

**ANNUAL REPORT
AND
FINANCIAL STATEMENTS FOR THE YEAR**

2003

Correspondence related to this report should
be addressed to the Economic Policy Department
of the Centrale Bank van Aruba
J.E. Irausquin Boulevard 8
P.O. Box 18
Telephone (297) 5252-100
Telefax (297) 5252-101
Website: www.cbaruba.org
E-mail: cbaua@setarnet.aw

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by
Fernando Vermeer
Diane Keijzer

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MISSION STATEMENT

WORKING TOWARDS FINANCIAL STABILITY
FOR THE BENEFIT OF THE PEOPLE

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(as of May 5, 2004)

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Chairman of the Board of Supervisory Directors
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Members of the Board of Supervisory Directors
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T.R.L. Vingal
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H.M. Oduber

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Security, General Affairs
F.P. Meijer



FROM THE PAST TO THE FUTURE

It must never have been easy to make a living, let alone to prosper, under the difficult circumstances that the semi-arid environment of Aruba has to offer. The climate is harsh and natural resources are scarce. Yet from prehistoric times, people have not only settled here, but also survived and even thrived, as evidenced from rock paintings, artifacts, tools, and ornaments left behind by previous generations. These objects provide unique insights into earlier cultures, which comprise building blocks to our own identity. They are signs of the creativity, resourcefulness, and adaptability that have resulted in Aruba's unique situation.

Around the island, reminders can be found of the simplicity, perseverance, and dedication of the early inhabitants. Moreover, displays in various museums reflect the historical waves of change. As a tribute to their efforts, and to help spread knowledge about the origin and evolution of Aruba's identity, the Centrale Bank van Aruba, in cooperation with the Ministry of Culture, dedicates this year's annual report to these museums.

Aruba has eight officially recognized museums, i.e., Aruba Model Trains Museum, Aloe Museum, Museo Antigüedad Aruba, Aruba Archeological Museum, Bible Museum, Sports Hall of Fame Museum, Aruba Historic Museum, and Numismatic Museum. Their aim is to preserve and conserve objects, demonstrate the creativity of the human mind and spirit, and tell the story of the way of living. The museums portray how people through the ages have expressed their unique character and how we came to be what we are today. In this way, museums can take us through time, back to our past, and, subsequently, ahead to the future.

Only recently has the value of these museums received the proper recognition and appreciation. This increasing attention is reflected in the organization of cultural routes, festivals, and special events. More attention is focused on the roots of the Aruban identity, and more initiatives are being taken to highlight this identity. Museums, many housed in impressive monumental historical buildings, serve as a beacon to the culture and have a significant educational value for both the local people and the large number of tourists.

Thus, visiting museums is an experience that provides better understanding of the essence of Aruba, as well as insights into the secrets of friendliness and success of its people. Moreover, spending time in Aruba's museums is surely a pleasant, entertaining, and touching experience, full of lessons to remember and to pass on to future generations.

T.F. Ramon Lee
Minister of Labor, Culture and Sports

THE ALOE PLANT ADOPTED AND ADAPTED

Around 1836, aloe cultivation was introduced in Aruba and has formed part of its culture ever since. An entire industry followed that consisted of collecting extracts from cut leaves, cooking these in a copper kettle, and then exporting the hardened remains. Arubans ascribed a wide variety of other uses to aloe, from an ingredient in housepaint, to moisturizer, laxative, and herbal medicine. (Aruba Historic Museum, Aloe Museum)

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STATEMENT BY THE PRESIDENT

During the year under review, the world economy emerged from a troubled period of financial turbulence and geopolitical tensions. The adverse influence of these risk factors weakened significantly in 2003, contributing to a deepening and broadening of the recovery. Confidence of entrepreneurs and consumers was restored to a large extent, growth rates of production and international trade accelerated, and investment activities increased in most regions. These developments coincided with a financial rally, particularly in the equity markets, and an increase in private capital flows to emerging economies. Despite higher commodity prices, worldwide inflation was subdued, reflecting the existing excess capacity, the still relatively high unemployment rates, and a vital international competition associated with the ongoing globalization.

The United States and developing Asia led the global recovery. Surprisingly, Japan, where performance was disappointing throughout the past decade, also achieved much better results than initially expected. Unfortunately, the opposite was the case in the euro zone where growth stagnated, accentuating the need to make the European Union as a whole a more dynamic and flexible economy. Several Latin American countries, particularly Argentina and Brazil, entered a recovery phase, but in Venezuela real gross domestic product continued to crumble as a result of the sociopolitical instability. The situation in a number of Caribbean countries remained a concern due to structural weaknesses, fiscal imbalances, high debt burdens, and fragile financial sectors.

Stimulated by a more favorable external environment, the economy of Aruba started to recover from the 2001-2002 recession when gross domestic product at constant prices shrank by an estimated 3 percent on a cumulative basis. In 2003, the production volume rebounded by 1.4 percent. Consequently, nominal per capita income reached a record level of US\$ 21,158, one of the highest in the region. These encouraging results were caused primarily by a notable increase in private sector investments, reflecting a renewed optimism about the economic prospects, particularly with respect to tourism, the mainstay of the economy. Additionally, several projects of the Fondo Desaroyo Aruba and some other infrastructure works finally were implemented.

The optimistic sentiment also is based on the fact that tourism approached its pre-recession level, measured in terms of nights that visitors spent on the island. As one of the most popular destinations in the Caribbean, Aruba clearly benefited from the cyclical upturn in the United States and the re-emerging desire to travel abroad. In addition, more Europeans were welcomed to the island because of the lower airfares, the increased seat capacity, and the sharp appreciation of the euro. Due primarily to a longer average length of stay, the total number of visitor nights increased by 5 percent, largely offsetting the 6 percent decline in 2002. However, the number of cruise passengers fell by 7 percent to about 542,000 after remarkable expansions in the preceding years. During 2003, almost 1.2 million persons visited

Aruba, slightly less than the record established in 2000. This is a major achievement, albeit the rebound in the growth rate was lower than in other Caribbean destinations, mainly as a result of the continuing decline in tourism from Venezuela, still Aruba's second largest market segment.

Despite the rebound in the number of visitor nights, the export volume of goods and services (excluding oil) fell quite sharply, partly because tourists bought less locally, and the activities in the free-zone sector crumbled. On the other hand, import growth more than doubled, due mainly to an accelerating increase in private consumption, and a further rise in government spending. Consequently, the deficit on the (non-oil) current account widened in nominal terms by Afl. 32 million to a disquieting Afl. 317 million or 9 percent of gross domestic product, exerting a strong negative effect on economic growth. This situation is unsustainable for a small open economy, given its limited access to international capital markets, its modest debt-servicing capacity, and the small size of its official foreign exchange reserve in absolute terms. Telling in this respect is that the current account deficit was only partly compensated for by private sector capital inflows, which include US\$ 22.5 million SETAR bonds purchased by nonresidents. These bonds were issued by Aruba's telecommunications company. The proceeds were used to finance its payment obligations to the government ensuing from the obtaining of a corporate status within the public sector. Also, more capital was imported to buy time-share units, following relatively large investments in these tourist facilities. In contrast to the preceding years, the net capital import by the government was negative due to the settlement of large debt-servicing obligations.

On balance, the net foreign assets of the monetary system declined from Afl. 756 million at the end of 2002 to Afl. 705 million at the end of 2003. The decline was fully reflected in the Bank's official foreign exchange reserve. The merchandise import coverage ratio fell from 6.5 months to 6.1 months, and its 12-month moving average from 7.3 months in 2002 to 6.7 months, but remained above the 5-6 month target range. These figures still are rather satisfactory. However, when evaluating the adequacy of the level of the foreign exchange reserve, account must also be taken of the notable increase in future foreign payment obligations, ensuing partly from an upsurge in Aruba's external debt. Then it becomes obvious that decisive and timely actions must be taken at least to significantly reduce the deficit on the current account of the balance of payments by containing private and public consumption. Only in this way can a further crumbling of the foreign exchange position be avoided and debt sustainability ensured, requisites to protect the external liquidity and solvency of the economy and to safeguard confidence in the currency peg with the U.S. dollar.

The net outflow of funds abroad led to only a modest deceleration in the increase in the money supply, i.e., from almost 11 percent to 9 percent. The monetary expansion remained well above the sum of the long-term growth potential of the economy and the imported inflation, estimated at about 5-6 percent. This discrepancy increased the risk of additional balance of payment disturbances and inflationary pressures. The worrisome increase in

money supply was brought about mainly by the continuing expansion in commercial bank lending, which for the second consecutive year amounted to an excessive 13 percent, despite the re-introduction of a 7 percent credit ceiling at the beginning of 2003. The banks did not adhere to this guideline due to their abundant liquidity position, which resulted partly from the injection of high-powered money via the net import of foreign capital. Moreover, no penalty initially was imposed on excess lending, while a role also was played by incidental factors related to the acquisition of Interbank Aruba N.V. by Aruba Bank N.V.

To prevent a continuation of the excessive lending growth, the Bank, after consulting with the Aruban Bankers' Association, decided to lower the normative credit ceiling for 2004 by one percentage point to 6 percent and, more important, impose a 6 percent penalty on individual banks that cause any excess lending. Containing lending (particularly for consumption purposes) is necessary because an estimated two-thirds of every florin brought into circulation eventually is used to buy goods and services abroad. Thus, a sound credit policy is essential to support the balance of payments and financial stability. For the same reason, the Bank has adopted a more cautious approach when evaluating requests for a foreign exchange license to invest abroad. In the meantime, cautious initial steps were taken to move to a more market-oriented mechanism of monetary control. Through issuing 6-month Central Bank Certificates, efforts were made to sterilize the overliquidity of the banks and to prepare the technical infrastructure for open-market operations. However, the appetite to purchase these certificates so far has been very modest because of the prevailing low market interest rates and the flat shape of the money market yield curve.

