

# ECONOMIC OUTLOOK

## ARUBA

2008



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## FOREWORD

It is important for small island economies, like Aruba to be prepared for this dynamic and changing world. Therefore it is of utmost importance that we can supply the private sector and the government institutions and companies with reliable projections of the most relevant economic indicators. The **Outlook** attempts to give the necessary information for the business community and the government to sustain their decision making process.

The economy of Aruba has shown over the years a stable growth, although in 2001 and 2002 the real GDP growth suffered a small decline of 0,7 and 0,3 respectively as a result of the effects of 9/11. In 2003 the economy picked up again. The expectations are that the economy will continue to grow in the coming years. The economic growth is mainly based on the developments in the tourism sector. Aruba is a primary tourism destination that continues to attract tourism related investments and tourists. Still the aim to diversify the economy continues to be a priority. In this respect a competitive investment climate has to be created that stimulates a sustainable economic development. Entrepreneurship and innovation, capital intensive investments and knowledge economy will be the focus in the coming years.

The challenges that we have ahead of us are to achieve a sustainable economic development in which welfare and wealth are accessible for all citizens.

Minister of Finance and Economic Affairs

N.J.J. Swaen

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And last but not least I want to thank Micro Macro Consultants who endeavored together with us in the development of MARUBA.

Director

Maria Dijkhoff-Pita



## **EXECUTIVE SUMMARY**

In this publication the economic developments for Aruba for 2003 – 2006 are presented, together with the economic outlook for the years 2007 and 2008 and the respective macro-economic consequences of this outlook. For the quantitative projections presented in this report, the macro-economic model MARUBA was used. Important sources for this report include the Central Bureau of Statistics, the Central Bank of Aruba, the department of Finance, the Tax department, the Aruban Investment Bank Financial services, the Social Economic Council, the Aruba Tourism Authority, as well as other government departments, and interviews with stakeholders and key figures.

### **World Economy**

The global economy expanded strongly in 2006, growing with 5.4 percent. The global economic growth is expected to moderate to 5 percent in 2007 and 2008, some 0.5 percentage point slower than in 2006. Despite the recent problems in the US mortgage market the IMF indicates that they expect that the global economy will continue performing well. Growth in the euro area and in Japan is expected to continue at a solid pace of around 2.5 percent. China is expected to be one of the main engines of world growth this year.

High and volatile oil prices will remain an ongoing challenge. The high prices for oil this year were due to geopolitical incidents and supply matters. These concerns have ebbed somewhat but spare capacity still remains at a low level and the risk of supply-side shocks remains. Any large disturbance in one of the large oil producing countries can have as an effect that prices will increase, increasing inflationary pressures and a decrease in the demand of oil.

According to the Central Planning Bureau of the Netherlands, the economic growth of the Netherlands in 2006 was 2.9 percent in 2006. It is expected that export, being one of the main driving forces behind economic growth for the Netherlands, will grow due to the world economic growth.

Economic growth in Latin America is projected to ease to 4.9 percent this year from 5.5 percent in 2006. The economic growth for the Caribbean is also projected

to slow down to 5.4 percent for 2007 and 4.2 percent for 2008 from 8.3 percent in 2006. The prospects for the tourism developments in 2007 are encouraging and most Caribbean countries are expected to grow within a 4-5 percent range. Growth will be underpinned by the continuing dynamism of external demand, positive terms of trade effects for mineral producing economies and increased construction activity. The prospects for 2007 for tourism development in the Caribbean region are in line with the actual trends of tourism development in the Caribbean as a whole during the first months of 2007.

### **Macroeconomic development in Aruba**

Tourism is of considerable importance in Aruba and its role in the economic development of Aruba has become particularly significant through its potential to increase governments' revenues and stimulate private investment as well as the export of goods and services. In Aruba, tourism kept growing in 2005 with regard to the number of arrivals and tourism expenditure. In 2006 the number of tourist arrivals decreased with 5.6 percent but tourism expenditure did decrease with a lesser amount. In the first five months of 2007, the tourism arrivals grew compared to the same period in 2006 with 5.8 percent. Cruise passengers increased with 7.0 percent in 2006 compared to 2005 reaching a total of 591,474 passengers. The outlook is based on a decline in the number of cruise passengers for 2007 and a zero percent growth for 2008.

In the period 2003-2006, the value of the nominal GDP grew from Afl. 3514 million to Afl. 4380 million. The yearly average nominal growth in the period 2003-2006 was 6.0 percent. This yearly increase is due to increased construction and investment activities mainly in the hotel and real estate sector as well as increases in private consumption.

Growth in the volume of the private consumption, in the volume of private investments and in the value of the export of goods and services will cause a real growth in GDP of approximately 2.0 percent in 2007 and 3.8 percent in 2008. This will result in a nominal GDP of Afl. 4.7 billion in 2007 and the Afl. 5.1 billion in 2008. This is mainly due to the recovery in the number of tourist arrivals in 2007 together with an increase in the available rooms. The expected prolonged growth in 2008 is caused by a large supply of hotel and timeshare

rooms. Consequently, the export revenues, mainly from stay-over tourism, are estimated to grow with 3 percent in 2007 and with 5 percent in 2008.

The value of the import of goods and services is projected to grow with 2.4 percent in 2007 and 4.0 percent in 2008. Due to the expected level of economic activities in the tourism sector and the growth of the GDP in 2007 and 2008, the volume of private investments is expected to grow with 2.7 percent in 2007. In addition, it is expected that the growth of the volume of the private investments in 2008 will stay at the same level as in 2007. It is expected that the private consumption will increase with 2.2 percent in 2007 and for 2008 this is estimated be inline with economic activities and will grow with 4.2 percent.

With the present state of the economy, the total tax revenue of the government is projected to grow with Afl. 78 million in 2007 to Afl. 928 million. This is mainly caused by the implementation of the turnover tax and an increase of the tax base in 2007, specifically on the taxes on commodities. With regard to 2008, tax revenue is expected to grow with Afl. 73 million reaching Afl. 1001 million. On the other hand, according to government policy intentions presented in the budget of 2007 and 2008 as well as the foregoing economic developments, it is likely that the total amount of expenditures of the government will continue to grow in 2007 and 2008.

The growth in the number of tourist arrivals and rooms have a positive effect on several economic indicators. Nonetheless, the economic growth goes hand in hand with a demand for labor, leading to the further need to import labor from abroad. It is projected that to meet the demand for labor -primarily related to economic activities in the tourism industry- the labor force will have to continue growing.

### **Sectoral development in Aruba**

Taking these developments that are taking place in the Aruban economy into account, the indications are that the construction sector has been a great value added to the economic growth in the recent years. The sector is experiencing a steady growth since 2002. It is estimated that the added value of the construction industry has grown with an average of 10 percent per year between 2002 and

2006. This development is mostly related to construction in the tourist area of the island, including expansion of the number of hotel rooms, condominium construction and other real estate developments. It is expected that in the period 2007-2010 about 2,127 units will be built in the high and low rise resort areas and other areas around the island. The investments associated with these condominiums and other real estate developments are conservatively estimated to be around Afl.1.1 billion.

Furthermore, to keep up with the growth in the economy and the strong growth of the demand in the last decade, the utilities industry has been investing a large number in expansion and upgrading.

Regarding trade, this sector showed in the first quarter of 2007 an increase of 13.5 percent compared to the same quarter of the previous year. This growth was primarily caused by an increase in imports of products such as hardware, glass and paint.

The main leading indicators of the sector of transport, storage and communication are commercial landings, vessels entering port, number of visitor nights and the number of passengers transported by Arubus, the public transportation company. All these leading indicators showed stabilization in 2006. The first quarter of 2007 transport declined by 0.2 percent compared to the same quarter of the previous year, following a 0.8 percent drop in the corresponding period of 2006. In addition, the number of passengers transported by the local public transportation company and the contents vessels entering the port declined by 6.6 and 1.6 percent respectively. On the other hand, the number of visitor nights and the total number of vessels entering the ports of Aruba increased by 6.8 and 11.4 percent respectively. The cargo activities at the Aruba Ports Authority N.V. are related to the import of Aruba so cargo shows a development that correlates with economic growth. Therefore, the Aruba Ports Authority N.V. does not expect a considerable growth in cargo activities for 2007. Besides, the sector has been investing continuously in upgrading and expansion. Indications received from the sector is that due to the economic developments these investments will be carried on in the coming years.

Similarly, in 2006 the housing sector showed a positive growth of 3.3 percent. The increase in 2006 is directly related to the increase in the number of premises connected to the WEB-grid. Additionally, figures of the Central Bank of Aruba show that in the first quarter of 2007, total housing mortgage lending by commercial banks, pension funds, and life insurance companies went up by Afl. 82.9 million (7.8 percent) from Afl. 1066.0 million in the first quarter of 2006 to Afl. 1148.9 in the first quarter of 2007.

## INTRODUCTION

The Department of Economic Affairs, Commerce and Industry (DEACI) is proud to present the first annual economic outlook publication. This first edition covers the economic developments of 2003-2006 as well as expectations for 2007-2008. This publication will be published in the second quarter of every year. The purpose of this publication is to provide a general view of the main economic developments and the consequences of these developments on the main economic indicators of Aruba by means of providing an economic outlook.

The economic outlook of the government for the years 2007 and 2008 is presented in this publication with the respective macro-economic consequences of this outlook. For the quantitative projections presented in this report, the macro-economic model MARUBA was used. This model reveals the main economic indicators of the economy of Aruba for the years 1995-2006 and the projections for the years 2007-2010. The model was built according to the System of the National Accounts. These accounts are composed by the Central Bureau of Statistics using the System of National accounts (SNA) 1993.

The first chapter of the outlook will describe the main economic trends of 2006 and projected developments of the world economy and the two main economies influencing the economy of Aruba, namely the US and the Netherlands. In addition, the economic developments of Latin America and the Caribbean, the emerging economies in the world and the effect of the international projected trends on the economy of Aruba are described.

The economic developments of Latin America are of importance for Aruba because these economies interact with each other while Venezuela is Aruba's second most important tourism market and the most important Latin American tourism market for Aruba.

The trends of the tourism activities in the Caribbean influence the tourism industry in Aruba through competition.

The emerging economies export a lot of products to the US and to Europe and also different European and American companies outsource certain services to countries such as India which is one of the emerging economies. As a result, these economies influence the US and European market which on their turn influence the international developments. The effects of these international developments on the Aruban economy is also described.

Due to the fact that tourism Aruba's main source of income, the trends in tourism in the Caribbean and in Aruba until 2007 are described.

The third chapter uses the trends described in the first and second chapter as basic information in the assumptions of the economic outlook. These assumptions are used to formulate the economic outlook which is presented in this chapter.

In the fourth chapter, the sectoral developments will be described according to the changes in the partial economic activity index (PEAI) as compiled by the Central Bureau of Statistics.

## CHAPTER 1 THE WORLD ECONOMY

### 1.1 GLOBAL DEVELOPMENTS<sup>1</sup>

#### 1.1.1 Global Economic Environment

Despite the recent problems in the US mortgage market the IMF indicates that they expect that the global economy will continue performing well. The IMF believes that, to the extent that financial conditions return to normal, most corporations remain highly profitable and household finances continue to be sustained by solid employment. Thus, the US economy should continue to grow at a moderate pace this year. In addition, global expansion is not powered by US consumption alone. Growth in the euro area and in Japan is expected to continue at a solid pace of around 2.5 percent. Major emerging markets like China and India together will grow at close to double digit rates, thereby increasing their contributions to global growth. China will be one of the main engines of world growth this year.<sup>2</sup> While the U.S. economy has slowed more than was expected earlier, spillovers have been limited, growth around the world looks well sustained, and inflation risks have moderated. According to the IMF, overall risks to world economic outlook seem less threatening but remain weighted on the downside, with concerns about financial stability.

The global economy expanded strongly in 2006, growing with 5.4 percent. The global economic growth is expected to moderate to 5 percent in 2007 and 2008, some 0.5 percentage point slower than in 2006. In the US, the expansion slowed in the face of headwinds from a sharp downturn in the housing market, though declines in oil price have helped to sustain consumer spending. Corporate investment in plant and equipment has softened in 2006. In the euro area, growth accelerated to its fastest pace in six years as domestic demand strengthened. In the US, growth is expected to come down to 2.0 percent this year, from 3.3 percent in 2006, although the economy should gather some momentum during the course of the year as the drag from the housing sector dissipates.

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<sup>1</sup> World Economic Outlook April 2007, IMF

<sup>2</sup> Speech by the managing director of the IMF titled 'Economic growth and financial market development: a strengthening integration', August 22, 2007



Growth is also expected to ease in the euro area, reflecting in part the gradual withdrawal of monetary accommodation and further fiscal consolidation. In Japan, the expansion is projected to continue at about the same pace as in 2006. Emerging market and developing countries are expected to continue to grow strongly, although at a somewhat slower pace than 2006. China's growth is projected to remain rapid in 2007 and 2008, although a little below the strong pace of 2006, while India's economy should also continue to grow rapidly. Table 1.1 presents the real GDP growth and the consumer inflation per selected regions.

Table 1.1. Overview of the World Economic Outlook  
 Projections for selected regions and countries  
 (Annual percent change unless otherwise noted)

	Real GDP			Consumer Inflation		
	2006	2007	2008	2006	2007	2008
World economy	5.5	5.2	5.2			
Advance economies	3.1	2.6	2.8	2.3	2.0	2.1
Other emerging market and developing countries	8.1	8.0	7.6	5.3	5.7	5.0
US	3.3	2.0	2.8	1.9	2.6	2.5
Euro area	2.7	2.75	2.25	1.7	1.8	1.8
The Netherlands	2.9	2.75	2.75	1.1	1.5	2.0
Latin America and the Caribbean	5.5	4.9	4.2	5.0	5.4	5.8
Argentina	8.5	7.5	5.5	9.8	11.0	13.0
Brazil	3.7	4.4	4.2	3.1	3.9	4.3
Venezuela	10.3	6.2	2.0	16.9	22.4	28.3
Colombia	6.8	5.5	4.5	4.5	4.0	3.5
Mexico	4.8	3.4	3.5	3.6	3.9	3.5
Caribbean	8.3	5.4	4.2	6.3	5.7	5.1
The Bahamas	4.0	4.5	4.0	2.3	2.0	2.0
Barbados	3.5	4.9	2.0	7.0	2.8	2.0
Jaimaca	2.7	3.0	3.1	5.8	6.9	6.2
Tribidad & Tobago	12.0	7.0	4.5	9.1	9.0	9.0
Japan	2.2	2.6	2.0	0.2	0.3	0.8
China	11.1	11.2	10.5	1.5	2.2	2.3
India	9.7	9.0	8.4	6.1	6.2	4.3

Source: IMF World Economic Outlook, April 2007, World Economic Outlook Update, July 2007, Centraal Planbureau, June 2007

### 1.1.2 Global Inflation<sup>3</sup>

Strong growth and rising international oil prices in 2006 raised concerns about inflation, but pressure moderated dampened by monetary policy tightening and

<sup>3</sup> World Economic Outlook April 2007, IMF

turnaround in oil markets. The oil price declined somewhat reflecting some easing of securities tensions in the Middle East, improved supply-demand balance in oil markets, and favorable weather conditions. In the advanced economies, headline consumer inflation dropped sharply after the summer as fuel cost fell somewhat. The core consumer inflation rate (excluding food and energy) also eased modestly in the United States, although remaining somewhat above the Federal Reserve's implicit comfort zone. In Japan, downwards revision of the CPI series has left inflation readings still uncomfortably close to zero, and the Bank of Japan has raised its target interest rate only very gradually since exiting its zero interest rate policy in July 2006. The European Central Bank, the Bank of England and other central banks in Europe have continued to remove monetary accommodation in the context of economic optimism.

