



CENTRALE BANK VAN ARUBA

Annual Report
and
Financial Statements for the year

1999

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.

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1 Statement by the President

The year 1999 saw a faster-than-expected recovery from the aftermath of the turmoil that erupted in mid-1997 in the emerging financial markets, particularly in Asia. The disruption of the financial systems triggered by this major crisis of confidence has been brought largely under control. The contagion effects on the industrialized countries remained limited overall, thanks partly to a suitably flexible monetary policy. A certain degree of confidence was restored among the various market players. As a consequence, world output growth accelerated to more than 3 percent.

The recovery in the world economy was initiated partly by a number of Asian countries affected by the crisis, among them South Korea, Thailand, and Malaysia, which launched programs of macroeconomic stabilization and structural reforms. Additionally, economic expansion persisted in the United States under the influence of buoyant consumer demand. Unemployment fell, and spending was stimulated by the prolonged rise in the equity markets. Productivity growth continued, due partly to the introduction of new information and communications technology. However, the economic boom did increase the risk of inflation, weaken the balance of trade, and prompt the Federal Reserve Board to raise its trend-setting interest rate in stages, from mid-1999 on.

In Europe, general business activity was supported by the depreciation of the euro, which boosted the already buoyant American demand for foreign goods and services. The Netherlands led the field with its economic performance, thanks in part to its long-standing 'consensus economy', involving harmonious cooperation between government, employers, and employees. The transition countries' economies are now improving. Japan, whose output had been contracting since mid-1997, saw some increase in activity in 1999.

The news from Latin America is generally less encouraging. Despite some recovery, the economic climate is still weak, and the region remains vulnerable to new financial disruptions and an accompanying loss of confidence. Although Venezuela has benefited from the more than doubling of the world market price of oil, its overvalued currency discourages the strengthening and diversification of the economy that the country so needs.

Aruba likewise benefited from the economic boom in the United States, our principal trading partner. Due to a marked increase in the number of stay-over visitors from the United States, 1999 was



A.R. Caram
President of the Bank

a busy year for tourism. Because of this and the execution of some projects financed with foreign private capital, real gross domestic product growth was expected to remain at the satisfactory level of 3 percent.

The expansion of the North American tourism market easily compensated for the further contraction of the South American market and the stabilization of the European market. The cruise sector regained much of the ground lost in 1998. According to balance-of-payments' statistics, travel earnings once again increased considerably. However, no aggregate figures are available yet concerning the profitability of the tourist industry and allied sectors.

The continuing economic growth was accompanied by an acceleration of the 12-month rise in the consumer price index, from 1.9 percent in 1998 to 2.3 percent in 1999. This unsatisfactory trend is due mainly to the earlier mentioned increase in the world market price of oil. Through linkage mechanisms, this increase impacts on, among other things, local water and electricity tariffs. Also, domestic cost factors have led to higher average price increases in Aruba than in the United States.

The somewhat higher rate of Aruban inflation did not have any effect on the fixed link between the florin and the dollar, the cornerstone of the Bank's monetary policy. Confidence in this link depends far more on the extent to which imported goods (excluding oil) are covered by the monetary reserves of the Aruban money-creating institutions (amounting to over 5 months at the end of 1999), as well as on the ratio of the official gold and foreign exchange holdings and 'base money' (i.e., bank notes in circulation and deposits of the commercial banks held at the Bank), which amounts to approximately 140 percent.

The balance sheet of the Bank reflects the soundness of the florin, partly the result of the discipline imposed by the fixed link with the U.S. dollar. To maintain this exchange rate and ensure public confidence in the link, the Bank does not, as a matter of principle, extend any credit to the government. The available monetary reserves are placed for the most part on the American treasury bills market. Over time, this investment strategy yields higher returns than simply holding bank deposits. On the other hand, bond yields show relatively large fluctuations and in 1999, as in 1994, these yields were negative on average.

Due to the fluctuations in bond yields, the Bank's profits vary a good deal from year to year. Having developed satisfactorily in the period 1995-1998, profits came under heavy pressure in 1999 as a

result of higher interest rates in the United States, leading to lower proceeds on the Bank's investments. On the other hand, by containing personnel costs, operating costs remained virtually unchanged.

To a small extent, the lower profit of the Bank was also the result of some decline in its official foreign exchange reserves in 1999, after a marked increase in 1998. Contributing to this decline was the substantial increase in lending by the commercial banks, following the suspension, at the beginning of 1999, of the credit-ceiling system imposed directly on individual institutions. During 1999, the banks did not adhere to the agreement to limit the growth of their aggregate lending to the expected increase in nominal gross domestic product.

Consumer credit in particular expanded considerably. Given Aruba's high import ratio, this expansion contributed to a sharp reduction of the balance-of-payments' surplus, which was accentuated by, inter alia, an increase in outward investments by institutional investors. Vigilance is needed to avoid disturbances of the economic process from the monetary sphere. In March 2000, the banks were called upon explicitly to exercise restraint in their lending activities.

Vigilance is especially important given the vulnerability of government finances. Although the financial deficit (including changes in unmet financing requirements) fell in 1999 to just under an estimated AFL 44 million, or 1.3 percent of gross domestic product, this fall must be attributed to the largely one-off effect of a program to eliminate tax arrears.

On the other hand, government consumptive spending further increased, and unbudgeted expenditures took place, partly in connection with government involvement in businesses. Because of this spending, and the virtual drying up of Dutch financial support for projects, infrastructure investments, so badly needed to promote economic development, once again lost out. Moreover, the policy objective of realizing a balanced budget, recommended since 1995 by various committees and adopted by the government, has yet to be realized. Agreed allocations to the so-called Hotel Guarantee Fund and to the Sinking Fund (for the repayment of certain outstanding bonds) are no longer taking place. In other words, the fulfilment of obligations has in a sense been deferred.

It is necessary to achieve a structural balance in government finances to realize the by-itself laudable political long-term objective of financial self-sufficiency. Unfortunately, this goal has not yet been achieved, and the government constantly has to deal

with liquidity problems. Despite successful economic developments since 1988, reflected in a relatively high per capita gross domestic product estimated at around US\$ 19,000, government finances are still a cause for concern.

Aruba also has to contend with specific problems and high social costs per inhabitant resulting from the small scale of its economy. The country suffers from a one-sided and vulnerable production structure. This situation is exacerbated by growing backlogs in the area of infrastructure and public facilities, and by a relatively large proportion of gross domestic product going to nonresidents. Moreover, tax concessions have to be granted to certain companies to make it attractive for them to operate in Aruba.

Nevertheless, in March 1999, the governments of Aruba and the Netherlands agreed on a new financial cooperation relationship. On this basis, a bilateral working group has drawn up specific proposals. Here it is assumed that the financial support for projects received under the Charter for the Kingdom of the Netherlands will be phased out over the next 10 years. In its place, the government of Aruba will make annually increasing contributions to a development fund, managed by the Aruban Investment Bank N.V. and held at the Bank (see box).

Given the current fragile state of the country's finances and the limitations inherent in a small economy, achieving the goal of financial self-sufficiency presents a challenge that should not be underestimated. In this context, one also should bear in mind that the government does not have a particularly good record of meeting its obligations to contribute to funds. When the coffers are low, it usually appears politically inexpedient to curtail structurally excessive consumptive spending, so the only reaction is to defer useful investments, to suspend contributions to funds, and to accumulate payment arrears.

A strategy aimed at financial self-sufficiency demands that adequate resources be released from the government budget to invest in lasting welfare development. Infrastructure and public facilities should be brought up to an acceptable level. In the opinion of the Bank, to achieve this, government consumptive spending needs to be kept under control and direct participation in business activities must stop. Over the years these activities have inflicted painful financial setbacks on the government.

Therefore, the government would be well-advised in the future to leave business to the private sector. It should concentrate on promoting a climate in which private initiative can flourish, partly by improving the quality of public governance. Through a

restrained and effective expenditure policy, it should avoid placing heavy financial burdens on the shoulders of the private sector, which until now has functioned well. Specifically, this means developing a lean government apparatus, which confines itself to the efficient performance of a number of essential core tasks. Thus, the new partnership may impose discipline and raise spending productivity.

Joined by distance

Final report of the working group for the implementation of Netherlands-Aruban cooperation.

The governments of Aruba and the Netherlands agreed in March 1999 to establish the "Fondo Desaroyo Aruba." During the period 2000-2009, the governments concerned will contribute AFL 180 million and NLG 220 million, respectively, to the fund. The annual contribution from the Netherlands gradually will be reduced over these 10 years and that of Aruba will increase accordingly so that Aruba will achieve financial self-sufficiency after the indicated period.

The above amounts will be used to finance government projects. The Netherlands will contribute a further NLG 270 million to the fund, to finance other activities of importance to the Netherlands and Aruba, such as the coast guard, joint criminal investigations, tax courts, interest subsidies on existing loans from the Netherlands to Aruba, ongoing government projects, and technical cooperation. Of this amount, NLG 120 million will be earmarked to reduce debts of the Aruban government to the Netherlands, once its budget is in equilibrium.

Both governments will deposit the funds to an account held with the Central Bank. The fund's board will decide on the allocation of the resources on the advice of the Aruban Investment Bank N.V., which will also be responsible for the day-to-day management of the fund.

After 2009, the Dutch government will continue to contribute to certain projects of importance to the Kingdom, namely, the coast guard, joint criminal investigations, tax courts, and judicial assistance. Foreign affairs and defense will continue to be financed, because these are regarded as duties of the Kingdom.

To reduce consumptive spending, regulations must be drawn up without delay to control health care costs paid by the government. In addition, a less costly pension system must be introduced for civil servants. Such a system has been deliberated for more than 10 years. In the meantime, the government continues to have an extremely onerous obligation to finance the generous pension scheme currently in place. However, due to the state of its finances, the government is unable to fully meet its obligations according to the rules.

Failure to meet the obligations towards the General Pension Fund of Aruba (APFA) according to the rules creates financial risks for that institution, especially because an already too-high percentage of its assets consists of claims on the government. Simply consolidating short-term debt is not an effective structural solution. Awareness is growing that, in the interest of sound public finances and to contain the outflow of foreign exchange abroad, no alternative exists but to economize on the pension scheme. On the basis of a consultancy agreement concluded in May 1999 between the Bank and APFA, we published a memorandum in which, once again, we emphasized the need to take adequate steps in this direction.

The Bank has more control over the so-called credit institutions, owing to the State Ordinance on the supervision of the credit system, which came into effect in May 1998. We now have an adequate legal framework, based on the Dutch model, for supervising these institutions in the interest of creditors, and the stability and the integrity of the financial sector. This framework is largely in accordance with the “Core Principles for Effective Banking Supervision” as recommended by the Basel Committee on banking supervision in 1997.

It is also encouraging to note that in 1999, after conducting a follow-up inspection of Aruba, a delegation of the Financial Action Task Force concluded that progress had been made on developing and implementing relevant laws and regulations aimed at safeguarding the integrity of the financial sector. More initiatives are on the agenda. For example, a bill concerning the supervision of the insurance sector soon will come before the Aruban parliament. Also, a law soon will be passed to regulate supervision of trust offices and the offshore companies represented by these offices, to further improve the financial reputation of Aruba.

1 Verslag van de President

Gedurende het verslagjaar is sneller dan verwacht het hoofd geboden aan de gevolgen van de medio 1997 aangevangen turbulentie op de opkomende financiële markten in met name Azië. De door een ernstige vertrouwenscrisis bloot gelegde ontwrichting van de financiële systemen is goeddeels onder controle gebracht. De besmettingseffecten op de geïndustrialiseerde landen zijn per saldo beperkt gebleven, mede dankzij een gepaste monetaire beleids versoepeling. Bij de diverse marktpartijen is een zekere mate van vertrouwen teruggekeerd. Het groeitempo van het mondiale productievolume is bijgevolg versneld tot ruim 3 procent.

Het herstel in de wereldeconomie is mede in gang gezet door enkele Aziatische crisislanden, waaronder Zuid-Korea, Thailand en Maleisië. Aldaar zijn programma's voor macro-economische stabilisatie ten uitvoer gebracht en is een aanvang gemaakt met structurele hervormingen. Bovendien heeft de economische expansie in de Verenigde Staten zich voortgezet onder invloed van een levendige consumptieve vraag. De werkloosheid is gedaald en de bestedingen zijn gestimuleerd door de aanhoudende hausse op de aandelenmarkten. De productiviteitsstijging heeft zich gecontinueerd, mede als gevolg van de introductie van nieuwe informatie- en communicatietechnologieën. De hoogconjunctuur heeft evenwel de inflatierisico's laten opflakkeren, de handelsbalans verzwakt en de Federal Reserve Board doen besluiten zijn richtinggevend rentetarief vanaf medio 1999 stapsgewijs op te trekken.

In Europa is de algemene bedrijvigheid ondersteund doordat de op zich uitbundige Amerikaanse vraag naar buitenlandse goederen en diensten is versterkt door de depreciatie van de euro. Nederland loopt wat geleverde economische prestaties betreft voorop, mede dankzij een langdurige harmonische samenwerking tussen de sociale partners in het kader van het zogenoemde poldermodel. In de transitielanden zit de economie in de lift. Japan, dat sedert medio 1997 zijn productievolume zag slinken, heeft in het verslagjaar weer wat activiteitsstijging gerealiseerd.

Het nieuws uit Latijns-Amerika is in het algemeen minder bemoedigend. Ondanks enig herstel overheerst een kwakkelend economisch klimaat en blijft de regio kwetsbaar voor eventuele nieuwe financiële verstoringen en een daarmee samenhangend vertrouwensverlies. Venezuela heeft weliswaar kunnen profiteren van het méér dan verdubbelen van de wereldmarktprijs van olie, doch zijn overgewaardeerde valuta ontmoedigt de zo gewenste

versterking en diversificatie van de economie.

Aruba heeft evenzeer voordeel kunnen putten uit de hoogconjunctuur in de Verenigde Staten, onze voornaamste handelspartner. Dankzij een opvallende toename van het aantal verblijfstoeristen uit genoemd land is 1999 voor het toerisme een druk jaar geweest. Onder invloed hiervan, alsmede van de uitvoering van enkele met buitenlands particulier kapitaal gefinancierde projecten, heeft het groeitempo van het reële binnenlands product zich rond het bevredigende niveau van naar schatting 3 procent kunnen handhaven.

De expansie van de Noord-Amerikaanse toeristenmarkt heeft de verdere inkrimping van de Zuid-Amerikaanse en de stabilisatie in de Europese markten ruimschoots gecompenseerd. Voorts heeft de cruisesector het in 1998 verloren terrein goeddeels kunnen heroveren. Volgens de betalingsbalansstatistieken zijn de deviezenontvangsten uit hoofde van het reisverkeer dan ook wederom behoorlijk gestegen. Er zijn echter nog steeds geen geaggregeerde gegevens beschikbaar over de rentabiliteit van de toeristische industrie en de daaraan gelieerde sectoren.

De aanhoudende economische groei is gepaard gegaan met een versnelling van de twaalfmaands stijging van het prijsindexcijfer voor de gezinsconsumptie en wel van 1,9 procent in 1998 tot 2,3 procent in 1999. Deze onbevredigende tendens komt vooral voor rekening van de eerder genoemde toename van de wereldmarktprijs van olie. Via koppelingsmechanismen werkt deze toename door in onder meer de lokale tarieven voor water en electriciteit. Bovendien zorgen binnenlandse kostenfactoren reeds geruime tijd voor een iets hogere gemiddelde prijsstijging in Aruba dan in de Verenigde Staten.

Het enigszins vooruit lopen van de Arubaanse inflatie heeft geen afbreuk gedaan aan de vaste koppeling van de florin aan de dollar, het fundament van het monetair beleid van de Bank. Bepalend voor het vertrouwen in deze koppeling is veeleer de hoogte van de dekking van de invoer van goederen (exclusief olie) door de monetaire reserves van de Arubaanse geldscheppende instellingen (ruim 5 maanden per ultimo 1999), alsmede de verhouding van de officiële goud- en deviezenvoorraad ten opzichte van het zogenaamde basisgeld (bankbiljetten in omloop en banksaldi bij de Bank) welke ongeveer 140 procent beloopt.

De balans van de Bank weerspiegelt de soliditeit van de florin, die mede het gevolg is van de disciplinerende werking van de vaste verhouding met de dollar. Teneinde de betreffende koers te handhaven en het vertrouwen van het publiek in de koppeling te

waarborgen, verleent de Bank ten principale geen krediet aan de overheid. De beschikbare monetaire reserves worden grotendeels uitgezet op de markt voor Amerikaans schatkistpapier. Op termijn werpt deze beleggingsstrategie hogere opbrengsten af dan het louter aanhouden van bancaire deposito's. Daarentegen laten de obligatierementen relatief grote schommelingen zien en zijn deze net als in 1994 in het verslagjaar gemiddeld genomen negatief geweest.

Door de aangeduide rendementsschommelingen verloopt de gerealiseerde winst van de Bank van jaar tot jaar nogal grillig. Nadat deze winst zich in de periode 1995-1998 bevredigend heeft ontwikkeld, is zij in 1999 onder sterke druk komen te staan als uitvloeisel van de rentestijging in de Verenigde Staten en de hiermee samenhangende vermindering van de beleggingsopbrengsten van de Bank. De reguliere bedrijfskosten zijn evenwel vrijwel gelijk gebleven, met name door beheersing van de personele lasten.

De lagere winst van de Bank is in beperkte mate mede het gevolg van enige daling van haar officiële deviezenreserves, na een opmerkelijke stijging in 1998. Een factor die hiertoe heeft bijgedragen is de uitbundige toename van de kredietverlening door de commerciële banken na het per begin 1999 opschorten van het directe, bij de individuele instellingen aangrijpende kredietplafonneringssysteem. In het verslagjaar hebben de banken zich niet gehouden aan de afspraak de groei van hun gezamenlijke kredietverlening te beperken tot de verwachte stijging van het nominale bruto binnenlands product.

