



CENTRALE BANK VAN ARUBA

**ANNUAL REPORT
AND
FINANCIAL STATEMENTS FOR THE YEAR**

2008



CENTRALE BANK VAN ARUBA

ERRATA:

On page 6, fifth paragraph, of the 2008 Annual Report of the CBA a misstatement occurred. The sentence “As of February 5, 2009, the reporting obligations to the RCUT have been extended to include also, apart from the banks, life insurance companies, money transfer companies, free-zone companies, casinos, the post office, and other service providers, including trust offices, accountants, lawyers, and notaries, as well as traders in high value products.” should be: “As of February 5, 2009, the reporting obligations to the RCUT have been extended to include, apart from the banks, life insurance companies, money transfer companies, free-zone companies, casinos, and the post office, also other service providers, including accountants, lawyers, and notaries, as well as traders in high value products.”

On page 48, second paragraph, of the 2008 Annual Report of the CBA a misstatement occurred. The sentence “As of February 5, 2009, the unusual reporting obligations have been extended to other service providers, including trust offices, accountants, lawyers, and notaries, as well as traders in high value products (e.g., car dealers, real estate brokers, and jewelers).” should be: “As of February 5, 2009, the unusual reporting obligations have been extended to other service providers, including accountants, lawyers, and notaries, as well as traders in high value products (e.g., car dealers, real estate brokers, and jewelers).”

Correspondence related to this report should
be addressed to the Research Department
of the Centrale Bank van Aruba
J.E. Irausquin Boulevard 8
P.O. Box 18
Telephone (297) 5252-100
Telefax (297) 5252-101
Website: www.cbaruba.org
E-mail: cbaua@setarnet.aw

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MISSION STATEMENT

WORKING TOWARDS FINANCIAL STABILITY
FOR THE BENEFIT OF THE PEOPLE

EXTRACTS FROM THE CENTRAL BANK ORDINANCE:

“The CBA is the bank of issue...”

Section 7 sub 1

**“The CBA is responsible for the stability of the value of the currency
of Aruba...”**

Section 10 sub 1

**“The CBA...shall promote a sound development of the banking and credit
system in Aruba.”**

Section 11 sub 1

“The CBA is the central foreign exchange bank for Aruba...”

Section 12 sub 1

“The CBA is the banker of the land...”

Section 14 sub 1

**Board of Supervisory Directors, Management and Senior Officers
(as of June 16, 2009)**

**Government Supervisory Director
Chairman of the Board of Supervisory Directors
A.J. Swaen**

Members of the Board of Supervisory Directors
M.R. Croes
G.G. Oduber
H.O. van Trikt
T.R.L. Vingal

Executive Committee

President
J.R. Semeleer

Executive Directors
Vacant

General Managers
P. Mungra
M.M. Gonzalez

Department Managers

Audit
C.A. Connor

Operations
R.M. Geerman

Information Systems
Vacant

Accounting
L.H. Dubero

Research
J.R. Ridderstaat

Supervision
P.S. Tromp-Gomez

Statistics
W. Atmowiriono

Secretariat and Archives
M.P. Bremo

Cash and Vault
Vacant

**Personnel and Organization,
Security, General Affairs**
Vacant

Legal
A.V. Croes-Fleming

Information Security
S.D. Tromp

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List of abbreviations

AAA	Aruba Airport Authority N.V.
ACH	Automated Clearing House
Afl.	Aruban florin
AIB	AIB Bank N.V., formerly known as the Aruban Investment Bank N.V.
AML/CFT	Anti-money laundering and combating financing of terrorism
AOV	Algemeen Ouderdoms Verzekering, the general old age pension system
APFA	Stichting Algemeen Pensioenfonds Aruba, the civil servants pension fund
ATA	Aruba Tourism Authority
AVV	Aruba Vrijgestelde Vennootschap, the Aruba Exempt Corporation
AWW	Algemene Weduwen- en Wezenwet, the general widowers and orphans insurance
AZV	Algemene Ziektekostenverzekering, the general health insurance
BCP	Basel Core Principles
BBO	Belasting op Bedrijfsomzetten, a turnover tax
BNA	Bank van de Nederlandse Antillen, the central bank of the Netherlands Antilles
CBA	Centrale Bank van Aruba, the central bank of Aruba
CBO	Central Bank Ordinance
CBS	Centraal Bureau voor de Statistiek, the central bureau of statistics
CGBS	Caribbean Group of Banking Supervisors
CPI	Consumer Price Index
CTA	Cruise Tourism Authority
CTO	Caribbean Tourism Organization
DEZHI	Directie Economische Zaken Handel en Industrie, the department of economic affairs, commerce and industry
DF	Department of Finance
DNB	De Nederlandsche Bank N.V., the central bank of the Netherlands
DOW	Dienst Openbare Werken, the department of public works
DTI	Dienst Technische Inspectie, the department of technical inspections
ECB	European Central Bank
ELMAR	Naamloze Vennootschap Electriciteitsmaatschappij "Aruba", the publicly owned electricity provider
ESCB	European System of Central Banks
FATF	Financial Action Task Force
FDA	Stichting Fondo Desaroyo Aruba, the development fund foundation of Aruba
FDI	Foreign Direct Investment
FRB	U.S. Federal Reserve Board
GDP	Gross Domestic Product
ICBS	International Conference of Banking Supervisors
ICP	Insurance Core Principles
IMF	International Monetary Fund
IT	Information Technology
MC	Monitoring Committee
MMoU	Multilateral Memorandum of Understanding
MoU	Memorandum of Understanding
NCPF	National Commission on Public Finance
NPMNA	Nederlandse Participatiemaatschappij voor de Nederlandse Antillen N.V.
OFC	Offshore Financial Center
OV	Ongevallen Verzekering, the accident insurance
RCUT	Reporting Center for Unusual Transactions
SETAR	Servicio di Telecomunicacion di Aruba (Setar) N.V., a publicly owned telecommunications company
SOCPPF	State Ordinance Company Pension Funds

SOPEC	State Ordinance Foreign Exchange Commission
SOFET	State Ordinance Foreign Exchange Transactions
SOGMS	State Ordinance Governing the Monetary System
SOIPS	State Ordinance on the Identification when Providing Services
SOSCS	State Ordinance on the Supervision of the Credit System
SOSIB	State Ordinance on the Supervision of the Insurance Business
SOSMTC	State Ordinance on the Supervision of Money Transfer Companies
SOSTSP	State Ordinance on the Supervision of Trust Service Providers
SVB	Sociale Verzekeringsbank, the social security bank
WEB	Water en Energie Bedrijf Aruba N.V., the publicly owned water and power company
ZV	Ziekteverzekering, the sickness insurance

STATEMENT BY THE PRESIDENT

1

The year 2008 was characterized by a worldwide financial meltdown triggered by a massive contraction in available liquidity in the global credit markets and banking system, following record losses in the loan and investment portfolios held by several major financial institutions worldwide. These losses stemmed largely from investments related to the U.S. (subprime) housing market, which collapsed in August 2007. This liquidity crisis led to the (near) failure of some systemic financial institutions in the United States and Europe, which resulted in an implosion of confidence among financial market participants.

The shortage of liquidity in the financial sector quickly spread to other sectors of these economies, resulting in a credit crunch for businesses and households, seriously constraining investments and consumption. This in turn has had a ripple effect on the real sectors of these economies, which are experiencing a long and deep economic downturn despite aggressive monetary and fiscal policy actions. According to the International Monetary Fund (IMF) and leading economists, this recession is the worst the world economy has faced in 60 years.

The international financial turmoil has not left the Aruban economy untouched. As in many other small economies with limited diversification and capital restrictions, the effects were felt first and foremost in the real sector. The uncertainties surrounding the international financial system and deteriorating employment conditions in the United States negatively impacted tourism particularly in the fourth quarter of 2008, lowering the occupancy rates in the hotel sector and output of tourism-related businesses. In addition, tightened international credit conditions brought about a further drop in foreign direct investment (FDI) as the execution of several projects, particularly in the tourism and real estate sectors, was either postponed or canceled, thereby weakening employment in the construction sector.

Consequently, in 2008 the Aruban economy, measured by its Gross Domestic Product (GDP) in real terms, contracted by 2.5 percent based on preliminary estimates, compared to a marginal expansion of 0.4 percent in 2007. The economic contraction resulted from a significant decline in domestic consumption as well as higher imports of goods largely related to a rise in tourism demand. The latter slightly mitigated the drop in economic activities because of higher exports of tourism services. Investments also recorded a minor improvement in 2008. For 2009, a further diminution in economic output is expected, induced by a fallout in tourism demand and investment as well as a further weakening in domestic consumption.

The lower domestic demand in 2008 reflected primarily a decline in the purchasing power of households, spurred by a record acceleration in the inflation rate. The 12-month average inflation rate rose from 5.4 percent in 2007 to 9 percent in 2008, the highest rate since price measuring was initiated. This acceleration was induced by record high oil prices and other commodity prices, which produced a steep increase in the utilities tariffs and the price of gasoline as well as food prices.

Fortunately, the inflationary pace slowed down markedly during the last two months of 2008, even recording an end-of-period price deflation of 1.9 percent in December, compared to December 2007. Nonetheless, the 12-month average inflation rate differential with the United States widened further to 5.2 percentage points in 2008, indicating that Aruba's competitive position vis-à-vis this country and other competitors in the region with a lower inflation rate deteriorated significantly.

Following a drop in tourism demand in the last quarter of 2008, overall growth in tourist arrivals slowed down by 4.1 percentage points to 7.1 percent. The average occupancy rate of resorts declined from 77.3 percent in 2007 to 76.6 percent in 2008. In contrast, the cruise tourism industry escaped the perils of the crisis: cruise passenger arrivals jumped by 15.4 percent in 2008 compared to an 18.5 percent drop in 2007.

The expansion in tourist arrivals in 2008 contributed to a 12.8 percent rise in registered gross tourism receipts, slightly increasing their contribution to the current account income of the balance of payments of the rest of the economy (i.e., excluding the oil and free-zone sectors) to 77 percent. This development chiefly influenced the improvement of the current account balance of the rest of the economy, the deficit of which narrowed from Afl. 285.2 million or 6.2 percent of GDP in 2007 to Afl. 162.5 million or 3.3 percent of GDP in 2008.

The capital and financial account surplus of the rest of the economy widened from Afl. 221.5 million or 4.8 percent of GDP in 2007 to Afl. 591.9 million or 12.1 percent of GDP in 2008. This development mirrored closely an incidental Afl. 223.3 million receipt of funds from the Dutch government related to the settlement of the Plant Hotel N.V. issue. Hence, the balance of payments of the rest of the economy turned around from an Afl. 38 million deficit in 2007 to an Afl. 411 million surplus in 2008.

In addition, the external transactions of the oil and free-zone sectors yielded a net inflow of foreign funds of Afl. 143.1 million in 2008. Consequently, Aruba's overall balance of payments posted an Afl. 554.1 million surplus in 2008, notably raising the level of international reserves to Afl. 1,270.7 million. Accordingly, the 12-month average coverage of merchandise imports (excluding the oil sector) by international reserves climbed to 7.2 months in 2008, and the 12-month average coverage of all current account payments (i.e., payments for merchandise imports, services, income, and current transfers, and excluding the oil sector) rose to 3.6 months.

The principal objective of the monetary policy of the Centrale Bank van Aruba (CBA) is to maintain relative price stability to safeguard the value of the Aruban florin. Vital to achieving this objective is the maintenance of the peg of the Aruban florin to the U.S. dollar. To this end, the CBA closely monitors the flows of foreign exchange payments and receipts to ensure a comfortable level of international reserves to defend the peg. In 2008, the main monetary policy instrument at the CBA's disposal remained the quantitative credit growth restriction. The drawbacks of this instrument are well-known, but it is generally considered a very transparent and effective instrument.

During 2009, the CBA intends to shift from the current use of the quantitative credit growth restriction instrument to more market-oriented indirect instruments, entailing the active use of cash reserve and liquidity requirements and the re-issue of central bank certificates of deposit to influence the liquidity within the banking system. This shift is also being driven by the need to have monetary instruments that possess more flexibility and adaptability to respond quickly to developments in the financial sector and the economy in general.

Against this background, the CBA agreed with the commercial banks to make 2008 a transition year, such that by the end of 2008 credit ceilings would have been dropped and replaced by market-oriented instruments. In anticipation of this shift, a 5 percent growth limitation was set for overall commercial bank lending for 2008.

However, in view of the rising uncertainties surrounding the impending effects of the global financial and economic crisis on the Aruban economy in the last quarter of 2008, the CBA decided to prolong the transition period through 2009, thereby maintaining a 5 percent credit growth restriction, while gradually moving to a more market-oriented monetary policy. This policy decision also took into consideration the IMF Offshore Financial Center (OFC) evaluation report of September 2008. The report advised the CBA to strengthen its risk-management systems and those of the commercial banks by shifting from a more compliance-based to a more risk-based supervisory system prior to switching to a more market-oriented monetary policy.

The 5 percent maximum permissible aggregate credit growth target for 2009 is subject to periodic revisions depending on monetary and economic developments during the year. An 8 percent penalty rate is applicable when the aggregate credit limitation is surpassed and is proportionally levied on commercial banks that contribute to the excess credit growth. To promote a level playing field within the financial sector, developments within the nonmonetary financial institutions also are closely monitored and discussed with these institutions.

Effective April 24, 2009, the CBA lowered its advance rate by 2 percentage points to 3 percent. This decision was taken based on the slowdown in business activity and decelerating inflationary trends, as well as to bring the advance rate more in line with the domestic liquidity conditions and reduced interest rates on the international money markets.

To proceed with the preparatory works related to the gradual transition to a more market-oriented monetary policy, the CBA will eliminate the monetary cash reserve requirement as of July 1, 2009, and simultaneously introduce a reserve requirement. The reserve requirement will be excluded from the calculation of the prudential liquidity ratio to improve its effectiveness as a tool of monetary policy. The move to a more market-oriented monetary policy also will entail the introduction of a more robust liquidity risk management framework that is well integrated into the bank-wide risk management processes. Therefore, during 2009 the CBA will issue new guidelines on liquidity risk management based upon the revised Basel principles for sound liquidity risk management and supervision.

On the fiscal side, the financial operations of the government showed an improved performance in 2008 when compared to the outcome in 2007. Including the change in unmet financing requirements, the financial balance amounted to an Afl. 182.3 million surplus, equal to 3.7 percent of GDP, in contrast to an Afl. 104.7 million deficit (2.3 percent of GDP) in 2007. Revenues and grants rose markedly by Afl. 331.1 million following the mentioned incidental receipt of funds from the Dutch government. Part of these funds was used for debt repayment related mainly to the Civil Servants Pension Fund (APFA) and contingency financing of tourism promotion for 2009. The remainder of the funds was earmarked for debt repayment and infrastructural investments.

Government expenditures on a cash-adjusted basis (i.e., including net lending and the change in unmet financing requirements) went up by Afl. 43.9 million. In particular, personnel-related expenses grew by 2.9 percent in 2008, remaining within the maximum growth rate of 3 percent recommended by the National Commission on Public Finance (NCPF). Expenditures on goods and services, on the other hand, rose by 4.5 percent, well above the commission's recommended 2 percent growth limit. Investment outlays were only 1.6 percent of GDP, below the 2 percent minimum level recommended by the NCPF.

Outstanding government debt contracted by Afl. 89.1 million to Afl. 2,047.2 million at the end of 2008, due largely to the debt repayment financed by the mentioned incidental receipt of funds from the Dutch government. Consequently, the debt-to-GDP ratio fell from 46.6 percent in 2007 to 42 percent in 2008. To further reduce its debt-to-GDP ratio, the government should consider using a sizeable part of the earmarked funds for debt repayment. Furthermore, when these incidental funds are excluded from the government finance, a financial deficit of Afl. 41 million is obtained, which is equal to 0.8 percent of GDP. To realise the required fiscal consolidation on a structural basis and further reduce its outstanding debt, it is critically important that the government make some rather difficult policy decisions.

These decisions relate to three particular issues that pose major risks for government finances, namely, the General Health Insurance (AZV), government personnel, and the APFA. The Monitoring Committee (MC) instituted by the Council of Ministers in November 2007, chaired by the CBA and charged with the monitoring of the progress of the execution of the NCPF recommendations flagged, these issues in its letter of April 2009 to the Minister of Finance and Economic Affairs. This concern is shared by both Fitch Ratings and Standard & Poor's. These rating agencies recently affirmed Aruba's current ratings of 'BBB' and 'A-/A-2', respectively, but warned that failure to address the structural weaknesses in the government budget could potentially affect Aruba's future rating.

With respect to the AZV and personnel, special advisory committees have been formed to analyze the problems and make recommendations to the government on how to curtail related expenses. Draft reports were submitted to the government for further discussion and possible implementation. In addition, a tripartite committee consisting of representatives of the APFA, the Department of Finance (DF), and the CBA recently was instituted to advise the

Minister of Finance and Economic Affairs on policy actions to restore the financial position of the APFA. The related report will be submitted soon to the Minister.

The government presented its 2009 budget to Parliament on time, again including a summary memorandum with a medium-term budget up to 2013. However, the budget approval was delayed until the beginning of this year. The 2009 budget, which did not include the incidental receipt of funds from the Dutch government related to the aforementioned Plant Hotel N.V. settlement, shows an Afl. 47.3 million financial deficit, compared to an Afl. 50 million budgeted deficit in 2008, related mainly to an anticipated expansion in both tax and non-tax revenues. The estimated increases in personnel costs and expenditures on goods and services are 3.8 percent and 4 percent, respectively. Both increases are above the norm recommended by the NCPF, while the ratio of investment outlays to GDP is 1.1 percent, again below the recommended norm.

To promote close cooperation between the DF and the CBA, monthly high-level meetings are held to discuss key issues related to the government's operations, including monitoring of financial planning, liquidity management, debt dynamics, and statistical issues. In addition, the execution of the budget on a cash-adjusted basis is reviewed during these meetings.

To date, the impact of the international financial crisis on the Aruban financial sector has been quite modest, mainly because the sector generally has limited foreign exposure. Only three company pension funds supervised by the CBA and the APFA have experienced a setback in their foreign investment portfolios. The three company pension funds are being closely monitored by the CBA and must submit recovery plans that contain detailed information on measures they will take to address the shortfall. To improve the financial position of the APFA, which falls under the supervision of the Minister of Finance and Economic Affairs, structural adjustments in one of its pension schemes are required.

The CBA remains focused on strengthening its supervisory legislative framework and prudential supervision to maintain the stability and integrity of the financial system as well as prevent financial institutions from taking risks that could harm the interests of depositors, policyholders, and other creditors, and/or could endanger the soundness of the financial system. As of February 5, 2009, the State Ordinance on the Supervision of the Credit System (SOSCS), the State Ordinance on the Supervision of the Insurance Business (SOSIB), and the State Ordinance on the Supervision of Money Transfer Companies (SOSMTC) were amended. The major changes in these ordinances are the inclusion of new articles explicitly authorizing the CBA to issue directives in the area of anti-money-laundering and combating financing of terrorism (AML/CFT) and to oppose the appointment of an external auditor, as well as extending the possibility of imposing administrative sanctions to the SOSCS and the SOSIB.

Also on February 5, 2009, the State Ordinance on the Supervision of Trust Service Providers (SOSTSP) became effective, entrusting the CBA with its execution and the licensing of trust service providers. The SOSTSP is focused mainly on maintaining the integrity of the trust service providers' sector. In compliance with international standards, the CBA intends to

extend its supervisory scope to other sectors to protect both domestic and foreign investors. Its proposal regarding the supervision of (electronic) stock exchanges already has been approved by the Minister of Finance and Economic Affairs and is now in the legislative process. Before the end of 2009, the CBA will also draft a proposal to regulate collective investment schemes and investment advisors.

To enhance the soundness of the banking sector, the CBA further tightened its policy rule on the admission of credit institutions in 2009. A major condition was added that only financial institutions with solid financial strength and reputation and subject to comprehensive consolidated supervision are allowed as a major shareholder in a credit institution established in Aruba.

In May 2008, an IMF mission conducted a follow-up assessment of Aruba's adherence to the revised Basel Core Principles (BCP) and a factual update of the Insurance Core Principles (ICP) assessment. Its findings were that Aruba is compliant or largely compliant with 26 principles, materially noncompliant with two principles (the risk management process and interest rate risk), and noncompliant with one principle (market risk) of the BCP. The factual update of the ICP found that Aruba had implemented several recommendations of the 2002 OFC assessment.

A Financial Action Task Force (FATF) mission conducted a mutual evaluation of Aruba's compliance with the 40+9 FATF Recommendations in November 2008. Based upon the preliminary discussions with the FATF mission, it can be concluded that despite the progress made, the AML/CFT framework needs to be strengthened further to fully meet the 40+9 FATF recommendations.

In December 2005, the CBA entered into a Memorandum of Understanding (MoU) with the Reporting Center for Unusual Transactions (RCUT) to exchange general information on AML/CFT issues. The RCUT is entrusted with overseeing compliance with the unusual transactions reporting ordinance and (together with the CBA insofar as it concerns the supervised financial institutions), the ordinance on the identification when providing services. As of February 5, 2009, the reporting obligations to the RCUT have been extended to include also, apart from the banks, life insurance companies, money transfer companies, free-zone companies, casinos, the post office, and other service providers, including trust offices, accountants, lawyers, and notaries, as well as traders in high value products. Meetings between the RCUT and the CBA are held at least twice a year to discuss general findings of the examinations conducted in this area.

