The Report of the National Commission on Public Finance (NCPF)

on

Sound Public Finance and Public Accountability in Aruba

As presented to the Minister of Finance and Economic Affairs of Aruba

The report is presented
By the NCPF Commission Members to
The Minister of Finance and Economic Affairs
N.J.J. Swaen, Bac.
February 2007

Erratum to Report of National Commission on Public Finance (NCPF)
on "Sound Public Finance and Public Accountability in Aruba"
February 2007

Erratum:

On page 29, second paragraph, of the report an apparent misstatement occurred. The mention of "Landsverordening Aansprakelijkheid voor Overheidsdienaren" should be: "Landsverordening vervolging en verhaal jegens het Land schadeplichtige landsdienaren" (Ordinance on prosecution and redress of damages to the Government by Civil Servants) and article 68 of the Ordinance on Material Rights of Civil Servants (LMA)

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on “Sound Public Finance and Public Accountability in Aruba”
February 2007

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2007-E-023

Subject: Report of National Commission on Public Finance (NCPF) on Sound Public Finance and Public Accountability

Excellency,

Please find herewith the report resulting from the assignment to the National Commission on Public Finance (NCPF) as per your letter A-614/2006 dated May 23, 2006.

Sincerely,

Mr. H. Mehran, Chairman
Senior Advisor, AIB BANK N.V.

Mr. H. M. Koolman, Secretary
Assistant Managing Director, AIB BANK N.V.

Mr. E. Croes
Director, Directorate of Finance

Mrs. M. Dijkhoff-Pita
Director, Department of Economic Affairs, Commerce and Industry

Mrs. M. Gonzalez
Manager of Economic Policy Department, Central Bank of Aruba

Mr. S.R. Marapin
Secretary-General, SER (Social and Economic Council)

1. INTRODUCTION

The Minister of Finance and Economic Affairs (the Minister) in his letter, A-614/2006, to the managing director of the AIB BANK N.V. instituted a National Commission on Public Finance (see appendix for the Minister's letter and the names of the members of the Commission) to consider the following:

1. The current size of the public sector and its future development.
2. Assessment of government spending with the objective to determine an adequate level of current and capital expenditures.
3. Assessment of government revenues with the objective to determine if its level is acceptable, taking into account an adequate level of government spending.
4. Achieving a balanced budget by the year 2009.
5. Consolidation of government debt, including possible future annual financial deficit(s) with the objective to reach a sustainable and appropriate government debt to GDP ratio.
6. Development of a set of fiscal responsibility rules to ensure accountability, clarity and public availability of information within a multiyear budgeting framework, which would provide for a set of criteria to regularly monitor the development of the financial position of the government.
7. Coordination of monetary and fiscal policies for a sustainable balance of payments position and to contain inflation.

Subsequently the Minister engaged AIB BANK N.V. on July 25, 2006 to provide the chairman and the secretariat to the Commission.
The initial work on the basic information needed for the work of the Commission were undertaken by the AIB BANK N.V. starting in August, 2006 and the Commission held its first meeting on September 26, 2006 at the AIB BANK N.V..

2. BACKGROUND

Looking at Aruba over the last 20 years, we see a vibrant tourism sector, having transformed the economy and made Aruba a household name in many parts of the world. Looking at where Aruba was in 1986 and where it is now, and comparing it with most countries in the region, Aruba's achievement in terms of economic growth is staggering. The size of the economy has increased almost five fold with GDP increasing from Afl. 800 million in 1986 to over Afl. 4,000 million in 2006 with the per capita income in dollar terms moving to the 20,000 US dollar range, which is at the same level as many industrialized countries, such as Spain, while maintaining relative price stability. This has been partly achieved by relying extensively on immigration to such an extent that today a third of the population is foreign-born. In this process, while Aruba's economy has become much more sophisticated than it was before the time of its separate status, it has become even more dependent on one activity, tourism and one market, the U.S. As such, the economy has become vulnerable to a down-turn in the U.S. economy and vulnerable to a possible loss of competitive position in the tourist industry in the Caribbean region. An adverse external shock, by worsening the balance of payments position and deteriorating public finances, could have spiral effects on the Aruban economy pushing it into a severe recession with far reaching implications for the welfare of the Aruban people.

Today the questions before us are: How to protect the prosperity which has been achieved, how to prepare for the rainy day (external shock), and how to make the balance of payments position and the government finances sustainable over the medium and longer term. The vulnerability of Aruba to absorb external shocks was illustrated by the IMF[1] projections that in absence of changed public sector financial results the debt to GDP ratio could increase to over 60% by 2009 and in the event there was to be additionally a drop of 4.7% in GDP the ratio could top 90%. These calculations were made by IMF in 2005.

In addressing these questions we must bear in mind the following features which are prevailing in the Aruban economy today:

1. There is greater need for a renewed growth in productivity as the real growth of income will most probably continue at the rates experienced in most recent years. While real growth of GDP peaked at 19% in 1988, in the last few years it has been reduced to a steady rate of 3-4% which is quite acceptable by international standards, but can only be sustained if there is a marked improvement in productivity gains over time in combination with subdued inflationary developments.
2. The costs of pay as you go pension and health schemes continue to increase and if left unchecked will both become an ever increasing burden on public finance.
3. The vulnerability of the economy to outside shocks makes it imperative to adopt those policies which will not only sustain growth over time, but also generate a cushion in the

[1] IMF, Country Report No. 05/204, Aruba: 2005 Article IV Consultation June 2005

financial management of the economy and enable the economy to absorb and reverse an adverse event in the future. Improving public financial management and sustaining a viable balance of payments situation therefore remains at the forefront of public policy discussions in Aruba today.

4. Public/ private sector partnerships (PPP) need to be strengthened in order to further energize the private sector to undertake small and medium size investment projects, to generate new productive jobs, and so diversify the economy. Furthermore, privatization of some functions which are currently performed by the public sector needs to be realized.
5. It is in this context that the National Commission on Public Finance considered the following issues and facts:
    i. How best to limit and control the growth of government current expenditures, the size of government employment and to change the mix of public expenditures.
    ii. How best to achieve a balanced budget by year 2009.
    iii. How to adopt a set of fiscal responsibility rules to provide for a broad and long term framework and to ensure the compliance of these rules. Such a framework has to include a set of benchmarks which would entail re-examination of both revenues and expenditures in light of public sector's actual operations to ensure a viable financial position over the medium term. Such an exercise also entails the conduct of these operations in a transparent manner, whereby financial statements are certified by public accountants, recording them accurately and reporting them to the public on a regular and timely basis.
    iv. What is the appropriate level of public debt in Aruba and the level of interest payments which could be comfortably serviced out of current government revenues.
    v. Finally, prolonged expansionary fiscal deficits, if left unchecked, lead to unsustainable indebtedness level increases and liquidity creation, adversely affecting the balance of payments and compromising the international reserve position, inducing the Central Bank to tighten monetary policy in order to preserve the value of the Aruban florin. It is therefore imperative to ensure there is an appropriate level of coordination between monetary and fiscal policies.

3. EXECUTIVE SUMMARY & RECOMMENDATIONS

The Minister of Finance and Economic Affairs instituted a National Commission on Public Finance (the Commission) to assess and report on seven specific areas. The findings of the work of the Commission are summarized below.

1. The current size of the public sector and its future development

In order to form an opinion as to the appropriate level and size of government, the objectives and core tasks of government and productivity per employee need to be defined and assessed first. The Commission understands that the government is undertaking such a detailed study. Pending the outcome of that study, the Commission has reviewed the development of the government over time and has compared it with a number of countries in the Caribbean and Europe (also referred to as the "peer group" or "comparable countries"). While average figures for the peer group are used in this report to illustrate a point, it is not the intention of the Commission to use these averages as benchmarks for the future development of public finance in Aruba.

Main Findings:

- Structural limitations have been identified pertaining to the consistencies of the data available of the government, including data regarding the number of personnel.
- For historical comparison going back to 1986, the adjusted number of employees of the Legal Entity of the Government of Aruba[2] shows that in 1986 it was 2,778, in 2000 it was 3,714 and in 2005 it was 4,401. As these figures were adjusted and comprise a narrower concept of government employees these cannot directly be related to the government personnel expenses out of general means.
- The actual number of government employees broadly defined[3] increased from 5,749 in 2000 to 6,576 in 2005, which is an increase of 14.4% or an annual average increase of 2.7%. These employees can directly be related to the government personnel expenses out of general means. The total government personnel for the year 2005 is 6.4 for each 100 inhabitants, which is in line with the peer group, while Aruba's government does not perform to the same extent all the functions normally attributable to a sovereign country as is the case of the peer group countries.
- The government expenditures on personnel, which coincide with the government employees broadly defined (6,576 in 2005), has increased by an annual average of 6.3%, from Afl. 374.9 million in 2000 to Afl. 505.2 million in 2005. When we measure government

[2] The adjusted number of employees of the Legal Entity Government of Aruba, <u>excludes</u> all departments that later got privatized. These figures were extracted by the Department of Personnel and Organization (DPO). Because of the adjusted nature of these figures they are not further considered for the analysis of the size of the government in the remainder of the report.

[3] Broadly defined refers to employees of the Public Legal Entity Government of Aruba, <u>including</u> subsidized entities and DOW, that are paid for by general means of the Government as compiled by the Commission from unpublished data provided by the Central Bureau of Statistics (CBS).

personnel expenditure per capita, Aruba is the highest on the list of the peer group with USD 2,760 per capita, versus the average of USD 1,400 per capita for the comparable countries. The government expenditure on personnel in terms of GDP is 12.5% in Aruba, thus higher than the average 10.2% of the peer group.

- Aside from a comparison to the peer group, the size of the government is also assessed within its own financial capacity. Recent trends in government personnel expenditure show that the personnel costs were 76.8% of the current expenditure (excluding interest and current transfers) in 2005, up by over 10% from 66.1% in 2000. The personnel expenses of the peer group amount to 74.9% of current expenditure.
- When analyzing the number of personnel per sector within the government, we can deduce that the areas that grew most during the period of 2000 and 2005, were *Public order and safety,* which grew from 1093 employees in 2000 to 1699 employees in 2005, or 55.4% (606 persons) and *Education* which experienced the second largest growth of 36.5%, where the number of employees were 446 in 2000 and 609 in 2005 (or a growth with 163 persons). The number of personnel in *Economic Affairs*, *Health*, and *Environmental protection,* on the other hand, contracted by 14.1%, 26.7% and 89.3% respectively in 2005 as compared to 2000.

Inference and recommendation:
The limitations regarding the government data and the classification of this data should be addressed and coordinated between the departments that produce statistics in order to create consistent and reconcilable personnel figures. The Commission understands that the Central Bureau of Statistics is publishing a report on government statistics in 2007.

The above findings imply that compared to the peer group, the average personnel expenses of the government is relatively high. No analysis was made as to the distribution of these expenses in terms of lower versus higher skilled employees. However, it is perceived that the distribution can be considered to be skewed in favor of the lower skilled employees.

Personnel expenditures need to be structurally contained if the upward trend in relation to the current expenditures is to be controlled. It is recommended for the core task analysis[4] currently undertaken by the government, to be finalized in July 2007. While awaiting the outcome of this study, the Commission recommends the government further not to increase the size of the public sector, i.e., the number of employees, beyond the current level in order not to compound the current financial shortfalls. Furthermore, the growth rate of the personnel expenses should be reduced to 3%, from the current annual average of 6.3%. To achieve this reduction to 3% there are some instruments available in order to: 1) Limit the growth in government contribution regarding secondary benefits; 2) Limit the natural growth rate of personnel expenses; and 3) Improve operational processes. In order to implement these instruments, apart from the core task analysis, the Commission advises to institute a task

[4] The results of the core task analysis should describe the services to be handled by the government as well as quantify the people required to fulfill the identified services.

force charged with the evaluation of these instruments as to their practical applicability. This task force should complete its evaluation before finalizing budget 2008.

2. Assessment of government spending with the objective to determine an adequate level of current and capital expenditures

Main Findings:
The total government expenditures increased from Afl. 724.6 million in 2000 to Afl. 1034.5 million in 2005 showing an increase of 42.8% in this period or 7.5% per annum. Of which:

- Current expenditure (incl. interest excl. transfers) has grown by an average of 4.4% per annum over the period 2000-2005. However, measured in terms of GDP, the current expenditure is fairly stable, around 18%.
- Current expenditure (excl. interest and transfers) amounted to 16.3% of GDP in 2005, compared to an average of 13.6% for the peer group.
- Current expenditure (incl. interest excl. transfers) amounted to 18.4% of GDP in 2005, compared to an average of 17.5% for the peer group.
- Interest payments have increased substantially since 2000. The year 2000 showed interest payments amounting to Afl. 41.6 million, while in 2005 this was Afl. 84.4 million or a 103% growth since 2000 on this item.
- The government investments, which pertain to the government capital expenditures, are relatively low showing a ratio of 1.6% to GDP in 2005 compared to the peer group which varies between 1.5 and 7.1% with an average of 4.4%.
- The transfers of the government went from an annual Afl. 70.2 million in 2000 to Afl. 191.6 million in 2001 and Afl. 199.5 million in 2005, where the increase was mainly caused by the introduction of the General Health Insurance (AZV) in 2001, which was one of the main drivers for the cumulative deficit in the period 2001-2005. Since January 2006 the tariffs of AZV were raised, thereby decreasing its share in the transfer in the projected 2007 by an estimated amount of Afl. 23.6 million. 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.

Inference and recommendation:
The above findings imply that the current expenditures expressed in terms of GDP have shown a relatively stable pattern during the period 2000-2005. Compared to the peer group, however, this level of current expenditures of the government of Aruba is relatively high, whereas capital expenditures expressed in terms of GDP lags behind the peer group.

By containing the personnel expenses to a 3% growth level and leveling growth of goods and services expenses, the financial deficit will be reduced gradually. Consequently, interest expenses, which have contributed significantly to the increase of the current expenditures in the period 2000-2005, will also be contained.

Investment outlays are considered important for the further enhancement of the economy of Aruba. Therefore, it is recommended to increase the level of investment on the short term from its current level of 1.6% to at least 2% of the GDP. The curbing of the current expenses next to policy changes already in place for AZV and the recommended increase of the investment outlays, will thus contain the growth rate of the total government expenditures from an annual average of 7.5% during the period 2000 - 2005, to an annual average of 3.1% during the period 2007 – 2009 (see basic table scenario C). It should be kept in mind though, that the recommended increases in investment might have a direct link with the current expenditures of the government as they might induce some additional operational activities for the government. Every investment planned should thus be analyzed for their consequences on the current expenditure of the government.

3. Assessment of government revenues with the objective to determine if its level is acceptable, taking into account an adequate level of government spending

Main Findings:

- Aruba had a government revenue to GDP ratio or a tax burden of 21.8% in 2005, whereas the government revenue to GDP for the peer group ranges from 17.3% to as high as 39.6% with an average of 29.8%.
- The largest component of the government revenue of Aruba consists of direct taxes, whereas for the peer group the largest component is indirect taxes.
- The level of Aruba's government revenues increased by 21% from Afl. 729.3 million in the year 2000 to Afl. 881.3 million in the year 2005. In this same period the GDP of Aruba also increased by roughly 21% keeping the government revenue in terms of GDP unchanged at around 21.8%.
- The collective burden to GDP, which includes the government tax revenue, the General Health Insurance contributions and the contributions for the Social Security Bank (SVB), is 27.2%. The collective burden to GDP in Aruba compared to the peer group members Barbados 34.2% and Malta 39.6% (see benchmarking table), where the Health Scheme is also paid for by general means, is lower.
- As per January 2007, amongst others the turnover tax (BBO) and a reduction of income tax was introduced as part of the policy change to shift from direct to indirect taxes. The full effect of theses taxes on the economy and the tax burden are yet to be assessed.

Inference and recommendation:

Considering the recent introduction of the BBO and the subsequent net increase of the tax burden, it is recommended to monitor for the time-being this development in order to analyze its effects on the economy to be able to determine further policy actions in this regard. In view of the low rate of investment, it is recommended to apply any windfall in revenue mainly towards increasing the investment level of the government. Any revenue that was already budgeted by the government should be allocated within the agreed framework towards deficit reduction, which includes financing of investments. The expenditure composition thus requires a shift by the government toward more investment and less operational expenditure. As there is a link between investment and potential subsequent additional operational expenditures, these should be carefully studied per investment.

4. Achieving a balanced budget by the year 2009

In this report, the Commission uses the following definition of balanced budget, namely: A surplus on the actual balance (current revenues-current expenditures) should be adequate enough to support an appropriate level of investments on the capital balance (kapitaaldienst).