Vooraf het consumptieve krediet is aanzienlijk uitgebreid. Gegeven de hoge importquote van Aruba, heeft deze uitbreiding bijgedragen tot een forse vermindering van het betalingsbalansoverschot, welke mede is versterkt door een vergroting van de buitenlandse beleggingen door institutionele beleggers. Teneinde verstoringen van het economisch proces vanuit de monetaire sfeer te voorkomen is waakzaamheid geboden. Aan de banken is in maart 2000 dan ook nadrukkelijk gevraagd terughoudendheid te betrachten bij de kredietverlening.

Waakzaamheid is te meer vereist, aangezien de overheidsfinanciën zich nog steeds in een kwetsbare situatie bevinden. Het financieringstekort (inclusief de mutaties in betalingsachterstanden) is in het verslagjaar weliswaar teruggedrongen tot naar schatting bijna AFL 44 miljoen of 1,3 procent van het bruto binnenlands product, doch deze daling moet worden toegeschreven aan het deels eenmalig effect van een programma tot sanering van de achterstanden in de belastinginning.

Daarentegen zijn de consumptief geaarde overheidsuitgaven verder gestegen en zijn niet-gebudgetteerde bestedingen gedaan, mede in verband met de participatie van de overheid in bepaalde ondernemingen. Hierdoor en door het vrijwel geheel wegvallen van Nederlandse projectsteun zijn de ter bevordering van de economische ontwikkeling zo noodzakelijke infrastructurele investeringen wederom het kind van de rekening geworden. Voorts is het sinds 1995 door diverse commissies aanbevolen en door de Regering overgenomen beleidsdoel om te geraken tot een evenwichtige begroting nog steeds niet verwezenlijkt. Overeengekomen reserveringen in het zogenaamde Hotelgarantiefonds en (voor de aflossing van bepaalde uitstaande obligatieleningen) in het Sinking Fund zijn gestaakt. Hierdoor zijn in zekere zin verplichtingen naar de toekomst verschoven.

Het daadwerkelijk bereiken van structureel evenwicht in de overheidsfinanciën is een noodzakelijke voorwaarde teneinde de op zich lovenswaardige politieke wens te kunnen verwezenlijken om op den duur financieel op eigen benen te staan. Geconstateerd moet echter worden dat nog niet aan deze voorwaarde is voldaan en dat het Land voortdurend met liquiditeitsproblemen worstelt. Ondanks de voorspoedige economische ontwikkeling sinds 1988, welke zich weerspiegelt in een relatief hoog per capita binnenlands product van naar schatting ruim US\$ 19.000, blijven de overheidsfinanciën dan ook zorgen baren.

Aruba wordt eveneens geconfronteerd met specifieke knelpunten en hoge maatschappelijke kosten per inwoner die nu eenmaal voortvloeien uit de kleine schaal van zijn economie. Zo is er sprake van een eenzijdige en kwetsbare productiestructuur. Deze situatie wordt geaccentueerd door toenemende achterstanden op het terrein van de infrastructurele en openbare voorzieningen, alsmede door het toevallen van een relatief groot deel van het binnenlands product aan niet-ingezetenen. Daarenboven moeten aan bepaalde ondernemingen belastingfaciliteiten worden toegekend om de bedrijfsvoering voor hen aantrekkelijk te maken.

Niettemin hebben de regeringen van Aruba en Nederland in maart 1999 overeenstemming bereikt over een nieuwe financiële samenwerkingsrelatie. Op basis hiervan heeft een bilaterale werkgroep concrete uitvoeringsvoorstellen ter zake gedaan. Hierbij wordt uitgegaan van het gedurende het komend decennium afbouwen van de financiële steun voor projecten verkregen in het kader van het Statuut van het Koninkrijk der Nederlanden. Daartegenover zullen jaarlijks oplopende Arubaanse stortingen staan in een ontwikkelingsfonds, dat door de Aruban Investment Bank N.V. wordt beheerd en bij de Bank wordt aangehouden (zie box).

Gegeven de huidige broze positie van 's Lands financiën en de genoemde beperkingen die inherent zijn aan een kleine economie, zal het realiseren van de wens om financieel op eigen benen te staan een niet te onderschatten uitdaging zijn. In dit verband moet ook worden bedacht dat de tot nog toe opgedane ervaringen met het de facto nakomen door het Land van de verplichting tot het storten in fondsen niet positief zijn. Wanneer de bodem van de schatkist in zicht komt, blijkt het doorgaans politiek niet aantrekkelijk de structureel te hoge consumptieve uitgaven om te buigen en wordt de toevlucht genomen tot het uitstellen van nuttige investeringen, tot het opschorten van de fondsvorming en tot het laten oplopen van betalingsachterstanden.

Op afstand verbonden

Eindrapport van de werkgroep uitvoering samenwerking Nederland-Aruba.

De regeringen van Aruba en Nederland zijn in maart 1999 overeengekomen het "Fondo Desaroyo Aruba" op te richten. Gedurende de periode 2000-2009 zullen de betreffende overheden respectievelijk AFL 180 miljoen en NLG 220 miljoen in het fonds storten. De jaarlijkse stortingen van Nederland zullen in de loop van deze tien jaar geleidelijk afnemen, terwijl die van het Land Aruba navenant zullen toenemen, zodat Aruba na de aangegeven periode financieel op eigen benen staat.

De bovengenoemde bedragen zullen worden benut voor de financiering van overheidsprojecten. Additioneel zal NLG 270 miljoen door Nederland in het fonds worden gestort, te besteden aan overige activiteiten die voor het Koninkrijk en Aruba van belang zijn zoals de kustwacht, rechersamenwerking, belastingrechters, rentesubsidies op oude Nederlandse leningen aan Aruba, lopende overheidsprojecten en technische samenwerking. Binnen dit bedrag zal NLG 120 miljoen worden gereserveerd om de schulden van het Land Aruba aan Nederland te saneren, zodra haar begroting in evenwicht is.

De middelen van het fonds worden door beide regeringen gestort op een rekening bij de Centrale Bank. Het bestuur van het fonds beslist over de allocatie daarvan en laat zich daarbij adviseren door de Aruban Investment Bank N.V., die tevens is belast met het dagelijks beheer van het fonds.

Nederland zal ook na 2009 blijven bijdragen aan bepaalde zaken die voor het Koninkrijk van belang zijn, namelijk de kustwacht, de rechersamenwerking, belastingrechters en bijstand voor de rechterlijke macht. Buitenlandse betrekkingen en defensie worden blijvend gefinancierd, aangezien deze als koninkrijkstaken worden gezien.

Een strategie gericht op financiële verzelfstandiging vereist dat op de Arubaanse begroting voldoende middelen worden vrijgemaakt om te investeren in een duurzame welvaartsontwikkeling. Hierbij zullen de infrastructurele en openbare voorzieningen op een aanvaardbaar niveau dienen te worden gebracht. Naar het oordeel

van de Bank zullen ter bereiking van dit doel de consumptieve overheidsuitgaven in toom moeten worden gehouden en directe participatie in ondernemingsactiviteiten achterwege moeten worden gelaten. Deze activiteiten hebben immers in de loop der tijd pijnlijke financiële tegenslagen voor het Land met zich mee gebracht.

De overheid doet er derhalve verstandig aan in het vervolg het ondernemen aan de private sector over te laten. Mede door verbetering van de deugdelijkheid van het openbaar bestuur, dient zij zich primair te richten op het bevorderen van een omgevingsklimaat waarin het particulier initiatief tot verdere ontplooiing kan komen. Door een terughoudend en effectief uitgavenbeleid moet worden voorkomen dat te zware financiële lasten worden gelegd op de schouders van de tot nog toe goed draaiende private sector. In concreto vereist een en ander het tot stand brengen van een slank overheidsapparaat dat zich beperkt tot de doelmatige uitvoering van een aantal noodzakelijke kerntaken. Aldus kan de nieuwe samenwerkingsrelatie disciplinerend werken en de productiviteit van de uitgaven verhogen.

Voor het kunnen terugdringen van de consumptieve bestedingen is het in het bijzonder van belang dat onverwijld sluitende regelingen worden ontworpen om de ten laste van het Land komende ziektekosten te beheersen. Voorts dient een minder kostbaar pensioensysteem voor landsdienaren te worden ingevoerd. Over een dergelijke systeem wordt reeds méér dan tien jaar gedelibereerd. Intussen blijven torenhoge verplichtingen op de overheid drukken om de ruimhartige pensioenregeling te kunnen financieren. De facto wordt echter onregelmatig en onvoldoende voldaan aan de betreffende betalingsverplichtingen, vanwege de toestand van 's Lands schatkist.

Het niet volgens de regels voldoen aan de verplichtingen jegens het Algemeen Pensioenfonds Aruba (APFA) creëert voor dit instituut financiële risico's, te meer omdat reeds een te hoog percentage van haar activa betrekking heeft op vorderingen op de overheid. Het simpelweg consolideren van kortlopende schulden is geen afdoende structurele oplossing. Het besef groeit dat, uit een oogpunt van gezonde overheidsfinanciën en teneinde het wegvloeien van deviezen naar het buitenland te beperken, niet valt te ontkomen aan versobering van de pensioenregeling. Op basis van een in mei 1999 afgesloten adviesovereenkomst tussen de Bank en het APFA hebben wij wederom in een gepubliceerd memorandum gewezen op de noodzaak ter zake afdoende maatregelen te treffen.

Op de zogenaamde kredietinstellingen heeft de Bank méér vat, dankzij de in mei 1998 van kracht geworden Landsverordening toezicht kredietwezen. Wij beschikken thans over een adequaat, op Nederlandse leest geschoeid, wettelijk raamwerk voor het toezicht op deze instellingen ter bescherming van de crediteuren en waarborging van de stabiliteit en integriteit van het financiële systeem. Dit raamwerk is goeddeels in overeenstemming met de in 1997 door het Bazelse Comité van toezichthouders uitgevaardigde “Core Principles for Effective Banking Supervision”.

Bemoedigend is evenzeer dat in het verslagjaar een delegatie van de Financial Action Task Force, naar aanleiding van een vervollexaminatie van Aruba, heeft geconcludeerd dat vooruitgang is geboekt met het tot stand brengen en uitvoeren van relevante wet- en regelgeving gericht op waarborging van de integriteit van de financiële sector. Er zijn méér initiatieven op de agenda. Zo zal het wetsontwerp inzake het toezicht op de verzekeringssector op korte termijn door de Staten van Aruba worden afgehandeld. Tevens zal het toezicht op de trustkantoren en de door deze kantoren vertegenwoordigde offshore vennootschappen spoedig wettelijk worden geregeld met het oog op een verdere verbetering van de financiële reputatie van Aruba.

1 Relato di President

Durante 1999, a logra enfrenta mas lihe di loke a spera, e consecuencianan di e turbulencia cu a cuminsa na mitar di aña 1997 riba e mercadonan financiero surgiendo particularmente na Asia. E disturbio di e sistemanan financiero a consecuencia di un crisis serio di confiansa a ser controla gran parti. E efectonan di contagio den e paisnan industrialisa a keda limita, parcialmente danki na un maneho monetario flexibel adecua. Entre e diferente partidonan di e mercado, cierto grado di confiansa a bolbe haci su entrada. Crecemento di e volumen mundial di produccion consecuentemente a acelera te riba 3 por ciento.

Ta mas tanto algun paisnan Asiatico den crisis—entre nan Sur-Korea, Thailand y Malasia—a percura pa e recuperacion di e economia global. Aya, a ehecuta programanan di stabilisacion macro-economico y reformanan structural. Fuera di esaki, e expansion economico na Estados Unidos a continua bou influencia di un demanda activo pa productonan destina pa consumo. Desempleo a baha y gastamento a ser stimula door di un subida prolonga riba e mercado di bolsanan di balor. E subida den productividad a continua, parcialmente como resultado di e introduccion di tecnologianan nobo di informacion y comunicacion. Sinembargo, e boom economico a hisa e riesgo di inflacion, a debilita e balansa comercial y a haci cu Federal Reserve Board a tuma e decision pa aumenta gradualmente su tasa di interes, cuminsando na mitar di aña 1999.

Na Europa e actividad economico a ser sostene pa motibo cu e demanda Mericano pa mercancia- y servicionan di exterior, cu riba su mes tabata hopi fuerte, a wordo mas ainda stimula debi na e depreciacion di e euro. Pa loke ta trata prestacionnan economico, Hulanda a destaca entre otro door di un colaboracion largo y armonioso entre e partnernan social den cuadro di loke ta yama e poldermodel. Na e paisnan di transicion, e economia ta conociendo progreso. Hapon, cu for di mei mei di aña 1997 a mira su volumen di produccion baha, a logra cierto aumento den actividad na 1999.

Noticia for di Latinoamerica por lo general ta menos alentador. A pesar di cierto recuperacion, e clima economico ainda ta zwak y e region ta keda vulnerabel pa eventual desekilibrionan financiero nobo y e perdida di confiansa cu esaki ta trece cune. Apesar cu Venezuela a probecha di e hecho cu e prijs di petroleo den e mercado mundial a bira mas cu dobel, su moneda sobrebalora ta descurasha e fortificacion y diversificacion di e economia cu ta asina necesario pa e pais.

Aruba igualmente a beneficia di e boom economico na Estados Unidos, nos partner comercial principal. Danki na un aumento notabel den e cantidad di turistanan Americano, 1999 tabata un aña hopi fructifero pa turismo. Door di esaki y e realisacion di algun proyecto financia cu capital priva di exterior, e crecemento di e producto bruto domestico real, manera estima, a mantene su mes na un nivel satisfactorio di 3 por ciento.

E expansion di e mercado turistico Norteamericano facilmente a compensa e bahada den e mercado Latinoamericano y e stabilisacion den e mercado Europeo. E sector crucero a reconquista gran parti di e tereno perdi na aña 1998. Segun e estadisticanan di e balansa di pago, e entrada procedente di turismo a bolbe subi considerabelmente. Pero ainda no tin datonan agrega disponibel riba e rentabilidad di e industria turistico y e sectornan liga na dje.

E crecemento economico continuo a wordo compaña pa un aceleracion di e subida di e indice di prijs di consumo durante un periodo di diesdos luna di 1.9 por ciento na 1998 te na 2.3 por ciento na 1999. E desaroyo insatisfactorio aki ta debi principalmente na e aumento menciona anteriormente di e prijs di petroleo den e mercado mundial. Via mecanismonan di interconecion e aumento aki tin un impacto riba, entre otro, e tarifanan local di awa y coriente. Fuera di esaki, factornan domestico di costo a conduci pa basta tempo caba na un aumento un tiki mas halto di prijs na Aruba, cu na Estados Unidos.

E tasa mas halto di e inflacion Arubano no tabata tin ningun efecto riba e tasa fiho di e florin cu e dollar, e fundeshi di e maneho monetario di Banco Central. Confiansa den e tasa fiho aki mas tanto ta depende di con hopi e importacion di mercancia (excluyendo petroleo) ta wordo cubri door di e reservanan monetario di e sistema bancario Arubano (cu ta sumando na mas cu 5 luna na final di 1999), como tambe e proporcion di e reserva oficial di oro y divisas den loke ta yama e “base money” (esta e cantidad di placa di papel den circulacion y depositonan di banconan comercial teni na Banco Central), cu ta suma na mas o menos 140 por ciento.

E balansa di Banco Central ta refleha e solides di e florin, cual ta parcialmente e resultado di e efecto di disciplina impone door di e tasa fiho cu e dollar Americano. Pa conserva e tasa di cambio aki y pa garantiza e confiansa di e publico den esaki, Banco Central, como un punto di principio, no ta duna credito na gobierno. E reservanan monetario disponibel ta ser inverti mayoria parti den e mercado pa bono di tesoro Mericano. Riba termino largo, e strategia di inversion aki ta duna hopi mas ganashi cu si djis mantene depositonan bancario so. Pero di otro banda, e rendimentonan total di bono ta

mustra fluctuacionnan relativamente grandi, y na 1999 e rendimtonan aki tabata den averahe negativo, mescos cu tabata e caso na 1994.

Debi na e fluctuacionnan den rendimiento di bono, e ganashi realisa door di Banco Central ta varia basta di aña pa aña. Despues cu e ganashi aki a desaroya su mes den un forma satisfactorio den e periodo di 1995-1998, el a haña su mes bou un presion fuerte na aña 1999 como consecuencia di e aumento den e tasa di interes na Estados Unidos, resultando den menos entrada riba e inversionnan di Banco Central. Di otro banda, e gastonan operacional a keda casi mescos, principalmente door di contene e gastonan di personal.

E ganashi poco mas abou di Banco Central tambe tabata a consecuencia di cierto caida den su reservanan oficial di divisas, despues di un aumento notabel na 1998. Un factor cu a contribui na esaki ta e aumento substancial den e dunamento di credito door di e banconan comercial, despues cu na comienso di 1999 a suspende e sistema di restriccion riba credito imponi directamente riba e institucionnan individual. Durante 1999, e banconan no a tene nan mes na e acuerdo di limita e crecimiento den dunamento di credito colectivo na e aumento spera di e producto domestico bruto nominal.

Ta mas tanto credito na consumidornan a expande na un forma considerabel. Debi na e tasa halto di importacion di Aruba, e expansion aki a contribui na un caida fuerte den e surplus riba e balansa di pago, cual a wordo acentua, entre otro, door di un aumento den inversionnan haci den exterior pa companianan institucional di inversion. Pa evita disturbio den e proceso economico for di e ambiente monetario, mester vigila esaki di cerca. Na Maart 2000, a pidi e banconan enfaticamente pa nan frena e dunamento di credito.

Mester vigila e situacion di cerca mas ainda, mirando cu finanzas di gobierno keto bai ta den un situacion vulnerabel. Apesar cu e deficit financiero (incluyendo e cambio den e pagonan atrasa) a baha te casi AFL 44 miyon cu ta 1.3 por ciento di e GDP calcula, e reduccion aki mester wordo atribui na e efecto—pa un solo biaha—di un programa di eliminacion di atrasonan den cobramento di belasting.

