INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/284

KINGDOM OF THE NETHERLANDS—ARUBA

2023 ARTICLE IV CONSULTATION DISCUSSIONS—PRESS RELEASE; AND STAFF REPORT

July 2023

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 2023 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 June 2, 2023, 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 July 6, 2023.
- An **Informational Annex** prepared by the IMF staff.

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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IMF Executive Board Concludes 2023 Article IV Consultation with the Kingdom of the Netherland—Aruba

FOR IMMEDIATE RELEASE

Washington, DC – **July 27, 2023:** On end of lapse-of-time date, July 24, 2023, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV discussions[1] with the Kingdom of the Netherlands—Aruba.

Economic activity rebounded strongly. Real GDP grew by 27.6 percent in 2021 and further expanded by 7.3 percent in 2022, reinforced by the recovery of tourist arrivals following the lifting of the restrictions introduced during the pandemic. Inflation has moderated and was 4.9 percent in April, driven by imported energy and food prices and the increases of electricity and water tariffs in August 2022. The unemployment rate decreased to 6.6 percent by June 2022 and appears to have fallen further in subsequent months. The banking sector remains well-capitalized, liquid, and profitable. Banks have been lending at a slow pace in 2022 which picked up in early 2023. The strong tourism recovery contributed to further improving the external and fiscal positions. Public debt has declined.

The economy is expected to grow at a moderate pace in 2023 as the post-pandemic rebound in tourist arrivals wanes. Inflation is projected to decelerate with slowing domestic demand and lower international commodity prices. The overall fiscal balance is expected to display a surplus in 2023 and over the medium term, reducing the central government debt to 71 percent of GDP by 2028. The current account surplus is projected to narrow over the medium term as tourism growth moderates, averaging 8.1 percent of GDP. Foreign reserves are expected to remain adequate at around 7.9 months of total imports by 2028.

Risks to the outlook are tilted to the downside. A steeper-than-expected global slowdown, especially in the U.S., could reduce tourist arrivals. Climate change is an ever-present risk through both rising sea levels and more volatile weather events. Domestically, risks to the outlook are largely related to the potential of insufficient fiscal adjustment (which would raise financing needs and slow the pace of debt reduction).

Executive Board Assessment

The Aruban economy recovered strongly from the pandemic. This reflects a quick return of tourists following the lifting of restrictions introduced during the pandemic. High global energy and food prices have boosted inflation, but these effects are now reversing. In 2023, the economy is expected to expand at a moderate rate and inflation should decelerate. Risks to the outlook are tilted to the downside. The external position is assessed to be substantially stronger than the level implied by fundamentals and desirable policies. Substantial revisions to

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. At the request or with the consent of the member, IMF staff may hold separate discussions with respect to territories or constituent parts of a member. These Article IV consultation discussions form a part of the member's Article IV consultation. In such cases, a staff team visits the territory or constituent part, collects economic and financial information, and discusses with officials the territory or constituent part's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board, which in turn constitutes an integral part of the member's AIV consultation for the relevant cycle.

2018-19 GDP point to potential measurement problems in the National Accounts data and represent an important capacity development need.

The planned tightening of fiscal policy in 2023 is appropriate, considering the strength of the recovery. The plan to keep nominal current expenditure at last year's level while introducing several tax measures to increase revenues will help improve the country's fiscal position. The authorities are encouraged to quickly introduce their remaining agenda for tax reform to ensure the 2023 fiscal target can be comfortably met. A contingency plan should be developed, to be activated if revenue inflows begin to fall below those levels assumed in the budget.

Fiscal surpluses will be needed over the medium term. A broad-based value-added tax should be introduced to replace the current indirect tax system and there is scope to improve tax compliance. Containing the wage bill, reprioritizing spending on goods and services, and streamlining transfers and subsidies would all create fiscal space to improve the social safety net and increase capital spending. The planned public expenditure review, undertaken by the World Bank, should help inform these efforts.

Long-term fiscal risks related to the pension system need to be tackled. Increasing the contribution rate and/or reducing the replacement rate would help bolster the solvency of the system.

Strengthening the medium-term fiscal policy framework would anchor the path for debt reduction. A well-designed medium-term budget framework—guided by a debt anchor and pre-determined escape clauses for unexpected events—would support fiscal discipline and sustainability. It would also allow the authorities to communicate their medium-term plans more effectively. A sound debt management strategy would help mitigate macro-financial risks.

The Central Bank of Aruba (CBA) is encouraged to reduce the reserve requirement rate over time. With declining inflation and foreign reserves at adequate levels, there is scope to lower reserve requirements over time to avoid disincentivizing a deepening of financial intermediation.

The CBA needs to remain vigilant to vulnerabilities in the financial system. Close monitoring of underwriting standards of real estate lending is warranted. Formally introducing a cap on the loan-to-value and debt service-to-income ratio for borrowers, and further developing a comprehensive macroprudential policy framework would help identify and manage risks. These efforts should be supported by better, more granular, timely data, including on non-bank financial institutions. A more structured approach to liquidity and solvency stress testing, that is firmly tied to a range of underlying macroeconomic scenarios, would be valuable. Aruba should move quickly to adopt Basel II international standards.

There is scope to improve the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) and international tax transparency frameworks. This would involve strengthening technical compliance and the effectiveness of the AML/CFT framework and resolving issues related to the implementation of the Organization for Economic Cooperation and Development (OECD) standards on the exchange of tax information.

Supply side reforms are needed to raise potential growth. Policies to increase the value added of tourism will be critical to support medium-term growth. Reforms that remove obstacles to doing business, promote greater labor market flexibility, boost productivity, and lessen gender gaps in the labor market will all be important.

The authorities are encouraged to bring governance framework in line with the United Nations Convention Against Corruption. This should include improving the capacity of the Integrity Bureau, establishing codes of conduct for public servants, and requiring detailed asset declarations from senior public servants.

Increasing resilience to climate change is a priority. A concrete action plan for adaptation would help prioritize infrastructure investments that improve the physical resilience of low-lying areas. These investments should be incorporated into the overall medium-term fiscal framework. Progress should be accelerated in costing climate change adaptation needs and developing a national climate resilience strategy.

Table 1. Aruba: Selected Economic Indicators, 2018–2023

Basic Data, Social and Demographic Indicators

Area (sq. km)	180	Literacy rate (percent, 2020)	98.0
Population (thousands, 2022q2)	107.4	Percent of population below age 15 (2021)	16.8
Population growth rate (percent, 2018-22 average)	-0.2	Percent of population age 65+ (2021)	15.5
Nominal GDP (millions of USD, 2020)	3,521	Life expectancy at birth (years, 2021)	74.6
GDP per capita (thousands of USD, 2020)	32.8		
Unemployment rate (percent, 2020)	6.6		

	Average 1996-2021	2018	2019	2020	2021	Est. 2022	Proj. 2023
				(Percent change)			
Real Economy							
Real GDP	1.8	2.4	-2.3	-24.0	27.6	7.3	2.3
GDP Deflator	1.9	3.5	6.1	-.09	-5.0	5.7	3.2
Consumer Prices							
Period average	2.2	3.6	3.9	-1.3	0.7	5.5	4.5
End-period	2.2	4.5	3.6	-3.1	3.6	5.7	3.2
				(Percent of GDP)			
Central Government Operations							
Revenues	22.9	22.2	23.4	24.0	19.7	21.4	22.8
Expenditures	26.3	24.9	23.7	40.2	28.9	21.8	22.0
Of which: capital	1.3	0.9	0.5	0.8	0.3	0.4	0.3
Overall Balance	-3.4	-2.6	-0.2	-16.2	-9.2	-0.5	0.8
Primary Balance	-1.7	1.1	3.5	-11.1	-4.8	3.4	4.5
Cyclically Adjusted Primary Balance (percent of potential GDP)	-0.3	1.1	4.3	-5.9	-4.4	3.2	4.3
Gross Central Government Debt	59.0	73.3	71.1	112.3	101.8	90.7	85.4
Savings and investment							
Gross Investment	26.7	22.4	22.4	22.7	20.8	19.0	16.7
Of which: public	1.3	0.9	0.5	0.8	0.8	1.0	0.8
External Saving	0.6	0.5	-2.6	12.4	-2.7	-11.2	-7.5
Domestic Saving	26.0	21.9	25.0	10.3	23.5	30.2	24.2
Balance of Payments							
Current Account Balance	-0.6	-0.5	2.6	-12.4	2.7	11.2	7.5
Oil	1.3	-4.8	-4.4	-3.7	-6.1	-8.5	-6.6
Non-oil	-1.9	4.2	7.0	-8.7	8.8	19.7	14.0

Table 1. Aruba: Selected Economic Indicators, 2018–2023 (concluded)

	Average 1996-2021	2018	2019	2020	2021	Est. 2022	Proj. 2023
Balance of Payments							
FDI	2.1	3.5	-4.0	5.5	4.5	4.1	3.9
Gross Official Reserves (USD millions)	674	995	999	1,234	1,534	1,564	1,576
Gross Official Reserves (months of next year's imports)	2.9	5.3	7.3	7.6	7.6	7.3	7.2
External debt	86.8	89.3	87.6	132.9	119.0	102.3	85.9
	(Millions of Aruban florins, unless otherwise indicated)						
Monetary							
NFA of Banking System	1,133	1,776	1,713	2,056	2,885	3,112	3,157
NDA of Banking System	1,846	2,602	2,856	2,741	2,481	2,435	2,699
Credit to private sector (percent change)	4.9	3.6	6.6	0.3	-1.4	1.7	3.1
Broad money	2,979	4,378	4,569	4,797	5,366	5,546	5,856
Deposits (percent change)	9.0	0.8	8.0	4.6	18.2	7.6	5.6
Memorandum items							
Nominal GDP (millions of Aruban florins)	4,395	5,864	6,078	4,580	5,555	6,303	6,655
Nominal GDP (millions of U.S. dollars)	2,455	3,276	3,396	2,559	3,103	3,521	3,718
Unemployment rate (percent, 2022H1)	8	7.3	5.2	8.6	8.8	6.6	…

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.

INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS—ARUBA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION DISCUSSIONS

July 6, 2023

KEY ISSUES

Context. The Aruban economy recovered to the pre-pandemic level of real GDP by 2022, supported by a robust rebound in tourism. The fiscal position has been improving but the debt-to-GDP ratio remains above the pre-pandemic level. The banking sector is well capitalized, liquid, and profitable. Restoring macroeconomic balance and bolstering medium-term growth are the principal policy tasks facing the authorities.

Outlook and Risks. Growth is expected to moderate to 2.3 percent in 2023 and inflation is projected to fall to 3.2 percent. A steeper-than-expected global slowdown, especially in the U.S., and an insufficient fiscal adjustment are the key risks facing the economy.

Policy Recommendations

- **Fiscal policy**. Public debt should be kept on a firm downward path through a well-articulated medium-term fiscal framework and concrete fiscal measures. The authorities' planned scaling up of public investment will need to be financed through revenue increases and expenditure savings and supported by a robust framework for public investment management.

- **Liquidity management**. Bank reserve requirements should be lowered over time to release liquidity and support increased financial intermediation.

- **Financial policies**. The central bank should strengthen financial oversight including through the development of macroprudential tools to mitigate risks to financial stability.

- **Structural policies**. Policies should be focused on increasing the value added of tourism. Improving governance and advancing efforts for climate change adaptation will also be critical.

Approved By
Nigel Chalk (WHD) and Fabian Bornhorst (SPR)

The team comprised of Takuji Komatsuzaki (head), Ali Al-Sadiq, Olga Bespalova, and Minnie Park (all WHD). Discussions took place in Oranjestad, Aruba during May 22–June 2, 2023. Carlijn Eijking (OED) attended key meetings. The mission held discussions with Prime Minister Evelyn Wever-Croes, Minister of Finance Xiomara J. Ruiz-Maduro, Central Bank President Jeanette R. Semeleer and their teams, and other public and private sector counterparts. Soungbe Coquillat (WHD) assisted with the preparation of this report.

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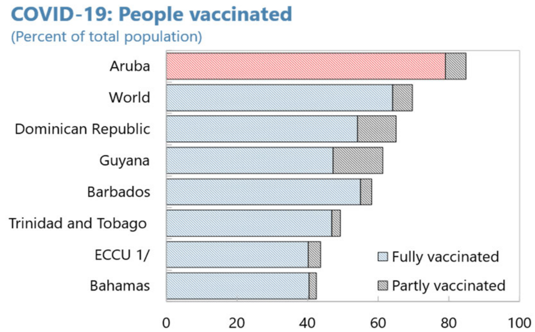
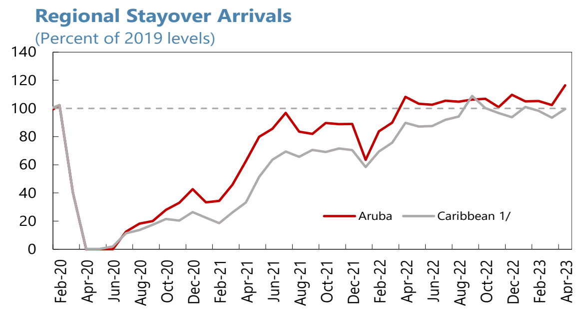
ANNEXES

CONTEXT

1. Aruba's tourism-reliant economy has bounced back from the pandemic.[1] Tourism—the main engine of growth—was brought to a sudden stop in 2020 as containment measures and temporary border closures were put in place to contain the virus spread. Real GDP contracted by an unprecedented 24 percent in 2020 and both the current account and fiscal balances deteriorated. A rapid vaccine rollout, supported by the Netherlands, and decisive policy actions helped Aruba to reopen to tourists earlier than other Caribbean peers. By the second quarter of 2022, tourist arrivals had risen above pre-pandemic levels.



Sources: Our World in Data and IMF staff calculations.
1/ Average vaccination rate of member countries excluding St. Kitts and Nevis. Data as of end-March 2023.



Sources: Caribbean Tourism Organization, ECCB, national authorities and IMF staff calculations.
1/ Caribbean is defined as 14 destinations:
AIA, ABW, ATG, BHS, BRB, BLZ, CUW, DMA, GRD, JAM, KNA, LCA, SXM, and VCT.

2. The 2021 election returned the incumbent Prime Minister Evelyn Wever-Croes to office. The 2021 general election resulted in nine seats to the incumbent *Movimiento Electoral di Pueblo* and seven seats to the opposition *Aruban People's Party*. The remaining five seats were taken by three smaller parties. The Prime Minister formed a coalition with RAIZ which gave her the majority in the 21-seat Parliament. The next general election is in 2025.

3. Restoring macroeconomic balance and increasing medium-term growth are the authorities' principal policy tasks. The ongoing economic recovery provides an opportunity to implement fiscal reforms that put public finances on a more sustainable footing. Decisive actions are also needed to strengthen competitiveness as well as invest in climate change adaptation.

4. The government has made some progress in implementing past Fund policy advice (Annex I). Past recommendations highlighted the importance of fiscal consolidation and advancing the structural reform agenda which included labor market reform, improving the business environment, and better governance. The authorities introduced several tax measures in early 2023 to increase revenues while reducing the tax burden on labor income (Box 2). Capital flow management measures and exchange restrictions imposed due to COVID-19 crisis were removed in September 2021, in line with staff advice.

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

RECENT DEVELOPMENTS

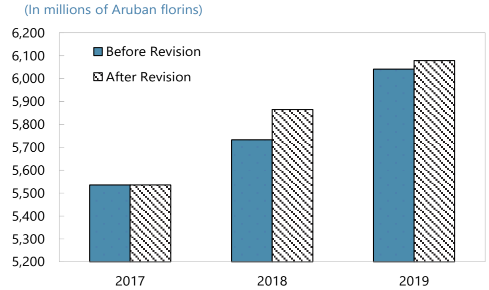
5. **Economic growth rebounded strongly as the pandemic waned**. Real GDP grew by 27.6 percent in 2021, as vaccines were rolled out, tourists returned, and the stimulative effects of fiscal, monetary, and financial measures continued to be felt. The pandemic-related measures were withdrawn by the end of 2021 and growth slowed to 7.3 percent in 2022. The output gap turned positive in 2022 and the unemployment rate decreased to 6.6 percent by June 2022 (and appears to have fallen further in subsequent months). There were substantial revisions to 2018-2019 GDP, which are still subject to uncertainty and points to a capacity development need (Box 1).

Box 1. Recent National Account Revisions

Earlier this year, the Aruban authorities revised up nominal GDP by 2.3 and 0.7 percent for 2018 and 2019, respectively. The Central Bank of Aruba (CBA) has made unofficial estimates of the GDP deflators for both years which resulted in a significant upward revision in the change of GDP deflator (of almost 1.2 percentage points in 2018). As a result, real output was revised downwards by 7.1 and 12.6 percent for 2018 and 2019, respectively.

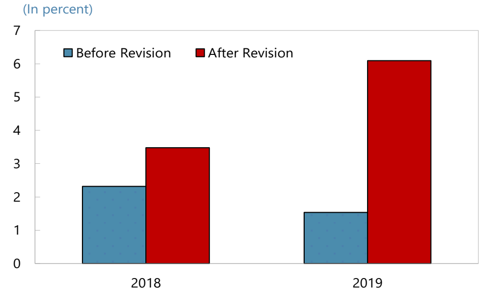
This GDP data is likely to be revised further in the coming year. The 2019 nominal GDP is still preliminary and is subject to further revisions next year. The revisions will also prompt revisions in GDP deflators. Capacity development to finalize and publish official GDP deflators is underway through the Caribbean Regional Technical Assistance Centre (CARTAC).

Nominal GDP Level
(In millions of Aruban florins)



Source: Aruban Authorities.

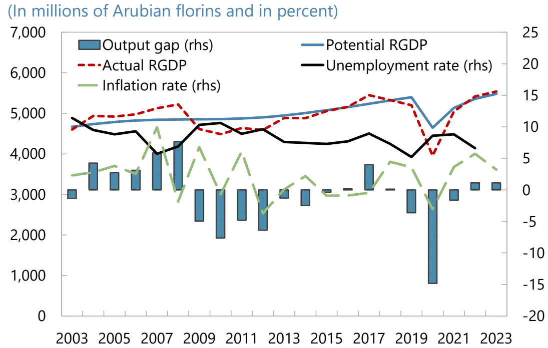
GDP Deflator Growth
(In percent)



Source: Aruban Authorities.

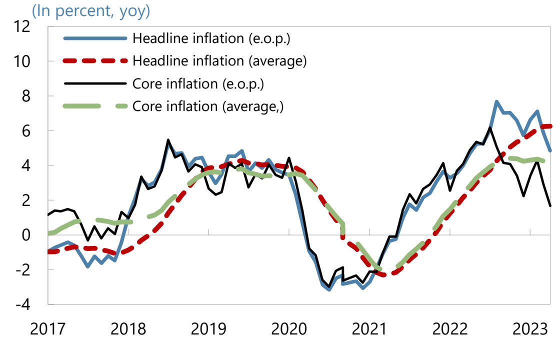
Real Sector Developments

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



Sources: Aruban authorities and IMF staff calculations.

Inflation: Consumer Price Index
(In percent, yoy)



Source: Central Bank of Aruba.

6. High global energy and food prices added to inflation in 2022. After peaking at 7.7 percent in August 2022, headline inflation fell to 4.9 percent in April 2023. Despite some price controls for staples, food prices remain high (9.4 percent above that of a year ago, Annex II).

7. The economic recovery and the roll back of pandemic-related measures have lowered the fiscal deficit from 16.2 percent of GDP in 2020 to 0.5 percent of GDP in 2022. The rebound in tourism added almost 2 percent of GDP to tax revenues and the end of the pandemic-related measures saved 7 percent of GDP in spending. Central government debt has fallen from 112.3 percent of GDP in 2020 to 90.7 percent of GDP at end-2022. Aruba's long-term foreign debt rating has been upgraded from BB to BB+ by Fitch in March 2023, on account of the strong post-pandemic growth and fiscal adjustment.

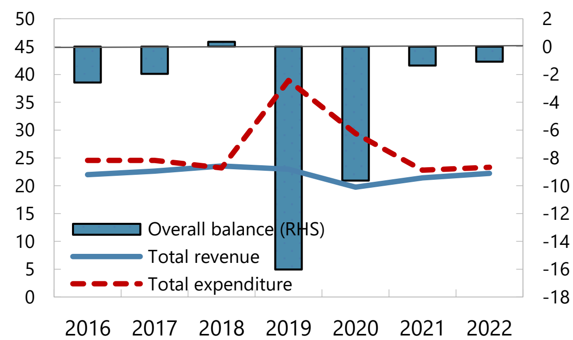
Fiscal Sector Developments

Fiscal Outcomes Relative to the Budget: 2021-2022
(Percent of GDP)

	2021		2022	
	Budget	Outcome	Budget	Outcome
Total revenue and grants	**19.6**	**19.7**	**20.2**	**21.4**
Tax revenue	16.9	16.9	16.7	18.7
Direct taxes	6.9	6.9	7.4	8.0
Indirect taxes	10.0	10.0	9.3	10.6
Non-tax revenue	2.7	2.8	3.5	2.7
Total expenditure	**29.6**	**28.9**	**24.0**	**21.8**
Current expenditure	29.2	28.5	23.3	21.4
Wages	5.9	5.9	5.4	5.3
Employer's contribution	1.6	1.6	1.4	1.4
Goods and services	3.2	3.3	3.4	2.9
Interest payments	4.4	4.4	4.0	3.9
Transfers and subsidies	14.1	13.4	9.1	7.8
Capital expenditure	0.38	0.3	0.7	0.4
Overall balance	**-9.9**	**-9.2**	**-3.8**	**-0.5**
Primary balance	-5.6	-4.8	0.2	3.4
Memorandum Items:				
Financial balance (Authorities' concept)	--	-9.4	--	-0.7
Total Public Debt	--	101.8	--	90.7

Sources: Ministry of Finance and IMF staff calculations.

Fiscal balance
(Percent of GDP)

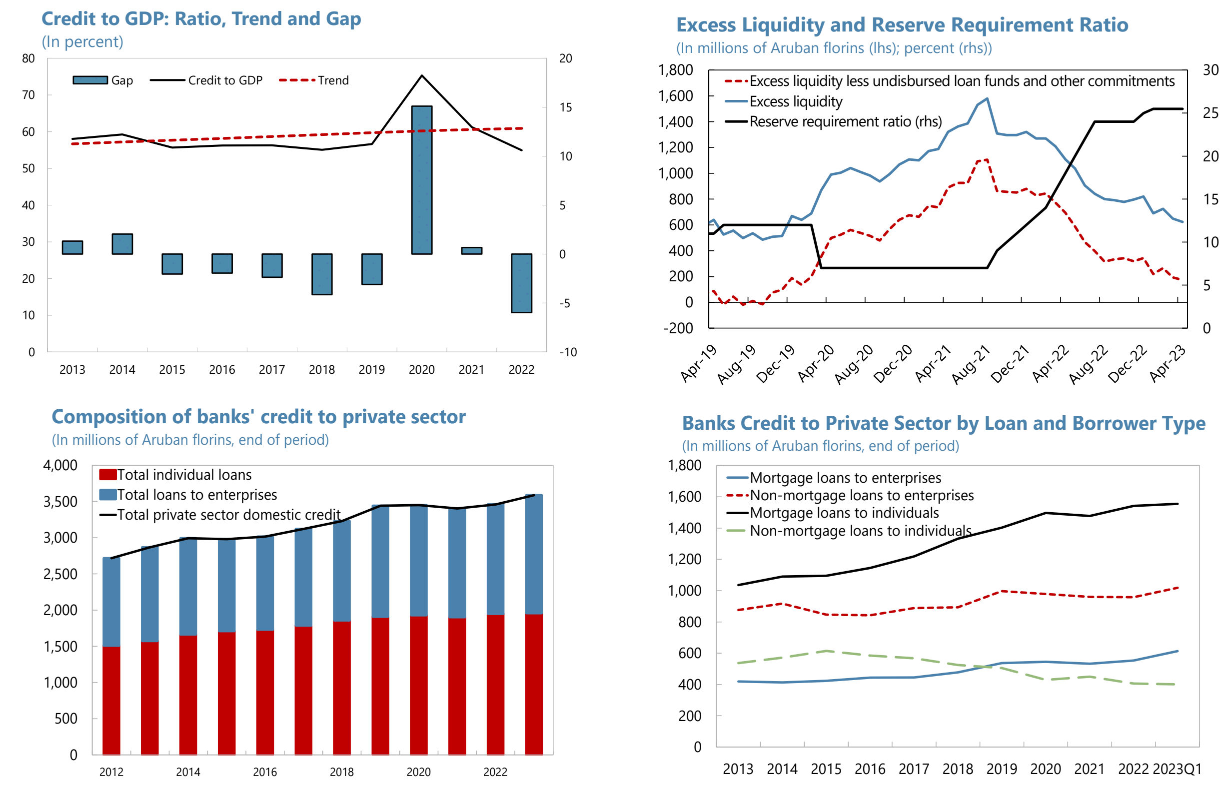


Sources: Ministry of Finance and IMF staff calculations.

