INTERNATIONAL MONETARY FUND

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KINGDOM OF THE NETHERLANDS—ARUBA

2015 ARTICLE IV CONSULTATION DISCUSSIONS—STAFF REPORT; AND PRESS RELEASE

May 2015

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 2015 Article IV consultation discussions with the Kingdom of the Netherlands—Aruba, the following documents have been released and are included in this package:

- 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 February 13, 2015, with the officials of the Kingdom of the Netherlands—Aruba on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 25, 2015.
- An **Informational Annex** prepared by the IMF.
- A **Press Release**

The publication policy for staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS—ARUBA

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION DISCUSSIONS

March 25, 2015

KEY ISSUES

Context: Aruba is a small, tourism-dependent economy with a pegged exchange rate regime against the USD and one of the highest living standards in the Caribbean. The economy is recovering from the double-dip recession of the global financial crisis and the end of oil refining activity, but real GDP is projected to return to its pre-crisis level only by the end of the decade. Risks to the outlook are mainly external in nature. Despite the major entitlement reforms undertaken, debt surpassed 80 percent of GDP in 2014.

Policy recommendations:

- Rebuild policy space while supporting the ongoing recovery. In particular, putting debt on a downward trajectory is an immediate policy priority. A fiscal effort is needed to attain a surplus of 1½ percent of GDP by 2020, which would put debt on a downward path.

- The accommodative monetary policy stance is appropriate and international reserves are currently adequate to safeguard the peg.

- Increasing labor market flexibility and reducing the costs of doing business would improve Aruba's competitiveness and resilience to shocks. Future growth initiatives, including those related to renewable energy, should be financed through FDI.

Approved By
Mahmood Pradhan and Bob Traa

Discussions took place in Oranjestad during February 2-13, 2013. The staff team comprised Mr. Elekdag (head), Ms. Yackovlev, and Ms. Shao, with assistance from Ms. Maneely and Ms. Arantes (all EUR). Mr. Snel and Ms. De Lint (OED) attended key policy meetings.

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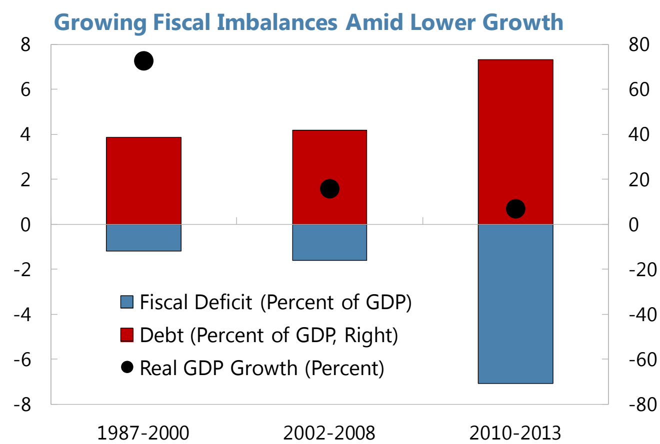
INTRODUCTION

1. **Aruba is a highly open, tourism-dependent economy, with one of the highest living standards in the Caribbean** (Box 1). Over 85 percent of the economy depends directly or indirectly on tourism, making Aruba the third most tourism-dependent country in the world. As a reflection of this marked dependence on external economic conditions, the volatility of Aruba's growth has been among the highest in the region. However, the fixed exchange rate regime against the USD (unchanged since 1971), supported by conservative fiscal, credit, and prudential policies, ensured low inflation and had kept imbalances in check until recent years (Figure 1).

2. **The main policy challenge is rebuilding policy space while supporting the ongoing recovery**. Repeated shocks have resulted in a double-dip recession which has eroded the authorities' fiscal policy space. Public debt increased substantially to over 80 percent of GDP in 2014, a level beyond what is considered prudent for a small economy like Aruba which is highly vulnerable to external shocks. Steadfast fiscal consolidation, relying on both revenue and expenditure measures, is needed to durably set debt on a downward trajectory. Maintaining financial stability and safeguarding competitiveness, in part by advancing the structural reform agenda, would help ensure a steady recovery.



Source: CBA and staff calculations.

3. **Past Fund advice focused on ensuring fiscal sustainability through the development of a medium-term adjustment program.** In particular, recommendations underscored the need to improve the financial situations of Aruba's pension and health care schemes. The authorities undertook key entitlement reforms in 2014 and have presented a medium-term budget plan which aims to attain a small fiscal surplus by 2018. Notwithstanding these efforts, however, additional measures and determined implementation will be needed to achieve the authorities' ambitious fiscal targets.

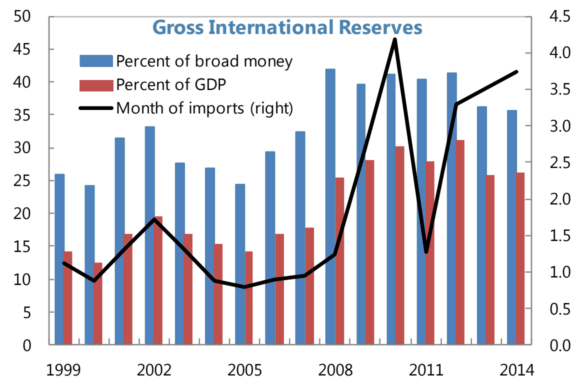
RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

A. Recent Economic Developments

4. **Aruba is recovering gradually from a severe double-dip recession**. The economy suffered two major shocks over the past five years: the global financial crisis and closure of the Valero oil refinery in 2012 (Figure 2). After a strong recovery in 2013, with growth at 4¾ percent, the pace of activity moderated in 2014. Despite very strong tourism growth, the loss in momentum reflected a

broad-based contraction in domestic demand due to waning confidence, fiscal policy uncertainty, and investment delays. The unemployment rate is estimated to have remained broadly flat in 2014 at about 7½ percent. Recent data indicate positive but low headline inflation rates at around ½ percent, below the average of the last decade (2½ percent).

5. **While external imbalances remain elevated, they have improved recently.** The current account (CA) deficit is estimated to have narrowed to 7½ percent of GDP in 2014 with the non-oil CA in surplus, largely reflecting developments in the tourism sector. Both the net international investment position (IIP) and external debt have improved in 2014, and roll-over risks are mitigated as 90 percent of the debt is long-term, half of which is owed to parent companies. Aruba's gross international reserves cover around 3¾ months of imports and 35 percent of broad money.



Sources: CBA; and IMF staff calculations.

B. Outlook and Risks

Staff views

6. **Growth is projected to rise to 2¼ percent in 2015.** The tourism sector—the mainstay of the Aruban economy—is expected to continue to grow, albeit at a slower pace than over the past two years. At the same time, domestic demand is poised to recover appreciably as policy uncertainty subsides and key public-private partnership (PPP) projects move forward (Green Corridor, Ring Road 3). Hedging contracts set by the utility company above the current level of global oil prices are limiting downward inflationary pressures, and along with the 11¾ percent energy tariff increase and the introduction of the health-care levy in late 2014, inflation is expected to increase to ¾ percent in 2015. While the overall CA balance is expected to remain in deficit, buoyant tourism exports would help reduce its size to –3½ percent of GDP in 2015.

7. **Under the baseline scenario, real GDP is expected to reach its pre-recession level only by 2019.** Market diversification is expected to keep real growth in tourism exports steady at around 1¾ percent, but the large and lingering gaps in investment and non-tourism exports (both of which are still 40 percent below their pre-recessions peaks) due to the termination of oil refining activities will be filled only gradually. The CA deficit is expected to narrow in line with contributions from the services balance, but remain sizable due to income and transfer outflows, and continued oil trade deficits. External debt is projected to remain close to 95 percent of GDP.

8. **Risks to the outlook are broadly balanced and mainly external** (see RAM). The closure of the oil refinery implies a narrower economic base and even greater dependence on tourism. This concentration risk is compounded by the fact that around 55 percent of tourism originates from the U.S. Therefore, while global economic conditions matter, Aruba is most susceptible to spillovers

associated with U.S. slowdowns. In particular, notwithstanding the usual confidence bands around estimated elasticities, model-based estimates suggest that each 1 percentage point temporary decline in U.S. growth would drag Aruba's growth lower by 2 percentage points for two years (Box 2). A deepening of Venezuela's economic crisis is also a risk given that it is Aruba's second most important source of tourists. However, the appreciable decline in global oil prices and faster U.S. growth represent upside risks. In the medium term, while renewable energy investments could boost growth prospects, this upside is balanced by potential implementation delays. Over the longer term, the lifting of the U.S. travel ban to Cuba could have implications for Aruban tourism.

Authorities' views

9. **The authorities broadly agreed with the staff's diagnosis of the economic outlook and risks.** They were confident that robust tourism growth would continue to underpin a steady recovery going forward. While the authorities generally concurred with staff's analysis quantifying the importance of U.S. spillovers, they pointed out that continued efforts to diversify tourists from within the U.S. and the ongoing success in catering to a progressively more upscale market are factors which have most likely increased Aruba's resilience in recent years. They acknowledged the risks surrounding Venezuela, but pointed to strategies to overcome potentially adverse developments including initiatives to expand access to other Latin American markets (for example, Chile and Peru). The authorities agreed that Cuba's entry into the tourism market is a longer-term consideration, in part because of the country's lack of requisite infrastructure.

REBUILDING POLICY SPACE AND SUPPORTING THE RECOVERY

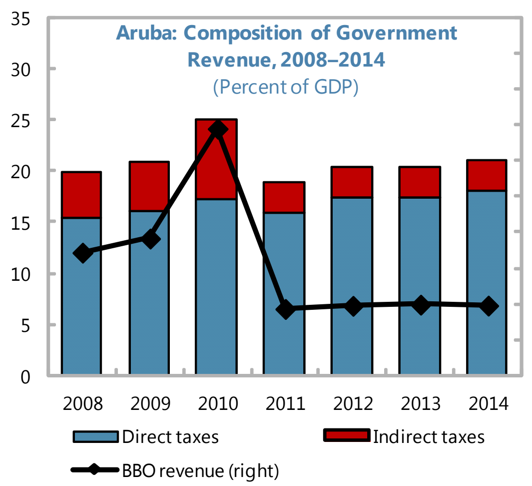
The main policy challenge is to rebuild fiscal space while ensuring a steady recovery through safeguarding financial stability and maintaining competitiveness.

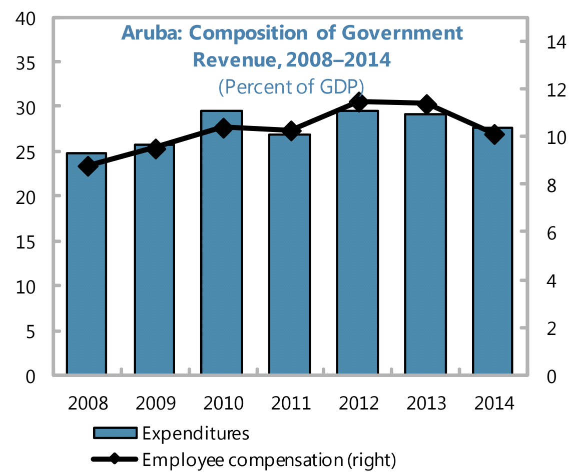
A. Fiscal Policy: Ambitious Consolidation Needed

Background

10. **Following a rapid deterioration during 2008-2012, the fiscal deficit narrowed to 5¼ percent of GDP in 2014.** Policies that were originally intended to be countercyclical, along with a structural decline in output growth, have led to a significant worsening of the overall balance by 11 percentage points of GDP over 2008-2012 (Figure 3). In particular, expenditures increased sharply, with wage-related costs accounting for about one-third of the cumulative increase (2¾ percent of GDP over 2008-2012), and revenue performance suffered primarily because of the reduction in the business turnover tax (BBO) rate from 3 percent to 1½ percent in 2010. In 2014, while revenue performance was largely in line with expectations, expenditure restraint in the purchase of goods and services together with the pension reforms yielded important savings. Nevertheless, public debt surpassed 80 percent of GDP in 2014.

11. **The authorities undertook major structural reforms in 2014 to address the fiscal challenges** (Box 3). First, as a result of the general (AOV) pension reform, premiums were raised and a gradual increase in the retirement age (to 65 years) was initiated. Second, the capital shortfall of the public administration (APFA) pension system was made whole, the accrual period and franchise contributions were modified and, as with the AOV, the retirement age will gradually increase. Third, a levy was introduced to partially offset the fiscal costs of the health care system (AZV).





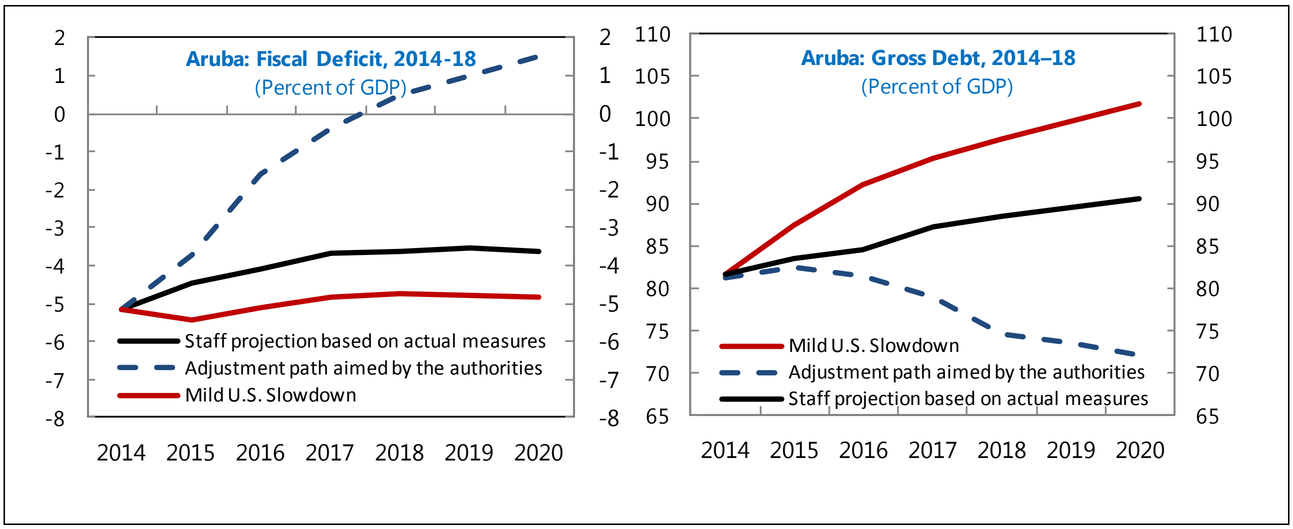
Sources: Aruban authorities and IMF staff estimates.

12. **Fiscal consolidation is planned to continue this year**. Guided by a cabinet-approved nominal expenditure ceiling, the authorities' proposed budget plan aims to reduce the 2015 deficit to 3¾ percent of GDP. Savings are expected to come mostly from entitlement reforms, supported by a reduction in the number of public sector employees (for a total of 1½ percent of GDP). However, measures underpinning ¾ percent of GDP of the planned adjustment are yet to be identified. Specifically, while the authorities' draft 2015 budget accounts for additional revenue from the health-care levy, it does not factor in the projected increase in the underlying cost of providing health services (¼ percent of GDP), nor does it fully account for higher debt service costs (½ percent of GDP). Thus, staff forecasts a deficit of 4½ percent of GDP in 2015.

13. **Over the medium term, with the current policies, deficits would remain elevated, and debt would continue to rise.** Under the baseline scenario (without additional measures), the fiscal deficit narrows modestly, reflecting the savings achieved through entitlement reforms (APFA, AOV, AZV) enacted in 2014 and other past measures. However, debt is projected to exceed 90 percent of GDP by 2020, making debt dynamics vulnerable to even small shocks (Appendix I). For example, even a mild U.S. slowdown could significantly reduce Aruban growth. Under such a scenario, debt could easily soar to over 100 percent of GDP by 2020 (text chart below). Going forward, these risks may be further compounded by contingent liabilities associated with any new PPPs.