With respect to external cooperation, it should be pointed out that the CBA further strengthened its cooperation with its sister institutions in the Kingdom of the Netherlands. In July 2008, a trilateral MoU was signed between De Nederlandsche Bank N.V. (DNB), the Bank van de Nederlandse Antillen (BNA), and the CBA agreeing to develop activities throughout the full range of their organizational structures and duties in a framework of mutual cooperation. These activities include the exchange of information, mutual assistance, and provision of

technical assistance. The CBA appreciates the cooperation received from these institutions in the areas of technical advice and support.

Also in 2008, the CBA focused on mitigating its exposure to risks when performing its daily operations. Because of the high technology-based environment and the associated risks to the institution, a primary target of attention is the improvement of IT security and data integrity. The CBA has hired an Information Security Manager who is responsible for protecting its information assets and reports directly to the President. The CBA also continued with the design and set-up of the Business Continuity and Disaster Recovery Plan to ensure that its core business functions are recovered as quickly and effectively as possible in case of an unforeseen event that would interrupt normal business operations.

Meanwhile, the CBA continued its review of the administrative processes and procedures of its departments. In 2008, the operations of the Cash and Vault Department were assessed with the technical assistance of DNB. Other departments will be reviewed during 2009, including the Audit Department and the IT Department. In addition, a risk management committee will be set up, while the proceedings will be initiated to modernize the Central Bank Ordinance (CBO).

In 2008, the outcome of the financial operations of the CBA again was positive. A profit of Afl. 14.4 million was recorded, which is Afl. 2 million lower than in 2007. The lower profit reflected largely a decline in total gross income (net of interest expenses) to Afl. 29.2 million, mainly the result of a decline in interest rates on the international money and capital markets. Total expenses rose marginally to Afl. 14.8 million. At the end of 2008, the CBA's balance sheet expanded by Afl. 424.7 million or 49.8 percent to Afl. 1,276.7 million. This marked expansion was chiefly the result of an increase in foreign currency assets and the revaluation of gold holdings.

On April 28, 2009, the CBA settled a gold option contract, which was entered into in 1999 and extended in 2004, on a net cash basis. The CBA decided to sell part of its gold reserves to finance this transaction and to limit the impact on its financial position. Immediately thereafter, the CBA replenished its gold reserves to the level prior to the sale transaction by repurchasing gold on the international market. Consequently, the gold reserves of the CBA were kept unchanged. As a result of the chosen method of settling the gold option contract, the monetary parameters, including the foreign exchange reserves of the CBA, remained at an adequate level.

In conclusion, Management would like to thank all members of the staff for their continued dedication and valuable contribution in preserving the CBA's high standard of work.

THE BUSINESS OF THE CBA

2.1 Core functions

The CBA, through the enactment of the CBO, is the public institution responsible for safeguarding financial stability in Aruba. Its principal policy objectives are:

- ◆ To protect the internal and external purchasing power of the Aruban florin,
- ◆ To enhance the safety, efficiency, and reliability of the payment systems, and
- ◆ To promote the soundness and integrity of the financial sector.

In line with its policy objectives, the CBA performs the following tasks and related activities.

Tasks	Related activities
a. Issue bank notes, as well as coins on behalf of the government.	Bring safe and secure bank notes and coins into circulation to meet the needs of businesses and the public in general.
b. Promote efficiency in settling domestic payments.	Operate an automated clearing system between the CBA, commercial banks, and a number of government-related institutions.
c. Act as the banker for the government.	Execute payment orders and intermediate in the issuance of government debt paper. In this regard, no credit is granted to the government.
d. Regulate the flow of international payments.	Facilitate and regulate payments between residents and nonresidents and collect foreign exchange tax.
e. Manage Aruba's official reserves, consisting of gold and foreign exchange holdings.	Invest the CBA's foreign exchange holdings in accordance with cautious guidelines aimed at protecting the country's liquidity and solvency position.
f. Advise the Minister of Finance and Economic Affairs on financial matters.	Produce relevant information and submit expert advice.
g. Monitor economic and financial developments.	Collect and analyze financial and economic data for the purpose of monitoring, policymaking, and dissemination through regular (monthly, quarterly, and annual reports) as well as other publications and presentations.
h. Conduct monetary policy.	Formulate and implement measures to, inter alia, regulate bank credit and liquidity, thereby contributing to financial stability for the well-being of the people of Aruba.
i. Supervise the financial system.	Perform risk-based supervision on financial institutions to protect the interests of depositors and policy holders and to contribute to maintaining the stability and integrity of the financial system.

2.2 Domestic payment system

2.2.1 Currency in circulation

The CBA, through its Cash and Vault Department, is responsible for bringing safe and secure florin bank notes and coins into circulation. At the end of December 31, 2008, florin currency

in circulation totaled Afl. 236.2 million, an increase of 4.7 percent compared to 2007 (see Table 2.1) indicating the continuing importance of currency in circulation. This growth rate was lower than the 6.3 percent rise in nominal GDP, resulting in a 0.1 percentage point decrease in the ratio of total florin currency in circulation to nominal GDP to 4.8 percent (2007: 4.9 percent). This ratio is probably low due to a significant co-circulation of U.S. dollars in the domestic economy largely related to tourism activities. According to the information submitted by the commercial banks to the CBA, total domestic debit card transactions (excluding ATM transactions) declined in number as well as in value compared to 2007, while the number and value of transactions processed through the automated clearing house (ACH) operated by the CBA increased steadily.

Table 2.1: Florin currency in circulation
(in Afl. million)

	2004	2005	2006	2007	2008
Notes	145.5	162.7	180.1	202.7	212.2
Coins	17.1	20.3	21.6	23.0	24.0
Total currency	162.6	183.0	201.7	225.7	236.2

Source: CBA.

The demand for florin bank notes continued to rise in 2008. The total value of florin bank notes in circulation increased by 4.7 percent to Afl. 212.2 million, considerably lower than the growth rate of 12.5 percent in 2007. As can be seen from Chart 2.1, the Afl. 100 denomination was the most used bank note during 2008.

Chart 2.1: Notes in circulation by denomination in 2008

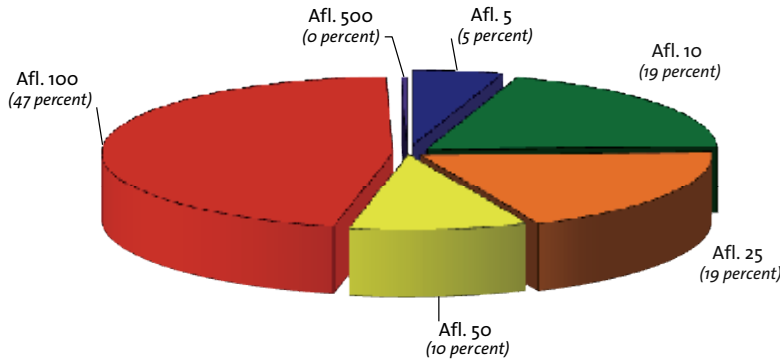


Chart 2.1: Nearly 50 percent of the notes in circulation in 2008 were in Afl. 100 denomination.

The increase in the number of coins in circulation in 2008, excluding commemorative coins, was divided proportionately among all the denominations, with the exception of the 2 1/2 florin coin in circulation. Chart 2.2 shows the relative share of coins in circulation in 2008.

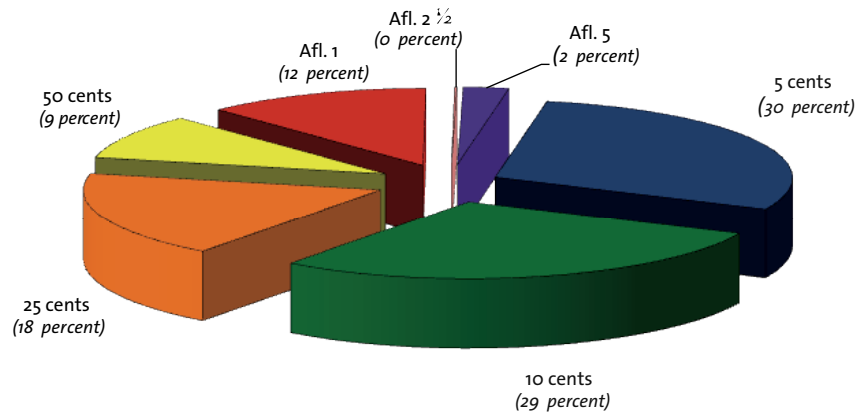
Chart 2.2: Coins in circulation by denomination in 2008

Chart 2.2: The smallest two coin denominations (5 cents and 10 cents) account for 59 percent of all coins in circulation, while the largest two denominations (Afl. 5 and Afl. 2^{1/2}) account for only 2 percent of all coins in circulation.

In 2008, the CBA issued two silver commemorative coins with nominal face values of Afl. 5 on the occasions of the Fiesta di San Juan (St. John's Day), which celebrates the yearly harvest, and the Dande, i.e., a traditional celebration with a group of musicians accompanied by a singer traveling door-to-door to express their best wishes for the New Year. The government declared the year 2008 as the year of culture.

2.2.2 Clearing system

In promoting efficiency in settling domestic payments, the CBA operates an automated clearing system between the commercial banks, the DF, a number of government-related institutions, such as the Water en Energie Bedrijf Aruba N.V. (WEB), the Servicio di Telecomunicacion di Aruba (Setar) N.V. (SETAR), the APFA, and its own institution. This batch-clearing system is based on a secured web-client solution through which interbank check clearing and fund transfers are settled. The Operations Department is responsible for the daily management of the clearing system, which has been in operation since 1997.

Despite the growth in the use of ACH transfers to process transactions, the volume and value of checks used increased in 2008 (see Chart 2.3). Illustrative is that the volume of checks processed through the clearing system grew by 1.1 percent in 2008 to 529,000 checks. The total value of cleared checks went up by 18.2 percent to Afl. 2.6 billion. The volume and value of funds transferred through the clearing system continued to increase in 2008 though at a slower pace than in 2007, i.e., by 4.5 percent and 3.2 percent, respectively.

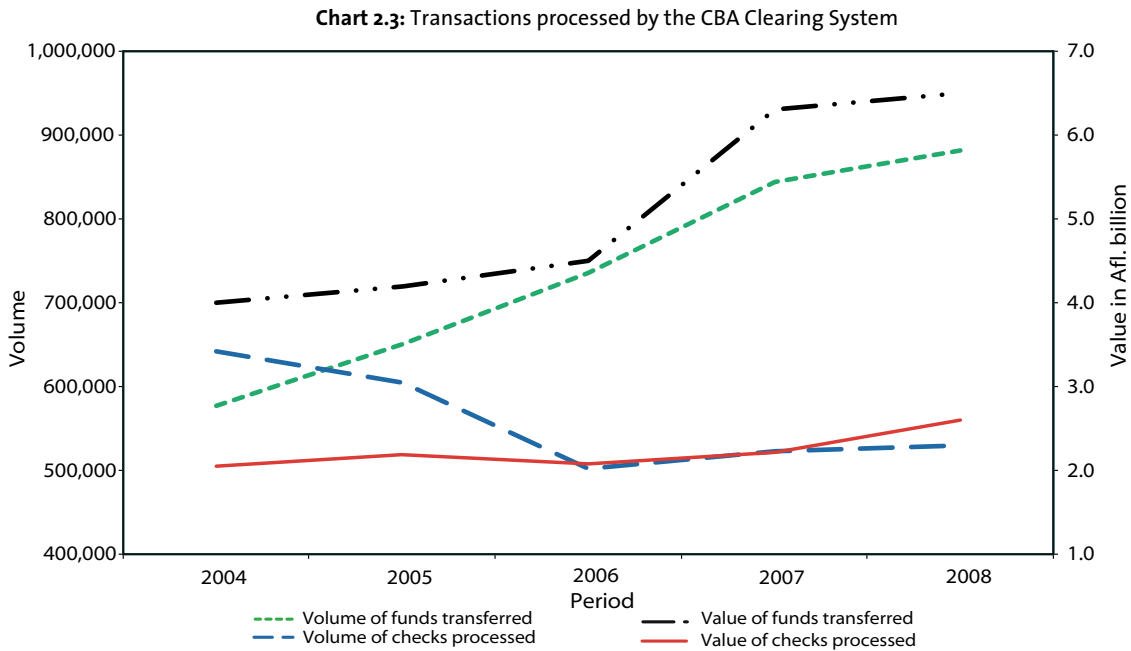


Chart 2.3: While the volume of checks processed remained fairly stable between 2006 – 2008, its value shows an increasing trend in this period, indicative of a higher average value of checks processed. The volume and value of funds transferred shows an increasing trend over the same period.

2.2.3 Banker to the government

Within the scope of the law, the CBA is the principal banker to the government and financial adviser to the Minister of Finance and Economic Affairs. In conformity with article 14 of the CBO, the CBA does not charge any fee on the domestic and foreign payments carried out on behalf of the government. These payments are cleared through the Treasury's current accounts, including earmarked accounts held with the CBA, which balances amounted to Afl. 99 million at the end of 2008. Government deposits held in earmarked accounts increased by Afl. 78.7 million to Afl. 96.1 million in 2008 (2007: Afl. 17.4 million). This notable increase was attributed to the receipt by the government of part of the proceeds of the sale of the shares of Plant Hotel N.V. from the Dutch government. The development funds account, managed by the Fondo Desaroyo Aruba (FDA), rose by Afl. 42.9 million to Afl. 84.6 million in 2008.

In 2008, the CBA assisted in the renewal of two 3-month treasury bill issues, which summed to Afl. 40 million, and Afl. 8 million in 6-month cash loan certificates that matured in December 2008 and were not renewed. The yields on the treasury bills fluctuated between 2.31 percent and 4.64 percent, considerably lower than in 2007. The weighted average yield on these treasury bills moved downwards, reflecting an excess liquidity in the market. In 2008 the weighted average yield was 3.04 percent, 1.47 percentage points lower than in 2007. The yield on the cash loan certificates in June 2008 was 2.97 percent.

The CBA also intermediated on behalf of the government for the issuance of two 10-year government bonds at par on the domestic market, which raised a total of Afl. 83.9 million. The proceeds of the first bond issue, totaling Afl. 33.9 million and yielding 7.125 percent, were used

to cover the financial deficit of the AZV for the year 2007. The second bond issue totaled Afl. 50 million and yielded 7 percent. The proceeds were used to cover the financing needs of the government.

2.3 International payment system

2.3.1 Daily exchange rate fixing

The CBA's official buying and selling rates for the U.S. dollar from and to the commercial banks remained fixed at Afl. 1.7895 and Afl. 1.7905, respectively. Besides the U.S. dollar and in accordance with article 12 of the CBO, the CBA publishes daily quotations for nine other foreign currencies based on data provided by the European Central Bank (ECB). These rates are published on a daily basis on the CBA's website. In 2008, the selling rate of the euro against the Aruban florin varied between Afl. 2.24 and Afl. 2.88, while the buying rate fluctuated between Afl. 2.20 and Afl. 2.82. At the end of 2008, the euro depreciated against the Aruban florin, reducing the selling rate by 5.5 percent or Afl. 0.14 to Afl. 2.50 compared to the corresponding period of 2007.

2.3.2 International payments

The Statistics Department of the CBA is responsible for compiling the balance of payments statistics. All payments and receipts between residents and nonresidents for goods, services, income, and current transfers as well as changes in Aruba's claims on and liabilities to the rest of the world, are recorded in the balance of payments. Total payments to nonresidents (excluding the financial transactions of the banking sector) rose to Afl. 12.2 billion during 2008, an 8.4 percent increase compared to 2007. Settlements in U.S. dollars with nonresidents continued as the largest component within this total.

2.3.3 Foreign exchange license policy

The foreign exchange license policy remained unchanged during 2008. Presently, no restrictions are imposed on payments related to current transactions. The annual upper limits for executing capital transactions without any administrative restrictions were kept at Afl. 300,000 for natural persons and Afl. 750,000 for legal entities (excluding commercial banks). In general, special foreign exchange licenses for amounts exceeding the indicated limits are granted quite liberally when they concern regular transactions. Furthermore, institutional investors also have to comply with the 40-60 percent investment rule, which requires that part of their investments be spent locally.

Pursuant to the Notice concerning Foreign Exchange Transactions AW 2005/1, commercial banks also require a special foreign exchange license when granting loans to nonresidents exceeding Afl. 1,000,000 per annum and per individual or group of nonresident borrowers as well as for certain transfers or sales of financial instruments such as bonds and notes to nonresidents.

As of April 1, 2009, the CBA further liberalized the foreign exchange arrangements for transfers to and from notified foreign accounts. Based on the Notice concerning Foreign Exchange Transactions RV 2009/1, resident companies that have notified their foreign accounts to the CBA and are in possession of an exemption from adhering to the provisions of the articles 11 and 12 of the State Ordinance on Foreign Exchange Transactions (SOFET) and are compliant with the conditions mentioned in the exemption, are allowed to make transfers to and from these accounts without any administrative restriction.

During 2008, the CBA granted 703 special foreign exchange licenses, i.e., 7.4 percent or 56 fewer licenses than in 2007 (see Table 2.2). However, the value of the transactions for which licenses were granted rose by Afl. 52.7 million or 2.4 percent to Afl. 2.2 billion in 2008 compared to 2007, due mainly to a rise in the amount of transactions related to transfers to and from notified foreign accounts and real estate. On the other hand, transactions for acquiring foreign loans and making foreign investments dropped in 2008 by Afl. 101.1 million or 14 percent to Afl. 619.5 million and by Afl. 19 million or 42 percent to Afl. 26.2 million, respectively.

Table 2.2 Foreign exchange licenses granted

	2004	2005	2006	2007	2008
In numbers	103	138	617	759	703
Total amount (in Afl. million)	471.9	655.7	2,646.7	2,195.2	2,247.9

Source: CBA.

2.3.4 Foreign exchange commission

Pursuant to article 2, paragraph 1 of the State Ordinance on Foreign Exchange Commission (SOFEC), residents must pay a 1.3 percent foreign exchange commission on their payments to nonresidents. These payments may be effectuated through local foreign exchange banks or via foreign accounts notified to the CBA.

However, certain transactions are exempted from payment of the foreign exchange commission, such as transactions in the Netherlands Antillean guilder (based on an agreement between the governments of Aruba and the Netherlands Antilles) as well as transactions by certain groups of companies (including government-related) by virtue of the State Decree on the SOFEC. In accordance with article 12 of the State Ordinance on the Free Zone, free-zone companies may request an exemption to the extent that their payments for goods and services are linked to re-exports.

Also, offshore companies, which have obtained an exemption according to article 19 of the SOFET, as well as Aruba Exempt Corporations, the so-called AVVs, which were incorporated before January 1, 2006, are by virtue of law nonresidents and, therefore, not subject to a foreign exchange commission. However, due to the amendment in the tax regime of the AVV, all AVVs

incorporated after January 1, 2006 are considered resident and, for that reason, should pay the foreign exchange commission unless they have obtained an exemption under article 19 of the SOFET.

The government is responsible for determining the policy concerning the foreign exchange commission, while the CBA is entrusted with its collection. In 2008, the CBA collected Afl. 53.3 million in foreign exchange commission, i.e., Afl. 11.6 million or 27.8 percent more than a year earlier. From the total amount collected in foreign exchange commission, Afl. 50.4 million was transferred to the Treasury during 2008.

2.4 Managing the official foreign exchange reserves

The CBA manages Aruba's official foreign exchange reserves as laid down in article 12, sub 1 of the CBO and applies, among other things, the B-9 rule for commercial banks and the 40-60 percent investment rule for institutional investors. The purpose of the B-9 rule is to hold a certain level of official reserves at the CBA, while the 40-60 percent investment rule aims to maintain a certain level of investments domestically. The policy of the CBA regarding the management of the official foreign exchange reserves remained unchanged in 2008. The CBA pursues a conservative investment policy to minimize potential losses. The foreign exchange reserves of the CBA are invested in U.S. government and government-guaranteed paper, paper issued by qualifying supranational financial institutions, and money-market instruments of and accounts held with at least double A-rated credit institutions.

2.5 Monetary policy

The main objective of the CBA's monetary policy is to preserve relative price stability to safeguard the value of the Aruban florin. The fixed peg of the Aruban florin to the U.S. dollar continues to be the principal target of this policy. To this end, the CBA closely monitors the flows of foreign exchange payments and receipts to ensure an adequate level of international reserves to defend this peg. In 2008, the monetary policy was kept virtually unchanged. The maximum permissible target for credit growth was held at 5 percent for 2008, but the separate monitoring of consumer credit and the other credit components was eliminated. It was the CBA's intention to move from the use of direct instruments of monetary policy (credit ceilings) to more market-oriented indirect instruments, entailing initially cash reserve and liquidity requirements in the course of 2008. However, given the uncertainties surrounding the impact of the U.S. recession on the Aruban economy and the inflationary developments, the CBA did not alter its monetary policy.

