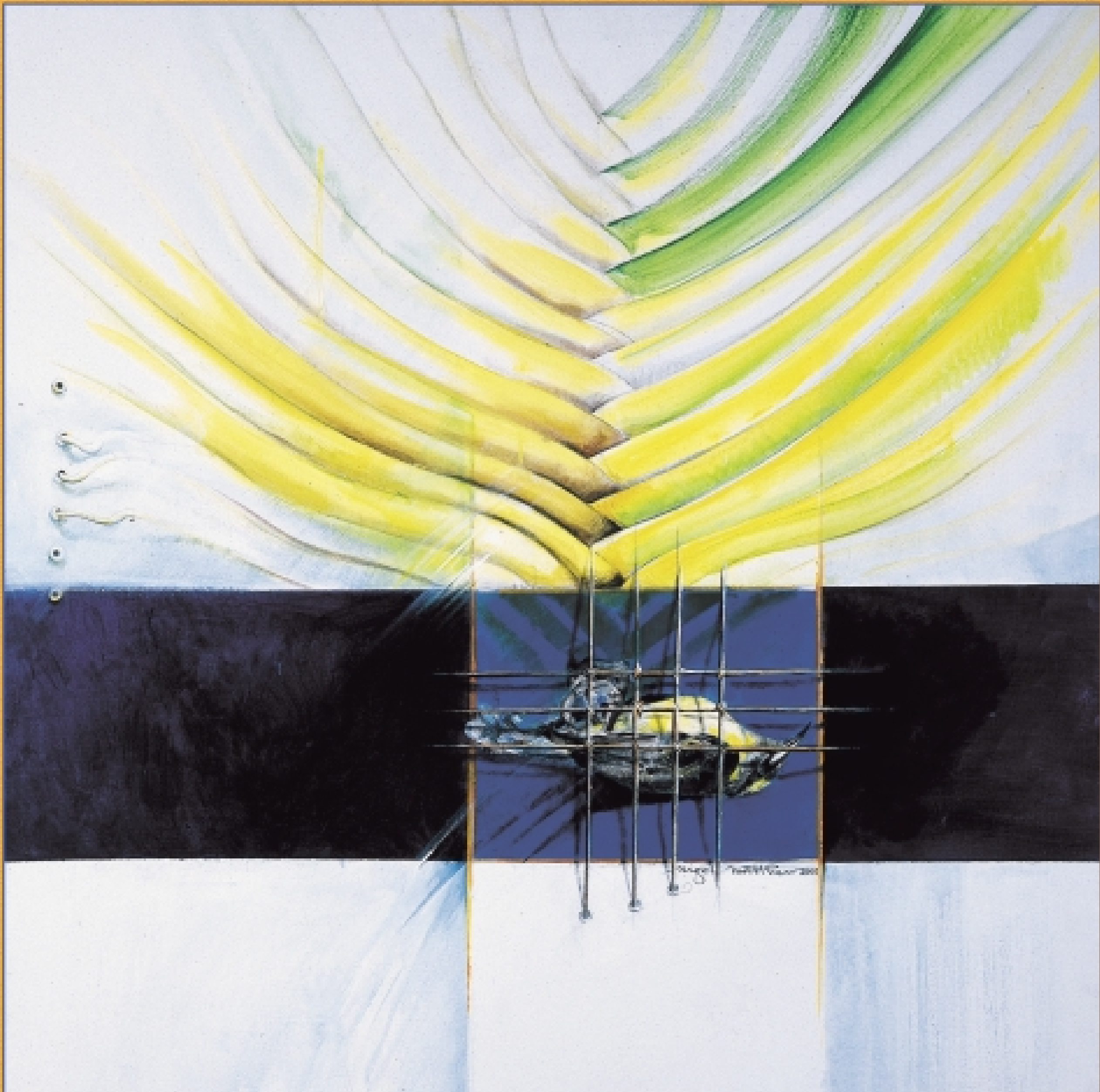
ANNUAL REPORT 2001



CENTRALE BANK VAN ARUBA

Cover: “INNOCENCE OF NATURE”

“INNOCENCE OF NATURE” is one of **NIGEL MATTHEW’s** intrusive paintings. An innocent “barikagel” has become victim of man’s cruelty. Imprisoned by almost photographically painted strings, there is no escape. Even the deep blue silent rectangles seem to enclose the innocent creature! But then…. a yellow, greenish transparent woven structure rises up triumphantly behind the solid blue beam and allows one’s imagination to flow while it expands. Perhaps the result of an innocent seed? Nigel, also a graphic designer, loves to apply graphical elements to his paintings.

CENTRALE BANK VAN ARUBA

Annual Report
and
Financial Statements for the year

2001

A new building, a new logo

Background
The Bank's move to a new building in the near future is a good time, after 16 years, to update the house-style to meet today's needs and to introduce a new logo. Of course, the institution's mission is not changing: the Bank is, and remains, the guardian of financial stability in the general interest of Aruba.

The objective
The logo expresses the vital elements of the organisation's nature, corporate identity, and philosophy: solidity, reliability, quality, confidence, dynamism, and transparency.

The illustrative element
The illustrative letters "CBA" are placed in a fluid line on a bright white background. They portray the sparkling waves of the Caribbean and the water and breakers between and around them. The deep blue color has style, but also is powerful and clear. The design expresses movement, focused on the functions and key duties of the Bank, which include safeguarding the value of the florin, supervising financial institutions, and promoting the smooth operation of the payment system.

Golden edging
The gold accents on certain parts of the letters give the logo a special lustre. They symbolize the sunny nature of the island and its people, but also the Bank's important duties as issuer of "jingling coins" and manager of the gold and foreign exchange reserves.

The lettering
The name of the Bank is centred beneath the image. All the letters are classical upper case, specially selected to emphasize the timeless nature of the Bank, its solid status. The initial capital letters are enlarged to distinguish the words. All the letters are narrowed slightly to create a compact and cohesive unity.

The overall impression
The overall picture is open but with a degree of focus. The carefully selected remaining white spaces are just as much part of the composition. The ornamentation is of a given size and with differentiation and contrast so that each element is shown to advantage. The various elements have a definite relationship with each other. Consequently, the whole is in equilibrium, in balance. At a glance, a modern image: the logo of the Centrale Bank van Aruba.

Rachelle Tjin-A-Djie
Tadberg Design, Association of Dutch Designers BNO

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Centrale Bank van Aruba
Mission Statement

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

Board of Supervisory Directors, Management and Senior Officers
(as of May 15, 2002)

Government Supervisory Director
Chairman of the Board of Supervisory Directors
A.J. Swaen

Members of the Board of Supervisory Directors
E.G.R. Cohen-Henriquez-Jansen
A.M. Nemecek
T.R.L. Vingal
R.E. Yrausquin

Executive Committee

President
A.R. Caram

Executive Directors
K.A.H. Polvliet
J.R. Figaroa-Semeleer

Department Managers

Audit
C.A. Connor

Information Systems
J.S. Fräser-Blijden

Economic Policy
M.M. Tromp-Gonzalez

Secretariat and Archives
O.A. van der Biezen

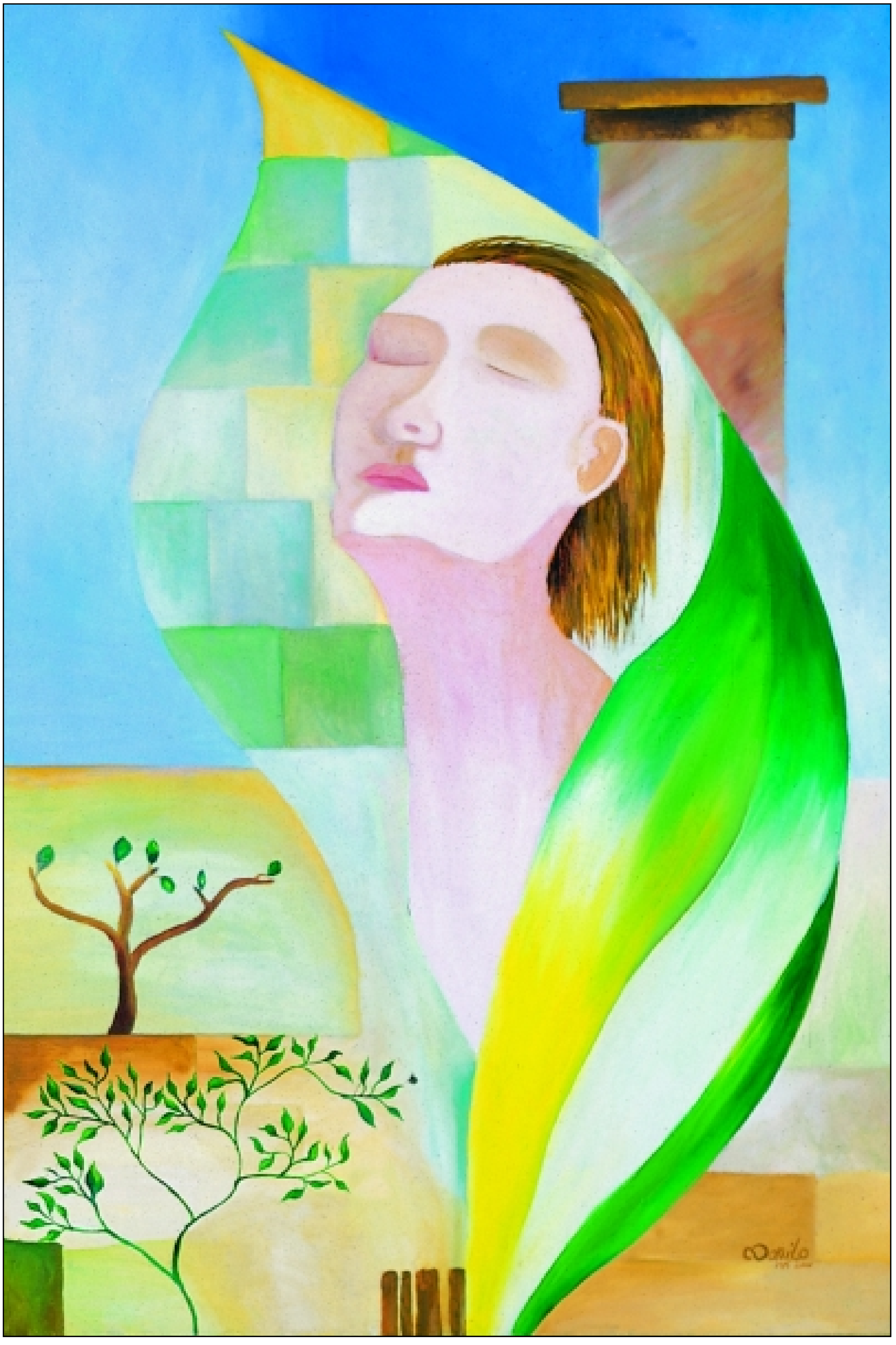
Operations
R.M. Geerman

Accounting
J.F. Kock-Kelly (acting)

Supervision
P. Mungra

Cash and Vault
H.M. Dacal-Oduber

Personnel and Organization,
Security, General Affairs
F.P. Meijer



DANILO GEERMAN's "GERMINATION" is a synthesis of human and nature. Sprouting out of nature's bud, or perhaps the other way around? Whatever it may be, one can sense a strong energy of harmony between nature and humanity through the dominating hues of blue, turquoise, green, and yellow, and at the same time, the betrayal of human interference by the use of geometrical forms and architectural shapes. This young Aruban artist is constantly exploring the use of this media to express his convictions in a unique artistic way.

