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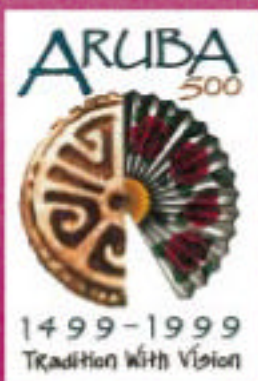
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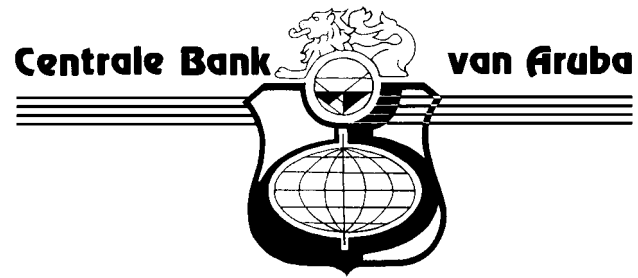
CENTRALE BANK VAN ARUBA

ANNUAL REPORT

1998



CENTRALE BANK VAN ARUBA



CENTRALE BANK VAN ARUBA

Annual Report
and
Financial Statements for the year

1998

Centrale Bank van Aruba Mission Statement

The mission of the Centrale Bank van Aruba is to maintain the internal and external value of the florin and to promote the soundness and integrity of the financial system, accomplished by motivated and qualified employees, for the general benefit and well-being of the people of Aruba.

Photographs Miss Glenda M. Diaz Wever

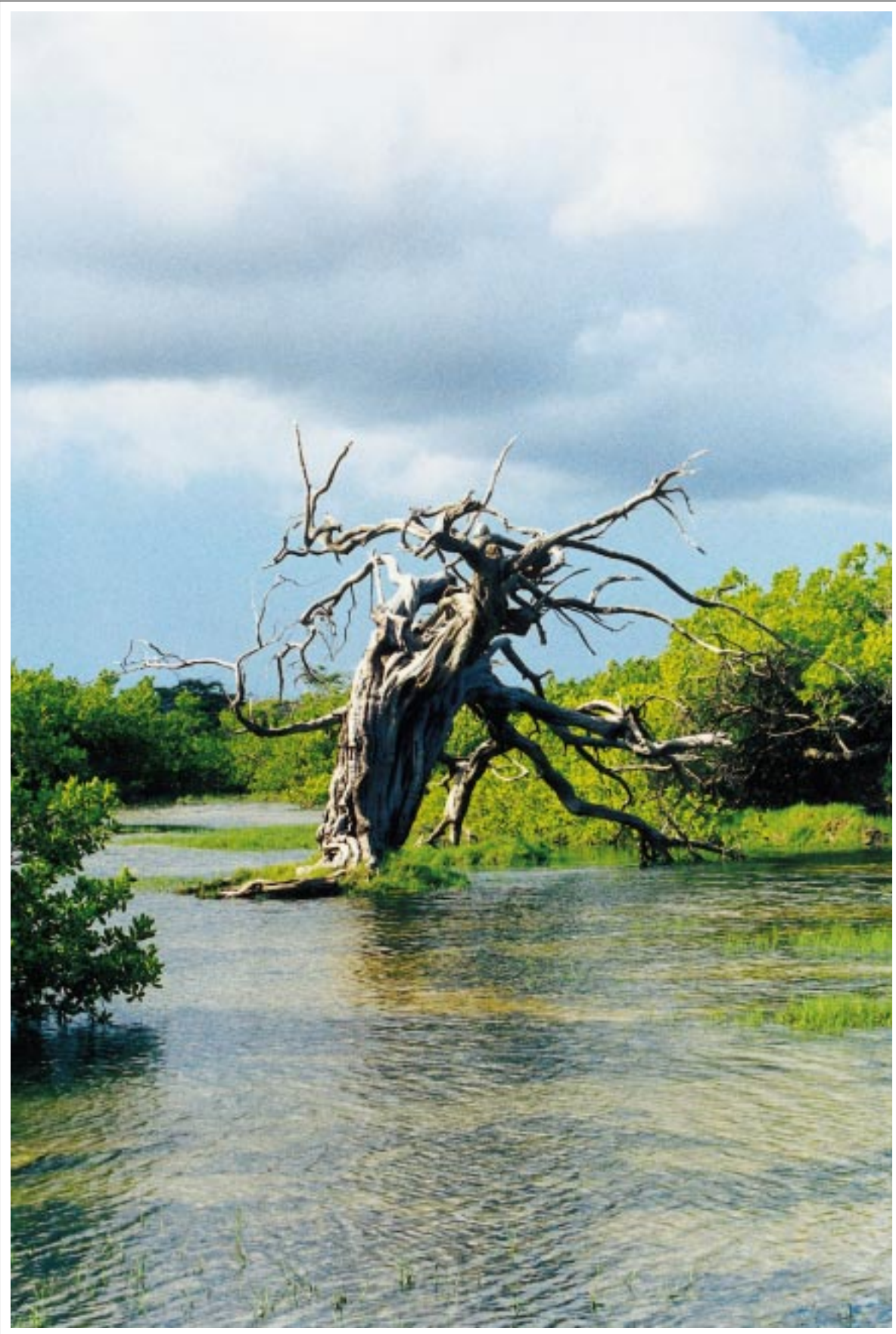
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1 Report from the President

Worldwide, 1998 was characterized by volatility in the financial markets and lower raw material prices. Real growth in the gross domestic product of the United States, which was maintained at a high level of about 4 percent, was spurred by buoyant consumer spending and declining import prices. However, the deficit on the current account increased rapidly. The inflation rate abated further, unemployment reached a low point, the U.S. dollar was stable until October, and the federal government realized a substantial budget surplus.

Nonetheless, in the United States 1998 also was a year of a rapidly spreading crisis of confidence on the financial markets. The crisis that started in September resulted in a flight to high quality paper, a declining dollar, particularly against the yen, and a shortage of liquidity for less solid debtors and countries. The Federal Reserve Board was forced to reduce its tariffs up to three times in October and November. Stock prices on Wall Street recovered quite rapidly afterwards, while the international capital markets closed the year more susceptible to risks than before. The fear of a recession or even a deflationary situation, however, turned out to be unfounded.

The crisis of confidence was caused by persisting problems in East Asia and Russia's announcement in August of a moratorium on debt repayments. The IMF medicine could not prevent a significant contraction in East Asia; one could indeed pose the question of whether the tigers were stimulated in liberalizing their financial systems without being warned that massive capital flows could be dangerous in cases where the banking system is weak, its supervision inadequate, and the concept of "good governance" underdeveloped. In 1998, Japan again experienced a recessive situation, which was hardly improved by the stimulus packages of the government. Large problems in the banking sector became more visible.

After the Russian moratorium, Latin America experienced signs of contagion: a negative sentiment by investors led to higher interest rates, while the market considered the situation in Brazil particularly worrisome. Access to the international financial markets for this part of the world was practically closed. The declining, historically very low price of crude oil caused a recession in our neighbouring country, Venezuela.

Europe remained reasonably trouble-free. On January 1, 1999, the monetary decision making of eleven central banks was transferred to the European Central Bank in Frankfurt, henceforth, the guardian of the euro. Economic growth in the euro-zone, accompanied by



*J.H. du Marchie Sarvaas,
President of the Centrale Bank van Aruba*

declining inflation, was clearly stronger than the previous year, thanks to higher domestic demand. Expectations are, though, that growth will decline to 2 percent due to weaker world trade. In the Netherlands, economic growth remained at a high level for the third consecutive year. The so-called “poldermodel” became exemplary in Europe.

In Aruba, economic growth, accompanied by abating inflation, continued at a stable rate in 1998 as in 1997. The year under review was characterized by a strong increase in international reserves, particularly influenced by investment activities financed by capital inflows.

The number of stay-over visitors on the island stabilized at last year’s level, while the length of stay increased somewhat. The American market improved compared to the previous year, but fewer Europeans visited Aruba. Nonetheless, according to balance-of-payment statistics, registered earnings in the tourism sector increased substantially in 1998. The number of cruise passengers declined further. Despite the influence of hurricane activities, tourism to the Caribbean region showed a solid growth of about 7 percent.

The increase in the consumer price index was 1.9 percent at the end of 1998, compared to 3 percent at the end of 1997. The satisfactory abatement in the inflation rate was caused largely by a stabilization in the prices of imported goods and the worldwide decline in oil prices. The development in domestic costs, however, still contributes to a higher average price increase in Aruba than in the United States.

The foreign exchange reserves of Aruba showed a marked increase in 1998, more than compensating for the loss in the previous two years, albeit that the import coverage ratio still remains under the target of 5 to 6 months. Besides a statistical adjustment, this improvement is the result of capital imports to finance investments in the airport terminal and in the oil, hotel, and utility sectors. The monetary policy of the Bank also did its part, while the banking sector’s total domestic credit increased by only 3 percent.

The reflection of the strong growth in the international reserves became visible in more liquidity in the Aruban money market, while the government, on balance, did not resort to domestic money creation. Despite this liquidity surplus, credit demand was so modest that the banks remained under the credit ceiling of 5 to 6 percent. Under these circumstances, the monetary policy of the Bank can be relaxed further during 1999, whereby the Bank also will try to reduce the interest rate level.

The modest development in bank credit was caused primarily by a decrease in loans to businesses, reflecting the stagnation in the trade sector. In contrast, housing mortgages and consumer loans continued to increase, albeit less buoyantly. We may conclude that in 1998, despite the large drop in Dutch financing of government investments, the real economic growth of about 3 percent was maintained by local consumption, higher tourism spending, and investment projects financed abroad on commercial conditions.

The private sector generally has performed quite satisfactorily in a region of emerging markets that has landed in troubled waters. The outlook for our most important economic sector in 1999 should not be unfavorable, now that the airlift to Aruba has been improved, and Air Aruba seems to have found a stable partner. In addition, we may expect that the newly initiated investment activities gradually will bear more economic fruits.

Aruba's government finance, however, is in a riskier position at the moment. The substantial financial deficit in 1997, the increasing arrears to the General Pension Fund of Aruba (APFA) and to suppliers, and the noncompliance with promised allocations to the government's earmarked accounts at the Central Bank are a few indications of a structural liquidity problem getting out of hand. The need for a rigorous approach to attain balanced public finances was recognized by the newly formed government in mid-1998. By eliminating the arrears in revenue receipts and by austerity measures, according to plans, AFL 100 million more income and AFL 40 million less expenditures should be realized in 1999.

In the long run, the Bank considers a structural balance in the Aruban government finance sustainable only if a decisive, smaller government apparatus would limit itself to the efficient execution of a restricted number of core activities. Moderation of government expenditure is clearly preferable to permanent income-increasing measures, which ultimately would be passed on to households and enterprises. The politically sensitive question of where and how personnel expenditure should be cut requires a micro analysis. From a macro perspective, we must not forget that a number of tasks, which elsewhere are being financed by the government, do not affect the Aruban budget, while, on the other hand, due to the small scale of the island, the execution of other typically government tasks requires relatively more human resources. The situation in the labor market is, however, such that discharged civil servants could find a job in the private sector if they really want to.

The financial deficit on a cash basis shrank considerably to AFL 17 million in 1998, a result of higher tax income and lower cash expenses. Regarding the latter, one should not forget that the arrears, particularly to the APFA, have increased further, due mainly to the insufficient and irregular payment of the towering pension premiums for civil servants. Adding the estimated growth in the arrears to the regular financing results in a deficit of about 1.8 percent of the GDP. However, the increase in arrears related to the earmarked accounts of the government at the Bank, which also occurred in 1998, is not included in this figure.

In the IMF Staff Report for the 1999 Article IV Consultation Discussions, a promising picture of the development of the financial deficit is outlined, assuming that the policy paper 1998-2002 of the Ministry of Finance titled “Gezonde overheidsfinanciën op Aruba” is realized (see box). However, the IMF does point out the risks for the government finance associated with the AOV, APFA, and AZV. We should add hereto that some non- or low-budgeted expenditures will come up in 1999 as a consequence of the separation of funds with the Netherlands Antilles, old debts of Air Aruba, rising health care costs, a higher wage bill in the public sector, and the postponement of a new pension scheme for civil servants. Attention should also be drawn to the outstanding risks related to the hotel guarantees given in the past and the drastically declining development aid from the Netherlands for government investments: when pursuing a balance between income and expenses, these funds, of course, are included as income.

Under the operation of the new State Ordinance on the supervision of the credit system, effective May 15, 1998, the Bank has dedicated much attention to implementing prudential supervision on the banking sector in the interest of the creditors, and the stability and the integrity of the financial sector. The supervisory framework is now in accordance with the “Core Principles for Effective Banking Supervision,” as recommended by the Basle Committee on Banking Supervision in September 1997. A new supervision law for the insurance sector, however, is still pending. The Bank has reached an agreement with the individual life insurance companies to continue the supervision that was conducted on the basis of the now-revoked State Ordinance on the supervision of the banking and credit system.

The Bank’s operations showed a positive result: moderate operating costs, increasing interest revenue, and, thus, a higher profit. The Bank’s balance sheet reflects the strong position of the florin: no monetary financing of the government, and an increasing surplus on the balance of payments.

**IMF Staff Report for the 1999 Article IV Consultation Discussions:
The Staff Appraisal.**

1. For much of the past decade, Aruba's performance has been characterized by strong economic growth and moderate inflation, underpinned by generally sound and stability-oriented monetary and fiscal policies. It is commendable that the risks posed to the continuation of this performance by the deterioration of the public finances between 1996 and mid-1998 are now in the process of being addressed, and the economy seems once again poised on a balanced path of satisfactory growth and low inflation. Looking ahead, the achievement of the 1999 budget objectives will be critical to ensure that the public finances remain on a sustainable course.
2. In mid-1998, the Aruban authorities correctly recognized that restoration of fiscal discipline had become the key priority, and decisive action was taken. Spending was reined in, efforts were started to clear the backlog in overdue taxes, and the buildup of arrears was reversed. As a result, the 1998 deficit (inclusive of the change in arrears) amounted to about 1 percent of GDP, well below the 1997 level of some 2½ percent of GDP.
3. The challenge facing the authorities is to consolidate the gains achieved thus far and persevere in their pursuit of a prudent fiscal stance, lest the environment of satisfactory growth and low inflation be put at risk. With continuing fiscal discipline, it should be possible to further reduce the fiscal deficit in 1999, and bring the public finances close to balance. Clearing arrears to commercial suppliers in a transparent and efficient way should be the first order of business, as a convincing demonstration of restored good governance. As for the arrears to the civil service pension fund (APFA), the strategy of settling outstanding liabilities through a combination of loans and the transfer of public assets – including shares in some public utilities – seems promising and should be worked out without delay.
4. In the near term, the brunt of the adjustment will continue to be borne by expenditure measures, but will need to be accompanied by initiatives in tax reform. The authorities are correctly aiming at an enduring reduction in public sector employment, a containment in wage costs, and a more realistic and better phased public investment program. For a credible fiscal correction, however, it should be made clear that the measures envisaged are not open to reversal. In particular, the government is well advised to hold the line in the ongoing wage negotiations, and to reassess its investment priorities in light of prospective cuts in development aid from the Netherlands. The initiative to clear the multiyear backlog of tax assessments and speed up collection of tax arrears is timely. Yet, as the authorities recognize, it is no substitute for a far-reaching reform to permanently increase the elasticity of the tax system and strengthen tax administration. In particular, the projected yield from clearing tax arrears appears ambitious, especially for nontax revenue, and the authorities should stand ready to take additional action in case of a shortfall. The authorities should also refrain from granting further tax holidays, since these incentives imply an open-ended commitment of fiscal resources that Aruba can ill afford.
5. The prospects for the 1999 fiscal outturn are clouded by potential obligations to a new health care fund, arising from the consolidation of several funds into a single-payer scheme. The restoration of fiscal discipline would suffer a setback if such payments were to fall due, and the authorities should give serious consideration to postponing the transfer of responsibilities until the viability of the new system is assured.

Continued:

6. More broadly, reforms in social entitlements are needed to safeguard the public finances over the longer term, in the face of unfavorable demographic trends. Aruba's general pension systems need to be put back on a sustainable footing. The pensionable age should be gradually increased to 65 for all employees; in addition, the government's reform proposal for the civil service pension fund APFA – at the moment actuarially underfunded – should be implemented soon, while the current mandatory basic pension scheme for private sector employees could be supplemented by additional benefits financed through voluntary contributions.
7. The current peg of the Aruban florin to the U.S. dollar continues to be appropriate, given the overwhelming importance of the United States as a trading partner and a stable competitive position. The Central Bank of Aruba has skillfully managed domestic liquidity in spite of widespread dollarization, and fostered a measure of fiscal discipline by avoiding monetization of the deficit. The imminent removal of official credit ceilings and the shift to cash reserve requirements as the main tool for monetary management are welcome steps that may set the stage for greater competition in banking. The authorities should, nonetheless, continue efforts to broaden the array of market-based monetary instruments at their disposal, despite the difficulties arising from the underdevelopment of the domestic money and security markets. Indeed, steps in this direction will foster financial deepening.
8. As regards structural issues, noteworthy progress has been made, but more remains to be done. The prudential supervision and regulation of the banking sector has been strengthened with the enactment of a new banking law. It is important that the ancillary laws covering other onshore and offshore institutions be adopted soon to enhance the transparency and integrity of Aruba's financial sector. The authorities are to be commended for generally liberal external policies. Their efforts to further liberalize capital account transactions should continue, as monetary conditions and progress in financial regulation allow. Finally, the government should avoid further recourse to loan guarantees to promote the diversification of the economy, move speedily to enact environment protection legislation, and further reduce its involvement in commercial ventures. In particular, efforts to privatize the Radisson Hotel and the telecommunication company should be stepped up, and the Aruban Tourist Authority could usefully be endowed with an independent status and with own revenue sources.
9. Aruba's statistical base has improved significantly in recent years, but data deficiencies remain a serious obstacle to effective surveillance and policy design. Special priority should be given to finalizing the national income accounts for 1995, 1996, and 1997, compiling price and wage indices in the tourist sector, and developing more frequent labor market statistics. The authorities are to be congratulated on their intention to participate in the near future in the IMF's General Data Dissemination System, and to start more regular and timely reporting of trade flows to the IFS.

1 Verslag van de President

Het verslagjaar werd wereldwijd gekenmerkt door volatiliteit op de financiële markten en lagere grondstoffenprijzen. De reële groei van het bruto binnenlands produkt van de Verenigde Staten, die op het hoge niveau van tegen de 4 procent is gehandhaafd, werd gevoed door uitbundige consumentenbestedingen en dalende importprijzen. Het tekort op de lopende rekening nam evenwel snel toe. De inflatie daalde nog verder, de werkloosheid bereikte een laagtepunt, de dollar was tot oktober stabiel en de federale overheid realiseerde een aanzienlijk overschot op de begroting.

1998 was niettemin ook in de VS het jaar van de in september snel om zich heen grijpende vertrouwenscrisis op de financiële markten, die resulteerde in een vlucht in hoogwaardig papier, een vooral tegenover de yen sterk dalende dollar en een gebrek aan liquiditeit voor als minder solide beoordeelde debiteuren en landen. De Federal Reserve Board zag zich genoodzaakt tot drie maal toe in oktober en november haar tarieven omlaag te brengen. De koersen op Wall Street herstelden zich vervolgens snel, terwijl de internationale kapitaalmarkten het jaar gevoeliger voor risico's dan voorheen afsloten. De angst voor een recessie of zelfs een deflatoire situatie bleek echter ongegrond.

De vertrouwenscrisis werd teweeggebracht door de aanhoudende problemen in Oost-Azië en een door Rusland in augustus aangekondigd moratorium op de terugbetaling van haar schulden. Het IMF-medicijn bleek in Oost-Azië een sterke krimp van de algemene bedrijvigheid in 1998 niet te kunnen verhinderen; de vraag werd wel gesteld of de tijgers enerzijds niet waren aangemoedigd hun financiële systemen te liberaliseren, doch daarbij anderzijds niet werden gewaarschuwd dat massieve kapitaalstromen gevaarlijk kunnen zijn in het geval dat het bankwezen zwak is, het toezicht erop gebrekkig en het begrip 'good governance' weinig ontwikkeld. Japan liet in 1998 wederom een recessieve situatie zien, waarin stimuleringspakketten van de overheid nauwelijks verbetering brachten. Grote problemen in de bankensector werden zichtbaarder.

Latijns-Amerika kende na het Russische moratorium besmettingsverschijnselen: een negatieve stemming onder investeerders leidde tot hogere rentes; vooral de situatie in Brazilië werd door marktpartijen somber ingezien. De toegang tot de internationale kapitaalmarkt was voor dit deel van de wereld vrijwel afgesloten. De dalende historisch zeer lage prijs voor ruwe olie bracht in ons buurland Venezuela een recessie met zich mee.

Europa bleef redelijk buiten schot. Op 1 januari 1999 werden de monetaire bevoegdheden van elf centrale banken overgedragen aan de Europese Centrale Bank te Frankfurt, vanaf die datum de hoedster van de euro. De economische groei in de eurozone was bij een dalende inflatie duidelijk sterker dan vorig jaar, dankzij een hogere binnenlandse vraag. Deze groei zal naar verwachting in 1999 door de tragere ontwikkeling van de wereldhandel dalen tot zo'n 2 procent. In Nederland bleef de groei op hoog niveau, nu al voor het derde opeenvolgende jaar. Het poldermodel was weer het Europese neusje van de zalm.