The too rapid increase in the money supply facilitated an acceleration in the 12-month average increase in the consumer price index by 0.4 percentage point to 3.7 percent in 2003. This acceleration was reflected mainly in the categories transport and communication, beverages and tobacco, and housing. The higher inflation was brought about partly by erratic movements in the world market price of crude oil, which affected utility tariffs and gasoline prices. As a result, foreign factors were the main cause of the increase in the consumer price index during 2003. The emerging economic recovery also rekindles inflation, as there already appears to be an increasing scarcity of certain types of skilled labor, particularly in the construction sector. This scarcity may lead to higher wage costs and a further decline in the purchasing power of money. If the labor market tensions continue, a choice will have to be made between spreading the execution of development projects over a longer period of time or allowing the import of qualified workers. To mitigate the possible social implications of and costs associated with the latter, permits to import labor should be granted preferably on a temporary basis. In turn, inflationary pressures may discourage private sector investment. In this way, a vicious circle can emerge that may be detrimental to the still fragile recovery.

The risks induced by inflation are highlighted in a Bank study that indicates that during the past 7 years, two-thirds of price rises were brought about by internal factors. Elements contributing to the relatively rapid domestic inflation include higher production and distribution costs as

well as the raising of certain excises and import duties. As a result, the real exchange rate of the Aruban florin vis-à-vis the U.S. dollar, by far the major currency for international transactions, appreciated by 4 percent. Because this is a rather serious matter, coordinated policy actions should be taken at least to bring the domestic inflation rate in line with increases in prices of imported goods and services. This action is required to improve international competitiveness and to maintain confidence in the currency peg with the U.S. dollar. This peg serves Aruba well as it generally enables dollar-denominated imports of goods and services at relatively low and stable prices while imposing a certain discipline on the fiscal and monetary authorities. From this perspective, strictly restraining domestic costs is critical for safeguarding financial stability and external viability.

As mentioned, monetary policy has been tightened as part of the effort to contain inflation and promote financial stability. Additionally, the functioning of the financial system was improved, and confidence in this system was supported through enhancement of the Bank's supervisory capabilities. In line with the recommendations of an International Monetary Fund Financial Sector Assessment mission, the commercial banks have been instructed to strengthen their internal controls and corporate governance, perform more stress tests to assess the vulnerability of their loan portfolios, and extend their periodic reporting, particularly with respect to the various business risk areas. In the insurance sector, a comprehensive legislative and regulatory framework has been implemented. In August 2003, the State Ordinance on the Supervision of Money-Transfer Companies became effective, bringing this sector under integrity supervision of the Bank. Additionally, further progress has been made to become fully compliant with the recommendations of the Financial Action Task Force aimed at combating money laundering and terrorist financing via the financial system. Preparatory work currently is being done to put the company service providers under adequate integrity supervision.

The climate in the banking sector also clearly brightened after a commercially viable acquisition of Interbank Aruba N.V. finally was realized. For years, this relatively small bank struggled with serious solvency and liquidity problems that it could not deal with by itself. Being the prudential supervisor, the Bank consistently aimed for a commercial solution. Given the prevailing circumstances, other options would have been far more costly in terms of damage to financial stability and monetary loss to creditors. Therefore, the criticism vented from time to time on the Bank's role as the prudential supervisor in this matter was not justified, particularly because the management of the institutions concerned remained responsible at all times for the outcome of their business operations. Prudential supervision is no guarantee against bank failures, as evidenced in countries around the world.

The soundness indicators of the commercial banks as a whole improved further. The risk-weighted capital asset ratio increased to 10 percent, well above the 8 percent minimum adopted by the Basel Committee on Banking Supervision. The ratio of nonperforming loans to gross loans amounted to about 3 percent. Profitability rose. Interest rates were reduced somewhat. However, the margin between average debit and credit interest rates remained

at an ample 6 percent, reflecting high intermediation costs associated with the small size of the market, but also due to possible oligopolistic practices. A matter of concern is that the excess liquidity in the banking system may induce excessive lending, which would conflict with the intermediary goal of monetary policy to reverse the decline in the official foreign exchange reserve. This dilemma may be mitigated, inter alia, by further enhancing efficiency, which also will enable the banks to bring interest rates more in line with those abroad. Such a move is required to prepare for the expected increase in competition from foreign financial institutions and to facilitate the trading of Central Bank Certificates at realistic prices.

From a viewpoint of safeguarding financial stability, during the year under review several measures were taken by the Government to reverse the deteriorating trend in public finances. While encouraging, these measures led mainly to higher receipts of certain excises and import duties. Moreover, a significant role was played by one-off factors, i.e., large capital transfers from the telecommunications and utility companies to the government and the faster collection of profit tax. The former increased the financial burden for the companies concerned and covered up the underlying weakness in the public finances. Therefore, the decline in the financial deficit (including the change in unmet financing requirements) from Afl. 69 million in 2002 to Afl. 24 million or less than one percent of gross domestic product is apparently distorted.

Excluding the aforementioned one-off transactions, the core problem of the public finances, i.e., an excessive consumption, remained virtually unsolved. On a cash basis, these expenditures increased by an estimated 3 percent despite the repeated recommendations of the Bank to contain the wage bill and to reduce the budgetary contributions to the civil servants' pension fund and the general health insurance system. These spending categories absorb a notable 88 percent of total tax revenue, leaving little room for public investments to eliminate infrastructure bottlenecks to structural growth, and to create savings to repay future debt obligations and diminish vulnerability to external shocks. To better monitor the developments in consumption, the Bank recommends compiling and publishing a so-called current fiscal balance, which excludes capital spending and revenue as well as incidental transactions. Such a fiscal indicator can serve as a useful supplement to the statistics on the overall balance.

The persistent excessive consumption in the public sector indicates that the measures actually taken by the Government are not far-reaching enough, and the pace of implementation is much too slow. Even though various social indicators are favorable and unemployment is relatively low, policymakers are reluctant to really solve the structural problems with respect to the size and the quality of the public service apparatus, the too-generous and outdated pension system for civil servants, and the financially unsustainable general health insurance. Therefore, the recommendations of the Bank are still valid and should be fully implemented without further delay to protect financial stability, support the external position under the fixed exchange rate regime, and reverse the ongoing increase in the debt ratio. Vision, courage, and discipline are indeed required to reduce consumptive spending and create extra room for

public investment while balancing the overall budget - - the key objectives of fiscal policy.

The vulnerability in public finances also is reflected in the government debt statistics. Compared to a year earlier, this debt surged by Afl. 253 million or 20 percent to almost Afl. 1.5 billion at the end of 2003, partly due to the conversion of an equivalent of Afl. 98 million in hotel guarantee liabilities from the past into a long-term foreign loan. The proceeds of the bond issue by the telecommunications company mentioned earlier were used to repay the remainder of these obligations vis-à-vis the Italian export insurer, SACE. Additional borrowings were made on commercial terms and denominated in U.S. dollars. Consequently, this debt surged from only US\$ 87 million at the end of 2000 to US\$ 275 million at the end of 2003. On the one hand, these capital inflows have mitigated the initial effect of the excessive public sector consumption on the current external position and limited the need for the government to use domestic sources of financing to cover its budgetary deficit. On the other hand, the borrowings resulted in an increase in debt-servicing obligations, which accentuated future external vulnerability, even more so because only a very small proportion of the loan proceeds was used to boost production and exports.

The weak public finances have prompted a revision in the rating outlook from stable to negative in June 2003. Also a concern is that the debt to GDP ratio approached 42 percent, already above the 40 percent average for BBB investment grade-rated countries. To maintain access to the international capital markets to finance investment projects and to be able to borrow at relatively reasonable costs, Aruba should endeavor at least to remain in this group of borrowers, while eliminating the present negative rating outlook. At a minimum, this requires that the fiscal stance, including the borrowing policy, be consistent with the goals of macroeconomic stability and debt sustainability.

Aruba is undoubtedly capable to improve its rating outlook. After all, the renewed optimism in the private sector and the expected further clearing up of the global environment point to continued economic recovery, albeit downward risks remain. Tourism again may be adversely affected by flaring geopolitical tensions, terrorist attacks, the high oil prices, and the large current account and budgetary imbalances in a number of countries. In a baseline scenario, Aruba's real gross domestic product is projected to grow by 3 percent in 2004. The current cyclical upturn provides a unique opportunity to revitalize and transform the economy. The production structure should be diversified in line with its comparative advantages to enhance the growth and export outlook. To manage this process, the Bank has advised the Government on several occasions to formulate a modern development strategy with the assistance of the World Bank. Implementing such a strategy will require great resolve and statesmanship from the policymakers.

Through dialogue, a broad consensus should be generated to support the realization of the goals of this strategy. These goals should include enhancing external competitiveness, ensuring public debt sustainability, and safeguarding consistency between financial policies and the currency peg. Here, the public-private partnership, one of Aruba's greatest assets,

should play a key role. In this framework, good public governance should be pursued, including promoting transparency, and enhancing the budgetary process, as well as strengthening timely data collection, analysis, and reporting. Entrepreneurs should launch more feasible innovative projects. Furthermore, labor unions should support efforts to contain wage costs and should enhance productivity to make more productive investments economically feasible.

