

**ANNUAL  
REPORT  
2000**



**CENTRALE BANK  
VAN ARUBA**



Annual Report  
and  
Financial Statements for the year

**2000**

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### **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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Photographs  
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### **Candle Cactus**

The Candle Cactus (*Stenocereus griseus*), or locally known as “Cadushi”, is the workhorse of the cactus family. It is widely used in hedges of the Cunucu. A cadushi cannot be knocked down easily: when broken, it recovers and grows into a new, fully fledged cactus.

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(as of January 1, 2001)

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**Secretariat and Archives Department**  
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## Parke Nacional Arikok

*In this report, a photographic illustration is given of Parke Nacional Arikok. In 1997, the Government of Aruba designated officially a certain area around Arikok as a national park. Since then, its unique flora and fauna, geologic variety, and characteristic arid landscapes have been assured of the care and protection this special part of Aruba deserves. Almost one-fifth of the total surface of the island of Aruba - 34 square kilometres - is now designated as Parke Nacional Arikok and is thus protected landscape, a landscape where climate, nature, and culture have ruled for thousands of years.*

*Erosion, drought, and torrential rains have left their marks on this cultured landscape. Rock formations, carved from lava and magma into natural monuments, all neatly arranged in their proper places, are scattered throughout the park, bearing silent witness to its evolution. Rugged but organized, the basalt formations, schist, tonalite, and limestone plateaus found to the west, south, and north of the park have settled in their present places. Here, nature has been allowed to take its course, often under extreme climate conditions, creating a geologic diversity in which flora and fauna have carved a niche.*

*Northeast of the island the ocean forms a natural boundary, with a rugged coastline of cliffs and eroded limestone rock. Boca Prins Bay and many larger and smaller bridges, sculpted by the rain and the sea, are now rightfully acknowledged as natural phenomena, attesting to the force of nature where land meets ocean.*

*Man, in centuries past, has left only feeble imprints on the landscape. Some of the land, scarcely fertile, was used for small agriculture. The fully restored "Cunucu House", in Arikok, stands as a reminder of that past. The journey on foot to this monument of culture affords beautiful views of the island and the national park. The most important clues remaining of the first inhabitants of the island are drawings in paint, found in the caves of "Cunucu Arikok" and "Grot Fonteijn" (Fonteijn Cave).*

*These drawings are a message from ancient times, left in mysterious, concealed tones. Roaming in the park, one could sense - but never know - the mystery. Here, time is of no consequence. Millions of years went by before Parke Nacional Arikok was finally recognised as a heritage that deserves our loving care -- a prehistoric treasure trove, to be sheltered and cherished on behalf of future generations.*

*Margreet Kleiter-Hoogerwaard*

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## 1 Statement by the President

On January 1, 1986, the day Aruba obtained an autonomous status within the Kingdom of the Netherlands, the Centrale Bank van Aruba (the Bank) formally began operations. Thus, it is commemorating its fifteenth anniversary this year. By virtue of several state ordinances, the Bank is entrusted with the task of conducting monetary policy, supervising financial institutions, and regulating domestic and foreign payments. The Bank's mission statement also reflects its responsibility with respect to maintaining the internal and external value of the florin and promoting the soundness and integrity of the financial system for the general benefit and well-being of the people of Aruba. To put it concisely, the Bank is the guardian of financial stability.

Financial conditions clearly influence real economic activities. Under stable conditions, the risk of macroeconomic imbalances and problems at individual financial institutions, which can disrupt the real economy, will be contained. Money will be capable of properly performing its function as a means of payment and hoarding, and as a unit of account. In contrast, when financial instability emerges, the risk increases that productive resources (including savings) will be misallocated, viable projects difficult to finance, asset prices exceed their intrinsic values, and payments not (or not timely) be executed. When these disequilibria persist and spread within the economy, even more extreme repercussions may result. Thus, financial stability is a vital precondition for sustainable long-term growth and safeguarding it is essential.

Price stability is a crucial component of financial stability. Price increases are in essence the result of too much money chasing too few goods; they ultimately are a monetary phenomenon. Therefore, promoting price stability is the Bank's primary objective at the macroeconomic level. To realize this objective, the Central Bank Ordinance provides the Bank with the authority to conduct monetary policy without any political interference. However, the underlying causes of inflationary pressures generally originate from external price shocks, a lack of budgetary discipline, and excessive wage and other cost increases. In spite of its specific legal responsibility, the Bank cannot do the job alone. Inflation should be contained by an effective mix and harmonious coordination of policy instruments. In this way, the demand for goods and services is kept more or less in line with the available supply.

Within the policy framework referred to above, the Bank regulates the sources of money creation as much as possible. By doing so, it protects the balance of payments, the country's international reserves, the fixed exchange rate between the Aruban florin and the US dollar, and the internal value of our money. Given Aruba's small and open economy, it is particularly important to control the domestic sources of money creation, i.e., loans to the private sector and monetary financing by the government. After all, payments for imports of goods and services financed by domestic money creation exert a negative effect directly on the balance of payments. In the short term, however, when these imports are preceded by inflows of funds from abroad, this is not the case.

## STATEMENT BY THE PRESIDENT

The ultimate aim of the Bank's monetary policy is to ensure that the public remain confident in the purchasing power of the Aruban florin. Efficient decisions are then made more easily, and the competitive position and profitability of the tourism industry, the cornerstone of Aruba's present prosperity, are preserved. Also, excessive wage demands are contained. In contrast, price increases and uncertainty about future price developments impede the efficient functioning of money, put fixed income earners, savers, and investors at a disadvantage, and reward speculative behavior. Monetary turbulence affects the growth potential of the real economy.

In the past 15 years, Aruba's inflation record, measured by the consumer price index, the only aggregated price statistic available for the whole period, was not fully satisfactory. On the one hand, the average annual inflation rate amounted to 3.8 percent, relatively low by international standards. Due to a liberal trade policy, the ample availability of international reserves, and a stable exchange rate, the effects of domestic cost shocks were dampened by raising imports. On the other hand, the domestic inflation rate exceeded by 0.6 percentage point that of the United States, our main trading partner, and that of the other Caribbean countries with currencies pegged to the US dollar. The inflation differential with the United States was associated partly with the small size of the Aruban market and the sharp rise in US labor productivity induced by massive investments in information and communication technology. Enhancing productivity in Aruba was relatively difficult because of the dominant position of the service industry in its economic structure.

Moreover, Aruba was confronted with supply-side constraints, which were increasingly felt during the process of notable economic expansion. This process evolved after the deep recession of the mid-eighties caused by the closure of the oil refinery, previously the cornerstone of Aruba's economy. As a result of this recession, domestic product crumbled by one-third, and tax revenue dropped by 40 percent. The unemployment rate reached an unprecedented 20 percent, inducing the emigration of a relatively large number of persons. However, policymakers did not despair. In consultation with the International Monetary Fund (IMF) and with financial assistance from the Netherlands, decisive actions were taken, including painful reductions in real disposable wage income. To give investments an additional impetus, tax holidays and other financial incentives were granted, among them official guarantees on foreign private sector loans. These actions contributed to a marked improvement in the investment climate. Consequently, the economic setback was overcome in a surprisingly short time.

In subsequent years, strong growth performances were realized, thanks also to a dynamic private sector. Real gross domestic product expanded by an exuberant 10 percent annual average during 1987-1994 due mainly to the exploitation of Aruba's comparative advantage in tourism, followed by the re-opening of the oil refinery and investments in infrastructure and housing. Unemployment fell to a minimum, and it became necessary to attract migrants from the region. However, as the expansion process continued, physical and organizational bottlenecks were more pronounced. Immigration brought additional economic and social costs. Despite the increasing participation of foreigners in the workforce, the labor supply was not flexible enough to effectively meet the surging demand. Excessive wage increases, induced by the competition for qualified personnel, became a cause for concern. Eventually, the quality of services, labor

productivity, and the competitive position of the tourism industry weakened. Rents rose strongly, reflecting the scarcity of housing, following the rapid population growth. The social and economic infrastructure no longer was adequate to ensure stable economic development, while the needed renovation and expansion of public utilities were accompanied by higher water and electricity tariffs. In addition, certain indirect taxes were raised in 1993 to finance increased public spending, but these were revoked the next year by a new government.

Thus, the expansion process resulted in balance of payments and inflationary pressures, threatening financial stability as well as the ongoing growth process. The combination of increasing strains in the labor market and surging domestic costs, fueled from time to time by external price shocks, bore the risk that the boom might boomerang. Although all foreign payments related to goods and services could be executed without any restriction, demand pulls could not fully be met by raising imports. This was particularly the case for goods and services not traded internationally. Illustrative is that about half of the basket used to compute the consumer price index refers to such goods. Ergo, the consumer price index showed erratic movements with peaks of around 6.5 percent on a year-to-year basis in October 1990 and September 1994. This was a rather disquieting phenomenon, because in the meantime the competitive advantage brought about by the austerity measures introduced in the mid-eighties had been eroded completely, and Aruba was transformed into an expensive tourist destination. The inflationary pressures resulting from the overheating also demonstrated that the economy was not capable of sustaining a growth rate well above its long-term potential. Obviously, the policymakers were not fully prepared to properly manage the exuberant growth. In particular, insufficient budgetary and wage restraints were exerted.

Fortunately after 1994, the investment activities subsided, partly as a result of a moratorium on the construction of new hotels. Consequently, growth in tourism decelerated, and the economy returned into smoother waters. It became clear that the well-being of the people and the profitability of businesses do not depend merely on quantitative growth, which shifted attention to the promotion of high quality development in accordance with the economy's long-term potential. In the years that followed, real economic growth dropped to a sustainable annual average of 3.7 percent, while unemployment remained low. Simultaneously, the rate of inflation abated and converged towards that in the United States. In 1998, the consumer price index hit a 1.9 percent low. However, in 1999 and 2000, inflation rebounded, reaching 4.0 percent at the end of the latter year, reflecting mainly the price shocks in the world oil market. Also, the inflation differential with the United States widened somewhat as the effects of the oil price increases were more pronounced in Aruba, and local cost components continued to rise.

The above history illustrates that containing inflation and preserving financial stability were delicate matters that required the Bank's continuous attention. To cope with the related developments, the Bank endeavored to manage the domestic liquidity effectively, in spite of the complications associated with large capital inflows and dollarization that coincided with the expanding tourism. A timely shift was made from an accommodating to a consolidating monetary policy stance to support the ongoing deceleration in real growth and inflation. This task was facilitated by the fixed exchange rate between the florin and the US dollar. Maintaining

## STATEMENT BY THE PRESIDENT

the peg at US\$ 1 = AFL 1.79 was considered crucial and absolutely not up for discussion. Because more than 85 percent of all foreign transactions was settled in US dollars, this peg created favorable conditions for increasing flows of merchandise, services, and capital. It enabled Aruba to take advantage of the longest postwar business cycle upturn in the United States, which lasted during most of the nineties, and the successful anti-inflationary policy of the Federal Reserve. Despite the slippages in budgetary and wage policies referred to earlier, a rather stable financial climate was realized. It contributed to the surge in real gross domestic product from an estimated US\$ 428 million in 1986 to US\$ 1,134 million in 2000. Due to a 50 percent increase in population during the past 15 years, per capita product grew clearly less pronounced, i.e., from US\$ 7,095 to US\$ 12,528, ranking it among the highest in the region. However, a large part of its domestic product accrues to nonresidents as remuneration for their contribution to the production process.

Furthermore, the fixed exchange relationship imposed a distinct discipline on the policymakers. The Caribbean countries that had to abandon the peg to the US dollar due to inadequate macroeconomic policies suffered from significantly higher rates of inflation and much smaller, or in some cases even negative real growth rates, depressing the welfare of their people. In Aruba, confidence in the peg was supported by a favorable net foreign assets position of the monetary sector. Because the spending behavior of the economic subjects was reflected in this variable almost immediately, the Bank took it into account when designing its short-term policy: changes in this position were considered the most important monetary indicator. In this respect, price statistics clearly were a less appropriate compass, partly because the range of the available data was limited and their quality questionable, as was the case with a number of other statistics. Moreover, the effects of price changes became apparent only with a certain time lag, and reflected not only monetary developments, but also a mixture of other factors, such as external price shocks, wage increases that exceeded productivity gains, and expansive budgetary policies.

