



Press release

October 20th, 2023

CAft: "Take action now to strengthen public finances and the economy"

Oranjestad – The Aruban economy has been on the rise since 2021. According to the latest insights from the International Monetary Fund (IMF), the economy will grow by 8 percent in 2023. For 2024 a growth of 3 percent is expected. This strong recovery, combined with fiscal measures, will result in higher revenues from taxes and premiums than budgeted. The windfalls are substantial, both for the country and for the other entities of the collective sector. It is important that Aruba seizes this momentum to structurally put its government finances in order and make the economy more resilient. This is achievable by applying a prudent budget policy, using the windfalls to decrease the government debt (83 percent of GDP in 2023) and executing growth-enhancing investments. Structural reforms in health care and social security contribute to resilience.

The draft budget for 2024 was submitted on time. This strengthens the budget rights of Parliament. In contrast to the budget cycle, execution and accountability information is lagging behind. It is expected that in 2023 the financing surplus of the collective sector will be well above the standard of 1 percent of GDP as a result of windfalls. The expected financial results in the short term are favorable, but there are major risks. The interest costs, which already amount to 16 percent of the budget, will be significantly higher than budgeted. This is the result of the more expensive refinancing of the liquidity support loans. Interest costs therefore more than ever suppress other necessary expenses or investments, and cost control remains as important as ever. Investments are necessary to make the economy more resilient and increase earning capacity.

In 2023, Aruba took a first good step towards making the tax system more robust with the 2023 Tax Plan. Nevertheless, the indirect tax system remains fragmented and therefore unnecessarily complex. The Board of financial supervision Aruba (CAft), in accordance with the National Package and recommendations of the IMF, continues to encourage to simplify the indirect tax system and to introduce the previously announced value added tax (VAT) in the short term. A system that is simpler also benefits tax compliance. It is important that Aruba increases tax compliance, enabling the tax burden to be distributed more fairly, which will result in additional budget space for investments that produce more growth.

Health care and social security

If policy remains unchanged, expenditure on health care and old-age pensions will continue to rise and shortages will arise in the future because of demographic developments. The General Health Insurance (AZV) is considering introducing an expenditure framework to control health care expenditure. In principle, the CAft is positive about an expenditure framework, so that when the economy is on the rise, surpluses are built up, which will serve as a buffer in the event of economic downturns. It is important that the expenditure framework is not too broad and is strictly enforced in order to temper the growth in health care expenditure. Especially with the enormous surpluses, the CAft recommends taking measures to keep health care and social security affordable for future generations.



[End of press release]

Photographer

Eric Boeldak

Caption

The financing surplus of the collective sector is expected to be well above the standard of 1 percent of GDP in 2023.

Note for the editing department – not for publication

Contact CAft:

Secretariat Board of financial supervision Aruba

Telephone +5999 461-9081

Email info@cft.cw

Website www.cft.cw

Press contacts:

Jefka Alberto

Telephone +5999 512-6861