Op Aruba heeft de economische groei zich evenals in 1997 bij een dalende inflatie in een rustig tempo voortgezet. Het verslagjaar werd vooral onder invloed van door kapitaalimport gefinancierde investeringsactiviteiten gekenmerkt door een sterke stijging van de internationale monetaire reserves.

Het aantal verblijfstoeristen op het eiland heeft zich gestabiliseerd op het niveau van vorig jaar, terwijl de verblijfsduur iets toenam. De Amerikaanse markt was beter dan vorig jaar, doch minder Europeanen bezochten Aruba. Volgens de betalingsbalansrapportage stegen de geregistreerde deviezenontvangsten in de toeristensector niettemin behoorlijk in 1998. Het aantal cruise-passagiers nam verder af. Ondanks de invloed van orkaanactiviteit vertoonde het toerisme naar het Caribische gebied als geheel een forse groei van zo'n 7 procent.

De stijging van het prijsindexcijfer voor de gezinsconsumptie beliep ultimo 1998 1,9 procent, ultimo 1997 3,0 procent. Deze bevredigende afzwakking van de inflatie komt goeddeels voor rekening van een stabilisatie van de prijzen van geïmporteerde goederen en van de wereldwijde daling van de energieprijzen. De binnenlandse kostenontwikkeling zorgt echter nog steeds voor een iets hogere gemiddelde prijsstijging in Aruba dan in de Verenigde Staten.

In 1998 heeft zich een opmerkelijke stijging in de deviezenreserves van Aruba voltrokken, die het in de twee jaren daarvoor geleden reserveverlies meer dan volledig heeft goedge maakt. De invoerdekking bevindt zich overigens nog onder de norm van 5-6 maanden. Dit herstel is behalve aan een statistische herschikking, met name te danken aan de invoer van kapitaal ter financiering van investeringen in het luchthavengebouw en in de olie-, de hotel- en de utiliteitssector. Voorts heeft het monetaire beleid van de Bank een steentje bijgedragen, terwijl het bankwezen de totale binnenlandse kredietverlening met slechts 3 procent liet groeien.

De weerspiegeling van de sterke groei van de internationale reserves werd zichtbaar in meer liquiditeit op de Arubaanse geldmarkt, terwijl de overheid per saldo geen beroep deed op binnenlandse geldschepping. Ondanks deze ruimte was de kredietvraag zo gematigd dat de banken onder het afgesproken collectieve kredietplafond van 5 à 6 procent bleven. Het monetaire beleid van de Bank kan onder deze omstandigheden in 1999 verder versoepeld worden, waarbij de Bank ook zal trachten het niveau van de rente omlaag te krijgen.

De gematigde ontwikkeling van de bancaire kredietverlening werd vooral veroorzaakt door een daling van de kredieten aan ondernemingen, hetgeen de stagnerende ontwikkeling in de handelssector illustreert. De hypothecaire en consumptieve kredietverlening aan gezinnen bleef daarentegen doorgroeien, zij het in een minder hoog tempo. Wij mogen concluderen dat in 1998 de reële economische groei van zo'n drie procent, ondanks het grotendeels wegvallen van de Nederlandse financiering van overheidsinvesteringen, in stand werd gehouden door lokale consumptie, hogere toeristische bestedingen en door in het buitenland op commerciële voorwaarden gefinancierde investeringsprojecten.

Al met al heeft de private sector van Aruba het redelijk goed gedaan in een regio van opkomende markten, die in onrustig vaarwater terecht is gekomen. De vooruitzichten voor onze belangrijkste bedrijfstak in 1999 zouden niet ongunstig moeten zijn, nu de airlift naar Aruba verbetert en Air Aruba een stabiele partner lijkt te hebben gevonden. Voorts mogen we verwachten dat de ter hand genomen investeringsactiviteiten geleidelijk meer vruchten zullen gaan afwerpen voor de economische bedrijvigheid.

De overheidsfinanciën van Aruba bevinden zich echter in een risicovollere situatie. Het forse financieringstekort in 1997, de toenemende achterstanden aan het Algemeen Pensioen Fonds van Aruba (APFA) en aan leveranciers en het niet nakomen van de toegezegde stortingen op geormerkte rekeningen van het Land bij de centrale bank, waren even zo vele signalen van een uit de hand lopend, structureel liquiditeitsprobleem. De noodzaak van een rigoureuze aanpak om tot evenwichtige overheidsfinanciën te komen werd onderkend door de medio 1998 aangetreden nieuwe regering. Met name door het wegwerken van achterstanden in de inkomstenverwerving en door bezuinigingsmaatregelen moeten volgens plan in 1999 in vergelijking met 1998 AFL 100 miljoen hogere inkomsten en AFL 40 miljoen lagere uitgaven worden gerealiseerd.

Voor de lange termijn acht de Bank structureel evenwicht in de Arubaanse overheidsfinanciën alleen houdbaar als een slagvaardig, kleiner overheidsapparaat zich beperkt tot een doelmatiger uitvoering van een beperkt aantal kerntaken. Het matigen van overheidsuitgaven verdient verre de voorkeur boven blijvende inkomstenverhogende maatregelen, die uiteindelijk in rekening worden gebracht aan gezinnen en bedrijven. De politiek gevoelige vraag waar en hoe in de uitgaven voor personeel moet worden gesneden vereist een analyse op microniveau. Vanuit macro-perspectief moeten we bedenken dat een aantal taken die elders voor rekening van de overheid komen niet op de Arubaanse begroting drukken, terwijl anderzijds door de kleinschaligheid van het eiland het uitvoeren van typische overheidstaken relatief meer menskracht vergt. Niettemin is de situatie op de arbeidsmarkt nog altijd zodanig dat afgevlode werknemers uit de publieke sector desgewenst een plaats moeten kunnen vinden in de private sector.

Het financieringstekort op kasbasis is in 1998 aanzienlijk gedaald tot zo'n AFL 17 miljoen dankzij hogere belastinginkomsten en lagere kasuitgaven. Bij dit laatste moet echter bedacht worden dat de achterstanden met name ten aanzien van het APFA verder zijn opgelopen vooral door het in onvoldoende mate en onregelmatig afdragen van de torenhoge pensioenpremies ten behoeve van de landsdienaren. Indien de geschatte groei van de achterstanden bij de reguliere financiering wordt opgeteld resulteert een tekort van zo'n 1,8 procent van het BBP. De ook in 1998 optredende groei in de achterstanden op de geormerkte rekeningen van het Land bij de centrale bank is overigens niet in dit cijfer meegerekend.

In het IMF 'Staff Report for the 1999 Article IV Consultation Discussions' wordt een hoopgevend beeld geschetst van de ontwikkeling van het financieringstekort, er van uitgaande dat de beleidsnota 1998-2002 van het Ministerie van Financiën 'Gezonde overheidsfinanciën op Aruba' wordt gerealiseerd (zie box). Overigens wordt door het IMF wel gewezen op de risico's voor de overheidsfinanciën die AOV, APFA en AZV meebrengen. Hieraan mogen wij toevoegen dat in 1999 nog enkele niet of lager begrote lasten zullen opkomen, als uitvloeisel van de boedelscheiding met de Nederlandse Antillen, oude schulden van Air Aruba, kostenstijgingen in de gezondheidszorg, een hogere loonsom in de publieke sector, en het uitstellen van het implementeren van een nieuwe pensioenregeling voor ambtenaren. Ook moet worden gewezen op de uitstaande risico's ter zake van in het verleden afgegeven hotelgaranties en op het zeer drastisch teruglopen van de samenwerkingsmiddelen uit Nederland ten behoeve van overheidsinvesteringen: bij het streven naar een evenwicht tussen inkomsten en uitgaven worden deze samenwerkingsmiddelen uiteraard als inkomsten meegeteld.

**IMF 'Staff Report for the 1999 Article IV Consultation Discussions:
The Staff Appraisal.'**

1. Gedurende het afgelopen decennium werd de ontwikkeling van Aruba doorgaans gekenmerkt door een sterke economische groei en gematigde inflatie, ondersteund door een gezond en op stabiliteit gericht monetair en budgettair beleid. Het is lofwaardig dat thans het hoofd wordt geboden aan de risico's voor de voortzetting van deze ontwikkeling die de verslechtering van de overheidsfinanciën tussen 1996 en medio 1998 met zich hebben meegebracht en dat de economie zich weer lijkt te bewegen rond een evenwichtig traject van een bevredigende groei en lage inflatie. Het realiseren van de doelstellingen van de begroting 1999 zal in de komende tijd van doorslaggevende betekenis zijn om de overheidsfinanciën op koers te houden.
2. Rond medio 1998 onderkende de Arubaanse regering terecht dat herstel van de budgettaire discipline de hoogste prioriteit was geworden en er werd resoluut actie ondernomen. De uitgaven werden beteugeld, pogingen werden ondernomen om de achterstand in de belastinginning weg te werken en de stijging van betalingsachterstanden werd omgebogen. Bijgevolg beliep het tekort in 1998 (inclusief de mutatie in de betalingsachterstanden) ongeveer 1 procent van het BBP, ruim onder het niveau van ongeveer 2,5 procent van het BBP in 1997.
3. De autoriteiten staan voor de uitdaging de tot dusver bereikte resultaten te consolideren en vast te houden aan een voorzichtig budgettair beleid indien de situatie van bevredigende groei en lage inflatie in het geding zou komen. Bij het vasthouden aan budgettaire discipline moet het mogelijk zijn het overheidstekort in 1999 verder te verlagen en de overheidsfinanciën vrijwel in evenwicht te brengen. Het op een transparante en efficiënte wijze wegwerken van betalingsachterstanden aan particuliere leveranciers verdient prioriteit ten einde duidelijk blijk te geven dat 'behoorlijk bestuur' is hersteld. Met betrekking tot de achterstanden ten opzichte van het Algemeen Pensioenfonds Aruba (APFA) lijkt de strategie om te voldoen aan de uitstaande verplichtingen door middel van een combinatie van leningen en de overdracht van activa van de overheid – inclusief aandelen in sommige overheidsbedrijven – veelbelovend en dient zonder uitstel te worden uitgewerkt.
4. Op korte termijn zal de aanpassing voornamelijk van uitgavenbeperkende maatregelen moeten blijven komen, doch deze dienen samen te gaan met initiatieven tot belastinghervorming. De autoriteiten streven terecht naar duurzame vermindering van de werkgelegenheid in de overheidssector, beheersing van de loonkosten en een realistischer en beter gefaseerd overheidsinvesteringsprogramma. Ter wille van een geloofwaardig budgettair herstel dient echter duidelijk te worden gemaakt dat de voorgenomen maatregelen niet kunnen worden teruggedraaid. De regering wordt geadviseerd vast te houden aan haar beleid met name tijdens de lopende loononderhandelingen en haar investeringsprioriteiten te heroverwegen in het licht van toekomstige vermindering van de Nederlandse ontwikkelingshulp. De tijd is rijp om de jarenlange achterstand in het opleggen van belastingaanslagen weg te werken en om de belastinginning te versnellen. De autoriteiten zijn zich ervan bewust, dat dit geen substituut is voor een vérstreckende hervorming gericht op duurzame vergroting van de elasticiteit van het belastingsysteem en versterking van de belastingdienst. Aangezien vooral de geraamde opbrengsten uit hoofde van het wegwerken van de belastingachterstanden ambitieus lijken, met name voor wat betreft de niet-belastinginkomsten, dienen de autoriteiten gereed te staan om in geval van een tekort additionele maatregelen te nemen. Zij dienen ook geen tax holidays meer toe te kennen, omdat deze stimulans een niet afgebakende beschikbaarstelling van belastingmiddelen met zich brengt die Aruba zich niet kan veroorloven.

Vervolg:

5. De vooruitzichten inzake het budgettaire resultaat voor 1999 worden vertroebeld door potentiële verplichtingen uit hoofde van een nieuwe ziektekostenverzekering voortvloeiend uit het samenvoegen van verschillende fondsen tot één systeem. Herstel van de financiële discipline zal worden ondermijnd indien aan deze verplichtingen zou moeten worden voldaan; de autoriteiten dienen dan ook serieus te overwegen de overdracht van verantwoordelijkheden uit te stellen totdat de levensvatbaarheid van het nieuwe systeem is verzekerd.
6. In meer algemene zin zijn hervormingen in de sociale voorzieningen vereist om de overheidsfinanciën voor de lange termijn te beschermen, in het licht van ongunstige demografische ontwikkelingen. De Arubaanse algemene pensioenstelsels dienen op een houdbaar fundament te worden geschoeid. De pensioengerechtigde leeftijd dient voor alle werknemers geleidelijk te worden opgetrokken tot 65 jaar; bovendien dient het hervormingsvoorstel van de overheid inzake het APFA, dat thans met actuariële tekorten kampt, spoedig te worden uitgevoerd, terwijl het huidige verplichte basispensioenstelsel voor werknemers in de private sector kan worden aangevuld door additionele uitkeringen gefinancierd door vrijwillige bijdragen.
7. Gezien het dominante belang van de Verenigde Staten als handelspartner, alsmede van een stabiele concurrentiepositie, blijft de huidige vaste wisselkoers tussen de Arubaanse florin en de Amerikaanse dollar adequaat. De Centrale Bank van Aruba heeft de binnenlandse liquiditeit, ondanks de wijd verbreide dollarisatie, bekwaam gereguleerd en heeft een zekere budgettaire discipline bevorderd door monetaire financiering van het tekort te vermijden. De voorgenomen afschaffing van de officiële kredietplafonds en de overgang op een kasreserveregeling als voornaamste instrument van het monetaire beleid zijn welkome stappen die de weg kunnen bereiden voor meer concurrentie in de bancaire sector. Niettemin dienen de autoriteiten, ondanks de moeilijkheden voortvloeiend uit de onderontwikkelde binnenlandse geld- en kapitaalmarkten, te blijven streven naar een uitbreiding van het tot hun beschikking staande pakket van marktconforme monetaire instrumenten. Stappen in deze richting zullen de verdieping van de financiële structuur ongetwijfeld bevorderen.
8. Opmerkelijke vooruitgang is geboekt met betrekking tot structurele aangelegenheden, doch er dient méér te worden gedaan. Het bedrijfseconomisch toezicht en de regulering van de bancaire sector zijn versterkt door het in werking treden van een nieuwe banktoezichtswet. Het is belangrijk dat de aanvullende wetten inzake de andere on- en offshore instellingen spoedig worden aangenomen om de transparantie en integriteit van de Arubaanse financiële sector te verhogen. De autoriteiten verdienen erkenning voor het doorgaans liberaal extern beleid. Hun streven naar verdergaande liberalisering van het kapitaalverkeer dient te worden voortgezet naarmate de monetaire ontwikkeling en de voortgang in de financiële regulering deze toelaten. Tenslotte dient de regering het verder toevlucht nemen tot garanties voor leningen ter bevordering van de diversificatie van de economie te vermijden, snel stappen te ondernemen ter afkondiging van wetten ter bescherming van het milieu en haar betrokkenheid bij commerciële ondernemingen te beperken. Vooral de inspanningen ter privatisering van het Radisson Hotel en het telecommunicatiebedrijf dienen te worden opgevoerd, terwijl het nuttig kan zijn de Aruba Tourism Authority een onafhankelijke status met eigen inkomstenbronnen toe te kennen.

Vervolg:

9. De Arubaanse statistieken zijn de afgelopen jaren aanzienlijk verbeterd, maar onvolkomenheden in het databestand blijven een ernstige belemmering voor effectief toezicht en beleidsbepaling. Prioriteit dient te worden gegeven aan de afronding van de nationale rekeningen voor 1995, 1996 en 1997, het samenstellen van prijs- en loonindices in de toeristische sector en het ontwikkelen van meer frequente arbeidsmarktstatistieken. De autoriteiten dienen te worden gelukgewenst met hun voornemen binnenkort deel te nemen aan de 'General Data Dissemination System' van het IMF en te beginnen met het regelmatig en tijdig rapporteren van handelsstromen aan de International Financial Statistics (IFS).

Onder de vigeur van de op 15 mei 1998 in werking getreden nieuwe Landsverordening toezicht kredietwezen heeft de Bank veel aandacht besteed aan de implementatie van het bedrijfseconomisch toezicht op het bankwezen in het belang van crediteuren en stabiliteit en integriteit in de financiële sector. Het toezichtstelsel is nu in overeenstemming met de 'Core Principles for Effective Banking Supervision', zoals die in september 1997 zijn uitgebracht door het Bazels Comité van Toezichthouders. Een nieuwe toezichtswet ten behoeve van de verzekeringssector laat echter nog steeds op zich wachten. Met de individuele levensverzekeraars heeft de Bank overeenkomsten afgesloten om het toezicht te continueren dat op basis van de nu ingetrokken Landsverordening toezicht bank- en kredietwezen werd uitgeoefend.

Het bedrijf van de Bank liet een gunstig resultaat zien: gematigde reguliere kosten, toenemende rente-inkomsten en dus een hogere winst. De balans van de Bank weerspiegelt de sterke positie van de florin: geen monetaire financiering van de overheid en een oplopend overschot op de betalingsbalans.

1 Relato di President

E anja bow reviso a wordo caracteriza mundialmente pa volatilidad riba e mercadonan financiero y prijsnan mas abow di materia prima. E crecimiento real di e producto bruto domestico (PBD) di Merca, cual a mantene su mes riba un nivel halto di mas o menos 4 por ciento, a wordo stimula pa gastamento basta halto di consumidornan y prijsnan mas abow di importacion. Sinembargo, e deficit riba e cuenta coriente a subi rapidamente. E inflacion a baha mas, desempleo a alcanza un punto mas abow, e dollar a keda stabiel te cu Oktober y e gobierno federal a realisa un surplus substancial riba e presupuesto.

No obstante, na Merca 1998 tambe tabata un anja di un crisis di confiansa riba e mercadonan financiero cu desde September rapidamente tabata ganando tereno, cual a resulta den un huida pa efectonan di primera calidad, un dollar cu ta bahando principalmente contra e yen y un scarcedad di liquides pa debedornan y paisnan considera como menos solido. Federal Reserve Board a hanja su mes obliga pa baha su tarifanan tres biaha na Oktober y November. Seguidamente, e prijsnan di accion na Wall Street a recupera bastante lihe, mientras cu e mercadonan internacional di capital a cera e anja mas susceptibel pa riesgonan cu antes. E miedo pa un recesion of hasta un situacion di deflacion a resulta sinembargo sin base.

E crisis di confiansa a wordo crea door di problemanan persistente na Asia Oriental y un moratorio cu a wordo anuncia na Augustus door di Rusia riba e anulacion di su debenan. E remedi di IMF no por a evita un reduccion fuerte den e actividadnan economico na Asia Oriental durante 1998: e pregunta sinembargo cu por wordo haci ta si e tigernan Asiatico di un banda a wordo stimula pa liberalisa nan sistemanan financiero sin cu di otro banda nan a wordo adverti cu fluhonan masivo di capital por ta peligroso den caso cu e sector bancario ta debil, e supervision riba dje ta inadecua y e concepto di “good governance” ta poco desaroya. Na 1998, Hapon a bolbe experiencia un situacion recesivo, den cual e paketenan di estimulacion implementa door di gobierno a trece poco mehoracion. Problemanan grandi den e sector bancario a bira mas visibel.

Latinoamerica a experiencia sintomanan di contaminacion despues di e moratorio di Rusia: un sentimiento negativo entre e inversionistanan a conduci na tasanan di interes mas halto; principalmente e situacion na Brazil a wordo mira cu preocupacion door di e mercado internacional. Acceso na e mercado internacional di capital tabata pa e parti di mundo aki practicamente cera. E caida den e prijs di petroleo crudo cu historicamente ta hopi abow a causa un recesion den nos pais becino Venezuela.

Europa no a wordo afecta mucho. Riba 1 di Januari 1999, e competencia monetario di diesun banco central a wordo pasa pa e Banco Central Europeo na Frankfurt, desde e fecha ey e guardian di e euro. E crecimiento economico den e zona di euro tabata, banda di un bahada di inflacion, mas fuerte cu e anja anterior, danki na un demanda domestico mas halto. E expectativa ta cu na 1999 e crecimiento aki lo baha te na 2 por ciento door di e desaroyo mas lento den e comercio mundial. Na Hulanda e crecimiento economico a keda riba un nivel halto, ya caba pa di tres anja consecutivo. E asina yama “poldermodel” atrobe tabata e ehempel pa otro paisnan Europeo.

Na Aruba e crecimiento economico, acompaña pa un bahada den inflacion, a continua na un tasa stabil mescos cu na 1997. E periodo bow reviso a wordo caracteriza pa un aumento fuerte den e reserva internacional di divisa, principalmente bow influencia di actividadnan di inversion financia pa importacion di capital for di exterior.

E cantidad di turistanan cu a bishita nos isla a stabilisa na e nivel di e anja anterior, mientras cu e periodo cu nan a permanece riba nos isla a subi un poco. E mercado di Merca tabata miho cu e anja anterior, pero menos Europeo a bishita Aruba. Sinembargo, segun e balansa di pago e entradanan di divisa registra den e sector turistico a aumenta considerablemente na 1998. E cantidad di turista di crucero a baha mas. Apesar di e influencia di e temporada di horcan, turismo den Caribe a registra un crecimiento fuerte di mas of menos 7 por ciento.

E aumento den e indice di prijs di consumo tabata 1.9 por ciento na final di 1998, compara cu 3.0 por ciento na final di 1997. E bahada satisfactorio aki di e inflacion a wordo mas bien causa door di un stabilisacion den prijsnan di mercancia importa y door di un bahada den prijsnan di petroleo mundialmente. Sinembargo, e desaroyo den e prijsnan domestico ainda ta percura pa un aumento mas halto den prijs na Aruba compara cu na Merca.

