ARUBAN ECONOMY SHOWS MIXED SIGNALS
Summary of the Bulletin for the fourth quarter of 2009
Press Release¹

The Centrale Bank van Aruba concludes in its bulletin of the fourth quarter of 2009 that the economy of Aruba ended the year in a continued economic slump. Despite signs of improvement in the United States, Aruba’s most important trade partner, tourism receipts continued below the levels of 2008, even though tourist arrivals have begun to rebound. Furthermore, the temporary shut-down of the operations of the oil refinery, has overshadowed any glimmers of a recovery.

Indicators of construction activity on the island during the fourth quarter of 2009 pointed uniformly towards a continued slump, as the number of construction permits granted, the total value of construction permits, the total weight of imported cement, and the number of electrical installations approved all experienced significant decreases. The temporary closure and uncertainty regarding the future of the Valero oil refinery continue to have a negative impact on the construction sector as well as on local employment and consumption.

The scope for government intervention remains tight due to rising government debt and an expected further decrease in total tax revenues associated with the reduction in the turnover tax (BBO) rate by half at the beginning of 2010 and diminishing economic activity. Room for maneuverability is further limited by recent developments regarding the public pension fund APFA, which posted a significant deficit, leading to additional unforeseen costs to the government.

Price developments pointed towards increases in the fourth quarter of 2009 as the average price level in the fourth quarter of 2009 was 1.6 percent higher than the level a year earlier. Core inflation (consumer price index excluding energy) amounted to 1.3 percent, slightly below the observed inflation rate.

Money supply increased by Afl. 43.2 million in the fourth quarter of 2009 due to an Afl. 56.4 million net inflow of funds from abroad, which was slightly mitigated by an Afl. 13.2 million drop in net domestic assets. The latter was caused largely by an Afl. 37.0 million expansion in net liabilities of the banking sector to the public sector, reflecting growing development fund deposits. On the other hand, credit to the private sector expanded by

¹ The English version prevails.
Afl. 15.0 million, driven by an Afl. 11.2 million growth in housing mortgages and an Afl. 4.8 million increase in consumer credit. Loans to enterprises continued to be subdued, falling by Afl. 0.6 million.

The combined balance sheet total of the commercial banks was Afl. 4,406.3 million at the end of the fourth quarter of 2009, i.e., Afl. 5.0 million (or 0.1 percent) lower than the level recorded in the previous quarter. On the other hand, the balance sheet total of the nonmonetary financial institutions increased by Afl. 119.6 million (or 4.6 percent) to Afl. 2,271.5 million, as a result of both a rise in claims on the government and on the private sector.

The interest rate margin of the commercial banks on new loans and deposits decreased slightly to 7.3 percent in the fourth quarter of 2009, compared to 7.9 percent in the third quarter of 2009. The main reason for this development is the weighted average rate of interest charged on new loans, which fell by 1.0 percentage point to 10.6 percent. The banking system continued to exhibit high levels of liquidity with a liquidity ratio of 30.1 percent, far above the minimum prudential requirement of 12 percent.

The balance of payments posted an Afl. 56.4 million surplus in the fourth quarter of 2009 resulting in a net inflow of funds from abroad of the equivalent amount. Total foreign assets grew by Afl. 72.6 million (including positive revaluation differences of gold and official foreign exchange holdings) to Afl. 1,577.1 million at the end of December 2009, which is equivalent to 5.7 months of current account payments (excluding the oil sector).

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For further information, please visit our website (www.cbaruba.org) or contact the Research Department of the Centrale Bank van Aruba, tel. +297 525 2100.