8. The external position in 2022 is substantially stronger than the level implied by fundamentals and desirable policies. As tourism recovered, the current account swung from a deficit of 12.4 percent of GDP in 2020 to a surplus of 11.2 percent of GDP in 2022. International reserves are adequate at US$1.6 billion at end-2022 (7.3 months of total imports and 124 percent of the IMF's ARA metric). The authorities increased bank reserve requirement rate to maintain foreign exchange (FX) reserves. External debt has fallen to 102.3 percent of GDP (down from 132.9 percent of GDP in 2020). The EBA-lite model points to a current account gap of 6.6 percent in 2022 and a real effective exchange rate that is undervalued by 12.8 percent (Annex III).

9. Despite significant liquidity in the banking system, private credit grew slowly in 2022, and credit depth remained below the 2019 level. Domestic liquidity was boosted during the COVID-19 pandemic by the extraordinary injection of fiscal support and the lowering of reserve requirements. The Central Bank of Aruba (CBA) began to gradually raise reserves requirement rate (from 7 percent in August 2021 to 25.5 percent by December 2022) in an effort to maintain FX reserves, tighten liquidity, and lessen inflationary pressures. Despite these policy changes, systemic excess liquidity has remained at a high level as banks have been reluctant to increase lending due to lack of new investment projects and weak demand for credit. Private credit growth did, though, begin to accelerate to 6.4 percent in early 2023 as lending to corporates picked up.

Credit and Financial Conditions



Sources: Central Bank of Aruba and IMF staff calculations.

10. Overall financial stability risks are low, but real estate lending and loan concentration both warrant close attention. The banking sector remains well capitalized and liquid. Capital and liquidity ratios are well above regulatory requirements and bank profitability has improved. Asset quality has held up well, even as regulatory forbearance has been withdrawn (non-performing loans fell to 3.2 percent of bank assets by 2023Q1). Banks have conservative business models, are not reliant on wholesale funding, and generally invest in simple financial products. Real estate lending is growing faster than other categories of credit but conservative lending practices and voluntary loan-to-value limits will provide some protection in the event of a sizable decline in house prices. The ratio of large loans to capital rose in 2023Q1 and suggests significant concentration of bank loans.

Credit Heat Map 1/

(In percent and index)

	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2	2022Q3	2022Q4	2023Q1
Overall Financial Sector Rating	L	M	M	M	M	M	M	M	L	L	L	L	L	L
Credit cycle	L	H	H	H	H	L	L	L	L	L	L	L	L	H
Credit growth (%)	6.6	4.0	2.2	2.4	0.2	-0.1	-2.0	-3.6	-1.4	-1.6	-3.1	0.9	1.7	6.4
Credit/GDP (%)	56.6	74.9	75.8	76.7	75.3	61.7	61.3	61.0	61.2	53.5	52.3	54.2	54.9	53.9
Change in credit / GDP ratio (pp, annual)	1.6	20.6	19.9	20.3	18.7	-13.2	-14.6	-15.7	-14.1	-8.2	-9.0	-6.8	-6.3	0.4
Growth of credit / GDP (%, annual)	2.8	38.0	35.6	35.9	33.0	-17.6	-19.2	-20.5	-18.7	-13.3	-14.6	-11.1	-10.4	0.8
Balance Sheet Soundness	L	L	M	M	M	M	M	M	L	L	L	L	L	L
Balance Sheet Structural Risk	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Deposit-to-loan ratio (%)	146.2	146.6	146.8	143.3	149.7	152.0	159.5	166.1	170.4	173.0	171.5	170.4	171.2	171.5
Liquid assets to total assets (%)	29.3	29.7	32.5	31.0	33.7	34.8	37.4	38.4	38.0	36.1	31.4	29.7	29.8	27.3
Minimum liquid assets to total assets (%)	18	15	15	15	15	15	15	15	18	18	18	18	18	18
Balance Sheet Buffers	L	L	M	M	M	M	M	M	L	L	L	L	L	L
Leverage	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Capital adequacy ratio (%)	31.0	31.7	31.9	32.0	33.3	33.7	34.6	36.1	37.0	38.0	38.6	39.5	39.7	31.4
Minimum CAR (%)	16	14	14	14	14	14	14	14	16	16	16	16	16	16
Profitability	H	L	H	H	M	M	M	M	L	L	L	L	L	L
Return on Assests	-0.1	0.3	-0.1	-0.1	0.3	0.3	0.3	0.6	0.4	0.3	0.4	0.5	0.5	0.4
Return on Equity	-0.5	2.1	-0.6	-0.8	1.6	1.9	1.8	3.8	2.5	1.6	2.3	3.1	3.1	2.7
Asset quality	L	L	M	M	H	H	H	H	L	L	L	L	L	L
Non-performing loan (NPL) ratio	3.2	2.9	3.7	4.1	5.0	6.1	5.3	5.8	4.7	4.5	4.4	3.4	3.5	3.2
NPL ratio change (%, annual)	-17.9	-21.6	27.6	46.4	56.3	110.3	43.2	41.5	-6.0	-26.2	-17.0	-41.4	-25.5	-28.9

1/ L, M, H stands for Low, Medium, and High Risk respectively.

Sources: Central Bank of Aruba and IMF staff calculations.
Note: Based on the methodology developed by the IMF Money and Capital markets (MCM) department.
1/ L, M, H stands for Low, Medium, and High Risk, respectively.

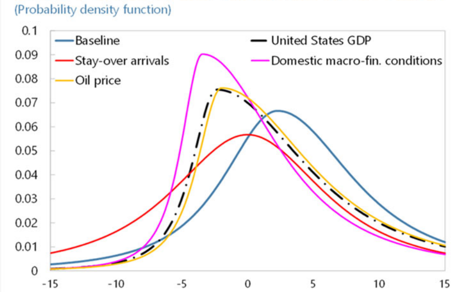
OUTLOOK AND RISKS

11. The economy is expected to grow at a moderate pace in 2023 and over the medium term. Real GDP growth is projected to slow to 2.3 percent in 2023, as the post-pandemic rebound in tourist arrivals wanes. Over the medium term, growth is projected at about 1.1 percent. Inflation is projected to fall to 3.2 percent by end-2023 as domestic demand slows, and international commodity prices fall.

12. The current account surplus should fall over the medium term as tourism growth moderates. The strong external position should allow for a build-up of foreign reserves over the medium term (to 145 percent of the IMF's ARA metric by 2028) and a reduction in external debt (to 70 percent of GDP by 2028).

13. Aruba faces important downside risks (Annex IV). A steeper-than-expected global slowdown, especially in the U.S., could reduce tourist arrivals. Climate change is an ever-present risk through both rising sea levels and more volatile weather events. Domestically, risks to the outlook are largely related to the potential of insufficient fiscal adjustment (which would raise financing needs and slow the pace of debt reduction). A growth-at-risk model suggests that the Aruban economy is most vulnerable to shocks to tourism, financial conditions, U.S. growth, and global oil prices (Annex V).

Real GDP Growth-at-Risk: Baseline and Shock Scenarios
(Probability density function)



Source: IMF staff calculations.

Authorities' Views

14. The authorities broadly agreed with staff's assessment but are more optimistic about the medium-term tourism prospects. While both the government and the CBA projected a moderation in growth in 2023, the CBA projected a weaker real GDP growth, as real private consumption growth was projected to be negative due to lower wage growth relative to inflation, leading to a continued loss in purchasing power. The CBA was somewhat more optimistic about tourism exports than staff and pointed out that the average daily rate of the accommodation has room to grow, especially considering Aruba's longstanding tourism price resilience and the tourism strategy to attract high-value affluent tourists paired with the construction of high-end accommodations. Inflation projections by both the CBA and the government concur with those by staff.

POLICY DISCUSSIONS

The ongoing economic recovery provides an opportunity to address the macroeconomic imbalances that were left by COVID-19 and deepen efforts to improve competitiveness and growth. Concrete fiscal reforms, embedded in a coherent medium-term fiscal framework, will be needed to keep public debt on a firm downward trajectory. The authorities' plan to maintain a fiscal surplus while scaling up public investment is welcome but will require revenue and expenditure-saving measures as well as a robust public investment management framework. Reserve requirements should be lowered to increase bank intermediation. Financial oversight should be strengthened, including by developing macroprudential tools. Reforms to address supply-side constraints to growth should be accelerated. There is also a need to improve governance and advance climate change adaptation.

A. Continued Need for Fiscal Consolidation

15. The planned tightening of fiscal policy in 2023 is appropriate, considering the strength of the recovery.[2] The authorities plan to keep nominal current expenditure at last year's level while reducing capital spending.[3] On the revenue side, the authorities are projecting higher indirect taxes and non-tax revenues, a product of recent fiscal reforms (Box 2) and the soon to be introduced indirect tax (BBO) of 7 percent on imports by individuals.[4] The current set of policies is expected to result in a 0.8 percent of GDP surplus in 2023, somewhat less than expected in budget documents, due to overly optimistic forecasts for non-tax revenues. A contingency plan to reduce spending

[2] The authorities reached a new agreement with the Netherlands in November 2018 (the Protocol) which established fiscal targets for 2019-2021. This was subsequently extended, requiring a surplus of at least 1 percent of GDP in 2023. The Aruban authorities are in discussion with the Netherlands on a new agreement on medium-term fiscal targets.

[3] Major capital projects in Aruba have traditionally been carried out through public private partnerships (PPPs) and by state-owned enterprises (SOEs) so on-budget capital spending is low and infrastructure needs are mostly met outside of the budget. New PPPs have been suspended since 2018, however.

[4] The authorities aim to introduce BBO of 7 percent on imports by individuals starting September 1st, 2023. They are also considering on introducing a levy of $10 on tourist arrivals.

should be developed to ensure the budget's fiscal target can be met even if revenue collection falls below the amounts forecasted in the budget.

Central Government Accounts
(Percent of GDP)

	Preliminary 2022	Approved Budget 2023	IMF staff projections 2023
Total Revenue and Grants	**21.4**	**23.5**	**22.8**
Tax revenue	18.7	18.7	18.9
Direct taxes	8.0	7.2	7.2
Indirect taxes	10.6	11.5	11.7
Non-tax revenue	2.7	4.8	3.9
Total Expenditure	**21.8**	**22.3**	**22.0**
Current expenditure	21.4	21.9	21.7
Compensation of employees	6.8	6.9	6.9
Wages	5.3	5.5	5.5
Employer's contribution	1.4	1.4	1.4
Goods and services	2.9	3.1	3.1
Interest payments	3.9	3.7	3.7
Transfers and subsidies	7.8	8.2	7.9
Capital expenditure	0.4	0.3	0.3
Overall Balance	**-0.5**	**1.2**	**0.8**
Primary balance	3.4	5.0	4.5
Financial balance (Authorities' concept)	-0.7	...	0.5
Primary spending	17.9	...	18.2
Total public debt	90.7	...	85.4

Sources: Ministry of Finance and IMF staff estimates.

16. Public debt and gross financing needs are high. Public debt is expected to decline to 85.4 percent of GDP in 2023 and reach 71 percent of GDP by 2028. The gross financing needs in 2023 are 19.2 percent of GDP due to the October 2023 maturation of liquidity support loans provided by the Netherlands. The Sovereign Risk and Debt Sustainability Assessment (SRDSA) shows that risks to debt sustainability are high, with a key pressure point arising from the uncertainty surrounding the refinancing of the obligations to the Netherlands (Annex VI). The baseline assumption is that this loan will be refinanced through a long-term (20 years) loan from the Netherlands at below-market interest rates. However, this represents a key risk to the fiscal position and debt sustainability—if the loan repayment needed to be financed in the market, the debt dynamics would worsen.

17. The large gross financing needs associated with repayments to the Netherlands highlights the need for a sound debt management strategy. Such a strategy would provide clear analysis of the trade-offs associated with different funding options and would help frame a plan to diversify the sources of fiscal financing. The strategy could be published alongside the annual budget and be accompanied by an ex-post annual reporting of financing outcomes.

18. The government is targeting a fiscal surplus of 1.2 percent of GDP over the medium term.[5] The recently introduced tax measures will help mobilize revenues and the remaining tax reforms planned by the government should be quickly put in place. The authorities' plans to increase public investment on infrastructure and climate change adaptation will help build resilience and increase competitiveness. However, this investment should be accompanied by a robust institutional framework to appraise project proposals, including through rigorous feasibility analysis and risk assessment. Introducing effective and transparent systems for procurement, project management, and ex-post project assessment would reduce costs and improve investment quality.

[5] The fiscal target is set in terms of the "financial" balance, defined as the overall fiscal balance minus net acquisition of financial assets which is at 1 percent of GDP. This corresponds to an overall balance of 1.2 percent of GDP.

Box 2. Aruba's Main Tax Changes for 2023

The Aruban authorities introduced several tax measures that took effect on January 1st, 2023, aimed at mobilizing indirect revenues and simplifying income and profit taxes.

Turnover Tax. The indirect sales tax (BBO) rate will be increased by one percentage point to 7 percent accompanied by a compensation package for individuals and companies to mitigate the impact on real incomes.

Wage Tax

- The personal income tax rate is lowered by 2 percentage points for the first two income brackets.
- The threshold for paying the personal income tax is increased by around 4 percent.
- Social security payments are taxed separately for married couples.
- The income allowance ("reparatietoeslag") is increased by Afl. 45 per month.

Profit Tax. The profit tax rate is reduced from 25 percent to 22 percent.

Tourist Tax. The tourist levy is increased from 9.5 percent to 12.5 percent.

Real Estate Transfer Tax. The sale of shares in real estate companies is subject to the transfer tax.

Estimated Yields and Costs of the Recent Tax Measures
(In percent of GDP)

Meaures	Yields/Costs
Income Tax/Wage Tax	
Increase in the tax-free base and reduction in rate	-0.32
Profit Tax	
Limited depreciation on real estate	0.22
Abolition of the Imputation Payment Company regim	0.33
Abolition of the option to accrue pension	0.15
Adjusted deduction limitation	0.01
Reduction of the tax rate from 25 to 22 percent	-0.28
Tourist Levy	
Increased from 9.5 to 12.5 percent	0.70
Turnover Tax	
BBO rate increased from 6 to 7 percent	1.05
Low Income Allowance	
Increase in the allowance of the elderly	-0.20
Total	**1.67**

Sources: The Aruban Authorities and IMF staff calculations.

19. Further policy measures are needed to achieve the government's targeted fiscal balance while creating space for more public investment. Under staff's baseline, the recently implemented tax measures are not sufficient to achieve the budget targets and further measures will be required to increase revenue and reduce recurrent spending. Specifically:

- *Revenue mobilization*. Additional revenue could be generated through introducing a broad-based value-added tax (VAT)[6] to replace the current indirect tax system. There is scope to improve tax and customs administration by increasing digitalization, imposing financial penalties on evasion, enhancing transparency, and increasing risk-based audits. A diagnostic assessment of tax administration (TADAT) would help develop a more comprehensive reform plan.
- *Containing the wage bill.* The unwinding of the cut in public sector salaries that was put in place during COVID-19 should be accompanied by the elimination of various wage supplements (e.g., for overtime, bonuses, and allowances).

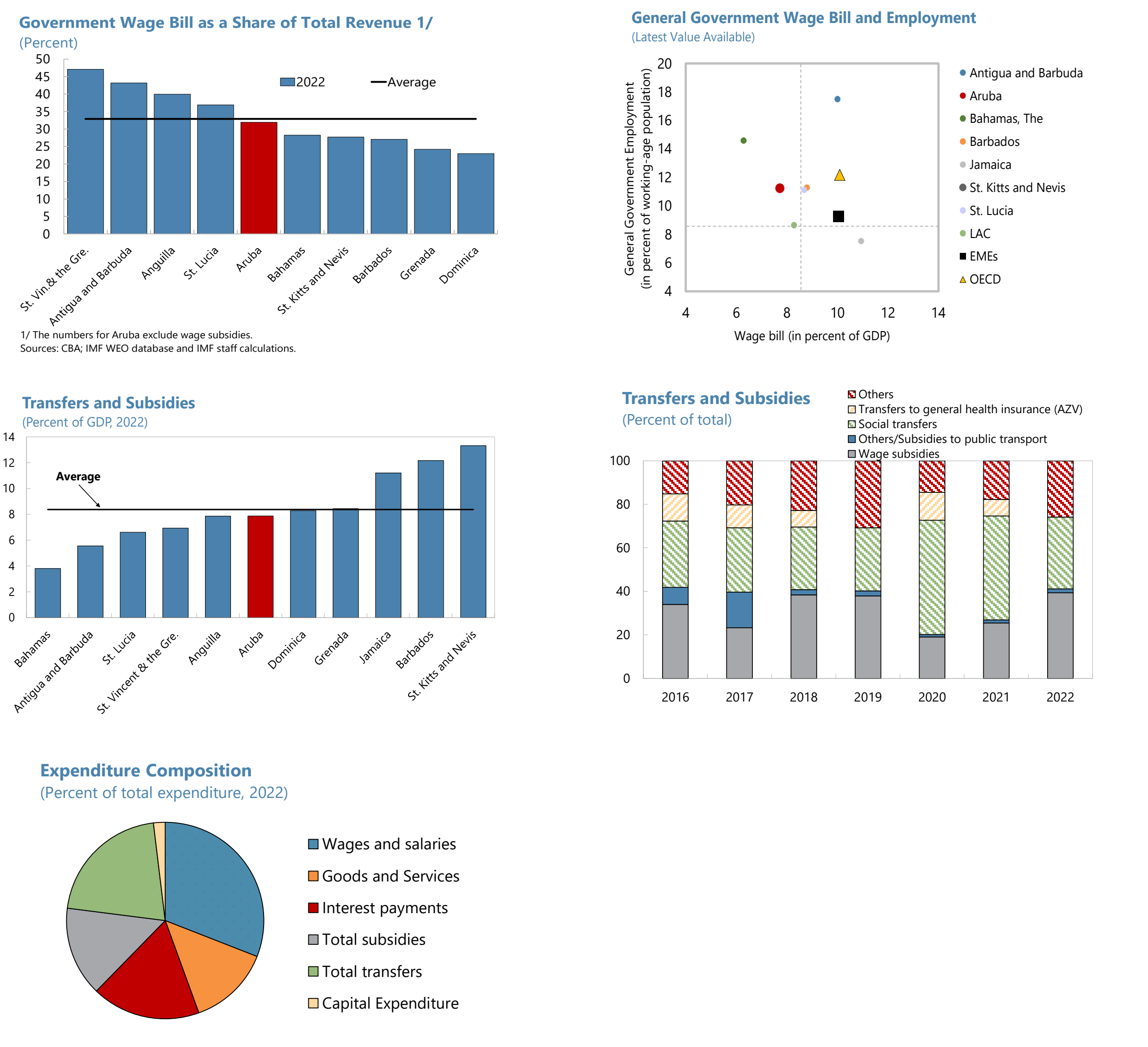
[6] The planned introduction of VAT in January 2023 was postponed due to inflation concerns.

- *Rationalizing spending on goods and services*. A Public Expenditure Review is expected to be undertaken by the World Bank that will help inform efforts to eliminate lower priority spending.

- *Streamlining transfers to state-owned enterprises (SOEs).* Efforts are needed to improve the performance of SOEs and reduce transfers to these entities (e.g., pricing that allows for cost recovery and improvements in the efficiency of SOEs).

- *Strengthening the social safety net*. Enhancing social protection is important to facilitate fiscal reforms. A system should be established to deploy temporary and targeted support to vulnerable households in the event that there are further shocks to food and fuel prices (e.g., by institutionalizing a system of targeted income support similar to those that were temporarily introduced during the pandemic).

Key Fiscal Developments in Expenditures



Sources: Ministry of Finance, IMF WEO database, and IMF staff calculations.
1/ Aruba excludes wage subsidies.

20. Under an active policy scenario, these additional measures would help achieve the government's medium-term fiscal goals. The fiscal surplus would need to increase by 0.5 percent of GDP in 2023, through increasing indirect tax compliance (0.2 percent of GDP) and reducing spending on goods and services (0.2 percent of GDP). Rationalizing subsidies to households (0.1 percent of GDP), enhancing the social safety net, and reducing transfers to SOEs (0.2 percent of GDP) would help underpin medium-term targets (bringing debt below 70 percent of GDP by 2028) while also allowing for an increase in capital spending.

Central Government Operations
(Active vs. Baseline Scenario)

	Active Scenario						Difference Relative to the Baseline 1/					
	2023	2024	2025	2026	2027	2028	2023	2024	2025	2026	2027	2028
Total Revenue and Grants	**23.0**	**23.6**	**23.5**	**23.5**	**23.4**	**23.4**	**0.2**	**0.5**	**0.4**	**0.4**	**0.3**	**0.3**
Tax revenue	19.1	19.7	19.6	19.6	19.5	19.5	0.2	0.5	0.4	0.4	0.3	0.3
Direct taxes	7.2	7.2	7.2	7.2	7.2	7.2	0.0	0.0	0.0	0.0	0.0	0.0
Indirect taxes	11.9	12.5	12.4	12.4	12.3	12.3	0.2	0.5	0.4	0.4	0.3	0.3
Non-tax revenue	3.9	3.9	3.9	3.9	3.9	3.9	0.0	0.0	0.0	0.0	0.0	0.0
Total Expenditure	**21.8**	**22.3**	**22.3**	**22.2**	**22.2**	**22.2**	**-0.2**	**-0.5**	**-0.4**	**-0.2**	**0.0**	**0.3**
Current expenditure	21.4	22.0	21.7	21.5	21.2	21.0	-0.2	-0.5	-0.6	-0.6	-0.6	-0.6
Compensation of employees	6.9	6.9	6.9	6.9	6.9	6.9	0.0	0.0	0.0	0.0	0.0	0.0
Goods and services	2.9	2.9	2.9	2.9	2.9	2.9	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Interest payments	3.7	4.4	4.2	4.0	3.8	3.6	0.0	-0.1	-0.1	-0.1	-0.2	-0.2
Transfers and subsidies	7.9	7.9	7.8	7.8	7.7	7.6	0.0	-0.3	-0.3	-0.3	-0.3	-0.3
Total subsidies	3.3	3.2	3.2	3.1	3.1	3.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Total transfers	4.7	4.7	4.7	4.6	4.6	4.5	0.0	-0.2	-0.2	-0.2	-0.2	-0.2
Capital expenditure	0.3	0.3	0.5	0.7	1.0	1.2	0.0	0.0	0.2	0.4	0.7	0.9
Overall Balance	**1.2**	**1.2**	**1.2**	**1.2**	**1.2**	**1.2**	**0.5**	**1.1**	**0.8**	**0.6**	**0.3**	**0.1**
Primary balance	5.0	5.6	5.4	5.2	5.0	4.8	0.5	1.0	0.7	0.5	0.2	-0.1
Memorandum items:												
Financial balance (Authorities' concept)	1.0	1.0	1.0	1.0	1.0	1.0	0.5	1.1	0.8	0.6	0.3	0.1
Total public debt	84.9	81.2	77.7	74.3	71.1	68.0	-0.5	-1.5	-2.2	-2.8	-3.0	-3.0

Sources: Ministry of Finance; and IMF staff estimates.
1/ Difference to the baseline is calculated as Active minus Baseline scenario.

21. The pension system creates longer-term fiscal risks (Annex VII). In the absence of further reforms, the pension system is expected to run deficits starting in around five to six years, depleting its reserves by the mid-2030s. This is despite past efforts to improve the financial situation of the pension system. Restoring actuarial balance in the system will require a higher contribution rate and/or lower replacement rate.

22. A medium-term fiscal policy framework would help prioritize spending and better anchor the path for debt reduction. The authorities have made progress in improving public financial management and fiscal transparency and are in the process of establishing medium-term fiscal targets. A well-designed medium-term budget framework (MTBF)—guided by a debt anchor and pre-determined escape clauses—would help shape strategic priorities, anchor expectations, and guide the development of the annual budget in a way that is consistent with broader macro-fiscal objectives. It would also allow the authorities to better communicate their medium-term fiscal plans and, by meeting these targets, demonstrate their commitment to fiscal discipline.