Staff's views

14. **The authorities' medium-term objectives are satisfactory, but current measures are insufficient to achieve them.** Aruba's exposure to external shocks, a narrow economic base, a fixed exchange rate regime, and sizable interest burden highlight the need to rebuild fiscal space. Noting that the fiscal policy anchor is the overall balance, the entitlement reforms implemented by the authorities and their ambitious medium-term adjustment path (culminating with a small surplus in 2018) are welcome. However, fiscal efforts should be sustained at least until 2020 to attain a surplus of 1½ percent of GDP, which will help bring down public debt to slightly above 70 percent of GDP. Nevertheless, these medium-term objectives will most likely not be achieved with current measures (text table below). Without additional measures and steadfast implementation, deficits would remain elevated, and debt would continue to trend upwards over the medium term. Elections scheduled for 2017 pose an additional risk to achieving these targets. Therefore, expeditiously establishing a strong and effective medium-term fiscal framework would enhance the credibility of these plans.



15. **Achieving these fiscal targets will require additional revenue and expenditure measures, including further entitlement reform:**

- ***Revenues.*** Additional revenue measures are needed given the size of the authorities' planned adjustment. In particular, international comparison suggests that there is scope for increasing revenue from indirect taxes. For example, estimates suggest that each 1 percentage point increase in the BBO rate could yield about Afl. 60 million (about 1.3 percent of GDP) in additional revenues. Current efforts to improve revenue administration and to reduce tax arrears would yield tangible benefits only over the medium term. More generally, a thorough review of the tax system seems warranted given its complexity (due in part to a legacy of myriad tariff rates which can differ even for goods within the same broad category) and the disproportionate reliance on direct taxation.

- ***Expenditures.*** On the expenditure side, given the large size of the wage bill (compensation of employees corresponds to nearly 50 percent of tax revenue), a key priority is to introduce measures to permanently reduce wage-related expenses. Efforts should focus on slowing wage drift due to automatic raises and promotions for time in grade, as well as modifying public sector workers' benefits and allowances. Steadfast adherence to the consolidation plan would also appreciably reduce interest expenses by more than ½ percentage point of GDP in 2020. Furthermore, as Aruba is a very open economy, the envisaged fiscal consolidation (underpinned by current expenditure curtailments and greater tax revenues) is not likely to be a major drag on growth.[1]

- ***Entitlement programs.*** Further measures are needed to ensure that the costly universal health care system (AZV) becomes self-financing. In particular, the authorities should consider introducing modest user fees to rationalize demand for certain health care services, such as emergency room visits for non-urgent care.

- ***PPPs.*** Any further costs associated with newly approved PPP should be fully accounted for in a medium-term fiscal framework.

Fiscal Adjustment 2014-2020

		A	B	C	D
		2014	2020	Adjustment (C=B–A)	Debt (2020)
	Baseline (based on actual measures)				
1.	Overall balance	-5.2	-3.6	1.5	90.6
2.	Identified measures			1.5	
	Staff's proposal[1]				
3.	Underlying deficit	-5.2	1.5	6.7	72.1
4.	Additional adjustment needed (4=3–1)			5.1	
5.	Proposed additional measures:				
	Revenue			1.5	
	Expenditure			3.6	

Source: Aruban authorities and staff estimates.

[1] Staff's proposal coincides with the Amended 2015 Budget Plan up to 2018 (see text).

[1] Estimates for Eastern Caribbean Currency Union (ECCU) countries indicate that only the public investment expenditure multiplier is statistically different from zero, while tax and consumption multipliers are not. See Gonzalez-Garcia and others, 2013 (IMF Working Paper 13/117).

Authorities' views

16. **The authorities broadly agreed with the need for fiscal consolidation**. Contrary to staff, they are of the view that their medium-term fiscal adjustment plan contains sufficient measures to meet their targets and without budget support or soft loans from the Netherlands. They noted that previous decisions made as part of the tripartite social dialogue, which facilitated the entitlement reforms, somewhat limit maneuver for additional reforms in the near term. Nevertheless, the authorities see revenue measures as important to the fiscal consolidation effort, and have therefore assembled a commission to study tax reform. Proposals, including on how to streamline the complex tax system, are expected in a few months. They are also optimistic on significant one-off revenues from the accumulation of tax debt. The authorities are also focusing on increasing expenditure efficiency and are in the process of finalizing a consultant to conduct a public expenditure review. In addition, they plan to continue to rationalize the wage bill by limiting new hires, introducing flexible (including part-time) work arrangements, and providing outplacement services to some public employees. The authorities are in close consultation with the Netherlands on how to tailor to Aruba's specific circumstance a fiscal council involving external budgetary oversight.

B. Monetary and Financial Sector Policies: Preserve Stability

Background

17. **Monetary policy remained unchanged during 2013–14.** Despite the pegged exchange rate regime, restrictions on capital mobility (dating back to 1986) allow for some monetary control in Aruba.[2] The Central Bank of Aruba's (CBA) main policy instrument is the reserve requirement (RR), which has been kept constant at 11 percent since January 2010 in light of adequate reserves, deflation, and economic slack. Credit growth declined slightly to 4¼ percent in 2014 from 5 percent in the previous year, and the banking system is awash with excess liquidity (6¾ percent of GDP in 2014), a reflection of anemic demand and lack of competition among banks.

18. **Commercial banks have weathered the double-dip recession without major strains.** The banking sector's return on equity was 18½ percent in 2014, afforded by sizeable interest rate margins which reflect, in part, an oligopolistic market structure (Box 4). The capital adequacy ratio (CAR) has been on the rise since 2011 and exceeded 24 percent as of 2014, well above the regulatory minimum of 14 percent. The non-performing loans (NPL) ratio declined to around 6 percent in 2014. The authorities' latest stress test results show that even under the most severe credit shock, the CAR of the aggregate banking sector remained above the regulatory minimum. The CBA has widened the supervisory umbrella to include insurance brokers in 2014. After significant efforts to enhance the

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

AML/CFT framework, Aruba was removed from the Financial Action Task Force (FATF) and Caribbean FATF follow-up processes.

Staff's views

19. **The current accommodative monetary policy stance remains justified given projected low inflation and moderating growth rates, as well as evidence of slack in the economy.** Aruba's foreign exchange reserves are currently adequate to safeguard the pegged exchange rate regime. In case demand picks up and signs of overheating appear (such as rapid credit growth, though this is a very low risk at this point), the authorities should stand ready to mop up the excess liquidity by increasing the RR. Monetary tightening may also be warranted if gross international reserves run the risk of dipping below any of the reserve adequacy thresholds monitored by the CBA.

Authorities' views

20. **The authorities plan no near-term change in the monetary policy stance and are contemplating moves to enhance policy transmission**. Within the next year, the CBA is considering an overnight facility to help manage excess banking system liquidity by providing commercial banks with daily inter-bank rates. Relatedly, a new bank has been granted a license and expected to begin operations by the end of the year, which should increase competition within the sector. The authorities are planning on further strengthening their prudential framework by broadening the supervisory perimeter to encompass securities trade.

C. Safeguarding Competitiveness and External Stability

Background

21. **Aruba appears to have sustained competitiveness in tourism**. Its Caribbean market share in stay-over tourism has continued to rise in tandem with growth in visitors' nights (Figure 4). Aruba's reputation as a high-end destination and the predominance of time-share participants among repeat stay-over visitors provide revenue stability. In addition, the authorities' marketing efforts, access to new U.S. hubs, and additional airlift capacity from South America have improved the tourism sectors' resilience. Electricity costs do not appear to be out of line with its regional competitors.

22. **The real effective exchange rate has been on a depreciating trend since mid-2011**. Reflecting a narrow production base and the large need for imports that is typical to island economies, the CA norm shows a sizeable deficit of 5½ percent of GDP. While the 2014 CA deficit exceeds this norm by two percentage points, EBA-Lite estimates, which take Aruba's very open economy into account, suggest an overvaluation of 4 percent, that is, an exchange rate that is broadly in line with fundamentals. The narrowing of the CA deficit over the medium-term is projected to prevent a further deterioration of the net IIP position (–103 percent of GDP at end-2014). However, stabilizing the net IIP position at such high levels and maintaining sizable CA deficits, even if justified by fundamentals, poses both stability and financing risks.

23. Structural competitiveness portrays a more nuanced picture. Aruba's labor market is highly regulated with cumbersome lay-off procedures, including a lengthy (2-3 months) process for obtaining a termination permit, which is often associated with hefty severance pay (based on years of service and final salary) and court settlements favoring employees. Temporary workers can only be hired through an agency for up to 12 months (after which they gain permanent status). A temporary worker can only be rehired for the same position after a three-month pause. Costs of doing business are high as establishing a new enterprise could take 4-6 months and involves complicated procedures across multiple government entities. Obtaining the necessary licenses and permits seem to be especially arduous in the construction and restaurant sectors. Banks impose fees for many types of financial transactions, and it can sometimes take 2-4 months to open a bank account, making access to finance and business operations costly and burdensome. To address some of these issues, the Aruba Investment Agency (Arina), has been established to expedite the processing of permits and licenses.

Staff's views

24. **Improving price and structural competitiveness will strengthen the ongoing recovery**. While recent initiatives to diversify the tourism market are welcome, with the U.S. accounting for around 55 percent of tourists, there is scope for further diversification. Increasing labor market flexibility and reducing the costs of doing business would not only further improve Aruba's competitiveness, but would also help its adjustment to external shocks and facilitate diversification. The authorities' plans to set up a second windmill park will likely reduce utility costs, thereby enhancing competitiveness.

Authorities' views

25. **While the authorities generally agreed with staff's analysis, they did not consider structural competitiveness to be a major impediment**. They highlighted many sources of strong non-price competitiveness relative to their Caribbean peers including Aruba's location, educated population, high standards of living, safety and security, the Dutch legal system, and modern infrastructure such as port facilities for cruise lines. Aruba is also one of the few countries in the region where U.S. customs and border patrol offers clearance at the airport facilitating travel back to the U.S. (recently expanded to include private aircraft). Relatedly, the authorities are working on achieving EU/Schengen preclearance to ease travel to Europe.

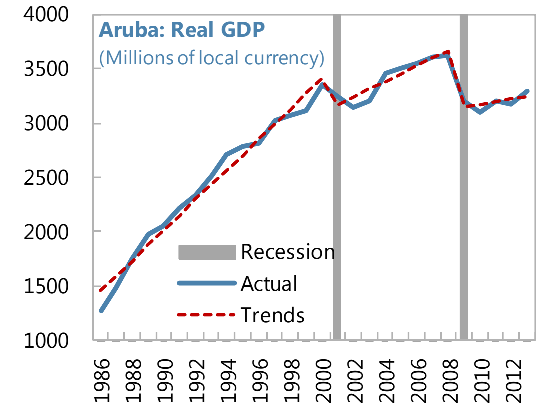
BOOSTING LONG-TERM GROWTH POTENTIAL

Aruba needs to increase productivity and labor market participation to sustain growth potential.

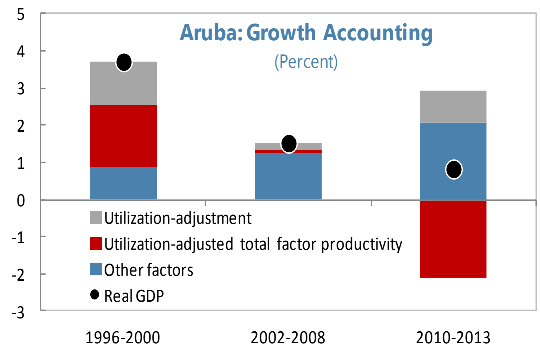
Background

26. **After a strong performance up to and throughout the 1990s, each major recession was associated with structurally lower growth.** Average real GDP growth exceeded 7 percent over 1987-2000. However, especially in the aftermath of the latest double-dip recession, Aruba's growth

trend decreased notably reflecting a structural decline in productivity. While many of its peers that also rely heavily on the labor-intensive tourism sector have had similar experiences, Aruba stands out in part because of the additional permanent productivity losses related to the closure of the oil refinery. Taken together, estimates of Aruba's potential growth rate therefore have decreased, relative to pre-recession levels, to around 1½-1¾ percent.

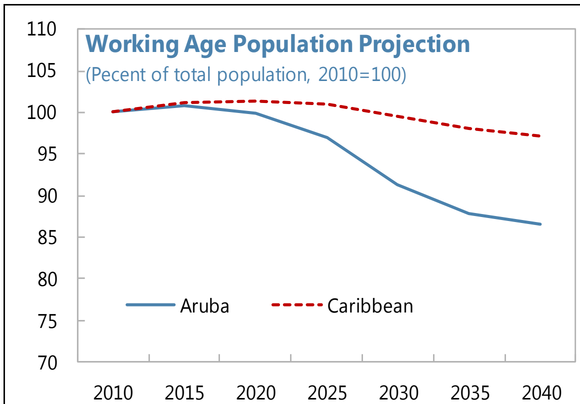


Sources: CBA; and IMF staff calculations.

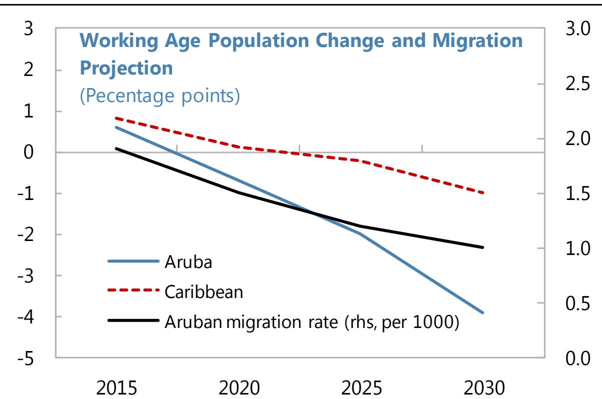


Source: CBA; and staff calculation.
Note: Other factors: capital, labor and capacity utilization. Hotel occupancy rate was used as a proxy to calculate capacity utilization, and labor force was approximated by 15-60 year old population.

27. Aruba faces several headwinds to longer-term growth. Absent new migration, Aruba's working age population is projected to decline, and at a pace faster than its peers—to 60 percent in 2040 from 70 percent in 2015. However, making up the shortfall via migration (which has also been on a downtrend), is likely to pose pressures on the housing market and existing infrastructure.



Source: United Nations.



Source: United Nations.

28. **The authorities are pursuing a new engine of growth centered around renewable energy.** Capitalizing on Aruba's location and abundant solar and wind resources, the government of Aruba's vision includes: (i) making Aruba even more dependent on renewable energy (which would reduce reliance on heavy fuel oil usage), (ii) transforming Aruba into a business platform between the U.S., Latin America, and Europe, and (iii) promoting a knowledge-based economy. While renewable

(primarily wind) currently supply around 17 percent of total energy needs, the planned second windmill park could raise the share to around 35 percent. The Netherlands Organization for Applied Scientific Research (TNO), with its Caribbean Branch Office in Aruba, is advancing research and education focused on renewable energy technologies both locally and throughout the region.

Staff's views

29. **The looming demographic challenges and declining productivity calls for labor market action.** Aruba needs a comprehensive labor market reform to increase both participation and productivity. More effective targeting of social benefits could also increase the labor force participation rate, while supporting ongoing fiscal consolidation efforts. But even with reforms, bleak demographic prospects imply a need to rely on migrant workers, arguing for the development of sustainable migration policies.

30. **Developing the renewable energy sector offers promising potential but is not without challenges.** Given Aruba's natural resources, developing a capital- and technology-intensive renewable energy sector offers the right long-term path for economic diversification. However, skilled-labor shortages may pose a challenge to the success of this initiative. Given the likely upfront investment needs of these initiatives, these projects should be financed through FDI as much as possible.