Main Findings:

- In the event the government maintains its current financial trend with no change in expenditure, with the exception of the increase in tariffs reflected on the lowered transfers to the General Health Insurance (AZV), depending on the strength of the economic growth in the years 2007-2009, the deficit would be Afl. 25.6 million in 2009 (see basic table scenario A). In case of an economic downturn in 2007, the deficit would end up at over Afl. 80 million in 2009. This was deduced after running various economic scenarios next to the recently implemented policy changes by the government, as well as next to the financial structure before the implementation of these policy changes.
- The BBO (as implemented on January 1, 2007) and the lowering of the size of AZV transfers, due to the increased premiums in January 2006 (visible on the transfers starting 2007) would reduce the size of the deficit to between Afl. 65.4 in 2007 and Afl. 25.6 million in 2009 in a moderate economic growth situation. These latter government policies do not yet balance the budget by 2009, but have changed the worsening trend to an improving trend provided that the economic development remains positive.

Inference and recommendation:

The measures already taken therefore are not sufficient to eliminate the deficit and the Commission consequently recommends the government to contain personnel expenses and expenses on goods and services to 3% respectively 2% growth per annum as of 2007. Furthermore, it is recommended to increase the level of investment to 2% of GDP as per the same date. Based on the foregoing assumptions, it is estimated that a financial surplus of Afl. 25.7 million could be achieved by the year 2009 (see basic table scenario C).

5. Consolidation of government debt, including possible future annual financial deficit(s) with the objective to reach a sustainable and appropriate government debt to GDP ratio

Main Findings:

- The government has continuously run a deficit in the last 6 years and as a result the public debt in percent of GDP has increased from 38% in 2000 to 46% in 2005, in absolute terms from Afl. 1.3 billion to Afl. 1.9 billion in the same period.
- Consequently the interest payments have also increased from 1.3% of GDP in 2000 to 2.1% in 2005. By the same token over 11% of the government's current expenditure (excl. transfers) is accounted for by interest payments in 2005 whereas this figure was less than 7% in 2000.

Inference and recommendation:

By adopting policy actions that would deliver a financial outcome coincident with scenario C as outlined above, the public debt in percent of GDP would decrease to a level of 38.8% by the year 2009, or equivalent to Afl. 2 billion. The Commission considers a 40%-level as a reference target for the short and medium term for Aruba to maintain on its public debt as percentage of GDP. However, it should be realized that this level of debt implies an interest burden of still 12.1% in terms of expenditure. Therefore on the longer term it is recommended to lower the interest burden further by lowering the outstanding debt accordingly. In the long term this will create budget leeway which could help accommodate the costs of aging of the population or rising needs for government investment.

It is further recommended to review immediately the current outstanding public debt to verify whether there are possibilities to make (partial) consolidations with the objective to reduce the debt service burden, especially for loans with remaining short maturities.

6. Development of a set of fiscal responsibility rules to ensure accountability, clarity and public availability of information within a multiyear budgeting framework, which would provide for a set of criteria to regularly monitor the development of the financial position of the government

Main Findings:

- Rules and regulations are important for the proper management of the government's financial operations.
- There are various rules and regulations already in place in Aruba, but the implementation including compliance with the official processes is not effective.
- The adoption of Fiscal Responsibility Law (FRL) offers new instruments to better manage the financial operations in a transparent way.

- The Commission believes that the introduction of FRL can contribute to strengthening of public finance management, provided it would coincide with enhancing of the implementation of the rules (including numerical rules) and regulations already in place as well as the man-power to manage and control these, through increased training and education of staff. Furthermore, measures should be implemented to ensure adherence to the rules.

Inference and recommendation:
The Commission believes that FRL will be a useful addition of instruments at the disposal of the government to manage its finances provided that the implementation of the FRL goes hand in hand with the addition of key personnel in financial functions within the government, and expansion of training opportunities to improve current management responsibilities within the government. In addition the Directorate of Finance should be empowered to oversee, manage and control the total government budget and its processes. A monitoring mechanism is essential to reconcile differences, provide analysis and advice for corrective policy measures to be taken by the government. An independent body should be instated to monitor the compliance with the fiscal rules. The composition of this body should be proposed by the Minister of Finance and Economic Affairs, approved by the Council of Ministers and ratified by Parliament.

7. Coordination of monetary and fiscal policies for a sustainable balance of payments position and to contain inflation

Main Findings:
- The coverage of import of goods by official reserves amounted to 4.7 months, whereas the reserves to monetary base ratio amounted to 1.45 in June 2006. On this basis according to the IMF the level of international reserves is considered adequate. Import coverage and the reserve to money indicators remain within the range for countries which have successfully maintained similar exchange regimes.
- Despite the adequacy of these indicators, the international reserve position has been deteriorating since 2002. As per the end of that year, the coverage of import of goods by official reserves amounted to 6.6 months, whereas the reserves to monetary base ratio amounted to 1.58.
- Since 2002, the current account has registered deficits of over Afl. 200 million. This imbalance is not considered sustainable in the long run.

Inference and recommendation:
Monetary policy actions and tightening credit extensions to the private sector can not by themselves guarantee to improve international reserves, but what is needed is a coordination of fiscal and monetary policy. Monetary and fiscal policy should be coordinated between the Central Bank and the Directorate of Finance. Ideally the coordination of monetary and fiscal

policy would allow the Central Bank to ease its monetary stance or implement a more market-oriented monetary policy. The policy actions as outlined in scenario C are considered appropriate to reach a basis of coordination between the monetary and fiscal policy.

8. Action Plan

Based on the foregoing, the Commission proposes to implement the recommendations according to the following Action Plan.

- Finalize the core task analysis of the government employees by July 2007.
- Start as soon as possible a task force to further work out the recommendations to curb personnel expenditure. The task force should complete its assignment before the finalization of the budget 2008.
- Acquire technical assistance in financial functions within the government by the second quarter of 2007.
- Review training needs at various departments to ensure that a good knowledge of the budgetary process is widely shared throughout the administration by the second quarter of 2007.
- Incorporate multi-annual figures in budget 2008, indicating the steps to a balanced budget in 2009.
- Starting with the budget 2007, prepare a summary budget document to be circulated widely.
- Install immediately an independent commission to:
    - Monitor the implementation of the recommendations of this Commission.
    - Review in the first half of 2007 the current budgetary laws and make an inventory of required legislative changes to introduce a Fiscal Responsibility Law.
    - Draw up regular monitoring reports of the current budget year in May and October, starting in May 2007.
    - Address structural limitations identified with government data and inconsistencies between government departments on data, including personnel data, in order to reconcile these differences.
- Enact a Fiscal Responsibility Law (FRL). Under this new law install a new independent commission according to the provisions of that law. The adoption of the FRL should include a transitional period, which coincides with the period in which the balanced budget should be achieved. The transitional period

between 2007 and 2009, entails the institution of a number of procedural rules. From 2010 and onwards the FRL should also include numerical rules.

4. THE MAIN REPORT

4.1 Size and description of the public sector

The sustainability of the financial positioning of the public sector of Aruba is of utmost importance to Aruba's economy. In this report therefore the Commission attempts to review the development of the public sector over time and to compare it with a number of comparable countries in order to form a judgment on the size of the government sector (See benchmarking table). Ideally, in order to form such an opinion, the objectives and core tasks of the government and the productivity per employee need to be defined and assessed first. The Commission understands that the government is undertaking such a detailed study. It is encouraged to execute the study and produce the results by July, 2007.

<u>Historical developments</u>
The public sector broadly defined comprises of the Public Legal Entity Government of Aruba, as well as entities subsidized by it.

In tracing the development of the public sector in Aruba and the number of employees and their expenditures back to 1986 and comparing Aruba with other countries in the region, a number of factors must be borne in mind:

1. The composition of these categories have changed over time, some entities have become incorporated into N.V.'s (examples are the Water & Energy Company (WEB), Serlimar, Aruba Airport Authority N.V. (AAA), Post Office, Instituto Medico Sanicolas (IMSan), Setar N.V.).
2. There were a number of personnel reduction programs which came into effect (respectively in 1990: ±700, in 1995: ±400, in 2000: ±150 departed resulting from these programs).
3. Two levels of government merged in Aruba in the year 1986.
4. Aruba does not perform to the same extent all the functions normally attributable to a sovereign country as is the case with comparable countries used in this report (peer group).
5. Finally as the statistical base has improved over time there are breakdowns of data available for recent years which were not available in earlier years. The last point becomes critical when the number of personnel is to be matched against the personnel expenditure figures.

With these considerations the Commission has tried to make the comparisons as meaningful as possible. For the purpose of historical comparison going back to 1986, the departments which were later privatized were excluded from these figures. These figures reveal that the adjusted number of employees of the Legal Entity of Government of Aruba[5] (excluding the subsidized entities) in 1986 was 2,778, in 2000 it was 3,714 and in 2005 it was 4,401[6]. This indicates that the number of adjusted employees grew by 58.4% from 1986 to 2005 and by 18.5% from 2000 to 2005. During the period 1986 to 2005 the population of Aruba grew by 69.2% and during the period 2000 to 2005 the population grew by 12.2%.

<u>Recent developments</u>

The actual number of government employees broadly defined[7] increased from 5,749 in 2000 to 6,576 in 2005, which is an increase of 14.4% or annual average increase of 2.7%. These employees can directly be related to the government personnel expenses out of general means. The total government personnel for the year 2005 is 6.4 for each 100 inhabitants, which is in line with the peer group, while Aruba's government is still performing less functions than the governments of the peer group countries. When analyzing the number of personnel per sector (see Table A12, page 44) within the government, we can deduce that the areas that grew most during the period of 2000 and 2005, were *Public order and safety,* which grew from 1093 employees in 2000 to 1699 employees in 2005, or 55.4% (606 persons) and *Education* which experienced the second largest growth of 36.5%, where the number of employees were 446 in 2000 and 609 in 2005 (or a growth with 163 persons). The number of personnel in *Economic Affairs*, *Health*, and *Environmental protection,* on the other hand, contracted by 14.1%, 26.7% and 89.3% respectively in 2005 as compared to 2000.

Meanwhile, the government expenditures on personnel, which coincide with the government employees broadly defined (6,576 in 2005), has increased from Afl. 374.9 million in 2000 to Afl. 505.2 million in 2005, showing an increase of 34.8% in the last five years equal to a yearly average growth of 6.3%. When we measure government personnel expenditure per capita, as well as government personnel expenditure per GDP, Aruba is the highest on the list of the comparable countries. The government personnel expenditure per capita for Aruba is USD 2,760, versus the average of USD 1,400 for the comparable countries and the government personnel expenditure per GDP of Aruba is 12.5% compared to the average of 10% of the peer group. It should be realized that a freeze on the personnel salaries as well as the hiring of new personnel has been in place since 2001. The annual average growth of personnel expenses by 6.3% has occurred despite this policy action. Apart from the increase in government employees, the increase of the personnel expenses was influenced by the natural increase of periodic salary

[5] Please note that these adjusted figures are only used for statistical historical comparison and therefore are not further considered for the analysis of the size of the government in the remainder of this report. These figures were extracted by the DPO, and pertain to the Legal Entity Government of Aruba, <u>excluding</u> all the departments that later were privatized.

[6] Please note that this is an adjusted figure as per the description under the previous footnote.

[7] Broadly defined refers to employees of the Legal Entity Government of Aruba, including subsidized entities paid for by general means.

adjustments and promotions, as well as additional expenses associated with the pension system of the civil servants and AZV premiums.

Aside from a comparison to the peer group, the size of the government is also assessed within its own financial capacity. Recent trends in government personnel expenditure show that the personnel costs were 76.8% of the current expenditure (excluding interest and current transfers) in 2005, up by over 10% from 66.1% in 2000. This increase occurred despite the awarding of additional days off (ATV) as compensation as of 2000, instead of an increase in pay of government employees and subsidized foundation workers. The personnel costs, thus, by far dominate the current expenditures of the government. Compared to the peer group, the average personnel expenses of the government is higher. No analysis was made as to the distribution of these expenses in terms of lower versus higher skilled employees. However, it is perceived that the distribution can be considered to be skewed in favor of the lower skilled employees. The higher personnel expenses are mostly related to the coverage of the secondary benefits, which include a general pension scheme which is based on an employee's contribution of 4% and an employer's contribution of 9.5% of the base salary which is the general old age pension fund (AOV/AWW). In addition, the government employees have a civil servants pension system, of which the pension payment is based on average career earnings and is settled with the payment from the general old age allowance. The government's contribution rate is as of April, 2005 11.5%. However, civil servants who entered in government service before 1 of April 2005 still qualify for the old pension system. This implies that pension payment amounts are calculated on the basis of average remuneration for the last two years of their career, whereas the government's contribution rate is 24.5% of remuneration. Because the pension payments are not indexed, the purchasing power of pensioners is protected by a cost-of-living allowance paid by the government from general means to pensioners (in transfers). Cost-of-living allowance is calculated using the difference between the current remuneration schedule of active civil servants and the actual pension based on the remuneration schedule when the individual retired. The general old age pension fund is, however, not included in this old pension system.

Considering the dominance of the personnel expenses relative to the overall current expenditures of the government and the annual rate of 6.3% at which these personnel expenses have been increasing during the period 2000-2005, the question is how realistic is it to try to reduce this rate when the salary and secondary benefit aspects together with the number of employees, are the focus in controlling these expenses.

The above findings indicate that personnel expenditures need to be structurally contained if the upward trend in relation to the current expenditures is to be controlled. It is recommended for the core task analysis[8] currently undertaken by the government to be finalized by July 2007. While awaiting the outcome of this study the Commission recommends the government not to

[8] The results of the core task analysis should describe the services to be handled by the government as well as quantify the people required to fulfill the identified services.

increase the size of the public sector, i.e. the number of employees, beyond the current level. Furthermore, by allowing the personnel expenses to increase only with the natural increase of periodic salary adjustments and promotions, the Commission deems it feasible to curtail the annual growth of the personnel expenses to a level of 3%, down from the current annual average of 6.3%. In practical terms there seem to be some instruments available to the government in order to bring the above mentioned target within reach. These can be divided into three categories:

1. **Limitation in growth in government contribution regarding secondary benefits, consisting of:**
    a. The execution of so called "third phase" of civil servants pension reform. This phase consists of the incorporation of current contributors to the old pension scheme into the new one. This is not expected to yield any immediate savings yet will serve to curb the rising trend in government pension contributions and bring it down to more sustainable levels. On a longer term the finalization of reforms is expected to eliminate APFA's current equity shortfalls thus lowering the government's contribution rate in the scheme.
    b. Harmonization of sick leave compensation with private sector practices. Currently a civil servant gets 100% compensation while private sector limits this to a maximum of 80% in all cases, except in cases of pregnancy.

2. **Limitation in natural growth rate of personnel expenses through:**
    a. Implementation of an effective employee appraisal system. A pilot scheme at the Directorate of Finance and the Directorate of Economic Affairs Commerce and Industry is set to start shortly, while the Tax department has been executing an appraisal system of its own. Implementation of such a system on a government-wide basis is expected to curb automatic periodic raises on account of seniority.
    b. Implementation of a new remuneration scheme (HBRA) with concomitant positions' valuation program. This will also limit automatic periodic raises as currently many raises occur based on seniority in absence of a defined "position pay ceiling".
    c. Institute a government service admission exam in order to ensure a minimal quality level of entry for all personnel.
    d. Definition of maximum employment position per government department and ministry and anchoring this in legislation. Budgeting is to be based on this maximum. In addition enactment of legislation forbidding employment without availability of established employment position should be considered. This would require changes in either the Ordinance on Material Rights of Civil Servants (LMA) or the Ordinance on the Institution of Ministries (LIM) or both.
    e. Implementation of an employee re-allocation program. It is perceived that current allocation of personnel is inefficient and leads to personnel shortages that are difficult to occupy, while in other departments overstaffing occurs. This

would require however an increased level of coordination which has thus far been lacking in personnel management.

3. **Improvement of operational processes, through:**
   a. Implementation of work flow management improvements and simplified process design. This would result in improved personnel allocation and production and a reduced scope for further expansion of employment positions in operational activities as well as reduce over time cost. There are currently some tools available in the area of work flow management that are however not in operation, such as a work flow management software.
   b. Ensure proper dissemination of existing personnel- related rules and regulation as well as personnel management processes and policy. This, in combination with improvements in personnel-related processes will limit the incidence of "retroactive payments" due to court cases involving civil servants claiming promotions, allowances etc. as well as will limit time wasted on these cases.

