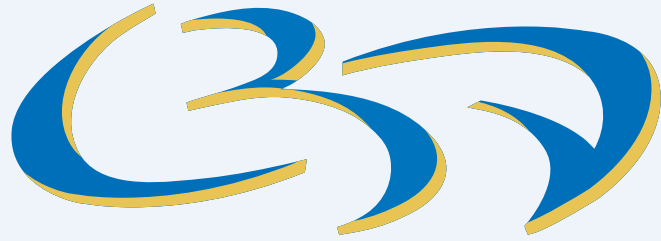


REPORT 2009  
ECONOMIC AND FINANCIAL  
DEVELOPMENTS



CENTRALE BANK VAN ARUBA





REPORT 2009  
ECONOMIC AND FINANCIAL DEVELOPMENTS

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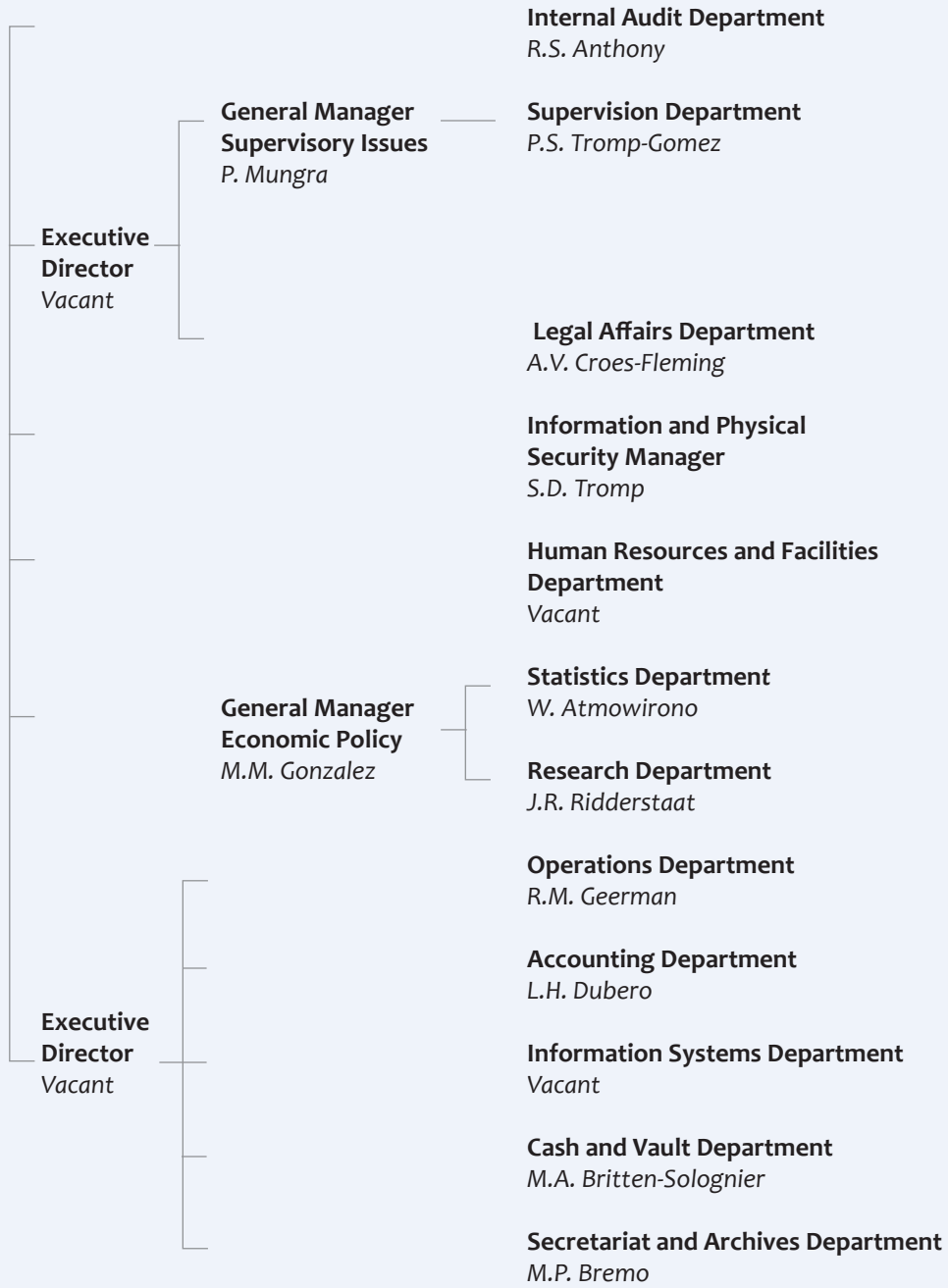
**ORGANIZATION CHART**  
**(As of January 1, 2010)**

**Board of Supervisory Directors**

*A.J. Swaen*  
*H.O. van Trikt*  
*M.R. Croes*  
*G.G. Oduber*

**President**

*J.R. Semeleer*



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## List of abbreviations

AAA	Aruba Airport Authority N.V.
ADR	Average daily rate
Afl.	Aruban florin
AIB	AIB Bank N.V., formerly known as the Aruban Investment Bank N.V.
AML/CFT	Anti-money laundering and combating financing of terrorism
AOV	Algemeen Ouderdoms Verzekering, the general old age pension system
APFA	Stichting Algemeen Pensioenfonds Aruba, the civil servants pension fund
ASBA	Association of Supervisors of Banks of the Americas
ATA	Aruba Tourism Authority
AWW	Algemene Weduwen- en Wezenwet, the general widowers and orphans insurance
AZV	Algemene Ziektekostenverzekering, the general health insurance
BBO	Belasting op Bedrijfsomzetten, a turnover tax
BEA	U.S. Bureau of Economic Analysis
BGD	Bedrijfsgezondheidsdienst, the occupational health services
BLS	U.S. Bureau of Labor Statistics
BNA	Bank van de Nederlandse Antillen, the central bank of the Netherlands Antilles
CAPA	Cooperativa di Ahorro y Prestamo Aruba
CBA	Centrale Bank van Aruba, the central bank of Aruba
CBS	Centraal Bureau voor de Statistiek, the central bureau of statistics
CGBS	Caribbean Group of Banking Supervisors
CD	Certificate of Deposit
CPI	Consumer Price Index
CTA	Cruise Tourism Authority
CTO	Caribbean Tourism Organization
DEZHI	Directie Economische Zaken Handel en Industrie, the department of economic affairs, commerce and industry
DF	Department of Finance
DNB	De Nederlandsche Bank N.V., the central bank of the Netherlands
DOW	Dienst Openbare Werken, the department of public works
DTI	Dienst Technische Inspectie, the department of technical inspections
ELMAR	Naamloze Vennootschap Electriciteitsmaatschappij “Aruba”, the publicly owned electricity provider
FATF	Financial Action Task Force
FCCA	Fundacion Cas pa Comunidad Arubano
FDA	Stichting Fondo Desaroyo Aruba, the development fund foundation of Aruba
FIU	Financial Intelligence Unit
GDP	Gross Domestic Product
IAS	International Accounting Standards
IMF	International Monetary Fund
MC	Monitoring Committee
MER	Mutual Evaluation Report
MMoU	Multilateral Memorandum of Understanding

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MoU	Memorandum of Understanding
MR	Ministerial Regulation
NCPF	National Commission on Public Finance
OGBS	Offshore Group of Banking Supervisors
OGIS	Offshore Group of Insurance Supervisors
OV	Ongevallen Verzekering, the accident insurance
PLR	Prudential liquidity ratio
PVL	Pensioenverordening Landsdienaren, the pension scheme for civil servants
RR	Reserve Requirement
SETAR	Servicio di Telecomunicacion di Aruba (Setar) N.V., a publicly owned telecommunications company
SOCPF	State Ordinance on Company Pension Funds
SOFEC	State Ordinance Foreign Exchange Commission
SOFET	State Ordinance Foreign Exchange Transactions
SOGMS	State Ordinance Governing the Monetary System
SOIPS	State Ordinance on the Identification when Providing Services
SORUT	State Ordinance on the Obligation to Report Unusual Transactions
SOSCS	State Ordinance on the Supervision of the Credit System
SOSIB	State Ordinance on the Supervision of the Insurance Business
SOSMTC	State Ordinance on the Supervision of Money Transfer Companies
SOSTSP	State Ordinance on the Supervision of Trust Service Providers
SVB	Sociale Verzekeringsbank, the social security bank
WEB	Water en Energie Bedrijf Aruba N.V., the publicly owned water and power company
ZV	Ziekteverzekering, the sickness insurance

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*The President of the CBA and Members of the Board of Supervisory Directors (as of January 1, 2010); Seated l.-r.: J.R. Semeleer (President), A.J. Swaen (Chairman); Standing l.- r.: M.R. Croes, G.G. Oduber, H.O. van Trikt*

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## 1 Statement of the President

While during 2009 the global economy showed clear signs of stabilization and even growth in certain countries, domestic economic activities shrank noticeably amid falling prices following a pronounced drop in both tourism and local demand as well as a sudden operational shutdown of the Valero-owned oil refinery in mid-year, which in 2008 contributed for about 12.5 percent to the nominal gross domestic product (GDP). Although public investment spending increased, it was by far not sufficient to counteract the downward economic spiral. Both nominal and real GDP growth turned negative, dropping, respectively, from 7.3 percent and 0.7 percent in 2008 to -6.0 percent and -7.6 percent in 2009, the largest contractions since 1985, when the refinery, then operated by Exxon Corporation, experienced its first closure.

A bright spot is that after peaking to a record level in the third quarter of 2008, inflationary pressures abated markedly during 2009, even becoming negative at an annual average rate of -2.1 percent for the first time since Aruba obtained its autonomous status in 1986. The deflationary trend, which began in December 2008 and continued up to and including October 2009, was triggered by falling water and electricity tariffs and gasoline prices that resulted from a steep decline in oil prices on the international markets. In contrast, food prices continued to creep up steadily until mid-year when their rising pace slowed to about 0.6 percent in December 2009. Core inflation, however, subsided but remained positive at an annual average of 1.8

percent, indicative of persistent upward price movements mostly from domestic sources.

As the Valero refinery terminated work with subcontractors, who on their turn laid off their employees in the third quarter of 2009, the unemployment rate estimated by the Centrale Bank van Aruba (CBA) swelled to more than 11 percent at the end of the year, its highest level since 2003. Although Valero employees remained on the payroll awaiting the definitive outcome of the intended sale of the refinery, increased uncertainty about the future, exacerbated by growing unemployment and the parliamentary election in September 2009, negatively impacted both consumer and business confidence. Domestic consumption, measured in real terms, fell by 5.2 percent, as consumers refrained from buying new cars and other durable goods to going on vacations resulting in lower import payments and significantly reduced commercial banking credit growth.

While the construction sector was hardest hit due to depressed private investment, retail businesses, already facing an overcapacity associated with a recent significant expansion particularly in the main tourist area, confronted a difficult year during 2009, as tourists also sharply reduced their expenditures. While only a few thrived under the challenging circumstances, many businesses were forced to drastically reduce costs to improve competitiveness and avoid closure. New hirings were postponed and vacancies decreased, causing a sharp decline in new work permit petitions for

# 1

foreign laborers. Business confidence, measured by the CBA through a quarterly survey, weakened steadily up to the second quarter of 2009, when a slight stabilization was posted. This stabilization was attributed to an improved perception of short-term economic conditions, while that of current economic conditions remained rather bearish.

After a weak start in the first quarter, tourism activities gradually picked up in the remaining quarters of 2009, exceeding the expectations for the year, which were on the downside due to the ongoing recession and the associated increase in unemployment in the United States, the main source of visitors for our island. By the end of the year, Aruba had managed to welcome more than 1.4 million tourists, a 2.6 percent increase compared to 2008. This positive outcome occurred because the 9.1 percent rise in cruise passenger arrivals more than compensated for the 1.7 percent decline in stay-over visitors. The year 2009 marked a record-year for cruise tourism on the island; arrivals surpassed 600,000 for the first time, rebounding from a sharp decline in both 2007 and 2008 in comparison to 2006, when the second largest peak was recorded. New cruise lines added Aruba on their itinerary, and the ships were much larger, carrying thereby more passengers, on average, per ship.

The negative performance in stay-over arrivals in 2009 was mostly due to drops in the U.S. and the Venezuelan markets (the latter being the second largest source market) of 2.1 percent and 6.2 percent, respectively. While the

number of visitors from the Netherlands fell as well albeit quite marginally, that of other European markets incurred a notable increase. Consequently, the market share of the U.S. stay-over visitors in the total arrivals decreased further, for the fifth year in a row, to 65.0 percent. Compared to other islands in the Caribbean, Aruba's weakened performance in the tourism sector was less far-reaching; its market share within this peer group remained almost unchanged at 4 percent. During 2009 the government poured an additional Afl. 18 million into marketing campaigns, thereby successfully holding off a sharp deterioration particularly in the U.S. market, after launching a fully renewed marketing strategy in the last quarter of 2008.

In addition, the large ownership in time-share units, which represents a majority of repeat visitors and, henceforth, the backbone of the Aruban tourism industry, kept occupancy rate at time-share properties around 77.3 percent on average for the whole year, which is only 3.0 percentage points lower than in 2008. Other hotel properties, accounting for 51.0 percent of total available rooms, experienced a smaller contraction in their average occupancy rate, i.e., 1.2 percentage points to 72.0 percent, while conceding a 4.5 percent decrease in the average daily rate (ADR) to Afl. 321 compared to 2008, when the highest ADR ever, amounting to Afl. 336, was registered. These developments put a downward pressure on the profitability of the hotel sector, which faced a 6.1 percent

fall-off in revenue per available room. In conversations with the management of these properties, many reported halting investments as well as new hirings; in some cases labor contracts were not renewed and voluntary lay-off programs were offered.

Whereas Aruba managed to avoid a severe drop in tourist arrivals in contrast to many other regional destinations, visitors spent considerably less. As a large majority of these visitors comes from the United States, this cautious behavior is in line with the low consumer confidence, which affected consumption. In addition, the spendthrift Venezuelans were kept in check severely by stringent credit card restriction measures imposed by the Venezuelan government to reduce foreign currency outflows. Consequently, tourist receipts, as registered in the balance of payments, decreased by 8.3 percent in 2009. This decrease negatively impacted many tourism ancillary businesses, particularly restaurants, which at the same time were facing increased competition, after sizeable investments that led to an overcapacity in that sector. In the non-traditional tourism corridors, many businesses fully shut down operations or had to move to more attractive areas to keep their businesses afloat.

Government was not spared from additional challenges in managing its rising budget deficit, largely associated with dwindling revenues, while at the same time dealing with growing unemployment, as well as decreased consumer and business confidence. The abrupt decision of the Valero

Corporation to idle the refinery on the island rather than keeping it operational at a loss in mid-July, combined with less buoyant performance in the tourism sector, led to a reduction in economic activities that resulted in lower revenue in 2009 from turnover taxes, wage taxes, and taxes on commodities for the first time in the past eight years.

Total revenue dropped by Afl. 256.2 million to Afl. 1.1 billion, which is equivalent to 23.6 percent of nominal GDP. While total tax receipts declined by Afl. 48.1 million to Afl. 928.9 million, nontax revenue plummeted by Afl. 208.1 million to Afl. 180.0 million, following the incidental large grant received from the Dutch government in 2008 to settle the dispute associated with the ownership of the sale proceeds of the Plant Hotel N.V. Expenditures (including changes in unmet financing requirements) rose by Afl. 67.1 million or 5.8 percent to Afl. 1.2 billion (i.e., 26.1 percent of nominal GDP), due mostly to a rise in the cost of living allowance paid to pensioners through the civil servants pension fund APFA, higher purchases of goods and services, and increased transfer to the General Health Insurance (AZV).

After posting a financial surplus in 2008, an Afl. 159.6 million financial deficit (including changes in unmet financing requirements) was recorded in 2009. Discounting 2008 as an exceptional fiscal year due to the aforementioned large incidental grant, billowing labor costs and high payments related to goods and services as well as to the AZV, accounting for 72.8 percent of total expenditures

(including changes in unmet financing requirements), remained a serious cause for concern, giving the government little room to implement a badly needed anti-cyclical fiscal policy. Consequently, investment outlays (including development fund spending), an important tool to jumpstart the faltering economy, stayed around 6.7 percent of total expenditures or 1.8 percent of nominal GDP. To cover its financial deficit the government borrowed Afl. 275.4 million, which again pushed up total outstanding debt to Afl. 2.2 billion or 46.9 percent of nominal GDP.

The domestic economic prospects for 2010 are dominated by the uncertainties surrounding the future of the oil refinery, an important source of employment and foreign currency earnings although not at the same high levels seen during the Exxon-era that terminated in early 1985. If the refinery does not restart its operations, the outlook for this year is a further contraction in economic activities, measured in real terms. At the same time, inflationary pressures could flare up again largely fueled by higher import prices as commodity prices, including crude oil, are expected to resume their upward path because of increasing global demand, which could reset the stage for significant erosion in the purchasing power of consumers. The aforementioned output contraction is forecasted to be less profound for 2010 compared to 2009, based on the anticipation of a pick-up in tourist expenditures following an increase in visitor arrivals, a less steep fall in

domestic consumption, and higher public investments.

If the Valero refinery is back in business at full capacity on renewed favorable prospects related to the recent tax deal with the Aruban government and improved refining margins, the impact will be positive on domestic output, investments as well as consumption, resulting in renewed growth in real GDP. Moreover, because of the mentioned tax agreement with the Valero Corporation, and in spite of the reduction in the turnover tax (BBO) rate as of January 2010, budgeted government income will rise by 5.4 percent. As expenditures are forecasted to exceed income by 13.7 percent, the financial position of the government will remain under strain, incurring an expected financial deficit equal to 3.3 percent of nominal GDP.

According to the recently presented budget plans for 2010, the government intends to introduce measures to reduce personnel costs over the course of the coming years, largely via privatization and increased efficiency. However, from a financial stability perspective it is crucial to attain the desired sustainable government finance on a medium term. Therefore, the planned measures should be combined with rigid cost-cutting exercises, particularly with regard to the AZV and the APFA.

Sustainable government finance is an important prerequisite for creating the path that would lead towards reducing the government debt to manageable levels, without compromising the envisioned investment

catch-up in physical infrastructure and know-how. The attainment of a so-called Social Agreement between the government and organizations representing workers and employers on issues such as the AZV, the APFA, the General Old Age Pension System (the “AOV”), the government finance, and diversification could help pave the path to stability. Important conditions are that actions be based upon realistic financial parameters and a longer term perspective.

Another cause for concern is the relatively high cost of living and of doing business in Aruba. In an environment of growing unemployment, these cost conditions could be harmful to the community. Although there is a significant lack of adequate social statistics, anecdotal evidence also reveals growing signs of financial stress and impoverishment, causing increased indebtedness, higher loan repayment delinquencies, and rising water and electricity disconnections. These signs of stress provide breeding grounds for criminality and other social distress. Higher business costs, which were partially offset by the reduction of the BBO tax rate in January of 2010, will continue to discourage investments as well as new hirings. Also, unless tourist spending improves, businesses servicing this sector will remain under strain, potentially causing a further rise in bankruptcies and unemployment.

The business operations of the CBA were also influenced by the effects of the financial crisis and the recession triggered on the domestic economy. On the policy side, as of the beginning of 2010 the CBA loosened its restrictive monetary stance and removed the

credit ceiling, which had been in place since 1988, thereby accommodating recovery in business and consumer lending. Henceforth, in managing monetary growth and maintaining an adequate level of foreign exchange reserves, it relies mostly on the reserve requirement and, to a lesser extent, the issuance of certificates of deposits to withdraw or create liquidity within the banking system. Adjustment in the reserve requirement ratio follows upon recommendation of the monetary policy committee, which on a monthly basis reviews a number of key economic and financial indicators.

