



CENTRALE BANK VAN ARUBA

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

2007

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MISSION STATEMENT

WORKING TOWARDS FINANCIAL STABILITY
FOR THE BENEFIT OF THE PEOPLE

EXTRACTS FROM THE CENTRAL BANK ORDINANCE:

“The Bank is the bank of issue...”

Section 7 sub 1

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

Section 10 sub 1

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

Section 11 sub 1

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

Section 12 sub 1

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

Section 14 sub 1



The office building of the CBA at J.E. Irausquin Boulevard 8

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(as of May 28, 2008)**

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List of abbreviations

AAA	Aruba Airport Authority N.V.
Afl.	Aruban florin
AIB	AIB Bank N.V.
AML/CFT	Anti-money laundering and combating of financing of terrorism
AOV	Algemeen Ouderdoms Verzekering, the general old age pension system
APFA	Stichting Algemeen Pensioenfonds Aruba, the civil servants pension fund
ASD	Annual Statistical Digest
ATA	Aruba Tourism Authority
AVV	Aruba Vrijgestelde Vennootschap, the Aruba exempt corporation
AZV	Algemene Ziektekostenverzekering, the general health insurance
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	Centrale Bank Verordening, the 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 of Aruba
DF	Department of Finance
DNB	De Nederlandsche Bank N.V., the Dutch central bank
DOW	Dienst Openbare Werken, the department of public works
DTI	Dienst Technische Inspecties, the department of technical inspections
ECB	European Central Bank
ESCB	European System of Central Banks
ELMAR	Naamloze Vennootschap Electriciteitmaatschappij "Aruba", the electricity provider
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
FRL	Fiscal Responsibility Law
GDP	Gross Domestic Product
GM	General Manager
IMF	International Monetary Fund
IT	Information Technology
MMoU	Multilateral Memorandum of Understanding
NCPF	National Commission on Public Finance
OFC	Offshore Financial Center
RBTT	RBTT Bank Aruba N.V.
RCUT	Reporting Center for Unusual Transactions
SETAR	Servicio di Telecomunicacion di Aruba (Setar) N.V., a telecommunications company
SOCPF	State Ordinance Company Pension Funds
SOFEC	State Ordinance Foreign Exchange Commission
SOFET	State Ordinance Foreign Exchange Transactions
SOGMS	State Ordinance Governing the Monetary System
SOSCS	State Ordinance on the Supervision of Company Service Providers
SOSIB	State Ordinance on the Supervision of the Insurance Business
SOSMTC	State Ordinance on the Supervision of the Money Transfer Companies
SVB	Sociale Verzekeringsbank, the social security bank
WEB	Water en Energie Bedrijf N.V., the water and power company

STATEMENT BY THE PRESIDENT

Preliminary data show that the Aruban economy expanded by 2.1 percent in real terms in 2007, compared to 0.6 percent in 2006. The economic expansion was spurred largely by a rebound in the tourism sector and an increase in domestic consumption.

The inflation rate in Aruba accelerated markedly in 2007. The end-of-period inflation rate more than quadrupled, from 2.5 percent in December 2006 to 10.2 percent in December 2007. As a result, the 12-month average inflation rate reached 6.0 percent (2006: 3.6 percent), the highest rate registered since 1994. Factors conducive to this acceleration were the introduction of a turnover tax (BBO) in January 2007, a further rise in utility tariffs and the price of gasoline pushed up by higher oil prices on the international markets, and the increase in the import prices of food. As a result, the inflation rate differential with the United States, Aruba's main trading partner, widened from 0.4 percentage point in 2006 to 3.1 percentage points in 2007, causing a deterioration in Aruba's competitive position.

According to preliminary figures from the Ministry of Tourism and Transport, tourist arrivals grew by 8.6 percent in 2007, primarily because of the Venezuelan market: 60.3 percent more tourists from that country visited Aruba in 2007 than in 2006. The U.S. and European markets both expanded by about 3.3 percent in 2007. At the same time, more rooms were made available as new hotel projects as well as renovation and upgrading projects were completed, thus bringing the total hotel and timeshare rooms to over 7,500. The average hotel occupancy rate did not suffer from the capacity expansion, but rose further to 77.8 percent (2006: 76.8 percent). In contrast, the cruise tourism industry performed less favorably. Cruise passenger arrivals declined by 18.5 percent in 2007 compared to 2006, largely because of the cancellation of the weekly visits of a large cruise ship "Carnival Destiny" to Aruba as of January 2007.

The rebound in tourist arrivals was also reflected in a 16.5 percent increase in registered gross tourism receipts in 2007, compared to a 1.4 percent decline in 2006. Consequently, the contribution of tourism receipts 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) rose by 2.4 percentage points to 76.6 percent in 2007, largely supporting a recovery of the non-oil current account. As a result, the current account deficit of the rest of the economy narrowed to Afl. 240.7 million or 5.1 percent of Gross Domestic Product (GDP) in 2007, down from Afl. 655.9 million or 15.1 percent of GDP in 2006.

The capital and financial account surplus of the rest of the economy (including items not yet classified) decreased to Afl. 194.1 million in 2007, down from Afl. 472.0 million in 2006. This development was caused mainly by a decline in net incoming foreign direct investments (FDI), which fell from 14.1 percent of GDP in 2006 to 5.3 percent of GDP in 2007, reflecting the completion of several large projects in the tourism sector. As a result of the current and capital

1

and financial account transactions of the rest of the economy, the balance of payments of that sector recorded an Afl. 46.6 million net outflow of funds abroad in 2007 (2006: Afl. 184.0 million net outflow). In contrast, the external transactions of the oil and free-zone sectors led to net inflows of foreign funds of Afl. 95.7 million and Afl. 5.4 million, respectively. Overall, Aruba's balance of payments posted an Afl. 54.5 million surplus in 2007, raising the level of international reserves to Afl. 708.2 million (2006: Afl. 653.6 million). Consequently, the 12-month average coverage of merchandise imports by international reserves rose to 5.9 months (2006: 5.2 months), and the 12-month average coverage of all current account payments (i.e., payments for merchandise imports, services, income, and current transfers) increased to 3.0 months in 2007 (2006: 2.6 months).

Given the uncertain economic outlook in 2007, the Centrale Bank van Aruba (CBA) maintained its quantitative credit growth restriction at 5.0 percent. The expectations at that time were that the economy would slow down further, combined with increasing inflationary pressures stemming from the introduction of the BBO as of January 1, 2007, and a further rise in the price of oil on the international market. In 2007, the aggregate banking sector credit grew by 3.9 percent, thus remaining within the CBA's guideline.

While the quantitative credit growth limitation has effectively curtailed credit expansion in past years, it has some drawbacks. Among other things, the system does not sufficiently encourage competition in the banking system. It also contributes to the build-up of excess liquidity within the banking system and stimulates disintermediation. Furthermore, the system also lacks proper flexibility, which should be the basic characteristic of monetary policy, and the adaptability to respond quickly to developments in the financial sector and the economy in general. As of the second half of 2007, the CBA had been evaluating a shift from the use of direct instruments of monetary policy (credit ceiling) to more market-oriented indirect instruments, entailing cash reserve and liquidity requirements and the re-issue of central bank certificates of deposits. It was agreed with the commercial banks that 2008 will be a transition year at the end of which credit ceilings will be dropped and replaced by market-related instruments.

For 2008, real economic growth is estimated to be about the same level as in 2007, i.e., 2.1 percent, mainly because of higher exports of goods and services, mostly tourism, and private consumption. The CBA expects the level of net foreign assets to increase further during 2008. The outcome will depend largely on economic developments in the United States and their effect on the travel industry. The immediate challenge facing Aruba, however, is the rise in inflationary pressures. The CBA's current forecast for the movement of prices in 2008 is for the inflationary pressures to continue throughout 2008, owed to persistent price increases for certain commodities (among others, food and oil) on the international market.

The main objective of the CBA's monetary policy in 2008 remains the maintenance of relative price stability, using the peg of the Aruban florin to the U.S. dollar as the principal fixed target of

this policy. Therefore, the CBA will remain vigilant in monitoring the flows of foreign exchange payments and receipts to ensure an adequate level of international reserves to defend this peg. Hence, if the inflationary trends continue in 2008 at the same pace as in 2007, the CBA will consider a further limitation of the total banking sector credit below the 5.0 percent initially indicated to the banking system. The overall credit growth ceiling will continue to be monitored on a monthly basis, and an 8.0 percent penalty fee in case of any excess growth will remain in effect. The important difference from the previous years is that for 2008 separate limitations on the two credit subcategories, i.e., consumer credit and other credit components (excluding consumer credit), will no longer be applied.

This policy has been fully endorsed by the Article IV Consultation Mission of the International Monetary Fund (IMF) that visited Aruba in December 2007. This IMF Mission observed in its Staff Report that monetary policy should remain tight in the near future, given the uncertain inflation outlook and the challenges facing fiscal policy. The IMF Mission also welcomed the planned move towards the use of indirect instruments, noting that the CBA should stand ready to increase interest rates and absorb excess liquidity if credit growth accelerated excessively. According to the IMF Mission, making greater use of indirect monetary instruments will give the CBA more flexibility in the conduct of its monetary policy and is expected to promote more efficient financial intermediation. The IMF Mission stressed, however, that for the CBA to maintain a sufficient level of foreign exchange reserves to support the current exchange rate peg, it is important that fiscal consolidation and structural reforms move forward.

In 2007, the financial operations of the government resulted in an Afl. 94.1 million deficit (including the change in unmet financing requirements), representing an Afl. 28.9 million increase compared to the deficit registered in 2006. This higher deficit was largely the result of an Afl. 71.8 million rise in total government expenditures (including net lending) on a cash-adjusted basis (i.e., including the change in unmet financing requirements). This rise was partly mitigated by an Afl. 42.9 million expansion in government revenues, mainly reflecting the additional revenues from the BBO introduced in January 2007. The government had to resort to both local and international capital markets to cover its financial needs and to repay its maturing debt. These borrowings raised its total outstanding debt by Afl. 123.5 million or 6.1 percent to Afl. 2,143.0 million. The debt-to-GDP ratio, however, fell by 1.0 percentage point to 45.6 percent.

During 2007, the government's budget process was strengthened. The 2008 budget was submitted in time to parliament, and the budget documents included a summary memorandum with a medium-term fiscal framework delineating the necessary steps to achieve a balanced budget in 2009 and to further reduce the public debt ratio towards a level not exceeding 40.0 percent of GDP. These were useful first steps toward a more transparent budget process. The government, in line with the recommendations of the National Commission on Public Finance (NCPF) report on "Sound Public Finance and Public Accountability in Aruba", is also preparing changes to the budget law, which should provide additional institutional support

for fiscal consolidation by imposing greater fiscal discipline, improving fiscal management, and strengthening the fiscal framework.

In line with another recommendation of the NCPF, the Department of Finance (DF) and the CBA started periodic meetings in 2008. On a monthly basis DF and CBA discuss key issues of the government's operations, including monitoring of the financial planning, liquidity management, and debt dynamics. These regular discussions promote both the coordination of monetary and fiscal policies conducive to a sustainable balance of payments position and the containment of inflation. Furthermore, the CBA and the DF have been working together to enhance the current analysis of government finance by transforming its expenditures on a cash basis into expenditures on a cash-adjusted basis. In the latter, the change in unmet financing requirements is allocated to the respective expenditure components "above the line", thus comparable to the accrual basis budgetary figures. This is a work in progress, but the outcome will formalize a format for reporting the government's financial performance. It will make a comparison of the realized figures to the budget more accessible and enable control of the implementation of the NCPF's recommendations.

To assure the implementation of all the recommendations of the NCPF, the Council of Ministers decided to institute a commission of experts charged with monitoring the progress in this area, in particular reaching a balanced budget in 2009, as well as the preparatory work related to legally embed norms and procedures for sound financial management. The commission will be chaired by Mrs. Jane Figaroa-Semeleer, Executive Director of the CBA. The DF will have the deputy chair and will share the secretary position with the CBA. The Secretary of the Social and Economic Council, the Department of Economic Affairs, Commerce and Industry (DEZHI), and the AIB Bank N.V. (AIB) also are represented in this commission. The Ministry of Finance in the Netherlands will appoint an observer to this commission. The commission will report to the Minister of Finance and Economic Affairs on its tasks and the progress of the execution of the recommendations on a quarterly basis.

All these actions taken by the government are necessary steps to achieve fiscal consolidation in the near future. However, when analyzing the 2008 budget, it becomes evident that to achieve a balanced budget in 2009 the government has to take additional restrictive measures. For instance, immediate action is needed to address the renewed financial problems of the General Health Insurance (AZV). The AZV should re-evaluate its income and cost structure to address its renewed financial problems on a very short term, as well as to solve these on a structural basis. In addition, it is imperative for the government to strengthen the control on spending on goods and services and limit growth in personnel costs, through rationalizing the civil service and implementing additional reforms in the civil servants pension system. Although difficult, these measures are essential to achieve a debt-to-GDP ratio of 40.0 percent and to enable the government to keep public finances on a sustainable path in the future.

The CBA also remained focused on maintaining the stability and integrity of the financial system in Aruba. To this end, it continued to perform risk-based supervision of the financial institutions under its supervision. Significant improvement has been made over the years in strengthening the supervisory framework and expanding it to other parts of the financial sector. However, given the international standards for financial sector regulation and supervision and the combating of money laundering and terrorist financing, it is important to widen the supervisory scope to company service providers and stock exchanges. The latter mainly because of the more recently established electronic stock exchange in Aruba. Some amendments were made to the draft State Ordinance on the Supervision of Company Service Providers (SOSCSP), based upon comments received from the industry. These amendments are currently in the legislative process, while a legislative proposal to bring stock exchanges under the supervision of the CBA has been drafted.

In addition, the CBA is drawing up new proposals to further strengthen the supervisory ordinances for the banking and insurance industry. The final proposals should be submitted to the Minister of Finance and Economic Affairs for his approval before the end of 2008. The target date was set to take into account the results of the follow-up Offshore Financial Center (OFC) assessment by the IMF, which took place in May 2008 under the aegis of its Financial Sector Assessment Program. The IMF used the revised core principles for effective banking and insurance supervision as a benchmark for its assessment. Most of the recommendations laid down in the IMF OFC assessment report on Aruba dated June 2002 have already been implemented. The CBA has prepared well for the evaluation, which included a self-assessment exercise vis-à-vis the core principles that was used by the IMF as a basis for its assessment.

In August 2006, the CBA issued a revised policy rule for the admission and licensing of banks and insurance companies. Under this new policy rule, a foreign bank or insurer is allowed to operate via a branch office (or an agency in the case of an insurer) only if it is an international bank or insurer with a balance sheet total of at least US\$ 10 billion and an "A" rating issued by Standard & Poor's or a comparable rating agency. The main reason for the policy change is to be able to better protect the interests of the Aruban depositors and policy holders. Foreign banks or insurers that already operate in the Aruban market via a branch office or agency and do not meet the aforementioned conditions are required to establish a separate legal entity in Aruba through which they could continue their banking or insurance activities in this market. It is expected that all companies concerned will be able to complete the process in the course of 2008.

Effective January 1, 2007, the CBA decided to increase the minimum risk-weighted capital asset ratio for banks from 10 percent to 12 percent. This decision was made because the potential risks for banks operating in a small and undiversified economy are quite high, inducing the maintenance of sufficient reserves to absorb possible losses stemming from eventual economic downturns. However, branches or subsidiaries of international banks that fall under consolidated supervision are allowed to maintain a minimum risk-weighted capital asset ratio of 8 percent.