Authorities' views

31. **The authorities are confident about Aruba's growth prospects from the renewable energy sector**. They emphasized that rather than a quantitative expansion of tourism, they are deliberating pursuing a growth strategy focused on upgrading existing tourism facilities, improving infrastructure, revitalizing urban spaces, and increasing dependence on renewable energy for production to further improve the quality of Aruba as a destination. In addition, they view renewable energy to play a catalytic role helping Aruba to grow into a business gateway to South America in knowledge- and technology-intensive industries. The authorities pointed out that the Rocky Mountain Institute recently joined efforts with the Carbon War Room to help achieve the goal to become completely independent of fossil fuels by 2020 for electricity and potable water generation. They anticipate that the share of renewable energy will increase to 40 percent in 2018, in part supported by their recent partnership with Philips which through innovation will promote energy efficiency. However, they acknowledged that scaling up wind energy substantially further presents challenges, and are therefore researching storage technologies (flywheel and underwater compressed air) to help ensure their renewable energy targets will be met. The authorities are also cognizant of the skilled labor constraints, but see scope to bring back Aruban engineers working abroad. They agreed with staff on the importance of financing through FDI.

32. **The authorities remain cautiously optimistic regarding the outcome of ongoing offshore gas exploration**. For the exploration, development, and production of oil and gas, the government of Aruba signed a production sharing agreement with REPSOL which has recently partnered with Total and BG Group. REPSOL's initial interest was the result of its success in Venezuela

where a large gas pocket was discovered. 3D seismological mapping in the continental seabed have been concluded and subsequent analysis is currently underway. If gas reserves are found, production would only begin in the long run.

STAFF APPRAISAL

33. **Aruba's gradual recovery from the double-dip recession is underway**. After a strong initial tourism-led rebound, the economy lost momentum in part due to heightened fiscal policy uncertainty. Looking ahead, a broad-based recovery underpinned by robust tourism activity, the mainstay of the Aruban economy, and robust domestic demand is envisioned. However, real GDP is projected to reach its pre-crisis peak only by the end of the decade.

34. **The main near-term risks to the outlook are external in nature**. Given its high dependence on tourism, the Aruban economy is vulnerable to spillovers associated with global slowdowns. As they are the most important sources of tourists, Aruba is particularly susceptible to downturns in the U.S. and Venezuela. Over the medium term, timely implementation of renewable energy investments could boost growth prospects.

35. **Putting debt on a downward trajectory is an immediate policy priority.** Although major structural reforms have been initiated, public debt surpassed 80 percent of GDP in 2014. Attributes such as Aruba's vulnerability to external shocks, the predominance of the tourism sector, and the exchange rate peg call for the urgent rebuilding of fiscal policy space. While the authorities' ambitious medium-term adjustment plan is welcome, sustained fiscal effort at least until 2020 is warranted to durably set debt on a downward path. There is a need to establish a formal medium-term fiscal framework to enhance the credibility of these plans.

36. **Additional revenue and expenditure measures are needed to achieve the desired fiscal consolidation**. Without additional measures, fiscal deficits would remain elevated, and debt would continue to rise over the medium term. Therefore, given the size of the fiscal adjustment, additional revenue effort in the form of greater indirect tax collection appears warranted. With regards to expenditure, a priority is to reduce wage-related expenses given the large size of the wage bill. Further measures to ensure that the health care system becomes self-financing should also be considered. PPP-related expenditure commitments should be fully accounted for.

37. **The accommodative monetary policy stance is appropriate.** Given projected low inflation and moderating growth rates, as well as evidence of slack in the economy, staff currently sees no need for monetary tightening. If, however, signs of overheating appear, the authorities should stand ready to tighten the monetary policy stance appropriately.

38. **Competitiveness needs to be safeguarded to ensure a stable recovery**. Initiatives to diversify markets and efforts to promote Aruba's reputation as an upscale destination have continued to reap dividends as evidenced by the uptrend in visitor nights and Aruba's growing share in the Caribbean tourism market. Given that the U.S. accounts for 55 percent of tourists, however,

staff sees further scope for market diversification. To further improve competitiveness and preserve external stability, Aruba would need greater flexibility in the labor market and more enabling business conditions. It will be important to finance prospective growth initiatives, including those associated with renewable energy, through FDI.

39. **It is envisaged that the next Article IV consultation discussions with Aruba will be held on a 24-month cycle**.

Box 1. Aruba: Basic Facts

Aruba is a small Caribbean island 29 kilometers off the northern coast of Venezuela. The 180 square kilometer island is densely populated, inhabited by 106,795 persons (2013). Unlike many other Caribbean islands, Aruba is situated outside of the hurricane belt, benefitting from consistently sunny skies, prevailing cooling trade winds, and a constant temperature (27˚C), which along with its world renowned beaches, makes it a popular vacation destination all year round.

After being granted *status aparte* in 1986, Aruba became an autonomous country within the Kingdom of the Netherlands (together with Curaçao, Sint Maarten, and the Netherlands itself). The political system is based on the Dutch model with some English common law influence. Prime Minister Eman, is serving his second four-year term in office with a 13 out of 21 seat majority in the Parliament; next elections are due in 2017.

Aruba has one of the highest standards of living in the Caribbean with GDP per capita at $24,429 in 2013. Aruba's currency, the florin (AWG or AFL), has been pegged to the US dollar since 1971 (1.79 Afl. to the dollar). The economy is largely dependent on tourism which directly and indirectly accounts for about 85 percent of GDP, with most visitors coming from the United States, Venezuela, and Canada. The Valero oil refinery closed in 2012, leading to a significant loss of output (of around 8 percent of GDP).

Box 2. Aruba: The Impact of External Spillovers

As with other small open island economies, Aruba is highly sensitive to global economic conditions. In particular, Aruban growth is one of the most volatile in the region, with external factors accounting for almost 60 percent of its growth volatility.

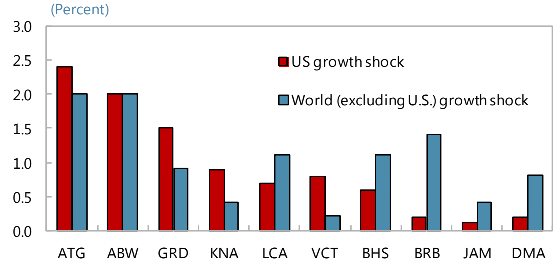
Aruba's economy is especially susceptible to external demand fluctuations:

- Each 1 percentage point temporary decline in global growth (excluding the U.S.) would drag down Aruban growth by about 2 percentage points.
- More importantly, while each 1 percentage point temporary decline in U.S. growth would also drag down Aruban growth by about 2 percentage points—in contrast to its peers—it also depresses growth in the following year as well.
- Put differently, a 1 percentage point temporary decrease in U.S. growth would lead to about a 4 percentage point cumulative decline in Aruban growth over two years.
- Notwithstanding the usual confidence bands around such point estimates, the results highlight that even a moderate U.S. slowdown could sharply reduce Aruban growth.

The fact that Aruba is a highly tourism-dependent economy with a large share of its tourists originating in the U.S. sheds light on these results. In particular, Aruba is subject to two mutually reinforcing types of concentration risk:

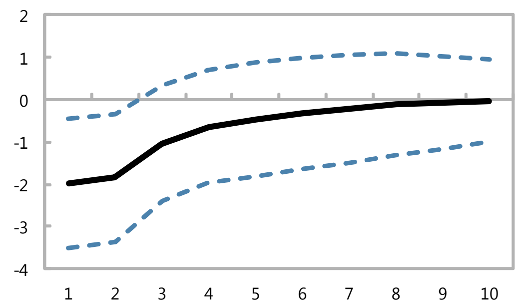
- *One good*: With the end of oil refining, the economy has become even more dependent on one good (service), tourism (with a contribution to GDP of about 85 percent),
- *One market*: Over 55 percent of tourists originate in the U.S.

The Impact of External Demand Shocks on Growth
(Percent)



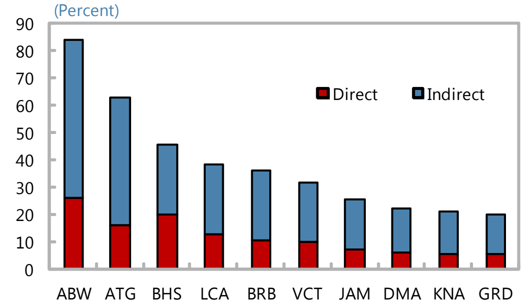
Source: Staff calculations.
Note: Figure depicts the peak of Aruba growth impulse response function to the two external growth shocks. ABW denotes Aruba, whereas ATG, BHS, BRB, DMA, GRD, JAM, KNA, LCA, and VCT, denote Antigua and Barbuda, the Bahamas, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, respectively.

Aruban Growth: Impact of 1 percentage point lower U.S. growth
(Percent)



Source: Staff calculations.

Tourism and Travel Contribution to GDP, 2013
(Percent)



Source: World Travel and Tourism Council (wttc.org).
Note: ABW denotes Aruba, whereas ATG, BHS, BRB, DMA, GRD, JAM, KNA, LCA, and VCT, denote Antigua and Barbuda, the Bahamas, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, respectively.

Box 3. Aruba: Reform of Entitlement Programs

In 2014, the authorities took significant steps towards restoring the sustainability of their pension and health care systems.

The pension system reform consisted of two elements:

- First, the authorities aimed to stem the losses of the general (AOV) pension fund, as well as to build a legal reserve that would safeguard its sustainability. To achieve this, reforms were implemented in steps. On January 1, 2014, premium income limits increased from Afl. 65,052 to Afl. 85,000, and premium rates increased from 12½ to 13½ percent. On January 1, 2015 premium rates increased further to 14½ percent, and the minimum retirement age began a process of increasing to 65 from 60 years in six-month increments over 10 years. With these reforms, after sizeable initial savings, premiums are expected to fully cover costs beginning in 2017.

- Second, the authorities sought to restore the sustainability of the public administration (APFA) pension system. Pension limits, premiums, and the retirement age were raised in line with the AOV reforms. In 2014, the government also signed a loan agreement with the APFA pension fund to repay the bulk of its long-standing debt to the pension fund over 5 years adding 3½ percent of GDP to the public debt stock but restoring APFA's long-term sustainability.

To reform the health system (AZV), a 1 percent levy was introduced to limit its fiscal drain. While the levy will help offset health expenses, in the absence of further measures, overall health care costs are expected to rise, in part owing to an ageing population.

Box 4. Aruba: Overview of the Financial System

Aruba's financial sector is sizeable with assets of about 210 percent of GDP in 2014. Commercial banks dominate the sector with nearly half of total assets. The rest of the financial system is divided among pension funds, insurance companies, and bank-like institutions.

The four commercial banks are foreign owned subsidiaries of (parent) banks located in Curaçao. Hence, they are supervised by both the Central Bank of Aruba (CBA) and by the Central Bank of Curaçao and St. Maarten. The banks are largely funded by resident deposits, which account for over 80 percent of liabilities. More than 60 percent of banks' assets are loans to the private sector. They also invest in government securities. Aruba also has two off shore banks with assets of 7 percent of GDP, which are only engaged in banking activities with non-residents. After banks, pension funds form the next largest component of the financial sector, dominated by the civil service pension fund (APFA), which has assets of over 50 percent of GDP.

Aruba's financial system differs in key respects with those in the region: (i) the size of its financial sector, including its banks, is notably smaller than its peers, (ii) there are no (fragile) indigenous banks, and Aruban commercial banks are subject to dual supervision, (iii) in contrast to those in the Eastern Caribbean Currency Union (ECCU), Aruban banks are better capitalized, are substantially more profitable, and have lower NPL ratios and lower exposure to a highly-indebted sovereign, and (iv) Aruban off shore banking operations are small relative to peers, and credit unions are tiny.

Selected Banking Indicators: Aruba and the ECCU, 2013

	Capital adequacy	NPL ratio	Public sector loans	Return on assets	Return on equity
Aruba	22.7	7.0	0.0	2.2	20.3
ECCU	13.2	18.3	10.0	0.0	–0.2

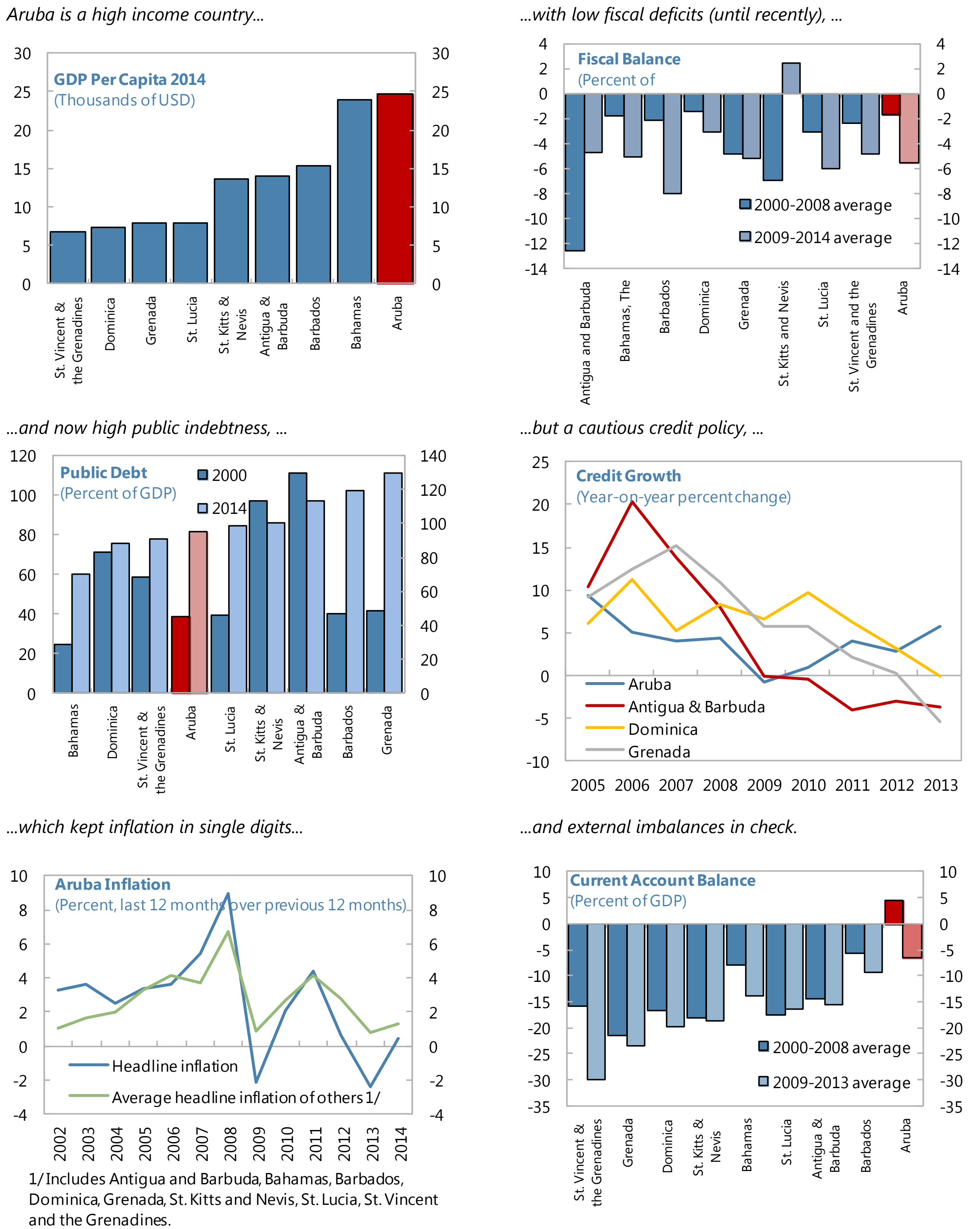
Source: CBA and ECCB.
Note: NPL ratio: non-performing to total loans;
Public sector loans: public sector to total loan ratio.