The overall banking credit portfolio grew by 2.5 percent in 2008, thereby remaining below the 5 percent credit growth limit set by the CBA at the beginning of that year. The penalty fee applicable in case of excessive aggregate credit growth remained unchanged at 8 percent,

while the monetary cash reserve requirement was kept at 9.5 percent. The B-9 rule also remained unchanged, and the compensating fee for any deficiency in the monetary cash reserve requirement was maintained at 4.5 percent.

For 2009, the CBA decided to maintain the quantitative credit growth restriction. This policy decision also was backed by the IMF/OFC Assessment evaluation report issued in September 2008, which advised the CBA to strengthen its risk-management systems and those of the commercial banks by shifting from a more compliance-based to a more risk-based supervisory system prior to switching to a more market-oriented monetary policy. The maximum permissible aggregate credit growth target will remain at 5 percent but could be subject to periodic revisions depending on monetary and economic conditions.

2.6 Prudential supervision

Prudential supervision is aimed primarily at maintaining the stability and integrity of the financial system. To this end, off-site surveillance and risk-based on-site examinations are carried out on a continuous basis to monitor compliance with the supervisory laws and regulations governing the banks, money transfer companies, insurance companies, and company pension funds. In addition, regular bilateral meetings are held with the representative organizations.

On February 5, 2009, the SOSTSP was approved by the Aruban Parliament. With the enactment of this ordinance, the trust service sector was brought under the supervision of the CBA. All existing trust service providers registered at the Aruba Chamber of Commerce must obtain a license from the CBA within one year of the date the ordinance went into effect, if they want to continue their trust service activities after that date. Trust service providers that want to establish in Aruba after February 5, 2009, need to obtain a license from the CBA before they can initiate their activities.

In conformity with the IMF/OFC recommendations issued in September 2008 and also with a view to protecting the reputation of Aruba as a premier location for conducting international financial activities, the CBA's supervisory scope should be extended further. In this regard, the CBA has drafted a proposal to bring stock exchange activities under its supervision. This proposal has been approved by the Minister of Finance and Economic Affairs and is now in the legislative process. Before the end of 2009, the CBA will also draft a proposal to regulate collective investment schemes and investment advisors.

As of the end of 2008, all banks and insurers not qualifying to continue their activities on the Aruban market via a branch office or agency had complied with the revised policy rules regarding the admission and licensing of banks and insurance companies issued in August 2006.

2.7 Financial highlights for 2008

- ◆ At end-2008, the CBA's total assets had risen by Afl. 424.7 million or 49.8 percent to Afl. 1.3 billion compared to end-2007, due mainly to an Afl. 416.7 million increase in foreign currency assets and an Afl. 6 million revaluation of gold holdings.
- ◆ Total gross income (net of interest expenses) fell by Afl. 1.7 million or 5.5 percent to Afl. 29.2 million, mainly the result of a decline in interest rate on the international money and capital market.
- ◆ Total expenses went up by 2 percent to Afl. 14.8 million, attributable to a 13.5 percent increase in operating expenses.
- ◆ Net profit amounted to Afl. 14.4 million, Afl. 2 million or 12.2 percent lower than in 2007.

2.8 Organizational affairs

2.8.1 Staffing and organizational changes

The CBA's objective is to deploy its employees as broadly and flexibly as possible. The result is a heavy workload, but it allows the CBA to operate as optimally as possible with a relatively small staff. At the end of December 2008, the CBA employed 68 persons full-time compared to 67 persons in 2007. The CBA entered into a labor contract with 3 new employees during 2008.

On August 11, 2008, the CBA saw the tragic passing away of its employee, Mr. Erwin Clemencia, who worked for 21 years for the CBA and dutifully fulfilled the tasks entrusted to him as head security guard. The management and staff will remember him for his dedication and loyalty to the CBA.

On August 31, 2008, Mr. Hassanali Mehran resigned as President of the CBA and effective September 1, 2008, Mrs. Jeanette Semeleer was appointed President of the CBA, after 18 years of service. The Executive Committee wishes to express its appreciation for Mr. Mehran's valuable contribution to the CBA and his commitment to promote cooperation and communication within the CBA and with its stakeholders to the benefit of the financial stability of Aruba. Mrs. Semeleer is the first female president of the CBA and served the past 8 years as Executive Director and member of the Executive Committee of the CBA.

2.8.2 Training, courses, and seminars

As part of the CBA's policy to provide training opportunities to its employees, its staff participated in a number of local and foreign courses, seminars, and conferences during the year. From October 27-29, 2008, the CBA hosted the seminar "Challenges to Balance of Payments' Compilers". This course was organized in close cooperation with DNB. The main

goal of this seminar was to share DNB's views and experiences with its balance of payments accounts. DNB also presented its newly developed electronic balance of payments reporting and analysis tool.

2.8.3 Risk management

The CBA has undertaken several measures aimed at mitigating the different risks to which it is exposed. Given the high technology-based environment and the associated risks to the institution, in 2008 the CBA continued its focus on further improving IT security and data integrity. To this end, the CBA hired an Information Security Manager, who is responsible for protecting the information assets of the CBA and reports directly to the President.

In 2008, the CBA continued with the design and set-up of the Business Continuity and Disaster Recovery Plan to ensure that its core business functions are recovered as quickly and effectively as possible in case of an unforeseen event that would interrupt normal business operations. An IT Recovery Plan was prepared and with the assistance of external experts, several recovery data centers were visited.

In 2008, the CBA with the assistance of DNB reviewed the administrative processes and procedures of the Cash and Vault Department. In 2009, the CBA will continue to review the administrative organization of several other departments, including the IT Department and the Audit Department. It is Management's intention to set up a risk management committee in 2009.

2.8.4 Activities in 2008 and outlook for 2009

In 2008, the CBA resumed work related to upgrading and operationalizing its economic model. The idea is to use different forecasting techniques for quarterly as well as yearly projections. Also, the CBA enhanced its Management Information System, thus providing management and staff with streamlined and broadened, as well as comprehensive, timely, accessible economic, financial, and other data. During 2008, the CBA, in close cooperation with the BNA, continued with the design of a new reporting framework for the commercial banks. This new framework will replace in due time the current monthly statement and its appendices.

In May 2008, the IMF conducted a follow-up assessment of Aruba's financial sector. This assessment focused primarily on Aruba's adherence to the banking and insurance core principles issued by the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors. The IMF report is available on the CBA's website. In November 2008, a FATF mutual evaluation took place to review Aruba's adherence to the FATF 40+9 recommendations. The FATF mission will present its findings to the FATF plenary in October 2009.

In February 2009, an IMF mission visited the CBA. Its focus was mainly on the acceleration of the CBA's progress in the implementation of Standardized Report Forms developed by the IMF for reporting monetary and financial data compiled by the Statistics Department to the IMF for publication in the latter's International Financial Statistics publication. Also, to further improve the existing statistics data base, the CBA is planning to conduct various surveys, including the trade credit and advances survey. The latter survey will be carried out to obtain additional information on trade credits and advances related to imports and exports in order to include the merchandise trade data on a transaction basis in the balance of payments.

During 2009, the CBA will continue developing a stress testing model for the commercial banking sector. The purpose of this model is to assess the resilience of the banking sector as well as the individual commercial banks in times of stress. In line with the recommendations made by the IMF in its OFC assessment report issued in September 2008, the CBA intends to implement yearly stress tests on the commercial banking sector.



The President of the CBA and Members of the Board of Supervisory Directors
Seated l. – r.: J.R. Semeleer (President), A.J. Swaen (Chairman)
Standing l. – r.: H.O. van Trikt, M.R. Croes, G.G. Oduber, T.R.L. Vingal



The President and Members of the Management Staff



Members of the Staff of the CBA

ECONOMIC AND FINANCIAL DEVELOPMENTS

3.1 International environment

A long period of robust worldwide economic growth ended in 2008 when global output slowed to 3.2 percent, down from 5.2 percent in 2007. Economic activities were suppressed because of vigorously rising commodity prices, including food and energy prices, in the first part of 2008 and a worsening of the financial crisis in the fourth quarter of that year. The latter was triggered by the failure of the Lehman Brothers investment bank, which caused deep uncertainty and speculation about the viability of the international financial system. In the last quarter of 2008, the world economy slipped into a recession, which affected not only advanced economies but also emerging and developing countries. This economic downturn, however, led to a reversal in the trend of rising commodity prices. On balance, global inflation, measured by the change in the Consumer Price Index (CPI), accelerated by 2 percentage points to 6 percent in 2008.

3

Box 3.1: The world economic outlook for 2009

The international economic downturn deepened in the final months of 2008 and spread around the world. Despite plentiful fiscal and monetary policy measures implemented to tackle the ongoing crisis, the world GDP is projected to decline by around 1.3 percent in 2009, the first time in 60 years.

Advanced economies are expected to suffer deep recessions, following weaker domestic and external demand. Their output is estimated to contract by 3.8 percent in 2009. Moreover, growth in emerging and developing countries is projected to slow down from 6.1 percent in 2008 to 1.6 percent in 2009, following sluggish external demand, lower commodity prices, low availability of external financing, and associated spillovers to domestic demand.

Inflationary pressures will continue to subside in 2009 because of lower commodity prices, deteriorating economic activity, and poor labor market conditions. In the emerging and developing economies, inflation is expected to decline to 5.7 percent in 2009, compared to 9.3 percent in 2008. In the advanced countries, deflation risks are growing. The deflation in these economies is projected to reach 0.2 percent in 2009, compared to a 3.4 percent inflation in 2008.

Projections by the IMF show a gradual recovery of the world economy in 2010. However, this outlook has several downside risks. To boost consumer and business confidence, comprehensive and coordinated policy actions and sizable fiscal support are needed. The risk of deflation in advanced economies poses a serious threat to the economic recovery, as deflation could encourage economic agents to postpone spending, including investment, thereby causing a further escalating recession. In the case of emerging economies, the difficulties in obtaining external financing could hamper economic growth. Furthermore, the economic recovery depends on a gradual improvement in credit conditions, a bottoming of the U.S. housing market, and the cushioning effect from lower oil and other major commodity prices.

Source: IMF.

For the year 2008 as a whole, the U.S. economy grew by 1.1 percent, reflecting positive growth in the first half of the year, due in part to the economic stimulus package of the U.S. government. However, in the second half of the year, real output contracted, following the deepening financial crisis and weaker private demand, both domestically and foreign. Domestic final demand contracted by 0.4 percent in 2008 compared to a 1.4 percent expansion in 2007. This fall was associated largely with a slowdown in housing and business investments because of less favorable financing conditions, a worsening of the business climate, and an uncertain economic outlook. In addition, household consumption expenditure growth abated compared to a year earlier, as a result of a lower rise in real disposable income, a decline in net household assets, and tightened lending conditions. Exports rose by 6.2 percent in 2008, down from 8.4 percent in 2007. The positive contribution of net exports to GDP expanded further from 0.6 percentage point in 2007 to 1.4 percentage points in 2008, primarily due to a drop in imports. Inflation, as measured by the change in the CPI, rose from 2.9 percent in 2007 to 3.8 percent in 2008, following rising energy and commodity prices in the first part of 2008. Labor market conditions deteriorated in 2008, reflected by an increased unemployment rate.

The Japanese economy declined by 0.6 percent in 2008, down from an expansion of 2.4 percent in 2007. Both domestic demand and exports deteriorated during 2008 because of a drop in investments and weaker foreign demand. Increased commodity prices and a weak yen at the beginning of 2008 triggered higher inflation in 2008, i.e., 1.4 percent, compared to zero percent in 2007. The sluggish pace of economic activity caused a slump in the labor market situation, leading to increased unemployment.

Stronger macroeconomic frameworks in many emerging economies in Asia have made these countries better equipped to deal with the ongoing crisis. Banks in these countries strengthened their capital base after the Asian financial crisis in 1997. However, the global economic downturn affected these economies because of their high dependency on exports to advanced countries. The economy of China expanded by 9 percent in 2008, down from 13 percent in 2007, following a fall in exports and a slowdown in domestic demand. The Indian economy grew by 7.3 percent compared to 9.3 percent in 2007. Inflation rose in China and India from, respectively, 4.8 percent and 6.4 percent in 2007 to, respectively, 5.9 percent and 8.3 percent in 2008.

Growth in the euro area reached 0.9 percent in 2008, down from 2.7 percent in 2007. This economic moderation occurred principally because of a waning domestic demand, related in part to an erosion of the purchasing power due to inflation in the first part of the year and the negative wealth effect caused by declining house prices. Housing investment contracted in 2008 while net exports edged up slightly. Prices increased in the euro area as well, resulting in 3.3 percent inflation in 2008, compared to 2.1 percent in 2007. Labor markets in the euro area experienced a slowdown in 2008, following rising unemployment from the second quarter of 2008.

In the year under review, the economies of Latin America and the Caribbean posted a positive growth of 4.2 percent. Both domestic and external demand contributed to this outcome. In the first part of 2008, private consumption was supported by the availability of credit and an improvement in labor market conditions. In the last months of the year, access to international financial markets was increasingly difficult, thus curbing domestic demand. In addition, these countries saw sharp declines in the prices of their export commodities and a slowing external demand. Their net exports contributed negatively to the GDP growth because of a further climb in the imports of goods and services. Inflation in Latin America and the Caribbean rose significantly in 2008 (7.9 percent) compared to 2007 (5.4 percent).

3.2 Domestic real sector

The domestic economy experienced positive growth in the first half of 2008 amid rising inflationary pressures. However, in the latter part of the year, the economy contracted compared to the corresponding period a year earlier. As a result, the GDP in real terms went down by 2.5 percent in 2008 compared to a 0.4 percent expansion in 2007. This decline resulted from lower final consumption as well as higher imports of goods and services. On the other hand, both investments (i.e., gross capital formation) and exports of goods and services grew slightly in 2008 compared to 2007. On balance, Aruba's economy did not perform as well as that of a selected number of other Caribbean countries in 2008, despite a superior performance of the tourism sector (see Table 3.1).

Table 3.1: Gross domestic product
(in constant prices)

	2004	2005	2006	2007	2008
	<i>(percentage change)</i>				
1. Aruba: GDP and its components 1)					
Real gross domestic product	7.4	1.0	0.6	0.4	-2.5
Final consumption	1.8	2.1	2.1	0.6	-1.3
Gross capital formation	4.2	16.8	5.8	-2.6	0.2
Exports	10.0	6.9	-4.2	2.9	0.2
Imports	2.2	14.6	0.0	1.3	2.2
2. GDP: Selected Caribbean countries					
Bahamas	-0.2	3.3	4.6	2.8	-1.3
Barbados	4.8	3.9	3.2	3.4	0.6
Eastern Caribbean Currency Union 2)	3.6	5.3	5.3	4.1	2.1
Jamaica	1.4	1.0	2.7	1.4	-1.2
Netherlands Antilles	1.2	1.1	2.3	3.5	2.2
Trinidad & Tobago	7.8	5.4	13.3	5.5	3.4

Source: CBA; DEZHI; CBS Netherlands Antilles; Eastern Caribbean Central Bank; IMF.

1) The 2004-2006 estimates of the Central Bureau of Statistics (CBS) and the 2007-2008 calculations of the Department of Economic Affairs, Commerce, and Industry (DEZHI), both in nominal terms, were deflated with the CPI to obtain estimates in real terms.

2) Comprising Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines.

Exports of goods and services edged up by 0.2 percent in 2008, significantly less than the 2.9 percent growth in 2007. This outcome was due largely to an increase in tourism demand. Both stay-over and cruise tourism expanded in 2008. On balance, gross tourism receipts, as registered on a cash basis in the balance of payments, rose by 12.8 percent to Afl. 2,528.9 million in 2008, equivalent to 51.9 percent of Aruba's GDP. These receipts accounted for 77 percent of the total current account receipts of the rest of the economy (excluding the oil and free-zone sectors), 1.3 percentage points more than in 2007.

According to the Aruba Tourism Authority (ATA), the number of stay-over visitors and their nights spent on the island grew by, respectively, 7.1 percent and 6.5 percent in 2008, compared to, respectively, 11.2 percent and 7.5 percent in 2007 (see Table 3.2). The 2008 rise largely mirrored the positive performance of the tourism industry in the first eight months of the year, including double-digit growth figures posted in the first quarter of the year and in the month of May. Since September 2008, however, fewer stay-over tourists visited the island compared to the corresponding period of 2007, with the exception of December 2008, when a minor increase was registered primarily because of a rise in the Venezuelan market. The decrease in tourist arrivals in the latter part of the year was associated in part with the impact of the global economic and financial crisis on travelling. The average occupancy rate of resorts declined by 0.7 percentage point to 76.6 percent. Moreover, the revenue per available room fell by 4 percent to Afl. 145, while the average daily rate of resorts rose by 1.6 percent to Afl. 327.

Table 3.2: Main indicators of tourism activity

	2004	2005	2006	2007	2008
Tourism receipts (in Afl. million)	1,882.9	1,952.8	1,924.3	2,242.0	2,528.9
Tourism receipts as a percentage of GDP	47.3	47.0	44.4	48.9	51.9
Tourism receipts per capita (in Afl.)	19,280.6	19,403.0	18,715.4	21,562.5	24,065.3
Stay-over visitors (in thousands)	728.2	732.5	694.4	772.1	826.8
Stay-over visitors per capita	7.5	7.3	6.8	7.4	7.9
Visitor nights (in thousands)	5,639.9	5,694.5	5,470.5	5,879.9	6,264.7
Average occupancy rate of resorts (in percent) 1)	80.7	81.7	76.8	77.3	76.6
Average daily rate of resorts (in Afl.) 1)	266	317	317	322	327.0
Revenue per available room (in Afl.) 1)	151	170	147	151	145
Cruise visitors (in thousands)	576.3	552.8	591.5	481.8	556.1
Aruba's market share in the Caribbean (in percent)					
- Stay-over visitors	3.8	3.7	3.5	3.8	4.0
- Cruise tourism	2.9	2.9	3.1	2.5	2.9

Source: CBA; ATA; CBS; CTA; CTO.

1) Contains both hotels and timeshares. Due to the business structure of timeshare properties in Aruba, the theoretical link between the average occupancy rate, the average daily rate, and the revenue per available room is not valid for timeshares, and, thus, cannot be calculated from the aggregated figures presented in the table.

The growth in Aruba's stay-over tourism was higher than that of the Caribbean region, which increased by an estimated 1.3 percent. Consequently, Aruba's share in Caribbean stay-over tourism increased by 0.2 percentage point to 4 percent. The number of cruise passengers

registered a 15.4 percent growth in 2008, compared to a 1.9 percent decline in the Caribbean region as a whole, resulting in a rise in Aruba's cruise tourism market share in the Caribbean by 0.4 percentage point to 2.9 percent.

Chart 3.1: Growth in stay-over and cruise tourism in 2008 in selected Caribbean countries and the Caribbean as a whole (percentage change)

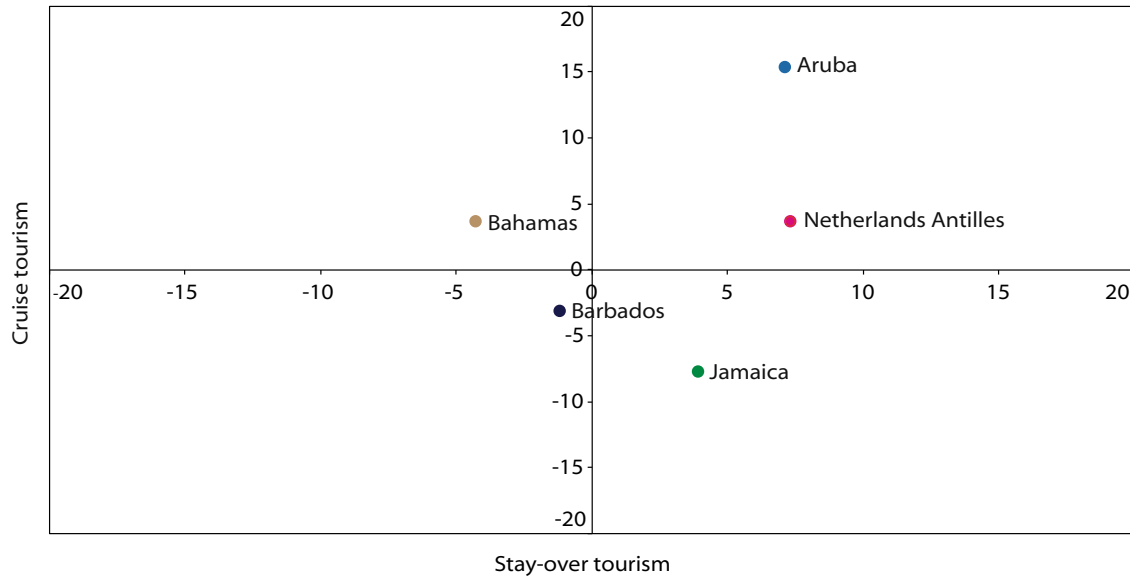


Chart 3.1: In 2008, Aruba and the Netherlands Antilles experienced positive outcomes in both stay-over and cruise tourism. The Bahamas saw a contraction in its stay-over tourism and an expansion in its cruise tourism, while Jamaica experienced the opposite. Barbados, however, recorded declines in both types of tourism.