High and volatile oil prices will remain an ongoing challenge. The high prices for oil this year were due to geopolitical incidents and supply matters. These concerns have ebbed somewhat but spare capacity still remains at a low level and the risk of supply-side shocks remains. Any large disturbance in one of the large oil producers can have as an effect that prices will increase, worsening the tensions on inflation and a decrease in the demand of oil. In addition, developments in the interest rates as well as the exchange rates are also a risk factor in the world economy. Interest rates on the financial markets have increased due to the strong global economic growth. At the same time the risk premiums have also increased. A continued large increase in the interest rates will negatively influence global economic growth. A significant decrease in the dollar value has also a negative effect on, amongst others, the economic growth in the euro area.<sup>4</sup>

### **1.1.3 U.S.A.<sup>5</sup>**

The US remains one of the main driving forces behind global growth. Due to the present crisis in the housing sector, the GDP growth in 2007 is expected to be 2 percent. This figure is lower than the GDP growth in recent years and lower than the expected growth in the euro area, which is expected to top off at 2.75 percent in 2007. The broadening of monetary policy and the return of a

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<sup>4</sup> Source: Quarterly Bulletin of the Central Planning Bureau of the Netherlands, June 2007.

<sup>5</sup> World Economic Outlook April 2007, IMF and Preliminary Economic Outlook November 2006, OECD.

stable housing sector is expected to speed up economic growth to 2.8 percent in 2008.<sup>6</sup> The key question is whether the difficulties in the housing sector will begin to have a broader impact on the U.S. economy. In addition, the increase in the deficit of the current account of the balance of payments will have a negative effect on the value of the dollar. This will have a negative consequence for among others, the euro area as well as all other markets exporting to the US. Nevertheless, the decrease in oil prices has helped to sustain consumer spending as well as business investments. The projection portrayed is cautious especially if the weakening of the housing activity goes in a more rapid pace than expected in the following next months. It is expected that investment in residences will decrease in 2007 even more than in 2006. In 2007 and 2008 this will be respectively 13.5 percent and 0.2 percent. Imports can be lower than expected due to weaker activities. The pressure on prices is expected to remain stable due to (i) productivity growth remaining stable; (ii) high and volatile oil prices.

The inflation (period average) for the US is expected to be between 2-3 percent in 2007. The inflation in 2006 has increased due to the effect of higher energy prices on prices of other goods and services. Assuming that energy prices will level out, this effect will likely fade and inflationary pressures should subside. With regard to the real GDP growth, it is expected that this will be 2.0 percent for 2007 and 2.8 percent for 2008.

#### **1.1.4 The Netherlands<sup>7</sup>**

According to the Central Planning Bureau of the Netherlands, the economic growth in 2006 was 2.9 percent. Exports are benefiting from strong world demand and improving competitiveness. In 2007 and 2008 it is expected that the economy will grow at almost the same rate as that of 2006, respectively 2.75 for both years. The growth in 2006, 2007 and 2008 was and will be due to an increase in private consumption, investments by companies and exports. It is expected that exports of goods and services, being one of the main driving forces behind economic growth for the Netherlands, will grow due to the world economic growth<sup>8</sup>.

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6 Idem as 4.

7 The source used for this section is the Newsletter of the Central Bureau of Planning of the Netherlands, December 2006.

8 Source: Quarterly Bulletin of the Central Planning Bureau of the Netherlands, June 2007.

Because of the recovery of the labor market and the gain in purchasing power, families are able to spend more money. In addition, net equity of families has increased due to the rise in the price of houses and the increase in the exchange market. Dutch private consumption in 2006 grew with 2.3 percent. It is expected that private consumption will increase with 2.5 percent in 2007 and 1.75 percent in 2008. This increase is the highest since 2000. In 2006 the increase of private consumption was more than that of disposable income. Consequently the individual savings ratio decreased with 3.3 percent and reached an all-time low. As of the year 2003, families have been spending more than their disposable income and this is partly being financed by their net equity. Private consumption will grow in 2008 with only 2.0 percent due to a moderate development in the private housing equity and real disposable income. This in its turn is due to a significant increase in taxes and social security contributions which result in a negative purchasing power development. The export market grew with 4 percent in 2006 and is expected to grow with 3.75 percent in 2007 and 3.25 percent in 2008. This year, the Dutch export market is benefiting from improvement in world trade. The most important Dutch export markets which are the US and Germany will show a moderate economic growth in 2007. The investments made by companies showed a significant growth in 2006, namely 6.4 percent, and are expected to grow in 2007 as well but in a more moderate way. The average employer is very optimistic about the economy. But the high energy prices in 2006 and in 2007 will restrain company profits somewhat. Gross investment by companies not including the housing sector is expected to grow with 2.5 percent in 2007 and 1.75 percent in 2008. Growth in investment is expected due to the increase in production and growing profits. Employers are quite optimistic about the economy and expect to invest more in 2007 than in 2006. Investments in the housing sector are expected to grow with 4.75 percent in 2007 and 3.0 percent in 2008.<sup>9</sup>

Inflation in the Netherlands was very low for the year 2006, namely 1.1 percent. This is the lowest level reached in the last 16 years. For 2007, inflation is expected to be almost the same as that of 2006, namely 1.5 percent. The main driving forces determining inflation are the high energy and import prices. On the other hand, different measures by the government such as the abolishment of

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<sup>9</sup> Idem as 6.

the users part of the real estate tax has ensured a decrease in the average tax burden which helped suppress inflation with 0.5 percent-points. Furthermore, it is expected that shortages in the labor market will have less of an influence on inflation in 2007 due to the fact that about one third of the employees were already part of a collective labor agreement for the year 2007. A collective agreement negotiated while the economic situation was less favorable. This is expected to set the tone for labor cost development in 2007.

As with the projections of the world economy, the forecasts made for the Netherlands include certain risks. The decrease of the economic growth of the US will be a fact but the pace and duration of this decrease is uncertain. The current account deficit of the US has reached 7 percent of their GDP. This is not a long term sustainable position. Depreciation of the dollar can be a consequence of this large deficit. However, when and in what way this can happen is very uncertain. A substantial depreciation of the dollar on the short term will have an oppressive effect on economic growth in the euro area including the Netherlands.

### **1.1.5 Latin America and Caribbean<sup>10</sup>**

Economic growth in Latin America is projected to ease to 4.9 percent this year from 5.5 percent in 2006. This slowdown is expected to be relatively broad-based. Brazil and Chile are exceptions although growth in Argentina is still projected at 7.5 percent. The economic growth for the Caribbean is also projected to slow down to 5.4 percent for 2007 and 4.2 percent for 2008 from 8.3 percent in 2006. The external environment is expected to become somewhat less favorable as global growth moderates compared to other years and oil and metals prices decline from the record levels of 2006. IMF expects a more pronounced decline in commodity prices or tighter financing conditions in international markets would also adversely affect growth prospects. Taking a longer-term prospective, 2004 – 2006 was the strongest three year period of growth in Latin America since the late 1970s, although growth still lagged behind compared to other emerging markets and developing country regions. The critical challenge for policymakers is to build on the reforms that have so far been implemented to accelerate growth further, entrench macroeconomic stability, and ensure that

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<sup>10</sup> World Economic Outlook April 2007, IMF

the benefits of growth are widely distributed. According to the IMF, considerable progress has been made in strengthening macroeconomic policy frameworks in many Latin America countries and this helped reduce vulnerabilities.

The inflation targeting frameworks introduced in a number of countries are proving useful monetary policy anchors and, outside Venezuela, inflation outcomes have been generally favorable. Important progress has been made across the regions in strengthening fiscal positions, reducing public debt, and improving the structure of this debt. IMF expects inflation to decrease somewhat further in Latin America. The average inflation is projected to be 5.2 percent in 2007 and 5.7 percent in 2008 according to their projections. For the Caribbean the inflation is estimated on 5.7 percent in 2007 and 5.1 percent in 2008. With these forecasts, various aspects must be taken into consideration. There is the possibility that there will be a decrease in the growth of the US economy (which will particularly affect the economy in Latin America, Europe and the Caribbean), an unforeseen tightening of the global financial markets and variable prices of trade articles, especially the prices of non-oil trade articles will decrease. In particular, lower commodity prices will put pressure on current account as well as fiscal balance and make it more difficult to meet growing calls for increased social spending within a responsible overall budgetary envelope.

When specifically referring to the Caribbean, an increase in economic activity is expected in 2007, this mainly due to the construction activity for the Cricket World Cup for that year. In Jamaica, the economy has recovered due to an increase in the tourist activities and an increase in the activity of agriculture. With regard to the region of Central America, the economy expanded by 10-20 percent of the GDP in 2006 and will continue to support private consumption in the near and medium term. Net exports will have a negative effect on the demand for 2007 due to the fast increase in imports. The construction of the expansion of the Panama Canal in the period 2007-2014 for an amount of US\$ 5.2 billion will have a big positive effect on the economy of this region especially on the economy of Panama. It is foreseen that this large project will create demand for labor, goods and services. When the canal with its expansion is in operation, it is expected that it will attract regional investments.

Countries in the Caribbean like Barbados, Dominican Republic and Jamaica will have a positive output growth for 2007 ranging from 3.0-6.0 percent in 2007. These countries had an inflation ranging from 6.3-9.6 percent in 2006 and in 2007 this will be in the range of 4.9-9.0 percent. Of concern for the Caribbean in the next few years will be the natural disasters which had a big impact on the economies of several islands in 2005 and which are still in the phase of recovery, such as was the case in Grenada and Guyana. In 2005, the expenses related to hurricane Emily were estimated at 12 percent of the GDP of Grenada. In Guyana, floods caused damages which estimated to be 60 percent of the GDP.

### **1.1.6 Emerging Economies<sup>11</sup>**

According to the Asian Development Bank, growth in East Asia (Mongolia, North and South Korea, Japan, China, Taiwan, Macau and Hong Kong) will soften in 2007. For 2006, the economic growth was a robust 4.9 percent and this will decrease in 2007 to 4.4 percent. A projected decrease in the growth of the US-economy and euro area will have as effect that there will be a small decrease in the demand for export products from East Asia. Measures implemented in China to suppress over-investment will continue to bring its economic growth back to a more manageable level. At the same time it is expected that inflation will be moderate as economic growth diminishes slightly. When Japan is excluded, the regional GDP growth was 7.7 percent in 2006 but in 2007 it is expected to decrease to 7.0 percent. The GDP growth of Japan was 2.2 percent in 2006 and will slightly increase to 2.6 percent in 2007. East Asia will be confronted with an external economic environment in 2007 that is projected to be slightly less supportive of exports and growth but more to containing inflationary pressures.

The Chinese economy had a total growth of 11.1 percent in 2006 and this will increase slightly to 11.2 percent in 2007. This slight increase is due to the weakening of the export growth. The impact of policy tightening is felt and the significant growth in the global ICT-cycle will probably decrease. But thereafter, growth may pick-up again having as consequence that the economy will grow in line with its potential of more than 10 percent by 2008. Because of the recent rapid export growth and less accelerated growth of import, it is expected that

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<sup>11</sup> Source: Macroeconomic Investigation 2007, the Central Planning Bureau of the Netherlands, September 2006.



the current account surplus will increase to 12 percent of GDP in 2012. The large economic growth in 2006 and the next few years are due to, among others, the large volume of investments. These overheated investments caused excess production and increased trade surpluses which will further expand the trade imbalance with the US. The exorbitant growth in investment made the government induce new measures to restrain investments.

In 2006, the economy of India grew very fast. In addition, as is the case with China, India is developing special economic zones with great expenditures and tax advantages for industrial companies. Many European and American companies outsource to India which stimulates the Indian service sector. These favorable economic developments are expected to continue in the next few years.

The oil-producing countries such as Saudi Arabia, Iran and Dubai were favored by higher oil prices which contributed to the continuation of the improvement of their balance of payments and fiscal balances. It is expected that the oil-producing economies in the Middle East will continue to grow very strongly in 2007 and the subsequent years assuming that there will be political stability.

## **1.2 GLOBAL EFFECTS ON THE ECONOMY OF ARUBA**

A small island economy is extremely vulnerable to external shocks. Hence, international economic developments are unquestionably relevant for the small island economy of Aruba. According to the foreign trade statistics set up by the Central Bureau for Statistics, the US is the country with the highest percentage of the total import trade value in Aruba in the period 2000 until 2006 with more than 55 percent, followed by the Netherlands between 13-15 percent. It is expected that the inflation in the US will be between 2-3 percent for the year 2007. Due to the fact that Aruba imports most of all its products, Aruba is a price taker. With the US being the main import country for Aruba, the part of inflation caused by external factors will be influenced by this inflation and by transport costs.

The inflation of the Netherlands is expected to be 1.5 percent for 2007. This combined with the increasing value of the Euro will also be of some influence on the inflation in Aruba caused by external factors.

In addition, the oil price will also have an impact on the inflation in Aruba. The prices of some products in the consumption goods package which have a high weight depend heavily on the oil price. In addition, this will increase the costs of production in Aruba. As a result, the competitiveness of the Aruban economy may be affected.

The US, being one of the main driving forces in global growth, is also Aruba's most important export market. The pace and degree of economic growth including the private consumption of this market will influence the economic growth in Aruba. It is expected that there will be a slight decrease in economic growth in the US for 2007 including a slowdown in consumption spending. To the extent this is reflected in the travel pattern of US visitors, this may translate in a slowdown of the growth in the number of tourist arrivals from the American market to Aruba. The US market generates about 71 percent of the total number of arrivals. In addition, this market ranks among those with the largest spending capacity in Aruba. With a possible slowdown in the US arrivals, this can have a slightly negative effect on the total value of the export of goods and services. In addition, with the possibility of the depreciation of the US\$ dollar and with the Aruban florin pegged to the dollar, this will have a negative effect on the effective exchange rate of the Aruban florin.

With the possibility of an increase in the value of the euro, the number of tourist arrivals (especially from the Netherlands) can increase favorably. However, a precondition is that the supply of airlift from the Netherlands needs to be sufficient to cater to the increase in demand.

If the growth in corporate earnings in the US and Europe continues in 2007 and 2008, this may lead to increased direct foreign investments. Examples are the increase in presence and activities of American and European hotel chains such as Westin and RIU in the Caribbean and in Aruba.