Although the impact of the international crisis on the domestic financial sector had been limited, the CBA took several policy measures to enhance soundness within this sector. One such measure was tightening of the admission policy for credit institutions as of January 1, 2009. One important change was that only financial institutions with solid financial strength and reputation, subject to comprehensive consolidated supervision can be a major shareholder in a credit institution established in Aruba. Also, in order to boost capital and liquidity reserves to levels that could absorb unanticipated losses on their loan and investment portfolio as well as sudden cash withdrawals, the CBA increased both the minimum risk-weighted capital asset ratio and the prudential liquidity ratio for commercial banks from 12 to 14 and 15 percent, respectively. The stiffening of the minimum risk-weighted capital asset ratio is also in effect for bank-like institutions.

To summarize, the Aruban business and social community experienced rough times in 2009. The expectation is that there are still many challenges ahead, which need to be tackled effectively. The world economy is forecasted to expand in 2010, though the recovery in advanced economies, including the United States, is anticipated to be sluggish by historical standards. Moreover, the recent debt problems in, among others, Greece and Spain pose a significant threat to the European economic outlook and the euro. On the domestic front, the future of the oil refinery and the quality of the recovery in the tourism sector are major factors affecting the economic outlook, but there are a number of additional issues, including the weak financial position of the government, associated in part with the dilemmas surrounding the civil servants pension fund and the old age pension system, as well as the relatively high personnel costs and the AZV, that require urgent and comprehensive solutions. Only then will the future look much brighter.



*The President and General Managers of the CBA, l.- r.: P. Mungra, J.R. Semeleer (President), M.M. Gonzalez*



*The CBA conducts presentations to both internal and external audiences.*

## 2 Economic and financial developments

### 2.1 International environment

In the last quarter of 2008, a massive financial crisis and an implosion of confidence especially among financial market participants plunged the global economy into its worst recession in decades. The deterioration in asset values eroded household net wealth, which together with sharply rising unemployment depressed consumer demand. In addition, households and businesses cut spending due to economic uncertainty and the widespread disruption in credit, thereby lowering consumption and investment. As a consequence, global output and trade plummeted. The downturn in the advanced economies and the substantial drop in international trade also led to contraction in emerging economies.

Unprecedented and unconventional monetary and fiscal policy measures were put in place immediately following the start of the financial crisis. Central banks around the globe cut their rates to record low levels and flooded their economies with liquidity through substantially enhanced lending facilities. In addition, the governments of the world's major countries recapitalized banks, issued loan guarantees, increased deposit insurance coverage, and provided generous fiscal stimulus packages to shore up their economies. In the first quarter of 2009, global economic activity remained weak due to the poor functioning of the financial markets and low levels of consumer and business confidence. As financial conditions slowly improved and confidence gradually renewed, the world economy stabilized in the second quarter of 2009

and slowly began to emerge from recession. The slow emergence from recession was led by a strong performance of the Asian economies. Economic growth solidified and broadened to advanced economies in the second half of 2009, due partly to inventory restocking. Consequently, international output and trade bounced back in the second half of 2009. Overall, global economic output contracted by 0.6 percent in 2009.

Global inflationary pressures diminished in 2009 due to lower commodity prices in the first seven months of the year, owing to rising spare capacity following the sluggish worldwide demand and the weakened labor market conditions. The rebound in oil prices during 2009 partially counteracted the deflationary pressures. On balance in 2009, inflation, measured by the change in the Consumer Price Index (CPI), decelerated by 3.3 percentage points to 0.1 percent in advanced economies and by 4.0 percentage points to 5.2 percent in emerging and developing countries.

In the United States, economic conditions improved during 2009, resulting in a recovery in GDP growth in the third quarter of 2009. However, for the year as a whole, economic activity shrank by 2.4 percent. Household consumer expenditures were down for the second consecutive year, i.e., by 0.6 percent, as a result of modest growth (0.9 percent) in real disposable personal income, deteriorating labor market conditions (decreased employment opportunities and rising unemployment), and stricter lending conditions that prevailed despite the

# 2

### Box 2.1: Global economic outlook for 2010 and 2011

According to the International Monetary Fund (IMF), the global recovery is off to a stronger start than previously anticipated, but it is proceeding at different speeds in the various regions of the world. The average forecast of several international institutions indicates that the world economy is expected to grow by 3.8 percent in 2010 and 4.1 percent in 2011.

Output in the advanced economies is projected to rise by 2.3 percent in 2010 and 2.4 percent in 2011. The recovery is expected to be weak by historical standards. The U.S. economy is anticipated to broaden by 3.1 percent in 2010 and 3.0 percent in 2011. The 2010 growth will likely be driven mainly by inventory investment and fiscal policy. Spending by households will be restrained by slow growth of income, lost wealth, and limits on the ability to borrow. Moreover, investments and exports will remain sluggish compared to historical standards. The pace of recovery of the euro area will be slower in 2010 and 2011 than in the United States (see Table below).

The emerging and developing economies are forecasted to expand by about 6.3 percent in 2010 and 6.5 percent in 2011. Stronger macroeconomic fundamentals and swift policy responses have helped many emerging economies cushion the impact of the external shocks. China is expected to achieve growth rates in line with its potential. Note that China's growth is in part based on a very strong fiscal stimulus package and credit easing. The prospects for robust growth of private demand are positive.

Inflationary pressures will remain subdued in most economies during 2010 due to the low levels of capacity utilization. Commodity prices are expected to increase because of the recovery of the global demand. This upward pressure is foreseen to be modest, given the above-average inventory levels and substantial spare capacity in many commodity sectors. In the emerging and developing economies, inflation is predicted to increase to 6.2 percent in 2010, while in the advanced countries, inflation is projected to reach 1.5 percent in 2010.

This outlook has important downside risks. A key risk is that a premature and incoherent exit from supportive policies could undermine global growth. Moreover, the recovery in household spending could be restrained by the impaired financial systems and housing markets, as well as rising unemployment in important advanced countries. In the United States, the unemployment rate is expected to peak in the second half of 2010, after which it will decline somewhat. Another risk is that rising concerns about deteriorating budgetary positions and fiscal sustainability could unsettle financial markets and stifle the recovery by raising the cost of borrowing for households and companies. Also, rising commodity prices may constrain the recovery in advanced economies.

**Table: Economic indicators forecast of selected countries/regions**

	Real GDP 1)		Inflation 2)		Unemployment 3)	
	2010	2011	2010	2011	2010	2011
World	3.8	4.1	3.6	3.6		
United States	3.1	3.0	2.0	1.7	9.6	8.9
Euro area	1.2	1.7	1.4	1.4	10.2	10.0
Japan	1.9	1.6	-0.8	0.0	5.3	5.0
China	9.8	9.1	3.2	3.4	4.1	4.1
Latin America and the Caribbean 4)	4.0	4.0	6.2	5.9		

Source: Economic Forecast Monitor, CBA, April 28, 2010.

1) Percentage change.

2) In percent.

3) As percentage of the labor force.

4) Source: IMF, World Economic Outlook April 2010.

easing of the monetary stance. Investments in residential property and business investments declined notably because of the unfavorable economic situation and outlook. In addition, exports fell due to a decline in foreign demand. Imports decreased faster than exports because of a greater fall in domestic demand than in foreign demand, thus offsetting the fall in exports. Inflation, as measured by the change in the CPI, decelerated to -0.3 percent in 2009, the first deflation rate recorded since 1956, owing to lower energy, food, and housing prices.

In Japan, the fall in international trade, especially related to the subdued demand for durable consumer goods from the United States and Europe, triggered the worst recession since World War II. Economic activity in Japan started to recover in the second quarter of 2009 compared to the preceding quarter, following a growth in exports due in part to the strong resurgence in other Asian economies. On balance, the Japanese economy contracted for the second year in a row by 5.2 percent. Lower wages, a stronger yen, and decreased commodity prices prompted a 1.4 percent deflation in 2009.

The global economic crisis affected the emerging Asian economies because of their high dependency on exports to advanced countries. However, as soon as the uncertainty began to recede, foreign countries began to replenish their stocks, thereby stimulating an economic recovery. In addition, fiscal and monetary interventions were

possible because of strong macro-economic fundamentals in many emerging economies in Asia. The Chinese economy led the recovery, growing by 8.7 percent, after a vigorous domestic demand and a robust fiscal stimulus package. China's economy posted a 0.7 percent deflation in 2009.

The euro area experienced a 4.1 percent decline in economic activity. This slowdown was caused mainly by a marked fall in business investments and gross capital formation in residential dwellings. Consumptive expenditures also declined, but an expansion in disposable income due to fiscal stimulus packages averted a larger contraction in consumption. Inflationary pressures subsided in the euro area, resulting in a 0.3 percent inflation in 2009. Labor market conditions deteriorated, reflecting decreasing employment opportunities and increasing unemployment.

After six consecutive years of expansion, the economies of Latin America and the Caribbean contracted by about 1.8 percent in 2009. Both domestic and external demand contributed to the negative outcome. Exports declined substantially, in part because of the lower prices for export commodities. The labor market was affected by the slump in demand. In addition, these countries faced a steep decline in the inflow of workers' remittances. During the second half of 2009, positive signs began to emerge in these countries, indicating that the worst may be over.

## 2.2 Domestic real sector

The weakened global economic conditions, especially in the United States, negatively impacted the Aruban economy through a decline in tourism demand, which started in August 2008. The poor performance in the tourism sector quickly spread to other sectors of the economy, resulting in sluggish consumer demand and a low appetite for business investments (i.e., gross capital formation). In addition, the Valero refinery ceased its operations in mid-July 2009 because narrow margins on heavy sour crude oil eroded its profitability. The operational shutdown of the refinery and the lay off of contract workers worsened the economic slowdown by increasing the uncertainty for consumers and businesses, putting further downward pressure on consumer demand and capital spending. Despite keeping their own employees at work, the fall in the gross value added of the refinery and the related

drop in construction activity contributed about 4 percentage points to the decline in real GDP. Note that the latter figure does not take into account the effect of the shutdown on the refinery's domestic suppliers of goods and services and the contraction in consumption. The substantial layoffs in 2009 resulted in an unemployment rate of around 11.3 percent at the end of the year, and restrained consumer demand. As households cut back on their spending, businesses saw their sales decline, evidenced by a contraction in the real turnover tax (BBO) revenue in 2009 (see Chart 2.1). According to the Business Perception Survey of the CBA, about 65.8 percent of businesses reported a drop in their sales. Consequently, after a 0.7 percent expansion in 2008 due in part to the positive tourism performance in the first eight months of that year, real GDP shrank

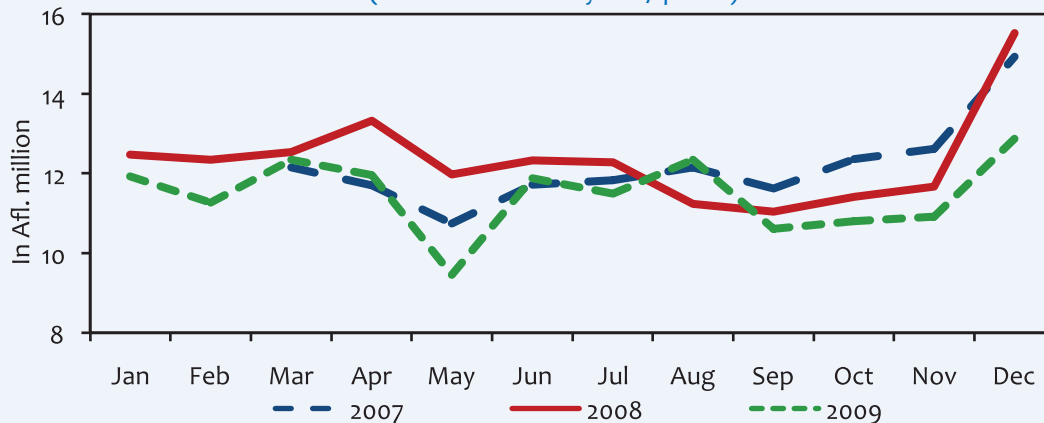
**Table 2.1: Gross domestic product**  
(percentage change)

	2005	2006	2007	2008	2009
1. Aruba: Real GDP and its components					
Gross domestic product	2.0	1.1	1.4	0.7	-7.6
Final consumption	3.9	1.4	3.2	-0.8	-5.2
Gross capital formation	18.1	7.1	0.1	3.1	-18.7
Exports	4.8	-2.8	3.7	7.1	-11.8
Imports	12.9	0.8	4.1	5.5	-13.9
2. Selected Caribbean countries: Real GDP					
Bahamas	5.7	4.3	0.7	-1.7	-3.9
Barbados	3.9	3.2	3.4	0.2	-3.0
Eastern Caribbean Currency Union 1)	5.4	5.3	3.9	2.0	-2.5
Jamaica	1.0	2.7	1.5	-1.0	-3.6
Netherlands Antilles	1.7	2.4	3.7	2.1	1.0
Trinidad & Tobago	6.2	13.5	4.6	2.3	-0.8

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

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

**Chart 2.1: Real turnover tax (BBO) - lagged one month**  
(in constant January 2007 prices)



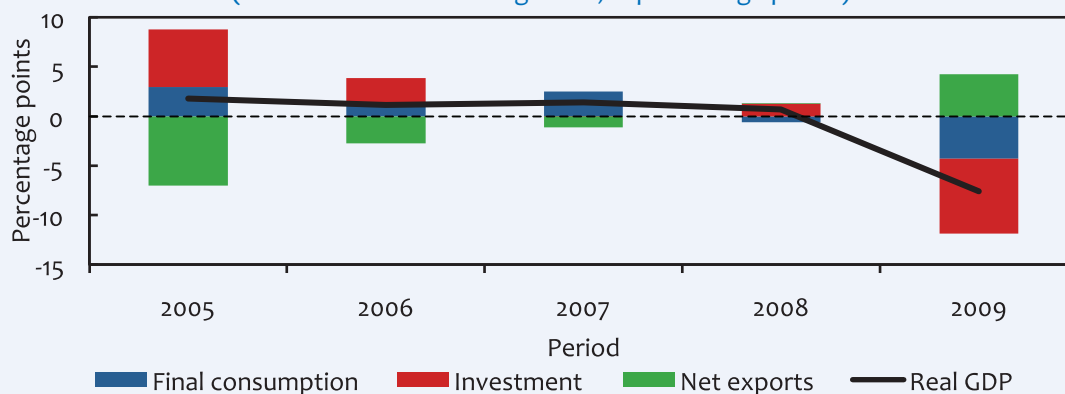
**Chart 2.1:** The real turnover tax (BBO), lagged one month, has been on a declining trend since August 2008 with two exceptions (December 2008 and August 2009), mirroring the ongoing economic recession. On balance, the real turnover tax revenue, excluding a large incidental receipt pertaining to a previous year, contracted by 7.0 percent in 2009.

by 7.6 percent in 2009 (see Table 2.1).

Final consumption fell markedly in 2009, contributing 4.1 percentage points to the real GDP contraction (see Chart 2.2), and reflecting both lower private and government consumption. Private consumption narrowed by 5.0 percent, inflicted by the worsening labor market conditions, a drop in real disposable income, and the uncertainties surrounding the refinery's (temporary) shutdown. The real disposable income of households declined in part because of a weakening in total compensation of employees due largely to the drop in economic activity. Households were cautious and did not turn to consumer credit from the financial sector to boost their spending.

Investments plunged notably by almost one-fifth in 2009. A slowdown in the pace of expansion in both outstanding housing mortgages and building permits for house construction reflected a decline in residential investments. Business investments fell also, in spite of the Vader Piet wind energy project and the construction of sport complexes by the Lotto pa Deporte Foundation. The capital expenditures of the oil refinery also were lower than a year earlier as a result of its (temporary) shutdown. Consequently, private investments contracted by 20.0 percent. In contrast, government investment surged by 6.8 percent following an increase in development fund spending.

**Chart 2.2: GDP and its components**  
(contribution to the GDP growth, in percentage points)



**Chart 2.2:** The real GDP contracted by 7.6 percent in 2009. The decline in investments led to a 7.8 percentage point fall in real GDP. In addition, the decrease in final consumption conduced to a 4.1 percentage point reduction in real GDP. In contrast, net exports rose due to a marked decline in imports, thereby offsetting the negative contributions of investments and final consumption by 4.3 percentage points.

Exports of goods and services fell by 11.8 percent, related partly to decreased tourism spending. Moreover, the refining fee shrank in 2009 after the operational shutdown of the refinery. The lower exports were offset in part by a 13.9 percent decrease in imports of goods and services, reflecting the mentioned reduced domestic demand and tourism spending. Merchandise trade statistics from the Central Bureau of Statistics (CBS) posted lesser imports in almost all product categories. The windmills for the Vader Piet electricity-generating project boosted the imports in the product category “machinery and electrotechnical equipment” by almost Afl. 100 million in the third quarter of 2009. Even so, total merchandise imports on a transaction basis declined by 5.7 percent to Afl. 1,783.1 million.

The moderated tourism spending in 2009 was partly the result of a 1.7 percent decline in the number of stay-over visitors (see Table 2.2), due largely to fewer tourists from the United States and Venezuela. In contrast, cruise tourism expanded as more ships called in on Aruba, bringing 9.1 percent more visitors to the island. However, tourists were spending remarkably less, triggering an 8.3 percent decline in tourism receipts, as registered on a cash basis, in the balance of payments. Total tourism receipts amounted to Afl. 2,314.1 million in 2009, which is equal to 49.3 percent of the nominal GDP and accounts for 74.8 percent of the total current account receipts of the rest of the economy (excluding the oil and free-zone sectors) in 2009. The latter was 1.7 percentage points lower than in 2008.

**Table 2.2: Main indicators of tourism activity**

	2005	2006	2007	2008	2009
Tourism receipts (in Afl. million)	1,952.8	1,924.3	2,242.3	2,522.4	2,314.1
Tourism receipts as a percentage of nominal GDP	47.0	44.4	48.1	50.5	49.3
Tourism receipts per capita (in Afl.)	19,403.0	18,712.9	21,559.3	23,957.4	21,678.0
Stay-over visitors (in thousands)	732.5	694.4	772.1	826.8	812.6
Stay-over visitors per capita	7.3	6.8	7.4	7.9	7.6
Visitor nights (in thousands)	5,694.5	5,470.5	5,879.9	6,264.7	n.a.
Average occupancy rate of resorts (in percent) <sup>1)</sup>	81.7	76.8	77.3	76.6	74.7
Average daily rate of resorts (in Afl.) <sup>1)</sup>	316.9	316.7	322.2	327.0	313.3
Revenue per available room (in Afl.) <sup>1)</sup>	170.0	146.6	150.8	144.8	133.3
Cruise visitors (in thousands)	552.8	591.5	481.8	556.1	606.8
Aruba's market share in the Caribbean (in percent)					
- Stay-over visitors	3.7	3.5	3.8	4.0	4.0
- Cruise tourism	2.9	3.1	2.5	2.9	3.1

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

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

The repercussions of the worldwide financial and economic crisis on Aruba's stay-over tourism were relatively mild compared to several other islands in the region, particularly the Bahamas and Barbados (see Chart 2.3). However, other countries in the region, such as Jamaica, Cuba and the Dominican Republic, posted expansions in the number of stay-over tourists. On balance, stay-over visitors in the Caribbean region contracted by 1.4 percent, compared to a 1.7 percent drop in stay-over arrivals in Aruba. Aruba's share in Caribbean stay-over tourism remained unchanged at 4.0 percent. Cruise tourism in Aruba performed favorably in comparison to its Caribbean peers, thereby raising its cruise tourism market share in the Caribbean by 0.2 percentage point to 3.1 percent.