Na 1998 tabata tin un subida substancial den e reserva di divisa di Aruba, cu a mas cu compensa pa e perdida di divisa den e dos anjanan anterior. Pero e cobertura di importacion di mercancia ainda ta bow di e norma di 5 a 6 luna. Fuera di un reclasificacion di e estadisticanan, e mehoracion aki principalmente ta debi na importacion di capital pa financia inversionnan den e edificio di aeropuerto y den e sectornan di petroleo, hotel y utilidad. E maneho monetario di Banco Central tambe a contribui na esaki, mientras cu e credito domestico otorga pa e sector bancario a crece cu solamente 3 por ciento.

E refleho di e crecimiento fuerte den e reserva di divisa a bira visto den mas liquides riba e mercado di placa di Aruba, mientras cu gobierno, per saldo, no a apela riba creacion domestico di placa. Apesar di e surplus di liquides aki, e demanda pa credito tabata asina modera cu e banconan comercial a keda bow di e limite colectivo di credito palabra na 5 pa 6 porciento. Bow di e circunstancianan aki e maneho monetario di Banco Central pa 1999 por bira mas soepel, por lo cual Banco Central tambe lo purba na hanja un reduccion den e nivel di interes.

E desaroyo modera den dunamento di credito bancario a wordo principalmente causa door di un bahada den credito na empresanan, cual ta ilustra e desaroyo stagnante den e sector comercial. Hipoteca pa construccion di cas y prestamo na consumidornan, di otro banda, a sigui aumenta, aunke na un tasa menos halto. Nos por conclui cu na 1998 e crecimiento economico real di 3 porciento, apesar cu un gran parti di e financiamiento di e inversionnan di gobierno door di Hulanda a cai afor, a wordo manteni door di consumo local, gastonan mas halto di turismo y e proyectonan di inversion financia cu capital di exterior bow condicionnan comercial.

Resumiendo por wordo bisa cu e sector priva di Aruba a duna un bon resultado den un region di mercadonan emergendo cu a move bai den awanan turbulento. Pa anja 1999 e perspectivanan pa nos sector economico mas importante no mester ta desfavorabel, awor cu e airlift pa Aruba ta mehorando y Air Aruba ta parce di a hanja un partner stabil. Tambe nos por spera cu e actividadnan di inversion cu a caba di wordo implementa gradualmente lo bai duna mas fruto economico.

Finansa publico di Aruba sinembargo ta den un situacion mas riskante. E deficit financiero substancial na anja 1997, e debenan atrasa cu ta creciendo na Algemeen Pensioenfonds Aruba (APFA) y na e provedornan, y e falta di cumplimiento cu e pagonan priminti riba e cuentanan reserva pa cierto meta di gobierno na Banco Central, ta algun di e senjalnan di un problema structural di liquides cu a bai for di man. E necesidad pa tuma medida riguroso pa yega na un finansa publico balansa a wordo reconoci door di e gobierno nobo cu a wordo instala na medio di anja 1998. Particularmente door di elimina e retraso den generacion di entrada y door di medidanan di austeridad, segun plan AFL 100 miyon mas entrada y AFL 40 miyon menos gasto lo mester wordo realisa na anja 1999 compara cu anja 1998.

Pa e termino largo Banco Central ta considera cu un balansa structural den finansa publico di Aruba lo ta sostenibel solamente si un aparato gubernamental decisivo y mas chikito ta limita su mes na ehecucion eficiente di solamente algun tarea principal.

Reduci e gastonan di gobierno claramente tin tur preferencia riba medidanan permanente pa aumenta entrada, cu finalmente ta wordo poni riba cuenta di famianan y negoshinan. E pregunta politicamente sensitivo na unda y con lo mester corta den e gastonan di personal ta exige un analisis riba nivel micro. For di perspectiva macro nos no mester lubida cu algun tarea, cu otro caminda ta bai riba cuenta di gobierno, no ta pisa riba e presupuesto di gobierno di Aruba, mientras cu di otro banda e tamayo chikito di e isla ta exige relativamente mas trahado pa eherce tareanan tipicamente gubernamental. Sinembargo, e situacion den e sector laboral te ainda ta di tal manera cu trahadornan cu sali for di sector gubernamental mester por hanja un trabow den e sector priva si nan te desea esey.

E deficit financiero riba kasbasis a baha na anja 1998 considerablemente te na alrededor di AFL 17 miyon, danki na mas entrada di impuesto y menos gastonan coriente. Sinembargo, pa loke ta trata e ultimo aki no mester wordo lubida cu e pagonan atrasa particularmente na APFA a sigui aumenta, principalmente door di pago insuficiente y iregular di primanan masha halto di pensioen pa e ambtenaarnan. Si e aumento estima den pagonan atrasa wordo conta hunto cu e financiamiento normal, lo resulta un deficit di alrededor di 1.8 porciento di PBD. Di otro banda, e aumento den e pagonan atrasa relaciona cu e cuentanan reserva pa cierto meta di gobierno na Banco Central, cu tambe a tuma lugar na 1998, no ta inclui den e cifra aki.

Den e ‘Staff Report for the 1999 Article IV Consultation Discussions’ di IMF un imagen prometedor ta wordo duna di e desaroyo di e deficit financiero, asumiendo cu e nota di maneho 1998-2002 di e Ministerio di Finansa ‘Gezonde overheidsfinanciën op Aruba’ lo wordo realisa (mira e box). Di otro banda, IMF ta mustra riba e riesgonan cu AOV, APFA y AZV lo por trece pa finansa publico. Na esaki nos por agrega cu pa anja 1999 lo bai surgi algun gasto no presupuesta of cu a wordo presupuesta mucho abow, como resultado di e separacion di bienes cu Antiyas Hulandes, debenan bieuw di Air Aruba, subida den gastonan den cuida di salubridad, salarionan mas halto den sector publico y door di pospone e implementacion di e areglo di pensioen nobo pa ambtenaarnan. Tambe mester tene cuenta cu e riesgonan existente di e garantianan pa hotelnan duna den pasado y e bahada drastico den ayudo financiero di Hulanda destina pa inversionnan di gobierno: ora di trata na yega na un balansa entre entrada y gasto, naturalmente e medionan financiero aki ta wordo conta como entrada.

Bow di e forsa legal di e “Landsverordening toezicht kredietwezen” cu a drenta na vigor riba 15 di Mei 1998, Banco Central a pone hopi atencion na e implementacion di e supervision prudencial di e

“Staff Appraisal” saka for di e “Staff Report for the 1999 Article IV Consultation Discussions” di IMF.

1. Pa un gran parti di e decada pasa, Aruba su desaroyo tabata caracteriza pa crecimiento economico fuerte y inflacion modera, sosteni door di manehonan monetario y fiscal generalmente firme cu orientacion riba estabilidad. Ta di elogia cu e riesgonan poni na e continuacion di e desaroyo aki door di e deterioracion di e finansa publico entre 1996 y medio-1998 awor aki ta den e proceso di wordo atendi, y e economia un biaha mas ta parse di ta bayendo riba un caminda balansa di crecimiento satisfactorio y inflacion abow. Mirando pa dilanti, logra e metanan di e presupuesto 1999 lo ta critico pa segura cu e finansa publico lo keda riba e direccion sostenibel.
2. Den medio 1998, e autoridadnan Arubano corectamente a reconoce cu e restitution di disciplina fiscal mester bira e prioridad clave, y accion decisivo a wordo tuma. Gastonan a wordo frena, esfuersonan a wordo inicia pa baha impuesto atrasa, y e acumulacion di debenan atrasa a wordo retrocede. Consequentemente, e deficit na 1998 (incluso e cambio den debenan atrasa) a suma na mas o menos 1 por ciento di e PBD, bastante abow di e nivel di 2.5 por ciento di e PBD na 1997.
3. E reto enfrentando e autoridadnan ta pa consolida e resultadonan logra te awor aki y persevera den nan aspiracion pa cu un posicion fiscal prudente, pa asina e desaroyo di crecimiento satisfactorio y inflacion abow no wordo poni na riesgo. Cu continuacion di disciplina fiscal, e lo mester ta posibel pa sigui reduci e deficit fiscal den 1999, y trece e finansa publico cerca di un balansa. Elimina e atraso di pago na e provedornan comercial den un forma transparente y eficiente mester tin prioridad, como un demostracion convincente cu bon gobernacion a wordo restitui. Pa loke ta trata e atraso di pago na e fondo di pension di e ambtenaarnan (APFA), e strategia di regla e debenan pendiente door di un combinacion di fiansanan y transferencia di activo publico – incluyendo accion den algun utilidad publico – ta parse prometedor y mester wordo resolvi sin ningun retraso.
4. Riba termino cortico, e parti mas pisa di e ahustamento lo sigui wordo carga door di medidanan relaciona cu gastonan, pero mester wordo acompaña pa iniciativanan den reforma di impuesto. E autoridadnan corectamente ta mik riba reduccion permanente den e empleo di e sector publico, contencion di e gastonan di salario y un programa di inversion publico mas realistico y parti miho den varios fase. Sinembargo, pa un coreccion fiscal confiabel mester ta claro cu e medidanan proponi no por wordo retrocedi. Particularmente, gobierno ta wordo recomenda pa wanta duro den e negociacionnan andando encuan to salario y pa reevalua su prioridadnan di inversion teniendo na cuenta e eventual reduccion den ayudo di desaroyo for di Hulanda. E iniciativa pa elimina e atraso di varios anja den evaluacion di impuesto y pa acelera e coleccion di impuesto atrasa ta oportuno. Sinembargo, manera e autoridadnan a reconoce, e no ta un substituto pa un reforma importante pa permanentemente hisa e elasticidad di e sistema di impuesto y fortifica e administracion di impuesto. Particularmente, e rendimiento proyecta for di e eliminacion di e atrasonan den impuesto ta parse ambicioso, especialmente for di entradanan cu no ta impuesto, y e autoridadnan mester ta prepara pa tuma accionnan adicional den caso di un deficiencia. E autoridadnan tambe mester abstene di duna mas “tax holidays”, ya cu e incentivonan aki ta implica un compromiso sin limite di e recursonan fiscal cu Aruba no por permiti su mes.
5. E perspectivanan fiscal pa 1999 ta wordo menasa pa obligacionnan potencial relaciona cu e fondo nobo pa cuido di salubridad, resultando for di e consolidacion di e diferente fondonan den un solo fondo. E restablecimiento di disciplina fiscal lo sufri contratiempo si e pagonan ey mester wordo haci, y e autoridadnan mester considera seriamente e posponimento di e transferencia di responsabilidadnan te ora e viabilidad di e sistema nobo ta asegura.

Continua:

6. Mas ampliamente, e reforma den beneficienan social ta necesario pa salvaguardia e finansa publico riba termino mas largo, teniendo na cuenta e desaroyonan demografico desfavorabel. Aruba su sistemanan di pensioen general mester wordo poni bek riba un fundeshi sustenibel. E edad di pensioen gradualmente mester wordo hisa na 65 pa tur empleado; adicionalmente, e proposicion di gobierno di reforma e areglo di pensioen di APFA – cu na e momento aki actuarialmente no tin suficiente fondo – mester wordo implementa mas lihe posibel, mientras cu e actual sistema basico obligatorio di pensioen pa e empleadonan di e sector priva por wordo suplementa cu beneficienan adicional via contribucion voluntario.
7. E tasa fiho di e florin cu e dollar ta sigui ta apropiada, teniendo na cuenta e importancia significante di Merca como e partner comercial y e posicion competitivo stabil. Banco Central di Aruba habilmente a maneha e liquides domestico, apesar di e co-circulacion amplio di dollar, y a stimula disciplina fiscal door di evita di crea placa pa financia e deficit. E eliminacion inminente di e sistema di control di credito y e cambio pa e reserva obligatorio como instrumento principal di e maneho monetario ta pasonan den bon direccion cu lo por conduci na mas competencia den e sector bancario. Sinembargo, e autoridadnan mester continua cu e esfuersonan pa amplia e cantidad di instrumentonan monetario na nan disposicion, apesar di e dificultadnan cu ta relaciona cu mercadonan di placa y di efectonan sub-desaroya. E pasonan den e direccion aki berdaderamente lo stimula un ampliacion di e estructura financiero.
8. Pa loke ta trata aspectonan structural, bastante progreso a wordo haci pero mas ainda mester wordo logra. E supervision y regulacion prudencial di e sector bancario a wordo fortifica cu e implementacion di e ley bancario nobo. Ta importante cu e leynan suplementario cubriendo otro institucionnan financiero, incluyendo esunnan “offshore” mester wordo implementa pronto pa mehora e transparencia y integridad di Aruba su sector financiero. E autoridadnan mester wordo elogia pa nan maneho externo cu ta generalmente liberal. Nan esfuersonan pa liberalisa mas aun e transaccionnan di capital cu exterior mester continua, segun cu e condicionnan monetario y progreso den regulacion financiero permiti esey. Finalmente, e gobierno mester evita di sigui duna mas garantia di fianza pa promove e diversificacion di e economia, move rapidamente pa implementa leynan di proteccion ambiental y sigui reduci nan involucmento den actividadnan comercial. Particularmente, esfuersonan pa privatisa Radisson Hotel y e compania di telecomunicacion mester wordo acelera, y Aruba Tourism Authority convenientemente por wordo duna un status independiente cu su propio fuentenan di entrada.
9. Aruba su base estadistica a mehora significantemente den e ultimo anjanan, pero deficiencia den datonan ta keda un obstaculo serio pa cu vigilancia efectivo y disenjo di maneho. Prioridad special mester wordo duna na finalisa e cuentanan di entrada nacional pa 1995, 1996, y 1997, compila indices di prijs y salario den e sector turistico y desaroya mas frecuentemente estadisticanan di e mercado laboral. E autoridadnan mester wordo felicita cu nan intencion pa participa den futuro cercano den IMF su “General Data Dissemination System”, y pa cuminsa raporta mas regularmente y na tempo informacion riba fluhonan di comercio na IFS.

sector bancario na interes di e creditornan y estabilidad y integridad di e sector financiero. E sistema di supervision awor ta cuadra cu e ‘Core Principles for Effective Banking Supervision’, manera e la wordo publica na September 1997 door di e Comite di Supervisoran di Bazel. Sinembargo, Banco Central ta wardando ainda riba un ley di supervision nobo pa e sector di seguro. Banco

Central a cera cu cada compania di seguro di bida un acuerdo pa continua cu e supervision cu tabata wordo implementa a base di e “Landsverordening toezicht bank- en kredietwezen” cu a wordo revoca.

E operacionnan di Banco Central a duna un resultado faborabel: gastonan di operacion modera, mas entrada di interes y consecuentemente un ganashi mas halto. E balansa di Banco Central ta refleha e posicion fuerte di e florin: ningun financiamiento monetario na gobierno y un surplus di e balansa di pago cu ta aumentando.



2 Economic development and policies

2.1 The real sector

2.1.1 Introduction

Despite notable improvements in Aruba's statistical base during recent years, there is still a serious lack of timely published key economic indicators, particularly in the real sector. This lack of data hampers effective policy preparation and execution. Disturbing is that, inter alia, no national accounts, production, spending, and employment data are available on a regular basis, nor is information on the business sector and its international competitive position. Private enterprises remain reluctant to supply statistical officers with elementary figures.

Preliminary model-based estimates by the International Monetary Fund indicate that real GDP growth decelerated by 1.1 percentage points to 3.0 percent in 1998 (see table 1 and chart 1). The main factors contributing to this deceleration were less buoyant consumptive spending and a slowdown in public sector investments. Growth was driven mainly by an improvement in the external nonfactor services balance (excluding oil). In nominal terms, GDP amounted to about US\$ 1.7 billion in 1998. Mainly because of a less pronounced registered population growth, per capita product increased by 2.7 percent to US\$ 18,502 in nominal terms and by 0.8 percent in real terms (1986 prices).

Presently, Aruba's per capita GDP is one of the highest in the region and not very significantly lower than that of several so-called advanced economies, including its mother country, the Netherlands. However, the per capita product does not adequately indicate the standard of living and the quality of life of Arubans, because a large (but still unknown) part of this product accrues to nonresidents as remunerations for their contributions to the production process. The remainder of the production revenues appears quite unevenly distributed among residents. Moreover, the indicator by itself neither reveals the rather low degree of structural transformation to a diversified and resilient economy, nor the diseconomies of scale confronting the country. As a result, there are only a few comparative advantages; public administration and service costs are relatively high, and many tax holidays are still in place to support business activities, thus contributing to weak government finances.

CHART 1
GROSS DOMESTIC PRODUCT
(annual growth rates)

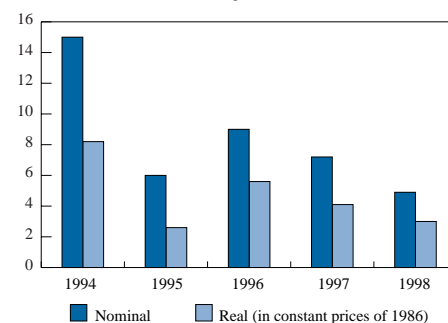


Table 1 Gross Domestic Product (GDP), population, and per capita GDP 1)

	1996	1997	1998
1. a. Nominal GDP 2)	2,751	2,949	3,094
b. Percentage change	9.0	7.2	4.9
2. a. Real GDP 2)	1,788	1,861	1,916
b. Percentage change	5.6	4.1	3.0
3. a. Population	87,960	91,361	93,424
b. Percentage change	5.1	3.9	2.2
4. a. Nominal per capita GDP (in AFL)	31,276	32,256	33,118
b. Percentage change	3.7	3.1	2.7
5. a. Real per capita GDP 3) (in AFL)	20,326	20,353	20,506
b. Percentage change	0.4	0.1	0.8

1) Estimates.

2) In AFL million.

3) Constant 1986 prices.

Sources: IMF; Bureau Burgerlijke Stand en Bevolkingsregister; CBS; CBA

2.1.2 Tourism

In 1998, the number of stay-over visitors increased by a mere 0.2 percent, despite special events such as the Solar Eclipse in February (see table 2). Main factors negatively affecting stay-over tourism were the fierce competition from other countries, the internationally booming cruise industry, and the World Cup Soccer in June-July. Moreover, Aruba's marketing efforts were weakened due to a lack of public funds. Marketing has proven essential to promote the country as an upscale tourist destination.

Average nights spent by visitors edged up slightly to 7.6. Even so, total nights rose by only 1 percent (1997: 3 percent). However, the hotel occupancy rate increased by 4.1 percentage points to 77.6 percent in 1998, partly because of the renovation of the Radisson Hotel. The average daily hotel rates rose by 3 percent to AFL 211 and the revenue per available room by 8 percent to AFL 127.

Gross profits appear to have remained low by international standards. This situation is indicative of the high operating costs in Aruba. After adjusting for tax assessments related to previous years, room tax receipts increased by 4 percent to AFL 17.2 million. Growth in registered tourism receipts still amounted to a notable 7 percent. Receipts per visitor night grew by 6 percent.

These figures may be distorted by statistical shortcomings and lacunas.

Table 2 Main indicators of tourism activity

	1996	1997	1998
1. Tourism receipts (x AFL million 1)	1,098.1	1,196.3	1,279.8
2. Stay-over visitors (x 1,000)	640.8	646.0	647.4
3. Visitor nights (x 1,000)	4,713.7	4,834.8	4,889.7
4. Average nights stayed	7.4	7.5	7.6
5. Receipts per visitor night (AFL)	233	247	262
6. Hotel occupancy rate	71.4	73.5	77.6
7. Average daily hotel rates (AFL 2)	n.a.	205	211
8. Revenue per available room 2)	n.a.	118	127
9. Room tax receipts (x AFL 1,000) 3)	16,040	16,528	17,197
10. Cruise visitors (x 1,000)	316.7	297.7	257.8
11. Number of cruise ships	273	270	255
12. Contribution to current account 4)	71	73	74
13. Aruba's share in the Caribbean tourism markets:			
a. Stay-over 5)	3.7	3.4	3.2
b. Cruise 5)	3.0	2.5	2.2

- 1) Gross registered receipts from tourism according to BOP data on a cash basis.
- 2) Provisional, including hotel and time-share.
- 3) Net, excluding effects of tax assessments related to previous years.
- 4) Tourism receipts as a percentage of current account receipts, excluding oil and free-zone sectors.
- 5) For 1998, CBA preliminary estimate.

Sources: CBA; ATA; CTO; CBS

Estimates based on preliminary data supplied by the Caribbean Tourism Organization (CTO) indicate that stay-over arrivals into the Caribbean region rose by about 7 percent (1997: 8 percent), despite the effects of hurricane George in September 1998 and increased competition from destinations within the United States and Europe. Tourist arrivals in Barbados, Belize, Cancún and Cozumel (Mexico), Cayman Islands, Cuba, Dominican Republic, St. Kitts and Nevis, Martinique, Saba, Trinidad & Tobago, Turks & Caicos Islands, and the U.S. Virgin Islands grew by more than 5 percent. In contrast, Antigua and Barbuda, Bermuda, Bonaire, Curaçao, and Guyana experienced a decline. Aruba's share in the Caribbean stay-over market shrank slightly to 3.2 percent in 1998, and in the cruise market to 2.2 percent (see charts 2A and 2B).