Aruba, as part of the Kingdom of the Netherlands, is a member of the Financial Action Task Force (FATF), the internationally recognized standard-setter in the area of anti-money laundering and combating terrorist financing. Aruba has committed itself to implement the 40+9 FATF recommendations in the area of combating money laundering and terrorist financing. Ongoing review of the legislative framework and practices in these areas against the FATF's standards is necessary. In this regard, an FATF mutual evaluation of Aruba is planned for November 2008. This evaluation will provide Aruba with a detailed view of its current status vis-à-vis the FATF 40+9 recommendations in the area of anti-money laundering and combating terrorist financing and will serve as an important tool for designing a roadmap for furthering compliance with the FATF standards.

The CBA continuously strives to strengthen its operations. To this end, it has undertaken several measures aimed at ensuring the mitigation of the different risks to which it is exposed. In 2007, the CBA continued to focus on further improving IT security and data integrity, given the high technology-based environment and the associated risks to the institution. It upgraded its IT network infrastructure to improve performance and functionality, and also, to guarantee support regarding technical issues. Also in 2007, the CBA finished the review of the Operations and Accounting Departments, which entailed a reassessment of the administrative processes and procedures as well as the identification of the different risks associated with these processes and the appropriate controls needed to mitigate these risks. In 2008, the CBA will continue to review the administrative organization of several of its departments, as well as the risk measures currently in place.

In 2007, the financial operations of the CBA again produced favorable results. Its profits rose by Afl. 5.0 million to Afl. 16.4 million, largely because of an increase in net interest revenues due to higher yields on its U.S. dollar investments. However, in today's highly volatile international financial environment the CBA's financial accounts cannot remain immune to rapid changes in interest rates, financial assets and gold prices, and their potential effects on the CBA's income. In this context the CBA, with the assistance of the Dutch central bank, the Nederlandsche Bank N.V. (DNB), has been studying the possibilities of using an ALM model (an Assets & Liabilities Management Model). This model will provide the CBA a new tool to help gain better insight into its balance sheet risks and support its future policy making decisions on investments, asset composition, including its gold holdings, and profit distribution.

In closing, the Executive Committee would like to present its thanks and appreciation to all members of the staff for their dedication and valuable contributions to the work of the CBA, and the Board of Supervisory Directors (the Board) for their continued support.

THE BUSINESS OF THE CBA

2.1 Core functions

The CBA, instituted on January 1, 1986, 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 institutions.

2

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 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. 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, published in monthly, quarterly, and annual reports.
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, 2007, florin currency in circulation totaled Afl. 225.7 million, an increase of 11.9 percent, or 1.7 percentage points higher than in 2006 (see Table 2.1). This growth rate exceeded the 8.4 percent rise in nominal GDP,



Afl. 500 *Mero (Epinephelus morio) - A grouper*



Afl. 100 *Dori (Pleurodema brachyops) - A frog*



Afl. 50 *Shoco (Speotyto cunicularia arubensis) - An owl*



Afl. 25 *Cascabel (Crotalus durissus unicolor) - A rattle snake*



Afl. 10 *Calco Indjan (Melongena melongena) - A conch*

Aruban banknotes (2003 series)

resulting in a 0.1 percentage point increase in the ratio of total florin currency in circulation to nominal GDP to 4.8 percent (2006: 4.7 percent). This ratio remains under that of many countries due to a significant co-circulation of U.S. dollars in the domestic economy largely related to tourism activities, as well as a further growth in the use of debit and credit cards for settling transactions. According to the information submitted by the commercial banks to the CBA, total domestic growth in residents' debit card transactions (excluding ATM transactions) slowed down somewhat compared to last year. Nonetheless, the total number of transactions and the total amount of debit card transactions increased by 18.0 percent and 19.6 percent, respectively.

Table 2.1: Florin currency in circulation

(in Afl. million)

	2003	2004	2005	2006	2007
Notes	149.1	145.5	162.7	180.1	202.7
Coins	16.3	17.1	20.3	21.6	23.0
Total currency	165.4	162.6	183.0	201.7	225.7

Source: CBA.

According to article 7 of the CBO and article 3 of the State Ordinance Governing the Monetary System (SOGMS), florin bank notes are issued in denominations of Afl. 10, Afl. 25, Afl. 50, Afl. 100, and Afl. 500. The demand for florin bank notes continued to increase: at end-2007, the total value of florin bank notes in circulation reached Afl. 202.7 million, an increase of 12.5 percent. The Afl. 100 denomination maintained its position as the largest share in the total number of notes issued.

Article 7 of the CBO and article 6 of the SOGMS state that the CBA issues coins on behalf of the government, in denominations of 5 cents, 10 cents, 25 cents, 50 cents, 1 florin, 2½ florin, and 5 florin. The increase in the number of coins in circulation in 2007, excluding commemorative coins, was divided proportionately among all the denominations, with the exception of the 2½ florin coins, which grew marginally.

In 2007, the CBA issued a silver commemorative coin with a nominal face value of 5 florin on the occasion of the International Year of the Dolphin.

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 and power company (WEB), the telecommunications company (SETAR), the civil servants pension fund (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 functional since 1997.

Despite the growth in the use of debit cards as a means of payment, the volume and value of checks used increased in 2007. Illustrative is that the volume of checks processed through the clearing system grew by 4.2 percent in 2007 to 523,000 checks compared to 502,000 processed in 2006. The total value of cleared checks went up by 6.3 percent to Afl. 2.2 billion. The volume and value of funds transferred through the clearing system continued to increase by 14.7 percent and 40.0 percent, respectively, in 2007.

Chart 2.1: Transactions processed by CBA Clearing System

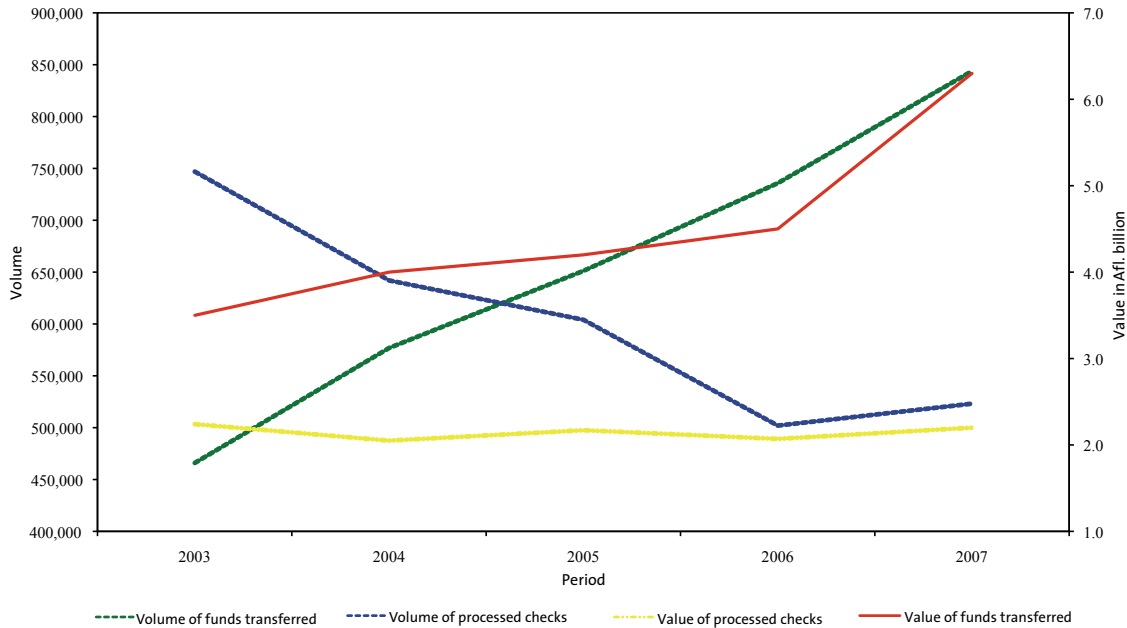


Chart 2.1: The volume of processed checks had been showing a decreasing pattern until 2006, but increased somewhat in 2007. The value of processed checks remained fairly stable between 2003-2007. Both the volume and value of funds transferred showed an increasing trend over this same period.

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. The CBA does not charge any fee on the domestic and foreign payments carried out on behalf of the government, in conformity with article 14 of the CBO. These payments are cleared through the Treasury’s current account held with the CBA, the balance of which amounted to Afl. 20.4 million at the end of 2007. Government deposits held in earmarked accounts rose by Afl. 4.7 million to Afl. 17.4 million. The development funds account, managed by the Fondo Desaroyo Aruba (FDA), increased by Afl. 39.2 million in 2007 to Afl. 41.6 million at the end of the year.

In 2007, the CBA assisted in the renewal of two 3-month treasury bill issues, which summed to Afl. 40.0 million, and Afl. 8.0 million in 6-month cash loan certificates. The yields on the treasury bills moved between 4.34 percent and 4.78 percent. The average yield on these treasury bills trended upwards in line with tightened liquidity conditions: in 2007 the average yield was 4.50 percent compared to 4.27 percent in 2006. The yields on the renewal of the two cash loan certificates were 4.60 percent and 4.89 percent, respectively.

2.3 International payment system

2.3.1 Daily exchange rate fixing

During the year, 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, the CBA publishes daily quotations for nine other foreign currencies based on data provided by the European Central Bank (ECB). These rates are also published daily on the website of the CBA. In 2007, the selling rate of the euro against the Aruban florin varied between Afl. 2.32 and Afl. 2.68, while the buying rate for this currency fluctuated between Afl. 2.28 and Afl. 2.63. By the end of 2007, the euro had appreciated against the Aruban florin by 11.8 percent or Afl. 0.28 to Afl. 2.65 (2006: Afl. 2.37).

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) fell by 10.2 percent in 2007 to Afl. 11.6 billion at year end. Settlements in U.S. dollars continued to be the largest component of this total at 89.9 percent. The share of settlements in other currencies (excluding the euro and the U.S. dollar) went down by 3.3 percentage points to 4.5 percent in 2007 compared to 2006.

2.3.3 Foreign exchange license policy

During 2007, the CBA's foreign exchange policy remained unchanged. Current foreign exchange payments can be executed without any restriction. 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 the investments, based on the total liabilities, be invested locally.

Based on the Notice concerning Foreign Exchange Transactions AW 2005/1, commercial banks also require a special foreign exchange license when granting loans to nonresidents exceeding the amount of 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.

In 2007, the CBA continued to aim at expeditiously process applications for foreign exchange licenses. In total the CBA issued 759 special foreign exchange licenses, i.e., 23.0 percent or 142

licenses more than in 2006 (see Table 2.2). Nonetheless, the total amount of the transactions for which licenses were granted shrank by Afl. 451.5 million or 17.1 percent to Afl. 2.2 billion in 2007 compared to 2006, due to a drop in the amount of transactions related to real estate and loans. Only one special foreign exchange license was granted related to infrastructure.

Table 2.2 Foreign exchange licenses granted

	2003	2004	2005	2006	2007
In numbers	66	103	138	617	759
Total amount (in Afl. million)	608.9	471.9	655.7	2,646.7	2,195.2

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 reported foreign accounts.

However, certain transactions are exempted from payment of the foreign exchange commission. Exemptions include 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 as amended in 2001. In accordance with article 12 of the State Ordinance on the Free Zone, as amended in July 2000, 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 State Ordinance on Foreign Exchange Transactions (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 foreign exchange commission. However, due to the amendment in the tax regime of the AVVs, all AVVs incorporated after January 1, 2006 are considered resident and, for that reason, should pay foreign exchange commission unless they have obtained an exemption in accordance with article 19 of the SOFET.

The government is responsible for determining the policy concerning the foreign exchange commission, while the CBA is entrusted with the collection thereof. In 2007, the CBA collected Afl. 41.7 million in foreign exchange commission, i.e., Afl. 15.6 million or 27.2 percent less than a year earlier. In 2006, the proceeds were exceptionally high mainly due to some incidental transactions. From the total amount collected in foreign exchange commission, Afl. 37.5 million was transferred to the Treasury during 2007.

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. To this end, it 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 keep a certain level of official reserves held at the CBA, while the 40-60 percent investment rule also aims at maintaining a certain level of investments domestically. The policy of the CBA regarding the management of the official foreign exchange reserves remained unchanged in 2007. It pursues a conservative investment policy to minimize potential losses. Foreign exchange reserves are invested in U.S. government and government-guaranteed papers, paper issued by qualifying supranational financial institutions, and money-market instruments of and accounts held with at least double A-rated credit institutions. The proceeds from these investments are reflected in the CBA's income.

2.5 Monetary policy

During 2007, the CBA did not alter its monetary policy. The overall banking sector credit growth limitation was kept at 5 percent for both consumer credit and the remaining credit components (including business loans and housing mortgages) for 2007 and was calculated based on the outstanding loan portfolio balance as of end 2006 or on the limit determined by the CBA at the beginning of 2007. The penalty fee remained unchanged at 8 percent, while the monetary cash reserve requirement was kept at 9.5 percent. There was also no change in the B-9 rule and the compensating fee for any deficiency in the monetary cash reserve requirement.

The main objective of the CBA's monetary policy is the maintenance of relative price stability. The peg of the Aruban florin to the U.S. dollar is the principal fixed target of this policy, while the CBA will remain vigilant in monitoring the flows of foreign exchange payments and receipts to assure an adequate level of international reserves to defend this peg. The recent inflationary trends do not leave room for any complacency and, therefore, monetary policy for 2008 will be kept virtually unchanged. The maximum permissible target for credit growth will remain at 5 percent for 2008, but the separate monitoring of consumer credit and the other credit components (including business loans and housing mortgages) will be eliminated.

However, it is 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. The current monetary cash reserve requirement will be gradually eliminated, while simultaneously introducing a reserve requirement that will no longer be part of the prudential liquidity requirement.

2.6 Prudential supervision

Prudential supervision is aimed primarily at maintaining the stability and integrity of the financial system. To this end, offsite 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.

In conformity with the IMF's recommendations and also with a view to protect the reputation of Aruba as a premier location for conducting international financial activities, the supervisory scope should be extended to other currently unregulated parts of the financial sector. With respect to this extension, it is noteworthy to mention that a law regulating company service providers was drafted and based upon the comments received from the industry, a revised draft regulating company service providers has been prepared and is now in the legislative process. Furthermore, the CBA has submitted a proposal to the Minister of Finance and Economic Affairs to bring stock exchange activities under its supervision. Additionally, proposals are being drawn up to strengthen the current supervisory laws regulating the banking and insurance industry.

To increase its ability to protect the interests of depositors and policyholders, in August 2006 the CBA issued revised policy rules regarding the admission and licensing of banks and insurance companies. Under the revised policy rules, only international banks and insurers that meet the criteria laid down in said policy rules are allowed to continue their activities via a branch office or agency in the Aruban market after July 1, 2007. This date was later extended to December 31, 2007, partly because of the tax issues arising from the transfer of assets and liabilities to the Aruban legal entities. To date, none of the institutions not qualifying to continue their activities via a branch office or agency have yet fully implemented the revised policy rules. However, much progress has been made lately by most of the companies concerned. Full implementation is expected in the course of 2008. The CBA will continue to strictly monitor the progress in this area.

2.7 Financial highlights

- ◆ At end-2007, the CBA's total assets rose by Afl. 99.7 million or 13.3 percent to Afl. 852.1 million compared to end-2006, due mainly to an Afl. 61.4 million increase in the foreign currency assets of the CBA and an Afl. 39.9 million revaluation of gold holdings.
- ◆ Total gross income (net of interest expenses) grew by Afl. 6.7 million or 27.5 percent to Afl. 30.9 million, because of a rise in net interest revenues stemming from higher yields on U.S. dollar investments.
- ◆ Total expenses went up by Afl. 1.6 million or 12.0 percent to Afl. 14.5 million, mainly attributed to a 13.0 percent increase in salaries and social security expenses as well as a 17.2 percent rise in operating expenses.
- ◆ For 2007, net profit amounted to Afl. 16.4 million, i.e., Afl. 5.1 million or 45.3 percent more than in 2006.