Human versus nature in visual arts

The artistic climate in Aruba has changed considerably during the last thirty years. Initially, art was a form of leisure activity for amateurs and handcrafters or part of a broader cultural education for the elite. The sixties produced a change, and exhibitions were organized with some regularity.

In the early seventies, "ARTE POPULAR" was organized by the energetic Hubert Booi, then head of the national Bureau of Culture and Education. High-quality visual art of mature artists mingled with works by those just starting out. A complete mixture of art and crafts was presented, stimulating the interest of a broad section of the population.

At the same time, the first scholarship students were returning from their professional artistic training abroad. Most found teaching jobs in local schools or in a newly created cultural sector. Aruba was awakening and becoming aware of the necessity of recognizing its local artists, who in return found important sources of inspiration in the island's flora and fauna, natural scenery, soil, archaeological past, and in the Caribbean Sea.

In the late seventies and early eighties, Aruba began participating in several regional exhibitions, such as Carifestas and Biennials. Nothing would stop this art-minded roller-coaster. The Aruban artist had so much to offer. Each was clearly evolving into a strong personality with recognizable modern contemporary characteristics, not afraid to experiment or to explore new horizons.

The nineties brought new fresh young Aruban artists with minds of their own — some very eclectic and others forever inventive, some continuously in search of idiosyncratic awareness and others combining symbolism with realism. "Mixed media" and "installations" became common terms, and Aruban art varied from small and intimate to huge and overpowering.

The Centrale Bank van Aruba is proud to introduce to you six of Aruba's gifted artists, all of whom are part of the above-mentioned historical evolution and have enriched this annual report with their skills and vision. Each artist is represented by a typical work, accompanied by information on the contents of the artwork and the artist.

These paintings enable us not only to appreciate, but also feel and understand the creative world of human versus nature, where painting as a means of expression is a refuge. Hopefully, this unique presentation contributes to bringing art closer to our homes, hearts and understanding.

Nigel Matthew (art teacher/artist)

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1 Statement by the President

The year 2001 brought us many challenges. The Centrale Bank van Aruba ("the Bank") was confronted with deteriorating economic conditions while fulfilling its mission 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. Global output and world trade increased only marginally, very unlike the preceding buoyant years. Production in the information and communication technology sectors crumbled, while the confidence of financial market investors collapsed. In addition, the lagged impacts of the upsurge in oil prices between 1999 and mid-2000 were felt.

The United States, the locomotive of global activities and Aruba's major trading partner, led the general slowdown. Its economy went into recession in March 2001, following a decade of uninterrupted cyclical buoyancy. The main factors driving growth down were the contractive monetary policy of the Federal Reserve System during the year following mid-1999 to contain inflationary risks, the ensuing notable decline in private fixed investment, and the build-up of excessive inventories associated with the subdued demand. The September 11 terrorist attacks and their aftermath clearly compounded the already eminent malaise, putting additional pressure on domestic and foreign households, businesses, and governments alike. On balance, the increase in U.S. real gross domestic product (GDP) decelerated from a 4.1 percent peak in 2000 to 1.2 percent in 2001.

Due to its small and undiversified production structure, Aruba was even more profoundly affected by the shocks from abroad. As in many other Caribbean countries, tourism and related enterprises, the mainstay of Aruba's economy, were hurt disproportionately. The decline in consumer confidence and uncertainties surrounding international air transportation kept many persons away, especially from the United States, which accounts for a significant two-thirds of the total market. During the first 8 months of 2001, the number of visitor nights grew by a mere 1.5 percent. In the subsequent 4 months, it fell by a disquieting 10 percent. However, spread out over the year as a whole, the decline was contained to 2 percent. Real GDP contracted for the first time since 1985, i.e., by an estimated 1 percent, after a 2.5 percent increase in 2000. This contraction put an end to an unprecedented period of continuous economic growth that averaged 7 percent annually.

After benefiting abundantly from a prospering United States for the past 15 years, Aruba is now confronted with the risks of being largely dependent on that economy alone. Fortunately, global activities are recovering from the current slump. Growth in the United States is expected to rebound to 2 percent in 2002, as new stimuli are induced by expansionary monetary and budgetary policies, and confidence returns. However, the tourism industry is still depressed. Therefore, efforts should be made to attract more tourists from Latin America and Europe. Henceforth, less emphasis also should be placed on the number of persons visiting Aruba, and much more on the net value added of enterprises. This implies the need for a shift from quantity to quality, by focusing on the wealthier income groups and on improving the quality of the tourism product offered.

The indicated move from boom to bust in Aruba requires an active approach to revitalize and restructure business activities. However, apart from allocating some additional funds for tourism promotion, the government was unable to implement an anti-cyclical policy. Its budgetary position weakened further, and the financial deficit reached a disquieting peak of 3.5 percent of nominal GDP in 2001 despite reduced investment and the delayed purchases of certain essential goods and services. This worrisome development, which may eventually endanger financial stability, clearly demonstrates that not enough account has been taken of the numerous and repeated recommendations made by the Bank and others, including the International Monetary Fund (IMF).

During the booming years, too little was done to eliminate the financial deficit and to increase the share of infrastructural investment in total spending. Moreover, insufficient financial buffers were created to handle the deteriorating economic and financial state of affairs and to meet the liabilities that may result from several financial guarantees granted by the government in the past. We already should know what to do with respect to the public finances; therefore, it is not prudent to spend much more time taking stock and discussing all sorts of issues. The obvious and inevitable adjustment measures should be implemented without any further delay. To illustrate, the government pension system and the general health insurance need drastic reform immediately to make these arrangements sustainable. Of course, this is not an easy task. Vision, leadership, political courage, and broad public support are required for this policy to be successful.

The economic malaise coincided with a 3 percent money destruction by domestic factors and a decelerating increase in the commercial banks' lending to the private sector, i.e., from 9 percent in 2000 to 4 percent in 2001. Also loans of the nonmonetary financial institutions to this sector increased by only 3 percent in 2001, down from 6 percent. Overall, credit growth remained well below the 6 percent normative increase determined by the Bank at the beginning of the year. In view of the sluggish rise in credit and need to support the recovery of the economy, the Bank decided to suspend its credit control regime at the beginning of 2002. Moreover, official lending rates were reduced somewhat, and moral suasion was used. This policy is intended to stimulate financial institutions to bring their interest rates in line with the changing market conditions. Such a reduction may to a certain extent deter disintermediation, which is gradually becoming more relevant due to the globalization and the accompanying application of modern information and communication technology devices.

Attractive interest rates also may encourage entrepreneurs to invest in projects to enhance the quality of the tourism product, to diversify the production structure, and to reinforce the role of the private sector in the development process. Generally, lower cost levels are essential to create comparative advantages in certain high-quality market segments with relatively large added values, and to benefit more from Aruba's favorable geographical location and well-educated people. For this reason, wage increases should be kept strictly in line with productivity gains to at least maintain Aruba's international competitive position and make investing worthwhile. To be able to export, high-quality products should be offered at the lowest possible price. It is recommended to invite the World Bank, given its expertise in development planning in emerging countries, to assist us in selecting high-potential sectors.

The relaxation of monetary policy referred to earlier was possible only because of a notable improvement in the balance of payments, which caused an acceleration in the growth of money supply from 4 percent in 2000 to 6 percent in 2001. This improvement is reflected in an upsurge in the monetary sector's net foreign assets to a record level of AFL 708 million, equivalent to 6.5 months of merchandise imports. The Bank's policy objective is to maintain this annual moving average import coverage ratio within a range of 5-6 months to underpin confidence in the fixed exchange rate between the florin and the U.S. dollar. This peg has served Aruba well. It is crucial for keeping inflation low and to maintain the increase in its general price level roughly in line with that in the U.S. During the past 15 years, this was indeed the case: on average, the annual increase in the consumer price index exceeded that of the U.S. by only 0.6 percentage point. In 2001, domestic inflation abated from 3.5 percent to 2.6 percent, while the price differential with the U.S. virtually disappeared.

The exchange rate peg imposes a stringent discipline on monetary, budgetary, and income policies, and makes an effective coordination of the various policy instruments indispensable. In turn, this requires strictly containing the domestic sources of money creation, because, as a rule of thumb, about two-thirds of every florin brought into circulation is eventually used to import goods and services. Maintaining discipline is the price to be paid for keeping the value of our currency stable and predictable and fostering the public's confidence. The reward of this policy objective is, however, much greater. After all, financial stability creates a climate conducive to productive investment and supportive to a sustainable real development. In this respect, a recent study by the IMF indicates that Caribbean countries that had to abandon the link with the U.S. dollar suffered from significantly higher inflation rates and performed markedly less well in terms of real growth.

As the guardian of the florin, the Bank gives first priority to promoting the safety and soundness of Aruba's financial system by not only adhering to a cautious monetary policy, but also through prudential supervision of financial institutions. On- and off-site monitoring and surveillances are conducted to identify emerging institutional and systemic risks. Furthermore, much attention is paid to safeguarding the system's integrity in cooperation with among others, the Financial Action Task Force (FATF), foreign sister organizations, and, domestically, the Reporting Center Unusual Transactions. This effort is vitally important to maintain internal financial stability, as well as to safeguard the international reputation of Aruba's financial and payment systems.

Following the advice of the IMF, the government recently decided to bring the company service providers and the money-transfer companies under the Bank's supervision, while also entrusting it with combating capital flows related to international terrorism. The Bank has built up ample supervisory expertise to take up these additional responsibilities and challenges. A recent thorough evaluation, in the framework of the IMF's Offshore Financial Center Assessment Program, confirmed that the present supervisory laws, regulations, and practices are largely compliant with those accepted worldwide. Nonetheless, further improvements are required. Therefore, an extensive plan of action has been produced to strengthen the Bank's supervisory framework and practices.

