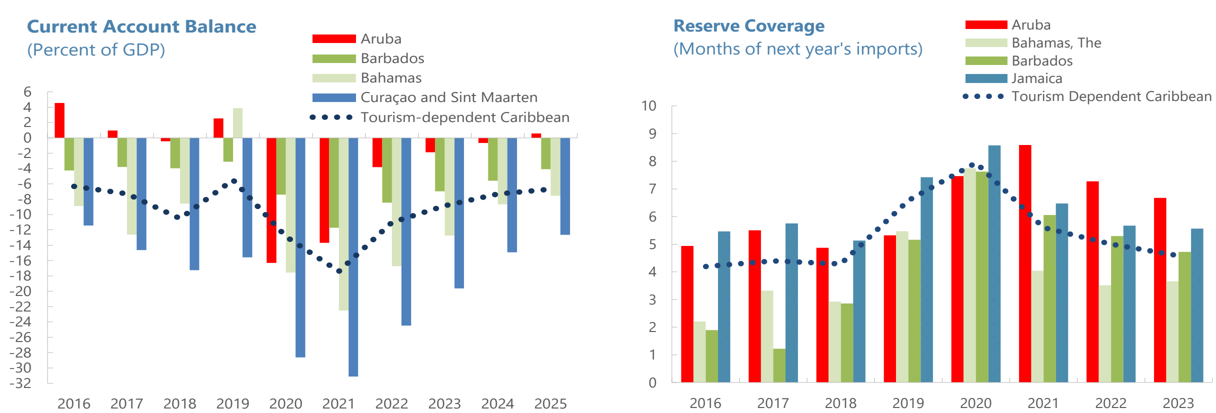
Impact of COVID-19 in Aruba: Contagion



Sources: Johns Hopkins University CSSE, World Development Indicators, and IMF staff calculations.
Note: As of March 16, 2020, the number of active cases was below 310, significnatly below than 700 during August and September.

8. The collapse in tourism arrivals opened a current account deficit of about 16 percent of GDP. Net travel receipts slumped by 54 percent during the first three quarters of 2020 compared to the same period in 2019, leading to a 42 percent contraction in exports of goods and services. The negative impact on the current account was mitigated by a 24 percent compression in imports and an improvement of the income account (due to lower outflows of dividends, distributed profits, and remittances). Despite the sharp deterioration of the current account, foreign reserves increased to 47 percent of GDP due to the drop in imports, the external financing received by the government (¶11) and the foreign exchange measures taken by the central bank (¶12). External debt spiked to above 130 percent of GDP on the back of COVID-related official external borrowing.

Regional Impact of the Pandemic on the Current Account and Reserves



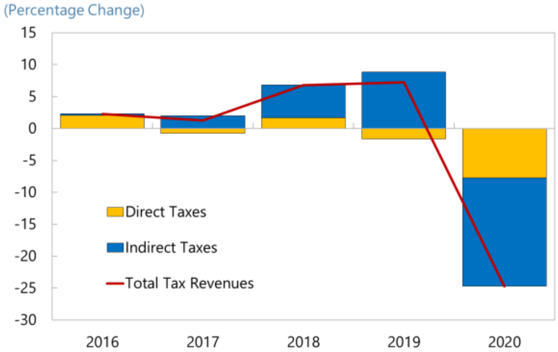
Sources: IMF WEO and IMF staff estimates.

9. The authorities approved a large emergency fiscal package of 13.3 percent of GDP. Targeted expenditure measures included: (i) temporary income support (Afl. 950/month, or half of the minimum wage) to workers whose contracts were terminated, or working hours reduced to zero; (ii) wage subsidies to employers that maintained employment links; (iii) quarterly liquidity assistance to small and medium enterprises (SMEs); (iv) financial support to the General Health Insurance (AZV) and Social Security Bank (SVB); and (v) food assistance to vulnerable households. While the fiscal consolidation planned for 2020 was postponed, savings from a 12.6 and 25 percent cut in the wages of public employees, and ministers and parliamentarians respectively were used to finance the income support and SMEs liquidity schemes. Spending on goods and services was also reduced to contain the anticipated increase in the budget deficit. On the revenue side, tax relief measures were introduced in April-May to allow the postponement of tax payments without penalties. This was followed by a stimulus package in November to support small businesses during the incipient recovery while incentivizing training and education.

10. Fiscal support measures were essential to save lives and incomes but moved the budget into deep deficit. The fiscal position turned from a small surplus in 2019 to a large deficit of about 17 percent of GDP in 2020 (versus a surplus of 0.3 percent of GDP in the initial budget) on account of large revenue losses and the spending package. Total revenues fell by about 24 percent, driven by tax lower proceeds. The central government gross debt ratio spiked by 45 percentage points as a result, to about 117 percent of GDP, putting fiscal space at risk (Annex III).

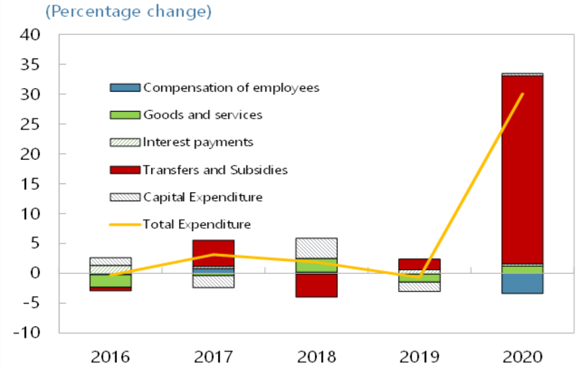
Impact of the Pandemic on Fiscal Performance

Contribution to Tax Revenue Decline
(Percentage Change)



Source: Authorities' data and IMF staff estimates.

Contribution to Expenditure Increase
(Percentage change)



Source: Authorities' data and IMF staff estimates.

11. The additional financing needs were met through a combination of domestic and external financing. The Netherlands provided three tranches of budgetary liquidity support amounting to 9.4 percent of GDP (Afl. 414 million, equivalent to US$231.2 million) in 2020, in the form of 2-year interest-free loans, to cover fiscal revenue shortfalls and payroll subsidies. This support is conditional on implementing a mutually agreed structural reform program, establishing the Caribbean Reform and Development Body (COHO) responsible for monitoring the implementation of these reforms,[4] in addition to cutting the wages of public employees (¶19) and saving Afl. 5 million/month in healthcare spending by AZV.

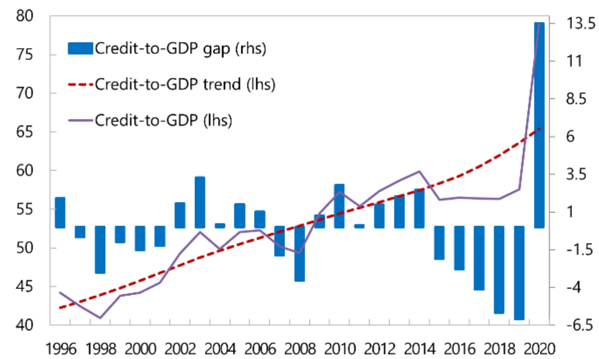
[4] The COHO is an independent organ under the Dutch Ministry of Interior, tasked with supporting the execution of measures and reforms agreed in the Aruba "Country Package", besides financing projects aimed at strengthening Aruba financial and socioeconomic resilience, subsidizing related initiatives by civilians and companies, and providing financial supervision.

12. The Central Bank of Aruba (CBA) eased monetary and macroprudential policies. It injected liquidity into the banking sector by lowering the reserve requirement on commercial bank deposits from 12 to 7 percent. To increase the loss absorption capacity of the banking system and support credit provision under stressed conditions, the CBA: (i) cut the minimum capital adequacy ratio from 16 to 14 percent, (ii) decreased the prudential liquidity ratio (PLR) from 18 to 15 percent, while the increase in the PLR from 18 to 20 percent intended for January 2021 was suspended until further notice, and (iii) increased the maximum allowed loan-to-deposit ratio from 80 to 85 percent. Furthermore, the CBA stopped granting new foreign exchange licenses related to outgoing capital transactions and announced its readiness to take further measures to preserve the peg.

13. Financial conditions are accommodative as a result. Private credit flattened from 6.6 percent growth (y/y) in 2019 to 0.5 percent (y/y) in 2020 but became elevated compared to nominal GDP due to the drastic output contraction in 2020. It reached an estimated 79 percent of GDP—compared to 58 percent in 2019—which caused the credit-to-GDP gap to turn positive. The increase in the credit gap, also helped by the monetary policy accommodation, drove the easing of financial conditions in 2020 despite the weaker external position and rising lending-deposit spread. The deterioration of credit quality due to borrowers' income losses may deter credit growth in 2021 (¶30).

Credit-to-GDP: Actual and Trend vs. Estimated Gap

(In percent)



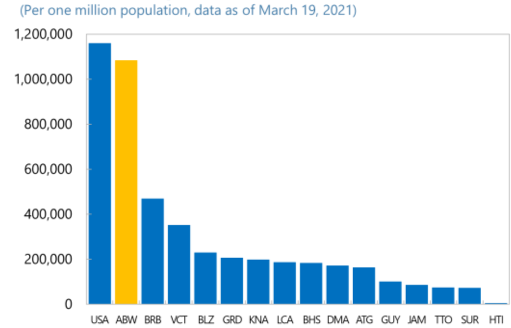
Sources: Central Bank of Aruba and IMF Staff calculations (using HP filter)

OUTLOOK: PROTRACTED WEAKNESS SUBJECT TO EXCEPTIONAL RISKS

14. A moderate recovery is projected for 2021. In 2021 tourism arrivals are expected to remain broadly the same as in 2020 (67 percent below pre-pandemic levels) given a faster tourism recovery than most Caribbean countries in late 2020, favorable prospects for vaccination through the Netherlands (¶7), and high testing capacity. Resuming private consumption and investment projects postponed from 2020, are projected to secure growth of about 5 percent despite the drag from public consumption and investment. However, private consumption will be subdued by increased debt burdens, while the planned replacement of costly wage subsidies with unemployment benefits is likely to trigger a rise in layoffs. Real GDP growth is expected to accelerate to 12 percent in 2022, driven by resuming tourism arrivals, returning investment, and healthy private consumption. Continued catch-up in the outer years will help

COVID-19 Testing in the Caribbean

(Per one million population, data as of March 19, 2021)



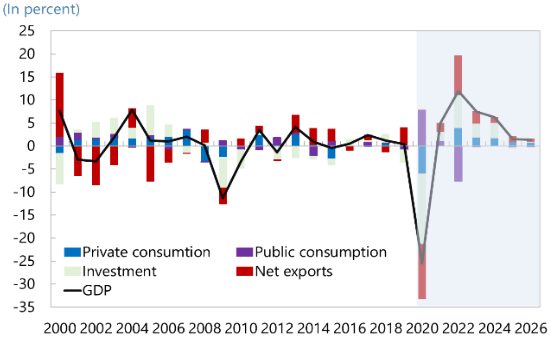
Source: Worldometers.info

complete the convergence to pre-pandemic levels of real GDP by 2024. Inflation will return to positive territory but remain below 3 percent in the medium term.

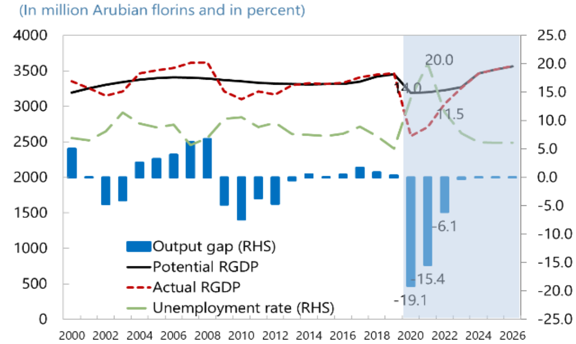
15. External imbalances will persist. The current account will stay in deep deficit in 2021 and gradually improve thereafter as tourism flows normalize, reaching a small surplus by 2025. The financial account is projected to record net inflows driven by continued financial support from the Netherlands through 2021 and resuming FDI inflows in the medium term. A net buildup of reserves is expected in 2021 as government foreign financing, including from the Netherlands, outweighs persistent CA deficits. Marginal buildups of reserves are expected through the medium term with the gradual normalization of tourism receipts. Total external debt slowly decreases to below 120 percent of GDP in the medium term (from 132 percent in 2021) but remains significantly above its pre-COVID level (¶3).

Growth Outlook

RGDP Composition: Contributions to Growth
(In percent)



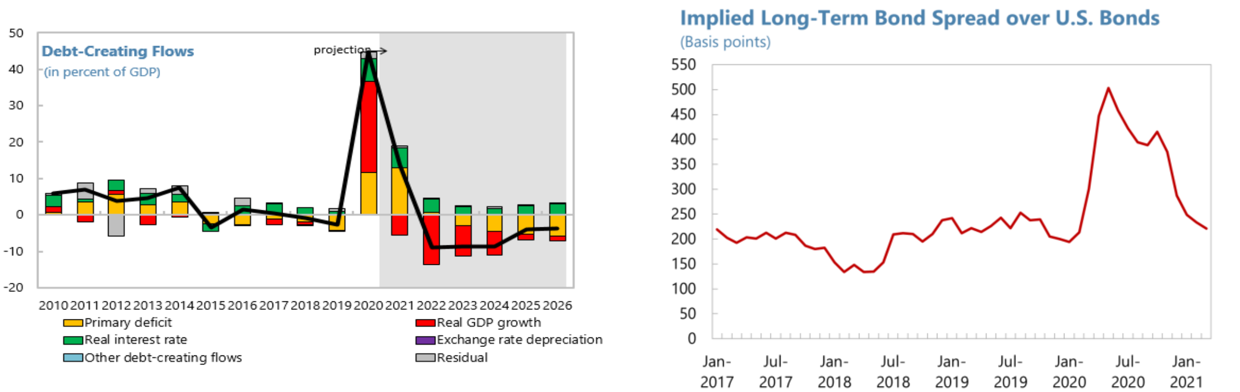
GDP, Output gap, and Unemployment Rate
(In million Arubian florins and in percent)



Sources: Central Bank of Aruba, Central Bureau of Statistics, and IMF staff calculations.

16. Fiscal space is at risk. The fiscal deficit as proposed in the 2021 budget remains elevated at 18.6 percent of GDP, reflecting a persisting decline in tax revenues and continued expenditure support of about 11.6 percent of GDP. Fiscal space has been eroded by the pandemic and maintaining support for the recovery relies on the continued availability of financing on favorable terms from the Netherlands. Over the medium term, the overall deficit is expected to narrow gradually to 1 percent of GDP before turning positive, supported by the economic recovery and consequent unwinding of temporary fiscal measures, and the resumption of structural fiscal reforms. Public debt will peak in 2021 at about 130 percent of GDP and gradually decline thereafter to reach 96 percent of GDP by 2026. The fiscal adjustment needed to restore debt sustainability is sizable both by historical and international standards, but is partially mitigated by the possibility of refinancing and/or restructuring the loans extended by the Dutch government, including converting some of those loans into grants (DSA and Annex III).

Fiscal Space



Source: IMF staff estimate.

Sources: Bloomberg L.P.; Haver Analytics; and IMF staff calculations.
Note: The implied rate is calculated using the Aruban effective rate and the U.S. 10-Year Treasury yield at constant maturity.

17. The outlook is subject to exceptionally high risks. Like other countries, downside risks are predominant and primarily stem from the uncertain evolution of the pandemic (Annex IV). *Domestic risks* include pandemic-related economic scarring, high implementation risks to the needed fiscal adjustment, and a possible rise in risk premia that could expose financial vulnerabilities and generate negative feedbacks between overleveraged households and corporates, financials, and the government. On the upside, a faster-than-expected vaccine rollout and a resumption of the activity of the refinery could hasten the recovery and medium-term growth respectively.

Authorities' Views

18. The authorities expect tourism to recover more quickly, but see lingering weakness in domestic demand. Barring any significant resurgence of the pandemic (including new strains) and associated government stringency measures, the CBA expects tourism credits to rebound more strongly in 2021H2 due to both higher tourism arrivals and spending per tourist. They also expect private consumption to be negatively affected by the high levels of unemployment and subdued income, with no contribution to GDP growth in 2021. The Ministry of Finance indicated that they project stronger growth for 2022 supported by the government's plan to inoculate 85 percent of the population by end-June 2021.

NEAR-TERM POLICY PRIORITIES: SAVING LIVELIHOODS WHILE BALANCING RISKS

COVID-related policy support measures were instrumental to preserve incomes and should not be withdrawn until the economy is self-sustainable. Supporting the recovery without exacerbating debt sustainability risks will require additional financing support at favorable terms in the near term and agility to adapt policies quickly in a highly uncertain environment.

A. Fiscal Policy

19. The near-term fiscal stance is appropriate given the still depressed economy and availability of budget financing. Despite the severely limited fiscal room, continued provision of essential lifelines to the affected households and businesses remains the priority. For 2021, the government is budgeting a further decrease in revenues underpinned by continued economic weakness and the reduction in income and payroll taxes implemented in January as part of the previously announced structural shift from direct to indirect taxation (Annex I). On the expenditure side, some support will be maintained throughout the year, but costly wage subsidies will be gradually phased out and replaced with a new unemployment scheme starting in April. This will allow maintaining a similar level of emergency spending on these schemes in 2021 despite the longer span of assistance provided (12 vs. 9 months) and the expected increase in the unemployment rate, which could reach 20 percent in the authorities' projections. Projected financing needs are fully covered, including through continued budgetary financing by the Dutch government, which will also cover external debt repayments of Afl.177 million (4 percent of GDP).

Aruba: Key Fiscal Policy Measures in Response to COVID-19
(In percent of GDP)

Measures	2020		2021
	Budget	Outcome	Budget
Wage subsidy/unemployment scheme	7.4	6.2	6.1
FASE	1.2	0.9	0.9
SMEs	0.7	0.6	0.9
SVB	1.2	0.2	1.9
AZV	2.8	2.5	1.8
Total	**13.3**	**10.4**	**11.6**

Source: Aruba's Ministry of Finance.
Note: FASE is the income support to unemployed individuals.

20. However, fiscal space constraints imply a need to pursue strict prioritization of spending and revenue mobilization. Expenditure measures should be targeted to households and businesses in immediate need while striving to improve the efficiency of total spending. Yet, continued cuts to AZV spending (¶11) amidst the pandemic risk exacerbating its human and economic toll. Instead, a more structural reform should be considered to enhance the sustainability of the healthcare system. On the revenue side, measures to improve tax compliance should be implemented to broaden the tax base while more fairly distributing the tax burden across the economy. The preparatory work for the introduction of a VAT consistent with previous FAD advice should be accelerated to offset the revenue shortfall from the reduction in direct taxes. These measures are intended as one package to improve the overall efficiency of the tax system and boost compliance, but the tax reducing measures were frontloaded while the VAT introduction is currently planned for 2023.

21. Once the recovery becomes entrenched, the return to the pre-crisis fiscal path should be the priority. While the authorities' fiscal consolidation program has been derailed by the pandemic, a credible, growth-friendly and inclusive medium-term consolidation plan consistent with the remaining three phases of the previously announced fiscal reforms will be essential to restore debt sustainability while preserving essential social and capital spending. Careful pacing will be essential to gradually withdraw support without disrupting the recovery and avoid premature tightening in 2022. Hence, the government should prepare a contingency plan if current conditions persist, including the extension of some fiscal support into 2022 if additional financing sources can be identified.

22. Enhancing the progressivity of the tax systems and reducing key distortions to growth will help effectively generate revenues while protecting vulnerable groups. A more progressive tax structure could raise revenues while shifting income from people with low to those with high propensity to consume. Tax increases that might not be progressive on their own, such as the VAT, might nevertheless be desirable for inclusive growth if their revenues finance progressive spending on social programs, education, health, and infrastructure to pursue better living standards. Options to raise revenues while minimizing distortions for economic growth include:

- Strengthening the progressivity of the personal income tax (PIT) schedule and restraining ineffective PIT deductions and credits, including by taxing interest, dividends and capital gains.

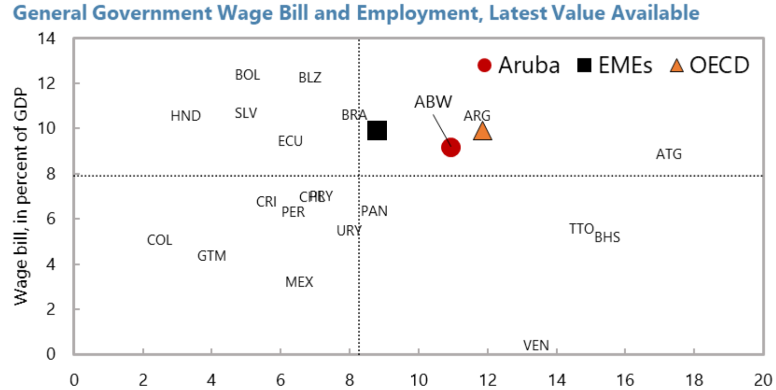
- Considering wealth taxes, which are found to be the least distortive for economic growth and reduce wealth inequality, thus improving the general progressivity of the tax system.

- Using VAT design to minimize regressivity, e.g. by adopting a broad base and limiting exemptions to allow for a low uniform rate, and a threshold that keeps small businesses off the tax roll; including e-commerce within the taxable base to cope with an increasingly digitalized economy after the pandemic.

- Exploiting excises and environmental taxes to promote a healthier population and greener recovery.

23. Containing the wage bill will be critical for a successful medium-term consolidation. Although relative to GDP it has declined gradually in recent years, the wage bill accounts for 27 percent of primary spending. While the temporary cut in public salaries helped reduce spending pressures, it may not be sustainable in the medium-term. Additional and more permanent measures are needed to

General Government Wage Bill and Employment, Latest Value Available



Source: IMF, World Bank, World Economic Forum, and World Health Organization databases; and IMF staff calculations.

compress the wage bill on a sustainable basis. The 2019 FAD TA highlighted that there is scope to lower public wages, which are high relative to comparable private sector posts,[5] by reducing supplements and the impact of the wage drift. A functional review should be conducted to facilitating the reallocation of workers across departments and sustain the impact of the wage adjustment without compromising public service delivery. A communication plan to broaden awareness of the public sector wage premium could support reform momentum.

24. As the labor market picks up, a broad enhancement of the social safety net should replace direct income support. Retraining, upskilling, job search assistance and other active labor market programs could be used to move workers out of inactivity and unemployment into the formal market, particularly to new and expanding sectors such as digital services. Going forward, a comprehensive reform of the labor market safety net from passive (income support) programs to active schemes that incentivize stable, formal sector employment while providing support to low earners would encourage labor participation and boost productivity while generating fiscal savings and building resilience against future downturns.

25. A robust policy planning framework, with clear medium-term objectives, is needed to guide fiscal policy. The current budget preparation process is fragmented and excessively decentralized, and lacks clear prioritization mechanisms for achieving medium-term fiscal objectives. Adopting a well-designed medium-term budget framework (MTBF), in line with the main recommendations of the recent FAD/CARTAC TA, would strengthen fiscal planning and help achieve multi-year fiscal discipline, enhance the costing of policies, and improve the predictability of the budget process. This will require refining the consistency between the annual budget and macro-fiscal aggregates. The Ministry of Finance has been closely working with CARTAC to better link the projections of macro and fiscal variables in its forecasting model. Once the fiscal policy framework is strengthened, a formal fiscal rule could be considered to guide the convergence to more sustainable levels of public debt and restore fiscal space.

26. The debt management strategy should be revised to reflect heightened financing risks. The authorities have issued several Afl- and US$-denominated bonds (3.9 percent of GDP) domestically to meet their 2020 financing needs. While there is no evidence of private sector crowding-out, financing persistent deficits domestically could be detrimental to private sector credit. In addition, while the liquidity support provided by the Netherlands was instrumental to bridge the financing gap, it will create bunching of maturity in 2022/23 that substantially increases refinancing risks. Adopting an integrated asset-liability management strategy (with CARTAC support) can help guide financing decisions, including the desired composition of the government debt portfolio, and assess the implications of alternative financing options.

[5] Regression analysis based on SVB data for 2018, in the context of the 2019 FAD CD mission, indicates that central government employees earn 40 percent more than their counterparts in the private sector, while Labor Force Survey data yielded a premium that is on average at least 22 percent and as high as 34 percent.

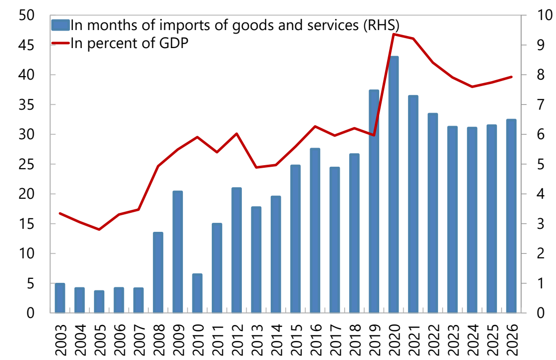
Authorities' Views

27. The authorities reiterated their commitment to compliance with conditions required for further financial support from the Dutch government. The work on introducing an MTBF has already started with the 2021 budget, in line with the agreement with the Dutch government. However, full implementation will depend on institutional capacity, including changes to the existing regulations such as key roles and responsibilities of the Council of ministers and ministries. The Ministry of Finance acknowledged heightened financing risks in 2022 and 2023, and indicated that repayment of loans coming due under current terms would be challenging given high gross financing needs and would necessitate recourse to other financing at less favorable terms.