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. This brings with it a heavy workload, but allows the CBA to operate as optimally as possible with a relatively small staff. At the end of December 2007, the CBA employed 67 persons full-time compared to 64 persons in 2006. The labor contract of one employee was terminated under a mutual agreement, while four persons were hired. Also, in 2007, Mr. R. Henriquez left the CBA upon the completion of his term of office, and Mr. H. Mehran succeeded him as the President of the CBA.

As of January 1, 2008, several changes were made with respect to the organization of the CBA. As of that date, the Internal Audit Department reports directly to the President and indirectly to the Board of Supervisory Directors. Also, the Economic Policy Department was divided into two new departments: the Statistics Department and the Research Department. Both departments report to the General Manager (GM) Economic Policy (a newly established position).

The CBA promoted eight employees in the first half of 2008. Mrs. M. Tromp-Gonzalez and Mr. P. Mungra were appointed to the position of GM Economic Policy and GM Supervisory Issues, respectively. Mr. W. Atmowiriono and Mr. M. Agunbero became Manager, Statistics Department and Manager, Supervision Department, respectively, while Mr. J. Ridderstaat was appointed as the Manager of the Research Department. Mrs. E. Matos-Pereira, Mrs. M. Arends, and Mrs. P. Tromp-Gomez were promoted to Deputy Managers of the Research Department, the Statistics Department, and the Supervision Department, respectively.

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. In 2007, the CBA also hosted one course and one conference. During May 14-19, 2007, it hosted the course "Bank Analysis and Examination School", a regional training program for supervisors from Caribbean countries. This course was organized by the Caribbean Group of Banking Supervisors (CGBS), and the presentations were given by representatives of the U.S. Federal Reserve System. From September 5-7, 2007, the CBA hosted the IX Meeting on Central Bank Internal Audit. Several topics were discussed including operational risk management and strategies to assess projects that intensively incorporate the use of IT. A workshop with the topic "Evaluation of the Internal Audit Quality" was also included during this meeting.

2.8.3 Risk management

The CBA undertakes several measures geared at ensuring the mitigation of the different risks to which it is exposed. Given the high technology-based environment and the associated risks to the institution, in 2007, the CBA continued with its focus on further improving IT security and data integrity. It upgraded its IT network infrastructure in order to improve performance and functionality and to guarantee support regarding technical issues. Based on an IT security audit that was conducted in 2006, the CBA invested in extra appliances for redundancy purposes while implementing a blade server environment.

As a technology-dependent organization, the CBA also began with the first phase of setting up a Disaster Recovery Plan. In 2006, a Recovery Health Check assessment was performed on the different systems and applications of the CBA and focused primarily on the current disaster readiness of the CBA's technology. To ensure that its core business functions are recovered as quickly and effectively as possible following an unforeseen event that would interrupt normal business operations, the CBA, with the assistance of external experts, is currently developing an IT technology recovery plan.

In 2007, the CBA concluded the review of the Operations Department and the Accounting Department. This review entails a reassessment of the processes and procedures, as well as the identification of the different risks associated with these processes and the appropriate controls needed to mitigate these risks. With the assistance of the DNB, the CBA started in 2008 with a review of the administrative processes and procedures of the Cash and Vault Department. In 2008, the CBA will continue to review the administrative organization of several other departments.

2.8.4 Activities in 2007 and outlook for 2008

As part of the CBA's objective to expand and improve its publications, the CBA published in 2007 its first Annual Statistical Digest (ASD). This report contains a wide range of historical data on the financial, real, external and public sectors. The ASD 2007, the second annual publication, was published in March 2008. For 2008, the CBA is planning to further improve existing database statistics by conducting various surveys, to expand its regular and other publications, and to enhance its Management Information System. The CBA will also invest in technology to improve efficiency in the areas of statistical compilation, reporting, and analysis.

In 2007, the CBA started with the design and implementation of a new reporting framework for the commercial banks. This framework will replace in due time the current monthly statement and its appendices.

In the course of 2008, the CBA is also planning to move from the use of direct monetary instruments (credit ceilings) to more market-oriented indirect instruments, entailing initially cash reserve and liquidity requirement. To this end, with the technical assistance of DNB, the CBA will work on improving its liquidity forecasting method.



Members of the Board of Supervisory Directors, from left to right:
T.R.L. Vingal, M.R. Croes, A.J. Swaen, H.O. van Trikt, G.G. Oduber



The Executive Committee, from left to right:
J.R. Figaroa-Semeleer, H. Mehran, K.A.H. Polvliet



Department Managers and the Executive Committee



Department Managers and the Executive Committee (continued)



Members of the staff of the CBA

ECONOMIC AND FINANCIAL DEVELOPMENTS

3.1 International environment

For the fifth consecutive year, the world economy experienced a robust growth of an estimated 4.9 percent in 2007, despite a further increase in commodity prices and a persisting financial crisis (see Box 1). This growth was driven mainly by the emerging countries—headed by China and India—, which grew by 7.9 percent, that together with general conditions conducive to employment and corporate profitability, limited the impact of the above-mentioned shocks. Growth in the advanced countries significantly lost momentum, particularly as a result of the slump in the housing markets. Inflationary pressures grew further to an estimated 3.9 percent in 2007, reflecting mainly rising oil and food prices.

3

Box 1: The global financial crisis

The current global financial crisis began in August 2007 as a problem in one sector in a single economy, i.e., the housing market in the United States. An increase in seriously delinquent subprime mortgages from 6 to 9 percent between the second quarter of 2006 and the second quarter of 2007 disrupted the US\$ 57 trillion U.S. financial system, and triggered a worldwide financial turmoil, which led to growing liquidity constraints in the banking sector. What was first considered to be a crisis in one segment of the U.S. market spread rapidly and spectacularly throughout the world, bringing up structural shortages to light on the workings of new forms of financial intermediation. The shock has forced significant write-offs at some of the largest financial institutions in the world. Recent IMF estimates indicate that the total potential writedowns and losses could approximate US\$ 945 billion.

Subprime loans are loans granted to individuals with a high credit risk. The latter may be due to an adverse credit history or to other characteristics associated with a high probability of default. The roots of this crisis date back to 1997, when the value of houses started to increase, a process that went on until 2007 when the total value of properties had grown up to US\$ 12 trillion. But the U.S. housing market is an example of an asset bubble that ended up in tears in the end. In fact, it was one of the biggest asset bubbles in history, for which banks and investors are now experiencing the consequences of their taking of excessive risks in their lending behavior. This crisis also made it clear that a careful credit policy is necessary to guarantee financial stability and to protect consumers. Financial institutions have to know exactly the underlying collaterals behind the securities they hold in their portfolios, and they have to review their risk assessment methods. Finally, supervisory authorities throughout the world have to strengthen their monitoring and supervisory practices to meet the needs of a dynamic market development.

The global financial crisis presented a major challenge to the policy makers in a number of advanced-country central banks, including the Federal Reserve, the European Central Bank, and the Bank of England. In general, central banks have responded by lowering their policy interest rates and by amending the terms of their usual lending facilities to provide liquidity to the interbank markets. Despite these responses, the impact of this financial crisis is likely to persist in the coming months, and most forecasters, including the IMF, have already lowered their growth estimates for the world economy for 2008.

Source: Board of Governors of the Federal Reserve System; IMF; Bloomberg; Economic Intelligence Unit; Central Bank of Belgium; DNB.

The U.S. economy grew by an estimated 2.2 percent in 2007, i.e., the slowest rate since 2002, against 2.9 percent in 2006. This development was triggered by a less strong growth in domestic demand which decreased by 0.9 percentage point to 1.8 percent in 2007. The decrease was influenced by a further decline in housing investment, which slowed the expansion of economic activity by about 0.6 percentage point of GDP. Other categories of domestic expenditures (excluding the change in stocks) contributed positively to the growth and appeared to be only slightly affected by the financial turmoil in the housing market. Net exports made a substantially positive contribution to the growth in GDP, compared to previous years. Inflation slowed down by 0.4 percentage point to 2.8 percent in 2007, as a result of the slackening pace of increases in energy costs. However, the labor market showed a less positive outcome, as the growth in employment mitigated while the unemployment rate increased as of the second quarter of 2007.

The Japanese economy experienced another year of economic growth, the fifth in a row, but its growth lost some momentum in 2007. Real GDP grew by 2.1 percent in 2007, compared to 2.4 percent in 2006. The expansion was sustained by net increases in consumption, investments and exports. Inflationary pressures were virtually nonexistent, a sign that the risk of deflation is still present in the Japanese economy. Its labor market conditions remained stable.

The Chinese economy grew at about the same pace as in 2006, and in double-digits for the fifth consecutive year. Its GDP grew by 11.4 percent (2006: 11.1 percent) in real terms, attributed mainly to net exports and investments. The domestic consumption also expanded by more than 10 percent. The Chinese CPI rose by 4.5 percent, which is almost three times higher than a year earlier (2006: 1.6 percent), and was mainly attributable to higher prices for food, which accounts for about one-third of China's CPI. The Indian economy, on the other hand, grew at a lower pace, i.e., 9.2 percent, mainly because of higher investments. India's inflation rate increased slightly to 6.4 percent.

In the Euro area, growth in 2007 reached 2.6 percent compared to 2.8 percent in 2006. This slightly moderated growth was attributed mainly to domestic demand which grew by 2.3 percent (2006: 2.6 percent), following lower housing construction activities. Investments remained virtually unchanged, while net exports of goods and services rose somewhat. The unemployment rate contracted by nearly one percentage point to 7.4 percent, while employment opportunities grew at almost the same pace as a year earlier.

Macroeconomic performance in Latin America and the Caribbean was positive in 2007. The Latin American economy grew by 5.7 percent, while that of the Caribbean expanded by 3.9 percent. The lending market crisis in the United States did not have a considerable impact on the growth in these regions in 2007. Average inflation in the Latin American and the Caribbean countries reached 6.1 percent, compared to the historical low of 5.0 percent a year earlier.

According to the IMF's most recent World Economic Outlook (April 2008), global expansion is projected to slow down by 1.2 percentage points to 3.7 percent in 2008, as it is losing speed in light of the major financial crisis mentioned earlier. The U.S. economy is expected to experience a mild recession in 2008, with only a gradual recovery in 2009. The Euro area is projected to grow at nearly half the speed of 2007, while growth in emerging countries is again projected at a rapid, albeit somewhat moderated pace.

3.2 Domestic real sector

Calculations made by the IMF indicate that in 2007 the Aruban economy expanded by 2.1 percent in real terms, compared to 0.6 percent in 2006 (see Table 3.1). This outcome was driven largely by a recovery of the tourism sector, resulting in a 3.8 percent growth in exports of goods and services, and was aided further by a 1.3 percent increase in consumption. Investment decreased by 0.2 percent, while imports of goods and services grew by 1.7 percent. When compared to the figures of a selected number of Caribbean nations, Aruba's economy grew at a generally relatively slower pace.

Table 3.1: Gross domestic product
(in constant prices)

	2003	2004	2005	2006	2007
	<i>(percentage change)</i>				
1. Aruba: GDP and its components					
Real gross domestic product	1.5	7.5	1.0	0.6	2.1
Final consumption	1.7	1.9	2.1	2.0	1.3
Gross capital formation	9.0	4.3	16.9	5.7	-0.2
Exports	-2.4	10.0	6.9	-4.3	3.8
Imports	2.5	2.3	14.6	-0.1	1.7
2. GDP: Selected Caribbean countries					
Bahamas	1.0	1.3	2.5	4.0	3.1
Barbados	2.0	4.8	4.1	3.9	4.2
Eastern Caribbean Currency Union 1)	3.2	3.6	5.2	5.9	4.1
Jamaica	2.3	1.0	1.4	2.5	1.4
Netherlands Antilles	1.7	1.2	1.1	2.3	4.0
Trinidad & Tobago	14.4	8.8	8.0	12.0	6.0

Source: IMF; CBS Netherlands Antilles; Central Bank of the Bahamas; Central Bank of Barbados; Eastern Caribbean Central Bank; Statistical Institute of Jamaica; Central Bank of Trinidad and Tobago.

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

According to preliminary data published by Aruba's Ministry of Tourism, the number of stay-over visitors grew by 8.6 percent in 2007, in contrast to a 5.2 percent decrease in 2006 (see Table 3.2). This rebound materialized despite higher oil prices on the international market, which resulted in increased airline fares and rising inflation risks throughout the world and was brought about by increases in all markets, but in particular the Venezuelan market, during the

last four months of 2007. The growth in Aruba’s stay-over tourism contrasted with that of the Caribbean region which decreased by an estimated 2.1 percent. Consequently, Aruba’s share in Caribbean stay-over tourism increased by 0.2 percentage point to 3.7 percent. According to the CBS, the average occupancy rate of the hotels rose by 1.0 percentage point to 77.8 percent, the average daily rate of the hotels by 3.0 percent to Afl. 326, and the revenue per available room by 4.9 percent to Afl. 155. The latter was the highest since 2005.

Table 3.2: Main indicators of tourism activity

	2003	2004	2005	2006	2007
Tourism receipts (in Afl. million)	1,522.7	1,882.7	1,952.6	1,926.2	2,244.3
Tourism receipts as a percentage of GDP	42.1	47.3	46.9	44.4	47.8
Tourism receipts per capita (in Afl.)	16,015.6	19,278.5	19,401.1	18,733.9	21,584.7
Stay-over visitors (in thousands)	641.9	728.2	732.5	694.4	753.8
Stay-over visitors per capita	6.8	7.5	7.3	6.8	7.2
Visitor nights (in thousands)	5,097.6	5,639.9	5,694.5	5,470.5	n.a.
Average hotel occupancy rate (in percent) 1)	74.4	80.7	81.7	76.8	77.8
Average daily rate hotels (in Afl.) 1)	240	266	317	317	326
Revenue per available room (in Afl.) 1)	124	151	170	148	155
Cruise visitors (in thousands)	542.3	576.3	552.8	591.5	481.8
Aruba’s market share in the Caribbean (in percent)					
- Stay-over visitors	3.5	3.8	3.7	3.5	3.7
- Cruise tourism	3.1	2.9	2.9	3.1	2.4

Source: CBA; ATA; CBS; CTA; CTO; Ministry of Tourism.

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

Chart 3.1: Growth in stay-over and cruise tourism in 2007 in selected Caribbean countries and the Caribbean as a whole (percentage change)

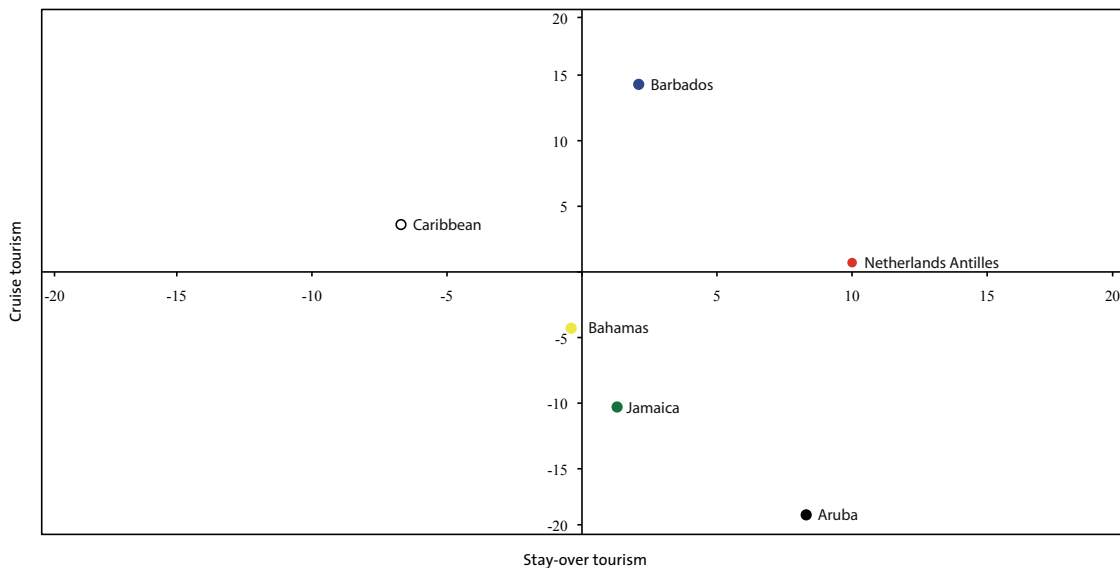


Chart 3.1: While Aruba’s stay-over tourism developed positively in 2007, its cruise tourism was nearly 20 percent below that of 2006. A similar development occurred in Jamaica, while Barbados and the Netherlands Antilles experienced positive outcomes in both types of tourism. Overall, the Caribbean tended more towards a positive result in cruise tourism and a negative performance in stay-over tourism.