Di otro banda, e gastonan di gobierno cu caracter di consumo a subi mas ainda, y inversionnan no-presupuesta a ser haci, parcialmente relaciona entre otro cu participacionnan di gobierno den empresanan. Door di esaki y door cu e sosten financiero di Hulanda pa proyectonan a cai afo casi completamente, e inversionnan infrastructural cu ta asina tanto necesario pa fomenta e desaroyo economico, a bira un biaha mas e victima. Ademá di esaki, e meta

di maneho pa yega na un presupuesto ekilibra, cual varios comision a recomenda desde 1995 y cu gobierno a adopta, ainda no a ser realisa. Reservacionnan acorda den loke ta yama Fondo di Garantia di Hotel y den e Sinking Fund (pa pago di cierto bononan pendiente) no ta tumando luga mas. Cu otro palabra, den cierto sinti e cumplimiento di obligacionnan a wordo posponi.

Alcansa un ekilibrio structural den finanzas di gobierno ta un condicion necesario pa logra e meta politico—cu riba su mes ta algo di elogio—di, cu tempo, para riba nos mes pia financieramente. Desafortunadamente, e meta aki ainda no a wordo logra, y gobierno constantemente ta lucha cu problemanan di likides. A pesar di e desaroyo economico favorabel cu ta existi for di 1988, cu ta wordo refleha den un producto bruto domestico pa cabes relativamente halto, segun calculacion di mas cu US\$ 19.000, finanzas di gobierno ainda ta keda preocupante.

Fuera di esaki Aruba ta confrontando cierto problemanan specifico y gastonan social halto pa cada habitante, asocia cu e scala chikito di su economia. E pais ta wordo afecta door di e structura di produccion basa riba un pilar y vulnerabel. E situacion aki ta ser acentua door di atrasonan riba tereno di infraestructura y facilidadnan publico cu ta birando mas grandi, como tambe door cu un parti relativamente grandi di e producto domestico ta bai pa personanan cu no ta residente di Aruba. Ademas, mester duna concesionnan di belasting na cierto empresanan pa haci e establecimiento di un empresa na Aruba bira atractivo pa nan.

Sinembargo, e gobiernonan di Aruba y Hulanda a yega na un acuerdo na Maart 1999 riba un relacion di cooperacion financiero nobo. A base di esaki un grupo di trabou bilateral a traha riba proposicionnan concreto. Akinan a wordo asumi un reduccion gradual durante e proximo decenio di e yudansa pa proyecto cu ta wordo haña den cuadro di e Statuto di Reino Hulandes. Na luga di esaki, gobierno di Aruba mester deposita anualmente sumanan creciente riba un fondo di desaroyo, cu lo ta maneha pa Aruban Investment Bank N.V. y cu lo ta teni na Banco Central (mira e box).

Teniendo cuenta cu e posicion actual fragil di e finanzas di e pais y e limitacionnan cu ta bini man den man cu un economia chikito, e realizacion di e meta pa para riba nos mes pia financieramente lo ta un reto cu no mester wordo subestima. Den e contexto aki, mester corda tambe cu gobierno no tin particularmente un bon record pa loke ta trata na cumpli cu su obligacionnan di a contribui den fondonan. Ora cu e fondo di e caha di e tesoro publico cuminsa muestra, ta resulta cu, politicamente, no ta atractivo pa baha e gastonan di consumo, cu structuralmente ta excesivamente halto, y

e ora ta busca refugio den e posponemento di inversionnan util, den e aplasamento di contribucion na e fondonan y den laga e pagonan atrasa sigui subi.

Un strategia dirigi riba e independisacion financiero ta rekeri cu riba e presupuesto di gobierno suficiente recursonan mester ser laga liber pa inverti den un desaroyo di progreso duradero. Mester trece e infraestructura y facilidadnan publico na un nivel aceptabel. Den opinion di Banco Central, pa alcanza e meta aki, gobierno mester frena su gastonan di consumo y stop participacion directo den actividadnan di negoshi. E actividadnan aki, manera tempo a demostra, a trece cu nan slanan financiero doloroso pa gobierno.

Uni for di un distancia

Raport final di e grupo di trabou pa implementacion di e cooperacion Hulanda-Aruba.

Na Maart 1999 gobiernonan di Aruba y Hulanda a acorda pa establece e Fondo Desaroyo Aruba. Durante e periodo 2000-2009 e gobiernonan aki lo deposita respectivamente AFL 180 milyon y NLG 220 milyon den e fondo. E contribucion anual di Hulanda lo bai ta bahando den transcurso di e diez añanan aki; mientras esunnan di Aruba lo bai ta aumentando proporcionalmente di manera cu Aruba lo ta financieramente independiente despues di e periodo aki.

E sumanan menciona ariba lo ser usa pa financiamiento di proyectonan di gobierno. Adicionalmente, Hulanda lo deposita NLG 270 milyon, pa finansia otro actividadnan cu ta di importancia pa Hulanda y Aruba, manera guardacosta, cooperacion den investigacionnan comun riba tereno di criminalidad, huesnan fiscal, subsidionan di interes riba fiansanan existente for di Hulanda pa Aruba, proyectonan gubernamental andando y cooperacion tecnico. Di e suma aki lo reserva NLG 120 milyon pa reduci e debenan cu e gobierno di Aruba tin cu Hulanda, asina cu su presupuesto ta den ekilibrio.

Ambos gobierno lo deposita e recursonan di e fondo riba un cuenta teni na Banco Central. E directiva di e fondo lo dicidi riba e alocacion di e recursonan riba conseho di Aruban Investment Bank N.V., cu alabes lo ta responsabel pa cu e maneho diario di e fondo.

Tambe despues di 2009, Hulanda lo keda contribui na cierto proyectonan cu ta di importancia pa Reino, esta guardacosta, cooperacion den investigacionnan comun riba tereno di criminalidad, huesnan fiscal y asistencia hudicial. Relacionnan exterior y defensa lo sigui wordo financia ya cu ta mira nan como obligacionnan di Reino.

Pesey ta conseshabel pa den futuro gobierno laga actividadnan di empresa pa e sector priva. E mester enfoca su atencion riba fomenta un clima den cua e iniciativa priva por florece, entre otro door di

mehora e calidad di e administracion publico. Door di hiba un maneho reserva y eficaz pa loke ta trata gastonan, e lo mester evita di pone pesonan financiero demasiado pisa riba schouder di e sector priva, cu te awor aki ta funcionando bon. Specificamente, esaki kiermen e desaroyo di un aparato gubernamental delega cu ta limita su mes na haci, eficientemente, cierto cantidad di tareanan crucial necesario. Di e forma aki e partnership nobo lo por impone disciplina y aumenta e productividad di e gastonan.

Pa por baha e gastonan di consumo, mester traha sin mas tardansa reglanan pa controla gastonan medico cu ta core riba cuenta di gobierno. Tambe, mester introduci un sistema di pensioen menos costoso pa e funcionarionan publico. Ta deliberando pa mas cu diez aña caba riba un sistema asina. Tanten, e obligacionnan haltisimo ta keda un peso riba gobierno pa por financia e areglo indulgente di pensioen aki. Hecho ta, sinembargo, cu gobierno no por cumpli completamente cu su obligacionnan di acuerdo cu e reglanan, pa motibo di e situacion di su finansas.

Fayo pa cumpli cu e obligacionnan na Algemeen Pensioenfonds Aruba (APFA) segun regla, ta crea riesgonan financiero pa cu e instituto aki, mas ainda si tene cuenta cu ya un porcentahe mucho halto di su activo ta consisti di debenan di gobierno. Simplemente consolida e debenan di corto plaso no ta un solucion structural efectivo. E nocion ta birando mas fuerte cu, den interes di un finansas di gobierno saludabel y pa frena e fluho di divisas pa exterior, no tin otro alternativa cu corta den e areglo di pensioen. A base di un acuerdo di conseho cera na Mei 1999 entre Banco Central y APFA, nos a publica un memorandum den cual, un biaha mas, nos a muestra riba e necesidad pa tuma medidanan adecua pa cu e asunto aki.

Banco Central tin mas control riba loke yama e institucionnan di credito, danki na e Ordenansa “Toezicht Kredietwezen”, cu a drenta na vigor na Mei 1998. Awor nos ta dispone di un structura legal adecua, basa riba e sistema Hulandes, pa e supervision di e institucionnan aki pa proteccion di e acreedoran, y pa garantisa e estabilidad y integridad di e sistema financiero. E structura aki gran parti ta concorda cu e “Core Principles for Effective Banking Supervision” cu e Comite di Bazel di supervisoran a recomenda na 1997.

Loke tambe ta alentador ta cu na 1999 un delegacion di e “Financial Action Task Force”, despues di a continua su investigacion na Aruba, a conclui cu a logra un adelanto den e realizacion y ehecucion di e legislacion y regulacionan relevante, dirigi riba salvaguardia e integridad di e sector financiero. Tin mas iniciativa

riba agenda. Riba corto plaso e proyecto di ley riba e supervision di e sector di seguro lo wordo presenta na Parlamento di Aruba. Tambe, pronto un ley lo wordo pasa pa regula e supervision di oficianan di trust y companianan di offshore representa pa e oficianan aki pa logra mas adelanto ainda den e reputacion financiero di Aruba.



2 Economic development and policies

2.1 The real sector

2.1.1 Introduction

In recent years more statistics on the real sector of the economy have become available. Even so, many basic data still are missing or are not readily available. Therefore, the Bank has to manage with some broad indicators and from time to time with anecdotal evidence. Gross domestic product is estimated on the basis of a simple IMF model, which indicates that real growth remained unchanged at 3.0 percent in 1999 (see table 1 and chart 1).

Despite a significant increase in visitor arrivals, growth in registered tourism receipts abated by 3 percentage points to 6 percent. Although housing construction again was buoyant, public and private investments were subdued. On the other hand, consumptive spending increased further. In nominal terms, GDP amounted to about US\$ 1.8 billion. Per capita product grew by 3 percent to US\$ 19,134 in nominal terms and by 1 percent to US\$ 11,581 in real terms (1986 prices).

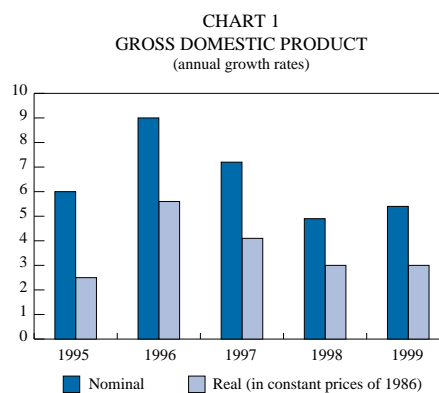


Table 1 Gross Domestic Product (GDP), population, and per capita GDP 1)

	1997	1998	1999
1. a. Nominal GDP 2)	2,949	3,094	3,261
b. Percentage change	7.2	4.9	5.4
2. a. Real GDP 2)	1,861	1,916	1,974
b. Percentage change	4.1	3.0	3.0
3. a. Population	91,361	93,428	95,201
b. Percentage change	3.9	2.3	1.9
4. a. Nominal per capita GDP (in AFL)	32,279	33,116	34,254
b. Percentage change	3.2	2.6	3.4
5. a. Real per capita GDP 3) (in AFL)	20,370	20,508	20,735
b. Percentage change	0.2	0.7	1.1

1) Estimates.

2) In AFL million.

3) In constant 1986 prices.

Source: IMF; Civil Registry; CBS; CBA.

2.1.2 Tourism

After a sluggish performance in 1998, growth in the number of stay-over visitors rebounded to 6 percent in 1999 (see table 2). In the first half of 1999, only 1,095 extra visitors were welcomed, while about 35,000 additional visitors, representing an 11 percent growth, arrived in the second half of the year. The latter increase was caused mainly by the continuing boom in the U.S. economy and by the enlargement of the airlift capacity, by among others, Transworld Airlines, Delta Airlines, Martin Air, and Condor Air, while Air Aruba increased its fleet to five aircraft. American Airlines added a second daily flight to and from Miami. In addition, the insecurity related to the rollover into the new millennium induced many people to travel before the end of 1999.

Table 2 Main indicators of tourism activity

	1997	1998	1999
1. a. Tourism receipts (x AFL mln) 1)	1,196.3	1,310.8	1,392.0
b. Tourism expenditures (x AFL mln) 2)	1,148.6	1,112.4	1,184.3
2. Stay-over visitors (x 1,000)	646.0	647.4	683.3
3. Visitor nights (x 1,000)	4,834.8	4,889.7	5,143.3
4. Average nights stayed	7.5	7.6	7.5
5. a. Receipts per visitor night (AFL)	247	268	271
b. Average daily expenditure in Aruba 3)	198	189	197
6. Hotel occupancy rate	73.5	77.6	77.0
7. Average daily hotel rates (AFL) 4)	205.2	208.5	216.7
8. Revenue per available room 4)	117.9	126.6	124.5
9. Room tax receipts (x AFL 1,000) 5)	16.5	17.2	18.6
10. Cruise visitors (x 1,000)	297.7	257.8	289.1
11. Number of cruise ships	270	255	230
12. Contribution to current account 6)	73.2	74.5	71.5
13. Aruba's share in the Caribbean tourism markets:			
a. Stay-over 7)	3.4	3.3	3.5
b. Cruise 7)	2.5	2.2	2.4

1) Gross registered receipts from tourism according to balance-of-payments' data on a cash basis.

2) Travel-related expenditures by stay-over visitors before (e.g., pre-paid packages), during, and immediately after a trip as estimated by the CBS via a special survey.

3) Expenditure by stay-over visitors in Aruba only (thus, excluding expenditure on pre-paid packages), as calculated by the CBS.

4) Including hotel and time-share.

5) Net, excluding effects of additional tax assessments related to previous years.

6) Tourism receipts as a percentage of current account receipts, excluding the oil and free-zone sectors.

7) For 1999, CBA preliminary estimate.

Source: CBA; ATA; CTO; CBS.

In 1999, total nights spent by visitors in Aruba increased by 5 percent to 5,143,302 (1998: 1 percent), thereby surpassing for the first time the 5 million mark. The average length of stay remained virtually unchanged (7.5 nights in 1999 compared to 7.6 nights in 1998). The average occupancy rate of the hotels declined by a slight 0.6 percentage point to 77 percent in 1999, possibly indicating an increased preference for other types of accommodation. Nevertheless, the average daily rate of the hotels increased by 4 percent to AFL 216. However, revenues per available room declined by 2 percent to AFL 125 in 1999.

After adjusting for tax assessments related to previous years, room tax receipts increased by 8 percent to AFL 19 million in 1999. Tourism receipts, as registered in the balance of payments, grew by 6 percent in 1999 (1998: 10 percent) to AFL 1,392 million. Average receipts per visitor night went up by 1 percent to AFL 271, while the share of tourism receipts in total current account receipts (excluding oil and free-zone sectors) decreased by 3 percentage points to 72 percent. Preliminary survey data from the Central Bureau of Statistics indicate that the total visitors' expenditures made in Aruba went up by 6 percent in 1999 to AFL 1,184 million, partly because of a 4 percent increase in stay-over visitors' spending while in Aruba.

Preliminary data from the Caribbean Tourism Organization (CTO) indicate that stay-over arrivals in the Caribbean region rose by about 2 percent in 1999 (1998: 4 percent), reflecting in part a strong growth in U.S. arrivals in Aruba, the Dominican Republic, Grenada, Jamaica, and Turks & Caicos Islands (see chart 2). Cruise tourism increased at an unchanged rate of about 1 percent. Aruba's share in the Caribbean market for stay-over and cruise tourism grew by 0.2 percentage point to, respectively, 3.5 percent and 2.4 percent in 1999 (see chart 3).

In Aruba, arrivals from the United States surged by 12 percent to 422,186 (1998: 4 percent), thereby reaching for the first time more than 400,000 visitors (see charts 4A and 4B). Consequently, its market share grew by 4 percentage points to 62 percent. Visitor nights went up by 9 percent (1998: 6 percent). This notable growth was attributed mainly to the continued expansion of the U.S. economy, an increased air seat capacity to and from Aruba, and more summer charters, inter alia, from Dallas and Louisville.

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

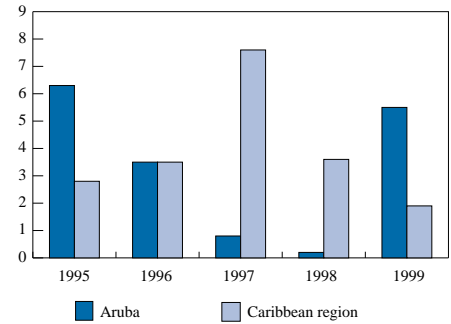


CHART 3
GROWTH IN CRUISE TOURISM
(in percentages)

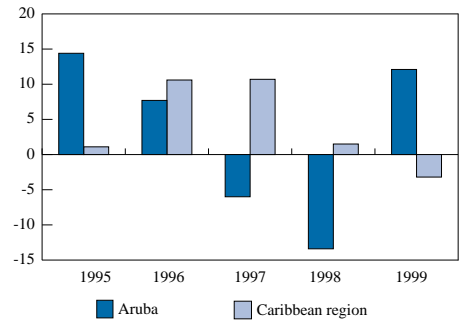


CHART 4A
STAY-OVER VISITORS BY
PRIMARY AND SECONDARY MARKETS
1998

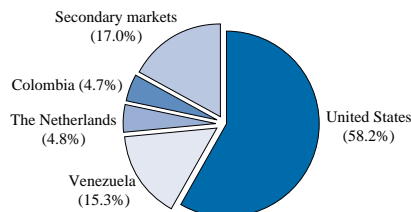
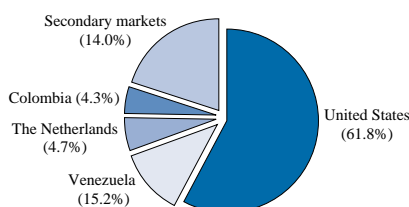


CHART 4B
STAY-OVER VISITORS BY
PRIMARY AND SECONDARY MARKETS
1999



Growth in visitor arrivals from Venezuela slowed down from 13 percent in 1998 to 5 percent in 1999, due particularly to the economic uncertainty in that country. Total nights spent decreased by 1 percent to 553,243. The Venezuelan market share remained virtually unchanged at 15 percent. The Dutch market rebounded by 3 percent, due to more advertising and an increased airlift. Total nights spent grew by 6 percent to 416,744 nights. Its market share also stabilized, i.e., at 5 percent. In line with developments in 1998, the Colombian market shrank, measured in the number of visitors (3 percent), as well as in total nights spent (1 percent). This decrease was associated mainly with the economic malaise in that country.