The ongoing process of broadening and deepening of activities, together with the introduction of new technologies and increasing globalization, induces the Bank continuously to reassess its organizational strategy and operations. The goal is to further develop a professional, lean, and productive institution that concentrates on its core functions and tasks. Sound policies are pursued, thereby maintaining a delicate balance between policy consistency and flexibility to handle rapidly changing circumstances, while fully adhering to relevant international standards for effective central banking. Via our publications and website, information is supplied on what we are doing and why we are doing it. The Bank is and will remain as transparent as possible to account for its policies and operations. Consultations with a wide range of public- and private-sector entities, both domestically and abroad, are held regularly to contribute effectively to financial stability, sound institutional practices, and, thus, to economic progress. Staff members of different disciplines are working together to find practical solutions to the many challenges facing the Bank and to shape the organization for the future. In carrying out these actions, projects are initiated to improve productivity in operations, taking due account of the need to contain costs, also through outsourcing certain specialized tasks to professional advisory bureaus.

In 2001, the Bank's total expenditure increased by 3 percent, due to higher operating expenses. As in 2000, personnel costs remained fairly constant, amounting to two-thirds of total spending. Revenue (net of interest expenses) surged by 51 percent in 2001, thanks to a 38 percent increase in official reserves to AFL 578 million or 5.5 months of merchandise imports at the end of 2001. In addition, the rate of return on foreign investment rose, due to realized capital gains on its bond sales ensuing from a decline in interest rates. On balance, a record AFL 24 million net profit was realized, about half of which was transferred to the Treasury; the remainder was used to strengthen the Bank's capital base and to finance its new building, which will be completed by August 2002. These factors contributed to an upsurge in the ratio of the reserves to base money (i.e., bank notes in circulation and deposits of the commercial banks) from 149 percent at the end of 2000 to 161 percent at the end of 2001, indicating that the Bank's financial position and the coverage basis of our national currency are solid.

To conclude, the Bank will continue to pursue its prime objective: the maintaining of financial stability under continuously changing circumstances. It intends to expand its work in all major areas, and to remain lean and efficient by improving productivity and the quality of the work environment. Its aim is to promote a creative atmosphere where knowledge and expertise are shared in a cooperative way via effective communication. The Bank's dedicated staff is well prepared to face the many challenges ahead and to fulfill its crucial responsibilities towards the people of Aruba.

"THE FOURTH DAY" inspired by the Book of Genesis, is **ALFONSO (JUNIOR) de WINDT's** attempt to approach spirituality through art. Dramatically impressive hands, expressed in one single symbolic gesture: the creation of the fourth day. A huge black shape torn open slightly reveals the splendor of celestial light. By painting the background in an abstract expressionistic manner, Junior makes us wonder what will evolve out of these clouds!

2 Operations of the Bank

2.1 Principal tasks

The Bank is established through the Central Bank Ordinance as 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 U.S. dollar at a rate of AFL 1.79 = US$ 1.00. The Bank is entrusted with the following tasks and related activities:

Tasks	Related activities
a. Conduct monetary policy	Formulate and implement measures of monetary policy, inter alia, via regulating bank credit and liquidity.
b. Supervise the financial system	Supervise the activities of a number of financial institutions by, among other things, monitoring their liquidity and solvency to protect the interests of their clients, and to maintain monetary and financial stability and integrity.
c. Issue bank notes, as well as coins on behalf of the government	Bring secure and clean bank notes and coins into circulation to meet the needs of businesses and the general public.
d. Act as the banker for the government	Execute payment orders and intermediate in the issuance of government debt papers.
e. As the central foreign exchange bank, regulate the flow of international payments	Regulate payments between residents and nonresidents and collect foreign exchange tax.
f. Manage Aruba's official gold and foreign exchange reserves	Invest the Bank's foreign assets in accordance with conservative guidelines.
g. Advise the Minister of Finance on financial matters	Produce relevant information and give expert advice.
h. Monitor economic and financial developments	Collect and analyze financial and economic data, which are published in monthly, quarterly, and annual reports.

2.2 Domestic payment system

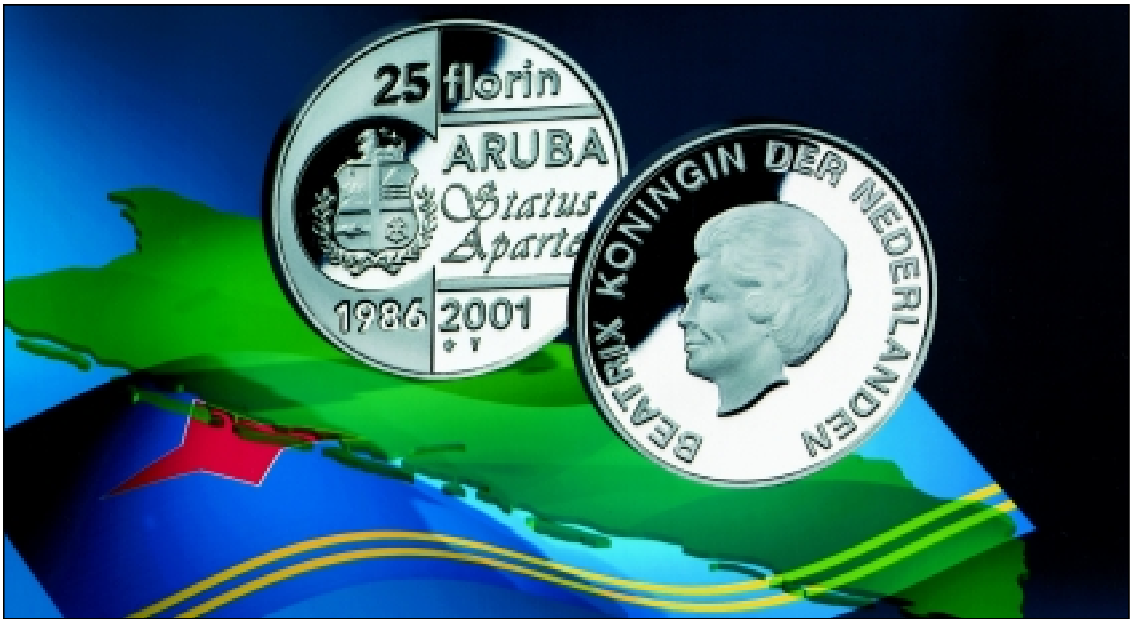
2.2.1 Bank notes and coins

The aggregated value of florin bank notes and coins issued totaled AFL 156.6 million at the end of 2001, equivalent to 4.6 percent of nominal GDP. This percentage is rather low by international standards, due to a certain dollarization of the economy mainly related to the tourism activities. During the year under review, the florin circulation increased by 4 percent, while estimated nominal GDP growth amounted to 2.2 percent.

Pursuant to article 7 of the Central Bank Ordinance, the Bank issues florin bank notes in denominations of AFL 10, AFL 25, AFL 50, AFL 100, and AFL 500. At the end of 2001, the value of bank notes issued was AFL 141.8 million, i.e., AFL 4.7 million or 3 percent higher than a year earlier. The shares of the various denominations in the total remained virtually unchanged.

Coins (excluding commemorative coins) issued on behalf of the government amounted to AFL 14.6 million, up by 6.1 percent. In the year under review, the Bank issued a special AFL 25 silver coin and AFL 100 gold coin, both in collector's quality, to commemorate 15 years of Aruba's Status Aparte. On one side of these coins, the Aruban coat of arms is depicted; on the other a coin picture of HM Queen Beatrix.

From time to time, very small amounts of counterfeit notes and coins are detected in circulation, a phenomenum that creates some turbulence and may undermine the public's confidence in our currency. Therefore, the Bank works closely with the law-enforcement agencies to monitor, analyze, and deter counterfeiting. Moreover, educational programs are executed to increase awareness of the key security features of the genuine bank notes and coins.



2.2.2 Automated clearing system

The Bank manages an electronic batch-clearing system that became operational in June 1997. This system, in which the commercial banks, the government, WEB (Water and Electricity Company), and SETAR (Telecommunications Company) are participating, enables inter-bank check clearing, as well as fund transfers.

In 2001, both the volume and the value of checks processed declined by 12.5 percent and 5.2 percent, respectively, to AFL 0.9 million and AFL 2.4 billion, because fewer checks were used as a payment instrument. In contrast, fund transfers continued to increase, reaching a total of AFL 2.1 billion, or 10.5 percent more than in 2000.

2.2.3 Interest payments

The government and several financial institutions hold liquidity at the Bank. Interest is paid on certain current account balances and on all time deposits, including on the required cash reserves. The interest rates are based on corresponding renumerations of the Federal Reserve Bank of New York. In 2001, interest payments fell by 25.5 percent to AFL 5.2 million, of which AFL 0.8 million to the government. This decline reflected the sharp drop in U.S. money market rates.

2.2.4 Banking for the government

In accordance with article 14 of the Central Bank Ordinance, the Bank implements (free of charge) an increasing number of domestic and foreign payments on behalf of the government. These payments are cleared through the Treasury current account, which stood at AFL 26 million at the end of 2001. Deposits held in both earmarked and development fund accounts increased by AFL 4.4 million and AFL 8.7 million, respectively, to AFL 39.7 million and AFL 31.3 million.

Additionally, two maturing three-month treasury bill issues totalling AFL 40 million were renewed periodically, yielding between 4.98 percent and 6.93 percent, as well as a six-month issue of AFL 8 million cash certificates at annual yields of 6.49 percent and 2.10 percent. One US$ 13.9 million bond issue (yielding 7.125 percent) was placed primarily on the domestic market. As a matter of principle, the Bank does not grant loans to the government.

2.3 International payment system

2.3.1 Daily exchange rate fixing

An ample 90 percent of all international payments are settled in U.S. dollars. The Bank's buying and selling rates for this currency from and to the commercial banks remained unchanged at US$ 1.7895 and US$ 1.7905, respectively, for AFL 1.00. Daily quotations for a number of other foreign currencies are published, based on data provided by the European Central Bank.

During 2001, the exchange rate of the Dutch guilder vis-à-vis the Aruban florin, the second most important currency for international payments, fluctuated between AFL 0.68 and AFL 0.78, or within a margin of 15 percent. At the end of 2001, the Dutch guilder stood at AFL 0.72, implying a 5 percent depreciation compared to a year earlier.

2.3.2 Foreign exchange policy

The foreign exchange policy did not change during 2001. Presently, no restrictions are imposed on payments related to current transactions. A special foreign exchange license is required only for capital transactions exceeding AFL 200,000, on a yearly basis, for natural persons and AFL 500,000 for legal entities (excluding commercial banks and institutional investors). In general, the Bank grants these licenses quite liberally.