Throughout the past 15 years, the Bank has been able to ensure sufficient international reserves to settle external obligations. Additionally, the strong reserves position has enabled the Bank gradually to liberalize foreign capital transactions and allow institutional investors to build up a foreign asset portfolio amounting to AFL 553 million at the end of 2000. Presently, a special foreign exchange license is required only when settling large capital transactions. The net foreign assets position of the monetary sector rose from merely AFL 128 million at the end of 1986 to a comfortable AFL 531 million at the end of 2000, despite setbacks in 1988, 1996, 1997, and 2000, due mainly to excessive spending. The 12-month moving average merchandise import coverage ratio (excluding oil) increased from 3.8 months to 5.7 months, and now comfortably fluctuates within the 5-6 month target range. This target was set high by international standards to take account of Aruba's vulnerability to external shocks and the additional risks associated with the small size and undiversified structure of its economy.

Initially, the strengthening of the monetary sector's net foreign assets position was brought about mainly by inflows of private capital and to a much lesser extent, by receipts of official development funds. Investments in the tourism industry, the rehabilitation and the expansion of the oil refinery, and several infrastructural projects were financed largely with foreign capital.

During the period 1986-2000 as a whole, gross capital imports amounted to AFL 6.7 billion. On an average annual basis, these imports were equivalent to 21 percent of the estimated gross domestic product. An ample 90 percent of these imports was generated by the private sector. From the outset of the execution of the new development strategy in 1986, it was obvious that the ambitious investment program had to be financed primarily from foreign sources. After all, local savings could have covered only a fraction of the financing requirements, while foreign money was needed to compensate for the outflow of funds induced by the increase in imports of goods and services. The capital inflows ensured that Aruba's balance-of-payment's position remained sustainable and that the level of international reserves could be raised broadly in line with the growing economy.

In light of the above situation, the Bank adopted a liberal policy when granting the required foreign exchange licenses for capital imports. However, in September 1992, it announced a more cautious approach. This change in policy stance was made to help cool down the economy, to properly monitor and manage the increase in Aruba's external debt, and to promote only viable projects capable of generating sufficient foreign exchange to meet future debt obligations. Subsequently, in April 1993, it was decided that in principle, foreign exchange licenses would be issued only for large external loans if and when the labor supply was adequate. The Bank realized that if the foreign causes of money creation were not contained to a certain extent, a tightening in the domestic credit policy would be simply offset. To limit the growth in the money supply and reduce the banks' overliquidity, domestic financing was given priority over foreign borrowing in a number of cases, and local banks were encouraged to participate in the syndicate financing of some large projects. In practice, however, this policy proved quite difficult to execute effectively, and its results were not convincing.

Large capital imports continued because several projects were already in the pipeline, and their execution was considered necessary to avoid disrupting the growth process. These imports boosted Aruba's production capacity and its ability to generate foreign exchange reserves autonomously. Illustrative is that the external receipts from tourism ballooned from US\$ 158 million in 1986 to US\$ 837 million in 2000, equivalent to 43 percent of the estimated nominal GDP. As a secondary effect, the inflows of funds from abroad inflated the commercial banks' liquidity position and expanded their capability to grant loans. The ensuing credit expansion fueled the demand for goods and services. Initially, notable large extensions of the commercial banks' loan portfolio were allowed to cover financing needs of the private sector and to give the money coming in the opportunity to flow back abroad. However, following a disquieting decline in international reserves in 1988, the Bank gradually tightened its policy. For the first time, a credit ceiling regime was introduced, essentially to keep the aggregated increase in bank lending to the private and public sectors (combined) in line with the growth in general business activity. The system of direct credit control remained in place for almost a decade. Eventually, it was suspended in April 1999, following the further cooling down of the economy, the deceleration in the rate of inflation, and an upsurge in international reserves. Simultaneously, the advance rate (unchanged since July 1986) was lowered by 3 percentage points to 6.5 percent, and the official discount rate was abolished due to the virtual unavailability of eligible paper. The lowering of the advance rate was intended merely to give a psychological signal. After all, this rate had no

## STATEMENT BY THE PRESIDENT

effective impact on market rates because the larger banks in particular were overliquid. Unfortunately, it soon became evident once more that the economy of Aruba could easily be thrown off balance. Due to excessive loan increases following the abolishment of the direct credit control regime, the international reserves again started to crumble. After just one year, the direct credit control regime had to be reintroduced. The decision was taken even though the Bank was aware that maintaining a system of direct credit control over such a long period of time might have drawbacks, including the risks of hindering competition between commercial banks, the freezing of market shares, the accumulation of excess liquidity in times when deposits grew faster than loans, and the stimulation of disintermediation. At the same time, the Bank recognized that indirect policy instruments could not be applied effectively, due to the absence of developed financial markets and other institutional constraints, including the uneven distribution of liquidity between banks. To cope with this dilemma, the Bank, as a second-best solution, endeavored to minimize the shortcomings of the credit-ceiling regime. Preserving its basic principles, the Bank from time to time adjusted this system by incorporating innovative devices therein, such as exempting certain productive loans, creating the possibility of trading unused credit room between banks, shifting from individual ceilings to a limit for the banking sector as a whole, granting additional room for expansion when long-term savings or foreign funds were attracted, and introducing a penalty for banks that caused excess lending.

Moreover, if necessary and feasible, additional adjustments to the system were done in a practical way. Via moral suasion, the banks were convinced to remain within the credit ceiling, while through regular bilateral discussions the specific conditions and interests of the individual institutions were taken into account. Also, as of October 1992, an interest-bearing monetary cash reserve requirement equivalent to 5 percent of the domestic deposits with original maturities shorter than 2 years was introduced for the commercial banks. The requirement was raised in two steps of one percentage point each in 1995 and 1998 and supplemented with a penalty clause in case of shortfalls. However, the effectiveness of this instrument was limited: due to the strongly uneven distribution of liquidity between the banks, setting a sufficiently restrictive percentage simply was not feasible. Additionally, institutional constraints prevented the development of an inter-bank money market.

The commercial banks generally adhered to the various measures of monetary policy, in part because these measures allowed enough room for expansion to meet the surging demand for credit, particularly in the initial stages of the economic expansion process. During the period 1986-2000, commercial banks' claims on the private sector increased buoyantly from AFL 287 million to AFL 1,502 million, or from 37 percent to 43 percent of gross domestic product. About one-half of the loan amount was granted to enterprises mainly in the trade and services sectors, while the remainder was allocated to consumptive spending and housing mortgages. Total loans granted more than quadrupled in 15 years to AFL 1,477 million in spite of relatively high interest rates. The latter phenomenon reflected the rather oligopolistic structure of the banking sector, a lack of economies of scales, high operating costs, and limited competition. In comparison, the loan portfolio of the nonmonetary financial institutions amounted to AFL 720 million at the end of 2000.

On balance, the increase in commercial banks' claims on the private sector was by far the most prominent cause of the growth in the money supply. Consequently, domestic factors contributed 72 percent of the monetary expansion. Broad money surged from AFL 316 million to AFL 1,740 million, comprising 34 percent narrowly defined money and 66 percent secondary liquidity. Due to the relatively large domestic money creation and the outflow of part of this money abroad, the ratio of net foreign assets to the money supply declined by 10 percentage points to 30 percent in 2000. The macroeconomic liquidity ratio, i.e., the money supply as a percentage of gross domestic product, increased from 41 percent to 49 percent. Noteworthy also is that the bank notes issued rose from AFL 37 million to AFL 137 million or merely 4 percent of gross domestic product in 2000. This percentage is rather low by international standards due to the widespread dollarization, which prevents the Bank from fully benefiting from issuing its own currency.

During the period 1986-2000, the financial operations of the government contributed merely 3 percent to the increase in the money supply. Although the budgetary position was vulnerable, financial deficits could be contained by attuning payments to actual receipts. These deficits, which fluctuated between 1 and 4 percent of gross domestic product during the period under review, were covered largely by deferring payments to suppliers of goods and services, sales of bonds to the nonmonetary financial institutions, receipts of official development loans, and recently also by commercial borrowings on the international capital market. The Bank never granted any credit to the government, while the commercial banks confined themselves mainly to buying short-term treasury bills and cash certificates. Occasionally, these banks also bought some government bonds, while loans were granted to finance specific operations.

It should be noted, however, that the government did not contribute sufficiently to the desired cooling down of the economy. In spite of the period of boom, the government was not able to follow the Bank's repeated advice to realize a budget surplus by conducting an anti-cyclical policy and by spreading public spending over a longer period of time to relieve the pressure on the production capacity. In this respect, mention also should be made of a 1993 covenant between the Government and the Bank, according to which the proceeds of a bond issue could be utilized only for capital expenditure and after spending cuts were realized, in particular by reducing the number of civil servants. Despite this covenant, intensified tax collection efforts, and budgetary adjustments, the financial deficits could not be eliminated, and the government debt increased over time. However, at the end of 2000 the total debt position was revised downward by a notable 31 percent, following a consensus on the application of new actuarial assumptions when calculating the accrued liability of the General Pension Fund Aruba.

In essence, the vulnerability in public finances was caused, on the one hand, by an insufficient increase in revenue, due partly to the generous tax holidays granted to a number of companies. On the other hand, consumptive spending continued to rise, also as a result of surging wage payments caused partly by retroactively granting inflation compensations to civil servants and hiring additional staff. Also during the second half of the nineties, minimum wages, old age allowances, and welfare payments were raised. Moreover, the government was confronted with financial setbacks, inter alia, associated with its participation in certain entrepreneurial activities. Consequently, liquidity constraints were felt continuously, and not enough funds were available

## STATEMENT BY THE PRESIDENT

to finance the increasing need for infrastructural investments. Even so, some special deposits were created at the Bank in the early nineties to provide for possible claims originating from the loan guarantees given and to repay maturing bonds. However, these deposits were largely used up again when the liquidity strains intensified in the late nineties.

At the more microeconomic level, the Bank's activities to safeguard the soundness of the Aruban financial institutions contributed to maintaining financial stability. Largely in compliance with best international practices (particularly the Basel Core Principles for Effective Banking Supervision and those for the insurance sector) and in close cooperation with the various representative organizations, surveillance was exercised over banks, life insurance companies, and pension funds. The Bank's prudential supervision was aimed at protecting the interests of the clients of these institutions, safeguarding the integrity of the financial system, preventing possible problems at one institution from intensifying and spreading to others, and finally, improving Aruba's international financial reputation. Continuous off-site monitoring and periodic on-site inspections were conducted, inter alia, to identify credit and operational risks, to evaluate the internal organization and the management's quality, to test the anti-money-laundering procedures, and generally to ensure compliance with supervisory laws, regulations, and directives. In some cases, corrective actions were taken against the institutions concerned. The Bank's activities in this area contributed to a more satisfactory liquidity and solvency ratio of the supervised institutions on an aggregated basis, albeit that some isolated weak spots emerged within the financial sector. The scope for systemic risk is limited by its traditional lending activities, which generally are quite profitable.

In recent years, the legislative supervisory framework was enhanced significantly. More sophisticated and comprehensive policy instruments were put at the Bank's disposal. The State Ordinance on the supervision of the banking system, enacted in May 1998, provided the Bank with adequate tools, while the State Ordinance on the supervision of the insurance business, approved by Parliament in August 2000, brings the whole insurance sector, both on- and off-shore, under the Bank's supervision. In the meantime, far-reaching anti-money-laundering laws and regulations were introduced, and in February 1996, a Financial Intelligence Unit, the so-called MOT, was established as a separate institution within the Ministry of Finance. Also, the contacts with various international organizations were intensified. Emphasis was placed on cooperation with colleague supervisors abroad. A memorandum of understanding was signed with the Bank van de Nederlandse Antillen, the home country supervisor of two local commercial banks. The Bank also became an active member of various regional and international supervisory bodies. In this framework, experiences were exchanged to keep abreast of rapidly changing developments. Following the May 2000 decision of the Financial Stability Forum to classify Aruba's financial offshore sector in a group of countries with perceived low supervisory and anti-money-laundering standards, the Bank obtained assistance from the IMF to evaluate its adherence to international best practices in this area.