Authorities' Views

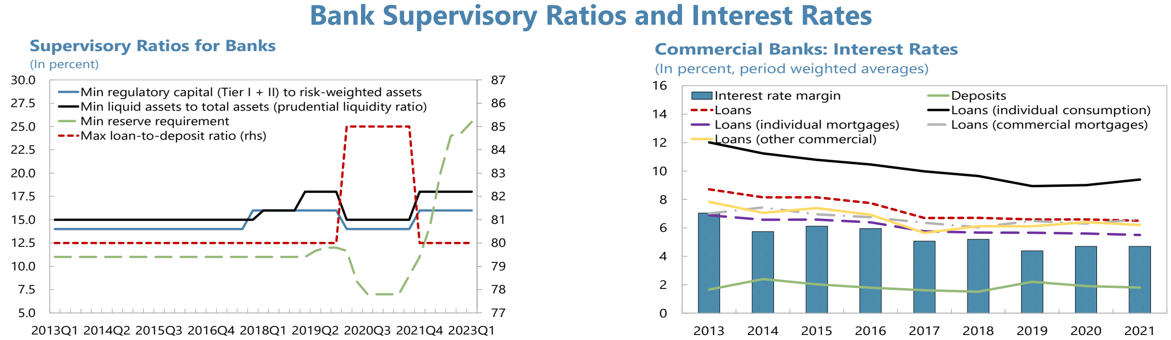
23. The authorities expressed strong commitment to their medium-term fiscal targets. They agreed that fiscal adjustments should entail revenue and expenditure measures to ensure public debt remains on a downward path. They highlighted that the recent tax reforms would support their ongoing efforts to enhance revenue mobilization and emphasized their attempts to broaden the tax base by addressing the informal economy and improving tax administration through digitalization. They noted that an expenditure review—with the help from the World Bank technical assistance—to explore ways to streamline spending on goods and services is scheduled. The savings would help allocate more resources to higher priority areas such as education and climate change adaptation. They ruled out difficulties in meeting their financial obligations falling due in the coming months.

24. The authorities acknowledged the importance of having a strong fiscal policy framework. They indicated that important progress towards a medium-term budget framework has been made in the past few budget cycles. The 2023 budget contained four-year forecasts for headline revenues and expenditures which would be updated on a yearly basis. Moreover, they are currently working on producing eight-year budget projections. They agreed with staff that a formal debt anchor would strengthen fiscal prudence but wondered about the optimal debt-to-GDP ratio they need to target. Currently, they will continue to adhere to the debt anchor established under the 2018 Protocol.

B. Supporting Intermediation and Sustaining Financial Resilience

25. The authorities should lower bank reserve requirements over time. The recent increases in required reserves have locked up liquidity and represent an implicit tax on financial intermediation.[7] Given that inflation is declining, and foreign reserves are at adequate levels, there is scope to lower reserve requirements over time to avoid disincentivizing a deepening of financial intermediation. Nonetheless, supervisory oversight should continue to ensure that banks have sufficient liquidity to respond to a range of potential shocks, even as required reserves decline.

Bank Supervisory Ratios and Interest Rates



Source: Central Bank of Aruba.

[7] Required reserves are largely unremunerated (0.1 percent annualized for 30-days bank's deposits of at least 30 days.)

26. The CBA needs to remain vigilant to vulnerabilities linked to real estate. Rising real estate lending to households raises potential concerns over risk management practices by lenders and the growing debt burden that is being taken on by households. Close monitoring of underwriting standards is warranted. Also, formally introducing the loan-to-value and debt service-to-income ratio for borrowers could be a useful macroprudential tool to mitigate risks to financial stability. More broadly, developing a comprehensive macroprudential policy framework, with accompanying tools, would help both identify and manage emerging vulnerabilities. Such a framework would need to be supported by better, more granular, timely data (including on the financial position of non-bank financial institutions). Capacity development support is being provided by CARTAC in this area.

Banking Sector Soundness Indicators

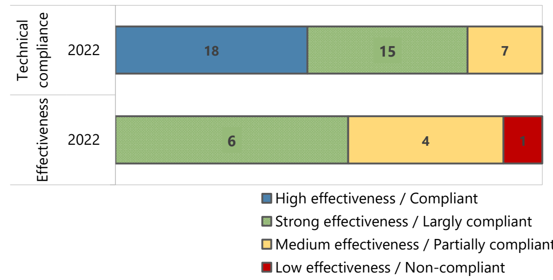
Sources: Central Bank of Aruba and IMF staff calculations.

27. The CBA is encouraged to further strengthen the financial regulatory and supervisory framework. The CBA has made important investments in risk-based supervision of the financial system, including through rigorous annual stress tests. A more structured approach to liquidity and solvency stress testing, that is firmly tied to a range of underlying macroeconomic scenarios, would further enhance the financial stability framework. Adopting Basel II international standards and following up on the results of the self-assessment of Basel Core Principles for Effective Banking Supervision and conducting Insurance Core Principles would be beneficial to identify areas to strengthen financial oversight.

28. The authorities have enhanced the financial integrity framework, but further actions are required.

- *Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) framework*. The country received strong ratings in comparison to regional peers during the 2022 Caribbean Financial Task Force (CFATF)'s mutual evaluation on AML/CFT framework. The authorities should continue strengthening the technical compliance and effectiveness of their AML/CFT framework. This would include: ensuring proper implementation of preventative measures by the central bank and other supervisors for financial and designated non-financial businesses and professions(including lawyers and trust and corporate services providers); improving supervision of non-profits and designated non-financial businesses and professions; establishing a gaming authority (entrusted with the licensing and vetting of management, shareholders and ultimate beneficial owners); and introducing a regulatory framework for the licensing of virtual asset service providers. The authorities should also fully implement the existing legal framework for collecting beneficial ownership information and strengthen law enforcement's capacity to pursue money laundering and other financial crimes.

CFATF Mutual Evaluation Ratings
(2022)



Source: CFATF (2022). Fourth Round Mutual Evaluation Report of Aruba.

- *Tax Transparency*. Aruba was put on the grey list of the European Union's non-cooperative jurisdictions due to some deficiencies in the automatic exchange of tax information. Steps should be taken to increase tax information sharing and resolve issues related to the implementation of the OECD standards on tax transparency and the exchange of information. This would help improve international cooperation and tackle tax evasion.

Authorities' Views

29. The CBA maintained that the current monetary stance was appropriate, given the level of international reserves that is adequate and considerably below the upper bound of the IMF ARA metric, and the persistent excess liquidity that is back at the pre-pandemic level but continues to lie above the CBA estimates of precautionary demand by the commercial banks. While agreeing with staff that the end-of-period inflation is waning for the first months of 2023, the CBA pointed out that this was mainly driven by externally sourced cost-push factors, and not by demand-driven factors related to the tightening. The CBA did not see the bank reserve requirement as a constraint to lending by commercial banks despite its higher than pre-pandemic level. They also noted that the bank reserve requirement was much lower before 2021 and therefore its recent increases is unlikely to be a reason for the lack of depth of the financial intermediation in Aruba. Nevertheless, they recognized the uneven distribution of excess liquidity among banks, and the need to carefully calibrate future policy changes. The CBA emphasized the data-dependent nature of the future decisions on the bank reserve requirement. It could be adjusted in either direction, based on the continuous monitoring and measurement of several indicators, including but not limited to excess liquidity levels at commercial banks (accounting for the uneven distribution), inflation levels and trends which is subject to the impact of both external (oil/food) and domestic (fiscal) developments, and benchmarking of international reserves against ARA and import coverage.

30. The CBA emphasized that the banking system remains resilient and concurred with the importance of advancing regulatory and supervisory framework. They highlighted the strength of the banking sector as evidenced by high capital and liquidity buffers and underscored their intention to continue monitoring developments closely. They plan to increase the liquidity and the capital adequacy ratios in January 2024 to further bolster the robustness of the banking system. They pointed out that the upward trend in the housing mortgages has been for over a decade, but banks apply prudent practices, including caps on loan-to-value and debt-service to income ratios in their underwriting policies and procedures, and that the share of mortgages to non-residents is relatively low. They agreed with the benefits of developing strong macroprudential tools and they are working on enhancing stress testing methodology but highlighted structural resource constraints.

31. The authorities reiterated their commitments to further enhancing AML/CFT framework and improving tax transparency and exchange of information. They emphasized that the recent CFATF's mutual evaluation demonstrates the country's strong overall framework and sound practices on AML/CFT and expressed commitment to making further improvements in line with the recommendations of the mutual evaluation. The authorities highlighted that they were in close cooperation with OECD on improving exchanges of tax information which would eventually help remove Aruba from the grey-list of European Union's non-cooperative jurisdictions.

C. Addressing Supply-Side Constraints to Growth

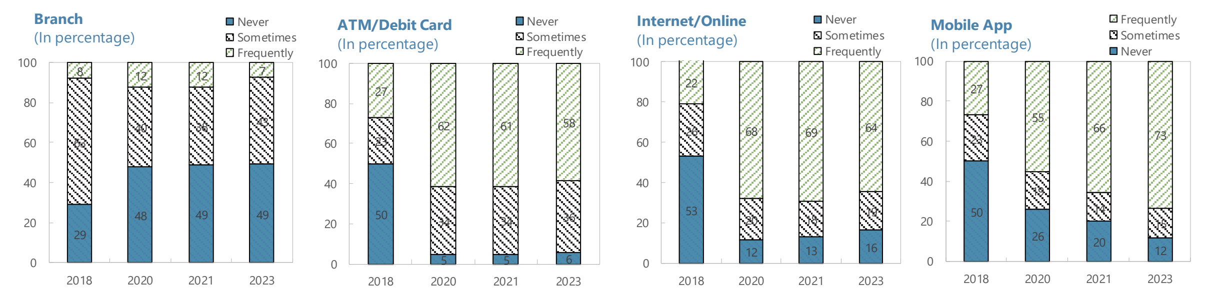
32. The authorities have developed comprehensive strategies for raising growth. The "Master Plan", a comprehensive strategy policy framework that the authorities developed in 2020 to support post-pandemic economic recovery and enhance long-term growth, should soon start to be implemented and encompass reform of labor market legislation, the elimination of red-tape, strengthening legislative capacity, tax reform, and broadening e-government. The recently announced National Action Plan 2023-25 for Aruba's Transition to a Sustainable and Inclusive Economic Model identified green tech, agriculture, and knowledge economy as the promising sectors that Aruba could diversify into. There is a need now to further define specific reforms to achieve the goals of these strategies and establish specific timeframes to assess progress.

33. Redoubling efforts to increase the value added of tourism should be a particular focus. Given limited scope for economic diversification, tourism will remain Aruba's main growth engine in the coming years. It will, therefore, be important to critically assess tourism's role in the economy and maximize the use of existing infrastructure and know-how to transition to a tourism mix that has a higher domestic value added and is more environmentally sustainable. Curbing over construction and promoting new types of tourism (such as medical tourism) could be promising components of a broader strategy to maximize the domestic impact of tourism activities.

34. Supply side reforms are needed to boost potential growth. Key priorities include:

- *Increasing the ease of doing business*. Streamlining business procedures through the e-government initiative and critically identifying areas to reduce the burden of government processes would be helpful. The recently introduced "Business Policy Guidelines" and efforts to enhance transition to the digital economy are steps in the right direction. The infrastructure for digital payments could be improved—building on the central bank's I-Pago system—which would help preserve pandemic gains in the use of electronic banking.

Developments in the Use of Electronic Banking



Source: Central Bank of Aruba.

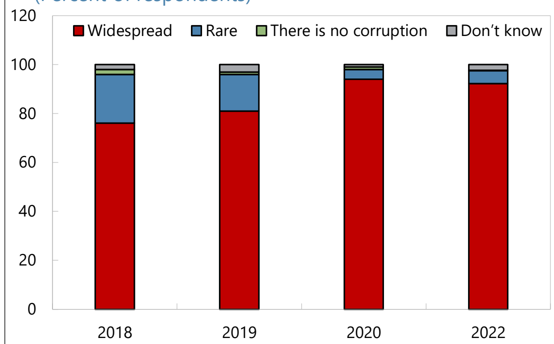
- *Improving competition*. The authorities intend to launch the Aruba Fair Trade Authority in September to examine potential cases of non-competitive behavior. Sufficient capacity and resources should be secured to ensure this entity is able to effectively counter anti-competitive behavior and protect consumers.

- *Undertaking labor market reforms*. Labor laws should be modernized to reduce the costs of hiring new workers. This should be combined with a new system for unemployment insurance to reduce idiosyncratic risks borne by workers and provide a safety net to those losing their jobs. There is also scope to undertake policies to encourage female labor market participation (Box 3).

- *Improving human capital* by increased investment in training and education (including in Science, Technology, Engineering and Mathematics, STEM) and allowing for inflows of skilled immigrant labor. This should be undertaken in collaboration with local employers, to better identify skills needs and facilitate matching between worker and employer.

35. Improving governance will also help strengthen the business environment. The recent CBA survey continues to indicate a widespread perception of corruption in Aruba. To address governance issues, the authorities are encouraged to bring their local framework in line with the provisions of the United Nations Convention against Corruption. This would involve building the capacity of the Integrity Bureau and establishing codes of conduct for public servants and the whistleblower legislation. Robust asset declaration systems for senior public servants will help in the detection, investigation and prosecution of corruption. Collecting and publishing complete information on the beneficial owners of companies that bid for government contracts would also be beneficial. As discussed above, increasing tax information sharing and improving the AML/CFT framework will help officials pursue and confiscate the proceeds tax evasion and corruption.

Perception of Corruption 1/
(Percent of respondents)



Source: Central Bank of Aruba.
1/ These results should be interpreted with caution given the subjective nature of the perception- based indicators and the change in methodology from face-to-face interviews to online surveys in 2020.

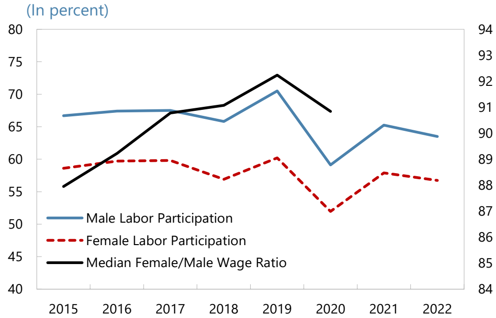
36. Climate change poses a long-term adaptation challenge. Aruba is a flat island, and a substantial share of its houses, primary infrastructure, and tourism assets are located near sea level. The economy will be greatly affected by even a modest rise in the sea level. A concrete action plan—under the auspices of the National Climate Resilience Council—is needed to prioritize infrastructure investments that improve the physical resilience of low-lying areas. This plan should identify financing sources for these projects and outline how they fit within the broader medium-term fiscal framework. An ongoing climate risk profile assessment, the planned costing of climate change adaptation needs, and the development of a national climate resilience strategy are steps in the right direction.

Box 3. Gender Equity in Aruba

Creating an environment to fully utilize the potential of the female labor force is a key to inclusive growth in Aruba. Aruba experienced subdued growth in the past two decades, dragged down by the decline in total factor productivity (TFP). Continued brain drain and the population ageing serve as a headwind. A higher contribution of the female labor force will help overcome the challenge by increasing labor inputs and labor productivity and thus allowing for growth in an inclusive manner.

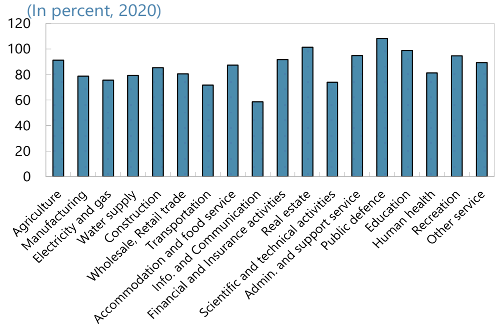
Women in Aruba have a higher rate of secondary enrollment than men but gender gaps in labor force participation and wage levels remain. Women have good access to education in Aruba, but female labor force participation has been only 60 percent since the mid-2000s (although the differential between male and female participation is in line with international comparators like Canada). Females are typically under-

Labor Force Participation and Relative Wages 1/
(In percent)



Source: Central Bureau of Statistics.
1/Labor force participation rates are calculated for adults 15 years and older.

Median Monthly Wages: Women vs. Men
(In percent, 2020)



Sources: Social Security Bank and the Department of Human Resources of the Government of Aruba.

Box 3. Gender Equity in Aruba (Concluded)

represented in certain fields (especially STEM) leading to lower median wages than for men. Aruba does, though, have a larger share of women in leadership roles than in comparator countries.

The authorities are striving to make further progress in gender equality. They released Aruba National Gender Policy in May 2022 to create an enabling environment for gender equality and women's empowerment across all sectors of Aruba's society and economy. Increasing women's work and entrepreneurship opportunities is a priority. Strategic initiatives are also aimed at improving social protection and access to finance and education.

Selected Gender Indicators 1/

	Secondary Gross Enrollment Rate (Female)	Secondary Gross Enrollment Rate (Female/Male)	Labor Participation Rate (Female)	Labor Participation Rate (Female/Male)	Share of Women in Parliament	Share of Women in Managerial Positions
	(1)	(2)	(3)	(4)	(5)	(6)
Aruba	126.9	1.1	60.2	0.9	38.1	43.0
World	92.6	1.0	59.6	0.8	23.7	33.5
Netherlands	135.0	1.0	76.7	0.9	33.3	24.9

Sources: Aruban authorities, IMF Gender Data Hub, and IMF staff calculation.
Note: Labor force participation rates are calculated for adults 15 years and older for Aruba, while for adults between 15 and 64 year olds for the World and the Netherlands.

1/ Data for the World and Netherlands are for 2018, 2019, 2020 in columns 1-2, 3-4, and 5-6 respectively. All data for Aruba are for 2021.

Further data collection and analysis is needed to determine the drivers of possible gender inequities in the labor market. The observed gender wage gaps can be attributed to multiple causes such as socio-cultural norms, the unpaid care burden, lack of employment opportunities, inadequate skills, and gender biases. Using micro data on labor force characteristics to analyze the determinants of the gap could help determine the drivers of potential gender biases in the system and lead to a better design of policies. This may include interventions to encourage STEM education for women, reducing the second earner tax penalty, introducing an Earned Income Tax Credit to encourage participation, and providing support for childcare.

Authorities' Views

37. **The authorities concurred with the structural reform priorities but highlighted some implementation challenges.** They underscored their ongoing efforts to reduce the cost of business by digitalizing the business licensing processes while acknowledging that it needs to be further expanded. The authorities highlighted their broad-ranging reform agenda for enhancing labor market flexibility and introducing an unemployment insurance program but emphasized that this needs to be implemented in a manner that does not damage social harmony. They concurred with the need for further data collection and analysis on gender gaps. They alluded to their ongoing efforts with stakeholders but mentioned constraints in resources and data availability. The authorities reiterated their commitment to strengthen governance and stated that the legislation is being prepared to strengthen the investigative power to the Integrity Bureau. They also indicated that the Code of Conduct for Ministers has been drafted, while that for public employees is in progress. The authorities reaffirmed their strong commitment to addressing climate change risks

and increasing the share of renewable energy to meet their target of greenhouse gas emissions reduction by at least 45 percent by 2030.

STAFF APPRAISAL

38. **The Aruban economy recovered strongly from the pandemic**. This reflects a quick return of tourists following the lifting of restrictions introduced during the pandemic. High global energy and food prices have boosted inflation, but these effects are now reversing. In 2023, the economy is expected to expand at a moderate rate and inflation should decelerate. Risks to the outlook are tilted to the downside. The external position is assessed to be substantially stronger than the level implied by fundamentals and desirable policies. Substantial revisions to 2018-19 GDP point to potential measurement problems in the National Accounts data and represent an important capacity development need.

39. **The planned tightening of fiscal policy in 2023 is appropriate, considering the strength of the recovery**. The plan to keep nominal current expenditure at last year's level while introducing several tax measures to increase revenues will help improve the country's fiscal position. The authorities are encouraged to quickly introduce their remaining agenda for tax reform to ensure the 2023 fiscal target can be comfortably met. A contingency plan should be developed, to be activated if revenue inflows begin to fall below those levels assumed in the budget.

40. **Fiscal surpluses will be needed over the medium term**. A broad-based value-added tax should be introduced to replace the current indirect tax system and there is scope to improve tax compliance. Containing the wage bill, reprioritizing spending on goods and services, and streamlining transfers and subsidies would all create fiscal space to improve the social safety net and increase capital spending. The planned public expenditure review, undertaken by the World Bank, should help inform these efforts.

41. **Long-term fiscal risks related to the pension system need to be tackled**. Increasing the contribution rate and/or reducing the replacement rate would help bolster the solvency of the system.

42. **Strengthening the medium-term fiscal policy framework would anchor the path for debt reduction**. A well-designed medium-term budget framework—guided by a debt anchor and pre-determined escape clauses for unexpected events—would support fiscal discipline and sustainability. It would also allow the authorities to communicate their medium-term plans more effectively. A sound debt management strategy would help mitigate macro-financial risks.

43. **The CBA is encouraged to reduce the reserve requirement rate over time**. With declining inflation and foreign reserves at adequate levels, there is scope to lower reserve requirements over time to avoid disincentivizing a deepening of financial intermediation.

44. **The CBA needs to remain vigilant to vulnerabilities in the financial system**. Close monitoring of underwriting standards of real estate lending is warranted. Formally introducing a cap

on the loan-to-value and debt service-to-income ratio for borrowers, and further developing a comprehensive macroprudential policy framework would help identify and manage risks. These efforts should be supported by better, more granular, timely data, including on non-bank financial institutions. A more structured approach to liquidity and solvency stress testing, that is firmly tied to a range of underlying macroeconomic scenarios, would be valuable. Aruba should move quickly to adopt Basel II international standards.

45. There is scope to improve the AML/CFT and international tax transparency frameworks. This would involve strengthening technical compliance and the effectiveness of the AML/CFT framework and resolving issues related to the implementation of the OECD standards on the exchange of tax information.

46. Supply side reforms are needed to raise potential growth. Policies to increase the value added of tourism will be critical to support medium-term growth. Reforms that remove obstacles to doing business, promote greater labor market flexibility, boost productivity, and lessen gender gaps in the labor market will all be important.

47. The authorities are encouraged to bring governance framework in line with the United Nations Convention Against Corruption. This should include improving the capacity of the Integrity Bureau, establishing codes of conduct for public servants, and requiring detailed asset declarations from senior public servants.

48. Increasing resilience to climate change is a priority. A concrete action plan for adaptation would help prioritize infrastructure investments that improve the physical resilience of low-lying areas. These investments should be incorporated into the overall medium-term fiscal framework. Progress should be accelerated in costing climate change adaptation needs and developing a national climate resilience strategy.