In accordance with IMF recommendations, the Bank decided to further liberalize its foreign exchange arrangements. As of July 1, 2002, the above-mentioned maximum amounts will be raised to AFL 300,000 and AFL 750,000, respectively. The State Ordinance on foreign exchange transactions, still based on the so-called negative system for in- and outgoing capital, will be modernized in due course.

During 2001, the Bank granted 94 foreign exchange licenses, amounting to about AFL 750 million, i.e., AFL 246 million more compared to 2000. This was mainly attributed to higher refinancing of local and foreign loans and to a lesser extent to infrastructural projects, constituting, respectively, 47 percent and 10 percent of the total amount granted.

2.3.3 Foreign exchange tax

The State Ordinance on foreign exchange commission stipulates that residents must, in general, pay a 1.3 percent tax on payments to nonresidents. Transactions in Netherlands Antillean guilders are exempted, on the basis of an agreement between the two governments concerned. Certain groups of companies (mainly government-related) are also exempted, by virtue of the State Decrees on foreign exchange commission exemption of July 1998 and October 2001, respectively.

Additionally, based on article 12 of the State Ordinance on the free zone of July 2000, the companies concerned may request an exemption to the extent that their payments for goods and services are linked to re-exports. Offshore companies and Aruba Exempt Corporations (the so-called AVVs) are by law considered nonresidents and, thus, are not subject to this commission.

Pursuant to article 4 of the State Ordinance on foreign exchange commission, the government is responsible for determining the policy with respect to the foreign exchange commission, while the Bank is entrusted with the collection thereof. In 2001, total collections rose by 2 percent to AFL 24.4 million. Because of transitorial items, AFL 24.8 million was transferred to the Treasury. The share of this commission in total tax receipts edged up from 3.8 percent to 4.1 percent.

2.4 Monetary policy

In 2001, the Bank reduced the normative credit growth of commercial banks by 2 percentage points to 6 percent, while the penalty rate for excess lending was raised by 1 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. At the beginning of 2002, the credit ceiling system was suspended for 6 months, due to the slowdown in general economic activities.

The B-9 arrangement, which regulates the distribution of the foreign exchange reserves between the commercial banks and the Bank, and the 7 percent cash reserve requirement remained unchanged in effect. However, the compensating fee for holding a deficient cash reserve was raised by 1 percentage point to 6.5 percent effective April 1, 2001, to discourage the banks from utilizing this reserve to cover liquidity shortages.

2.5 Prudential supervision

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 depositors and policyholders or endanger the stability and integrity of the financial system. With this aim, continuous off-site surveillances and periodic risk-oriented on-site examinations are conducted. Moreover, regular discussions are held with the management of individual institutions, as well as with members of the various representative organizations.

2.6 Financial highlights

- During 2001, the Bank's total assets surged by AFL 163.8 million or 37.6 percent to AFL 599.3 million. Particularly significant here was the AFL 144.6 million or 37.9 percent increase in foreign currency claims.
- Total income (net of interest expenses) amounted to AFL 33.7 million, representing an AFL 11.5 million or 51.9 percent improvement. The rise in the official reserves, combined with higher yields on foreign investments were the major reasons for this increase.
- Expenses were AFL 9.3 million, i.e., AFL 0.2 million or 2.7 percent higher. This increase was attributed mainly to a 15.8 percent rise in operating expenses. In contrast, personnel costs declined by 1.3 percent to AFL 6.2 million.
- On balance, profit almost doubled to a record AFL 24.4 million. Pursuant to article 4 sub 2 of the Central Bank Ordinance, and with approval of the Minister of Finance, AFL 12.3 million was transferred to the Treasury, AFL 4.1 million was earmarked for the financing of the Bank's new office building, and about AFL 8 million was added to the general reserve.

2.7 Organizational affairs

In compliance with article 25 of the Central Bank Ordinance, the Board of Supervisory Directors and the Executive Committee held four joint meetings during 2001. By virtue of the State Decree No. 9 of January 8, 2002, Mr. A.J. Swaen succeeded Mr. C.G. Maduro as the Government Supervisory Director and Chairman of the Board. The Bank is particularly grateful for the important work the latter performed during the past period of more than 7 years.

The Executive Committee expresses its appreciation to the staff members for their loyalty and dedication and for taking up the challenges ensuing from the changes in operations and procedures of the Bank. One person was hired in 2001, bringing its staff to 54.

Government Supervisory Director and Chairman of the Board of Supervisory Directors:
A.J. Swaen

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

3 Economic and financial developments

3.1 The international environment

The year 2001 was characterized by a severe slowdown in business activities. The increase in world output decelerated from a 4.6 percent peak in 2000 to only 2.0 percent, the lowest in more than two decades. The growth rate of world trade declined much more sharply, i.e., from 12.5 percent in 2000 to a mere 0.7 percent in 2001. Major factors causing this slowdown were a drop in the demand for information and communication technology products, a collapse in business and household confidence, and the lagged effect of the strong rise in oil prices between 1999 and mid-2000. The terrorist attacks of September 11 added to the uncertainty and the malaise. Inflation, on the other hand, clearly became less a cause for concern, due to the depressed effective demand, the ensuing increase in excess production capacity, rising unemployment, and falling prices of primary commodities, especially oil.

The slowdown occurred almost simultaneously in the three major groups of industrial countries. In the United States economic indicators weakened generally, putting an end to a ten-year expansion. The increase in real GDP decelerated from 4.1 percent to 1.2 percent, due also to the restrictive monetary policy stance of the Federal Reserve System to contain inflationary risks in the year following mid-1999. Japan's GDP contracted by 0.4 percent, as a result of a decline in the net exports of goods and services, and the continuous structural problems in the corporate sector which affected employment and household incomes. In the euro area as a whole, the growth rate fell from 3.5 percent to 1.6 percent, due mainly to the slackening of domestic demand. The Dutch economy showed a similar development.

The small open emerging economies in Asia experienced a sharp downturn driven by the collapse in exports of high technology products, compounding the pressure on spending, while the uncertain investment climate depressed capital inflows. In contrast, large countries, particularly China and India, proved rather resilient to the external setbacks, and continued to perform robustly. Latin America also presented a mixed picture, with Argentina strongly affected by the worsening economic crisis, which led to a default on government obligations and the abandonment of the decade-long currency board system in early 2002. Venezuela remained confronted with serious political problems, which undermined investor confidence, preventing it from benefiting adequately from the latest rally in oil prices. The Caribbean nations, dominantly dependent on foreign exchange earnings on tourism, suffered severely from the turbulence in the United States and the subsequent drop in international air transportation.

Fortunately, recovery from the global slowdown appears underway. This is most evident in the United States, where the recession seems to have been short and shallow. New growth stimuli are emerging from the rapid and forceful easing in monetary policy, buoyed tax cuts, and sharply lower energy prices. Private and public consumption are reviving, the rundown of stocks is coming to an end, and the equity markets rebounded after September 11. A gradual strengthening in investment and output is expected to underpin the recovery in the second half of 2002 and into 2003. However, downside risks remain, including those arising from the oil market. To take full advantage of the emerging cyclical upturn, global vulnerabilities and imbalances, which threaten economic and financial stability, should be reduced over the medium term, inter alia, by implementing sound macroeconomic policies and structural reforms.

3.2 The domestic real sector

Aruba already was experiencing decelerating growth in economic activity prior to September 11. The aftermath of the terrorist attacks in the United States accentuated the downturn considerably. The ensuing disruption of international air travel and the subsequent uncertainty disproportionally affected the tourism sector, which directly and indirectly accounts for an estimated 60 percent of GDP. Consequently, growth in real terms contracted for the first time since 1986 by an estimated 1 percent (2000: + 2.5 percent). Nominal GDP rose by 2.2 percent, compared to 6.6 percent in 2000. Per capita product rose by a modest 0.8 percent to AFL 37,064 (US$ 20,706), also because of a 2 percent increase in the population (see table 1). The Bank estimates that the unemployment rate increased by 1.5 percentage point to 5.9 percent, while labor productivity appears to have decreased slightly.

During the first eight months of 2001, visitor nights rose by 2 percent, 3 percentage points less than in the corresponding period of 2000. In the following four months, they declined by a notable 10 percent. For the year as a whole, the decrease was contained to 2 percent. The average length of stay fluctuated around 7.4 nights, and the occupancy rate of the hotels fell marginally to 75.6 percent. Nearly 1.2 million persons visited Aruba in 2001, 3 percent fewer than in 2000. This figure includes 487,296 cruise passengers (or 41 percent of the total), somewhat lower than in 2000.

Compared with other countries in the region, Aruba's performance was more favorable. According to preliminary data from the Caribbean Tourism Organization, total stay-over visitor arrivals shrank by a marked 14 percent. Thus, Aruba managed to increase its market share by 0.4 percentage point to 4.0 percent, due partly to a rebound in the Venezuelan market. Its share in cruise tourism fell by a mere 0.1 percentage point to 3.4 percent.

Gross spending by persons visiting Aruba, as measured by the Central Bureau of Statistics via a special survey, rose by 1 percent to AFL 1,327 million. Tourism receipts, as registered in the balance of payments on a cash basis, increased by 4 percent to AFL 1,602 million. The latter amount accounted for 77 percent of total current account receipts (excluding oil and free-zone sectors), i.e., 3 percentage points more than in 2000. Room tax receipts rose by 15 percent to AFL 26 million, due mainly to the introduction of a higher tariff in September 2000.

