CENTRALE BANK VAN ARUBA

Summary of the monthly bulletin of the Centrale Bank van Aruba for December 2006*

February 14, 2007

In December 2006, money supply grew by Afl. 11.1 million or 0.4 percent to Afl. 2,491.6 million. This expansion was the result of an Afl. 77.8 million increase in net domestic assets, which was largely offset by an Afl. 66.7 million net outflow of funds to abroad. Consequently, net foreign assets decreased to Afl. 651.3 million at end-December 2006, but was still Afl. 53.4 million or 8.9 percent higher than in the corresponding month a year earlier.

The increase in net domestic assets was mainly caused by an Afl. 49.8 million increase in net claims of the banking sector on the public sector, following a decrease in government's deposits with the banking system, reflecting largely the annual debt service payment to the Dutch government. In addition, claims on the private sector rose by Afl. 23.9 million, attributed primarily to increases in loans to enterprises and housing mortgages of Afl. 18.7 million (1.8 percent) and Afl. 3.0 million (0.4 percent), respectively. In contrast, consumer credit fell by Afl. 1.6 million (0.3 percent).

Changes in the money supply in December 2006:

	In Afl. million
1. Net foreign assets	-66.7
2. Net domestic assets	+77.8
a. Net claims on the public sector	*+49.8*
b. Loans to enterprises	*+18.7*
c. Consumer credit	*-1.6*
d. Housing mortgages	*+3.0*
e. Other claims by the banking sector	*+3.9*
f. Non-credit-related balance sheet items	*+4.1*
3. Net change in money supply	+11.1

("+"=increase / "-"=decrease)

During 2006, money supply grew by Afl. 64.8 million or 2.7 percent, following increases in both net foreign and domestic assets of Afl. 53.4 million (8.9 percent) and Afl. 11.4 million (0.6 percent), respectively. Loans to enterprises, housing mortgages, and consumer credit grew by Afl. 59.7 million (6.2 percent), Afl. 43.1 million (6.1 percent), and Afl. 5.5 million (1.0 percent), respectively. In contrast, the financial transactions of the government caused an Afl. 48.1 million decrease in money supply.

In the first eleven months of 2006, stay-over visitors and total nights spent on the island shrank cumulatively by 6.8 percent and 5.1 percent, respectively. In November 2006, the

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

number of stay-over visitors and their nights spent on the island went up by 4.4 percent and 1.6 percent, respectively, compared to the corresponding month in 2005. Data on the occupancy rate indicate a decrease of 2.9 percentage points to 76.6 percent in November 2006, compared to a year earlier. However, a 1.3 percentage points increase was recorded in December 2006, compared to December 2005, bringing the occupancy rate for that month to 75.7 percent. The average occupancy rate for the year 2006, compared to 2005, fell by 4.6 percentage points to 77.1 percent. The number of cruise passenger arrivals and ship calls rose by, respectively, 2.4 percent and 27.5 percent in December 2006. For 2006 as a whole, the number of cruise passengers grew by 7.0 percent to 591,474, the highest number ever recorded.

In December 2006, the consumer price index went up by 2.5 percent compared to the corresponding month a year earlier. The annual average inflation rate for 2006 reached 3.6 percent, which is 0.2 percentage point higher than that for 2005 (see Annex A for a brief description of the calculation methods of inflation). This inflation rate is 0.4 percentage point higher than the annual average inflation rate for the United States in the corresponding period.

Annex A: 12-month average inflation versus end of the month inflation

Inflationary pressures can be analyzed by measuring the change in the consumer price index (CPI) in several ways. Two measures commonly used by the Bank are the end of period inflation and the 12-month average inflation (or annual average). Another measure is the quarterly average inflation, which compares the average CPI during the quarter with the average CPI during the corresponding quarter a year earlier.