B. Monetary and Financial Policies

28. Aruba's external position in 2020 was weaker than the level implied by medium-term fundamentals and desirable policies. On a preliminary basis and adjusting for transitory factors, staff assess the real effective exchange rate (REER) as overvalued based on the IMF's EBA-lite current account model (Annex V). However, this assessment is highly uncertain given the lack of full-year data for 2020 and the unprecedented COVID-19 shock. The gradual normalization of the tourism balance, along with the resumption of fiscal consolidation efforts will help close the gap in the medium term. Foreign reserves are currently adequate to preserve the peg, but further buildup is recommended in the outer years, especially if the relaxation of capital flow restrictions imposed in 2020 results in foreign exchange outflows (Annex II).

Gross Official Reserves



Sources: Authorities' data and IMF Staff estimates.

29. The temporary monetary policy easing appropriately addresses downside risks from the pandemic and should be maintained. The precautionary reduction of banks' reserve requirements (¶12) was appropriate to stimulate activity although there was no sign of immediate liquidity shortage in the banking sector. Going forward, monetary policy should stay accommodative to support the recovery unless downward pressure on international reserves materialize. Halting the issuance of new FX licenses in March 2020, at a time of uncertainty and stress, limited most of the outgoing capital transactions (e.g., granting loans to non-residents, making investments abroad, purchase of real estate from non-residents, etc.) and as such constitutes a capital flow management measure (CFM). This measure should be unwound as soon as economic conditions stabilize to minimize adverse effects on the financial sector and broader economy. However, several controls introduced alongside this measure[6] give rise to new exchange restrictions (ERs) under Article VIII as

[6] These measures are: (i) prohibition on actual payment and/or transfer of dividends to non-resident shareholders, and of net income from other investment; (ii) restriction on repayment and interest payments of loans below relevant thresholds obtained after March 17, 2020, and (iii) prohibition on payment of management fees to affiliated companies.

they limit payments and transfers for transactions that are considered current by the Fund (see Informational Annex), and they should be removed as soon as possible.

30. The relaxation of macroprudential requirements effectively complemented the monetary policy response. The temporary reduction in the minimum capital adequacy and liquidity ratios, and the increase in the maximum loan-to-deposit ratio amplified the banking system's loss absorption capacity thereby supporting the provision of vital credit to the economy.[7] To limit the scope for opportunistic behavior, the relaxation of the capital ratio was appropriately accompanied by temporary dividend payout restrictions by banks and insurance companies. The CBA should avoid premature tightening to prevent adverse macro-financial feedback effects that might weaken the financial system and reduce welfare, while remaining vigilant for any sign of emerging financial vulnerabilities.

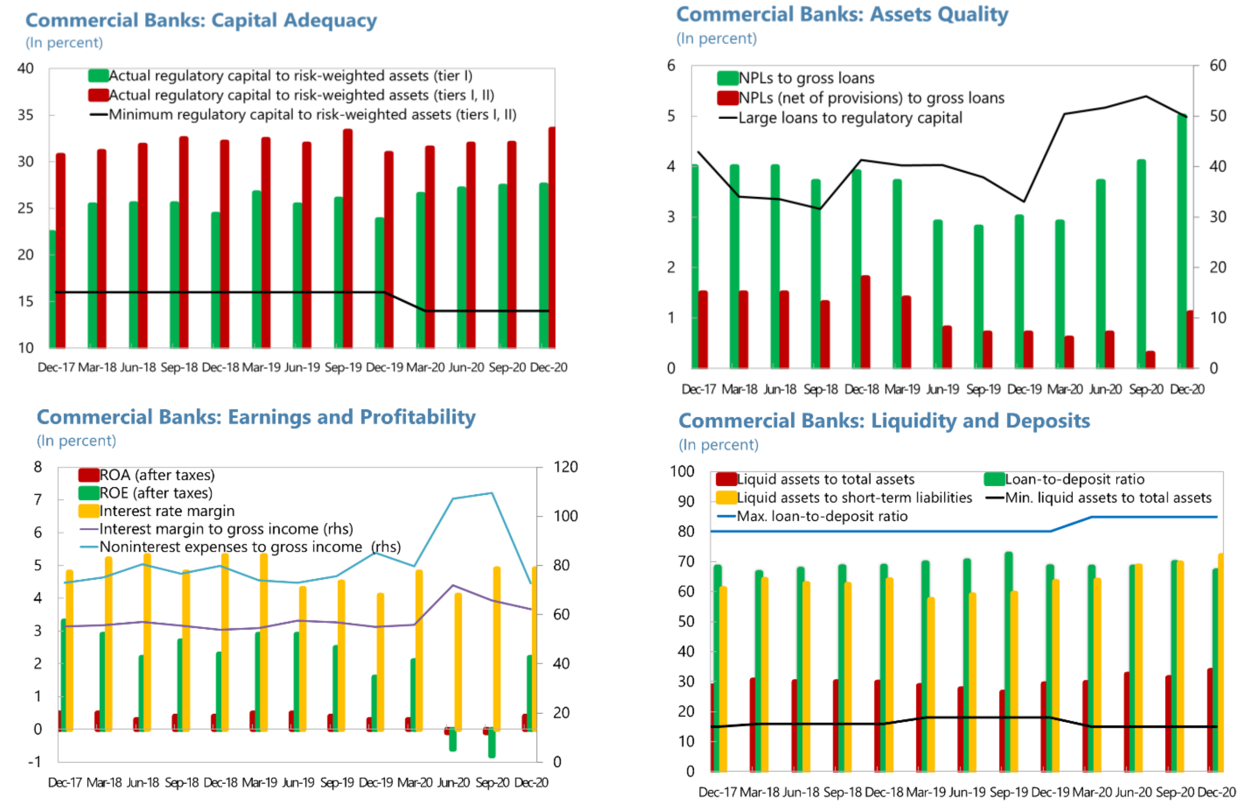
31. The banking sector remains sound despite an uptick in NPLs. Commercial banks have ample capital and liquidity buffers: the banking system's capitalization is 2.5 times the minimum level (14 percent of risk-weighted assets), largely due to the CBA's large exposure rule which is binding in aggregate for the banking sector. Liquid assets cover two-thirds of short-term liabilities and the prudential liquidity of commercial banks (33.7 percent) remains comfortably above the required minimum prudential ratio of 15 percent of total net assets. NPLs increased from 3.2 percent at the end-2019 to 5 percent at the end of 2020 but remain moderate. The July 2020 CBA stress test indicates that the banking sector is highly resilient and can withstand significant shocks. The coverage ratio of insurance companies and pension funds is above the minimum requirement, although concentration risks arise from the locally oriented portfolios. The large loan concentration could reflect a lack of bankable projects outside the tourism sector.

32. However, a longer and deeper deterioration in economic activity could force banks to use their liquidity buffers. NPLs could rise significantly once the fiscal support to households and businesses are lifted.[8] At the same time, profitability was substantially eroded, with the system's ROE falling from 8.1 percent in 2019 to 3.3 percent in 2020 (2.2 percent as of end-2020), reflecting cautious provisioning in line with international financial reporting standards. Contingent fiscal risks are nevertheless assessed as low. The CBA should closely monitor NPLs and look out for any incipient liquidity risks, engaging with banks to ensure early intervention and maintain financial stability. Liquidity may also narrow if the reserve requirement is increased to compensate for the relaxation of capital restrictions.

[7] Aruba's high capital and liquidity requirements, well above international standards, are intended as a macroprudential tool since there is no evidence of institutional weaknesses in the banking sector.

[8] Staff estimates that in 2021 NPLs could reach 10 percent assuming the baseline unemployment rate of 20 percent. The CBA stress-tests indicate that it would take an NPL rate of up to 25 percent of gross loans for banks' capital to fall below the regulatory minimum of 14 percent.

Banking Sector Soundness Indicators

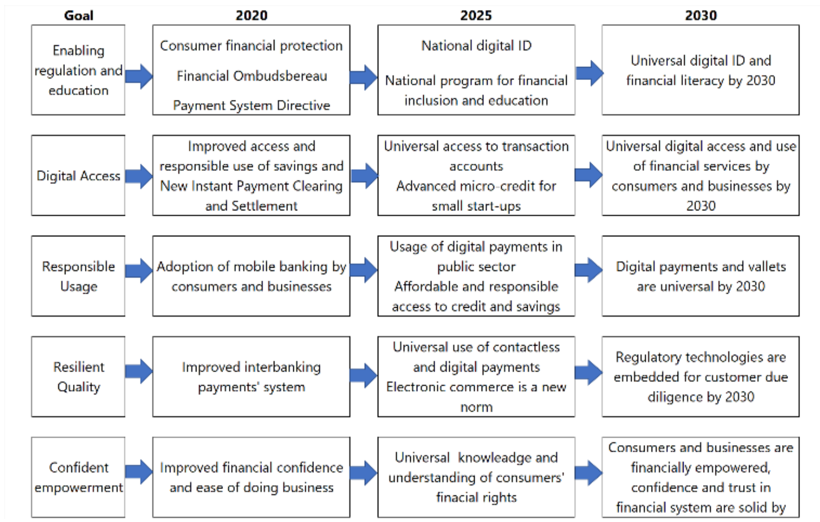


Sources: Central Bank of Aruba and IMF staff calculations.

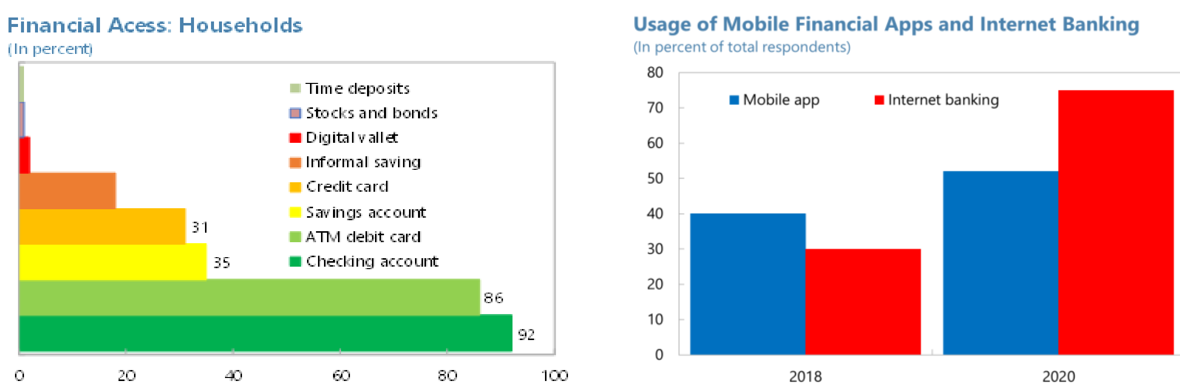
33. The CBA continued strengthening financial sector oversight. In 2019, it effectively implemented risk-based supervision for credit institutions, insurance companies, and pension funds. The prudential framework was also enhanced with strengthened guidelines for insurance companies, and key revised directives. The CBA also effectively implemented market conduct oversight and intensified enforcement of the supervisory laws and regulations, as evidenced by the number of administrative fines and other measures. The only offshore bank ceased operations in 2018. The CBA is in the process of moving towards the adoption of Basel II and expects to implement Pillar 1 in 2021. Steady progress towards the implementation of Pillar 2 and 3 would further improve the resilience of the financial sector.

34. Aruba is improving its AML/CFT framework in preparation for its fourth round CFATF Mutual Evaluation, but further efforts are needed to enhance its effectiveness. Aruba has been engaged in several reforms including the implementation of risk-based AML/CFT supervision of the banking sector, broadening the application of preventive measures to money transaction securities businesses and insurance brokers, and non-financial businesses and professions (e.g., lawyers, accountants). However, additional measures are needed to strengthen the effectiveness of the framework, including enhancing the understanding of ML/TF risks, upgrading the AML/CFT ordinance in line with the FATF standards, and strengthening the confiscation framework.

35. The pandemic accelerated the adoption of digital banking and payments, resulting in higher financial inclusion. Despite high access to essential financial services, Aruba lags high-income countries on the adoption of digital and mobile financial services. The limited access to savings accounts indicates that at least half of households have no financial buffers. The CBA has developed a roadmap for strengthening digital financial inclusion by 2030.



Financial Inclusion and Adoption of Digital Technologies



Source: Central Bank of Aruba.

Authorities' Views

36. The CBA is considering an exit strategy from the FX measure introduced in March 2020. The measure helped contain FX outflows compared to a counterfactual based on the 2019 outturn. They plan to gradually remove it later this year, subject to incoming data on reserve adequacy and external sector developments leading to structural improvements. Ample excess liquidity in the banking sector would absorb any tightening should an increase in reserve requirements be needed to contain pressure on reserves once the measure is lifted.

37. The ample capital and liquidity buffers act as a cushion for the effect of a possible pick-up in NPLs. The CBA explains the sharp decline in profitability in 2020 by the forward-looking loan provisioning in line with the IFRS9 standards and prudent approaches applied by banks with regards to loan loss provisioning. Banks' internal controls and risk management framework are overall considered satisfactory by the CBA, while their business models are simple, with assets primarily in loans and fixed income investment, largely financed by private sector deposits. To further strengthen the regulatory framework, the CBA is in the process of implementing the Basel II capital framework.

C. Structural Reforms

38. COVID-19 brought to the fore the need to diversify the economy. The authorities have developed a comprehensive strategic policy framework ("The Master Plan") with a 3-year planning horizon that identifies policy priorities to support the post-pandemic recovery and improve the economy's long-term resilience. The plan identifies key high impact "accelerator" projects including labor market and tax reforms, the reduction of red tape, introduction of e-Government and strengthening legislative capacity. Such reforms should be advanced expeditiously while fostering the activity of the Free Zone to accelerate export diversification. Diversifying the economy, in particular towards renewable energy and ICT, would help contain tourism-related output volatility and provide a more stable path for equitable growth while also creating job opportunities for Arubans.

39. Shifting to lower density tourism models would help reduce permanent scarring to the industry. Given limited scope for immediate economic diversification, tourism will remain Aruba's main growth engine in the near-term. Reducing tourism density is already a key element of Aruba's tourism strategy and the authorities are promoting Aruba as a destination for remote work. These policies will help reduce the health risks associated with mass tourism and embed social distancing rules with positive environment externalities. Digital resources should be leveraged to support touchless service delivery, share information and enhance contact tracing, and promote a shift towards digitally self-guided tourism that is consistent with social distancing norms. The government should also invest in healthcare infrastructure and capacity building of medical personnel to support the accreditation of its healthcare facilities.

40. Policies that reduce inequality and improve resilience to climate risks should be continued. The government response to the pandemic prioritized vulnerable groups through unemployment relief, support to SMEs, funding for social insurance, and food programs. The Master Plan includes policies to foster women' labor force participation and contribution to economic recovery through dedicated funding and micro loans, IT training and childcare options.[9] Following technical advice from the World Bank, the authorities are striving to develop agriculture to support food security and resilience to climate risks.

41. Structural reforms to improve the business environment are critical. Reforms geared towards removing current obstacles to the private sector identified by the Master Plan, such as simplifying and reducing the regulatory and administrative burden, including by advancing the e-Government framework, and improving access to financial resources, particularly for SMEs, could spur business profitability, investment, and growth. Staff encourages the authorities to work with the private sector through regular dialogue to identify reforms while being mindful of related fiscal costs

[9] The CBA ranked second globally in the Gender Balance Index, which measures gender diversity in public financial institutions.

and contingent liabilities. Governance and AML/CFT reforms will also improve the business climate and the anti-corruption framework.

42. Labor markets need to better balance flexibility and job security with innovative solutions. A comprehensive labor-market reform aimed at strengthening work incentives, including for women—whose participation rate in 2019 was 60 percent compared to 70 percent for males—fostering mobility, improving flexibility, and integrating migrants into the labor market is needed to offset the immediate displacement caused by COVID-19 and address long-term pressures from population aging. Reducing labor market regulation rigidities would help lower unit labor costs and improve external competitiveness for export diversification. Youth unemployment (16 percent in 2019) should be reduced through education and vocational training. As the slow recovery of the tourism sector might complicate the labor market recovery, retraining and upskilling will be key to supporting labor reallocation to new sectors and reduce the risks of long spells of unemployment as unskilled workers could be left behind by the move towards more technology-intensive work.

43. Productivity enhancements are needed to boost potential growth. Both labor productivity and total factor productivity (TFP) have declined since 2000 and real growth is projected to converge to a potential of about 1½ percent in the medium term (Annex VI). Increasing secondary education enrollment and spending efficiency, investing in technology, and accelerating digital financial inclusion to ensure efficient allocation of capital in a post pandemic world would help reverse this trend. More labor market flexibility would also boost labor productivity while a comprehensive reform of its social safety net (¶24) will incentivize labor force participation. Besides strengthening general infrastructure, the government should support any promising exports by developing sector specific infrastructure.

44. Strengthening the effectiveness of the Anti-Corruption framework should improve transparency and accountability leading to more sustainable and inclusive growth. Annual surveys issued by the CBA indicate widespread perception of corruption in Aruba. To bring Aruba's anti-corruption legal framework into line with the United Nations Convention Against Corruption, the authorities should establish codes of conduct and a robust asset declaration system for senior public officials and enhance the governance and capacity of the Integrity Bureau. Although there have been some successes in pursuing corruption cases, law enforcement agencies should improve their coordination and capacity to pursue perpetrators of corruption and confiscate ill-gotten proceeds. The authorities are also encouraged to implement high standards of governance and transparency of COVID emergency spending, through the use of published audits and publication of details of successful bidding entities and their beneficial owners.

Authorities' Views

45. The authorities emphasized their commitment to building new engines of growth and fostering sustainable tourism development. They pointed out that the structural priorities identified in the Master Plan are consistent with the reforms agreed with the Netherlands. They are also pursuing a high-value low-impact tourism model that maintains the economic value of the tourism sector while minimizing externalities to residents and the environment. The government plans to contribute to the overall sustainable development of Aruba through the energy sector by: (i) reducing CO2 emissions by at least 45 percent between 2010 and 2030; (ii) striving for climate neutrality by 2050; (iii) increasing energy efficiency and the share of renewable energy from approximately 20 percent in 2020 to 35 percent by 2024 and 50 percent by 2030; and (iv) reducing the use of heavy fuel oil for electricity production. The Refinery is currently negotiating contracts to convert part of the brownfield site into an LNG storing facility.

46. Governance and Anti-Corruption remain high priorities on the authorities' agenda. The Integrity Bureau is recruiting key staff and developing its legislative framework, which will incorporate a mandate to develop complaints and enforcement mechanisms, and a code of conduct for public servants, and is responsible for the education of public workers about integrity enforcement and risks. Most COVID-19 needs are arranged with the assistance of the Dutch government and therefore subject to their audit and governance requirements. The authorities are developing a procurement ordinance that will improve transparency, particularly by specifying the circumstances when variations will be permitted to projects and establishing an e-procurement system.

STAFF APPRAISAL

47. The authorities' swift policy response to the COVID-19 pandemic helped contain the human and economic damage. The multi-pronged fiscal package provided temporary income support, wage subsidies, liquidity assistance, and tax deferral measures. In addition, the Central Bank (CBA) eased monetary and macroprudential policies to support private credit and injected liquidity in the banking sector. These measures were instrumental in saving lives and preventing an even sharper downturn.

48. Policy support remains critical to contain the effect of the pandemic, given the tepid recovery projected in 2021. The decision to extend fiscal support in 2021 is appropriate, in view of continuing economic weakness and elevated risks. Premature retrenchment could hurt the recovery and pose even larger costs on the economy. The authorities are encouraged to prepare a contingency plan if current conditions persist, including the extension of some fiscal support into 2022 if additional financing sources can be identified.

49. Strict prioritization of spending and revenue mobilization is necessary as the recovery takes hold, in order to contain debt sustainability risks. Expenditure measures should be targeted to households and businesses in immediate need within a generalized effort to improve the efficiency of total spending. Measures to improve tax compliance would broaden the tax base while more fairly distributing the tax burden across the economy. The introduction of a value-added tax (VAT) should be accelerated to offset the revenue shortfall from the recent reduction in direct taxes while protecting the vulnerable, as well as on efficiency grounds.

50. Over the medium-term, Aruba will need a substantial and sustained fiscal consolidation to restore sustainability and rebuild fiscal buffers. A credible, growth-friendly and inclusive medium-term consolidation plan will be essential to set public debt on a firm downward trajectory. Key elements would include: (i) enhancing the tax system to raise revenues while minimizing distortions and protecting vulnerable groups; (ii) containing the public wage bill; and (iii) reforming the social safety net.

51. Strengthening the fiscal policy framework will help guide fiscal policy. Adopting a well-designed medium-term budget framework would strengthen fiscal planning and help achieve multi-year fiscal discipline. Enhancing the debt management strategy would guide financing decisions and mitigate refinancing risks arising from the bunching of maturity in 2022/23 when the loans received from the Netherlands come due under current terms.

52. Monetary and macroprudential polices should remain accommodative to support the recovery. The current level of foreign reserves is adequate, but should be increased over the medium term in view of the high uncertainty regarding the resumption of tourism receipts. The CBA is encouraged to remove the recently imposed capital flow management measure once economic conditions normalize. Premature tightening of macroprudential policies should be avoided to prevent adverse macro-financial feedback effects that might weaken the financial system and reduce welfare. As conditions for approval of the new exchange restrictions are not met, staff does not recommend their approval.

53. Banks are liquid and well-capitalized, though continued CBA vigilance for emerging financial vulnerabilities would be appropriate. Non-performing loans (NPLs) were contained at 5 percent at end-2020. However, provisions for deteriorating asset quality are affecting profits and NPLs could rise significantly once the fiscal support to households and businesses is lifted. Close monitoring is essential to ensure early intervention and maintain financial stability. Adoption of Basel II would further improve the financial sector's resilience.

54. Comprehensive structural reforms are key to diversifying the economy and boosting potential growth. COVID-19 brought to the fore the urgency of advancing diversification efforts to help contain tourism-related output volatility and catalyze growth. In the short-term, shifting to lower density tourism models would help reduce permanent scarring while decreasing negative environment externalities. Labor market reforms that foster flexibility would boost potential growth and improve external competitiveness. Strengthening the link between education, training, and skill demand and broadening access to digital infrastructure will reduce the long-term impact of COVID-19, particularly for unskilled, more vulnerable workers, helping alleviate inequalities and spur equitable growth. Policies that tackle inequality and strengthen resilience to climate risks should be continued, along with structural reforms that improve the business environment, including anti-corruption and AML/CFT measures.