Table 1 Main economic indicators

	1999	2000	2001
1. Gross domestic product			
a. Nominal GDP (x AFL million)	3,124	3,331	3,404
b. Population (period average)	89,676	90,600	91,852
c. GDP per capita (in AFL)	34,839	36,767	37,064
d. Real GDP growth (in percent)	4.5	2.5	-1.0
2. Labor market 1)			
a. Unemployment rate (in percent)	2.8	4.4	5.9
b. Participation rate (in percent)	62.0	64.9	64.6
3. Tourism			
a. Tourism receipts (x AFL million) 2)	1,411.6	1,538.3	1,602.1
b. Tourism expenditure (x AFL million) 3)	1,184.3	1,319.3	1,327.3
c. Stay-over visitors (x 1,000)	683.3	721.2	691.4
d. Average nights spent	7.5	7.3	7.4
e. Average hotel occupancy rate	77.0	75.9	75.6
f. Average daily rate hotels (AFL) 4)	217	233	243
g. Revenue per available room (AFL) 4)	124	129	135
h. Room tax receipts (x AFL million) 5)	18.6	22.5	25.8
i. Cruise visitors (x 1,000)	289.1	490.0	487.3
j. Aruba's market share in the Caribbean			
1. stay-over visitors	3.4	3.6	4.0
2. cruise visitors	2.4	3.5	3.4
4. Construction			
a. Total cement imported (x 1,000 Kg)	55,626	41,879	35,277
b. Number of electrical installations approved	2,691	3,034	2,873
c. Number of construction permits issued	1,693	1,371	1,240
d. Total value of construction permits (x AFL million)	168.4	184.8	210.6
5. Price developments			
a. Inflation (end of period, in percent)	3.7	3.5	2.6
b. Inflation (period average, in percent)	2.3	4.0	2.9
c. Real exchange rate index (1995 = 100) 6)	101.3	102.0	102.0

1) Preliminary estimates by CBA.
2) Gross receipts from stay-over and cruise tourism as well as other tourism-related income (including, inter alia, the sale proceeds of time-share units) as recorded on a cash basis in the balance of payments.
3) Travel-related expenditures by stay-over visitors, before (e.g., pre-paid packages), during, and immediately after a trip as estimated by the CBS via a special survey.
4) Including time-share.
5) Corrected for tax receipts related to previous periods.
6) Relative to the U.S.A. Based on CPI period-average.

Source: CBA; CBS; Aruba Tourism Authority; Cruise Tourism Authority; Department of Public Works; Department of Technical Inspection; Tax Collector's Office.

Little up-to-date statistical information is available on developments in other sectors. Therefore, the Bank has to manage with some indicators and anecdotal evidence. With respect to the construction industry, few new projects were implemented. Consequently, the volume of cement imported declined by 16 percent, and the number of electrical installations approved by 5 percent. Encouraging, however, is that the value of permits issued in 2001 by the Department of Public Works rose by 14 percent, reflecting increased planned investment in commercial construction and school buildings.

Domestic electricity consumption rose for the second consecutive year by 5 percent and gas consumption by 3 percent, due mainly to higher commercial demand. The increase in water consumption was 4 percent. These increases coincided with a downward adjustment in the tariffs of water and electricity, following lower world market prices of oil.

The latter contributed to a deceleration in the rate of inflation, i.e., from 3.5 percent at the end of December 2000 to 2.6 percent in December 2001, and on an annual basis from 4.0 percent to 2.9 percent. Average price rises of the categories ‘clothing and footwear’, and to a lesser extent ‘housing’ and ‘housekeeping and furnishing’ were higher during 2001. Adjusted for the energy component (i.e., water, electricity, and gasoline), the annual inflation rate increased by 0.3 percentage point to 3.0 percent in 2001.

Consequently, the inflation differential with Aruba’s major trading partner, the United States, narrowed by 0.5 percentage point to 0.1 percentage point, while the real exchange rate index of the Aruban florin vis-à-vis the U.S. dollar remained unchanged at 102.0.

3.3 The financial sector

3.3.1 Monetary variables

The subdued economic conditions are reflected clearly in the various monetary aggregates. Growth in the money supply accelerated from 2 percent in 2000 to 6 percent in 2001, but this was brought about fully by an AFL 137 million inflow of foreign funds due to an improved balance of payments. The money supply to GDP ratio increased by 2 percentage points to 54 percent. Narrowly defined money, comprising currency in circulation and demand deposits denominated in Aruban florin and foreign currency, rose by 18 percent, while quasi-money, i.e., time and savings deposits, and treasury bills in the hands of the public declined by a marginal 0.2 percent (see table 2).

In contrast, domestic factors caused an AFL 35 million money destruction, resulting from an AFL 65 million decline in noncredit-related balance sheet items and an AFL 31 million or 2 percent increase in net domestic credit (2000: 8 percent). An AFL 25 million drop in net claims on the public sector was more than compensated for by an AFL 55 million (or 4 percent) rise in lending to the private sector. Housing mortgages continued to expand strongly, i.e., by 11 percent, while both consumer credit and loans to enterprises grew by a moderate 3 percent and 1 percent, respectively.

Table 2 Causes of changes in the money supply
In AFL million

	1999	2000	2001
1. Net domestic money creation	141.0	84.2	-34.7
a. Net domestic credit	150.5	115.8	30.7
1. Public sector	21.3	-13.4	-24.7
2. Private sector	129.2	129.2	55.4
2.1 Loans to enterprises	33.8	58.2	9.1
2.2 Consumer credit	47.7	21.7	9.4
2.3 Housing mortgages	49.7	50.1	44.3
2.4 Other	-1.9	-0.7	-7.3
b. Other domestic factors	-9.5	-31.6	-65.4
2. Inflow of foreign funds 1)	19.2	-45.0	137.2
a. Current account (net)	-622.8	527.9	756.7
b. Capital and financial account (net) 2)	642.0	-572.9	-619.5
3. Broad money creation	160.3	39.2	102.4
a. Money	43.4	5.8	104.8
b. Quasi-money	116.9	33.3	-2.4
(12-month change in percent)	*(10.4)*	*(2.3)*	*(5.9)*

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.

3.3.2 Nonmonetary financial institutions

In 2001, the aggregated assets of the nonmonetary financial institutions increased by a slight 0.3 percent to AFL 1,443 million (see table 3). Claims on the government and the private sector increased by 12 percent and 3 percent, respectively. Housing mortgages rose by 5 percent, bringing its share in the total market to 50 percent (see table 4). Net foreign assets declined by 16 percent, due to an increase in foreign liabilities, in particular reflecting the attraction of a loan to repay maturing bonds and a drop in the market value of portfolio investment.

On the liability side, pension fund provisions rose by 6 percent and the insurance reserve fund by 11 percent, but the item borrowings and deposits dropped by 12 percent.

Table 3 Nonmonetary financial institutions 1)

End-of-period figures in AFL million

	1999	2000	2001
1. Net foreign assets	340.7	418.0	349.8
2. Domestic claims	959.0	1,021.7	1,093.6
a. Government	397.9	427.1	480.4
b. Private sector	561.1	594.6	613.2
1. Nonfinancial public enterprises	29.0	34.8	25.4
2. Enterprises	73.9	77.1	76.6
3. Individuals	458.2	482.7	511.2
3. Total assets = total liabilities	1,299.7	1,439.7	1,443.4
4. Borrowings and deposits	46.9	62.1	54.6
a. Government	36.5	36.6	36.6
b. Other residents	10.5	25.5	18.0
5. Pension fund provisions	966.6	1,074.6	1,136.3
6. Insurance reserve fund	209.2	232.7	257.3
7. Other items (net)	76.9	70.2	-4.7

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

Source: CBA.

Table 4 Housing mortgages

End-of-period figures in AFL million

	1999	2000	2001
1. Total	748.3	821.6	888.7
2. Commercial banks	350.4	400.5	444.8
3. Nonmonetary financial institutions	397.9	421.1	443.9
a. Mortgage banks	276.6	283.3	295.9
b. Pension funds	59.2	62.7	73.8
c. Life insurance companies	61.1	73.3	72.0
d. Other 1)	1.0	1.8	2.2

1) Comprising other local financial institutions not included elsewhere.

Source: CBA.

3.4 Government finance

During the year under review, public finances weakened further. Total revenue and grants decreased by 1 percent to AFL 732 million, or 22 percent of nominal GDP (see table 5). Tax revenue (including foreign exchange commission) dropped by 3 percent to AFL 606 million, reflecting partly the subdued economic conditions. Its share in nominal GDP continued to decline to almost 18 percent, particularly low by international standards.

Nontax revenue, on the other hand, increased by 24 percent to AFL 125 million, following higher transfers from the national telecommunications company (SETAR). No foreign grants were received, because of the legal problems associated with the establishment of the Fondo Desaroyo Aruba (FDA), the new vehicle for development cooperation between the governments of the Netherlands and Aruba.

Estimated government spending on a cash basis rose by 2 percent to AFL 750 million, equivalent to 22 percent of nominal GDP. A large burden to the budget was the transfers to the General Health Insurance (AZV), which amounted to about AFL 120 million, or 4 percent of nominal GDP (excluding employers' contributions). Interest payments showed a significant 19 percent increase. Personnel-related outlays declined somewhat, due to the suspension of employers' contributions to the General Pension Fund of Aruba (APFA) but were still about 49 percent of total cash spending. Payments for goods and services contracted by a notable 29 percent to AFL 136 million, reflecting partly the postponement of payments to suppliers. Investment outlays also declined, due to liquidity constrains and the above-mentioned problems surrounding the FDA.

On balance, the AFL 6 million financial surplus on a cash basis recorded in 2000 turned into an AFL 18 million deficit in 2001. Moreover, registered unmet financial requirements reached an AFL 198 million record high at the end of 2001, because of a further accumulation of payment arrears. Including these obligations, the financial deficit surged from AFL 31 million to AFL 120 million or 4 percent of nominal GDP. To cover this deficit and repay maturing debts, an AFL 34 million recourse was taken to the domestic market, comprising AFL 19 million U.S. dollar-denominated government bonds and an AFL 15 million loan from SETAR.

In addition, a US$ 21 million (AFL 38 million) loan was attracted from the foreign capital market, and an AFL 6 million six-month promissory note was privately placed on that market. Moreover, AFL 6 million in U.S. dollar-denominated government bonds were sold to nonresidents. During 2001, foreign debt repayments amounted to AFL 21 million.

Consequently, outstanding public debt (excluding guarantees) rose by 14 percent to AFL 1,152 million at the end of 2001, and as percentage of nominal GDP by almost 4 percentage points to 34 percent. Domestic debt recorded a notable 20 percent increase, reflecting mainly higher short-term nonnegotiable debt, including payment arrears vis-à-vis the APFA and suppliers of goods and services. Despite a 5 percent depreciation of the Dutch guilder vis-à-vis the florin, foreign debt went up by 5 percent to AFL 393 million, or equivalent to 12 percent of nominal GDP.