Cruise tourism in Aruba, however, registered an 18.5 percent decline in the number of passengers, compared to a 3.6 percent increase in the Caribbean region as a whole, thereby lowering Aruba's cruise tourism market share in the Caribbean by 0.7 percentage point to 2.4 percent. On balance, gross tourism receipts, as registered on a cash basis in the balance of payments, rose by 16.5 percent to Afl. 2,244.3 million in 2007, which is equal to 47.8 percent of Aruba's GDP. These receipts accounted for 76.6 percent of total current account receipts (excluding the oil and free-zone sectors), 2.4 percentage points more than in 2006.

Table 3.3: Inflation

	2003	2004	2005	2006	2007
	<i>(in percent)</i>				
1. Aruba: inflation indicators					
12-month average	3.7	2.5	3.4	3.6	6.0
End of period	2.3	2.8	3.8	2.5	10.2
Real effective exchange rate index (1995= 100) 1)	105.2	105.0	105.0	105.4	108.7
	<i>(12-month average)</i>				
2. Selected Caribbean countries					
Bahamas	3.0	1.0	1.6	2.4	2.5
Barbados	1.6	1.4	6.0	7.3	2.7
Eastern Caribbean Currency Union 2)	1.6	2.1	3.1	3.4	3.6
Jamaica	10.2	13.5	15.1	8.4	9.3
Netherlands Antilles	1.5	1.5	3.8	2.8	2.8
Trinidad & Tobago	3.8	3.7	6.9	8.3	7.9

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

Compared to 2006, the 12-month average growth in the CPI accelerated by 2.4 percentage points to 6.0 percent at the end of 2007 (see Table 3.3). This acceleration was caused by various factors, both of internal and external nature, i.e., the introduction of the BBO in January 2007, and a 9.4 percent higher average oil price (West Texas Intermediate) thereby affecting the energy-related components of inflation (water, electricity, and gasoline), which on their turn led to additional indirect effects on the inflation. When adjusted for the energy-related components, the inflation rate of Aruba accelerated to 5.0 percent in 2007, up from 1.9 percent in 2006. The inflation rate was 3.1 percentage points above that of the United States, Aruba's major trading partner, thus resulting in an increase in the real exchange rate index of the Aruban florin vis-à-vis the U.S. dollar from 105.4 in 2006 to 108.7 in 2007. Compared to some selected Caribbean countries, Aruba's 12-month average inflation rate was in general higher, with the exception of Jamaica and Trinidad and Tobago.

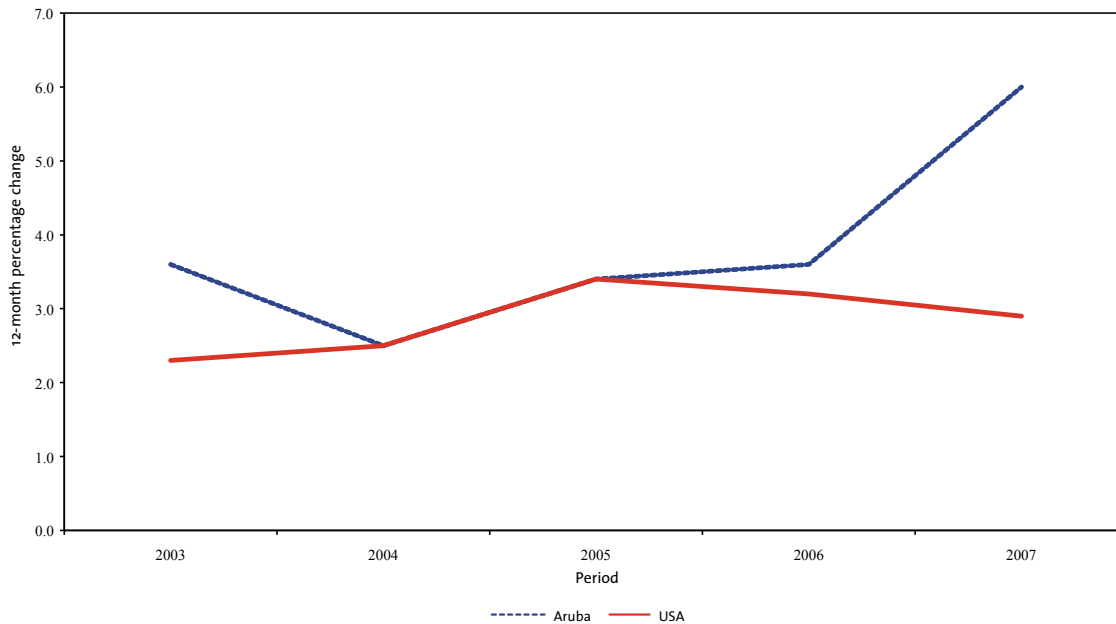
Chart 3.2: Inflation Aruba versus the USA

Chart 3.2: Aruba's inflation rate has been showing an increasing trend since 2005, while that of its main trading partner, the United States, has shown the opposite pattern. This development not only widens the inflation differential, but it also affects Aruba's competitive position compared to other tourism-based Caribbean countries.

During 2007, total imported cement contracted by 0.7 percent, down from 11.6 percent a year earlier (see Table 3.4). The number of building permits granted declined by 11.7 percent, primarily because fewer permits for house construction were granted. The corresponding construction value of permits granted shrank by Afl. 78.1 million or 14.9 percent, reflecting mainly a contraction in permits granted for the renovation and expansion of existing buildings. The number of electrical installations approved fell by 13.2 percent, due to declines in approvals for houses.

In 2007, water (measured in m³), electricity (measured in KWH) and gas consumption (measured in pounds) rose by 2.4 percent, 2.6 percent and 3.7 percent, respectively. The value of consumed water, electricity and gas increased by 6.7 percent, 6.3 percent and 18.3 percent, respectively, largely reflecting price increases of these utilities. The price increases of water and electricity have a significant influence on Aruba's CPI, as the total weight of these two components accounts for 12.5 percent of the CPI. On balance, the weighted utilities consumption index rose by 3.5 percent to 142.9 (2006: +0.5 percent).

Compared to 2006, the refinery's production volume (in barrels) expanded by 6.6 percent in 2007 (2006: -21.4 percent). Export revenues and crude oil import payments increased by, respectively, 4.9 percent to Afl. 8,500.0 million (2006: +6.6 percent) and 10.0 percent to Afl. 7,184.2 million (2006: +10.6 percent). As a result of these transactions, the refinery posted a profit before taxes of Afl. 755.4 million (US\$ 422 million or 6.3 percent of the company's total income before taxes) in 2007 compared to Afl. 571.0 million (US\$ 319 million or 4.0 percent of

the company's overall income before taxes) in 2006 (Valero Energy Corporation, *Form 10-K*, USA, March 2008). In 2007, Valero announced that it was considering selling the refinery in Aruba. Several foreign companies have already expressed their interest in purchasing this refinery.

Table 3.4: Other selected indicators of the real sector

	2003	2004	2005	2006	2007
1. Merchandise trade statistics 1)					
Exports of goods (in Afl. million)	35.9	40.2	36.1	46.4	55.8
Imports of goods (in Afl. million)	1,417.9	1,474.4	1,700.8	1,736.7	1,875.5
Trade balance (in Afl. million)	-1,381.9	-1,434.2	-1,664.7	-1,690.3	-1,819.7
2. Utilities					
Water consumption (in thousand m ³)	11.7	11.4	11.4	11.5	11.7
Electricity consumption (in thousand KWH)	701.6	729.8	759.3	761.4	781.1
Gas consumption (in thousand pounds)	18.2	18.9	19.1	19.3	20.0
Utilities index (1996=100)	131.6	134.8	138.9	139.4	142.9
3. Airport activities					
Number of airport passengers (in thousands)	1,545.8	1,734.1	1,714.5	1,638.1	1,837.4
Number of aircraft landings	32,078	33,655	33,768	33,088	35,774
4. Oil refining					
Export of refined oil (in Afl. million)	3,120.2	5,036.4	7,602.4	8,100.8	8,500.0
Import of crude oil (in Afl. million)	2,669.8	4,266.6	5,909.7	6,533.8	7,184.2
Quantity of oil refined (in thousand barrels)	63,155	77,468	78,236	61,486	65,525
Number of employees	662	654	696	709	695
5. Construction					
Number of construction permits granted	1,269	1,474	1,584	1,303	1,151
Value of construction permits granted (in Afl. million)	243.9	207.1	283.2	525.7	447.6
Cement imported (in thousand Kg)	64,497.1	59,675.3	88,719.0	78,412.6	77,832.2
Electrical installations approved	3,021	2,541	2,763	2,463	2,138

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.

During 2007, total merchandise imports grew by 8.0 percent to Afl. 1,875.5 million (2006: +2.1 percent), reflecting mainly higher imports of real natural pearls and other precious stones and optical instruments, apparatus, and equipment. Total merchandise exports expanded by 20.3 percent to Afl. 55.8 million (2006: +28.6 percent), due largely to higher exports of chemical products and base metals and derived works. The resulting trade deficit widened by Afl. 129.4 million or 7.7 percent to Afl. 1,819.7 million.

The increase in stay-over visitors contributed to the growth in the number of airport passengers which amounted to 12.2 percent (2006: -4.5 percent). The number of aircraft landings rose by 8.1 percent, mostly attributable to commercial flights.

3.3 Financial sector

In 2007, money supply expanded by Afl. 83.0 million or 3.3 percent to Afl. 2,567.3 million, up from Afl. 57.5 million or 2.4 percent in 2006. The monetary growth reflected a 9.6 percent rise in narrowly-defined money, while quasi-money fell by 1.2 percent. The reserve to monetary base ratio increased to 155 percent, up from 150 percent in 2006. The ratio of money supply to nominal GDP decreased by 2.6 percentage points to 54.7 percent in 2007 (see Table 3.5).

The expansion in money supply was caused in part by an Afl. 54.5 million net inflow of funds from abroad. Consequently, net foreign assets of the monetary system (excluding revaluation differences of gold and official foreign exchange holdings) grew by Afl. 54.5 million or 8.4 percent to Afl. 708.2 million. The rest of the economy (excluding the oil and free-zone sectors) bought on balance Afl. 46.6 million in foreign exchange from the banking system to finance its foreign transactions. The oil and free-zone sectors, on the other hand, sold on balance Afl. 101.1 million in foreign exchange to the commercial banks during 2007.

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

	2003	2004	2005	2006	2007
1. Net domestic money creation	241.7	51.3	201.4	1.8	28.4
Net domestic credit	218.5	117.1	217.6	53.8	97.2
- Public sector	19.3	21.3	22.8	-48.1	5.1
- Private sector	199.2	95.8	194.8	101.8	92.1
Other domestic factors	23.2	-65.8	-16.2	-52.0	-68.8
2. Inflow of foreign funds 1)	-61.2	19.9	-59.8	55.8	54.5
Oil sector	144.0	69.3	110.9	230.1	95.7
Free-zone sector	11.5	9.6	13.0	9.6	5.4
Rest of economy	-216.7	-59.0	-183.7	-184.0	-46.6
Current account (net)	-293.0	-11.3	-357.7	-77.4	384.0
Capital and financial account (net) 2)	231.8	31.1	297.9	133.1	-329.5
3. Broad money creation	180.5	71.1	141.6	57.5	83.0
Money	88.7	27.6	4.1	82.4	100.7
Quasi-money	91.8	43.5	137.4	-24.9	-17.7
4. Key indicators (in percent)					
12-month change in money supply	8.9	3.2	6.2	2.4	3.3
Broad money coverage 3)	28.8	28.8	24.6	26.3	27.6
Money supply to GDP	61.2	57.4	58.4	57.3	54.7
Reserve to monetary base 4)	151	145	142	150	155
Liquidity (in Afl. million) 5)	921.3	841.8	862.2	986.4	1,075.1
Credit growth (in Afl. million)	191.5	116.6	180.5	95.9	96.7

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 also contributed to the rise in money supply. These assets rose by Afl. 28.4 million or 1.6 percent to Afl. 1,859.2 million in 2007, compared to Afl. 1.8 million (0.1 percent) in 2006, and were brought about by an Afl. 92.1 million or 3.9 percent growth in commercial bank lending to the private sector. Housing mortgages, loans to enterprises, and consumer credit went up by, respectively, Afl. 38.3 million (5.1 percent), Afl. 30.9 million (3.0 percent) and Afl. 30.8 million (5.8 percent). Moreover, transactions of the government with the monetary system contributed, on balance, Afl. 5.1 million to the increase in money supply.

In 2007, the assets of the nonmonetary financial institutions rose further, i.e., by Afl. 233.6 million or 10.6 percent to Afl. 2,437.0 million, largely following an Afl. 120.5 million (7.8 percent) rise in domestic claims (see Table 3.6). The latter was largely the result of an Afl. 72.5 million (8.7 percent) increase in claims on the private sector, mainly attributed to rises in claims on enterprises and housing mortgages. The housing mortgage portfolio of the nonmonetary financial institutions went up by 5.9 percent in 2007. However, their share in the total housing mortgage market remained virtually unchanged at 37.2 percent. Furthermore, claims of the nonmonetary financial institutions on the government rose by Afl. 48.0 million (6.8 percent). In addition, net foreign assets of these institutions rose by Afl. 113.2 million (17.1 percent) to Afl. 775.6 million, which is 34 times more than the net foreign assets of the commercial banks.

On the liability side, pension fund provisions and the insurance reserve fund went up by, respectively, Afl. 149.1 million (9.1 percent) and Afl. 32.1 million (10.0 percent). The item “borrowings and deposits” remained virtually unchanged at Afl. 38.4 million.