From a sectoral perspective, the drop in the GDP was largely attributed to the shutdown of the Valero refinery in mid-July 2009. As a result of the shutdown, the refinery's production volume (in thousand barrels) plummeted by 38.6 percent (see Table 2.3), resulting in a lower volume of exports of both refined oil and crude oil imports. The latter combined with the lower oil prices on the international markets compared to 2008, resulted in declines of 65.3 percent and 70.6 percent, respectively, in the value of exports of refined oil and crude oil payments on a transaction basis. Consequently, the refinery recorded a loss of Afl. 298.9 million (US\$ 167 million) in 2009 compared to an Afl. 25.1 million (US\$ 14 million) loss in 2008 (Source: Valero Energy Corporation, Form 10-K for the fiscal year ended December 31, 2009).

**Chart 2.3: Growth in stay-over and cruise tourism in 2009 in selected Caribbean countries and the Caribbean as a whole**  
(percentage change)



**Chart 2.3:** In 2009, the cruise industry in Aruba, the Bahamas, and Barbados performed positively, on balance, while their respective stay-over industries experienced a decline. In contrast, the Netherlands Antilles posted contractions in both stay-over and cruise tourism. The stay-over tourism industry in Jamaica expanded in 2009, while its cruise industry registered a decrease.

Retail sales, including those of motor vehicles, fell following the moderated domestic and tourism demand, thus pulling down the output of the trade sector. This decline is also confirmed by a 7.0 percent contraction in real turnover tax revenue (see Chart 2.1). Moreover, the construction sector was hit hard by the economic slump, narrowing by about 20.3 percent in nominal terms. This decrease came from a dip in private investments in addition to the mentioned shutdown of the refinery and is indicated by the lower number and value of construction permits granted in 2009, as well as the drop in the volume of imported cement.

The output of the utilities sector experienced a decline in the first two quarters of 2009 as a result of lower utility consumption, but it recovered in the second half of the year. The latter recovery was probably related partly to unchanged utilities tariffs since July 2009, which had been preceded by tariff increases as of March 2009, inducing consumers to use more of these commodities. Overall, the volume of utility consumption, as measured by the utilities index, increased by 0.7 percent, mainly reflecting higher electricity consumption (measured in million kWh).

**Table 2.3: Other selected indicators of the real sector**

	2005	2006	2007	2008	2009
<b>1. Merchandise trade statistics 1)</b>					
Exports of goods (in Afl. million)	36.1	46.4	55.7	54.7	55.1
Imports of goods (in Afl. million)	1,700.8	1,736.7	1,874.9	1,891.5	1,783.1
Trade balance (in Afl. million)	-1,664.7	-1,690.3	-1,819.2	-1,836.8	-1,728.0
<b>2. Utilities</b>					
Water consumption (in million m <sup>3</sup> )	11.4	11.5	11.7	11.4	11.4
Electricity consumption (in million kWh)	759.3	761.4	781.1	764.3	773.9
Gas consumption (in million pounds)	19.1	19.3	20.0	20.5	20.5
Utilities index (1996=100)	138.9	139.4	142.9	140.1	141.1
<b>3. Airport activities</b>					
Number of airport passengers (in thousands)	1,714.5	1,638.1	1,837.4	1,973.6	1,923.6
Number of aircraft landings	33,768	33,088	35,774	36,818	38,355
<b>4. Oil refining</b>					
Exports of refined oil (in Afl. million)	7,602.4	8,757.7	8,500.0	9,215.6	3,194.1
Imports of crude oil (in Afl. million)	5,909.7	7,521.0	7,233.9	8,513.2	2,503.7
Quantity of oil refined (in thousand barrels)	78,236	62,463	65,525	58,259	35,767
Number of employees 2)	696	709	695	673	649
<b>5. Construction</b>					
Number of construction permits granted	1,584	1,303	1,151	962	857
Value of construction permits granted (in Afl. million)	283.2	525.7	447.6	670.5	343.2
Cement imported (in thousand kg)	88,719.0	78,412.6	77,832.2	67,040.5	49,746.0
Electrical installations approved	2,763	2,463	2,138	2,272	2,021

Source: CBA; CBS; WEB; ELMAR; Arugas; AAA; Valero Aruba Refining Company; DOW; DTI.

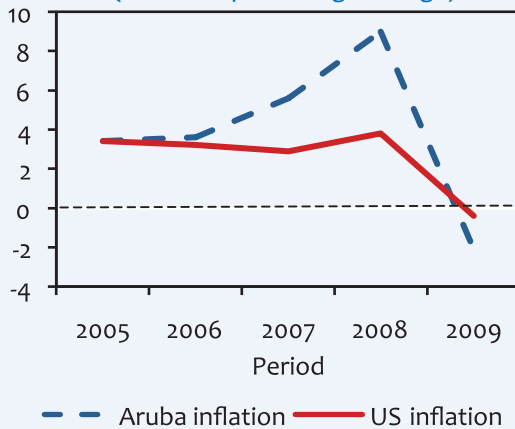
1) Excluding mineral fuels and free-zone goods; on a transaction basis.

2) Employees directly employed by the refinery at the end of the year. Thus, this figure excludes personnel employed through contractors.

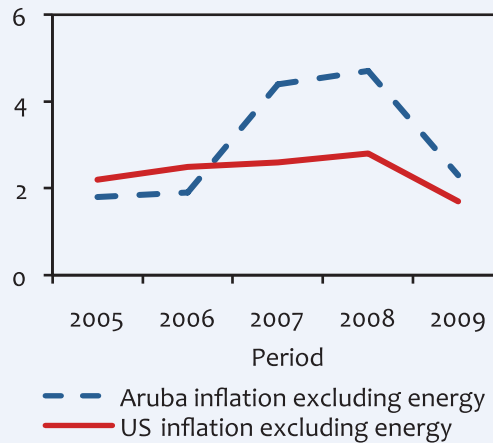
The hotel industry suffered from the slowdown in tourism arrivals. The average occupancy rate of resorts declined by 1.9 percentage points in 2009 to 74.7 percent. In addition, for the hotels

to maintain an acceptable occupancy rate, the ADR of resorts dropped by 4.1 percent to Afl. 313.25, resulting in a decline in the revenue per available room of 8.0 percent to Afl. 133.28.

**Chart 2.4: Inflation Aruba versus the United States**  
(12-month percentage change)



**Chart 2.5: Inflation excluding energy Aruba versus the United States**  
(12-month percentage change)



**Chart 2.4 & 2.5:** From 2006 up to 2008, the inflation differential with the United States, Aruba’s main trading partner, showed a widening gap. As changes in the prices of the energy-related components have a much higher impact on Aruba’s consumer price index than that of the United States, the surge in oil prices led to a record inflation in Aruba in 2008 and a growing inflation differential with the United States. However, in contrast to 2008, this inflation differential became negative because the downward adjustment of oil prices had a bigger effect on the domestic inflation rate than that of the United States during 2009.

The deflationary trend that started in December 2008 continued in the first ten months of 2009. Spurred by the lower oil prices on the international markets compared to 2008 and the related downward adjustments of the utilities tariffs and gasoline prices, the 12-month average growth in the CPI of Aruba recorded a deflation of 2.1 percent in 2009, down from a record inflation of 9.0 percent in 2008 (see Table 2.4). When adjusted for the energy-related

components (water, electricity, and gasoline), Aruba’s inflation rate amounted to 2.3 percent in 2009, down from 4.7 percent in 2008.

In 2009, domestic inflation was 1.7 percentage points lower than that of the United States, Aruba’s major trading partner, resulting in a decrease in the real exchange rate index of the Aruban florin vis-à-vis the U.S. dollar, thus signaling an improvement in Aruba’s competitive position.

**Table 2.4: Consumer price index**  
(percentage change, unless stated otherwise)

	2005	2006	2007	2008	2009
1. Aruba: inflation indicators					
12-month average	3.4	3.6	5.4	9.0	-2.1
12-month average excluding energy	1.8	1.9	4.2	4.7	2.3
12-month average excluding food & energy	1.4	1.4	3.0	3.3	1.8
End of period	3.8	2.5	9.9	-1.9	6.8
Real effective exchange rate index (1995 = 100) 1)	105.0	105.4	108.0	115.3	111.3
2. Selected Caribbean countries: 12-month average					
Bahamas	2.2	1.8	2.5	4.5	1.8
Barbados	6.1	7.3	4.0	8.1	3.5
Eastern Caribbean Currency Union 2)	3.0	4.0	3.7	7.1	2.7
Jamaica	15.1	8.5	9.3	22.0	9.6
Netherlands Antilles	3.7	2.8	2.8	6.3	1.6
Trinidad & Tobago	6.9	8.3	7.9	12.1	7.2

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

1) Against the U.S. dollar.

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

### 2.3 Financial sector

Aruba's money supply rose by Afl. 180.2 million or 6.0 percent to Afl. 3,170.5 million in 2009 (see Table 2.5), owing to an Afl. 206.3 million net inflow of foreign funds, which was mitigated by a contraction in net domestic assets. The net inflow of foreign funds occurred because of a current account surplus of the balance of payments. Consequently, the net foreign assets of the monetary system (excluding revaluation differences of gold and official foreign exchange holdings) grew to Afl. 1,475.2 million at the end of 2009, up from Afl. 1,268.9 million at the end of 2008.

For the second consecutive year, net domestic assets declined by Afl. 26.1 million in 2009. This drop was due largely to the non-credit-related balance sheet items of the commercial banks, which mainly reflected increases in shareholders' equity and provisions for loan losses. In

addition, a notable weakening in the banking sector's credit to the private sector was registered. This weakening was a clear sign of the slowdown in economic activity. Loans to enterprises were down by Afl. 30.0 million or 2.7 percent, mirroring declines across almost all sectors, particularly the trade industry. Also, consumer credit shrank by Afl. 11.1 million (1.9 percent). On the other hand, housing mortgages expanded by Afl. 25.5 million (3.2 percent). Moreover, credit from the commercial banks to the government rose, following their purchases of government bonds. Consequently, the aggregated commercial bank lending edged up by a mere 0.1 percent during 2009, remaining significantly below the 5.0 percent credit growth limit set by the CBA for the year.

**Table 2.5: Causes of changes in the money supply**

(in Afl. million, unless stated otherwise)

	2005	2006	2007	2008	2009
1. Net domestic money creation	201.4	1.8	19.1	-128.4	-26.1
Net domestic credit	217.6	53.8	90.0	-47.4	22.1
- Public sector	22.8	-48.1	3.3	-146.1	39.7
- Private sector	194.8	101.8	86.7	98.6	-17.6
Other domestic factors	-16.2	-52.0	-70.9	-81.0	-48.2
2. Inflow of foreign funds 1)	-59.8	55.8	63.0	552.3	206.3
Oil sector	110.4	229.9	95.3	141.8	70.8
Free-zone sector	13.0	8.9	6.5	1.2	-0.4
Rest of economy	-183.2	-183.1	-38.8	409.4	135.9
Current account (net)	-353.7	-63.2	-178.0	-271.5	282.7
Capital and financial account (net) 2)	293.9	118.9	241.0	823.8	-76.4
3. Broad money creation	141.6	57.5	82.0	423.9	180.2
Money	4.1	82.4	99.7	249.6	151.6
Quasi-money	137.4	-24.9	-17.7	174.3	28.6
4. Key indicators (in percent)					
12-month change in money supply	6.2	2.4	3.3	16.5	6.0
Broad money coverage 3)	24.6	26.3	27.9	42.4	46.5
Money supply to GDP	58.4	57.3	55.1	59.9	67.5
Reserve to monetary base 4)	142	150	155	153	144
Liquidity banking sector (in Afl. million) 5)	862.2	986.4	1,080.1	1,429.1	1,580.0
Credit growth (in Afl. million)	180.5	95.9	91.2	62.8	3.8

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 comprise 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.

The growth in the money supply resulted in a 7.6 percentage point expansion in its ratio to nominal GDP to 67.5 percent in 2009, reflecting primarily a 10.9 percent growth in narrowly-defined money, which resulted mainly from an increase in demand deposits of private enterprises and, to a lesser extent,

financial institutions shifting funds from their time deposits into their demand deposits. Quasi-money edged up by 1.8 percent, due largely to a rise in savings deposits, which was largely offset by the earlier mentioned decline in time deposits of financial institutions as well as of individuals.

### Box 2.2: Monetary policy 2010: General announcement

The CBA's preliminary forecast for 2010 shows a further decline in economic activities, albeit at a slower pace than in 2009. The CBA expects domestic credit demand to remain weak in 2010, given the projected continuation of the economic contraction. Taking into consideration the economic data currently available and the forecasts for 2010, and after consulting with the Aruban Bankers' Association and, taking into account article 10 paragraph 1 of the Central Bank Ordinance, the CBA made the following decisions concerning the monetary policy for 2010:

#### 1. Removal of the credit ceiling

Effective January 1, 2010, the CBA removed the credit ceiling as its most important monetary policy instrument. This action implies that within their prudential setting, the commercial banks have no restriction on the amount of credit they are allowed to grant. The removal of the credit ceiling could conduce to more competition among the banks, which ultimately could benefit their customers. The CBA will continuously monitor economic and monetary conditions and could reinstate this instrument if adverse economic developments would require such a measure.

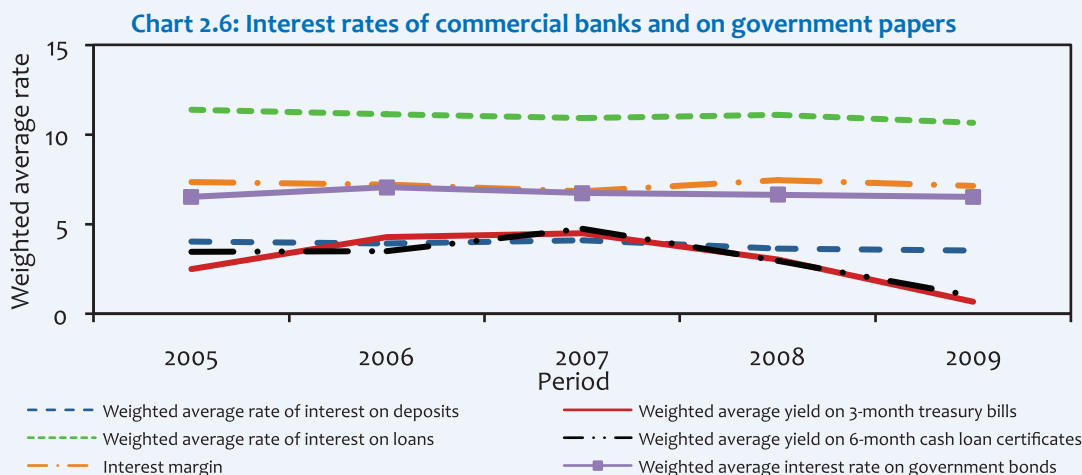
#### 2. Raising of the Reserve Requirement (RR)

With the removal of the credit ceiling, the RR has become the CBA's main instrument of monetary policy. This instrument is actively being used to mop up part of the excess liquidity within the banking system and signals the CBA's monetary intentions. For example, an increase in the RR by the CBA would indicate excessive liquidity in the banking system, which could fuel excessive credit granting in the short term and result in significant outflow of foreign exchange reserves. As of January 1, 2010, the RR was raised from 9.5 percent to 11.0 percent to reduce part of the excess liquidity currently in the market, and by so doing maintain the excess at the projected end-2009 level.

#### 3. Issuance of Certificates of Deposits (CDs)

CDs are also an instrument of monetary policy at the disposal of the CBA. A CD is a negotiable certificate with a short maturity issued by the CBA to the commercial banks. CDs are used to either reduce or increase liquidity in the market. A reduction of liquidity occurs when the CBA issues CDs that are bought by commercial banks (which need to use their funds to purchase the CDs). The intention is to reintroduce CDs in the course of 2010. In contrast to the RR, the CDs will be remunerated. The CBA is currently evaluating the relevant modalities of this instrument. It intends to use both the RR and the CDs to effectively manage liquidity within the banking system.

The above-described shift in monetary policy entails a more active and close monitoring and management of banking credit development. To this end, the CBA is keeping a close eye on the financial and economic situation, and is reviewing its forecasts on a weekly and monthly basis so it can make adjustments to its monetary policy if required. In this process, the CBA is making use of projections on a number of economic indicators, including (1) inflation; (2) net foreign assets; (3) banking sector credit; (4) bank liquidity; and (5) GDP. A more active monetary policy also implies that the CBA will inform the public on a regular basis on its monetary policy stance.



**Chart 2.6:** The interest rate margin between commercial bank loans and deposits edged down by 0.4 percentage point in 2009, reflecting a fall in the weighted average interest rate on loans (i.e., housing mortgages and consumer credit), while the weighted average interest rate on deposits declined slightly. The weighted average yield on short-term government papers (3-month treasury bills and 6-month cash loan certificates) went down for the second year in a row, due in part to increased liquidity. Moreover, the weighted average yield on long-term government bonds was lower in 2009 than in 2008.

As of the third quarter of 2009, the statistics of the nonmonetary financial institutions were revised to also include nonlife insurance companies. Consequently, the 2009 figures are not fully comparable to those of 2008. Total assets of the nonmonetary financial institutions broadened by 17.5 percent, of which 3.8 percentage points were accounted for by the assets of the nonlife insurance companies. Excluding the latter assets, total assets expanded by Afl. 317.2 million or 13.7 percent in 2009. The latter rise was primarily the result of a rise in domestic claims owed largely to increases in claims on the government following the purchase of government bonds issued in 2009 and higher claims on enterprises (see Table 2.6).

Housing mortgages went up for the fourth consecutive year, bringing the share of the nonmonetary financial institutions in total housing mortgages

to 39.8 percent. The net foreign assets of these institutions rebounded by 18.6 percent, reflecting mainly increased stock prices on international markets, following improved financial market conditions. Note that neither housing mortgages nor net foreign assets of the nonmonetary financial institutions were influenced by the inclusion of the nonlife insurance companies in the statistics of the nonmonetary financial institutions.

On the liability side, pension fund provisions and the insurance reserve fund also grew by 11.4 percent and 16.8 percent, respectively. The increase in the insurance reserve fund was related mainly to the inclusion of the nonlife insurance companies in the statistics. Other items (net) rose markedly, chiefly because of higher capital and reserves of the nonmonetary financial institutions due to the addition of net profit for 2009.

**Table 2.6: Nonmonetary financial institutions 1)**  
(end of period, in Afl. million, unless stated otherwise)

	2005	2006	2007	2008	2009
1. Net foreign assets	571.8	671.8	797.4	582.3	690.4
2. Domestic claims	1,439.7	1,542.6	1,671.9	1,727.4	2,023.0
Government	635.6	693.5	739.1	678.0	833.5
Nonfinancial public enterprises	52.4	58.0	51.9	80.9	90.7
Enterprises	235.1	238.5	286.9	325.6	436.5
Individuals	516.7	552.6	594.0	643.0	662.2
- Consumer credit	97.7	103.1	108.9	116.1	118.2
- Housing mortgages	419.0	449.5	485.1	526.9	544.0
3. Total assets = total liabilities	2,011.5	2,214.4	2,469.4	2,309.7	2,713.5
4. Borrowings and deposits	38.9	38.5	37.8	37.0	39.0
Government	36.6	36.6	36.6	36.6	38.6
Other residents	2.2	1.8	1.2	0.4	0.4
5. Pension fund provisions	1,495.3	1,646.7	1,795.2	1,710.8	1,905.6
6. Insurance reserve fund	364.8	400.0	445.7	510.5	596.2
7. Other items (net)	112.5	129.1	190.7	51.3	172.7
8. Key indicators					
Net foreign assets in percent of GDP 2)	13.7	15.5	17.4	11.7	14.7
Total assets in percent of GDP 3)	73.4	75.4	77.2	71.5	87.5
Share in total housing mortgage market	37.1	37.4	38.0	39.6	39.8

Source: CBA.