The end of period inflation describes the rate of inflation at the end of a certain period, generally a month. For example, the rate of inflation at the end of December 2006 amounted to 2.5 percent, and is calculated as:

$$\text{Dec. 2006 inflation (end of period)} = \left[\left(\frac{\text{CPI Dec. 2006}}{\text{CPI Dec. 2005}}\right)-1\right] \text{x } 100\% = \left[\left(\frac{120.4}{117.5}\right)-1\right] \text{x } 100\% = 2.5\%$$

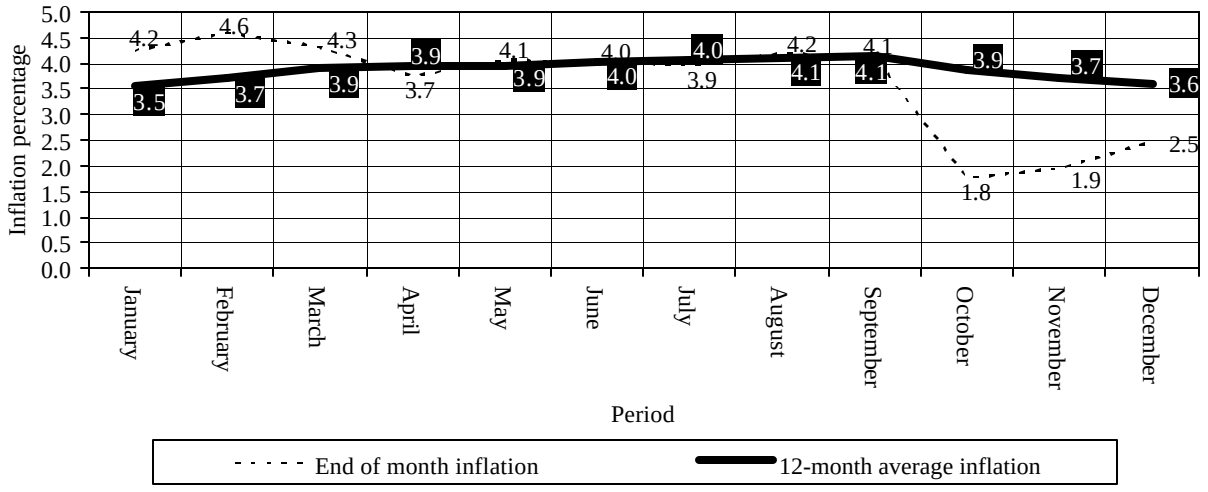
The 2.5 percent should be interpreted as being the inflation (or price increase) or the CPI of December 2006 compared to the CPI of the corresponding month a year earlier, i.e., December 2005.

The period average inflation describes the average of the CPI increases over a certain period, for example 12 months. The 12-month average (or annual average) inflation for December 2006 amounted to 3.6 percent, and is calculated as:

$$\text{Dec. 2006 inflation (12 - month)} = \left[\left(\frac{\text{Average CPI Jan. 2006 up to and including Dec. 2006}}{\text{Average CPI Jan. 2005 up to and including Dec. 2005}}\right)-1\right] \text{x } 100\% = \left[\left(\frac{120.1}{115.9}\right)-1\right] \text{x } 100\% = 3.6\%$$

The 3.6 percent should be interpreted as being the inflation (or price increase) or the average CPI for the 12 months of 2006 (January up to and including December) compared to the average CPI of the corresponding months of 2005.

Chart: 12-month average inflation versus end of month inflation



The chart illustrates the development of both the end of month inflation and the 12-month average inflation. It can be clearly observed that the development of the end of month inflation is more erratic, while that of the 12-month average inflation has a smoother development. While the first inflation measure considers the price changes in that specific month only, the 12-month average inflation takes into account the price movements of 12 consecutive months and compares these with those of the corresponding months a year earlier. When there are frequent and/or large changes in prices, the end of month inflation will reflect a very erratic path, while the 12-month average inflation will show a more stable path, as illustrated in the chart. During the period October through December 2006 the differential between the end of month inflation and the 12-month average inflation was visibly large, because of the downward movements in the prices of oil on the international markets. These changes were being reflected faster and stronger in the end of month inflation than the 12-month average inflation, because the latter smoothes out the incidental occurrences in a certain month.

Both calculation methods can be used when analyzing price developments. However, the 12-month average inflation seems more adequate for macroeconomic monitoring and policy formulation with regard to the general price level in Aruba, as it is considered an indicator of the longer term effects of inflation. In this regard, this indicator is less susceptible to incidental changes in a certain month. International institutions such as the International Monetary Fund and the Fitch Ratings Agency also use this indicator when monitoring inflation and its macroeconomic effects in Aruba. The end of month inflation is considered more an indicator of short-term effects, and is useful as an early warning system for possible structural changes in the pace of inflation, which eventually will also become visible in the 12-month average inflation.