55. It is recommended that the next Article IV consultation discussions with Aruba take place on a 24-month cycle.

Table 1. Aruba: Selected Economic Indicators, 2016–2026

Basic Data, Social and Demographic Indicators

Area (sq. km)	180		
Population (thousands, 2020q3)	111.9	Literacy rate (percent, 2018)	97.8
Population growth rate (percent, 2016-20 average)	0.5	Percent of population below age 15 (2019)	17.2
Nominal GDP (millions of U.S. dollars, 2019)	3,342	Percent of population age 65+ (2019)	15.2
GDP per capita (thousands of U.S. dollars, 2019)	29.9	Life expectancy at birth (years, 2018)	76.2
Unemployment rate (percent, 2019)	5.2		

Economic Indicators

	Average					Est.	Projections					
	1996-2019	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						(Percent change)						
Real economy												
Real GDP	1.0	0.5	2.3	1.2	0.4	-25.5	5.0	12.0	7.5	6.3	1.6	1.4
GDP deflator	3.0	0.2	1.3	2.3	3.9	-1.3	0.1	2.0	3.2	3.3	2.7	2.1
Consumer prices												
Period average	2.4	-0.9	-1.0	3.6	3.9	-1.3	0.1	2.0	3.2	3.3	2.7	2.1
End-period	2.4	-0.9	-0.5	4.5	3.6	-3.1	1.3	2.5	3.7	3.1	2.5	1.9
						(Percent of GDP)						
Central government operations												
Revenues	23.1	23.7	22.0	22.6	23.7	24.4	21.6	21.7	23.7	24.0	24.4	24.6
Expenditures	25.5	24.5	24.9	23.7	22.9	40.6	39.7	28.1	26.1	24.6	23.9	23.5
Of which: capital	1.3	0.6	0.1	0.9	0.5	0.8	0.5	0.5	0.5	0.5	0.5	0.4
Overall balance	-2.6	-1.5	-3.0	-2.0	0.3	-17.0	-18.6	-6.9	-2.8	-1.0	0.0	0.7
Primary Balance	0.0	2.6	1.0	1.9	4.2	-11.7	-13.0	-0.6	3.0	4.5	5.4	5.8
Cyclically adjusted primary balance (percent of potential GDP)	1.2	2.5	0.6	1.7	4.1	-4.8	-7.7	0.8	3.1	4.5	5.3	5.8
Gross central government debt	55.2	75.4	75.8	75.0	72.2	117.0	130.3	121.4	112.7	104.0	99.9	96.2
Savings and investment												
Gross investment	27.0	20.6	20.6	21.6	21.1	11.3	11.9	17.3	19.5	21.7	21.4	21.5
Of which: public	1.3	1.3	0.9	0.9	0.5	0.8	0.5	0.5	0.5	0.5	0.5	0.4
External saving	0.3	-4.6	-1.0	0.5	-2.5	16.3	13.7	3.8	1.9	0.7	-0.6	-1.3
Domestic saving	26.7	25.1	21.5	21.1	23.7	-5.0	-1.7	13.5	17.7	21.0	22.0	22.8
Balance of payments												
Current account balance	-0.3	4.6	1.0	-0.5	2.5	-16.3	-13.7	-3.8	-1.9	-0.7	0.6	1.3
Oil	1.8	-1.4	-3.5	-4.9	-4.5	-3.8	-4.6	-4.6	-4.4	-4.2	-4.1	-3.9
Non-oil	-2.1	5.9	4.5	4.4	7.0	-12.5	-9.1	0.8	2.5	3.6	4.6	5.3
FDI	1.8	0.9	2.6	3.3	-4.0	4.4	3.3	2.0	2.1	2.1	2.1	2.1
Gross official reserves (millions of U.S. dollars)	606.7	937	922	995	999	1,151	1,189	1,239	1,293	1,363	1,450	1,538
Gross official reserves (months of next year's imports)	2.5	5.5	4.9	5.3	7.5	8.6	7.3	6.7	6.2	6.2	6.3	6.5
External debt	83.7	95.0	90.0	91.3	89.0	131.2	132.3	128.6	125.6	122.7	121.1	119.7
						(Millions of Aruban florins, unless otherwise indicated)						
Monetary												
NFA of Banking System	1021.4	1,778	1,685	1,776	1,713	2,056	2,160	2,466	2,735	3,003	3,133	3,245
NDA of Banking System	1782.2	2,390	2,555	2,602	2,857	2,736	2,875	3,282	3,640	3,997	4,171	4,319
Credit to private sector (percent change)	5.3	1.7	3.8	3.6	6.6	0.5	5.2	14.2	10.9	9.8	4.3	3.6
Broad money	2803.6	4,168	4,240	4,378	4,569	4,792	5,034	5,748	6,375	7,000	7,304	7,564
Deposits (percent change)	8.8	10.1	7.5	0.8	8.0	4.3	5.1	14.2	10.9	9.8	4.3	3.6
Memorandum items												
Nominal GDP (millions of Aruban florins)	4329.0	5,341	5,535	5,732	5,982	4,399	4,621	5,277	5,852	6,426	6,705	6,944
Nominal GDP (millions of U.S. dollars)	2418.5	2,984	3,092	3,202	3,342	2,458	2,582	2,948	3,269	3,590	3,746	3,879
Unemployment rate (percent)	7.7	7.7	8.9	7.3	5.2	14.0	…	…	…	…	…	…

Sources: Aruban authorities and IMF staff estimates and projections.
Note: All ratios to GDP reflect the revised nominal GDP series published by the Aruba Central Bureau of Statistics on February 22: https://cbs.aw/wp/index.php/2021/02/22/gdp-data-series-2000-2018/. Hence, these ratios are not comparable with those published in previous Staff Reports.

Table 2. Aruba: Baseline Scenario: Medium-Term Outlook, 2016–2026

	Average 1996-2019	2016	2017	2018	2019	Est. 2020	Projections 2021	2022	2023	2024	2025	2026
	(Percent change contribution to real GDP growth)											
GDP	1.0	0.5	2.3	1.2	0.4	-25.5	5.0	12.0	7.5	6.3	1.6	1.4
Consumption	1.2	-0.1	0.8	1.3	-0.4	1.9	1.1	-3.9	1.7	1.8	0.6	0.7
Private	0.8	0.0	-0.1	0.7	0.2	-6.1	0.0	3.9	1.9	1.7	0.9	0.8
Public	0.4	0.0	0.9	0.6	-0.6	8.0	1.1	-7.8	-0.1	0.1	-0.3	-0.1
Investment	0.1	1.4	0.4	2.8	-3.0	-16.5	2.0	8.2	3.8	3.5	-0.1	0.3
Private	0.1	1.1	0.7	2.7	-2.5	-16.6	2.3	8.1	3.7	3.5	-0.1	0.3
Public	-0.1	0.3	-0.3	0.1	-0.5	0.1	-0.3	0.1	0.0	0.0	0.0	0.0
Imports	0.5	-0.1	1.0	2.6	-4.2	-21.7	0.1	14.4	7.8	6.5	2.5	2.3
Exports	0.2	-1.0	2.1	-0.3	-0.5	-32.5	1.9	22.2	9.8	7.5	3.6	2.8
Tourism exports	1.2	-0.2	2.3	9.2	1.6	-33.1	0.5	22.9	9.9	7.6	3.1	2.6
Non-tourism exports	-1.1	-0.8	-0.2	-9.5	-2.1	0.6	1.4	-0.8	-0.1	-0.1	0.5	0.2
	(Percent of GDP)											
Fiscal												
Revenues	23.1	23.7	22.0	22.6	23.7	24.4	21.6	21.7	23.7	24.0	24.4	24.6
Expenditures	25.5	24.5	24.9	23.7	22.9	40.6	39.7	28.1	26.1	24.6	23.9	23.5
Of which: capital	1.3	0.6	0.1	0.9	0.5	0.8	0.5	0.5	0.5	0.5	0.5	0.4
Overall balance	-2.6	-1.5	-3.0	-2.0	0.3	-17.0	-18.6	-6.9	-2.8	-1.0	0.0	0.7
Debt	55.2	75.4	75.8	75.0	72.2	117.0	130.3	121.4	112.7	104.0	99.9	96.2
External												
Current account	-0.3	4.6	1.0	-0.5	2.5	-16.3	-13.7	-3.8	-1.9	-0.7	0.6	1.3
External debt	95.7	95.0	90.0	91.3	89.0	131.2	132.3	128.6	125.6	122.7	121.1	119.7
Memorandum items:	(Percent change)											
U.S. GDP growth	1.6	1.7	2.3	3.0	2.2	-3.5	6.4	3.5	1.4	1.5	1.6	1.6
U.S. CPI (average)	1.7	1.3	2.1	2.4	1.8	1.2	2.3	2.4	2.5	2.5	2.4	2.2
CPI (average)	2.4	-0.9	-1.0	3.6	3.9	-1.3	0.1	2.0	3.2	3.3	2.7	2.1
GDP deflator	3.0	0.2	1.3	2.3	3.9	-1.3	0.1	2.0	3.2	3.3	2.7	2.1
GDP per capita (Aruban florins)	42,994	48,397	49,832	51,247	53,316	39,312	41,146	46,806	51,719	56,587	58,823	60,753
GDP per capita (U.S. dollars)	24,019	27,037	27,839	28,630	29,785	21,962	22,987	26,149	28,893	31,613	32,862	33,940
Population (thousands)		110	111	112	112	112	112	113	113	114	114	114
Unemployment rate (percent)	7.7	7.7	8.9	7.3	5.2	14.0	...	...	...	...	...	...

Sources: Aruban authorities and IMF staff estimates and projections.

Table 3a. Aruba: Operations of the Central Government, 2016–2026

(In percent of GDP, unless indicated otherwise)

					Est.	Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Total revenues	**23.7**	**22.0**	**22.6**	**23.7**	**24.4**	**21.6**	**21.7**	**23.7**	**24.0**	**24.4**	**24.6**
Tax revenue	20.0	19.5	20.2	20.7	21.2	18.9	19.0	20.4	20.5	20.7	20.7
Direct taxes	11.0	10.5	10.5	9.7	11.0	8.7	8.7	9.2	9.2	9.3	9.3
Income and profit	9.4	8.8	8.7	8.1	8.9	6.9	6.9	7.1	7.1	7.3	7.3
Property	1.6	1.7	1.8	1.6	2.2	1.9	1.9	2.0	2.0	2.0	2.0
Indirect taxes	9.0	9.0	9.7	11.0	10.2	10.2	10.3	11.2	11.3	11.4	11.4
Commodities	5.4	5.4	5.5	5.6	5.4	5.2	5.4	5.6	5.7	5.7	5.7
Services	0.9	0.9	0.9	0.7	0.4	0.4	0.5	0.6	0.6	0.6	0.6
BBO	1.8	1.9	2.5	3.6	3.4	3.4	3.6	4.1	4.1	4.1	4.1
Foreign exchange	0.9	0.9	0.8	1.1	0.9	0.9	0.9	1.0	1.0	1.0	1.0
Non-tax revenue	3.7	2.4	2.5	3.0	3.2	2.7	2.7	3.3	3.5	3.8	3.9
Other non-tax revenues	3.7	2.4	2.5	3.0	3.2	2.7	2.7	3.3	3.5	3.8	3.9
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditures	**25.1**	**25.0**	**24.6**	**23.4**	**41.4**	**40.2**	**28.6**	**26.5**	**25.1**	**24.4**	**23.9**
Current expenditures	24.5	24.9	23.7	22.9	40.6	39.7	28.1	26.1	24.6	23.9	23.5
Compensation of employees	8.7	8.6	8.3	7.9	9.7	9.3	9.0	9.0	9.0	9.0	9.0
Wages and salaries	6.9	6.8	6.6	6.3	7.7	7.3	7.0	7.0	7.0	7.0	7.0
Employer contribution and benefits	1.8	1.8	1.7	1.6	2.1	2.0	2.0	2.0	2.0	2.0	2.0
Goods and services	3.0	2.8	3.2	2.8	4.1	4.4	3.2	3.0	2.9	2.7	2.6
Interest	4.1	4.0	3.9	3.8	5.3	5.6	6.3	5.9	5.5	5.3	5.1
Transfers and Subsidies	8.8	9.6	8.3	8.4	21.4	20.4	9.7	8.1	7.2	6.9	6.7
Total Subsidies	3.7	3.6	3.6	3.6	4.4	3.9	3.5	2.9	2.4	2.2	2.2
Wage subsidies	3.0	2.1	2.2	2.2	4.1	3.7	3.3	2.7	2.2	2.0	2.0
Other subsidies	0.7	1.5	1.4	1.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Transfers	5.1	6.0	4.7	4.8	17.1	16.5	6.1	5.2	4.8	4.7	4.6
Social transfers	2.7	2.7	2.6	2.5	11.2	11.5	3.4	2.6	2.4	2.3	2.2
Transfers to AZV	1.1	1.0	0.4	0.0	2.8	1.8	0.0	0.0	0.0	0.0	0.0
Others	1.3	2.3	1.8	2.3	3.0	3.1	2.8	2.6	2.4	2.4	2.4
Capital expenditure	0.6	0.1	0.9	0.5	0.8	0.5	0.5	0.5	0.5	0.5	0.4
Of which: Development Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-1.5**	**-3.0**	**-2.0**	**0.3**	**-17.0**	**-18.6**	**-6.9**	**-2.8**	**-1.0**	**0.0**	**0.7**
Primary balance	**2.6**	**1.0**	**1.9**	**4.2**	**-11.7**	**-13.0**	**-0.6**	**3.0**	**4.5**	**5.4**	**5.8**
Net acquisition of financial assets	0.4	0.4	0.3	0.3	0.3	0.4	0.4	0.4	0.3	0.3	0.3
Net incurrence of liabilities	1.9	3.4	2.3	-0.1	17.4	19.0	7.2	3.2	1.4	0.3	-0.3
Memorandum items:											
Cyclically adjusted primary balance	2.5	0.6	1.7	4.1	-4.8	-7.7	0.8	3.1	4.5	5.3	5.8
Financial balance (Authorities' concept)	-1.9	-3.4	-2.3	0.1	-17.4	-19.0	-7.2	-3.2	-1.4	-0.3	0.3
Primary spending	21.0	21.0	20.7	19.6	36.0	34.6	22.3	20.6	19.5	19.1	18.8
Public gross debt	75.4	75.8	75.0	72.2	117.0	130.3	121.4	112.7	104.0	99.9	96.2
Nominal GDP (millions of Aruban florins)	5,341	5,535	5,732	5,982	4,399	4,621	5,277	5,852	6,426	6,705	6,944

Sources: Aruban authorities and IMF staff estimates and projections.
Note: This table is presented on adjusted cash basis. The cyclically adjusted primary balance is in percent of nominal potential GDP.

Table 3b. Aruba: Operations of the Central Government, 2016–2026

(In millions of Aruban florins, unless indicated otherwise)

					Est.	Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Total revenues	**1,264**	**1,216**	**1,297**	**1,420**	**1,071**	**999**	**1,147**	**1,386**	**1,544**	**1,637**	**1,705**
Tax revenue	1,068	1,082	1,156	1,239	933	874	1,005	1,193	1,317	1,385	1,435
Direct taxes	589	582	600	581	485	404	461	536	588	624	646
Income and profit	502	486	499	487	390	318	363	416	457	487	504
Property	87	95	101	94	95	87	99	120	132	137	142
Indirect taxes	479	500	556	658	447	470	543	657	729	761	789
Commodities	287	299	318	336	239	240	284	330	367	383	397
Services	48	48	50	43	19	20	25	33	36	37	39
BBO	94	104	143	216	150	156	188	239	262	275	284
Foreign exchange	50	49	45	64	39	40	46	56	63	66	68
Non-tax revenue	195.5	134.2	141.7	180.9	138.7	124.6	142.3	192.8	226.7	251.6	270.5
Other non-tax revenues	195.5	134.2	141.7	179.8	138.7	124.6	142.3	192.8	226.7	251.6	270.5
Grants	0	0	0	1.0	0.0	0	0	0	0	0	0
Total expenditures	**1,342**	**1,384**	**1,409**	**1,400**	**1,820**	**1,856**	**1,509**	**1,552**	**1,610**	**1,636**	**1,660**
Current expenditures	**1,311**	**1,380**	**1,359**	**1,371**	**1,787**	**1,835**	**1,484**	**1,525**	**1,581**	**1,605**	**1,630**
Compensation of employees	464	474	476	475	428	431	476	528	580	605	626
Wages and salaries	369	377	378	377	337	338	370	410	450	470	486
Employer contribution and benefits	95	97	99	98	90	93	106	118	129	135	140
Goods and services	158	153	185	166	182	204	168	177	184	182	178
Interest	218	223	221	229	234	258	330	344	354	357	357
Transfers and Subsidies	471	530	477	501	943	942	510	476	463	461	469
Total Subsidies	197	201	208	214	192	182	186	172	152	146	150
Wage subsidies	160	118	126	129	181	171	175	160	141	135	137
Other subsidies	37	83	81	85	11	11	11	11	12	12	12
Transfers	274.1	329.4	269.0	287.0	750.6	760.3	324.4	304.8	311.0	314.5	319.2
Social transfers	144	149	148	149	494	533	178	154	155	154	155
Transfers to AZV	59	53	20	0	123	84	0	0	0	0	0
Others	71.8	127.0	101.1	137.7	133.5	143.5	146.4	151.0	156.1	160.3	163.8
Capital expenditure	30	3	51	28	33	21	24	27	29	31	30
Of which: Development Fund	0	0	0	0	0	0	0	0	0	0	0
Overall balance	**-78**	**-167**	**-112**	**20**	**-749**	**-858**	**-362**	**-166**	**-66**	**1**	**45**
Primary balance	**140**	**55**	**109**	**250**	**-514**	**-600**	**-31**	**178**	**288**	**359**	**402**
Net acquisition of financial assets	22	22	18	16	15	20	21	21	22	22	22
Net incurrence of liabilities	100	189	131	-4	764	878	383	187	88	20	-24
Memorandum items:											
Cyclically adjusted primary balance	134	35	97	245	-262	-419	43	183	288	358	401
Financial balance (Authorities' concept)	-100	-189	-131	4	-764	-878	-383	-187	-88	-20	24
Primary spending	1,124	1,161	1,189	1,170	1,586	1,599	1,178	1,207	1,256	1,278	1,303
Public gross debt	4,026	4,197	4,299	4,319	5,146	6,023	6,406	6,593	6,680	6,701	6,677
Nominal GDP (millions of Aruban florins)	5,341	5,535	5,732	5,982	4,399	4,621	5,277	5,852	6,426	6,705	6,944

Sources: Aruban authorities and IMF staff estimates and projections.

Note: This table is presented on adjusted cash basis. The cyclically adjusted primary balance is in percent of nominal potential GDP.

Table 4. Aruba: Central Bank Survey, 2016–2026
(In millions of Aruban florins, unless indicated otherwise)

					Est.	Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Net Foreign Assets	1,558	1,510	1,636	1,569	1,911	1,832	1,920	2,017	2,143	2,298	2,455
Gross Foreign Assets	1,677	1,650	1,781	1,789	2,209	2,129	2,218	2,315	2,440	2,595	2,752
Gross Foreign Liabilities	-3.9	-0.7	-2.6	-4.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Valuation Changes	-115	-139	-142	-216	-298	-297	-297	-297	-297	-297	-297
Net Domestic Assets	-172	-140	-134	-113	-198	-197	-197	-197	-197	-195	-195
Government Deposits (net)	-36	-47	-49	-17	-95	-95	-95	-95	-95	-94	-94
Development Funds Deposits	-49	-11	0	0	0	0	0	0	0	1	1
Other Domestic Entities (net)	-1	-1	-1	-1	-1	0	0	0	0	0	0
Other Items (net)	-86	-81	-84	-95	-102	-102	-102	-102	-102	-102	-102
Reserve Money	1,386	1,370	1,503	1,456	1,713	1,622	1,700	1,786	1,900	2,045	2,195
Bank Notes Issued	270	296	298	259	303	287	300	316	336	361	388
Bank Reserves	1,116	1,074	1,205	1,197	1,410	1,335	1,400	1,471	1,564	1,684	1,807
Demand	333	420	399	459	1,131	1,071	1,123	1,179	1,255	1,350	1,449
Time	783	653	806	738	279	264	277	291	310	333	358
						(Percent change)					
Net Foreign Assets	12.5	-3.1	8.4	-4.1	21.7	-4.1	4.9	5.0	6.2	7.2	6.8
Net Domestic Assets	-5.8	-18.8	-4.2	-15.5	75.1	-0.4	0.0	0.0	0.0	-1.0	0.0
Reserve Money	15.3	-1.2	9.7	-3.1	17.6	-5.3	4.8	5.1	6.4	7.6	7.3
						(Percent of GDP)					
Government Deposits at Central Bank	1.6	1.0	0.9	0.3	2.2	2.1	1.8	1.6	1.5	1.4	1.3
Central Government	0.7	0.8	0.9	0.3	2.2	2.1	1.8	1.6	1.5	1.4	1.4
Development Fund	0.9	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Central Bank of Aruba and IMF staff estimates and projections.

Table 5. Aruba: Monetary Survey, 2016–2026

(In millions of Aruban florins, unless indicated otherwise)

	2016	2017	2018	2019	Est. 2020	Projections 2021	2022	2023	2024	2025	2026
Net foreign assets	1,778	1,685	1,776	1,713	2,056	2,160	2,466	2,735	3,003	3,133	3,245
Central bank	1,558	1,510	1,636	1,569	1,911	1,832	1,920	2,017	2,143	2,298	2,455
Gross Foreign Assets	1,677	1,650	1,781	1,789	2,209	2,129	2,218	2,315	2,440	2,595	2,752
Gross Foreign Liabilities	-4	-1	-3	-4	0	0	0	0	0	0	0
Valuations	-115	-139	-142	-216	-298	-297	-297	-297	-297	-297	-297
Commercial banks	219	175	140	143	145	153	174	193	212	221	229
Net domestic assets	2,390	2,555	2,602	2,857	2,736	2,875	3,282	3,640	3,997	4,171	4,319
Domestic credit	3,267	3,492	3,631	3,912	3,895	4,097	4,678	5,188	5,698	5,945	6,156
Net claims on the government	254	365	398	465	429	451	515	571	627	654	677
Deposits	-107	-114	-126	-124	-143	-150	-171	-190	-209	-218	-225
Claims	360	479	524	589	572	601	686	761	835	872	903
Claims on the private sector	3,013	3,127	3,233	3,447	3,466	3,647	4,164	4,618	5,071	5,291	5,479
Other items net	-876	-937	-1,029	-1,055	-1,159	-1,223	-1,396	-1,548	-1,700	-1,774	-1,837
Money supply (M2)	4,168	4,240	4,378	4,569	4,792	5,034	5,748	6,375	7,000	7,304	7,564
Money (M1)	2,252	2,422	2,433	2,575	2,730	2,868	3,274	3,631	3,987	4,160	4,309
Quasi money	1,916	1,818	1,944	1,995	2,063	2,167	2,474	2,744	3,013	3,144	3,256
					(Percent change)						
Net foreign assets	17.3	-5.2	5.4	-3.6	20.0	5.1	14.2	10.9	9.8	4.3	3.6
Net domestic assets	4.4	6.9	1.8	9.8	-4.2	5.1	14.2	10.9	9.8	4.3	3.6
Credit to the private sector	1.7	3.8	3.6	6.6	0.5	5.2	14.2	10.9	9.8	4.3	3.6
Broad money	9.5	1.7	3.2	4.4	4.9	5.1	14.2	10.9	9.8	4.3	3.6
Deposits	10.0	1.3	3.6	5.4	3.9	5.1	14.2	10.9	9.8	4.3	3.6
					(Percent of GDP)						
Credit to the private sector	56.4	56.5	56.4	57.6	78.8	78.9	78.9	78.9	78.9	78.9	78.9
Government deposits	2.0	2.1	2.2	2.1	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Broad money	78.0	76.6	76.4	76.4	108.9	108.9	108.9	108.9	108.9	108.9	108.9
Memorandum items:											
Money multiplier	3.0	3.1	2.9	3.1	2.8	3.1	3.4	3.6	3.7	3.6	3.4

Sources: Central Bank of Aruba and IMF staff estimates and projections.