Aruba: Financial System Overview, 2014

	No. of Institutions	Total Assets			Capital and Reserves (1)		
		Mil. USD	Share	Percent of GDP	Mil. USD	Share	Percent of GDP
Bank and bank-like institutions (2)	9	3,274	59	124	665	76	25
Commercial Banks	4	2,718	49	103	404	46	15
Offshore Banks	2	183	3	7	57	7	2
Bank Like Institutions	3	373	7	14	204	23	8
Insurance companies (3)	24	730	13	28	161	18	6
Life Insurance	7	527	9	20	85	10	3
Non-Life Insurance	13	162	3	6	44	5	2
Captive Insurance	4	42	1	2	31	4	1
Pension funds	10	1573	28	59	46	5	2
Company (3)	9	169	3	6	17	2	1
Civil Servants (APFA) (2)	1	1,404	25	53	28	3	1
Total	43	5,577	100	210	872	100	33

Source: Centrale Bank van Aruba (CBA), APFA, and staff estimates.
(1) Includes general (unallocated) reserves
(2) Preliminary data for 2014.
(3) Data refers to 2012.

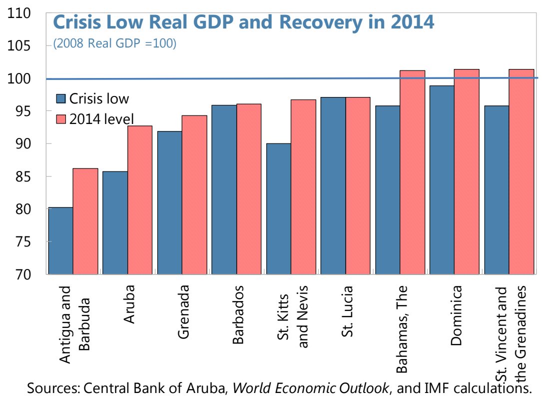
Figure 1. Regional Comparison



Sources: Central Bank of Aruba; CBS; *World Economic Outlook*, and IMF staff calculations.

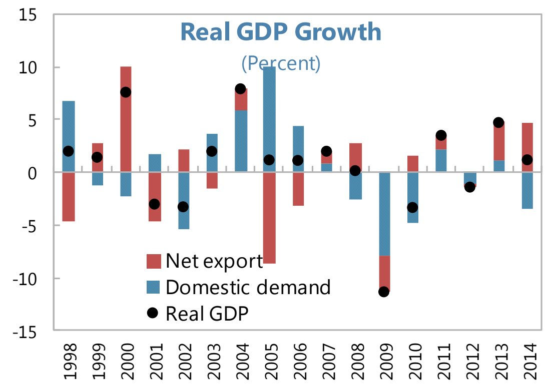
Figure 2. Aruba: Growth and External Imbalances

Aruba experienced one of the largest output drops.



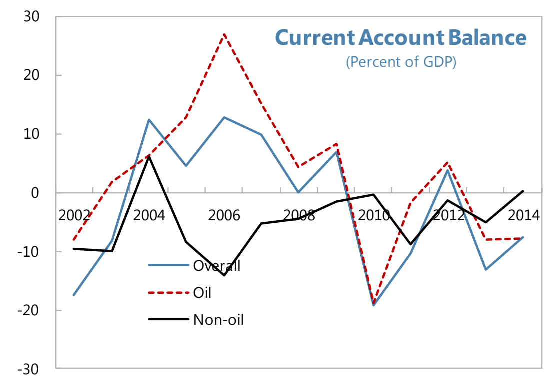
Sources: Central Bank of Aruba, *World Economic Outlook*, and IMF calculations.

Recovery from the double-dip recession continues, …



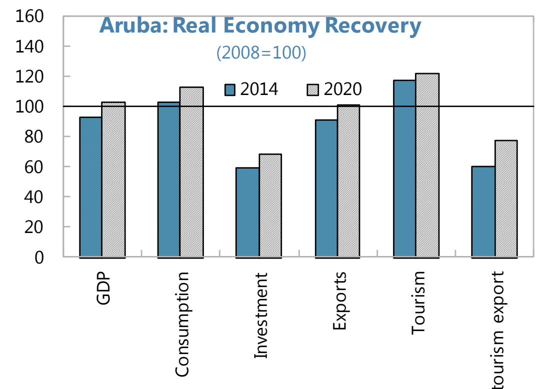
Sources: CBA and IMF staff calculations.

…but external imbalances remain, and…



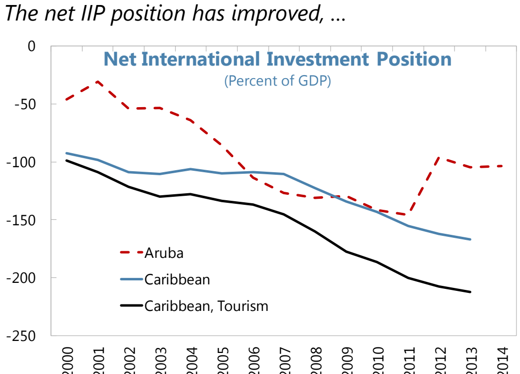
Sources: BCA; and IMF staff calculations.

…investment and non-tourism exports left large gaps.



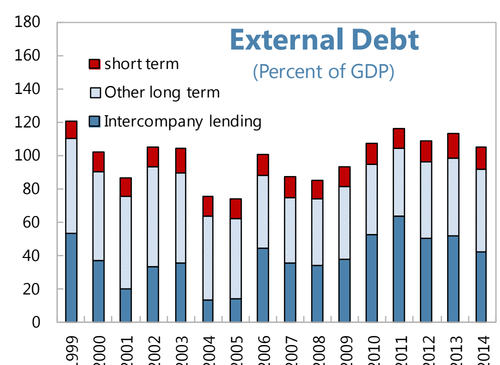
Sources: CBA and IMF staff calculations.
Note: Non-tourism export excludes oil sector.

The net IIP position has improved, …



Sources: Milesi-Ferretti and Lane (2012)'s External Wealth of Nations database update; Central Bank of Aruba; and IMF staff estimates.
Note: Data for Aruba since 2008 are from authrorities.

…and external debt has broadly stabilized.

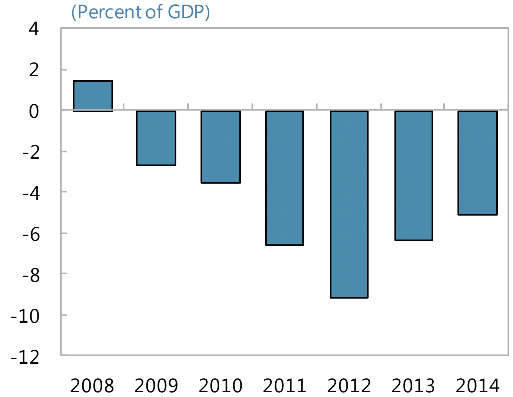


Sources: CBA; and IMF staff calculations.

Figure 3. Aruba: Fiscal Developments, 2008–14

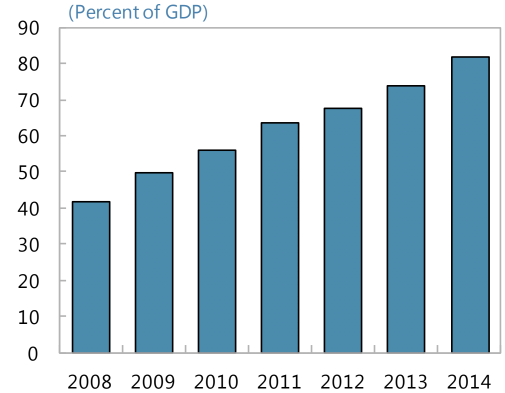
The overall fiscal deficit remains elevated...

Government Balance
(Percent of GDP)



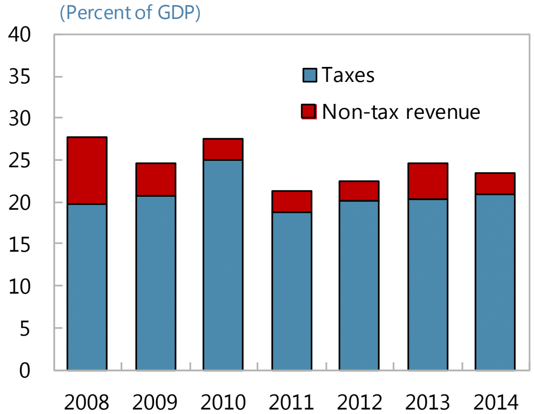
...and debt has risen sharply.

Central Government Gross Debt
(Percent of GDP)



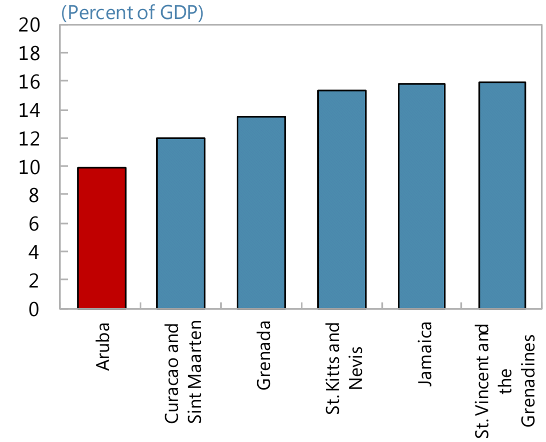
Revenue performance has also worsened recently...

Government Revenue
(Percent of GDP)



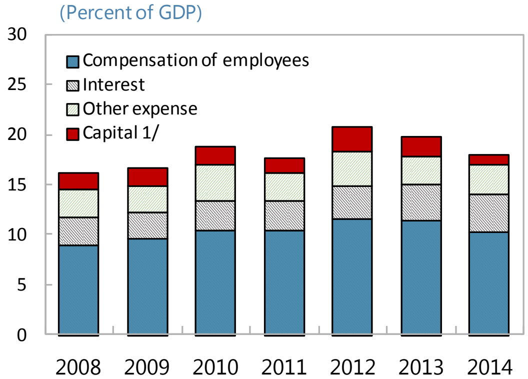
...and indirect taxation is relatively low.

Tax Revenue, 2013
(Excluding Property and Income Taxes)
(Percent of GDP)



Investment has been crowded out by wage and interest expenses...

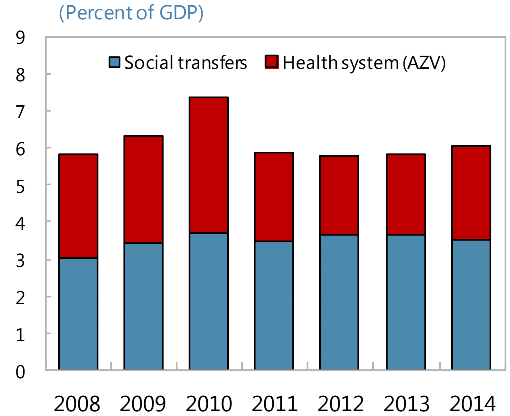
Government Exepnditure
(Percent of GDP)



1/ Net aquisitions of non-financial assets.

...as well as health and pension transfers.

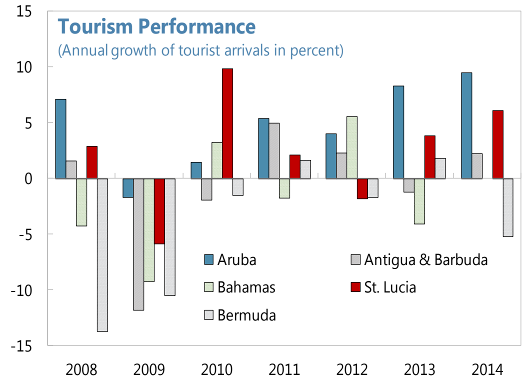
Social Benefits
(Percent of GDP)



Sources: Aruban authorities and IMF staff estimates.

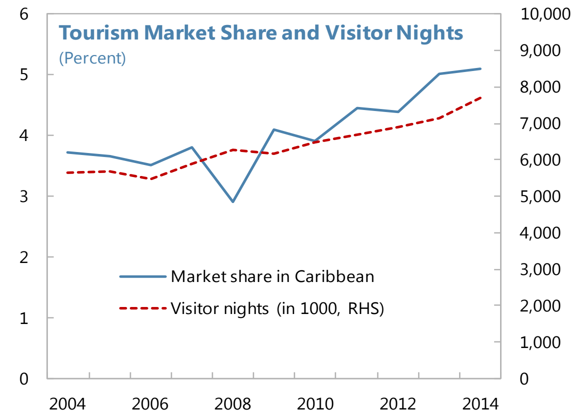
Figure 4. Aruba: Competitiveness

Tourism rebounded quickly…



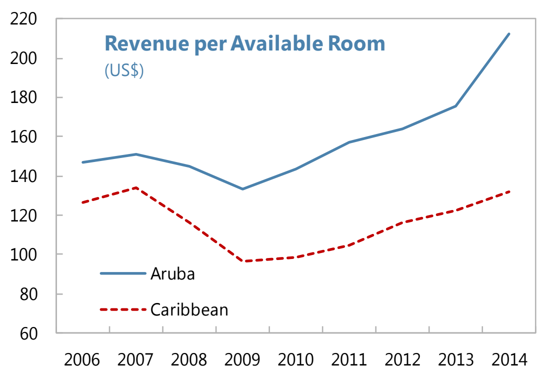
Sources: Caribbean Tourism Organization and IMF calculations.
Note: Bermuda 2014 growth rate is based on data until November 2014.

…with an increasing market share…



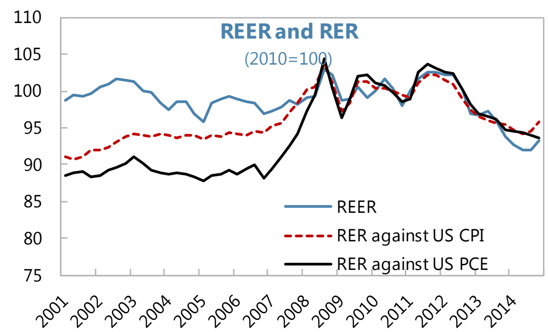
Sources: CBA; and IMF staff calculations.

…and a strong growth in revenue per room.



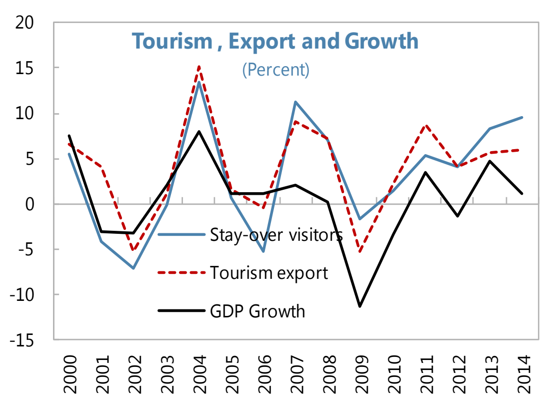
Source: CBA; CBS; Aruba Tourism Authority.

The real exchange rates have been trending down.



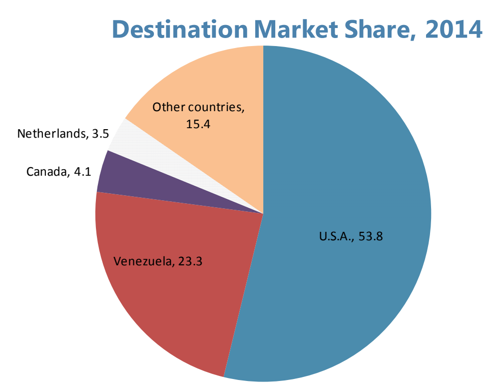
Sources: Bereau of Labor Statistics; Bureau of Economic Analysis; Haver Analytics; IMF INS database; and IMF staff calculations.