Items c and d from the second category can perhaps best be placed within the scope of the core task analysis to be held, while the remaining points do not require a direct link with the question as to what the activities and tasks of the government should be and can thus be applied separately. The Commission advises to institute a task force charged with the evaluation of the before-mentioned proposals as to their practical applicability and the coordination of their eventual implementation. This task force should complete its assignment before the finalization of the budget 2008.

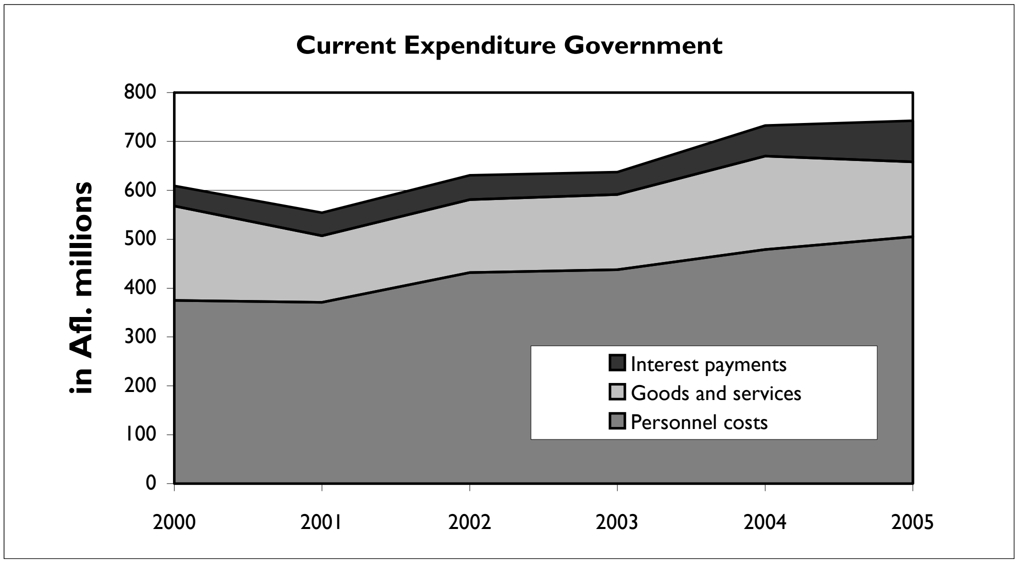
4.2 Level of current and capital expenditures of the government

From 2001 to 2005 the government finances show a cumulative actual deficit of Afl. 513 million. During the period under review the government revenue increased by an annual average of 4.0%, whereas the current expenditure (incl. interest, excl. transfers) increased by an average of 4.4% per annum over these years. From the components in the government current expenditure (incl. interest, excl. transfers) it is the interest payments that increased the most by an average of 16.5% per annum over the last 5 years followed by the government personnel expenses which increased on average by 6.3% per annum. The goods and services components even decreased by an average of 2.5% per annum.

The benchmarking table indicates that the level of current government expenditure to GDP is quite high in comparison with the peer group. Current government expenditure (excl. interest and transfers) to GDP ratio amounted to 16.3% in 2005, which is relatively high compared to an average level of 13.6% for the countries used in the benchmarking table (see benchmarking table line 2).

The current expenditure (incl. interest, excl. transfers) in terms of GDP has remained quite stable in the last six years, floating around 18%. Some items covered in the current expenditures have decreased to allow for the increase of other items. Spending on goods and services, for example, fluctuated between Afl. 135.9 million and Afl. 192.7 million since the year 2000 and was Afl. 152.9 million in 2005, showing certain leveling off in this spending item. This was also induced by the reallocation of medical expenses to AZV. Interest payments, however, have increased substantially since 2000. The year 2000 showed interest payments amounting to Afl. 41.6 million, while in 2005 this was Afl. 84.4 million or a 103% growth since 2000 on this item.

However, the annual figures are not strictly comparable for these years, because of a number of exceptional transactions which took place between the government and some of its entities. As a result, both government revenues and government expenditures were adjusted on account of AZV transfers. The transfers of the government went from an annual Afl. 70.2 million in 2000 to Afl. 191.6 million in 2001 and Afl. 199.5 million in 2005, where the increase was mainly caused by the introduction of the General Health Insurance (AZV) in 2001. The sudden increase in AZV transfers of near Afl. 120 million in 2001, caused the financial operations to end in a negative result in that year and subsequent years. The introduction of the AZV in 2001 also caused a notable decline in the goods and services item, because of a shift in expenditure by the government. This shift occurred also in all subsequent years. Consequently, the introduction of the AZV caused a permanent drop in government's current expenditures (excl. transfers). By the same token, the government received loan payments from Utilities N.V. (holding company of WEB and Elmar) and from Setar to finance its deficits that were incurred as a result of the introduction of the AZV. Therefore, these receipts had a positive influence on the total current receipts, resulting in a positive outcome of the current balance. Investment increased as well during this period from Afl. 28.3 million in the year 2000 to Afl. 64.1 million in 2005. The total government expenditures increased from Afl. 724.6 million in 2000 to Afl. 1034.5 million in 2005 showing an increase of 42.8% in this period or a 7.5% per annum (see basic table years 2000 – 2005 line 7).



The government investments, which pertain to the government capital expenditures, are relatively low showing a ratio of 1.6% to GDP compared to the other countries in the comparative table. The range for the capital expenditure as percent of GDP detected for the peer group varies between 1.5 and 7.1% which forms an average of 4.4%.

The total capital spending (namely investments) by the government of Aruba grew from Afl. 28.3 million in the year 2000 to Afl. 64.1 million in the year 2005 or by 127% in five years. These investments include the investment of the Fondo Desaroyo Aruba which is financed through the collaboration of both the Aruban and Dutch government, which started in the year 2002. The investments to GDP ratio grew from 0.9% in 2000 to 1.6% in 2005. This ratio, despite its growth in the last few years, still reflects a very low investment level when weighed against the peer group as mentioned before.

The above findings imply that the current expenditures expressed in terms of GDP have shown a relatively stable pattern during the period 2000-2005. Compared to the peer group, however, the level of current expenditures of the government of Aruba is relatively high, whereas capital expenditures expressed in terms of GDP lags behind the peer group. By containing the personnel expenses to a 3% growth level and leveling growth of goods and services expenses, the financial deficit will be reduced gradually. Consequently, interest expenses, which have contributed significantly to the increase of the current expenditures in the period 2000-2005, will also be contained.

Investment outlays are considered important for the further enhancement of the economy of Aruba. Therefore, it is recommended to increase the level of investment on the short term from its current level of 1.6% to at least 2% of the GDP. The curbing of these expenses next to policy changes already in place for AZV and the recommended increase of the investment outlays, will thus contain the growth rate of the total government expenditures from an annual average of 7.5% during the period 2000 - 2005, to an annual average of 3.1% during the period 2007 – 2009 (see basic table scenario C). It should be kept in mind though, that the recommended increases in investment might have a direct link with the current expenditures of the government as they might induce some additional operational activities for the government. Every investment planned should thus be analyzed for their consequences on the current expenditure of the government.

4.3 Level of government revenue

In comparison with said peer group, the level of government revenue expressed in percentage of GDP is relatively low. Aruba had a government revenue to GDP ratio of 21.8% in 2005, whereas the ratios for the peer group range from 17.3% to over 39.6% with the average government revenue to GDP of 29.8% if we exclude Aruba. Even if we compare the collective burden of Aruba, which includes the government tax revenue, the General Health Insurance contributions and the contributions for the Social Security Bank (SVB), with countries in the benchmarking like Barbados and Malta, where the Health Scheme is paid for by general means, the collective burden of Aruba is lower at 27.2% to GDP vs. 34.2% respectively 39.6% to GDP. Before we infer any conclusion from these figures we must assess the quality and the conditions of the community services provided in the countries under consideration (which is outside the scope of the work of this Commission). From the benchmarking table we can also derive that the largest component of the government revenue consists of direct taxes contrary to the peer group where the largest component consists of indirect taxes (See benchmarking table, lines 13-16 taxes as percent of government revenue as well as percent of GDP). This is consistent with the IMF advice[9] that Aruba has to shift its taxes from direct to indirect by introducing broad-based indirect tax reforms. From the benchmarking table, it is deduced that the direct tax burden on the population (line 20) is rather high in Aruba, USD 2,280 per capita, while the average direct tax burden of the peer group (excluding Aruba) is USD 1,300 per capita. Furthermore, export earnings from tourism per capita of Aruba in comparison with the peer group is the highest at USD 10,700 per capita versus an average of USD 3,300 per capita.

The level of government revenues (excluding grants) increased from Afl. 729.3 million in the year 2000 to Afl. 881.3 million in the year 2005. This reflects an increase of 21% in the last five years, equal to an average annual increase of 4.0%. In this same period the GDP of Aruba increased in nominal terms from Afl. 3,326 million in 2000 to Afl. 4,041 million in 2005, reflecting an exact match of a 21% growth in the period of 2000 – 2005. The variance in government revenue is directly linked to the movement of our GDP and is a result of proceeds from the economic activities. The government revenue in terms of GDP had remained

[9] IMF, Country Report No. 05/204, Aruba: 2005 Article IV Consultation June 2005

practically unchanged at around 21.8%, despite some increases in import duties and excises in 2002. In June 2006 a governmental policy change was also implemented by means of increasing the import duties, which were introduced to immediately improve the government tax revenue. For the first 9 months of 2006, import duties increased by 13.7% compared to the corresponding period of 2005. The import duties even increased by 19.8% from June to September 2006 compared to the same period of 2005. Following the increases in import duties implemented in June of 2006, an increased revenue ratio of 22.8% to GDP is estimated for that year, which implies an increase of the tax burden by 3.5 percentage points compared to the estimate of 2005, while the collective burden will reach an estimated 30.7% for that year (see table A14).

Considering the recent introduction of the BBO and the reduction of income tax as well as other tax adjustment and the subsequent increase of the tax burden, it is recommended to monitor for the time-being this development in order to analyze its effects on the economy to be able to determine further policy actions in this regard. In view of the low rate of investment, it is recommended to apply any windfall in revenue towards increasing the investment level of the government. Additional revenue of previously budgeted policy actions by the government should be applied within the agreed framework of the government toward deficit reduction, which includes the financing of investments.

4.4 To achieve a balanced budget

In this report, the Commission uses the following definition of balanced budget, namely: A surplus on the current balance (current revenues-current expenditures) adequate enough to support an appropriate level of investments on the capital balance (kapitaaldienst). The implicit assumption under this definition of a cash based balanced budget is that (under normal circumstances) the government maintains the same nominal debt level but may borrow to repay maturing debt.

Illustration of concept of balanced budget:
Government revenues
Current expenditures -/-
Investments -/-

Cash based balanced budget
Financing needs=repayments

Hence, the policy implication of the above definition is that the government will target in principle a constant level of the outstanding government debt in *absolute terms*. This approach is used to assess the various scenarios (as presented in basic tables scenarios A to C) to achieve a balanced budget.

On the current balance, if defined as being current revenues minus current expenditure, excluding current transfers, Aruba has shown a strong surplus in the last few years. If we however include current transfers (including the AZV transfers and Items n.i.e.) the result is negative and this has been the case since the year 2001, when the transfers to the AZV first started. It should be noted, however, that the General Health Insurance introduction in 2001 caused various shifts within the government expenditure structure and associated incidental receipts throughout that period. (the Commission did not consider the government financial position prior to the year 2000).

In order to determine how to reach a balanced budget, various factors were assessed and incorporated in the projected government financial operations over the years 2007-2009 (see Basic tables scenarios A to C). The factors/ scenarios that were assessed include:

A. The effect of an unchanged government financial operational structure, with the point of departure starting with the recently introduced policy changes of the increased AZV tariffs as well as the BBO with moderate economic conditions. These were also stress tested in case of an economic downturn.
B. The effects and results of a lowered growth rate of government spending in personnel costs in goods and services.
C. The effects of an increased level of government investment.

The foregoing factors were incorporated in various scenarios and assessed next to various economic development projections in order to see their effect on total government financial results. The details of the statistics used and the assumptions for all the projections are displayed in Chapter 5, appendix x. Before reaching the included projection scenarios as presented in the basic tables, the Commission ran many other projection scenarios including those prior to the newly introduced government policies, in combination with various economic conditions, in order to assess and analyze well all drivers within the government financial structure. The main findings of the basic table scenarios are outlined below.

<u>Unchanged government financial structure (after implementation of recent government policies)</u>
The overall findings were that if the government maintains its current financial trend and does not change anything in the revenue or expenditure structure, besides the already introduced BBO and the increased AZV tariffs, there would still be a deficit under moderate economic conditions. The economic development, however, does contribute to the level of severity of the deficit. Under conditions where an assumed economic decrease occurs, the results would worsen. Under moderate conditions where the GDP is assumed to increase in real terms by 0.7% in 2007 and 1.3% in 2008 and 2009, the deficit ends at Afl. 25.6 mln (See basic table scenario A).

Change in government expenditure structure

The level of the government expenditures are a major driver of the financial outcome. Various projections have been made to assess the influence of a lowered government expenditure policy. The overall policy used for the projections entail an annual growth of 3% for the personnel expenditures, down from the annual average of 6.3% as well as an annual growth of 2% for the goods & services. The lowered growth rate of government expenditure has an influence on the deficit and under moderate economic conditions as described above, the financial result ends at a surplus of Afl. 66.0 million (see basic table scenario B).

Change in investment levels

Despite the surplus reached with the change in expenditure structure of the government combined with moderate economic conditions, the investment of the government remains low in comparison to the comparative countries. For this reason, the increase of investment levels to a more acceptable 2% of GDP was incorporated in the projections, to see what effects this would have on the government finances. The result under moderate economic conditions ends up at a surplus of Afl. 25.7 million for 2009 (see basic table scenario C).

Below you will find a table reflecting the synopsis of the projected results of the various basic table scenarios next to their assumptions.

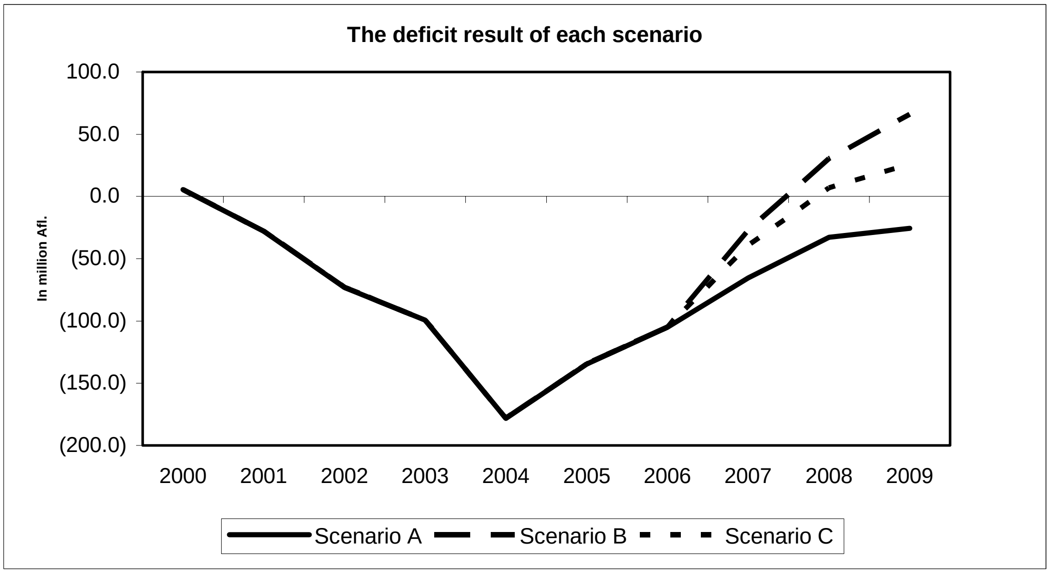
Government Financial Operations

Summary: The actual deficit/ surplus resulting from the various basic table scenarios (projections in grey) with a moderate economic growth

Scenario A	With BBO effects, plus policy change decreasing AZV transfers
Scenario B	With BBO effects, plus policy change decreasing AZV transfers, lowered government spending
Scenario C	With BBO effects, plus policy change decreasing AZV transfers, lowered government spending, increased government investment

Actual deficit per sc.	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	***2006***	**2007**	**2008**	**2009**
Scenario A	5.4	(27.9)	(73.0)	(99.4)	(178.2)	(134.5)	(104.9)	(65.4)	(32.9)	(25.6)
Scenario B	5.4	(27.9)	(73.0)	(99.4)	(178.2)	(134.5)	(104.9)	(26.9)	30.3	66.0
Scenario C	5.4	(27.9)	(73.0)	(99.4)	(178.2)	(134.5)	(104.9)	(39.6)	6.7	25.7

The following graph shows the different scenarios where the deficit levels can easily be identified.