CHART 2A
GROWTH IN STAY-OVER TOURISM
(in percentages)

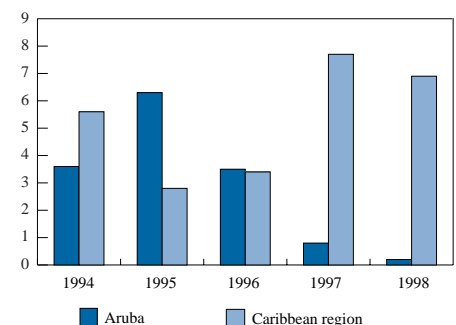
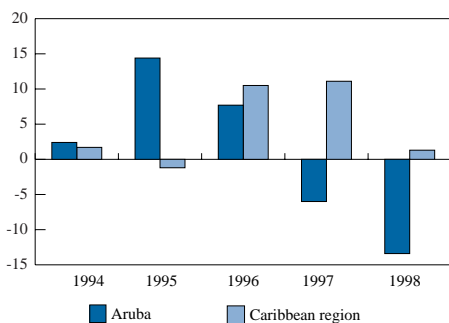


CHART 2B
GROWTH IN CRUISE TOURISM
(in percentages)

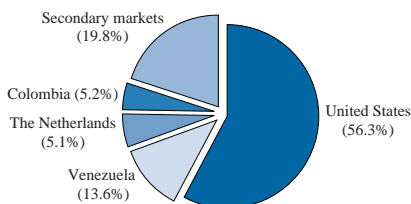


According to the Aruba Tourism Authority, visitor arrivals from the United States grew by 4 percent, after a 2 percent decline in 1997; visitor nights rose by 6 percent. The rebound in U.S. tourism was attributed mainly to an increase in air seat capacity, associated with more charters from several regions (e.g., Atlanta, Baltimore, Cleveland, and Cincinnati), as well as newly scheduled flights (e.g., Continental Airlines started a bi-weekly service in May 1998). However, American Airlines reduced its capacity.

Stay-over arrivals from Venezuela also grew, i.e., by 13 percent primarily because of an active promotional campaign. In addition, the majority participation in Air Aruba by the Venezuelan Aserca contributed to enhanced services and increased airlift capacity. Total nights spent by Venezuelan visitors went up by only 1 percent, due to a much shorter average stay, probably partly because of the recession in that country.

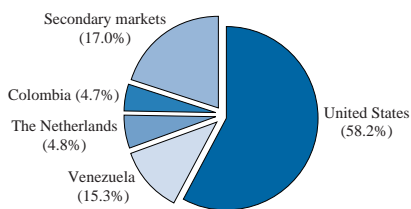
In contrast, the number of Dutch stay-over visitors declined further by 5 percent (1997: 10 percent). This decline was attributed particularly to the lack of low-priced airlift capacity and the World Cup Soccer in France. The number of nights spent by Dutch visitors, though, rose by 6 percent. The Colombian market saw decreases in both the number of visitors (9 percent) and the total nights spent (16 percent), due mainly to the economic malaise in that country.

CHART 3A
STAY-OVER VISITORS BY
PRIMARY AND SECONDARY MARKETS
1997



As a result of the developments described above, the United States, already by far the most important tourist market, could expand its share in the total number of visitors by 1.9 percentage points to 58.2 percent in 1998 (see charts 3A and 3B). Venezuela, Aruba's second largest market, showed a 1.7 percentage points increase to 15.3 percent. Both the market shares of the Netherlands and Colombia declined to somewhat less than 5 percent.

CHART 3B
STAY-OVER VISITORS BY
PRIMARY AND SECONDARY MARKETS
1998



Cruise ship arrivals fell by 15 to 255 and the number of passengers by 13 percent to 257,755, reflecting the lingering effects of the cancellation of the mega ship *Fascination* at the end of April 1997. In the meantime, a rebound in cruise tourism occurred, while a further improvement is expected by late 1999, when the *Inspiration* will include Aruba in its itinerary.

The unsatisfactory developments in tourism described earlier may have contributed to the increasing number of complaints by retail stores and restaurant managers that their sales are stagnating or even shrinking in certain cases. Unfortunately, because no recent data on these developments are available, the Bank has to manage with anecdotal evidence.

2.1.3 Merchandise trade

Aruba has a strong trade relationship with the United States (see charts 4A and 4B). According to recent figures of the Central Bureau of Statistics (CBS), about 70 percent of all imported merchandise is from the United States, while the U.S. share of exports amounted to 53 percent in 1998. Other important trading partners are the Netherlands, the Netherlands Antilles, Colombia, and Venezuela.

During 1998, Aruba's merchandise trade deficit (on a transaction basis) increased by 32 percent to AFL 1,398 million (see table 3). Import of goods surged by 34 percent to AFL 1,474 million, due mainly to the import of aircraft and aircraft equipment from the United States (see table 4), following the acquisition of Air Aruba by Aserca.

Merchandise exports, traditionally small, grew by 75 percent to AFL 76 million, particularly because of the re-exporting of two helicopters to the United States. Furthermore, exports to Colombia more than doubled, largely because of increased chicken sales.

CHART 4A
MERCHANDISE EXPORT BY COUNTRY OF DESTINATION
1998

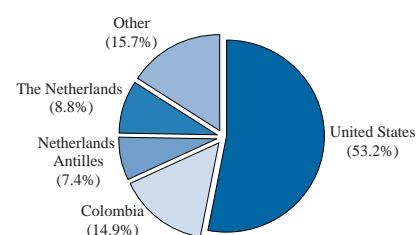


CHART 4B
MERCHANDISE IMPORT BY COUNTRY OF ORIGIN
1998

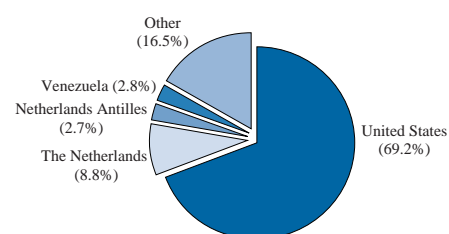


Table 3 Merchandise foreign trade by country 1)

In AFL million

	1996	1997	1998
1. Export of goods	22.3	43.2	75.8
a. United States	5.3	14.4	40.3
b. Colombia	2.1	4.9	11.3
c. The Netherlands	4.9	10.1	6.7
d. Netherlands Antilles	4.3	5.7	5.6
e. Other	5.7	8.1	11.9
2. Import of goods	1,035.1	1,100.2	1,473.5
a. United States	580.1	611.2	1,020.2
b. The Netherlands	139.1	137.1	130.2
c. Netherlands Antilles	47.3	46.3	39.6
d. Venezuela	41.4	40.1	41.7
e. Other	227.2	265.5	241.8
3. Trade balance	-1,012.8	-1,057.0	-1,397.7

1) Excluding mineral fuels, and storage and transit transactions of the free-zone sector.

Sources: CBS; CBA

Table 4 Merchandise trade by product category 1)

In AFL million

	1996	1997	1998
1. Export of goods	22.3	43.2	75.8
a. Live animals and other animal products	2.4	5.8	16.4
b. Transport equipment	1.8	5.1	27.5
c. Art objects and collectors' items	5.8	6.2	9.9
d. Machinery and electrotechnical equipment	2.4	3.0	6.5
e. Other goods	9.9	23.1	15.5
2. Import of goods	1,035.1	1,100.2	1,473.5
a. Food products	124.1	128.4	137.7
b. Chemical products	103.4	125.1	129.4
c. Base metals and derivated works	71.3	86.4	114.8
d. Machinery and electrotechnical equipment	153.4	154.0	196.1
e. Transport equipment	88.7	100.3	347.8
f. Other goods	494.2	506.0	547.7

1) Values, in AFL million; excluding mineral fuels, and storage and transit transactions of the free-zone sector.

Source: CBS

2.1.4 Utilities

In 1998, water and electricity consumption rose by 7 percent and 9 percent, respectively, clearly more pronounced than real GDP growth. The increases were induced mainly by more economic activities, the expanding population, and tariff reductions (see table 5). At the end of the year, the water and electricity tariffs for households were, respectively, 9.9 percent and 12.6 percent lower than at the end of 1997. In contrast, growth in gas consumption remained flat, probably reflecting the wider use of electrical appliances.

To meet the expected further increase in water and electricity consumption, and to improve existing production facilities, significant investments are being implemented at the WEB Aruba N.V. In 1998, this company signed loan agreements totalling about US\$ 51 million with a consortium of local and international investors for the purchase of a turbine and a generator for electricity production. In addition, AFL 10.9 million of its own capital was used.

Table 5 Utilities

	1996	1997	1998
1. a. Water (x 1,000 m ³) 1)	9,182	9,587	10,280
b. Connected premises	26,326	27,180	28,283
2. a. Electricity (x 1,000 KWH)	524,641	551,848	600,767
b. Connections	32,141	33,337	34,416
c. Number of users	27,528	28,708	29,861
3. a. Gas (x 1,000 pounds)	14,857	15,607	15,633
b. Household	6,614	6,929	6,958
c. Commercial	8,243	8,678	8,675

1) Sale of water, excluding Coastal Aruba N.V. and vessels.

Sources: CBS; WEB Aruba N.V.; ELMAR N.V.; Arugas N.V.

2.1.5 Telecommunication

In 1998, the number of fix-line telephone connections increased by 10 percent to 36,220 – the same growth as in 1997 (see table 6) – probably because of a steady increase in the number of households; connections per 1,000 inhabitants grew by 8 percent (1997: 7 percent). Wireless connections expanded by a marked 41 percent (1997: 47 percent). Growth in cellulars per 1,000 inhabitants decelerated by 5 percentage points, but still amounted to 38 percent in 1998. Internet connections continued to be the fastest-growing telecommunication segment in 1998, increasing by 97 percent. There are about 38 internet connections per 1,000 inhabitants,

Table 6 Telecommunication indicators

	1996	1997	1998
1. a. Number of fix-line connections 1)	29,681	32,796	36,220
b. Telephone owners per thousand inhabitants	337	359	388
2. a. Number of cellular connections	2,485	3,642	5,133
b. Cellular owners per thousand inhabitants	28	40	55
3. a. Number of internet connections	659	1,802	3,544
b. Internet owners per thousand inhabitants	7	20	38
4. Telecommunications index 2) (1996=100)	100.0	121.6	164.5

1) Including fax connections, excluding cellular telephones.

2) Average index of the number of telephone, cellular, and internet connections.

Sources: SETAR; CBS; CBA

representing a 90 percent growth. The telecommunication index, i.e., a weighted average index using the total number of connections as weights, rose by 43 points to 164.5 in 1998.

Following drastic worldwide price reductions, SETAR, the national telecommunications company, reduced some of its tariffs. For instance, as of November 1998, cellular owners no longer have to pay for calls received, and subscription rates were reduced. Furthermore, tariffs on specific international calls were lowered, in certain cases by as much as 65 percent. Even so, the prices of these calls are still higher than those of call-back companies operating from abroad. To enhance efficiency, the government presently is contemplating privatizing SETAR.

2.1.6 Harbor activities

During 1998, the number of harbor calls continued to decrease (see table 7), i.e., by 3 percent to 3,566 (1997: 3,655). All categories, i.e., cruise ships, tankers, and container ships, contributed to the

Table 7 Harbor activities

	1996	1997	1998
1. Number of harbor calls	3,874	3,655	3,566
a. Cruise ships	273	270	255
b. Tankers	542	511	476
c. Cargo ships (excluding tankers)	806	750	719
d. Other	2,253	2,124	2,116
2. Cargo movements (x 1,000 metric tons) 1)	286,613	349,758	342,051
a. Container weight (x 1,000 metric tons)	237,383	291,873	287,526
b. Containers (in tues) 2)	29,337	28,914	29,704
- Transshipment	6,350	4,938	4,557
- Free zone	3,374	3,533	2,006
- Local	19,613	20,443	23,141
c. Break bulk weight (x 1,000 metric tons)	49,230	57,885	54,525
- Free zone	4,792	6,101	1,028
- Local	44,438	51,784	53,497
3. Sale of water to vessels (x 1,000 m3)	221	208	186

1) Estimates; including containers.

2) Measured in tues, equivalent to twenty feet container discharge.

Sources: CBS; ASTEC N.V.; ATA; CBA; APA N.V.; Coastal Aruba N.V.

decline. Cargo movements, measured in metric tons, fell by 2 percent, following a notable 22 percent growth in 1997. Container freight, measured in tues, increased by 3 percent, mainly because of a 13 percent rise in transports for the local market. Free-zone transports were significantly lower, i.e., 43 percent, primarily associated with reduced imports of tobacco products and the shifting of certain activities to other countries in the region. Break bulk weight (measured in 1,000 metric tons) shrank by 6 percent (1997: 18 percent increase), largely the result of the reduced free-zone transactions.

2.1.7 Oil refining

Production of refined oil decreased by 11 percent in 1998 to 58 million barrels (see table 8), due to construction and revision works at the Coastal refinery to improve operating efficiency and increase throughput. Consequently, total export receipts shrank by 43 percent to AFL 1.3 billion, while import payments more than halved to AFL 0.7 billion. At the end of 1998, the company had 541 own employees, i.e., 1 percent more than in 1997.

Further enhancement and expansion of the refinery's production capacity will take place in the coming years, requiring an investment of US\$ 250 million. As a result, crude oil throughput capacity of the refinery will be expanded to about 280,000 bpd (currently 210,000 bpd). Despite the current general moratorium, the government granted another 10-year tax holiday to the Coastal refinery starting in 2001, when the existing facility expires.

Also, an agreement with P.M.I. Comercio Internacional, the international marketing subsidiary of Petróleos Mexicanos, was signed. This company will supply Coastal with up to 100,000 barrels of crude oil per day for the next five years.

Table 8 Oil refining

	1996	1997	1998
1. Export of oil (x AFL million)	2,565	2,272	1,290
2. Import of crude oil (x AFL million)	2,405	1,862	704
3. Quantity of oil refined (x 1,000 barrels)	68,660	65,507	58,388
4. Number of employees (at end-December)	536	534	541

Source: Coastal Aruba N.V.

2.1.8 Airport activities

After a 4 percent increase in 1997, the number of airline passengers remained virtually unchanged at 1,785,747 in 1998 (see table 9). This stabilization was attributable mainly to a meager 1 percent decline in the number of stop-over passengers, reflecting the reduced airlift capacity associated with the financial problems of Air Aruba and the cancellation of one of the bi-daily flights of American Airlines to Puerto Rico as of April 1998.

On the other hand, in May 1998, Continental Airlines initiated a direct connection between Houston and Aruba. The number of transit passengers grew by 8 percent, presumably due to the use of larger aircraft. Revenue from the passenger facility charge increased by 1 percent. Landings declined marginally to 16,343 (1997: 3 percent increase), contributing to a 4 percent decrease in the collection of landing and parking fees.

In October 1998, the Venezuelan Airline Aserca bought about 70 percent of the shares of Air Aruba N.V. The latter company was confronted continuously with financial difficulties. The government will retain most of the remaining shares. Following this change of ownership, Air Aruba recently managed to increase its fleet from two to five carriers.

The expansion of the national airport continued through 1998. As of December 1998, 33 percent of the check-in lobbies and 85 percent of all other buildings were completed. Outstanding works include the passenger boarding bridge installation, the landside road improvement, the conveyer installation, security, and telematics.

Table 9 Airport activities

	1996	1997	1998
1. Number of passengers	1,711,775	1,785,039	1,785,747
a. Stop-over	1,583,572	1,618,153	1,605,570
b. Transit	128,203	166,886	180,177
2. Aircraft landings	16,112	16,518	16,343
a. Commercial	12,410	13,429	13,307
b. Noncommercial	3,702	3,089	3,036
3. Landing & parking fees (x AFL million)	4.0	4.6	4.4
4. Passenger facility charge 1) (x AFL million)	28.1	27.2	27.4

1) As of January 1, 1997, the airport tax was replaced by a passenger facility charge.

Sources: CBS; Aruba Airport Authority N.V.

2.1.9 Construction

During 1998, the number of construction permits granted increased by 10 percent to 1,264, following a 12 percent decline in 1997 (see table 10). This increase was attributed primarily to a 9 percent rise in the housing category. However, the total value of the permits shrank by 17 percent, compared to a 47 percent increase in 1997. Another important indicator of activity in the building sector is the quantity of cement imported, which increased by 5 percent (1997: 12 percent). In contrast, the number of approved electrical installations decreased by 3 percent.

Table 10 Construction activities

	1996	1997	1998
1. Number of construction permits granted	1,314	1,152	1,264
a. Houses 1)	1,183	986	1,071
b. Apartments	32	14	21
c. Office buildings	11	4	1
d. Stores and shopping malls 2)	5	14	11
e. Other 3)	83	134	160
2. Total value of construction permits (in AFL million)	137.6	202.1	168.2
3. Total cement imported (x 1,000 Kg)	36,073	40,333	42,259
4. Electrical installations approved	2,728	3,084	2,992

1) Including additions to and remodeling of existing houses.

2) Including additions to and remodeling of existing stores and shopping malls.

3) Comprising, inter alia, restaurants, schools, etc.

Sources: CBS; Department of Public Works

2.1.10 Prices

In 1998, the average annual increase in the consumer price index abated further, i.e., by 1.1 percentage points to 1.9 percent (see table 11 and chart 5A). The slowdown was attributed particularly to a decline in U.S. export prices and a significant decrease in international oil prices. The latter development resulted in a downward adjustment in water and electricity tariffs as well as lower prices for gasoline.

During 1998, the inflation rate differential with the United States, Aruba's major trading partner, narrowed to 0.3 percentage point,

**CHART 5A
CONSUMER PRICE INDEX
(percentage changes)**

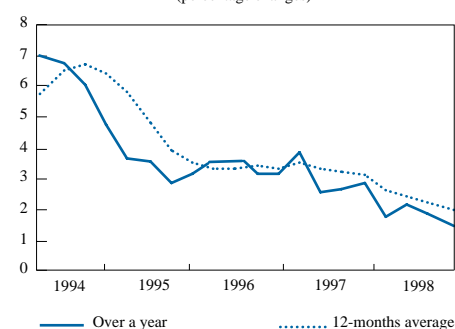
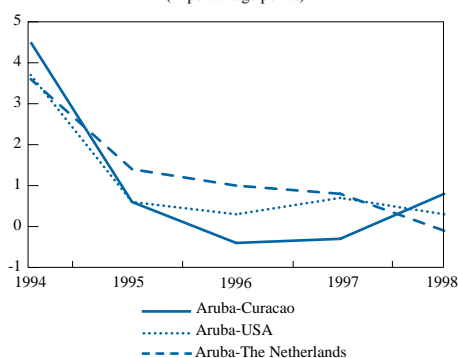


CHART 5B
INFLATION RATE DIFFERENTIALS
(in percentage points)



as the moderation in the U.S. inflation rate was less pronounced than in Aruba. As a result, the real effective florin exchange rate index rose by 0.4 percentage point to 110.1. The inflation rate of the Netherlands, Aruba's second most important trading partner, was slightly above that of Aruba (+0.1 percentage point), while that of Curaçao fell significantly below, reflecting in part the ongoing economic recession in that country (see chart 5B).

Table 11 Consumer price index

Period average

	1996	1997	1998
Total index (10,000) 1)	3.2	3.0	1.9
a. Food (1,625)	4.0	3.1	2.0
b. Beverage & tobacco (254)	2.7	1.9	1.5
c. Clothing & footwear (1,134)	6.4	4.9	6.3
d. Housing (1,786)	1.5	5.0	0.8
e. Housekeeping & furnishing (1,039)	3.7	1.8	2.6
f. Health (307)	6.6	2.1	0.5
g. Transport & communication (2,072)	1.8	1.6	-0.1
h. Recreation & education (808)	4.3	2.5	2.1
i. Other (975)	1.8	2.1	1.5
Aruba	3.2	3.0	1.9
United States	2.9	2.3	1.6
Curaçao	3.6	3.3	1.1
The Netherlands	2.2	2.2	2.0
Real exchange rate index (1990=100) 3)	109.0	109.7	110.1

1) Weights.

2) Relative to the U.S. dollar. Based on CPI period-average.

Sources : CBS; CBA; International Financial Statistics, IMF

2.1.11 Labor market

The labor force survey of the Central Bureau of Statistics (CBS), conducted in 1997, indicates that the observed unemployment rate increased somewhat to 7.4 percent during the 1994-1997 period, while there was a 14 percent surge in the labor force (see table 12).

Noteworthy is that during a job fair conducted by the Department of Labor only 473 persons (less than 15 percent of the observed unemployed in 1997) inscribed themselves as job seekers. Also, a growing group unemployed has little education and does not meet labor market requirements.

The registered unemployment rate was less than 1 percent in 1997. This figure only takes account of Arubans actually registered at the department mentioned above. By contrast, the labor force survey overestimates unemployment, as it is held in October, during the low tourism season when demand for labor is traditionally subdued and a relatively large number of school leavers enter the labor market.

Table 12 Labor market indicators

	1991	1994	1997
1. Working age population 1)	50,283	61,315	71,485
a. Males	24,310	30,106	35,242
b. Females	25,973	31,209	36,243
2. Labor force	31,012	39,303	44,840
a. Males	17,842	22,762	25,179
b. Females	13,170	16,541	19,661
3. Unemployed	1,885	2,527	3,339
a. Males	1,055	1,215	1,693
b. Females	830	1,312	1,646
4. Participation rate	61.7	64.1	62.7
a. Males	73.4	75.6	71.4
b. Females	50.7	53.0	54.2
5. Unemployment rate 2)	6.1	6.4	7.4
a. Males	5.9	5.3	6.7
b. Females	6.3	7.9	8.4
6. Mean income 3)	1,492	1,979	2,186
a. Males	1,778	2,324	2,520
b. Females	1,151	1,619	1,826
7. Estimated sum of wages 4)	521.5	873.4	1,088.7
a. Males	358.2	600.9	710.2
b. Females	170.4	295.9	394.7
8. Mean income in percentages of GDP per capita 5)	72.5	80.1	81.3
9. Wages in percentages of GDP 5)	31.3	36.7	36.9

1) Aged 15 and older.