The Bank actively supports the present recovery through consistently working towards financial stability. Priority is given to policies that protect the purchasing power of money, promote the good-functioning, stability, and integrity of the financial system, as well as maintain confidence in the economic prospects. The commitment to supply the public with safe and secure currency was reflected in the issuing at the beginning of February 2004 of bank notes with additional authenticity features. When performing its tasks, the Bank strictly adheres to the relevant international standards for effective central banking and the rules of good corporate governance. The Bank continuously increases its organizational efficiency and effectiveness to enhance the quality of its work and to meet its strategic objectives. Actions are taken to preserve its autonomous position within the public sector, to remain financially strong, well-equipped, transparent, accountable, and credible. In this way, the Bank adequately fulfills its responsibilities to the people of Aruba and contributes to their well-being.



THE BUSINESS OF THE BANK

2.1 Core functions

The responsibilities of the Bank center on the goal of safeguarding financial stability by focusing on the three pillars on which a stable financial system rests, i.e., protecting the internal and external purchasing power of money, contributing to safe, efficient, and liable payment systems, and supervising financial institutions to support their soundness and integrity. To this end, the Bank performs the tasks and related activities listed here.

Tasks	Related activities
a. Issue bank notes, as well as coins on behalf of the government.	Bring safe and secure bank notes and coins into circulation to meet the needs of businesses and the general public.
b. Promote efficiency in settling domestic payments.	Operate an automated clearing system between the commercial banks and a number of government-related institutions.
c. Act as the banker for the government.	Execute payment orders and intermediate in the issuance of government debt papers. No credit is granted to the government.
d. Regulate the flow of international payments.	Facilitate and regulate payments between residents and nonresidents and collect foreign exchange tax.
e. Manage Aruba's official reserve, consisting of gold and foreign exchange holdings.	Invest the Bank's foreign exchange holdings in accordance with cautious guidelines aimed at protecting the country's liquidity and solvency position.
f. Advise the Minister of Finance on financial matters.	Produce relevant information and give expert advice.
g. Monitor economic and financial developments.	Collect and analyze financial and economic data, published in monthly, quarterly, and annual reports.
h. Conduct monetary policy.	Formulate and implement measures to, inter alia, regulate bank credit and liquidity to contribute to financial stability for the well-being of the people of Aruba.
i. Supervise the financial system.	Perform risk-based supervision on a number of financial institutions to protect the interests of their clients and to contribute to maintaining the stability and integrity of the financial system.

2.2 Domestic payment system

2.2.1 Bank notes and coins

During 2003, the total florin currency in circulation grew by a modest 1.6 percent, while nominal gross domestic product increased by 5.2 percent. At the end of the year, this circulation reached Afl. 165.5 million, equivalent to 4.6 percent of nominal GDP. This ratio is quite low by international standards and is due to the co-circulation of U.S. dollars in Aruba, largely the result of tourism being the mainstay of the economy.

LIVING IN STYLE

In antiquity one would enter someone's home through the "Hadrei" or gallery, where picture frames hanging slightly askew, space-saving corners, and wall cabinets with carefully placed knickknacks would welcome you to the home and provide you with a quick view of all that was dear to the family. This picture from the private collection of Nacho Luidens was taken in 1932. (Museo Antigüedad Aruba)

In accordance with article 7 of the Central Bank Ordinance, Aruban florin bank notes are issued in denominations of Afl.10, Afl. 25, Afl. 50, Afl. 100, and Afl. 500. At the end of 2003, their value amounted to Afl. 149.1 million, i.e., Afl. 1.7 million or 1.1 percent higher than in 2002. With the exception of the Afl. 50 and Afl. 500, the share of these denominations in the total increased somewhat.

In 2003, the total value of coins (excluding commemorative coins) issued on behalf of the government increased by Afl. 0.9 million or 5.8 percent to Afl. 16.3 million. Additionally, one collectors' quality 10 florin silver coin was issued, symbolizing the "Calco Indjan". This coin forms part of a 5-coin series on endangered species.

In December 2003, a revised series of florin bank notes was printed at Joh. Enschedé Banknotes in the Netherlands. These bank notes, which include several new security features, were put into circulation on February 1, 2004, replacing the series 1990 and 1993. The Bank implemented an extensive information campaign on the characteristics of the new bank notes. After all, the best defense against counterfeiting is a well-informed public.



2.2.2 Clearing system

The Bank operates an electronic batch-clearing system through which inter-bank check clearing and fund transfers are settled. Participants are the commercial banks, the Department of Finance, WEB (water and electricity company), SETAR (the telecommunications company), and the Bank. Following an upgrading in 2003, the system now operates on a secured web client internet-based solution, a new dimension in payment processing.

For the third consecutive year, both the volume and the value of checks processed through the clearing system declined, i.e., by 8.7 percent to 747,000 checks and by 2.2 percent to Afl. 2.2 billion, respectively. The increased preference for using direct debit instruments as means of payment led to this decline. In contrast, the volume and value of fund transfers continued to surge, i.e., by 30.5 percent and 20.7 percent to 466,000 and Afl. 3.5 billion, respectively. The latter value is equivalent to 97.2 percent of nominal GDP.

2.2.3 Interest payments

A number of financial institutions and the government hold deposits with the Bank. Interest is paid on certain current account balances and on time deposits excluding the required monetary cash reserves. The Bank's interest rates are based on the corresponding remunerations of the Federal Reserve Bank of New York. Due to the cancellation of interest payments on required monetary cash reserves as of September 2003 and a decline in deposits, interest outlays fell strongly, i.e., by 55.1 percent or Afl. 0.9 million. Interest payments to the government amounted to Afl. 82,436.

2.2.4 Banking for the government

Article 14 of the Central Bank Ordinance stipulates that the Bank should (free of charge) carry out the government's domestic and foreign payment transactions. These payments are cleared through the Treasury's current account held with the Bank; its balance amounted to Afl. 35.4 million at the end of 2003. Deposits held in both earmarked and development fund accounts declined by Afl. 50.5 million and Afl. 17.4 million, to Afl. 1.4 million and to Afl. 30.5 million, respectively.

During 2003, two maturing 3-month treasury bill issues totalling Afl. 40 million, and Afl. 8 million in 6-month cash certificates were periodically renewed. The yields on these treasury bills varied between 0.87 percent and 2.62 percent, those of the cash certificates between 1.06 percent and 2.17 percent. In addition, the Bank arranged an Afl. 54 million bond issue with a maturity of 7 years at 6.00 percent, which was placed on the domestic market.

2.3 International payment system

2.3.1 Daily exchange rate fixing

In 2003, the total value of transactions carried out in U.S. dollars reached 88.8 percent of all international payments. On the other hand, the share of euros fell by 0.2 percentage point to 4.2 percent. The official buying and selling rates for the U.S. dollar from and to the commercial banks remained unchanged at Afl. 1.7895 and Afl. 1.7905, respectively.

The Bank publishes daily quotations for a number of other foreign currencies based on data provided by the European Central Bank. During 2003, the exchange rate of the florin vis-à-vis the euro fluctuated between Afl. 1.87 and Afl. 2.27 or within a margin of 21.7 percent. At the end of 2003, the euro had appreciated by 20.4 percent or Afl. 0.39 compared to the year 2002.

2.3.2 Foreign exchange license policy

The Bank's foreign exchange license policy remained generally unchanged. Current payments are not subjected to any restriction. The annual upper limits to execute capital transactions without any administrative restrictions were kept at Afl. 300,000 for natural persons and Afl. 750,000 for legal entities (excluding commercial banks and institutional investors). In general, special licenses for amounts exceeding the indicated limits are granted quite liberally in the case of regular transactions. However, following a decline in the official foreign exchange position in 2003, the Bank decided to adopt a more cautious stance when issuing a license for investing abroad.

During 2003, the Bank issued 66 special foreign exchange licenses, amounting to about Afl. 609 million, or only Afl. 1.1 million less than in 2002. Significantly fewer loans were received related to refinancing and infrastructure projects. The former constituted 38 percent of the total amount.

2.3.3 Foreign exchange tax

The State Ordinance Foreign Exchange Commission, as amended on June 2, 2003, stipulates that residents must pay a 1.3 percent tax on payments to nonresidents, including those payments executed through a foreign bank or exchange office, checking account transfers settled in foreign currencies, and payments made by a foreign corporation for and on behalf of affiliated residents settled via inter-company accounts.

Certain payments are not subject to foreign exchange tax, such as transactions denominated in Netherlands Antillean guilders, as agreed upon between the two Governments in 1985. In addition, a number of (government-related) companies are exempted by virtue of the State Decree on Foreign Exchange Commission Exemption, amended as recently as 2001.

Also, free-zone companies may request an exemption to the extent that their payments for goods and services are linked to re-exports, in accordance with article 12 of the State Ordinance Free Zone, as amended on July 2000. Offshore companies, which have been exempted from a number of provisions of the State Ordinance on Foreign Exchange Transactions, as well as Aruba Exempt Corporations, are considered nonresidents and, therefore, are not subject to the tax.

The Bank is the institution authorized for foreign exchange tax collection, whereas the government is responsible for policy decisions. During 2003, the Bank collected Afl. 19.3 million in foreign exchange tax, Afl. 2.4 million less than a year earlier. Afl. 14 million was transferred to the Treasury. The share of foreign exchange tax paid out to the government in total tax receipts edged down by 0.4 percentage point to 2 percent.