In 2008, investments went up by a mere 0.2 percent. This small growth is, on balance, the result of higher government investments and lower private sector investments. In contrast, preliminary calculations indicate a 1.3 percent decrease in final consumption for 2008 compared to a 0.6 percent growth in 2007, despite a 1.1 percent increase in the mid-year population. This contraction was caused in part by a decline in the disposable income of households in real terms, which was impacted negatively by the increased prices of food and energy in particular. The lower final consumption also was reflected in a slowdown in consumer credit growth in 2008 compared to 2007.

The 2.2 percent rise in imports of goods and services was attributed mainly to the increase in tourism demand. This was also reflected in the merchandise trade statistics published by the CBS. The latter shows higher imports in almost all product categories. However, lower imports of “base metals and derivated works” (related to lower private sector investments) and “real natural pearls and other precious stones” resulted largely in a 1.2 percent fall in total merchandise imports (excluding mineral fuels and free-zone goods) to Afl. 1,853 million in 2008 (2007: +8 percent). In 2008, total merchandise exports increased by 2.3 percent to Afl. 57 million (2007: +20 percent), chiefly because of higher exports of machinery and electrotechnical equipment. Consequently, the resulting trade deficit fell by Afl. 23.1 million or 1.3 percent in 2008 to Afl. 1,796.1 million (see Table 3.3).

Table 3.3: Other selected indicators of the real sector

	2004	2005	2006	2007	2008
1. Merchandise trade statistics 1)					
Exports of goods (in Afl. million)	40.2	36.1	46.4	55.7	57.0
Imports of goods (in Afl. million)	1,474.4	1,700.8	1,736.7	1,874.9	1,853.0
Trade balance (in Afl. million)	-1,434.2	-1,664.7	-1,690.3	-1,819.2	-1,796.1
2. Utilities					
Water consumption (in thousand m ³)	11.4	11.4	11.5	11.7	11.4
Electricity consumption (in thousand KWH)	729.8	759.3	761.4	781.1	764.3
Gas consumption (in thousand pounds)	18.9	19.1	19.3	20.0	20.5
Utilities index (1996=100)	134.8	138.9	139.4	142.9	140.1
3. Airport activities					
Number of airport passengers (in thousands)	1,734.1	1,714.5	1,638.1	1,837.4	1,973.6
Number of aircraft landings	33,655	33,768	33,088	35,774	36,818
4. Oil refining					
Exports of refined oil (in Afl. million)	5,036.4	7,602.4	8,100.8	8,500.0	9,215.6
Imports of crude oil (in Afl. million)	4,266.6	5,909.7	6,533.8	7,233.9	8,513.2
Quantity of oil refined (in thousand barrels)	77,468	78,236	61,486	65,525	58,259
Number of employees 2)	654	696	709	695	673
5. Construction					
Number of construction permits granted	1,474	1,584	1,303	1,151	962
Value of construction permits granted (in Afl. million)	207.1	283.2	525.7	447.6	670.5
Cement imported (in thousand Kg)	59,675.3	88,719.0	78,412.6	77,832.2	66,541.0
Electrical installations approved	2,541	2,763	2,463	2,138	2,272

Source: CBS; WEB; ELMAR; Arugas; AAA; Coastal Aruba Refining Company (until February 2004); Valero Aruba Refining Company (after February 2004); DOW; DTI.

1) Excluding mineral fuels and free-zone goods; On a transaction basis.

2) Employees directly employed by the refinery. Thus, excluding contractor personnel.

From a sectoral perspective, note that the output of the utilities sector went down in 2008, as shown by a 2 percent fall in the weighted utilities index (2007: +2.5 percent). The latter reduction was brought about by declines in consumption of water (measured in thousand m³) and electricity (measured in thousand KWH) of 2.6 percent and 2.1 percent, respectively. These decreases were offset in part by a 2 percent expansion in gas consumption (measured in thousand pounds). Price increases of the utilities contributed to a higher value of consumed water, electricity, and gas in 2008 compared to 2007.

Moreover, preliminary data show a decline in the output of the trade sector in 2008 mainly because of a drop in domestic demand. Construction activities abated due to the sluggish investment performance. Indicative of the weakening building activities is that total imported cement (measured in thousand Kg) contracted by 14.5 percent, compared to a 0.7 percent fall in 2007. In contrast, the number of electrical installations approved grew by 6.3 percent. In addition, the construction value of building permits granted rose by 49.8 percent, reflecting mainly the granting of a permit for a condominium investment project. Still, the number of

building permits approved shrank by 16.4 percent, primarily because fewer permits for housing construction were issued.

As mentioned, the tourism-related sectors, “hotels and restaurants” and “transport, storage and communication”, performed positively in 2008. Also, airport activities grew because of a 7.4 percent increase in the number of airport passengers in 2008 (2007: +12.2 percent) and a 2.9 percent rise in the number of aircraft landings.

In 2008, the refinery’s production volume (in thousand barrels) contracted by 11.1 percent compared to a 6.6 percent rise in 2007. This contraction was related primarily to a fire in the refinery in January 2008, which led to a reduction in output in the first two quarters of that year. In spite of lower production, export revenues and crude oil import payments increased by, respectively, 8.4 percent to Afl. 9,215.6 million (2007: +4.9 percent) and 17.7 percent to Afl. 8,513.2 million (2007: +10.7 percent) because of higher oil prices on the international markets. The refinery posted a loss of Afl. 25.1 million (US\$ 14 million) in 2008 compared to a profit of Afl. 755.4 million (US\$ 422 million) in 2007 (Source: Valero Energy Corporation, *Form 10-K* for the fiscal year ended December 31, 2008).

Despite a contraction in overall economic activity, the 12-month average growth in the CPI accelerated by 3.6 percentage points compared to 2007 to 9 percent in 2008, the highest increase since price measuring was initiated (see Table 3.4). This acceleration was caused mainly by a jump in oil prices on the international markets, which impacted directly the water and electricity tariffs and gasoline prices. Illustrative is a 37.7 percent higher average oil price (West Texas Intermediate) per barrel. When adjusted for the energy-related components (water, electricity, and gasoline), the average inflation rate of Aruba accelerated to 5.1 percent in 2008, up from 4.3 percent in 2007.

In the first ten months of 2008, the inflation pace was higher than in the corresponding period of 2007. Inflation slowed in November 2008 compared to the same month of 2007 and turned negative for the first time ever in the last month of 2008, as a result of lower water and electricity tariffs and lower gasoline prices, following declines on the international oil markets. In 2008, the inflation rate was 5.2 percentage points above that of the United States, Aruba’s major trading partner, resulting in an increase in the real exchange rate index of the Aruban florin vis-à-vis the U.S. dollar from 108 in 2007 to 115.3 in 2008. With the exception of Jamaica and Trinidad & Tobago, Aruba’s 12-month average inflation rate was generally higher than some selected Caribbean countries, implying a loss in competitive position vis-à-vis these countries.

Table 3.4: Inflation

	2004	2005	2006	2007	2008
1. Aruba: inflation indicators					
12-month average (in percent)	2.5	3.4	3.6	5.4	9.0
End of period (in percent)	2.8	3.8	2.5	9.9	-1.9
Real effective exchange rate index (1995= 100) 1)	105.0	105.0	105.4	108.0	115.3
<i>(12-month average)</i>					
2. Selected Caribbean countries					
Bahamas	1.0	2.2	1.8	2.5	4.5
Barbados	1.4	6.1	7.3	4.0	8.3
Eastern Caribbean Currency Union 2)	2.2	3.0	3.8	3.7	7.2
Jamaica	13.5	15.1	8.5	9.3	22.0
Netherlands Antilles	1.6	3.7	2.8	2.8	6.3
Trinidad & Tobago	3.7	6.9	8.3	7.9	12.1

Source: CBS Aruba; CBS Netherlands Antilles; Central Bank of the Bahamas; Central Bank of Barbados; Statistical Institute of Jamaica; Central Bank of Trinidad & Tobago; IMF.

1) Against the U.S. dollar.

2) Comprising Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent, and the Grenadines.

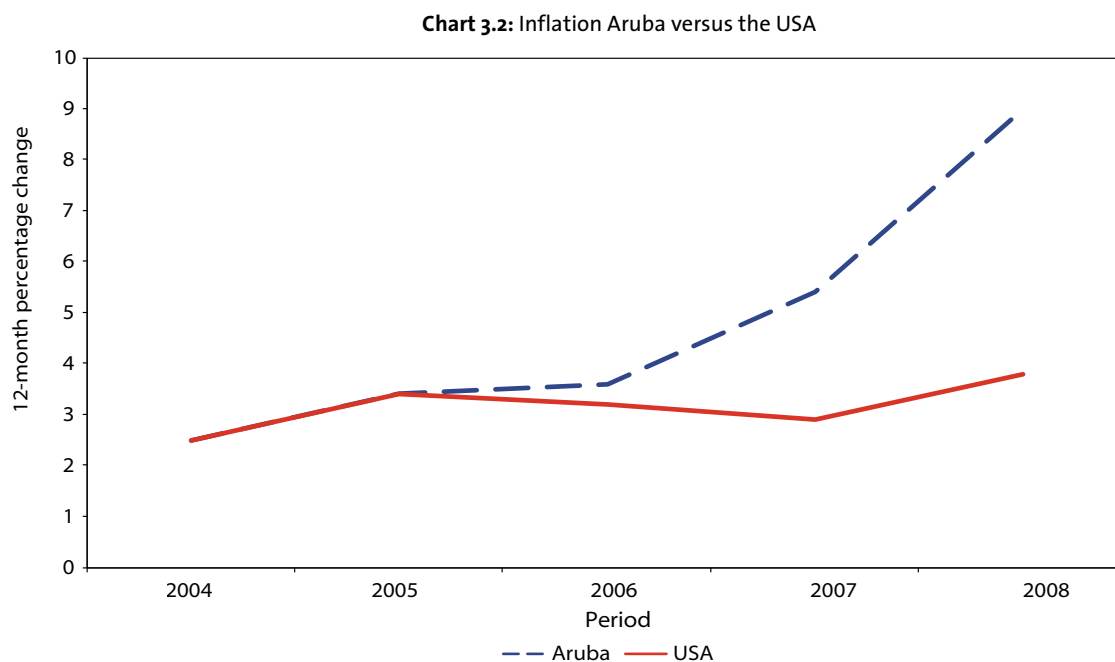


Chart 3.2: The inflation differential with the United States, Aruba's main trading partner, has been showing a widening gap since 2006, reaching a new record in 2008. This development affects Aruba's competitive position compared to other tourism-based Caribbean countries.

3.3 Financial sector

In 2008, the money supply soared by Afl. 425.1 million or 16.6 percent to Afl. 2,991.5 million (see Table 3.5). The increase in 2007 was Afl. 82 million or 3.3 percent. This expansion in 2008 occurred because of an Afl. 554.1 million net inflow of funds from abroad compared to Afl. 63 million a year earlier, reflecting primarily funds received by the government from the Dutch government and higher tourism receipts. Consequently, the net foreign assets of the monetary system (excluding revaluation differences of gold and official foreign exchange holdings) grew by Afl. 554.1 million or 77.3 percent to Afl. 1,270.7 million. The rest of the economy (excluding the oil and free-zone sectors) sold, on balance, Afl. 411 million in foreign exchange to the banking system. Furthermore, the oil and free-zone sectors sold, in the end, Afl. 143.1 million in foreign exchange to the commercial banks during 2008.

Table 3.5: Causes of changes in the money supply
(in Afl. million)

	2004	2005	2006	2007	2008
1. Net domestic money creation	51.3	201.4	1.8	19.1	-129.0
Net domestic credit	117.1	217.6	53.8	90.0	-47.4
- Public sector	21.3	22.8	-48.1	3.3	-146.1
- Private sector	95.8	194.8	101.8	86.7	98.7
Other domestic factors	-65.8	-16.2	-52.0	-70.9	-81.6
2. Inflow of foreign funds 1)	19.9	-59.8	55.8	63.0	554.1
Oil sector	69.2	110.4	229.9	95.3	141.9
Free-zone sector	9.6	13.0	8.9	5.7	1.2
Rest of economy	-59.0	-183.2	-183.1	-38.0	411.0
Current account (net)	-11.1	-360.5	-70.8	339.6	-279.5
Capital and financial account (net) 2)	31.0	300.7	126.5	-276.6	833.6
3. Broad money creation	71.1	141.6	57.5	82.0	425.1
Money	27.6	4.1	82.4	99.7	250.8
Quasi-money	43.5	137.4	-24.9	-17.7	174.3
4. Key indicators (in percent)					
12-month change in money supply	3.2	6.2	2.4	3.3	16.6
Broad money coverage 3)	28.8	24.6	26.3	27.9	42.5
Money supply to GDP	57.4	58.4	57.3	55.9	61.4
Reserve to monetary base 4)	145	142	150	155	153
Liquidity banking sector (in Afl. million) 5)	841.8	862.2	986.4	1,080.1	1,430.1
Credit growth (in Afl. million)	116.6	180.5	95.9	91.2	63.0

Source: CBA.

1) Revaluation differences of gold and official foreign exchange holdings are excluded to approximate the net import of foreign funds by the nonmonetary sectors.

2) Including items not yet classified and errors and omissions.

3) Ratio (in percentages) of net foreign assets of the monetary system to broad money.

4) Ratio (in percentages) of official reserves to the monetary base (i.e., total bank notes issued and outstanding liabilities to the banking system).

5) Total available liquid assets. Liquid assets comprises assets with a remaining maturity of less than one year, i.e., cash, demand and time deposits at the CBA and commercial banks, short-term securities, government bonds, and other marketable securities.

Net domestic assets contributed negatively to the rise in the money supply, decreasing by Afl. 129 million or 7 percent to Afl. 1,720.8 million in 2008 compared to an Afl. 19.1 million (1 percent) growth in 2007. This outcome mirrored mainly an Afl. 146.1 million fall in net domestic credit to the public sector, following an increase in government deposits at the banking system and a decline in the commercial bank holdings of government bonds. In contrast, claims on the private sector rose by Afl. 98.7 million (4 percent) in 2008, reflecting expansions in loans to enterprises, consumer credit, and housing mortgages of, respectively, Afl. 75.8 million (7.2 percent), Afl. 19.4 million (3.4 percent), and Afl. 11.4 million (1.4 percent). Aggregate commercial bank lending expanded by Afl. 63 million or 2.5 percent in 2008, remaining well below the 5 percent credit growth limit set by the CBA for 2008.

The marked monetary growth led to a 5.5 percentage point expansion in the money supply to GDP ratio to 61.4 percent in 2008, reflecting principally a 21.9 percent surge in narrowly defined money, owed mainly to an increase in deposits of private enterprises. Quasi-money increased by 12.3 percent, due largely to a rise in time deposits of the financial institutions. These movements may have been related to a growth in risk aversion associated with the global financial crisis.

Chart 3.3: Interest rates of commercial banks and on government papers

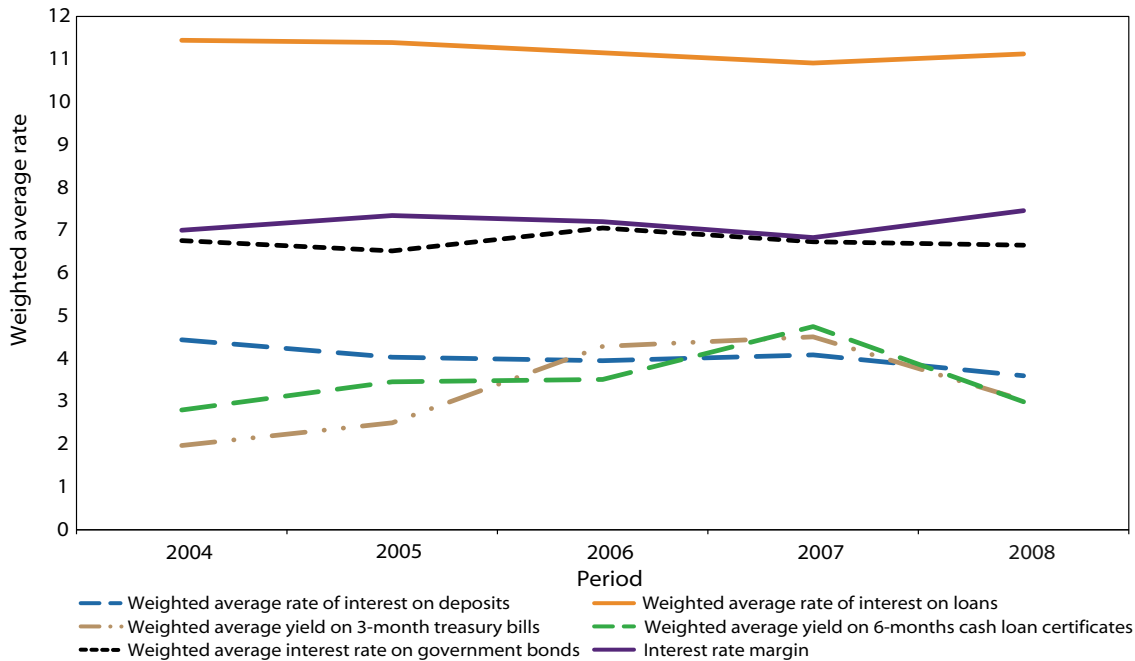


Chart 3.3: The weighted average interest rate on loans edged up slightly, while the weighted average interest rate on deposit showed a decrease in 2008. Therefore, the interest rate margin of commercial banks picked up in 2008. The weighted average yield on short-term government papers (3-month treasury bills and 6-month cash loan certificates) decreased in 2008 compared to 2007, due in part to increased liquidity. The weighted average yield on long-term government bonds was slightly lower in 2008 than in 2007.

In 2008, the assets of the nonmonetary financial institutions dropped by Afl. 172.7 million or 7 percent to Afl. 2,296.7 million, compared to 2007 (see Table 3.6). The net foreign assets of these institutions shrank by Afl. 208.2 million (26.1 percent) to Afl. 589.2 million, associated mostly with a downward movement in stock prices ensuing from the ongoing global financial crisis. In contrast, domestic claims edged up by Afl. 35.6 million (2.1 percent). The latter increase was

largely the result of a growth in housing mortgages and claims on enterprises. The housing mortgage portfolio of the nonmonetary financial institutions grew by 8.1 percent in 2008, thus increasing their share in the total housing mortgage market to 39.5 percent, up from 38 percent in 2007. On the other hand, claims on the government fell by Afl. 60.1 million (8.1 percent) following the settlement of payment arrears by the government to the APFA.

Table 3.6: Nonmonetary financial institutions 1)

(end of period, in Afl. million)

	2004	2005	2006	2007	2008
1. Net foreign assets	489.8	571.8	671.8	797.4	589.2
2. Domestic claims	1,344.7	1,439.7	1,542.6	1,671.9	1,707.5
Government	555.5	635.6	693.5	739.1	679.0
Nonfinancial public enterprises	42.8	52.4	58.0	51.9	79.5
Enterprises	181.5	235.1	238.5	286.9	308.9
Individuals	564.9	516.7	552.6	594.0	640.1
- Consumer credit	95.6	97.7	103.5	108.9	115.7
- Housing mortgages	469.3	419.0	449.5	485.1	524.4
3. Total assets = total liabilities	1,834.6	2,011.5	2,214.4	2,469.4	2,296.7
4. Borrowings and deposits	64.0	38.9	38.5	37.8	37.0
Government	36.7	36.6	36.6	36.6	36.6
Other residents	27.3	2.2	1.8	1.2	0.4
5. Pension funds provisions	1,308.8	1,495.3	1,646.7	1,795.2	1,710.2
6. Insurance reserve fund	288.4	364.8	400.0	445.7	511.1
7. Other items (net)	173.4	112.5	129.1	190.7	38.4
8. Key indicators					
Net foreign assets in percent of GDP 2)	12.3	13.7	15.5	17.4	12.1
Total assets in percent of GDP 3)	70.3	73.4	75.4	77.2	73.3
Share in total housing mortgages market	44.4	37.1	37.4	38.0	39.5

Source: CBA.

1) Comprising mortgage banks, pension funds (including the APFA), life insurance companies, finance companies, the AIB Bank N.V., the Social Security Bank (SVB), and the IBA Corporation N.V. (established in October 2003 to support the settlement of the takeover of the Interbank Aruba N.V. by Aruba Bank N.V.).

2) Ratio of net foreign assets of the nonmonetary financial institutions to nominal GDP.

3) The calculation of this ratio cannot be derived from this table because in the "other items (net)", other assets are netted out with other liabilities.

On the liability side, pension fund provisions contracted by Afl. 85 million (4.7 percent) in 2008 while the insurance reserve fund grew by Afl. 65.4 million (14.7 percent). The item "borrowings and deposits" remained virtually unchanged at Afl. 37 million. Other items (net) decreased by Afl. 152.3 million (79.9 percent) as the nonmonetary financial institutions increased their time deposit holdings in the local banking sector.