In 2008, Aruba will organize a business forum called 'The ninth business forum of the greater Caribbean'. Being part of the Association of the Caribbean States (ACS), Aruba will be hosting this forum in September 2008. The objective of this forum is to strengthen and promote trade in the region in general and trade with Aruba in particular. By means of this forum, potential investors will get the opportunity to get to know the positive aspects of investing in Aruba. With this forum, the intention is also to present Aruba as a trade partner in the region.

It is projected by the Economic Commission of Latin America and the Caribbean (ECLAC), that the economy of Venezuela will grow with about 4.5 percent in 2007 but inflation will be as high as 19.6 percent in 2007. The high inflation will have as consequence the depreciation of the Bolivar. Despite these developments, it is expected that the number of tourists from Venezuela to Aruba will not be affected materially, since it is perceived that the potential Venezuelan visitors are resilient to the economic developments in their country. The Venezuelan market is the second most important tourism market for Aruba and represents around 8 percent of the total market.

## **CHAPTER 2 TOURISM IN THE CARIBBEAN**

### **2.1 TOURISM DEVELOPMENTS**

At the international level, the Iraq war, the rise in oil prices, terrorist attacks on tourists and major cities, bombings in Asia, the SARS epidemic, the tsunami and other natural disasters have created difficult circumstances for the tourism sector. At the national level, Aruba had to deal with the disappearance of a US citizen and the negative publicity directed towards Aruba surrounding this disappearance. Despite these events, tourism has once again demonstrated its extraordinary resilience. Following each crisis, tourism has been able to bounce back. In the Caribbean, the pace of economic expansion was supported by mining, tourism and construction. In Aruba, tourism kept growing in 2005 with regard to the number of arrivals and tourism expenditure. In 2006 the number of tourist arrivals decreased with 5.6 percent yet tourism expenditure decreased by a lesser amount. In the first five months of 2007, the tourism arrivals grew compared to the same period in 2006 with 5.8 percent.

Tourism in the Caribbean benefited from higher levels of external demand, improvements in infrastructure and by the steady increase in stay-over arrivals. The construction sector benefited from expansionary policies aimed at increasing aggregate demand, the rise in capital flows and the preparations related to the Cricket World Cup (2007). The Cricket World Cup had a significant impact on the host economies, and indirectly on the Caribbean region as a whole. Caribbean countries estimated that the event would boost growth through higher levels of activity and expenditure.

The prospects for 2007 are encouraging and most Caribbean countries are expected to grow within a 4-5 percent range. Growth will be underpinned by the continuing dynamism of external demand, positive terms of trade effects for mineral producing economies and increased construction activity. The prospects for 2007 for tourism development in the Caribbean region are in line with the actual trends of tourism development in the Caribbean as a whole during the first months of 2007. According to the Caribbean Tourism Organization (CTO), tourism in the Caribbean as a whole has grown slightly. Aruba, the Cayman

Islands, Curacao, and Martinique experienced noticeable growth in the number of visitor arrivals. A vast majority of the smaller destinations also had an increase in the number of stay-over tourists.<sup>12</sup>

Unemployment is likely to remain low at least temporarily due to the ongoing expansion of some sectors of economic activity and the Cricket World Cup. In some Caribbean islands and Aruba as well, there are voiced concerns about the shortage of skilled labor which must be addressed if one of the goals of the region is to be the improvement of labor productivity.<sup>13</sup>

## **2.2 THE IMPACT OF OIL IN THE CARIBBEAN**

The Caribbean energy picture shows that the region is heavily dependent on oil as its primary source of energy and so it stands to reason that high oil prices would have a great impact on the economies of the region. The negative impact that high oil prices have had on Caribbean economies are traditionally in the form of foreign exchange shortages and widening current account deficits, leading to lesser GDP growth. The negative impact on these two indicators leads to inflation and unemployment in some islands. The hike in oil prices led to an increase in airfare costs. The after effects of natural disasters in the United States, the leading country of origin of tourists jointly with the United Kingdom, also hampered the performance of the tourism industry. The contribution of tourism to the economy is generally measured by hotels and restaurants which in fact captures a small part of tourism activity. Most Caribbean economies are negatively affected when the price of oil, their main source of energy supply, rises. Only Trinidad and Tobago is a major net exporter of oil and gas and therefore benefits from price increases.<sup>14</sup>

With regard to Aruba, the fluctuation of inflation is mainly caused by the level of inflation in the US and oil price movements, which on their turn determine to a great extent the price changes of water and electricity. After the payment

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12 Source: Economic and Investment Trends, Aruban Investment Bank, second quarter 2007, August 2007.

13 Source: Economic Survey of the Caribbean 2005-2006.

14 Source: Idem as 28.

of house rent, domestic fuel and power are the next most dominant expense categories of the average household in Aruba. Due to changes of taxes and import duties government policy has had an impact as well.

## **2.3 CARIBBEAN TOURISM COMPETITORS**

The Aruba Tourism Authority considers Cancun, Cuba, Puerto Rico and the Dominican Republic as Aruba's main tourism competitors in the Caribbean.

It is expected that in 2007, Cancun will show a full recovery after hurricane Wilma destroyed most of the tourist facilities and it will slowly start going back to its previous status with an improved product. As is the case with Aruba, this market mainly focuses on the US market.

With regard to the initial handover of power from Fidel Castro to his brother and vice-president, Raul, the process of succession has begun. The expectation is that a change in political and economic environment within the existing political system will occur while a persistence of hostile relations with the US with a growing possibility of improvement will remain. For three years in a row, the island surpasses the two million visitor's mark, which shows that Cuba is well positioned in its main markets. Canada is leading the way as its number one market followed by United Kingdom, Spain, Italy, Germany, France and Mexico among others. Cuba is positioning itself as a unique destination, not only because of its exceptional beaches and its everlasting sun, but also because Cuba is a destination that puts forward nature, health, safety, its rich history and culture and its social achievements. The Canadian market is also an important market for Aruba. In order to become less dependent on the US market, a lot of marketing efforts are being done in the European market in order to increase the airlift and number of arrivals. With all the positive aspects that Cuba has to offer which are more in line with the interests of a European tourist, Cuba will continue to be a serious competitor for Aruba in the European market.

In the Dominican Republic, tourism accounts for 24 percent of GDP, but this number is growing. The Dominican Republic has nearly 60,000 hotel rooms and

674 hotels, compared to neighboring Puerto Rico with 12,700 rooms and 145 hotels. According to the Central Bank of the Dominican Republic, during 2006 the Dominican Republic welcomed more than 3.3 million foreign visitors, more than in 2005.

## **2.4 NEW TOURISM TRENDS**

Over the past few years, the spa vacation — formerly a bastion of the rich and famous — has found a new audience among boomer travelers. Due to this global trend, most of the hotels in Aruba are adding spa-like amenities.

Connoisseurship has become a new hobby for many Americans; the perfect and most obvious example is the explosion of wine tourism over the past 10 years. Instead of lounging for days in beach chairs, these “connoisseur travelers” would prefer to spend their vacation days train spotting their chosen enthusiasm, whether it be wine, jewelry, artwork, historical artifacts, antiques, food, language, or architecture.

In the past Aruba has organized various painting workshops for Europeans. These workshops were given by a famous painter. In addition, various restaurants have organized events for food and wine tasting. The tourism industry is planning to organize more of such events in order to be able to comply with this demand.

## **2.5 CARIBBEAN CRUISE DEVELOPMENTS**

The cruise industry is the most exciting growth category in the entire leisure market. Since 1980, the industry has had an average annual passenger growth rate of 8.1 percent per annum. The cruise industry is young. Since 1980, nearly 100 million passengers have taken a deep-water cruise (2+ days). Of this number, 61 percent of the total passengers have been generated in the past 10 years. Thirty seven percent of total passengers have been generated in the past five years alone. Over the next three years, over 48 million North Americans indicate an intention to cruise. To date, approximately 16 percent of the US population target market has ever cruised. The cruise product is incredibly diversified with

literally a cruise vacation for everyone. Over the past 10 years, the industry has responded to extensive market and consumer research: research that has guided the addition of new destinations, new ship design concepts, new on-board/onshore activities, new themes and new cruise lengths to reflect the changing vacation patterns of today's market.

When compared to other vacation categories, cruising consistently receives top marks. The on-going challenge for the cruise industry is to convert cruise prospects into new cruisers. Over 85 percent of cruise passengers agree with this statement that cruising is an important vehicle for sampling destination areas to which passengers may return. Nearly 50 percent fully expect to return to the same geographical area/destination for another type of vacation. Cruisers are not exclusively cruisers; rather they are frequent vacationers who cruise as part of their vacation mix. The North American cruise market is strong across all 50 states and Canada. Today's arrays of airlift options and streamlined port processing have opened up cruising as a vacation alternative to more and more individuals. The addition of new North American embarkation ports provides cruise vacationers more options and opportunities to drive versus fly. From a capacity standpoint, utilization is consistently over 90 percent. The Caribbean represents the number one destination with almost 46 percent of capacity development. Europe, the Mediterranean, Alaska, Mexico, Trans-Canal, Hawaii and South America follow the Caribbean in popularity. Caribbean cruises in particular seem likely to remain extremely popular because they are easy to get to, easy to get home from and easy to digest.



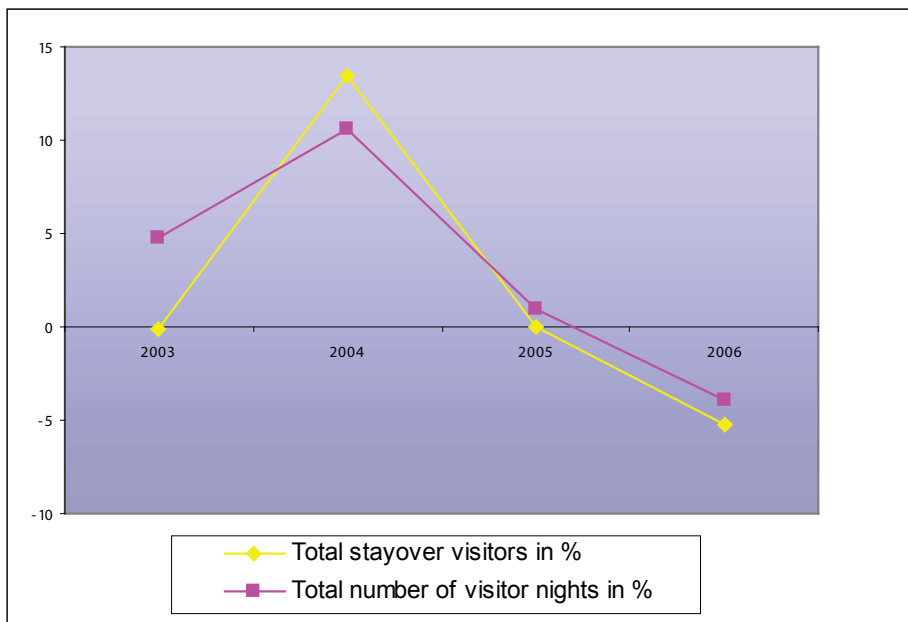
## CHAPTER 3 MACROECONOMIC DEVELOPMENTS AND PERSPECTIVE INDICATORS FOR ARUBA

### 3.1. MACROECONOMIC DEVELOPMENTS

#### 3.1.1 Aruba Tourism Review 2003-2007

Tourism is of considerable importance in Aruba and its role in the economic development of Aruba has become particularly significant through its potential to increase governments' revenues, stimulate private investment as well as the export of goods and services.

Figure 3.1.1 Stay-over and visitor nights



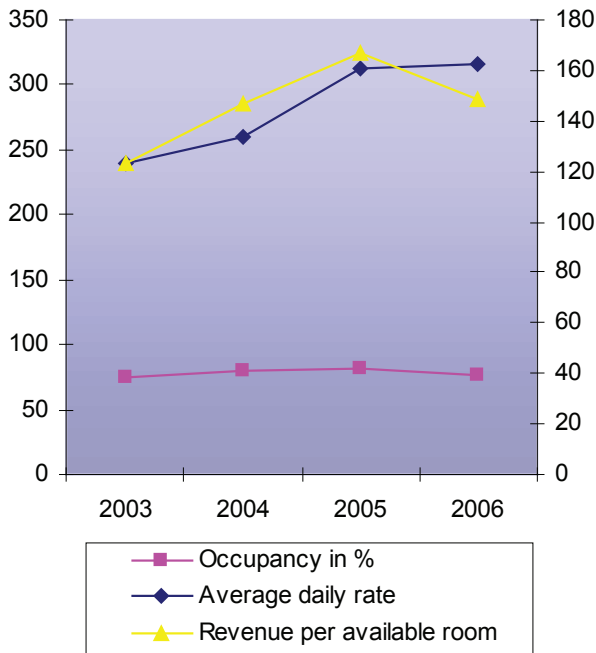
As can be seen in figure 3.1.1, since 2003 the tourism sector experienced a steady growth in the numbers of stay-over arrivals. The year 2004 was a tremendous year in that respect. The number of stay-over arrivals registered a

considerable growth of 13 percent. After 3 consecutive years of increase, the tourism sector experienced a less successful year. Stay-over visitors dropped in almost all the months of the year 2006 compared to the respective months of 2005, except for the months November and December. Consequently, stay-over visitors decreased in 2006 with 5.21 percent compared to 2005, reaching 694,372 stay-over visitors. Visitor nights reflected correspondingly almost the same trend as the stay-over visitors in 2006. Visitor nights in 2006 dropped with 4 percent compared to 2005, reaching a total of 5,470,542 nights. With reference to figure 3.1.2, in the period of 2003–2005 the growth in the number of stay-over arrivals led to a slight increase in the occupancy rate reaching 82 percent in 2005. Consequently, this steady growth led to an increase of the average daily rate (ADR) from Afl. 259.16 in 2004 to Afl. 311.80 in 2005. In line with the growth of the ADR in the period 2003-2005, the revenue per available (revpar) room also increased from Afl. 123.49 in 2003 to Afl. 167.29 in 2005. Despite the decrease in the number of visitors and occupancy in 2006, the ADR for 2006 increased slightly from Afl. 311.80 in 2005 to Afl. 316.70 in 2006. In the first months of 2006, the hotels kept increasing their daily rates despite the decrease in the number of visitors. Afterwards, the hotels decreased their prices somewhat. In line with the growth of the ADR in the period 2003-2005, the revenues per available room (revpar) also grew as can be seen in figure 3.1.2. But in 2006, the trend was different. Due to a decrease in the occupancy rate and the number of visitors, the revenues per available room decreased from Afl. 167.29 to Afl. 148.23 in 2006.<sup>15</sup> The trend of these indicators can be seen in the graph below. The slimming down in the number of tourists in 2006 can also be related to the limitation in room inventory during the year 2006 compared to 2005, and high fuel costs in combination with high airfares. In 2006, the total visitors' market, the U.S. and the Venezuelan market experienced slight negative changes at the same time. Compared to 2005, the U.S. market decreased slightly with 7.4 percent while the market of Venezuela also decreased with 4.7 percent. The total number of visitors from the U.S. and Venezuela alone represents 79.67 percent of the total visitors market to Aruba.