Table 6. Aruba: Balance of Payments, 2016–2026
(In millions of U.S. dollars, unless indicated otherwise)

					Est.	Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
					(Millions of U.S. dollars)						
Current account balance	**136**	**30**	**-14**	**85**	**-401**	**-353**	**-112**	**-61**	**-24**	**22**	**51**
Goods	-854	-989	-1,037	-1,073	-733	-750	-1,006	-1,137	-1,276	-1,357	-1,429
Exports	284	135	194	131	103	104	108	108	109	110	111
Of which: Oil products 1/	163	43	61	49	23	32	30	29	28	28	28
Imports	1,138	1,124	1,231	1,204	835	854	1,114	1,246	1,385	1,467	1,540
Of which: Oil products	255	167	218	200	115	151	167	173	180	181	181
Services	1,188	1,257	1,325	1,395	455	544	1,096	1,329	1,539	1,674	1,781
Credits	2,060	2,171	2,363	2,431	1,223	1,297	1,944	2,310	2,641	2,841	3,007
Of which: tourism exports	1,747	1,843	2,022	2,094	942	971	1,589	1,924	2,226	2,387	2,529
Debits	873	914	1,039	1,036	768	753	848	981	1,102	1,167	1,226
Income	-198	-238	-302	-237	-123	-147	-202	-252	-287	-295	-301
Primary income	-135	-171	-211	-158	-93	-111	-147	-179	-195	-198	-201
Secondary income	-62	-67	-91	-79	-30	-36	-55	-73	-92	-97	-101
Capital account balance	**8**	**4**	**0**	**2**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Financial account	**126**	**16**	**-23**	**86**	**-401**	**-353**	**-112**	**-61**	**-24**	**22**	**51**
Direct investment (net, inflows -)	-28	-79	-106	135	-107	-85	-60	-69	-75	-79	-81
Portfolio (net)	-38	93	-33	50	44	42	44	45	45	46	47
Financial derivatives (net)	55	24	6	-4	-11	-12	-12	-12	-12	-13	-13
Other investments (net)	39	8	38	-60	-480	-338	-134	-79	-51	-19	11
Reserve Assets, (net change, + increase)	98	-29	72	-36	151	39	50	54	70	87	88
Errors and omissions	**-18**	**-17**	**-9**	**-1**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
					(Percent of GDP)						
Current account balance	**4.6**	**1.0**	**-0.5**	**2.5**	**-16.3**	**-13.7**	**-3.8**	**-1.9**	**-0.7**	**0.6**	**1.3**
Goods	-28.6	-32.0	-32.4	-32.1	-29.8	-29.0	-34.1	-34.8	-35.5	-36.2	-36.8
Exports	9.5	4.4	6.1	3.9	4.2	4.0	3.7	3.3	3.0	2.9	2.9
Of which: Oil products 1/	5.5	1.4	1.9	1.5	0.9	1.3	1.0	0.9	0.8	0.8	0.7
Imports	38.2	36.3	38.5	36.0	34.0	33.1	37.8	38.1	38.6	39.2	39.7
Of which: Oil products	8.5	5.4	6.8	6.0	4.7	5.9	5.7	5.3	5.0	4.8	4.7
Services	39.8	40.6	41.4	41.7	18.5	21.1	37.2	40.6	42.9	44.7	45.9
Credits	69.1	70.2	73.8	72.7	49.8	50.2	65.9	70.6	73.6	75.9	77.5
Of which: tourism exports	58.6	59.6	63.1	62.7	38.3	37.6	53.9	58.8	62.0	63.7	65.2
Debits	29.2	29.6	32.4	31.0	31.3	29.2	28.8	30.0	30.7	31.2	31.6
Income	-6.6	-7.7	-9.4	-7.1	-5.0	-5.7	-6.9	-7.7	-8.0	-7.9	-7.8
Primary income	-4.5	-5.5	-6.6	-4.7	-3.8	-4.3	-5.0	-5.5	-5.4	-5.3	-5.2
Secondary income	-2.1	-2.2	-2.9	-2.4	-1.2	-1.4	-1.9	-2.2	-2.6	-2.6	-2.6
Capital account balance	**0.3**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial account	**4.2**	**0.5**	**-0.7**	**2.6**	**-16.3**	**-13.7**	**-3.8**	**-1.9**	**-0.7**	**0.6**	**1.3**
Direct investment (net, inflows -)	-0.9	-2.6	-3.3	4.0	-4.4	-3.3	-2.0	-2.1	-2.1	-2.1	-2.1
Portfolio (net)	-1.3	3.0	-1.0	1.5	1.8	1.6	1.5	1.4	1.3	1.2	1.2
Financial derivatives (net)	1.8	0.8	0.2	-0.1	-0.4	-0.5	-0.4	-0.4	-0.3	-0.3	-0.3
Other investments (net)	1.3	0.2	1.2	-1.8	-19.5	-13.1	-4.5	-2.4	-1.4	-0.5	0.3
Reserve Assets, (net change, + increase)	3.3	-0.9	2.2	-1.1	6.1	1.5	1.7	1.7	1.9	2.3	2.3
Errors and omissions	**-0.6**	**-0.6**	**-0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:											
Exports of goods and services (percent change)	-4.0	-1.7	10.9	0.2	-48.2	5.6	46.5	17.8	13.8	7.3	5.7
Import of goods and services (percent change)	-5.8	1.4	11.4	-1.3	-28.4	0.2	22.1	13.5	11.7	5.9	5.0
Central Bank Net Foreign Assets (millions of U.S. dollars) 2/	871	843	914	877	984	1,023	1,073	1,127	1,197	1,284	1,372
Gross Foreign Assets (millions of U.S. dollars)	937	922	995	999	1,151	1,189	1,239	1,293	1,363	1,450	1,538
(months of next years imports)	5.5	4.9	5.3	7.5	8.6	7.3	6.7	6.2	6.2	6.3	6.5
(percent of broad money)	40	39	41	39	43	…	…	…	…	…	…
(percent of short term external debt residual maturity)	351	410	480	421	447	437	410	395	388	401	415
Gross Foreign Liabilities (millions of U.S. dollars)	2.2	0.4	1.5	2.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1
External Debt (percent of GDP)	95.0	90.0	91.3	89.0	131.2	132.3	128.6	125.6	122.7	121.1	119.7

Sources: Aruban authorities and IMF staff estimates and projections.

1/ Export and imports of oil products includes transhipment of crude oil and imports and re-exports of bunker fuel for airplanes.

2/ Includes revaluation changes.

Table 7. Aruba: Financial Soundness Indicators, 2007–2020

(In percent, unless indicated otherwise)

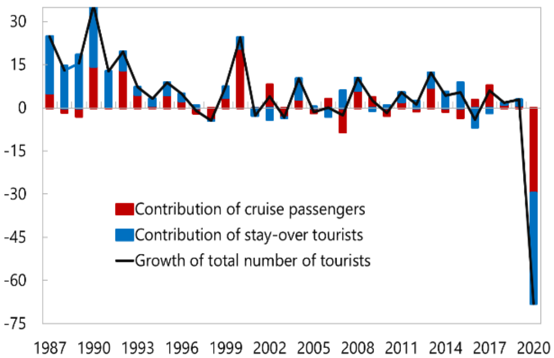
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Capital														
Regulatory Tier I capital to risk-weighted	7.2	8.3	10.6	11.3	11.3	11.8	14.7	15.3	17.6	19.6	22.4	24.4	24.6	27.5
Tier 1 and 2 capital to risk-weighted asse	13.0	14.7	17.8	18.6	17.7	19.5	22.8	23.4	26.1	28.1	30.3	32.1	31.0	33.5
Asset quality														
NPLs to gross loans	6.7	6.9	7.9	10.7	8.2	7.0	7.0	6.3	4.7	4.4	4.0	3.9	3.2	5.0
NPLs net of provisions to gross loans	4.0	3.9	4.5	6.9	4.1	3.4	3.7	3.2	1.6	1.5	1.5	1.5	0.9	1.1
NPLs net of provisions to regulatory capit	32.6	28.5	27.4	40.9	25.9	19.2	18.3	14.7	6.8	5.8	5.4	4.9	3.0	3.8
Large exposures to capital	102.8	98.8	77.1	68.6	68.3	86.4	67.6	69.2	56.4	51.4	40.6	41.4	45.3	49.8
Earnings and profitability														
ROA after taxes	3.1	2.3	1.8	1.8	2.1	2.3	2.2	2.2	2.1	2.1	1.7	1.7	1.3	0.5
ROE after taxes	38.4	24.7	17.4	16.8	19.8	22.7	20.3	17.9	16.1	15.1	11.5	10.5	8.1	3.3
Net interest income to gross income	60.5	62.4	62.8	64.5	62.6	62.1	61.8	60.4	57.3	58.6	57.2	55.5	56.0	63.4
Non-interest expenses to gross income	65.7	71.1	75.0	75.2	72.8	71.3	71.8	72.0	73.2	72.0	76.5	77.2	81.9	91.0
Liquidity														
Liquid assets to total assets	29.0	34.7	30.1	28.6	26.1	27.6	24.3	24.1	27.3	30.6	28.6	29.8	29.3	33.7
Liquid assets to short term liabilities	82.6	88.7	71.5	75.6	61.4	61.2	57.5	58.7	62.8	67.4	60.9	63.9	63.5	72.0
Loans to deposits	74.7	69.4	67.1	66.5	71.0	68.2	72.9	73.6	69.9	66.2	68.2	68.1	68.4	66.9
Sensitivity to market risk														
Interest rate margin (percentage points)	6.8	7.4	7.1	8.1	7.9	7.5	7.0	5.7	6.1	6.0	5.1	5.2	4.4	4.7

Source: Central Bank of Aruba.

Figure 1. Real Sector Developments

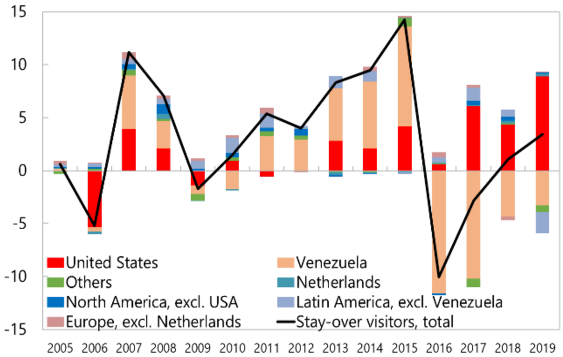
Tourism arrivals plummeted since the pandemic

Tourism growth: Stay-over Visitors and Cruise Passengers
(In percent)



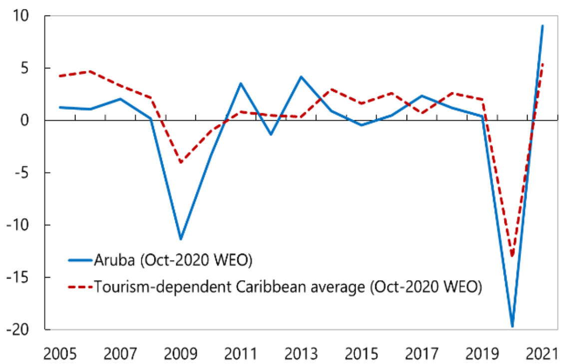
...with the highest impact from the US visitors,

Growth in Stay-Over Visitors: Contributions by Origin
(In percent)



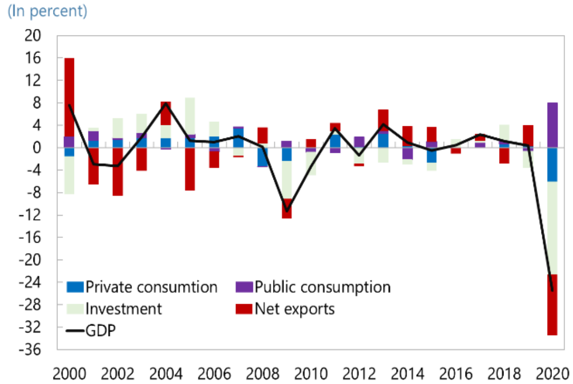
...leading to a drastic decline in RGDP growth,

RGDP growth: Aruba and Tourism-Dependent Caribbean
(In percent)



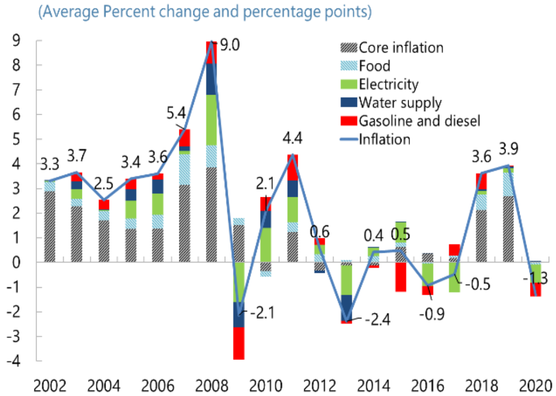
...driven by investment, net exports, and private consumption.

RGDP Composition: Contributions to Growth
(In percent)



Headline inflation reached an average of -1.3 percent in 2020.

Decomposition of the Headline Inflation
(Average Percent change and percentage points)



The estimated unemployment rate increased by 2.5 times.

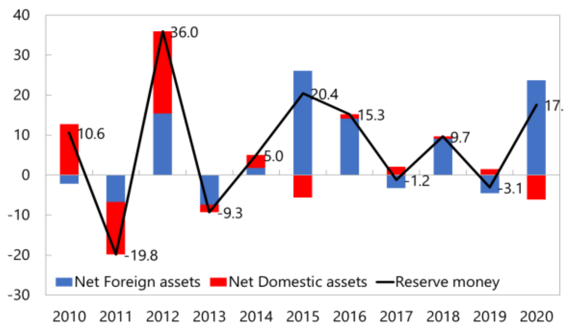
Labor Market Outcomes
(Percent of working population and labor force, aged 15+)

Sources: National Authorities; WEO database; and IMF staff calculations.

Figure 2. Monetary Sector Developments

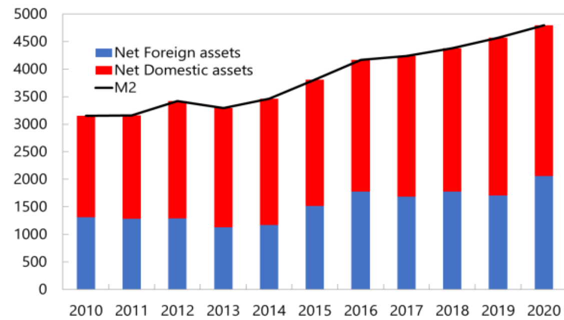
Reserve money increased in 2020, driven by higher NFA,

Contributions to Growth in Reserve Money
(In percent)



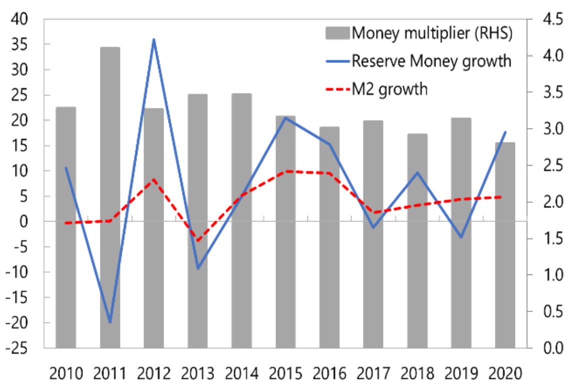
...and so did the money supply, with a composition changing from the foreign to domestic assets,

Broad Money Composition
(In millions of florins)



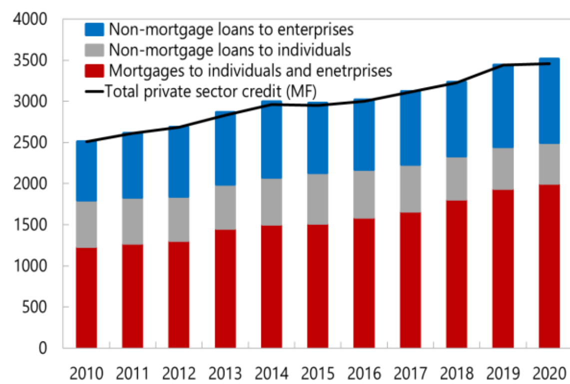
...while the money multiplier fell below 3, due to impact of containment measures on domestic activity.

Monetary Aggregates and Money Multiplier
(Percent change and index number)



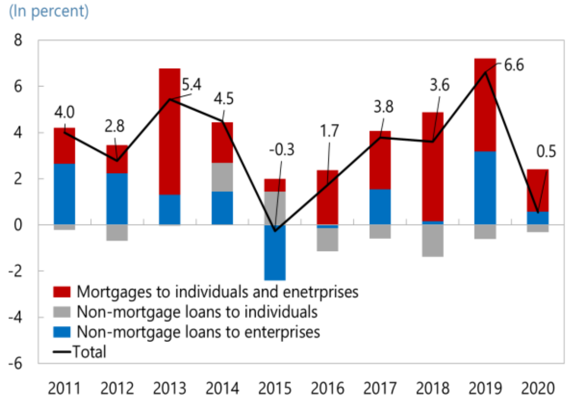
Private sector credit flattened in 2020, although mortgages to individuals and enterprises continued to grow slightly.

Composition of Domestic Credit to Private Sector
(In millions Arubian florins)



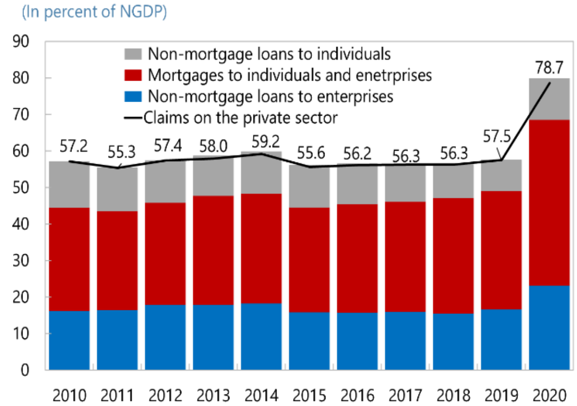
In 2020, credit growth slowed to 0.5 percent (y/y), driven by mortgages to individuals and enterprises,

Contributions to Domestic Private Credit Growth
(In percent)



.. but became elevated as a share of NGDP, following the drastic estimated decline in output in 2020.

Private sector credit depth
(In percent of NGDP)

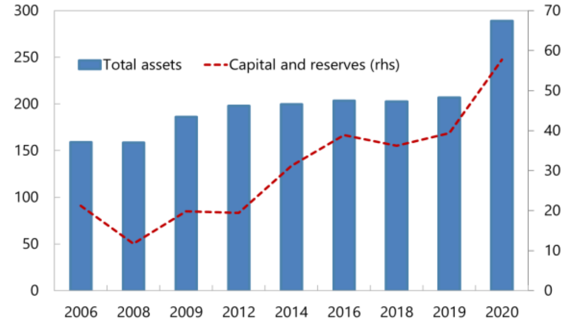


Sources: National Authorities; WEO database; and IMF staff calculations.

Figure 3. Financial Sector Developments

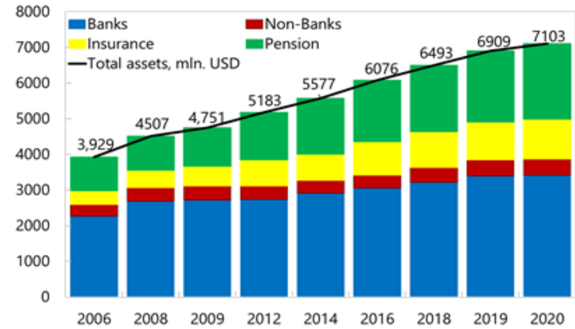
The financial system's assets reached almost 3 times the economy size in 2020 (up from 207 percent in 2019).

Financial Sector Size Relative to the Economy
(In percent to gross domestic product in market prices)



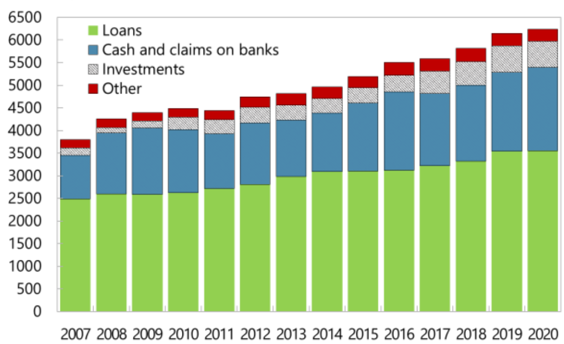
Banks still dominate the financial sector, but their share decreased to 48 percent in 2020, while the insurance companies and pension funds become larger.

Financial Sector Structure: Total Assets
(In millions USD)



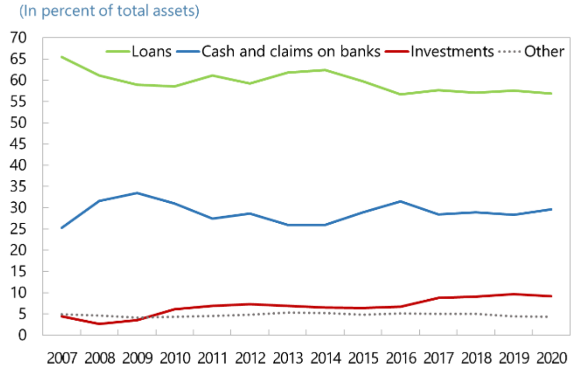
As of end 2020, loans constituted about 57 percent, cash and claims in banks about 30 percent, with the rest in investments and other assets.

Asset Structure of Banks in Aruba
(End of period, in million Aruban florins)



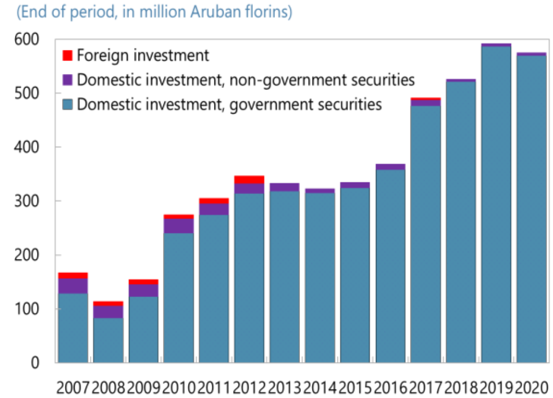
During the past 5 years, banks gradually substituted cash holdings with investment in their balance sheets.

Asset Structure of Banks in Aruba
(In percent of total assets)



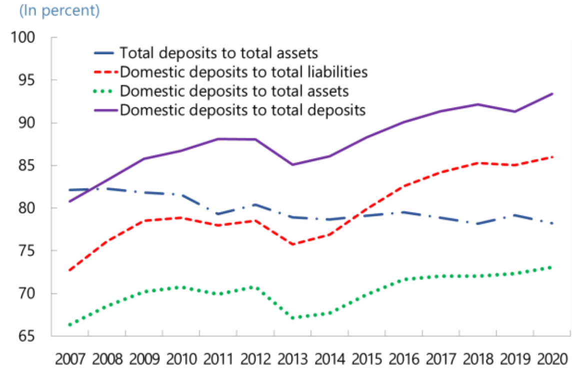
Since 2018, banks invested only domestically, with the major share put in home government securities.

Structure of Investment by Banks in Aruba
(End of period, in million Aruban florins)



Deposits finance 78 percent of total assets, with more than 9/10 of them from residents. Domestic deposits formed 73 percent of all assets and 86 percent of all liabilities.

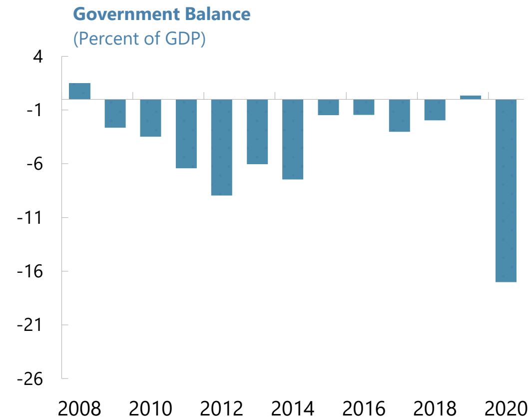
Role of Deposits in Banks's Financing
(In percent)



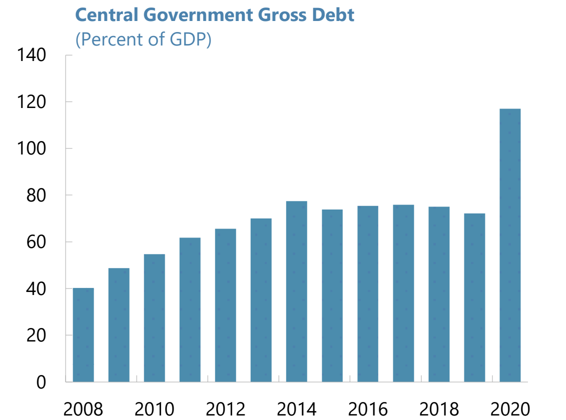
Sources: National Authorities and IMF staff calculations.

Figure 4. Fiscal Sector Developments

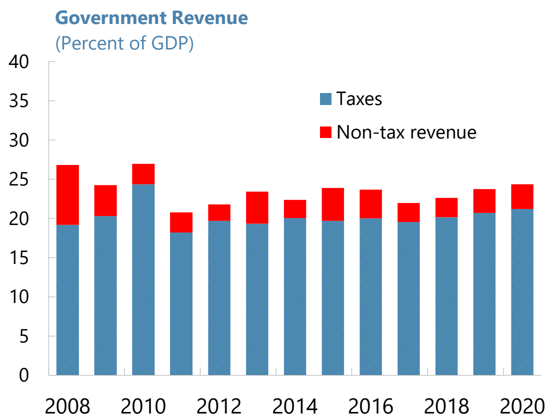
The fiscal deficit has increased significantly due to the COVID-19 outbreak,



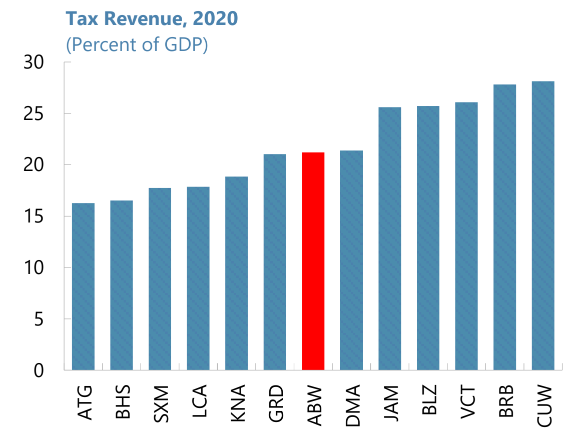
...and so did public debt.



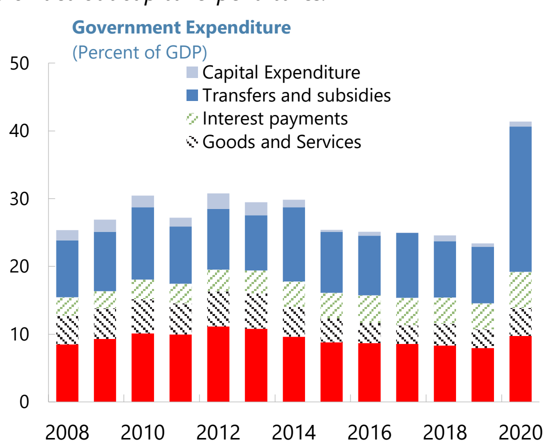
Revenues have been broadly stable in recent years,



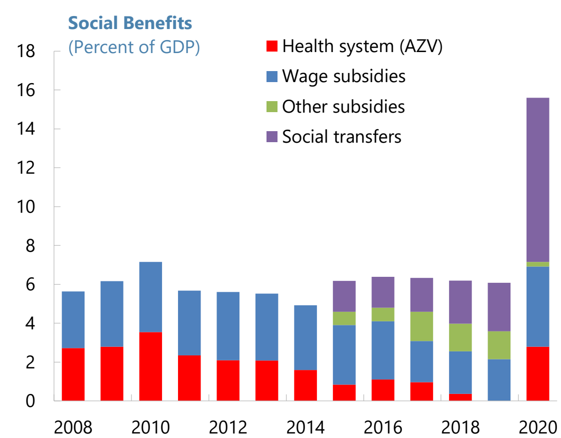
...with tax receipts at about the average of Caribbean peers.