3.4 Government finance

Compared to 2007, government finance showed some improvement in 2008, recording a financial surplus (including the change in unmet financing requirements) of 3.7 percent of

GDP (see Table 3.8). This surplus was in contrast to a deficit of 2.3 percent of GDP in 2007. This positive outcome was influenced largely by a one-time receipt of funds from the Dutch government, equivalent to 4.6 percent of GDP. The government received Afl. 198.9 million (EUR 86.4 million) from the Dutch government related to the settlement of the Plant Hotel N.V. issue. In addition, the government of Aruba obtained Afl. 24.4 million in grants from the Dutch government, which were used for debt repayment. For the third consecutive year, the government registered a primary surplus even when excluding the incidental income in 2008. Furthermore, government debt to GDP ratio went down by 4.6 percentage points to 42 percent.

In 2008, the transactions of the government resulted in an Afl. 51.4 million financial surplus on a cash basis in contrast to an Afl. 71.4 million deficit in 2007 (see Table 3.7). Unmet financing requirements dropped by Afl. 130.9 million to Afl. 61.8 million in 2008, reflecting declines in payment arrears to the APFA, government institutions (including the AZV), and suppliers' credit. Consequently, an Afl. 182.3 million financial surplus, including the change in unmet financing requirements, was recorded in 2008 compared to an Afl. 104.7 million financial deficit (including the change in unmet financing requirements) in 2007.

This improvement in government finance resulted from an Afl. 331.1 million or 32 percent surge in total government revenue on a cash basis in 2008 to Afl. 1,365.1 million, following expansions in both nontax revenue and tax revenue of Afl. 236.3 million (155.7 percent) and Afl. 94.8 million (10.7 percent), respectively. The former expansion was attributed mainly to the mentioned receipt of funds from the Dutch government.

The rise in tax revenue occurred because of higher revenues from the turnover tax (BBO), the taxes on income and profit, the foreign exchange tax, taxes on services and on property. However, these increases were mitigated partly by a drop in taxes on commodities, following declines in excises on gasoline, tobacco, and beer.

Total government spending on a cash basis (including net lending) rose in 2008 by Afl. 208.1 million (18.8 percent) to Afl. 1,313.6 million in 2008 compared to 2007. This rise was due in part to the allocation of the funds received from the Dutch government. An amount of Afl. 80 million was used to reduce the payment arrears to the APFA, comprising employers' contribution, interest expenses, and items n.i.e. (i.e., cost of living allowances). Consequently, personnel-related expenditures, interest outlays, and items n.i.e. went up by, respectively, Afl. 50 million, Afl. 32.8 million, and Afl. 21.6 million. Moreover, transfers to the AZV (comprising the government's annual contribution and advances to cover the deficits of this institution) expanded by Afl. 53.1 million in 2008 following an Afl. 22.5 million rise in the budgeted government's annual contribution to this institution and the settlement of an Afl. 34 million deficit of the AZV for the year 2007. Investment outlays and purchases of goods and services contributed, respectively, Afl. 20.2 million and Afl. 28.7 million to the higher government expenditures. The realized government expenditures (including net lending) on a cash-adjusted basis (i.e., including the change in unmet financing requirements) were Afl. 43.9 million or 3.9 percent more in 2008 than in 2007.

Table 3.7: Government financial operations 1)
(in Afl. million or stated otherwise)

	2004	2005	2006	2007	2008
1. Revenue and grants	836.1	909.1	985.2	1,034.0	1,365.1
Tax revenue	707.1	779.4	850.2	882.2	977.0
Nontax revenue	128.9	129.7	135.0	151.8	388.1
- Grants 2)	31.2	28.6	32.7	34.1	275.5
- Other nontax revenue	97.7	101.0	102.3	117.7	112.7
2. Expenditures 3)	1,180.4	1,034.0	1,097.6	1,084.2	1,290.5
Personnel-related outlays 4)	566.3	505.2	542.2	530.4	580.4
Goods and services	191.1	152.9	203.1	186.9	215.6
Interest payments 5)	85.9	84.4	97.4	106.9	139.7
Investments	66.9	64.4	66.5	57.6	77.8
Transfer to the AZV	130.8	130.4	119.7	85.1	138.2
Items n.i.e., of which: 6)	139.3	96.7	68.9	117.4	139.0
- Transfers	38.7	60.4	55.4	56.9	68.4
- Subsidies	24.2	22.7	26.3	23.6	23.7
- Other	76.4	13.6	-12.8	36.9	46.9
3. Lending minus repayments	9.3	0.7	7.1	21.3	23.1
4. Financial deficit (-)	-353.6	-125.6	-119.5	-71.4	51.4
5. Net foreign capital	95.6	47.1	58.2	29.7	72.6
6. Net domestic capital 7)	236.7	55.7	109.4	38.4	22.1
7. Net recourse to the monetary sector	-21.3	-22.8	48.1	-3.3	146.1
8. Memorandum items					
Unmet financing requirements 8)	186.4	235.6	159.4	192.7	61.8
Expenditures (including net lending) on a cash-adjusted basis 9)	1,073.6	1,083.9	1,028.5	1,138.8	1,182.7
Financial deficit 10)	-237.4	-174.7	-43.3	-104.7	182.3
Total government debt, of which: 11)	1,717.1	1,904.9	2,012.2	2,136.3	2,047.2
- Domestic debt	880.8	1,048.0	1,078.4	1,154.3	1,002.1
- Foreign debt 12)	836.3	856.9	933.8	982.0	1,045.1

Source: DF; Tax Collector's Office; CBA.

- 1) Preliminary figures on a cash basis, including imputed noncash transactions, such as the transactions related to the APFA debt conversion. Includes also transactions related to foreign development cooperation.
- 2) The 2008 figure includes the receipt by the government of part of the proceeds of the sale of the shares of the Plant Hotel N.V. from the Dutch government.
- 3) In 2004, an agreement between the government and the APFA was reached on a debt conversion pertaining largely to existing arrears in premiums, cost of living allowances, and interest payments. The settlement of these arrears was recorded by the CBA as imputed expenditures in the categories personnel-related outlays, items n.i.e., and interest payments, respectively.
- 4) Excluding the imputed amount related to the APFA debt conversion (see footnote 2), the personnel-related outlays were Afl. 478.7 million in 2004.
- 5) Excluding the imputed amount related to the APFA debt conversion (see footnote 2), the interest payments were Afl. 62.2 million in 2004.
- 6) Excluding the imputed amount related to the APFA debt conversion (see footnote 2), the items n.i.e. (not included elsewhere) were Afl. 74.6 million in 2004.
- 7) Net long-term capital attracted from nonmonetary sectors mainly by issuing government bonds and private loans. The capital attraction from commercial banks is included under item 7 while that of nonresidents is included under item 5.
- 8) Comprising all reported unsettled payment obligations to other sectors irrespective of the timeframe in which they mature.
- 9) Expenditures on a cash basis, including the allocation of changes in unmet financing requirements.
- 10) Including the change in unmet financing requirements.
- 11) Preliminary (end-of-period) figures, excluding government guarantees.
- 12) At year-end exchange rates.

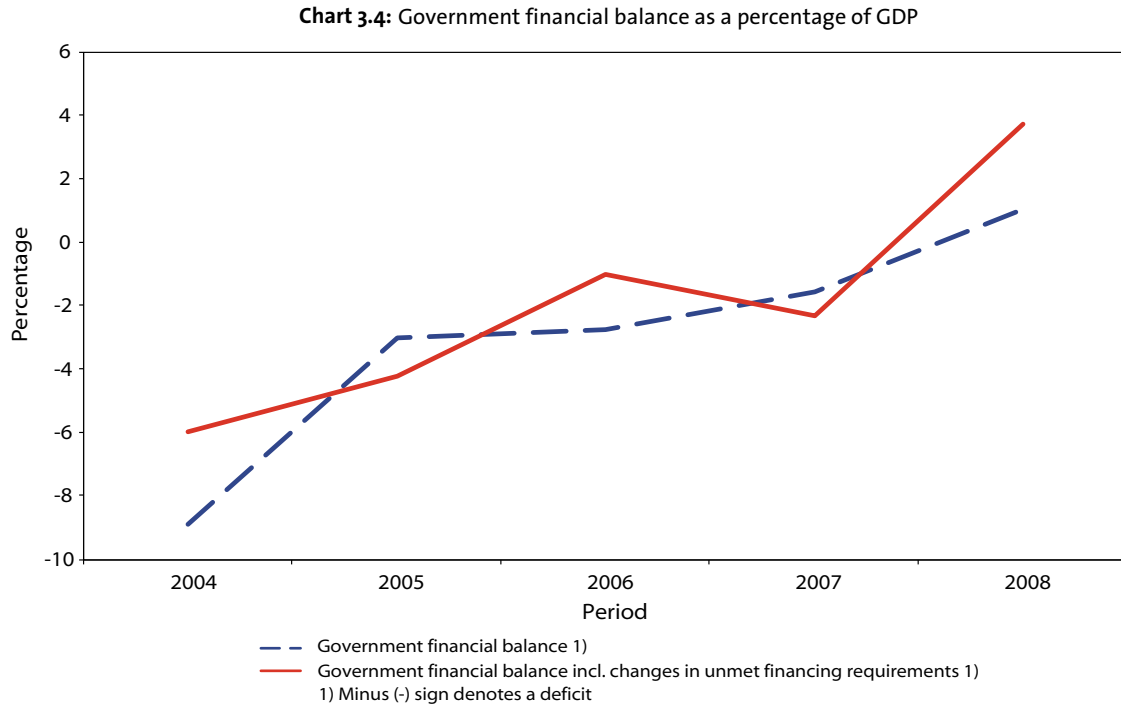


Chart 3.4: The government financial balance has shown continued improvement since 2004, as measured as a percentage of the GDP. The financial balance including change in unmet financing requirements improved in 2008.

Total financing needs of the government excluding the transactions financed by the funds related to the Plant Hotel N.V. settlement (included in government revenue and expenditures) and the amount for debt repayment received from the Dutch government, amounted to Afl. 182.1 million in 2008, up from Afl. 153.1 million in 2007. To cover these financing needs, the government issued bonds on the local market of, respectively, Afl. 33.9 million (March 2008) and Afl. 50 million (May 2008) and on the international capital market of Afl. 102.6 million (US\$ 57.3 million) (September 2008). On balance, bank deposits of the government (including the FDA) rose by Afl. 101.4 million at end-2008 to Afl. 296.9 million, due largely to the funds received from the Plant Hotel N.V. settlement.

Box 3.2: Government finance on a cash-adjusted basis

The analysis of government finance presented in section 3.4 of this Annual Report is based mainly on government finance statistics prepared on a cash basis. These statistics have one important disadvantage, i.e., expenses are recorded when they are actually paid, which is not necessarily the same as when they are incurred. Consequently, expenditures on a cash basis are influenced in part by the liquidity constraints of the government and, therefore, do not reflect the entire picture of government finances.

To mitigate this disadvantage, the CBA also publishes the government financial balance including the change in unmet financing requirements. These unmet financing requirements are reported payment obligations by the government of Aruba to other sectors, namely, the APFA, the AZV, other government institutions, and other suppliers of goods and services. In the table below, the government expenditures on a cash basis are transformed into expenditures on a cash-adjusted basis by allocating the change in unmet financing requirements to their respective expenditure components. The data on revenue and grants are the same as in section 3.4.

Table: Government financial operations on a cash-adjusted basis
(in Afl. million)

	2004	2005	2006	2007	2008
1. Revenue and grants	836.1	909.1	985.2	1,034.0	1,365.1
2. Expenditures	1,064.1	1,083.2	1,021.4	1,117.5	1,159.6
- Personnel-related expenses	512.5	515.5	533.8	527.0	542.2
- Goods and services	226.7	181.3	158.5	181.8	189.9
- Interest expenses	64.7	90.6	103.9	113.2	114.9
- Investments	66.9	64.4	66.5	57.6	77.8
- Transfer to the AZV	105.5	135.6	85.8	115.3	125.2
- Items n.i.e.	87.8	95.8	73.2	122.7	109.7
3. Lending minus repayments	9.3	0.7	7.1	21.3	23.1
4. Financial deficit (-)	-237.4	-174.7	-43.3	-104.7	182.3

Source: DF; Tax Collector's Office; CBA.

In 2008, government expenditures on a cash-adjusted basis (including net lending) rose by Afl. 43.9 million or 3.9 percent following expansions in all expenditure categories with the exception of "items n.i.e.". The three major contributors to the increase in government expenditures were expenses on goods and services (+14.9 percent), investments (+35.1 percent), and personnel-related expenses (+2.9 percent). Personnel-related expenses grew in part because of the indexation of the salaries of the civil servants.

Compared to 2007, personnel-related expenses went up by 2.9 percent in 2008, remaining just below the 3 percent limit recommended by the NCPF. However, expenditures on goods and services rose by 4.5 percent, more than double the 2 percent limit of the NCPF. In 2008, investments were equal to 1.6 percent of nominal GDP, thereby remaining below the recommended minimum of 2 percent by the NCPF.

The earlier mentioned transactions led to an Afl. 182.3 million financial surplus in 2008 in contrast to an Afl. 104.7 million deficit in 2007. This improvement occurred because of the increase in government revenues. However, this outcome was due largely to the incidental receipt of Afl. 223.3 million from the Dutch government, comprising part of the proceeds of the sale of the shares of Plant Hotel N.V. (Afl. 198.9 million) and also money earmarked for debt repayment (Afl. 24.4 million). When this incidental Afl. 223.3 million receipt is excluded, the government recorded an Afl. 41 million (0.8 percent of GDP) financial deficit in 2008.

Table 3.8: Additional key indicators of government financial operations

	2004	2005	2006	2007	2008
Financial balance (including change in unmet financing requirements) in percent of GDP 1)	-6.0	-4.2	-1.0	-2.3	3.7
Revenue and grants in percent of GDP	21.0	21.9	22.7	22.5	28.0
Expenditures (including net lending, on a cash-adjusted basis) in percent of GDP	27.0	26.1	23.7	24.8	24.3
Primary balance (including change in unmet financing requirements) in percent of GDP 1)	-4.3	-2.0	1.4	0.2	6.1
Interest payments in percent of GDP	2.2	2.0	2.2	2.3	2.9
Total debt in percent of GDP	43.1	45.8	46.4	46.6	42.0
Foreign debt in percent of exports 2)	35.9	35.3	37.4	34.8	33.0
Debt service in percent of exports 3)	2.9	11.0	3.8	4.5	5.1
Difference between actual and budgeted revenues and grants to the budget (in Afl. million) 4)	n.a.	n.a.	-39.9	-47.9	201.1
Difference between actual and budgeted expenditures on a cash-adjusted basis compared to the budget (in Afl. million) 4)	n.a.	n.a.	-72.1	-13.4	-31.2

Source: DF; Tax Collector's Office; CBA.

- 1) Minus (-) sign denotes a deficit.
- 2) Exports of goods and services, excluding the oil sector.
- 3) Related to foreign debt. Exports of goods and services of the oil sector are excluded.
- 4) Actual figures minus budgeted figures.

The outstanding public debt shrank by Afl. 89.1 million or 4.2 percent to Afl. 2,047.2 million in 2008, a level equal to 42 percent of nominal GDP (see Tables 3.7 and 3.8). This contraction stemmed from an Afl. 152.2 million (13.2 percent) drop in domestic debt, which was offset in part by an Afl. 63.1 million (6.4 percent) growth in foreign debt. The fall in domestic debt was due to the mentioned decline in unmet financing requirements. The growth in foreign debt was associated mainly with the earlier mentioned government bond issue on the international capital market.

3.5 Balance of payments

Overall outcome

The current account of the balance of payments posted an Afl. 279.5 million deficit in 2008, in contrast to an Afl. 339.6 million surplus in 2007, due largely to the current account transactions of the oil sector in 2008 (see Table 3.9). The capital and financial account balance (including items not yet classified) moved from an Afl. 276.6 million deficit in 2007 to an Afl. 833.6 million surplus in 2008. The surplus was caused mainly by a turnaround in the capital and financial account balance of the oil sector. In addition, the 2007 surplus recorded on the capital and financial account of the rest of the economy more than doubled in 2008. As a result, the balance of payments registered an Afl. 554.1 million overall surplus in 2008 compared to Afl. 63 million in 2007.

Table 3.9: Balance of payments by sectors 1)
(in Afl. million)

	2004	2005	2006	2007	2008
1. Current account (net)	-11.1	-360.5	-70.8	339.6	-279.5
Oil sector	251.1	0.1	562.1	620.1	-108.4
Free-zone sector	12.0	3.5	15.4	4.7	-8.6
Rest of economy	-274.2	-364.2	-648.3	-285.2	-162.5
- Goods	-1,243.2	-1,333.7	-1,414.6	-1,400.8	-1,480.2
- Services	1,246.0	1,284.2	1,139.4	1,439.3	1,642.4
- Income	-136.3	-157.5	-211.3	-181.4	-188.2
- Current transfers	-140.8	-157.1	-161.8	-142.2	-136.5
2. Capital and financial account (net)	19.8	288.2	127.2	-302.3	851.9
Oil sector	-181.9	110.3	-332.2	-524.9	250.2
Free-zone sector	-2.4	9.4	-6.5	1.1	9.8
Rest of economy	204.0	168.5	465.9	221.5	591.9
- Capital account transactions	30.3	33.3	37.8	33.1	287.1
- Direct investment	215.3	228.9	540.4	293.3	317.8
- Portfolio investment	59.8	-13.1	-78.5	78.2	112.3
- Financial derivatives	-2.5	2.7	-4.8	1.8	-17.9
- Other investment	-98.9	-83.3	-29.0	-184.8	-107.4
- Loans	-58.9	-57.9	-79.6	-71.8	-63.1
- Other financial transactions	-40.0	-25.4	50.6	-113.0	-44.3
3. Items not yet classified 2)	11.2	12.5	-0.7	25.7	-18.3
4. Overall balance (= 1 + 2 + 3)	19.9	-59.8	55.8	63.0	554.1
5. Total reserves of the monetary sector 3) of which: official reserves	722.9 614.4	677.1 588.6	759.5 713.9	859.2 828.0	1,429.3 1,247.3
6. Import coverage in months of merchandise imports 4)					
- End-of-period	5.5	4.7	5.1	5.7	9.5
- 12 month average	6.2	5.5	5.2	5.9	7.2
7. Import coverage in months of current account payments 5)					
- End-of-period	2.9	2.5	2.5	2.7	4.8
- 12 month average	3.3	2.9	2.7	2.9	3.6

Source: CBA.

- 1) On a cash basis.
- 2) Including errors and omissions.
- 3) Including net foreign assets of the commercial banks and revaluation differences of gold and foreign exchange holdings.
- 4) Coverage of merchandise imports by total reserves of the monetary system. Imports of the oil sector are excluded.
- 5) Coverage of total payments for merchandise imports, services, income, and current transfers (excluding the oil sector) by total reserves of the monetary system.

Consequently, net international reserves of the monetary system (including revaluation differences of gold and foreign exchange holdings) rose to Afl. 1,429.3 million at the end of 2008, up from Afl. 859.2 million in 2007. The 12-month merchandise import coverage ratio increased for the second consecutive year from 5.9 months in 2007 to 7.2 months in 2008, while the 12-month average coverage ratio of all current account payments grew to 3.6 months in 2008, up from 2.9 months in 2007. In 2008, the official reserves of the CBA, including revaluation differences of gold and foreign exchange holdings, went up by Afl. 419.3 million

or 50.6 percent to Afl. 1,247.3 million, compared to 2007, due in part to funds received from the Dutch government related to the settlement of the Plant Hotel N.V. issue. The remainder of the monetary sector's net foreign assets held by the commercial banks went up by Afl. 150.8 million or 483.3 percent to Afl. 182 million in 2008, following three consecutive years of decline.

Oil sector

In 2008, the current account of the oil sector registered an Afl. 108.4 million deficit against an Afl. 620.1 million surplus in 2007. This outcome was caused largely by an Afl. 516.1 million (46.9 percent) fall in the surplus on the sector's merchandise account. The latter drop was attributed mostly to an Afl. 2,302.9 million (64.3 percent) increase in import payments for crude oil and other goods, which was mitigated in part by an Afl. 1,786.8 million (38.1 percent) rise in export receipts from refined oil products and goods procured in ports. Foreign payments for import-related freight and insurance services expanded in 2008, resulting in increases in the deficits on the services account and the current transfers account of, respectively, Afl. 186.8 million and Afl. 25.6 million.

The capital and financial account balance of the oil sector posted an Afl. 250.2 million surplus in 2008, following a net inflow in the other investments account stemming from a decline of its foreign bank accounts balances. This surplus was used in part to cover the mentioned current account deficit of this sector. The remaining Afl. 141.9 million was sold to the local commercial banks.

Free-zone sector

The external transactions of free-zone companies resulted in an Afl. 1.2 million overall surplus in 2008, down from Afl. 5.7 million in 2007. This outcome was the result of an Afl. 9.8 million surplus on the capital and financial account balance, which was offset largely by an Afl. 8.6 million current account deficit. On balance, the free-zone sector sold Afl. 1.2 million in foreign exchange to the local commercial banks.