2) Number of unemployed persons expressed as a percentage of the labor force.

3) In AFL per month.

4) Product of mean income per year and employed population; in AFL million.

5) CBA estimate.

Sources: CBS; CBA

According to the survey, nominal wages increased further during the 1994-1997 period: the mean income rose by 10 percent or by an annual average of more than 3 percent. The higher wages have contributed to an upward pressure on domestic costs.

In 1998, the minimum wages were raised by about 3 percent to AFL 1,089 for the first category and to AFL 508 for the second category, in order to almost fully compensate for the increase in the consumer price index in 1997 (see table 13).

Table 13 Legal minimum wages

In AFL per month

	1996	1997	1998
Categories:			
1. Industry (incl. construction, banks, insurance companies, hotels, restaurants, public utilities, electronics, textiles, and clothing)	1,025	1,060	1,089
2. Household personnel	478	495	508

Source: Department of Labor

2.1.12 Business units

Data of the Social Security Bank (SVB) indicate that during 1998, the number of inscribed companies grew by 4 percent (see table 14). The growth was attributed mainly to a 7 percent increase in the

Table 14 Business units

End of period

	1996	1997	1998
1. Number of inscribed resident companies	2,135	2,252	2,348
a. Administrative and other office works	612	640	684
b. Stores, import and export companies, drugstores, and printing offices	667	684	705
c. Hotels, restaurants, bars, professional cleaners, bakery and pastries, gas stations	434	460	476
d. Construction, transport, and insulating companies	182	200	211
e. Other	240	268	272
2. Number of bankruptcy declarations	7	7	9
3. Bankruptcy factor 1)	305	322	261

1) The bankruptcy factor is the number of inscribed companies divided by the number of bankruptcy declarations.

Sources: SVB, Office of Justice; CBA

category “administrative and other office works.” The number of bankruptcy declarations remained notably low.

2.2 Money and credit

2.2.1 Introduction

Large inflows of foreign funds caused an acceleration in monetary growth from 5 percent in 1997 to an exceptional 13 percent in 1998. Nominal GDP growth, on the other hand, abated further to an estimated 5 percent. Consequently, the macroeconomic liquidity ratio, i.e., the share of money supply in GDP, rose from 46 percent in 1997 to 50 percent in 1998, after declining since 1995 (see chart 6). It should be noted that there is a widespread dollarization in Aruba. Unfortunately, no hard figures on this phenomenon are available.

The liquidity of commercial banks – defined as the ratio of liquid assets to total assets – rose from 25 percent in 1997 to 29 percent in 1998. As the prudential liquidity ratio was maintained at 20 percent, the free liquidity ratio increased to 9 percent, compared to 5 percent in 1997 (see chart 7). Liquidity remained unevenly distributed among the commercial banks. To alleviate this situation, banks are offering relatively high remuneration on large long-term deposits from time to time.

Despite the ample liquidity position of the commercial banks, registered interest rates on time deposits (particularly large ones) showed some upward tendency. The negative interest rate differential between a three-month time deposit denominated in Aruban florin and a corresponding negotiable U.S. dollar certificate of deposit narrowed somewhat, but primarily because of a decline in the remuneration on the latter certificate (see chart 8). The average lending rate on current accounts was lowered; the mortgage rate was unchanged. The margin between the credit and debit rate remained wide by international standards, due mainly to the small size and dispersed institutional structure of the Aruban financial sector.

2.2.2 Money supply

The money supply expanded by a significant AFL 178 million to AFL 1,539 million in 1998 compared to an AFL 60 million increase in 1997 (see table 15). Narrowly defined money, comprising currency in circulation and demand deposits denominated in Aruban florin and foreign currency, rose by AFL 74 million or 16 percent in 1998 compared to AFL 28 million or 6 percent in 1997. This rise resulted from increases in demand deposits denominated in Aruban

CHART 6
MONEY SUPPLY AND GDP GROWTH
(indices 1994=100)

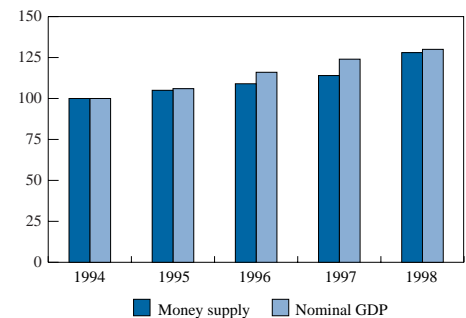


CHART 7
BANK LIQUIDITY
(in AFL million)

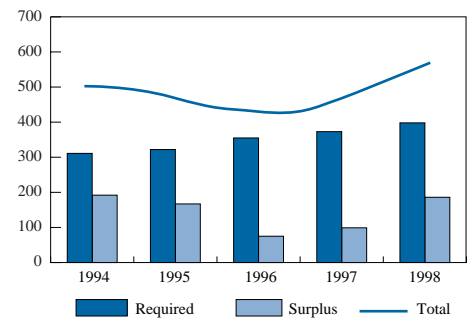


CHART 8
SELECTED INTEREST RATES
(in percentages)

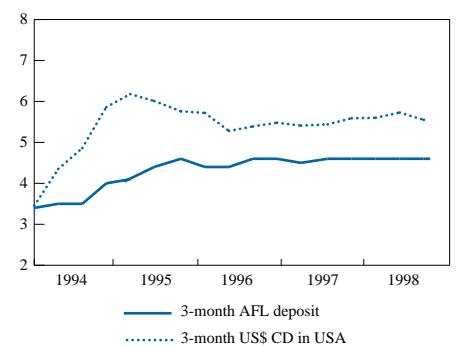
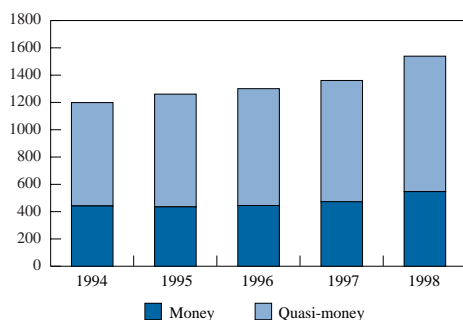


CHART 9
COMPOSITION OF MONEY SUPPLY
(in AFL million)



florin. Quasi-money, i.e., time and savings deposits and treasury bills held by the public, rose by AFL 104 million or 12 percent in 1998, up from AFL 32 million or 4 percent in 1997, due mainly to increases in time deposits denominated in Aruban florin (see chart 9).

Table 15 Causes of changes in money supply

In AFL million

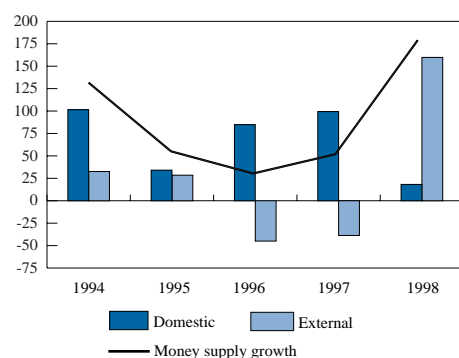
	1996	1997	1998
1. Net domestic money creation	84.8	99.4	18.2
a. Net domestic credit	125.6	93.3	68.2
- Public sector	19.1	31.8	0.8
- Private sector	106.5	61.5	67.4
b. Other domestic factors	-40.8	6.1	-50.0
2. Inflow of foreign funds 1)	-45.0	-39.7	159.8
a. Current account transactions	-110.8	-350.9	-50.6
b. Net capital inflow 2)	65.8	311.2	210.4
3. Broad money creation	39.8	59.7	178.0
a. Money	9.6	28.1	73.9
b. Quasi-money	30.2	31.6	104.1
(12-months percentage change)	(3.2)	(4.6)	(13.1)

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.

Source: CBA

CHART 10
CAUSES OF CHANGES IN MONEY SUPPLY
(in AFL million)



2.2.3 Net foreign assets

Inflows of foreign funds were the main factor behind the rapid acceleration in monetary growth. The banking sector's net foreign assets increased by AFL 160 million or 41 percent to a level of AFL 553 million (excluding revaluation differences of gold and official foreign exchange reserves), more than fully compensating for the AFL 85 million outflow of funds during the preceding two years (see chart 10). Besides a reclassification in the statistical database, the ongoing investments in the oil, utilities, and hotel sectors, and the acquisition of a large foreign loan by the government contributed to the increase in net foreign assets. In addition, the subdued growth in bank lending (partly due to some tightening in monetary policy) and the absence of net domestic monetary financing by the government played a role.

The official reserves increased by AFL 92 million or 29 percent to AFL 408 million in 1998. These reserves (including the above-indicated revaluation differences) were 1.5 times the monetary base, i.e., bank notes in circulation and outstanding liabilities of the central bank to commercial banks. The latter foreign exchange reserves almost doubled to AFL 145 million. The distribution of the international reserves was unaltered: about three-quarter was in the hands of the Bank, the remainder with commercial banks.

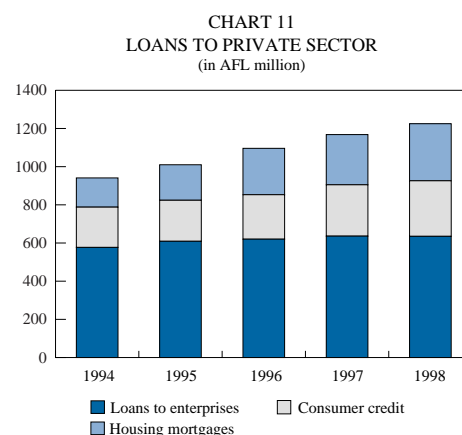
2.2.4 Net domestic assets

Money creation from domestic sources amounted to AFL 18 million or a mere 2 percent in 1998, compared to AFL 99 million or 12 percent during 1997. An AFL 68 million increase in domestic credit was largely offset by an AFL 50 million rise in noncredit-related items; the latter resulted from a reclassification in the statistical database, an increase in provisions for loan losses, and some other incidental factors.

Growth in domestic bank credit was moderate, reflecting mainly subdued activities in the trade sector. As a result, loans to enterprises remained virtually unchanged. However, this figure was influenced by the above-mentioned reclassification. Taking this factor into account, loans to enterprises showed an AFL 21 million or 3 percent reduction in 1998, compared to an AFL 34 million or 6 percent rise in 1997. Growth in consumer credit fell from AFL 36 million or 15 percent in 1997 to AFL 22 million or 8 percent in 1998, probably due to a less buoyant increase in consumer spending. Housing mortgages expanded by AFL 36 million or 14 percent (see chart 11).

2.2.5 Monetary policy

Against the background of surging international reserves, decelerating growth in business activities, and an abating inflation rate, and after consulting with the Aruban Bankers' Association pursuant to article 12 of the State Ordinance on the supervision of the credit system, the Bank suspended the collective credit ceiling system as of April 1, 1999. This action may set the stage for greater competition in the banking sector and for a shift to market-oriented monetary instruments. Simultaneously, the advance rate (unchanged since July 1, 1986) has been lowered by 3 percentage points to 6.5 percent. Also, the official discount rate has been abolished due to a lack of discountable paper.



The B-9 arrangement, which regulates the distribution of the foreign exchange reserves between the commercial banks and the Bank, and the monetary cash reserve requirement, which obliges commercial banks to hold an equivalent of 7 percent of their short-term deposits in an earmarked (interest-bearing) account at the Bank, remain unaltered in effect. The penalty rate for any deficiency in the cash reserve has been reduced to 3 percent.

The Bank has requested the commercial banks to exercise the self-discipline to maintain their credit growth in line with the increase in nominal GDP. Credit developments will continue to be monitored closely, and corrective measures may be taken if and when required by changing economic, monetary and balance-of-payments conditions. Disciplined credit behaviour and the avoidance of domestic monetary financing of budget deficits remain required to continue to realize the main objective of monetary policy, i.e., preserving the fixed exchange rate of the Aruban florin to the U.S. dollar. To support this objective, the Bank aims to further strengthen the banking system's net foreign assets position to 5-6 months of non-oil merchandise imports.

2.2.6 Nonmonetary financial institutions

The so-called nonmonetary financial institutions (comprising mortgage banks, pension funds, life insurance companies, finance companies, the Aruban Investment Bank, and the Social Security Bank) play an important role in Aruba's financial system.

Illustrative is that their balance sheet total is larger than that of the commercial banks. Their net foreign assets are twice as big. Due to higher investments, these assets increased by AFL 67 million or 30 percent to AFL 293 million at the end of 1998 (see table 16).

Gross domestic claims of the nonmonetary financial institutions rose by AFL 47 million or 4 percent to AFL 1,138 million in 1998, of which about one half relates to claims on the government. Housing mortgages, the main component of claims on the private sector, went up by AFL 48 million or 15 percent in 1998 to AFL 369 million. Table 17 summarizes the overall developments in this market. At the end of 1998, the market share of commercial banks amounted to 45 percent, while that of the mortgage banks (including FCCA) was only 5 percentage points smaller. The shares of pension funds and life insurance companies in the total housing mortgages market remained relatively small, i.e., 8 percent and 7 percent, respectively.

Pension fund provisions, constituting about 81 percent of the balance sheet total of the nonmonetary financial institutions, increased by AFL 141 million or 14 percent to AFL 1,157 million in

Table 16 Nonmonetary financial institutions

End of period, in AFL million

	1996	1997	1998
1. Net foreign assets	243.6	225.3	292.6
2. Domestic claims	915.8	1,090.8	1,138.1
a. Government	489.9	598.6	599.2
b. Private sector	425.9	492.2	538.9
3. Total assets=total liabilities	1,159.5	1,316.1	1,430.8
4. Borrowings and deposits	56.4	72.6	72.6
a. Government	41.9	40.9	40.4
b. Other residents	14.6	31.7	32.3
5. Pension fund provisions	915.1	1,015.4	1,156.6
6. Insurance reserve fund	148.4	165.5	183.6
7. Other items, net	39.6	62.5	18.0

Source: CBA

1998, while insurance fund provisions rose by AFL 18 million or 11 percent to AFL 184 million. Borrowings from the government and other residents (including deposits) remained unchanged at a modest AFL 73 million.

Table 17 Housing mortgages

End of period, in AFL million

	1996	1997	1998
1. Total	508.1	583.8	667.8
2. Commercial banks	243.1	263.2	299.0
3. Mortgage banks	195.1	238.9	268.9
4. Pension funds	35.6	41.1	50.3
5. Life insurance companies	33.8	40.0	49.0
6. Other	0.5	0.6	0.6

Source: CBA

2.3 Government finance

2.3.1 Introduction

In 1998, further progress was made in compiling government finance statistics. The Ministry of Finance recently published the first comprehensive overview of the financial operations of the

Table 18 Government finance summary table 1)

In AFL million

	1996	1997	1998
1. Revenue and grants	645.3	627.6	646.4
a. Tax revenue on	491.6	499.7	535.4
- Income and profit	223.3	231.6	251.6
- Commodities	179.6	183.5	187.7
- Property	25.2	26.5	32.3
- Services	44.6	41.3	43.7
- Foreign exchange tax	18.9	16.8	20.2
b. Nontax revenue 2)	125.8	89.6	95.3
c. Grants	27.9	38.3	15.7
2. Expenditures and items n.i.e.	692.5	674.4	663.8
a. Wages and wage subsidies	286.5	324.3	302.9
b. Goods and services	127.2	162.6	150.8
c. Investments	55.0	50.7	39.4
d. Items n.i.e. 3)	223.8	136.8	170.7
3. Financial deficit (-)	-47.2	-46.8	-17.4
4. Net foreign capital	-19.0	-16.0	39.3
a. Loans received	0.0	0.0	55.4
b. Repayments on loans	-19.0	-16.0	-16.1
5. Net domestic capital 4)	47.1	31.0	-22.7
a. Loans received	67.6	63.4	19.9
b. Repayments on loans	-20.5	-32.4	-42.6
6. Net recourse to the monetary system (-)	-19.1	-31.8	-0.8
7. Memorandum item			
a. Payment arrears 5)	73.4	100.8	139.5

1) Preliminary figures on a cash basis. Includes transactions related to the foreign development cooperation.

2) Comprising nontax revenue reported by the Tax Collector's Office.

3) Residual item, including errors and omissions.

4) Net long-term capital attracted from nonmonetary sectors. The commercial banks' loan arrangements with the government are included under item 6.

5) At the end of the period. Mainly suppliers' credit and payment arrears to the APFA.

Sources: Department of Finance; Tax Collector's Office; CBA

central government on a cash basis and of debt outstanding for the years 1997 and 1998. Henceforth, such data will be published on a monthly basis to enhance accountability of and transparency in the government's financial operations. However, there are still lacunas in, inter alia, the payment arrears data.

2.3.2 Revenue and grants

In 1998, total revenue and grants amounted to AFL 646 million, AFL 19 million or 3 percent more than in 1997 (see table 18). Tax collections (including the foreign exchange tax) increased by AFL 36 million or 7 percent to AFL 535 million or 17 percent of estimated GDP. All major components contributed to this increase. An AFL 16 million growth in wage tax receipts, the largest tax component, accounted for almost 46 percent of the growth in tax collections. After declining in the previous two years, income tax revenue grew by AFL 4 million to AFL 13 million in 1998 (see chart 12).

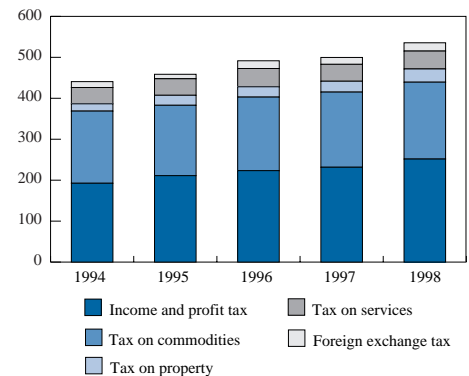
Following a significant decrease in 1997, nontax revenue rose by AFL 6 million to AFL 95 million in 1998, due mainly to higher receipts from land leases as well as from charges and fees. The increase in income from taxes, in particular, and from nontaxes more than compensated for the substantial decline in grants received in the framework of the Dutch development cooperation. These funds shrank to only AFL 16 million during 1998, about 60 percent less than the amount received in 1997.

2.3.3 Expenditures

According to Bank estimates, government expenditures on a cash basis declined for the second consecutive year, i.e., by AFL 11 million or 2 percent to AFL 664 million in 1998. The decline was brought about mainly by not fully paying employers' pension premium obligations to APFA during 1998 – thus, further pushing up debt to this institution. In addition, spending on goods, services, and investments was reduced. On the other hand, wage subsidies to government foundations and other nonprofit organizations rose by AFL 15 million to AFL 73 million, and interest payments increased by about 33 percent to AFL 31 million, equivalent to 6 percent of tax revenue.

Actual spending was higher in 1998 than the cash-basis data indicate. After all, the government continued to run-up arrears to the suppliers of goods and services and to the APFA in particular. According to provisional data, these arrears reached AFL 140 million (5 percent of GDP) in 1998, a 38 percent increase over

CHART 12
TAX REVENUE
(cash basis; in AFL million)



1997. However, hard data still are not available on the indicated arrears.

2.3.4 Financing

In 1998, the operations of the government resulted in a financial deficit on a cash basis of AFL 17 million, i.e., AFL 29 million smaller than in 1997. Consequently, the financial deficit as a percentage of GDP declined from 1.6 percent in 1997 to about 0.6 percent in 1998. However, this figure does not include the change in the payment arrears. As mentioned earlier, hard data on these arrears are not yet available. Moreover, some uncertainty exists about who will eventually have to pay an AFL 21.9 million claim of the APFA on a number of public institutions and enterprises. Including this amount, the financing deficit may be estimated at AFL 56 million or 1.8 percent of GDP. In June 1998, the government launched an austerity program and a campaign to recover outstanding claims and, thus, restore budgetary discipline.

To cover its financing need, the government, for the first time, borrowed US\$ 31 million (equivalent to AFL 55 million) on the foreign commercial capital market. Due to the difficulties in obtaining local loan financing, only AFL 20 million was borrowed from the local nonmonetary sectors. The borrowings were used mainly to repay both domestic and concessional foreign debt, amounting to AFL 43 million and AFL 16 million respectively, and to improve the liquidity position. Government deposits held with the banking system increased to AFL 77 million, while government liabilities reached AFL 68 million.

Fewer provisions for contingency liabilities were made than originally anticipated; thus, deposits to earmarked accounts increased by only AFL 10 million to AFL 51 million and overdue allocations to these accounts reached AFL 95 million at the end of 1998. Subsequently, due to the tight liquidity situation, the government decided not to settle overdue transfers to the hotel guarantee fund and, as of January 1999, to halve the deposits to this fund because the risks involved are considered lower now. Also, henceforth, no contributions will be made to the Sinking Fund when government bonds are issued, while yearly AFL 12 million will be deposited in this fund to settle existing overdue payments.

2.3.5 Development cooperation

In 1998, net receipts from foreign development assistance were merely AFL 1 million, significantly less than the AFL 24 million

received in 1997 (see table 19). Grants, mainly from the Netherlands, declined by AFL 23 million, while repayments on loans to that country and the European Investment Bank amounted to AFL 14 million. The grants were utilized mostly to improve education facilities. The Aruban government transferred AFL 7 million to the Solidarity Fund.