High wage-related and interest expenditures have crowded out capital expenditures.



Transfers to health and other social programs have increased in 2020.



Sources: National Authorities; WEO database; and IMF staff calculations.

Annex I. Implementation of Past Fund Advice

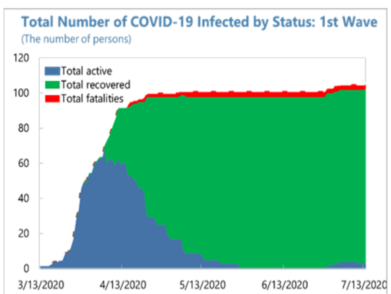
IMF Recommendation	*Implementation Status*
Fiscal Policy	
Continue the fiscal consolidation plan to put public debt on a firm downward trend while creating space for growth-friendly expenditure, protecting capital spending, minimizing potential adverse effects on growth, and ensuring effective social safety nets.	**Postponed.** The fiscal consolidation planned to take place in 2020 has been appropriately postponed due to COVID-19. The remaining three phases of the planned tax reform have been put on hold but an "all in" tax reform shift from direct to indirect taxes is planned for 2023.
Identifying additional revenue and expenditure measures to achieve fiscal targets. Broaden the base for excises on alcohol and tobacco while increasing rates for petroleum products.	**Postponed.**
Introducing a value-added tax (VAT) to replace the current various indirect taxes.	**Partial progress**. An IMF TA mission was conducted in 2018. The authorities plan to introduce a VAT in 2023, in line with TA recommendations.
Undertaking a review of the wage bill.	**Partial progress**. An IMF TA mission was conducted in 2019. The reduction of the public wage bill was introduced in the Master Plan as well as the reform package agreed with the Netherlands, although no specific reform measures have been adopted to date besides the cut in the wages of public employees, ministers and parliamentarians that was used to finance emergency assistance schemes (¶9).
Developing and formalizing a medium-term fiscal framework and considering the adoption of a fiscal rule.	**Partial progress.** Fiscal policy formulation continues to be done one year at a time. An IMF/CARTAC TA mission on strengthening fiscal planning was conducted in October 2020, followed by a CARTAC TA mission on refining the projection of macro and fiscal variables.
Finalizing the strategy for budget financing and debt management.	**Ongoing**. CARTAC mission on debt management is in the pipeline.
Monetary and Financial Policies	
Maintaining data-dependent monetary policy.	**Ongoing**. The CBA adequately responded to the COVID-19 shock with cuts to the reserve requirement, minimum capital adequacy ratio, and the prudential liquidity ratio to support economy.
Complete the AML/CFT national risk assessment, update the AML/CFT state ordinance, and prepare for the 4th round AML/CFT assessment by the Caribbean Financial Action Task Force (CFATF)	**Ongoing**. The authorities completed the AML/CFT National risk assessment and tabled an updated AML/CFT ordinance to Parliament. Several working groups, led by the National AML/CFT Committee are preparing for a 4th round of mutual evaluation by CFATF, scheduled for November 2021
Structural reforms	
Enhance labor market flexibility, address youth and female unemployment.	**Ongoing**. More flexible labor laws are indicated as a priority in the recovery master plan and included in a condition for the loan from the Netherlands. The 2016 changes to the Civil Code already allowed the employer to unilaterally modify an employment contract under certain conditions. The authorities revised procedures to terminate employment contracts to shorten their duration from 4 to 2 months and are currently implementing them. A working group is assessing plans

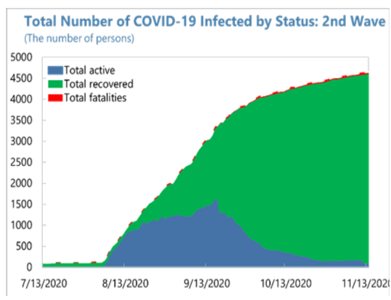
IMF Recommendation	*Implementation Status*
	to replace severance pay with unemployment insurance, and a new legislation is expected in 2021. The Government is working on a National Action Plan for Youth Employment, which was broadened to other demographic groups due during the pandemic. The Departments of Social Affairs, Labor Progress, and Labor and Research introduced programs aiming to (re)educate and help teenage/single mothers to enter the labor force. Notable are a pilot to accommodate youth in social assistance jobs, and a Steering committee aligning jobs creation with the recovery masterplan. The 2018 modification of immigration laws helped Aruba to attract more high skilled professionals, especially into the designated promising sectors. In January-September 2020 country received 166 employment applications from non-residents, which were granted with exemptions. An innovative platform named District297 went live in 2020 to connect the Aruban diaspora and encourage them to go back.
Reduce the costs of doing business, and improve governance, diversify economy beyond the tourism industry, bolster competitiveness, economic resilience and attract FDI, focus on renewable energy production and energy efficiency	**Ongoing**. In April 2019 the Minister of Finance, Economic Affairs, and Culture presented the economic policy 2019-2022 with a vision to improve the investment climate in Aruba, stimulate an innovative, competitive and diversified economy, and improve quality of life for all citizens, identifying six promising sectors. Policies in relevant departments have been aligned in order to give impulse to these sectors, and their licensing was put on a fast track. The Department of Economic Affairs developed a promotion plan to support new investment strategy. To minimize the cost, the promotion will be directed to specific markets making use of existent platforms/organizations in the region and network of the Kingdom. The promotion will begin in July 2021. In 2021Q1, a new website, with an easy and use-friendly design, will be available to assist entrepreneurs and guide them through the process of starting a business and permits/licenses. A Core Team Red is actively working on mapping the licensing processes to be able to assess the red tape and the possibilities to digitize. The e-Government Road Map is in implementation and the interoperability platform will go live in 2021.
Maintain a high-end tourism brand, diversify the tourism base, find new tourism niches, maximize spending per visitor through high-quality services and infrastructure, strengthen tourism linkages with the local economy.	**Ongoing.** Before the pandemic, the authorities began implementing a "High-Value Low-Impact" model for tourism growth and efforts to find new markets and niche products within tourism
Improving the quality of public spending on education to improve outcomes.	**Postponed.**
Statistics	
Bridging data gaps to better inform policy decisions.	**Ongoing.** Two CARTAC missions were conducted in 2019 and 2020 to improve the quality of national accounts statistics.

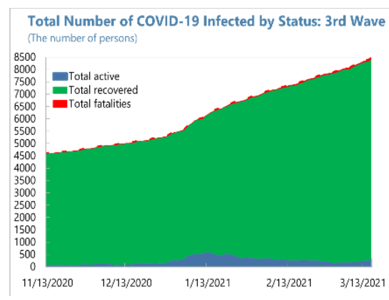
Annex II. The COVID-19 Pandemic in Aruba[1]

Aruba registered its first COVID-19 infection on March 13, 2020. The authorities implemented strict measures to contain the virus's spread, including closing the borders, which significantly decreased domestic mobility and flight capacity. The gradual reopening of the economy has been staggered due to the renewed spread of infection after the relaxation of policies started in May. While Aruba has the highest per capita infection rate in the Caribbean region, that may reflect high testing capacity and a high incidence of infected visitors. The healthcare system remains resilient, which is also evident from a low number of total COVID-19 fatalities.

1. **Aruba has had three contagion waves.** The first wave peaked on April 6, 2020 with 69 active cases and was fully contained by May 28, with zero active infections until June 28. The second wave (August–October), which spiked on September 16 with 1630 active cases, was the most contagious. The third wave of pandemic (November–January) was more contained, peaking at only 624 active cases (on January 13, 2021).

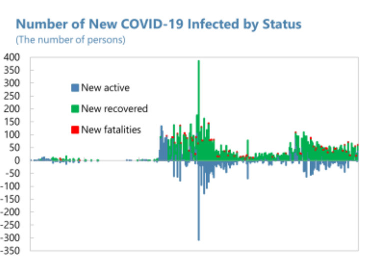


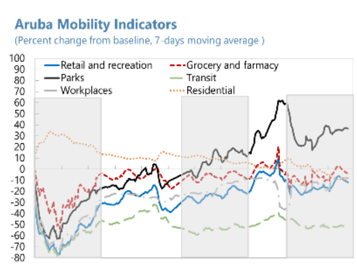




Sources: John Hopkins, Haver data, and IMF staff calculations.

2. **The authorities adopted strict measures to contain infections, which have affected domestic mobility and tourism arrivals.** These included a shelter-in-place, a compulsory dusk-to-dawn curfew, travel restrictions, suspension of non-vital government work, closures of schools and non-essential business activities, and limits on social gatherings, decreasing mobility.





Sources: John Hopkins, Haver data, Google COVID-19 Community Mobility Report, Flight Radar, and IMF staff calculations.

[1] Prepared by Olga Bespalova.

The restrictions disrupted economic activity through a decline in domestic activity and a sharp fall in tourism arrivals. Mobility bottomed up during the first wave of the pandemic, but then began to recover. Daily flights' passenger capacity remained below 200 from March 30 to May 25, 2020, when the international borders remained closed, except for humanitarian flights.

3. Relaxation of the containment measures began on May 4, 2020. Level 1 marked the reopening of selected categories of stores and public offices with a maximum of 25 persons, and a limited resumption of construction activities. Maximum capacity increased to 50 persons during level 2 (May 18–May 31), and 125 during level 3 (June 1–June 14). June 1 (level 3) marked a wider reopening of services with further relaxations beginning June 10.

Timeline of COVID-19 Measures in Aruba (March 2020 - February 2021)

Source: VisitAruba.com and Staff complilations.

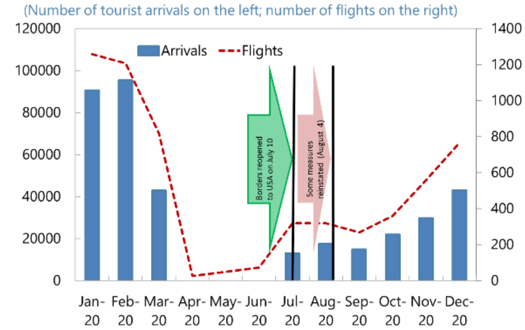
4. Borders started a gradual reopening on July 1. Initially Aruba opened to visitors from Europe, Canada, and Caribbean countries. On July 10, visitors from the USA were also allowed. The authorities introduced airport screening with temperature checks, short interviews by doctors, and flow control at the airport. Any visitor suspected of COVID-19 infection would have a rapid test in the airport, with a result available within 45 minutes. Also, the authorities required all visitors to buy compulsory insurance to cover costs related to COVID-19 protocols and procedures in case positive testing, including hospital stay and ICU placement if required.

The government also authorized procedures for isolation and transportation of infected travelers; updated airport facilities and sanitation protocols, provided airport staff with PPE equipment, and enhanced airport air quality.

5. **The reopening of the economy and restart of tourism was followed by a second wave, and some containment measures were reinstated on August 4.** The authorities set limits on public dining and gatherings, enhanced social distance protocols in all public places and workplaces, and required to install barriers when distance of 1.5 meters is not possible to maintain, and encouraged wearing face masks. Also, the authorities launched a mobile app to facilitate testing. Mandatory curfew restarted on August 4.

Tourist Arrivals and Number of Flights

(Number of tourist arrivals on the left; number of flights on the right)



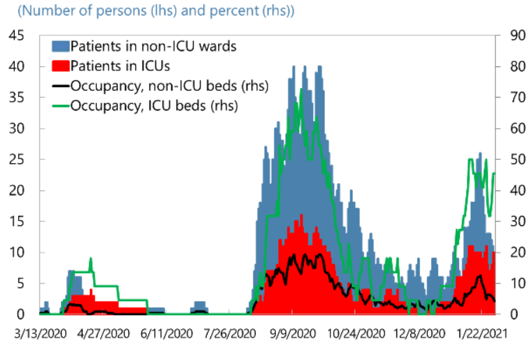
Sources: National Authorities, Flight Radar, and Staff Calculations.

6. **The second re-opening took place in September-October, and tourism arrivals began to recover.** On September 24, travelers were given an option to take a PCR test upon arrival at the airport. On October 22, the government relaxed measures to curb the second wave of the COVID-19 pandemic and replaced the curfew with "area prohibition" in beach zones. Bars, nightclubs, and rum-shops remained closed, while social gatherings and home parties were prohibited. On November 19, the Netherlands changed Aruba's COVID-19 risk classification from "code orange" to "code yellow". All domestic and travel restrictions were lifted in early December, subject to strict health and safety protocols, including a requirement starting in March 2021 to present health passports for travelers entering Aruba.

7. **As of March 16, 2021, Aruba had 8,482 infected—7.5 percent of its population—the highest per capita infection rate in the Caribbean region.** However, with 8,094 persons already recovered and only 308 persons (0.27 percent of the population) actively infected, these numbers may reflect high testing capacity and the incidence of infected visitors. With 207 non-ICU hospital beds and 22 ICUs[2], and only 36 hospitalized COVID-19 patients (of whom 11 are in intensive care), the healthcare system remains resilient, which is also evident from a low number of total COVID-19 fatalities and no significant evidence of excess deaths (deaths in excess of the five year average). Voluntary COVID-19 immunization (assisted by the Netherlands, which already began

Hospitalized and ICU Patients with COVID-19

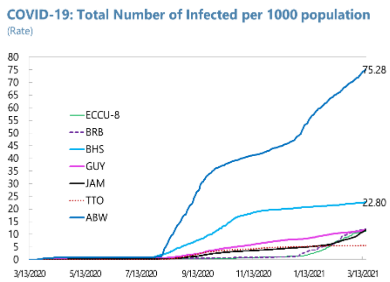
(Number of persons (lhs) and percent (rhs))

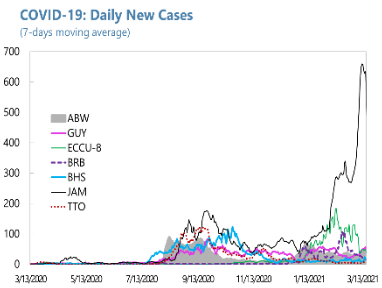


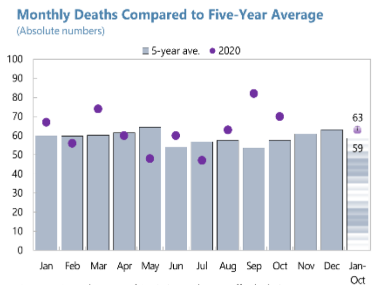
Sources: National Authorities and IMF Staff Clauclations.

[2] Apart from the ICU, the hospital has 207 beds, including 149 regular care beds and 58 beds for the pediatrics, neonatal, maternity and obstetrics wards. The ICU unit includes 12 permanent beds and additional 10 regular nursing care beds that can be set up as ICU beds (including respiration equipment).

equipping Aruba with the necessary cooling equipment) began in February 2021, with priority given to healthcare workers, seniors, and individuals with chronic diseases.



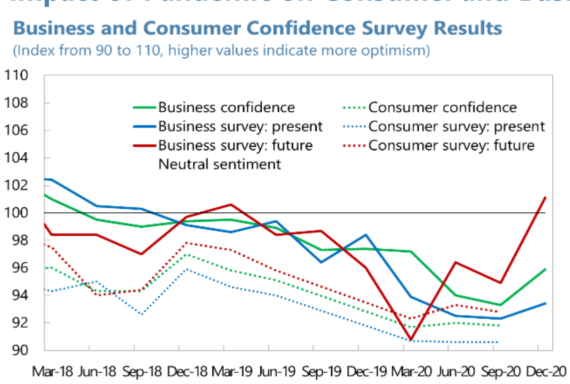


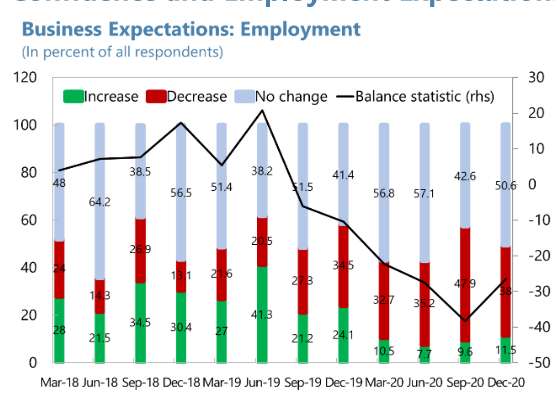


Sources: John Hopkins, Haver data, Central Bureau of Statistics of Aruba, and IMF staff calculations.

8. Business and consumer confidence plummeted, and employment expectations worsened. The business perception index (BPI) started declining in 2020Q1, driven by a deterioration of future expectations (six months ahead), and dropped further in 2020Q2-3, although future expectations improved. The share of businesses planning to hire labor declined by 14.5 percent in 2020Q3 compared to 2019Q4, while those expecting to cut jobs increased by 13.4 percent. Consumer confidence reached an historical low of 91.8 in 2020Q3, driven by concerns about economic conditions (87 percent), government finance (84 percent), job security (72 percent), personal health (71 percent), and household finance (60 percent). These results confirm the World Food Program survey' outcomes, where 80 percent of respondents reported a loss of jobs or reduced salaries.

Impact of Pandemic on Consumer and Business Confidence and Employment Expectations





Sources: Central Bank of Aruba, and IMF staff calculations.

9. Banks remained resilient and continue to compare well to their regional peers but risks have increased. Compared to banks in the Eastern Caribbean Currency Union (ECCU), banks in Aruba hold more capital, have lower NPLs, and enjoy a similar return on assets. However, the recent rise in private sector credit to GDP and NPLs points to increased balance sheet risks and requires close monitoring. Going forward, the expected

Selected Banking Indicators: Aruba and the ECCU*

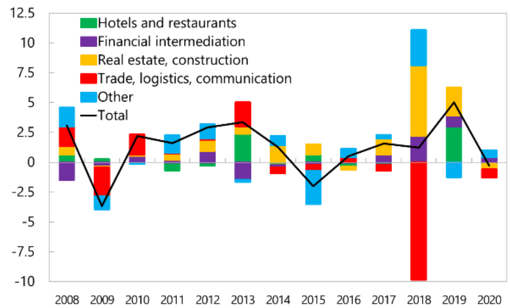
		Credit to GDP	Capital adequacy	NPL ratio	Return on assets (ROA)	Return on equity (ROE)
Aruba	2019	58	31	3.2	1.3	8.1
	2020	79	33.5	5.0	0.5	3.3
ECCU	2019	44	19.9	10.1	1.4	19.7
	2020**	58	21.2	11.2	1.1	13.1

Source: CBA and ECCB.
*ROA and ROE are after taxes
** Based on 2020Q1 for NPL and 2020q3 for other indicators.

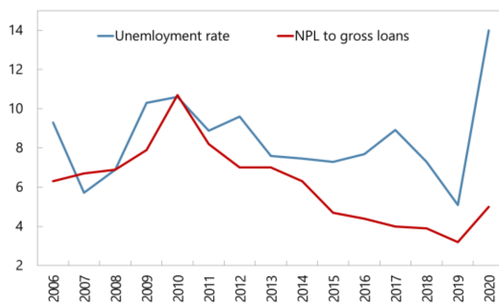
spike in unemployment rate could generate a rise in NPLs.[3] Although the CBA stress tests indicate that the banking system has sufficient capital buffers to withstand a significant increase in NPL rates, the impact of labor market developments on asset quality needs to be carefuly monitored.

Credit Cycle and Bank's Balance Sheet Soundness /1

Credit to Enterprises
(In percent, contributions to growth)



Asset Quality and Unemployment Rate in Aruba
(In percent)



	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4
Credit cycle									
Credit/GDP (%)	56.3	55.1	56.8	57.4	57.5	78.0	79.0	79.9	78.9
Change in credit / GDP ratio (pp, annual)	0.0	0.8	1.9	1.5	1.2	22.9	22.1	22.5	21.4
Growth of credit / GDP (%, annual)	-0.1	1.4	3.5	2.7	2.1	41.5	39.0	39.3	37.1
Balance Sheet Soundness									
Balance Sheet Structural Risk									
Deposit-to-loan ratio (%)	146.2	143.9	142.5	137.9	146.4	146.6	146.8	143.5	149.5
Liquid assets to total assets (%)	29.8	28.7	27.6	26.5	29.3	29.7	32.5	31	33.7
Minimum liquid assets to total assets (%)	16	18	18	18	18	15	15	15	15
Balance Sheet Buffers									
Leverage									
Capital adequacy ratio (%)	32.1	32.4	31.9	33.3	31	31.7	31.9	32	33.5
Minimum CAR (%)	16	16	16	16	16	14	14	14	14
Profitability									
ROA	0.5	0.5	0.5	0.4	-0.1	0.3	-0.1	-0.1	0.4
ROE	2.7	2.9	2.9	2.5	-0.5	2.1	-0.6	-0.8	2.2
Asset quality									
NPL ratio	3.9	3.7	2.9	2.8	3.2	2.9	3.7	4.1	5
NPL ratio change (%, annual)	-2.5	-7.5	-27.5	-24.3	-23.1	-21.6	27.6	46.4	66.7

Sources: Central Bank of Aruba, and IMF staff calculations.

1/ Data for 2020Q4 are preliminary.

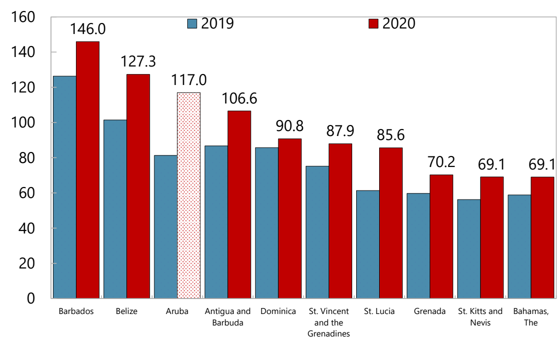
[3] Regression analysis suggests that the unemployment rate is a significant predictor of the NPL rate: a one percent increase in unemployment rate could raise the NPL rate by 0.7-1.4 percent based on the following specification $Y_t = a_t + b_1 Y_{t-1} + b_2 U_{1,t} + e_t$, where $Y_t = NPL_t / (1-NPL_t)$ and U_t is the unemployment rate, with a_t a coefficient on the constant term, and e_t standing for a residual.

Annex III. Fiscal Space and Size of the Adjustment[1]

Aruba faces high debt that could jeopardize medium-term debt sustainability and growth prospects. High public debt can be costly for the economy as it keeps borrowing costs high thus reducing the scope for other domestic spending, constrains fiscal flexibility, and weakens the ability to respond to future shocks. The fiscal accommodation to contain the economic fallout from COVID-19 will need to be compensated by high primary surpluses over a long period to set public debt on a firm downward trajectory towards the pre-COVID-19 target and rebuild fiscal space.

1. **Debt levels are projected to remain significantly higher than the pre-COVID-19 path.** Before the onset of the-COVID-19 pandemic, public debt was slated to decline over the medium term as the authorities were embarking on an ambitious fiscal adjustment program. Fiscal expenditures to mitigate the effects of the pandemic coupled with the loss of tax revenue have instead reversed the debt trajectory. Gross public debt is now estimated to increase from 72 percent of GDP in 2019 to 117 percent of GDP in 2020 and peak at 130 percent of GDP in 2021 before gradually declining to about 96 percent of GDP by 2026. The public debt service-to-revenue ratio would also amount to 50 percent in 2021 and remain high over the medium term, pointing to high liquidity vulnerabilities.

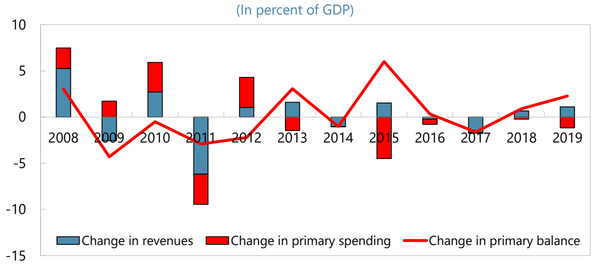
Public Debt in Selected Countries
(In percent of GDP)



Source: IMF's WEO database.