Overall, it may be stated that the Bank has been quite successful in its fifteen years of existence. Although still young, it has been able to build up a solid reputation as guardian of Aruba's financial stability and a capable and trustworthy policy advisor. Services to its clients have improved steadily, inter alia, by introducing a fully automated payments-clearing system in 1997. These rather difficult tasks could be performed thanks to its independent position within the public sector as stipulated in the relevant laws, its motivated and qualified staff, and last but not least, its financial strength. The Bank's success is reflected in the surge in its balance sheet total from AFL 143 million at the end of 1986 to AFL 436 million at the end of 2000. Its gold and official foreign reserve position rose from AFL 142 million to AFL 415 million. The ratio of these reserves to base money (i.e., bank notes in circulation and deposits of the commercial banks) decreased only slightly from 150 percent to 148 percent. Due to the increase in reserves and a cautious but active strategy to invest these in mainly US government and related paper, total profits amounted to AFL 90 million during the intervening period. AFL 48 million was transferred to the Treasury, while the remainder was used to strengthen its capital base and reserved to finance its new building, which construction will start soon. Of course, further improvement is always possible. To best serve the interests of the people of Aruba, the Bank will continue to pursue sound policies, thereby maintaining a delicate balance between policy consistency and flexibility to handle the continuously changing circumstances. It also is fully committed to meet all relevant international standards for effective central banking.



**“Cas di torto” in Cunucu Arikok**

In this part of the national park, a renovated farmer's cottage (“cas di torto”) is found. The building has been restored to the original state, as these houses were built in past centuries, using natural materials. Along with the outbuildings – a small shed, an outdoor toilet, a threshing floor, and a pigpen – the cottage attests the islanders' way of life in bygone days.

## 2 Operations of the Bank

### 2.1 The Bank's position within the public sector

The Bank is a legal entity in itself (*sui generis*) with an autonomous position within Aruba's public sector. It started 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 US dollar at a rate of AFL 1.79 = US\$ 1.00. This exchange rate has remained unchanged.

### 2.2 Principal tasks and related activities

By virtue of several state ordinances, among them the Central Bank Ordinance, the Bank is entrusted with the following tasks and related activities:

Tasks	Related activities
a. Conduct monetary policy	Formulating and implementing monetary policy and related measures through, among other things, regulating bank credit and liquidity.
b. Supervise the banking and credit system	Supervising the activities of the commercial banks and other financial institutions by, <i>inter alia</i> , monitoring their liquidity and solvency to protect the interests of depositors and policyholders, and to maintain monetary and financial stability in Aruba.
c. Issue bank notes	Bringing bank notes into circulation to meet the needs of businesses and the general public.
d. Issue coins on behalf of the government	
e. Act as the banker for the government	Issuing treasury bills, cash certificates, and bonds as an agent for the government.
f. As the central foreign exchange bank, regulate the flow of payments to and from other countries	Regulating international payments according to the State Ordinance on foreign exchange transactions.
g. Manage Aruba's official gold and foreign exchange reserves	
h. Advise the Minister of Finance on financial matters	
i. Monitor economic and financial developments	

## **2.3 Domestic payment system**

### **2.3.1 Issue of bank notes and coins**

The aggregate value of bank notes and coins issued by the Bank amounted to AFL 151 million at the end of 2000. This amount represents an AFL 5 million or 3 percent increase, AFL 8 million less than that of 1999 when precautionary reserves were built up due to the Y2K changeover. The increase in 2000 is also less than the estimated nominal GDP growth.

Aruban florin bank notes are issued in denominations of AFL 10, AFL 25, AFL 50, AFL 100, and AFL 500. At the end of 2000, the total circulation value amounted to AFL 137.1 million, i.e., 2.9 percent higher than a year earlier. The share of the various denominations in the total value of notes issued changed somewhat, in favor of both the AFL 50 and AFL 100 bank notes. The 5 florin coin, brought into circulation in December 1995, practically replaced the 5 florin bank note. Consequently, the proportion of the 5 florin note in the total value of bank notes issued declined to less than 1 percent at the end of 2000. Following increases in the previous years, the share of the 500 florin bank note declined by one percentage point to 6.7 percent.

In September 2000, the Bank issued a special AFL 25 silver coin to commemorate the Olympic Games of 2000, held in Sydney, Australia. On one side of the coin, a Tornado model catamaran especially designed for the olympic discipline is depicted, while the other side contains a new coin picture of HM Queen Beatrix. These coins were minted only in collector's quality.

### **2.3.2 Automated clearing system**

Since June 1997, the Bank has managed an automated clearing system, the so-called CBA Clearing System, through which domestic checks and inter-bank transfers are cleared and processed. During 2000, this system processed AFL 2.5 billion in checks and AFL 1.9 billion in transfers. These amounts represent an increase of 19 percent and 1 percent, respectively, compared to 1999.

### **2.3.3 Interest payments**

A number of financial institutions and the government maintain balances at the Bank for, inter alia, clearing purposes and international payments, and to comply with the monetary cash reserve requirement. The Bank pays interest on certain current account balances and on all time deposits, including on the cash reserves. In 2000, total interest payments rose by 1.7 percent to AFL 7 million. Interest payments to the government, considered as an interim dividend, declined by AFL 0.4 million to AFL 1.5 million at the end of 2000, due to decreased balances.

### 2.3.4 Banking for the government

Article 14 of the Central Bank Ordinance stipulates that the Bank is the banker of the government. Its services are rendered free of charge. In this context, the Bank carried out an increased number of domestic and foreign payments for the government. Also, to renew maturing papers for a total amount of AFL 32 million, eight treasury bill issues with maturities of three months each were arranged, yielding between 6.10 percent and 6.91 percent. The six-month AFL 8 million cash certificates were renewed twice by the commercial banks at annual yields of 6.29 and 7.15 percent, respectively. There was also one 8.25 percent government bond issue of AFL 30 million in April to repay maturing papers. As a matter of principle, the Bank does not grant loans to the government.

## 2.4 International payment system

### 2.4.1 Daily exchange rate fixing

About 95 percent of all foreign transactions are settled at fixed US dollar buying and selling rates. The Bank issues daily quotations for a number of other foreign currencies based on the parity rate of the Aruba florin and the exchange rates of the US dollar as quoted by the European Central Bank. In 2000, the quarterly average exchange rate of the Dutch guilder varied between AFL 0.81 and AFL 0.71, or within a margin of 12 percent. At the end of 2000, the Dutch guilder stood at AFL 0.76, depreciating by 8 percent compared to the end of 1999.

### 2.4.2 Foreign exchange policy

The Bank's foreign exchange policy did not change during 2000. Current transactions remain free from any foreign exchange restriction, while controls on capital in- and outflows have been relaxed substantially in recent years. Presently, a special foreign exchange license is required only for capital transactions exceeding AFL 200,000, on an annual basis, for natural persons and AFL 500,000 a year for legal entities (excluding commercial banks and institutional investors). The Bank's policy with respect to transactions exceeding the indicated amounts is quite liberal.

In 2000, the number of foreign exchange licenses granted by the Bank increased by 31 percent to 79. However, this was only one percent of the total number of capital transactions actually executed via the banking system and notified residents' foreign accounts. About 48 percent of the number of licenses granted were related to real estates, 30 percent to borrowings, and the remaining 22 percent to investments (including bonds and shares), and refinancing of loans.

The Bank approved AFL 246 million in licenses for external loans to residents during 2000, representing an AFL 59 million or 31 percent increase compared to 1999. The main contributory factor was a substantial rise in refinancing of loans.

### 2.4.3 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 certain types of (mainly government-related) companies, and transactions are exempted, as stipulated in the State Decree on foreign exchange commission exemption of October 5, 1995 (revised in July 1998). Additionally, based on article 9 sub 1 of the State Ordinance on the free zone (AB 1988 No. GT7), the companies concerned could be exempted, upon request, from paying this tax on their import payments in so far as they are linked to re-exports. Offshore companies and Aruba Exempt Corporations (the so-called AVVs) are considered nonresidents for the purpose of foreign exchange control and, thus, are not subject to payment of this commission.

The government determines the policy with respect to the foreign exchange commission, while the Bank is entrusted with its collection pursuant to article 4 of the state ordinance on this commission. In 2000, the revenue on this commission rose by 4.5 percent to AFL 22.7 million. As a result of transitoral items, AFL 23.6 million was transferred to the Treasury. The share of foreign exchange commission in total tax receipts remained at 4 percent.

## 2.5 Implementing monetary policy

In 2000, the Bank implemented a cautious monetary policy in view of a substantial decline in the international reserves and an acceleration in the inflation rate. The banks were required to limit credit growth to about 8 percent, in line with the expected nominal growth in GDP. In addition, the Bank imposed a penalty system, whereby banks causing the overall lending to exceed the guideline would be charged a fee. These measures contributed to a deceleration in credit growth from 10.1 percent in 1999 to 8.2 percent in 2000.

After consulting with the Aruban Bankers' Association, the Bank decided to reduce further the normative credit growth by 2 percentage points to 6 percent in 2001, while the penalty rate for excess lending has been raised by one percentage point to 9 percent. These changes were made to keep the credit expansion in line with the expected nominal GDP growth and to protect the banking sector's net foreign assets position.

The current B-9 arrangement (through which the distribution of the foreign exchange reserves between the commercial banks and the Bank is regulated), as well as the monetary cash reserve requirement (which obliges the commercial banks to hold an equivalent of 7 percent of their short-term deposits in a separate interest-bearing account at the Bank) remain in effect. However, the compensating fee for any deficiency in this reserve has been raised by one percentage point to 6.5 percent effective April 1, 2001, to discourage the banks from utilizing the latter funds to cover liquidity shortages.

## 2.6 Executing prudential supervision

During 2000, the Bank's activities related to prudential supervision continued to aim 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. Moreover, regular discussions are held with the management of individual institutions as well as with members of the various representative organizations.

## 2.7 Financial results highlights

- At the end of 2000, the Bank's total assets had shrunk by AFL 18.9 million or 4.2 percent to AFL 435.6 million. This was primarily due to an AFL 17.6 million or 4.5 percent decline in foreign currency claims.
- Total income (net of interest expenses) rose by AFL 9.4 million or 74.2 percent to AFL 22.2 million. Substantially higher yields on foreign investments were the major reason for this increase.
- Operating expenses amounted to AFL 9 million, i.e., AFL 0.4 million or 3.9 percent higher than in 1999. This increase was attributed mainly to a rise in personnel and depreciation expenditures of 4.2 percent and 15.9 percent, respectively.
- On balance, profit tripled to AFL 13.2 million in 2000, slightly below the record level of 1998. Pursuant to article 4 sub 2 of the Central Bank Ordinance, and in agreement with the Minister of Finance, AFL 5 million was transferred to the Treasury, while AFL 6.4 million of the remaining amount was reserved for the financing of the Bank's new office building and about AFL 1.8 million was allocated to the general reserve.

## 2.8 Organizational affairs

The Board of Supervisory Directors and the Executive Committee held five joint meetings during 2000.

The Bank hired one person in 2000, bringing its staff to 54.

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



**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 Executive Committee, l.-r.:**

J.R. Figarola-Semeleer, A.R. Caram, and K.A.H. Polvliet.