In order for the government to achieve a balanced budget by 2009, the revenue and expenditure structure of the government needs to be changed from the path taken during the period 2000-2005. Apart from the already adopted policy changes (increase of AZV premiums and introduction of BBO, including other tax adjustments), it is recommended to contain personnel expenses to 3% growth per annum as of 2007 and to contain growth in spending on goods and services to 2% growth per annum as of 2007. Furthermore, it is recommended to increase the level of investment to 2% of GDP as per the same date. Based on the foregoing assumptions, it is estimated that a financial surplus of Afl. 25.7 million could be achieved by the year 2009 (see basic table scenario C).

4.5 Public debt management

Aruba's vulnerability to large external shocks and sensitivity of its fiscal performance to economic fluctuations require a prudent debt policy. This need is reinforced by the high volatility of the size of fiscal deficit to GDP at the peak and at the bottom of business cycle. Such volatility would mean that in case of a recession and a drop in the real growth rate the debt to GDP ratio could substantially increase.

Public debt in percent of GDP has increased rapidly in the last few years from 38.4% in 2000 to 46.1% in 2005, in absolute terms from Afl. 1.3 billion to Afl. 1.9 billion in the same period. The increasing reliance on commercial borrowing has also meant that interest payments have increased from 1.3% of GDP in 2000 to 2.1% in 2005. By the same token over 11% of the government's current expenditure (excl. transfers) is accounted for by interest payments in 2005 whereas this figure was less than 7% in 2000.

By adopting policy actions that would be consistent with scenario C, the public debt in percent of GDP would decrease to a level of 38.8% by the year 2009, or equivalent to Afl. 2 billion. Based on the assumptions made in the projections, it is not considered feasible to pursue a lower level of debt to GDP ratio in the short to medium term. In addition, the level of approximately 40% has in the meantime been recommended by the IMF. Therefore, at least for the short and medium term, it is recommended to maintain this 40%-level as a reference target. However, it should be realized that this level of debt implies an interest burden of still 12.1% in terms of current expenditures. Therefore, on the longer term it is recommended to lower the interest burden further by lowering the outstanding debt accordingly. In the long term this will create budget leeway which could help accommodate the costs of aging of the population or rising needs for government investment.

It is recommended to review immediately the current outstanding public debt to verify whether there are possibilities to make (partial) consolidations with the objective to reduce the debt service burden, especially for loans with remaining short maturities. The liquidity of current tradable debt is also very limited due to the low level of development of the financial markets.

On a longer term view, public debt management and the target debt to GDP ratio should be re-considered regularly. Fundamental developments such as the phenomenon of the ageing population of Aruba tends to deteriorate the financial position of the universal pension system which if not corrected would be an additional call on government finances in the future. The lowering of the productivity over time as the population continues to age would lower the long term growth trend of the GDP, thereby increasing the debt to GDP ratio.

The aging phenomenon

A larger share of the population will leave the workforce in the upcoming years as a result of the aging of the population. This will pose budgetary challenges for the government of Aruba. An example of this is the additional provisions required for caring for an elderly population like health care infrastructure as well as retirement homes etc. These challenges in physical provisions pale, however, when set against the background of the challenges to be faced by the old-age allowance system (AOV/AWW). The AOV is to a large extent a pay-as-you-go system. At this moment, the scheme is more or less operating in balance and the AOV-funds currently has assets in a AOV/AWW trust fund. However, within the span of five years the AOV, based on preliminary estimates, will start to yield structurally negative results which will affect the AOV/AWW-trust fund which can end up, all else equal, being depleted in a little over ten years. For the immediate envisioned time span of the current report (up to 2009) the ageing phenomenon is not expected to exert a significant influence on the government's financial results, this as recent migration has resulted in a temporary easing of the aging constraint. However, the need to achieve a balanced budget in 2009 is emphasized by this development in order for the government to be able to sustain the budgetary problems in the years thereafter. There is also an immediate need to ensure proper financial projections and analysis in this area as there is little in the form of available data on a timely basis. Government action is warranted with regard to the AOV as it is a government contingent liability. Action on the income or expenditure side, increased productivity and economic growth enhancement or a redesign of the entire system towards more sustainability is necessary. For a successful program with sustainability as end goal to be executed a proper understanding with both employers' as well as labor representatives is required.

4.6 Fiscal Responsibility Law and procedures

As part of a comprehensive Public Financial Management system the enactment of a Fiscal Responsibility Law (FRL) can provide a comprehensive legal framework and provide institutional arrangements to improve fiscal policy outcomes and eventually achieve sound public finances which are a precondition for macroeconomic and financial stability.

The main objectives of a FRL for Aruba are to avoid unsustainable fiscal deficits and unsustainable debt levels, improve fiscal management and prevent misuse of fiscal policy discretion. Fiscal discipline is a key element in achieving these goals. It is of imminent importance as without it government cannot attain other fiscal objectives. It is accompanied by sound finances, characterized by prudent fiscal balances and sustainable debt, as well as buffers to respond to external shocks. Moreover, FRLs aim to make fiscal policy more predictable and transparent, and to enhance accountability.

Legislation regarding the budget process is currently anchored in article V.12 of the Staatsregeling (Consitution) and is further worked out in the Comptabiliteitsverordening 1989. The Landsverordening Instelling Ministeries (LIM) gives supplementary regulations. The legislation covers budget composition, budget approval procedures, budget management and financial reporting standards.

In Aruba, in the area of budget formulation there is a conflict between policy objectives setting and the translation of these objectives into budget figures. There is also a lack of proper policy coordination among the different ministries, resulting in priorities in policy areas not being allocated giving rise to the risk of inflated budgets on the expenditure side with concomitant pressure on the revenue side.

At the same time there is no effective management information system, while there is an exceptionally high degree of variance in the real and projected results of particularly the non-tax revenue, a problem compounded by the fact that many different entities are in charge of imposition and collection of revenue. Recently the accuracy of tax revenue projections has somewhat improved, non-tax revenue projection however remains a problem. While on the expenditure side the risk of budget-inflation is present, on the revenue side the problematic reality content of figures is there, which besides affecting financial results and thus debt management, also directly affects policy credibility.

Procedurally speaking the submission of required data is mostly late. Existing rules are therefore most of the time not fully complied with, while there are no effective sanction mechanisms. Sanctions in the administrative system are currently regulated in the penal code (criminal action and abuse of power by elected officials or civil servants), in legislation covering the legal position of a minister, in article 31 of the Comptabiliteitsverordening (civil liability of elected officials) as well as the Landsverordening Aansprakelijkheid voor Overheidsdienaren. A problematic area is however the service of claims to elected officials. It is an area for which clear cut rules are lacking while the ones present are subject to varying interpretations.

A constraint in the budget approval under actual circumstances is the fact that Parliament handles the budget totally separately from the government. If the process is not viewed as a cohesive whole, a severe strain is put on the timely approval of the budget. While, Parliament appears to be actually approving new expenditures each year, in reality the approval scope is less than 10% of what is mentioned in the budget, because 90% of the budget has already been committed to in previous budgets in the form of personnel appointments to the civil service and lease and rental agreements. The budget spectrum is in addition hereto only one year, while the spectrum of commitments is five years (legally prescribed maximum).

Budget execution faces many of the same problems as budget compilation, namely non-compliance, late compliance and lack of coordination. The treasury’s task of managing cash flow is hindered by these circumstances. On the revenue side the scope for adaptations whenever revenue shortfalls occur is rather limited, not to say non-existent, putting more strain on cash flow and debt management.

Certain areas of expenditure, such as lending activities, are insufficiently regulated, though initiatives have been displayed in this particular field to come to more efficient arrangements.

In the area of personnel expenses the lack of an effective integrated system for personnel management consolidating financial as well as human resource management tools is paramount. Decision making regarding appointment, promotion and dismissal of personnel seems to be concentrated at the level of the Council of Ministers. Rationale behind this was instituting an internal control system which meant to induce individual ministers exercising restraint in appointment practices, as they would be subjected to scrutiny by colleagues. After quite a few years of experience one must come to the conclusion that the procedure has generally not resulted in a higher level of restraint in hiring practices.

A general lack of delegated operational authorities to lower echelons, such as department heads, has further meant that decision making is reserved to the top echelon of government, even on many operational matters.

Current reporting standards are in addition problematic in the sense that they do not have a direct connection with the format in which approval is given for the budget. While the budget and the internal reporting system is based on the administration of commitments incurred by the government through ministers and department heads, external reporting is based on the determination of government's financial position. As timely periodical external reporting is not the norm, these two sets of data are not regularly reconciled.

The current situation has another fiscal oddity in that each minister is formally responsible for his own budget composition, execution and administration, while the Minister of Finance is the only one who will be ultimately discharged for his responsibilities upon the completion of the annual reporting exercise. For the other ministers there is no formal discharging procedure related to their areas of budgetary responsibilities.

The adoption of a FRL would entail an expanded set of procedural rules on overall budget planning and execution practices. The annual budget would contain a more extensive statement of fiscal policy objectives than is currently the case and would be presented in the context of a medium-term budget framework, to be prepared and discussed jointly by the civil service and an independent body to be instituted. The key characteristics of such a framework are:

- A statement of fiscal policy objectives.
- A realistic macroeconomic framework containing economic assumptions (e.g., forecasts for GDP growth, tourism receipts, inflation, and current account balance).
- Annual estimates of revenue and expenditures for four years beyond the budget year.
- Comparative information on realized revenue and expenditure in the previous year.
- Multi-year expenditure ceilings and periodic publication and discussion of the results.

These measures will improve transparency of the budgetary process.

Moreover, the central position of the minister in charge of finance would be further improved by enhancing his/her role in the procedures regarding budget preparation and execution, thus making the budget process in that sense more "hierarchical".

Besides procedural rules, the FRL must also over time incorporate additional numeric fiscal rules. A numeric fiscal rule entails a permanent constraint on fiscal policy, typically defined in terms of an indicator of overall fiscal performance. Numeric fiscal rules can contain a deficit-bias and address problems of time inconsistency, reduce the procyclicality of fiscal policy, serve as useful market signal and reduce borrowing costs and output variability. One disadvantage of these rules is that they can constrain government's ability to do countercyclical fiscal policy making. Also, they can produce incentives for "creative accounting" and low-quality measures in order to meet the target.

For the Aruban situation in particular, the following numeric rules could be considered to be incorporated in the FRL: a budget deficit rule, a maximum debt-to-GDP ratio, expenditure ceilings or temporary accommodation under strict rules, a ceiling on personnel expenditures, a ceiling on interest expenditures[10] and a ceiling on total expenditures to limit escape routes for additional spending. These rules could be based on the same accounting method as the budget. A prerequisite is that the Public Financial Management (PFM) system should be capable of producing reports on arrears to prevent accumulation of expenditure arrears.

A monitoring mechanism is essential to reconcile differences, provide analysis and advice for corrective policy measures to be taken by the government. The monitoring of the compliance with the fiscal rules must be performed by an independent fiscal body. The composition of this body should be proposed by the Minister of Finance, approved by the Council of Ministers and ratified by Parliament. The independent body in its first deliberations should adopt its own internal rules of conduct and agree on a set of benchmarks, both procedural and numerical, to guide its deliberations, how to prepare its reports, and the manner in which it should advise the Minister. The chairman of the independent body will from time to time make statements before Parliament on the state of public finance and make specific recommendations on the corrective measures if any which are needed to ensure that the public financial developments meet the adopted benchmarks.

The independent body in its deliberations may also adopt some measures within the frame of the law when it is enacted, which include institutional, personal and reputational measures. The independent body may also consider limited escape clauses to provide some flexibility in fiscal rules in order to respond to business cycle developments.

In the case of Aruba, a FRL should thus comprise both procedural and numeric rules. To enhance its credibility, the FRL should be preceded by significant improvements in the current institutional framework, including a sufficiently developed Public Financial Management (PFM) system. The FRL itself should include a transitional period to improve the PFM system further. For the FRL to be successful there should be an initial medium-term adjustment program, including a gradual convergence through a multiyear fiscal adjustment. The Commission, in recommending the adoption of FRL is fully aware that it is not the lack of regulations which hampers public financial management but poor management and organization. In view of the Commission the adoption of FRL together with the setting up of an independent body would help to ensure a better coordination effort by all agencies involved in public finance and improve their management and organizational practices.

In view of the Commission the adoption of a FRL at this juncture would help the government to avoid unsustainable fiscal deficits and unsustainable debt levels, improve fiscal management

[10] In connection with the constitutional change of the Netherlands Antilles in the near future, the Netherlands has proposed a ceiling on interest expenditures of 5% of the average government revenues in the preceding three years.

and contain the misuse of fiscal policy. Its success depends on a number of factors, such as the coverage of all relevant fiscal operations of the government, the procedural and transparency rules used, adequate numeric rules and, last but not least, a sufficiently developed Public Financial Management system and mechanism to monitor and enforce FRL requirements and measures. In addition, sufficient public understanding of the necessity of a FRL is needed, as well as a broad political consensus. By itself, the adoption of FRL will not be a sufficient condition for the achievement of sustainable results in public finance, unless further awareness regarding public finance issues, procedures and regulations, both within as well as outside the government apparatus are also increased. Public finance should exceed the realm of government to become what it actually truly is, a social issue. That way the scope for avoidance of responsibility by relevant actors can be limited. It is in this context that the Commission recommends the setting up of the before mentioned independent body to not only monitor financial developments of the government but also to raise the social awareness of these issues.

The Commission recommends that the FRL comprising enhancements of procedural and numeric fiscal rules and the institution of a comprehensive framework aimed at effectively monitoring the developments in public finance should be adopted as soon as possible. During a transitional period, recommended for 2007 – 2009, the FRL should focus primarily on procedural rules, including regular reporting by drawing up monitoring reports of the current budget year, while the PFM system should be strengthened. This transitional period should coincide with an initial medium-term adjustment program to put government finances on a more sustainable path. From 2010 and onwards the FRL should also include the numerical rules.

Experiences in Europe show that surveillance procedures as used in the European Union on the road to Monetary union in it self provide incentives for national governments to keep on track. The main features of this type of surveillance procedure are: i) clear numeric (budgetary) goals, ii) the obligation of regularly reporting in a prescribed format on the results of the policy and, if needed, on proposed policy-adjustments, iii) assessment of these regular reports by a competent institution (in this case the European Commission) and iv) a final conclusion based on the assessment of the European Commission by a decision-making council (European Council of Ministers) which could also decide on recommendations to the member state involved. Leaving apart the details, as a result of this convergence process and the surveillance procedures, in Europe fiscal positions in all the Member states of the European Union are nowadays much more balanced than in the 1980's and 1990's.

4.7 Coordination of Monetary and fiscal policies and adequacy of international reserves

The economic growth in Aruba being a small and open economy with a fixed exchange rate is mainly the result of local and foreign direct investments, showing investment confidence in Aruba. The scope of fiscal and monetary policies in Aruba, though, apart from tax and other incentives by the government, is limited and do not further stimulate investments.

Under the Central Bank Ordinance, the Centrale Bank van Aruba (the Central Bank) conducts its monetary policy in such a way as to maintain the value of the Aruban florin by preserving the fixed exchange between the Aruban florin and the U.S. dollar as this is a great source of stability. A consequence of the fixed exchange rate is that it makes containment of inflation in the Aruban economy a first priority.

To support the confidence in a fixed exchange rate of the Aruban florin vis-à-vis the U.S. dollar, the Central Bank has conducted a cautious monetary policy through the years. Its main focus in this regard has always been to maintain an adequate level of international reserves. Up to now, the Central Bank has controlled the adequacy of the level of these reserves by monitoring the development of the merchandise import coverage ratio. This ratio refers to the import of goods in relation to the international reserves and is defined by excluding the oil and free-zone sectors.

However, the impact of other transactions on the reserves should also be considered. In this regard it is worthwhile mentioning that the amounts of other current account transactions, in particular those related to interest payments on outstanding foreign loans, workers' remittances, management and consultancy fees and insurance and transaction costs, as well as those capital account transactions related to payments on outstanding debt (the so-called short-term external debt transactions) have been increasing during the years. Still, according to the IMF[11] the level of international reserves is adequate but the reserve position has been deteriorating since 2002[12]. Import coverage in Aruba and the reserve to money indicators have declined significantly but Aruba's indicators still remain within the range for countries which have successfully maintained similar exchange regimes. Import coverage[13] which was 5.5 months in 2001 was 4.7 months in June 2006. Reserve to monetary base ratio[14] which was 1.52 in 2001 declined to 1.45 in June 2006.