Table 5 Government finance 1)

In AFL million

	1999	2000	2001
1. Revenue and grants	701.5	742.2	731.6
a. Tax revenue	608.6	624.5	606.3
b. Nontax revenue	91.5	100.8	125.3
c. Grants	1.4	16.9	0.0
2. Expenditure and items n.i.e.	725.5	736.0	749.6
a. Personnel-related outlays	336.9	374.9	370.9
b. Goods and services	197.4	192.7	135.9
c. Interest payments	33.4	30.2	35.9
d. Investments	31.4	28.3	18.4
e. Other	126.4	110.0	188.4
3. Financial deficit (-)	-24.1	6.2	-18.0
4. Net foreign capital	13.3	24.1	27.9
5. Net domestic capital 2)	-10.5	-16.9	14.9
6. Net recourse to the monetary system	-21.3	13.4	24.7
7. Memorandum items:			
a. Unmet financing requirement 3)	58.7	96.1	197.9
b. Financial deficit (-) 4)	-6.1	-31.2	-119.8
c. Total government debt 5)	929.2	1,007.8	1,152.4
d. Domestic debt	561.8	632.1	759.1
e. Foreign debt 6)	367.3	375.7	393.3
f. Outstanding government guarantees 6)	283.2	277.1	272.6
g. Nominal GDP	3,124	3,331	3,404
8. Key indicators: (in % of nominal GDP, unless otherwise stated)			
a. Financial deficit (-) (see 7b)	-0.2	-0.9	-3.5
b. Total debt	29.7	30.3	33.9
c. Revenue and grants	22.5	22.3	21.5
d. Tax revenue	19.5	18.7	17.8
e. Expenditure	23.2	22.1	22.0
f. Foreign debt in % of current account receipts 7)	18.9	18.1	18.8

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' part in this is included under item 6, while the nonresidents' part is included under item 4.
3) Comprising all reported unsettled payment obligations to other sectors irrespective of the time frame in which they mature.
4) Including the change in unmet financing requirements.
5) Preliminary (end-of-period) figures, but excluding government guarantees. For 1999, the debt resulting from the separation of funds associated with the Status Aparte in 1986 is included. This debt was repaid in December 2000.
6) At year-end exchange rates.
7) Excluding the oil and free-zone sectors.

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

3.5 Balance of payments

In 2001, the balance of payments registered an AFL 137 million surplus, compared to an AFL 45 million deficit in 2000 (see table 6). This outcome, combined with revaluation differences of gold and official foreign exchange holdings, resulted in a 26 percent increase in the net foreign assets of the banking sector. At the end of 2001, these assets reached a record AFL 708 million, 82 percent of which was in the hands of the Bank. The twelve-month import coverage ratio rose from 5.8 months to 6.5 months, slightly above the upper bound of the 5 to 6 month target range.

On balance, the oil sector sold AFL 43 million in foreign exchange to the monetary sector (2000: AFL 39 million) and AFL 10 million was sold by the free-zone sector (2000: AFL 4 million). Furthermore, the transactions of the rest of the economy resulted in a sizeable net inflow of foreign funds amounting to AFL 84 million, in contrast to an AFL 81 million outflow in 2000.

The improvement in the balance of payments was caused by a number of factors. First, the current account surplus of the oil sector rose by 36 percent, as export receipts from refined oil products and goods procured in ports declined less than import payments for crude oil. On the other hand, payments for non-oil merchandise imports by this sector rose by 81 percent, associated partly with the rehabilitation of the refinery after a fire in April 2001.

Second, the deficit in the trade account of the rest of the economy declined by AFL 57 million, also reflecting lower merchandise imports because of the subdued economic activities. Furthermore, the deficit in current transfers declined by AFL 24 million, due partly to a smaller contribution to the Solidarity Fund. The surplus on services increased slightly to AFL 1,141 million. Despite the decline in visitor nights, registered tourism receipts rose by 4 percent. Consequently, the share of this revenue in total current account receipts (excluding oil and free-zone sectors) increased by 3 percentage points to 77 percent. In contrast, the deficit on the income account more than quadrupled, due to increased dividend transfers to nonresidents.

Third, the capital and financial account deficit of the rest of the economy narrowed by AFL 121 million, resulting mainly from portfolio and other investment transactions. On the other hand, net outgoing direct investment of the oil sector increased by AFL 161 million, reflecting a rise in the contra-entry of the improved current account.

Table 6 Balance of payments by sectors

In AFL million

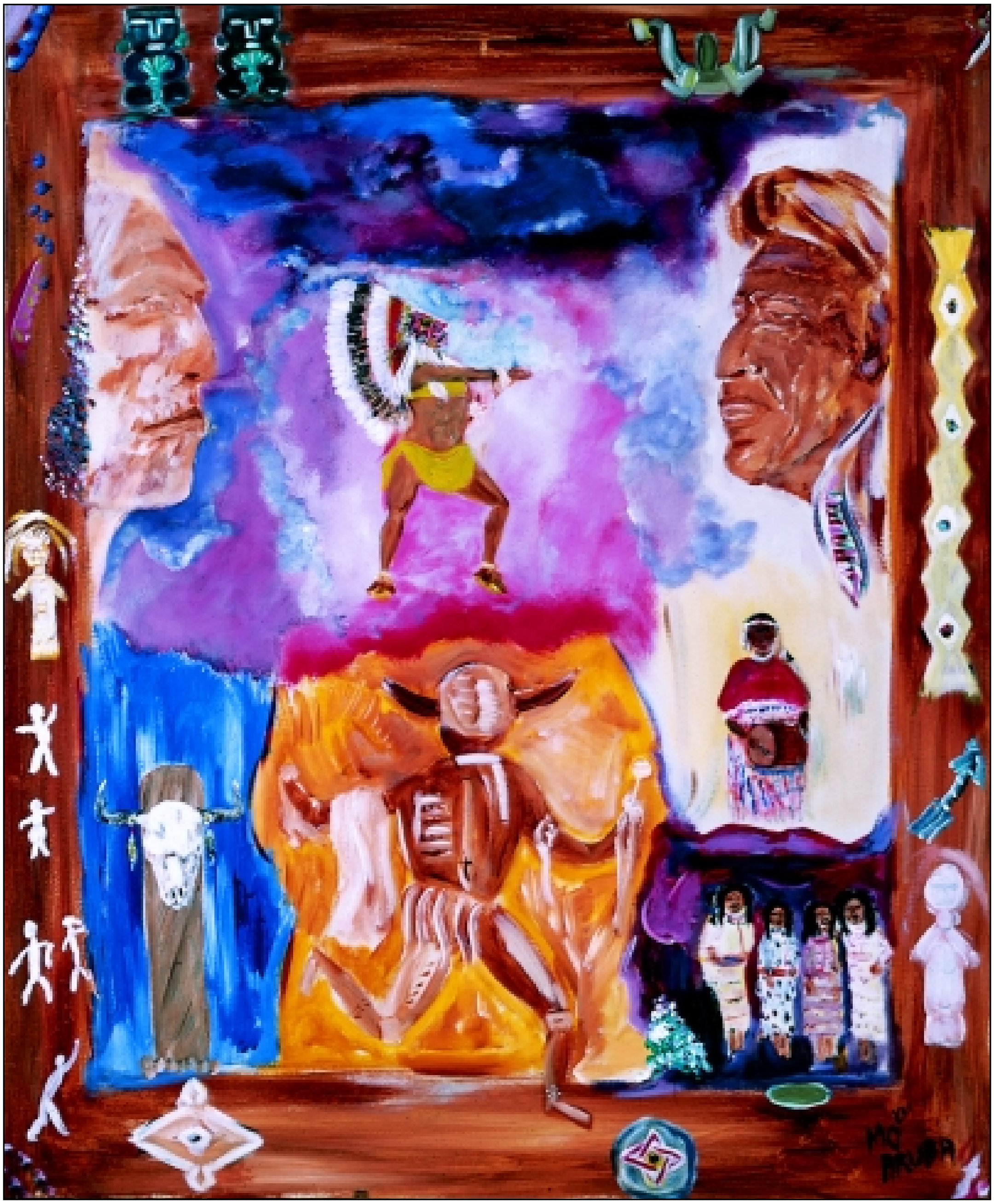
	1999	2000	2001
1. Current account (net)	-622.8	527.9	756.7
a. Oil sector	-619.4	456.3	620.1
b. Free-zone sector	49.0	-3.6	9.7
c. Rest of economy	-52.4	75.2	126.9
1. Goods	-936.5	-978.9	-922.3
2. Services	948.2	1,135.2	1,140.5
(of which tourism)	(1,193.8)	(1,300.1)	(1,361.7)
3. Income	-52.0	-10.3	-44.4
4. Current transfers	-12.1	-70.8	-46.9
2. Capital and financial account (net)	658.9	-561.2	-599.9
a. Oil sector	660.4	-417.2	-576.8
b. Free-zone sector	0.0	0.0	0.0
c. Rest of economy	-1.5	-144.0	-23.1
1. Capital account transactions	0.0	17.8	-1.5
2. Direct investment	54.5	-10.3	-18.1
3. Portfolio investment	-85.1	-71.1	33.2
4. Other investment	29.1	-80.4	-36.7
4.1 Loans	52.2	-16.4	-25.8
4.2 Other financial transactions	-23.1	-64.0	-10.9
3. Items not yet classified 1)	-16.9	-11.7	-19.6
4. Overall balance (1+2+3)	19.2	-45.0	137.2
5. Banking transactions 2)	-14.0	16.2	11.0
6. Increase (-) in official reserves 3)	-5.2	28.8	-148.2

Table 6 Balance of payments by sectors (continued)
In AFL million

	1999	2000	2001
Memorandum items:			
7. Trade balance (on cash basis) 4)	-1,063.5	-62.7	137.7
a. Exports (f.o.b.)	2,533.6	4,618.2	4,366.3
b. Imports (f.o.b.)	3,597.1	4,680.9	4,228.6
8. a. Current account as a percentage of GDP (including the oil sector)	-19.9	15.8	22.2
b. Current account as a percentage of GDP (excluding the oil sector)	-0.1	2.1	4.0
9. a. Official reserves (including gold)	440.2	419.8	578.2
b. In months of merchandise imports 5)			
1. End-of-period	3.8	3.9	5.5
2. Twelve-month average	4.2	4.2	4.9
10. a. Total reserves of the monetary sector	599.1	560.7	708.0
b. In months of merchandise imports 5)			
1. End-of-period	5.2	5.2	6.8
2. Twelve-month average	5.8	5.8	6.5

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) Receipts from exports and payments for imports settled through the local commercial banks and notified foreign bank and/or current accounts.
5) Excluding the oil sector.

Source: CBA.



MO MOHAMED relates Indian mythology in his **"MEKARÓN"**, meaning the "SOUL" in the Indian language, in a descriptive style with a variation of realistic and cryptic images. He reveals culture, rituals, and human expressions, overcast with doses of spirituality on a 2-dimensional canvas. His burnt-sienna color is radiantly warm along the border hiding the "mekarón" inside this frame, rich with Indian symbols which may be decorative, but also surely telling the story that has to be told. Mo is bold and bright, rich and warm with his use of colors in this "soul"-expression.

4 Supervision of financial institutions

4.1 Introduction

The Bank is entrusted with the prudential supervision of the banking and insurance sector, as well as the company pension funds, on the basis of, respectively, the State Ordinances on the supervision of the credit system (AB 1998 No. 16), on the supervision of the insurance business (AB 2000 No. 82), and on company pension funds (AB 1998 GT 17).