Rest of the economy

In 2008, the current account deficit of the rest of the economy narrowed for the second consecutive year from Afl. 285.2 million in 2007 to Afl. 162.5 million in 2008 (equivalent to 3.3 percent of GDP). This improvement was brought about mainly by an Afl. 203.1 million increase in the services account surplus, reflecting largely a 12.8 percent expansion in tourism receipts. The deficit on the current transfers accounts shrank by Afl. 5.7 million to Afl. 136.5 million due to higher current transfers received by both the government and other sectors, which were offset in part by an increase in workers' remittances sent abroad. In contrast, the income account deficit widened by Afl. 6.8 million to Afl. 188.2 million, reflecting lower interest and dividend receipts from abroad, mitigated partly by lower dividend and interest payments to abroad. The merchandise trade account deficit rose by Afl. 79.4 million to Afl. 1,480.2 million in 2008 because of higher merchandise import payments.

Box 3.3: Plant Hotel N.V.

In the early 1990s, several hotels under construction were confronted with financial problems. This was also the case with the Plant Hotel N.V. Its original project developer was not able to finalize this hotel in 1993. Therefore, the government of Aruba requested the Dutch government for a US\$ 45 million guarantee to finish the project. As a precondition to obtain this guarantee, the Dutch government secured the assignment of the shares to the “Nederlandse Participatie Maatschappij voor de Nederlandse Antillen N.V.” (NPMNA), which managed the majority of the shares of the hotel (92 percent) on behalf of the Dutch government. In November 2006, these shares were sold for US\$ 237 million to Caribbean Real Estate Opportunity Fund 2005 L.P., a Caribbean real estate investor.

On September 29, 2008, the governments of Aruba and the Netherlands signed a Memorandum of Understanding on the distribution of the proceeds of the sale of the shares of the Plant Hotel N.V. Under the agreement, the Dutch government would make EUR 87.5 million from these proceeds available to Aruba. Additionally, Aruba would receive the reserved debt restructuring resources for 2008 and 2009, totaling EUR 21.3 million. Total proceeds, therefore, would amount to EUR 108.8 million. After deducting Aruba’s payment arrears with the Netherlands (EUR 10.6 million), the remainder was made available in December 2008 (EUR 86.4 million) and in January 2009 (EUR 11.8 million) on a special account at the CBA. The payment arrears with the Netherlands were related to Aruba’s contributions to the Solidarity Fund (Afl. 6.3 million) and the Coast Guard (Afl. 18.1 million).

In the Memorandum of Understanding on the proceeds of the sale, Aruba agreed to use the resources for investment and debt restructuring and to report on a semi-annual basis to the Council of Ministers of the Kingdom on the spending of the funds.

A large portion of the receipts has already been used to eliminate the payment arrears with the APFA (Afl. 80 million) and to pay out a long-standing loan commitment in a project in the hotel sector (Afl. 20.8 million). Additionally, Afl. 18 million has been earmarked for tourism repositioning. The remainder of the funds was earmarked for debt repayment and investment purposes.

Source: Budgets, Dutch Ministry of the Interior and Kingdom Relations; Memorandum of Understanding; Letter of January 13, 2009, of the Prime Minister of Aruba to the President of the Parliament of Aruba.

The surplus on the capital and financial account of this sector widened to Afl. 591.9 million in 2008, up from Afl. 221.5 million in 2007, reflecting largely an Afl. 254 million increase in the capital account balance following aforementioned funds received from the Dutch government. Moreover, the deficit on the other investment account contracted by Afl. 77.4 million to Afl. 107.4 million, predominantly because of decreases in the deposits on foreign accounts held by various resident enterprises in 2008 compared to 2007. In addition, the portfolio investment account recorded an Afl. 112.3 million surplus in 2008, up from Afl. 78.2 million in 2007, due mainly to lower net purchases of foreign equity securities in 2008 compared to 2007. The surplus on the direct investment account grew by Afl. 24.5 million, owing largely to the net inflow of equity capital for direct investment in Aruba, which was mitigated in part by a decline in timeshare sales to nonresidents.

Chart 3.5: Current account balance as a percentage of GDP

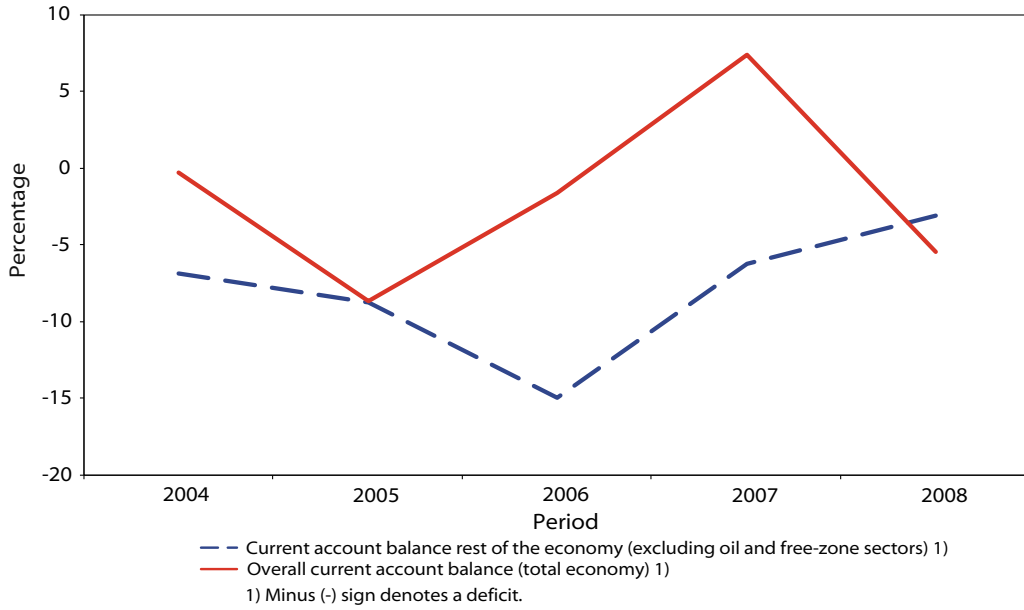


Chart 3.5: The overall current account balance showed a notable deterioration in 2008 (from +7.4 percent of GDP in 2007 to -5.7 percent of GDP in 2008). The current account balance of the rest of the economy (i.e., excluding the oil and free-zone sectors) continued to show deficits, albeit with an improvement in 2008 for the second consecutive year.

PRUDENTIAL SUPERVISION OF FINANCIAL INSTITUTIONS

4.1 Introduction

The CBA is entrusted with the prudential supervision of the banking and insurance sectors, company pension funds, and money transfer companies on the basis of, respectively, the SOSCS, the SOSIB, the State Ordinance on Company Pension Funds (SOCPF), and the SOSMTC. Also as of February 5, 2009, the CBA is entrusted with the supervision of trust service providers on the basis of the SOSTSP. In addition, the CBA is responsible for overseeing compliance with the stipulations of the State Ordinance on the Identification when Providing Services (AB 1995, No. 86) (SOIPS), insofar as it concerns the financial institutions under its supervision.

Prudential supervision aims to prevent financial institutions from taking risks that could harm the interests of depositors, policyholders, and other creditors and could endanger the soundness, stability, and integrity of the financial system. To that end, the CBA conducts continuous off-site surveillance as well as regular risk-based on-site examinations. Furthermore, bilateral meetings are held periodically with the institutions concerned and with their representative organizations.

The regular on-site examinations assess key risk areas, including financial position, administrative organization and internal controls, asset quality, corporate governance, information technology, and anti-money laundering and terrorist financing procedures. In 2008, thirteen targeted on-site examinations were conducted: seven at commercial banks, two at insurance companies, and four at money transfer companies. Based upon the findings, some of the institutions examined were required to take corrective action.

4.2 Major policy issues and developments

4.2.1 International financial crisis

To date, the impact of the international financial crisis on the Aruban financial sector has been limited, mainly because banks and insurance companies, as well as company pension funds to a lesser degree, have limited exposure outside Aruba. The so-called 40-60 percent investment rule enforced by the CBA limits the amounts that institutional investors are allowed to invest abroad. Notwithstanding this fact, the coverage ratios of three supervised company pension funds decreased below the minimum of 100 percent as a result of the turbulence in the international financial markets. These pension funds are required to submit recovery plans to the CBA that contain detailed information on the measures they will take to address the shortfall.

Furthermore, the APFA, which is to be brought under CBA's supervision upon the revocation of the Pension Ordinance Civil Servants, has incurred substantial (unrealized) losses on its foreign investment portfolio as a result of the international financial crisis. Besides, the defined benefit

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pension scheme for civil servants who joined the APFA before May 2005 is unsustainable and has negatively affected the financial position of the APFA. In early 2009, a tripartite committee consisting of representatives of the APFA, the DF, and the CBA was formed to advise the Minister of Finance and Economic Affairs on the policy actions required to restore APFA's financial health, including the reform of the mentioned defined benefit pension scheme.

4.2.2 IMF financial sector assessment of Aruba

In May 2008, an IMF mission conducted a follow-up assessment of Aruba's adherence to the revised BCP and a factual update of the ICP assessment. Its findings are presented in two reports titled "Assessment of Financial Sector Supervision and Regulation" and "Detailed Assessment of Compliance with the Basel Core Principles for Effective Banking Supervision", both issued in September 2008. These reports are available on the websites of the IMF and the CBA.

The IMF mission found that Aruba was compliant or largely compliant with 26 principles, materially noncompliant with two principles (the risk management process and interest rate risk), and noncompliant with one principle (market risk). The factual update of the ICP found that Aruba had implemented several recommendations of the 2002 OFC assessment.

Box 4.1: Main findings of the assessment of financial sector supervision and regulation

The main findings are as follows:

- The authorities have implemented, or are in the process of implementing, most of the recommendations of the 2002 OFC assessment. The BCP assessment found notable improvement in compliance compared to the 2002 assessment.
- The CBA needs to upgrade its supervisory capacity in view of its expanding supervisory mandate. Reporting and information systems for offsite monitoring and early warning should be enhanced, and onsite supervision should be risk-focused.
- The prudential risks associated with the planned elimination of the credit ceiling will need to be managed. Risk assessment and management systems should be upgraded prior to liberalization.
- The two offshore banks operating in Aruba have many of the characteristics of shell banks, and have not been subject to on-site inspection, while posing a potential reputation and financial risk for Aruba. The offshore banks should be subject to the same supervisory review as onshore banks, and the planned on-site inspections by external auditors using the CBA supervisory guidance is welcomed. The CBA also should follow up with the management of these banks with regard to their strategies and business plans to understand the risks that these banks pose to Aruba.

Source: IMF, Assessment of Financial Sector Supervision and Regulation, September 2008.

As a follow-up to recommendations made by the IMF, the CBA began in the second half of 2008 to design a stress-testing model for the domestic banking sector, with the assistance of an IMF expert. In early 2009, a first stress test exercise was conducted using 2007 figures. The

CBA will soon conduct a stress test exercise using 2008 figures to evaluate the resilience of the domestic banking sector under different scenarios. The CBA intends to conduct stress tests annually, as advocated by the IMF.

4.2.3 FATF evaluation of Aruba

In November 2008, an FATF mission carried out a mutual evaluation of Aruba's compliance with the 40+9 FATF Recommendations. Based upon the preliminary discussions with the FATF mission, it can be concluded that, despite the progress made over the years, the Aruban AML/CFT framework needs further strengthening to fully meet the 40+9 FATF recommendations. The FATF mission will present its findings to the FATF plenary in October 2009.

4.2.4 Legislative framework

On February 5, 2009, the SOSTSP became effective. The CBA is entrusted with the execution of this new ordinance, which is focused mainly on maintaining the integrity of the trust service providers' sector. In accordance with section 2, paragraph 1 of the SOSTSP, conducting the business of a trust service provider in or from Aruba without a license from the CBA is prohibited. The main licensing conditions are that the shareholders and management of the trust service provider be fit and proper, that the trust service provider has sound know-your-customer policies in place aimed at preventing money laundering and terrorist financing, and that it has systems, procedures, and controls in place enabling it to continuously comply with the stipulations of the laws and regulations governing this sector. According to section 33 of the SOSTSP, trust service providers registered at the Chamber of Commerce of Aruba before this ordinance came into effect have a period of one year to obtain a license from the CBA if they want to continue to offer the trust services mentioned in section 1 of the SOSTSP after February 5, 2010.

Also as of February 5, 2009, the SOSCS, the SOSIB, and the SOSMTC were amended. The major changes with regard to these ordinances are the inclusion of new articles in all three ordinances giving the CBA the explicit authority to issue directives in the area of AML/CFT and to oppose the appointment of an external auditor. Furthermore, the possibility of imposing administrative sanctions also has been extended to the SOSCS and the SOSIB.

Notwithstanding these improvements in the legislative framework, further work is needed to extend the scope of CBA's supervision to other sectors. To protect both domestic and foreign investors, laws regulating (electronic) stock exchanges as well as collective investment schemes and investment advisors, should be introduced. A proposal prepared by the CBA on the supervision of (electronic) stock exchanges already has been approved by the Minister of Finance and Economic Affairs and is now in the legislative process. Furthermore, before the end of 2009, the CBA intends to draft a proposal regulating collective investment schemes and investment advisors.

4.2.5 Revised policy rule for admission and licensing of banks

With a view to enhancing the soundness of the banking sector, the CBA has further strengthened its policy rule on the admission of credit institutions operating in or from Aruba as of January 2009. One of the main changes vis-à-vis the previous policy rule is that only financial institutions with solid financial strength and reputation and subject to comprehensive consolidated supervision are allowed to have a major shareholding in a credit institution established in Aruba. A major shareholder is defined as a shareholder that has either a majority of the shares outstanding or a portion of the shares deemed by the CBA as significant enough to allow him to exert a material influence over the institution's decisions and decision-making bodies.

4.3 Changes in the registers of supervised institutions and changes in shareholding

4.3.1 Banking sector

By court ruling of November 29, 2007, the CBA's decision of May 12, 2006, to revoke the license of Cooperativa di Ahorro y Prestamo Aruba, based upon section 11 of the SOSCS, became irrevocable. Subsequently, on February 17, 2008, this entity was removed from the list of registered credit institutions.

In compliance with its revised policy rule issued in August 2006 regarding the admission and licensing of banks, by letter of October 31, 2008, the CBA transferred the banking license of May 15, 1998, from Banco di Caribe N.V. (Aruba branch) to Banco di Caribe (Aruba) N.V.

4.3.2 Insurance sector

On March 27, 2008, the CBA granted the New Treston Insurance Company N.V. a license to conduct nonlife insurance business in all five indemnity lines.

On May 6, 2008, the CBA gave permission to the HDI-Gerling Verzekeringen N.V. to transfer the rights and obligations from its Aruban nonlife insurance portfolio to the New Treston Insurance Company N.V.

On June 11, 2008, the CBA revoked the license of the Industrial Alliance Insurance and Financial Services Inc. to conduct life insurance business via its agency in Aruba, following the sale of its life insurance portfolio to the Sagicor Capital Life Insurance Company Limited (Aruba Branch) in 2007.

In compliance with its revised policy rule regarding the admission and licensing of insurance companies issued in August 2006, the CBA transferred the following licenses in 2008:

- On April 28, 2008, the license of the United Insurance Company Ltd. (established in Barbados) issued on February 15, 2002, to conduct nonlife insurance business in all indemnity lines was transferred to the United Insurance Company N.V. (established in Aruba).
- On May 21, 2008, the license of the Netherlands Antilles & Aruba Assurance Company (NA&A) N.V. (established in Curaçao) issued on June 6, 2002, to conduct nonlife insurance business in all indemnity lines was transferred to the Netherlands Antilles & Aruba Assurance Company (NA&A) N.V. (established in Aruba).
- On May 26, 2008, the license of the Sagicor Capital Life Insurance Company Ltd. (established in Barbados) issued on June 27, 2002, to conduct life insurance business was transferred to the Sagicor Life Aruba N.V. (established in Aruba).
- On May 26, 2008, the license of the British-American Insurance Company Ltd. (established in the Bahamas) issued on June 12, 2002, to conduct life insurance business was transferred to the British-American Insurance Company (Aruba) N.V. (established in Aruba).
- On July 1, 2008, the license of the Fatum Life N.V. (established in Curaçao) issued on November 29, 2002, to conduct life insurance business was transferred to the Fatum Life Aruba N.V. (established in Aruba).
- On July 1, 2008, the license of the Fatum General Insurance N.V. (established in Curaçao) issued on November 29, 2002, to conduct nonlife insurance business in all indemnity lines was transferred to the Fatum General Insurance Aruba N.V. (established in Aruba).
- On September 10, 2008, the license of the National General Insurance Corporation N.V. (established in St. Maarten) issued on March 30, 2004, to conduct nonlife insurance business in all indemnity lines was transferred to the Nagico Aruba N.V. (established in Aruba).
- On November 28, 2008, the license of the Ennia Caribe Schade N.V. (established in Curaçao) issued on May 30, 2002, to conduct nonlife insurance business in all indemnity lines was transferred to the Ennia Caribe Schade (Aruba) N.V. (established in Aruba).
- On December 19, 2008, the license of the Ennia Caribe Leven N.V. (established in Curaçao) issued on May 30, 2002, to conduct life insurance business was transferred to the Ennia Caribe Leven (Aruba) N.V. (established in Aruba).

The number of supervised nonlife and life insurance companies and company pension funds remained unchanged at 35 in 2008.

4.4 Integrity of the financial system

As part of the Kingdom of the Netherlands, Aruba is a member of the FATF, the internationally recognized standard-setter for anti-money laundering and combating terrorist financing. The government of Aruba has committed itself to implement the 40+9 FATF recommendations and, thus, to bring Aruba's AML/CFT framework in line with the FATF standards. Over the years, these standards have been revised and expanded. Therefore, ongoing review of the legislative framework and practices in these areas vis-à-vis the FATF standards is necessary. The outcome of the FATF assessment conducted in November 2008 will provide additional guidance to the Aruban authorities in further strengthening of the AML/CFT framework.

At present, banks, life insurance companies, money transfer companies, free-zone companies, casinos, and the post office are required to report unusual transactions to the RCUT. As of February 5, 2009, the unusual reporting obligations have been extended to other service providers, including trust offices, accountants, lawyers, and notaries, as well as traders in high value products (e.g., car dealers, real estate brokers, and jewelers).

In December 2005, the CBA also entered into a MoU with the RCUT to exchange general information on AML/CFT issues. The RCUT is responsible for overseeing compliance with the unusual transactions reporting ordinance and (together with the CBA insofar as it concerns the supervised financial institutions) the ordinance on the identification when providing services. Meetings with the RCUT, held at least twice a year, are useful to signal trends and to discuss general findings with respect to the examinations conducted in this area by both the RCUT and the CBA.

The CBA conducts regular AML/CFT examinations at the supervised institutions to review compliance with its AML/CFT directives and the identification ordinance. In 2008, the CBA carried out targeted examinations in the area of AML/CFT at four commercial banks and four money transfer companies. In addition to those targeted examinations, reviews were performed in this area at two insurance companies as part of the full-scope on-site examinations at these companies. In most cases, the institutions examined were required to take corrective action, including but not limited to the strengthening of their internal AML/CFT controls.

4.5 International supervisory forums and cross-border cooperation

The CBA actively monitors global developments in the supervisory arena, inter alia, by attending meetings of regional and international supervisory groups of which it is a member or an observer, and by participating in seminars and courses.

In July 2008, a trilateral MoU was signed between the three central banks within the Dutch Kingdom. The three parties agreed to develop activities throughout the full range of their organizational structures and duties in a framework for mutual cooperation that includes, but

is not limited to, the exchange of information, mutual assistance, and provision of technical assistance.

Since many years already, the CBA also has MoUs in place with the Central Bank of the Netherlands Antilles for the exchange of information on banks and insurers for which it acts as the home country supervisor and the CBA is the host country supervisor. Most banks and insurers in Aruba are subsidiaries or branches of Netherlands Antillean banks and insurers. The CBA is also party to a Multilateral Memorandum of Understanding (MMoU) on cross-border cooperation and information exchange between several supervisory authorities within the Caribbean region.

In January 2008, the CBA attended the planning meeting of the Caribbean Group of Banking Supervisors (CGBS) held in Barbados. At this meeting, the topics were determined for the XXVI Annual Conference of the CGBS under the theme “Exploring New frontiers in Regional Financial Sector Supervision”. The annual conference of the CGBS provides a regional forum where senior regulators explore the implications of developments in regional and international markets, seek to strengthen cooperative efforts to implement international best practices, and share experiences on regulatory developments within their respective jurisdictions while proactively strategizing on future priorities.

In September 2008, the CBA attended the XV International Conference of Banking Supervisors (ICBS) held in Belgium. The ICBS was designed by the Basel Committee to promote international cooperation between banking supervisors. During this meeting, in the context of the international financial crisis, the Basel Committee report containing revised principles for sound liquidity risk management and supervision was endorsed. The revised principles underscore the importance of establishing a robust liquidity risk management framework that is well integrated into the bank-wide risk management processes. In 2009, the CBA will issue new guidelines on liquidity risk management based upon these revised Basel principles.

4.6 Sectoral developments

The main financial developments in the various sectors under the CBA's supervision are discussed in this section. A more extensive article on this topic can be found in the CBA's bulletin of the fourth quarter of 2008.