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

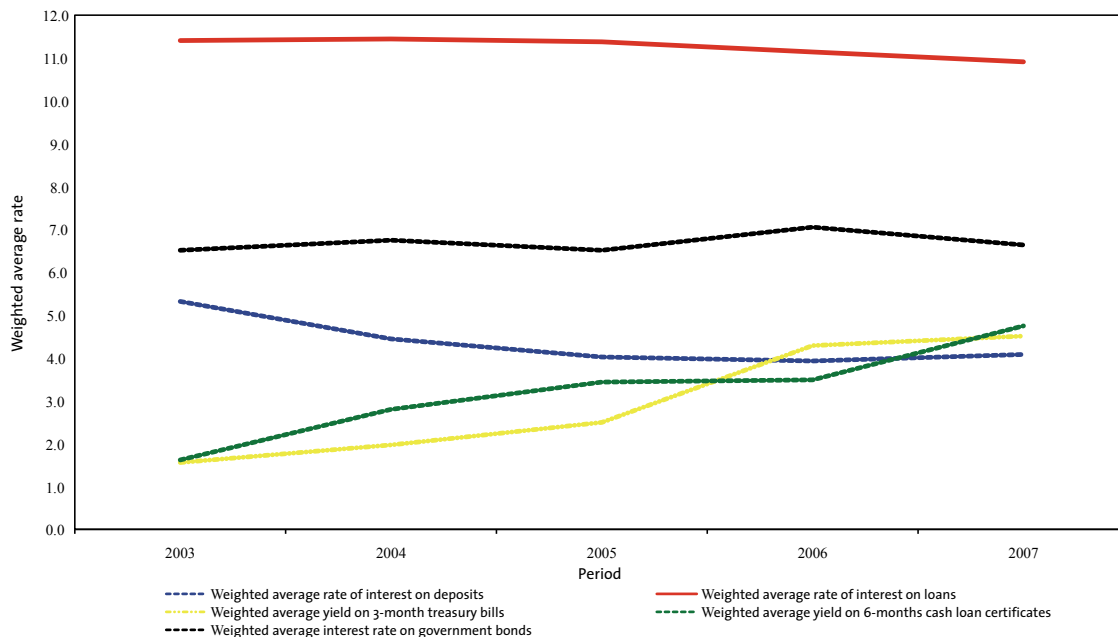


Chart 3.3: While the weighted average interest rate on loans shows a slightly decreasing trend over the years, its counterpart, the weighted average interest rate on deposits, shows a similar pattern, with a little increase in 2007. Therefore, interest rate margins of commercial banks have remained fairly stable during the period 2003-2007. The weighted average yield on short-term government papers (3-month treasury bills and 6-month cash loan certificates) remained within a range of 1.6 percent – 3.4 percent between 2003-2005, and moved to a 3.5 percent – 4.8 percent range afterwards. The weighted average yield on long-term government bonds fluctuated between 6.5 percent and 7.1 percent during the period 2003-2007.

Table 3.6: Nonmonetary financial institutions 1)

(end of period, in Afl. million)

	2003	2004	2005	2006	2007
1. Net foreign assets	398.5	489.8	562.3	662.4	775.6
2. Domestic claims	1,245.9	1,346.0	1,447.8	1,541.0	1,661.5
Government	506.9	556.8	651.7	706.7	754.7
Nonfinancial public enterprises	38.9	42.8	52.4	58.0	48.1
Enterprises	166.9	181.5	227.5	230.5	281.1
Individuals	533.3	564.9	516.2	545.8	577.6
- Consumer credit	86.5	95.6	98.0	103.5	109.1
- Housing mortgages	446.8	469.3	418.2	442.3	468.6
3. Total assets = total liabilities	1,644.4	1,835.8	2,010.1	2,203.4	2,437.0
4. Borrowings and deposits	62.0	64.0	38.9	38.5	38.4
Government	36.8	36.7	36.6	36.6	36.6
Other residents	25.2	27.3	2.2	1.8	1.8
5. Pension funds provisions	1,218.4	1,310.1	1,495.3	1,646.7	1,795.8
6. Insurance reserve fund	273.3	288.4	305.4	322.5	354.6
7. Other items (net)	90.7	173.4	170.5	195.7	248.2
8. Key indicators					
Net foreign assets in percent of GDP 2)	11.0	12.3	13.5	15.3	16.5
Total assets in percent of GDP 3)	75.1	70.4	71.8	73.4	73.2
Share in total housing mortgages market	44.8	44.4	37.1	37.0	37.2

Source: CBA.

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

3.4 Government finance

In 2007, the transactions of the government resulted in an Afl. 63.3 million financial deficit on a cash basis, Afl. 56.2 million lower than the deficit recorded in 2006 (see Table 3.7). Unmet financing requirements rose by Afl. 30.7 million to Afl. 197.4 million in 2007, reflecting an increase in payment arrears to government institutions (including the AZV), and to the APFA. Consequently, the financial deficit including the change in unmet financing requirements reached Afl. 94.1 million in 2007 compared to Afl. 65.2 million in 2006.

Box 2: Main conclusions of the 2007 IMF Article IV Consultation Mission

In its Staff Report of February 2008, the IMF 2007 Article IV Consultation Mission mentioned that the task for Aruba in the near and medium term is to implement policies that will keep public finances on a sustainable path and boost its economic potential. The following four main points were recommended:

Fiscal consolidation and tight monetary policy

This recommendation proposes the maintenance of macroeconomic stability by undertaking further fiscal consolidation and by maintaining an appropriately tight monetary policy. In this regard, the government is advised to take immediate action to deal with the financial problems of the AZV. Moreover, the government is encouraged to identify savings in its current expenditure to the extent that the situation cannot be remedied in the short run. Also, any larger-than-budgeted revenues should be saved. It is recommended to maintain monetary policy on hold until there are clear signs that inflationary pressures are abating. In addition, the peg of the Aruban florin to the U.S. dollar should be maintained.

Medium-term fiscal sustainability

The government is advised to ensure medium-term fiscal sustainability by taking additional measures in order to balance the budget by 2009 and to reduce the debt-to-GDP ratio to less than 40 percent. The following measures were recommended:

- a. Limit growth of personnel costs by temporary freezing these costs at the level of the 2008 budget and a 3 percent growth thereafter. For that reason, the government should reflect on reducing Aruba's civil service workforce.
- b. Limit growth of spending on goods and services to 2 percent.
- c. Complete the reforms of the APFA, including the settlement of payment arrears with that institution.
- d. Reform the universal pay-as-you-go pension system of the current general old age pension fund (AOV) by gradually increasing the effective retirement age, raising the income ceiling, increasing premiums or lowering the replacement ratio. The latter is the ratio of an individual's pension in a given time period and the (average) income in a given time period.

Strengthening policy frameworks and public institutions

Policy frameworks and public institutions should be strengthened by formalizing central bank independence and improving Aruba's statistical base further. The IMF noted that attention should be given to the compilation of national accounts in constant prices and also to new weights for the CPI as the current weights are outdated.

Stimulating Aruba's long-run growth potential

Aruba's long-run growth potential should be bolstered by creating the right conditions for private investment and diversification. This could be achieved by:

- a. Additional tax reforms by rationalizing import duties, reducing the high marginal income tax rate, and eliminating the tax on foreign exchange transactions.
- b. Strengthening financial intermediation by eliminating the credit ceilings, using indirect monetary instruments, and employing stress tests by the CBA to gain additional insight into the banking sector's capacity to withstand large shocks.

Source: IMF, *Kingdom of the Netherlands-Aruba: 2007 Article IV Consultation-Staff Report*, February 2008.

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

	2003	2004	2005	2006	2007
1. Revenue and grants	989.0	836.1	909.1	985.2	1,028.1
Tax revenue	687.4	707.1	779.4	850.2	882.2
Nontax revenue	301.7	128.9	129.7	135.0	145.9
- grants	30.5	31.2	28.6	32.7	28.2
- other nontax revenue	271.2	97.7	101.0	102.3	117.7
2. Expenditures 2)	919.7	1,180.4	1,034.0	1,097.6	1,070.2
Personnel-related outlays 3)	437.8	566.3	505.2	542.2	530.4
Goods and services	153.5	191.1	152.9	203.1	186.9
Interest payments 4)	45.6	85.9	84.4	97.4	106.9
Investments	43.0	66.9	64.4	66.5	51.3
Transfer to the AZV	132.7	130.8	130.4	119.7	85.1
Items n.i.e., of which: 5)	107.2	139.3	96.7	68.9	109.6
- transfers	62.2	38.7	60.4	55.4	48.0
- subsidies	24.2	24.2	22.7	26.3	23.6
- other	20.8	76.4	13.6	-12.8	38.0
3. Lending minus repayments	-103.1	9.3	0.7	7.1	21.3
4. Financial deficit (-)	172.4	-353.6	-125.6	-119.5	-63.3
5. Net foreign capital	-200.6	95.6	47.1	58.2	29.7
6. Net domestic capital 6)	9.0	236.7	55.7	109.4	28.5
7. Net recourse to the monetary sector	-19.3	-21.3	-22.8	48.1	-5.1
8. Memorandum items					
Unmet financing requirements 7)	285.5	181.4	221.0	166.7	197.4
Expenditures (including net lending) on a cash-adjusted basis 8)	838.1	1,085.6	1,074.3	1,050.4	1,122.2
Financial deficit 9)	150.9	-249.5	-165.1	-65.2	-94.1
Total government debt 10), of which:	1,477.6	1,712.1	1,890.3	2,019.5	2,143.0
- domestic debt	753.5	875.9	1,033.4	1,085.7	1,160.9
- foreign debt 11)	724.2	836.3	856.9	933.8	982.1

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) 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.
- 3) Excluding the imputed amount related to the APFA debt conversion (see footnote 2), the personnel-related outlays were Afl. 478.7 million in 2004.
- 4) Excluding the imputed amount related to the APFA debt conversion (see footnote 2), the interest payments were Afl. 62.2 million in 2004.
- 5) 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.
- 6) 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.
- 7) Comprising all reported unsettled payment obligations to other sectors irrespective of the timeframe in which they mature.
- 8) Expenditures on a cash basis, including the allocation of changes in unmet financing requirements.
- 9) Including the change in unmet financing requirements.
- 10) Preliminary (end-of-period) figures, excluding government guarantees.
- 11) At year-end exchange rates.

In 2007, total government revenue on a cash basis rose by Afl. 42.9 million or 4.4 percent to Afl. 1,028.1 million, reflecting increases in both tax revenue and nontax revenue of, respectively, Afl. 32.0 million (3.8 percent) and Afl. 10.9 million (8.1 percent). The former was attributed mainly to the introduction of the BBO, which generated Afl. 132.2 million in revenue in 2007. This rise in revenue was partly mitigated by decreases in taxes on income and profit, particularly the wage tax, which decreased by Afl. 62.6 million following adjusted wage tax tariffs to compensate the loss of purchasing power caused by the introduction of the BBO. Also, foreign exchange tax receipts were Afl. 24.5 million lower, following an additional levy on dividend payments to abroad by the oil sector in 2006.

Total government spending on a cash basis (including net lending) declined by Afl. 13.2 million (1.2 percent) to Afl. 1,091.5 million in 2007, compared to 2006. Transfers by the government to the AZV (comprising the government's annual contribution and advances to cover the deficits of this institution), payments for goods and services, salary-related expenses, and investment outlays contracted by Afl. 34.6 million (28.9 percent), Afl. 16.2 million (8.0 percent), Afl. 11.8 million (2.2 percent), and Afl. 15.2 million (22.9 percent), respectively. In contrast, items not included elsewhere and interest payments grew by, respectively, Afl. 22.9 million (59.1 percent) and Afl. 9.5 million (9.8 percent). In addition, net lending rose from Afl. 7.1 million in 2006 to Afl. 21.3 million in 2007 because of a rise in outlays for student loans. Realized government expenditures (including net lending) on a cash-adjusted basis (i.e., including the change in unmet financing requirements) were Afl. 71.8 million or 6.8 percent higher in 2007 than in 2006.

Chart 3.4: Fiscal balance as a percentage of GDP

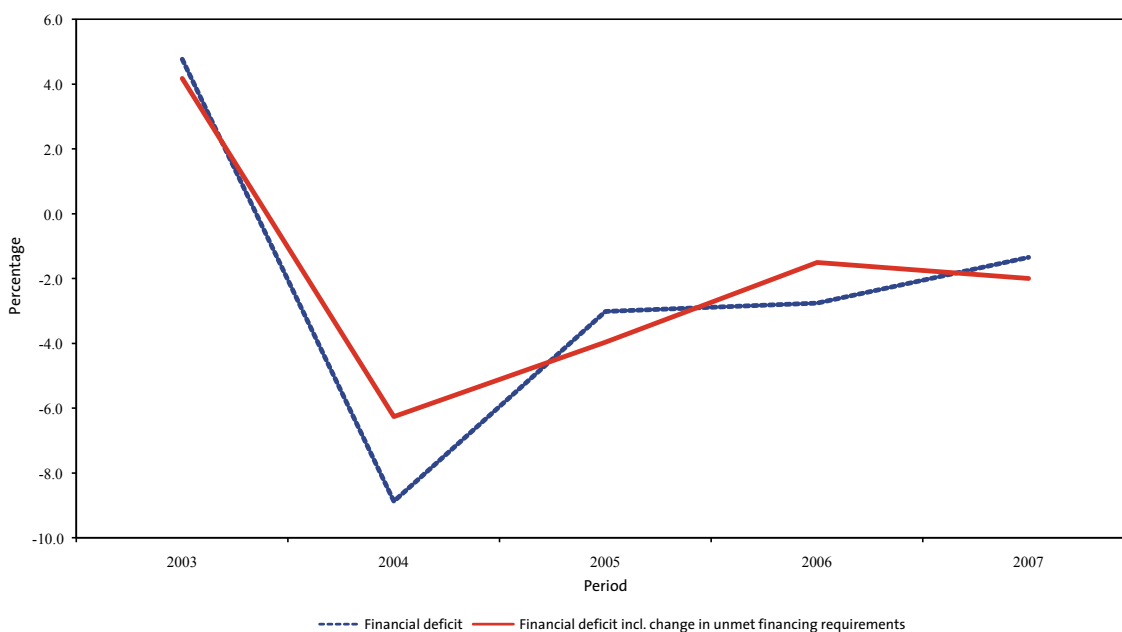


Chart 3.4: Since 2004 there has been a continued improvement in the fiscal balance, indicated as a ratio to the GDP. While the financial deficit showed a further improvement in 2007, the financial deficit including change in unmet financing requirements worsened slightly, indicating some build-up in payment arrears in 2007.

Total financing needs of the government went down from Afl. 193.4 million in 2006 to Afl. 145.0 million in 2007. To cover these financing needs, the government issued Afl. 19.2 million (June 2007) and Afl. 50.0 million (August 2007) in bonds on the local capital market, and a bond issue of Afl. 82.0 million (November 2007) on the international capital market. On balance, bank deposits of the government (including the FDA) rose by Afl. 7.7 million at end-2007.

Table 3.8: Additional key indicators of government financial operations

	2003	2004	2005	2006	2007
Financial deficit (including change in unmet financing requirements) in percent of GDP	4.2	-6.3	-4.0	-1.5	-2.0
Revenue in percent of GDP	27.3	21.0	21.9	22.7	21.9
Expenditure (on a cash-adjusted basis) in percent of GDP	23.2	27.3	25.8	24.2	23.9
Primary balance in percent of GDP	5.6	-4.6	-1.7	0.9	0.4
Interest payments in percent of GDP	1.3	2.2	2.0	2.2	2.3
Total debt in percent of GDP	40.8	43.0	45.5	46.6	45.6
Foreign debt in percent of exports 1)	36.6	35.9	35.2	37.3	35.1
Debt service in percent of exports 2)	7.8	2.9	10.9	3.7	4.5
Actual revenues and grants compared to the budget (in Afl. million) 3)	n.a.	n.a.	n.a.	-39.2	-52.6
Actual expenditures on a cash-adjusted basis compared to the budget (in Afl. million) 3)	n.a.	n.a.	n.a.	-49.5	-29.0

Source: CBA; ATA; CBS; CTA; CTO; Ministry of Tourism.

- 1) Exports of goods and services, excluding the oil sector.
- 2) Related to foreign debt. Exports of goods and services exclude the oil sector.
- 3) Actual figures minus budgeted figures.