After being in a slump for two consecutive years, cruise tourism rebounded in 1999. The number of cruise passengers increased by 12 percent to 289,052, due mainly to more frequent visits of larger vessels like the *Inspiration*, which initiated visits to Aruba in November 1999. The expectations for 2000 are quite promising, as several mega vessels will continue to include Aruba in their itinerary.

2.1.3 Merchandise trade

Trade figures (on a transaction basis) from the Central Bureau of Statistics show that imported merchandise (excluding mineral

Table 3 Merchandise foreign trade by product category 1)

In AFL million

	1997	1998	1999
1. Export of goods	43.2	52.1	52.3
a. Live animals and other animal products	5.8	16.1	13.9
b. Transport equipment	5.1	4.1	4.0
c. Art objects and collectors' items	6.2	9.9	7.1
d. Machinery and electrotechnical equipment	3.0	6.5	5.4
e. Other goods	23.1	15.5	21.9
2. Import of goods	1,099.9	1,459.1	1,400.0
a. Live animals and other animal products	82.0	97.6	90.7
b. Food products	128.4	137.3	137.7
c. Chemical products	125.1	129.2	137.9
d. Base metals and derivated works	86.4	114.6	154.4
e. Machinery and electrotechnical equipment	153.9	195.2	287.1
f. Transport equipment	100.2	336.0	109.2
g. Other goods	423.9	449.2	483.0
3. Trade balance	-1,056.7	-1,407.0	-1,347.7

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

Source: CBS; CBA.

fuels, and storage and transit of the free-zone sector) decreased by 4 percent in 1999, following an incidental high import of aircraft and related equipment in 1998 (see table 3). Exports remained virtually unchanged. Consequently, the trade deficit shrank by 4 percent in 1999, after an upsurge in 1998.

An ample 63 percent of imports originated from the United States (1998: 69 percent), while 42 percent of exported merchandise was bound for that country, compared to 32 percent in 1998 (see table 4 and charts 5A en 5B).

CHART 5A
MERCHANDISE EXPORT BY COUNTRY OF DESTINATION
1999

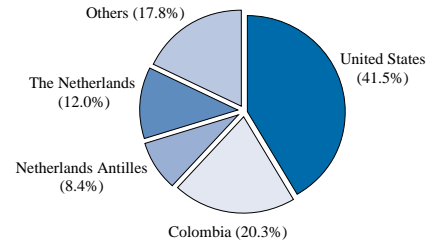
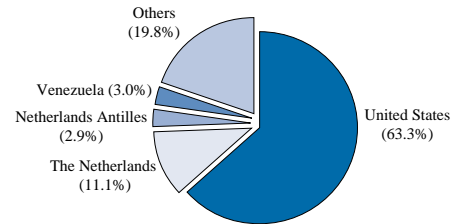


Table 4 Merchandise foreign trade by country 1)

In AFL million

	1997	1998	1999
1. Export of goods	43.2	52.1	52.3
a. United States	14.4	16.9	21.7
b. Colombia	4.9	11.3	10.6
c. The Netherlands	10.1	6.7	6.3
d. Netherlands Antilles	5.7	5.6	4.4
e. Others	8.1	11.6	9.3
2. Import of goods	1,099.9	1,459.1	1,400.0
a. United States	611.2	1,007.8	885.7
b. The Netherlands	137.1	128.9	155.5
c. Netherlands Antilles	46.2	39.6	39.9
d. Venezuela	40.0	41.6	41.9
e. Others	265.4	241.2	277.0
3. Trade balance	-1,056.7	-1,407.0	-1,347.7

CHART 5B
MERCHANDISE IMPORT BY COUNTRY OF ORIGIN
1999



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

Source: CBS; CBA.

2.1.4 Utilities

Domestic water consumption grew by a mere 1 percent in 1999 (1998: 7 percent), probably the result of the relatively rainy weather conditions in the second half of the year and the raising of the water tariffs (see table 5). The number of premises connected for water usage increased by 3 percent, i.e., 1 percentage point less than in 1998. Growth in electricity consumption also decelerated, i.e., from 9 percent in 1998 to 2 percent in 1999, presumably due to the substantial increase in the electricity tariffs during the second half of 1999. Gas consumption went up by 5 percent, reflecting a corresponding increase in commercial demand. As a result, the weighted utilities consumption index increased by only 2.3 percentage points in 1999 to 115.2, following an 8 percentage points rise in 1998.

Table 5 Utilities

	1997	1998	1999
1. a. Water (x 1,000 m ³) 1)	9,587	10,280	10,406
b. Connected premises	27,180	28,283	29,211
2. a. Electricity (x 1,000 KWH)	551,848	600,767	614,931
b. Connections	33,337	34,416	35,496
c. Number of users	28,708	29,861	30,971
3. a. Gas (x 1,000 pounds)	15,607	15,633	16,345
b. Household	6,929	6,958	7,215
c. Commercial	8,678	8,675	9,130
4. Utilities index (1996=100)	104.9	112.9	115.2

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

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

During 1999, activities of the two large utility companies, WEB Aruba N.V. and Elmar N.V., were dominated largely by the potential problems related to the rollover into the new millennium. However, because of their significant efforts, no major problems were reported. In January 2000, an agreement was signed between WEB Aruba N.V. and the Coastal Corporation in Houston to eliminate the handling fee of US\$ 1.75 per barrel of gas oil. This agreement may have some downward effect on water and electricity tariffs in the near future.

2.1.5 Telecommunication

The number of fix-line connections increased by only 1 percent to 36,557 in 1999, compared to 10 percent in 1998 (see table 6). As a result, the number of connections per 1,000 inhabitants decreased by 1 percent to 384. On the other hand, growth in cellular connections surged by 120 percent to 11,300, probably because of the introduction of the “calling party pays” system together with tariff reductions in November 1998 and August 1999. The number of celluarls per 1,000 inhabitants rose from 55 in 1998 to 119 in 1999. Internet connections grew by 35 percent (1998: 97 percent); tariffs were reduced in August 1999.

Activities of the domestic telephone company Setar were related primarily to preparedness for the new millennium. The actions undertaken led to a rather smooth transition. A fiberoptic submarine connection between Aruba and Curaçao was installed in 1999 to improve communication between the islands. Additional services, such as voicemail and id-calling, also were introduced.

Table 6 Telecommunication indicators

	1997	1998	1999
1. a. Number of fix-line connections 1)	32,796	36,220	36,557
b. Telephone owners per thousand inhabitants	359	388	384
2. a. Number of cellular connections	3,642	5,133	11,300
b. Cellular owners per thousand inhabitants	40	55	119
3. a. Number of internet connections	1,802	3,544	4,789
b. Internet owners per thousand inhabitants	20	38	50
4. Telecommunications index 2) (1996=100)	121.6	164.5	249.2

1) Including fax connections, excluding cellular telephones.

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

Sources: SETAR; CBS; CBA.

2.1.6 Harbor activities

The number of harbor calls shrank further, i.e., from 2 percent in 1998 to 8 percent in 1999. All ship categories contributed to the decline (see table 7). However, cargo movements measured in metric tons surged by a marked 15 percent in 1999, compared to a 2 percent decrease in 1998. Container freight, measured in tues,

Table 7 Harbor activities

	1997	1998	1999
1. Number of harbor calls	3,637	3,557	3,272
a. Cruise ships	270	255	230
b. Tankers	510	486	452
c. Cargo ships (excluding tankers)	750	796	684
d. Other	2,107	2,020	1,906
2. Cargo movements 1) (x 1,000 metric tons)	349,758	342,052	391,738
a. Container weight	291,873	287,526	324,851
b. Break bulk weight	57,885	54,526	66,887
- Free zone	6,101	1,028	21,180
- Local	51,784	53,498	45,707
3. Containers (in tues) 2)	28,914	30,246	34,567
a. Transshipment	4,938	4,558	5,208
b. Free zone	3,181	2,547	4,429
c. Local	20,795	23,141	24,930
4. Sale of water to vessels (x 1,000 m ³)	208	186	161

1) Estimates include containers.

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

Source: CBS; ASTEC N.V.; CTA; CBA; APA N.V.; Coastal Aruba N.V.

rose by 14 percent (1998: 5 percent increase), mainly because of a 74 percent expansion in the free-zone sector transport. In addition, container transport for the local market went up by 8 percent in 1999 (1998: 11 percent increase). Break bulk weight, measured in 1,000 metric tons, surged in the free-zone sector, due to increased transportation of sugar and rice.

2.1.7 Oil refining and transshipment

After subdued activities in 1998 due to construction and revision works, oil refinery rebounded in 1999 (see table 8). The refinery's throughput, i.e., the quantity of oil refined, increased by 26 percent (13 percent compared to 1997). Total oil export receipts surged by 70 percent to AFL 2.2 billion, while import payments for crude oil nearly tripled. Compared to 1997, export receipts decreased by 4 percent, while import payments grew by 12 percent. At the end of December 1999, 520 persons were employed at the refinery, i.e., 4 percent fewer than in 1998.

The ongoing construction activities are scheduled for completion in the second quarter of 2000. They include the addition of a second coking unit and related facilities, and will eventually increase the refining capacity from 225,000 barrels per day to about 280,000 barrels per day.

Table 8 Oil refining

	1997	1998	1999
1. Export of oil (x AFL million)	2,272	1,290	2,192
2. Import of crude oil (x AFL million)	1,862	704	2,092
3. Quantity of oil refined (x 1,000 barrels)	65,507	58,388	73,713
4. Number of employees (at end-December) 1)	534	541	520

1) Excluding persons employed with contractors.

Source: Coastal Aruba N.V.

2.1.8 Airport activities

During 1999, the number of airport passengers increased by 5 percent, after remaining virtually unchanged in 1998 (see table 9). This rise was attributed mainly to an increase in the number of stop-over passengers, in line with the 6 percent growth in the number of stay-over visitors in 1999. The number of aircraft

landings grew by 2 percent. Passenger facility charge, and landing and parking fees rose by 6 percent and 5 percent, respectively.

The expansion and renovation of the airport terminal continued during 1999, and the departure hall was completed in September. The project is scheduled for completion in August 2000.

Table 9 Airport activities

	1997	1998	1999 1)
1. Number of passengers	1,785,039	1,785,747	1,872,230
a. Stop-over	1,618,153	1,605,570	1,686,931
b. Transit	166,886	180,177	185,299
2. Aircraft landings	16,518	16,343	16,690
a. Commercial	13,429	13,307	13,511
b. Noncommercial	3,089	3,036	3,179
3. Landing & parking fees (x AFL million)	4.6	4.4	4.6
4. Passenger facility charge 2) (x AFL million)	27.2	27.4	29.0

1) Estimated.

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

Source: Aruba Airport Authority N.V.

2.1.9 Construction

During 1999, the total number of construction permits granted by the Department of Public Works grew by 10 percent (1998: 1 percent) to 1,691 (see table 10). This growth was attributed mainly to a 7 percent increase in permits for new houses in 1999.

However, the total value of the permits shrank by 5 percent (1998: -43 percent), due partly to a 6 percent decline in the value of new houses to be constructed. The latter decline reflects the growing importance of low-budget housing projects. Also, the number of electrical installations approved decreased by 10 percent in 1999 to 2,691. However, the quantity of imported cement grew by 32 percent (1998: 5 percent), related partly to renovation and expansion activities at the airport and the Radisson Hotel.

Table 10 Construction activities

	1997	1998	1999
1. Number of construction permits granted	1,531	1,543	1,691
a. Houses 1)	988	1,098	1,180
b. Apartments	42	39	24
c. Office buildings	18	8	16
d. Stores and shopping malls 2)	15	14	13
e. Others 3)	468	384	458
2. Value of construction permits (in AFL)	310.0	177.9	169.0
a. Houses	106.3	112.2	105.1
b. Apartments	6.1	11.0	13.8
c. Office buildings	7.4	3.3	9.6
d. Stores and shopping malls 2)	19.4	8.9	7.3
e. Others 3)	170.8	42.5	33.2
3. Cement imported (x 1,000 Kg)	40,333	42,259	55,626
4. Electrical installations approved	3,084	2,992	2,691
a. Houses 1)	985	886	825
b. Apartments	250	220	132
c. Enterprises	148	151	135
d. Others	1,701	1,735	1,599

1) Excluding additions to and remodeling of existing houses.

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

3) Comprising, inter alia, restaurants, schools, additions to and remodeling of existing houses, stores, and shopping malls.

Source: CBS; Department of Public Works; DTI.

2.1.10 Prices

The annual inflation rate accelerated by 0.4 percentage point to 2.3 percent during 1999 (see table 11 and chart 6A). This acceleration was attributed mainly to significant increases in international oil prices, which induced price increases for gasoline (see category “transport and communication”), as well as for water and electricity (see category “housing”).

In contrast, a decline in the average U.S. export prices contributed to lower price increases in the category “clothing & footwear,” while the tariffs of certain telecommunication services, such as international calls, cellars, and the internet, were reduced.

CHART 6A
CONSUMER PRICE INDEX
(percentage changes)

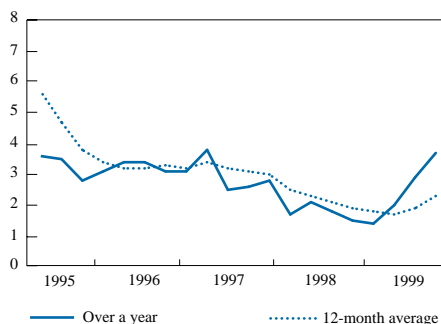


Table 11 Consumer price index

Period average

	1997	1998	1999
Total index (10,000) 1)	3.0	1.9	2.3
a. Food (1,625)	3.1	2.0	2.1
b. Beverage & tobacco (254)	1.9	1.5	1.3
c. Clothing & footwear (1,134)	4.9	6.3	5.5
d. Housing (1,786)	5.0	0.8	2.0
e. Housekeeping & furnishings (1,039)	1.8	2.6	3.1
f. Health (307)	2.1	0.5	0.3
g. Transport & communication (2,072)	1.6	-0.1	0.6
h. Recreation & education (808)	2.5	2.1	2.7
i. Other (975)	2.1	1.5	1.7
Aruba	3.0	1.9	2.3
United States	2.3	1.6	2.2
Curaçao	3.3	1.1	0.4
The Netherlands	2.2	2.0	2.2
Real exchange rate index (1995=100) 2)	100.9	101.2	101.2

1) Weights.

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

Source: CBS; IMF.

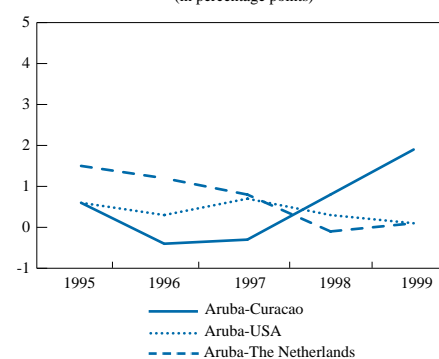
During 1999, Aruba's inflation rate differential with its major trading partner, i.e., the United States, narrowed to 0.1 percentage point, as the acceleration in the U.S. inflation rate was more pronounced than that in Aruba (see chart 6B). The real florin exchange rate index remained unchanged at 101.2. The inflation differential with the Netherlands, Aruba's second most important trading partner, turned around to plus 0.1 percentage point. The differential with Curaçao, where the economic recession continues, widened further from 0.8 percentage point to 1.9 percentage points.

2.1.11 Labor market

In Aruba, reliable labor statistics are not readily available and in a timely way. The latest Labor Force Survey of the Central Bureau of Statistics refers to 1997. Against this background, the Bank recently initiated a project to calculate some labor market variables.

Basically, the method consists of subtracting the estimated employed and nonactive population from the working age population (i.e., persons 15 years and older). The difference is considered a proxy of the unemployed population. The total employed population is approximated by adding up all registered

CHART 6B
INFLATION RATE DIFFERENTIALS
(in percentage points)



employees at several major institutions, including the government and the Social Security Bank. The total nonactive population is estimated on the basis of the assumption that there exists a fixed relationship with the total population. In the Census 1991 and the labor force surveys of 1994 and 1997, this relationship fluctuated within a rather narrow range of 35 percent to 38 percent. In our calculations a ratio of 37.8 percent is assumed.

The following preliminary results were obtained from this exercise: the calculated unemployment rate decreased by 2.8 percentage points to 6.2 percent in 1999. The number of unemployed persons shrank by 30 percent to 2,809 (1998: 19 percent increase), while the participation rate remained unchanged at 62.2 percent.

However, there still appears to be quite a lack of qualified local personnel, while the unemployment rate as registered by the Department of Labor is much lower than the calculated unemployment, i.e., about 2 percent.

There are also no recent data available on wage developments. The GDP estimates indicate that, on average, wages continue to increase. In 1999, the legal minimum wages were raised by about 2 percent to AFL 1,112 for the first category and to AFL 519 for the second category, to compensate for the increase in the consumer price index in 1998 (see table 12).

Table 12 Legal minimum wages

In AFL per month

	1997	1998	1999
Categories:			
1. Industry (incl. construction, banks, insurance companies, hotels, restaurants, public utilities, electronics, textiles, and clothing)	1,060	1,089	1,112
2. Household personnel	495	508	519

Source: Department of Labor.