49. 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, 2018–2028

Area (sq. km)	180		
Population (thousands, 2022Q2)	107.4	Literacy rate (percent, 2020)	98.0
Population growth rate (percent, 2018-22 average)	-0.2	Percent of population below age 15 (2021)	16.8
Nominal GDP (millions of U.S. dollars, 2022)	3,521	Percent of population age 65+ (2021)	15.5
GDP per capita (thousands of U.S. dollars, 2022)	32.8	Life expectancy at birth (years, 2021)	74.6
Unemployment rate (percent, 2022Q2)	6.6		

	Average					Est.	Projections					
	1996-2021	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	(Percent change)											
Real Economy												
Real GDP	1.8	2.4	-2.3	-24.0	27.6	7.3	2.3	1.2	1.2	1.1	1.1	1.1
GDP Deflator	1.9	3.5	6.1	-0.9	-5.0	5.7	3.2	2.2	2.0	2.0	2.0	2.0
Consumer Prices												
Period average	2.2	3.6	3.9	-1.3	0.7	5.5	4.5	2.3	2.1	2.0	2.0	2.0
End-period	2.2	4.5	3.6	-3.1	3.6	5.7	3.2	2.2	2.0	2.0	2.0	2.0
	(Percent of GDP, unless otherwise indicated)											
Central Government Operations												
Revenues	22.9	22.2	23.4	24.0	19.7	21.4	22.8	23.0	23.0	23.0	23.0	23.0
Expenditures	26.3	24.9	23.7	40.2	28.9	21.8	22.0	22.9	22.7	22.4	22.2	21.9
Of which: capital	1.3	0.9	0.5	0.8	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Overall Balance	-3.4	-2.6	-0.2	-16.2	-9.2	-0.5	0.8	0.2	0.4	0.6	0.9	1.1
Primary Balance	-1.7	1.1	3.5	-11.1	-4.8	3.4	4.5	4.6	4.7	4.8	4.8	4.9
Cyclically Adjusted Primary Balance (Percent of Potential GDP)	-0.3	1.1	4.3	-5.9	-4.4	3.2	4.3	4.5	4.6	4.8	4.9	4.9
Gross Central Government Debt	59.0	73.3	71.1	112.3	101.8	90.7	85.4	82.7	79.9	77.1	74.1	71.0
Savings and investment												
Gross investment	26.7	22.4	22.4	22.7	20.8	19.0	16.7	16.8	17.8	18.6	19.5	20.3
Of which: public	1.3	0.9	0.5	0.8	0.8	1.0	0.8	0.8	0.8	0.8	0.8	0.8
External Saving	0.6	0.5	-2.6	12.4	-2.7	-11.2	-7.5	-9.1	-8.9	-8.3	-7.8	-7.2
Domestic Saving	26.0	21.9	25.0	10.3	23.5	30.2	24.2	25.9	26.7	27.0	27.3	27.5
Balance of Payments												
Current Account Balance	-0.6	-0.5	2.6	-12.4	2.7	11.2	7.5	9.1	8.9	8.3	7.8	7.2
Oil	1.3	-4.8	-4.4	-3.7	-6.1	-8.5	-6.6	-6.0	-5.7	-5.4	-5.2	-5.0
Non-oil	-1.9	4.2	7.0	-8.7	8.8	19.7	14.0	15.1	14.6	13.8	13.0	12.2
FDI	2.1	3.5	-4.0	5.5	4.5	4.1	3.9	4.0	3.2	2.9	2.6	2.5
Gross Official Reserves (Millions of U.S. Dollars)	674	995	999	1,234	1,534	1,564	1,576	1,674	1,754	1,828	1,895	1,980
Gross Official Reserves (Months of Next Year's Imports)	2.9	5.3	7.3	7.6	7.6	7.3	7.2	7.4	7.6	7.7	7.8	7.9
External Debt	86.8	89.3	87.6	132.9	119.0	102.3	85.9	82.2	78.7	75.6	72.7	69.9
	(In millions of Aruban florins, unless otherwise indicated)											
Monetary												
NFA of Banking System	1,133	1,776	1,713	2,056	2,885	3,112	3,157	3,349	3,508	3,655	3,792	3,962
NDA of Banking System	1,846	2,602	2,856	2,741	2,481	2,435	2,699	2,704	2,741	2,788	2,853	2,891
Credit to private sector (percent change)	4.9	3.6	6.6	0.3	-1.4	1.7	3.1	3.4	3.2	3.1	3.1	3.1
Broad Money	2,979	4,378	4,569	4,797	5,366	5,546	5,856	6,054	6,249	6,444	6,645	6,852
Deposits (percent change)	9.0	0.8	8.0	4.6	18.2	7.6	5.6	3.4	3.2	3.1	3.1	3.1
Memorandum Items												
Nominal GDP (millions of Aruban florins)	4,395	5,864	6,078	4,580	5,555	6,303	6,655	6,880	7,102	7,323	7,552	7,787
Nominal GDP (millions of U.S. dollars)	2,455	3,276	3,396	2,559	3,103	3,521	3,718	3,844	3,967	4,091	4,219	4,350
Unemployment Rate (percent, 2022H1)	8	7.3	5.2	8.6	8.8	6.6	...	...	...	...	...	...

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, 2018–2028

	Average					Est.	Projections					
	1997-2022	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	(Percent change contribution to real GDP growth)											
GDP	2.0	2.4	-2.3	-24.0	27.6	7.3	2.3	1.2	1.2	1.1	1.1	1.1
Consumption	1.2	2.4	-3.2	-7.3	7.6	0.3	1.1	0.2	0.2	0.2	0.3	0.3
Private	1.1	1.4	-1.2	-6.1	8.6	4.5	0.5	0.1	0.1	0.2	0.3	0.3
Public	0.1	1.0	-2.0	-1.2	-1.0	-4.2	0.6	0.1	0.0	0.0	0.0	0.0
Investment	0.3	2.2	0.9	-5.8	2.2	5.5	0.6	0.7	1.0	0.9	0.6	0.5
Private	0.4	2.1	1.3	-5.8	2.0	5.3	0.8	0.7	1.0	0.9	0.6	0.5
Public	0.0	0.1	-0.4	0.1	0.2	0.3	-0.2	0.0	0.0	0.0	0.0	0.0
Imports	1.0	2.3	4.2	-21.5	11.6	17.3	1.3	0.4	0.6	0.6	0.6	0.5
Exports	1.5	0.1	4.2	-32.5	29.5	18.7	1.9	0.7	0.7	0.6	0.8	0.8
Tourism Exports	1.6	0.1	3.1	-23.9	21.7	13.8	1.4	0.5	0.5	0.5	0.6	0.6
Non-tourism Exports	-0.1	0.0	1.1	-8.6	7.8	5.0	0.5	0.2	0.2	0.2	0.2	0.2
	(Percent of GDP)											
Fiscal												
Revenues	22.8	22.2	23.4	24.0	19.7	21.4	22.8	23.0	23.0	23.0	23.0	23.0
Expenditures	26.1	24.9	23.7	40.2	28.9	21.8	22.0	22.9	22.7	22.4	22.2	21.9
Of which: capital	1.2	0.9	0.5	0.8	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Overall Balance	-3.3	-2.6	-0.2	-16.2	-9.2	-0.5	0.8	0.2	0.4	0.6	0.9	1.1
Debt	60.4	73.3	71.1	112.3	101.8	90.7	85.4	82.7	79.9	77.1	74.1	71.0
External												
Current Account	-0.2	-0.5	2.6	-12.4	2.7	11.2	7.5	9.1	8.9	8.3	7.8	7.2
External Debt	90.8	89.3	87.6	132.9	119.0	102.3	85.9	82.2	78.7	75.6	72.7	69.9
Memorandum Items:	(Percent change)											
U.S. GDP Growth	1.6	2.9	2.3	-2.8	5.9	2.1	1.6	1.1	1.8	2.1	2.1	2.1
U.S. CPI (average)	2.1	2.4	1.8	1.3	4.7	8.0	4.5	2.3	2.1	2.0	2.0	2.1
CPI (Average)	2.3	3.6	3.9	-1.3	0.7	5.5	4.5	2.3	2.1	2.0	2.0	2.0
GDP Deflator	2.2	8.4	6.1	-0.9	-5.0	5.7	3.2	2.2	2.0	2.0	2.0	2.0
GDP per Capita (Aruban florins)	44,722	53,847	55,662	42,182	51,576	58,667	62,043	64,198	66,350	68,526	70,792	73,158
GDP per Capita (U.S. dollars)	24,984	30,082	31,096	23,566	28,813	32,775	34,661	35,865	37,067	38,282	39,549	40,871
Population (thousands)	101	109	109	108	107	107	107	107	107	107	107	106
Unemployment rate (percent, 2022H1)	7.8	7.3	5.2	8.6	8.8	6.6	…	…	…	…	…	…

Sources: Aruban authorities and IMF staff estimates and projections.

Table 3a. Aruba: Operations of the Central Government, 2018–2028 1/
(In percent of GDP, unless otherwise indicated)

					Est.	Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	(In percent of GDP, unless indicated otherwise)										
Total Revenues	**22.2**	**23.4**	**24.0**	**19.7**	**21.4**	**22.8**	**23.0**	**23.0**	**23.0**	**23.0**	**23.0**
Tax Revenue	19.4	20.4	20.4	16.9	18.7	18.9	19.1	19.1	19.1	19.1	19.1
Direct Taxes	10.0	9.6	10.6	6.9	8.0	7.2	7.2	7.2	7.2	7.2	7.2
Income and profit	8.5	8.0	8.5	5.1	6.0	5.4	5.4	5.4	5.4	5.4	5.4
Property	1.5	1.6	2.1	1.8	2.0	1.7	1.7	1.7	1.7	1.7	1.7
Indirect Taxes	9.5	10.8	9.8	10.0	10.6	11.7	12.0	12.0	12.0	12.0	12.0
Commodities	5.4	5.6	5.2	5.4	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Services	0.7	0.7	0.4	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6
BBO	2.4	3.5	3.3	3.3	3.5	4.8	5.1	5.1	5.1	5.1	5.1
Foreign exchange	0.9	1.0	0.9	0.8	1.0	0.8	0.8	0.8	0.8	0.8	0.8
Non-Tax Revenue	2.8	3.0	3.6	2.8	2.7	3.9	3.9	3.9	3.9	3.9	3.9
Other non-tax revenues	2.8	3.0	3.6	2.8	2.7	3.9	3.9	3.9	3.9	3.9	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	**24.9**	**23.7**	**40.2**	**28.9**	**21.8**	**22.0**	**22.9**	**22.7**	**22.4**	**22.2**	**21.9**
Current Expenditures	24.0	23.2	39.4	28.5	21.4	21.7	22.6	22.3	22.1	21.9	21.6
Compensation of employees	8.1	7.8	9.4	7.5	6.8	6.9	6.9	6.9	6.9	6.9	6.9
Wages and salaries	6.4	6.2	7.4	5.9	5.3	5.5	5.5	5.5	5.5	5.5	5.5
Employer contribution and benefits	1.7	1.6	2.0	1.6	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Goods and services	3.2	2.9	4.1	3.3	2.9	3.1	3.1	3.1	3.1	3.1	3.1
Interest	3.8	3.8	5.1	4.4	3.9	3.7	4.4	4.3	4.1	4.0	3.8
Transfers and Subsidies	8.8	8.7	20.8	13.4	7.8	7.9	8.2	8.1	8.0	7.9	7.8
Total Subsidies	3.6	3.5	4.2	3.6	3.2	3.3	3.3	3.2	3.2	3.2	3.1
Wage subsidies	3.4	3.3	4.0	3.4	3.1	3.1	3.1	3.0	3.0	3.0	2.9
Other subsidies	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Transfers	5.2	5.2	16.6	9.8	4.6	4.7	4.9	4.9	4.8	4.8	4.7
Social transfers	2.5	2.5	10.9	6.4	2.6	2.7	2.7	2.7	2.6	2.6	2.6
Transfers to AZV	0.7	0.0	2.7	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	2.0	2.7	3.0	2.4	2.0	1.9	2.2	2.2	2.2	2.2	2.1
Capital Expenditure	0.9	0.5	0.8	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Of which : Development Fund	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Overall Balance	**-2.6**	**-0.2**	**-16.2**	**-9.2**	**-0.5**	**0.8**	**0.2**	**0.4**	**0.6**	**0.9**	**1.1**
Primary Balance	1.1	3.5	-11.1	-4.8	3.4	4.5	4.6	4.7	4.8	4.8	4.9
Net Acquisition of Financial Assets	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net Incurrence of Liabilities	3.0	0.5	16.5	9.4	0.7	-0.5	0.1	-0.2	-0.4	-0.7	-0.9
Memorandum Items:											
Cyclically Adjusted Primary Balance 2/	1.1	4.3	-5.9	-4.4	3.2	4.3	4.5	4.6	4.8	4.9	4.9
Financial Balance (Authorities' concept)	-3.0	-0.5	-16.5	-9.4	-0.7	0.5	-0.1	0.2	0.4	0.7	0.9
Primary Spending	21.1	19.9	35.1	24.5	17.9	18.2	18.5	18.4	18.3	18.2	18.1
Public Gross Debt	**73.3**	**71.1**	**112.3**	**101.8**	**90.7**	**85.4**	**82.7**	**79.9**	**77.1**	**74.1**	**71.0**
Nominal GDP (millions of Aruban florins)	5,864	6,078	4,580	5,555	6,303	6,655	6,880	7,102	7,323	7,552	7,787

Sources: Aruban authorities and IMF staff estimates and projections.

Notes:

1/ This table is presented on an adjusted cash basis.

2/ In percent of nominal potential GDP.

Table 3b. Aruba: Operations of the Central Government, 2018–2028 1/

(In millions of Aruban florins, unless otherwise indicated)

					Est.	Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	(In millions of Aruban florins, unless otherwise indicated)										
Total Revenues	**1,303**	**1,425**	**1,100**	**1,094**	**1,346**	**1,515**	**1,586**	**1,637**	**1,688**	**1,741**	**1,795**
Tax Revenue	1,140	1,240	933	940	1,176	1,255	1,317	1,360	1,402	1,446	1,491
Direct Taxes	585	581	485	385	506	477	493	509	524	541	558
Income and profit	499	487	390	285	379	361	373	385	397	410	423
Property	86	94	95	100	127	116	119	123	127	131	135
Indirect Taxes	555	659	447	555	670	778	824	851	877	905	933
Commodities	318	338	239	301	346	366	378	390	402	415	428
Services	42	42	19	27	37	40	41	42	44	45	46
BBO	143	216	150	181	223	323	354	365	376	388	400
Foreign exchange	53	64	39	47	65	50	52	53	55	57	59
Non-tax Revenue	163.4	184.8	167.1	154.0	169.9	259.9	268.7	277.4	286.0	295.0	304.2
Other Non-tax Revenues	163.4	183.8	167.1	154.0	169.6	259.9	268.7	277.4	286.0	295.0	304.2
Grants	0	1.0	0.0	0	0	0	0	0	0	0	0
Total Expenditures	**1,458**	**1,440**	**1,843**	**1,603**	**1,376**	**1,464**	**1,574**	**1,609**	**1,642**	**1,675**	**1,709**
Current Expenditures	1,405	1,410	1,804	1,585	1,349	1,442	1,552	1,586	1,619	1,650	1,684
Compensation of Employees	476	475	429	418	426	459	474	489	505	520	537
Wages and salaries	378	377	337	329	335	368	380	392	405	417	430
Employer contribution and benefits	99	98	91	89	91	91	94	97	100	103	107
Goods and Services	190	176	188	182	186	205	212	218	225	232	240
Interest	221	230	234	243	245	250	303	304	302	300	296
Transfers and Subsidies	518	529	953	742	493	529	563	575	586	598	611
Total Subsidies	211	213	192	200	203	219	224	229	233	238	244
Wage subsidies	199	201	182	189	194	206	211	216	220	224	229
Other Subsidies	12	12	11	11	9	13	13	13	13	14	15
Transfers	306.8	316.5	761.0	542.4	289.9	310.1	338.8	346.1	353.0	360.0	367.2
Social Transfers	149	154	500	354	162	181	186	190	193	197	201
Transfers to AZV	39	0	123	56	0	0	0	0	0	0	0
Others	118.4	162.7	138.1	131.8	127.5	128.7	153.2	156.5	159.6	162.8	166.0
Capital Expenditure	53	29	39	18	26	22	22	23	24	24	25
Of which : Development Fund	5	4	4	4	4	4	4	4	4	4	4
Overall Balance	**-155**	**-15**	**-743**	**-509**	**-30**	**51**	**11**	**27**	**46**	**66**	**86**
Primary Balance	66	215	-509	-266	216	300	315	331	348	366	383
Net Acquisition of Financial Assets	18	16	15	14	12	16	16	16	16	16	16
Net Incurrence of Liabilities	173	31	758	523	41	-35	5	-11	-29	-50	-70
Memorandum Items:											
Cyclically Adjusted Primary Balance 2/	65	268	-318	-248	201	284	306	327	348	367	385
Financial Balance (Authorities' Concept)	-173	-31	-758	-523	-41	35	-5	11	29	50	70
Primary Spending	1,237	1,210	1,609	1,360	1,130	1,214	1,271	1,306	1,340	1,375	1,412
Public Gross Debt	**4,299**	**4,319**	**5,146**	**5,656**	**5,718**	**5,683**	**5,688**	**5,677**	**5,648**	**5,598**	**5,528**
Nominal GDP (millions of Aruban florins)	5,864	6,078	4,580	5,555	6,303	6,655	6,880	7,102	7,323	7,552	7,787

Sources: Aruban authorities and IMF staff estimates and projections.

Notes:

1/ This table is presented on an adjusted-cash basis.

2/ In percent of nominal potential GDP.

Table 4. Aruba: Central Bank Survey, 2018-2028
(In millions of Aruban florins, unless otherwise indicated)

					Est.	Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	(In millions of Aruban florins, unless otherwise indicated)										
Net Foreign Assets	**1,636**	**1,569**	**1,911**	**2,499**	**2,661**	**2,681**	**2,858**	**3,000**	**3,132**	**3,252**	**3,405**
Gross Foreign Assets	1,781	1,789	2,209	2,745	2,800	2,821	2,997	3,139	3,271	3,391	3,544
Gross Foreign Liabilities	-2.6	-4.3	-0.1	-0.1	-9.4	-9.4	-9.4	-9.4	-9.4	-9.4	-9.4
Valuation Changes	-142	-216	-298	-246	-130	-130	-130	-130	-130	-130	-130
Net Domestic Assets	**-134**	**-113**	**-198**	**-140**	**193**	**-30**	**-30**	**-28**	**-28**	**-28**	**-28**
Government Deposits (net)	-49	-17	-95	-42	70	70	70	71	71	71	71
Development Funds Deposits	0	0	0	0	0	0	0	1	1	1	1
Other Domestic Entities (net)	-1	-1	-1	0	0	0	0	0	0	0	0
Other Items (net)	-84	-95	-102	-98	123	-100	-100	-100	-100	-100	-100
Reserve Money	**1,503**	**1,456**	**1,713**	**2,359**	**2,492**	**2,651**	**2,827**	**2,972**	**3,104**	**3,224**	**3,377**
Bank Notes Issued	298	259	303	299	298	308	329	346	361	375	393
Bank Reserves	1,205	1,197	1,410	2,060	2,194	2,343	2,499	2,626	2,743	2,849	2,984
Demand	399	459	1,131	1,519	853	911	972	1,021	1,067	1,108	1,160
Time	806	738	279	541	1,341	1,432	1,527	1,605	1,676	1,741	1,824
	(Annual percentage change)										
Net Foreign Assets	8.4	-4.1	21.8	30.8	6.5	0.8	6.6	5.0	4.4	3.8	4.7
Net Domestic Assets	-4.2	-15.5	75.1	-29.4	-237.9	-115.8	0.0	-6.6	0.0	0.0	0.0
Reserve Money	9.7	-3.1	17.6	37.7	5.6	6.4	6.7	5.1	4.4	3.9	4.7
	(Percent of GDP)										
Government Deposits at Central Bank	0.8	0.3	2.1	0.8	-1.1	-1.0	-1.0	-1.0	-1.0	-0.9	-0.9
Central Government	0.8	0.3	2.1	0.8	-1.1	-1.0	-1.0	-1.0	-1.0	-0.9	-0.9
Development Fund	0.0	0.0	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, 2018-2028
(In millions of Aruban florins, unless otherwise indicated)

					Est.	Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	(In millions of Aruban florins, unless otherwise indicated)										
Net foreign assets	**1,776**	**1,713**	**2,056**	**2,885**	**3,112**	**3,157**	**3,349**	**3,508**	**3,655**	**3,792**	**3,962**
Central bank	1,636	1,569	1,911	2,499	2,661	2,681	2,858	3,000	3,132	3,252	3,405
Gross Foreign Assets	1,781	1,789	2,209	2,745	2,800	2,821	2,997	3,139	3,271	3,391	3,544
Gross Foreign Liabilities	-3	-4	0	0	-9	-9	-9	-9	-9	-9	-9
Valuations	-142	-216	-298	-246	-130	-130	-130	-130	-130	-130	-130
Commercial banks	140	143	145	386	450	476	492	507	523	540	556
Net domestic assets	**2,602**	**2,856**	**2,741**	**2,481**	**2,435**	**2,699**	**2,704**	**2,741**	**2,788**	**2,853**	**2,891**
Domestic credit	3,551	3,897	3,885	3,728	3,921	4,036	4,161	4,285	4,407	4,534	4,664
Net claims on the government	318	450	429	321	456	464	468	472	476	480	484
Deposits	-206	-139	-143	-135	-60	-63	-65	-67	-70	-72	-74
Claims	524	589	572	456	515	527	534	540	546	552	558
Claims on the private sector	3,233	3,447	3,456	3,407	3,465	3,572	3,693	3,812	3,931	4,054	4,180
Other items net	-949	-1,040	-1,144	-1,248	-1,486	-1,569	-1,622	-1,675	-1,727	-1,781	-1,836
Money supply (M2)	**4,378**	**4,569**	**4,797**	**5,366**	**5,546**	**5,856**	**6,054**	**6,249**	**6,444**	**6,645**	**6,852**
Money (M1)	2,433	2,574	2,735	3,185	3,402	3,592	3,714	3,833	3,953	4,076	4,203
Quasi money	1,944	1,995	2,063	2,181	2,144	2,193	2,220	2,246	2,271	2,296	2,321
	(Annual percentage change)										
Net foreign assets	5.4	-3.6	20.1	40.3	7.9	1.5	6.1	4.7	4.2	3.7	4.5
Net domestic assets	1.8	9.8	-4.0	-9.5	-1.9	10.9	0.2	1.4	1.7	2.3	1.3
Credit to the private sector	3.6	6.6	0.3	-1.4	1.7	3.1	3.4	3.2	3.1	3.1	3.1
Broad money	3.2	4.4	5.0	11.8	3.4	5.6	3.4	3.2	3.1	3.1	3.1
Deposits	3.6	5.4	4.1	12.4	3.7	5.6	3.4	3.2	3.1	3.1	3.1
	(Percent of GDP)										
Credit to the private sector	55.1	56.7	75.4	61.3	55.0	53.7	53.7	53.7	53.7	53.7	53.7
Government deposits	3.5	2.3	3.1	2.4	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Broad money	74.6	75.2	104.7	96.6	88.0	88.0	88.0	88.0	88.0	88.0	88.0
Memorandum items:											
Money multiplier	2.9	3.1	2.8	2.3	2.2	2.2	2.1	2.1	2.1	2.1	2.0

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

Table 6. Aruba: Balance of Payments (6th Edition), 2018–2028
(In millions of US. dollars, unless otherwise indicated)