Outstanding public debt went up by Afl. 123.5 million or 6.1 percent to Afl. 2,143.0 million in 2007, a level equal to 45.6 percent of nominal GDP (see Tables 3.7 and 3.8). This expansion was brought about by increases in both domestic and foreign debt of Afl. 75.2 million (6.9 percent) and Afl. 48.3 million (5.2 percent), respectively. The increase in domestic debt reflected the two above-mentioned bond issues on the local market. The growth in foreign debt was attributed mainly to the earlier mentioned bond issue by the government on the international capital market. Foreign debt to the government of the Netherlands in the framework of development aid remained unchanged at Afl. 169.7 million, despite the annual repayment in December 2007. The effects of this repayment were largely offset by the 11.8 percent appreciation of the euro vis-à-vis the Aruban florin.

3.5 Balance of payments

Overall outcome

The current account of the balance of payments showed an Afl. 384.0 million surplus in 2007, in contrast to an Afl. 77.4 million deficit in 2006, due largely to a smaller current account deficit

of the rest of the economy (i.e., excluding the oil and free-zone sectors) in the period under review and a larger current account surplus of the oil sector (see Table 3.9). The capital and financial account balance turned from an Afl. 131.4 million surplus in 2006 into an Afl. 342.9 million deficit in 2007, reflecting largely a higher deficit of the oil sector and a lower surplus of the rest of the economy. As a result, the balance of payments posted an Afl. 54.5 million overall surplus in 2007, compared to Afl. 55.8 million in 2006.

Consequently, net international reserves of the monetary system (including revaluation differences of gold and foreign exchange holdings) increased to Afl. 850.7 million at the end of 2007, up from Afl. 759.5 million in 2006. After three consecutive years of declines, the 12-month merchandise import coverage ratio rebounded from 5.2 months in 2006 to 5.9 months in 2007, while the 12-month average coverage ratio of all current account payments grew to 3.0 months in 2007, up from 2.6 months in 2006. In 2007, the official reserves of the CBA, including revaluation differences of gold and foreign exchange holdings, went up by Afl. 114.1 million or 16.0 percent to Afl. 828.0 million compared to 2006. The remainder of the monetary sector's net foreign assets held by the commercial banks shrank for the third consecutive year, i.e., by Afl. 22.9 million or 50.2 percent to Afl. 22.7 million.

Oil sector

In 2007, the current account of the oil sector registered an Afl. 620.3 million surplus, up from Afl. 562.5 million in 2006. This outcome was due to declines in the deficits on the services account and the current transfers account of, respectively, Afl. 120.1 million (21.4 percent) and Afl. 18.6 million (31.8 percent), following declines in foreign payments for import-related freight and insurance services. In contrast, the surplus on the merchandise account of the oil sector contracted by Afl. 80.8 million. This contraction was largely attributed to an Afl. 1,742.9 million (27.1 percent) decline in export receipts from refined oil products and goods procured in ports, but was mitigated in part by an Afl. 1,662.1 million decrease in import payments for crude oil and other goods.

The capital and financial account balance posted an Afl. 524.6 million net outflow, reflecting largely an Afl. 540.3 million portfolio investment net outflow associated with the purchase of foreign securities by the oil sector and an Afl. 510.1 million direct investment net outflow related to the repayment of an intercompany loan received in 2006. These net outflows were in part mitigated by an Afl. 525.8 million net inflow in the other investments account, reflecting a decline in the foreign bank accounts of this sector.

Free-zone sector

The external transactions of free-zone companies resulted in an Afl. 5.4 million overall surplus in 2007, down from Afl. 9.6 million in 2006, largely because of an Afl. 4.3 million surplus on the current account of this sector. Moreover, the capital and financial account balance recorded an Afl. 1.1 million surplus. On balance, the free-zone sector sold Afl. 5.4 million in foreign exchange to the local commercial banks.

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

	2003	2004	2005	2006	2007
1. Current account (net)	-293.0	-11.3	-357.7	-77.4	384.0
Oil sector	64.7	251.1	0.6	562.5	620.3
Free zone	12.7	12.0	3.5	16.1	4.3
Rest of economy	-370.3	-274.5	-361.9	-655.9	-240.7
- Goods	-1,123.3	-1,243.7	41.4	-1,422.3	-1,402.9
- Services	960.6	1,245.1	693.3	1,146.0	1,437.0
- Income	-89.0	-135.3	-866.7	-221.8	-139.1
- Current transfers	-118.6	-140.7	-225.7	-157.9	-135.7
2. Capital and financial account (net)	189.7	22.6	285.2	131.4	-342.9
Oil sector	79.4	-181.9	110.3	-332.4	-524.6
Free zone	-1.2	-2.4	9.4	-6.5	1.1
Rest of economy	111.5	206.8	165.5	470.3	180.6
- Capital account transactions	179.5	33.9	33.3	-25.2	32.6
- Direct investment	238.4	215.8	231.6	609.1	248.5
- Portfolio investment	76.3	59.4	-13.5	-70.8	87.3
- Financial derivatives	0.0	0.0	1.5	-4.8	-1.7
- Other investment	-382.7	-102.4	-87.4	-38.0	-186.1
- loans	43.9	-62.6	-61.9	-87.1	-84.5
- other financial transactions	-426.6	-39.8	-25.5	49.1	-101.6
3. Items not yet classified 2)	42.1	8.6	12.7	1.7	13.5
4. Overall balance (= 1 + 2 + 3)	-61.2	19.9	-59.8	55.8	54.5
5. Total reserves of the monetary sector 3)	700.3	722.9	677.1	759.5	850.7
of which: official reserves	608.9	614.4	588.6	713.9	828.0
6. Import coverage in months of merchandise imports 4)					
- End-of-period	5.7	5.5	4.7	5.1	5.7
- 12 month average	6.6	6.2	5.5	5.2	5.9
7. Import coverage in months of current account payments 5)					
- End-of-period	3.1	2.9	2.5	2.5	2.9
- 12 month average	3.6	3.3	2.9	2.6	3.0

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.

Rest of the economy

In 2007, the current account of the rest of the economy registered an Afl. 240.7 million deficit (equivalent to 5.1 percent of GDP), down from Afl. 655.9 million in 2006. This improvement was brought about mainly by a higher surplus on the services account, largely reflecting a 16.5 percent growth in tourism receipts. In addition, the deficit on the income account shrank by Afl. 82.7 million to Afl. 139.1 million, due primarily to higher dividend and interest receipts from abroad and lower dividend payments to abroad. Moreover, the current transfers account deficit declined by Afl. 22.2 million to Afl. 135.7 million, primarily associated with lower non-life insurance premiums paid to abroad. The merchandise trade account deficit also contracted, i.e., by Afl. 19.4 million to Afl. 1,402.9 million, mainly because of a decline in merchandise import payments.

The surplus on the capital and financial account declined to Afl. 180.6 million in 2007, down from Afl. 470.3 million in 2006, due largely to an Afl. 360.6 million decline in the direct investment surplus. Moreover, the deficit on the other investment account widened by Afl. 148.1 million to Afl. 186.1 million, reflecting largely increases in foreign account balances of various local enterprises in 2007 against decreases in those balances in 2006. In contrast, the portfolio investment account recorded an Afl. 87.3 million surplus in 2007 compared to an Afl. 70.8 million deficit in 2006, due to a bond issue by a local company and lower net purchases of foreign debt securities in 2007 compared to 2006.

Chart 3.5: Current account balance as a percentage of GDP

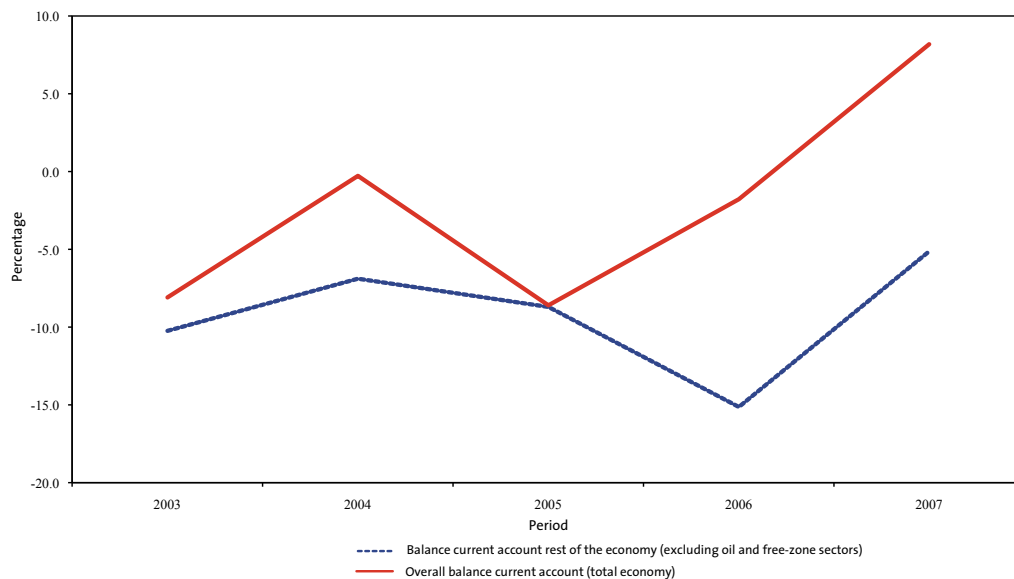


Chart 3.5: While the overall current account balance showed a marked improvement in 2007 (from -1.8 percent of GDP in 2006 to +8.2 percent of GDP in 2007), the current account balance of the rest of the economy (i.e., excluding the oil and free-zone sectors) continued to show deficits, albeit with an improvement in 2007.

PRUDENTIAL SUPERVISION OF FINANCIAL INSTITUTIONS

4

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 State Ordinance on the Supervision of the Credit System (AB 1998, No. 16) (SOSCS), the State Ordinance on the Supervision of the Insurance Business (AB 2000, No. 82), the State Ordinance on Company Pension Funds (AB 1998, No. GT 17) (SOCPF), and the State Ordinance on the Supervision of Money Transfer Companies (AB 2003, No. 60) (SOSMTC). In addition, it is responsible for overseeing compliance with the stipulations of the State Ordinance on the Identification for Rendering Financial Services (AB 1995, No. 86), insofar as it concerns the financial institutions under its supervision.

Prudential supervision aims at preventing 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 periodic risk-based on-site examinations. Furthermore, it holds on a regular basis bilateral meetings with the institutions concerned and with their representative organizations.

The CBA undertakes regular on-site examinations to assess key risk areas, such as financial condition, asset quality, corporate governance, information technology, and anti-money laundering and terrorist financing procedures. In 2007, sixteen targeted on-site examinations were conducted: five at commercial banks, one at a bank-like institution, five at insurance companies, three at company pension funds, and two at money transfer companies. Based upon the findings, some of the examined institutions were required to take corrective action.

4.2 Major policy issues and developments

4.2.1 Legislative framework

Significant improvement has been made over the years in expanding the supervisory framework to other parts of the financial sector. However, in view of the international standards for financial sector regulation and supervision and the combating of money laundering and terrorist financing, it remains important to expand the supervisory scope to company service providers and -- in view of the more recently established electronic stock exchange in Aruba -- to stock exchanges as well. Based upon comments from the industry, some amendments were made to the draft SOSMTC, which is currently in the legislative process. Furthermore, a legislative proposal to bring stock exchanges under supervision has been drafted.

Also, proposals are being drawn up to strengthen the supervisory ordinances for the banking and insurance industry. The CBA will strive to submit final proposals before the end of 2008

(instead of the original target date of mid-2008) to the Minister of Finance and Economic Affairs for his approval, after which the legislative process can commence. The new target date was set mainly in view of the follow-up OFC assessment by the IMF. Depending on the outcome of the assessment, it may be necessary to propose some additional amendments.

The follow-up OFC assessment was conducted by the IMF in May 2008 under the aegis of its Financial Sector Assessment Program. The revised core principles for effective banking and insurance supervision were used as a benchmark by the IMF for the assessment. Most of the recommendations laid down in the IMF OFC assessment report on Aruba dated June 2002 have already been implemented. At the same time, it should be noted that since the IMF OFC assessment of 2002, the core principles have been expanded and the methodology applied for the assessment has been made more strict. For example, under the revised methodology, the assessed country must be able to show in much more detail that the relevant principles have been effectively implemented, not only in the laws and regulations but also in the supervisory and industry practices. The CBA has prepared a comprehensive self-assessment exercise vis-à-vis the core principles that was used by the IMF as a basis for its assessment.

4.2.2 Revised policy rule for admission and licensing of banks and insurance companies

In August 2006, the CBA issued a revised policy rule for the admission and licensing of banks and insurance companies. Under this new policy rule, a foreign bank or insurer is allowed to operate via a branch office (or an agency in the case of an insurer) only if it is an international bank or insurer with a balance sheet total of at least US\$ 10 billion and an “A” rating issued by Standard & Poor’s or a comparable rating agency.

Foreign banks or insurers that already operate in the Aruban market via a branch office or agency and did not meet the aforementioned conditions were required to establish a separate legal entity in Aruba before July 1, 2007, through which they could continue their banking or insurance activities in this market. The deadline of July 1, 2007, was later extended to December 31, 2007. However, despite this extension, none of the institutions concerned have yet fully complied with the revised policy rule, although most of the companies concerned have made significant progress. In this respect, it should be noted that the transfer of assets and liabilities to the Aruban legal entities is taking more time than anticipated, partly also as a result of the tax issues involved. Nonetheless, it is expected that all companies will be able to complete the whole process in the course of 2008. The existing licenses of said institutions will be transferred to the new Aruban legal entities upon incorporation and approval of the opening balance sheet and the management structure. The existing shareholders’ structure of the institutions concerned will remain unchanged, meaning that the Aruban entities will become subsidiaries of the entities abroad of which they now form part. The CBA will continue to closely monitor the progress in this area via the monthly progress reports, which it has specifically designed for this purpose. Also, the CBA will remain in close contact with the respective home country supervisors, mainly the Bank van de Nederlandse Antillen (BNA), to discuss any pending issues related to the transfer of assets and liabilities of the institutions concerned.

4.2.3 Issuance of new and revised directives

Risk-weighted capital asset ratio

The potential risks for banks operating in a small and undiversified economy are quite high. Therefore, they must maintain sufficient reserves to absorb possible losses stemming from economic downturns. For that reason, the CBA decided to increase the minimum risk-weighted capital asset ratio for banks from 10 to 12 percent, effective January 1, 2007. Branches or subsidiaries of international banks that fall under consolidated supervision are allowed to maintain a minimum risk-weighted capital asset ratio of 8 percent.

Directive on the issuance of multipurpose prepaid money cards

Multipurpose or open-system prepaid cards can be used across a broad range of locations for a wide range of purposes. These cards may be used on a national or international scale but may sometimes be restricted to a certain geographical area. The directive issued by the CBA in August 2007 elaborates on the characteristics and potential money laundering and terrorist financing risks of prepaid money cards. It also imposes conditions on the issuance of such cards, which are meant to mitigate the possible risks involved. These risks are considered high in the case of bearer cards. Therefore, the CBA has limited the value that can be held on a bearer card to US\$ 500, while in contrast to personalized cards, the bearer cards may not have a reload option.

4.2.4 Pawn shops

Based upon the experience gained in monitoring this sector, the CBA has come to the conclusion that most, if not all, pawn shops will not be able to meet the conditions under which the CBA is willing to exempt pawn shops from the prohibition laid down in section 48 of the SOSCS. This would mean that most if not all companies would have to cease their pawn activities. Taking into consideration that these activities have a social function, especially for those persons who have no or limited access to the financial services provided by the commercial banks and other regulated financial entities, and also taking into account the smallness of the operations and the size of the companies, the CBA has decided to discontinue its regulation of this sector. However, the CBA maintains the right to reconsider its revised policy stance if it deems it necessary.