2.2 Money and credit

2.2.1 Introduction

Monetary growth decelerated from 13 percent in 1998 to 10 percent in 1999, but again clearly exceeded the increase in nominal GDP, which remained roughly unchanged at an estimated 5 percent (see chart 7). Consequently, the macroeconomic liquidity ratio (defined as the share of money supply in nominal GDP) increased for the second consecutive year by 2 percentage points to 52 percent in 1999. In addition, a large part of the transactions was settled in U.S. dollars. However, aggregated data on this phenomenon are not yet available.

Despite the rapid monetary growth, the liquidity ratio of the commercial banks (defined as the ratio of liquid assets to total assets) and the liquidity surplus ratio remained unchanged at 29 percent and 9 percent, respectively (see chart 8). The free deposits of the commercial banks held with the Bank (i.e., total deposits minus the monetary cash reserve requirement) fell by 13 percent to AFL 71 million in 1999, due mainly to a rapid credit expansion and a much smaller net inflow of foreign funds.

2.2.2 Money supply

The money supply continued to expand significantly in 1999, i.e., by AFL 160 million or 10 percent to AFL 1,698 million (1998: AFL 178 million or 13 percent). Narrowly defined money, constituting currency in circulation and demand deposits denominated in Aruban florin and foreign currency, increased by AFL 43 million or 8 percent (1998: AFL 74 million or 16 percent). Demand for currency surged in December 1999, due probably to precautionary measures by the public related to the rollover into the new millennium. Quasi-money, comprising time and savings deposits and treasury bills held by the public, increased by AFL 117 million or 12 percent in 1999 (1998: AFL 104 million or 12 percent increase), mainly reflecting larger holdings of time deposits denominated in both Aruban florin and foreign currency (see table 13 and chart 9).

CHART 7
MONEY SUPPLY AND GDP GROWTH
(indices 1995 = 100)

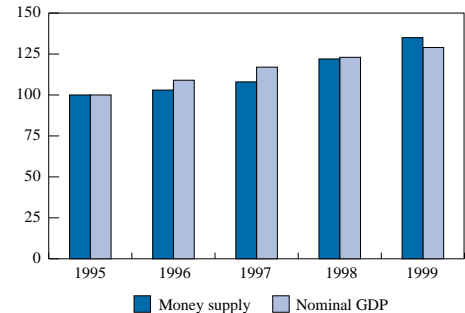


CHART 8
BANK LIQUIDITY
(in AFL million)

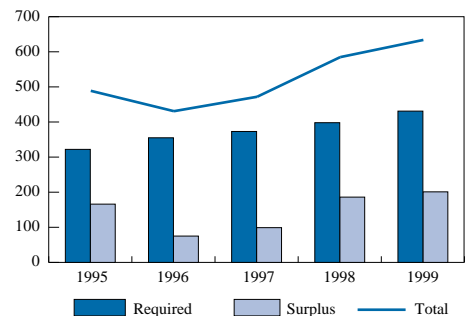


Table 13 Causes of changes in the money supply

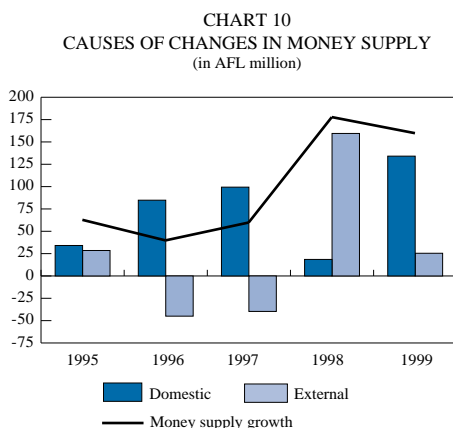
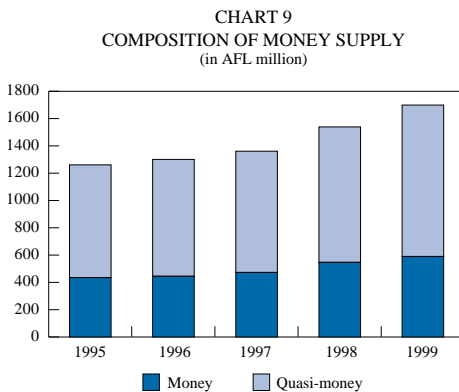
In AFL million

	1997	1998	1999
1. Net domestic money creation	99.4	18.5	134.1
a. Net domestic credit	93.4	68.2	149.8
1. Public sector	31.8	0.8	21.3
2. Private sector	61.6	67.4	128.5
2.1 Loans to enterprises	15.9	0.4	33.4
2.2 Consumer credit	36.0	18.7	46.7
2.3 Housing mortgages	20.0	37.6	50.6
2.4 Other	-10.3	10.7	-2.2
b. Other domestic factors	6.0	-49.7	-15.7
2. Inflow of foreign funds 1)	-39.7	159.5	25.4
a. Current account transactions	-350.9	-33.6	-602.4
b. Net capital inflow 2)	311.2	193.1	627.8
3. Broad money creation	59.7	178.0	159.5
a. Money	28.1	73.9	42.6
b. Quasi-money	31.6	104.1	116.9
<i>(12-month change in percent)</i>	<i>(4.6)</i>	<i>(13.1)</i>	<i>(10.4)</i>

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.



2.2.3 Net domestic money creation

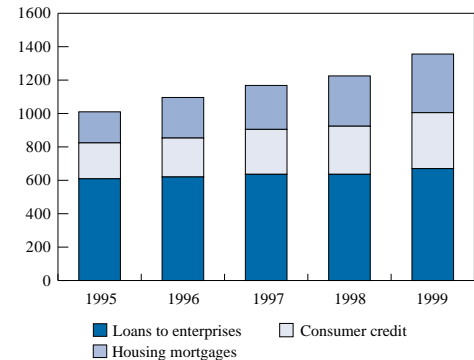
In contrast to 1998, domestic factors contributed prominently to the monetary growth in 1999 (see chart 10). Net domestic assets grew by a voluminous AFL 134 million or 14 percent to AFL 1,120 million, compared to only AFL 19 million or 2 percent in 1998. Private sector credit growth almost doubled. The increase in consumer credit accelerated by a further 9 percentage points to 16 percent, the fastest growth rate since 1991. The demand for this type of credit was stimulated by active promotional campaigns by the commercial banks. Loans to enterprises grew by AFL 33 million or 5 percent, after remaining roughly unchanged during 1998. Housing mortgages continued to expand strongly, i.e., by AFL 51 million or 17 percent in 1999, compared to 14 percent in 1998 (see chart 11). Government financial transactions with the banking system contributed AFL 21 million to the increase in the money supply in 1999, compared to less than AFL 1 million in 1998.

2.2.4 Net inflow of foreign funds

Net inflow of foreign funds amounted to a mere AFL 25 million or 5 percent in 1999, following a notable AFL 160 million in 1998. This relatively small net inflow of foreign funds was associated partly with the (near) completion of some large projects in the oil and utilities sectors. The excessive growth in bank lending, higher government spending, and an increase in foreign investments by residents also contributed to the smaller inflow.

At the end of 1999, net foreign assets (excluding revaluation differences of gold and foreign exchange holdings) amounted to AFL 579 million, i.e., 5 percent higher than in 1998. The Bank's net foreign reserve position (i.e., the official reserves) shrank by some AFL 5 million to AFL 413 million. Due partly to certain factors, the net foreign assets of the commercial banks rose by AFL 21 million to AFL 166 million. Consequently, the share of the Bank's net foreign assets in the monetary sector's total declined from 74 percent in 1998 to 71 percent at the end of 1999.

CHART 11
LOANS TO PRIVATE SECTOR
(in AFL million)



2.2.5 Nonmonetary financial institutions

In 1999, the aggregated assets of the nonmonetary financial institutions grew by AFL 104 million or 7 percent to AFL 1.5 billion, compared to an increase of 8 percent in 1998. Their net foreign assets rose by AFL 11 million or 4 percent to AFL 303 million, as against AFL 67 million or 30 percent in 1998. The latter assets were almost twice as high as those of the commercial banks (see table 14).

Gross domestic claims rose by AFL 93 million or 8 percent to AFL 1.2 billion, due to an AFL 56 million or 10 percent increase in claims on the private sector. This increase was attributed mainly to increases in loans to enterprises (due to a reclassification in the reported data in the first quarter of 1999) and in housing mortgages. Additionally, claims on the government went up by 6 percent and at year-end 1999 amounted to 52 percent of total domestic claims, largely related to a substantial increase in payment arrears vis-à-vis the civil servants pension fund (APFA).

On the liability side, pension fund provisions recorded an AFL 56 million or 5 percent increase in 1999. This growth was significantly lower than the AFL 141 million or 14 percent increase in 1998 and was attributed mainly to APFA. The insurance reserve fund rose by AFL 24 million or 13 percent to AFL 207 million. The item "borrowings and deposits" declined,

and its share in the balance-sheet total fell slightly to 3 percent in 1999.

Table 14 Nonmonetary financial institutions 1)

End-of-period figures in AFL million

	1997	1998	1999
1. Net foreign assets	225.3	292.6	303.3
2. Domestic claims	1,090.8	1,134.6	1,228.0
a. Government	598.6	595.8	633.5
b. Private sector	492.2	538.9	594.5
1. Nonfinancial public enterprises	23.8	30.1	29.0
2. Enterprises	83.9	75.8	106.8
3. Individuals	384.5	433.0	458.7
3. Total assets=total liabilities	1,316.1	1,427.3	1,531.2
4. Borrowings and deposits	60.3	55.4	51.0
a. Government	40.9	40.5	36.5
b. Other residents	19.3	14.9	14.5
5. Pension fund provisions	1,015.4	1,156.6	1,212.7
6. Insurance reserve fund	165.5	183.6	207.4
7. Other items (net)	74.9	31.8	60.2

1) Comprising mortgage banks, pension funds (including APFA), life insurance companies, finance companies, the Aruban Investment Bank, and the Social Security Bank.

Source: CBA.

Housing mortgages granted by the nonmonetary financial institutions expanded by AFL 30 million or 8 percent to AFL 398 million in 1999, equivalent to 53 percent of the total domestic market, which reached AFL 750 million or 23 percent of estimated

Table 15 Housing mortgages

End-of-period figures in AFL million

	1997	1998	1999
1. Total	583.8	669.5	749.6
2. Commercial banks	263.2	300.8	351.4
3. Mortgage banks	238.9	268.9	276.6
4. Pension funds	41.1	50.3	59.2
5. Life insurance companies	40.0	49.0	61.4
6. Other 1)	0.6	0.6	1.1

1) Comprising other local financial institutions not included elsewhere.

Source: CBA.

nominal GDP (see table 15). The commercial banks' share in this market went up by 2 percentage points to 47 percent in 1999.

On the other hand, the share of the mortgage banks (including FCCA) fell by 3 percentage points to 37 percent. The market shares of the pension funds and life insurance companies remained relatively small at 8 percent.

2.2.6 Monetary policy

During 1999, credit growth of the banking sector, on an aggregated basis, clearly exceeded the 5-6 percent guideline issued by the Bank at the beginning of the year, while growth of the nonmonetary financial institutions remained within the bilateral arrangements made with them. Despite the rapid overall credit growth, monetary policy was not tightened in 1999, because developments in the various macroeconomic variables (including in particular Aruba's net foreign reserve position) remained acceptable.

For the year 2000, the Bank has strongly advised the commercial banks to keep aggregated credit growth in line with the expected increase in nominal GDP, estimated at 6 percent. The commercial banks should exercise self-discipline when granting loans to contain credit growth. If this advice is not followed, the Bank may have to tighten its policy in the course of the year by imposing either a penalty or an additional monetary cash reserve requirement on banks that cause overall lending to exceed the guideline. The nonmonetary financial institutions also have been requested to remain cautious when granting loans.

2.3 Government finance

2.3.1 Introduction

Despite improvements, serious lacunas exist in the government finance statistics. In particular, data on expenditures, nontax revenues, and unmet financial obligations are not yet complete and readily available. To improve the analysis of the government's financial position and to enhance accountability and transparency, efforts should be intensified to compile and publish government finance statistics in a timely way. In the meantime, the Bank has to manage with a method that estimates total spending on a cash basis

as a residual of registered revenue (including grants) and net financing (see table 16).

Table 16 Government finance summary table 1)

In AFL million

	1997	1998	1999
1. Revenue and grants	627.6	646.4	712.9
2. Expenditures and items n.i.e.	674.5	663.8	736.9
3. Financial deficit (-)	-46.8	-17.4	-24.1
4. Net foreign capital	-16.0	39.3	13.3
5. Net domestic capital 2)	31.0	-22.7	-10.5
6. Net recourse to the monetary system (-)	-31.8	-0.8	-21.3
.....			
7. Memorandum items:			
a. Unmet financing requirements 3)	100.8	138.6	158.2
b. Financial deficit 4)	-74.2	-55.2	-43.7

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

2) Net long-term capital attracted from nonmonetary sectors mainly by issuing government bonds and private loan placements. The commercial banks' purchases of such bonds are included under item 6.

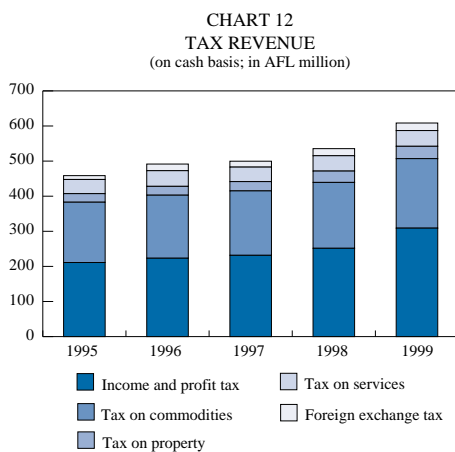
3) Comprising all unsettled payment obligations to other sectors irrespective of the time frame in which they mature.

4) Including the change in registered unmet financing requirements.

Source: Department of Finance; Tax Collector's Office; CBA.

2.3.2 Revenue and grants

In 1999, total revenue and grants amounted to AFL 713 million, i.e., AFL 67 million or 10 percent more than in 1998 (see table 17). According to data obtained from the Tax Collector's Office, tax revenue (including foreign exchange commission) increased markedly, i.e., by AFL 73 million or 14 percent to AFL 609 million, equivalent to 19 percent of estimated GDP in 1999 (1998: 17 percent). This increase was attributed mainly to higher receipts from taxes on income and profit, following intensified collection efforts, combined with a partial tax arrears waiver program. An AFL 24 million increase in wage tax receipts—the largest tax component—accounted for 33 percent of the total growth in tax collections. In addition, income tax revenue grew by AFL 15 million to AFL 28 million in 1999. Also, tax on commodities increased by AFL 10 million or 5 percent to AFL 198 million, caused mainly by higher receipts from import duties (see chart 12). On the other hand, at the end of 1999, AFL 35 million in tax restitutions had to be made.



Nontax revenue rose by AFL 8 million to AFL 103 million in 1999. Together with the substantial increase in tax receipts, this increase more than compensated for the decline in grants received in the framework of Dutch development cooperation, which crumbled by AFL 14 million to only AFL 1 million.

Table 17 Government revenue and grants 1)

In AFL million

	1997	1998	1999
1. Revenue and grants	627.6	646.4	712.9
a. Tax revenue on	499.7	535.4	608.5
- Income and profit	231.6	251.6	309.0
- Commodities	183.5	187.7	198.0
- Property	26.5	32.3	35.2
- Services	41.3	43.7	44.8
- Foreign exchange commission	16.8	20.2	21.6
b. Nontax revenue 2)	89.6	95.3	102.9
c. Grants	38.3	15.7	1.4

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

2) As reported by the Tax Collector's Office and the Department of Finance.

Source: Department of Finance; Tax Collector's Office; CBA.

2.3.3 Expenditures

According to the Bank's estimates, government expenditures on a cash basis increased by AFL 73 million or 11 percent to a record high of AFL 737 million in 1999, after declines in the two preceding years (see table 18). Provisional information of the Department of Finance indicates that the spending was spurred by increases in wages, employer's contribution, and wage subsidies to foundations and other nonprofit organizations, partly reflecting the indexation of civil servants' salaries in April 1999.

Personnel-related outlays accounted for 47 percent of the total increase in expenditures during 1999. Also, spending on goods and services went up markedly, i.e., by 12 percent, partly reflecting higher medical expenses in favor of the lower-income group (the so-called PPK program) and the settlement of payment arrears to private suppliers of goods and services. Furthermore, incidental costs were associated with entrepreneurial activities of the government, including the Radisson Hotel, and higher costs for the General Health Insurance (AZV).

Table 18 Government expenditures 1)

In AFL million

	1997	1998	1999
1. Expenditures and items n.i.e.	674.5	663.8	736.9
a. Wages	212.0	213.1	222.3
b. Employer's contributions	42.0	29.0	45.6
c. Wage subsidies	58.3	76.8	85.6
d. Goods & services	162.6	177.1	197.7
Of which PPK	36.7	43.4	54.7
e. Interest	23.6	29.0	32.9
f. Subsidies	11.2	21.2	28.2
g. Transfers	52.7	45.2	54.2
h. Investment	79.7	47.9	37.0
Of which Development Fund	29.1	16.1	6.7
i. Items n.i.e. 2)	32.4	24.5	33.4

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

2) Residual item, including errors and omissions.

Source: Department of Finance; Tax Collector's Office; APFA; CBA.

2.3.4 Financing

In 1999, the operations of the government resulted in a financial deficit on a cash basis of AFL 24 million, i.e., AFL 7 million higher than in 1998 (see table 19). However, when taking into account the change in unmet financing requirements (particularly payment arrears vis-à-vis the civil servants pension fund, which increased by AFL 46 million to AFL 140 million at year-end), an AFL 44 million financial deficit resulted, AFL 12 million lower than in 1998. As a percentage of estimated nominal GDP, this deficit declined by a slight 0.4 percentage point to 1.3 percent in 1999.