The deterioration in the reserve position has gone hand in hand with substantial current account deficits of the rest of the economy (thus excluding the oil and free-zone sectors), despite favorable gross tourism receipts. Since 2002, the current account of the rest of the

[11] IMF, Country Report No. 05/204, Aruba: 2005 Article IV Consultation June 2005
[12] With the exception of 2004 when the international reserves rose following a surge in tourist arrivals and nights spent.
[13] Defined as the coverage of imports of goods by official reserves.
[14] This ratio gives the relation between the official reserves to the monetary base. The latter is defined as total bank notes issued and outstanding liabilities to the banking system.

economy has registered deficits of over Afl. 200 million. In 2005, the deficit amounted to Afl. 295 million. In that year, the overall balance of payments recorded an Afl. 61 million deficit, resulting in a similar decline in international reserves. This pattern has persisted in the first half of 2006 following a disappointing performance of the tourism sector during that period. In the second quarter of 2006, an Afl. 208 million current account deficit for the rest of the economy was registered.

Continuous large current account deficits of the balance of payments are not sustainable in the long run and should be redressed. These deficits are clear signs of an imbalance in the economy. The registration of these deficits essentially means that both the private and public sectors are persistently spending more than they are producing during these periods. The effects of these negative developments are much more pronounced now that the performance in the tourism sector in 2006 is disappointing and therefore cannot compensate sufficiently for the negative effects of excess domestic spending on the level of international reserves. The strong spending by the private sector was reflected in a high demand for bank credit, while increased borrowings, both domestic and foreign, financed substantial budget deficits and excessive (current items) expenditure levels of the government sector. Increased borrowings by government, mainly for current budgetary expenditures, are particularly cumbersome because they can lead to additional liquidity creation within the economy, thereby adversely affecting the balance of payments and Aruba's international reserves position.

The liquidity creation through government borrowings takes place whether the borrowing is domestic or foreign. When government sells its bonds to nonresidents or takes up direct loan facilities from nonresidents it results immediately in additional liquidity creation, because foreign public debt denominated in U.S. dollar (or other foreign currency) funded by foreign savings will be spent at home by government. While the inflow of foreign funds will in the first instance neutralize the negative effect of the liquidity creation at home leaving the international reserves intact, the interest payments and repayment of these foreign liabilities at a later date will impact the reserve position negatively. When government issues its bonds domestically or takes up loans from residents it does so by tapping into private domestic savings. However, if residents buying these bonds or financing these loans are doing so by liquidating their savings abroad, this will have the same liquidity creation effect as when government debt is financed by foreign borrowings.

To curb excessive consumption by the private sector, the Central Bank has further tightened monetary policy at the beginning of 2006. The Central Bank lowered the allowable banking sector credit growth by one percentage point to 5%, while separately monitoring consumer credit as well as raising the penalty fee for excess lending by 2 percentage points to 8%. In addition, to absorb and neutralize excess liquidity within the banking system, the Central Bank raised the monetary cash reserve requirement by 1.5 percentage point to 9.5% as of October 1, 2006. The outlook for 2007 has quite some uncertainties related to the introduction of the BBO and its effect on inflation, government liquidity position and consumer credit demand, but also because of the uncertain development in the tourism sector. Still, given the subdued credit development and the slightly improved level of international reserves in 2006, the Central Bank intends to stay the course of 2006 in 2007 and for the time being not tighten the monetary policy further. The credit limitation for the banking sector will therefore remain at 5% in 2007.

However, the Central Bank's monetary policy actions alone cannot guarantee an improvement in the level of international reserves. What is needed is coordination between monetary and fiscal policies, which should be coordinated between the Central Bank and the Directorate of Finance, in an environment of a sustainable balance of payments position that would allow the Central Bank to ease its monetary stance or implement a more market-oriented monetary policy. Regarding the latter, more market-oriented instruments of monetary policy, i.e. open market operations with central bank certificates or treasury paper under certain conditions, can be used to neutralize excess liquidity. Thus, the effectiveness of the monetary policy is promoted if the coordination with fiscal policy is optimal and that when the debt financing requirements of the government match what the Central Bank considers appropriate for the implementation of monetary policy and the conduct of open market operations to affect liquidity conditions in the domestic money market. The Commission therefore recommends the Central Bank to prepare a working paper on its view on monetary policy implementation in accordance with the assumptions reflected in basic table scenario C.

5. APPENDICES

i. Definitions for terms used in this report

The main definitions used in this report are:

Government Revenue	Current revenue plus capital revenue
Government Current Revenue	Tax and non-tax revenues excluding grants and social security contributions
Government Current Expenditures *(excl. interest and transfers)*	Includes personnel costs and costs for goods and services
Government Current Expenditures *(incl. interest and excl. transfers)*	Includes personnel costs, costs for goods and services and interest payments
Transfers	Includes grants received, health insurance and subsidies
Government Capital Expenditures	Net acquisition of non-financial assets i.e., government investments
Total Government Expenditures	Sum of government current expenditures (incl. interest payments and transfers) and government capital expenditures
Government Overall Balance	Government revenue (incl. grants) minus government total expenditures and net lending
Direct Taxes	Income/ wages tax, profit tax, property tax, transfer tax, motor vehicle tax, stamp taxes
Indirect Taxes	Import tax, excises, consumption taxes (such as BBO), foreign exchange taxes
Total government debt	Central government's outstanding debt
BBO (turnover tax)	Defined in the figures as the net effect of the introduction of BBO on the government financial results, as part of the policy change to shift from direct to indirect taxes (including amongst other the reduction of income tax)

ii. Debt profile

This section is presented here to describe the composition of Aruba's public sector debt. The statistics used in this section are based on figures directly from the Ministry of Finance and Economic Affairs. The debt figures have some discrepancies are not directly comparable to the basic tables used in this Report, as the basic tables have been adjusted for incidental occurrences and stem from the Central Bank of Aruba.

The Constitution requires that any public sector debt payable from any amount deposited into Aruba's consolidated fund be incurred pursuant to a law. Debt obligations of the government, including the interest and amortization payments with respect to that debt, and the cost, charges and expenses incidental to the management of that debt are charged to a consolidated fund. As a general principle, the government submits any public sector debt proposed to be paid from the consolidated fund for approval by Parliament as part of the annual budget, which once approved has the status of law.

As of December 31, 2005, all of Aruba's public sector debt was, and for each of the preceding five years has been, government debt because, by law, only the government can legally borrow funds. Since achieving status aparte in 1986, Aruba has never defaulted on any of its external or domestic debt obligations. There is no constitutional prohibition on government default with respect to any public sector debt.

The government's domestic public sector debt consists of three-month and six-month treasury bills, government bonds, cash loan certificates, supplier credits and loans and obligations to the AZV and APFA. There is currently no law or statute restricting the government's ability to undertake domestic debt. External debt incurrence is subject to an approval procedure in accordance to article 29 of the Kingdom's Charter (Statuut van het Koninkrijk der Nederlanden). Outstanding balances of treasury bills and cash loan certificates are rolled over. The government is authorized to issue, on an annual basis, six-month treasury bills (the so called cash loan certificates) for up to Afl. 8 million and two tranches of three-month treasury bills for Afl. 17 million and Afl. 23 million, respectively. These are variable interest rate debts, with the interest rates negotiated and administered by the Central Bank. Outstanding treasury bills roll over automatically at maturity without further constitutional action by the government. Long term funds are raised by state decree and can take the form of treasury bonds or commercial loans, either foreign or domestic. These liabilities are not rolled over without consultation with Parliament.

The following table shows domestic public sector debt for the five years ended December 31, 2005:

Table A1: Government Domestic Public Sector Debt

	As of December 31,				
	2001	2002	2003	2004	2005
	(in millions of Afl.)				
Government Entities	Afl. 365.2	Afl.396.4	Afl.393.1	Afl.384.0	Afl.389.4
Capital Markets	226.9	233.8	254.6	320	440
Commercial Loans	24.8	22	22	54	57
Suppliers' Credit(1)	93.7	65.5	85	106.8	126.2
Total Domestic Public Sector	**Afl. 710.6**	**Afl. 717.7**	**Afl. 754.7**	**Afl. 864.8**	**Afl. 1,012.6**
CBA Domestic Q4/05	710.5	717.5	754.6	864.7	1,012.40
Difference with Central Bank(2)	0.1	0.2	0.1	0.1	0.2

(1) The total amount of suppliers' credit due from the government is accounted for in domestic debt, including suppliers' credit amounts properly considered as external because owned to non-Aruban suppliers. Suppliers' credit includes amounts due to suppliers for goods and services provided to the government, which are incurred on a rolling basis each year and paid as incurred, generally within one year. At December 31, 2005, Afl. 126.2 million was owed to suppliers (excluding amounts due to APFA which are accounted for under the liabilities to government entities). The amount owed includes an estimated Afl. 15 million due to the AZV, Afl. 32.7 million due to foreign suppliers, Afl. 20.6 million due to domestic suppliers, Afl. 3.8 million due to other government institutions and Afl. 54.1 million in invoices to be processed. Of the amounts owed to suppliers, Afl. 15 million had a maturity greater than one year, which generally reflects claims being disputed by the government, which includes unsubstantiated claims, disputed amounts or failures by the creditor to deliver as contracted. Amounts owed to external suppliers for greater than one year principally comprise amounts owed to other partners in the Kingdom and are settled by means of political agreements between the partners.

(2) Debt totals are maintained by the Ministry of Finance and Economic Affairs, and the information on outstanding debt is given to the Central Bank. The Central Bank, in certain circumstances, analyzes and reports data differently than the Ministry of Finance and Economic Affairs, resulting in certain immaterial differences in debt totals and/or categorizations.

Source: Ministry of Finance and Economic Affairs

As of July 31, 2006, total domestic public sector debt was approximately Afl. 1,130.8 million, as compared to Afl. 1,012.6 million at December 31, 2005. This 11.7% increase was due to three domestic loans that more than offset an Afl. 15.4 million decrease due to the repayment of a domestic loan.

As of December 31, 2005, total domestic public sector debt was Afl. 1,012.6 million, as compared to Afl. 864.8 million at December 31, 2004 or 25.1% of GDP. This 17.1% overall increase was primarily a result of increases in loans and bonds of Afl. 166.3 million that, together with administrative adjustments of Afl. 14 million, and increases in current arrears of Afl. 34.9 million, more than offset loan repayments and principal amortization of Afl. 67.4 million.

As of December 31, 2004, total domestic public sector debt was Afl. 864.8 million, or 22.6% of GDP, an increase of 14.6% as compared to Afl. 754.7 million, or 21.0% of GDP, as of December

31, 2003, with the increase primarily due to the budget deficit, contingent liabilities coming due and deficits arising from the operation of the AZV.

Principal and interest payments on domestic public sector debt in 2005 totalled Afl. 97.6 million. The debt service ratio, that is, the ratio of domestic principal and interest payments to GDP, was 2.4% in 2005, as compared to 1.0% in 2004.

During 2005, the aggregate amount of principal payments made by the government on its domestic public sector debt was Afl. 59.0 million, excluding amounts paid to the APFA.
The following table shows the amortization schedule for domestic public sector debt outstanding as of December 31, 2005, for the six years ending December 31, 2011:

Table A2: Domestic Public Sector Debt Amortization Schedule (1)

	As of and for the year ending December 31,					
	2006	**2007**	**2008**	**2009**	**2010**	**2011**
			(in millions of Afl.)			
Government Entities	Afl. 1.7	Afl. 1.9	Afl. 2.0	Afl. 2.2	Afl. 2.3	Afl. 2.4
Capital Markets	16.9	–	19.2	67.8	114.3	64.7
Commercial Loans(2)	2	2	2	–	–	–
Total Domestic Public Sector(3)	**Afl. 20.6**	**Afl. 3.9**	**Afl. 23.2**	**Afl. 70.0**	**Afl. 116.6**	**Afl. 67.1**

(1) Does not include suppliers' credit.

(2) These amounts do not include Afl. 48.0 million aggregate principal amount of treasury bills and cash loan certificates, which are automatically rolled over at maturity.

(3) The projected amortization of 2006 through 2011 is based on formalized agreements with the respective creditors.

Source: Ministry of Finance and Economic Affairs

For 2006, the aggregate amount of the government's scheduled principal payments on domestic debt to government entities is Afl. 1.7 million. The aggregate amount of scheduled principal payments on domestic commercial loans and bonds in 2006 is Afl. 18.9 million.

Currently outstanding domestic public sector debt, other than treasury bills, government bonds and cash loan certificates, will mature within 35 years, including the APFA loan of Afl. 220 million, which matures in 2040 and amortizes annually. Outstanding domestic public sector debt carries fixed interest rates (except treasury bills and cash loan certificates) ranging from 6.00% to 9.50%. Treasury bills and cash loan certificates have in recent years seen an annual yield development ranging from 0.87% to 5.39%.

The following table shows the interest schedule for domestic public sector debt outstanding as of December 31, 2006 for the six years ending December 31, 2011:

Table A3: Domestic Public Sector Debt Interest Schedule(1)

	As of and for the year ending December 31,					
	2006	2007	2008	2009	2010	2011
	(in millions of Afl.)					
Government Entities	Afl. 14.6	Afl. 14.5	Afl. 14.3	Afl. 14.2	Afl. 14.1	Afl. 13.9
Capital Markets	28.3	36.7	36.5	35.2	31	23.6
Commercial Loans	4.1	3.9	3.7	3.5	3.5	3.5
Total Domestic Public Sector	**Afl. 47.0**	**Afl. 55.1**	**Afl. 54.6**	**Afl. 52.9**	**Afl. 48.6**	**Afl. 40.9**

(1) Does not include suppliers' credit.

Source: Ministry of Finance and Economic Affairs

For 2006, the aggregate amount of the government's scheduled interest payments on domestic debt to government entities is Afl. 14.6 million. The aggregate amount of scheduled interest payments on domestic commercial loans and bonds in 2006 is Afl. 32.4 million.

As of December 31, 2005, external public sector debt was Afl. 857.3 million, or 21.2% of GDP, as compared to Afl. 835.4 million, or 21.9% of GDP, as of December 31, 2004. The following table shows external public sector debt by creditor for the five years ended December 31, 2005:

Table A4: Government External Public Sector Debt by Creditor[1]

	As of December 31,				
	2001	2002	2003	2004	2005[2]
			(in millions of Afl.)		
Development Banks[3]					
2.500% NIO 77-06	3.5	3.3	3	2.2	1
2.500% NIO 77-06	3.1	3	2.7	2	0.9
2.500% NIO 78-07	4.8	4.9	4.7	3.9	2.3
2.500% NIO 79-08	0.4	3	3	2.7	1.7
2.500% NIO 80-09	5	5.3	5.5	5	3.5
2.500% NIO 81-10	6.7	7.2	7.7	7.2	5.2
2.500% NIO 82-11	3.9	4.2	4.5	4.3	3.3
2.500% NIO 83-12	1.3	1.5	1.6	1.6	1.2
2.500% NIO 86-15	5.2	5.8	6.5	6.5	5.2
2.500% NIO 87-16	8	9	10.1	10.2	8.2
2.500% NIO 88-17	8.4	9.5	10.8	10.9	8.8
2.500% NIO 89-18	8.8	10	11.4	11.6	9.5
2.500% NIO 90-19	5.4	6.1	7	7.1	5.8
Loan ifo WEB per 2026[4]	-	-	-	-	26.3
1% EIB 88-28	7.5	8.7	10	10.4	8.7
1% EIB 91-02/ 3.2	2.1	2.3	-	-	-
1% EIB 91-02/ 3.3	0.8	0.9	-	-	-
1% EIB 91-02/ 3.4	0.2	0.3	-	-	-
1% EIB 94-34	2.5	3	3.6	3.9	3.3
Total Development Banks	**77.6**	**88**	**92.1**	**89.5**	**94.9**
Bilateral					
2.500% Ned 71-00	-	-	-	-	-
2.500% Ned 76-06 (MJP)	5.6	5.4	5	3.6	1.6
3.000% Ned 77-00[4]	-	-	-	-	-
2.500% Ned 78-02	1	0.6	-	-	-
2.500% Ned 85-18. Begrotings	48.9	54.8	61.9	62.2	50.1
2.500% Ned 91-21	9.8	11.2	12.9	13.3	11
2.500% Ned 92-22	11.3	12.9	15	15.5	12.8
2.500% Ned 93-23	6.7	7.5	9	9.3	7.7
2.500% Ned 94-24	2.6	3	3.6	3.7	3.1
2.500% Ned 95-24	0.4	0.5	0.6	0.6	0.5
Total Bilateral	**86.3**	**95.9**	**108**	**108.2**	**86.8**
Commercial Banks/Bonds					
Centr Beh 94-02	0.9	1.1	-	-	-
Loan ifo WEB per 2026[4]	28	28	28	26.3	-
Bank Loan 99-09 Staalbankier	1.7	2	2.4	2.5	2.2
8.200% US 98.05 Private place	45	45	45	45	-
8.200%US/AFL 97-02[5]	11	11	-	-	-
8.090% US 99-06	27	27	27	27	-
8.680% US 00-05	36	36	36	36	-
8.780% US 00-07	36	36	36	36	36
4.130% Air Aruba	-	-	-	-	-
7.870% US 01-08	37.8	37.8	37.8	37.8	37.8
7.125% Govt Bonds 2001-08	5.8	5.8	5.8	5.8	5.8
7.375% RMB 02-12	-	46.8	46.8	46.8	46.8
6.190% US 02-12	-	63	63	63	63
4.500% SACE 03-18	359.8	370.7	99	94.2	89.3
6.710% US 03-13	-	-	97.2	97.2	97.2
6.800% PP	-	-	-	118.2	109.2
6.800% US/AFL 04-16 [5]	-	-	-	1.9	1.9
6.000% US/AFL 05-09[5]	-	-	-	-	2.2
6.500% US/AFL 05-11[5]	-	-	-	-	0.6
6.400% US 05-15	-	-	-	-	167.4
8.000% Long LeaseAFL 05-30[6]	-	-	-	-	16.3
Total Commercial	589	710.2	524	637.7	675.6
Total External Public Sector	**Afl. 752.9**	**Afl. 894.1**	**Afl. 724.1**	**Afl. 835.4**	**Afl. 857.3**
Difference with Central Bank[7]	-	-0.4	0.1	0.2	-0.2

Footnotes follow on the next page.