					Est.	Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	(In millions of U.S. dollars, unless otherwise indicated)										
Current Account Balance	**-17**	**88**	**-316**	**84**	**394**	**278**	**350**	**354**	**341**	**328**	**313**
Goods	-1,038	-1,075	-776	-937	-1,163	-1,259	-1,310	-1,364	-1,419	-1,476	-1,534
Exports	194	131	87	123	207	207	207	209	211	214	217
Of which: oil products 1/	61	49	23	38	53	42	39	38	37	36	35
Imports	1,232	1,206	863	1,060	1,370	1,465	1,517	1,573	1,631	1,690	1,751
Of which: oil products	218	200	115	229	356	289	274	266	261	256	253
Services	1,327	1,395	575	1,195	1,755	1,962	2,003	2,047	2,093	2,140	2,188
Credits	2,372	2,427	1,357	2,083	2,821	3,052	3,111	3,172	3,236	3,301	3,367
Of which: tourism exports	2,022	2,090	1,070	1,781	2,464	2,682	2,735	2,790	2,846	2,903	2,961
Debits	1,045	1,032	781	888	1,065	1,090	1,108	1,125	1,143	1,161	1,179
Income	-306	-232	-116	-174	-198	-426	-344	-329	-332	-336	-341
Primary Income	-215	-153	-68	-94	-127	-337	-248	-231	-233	-235	-237
Secondary Income	-91	-79	-48	-80	-71	-88	-95	-97	-100	-102	-104
Capital Account Balance	**0**	**2**	**12**	**16**	**-6**	**0**	**0**	**0**	**0**	**0**	**0**
Financial Account	**-28**	**90**	**-315**	**84**	**337**	**278**	**350**	**354**	**341**	**328**	**313**
Direct investment (net, inflows -)	-114	135	-141	-139	-144	-144	-153	-128	-118	-108	-108
Portfolio (net)	-34	47	-191	67	322	287	225	225	225	208	180
Financial derivatives (net)	6	-4	4	-33	2	2	2	0	0	0	0
Other investments (net)	42	-51	-176	-139	61	122	178	178	161	161	156
Reserve Assets, (net change, + increase)	72	-36	188	328	96	11	99	80	74	67	86
Errors and Omissions	**-11**	**1**	**-11**	**-16**	**-51**	**0**	**0**	**0**	**0**	**0**	**0**
	(Percent of GDP, unless otherwise indicated)										
Current Account Balance	**-0.5**	**2.6**	**-12.4**	**2.7**	**11.2**	**7.5**	**9.1**	**8.9**	**8.3**	**7.8**	**7.2**
Goods	-31.7	-31.7	-30.3	-30.2	-33.0	-33.9	-34.1	-34.4	-34.7	-35.0	-35.3
Exports	5.9	3.8	3.4	4.0	5.9	5.6	5.4	5.3	5.2	5.1	5.0
Of which: oil products 1/	1.9	1.4	0.9	1.2	1.5	1.1	1.0	1.0	0.9	0.8	0.8
Imports	37.6	35.5	33.7	34.1	38.9	39.4	39.5	39.7	39.9	40.0	40.2
Of which: oil products	6.7	5.9	4.5	7.4	10.1	7.8	7.1	6.7	6.4	6.1	5.8
Services	40.5	41.1	22.5	38.5	49.8	52.8	52.1	51.6	51.2	50.7	50.3
Credits	72.4	71.5	53.0	67.1	80.1	82.1	80.9	80.0	79.1	78.2	77.4
Of which: tourism exports	61.7	61.6	41.8	57.4	70.0	72.1	71.2	70.3	69.6	68.8	68.1
Debits	31.9	30.4	30.5	28.6	30.3	29.3	28.8	28.4	27.9	27.5	27.1
Income	-9.3	-6.8	-4.5	-5.6	-5.6	-11.4	-8.9	-8.3	-8.1	-8.0	-7.8
Primary Income	-6.6	-4.5	-2.7	-3.0	-3.6	-9.1	-6.5	-5.8	-5.7	-5.6	-5.5
Secondary Income	-2.8	-2.3	-1.9	-2.6	-2.0	-2.4	-2.5	-2.5	-2.4	-2.4	-2.4
Capital Account Balance	**0.0**	**0.0**	**0.5**	**0.5**	**-0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial Account	**-0.9**	**2.7**	**-12.3**	**2.7**	**9.6**	**7.5**	**9.1**	**8.9**	**8.3**	**7.8**	**7.2**
Direct ilvestment (net, inflows -)	-3.5	4.0	-5.5	-4.5	-4.1	-3.9	-4.0	-3.2	-2.9	-2.6	-2.5
Portfolio (net)	-1.0	1.4	-7.5	2.2	9.1	7.7	5.9	5.7	5.5	4.9	4.1
Financial Derivatives (net)	0.2	-0.1	0.2	-1.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Other Investments (net)	1.3	-1.5	-6.9	-4.5	1.7	3.3	4.6	4.5	3.9	3.8	3.6
Reserve Assets, (net change, + increase)	2.2	-1.1	7.4	10.6	2.7	0.3	2.6	2.0	1.8	1.6	2.0
Errors and Omissions	**-0.3**	**0.0**	**-0.4**	**-0.5**	**-1.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum Items:											
Exports of Goods and Services (percent change)	11.3	-0.3	-43.5	52.8	37.3	7.6	1.8	1.9	1.9	2.0	2.0
Import of Goods and Services (percent change)	11.7	-1.7	-26.5	18.4	25.1	4.9	2.7	2.8	2.8	2.8	2.8
Central Bank Net Foreign Assets (millions of U.S. dollars) 2/	914	877	1,067	1,396	1,487	1,498	1,597	1,676	1,750	1,817	1,902
Gross Foreign Assets (millions of U.S. dollars)	995	999	1,234	1,534	1,564	1,576	1,674	1,754	1,828	1,895	1,980
(months of next years imports)	5.2	5.4	9.0	9.4	7.7	7.4	7.7	7.8	7.9	8.0	8.1
(percent of broad money)	41	39	46	...	...	...	...	...	...	...	...
(percent of short term external debt residual maturity)	480	421	695	904	1080	1075	1155	1223	1287	1346	1418
Gross Foreign Liabilities (millions of U.S. dollars)	1.5	2.4	0.1	0.1	5.3	5.3	5.3	5.3	5.3	5.3	5.3
External Debt (percent of GDP)	89.3	87.6	132.9	119.0	102.3	85.9	82.2	78.7	75.6	72.7	69.9
Nominal GDP (millions of U.S. dollars)	3,276	3,396	2,559	3,104	3,521	3,718	3,844	3,967	4,091	4,219	4,350

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, 2009–2022
(In percent, unless otherwise indicated)

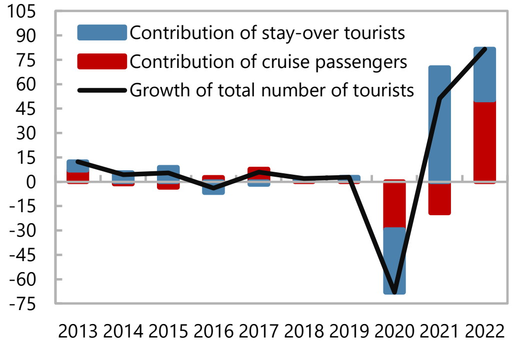
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Capital														
Regulatory Tier I capital to risk-weighted	10.6	11.3	11.3	11.8	14.7	15.3	17.6	19.6	22.4	24.4	24.6	27.5	28.6	31.8
Tier 1 and 2 capital to risk-weighted asse	17.9	18.5	17.7	19.4	22.7	23.3	26.1	28.1	30.3	32.1	31.0	33.3	37.0	39.5
Asset Quality														
NPLs to gross loans	7.9	10.7	8.2	7.0	7.0	6.3	4.7	4.4	4.0	3.9	3.2	5.0	4.7	3.4
NPLs net of provisions to gross loans	4.5	6.9	4.1	3.4	3.7	3.2	1.6	1.5	1.5	1.5	0.9	1.1	1.3	0.6
NPLs net of provisions to regulatory capita	27.4	40.9	25.9	19.2	18.3	14.7	6.8	5.8	5.4	4.9	3.0	3.8	4.0	1.7
Large exposures to capital	77.1	68.6	68.3	86.4	67.6	69.2	56.4	51.4	40.6	41.4	45.3	50.7	32.7	10.9
Earnings and Profitability														
ROA after taxes	1.8	1.8	2.1	0.6	0.6	0.5	0.5	0.5	0.5	0.4	0.3	0.1	0.4	0.4
ROE after taxes	17.4	16.8	19.8	5.3	5.0	4.5	3.9	3.8	3.1	2.6	2.0	0.6	2.5	2.3
Net interest income to gross income	62.8	64.5	62.6	67.1	61.9	60.4	57.4	58.5	57.2	55.6	56.1	64.0	55.7	50.8
Non-interest expenses to gross income	75.0	75.2	72.8	69.2	71.6	72.0	73.3	71.9	74.0	78.1	81.7	94.8	73.4	75.0
Liquidity														
Liquid assets to total assets	30.1	28.6	26.1	27.6	24.3	24.1	27.3	30.6	28.6	29.8	29.3	33.7	38.0	29.7
Liquid assets to short term liabilities	71.5	75.6	61.4	61.2	57.5	58.7	62.8	67.4	60.9	63.9	63.5	72.0	76.1	57.4
Loans to deposits	67.1	66.5	71.0	68.2	72.9	73.6	69.9	66.2	68.2	68.1	68.4	66.8	58.7	58.7
Sensitivity to Market Risk														
Interest rate margin (percentage points)	7.1	8.1	7.9	7.5	7.2	5.2	6.2	6.0	5.3	5.2	4.6	4.7	4.7	4.7

Source: Central Bank of Aruba.

Figure 1. Aruba: Real Sector Developments

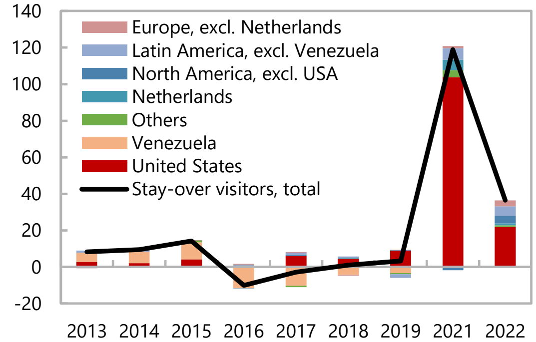
Tourist arrivals recovered significantly since 2021…

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



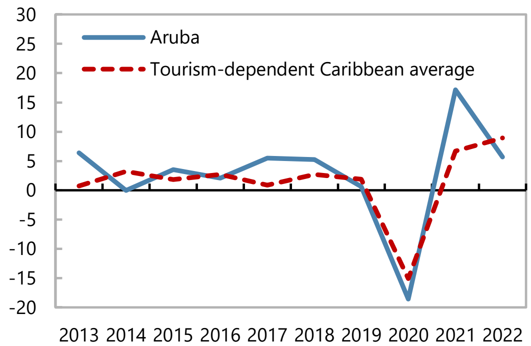
…With the highest impact from the U.S. visitors

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



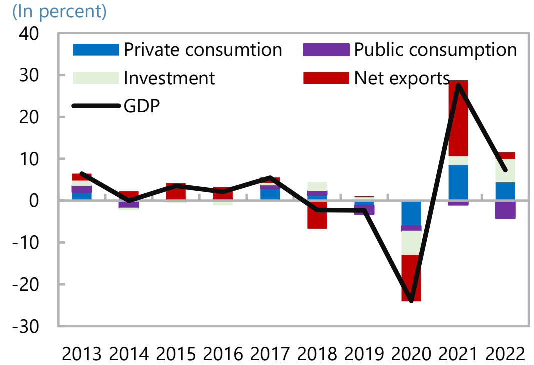
… Leading to a drastic increase in real GDP growth

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



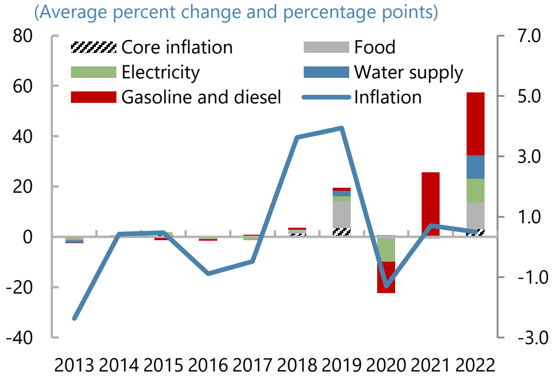
… Driven by net exports and private consumption

RGDP Composition: Contributions to Growth
(In percent)



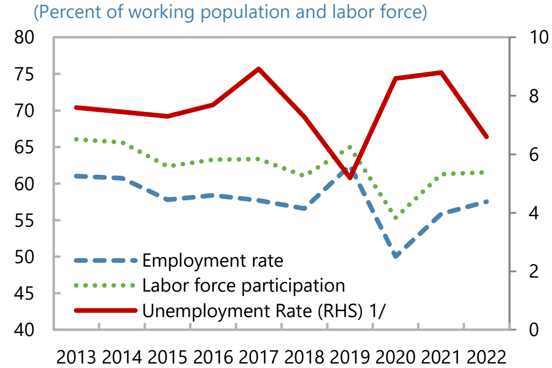
Gasoline and diesel price increased significantly since 2021.

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



The estimated unemployment rate remains high.

Labor market outcomes, aged 15+
(Percent of working population and labor force)

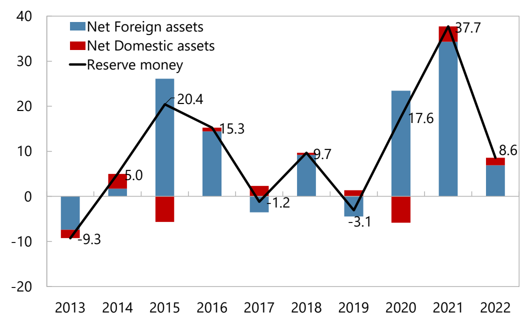


Sources: Aruban Authorities, WEO database, and IMF staff calculations.
1/ Latest data available for unemployment rate is Jun 2022.

Figure 2. Aruba: Monetary Sector Developments

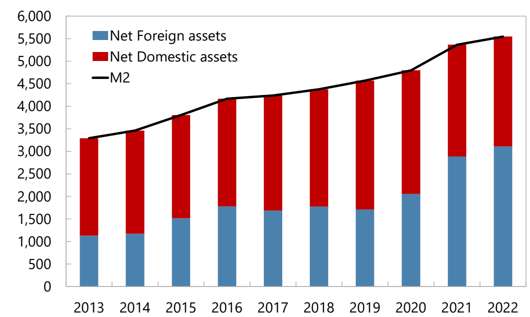
Reserve money growth in 2022 was driven by Net Foreign Assets, despite a decline in Net Domestic Asset

Contributions to Growth in Reserve Money
(In percent)



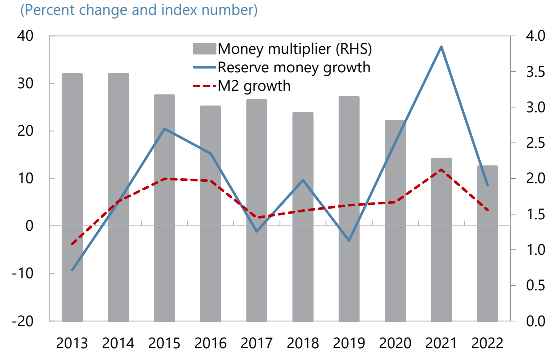
...And so did the money supply, with a composition changing from the domestic to foreign assets

Broad Money Composition
(In millions of florins)



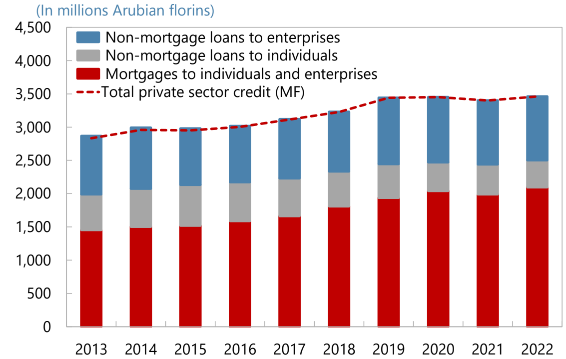
...While the money multiplier fell to 2.1 in 2022

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



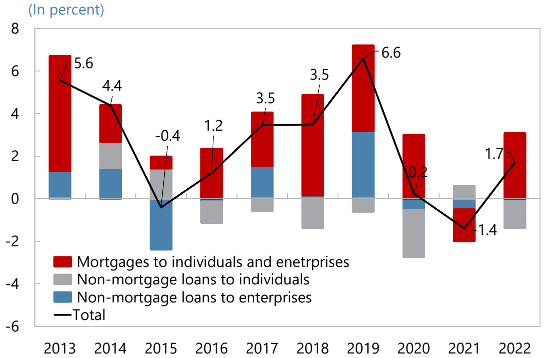
Private sector credit growth remained subdued up to end-2022

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



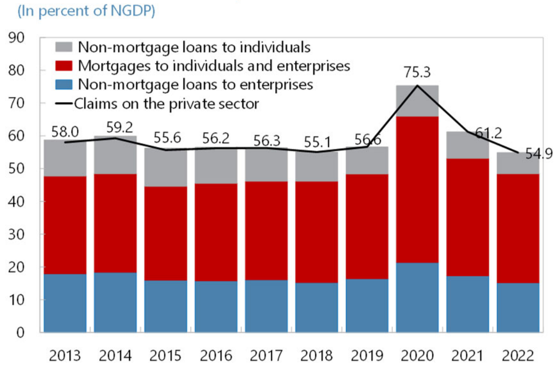
...Except for mortgages, which is the driver of moderate credit growth in 2022...

Contributions to Domestic Private Credit Growth
(In percent)



.. But the private sector credit to GDP remains below the 2019 level.

Private sector credit depth
(In percent of NGDP)



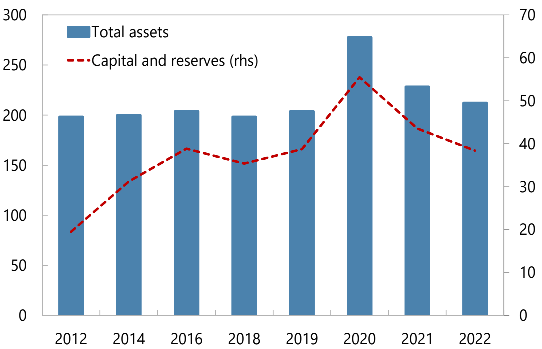
Sources: Central Bank of Aruba, WEO database, and IMF staff calculations.

Figure 3. Aruba: Financial Sector Developments

The financial system's assets are at 214 percent of GDP in 2022, close to pre-pandemic levels

Financial Sector Size Relative to the Economy

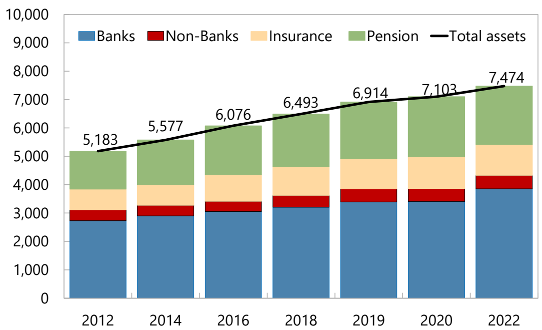
(In percent to GDP in market prices)



...With increasing share of banks (52 percent in 2022), while the share of pension funds decreased and that of insurance and non-banks remaining stable

Financial Sector Structure: Total Assets

(In millions of USD)

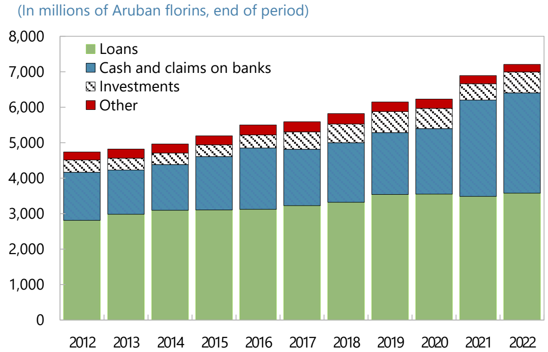


Sources: National Authorities and IMF Staff Calculations.

In 2022, banks grew their assets especially by accumulating cash but also increased investments and some loans.

Asset Structure of Banks in Aruba

(In millions of Aruban florins, end of period)

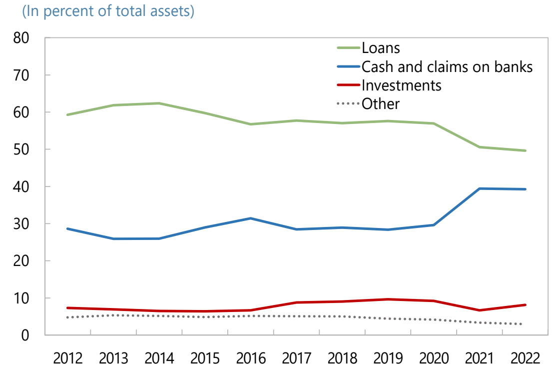


Sources: Central Bank of Aruba and IMF Staff Calculations.

Since the pandemic, banks have created significant buffers in cash holdings and increased investments, while the share of loans and other assets have decreased

Asset Structure of Banks in Aruba

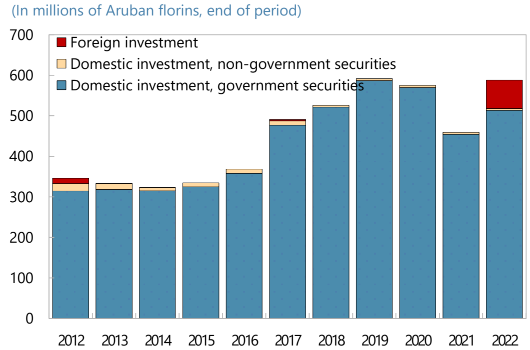
(In percent of total assets)



In 2022, banks increased their investment allocation abroad, which reached 12 percent, with the rest of the investment placed domestically, mainly in home government securities

Structure of Investment by Banks in Aruba

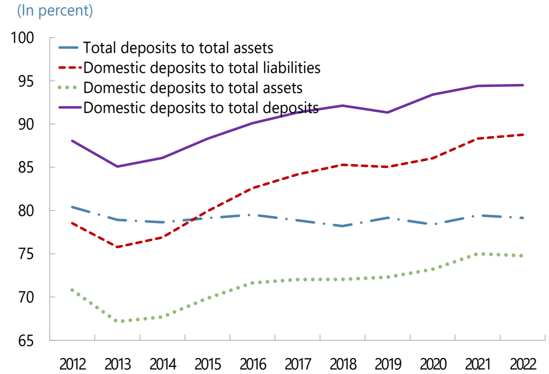
(In millions of Aruban florins, end of period)



Sources: Central Bank of Aruba and IMF Staff Calculations.

Role of Deposits in Banks's Financing

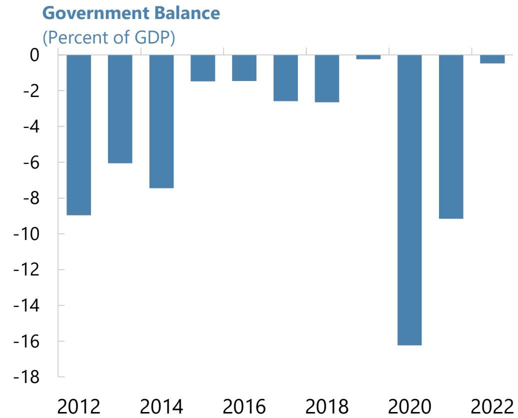
(In percent)



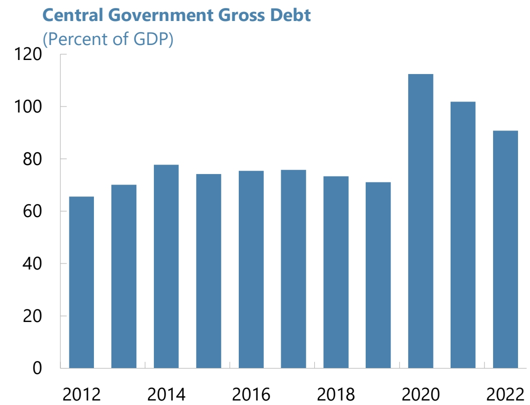
Sources: Central Bank of Aruba and IMF staff calculations.

Figure 4. Aruba: Fiscal Sector Developments

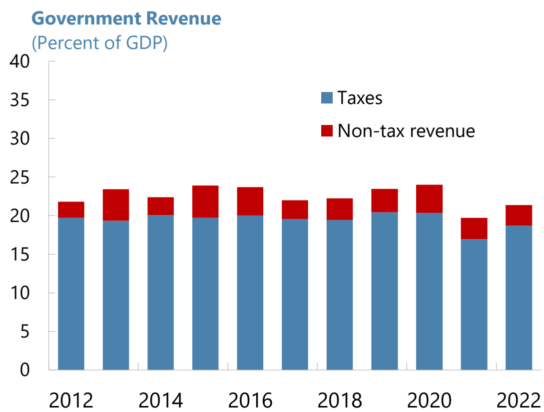
The fiscal deficit has narrowed significantly due to the determination of COVID-19 related measure and increase in tax revenue.



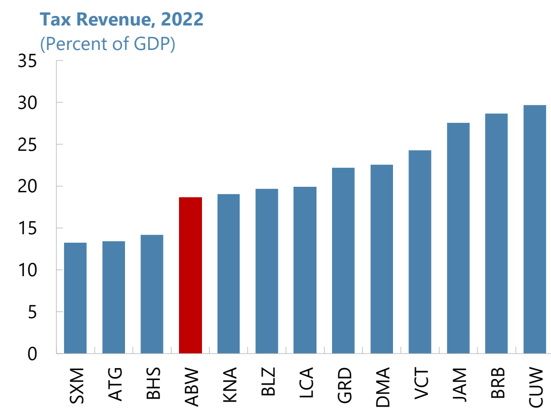
...And so did public debt.



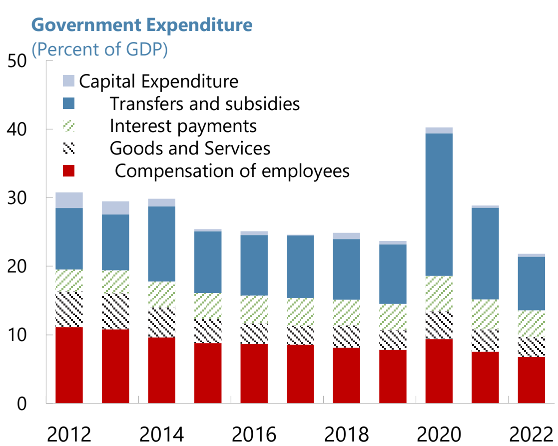
Revenues have rebounded, supported by economic recovery...