Prudential supervision aims to prevent financial institutions from taking risks that could harm the interests of depositors and policyholders, and endanger the stability of the financial system. To that end, 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.

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

Regularly so-called on-site examinations are undertaken 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 2001, two commercial banks, two offshore banks, two life insurance companies, and two company pension funds were examined. These examinations constitute a vital supervisory tool for assessing key areas, such as financial condition, assets quality, anti-money-laundering procedures, administrative organization, and management.

4.2 Laws and regulations

In October 2001, after having consulted the Aruban Bankers' Association, the Bank issued a revised prudential supervision manual for credit institutions. The purpose of this revision was mainly to cross-reference its directives and guidelines to the relevant stipulations of the State Ordinance on the supervision of the credit system. Moreover, the large loans and solvency-testing forms were revised.

With the implementation of the State Ordinance on the supervision of the insurance business as of July 1, 2001, all insurance companies operating in or from Aruba fall under the Bank's supervision. Companies wanting to conduct insurance activities are required to obtain a license from the Bank to commence or pursue their activities.

In accordance with Section V, paragraph 1 of the implementation ordinance (AB 2000 No. 91) companies already established in Aruba before July 1, 2001, also were required to apply for a license before the end of December 2001. With the exception of one life insurance company, two general insurance companies, and one offshore insurance company, all companies have done so. The applications received now are being evaluated. The due date to take a final decision on these applications is July 1, 2002. Companies that have not applied for a license are required to end their activities in an orderly manner and will remain under the Bank's supervision until this process has been completed.

As of the reporting year 2001, the general insurance companies also are required to report their audited annual figures to the Bank in a prescribed format. Reporting forms for these companies were developed, while the existing forms for life insurance companies were revised. In addition, on March 1, 2002, the Bank issued solvency guidelines and draft actuarial guidelines for life insurance companies. The latter will become effective as of the reporting year 2002. Furthermore, the anti-money-laundering guidelines for life insurance companies were revised slightly.

4.3 Major issues and developments

4.3.1 IMF assessment of Aruba

In the framework of IMF's Offshore Financial Center Assessment Program, Aruba's supervisory and anti-money-laundering framework was assessed by an IMF-mission in December 2001, following the assisted self assessment that took place in the preceding months. The internationally recognized Core Principles for Effective Banking Supervision issued by the Basel Committee on Banking Supervision, the Insurance Core Principles of the International Association of Insurance Supervisors, as well as the recommendations of the Financial Action Task Force (FATF) on anti-money laundering, served as benchmarks for this assessment.

The mission recognized that much progress has been made in the last few years. Nonetheless, it concluded that further work is needed to become fully compliant with international standards. It recommended, inter alia, (1) to strengthen the supervisory laws, regulations, and practices with respect to the banking and insurance industry; (2) to place other financial sectors vulnerable to money laundering (including company service providers and money transfer companies) under effective supervision; (3) to bring all financial service providers under the legal obligation to report unusual transactions; (4) to implement the State Ordinance on the import and export of cash monies; and (5) to enhance the capabilities (by increased staffing) of the Reporting Center Unusual Transactions ("the MOT"), the Police Authorities, and the Prosecuting Office. The Bank endeavors to implement the recommendations made in the area of financial sector supervision before the end of 2003. The IMF has offered technical assistance with respect to the drafting and amending of the supervisory laws and regulations.

4.3.2 International fora

During 2001, the Bank attended the annual meetings of the International Association of Insurance Supervisors held in September 2001 in Bonn (Germany). At the subsequent meeting in Tokyo, the following five supervisory standards were adopted: (1) Principles on Capital Adequacy and Solvency; (2) Supervisory Standard on the Exchange of Information; (3) Supervisory Standard on the Evaluation of Reinsurance Cover of Primary Insurers and the Security of their Reinsurers; (4) Anti-Money-Laundering Guidance Notes for Insurance Supervisors and Insurance Entities; and (5) Guidance Paper on Public Disclosure by Insurers.

The Bank also attended the annual meetings of the Caribbean Group of Banking Supervisors held in May 2001 in St. Kitts. Ample attention was paid to the implications and applicability of the so-called Basel II Capital Accord, which eventually will replace the accord of 1988.

In June 2001, the Bank participated in the meetings of the Offshore Group of Insurance Supervisors and the Offshore Group of Banking Supervisors held in Gibraltar. An important item on the agenda was the increasing pressure of the OECD, FATF, FSF, and other bodies on offshore centers to comply with the standards adopted by these bodies in the areas of supervision, anti-money laundering, and taxation.

4.3.3 Integrity of the financial system

Maintaining the integrity of the financial system is a crucial aspect of prudential supervision. The September 11 attacks in the United States, which have led to a sharp increase in efforts to foster international cooperation and coordination in combating money laundering and terrorist financing, underscore the importance of the subject matter.

In anticipation of legislation, the Bank has issued detailed guidelines for money transfer companies. Some of these guidelines are aimed specifically at preventing money laundering via this sector. As of May 2001, the Bank publishes twice a year a list of companies complying with its guidelines. Compliance is tested marginally once a year. Up to now, three money-transfer companies have qualified. Subject companies account for the bulk of the transactions in this sector.

During 2001, approval was granted by the U.S. Internal Revenue Service of Aruba's know-your-customer rules. Based upon this approval, financial institutions may now apply individually for the so-called "qualified intermediary status," which grants an immediate reduction in withholding taxes on payments received from U.S. securities on behalf of their clients. Others will have to go through a lengthy process per individual transaction to get this reduction.

Banks and insurance companies must adhere to the State Ordinances on the obligation to report unusual transactions and on the identification for rendering financial services, as well as with the Bank's anti-money-laundering directives. The Bank supervises compliance with its directives during the regular on-site examinations. Based upon the recommendations of the IMF mission, the frequency of examinations will be increased and cooperation and coordination with the MOT enhanced.

Established in early 1996 as a separate institution within the Ministry of Finance, the MOT 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 legal responsibility with respect to the latter ordinance, as far as it concerns the financial institutions under its supervision. To avoid overlap, it was agreed that primarily the Bank will monitor compliance with this ordinance at these institutions during its on-site examinations.

Based upon recommendations by the FATF in its 1999 evaluation report and in view of the latest developments in The Netherlands, the Bank currently is looking into the possibility of including the review of compliance with the reporting obligation in its anti-money-laundering on-site program. At present, the Bank assesses only the administrative systems and internal controls at the supervised institutions with respect to the reporting of unusual transactions. A legislative change may be required to achieve this goal.

4.4 Sectoral developments

In this paragraph, the financial developments in the different sectors under the Bank's supervision are discussed briefly. An extensive overview was presented in its bulletin for the fourth quarter of 2001.

4.4.1 Banking sector

As shown in table 7, the number of banking institutions supervised decreased by one, due to the acquisition of the assets and liabilities of ABN-AMRO Bank, Aruba branch by First National Bank of Aruba N.V. on October 7, 2001. On the same date, the latter bank changed its name to RBTT Bank Aruba N.V. Another important event was the acquisition of all shares of Interbank Aruba N.V., previously held by Aubar Holdings N.V., by the Fundacion Cas Pa Comunidad Arubano (F.C.C.A.) on June 26, 2001.

Commercial banks
Five commercial banks currently are operating in Aruba. One is a branch and one a subsidiary of, respectively, Banco di Caribe N.V. and Maduro & Curiel's Bank N.V., both established in Curaçao. Thus, two of these five banks also are supervised (on a consolidated basis) by the Bank van de Nederlandse Antillen.

The aggregated balance sheet total of the commercial banks increased by 6 percent to AFL 2,430 million at the end of 2001, equivalent to 71 percent of estimated nominal GDP. Growth in loans decelerated from 13 percent to 3 percent as a result of the subdued business activities. On the liability side, deposits rose by 5 percent. As a consequence, the loan-to-deposit ratio decreased from 79 to 73 percent, clearly below the prudential maximum of 80 percent.

The various macroprudential indicators show that the commercial banking sector is generally sound and profitable (see table 8). The banks' aggregated risk-weighted capital asset ratio increased from 8.2 percent to 10.6 percent, well above the minimum capital requirement of 8 percent adopted by the Basel Committee on Banking Supervision. Asset quality is satisfactory. Even so, this variable is monitored closely also in view of the recent adverse economic developments.

Mainly due to a decrease in operating expenses and smaller additions to the allocated loan loss provisions, the banks' return on equity increased by 5 percentage points to a notable 35 percent. Their liquidity ratio rose by 4 percentage points to 28 percent, well above the minimum prudential liquidity requirement of 20 percent.

The products and services offered by the banks are mainly in the traditional retail banking area. Interest receipts remain their dominant source of income. As a result of the oligopolistic market structure of the domestic banking sector, as well as the absence of economies of scale, interest rates are high and inflexible compared to that of industrialized countries. The average interest margin is 6 percent. The banks are taking steps to rationalize their internal processes and to improve service to their clients. The number of automated teller machines increased from 58 to 64 in 2001. Internet banking is still in the early stages of development. Until now, the banks' websites are more informative than transactional.

Table 7 Number of supervised institutions within the banking sector

End-of-period figures

	1999	2000	2001
1. Commercial banks	6	6	5
2. Offshore banks	2	2	2
3. Bank-like institutions	4	4	4
a. Mortgage banks	2	2	2
b. Finance companies	1	1	1
c. Other financial institutions	1	1	1
4. Credit unions	2	2	2
Total	14	14	13

Table 8 Core set of macroprudential indicators of the commercial banks

End-of-period figures in percentages

	1999	2000	2001 1)
1. Capital adequacy			
a. Risk-weighted capital ratio = regulatory capital ratio	7.9	8.2	10.6
b. Tier 1 capital ratio	5.1	3.8	4.5
2. Asset quality			
a. Non-performing loans (net of provisions) to gross loans	2.6	2.7	2.8
b. Non-performing loans (net of provisions) to regulatory capital	33.9	35.6	28.3
c. Large loans to regulatory capital	2.6	2.8	1.4
3. Earnings and profitability			
a. Return on assets	0.2	1.2	1.5
b. Return on equity	5.3	30.1	34.7
c. Interest margin to gross income	66.7	65.9	63.7
d. Non-interest expenses to gross income	97.2	85.1	75.0
4. Liquidity			
a. Loan-to-deposit ratio	73.0	78.5	73.0
b. Prudential liquidity ratio	29.6	24.3	27.5
c. Liquid assets to short-term liabilities	99.1	78.5	86.4
5. Sensitivity to market risk			
a. Interest rate margin	6.8	5.8	6.3
b. Net foreign assets to regulatory capital	150.0	128.2	102.3

1) Preliminary figures.