2.4 Managing the official foreign exchange reserve

One of the core tasks of the Bank is the management of Aruba's official foreign exchange reserve, as stipulated in article 12, sub 1 of the Central Bank Ordinance. The Bank's income predominantly is derived from this activity. Investment is made through asset managers in U.S. government and (explicitly or implicitly) government-guaranteed paper, bonds issued by qualifying supranational financial institutions, and money-market instruments of and accounts with at least double A-rated credit institutions. The Bank also deals directly with a number of foreign credit institutions.

A framework of stringent guidelines has been established to manage the various risks inherent in holding these investments and to ensure that, if necessary, sufficient assets can be liquidated swiftly without appreciable losses to settle foreign obligations to preserve Aruba's international liquidity position and to safeguard confidence in the stability of the value of the florin.

2.5 Monetary policy

Despite the reintroduction of a credit ceiling system at the beginning of 2003, commercial bank credit growth again was excessive. Therefore, additional measures were taken to bring the increase in credit in line with the long-term growth potential of the economy, taking into account the expected autonomous imported inflation.

For 2004, the allowable overall credit growth has been reduced to 6 percent, and a penalty of 6 percent (on an annual basis) will be levied on those individual banks that cause any excess in the aggregated lending. The facility to create additional credit room by attracting net foreign funds remain in place along with the arrangements on the so-called B9 position, the non-interest-bearing monetary cash reserve, and the compensating fee for any deficiency in the actual cash reserve.

In the meantime, the Bank will continue with its efforts to develop more market-oriented instruments of monetary policy, inter alia, via promoting the sale of the Central Bank Certificates introduced in July 2003. Furthermore, as of March 1, 2003, the commercial banks must indicate explicitly the effective annual interest rates in advertisements on loan products for consumers, if, directly or indirectly, they make reference to the price of such products.

2.6 Prudential supervision

The Bank's prudential supervision policy focuses on preventing, as much as possible, financial institutions from taking risks that could harm the interests of depositors and policyholders or endanger the stability and integrity of the financial system. To this end, continuous off-site surveillances and periodic risk-based on-site examinations are carried out. In addition, the

Bank regularly holds meetings with the management of individual institutions as well as with their respective organizations.

On August 12, 2003, the State Ordinance on the Supervision of Money-Transfer Companies, which designates the Bank as the supervisory authority, became effective. Furthermore, a state ordinance on the supervision of trust companies presently is being drafted.

2.7 Financial highlights

- ◆ At the end of 2003, the Bank's total assets amounted to Afl. 642.7 million, i.e., an Afl. 63.4 million or 9 percent decline compared to 2002. An Afl. 79.7 million or 13.1 percent drop in foreign currency claims contributed to the decline.
- ◆ Income (net of interest expenses) totaled Afl. 22.6 million compared to Afl. 25.5 million in 2002. The decrease was caused by a drop in foreign currency claims as well as lower yields on investment as U.S. dollar interest rates fluctuated around historical lows.
- ◆ Total expenses surged by 29.8 percent or Afl. 2.6 million to Afl. 11.5 million due to higher printing costs of bank notes and personnel and operational expenditures.
- ◆ For 2003, profit amounted to Afl. 11.1 million, i.e., Afl. 5.5 million less than in 2002. In accordance with article 4, paragraph 2 of the Central Bank Ordinance and with the approval of the Minister of Finance, Afl. 9.8 million was added to the general reserve while the remainder was allocated to the Treasury.

2.8 Organizational affairs

In accordance with article 25 of the Central Bank Ordinance, the Board of Supervisory Directors and the Executive Committee held four joint meetings during 2003. Additionally, the Chairman of the Board and the President of the Bank met weekly.

During 2003, the Bank implemented a number of projects to strengthen internal processes and procedures in accordance with international best practices. The number of employees increased by 3 to 57. The employees met the challenges that confronted them with professionalism and dedication. The Executive Committee wishes to express its appreciation to the staff for their loyalty and service.



Members of the Board of Supervisory Directors, standing l.-r.:

A.M. Nemecek, T.R.L. Vingal, E.G.R. Cohen-Henriquez-Jansen, A.J.Swaen, R.E. Yrausquin

The Executive Committee, seated l.-r.:

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



ECONOMIC AND FINANCIAL DEVELOPMENTS

3.1 The international environment

In 2003, global economic conditions continued to improve as the geopolitical and financial market risks weakened. World output and international trade grew by 3.9 percent and 4.5 percent, respectively. Business and consumer confidence rebounded. Investment activities were buoyant, stimulated by historically low interest rates. Average annual oil prices rose by 15.8 percent because of the growing demand, relatively low inventories, and production restrictions in some countries. Even so, inflation remained rather subdued.

The recovery was led by the United States. Its economic growth accelerated from 2.2 percent in 2002 to 3.1 percent in 2003, stimulated by expansionary monetary and fiscal policies. The Federal Funds rate fell to its lowest level in 45 years. Reductions in taxes bolstered private consumption, while the Iraq conflict increased defense spending. Tax incentives and the low long-term interest rates encouraged business investment. Productivity increased significantly, but unemployment remained stubbornly high at about 6.0 percent of the labor force.

Surprisingly, the Japanese economy grew by 2.7 percent after a 0.3 percent contraction in 2002. The rebound was supported by extra demand for goods and services in the United States and in the developing Asian economies, particularly China. The investment climate improved while domestic consumption picked up.

In contrast, growth in the euro area stagnated. The increase in its GDP decelerated from 0.9 percent to 0.4 percent due to weak domestic demand, particularly in Germany. Exports rose further, despite the stronger euro. The performance of the Dutch economy was again disappointing, as its production volume shrank by 0.8 percent, following a mere 0.2 percent increase in 2002.

The economies of Latin America and the Caribbean showed a modest recovery. Real gross domestic product increased on average by 1.5 percent, mainly because Argentina realized a 7 percent growth. Factors conducive to the recovery were the decline in current external deficits, the depreciation of real exchange rates, which boosted exports and contained imports, and the decelerating inflation rates. Only a few countries had negative growth rates, particularly Venezuela where the climate of sociopolitical turbulence caused another 9 percent decline in its production volume.

Global output is expected to rise by 4.6 percent in 2004. However, the lingering geopolitical tensions and the threat of terrorism, as well as the persistent and large current account and fiscal imbalances in a number of countries, including the United States, may disturb a further strengthening of the world economy and of the international financial systems. The economies of the United States, the euro area, Japan, Latin America and the Caribbean are expected to grow by 4.6 percent, 1.7 percent, 3.4 percent, and 3.5 percent, respectively.

HARVESTING THE SEA

Seafood has always been part of the Aruban menu, just as today fishing is an integral part of its culture. Since the time of this improvised anchor, fishermen set sail every day to brave the same waves, salt spray, strong trade winds, and unrelenting sun to provide their families and other people with food. (Aruba Historic Museum)

3.2 The domestic real sector

In 2003, the Aruban economy recovered from the recession that prevailed during the previous two years. GDP in real terms rose by an estimated 1.4 percent, driven mainly by a 19 percent surge in gross investments. A number of projects were in execution. In addition, consumption by the public sector and by households grew by 1 percent and 2 percent, respectively. The latter was caused in part by a strong expansion in bank credit, which was also the driving force behind the 2 percent higher imports of goods and services. Export fell by a notable 5 percent in real terms, reflecting mainly subdued tourism expenditure as estimated by the Central Bureau of Statistics, and dwindling activities in the free-zone sector.

Table 1 Main economic indicators

	2001	2002	2003
1. Gross domestic product			
Nominal GDP (x Afl. million) 1)	3,399	3,421	3,599
Population (period average)	91,871	93,319	95,033
GDP per capita (in Afl.)	36,994	36,662	37,873
Real GDP growth (in percent)	-0.7	-2.6	1.4
2. Labor market 2)			
Unemployment rate (in percent)	6.5	8.1	8.0
Participation rate (in percent)	64.4	64.2	63.9
3. Tourism			
Tourism receipts (x Afl. million) 3)	1,466.6	1,476.2	1,510.2
Stay-over visitors (x 1,000)	691.4	642.6	641.9
Visitor nights (x 1,000)	5,145	4,863	5,098
Average hotel occupancy rate (Aruba)	75.5	71.9	74.4
Average hotel occupancy rate (Caribbean)	63.8	63.6	64.6
Average daily rate hotels (US\$) (Aruba) 4)	136	138	134
Average daily rate hotels (US\$) (Caribbean)	150	155	156
Revenue per available room (US\$) (Aruba) 4)	75	69	69
Revenue per available room (US\$) (Caribbean)	96	99	101
Cruise visitors (x 1,000)	487.3	582.2	542.3
Aruba's market share in the Caribbean			
- stay-over visitors	4.0	3.8	3.5
- cruise tourism	3.4	3.7	2.6
4. Price developments			
Inflation (end of period, in percent)	2.6	4.2	2.2
Inflation (period average, in percent)	2.9	3.3	3.7
Real exchange rate index (1995 = 100) 5)	102.0	103.8	105.2

1) Figure for 2003 is a preliminary estimate by CBA.

2) Estimates by CBA.

3) Gross receipts from stay-over and cruise tourism as well as other tourism-related income as recorded on a cash basis in the balance of payments.

4) Including time-share.

5) Relative to the U.S.A. Based on CPI period-average.