Only AFL 2 million in Dutch funds was received for the financing of local social and educational projects in 1998. These funds are transferred directly to the entitled organizations and, therefore, are not included in table 18.

Table 19 Development funds

In AFL million

	1996	1997	1998
1. Total grants	27.9	38.3	15.7
a. The Netherlands	26.2	37.0	15.7
b. European Development Bank	1.7	1.3	0.0
2. Total loans	0.0	0.0	0.0
a. The Netherlands	0.0	0.0	0.0
b. European Investment Bank	0.0	0.0	0.0
3. Total repayments on loans	-16.3	-14.0	-14.3
a. The Netherlands	-16.3	-13.7	-13.6
b. European Investment Bank	-0.0	-0.3	-0.7
4. Net loans	-16.3	-14.0	-14.3
a. The Netherlands	-16.3	-13.7	-13.6
b. European Investment Bank	0.0	-0.3	-0.7
5. Net receipts	11.6	24.3	1.4
Memorandum items:			
6. Fund for Social, Educational, and Cultural Projects	2.1	1.6	2.0
7. Solidarity Fund	-5.7	-2.8	-7.0

Sources: CBA; Landsbedrijf Ontwikkelingsprojecten

2.3.6 Government debt

At the end of 1998, government debt amounted to AFL 1,084 million, representing an AFL 98 million or 10 percent increase compared to 1997 (see table 20). Consequently, the ratio of government debt to nominal GDP rose to 35 percent.

An AFL 57 million surge was recorded in the foreign debt component, as commercial borrowings and the appreciation of the Dutch guilder vis-à-vis the Aruban florin were offset only partly by an AFL 14 million repayment on concessional loans from the Netherlands. Additionally, the domestic debt component

Table 20 Outstanding government debt 1)

End of period in AFL million

	1996	1997	1998
1. Total debt	972.6	986.5	1,084.1
2. Domestic debt	619.0	690.0	730.4
a. Negotiable	194.9	220.6	186.8
- Bonds	162.9	188.6	154.8
- Treasury bills	32.0	32.0	32.0
b. Nonnegotiable	424.1	469.4	543.6
- General Pension Fund Aruba	301.4	317.2	402.9
- Social Security Bank	36.5	31.5	31.5
- Suppliers' credit	73.4	59.4	32.1
- Private loans	8.7	48.6	63.6
- Other	4.1	12.8	13.4
3. Foreign debt 2)	353.6	296.5	353.6
a. The Netherlands	328.4	275.9	278.2
- Development cooperation	322.0	271.0	273.7
- Commercial loans	6.4	5.0	4.5
b. European Investment Bank	21.5	19.0	19.5
c. U.S.A.	3.7	1.5	45.1
d. Other	-	-	10.9
4. Key indicators 3)			
a. Import coverage ratio (in months)	4.9	3.9	4.2
b. Current account (net)	-110.8	-350.9	-50.6
c. Current account excluding oil sector	-4.8	-30.0	-46.0
d. Financial deficit (-)	-47.2	-46.8	-17.4
e. Foreign debt in % export (excl. oil sector)	51.8	37.8	51.4
f. GDP	2,751	2,949	3,094
g. Total debt in % GDP	35.4	33.5	35.0
5. Net claims on the monetary sector	-41.5	-9.7	-8.9
a. Government's deposits	111.5	84.2	76.8
- Centrale Bank van Aruba,	92.6	68.3	65.5
of which earmarked	88.7	40.3	50.5
- Commercial banks	18.9	15.9	11.3
b. Government's liabilities	70.0	74.5	67.9
6. Memorandum item 2)			
Outstanding government guarantees	362.5	305.3	318.4

1) Preliminary figures, excluding guarantees and debt resulting from the separation of funds between Aruba and the Netherlands Antilles as of January 1, 1986.

2) At year-end exchange rates.

3) In AFL million, unless indicated otherwise.

Sources: Department of Finance; CBA

grew by AFL 40 million to AFL 730 million because of a significant increase in nonnegotiable debt. The latter includes the aforementioned payment arrears to suppliers of goods and services and to the APFA, which increased by AFL 39 million to AFL 140 million in 1998 according to provisional data. On the other hand, negotiable debt decreased by AFL 34 million because of debt repayments related mainly to maturing government bonds. Following a decline in 1997, government guarantees increased by AFL 13 million to AFL 318 million in 1998, reflecting mainly the appreciation of the Swiss franc vis-à-vis the Aruban florin. No new guarantee was issued during 1998.

2.4 Balance of payments

2.4.1 Overall outcome

Following an AFL 40 million deficit in 1997, the balance of payments recorded a notable AFL 160 million surplus in 1998 (see table 21 and chart 13). As a result, net foreign assets of the banking system (including revaluation differences of gold and official foreign exchange holdings) increased by AFL 149 million or 34 percent to AFL 582 million at the end of 1998 (see chart 14).

Consequently, the end-of-period non-oil merchandise import coverage ratio edged up to 3.9 months. The 12-months moving average of this ratio rose by 0.3 month to 4.2 months – but obviously remained under the 5-6 months' target (see chart 15). Net official reserves held by the Bank increased by AFL 81 million to AFL 437 million, representing 75 percent of the net foreign assets of the monetary system. The remainder was held by commercial banks.

The balance-of-payments' outcome was brought about by a notable improvement in the current account. On the other hand, the capital and financial account deteriorated. These developments were as usual dominated by oil sector transactions. This sector's intercompany liabilities continued to increase due to its current account deficit and investment activities at the refinery. To finance local operational costs, foreign exchange equivalent to AFL 103 million was sold to the local banking system. The direct contribution of the free-zone sector in the increase in net foreign assets remained virtually constant, i.e., AFL 15 million. The rest of the economy recorded an AFL 42 million net inflow of funds.

CHART 13
BALANCE OF PAYMENTS
(in AFL million)

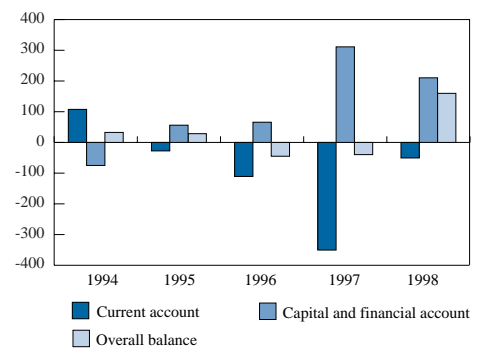
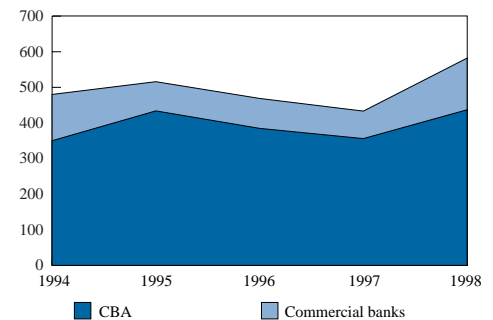
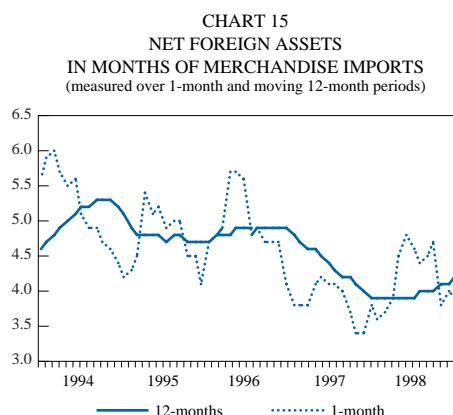


CHART 14
NET FOREIGN ASSETS
(in AFL million)



**Table 21 Balance of payments' summary by sectors 1)**

In AFL million

	1996	1997	1998
1. Current account (net)	-110.8	-350.9	-50.6
a. Oil	-106.0	-320.9	-4.6
b. Free zone	33.6	18.8	-7.0
c. Rest of economy	-38.4	-48.8	-39.0
2. Capital and financial account (net)	53.6	315.7	210.2
a. Oil	110.8	326.3	107.8
b. Free zone	-1.6	-4.0	21.9
c. Rest of economy	-55.6	-6.6	80.5
- Government	8.9	22.3	55.4
- Other sectors	-64.5	-28.9	25.1
3. Items not yet classified 2)	12.2	-4.5	0.2
4. Overall balance (1+2+3)	-45.0	-39.7	159.8
5. Banking transactions 3)	-2.1	6.9	-68.0
6. Increase (-) in official reserves 4)	47.1	32.8	-91.8

1) On a cash basis.

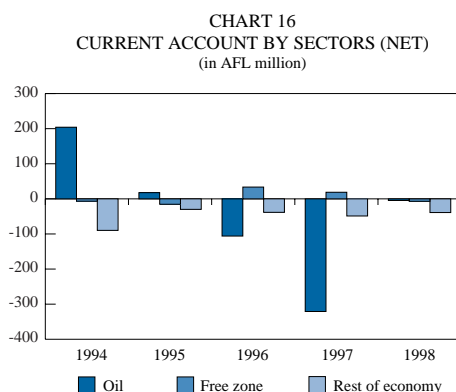
2) Including errors and omissions.

3) Minus (-) sign denotes an increase in assets and a decrease in liabilities.

4) Excluding revaluation differences of gold and official foreign exchange holdings.

Source: CBA

2.4.2 Current account



During 1998, the current account deficit decreased by AFL 300 million to AFL 51 million or 1.6 percent of GDP (see tables 22 and 23 and chart 16). The oil sector's current account deficit shrank by a bulky AFL 316 million to a mere AFL 5 million. Import payments for crude oil and other goods (including related transportation and insurance costs) declined by 47 percent, while export receipts for refined oil products and goods procured in ports fell by 38 percent, due partly to the temporary shutdown of the refinery to upgrade its production capacity. Net payments for construction services rose by AFL 33 million to AFL 34 million because of the building of a new delayed petroleum-coker unit.

The goods and services account of the free-zone sector recorded an AFL 7 million deficit in 1998, compared to an AFL 19 million surplus in 1997; its registered export receipts decreased by 2 percent to AFL 516 million, but import payments (c.i.f.) increased by 6 percent to AFL 523 million, largely because of stockpiling.

Table 22 Components of the current account

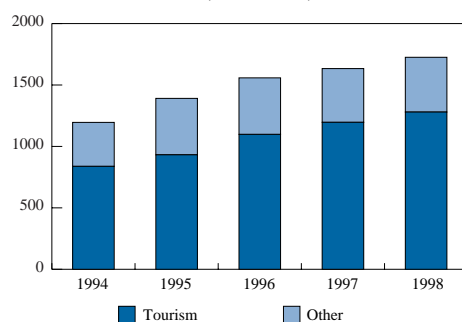
In AFL million

	1996	1997	1998
1. Receipts	4,547.1	4,624.2	3,772.4
a. Goods and services	4,479.9	4,554.1	3,649.3
1. Goods	3,102.4	3,087.3	2,096.2
1.1 General merchandise	2,941.4	2,912.6	1,954.4
1.1.1 Oil	2,420.3	2,302.8	1,407.6
1.1.2 Non-oil	521.1	609.8	546.8
1.2 Goods procured in ports by carriers	159.5	174.1	141.2
1.3 Repairs on goods	1.5	0.6	0.6
2. Services	1,377.5	1,466.8	1,553.1
2.1 Transportation	103.4	89.0	101.9
2.2 Travel	1,121.6	1,237.6	1,295.3
2.2.1 Tourism	1,098.1	1,196.3	1,279.8
2.2.2 Other	23.5	41.3	15.5
2.3 Government services n.i.e.	33.5	30.8	25.9
2.4 Other services	119.0	109.4	130.0
b. Income	34.3	37.1	72.0
1. Compensation of employees	1.9	1.7	2.3
2. Investment income	32.4	35.4	69.7
c. Current transfers	32.9	33.0	51.1
1. Government	9.1	13.2	21.4
2. Other sectors	23.8	19.8	29.7
2. Payments	4,657.9	4,975.1	3,823.0
a. Goods and services	4,563.0	4,854.4	3,690.7
1. Goods	3,642.2	3,787.4	2,713.4
1.1 General merchandise	1,337.2	1,479.8	1,691.1
1.1.1 Oil	127.7	207.0	333.3
1.1.2 Non-oil	1,209.5	1,272.8	1,357.8
1.2 Goods for processing	2,266.1	2,276.4	991.1
1.3 Goods procured in ports by carriers	23.6	18.1	18.9
1.4 Repair on goods	15.3	13.1	12.3
2. Services	920.8	1,067.0	977.3
2.1 Transportation	393.8	421.0	294.1
2.2 Travel	214.4	280.1	227.2
2.2.1 Tourism	172.4	234.6	186.9
2.2.2 Other	42.0	45.5	40.3
2.3 Government services n.i.e.	59.0	70.6	44.0
2.4 Other services	253.6	295.3	412.0
b. Income	55.5	67.9	71.4
1. Compensation of employees	4.3	0.4	0.6
2. Investment income	51.2	67.5	70.8
c. Current transfers	39.4	52.8	60.9
1. Government	12.5	19.2	21.4
2. Other sectors	26.9	33.6	39.5
3. Current account, net (1 - 2)	-110.8	-350.9	-50.6

Source: CBA

The current account deficit of the rest of the economy narrowed in 1998 by AFL 10 million to AFL 39 million (1.3 percent of GDP), predominantly as a result of a 14 percent rise in registered net tourism receipts (1997: 4 percent). The share of gross earnings from tourism in total current account receipts (excluding the oil and free-zone sectors) rose by almost 1 percentage point to 74 percent. In addition, net outflows related to government services shrank by 55 percent, due primarily to lower health expenditures and transfers to Aruba's representative office in the Netherlands.

CHART 17
CURRENT ACCOUNT RECEIPTS OF
THE REST OF THE ECONOMY
(in AFL million)



On the other hand, the deficit on construction services widened by 9 percent to AFL 32 million, due mainly to payments for the ongoing works at the airport. The deficit on the trade balance rose by AFL 107 million to AFL 870 million, as import payments (f.o.b.) increased by 7 percent, and the traditionally small and erratic export receipts fell by 49 percent. Net payments for transportation and import-related insurance, as well as costs of health, study, information, and communication services continued to increase (see table 24 and chart 17).

Net income payments turned from an AFL 16 million deficit into an AFL 1 million surplus, primarily because interest earnings on foreign investment by financial institutions increased substantially

Table 23 Current account by sectors (net)

In AFL million

	1996	1997	1998
1. Goods and services	-83.1	-300.3	-41.4
a. Oil	-100.8	-312.9	2.9
b. Free zone	33.6	33.2	-7.0
c. Rest of economy	-15.9	-20.6	-37.3
2. Income	-21.2	-30.8	0.6
a. Oil	0.1	-0.3	0.0
b. Free zone	0.0	-14.4	0.0
c. Rest of economy	-21.3	-16.1	0.6
3. Current transfers	-6.5	-19.8	-9.8
a. Oil	-5.3	-7.7	-7.5
b. Free zone	0.0	0.0	0.0
c. Rest of economy	-1.2	-12.1	-2.3
4. Current account balance	-110.8	-350.9	-50.6
a. Oil	-106.0	-320.9	-4.6
b. Free zone	33.6	18.8	-7.0
c. Rest of economy	-38.4	-48.8	-39.0

Source: CBA

in 1998. On the other hand, dividend transfers by resident companies to nonresident shareholders more than doubled.

Current transfers were AFL 10 million lower in 1998 than in 1997. In contrast to the previous year, transactions of the government and those related to workers' remittances, on balance, did not cause an outflow of money, while net inflows related to other transfers were higher in 1998.

Table 24 Current account of the rest of the economy

In AFL million

	1996	1997	1998
1. Receipts	1,558.2	1,633.6	1,725.6
a. Goods and services	1,491.3	1,563.5	1,602.5
1. Goods	114.9	97.8	49.4
2. Services	1,376.4	1,465.7	1,553.1
2.1 Tourism	1,098.1	1,196.3	1,279.8
2.2 Other	278.3	269.4	273.3
b. Income	34.1	37.1	72.0
c. Current transfers	32.8	33.0	51.1
2. Payments	1,596.6	1,682.4	1,764.6
a. Goods and services	1,507.2	1,584.1	1,639.8
1. Goods	906.7	861.0	919.7
2. Services	600.5	723.1	720.1
2.1 Tourism	172.4	234.6	186.9
2.2 Other	428.1	488.5	533.2
b. Income	55.4	53.2	71.4
c. Current transfers	34.0	45.1	53.4
3. Current account balance (1-2)	-38.4	-48.8	-39.0

Source: CBA

2.4.3 Capital and financial account

The capital account surplus declined in 1998 by AFL 28 million to AFL 9 million, mainly because inflows of development funds from the Netherlands were AFL 23 million smaller than in 1997, while net outflows of migrants' transfers rose by AFL 6 million (see table 25).

The surplus on the financial account narrowed from AFL 278 million to AFL 201 million, largely associated with a decrease in net direct investments, reflecting a smaller increase in the inter-company liabilities of the oil sector as a result of the marked reduction in its current account deficit. This increase is classified as incoming direct investment (see table 26 and chart 18).

CHART 18
CAPITAL AND FINANCIAL ACCOUNT
BY SECTORS (NET)
(in AFL million)

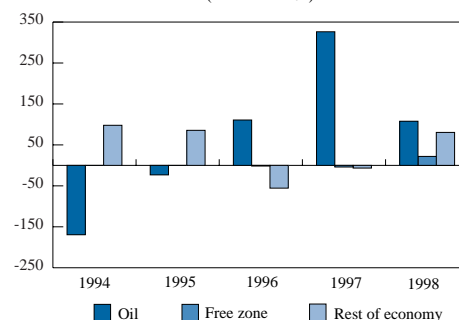


Table 25 Components of the capital and financial account

In AFL million

	1996	1997	1998
1. Capital account (net)	45.4	37.6	9.3
Capital transfers	45.4	37.6	9.3
1. Government	27.9	38.3	15.7
2. Other sectors	17.5	-0.7	-6.4
2.1 Migrants' transfers	17.5	-0.7	-6.4
2.2 Other	0.0	0.0	0.0
2. Financial account (net)	8.2	278.1	200.9
a. Direct investment	150.6	353.7	143.6
1. Investment abroad	-0.6	3.0	-2.4
2. Investment in Aruba	151.2	350.7	146.0
b. Portfolio investment	-11.2	80.0	-83.7
1. Domestic securities	2.8	111.1	-6.1
2. Foreign securities	-14.0	-31.1	-77.6
c. Other investment	-131.2	-155.6	141.0
1. Loans	-81.1	-43.1	40.5
1.1 Government	-19.0	-16.0	39.7
1.2 Other sectors	-62.1	-27.1	0.8
2. Other financial transactions	-50.1	-112.5	100.5
3. Capital and financial account, net (1+2)	53.6	315.7	210.2

Source: CBA

In addition, following an AFL 80 million surplus in 1997, portfolio investment recorded an AFL 84 million deficit, as more foreign securities were purchased in particular by institutional investors. Domestic securities transactions resulted in an AFL 6 million deficit, in contrast to an AFL 111 million surplus in 1997. The latter development was caused largely by higher proceeds from domestic bond sales to finance the renovation and extension of the airport facilities.

Other investment turned from an AFL 156 million deficit in 1997 into an AFL 141 million surplus in 1998. Net borrowing by the government amounted to AFL 40 million, compared to an AFL 16 million deficit in 1997. Net borrowing of the private sector shifted from an AFL 27 million deficit in 1997 into an AFL 1 million surplus in 1998 as higher foreign loans were received and lower repayments were made.

Other financial transactions generated a net inflow of AFL 101 million, following an AFL 113 million deficit in 1997, partly reflecting a decrease in external bank balances of residents and statistical adjustments related to short-term investments of the free-zone sector.

Table 26 Financial account by sectors (net)

In AFL million

	1996	1997	1998
1. Direct investment	150.6	353.7	143.6
a. Oil	108.4	322.0	103.3
b. Free zone	0.0	0.0	0.0
c. Rest of economy	42.2	31.7	40.3
2. Portfolio investment	-11.2	80.0	-83.7
a. Oil	-0.8	-0.8	-1.0
b. Free zone	0.0	0.0	0.0
c. Rest of economy	-10.4	80.8	-82.7
3. Other investment	-131.2	-155.6	141.0
a. Oil	3.2	5.1	5.5
b. Free zone	-1.6	-4.0	21.9
c. Rest of economy	-132.8	-156.7	113.6
4. Financial account, net (1+2+3)	8.2	278.1	200.9

Source: CBA

2.4.4 Foreign exchange policy

Foreign exchange policies in Aruba generally are liberal and gradually are being further liberalized, in line with the strengthening of Aruba's external position. As of July 1, 1998, the Bank issued a new general license for residents, allowing them to make foreign capital transfers without any administrative restriction up to a maximum of AFL 500,000 per calendar year for local entities and AFL 200,000 for natural persons.

This means that a special foreign exchange license of the Bank is required only for large capital transactions exceeding the indicated amounts. As a result, in 1998 the number of foreign exchange licenses granted by the Bank declined by 20 percent to 157 or only 2 percent of total number of capital transactions actually executed. A further decrease is anticipated for 1999.

Licenses for externally funded projects are granted liberally, after the Bank has done some brief research on the feasibility of the projects, the terms of the loans, and the (financial) background of the parties involved ("the know-your-customer principle").

In the longer run, the present State Ordinance on foreign exchange transactions, which is in essence based on the so-called negative system for capital transactions, will be modernized and geared to a positive system.