Tourism has underpinned the recovery, …



Sources: CBA and IMF staff calculations.

…but can benefit more from further market diversification.



Sources: CBA; and IMF staff calculations.

Table 1. Aruba: Selected Economic Indicators, 2012–16

I. Basic Data, Social and Demographic Indicators

Area (sq. km)	180	Infant mortality (per thousand)	13.3
Population (thousands)	106.0	Literacy rate (percent)	97.3
Population growth rate (2013, percent)	1.6	Percent of population below age 15 (percent)	18.8
GDP (millions of U.S. dollars)	2,586	Percent of population age 65+	10.9
GDP per capita (thousands of U.S. dollars)	24.4	Life expectancy at birth (years)	75.1
Unemployment (2013, percent)	7.6		

II. Economic Indicators

	2012	2013	2014	2015	2016
			Prel.	Projections	
			(Percent change)		
Real economy					
Real GDP	-1.4	4.7	1.2	2.2	1.8
Real domestic demand	-1.0	0.9	-3.0	1.2	1.7
Consumption	2.0	4.1	-1.9	1.1	1.6
Private	0.4	4.0	-0.5	1.1	1.6
Public	6.1	4.3	-5.2	1.2	1.5
Gross investment	-8.4	-7.9	-6.4	1.7	2.0
Exports of goods and services	-5.8	6.4	3.0	2.6	1.9
Imports of goods and services	-4.3	1.0	-2.9	1.3	1.7
			(Percent change)		
Consumer prices					
Period average	0.6	-2.4	0.4	0.7	1.2
End-period	-3.7	0.1	2.2	0.3	1.2
			(Percent of GDP)		
Central government operations					
Revenues	22.5	24.7	23.5	23.7	23.8
Expenditures 1/	31.8	31.1	28.6	28.1	27.9
Of which: capital	2.3	2.0	1.1	0.8	0.8
Overall balance	-9.2	-6.4	-5.2	-4.4	-4.1
Gross central government debt	67.8	73.9	81.6	83.4	84.5
Savings and investment			(Percent of GDP)		
Gross investment	26.7	24.0	22.2	21.6	21.6
Foreign saving	-3.8	13.0	7.5	3.5	4.0
Domestic saving	30.4	11.0	14.7	18.1	17.6
Balance of payments			(Percent of GDP)		
Current account balance	3.8	-13.0	-7.5	-3.5	-4.0
Oil	5.1	-8.0	-7.8	-4.1	-4.6
Non-oil	-1.3	-5.0	0.3	0.5	0.6
FDI	-12.7	8.5	4.5	2.0	1.9
Gross foreign assets of central bank (millions of U.S. dollars)	787	666	693	703	684
Gross foreign assets of central bank (months of imports)	3.3	3.5	3.7	4.0	3.8
External debt	108.3	112.4	105.1	101.2	99.6
	(Millions of local currency, unless otherwise indicated)				
Monetary					
NFA	1,288	1,131	1,174	…	…
NDA	2,123	2,161	2,302	…	…
Credit to private sector (year-on-year percent change)	2.6	5.3	4.2	…	…
Broad money	3,410	3,292	3,476	…	…
Deposits (year-on-year percent change)	7.8	-4.2	5.6	…	…
Memorandum items:					
Nominal GDP (millions of Aruban florins)	4,534	4,629	4,745	5,005	5,194
Nominal GDP (millions of U.S. dollars)	2,533	2,586	2,651	2,796	2,902

Sources: Aruban authorities; and IMF staff estimates and projections.

1/ Includes net acquisition of non-financial assets.

Table 2. Aruba: Baseline Scenario: Medium-Term Outlook, 2010–20

(Percent change, unless indicated otherwise)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
					Prel.	Projections					
GDP	-3.3	3.5	-1.4	4.7	1.2	2.2	1.8	1.7	1.7	1.7	1.7
Consumption	-0.9	1.8	2.0	4.1	-1.9	1.1	1.6	1.6	1.6	1.6	1.6
Private	-0.3	3.9	0.4	4.0	-0.5	1.1	1.6	1.6	1.7	1.7	1.7
Public	-2.4	-3.2	6.1	4.3	-5.2	1.2	1.5	1.5	1.5	1.5	1.5
Investment	-10.8	1.5	-8.4	-7.9	-6.4	1.7	2.0	1.4	2.5	2.9	3.0
Private	-10.8	2.9	-12.3	-3.5	-4.7	2.5	2.0	2.1	2.5	2.9	3.0
Public	-10.1	-21.3	69.8	-54.1	-43.0	-29.1	3.5	-33.8	3.8	3.8	3.8
Imports	-9.0	8.8	-4.3	1.0	-2.9	1.3	1.7	1.5	1.9	2.0	2.0
Exports	-9.9	14.0	-5.8	6.4	3.0	2.6	1.9	1.7	1.6	1.6	1.6
Tourism exports	-0.1	2.9	1.7	6.1	6.0	2.9	2.0	1.8	1.7	1.7	1.7
Non-tourism exports	-26.7	40.0	-18.8	7.1	-3.3	1.8	1.6	1.6	1.5	1.5	1.5
Fiscal					(Percent of GDP)						
Revenue	27.7	21.5	22.5	24.7	23.5	23.7	23.8	23.8	23.7	23.5	23.5
Expenditure	31.2	28.1	31.8	31.1	28.6	28.1	27.9	27.5	27.3	27.1	27.1
Deficit	-3.6	-6.7	-9.2	-6.4	-5.2	-4.4	-4.1	-3.7	-3.6	-3.6	-3.6
Debt	56.1	63.9	67.8	73.9	81.6	83.4	84.5	87.1	88.5	89.6	90.6
External					(Percent of GDP)						
Current account	-19.2	-10.4	3.8	-13.0	-7.5	-3.5	-4.0	-4.2	-4.1	-3.9	-3.8
External debt	106.9	115.6	108.3	112.4	105.1	101.2	99.6	98.4	97.2	95.8	94.5
Memorandum items:											
U.S. GDP growth	2.5	1.6	2.3	2.2	2.4	3.6	3.3	2.9	2.4	2.2	2.1
U.S. CPI (average)	1.6	3.1	2.1	1.5	1.8	1.3	1.9	2.5	2.4	2.3	2.1
CPI (average)	2.1	4.4	0.6	-2.4	0.4	0.7	1.2	1.7	1.7	1.8	1.8
GDP deflator	-1.0	3.0	0.8	-2.5	1.3	3.2	1.9	1.9	1.9	2.1	2.1
GDP per capita (Aruban florins)	42,009	44,432	43,460	43,679	44,327	46,296	47,574	48,823	50,109	51,517	52,463
GDP per capita (U.S. dollars)	23,469	24,822	24,279	24,401	24,764	25,864	26,578	27,275	27,994	28,780	29,309
Population	101,860	102,711	104,331	105,976	107,036	108,106	109,187	110,279	111,382	112,496	114,746
Unemployment (percent)	10.6	8.9	9.6	7.6	7.4	…	…	…	…	…	…

Sources: Aruban authorities; WEO; and IMF staff estimates and projections.

Note: Volatility in public investment is due to decrease and depletion of the Development Fund.

Table 3. Aruba: Fiscal Operations of the Central Government, 2008–16 1/

(Percent of GDP, unless indicated otherwise)

	2008	2009	2010	2011	2012	2013	2014	2015	2016
								Baseline Proj.	
Revenue	27.8	24.8	27.7	21.5	22.5	24.7	23.5	23.7	23.8
Taxes	19.9	20.8	25.0	18.8	20.3	20.4	21.0	22.9	22.8
Direct taxes	15.4	16.0	17.2	15.9	17.4	17.4	18.0	18.6	18.5
Income and profit	7.2	7.6	8.3	7.8	9.1	8.8	9.3	9.6	9.6
Commodities	5.5	5.6	5.8	6.0	6.2	6.2	6.2	6.4	6.4
Property	1.4	1.5	1.5	1.3	1.5	1.6	1.6	1.7	1.7
Services	1.3	1.4	1.5	0.7	0.5	0.7	0.9	0.9	0.9
Indirect taxes	4.5	4.7	7.9	3.0	3.0	3.0	3.1	4.3	4.3
BBO	3.4	3.8	6.9	1.9	2.0	2.0	2.0	1.9	1.9
AZV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.3	1.3
Foreign exchange	1.0	0.9	1.0	1.1	1.0	1.0	1.1	1.1	1.1
Grants	5.6	1.2	0.1	0.0	0.0	0.5	0.0	0.0	0.0
Other current revenue	2.3	2.9	2.5	2.7	2.2	3.8	2.4	0.8	0.9
Expense	24.7	25.6	29.5	26.8	29.4	29.1	27.5	27.4	27.1
Compensation of employees	8.8	9.5	10.4	10.3	11.5	11.4	10.1	10.4	10.9
Wages and salaries	6.2	7.0	7.8	7.8	8.4	8.4	8.3	8.3	8.3
Employer contribution and benefits	2.6	2.5	2.6	2.5	3.1	3.0	1.8	1.8	1.8
Goods and services	4.4	4.6	5.2	4.8	5.3	5.5	4.6	4.3	4.3
Interest	2.8	2.6	3.0	3.0	3.3	3.6	3.8	4.3	4.4
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social benefits	5.8	6.3	7.3	5.9	5.8	5.8	6.0	5.6	5.4
Pensions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Health system (AZV)	2.8	2.9	3.6	2.4	2.2	2.2	2.5	2.8	2.9
Other social transfers	3.0	3.4	3.7	3.4	3.6	3.6	3.5	2.8	2.5
Other expense	2.8	2.6	3.6	2.9	3.5	2.8	2.9	2.8	1.9
Net acquisition of non-financial assets	1.6	1.8	1.8	1.4	2.3	2.0	1.1	0.8	0.8
Of which: Development Fund	0.7	0.9	1.0	0.6	1.1	1.2	0.9	0.6	0.6
Net lending/borrowing	1.5	-2.7	-3.6	-6.7	-9.2	-6.4	-5.2	-4.4	-4.1
Primary balance	4.4	-0.1	-0.6	-3.6	-5.9	-2.8	-1.4	-0.2	0.3
Net acquisition of financial assets	-0.5	-1.0	-0.8	-0.5	-0.5	-0.8	-0.7	-0.6	-0.7
Net incurrence of liabilities	-1.0	3.6	4.4	7.1	9.8	7.2	5.9	5.1	4.7
Memorandum items:									
Public gross debt	41.7	49.9	56.1	63.9	67.8	73.9	81.6	83.4	84.5
Nominal GDP (millions of Aruban florins)	4,914	4,473	4,279	4,564	4,534	4,629	4,745	5,005	5,194

Sources: Aruban authorities; and IMF staff estimates and projections.
1/ The table is presented on adjusted cash basis.

Table 4. Aruba: Central Bank Survey, 2010–16

(Millions of Aruban florins)

	2010	2011	2012	2013	2014	2015	2016
						Projection	
Net Foreign Assets	1,131.0	1,066.1	1,184.8	1,107.6	1,124.0	1,141.5	1,108.0
Gross Foreign Assets	1,296.8	1,274.3	1,409.5	1,192.9	1,240.9	1,258.3	1,224.9
Gross Foreign Liabilities	-1.2	-0.8	-3.7	-0.1	-1.1	-1.1	-1.1
Valuation Changes	-164.6	-207.4	-221.0	-85.3	-115.8	-115.8	-115.8
Net Domestic Assets	-169.2	-295.2	-136.7	-157.3	-126.3	-99.5	-32.2
Central Government Deposits	-78.5	-185.9	-47.4	-76.4	-52.5	-28.0	33.3
Development Funds Deposits	-7.9	-32.8	-13.8	-7.7	-6.3	-4.0	2.0
Other Domestic Entities (net)	1.1	1.2	1.2	0.8	0.8	0.8	0.8
Other Items (net)	-83.9	-77.7	-76.7	-74.0	-68.3	-68.3	-68.3
Reserve Money	961.8	770.9	1,048.1	950.3	997.7	1,041.9	1,075.8
Bank Notes Issued	197.8	204.0	225.0	237.7	261.8	276.1	286.6
Bank Reserves	764.0	566.9	823.1	712.6	735.9	765.8	789.2
Demand	205.8	132.0	209.8	236.8	261.6	270.4	275.0
Time	558.2	434.9	613.3	475.8	474.4	495.4	514.2
	(Percent change, year on year)						
NFA	-1.6	-5.7	11.1	-6.5	1.5	1.6	-2.9
NDA	-39.6	74.5	-53.7	15.1	-19.7	-21.2	-67.7
Reserve Money	10.6	-19.8	36.0	-9.3	5.0	4.4	3.2
	(Percent of GDP)						
Government Deposits at Central Bank	2.0	4.8	1.3	1.8	-1.0	-0.5	0.6
Central Government	1.8	4.1	1.0	1.7	-1.1	-0.6	0.6
Development Fund	0.2	0.7	0.3	0.2	0.1	0.1	0.0

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

Table 5. Aruba: Monetary Survey, 2010–16
(Millions of Aruban florins)

	2010	2011	2012	2013	2014	2015	2016
						Projection	
Net foreign assets	1309	1286	1288	1131	1174	1191	1158
Central bank	1131	1066	1185	1108	1124	1141	1108
Commercial banks	178	220	103	23	50	50	50
Net domestic assets	1845	1874	2123	2161	2302	2434	2588
Domestic credit	2531	2602	2848	2961	3136	3267	3421
Net claims on the government	-17	-39	137	107	162	221	313
Deposits	-283	-341	-206	-244	-185	-126	-34
At central bank	-84	-216	-59	-82	-57	-28	33
At commercial banks	-199	-125	-148	-161	-128	-98	-68
Claims	266	302	343	350	347	347	347
From central bank	26	28	29	30	32	32	32
From commercial banks	240	275	315	318	315	315	315
Claims on the private sector	2547	2641	2711	2854	2974	3046	3109
From central bank	7	7	7	7	7	7	7
From commercial banks	2540	2634	2704	2847	2967	3039	3101
Securities	28	21	18	15	8	9	10
Loans and advances	2513	2613	2686	2832	2959	3030	3091
Enterprise loans	716	782	841	876	918	907	905
Mortgages	1238	1277	1308	1419	1456	1514	1559
Individuals loans	560	554	537	536	586	609	627
Other items net	-685	-728	-725	-799	-834	-834	-834
Money supply (M2)	3155	3160	3410	3292	3476	3625	3745
Money (M1)	1373	1556	1821	1713	1773	1829	1882
Currency in circulation outside banks	175	183	200	214	227	235	243
Demand deposits	1198	1373	1622	1500	1546	1594	1638
Local currency	1060	1213	1447	1307	1297	1342	1389
Foreign currency	138	160	175	193	249	251	249
Quasi money	1782	1604	1589	1579	1703	1796	1864
Savings deposits	887	915	935	956	957	1009	1047
Local currency	881	908	929	950	952	1004	1042
Foreign currency	7	7	6	6	5	5	5
Time deposits	895	689	654	621	746	787	817
Local currency	891	685	650	607	742	783	812
Foreign currency	4	4	4	13	4	4	4
	(Percent change, year-on-year)						
Net foreign assets	-11.2	-1.8	0.1	-12.2	3.8	1.5	-2.8
Net domestic assets	9.3	1.5	13.3	1.8	6.5	5.7	6.3
Credit to the private sector	1.1	3.7	2.6	5.3	4.2	2.4	2.1
Broad money	-0.3	0.2	7.9	-3.5	5.6	4.3	3.3
Deposits	-0.3	-0.1	7.8	-4.2	5.6	4.3	3.3
	(Percent of GDP)						
Credit to the private sector	59.5	57.9	59.8	61.6	62.7	60.9	59.8
Government deposits	6.6	7.5	4.5	5.3	3.9	2.5	0.7
Central Government	2.9	4.6	1.6	2.2	1.8	1.2	0.0
Development Fund	3.7	2.8	3.0	3.1	2.1	1.3	0.7
Broad money	73.7	69.2	75.2	71.1	73.3	72.4	72.1
Memorandum items:							
Money multiplier	3.3	4.1	3.3	3.5	3.5	3.5	3.5