## 3 Economic and financial developments

### 3.1 The international environment

Overall, the year 2000 was characterized by an upsurge in the world economy. The increase in its output volume accelerated from 3.5 percent in 1999 to 4.8 percent in 2000, a performance unmatched for almost twenty years. This positive result was generated mainly by an above-potential 5.0 percent growth in the United States. Its business activities remained buoyant due to strong private sector spending and substantial investments in information and communication technology, which boosted imports from other countries. As a result, demand for goods and services strengthened in the euro area, also because domestic spending was stimulated by high consumer and industrial confidence. The Netherlands continued to perform notably well: as in the preceding years real GDP increased by almost 4 percent. The economy of Japan showed some signs of recovery, particularly during the first quarter of the year, due to an incidental upturn in personal spending.

However, the expansion in activity in the industrial world reached its peak around the middle of the year 2000. Since then the growth rate has slowed notably. This turnaround was also led by the United States, where the increase in GDP decelerated to an annual rate of merely one percent in the fourth quarter. The US economy was confronted by the lagged effects of a tighter monetary policy, the growing appreciation of the US dollar, the tumble in technology stocks in particular, the decline in business confidence, and last but not least, the surge in crude oil prices, which fueled inflation. US consumer prices increased from 2.2 percent in 1999 to 3.4 percent in 2000, despite the modest rise of domestic cost components resulting from gains in labor productivity. Similar factors contributed to some weakening in the pace of economic growth in the euro zone during the latter months of the year. Japan reverted to stagnation, as private consumption shrank due to revived concerns about the ongoing business restructurings and the already unusually high unemployment.

In the emerging countries, economic activity also strengthened during the first half of 2000, but since then the growth rate fell back, mainly because of the indicated slowdown in the industrialized economies. Even so, and despite the uncertainties associated with the reforms in the financial and business sectors in a number of countries, output expanded on balance by a further 7 percent in Asia. In Latin America, growth rebounded to 4.1 percent. This growth trend differed markedly among the individual countries. For instance, Brazil took advantage of increased exports and of a recovery in domestic demand. Venezuela used part of its windfall gains in oil prices to stimulate economic activity by sharply increasing public spending. A number of Caribbean countries benefited from further growth in tourism, but had to cope with the higher costs of oil imports. In contrast, Argentina suffered from the strong effective appreciation of its US dollar-linked currency, which seriously hurt transactions with its major trading partners.

### 3.2 The real sector

#### *The domestic economy*

Available statistical information and anecdotal evidence indicate that real economic activity in Aruba decelerated to an estimated 2.5 percent in 2000, following a 4.5 percent rise in 1999. The tourism sector performed well; its gross receipts increased by 6 percent, contributing to a surplus on the current account of the balance of payments (excluding the oil and free-zone sectors). Even so, net foreign assets of the monetary sector shrank by AFL 41 million, due to a notable weakening in the capital and financial account. Private investments were affected by the completion of some large construction projects, and were contained in the public sector due to liquidity constraints. Consumptive spending remained buoyant, which boosted borrowing by the private sector and the financial deficit of the government.

Unemployment remained low, yet qualified personnel was still needed. Inflation accelerated further, reflecting mainly the steady rise in the world market prices of oil and additional increases in local cost components. On balance, estimated GDP in nominal terms rose by 6.6 percent to AFL 3,526 million (US\$ 1,970 million), and per capita product by 4.7 percent to AFL 38,956 (US\$ 21,763).

#### *Tourism*

For the second consecutive year, the number of stay-over visitors recorded a 6 percent growth, bringing the total to 721,224 (see table 1). This outcome was associated partly with the boom in the US economy. However, growth in visitor nights decelerated by 3 percentage points to 2 percent in 2000, as the average nights spent on the island by tourists declined from 7.5 to 7.3. In addition, the average hotel occupancy rate fell by one percentage point to 76 percent, due partly to the reopening of the Radisson Hotel at the end of 1999.

According to the Central Bureau of Statistics, the average daily rate of hotels and revenue per available room went up by 7 percent to AFL 233 and 4 percent to AFL 129, respectively. Tourism expenditures, estimated via a special survey, surged by 11 percent to just over AFL 1.3 billion, while tourism receipts on a cash basis as registered in the balance of payments rose by 6 percent to almost AFL 1.5 billion in 2000.

Arrivals from the United States increased by 9 percent to 458,132 in 2000, compared to a 12 percent rise in 1999. Total nights spent fell roughly accordingly, i.e., from 9 percent in 1999 to 7 percent in 2000. Contributory factors were the cancellation of the Air Aruba flights in late October 2000 and the extra travel activities at the end of 1999 related to the millennium turnover. However, the US market share rose by some 2 percentage points to 63.5 percent.

**Table 1 Main indicators of tourism activity**

	1998	1999	2000
1. a. Tourism receipts (x AFL million) 1)	1,306.5	1,411.6	1,498.7
b. Tourism expenditures (x AFL million) 2)	1,112.4	1,184.3	1,319.3
2. a. Stay-over visitors (x 1,000)	647.4	683.3	721.2
b. Visitor nights (x 1,000)	4,889.7	5,143.3	5,247.8
3. a. Receipts per visitor night (AFL)	267	274	286
b. Average daily expenditure in Aruba (AFL) 3)	189	197	204
4. a. Average hotel occupancy rate	77.6	77.0	76.0
b. Average daily rate hotels (AFL) 4)	208	217	233
c. Revenue per available room (AFL) 4)	127	124	129
5. a. Cruise visitors (x 1,000)	257.8	289.1	490.0
b. Cruise ships	255	230	331
6. Contribution to current account 5)	74.2	71.4	72.8

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., prepaid packages), during, and immediately after a trip as estimated by the CBS via a special survey.

3) Expenditures by stay-over visitors in Aruba only (thus, excluding expenditures on prepaid packages), as calculated by the CBS.

4) Including hotel and time-share.

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

Source: Aruba Tourism Authority; Caribbean Tourism Organization; CBS; CBA.

Growth in the number of visitors from Venezuela almost doubled to 8 percent in 2000, while nights spent surged by 11 percent, and its market share increased slightly to 15.5 percent (1999: 15.2 percent). In contrast, arrivals from the Netherlands shrank by 4 percent, resulting in an 0.5 percentage point drop in its market share to 4.2 percent. This poor performance was due mainly to the further depreciation of the Dutch guilder vis-à-vis the US dollar and, thus, the Aruban florin.

Cruise tourism showed an exuberant expansion. The number of ship calls rose from 230 in 1999 to 331 in 2000, and passenger arrivals by 70 percent to 490,005, because more mega vessels included Aruba in their itinerary. Consequently, for the first time in Aruba's cruise tourism history, the four hundred thousand mark was surpassed. In total, more than 1.2 million persons visited Aruba in 2000. This was indeed a remarkable performance.

According to preliminary data from the Caribbean Tourism Organization, stay-over visitor arrivals in the Caribbean region increased by only 2 percent in 2000 (1999: 3 percent). Cruise tourism surged by 18 percent (1999: 12 percent). Aruba's share in these markets increased by 0.2 percentage point to 3.7 percent and by 1.7 percentage points to 4.1 percent, respectively.

*Transport activities*

The expansion and renovation activities of the airport that began in 1998 were completed in 2000, and full operation was resumed. During that year, the number of airport passengers (including transit) grew by 8 percent, compared to a 2 percent rise in 1999 (see table 2). This increase was caused mainly by stop-over visitors. Aircraft landings went up by 10 percent (1999: 6 percent).

**Table 2 Transport activities**

	1998	1999	2000
1. Airport passengers	1,785,747	1,824,008	1,965,240
2. Aircraft landings	16,343	17,329	18,993
3. Harbor calls	3,075	2,732	2,745
4. Cargo movements 1) (x 1,000 metric tons)	342,052	391,738	354,305
5. Containers (in tues) 2)	30,246	34,567	32,677

1) Estimates include containers.

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

Source: Aruba Airport Authority N.V.; ASTEC N.V.; Aruba Ports Authority N.V.; CBA.

The number of harbor calls increased by 0.5 percent, as against an 11 percent decline in 1999, mainly the result of more cruise ship calls. However, cargo movements fell by 10 percent, as against a 15 percent increase in 1999, and container freight by 5 percent, compared to a rise of 14 percent in the preceding year. These decreases resulted in part from the crumbling of free-zone business.

*Construction*

Activity in the construction sector remained buoyant, albeit that fewer new projects were initiated. The total number of construction permits granted by the Department of Public Works declined by 20 percent to 1,358 in 2000, but their corresponding value went up by 9 percent to AFL 183 million (see table 3). The number of electrical installations approved was 13 percent higher than in 1999. In contrast, import of cement fell by 25 percent (1999: 32 percent increase), due to the completion of the expansion and renovation activities at the airport and the Radisson Hotel.

**Table 3 Construction activities**

	1998	1999	2000
1. Construction permits granted	1,544	1,693	1,358
2. Value of construction permits (in AFL million)	177.8	168.4	183.3
3. Cement imported (x 1,000 Kg)	42,259	55,626	41,877
4. Electrical installations approved	2,992	2,691	3,034

Source: Department of Public Works; Department of Technical Inspection; CBS.

*Utilities and telecommunications*

Domestic consumption of both water and electricity grew by 5 percent, compared to 1 percent and 2 percent, respectively, in 1999 (see table 4). The higher consumption growth in 2000 resulted despite further increases in water and electricity tariffs, which followed higher world market prices of oil. Growth in gas consumption remained unchanged at 5 percent, induced mainly by commercial demand. Consequently, the weighted utilities consumption index increased from 115.2 to 121.4.

The developments in the telecommunications sector were dominated by rising demand for internet and mobile telephone facilities, stimulated by tariff reductions and aggressive promotional campaigns. The number of cellulars more than doubled, following the introduction of prepaid devices in December. In addition, internet connections rose by 25 percent (1999: 35 percent) and fix-lines by 3 percent (1999: 1 percent). As a result, the telecommunications index doubled.

**Table 4 Utilities and telecommunications indicators**

	1998	1999	2000
1. Water consumption (x 1,000 m <sup>3</sup> ) 1)	10,280	10,406	10,929
2. Electricity consumption (x 1,000 KWH)	600,767	614,931	644,348
3. Gas consumption (x 1,000 pounds)	15,633	16,345	17,162
a. Household	6,958	7,215	7,354
b. Commercial	8,675	9,130	9,808
4. Utilities index 2)	112.9	115.2	121.4
5. a. Fix-line connections 3)	36,220	36,557	37,640
b. Cellular connections	5,133	11,300	24,313
c. Internet connections	3,544	4,789	5,967
6. Telecommunications index 4)	164.5	249.2	500.1

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

2) Base: 1996=100.

3) Including fax connections.

4) Index of the number of telephone, cellular, and internet connections. Base: 1996=100.

Source: WEB Aruba N.V.; ELMAR N.V.; Arugas N.V.; Setar; CBA.

*Oil refining and transshipment*

At mid-2000, the construction and revision works at the oil refinery were completed. The capacity was enlarged from 225,000 bpd to 280,000 bpd, which will enable the company to expand its production in the near future.

In 2000, total oil exports went up by 6 percent (see table 5). In contrast, import payments for crude oil decreased by 8 percent. These developments reflect a shrinkage in the oil stock. At the end of 2000, 564 persons were employed at the refinery, i.e., 9 percent more than a year earlier.

**Table 5 Oil refining**

	1998	1999	2000
1. Export of oil (x AFL million)	1,290	2,192	2,331
2. Import of crude oil (x AFL million)	704	2,092	1,922
3. Quantity of oil refined (x 1,000 barrels)	58,388	73,713	83,553
4. Number of employees (at end-December 1)	541	520	564

1) Excluding persons employed with contractors.

Source: Coastal Aruba N.V.

### Price developments

The inflation rate accelerated significantly, following increases in the international prices of oil. These increases pushed up local water and electricity tariffs as well as gasoline prices and were reflected particularly in the categories "housing" and "transport and communication". The annual inflation rate reached 4.0 percent at the end of 2000, 1.7 percentage points higher than in 1999 (see table 6).