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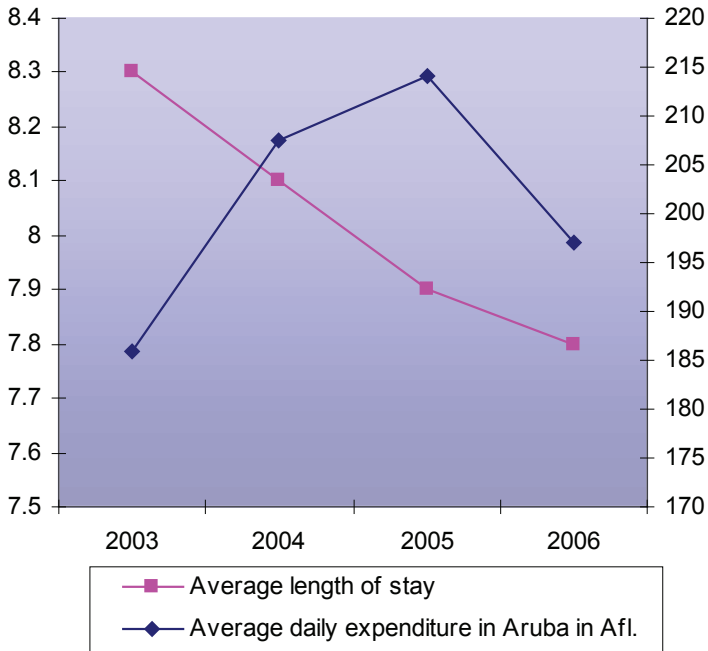
<sup>15</sup> Source: CBS.

Figure 3.1.2 Hotel performances



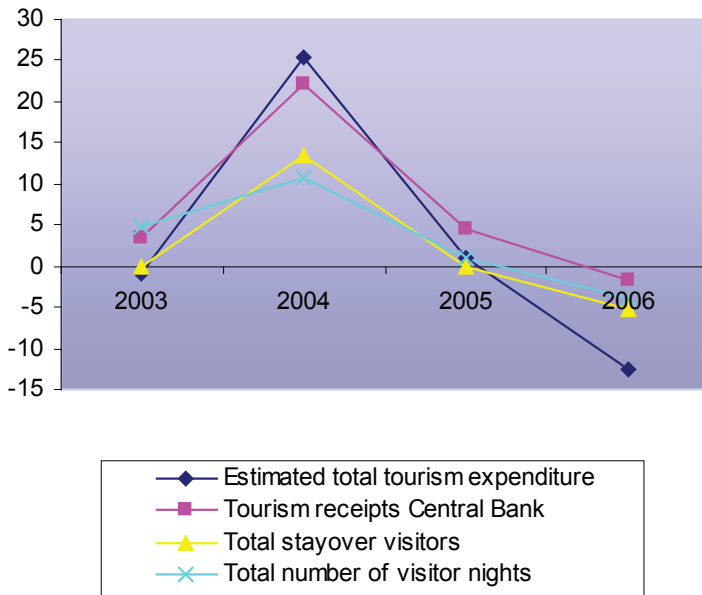
The annual average length of stay as shown in figure 3.1.3 decreased from 8.3 nights in 2003 to 7.8 nights in 2006. The average daily expenditure was respectively Afl. 185.84 in 2003, Afl. 207.43 in 2004, Afl. 213.99 in 2005 and Afl. 197.08 in 2006. As can be seen in graph 3.1.3, with the average daily expenditure going up in two consecutive years in 2004 and 2005 and down afterwards in 2006, there is no correlation between the trend of the average length of stay and the trend of the average daily expenditure.

Figure 3.1.3 Average length of stay and daily expenditure



When looking at what the economy of Aruba in the period 2003-2006 directly generated through the total tourism expenditures and tourism receipts calculated by the Central Bank (see figure 3.1.3 and 3.1.4), it can be concluded that these two indicators show a trend that is directly in line with the trend of the total number of stay-over and visitor nights (see figure 3.1.1). This means that there is a direct correlation between the number of tourists visiting Aruba and the amount of expenditures. As the total number of visitors decreases, tourism expenditures and receipts also decreases and vice versa.

Figure 3.1.4 The correlation between the trend of the number of visitors and visitor nights and the income directly generated from tourism.



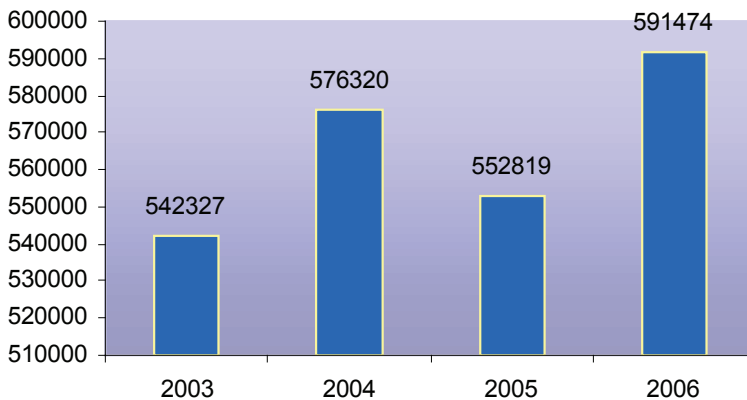
The prospect is that because of more rooms becoming available in 2007 and 2008 and aforementioned developments in the sector, the hotel prices will stabilize in 2007 and 2008. This prospect is in line with the actual positive trends in the first half year of 2007. There was an increasing path regarding the main tourism indicators. The total number of visitors increased with 6.6 percent over the first six months of 2007 compared to the same period in 2006. The growth is mainly from the North American (US and Canada) market. The North American market represents 76.3 percent of the total number of visitors. The number of visitor nights increased as well by 4.8 percent in the first half of 2007 compared to the same period in 2006. These increases are partly due to the release of a number of renovated rooms in Aruba, increased airline services such as Jetblue, strong branding efforts and integrated PR efforts along with more competitive hotel rates. The hotels have decreased their prices somewhat. This can be concluded from the ADR. The ADR decreased slightly with 1.1

percent in the first seven months of 2007 compared to the same period in 2006. Consequently, the revenues per available room decreased very slightly with 0.2 percent compared to the same period in 2006. The average occupancy rate was 78.3 percent, which is a very slight decrease of 0.6 point compared to the same period in 2006. According to the first quarterly report of the Central Bank of Aruba, tourism receipts increased in line with the number of visitors and nights with 5.4 percent in the first quarter of 2007.

As presented in figure 3.1.5 below, cruise tourism has been doing well in the past years except for the year 2005. In 2005 the number of cruise calls decreased slightly with 3.3 percent which had its effect on the number of cruise passengers which on its turn decreased with 4.1 percent. Despite this decrease in 2005, the average yearly increase in the period 2002-2006 was 5 percent. The trend of the cruise passengers acted differently in 2006 than the stay-over visitors. The number of cruise passengers experienced a drop only in 3 of the 12 months of the year 2006 compared to 2005. Cruise passengers increased with 7.0 percent in 2006 compared to 2005 reaching a total of 591,474 passengers. According to the Central Bureau of Statistics, the performance of the cruise tourism is difficult to analyze since lately the cruise ships are very large in capacity and therefore even if the number of cruise calls drops, this does not mean that Aruba received less cruise passengers. Aruba received 1.0 percent more ships in 2006, which accounted for an additional 38,000 cruise passengers compared to the year 2005. The number of crew members is another indicator collected since they also have an impact on the economy of Aruba. They un-board the cruise ships on occasion to do some shopping. Aruba received 6.9 percent more crew members in 2006 than in 2005, reaching a total of 242,658. In addition, the cruise expenditure has increased further than the numbers of arrivals leading to more income for the tourism sector. The outlook is based on a decline in the number of cruise passengers for 2007 and a zero percent growth for 2008. The projected decline in the number of cruise passengers for 2007 is in accordance with the actual decrease since February of this year as well as in accordance with the decline in the number of cruise passengers and the capacity of the

cruise ships that is programmed to port Aruba in 2007 and in the beginning of 2008. There is an overall decline in the number of cruise passengers in the first half of 2007 of 15.8 percent while the number of cruise calls increased with about 20 percent. The decline can be attributed to the cancellation of the weekly visits of the Carnival Cruise Lines to Aruba as of January 2007.<sup>16</sup>

Figure 3.1.5 Cruise passengers 2003-2006



The developments in tourism are the force behind the economy of Aruba as well as for the income for the government of Aruba and the balance of payment. The development of tourism totals in the period of 2003-2005 led to a growth of the total export value of tourism of approximately 10 percent, which represents the largest portion of the total export of Aruba. In 2006, the total tourism receipts shrank with 2 percent.

According to the Aruba Tourism Authority (ATA) the introduction of the new “Landsverordening Toelating en Uitzetting” (LTU) has its challenges for the tourism labor market. It makes it difficult to find and keep qualified employees. This could play an important role in the near future regarding the plans for the

<sup>16</sup> Source: Economic and Investment Trends, Aruban Investment Bank, second quarter 2007, August 2007 and Aruba Cruise Authority.

existing hotels as well as for the new hotels. Other important aspects of concerns are the following. An analysis completed by the Central Bureau of Statistics (CBS) indicates that currently 5868 people are employed directly in hotel and timeshare and 16316 are employed in the total hotel industry. According to CBS projections a total of 8667 will be needed to be employed directly in the hotel and timeshare and 24097 in the total hotel industry. This represents an increase of 47.7 percent in the period of 2006-2010. The rapid growth in the tourism industry makes it very difficult for the local labor market to supply the necessary skilled personnel. As a consequence labor needs to be imported.

Furthermore, air travelers entering or reentering the U.S., must present a passport as of January 23, 2007. In October the total number of visitors with no passport summed up to 53,694 (15.5 percent), 66.6 percent of the first timers had no passport, 27.2 percent of the 2-5 times and 6.2 percent of the 6 and up visitors (the figures are based on 408,201 US visitors).

### **3.1.2 Other macroeconomic indicators**

#### **Gross Domestic Product**

In the period 2003-2006, the value of the nominal GDP grew yearly from Afl. 3514 million to Afl. 4380 million<sup>17</sup>. The yearly average nominal growth in the period 2003-2006 was 6.0 percent. This yearly increase is due to increased construction and investment activities mainly in the hotel and real estate sector as well as increases in private consumption.

Tax revenue in 2003 was Afl. 687 million and has increased yearly to an amount of Afl. 854 million in 2006. The yearly increase was due to a yearly increase in the volume of taxes on commodities, wage tax and volume of taxes on services. With regard to the period January-July 2007, it can be said that until the end of July 2007, the government has collected a total of Afl. 709.2 million in taxes of which Afl. 67.6 million can be attributed to the turnover tax collected in the first seven months of 2007. This equals 9.5 percent of the total amount collected in the before mentioned period. When looking at the amount of taxes collected

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<sup>17</sup> DEACI estimates.



in January to July of this year compared to the same period in 2006, the total amount collected until the end of July 2006 increased with 6.0 percent despite the decrease in wage tax of 17 percent due to the decrease in the overall wage tax tariff in order to compensate for purchasing power loss due to the introduction of the turnover tax. The increase in the total amount of taxes is due to an increase in the volume of taxes on commodities by 7 percent and the turnover tax.<sup>18</sup>

## **Inflation**

The import price is mainly influenced by the inflation of the US. The US is the main source for imports of Aruba. For 2003 the import price inflation was 2 percent and for the years 2004, 2005 and 2006 the import price showed a yearly 3 percent increase. In the period 2003-2006 the domestic inflation was yearly around the 3 percent. When we look at the first seven months of 2007 the average annual inflation reached 4.1 percent<sup>19</sup> compared to 2.4 percent for the US for the first seven months of 2007. Until the end of July 2007 the inflation of Aruba is higher than that of the US. The year to date inflation from the end of December 2006 until the end of July 2007 is 6.1 percent<sup>20</sup>. The higher inflation is mostly due to the implementation of the turnover tax.

In 2003, the annual average inflation was 3.6 percent and this decreased to 2.5 percent in 2004. In 2005, the annual average inflation increased to 3.4 percent and in 2006 it increased to 3.6 percent. The changes in the yearly domestic inflation levels is mainly caused by the level of inflation in the US and oil prices. The price of oil has a substantial influence on the price of water and electricity. After the payment of house rent, the payment of domestic fuel and power have the highest weight in the consumption basket that is used as the basis to compute inflation.

Overall export price level is linked to the value of the export of goods and services of the previous year, the total value of tourism revenue of the previous year and other values of export not being tourism. In 2003 the export price showed a decrease of 2 percent due to a decrease in the value of the export

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18 Source: SIAD

19 Source: CBS

20 Idem as 18.

of goods and services in 2003 and other exports not being tourism. The years following showed a yearly increase of 4 percent. This is due to the increase in the value of the export of goods and services and tourism revenue.

In 2003 and 2004 the minimum wage was set at Afl.1200. In 2005 the minimum wage was increased to Afl.1236, this being in line with the level of domestic inflation. In 2006 the minimum wage remained at the 2005 level, while as per January 1, 2007 this was increased with 7.3 percent to Afl.1460. This increase took place according to the predicted inflation for 2007 on the basis of the implementation of the turnover tax.

## **Exports**

The total tourism expenditures have a substantial influence on the total value of export of goods and services. In 2004 there was a drastic increase, 12.1 percent, in the value of the export of goods and services compared to 2003. This was due to an 11 percent increase in the number of visitor nights and 17 percent increase in total expenditures of tourism, mainly caused by higher room price. In 2005 the value of export of goods and services increased slightly with 1.1 percent compared to 2004, as result of a lesser growth in the number of total visitors. After two consecutive favorable years, the number of total visitor nights decreased with 3.9 percent in 2006, resulting in nearly no growth of the value of export of goods and services in 2006. In 2006 the number of tourist arrivals decreased with 5.2 percent. On the other hand, as can be read in the section 'Aruba Tourism Review 2003-2007 (the first months)' of this chapter, tourism receipts increased by 5.4 percent in the first quarter of 2007 and the main tourism indicators show a positive trend during the first half of 2007.

## **Consumption**

### *Government Consumption*

With regard to the expenditure of the government, a considerable increase in the level of personnel expenses on a yearly basis can be observed for the period 2003-2006. This mainly had to do with increases in staffing levels as well as incidental operations having to do with incurring and paying down on employer's contributions by the government in various schemes. In 2004, the personnel expenses have increased from Afl.266 million in 2003 to Afl.286 in

2004, which equals 8 percent. In 2005, the personnel expenses increased to Afl.305 million, which is an increase of 7 percent compared to 2004. In 2006 the personnel expenses also kept on growing to an amount of Afl.309 million which equals a slight growth of 1 percent. The expenditures with regard to the goods and services have been very unstable in the period 2003-2006. The amount spent on goods and services in this period depended on policy decisions as well as movements in arrears to suppliers. In 2003, the government spent Afl.154 million on goods and services and this increased drastically to Afl.191 million in 2004 and this dropped in 2005 again to Afl.153 million while in 2006 this increased again to Afl.205 million. The amount of Afl.205 million spent in goods and services was the highest amount the government has ever spent on goods and services since 1995.