3 Supervision of financial institutions

3.1 General

The Bank is entrusted with the prudential supervision of the banking sector, life insurance companies, and company pension funds on the basis of, respectively, the State Ordinance on the supervision of the credit system (AB 1998 No. 16), gentlemen's agreements with the life insurance companies, and the State Ordinance on company pension funds (PB 1985 No. 44). Paragraph 3.6 contains a list of the financial institutions supervised by the Bank as of the end of December 1998.

3.2 Major issues and developments

3.2.1 Legislation

In May 1998, the new State Ordinance on the supervision of the credit system came into force, while the obsolete State Ordinance on the supervision of the banking and credit system was revoked. The new ordinance, based primarily on the current Dutch Act on the supervision of the credit system, meets international standards as set by the Basle Committee on Banking Supervision and provides the Bank with a solid legal basis for supervising both onshore and offshore banks. Moreover, it formalizes the Bank's supervisory practices.

The State Ordinance on the supervision of the insurance industry is still in draft. This ordinance should be finalized soon to provide the Bank with a comprehensive framework for supervising both life and general insurance companies. Until now, general insurance companies have been excluded from any prudential supervision.

Until May 1998, the execution of prudential supervision of life insurance companies, as well as the government pension fund, Algemeen Pensioenfonds Aruba (APFA), was based on the now-revoked State Ordinance on the supervision of the banking and credit system. As a result, no legal basis exists for continuation of prudential supervision of the life insurance sector in Aruba, or for the Bank's (more advisory than supervisory) role with respect to policy and financial matters concerning APFA. However, awaiting the implementation of the State Ordinance on the supervision of the insurance industry, the Bank, in consultation with the life insurance sector, agreed to continue its supervision of the life insurance sector on the basis of gentlemen's agreements. Furthermore, the Bank has expressed its willingness to continue to advise APFA on policy and financial matters on the basis of a gentlemen's agreement.

3.2.2 New supervisory requirements and issued guidelines

In September 1998, the Bank, in consultation with the Aruban Bankers' Association, revised the guidelines for the preparation of the monthly statement of assets and liabilities, as well as some of the appendices. Also, the Bank revised slightly the method for calculating the prudential liquidity ratio: "Government bonds with a remaining maturity over one year," previously excluded, may now be included for 70% of their nominal value in the calculation of the prudential liquidity ratio, while "other marketable securities" may now be included for only 50% of their market value (previously 100%).

In January 1999, the Bank organized a seminar to discuss its recently issued draft solvency guidelines and actuarial principles for pension funds. Based upon the risk profile of a pension fund, the required solvency, which acts as a buffer to absorb possible losses, is calculated. The actuarial principles provide guidance for determining and calculating the required size of the actuarial reserves.

3.2.3 International cooperation/conferences

In light of the increasing complexity of financial transactions and the growing internationalization of the banking and insurance industries, international and regional cooperation are becoming more important. The Bank has endorsed the reports on the Minimum Standards for the supervision of international banking groups and their cross-border establishments (1992) and the supervision of cross-border banking (1996) issued by the Basle Committee on Banking Supervision. These reports contain minimum standards with respect to the responsibilities and the exchange of information between the home and host country supervisors.

In October 1998, the Bank attended the 10th Bi-annual International Conference of Banking Supervisors held in Sydney, Australia. One of the main topics discussed was the implementation of the 25 Core Principles for Effective Banking Supervision, issued by the Basle Committee in 1997. The core principles are intended to serve as a basic reference for supervisory authorities worldwide. Also discussed during this conference were the year-2000 problem and the increased necessity of closely monitoring operational risk that may arise from factors such as information technology failures, and poor internal controls.

In the last week of September 1998, the Bank attended the 5th Annual Conference of the International Association of Insurance Supervisors (IAIS) held in Cancún, Mexico. Recent developments in insurance supervision were discussed, while three draft standards on on-site inspections, licensing, and derivatives were approved by the members.

3.2.4 Y2K problem

As stated in the technical report on the year-2000 issue prepared by the Basle Committee on Banking Supervision, the millennium problem is a major challenge faced by the financial industry. This problem affects organizations, both private and public, that depend largely on their automated systems for their core activities. It arises from a long-standing computer programming practice of using only two digits to represent a year. As a result, computer systems with this millennium bug will not be able to distinguish between the year 2000 and the year 1900 and, consequently, may produce errors after December 31, 1999.

In the last quarter of 1998, the Bank conducted its second survey under the supervised institutions to assess the Y2K readiness of their (mission critical) automated systems and the adequacy of their efforts to make their systems Y2K compliant. Results show that significant progress has been made, but that much work still needs to be done. The financial institutions under the Bank's supervision are currently in the process of renovating and/or testing their automated systems. The Bank has strongly advised all financial institutions under its supervision to have their automated systems tested and to be Y2K compliant before the end of June 1999. Also during 1999, adequate contingency plans should be prepared to meet possible calamities. The Bank will continue to monitor closely the progress made.

3.2.5 Integrity of the financial system

Maintaining the integrity of the financial system has become an increasingly important aspect of prudential supervision. The Bank has given much attention to this area in recent years and will continue to do so in the future.

The new State Ordinance provides the Bank with sophisticated tools to safeguard the stability and integrity of the banking system. During on-site examinations, compliance with the Bank's anti-money-laundering directives also is evaluated. Together with the State Ordinances' obligation to report unusual transactions and identification for rendering financial services, these directives

constitute the legal and regulatory anti-money-laundering requirements to which the banks should adhere to when rendering financial services. The Bank is entrusted with the task of supervising compliance with the State Ordinance identification for rendering financial services, as far as it concerns financial institutions under its supervision.

In January 1999, Aruba was examined by an international Financial Action Task Force (FATF) delegation. In general, the Task Force concluded that the anti-money-laundering controls in the banking sector are satisfactory. Also encouraging was that Aruba has been removed from the list of 'major money laundering countries', according to the annual 'International Narcotics Control Strategy Report' of the U.S. State Department published in March 1999.

3.3 Execution of prudential supervision

Prudential supervision by the Bank aims at preventing, as much as possible, financial institutions from taking unacceptably high risks that could harm the interests of depositors and/or policyholders and/or endanger the stability of the financial system. The two main pillars of conducting prudential supervision are continuous off-site surveillance and periodic, risk-oriented on-site examinations.

3.3.1 Off-site surveillance

Depending on the type of financial institution, detailed reports are submitted to the Bank on a weekly, monthly, quarterly, and/or annual basis. Furthermore, each institution is required to file its audited financial statements and the management letter issued by its external auditor. These filings are analyzed by the Bank and, if necessary, the findings are discussed with senior management of the supervised institution.

3.3.2 On-site examinations performed during 1998

The Bank regularly undertakes so-called on-site examinations to evaluate key risk areas, thereby relying as much as possible on the work already done by the internal and external auditors. The frequency of these examinations varies and depends on the risk profile of each individual institution. Depending upon the Bank's findings, the examined institution may be required to take corrective measures.

During 1998, four commercial banks, one bank-like institution, two life insurance companies, and two pension funds were examined. These examinations constitute a vital supervisory tool for assessing key areas such as financial condition, assets quality, anti-money-laundering procedures, administrative organization, and management.

3.4 Banking sector

3.4.1 Supervised institutions

As shown in table 27, the number of banking institutions supervised by the Bank decreased to 15 during 1998. H.J. Ruiz N.V. and Volkskredietbank van Aruba do not fall under the definition of a credit institution as stipulated by the new State Ordinance on the supervision of the credit system, and, as a result, were eliminated from the list of institutions supervised by the Bank. Furthermore, under the ordinance, subsidiaries of supervised credit institutions no longer are listed separately. Consequently, Caribbean Mercantile Credit Corporation N.V. and Banco Nacional de Hipotecas N.V. also were deleted from this list. Both institutions remain under consolidated supervision of the Bank (via their parent banks).

Table 27 Number of supervised institutions within the banking sector

End of period

	1996	1997	1998
1. Commercial banks	6	6	6
2. Offshore banks	2	2	2
3. Mortgage banks	2	2	2
4. Credit unions	2	2	2
5. Finance companies	3	3	1
6. Other financial institutions	4	4	2
Total	19	19	15

3.4.2 Commercial banks

Aruba has six commercial banks: two are branches of banks established in the Netherlands and Curaçao, and one is a subsidiary of a bank established in Curaçao. As a result, three of these six banks also are supervised (on a consolidated basis) by De Nederlandsche Bank N.V. or the Bank van de Nederlandse Antillen.

In 1998, the aggregated balance sheet total of the commercial banks increased by AFL 128 million or 7 percent to AFL 2,021 million at the end of the year (see table 28). Loans granted grew by AFL 51 million or 4 percent to AFL 1,269 million. Increases were recorded in loans to individuals (AFL 56 million or 10 percent, of which AFL 38 million are mortgages).

On the liabilities side, deposits grew in 1998 by AFL 136 million or 8 percent, compared to an AFL 95 million or 6 percent growth in 1997. Capital and reserves, including general (unallocated) reserves, decreased by 1 percent. As a result, the banks' aggregated risk-weighted capital ratio decreased from 11.1 to 10.5 percent at the end of 1998.

Table 28 Balance sheet of the commercial banks

End of period, in AFL million

	1996	1997	1998
1. Assets			
a. Cash & due from banks	419.5	458.2	536.7
b. Investments	105.6	90.0	91.4
c. Loans	1,154.1	1,217.8	1,269.0
- Commercial 1)	648.2	660.1	656.7
- Individuals 2)	503.4	555.4	611.2
- Government	2.5	2.3	1.1
d. Other assets	119.8	126.7	123.5
Total assets	1,799.0	1,892.7	2,020.6
2. Capital & liabilities			
a. Deposits	1,543.7	1,638.9	1,775.0
- Demand	451.0	471.0	550.3
- Time	705.5	764.0	806.8
- Savings	387.2	403.9	417.9
b. Other liabilities	118.9	106.4	99.8
c. Capital & reserves 3)	136.4	147.4	145.8
Total capital & liabilities	1,799.0	1,892.7	2,020.6

1) Corrected for allocated reserves.

2) Corrected for unearned income.

3) Including general (unallocated) reserves.

Due to a large inflow of foreign funds, the banks' liquidity ratio increased from 24.9 percent in 1997 to 28.9 percent in 1998, significantly above the minimum 20 percent prudential liquidity requirement (see also table 29). The banks are required to hold a 7 percent monetary cash reserve as well as sufficient funds for clearing purposes at the Bank. These funds are included in the calculation of the prudential liquidity ratio. As the growth in deposits significantly exceeded that in loans, the loan-to-deposit

ratio fell from 74.3 percent at the end of 1997 to 71.5 percent at the end of 1998, remaining quite below the prudential maximum of 80 percent.

Table 29 Liquidity position of the commercial banks 1)

End of period, in AFL million

	1996	1997	1998
1. Liquid assets	430.2	472.1	584.2
2. Loans	1,154.1	1,217.8	1,269.0
3. Deposits	1,543.7	1,638.9	1,775.0
4. Total assets	1,799.0	1,892.7	2,020.6
5. Liquid assets-to-total assets ratio	23.9	24.9	28.9
6. Loan-to-deposit ratio	74.8	74.3	71.5

1) The calculation of the loan-to-deposit ratio is based on the figures listed in table 28. However, the liquid assets cannot be derived from table 28.

3.4.3 Financial offshore

With the enactment of the new State Ordinance, offshore banks are no longer exempted from prudential supervision. At present, only two U.S.-based offshore banks are registered in Aruba. These two banks, which also fall under consolidated supervision of the U.S. supervisory authorities, had a balance sheet total of AFL 2,154 million at the end of 1998 (see table 30). The aggregated balance sheet total decreased considerably in 1998 compared to 1997, due mainly to a decrease in the balance sheet items “cash and due from banks” as well as “deposits.”

The Bank continued its strict admission policy for offshore banks. The most important requirements are that the parent bank is subject to comprehensive and consolidated supervision in the home country and that it possesses an excellent financial position and a solid reputation.

In the Bank’s opinion, the promotion of a financial offshore center in Aruba should be initiated only after a solid and modern legal and institutional framework has been developed to adequately supervise offshore institutions. In the meantime, a State Ordinance on the supervision of trust offices (e.g., formation of offshore companies) has been drafted. The High Commissioner Aruba Financial Center will probably be assigned to supervise compliance with this ordinance. However, financial offshore institutions (including banks, finance companies, and in the future, insurance companies) will continue to be subject to the Bank’s supervisory requirements, including the prerequisite to obtain a license from the Bank to operate as an offshore financial institution.

Table 30 Balance sheet of the offshore banks

End of period, in AFL million

	1996	1997	1998
1. Assets			
a. Cash & due from banks	314.6	1,065.6	570.7
b. Investments	493.9	495.6	471.0
c. Loans	392.0	994.8	1,086.0
d. Other assets	10.1	33.9	26.1
Total assets	1,210.6	2,589.9	2,153.8
2. Capital & liabilities			
a. Deposits	1,015.4	2,191.2	1,852.9
- Demand	50.6	588.5	26.0
- Time	964.8	1,602.7	1,826.9
b. Other liabilities	23.6	259.4	158.0
c. Capital & reserves 1)	171.6	139.3	142.9
Total capital & liabilities	1,210.6	2,589.9	2,153.8

1) Including general (unallocated) reserves.

3.4.4 Other bank-like institutions

The other bank-like institutions have a combined loan portfolio equivalent to approximately AFL 400 million.

Important players in this sector are:

- Ohra Hypotheekbank N.V.;
- Fundacion Cas pa Comunidad Arubano (FCCA);
- Aruban Investment Bank N.V.; and
- Island Finance Aruba N.V.

These bank-like institutions are engaged mainly in, respectively:

- mortgage lending to individuals;
- financing social housing projects and granting mortgage loans to individuals in the so-called social sector;
- long-term project financing; and
- personal loans for consumptive and home improvement purposes.

The financing of their activities is done mainly by attracting funds from:

- their parent company;
- (local) financial institutions;
- institutional investors.

3.5 Institutional investors' sector

3.5.1 Supervised institutions

At the end of 1998, ten life insurance companies and nine pension funds were active in Aruba and subject to the Bank's supervision (see table 31). All but one of the life insurance companies are branches of foreign companies.

Table 31 Institutions supervised by the institutional investors' sector

End of period

	1996	1997	1998
Life insurance companies	10	10	10
Company pension funds	8	8	9
Government pension funds	1	1	0
Savings funds	1	1	0
Total	20	20	19

As shown in table 31, the number of institutions supervised by the Bank decreased to 19 in 1998. With the revoking of the State Ordinance on the banking and credit system, APFA, the government pension fund, and Aruba Investment Foundation, a savings fund, no longer fall under the Bank's supervision and, consequently, were removed from this list, while a new company pension fund, the Stichting Fondo di Pensioen di Trahadornan di Empresanan y Fundacionnan Publico (F.P.E.F.), was established. As noted, the Bank is willing to continue to advise the management of APFA on policy and financial matters on the basis of a gentlemen's agreement.

3.5.2 The life insurance companies

The life insurance companies have expanded their activities in recent years. At the end of 1997, their aggregated balance sheet total amounted to AFL 252 million, a 17 percent increase compared to 1996 (see table 32).

On the assets side, investments constitute the largest item. As shown in table 33, the 14 percent rise in investments to AFL 214 million in 1997 was caused mainly by an increase in the holding of bonds and mortgage loans. At the end of December 1997, AFL 51 million (24 percent) of the total investment portfolio of the life insurance companies consisted of foreign investments.

On the liabilities side, technical provisions increased by almost 10 percent to AFL 168 million. Shareholders' equity increased by almost AFL 4 million.

Table 32 Balance sheet of life insurance companies

End of period, in AFL million

	1995	1996	1997
1. Assets			
a. Investments	160.0	187.4	213.8
b. Fixed assets	0.2	0.1	0.1
c. Affiliated companies	5.8	3.6	3.1
d. Current assets	12.5	18.2	28.4
e. Other assets	8.1	6.3	6.9
f. Intangibles	-	-	-
Total assets	186.6	215.6	252.3
2. Liabilities & shareholders' equity			
a. Technical provisions	137.8	152.9	167.8
b. Capital loans	2.8	1.3	0.7
c. Current liabilities	27.0	36.0	54.6
d. Shareholders' equity	19.0	25.4	29.2
Total liabilities & shareholders' equity	186.6	215.6	252.3

The two principal income sources of the life insurance companies are net premiums and investment income (see table 34). Net premiums increased by 7 percent compared to 1996 to AFL 31 million in 1997, while investment income increased by 11 percent to approximately AFL 17 million. Total expenses increased by 3 percent. The surplus before dividends and taxes increased by AFL 2 million.

Table 33 Investment categories of life insurance companies

End of period, in AFL million

Investment categories	1995	1996	1997
1. Shares	7.4	9.5	13.6
2. Bonds	88.3	108.9	125.3
3. Real estate	5.4	6.2	6.3
4. Time deposits	11.5	11.4	12.2
5. Mortgage loans	30.7	35.0	40.0
6. Policy loans	6.2	6.4	7.0
7. Other loans	10.5	10.0	9.4
Total	160.0	187.4	213.8

Table 34 Consolidated income statement of life insurance companies

In AFL million

	1995	1996	1997
1. Net premiums	29.1	28.8	30.9
2. Investment income	14.1	15.0	16.7
3. Other income	0.5	0.6	0.3
Total income	43.7	44.4	47.9
1. Changes in technical provisions	18.4	16.8	16.2
2. Net claims	8.4	8.2	11.5
3. Commissions	1.8	2.0	1.9
4. Management expenses	4.2	5.5	5.1
5. Extraordinary items	0.3	0.9	-0.2
6. Policyholders' dividends	2.0	2.0	2.2
7. Other expenses	4.0	3.2	3.2
Total expenses	39.1	38.6	39.9
Surplus before dividends and taxes	4.6	5.8	8.0

As shown in table 35, the liquidity ratio, as measured by the current assets to technical provisions, increased considerably from 0.12 in 1996 to 0.17 in 1997. The profitability ratio, measured as investment income to (average) invested assets, decreased to 0.08 in 1997, while the solvency ratio, measured as investments to technical provisions, increased to 1.27 in 1997.

Table 35 Financial life insurance ratios

End of period

	1995	1996	1997
1. Liquidity ratio	0.09	0.12	0.17
Current assets to technical provisions			
2. Profitability ratio	0.10	0.09	0.08
Investment income to average invested assets			
3. Solvency ratio	1.16	1.23	1.27
Investments to technical provisions			

3.5.3 The company pension funds

Table 36 represents the aggregated balance sheet of the company pension funds for the years 1995 through 1997. The balance sheet

Table 36 Balance sheet of the company pension funds

End of period, in AFL million

	1995	1996	1997
1. Assets			
a. Investments	163.2	165.5	169.3
b. Fixed assets	-	-	-
c. Current assets	6.6	5.9	6.8
Total assets	169.8	171.4	176.1
2. Liabilities & shareholders' equity			
a. Technical provisions	175.1	171.8	176.5
b. Medium & long-term	0.1	0.1	-
c. Current liabilities	3.4	3.5	3.1
d. Shareholders' equity	-8.8	-4.0	-3.5
Total liabilities & shareholders' equity	169.8	171.4	176.1

total of the company pension funds amounted to AFL 176 million in 1997. As shown in table 36, investments increased slightly by 2 percent to AFL 169 million, constituting the largest item on the assets side. The increase in investments was caused mainly by an increase in the holding of shares (see table 37).

At the end of December 1997, the share of foreign investments in the total investment portfolio of the pension funds amounted to AFL 133 million. On the liabilities side, the technical provisions increased by 3 percent in 1997 to AFL 177 million compared to 1996.

As shown in table 38, the two principal income sources of the company pension funds are investment income and employer's and employee's contributions. The contributions decreased by 7 percent

Table 37 Investment categories of the company pension funds

Investment categories	1995	1996	1997
1. Shares	54.4	56.7	60.3
2. Bonds	80.3	75.4	74.4
3. Real estate	5.2	5.2	5.2
4. Time deposits	11.8	13.9	13.2
5. Mortgage loans	7.2	9.0	9.9
6. Other loans	1.4	0.6	0.6
7. Other	2.9	4.6	5.6
Total	163.2	165.4	169.2

Table 38 Consolidated income statement of the company pension funds

End of period, in AFL million

	1995	1996	1997
1. Contributions	19.5	18.9	17.5
2. Investment income	24.7	16.0	19.2
3. Other income	0.3	0.6	0.3
Total income	44.5	35.5	37.0
1. Pension benefits	34.9	34.2	30.8
2. Changes in technical provisions	5.3	-3.2	4.7
3. Administrative expenses	1.3	0.9	1.0
Total expenses	41.5	31.9	36.5
Surplus (deficit)	3.0	3.6	0.5

to AFL 18 million in 1997, while investment income increased by 20 percent to AFL 19 million. Total expenses rose by 15 percent to AFL 37 million, due mainly to the increase in technical provisions by approximately AFL 8 million. As a result, the consolidated surplus of the company pension funds amounted to less than AFL 1 million.

According to table 39, the liquidity ratio rose merely from 0.03 in 1996 to 0.04 in 1997. The profitability ratio also increased slightly from 0.10 in 1996 to 0.11 in 1997, while the solvency ratio remained at the same level in 1997 as in 1996.

Table 39 Financial company pension funds ratios

End of period

	1995	1996	1997
1. Liquidity ratio	0.04	0.03	0.04
Current assets to technical provisions			
2. Profitability ratio	0.10	0.10	0.11
Investment income to average invested assets			
3. Solvency ratio	0.93	0.96	0.96
Investments to technical provisions			

3.6 Financial institutions under supervision of the Bank as of December 31, 1998

3.6.1 Banking sector ¹⁾

Commercial banks

ABN AMRO Bank N.V., Aruba Branch
Aruba Bank N.V.
Banco di Caribe N.V., Aruba Branch
Caribbean Mercantile Bank N.V.
First National Bank of Aruba N.V.
Interbank Aruba N.V.