The inflation differential with Aruba's major trading partner, the United States, widened by 0.5 percentage point to 0.6 percentage point in 2000. Consequently, the real exchange rate index went up by 0.7 percentage point to 102.0. The inflation differential with the Netherlands expanded further by 1.4 percentage points, because this country managed to contain its inflation at a relatively low level of 2.5 percent.

In Curaçao, prices rose much faster than in Aruba, due to the introduction of additional tax measures in that country aimed at reducing unsustainable budgetary deficits. Thus, the inflation differential with that country turned from +1.9 percentage points to -1.8 percentage points.

**Table 6 Inflation**

Period average

	1998	1999	2000
1. a. Aruba	1.9	2.3	4.0
b. United States	1.6	2.2	3.4
c. Curaçao	1.1	0.4	5.8
d. The Netherlands	2.0	2.2	2.5
2. Real exchange rate index 1)	101.2	101.3	102.0

1) Relative to the U.S.A. Based on CPI period-average. Base: 1995=100.

Source: CBS; IMF; CBS Netherlands Antilles; CBS Netherlands; CBA.

### 3.3 The financial sector

#### 3.3.1 The monetary sector

##### *Monetary developments*

During 2000, monetary growth decelerated markedly, i.e., by 8 percentage points to 2 percent, bringing the total money supply to AFL 1,739 million at the end of 2000. Both the macroeconomic liquidity ratio, defined as the share of money supply in the estimated nominal GDP, and the commercial banks' liquidity ratio (i.e., the liquid assets to total assets) fell by 2 and 5 percentage points to 49 percent and 24 percent, respectively. Even so, the latter ratio was still above the 20 percent supervisory minimum. The free deposits of these banks at the Bank (thus excluding the monetary cash reserve requirement) shrank by AFL 45 million to AFL 27 million, while the distribution of liquidity between the individual banks remained rather uneven.

Narrowly defined money, comprising currency in circulation and demand deposits denominated in Aruban florin and foreign currency, rose by AFL 6 million or one percent in 2000 (1999: 8 percent) because of increased demand deposit holdings denominated in Aruban florin (see table 7).

**Table 7 Causes of changes in the money supply**

In AFL million

	1998	1999	2000
1. Net domestic money creation	18.5	141.8	80.3
a. Net domestic credit	68.2	150.4	112.7
1. Public sector	0.8	21.3	-13.4
2. Private sector	67.4	129.2	126.2
2.1 Loans to enterprises	0.4	33.8	55.5
2.2 Consumer credit	18.7	47.7	21.6
2.3 Housing mortgages	37.6	49.7	50.0
2.4 Other	10.7	-2.0	-0.9
b. Other domestic factors	-49.7	-8.6	-32.4
2. Inflow of foreign funds 1)	159.5	18.5	-40.9
a. Current account (net)	-33.6	-585.0	506.8
b. Capital and financial account (net) 2)	193.1	603.5	-547.7
3. Broad money creation	178.0	160.3	39.4
a. Money	73.9	43.4	6.1
b. Quasi-money	104.2	116.9	33.3
<i>(12-month change in percent)</i>	<i>(13.1)</i>	<i>(10.4)</i>	<i>(2.3)</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.

Quasi-money, i.e., time and savings deposits denominated in Aruban florin and foreign currency, as well as treasury bills in the hands of the public, went up by AFL 33 million or 3 percent (1999: 12 percent), due to larger holdings of all three components.

#### *Domestic money creation*

The increase in the money supply in 2000 was fully the result of domestic factors. Net domestic assets grew by AFL 80 million or 7 percent to AFL 1,208 million in 2000, about half the percentage growth in 1999. Credit rose by AFL 113 million or 8 percent (1999: 12 percent), while non-credit-related balance sheet items declined by AFL 32 million. Loans to enterprises went up by AFL 56 million or 8 percent, compared to AFL 34 million or 5 percent in 1999, mainly because of increased long-term commercial loans. Housing mortgages continued to expand strongly, i.e., by AFL 50 million or 14 percent, compared to 16 percent in 1999. In contrast, growth in consumer credit decelerated by 10 percentage points to 6 percent or AFL 22 million. The government's financial transactions with the banking system contributed with AFL 13 million negatively to the increase in the money supply, following an AFL 21 million expansionary effect in 1999.

#### *Outflow of funds abroad*

International transactions resulted in an AFL 41 million net outflow of funds abroad in 2000, as against an inflow of AFL 19 million in 1999. This outflow occurred despite the government's acquisition of a foreign commercial loan and official development funds from the Netherlands equivalent to almost AFL 90 million. At the end of 2000, net foreign assets of the banking system (excluding revaluation differences of gold and official foreign exchange holdings) stood at AFL 531 million, i.e., 7 percent smaller than at the end of 1999. The Bank's official reserves shrank by AFL 26 million to AFL 387 million, and the net foreign assets at the commercial banks dropped by AFL 15 million to AFL 144 million. Consequently, the share of the Bank's official reserves in the monetary sector's total rose by one percentage point to 73 percent.

### **3.3.2 Nonmonetary financial institutions**

#### *The balance sheet*

In 2000, the aggregated assets of the nonmonetary financial institutions declined sharply by AFL 259 million or 17 percent to AFL 1,292 million (see table 8). The decline was induced largely by an AFL 397 million contraction in the claims of the General Pension Fund Aruba (APFA) on the government as a result of the consensus between these two institutions referred to in paragraph 3.4.

Net foreign assets rose by AFL 77 million or 22 percent to AFL 422 million in 2000, compared to AFL 52 million or 18 percent in 1999. This expansion was mainly brought about by increased foreign investments of life insurance companies. These assets were three times as large as the net foreign assets of the commercial banks.

Pension fund provisions shrank by AFL 291 million or 24 percent to AFL 923 million, due to adjustments in the balance sheet of the APFA following the agreement with the government (see paragraph 3.4). On the other hand, the insurance reserve fund went up by AFL 24 million or

**Table 8 Nonmonetary financial institutions 1)**

End-of-period figures in AFL million

	1998	1999	2000
1. Net foreign assets	292.6	344.7	422.0
2. Domestic claims	1,134.6	1,206.0	869.6
a. Government	595.8	644.9	275.0
b. Private sector	538.9	561.1	594.6
1. Nonfinancial public enterprises	30.1	29.0	34.8
2. Enterprises	75.8	73.9	77.0
3. Individuals	433.0	458.2	482.7
3. Total assets=total liabilities	1,427.3	1,550.7	1,291.6
4. Borrowings and deposits	55.4	50.9	66.1
a. Government	40.5	36.5	36.6
b. Other residents	14.9	14.5	29.5
5. Pension fund provisions	1,156.6	1,213.6	922.5
6. Insurance reserve fund	183.6	209.2	232.8
7. Other items (net)	31.8	76.9	70.1

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

Source: CBA.

11 percent in 2000 to AFL 233 million (1999: 14 percent). Borrowings and deposits rose in 2000 by AFL 15 million or 30 percent to AFL 66 million, in contrast to an 8 percent decline in 1999; its share in the balance sheet total increased by two percentage points to 5 percent.

#### *Housing mortgages*

Housing mortgages granted by the nonmonetary financial institutions expanded by AFL 23 million (6 percent) to AFL 421 million in 2000, equivalent to 51 percent of the domestic market, which totaled AFL 822 million or 23 percent of the estimated nominal GDP (see table 9). The share of the commercial banks went up by a further 2 percentage points to 49 percent. On the other hand, the specialized mortgage banks (including FCCA) lost ground during recent years. Their market share declined steadily from 40 percent in 1998, to 37 percent in 1999, and subsequently to 35 percent in 2000. Pension funds and life insurance companies maintained their relatively small market share of 8 percent and 9 percent, respectively.

**Table 9 Housing mortgages**

End-of-period figures in AFL million

	1998	1999	2000
1. Total	669.5	748.3	821.5
2. Commercial banks	300.8	350.4	400.4
3. Mortgage banks	268.9	276.6	283.3
4. Pension funds	50.3	59.2	62.7
5. Life insurance companies	49.0	61.1	73.3
6. Other 1)	0.6	1.0	1.8

1) Comprising other local financial institutions not included elsewhere.

Source: CBA.

### 3.4 Government finance

#### *Introductory note*

In March 2001, the government and the General Pension Fund Aruba (APFA) reached a consensus on a framework for future analysis of their financial relations. As a result of the application of new actuarial assumptions when calculating the accrued liability of the APFA, existing unfunded accrued liabilities of, as well as receivables from the government related to premiums and dearness allowances were eliminated. According to a provisional unaudited estimate, the consensus led to a substantial downward adjustment of the APFA's claim on the government, i.e., from AFL 518 million to AFL 121 million at the end of 2000. No adjusted data for the preceding years are yet available. Therefore, it is not possible to provide realistic data on the changes in the so-called unmet financing requirements and in the government debt position. Consequently, the analysis of the government's financial operations is presented on a cash basis only.

#### *Revenue and grants*

In 2000, total revenue and grants amounted to AFL 745 million, i.e., AFL 43 million or 6 percent more than in 1999 (see table 10). According to the Tax Collector's Office, tax revenue (including foreign exchange commission) increased by merely AFL 16 million or 3 percent to AFL 625 million, equivalent to 18 percent of estimated nominal GDP, as against an upsurge of AFL 73 million or 14 percent in 1999. The latter increase resulted from intensified collection efforts and a one-off partial tax arrears waiver program. The increase in tax revenue in 2000 was brought about mainly by a AFL 15 million or 7 percent rise in tax receipts on commodities (1999: 6 percent), caused mainly by higher receipts from import duties. Revenue from income taxes remained virtually unchanged at the high 1999 level because of the introduction of a temporary special tariff on the distribution of accumulated profits to shareholders during the last quarter of 2000. This special tariff brought in an additional AFL 18 million.

Nontax revenue grew by AFL 12 million or 13 percent to AFL 103 million in 2000. This increase was attributed almost completely to an AFL 14 million refund from the APFA as part of the consensus mentioned earlier. In addition, AFL 17 million in grants were received from the Dutch

**Table 10 Government revenue and grants 1)**

In AFL million

	1998	1999	2000
Revenue and grants	646.4	701.5	744.7
a. Tax revenue from	535.4	608.6	624.5
- Income and profit	251.6	309.0	309.6
- Commodities	187.7	198.0	212.6
- Property	32.3	35.2	34.3
- Services	43.7	44.8	44.4
- Foreign exchange commission	20.2	21.6	23.6
b. Nontax revenue 2)	95.3	91.5	103.4
c. Grants	15.7	1.4	16.9

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.

government in favor of the Fondo Desaroyo Aruba (FDA), the new vehicle for development cooperation between the governments of the Netherlands and Aruba.

### *Expenditures*

As usual, the Bank estimated the government's total spending on a cash basis as a residual of registered revenue (including grants) and net financing. According to these estimates, expenditures rose by AFL 46 million or 6 percent to AFL 772 million in 2000 or 22 percent of estimated nominal GDP, compared to AFL 61 million or 9 percent in 1999 (see table 11). Provisional information from the Department of Finance indicates that the main contributory factors were increased personnel-related outlays and an AFL 37 million transfer to the Netherlands Antilles originating from the separation of funds associated with the Status Aparte of Aruba in 1986.

Personnel-related outlays expanded by AFL 38 million (11 percent), twice the increase recorded in 1999. These outlays amounted to AFL 375 million and accounted for 49 percent of total expenditures in 2000. The increase in transfers was brought about mainly by the aforementioned settlement with the Netherlands Antilles. As in previous years, AFL 7 million was transferred to the Solidarity Fund.

In contrast, spending on goods and services contracted by 2 percent, despite an AFL 8 million expansion in medical expenses in favor of the lower-income group (in the framework of the so-called PPK program). Investment-related spending also declined, in part because no development funds were utilized, due partly to organizational problems related to the legal establishment of the FDA.