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

Table 6. Aruba: Balance of Payments, 2010–20

(Millions of U.S. dollars, unless indicated otherwise)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
					Prel.			Projections			
Current account	-459	-266	95	-337	-200	-99	-116	-127	-127	-127	-127
Trade balance	-1,130	-737	-653	-1,090	-1,032	-908	-935	-966	-985	-1,003	-1,027
Oil sector	-428	126	182	-200	-187	-101	-119	-131	-127	-123	-121
Exports	145	5,043	1,243	136	127	69	81	89	95	98	101
Imports	573	4,918	1,062	336	314	170	200	220	222	221	222
Non-oil sector	-702	-862	-835	-891	-846	-807	-816	-835	-857	-880	-905
Exports	119	137	146	142	146	154	160	166	172	178	185
Imports	821	999	980	1,033	992	961	976	1,001	1,029	1,058	1,091
Services	881	836	939	984	1,069	1,058	1,078	1,106	1,135	1,164	1,199
Exports	1,561	1,679	1,762	1,887	1,991	2,022	2,080	2,145	2,212	2,282	2,360
Of which: tourism exports	1,247	1,347	1,398	1,497	1,981	2,012	2,069	2,134	2,200	2,269	2,347
Imports	679	843	824	903	922	964	1,002	1,039	1,077	1,118	1,161
Income (net)	-140	-249	-115	-170	-174	-184	-191	-197	-205	-212	-221
Current transfers	-71	-116	-76	-61	-62	-66	-68	-70	-73	-75	-78
Financial and capital account	445	230	-28	289	207	109	97	97	97	97	91
Capital account	8	3	1	3	3	3	3	3	3	3	3
Financial account	437	227	-29	286	205	106	95	94	94	94	89
Direct investment (net)	184	485	-322	220	119	56	56	56	56	56	50
Portfolio (net)	8	14	146	72	78	82	50	50	50	50	50
Financial derivatives (net)	0	0	2	1	1	-27	-21	...	...	...	...
Other	245	-272	145	-7	7	-6	10	-12	-12	-12	-12
Loans (net)	22	-21	-32	-40	...	...	...	...	...	...	...
Currency and deposits (net)	177	-53	20	17	...	...	...	...	...	...	...
Other (net)	46	-198	156	16	...	...	...	...	...	...	...
Errors and omissions	3.5	-0.6	-0.8	5.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-11	-36	66	-43	8	10	-19	-31	-30	-30	-36
Financing											
Increase (-) in international reserves	11	36	-66	43	-8	-10	19	31	30	30	36
Memorandum items:											
Central Bank Net Foreign Assets (millions of U.S. dollars) 1/	724	711	785	666	693	702	684	653	623	593	558
Gross Foreign Assets (millions of U.S. dollars)	724	712	787	666	693	703	684	654	624	594	558
(months of imports)	4.2	1.3	3.3	3.5	3.7	4.0	3.8	3.5	3.2	3.0	2.7
(percent of broad money)	41	40	41	36	36	...	...	...	...	...	...
Gross Foreign Liabilities (millions of U.S. dollars)	0.7	0.5	2.1	0.0	0.6	0.6	0.6	0.6	0.6	0.6	0.6
External Debt (percent of GDP)	106.9	115.6	108.3	112.4	105.1	101.2	99.6	98.4	97.2	95.8	94.5
GDP (millions of U.S. dollars)	2391	2550	2533	2586	2651	2796	2902	3008	3118	3238	3363

Sources: Aruban authorities; and IMF staff estimates and projections.
1/ Includes revaluation changes.

Table 7. Aruba: Financial Soundness Indicators, 2008–14

(Percent, unless indicated otherwise)

	2008	2009	2010	2011	2012	2013	2014 Prel.
Capital							
Tier 1 capital to risk weighted assets	8.3	10.6	11.3	11.3	11.8	14.7	15.8
Tier 1 and Tier 2 capital to risk weighted assets	14.7	17.8	18.5	17.7	19.4	22.7	24.2
Asset quality							
NPLs to gross loans	6.9	7.9	10.7	8.2	7.0	7.0	6.1
NPLs net of allocated provisions to gross loans	3.9	4.5	6.9	4.1	3.4	3.7	2.9
NPLs net of allocated provisions to regulatory capital	28.5	27.4	40.9	25.9	19.3	18.3	13.2
Large exposures to regulatory capital 1/	98.8	77.1	68.7	68.3	86.4	67.6	68.8
Earnings and profitability							
ROA after taxes	2.3	1.8	1.8	2.1	2.3	2.2	2.3
ROE after taxes	24.7	17.4	16.8	19.8	22.7	20.3	18.4
Net interest income to gross income	62.4	62.8	64.5	65.3	67.0	67.2	65.1
Non-interest expenses to gross income	71.1	75.0	75.2	71.6	69.0	69.3	72.2
Liquidity							
Liquid assets to total assets	34.7	30.1	28.6	26.1	27.6	24.3	24.1
Liquid assets to short term liabilities	88.7	71.5	75.6	61.4	61.2	57.5	58.9
Loans to deposits	69.4	67.1	66.5	71.0	68.0	72.9	73.2
Sensitivity to market risk							
Interest rate margin (percentage points)	7.5	7.2	8.4	7.4	7.0	5.3	5.0

Source: Central Bank of Aruba.
Note: Financial soundness indicators reflect commercial banks only.
1/ Large exposures to regulatory capital refer to all loans or lines of credit in excess of 15 percent of the institution's test capital.

Table 8. Aruba: External Debt, 2008–14

(Percent of GDP)

	2008	2009	2010	2011	2012	2013	2014
Government 1/	21.5	24.1	26.2	25.4	31.9	35.3	38.8
Short-term (trade credits)	0.0	0.1	0.1	0.4	0.1	0.1	0.2
Long-term	21.5	24.0	26.1	25.0	31.8	35.3	38.6
Bonds and notes	16.2	18.7	21.4	21.1	28.3	32.0	35.6
Loans	5.1	5.1	4.5	3.7	3.3	3.1	2.9
Trade credits and advances	0.3	0.1	0.2	0.2	0.2	0.2	0.2
Centrale Bank van Aruba	0.2	0.1	0.0	0.0	0.1	0.0	0.0
Commercial banks	11.9	12.1	12.5	11.0	11.6	13.8	12.8
Short-term	10.7	10.8	11.4	9.9	10.6	12.7	11.6
Long-term	1.1	1.3	1.1	1.1	1.0	1.2	1.2
Bonds and notes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Of which: currency and deposits	1.0	1.1	0.9	0.9	0.9	1.0	1.0
Other debt liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors 2/	17.7	18.9	16.1	15.7	14.8	11.6	11.6
Short-term	0.3	0.4	1.1	1.9	1.8	1.8	1.7
Long-term	17.4	18.5	15.0	13.9	13.0	9.8	9.9
Bonds and notes	5.6	5.9	2.6	2.1	1.7	0.5	0.0
Loans	11.6	12.5	12.2	11.7	11.1	9.2	9.7
Direct investment: intracompany lending	33.5	37.5	52.1	63.5	49.9	51.7	42.0
Gross external debt	84.8	92.6	106.9	115.6	108.3	112.4	105.1
Short-term	11.2	11.4	12.6	12.2	12.6	14.5	13.5
Long-term	73.6	81.2	94.3	103.4	95.7	97.9	91.6

Sources: Aruban authorities; and IMF staff calculations.

1/ Including official entities.

2/ Include nonmonetary financial institutions, public and private nonfinancial corporations, nonprofit institutions serving households and households.

Table 9. Aruba: International Investment Position, 2008–14

(Percent of GDP)

	2008	2009	2010	2011	2012	2013	2014 Prel.
Net position	-131.0	-129.3	-141.7	-145.6	-95.3	-104.7	-103.3
Assets	85.2	103.5	102.4	103.8	100.1	92.7	92.8
Direct investment	22.3	24.6	25.8	24.3	24.6	24.2	23.8
Portfolio	14.3	19.0	23.3	20.2	22.1	21.4	20.9
Equity securities	9.9	12.9	16.7	15.4	7.6	9.8	9.6
Debt securities	4.4	6.2	6.7	4.8	14.6	11.6	11.3
Bonds and notes	3.3	4.2	4.5	3.5	13.2	11.3	11.0
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks	0.2	0.2	0.2	0.2	0.3	0.0	0.0
Other sectors	3.2	4.1	4.4	3.3	12.9	11.3	11.0
Money market instrume	1.1	1.9	2.1	1.3	1.3	0.3	0.3
Other	23.1	31.9	23.0	31.3	22.3	21.2	21.9
Trade credits	0.0	0.0	0.0	7.2	1.1	0.0	0.0
Loans	2.7	3.3	3.3	3.5	3.7	4.1	3.6
Currency and deposits	19.8	28.2	18.8	19.9	16.8	16.2	17.5
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks	13.0	16.5	13.9	13.1	10.4	10.3	10.4
Other sectors	6.8	11.6	4.8	6.8	6.4	5.9	7.1
Other assets	0.5	0.4	0.9	0.8	0.7	1.0	0.8
Reserve assets	25.5	28.1	30.3	27.9	31.1	25.8	26.2
Liabilities	216.2	232.8	244.1	249.4	195.4	197.4	196.1
Direct investment	164.9	177.7	189.3	197.1	137.0	135.0	133.0
Portfolio	21.9	24.7	24.1	23.7	30.1	32.5	35.6
Equity securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	21.9	24.7	24.1	23.7	30.1	32.5	35.6
Bonds and notes	21.9	24.7	24.1	23.4	30.1	32.5	35.6
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	16.2	18.7	21.4	21.4	28.3	32.0	35.6
Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	5.6	5.9	2.6	2.1	1.7	0.5	0.0
Money market instrume	0.0	0.0	0.0	0.3	0.0	0.0	0.0
Other	29.4	30.5	30.7	28.6	28.4	29.9	27.6
Trade credits	0.3	0.2	1.0	1.9	1.8	1.7	1.8
Loans	17.5	18.5	18.1	17.0	15.8	15.3	13.7
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	5.1	5.1	4.5	3.7	3.3	3.1	2.9
Banks	0.6	0.5	1.0	1.3	1.0	1.0	0.8
Other sectors	11.9	12.9	12.6	12.0	11.4	11.2	10.0
Currency and deposits	11.0	11.5	11.3	9.2	10.1	12.3	11.5
Monetary authorities	0.2	0.1	0.0	0.0	0.1	0.0	0.0
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks	10.9	11.4	11.3	9.2	10.0	12.3	11.4
Other sectors	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.6	0.3	0.3	0.6	0.7	0.7	0.6
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks	0.4	0.2	0.2	0.5	0.5	0.6	0.5
Other sectors	0.2	0.1	0.1	0.1	0.1	0.1	0.1

Sources: Central Bank of Aruba; IMF staff estimates.

Appendix I. Public Debt Sustainability Analysis (DSA)

Significant vulnerability and risks: Given a sizable debt burden and gross financing needs, the Public DSA framework for Market-Access Countries indicates that debt dynamics continue to depend on additional growth-supporting structural effort over the medium term and remain highly vulnerable to adverse, and even relatively mild, macro-fiscal and contingent liabilities shocks. While staff's baseline projections reflect the authorities' current fiscal policies with no new measures, additional consolidation in 2015-2020 remains necessary to place debt on a downward path.

A. Baseline Scenario

1. **Debt is expected to continue increasing in 2015 and beyond, although at a slower pace** (Figure 1). The debt ratio is now projected to reach 90.6 percent of GDP by 2020, without further consolidation efforts. The baseline debt projections reflect important debt consolidation efforts in 2014-15, but do not incorporate the gains of unspecified measures over the medium-term. The debt projections also highlight the high sensitivity of Aruba's debt dynamics to macro shocks. Aruba's debt net of government deposits is projected to stand at around 81.6 percent of GDP at end–2014.

B. Risk Assessment

2. **Aruba's sizable debt burden and gross financing needs continue to pose significant risks to debt sustainability.** As presented in Figure 1, Aruba's debt ratio significantly exceeds the debt burden benchmark for emerging market economies of 60 percent of GDP already under the baseline scenario. The same applies to Aruba's public financing needs which are significantly above the relevant benchmark of 15 percent of GDP. However, the debt profile is subject to medium to low risks in terms of bond spreads, projected change in short-term debt, and the share of public debt held in foreign currency.

C. Realism of Baseline Assumptions

3. **The baseline assumptions are consistent with past economic performance.** Specifically, staff assumes that the structural measures already committed in 2014 are implemented and that in line with past experience, Aruba would grow about 1¾ percent over the medium term.

4. **Given Aruba's sizable debt burden and financing needs, the primary deficit is expected to exceed its debt-stabilizing threshold over the projection period.** Under staff's baseline scenario, the fiscal primary balance is expected to turn to a surplus in 2016.

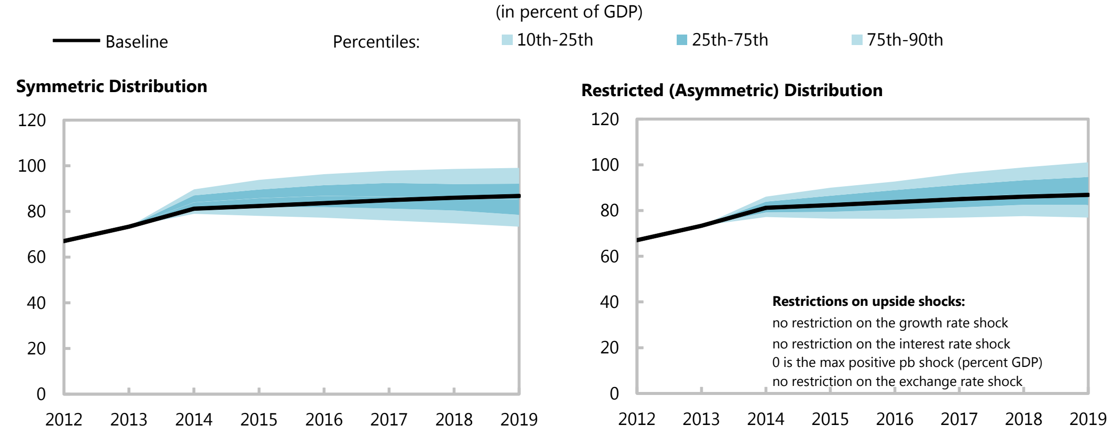
Figure 1. Aruba: Public DSA – Risk Assessment, 2012–19

Heat Map

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

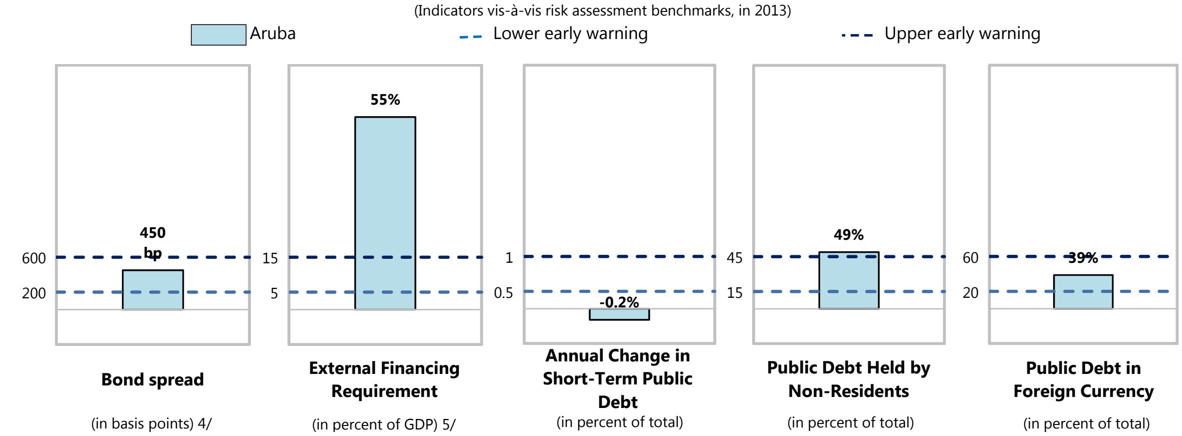
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2013)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

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

Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 01-Sep-14 through 30-Nov-14.