- 1) Comprising mortgage banks, pension funds (including the APFA), life insurance companies, finance companies, the AIB Bank N.V., the Social Security Bank (SVB), and the IBA Corporation N.V. (established in October 2003 to support the settlement of the takeover of the Interbank Aruba N.V. by the Aruba Bank N.V.). As of the third quarter of 2009, nonlife insurance companies also are included in the statistics of the nonmonetary financial institutions.
- 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.

## 2.4 Government finance

The government registered an Afl. 163.2 million financial deficit on a cash basis in 2009 (see Table 2.7), compared to an Afl. 51.4 million surplus in 2008. The 2008 surplus was due to a one-time receipt of Afl. 223.3 million in funds from the Dutch government, consisting of part of the proceeds of the sale of the Plant Hotel N.V. shares as well as the debt restructuring funds.

On a cash-adjusted basis, which takes into account changes in the unmet

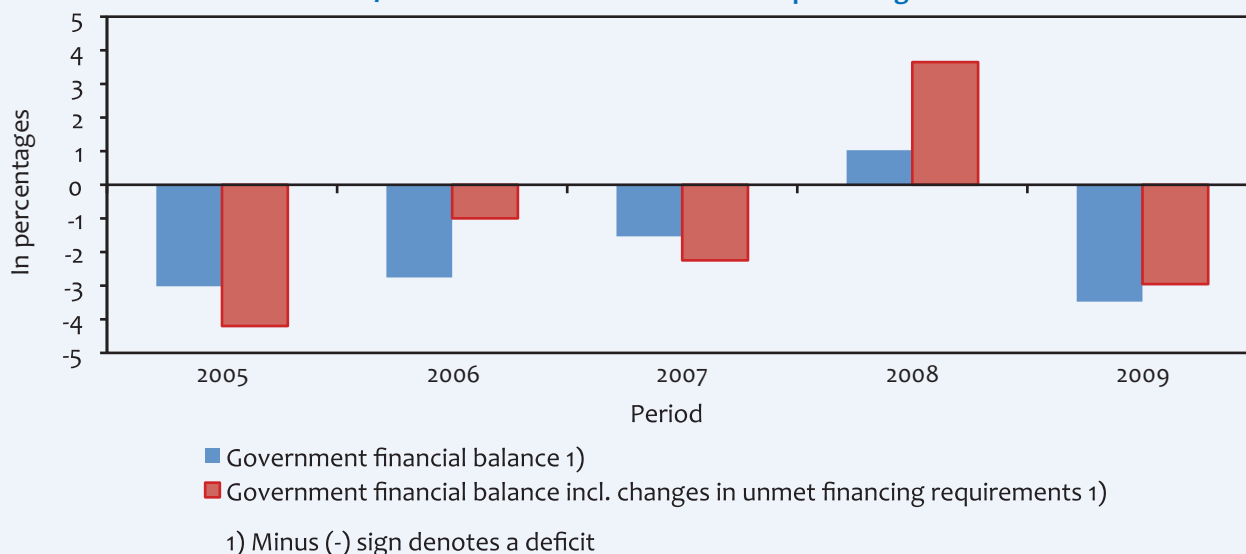
financing requirements, the government finances deteriorated markedly in 2009. Excluding the mentioned incidental receipt of funds from the Dutch government in 2008, the financial deficit amounted to Afl. 39.9 million in that year. The deficit expanded by Afl. 119.7 million to Afl. 159.6 million in 2009, largely as a result of an Afl. 48.1 million drop in tax revenues and an Afl. 86.9 million rise in expenditures (including net lending) on a cash-adjusted basis,

which were offset in part by an Afl. 14.9 million rise in other nontax revenues.

The mentioned decline in tax revenues was mostly because of an Afl. 24.0 million (14.8 percent) fall in revenues from import duties related to the decline in the value of merchandise imports. Also, revenues from the foreign exchange tax shrank by Afl. 10.2 million (20.2 percent), reflecting in part the mentioned fall in the value of merchandise imports. In addition, wage tax receipts were down by 6.7 percent (Afl. 16.6 million), attributed to the rise in unemployment. The turnover tax revenue (BBO) rose by 1.4 percent in 2009, solely because of a one-time receipt of Afl. 14.9 million (US\$ 8.3 million) from the Valero refinery related to fiscal year 2007.

Government expenditures (including net lending) on a cash basis declined by Afl. 41.5 million to Afl. 1,272.1 million in 2009. However, the 2008 figures included Afl. 113.4 million in expenses from preceding years paid with the aforementioned Plant Hotel N.V. proceeds. Excluding these expenses, government expenditures on a cash basis rose by Afl. 71.9 million, exhibiting higher personnel-related outlays, interest payments, and development fund spending. Note that the unmet financing requirements dropped by Afl. 3.6 million to Afl. 60.8 million at the end of 2009. Consequently, expenditures (including net lending) on a cash-adjusted basis amounted to Afl. 1,268.5 million (see Box 2.3 for an analysis of the expenses on a cash-adjusted basis).

**Chart 2.7: Government financial balance as a percentage of nominal GDP**



**Chart 2.7:** Both the government financial balance and the balance including the change in unmet financing requirements deteriorated markedly in 2009, in part due to the effect of the economic slowdown on tax revenues.

**Table 2.7: Government financial operations 1)**  
(in Afl. million)

	2005	2006	2007	2008	2009
1. Revenue and grants	909.1	985.2	1,034.0	1,365.1	1,108.9
Tax revenue	779.4	850.2	882.2	977.0	928.9
Nontax revenue	129.7	135.0	151.8	388.1	180.0
- Grants 2)	28.6	32.7	34.1	275.5	52.4
- Other nontax revenue	101.0	102.3	117.7	112.7	127.6
2. Expenditures	1,034.0	1,097.6	1,084.2	1,290.5	1,229.2
Personnel-related outlays	505.2	542.2	530.4	580.4	559.2
Goods and services	152.9	203.1	186.9	215.6	205.2
Interest payments	84.4	97.4	106.9	139.7	116.4
Investments	64.4	66.5	57.6	77.8	82.3
Transfer to the AZV	130.4	119.7	85.1	138.2	127.6
Items n.i.e.	96.7	68.9	117.4	139.0	138.4
- Transfers	60.4	55.4	56.9	68.4	72.2
- Subsidies	22.7	26.3	23.6	23.7	25.8
- Other	13.6	-12.8	36.9	46.9	40.4
3. Lending minus repayments	0.7	7.1	21.3	23.1	42.9
4. Financial deficit (-)	-125.6	-119.5	-71.4	51.4	-163.2
5. Net foreign capital	47.1	58.2	29.7	72.6	19.2
6. Net domestic capital 3)	55.7	109.4	38.4	22.1	104.2
7. Net recourse to the monetary sector	-22.8	48.1	-3.3	146.1	-39.7
8. Memorandum items					
Unmet financing requirements 4)	235.6	159.4	196.4	64.4	60.8
Expenditures (including net lending) on a cash-adjusted basis 5)	1,083.9	1,028.5	1,142.5	1,181.6	1,268.5
Financial deficit 6)	-174.7	-43.3	-108.4	183.4	-159.6
Total government debt 7)	1,904.9	2,012.2	2,140.0	2,049.7	2,203.1
- Domestic debt	1,048.0	1,078.4	1,158.0	1,004.7	1,136.7
- Foreign debt 8)	856.9	933.8	982.0	1,045.0	1,066.5

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

- 1) Preliminary figures on a cash basis, including imputed noncash transactions. Includes also transactions related to foreign development cooperation.
- 2) The 2008 figure includes the receipt of part of the proceeds of the sale of the shares of the Plant Hotel N.V. from the Dutch government as well as the debt restructuring funds.
- 3) Net long-term capital attracted from nonmonetary sectors mainly by issuing government bonds and private loans. The borrowing from commercial banks is included under item 7, while that of nonresidents is included under item 5.
- 4) Comprising reported unsettled payment obligations to other sectors, irrespective of the timeframe in which they mature.
- 5) Expenditures on a cash basis, including the allocation of changes in unmet financing requirements.
- 6) Including the changes in unmet financing requirements.
- 7) Preliminary (end-of-period) figures, excluding government guarantees.
- 8) At year-end exchange rates.

**Box 2.3: Government expenditures on a cash-adjusted basis**

In 2009, government expenditures on a cash-adjusted basis (including net lending) rose by Afl. 86.9 million or 7.4 percent, after expansions in all expenditure categories. Especially the “items n.i.e.” category surged by Afl. 28.8 million, reflecting in part a rise in the cost of living allowance paid to pensioners through the APFA. Also net lending grew by a notable Afl. 19.8 million, owing to the transfer of a portion of the loans extended to the Instituto Medico San Nicolas, the Lotto pa Deporte Foundation, and the Fundacion Cas pa Comunidad Arubano (FCCA) to finance, respectively, the set-up/furnishing of the Cardiology Centre, the construction of sport complexes and the building of public housing. Note that the transfer to the AZV rose by Afl. 7.1 million in 2009, due largely to increases in the contribution by the government of Aruba and the AZV deficit.

Table: Government financial operations on a cash-adjusted basis 1)  
(in Afl. million)

	2005	2006	2007	2008	2009
1. Revenue and grants	909.1	985.2	1,034.0	1,365.1	1,108.9
2. Expenditures	1,083.2	1,021.4	1,121.2	1,158.5	1,225.6
- Personnel-related expenses	515.5	533.8	527.0	542.2	550.7
- Goods and services	181.3	158.5	181.8	189.9	203.7
- Interest expenses	90.6	103.9	113.2	114.9	119.2
- Investments	64.4	66.5	57.6	77.8	82.3
- Transfer to the AZV	135.6	85.8	119.0	124.1	131.2
- Items n.i.e.	95.8	73.2	122.7	109.7	138.5
3. Lending minus repayments	0.7	7.1	21.3	23.1	42.9
4. Financial deficit (-)	-174.7	-43.3	-108.4	183.4	-159.6

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

1) Refer to Box 3.2 (p. 37) of the Annual Report 2008 for an explanation of methodology of calculation of the expenditures on a cash-adjusted basis.

Compared to 2008, personnel-related expenses went up by 1.6 percent in 2009, remaining below the 3 percent limit recommended by the National Commission on Public Finance (NCPF). In contrast, expenditures on goods and services increased by 7.3 percent, surpassing the 2 percent limit advised by the NCPF. Investments amounted to 1.8 percent of nominal GDP, still slightly below the NCPF's endorsed minimum of 2 percent.

Total financing needs of the government amounted to Afl. 271.4 million in 2009. To cover these financing needs, the government issued bonds on the domestic market of, respectively, Afl. 157.5 million (February 2009) and Afl. 98.0 million (December

2009). In addition, the government raised Afl. 19.9 million via another bond issue in October 2009 to cover the AZV deficit of 2008. On balance, bank deposits of the government (including the FDA) rose by Afl. 1.2 million to Afl. 298.1 million at end 2009.

**Table 2.8: Additional key indicators of government financial operations**  
(In percent of nominal GDP, unless stated otherwise)

	2005	2006	2007	2008	2009
Financial balance (including change in unmet financing requirements)	-4.2	-1.0	-2.3	3.7	-3.4
Revenue and grants	21.9	22.7	22.2	27.3	23.6
Expenditures (including net lending, on a cash-adjusted basis)	26.1	23.7	24.5	23.7	27.0
Primary balance (including change in unmet financing requirements) 1)	-2.0	1.4	0.1	6.0	-0.9
Interest payments	2.0	2.2	2.3	2.8	2.5
Total debt	45.8	46.4	45.9	41.0	46.9
Foreign debt in percent of exports 2)	35.2	37.3	34.6	32.8	35.3
Foreign debt service in percent of exports 2)	10.9	3.7	4.5	5.1	3.6
Difference between actual and budgeted revenues and grants to the budget (in Afl. million)	n.a.	-39.9	-47.9	201.1	11.2
Difference between actual and budgeted expenditures on a cash-adjusted basis compared to the budget (in Afl. million)	n.a.	-72.1	-9.7	-32.3	-74.2

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

1) Minus (-) sign denotes a deficit.

2) Exports of goods and services, excluding the oil sector.

The outstanding public debt expanded by Afl. 153.4 million or 7.5 percent to Afl. 2,203.1 million in 2009, a level equal to 46.9 percent of nominal GDP (see Tables 2.7 and 2.8). In 2009, the government issued bonds on the domestic capital market, thereby boosting its domestic debt by Afl. 132.0 million to Afl. 1,136.7

million, and increasing its share in total debt to 51.6 percent, up from 49.0 percent in 2008. Foreign debt grew by Afl. 21.4 million because a portion of the bonds issued on the domestic market was bought by nonresidents, including institutional investors from the Netherlands Antilles.

## 2.5 Balance of payments

### *Overall outcome*

The current account of the balance of payments registered an Afl. 282.7 million surplus in 2009, in contrast to an Afl. 271.5 million deficit in 2008 (see Table 2.9). This improvement resulted largely

from the shift to a surplus in the current account balance of the oil sector and, to a lesser extent, that of the rest of the economy (i.e., excluding the oil and free-zone sectors).

**Table 2.9: Balance of payments by sectors 1)**  
(in Afl. million, unless stated otherwise)

	2005	2006	2007	2008	2009
1. Current account (net)	-353.7	-63.2	-178.0	-271.5	282.7
Oil sector	0.1	562.1	79.8	-108.5	259.4
Free-zone sector	3.5	15.4	4.9	-8.7	-13.5
Rest of economy	-357.4	-640.7	-262.7	-154.3	36.8
- Goods	-1,334.7	-1,414.9	-1,407.2	-1,478.1	1,335.0
- Services	1,292.5	1,148.2	1,469.2	1,650.2	1,603.5
- Income	-158.1	-212.2	-182.4	-189.2	-119.5
- Current transfers	-157.1	-161.8	-142.3	-137.1	-112.2
2. Capital and financial account (net)	281.4	119.7	231.3	846.5	-57.0
Oil sector	110.3	-332.2	15.5	250.2	-188.6
Free-zone sector	9.4	-6.5	1.5	9.8	13.0
Rest of economy	161.7	458.4	214.2	586.4	118.6
- Capital account transactions	33.3	37.8	33.1	280.3	60.9
- Direct investment	221.6	532.7	284.7	333.6	139.4
- Portfolio investment	-13.1	-78.5	77.8	111.7	1.5
- Financial derivatives	2.7	-4.8	1.8	-18.4	-1.7
- Other investment	-82.8	-28.8	-183.2	-120.8	-81.5
- Loans	-57.4	-79.4	-71.9	-47.0	-43.6
- Other financial transactions	-25.4	50.6	-111.3	-73.8	-37.9
3. Items not yet classified 2)	12.5	-0.8	9.7	-22.7	-19.4
4. Overall balance (= 1 + 2 + 3)	-59.8	55.8	63.0	552.3	206.3
5. Total reserves of the monetary sector 3)	677.1	759.5	859.2	1,427.5	1,577.1
of which: official reserves	588.6	713.9	828.0	1,247.3	1,251.8
6. Import coverage in months of merchandise imports 4)					
- End-of-period	4.7	5.1	5.7	9.4	11.2
- 12-month average	5.5	5.2	5.8	7.2	11.2
7. Import coverage in months of current account payments 5)					
- End-of-period	2.5	2.5	2.7	4.7	5.9
- 12-month average	2.9	2.7	2.9	3.6	5.7

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.

The capital and financial account (including items not yet classified) posted an Afl. 76.4 net outflow in 2009,

compared to an Afl. 823.8 million net inflow in 2008. This swing was driven largely by a lower net inflow of the rest

of the economy as well as the oil sector's recording of a net outflow in 2009 in contrast to a net inflow in 2008.

Consequently, the balance of payments registered an Afl. 206.3 million overall surplus or net inflow of foreign funds in 2009, lower than the 2008 surplus of Afl. 552.3 million. The latter surplus was impacted positively by the Afl. 223.3 million paid by the Dutch government to the Aruban government associated with the sale of the shares of the Plant Hotel N.V. as well as the debt restructuring funds.

External transactions conducted, on balance, to a rise in the net international reserves of the monetary system (including revaluation differences of gold and foreign exchange holdings) of Afl. 149.6 million to Afl. 1,577.1 million at the end of 2009. This increase reflected an Afl. 145.1 million expansion in the net foreign assets of the commercial banks and an Afl. 4.5 million rise in the official reserves.

On balance, the increase in net international reserves was brought about by the mentioned Afl. 206.3 million net inflow of foreign funds and an Afl. 56.7 million decline in revaluation differences of gold and foreign exchange holdings. In this respect, it should be mentioned that on April 28, 2009, the CBA settled a gold call option contract through a net cash settlement. For that purpose, the CBA sold about 65,153 troy ounces of gold and repurchased nearly 65,343 troy ounces of gold on that same date. The quantity of troy ounces of CBA's gold stock remained practically the same, but its revaluation went down because of the realization of revaluation gains held in the revaluation reserves on the balance sheet of the CBA. Both the 12-month average merchandise import coverage

ratio and the coverage ratio of all current account payments improved in 2009 from, respectively, 7.2 months in 2008 to 11.2 months in 2009 and 3.6 months in 2008 to 5.7 months in 2009.

#### *Oil sector*

The current account balance of the oil sector posted an Afl. 259.4 million surplus in 2009, reflecting the surplus on the goods account due to a higher level of export receipts compared to import payments. However, the value of both exports and imports was lower in 2009 than in 2008. Reduced oil prices on the international markets compared to 2008 deflated oil export revenues in the first half of 2009 despite a higher volume of exported oil. Payments for crude oil imports also decreased in the first half of 2009 because the decline in oil prices outweighed the higher volume of crude oil imports. In addition, general merchandise imports also contracted in that same period. The external transactions of the oil sector in the second half of 2009 were influenced by the operational shutdown of the refinery in July 2009. The exports and imports values were at negligible levels in the second half of 2009 compared to 2008. Consequently, exports and imports were down in 2009 by, respectively, Afl. 4,042.9 million (62.5 percent) and Afl. 3,938.5 million (66.9 percent), resulting in an Afl. 481.1 million surplus on the goods account of this sector. Foreign payments for import-related freight and insurance services also contracted, resulting in lower deficits on the sector's services account and current transfers account.

The capital and financial account balance of the oil sector shifted to an Afl. 188.6 million deficit because a portion of the current account receipts were

deposited into its foreign bank accounts. The remaining Afl. 70.8 million was sold to the local commercial banks.

#### *Free-zone sector*

The external transactions of free-zone companies resulted in an Afl. 0.4 million overall deficit in 2009. This deficit was due mainly to an Afl. 13.5 million current account deficit, which was offset almost completely by an Afl. 13.0 million surplus on the capital and financial account. The current account deficit followed higher payments for imports of goods and services compared to the export receipts, while the surplus on the capital and financial account reflected largely net sales of foreign equity securities and the proceeds from foreign loans. On balance, the free-zone sector bought Afl. 0.4 million in foreign exchange from local commercial banks.

#### *Rest of the economy*

The current account of the rest of the economy posted an Afl. 36.8 million surplus in 2009 (0.8 percent of nominal GDP), in contrast to an Afl. 154.3 million deficit in 2008 (3.1 percent of nominal GDP) (see Chart 2.8). This improvement mirrored a smaller deficit on the goods account and, to a lesser extent, lower deficits on the income and current transfer accounts, which together offset a smaller surplus on the services account.