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

Measured in terms of nights that visitors spent on the island, tourism rebounded to 5 percent. However, the number of tourists remained at last year's level while that of the Caribbean increased by 7 percent. With respect to cruise tourism, Aruba was one of the very few countries that registered a decrease in the number of passengers (7 percent), compared to a 10 percent average increase in the Caribbean as a whole.

Regarding other important sectors, activities in the construction sector rose by 11 percent, in hotels and restaurants by 4 percent, in housing by 3 percent and at the utility companies by 2 percent. In contrast, the sectors "trade", "transport, storage, and communication", and "public administration and education" shrank by 4 percent, 1 percent, and 2 percent, respectively.

Compared to a year earlier, the inflation rate decelerated by 2 percentage points to 2.2 percent at the end of December 2003. However, the annual average increase in the consumer price index accelerated by 0.4 percentage point to 3.7 percent. This increase was attributed largely to higher prices for beverage and tobacco, housing, and transport and communication. Adjusted for the energy-related components (i.e., water, electricity, and gasoline), the inflation rate was 2.5 percent, i.e., 0.4 percentage point less than in 2002. The inflation differential with Aruba's major trading partner, the United States, amounted to 1.4 percentage points. The real exchange rate index of the Aruban florin vis-à-vis the U.S. dollar rose accordingly to 105.2.

3.3 The financial sector

During 2003, the monetary expansion continued. Domestic money creation amounted to a notable Afl. 244 million, much higher than the already excessive Afl. 154 million recorded in 2002. This expansion was brought about mainly by commercial bank lending, which expanded by about 13 percent for the second year in a row. Credit to enterprises, consumer loans, and housing mortgages rose by 15 percent, 9 percent and 14 percent, respectively. The financial transactions of the government with the monetary system contributed Afl. 19 million to the increase in the money supply.

In contrast, net foreign assets shrank by Afl. 57 million or 8 percent, due mainly to an increase in import payments (excluding the oil sector) induced partly by the above-mentioned surge in bank lending. The outflow of funds occurred despite the acquisition of a foreign loan by the government and grants received from the Dutch government for the Fondo Desaroyo Aruba, totaling Afl. 127 million. In addition, net capital imports of the (non-oil) private sector amounted to Afl. 118 million.

Table 2 Causes of changes in the money supply
(in Afl. million or stated otherwise)

	2001	2002	2003
1. Net domestic money creation	-27.4	154.0	244.0
a. Net domestic credit	31.8	159.0	250.4
1. Public sector	-24.7	-36.2	19.1
2. Private sector	56.4	195.2	231.3
b. Other domestic factors	-59.1	-5.0	-6.4
2. Inflow of foreign funds 1)	129.7	39.0	-57.0
a. Current account (net)	602.7	-626.8	-252.7
b. Capital and financial account (net) 2)	-473.1	665.8	195.7
3. Broad money creation	102.3	193.0	187.0
a. Money	104.7	143.5	141.1
b. Quasi money	-2.4	49.5	45.9
4. Key indicators (in percent)			
a. 12-month change in money supply	5.9	10.5	9.2
b. Broad money coverage 3)	35.9	34.4	28.9
c. Money supply to GDP	54.2	59.4	61.7

1) Revaluation differences of gold and official foreign exchange holdings are excluded to approximate the net import of foreign funds by the nonmonetary sectors.

2) Including items not yet classified and errors and omissions.

3) Ratio of net foreign assets of the monetary system to broad money.

Source: CBA.

On balance, monetary growth decelerated from 11 percent in 2002 to 9 percent, but the money supply to GDP ratio increased by 2 percentage points to 62 percent. Narrowly defined money and quasi money rose by 17 percent and 4 percent, respectively.

The activities of the nonmonetary financial institutions also increased strongly in 2003, after a modest rise in the preceding year. Claims on the government and the private sector went up by 10 percent and 6 percent, respectively, and net foreign assets by 17 percent to Afl. 376 million.

However, the housing mortgage portfolio of the nonmonetary financial institutions shrank by 4 percent. Consequently, their share in the total market declined by 4 percentage points to 44 percent. On the liability side, pension fund provisions, borrowings and deposits, and the insurance reserve fund rose by 5 percent, 7 percent and 4 percent, respectively.

Table 3 Nonmonetary financial institutions 1)
(end of period, in Afl. million or stated otherwise)

	2001	2002	2003
1. Net foreign assets	349.8	321.7	375.6
2. Domestic claims	1,047.9	1,072.6	1,151.9
a. Government	434.7	454.5	498.0
b. Private sector, of which: housing mortgages	613.2	618.1	653.9
	443.9	447.3	431.6
3. Total assets = total liabilities	1,397.7	1,394.3	1,527.4
4. Borrowings and deposits	54.6	57.4	61.4
a. Government	36.6	36.6	36.6
b. Other residents	18.0	20.7	24.8
5. Pension fund provisions	1,090.6	1,138.8	1,198.2
6. Insurance reserve fund	257.3	258.5	268.7
7. Other items (net)	-4.7	-60.3	-0.9
8. Key indicators			
a. Net foreign assets in % nominal GDP	10.3	9.4	10.4
b. Total assets in % nominal GDP 2)	71.2	70.1	71.1
c. Share housing mortgages in total market	49.9	47.7	43.5

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

2) Ratio of net foreign assets to GDP.

Source: CBA.

3.4 Government finance

In 2003, total government revenue on a cash basis increased by Afl. 52 million or 7 percent to Afl. 804 million, reflecting an Afl. 77 million upsurge in tax receipts. The latter resulted from the raising of some excise and import duties as of September 2002, the faster collection of profit tax, and the economic recovery. In contrast, nontax revenue fell by Afl. 18 million (17 percent) because of a decline in profit transfers by government enterprises. In addition, Afl. 30 million in grants was received from the Dutch government for the Fondo Desaroyo Aruba, Afl. 7 million less than a year earlier.

Spending grew by an estimated Afl. 57 million or 7 percent to Afl. 873 million. The investment outlays more than doubled to Afl. 43 million owing to investments by the FDA and the execution of some other infrastructure projects. Even so, investments accounted for a mere 5 percent of total spending. Personnel costs, outlays for goods and services, and interest expenses grew further. Afl. 22 million was paid for the settlement of the racetrack issue. The transfers to the General Health Insurance (AZV), comprising the government's annual contribution and employers' premium payments, as well as advances to cover for deficit financing (which are included in net lending), increased by Afl. 3 million to Afl. 147 million or 57 percent of the total spending of AZV.

Table 4 Government financial operations 1)
(in Afl. million or stated otherwise)

	2001	2002	2003
1. Revenue and grants	731.8	751.2	803.5
a. Tax revenue	606.3	610.0	687.4
b. Nontax revenue	125.5	103.8	86.1
c. Grants	0.0	37.4	30.1
2. Expenditure and items n.i.e.	717.0	816.4	873.4
a. Personnel-related outlays	370.9	431.4	437.8
b. Goods and services	135.9	149.4	153.5
c. Interest payments	35.7	38.2	44.9
d. Investments	18.4	17.0	42.6
e. Items n.i.e.	156.0	180.5	194.7
3. Lending minus repayments	32.0	-3.0	-71.1
4. Financial deficit (-)	-17.3	-62.2	1.2
5. Net foreign capital	27.9	96.0	-29.2
6. Net domestic capital 2)	14.2	2.5	9.0
7. Net recourse to the monetary sector	24.7	36.2	-19.1
8. Memorandum items			
a. Unmet financing requirements 3)	269.4	275.8	300.9
b. Financial deficit 4)	-134.2	-68.7	-23.9
c. Total government debt 5),	1,103.6	1,240.8	1,492.7
of which: domestic debt	710.5	717.7	762.3
foreign debt 6)	393.1	523.1	730.4
d. Outstanding government guarantees 6)	272.6	315.3	5.4
9. Key indicators			
a. Total debt in % nominal GDP	32.5	36.3	41.5
b. Foreign debt in % exports 7)	20.1	27.3	37.6
c. Debt service in % exports 8)	1.9	3.2	7.9

1) Preliminary figures on a cash basis. Includes 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 7, while the nonresidents' part is included under item 5.

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, excluding government guarantees.

6) At year-end exchange rates.

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

8) Related to foreign debt. Exports, excluding the oil sector.

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

Lending minus repayments amounted to minus Afl. 71 million, as the cash advances to the AZV (Afl. 32 million) were largely offset by an Afl. 35 million early debt repayment by Utilities N.V. and an Afl. 87 million receipt from SETAR in connection with its acquisition of a corporate status within the public sector.

On balance, the Afl. 62 million financial deficit on a cash basis recorded in 2002 turned into an Afl. 1 million surplus in 2003. Including the increase in the registered unmet financial requirements, the deficit declined from Afl. 69 million to Afl. 24 million or less than 1 percent of the GDP.

Total financing needs of the government were Afl. 162 million, compared to Afl. 134 million in 2002. The former amount included the payment of Afl. 98 million (US\$ 55 million) to the Italian export credit insurer, SACE, as part of the conversion of the liability arising from hotel guarantees issued in the past into a short-term loan. The other half was converted into a long-term U.S. dollar loan with this institution. Moreover, recourse was taken to the foreign and domestic capital markets for Afl. 97 million and Afl. 46 million, respectively. On balance, bank deposits were drawn down, resulting in an Afl. 16 million decline in these deposits.