To cover its liquidity needs, the government borrowed US\$ 15 million (equivalent to AFL 27 million) on the international capital market and drew on deposits held with the banking sector. Repayments on domestic and foreign loans amounted to about AFL 11 million and AFL 13 million, respectively. At the end of December 1999, government deposits held with the banking sector decreased by AFL 13 million to AFL 64 million, while its liabilities increased by AFL 8 million to AFL 76 million.

Due to its tight liquidity position, the government neither settled overdue transfers nor made new deposits to the Hotel Guarantee Fund, as was originally intended. Only AFL 2 million was deposited in the Sinking Fund, despite the government's

commitment to allocate a minimum of AFL 12 million to settle part of its overdue transfers to this account.

Table 19 Financing transactions 1)

In AFL million

	1997	1998	1999
1. Financial deficit (-) = Net financing	-46.8	-17.4	-24.1
2. Net foreign capital	-16.0	39.3	13.3
a. Loans received	0.0	55.4	26.7
b. Repayments on loans	-16.0	-16.1	-13.4
3. Net domestic capital 2)	31.0	-22.7	-10.5
a. Loans received	63.4	19.9	0.0
b. Repayments on loans	-32.4	-42.6	-10.5
4. Net recourse to the monetary system (-)	-31.8	-0.8	-21.3
5. Memorandum items:			
a. Unmet financing requirements 3)	100.8	138.6	158.2
b. Financial deficit 4)	-74.2	-55.2	-43.7

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

2) Net long-term capital attracted from nonmonetary sectors mainly by issuing government bonds and private loan placements. The commercial banks' purchases of such bonds are included under item 4.

3) Comprising all unsettled payment obligations to other sectors irrespective of the time frame in which they mature.

4) Including the change in registered unmet financing requirements.

Source: Department of Finance; Tax Collector's Office; CBA.

2.3.5 Development cooperation

After a significant decline in 1998, net receipts from foreign development assistance turned negative in 1999: repayments on loans to the Netherlands and the European Investment Bank (EIB) exceeded grants received by AFL 12 million (see table 20). Grants from the Netherlands and the European Community declined by AFL 14 million to only AFL 1 million, while repayments on concessional loans to the Netherlands and the European Community amounted to AFL 13 million. These grants were utilized mostly to finance social housing and educational projects. In addition, AFL 2 million in Dutch funds was received for social, educational, and cultural projects. These funds were directly transferred to the entitled non-governmental organizations and, therefore, are not included in the public finance statistics. Furthermore, the government again contributed about AFL 7 million to the Solidarity Fund in 1999.

Table 20 Development funds

In AFL million

	1997	1998	1999
1. Total grants	38.3	15.7	1.4
a. Netherlands	37.0	15.7	1.4
b. EIB	1.3	0.0	0.0
2. Total loans	0.0	0.0	0.0
3. Total repayments on loans	-14.0	-14.5	-13.4
a. Netherlands	-13.7	-13.7	-12.8
b. EIB	-0.3	-0.8	-0.6
4. Net loans	-14.0	-14.5	-13.4
a. Netherlands	-13.7	-13.7	-12.8
b. EIB	-0.3	-0.8	-0.6
5. Net receipts	24.3	1.2	-12.0
6. Memorandum items:			
a. Fund for social, educational, and cultural projects	1.6	2.0	1.5
b. Solidarity Fund	-2.8	-7.0	-6.7

Source: Landsbedrijf Ontwikkelingsprojecten; CBA.

2.3.6 Government debt

At the end of 1999, total government debt amounted to AFL 1,109 million, an AFL 22 million increase compared to 1998 (see table 21). The domestic debt component grew by AFL 45 million in 1999 to AFL 779 million, following a significant increase in nonnegotiable debt, associated mainly with a rise in arrears in pension premium payments and in the long-term debt related to the estimated actuarial deficit of APFA. On the other hand, negotiable debt increased by about AFL 2 million to AFL 189 million in 1999.

For the first time, six-month cash certificates were issued amounting to AFL 8 million, while AFL 6 million in maturing government bonds were repaid.

Outstanding foreign debt shrank by AFL 23 million to AFL 331 million. Commercial borrowings amounting to AFL 27 million were offset partly by AFL 13 million debt repayment. The depreciation of the Dutch guilder and the euro vis-à-vis the Aruban florin contributed AFL 35 million towards the decrease in outstanding foreign loans in 1999.

The ratio of government debt to nominal GDP declined by 1.2 percentage points to 34 percent. In addition, outstanding government guarantees decreased by AFL 41 million to AFL 278 million in 1999, reflecting the depreciation of the Swiss franc vis-à-vis the Aruban florin. The government did not grant new guarantees during 1999.

Table 21 Outstanding government debt 1)

End-of-period figures in AFL million

	1997	1998	1999
1. Total debt	987.6	1,087.6	1,109.1
2. Domestic debt	691.1	733.8	778.5
a. Negotiable	220.6	186.8	189.2
- Bonds	188.6	154.8	149.2
- Treasury bills & cash certificates	32.0	32.0	40.0
b. Nonnegotiable	470.5	547.0	589.3
- General Pension Fund Aruba	312.8	399.7	469.7
- Social Security Bank	30.0	31.5	31.5
- Suppliers' credit	60.0	32.0	14.0
- Private loans	44.9	62.0	62.0
- Other	22.8	21.8	12.1
3. Foreign debt 2)	296.5	353.8	330.6
a. The Netherlands	275.9	278.2	231.0
- Development cooperation	271.0	273.7	227.7
- Commercial loans	4.9	4.5	3.4
b. EIB	19.0	19.5	16.5
c. U.S.A.	1.5	45.1	72.1
d. Other	0.0	10.9	10.9
4. Key indicators 3)			
a. Import coverage ratio (in months)	3.9	4.1	5.9
b. Current account balance (excl. oil and free-zone sectors)	-48.6	-14.6	-32.0
c. Financial deficit (-)	-46.8	-17.4	-24.1
d. Foreign debt in % of export (excl. oil and free-zone sectors)	-18.1	20.1	17.0
e. Nominal GDP	2,949	3,094	3,261
f. Total debt in % of nominal GDP	33.5	35.2	34.0
5. Net liability to the monetary system	-9.7	-8.9	12.4
a. Government's deposits	84.2	76.8	63.6
- Centrale Bank van Aruba	68.3	65.6	55.6
Of which earmarked	40.3	50.5	43.7
- Commercial banks	15.9	11.3	7.9
b. Government's liabilities	74.5	67.9	75.9
6. Memorandum item 2)			
a. Outstanding government guarantees	305.3	318.4	277.8

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.

Source: Department of Finance; CBA.

2.4 Balance of payments

2.4.1 Overall outcome

In 1999, the balance of payments recorded an AFL 25 million surplus, compared to a notable AFL 160 million in 1998 (see table 22 and chart 13). Including revaluation differences of gold and official foreign exchange holdings, the net foreign assets of the banking system increased by AFL 19 million or 3 percent to AFL 601 million at the end of 1999 (see chart 14). This increase, combined with a 12 percent decline in relevant import payments, resulted in a rise of the end-of-period non-oil import coverage ratio

CHART 13
BALANCE OF PAYMENTS
(in AFL million)

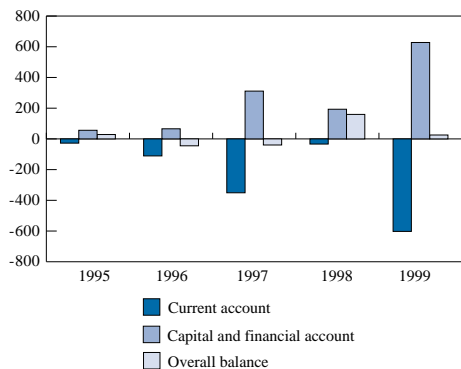


CHART 14
NET FOREIGN ASSETS
(in AFL million)

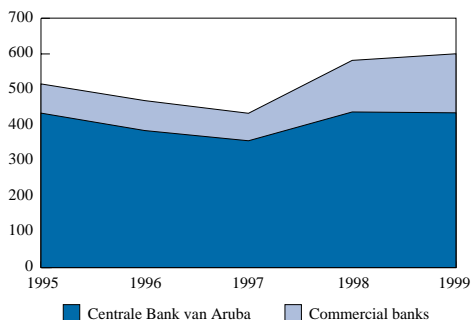


Table 22 Balance-of-payments' summary by sectors 1)

In AFL million

	1997	1998	1999
1. Current account (net)	-350.9	-33.6	-602.4
a. Oil sector	-321.1	-9.9	-619.4
b. Free zone	18.8	-9.1	49.0
c. Rest of economy	-48.6	-14.6	-32.0
1. Private sector	46.8	65.1	40.1
2. Public sector	-95.4	-79.7	-72.1
2. Capital and financial account (net)	315.7	192.0	629.3
a. Oil sector	323.2	107.4	660.4
b. Free zone	-4.0	21.9	0.0
c. Rest of economy	-3.5	62.7	-31.1
1. Private sector	-25.8	7.3	-45.9
2. Public sector	22.3	55.4	14.8
3. Items not yet classified 1)	-4.5	1.1	-1.5
4. Overall balance (1+2+3)	-39.7	159.5	25.4
5. Banking transactions 2)	6.9	-67.7	-20.9
6. Increase (-) in official reserves 3)	32.8	-91.8	-4.5
Memorandum items:			
7. a. Official reserves (including gold)	356.1	437.0	434.6
b. In months of merchandise imports 4)			
1. End-of-period	3.1	2.9	3.8
2. Twelve-month average	3.1	3.2	4.2
8. a. Total reserves of the monetary sector	433.3	581.9	600.5
b. In months of merchandise imports 4)			
1. End-of-period	3.8	3.9	5.2
2. Twelve-month average	3.9	4.1	5.9

1) Including errors and omissions.

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

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

4) Excluding the oil sector.

Source: CBA.

from 3.9 months in December 1998 to about 5.2 months in December 1999. The 12-month ratio reached 5.9 months at the end of 1999, compared with 4.1 months a year earlier, thus settling comfortably into the 5-6 month target range (see chart 15). The official reserves of the Bank declined by AFL 2 million in 1999 to AFL 435 million (including revaluation differences of gold and official foreign exchange holdings). These reserves represented 72 percent of the net foreign assets of the monetary system, about 3 percentage points lower than in 1998. The remainder was held by the local commercial banks.

As usual, the balance-of-payments' outcome was predominantly the result of large swings in the accounts of the oil sector. Its current account deficit was offset by an increase in intercompany liabilities. To finance local operational costs and the upgrading and expansion of the refinery, this sector transferred AFL 41 million to Aruba, i.e., AFL 57 million less than in 1998. The free-zone sector's contribution to the increase in net foreign assets amounted to AFL 49 million. On the other hand, external transactions of the rest of the economy resulted in a voluminous AFL 65 million net outflow of funds, following an AFL 49 million inflow in 1998.

2.4.2 Current account

The current account deficit widened from AFL 34 million to AFL 602 million, equivalent to 18 percent of nominal GDP (see table 23). This deterioration was attributed largely to the transactions of the oil sector (see chart 16). The sector's trade account turned from an AFL 206 million surplus in 1998 into an AFL 177 million deficit in 1999, as import payments for crude oil and other goods almost doubled. Export receipts from refined oil products and goods procured in ports increased considerably less, i.e., by 43 percent. Net services recorded an AFL 435 million deficit in 1999, i.e., AFL 227 million higher than in 1998, due mainly to import-related transportation and insurance costs.

Following an AFL 9 million deficit in 1998, the free zone's goods and services account posted an AFL 49 million surplus in 1999, due partly to special receipts. However, the trade activities of this sector shrank notably. Even so, its merchandise trade recorded a higher surplus in 1999, as the decline in import payments (c.i.f.) exceeded that in export receipts. This development was attributed mainly to the crumbling cigarette business and a reduction in inventory.

CHART 15
NET FOREIGN ASSETS
IN MONTHS OF MERCHANDISE IMPORTS
(measured over moving 12-month periods)

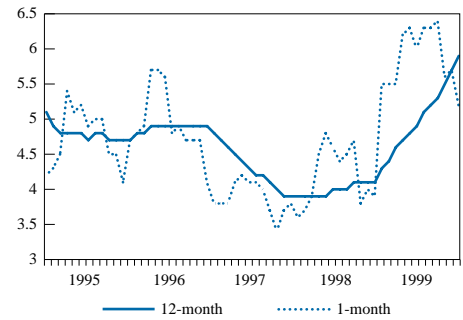
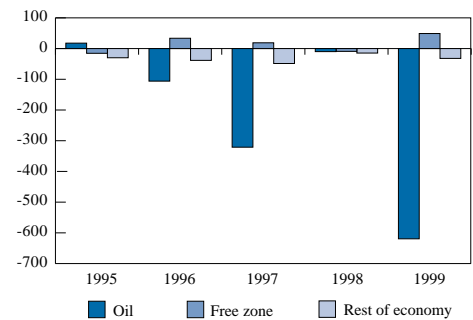


CHART 16
CURRENT ACCOUNT BY SECTORS (NET)
(in AFL million)



The deficit on the current account of the rest of the economy widened by AFL 17 million to AFL 32 million, equivalent to about 1 percent of nominal GDP. The merchandise deficit continued to rise as import payments (f.o.b.) expanded by AFL 51 million to AFL 970 million, while export receipts (comprising mainly re-exports) increased to only AFL 53 million. In addition, after posting an AFL 1 million surplus in 1998, the income account showed an AFL 56 million deficit, due mainly to a surge in dividend payments to nonresidents.

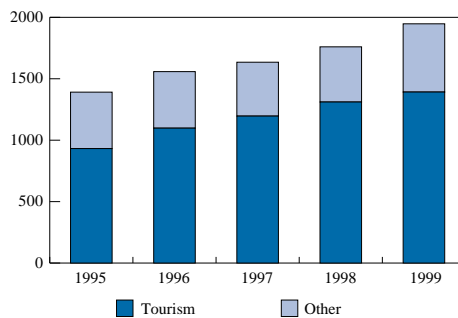
Table 23 Components of the current account

In AFL million

	1997	1998	1999
1. Receipts	4,624.2	3,806.7	4,463.5
a. Goods and services	4,554.1	3,681.8	4,290.3
1. Goods	3,087.3	2,096.0	2,541.9
2. Services	1,466.8	1,585.8	1,748.4
2.1 Tourism	1,196.3	1,310.8	1,392.0
2.2 Other	270.5	275.0	356.4
b. Income	37.1	72.5	66.9
c. Current transfers	33.0	52.4	106.3
2. Payments	4,975.1	3,840.3	5,065.9
a. Goods and services	4,854.4	3,707.5	4,861.0
1. Goods	3,787.4	2,717.5	3,586.4
2. Services	1,067.0	990.0	1,274.6
2.1 Tourism	234.6	198.1	217.7
2.2 Other	832.4	791.9	1,056.9
b. Income	67.9	71.8	122.8
c. Current transfers	52.8	61.0	82.1
3. Current account balance (1-2)	-350.9	-33.6	-602.4

Source: CBA.

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



On the other hand, the surplus on the services account went up by AFL 54 million to AFL 910 million in 1999. Receipts expanded by AFL 136 million, brought about partly by a 6 percent rise in registered gross tourism receipts, while payments increased less, i.e., by AFL 82 million (see chart 17). Even so, the share of tourism in total current account receipts (excluding the oil and free-zone sectors) declined by 3 percentage points to 72 percent in 1999.

Current transfers accounted for an AFL 32 million surplus in 1999, compared to an AFL 1 million deficit in 1998. This surplus was due mainly to transfers received by APFA from its sister institution in the Netherlands Antilles, APNA, as part of the settlement of the separation of funds.

2.4.3 Capital and financial account

The capital and financial account recorded an AFL 629 million surplus in 1999, significantly higher than in 1998 (see table 24). This development was attributed predominantly to a notable increase in the intercompany liabilities of the oil sector to finance the corresponding rise in its current account deficit (see chart 18). The capital account was in equilibrium, despite a notable reduction in Dutch official financing.

Table 24 Components of the capital and financial account

In AFL million

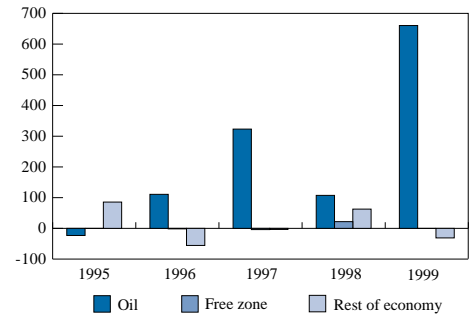
	1997	1998	1999
1. Capital account (net)	37.6	9.3	0.0
Capital transfers	37.6	9.3	0.0
1. Government	38.3	15.7	1.4
2. Other sectors	-0.7	-6.4	-1.4
2.1 Migrants' transfers	-0.7	-6.4	-1.4
2.2 Other	0.0	0.0	0.0
2. Financial account (net)	278.1	182.7	629.3
a. Direct investment	353.7	147.1	717.8
1. Investment abroad	3.0	-2.5	11.6
2. Investment in Aruba	350.7	149.6	706.2
b. Portfolio investment	80.0	-85.1	-95.6
1. Domestic securities	111.1	-6.1	21.8
2. Foreign securities	-31.1	-79.0	-117.4
c. Other investment	-155.6	120.7	7.1
1. Loans	-43.1	38.3	56.0
1.1 Government	-16.0	39.7	13.4
1.2 Other sectors	-27.1	-1.4	42.6
2. Other financial transactions	-112.5	82.4	-48.9
3. Capital and financial account, net (1+2)	315.7	192.0	629.3

Source: CBA.

On the other hand, following an AFL 63 million surplus in 1998, the capital and financial account of the rest of the economy recorded an AFL 31 million deficit in 1999, partly because of increases in residents' external account balances and in other short-term foreign investments. Net government borrowing declined by AFL 26 million to AFL 13 million. In contrast, net borrowing of the private sector shifted from an AFL 1 million deficit in 1998 to an AFL 43 million surplus in 1999, because more foreign loans were received.