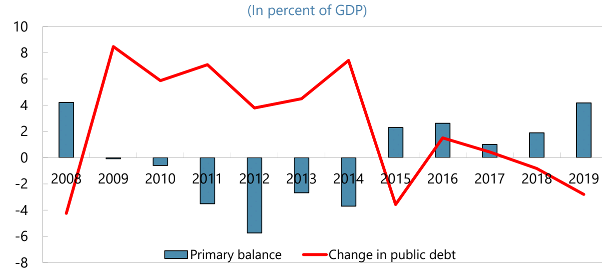
2. **Previous attempts to reduce the debt levels met with limited success.** Between 2008 and 2017, the debt to GDP ratio increased from about 40 percent to 75.8 percent, driven mainly by a deteriorating primary balance. While the debt build-up can, in part, be traced to the country's exposure to exogenous shocks, slow economic growth, and the closure of refinery activity in 2012, successive years of fiscal deficits, partly owing to the rapidly expanding social spending, contributed to increasing the debt burden. Starting 2015, the Aruban authorities implemented successive fiscal consolidation programs to progressively improve the country's fiscal position over the period 2015-2018 and again in 2019.

Contribution to Change in Primary Balance
(In percent of GDP)



Source: Authorities' data and IMF staff estimates.

Change in Public Debt and Primary Balance
(In percent of GDP)



Source: Authorities' data and IMF staff estimates.

[1] Prepared by Ali Al-Sadiq.

3. Substantial fiscal consolidation will be needed to bring public debt back to sustainable levels. The relaxation of the fiscal stance implemented in response to the COVID-induced recession will need to be compensated by increasing primary surpluses in the coming years to ensure that public debt is set on a downward trajectory towards the pre-crisis level. An illustrative consolidation scenario suggests that a cumulative primary adjustment of about 15 percent of GDP, starting in 2022, will be needed to reduce the debt-to GDP-ratio to its 2019 level by 2037. This implies increasing the primary surplus to 6 percent of GDP in the medium term and maintaining this level throughout the end of the forecasting horizon. Given the size of the necessary fiscal adjustment, there is a need to closely monitor implementation risks to minimize possible revenue shortfalls and overspending. Achieving debt sustainability and restoring fiscal space will require further adjustment complemented by a comprehensive and sustained package of structural reforms.

Aruba: Size of Fiscal Adjustments
(In percent of GDP)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	Overall adjustments
Total revenue and grants	21.6	21.9	22.6	23.5	24.3	24.3	24.5	24.5	24.5	24.5	24.5	24.5	24.5	24.5	24.5	24.5	24.5	2.5
Total expenditure	40.2	35.5	28.4	25.9	24.8	24.4	24.6	24.5	24.4	24.3	24.1	23.9	23.8	23.6	23.5	23.3	23.2	-12.4
Overall balance	**-18.6**	**-13.6**	**-5.9**	**-2.4**	**-0.5**	**-0.1**	**-0.2**	**-0.1**	**0.1**	**0.2**	**0.3**	**0.5**	**0.7**	**0.8**	**1.0**	**1.2**	**1.3**	**14.9**
Primary balance	**-13.0**	**-7.3**	**0.2**	**3.5**	**5.5**	**6.0**	**6.0**	**6.0**	**6.0**	**6.0**	**6.0**	**6.0**	**6.0**	**6.0**	**6.0**	**6.0**	**6.0**	**13.3**
Cyclically adjusted primary balance 1/	-9.1	-5.9	0.3	3.5	5.5	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	11.9
Total public debt	130.3	128.2	121.9	113.9	110.2	107.0	103.9	100.9	97.8	94.7	91.6	88.4	85.2	81.9	78.6	75.3	71.9	-56.4

Source: IMF staff calculations.
1/ In percent of potential GDP.

4. While sizeable, the drag on growth from the envisaged fiscal consolidation should be manageable. Relative to Aruba's own historical experience and in international comparison, the assumed adjustment is large. However, Aruba's own historical data suggest small medium-term fiscal multipliers, partly due to the strong "leakages" related to the open nature of the economy. Nevertheless, the adjustment process should be accompanied by an effective social safety net targeted to protect the most vulnerable. There is also evidence that the multiplier for public infrastructure spending tends to be large in small states, suggesting that the fiscal consolidation should preserve public investment in critical infrastructure, while ensuring its efficiency.

Annex IV. Risk Assessment Matrix[1]

Source of risks	Direction	Relative likelihood	Impact	Policy Response
External Risks				
Unexpected shift in the COVID-19 pandemic	Down	Medium	High. Setbacks in vaccine deployment or effectiveness, including for new virus strains, or widespread unwillingness to take vaccines continue limiting tourist arrivals to Aruba, worsening output, fiscal and external balances.	Expedite vaccination, leverage technology to ensure robust health and safety protocols (mobility tracing apps, digital health passports, hands-free and crowding control technologies).
	Up	Medium	High. Faster recovery from the pandemic or behavioral adjustment boost confidence and tourism flows.	Faster phase-out of COVID-19 related support measures.
Oversupply and volatility in the oil market	Up	Medium	Medium. Although Aruba remains highly dependent on imported fuel, adoption of renewable energy and improved energy efficiency in last 5 years reduced fuel imports by half.	Continue with the development of renewable energy and energy saving technologies.
Intensified geopolitical tensions and security risks	Down	High	Medium. Disorderly migration from Venezuela or higher commodity prices could put further pressure on the tourism industry and the wider economy.	Diversify tourism and product markets.
Higher frequency and severity of natural disasters related to climate change	Down	Medium	Low. Although Aruba is outside the (frequent) hurricane zone and it does not suffer from natural disasters regularly, its tourism-dependent economy is vulnerable to an increase in the frequency and severity of disastrous events.	Invest in resilient infrastructure, secure access to contingent credit facilities, include natural disaster clauses in new debt instruments, diversify the economy.
Domestic Risks				
Hysteresis in the domestic economy	Down	High	High. Bankruptcies, lower labor force participation and obstacles to resource reallocation, delay the recovery with negative effects on poverty and inequality.	Maintain social assistance programs and temporary support for firms, address employment and labor markets frictions.
Sharp rise in risk premia that exposes financial vulnerabilities	Down	Medium	High. Higher risk premia generate debt service and refinancing difficulties for leveraged firms, households, and the government.	Carefully calibrate the withdrawal of policy support, closely monitor financial vulnerability, devise a credible fiscal consolidation plan.
New renewable energy projects and reopening of the Refinery	Up	Low	Medium. Lower production costs, imports, and vulnerability to oil price volatility, investment and job gains, higher productivity and potential growth.	Strengthen the implementation of the ongoing renewable energy program. Accelerate the diversification of the economy.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

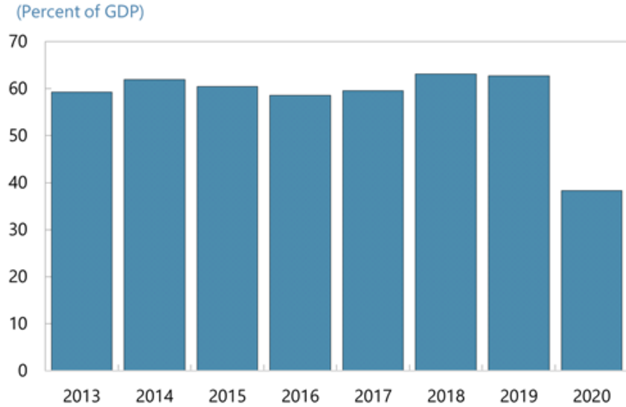
Annex V. External Sector Assessment 2020[1]

Aruba's external position in 2020 was weaker than the level implied by medium-term fundamentals and desirable policies. COVID-19 caused a near shutdown of tourism service receipts that reversed the current account surplus in 2019 to a substantial deficit in 2020. On a preliminary basis and adjusting for transitory factors, staff assess the real effective exchange rate (REER) as overvalued based on the IMF's EBA-lite current account model. However, this assessment is highly uncertain given the lack of full-year data for 2020 and the uncertainty regarding how rapidly the shock to tourism will unwind. International reserves remained above all metrics in 2020 and are expected to continue being adequate in 2021 primarily due to public external borrowing. Beyond 2021 and particularly from 2022 through the end of the medium-term, reserves are expected to decline below the IMF's recommended band of 100-150 percent of the risk weighted ARA metric. Hence, adequate coverage should be preserved to safeguard the peg. In addition to the gradual but uncertain rebound of the tourism sector, steady implementation of pro-growth structural reforms coupled with the government's effort to restore fiscal sustainability would buttress reserve accumulation while reducing external imbalances in the medium term.

A. Current Account

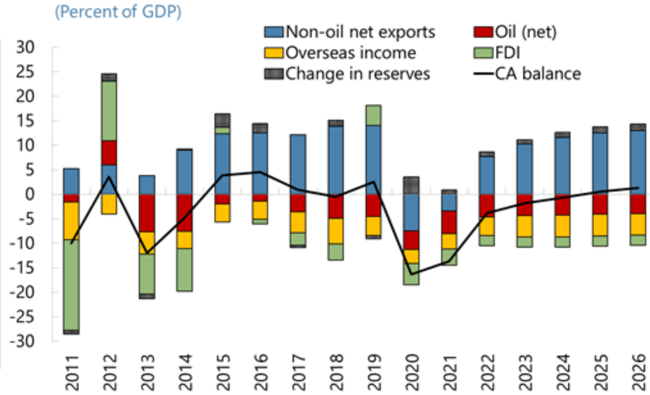
1. Background. Aruba is a small, open economy highly dependent on tourism. Over the past five years, the current account surplus has averaged 2.3 percent of GDP. However, the near shutdown of the tourism sector during the spring 2020 caused a sharp reduction in tourism receipts, which account for nearly 63 percent of GDP, and a reversal of the current account. In 2020, the current account is projected to turn into a deficit of 16.3 percent of GDP, with the collapse of tourism receipts partially offset by the contraction of tourism related imports and, to a lesser extent, reduced income outflows, including remittances.

Tourism Exports
(Percent of GDP)



Sources: Aruban authorities and IMF staff estimates.
Note: 2020 refers to IMF staff estimates.

Aruba: External Position
(Percent of GDP)



Sources: Aruban authorities and IMF Staff estimates.
Note: Negative FDI numbers denote inflows.

[1] Prepared by Pablo Bejar.

Aruba's Net International Investment position (NIIP) was -85.6 percent of GDP at end-2019, about 10 percentage point of GDP stronger than at end-2018 (-95.3 percent of GDP). The improvement was mostly on account of lower direct investment and, to a lesser extent, portfolio liabilities (in particular debt securities), and higher equity securities and other assets, amid a less than offsetting increase in loans. At end-2019, the gross external debt to GDP ratio fell by 2.3 percentage points compared to end-2018, to 89 percent of GDP, driven by a reduction in long-term debt.

2. Assessment. Staff analysis based on the EBA-lite current account model suggests that the external position in 2020 was weaker than the level implied by medium-term fundamentals and desirable policies. The 2020 current account deficit adjusted for the cycle and the COVID-related temporary shock to tourism[2] was 4 percent of GDP. The current account norm is estimated at -1.6 percent of GDP, resulting in a current account gap of -2.4 percent of GDP. Policy gaps contribute 9.6 percentage points to the model-estimated current account gap, almost entirely driven by the large reserve accumulation occurred in 2020, which was partially offset by a negative fiscal policy gap. However, the reserve buildup brought the stock of reserves to adequacy and government's efforts to restore fiscal sustainability once COVID-19 recedes will help strengthen the external position in the medium term.

Aruba: Model Estimates for 2020 (in percent of GDP)

	CA model	REER model
CA-Actual	**-16.3**	
Cyclical contributions (from model)	2.6	
Additional temporary/statistical factors 1/	14.8	
Natural disasters and conflicts	-0.1	
Adjusted CA	**-4.0**	
Multilaterally Consistent Cyclically adjusted CA Norm (from model) 2/	**-1.6**	
Adjustments to the norm	0.0	
Adjusted CA Norm	**-1.6**	
CA Gap	**-2.4**	**-8.8**
o/w Policy gap	9.6	
Elasticity	-0.4	
REER Gap (in percent)	**5.7**	**20.6**

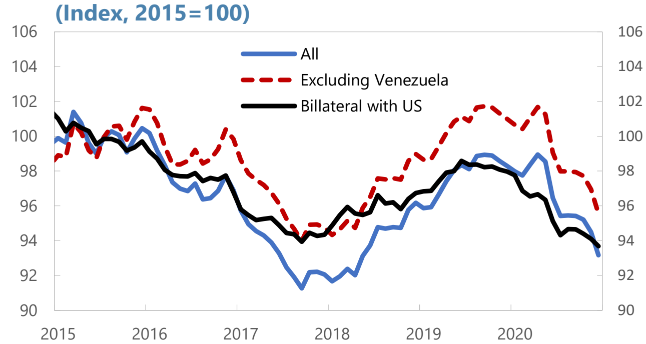
1/ The adjustment for additional temporary factors is based mainly in Aruba's tourism balance and the panel estimated elasticity of the CA and tourism balances based on annual data through 2019, and in a small proportion based in Aruba's oil balance and estimated elasticity of the CA and oil balances.
2/ Cyclically adjusted, including for multilateral consistency.

[2] The main adjustment for the temporary shock to tourism is calculated by multiplying the gap between the pre- and the post-COVID estimate of the tourism balance as percent of GDP by an elasticity of 0.6. The latter is obtained from a panel regression between the cyclically adjusted CA and the tourism balances in percent of GDP, after controlling for the effect on the CA balance through the relative output gaps and terms of trade.

B. Real Exchange Rate

3. Background. Aruba's REER had appreciated considerably since April 2018 (last assessment) particularly during the early months of the pandemic, but it has depreciated since May 2020. As a result, the REER during 2020 was 2.8 percent above its 2018 average, but 1.4 below the average in 2019. The bilateral real exchange rate with the US dollar depreciated on average compared to both years. Given the peg, such depreciation is attributable to the inflation differential.[3]

Real Effective Exchange Rate
(Index, 2015=100)



Source: INS database; and IMF staff calculations,
Note: Due to data limitations for Venezuala, the overall index's last values should be treated with skepticism after December 2016.

4. Assessment.[4] Using standard elasticities, the EBA-lite current account methodology suggests a REER overvaluation of 5.7 percent by end-2020. The EBA-Lite REER regression approach also points to an overvaluation, although wider, with a REER gap of 20.6 percent. However, caution is needed to interpret these results as the REER model has limitations to capture the recent volatility in the exchange rate and sizable but temporary current account deficits.

C. Reserve Adequacy

5. Background. As of September 2020, international reserves increased to US$1,225 million, or about 50 percent of GDP (a year-to-date increase of US$228 million) as the collapse in tourism receipts was more than offset by inflows of foreign financing, including the liquidity support provided by the Netherlands and domestic bond issuances denominated in US dollars, on the back of measures adopted by the CBA to limit capital outflows. FDI recorded net inflows driven by equity capital and real estate purchases by non-residents, as well as related debt instruments. Most importantly, however, substantial net inflows occurred under other investment driven by the tranches of liquidity support received from the Netherlands and, to a lesser extent, from the proceeds of government long-term bonds, and withdrawals from currency and deposit accounts held abroad by residents which more than offset the repayments in trade credit and advances.

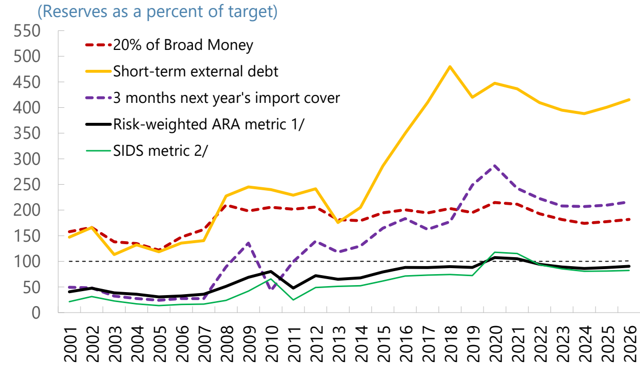
[3] Both staff and the authorities believe that the USD is the appropriate benchmark for Aruba's real effective exchange rate given the peg, bilateral tourism and trade dependence, and that Aruba's non-U.S. trade is largely in dollar denominated commodities.

[4] Despite the peg to the U.S. dollar, restrictions on capital mobility (dating back to 1986) allow for some monetary control in Aruba. The CBA has three main capital account restrictions: (i) commercial banks are not allowed to hold a net negative NFA position, and any foreign exchange in excess of a time-varying threshold needs to be sold to the CBA; (ii) institutional investors are obliged to invest at least 40 percent of the first Afl. 10 million of their liabilities locally, as well as 50 percent of the second Afl. 10 million, and 60 percent of the remainder, and (iii) individuals as well as companies, need foreign exchange licenses for transactions above specific thresholds. In addition, Aruba levies a foreign exchange tax (1.3 percent of the transactions value) on payments by residents to non-residents.

6. Assessment. With substantial external support from the Netherlands, foreign reserve coverage in 2020 and 2021 is estimated to exceed all adequacy metrics. However, over the medium term, foreign reserves are projected to decline slightly below the IMF's composite reserve adequacy (ARA) metric. In particular, foreign reserves are projected to cover over six months of next year's imports, but they are expected to fall on average to slightly below 90 percent of the risk weighted ARA metric in 2023-2026. Hence, some reserve build-up in the outer years is advised to maintain reserve coverage and safeguard the peg, given high uncertainty regarding the speed of the rebound in tourism receipts. While a gradual resumption of FDI inflows is expected over the medium-term, steady implementation of pro-growth policies and structural reforms that enhance the business environment would encourage FDI and portfolio inflows thus buttressing reserve accumulation, especially if coupled with continued government foreign financing of the budget deficit.

Reserve Adequacy

(Reserves as a percent of target)



Sources: Authorities' data and IMF Staff estimates.

Note: values >100 indicate reserves in excess of the metric recommended level.

1/ Risk-weighted ARA metric = 30% of STD at remaining maturity + 20% of other portfolio liabilities + 10% of broad money + 10% of exports (goods and services).

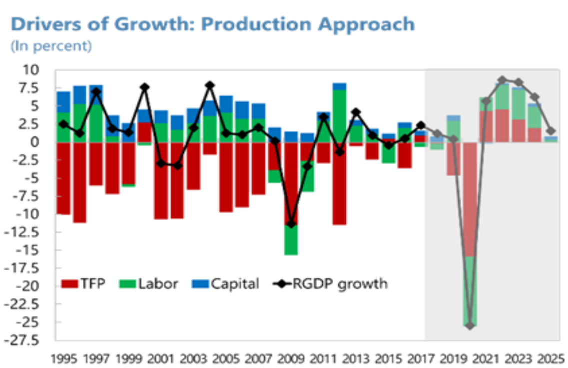
2/ SIDS metric = 95% of STD at remaining maturity + 10% of broad money + 35% of exports (goods and services).

Annex VI. Growth Accounting and Potential Output Estimates[1]

Aruba's income per capita, although still the second highest in the Caribbean, is on a declining path due to the subdued growth in the past two decades. A growth accounting exercise suggests that a persistent decline in total factor productivity (TFP) has been dragging the economy despite healthy growth in employment and the capital stock. Decisive structural reforms will help halt the decline in TFP, reversing its negative trend and positively contributing to economic growth in 2021-2025.

1. **A growth accounting exercise suggests that a persistent decline in TFP has been dragging the economy despite healthy growth in employment and the capital stock.** During 1995-2019, Aruba's real GDP grew on average at 1 percent per year, with 2.3 percent average output growth from 1995-2007 (despite a two-year recession in 2001-02), followed by a period of economic decline, by 0.3 percent on average, in 2008–2019. Growth performance in the second half of the sample was influenced by a deep recession in 2009 (-11.3 percent, y/y), followed by declines of 3.3 and 1.4 percent in 2010 and 2012 respectively. Growth in all but three years (2000, 2015, and 2017) was driven by capital formation and employment growth, while TFP contribution was negative.

Growth Accounting: Production Approach



Averages for period (in percent)	1995-2007	2008-2019	1995-2019	2020-2026
RGDP growth and its drivers:	**2.3**	**-0.3**	**1.0**	**0.9**
TFP growth contribution	-1.9	-1.5	-1.7	-0.1
Capital growth contribution	2.3	1.0	1.7	0.3
Labor growth contribution	1.8	0.2	1.0	0.7
Memo items:				
Average Capital Growth	6.7	2.9	4.9	0.7
Average Employment Growth	2.7	0.3	1.6	1.1
Average GDP Growth Per Worker	-0.5	-0.6	-0.5	-0.2
Average Capital Growth Per Worker	4.0	2.6	3.3	-0.3
Net Investment to Capital Stock	7.4	4.0	5.8	1.9
Gross Investment to Capital Stock	7.4	4.0	5.8	1.9
Annual Rate of Depreciation	1.2%	1.2%	1.2%	1.2%

Sources: Penn World Tables, United Nations, Central Bank of Aruba, and IMF staff calculations.

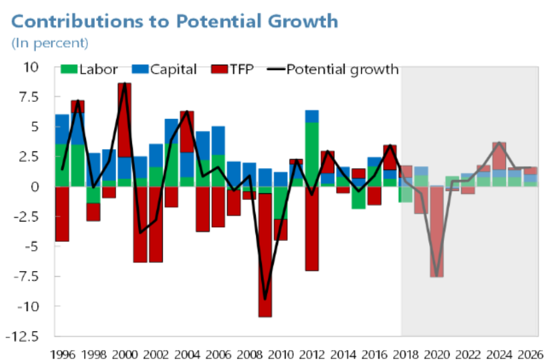
2. **Due to its residual nature, interpretation of the negative TFP contribution requires careful consideration.** It may reflect not only the level of productivity and technology in the economy but also structural impediments to growth and the specifics of Aruba's economic model. Its small open economy is highly dependent on tourism, and therefore subject to external shocks and spillovers. Measurement errors in capital and labor data and changes in their quality not reflected in the series also can contribute to such estimates. Also, the official growth estimates do not sufficiently cover the informal economy, which likely grew since 2016 due to an inflow of Venezuelan migrants, most of whom do not participate in the formal economy due to their irregular status.

[1] Prepared by Olga Bespalova.

3. Decisive structural reforms will help halt the decline in TFP. Aruba's Master plan identifies 95 pilots to boost economic growth. One of its priorities is the flexibilization of labor markets in parallel with the alignment of the legal position of the public sector workforce with private sector peers and a reduction of labor costs. The authorities' plan to introduce an unemployment insurance and simplify labor procedures will allow businesses to use labor resources more productively. Investment in education and continued training of the labor force will enhance the quality of human capital. Other priorities include the reduction of red tape, the improvement of process efficiencies and the enhancement of legislative capacity and regulatory innovation. Finally, digitalization initiatives (including e-government, national digital ID, a secure digital platform for data sharing, and a one-stop-shop for the entrepreneurs) will help improve productivity. If these reforms are steadily implemented, TFP is expected to reverse its negative trend and positively contribute to economic growth in 2021–2025.

4. Additional growth diagnostics allow a more accurate estimation of potential GDP and the output gap in support of policy decision-making. We assess Aruba's potential output using both the time-series filters and production approach—for the full sample and sub-samples. We find that Aruba's potential grew by 1 percent on average over 1995-2019. However, the potential growth was not even, with robust growth of 2.1 percent in 1995–2007 and -0.2 percent from 2008-2019. Implementation of the structural agenda is expected to bring potential growth to the average of 1.6 percent in 2021-2026. Notably, the HP filter produces very similar results.

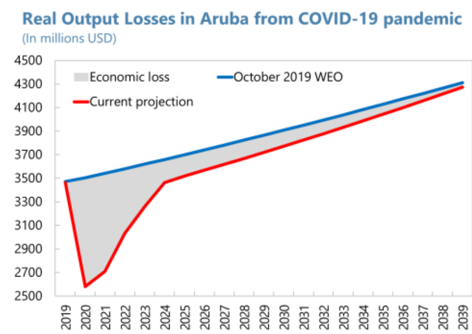
Potential GDP estimates



Year	Potential growth	Labor	Capital	TFP
1995-2007	2.1	1.6	2.3	-1.8
2008-2019	-0.2	0.3	1.0	-1.5
1995-2019	1.0	1.0	1.7	-1.6
2020-2026	0.6	0.6	0.3	-0.3
2021-2026	2.0	0.7	0.3	1.0

Sources: Penn World Tables, United Nations, Central Bank of Aruba, and IMF staff calculations.

5. Finally, we estimate the pandemic impact on the potential output in the medium-term and economic losses in the long-term. In real terms, real output returns to its 2019 level only in 2025. Compared to pre-pandemic projections (as of the October 2019 World Economic Outlook), Aruba' real output losses from COVID-19 amount to Afl. 5,626 million. Assuming a real interest rate of 3 percent, the net present value of these output losses over the next 30 years will amount to Afl. 4,654 million, or about 135 percent of 2019 real GDP.



Sources: October WEO (2019) and IMF Staff calculations.

INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS—ARUBA

March 31, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION DISCUSSIONS—INFORMATIONAL ANNEX

Prepared by Western Hemisphere Department

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FUND RELATIONS

(As of January 28, 2021)

Membership Status
The Kingdom of the Netherlands joined the Fund on December 27, 1945. On February 15, 1961, The Kingdom accepted the obligations of Article VIII, Section 2, 3, and 4 of the Articles of Agreement for all territories.