4.6.1 Banking sector

Commercial banks

The aggregated balance sheet total of the four commercial banks increased by Afl. 454.4 million or 12.2 percent to Afl. 4,187.5 million at the end of 2008, equivalent to 86.3 percent of the estimated GDP for 2008. On the asset side, cash and due from banks grew by Afl. 386.4

million or 40.3 percent, resulting from an Afl. 205.7 million increase in time deposits held at the CBA. Loans outstanding grew by Afl. 108.8 million or 4.5 percent largely related to increases in loans to commercial entities and individuals of Afl. 67.7 million (6.6 percent) and Afl. 41.3 million (3 percent), respectively. On the other hand, investments fell by Afl. 51.2 million (30.7 percent) in 2008 compared to 2007. This decrease was mainly the result of a decline in government bond holdings.

On the liability side, deposits rose by Afl. 384.6 million (12.3 percent), while other liabilities fell by Afl. 28 million (14.5 percent). The increase in deposits was caused mainly by an expansion of Afl. 301.8 million (26.3 percent) in demand deposits. Capital and reserves increased by Afl. 97.8 million (23.4 percent), primarily the result of additions from net income to the general reserves and increases in paid-in capital.

The various macroprudential indicators in Table 4.1 show that the commercial banking sector is sound and profitable. The banks' aggregated risk-weighted capital asset ratio went up from 13 percent to 14.8 percent, well above the required minimum of 12 percent. The nonperforming loans (net of allocated loan loss provision), which consist of all loans past-due for more than 90 days, grew from 4 percent to 4.1 percent of gross loans. The loans to deposits ratio decreased by 5.1 percentage points to 69.6 percent at the end of 2008, significantly below the prudential maximum of 80 percent. The banks' aggregated prudential liquidity ratio rose by 5.4 percentage points to 34.7 percent, far above the required minimum of 20 percent.

The commercial banks are required to hold a 9.5 percent non-interest-bearing monetary cash reserve as well as sufficient funds for clearing purposes with the CBA. The monetary cash reserve is included in the calculation of the prudential liquidity ratio. It should be mentioned that as of July 1, 2009, as a first step towards the use of more market-oriented instruments of monetary policy, the monetary cash reserve requirement will be eliminated. Simultaneously, a reserve requirement will be introduced. The calculation of the reserve requirement will differ slightly from that of the monetary cash reserve requirement, namely that: (1) the reserve requirement will be computed as a percentage (initially 9.5 percent) of the short-term liabilities (less than 2 years), (2) the interbank deposits will be excluded from the calculation to foster interbank lending, and (3) the reserve requirement will not be included in the calculation of the prudential liquidity ratio.

Net income (before taxes) fell by Afl. 21.5 million or 14.8 percent to Afl. 124 million in 2008, mainly the result of declines in the net interest margin and operating income of Afl. 5.1 million and Afl. 10.1 million, respectively. Subsequently, in 2008, return on assets (after taxes) and return on equity (after taxes) decreased by 0.8 percentage points and 13.3 percentage points, respectively (see Table 4.1). The net interest margin to gross income ratio went up by 1.6 percentage points to 62.1 percent at the end of 2008, due mostly to a larger decrease in gross income compared to the decrease in net interest margin. The noninterest expenses to gross income ratio rose by 4.9 percentage points to 70.6 percent, associated largely with a fall in gross income.

As a result of the oligopolistic market structure as well as the small scale of the domestic banking sector, interest rates in Aruba are relatively high compared to those in the advanced economies. The weighted average interest rate margin on new loans increased from 6.8 percent in 2007 to 7.5 percent in 2008.

Table 4.1: Core set of macroprudential indicators of the commercial banks
(end-of-period figures in percentages)

	2004	2005	2006	2007	2008 ¹⁾
1. Capital adequacy					
a. Risk-weighted capital asset ratio (= <i>Regulatory capital to risk-weighted assets</i>)	12.3	11.5	13.5	13.0	14.8
b. Tier 1 capital ratio	6.8	6.1	7.2	7.1	8.3
2. Asset quality					
a. Nonperforming loans to gross loans	8.6	6.7	6.3	6.7	6.9
b. Nonperforming loans (net of ALLP) to gross loans 2)	5.7	3.7	3.4	4.0	4.1
c. Nonperforming loans (net of ALLP) to regulatory capital 2)	47.7	34.6	26.4	32.6	29.4
d. Large loans to regulatory capital 3)	102.4	121.2	109.2	102.8	98.0
3. Earnings and profitability					
a. Return on assets (after taxes)	1.9	2.1	2.4	3.1	2.3
b. Return on equity (after taxes)	27.7	28.6	32.1	38.4	25.1
c. Net interest margin to gross income	65.6	65.0	66.4	60.5	62.1
d. Noninterest expenses to gross income	73.5	73.2	70.1	65.7	70.6
4. Liquidity					
a. Loans to deposits ratio	75.5	76.4	75.1	74.7	69.6
b. Prudential liquidity ratio	27.1	25.8	28.0	29.3	34.7
c. Liquid assets to short-term liabilities	75.0	76.9	81.2	82.6	88.3
5. Sensitivity to market risk					
a. Interest rate margin 4)	7.0	7.4	7.2	6.8	7.5

Source: CBA; commercial banks.

1) Preliminary figures.

2) ALLP: allocated loan loss provision.

3) Large loans: all loans or lines of credit in excess of 15 percent of the institution's test capital.

4) Weighted averages related to transactions during the indicated period.

Offshore banks

The number of offshore banks registered in Aruba remained unchanged at two. These two banks are affiliated with Citibank and, thus, fall under the consolidated supervision of the U.S. supervisory authorities. The offshore banks' aggregated balance sheet totaled Afl. 609.7 million at the end of 2008, a decrease of Afl. 177.5 million or (22.5 percent) compared to 2007. This notable decline was mainly the result of a drop in loans outstanding of Afl. 229.2 million or (67.6 percent), which was offset partially by a rise in investments of Afl. 81.1 million (79.3 percent). The aggregated risk-weighted capital asset ratio of the two offshore banks rose sharply from 10.7 percent to 31.2 percent in 2008, largely because of an Afl. 121.6 million increase in the regulatory capital and an Afl. 185.3 million decrease in the risk-weighted assets. The

rise in the regulatory capital was due mostly to an expansion in the Tier 1 capital of Afl. 164.2 million, largely attributable to an increase in retained earnings. The fall in risk-weighted assets was mainly the result of a decline in loans outstanding and off-balance sheet items related to guarantees issued. The aggregated risk-weighted capital asset ratio of the offshore banks remained far above the minimum of 8 percent applicable to offshore branches or subsidiaries of internationally active banks that fall under effective consolidated supervision of the home country supervisor.

The two offshore banks reported a net loss of Afl. 7 million in 2008, compared to a net profit of Afl. 163.5 million in 2007. This notable decrease in profitability occurred to a large extent because of a decline in the operating income of Afl. 216.4 million, predominantly attributable to foreign exchange losses incurred in 2008.

Bank-like institutions

The three bank-like institutions are engaged largely in mortgage lending to individuals, financing of social housing projects, long-term project financing, and/or granting of personal loans for consumptive and home improvement purposes. These activities are financed mostly by attracting funds from their parent company, other (local) financial institutions, and/or institutional investors. Their aggregated balance sheet total increased by Afl. 33 million or 5 percent to Afl. 689.1 million at the end of 2008. Their combined loan portfolio amounted to Afl. 496.5 million at the end of 2008 (2007: Afl. 474.4 million), equivalent to 10.2 percent of the estimated GDP for 2008. This figure represents an increase of Afl. 22.1 million (4.7 percent) compared to 2007, due mainly to an expansion in commercial loans of Afl. 23.6 million (16.3 percent). Cash and due from banks rose by Afl. 9.9 million (29.3 percent), while investments decreased by Afl. 2.4 million (8.6 percent) in 2008.

On the liability side, borrowings increased by Afl. 19 million (4.9 percent) to Afl. 404.8 million in 2008, mainly the result of expansions in commercial borrowings as well as government borrowings of Afl. 14 million (4.4 percent) and Afl. 5 million (7.7 percent), respectively. Capital and reserves grew by Afl. 14.6 million or 6.2 percent to Afl. 250.1 million as of December 2008, associated mostly with additions from net income to the general reserves.

The various macroprudential indicators show that the bank-like institutions' sector is sound, albeit its profitability fell significantly in 2008 (see Table 4.2). The aggregated risk-weighted capital asset ratio of these institutions rose from 41.8 percent in 2007 to 46.3 percent in 2008, remaining far above the minimum requirement of 12 percent. This increase is due mainly to a higher regulatory capital (Tier 1) as a result of an increase in retained earnings. The ratio of nonperforming loans (net of allocated loan loss provisions), which consist of all loans past-due for more than 90 days, to gross loans went down slightly from 7.1 percent in 2007 to 7 percent in 2008.

The bank-like institutions as a whole operated with a positive net income of Afl. 14.5 million in 2008, Afl. 9.9 million lower than in 2007. This result was attributable mainly to a fall in

extraordinary income of Afl. 5.9 million and an increase in total expenses of Afl. 5.2 million. As shown in Table 4.2, return on equity (after taxes) declined by 5.3 percentage points to 6.5 percent in 2008, which is low compared to the commercial banking sector. However, maximization of shareholders' value is not the prime objective of all institutions operating in this market segment. The net interest margin to gross income ratio increased by 12.2 percentage points to 70.5 percent in 2008, due mainly to an increase in net interest margin of Afl. 3.2 million. The non-interest expenses to gross income ratio also went up by 14.4 percentage points to 72.6 percent in 2008, primarily because of higher noninterest expenses and a lower gross income.

Table 4.2: Core set of macroprudential indicators of the bank-like institutions
(end-of-period figures in percentages)

	2004	2005	2006	2007	2008 ¹⁾
1. Capital adequacy					
a. Risk-weighted capital asset ratio (= <i>Regulatory capital to risk-weighted assets</i>)	47.2	45.0	46.3	41.8	46.3
b. Tier 1 capital ratio	41.9	39.1	40.0	36.0	39.9
2. Asset quality					
a. Nonperforming loans to gross loans	6.2	6.7	7.8	7.9	8.5
b. Nonperforming loans (net of ALLP to gross loans 2)	4.4	5.6	6.7	7.1	7.0
c. Nonperforming loans (net of ALLP to regulatory capital	9.9	12.2	14.7	16.7	15.6
3. Earnings and profitability					
a. Return on assets (after taxes)	1.6	2.2	2.1	4.0	2.2
b. Return on equity (after taxes)	4.8	6.9	6.4	11.8	6.5
c. Net interest margin to gross income	71.1	61.7	67.4	58.3	70.5
d. Noninterest expenses to gross income	78.2	69.5	74.1	58.2	72.6

Source: CBA; bank-like institutions.

1) Preliminary figures.

2) ALLP: allocated loan loss provision.

Money transfer companies

In 2008, about 261,000 outgoing transfers were executed by the four registered money transfer companies for a total amount of approximately Afl. 120.9 million (2007: 277,000 outgoing transfers amounted to around Afl. 116.7 million). Also in 2008, Colombia remained the major destination of the funds transferred abroad via this sector, accounting for 53.1 percent of all outgoing money transfers (see Table 4.3).

In 2008, the money transfer companies handled roughly 19,000 incoming transfers for a total amount of nearly Afl. 17.3 million (2007: 16,000 incoming transfers processed for approximately Afl. 13.9 million). As in previous years, these incoming transfers originated mainly from the Netherlands and the United States (see Table 4.4).

Table 4.3: Outgoing money transfers by countries of destination
(end-of-period figures in Afl. thousands)

	2006	2007	2008
Total	113,262.1	116,721.4	120,861.0
1. Colombia	64,659.1	63,896.3	64,148.5
2. Dominican Republic	13,983.9	17,377.6	17,455.3
3. Philippines	5,811.9	5,957.6	6,641.7
4. Peru	5,195.3	5,185.2	5,339.5
5. Haiti	3,989.4	4,335.6	4,756.0
6. Other	19,622.5	19,969.1	22,520.0

Source: CBA; money transfer companies.

Table 4.4: Incoming money transfers by countries of origin
(end-of-period figures in Afl. thousands)

	2006	2007	2008
Total	11,691.9	13,877.5	17,294.6
1. Netherlands	4,407.0	4,867.6	6,807.6
2. United States	3,170.1	3,743.3	3,636.0
3. Colombia	606.3	800.9	1,005.7
4. Netherlands Antilles	736.3	712.0	916.0
5. Spain	314.2	662.6	691.7
6. Other	2,458.0	3,091.1	4,237.6

Source: CBA; money transfer companies.

4.6.2 Insurance sector

Nonlife insurance companies

At the end of December 2007, the aggregated balance sheet total of the 13 nonlife insurance companies amounted to Afl. 205 million (equivalent to 4.5 percent of the 2007 GDP), i.e., an 8.9 percent growth compared to 2006. Investments rose by Afl. 15.1 million to Afl. 133.9 million, due mainly to an increase in bond holdings and time deposits. As in 2006, only 1.7 percent of the investment portfolio consisted of foreign investments at the end of 2007. On the liability side, the technical provisions and amounts due to affiliated companies grew by Afl. 3.6 million (7 percent) and Afl. 8.3 million (13.8 percent), respectively. The capital and reserves expanded by Afl. 5.3 million, largely the result of additions from net income to the general reserves. Net income (before taxes) decreased by Afl. 3.8 million (29 percent) to Afl. 9.3 million at the end of 2007. This decrease was largely the result of higher commissions paid in 2007.

As shown in Table 4.5, the liquidity ratio decreased by 1.4 percentage point to 23.7 percent, while the return on investments ratio edged up by 0.2 percentage point to 5.5 percent in 2007. The

coverage ratio rose by 4.5 percentage points to 310.2 percent, significantly above the minimum requirement of 100 percent. The gain in the coverage ratio was mainly the result of a growth in weighted assets to cover technical provisions of Afl. 13.5 million or 8.6 percent.

Table 4.5: Financial ratios of the nonlife insurance companies
(end-of-period figures in percentages)

	2003	2004	2005	2006	2007
1. Liquidity ratio (= <i>Current assets to total assets</i>)	37.1	28.9	27.4	25.1	23.7
2. Return on investments ratio (= <i>Investment income to average invested assets</i>)	7.1	6.2	5.0	5.3	5.5
3. Coverage ratio (= <i>Weighted assets less borrowings to technical provisions</i>)	303.6	254.3	294.9	305.7	310.2

Source: CBA; nonlife insurance companies.

Life insurance companies

At the end of 2007, the aggregated balance sheet total of the 8 life insurance companies amounted to Afl. 548.7 million (equivalent to 12 percent of the 2007 GDP), a significant expansion of Afl. 56.5 million or 11.5 percent compared to 2006. Their investments rose by Afl. 58.9 million (14.8 percent), due largely to increases in bond holdings and mortgage loans of Afl. 28.1 million (12.8 percent) and Afl. 13.5 million or 22.8 percent, respectively. About Afl. 55.4 million (12.1 percent) of the investment portfolio consisted of foreign investments in 2007 compared to Afl. 57.2 million (14.4 percent) in 2006. On the liability side, the technical provisions and the capital and reserves grew by Afl. 42.1 million (10.5 percent) and Afl. 8.3 million (12.4 percent), respectively. The growth in capital and reserves was caused mainly by additions from net income to the general reserves.

In 2007, net premiums and investment income increased by Afl. 26.6 million (42.8 percent) and Afl. 3.3 million (12.6 percent), respectively. The expansion in net premiums was mainly the result of new collective pension business in 2007. The rise in total expenses of Afl. 20.7 million (25.1 percent) was due mainly to increases in net claims and changes in technical provisions of Afl. 11.2 million (41 percent) and Afl. 6.8 million (19.9 percent), respectively. The growth in net claims was attributable mainly to the rise in surrender of existing pension contracts in 2007. On balance, net income went up by Afl. 10.7 million to Afl. 16.2 million in 2007.

As shown in Table 4.6, the liquidity ratio decreased slightly by 1.2 percentage points to 11.9 percent in 2007, while the return on investments ratio fell slightly by 0.1 percentage points in 2007. The coverage ratio increased by 1 percentage point to 119 percent at the end of 2007, well above the minimum solvency requirement of 100 percent.

Table 4.6: Financial ratios of the life insurance companies
(end-of-period figures in percentages)

	2003	2004	2005	2006	2007
1. Liquidity ratio (= <i>Current assets to total assets</i>)	9.1	18.2	13.0	13.1	11.9
2. Return on investments ratio (= <i>Investment income to average invested assets</i>)	8.7	7.5	6.4	6.8	6.9
3. Coverage ratio (= <i>Weighted assets less borrowings to technical provisions</i>)	134.3	116.5	119.0	118.0	119.0

Source: CBA; life insurance companies.

Company pension funds

The aggregated balance sheet total of the 10 company pension funds (excluding the Lago Annuity Foundation, whose pension obligations are covered by a guarantee from the Exxon Mobil Corporation) amounted to Afl. 254.7 million at the end of 2007 (equivalent to 5.6 percent of the 2007 GDP), i.e., an 8.4 percent increase compared to 2006. On the asset side, investments grew by Afl. 19.6 million to Afl. 240.8 million. This rise in investments occurred mainly because of increases in shares and bond holdings of Afl. 7 million and Afl. 13.8 million, respectively. On the other hand, time deposits decreased by Afl. 4.5 million in 2007. Foreign investments amounted to Afl. 126.8 million, equivalent to 52.7 percent of the total investment portfolio (2006: Afl. 106.9 million or 48.3 percent). On the liability side, technical provisions went up by Afl. 21.2 million to Afl. 216.4 million. Capital and reserves declined by 3.2 percent to Afl. 36.1 million at the end of 2007, mainly the result of net losses applied to general reserves.

In 2007, the company pension funds registered an Afl. 1.2 million loss, compared to an Afl. 7.7 million profit in 2006, associated mainly with an increase in technical provisions of Afl. 7.1 million or 49.3 percent.

As shown in Table 4.7, the liquidity ratio of the company pension funds deteriorated by 0.4 percentage point to 5.5 percent in 2007. The return on investments ratio declined by 1.5 percentage points to 7 percent at the end of 2007 because of lower earnings. The aggregate coverage ratio went down by 3 percentage points to 109 percent but is still above the minimum requirement of 100 percent. Noteworthy is that three company pension funds have a coverage ratio below 100 percent. These three pension funds must submit a recovery plan to the CBA, informing it of the measures they will take to address the coverage shortage.

Furthermore, the Stichting Pensioenfond N.V. Aruba Bank, the Stichting Pensioenfond RBTT Bank Aruba II, and the Stichting Pensioenfond Martijn Trading Company N.V. are in liquidation. These pension funds decided to transfer their pension obligations to life insurance companies in Aruba. Until the liquidation process has been finalized, these funds remain under the CBA's supervision.

Table 4.7: Financial ratios of the company pension funds
(end-of-period figures)

	2003	2004	2005	2006	2007
1. Liquidity ratio (= <i>Current assets to total assets</i>)	8.1	9.0	9.9	5.9	5.5
2. Return on investments ratio (= <i>Investment income to average invested assets</i>)	10.4	7.1	7.3	8.5	7.0
3. Coverage ratio (= <i>Investments & cash minus volatility cushion to technical provisions</i>)	105.1	106.8	108.0	112.0	109.0

Source: CBA; company pension funds.

4.6.3 Other institutions

Other large financial institutions operating in Aruba, which do not fall under the CBA's supervision, are the APFA, the SVB, and the AZV. In view of their importance to the Aruban economy, the main (financial) developments at these institutions are discussed briefly.

APFA

In January 2005, the State Ordinance on the Privatization of the Civil Servants Pension Fund (AB 2005, No. 2) was enacted. This ordinance became effective on May 1, 2005. As part of the privatization process, the APFA was converted into a foundation on April 29, 2005. In addition, a new pension scheme based on average income was introduced in May 2005 for new participants. However, the pension scheme for participants who joined the APFA prior to May 2005 has not yet been amended. The APFA will fall under the CBA's supervision as soon as the pension scheme for the latter group has been amended and, subsequently, the Pension Ordinance Civil Servants has been revoked. Until then, the APFA will remain under the supervision of the Minister of Finance and Economic Affairs.

The balance sheet total of the APFA amounted to Afl. 1,598 million at the end of 2007 (equivalent to 35.1 percent of the GDP of 2007), i.e., a 9 percent increase compared to 2006. Investments rose by Afl. 126.5 million or 9.8 percent to Afl. 1,416.8 million. This growth was attributable mainly to increases in shares and convertible bonds, mortgage loans, and other investments of Afl. 94.2 million, Afl. 16.3 million, and Afl. 33.1 million, respectively. At the end of 2007, foreign investments amounted to Afl. 603.7 million or 42.6 percent of the APFA's total investment portfolio (2006: Afl. 528.3 million or 40.9 percent). On the liability side, the technical provisions increased by 7 percent to Afl. 1,661.5 million at the end of 2007. The fund's negative equity fell from Afl. 93.6 million to Afl. 69.1 million as a result of the realized profit of Afl. 24.5 million in 2007.