Net direct investments of the rest of the economy were AFL 57 million, i.e., AFL 18 million higher than in 1998, as net receipts

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



from property sales rose sharply. In contrast, net outgoing portfolio investments increased by AFL 11 million to AFL 95 million, as purchases of foreign securities (mainly by institutional investors) were much higher than the sale proceeds from domestic debt securities to nonresidents related to the financing of expansion and renovation of the airport terminal.

2.4.4 Foreign exchange policy

During 1999, the foreign exchange policy of the Bank remained unchanged. Traditionally, no exchange restrictions are imposed on current transactions, while controls on capital outflows have been relaxed substantially in recent years. Presently, no special foreign exchange license is required for capital transactions of less than AFL 200,000 a year for natural persons and AFL 500,000 a year for legal entities (excluding commercial banks and institutional investors). For transactions exceeding the indicated amounts, the required special licenses are generally granted quite liberally.

Table 25 Indices of controls on capital movements 1)

	1997	1998	1999
1. Direct investment	0.18	0.18	0.07
a. Inflows	0.13	0.14	0.08
b. Outflows	0.25	0.24	0.07
2. Portfolio investment	0.00	0.01	0.01
a. Inflows	0.00	0.01	0.01
b. Outflows	0.01	0.02	0.01
3. Other investment	0.01	0.01	0.00
a. Inflows	0.02	0.01	0.01
b. Outflows	0.01	0.01	0.00
4. Overall	0.02	0.02	0.01
a. Inflows	0.03	0.02	0.01
b. Outflows	0.02	0.02	0.01

1) The indices show the number of transactions requiring a license as a ratio of the total number of transactions actually executed via the banking system and notified residents' foreign accounts. The indices range from 0 to 1; 0 indicates no controls, while 1 indicates that all capital transactions are controlled.

Source: CBA.

Due to the Bank's policy stance, the number of foreign exchange licenses granted continued to fall in 1999, i.e., by a notable 50 percent to 79 or only 1 percent of the total number of capital transactions actually executed via the banking system and notified

residents' foreign accounts (see table 25). About 48 percent of the licenses granted were related to real estate transactions, 30 percent to borrowings, and the remaining 22 percent to investments, refinancing of loans, and purchases and sales of bonds and shares.



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 agreement with the life insurance companies, and the State Ordinance on company pension funds (AB 1998 GT 17). Paragraph 3.6 contains a list of the financial institutions supervised by the Bank as of December 31, 1999.

3.2 Major issues and developments

3.2.1 Legislation

In 1999, two amendments to the State Ordinance on the supervision of the credit system were enacted. First, financial institutions established by a state ordinance are no longer considered credit institutions (Article 1 section 1). Second, in accordance with international standards penal provisions have been incorporated (Article 53). Consequently, non-compliance with the stipulations mentioned under this article is now considered a criminal offence.

The Draft State Ordinance on the supervision of the insurance industry is expected to be enacted soon. This ordinance will provide the Bank with a comprehensive framework for supervising both life and general insurance companies. Until now, general insurance companies are not subject to any prudential supervision.

3.2.2 New supervisory requirements and issued guidelines

In 1999, the Bank prepared draft guidance notes on corporate governance: the manner in which the business affairs of individual institutions are handled by their senior management and supervisory board. Basic elements of sound corporate governance practices are, among other things: establishing clear strategic objectives and corporate values, setting and enforcing clear lines of responsibility and accountability, adequate risk management, and comprehensive internal controls. Supervisors have a keen interest in determining that the institutions supervised adopt sound governance practices. Through these guidance notes, the Bank aims at promoting sound corporate governance practices by the financial institutions under its supervision.

As of the financial year 1999, company pension funds have to submit their financial reports to the Bank in accordance with the solvency and actuarial guidelines for company pension funds issued by the Bank. Based upon the risk profile of a pension fund investments, the required solvency, which serves 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.

In 1999, the Bank also issued guidance notes for life insurance companies on the prevention of money laundering. These notes contain basic know-your-customer principles that should be applied to prevent criminals from misusing the products and services of these companies for money laundering purposes.

3.2.3 Core Principles methodology

The Core Principles for Effective Banking Supervision issued in 1997 by the Basel Committee on Banking Supervision in consultation with supervisors from non-G-10 countries, provide the international financial community with a benchmark to assess the effectiveness of their bank supervisory regimes. They comprise twenty-five basic principles relating to: (1) preconditions for effective banking supervision, (2) licensing and structure, (3) prudential regulations and requirements, (4) methods of ongoing banking supervision, (5) information requirements, (6) formal powers of supervisors, and (7) cross-border banking.

The vast majority of countries, including Aruba, have endorsed the Core Principles and declared their intention to fully implement these. As a first step, each country should identify weaknesses in its existing legal and supervisory system. A plan of action should be prepared, supported by the government authorities and bank supervisors, to become fully compliant with the Core Principles. Each country should conduct such an assessment exercise in the course of the year 2000. For the assessment to be objective and as uniform as possible, the Basel Committee has developed the Core Principles Methodology, approved in October 1999.

The methodology consists specifically of a detailed checklist of the various aspects to be assessed and, subsequently, to be verified by external consultants. The Bank will present the results of its self-assessment during the conference of the Association of Supervisors of Banks of the Americas (ASBA) in Puerto Rico in May 2000. Based on self-assessments, it may be concluded that

Aruba's supervisory system is in essence in compliance with the Core Principles.

3.2.4 International forums

The Bank attended the meeting of the Offshore Group of Banking Supervisors in Malta in June 1999. Main topics discussed during this meeting were the Core Principles and the ongoing negative focus on offshore centers as an assumed main vehicle for money laundering.

In 1999, the United Nations Office for Drug Control and Crime Prevention launched the so-called UN Offshore Forum. Its objective is to stimulate relevant financial centers to take appropriate anti-money-laundering measures, and to supervise and regulate their financial service facilities at an internationally acceptable level. The forum hosted two informal meetings, bringing together experts from various jurisdictions. The Bank was invited to become a member of the informal advisory group and, subsequently, participated actively in the meetings. The advisory group has made several recommendations on the international standards, which should be adopted by financial offshore centers.

The Bank also became a member of the Association of Supervisors of the Americas (ASBA) in 1999. This association is the successor to the Association of Supervisors of Banks of Latin America and Caribbean (ASBLAC), which previously operated under the umbrella of the "Centro de Estudios Monetario de Latinoamerica" (CEMLA). The main objectives of the new association are (a) to promote and maintain close communication among the supervisory institutions in the Americas, (b) to provide a high level forum for treating and exchanging ideas, (c) to promote the conduct of studies and training programs, and (d) to provide technical cooperation services among its members.

During the last week of November 1999, the Bank hosted the workshop 'Building Effective Insurance Supervisory Capability in the Caribbean,' organized by the United Nations Conference on Trade and Development (UNCTAD) and the Caribbean Association of Insurance Regulators (CAIR). During this workshop, several topics were discussed, including supervision of insurance offshore companies, harmonization of the insurance supervision legislation in the Caribbean region, and the development of e-commerce.

In December 1999, the Bank attended the 6th Annual Conference of the International Association of Insurance Supervisors (IAIS) in San Francisco, USA. Recent developments in insurance supervision were discussed, and two new supervisory standards were approved, i.e., Supervisory Standard on Asset Management by Insurance Companies, and Principles for the Conduct of Insurance Business. The existing principles regarding “the Supervision of International Insurers” and “Insurance Groups and their Cross-border Business Operations” were revised.

The Bank also is an observer to the Offshore Group of Insurance Supervisors (OGIS), which held its annual working meeting in Cayman Islands in May 1999. During this meeting, the establishment of the Financial Stability Forum (FSF) was discussed. The FSF was founded by the G-10 governments in reaction to the Latin American and Asian financial crises of 1997 and 1998. Its objective is to raise supervisory standards in order to maintain a stable global financial system, a prerequisite for sustainable macroeconomic growth. The FSF will focus, amongst other things, on the regulation of financial offshore centers.

3.2.5 Y2K

The Bank’s primary role with regard to the Y2K issue was to advise and monitor the measures taken by the financial institutions under its supervision to ensure that their automated systems were made Y2K-ready before the end of 1999. To raise awareness of this phenomenon, the Bank provided relevant documents issued by international supervisory bodies containing detailed guidelines for managing the rollover into the new millennium. As of 1999, all institutions were required to report their progress to the Bank on a (bi)-monthly basis. The Bank also conducted on-site visits. As a result of the efforts undertaken, the rollover has not led to disruptions in the daily operations of the supervised financial institutions.

Furthermore, an internal Y2K Committee was installed to address problems that might occur during the rollover into the new millennium. The Bank also was a member of the National Y2K Platform of Aruba.

3.2.6 Integrity of the financial system

Maintaining the integrity of the financial system is an important aspect of prudential supervision. The Bank’s anti-money-laundering directives, together with the State Ordinances’ obligation to report unusual transactions and identification for

rendering financial services, constitute the legal and regulatory anti-money-laundering requirements to which the banks should adhere when rendering financial services. The Bank also 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. Compliance with the Bank's directives and with the aforementioned ordinance is tested during periodic on-site examinations.

In January 1999, Aruba was examined by a delegation of the Financial Action Task Force (FATF). In general, the delegation concluded that Aruba is in substantial compliance with most of the FATF Forty Recommendations and that significant progress has been made since its last examination in 1995.

3.3 Execution of prudential supervision

Prudential supervision of the Bank aims at preventing, as much as possible, financial institutions from taking unacceptably high risks that could harm the interests of deposit 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. The Bank analyzes these documents and discusses its findings with the senior management of the supervised institution.

3.3.2 On-site examinations performed during 1999

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 1999, one commercial bank, four bank-like institutions, four life insurance companies, and two pension funds were examined

on-site. 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. As mentioned earlier, the Bank has also conducted various on-site visits at the supervised institutions to assess their Y2K readiness.

3.4 Banking sector

3.4.1 Supervised institutions

The number of banking institutions supervised by the Bank decreased by one to 14 during 1999 (see table 26). As a result of the amendment of the definition of a credit institution, Postspaarbank was eliminated from the list of institutions supervised by the Bank. In November 1999, the assets and liabilities of this bank were acquired by OHRA Hypotheekbank N.V.

Table 26 Number of supervised institutions within the banking sector

End of period

	1997	1998	1999
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	1	1
6. Other financial institutions	4	2	1
Total	19	15	14

3.4.2 Commercial banks

Six commercial banks are currently operating in Aruba. Two of these banks are branches of banks established in the Netherlands and Curaçao, and one is a subsidiary of a bank established in the latter island. Thus, 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.

The aggregated balance sheet total of the commercial banks increased by AFL 167 million or 8 percent to AFL 2,188 million at the end of 1999 (see table 27). Loans granted grew by AFL 122 million or 10 percent to AFL 1,391 million, compared to a 4 percent increase in 1998. Loans to individuals accounted for the bulk of the increase.

Table 27 Balance sheet of the commercial banks

End-of-period figures in AFL million

	1997	1998	1999
1. Assets			
a. Cash & due from banks	458.2	536.7	565.7
b. Investments	90.0	91.5	104.1
c. Loans	1,217.8	1,269.8	1,391.4
- Commercial 1)	660.1	658.7	695.3
- Individuals 2)	555.4	610.0	695.4
- Government	2.3	1.1	0.7
d. Other assets	126.7	123.2	126.8
Total assets	1,892.7	2,021.2	2,188.0
2. Capital & liabilities			
a. Deposits	1,638.9	1,775.0	1,908.3
- Demand	471.0	550.3	546.9
- Time	764.0	806.8	932.3
- Savings	403.9	417.9	429.1
b. Other liabilities	106.4	97.9	130.6
c. Capital & reserves 3)	147.4	148.3	149.1
Total capital & liabilities	1,892.7	2,021.2	2,188.0

1) Corrected for allocated reserves.

2) Corrected for unearned income.

3) Including general (unallocated) reserves.

On the liability side, deposits rose by AFL 133 million or 8 percent in 1999. Capital and reserves, including general (unallocated) reserves, increased marginally compared to 1998. The banks' aggregated risk-weighted capital asset ratio decreased from 10.6 percent in 1998 to 8.8 percent at the end of 1999.

Table 28 Liquidity position of the commercial banks 1)

End-of-period figures in AFL million

	1997	1998	1999
1. Liquid assets	472.1	583.8	632.8
2. Loans	1,217.8	1,269.8	1,391.4
3. Deposits	1,638.9	1,775.0	1,908.3
4. Total assets	1,892.7	2,021.2	2,188.0
5. Liquid assets-to-total assets ratio	25.0	29.0	29.0
6. Loans-to-deposits ratio	74.0	72.0	73.0

1) The calculation of the loans-to-deposits ratio is based on the figures listed in table 27.

However, the liquid assets cannot be derived from table 27.

The banks' liquidity ratio remained at 29 percent in 1999, significantly above the minimum prudential liquidity requirement of 20 percent (see table 28). The banks are required to hold a 7 percent monetary cash reserve, as well as sufficient funds for

clearing purposes at the Bank. These are included in the prudential liquidity ratio. The sharp rise in outstanding loans was offset partially by an increase in deposits. As a result, the loan-to-deposit ratio increased by 1 percentage point to 73 percent at the end of 1999, well below the prudential maximum of 80 percent.

3.4.3 Financial offshore

At the end of 1999, only two U.S.-based offshore banks were registered in Aruba. These banks, which also fall under consolidated supervision of the U.S. supervisory authorities, had a balance sheet total of AFL 1,933 million at the end of 1999 (see table 29). This total shrank by 10 percent in 1999, following a 17 percent decrease in 1998, due mainly to a decline in investments and deposits.

Table 29 Balance sheet of the offshore banks

End-of-period figures in AFL million

	1997	1998	1999
1. Assets			
a. Cash & due from banks	1,065.6	570.7	540.6
b. Investments	495.6	471.0	410.1
c. Loans	994.8	1,086.0	958.2
d. Other assets	33.9	26.1	24.0
Total assets	2,589.9	2,153.8	1,932.9
2. Capital & liabilities			
a. Deposits	2,191.2	1,852.9	1,600.4
- Demand	588.5	26.0	220.6
- Time	1,602.7	1,826.9	1,379.8
b. Other liabilities	259.4	158.0	169.2
c. Capital & reserves 1)	139.3	142.9	163.3
Total capital & liabilities	2,589.9	2,153.8	1,932.9

1) Including general (unallocated) reserves.

The Bank adhered to 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 reputation.

In the Bank's opinion, the promoting of a financial offshore center in Aruba should be initiated only after modern legal and institutional frameworks have been developed to adequately supervise offshore institutions. In the meantime, a State Ordinance on the supervision of trust activities (e.g., formation of offshore companies) has been drafted. The High Commissioner of the Aruba Financial Center (AFC) will be given the task of supervising 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.

3.4.4 Other bank-like institutions

The other bank-like institutions had a combined loan portfolio equivalent to approximately AFL 387 million as of the end of 1999. This figure represents a decrease of AFL 13 million or 3 percent compared to 1998. Important institutions 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 mortgage lending to individuals, financing social housing projects, long-term project financing, as well as personal loans for consumptive and home improvement purposes. The financing of their activities is done mainly by attracting funds from their parent company, other (local) financial institutions, and institutional investors.

3.5 Insurance sector

3.5.1 Supervised institutions

At the end of 1999, ten life insurance companies and nine pension funds were active in Aruba and subject to the Bank's supervision. All but one of the life insurance companies are branches of foreign companies. As shown in table 30, the number of companies supervised by the Bank in 1999 remained unchanged when compared to 1998.

Table 30 Institutions supervised in the institutional investors' sector

End-of-period figures

	1997	1998	1999
Life insurance companies	10	10	10
Company pension funds	8	9	9
Government pension funds	1	0	0
Savings funds	1	0	0
Total	20	19	19

3.5.2 The life insurance sector

The life insurance companies have expanded their activities in recent years. At the end of 1998, their aggregated balance sheet total amounted to AFL 288 million, i.e., a 14 percent increase compared to 1997 (see table 31).

Table 31 Balance sheet of life insurance companies

End-of-period figures in AFL million

	1996	1997	1998
1. Assets			
a. Investments	187.4	213.8	251.3
b. Fixed assets	0.1	0.1	0.1
c. Affiliated companies	3.6	3.0	3.3
d. Current assets	18.2	28.4	25.1
e. Other assets	6.3	6.9	8.6
f. Intangibles	-	-	-
Total assets	215.6	252.2	288.4
2. Liabilities & shareholders' equity			
a. Technical provisions	152.9	167.3	189.9
b. Capital loans	1.3	0.7	(0.2)
c. Current liabilities	36.0	54.4	62.4
d. Shareholders' equity	25.4	29.8	36.3
Total liabilities & shareholders' equity	215.6	252.2	288.4

On the asset side, investments constitute the largest item. As shown in table 32, the 18 percent rise in investments to AFL 251 million in 1998 was caused mainly by an increase in the holding of bonds and mortgage loans. At the end of December 1998, AFL 67 million or 27 percent of the total investment portfolio of the life insurance

Table 32 Investments of life insurance companies

End-of-period figures in AFL million

Investment categories	1996	1997	1998
1. Shares	9.5	13.6	19.1
2. Bonds	108.9	125.3	137.5
3. Real estate	6.2	6.3	6.4
4. Time deposits	11.4	12.2	14.7
5. Mortgage loans	35.0	40.0	50.5
6. Policy loans	6.4	7.0	8.0
7. Other loans	10.0	9.4	9.1
8. Others	0.0	0.0	6.0
Total	187.4	213.8	251.3

companies consisted of foreign investments. On the liability side, technical provisions increased by 14 percent to AFL 190 million. Shareholders' equity increased by AFL 7 million.

The two principal income sources of the life insurance companies are net premiums and investment income. Net premiums increased 25 percent compared to 1997 to AFL 39 million in 1998, while investment income grew by 14 percent (see table 33). Total expenses went up by 20 percent. The surplus before dividends and taxes increased by approximately 27 percent.