4.2.5 Draft State Decree regulating the scope of operations of company pension funds

A company pension fund is defined in the SOCPF as a fund related to a company in which funds are being collected to insure the pensions of the employees. According to section 1, paragraph 3 of said ordinance, a company pension fund can also be related to more than one company. Neither the ordinance nor the explanatory notes provide explicit criteria to determine which employers can be assigned to a company pension fund. The CBA has always taken the position that there should be a certain form of organizational or economic unity. Otherwise, a company pension fund would act as a life insurer. Insurers are subject to much

stricter supervisory law and regulations than are company pension funds, and they also are subject to corporate income tax. To provide more clarity on this issue and to level the playing field between company pension funds and life insurers, the CBA has drafted a state decree regulating the operations of company pension funds. This legislative proposal is in line with the former Dutch Pension and Saving Act, upon which the Aruban pension ordinance is based. According to the draft state decree, a company pension fund may only insure companies that are part of the same economic unity or operate in the same sector.

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

4.3.1 Banking sector

On February 13, 2007, the CBA granted RBTT Bank Aruba N.V. (RBTT) permission to transfer the portfolio of Banco Nacional de Hipotecas to RBTT.

On October 10, 2007, the CBA gave permission to AIB Bank N.V. to acquire all shares of Aruba Gas Voorzieningsmaatschappij N.V., Bonick Gas & Oil Terminal N.V., and Evert Woudenberg N.V. via Alicante Properties N.V.

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 definite.

On December 19, 2007, the CBA approved the acquisition of all issued and outstanding common shares of RBTT by the Royal Bank of Canada.

4.3.2 Money transfer companies

As of September 28, 2007, Banco di Caribe N.V. decided to cease its money transfer activities through Western Union.

On September 28, 2007, Post Aruba N.V. was registered by the CBA as a money transfer company as defined in section 3, paragraph 2 of the SOSMTC.

4.3.3 Insurance sector

Island Heritage Insurance Company Ltd. decided to cease its activities to conduct general insurance business via Island Heritage Insurance Company N.V., Aruba Branch as per March 31, 2007.

On July 19, 2007, the CBA granted Stichting Fondo Nacional di Garantia pa Vivienda a license to conduct nonlife insurance business in the branch "Other indemnity business".

On September 28, 2007, the CBA gave approval to Industrial Alliance and Financial Services

Inc. (Agency) to transfer the rights and obligations from its life insurance portfolio to Sagicor Capital Life Insurance Company Limited (Aruba Branch).

4.4 Integrity of the financial system

Aruba, as part of the Kingdom of the Netherlands, is a member of the FATF, the internationally recognized standard-setter in the area of anti-money laundering and combating terrorist financing. It has committed itself to implement the 40+9 FATF recommendations in the area of combating money laundering and terrorist financing. Much work has been done to bring Aruba's anti-money laundering and combating the financing of terrorism (AML/CFT) framework in line with the FATF standards. However, over the years these standards have been revised and expanded. Therefore, ongoing review of the legislative framework and practices in these areas against the current standards is necessary.

Also against this background, the CBA welcomes the upcoming FATF mutual evaluation of Aruba in November 2008. This evaluation will provide Aruba with a detailed view of its current status vis-à-vis the FATF 40+9 recommendations in the area of AML/CFT and will provide an important tool for designing a roadmap for furthering compliance with the FATF standards. The last FATF mutual evaluation was in 1999. As part of the preparations for the upcoming assessment, the CBA is assisting in completing the self-assessment questionnaire that will be used by the FATF as a basis for the upcoming evaluation of Aruba's adherence to said standards.

The CBA is also represented on the FATF-Aruba Committee, which consists of several government entities. This committee meets on a regular basis to discuss AML/CFT issues. Furthermore, it provides the government, upon its own initiative or upon request, with advice on all relevant AML/CFT issues. The committee is also responsible for disseminating information on Aruba's AML/CFT framework to international organizations like the FATF, the Caribbean Financial Action Task Force, and other relevant international organizations that are active in this area. The committee is also responsible for the preparation and coordination of the upcoming FATF mutual evaluation.

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 Reporting Center for Unusual Transactions (RCUT). In accordance with the FATF recommendations, the unusual transactions reporting obligation should be extended to other financial service providers, including trust offices, auditors, lawyers, and notaries, as well as traders in high value products (e.g., car dealers, real estate brokers, and jewelers). The RCUT has already undertaken some preparatory work in this area.

In December 2005, the CBA also entered into a Memorandum of Understanding with the RCUT to exchange general information on AML/CFT issues. Note that the RCUT is entrusted with overseeing compliance with the unusual transactions reporting ordinance and (together

with the CBA insofar it concerns the supervised financial institutions) the identification for rendering financial services ordinance. The meetings with the RCUT, held at least twice a year, are very 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 institutions supervised to review compliance with its AML/CFT directives and the identification ordinance. In 2007, the CBA conducted targeted examinations in the area of AML/CFT at one commercial bank and two money transfer companies. In addition to those targeted examinations, reviews were conducted in this area at four insurance companies as part of the full-scope on-site examinations at these insurers. 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 May 2007, the CBA hosted the “Bank Analysis and Examination School” course, organized by the CGBS and conducted by the Board of Governors of the Federal Reserve System.

In May 2007, the CBA attended the XXV (25th) Annual Conference of the CGBS (Nassau, Bahamas, May 2007), which had as its central theme “Twenty-five years of promoting stability in the region”. The CBA was also represented at the Annual Conference of the International Association of Insurance Supervisors (Ft. Lauderdale, USA, October 2007), which had as its central theme “A global climate for change: the future of insurance regulation”, the X (10th) Annual Assembly Meeting of the Association of Supervisors of Banks of the Americas (Montego Bay, Jamaica, October 2007) and the Annual Meeting of the Offshore Group of Banking Supervisors (Macau, China, October 2007). During these meetings, the topics that were discussed included, among other things, implementation issues in relation to Basel II, the revised Basel Core Principles and the revised Insurance Core Principles as well as international developments in banking and insurance supervision. The recent financial market turmoil in connection with the subprime mortgage market in the USA also received much attention. The subprime mortgage meltdown underscores the importance of properly functioning prudential and supervisory systems.

In August 2006, the CBA also became party to a Multilateral Memorandum of Understanding (MMoU) on cross-border cooperation and information exchange between several supervisory authorities within the Caribbean region. The increasing cross-border activities of regional financial groups have increased the need for enhanced regional cooperation and information exchange with respect to these financial groups and were the driving force for establishing

this MMoU. At present, discussions are taking effect within the CGBS to increase the effectiveness of said MMoU by adding operational protocols for information exchange. There are also Memoranda of Understanding in place with the BNA for the exchange of information on banks and insurers for which the BNA is the home country supervisor and the CBA the host country supervisor. Note that most banks and insurers in Aruba are subsidiaries or branches of Netherlands Antillean banks and insurers.

4.6 Sectoral developments

In this section, the main financial developments in the various sectors under the CBA's supervision are discussed. A more extensive article on this topic can be found in the CBA's bulletin for the fourth quarter of 2007.

4.6.1 Banking sector

Commercial banks

The aggregated balance sheet total of the four commercial banks increased by Afl. 199.5 million or 5.7 percent to Afl. 3,730.0 million at the end of 2007, equivalent to 79.4 percent of the estimated GDP for 2007. The various macroprudential indicators in Table 4.1 show that the commercial banking sector is sound and highly profitable. The banks' aggregated risk-weighted capital asset ratio decreased from 13.5 percent to 13.1 percent, but remained above the required minimum of 12 percent. The nonperforming loans (net of allocated loan loss provision), which consist of all loans that are past-due for more than 90 days, increased from 3.4 to 3.8 percent of gross loans. The loans-to-deposits ratio decreased by 0.2 percentage point to 74.9 percent at the end of 2007, well below the prudential maximum of 80 percent. The banks' aggregated prudential liquidity ratio rose by 0.9 percentage point to 28.9 percent, significantly above the required minimum of 20 percent.

Net income (before taxes) rose sharply by Afl. 36.6 million or 35.4 percent to a record-high of Afl. 139.9 million, mainly the result of increases in the net interest margin and operating income. Subsequently, in 2007 return on assets (after taxes) and return on equity (after taxes) went up by 0.4 and 2.9 percentage points, respectively (see Table 4.1). The net interest margin to gross income ratio declined by 4.3 percentage points to 62.1 percent at the end of 2007, because of a larger increase in gross income than the growth in net interest margin. The noninterest expenses to gross income ratio declined by 1.7 percentage points to 68.4 percent, largely associated with a higher increase in gross income compared to noninterest expenses.

As a result of the oligopolistic market structure as well as the small scale of the domestic

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

	2003	2004	2005	2006	2007 ¹⁾
1. Capital adequacy					
Risk-weighted capital asset ratio (= Regulatory capital to risk weighted assets)	11.4	12.3	11.5	13.5	13.1
Tier 1 capital ratio	5.3	6.8	6.1	7.2	7.2
2. Asset quality					
Nonperforming loans to gross loans	10.4	8.6	6.7	6.3	6.5
Nonperforming loans (net of ALLP) to gross loans	7.6	5.7	3.7	3.4	3.8
Nonperforming loans (net of ALLP) to regulatory capital	70.1	47.7	34.6	26.4	30.7
Large loans to regulatory capital ²⁾	104.1	102.4	121.2	109.2	107.2
3. Earnings and profitability					
Return on assets (after taxes)	2.0	1.9	2.1	2.4	2.8
Return on equity (after taxes)	31.9	27.7	28.6	32.1	35.0
Net interest margin to gross income	62.2	65.6	65.0	66.4	62.1
Noninterest expenses to gross income	71.9	73.5	73.2	70.1	68.4
4. Liquidity					
Loans-to-deposits ratio	72.8	75.5	76.4	75.1	74.9
Prudential liquidity ratio	27.9	27.1	25.8	28.0	28.9
Liquid assets to short-term liabilities	77.6	75.0	76.9	81.2	81.6
5. Sensitivity to market risk					
Interest rate margin ³⁾	6.1	7.0	7.4	7.2	6.8

Source: CBA; commercial banks.

1) Preliminary figures.

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

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

banking sector, interest rates are relatively high compared to those in the industrialized countries. The weighted average interest rate margin on new loans decreased slightly by 0.4 percentage point, from 7.2 percent to 6.8 percent in 2007.

Offshore banks

The number of offshore banks registered in Aruba has remained unchanged at two for many years. 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 total amounted to Afl. 782.6 million at the end of 2007, an increase of Afl. 261.6 million or 50.2 percent compared to 2006. This notable increase was mainly the result of higher investments and loans. The aggregated risk-weighted capital asset ratio of the two offshore banks declined sharply from 60.4 percent to 24.8 percent, largely due to a decrease in the regulatory capital and an increase in the risk-weighted assets. The decline in the regulatory capital was mainly due to a substantial dividend payment in 2007 as well as a significant required deduction from the regulatory capital stemming from the supervisory rule that the supplementary capital (Tier

2 capital) may not exceed the core capital (Tier 1 capital). The increase in risk-weighted assets was mainly the result of an increase in off-balance sheet items related to futures trading activities. However, 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.

The two offshore banks operated with a profit (before taxes) of Afl. 163.2 million, an increase of Afl. 122.6 million compared to 2006. This notable growth was mainly the result of an increase in the operating income, predominantly attributable to gains on the sale of bonds in 2007.

Bank-like institutions

The three bank-like institutions in Aruba 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 predominantly by attracting funds from their parent company, other (local) financial institutions, and/or institutional investors. Their aggregated balance sheet total increased by Afl. 49.7 million or 8.3 percent to Afl. 650.3 million at the end of 2007. Their combined loan portfolio amounted to Afl. 470.6 million at the end of 2007 (2006: Afl. 420.0 million), equivalent to 10.0 percent of the estimated GDP for 2007.

The various macroprudential indicators show that the bank-like institutions' sector is sound and profitable (see Table 4.2). Although the aggregated risk-weighted capital asset ratio of these institutions decreased from 46.3 percent to 40.6 percent, it remained far above the minimum requirement of 12 percent. The nonperforming loans (net of allocated loan loss provisions), which consist of all loans that are past-due for more than 90 days, decreased slightly from 4.9 percent of gross loans in 2006 to 4.1 percent in 2007.

The bank-like institutions operated with favorable net results in 2007. Net income (before taxes) rose by Afl. 4.7 million or 29.2 percent to Afl. 20.8 million in 2007. This increase is mainly attributable to a growth in total income of Afl. 3.7 million or 7.8 percent and a decrease in total expenses of Afl. 1.0 million or 3.2 percent. As shown in Table 4.2, return on equity (after taxes) rose by 2.4 percentage points to 8.8 percent in 2007, which is low compared to the commercial banking sector. Note, however, that 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 decreased by 0.9 percentage point to 66.5 percent in 2007, mainly due to an Afl. 2.0 million increase in net interest margin and an Afl. 3.7 million gain in gross income. The noninterest expenses to gross income ratio decreased by 8.9 percentage points to 65.2 percent in 2007, mainly due to an increase in gross income of Afl. 3.7 million.

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

	2003	2004	2005	2006	2007 ¹⁾
1. Capital adequacy					
Risk-weighted capital asset ratio (= <i>Regulatory capital to risk weighted assets</i>)	58.9	47.2	45.0	46.3	40.6
Tier 1 capital ratio	54.5	41.9	39.1	40.0	36.1
2. Asset quality					
Nonperforming loans to gross loans	9.8	6.2	6.7	6.0	4.9
Nonperforming loans (net of ALLP) to gross loans	7.6	4.4	5.6	4.9	4.1
Nonperforming loans (net of ALLP) to regulatory capital	17.6	9.9	12.2	10.8	10.0
3. Earnings and profitability					
Return on assets (after taxes)	1.6	1.6	2.2	2.1	2.9
Return on equity (after taxes)	4.6	4.8	6.9	6.4	8.8
Net interest margin to gross income	89.6	71.1	61.7	67.4	66.5
Noninterest expenses to gross income	77.3	78.2	69.5	74.1	65.2

Source: CBA; bank-like institutions.

1) Preliminary figures.

Money transfer companies

In 2007, approximately 277,000 outgoing transfers were executed by the four registered money transfer companies, comprising a total amount of approximately Afl. 116.7 million (2006: 276,000 outgoing transfers amounted to approximately Afl. 113.3 million). Also in 2007, Colombia remained the major destination of the funds transferred abroad via this sector, accounting for 54.7 percent of all outgoing money transfers (see Table 4.3).

In 2007, the money transfer companies processed approximately 16,000 incoming transfers, comprising approximately Afl. 13.9 million (2006: 15,000 incoming transfers processed reached approximately Afl. 11.7 million). As in previous years, these incoming transfers originated mainly from the Netherlands and the United States of America (see Table 4.4).

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

	2005	2006	2007
1. Colombia	60,191.3	64,659.1	63,896.3
2. Dominican Republic	11,812.0	13,983.9	17,377.6
3. Philippines	5,700.1	5,811.9	5,957.6
4. Peru	5,100.6	5,195.3	5,185.2
5. Haiti	3,378.5	3,989.4	4,335.6
6. Other	20,135.7	19,622.5	19,969.1
Total	106,318.2	113,262.1	116,721.4

Source: CBA; money transfer companies.

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

	2005	2006	2007
1. Netherlands	4,591.6	4,407.0	4,867.6
2. United States	3,685.1	3,170.1	3,743.3
3. Colombia	613.0	606.3	800.9
4. Netherlands Antilles	728.0	736.3	712.0
5. Spain	332.1	314.2	662.6
6. Other	2,346.9	2,458.0	3,091.1
Total	12,296.7	11,691.9	13,877.5

Source: CBA; money transfer companies.