In the year 2001, the government transferred Afl.120 million to the General Health Insurance (AZV). Despite this transfer the total amount of expenses of the government did not increase with a comparable amount in that year when compared to 2000. The total amount of expenses in 2001 increased with Afl.32 million compared to 2000. In the period 2002-2005 the government has transferred yearly an average of Afl.131 million to AZV. In 2006 the transfer to the AZV decreased to Afl.120 million due the increase of the employee and employers premiums for the AZV as of January 1st, 2006.

In 2003, the government had a financial surplus on cash basis. This surplus was caused to a large extent due to an increase in non tax revenue. The non tax revenue was caused by a one-time debt forgiveness agreement with credit-guarantor SACE. Years following have seen financial deficits that were largely influenced by other one-time operation such as the debt conversion operation with APFA in 2004, resulting in a deficit that year of Afl.280 million combined with a decrease in the total tax revenue and grants of the government of 18 percent. In 2005, the financial deficit decreased to Afl.114 million. This decrease was due to a decrease in the total amount of expenditures of 9 percent. In 2006, the (cash) financial deficit grew even more to Afl.137 million due to an increase in the total amount of expenditures of 6.6 percent. As was mentioned before the movements in deficit were largely due to one-time factors. Besides, this movements in arrears have contributed largely to these results. If one takes

this into consideration the respective results for the period 2003 to 2006 are as follows:

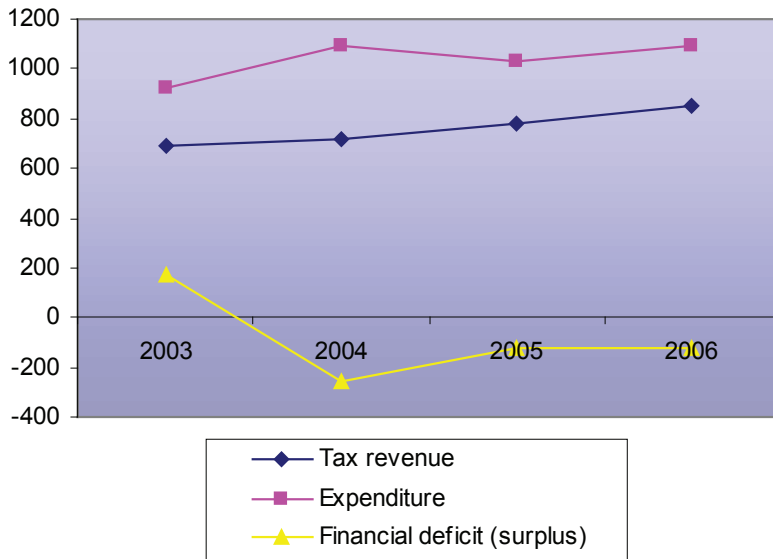
- 2003: Surplus of Afl.150,9 million
- 2004: Deficit of Afl.224,7 million
- 2005: Deficit of Afl.152,1 million
- 2006: Deficit of Afl.62,4 million

This in essence means that overall the Government's financial results have seen a substantial increase in its deficit in 2004 followed by a consistent fiscal consolidation in the following two years: a trend that is expected to be carried through 2007 and 2008.

The deficit level of the government has a large influence on the total debt of Aruba. The debt as a percentage of the GDP has increased over the years from 42 percent in 2003 and 2004 to 45 percent in 2005 and 45 percent in 2006. There is a positive correlation between the amount of expenditures, financial deficit and debt of the government.

The graph 3.6 shows the trend of the tax revenue, government expenditure and financial deficit in the period 2003-2006. We can conclude from this graph that the development of the three indicators mentioned earlier are in line with each other for the years 2005 and 2006 but in the years before 2005 this is not the case.

Figure 3.6 Government income and expenditure and financial deficit (surplus) in Afl.



### *Private consumption*

In the period 2003-2006, the volume of private consumption of households and businesses is estimated to have grown with a yearly average of 3.4 percent. Consumption increased in 2004 and 2005 by 5 percent, as a result of a growth of 10 percent in consumer credit. Taking into account the expected economic activities in 2006 the Central Bank of Aruba (CBA) decided to tighten its monetary policy for 2006. The credit growth ceiling was reduced by one percentage point. In addition, two separate credit growth ceilings were introduced, i.e. a 5 percent growth ceiling specifically for consumer loans, and a 5 percent growth ceiling for the remaining components (mainly housing mortgages and business loans). With the aforementioned constraint private consumption for 2006 increased less than the two previous years.

There was a yearly deficit with regard to the net current account for the years 2003, 2004 and 2005 due to a higher demand for the import of goods and services. This is mainly because Aruba has to import basically all goods.

The economy is mainly based on tourism and the local population has a high consumption level of goods and services. The import of goods and services grows parallel with the private consumption of households and businesses.

### **Investment**

The trend in the volume of the private investments was in line with real GDP development for the period 2003-2006. In 2003 and 2004 the volume of the private investment growth was 8.0 percent per year while real GDP growth was respectively 1.4 percent and 11.0 percent. Contrary to the GDP growth in 2005 and 2006, the volume of private investments for these years was kept at a high level. The volume of private investments grew with 5.6 in 2005 and 8.2 in 2006 while the real GDP increased with respectively 0.8 percent and 1.4.

### **Imports**

As was the case with the export of goods and services in 2004 and 2005, the value of import of goods and services also increased compared to 2003 and 2004 with 8.1 percent and 7.4 percent respectively. This is for the most part due to the large increase in the number of tourist arrivals in the two consecutive years. In 2006, the value of the import of goods and services grew slightly with 1.8 percent while the number of tourists decreased with 5.6 percent.

When looking at the value of imports in the period 2003-2006, this has grown from Afl.1515 million in 2003 to Afl.1884 in 2006. Primarily in 2005 there was a growth of Afl.278 million due to an increase in food products, machinery and electro technical equipment and base metals and derivated works. In 2007, until July 2007 the imports of goods have grown with 6.3 percent compared to the same period in 2006. This growth can be attributed to mainly a growth in the value of imports of textiles, pearls and precious stones and mineral, chemical and related products.

### **Conclusion**

The growth of the number of tourist arrivals and rooms had a positive effect on all the economic indicators with the exception of for the growth in the demand of labor, which had to be imported from abroad putting a lot of pressure on the

existing infrastructure which is already very congested. This can be seen from the following figures.

The population has grown from 96,200 in 2003 to 103,908 persons until the end of June 2007. This was the result of both natural growth through net birth figures as well as accelerated migration. The labor force grew steadily in line with population growth, while unemployment maintained itself at an absolute level of approximately 3100 persons in the period 2003-2006. According to the Department of Labor and Research, Job Center registered a demand of 10.003 personnel. It is notable that most of the vacancies are related to the construction sector.

### **3.2. ECONOMIC OUTLOOK 2007-2008**

#### **Assumptions**

The estimates and projections presented here are based on statistical information available through end-June 2007. With the aid of the MARUBA-model, a projection of the main macroeconomic indicators for 2007 and 2008 was made. A number of assumptions have been made for the projections presented in this chapter.

#### **The main assumptions of the outlook are:**

The tourism arrivals are expected to grow with 6.1 percent in 2007 and 7.7 percent in 2008. The key factors affecting growth forecasts are as follows. More hotel rooms will be available in 2007 and 2008 among which Occidental-Allegro and Westin, Hyatt will be back in complete operation after the spring of 2007, while RUI hotel will open its doors with 450 new hotel rooms the last quarter of 2007. Marriott Aruba Surf Club will also have an additional timeshare building operating by the end of 2007 as will be the case with Divi Phoenix and Divi Village with new rooms becoming available during 2008.

The growth in 2007 is mainly based on a recovery from the drop in 2006 and a slight increase of 1.8 percent in the number of available rooms. The increase

in the total visitor's nights in 2008 is mainly due to a projected strong increase of 8.6 percent in total available rooms for 2008. Furthermore, it is assumed that the extra visitor's nights that will be needed for the new hotel/timeshare rooms will be partly<sup>21</sup> drawn from the occupancy of existing supply while the rest are to come as additional visitor's nights. After three quarters of the operational year, it is expected that new rooms will acquire their own market share and total occupancy will stabilize at original levels. As mentioned in chapter 1, the expected growth of 4-5 percent in the Caribbean tourism is also used in the analyses for the outlook.

Moreover, policy efforts of the Aruba Tourism Authority (ATA) are aimed at a recovery from the decrease in 2006 and a stabilization of the growth in 2008 with an additional 2 percent in the total number of visitors to Aruba. In addition to more rooms, ATA expects stabilization in the hotel room prices to set in which has its positive outcome for the tourist as well as for the destination. With economically stable source markets and an increase in airlift under which new flights from Delta (1 extra a week which started February 17, 2007), Martinair (once a week, which started first of February 2007), Jetblue from New York and First Choice (second charter from the UK from May through September 2007), combined with the success of advertising Aruba on cable TV in 2006, benefits of which are expected to be reaped in 2007 and 2008.

Due to the decrease in cruise ship capacity, the number of cruise passengers is set to decrease in 2007 with 123,466 passengers (21 percent) compared to 2006. Assuming that the global demand for cruises will stay the same or will increase slightly in 2008, the number of cruise calls and cruise passengers in 2008 will approximately remain at the same levels as in 2007.

In an effort to maintain purchasing power at the same level, the government lowered wage tax tariffs per January, 2007 which will result in a decrease of the government wage tax income for 2007 compared to 2006. Therefore,

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21 It assumed that the extra visitor's nights that will be drawn from the occupancy of existing supply will be 50 percent in the first quarter, 25 percent in the second quarter and 10 percent in the third quarter. After three quarters of operation it is expected that these new rooms will acquire their own market share and the total occupancy will stabilize at its original level.



the government wage tax income has been reduced according to the budget forecast of the Tax Department. In addition, the turnover tax income for the government has been estimated at Afl.145 million in 2007.

The government intends on implementing the recommendations stated in the report of the National Commission on Public Finance (NCPF). The commission recommended the government to contain personnel expenses and expenses on goods and services to a 3 percent and 2 percent growth per annum respectively as of 2007. Furthermore, it has been recommended to increase the level of investment to 2 percent of GDP as per the same date. The foregoing assumptions were not taken into the projections, instead the budget for 2007 and 2008 presented by the Department of Finance, was used as basis for this outlook. According to the budget 2007 and 2008 presented by the Department of Finance, the total expenditures will increase with 7.9 percent and 10.6 percent respectively. Personnel expenses in 2007 will not see an increase compared to 2006, yet in 2008 it will increase with 2.5 percent. The government will decrease the expenses on goods and services in 2007 with 1.8 percent and will increase these with 8.0 percent in 2008. When we look at the budget 2007 and 2008 the investment amount of the government will grow with 1.3 percent in 2007, on the other hand the government is planning to invest 10 percent less in 2008 compared to the previous year.

The U.S. inflation is used as an indicator for the import price of Aruba that is projected by the IMF to be 1.9 percent in 2007 and 2.5 percent in 2008. Together with the above mentioned assumptions and the expected decrease in the overall economic growth of the US, the analyses pertaining to the outlook have been completed.

Here follows the results of the outlook as well as a short description of the economy of Aruba for 2007 and 2008.

## Gross Domestic Product

Table 3.2.1 Macroeconomic outlook 2008 outlook

	2007	2008
Nominal GDP (Afl. mln.)	4727	5121
Real GDP ( percent)	2.0	3.8
Private consumption ( percent)*	2.2	4.2
Government consumption (percent)*	-6.9	1.1
Private Investments ( percent)*	2.7	2.7
Government investment (percent)*	6.3	-1.0
Exports ( percent)*	3.0	5.0
Imports ( percent)*	2.4	4.0
Inflation ( percent)	6.0	3.8

\* Real terms

Source: *Department of Economic Affairs, Commerce and Industry of Aruba*

The outlook forecasts a higher economic growth for 2007 compared to the previous year with an expected real growth of 2.0 percent. As a result of more activities in the tourism sector the real economic growth is expected to be 3.8 percent in 2008. As mentioned in the assumption the number of visitors to Aruba is projected to increase with 6.1 percent in 2007 and with 7.7 in 2008. Consequently, the export revenues, mainly from stay-over tourism, are estimated to grow with 3 percent in 2007 and with 5 percent in 2008. It is likely that a total number of 733,496 stay-over tourists will visit Aruba in 2007 and 791,170 in 2008. This can be related to a total of 5.8 million visitor's nights in 2007 and 6.3 million visitor's nights in 2008.

On the other hand, according to the Aruba Cruise Tourism Authority, the outlook for Cruise Tourism is such that a decline in the number of cruise passengers for 2007 is expected as well as a zero percent growth for 2008. The projected decline in the number of cruise passengers for 2007 is in accordance with the recorded actual decrease since February of this year and in accordance with the decline in the number of cruise passengers and the capacity of the cruise ships that are programmed to port Aruba in 2007 and in the beginning of 2008. For 2007 a total of 334 cruise calls is expected to take place with a total of 468,008 passengers, this is a decrease of approximately 21 percent compared

to 2006. This decrease is due to the decrease in offered cruise ship capacity. This equals approximately Afl.20 million less direct income for Aruba compared to the previous year. Assuming that the global demand for cruises will stay the same or will increase slightly in 2008, the total cruise calls and cruise passengers in 2008 will approximately stay the same as in 2007.

Table 3.2.2 presents the total outlook for the government revenues. With the present state of the economy and the policy of the government, wage and income tax is set to decrease with Afl.60 million<sup>22</sup> in 2007. It is also expected that the profit tax will increase slightly in 2007 and 2008. On the other hand, the outlook for 2008 is that of a continued growth in import duties. It is likely that the tax burden will slightly increase from 19.4 percent in 2006 to 19.6 percent in 2007, mainly due to the implementation of the turnover tax. In 2008 the tax burden is expected to stay at almost the same level as in 2007. Despite the projected decrease in the wage tax in 2007 of Afl.60 million it is expected that the total tax revenue of the government will grow with Afl.78 million in 2007 to Afl.928 million caused by the implementation of the turnover tax and an increase of the tax base in 2007 specifically the taxes on commodities. With regard to 2008, tax revenue is expected to grow with Afl.73 million reaching Afl.1001 million. This growth is caused by a growth in the most important tax categories, namely wage tax, taxes on commodities, turnover tax and taxes on services and property.

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22 All government figures and estimates are on a cash basis.

