



## Press release

October 21st, 2022

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### **CAft: "Measures are needed for sustainable public finances"**

**Oranjestad – Despite the strong economic recovery of the Aruban economy in 2022, both the 2022 and the 2023 budgets show a financing gap. In view of the considerable refinancing task that awaits Aruba in the coming years and the rising interest rates, it is of great importance that Aruba realizes surpluses from 2023 so that the government debt of AWG 5.9 billion can be reduced. In order to achieve this, in addition to increasing the income, the costs need to be structurally reduced as well. Reforms in health care, the tax system and social security are crucial and inevitable.**

#### **Working towards sustainable public finances**

Although Aruba's economy has been improving strongly since late 2021 and Gross Domestic Product (GDP) will exceed 2019 levels in 2022 according to the latest International Monetary Fund forecasts, according to Aruba the country's budget deficit is expected to reach AWG 113 million by 2022. This is equal to 1.8 percent of GDP. Aruba faces a major challenge to reduce government debt and as quickly as possible bring it to a sustainable level. Aruba's government debt was AWG 5.9 billion at the end of June 2022; more than 90 percent of the size of the economy. This sizeable national debt means that almost 19 percent of the budget is spent on the payment of interest. The multiannual picture, as presented in the 2023 draft budget, does indeed contain surpluses from 2024, but these have not yet been coupled to concrete measures. If these target amounts are not taken into account, Aruba will only meet the standard of a surplus of at least 1 percent of GDP in the year 2027. In that case, the nominal government debt will increase further up to and including 2026. In view of the rising interest rates and the substantial refinancing in the coming years, the Board of Aruba financial supervision (CAft) will continue to emphasize the importance of achieving a financing balance of at least 1 percent of GDP as of 2023.

The Kingdom Council of Ministers has decided not to give the government of Aruba an instruction for the year 2022, but on the other hand has made it clear that Aruba has to achieve a surplus of 1 percent of GDP by 2023. The 2023 draft budget does not meet this requirement. Aruba will have to make considerable efforts to achieve this budget surplus on a structural basis in the coming years. The CAft made various recommendations to this end in the past year and has found that these have not been followed up sufficiently. For example, despite an incidental reduction in 2022, the costs for goods and services remain structurally high compared to the realization in the pre-corona years. The need for the tax increase has not yet been sufficiently clarified. Substantial contributions are also made annually to various government entities, including Servicio di limpieza di Aruba (Serlimar), Arubus N.V. and Post N.V. It remains as important as ever to resolve the structural problems within these government entities and the associated risks to the national budget.

#### **Tax**

In line with the objectives of the National Package, Aruba announced at the end of 2021 that it would implement tax reforms effective January 1<sup>st</sup>, 2023, including the introduction of value added tax (BTW). However, the introduction of BTW has been postponed. Instead, the rate of the tax on corporate sales will be increased by 1 percent, further strengthening the avoidance effects and risk of non-compliance of



this tax. It is of paramount importance that Aruba introduces a robust and fair system of indirect taxes as of January 1<sup>st</sup>, 2024.

### **Health care and social security**

Savings in health care and social security are necessary to guarantee the affordability of the social system for future generations as well. The annual savings instruction of AWG 60 million for healthcare is a first step towards financially sustainable healthcare and should ensure that in the short term the country will not need to contribute to the shortages in the General Health Insurance (AZV). Due to the delay in the introduction of the positive list of medicines and bandaging materials and the non-implementation of the personal contribution, the healthcare costs remain high and the AZV expects a negative result for 2022 and 2023. It is important that the intended savings are implemented in the short term, so that a deficit, and thus a possible national contribution, is prevented.

The CAft has visited Aruba on October 20th and 21st, 2022 and met with the Governor, the Minister of Finance and Culture, the Minister of Transport, Integrity, Nature and Elderly Affairs, the Council of Ministers and Parliament. In addition, the CAft has also spoken with the boards of the General Health Insurance Executive Agency, the Aruba Hotel and Tourism Association and Serlimar.

[End of Press Release]

**Photographer:**

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**Caption:**

The 2023 draft budget does not meet the surplus requirement of 1 percent of GDP.

**Note for the editing department – not for publication**

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