4.6.2 Insurance sector

Nonlife insurance companies

At the end of December 2006, the aggregated balance sheet total of the thirteen nonlife insurance companies amounted to Afl. 188.3 million (equivalent to 4.3 percent of the GDP of 2006), i.e., a 16.5 percent increase compared to 2005. Investments rose by Afl. 22.9 million to Afl. 118.8 million, mainly due to an increase in bond holdings and loans. As in 2005, only 1.7 percent of the investment portfolio consisted of foreign investments at the end of 2006. On the liability side, the technical provisions and amounts due to affiliated companies increased by Afl. 4.1 million or 8.7 percent and Afl. 15.7 million or 35.4 percent, respectively. The capital and reserves rose by Afl. 11.0 million, largely the result of additions from net income to the general reserves. Net income (before taxes) decreased by Afl. 1.9 million or 12.6 percent to Afl. 13.2 million at the end of 2006.

As shown in Table 4.5, the liquidity ratio decreased by 2 percentage points to 25 percent, while the return on investments ratio remained unchanged compared to 2005. The coverage ratio

increased by 11 percentage points to 306 percent, significantly above the minimum requirement of 100 percent. The increase in the coverage ratio was mainly caused by an increase in weighted assets to cover technical provisions of Afl. 17.6 million or 12.7 percent.

Table 4.5: Financial ratios of the nonlife insurance companies
(End-of-period figures)

	2002	2003	2004	2005	2006
1. Liquidity ratio (= <i>Current assets to total assets</i>)	0.28	0.37	0.29	0.27	0.25
2. Return on investments ratio (= <i>Investment income to average invested assets</i>)	0.08	0.07	0.06	0.05	0.05
3. Coverage ratio (= <i>Weighted assets less borrowings to technical provisions</i>)	2.59	3.04	2.54	2.95	3.06

Source: CBA; nonlife insurance companies.

Life insurance companies

At the end of 2006, the aggregated balance sheet total of the eight life insurance companies amounted to Afl. 492.2 million (equivalent to 11.4 percent of the GDP of 2006), a significant increase of Afl. 40.7 million or 9.0 percent compared to 2005. Their investments rose by Afl. 30.1 million or 8.1 percent, largely due to an increase in bond holdings of Afl. 29.4 million or 15.5 percent. About Afl. 57.2 million or 14.2 percent of the investment portfolio consisted of foreign investments, compared to Afl. 50.3 million or 13.5 percent in 2005. On the liability side, the technical provisions and the capital and reserves increased by Afl. 36.3 million or 10.0 percent and Afl. 7.1 million or 11.9 percent, respectively.

Net premiums decreased by Afl. 8.7 million or 12.3 percent, while the investment income increased by Afl. 4.2 million or 19.2 percent. The decline in total expenses of Afl. 6.3 million or 7.1 percent was mainly due to a drop in changes in technical provisions of Afl. 5.2 million. On balance, net income (before taxes) grew by Afl. 2.1 million to Afl. 6.7 million in 2006.

As shown in Table 4.6, the liquidity ratio remained unchanged at 13 percent in 2006, while the return on investments ratio increased slightly by 1 percentage point to 7 percent. The coverage ratio decreased by 1 percentage point to 118 percent at the end of 2006, which is still well above the minimum solvency requirement of 100 percent.

Table 4.6: Financial ratios of the life insurance companies
(End-of-period figures)

	2002	2003	2004	2005	2006
1. Liquidity ratio (= <i>Current assets to total assets</i>)	0.12	0.09	0.18	0.13	0.13
2. Return on investments ratio (= <i>Investment income to average invested assets</i>)	0.09	0.09	0.07	0.06	0.07
3. Coverage ratio (= <i>Weighted assets less borrowings to technical provisions</i>)	1.32	1.34	1.17	1.19	1.18

Source: CBA; life insurance companies.

Company pension funds

The aggregated balance sheet total of the ten company pension funds (excluding Lago Annuity Foundation, whose pension obligations are covered by a guarantee from ExxonMobil) amounted to Afl. 235.0 million at the end of 2006 (equivalent to 5.4 percent of the GDP of 2006), i.e., a 10.3 percent increase compared to 2005. On the asset side, investments increased by Afl. 27.7 million to Afl. 219.7 million. The foreign investments amounted to Afl. 105.4 million or 48.0 percent of the total investment portfolio (2005: Afl. 94.9 million or 49.4 percent). On the liability side, technical provisions went up by Afl. 13.5 million to Afl. 195.2 million. Capital and reserves grew by 26.4 percent to Afl. 37.3 million at the end of 2006.

The net result of the company pension funds increased by Afl. 3.3 million or 73.3 percent to Afl. 7.8 million in 2006, mainly associated with an increase in investment income of Afl. 3.9 million or 28.5 percent.

As shown in Table 4.7, the liquidity ratio of the company pension funds decreased by 3 percentage points in 2006, largely due to a decrease in current assets. The return on investments ratio rose

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

	2002	2003	2004	2005	2006
1. Liquidity ratio (= <i>Current assets to total assets</i>)	0.07	0.08	0.09	0.10	0.07
2. Return on investments ratio (= <i>Investment income to average invested assets</i>)	-0.01	0.10	0.07	0.07	0.09
3. Coverage ratio (= <i>Investments & cash minus volatility cushion to technical provisions</i>)	1.03	1.05	1.07	1.08	1.12

Source: CBA; company pension funds.

by 2 percentage points to 9 percent at the end of 2006. The aggregate coverage ratio increased by 4 percentage points to 112 percent, well above the minimum requirement of 100 percent. Nonetheless, two company pension funds did not comply with the minimum coverage ratio requirement of 100 percent. In 2007, the CBA continued to closely monitor developments at these two 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 briefly discussed.

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 as of 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 the 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 APFA realized a profit of Afl. 49.8 million in 2006, an increase of Afl. 41.9 million compared to 2005, mainly the result of a significant growth in APFA's investment income of Afl. 36.5 million or 50.8 percent. Despite this increase in net income, the coverage ratio remained unchanged at 80 percent in 2006, far below the minimum coverage ratio of 100 percent applicable to company pension funds. This is mainly attributed to the significant increase in the required volatility cushion resulting from higher holding of shares in the investment portfolio. This volatility cushion must be formed to absorb possible losses originating from adverse financial market conditions.

SVB

The SVB is responsible for the execution of various social security funds, including the AOV. Since the 2006 figures are not yet available, no financial analysis of the SVB could be undertaken.

AZV

In 2006, the deficit of the AZV decreased by Afl. 33.8 million or 99.4 percent to Afl. 0.2 million. The deficits of the AZV are by law covered by the government. Preliminary data indicate that 2007 will show a deficit of Afl. 30.4 million. Taking into account the expected ageing of the Aruban population in coming years, the AZV scheme should be reformed on short term, in order to improve its sustainability.

4.7 Financial institutions under supervision of the CBA as of December 31, 2007

4.7.1 Banking sector 1)

Commercial banks

Aruba Bank N.V.
 Banco di Caribe N.V., Aruba Branch
 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
 Cooperativa di Ahorro y Prestamo Aruba 2)

Finance companies

Island Finance Aruba N.V.

Other financial institutions

AIB Bank N.V.

4.7.2 Money transfer sector 3)

Money transfer companies

G.F.P. International N.V.
 Global Access Corporation N.V.
 Union Caribe N.V.
 Post Aruba N.V.

4.7.3 Institutional investors' sector

Company pension funds 4)

Lago Annuity Foundation
 Stichting Bedrijfspensioenfonds Aruba
 Stichting Pensioenfonds Havenwerkers Aruba
 Stichting Pensioenfonds Martijn Trading Company N.V.
 Stichting Pensioenfonds META Bedrijven Aruba

Stichting Pensioenfonds Tourist Sector Aruba
 Stichting Pensioenfonds RBTT Bank Aruba I
 Stichting Pensioenfonds RBTT Bank Aruba II
 Stichting Pensioenfonds N.V. Aruba Bank 5)
 Stichting Pensioenfonds Caribbean Mercantile Bank N.V.
 Stichting Fondo di Pensioen di Trahadornan di Empresanan y Fundacionnan Publico

Insurance Companies 6)

Life insurance companies operating in Aruba

American Bankers Life Assurance Company of Florida Limited, Agency
 American Life Insurance Company, Aruba Branch 7)
 British American Insurance Company Limited, Aruba Branch 7)
 Sagicor Capital Life Insurance Company Limited, Aruba Branch 7)
 Ennia Caribe Leven N.V., Aruba Branch
 Guardian Life of the Caribbean Limited, Aruba Branch
 Fatum Life N.V., Aruba Branch
 Industrial Alliance Insurance and Financial Services Inc., Agency 7)

Captive insurance companies

Bancarib Real Insurance Aruba N.V.
 Fides Rae Insurance Company N.V.
 MCB Risk Insurance N.V.
 Mondis Manufactures Insurance Company N.V.

- 1) Supervision by virtue of the State Ordinance on the Supervision of the Credit System (AB 1998, No. 16).
- 2) License revoked on May 12, 2006.
- 3) Supervision by virtue of the State Ordinance on the Supervision of Money Transfer Companies (AB 2003, No. 60).
- 4) Supervision by virtue of the State Ordinance on Company Pension Funds (AB 1998, No. GT 17).
- 5) In liquidation.
- 6) Supervision by virtue of the State Ordinance on the Supervision of the Insurance Business (AB 2000, No. 82).
- 7) 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 are also allowed to conduct the nonlife insurance business in the indemnity group "accident and health insurance".

Table 4.8: Nonlife (general) insurance companies operating in Aruba

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

Source: CBA.

FINANCIAL STATEMENTS

5

BALANCE SHEET AS OF DECEMBER 31, 2007 ¹⁾, AFTER PROFIT DISTRIBUTION

(in thousands of Aruban florin)

	Notes	2007	2006
Assets			
Gold	3	166,358	126,424
Foreign currency assets	4	666,054	604,698
Receivables	5	7,209	7,330
Printing cost of bank notes	6	17	508
Premises	7	10,255	10,699
Other fixed assets	8	2,167	2,687
		<u>852,060</u>	<u>752,346</u>
Liabilities			
Bank notes issued	9	202,661	180,097
Deposits of residents	10	413,951	361,896
Deposits of nonresidents	11	4,411	17,172
Money in custody	12	778	778
Payables and accrued expenses	13	9,491	8,310
Revaluation account	14	142,582	105,907
General reserve	15	68,186	68,186
Capital	16	10,000	10,000
		<u>852,060</u>	<u>752,346</u>

1) Abbreviated

PROFIT AND LOSS ACCOUNT FOR THE YEAR 2007 ²⁾

(in thousands of Aruban florin)

	Notes	2007	2006
1. Net interest revenues	17	27,333	21,066
2. Foreign exchange revenues	18	2,055	1,843
3. Coins revenues	19	1,010	939
4. Various revenues	20	503	382
Total income		30,901	24,230
5. Printing cost of bank notes		491	494
6. Personnel expenses	21	9,097	8,047
7. Operating expenses	22	2,995	2,555
8. Depreciation		1,896	1,829
Total expenses		14,479	12,925
Profit		16,422	11,305
Profit distribution	23		
Allocated to the Treasury		16,422	11,305
General reserve		-	-

2) Abbreviated

NOTES TO THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT FOR 2007

1 GENERAL

Pursuant to article 31, paragraphs 1 and 3 of the CBO, the President and Executive Directors shall each year, before the first of July, prepare the CBA's draft balance sheet and profit and loss account for the previous financial year and submit these statements, after they have been audited by the CBA's external accountant, for approval to 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 Comparison with previous year

The principles of valuation and determination of results remained unchanged in 2007.

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.

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 a 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 principle 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 reserve and business assets of the CBA occurring during the financial year should be expressed 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, beginning 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, that 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 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, 2007, the market price for gold was US\$ 635.70 or Afl. 1,137.90 (2006: US\$ 513.00 or Afl. 918.27) 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 thousands Afl.	
	2007	2006	2007	2006
	111,102.8	111,102.8	166,358	126,424

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.

A net estimated value of this option contract as of December 31, 2007, amounted to Afl. 89.8 million negative (2006: Afl. 55,236,935 negative) based on the market price of gold on December 31, 2007. This market-to-market value was based upon an estimation of the counter party of the CBA in this option contract.

In effectuating the gold option contract, the CBA may opt for (partially) exercising it as of the expiration date or extend it for a certain period. Presently, these options are under consideration. In the event the contract is exercised, the incurred costs could be settled via cash payment or by (partially) selling the gold stock. As soon as the CBA has made a final decision on the options and the financial consequences have been determined, they will be included in the CBA's financial accounts.

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 of 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 the case of triple A-rated credit institutions, or 10 percent in the case of 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 U.S.A. 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, prudential supervision charges, penalty fees charged to the commercial banks for exceeding the maximum credit growth, as well as various other receivables, such as prepaid expenses and checks in transit.

6 PRINTING COST OF BANK NOTES

In December 2003, a revised series of Aruban florin bank notes was printed, containing additional security features. One-fifth of the total printing costs was charged to the profit and loss account. On February 1, 2004, these notes were brought into circulation, replacing the series 1990 and 1993. These costs are amortized over a period of 5 years. The amortization of the extra bank notes ordered in 2004 will be completed in 2008.

7 PREMISES

Premises comprise the CBA building at J.E. Irausquin Boulevard 8 and landscaping. At the end of 2006, the CBA began construction of a new public entrance to the Cash and Vault Department, which was completed in 2007. In addition, in 2007, a security booth was built at the gate entrance of the CBA building. The total construction costs amounted to Afl. 493,156. Also, in 2007, the CBA building was painted for a total amount of Afl. 65,111.

8 OTHER FIXED ASSETS

These assets consist of 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 thousands of Aruban florin)

Denomination	2007	2006
5	886	885
10	6,497	6,114
25	15,394	13,523
50	16,160	16,392
100	157,352	136,539
500	6,372	6,644
Total	202,661	180,097

10 DEPOSITS OF RESIDENTS

Deposits of residents comprise the following items:

(in thousands of Aruban florin)

	2007	2006
Government	36,862	35,817
Development funds	41,706	2,452
Banks:		
- current accounts	76,297	46,302
- monetary cash reserve	257,504	226,539
- time deposits	-	35,503
Other	1,582	15,283
Total	413,951	361,896

Government

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

Development funds

These funds are money granted by the Aruban and Dutch governments in the framework of the development cooperation with the Netherlands.

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 includes mainly accounts of official and semi-official entities.

11 DEPOSITS OF NONRESIDENTS

This item consists of Aruban florin accounts of nonresident banks.

12 MONEY IN CUSTODY

This item is composed of 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 on government securities, checks outstanding, pension reserve, general old age pension insurance/general widow and orphan's pension premium, wage tax proceeds, and general sickness insurance premium, and accruals for foreign asset management and custodian fees as well as for several construction projects.

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 thousands of Aruban florin)

	2007
Beginning balance	68,186
Additional profit distribution	-
Balance at the end of the year 2007	68,186

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 thousands of Aruban florin)

	2007	2006
Interest revenues	28,190	21,516
Interest expenses	857	450
Net interest revenues	27,333	21,066

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, and whereas, 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 the former 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 and the money transfer companies, fees charged, among others, to the commercial banks for using the CBA's automated clearing system, 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 67 persons full-time (2006: 64 persons).

22 OPERATING EXPENSES

These 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, the Board decided to allocate the 2007 profit of Afl. 16.4 million 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, 2007 (as set out on pages 57 to 65). 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, 2007, from which these summarized financial statements were derived, in accordance with International Standards on Auditing. In our report dated April 17, 2008, 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 2008 to allocate the profit for the year 2007 of Afl. 16,422,000 to the Treasury. 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 2007 has been included in the 'Deposits of Residents'.

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, May 28, 2008

PricewaterhouseCoopers Aruba

Edsel N. Lopez