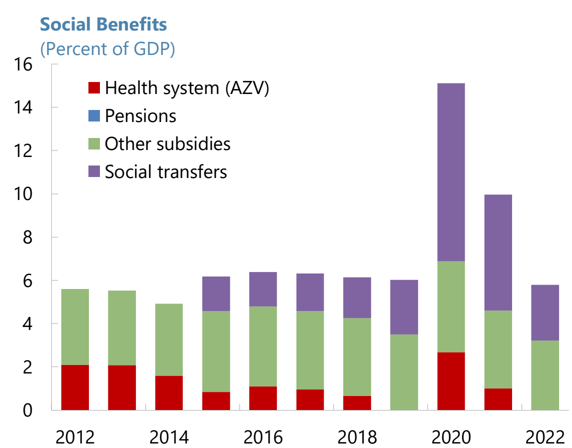
... With tax receipts at about the average of Caribbean pears.



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



Transfers to health and other social programs have decreased since 2020.



Sources: Aruban authorities, WEO database, and IMF staff calculations.

Annex I. Implementation of Recommendations from the 2021 Article IV Consultation Discussions

Recommendations	Status
Fiscal Policy	
Enhance the progressivity of the tax systems.	**Ongoing.** The authorities introduced several tax reforms in 2023 to further raise revenue while supporting households and business activity.
Consider wealth taxes.	**No progress.**
Exploit excises and environnemental taxes.	**Ongoing.** Environmental tax is applied.
Introduce a value-added tax (VAT) to replace the current various indirect taxes.	**Postponed**. The plan to introduce a VAT in January 2023 has been postponed due to inflation concerns.
Contain the wage bill.	**Ongoing**. An IMF TA mission was conducted in 2019 and a follow-up mission in 2020.
Enhance the social safety net.	**No progress.**
Comprehensive reform of the labor market safety net.	**Partial progress.** Minimum wage was increased as of January 1st, 2023.
A robust fiscal policy planning framework with a formal fiscal rule.	**Partial progress.** The budget contains four-year forecasts for headline revenues and expenditures is updated on an annual basis. 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.
Finalize the strategy for budget financing and debt management.	**Ongoing**. TA request submitted to CARTAC.
Monetary and Financial Policies	
Unwind the capital flow management measures on FX outflows.	**Addressed.** The measure was lifted in 2021.
Remove the new exchange restrictions imposed during COVID-19.	**Addressed.** The measures were lifted in 2021.
Closely monitor NPLs and look out for any incipient liquidity risks.	**Ongoing**. The CBA runs annual stress tests based on scenarios of increase in the NPLs, defaults on large exposures, and decreases in liquidity ratios.
Steady progress towards the implementation of Pillar 2 and 3 of Basel II.	**Ongoing**. The CBA is in the process of implementing the Basel II capital framework
Enhance the understanding of ML/TF risks, upgrade the AML/CFT ordinance in line with the FATF standards, and strengthen the confiscation framework.	**Addressed.** The authorities completed the AML/CFT risk assessment (supported by the World Bank) and upgraded the AML/CFT ordinance. The 4th round of mutual evaluation by CFATF was completed and published in July 2022
Structural reforms	
Invest in healthcare infrastructure and capacity building of medical personnel.	**No progress.**
Implement policies to reduce inequality and improve resilience to climate risks.	**Ongoing**. Climate mitigation and energy efficiency programs have been implemented and accelerated. New national targets established for 2030 and 2050. A national climate resilience council was established and tasked with developing a national climate adaptation plan.

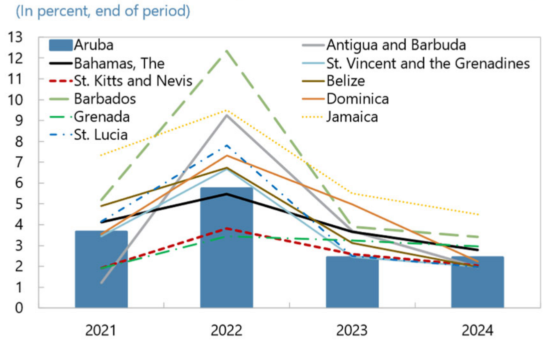
Recommendations	Status
Structural reforms	
Implement structural reforms to improve the business environment.	**Ongoing**. In April 2019 the minister of Finance, Economic Affairs, and Culture presented the economic policy 2019-2022 with a vision to improve the investment climate in Aruba, stimulate an innovative, competitive and diversified economy, and improve quality of life for all citizens, identifying six promising sectors.
Introduce more flexibility to the labor market to boost labor productivity.	**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.
Enhance the social safety net.	**No progress.**
Support any promising exports by developing sector specific infrastructure.	**Ongoing.** An action plan developed and presented by the Ministry of Economic Affairs.
Strengthen the effectiveness of the Anti-Corruption framework	**Ongoing.** The National Integrity System assessment has been completed. Preparation of the Code of Conduct for public servants is ongoing.

Annex II. Drivers of Inflation in Aruba[1]

This Annex examines the drivers of inflation in Aruba. Inflation decomposition shows that three main drivers of consumer prices included transportation, food, and housing and household operations. Regression analysis suggests that global factors—including the international food price, international West Texas Intermediate (WTI) oil price, headline inflation in key trading partners (the U.S. and the Netherlands), and volatility in the US financial markets—explain most of the pick-up in inflation in 2022M3-2023M1, while declining oil prices in 2023M2-23M4 reduced inflationary pressures. Domestic prices fully adjust in two months, overshooting in next month, and self-correcting in the second (as shown by the coefficients of the first two lags of the headline inflation). Price controls on basic goods also likely had helped to constrain inflation surge, maintain prices moderate compared to peers, support the most vulnerable, and remain competitive in the tourism markets.

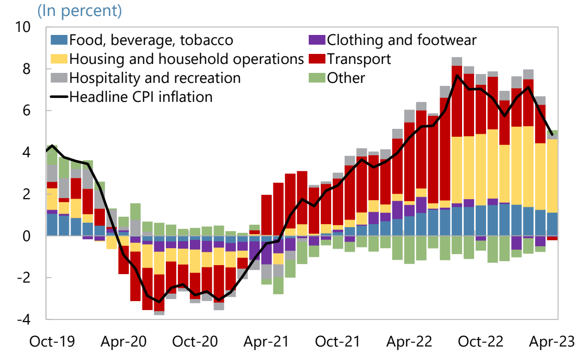
1. **Following global trends, inflation in Aruba has been on the rise since mid-2021 through February 2023, but remained contained compared to the regional peers.** After 18 months of disinflation during the COVID-19 pandemic due to lower domestic demand and lower global energy prices, domestic prices began to pick-up in June 2021 as the economy reopened and supply-chain issues pushed up international prices of energy, vehicles, and household items. At the end-2022, inflation in Aruba stood at 5.7 percent, compared to 14.8 percent in the Latin America and the Caribbean and 8.2 percent in the tourism-dependent Caribbean countries.[2] In January and February 2023, year-on-year inflation continued to increase, reaching 6.6 and 7.2 percent respectively, subsiding to 5.9 and 4.9 percent (y/y) in March and April 2023.

Inflation in Tourism-Dependent Caribbean Countries 1/
(In percent, end of period)



Source: IMF WEO database and IMF staff calculations.
1/ Actuals for 2021-22, projections for 2023-24.

Decomposition of CPI Headline Inflation in Aruba
(In percent)



Sources: Central Bureau of Statistics and IMF staff calculations.

2. **Decomposition of the headline CPI inflation in Aruba points to three main drivers.** First, post-pandemic recovery drove up transportation prices, due to more costly price of vehicles for purchase and their operation, which contributed to the headline 2.8 percent on average since July 2021. Second, domestic food prices began to increase in August 2021 (due to higher transportation

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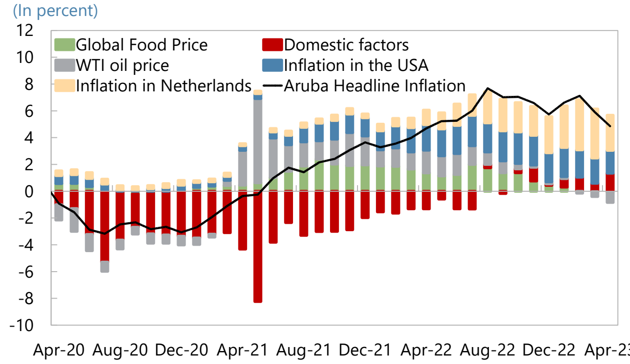
[1] Prepared by Olga Bespalova.

[2] The regional aggregates are weighted geometric averages using the PPP GDP. See Adler, Gustavo, Nigel Chalk, Anna Ivanova, 2023, "*Latin America Faces Slowing Growth and High Inflation Amid Social Tensions*," IMF Blog.

prices), and then accelerated further since May 2022, driven by global challenges in food markets since the War in Ukraine began in February 2022. Overall, food prices contributed to the headline inflation by 1.4 percent on average in August 2021-April 2023. Third, there is a noticeable spike in the housing and household operations prices, which increased the headline by an average of 3.3 percent since August 2022. This component was mainly driven by utilities' prices, by 1.5 percent from electricity and other fuels, and by another 1 percent from water and other services. Prices were also increasing in the hospitality, restaurant, recreation, and culture—contribution of these components averaged 0.4 percent since November 2021, with noticeable increase in the cost of catering and gardening services. Prices for clothing and footwear were rising in January-September 2022, driving the headline inflation during this period by an average of 0.4 percent.

3. Regression analysis shows that over the last year, inflation in Aruba was driven mostly by the external factors (Table 1). Global food and oil prices, higher inflation in the U.S., and disturbances in the financial markets, as measured by the Chicago Board Option Exchange's market volatility index (VIX) are all important leading indicators of inflation in Aruba. According to the first model, which does not include lags of domestic inflation (column 1), the most significant factors of inflation in Aruba are prices in the U.S. and the Netherlands—a one percent increase in their headline inflation transmits to an increase in the Aruban inflation by 0.26 and 0.22 percent, with a four- and five-months lags, respectively. Direct effects from a one percent increase in global food and oil prices were limited but significant, raising the headline consumer inflation by 0.06 and 0.02 percent with a one- and two-months lags, respectively. Growth of the VIX resulted in a small but significant impact—a one percent increase in the VIX would raise domestic inflation by 0.01 percent.

Contributions of External Drivers to Aruba Headline Inflation 1/
(In percent)



Source: IMF staff calculations.
1/ Based on the regression model #1.

4. An alternative model (column 2), which also includes the first two monthly lags of domestic inflation improves the model fit and reduces the residuals. Domestic prices fully adjust in two months, overshooting in next month, and self-correcting in the second suggesting the role of backward-looking inflation expectations. Once the lags of domestic prices are accounted for, the VIX loses its significance, and the U.S. headline inflation changes its sign, caused by interactions with the lags of the Aruban inflation.

5. Other policies and price controls likely helped to contain inflation and deterioration in the standard of living. To note, price-regulated products are essential food (mainly, dried or canned items) and sanitary subcomponents in categories with highly inelastic demand—"food at home" and "miscellaneous personal care"[3]— their total share in the CPI basket is much below 10 percent, resulting in very marginal market distortions. While difficult to estimate, it is plausible to consider that increases in RRR and fiscal consolidation, in 2021-22 helped contain demand-driven inflationary pressures. Price controls of certain basic goods[4], had also helped to constrain inflation surge, maintain prices moderate compared to peers, support the livelihoods of the most vulnerable, and remain competitive in the tourism markets. Nevertheless, the subsistence levels have increased substantially: over April 2022-April 2023, monthly average subsistence level increased by 7.6 percent, compared to previous 12 months.

Estimated Inflation Model

Determinants 1/2/3/	Coeff. (Std. error)	
	Model 1	**Model 2**
Global food price increase (L1)	**0.059***** (0.011)	**0.007**** (0.004)
Global oil price increase (L2)	**0.023***** (0.004)	**0.007***** (0.001)
U.S. headline inflation (L4)	**0.264**** (0.144)	**-0.119*** (0.059)
Netherlands' headline inflation (L5)	**0.217*** (0.100)	**0.085*** (0.038)
Growth of financial markets volatility (VIX) (L4)	**0.006*** (0.003)	0.002 (0.001)
Past domestic inflation (L1)	X	**1.198***** (0.056)
Past domestic inflation (L2)	X	**-0.305****** (0.057)
Long-term average (constant)	0.672* (0.258)	0.242* (0.097)
Adjusted R-squared	0.43	0.92
Root-mean-square-deviation (RMSE)	2.34	0.86

1/ All determinant units are in percent, y/y; and measured from Jan 1996 to Apr 2023.
2/ Superscripts *, **, *** denote the 5, 10, and 1 percent significance levels.
3/ Number of observations were 309.

[3] Their total weights in the CPI basket are 6.441 and 4.271 percent in consumer basket.

[4] See https://www.deaci.aw/prices-and-regulations/ for more information, with a detailed list of regulated products at https://www.deaci.aw/wp-content/uploads/2022/09/Maxprijslijst-3-september-22.xlsx.

Annex III. External Sector Assessment 2022[1]

Overall Assessment: *Aruba's external position in 2022 was substantially stronger than the level implied by fundamentals and desirable policies. The external positions improved significantly, reflecting post-pandemic economic recovery and strong performance of the tourism sector. Tourist arrivals in 2022 reached 98.3 percent of the 2019 level, supporting large current account (CA) surplus (11.2 percent of GDP), despite a higher import bill. Tourism-related imports in 2022 increased the total import bill to lesser degree, reflecting a level effect (in 2021, imports increased significantly due to domestic pandemic-related needs). The real effective exchange rate (REER) is undervalued. International reserves in 2022 stood at 7.3 months of imports and 124 percent of the risk weighted ARA metric. Net international investment position (NIIP) in 2022 improved but remained negative.*

Potential Policy Responses: *External sustainability is not a concern in the near-term, particularly given the country's large CA surplus. Continued current account surplus coupled with implementation of pro-growth structural reforms and the government's effort to restore fiscal sustainability will support reserve accumulation and safeguard the peg in the medium term, while attracting foreign investors.*

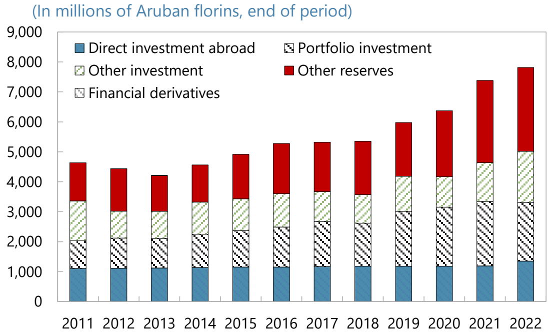
Foreign Assets and Liabilities: Position and Trajectory

Background. The NIIP remained negative and broadly unchanged at -$3.0 billion (85.4 percent of GDP) in 2022. Aruban holdings of foreign assets increased from $3.6 billion in 2020 to $4.4 billion in 2022, reflecting growth in direct and other investment, while Aruban portfolio investments slightly declined (driven by debt securities, despite acquisition of equities). Foreign liabilities of the Aruban residents increased from $6.6 billion in 2020 to $7.4 billion in 2022, due to an increase—in direct and other investment liabilities, despite lower portfolio liabilities (the former include only debt securities). There were no transactions with financial derivatives.

Determinants of the Aruba's NIIP

NIIP: Structure of Assets

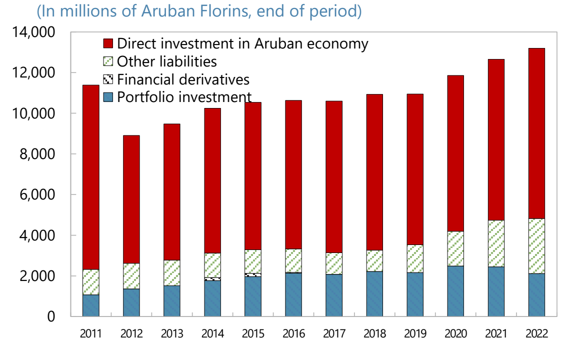
(In millions of Aruban florins, end of period)



Source: Aruban Authorities.

NIIP: Structure of Liabilities

(In millions of Aruban Florins, end of period)



Source: Aruban Authorities.

Assessment. The NIIP in 2022 does not raise a significant concern for external debt sustainability. Under the current baseline scenario and assuming no change in the REER, the NIIP will continue improving in the medium term, helped by the projected CA surplus. It does not deteriorate in net present value terms and is

[1] Prepared by Olga Bespalova.

sustainable based on this definition. Staff believes that the large share of foreign direct investment (FDI) in Aruba's foreign liabilities (about 2/3) mitigate potential risks of capital outflows.

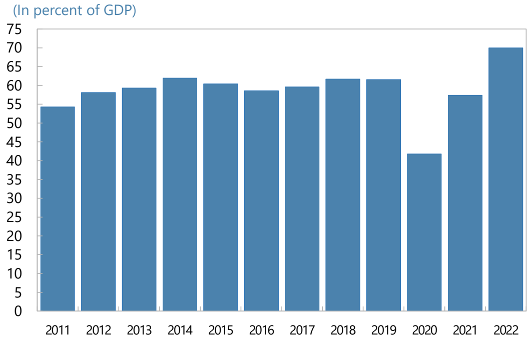
2022 (% GDP)	NIIP: -85.4	Gross Assets: 124	Debt Assets: 16.8	Gross Liab.: 209.4	Debt Liab.: 33.6

Current Account

Background. Aruba is a small, open economy highly dependent on tourism. Over 2018-22, the CA surplus has averaged 0.7 percent of GDP. In 2022, the CA surplus reached 11.2 percent of GDP, with strong tourism receipts offsetting more expensive goods and services imports and remittance outflows.

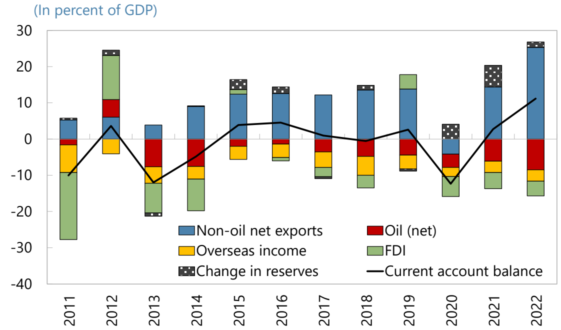
Tourist Arrivals and Current Account Developments

Tourism Exports
(In percent of GDP)



Sources: Aruban authorities and IMF staff estimates.
Note: 2022 refers to IMF staff estimates.

External Position and Main Drivers
(In percent of GDP)



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

Assessment. Staff's analysis based on the EBA-lite CA model suggests that the external position in 2022 was substantially stronger than the level implied by medium-term fundamentals and desirable policies. The 2022 CA surplus adjusted for the COVID-19 and natural disasters was 11.7 percent of GDP. The current account norm is estimated at 5.1 percent of GDP, resulting in a current account gap of 6.6 percent of GDP. Policy gaps contribute 1.8 percentage points to the model-estimated CA gap, driven by reserve~~d~~ accumulation, relatively low public health expenditure and reduced credit to GDP, despite a looser-than-desired fiscal policy stance.

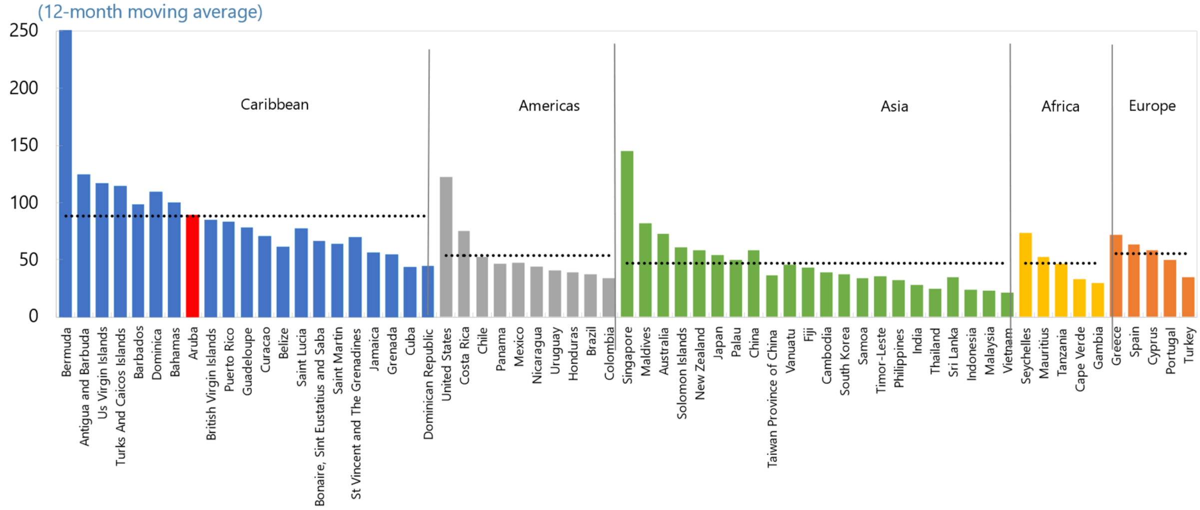
Aruba: EBA-lite Model Results for 2022

In percent of GDP	**CA model** 1/	**REER model** 1/
CA-Actual	**11.2**	
Cyclical contributions (from model) (-)	-0.2	
COVID-19 adjustors (-) 2/	0.3	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	-0.5	
Adjusted CA	**11.7**	
CA Norm (from model) 3/	**5.1**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**5.1**	
CA Gap	**6.6**	**5.7**
o/w Relative policy gap	1.8	
Elasticity	-0.5	
REER Gap (in percent)	**-12.8**	**-11.1**

1/ Based on the EBA-lite 3.0 methodology.
2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism.
3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Week at the Beach Index, April 2023 1/
(12-month moving average)

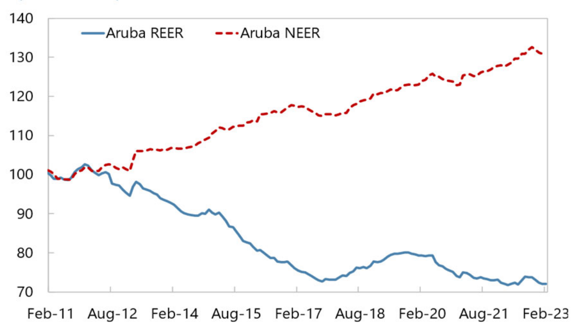


Source: IMF staff calculations.
1/ "Week at the Beach Index (W@TB)" measures the average cost of a 7 -day-trip in a country's beach destinations.
The index is a composition of an average hotel price (3 to 4 'bubble' rating) from TripAdvisor and over 80 million crowdsourc ed data on meals, taxi fares, water, coffee, and beer.

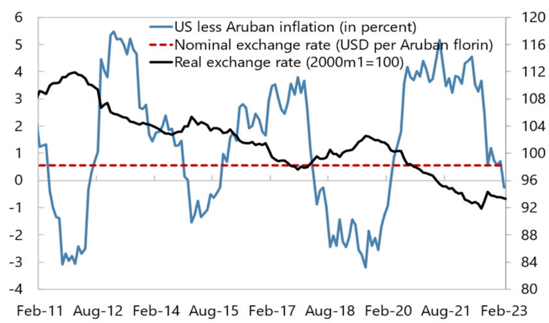
Background. Aruba's REER had depreciated considerably since May 2020 with a short period of appreciation observed in June-October 2022. Cumulatively, by end-2022, Aruba's REER depreciated by 9 percent, compared to end-2019. The bilateral real exchange rate of the Aruban florin with the U.S. dollar also depreciated over the same period. Given the nominal peg, such depreciation is attributable to the inflation differential, as inflation was consistently lower in Aruba than in the U.S.[1]

Exchange Rate Developments

Aruba Real and Nominal Effective Exchange Rates
(Index number)



Exchange Rates with the U.S. and Inflation Differential
(In percent; index number, 2000m1=100)



Source: IMF staff calculations.

Assessment. Using an estimated elasticity of 0.5, the EBA-lite current account methodology suggests a REER undervaluation of 12.8 percent by end-2022. The EBA-Lite REER regression approach points to a REER gap of 11.1 percent. The Week at the Beach Index (W@BI) for Aruba is at regional average, making it more competitive than many other high-income tourism Caribbean destinations, such as Bermuda, US and British Virgin Islands, Bahamas, Antigua and Barbuda, and Turks and Caicos. Overall, the IMF staff assesses the 2022 REER gap to be -12.8 percent, consistent with the staff CA gap.