(1) Does not include amounts due to suppliers of goods and services provided to the government, which are incurred on a rolling basis each year and paid as incurred, generally within one year. All suppliers' credit (domestic and external) is accounted for as domestic debt. See Note (1) to the "government Domestic Public Sector Debt" table.

(2) Development Banks includes loans made by investment banks for development, including the Netherlands Investment Bank for Developing Countries ("NIO") and the European Investment Bank ("EIB").

(3) The interest rate cannot be exactly determined but is calculated on the basis of the best available data.

(4) Table reflects external portion only.

(5) Long term lease classified as a loan by the Central Bank.

(6) Debt totals are maintained by the Ministry of Finance and Economic Affairs, and the information on outstanding debt is given to the Central Bank. The Central Bank, in certain circumstances, analyzes and reports data differently than the Ministry of Finance and Economic Affairs, resulting in certain immaterial differences in debt totals and/or categorizations.

Source: Ministry of Finance and Economic Affairs

Both before and following the granting of status aparte, the Netherlands has assisted Aruba by providing financing both directly and through other structures and vehicles, including loans from the Netherlands Investment Bank for Developing Countries ("NIO"). The last of these concessional loans was provided in 1995. The governments of both the Netherlands and Aruba have agreed that Aruba will strive to achieve financial independence from the Netherlands and that any Dutch assistance will be provided as grants directed to specific programs under the FDA, rather than "general purpose" loans.

The amount of government external public sector debt outstanding as of July 31, 2006 was Afl. 857.3 million, unchanged from the total external debt outstanding at December 31, 2005, as no additional external debt was incurred and no principal payments made, through July 31, 2006.

The amount of government external public sector debt outstanding as of December 31, 2005 was Afl. 857.3 million, an increase of 2.6% from Afl. 835.4 million outstanding as of December 31, 2004. During 2005, external public sector debt disbursements totalled approximately Afl. 167.4 million, while external public sector debt principal payments totalled Afl. 129.1 million.[15]

The amount of external public sector debt financed by the international capital market increased to 78.8% in 2005 from 76.3% in 2004. The amount of external public sector debt financed by development banks, including the European Investment Bank (the "EIB") and the NIO, increased slightly to 11.1% in 2005 from 10.7% in 2004, while the amount of external public sector debt financed by bilateral sources decreased to 10.1% in 2005 from 13.0% in 2004.

Principal and interest payments on external public sector debt in 2005 totalled Afl. 177.3 million. During 2005, the government's principal payments on external public sector debt totalled Afl. 129.1 million. The debt service ratio, that is, the ratio of external principal and interest payments to GDP, was 4.4% in 2005, as compared to 1.7% in 2004 and 4.5% in 2003.

Principal and interest payments on external public sector debt in 2004 totalled Afl. 64.4 million. During 2004, the government's principal payments on external public sector debt totalled Afl.

[15] The difference between the outstanding debt figures of 2004 and 2005 differ from the difference between the disbursement and the principle payments of 2005 because of currency valuation and reclassification of domestic fund into external debt.

22.8 million, classified in Afl. 4.8 million to the commercial creditor SACE and Afl. 18.0 million to other creditors, of which Afl. 17.7 million was paid to the Kingdom and the balance to the European Investment Bank.

The following table shows the amortization schedule for external public sector debt outstanding as of December 31, 2005, for the six years ending December 31, 2011:

Table A5: External Public Sector Debt Principal Amortization Schedule (1)

	As of and for the year ending December 31,					
	2006	2007	2008	2009	2010	2011
	(in millions of AFL)					
Development Banks(2)	Afl. 9.6	Afl. 7.7	Afl. 6.7	Afl. 6.2	Afl. 5.4	Afl. 5.0
Bilateral	7.8	6	6.1	6.1	6.2	6.2
Commercial Loans / Bonds	22	58.2	66.1	24.9	23.5	23.3
Total	**Afl. 39.4**	**Afl. 72.0**	**Afl. 78.8**	**Afl. 37.3**	**Afl. 35.0**	**Afl. 34.5**

(1) Does not include suppliers' credit.

(2) Development Banks includes loans made by investment banks for development including the Netherlands Investment Bank for Developing Countries ("NIO") and the European Investment Bank ("EIB").

Source: Ministry of Finance and Economic Affairs

For 2006, the aggregate amount of the government's scheduled principal payments on development banks' external public sector debt is Afl. 9.6 million. The aggregate amount of the government's scheduled principal payments on bilateral scheduled external public sector debt is Afl. 7.8 million. The aggregate amount of scheduled principal payments on external commercial loans and bonds is Afl. 22.0 million.

The following table shows the maturity structure for external public sector debt outstanding as of December 31, 2005:

Table A6: Total External Public Sector Debt Maturity Structure (1)

	Less than 1 year (2)	1-5 years	5-10 years	10 years & over	Total
	(in millions of Afl.)				
Multilateral	Afl. 18.0	Afl. 27.7	Afl. 20.2	Afl. 9.0	Afl. 74.8
Bilateral	14.2	30.8	31.9	16.2	93
Commercial Loans / Bonds	58.5	272.5	299.5	20.8	651.2
Total	**Afl. 90.7**	**Afl. 330.9**	**Afl. 351.5**	**Afl. 46.0**	**Afl. 819.1**

(1) Does not include suppliers' credit.

(2) Less than 1 year is defined as the 4th quarter of 2006 and the year 2007, thus the payments for quarter 1 through 3, 2006 (approximately Afl. 38.2 million) are not included.

Source: Ministry of Finance and Economic Affairs

External public sector debt interest payments by the government increased to Afl. 48.2 million in 2005 from Afl. 41.6 million in 2004.

The following table shows the interest schedule for external public sector debt outstanding as of December 31, 2005, for the six years ending December 31, 2011:

Table A7: External Public Sector Debt Interest Schedule (1)

	As of and for the year ending December 31,					
	2006	2007	2008	2009	2010	2011
	(in millions of Afl.)					
Development Banks(2)	Afl. 2.0	Afl. 1.5	Afl. 1.3	Afl. 1.1	Afl. 1.0	Afl. 0.8
Bilateral	2.5	2.3	2.1	2	1.8	1.7
Commercial Banks / Bonds	44.9	43.6	38.7	34.4	32.9	31.5
Total	**Afl. 49.4**	**Afl. 47.4**	**Afl. 42.1**	**Afl. 37.5**	**Afl. 35.7**	**Afl. 34.0**

(1) Does not include suppliers' credit.

(2) Development Banks includes loans made by investment banks for development, including the Netherlands Investment Bank for Developing Countries ("NIO") and the European Investment Bank ("EIB").

Source: Ministry of Finance and Economic Affairs

The following tables show the government's external public sector debt by currency of denomination for the five years ended December 31, 2005:

Table A8: Currency Composition of External Public Sector Debt

	As of December 31,				
	2001	2002	2003	2004	2005
	(as percent of total external public sector debt)				
U.S. Dollars	74	76	68	73	77
Euro(1)	26	24	32	27	21
Afl.	0	0	0	0	2
Total	**100**	**100**	**100**	**100**	**100**

(1) Includes amounts originally denominated in Dutch guilders. The exchange rate for 1 NLG was fixed at 1 EUR = 2.203710 NLG.

Source: Ministry of Finance and Economic Affairs

Table A9: Currency Composition of External Public Sector Debt

	As of December 31,				
	2001	2002	2003	2004	2005
	(in millions Afl.)				
U.S. Dollars	558.4	679.1	493.6	608.9	657.2
Euro(1)	194.5	215	230.5	226.5	176.4
Afl.	–	–	–	–	16.25
Total	752.9	894.1	724.1	835.4	849.9

(1) Includes amounts originally denominated in Dutch guilders. The exchange rate for 1 NLG was fixed at 1 EUR = 2.203710 NLG.

Source: Ministry of Finance and Economic Affairs

At December 31, 2005, 77.0% of external public sector debt was denominated in U.S. dollars and 21.0% was denominated in Euro. While the U.S.$/Afl. exchange rate is fixed (see "Exchange Rates"), payments on EUR-denominated loans may increase or decrease in Afl. terms based on the prevailing EUR/Afl. exchange rate at the time the payment is made.

The following table shows the government's external public sector debt net of official reserves for the five years ended December 31, 2005:

Table A10: External Public Sector Debt, Net of Reserves

	As of December 31,				
	2001	2002	2003	2004	2005
	(in millions of Afl.)				
External Public Sector Debt	Afl. 752.9	Afl. 894.1	Afl. 724.1	Afl. 835.4	Afl. 857.3
Official reserves at the Central Bank	578.2	667.9	608.9	614.4	588.6
Total	174.7	226.2	115.2	221	268.7

Source: Ministry of Finance and Economic Affairs; Central Bank of Aruba

The following table shows public sector debt indicators for the five years ended December 31, 2005:

Table A11: Debt Indicators

	As of the year ended December 31,				
	2001	2002	2003	2004	2005
	(in millions of Afl., except percentages)				
External Public Sector Debt	Afl. 752.9	Afl. 894.1	Afl. 724.1	Afl. 835.4	Afl. 857.3
External Public Sector Debt/GDP	22.2%	26.1%	20.1%	21.9%	21.2%
Domestic Public Sector Debt	710.6	717.7	754.7	864.8	1,012.60
Domestic Public Sector Debt/GDP	20.9%	21.0%	21.0%	22.6%	25.1%
Total Public Sector Debt	1,463.5	1,611.8	1,478.8	1,700.2	1,869.9
Total Public Sector Debt/GDP	43.1%	47.1%	41.1%	44.5%	46.3%
External Public Sector Debt Service					
Principal	16.9	13.5	139.9	22.8	129.1
Interest	12.6	22.2	31.9	41.6	48.2
Total	29.5	35.7	171.8	64.4	177.3
Domestic Public Sector Debt Service					
Principal	18.2	33.6	70	19.8	59
Interest	12.7	15.9	13	16.6	38.6
Total	30.9	59.5	83	36.4	97.6
Exports of Goods and Services (1)	1,985.5	1,921.8	1,971.9	2,307.7	2,451.4
External Public Sector Debt Interest as a Percentage of Exports of Goods and Services (%) (1)	0.6%	1.2%	1.6%	1.8%	2.0%
GDP	3,339.0	3,421.0	3,599.0	3,819.0	4,041.0

(1) Excluding oil.

Source: Ministry of Finance and Economic Affairs; Central Bank of Aruba

Total public sector debt as a percentage of GDP rose to 46.3% as of December 31, 2005, from 44.5% as of December 31, 2004, as increases in both domestic and external public sector debt outpaced growth in GDP. Domestic public sector debt as a percentage of GDP rose to 25.1% as of December 31, 2005, from 22.6% as of December 31, 2004.

External public sector debt as a percentage of GDP declined to 21.2% at December 31, 2005 from 21.9% at December 31, 2004, despite an Afl. 21.9 million increase in aggregate principal amount of loans from commercial creditors. External public sector debt interest payments as a percent of exports of goods and services increased to 2.0% at December 31, 2005 from 1.8% at December 31, 2004.

iii. Government personnel statistics

Structural limitations have been identified pertaining to the consistencies of the data available of the government, including data regarding the number of personnel. The Commission, for the purposes of this Report, has compiled personnel statistics in order to be able to analyze the size of the government and its personnel. Statistics have been compiled on a best effort basis from the Directorate of Finance, the Central Bureau of Statistics (CBS), the Department of Personnel and Organization (DPO) as well as the Department of Education. The statistics displayed in this report might not match other data either in published reports or other forms, either because of differences in classifications or inconsistencies in sources.

Table A12: Collective sector

Collective sector	2000	2001	2002	2003	2004	2005
Legal Entity Government of Aruba	4388	4332	4468	4723	4969	4963
Subsidized entities [1]	1361	1424	1456	1495	1525	1613
Total collective sector	**5749**	**5756**	**5924**	**6218**	**6494**	**6576**

[1] provisional

Source: Compiled by the Commission using sources of the Directorate of Finance, Department of Personnel and Organization, Central Bureau of Statistics and Department of Education

Table A13: Government personnel

Government of Aruba*	2000	2001	2002	2003	2004	2005
General public services	1165	1125	1131	1084	1093	1154
Defence	82	96	101	100	128	145
Public order and safety	1093	1105	1193	1441	1525	1699
Economic affairs	799	792	795	783	812	686
Environmental protection	121	115	138	139	140	13
Housing and community amenities	53	53	54	56	56	55
Health	367	318	307	325	348	269
Recreation, culture and religion	171	168	170	171	173	189
Education	446	470	482	515	564	609
Social protection	91	90	97	109	130	144
Total GOA	**4388**	**4332**	**4468**	**4723**	**4969**	**4963**

*Including DOW, public school teachers and members of parliament, excluding civil servants in service of other public entities, excluding publicly owned private corporations

Source: Compiled by the Commission using sources of the Directorate of Finance, Department of Personnel and Organization, Central Bureau of Statistics and Department of Education

iv. Collective burden

Table A14 Collective Burden

(in Afl. million)	2000	2001	2002	2003	2004	2005
1. Gross domestic product (GDP)	3,327	3,399	3,421	3,599	3,819	4,041
2. Tax revenue [1]	624.5	606.3	609.6	687.4	707.1	779.4
3. Tax revenue as percentage of GDP	18.8	17.8	17.8	19.1	18.5	19.3
4. Total contributions Social Security Bank (SVB) [2) 3)]	190.1	171.2	180.8	196.6	196.0	195.2
5. Total contributions General Health Insurance (AZV) [2]	0	100.5	105.1	103.1	119.4	126.5
6. Total social security contributions ((4) + (5))	190.1	271.7	285.8	299.7	315.4	321.7
7. Social security contributions as percentage of GDP	5.7	8.0	8.4	8.3	8.3	8.0
8. Collective charges ((2) + (6))	814.6	878.0	895.4	987.1	1,022.5	1,101.1
9. Collective burden as percentage of GDP	24.5	25.8	26.2	27.4	26.8	27.2

1) Cash basis.

2) Transaction basis

3) The Centrale Bank van Aruba (the Bank) has not yet received the annual report of 2005 of the SVB. Therefore, the total SVB-contributions for that year were estimated by the Bank.

v. Budgetary Process

The budget is presented for approval to the Parliament as a bill of law. By approving the budget as a law the Parliament gives the concerned Ministers authorization to contract financial obligations to the maximum budgeted amount. Aruba uses three different schemes in producing the budget, namely financial obligation, means-cost (accrual) and the cash scheme. The formal process leading to the approval of the government budget is described in the following table.

Budget Planning Process

Preparatory work: From policy notes and base estimates to initial budgets

January
Financial framework letter sent to ministries by MoF with guidelines regarding the preparation of the budget products.

