



CENTRALE BANK VAN ARUBA

PRESS RELEASE*

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The Centrale Bank van Aruba (the Bank) mentions in its Bulletin of the fourth quarter of 2005 that available information indicate a reduction in business activities in the fourth quarter of 2005, mainly brought about by a dwindling performance in the tourism sector. According to the Business Perception Survey conducted by the Bank businesses reported being less optimistic about the current state of the economy, and even pessimistic about the short-term economic outlook. The tourism sector showed a negative outcome. The number of stay-over visitors and their nights spent on the island fell by 8 percent and 6 percent, respectively. This resulted in a 2 percent decline in gross tourism receipts, while the hotel occupancy rate recorded a 2.2 percentage points decline to 77.8 percent in the fourth quarter of 2005.

Rising energy prices due to increased oil prices on the international market led to a 4.1 percent increase in the quarterly average consumer price index as compared to the fourth quarter of 2004, the highest increase since the fourth quarter of 2003. As a result, the inflation rate, measured on a 12-month basis, accelerated by nearly 1 percentage point to 3.4 percent, compared to a year earlier, which is equal to that of Aruba's major trading partner, the United States of America. When excluding the energy-related components and comparing with a year earlier, the inflation rate slowed down by 0.3 percentage point to 1.7 percent.

In the external sector, transactions led to a further widening of the overall balance of payments deficit, i.e., from Afl. 23 million in the fourth quarter of 2004 to Afl. 62 million in the quarter under review. The transactions of the rest of the economy (excluding aforementioned sectors) resulted again in an outflow of funds to abroad, i.e., by Afl. 96 million, compared to Afl. 53 million in the fourth quarter of 2004. Consequently, the net international reserves of the monetary sector decreased to Afl. 597 million at end December 2005, and were Afl. 61 million or 9 percent lower than a year earlier. The outflow of foreign funds in the period under review caused an Afl. 13 million or 1 percent decrease in money supply, while partially offset by an Afl. 49 million (3 percent) increase in net domestic assets, spurred by banking sector credit to both the public and private sectors.

For 2005, on balance, the transactions of the rest of the economy (excluding the oil and free-zone sectors) caused a marked Afl. 126 million decline in net international reserves, in spite of a 4 percent growth in tourism receipts during this 12-month period. This negative development gives a clear indication of a serious imbalance in the monetary sector, which is largely associated with the excessive spending behavior of the government.

Government finances showed a small deficit of Afl. 2 million in the quarter under review. Total revenues rose by Afl. 21 million or 10 percent, while total expenses fell by Afl. 161 million or 39 percent. The latter was attributed mainly to the effects of the imputed transactions related to the debt conversion agreement with the Stichting Algemeen

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

Pensioen Fonds Aruba (APFA) of December 2004. When excluding these imputed transactions, total expenses rose by Afl. 15 million or 6 percent. The financial deficit (including the change in unmet financing requirements) decreased by Afl. 2 million to Afl. 52 million.

Compared to the fourth quarter of 2004, total government debt surged by Afl. 162 million (or 10 percent) to Afl. 1,862 million, reflecting largely an Afl. 148 million (17 percent) increase in domestic debt, following two bond issues totaling Afl. 80 million and increases in payment arrears to suppliers and the APFA. Also, the government borrowed through three private placements Afl. 89 million to finance the deficits of the General Health Insurance (AZV) as well as to cover the budget deficit. The foreign public debt rose by Afl. 14 million, despite of repayments totaling Afl. 128 million, due largely to a US\$ 93 million bond issue on the international capital market and a financial lease agreement with a private corporation amounting to Afl. 16 million for the construction and finance of two buildings of the Ministry of Justice. As a result, the debt-to-GDP (2005) ratio rose further to 46 percent (fourth quarter 2004: 45 percent).

The Bulletin of the fourth quarter of 2005 is available as from today on the website of the Bank: www.cbaruba.org.