General Resources Account	**SDR Million**	**Percent of Quota**
Quota	8,736.50	100.00
Fund Holding of Currency	6902.44	79.01
Reserve Tranche Position	1,835.66	21.01

SDR Department	**SDR Million**	**Percent Allocation**
Net cumulative allocation	4,836.63	100.00
Holdings	4,907.40	101.46

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Obligations to Fund
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2021	**2022**	**2023**	**2024**	**2025**
Principal	. . .	. . .	. . .	. . .	. . .
Charges/Interest	0.06	0.06	0.06	0.06	0.06
Total	0.06	0.06	0.06	0.06	0.06

Implementation of HIPC Initiative
Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI)
Not Applicable

Implementation of Post-Catastrophe Debt Relief (CCR)
Not Applicable

Exchange Rate Arrangements
Aruba has a conventional peg; the Aruban florin has been pegged to the U.S. dollar at Afl. 1.79 per U.S. dollar since January 1, 1986. Prior to that, Aruba's currency was called the Antillean guilder, which maintained a peg against the US dollar (1 U.S. dollar = ANG 1.79) since 1971. Aruba maintains an unapproved exchange restriction arising from the foreign exchange tax on payments by residents to non-residents (1.3 percent of the transaction value).
In March 2020, the Central Bank of Aruba halted the issuance of new FX licenses, limiting most of the outgoing capital and also some current transactions. The following measures constitute new exchange restrictions: (i) prohibition on actual payment and/or transfer of dividends to non-resident shareholders, and of net income from other investment; (ii) restriction on

repayment and interest payments of loans below the relevant thresholds (i.e. Afl. 300,000 for natural persons and Afl. 750,000 for legal entities) obtained after March 17, 2020, and (iii) prohibition on payment of management fees to affiliated companies.

Last Article IV Consultation Discussions
Article IV consultation discussions with Aruba are conducted on a 24-month cycle. The Executive Board concluded the last Article IV consultation discussions on May 22, 2019. The staff report was published on June 5, 2019 (IMF Country Report No. 19/148).

Resident Representative: None

Technical Assistance

Department	Dates	Purpose
FAD	September 4-14, 2018	Assess Aruba's tax system and assist the authorities with developing reform options.
FAD/CARTAC	January 17-30, 2019	Assist in improving tax compliance and the efficiency and effectiveness of the tax administration.
CARTAC	September 16-27, 2019	Assess the external sector statistics (ESS) produced to enhance source data and produce revisions to ESS, such as: balance of payments (BOP), international investment position (IIP), Coordinated Direct Investment Survey (CDIS) and Coordinated Portfolio Investment Survey (CPIS).
FAD	November 6-19, 2019	Assess and assist the authorities to contain the public wage bill.
CARTAC	November 18-27, 2019	Review the supply and use tables for 2013 and revise current and constant price GDP by economic activity and by expenditure for 2013-18. Advice ways to improve the price indices and volume indicators, and the compilation methodology. Train local staff on the recommended changes in data sources and compilation methods. Propose the medium-term action plan to expand and improve real sector statistics.
CARTAC	July 27- August 12, 2020	Assess the consumer price index (CPI), and improve the price sample, data collection methods, and computation system.
CARTAC	August 24-28, 2020	Strengthen risk management capacity and customs administration.
FAD/CARTAC	August 24-October 6, 2020	Strengthen the fiscal risk framework, strategic approach to fiscal policy, and integration of the budget process with the Medium-term Budget Framework.

CARTAC	October 19- November 3, 2020	Improve the projection of macro and fiscal variables in the authorities' macroeconomic framework (MARUBA model), mainly by better linking of fiscal projections to macro variables, improve growth and tourism forecasts by linking tourism inflows and to external variables and benchmarking them to the WEO projections for other tourism-dependent countries in the region.

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Data provision is adequate for surveillance.
National Accounts: The Central Bureau of Statistics (CBS) has published revised GDP at current prices by both the production and expenditure approaches for the period 2000—18 (with preliminary numbers for 2018), and expect to publish the revised GDP at constant prices for 2013 as the base year in April. The Central Bank of Aruba (CBA) has estimated and disseminated total GDP at constant prices up to 2019, including the 2013-2019 for the 2013 base year; however, the GDP composition by the expenditure approach for the rebased series is not available. On the expenditure side, changes in inventories are included in capital formation. Moreover, the data on imports and exports of goods and services do not match balance of payments statistics, reflecting different methodological approaches and source data. Staff continues to use GDP in constant prices with base year 2000 from the CBA); adoption of the national accounts rebased to 2013 is delayed due to the absence of relevant deflators by expenditure.
Price Statistics: CPI data are compiled and published monthly by the CBS. The expenditure weights are based on a Household Income and Expenditure Survey conducted during May/June 2016 and are therefore reasonably up to date. However, the survey was conducted over a period of less than 12 months and therefore may have led to some seasonality bias. The main area for improvement of the CPI is its treatment of Housing, both for renters and owners. Further, the CPI survey does not collect data for actual housing rents, and therefore the actual rentals index is based on simple extrapolation of old estimates. In addition, there is no component for owner-occupied housing, which makes up a considerable part of the housing market in Aruba.
Government Finance Statistics: Government finance statistics are prepared and published on a regular basis, but not directly reported to STA. The presentation of the fiscal accounts could be improved in several respects. First, the residual expenditure category in transfers and subsidies (that can amount to 9.9 percent of GDP in 2020) should be disaggregated. Second, some items such as net lending should be below-the-line. Third, the presentation could be further improved by providing more details on government tax arrears as a below-the-line entry in the fiscal tables. Finally, quarterly data on government operations need to contain more details on revenues and expenditures and could be reported based on the GFSM 2014.

Monetary and Financial Statistics: The CBA regularly reports monthly monetary and financial statistics (MFS) to STA, but the data are not yet reported in the Standardized Report Forms (SRFs) developed by STA. The current MFS data are compiled with deviations from the recommended methodology, such as a lack of detailed currency and sectoral breakdown of financial instruments. Data for Other Financial Corporations are not reported. Aruba reports data on several indicators of the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs). **Financial sector surveillance:** Aruba does not report financial soundness indicators (FSIs) for dissemination on the IMF's FSI website. However, the CBA regularly publishes the FSI data.	
External Sector Statistics: The CBA reports quarterly balance of payments and an annual international investment position (IIP) statistics to STA. Timeliness of quarterly BOP reporting to STA has improved considerably; although the latest reported to the STA IIP pertains to 2016, and the Coordinated Direct Investment Survey (CDIS) data to 2015; however, the annual IIP series are disseminated through the Annual Statistical Digest from the Central Bank of Aruba web-site up to 2019. More recently, data on the Coordinated Portfolio Investment Survey (CPIS) was updated for the period 2017 to June 2020. Monthly data on the official reserve position are published with a lag of one month. A breakdown in holdings of gold and foreign exchange is provided. Aruba does not participate in the World Bank's Quarterly External Debt Statistics (QEDS) database; however, it disseminates annual data on gross external debt position by sector—including a breakdown by maturity and instrument—in its Annual Statistical Digest. A debt survey covering both public and private sectors provides information on the amount, currency denomination of foreign debt outstanding, as well as on disaggregation by instrument and amortization payments coming due.	
II. Data Standards and Quality	
Aruba started participating in the Fund's enhanced General Data Dissemination System (e-GDDS) on August 16, 2017, with metadata posted on the IMF's Dissemination Standards Bulletin Board (DSBB).	No data ROSC has been conducted in Aruba.

Aruba—Table of Common Indicators Required for Surveillance (As of January 28, 2021)					
	Date of Latest Observation	Date Received	Frequency of Data /6	Frequency of Reporting /6	Frequency of Publication /6
Exchange Rates	Current	Current	M	D	D and M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities	11/20	01/21	M	N/A	A, Q, M
Reserve/Base Money	11/20	01/21	M	M	A, Q, M
Broad Money	11/20	01/21	M	M	A, Q, M
Central Bank Balance Sheet	11/20	01/21	M	M	A, Q, M
Consolidated Balance Sheet of the Banking System	11/20	01/21	M	M	A, Q, M
Interest Rates /2	Q3/2020	12/20	Q	Q	A, Q
Consumer Price Index	11/2020	01/21	M	M	A, Q, M
Revenue, Expenditure, Balance and Composition of Financing /3—General Government /4	Q3/2020	12/20	Q	Q	A, Q
Revenue—Central Government	Q3/2020	12/20	Q	Q	A, Q, M
Stock of Central Government Debt /5	Q3/2020	12/20	Q	Q	A, Q
External Current Account Balance	Q2/2020	11/20	Q	Q	A, Q
Exports and Imports of Goods and Services	Q2/2020	11/20	Q	Q	A, Q
GDP/GNP	2019	1/21	A	A	A
Gross External Debt	2019	12/20	A	A	A
International Investment Position	2019	12/20	A	A	A

1/ Includes reserve assets pledged or otherwise encumbered.
2/ Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
3/ Includes foreign, domestic bank, and domestic nonbank financing.
4/ General government consists of the central budget and the Development Fund of Aruba. Composition of financing published only annually.
5/ Including by domestic and foreign holders and instruments.
6/ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

KINGDOM OF THE NETHERLANDS—ARUBA

March 31, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION DISCUSSIONS—DEBT SUSTAINABILITY ANALYSIS[1]

Approved By
Aasim M. Husain (WHD) And Martin Sommer (SPR)

Prepared by the Staff of the International Monetary Fund

The severe GDP contraction due to COVID-19 and the fiscal response that followed led to a sharp rise in the budget deficit and public debt in 2020. The consequent increase in Aruba's public debt vulnerabilities reflects the high debt burden and gross financing needs and sustainability hinges on the assumption that the authorities would continue to receive financial support on favorable terms from the Netherlands. Under the baseline scenario, central government debt will rise from 72 percent of GDP in 2019 to 117 percent in 2020, peak in 2021 at 130 percent of GDP, and gradually decline to about 96 percent of GDP by 2026. Gross financing needs are expected to remain elevated at around 14 percent of GDP over 2021–26. Debt dynamics are vulnerable to a real growth rate shock and worsened primary balance, but risks are partly mitigated by the possibility of conversion of the loans extended by the Netherlands into grants. Total external debt is projected to peak at 132 percent of GDP in 2021 and gradually decrease over the medium term while remaining well above pre-COVID levels, and is sensitive to current account and real exchange rate shocks. Once the economic recovery is on a stable footing, substantial and sustained fiscal consolidation will be needed to put public debt on a firm downward path to restore debt sustainability.

[1] Prepared by Ali Al-Sadiq and Pablo Bejar.

PUBLIC DEBT

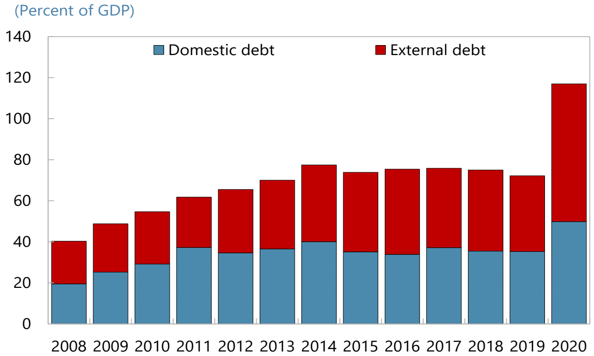
A. Background

1. DSA debt perimeter. For the purpose of this DSA, the debt perimeter covers the central government sector due to a lack of consolidated general government[2] and public sector data and excludes short-term debt which is roughly 2 percent of GDP. Prior to the COVID-induced recession, the debt of state-owned enterprises (SOEs) presented low fiscal risk to the central government as the three largest SOEs (Aruba Airport Authority, Aruba Port Authority, and Utilities Aruba) were profitable companies with good credit standing. While the balance sheets of these entities have deteriorated as a result of the pandemic, to date there are no explicit contingent liabilities or guarantees.

2. Debt developments. Public debt increased sharply in 2020 as a result of COVID-19. In 2019, the public debt stock had declined from 75 to 72 percent of GDP mainly as a result of the authorities' fiscal consolidation efforts. However, this downward trend was abruptly reversed in 2020 with the outbreak of the pandemic. The combination of a sharp GDP contraction (projected at 25.5 percent in real terms) and the deterioration of the primary deficit to 11.7 percent of GDP due to lower revenues and COVID-19 response measures resulted in a sharp increase in Aruba's public debt ratio to 117 percent of GDP. The debt-to-GDP ratio significantly exceeds the emerging market debt burden benchmark of 70 percent of GDP over the projection horizon.[3]

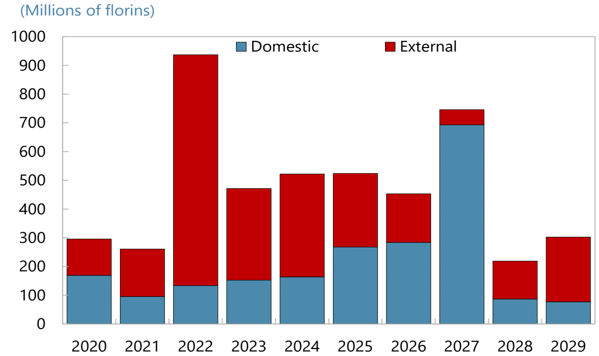
3. Debt profile. Domestic debt, which accounts for about 49 percent of total gross public debt, stood at 35 percent of GDP at end-2019 while external debt amounted to 37 percent of GDP. Aruba's debt profile is dominated by medium- and long-term maturities, which mitigates debt sustainability risks.

Public Debt Evolution
(Percent of GDP)



Sources: Authorities' data and IMF staff estimates.

Outstanding Amortization Schedule
(Millions of florins)



Sources: Authorities' data and IMF staff estimates.

[2] Besides the central government (GOA), the general government includes the general health insurance (AZV), the social security fund (SVB), the waste collection and management entity (Serlimar), the Aruba Tourism Authority (ATA), the University of Aruba (UA), and the Foundation for Basic Professional Education (SEPB).

[3] All ratios to GDP reflect the revised nominal GDP series published by the Aruba Central Bureau of Statistics on February 22: https://cbs.aw/wp/index.php/2021/02/22/gdp-data-series-2000-2018/. Hence, these ratios are not comparable with those published in previous DSAs.

B. Baseline Scenario

4. **Macroeconomic assumptions.** The macroeconomic and policy assumptions follow the team's baseline projections. Starting in 2021, the economy is projected to gradually recover from the COVID-19-induced contraction and expand at 5 percent of GDP, with average annual GDP growth of 5.7 percent over the forecast horizon. Inflation is expected to remain low. The overall deficit, which widened to 17 percent of GDP in 2020, is expected to remain high at 18.6 percent of GDP in 2021 due to weak recovery in tax revenues and continued COVID-19 related spending. The deficit is expected to decline over the medium-term to 1 percent of GDP by 2024 before turning positive, corresponding to a primary surplus of about 5.4 percent of GDP. [4]

5. **Debt projections**. Under current policies, public debt is forecast to peak at 130 percent of GDP in 2021 and gradually decline over the medium term to 96 percent of GDP in 2026 as improvements in the primary balance and continued economy recovery offset adverse real interest rate dynamics. The primary deficit is projected to reach 13 percent of GDP in 2021 and gradually declines to turn to positive thereafter, exceeding the debt stabilizing primary balance of 1.7 percent of GDP by 2023.

6. **Gross financing needs (GFNs).** Under the baseline, GFNs are projected to remain elevated over the medium term and be met by debt-creating flows, peaking in 2022 at 25 percent of GDP and gradually declining to an average of about 8.8 percent of GDP over 2023-26. More than half of GFNs in 2021 are expected to be financed by the continued liquidity support from the Dutch government, who also agreed to cover external debt repayments in 2021-22, amounting to Afl. 523 million. Beyond 2021, about half of GFNs are assumed to be met through domestic borrowing, with external borrowing covering the remaining part.

C. Shocks and Stress Tests

7. **Debt dynamics and GNFs remain vulnerable to macroeconomic risks.** Shocks to the baseline macroeconomic variables further worsen the debt path and increase GFNs, with the debt ratio remaining well above the high-risk MAC-DSA benchmarks for emerging market economies. Results of stress tests simulated by staff are summarized below:

- **Primary balance shock.** Under this scenario, the primary balance is assumed to deteriorate by 4.9 percentage points (a half standard deviation) relative to the baseline over the projection horizon. This would result in public debt increasing to 107 percent of GDP by 2026 (10.7 percentage points of GDP higher than in the baseline). GFNs would average 14.6 percent of GDP over the projection horizon.

- **Growth shock.** A one standard deviation shock (8.6 percent) to real GDP growth, for two consecutive years starting in 2022, would substantially raise public debt to146 percent of GDP in

[4] Although Aruba is a high scrutiny case, the realism outputs from the MAC-DSA are not included as Aruba has a limited forecast history making them relatively uninformative.

2023 before gradually declining to 130 percent by 2026. GFNs during 2022–23 will exceed the benchmark of 15 percent of GDP for emerging economies and slightly return to below the threshold by 2026, averaging 11.5 percent of GDP. Debt service would absorb about 61.5 percent of total revenues in 2026.

- **Real interest rate and real exchange rate shocks.** Under the real interest rate shock scenario, the real interest rate is increased by 384bps over 2022–26.[5] In the real exchange rate shock scenario, the nominal exchange rate depreciates by 5 percent over 2022–26. The debt level and GFNs would moderately increase relative to the baseline, resulting in increase of debt ratio by 5.5 and 3.1 percentage points, respectively.

- **Combined macro-fiscal shock.** A combination of various macro-fiscal shocks—growth, inflation, primary balance, exchange rate depreciation, and an increase in real interest rate—would raise the debt ratio to 147 percent of GDP in 2026 while GFNs would exceed the benchmark of 15 percent of GDP, averaging 19.9 percent of GDP. The debt service-to-revenue ratio would jump to 76 percent, 28 percentage points higher than in the baseline. Differently from other scenarios, the debt-to-GDP ratio enter a modest decreasing trend due to the long-term impact on debt service.

8. **The heat map indicates heightened risks from the debt level and high financing needs even in the baseline scenario.** However, these risks would be mitigated somewhat by the low share of short-term debt. Furthermore, the fan charts reflect very high uncertainty surrounding the public debt trajectory over the medium term.

D. Risk Assessment

9. **Aruba's sizable debt burden and GFNs continue posing risks to debt sustainability.** Aruba's debt ratio significantly exceeds the 70 percent of GDP benchmark for emerging market economies throughout the projection horizon. GFNs average 14 percent of GDP and remain significantly larger than their pre-COVID-19 level. Risks to debt sustainability are high, but partly mitigated by the sizable share of obligations to the Dutch government and the possibility of refinancing and/or restructuring those loans, including converting some of them into grants. Implementing substantial and sustained fiscal consolidation over the medium term will be necessary to put public debt on a firm downward path, with limited scope for deviations from the established consolidation path.

EXTERNAL DEBT

10. **The external debt-to-GDP ratio is also on the rise.**[6] External debt is estimated to have increased to 131 percent of GDP at end-2020 from 89 percent of GDP in 2019. The surge was triggered by both a rise

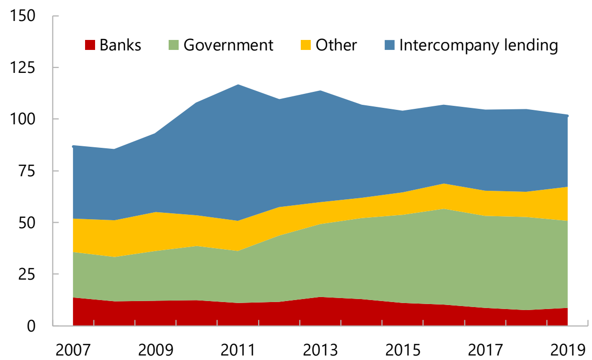
[5] In this scenario, the interest rate is assumed to increase by the difference between the average real interest rate level over projection and maximum real historical level.

[6] External debt (gross, public and private) includes government, central bank, commercial banks, other sectors, and intercompany lending.

in central government borrowing and a drop in nominal GDP as a result of COVID-19. Most external debt has a long-term maturity, is denominated in U.S. dollars and is held by the central government, private firms, and commercial banks.

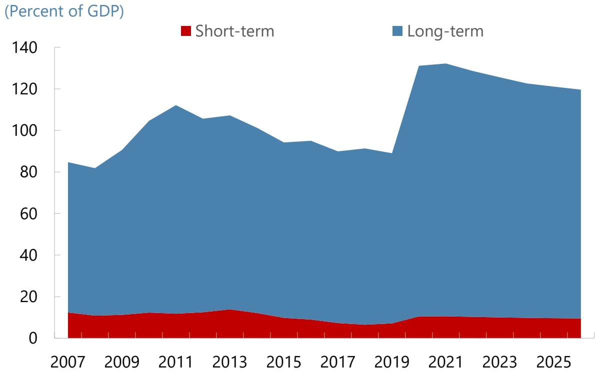
11. External debt is projected to remain high in the medium term. Under the baseline, external debt peaks at 132 percent of GDP in 2021 and declines gradually to reach about 120 percent of GDP by 2026. It may rise above the current baseline if the government increases reliance on external borrowing to meet its financial needs over the medium term.

External Debt By Issuer
(Percent of GDP)



Source: Authorities' data.

External Debt By Maturity
(Percent of GDP)



Sources: Authorities' data and IMF staff estimates.

12. Aruba's external debt remains vulnerable to shocks. The non-interest current account balance that stabilizes Aruba's external debt profile corresponds to a deficit 0.4 percent of GDP. The results of the stress tests show that external debt is sensitive to current account and exchange rate shocks. An increase in the current account excluding interest payments by half a standard deviation in each year from 2021 onwards would set external debt on an upward trajectory to reach 143.8 percent of GDP in 2026. A one-time real exchange rate depreciation of 30 percent in 2021 would make external debt peak at 146.8 percent of GDP in 2021 before it gradually declines to reach 130.7 percent of GDP by 2026. In a combined shock scenario, where permanent ¼ standard deviation shocks are applied to the real interest rate, growth rate, and the current account balance, the external debt debt-to-GDP ratio reaches 133 percent in 2026.