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

Figure 2. Aruba: Public DSA – Baseline Scenario, 2003–19
(Percent of GDP, unless otherwise indicated)

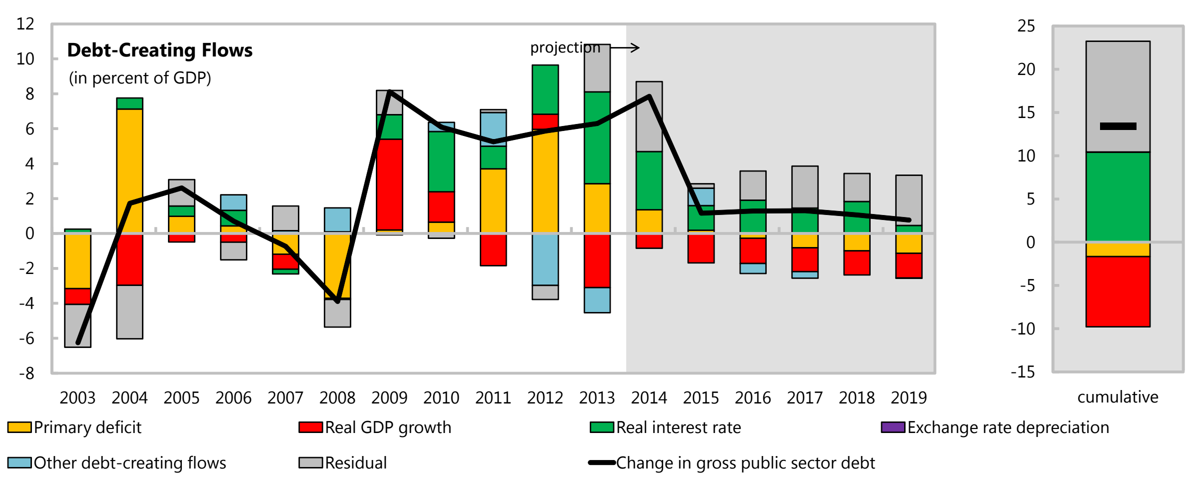
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2003-2011 [2/]	2012	2013	2014	2015	2016	2017	2018	2019
Nominal gross public debt	47.9	67.1	73.4	81.2	82.4	83.7	85.0	86.0	86.8
Public gross financing needs	5.4	14.0	11.7	8.1	8.1	10.0	7.4	8.2	8.1
Net public debt	47.9	67.1	73.4	81.2	82.4	83.7	85.0	86.0	86.8
Real GDP growth (in percent)	0.4	-1.4	4.7	1.2	2.2	1.8	1.7	1.7	1.7
Inflation (GDP deflator, in percent)	2.9	0.8	-2.5	1.3	3.2	1.9	1.9	1.9	2.1
Nominal GDP growth (in percent)	3.2	-0.6	2.1	2.5	5.5	3.8	3.7	3.7	3.8
Effective interest rate (in percent) [4/]	4.8	5.3	5.4	6.0	5.1	4.4	3.8	4.2	2.7

As of November 30, 2014		
Sovereign Spreads		
EMBIG (bp) 3/		450
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	Baa1	Baa1
S&Ps	BBB+	BBB+
Fitch	BBB-	BBB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.5	5.9	6.3	7.9	1.2	1.3	1.3	1.1	0.8	13.4	
Identified debt-creating flows	1.9	6.7	3.6	3.8	0.9	-0.4	-1.1	-0.5	-2.1	0.6	
Primary deficit	0.6	6.0	2.9	1.4	0.2	-0.3	-0.8	-1.0	-1.1	-1.7	-1.0
Primary (noninterest) revenue and grants	24.1	22.5	24.7	23.5	23.7	23.9	23.8	23.7	23.5	142.1	
Primary (noninterest) expenditure	24.6	28.5	27.5	24.9	23.9	23.7	23.0	22.7	22.4	140.4	
Automatic debt dynamics [5/]	0.9	3.7	2.1	2.5	-0.3	0.5	0.1	0.5	-1.0	2.3	
Interest rate/growth differential [6/]	0.9	3.7	2.1	2.5	-0.3	0.5	0.1	0.5	-1.0	2.3	
Of which: real interest rate	0.9	2.8	5.2	3.3	1.4	1.9	1.5	1.8	0.5	10.4	
Of which: real GDP growth	-0.1	0.9	-3.1	-0.8	-1.7	-1.4	-1.4	-1.4	-1.4	-8.1	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.5	-3.0	-1.4	0.0	1.0	-0.6	-0.4	0.0	0.0	0.0	
Privatization/Drawdown of deposits (+fi	0.5	-3.0	-1.4	0.0	1.0	-0.6	-0.4	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroare	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	-0.4	-0.8	2.7	4.0	0.3	1.7	2.4	1.6	2.9	12.8	



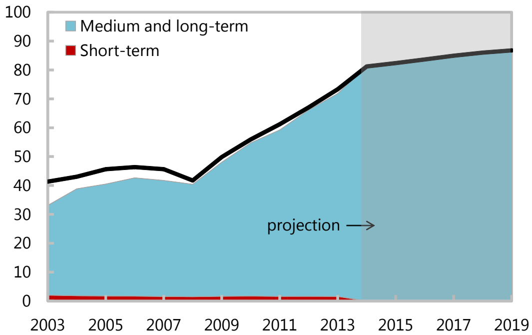
Source: IMF staff.
1/ Public sector is defined as central government.
2/ Based on available data.
3/ Long-term bond spread over German bonds.
4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ))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

Figure 3. Aruba: Public DSA – Composition of Public Debt and Alternative Scenarios, 2008–19

Composition of Public Debt

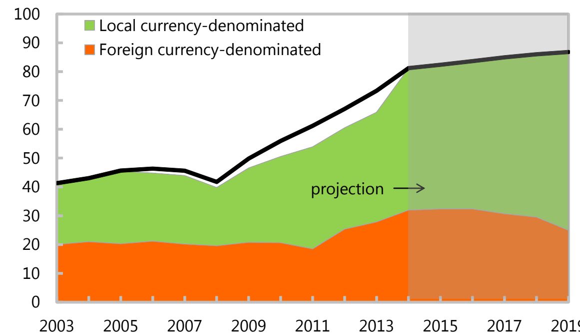
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

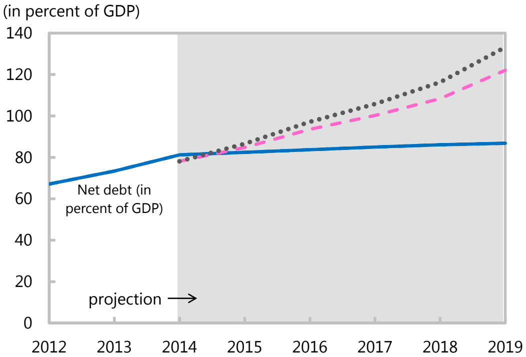


Alternative Scenarios

Baseline Historical Constant Primary Balance

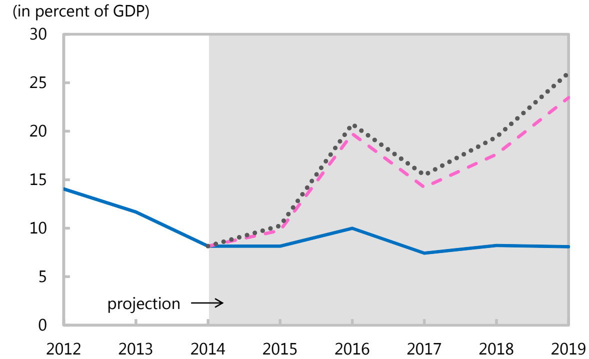
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	1.2	2.2	1.8	1.7	1.7	1.7
Inflation	1.3	3.2	1.9	1.9	1.9	2.1
Primary Balance	-1.4	-0.2	0.3	0.8	1.0	1.1
Effective interest rate	6.0	5.1	4.4	3.8	4.2	2.7
Constant Primary Balance Scenario						
Real GDP growth	1.2	2.2	1.8	1.7	1.7	1.7
Inflation	1.3	3.2	1.9	1.9	1.9	2.1
Primary Balance	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Effective interest rate	6.0	5.9	5.3	4.2	4.8	3.4

Historical Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	1.2	0.4	0.4	0.4	0.4	0.4
Inflation	1.3	3.2	1.9	1.9	1.9	2.1
Primary Balance	-1.4	-1.7	-1.7	-1.7	-1.7	-1.7
Effective interest rate	6.0	5.9	5.3	4.4	5.0	3.7

Source: IMF staff.

Appendix II. Aruba: External Debt Sustainability Framework, 2010–20

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2010	2011	2012	2013	2014 (p)			2015	2016	2017	2018	2019	2020	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	106.9	115.6	108.3	112.4	105.1			**101.2**	**99.6**	**98.4**	**97.2**	**95.8**	**94.5**	**-1.3**
Change in external debt	14.3	8.7	-7.3	4.1	-7.3			-3.9	-1.6	-1.1	-1.2	-1.4	-1.3	
Identified external debt-creating flows (4+8+9)	28.7	-0.6	-4.3	5.1	-8.1			0.6	1.5	1.9	1.8	1.6	1.6	
Current account deficit, excluding interest payments	16.8	8.0	-6.2	10.6	5.1			1.1	1.5	1.8	1.6	1.5	1.3	
Deficit in balance of goods and services	-163.1	-534.2	-237.5	-171.6	-169.5			-155.2	-155.0	-154.9	-154.2	-153.0	-152.2	
Exports	76.3	269.0	124.4	83.8	85.4			80.3	80.0	79.8	79.5	79.0	78.7	
Imports	-86.8	-265.1	-113.1	-87.9	-84.0			-74.9	-75.1	-75.1	-74.7	-74.0	-73.5	
Net non-debt creating capital inflows (negative)	5.3	-4.4	-1.3	-5.8	-12.9			-0.8	-0.8	-0.7	-0.7	-0.7	-0.6	
Automatic debt dynamics 1/	6.7	-4.2	3.2	0.2	-0.3			0.3	0.7	0.8	0.9	0.9	0.9	
Contribution from nominal interest rate	2.5	2.4	2.5	2.5	2.5			2.5	2.5	2.5	2.5	2.5	2.5	
Contribution from real GDP growth	3.2	-3.5	1.6	-5.0	-1.3			-2.2	-1.8	-1.6	-1.6	-1.6	-1.6	
Contribution from price and exchange rate changes 2/	1.0	-3.2	-0.9	2.8	-1.4			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-14.4	9.3	-3.0	-1.0	0.8			-4.5	-3.1	-3.0	-3.0	-3.0	-2.9	
External debt-to-exports ratio (in percent)	140.0	43.0	87.0	134.2	123.0			126.0	124.5	123.4	122.3	121.3	120.2	
Gross external financing need (in billions of US dollars) 4/	1.2	1.1	0.7	1.2	1.1			1.0	1.0	1.0	1.0	1.1	1.1	
in percent of GDP	50.0	42.9	27.6	45.0	40.0	10-Year	10-Year	34.0	33.9	33.7	33.2	32.7	32.1	
Scenario with key variables at their historical averages 5/								**101.2**	**102.3**	**103.4**	**104.5**	**105.7**	**107.0**	**3.6**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	-3.3	3.5	-1.4	4.7	1.2	-0.2	4.5	2.2	1.8	1.7	1.7	1.7	1.7	
GDP deflator in US dollars (change in percent)	-1.0	3.0	0.8	-2.5	1.3	2.1	2.5	3.2	1.9	1.9	1.9	2.1	2.1	
Nominal external interest rate (in percent)	2.5	2.4	2.1	2.3	2.2	2.7	0.6	2.5	2.5	2.6	2.6	2.6	2.7	
Growth of exports (US dollar terms, in percent)	-47.7	275.8	-54.1	-31.3	4.5	13.0	96.3	-0.8	3.4	3.4	3.3	3.2	3.4	
Growth of imports (US dollar terms, in percent)	-34.1	226.0	-57.6	-20.7	-2.0	9.8	80.5	-6.0	4.0	3.7	3.0	3.0	3.2	
Current account balance, excluding interest payments	-16.8	-8.0	6.2	-10.6	-5.1	1.2	10.7	-1.1	-1.5	-1.8	-1.6	-1.5	-1.3	
Net non-debt creating capital inflows	-5.3	4.4	1.3	5.8	12.9	-2.6	10.0	0.8	0.8	0.7	0.7	0.7	0.6	

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

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

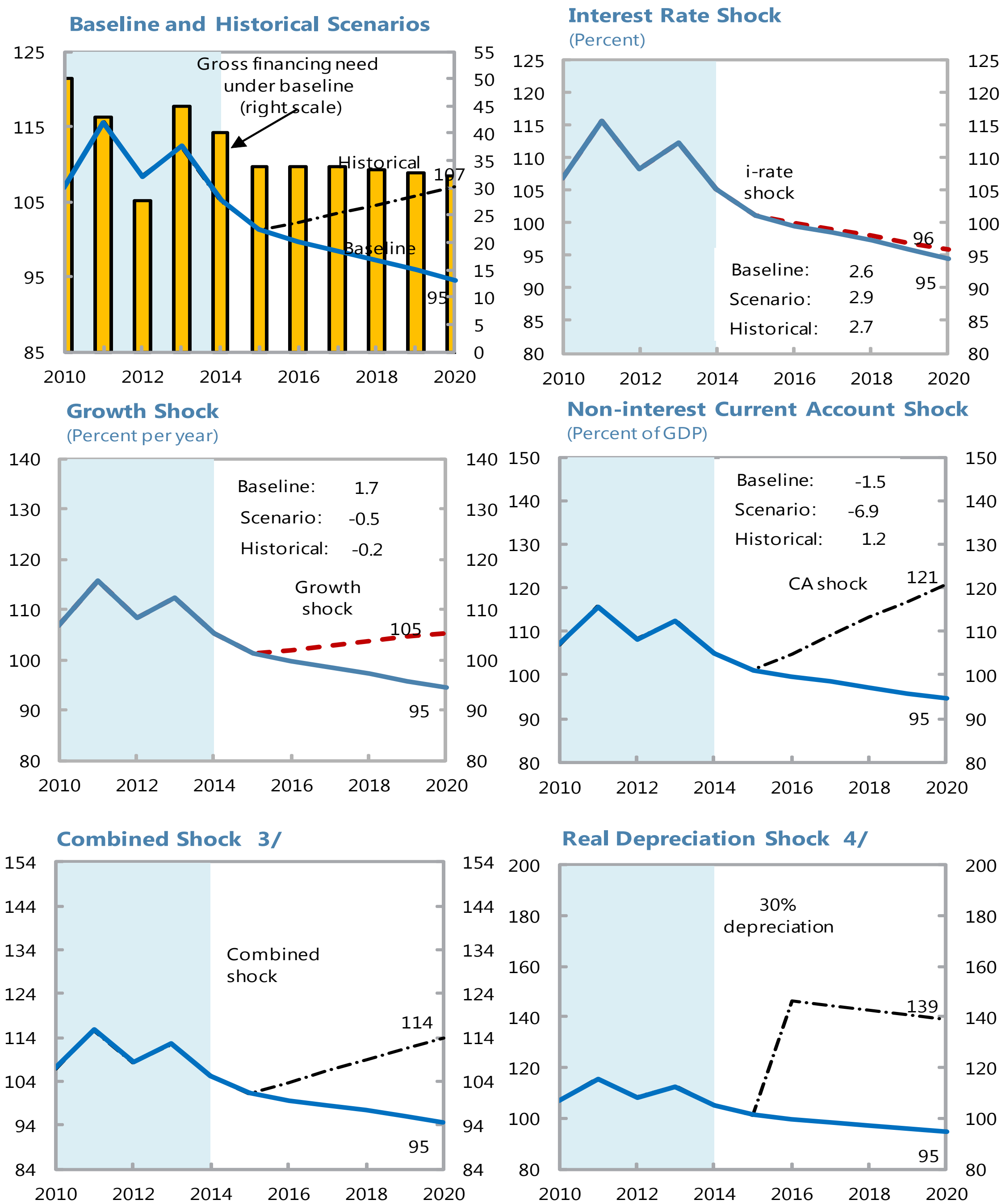
3/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

Appendix II. Figure 1. Aruba: Debt Sustainability: Bound Tests 1/ 2/



Sources: IMF country desk data; and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2016.