Table 3.2.2 Government Revenue in Afl.million

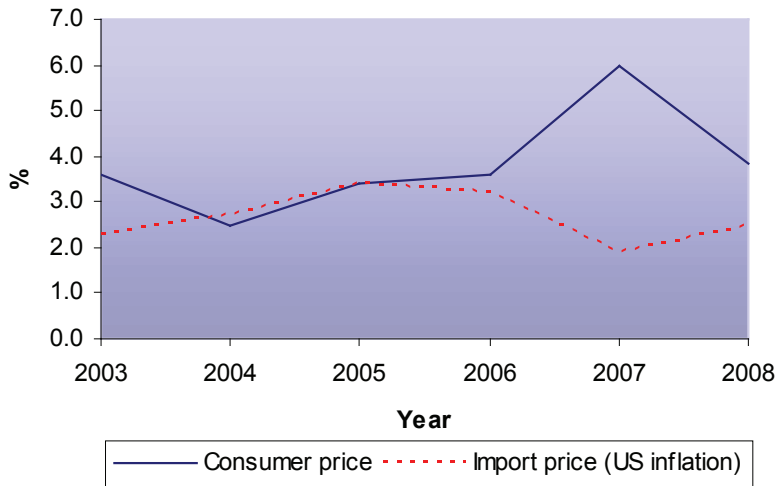
	2006 (1)	2007 (2)	2008 (2)
<b>Total revenue and grant</b>	<b>984</b>	<b>1084</b>	<b>1134</b>
<b>Tax revenue</b>	<b>850</b>	<b>928</b>	<b>1001</b>
<b>Taxes on income and profit</b>	<b>397</b>	<b>330</b>	<b>355</b>
Wage tax	296	235	255
Income tax	11	0	0
Profit tax	90	95	100
Solidarity tax	0	0	0
<b>Taxes on commodities</b>	<b>276</b>	<b>282</b>	<b>311</b>
Excises on gasoline	58	65	75
Excises on tobacco	14	14	14
Excises on beer	26	26	27
Excises on liquor	16	17	17
Import duties	163	160	178
<b>Turnover tax</b>	<b>0</b>	<b>145</b>	<b>158</b>
<b>Taxes on property</b>	<b>54</b>	<b>57</b>	<b>61</b>
Motor vehicle fees	18	18	18
Succession tax	2	3	2
Land tax	27	25	29
Transfer tax	8	12	13
<b>Taxes on services</b>	<b>61</b>	<b>68</b>	<b>71</b>
Gambling licenses	23	25	25
Hotel room tax	33	35	36
Stamp duties	2	2	3
Other	3	4	4
<b>Foreign exchange tax</b>	<b>62</b>	<b>36</b>	<b>36</b>
<b>Nontax revenue</b>	<b>102</b>	<b>135</b>	<b>118</b>
<b>Grants</b>	<b>31</b>	<b>19</b>	<b>15</b>

1. Figures from Central Bank of Aruba (CBA) on a cash basis
2. Estimates from the Department of Finance on a cash basis

The import price, as mentioned previously, is mainly influenced by the inflation of the US. The US is the main source country for import to Aruba. The import price is projected to be in line with the projected US inflation, namely 2.5 percent for 2007 and 2.5 percent for 2008. The development of the price of oil is a point of concern mainly because of its effect on the price of water and electricity

which has a high weight in the consumption pattern. As mentioned above, the inflation for 2007 will be much higher than the previous year primarily because of the implementation of the turnover tax. The inflation is expected to be around 6 percent in 2007 and 3.8 in 2008. Figure 3.2.1 presents a graphic overview of the development of inflation and the import price levels since 2003.

Figure 3.2.1 Inflation rate 2000-2008



Overall export price development, as previously mentioned, is linked to the value of the export of goods and services, the total value of tourism revenue and other value of export not being tourism. It is predicted that the export price will be 3.6 percent in 2007 and 3.5 percent in 2008. This figure is less than the projected inflation in 2007, due to decrease in hotel prices during 2007.

Taking into account the estimated GDP growth for 2007 and the projected inflation, the Central Bank of Aruba at this moment sees no immediate need for a further tightening of its monetary policy for 2007. Derived from the progress in the tourist arrivals in 2007 and the expected investment activities in 2008, a continued growth of the money supply is projected reaching a value of Afl. 2.678 billion in 2008.

It is expected that the private consumption will increase with 2.2 percent in 2007. With regard to private consumption in 2008, the projected recovery in the number of tourist arrivals in 2007 and the projected growth for 2008 will contribute to an increase of the value of the export of goods and services as well as an increase in private consumption in 2008. For that reason, private consumption for 2008 is estimated to be in line with economic activities and will grow with 4.2 percent. On the other hand, the turnover tax, introduced on January, 2007, is still a point of concern according to household survey conducted by the Aruban Investment Bank in June, 2007. While 86 percent of the respondents to the survey claim to be able to cover their fixed expenses, most of them also claim that they can only do so by foregoing luxury or otherwise nonessential items. This is in concurrence with the fact that 53 percent claim to be buying fewer products. Consumers mentioned in the 1st quarter of 2007 that more attention should be paid to price monitoring by the government, and that concern increased for the 2nd quarter of 2007. Many consumers still feel that some companies are taking advantage of the present circumstances and don't feel that the significant increase of prices is justified. The high price for gas has also had a great effect on the consumers' discretionary income.

As was mentioned previously, the economy is mainly based on tourism while the local population has a high consumption quota for goods and services. The import of goods and services grows parallel with the private consumption of households and businesses. Therefore the value of the import of goods and services is projected to grow with 2.4 percent in 2007 and 4.0 percent in 2008.

Due to the expected level of economic activities in the tourism sector and the growth of the GDP in 2007 and 2008, the volume of private investments is expected to grow with 2.7 percent in 2007. It is expected that the growth of the volume of the private investments in 2008 will stay at the same level as in 2007.

Table 3.2.3 presents an outlook for government expenditures and total debt projections for 2007 and 2008. According to government policy intentions presented in the budget of 2007 and 2008 as well as the foregoing economic developments, it is likely that the total amount of expenditures of the government

will maintain a growth in 2007 and 2008. As presented in the assumptions, the government is planning to reduce the growth rate in various expenses. Specifically, the personnel expenses are expected to retain to a zero percent growth in 2007 and 2.5 percent in 2008. Contrary to the recommendations statement by the report of the National Commission on Public Finance (NCPF), the expenses on goods and services are projected to increase respectively with 1.8 in 2007 and 8.0 percent in 2008. The level of investment is set to decrease with 1.3 percent in 2007 and decrease with 10 percent in 2008. On the other hand, the government transfers to General Health Insurance (AZV) are expected to be substantially less than the previous years. Since January 2006 the tariffs of AZV were increased, thereby decreasing its share in the transfer in the projected 2007 amount by an estimated amount of Afl.22 million. The total transfers are projected to be Afl.98 million in 2007 as well as for 2008. It should be noted that the General Health Insurance introduction in 2001 caused various shifts within the government expenditure structure and associated incidental receipts throughout that period. Based on the abovementioned assumptions, it is estimated that the financial deficit will be Afl.44 million in 2007 and to Afl.31 million in 2008. As a result of announced policy intentions economic growth and a decline in the deficit, the total debt as a percentage of the GDP presented in the figure 3.2.2 below will decrease from 45.5 in 2006 to respectively 43.7 percent in 2007 and 41.2 percent in 2008. Furthermore, it is assumed that the additional tax revenue gained from the turnover tax will not be used to increase the expenditures of goods and services.

Table 3.2.3 Government expenditure and total debt

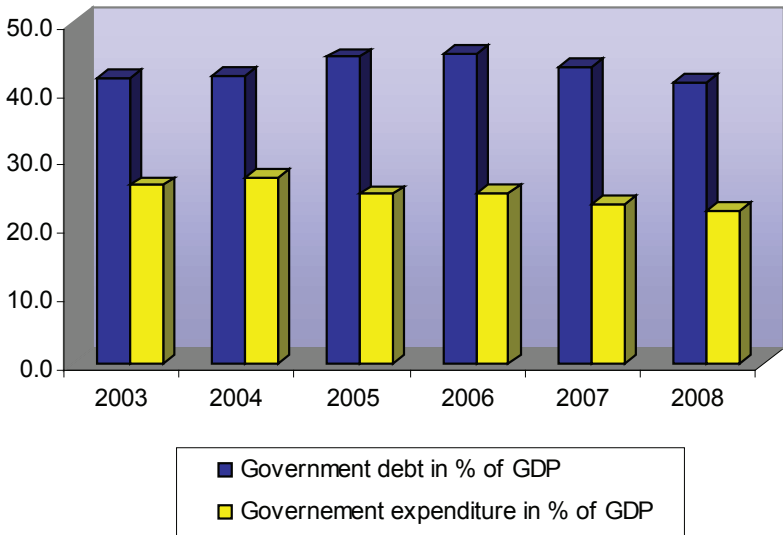
	2006 <sup>(1)</sup>	2007 <sup>(2)</sup>	2008 <sup>(2)</sup>
<b>Total Expenditure</b>	<b>1096</b>	<b>1108</b>	<b>1145</b>
Wages	309	307	314
Employer's contribution	92	98	93
Wage subsidies	141	130	140
Goods and services	203	199	215
Interest	97	106	112
Development fund spending	33	32	38
Investment	32	40	36
Transfer to General Health Insurance (AZV)	120	98	98
Items n.i.e.	69	107	100
<b>Lending minus repayments</b>	<b>7</b>	<b>18</b>	<b>20</b>
Lending	17	27	28
Repayments	-10	-9	-9
<b>Financial surplus (+) deficit (-)</b>	<b>-120</b>	<b>-44</b>	<b>-31</b>
<b>Total debt</b>	<b>1996</b>	<b>2066</b>	<b>2112</b>

1. Figures from Central Bank of Aruba (CBA) on a cash basis

2. Estimates from the Department of Finance on a cash basis



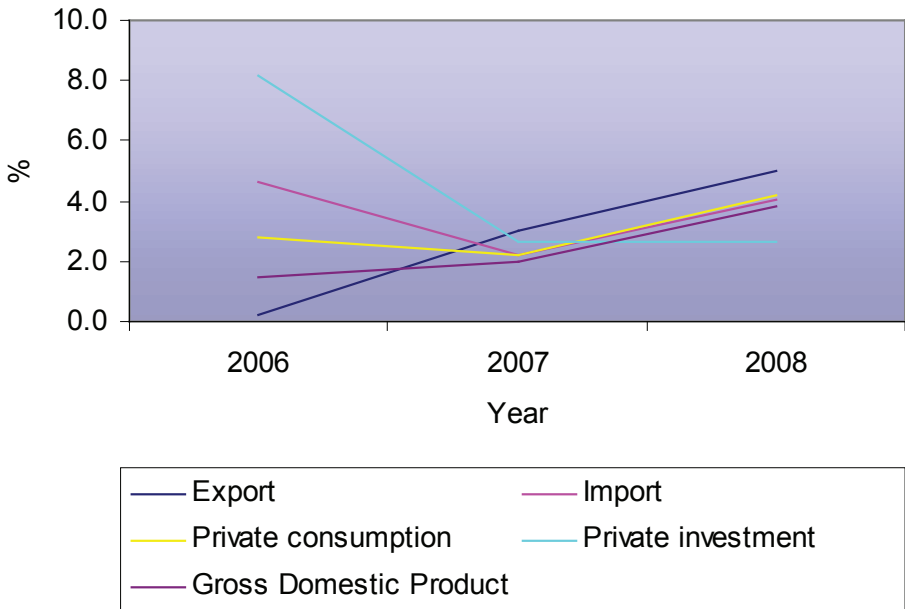
Figure 3.2.2 Government operations in percentage of GDP



### Conclusion

Growth in the volume of the private consumption, in the volume of private investments and in the value of the export of goods and services will cause a real growth in GDP of approximately 2.0 percent in 2007 and 3.8 percent in 2008. This will result in a nominal GDP of Afl. 4.7 billion in 2007 and 5.1 billion in 2008. This is mainly due to the recovery in the number of tourist arrivals in 2007 together with an increase in the available rooms. The prolonged growth in 2008 is caused by a large supply of hotel and timeshare rooms. Figure 3.2.3 below gives an indication of the GDP components projected for the period 2006 till 2008.

Figure 3.2.3 Developments of the GDP components 2006-2008



The growth in the number of tourist arrivals and rooms has a positive effect on different economic indicators. Then again, the economic growth goes hand in hand with a demand for labor, leading to the further need to import labor from abroad. This puts more pressure on the existing infrastructure which is already congested. Meaning additional government investments in infrastructure are needed.

Moreover, it is projected that to comply with the labor demand, primarily related to economic activities in the tourism industry, the labor force will have to continue growing. With the restrictions imposed by the (LTU), it is not certain that there would be a sufficient number of labor supply to fill the projected demand. The pressure on the housing market especially will have its consequences for the prices of rent in real estate mainly caused by an increase in labor cost of construction. This could result in a high increase of the total wage rate putting more pressure on the private sector.

## CHAPTER 4 SECTORAL DEVELOPMENTS IN ARUBA

The partial economic activity index (PEAI) illustrates the trend in production volumes of seven industries. These seven industries together contribute 71.3 percent to the GDP of Aruba. From this means an indication can be given as to the developments of the seven main industries of Aruba and of the GDP in a certain year.

Following the seven industries are indicated and their percentage of the PEA:

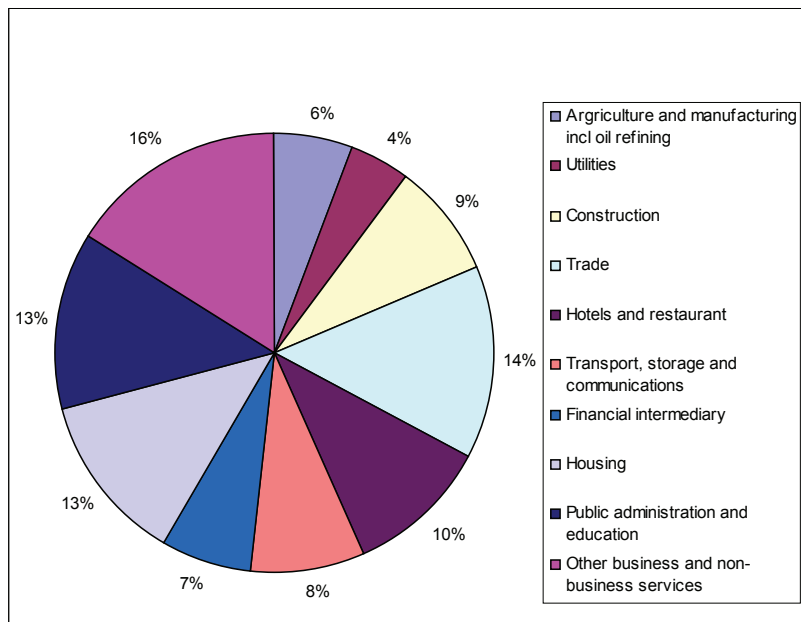
Table 4.1 Share of the seven industries of the PEA

Industry	Percentage
Agriculture and manufacturing including oil refining	5.8
Utilities	4.1
Construction	8.6
Trade	14.2
Hotels and restaurants	10.5
Transport, storage and communications	8.2
Financial intermediary	6.8
Housing	12.6
Public administration and education	13.1
Other business and non-business services	16.1
<b>PEAI</b>	<b>71.3</b>

Source: CBS

Below the industries of the PEA can be seen graphically whereby it is evident that the four main industries influencing our economy are: other business and non-business services, trade, housing and hotels and restaurants.