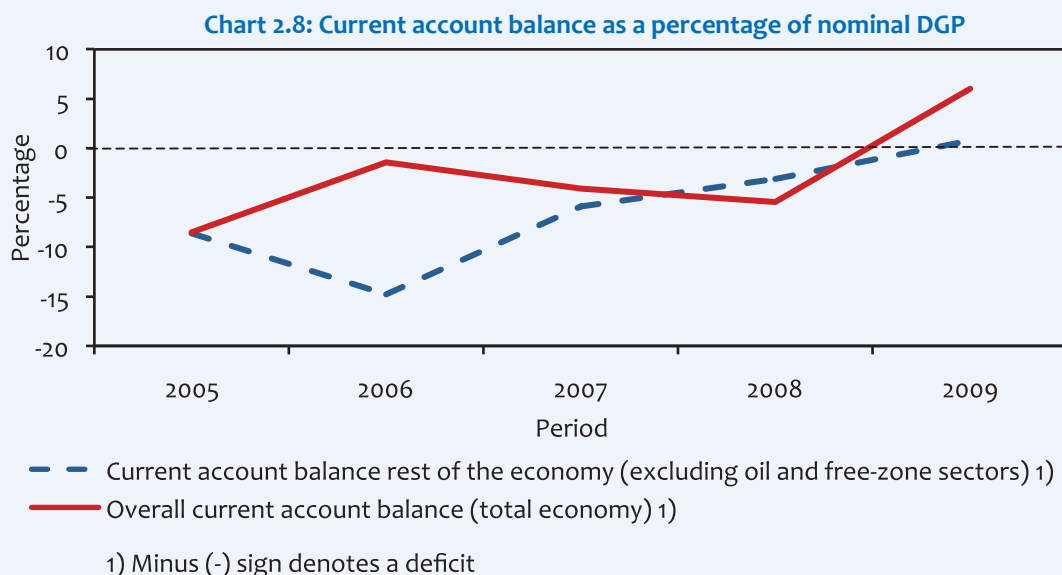
Merchandise imports were down in 2009 compared to a year earlier, by 9.8 percent, mainly because of decreases in purchases of building materials and consumer goods, including durable

goods such as cars. This decrease was in part related to the marked contraction in construction activities and a drop in imports intended for tourism and domestic consumption. On the other hand, imports of capital goods were boosted by the imports of the windmills destined for the Vader Piet electricity-generating project.

The deterioration of the services account balance was attributed mainly to an 8.3 percent decline in tourism receipts, which was mitigated in part by a drop in services payments to abroad. The latter decrease reflected mainly lower payments for construction services and other business services.

The income account deficit was down by Afl. 69.7 million in 2009 to Afl. 119.5 million. This drop stemmed largely from a decline in the income earned by nonresident shareholders in domestic corporations, revealing reduced interest payments on intercompany loans and, to a lesser extent, decreased dividend payments. Furthermore, income payments on other investments also declined, mainly following a decrease in interest payments on deposits and loans.

The surplus on the capital and financial account of this sector narrowed to Afl. 118.6 million in 2009, down from Afl. 586.4 million in 2008. This decline was mainly the result of an Afl. 219.4 million drop in the capital account surplus. The 2008 surplus included the incidental receipt from the Dutch government of part of the proceeds of the sale of the shares of the Plant Hotel N.V. In addition, the net inflow on the



**Chart 2.8:** The overall current account balance as a percentage of nominal GDP shifted to a 6.0 percent surplus in 2009, compared to a 5.4 percent deficit in 2008. The current account of the rest of the economy (i.e., excluding the oil and free-zone sectors) posted a surplus of 0.8 percent of nominal GDP in 2009.

financial account contracted by Afl. 248.4 million in 2009. This contraction was caused by lower net direct investment inflows related to decreased net inflows of equity capital, other capital, including timeshare sales. Moreover, the portfolio investment account posted an Afl. 1.5 million net

inflow in 2009 compared to an Afl. 111.7 million net inflow in 2008, in part because in 2009 the sale of government bonds to nonresidents was lower than in 2008. The deficit on the other investment account also contracted, by Afl. 39.3 million.

## 2.6 Economic outlook

Given the severe and unprecedented nature of the global economic crisis, economic forecasting has become more challenging than usual. This is especially true for Aruba, being highly vulnerable to international developments, particularly those in the

United States. The difficulty of forecasting exercises is exacerbated by the uncertainty surrounding the continuation of production by the oil refinery in Aruba and the lack of timely and reliable data regarding certain sectors within the Aruban economy,

including wholesale and retail trade, real estate, and manufacture of refined petroleum products as well as the labor market. Therefore, the projections for 2010 presented below are based on the information currently available and are subject to a significant degree of uncertainty.

#### *Assumptions*

As mentioned above, the Aruban economy is extremely sensitive to developments in international markets. To conduct a forecasting exercise for the Aruban economy, a number of assumptions are required about key international indicators, such as the GDP and the inflation in the United States, and the WTI oil price. Since the United States is Aruba's main trading partner, its GDP is highly correlated with economic activity in Aruba.

It is expected that the U.S. economy will experience a gradual recovery in 2010, growing by an estimated 3.0 percent. Moreover, the average oil price (WTI), which together with the U.S. CPI influence the CPI in Aruba, is expected to rise from US\$ 61.66 in 2009 to US\$ 80.19 in 2010 as a result of the expected economic recovery. Meanwhile, prices in the United States are projected to rise in 2010 because of the rebound in economic activity, resulting in an increase in the U.S. CPI of 2.0 percent.

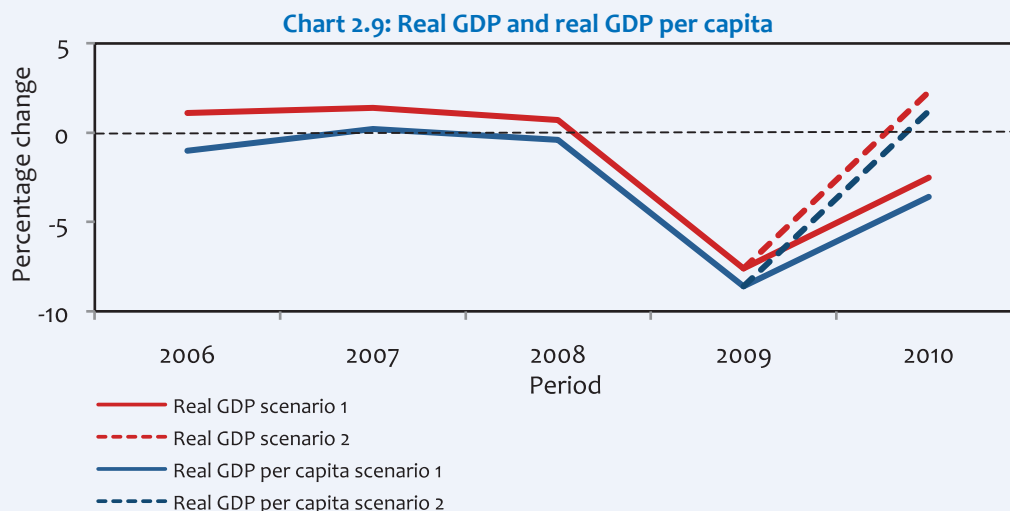
Given the uncertainty regarding the restart of the refinery, two scenarios are presented. The first scenario assumes that the refinery will not restart its operations in 2010. This is the baseline scenario, since it seems the

more likely outcome considering the information available at the moment of production of this publication. The second scenario assumes that the refinery will resume its activities in the third quarter of 2010.

#### *Scenario outcome*

In the baseline scenario (i.e., scenario 1) Aruba's economic development is forecasted to remain negative in 2010, mainly because of the sharply deteriorated conditions in the domestic real sector. The deterioration in conditions in this sector is related to the operational shutdown of the oil refinery in mid-July 2009, which led to a significant amount of job losses in the construction sector as well as decreases in net exports and investment. In addition, the operational shutdown negatively impacted consumption, credit, and consumer confidence in general. Since there are by the cut-off date of this publication no concrete signs that the refinery will restart its operations any time soon, the assumption is that the refinery will remain idle for the whole of 2010. A decision on the future of the refinery is expected in June 2010. In the meantime, the Valero Corporation and the Aruban government are seeking interested parties to either purchase the refinery or enter into a joint venture to operate it.

The gradual recovery that is expected in the United States, which presumably will cause a rise in the number of tourists visiting Aruba, and the construction of a Ritz Carlton hotel, scheduled to begin in 2010, are



Scenario 1: Forecasts for the scenario in which the oil refinery remains idle for the whole of 2010.

Scenario 2: Forecasts for the scenario in which the oil refinery restarts its activities as of July 2010.

**Chart 2.9:** While real GDP showed a significant contraction in 2009, the fall in real GDP per capita is even more pronounced. This trend had been going on in recent years when per capita growth rates were steadily lower than overall GDP growth rates. This pattern occurred because population grew at a faster rate than the GDP and the trend will continue in 2010. Moreover, GDP per capita will outpace GDP growth only if the population shrinks while GDP grows.

insufficient to offset the negative impact caused by the shutdown of the refinery. Based on the information currently available, real GDP in Aruba is projected to contract by 2.5 percent in 2010 (2009: -7.6 percent). On a per capita basis, real GDP will fall by 3.4 percent in 2010 (2009: -8.9 percent). However, if the refinery is restarted in the third quarter of 2010 (scenario 2), the picture improves significantly. Real GDP and real GDP per capita are then projected to grow by 2.2 percent and 1.2 percent, respectively.

The projected decrease in private

investment is entirely the result of the shutdown of the oil refinery. On the other hand, the construction of a Ritz Carlton hotel is expected to spur some investment activities, while public investment will increase as a result of additional (infrastructure) projects financed through the development fund (FDA). On balance, total investment is projected to decline in 2010.

Private consumption also is foreseen to register a negative outcome in 2010, owing to increased unemployment, particularly in the construction sector, and the uncertainty surrounding economic

conditions in the short term, which could lead to further reduction in the purchase of certain durable goods. The contraction in private consumption will be somewhat mitigated by the start of the above-mentioned Ritz Carlton hotel project and by the reduction of the BBO tariff. Public

consumption is estimated to grow by 4.1 percent in real terms, based on the draft of the 2010 government budget that was submitted to Parliament but was not yet approved at the time the projection was made. The draft budget indicates that the contribution to the AZV will be increased

**Table 2.10: GDP components and indicators**  
(percentage change, unless stated otherwise)

	2006 <sup>1)</sup>	2007 <sup>1)</sup>	2008 <sup>2)</sup>	2009 <sup>3)</sup>	2010 <sup>4)</sup>	2010 <sup>5)</sup>
<b>1. Aruba: Real GDP and its components</b>						
Gross domestic product	1.1	1.4	0.7	-7.6	-2.5	2.2
Final consumption	1.4	3.2	-0.8	-5.2	-0.5	0.4
- Private consumption	1.9	6.5	-1.7	-5.0	-2.2	-0.9
- Public consumption	0.0	-4.8	1.6	-5.8	4.1	4.1
Gross capital formation	7.1	0.1	3.1	-18.7	-3.1	4.1
- Private gross capital formation	7.5	0.7	2.1	-20.0	-4.5	3.2
- Public gross capital formation	-0.7	-14.4	28.4	6.8	18.0	18.0
Exports	-2.8	3.7	7.1	-11.8	-6.6	2.4
Imports	0.8	4.1	5.5	-13.9	-4.3	1.5
<b>2. Selected economic indicators</b>						
Aruba:						
Mid-year population	2.2	1.1	1.2	1.4	1.1	1.1
Unemployment (6)	9.3	7.1	6.9	11.3	12.4	9.0
CPI (7)	3.6	5.4	9.0	-2.1	3.6	3.6
Core CPI (7)	1.4	3.0	3.3	1.8	2.9	2.9
Real GDP per capita	-1.1	0.3	-0.5	-8.9	-3.4	1.2
Stay-over visitors	-5.2	11.2	7.1	-1.7	2.2	2.2
Tourism receipts	-1.5	16.5	12.6	-8.3	4.5	4.5
United States:						
- Real GDP	2.8	2.0	1.1	-2.4	3.1	3.1
- CPI (7)	3.2	2.9	3.8	-0.3	2.0	2.0
International market						
- Oil price (WTI) (7)	17.0	9.4	37.8	-38.1	26.0	26.0

Source: CBA; CBS; DEZHI; BEA; BLS; IMF.

- 1) The figures for 2006 and 2007 are preliminary estimates based on nominal data from, respectively, the CBS and the DEZHI. These figures were deflated using a GDP deflator that is a weighted average of the deflators calculated by the CBA for each individual GDP component.
- 2) The figures for 2008 are preliminary calculations based on nominal data from the DEZHI, with the exception of the private consumption estimate, which was estimated by the CBA. These figures were deflated using a GDP deflator that is a weighted average of the deflators calculated by the CBA for each individual GDP component.
- 3) The figures for 2009 are preliminary estimates, calculated by the CBA.
- 4) Forecasts for scenario 1 in which the oil refinery remains idle for the whole of 2010.
- 5) Forecasts for scenario 2 in which the oil refinery restarts its activities as of July 2010.
- 6) As percentage of the labor force.
- 7) Period average.

in 2010. With regard to personnel, government policy is to reduce the number of civil servants through natural turnover, while filling vacancies only on an incidental basis. Consequently, personnel costs are expected to rise only as a result of promotions and periodic salary increases. Furthermore, indexation for civil servants' salaries will not be included in the 2010 budget.

Exports related to tourism are projected to grow moderately in 2010, as the U.S. economy gradually recovers and U.S. citizens become more willing to travel again. However, overall exports will decline due to the shutdown of the refinery. Since investment, consumption, and exports are expected to decrease, it follows that imports also will contract. A large portion of the expected contraction in imports is attributed to the refinery, partially mitigated by imports of construction material related to the execution of the Ritz Carlton hotel project.

#### *The tourism sector*

After the smaller-than-expected decline in tourist arrivals in 2009, tourism is projected to show positive growth in 2010. This growth in tourism is supported by the economic recovery forecast for the United States in 2010. However, the economic recovery projected for the United States remains fragile with unemployment still historically elevated and the U.S. housing market weak. Thus, while more tourists are expected to visit the island, growth in arrivals and tourism

receipts will be moderate, i.e., 2.2 percent and 4.5 percent, respectively.

#### *Monetary developments*

Considering the expected negative economic growth in 2010, demand for credit is projected to show a modest growth of 3.4 percent. Meanwhile, the level of net foreign assets will likely be higher because of expected government borrowing from abroad and the lower-than-usual level of imports that is related to the anticipated fall in consumption. Consequently, an expansion in the money supply can be expected.

#### *The labor market*

In line with the projected slowdown in economic activities, assuming scenario 1 (the oil refinery remains idle throughout 2010), the labor market will remain sluggish with unemployment rising, albeit at a significantly slower pace than in 2009. Unemployment especially in the construction sector will persist, mainly related to the operational shutdown of the refinery and the lack of new investment projects. Fortunately, some bright spots exist. The construction of the Ritz Carlton hotel is expected to create new jobs, as will the moderate recovery in the tourist industry. Still, the unemployment rate is forecasted to grow from 11.3 percent in 2009 to 12.4 percent in 2010.

The situation in Aruba's labor market would improve if the refinery is restarted again as is assumed in scenario 2. In this case, unemployment will fall by 3.4

percentage points to 9.0 percent in 2010.

#### *Prices*

After recording a deflation of 2.1 percent in 2009, the CPI is projected to rise by an average of 3.6 percent in 2010. This increase largely reflects a foreseen rebound in energy prices caused by higher oil prices on the international markets. The reduction in the BBO tariff is expected to partially mitigate the effects of increased energy prices on the CPI.

When excluding the impact of the changes in energy and food prices on the CPI, the so-called core inflation, prices are projected to increase by an average of 2.9 percent in 2010. The increase in the core CPI will be driven mainly by the indirect effects of the higher energy prices on the non-energy items in the CPI basket.

#### *Risk to the projections*

The risks to the projections presented above are compounded in part by the uncertainty surrounding the speed and the strength of the recovery of the global economy and their impact on the Aruban economy. These risks appear to be mostly on the downside, since the economic recovery has been sluggish; there is still a distinct possibility of a double-dip recession in the U.S. economy, and the economic recovery in Europe will remain fragile. In addition, Aruba faces a great amount of uncertainty in its domestic economy related to the future of the oil refinery. Given that the projections in scenario 1 (baseline) are based on the assumption that the refinery will remain idle in 2010, the risks to the projections are on the upside and reflect the possibility that the refinery can resume its

activities (scenario 2). If this scenario were to play itself out, the impact on the projections would be significant. Instead of a contraction in real GDP, economic activities would grow by 2.2 percent in 2010. This growth in GDP is the result of the large positive impact the refinery's activities have on net exports, investment, and through the salaries paid to its employees and fees paid to contractors, and private consumption.

The restart of the refinery would create many jobs that were lost in 2009, thereby altering the projection for the labor market. With the refinery operational, the unemployment rate is projected to fall to 9.0 percent in 2010, down from 11.3 percent in 2009.

The projection for inflation also is subjected to some risk. The inflation forecast is extremely sensitive to the development of the price of oil on the international markets and its effect on the energy and non-energy items in the CPI basket. Therefore, a larger or smaller increase in the oil price than assumed in the baseline forecast severely affects the inflation outcome.

Moreover, the short-term projections, especially with regard to public consumption and public investments, are exposed to the uncertainty concerning the financial situation of the government and public-related investments not (yet) included in the government budget. Three particular issues pose major risks to the government finances and the economic outlook of Aruba, i.e., the AZV, the APFA and the personnel costs. If these issues are not properly addressed, they could result in an unsustainable government debt level and debt service.



*Collection and analysis of financial and economic data for monitoring, policymaking, and dissemination is one of the many activities of the CBA.*



*Supervising the financial system to protect the interests of depositors and policyholders and to contribute to maintaining the stability and integrity of the financial system.*

## 3 Financial sector supervision

### 3.1 Introduction

The CBA is entrusted with the 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 (SOSCS), the State Ordinance on the Supervision of the Insurance Business (SOSIB), the State Ordinance on Company Pension Funds (SOCPF), and the State Ordinance on the Supervision of Money Transfer Companies (SOSMTC). As of February 5, 2009, the CBA also is responsible for the supervision of trust service providers on the basis of the State Ordinance on the Supervision of Trust Service Providers (AB 2009, no. 13) (SOSTSP). In addition, the CBA is in charge of overseeing compliance with the provisions of the State Ordinance on Identification when Providing Services (AB 1995, No. 86) (SOIPS), insofar as it concerns the financial institutions under its supervision.

Supervision aims to prevent financial institutions from taking risks that could harm the interests of depositors, policyholders, and other creditors and could endanger the soundness, stability, and integrity of the financial system. To that end, the CBA conducts continuous off-site surveillance, as well as regular risk-based on-site examinations. In addition, starting in 2008, the CBA also carries out yearly stress tests on the banking sector to evaluate its resilience under distressed financial and economic

conditions. Furthermore, meetings are held periodically with the institutions under supervision as well as with their representative organizations.

The regular on-site examinations assess key risk areas, including financial position, administrative organization and internal controls, asset quality, corporate governance, information technology, and compliance with anti-money laundering and terrorist financing laws and regulations. In 2009, 10 targeted on-site examinations were conducted: 5 at credit institutions, 3 at insurance companies, and 2 at money transfer companies. Based upon the findings, some of the examined institutions were required to take corrective action.

In 2009, the CBA established a separate Integrity Unit within the Supervision Department to enable a more focused attention to oversight in the area of anti-money laundering and combating financing of terrorism (AML/CFT). The tasks of this unit are, among other things, to conduct fit and proper testing on an ongoing basis of managing and supervisory directors as well as individual shareholders, to oversee compliance with the laws and regulations in the area of AML/CFT via regular on-site examinations at the supervised financial institutions, and to closely monitor international developments in the area of AML/CFT, including the translation of these developments in the supervisory directives and practices.

