



CENTRALE BANK VAN ARUBA

PRESS RELEASE*

March 19, 2007

The Centrale Bank van Aruba (the Bank) mentions in its Bulletin of the third quarter of 2006 that available information shows a further weakening of current economic activities in the quarter under review. Indicative hereof is that the Partial Economic Activity Index (PEAI), as published by the Central Bureau of Statistics (CBS), registered a 3.3 percent decrease in the volume of business activities, compared to the corresponding quarter a year earlier. The Bank's Business Perception Survey confirms this development. Surveyed businesses expressed being pessimistic on the current state of the economy as well as on the short-term economic outlook. The slowdown in business activities is mostly affected by an ongoing sub-par performance in the tourism sector, as shown by the number of stay-over visitors and nights spent on the island, which declined by 4 percent and 2 percent, respectively, in the period under review. This decline was, however, not as pronounced as in the previous four quarters. Consequently, gross tourism receipts decreased by 3 percent, while the hotel occupancy rate registered a 5 percentage points fall-off to 74.6 percent.

Additional information reinforces above-mentioned weakening in economic activities. Growth in commercial bank credit was quite subdued compared to the third quarter of 2005. Furthermore, consumption of both water (measured in m³) and electricity (measured in KWH) declined by 3 percent and 1 percent, respectively. Gas consumption, however, did increase somewhat, i.e., by 2 percent. Nonetheless, merchandise import payments by the rest of the economy (excluding the oil and freezone sectors) went up by Afl. 15 million or 5 percent.

Inflationary pressures remained strong in the third quarter of 2006. The quarterly average inflation rate accelerated by 0.4 percentage point to 4.1 percent, mainly due to price increases for water and electricity, as well as for food. Measured on a 12-month basis, the inflation rate reached 4.1 percent, up from 3.2 percent a year earlier. This is 0.4 percentage point higher than the inflation rate in the United States of America, Aruba's main trading partner. When excluding the energy-related components (water, electricity, and gasoline), the Aruban inflation rate remained unchanged at 1.8 percent, compared to a year earlier.

In the external sector, transactions with nonresidents led to an Afl. 26 million deficit on the overall balance of payments in the quarter under review, in contrast to an Afl. 16 million surplus in the third quarter of 2005. This turnaround was predominantly caused by a widening in the current account deficit of the rest of the economy to Afl. 179 million (third quarter 2005: Afl. 133 million). On balance, the transactions of the rest of the economy brought about an Afl. 62 million net outflow of funds to abroad. In contrast, the oil and freezone sectors contributed, on balance, Afl. 36 million positively to the net international reserves. Consequently, these reserves dropped to Afl. 628 million at the end of

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

September 2006, i.e., Afl. 31 million or 5 percent lower than the level recorded a year earlier.

Despite above-mentioned Afl. 26 million net outflow of funds to abroad, the money supply grew slightly by Afl. 4 million in the quarter under review, compared to the second quarter of 2006, following an Afl. 31 million increase in net domestic assets. The latter was partly the result of an Afl. 29 million rise in net banking claims on the public sector largely related to the purchase of Afl. 30 million in government bonds by the local banking sector. In addition, banking sector credit granted to the private sector rose by Afl. 23 million, entirely on account of consumer credit and housing mortgages.

In the quarter under review, the government's financial deficit (including the change in unmet financing requirements) shrank to Afl. 17 million, down from Afl. 21 million recorded in the corresponding quarter a year earlier. This slight improvement largely reflected an Afl. 18 million growth in revenues, while total expenditure declined by Afl. 13 million. To cover its financial needs, government expanded its outstanding debt by Afl. 53 million (3 percent) to Afl. 1,898 million, compared to the third quarter of 2005. This increase was reflected in an Afl. 143 million (16 percent) surge in the domestic debt component to Afl. 1,056 million, equaling 56 percent of total outstanding debt. In contrast, the foreign debt component fell by Afl. 89 million (10 percent) to Afl. 843 million. The debt-to-Gross Domestic Product (GDP) ratio rose by 1 percentage point to 47 percent when measured against the nominal GDP of 2005. According to preliminary estimates, the GDP 2006 will turn out slightly higher, which will subsequently result in a lower debt-to-GDP ratio.

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