Capital and Financial Accounts: Flows and Policy Measures

Background. Following the IMF advice in the 2021 Article IV staff report, as of September 1, 2021, the CBA unwound a capital flow management measure (CFM) and exchange rate restrictions introduced in March 2020[2], simultaneously increasing the reserve requirement (RR) ratio. No new CFMs or exchange restrictions were introduced. In 2022, financial account registered net outflows (9.6 percent of GDP), driven by net portfolio investment outflows (9.1 percent of GDP), partially offset by net FDI inflows (4.1 percent of GDP).

Assessment. Net direct investment inflows associated with new investments in tourism industry are expected to support the capital and financial account over the medium-term partially offsetting the portfolio and other investments outflows.

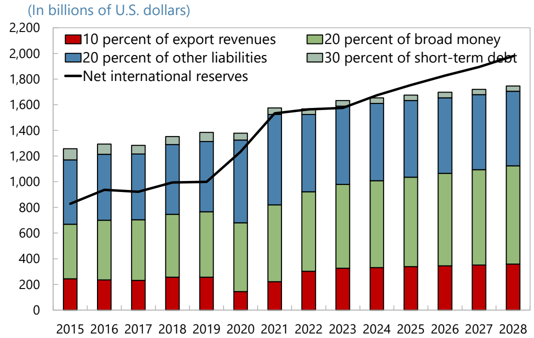
FX Intervention and Reserves Level

Background. Aruba's exchange rate is classified as a conventional peg. The Central Bank of Aruba (CBA) manages Aruba's FX reserves and maintains the peg with the U.S. dollar. As of end-2022, international reserves increased to US$1,653 million (about 44 percent of GDP), helped by the recovery in tourism receipts, providing robust liquidity to the domestic FX market.

International Reserves

Reserves and ARA Metrics Decomposition

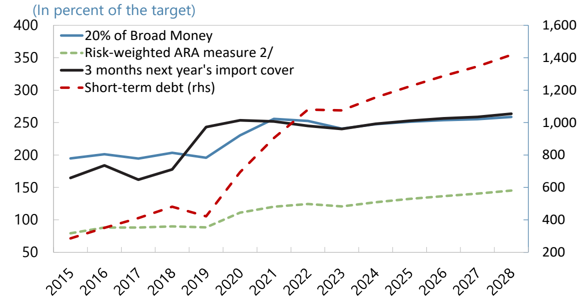
(In billions of U.S. dollars)



Sources: Aruban Authorities and IMF staff calculations.

Reserve Adequacy 1/

(In percent of the target)



Sources: Aruban Authorities and IMF staff calculations.
1/ Values above 100 indicate reserves above the metric's recommended level.
2/ Includes 30 percent of short-term debt, 20 percent of other portfolio liabilities, 10 percent of broad money, and 10 percent of exports of goods and services.

Assessment. International reserves are at comfortable levels and adequate under all metrics. In 2022, they stood at 124 percent of the IMF's composite risk-weighted reserve adequacy metric (ARA), covering 7.3 months of prospective imports of goods and services (2.6 times the three-months benchmark). They also exceeded other benchmarks, 2.5 times the 20 percent of broad money (50.5 percent) and standing at 10.8 times the 30 percent of the short-term debt due within one year.

1/ 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.

2/ In March 2020. the CBA introduced a CFM, which halted the issuance of new FX licenses and 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 three measures classified as exchange restrictions (ERs) under Article VIII as they limited payments and transfers for current transactions. The latter included: (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.

Annex IV. Risk Assessment Matrix[1]

Source of Risk	Likelihood	Expected Impact	Policy Response
Global Risks			
Intensification of regional conflict(s). Escalation of regional conflict(s) and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	High	Medium • Regional conflicts would only have indirect effects on the Aruban economy, likely increasing domestic inflation (due to energy and food prices, or supply chain disruptions) and lowering tourism flows.	• Provide targeted and temporary fiscal support to the most vulnerable and hardest-hit workers and businesses. • Implement policies to diversify the tourism sector while remaining competitive. • Enhance surveillance of the financial system. If necessary, loosen financial conditions to support bank lending, while safeguarding financial stability.
Social discontent. Supply shocks, high inflation, real wage drops, and spillovers from crises in other countries worsen inequality, trigger social unrest, and give rise to financing pressures and damaging populist policies with possible spillovers to other EMDEs. This exacerbates imbalances, slows growth, and triggers market repricing.	High	Low • Social unrest spreading globally is not likely to significantly impact Aruba but rising domestic inflation would affect low-income households, with a negative social impact, including higher inequality.	• Provide targeted and temporary fiscal support to the most vulnerable, while developing clear communication and engagement strategy with the affected population. • Address public vulnerabilities, including through strengthening anti-corruption efforts.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, spillovers through trade and financial channels, and market fragmentation.	Medium	High • A slowdown in key tourist source countries, particularly in the U.S., would severely affect prospects of the Aruban economy, reducing the real growth, exports, and fiscal revenues.	• Provide targeted and temporary fiscal support to the most vulnerable, while building external and fiscal buffers in good times. • Implement policies to diversify the tourism sector to enhance resilience against a slowdown of the global economic growth.
Commodity prices volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	Medium	Medium • Higher commodity prices would (i) push up global inflation, lowering real income in tourist source countries and tourist arrivals to Aruba; (ii) pass to domestic prices via higher import bill and transportation costs, affecting to the greater degree low-income and vulnerable households, and increasing inequality.	• Provide targeted social assistance to the most vulnerable while allowing pass-through of price signals. • Accelerate transition to renewable energy sources through implementation of the ongoing renewable energy and cyclical economy programs.

[1] Prepared by Ali Al-Sadiq and Olga Bespalova.

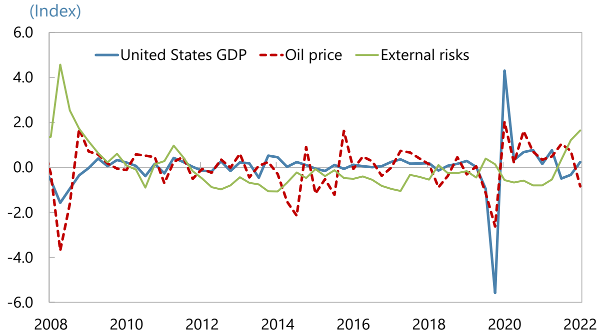
Source of Risk	Likelihood	Expected Impact	Policy Response
		Sources	
Systemic financial instability. Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing markets dislocations and adverse cross-border spillovers.	Medium	**High** • Sharp swings in asset prices could stress financial sector balance sheets while higher real interest rates could impact costs and access to financing. • Slowdown in growth in tourist resource countries would reduce tourist arrivals, damping Aruba's growth.	• Strengthen monitoring systemic risks and crisis preparedness framework to ensure the financial system stability. • Develop macroprudential policy framework. • Continue fiscal consolidation to rebuild fiscal and external buffers to reduce the debt burden and interest payments.
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial system, and lower potential growth.	High	**Low** • This could disrupt tourism flows, weighing on growth. • Supply disruptions and rising input costs could lead to higher domestic inflation.	• Enhance resilience against a slowdown of the global economic growth via structural reforms to boost domestic competitiveness and diversifying tourism markets. • Continue efforts to mobilize domestic revenues and strengthen fiscal planning framework. • Strengthen cybersecurity and payments' system.
Climate change risk. Increases in global temperatures can raise the sea level and change weather patterns, also impacting tourism resources including coral reefs.	Medium	**Medium** • Increasing sea levels could impact a substantial share of the houses, primary infrastructure, and tourism assets that are located near sea level, affecting tourism capacity and potential economic growth.	• Undertake a comprehensive risk assessment and develop a climate change adaptation action plan under the auspices of the National Climate Resilience Council: (i) prioritize public investment in disaster-resistant infrastructure to bolster resistance to rising sea levels; (ii) build fiscal buffers and seek cost-effective insurance; (iii) integrate material aspects of climate change and environmental risks into financial sector supervision.
		Domestic Risks	
Delay in implementing fiscal adjustment. Leading to worsen debt dynamics which would raise borrowing costs, crowding out other essential spending over the medium term.	Medium	**High** • The crowding out of essential spending could impact growth. • The decline in fiscal policy credibility could threaten the sustainability of the fixed exchange regime.	• Recalibrate plans to introduce a credible adjustment plan, underpinned by concrete measures that will keep debt level on a firm downward trajectory.

Annex V. Growth at Risk in Aruba[1]

This Annex uses the IMF Growth-at-Risk (GaR) methodology[2] to identify the main drivers of growth and illustrates their impact on future distribution of growth in Aruba. It starts from grouping relevant variables in partitions, which are then used to estimate the probability distribution of the growth forecast. Results, using the quarterly data for 2008Q1-2022Q3[3], show that the Aruban economy is sensitive to shocks to the U.S. real GDP growth, tourist arrivals, and domestic and external financial conditions.

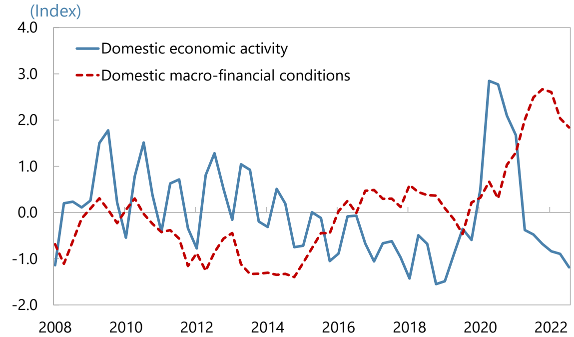
1. **Aruba is, a tourism-dependent small island economy, sensitive to external conditions, such as the U.S. real GDP growth, oil prices, and global financial conditions.** The U.S. GDP and oil price enter analysis as single-variable partitions. External financing conditions are proxied by the six-month LIBOR rate, Merrill Lynch Option Volatility Estimate (MOVE) index, Chicago Board Options Volatility Index (VIX), and FDI liabilities. External risks have recently increased since the start of the tightening in advanced economies.

Dynamics in US GDP,Oil Price, and External Risks 1/
(Index)



Source: IMF staff calculations.
1/ Positive (negative) number indicates loose (tight) conditions.

Domestic Conditions Dynamics 1/
(Index)



Source: IMF staff calculations.
1/ Positive (negative) number indicates loose (tight) conditions.

2. **Domestic economic activity depends on the number of stay-over tourists and cruise passengers, as well as on business and consumer confidence, and headline inflation.** This partition is highly seasonal. Overall, domestic conditions were mainly tight in 2008-13 (when tourist arrivals plummeted due to the global financial crisis and great moderation) and in 2020Q1-2021Q1 (due to the pandemic closing of the economy).

3. **Domestic economy is also sensitive to the liquidity and leverage in banks.** Domestic macro-financial conditions are proxied by the loan-to-deposit ratio, liquidity in the banking system,

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[1] Prepared by Olga Bespalova.

[2] See Adrian, T., Boyarchenko, N., & Giannone, D. (2019). Vulnerable growth. American Economic Review, 109(4), 1263-89.

[3] Quarterly series for real GDP are experimental, courtesy of the Central Bank of Aruba, and were adjusted by staff to match the recent revisions to the annual GDP series.

and capital adequacy of banks. Results suggest that domestic macro-financial conditions were tight in 2012-15, and accommodative since the start COVID-19 pandemic.

4. The conditioning factors are employed to derive the probability density function for the forecast of GDP growth four-quarters ahead and simulate several shock scenarios.[4] In particular:

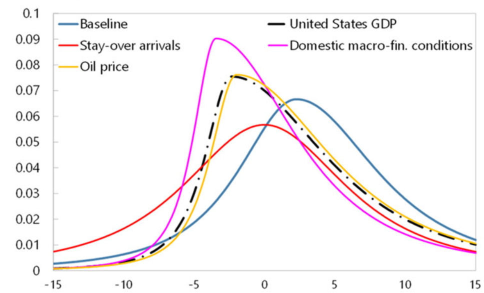
- A lower level of tourists or cruise passengers' arrivals, or deterioration in the business or consumer confidence, for example by a pandemic shock, would lower mode of 2023 forecast by 2.3 percentage points (ppts).

- A shock to the domestic macro-financial conditions would decrease the mode of 2023 projections by 5.7 ppts. To note, deterioration in banks' capital adequacy would have the most detrimental effect on growth, followed by a sharp increase in leverage or drying up of liquidity in the banking system.

- A shock to the U.S. real GDP would cost 4.6 ppts of the next-year growth.

- A shock to the oil price would cost the Aruban GDP growth 4.3 ppts.

Real GDP Growth-at-Risk: Baseline and Shock Scenarios
(Probability density function)



Source: IMF staff calculations.

5. **Results indicate that the Aruban economy is sensitive to external and domestic shocks.** A decrease in the U.S. real GDP, tightening of domestic macro-financial conditions, global financial instability, and slowdown in domestic activity would all decrease domestic growth and increase the probability of negative growth.

[4] In the baseline scenario, the mode of the distribution is fixed in line with staff's WEO projection in 2023 (2.3 percent). The size of each shock is one-half standard deviations in the adverse direction.

Annex VI. Sovereign Risk and Debt Sustainability Assessment[1]

The large fiscal response to COVID-19 crisis during 2020-21, combined with the decline in tax revenues pushed up Aruba's fiscal deficit and public debt levels to a record high. After peaking at 112.3 percent of GDP in 2020, the debt level declined to 90.7 percent of GDP in 2022 supported by better fiscal outcomes and the economic recovery. Under the baseline scenario, the debt level is projected to continue declining over the medium term, reaching about 71 percent of GDP by 2028. This is supported by the primary surplus and the economic recovery which would offset the adverse real interest rate dynamics. Gross financing needs are high in 2023 due to the amortization obligations of the loans extended by the Netherlands during COVID-19 that will need to be rolled over. Maintaining fiscal discipline to rebuild fiscal buffers and advancing structural reforms will be crucial to position Aruba's debt dynamics on a firm downward path.

1. Debt developments. Public debt peaked at 112.3 percent of GDP in 2020 as a result of lower revenue mobilization and higher spending needs, combined with an unprecedented GDP contraction due to the COVID-19 shock.[2] Debt-to-GDP declined to 102 percent of GDP in 2021 and further declined to 90.7 percent of GDP in 2022, on the back of the strong recovery of tourism and the phase-out of COVID-19 related spending measures. However, the current level of public debt remains well above its pre-COVID-19 level by about 19.7 percentage points of GDP.

2. Debt profile. Domestic debt, which accounts for about 37.7 percent of total gross public debt, stood at 34.7 percent of GDP at end-2022 while external debt amounted to 62.3 percent of GDP. Aruba's debt profile is dominated by medium- and long-term maturities, which mitigates debt sustainability risks.

3. Baseline Macro-fiscal assumptions. The baseline scenario of this SRDSA assessment follows staff's macroeconomic outlook over the medium term and assumes a continuation of current policies with modest progress on the reform agenda. In particular, the SRDSA is based on the following assumptions:

- *Macroeconomic assumptions.* The economy is expected to grow by 2.3 percent in 2023. Growth will then converge towards its potential 1.1 percent over the medium-term. While inflation peaked at 5.5 percent in 2022 on the back of higher global food and energy prices, it is expected to gradually decline to 2 percent. The current account is projected to display large but declining surpluses, in line with rebound in tourism assumptions.

[1] Prepared by Ali Al-Sadiq

[2] For the purpose of this SRDSA, the debt perimeter covers the central government sector due to a lack of consolidated general government and public sector data.

- *Fiscal path*. After narrowing in 2022, the fiscal balance is expected to display a moderate surplus in 2023 and gradually increase, reaching 1.1 percent of GDP by 2028. The primary balance is projected to remain in a surplus over the medium-term, averaging 4.7 percent of GDP.

- *Gross financing needs (GFNs)*. Aruba is facing large GFNs in 2023 as the entire pandemic-related liquidity support loans received from the Netherlands in 2020-21 amounting to Afl. 916 million (equivalent to 15.5 percent of GDP) are falling due in October.[3] These loans are assumed to be refinanced with a long-term (20 years) annuity loan from the Netherlands with a positive but below the market interest rate. In the medium term, while declining, the GFNs would remain high, averaging about 8.2 percent of GDP. Around half of GFNs are assumed to be met by issuance of medium- and long-term domestic debt, while external borrowing covers the remaining.

4. Debt projections. Under staff's baseline scenario, debt-to-GDP is projected to set on a declining trend as the primary surplus and continued economy recovery would offset the adverse interest rate-growth differentials. Debt is projected to settle at about 71 percent of GDP by 2028.

5. Realism of adjustment. The projected fiscal adjustment and debt reduction are within the normal historical range observed in peer countries. The maximum adjustment over three years in the primary balance would be near the 70th percentile among all advanced and emerging surveillance economies.

6. Medium-term risk analysis. Medium-term risk of sovereign stress is assessed as high consistent with the Debt Fanchart Index, although the mechanical GFN Financeability Index is moderate.

- **The debt fanchart** produces a score of 2.2, which is above the threshold of 2.1 for high risk. The wide fan reflects the risks associated with the uncertainty around the debt trajectory and a relatively high level of public debt by 2028 with a high probability that debt will stabilize in the medium-term.

- **The GFN financeability** tool produces a score of 17 which is below the high-risk threshold of 17.9. Projected primary surpluses in the medium term are expected to reduce GFNs to manageable levels.

7. Long-term risk analysis. Long-term scenarios suggest low risks related to climate change and large amortization. Climate-related expenditures appear to be manageable with a limited

[3] These loans were rolled over with a zero-interest rate, 18-months, bullet loan, in April 2022. The Netherlands and the Aruban authorities are currently discussing this. The debt and GFNs trajectory would depend on the results of these discussions.

impact on debt sustainability and GFNs, subject to a formal costing of climate adaptation.[4] Also, GFNs are expected to decline to manageable levels in the medium to long term.

8. Overall risk and mitigation factors. Aruba's sizable debt burden and GFNs continue posing risks to debt sustainability. Aruba's debt ratio is expected to remain high throughout the projection horizon. Sustainability hinges crucially on the assumption that a large part of the GFNs will be met through borrowing at favorable terms from the Netherlands. 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.

[4] The authorities plan a formal costing of climate adaptation in the future. In the meantime, staff calibrated the climate adaptation expenditures by drawing on the estimates in selected comparator countries.

Figure 1. Aruba: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	High	The overall risk of sovereign stress is high, reflecting a relatively high level of vulnerability in the near-term and high level of vulnerability in the medium-term but low level of vulnerability in long-term horizons.
Near term 1/			
Medium term	High	High	Medium-term risks are assessed as high, in line with the mechanical signal. Absent of concrete fiscal reforms, debt-to-GDP ratio is projected to remain high over the medium term, as shown by a wide fanchart and relatively elevated probability of non-stabilization of debt."
Fanchart	High	…	
GFN	Moderate	…	
Stress test	…	…	
Long term	…	Low	Long-term analysis suggests low risks related to climate change and large amortization. Climate-related expenditures are manageable and will have a limited impact on debt sustainability and GFNs, which are expected to decline to manageable levels in the medium to long term. Additionally, reforming Aruba's pension system is a key priority to ensure its sustainability and reduce fiscal vulnerabilities.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			Yes

DSA summary assessment

Commentary: After peaking at 112.3 percent of GDP in 2020, the debt level declined to 90.7 percent of GDP in 2022 supported by better fiscal outcomes and the economic recovery. Under the baseline scenario, the debt level is projected to continue declining over the medium term, reaching about 71 percent of GDP by 2028. This is supported by the primary surplus and the economic recovery which would offset the adverse real interest rate dynamics. Gross financing needs are expected to remain high in 2023 due to the amortization obligations of the loans extended by the Netherlands during COVID-19, but then gradually decline over the medium term.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Aruba: Debt Coverage and Disclosures

						Comments
1. Debt Coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					0	

2. Subsectors Included in the Chosen Coverage in (1) above:

Coverage		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS / NFPS / GG: expected	3	Social security funds (SSFs)	no	
CPS / NFPS / GG: expected	4	State governments	no	
CPS / NFPS / GG: expected	5	Local governments	no	
CPS / NFPS	6	Public nonfinancial corporations	no	
CPS	7	Central bank	no	
CPS	8	Other public financial corporations	no	

3. Instrument Coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
4. Accounting Principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt Consolidation across Sectors:		Consolidated		Non-consolidated	

Color code: chosen coverage; Missing from recommended coverage; Not applicable

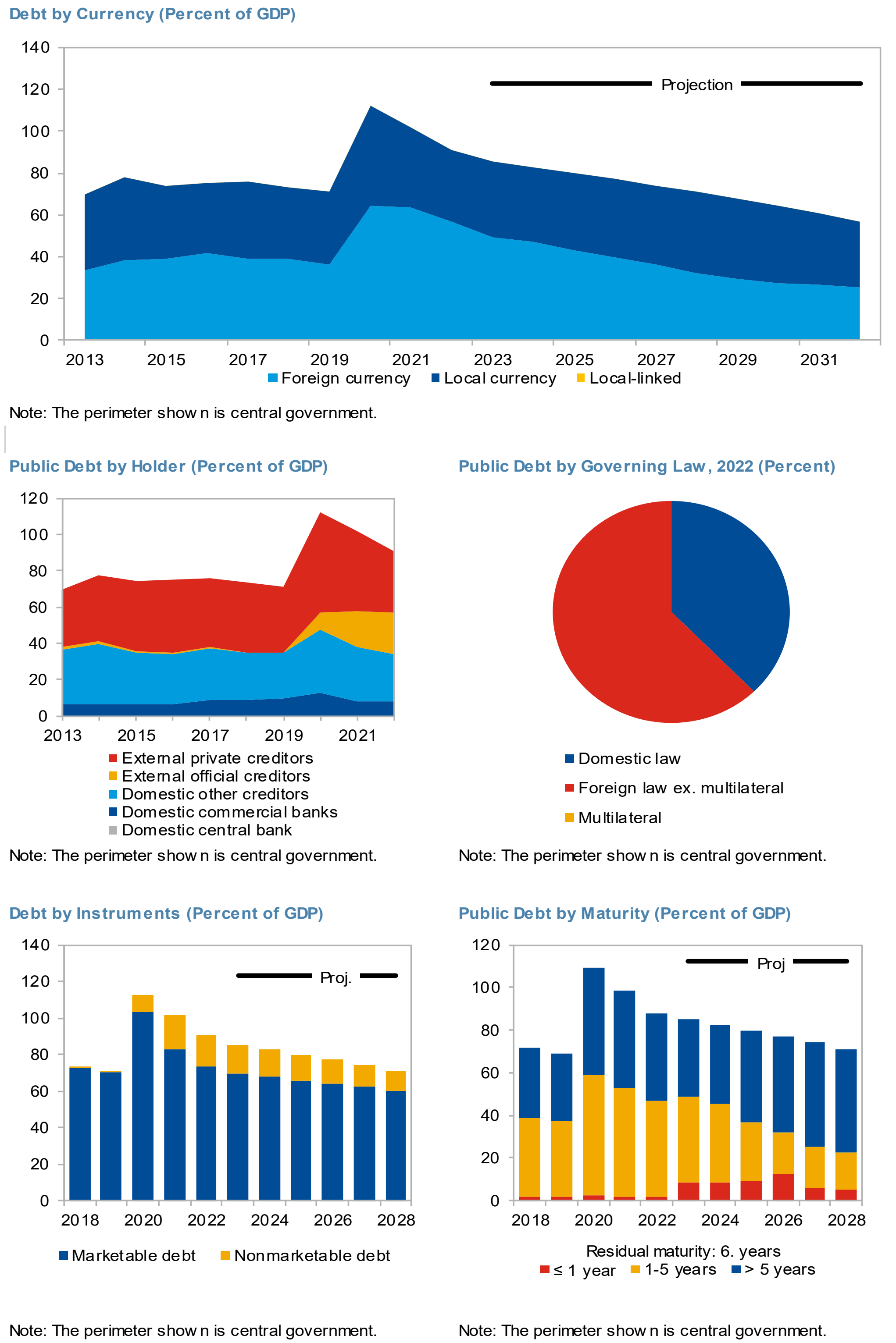
Reporting on intra-government debt holdings

Coverage		Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt									0
CPS / NFPS / GG: expected / CG	2	Extra-budget. funds									0
CPS / NFPS / GG: expected	3	Social security funds									0
CPS / NFPS / GG: expected	4	State govt.									0
CPS / NFPS / GG: expected	5	Local govt.									0
CPS / NFPS	6	Nonfin pub. corp.									0
CPS	7	Central bank									0
CPS	8	Oth. pub. fin. corp									0
		Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: For the purpose of this SRDSA, the debt perimeter covers the central government sector due to lack of consolidated general government and public sector data.