**Table 11 Government expenditures 1)**

In AFL million

	1998	1999	2000
Expenditures and items n.i.e.	664.2	725.5	771.8
a. Wages	213.1	222.3	246.3
b. Employer's contributions	29.0	29.0	38.9
c. Wage subsidies	76.8	85.6	89.7
d. Goods & services	177.1	197.4	192.7
Of which PPK	43.4	53.8	62.0
e. Interest	29.0	33.4	30.2
f. Subsidies	21.2	28.2	33.1
g. Transfers	45.2	63.7	92.6
h. Investment	47.9	31.4	28.3
Of which Development Fund	16.1	6.6	0.0
i. Items n.i.e. 2)	24.9	34.4	20.0

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

2) Residual item, including errors and omissions.

### *Financing*

In 2000, the financial operations of the government resulted in an AFL 27 million deficit on a cash basis, i.e., AFL 3 million higher than in 1999 (see table 12). Following the consensus between the government and the APFA, the outstanding unmet financing requirements were reduced by approximately AFL 117 million to AFL 41 million at the end of 2000. A comparative analysis of the changes in these requirements during recent years is not possible because no adjusted data for the preceding years are yet available. Consequently, for the time being, the financial deficit including the unmet financing requirements cannot be calculated realistically.

In April 2000, AFL 30 million bonds were issued to repay maturing papers which were held mainly by local institutional investors. In addition, a foreign commercial loan amounting to US\$ 40 million (AFL 72 million) was attracted to cover the financial deficit. The proceeds also were used to settle the transfer with the Netherlands Antilles related to the separation of funds, and to finance AFL 22 million in bonds that matured in September 2000 and other short-term debts. Repayments on domestic and foreign loans totaled AFL 66 million, compared to AFL 24 million in 1999.

Moreover, the government's net position with the monetary sector improved. Its liabilities decreased by AFL 10 million to AFL 66 million by the end of 2000, while its deposits rose by AFL 3 million to AFL 67 million. These deposits are earmarked largely for certain contingent liabilities or held in favor of the FDA. No new deposits were made to the Hotel Guarantee Fund, which recorded a balance of AFL 34 million.

**Table 12 Financing transactions 1)**

In AFL million

	1998	1999	2000
1. Financial deficit (-) = Net financing	-17.8	-24.1	-27.1
2. Net foreign capital	39.7	13.3	60.8
a. Loans received	55.6	26.7	73.4
b. Repayments on loans	-15.9	-13.4	-12.6
3. Net domestic capital 2)	-22.7	-10.5	-20.3
a. Loans received	19.9	0.0	33.5
b. Repayments on loans	-42.6	-10.5	-53.8
4. Net recourse to the monetary system (-)	-0.8	-21.3	13.4
-----			
5. Memorandum item:			
a. Unmet financing requirements 3)	138.6	158.2	41.3

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.

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

### *Government debt*

As a result of the consensus between the government and the APFA, registered total debt vis-à-vis this institution fell from an estimated AFL 518 million to AFL 121 million by the end of 2000. Consequently, the domestic debt shrank to AFL 407 million, of which AFL 165 million is negotiable debt (see table 13).

On the other hand, outstanding foreign debt increased by AFL 45 million to AFL 376 million due mainly to a doubling of commercial borrowings denominated in US dollars. The effect of the increase in these loans on the outstanding foreign debt was mitigated by repayments to the Netherlands and by the appreciation of the Aruban florin vis-à-vis the Dutch guilder and the euro.

As a result, total debt declined markedly, i.e., from AFL 1,127 million in 1999 to AFL 783 million at the end of 2000. The ratio of this debt to the estimated nominal GDP fell from 34 percent to 22 percent. Outstanding guarantees decreased by a slight AFL 6 million to AFL 277 million in 2000, due to the depreciation of the Swiss franc vis-à-vis the Aruban florin.

**Table 13 Outstanding government debt 1)**

End-of-period figures in AFL million

	1998	1999	2000
1. Total debt	1,111.8	1,126.9	782.8
2. Domestic debt	758.0	796.2	407.1
a. Negotiable	186.8	189.2	165.1
1. Bonds	154.8	149.2	127.7
2. Treasury bills & cash certificates	32.0	40.0	37.4
b. Nonnegotiable	571.2	607.1	242.0
1. General Pension Fund Aruba (APFA)	423.9	488.6	98.3
2. Social Security Bank	31.5	30.4	29.2
3. Suppliers' credit	32.0	14.0	38.1
4. Private loans	62.0	62.0	60.8
5. Other	21.8	12.1	15.6
3. Foreign debt 2)	353.8	330.6	375.7
a. The Netherlands	278.2	231.0	204.4
1. Development cooperation	273.7	227.6	201.0
2. Commercial loans	4.6	3.4	3.4
b. EIB	19.5	16.5	14.4
c. U.S.A.	45.1	72.1	144.0
d. Other	11.0	11.0	12.8
4. Memorandum item 2)			
a. Outstanding government guarantees	318.4	283.2	277.1
5. Key indicators			
a. Foreign debt in % of current exports (excluding oil and free-zone sectors)	20.1	16.7	18.3
b. Total debt in % of nominal GDP	35.9	34.1	22.2

1) Preliminary figures, excluding government guarantees.

2) At year-end exchange rates.

Source: Department of Finance; CBA.

### 3.5 Balance of payments

#### *Overall outcome*

In 2000, the balance of payments recorded an AFL 41 million deficit, compared to an AFL 19 million surplus in 1999 (see table 14). This outcome, combined with revaluation differences of gold and official foreign exchange holdings, resulted in an AFL 34 million or 6 percent decrease in the net foreign assets of the banking sector to AFL 559 million at the end of 2000. However, because import payments (excluding oil) also contracted by the same percentage, the 12-month import coverage ratio fell only marginally to 5.7 months in December 2000, thus remaining comfortably within the 5 to 6 month target range.

On a gross basis, the oil sector contributed AFL 40 million to the increase in the net foreign assets of the monetary sector. However, as the activities in the free zone crumbled further, this sector realized an AFL 8 million deficit in 2000, against an AFL 49 million surplus in 1999. In addition, the transactions of the rest of the economy again resulted in a sizeable outflow of funds of AFL 74 million, compared to AFL 72 million in 1999.

#### *Current account*

Following six consecutive years of deficits, the current account recorded a surplus in 2000. This result was primarily brought about by transactions of the oil sector. Its trade account turned around from an AFL 619 million deficit in 1999 to an AFL 472 million surplus in 2000, as export receipts from refined oil products and goods procured in ports more than doubled, due to an increased refinery capacity and rising world market prices. The latter prices also induced higher import payments for crude oil and other goods, which went up by 49 percent.

In addition, the AFL 15 million current account deficit of the rest of the economy recorded in 1999 turned into an AFL 42 million surplus in 2000, or one percent of GDP. The surplus on the services account rose by AFL 141 million to AFL 1,089 million, due partly to an AFL 65 million or 5 percent increase in registered net tourism receipts. Consequently, the share of gross tourism revenue in total current account receipts (excluding oil and free-zone sectors) increased by one percentage point to 73 percent. Also, the deficit on the income account narrowed by AFL 47 million to AFL 11 million, because of lower dividend payments to foreign shareholders and higher interest earnings from foreign investments. These factors more than compensated for the widening deficits on the merchandise and current transfers accounts. The latter included the AFL 37 million transfer by the government to the Netherlands Antilles referred to earlier.

#### *Capital and financial account*

In 2000, the capital and financial account recorded an AFL 560 million deficit, in contrast to an AFL 618 million surplus in 1999. This resulted from a significant drop in the inter-company liabilities of the oil sector, the contra-entry of its current account surplus. The decline in liabilities is recorded as outgoing direct investments.

**Table 14 Balance of payments by sectors 1)**

In AFL million

	1998	1999	2000
1. Current account (net)	-33.6	-585.0	506.8
a. Oil sector	-9.9	-619.4	472.4
b. Free zone	-9.1	49.0	-8.0
c. Rest of economy	-14.6	-14.6	42.4
1. Goods	-881.2	-936.5	-978.6
2. Services (of which tourism)	867.0 (1,108.4)	947.5 (1,193.8)	1,088.9 (1,258.9)
3. Income	0.7	-57.3	-10.5
4. Current transfers	-1.1	31.7	-57.4
2. Capital and financial account (net)	192.0	618.4	-559.8
a. Oil sector	107.4	660.4	-432.8
b. Free zone	21.9	0.0	0.0
c. Rest of economy	62.7	-42.0	-127.0
1. Capital account transactions	9.3	0.0	17.8
2. Direct investment	38.7	54.5	3.4
3. Portfolio investment	-84.1	-85.1	-71.8
4. Other investment	98.8	-11.4	-76.4
4.1 Loans	16.4	52.2	-30.3
4.2 Other financial transactions	82.4	-63.6	-46.1
3. Items not yet classified 1)	1.1	-14.9	12.1
4. Overall balance (1+2+3)	159.5	18.5	-40.9
5. Banking transactions 2)	-67.7	-14.0	14.5
6. Increase (-) in official reserves 3)	-91.8	-4.5	26.4
-----			
Memorandum Items:			
7. a. Official reserves 4)	437.0	434.6	414.9
b. In months of merchandise imports 5)			
1. End-of-period	2.9	3.8	3.8
2. Twelve-month average	3.2	4.2	4.1
8. a. Total reserves of the monetary sector 4)	581.9	593.6	559.2
b. In months of merchandise imports 5)			
1. End-of-period	3.9	5.2	5.2
2. Twelve-month average	4.1	5.8	5.7

1) Including errors and omissions.

2) Minus (-) sign denotes an increase in net foreign assets of the commercial banks.

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

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

5) Excluding the oil sector.

Source: CBA.

Moreover, the deficit of the rest of the economy widened from AFL 42 million in 1999 to AFL 127 million in 2000. The deterioration occurred despite an AFL 17 million contribution of the Netherlands to the Fondo Desaroyo Aruba, and a net foreign borrowing of the government amounting to AFL 61 million. Net direct investment inflows were AFL 51 million smaller than in 1999, due to fewer receipts from property sales, and less capital imports following the completion of the Radisson and Divi Phoenix hotels. Also, investments in foreign securities declined, while a smaller increase in external account balances of residents was recorded. On the other hand, more loan repayments were made by the private sector.



### **Century Plant**

The spectacular flourish of the Century Plant (*Agave vivipara*), or in Papiamentu "Kukwisa", is a swan song. It has taken 10 to 30 years to nourish it, and it ends the life of the mother plant. Surrounded by the Prickly Pear (*Opuntia wentiana*), or "Tuna", new life buds as the young shoots come out.

## **4 Supervision of financial institutions**

### **4.1 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 4.5 contains a list of financial institutions supervised by the Bank as of January 1, 2001.

Prudential supervision, to the extent possible, aims at preventing financial institutions from taking risks that could excessively harm the interests of deposit and/or policyholders and/or endanger the stability of the financial system. In view thereof, continuous off-site surveillance and periodic, risk-oriented on-site examinations are conducted. Furthermore, regular bilateral meetings are held with the institutions concerned as well as with the representative organizations to discuss supervisory matters.

#### **4.1.1 Off-site surveillance**

Depending on the type of financial institution, detailed reports are submitted to the Bank on a weekly, monthly, quarterly and/or an annual basis. Furthermore, each institution is required yearly 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 senior management of the supervised institution.

#### **4.1.2 On-site examinations**

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

During 2000, three commercial banks, two life insurance companies, and three 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.

## 4.2 Legislative developments

### 4.2.1 Banking sector

Section 1, paragraph 2, of the State Ordinance on the supervision of the credit system (SOSCS) stipulates that by state decree, containing general administrative measures, it may be ordered that enterprises or institutions fitting the description of the concept of credit institution and forming part of a particular group of enterprises or institutions shall not be regarded as credit institutions within the meaning of this ordinance, if the nature of their business so justifies.