February (before March 1)
Departments and services deliver following components to concerned ministries and at DoF for resp. year X+1
- -Policy intentions
- -Activity planning
- -Investment forms
- -Budget subsidized institutions

April
-Ministries submit draft budgets and policy note to MoF
-Submit 1st draft budgets for gov. corp. and budget fund(s) to DWJZ+DoF
-DoF prepares note on conflict points for concept budgets per ministry
-Draft total liquidity projections

May
-Discuss, approve and adjust initial draft budgets and note on conflict points before the CoM
-Eventual approval of initial budgets by CoM

Legislation path: From concept budget draft to budget draft (Lvo)

June
-Prepare draft budget (Lvo) and memorandum (MvT) as a result on decisions made in CoM
-Approval budget draft (Lvo) in CoM

July
-Offer draft budget (Lvo) and memorandum to AC
-AC gives advice on draft budget (Lvo)
-DWJZ/ DoF compiles/ processes reactions of concerned ministries regarding advice from AC in a report

August
-Offer budget draft (Lvo) + memorandum (MvT) + Advice AC + Reports to concerned ministries/ CoM
-Approval by CoM of budget draft (Lvo)
-Concerned ministries sign memorandum to draft budget (Lvo)

September
-Offer draft budget (Lvo) + memorandum (MvT) + advice AC + Reports to the Parliament latest by 1 Sept.

Preparatory work Parliament: Handling budget draft (Lvo) and memoirs by the Parliament

September – December 31
-Discuss draft budget (lvo) incl. memoranda (MvT) + Advice AC + Reports in parliament
-Questions arised on draft budget are processed in a report by the parliament
-Report sent to concerned ministers
-Concerned ministries make and give notes to the parliament on the report and eventual notes on changes on the drafts
- Start up discussion on draft in a public meeting of the Parliament
-Approval with majority of votes on the draft budget (lvo) consequently on amendments by the parliament, the latest by ultimo December

MoF= Ministry of Finance
DoF= department of Finance
CoM= Council of Ministers
AC= Advisory Council

Lvo= landsverordening/ country legislation
MvT= memorie van toelichting/ memorandum
DWJZ= Directie Wetgeving en Juridische Zaken/ Department of legislation and legal affairs
gov.corp.= government corporations

On the budgetary process

At the beginning of the year, all departments are required to submit their base estimates for the next budget year. This information is used by the Directorate of Finance to draw up a preliminary draft budget. During this process, there is normally limited contact between the ministry and the departments about any possible changes to the estimates. The Directorate of Finance first makes its own forecast based on the budgetary room it has calculated and the financial goals that are set by the Minister of Finance. The preliminary budget is presented to the Minister of Finance, including changes that need to be resolved with individual ministers. If this is not sufficiently done or if there is no agreement, the Directorate of Finance tries (in cooperation with the minister) to make budget cut proposals on the basis of information submitted by departments or by using exhaustion figures of the past budget. The figures in the preliminary budget can thus deviate from the departments' base estimates without seeking their comments. Subsequently, there is in practice limited discussion within the Council of Ministers about this preliminary draft budget.

This situation has several disadvantages. For instance, there is insufficient policy discussion about next year's priorities and the required means to meet the objectives. For instance, the policy description in the budget is written after the final figures have been determined. Also, the departments do not feel committed to the budget if they are not kept informed about the status and developments of their proposals, especially if the base estimates are revised downwards. This leads to a situation in which a proper finalization of the budget and presentation to Parliament is considered to be solely a problem of the Minister of Finance.

It is adviced to more actively seek policy discussions in the budget preparation phase, both in the Council of Ministers as between the Ministry of Finance and the departments. The most important goal would be to have more discussion about next year's priorities and the budgetary consequences within the financial framework.

To promote responsibility with other ministers for the budget, it has been decided in the past that each department needs to get approval from parliament for its own budget. Although, this creates involvement of departments with their own budget, it does not automatically create a collective responsibility for the entire budget. Therefore, it can be considered to also present a general budget document for the whole government sector in addition to the different budget laws for each ministry to further promote collective responsibility.

On the use of the budget

Once the budget has been drawn up, it should be a guiding document for the policy discussions and to monitor both revenues and expenditures. It is evident that as a first prerequisite, it is essential to present the budget in a timely matter.

Complete information on the budget is available, but in practice only used by a limited number of people within the Ministry of Finance. The approved budget is not widely distributed and therefore not common knowledge, which makes it difficult to promote a collective responsibility for the budget figures. A better general acceptance of the budget as well as a more effective monitoring and reporting would be possible if there is a more intense information exchange, combined with general and public availability of the budget.

In addition, the current presentation of the budget is also rather complicated, which makes a proper understanding of the relevant figures also a difficult task. For instance, the central budget table does not contain figures for the budget balance and can only be calculated with sufficient budgetary expertise. A slightly adjusted presentation to include information on the budget deficit could importantly improve transparency.

All ministries have a budget coordinator, who is a first contact for the Ministry of Finance and is responsible for the proper execution of the budget as well as delivering information for the monitoring of the budget of the current year and for drawing up next year’s estimates. In the past, there have been regular meetings between the Ministry of Finance and these budget coordinators, but in the course of time this contact has become less frequently. Moreover, the position of the budget coordinators within their own ministry can be improved, as they do not always have the information or the position to obtain required data nor do they always request the available information from the directorate of Finance. It is adviced to set up a frequent and regular information exchange, supported by strengthening the position of the budget coordinators through further training and organizational improvements.

In principle the current formal procedures are on themselves deemed appropriate by the civil service for the achievement of an orderly execution of the budget definition process. The practice, however, is somewhat different. The timely preparation of budgets is lacking. This having among other things to do with shortcomings in management, planning and control capabilities in the civil service, while the level and quality of direction, policy coordination and policy prioritizing on the political level also needs improvement. The current circumstances have as result that for example policy notes as well as figures are mostly submitted on a much later date than required, are inadequate in quality while the relationship between policy and budget figures is relatively absent. The inadequacy in quality of submitted information also means that budget figures are in many instances improperly explained which can compromise the overall quality of the budget. This coupled with the coordination and prioritizing issues mentioned earlier means that within the practice of getting to a budget the risk of budget inflation and misallocation is imbedded.

The quality of the budget is of importance to the actual financial results. A poor budget on the cost side has as result that intermittently many changes have to happen at lower levels of aggregation in the budget in order to bring it more in line with actual reality. This strains the financial administration and has much of available capacity allocated to this end instead of towards improvements in financial reporting, or control for example. On the means side of the budget inadequate quality translates very easily into cash flow difficulties as budgeted financing requirements and concomitant borrowing authorization do not match actual financing requirements.

Budget input information quality not only affects the budget formulation, but is also of importance to the execution of control and reporting cycles, for which formally, through a regulatory framework, there are many provisions related to reporting standards and requirements that are many times not being adhered to.

vi. Panama's FRL

Panama is the closest country with regard to geographical proximity to Aruba which has experience with the FRL. The adoption of the FRL in Panama is used as an example to illustrate that the implementation of an FRL that is not well-defined, with inadequate institutional coverage and procedures, as well as an undeveloped financial information system will be ineffective in preventing fiscal slippages.

Prior to the introduction of the Fiscal Responsibility Law (FRL) in May 2002, Panama had been in an economic and fiscal deterioration. Its GDP growth had been slowing down for the third consecutive year, while fiscal performance deteriorated, with the government financial deficit in an increasing mode. This situation prompted the adoption of the FRL, which at that time was considered a milestone in Panama's public sector debt and budget management (Latorraca, 2002).

Under the FRL in Panama, public sector net debt was targeted to decline relative to the GDP to 50% by 2017, compared to 64% in 2002. Furthermore, the fiscal deficit was not allowed to exceed 2% of GDP in any given year. Public sector net debt was defined as the total public debt minus the assets of the Fiduciary Fund for development and minus those guarantees that secure Panama's public debt.

Nonetheless, the impact of the FRL in 2003 and 2004 was disappointing (IMF, 2006a) as the deficit of the Non Financial Public Sector (NFPS) reached 3.8% of GDP in 2003 and an estimated 3.3% in 2004, while the net debt rose to 68% in 2004 (2003: 63%). Clearly, the FRL was ineffective in preventing fiscal slippages (IMF, 2006b). The new Panamanian authority that took office in September 2004 decided to suspend the FRL until end-2005, because they did not regard compliance with the deficit limit of 2% of GDP as feasible and because the FRL was ineffective in preventing fiscal slippages (IMF, 2006b). According to the IMF report the reasons for the ineffectiveness of the FRL were:

Definition:

The FRL did not specify whether the 2% ceiling was applicable to a cash or an accrual-based deficit, implying an avenue for creative accounting. A well-defined FRL is, thus, necessary to counter the possibility of creative interpretation.

Coverage:

The FRL was not explicit about the coverage of the public sector, leaving it open whether the Panama Canal Authority (PCA)[16] should be included or not. The previous government included the surpluses of the PCA in order to lower the fiscal deficit being monitored, while the new government thought it should be omitted. An adequate description of the institutional coverage in the FRL is, thus, important.

Institutional procedures:

Panama's FRL was based on a lower-level legislation that relied exclusively on numerical rules, making no procedural provisions, nor providing for escape clauses or measures. International experience suggests that simple and transparent numerical rules can be an effective instrument of communication of a government's policy objectives if they are accompanied by adequate institutional procedures.

Fiscal data:

In Panama there was a need to improve the financial information management system to overcome fiscal limitations, thereby allowing policymakers to have comprehensive and timely information on fiscal developments, and facilitate a quick response to slippages. In the revised FRL, the public expenditure management system should be sufficiently advanced to help implement the rules. Also, there is a need to adopt the 2001 GFS methodology to allow a reliable monitoring of the deficit on an accrual basis.

Nevertheless, Panama did not give up on the advantages of a proper implementation of the FRL. The FRL is now being revised in Panama, whereby the above-mentioned deficiencies are evaluated and a combination of numerical and procedural rules will be considered. This strategy appropriately allows for time to implement a strong fiscal consolidation. However, the credibility of the revised FRL will depend on the implementation of fiscal and social security reform. Also, the medium-term fiscal targets of the revised FRL should be ambitious enough to significantly reduce the fiscal vulnerability. Moreover, the targets should be clearly explained to the public to gain an overall acceptance.

[16] Although it is a state-owned company, it is autonomous, and its budget is not part of the public sector budget.

vii. Minister's letter

Ministerio di Finansa y Asunto Economico

Aan de Directeur van de
Aruban Investment Bank
de heer F. Giel
Wilhelminastraat
Aruba

Uw nummer: Uw brief van: Ons nummer: A-614/2006

Onderwerp: "National Commission on Public Finance"

Bijlagen:

Oranjestad, 23 mei 2006

Zoals u bekend is de regering zich ervan bewust dat een gezond overheidsfinanciën van wezenlijk belang is voor een volhoudbare ontwikkeling van Aruba. In dit kader heb ik gemeend een nationale commissie in het leven te roepen welke commissie de navolgende zaken zal dienen te onderzoeken en daarover te rapporteren:

1. De huidige omvang van de publieke sector en de toekomstige ontwikkeling daarvan.
2. Beoordeling van de overheidsbestedingen met als doel de vaststelling van een adequaat niveau van de lopende- en kapitaalsbestedingen.
3. Beoordeling van de overheidsinkomsten met als doel de vaststelling van een acceptabel niveau ervan met inachtnemimg van een adequaat niveau van de overheidsbestedingen.
4. Het bereiken van een "balanced budget" in het jaar 2009.
5. Het consolideren van de overheidsschuld, met inbegrip van mogelijke toekomstige jaarlijkse financieringstekort(en), met als doel het bereiken van een volhoudbaar niveau van de overheidsschuld in relatie tot de "GDP".
6. Het ontwikkelen van fiscale en boekhoudkundige regels ter waarborging van het afleggen van rekening en verantwoording, alsmede transparantie en openbaarheid c.q. toegankelijkheid van informatie binnen het kader van meerjaren begrotingen; dit dient ter vaststelling van criteria die gehanteerd zullen worden bij het regelmatig monitoren van de ontwikkeling van de financiële positie van de overheid.
7. Coördinatie van het monetaire en het begrotingsbeleid ten behoeve een volhoudbare betalingsbalanspositie, alsmede van het in toom houden van de inflatie.

De commissie zal worden aangestuurd door de AIB Bank, die het voorzitterschap en de secretarisfunctie zal bemannen en verder als volgt zijn samengesteld:

- De Centrale Bank van Aruba
- De SER
- De Directie Financiën
- De Directie Economische Zaken, Handel en Industrie
- Twee door mij aan te wijzen personen.

Hierbij nodig ik u uit voor een eerste bijeenkomst op woensdag 31 mei a.s. om 15:00 uur op mijn bureau te Cumana.

De Minister van Financiën en
Economische Zaken
N.J.J. Swaen, Bac.

viii. List of Commission members

Mr. H. Mehran, Chairman
Senior Advisor, AIB BANK N.V.

Mr. H. M. Koolman, Secretary
Assistant Managing Director, AIB BANK N.V.

Mr. E. Croes
Director, Directorate of Finance

Mrs. M. Dijkhoff-Pita
Director, Department of Economic Affairs, Commerce and Industry

Mrs. M. Gonzalez
Manager of Economic Policy Department, Central Bank of Aruba

Mr. S.R. Marapin
Secretary-General, SER (Social and Economic Council)

ix. Working group to the Commission and observers

<u>Working group</u>

Mrs. M. R. Arends-Croes
Executive Manager, AIB Economic and Financial Services

Mr. M. van Hengel
Technical Assistant to the Directorate of Finance

Mrs. E. Matos-Pereira
Economist, Economic Policy Department, Central Bank of Aruba

Mrs. M. A. Steenken-Wever
Associate, AIB Economic and Financial Services

Mr. D. E. Werleman
Senior Policy Advisor, Directorate of Finance

<u>Observers</u>

Mr. F. W. Giel
Managing Director, AIB BANK N.V.

Mr. W.A.J.J. Houtman
Ministry of Finance, the Netherlands

x. Basic tables

<u>The Basic Table Scenarios</u>

The sources of data for the period 2000-2005 are the Central Bank of Aruba and the Directorate of Finance. For the year 2006 the budget of the government figures were used. The entries in the tables were rearranged for the purpose of projections for the years 2007 to 2009 so that government revenue and expenditure could be shown before interest payments, transfers and subsidies which were shown separately. In this fashion the influence of each item could be determined and the main sources of deficits could be identified.

In the Basic Table (starting on page 62, rows 3.2) the "current balance" is defined as current revenue (i.e., government revenue excluding grants) subtracted by the current expenditure, excluding transfers. This item shows that the current balance of the government sector remains positive. When subtracting the "transfers" (i.e., current transfers paid less grants received), the deficit becomes the "Basic Current Balance" which is influenced primarily by the size of the transfer to the General Health Insurance (Algemene Ziektekostenverzekering = AZV) which started in the year 2001. It should be noted, however, that the General Health Insurance introduction in 2001 caused various shifts within the government expenditure structure and associated incidental receipts since the introduction.

In addition to the basic table the memorandum items highlight important ratios pertaining to the government financials and their trend since the year 2000. These memorandum items help us understand Aruba's performance versus the performance of a number of comparable countries.