Offshore banks

Citibank N.A, Aruba Branch
Inarco International Bank N.V.

Mortgage banks

OHRA Hypotheekbank N.V.
Fundacion Cas pa Comunidad Arubano

Credit unions

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

Finance companies

Island Finance Aruba N.V.

Other financial institutions

Aruban Investment Bank N.V.
Postspaarbank

3.6.2 Institutional investors' sector

Life insurance companies ²⁾

American Bankers Life Assurance Company of Florida, Aruba Branch
American Life Insurance Company, Aruba Branch
British-American Life Insurance Company Limited, Aruba Branch
Capital Life Insurance Company Limited, Aruba Branch
Ennia Caribe Leven N.V., Aruba Branch

1) Supervision by virtue of the State Ordinance on the supervision of the credit system (AB 1998 No. 16).

2) Supervision on the basis of gentlemen's agreements with the listed life insurance companies.

First Aruban Life Insurance Company N.V.
Guardian Life of the Caribbean Limited, Aruba Branch
Nationale-Nederlanden Levensverzekering Maatschappij N.V.,
Aruba Branch
OHRA Levensverzekeringen N.V., Aruba Branch
The National Life Assurance Company of Canada, Aruba Branch

Company pension funds ³⁾

Lago Annuity Foundation
Stichting Bedrijfspensioenfondas Aruba (ELMAR N.V.)
Stichting Pensioenfondas Havenwerkers Aruba
Stichting Pensioenfondas Martijn Trading Company N.V.
Stichting Pensioenfondas META Bedrijven Aruba
Stichting Pensioenfondas Tourist Sector Aruba
Stichting Pensioenfondas van de ABN AMRO Bank N.V. Aruba
Stichting Pensioenfondas N.V. Aruba Bank
Stichting Fondo di Pensioen di Trahadornan di Empresanan y
Fundacionnan Publico (F.P.E.F.)

3) Supervision by virtue of the State Ordinance on company pension funds (PB 1985 No. 44).



4 Operations of the Bank

4.1 Functions

The Centrale Bank van Aruba is a legal entity in itself (*sui generis*) with an autonomous position within Aruba's public sector. The Bank started its operations on January 1, 1986, when Aruba obtained its status as an autonomous country within the Kingdom of the Netherlands. At the same time, the Aruban florin was brought into circulation, pegged to the U.S. dollar at a rate of AFL 1.79 = US\$ 1.00, and this exchange rate has remained unchanged.

The Bank is responsible for maintaining the internal and external value of the florin, as well as promoting the soundness and safeguarding the integrity of the financial system. The principal tasks of the Bank, as stipulated in the Central Bank Ordinance (A.B. 1991 No. GT 32), are to:

- a. Conduct monetary policy;
- b. Supervise the banking and credit system;
- c. Issue bank notes;
- d. Issue coins on behalf of the government;
- e. Act as the banker for the government;
- f. Be the central foreign exchange bank and, as such, regulate the flow of payments to and from other countries; and
- g. Advise the Minister of Finance on financial matters.

The Bank performs these tasks through a variety of activities, which include:

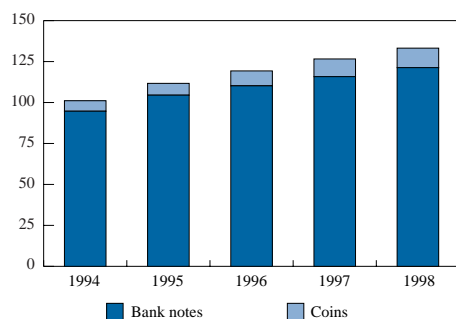
1. Formulating and implementing monetary policy and related measures through, among other things, regulating bank credit and liquidity;
2. Supervising the activities of the commercial banks and other financial institutions by, *inter alia*, monitoring their liquidity and solvency to protect the interests of depositors and policyholders, and to maintain monetary and financial stability and integrity in Aruba;
3. Managing Aruba's official gold and foreign exchange reserves;

4. Regulating international payments according to the State Ordinance on foreign exchange transactions (A.B. 1990 No. GT 6);
5. Bringing bank notes and coins into circulation to meet the needs of businesses and the general public;
6. Issuing treasury bills and government bonds as an agent for the government; and
7. Monitoring economic and financial developments.

4.2 Domestic payment system

4.2.1 Issue of bank notes and coins

CHART 19
TOTAL VALUE OF BANK NOTES
AND COINS ISSUED
(in AFL million)



At the end of 1998, the total value of bank notes and coins issued by the Bank amounted to AFL 133.3 million, representing an AFL 6.5 million or 5.1 percent increase compared to a year earlier (see chart 19). This increase is in line with the estimated nominal GDP growth. The share of the various denominations in the total value of notes issued showed little variation. The 5 florin coin, brought into circulation in December 1995, almost completely replaced the 5 florin bank note. Consequently, the proportion of the 5 florin bank note in the total value of bank notes issued declined to a mere 1.1 percent at the end of 1998. The share of the 500 florin bank note continued to increase albeit at a slow pace, i.e., to 6.8 percent in 1998, compared to 6.5 percent in 1997.

4.2.2 Executing monetary policy

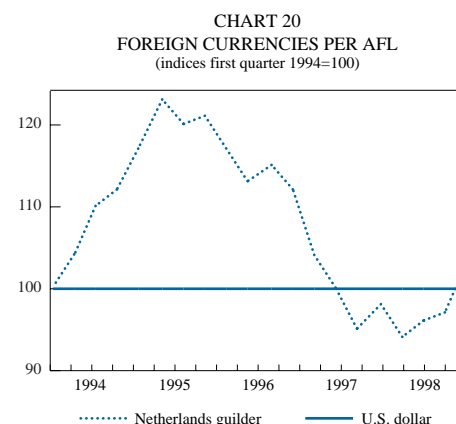
To reverse the downward trend in the foreign exchange reserves, which was notable in 1996 and 1997, and to maintain financial stability, the Bank tightened its monetary policy by raising the monetary cash reserve requirement ratio from 6 to 7 percent as of April 1, 1998. Thus, commercial banks were required to hold a minimum of 7 percent of their outstanding current, savings, and time deposits shorter than two years in an interest-bearing reserve account with the Bank. At the end of 1998, deposits in these accounts amounted to AFL 99.3 million, i.e., AFL 28.3 million more than in 1997.

In addition, the Bank stipulated that the growth in commercial banks' lending, on an aggregated basis, should be kept in line with the expected increase in nominal GDP. Actually, the increase in relevant credit amounted to only 3 percent and, thus, remained quite below the normative growth rate of 5-6 percent.

4.3 International payment system

4.3.1 Daily exchange rate fixing

The Bank issues daily quotations for a number of foreign currencies, based on the fixed parity of AFL 1.79 to US\$ 1.00 and the exchange rate of the U.S. dollar as quoted by the European Central Bank. In 1998, the quarterly average exchange rate of the Dutch guilder, the currency most used after the U.S. dollar to settle foreign transactions, varied between AFL 0.88 and AFL 0.96, or within a wide margin of 9.6 percent (see chart 20). At the end of the year, the Dutch guilder stood at AFL 0.95, appreciating by 6.8 percent compared to a year earlier.



4.3.2 Foreign exchange licenses

In July 1998, the Bank took additional measures to liberalize capital account transactions. It extended the general license issued in January 1997, which stipulated that natural persons and companies are allowed to invest up to a maximum of AFL 200,000 and AFL 500,000 per annum, to all capital transactions.

In 1998, the Bank granted AFL 343.7 million in licenses for external loans to residents, about AFL 38.4 million more than in 1997 (see table 40). Factors contributing to this increase were the financing related to the renovation of the Radisson Hotel and the recourse of the government to the commercial foreign capital market.

Table 40 Foreign borrowing

In AFL million

	1996	1997	1998
1. Foreign exchange licenses approved			
for:	181.4	305.3	343.7
a. Infrastructure projects	0.0	150.7	62.8
b. Refinancing of local and foreign loans	120.3	121.1	145.6
c. Other	61.1	33.5	135.3
2. Registered foreign loan fund inflows:	160.9	262.1	181.5
a. Infrastructure projects	12.9	115.6	11.0
b. Refinancing of local and foreign loans	120.3	121.1	118.5
c. Other	27.7	25.4	52.0

Source: CBA

4.3.3 Foreign exchange tax

Residents generally are required to pay a 1.3 percent tax on payments made to nonresidents in accordance with the State Ordinance on foreign exchange tax. However, payments in Netherlands Antillean guilder, as well as certain companies are exempted. For example, based on article 9 sub 1 of the State Ordinance free zone, the free-zone companies are exempted from paying this tax on their import payments related to re-export. Additionally, certain (government-related) institutions, as stipulated in the State Decree foreign exchange tax exemption of September 27, 1995, and the revised State Decree foreign exchange tax exemption of July 3, 1998, are exempted from the obligation to pay this tax. Offshore companies and Aruba Exempt Corporations are considered nonresident for the purpose of foreign exchange control and, thus, are not subject to the tax.

Article 4 of the aforementioned State Ordinance entrusted the Bank with the collection of the foreign exchange tax. During 1998, the Bank collected AFL 19.3 million in foreign exchange tax (see table 41). As a result of transitorial items, AFL 20.2 million was transferred to the Treasury. The share of foreign exchange tax in total government tax receipts edged up to 3.8 percent in 1998.

Table 41 Foreign exchange tax 1)

In AFL million

	1996	1997	1998
1. Collected:	15.9	17.4	19.3
a. Commercial banks	15.0	15.7	16.9
b. Centrale Bank van Aruba	0.9	1.7	2.4
2. Transferred to the government	18.9	16.8	20.2

1) Levied on payments made by residents to nonresidents settled through the banking system and authorized foreign bank accounts.

Source: CBA

4.4 Banking for the government

Again in 1998, the Bank executed an increasing number of domestic and foreign payments for the government. Eight treasury bill issues with maturities of three months each were arranged, all to renew maturing paper in total amounting to AFL 32 million. There also were two government private loan placements of US\$ 10 million and AFL 10 million, respectively.

4.5 Interest payments

In 1998, the Bank paid interest on certain credit balances and on time deposit accounts, including those of the government, which amounted to AFL 5.3 million, a 7 percent decline from 1997. Interest payments to the government, considered as an interim dividend, decreased from AFL 2.2 million in 1997 to AFL 1.3 million in 1998. All services rendered by the Bank to the government are free of charge, pursuant to article 14 sub 1 of the Central Bank Ordinance.

4.6 Financial results highlights

- Total income of the Bank (net of interest expenses) amounted to AFL 22.2 million in 1998, i.e., AFL 5.7 million or 34 percent higher than in 1997. The increase resulted predominantly from the surge in net foreign assets and declining interest expenses.
- Non-interest expenses increased by AFL 0.8 million or 10 percent to AFL 8.7 million, partly due to incidental factors.
- Profit for 1998 amounted to AFL 13.5 million, representing an AFL 4.9 million or 57 percent increase compared to 1997. Pursuant to article 4 sub 2 of the Central Bank Ordinance and in agreement with the Minister of Finance, AFL 7 million was transferred to the Treasury, while the remaining balance of AFL 6.5 million was allocated to a newly constituted reserve for new premises.
- At the end of 1998, total assets reached AFL 456.5 million, i.e., AFL 80.4 million or 21 percent higher than in 1997. The increase reflected mainly the rise in foreign currency claims mentioned earlier.

4.7 Organizational affairs

The Board of Supervisory Directors and the Executive Committee held four joint meetings during 1998.



*Members of the Board of Supervisory Directors, l.-r.:
A.M. Nemecek, C.G. Maduro (Chairman), T.R.L. Vingal,
and E.G.R. Cohen Henriquez-Jansen.*

The Bank hired two additional persons, and no one resigned. Consequently, the Bank's staff edged up to 54 at the end of 1998.

The Executive Committee expresses its appreciation to all staff members for their loyalty and dedication to the Bank.



*The Executive Committee, l.-r.:
A.R. Caram, J.H. du Marchie Sarvaas, and K.A.H. Polvliet.*

5 Financial Statements

Balance sheet as of December 31, 1998, after profit distribution

In thousands of Aruban florin

	1998	1997
Assets		
Gold	40,952	50,081
Foreign currency	397,717	308,466
Receivables and prepaid expenses	11,214	11,090
Premises	4,594	4,747
Other fixed assets	1,761	1,166
Printing costs bank notes	298	597
	<u>456,536</u>	<u>376,147</u>
Liabilities		
Bank notes issued	121,291	115,772
Liabilities to residents	257,330	174,859
Liabilities to nonresidents	1,672	2,464
Money in custody	1,811	1,825
Payables and accrued expenses	2,727	5,105
Revaluation account	28,779	39,666
General reserve	26,456	26,456
Reserve for new premises	6,470	–
Capital	10,000	10,000
	<u>456,536</u>	<u>376,147</u>

Profit and loss account for the year 1998

In thousands of Aruban florin

	1998	1997
Net investment revenues	19,734	13,871
Net revenues foreign exchange	1,385	996
Net revenue coin sales	943	1,616
Other income	111	34
Total income	22,173	16,517
Cost of printing bank notes	298	298
Personnel expenses	6,132	5,691
Operating expenses	1,517	1,287
Depreciation	756	650
Total expenses	8,703	7,926
Profit	13,470	8,591
Profit distribution		
Transfer to Government	7,000	7,000
General reserve	–	1,591
Reserve for new premises	6,470	–

Explanatory notes to the balance sheet as of December 31, 1998, and the 1998 profit and loss account

1. General

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

2. Principles of valuation and determination of results

2.1 Comparison with previous years

The principles of valuation and determination of results remained unchanged in 1998.

2.2 Accounting policies

Gold

The valuation is determined once every three years at the lowest yearly average market price of gold, converted into florin, in the three calendar years preceding the date of valuation, less 30 percent. However, if the market price of gold drops below the prevailing valuation, gold will be valued at the lower market price. As of December 1998, gold is valued at AFL 368.58 (previously: AFL 450.74) per fine troy ounce. Changes in the valuation of gold are included in the revaluation account.

Foreign currency

Foreign currency comprises investments through asset managers, current account and time deposits held at foreign credit institutions, and foreign bank notes. Investments through asset managers comprise mainly government or government-guaranteed paper. Investments through asset managers are recorded at market value. Current account, time deposits, and bank notes are recorded at face value. All foreign currency is converted into Aruban florin at exchange rates prevailing on the balance sheet date.

Premises

Comprise the Bank's office building at Havenstraat 2 and the president's residence at Koyari. After renovations in 1995 and 1996, the value of the Bank's office building was reassessed. This building is depreciated as of 1997 for 20 years. The president's residence, acquired in 1990, is depreciated according to the straight-line method for 25 years.

Other fixed assets

These assets consist of furniture and equipment, valued at cost less accumulated depreciation and amortized according to the straight-line method over the estimated life of the assets. Investments of less than AFL 3,000 are charged to expenses.

Pension plan

Article 21, paragraph 1, of the Central Bank Ordinance provides that the Bank shall make pension arrangements for the President, the Executive director(s), and the employees. Pursuant to article 21, paragraph 2 of said Ordinance, contributions for pensions and other provisions concerning pension arrangements must be laid down in a pension regulation drawn up by the Board of Supervisory Directors and the President, after consultation with the Minister of Finance. At the time the Bank was established, employees previously employed with civil servant status at the Bank van de Nederlandse Antillen, continued to participate in the General Pension Fund of Aruba (APFA), pursuant to article 36 of the Central Bank Ordinance. A state decree guaranteeing the continued participation in APFA of employees previously employed with civil servant status at the Government of Aruba or the Netherlands Antilles, came into effect on June 6, 1997. For a few employees the Bank withholds and reserves employee's and employer's premium contributions in accordance with APFA rules and regulations. The Bank is entrusted temporarily with the management of these funds, which are included in the item "payables and accrued expenses." For the remaining personnel, in 1998 the Bank established a pension arrangement with a private insurance company.

Other assets and liabilities

Other assets and liabilities are stated at face value unless indicated otherwise.

2.3 Revenue recognition

The results on transactions are recognized in the year in which they are realized; losses are taken as soon as they are foreseeable.

2.4 Conversion of foreign currencies

Assets and liabilities denominated in foreign currencies and related forward contracts are converted into AFL at the rate of exchange prevailing at the balance sheet date.

Premiums and discounts on forward contracts are presented in the profit and loss account as interest. Unrealized exchange results by the asset managers are not included in the profit and loss account, but are directly incorporated in the revaluation account. Transactions in foreign currencies during the reporting period are incorporated in the financial statements at the rate of settlement. The exchange rate for the U.S. dollar is fixed at AFL 1.79 = US\$ 1.00.

3. Notes to the balance sheet

3.1 Gold

In connection with Aruba's Status Aparte and pursuant to the Mutual Regulation for the Partition of the Estate of the Bank van de Nederlandse Antillen, gold holdings of the Bank van de Nederlandse Antillen as of December 31, 1985, were transferred to the Gold Fund of the Netherlands Antilles and Aruba (the Gold Fund). The Gold Fund then distributed gold to the Bank van de Nederlandse Antillen and the Bank based on that Mutual Regulation. During 1998, the distribution of gold was finalized. On the balance sheet date, the Bank's holding of gold deposits was 111.107 fine troy ounces.

3.2 Foreign currency

This item comprises monies held with foreign credit institutions as time deposits or at call, and investments through foreign asset managers, in (i) government and (explicitly or implicitly) government guaranteed paper; (ii) paper issued by qualifying supranational financial institutions; and (iii) money instruments of and accounts with at least double A-rated credit institutions. The Bank's investment guidelines provide that time deposits held with an individual bank may not at any time during the year exceed 15 percent of the Bank's foreign currency holdings in the case of triple A-rated credit institutions, or 10 percent in the case of double A-rated institutions. The Bank also deals directly with credit institutions from Canada, the Netherlands, the Netherlands Antilles, Switzerland, the United Kingdom, and the United States. About 98 percent of the foreign currency is denominated in U.S. dollars, and 2 percent is denominated mainly in Netherlands guilders and Netherlands Antillean guilders.

3.3 Bank notes issued

These comprise bank notes issued pursuant to article 7, paragraph 1, of the Central Bank Ordinance.

Denomination	Value in AFL	
	12-31-1998	12-31-1997
AFL 5.00	1,289,070	1,362,555
AFL 10.00	4,684,790	4,186,360
AFL 25.00	9,042,985	8,448,075
AFL 50.00	8,359,075	7,773,250
AFL 100.00	89,726,400	86,513,200
AFL 500.00	8,189,000	7,488,500
Total	121,291,320	115,771,940

3.4 Liabilities to residents

This item comprises:

	12-31-1998	12-31-1997
	(x AFL 1,000)	
Government	67,876	67,329
Multi-annual Plan	9,816	9,765
Bank:		
- current accounts	43,518	17,669
- cash reserve	99,282	70,964
- time deposits	33,500	5,200
Other	3,338	3,932
Total	257,330	174,859

Current accounts of the commercial banks are held primarily for transaction purposes, including clearing obligations. Cash reserve is a requirement mandated by the Bank on the commercial banks for monetary policy reasons. Time deposits may range from 7 days to 24 months.

3.5 Nonresident balances

These balances comprise florin accounts of nonresident banks and other financial institutions.

3.6 Money in custody

Money in custody comprises monies confiscated by official authorities.

3.7 Revaluation account

Pursuant to article 31, paragraph 2, of the Central Bank Ordinance, fluctuations in the value of gold and foreign exchange reserves shall be included in a revaluation account.

3.8 Capital

Pursuant to article 3, paragraph 1, of the Central Bank Ordinance, the Bank's capital amounts to AFL 10,000,000.

4. Notes to the profit and loss account

4.1 Net investment revenues

This item comprises:

	1998	1997
	(x AFL 1,000)	
Investment revenues	25,080	19,571
Interest expense	5,346	5,700
Net investment revenues	19,734	13,871

4.2 Personnel expenses

This item includes salaries, social security, and various personnel-related expenses. At the balance sheet date, the Bank employed 54 persons full-time compared to 52 at the end of 1997.

4.3 Operating expenses

These expenses consist mainly of expenses on utilities, rent, communications, maintenance, office supplies, courses, seminars, meetings, external auditor's and other fees.

4.4 Profit distribution

Pursuant to article 33 of the Central Bank Ordinance, the Bank's annual profit shall be applied first towards the Bank's capital if less than the amount stipulated in article 3, paragraph 1 (AFL 10,000,000), thereafter towards the Bank's general reserve if less than the amount stipulated in article 4, paragraph 1 (AFL 10,000,000). In accordance with article 5 of the Central Bank Ordinance, the Supervisory Board has decided, with the approval of the Minister of Finance, to allocate AFL 6,470,215 to the Bank's newly constituted reserve for new premises. The remaining profit amounting to AFL 7,000,000 has been transferred to Aruba's Treasury, of which AFL 2,000,000 is deposited into government earmarked accounts.

Auditor's report

We have audited the accompanying balance sheet of the Centrale Bank van Aruba as of December 31, 1998, and the related statement of income for the year then ended as included on page 78 through 85 in the annual report. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view, in all material respects, of the financial position of the Bank as of December 31, 1998, and the results of its operations for the year then ended in accordance with the accounting standards applicable.

Aruba, April 14, 1999



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