Figure 4.1 Share of the seven industries of the PEAI



Source: Central Bureau of Statistics Aruba

With regard to 2006, the PEAI dropped with 1.2 percent compared to 2005. This drop was caused by a drop in volume at the industries having the biggest influence on the PEAI. The trade industry dropped with 3.5 percent while public administration and education dropped with 3.1 percent. During the first three months of 2007, the PEAI dropped by 0.4 percent compared to the similar quarter of the previous year.

In table 4.2 and in the following section volume developments of the industries will be briefly described for 2006 and the first months of 2007 together with an outlook for the different sectors.

Table 4.2 Volume developments of the industries

Industries	2006	1Q 2007
Utilities	7.9 %	5.7 %
Construction	-31.7 %	-16.1 %
Trade	1.1 %	13.5 %
Hotels and restaurants	2.2 %	3.3 %
Transport, storage and communications	7.3 %	-0.2 %
Housing	3.1 %	3.1 %
Public administration and education	-6.0 %	-10.1 %
<b>PEAI</b>	<b>-4.4 %</b>	<b>-0.4 %</b>

Source: Central Bureau of Statistics Aruba

#### 4.1 AGRICULTURE AND MANUFACTURING INCLUDING OIL REFINING

Since acquiring the Aruba refinery in 2004, Valero Energy Corporation has placed its own stamp on the refinery, which has had a rich history dating back to its opening in 1929.

In the time that Valero has owned the plant, it has invested nearly Afl. 900 million resulting in a 75 percent improvement in the refinery's safety record and a 90 percent reduction in emissions. The refinery is studying plans for future investments totaling more than Afl. 1.8 billion aimed at improving refinery viability and ensuring continued operations. These investments would lead to further diversification for Aruba's economy. Valero directly employs 745 people, and accounts, directly and indirectly, for 12.4 percent of Aruba's employment. The refinery also accounts for 13.2 percent of Aruba's gross domestic product

#### 4.2 UTILITIES

As indicated by CBS in 2006 there was no growth in the utilities industry<sup>23</sup>. In the first quarter of 2007, the volume of utilities increased by 5.7 percent compared to the same period in 2006, following a 7.9 percent increase registered in the

<sup>23</sup> The utilities industry consists of the production and distribution of water and electricity and gas consumption. The production of water is done by WEB while the production of electricity is done by WEB and Valero.

previous quarter. The total water supply increased by 6.9 percent compared to the first quarter of 2006. In addition, the total electricity production by WEB and Valero increased by 3.7 percent compared to the same period of the previous year. The total gas consumption (commercial and household consumption) registered an increase of 3.3 percent, compared to the first quarter of 2006.

Because of a strong growth of the demand in the last decade, W.E.B. Aruba N.V. invested approximately 250 million dollars to upgrade, modernize, and expand its water production and electricity generation facilities by installing additional boilers, a desalination unit, modern automated control systems, and a new turbine generator. In addition, W.E.B. Aruba N.V. has invested in the updating and computerization of its administrative systems. New clients are ensured of receiving water anywhere on the island within two days.

The water distribution network of W.E.B. Aruba N.V. covers the entire island, which is exceptional, compared to the majority of countries in our region. Its water distribution network consists of predominantly cement-lined ductile iron pipes. W.E.B. Aruba N.V. has a registered client base of more than 35,000 and supplies drinking water to more than 7,000 hotel rooms, each consuming an average of 1 metric tons of water per day. In addition, an average of 170,000 tons of drinking water per year is supplied to Aruba's cruise tourism industry.

To keep up with the growth in the economy ELMAR N.V. also has been investing in expansion and upgrading. Elmar N.V. will invest in 2007 and 2008 approximately Afl. 16.5 million each year. These investments will be in the expansion and maintenance of the transmission and distribution networks in order to optimize the reliability and quality of the supply of electric energy. With these investments the level of infrastructural efficiency will be kept in place.

Throughout the world increasingly more use is being made of alternative energy sources which contribute less to global warming than fossil fuels. Global warming is now recognized as a serious threat to the health of the planet. Energy costs in the Caribbean including Aruba are among the highest in the world. In the

Caribbean, the trade winds and abundant sunshine provide ideal conditions for green energy. Nevertheless, the use of green energy is far behind because of insufficient knowledge and lack of local financing.

Green energy is a viable option, both on the short and long term, but requiring investments to achieve a substantial contribution. In the Caribbean, the options are essentially the same, but practically wind and solar energy are the most promising short term solutions. Economically, wind energy appears to be the best option at this time, with solar as the runner-up. According to experts, a proven and widely spread economical model is one where owners of windmills sell the excess energy to the electricity company at a price below their fuel cost. Once electricity companies in the Caribbean pick up this concept, major savings for both them and the owners of the windmills will apply.

#### **4.3 CONSTRUCTION**

The added value of the construction industry declined in 2006 with 2.7 percent. This figure includes the construction activities of the Valero Refinery. In the first quarter of 2007 a drop of 16.1 percent compared to the similar quarter of 2006 also occurred following earlier drops in the preceding two quarters. This development is a result of a drop in the import of the main components of construction such as ironworks and pipes, mainly as a consequence of pressures in the international construction materials markets being exercised by rapid construction activities in Asia, particularly in China.

Figures mentioned also include the import of materials by the Valero Refinery which can have a large, one may even say disproportionate, influence on the development of the added value of the total sector. Therefore, it is important to look at the import of construction materials excluding the activities of the Valero Refinery. Taking this into account, the indications are that the construction sector is experiencing a steady growth since 2002. It is estimated that the added value of the construction industry has grown with an average of 10 percent per year between 2002 and 2006. This development is particularly related to construction in the tourist area of the island, including expansion of the number of hotel

rooms, condominium construction and other real estate developments. In 2006 the construction of the new RIU Palace Hotel & Resort with 450 new hotel rooms started. RIU is Spain's second biggest hotel chain and together with their traditional German partner TUI (Touristik Union International), the largest tour operator in Europe. Marriott also began in 2006 with the construction of two more timeshare towers consisting of 138 new rooms. It is expected that the total hotel/timeshare rooms will grow with approximately 833 new hotel/timeshare rooms between 2007 and 2008 reaching a total of 8108 rooms end 2008.

Besides hotel rooms, much construction is taking place that regard condominium and other real estate projects. A condominium or also called condo is a form of housing tenure. Usually a condominium consists of units in a multi-unit dwelling such as an apartment, house or development. Each unit is individually owned, the unit owners jointly own the land and the common areas such as hallways and recreational facilities in the building. The common areas are usually managed by a board of directors elected by the members. In general, condominium unit owners can typically rent their condominiums to other people to occupy as tenants. This is similar to renting out other real estate. In addition to paying a mortgage, each owner is responsible for paying a monthly fee to the condo association. This consists of the unit owners. The fee covers maintenance, repairs, and building insurance. Most housing condominiums are apartments.

Condominiums are an appealing way to enter the housing market if the cost of a single-family home is out of reach. Presently, condominiums are especially popular among single homebuyers, empty nesters and first-time buyers in high-priced housing markets. Condos offer a lifestyle that is free of yard work, exterior maintenance and repairs. Many condominium communities also offer amenities such as exercise rooms, tennis courts and swimming pools that many homebuyers are unable to afford if purchased a single-family home.

It is expected that in the period 2007-2010 about 2,127 units will be built in the high and low rise resort areas and other areas around the island such as Weststraat (Oranjestad), Palm Beach, Malmok and Tierra del Sol. The investments associated with these condominiums and other real estate developments are conservatively estimated to approximately Afl.1.1 billion. It is



expected that time share owners will buy a condo as a second home ownership. Furthermore, it is expected that repeat visitors who mainly stay in high priced hotels will buy a condo. The impact of this will be that the present hotels and the government will have to increase their investments in marketing and their efforts in satisfying their guests in order to gain more first time visitors and make these visitors repeat visitors in order to compensate for the customers lost to the condo market. This way the hotels will be able to maintain a satisfactory occupancy level and tourism expenditure on the island and tourism revenue will be at a satisfactory level.

The large number of condominiums that will be built will have a substantial impact on the construction sector as well as on the demand for labor and building materials. This impact will be additional to the already planned construction that will take place having to do with the additional hotel- and timeshare rooms that will be constructed. Consequently, additional labor will be required. Presently, the construction sector is experiencing shortages in labor supply, to which current migratory restrictions are a contributing factor. In addition hereto the demand for building materials is such that in many occasions importers of building materials cannot keep up with this. As result of these developments, many projects are experiencing construction cost overruns. If additional demand for construction in tourism related businesses is not compensated by a reduction in construction activities in other sectors, construction prices will continue to increase. This can have an effect on the feasibility of the condominiums projects that will be build in the near future as well as the housing market in general. Below follows an overview of projects planned for the coming years.

Table 4.3 Outline of planned condominium and shopping centers

Projects	Units	Location	Start construction	Start operation
<b>CONDOMINIUMS</b>				
Palm Beach Condo	240	Palm Beach	no indication yet	
Oceania Resort I	55	Eagle Beach	2005	2007
Oceania II	66	Eagle Beach	early 2007	mid 2009
FG Developers N.V.	35	Eagle Beach	2007	2010
Mar Azul	64	Oranjestad	2001	2008
Aruba Sands Development	124	Eagle Beach	2007	2010
BOUWCo. Realty (Pearl Eagle Beach)	25	Eagle Beach	2007	2010
HJC Realty (Jardines del Mar)	34	Eagle Beach	2007	2010
La Colina/Las Palmas (Tierra del Sol)	70	Palm Beach	no indication yet	
Las Rocas (Tierra del Sol)	30	Palm Beach	no indication yet	
Islands Estates	78	Eagle Beach	no indication yet	
Gold Coast Villes	267	Malmok	2006	2008
Ray Gar Properties NV(The Cliffs)	124	Palm Beach	2007	2010
Portofino Project	40	L.G. Smith Boulevard	2007	
Kasa Alba	21	Morgenster	2007	2009
Caico Group (Aqua Aruba)	568	Palm Beach	2007	2010
Harbour Residence	20	Palm Beach	2008	2010
Chuchubi Residence	14	Noord	2006	2008
The Residence Divi Village	54	Eagle Beach	2008	2010
The White House	30	Washington	2008	2009
Villas Kadushi Largo	26	Kadushi Largo, St. Cruz	2008	
Azure Wave	32	Eagle Beach		

Projects	Units	Location	Start construction	Start operation
<b>SHOPPING CENTERS</b>				
Paseo Herencia / Heritage Development NV	35	Palm Beach	2006	2007
Palm Beach Plaza / Landy Corporation	36	Palm Beach	2007	
Morgan's Agua Park/Village Center / Impact Holding N.V.	28	Palm Beach	2006	
Dirkrom Realty N.V.		Palm Beach	2007	2008
Goldenstrip Holdings N.V.		Palm Beach	2008	2009
Biocchi Enterprises N.V.		Palm Beach	2006	2007
Castello de la Plaza N.V.		Palm Beach	2008	2009

*Source: Department of Economic Affairs, Commerce and Industry of Aruba*

The investments presented above amount to approximately Afl.1.1 billion. Furthermore, in 2005 the foundation "Stichting Onroerend Goed Aruba (SOGA)" was established with the objective to among other things "acquire, manage and rent immovable property...". The SOGA started in 2006 with the construction of three government buildings; the Belfin building (Department of Finance and Tax Department), the ADRS building for the accommodation of the Advisory Council (Raad van Advies), the Social Economic Council (Sociaal Economische Raad) and the Department of Foreign Affairs, the Infra-building that will accommodate the department of Public Works (Dienst Openbare Werken), the Department of Infrastructure and Planning (Directie Infrastructuur en Planning) and the Department of Land Registry (Dienst Landmeetkunde en Vastgoedregistratie). The government will rent these buildings with the objective to own these after 25 years. The total investment committed by SOGA for all three buildings is approximately Afl.50 million.

#### **4.4 TRADE**

As mentioned above, the trade industry declined with 3.5 percent in 2006. Import of various products declined in 2006 such as household appliances, articles and

equipment, hardware, glass and paint goods. In the first quarter of 2007, trade increased by 13.5 percent compared to the same quarter of the previous year. The information received from CBS is that this growth is mainly caused by an increase in imports of the following products:

- Retail in hardware, glass and paint, which increased by 50.2 percent;
- All other retail in specialized goods, which increased by 21.3 percent;
- Household appliances, articles & equipment, which grew by 11.5 percent.

#### **4.5 HOTELS AND RESTAURANTS**

This sector showed a decline in 2006 of 2.4 percent. A drop of the number of visitor nights was 3.9 percent and the number of occupied rooms dropped with 1.9 percent. This is in line with the main tourism indicators showing a drop compared to 2005. There was a decline in the total visitor arrivals of 5.6 percent in 2006. The occupancy rate in 2006 was 77 percent which was a decline compared to 2005. In 2005 the occupancy rate was 82 percent. The number of visitor nights decreased from 5,693,000 nights in 2005 to 5,471,000 nights in 2006. In addition, there was also a decrease in tourism expenditure as well as in tourism revenue. On the other hand, in the first quarter of 2007, volumes in this industry increased by 3.3 percent compared to the same quarter of the previous year, following a 2.2 percent growth registered in the previous quarter. It is expected that the number of visitors and nights will grow with 6.1 percent in 2007 and with 7.7 percent in 2008, mainly caused by a recovery of the drop in 2006 and more rooms becoming available in 2007 and 2008.

Moreover for 2007 hotel room inventory is expected to increase by 558 extra rooms. Together with this expansion of the number of rooms the sector is undergoing a process of property upgrading. Occidental Grand Aruba invested US\$24 million in upgrading and reopened in May 2006 as the first luxury all-inclusive hotel. In addition, Occidental-Allegro Hotel will be expanded with 100 rooms. The RIU Hotel which will be a five star hotel will officially open in October, 2007 with 450 rooms, an investment of US\$120 million in upgrading and expansion. By the end of 2007 Marriot Aruba Surf Club will have constructed 138 extra timeshare rooms while Divi Village and Aruba Phoenix Resort would

have been expanded by end of 2008 with 105 and 140 rooms respectively: an investment totaling US\$50 million. In addition, Hyatt Regency Aruba Resort & Casino started in 2006 with an investment of US\$40 million in upgrading of its rooms and lobby.

#### **4.6 TRANSPORT, STORAGE AND COMMUNICATION**

This sector showed stabilization in 2006 compared to 2005. The main leading indicators of this sector are commercial landings, vessels entering port, number of visitor nights and the number of passengers transported by Arubus, the public transportation company. All these leading indicators showed stabilization in 2006. According to information provided by CBS during the first quarter of 2007 transport declined by 0.2 percent compared to the same quarter of the previous year, following a 0.8 percent drop in the corresponding period of 2006. In particular, commercial landings dropped by 3.2 percent compared to the first quarter of 2006. In addition, the number of passengers transported by the local public transportation company and the number of vessels entering the port declined by 6.6 and 1.6 percent respectively. On the other hand, the number of visitor nights and the total number of vessels entering the ports of Aruba increased by 6.8 and 11.4 percent respectively.