Offshore banks

Aruba's offshore banking sector is very small by international standards. Only two U.S.-based offshore banks are registered here. These banks, which also fall under consolidated supervision of the home country supervisory authorities, had an aggregated balance sheet total of AFL 1,862 million at the end of 2001, or 55 percent of estimated GDP. Compared to 2000, this total decreased by 13 percent, but profitability rose sharply. As a result, the aggregated risk-weighted capital asset ratio increased from 10 percent to 14 percent, substantially above the generally accepted minimum mentioned earlier.

Bank-like institutions

These institutions are engaged mainly in mortgage lending to individuals, financing social housing projects, long-term project financing, as well as personal loans for consumer and home improvement purposes. The financing of their activities is done mainly out of own capital, as well as 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 438 million at the end of 2001 (2000: AFL 431 million), equivalent to 13 percent of GDP and 27 percent of that of the commercial banks. Their aggregated risk-weighted capital asset ratio remained notably high at around 60 percent.

4.4.2 Institutional investors' sector

As shown in table 9, the number of institutions supervised by the Bank increased from 18 to 39 during 2001. As of July 1, these include all insurance companies operating in or from Aruba. In 2001, the Stichting Pension Fund Caribbean Mercantile Bank was added to the list of company pension funds supervised by the Bank.

Table 9 Number of supervised institutions within the institutional investors' sector
End-of-period figures

	1999	2000	2001
1. Life insurance companies	10	9	9
2. General insurance companies	0	0	15
3. Offshore non-life insurance companies	0	0	2
4. Captive insurance companies	0	0	3
5. Company pension funds	9	9	10
Total	19	18	39

Life insurance companies

The aggregated balance sheet total of the life insurance companies increased by 18 percent during the year 2000 to AFL 382 million, equivalent to 11 percent of GDP and 16 percent of that of the commercial banks. Investment rose by AFL 41 million to AFL 286 million, of which 24 percent are foreign assets. On the liability side, technical provisions surged by 13 percent to AFL 233 million. Capital and reserves increased by 13 percent. The liquidity ratio and the return on investment went up by 1 percentage point, while the solvency ratio improved by 4 percentage points (see table 10).

Table 10 Financial ratios of the life insurance companies

End-of-period figures in percentages

	1998	1999	2000
1. Liquidity ratio (Current assets to technical provisions)	10	12	13
2. Return on investment (Investment income to average invested assets)	9	8	9
3. Coverage ratio (Investments to technical provisions)	123	119	123

General insurance companies

The total assets and the gross written premiums of the non-life insurance companies amounted to AFL 117 million and AFL 59 million, respectively, 3 percent and 2 percent of GDP.

Company pension funds

The aggregated balance sheet total of the company pension funds amounted to AFL 205 million at the end of 2000. Investments rose by 6 percent to AFL 198 million, of which 75 percent consist of foreign assets. On the liability side, technical provisions increased by 8 percent to AFL 194 million during 2000.

As shown in table 11, the company pension funds' liquidity ratio decreased to 3 percent, while their return on investment and coverage ratio decreased by 2 percentage points. The latter resulted mainly from the bearish financial markets. Although the coverage ratio is still acceptable, its decreasing trend in recent years is somewhat worrisome.

Table 11 Financial ratios of the company pension funds

End-of-period figures in percentages

	1998	1999	2000
1. Liquidity ratio (Current assets to technical provisions)	4	5	3
2. Return on investment (Investment income to average invested assets)	10	10	8
3. Coverage ratio (Investments & cash minus volatility cushion 1) to technical provisions)	119	114	112

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

"PEREMTORY PERI OF THE PASSIFLORA" is a creation by the Aruban-born artist **GIOLINA HENRIQUEZ**. According to the artist herself, this painting is a symbolic portrayal of the spiritual passion for idiosyncratic excellence, sustained by the purity of its inner force. In her works of art, Giolina is forever on a discovery journey within the mind and soul, always in search of idiosyncratic awareness. In this painting, she allows "jewels" of very realistic passion flowers to float in her optical illusioned geometric, almost abstract space, created by manipulating color in different hues. The painting breathes simplicity and serenity, and is itself mystifying.

5 Financial Statements

Balance sheet as of December 31, 2001, after profit distribution

In thousands of Aruban florin

	2001	2000
Assets		
Gold	55,044	40,991
Foreign currency	525,720	381,163
Receivables	7,490	7,456
Premises	9,588	4,068
Other fixed assets	1,499	1,716
Printing costs bank notes	-	178
	599,341	435,572
Liabilities		
Bank notes issued	141,849	137,105
Liabilities to residents	347,169	210,809
Liabilities to nonresidents	2,569	2,318
Money in custody	1,971	1,865
Payables and accrued expenses	2,825	2,858
Revaluation account	38,653	28,481
General reserve	37,305	29,266
Reserve for new premises	17,000	12,870
Capital	10,000	10,000
	599,341	435,572

Profit and loss account for the year 2001

In thousands of Aruban florin

	2001	2000
Net investment revenues	30,026	18,452
Net revenues foreign exchange	2,001	2,753
Net revenue coin sales	573	722
Other income	1,075	239
Total income	33,675	22,166
Cost of printing bank notes	178	175
Personnel expenses	6,232	6,317
Operating expenses	1,909	1,648
Depreciation	937	869
Total expenses	9,256	9,009
Profit	24,419	13,157
Profit distribution		
Transfer to government	12,250	5,000
General reserve	8,039	1,757
Reserve for new premises	4,130	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 (except for gold) and determination of results remained unchanged in 2001.

2.2 Accounting policies

Gold
Until the end of 2000, the valuation of gold was determined once every three years at the lowest yearly average market price of gold, converted into florin, in the three calendar years preceding the date of valuation, less 30 percent. Since December 31, 1998, gold has been valued at AFL 368,58 (previously: AFL 450,74) per fine troy ounce. Effective December 31, 2001, gold is valued on a quarterly basis at the prevailing market rate. Changes in the valuation of gold are included in the revaluation account.

Foreign currency
Comprises investment through asset managers, current account and time deposits held at foreign credit institutions, and bank notes. The former consists mainly of government or government-guaranteed paper denominated in U.S. dollars, and is recorded at market value. Current accounts, 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 reassessed. The rebuilding costs are depreciated as of 1997 for a period of 20 years. In April 2001, the Bank started constructing a new office building at Punta Bravo. The actual investment and cost of construction until the balance sheet date are included in this item.

Other fixed assets
Consist of furniture and equipment, valued at cost less accumulated depreciations and amortized according to the straight-line method over the estimated life of the assets. Investment of less than AFL 3,000 is charged to expenses.

Other assets and liabilities
Recorded at face value unless indicated otherwise.

2.3 Revenue recognition

Profits 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 rate results by the asset managers are not included in the profit and loss account, but in the revaluation account. Transactions in foreign currencies during the reporting period are incorporated in the financial statements at the rate of settlement. The exchange rate for the U.S. dollar is fixed at US$ 1.00 = AFL 1.79.

3 Notes to the balance sheet

3.1 Gold

Due to the change in the accounting policy referred to under paragraph 2.2, the book value of the gold holdings increased by AFL 14,052,722 compared to December 31, 2000. This increase is also recorded in the revaluation account. On the balance sheet date, the Bank's holding of gold deposits was 111,214 fine troy ounces with a market value of AFL 55,044,000.

3.2 Foreign currency

Comprises balances held with foreign credit institutions and investments through asset managers in (1) government and (explicitly or implicitly) government-guaranteed paper; (2) paper issued by qualifying supranational financial institutions; and (3) money market instruments of and accounts with at least double A-rated credit institutions. The Bank's investment guidelines stipulate 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 generally denominated in U.S. dollars, while relatively small amounts are held in Euros and Netherlands Antillean guilders.

3.3 Receivables

Include mainly accrued interests from invested foreign funds, 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	12-31-2001	12-31-2000
	(Value in AFL)	
AFL 5.00	911,265	1,259,985
AFL 10.00	4,955,290	4,946,040
AFL 25.00	12,233,950	11,295,925
AFL 50.00	9,535,100	9,201,575
AFL 100.00	105,016,500	101,189,200
AFL 500.00	9,196,500	9,212,500
Total	141,848,605	137,105,225

3.5 Liabilities to residents

This item comprises:

	12-31-2001	12-31-2000
	(x AFL 1,000)	
Government	76,715	40,281
Development funds	31,257	22,555
Bank:		
- current accounts	60,866	25,460
- cash reserve	108,486	105,651
- time deposits	47,989	12,875
Other	21,856	3,987
Total	347,169	210,809

Current accounts of the commercial banks are partly held 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 Liabilities to nonresidents

Comprise florin accounts of nonresident banks and other financial institutions.

3.7 Money in custody

Consists of funds 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 Reserve for new premises

For the construction of the new building and the purchase of office inventory, the Board of Supervisory Directors has approved a total investment of AFL 17,000,000. Management has created this reserve with approval of the Minister of Finance through retentions of part of the profit over the last three years.

3.10 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

	2001	**2000**
	(x AFL 1,000)	
Revenues	35,268	25,487
Interest expenses	5,242	7,035
Total	30,026	18,452

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.

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 Board of Supervisory Directors has decided, with the approval of the Minister of Finance, to add AFL 8,039,000 to the Bank's general reserve and AFL 4,130,000 to the reserve for new premises. The remaining profit amounting to AFL 11,000,000 has been transferred to the Treasury.

4.5 Interim dividend

In accordance with article 33, paragraph 3 of the Central Bank Ordinance, the Bank may under certain conditions grant an interim dividend to the Treasury during the current year. In the year under review, this dividend amounted to AFL 1,250,000.

Auditor's report

Introduction

We have audited the accompanying balance sheet of the Centrale Bank van Aruba as of December 31, 2001, and the related statement of income for the year then ended as included on page 35 through 42 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.

Scope

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.

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, 2001, and the results of its operations for the year then ended in accordance with the accounting standards applicable.

Aruba, April 25, 2002

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PricewaterhouseCoopers

"PEREGRINAS" (= pilgrims) by the self-taught Mexican artist, **MARIA LATORRE**, has an almost surrealistic, classical, claire-obscure "aura" around it, due to her dramatic application of light and dark. The stroke of her brush creates a feathery "skin", which softens the seemingly expressionless heads of the birds. They come in primary colors, these symbols of freedom, migrating through the air, heading towards a bright light. In search of …? Maria's art is often dominated by the combination of her Mexican heritage mixed with her appropriated Aruban culture, together with her life experience and spirituality.