Outstanding public debt rose by Afl. 252 million or 20 percent to Afl. 1,493 million, and the ratio to nominal GDP by 5 percentage points to 42 percent. Foreign debt surged by Afl. 207 million (40 percent) to Afl. 730 million due to an Afl. 97 million (US\$ 54 million) private placement on the foreign capital market, the above-mentioned conversion of the hotel guarantees into an Afl. 98 million (US\$ 55 million) long-term loan, and the appreciation of the euro (Afl. 35 million). Domestic debt grew to Afl. 762 million, due to the issue of bonds (Afl. 54 million) and the increase in payment arrears vis-à-vis the APFA and other government-related institutions (Afl. 25 million).

3.5 Balance of payments

In 2003, the balance of payments recorded an Afl. 57 million deficit after two consecutive years of surpluses. Consequently, the net foreign assets of the banking system (including the revaluation differences of gold and official foreign exchange holdings) declined by Afl. 51 million or 7 percent to Afl. 705 million. The 12-month import coverage ratio fell from 7.3 months to 6.7 months but remained above the 5-6 month target range. The official gold and foreign exchange reserve of the Bank amounted to Afl. 609 million, i.e., Afl. 59 million smaller than a year earlier. The commercial banks held the remainder of the monetary sector's net foreign asset reserves.

The current account deficit shrank from Afl. 627 million in 2002 to Afl. 253 million in 2003, equivalent to 7 percent of nominal GDP. Transactions of the oil sector again dominated this outcome. Exports of refined oil products grew more than imports of goods for processing, resulting in a notable improvement in the trade balance of this sector. In contrast, the current account deficit of the rest of the economy (excluding the oil and free-zone sectors) widened further, due mainly to 8 percent higher payments for merchandise imports. The income account improved because during 2002 more dividends were assigned to nonresidents in anticipation of the introduction of the New Fiscal Framework in January 2003.

The capital and financial account surplus declined from Afl. 637 million to Afl. 180 million, largely because the oil sector received less in intercompany loans. Additionally, the surplus of the free-zone sector turned into a small deficit as fewer loans were acquired. Net capital imports of the rest of the economy also were smaller due to the payments related to the settlement of the racetrack issue and a decline in development grants received from the

Dutch government. The surplus on the financial account of the rest of the economy shrank. An increase in direct investment in Aruba, partly due to higher receipts from property sales, was offset by a decline in the net portfolio investment surplus as well as a widening deficit on other investments. The latter resulted from the settlement of a short-term loan with SACE related to the hotel guarantees mentioned earlier and net repayment on loans by the private sector.

Table 5 Balance of payments by sectors 1)
(in Afl. million or stated otherwise)

	2001	2002	2003
1. Current account (net)	602.7	-626.8	-252.7
a. Oil sector	620.8	-341.8	64.0
b. Free zone	-16.8	-68.0	11.5
c. Rest of economy	-1.3	-217.0	-328.2
1. Goods	-943.9	-999.9	-1,094.8
2. Services	1,067.6	1,012.3	948.4
3. Income	-61.5	-135.8	-65.2
4. Current transfers	-63.4	-93.6	-116.6
2. Capital and financial account (net)	-451.2	637.1	179.8
a. Oil sector	-577.8	420.4	78.8
b. Free zone	2.1	64.3	-1.2
c. Rest of economy	124.5	152.4	102.2
1. Capital account transactions	-1.9	36.8	7.4
2. Direct investment	82.6	90.6	192.5
3. Portfolio investment	32.3	132.1	95.3
4. Financial derivatives	0.0	-0.1	0.0
5. Other investment	11.6	-107.1	-193.0
5.1 Loans	55.7	31.5	-152.6
5.2 Other financial transactions	-44.1	-138.6	-40.4
3. Items not yet classified 2)	-21.9	28.7	15.9
4. Overall balance (1 + 2 + 3)	129.7	39.0	-57.0
5. Total reserves of the monetary sector 3)	698.7	755.5	704.6
a. Of which official reserves	578.2	667.9	608.9
6. Coverage in months of merchandise imports 4)			
a. End-of-period	6.4	6.5	6.1
b. 12-month average	6.3	7.3	6.7

1) On a cash basis.

2) Including errors and omissions.

3) Including net foreign assets of the commercial banks.

4) Coverage of total reserves of the monetary system. Imports are excluding the oil sector.

Source: CBA.

PRUDENTIAL SUPERVISION OF FINANCIAL INSTITUTIONS

4.1 Introduction

The Bank is entrusted with the prudential supervision of the banking and insurance sectors, company pension funds, and money-transfer companies on the basis of, respectively, the State Ordinances on the Supervision of the Credit System (AB 1998 No. 16), the Insurance Business (AB 2000 No. 82), the Company Pension Funds (AB 1998 GT 17), and the Money-Transfer Companies (AB 2003 No. 60).

Prudential supervision aims at preventing financial institutions from taking risks that could harm the interests of depositors, policyholders, and other creditors and endanger the soundness, stability, and integrity of the financial system. To that end, continuous off-site surveillance, as well as periodic, risk-based on-site examinations are conducted. Furthermore, bilateral meetings are held regularly with the institutions concerned and with their representative organizations.

Depending on the type of financial institution, detailed reporting forms should be submitted on a weekly, monthly, quarterly, and/or annual basis. Furthermore, the annual audited financial statements and the management letter issued by the external auditor must be filed. The Bank analyzes these documents and discusses its findings with senior management of the institution.

On-site examinations are undertaken to assess key risk areas, such as the financial condition, asset quality, administrative organization and internal control procedures, integrity aspects, and management. 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 2003, four commercial banks, five insurance companies, and one company pension fund were examined on-site. Additionally, reviews were held at three money-transfer companies to test compliance with the Bank's guidelines issued in anticipation of a supervisory law regulating this sector.

4.2 Major issues and developments

4.2.1 Acquisition of Interbank Aruba N.V. by Aruba Bank N.V.

In July 2001, Interbank Aruba N.V. (IB) was acquired by the Fundacion Cas pa Comunidad Arubano (FCCA) with the purpose of merging their activities to generate synergy. Unfortunately, contrary to the Bank's advice, IB continued to pursue a "stand alone" strategy and expanded its activities at a very rapid pace. Consequently, its solvency and liquidity position continued to deteriorate. The Bank repeatedly instructed FCCA and IB to take proper corrective measures.

Practical Means of Exchange
In prehistoric times, seashells functioned as coins to be exchanged for goods and services, were worn as decoration, or used as tools. Then in the colonial period, forced by the scarcity of means of payments, the pillar dollar ("patinco") was cut into four pieces, earning the Papiamentu name "yotin", derived from the French word guillotine. (Numismatic Museum)



In the meantime, Government policy changed, dictating that IB should be sold as soon as possible to enable FCCA to focus on social home building.

After several attempts, an agreement was reached in November 2003 between FCCA and Aruba Bank N.V. (AB) on the sale of IB. This agreement entailed that the sound components of the assets of IB were transferred to AB and the remaining assets to a recovery bank. The Bank approved this transaction on December 15, 2003, to safeguard the viability of the banking sector and financial stability in Aruba, as well as to protect the interests of depositors and other creditors. With the sale of IB to AB, the banking sector has been strengthened significantly, as reflected in an increase in the aggregated solvency ratio of the commercial banks.

4.2.2 IMF financial sector assessment of Aruba

The Bank continued to implement the recommendations of an International Monetary Fund (IMF) mission as formulated in the Offshore Financial Center Assessment report on Aruba issued in June 2002. In this framework, the Dutch Central Bank provided technical assistance, inter alia, to review the prudential supervision manual for credit institutions, evaluate the supervision of the offshore banks, and give advice on the implementation of a Risk Analysis Supervisory Tool program used by the Dutch Central Bank and on the draft state ordinances on the supervision of the money-transfer companies and trust companies.

Banks

In September 2003, new and revised directives, policy papers, and reporting forms for the banking sector became effective regarding the credit risk, the loan classification and provisioning, the large exposures, the country risk, the interest rate risk, the foreign exchange risk, the publication of audited annual financial statements, and the appointment of external auditors.

Insurance

State decrees were issued on captive insurance companies, representative insurance business companies, and qualified holdings in insurance businesses. In June 2003, guidelines and policy papers became effective on asset management, corporate governance, anti-money laundering, the publication of audited financial statements, and the appointment of external auditors.

4.2.3 Integrity of the financial system

At present, banks, life insurance companies, casinos, free zone, money-transfer companies, and the post office are obliged to report to the Reporting Center for Unusual Transactions (RCUT), which is entrusted with the execution of the State Ordinances on the Reporting of Unusual Transactions (SORUT) and on the Identification for Rendering Financial Services (SOIRFS). It is intended to extend this obligation to other service providers, including auditors, lawyers, and notaries.

The Bank has issued anti-money laundering guidelines for banks and insurance companies, while it is also entrusted with executing the SOIRFS insofar as it concerns financial institutions under its supervision. Compliance with these guidelines and ordinances is tested during on-site examinations. In the meantime, a memorandum of understanding between the Bank and the RCUT has been drafted to promote cooperation and coordination between these institutions.

To comply with the eight additional special recommendations of the Financial Action Task Force on combating the financing of terrorism and in view of the relevant United Nations resolutions, the State Ordinance on the Supervision of Money-Transfer Companies (SOSMTC) became effective on August 12, 2003. According to Section 2, paragraph 1, of this ordinance, conducting money-transfer activities in Aruba is prohibited without being registered by the Bank. In accordance with Section 31, these companies were required to comply with all stipulations within 180 days following the date this ordinance became effective to qualify for registration by the Bank and thus be able to continue with their activities. Seven companies submitted an application: six were granted a license, while one was rejected. Two international operating companies were exempted.