As said in the early chapters the results of the cruise tourism for 2007 are mainly determined by the fact that Carnival Destiny made its last visit to Aruba per January 5, 2007. The primarily reason for this decision was the high fuel price that made this segment not profitable for the cruise line. The cruise tourism remains important. Beside the income for the Aruba Port Authority N.V. it has a positive impact on the economy of Aruba. The average daily expenditure of a cruise visitor in Aruba is estimated by the CBS at Afl. 205.

The Aruba Ports Authority N.V. will continue to work to attract more “Port of Call” cruise ships. In 2006 Pullmantur started using Aruba as home port for the cruise ship “Blue Moon”, which carries 800 passenger mostly European tourists. In addition, these tourists stay a few days in the hotels of Aruba. The Aruba Ports Authority N.V. will be focusing on attracting the “Aida Cruise” with Home Port activities of two ships of 2000 passengers and will complete the renovation of cruise terminal 7.

With regard to the cargo activities, these are related to the import of Aruba so cargo shows a development that correlates with economic growth.

Since end 2000, the Aruba Ports Authority N.V. started with the moving of different activities to Barcadera in order to renovate three cruise terminals. The three cruise terminals will not only be renovated but will also be able to provide different kinds of necessary services for the cruise passengers such as long distance telephone facilities with worldwide direct dial capability and booths selling a wide variety of merchandise including local and Caribbean handicrafts and souvenirs. In addition, the Aruba Ports Authority N.V. will be investing in security, renovation and upgrading.

Over a 100 million dollar waterfront re-development will have to take place in the coming years that will include a 48 acre Marina Village with between 300-350 residential units of varying size and type and over 10,000 m<sup>2</sup> of commercial and retail space. This is planned to start in 2008 with visitor attractions, conference facilities, restaurants, unique retail stores, yacht clubs and luxury living areas offering the best views of the Caribbean Sea.

The policy of the Aruba Airport Authority N.V. for the coming years is one aimed at continuing to meet local and international standards with regard to safety and security along with an increase of the quality of the service to the passengers and other users of the airport and to maintain its financial independency.

The airport will be investing in the training of its personnel as well as engaging in physical investments by means of the cooperation that Aruba Airport Authority N.V has with Schiphol International BV. This will be done in the form of specialized know-how from Schiphol International BV on different projects.

Some AFL 60 million has been invested in upgrading the runway and taxiways of the Queen Beatrix International Airport. On September 19<sup>th</sup> 2006, the first of many such airside heavy maintenance and expansion projects was initiated. Effective December 20, 2006 Aruba Airport Authority NV (AAA), in compliance with new TSA regulations, introduced a new Central Security System. This

system will improve the efficiency level in the passenger flow and in the screening of passengers and hand luggage for passengers in both the U.S. and non-U.S. terminals.

The opening of a new facility took place which is the most modern private aircraft facility in the Caribbean. Operated by Universal Weather, the commercial potential of this facility is considered to be large. This as without the new building being open and with limited advertisement, private aircraft movement has seen an 8 percent increase in 2006 compared to 2005.

The Aruba Airport Authority NV will invest millions in 2007 and 2008. These investments will include airside improvements of the apron, runway and taxiways for Afl.18 million in 2007 and Afl.14 million in 2008. The airport will invest Afl.13 million in modifying of the main concession Area according to AAA's Commercial Business Plan. Further on a new baggage make-up area and building for the US-Departures along with remodeling of the existing arrival hall building in 2007 and Afl.15.5 million in 2008 is planned. In addition, Afl.10 million will be dedicated in 2007 to safety and security requirements as well as other investments in renovation of car rental offices, adding additional landscaping and other operational investments.

Free Zone Aruba (FZA) NV, aims to attract more foreign investors to export goods and services out of the free zone. Aruba's geographical location and the overall favorable business environment, makes the free zone of Aruba an overseas location for export business. The free zone of Aruba holds a strategic position for import from/export to North and South America, the Caribbean and Europe. FZA N.V. will continue to work on the attractiveness of free zone with the aim of improving the climate for investment. FZA N.V. works on the possibility for diversification of the Aruban economy by means of attracting more export-related activities to the free zone. An example of this is FZA's support for plans to establish an ethanol production plant and a recycling plant.

SETAR N.V. Aruba's national telecommunication provider has been for many years the principal telecommunication company on the island. SETAR N.V. is a provider of fixed line, mobile, internet and data services. The company's

cellular communications infrastructure offers both GSM and TDMA services. SETAR has more than 70,000 registered cellular subscribers.

In 2002 SETAR N.V. introduced international roaming services for both its GSM and TDMA customers. Some countries with which commercial roaming agreements have been signed are the US, The Caribbean, Colombia, The Netherlands, Venezuela and the United Kingdom. SETAR N.V. introduced recently various new telecommunication services. SETAR N.V. is also an Internet provider and offers island-wide, high-speed DSL services. There are over 13,000 DSL subscribers. In addition, SETAR N.V. continues to invest in its network for international telecommunications.

In 2003 established Digicel, the second mobile telecommunications operator. Since 2001, Digicel has become a fast growing mobile telecommunications operator in the Caribbean and a recent new entrant to the Central American mobile market. Digicel entered the Aruban market with affordable and innovative mobile communications, which brought more competition on the mobile telecommunication market. This development was very positive for Aruba, in particular for the consumer who experienced an improvement in price/quality ratio.

## **4.7 HOUSING**

This sector is the only one which shows a positive trend in 2006. In 2006 the housing sector showed a positive growth of 3.3 percent. The increase in 2006 is directly related to the increase in the number of premises connected to the WEB-grid. For 2007 and 2008 it is expected that this sector will continue growing. According to the PEAI of the first quarter of 2007, housing has increased with 3.1 percent compared to the similar quarter of 2006. This growth is related to 1.103 new premises connected to the WEB-grid in the first quarter of 2007. Additionally, figures of the Central Bank of Aruba show that in the first quarter of 2007, total housing mortgage lending by commercial banks, pension funds, and life insurance companies went up by Afl. 82.9 million (7.8 percent) from Afl. 1066.0 million in the first quarter of 2006 to Afl. 1148.9 in the first quarter of 2007.



## 4.8 PUBLIC ADMINISTRATION AND EDUCATION

This sector also saw a drop of 3.2 percent in 2006. This largely due to a decrease in the expenditures on personnel cost. In the January to March period of 2007, the economic activity Public administration & Education declined by 10.1 percent compared to the same quarter of the previous year. This drop was caused by a decline in the personnel-related expenditure in the public sector, mainly due to a drop in the total salaries (-3.0 percent) and total overtime compensations (-17.4 percent). It is expected that the expenditures for personnel for 2007 will stay almost at the same level as in 2006. For 2008 it is projected by the Department of Finance to increase with 2.5 percent.

As for developments related to investments by the government, the year 2000 saw the beginning of a new way of organizing development cooperation between Aruba and the Netherlands. This new way of cooperation between these two countries has been a result of various reports produced on the matter, namely “Op eigen benen”, also called the Biesheuvel Report, published in 1997, “Toekomst in samenwerking” published in 1999 and “Op afstand verbonden”, published in 2000. As of November 2001, the Fondo Desaroyo Aruba (FDA) was established being the entity that administrates the funds of Aruba and the Netherlands in this regard. The activities being paid by this fund are all described in the two long-term programs for the years 2001-2005 and 2006-2009 which is set-up with the participation of the relevant stakeholders in Aruba. The FDA also sees to it that the activities described in these long-term programs are executed according to the procedures set-up by both countries. The goal of this new method of cooperation is that by means of these programs Aruba must be able to be self-sufficient in a sustainable manner after 2009.

The most recent long-term program 2006-2009 is largely a continuation of the long-term program 2001-2005. Activities in the program 2006-2009 are divided in four different sectors, namely good governance, sustainable development, education and the social sector. The main goal of this long-term program is to obtain sustainable development for Aruba whereby a balance is obtained between the limited carrying capacity of the environment and the need for

economic growth. It must be guaranteed that future generations will be able to achieve their ambitions. The activities executed in the earlier mentioned sectors will contribute towards achieving this goal.

The total amount of investments that will be made through the execution of the activities pertaining to the long-term program 2006-2009 will be Afl.141 million.

A total amount of Afl.20 million will be invested in the sector good governance. The activities in the sector good governance will focus on the apparatus of the government whereby measures will be introduced to strengthen the operation of the government, its management, the implementation of policies and improvements in supervision tasks. One of the most important activities among these is the development of the National Integral Strategic Plan (NISP). According to stakeholders of all four before mentioned sectors, it is a requirement that Aruba has and executes such a plan. The plan entails among other items the updating of legislation, the streamlining of the legislative process and the issuing of instructions in this regard. In addition, a plan will be formulated for the provision of information by the government and the development of an integrated information system.

The main focus of the long-term program 2006-2009, taking into consideration the total maximum amount available for this sector compared to the other sectors, is sustainable economic development. A maximum budget of Afl.60 million is available for this sector. This program consists of four main activities, namely: coastal management and the improvement of beaches, the continuation of the implementation of the structuring of waste water management, the completion of the second phase of the waste management facility and the implementation of a mobility plan according to the results of a mobility investigation.

The education sector focuses its program on various activities in order to obtain an increase in the return of education in Aruba. In order to obtain a greater return, among other activities, an adult training institute will be established, means will be provided for the benefit of educational policy regarding instruction language and languages that taught at school such as books and dictionaries in Papiamento and reference books in Papiamento. In addition, a system will

be established that will measure the quality of the education in- and externally at the bachelor and master level including the accreditation of the University of Aruba. This quality system needs to be effective, efficient and integrated. Furthermore, the physical infrastructure of the University of Aruba and the Pedagogical Institute of Aruba will be adapted to better suit its educational purpose. A maximum amount of Afl.27.5 million will be available for this sector.

With the means provided by the FDA, the policy of the social sector is to increase of the development possibilities of the vulnerable groups in society which include, among others, children and adolescents, the elderly, persons on welfare and persons with limitations/handicaps. The vulnerable groups will be the target group because in many situations these persons have difficulty in obtaining a higher quality of life. Prevention is of great importance whereby the goal is to reduce the incidence of social exclusion and/or reduction in quality of life. The social sector will focus its activities mainly on the target group children and adolescents. The activities for this target group include, among others ones, the establishment of an institute for remedial education and the establishment of infrastructure for the supervision of adolescents. The social sector has a maximum budget of Afl.33.5 million available for these purposes.

After September 11 2001, the Council of Ministers of the Kingdom of the Netherlands decided to intensify the mutual cooperation in the field of counterterrorism and the improvement of law enforcement and national security of the Kingdom. This will be obtained by the reinforcement of legislation in this regard and the reinforcement of operational cooperation throughout the justice system and police forces. In addition, by the institution and maintenance of a proper intelligence infrastructure at organizations dealing with public order and by the reinforcement of controls and supervision within the financial sector the aforementioned mutual goals are to be achieved.

The program for the years 2006-2007 with regard to law enforcement and public order is an integral part of the long-term program 2006-2009 though this program has its own budget and is presently being executed. A total amount of Afl.10.2 million is available for the years 2006 and 2007. The activities that are being executed are, among others, the reinforcement of the executive

tasks of the Financial Intelligence Unit (Meldpunt Ongebruikelijke Transacties (MOT)). In addition, the reinforcement of the quality of the detective force and investments regarding the improvement of human resources of, among others, the Prosecutor's Office, the Customs Department and the Police Corps are also being executed.

# APPENDIXES

## MACROECONOMIC INDICATORS 2003 - 2008

		2003	2004	2005	2006	2007	2008
Consumption price	percent	3.6	2.5	3.4	3.6	6.0	3.9
Import Price	percent	2.3	2.7	3.4	3.2	1.9	2.5
GDP at market prices	mln. Afl	3514	4025	4153	4390	4727	5121
Household consumption	mln. Afl	1908	2015	2236	2381	2579	2791
Government consumption	mln. Afl	939	1009	964	1066	1052	1104
Private investments	mln. Afl	882	987	1074	1201	1281	1359
Government investments incl. Development fund spending (FDA)	mln. Afl	50	70	67	68	75	77
Exports of goods and services	mln. Afl	2418	2832	2981	3098	3307	3594
Imports of goods and services	mln. Afl	2683	2888	3170	3424	3567	3804
Household consumption*	percent	2.3	3.0	7.3	2.8	2.2	4.2
Government consumption*	percent	0.9	4.8	-7.6	6.7	-6.9	1.0
Private investments *	percent	10.2	9.2	5.6	8.2	2.7	2.7
Government investments*	percent	121.5	36.6	-6.7	-2.4	6.3	-1.0
Exports of goods and services*	percent	4.0	12.1	1.1	0.2	3.0	5.0
Imports of goods and services*	percent	7.3	4.8	6.2	4.7	2.2	4.0
Nominal GDP growth	percent	2.7	14.5	3.2	5.7	7.7	8.3
Real GDP growth	percent	2.2	10.5	0.8	1.4	2.0	3.8
Total tax revenue and grant government	mln. Afl	988	846	909	984	1082	1134
Total expenditure government	mln. Afl	919	1093	1032	1096	1108	1145
Financial surplus (+) deficit (-)	mln. Afl	172	-256	-124	-120	-44	-31
Total debt	mln. Afl	1479	1700	1872	1996	2066	2112
Tax in % of the GDP	percent	19.6	17.8	18.8	19.4	19.6	19.6
Expenditure in % of the GDP	percent	26.1	27.2	24.9	25.0	23.4	22.4
Debt in % of GDP	percent	42.1	42.2	45.1	45.5	43.7	41.2
GDP per capita	Afl.	36527	40730	40659	42623	45441	48380
End-year population	number	96207	98829	102149	103000	104026	105859

		2003	2004	2005	2006	2007	2008
Total hotel rooms	number	6884	7198	6944	7483	7620	8256
Visitors nights * 1000	number	5098	5640	5693	5471	5803	6250
Number of stayover visitors *1000	number	642	728	732	694	734	791
Cruise passengers *1000	number	542	576	553	591	468	468
Tourism receipts	mIn. Afl	1526	1890	1953	1917	2055	2280
Total hotel rooms	percent	0.8	4.6	-3.5	7.8	1.8	8.3
Visitors nights	percent	4.8	10.6	0.9	-3.9	6.1	7.7
Number of stayover visitors	percent	-0.1	13.4	0.6	-5.2	5.8	7.7
Cruise passengers	percent	11.2	6.3	-4.1	7.0	-20.9	0.0
Tourism receipts	percent	3.5	23.8	3.4	-1.8	7.2	10.9

\* Real terms

Source:

*Department of Economic Affairs, Commerce and Industry  
Central Bureau of Statistics  
Central Bank of Aruba  
Department of Finance*