# 3

### 3.2 Major policy issues and developments

#### 3.2.1 Effects of the international financial crisis

To date, the effects of the global financial crisis on the supervised financial institutions in Aruba have been quite limited because of the small amount of their foreign exposure. With the exception of three company pension funds, which held a significant portion of their investments abroad, all supervised financial institutions in Aruba were able to continue to operate within the prudential parameters set by the CBA in the area of solvency and liquidity. The supervised company pension funds whose coverage ratio fell below the 100 percent minimum requirement set by the CBA were required to submit recovery plans on how they would address the shortfall within a reasonable period of time. Currently, two of the pension funds have succeeded in bringing their coverage ratio above the minimum requirement of 100 percent.

The already weak financial position of Aruba's civil servants' pension fund, the APFA, which does not fall under CBA's supervision, worsened sharply in 2008. This deterioration was the result

of the global financial crisis and the lowering of the rate against which the pension obligations must be discounted on the basis of a recent actuarial study. The coverage ratio pertaining to the pension scheme for civil servants who entered service before May 1, 2005 (PVL pension scheme) fell to a very worrisome level. This pension scheme must be reformed drastically to restore its financial viability and the reform must be done quickly since the fund is currently highly insolvent. According to the 2008 draft figures, the PVL pension scheme had a negative equity of approximately Afl. 562.6 million. In view of this situation, it is important to implement quickly the recommendations for reform of this pension scheme contained in the December 2009 advice report to the Minister of Finance, issued by a Tripartite Committee, consisting of representatives of the APFA, the Department of Finance, and the CBA. Leaving this matter unattended poses significant risks to Aruba's financial stability and government finances.

#### 3.2.2 FATF mutual evaluation report on Aruba

From November 24 to December 5, 2008, an FATF assessment team conducted a mutual evaluation of Aruba's compliance with the 40+9 FATF recommendations. During the October 2009 Plenary Meeting, the Mutual Evaluation Report (MER) of Aruba was adopted. This report concluded that Aruba's AML/CFT system was incomplete and lacked coherence and

effectiveness. Therefore, the Aruban AML/CFT framework needed a complete overhaul.

The Aruban authorities, with the assistance of an external consulting firm, drafted an ambitious and prioritized action plan based upon a methodology developed by the World Bank to remedy the identified deficiencies in the AML/CFT framework.

This action plan, as well as the steps already taken, including the adoption of a State Ordinance amending the Penal Code in order to penalize terrorist financing as a separate and independent offence, were well-received during the FATF Plenary Meeting of February 2010 in Abu Dhabi, at which Aruba had to present its first follow-up report. The next follow-up report is due for the upcoming FATF Plenary Meeting that will be held in June 2010 in Amsterdam, the Netherlands.

In view of the generally negative outcome of the FATF assessment and the possible consequences thereof, swift action was necessary to address the deficiencies in the Aruban AML/CFT framework. With this in mind, an

AML/CFT strategy group under the Chairmanship of the Prime Minister was recently installed, comprising the relevant members of the council of Ministers, the Public Prosecutors' Office, the Police Force, the Customs Department, the Immigration Service, the Financial Intelligence Unit (FIU), the CBA, the Chamber of Commerce, the Department for Casino Affairs, the Government Security Agency, the Directorate for Legislation and Legal Affairs, the Directorate of Economic Affairs, Commerce and Industry, and the Aruba Free Zone. This strategy group also will monitor the timely implementation of the action plan. A first meeting of the AML/CFT strategy group was held in March 2010.

### 3.2.3 Legislative framework

On February 5, 2009, the SOSTSP became effective. The CBA is entrusted with the execution of this new state ordinance, which focuses mainly on maintaining the integrity of the trust sector. In accordance with section 2, paragraph 1 of the SOSTSP, effectuating the business of a trust service provider in or from Aruba without a license from the CBA is prohibited. The main licensing conditions are that the shareholders and management of the trust service provider be fit and proper, the trust service provider has sound know-your-customer policies in place aimed at preventing money laundering and terrorist financing, and it has systems, procedures, and controls in place enabling it to continuously comply with the stipulations of the laws and regulations governing this sector. According to section 33, paragraph 1 of

the SOSTSP, trust service providers registered at the Chamber of Commerce of Aruba before this state ordinance came into effect had a period of one year to obtain a license from the CBA if they wanted to continue to offer the trust services mentioned in section 1 of the SOSTSP after February 5, 2010.

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

By Ministerial Regulation of April 16, 2009 (MR 2009, no. 32), the amount

below which the public cannot be approached, either directly or indirectly, for the purpose of attracting funds in the course of one's business, was increased from Afl. 100,000 to Afl. 1,000,000. The minimum amount was raised to protect the interests of investors in nominal repayable funds and to safeguard the reputation of the financial sector.

On January 19, 2010, an amended Ministerial Regulation on the supply of information with respect to judicial documents (AB 2010 no. 4) came into effect, granting the Prosecutor General the authority to pass on data from the judicial records to the CBA, thereby enhancing the CBA's ability to conduct a more in-depth fit and proper testing of directors and shareholders.

On February 10, 2010, the Aruban

Parliament approved a state ordinance allowing for the transfer of the oversight of the compliance with the provisions of the State Ordinance on the Obligation to Report Unusual Transactions (SORUT) from the FIU to the CBA for the financial institutions supervised by the CBA.

Notwithstanding these improvements in the legislative framework, additional work is needed to extend the scope of CBA's supervision to other sectors. The CBA is currently drafting a proposal for a state ordinance regulating the investment business, which also will encompass (electronic) stock exchanges, investment companies and advisors, collective investment schemes, and insurance brokers.

### 3.2.4 Issuance of new and revised supervisory regulations

To enhance the soundness of the banking sector, the CBA further tightened its policy rule on the admission of credit institutions as of January 1, 2009. A major condition was added that only financial institutions with solid financial strength and reputation and subject to comprehensive consolidated supervision are allowed as a major shareholder in a credit institution established in Aruba.

As of July 1, 2009, the CBA eliminated the monetary cash reserve requirement and simultaneously introduced a reserve requirement. To improve its use as a monetary policy instrument, the reserve requirement was excluded from the calculation of the prudential liquidity ratio (PLR). At the same time, the PLR was lowered

from 20 percent to 12 percent, allowing the initial transition to take place on a cost-neutral basis.

The global financial crisis has clearly demonstrated the need for banks to have sufficient capital and liquidity buffers in place to absorb unforeseen losses in their loan and investment portfolios and to deal with unexpected cash withdrawals. In the beginning of 2010, the CBA decided, after consulting the Aruban Bankers' Association, to increase both the minimum risk-weighted capital asset ratio and the prudential liquidity ratio from 12 percent to 14 percent and 15 percent, respectively. For the same reason, the CBA also decided to increase the minimum risk-weighted capital asset ratio for bank-like institutions from 12 percent to 14 percent as of April 1, 2010.

### 3.3 Changes in the registers of supervised institutions and changes in shareholding

#### 3.3.1 Banking sector

On July 10, 2009, in accordance with section 4 of the SOSCS, the CBA granted BBA Bank N.V. a license to conduct offshore banking business from Aruba. This licensing process had started in 2005, but a number of conditions had to be met before a license could be granted.

On July 13, 2009, in accordance with section 4 of the SOSCS, the CBA granted Cooperativa di Ahorro y

Prestamo Aruba (CAPA) a license to operate as a credit union in Aruba.

Following Citibank N.A.'s notification that the Aruba branch was no longer operational on October 9, 2009, the CBA revoked the license granted to Citibank N.A. to pursue the business of a credit institution through a branch in Aruba, in accordance with section 11, paragraphs 1 (a) and (b) of the SOSCS.

#### 3.3.2 Insurance sector

On July 15, 2009, in accordance with section 8, paragraph 1 (b) of the SOSIB, the CBA revoked the license granted to HDI-Gerling Verzekeringen N.V. to conduct non-life insurance business via its branch in Aruba, after HDI-Gerling Verzekeringen N.V.'s notification that the branch was no longer operational and that no outstanding claims existed vis-à-vis the branch.

On September 16, 2009, in accordance with section 1, paragraph 1 of the State Decree Qualifying Holding Insurance Companies (AB 2003, no. 11), the CBA allowed Ennia Caribe Holding (Aruba) N.V., 66.7 percent of whose shares are held by Ennia Caribe Leven N.V. and 33.3 percent by Ennia Caribe Schade N.V., to acquire a 100 percent qualifying holding in Ennia Caribe Leven (Aruba) N.V. and Ennia Caribe Schade (Aruba) N.V.

On September 16, 2009, in accordance with section 1, paragraph 1

of the State Decree Qualifying Holding Insurance Companies (AB 2003, no. 11), the CBA gave permission to Urimare N.V., whose shares are held by Fides Rae Holding Ltd, to acquire a 100 percent qualifying holding in Fides Rae Insurance Company N.V.

On October 9, 2009, in accordance with section 1, paragraph 1 of the State Decree Qualifying Holding Insurance Companies (AB 2003, no. 11), the CBA granted American Life Insurance Company Ltd. and American International Group, Inc., a declaration of no objection with regard to its restructuring plan, whereby 100 percent of the common stock of American Life Insurance Company Ltd. was transferred from American International Group, Inc. to ALICO Holdings LLC. and whereby all the preferred shares of ALICO Holdings LLC. were transferred to the Federal Reserve Bank of New York.

### 3.3.3 Trust service providers sector

The CBA received 19 applications for a trust license, 5 of which were withdrawn during the review process and 14 of which were granted a license. In the course of 2010, the CBA will issue

directives and guidelines for the conduct of business for the trust sector. In addition, the CBA will also start conducting on-site examinations at the trust service providers in 2010.

### 3.4 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 for AML/CFT. The government of Aruba has committed itself to implement the 40+9 FATF recommendations and, thus, to bring Aruba's AML/CFT framework in line with these recommendations. Over the years, the FATF standards have been revised and expanded. Therefore, ongoing review of the legislative framework and practices in these areas vis-à-vis the FATF standards is necessary. The MER of October 16, 2009, concluded that Aruba's AML/CFT framework needed a complete overhaul. As noted above, an action plan has been prepared to address the identified deficiencies in the AML/CFT framework.

At present, banks, life insurance companies, money transfer companies, casinos, and the Post Aruba N.V. are required to report unusual transactions to the FIU. As of February 5, 2009, the unusual reporting obligation was extended to other service providers, including accountants, lawyers, and notaries, as well as traders in high value products (e.g., car dealers, real estate brokers, and jewelers).

In December 2005, the CBA entered into a Memorandum of Understanding (MOU) with the FIU to exchange general information on AML/CFT issues. The FIU is responsible for overseeing compliance with the SORUT and the SOIPS (together with the CBA insofar as it concerns the supervised financial institutions). Meetings with the FIU, held at least twice a year, are useful to signal trends and to discuss general findings with respect to the examinations conducted in this area by both the FIU and the CBA.

The CBA conducts regular AML/CFT examinations at the supervised institutions to review compliance with its AML/CFT directives and the identification ordinance. In 2009, the CBA carried out targeted examinations in the area of AML/CFT at 2 commercial banks and 2 money transfer companies. In addition to those targeted examinations, reviews were performed in this area at 3 insurance companies as part of the full-scope on-site examinations at these companies. In most cases, the institutions examined were required to take corrective action, including but not limited to the strengthening of their internal AML/CFT controls.

### 3.5 International supervisory forums and cross-border cooperation

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

In July 2008, a trilateral MOU was signed between the three central banks within the Dutch Kingdom. The three parties agreed to develop activities throughout the full range of their organizational structures and duties in a framework for mutual cooperation that includes, but is not limited to the exchange of information, mutual assistance, and provision of technical assistance.

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

In March 2009, the CBA participated in a seminar on risk-based supervision held at the BNA and facilitated by the Dutch Central Bank (DNB). The seminar was conducted under the aegis of the July 2008 trilateral MOU signed by the three central banks within the Dutch Kingdom. This seminar provided participants with valuable information

and insights for implementing the risk-based supervisory approach applied by the DNB. In April 2009, a follow-up seminar on risk-based supervision was held at the BNA.

In May 2009, the CBA attended the XXVII (27th) Annual Conference of the Caribbean Group of Banking Supervisors (CGBS) held in the Cayman Islands. Its central theme was “Reinforcing Regional Resilience – Navigating through Global Financial Turbulence”. The topics discussed at this conference included promoting stability in the midst of the global financial crisis, recalibrating the financial regulatory architecture, and practical experiences with respect to the implementation of the Basel II Capital Accord.

In May 2009, the CBA attended the 16th Annual Working Meeting and training seminar of the Offshore Group of Insurance Supervisors (OGIS) held in Curaçao. The topics discussed, among others, were solvency, capital adequacy, and stress and scenario testing, on-site inspections, group supervision, and home/host supervisory issues.

In June 2009, the CBA participated in a three-week internship program organized by the BNA, on the supervision of trust service providers. The program provided information about and insights into how BNA supervises this sector. In view of the recently introduced SOSTSP, participation in this program was very useful.

In September 2009, the CBA attended the annual plenary meeting of the Offshore Group of Banking Supervisors (OGBS) held in Jersey,

Channel Islands. The plenary meeting started with a one-day seminar organized by the Financial Stability Institute, where speakers from the Swedish Central Bank, the European Central Bank, and the Basel Committee on Banking Supervision gave presentations on the global financial crisis and lessons learned, and current work related to the implementation of the Basel II Capital Accord. The plenary meeting then engaged in a review of the work of the FATF, IMF, Basel Committee on Banking Supervision, and the Egmont Group, and the progress made by each member jurisdiction in strengthening its regulations and AML/CFT frameworks.

In October 2009, the CBA attended the FATF Plenary meeting held in Paris, France, where the MER of Aruba also was adopted. Furthermore, the CBA participated at the CFATF Plenary meeting held in October 2009 in Curaçao, where among other actions, the mutual evaluation report of Aruba

was endorsed by the CFATF. Aruba is a member of both the FATF and the CFATF.

In November 2009, the CBA hosted the “Risk-focused Supervision and Risk Assessment” seminar organized by the Association of Supervisors of Banks of the Americas (ASBA) and the CGBS and facilitated by the Federal Reserve Board. A total of 22 representatives from the Caribbean and Latin American region participated in the seminar. The main topics covered at this seminar included risk-focused examination techniques and modeling with respect to credit risk, operational risk, market risk, and liquidity risk, as well as aggregate risk assessment. The CBA intends to move gradually to a more risk-based supervisory approach. This will allow for a more effective allocation of the scarce resources to the supervised institutions that need the most attention in view of their higher risk profile and the risks involved for the stability and integrity of the financial system.

### 3.6 Sectoral developments

The main financial developments in the various sectors under the CBA’s supervision are discussed in this section. A more extensive article on this

topic was published in the CBA’s Quarterly Bulletin for the fourth quarter of 2009.

#### 3.6.1 Banking sector

##### *Commercial banks*

In 2009, the aggregated balance sheet total of the four commercial banks rose by Afl. 128.9 million or 3.1 percent to Afl. 4,310.6 million compared to 2008, equivalent to 91.8 percent of the estimated nominal GDP for 2009. This

expansion reflected increases in both cash and due from banks and the investment portfolio, which was partially offset by a reduction in the loan portfolio. Cash and due from banks grew by Afl. 122.5 million or 9.1 percent, associated mostly with an expansion of

the amount held at foreign banks. The growth of Afl. 39.1 million or 34.2 percent in the investment portfolio was attributed largely to an increase in government bond holdings. On the other hand, the commercial banks' loan portfolio contracted by Afl. 22.0 million or 0.9 percent, mirroring a significant decline in loans to enterprises resulting from a slowdown in economic activity. In contrast, housing mortgage lending grew markedly in 2009 compared to 2008, largely the result of intensive advertisement campaigns in the banking system.

On the liability side, deposits rose by Afl. 96.3 million or 2.7 percent in 2009, while other liabilities fell by Afl. 12.1 million or 7.5 percent. The increase in deposits was due mainly to a growth in both demand and savings deposits of Afl. 179.3 million or 12.4 percent and Afl. 70.9 million or 8.4 percent, respectively. This growth was partially offset by an Afl. 153.9 million or 12.7 percent decrease in time deposits. Capital and reserves grew by Afl. 44.7 million or 8.7 percent, primarily the result of additions from net income to the general reserves and retained earnings.

**Table 3.1: Core set of macroprudential indicators of the commercial banks**  
(end-of-period figures in percentages)

	2005	2006	2007	2008	2009 1)
<b>1. Capital adequacy</b>					
a. Risk-weighted capital asset ratio (= Regulatory capital to risk-weighted assets)	11.5	13.5	13.0	14.7	17.9
b. Tier 1 capital ratio	6.1	7.2	7.2	8.3	10.6
<b>2. Asset quality</b>					
a. Nonperforming loans to gross loans	6.7	6.3	6.7	6.9	7.8
b. Nonperforming loans (net of ALLP) to gross loans 2)	3.7	3.4	4.0	3.9	4.2
c. Nonperforming loans (net of ALLP) to regulatory capital 2)	34.6	26.4	32.6	28.5	25.4
d. Large loans to regulatory capital 3)	121.2	109.2	102.8	98.8	74.8
<b>3. Earnings and profitability</b>					
a. Return on assets (after taxes)	2.1	2.4	3.1	2.3	1.9
b. Return on equity (after taxes)	28.6	32.1	38.4	24.7	18.5
c. Net interest margin to gross income	65.0	66.4	60.5	62.4	62.8
d. Noninterest expenses to gross income	73.2	70.1	65.7	71.1	73.3
<b>4. Liquidity</b>					
a. Loans to deposits ratio	76.4	75.1	74.7	69.4	67.0
b. Prudential liquidity ratio	25.8	28.0	29.0	34.7	30.1
c. Liquid assets to short-term liabilities	76.9	81.2	82.6	88.7	71.5
<b>5. Sensitivity to market risk</b>					
a. Interest rate margin 4)	7.4	7.2	6.8	7.5	7.1

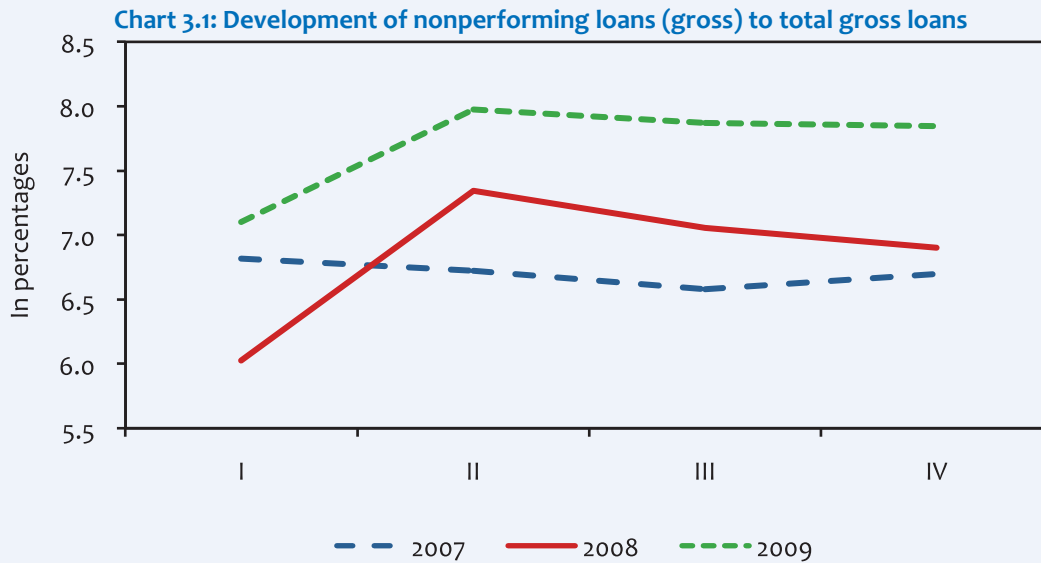
Source: CBA; CBS; DEZHI; BEA; BLS; IMF.

1) Preliminary figures.

2) ALLP: allocated loan loss provision.