Figure 3. Aruba: Public Debt Structure Indicators



Commentary: Domestic debt stood at 37.7 percent of GDP at end-2022 w hile external debt at 62.3 percent of GDP. Somew hat mitigating factors, the debt profile of Aruba is dominated by medium- and long-term maturities.

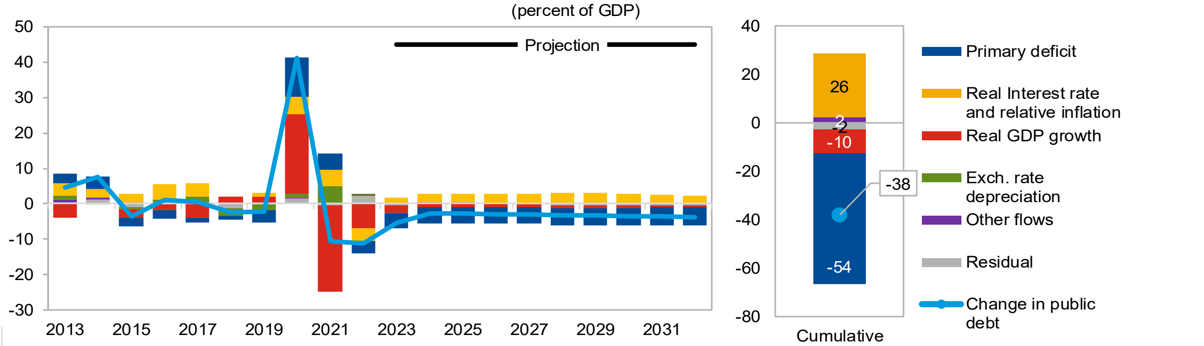
Figure 4. Aruba: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection					
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	90.7	85.4	82.7	79.9	77.1	74.1	71.0	67.8	64.3	60.7	56.9	52.8	48.5
Change in public debt	-11.1	-5.3	-2.7	-2.8	-2.9	-3.0	-3.1	-3.2	-3.5	-3.7	-3.8	-4.1	-4.2
Contribution of identified flows	-13.4	-4.9	-2.7	-2.9	-2.9	-3.0	-2.7	-2.8	-3.1	-3.3	-3.5	-3.8	-3.9
Primary deficit	-3.4	-4.5	-4.6	-4.7	-4.8	-4.8	-4.9	-5.0	-5.1	-5.1	-5.2	-5.3	-5.4
Noninterest revenues	21.4	22.8	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0
Noninterest expenditures	17.9	18.2	18.5	18.4	18.3	18.2	18.1	18.1	18.0	17.9	17.8	17.8	17.7
Automatic debt dynamics	-10.1	-0.6	1.6	1.6	1.6	1.7	2.0	2.0	1.8	1.6	1.5	1.3	1.3
Real interest rate and relative inflation	-3.5	1.4	2.6	2.5	2.5	2.5	2.8	2.8	2.5	2.3	2.2	1.9	1.8
Real interest rate	-5.1	1.0	2.7	2.6	2.5	2.5	2.4	2.4	2.2	2.0	1.9	1.6	1.5
Relative inflation	1.6	0.4	-0.1	-0.1	0.0	0.0	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Real growth rate	-6.9	-2.0	-1.0	-1.0	-0.9	-0.8	-0.8	-0.8	-0.7	-0.7	-0.7	-0.6	-0.6
Real exchange rate	0.3	…	…	…	…	…	…	…	…	…	…	…	…
Other identified flows	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Contingent liabilities	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
Other transactions	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Contribution of residual	2.3	-0.4	0.1	0.1	0.0	0.0	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3
Gross financing needs	3.7	19.2	8.8	8.9	9.2	12.7	5.5	5.1	1.2	4.5	4.1	3.2	1.1
of which: debt service	7.2	23.8	13.4	13.5	13.9	17.6	10.4	10.1	6.2	9.6	9.3	8.5	6.5
Local currency	1.6	3.5	4.0	5.9	6.5	12.1	4.2	4.3	3.7	6.2	5.7	5.5	3.5
Foreign currency	5.5	20.2	9.3	7.6	7.4	5.5	6.2	5.8	2.6	3.4	3.6	3.0	3.0
Memo:													
Real GDP growth (percent)	7.3	2.3	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Inflation (GDP deflator; percent)	5.7	3.2	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	13.5	5.6	3.4	3.2	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Effective interest rate (percent)	0.0	4.4	5.4	5.3	5.3	5.3	5.3	5.4	5.3	5.2	5.2	4.9	5.0

Contribution to change in public debt

(percent of GDP)



Commentary: Debt-to-GDP is projected to set on a declining trend as the primary surplus and continued economy recovery would offset the adverse real interest rate dynamics. Debt is projected to settle at about 71 percent of GDP by 2028. Debt dynamics will be driven by the interest rate-growth differential despite the projected primary balances.

Figure 5. Aruba: Realism of Baseline Assumptions

Forecast track Record 1/ t+1 t+3 t+5

Public debt to GDP

Primary deficit

r - g

Exchange rate depreci

SFA

Historical data are not available for these calculations. 1/

real-time t+3 t+5

Comparator group:

Emerging Markets, Non-Commodity Exporter, Surveillance

Color code:

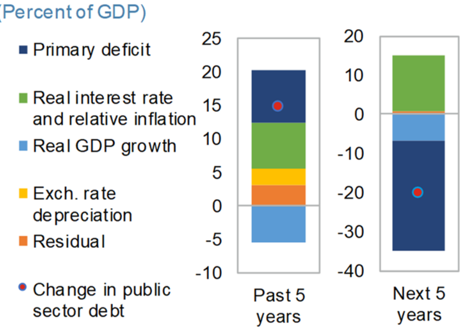
Optimistic

- > 75th percentile
- 50-75th percentile
- 25-50th percentile

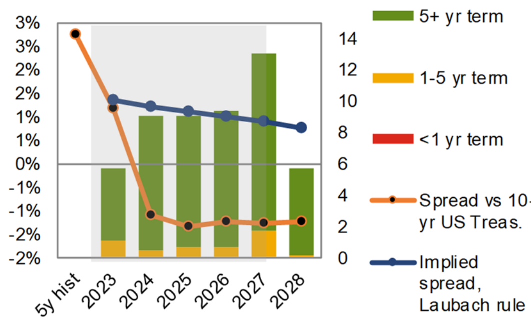
Historical output gap revisions

Public Debt Creating Flows

(Percent of GDP)

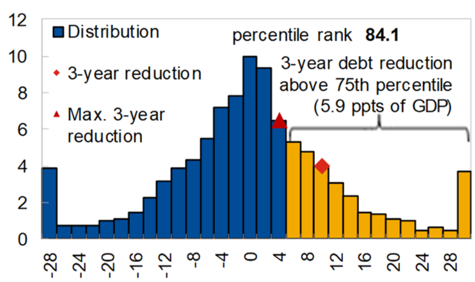


Bond Issuances (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))

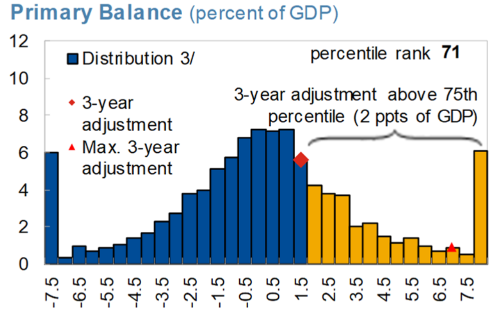


3-Year Debt Reduction

(Percent of GDP)

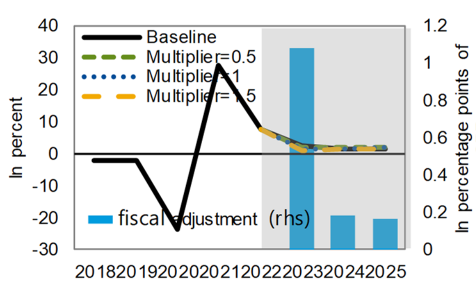


3-Year Adjustment in Cyclically-Adjusted Primary Balance (percent of GDP)



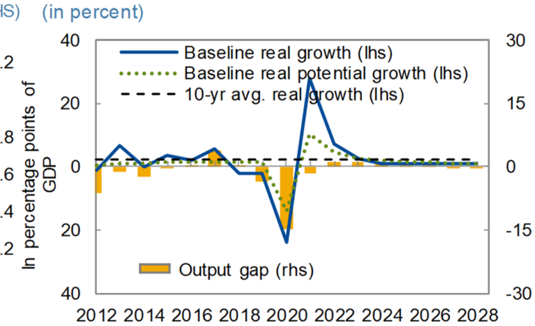
Fiscal Adjustment and Possible Growth Paths

(lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS)



Real GDP Growth

(in percent)



Commentary: The recovery from COVID-19 will impart complicated effects on the growth path. However, realism analysis does not point to major concerns: past forecast errors do not reveal any systematic biases and the projected fiscal adjustment and debt reduction are well within norms.

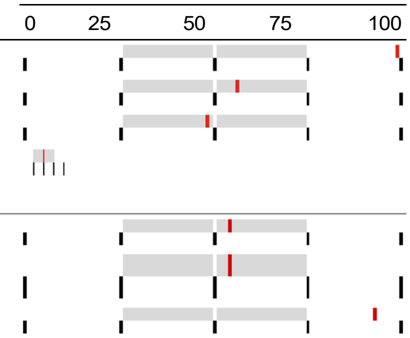
1/ The realism outputs are not included as Aruba has a limited forecast history making them relatively uninformative.

Figure 6. Aruba: Medium-Term Risk Analysis

Debt fanchart and GFN financeability indexes

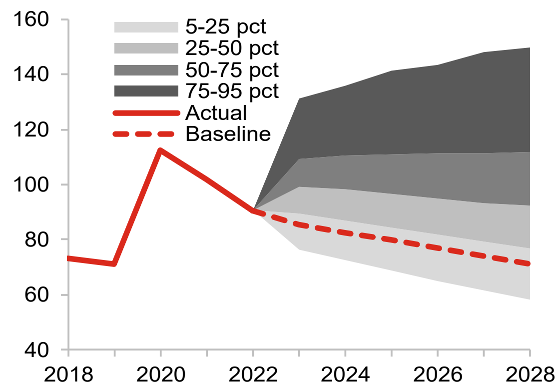
(percent of GDP unless otherwise indicated)

Module	Indicator	Value	Risk index	Risk signal
Debt fanchart module	Fanchart width	91.5	1.3	…
	Probability of debt not stabilizing (pct)	27.8	0.2	…
	Terminal debt level x institutions index	29.6	0.6	…
	Debt fanchart index	**…**	**2.2**	**High**
GFN finance-ability module	Average GFN in baseline	10.7	3.7	…
	Bank claims on government (pct bank assets)	9.7	3.1	…
	Chg. in claims on govt. in stress (pct bank assets)	30.4	10.2	…
	GFN financeability index	**…**	**17.0**	**Moderate**

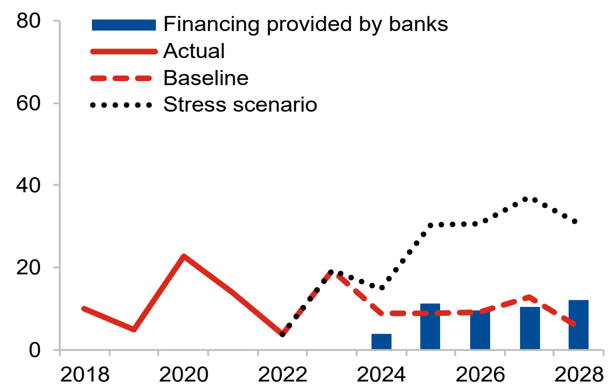


Legend: Interquartile range | Aruba

Final fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

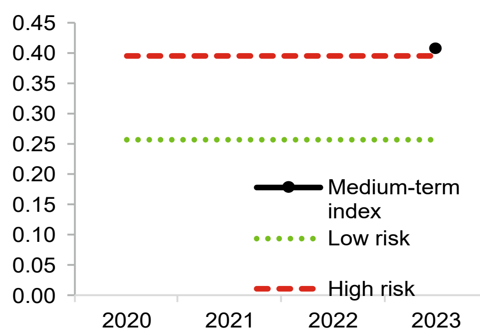


Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-term index

(index number)



Medium-term risk analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.5
GFN finaceability index	7.6	17.9	0.5	0.3
Medium-term index (MTI)	0.3	0.4	…	0.4, High

Prob. of missed crisis, 2023-2028 (if stress not predicted): 54.5 pct.

Prob. of false alarm, 2023-2028 (if stress predicted): 9.1 pct.

Commentary: The large increase in the level of debt in 2020 and the country's exposure to exogenous shocks, slow economic growth, and the closure of refinery activity in 2012 contributed to increasing the debt burden in the past. This results in the Debt Fanchart Module point to a high level of risk due to the uncertainty around the debt trajecotry and a relatively high level of public debt. The GFN Financeability Module suggests moderate, level of risk. However, the debt level path is vulnerable to global global exogenous shocks that affect tourism activities.

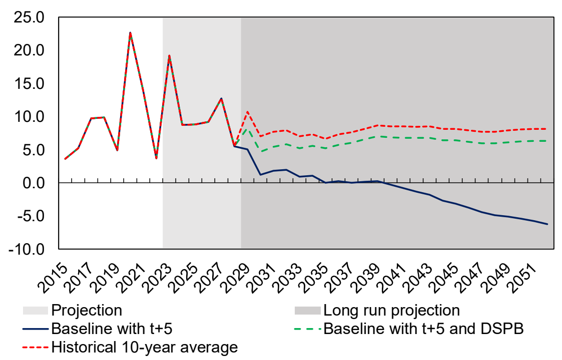
Figure 7. Aruba: Long-Term Risk and Analysis

Large Amortization

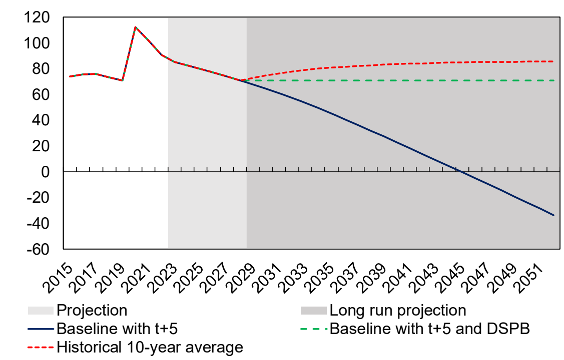
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	

Overall Risk Indication	

GFN-to-GDP ratio



Total public debt-to-GDP ratio



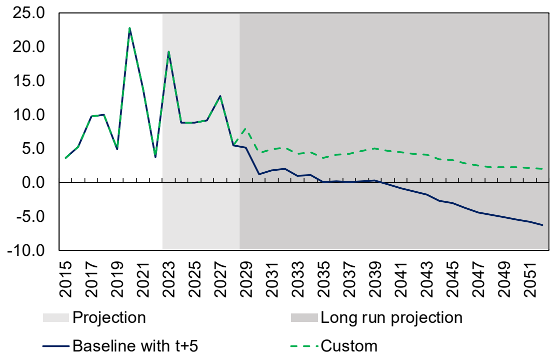
Commentary: The long-term module indicates a low risk of large amortization for Aruba.

Figure 8. Aruba: Long-Term Risk and Analysis

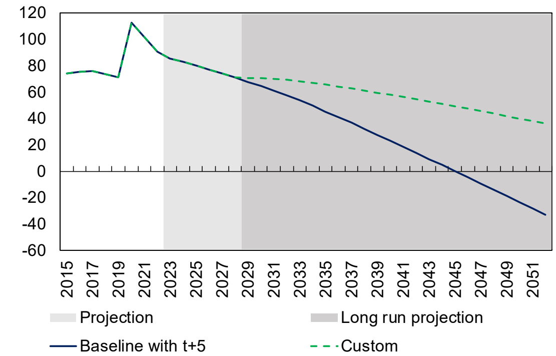
Custom

	Baseline extension of fifth projection year	Custom baseline
Real GDP growth	1.1%	1.1%
Primary Balance-to-GDP	4.9%	2.0%
Real depreciation	-2.0%	-2.0%
Inflation (GDP deflator)	2.0%	2.0%

GFN-to-GDP Ratio

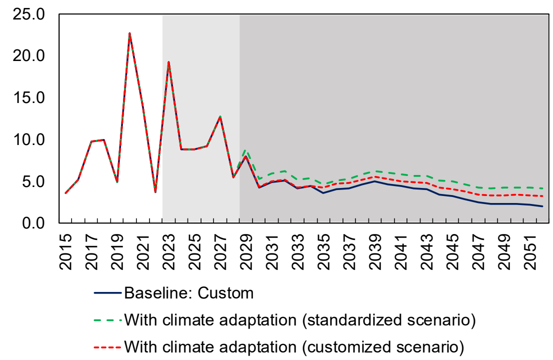


Total Public Debt-to-GDP Ratio

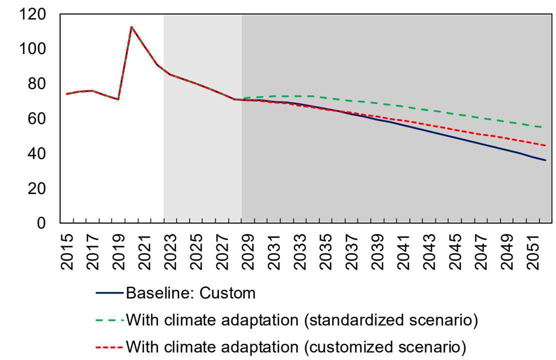


Climate Change: Adaptation

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: In the long term, climate-related expenditures appear manageable and will have a limited impact on debt sustainability and GFNs.

Annex VII. Sustainability of Aruba's Pension System[1]

Reforming Aruba' pension system is a key priority to ensure its sustainability and reduce fiscal vulnerabilities. In the absence of reforms, the system will generate deficit. This mainly reflects an ageing population. Parametric reforms, including revisions to the contribution rates are essential for the system sustainability.

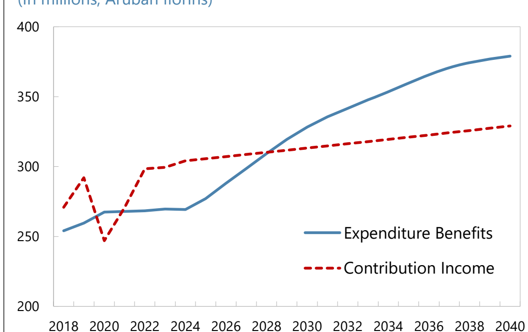
1. **Aruba has comprehensive social security schemes.** The schemes offer a wide range of benefits such as old-age pension (AOV), survivor pension (AWW), sickness and accident (AZ/OV), employment injuries (Cessantia), a mandatory pension for the private sector, unemployment benefits, and general health insurance (AZV). In addition, the country offers social welfare benefits for those who lack the means for subsistence.

2. **The public pension system is based on a contributory basis.** The old-age pension fund—administered by the Social Insurance Bank (SVB)—is financed by contributions, currently at 15.5 percent for public and private sectors (two-thirds is covered by employers and one-third by employees). Self-employees contribute 15.5 percent on a voluntary basis.

3. **The SVB has almost universal pension coverage and operates as a Pay-As-You-Go system**. Contributors to the SVB—employed persons who have been insured qualify for benefits including retirement, survivor, and funeral grants. The retirement benefit is paid at age 64 (gradually rising to age 65 by 2025) and a resident of Aruba from age 15 to 62 and six months. A reduced pension is paid if the insured does not meet the residency requirements for a full pension and the pension may be deferred for up to five years after the normal retirement age.

4. **The pension system is expected to run deficit in the future, despite past reforms.** With an aging population, the contribution revenue in the pension system is expected to fall short of benefits spending over the medium and this gap is expected to widen in the long term.

Pension System: Income and Expenditures
(In millions, Aruban florins)



Source: Social Insurance Bank (SVB).

5. **Financial liabilities from the AOV need to be contained.** Several measures were implemented in the past to improve the financial situation of the general old-age pension fund (AOV), including a raise in the premiums and a gradual increase of the retirement age from 60 to 65 by 2025. Possible reform measures to contain future transfers to AOV include: (i) increasing pension contribution rates; and (ii) reducing pension benefits. Given the current level of payroll taxes and relatively moderate replacement rate, the focus should be on the first measure.

[1] Prepared by Ali Al-Sadiq.

INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS—ARUBA

July 6, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION DISCUSSIONS—INFORMATIONAL ANNEX

Prepared by Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of May 31, 2023)

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	6,308.56	72.21
Reserve Tranche Position	2,429.51	27.81
Lending to the Fund		
New Arrangement to Borrow	26.5	

SDR Department	**SDR Million**	**Percent Allocation**
Net cumulative allocation	13,210.17	100.00
Holdings	13,784.95	104.35

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				
	2023	**2024**	**2025**	**2026**	**2027**
Principal		...	...	...	...
Charges/Interest		0.17	0.17	0.17	0.17
Total		0.17	0.17	0.17	0.17

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

The de jure and de facto exchange rate arrangements Aruba are 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).

Last Article IV Consultation Discussions

The 2021 Article IV Consultation discussions was concluded by the Executive Board on April 15, 2021, Aruba is on a 24-month consultation discussion cycle (IMF Country Report No. 21/81).

Resident Representative: None

Technical Assistance		
Department	**Dates**	**Purpose**
CARTAC	October 24-November 4, 2022	Address methodological and compilation issues related to external sector statistics (ESS) and assess data availability for the compilation of the IMF Statistic Department's (STA) Special Purpose Entities (SPEs) data template.
CARTAC	April 4-11, 2022	Diagnostic and scoping for the development of financial stability framework.
CARTAC	March 7-18, 2022	Refine the calculation of Gross Domestic Product (GDP) and the treatment of COVID-19 pandemic support in the National Accounts.
CARTAC	June 21-25, 2021	Customs Administration Developing Performance Targets and KPI.
FAD	February 17-20, 2021	Follow-up to the 2019 technical assistance mission on government wage bill.
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.
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	August 24-28, 2020	Strengthen risk management capacity and customs administration.
CARTAC	July 27- August 12, 2020	Assess the consumer price index (CPI), and improve the price sample, data collection methods, and computation system.

Technical Assistance		
Department	**Dates**	**Purpose**
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.
FAD	November 6-19, 2019	Assess and assist the authorities to contain the public wage bill.
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/CARTAC	January 17-30, 2019	Assist in improving tax compliance and the efficiency and effectiveness of the tax administration.
FAD	September 4-14, 2018	Assess Aruba’s tax system and assist the authorities with developing reform options.

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 2000-19. The Central Bank of Aruba (CBA) has estimated and disseminated total GDP at constant prices up to 2021, including the 2013-2021 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.
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 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 lack of a 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: quarterly for banks, and annual for insurance and pension sectors.

External Sector Statistics: The CBA reports quarterly balance of payments (BOP) and an annual international investment position (IIP) statistics to STA. In addition, it publishes quarterly BOP tables on the CBA website. Timeliness of the quarterly BOP reporting to STA has improved considerably and is aligned with best practices (within 90 days after the end of the reference period): the latest reported BOP data refer to 2022Q4. The latest IIP and the Coordinated Direct Investment Survey (CDIS) data reported to STA pertain to 2021. Further, the authorities also report semi-annual Portfolio Investment Survey (CPIS) data, and the latest was for June 2022. 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 June 8, 2023)

	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 1/	3/23	5/23	M	N/A	A, Q, M
Reserve/Base Money	3/23	5/23	M	M	A, Q, M
Broad Money	3/23	5/23	M	M	A, Q, M
Central Bank Balance Sheet	3/23	5/23	M	M	A, Q, M
Consolidated Balance Sheet of the Banking System	3/23	5/23	M	M	A, Q, M
Interest Rates 2/	Q1/23	5/23	Q	Q	A, Q
Consumer Price Index	2/23	2/23	M	M	A, Q, M
Revenue, Expenditure, Balance and Composition of Financing 3/—General Government 4/	2022	2/23	Q	Q	A, Q
Revenue—Central Government	2022	2/23	Q	Q	A, Q, M
Stock of Central Government Debt 5/	2022	2/23	Q	Q	A, Q
External Current Account Balance	Q4/22	3/23	Q	Q	A, Q
Exports and Imports of Goods and Services	Q4/22	3/23	Q	Q	A, Q
GDP/GNP	2021	4/23	A	A	A
Gross External Debt	2022	5/23	A	A	A
International Investment Position	2022	5/23	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 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).
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).