Mentioned realized profit was Afl. 25.3 million lower compared to 2006, mainly the result of a significant increase in the additions to the technical provisions of Afl. 20.8 million (23.6

percent). The liquidity ratio of the APFA fell by 0.6 percentage point to 10.2 percent in 2007, while the return on investments ratio decreased by 0.9 percentage point to 7.9 percent. The coverage ratio increased by 3.6 percentage points to 80.9 percent in 2007, still far below the minimum coverage ratio of 100 percent applicable to company pension funds.

Preliminary data for 2008 indicate that the APFA incurred a net loss on its investment activities of Afl. 118.4 million. Consequently, the coverage ratio of the APFA decreased even further. Therefore, it is imperative that corrective measures be taken, including but not limited to a substantial increase of the pension age to safeguard the viability of this pension fund.

SVB

The SVB is responsible for the execution of the following state ordinances:

- Landsverordening Ziekteverzekering (ZV);
- Landsverordening Ongevallenverzekering (OV);
- Landsverordening Cessantia (Cessantia);
- Landsverordening Algemene Ouderdomsverzekering (AOV); and
- Landsverordening Algemene Weduwen- en Wezenverzekering (AWW).

The ZV, OV, and Cessantia are employee insurances, while the AOV and the AWW are general pension schemes. Furthermore, the SVB is entrusted with the management of the so-called "Schommelfonds" ZV/OV and the "Schommelfonds" AOV/AWW.

At the end of 2007, the balance sheet total of the SVB amounted to Afl. 381.4 million (equivalent to 8.3 percent of the 2007 GDP), an increase of Afl. 26.6 million (7.5 percent) compared to 2006.

Premium income increased by Afl. 14.2 million (7.4 percent) to Afl. 205.3 million in 2007, while other income decreased by Afl. 5 million (27.6 percent) to Afl. 13.1 million at the end of 2007. On the other hand, total expenses increased slightly by Afl. 0.3 million. On balance, the net financial result of the SVB improved by Afl. 8.9 million, from an Afl. 5.3 million net loss in 2006 to an Afl. 3.6 million net profit in 2007.

AZV

At the end of 2007, the balance sheet total of the AZV was Afl. 54.6 million (equivalent to 1.2 percent of the GDP of 2007), which represents an increase of Afl. 9.7 million (21.6 percent) compared to 2006. This expansion is attributed mainly to a rise in current assets of Afl. 10.7 million (27.4 percent) and a growth of Afl. 9.7 million (21.6 percent) in its current liabilities. The AZV does not maintain capital and reserves because its financial deficits are by law covered by the Aruban government.

In 2007, the net loss of the AZV increased by Afl. 33.8 million to Afl. 34 million. Premium income declined by Afl. 12.1 million (6.8 percent) to Afl. 166.8 million in 2007, while other income rose by Afl. 4.3 million (4.6 percent) to Afl. 98.2 million. The contraction in premium income was

attributed primarily to a decrease in the premiums collected as a result of technical problems in the recently introduced automated system for collection at the Aruban Tax Authority. On the other hand, total expenses grew by Afl. 26 million (9.5 percent) due mainly to higher health expenses and administrative expenses. Taking into account the expected aging of the Aruban population in coming years, the AZV scheme should be reformed in the short term to improve its sustainability.

4.7 Financial institutions under supervision of the CBA as of December 31, 2008

4.7.1 Banking sector¹

Commercial banks

Aruba Bank N.V.

Banco di Caribe (Aruba) N.V.

Caribbean Mercantile Bank N.V.

RBTT Bank Aruba N.V.

Offshore banks

Citibank N.A., Aruba Branch

Citibank Aruba N.V.

Mortgage banks

Fundacion Cas pa Comunidad Arubano

Credit unions

Coöperatieve Spaar- en Kredietvereniging Douane Aruba

Finance companies

Island Finance Aruba N.V.

Other financial institutions

AIB Bank N.V.

4.7.2 Money transfer sector²

Money transfer companies

G.F.P. International N.V.

Global Access Corporation N.V.

Post Aruba N.V.

Union Caribe N.V.

¹ Supervision by virtue of the State Ordinance on the Supervision of the Credit System (AB 1998, No. 16).

² Supervision by virtue of the State Ordinance on the Supervision of Money Transfer Companies (AB 2003, No. 60).

4.7.3 Institutional investors' sector

Company pension funds³

Lago Annuity Foundation

Stichting Bedrijfspensioenfonds Aruba

Stichting Fondo di Pensioen di Trahadornan di Empresanan y Fundacionnan Publico

Stichting Pensioenfonds Caribbean Mercantile Bank N.V.

Stichting Pensioenfonds Havenwerkers Aruba

Stichting Pensioenfonds Martijn Trading Company N.V.⁴

Stichting Pensioenfonds META Bedrijven Aruba

Stichting Pensioenfonds N.V. Aruba Bank⁴

Stichting Pensioenfonds RBTT Bank Aruba I

Stichting Pensioenfonds RBTT Bank Aruba II⁴

Stichting Pensioenfonds Tourist Sector Aruba

Insurance Companies⁵

Life insurance companies

American Bankers Life Assurance Company of Florida Limited, Agency

American Life Insurance Company, Aruba Branch⁶

British-American Insurance Company (Aruba) N.V.⁶

Ennia Caribe Leven (Aruba) N.V.

Fatum Life Aruba N.V.

Guardian Life of the Caribbean Limited, Aruba Branch⁷

Sagicor Life Aruba N.V.⁶

Captive insurance companies

Bancarib Real Insurance Aruba N.V.

Fides Rae Insurance Aruba N.V.

MCB Risk Insurance N.V.

Mondis Manufactures Insurance Company N.V.

³ Supervision by virtue of the State Ordinance on Company Pension Funds (AB 1998, No. GT 17).

⁴ In liquidation.

⁵ Supervision by virtue of the State Ordinance on the Supervision of the Insurance Business (AB 2000, No. 82).

⁶ Pursuant to Section IX of the Implementation Ordinance on the State Ordinance on the Supervision of the Insurance Business (AB 2001, No. 91), subject insurance companies also are allowed to conduct nonlife insurance business in the indemnity group "accident and health insurance".

⁷ Portfolio will be transferred to Fatum Life Aruba N.V.

Table 4.8: Nonlife (general) insurance companies

	Accident & health	Motor vehicle	Maritime, transport & aviation	Fire & other property	Other indemnity
1. American Home Assurance Company Ltd.; Agency	X	X	X	X	X
2. Atradius Credit Insurance N.V. Aruba Branch					X
3. BUPA Insurance Company, Agency	X				
4. Elvira Verzekeringen N.V.					X
5. Ennia Caribe Schade (Aruba) N.V.	X	X	X	X	X
6. Fatum General Insurance Aruba N.V.	X	X	X	X	X
7. Nagico Aruba N.V.	X	X	X	X	X
8. Netherlands Antilles & Aruba Assurance Company (NA&A) N.V.	X	X	X	X	X
9. New Treston Insurance Company N.V.	X	X	X	X	X
10. Royal & Sun Alliance (Antilles) N.V.; Aruba Branch	X	X	X	X	X
11. Stichting Fondo Nacional di Garantia pa Vivienda					X
12. The New India Assurance Co. Ltd.; Aruba Branch	X	X	X	X	X
13. United Insurance Company N.V.	X	X	X	X	X

Source: CBA.

FINANCIAL STATEMENTS

5

BALANCE SHEET AS OF DECEMBER 31, 2008 ¹⁾, AFTER PROFIT DISTRIBUTION

(in Afl. thousand)

	Notes	2008	2007
Assets			
Gold	3	172,026	166,358
Foreign currency assets	4	1,082,768	666,054
Receivables	5	7,372	7,209
Printing cost of bank notes	6	1,683	17
Premises	7	10,918	10,255
Other fixed assets	8	1,945	2,167
		<u>1,276,712</u>	<u>852,060</u>
Liabilities			
Bank notes issued	9	212,179	202,661
Deposits of residents	10	806,704	413,951
Deposits of nonresidents	11	7,516	4,411
Money in custody	12	1,637	778
Payables and accrued expenses	13	13,727	9,491
Revaluation account	14	158,617	142,582
General reserve	15	66,332	68,186
Capital	16	10,000	10,000
		<u>1,276,712</u>	<u>852,060</u>

1) Abbreviated

PROFIT AND LOSS ACCOUNT FOR THE YEAR 2008 ²⁾

(in Afl. thousand)

	Notes	2008	2007
Net interest revenues	17	26,207	27,333
Foreign exchange revenues	18	1,840	2,055
Coins revenues	19	699	1,010
Various revenues	20	450	503
Total income		29,196	30,901
Printing cost of bank notes		17	491
Personnel expenses	21	9,579	9,097
Operating expenses	22	3,399	2,995
Depreciation		1,776	1,896
Total expenses		14,771	14,479
Profit		14,425	16,422
Profit distribution	23		
Allocated to the Treasury		12,000	16,422
General reserve		2,425	-

2) Abbreviated

NOTES TO THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT FOR 2008

1 GENERAL

Pursuant to article 31, paragraphs 1 and 3 of the CBO, the President and Executive Directors shall prepare each year, before the first of July, the CBA's draft balance sheet and profit and loss account for the previous financial year. They shall submit these statements, after they have been audited by the CBA's external accountant, for approval to the Board of Supervisory Directors (the Board). In the first meeting following their submission, the annual accounts shall be approved by the Board and a copy sent to the Minister of Finance and Economic Affairs. The CBA's financial year is the calendar year.

2 PRINCIPLES OF VALUATION AND DETERMINATION OF RESULTS

2.1 Change in accounting policy

The principles of valuation and determination of results remained unchanged in 2008 apart from the following.

According to the CBO, changes in the valuation of the foreign exchange reserves occurring during the financial year should be expressed on the liabilities side of the balance sheet. Realized gains and losses, incurred at the moment of sale of foreign currencies, apart from differences between selling rate and mid rate, were kept on the revaluation account without releasing these to the profit and loss account. The financial statement 2008 includes an adjustment of Afl. 4.3 million as per January 1, 2008 related to the release to the profit & loss account of the remaining part of the realized gains and losses, being the difference between the purchase rate and the mid rate, resulting in an increase of the revaluation account and a decrease of the general reserve.

As per December 31, 2008, the revaluation account includes the unrealized gains and losses related to the foreign currencies held by the CBA as of that date, with all realized gains and losses incurred during the financial year being included in the result.

2.2 Accounting policies

The CBA adheres to the accounting policies stated in the CBO. For the accounting policies not defined in this ordinance, the CBA applies those of the ECB and the European System of Central Banks (ESCB) as of January 1, 2003. The application of the accounting policies of the ECB and ESCB did not lead to any changes in the principles of valuation and determination of results for 2008.

Gold, marketable securities, and on-balance sheet claims and liabilities denominated in foreign currency are valued at market prices on the last working day of the financial year. The other assets and liabilities are shown on an historical cost basis or at their nominal value.

Regarding the recognition of income, the accounting policies of the ECB and ESCB prescribe that unrealized losses should be recorded on the profit and loss account when exceeding previous revaluation gains registered in the corresponding revaluation account. This policy is not in conformity with article 31, paragraph 2 of the CBO, which requires that changes in the valuation of the gold and foreign exchange reserves and business assets of the CBA occurring during the financial year should be reported on the liability side of the balance sheet. Therefore, in the financial statements, unrealized losses have been charged to the revaluation account.

2.3 Premises and other fixed assets

Premises and other fixed assets are recorded at historical cost less accumulated depreciation and are amortized according to the straight-line method over the estimated life of the asset, starting from the moment of acquisition. The CBA's building is depreciated in 20 years, renovations and landscaping in 10 years. Other fixed assets consist of computer hardware and software, furniture, and equipment. The estimated life of computer hardware and software is 3 years, of furniture and motor vehicles 3 years, and of equipment 5 years.

2.4 Revenue recognition

Income and expenses are recognized in the period in which they are earned or incurred. Realized gains and losses are included in the profit and loss account. Unrealized gains and losses are not recognized in the profit and loss account but are transferred directly to the revaluation account.

Premiums or discounts obtained when buying securities are calculated and presented as part of interest income.

2.5 Conversion of foreign currencies

Assets and liabilities denominated in foreign currency and related forward contracts are converted into Aruban florin (Afl.) at the rate of exchange prevailing at the balance sheet date. Transactions in foreign currency during the reporting period are incorporated in the financial statements at the rate of settlement. The exchange rate for one U.S. dollar is fixed at Afl. 1.79.

3 GOLD

Effective December 31, 2001, the gold holdings of the CBA are valued on a quarterly basis at the prevailing market price for gold. On December 31, 2008, the market price for gold was US\$ 865 or Afl. 1,548.35 (2007: US\$ 836.50 or Afl. 1,497.34) per fine troy ounce. The CBA's gold stock amounted to approximately 111,102.8 fine troy ounces.

Gold holdings:	Fine troy ounces		Value in Afl. thousand	
	2008	2007	2008	2007
	111,102.8	111,102.8	172,026	166,358

On May 20, 1999, the CBA entered into a gold option collar contract with a renowned institution to reduce the exposure to fluctuations in the market price of gold. On February 25, 2004, this contract was renewed. The expiration date of this contract is April 28, 2009.

The net estimated value of this option contract as of December 31, 2008, amounted to a negative Afl. 95.8 million (2007: negative Afl. 89.8 million) based on the market price of gold on December 31, 2008. This mark-to-market value was based on an estimation of the counterparty of the CBA in this option contract.

The counterparty of the CBA exercised the gold call option contract on the expiration date, April 28, 2009. The resulting liability, which amounted to US\$54,523,200, was cleared through a net cash settlement. For that purpose, the CBA sold 65,152.392 in troy ounces of gold on the same date. In order to keep its gold holdings at the same level, the CBA repurchased 65,343.769 troy ounces of gold from a different party on the aforementioned date, which was financed out of its foreign exchange reserve.

4 FOREIGN CURRENCY ASSETS

These assets comprise current accounts and time deposits held at foreign credit institutions, foreign currency bank notes, interest receivables, and investments through asset managers. These investments include:

1. Government and government-guaranteed papers denominated in U.S. dollars;
2. Paper issued by qualifying supranational financial institutions; and
3. Money-market instruments and accounts with at least double A-rated credit institutions.

The CBA's investment guidelines stipulate that time deposits held with an individual bank may not at any time exceed 15 percent of the CBA's foreign currency holdings in triple A-rated credit institutions, or 10 percent in double A-rated institutions. The CBA also deals directly with credit institutions in Canada, the Netherlands, the Netherlands Antilles, Switzerland, the United Kingdom, and the United States. Foreign currency assets generally are denominated in U.S. dollars, while relatively small amounts are held in euros, British pounds, and Netherlands Antillean guilders.

5 RECEIVABLES

Receivables include mainly mortgage loans and advances to the CBA's personnel, foreign currency checks in transit, penalty fees charged for late submission of annual filings, as well as various other receivables, such as prepaid expenses.

6 PRINTING COST OF BANK NOTES

In 2008, the CBA ordered extra bank notes for a total amount of Afl. 1.7 million. These notes will be brought into circulation in 2009 and amortized over a period of 5 years, starting January 1, 2009. One-fifth of the total printing costs will be charged to the profit and loss account.

7 PREMISES

The CBA building at J.E. Irausquin Boulevard 8 and landscaping are included in this item. At the end of 2007, the CBA initiated the construction of a security booth at the gate entrance of the CBA building, which was completed in 2008.

At the end of 2008, Afl. 870,000 was accrued for the construction of additional office space on the second floor of the CBA building. Also, Afl. 575,000 was accrued to replace the iron fence surrounding the CBA building. In 2008, the CBA initiated construction of the additional office space on the second floor of the CBA building.

8 OTHER FIXED ASSETS

Other fixed assets include computer hardware and software, furniture, and equipment.

9 BANK NOTES ISSUED

Bank notes are issued pursuant to article 7, paragraph 1 of the CBO.

(in Afl. thousand)

Denomination	2008	2007
5	886	886
10	6,832	6,497
25	16,798	15,394
50	17,476	16,160
100	164,002	157,352
500	6,185	6,372
Total	212,179	202,661

10 DEPOSITS OF RESIDENTS

Deposits of residents comprise the following items:

(in Afl. thousand)

	2008	2007
Government	110,952	36,862
Banks:		
- current accounts	143,710	76,297
- monetary cash reserve	271,245	257,504
- time deposits	191,949	-
Other	88,848	43,288
Total	806,704	413,951

Government

This item comprises the accounts of the government of Aruba held at the CBA.

Banks

Current accounts of the commercial banks are held primarily for transaction purposes. Monetary cash reserves are mandatory deposits held by the commercial banks in accordance with the monetary policy requirements of the CBA. The maturity of time deposits may range from 7 days to 24 months.

Other

This item consists of the accounts of the FDA, official and semi-official entities and other institutions.

11 DEPOSITS OF NONRESIDENTS

These deposits are Aruban florin accounts of nonresident banks.

12 MONEY IN CUSTODY

This item includes funds received on consignment and funds confiscated by official authorities.

13 PAYABLES AND ACCRUED EXPENSES

The payables and accrued expenses comprise foreign exchange tax due to the government, interest payable, foreign checks outstanding, pension reserve, general old age pension insurance/general widow and orphan's pension premiums, wage tax proceeds, general sickness insurance premiums, accruals for foreign asset management and custodian fees, as well as for the accruals referred to under item 7.

14 REVALUATION ACCOUNT

Pursuant to article 31, paragraph 2 of the CBO, revaluation differences of gold, foreign currency, and security holdings are included in the revaluation account.

15 GENERAL RESERVE

(in Afl. thousand)

	2008
Beginning balance	68,186
Adjustment	(4,279)
Additional profit distribution	2,425
Balance at the end of the year 2008	66,332

Reference is made to note 2.1 regarding the adjustment made as per January 1, 2008.

16 CAPITAL

Pursuant to article 3, paragraph 1 of the CBO, the CBA's capital amounts to Afl. 10,000,000.

17 NET INTEREST REVENUES

(in Afl. thousand)

	2008	2007
Interest revenues	26,973	28,190
Interest expenses	766	857
Net interest revenues	26,207	27,333

18 FOREIGN EXCHANGE REVENUES

This item consists of net transaction profits.

19 COINS REVENUES

Pursuant to article 12, paragraph 1 of the State Ordinance governing the monetary system, coins are minted exclusively for the account of the government of Aruba. In conformity with article 7 of the CBO, the CBA is entrusted with the issuing of coins. Furthermore, in accordance with article 12, paragraph 2 of mentioned ordinance, the difference between the face value and the cost of minting the coins (seignorage) is included in the CBA's profit. Unlike bank notes, coins issued are not included in the CBA's liabilities.

20 VARIOUS REVENUES

These revenues are mainly the supervisory expenses charged to the insurance sector, fees charged, among others, to the commercial banks for using the CBA's automated clearing system, penalty fees charged for late submission of annual filings, and proceeds from the sale of depreciated vehicles.

21 PERSONNEL EXPENSES

These expenses include salaries, social security, and various personnel-related expenses. At the balance sheet date, the CBA employed 68 persons full-time (2007: 67 persons).

22 OPERATING EXPENSES

These expenses consist mainly of expenses for utilities, cleaning and maintenance, printing and office supplies, courses, seminars, and meetings, telephone, consultants, property tax, external auditors, bank charges, and other fees.

23 PROFIT DISTRIBUTION

In accordance with article 33, paragraph 1 of the CBO and taking into consideration

article 4 of the CBO, the Board decided, with the approval of the Minister of Finance and Economic Affairs, to add Afl. 2,424,640 to the CBA's general reserve. The remaining profit amounting to Afl. 12,000,000 was allocated to the Treasury.

Report of auditors

The accompanying summarized financial statements have been derived from the financial statements of the Centrale Bank van Aruba for the year ended December 31, 2008 (as set out on pages 63 to 72). These summarized financial statements are the responsibility of the management of the Centrale Bank van Aruba. Our responsibility is to express an opinion on whether these summarized financial statements are consistent, in all material respects, with the financial statements from which they were derived.

We have audited the financial statements of the Centrale Bank van Aruba for the year ended December 31, 2008, from which these summarized financial statements were derived, in accordance with International Standards on Auditing. In our report dated June 2, 2009 we expressed an unqualified opinion on the financial statements from which the summarized financial statements were derived.

In accordance with article 33, paragraph 1 of the Central Bank Ordinance, the Board decided in 2009 to allocate the profit for the year 2008 of Afl. 14,424,640, of which Afl. 12,000,000 to the Treasury and Afl. 2,424,600 to the General Reserve. In divergence to the financial statements of the Centrale Bank van Aruba, this decision has been incorporated in the accompanying summarized financial statements. The profit for the year 2008 has been included in the 'Deposits of Residents' and 'General Reserve'.

In our opinion, except for the effects of the matter described in the preceding paragraph, the accompanying summarized financial statements are consistent, in all material respects, with the financial statements from which they were derived.

For a better understanding of the financial position of the Centrale Bank van Aruba and the results of its operations for the period and of the scope of our audit, the summarized financial statements should be read in conjunction with the financial statements from which the summarized financial statements were derived and our audit report thereon.

Aruba, June 16, 2009

PricewaterhouseCoopers Aruba

Edsel N. Lopez