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

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



**Chart 3.1:** The nonperforming loans ratio increased particularly fast as it combined the effects of weaker loan quality in the numerator with lower growth in the denominator.

The various macroprudential ratios indicate that the commercial banking sector remained sound and profitable in 2009 (see Table 3.1). The banks' aggregated risk-weighted capital asset ratio went up from 14.7 percent at the end of December 2008 to 17.9 percent at the end of December 2009, well above the required minimum of 12 percent, mainly because of additions of net income to the general reserves and retained earnings. Conversely, the quality of the loan portfolios of the commercial banks deteriorated, reflecting increases in the nonperforming loans ratios. This situation was mainly the result of a worsening of the economic climate in Aruba. The aggregated nonperforming loans, which consist of all loans past due for more than 90 days, grew from 6.9 percent at end December 2008 to 7.8 percent at end December 2009. Nonperforming loans may continue to rise in 2010 because of the temporary operational shutdown of the oil refinery, which has remained idle for economic

reasons since mid-July 2009, and the ensuing increase in unemployment. Chart 3.1 shows the development of the aggregated nonperforming loans (gross) to total gross loans since 2007.

As a result of the earlier mentioned introduction of the RR and lowering of the PLR as of July 1, 2009, the banks' aggregated PLR dropped by 4.6 percentage points to 30.1 percent at end December 2009, still remaining far above the required minimum of 12 percent. It should be noted that the banking system continued to be characterized by high levels of liquidity. Furthermore, the ratio of loans to deposits contracted further to 67.0 percent at the end of 2009, remaining significantly below the maximum of 80 percent, due primarily to a drop in the loan portfolio.

The banking sector was again profitable in 2009 despite a contraction of Afl. 8.2 million or 7.0 percent in net income (before taxes) in 2009 compared to 2008, associated with declines in both the net interest margin and operating

income of Afl. 4.9 million and Afl. 2.6 million, respectively. Subsequently, in 2009, return on assets (after taxes) and return on equity (after taxes) decreased by 0.4 percentage point and 6.2 percentage points, respectively. The net interest margin to gross income ratio went up slightly by 0.4 percentage point to 62.8 percent at the end of 2009, due mostly to a larger decrease in gross income than in net interest margin. The ratio of noninterest expenses to gross income rose by 2.2 percentage points to 73.3 percent at the end of 2009, associated largely with a fall in gross income.

As a result of the oligopolistic market structure as well as the small scale of the domestic banking sector, interest rates in Aruba are relatively high compared to those in the advanced economies. The weighted average interest rate margin on new loans decreased from 7.5 percent in 2008 to 7.1 percent in 2009.

#### *Offshore banks*

The offshore banks' aggregated balance sheet totaled Afl. 543.5 million at the end of 2009, a decrease of Afl. 62.9 million or 10.4 percent compared to 2008, following the discontinuation of activities by one offshore bank. However, the combined investment portfolio of the offshore banking sector grew by Afl. 41.0 million or 22.4 percent in 2009 compared to the previous year, largely attributable to an increase in marketable securities. On the liability side, deposits fell by Afl. 185.1 million or 50.6 percent in 2009 compared to the previous year, while capital and reserves expanded by Afl. 113.6 million or 52.3 percent. The decrease in deposits was due mostly to the mentioned discontinued activities of one offshore bank. The increase in capital

and reserves in 2009 reflects the appropriation of profits to retained earnings and increase in paid-in capital stemming from the newly licensed offshore bank. The aggregated risk-weighted capital asset ratio of the two offshore banks rose from 31.8 percent to 42.0 percent in 2009, largely because of an Afl. 105.1 million increase in the regulatory capital related to the favorable net results obtained in 2009.

The offshore banks jointly reported a net income (before taxes) of Afl. 117.4 million in 2009, compared to a net loss of Afl. 10.7 million in 2008, mainly caused by an expansion in their operating income of Afl. 131.6 million. This notable improvement in profitability was attributable primarily to a surge in foreign exchange income in 2009.

#### *Bank-like institutions*

The three bank-like institutions are engaged largely in mortgage lending to individuals, financing of social housing projects, long-term project financing, and/or granting of personal loans for consumption and home improvement purposes. These activities are financed mostly by attracting funds from their parent company, other (local) financial institutions, and/or institutional investors. Their aggregated balance sheet total increased in 2009 by Afl. 17.2 million or 2.5 percent to Afl. 706.5 million at the end of the year. Cash and due from banks and other assets rose by Afl. 14.5 million or 33.2 percent and Afl. 12.4 million or 10.0 percent, respectively. Their combined loan portfolio dropped by Afl. 9.0 million or 1.8 percent to Afl. 486.5 million at the end of 2009, equivalent to 10.4 percent of the estimated nominal GDP for 2009. The contraction in the combined loan portfolio was mainly the

result of loan repayments. Capital and reserves grew by Afl. 19.2 million or 7.7 percent to Afl. 268.7 million as of December 2009, associated mostly with additions from net income to the general reserves and retained earnings.

The various macroprudential indicators show that the bank-like institutions' sector also remained sound and profitable in 2009 (see Table 3.2). The aggregated risk-weighted capital asset ratio of these institutions increased slightly from 47.5 percent in 2008 to 47.9

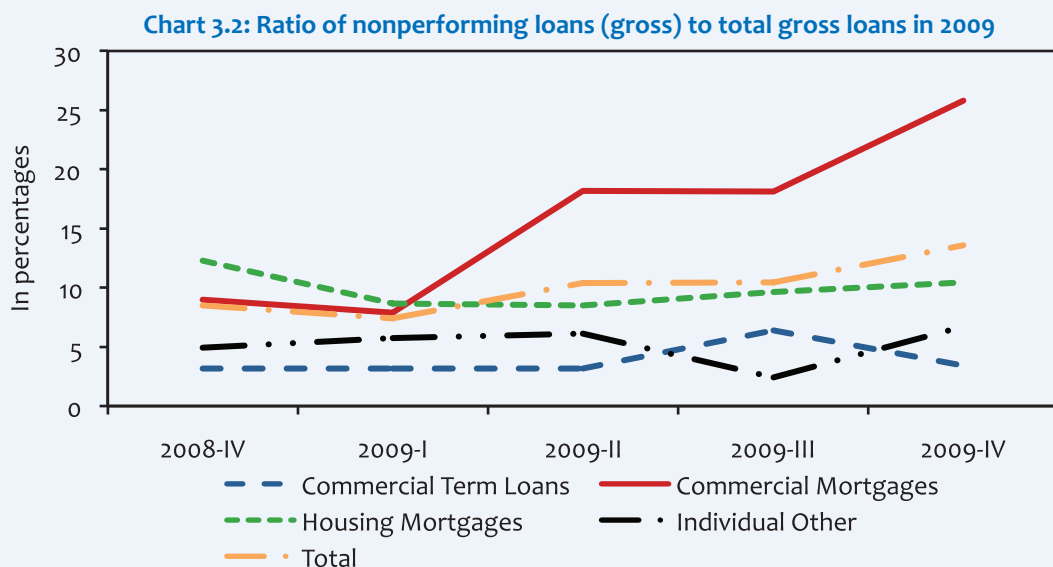
percent in 2009, remaining far above the minimum requirement of 12 percent. The ratio of nonperforming loans (net of allocated loan loss provisions and consisting of all loans past-due for more than 90 days) to gross loans went up from 6.9 percent in 2008 to 10.9 percent in 2009. This growth was due mainly to the increase in nonperforming loans of the commercial mortgage category. Chart 3.2 illustrates the development of the nonperforming loans per category in 2009.

**Table 3.2: Core set of macroprudential indicators of the bank-like institutions**  
(end-of-period figures, in percentages)

	2005	2006	2007	2008	2009 <sup>1)</sup>
1. Capital adequacy					
a. Risk-weighted capital asset ratio (= Regulatory capital to risk-weighted assets)	45.0	46.3	41.8	47.5	47.9
b. Tier 1 capital ratio	39.1	40.0	36.0	41.0	40.7
2. Asset quality					
a. Nonperforming loans to gross loans	6.7	7.8	7.4	8.5	13.6
b. Nonperforming loans (net of ALLP) to gross loans <sup>2)</sup>	5.6	6.7	6.6	6.9	10.9
c. Nonperforming loans (net of ALLP) to regulatory capital <sup>2)</sup>	12.2	14.7	15.6	15.4	21.5
3. Earnings and profitability					
a. Return on assets (after taxes)	2.2	2.1	4.0	2.1	2.8
b. Return on equity (after taxes)	6.9	6.4	11.8	6.2	7.9
c. Net interest margin to gross income	61.7	67.4	58.3	69.5	66.5
d. Noninterest expenses to gross income	69.5	74.1	58.2	74.1	68.8

Source: CBA; bank-like institutions.

- 1) Preliminary figures.  
2) ALLP: allocated loan loss provision.



**Chart 3.2:** Overall, the ratio of nonperforming loans to gross loans of the bank-like institutions' sector deteriorated mainly because of expansion in the nonperforming loans in the commercial mortgage category.

The bank-like institutions as a whole operated with favorable net results in 2009. Net income (before taxes) rose by Afl. 4.8 million or 30.8 percent to Afl. 20.4 million. This result was attributable mainly to increases in both net interest income and operating income of Afl. 2.8 million or 7.6 percent and Afl. 4.5 million or 28.8 percent, respectively. These increases were offset in part by an Afl. 1.8 million or 4.7 percent growth in total expenses. Consequently, return on equity (after taxes) went up by 1.7 percentage points to 7.9 percent in 2009, substantially lower than return on equity in the commercial banking sector. However, maximization of shareholders' value is not the prime objective of all institutions operating in this market segment. The net interest margin to gross income ratio decreased by 3.0 percentage points to 66.5 percent in 2009, due mostly to a larger expansion in gross income than in the net interest margin. The noninterest expenses to

gross income ratio went down by 5.3 percentage points to 68.8 percent in 2009, associated largely with a growth in gross income.

#### *Money transfer companies*

In 2009, about 282,700 outgoing transfers were executed by the four registered money transfer companies in Aruba for a total of approximately Afl. 118.7 million (2008: 273,700 outgoing transfers amounting to approximately Afl. 121.0 million). Furthermore, Colombia remained the major destination of the funds transferred to abroad via money transfer companies, accounting for 51.0 percent of all outgoing money transfers (see Table 3.3 and Chart 3.3). The main source of the transfers to abroad is foreign workers providing financial support to their relatives in their countries of origin. Note that a substantial part of Aruba's labor force consists of immigrants and foreigners, notably from Latin America.

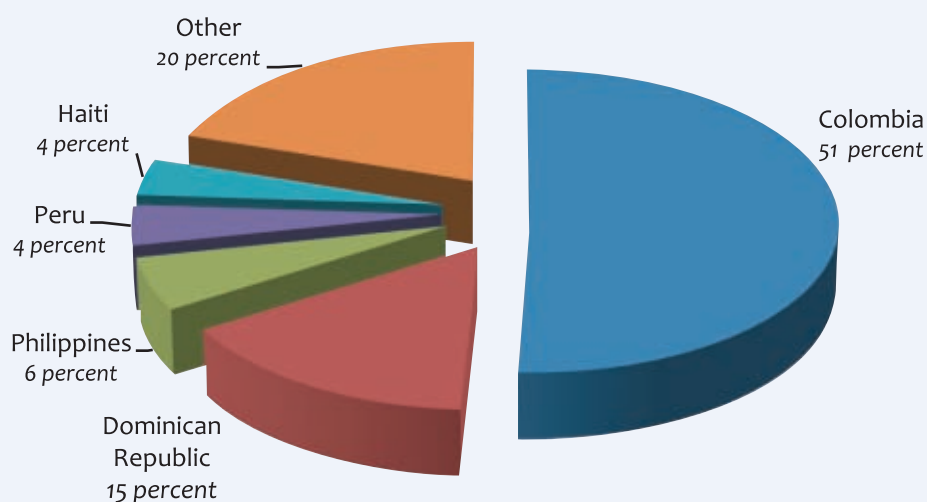
**Table 3.3: Outgoing money transfers by countries of destination**  
(end-of-period figures in Afl. thousands)

	2005	2006	2007	2008	2009 1)
Total	106,318.2	113,262.1	116,721.4	121,011.6	118,673.6
1. Colombia	60,191.3	64,659.1	63,896.3	64,189.9	60,271.1
2. Dominican Republic	11,812.0	13,983.9	17,377.6	17,455.2	18,253.1
3. Philippines	5,700.1	5,811.9	5,957.6	6,641.7	6,634.9
4. Peru	5,100.6	5,195.3	5,185.2	5,339.4	5,062.1
5. Haiti	3,378.5	3,989.4	4,335.6	4,756.0	4,736.4
6. Other	20,135.7	19,622.5	19,969.1	22,629.4	23,716.0

Source: CBA; money transfer companies.

1) Preliminary figures.

**Chart 3.3: Money transfer outflows in 2009 by destination**



**Chart 3.3:** Colombia remained the major destination of the funds transferred abroad via money transfer companies, accounting for 51.0 percent of all outgoing money transfers.

In 2009, the money transfer companies handled roughly 19,800 incoming transfers for a total amount of nearly Afl. 16.4 million (2008: 19,700 incoming transfers processed for approximately

Afl. 17.4 million). As in previous years, these incoming transfers originated mainly from the Netherlands and the United States (see Table 3.4).

**Table 3.4: Incoming money transfers by countries of origin**  
(end-of-period figure, in Afl. thousands)

	2005	2006	2007	2008	2009 1)
Total	12,296.7	11,691.9	13,877.5	17,418.1	16,351.3
1. Netherlands	4,591.6	4,407.0	4,867.6	6,807.6	6,187.2
2. United States of America	3,685.1	3,170.1	3,743.3	3,636.0	3,323.9
3. Colombia	613.0	606.3	800.9	1,005.7	1,040.0
4. Netherlands Antilles	728.0	736.3	712.0	916.0	892.6
5. Spain	332.1	314.2	662.6	691.7	551.6
6. Other	2,346.9	2,458.0	3,091.1	4,361.1	4,356.0

Source: CBA; money transfer companies.

1) Preliminary figures.

### 3.6.2 Insurance sector

#### *Nonlife insurance companies*

The aggregated balance sheet total of the 13 nonlife insurance companies fell slightly by Afl. 2.1 million to Afl. 215.6 million (equivalent to 4.3 percent of nominal GDP) at the end of 2008 compared to 2007. Investments edged down by Afl. 16.3 million to Afl. 124.3 million, attributed largely to a decrease in bond holdings and loans, while amounts due from affiliated companies grew by Afl. 9.2 million to Afl. 32.6 million. On the liability side, the technical provisions and amounts due to affiliated companies grew by Afl. 13.6 million or 24.8 percent and Afl. 8.7 million or 12.0 percent, respectively, while the capital and reserves contracted by Afl. 25.4 million or 31.8 percent. The decrease was due mainly to declines in revaluation reserves and retained earnings of Afl. 11.0 million and Afl. 9.5 million, respectively. The change in retained earnings was related mainly to transfers of accumulated capital to the parent companies concerned.

Net income (before taxes) dropped by Afl. 4.3 million or 47.3 percent to Afl. 4.8 million in 2008 compared to 2007, despite a growth in net premiums of Afl. 6.2 million or 11.2 percent. This decrease in net income resulted predominantly from a higher incidence of claims, mostly in motor vehicle, professional liability, and commercial and personal property, as well as higher management expenses.

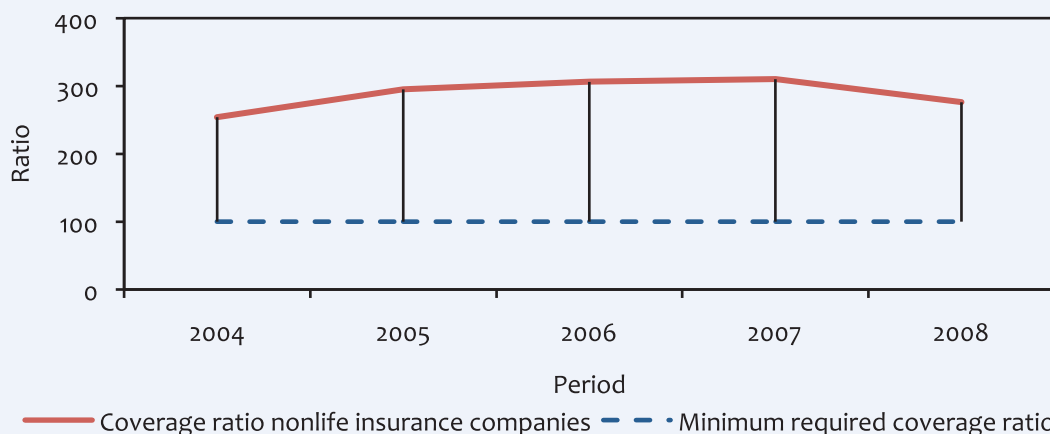
As shown in Table 3.5, in 2008 the liquidity ratio and the return on investments ratio increased slightly by 2.1 percentage points and 0.4 percentage point, respectively. The coverage ratio contracted by 34.2 percentage points to 276.0 percent but stayed significantly above the minimum requirement of 100 percent. The reduction in the coverage ratio was mainly the result of an Afl. 13.6 million or 24.8 percent surge in the aggregated technical provisions. Chart 3.4 shows the development of the aggregated coverage ratio of the nonlife insurance companies since 2004.

**Table 3.5: Financial ratios of the nonlife insurance companies**  
(end-of-period figures, in percentage)

	2004	2005	2006	2007	2008
1. Liquidity ratio (= Current assets to total assets)	28.9	27.4	25.1	23.9	26.0
2. Return on investment ratio (= Investment income to average invested assets)	6.2	5.0	5.3	5.5	5.9
3. Coverage ratio (= Weighted assets less borrowings to technical provisions)	254.3	294.9	305.7	310.2	276.0

Source: CBA; nonlife insurance companies.

**Chart 3.4: Development of coverage ratio of the nonlife insurance companies**



**Chart 3.4:** The aggregated coverage ratio of the nonlife insurance companies curved down in 2008 but remained significantly above the minimum requirement of 100 percent.

#### *Life insurance companies*

At the end of 2008, the combined balance sheet total of the 7 life insurance companies amounted to Afl. 618.0 million (equivalent to 12.4 percent of nominal GDP). This amount was a significant expansion of Afl. 67.9 million or 12.3 percent compared to 2007, reflecting substantial increases in both the life insurance companies' investment portfolios and their uncollected

premiums of Afl. 32.9 million or 7.2 percent and Afl. 29.4 million or 206.6 percent, respectively. The overall increase in the investment portfolio was due mainly to a reinsurance contract entered into by a company pension fund and a licensed life insurance company. As a result of the transfer of the assets and liabilities of this pension fund the combined technical provisions of the life insurance sector grew by Afl. 56.1 million

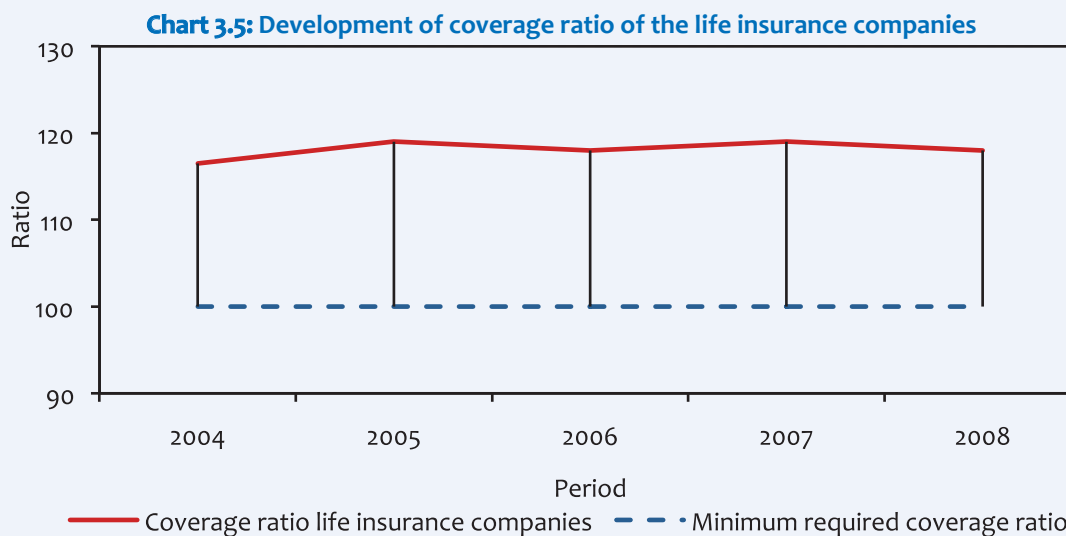
or 12.7 percent. On the other hand, the capital and reserves declined by Afl. 5.9 million or 7.9 percent in 2008. After record high profits in 2007, the life insurance companies' net income (before taxes) dropped by Afl. 7.2 million to Afl. 11.9 million in 2008. This drop was due primarily to higher additions to the technical provisions, especially in the area of pension plan and health care. At the same time, both net premiums and investment income increased by Afl. 13.0 million or 14.6 percent and Afl. 1.9 million or 6.5 percent, respectively. Moreover, net claims declined by Afl. 8.0 million or 20.8 percent largely because of a decline in surrenders in 2008 compared to 2007.