Currently, the company service providers insofar as they do not engage in financial services are not subjected to any anti-money-laundering regulations, such as the know your customer rules, and reporting of unusual transactions, or to any regulatory requirements, including due-diligence of the ownership structure of companies fit and proper criteria, and financial reporting and disclosure. To fill this gap, a state ordinance on the supervision of trust companies that will designate the Bank as the supervisory authority is being drafted.

4.2.4 New Capital Accord

Owing, inter alia, to financial innovations and developments in risk management, the 1988 Capital Accord is no longer considered adequate to realistically assess the risk profile of a credit institution. To remedy these shortcomings, the Basel Committee on Banking Supervision aims at implementing a new accord on January 1, 2007, which comprises the following three complementary pillars:

- ◆ First, minimum capital requirements for market risk, credit risk, and operational risk;
- ◆ Second, an additional capital requirement to match a bank's own risk profile;
- ◆ Third, to enhance market discipline, the imposition of disclosure requirements with respect to the level and composition of capital resources relative to the risk profile.

4.2.5 International issues and cooperation

The Bank actively monitors global developments in the supervisory area by attending meetings of regional and international supervisory associations of which it is a member,

and by participating in seminars and courses. It was represented at the annual meetings of the Association of Supervisors of Banks of the Americas (Panama, May 2003), the Caribbean Group of Banking Supervisors (Jamaica, May 2003), the Offshore Group of Banking Supervisors (Mauritius, July 2003) and the International Association of Insurance Supervisors (Singapore, October 2003). Important issues discussed during these events were the proposed New Capital Accord for banks, the combating of money laundering and the financing of terrorism, corporate governance, and the expansion of the core principles for insurance supervision.

4.3 Sectoral developments

In this section, some quantitative developments in the various financial sectors under the Bank's supervision are discussed briefly. An extensive memorandum on this matter was published in the Bank's bulletin for the fourth quarter of 2003.

4.3.1 Banking sector

Commercial banks

The aggregated balance sheet of the commercial banks increased by 15 percent to Afl. 3,088 million at the end of 2003, equivalent to 86 percent of estimated nominal GDP. Loans grew by 14 percent to Afl. 1,960 million. On the liability side, deposits rose by 15 percent. The loans to deposits ratio declined marginally to 71 percent, well below the prudential maximum of 80 percent.

The banks' aggregated risk-weighted capital asset ratio increased from 9 percent to 10 percent, above the 8 percent minimum adopted by the Basel Committee on Banking Supervision.

The banks' return on equity increased by 13 percentage points to 35 percent, due mainly to a higher net income (after taxes). Their liquidity ratio rose slightly to 29 percent, which exceeded 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 income remains their dominant source of income. As a result of the oligopolistic market structure as well as the small scale of the domestic banking sector, interest rates are high compared to those of industrialized countries.

The weighted average interest rate margin decreased by 1 percentage point to 6 percent. Further measures should be taken to create economies of scale and enhance efficiency to cope with the expected increase in international competition.

Offshore banks

Aruba's offshore banking sector is very small by international standards. Only two such institutions are registered here. These banks, which also fall under the consolidated supervision

of the U.S. supervisory authorities, had an aggregated balance sheet total of Afl. 1,327 million at the end of 2003, or 37 percent of nominal GDP, which represents a decrease of 29 percent compared to 2002. Mainly because of losses incurred, their aggregated risk-weighted capital ratio shrank from 21 percent to 16 percent, still well above the required Basel minimum. In 2003, an Afl. 48 million loss (after taxes) was recorded, compared to a profit in 2002, mainly the result of foreign exchange losses.

Bank-like institutions

The four bank-like institutions are engaged mainly in mortgage lending to individuals, financing of social housing projects, long-term project financing, and/or granting of personal loans for consumptive and home improvement purposes. These activities are financed predominantly by attracting funds from their parent company, other (local) institutions, and/or institutional investors. The combined loan portfolio of these institutions amounted to Afl. 429 million at the end of 2003 (2002: Afl. 420 million), equivalent to 12 percent of nominal GDP. Their net income (after taxes) decreased from Afl. 10 million to Afl. 7 million, while the aggregated risk-weighted capital ratio decreased to 49 percent, largely due to an increase in risk-weighted assets.

4.3.2 Insurance sector

The number of institutions supervised in this sector remained unchanged in 2003 at 33. However, in the first quarter of 2004, insurance licenses were issued to two nonlife insurance companies.

Life insurance companies

At the end of 2002, the aggregated balance sheet total of the eight life insurance companies amounted to Afl. 376 million (equivalent to 10 percent of GDP), a 27 percent decline compared to 2001. This decline resulted mainly from a decrease in the current accounts with affiliated companies. Investments fell by Afl. 4 million to Afl. 243 million, 15 percent of which were foreign assets. On the liability side, technical provisions rose by 5 percent to Afl. 267 million. The liquidity ratio increased by 4 percentage points, while the profitability ratio remained unchanged. The coverage ratio fell significantly, i.e., by 52 percentage points, due to a decline in the amounts payable to affiliated companies. All life insurance companies complied with the minimum solvency requirements.

Nonlife insurance companies

At the end of 2002, the aggregated balance sheet total of the 12 nonlife insurance companies amounted to Afl. 137 million (equivalent to 4 percent of GDP), i.e., a 9 percent increase compared to 2001. Investments increased by Afl. 10 million to Afl. 87 million, 1 percent of which were foreign assets. On the liability side, technical provisions rose by 6 percent to Afl. 50 million, and capital and reserves by Afl. 5 million or 10 percent to Afl. 56 million. The liquidity ratio was 33 percent, the profitability ratio 7 percent, and the coverage ratio 259 percent. These ratios indicate that the nonlife insurance sector is sound and performed well in 2002.

Company pension funds

The aggregated balance sheet total of the 11 company pension funds was Afl. 184 million at the end of 2002 (equivalent to 5 percent of GDP). Investment declined by 6 percent to Afl. 171 million, 65 percent of which were foreign assets. On the liability side, technical provisions increased slightly by 1 percent to Afl. 225 million. The liquidity ratio was 6 percent while the coverage ratio decreased by 1 percentage point, and the return on investment remained negative in 2002 largely because of the bearish international financial markets.

Meanwhile, the coverage ratio is rapidly approaching the minimum of 100 percent. Funds with a ratio already below this critical minimum have to submit a financial recovery plan aimed at improving the financial position within a reasonable period. Implementation of these plans is monitored closely by the Bank.

4.3.3 Other institutions

Other large financial institutions operating in Aruba, which do not fall under the Bank's supervision, are the Civil Servants Pension Fund (APFA), the Social Security Bank (SVb) and the General Health Insurance (AZV). Given their importance for the functioning of the financial sector, the restructuring of the public finances, and the maintaining of the financial stability, it is important to emphasize once again that these institutions are confronted with serious problems and risks. In the case of the APFA, these problems are caused mainly by the unsustainable pension scheme. The AZV is operating with a large deficit, while the SVb increasingly will be confronted with the aging of the population. Therefore, far-reaching reforms are required and should be implemented without further delay to ensure their long-term viability. After such reforms are adequately and fully implemented, the Bank is prepared to consider requests to put these institutions under its prudential supervision.



FINANCIAL STATEMENTS

5

BURIED EVIDENCE

At Malmok near the NorthWest Coast of Aruba, researchers uncovered an important burial site of the first inhabitants of the island (Pre-Ceramic Period: ± 2500 B.C. – 1000 A.D.). This site dates back to 450 – 990 B.C. Excavations revealed, among other things, that these early inhabitants buried their dead in fetal position and covered the graves with an arrangement of 1-5 calcareous stones indicating the social status of the deceased. (Aruba Archeological Museum)

BALANCE SHEET AS OF DECEMBER 31, 2003 ¹⁾, AFTER PROFIT DISTRIBUTION

(in thousands of Aruban florin)

	2003	2002
Assets		
Gold	83,063	68,232
Foreign currency assets	528,445	608,114
Receivables	7,790	7,242
Printing cost of bank notes	1,896	-
Premises	16,542	17,629
Other fixed assets	4,965	4,895
	<u>642,701</u>	<u>706,112</u>
Liabilities		
Bank notes issued	149,138	147,402
Deposits of residents	327,202	411,721
Deposits of nonresidents	2,600	8,452
Money in custody	596	2,022
Payables and accrued expenses	22,491	11,674
Revaluation account	62,488	56,485
General reserve	68,186	58,356
Capital	10,000	10,000
	<u>642,701</u>	<u>706,112</u>

1) Abbreviated.

PROFIT AND LOSS ACCOUNT FOR THE YEAR 2003 ¹⁾

(in thousands of Aruban florin)

	2003	2002
Net interest revenues	18,795	23,023
Foreign exchange	2,904	1,640
Coins	601	596
Various	327	261
Total income	<u>22,627</u>	<u>25,520</u>
Printing cost of bank notes	584	-
Personnel expenses	6,715	6,226
Operating expenses	2,241	1,962
Depreciation	1,976	681
Total expenses	<u>11,516</u>	<u>8,869</u>
Profit	<u>11,111</u>	<u>16,651</u>
Profit distribution		
Allocated to the Treasury	1,281	12,600
General reserve	9,830	4,051

1) Abbreviated.

EXPLANATORY NOTES TO THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT 2003

1 GENERAL

Pursuant to article 31, paragraph 1 and 3 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 accountant 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 year

The principles of valuation and determination of results remained unchanged in 2003.