Figure 1. Aruba: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

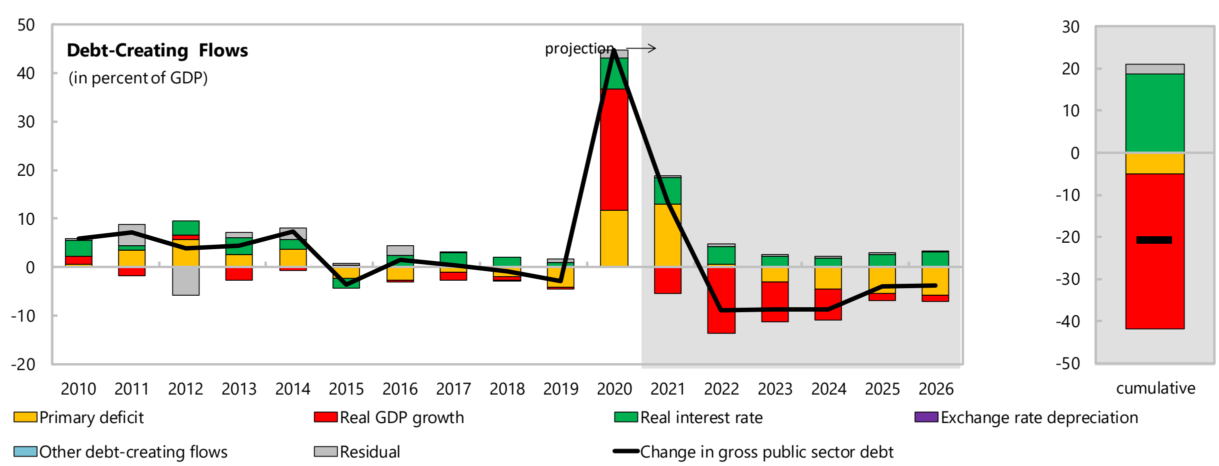
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026
Nominal gross public debt	69.9	72.2	117.0	130.3	121.4	112.7	103.9	99.9	96.2
Public gross financing needs	8.8	4.4	23.7	24.6	25.0	11.3	9.4	8.1	6.2
Net public debt	68.9	71.2	115.6	129.0	120.2	111.6	102.9	98.9	95.2
Real GDP growth (in percent)	0.8	0.4	-25.5	5.0	12.0	7.5	6.3	1.6	1.4
Inflation (GDP deflator, in percent)	1.8	3.9	-1.3	0.1	2.0	3.2	3.3	2.7	2.1
Nominal GDP growth (in percent)	2.6	4.4	-26.5	5.1	14.2	10.9	9.8	4.3	3.6
Effective interest rate (in percent) [4/]	5.4	5.3	5.4	5.0	5.5	5.4	5.3	5.4	5.3

As of November 09, 2020		
Sovereign Spreads		
EMBIG (bp) 3/		270
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	n.a.	n.a.
S&Ps	BBB+	BBB+
Fitch	BB	BB

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	2.9	-2.8	44.8	13.4	-8.9	-8.7	-8.8	-4.0	-3.8	-20.8	
Identified debt-creating flows	2.4	-3.5	43.0	12.9	-9.3	-9.1	-9.1	-4.3	-4.1	-23.0	
Primary deficit	0.9	-4.2	11.7	13.0	0.6	-3.0	-4.5	-5.4	-5.8	-5.1	1.7
Primary (noninterest) revenue and grants	23.1	23.7	24.4	21.6	21.7	23.7	24.0	24.4	24.6	140.0	
Primary (noninterest) expenditure	24.0	19.6	36.0	34.6	22.3	20.6	19.5	19.1	18.8	134.9	
Automatic debt dynamics [5/]	1.4	0.7	31.3	-0.1	-9.9	-6.0	-4.6	1.0	1.7	-17.9	
Interest rate/growth differential [6/]	1.4	0.7	31.3	-0.1	-9.9	-6.0	-4.6	1.0	1.7	-17.9	
Of which: real interest rate	2.0	1.0	6.3	5.5	3.7	2.2	1.8	2.6	3.1	18.8	
Of which: real GDP growth	-0.6	-0.3	25.0	-5.5	-13.6	-8.2	-6.4	-1.6	-1.4	-36.7	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization/Drawdown of deposits (+financing)(negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.6	0.7	1.7	0.4	0.4	0.4	0.3	0.3	0.3	2.2	



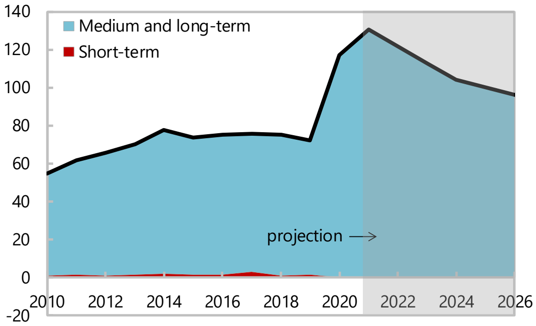
Source: IMF staff.
1/ Public sector is defined as central government.
2/ Based on available data.
3/ Long-term bond spread over U.S. bonds.
4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate;
a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Aruba: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

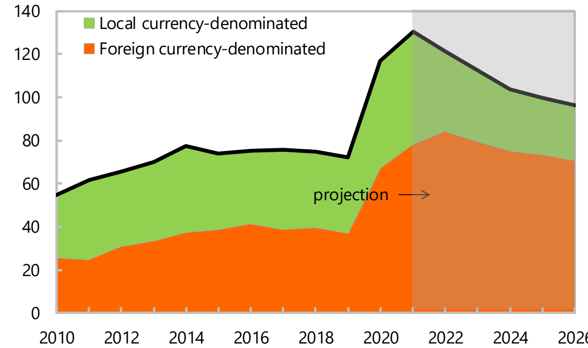
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

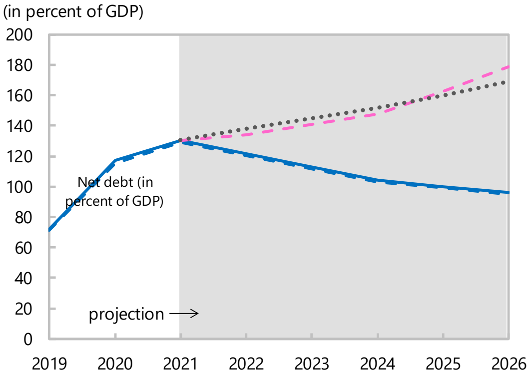


Alternative Scenarios

Baseline — Historical — Constant Primary Balance

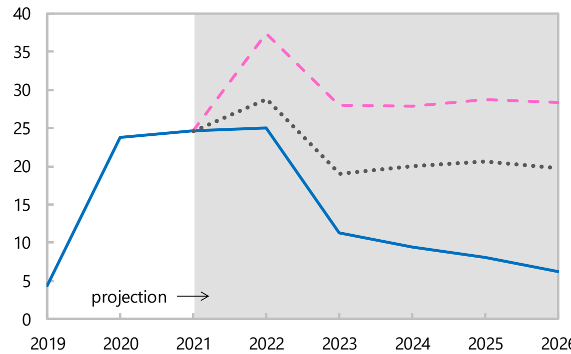
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	5.0	12.0	7.5	6.3	1.6	1.4
Inflation	0.1	2.0	3.2	3.3	2.7	2.1
Primary Balance	-13.0	-0.6	3.0	4.5	5.4	5.8
Effective interest rate	5.0	5.5	5.4	5.3	5.4	5.3
Constant Primary Balance Scenario						
Real GDP growth	5.0	12.0	7.5	6.3	1.6	1.4
Inflation	0.1	2.0	3.2	3.3	2.7	2.1
Primary Balance	-13.4	-13.4	-13.4	-13.4	-13.4	-13.4
Effective interest rate	5.0	5.5	5.4	4.9	5.3	5.4

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	5.0	-1.4	-1.4	-1.4	-1.4	-1.4
Inflation	0.1	2.0	3.2	3.3	2.7	2.1
Primary Balance	-13.4	-1.5	-1.5	-1.5	-1.5	-1.5
Effective interest rate	5.0	5.5	5.5	5.4	5.6	5.6

Source: IMF staff.

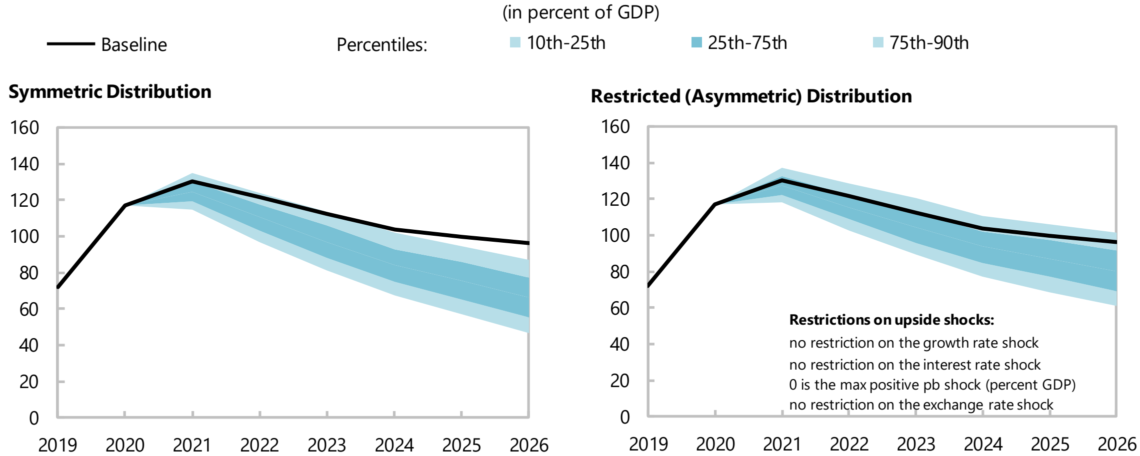
Figure 3. Aruba: Public DSA Risk Assessment 2020-2025

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

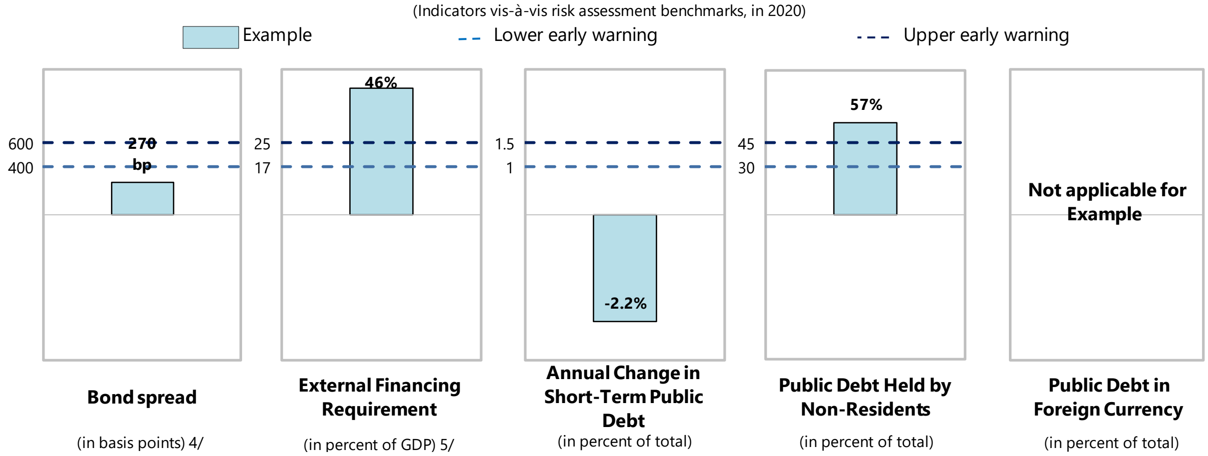
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 85% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 20% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

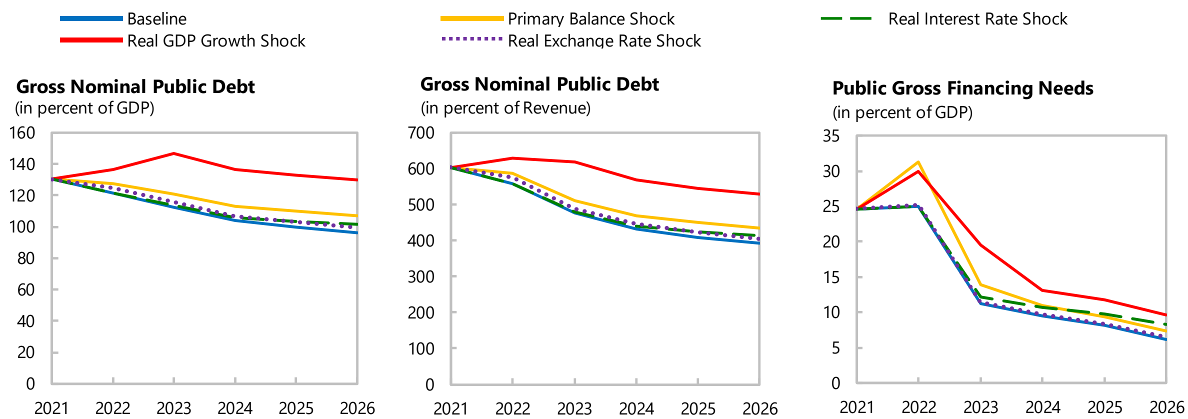
400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 11-Aug-20 through 09-Nov-20.

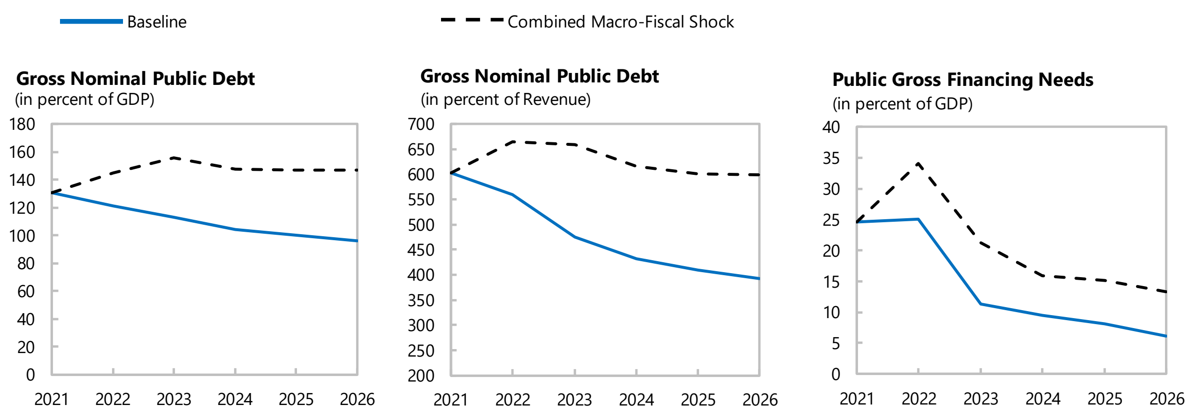
5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 4. Aruba: Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

	2021	2022	2023	2024	2025	2026
Primary Balance Shock						
Real GDP growth	5.0	12.0	7.5	6.3	1.6	1.4
Inflation	0.1	2.0	3.2	3.3	2.7	2.1
Primary balance	-13.4	-7.2	0.9	3.4	4.6	5.3
Effective interest rate	5.0	5.5	5.8	5.7	5.7	5.7
Real Interest Rate Shock						
Real GDP growth	5.0	12.0	7.5	6.3	1.6	1.4
Inflation	0.1	2.0	3.2	3.3	2.7	2.1
Primary balance	-13.4	-1.0	2.7	4.1	5.0	5.5
Effective interest rate	5.0	5.5	6.2	6.5	6.9	7.2
Combined Shock						
Real GDP growth	5.0	3.3	-1.1	6.3	1.6	1.4
Inflation	0.1	-0.2	1.0	3.3	2.7	2.1
Primary balance	-13.4	-7.2	-2.1	3.4	4.6	5.3
Effective interest rate	5.0	5.6	6.3	6.5	6.9	7.3

	2021	2022	2023	2024	2025	2026
Real GDP Growth Shock						
Real GDP growth	5.0	3.3	-1.1	6.3	1.6	1.4
Inflation	0.1	-0.2	1.0	3.3	2.7	2.1
Primary balance	-13.4	-3.4	-2.1	4.1	5.0	5.5
Effective interest rate	5.0	5.5	5.5	5.5	5.5	5.5
Real Exchange Rate Shock						
Real GDP growth	5.0	12.0	7.5	6.3	1.6	1.4
Inflation	0.1	2.1	3.2	3.3	2.7	2.1
Primary balance	-13.4	-1.0	2.7	4.1	5.0	5.5
Effective interest rate	5.0	5.6	5.4	5.3	5.3	5.3
Contingent Liability Shock						
Real GDP growth						
Inflation						
Primary balance						
Effective interest rate						

Source: IMF staff.

Appendix V. Aruba: External Debt Sustainability Framework, 2014-2026

(In percent of GDP, unless otherwise indicated)

	Actual								Projections								
	2014	2015	2016	2017	2018	2019	10-Year Historical Average	10-Year Standard Deviation	2020	2021	2022	2023	2024	2025	2026	For debt stabilization	Debt-stabilizing non-interest current account 6/
Baseline: External debt	101.3	94.3	95.0	90.0	91.3	89.0			**131.2**	**132.3**	**128.6**	**125.6**	**122.7**	**121.1**	**119.7**		**-0.4**
Change in external debt	-6.0	-7.0	0.8	-5.1	1.4	-2.3			42.1	1.1	-3.6	-3.1	-2.9	-1.6	-1.4	0.0	
Identified external debt-creating flows (4+8+9)	-6.3	-8.5	-6.1	-6.9	-5.9	-2.3			40.6	1.1	-3.0	-2.2	-2.2	-1.1	-1.3	0.0	
Current account deficit, excluding interest payments	2.4	-6.2	-7.2	-3.6	-2.3	-5.2			10.9	2.0	-0.4	-0.9	-1.1	-1.4	-1.6	0.4	
Deficit in balance of goods and services	-1.4	-10.4	-11.2	-8.6	-9.0	-9.6			11.3	8.0	-3.1	-5.9	-7.3	-8.5	-9.1		
Exports	82.3	82.4	78.6	74.6	79.9	76.7			54.0	54.3	69.6	74.0	76.6	78.8	80.4		
Imports	80.9	72.0	67.4	65.9	70.9	67.0			65.2	62.2	66.5	68.1	69.3	70.3	71.3		
Net non-debt creating capital inflows (negative)	-8.7	1.3	-0.9	-2.6	-3.3	4.0			-4.1	-0.8	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	
Automatic debt dynamics 1/	-0.1	-3.5	2.0	-0.7	-0.4	-1.1			33.8	-0.1	-2.1	-0.8	-0.5	0.8	0.8	0.1	
Contribution from nominal interest rate	2.4	2.3	2.6	2.6	2.7	2.7			4.5	1.4	1.4	1.3	1.3	1.3	1.2	0.7	
Contribution from real GDP growth	-0.9	0.4	-0.5	-2.1	-1.0	-0.4			29.3	-1.5	-3.5	-2.2	-1.8	-0.5	-0.4	-0.2	
Contribution from price and exchange rate changes 2/	-1.5	-6.3	-0.2	-1.2	-2.0	-3.5			...	...	...	...	...	...	...	-0.4	
Residual, incl. change in gross foreign assets (2-3) 3/	0.4	1.5	6.9	1.8	7.3	0.0			1.5	0.0	-0.6	-0.8	-0.8	-0.4	-0.2	0.0	
External debt-to-exports ratio (in percent)	123.0	114.3	120.9	120.6	114.4	116.1			243.1	243.8	184.8	169.8	160.1	153.7	148.9		
Gross external financing need (in billions of US dollars) 4/	1.0	0.7	0.7	0.7	0.8	0.7			1.2	1.2	1.1	1.1	1.2	1.2	1.2		
in percent of GDP	36.2	24.4	22.4	24.2	24.4	20.0			50.1	48.0	36.7	34.2	32.3	31.1	30.0		
Scenario with key variables at their historical averages 5/									**86.5**	**85.8**	**85.2**	**84.6**	**84.2**	**83.9**	**0.0**		**-3.5**
Key Macroeconomic Assumptions Underlying Baseline																	
Nominal GDP (US dollars)	2.8	3.0	3.0	3.1	3.2	3.3			2.5	2.6	2.9	3.3	3.6	3.7	3.9	4.0	
Real GDP growth (in percent)	0.9	-0.4	0.5	2.3	1.2	0.4	0.8	2.2	-25.5	5.0	12.0	7.5	6.3	1.6	1.4	1.4	
Exchange rate appreciation (US dollar value of local currency, c	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
GDP deflator (change in domestic currency)	1.4	6.6	0.2	1.3	2.3	3.9	2.0	2.2	-1.3	0.1	2.0	3.2	3.3	2.7	2.1	2.1	
GDP deflator in US dollars (change in percent)	1.4	6.6	0.2	1.3	2.3	3.9	2.0	2.2	-1.3	0.1	2.0	3.2	3.3	2.7	2.1	2.1	
Nominal external interest rate (in percent)	2.3	2.5	2.8	2.9	3.1	3.1	2.4	0.6	4.0	4.6	4.7	4.6	4.5	4.3	4.2	4.2	
Growth of exports (US dollar terms, in percent)	6.5	6.3	-4.0	-1.7	10.9	0.2	16.1	94.5	-48.2	5.6	46.5	17.8	13.8	7.3	5.7		
Growth of imports (US dollar terms, in percent)	-0.1	-5.5	-5.8	1.4	11.4	-1.3	11.4	78.3	-28.4	0.2	22.1	13.5	11.7	5.9	5.0		
Current account balance, excluding interest payments	-2.4	6.2	7.2	3.6	2.3	5.2	-0.7	8.2	-10.9	-2.0	0.4	0.9	1.1	1.4	1.6		
Net non-debt creating capital inflows	8.7	-1.3	0.9	2.6	3.3	-4.0	3.4	8.4	4.1	0.8	0.5	0.5	0.5	0.5	0.5		

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

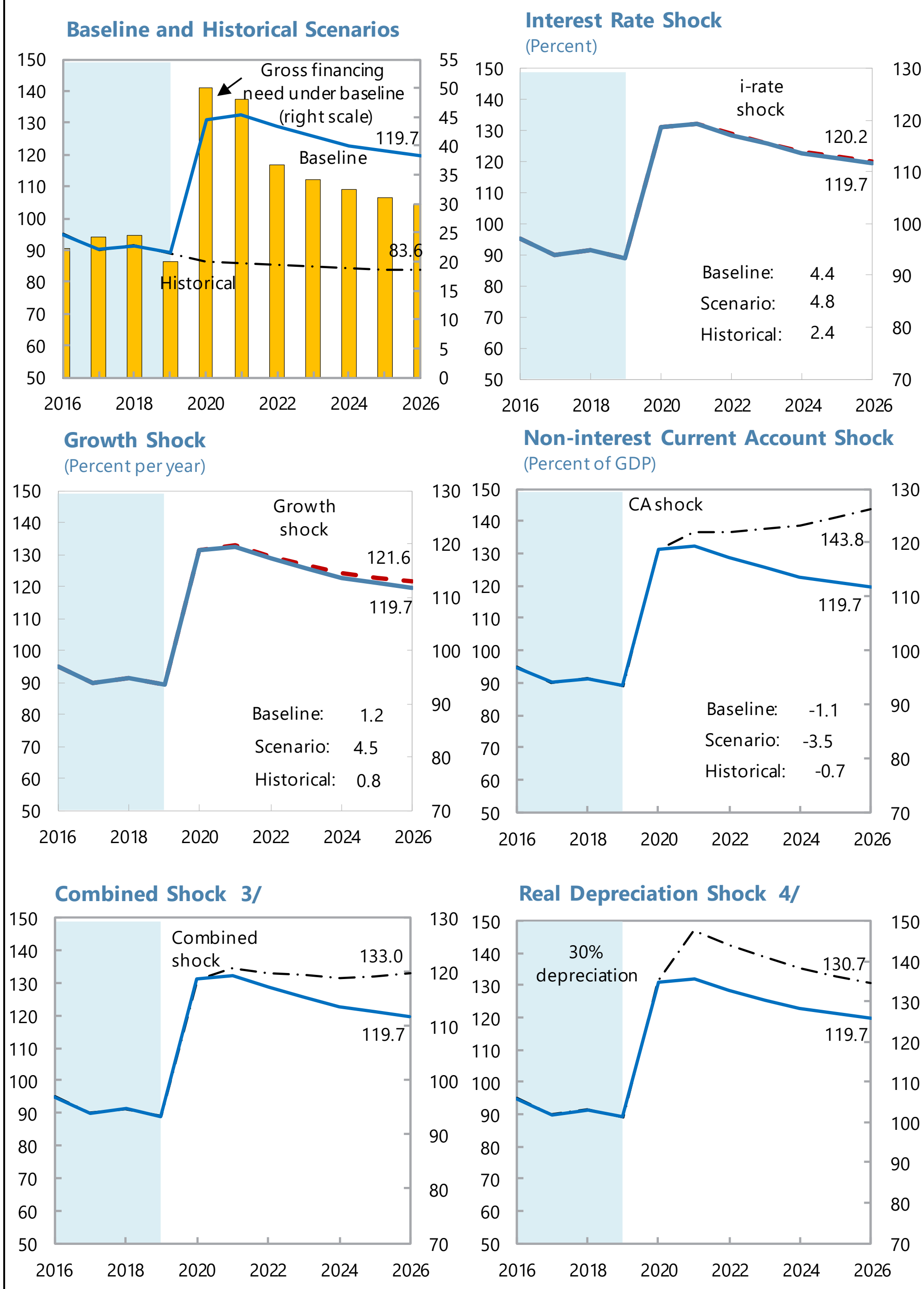
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 5. Aruba: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: IMF country desk data; and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2021.

INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS—ARUBA

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION DISCUSSIONS—SUPPLEMENTARY INFORMATION

April 12, 2021

Prepared By Western Hemisphere Department

This statement reports on developments that occurred since the staff report was issued to the Executive Board. This supplementary information does not alter the thrust of the staff appraisal.

1. **One year into the pandemic Aruba is enduring its fourth wave of infections.** Since mid-March the number of active COVID-19 infections started increasing again, reaching a peak in early April. Active cases are currently about 0.5 percent of the population, and the total infection rate (including visitors), reached 8.6 percent, closely trailing the US. However, the peak of the wave has already passed, and the healthcare system remains resilient. Vaccinations advance steadily: so far almost 20 percent of the population has been vaccinated, about 9 percent having received the second dose.

2. **On March 29, the Dutch government approved the fifth tranche of budgetary financial support.** This tranche, amounting to about 5 percent of GDP (Afl. 237 million), covers liquidity needs for 2021Q2 and is also in the form of 2-year interest-free loans.

3. **The Aruban government resigned on March 30.** The resignation followed the announcement by the Public Prosecutor that a criminal investigation is taking place into misuse of public money by one of the coalition parties. Early elections have been scheduled for June 25, ahead of the general elections previously scheduled for September. The incumbent government will stay on until then with a caretaking status without introducing significant policy changes, and the 2021 budget proposal was submitted to Parliament on March 31. The Netherlands stated that cooperation on financial support and other issues will not change due to the resignation.

4. **While the macroeconomic outlook is subject to increased uncertainty, the thrust of the staff appraisal remains unchanged.** Although economic activity could be further disrupted by the intensification of the COVID-19 outbreak and reintroduction of containment measures, the fifth tranche of financial support ensures undisrupted provision of public services and emergency fiscal support in Q2. Given continuity of previously announced policies until early elections take place and continued cooperation with the Netherlands, the above developments do not alter the thrust of staff analysis and appraisal