The limited local investment opportunities caused the life insurers to hold excess liquidity at the domestic commercial banks against low interest rates. As a result, the liquidity ratio grew by 4.4 percentage points to 16.2 percent in 2008 compared to the previous year, while the return on investments ratio fell slightly by 0.3 percentage point (see Table 3.6). The coverage ratio contracted by 1.0 percentage point to 118 percent at the end of 2008, still well above the minimum solvency requirement of 100 percent. Chart 3.5 shows the development of the aggregated coverage ratio of the life insurance companies since 2004.

**Table 3.6: Financial ratios of the life insurance companies**  
(end-of-period figures, in percentages)

	2004	2005	2006	2007	2008
1. Liquidity ratio (= Current assets to total assets)	18.2	13.0	13.1	11.8	16.2
2. Return on investment ratio (= Investment income to average invested assets)	7.5	6.4	6.8	6.9	6.6
3. Coverage ratio (= Weighted assets less borrowings to technical provisions)	116.5	119.0	118.0	119.0	118.0

Source: CBA; life insurance companies.



**Chart 3.5:** The aggregated coverage ratio of the life insurance companies edged down slightly, but stayed far above the minimum required 100 percent.

#### *Company pension funds*

The crisis in the global financial markets had a limited impact on the financial sector of Aruba. However, the implications of the crisis were felt more significantly by the supervised company pension funds since a significant part of their funds is invested abroad. Stock prices and interest rates declined considerably, resulting in a fall of the company pension funds' coverage ratios. Overall, the combined coverage ratio of the company pension funds remained slightly above the minimum of 100 percent during 2008. However, the coverage ratio for three individual pension funds fell below the minimum. These pension funds submitted their respective recovery plans containing a detailed overview of the measures they have taken or will take to improve their financial position and return to compliance with this prudential requirement within a specified period of time. Currently, two of these company pension funds have coverage ratios above the minimum of 100 percent.

The assets of the supervised

company pension funds (excluding the Lago Annuity Foundation, whose pension obligations are covered by a guarantee from the Exxon Mobil Corporation) shrank by Afl. 41.6 million or 16.3 percent by the end of 2008 compared to 2007. The value of their investments dropped by Afl. 42.4 million or 17.7 percent in 2008 due to the plunge in stock prices ensuing from the global financial crisis, mirroring decreases in shares and bond holdings of Afl. 13.2 million and Afl. 8.0 million, respectively. Furthermore, time deposits went down by Afl. 21.8 million in 2008, associated mostly with the aforementioned reinsurance contract between a supervised company pension fund and a licensed life insurance company in Aruba. The liquidity ratio of the supervised company pension funds rose by 2.0 percentage points to 8.0 percent in 2008, while the coverage ratio decreased significantly from 109.0 percent in 2007 to 101.0 percent in 2008 (see Table 3.7). On the liability side, the drop in the balance sheet of the company pension funds is reflected both

in their technical provisions and in their capital and reserves, which shrank in 2008 by Afl. 20.7 million or 9.6 percent and Afl. 20.7 million or 57.2 percent, respectively. The contraction in capital and reserves was primarily the result of losses incurred in 2008.

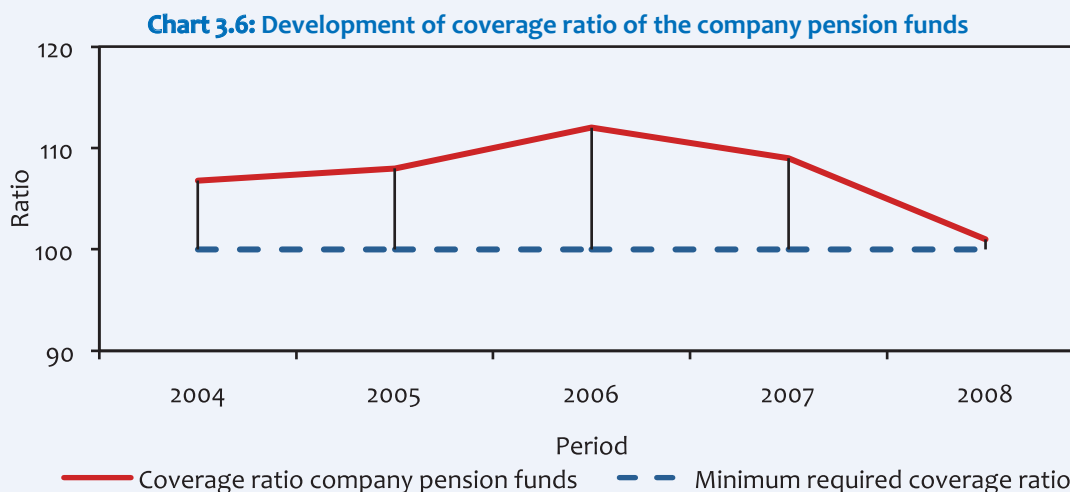
In 2008, the company pension funds registered an Afl. 20.4 million loss compared to an Afl. 1.2 million loss in

2007, largely because of a reduction in investment income of Afl. 34.5 million or 213.0 percent. Subsequently, the return on investments ratio declined compared to 2007 by 15.4 percentage points to minus 8.4 percent in 2008. Chart 3.6 shows the development of the aggregated coverage ratio of the company pension funds since 2004.

**Table 3.7: Financial ratios of the company pension funds**  
(end-of-period figures)

	2004	2005	2006	2007	2008
1. Liquidity ratio (= Current assets to total assets)	9.0	9.9	5.9	6.0	8.0
2. Return on investment ratio (= Investment income to average invested assets)	7.1	7.3	8.5	7.0	-8.4
3. Coverage ratio (= Investments & cash minus volatility cushion to technical provisions)	106.8	108.0	112.0	109.0	101.0

Source: CBA; company pension funds.



**Chart 3.6:** The crisis in the global financial market had a significant impact on the supervised company pension funds because of losses incurred on their financial assets held abroad. As a result, the coverage ratio showed a notable decrease in 2008 compared to 2007, but remained slightly above the minimum solvency requirement.

Moreover, the Stichting Pensioenfonds N.V. Aruba Bank, the Stichting Pensioenfonds RBTT Bank Aruba II, and the Stichting Pensioenfonds Martijn

Trading Company N.V. are in liquidation. Until the liquidation process has been finalized, these funds remain under the CBA's supervision.

### 3.6.3 Other institutions

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

#### APFA

In January 2005, the State Ordinance on the Privatization of the Civil Servants Pension Fund (AB 2005, No. 2) was enacted. This ordinance became effective on May 1, 2005. As part of the privatization process, on April 29, 2005, the APFA was converted into a foundation that is responsible for the management of the pension scheme for civil servants in Aruba. In addition, a new pension scheme based on average salary was introduced in May 2005 for new participants. However, the pension scheme for participants who joined the APFA prior to May 2005, the so-called PVL pension scheme, 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 for Civil Servants has been revoked. Until then, the APFA remains under the supervision of the Minister of Finance.

Because a significant portion of its funds are invested abroad, the APFA was hit hard by the deterioration and volatility in the international financial markets in 2008 and 2009. The consolidated balance sheet total of the APFA amounted to Afl. 1,491.6 million at the end of 2008

(equivalent to 29.9 percent of nominal GDP), i.e., a 6.8 percent decrease compared to 2007. Investments and current assets decreased by Afl. 8.8 million or 0.6 percent and Afl. 99.0 million or 59.4 percent, respectively. A large portion of the proceeds (Afl. 80 million) of the sale of the shares of the Plant Hotel N.V. were used by the Aruban government to eliminate its payment arrears with the APFA. As a result, at the end of 2008, the current assets of the APFA had decreased significantly compared to 2007. The contraction in the investment portfolio was attributable mainly to a significant drop in value of the shares and convertible bonds of Afl. 179.1 million or 34.6 percent, offset in part by increases in time deposits, mortgage loans, and other investments of Afl. 99.4 million, Afl. 29.0 million, and Afl. 31.2 million, respectively. At the end of 2008, foreign investments amounted to Afl. 417.3 million or 29.7 percent of the APFA's total investment portfolio, reflecting an Afl. 185.4 million or 30.8 percent decrease compared to the previous year. On the liability side, the technical provisions grew by Afl. 423.1 million or 26.0 percent to Afl. 2,048.1 million at the end of 2008 compared to the previous year. The fund's negative equity plunged from Afl. 32.9 million to Afl. 562.6 million as a result of the loss incurred in 2008 and the change in the actuarial interest rate against which the pension obligations are discounted.

In 2008, the APFA incurred a record net loss of Afl. 529.7 million, mainly the result of a significant increase of Afl. 350.7

million in the additions to the technical provisions as well as the large (unrealized) loss on its foreign investments. Consequently, the return on investments ratio fell sharply by 17.0 percentage points to minus 9.1 percent. Furthermore, the liquidity ratio of the APFA went down by 5.9 percentage points to 4.5 percent in 2008, resulting from a decrease in its current assets of Afl. 99.0 million or 59.4 percent. Also, the coverage ratio, calculated according to the formula established by the CBA for company pension funds, dropped by 20.4 percentage points to an alarming 62.3 percent in 2008, far below the minimum coverage ratio of 100 percent applicable to company pension funds. This drop reflected an Afl. 423.1 million or 26.0 percent expansion in the technical provisions and an Afl. 68.0 million or 5.1 percent decrease in the assets to cover

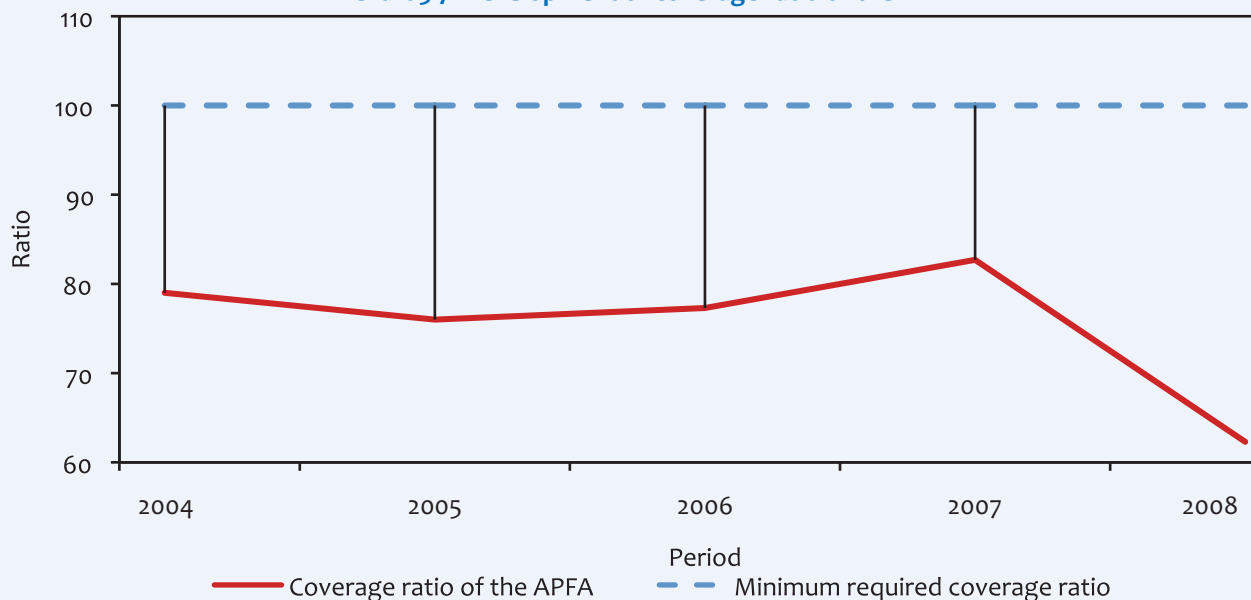
the technical provisions. This situation should be addressed swiftly by the Aruban government. Implementing the recommendations issued in December 2009 by a tripartite working group, in which the CBA participated, is crucially important, to reforming the PVL pension scheme and restoring its financial viability. Chart 3.7 shows the development of the coverage ratio of the APFA since 2004.

#### SVB

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

- State Ordinance on Sickness Insurance (ZV);
- State Ordinance on Accident Insurance (OV);
- State Ordinance on Cessantia (Cessantia);
- State Ordinance on the General Old Age Pension Fund (AOV); and
- State Ordinance on the General Widowers and Orphans Insurance (AWW).

**Chart 3.7: Development of coverage ratio of the APFA**



**Chart 3.7:** In 2008 APFA reported huge (unrealized) losses in its foreign investment portfolio. As a consequence, its weak financial position deteriorated further.

The ZV, OV, and Cessantia are employee insurances, while the AOV and the AWW are general pension schemes. Furthermore, the SVB is entrusted with the management of the so-called “Schommelfonds ZV/OV” and the “Schommelfonds AOV/AWW”. In addition, as of July 1, 2007, the SVB took over the tasks of the occupational health services (BGD).

At the end of 2008, the consolidated balance sheet total of the SVB amounted to Afl. 283.3 million (equivalent to 5.7 percent of nominal GDP), which represented a rise of Afl. 5.6 million or 2.0 percent compared to 2007. This increase was mainly the result of a growth in the investment portfolio of Afl. 17.8 million or 9.1 percent, offset partially by a fall in the current assets of Afl. 14.4 million or 43.5 percent, following a significant drop in its liquid assets of Afl. 12.9 million or 66.6 percent. The expansion in the investment portfolio was reflected largely in an Afl. 14.5 million or 15.2 percent growth in time deposits.

The SVB operated with a net income of Afl. 6.9 million in 2008, Afl. 2.0 million higher than in 2007. This result was due mainly to a rise in premium income of Afl. 23.2 million or 11.4 percent to Afl. 227.1 million in 2008. On the other hand, total expenses went up by Afl. 21.6 million or 9.9 percent to Afl. 240.3 million, largely the result of an increase of Afl. 20.6 million or 10.2 percent in claims paid out.

Despite this positive outcome, it should be noted that the AOV fund has been running structural deficits over the past few years and in view of the expected aging of the Aruban population, it is important to raise the AOV pension age in the short term, preferably simultaneously with an

increase of the pension age for civil servants.

#### AZV

At the end of 2008, the balance sheet total of the AZV amounted to Afl. 41.4 million (equivalent to 0.8 percent of nominal GDP), reflecting an Afl. 9.6 million or 18.8 percent drop compared to 2007. This contraction was associated mainly with a decline in current assets of Afl. 8.2 million or 17.7 percent. The decline was caused primarily by an Afl. 13.0 million or 40.4 percent drop in its receivable from the Aruban government, which in turn was partially offset by an Afl. 4.8 million or 45.2 percent increase in its uncollected premiums. On the other hand, the current liabilities also shrank by Afl. 9.6 million or 18.8 percent, largely the result of a decrease in the accounts payable. The AZV does not maintain capital and reserves because its financial deficits are by law covered by the Aruban government.

AZV's net results improved by Afl. 14.1 million or 41.5 percent in 2008 compared to the previous year, due mainly to increases in both premium income and other income of Afl. 11.4 million or 6.8 percent and Afl. 22.2 million or 22.6 percent, respectively. Overall, the AZV reported a net loss of Afl. 19.9 million in 2008. The expansion in other income was attributed primarily to a significant increase in contributions made by the Aruban government to the AZV to cover the deficit incurred by this institution. On the other hand, total expenses grew by Afl. 19.5 million or 6.5 percent, associated mostly with higher health care expenses in 2008 than in 2007. Also taking into account the expected aging of the Aruban population and the

associated effect on health care costs, the AZV scheme should be reformed in the short term to improve its sustainability. The introduction of co-

payments by the consumer should be considered as part of a package of measures to halt the increasing health care costs for the AZV.

### 3.7 Financial institutions under the supervision of the CBA as of December 31, 2009

#### 3.7.1 Banking sector

*Commercial banks*<sup>1)</sup>

Aruba Bank N.V.  
Banco di Caribe (Aruba) N.V.  
Caribbean Mercantile Bank N.V.  
RBTT Bank Aruba N.V.

*Offshore banks*

Citibank Aruba N.V.  
BBA Bank N.V.

*Mortgage banks*

Fundacion Cas pa Comunidad Arubano

*Credit unions*

Coöperatieve Spaar- en Kredietvereniging Douane Aruba  
Cooperativa di Ahorro y Prestamo Aruba (CAPA)

*Finance companies*

Island Finance Aruba N.V.

*Other financial institutions*

AIB Bank N.V.

#### 3.7.2 Money transfer sector<sup>2)</sup>

*Money transfer companies*

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

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*Supervision by virtue of the State Ordinance*

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

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

### 3.7.3 Institutional investors' sector

#### *Company pension funds*<sup>3)</sup>

Lago Annuity Foundation  
 Stichting Bedrijfspensioenfonds Aruba  
 Stichting Fondo di Pensioen di Trahadornan di Empresanan y Fundacionnan Publico  
 Stichting Pensioenfonds Caribbean Mercantile Bank N.V.  
 Stichting Pensioenfonds Havenwerkers Aruba  
 Stichting Pensioenfonds Martijn Trading Company N.V.<sup>4)</sup>  
 Stichting Pensioenfonds META Bedrijven Aruba  
 Stichting Pensioenfonds N.V. Aruba Bank<sup>4)</sup>  
 Stichting Pensioenfonds RBTT Bank Aruba I  
 Stichting Pensioenfonds RBTT Bank Aruba II<sup>4)</sup>  
 Stichting Pensioenfonds Tourist Sector Aruba

#### *Insurance companies*<sup>5)</sup>

##### *Life insurance companies*

American Bankers Life Assurance Company of Florida Limited, Agency  
 American Life Insurance Company, Aruba Branch<sup>6)</sup>  
 British-American Insurance Company (Aruba) N.V.<sup>6)</sup>  
 Ennia Caribe Leven (Aruba) N.V.  
 Fatum Life Aruba N.V.  
 Guardian Life of the Caribbean Limited, Aruba Branch<sup>7)</sup>  
 Sagikor Life Aruba N.V.<sup>6)</sup>

##### *Captive insurance companies*

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

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

<sup>4)</sup> In liquidation.

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

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

<sup>7)</sup> Portfolio will be transferred to Fatum Life Aruba N.V.

**Table 3.8: Nonlife (general) insurance companies**

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

Source: CBA.



*Adequate storage of documents is a prerequisite.*



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