2.2 Accounting policies

The Bank adheres to the accounting policies as stated in the Central Bank Ordinance. For the accounting policies not defined in this Ordinance, the Bank applies those of the European Central Bank (ECB) and the European System of Central Banks (ESCB) as of January 1, 2003. The application of the accounting policies of the ECB and ESCB did not lead to any changes in the principles of valuation and determination of results in 2003.

Gold, marketable securities, and on-balance sheet claims and liabilities denominated in foreign currency are valued at market prices on the last working day of the financial year. The other assets and liabilities are shown on a historical cost basis or at their nominal value.

Regarding the recognition of income, the accounting policies of the ECB and ESCB prescribe that unrealized losses should be recorded on the profit and loss account when exceeding previous revaluation gains registered in the corresponding revaluation account. This principle is not in conformity with article 31, paragraph 2 of the Central Bank Ordinance, which requires that changes in the valuation of the gold and foreign exchange reserve and business assets of the Bank occurring during the financial year should be expressed on the liability side of the balance sheet. Therefore, in the financial statements, unrealized losses have been charged to the revaluation account.

Premises and other fixed assets are recorded at historical cost less accumulated depreciation and are amortized according to the straight-line method over the estimated life of the asset, beginning from the moment of acquisition.

2.3 Revenue recognition

Income and expenses are recognized in the period in which they are earned or incurred. Realized gains and losses are taken to the profit and loss account. Unrealized gains and losses are not recognized as income or expenses but are transferred directly to the revaluation account.

Premiums or discounts obtained when buying securities are calculated and presented as part of interest income.

2.4 Conversion of foreign currencies

Assets and liabilities denominated in foreign currency and related forward contracts are converted into Aruban florin (Afl.) at the rate of exchange prevailing at the balance sheet date. Transactions in foreign currency during the reporting period are incorporated in the financial statements at the rate of settlement. The exchange rate for one U.S. dollar is fixed at Afl. 1.79.

3 NOTES TO THE BALANCE SHEET

3.1 Gold

The gold holdings of the Bank are invested in interest-bearing short-term gold deposits. Effective December 31, 2001, these holdings are valued on a quarterly basis at the prevailing market price for gold. As at December 31, 2003, the market price for gold was US\$ 417.25 or Afl. 746.88 (2002: US\$ 342.75 or Afl. 613.52) per fine troy ounce. The Bank's gold holdings amounted to 111,214 fine troy ounces.

Gold holdings:	Fine troy ounces		Value in Afl.	
	2003	2002	2003	2002
	111,214	111,214	83,063,272	68,232,322

At the end of December 2003, the book value of the gold holdings increased by Afl. 14,830,950 or 22 percent, compared to 2002. In the financial year 2003, the Bank received Afl. 134,751 in interest income on the aforementioned deposits.

On May 20, 1999, the Bank entered into a gold option collar contract with a renowned institution to reduce the exposure to fluctuations in the market price of gold. On February 25, 2004, this contract was renewed. The expiration date of this contract is April 28, 2009.

3.2 Foreign currency assets

These assets comprise current accounts and time deposits held at foreign credit institutions, foreign currency, bank notes, interest receivables, and investment through assets managers. These investments include:

1. Government and government-guaranteed paper denominated in U.S. dollars;
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 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 assets generally are denominated in U.S. dollars, while relatively small amounts are held in euros and Netherlands Antillean guilders.

3.3 Receivables

These include mainly mortgage loans and advances to the Bank's personnel, as well as various other claims, prepaid expenses, and checks in transit.

3.4 Printing cost of bank notes

In December 2003, a revised series of Aruban florin bank notes was printed, containing additional security features. One-fifth of the total printing costs was charged to the profit and loss account of 2003. On February 1, 2004, these notes were brought into circulation and will replace the series 1990 and 1993.

3.5 Premises

This item comprises the Bank's former office building at Havenstraat 2 and the new building at J.E. Irausquin Boulevard 8. The latter building will be depreciated in 20 years, renovations and terrain/landscaping in 10 years.

In 2002, the Bank reached an agreement with the Government of Aruba regarding the sale of the office building at the Havenstraat. However, this building has not yet been formally transferred to the government and, therefore, is still included under this item.

3.6 Other fixed assets

These assets consist of computer hardware and software, furniture, and equipment. The estimated life of computer hardware and software is 3 years, that of furniture and motor vehicles 3 years, and equipment 5 years.

3.7 Bank notes issued

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

(in thousands of Aruban florin)

Denomination	2003	2002
5	904	907
10	4,952	4,746
25	13,043	11,465
50	11,990	13,089
100	110,124	108,197
500	8,125	8,998
Total	149,138	147,402

3.8 Deposits of residents

As seen this item comprises the following items:

(in thousands of Aruban florin)

	2003	2002
Government	38,107	76,891
Development funds	30,468	47,871
Banks:		
- current accounts	61,285	80,066
- monetary cash reserve	158,126	123,000
- time deposits	15,570	72,116
- CBA certificates	19,772	-
Other	3,874	11,777
Total	327,202	411,721

Government

This item contains the accounts of the government of Aruba held at the Bank.

Development funds

Money granted by the Aruban and Dutch governments in the framework of the development cooperation with the Netherlands.

Banks

Current accounts of the commercial banks are held primarily for transaction purposes. Monetary cash reserves are mandatory deposits held by the commercial banks in accordance with the monetary policy requirement of the Bank.

The maturity of time deposits may range from 7 days to 24 months.

As of July 7, 2003, the Bank began issuing six-month certificates on a monthly basis in order to gradually build up a stock of money market paper so that, in due course, it can apply more market-oriented monetary instruments.

Other

This mainly includes accounts of official and semi-official entities.

3.9 Deposits of nonresidents

This item consists of Aruban florin accounts of nonresident banks.

3.10 Money in custody

This money is largely funds confiscated by official authorities.

3.11 Payables and accrued expenses

The payables and accrued expenses comprise foreign exchange tax due to the government, checks outstanding, pension reserve, an amount due for the new series of bank notes, an accrual for the acquired bank note sorting machine, and accrued interest payable.

3.12 Revaluation account

Pursuant to article 31, paragraph 2 of the Central Bank Ordinance, revaluation differences of gold, foreign currency and security holdings are included in the revaluation account.

3.13 General reserve

(in thousands of Aruban florin)

	2003
Beginning balance	58,356
Additional profit distribution	9,830
Balance at the end of the year 2003	68,186

3.14 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 interest revenues

(in thousands of Aruban florin)

	2003	2002
Interest revenues	19,563	24,734
Interest expenses	768	1,711
Net interest revenues	18,795	23,023

4.2 Foreign exchange

This item consists of net transaction profits.

4.3 Coins

Pursuant to article 12, paragraph 1 of the State Ordinance governing the monetary system, coins are minted exclusively for the account of the government of Aruba, whereas, in conformity with article 7 of the Central Bank Ordinance, the Bank is entrusted with the issuing of coins. Furthermore, in accordance with article 12, paragraph 2 of the former ordinance, the difference between the face value and the

cost of minting of the coins (seignorage) is included in the Bank's profit. Unlike bank notes, coins issued are not included in the Bank's liabilities.

4.4 Various

These are mainly fees for using the Bank's automated clearing system, the proceeds of sales of depreciated vehicles, and a one-time adjustment on the excess payment of pension premiums to the Algemeen Pensioenfond van Aruba.

4.5 Personnel expenses

These expenses include salaries, social security, and various personnel-related expenses. At the balance sheet date, the Bank employed 57 persons full-time (2002: 54 persons).

4.6 Operating expenses

These consist mainly of expenses on utilities, cleaning and maintenance, office supplies, courses, seminars, and meetings, telephone, consultancy, property tax, external auditors, bank charges, and other fees.

4.7 Profit distribution

In accordance with articles 4 and 5 of the Central Bank Ordinance, the Board of Supervisory Directors has decided, with approval of the Minister of Finance, to add Afl. 9.830 million to the general reserve. The remaining profit amounting to Afl. 1.281 million will be allocated to the Treasury and, subsequently, retained for the second of three annual payments for the sale of the former bank building to the government.

Report of auditors

We have audited the abbreviated financial statements of the Centrale Bank van Aruba in Oranjestad, Aruba, for the year 2003 (as set out on pages 35 to 43). These abbreviated financial statements have been derived from the financial statements of the Centrale Bank van Aruba for the year 2003. In our auditors' report dated May 3, 2004 we expressed an unqualified opinion on these financial statements. These abbreviated financial statements are the responsibility of the management of the Centrale Bank van Aruba. Our responsibility is to express an opinion on these abbreviated financial statements.

In our opinion, these abbreviated financial statements are consistent, in all material respects, with the financial statements from which they have been derived.

For a better understanding of the financial position and results of the Centrale Bank van Aruba and of the scope of our audit, the abbreviated financial statements should be read in conjunction with the financial statements from which the abbreviated financial statements have been derived and our auditors' report thereon.

Aruba, May 3, 2004

PricewaterhouseCoopers Aruba

PricewaterhouseCoopers Aruba



RESTORED FINE WARE

Unique Caquetio clay pot from the Tanki Flip site, restored at the "Rijksdienst Oudheidkundig Bodemonderzoek" in the Netherlands, over 1,000 years old. Showing typical Dabajuroid decorations, this specific necked jar can be categorised as fine ware and is associated with preservation of food and liquids during the Ceramic Period (± 900/1000 – 1515 A.D.). (Aruba Archeological Museum)