In connection herewith, a State Decree on the implementation of section 1, paragraph 2, of the SOSCS has been enacted (AB 2000 No 29). This decree stipulates that, under certain conditions, group finance companies are not considered credit institutions and, thus, are not subject to prudential supervision. These conditions are that more than 95 percent of the funds (repayable on demand or subject to notice being given) attracted from third parties are invested within the group, while the parent company of which the group finance company forms part, must issue an irrevocable guarantee or another for the Bank acceptable security, with respect to the funds attracted by the group finance company. No guarantee is required insofar as money is attracted from credit institutions that fall under prudential supervision.

In May 2000, after having consulted with the Aruban Bankers' Association, the final version of the Bank's policy paper "sound corporate governance practices for credit institutions" was released. Basic elements of such practices are, among other things: establishing clear strategic objectives and corporate values, setting and enforcing clear lines of responsibility and accountability, adequate risk management, comprehensive internal controls and sound disclosure practices.

### 4.2.2 Insurance sector

On August 29, 2000, the State Ordinance on the supervision of the insurance business (SOSIB) (AB 2000 No 82) was approved by Parliament. This ordinance is largely in compliance with the Core Principles for Insurance Supervision recently approved by the International Association of Insurance Supervisors (IAIS). The implementation law was approved on May 9, 2001. In anticipation thereof, the Bank already has sent all insurance companies operating in or from Aruba a license application form to be filled out and sent to the Bank, enabling it to start processing and reviewing the applications.

Insurance companies operating in or from Aruba need to obtain a license from the Bank before they can conduct their activities. The already existing companies will be granted a transitional period of one year to comply with all stipulations of this ordinance. Some of the main requirements are that the company must be solvent, the shareholders and members of management and supervisory board fit and proper, and the administrative organization and internal controls satisfactory.

## 4.3 Major issues and developments

### 4.3.1 Core Principles for Effective Banking Supervision

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

Also the Core Principles Methodology was developed, endorsed in 1999, consisting of a detailed checklist of the various aspects to be assessed. The Bank has applied this methodology and concluded that although Aruba's legislative and supervisory framework for banking supervision is largely in compliance with these principles, some matters still need to be addressed. Shortcomings include the absence of published annual accounts, the possibility of imposing monetary penalties against a noncomplying bank and/or its senior officers, and an explicit provision in the ordinance that requires a credit institution to seek the Bank's prior approval for the appointment of its external auditor. In the coming months, the Bank also will finalize a so-called module-I IMF-assisted self-assessment for the financial offshore sector. Subsequently, an action plan to address the identified shortcomings will be formulated (see also section 4.3.3 hereafter).

### 4.3.2 Insurance Core Principles

At the annual general meeting of the IAIS held in October 2000, the Insurance Core Principles were approved. These comprise 17 essential principles needed for an effective supervisory system. They are largely similar to the Core Principles for Effective Banking Supervision, and relate to the following areas: (1) organization of an insurance supervisor, (2) licensing and changes in control, (3) corporate governance, (4) internal controls, (5) prudential rules, (6) market conduct, (7) monitoring and on-site inspection, (8) sanctions, (9) cross-border business operations, and (10) coordination, cooperation, and confidentiality.

IAIS members, including Aruba, were asked to carry out a self-assessment to determine whether the principles are being observed. For this purpose, the IAIS has developed the Insurance Core Principles Methodology, which is basically a checklist. The Bank performed the self-assessment during the first quarter of 2001 and found that, although its legislative and supervisory framework for insurance supervision is largely in compliance with the Core Principles, some matters still need addressing. For example, the SOSIB does not provide for the possibility of imposing monetary penalties against a noncomplying company and/or its officers. The Bank will prepare an action plan in close consultation with the IMF for this sector.

### 4.3.3 Financial Stability Forum (FSF)

In May 2000, the Financial Stability Forum (FSF), a G-10 initiative, issued a press release to announce the classification of offshore financial centers into three categories on the basis of its perception of the quality of their anti-money-laundering and supervisory framework. Most Caribbean offshore centers, including Aruba, were classified in the lowest category. This has led to much criticism, mainly because the classification is based on perception with no objective independent assessment to substantiate it. Aruba also brought forward that decisive progress has been made in the implementation of comprehensive supervisory and anti-money-laundering laws and regulations, especially with respect to the banking sector. The FSF acknowledged the criticism and, subsequently, requested that the IMF assesses the quality of the supervisory and anti-money-laundering framework in these centers against the prevailing recognized international supervisory and anti-money-laundering standards.

In this context, an IMF mission visited Aruba in December 2000 and in March 2001 to assist the authorities in preparing a so-called module I self-assessment of the relevant offshore financial sectors (banking, insurance, and company service providers) and its anti-money-laundering laws and regulations. The preliminary results are encouraging, but some work still remains. In this respect, the mission emphasized the importance of the implementation of an adequate Companies Services Provider law. According to the mission, the current draft State Ordinance on the supervision of trust companies does not yet conform to best international standards. In its opinion, the current draft is based too much on the concept of self-regulation and should be brought on an equal footing with the State Ordinances on the supervision of the credit system and the insurance business.

The preliminary findings also show that the current banking and insurance ordinances need further strengthening in some areas for full compliance with the core principles. Depending on the availability of technical assistance from the IMF, the Bank expects to finalize the self-assessment exercise by the end of September 2001. Subsequently, an external module II assessment will be conducted by the Fund, followed by a full scope module III assessment. This exercise is considered valuable to strengthen Aruba's supervisory framework as well as improve its financial reputation, preconditions to its emergence as a high quality financial center.

### 4.3.4 Regional and international forums

The Bank attended the biannual International Conference of Banking Supervisors in September 2000 in Basel, Switzerland. The main topic of this conference was the proposed changes to the 1988 Basel Capital Accord, which essentially provide only one option for measuring the appropriate capital. However, the best way to measure, manage, and mitigate risks may differ from bank to bank. Therefore, a spectrum of approaches is now proposed, from simple to advanced methodologies for measuring both credit and operational risk. It provides a flexible structure in which banks, subject to supervisory review, may adopt approaches that best fit their level of sophistication and risk profile. The new framework is intended to align regulatory capital requirements more closely with underlying risks and to provide banks and their supervisors with

several options for assessing capital adequacy. Although its focus is primarily on internationally active banks, the underlying principles are intended for application to banks of varying levels of complexity and sophistication. The Basel Committee on Banking Supervision intends to finalize the new Capital Accord by the end of 2001.

The Bank also has attended the yearly meetings of the Association of Supervisors of the Americas and the Caribbean Group of Banking Supervisors held, respectively, in Puerto Rico in May 2000 and in Curaçao, Netherlands Antilles, in April 2000. Some of the topics discussed during these meetings were the challenges supervisors face in view of the increasing globalization and the rapid technological developments (e-banking) in the financial sector, the new Capital Accord, financial stability issues, and the threats to and challenges for the offshore centers in the Caribbean region.

From April 17-20, 2000, the Bank hosted a regional risk management seminar organized by the Financial Stability Institute (FSI). This institute was established jointly by the Bank for International Settlements and the Basel Committee on Banking Supervision to assist supervisors in improving and strengthening their financial systems. The FSI focuses on developing a common, in-depth understanding among supervisors of the Basel Core Principles for Effective Banking Supervision and identifying supervisory measures that facilitate the successful implementation and enforcement of these principles across countries. Main topics discussed during the seminar were the new Basel Capital Accord and the calculation of market risk for more complex financial instruments (e.g., options, swaps, and futures).

#### **4.3.5 Integrity of the financial system**

Maintaining the integrity of the financial system is a crucial aspect of prudential supervision. The State Ordinances on the obligation to report unusual transactions and on the identification for rendering financial services, together with the Bank's anti-money-laundering directives, constitute the legal and regulatory anti-money-laundering requirements to which the banks should adhere.

The Aruban Financial Intelligence Unit (the so-called "Meldpunt Ongebruikelijke Transacties" or MOT), established in early 1996 as a separate institution within the Ministry of Finance, is entrusted with the execution of the State Ordinances on the reporting of unusual transactions and on the identification for rendering financial services. The Bank also has a responsibility with respect to the latter ordinance, as far as it concerns the financial institutions under its supervision. To avoid overlapping, it was agreed with the MOT that, the Bank primarily will monitor compliance with this ordinance at these institutions during its on-site examinations.

Aruba was commended in the 1999 mutual examination report prepared by the Financial Action Task Force on Money-Laundering for its proactive approach in implementing anti-money-laundering laws and regulations. At the same time, however, some work still needs to be done. In particular, other vulnerable sectors (e.g., company service providers, free zone, and casinos) need to be brought under effective supervision and be subject to the same anti-money-laundering laws applied to banks.

#### 4.4 Sectoral financial developments

In this paragraph the financial developments in the different sectors under the Bank's supervision are discussed briefly. An extensive overview is presented in paragraph 2.5 of the Bank's bulletin of the fourth quarter of 2000.

##### 4.4.1 Banking sector

As shown in table 15, the number of banking institutions supervised by the Bank remained unchanged in the year 2000.

**Table 15** Number of supervised institutions within the banking sector

End-of-period figures

	1998	1999	2000
1. Commercial banks	6	6	6
2. Offshore banks	2	2	2
3. Bank-like institutions	5	4	4
a. Mortgage banks	2	2	2
b. Finance companies	1	1	1
c. Other financial institutions	2	1	1
4. Credit unions	2	2	2
Total	15	14	14

##### *Commercial banks*

Six commercial banks currently are operating in Aruba. Two of these banks are branches of banks established in the Netherlands and the Netherlands Antilles, and one is a subsidiary of a bank established in the latter. 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 went up by AFL 130 million or 6 percent to AFL 2,308 million at the end of 2000. Loans granted grew by AFL 183 million or 13 percent to AFL 1,575 million, compared to a 10 percent increase in 1999. On the liabilities side, deposits expanded by AFL 98 million or 5 percent in 2000. The loan-to-deposit ratio rose from 73 to 79 percent, but remained slightly below the prudential maximum of 80 percent. Capital and reserves, including the unallocated loan loss reserves, increased by AFL 26 million or 17 percent. As a result, the banks' aggregated risk-weighted capital asset ratio went up from 8.8 percent at the end of 1999 to 9.4 percent at the end of 2000. Mainly due to the sharp rise in the loans granted by the banks, and lesser additions to the allocated loan loss provisions, their return on equity increased by 12 percentage points to 0.46, while their liquidity ratio decreased by 5 percentage points to 24 percent, still above the minimum prudential liquidity requirement of 20 percent (see also table 16).

**Table 16 Indicators of commercial banks' soundness**

End-of-period figures

	1998	1999	2000
1. Vulnerability indicators		<i>(in percent)</i>	
a. Foreign assets/foreign liabilities	142.4	146.4	136.6
		<i>(in percentage of total assets)</i>	
b. Investment in domestic securities	3.5	3.4	2.4
c. Investment in foreign securities	1.1	1.5	1.5
2. Solvency/profitability indicators		<i>(in percent)</i>	
a. Return on equity	33.3	34.3	46.3
b. Return on assets	1.6	1.5	2.3
c. Capital adequacy ratio	10.6	8.8	9.4
3. Provisions for loan losses		<i>(in percentage of total loans)</i>	
a. Allocated	5.4	6.1	4.0
b. Unallocated	2.3	2.2	2.4
4. Liquidity indicators		<i>(in percent)</i>	
a. Loan-to-deposit ratio	71.5	73.0	78.5
b. Prudential liquidity ratio	29.3	29.6	24.2

The products and services offered by the banks are mainly in the traditional retail area. Interest remains the predominant source of income for the banks. Also, as a result of the oligopolistic market structure of the domestic banking sector as well as the absence of economies of scale, interest on loans is high compared to that of industrialized countries. With the exception of some weak spots, overall profitability of the domestic banking sector is quite satisfactory; the average interest margin on loans is 5 to 6 percent. The banks have taken steps to rationalize their internal processes further and to improve service to their clients. More sophisticated electronic payment methods (debit card and point of sales) were introduced, while the number of automated teller machines has increased rapidly in the past few years to 58. Internet banking is still in the early stages of development. Up to now, the banks' web sites are more informative than transactional.