Appendix III. Risk Assessment Matrix

	Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
Short-term risks	*Downside:* Protracted period of slower growth in advanced and emerging economies: • *Advanced economies* : Lower-than-anticipated potential growth and persistently low inflation from a failure to fully address crisis legacies, leading to secular stagnation and lower commodity prices. • *Emerging markets* : Maturing of the cycle, misallocation of investment, and incomplete structural reforms leading to prolonged slower growth.	High	High Aruba's tourism and economy is highly dependent on developments in the global economy, particularly the US. Developments in Venezuela, given its close proximity and tight trade links, also matter for Aruba's economy.	• Strengthen fiscal policies to ensure that debt is on a downward path; then let fiscal automatic stabilizers work • Further diversify tourism export markets • Advance structural reforms to increase economic resilience • Expedite investments in renewable energy
	Downside : Geopolitical fragmentation that erodes the globalization process and fosters inefficiency: • Russia/Ukraine: sustained tensions depress business confidence and heighten risk aversion, amid disturbances in global financial, trade and commodity markets. • Heightened risk of fragmentation/state failure in the Middle East, leading to a sharp rise in oil prices, with negative spillovers to the global economy.	Medium	Medium Global oil shock triggered by regional geopolitical events would have a significant impact as Aruba is entirely dependent on imported oil for domestic consumption.	
Medium-term risks	*Upside* : Growth and competitiveness gains owing to further renewable energy investment.	Medium	Medium Impact on production costs, exports of tourism (via improved competitiveness), investment, and real GDP.	• If signs of overheating appear—including rapid credit growth—monetary tightening would be warranted.
	Downside : Over the longer term, lower tourism-related growth in conjunction with the lifting of the U.S. travel ban to Cuba.	Low	Medium Tourism is the mainstay of the Aruban economy.	• Accelerate diversification of tourism markets • Expedite renewable energy investments

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

INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS—ARUBA

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION DISCUSSIONS—INFORMATIONAL ANNEX

March 24, 2015

Prepared By

Xiaobo Shao and Irene Yackovlev, with assistance from Ms. Maneely and Ms. Arantes

CONTENTS

FUND RELATIONS

(As of January 31, 2015)

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	5,162.40	100.00
Fund Holding of Currency (Exchange Rate)	4,220.58	81.76
Reserve Tranche Position	941.89	18.25
Lending to the Fund	1,081.08	

SDR Department

	SDR Million	Percent of Allocation
Net Cumulative Allocation	4,836.63	100.00
Holdings	4,566.08	94.41

Outstanding Purchases and Loans

None

Latest Financial Arrangements

None

Projected Obligations to Fund[1]

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

	Forthcoming				
	2015	2016	2017	2018	2019
Principal					
Charges/Interest	0.17	0.17	0.17	0.17	0.17
Total	0.17	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 (PCDR)

Not Applicable

Exchange Rate Arrangements

Aruba has a conventional peg; the Aruban florin has been pegged to the U.S. dollar at Afl. 1.79 per U.S. dollar since January 1, 1986. Prior to that, Aruba's currency was called the Antillean florin, 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

Discussions for the 2015 Article IV consultation discussions were held in Oranjestad from February 2 to 13, 2015. The staff report for the 2013 Article IV consultation discussions (IMF Country Report No. 13/258, June 11, 2013) was considered by the Executive Board on June 26, 2013. Article IV consultation discussions with Aruba are conducted on a 24-month cycle.

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of arrears will be shown in this section.

STATISTICAL ISSUES

Kingdom of the Netherlands - Aruba —STATISTICAL ISSUES APPENDIX (As of March 9, 2015)	
I. Assessment of Data Adequacy for Surveillance	
General: Data provision is adequate for surveillance.	
National Accounts: GDP at current prices by the production and expenditure approaches are compiled by the Central Bureau of Statistics (CBS). GDP at constant prices is estimated and disseminated by the Central Bank of Aruba (CBA). Both set of statistics are available on an annual basis up to 2013. 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 BOP statistics, reflecting different methodological approaches and raw data sources.	
Price Statistics: CPI data are compiled and published on a monthly basis by the CBS.	
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 "items not identified elsewhere" (that can amount to 3 percent of GDP) should be disaggregated. Second, below-the-line financing does not add up to the fiscal deficit without further adjustments. Third, each financing category has a component "other financial transactions" (in addition to disbursements and amortizations) that should be clarified. Fourth, the authorities combine commercial bank financing and central bank financing into one aggregate category "net recourse to the monetary system". This item should be disaggregated. Finally, the authorities should reflect the revenue from the AZV levy and record the transfer of those proceeds to the AZV as the corresponding expense. This would enhance transparency related to government expenditures on health care.	
Monetary and Financial Statistics: The methodology used by the CBA for compiling monetary statistics published in CBA's Monthly Bulletin, Quarterly Bulletin, and Annual Statistical Digest is broadly consistent with the IMF's Monetary and Financial Statistics Manual 2000 (MFSM). The CBA reports monetary data to STA on a timely basis. The authorities submit the data in the format of Standardized Report Forms developed by STA. Aruba does not report FSIs for dissemination on the FSI Portal.	
External Sector Statistics: The CBA reports quarterly balance of payments and an annual international investment position (IIP) statistics to STA. Aruba participates in the Coordinated Direct Investment Survey (CDIS) and the Coordinated Portfolio Investment Survey (CPIS). 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 does not participant in the Fund's GDDS.	No data ROSC has been conducted in Aruba.

Aruba—Table of Common Indicators Required for Surveillance
(As of March 9, 2015)

	Date of Latest Observation	Date Received	Frequency of Data /6	Frequency of Reporting /6	Frequency of Publication /6	Memo Items:	
						Data Quality—Methodological Soundness	Data Quality—Accuracy and Reliability
Exchange Rates	Current	Current	M	M	D and M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities /1	12/14	2/15	M	M	M		
Reserve/Base Money	12/14	2/15	M	M	M		
Broad Money	12/14	2/15	M	M	M		
Central Bank Balance Sheet	12/14	2/15	M	M	M		
Consolidated Balance Sheet of the Banking System	12/14	2/15	M	M	M		
Interest Rates /2	12/14	2/15	M	M	M		
Consumer Price Index	12/14	2/15	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing /3—General Government /4	2014	2/15	A	N/A	A		
Revenue—Central Government	12/14	2/15	M	N/A	M		
Stock of Central Government Debt /5	Q3/2014	2/15	Q	N/A	Q		
External Current Account Balance	Q3/2014	2/15	Q	A	Q		
Exports and Imports of Goods and Services	Q3/2014	2/15	Q	A	Q		
GDP/GNP	2013	4/14	A	N/A	A		
Gross External Debt	2013	4/14	A	N/A	A		
International Investment Position	2013	4/14	A	A	A		

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

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IMF Executive Board Concludes 2015 Article IV Consultation with the Kingdom of the Netherlands—Aruba

On April 8, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the 2015 Article IV consultation[1] with the Kingdom of the Netherlands—Aruba, and considered and endorsed the staff appraisal without a meeting.[2]

Aruba is a small, open economy with one of the highest living standards in the Caribbean. Over 85 percent of the economy depends on tourism, making Aruba the third-most tourism-dependent country in the world. This marked dependence on external economic conditions is a key reason why Aruban growth volatility has been among the highest in the region. However, the long-standing fixed exchange rate regime against the US dollar, supported by prudent policies, has kept imbalances in check until recent years.

Aruba has been recovering from a severe double-dip recession. The economy faced two major shocks over the past five years: the global financial crisis and shutdown of the Valero oil refinery in 2012. After a strong recovery in 2013 with growth reaching 4.75 percent, the pace of activity moderated in 2014. Despite a rebound in tourism, the loss in momentum reflected a broad-based contraction in domestic demand due to fiscal policy uncertainty and investment delays.

Although external imbalances have improved recently, they remain elevated. The current account (CA) deficit is estimated to have narrowed to 7.5 percent of GDP in 2014, mostly reflecting strong tourism growth. External debt decreased to 105 percent of GDP and roll-over risks are mitigated as 90 percent of the debt is long term.

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

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

After worsening sharply over 2008-2012, the fiscal deficit narrowed to 5.25 percent of GDP in 2014. In particular, the overall fiscal balance deteriorated markedly by 11 percentage points of GDP over 2008-2012, reflecting the reduction in the business turnover tax (BBO), increasing wage-related expenditures, and a structural decline in output growth. To address these fiscal challenges, the authorities undertook major entitlement reforms in 2014. Specifically, the general (AOV) and public administration (APFA) pensions as well as the health care system (AZV) were all reformed. While these reforms, together with expenditure restraint, yield important savings, public debt nonetheless surpassed 80 percent of GDP in 2014.

In 2015, growth is projected to rise to 2.25 percent. The tourism sector—the mainstay of the Aruban economy—is envisaged to grow, albeit at a slower rate. Moreover, domestic demand is slated to recover notably amid subsiding policy uncertainty and as key public-private partnership projects move forward. Despite lower global oil prices, the energy tariff increase and the introduction of the health-care levy in late 2014, is expected to raise the inflation rate to .75 percent in 2015. Although the CA balance is projected to register a deficit, buoyant tourism exports would help reduce its size to –3.5 percent of GDP in 2015.

Executive Board Assessment

In concluding the 2015 Article IV consultation discussions with the Kingdom of the Netherlands—Aruba, Executive Directors endorsed the staff's appraisal as follows:

Aruba's gradual recovery from the double-dip recession is underway. After a strong initial tourism-led rebound, the economy lost momentum in part due to heightened fiscal policy uncertainty. Looking ahead, a broad-based recovery underpinned by robust tourism activity, the mainstay of the Aruban economy, and robust domestic demand is envisioned. However, real GDP is projected to reach its pre-crisis peak only by the end of the decade.

The main near-term risks to the outlook are external in nature. Given its high dependence on tourism, the Aruban economy is vulnerable to spillovers associated with global slowdowns. As they are the most important sources of tourists, Aruba is particularly susceptible to downturns in the U.S. and Venezuela. Over the medium term, timely implementation of renewable energy investments could boost growth prospects.

Putting debt on a downward trajectory is an immediate policy priority. Although major structural reforms have been initiated, public debt surpassed 80 percent of GDP in 2014. Attributes such as Aruba's vulnerability to external shocks, the predominance of the tourism sector, and the exchange rate peg call for the urgent rebuilding of fiscal policy space. While the authorities' ambitious medium-term adjustment plan is welcome, sustained fiscal effort at least until 2020 is warranted to durably set debt on a downward path. There is a need to establish a formal medium-term fiscal framework to enhance the credibility of these plans.

Additional revenue and expenditure measures are needed to achieve the desired fiscal consolidation. Without additional measures, fiscal deficits would remain elevated, and debt would continue to rise over the medium term. Therefore, given the size of the fiscal adjustment, additional revenue effort in the form of greater indirect tax collection appears warranted. With regards to expenditure, a priority is to reduce wage-related expenses given the large size of the wage bill. Further measures to ensure that the health care system becomes self-financing should also be considered. PPP-related expenditure commitments should be fully accounted for.

The accommodative monetary policy stance is appropriate. Given projected low inflation and moderating growth rates, as well as evidence of slack in the economy, staff currently sees no need for monetary tightening. If, however, signs of overheating appear, the authorities should stand ready to tighten the monetary policy stance appropriately.

Competitiveness needs to be safeguarded to ensure a stable recovery. Initiatives to diversify markets and efforts to promote Aruba's reputation as an upscale destination have continued to reap dividends as evidenced by the uptrend in visitor nights and Aruba's growing share in the Caribbean tourism market. Given that the U.S. accounts for 55 percent of tourists, however, staff sees further scope for market diversification. To further improve competitiveness and preserve external stability, Aruba would need greater flexibility in the labor market and more enabling business conditions. It will be important to finance prospective growth initiatives, including those associated with renewable energy, through FDI.

Aruba: Selected Economic Indicators, 2012–16

	2012	2013	2014	2015	2016
			Prel.	Projections	
			(Percent change)		
Real economy					
Real GDP	-1.4	4.7	1.2	2.2	1.8
Real domestic demand	-1.0	0.9	-3.0	1.2	1.7
Consumption	2.0	4.1	-1.9	1.1	1.6
Private	0.4	4.0	-0.5	1.1	1.6
Public	6.1	4.3	-5.2	1.2	1.5
Gross investment	-8.4	-7.9	-6.4	1.7	2.0
Exports of goods and services	-5.8	6.4	3.0	2.6	1.9
Imports of goods and services	-4.3	1.0	-2.9	1.3	1.7
			(Percent change)		
Consumer prices					
Period average	0.6	-2.4	0.4	0.7	1.2
End-period	-3.7	0.1	2.2	0.3	1.2
			(Percent of GDP)		
Central government operations					
Revenues	22.5	24.7	23.5	23.7	23.8
Expenditures [1/]	31.8	31.1	28.6	28.1	27.9
Of which: capital	2.3	2.0	1.1	0.8	0.8
Overall balance	-9.2	-6.4	-5.2	-4.4	-4.1
Gross central government debt	67.8	73.9	81.6	83.4	84.5
Savings and investment			(Percent of GDP)		
Gross investment	26.7	24.0	22.2	21.6	21.6
Foreign saving	-3.8	13.0	7.5	3.5	4.0
Domestic saving	30.4	11.0	14.7	18.1	17.6
Balance of payments			(Percent of GDP)		
Current account balance	3.8	-13.0	-7.5	-3.5	-4.0
Oil	5.1	-8.0	-7.8	-4.1	-4.6
Non-oil	-1.3	-5.0	0.3	0.5	0.6
FDI	-12.7	8.5	4.5	2.0	1.9
Gross foreign assets of central bank (millions of U.S. dollars)	787	666	693	703	684
Gross foreign assets of central bank (months of imports)	3.3	3.5	3.7	4.0	3.8
External debt	108.3	112.4	105.1	101.2	99.6
		(Millions of local currency, unless otherwise indicated)			
Monetary					
NFA	1,288	1,131	1,174	…	…
NDA	2,123	2,161	2,302	…	…
Credit to private sector (year-on-year percent change)	2.6	5.3	4.2	…	…
Broad money	3,410	3,292	3,476	…	…
Deposits (year-on-year percent change)	7.8	-4.2	5.6	…	…
Memorandum items:					
Nominal GDP (millions of Aruban florins)	4,534	4,629	4,745	5,005	5,194
Nominal GDP (millions of U.S. dollars)	2,533	2,586	2,651	2,796	2,902

Sources: Aruban authorities; and IMF staff estimates and projections.

[1/] Includes net acquisition of non-financial assets.