Table 33 Consolidated income statement of life insurance companies

In AFL million

	1996	1997	1998
1. Net premiums	28.8	30.9	38.7
2. Investment income	15.0	16.7	19.0
3. Other income	0.6	0.3	0.3
Total income	44.4	47.9	58.0
1. Changes in technical provisions	20.4	16.7	23.3
2. Net claims	8.3	11.5	13.7
3. Commissions	2.0	1.9	2.1
4. Management expenses	5.5	5.2	5.3
5. Extraordinary items	0.8	-0.1	-0.5
6. Policyholders' dividends	2.0	2.2	1.9
7. Other expenses	3.2	3.2	2.9
Total expenses	42.2	40.6	48.7
Surplus before dividends and taxes	2.2	7.3	9.3

As shown in table 34, the liquidity ratio, measured by the current assets-to-technical provisions ratio, decreased from 0.17 in 1997 to 0.13 in 1998. Profitability, measured as investment income to (average) invested assets, remained at the same level in 1998, while the solvency ratio, measured as investments to technical provisions, increased to 1.32 in 1998.

Table 34 Financial life insurance ratios

End-of-period figures

	1996	1997	1998
1. Liquidity ratio	0.12	0.17	0.13
Current assets to technical provisions			
2. Profitability ratio	0.09	0.08	0.08
Investment income to average invested assets			
3. Solvency ratio	1.23	1.28	1.32
Investments to technical provisions			

3.5.3 The company pension funds

Table 35 represents the aggregated balance sheet for the company pension funds for the years 1996 through 1998. The balance sheet total of the company pension funds amounted to AFL 186 million in 1998. As shown in table 36, investments increased by 5 percent to approximately AFL 178 million, constituting the largest item on the asset side.

Table 35 Balance sheet of the company pension funds

End-of-period figures in AFL million

	1996	1997	1998
1. Assets			
a. Investments	165.5	169.3	177.8
b. Fixed assets	-	-	0.1
c. Current assets	6.0	6.8	8.1
Total assets	171.5	176.1	186.0
2. Liabilities & shareholders' equity			
a. Technical provisions	171.9	176.5	184.9
b. Long-term liabilities	0.1	-	-
c. Current liabilities	3.5	3.1	2.5
d. Shareholders' equity	-4.0	-3.5	-1.5
Total liabilities & shareholders' equity	171.5	176.1	186.0

At the end of December 1998, the share of foreign investments in the total investment portfolio of the company pension funds amounted to 76 percent (AFL 136 million). On the liability side, the technical provisions increased by 5 percent in 1998 to AFL 185 million compared to 1997.

Table 36 Investments of the company pension funds

End-of-period figures in AFL million

Investment categories	1996	1997	1998
1. Shares	56.7	60.7	72.6
2. Bonds	76.0	75.5	62.0
3. Real estate	5.2	5.2	6.0
4. Time deposits	13.4	11.7	16.2
5. Mortgage loans	9.0	9.9	11.6
6. Other loans	0.6	0.6	0.6
7. Other	4.6	5.7	8.8
Total	165.5	169.3	177.8

As shown in table 37, the two principal income sources of the company pension funds are employer and employee contributions and investment income. The contributions increased by 19 percent to approximately AFL 21 million in 1998, while investment income increased by 6 percent to AFL 20 million. Total expenses rose by 7 percent to AFL 39 million, due mainly to the approximately AFL 4 million increase in technical provisions. The consolidated surplus of the company pension funds amounted to a little more than AFL 2 million.

Table 37 Consolidated income statement of the company pension funds

End-of-period figures in AFL million

	1996	1997	1998
1. Contributions	18.9	17.5	20.8
2. Investment income	16.3	19.2	20.3
3. Other income	0.6	0.3	0.3
Total income	35.8	37.0	41.4
1. Pension benefits	34.2	30.9	29.8
2. Changes in technical provisions	-3.2	4.6	8.4
3. Administrative expenses	0.9	1.0	0.9
Total expenses	31.9	36.5	39.1
Surplus (deficit)	3.9	0.5	2.3

According to table 38, the liquidity ratio, measured as the current assets to the technical provisions, remained at the same level in 1998 as in 1997. The profitability ratio increased slightly to 0.12 in 1998, while the coverage ratio decreased from 1.25 in 1997 to 1.15 in 1998.

Table 38 Financial company pension funds ratios as of December 31

End of period

	1996	1997	1998
1. Liquidity ratio	0.03	0.04	0.04
Current assets to technical provisions			
2. Profitability ratio	0.10	0.11	0.12
Investment income to average invested assets			
3. Coverage ratio 1)	1.34	1.25	1.15
Investments minus volatility cushion to technical provisions			

1) The calculation of the volatility cushion cannot be derived from table 35.

3.6 Financial institutions under supervision of the Bank as of December 31, 1999

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.

3.6.2 Insurance sector

Life insurance companies ²⁾

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

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.

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, Local Agency

Company pension funds ³⁾

Lago Annuity Foundation
Stichting Bedrijfspensioenfonds Aruba (ELMAR N.V.)
Stichting Pensioenfonds Havenwerkers Aruba
Stichting Pensioenfonds Martijn Trading Company N.V.
Stichting Pensioenfonds META Bedrijven Aruba
Stichting Pensioenfonds Tourist Sector Aruba
Stichting Pensioenfonds van de ABN AMRO Bank N.V. Aruba
Stichting Pensioenfonds N.V. Aruba Bank
Stichting Fondo di Pensioen di Trahadornan di Empresanan y
Fundacionnan Publico (WEB Aruba N.V./APA N.V.)

³⁾ Supervision by virtue of the State Ordinance on company pension funds (AB 1998 GT 17).



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:

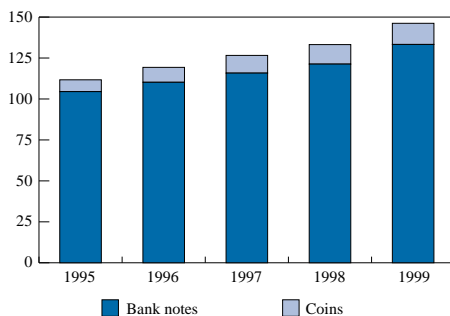
1. Formulating and implementing monetary policy and related measures through, among other things, regulating bank credit and liquidity;
2. Supervising the activities of the commercial banks and other financial institutions by, *inter alia*, monitoring their liquidity and solvency to protect the interests 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, cash certificates 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 1999, the total value of bank notes and coins issued by the Bank amounted to AFL 146.2 million, representing an AFL 13 million or 9.8 percent increase compared to a year earlier (see chart 19). This increase is more than 4 percentage points higher than 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 this note in the total value of bank notes issued declined to less than 1 percent at the end of 1999. The share of the 500 florin bank note increased by one percentage point to 7.8 percent in 1999.



In May 1999, special AFL 100 gold and AFL 25 silver coins were issued to commemorate that 500 years ago the first European explorers set foot on the Aruban soil, and so initiated an era of encounter of cultures and written history. These commemorative coins have been minted in high-grade proof quality, also known as collector's quality.

4.2.2 Executing monetary policy

In 1999, the commercial banks were again required to hold an interest bearing monetary cash reserve at the Bank equivalent to 7 percent of their outstanding current, savings, and time deposits with a remaining maturity shorter than two years. At year-end, deposits in these accounts amounted to AFL 105 million, i.e., AFL 6 million more than in 1998.

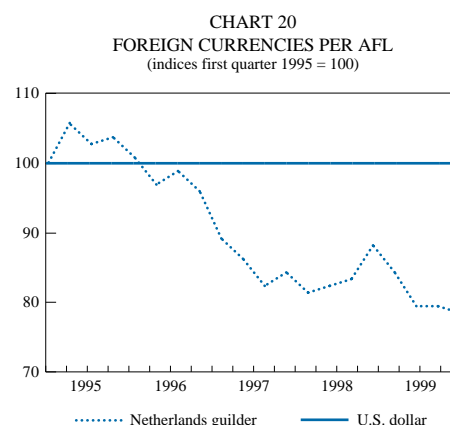
In addition, the Bank issued a guideline stipulating that the growth in lending by commercial banks, on an aggregated basis, should be kept in line with the expected increase in nominal GDP. Actually,

the increase in relevant credit amounted to 10 percent, clearly exceeding 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 1999, the quarterly average exchange rate of the Dutch guilder, after the U.S. dollar the currency most used to settle foreign transactions, varied between AFL 0.92 and AFL 0.85, or within a wide margin of 8 percent (see chart 20). At the end of the year, the Dutch guilder stood at AFL 0.82, depreciating by 14 percent compared to 1998.



4.3.2 Foreign exchange licenses

In 1999, the Bank approved AFL 187 million in licenses for external loans to residents, about AFL 157 million or 46 percent less than in 1998 (see table 39). Factors contributing to this decline were the finalization of several infrastructure-related projects, such as the airport, the water and electricity plant, and the Radisson hotel.

Table 39 Foreign borrowing

In AFL million

	1997	1998	1999
1. Foreign exchange licenses approved for:			
a. Infrastructure projects	305.3	343.7	187.2
b. Refinancing of local and foreign loans	150.7	62.8	37.6
c. Other	121.1	145.6	91.1
2. Registered foreign loan fund inflows:			
a. Infrastructure projects	33.5	135.3	58.5
b. Refinancing of local and foreign loans	262.1	181.5	203.2
c. Other	115.6	11.0	25.5
	121.1	118.5	91.1
	25.4	52.0	86.6

Source: CBA.

4.3.3 Foreign exchange tax

Residents are required to pay a 1.3 percent tax on payments made to nonresidents in accordance with the State Ordinance on foreign exchange commission. However, payments in Netherlands Antillean guilder, as well as by certain types of companies are exempted. Also, based on article 9 sub 1 of the State Ordinance on the free zone, free-zone companies could be exempted, upon request, from paying this tax on their import payments related to re-exports. Additionally, a number of (government-related) institutions, as stipulated in the State Decree on foreign exchange commission exemption of October 5, 1995, are exempted from paying this tax. Offshore companies and Aruba Exempt Corporations are considered to be nonresidents for the purpose of foreign exchange control and, thus, are not subject to payment of this commission.

Article 4 of the aforementioned State Ordinance entrusts the Bank with the collection of the foreign exchange commission. During 1999, the Bank collected AFL 19 million in foreign exchange tax (see table 40). As a result of transitoral items, AFL 22 million was transferred to the Treasury. Even so, the share of foreign exchange commission in total government tax receipts declined slightly to 4 percent in 1999, due to a higher increase in the other tax receipts.

Table 40 Foreign exchange tax 1)

In AFL million

	1997	1998	1999
1. Collected:	17.4	19.3	18.6
a. Commercial banks	15.7	16.9	16.1
b. Centrale Bank van Aruba	1.7	2.4	2.5
2. Transferred to the government	16.8	20.2	21.6

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

Source: CBA.

4.4 Banking for the government

Again in 1999, 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, to renew maturing papers for a total amount of AFL 32 million. Also, for the first time, six-month cash certificates amounting to AFL 8 million were sold to the commercial banks.

4.5 Interest payments

In 1999, the Bank paid interest on certain credit balances and on time deposit accounts. Interest payments rose from AFL 5.3 million in 1998 to AFL 6.9 million in 1999. Interest payments to the government, considered as an interim dividend, increased by AFL 0.6 million to AFL 1.9 million in 1999. 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 (net of interest expenses) of the Bank amounted to AFL 12.7 million in 1999, i.e., AFL 9.4 million or 43 percent less than in 1998. This resulted predominantly from lower yields on foreign investments associated with price decreases in mainly the U.S. Treasury market, a small decline in claims in foreign currencies and increased interest expenses.
- Non-interest expenses remained unchanged at AFL 8.7 million. Both personnel and depreciation expenditures declined by 1 percent, thereby offsetting a 3 percent increase in operating expenses.
- Profit for 1999 amounted to AFL 4.1 million, compared to AFL 13.5 million in 1998. The decline resulted predominantly from the decrease in total income as indicated earlier. Pursuant to article 4 sub 2 of the Central Bank Ordinance, and in agreement with the Minister of Finance, AFL 3 million was transferred to the Treasury, while the remaining amount of AFL 1.1 million was allocated to the Bank's general reserve.
- At the end of 1999, total assets stood at AFL 454.5 million, i.e., AFL 2.1 million or 0.5 percent lower than in 1998. The decrease reflected mainly the decline in foreign currency claims mentioned above.

4.7 Organizational affairs

The Board of Supervisory Directors and the Executive Committee held four joint meetings during 1999. As of April 15, 2000, Mr. R.E. Yrausquin was appointed member of the Board.

Simultaneously, Mr. A.R. Caram was appointed President of the

Bank. He succeeded Mr. J.H. du Marchie Sarvaas, who had held the position since March 1, 1995. Furthermore, Mrs. J.R. Figaroa-Semeleer was appointed as Executive Director.



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

The Bank hired one additional person, and two resigned. Consequently, the Bank's staff shrank to 53 at the end of 1999.

The Executive Committee expresses its appreciation to all staff



*The Executive Committee, l.-r.:
J.R. Figaroa-Semeleer, A.R. Caram,
and K.A.H. Polvliet.*

5 Financial Statements

Balance sheet as of December 31, 1999, after profit distribution

In thousands of Aruban florin

	1999	1998
Assets		
Gold	40,991	40,952
Foreign currency	393,744	397,717
Receivables and prepaid expenses	12,997	11,214
Premises	4,473	4,594
Other fixed assets	1,916	1,761
Printing costs bank notes	353	298
	<u>454,474</u>	<u>456,536</u>
Liabilities		
Bank notes issued	133,336	121,291
Liabilities to residents	250,334	257,330
Liabilities to nonresidents	110	1,672
Money in custody	1,811	1,811
Payables and accrued expenses	2,932	2,727
Revaluation account	21,972	28,779
General reserve	27,509	26,456
Reserve for new premises	6,470	6,470
Capital	10,000	10,000
	<u>454,474</u>	<u>456,536</u>

Profit and loss account for the year 1999

In thousands of Aruban florin

	1999	1998
Net investment revenues	9,913	19,636
Net revenue foreign exchange	1,571	1,385
Net revenue coin sales	945	943
Other income	295	209
Total income	12,724	22,173
Cost of printing bank notes	298	298
Personnel expenses	6,061	6,132
Operating expenses	1,562	1,517
Depreciation	750	756
Total expenses	8,671	8,703
Profit	4,053	13,470
Profit distribution		
Transfer to government	3,000	7,000
General reserve	1,053	–
Reserve for new premises	–	6,470

Explanatory notes to the balance sheet as of December 31, 1999, and the 1999 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 1999.

2.2 Accounting policies

Gold

The valuation is determined once every three years at the lowest 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. Since December 31, 1998, gold is valued at AFL 368.58 (previously: AFL 450.74) per fine troy ounce. Changes in the valuation of gold is included in the revaluation account.

Foreign currency

Foreign currency comprises investments through foreign asset managers, current account and time deposits held at foreign credit institutions, and foreign bank notes. Investments through asset managers consist of 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 currencies are 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 new value of the Bank's office building was reassessed. This building is depreciated as of 1997 over 20 years. The president's residence, which was acquired in 1990, is depreciated according to the straight-line method during 25 years.

Other fixed assets

These assets consist of furniture and equipment, which are valued at cost less accumulated depreciation, and are 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.

Other assets and liabilities

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

There is a possible financial claim against the Bank regarding copyrights. The Bank, based on the opinion of its legal advisors, believes that this claim is without merit and intends to defend this position. Accordingly, as for such no liability has been recorded in the books of the Bank.

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 included in the financial statements at the rate of settlement. The exchange rate for the U.S. dollar is fixed at US\$ 1.00 = AFL 1.79.

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 at 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. The distribution of gold was finalized in 1998. On the balance sheet date, the Bank's holdings of gold deposits were 111.216 fine troy ounces. The increase in gold deposits during 1999 is due to interest paid in gold. In order to protect the value of the Bank's gold stock against downward price movements in 1999, the Bank has applied appropriate market instruments.

3.2 Foreign currency

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

Denomination	12-31-1999	12-31-1998
	(Value in AFL)	
AFL 5.00	1,264,828	1,289,070
AFL 10.00	4,799,620	4,684,790
AFL 25.00	11,159,237	9,042,985
AFL 50.00	8,862,875	8,359,075
AFL 100.00	96,896,900	89,726,400
AFL 500.00	10,353,000	8,189,000
Total	133,336,460	121,291,320

3.4 Liabilities to residents

This item comprises:

	12-31-1999	12-31-1998
	(x AFL 1,000)	
Government	49,296	67,876
Multi-annual Plan	9,349	9,816
Bank:		
- current accounts	42,759	43,518
- cash reserve	104,983	99,282
- time deposits	35,364	33,500
Other	8,583	3,338
Total	250,334	257,330

Current accounts of the commercial banks primarily are held to meet 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 consist of 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 holdings are 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 Revenues

This item comprises:

	1999	1998
	(x AFL 1,000)	
Revenues	16,829	24,982
Interest expenses	6,916	5,346
Total	9,913	19,636

4.2 Personnel expenses

This item includes salaries, social security, and various personnel-related expenses. At the balance sheet date, the Bank employed 53 persons full-time compared to 54 at the end of 1998.

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 million), thereafter towards the Bank's General Reserve if less than the amount stipulated in article 4, paragraph 1 (AFL 10 million). In accordance with article 5 of the Central Bank Ordinance, the Supervisory Board has decided, with the approval of the Minister of Finance, to add AFL 1.1 million to the Bank's General Reserve. The remaining profit amounting to AFL 3 million has been transferred to the Treasury.

Auditor's report

We have audited the accompanying balance sheet of the Centrale Bank van Aruba as of December 31, 1999, and the related statement of income for the year then ended as included on page 75 through 82 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, 1999, and the results of its operations for the year then ended in accordance with accounting policies as referred to in the notes to the balance sheet and profit and loss account.

Aruba, April 14, 2000

A handwritten signature in cursive script that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers

