



CENTRALE BANK VAN ARUBA

PRESS RELEASE*

December 8, 2006

The Centrale Bank van Aruba (the Bank) mentions in its Bulletin of the second quarter of 2006 that available information indicates a weakening in current business conditions in the second quarter of 2006. Indicative hereof is that the Partial Economic Activity Index (PEAI), as published by the Central Bureau of Statistics (CBS), showed a 2.0 percent decline in the volume of business activities, compared to the corresponding quarter a year earlier. The Bank's Business Perception Survey confirmed this development. Compared to previous surveys, a decline in the optimism for the coming months has also been noticed. The performance in business conditions is affected by an ongoing weak performance in the tourism sector, as indicated by the numbers of stay-over visitors and nights spent on the island, which declined by 5 percent and 4 percent, respectively. This weakening in the tourism sector was, however, not as profound as in the previous three quarters. Still, gross tourism receipts decreased by 4 percent, while the average hotel occupancy rate recorded a 6.3 percentage points decline to 74.4 percent.

Inflationary pressures remained unabated in the second quarter of 2006. The quarterly average inflation rate remained high at 3.9 percent, mainly because of a further increase in tariffs for water and electricity, as well as in gasoline and food prices. Measured on a 12-month basis, the inflation rate reached 4 percent, up from 3 percent a year earlier. This is slightly higher than the inflation in the United States of America, our major trading partner, which recorded a rate of 3.8 percent during the corresponding period. When excluding the energy-related components, the inflation rate rose by 0.3 percentage point to 2.1 percent, compared to a year earlier.

Transactions in the external sector produced a rebound of the overall balance of payments, i.e., from a deficit of Afl. 63 million in the second quarter of 2005 to an Afl. 15 million surplus in the quarter under review. The oil and free-zone sectors contributed, on balance, Afl. 25 million positively to the net international reserves. In contrast, the transactions of the rest of the economy resulted in a net outflow of funds to abroad of Afl. 10 million. Consequently, the net international reserves of the monetary sector reached Afl. 649 million at the end of June 2006, which is Afl. 6 million or 1 percent higher than a year earlier.

In the quarter under review, government's financial deficit (including the change in unmet financing requirements) declined to Afl. 10 million, down from Afl. 81 million in the corresponding quarter of 2005. This improvement reflected mainly a decrease in payment arrears to government-related institutions (including the AZV) and suppliers of goods and services of, respectively, Afl. 29 million and Afl. 9 million. However, total government debt surged by Afl. 119 million (7 percent) to Afl. 1,882 million, compared to the second quarter of 2005, reflecting increases in both domestic and foreign debt of Afl. 69 million (7 percent) and Afl. 50 million (6 percent), respectively. The debt-to-GDP (GDP 2005) ratio rose by 3 percentage points to 47 percent.

* The publications of the Centrale Bank van Aruba are also available on its website www.cbaruba.org.

This issue of the Quarterly Bulletin contains also three articles. The first article “The turnover tax (BBO) and its macroeconomic implications” analyses in detail the assumptions and macroeconomic implications surrounding the BBO, while the second article “Introduction of the turnover tax system (BBO) in Aruba” is a presentation held by the Bank on November 23, 2006 regarding its view on the introduction of the turnover tax (BBO) as of January 1, 2007. The third article “Recent developments in the Aruban real sector, and the outlook” describes some trends in the real sector of Aruba between 2001-2005, and provides a brief outlook of the short-term future, including the factors that may affect the economic outcome of Aruba.

The Bulletin of the second quarter of 2006 is available as from today on the website of the Bank: www.cbaruba.org.