Recently, the members of the Aruban Bankers' Association, in consultation with the Bank, adopted a code of conduct on the disclosure of the costs and terms of consumer credit. This code aims to provide the consumer with relevant information (including the effective annual interest percentage) in a clear and conspicuous manner before entering into a loan agreement, and to create a level playing field among the banks in this area.

#### *Offshore banks*

Aruba's offshore banking sector is very small by international standards. At the end of 2000, only two U.S.-based offshore banks were registered here. These banks, which also fall under consolidated supervision of the U.S. supervisory authorities, had a balance sheet total of AFL 2,121 million at the end of 2000. After a 10 percent decrease in 1999, due mainly to a decline in investments and deposits, the balance sheet total rebounded to its 1998 level. The offshore banks' aggregated risk-weighted capital asset ratio increased slightly from 10.6 percent at the end of 1999 to 11 percent at the end of 2000.

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

#### *Bank-like institutions*

Important institutions in this subsector are Ohra Hypotheekbank N.V., Fundacion Cas pa Comunidad Arubano (FCCA), Aruban Investment Bank N.V., and Island Finance Aruba N.V. These 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.

The bank-like institutions had a combined loan portfolio of approximately AFL 431 million at the end of 2000, equivalent to 27 percent of that of the commercial banks. The former figure represents an increase of AFL 39 million or 10 percent compared to 1999. On the liability side, commercial borrowings increased by AFL 44 million. Capital and reserves amounted to AFL 224 million, 8 percent more than at the end of 1999. The aggregated risk-weighted capital asset ratio decreased from 65.5 percent to 61.3 percent, mainly as a result of the increase in asset holdings with a higher risk weight, compared to 1999.

#### **4.4.2 Institutional investors' sector**

At the end of 2000, nine life insurance companies and the same number of company 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 entities.

As shown in table 17, the number of life insurance companies supervised by the Bank in 2000 decreased by one, due to the transfer of the portfolio of OHRA Levensverzekeringen N.V., Aruba Branch to Ennia Caribe Leven N.V., Aruba Branch.

**Table 17** Number of supervised institutions within the institutional investors' sector

End-of-period figures

	1998	1999	2000
Life insurance companies	10	10	9
Company pension funds	9	9	9
Total	19	19	18

*Life insurance companies*

The life insurance companies have expanded their activities in recent years. At the end of 1999, their aggregated balance sheet total amounted to AFL 322 million, i.e., a 10 percent increase compared to 1998. Total investments rose by AFL 18 million to AFL 269 million, including AFL 73 million or 27 percent foreign investments. On the liability side, technical provisions increased by 8 percent to AFL 206 million. Capital and reserves went up by AFL 13 million or 37 percent. The liquidity ratio of the life insurance companies rose from 0.17 to 0.20, while both their return on investment and their solvency ratio decreased slightly by one percentage point (see table 18).

**Table 18** Financial ratios of the life insurance companies

End-of-period figures

	1997	1998	1999
1. Liquidity ratio (Current assets to technical provisions)	0.17	0.17	0.20
2. Return on investment (Investment income to average invested assets)	0.08	0.08	0.07
3. Solvency ratio (Investments to technical provisions)	1.28	1.32	1.31

*Company pension funds*

The balance sheet total of the company pension funds amounted to AFL 196 million in 1999. Total investments rose by AFL 8 million or 5 percent to AFL 187 million, of which AFL 141 million or 75 percent consists of foreign investments. On the liability side, technical provisions decreased slightly by 2 percent to AFL 180 million compared to 1998. As a result, capital and reserves increased significantly in 1999.

As shown in table 19, the liquidity ratio of the company pension funds went up slightly to 0.05, while their return on investment and coverage ratio decreased slightly by one percent.

**Table 19 Financial ratios of the company pension funds**

End-of-period figures

	1997	1998	1999
1. Liquidity ratio (Current assets to technical provisions)	0.04	0.04	0.05
2. Return on investment (Investment income to average invested assets )	0.11	0.12	0.11
3. Coverage ratio (Investments & cash minus volatility cushion 1) to technical provisions )	1.26	1.19	1.18

1) The volatility cushion serves as a buffer to absorb unforeseen losses.

## 4.5 Financial institutions under the supervision of the Bank as of January 1, 2001

### 4.5.1 Banking sector <sup>1)</sup>

#### 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

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

**Finance companies**

Island Finance Aruba N.V.

**Other financial institutions**

Aruban Investment Bank N.V.

**4.5.2 Institutional investors' sector**

**Life insurance companies** <sup>2)</sup>

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.

Guardian Life of the Caribbean Limited, Aruba Branch

Nationale-Nederlanden Levensverzekering Maatschappij N.V., Aruba Branch

The National Life Assurance Company of Canada, Local Agency

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

Lago Annuity Foundation

Stichting Bedrijfspensioenfonds Aruba

Stichting Pensioenfonds Havenwerkers Aruba

Stichting Pensioenfonds Martijn Trading Company N.V.

Stichting Pensioenfonds META Bedrijven Aruba

Stichting Pensioenfonds Tourist Sector Aruba

Stichting Pensioenfonds 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

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

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



### **Boca Prins**

The perpetual dash of the waves echoes in the "walls" of this limestone rock plateau. Surrounded by dunes of fine coral sand and overgrown with trees of Sea Grape, the location is idyllic.

# 5 Financial Statements

**Balance sheet as of December 31, 2000, after profit distribution**

In thousands of Aruban florin

	<b>2000</b>	<b>1999</b>
<b>Assets</b>		
Gold	40,991	40,991
Foreign currency	376,182	393,744
Receivables	12,437	12,997
Premises	4,068	4,473
Other fixed assets	1,716	1,916
Printing costs bank notes	178	353
	<u>435,572</u>	<u>454,474</u>
<b>Liabilities</b>		
Bank notes issued	137,105	133,336
Liabilities to residents	210,809	250,334
Liabilities to nonresidents	2,318	110
Money in custody	1,865	1,811
Payables and accrued expenses	2,858	2,932
Revaluation account	28,481	21,972
General reserve	29,266	27,509
Reserve for new premises	12,870	6,470
Capital	10,000	10,000
	<u>435,572</u>	<u>454,474</u>

**Profit and loss account for the year 2000**

In thousands of Aruban florin

	<b>2000</b>	<b>1999</b>
Net investment revenues	18,452	9,913
Net revenues foreign exchange	2,753	1,571
Net revenue coin sales	722	945
Other income	239	295
Total income	<u>22,166</u>	<u>12,724</u>
Cost of printing bank notes	175	298
Personnel expenses	6,317	6,061
Operating expenses	1,648	1,562
Depreciation	869	750
Total expenses	<u>9,009</u>	<u>8,671</u>
<b>Profit</b>	<u><u>13,157</u></u>	<u><u>4,053</u></u>
<b>Profit distribution</b>		
Transfer to government	5,000	3,000
General reserve	1,757	1,053
Reserve for new premises	6,400	-

## Explanatory notes to the balance sheet and the profit and loss account

### 1 General

Pursuant to article 31, paragraph 1, of the Central Bank Ordinance, the President and Executive Directors, 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 2000.

#### 2.2 Accounting policies

##### *Gold*

The valuation up to the year in review was determined once every three years at the lowest yearly average market price of gold, converted into florins in the three calendar years preceding the date of valuation, less 30 percent. Since December 31, 1998, gold has been valued at AFL 368.58 (previously: AFL 450.74) per fine troy ounce. Changes in the valuation of gold are included in the revaluation account.

##### *Foreign currency*

Comprises investments through 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 denominated in US dollars. Investments through asset managers are recorded at market value. Current account, time deposits, and bank notes are recorded at face value. All foreign currency is converted into Aruban florin at exchange rates prevailing on the balance sheet date.

##### *Premises*

Comprise the Bank's office building at Havenstraat 2. After a renovation in 1995 and 1996, the value of the Bank's office building was re-assessed. The rebuilding is depreciated as of 1997 for a period of 20 years. The President's residence, acquired in 1990, was sold in 2000.

*Other fixed 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*

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 Aruban florin at the rate of exchange prevailing at the balance sheet date.

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

**3 Notes to the balance sheet****3.1 Gold**

On the balance sheet date, the Bank's holding of gold deposits was 111.216 fine troy ounces.

**3.2 Foreign currency**

Comprises monies held with foreign credit institutions as time deposits or at call, and investments through 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. Foreign currency is predominantly denominated in US dollars, and the remainder in euros and Netherlands Antillean guilders.

### 3.3 Receivables

Include mainly accrued interests from monies held with foreign credit institutions and monies invested in foreign papers and accounts, mortgage loans and advances to personnel, various other claims, and prepaid expenses.

### 3.4 Bank notes issued

Issued pursuant to article 7, paragraph 1, of the Central Bank Ordinance.

Denomination	12-31-2000	12-31-1999
	(Value in AFL)	
AFL 5.00	1,259,985	1,264,840
AFL 10.00	4,946,040	4,799,620
AFL 25.00	11,295,950	11,159,250
AFL 50.00	9,201,550	8,862,850
AFL 100.00	101,189,200	96,896,900
AFL 500.00	9,212,500	10,353,000
Total	137,105,225	133,336,460

### 3.5 Liabilities to residents

This item comprises:

	12-31-2000	12-31-1999
	(x AFL 1,000)	
Government	40,281	49,296
Development fund	22,555	9,349
Bank:		
- current accounts	25,460	42,759
- cash reserve	105,651	104,983
- time deposits	12,875	35,364
Other	3,987	8,583
Total	210,809	250,334

Current accounts of the commercial banks are held primarily to meet clearing obligations. The 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.

### 3.6 Nonresident balances

Comprise florin accounts of nonresident banks and other financial institutions.

### 3.7 Money in custody

Consists of monies confiscated by official authorities.

### 3.8 Revaluation account

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

### 3.9 Capital

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

## 4 Notes to the profit and loss account

### 4.1 Net investment revenues

	2000	1999
	(x AFL 1,000)	
Revenues	25,487	16,829
Interest expenses	7,035	6,916
Net investment revenues	18,452	9,913

### 4.2 Personnel expenses

Include salaries, social security, and various personnel-related expenses. At the balance sheet date, the Bank employed 54 persons full-time compared to 53 at the end of 1999.

### 4.3 Operating expenses

Consist mainly of expenses on utilities, rent, communications, maintenance, office supplies, courses, seminars, meetings, external auditors, and other fees.

#### **4.4 Profit distribution**

In accordance with articles 4 and 5 of the Central Bank Ordinance, the Supervisory Board has decided, with the approval of the Minister of Finance, to add AFL 1,757,000 to the Bank's General Reserve and AFL 6,400,000 to the Reserve for new premises. The remaining profit amounting to AFL 5,000,000 has been transferred to the Treasury.

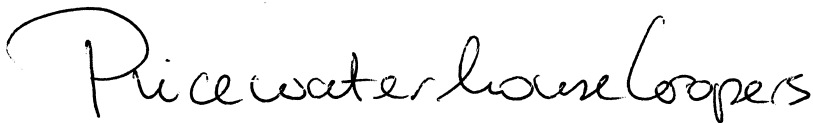
**Auditor's report**

We have audited the accompanying balance sheet of the Centrale Bank van Aruba as of December 31, 2000, and the related statement of income for the year then ended as included on page 47 through 54 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, 2000, and the results of its operations for the year then ended in accordance with the accounting standards applicable.

Aruba, April 20, 2001

A large, stylized handwritten signature in black ink that reads "PricewaterhouseCoopers". The signature is written in a cursive, flowing style with a large initial 'P'.

*PricewaterhouseCoopers*



### **Turk's Cap Cactus**

The Turk's Cap Cactus (*Melocactus macracanthos*), or locally known as "Bushi", is a prickly customer, not to be mocked with. At dusk, however, the soothing sunrays soften its thorns and ease its spite, lending the plant a beautiful purple golden aura.