Assumptions used for all projected scenarios

	TABLES (SCENARIOS)	**A**	**B**	**C**
	General Definition	WITH BBO effects, With Policy changes that decreases AZV transfers, with moderate growth	WITH BBO effects, With Policy changes that decreases AZV transfers, lowered growth spending Policy (3% growth for personnel costs and 2% growth spending on goods & services) with moderate economic growth, with moderate GDP growth	WITH BBO effects, With Policy changes that decreases AZV transfers, lowered growth spending Policy (3% growth for personnel costs and 2% growth spending on goods & services) with moderate economic growth, with increased investment, with moderate GDP growth
	Government Financial Operations [1]			
1	**Government Revenue**	The Government revenue increases by the relationship it has with the GDP. In addition to this, the government tax revenue increases with the addition of the BBO estimated at 59 million and deduced with 25 million resulting from decrease in income of import duties, multiplied by the nominal	The Government revenue increases by the relationship it has with the GDP. In addition to this, the government tax revenue increases with the addition of the BBO estimated at 59 million and deduced with 25 million resulting from decrease in income of import duties, multiplied by the nominal	The Government revenue increases by the relationship it has with the GDP. In addition to this, the government tax revenue increases with the addition of the BBO estimated at 59 million and deduced with 25 million resulting from decrease in income of import duties, multiplied by the nominal
	a. Tax Revenue			
	b. Other non-tax Revenue [2]			
2.1	**Current Expenditures (before including of interest rates)**			
	a. Personnel [4]	The Personnel expenditures will increase based on the percentage increase of the last five years (6.2%).	The Personnel expenditures will increase by an annual 3%	The Personnel expenditures will increase by an annual 3%
	b. Goods and services [3]	The expenditure on Goods and services will increase with the average inflation rate of the last five years (3.5%).	The expenditure on Goods and services will increase by an annual 2%	The expenditure on Goods and services will increase by an annual 2%
	c. Interest payments [5]	The interest payments are based on the actual forecasted interest payments for commitments up 12/31/2005 and the forecasted interest payments based on the financing of the deficit of each year (cumulative).	The interest payments are based on the actual forecasted interest payments for commitments up 12/31/2005 and the forecasted interest payments based on the financing of the deficit of each year (cumulative).	The interest payments are based on the actual forecasted interest payments for commitments up 12/31/2005 and the forecasted interest payments based on the financing of the deficit of each year (cumulative).
2.2	**Current Expenditures (after including of interest rates)**			
3.1	**Current Balance (before deduction of interest rate)**	result based	result based	result based
3.2	**Current Balance (after deduction of interest rates)**	result based	result based	result based
4	**Transfers (a+b+c)**			
	a. Grants	These are decreasing with the average component of the last few years	These are decreasing with the average component of the last few years	These are decreasing with the average component of the last few years
	b. General Health Transfers	These are based on the new level of transfers expected after the increase of the tariffs incl. (as per Budget AZV) an increase of 2% for 2008 and 2009	These are based on the new level of transfers expected after the increase of the tariffs incl. (as per Budget AZV) an increase of 2% for 2008 and 2009	These are based on the new level of transfers expected after the increase of the tariffs incl. (as per Budget AZV) an increase of 2% for 2008 and 2009
	c. Items n.i.e. (transfers, subsidie, other) [6]	These are based on the cash based result of 2006, taken at 90% as done in practise with subsidies	These are based on the cash based result of 2006, taken at 90% as done in practise with subsidies	These are based on the cash based result of 2006, taken at 90% as done in practise with subsidies
5	**Basic Current Balance (3.2+4)**	result based	result based	result based
6	**Investment (Including FDA)**			
	a. Development Fund Spending	FDA is based on the actual schedule	FDA is based on the actual schedule	FDA is based on the actual schedule
	b. Investment	These are based on the average of the last 5 years	These are based on the average of the last 5 years	Investment is increased yearly to reach a ratio of 2% of GDP by 2009
7	**TOTAL GOVERNMENT EXPENDITURE** (2.2 - 4.b - 4.c + 6)	The sum of the items 2.2 - 4.b - 4.c + 6	The sum of the items 2.2 - 4.b - 4.c + 6	The sum of the items 2.2 - 4.b - 4.c + 6
8	**Basic Surplus (deficit) (5-6)**	result based	result based	result based
9	**Lending minus repayment**	These are all based on the average of last five years.	These are all based on the average of last five years.	These are all based on the average of last five years.
	Lending			
	Repayments			
	Net Lending			
10	**Actual Deficit (7-8)**	result based	result based	result based
	compared to CBA prior to adjustments for incidentals			
11	**Financing**			
	a. Foreign Borrowings			
	a1 Loans received	deficit-repayments-other financing, split equally between foreign and domestic	deficit-repayments-other financing, split equally between foreign and domestic	deficit-repayments-other financing, split equally between foreign and domestic
	a2 Repayments on loans	Actual amortization schedule	Actual amortization schedule	Actual amortization schedule
	a3 Other financial transaction	Assumed none	Assumed none	Assumed none
	b Domestic Borrowings			
	b1 Loans received	deficit-repayments-other financing, split equally between foreign and domestic	deficit-repayments-other financing, split equally between foreign and domestic	deficit-repayments-other financing, split equally between foreign and domestic
	b2 Repayments on loans	Actual amortization schedule	Actual amortization schedule	Actual amortization schedule
	b3 Other financial transaction	Assumed none	Assumed none	Assumed none
12	**Net recourse to Monetary Sector**	Refers to the change in status, and it is assumed that there is no change in the current state.	Refers to the change in status, and it is assumed that there is no change in the current state.	Refers to the change in status, and it is assumed that there is no change in the current state.

Memorandum Items		A	B	C
a.	GDP in current prices	Derived from nominal growth	Derived from nominal growth	Derived from nominal growth
	nominal growth	Real growth plus inflation	Real growth plus inflation	Real growth plus inflation
b.	Real GDP growth rate	Start with 0.7% growth in 2007, followed by 1.3% 2008 & 2009 (including effects of BBO)	Start with 0.7% growth in 2007, followed by 1.3% 2008 & 2009 (including effects of BBO)	Start with 0.7% growth in 2007, followed by 1.3% 2008 & 2009 (including effects of BBO)
c.	CPI, percentage change	7.5% in 2007, followed by 3.5% (incl. effects BBO)	7.5% in 2007, followed by 3.5% (incl. effects BBO)	7.5% in 2007, followed by 3.5% (incl. effects BBO)
d.	Unmet financing requirements	Not projected yet	Not projected yet	Not projected yet
e.	Financial deficit (including change in d. unmet)			
f.	Financial deficit (excluding change in d. unmet, = row 9)			
g.	Total outstanding debt	result of existing debt plus yearly deficit	result of existing debt plus yearly deficit	result of existing debt plus yearly deficit
	Domestic			
	Foreign	Average of last five years used to drive revenues	Average of last five years used to drive revenues	Average of last five years used to drive revenues
h.	Total debt percentage of GDP	Average of last five years used to drive revenues	Average of last five years used to drive revenues	Average of last five years used to drive revenues
i.	Government revenue/ GDP	Average of last five years ratio used to drive revenues	Average of last five years ratio used to drive revenues	Average of last five years ratio used to drive revenues
j.1	Government tax revenue/ GDP	result	result	result
j.2	Government non-tax revenue/GDP	result	result	result
k.	Government current expenditure (excl. interest)/ GDP	result	result	result
l.	Government current expenditure (incl. interest)/ GDP	result	result	result
m.	Government investment/ GDP	result	result	result
n.	Government current balance/ GDP	result	result	result
o.	Government basic current balance/ GDP	result	result	result
p.	Government personnel/ Government current Expenditure	result	result	result
q.	Interest payment/ GDP	result	result	result
r.	Interest payment/ current expenditures (incl. interest)	result	result	result
s.	Total Government Expenditure/ GDP	result	result	result
t.	Personnel employed by the government	na for projections	na for projections	na for projections
u.	Growth in government personnel	na for projections	na for projections	na for projections
v.	Population Aruba	na for projections	na for projections	na for projections
w.	Growth in population	na for projections	na for projections	na for projections
x.	Personnel government/ population Aruba	na for projections	na for projections	na for projections
SCENARIOS		A	B	C

Basic Table: SCENARIO A

With BBO effects, plus policy change decreasing AZV transfers, plus moderate GDP growth

	Government Financial Operations [1]	2000	adjustments	2001	adjustments	2002	adjustments	2003	adjustments	2004	adjustments	2005	adjustments	*2006* (budget [7])	2007	2008	2009
1	**Government Revenue**	**729.3**		**735.7**		**717.3**		**786.9**		**804.8**		**881.3**		**971.2**	**1,017.6**	**1,099.6**	**1,155.7**
	a. Tax Revenue	624.5		606.3		609.6		687.4		707.1		779.4		847.8	889.7	965.1	1,014.3
	b. Other non-tax Revenue [2]	104.8		129.4		107.7		99.5	-171.7	97.7		101.9		123.4	128.0	134.5	141.4
2.1	**Current Expenditures (excluding interest payments)**	**567.6**		**506.8**		**580.8**		**591.3**		**669.8**		**658.1**		**689.1**	**733.6**	**774.6**	**818.1**
	a. Personnel [4]	374.9		370.9		431.4		437.8		478.7	-87.6	505.2		519.4	569.8	605.1	642.6
	b. Goods and services [3]	192.7		135.9		149.4		153.5		191.1		152.9		169.7	163.8	169.5	175.5
	c. Interest payments [5]	41.6		47.2		49.6		45.6		62.9	-23	84.4		94.7	110.4	109.5	105.6
2.2	**Current Expenditures (including interest payments)**	**609.2**		**554**		**630.4**		**636.9**		**732.7**		**742.5**		**783.8**	843.9	884.1	923.7
3.1	**Current Balance (before deduction of interest rate)**	**161.70**		**228.90**		**136.50**		**195.60**		**135.00**		**223.20**		**282.10**	**284.1**	**325.0**	**337.6**
3.2	**Current Balance (after deduction of interest rates)**	**120.10**		**181.70**		**86.90**		**150.00**		**72.10**		**138.80**		**187.40**	**173.7**	**215.5**	**232.0**
4	**Transfers (a+b+c)**	**-70.2**		**-191.6**		**-181.3**		**-187.7**		**-174.3**		**-199.5**		**-216.2**	**-183.4**	**-188.7**	**-193.9**
	a. Grants	16.9		0		37.4		30.1		31.1		28.4		25.4	23.0	20.7	18.8
	b. General Health Transfers	0		-120		-129.9		-132.7		-130.8		-130.4		-126.1	-102.5	-104.6	-106.6
	c. Items n.i.e. (transfers, subsidie, other) [6]	-87.1		-71.6		-88.8		-85.1	22.1	-74.6	64.7	-97.5		-115.5	-103.9	-104.9	-106.0
5	**Basic Current Balance (3.2+4)**	**49.9**		**(9.9)**		**(94.4)**		**(37.7)**		**(102.2)**		**(60.7)**		**(28.8)**	**(9.8)**	**26.8**	**38.1**
6	**Investment (Including FDA)**	**28.3**		**18.4**		**17.0**		**42.6**		**66.8**		**64.1**		**69.0**	**54.3**	**58.3**	**62.3**
	a. Development Fund Spending	0		0		3.7		16.2		32.6		20.9		49.4	27.0	31.0	35.0
	b. Investment	28.3		18.4		13.3		26.4		34.2		43.2		19.6	27.34	27.34	27.34
7	**TOTAL GOVERNMENT EXPENDITURE** (2.2 - 4.b - 4.c + 6)	**724.6**		**764.0**		**866.1**		**897.3**		**1,004.9**		**1,034.5**		**1,094.4**	**1,104.7**	**1,151.9**	**1,198.7**
8	**Basic Surplus (deficit) (5-6)**	**21.6**		**(28.3)**		**(111.4)**		**(80.3)**		**(169.0)**		**(124.8)**		**(97.8)**	**(64.1)**	**(31.6)**	**(24.2)**
9	**Lending minus repayment**																
	Lending	19.9		3.7		15.5		19.1		10.2		17.0		27.0	17.8	17.8	17.8
	Repayments	(3.7)		(4.1)		(53.9)		-	122.2	(1.0)		(7.3)	9	(19.9)	-16.4	-16.4	-16.4
	Net Lending	16.2		(0.4)		(38.4)		19.1		9.2		9.7		7.1	1.3	1.3	1.3
10	**Actual Deficit (7-8)**	**5.4**		**(27.9)**		**(73.0)**		**(99.4)**		**(178.2)**		**(134.5)**		**(104.9)**	**(65.4)**	**(32.9)**	**(25.6)**
	compared to CBA prior to adjustments for incidentals	*5.3*		*(28.1)*		*(73.0)*		*172.3*		*(353.6)*		*(125.6)*		*(131.9)*			
11	**Financing**																
	a. Foreign Borrowings	34.9		38.6		106.7		-200.6		95.6		47.1		52.7	-1.3	-11.3	28.8
	a1 Loans received	73.4		49.3		136		293.6		119.5		266.4		93.4	70.7	67.5	66.7
	a2 Repayments on loans	-75.4		-47.5		-66.1		-71.1	55	-23.9		-210.4		-40.7	-72.0	-78.8	-37.9
	a3 Other financial transaction	36.8		36.8		36.8		-196.5	171.7	0		-8.9		0	0	0	0
	b Domestic Borrowings	-26.8		14.2		2.5		9		236.7		55.7		109.7	66.8	44.3	-3.3
	b1 Loans received	28.5		24.6		33		49.2		329.6		122.5		133.8	70.7	67.5	66.7
	b2 Repayments on loans	-55.3		-10.4		-30.5		-30.3		-74.9		-70.3		-24.1	-3.9	-23.2	-70
	b3 Other financial transaction	0		0		0		-10		-18		3.4		0	0	0	0
12	**Net recourse to Monetary Sector**	**13.4**		**24.7**		**36.2**		**-19.3**		**-21.3**		**-22.8**		**30.5**	**0**	**0**	**0**

Memorandum items Scenario A

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
a.	GDP in current prices	3,326	3,399	3,421	3,599	3,819	4,041	4,259.21	4,606.8	4,841.7	5,088.6
	nominal growth		2.2%	0.6%	5.2%	6.1%	5.8%	5.4	8.2	5.1	5.1
b.	Real GDP growth rate	3.7	-0.7	-2.6	1.4	3.5	2.4	1.0	0.7	1.3	1.3
c.	CPI, percentage change	4	2.9	3.3	3.6	2.5	3.5	4.4	7.5	3.8	3.8
d.	Unmet financing requirements	152.5	269.4	275.8	285.5	156.7	183.2	183.2	183.2	183.2	183.2
e.	Financial deficit (including change in d. unmet)	-31.2	(144.80)	(79.40)	(109.10)	(49.40)	(161.00)	(104.90)	(65.43)	(32.90)	(25.58)
f.	Financial deficit (excluding change in d. unmet, = row 10)	5.4	(27.9)	(73.0)	(99.4)	(178.2)	(134.5)	(104.9)	(65.4)	(32.9)	(25.6)
g.	Total outstanding debt	1,276.9	1,455.2	1,595.2	1,499.6	1,701.0	1,862.1	1,967.0	2,032.4	2,065.3	2,090.9
	Domestic	571.5	718.3	717.4	775.5	864.7	1012.4				
	Foreign	705.4	736.9	877.8	724.1	836.3	849.7				
h.	Total debt percentage of GDP	38.4%	42.8%	46.6%	41.7%	44.5%	46.1%	46.2%	44.1%	42.7%	41.1%
i.	Government revenue/ GDP	21.9%	21.6%	21.0%	21.9%	21.1%	21.8%	22.8%	22.1%	22.7%	22.7%
j.1	Government tax revenue/ GDP	18.8%	17.8%	17.8%	19.1%	18.5%	19.3%	19.9%	19.3%	19.9%	19.9%
j.2	Government non-tax revenue/GDP	3.2%	3.8%	3.1%	2.8%	2.6%	2.5%	2.9%	2.8%	2.8%	2.8%
k.	Government current expenditure (excl. interest and transfers)/ GDP	17.1%	14.9%	17.0%	16.4%	17.5%	16.3%	16.2%	15.9%	16.0%	16.1%
l.	Government current expenditure (incl. interest excl. transfers)/ GDP	18.3%	16.3%	18.4%	17.7%	19.2%	18.4%	18.4%	18.3%	18.3%	18.2%
m.	Government investment/ GDP	0.9%	0.5%	0.5%	1.2%	1.7%	1.6%	1.6%	1.2%	1.2%	1.2%
n.	Government current balance/ GDP	4.9%	6.7%	4.0%	5.4%	3.5%	5.5%	6.6%	6.2%	6.7%	6.6%
o.	Government basic current balance/ GDP	1.5%	-0.3%	-2.8%	-1.0%	-2.7%	-1.5%	-0.7%	-0.2%	0.6%	0.7%
p.	Government personnel costs/ Government current expenditure (excluding interest and transfers)	66.1%	73.2%	74.3%	74.0%	71.5%	76.8%	75.4%	77.7%	78.1%	78.6%
q.	Interest payment/ GDP	1.3%	1.4%	1.4%	1.3%	1.6%	2.1%	2.2%	2.4%	2.3%	2.1%
r.	Interest payment/ current expenditures (incl. interest excl. transfers)	6.8%	8.5%	7.9%	7.2%	8.6%	11.4%	12.1%	13.1%	12.4%	11.4%
s.	Total Government Expenditure/ GDP	21.8%	22.5%	25.3%	24.9%	26.3%	25.6%	25.7%	24.0%	23.8%	23.6%
t.	Personnel employed by the government	4,388	4,332	4,468	4,723	4,969	4,963				
u.	Growth in government personnel	5.3%	-1.3%	3.1%	5.7%	5.2%	-0.1%				
v.	Population Aruba	91,064	92,676	93,945	96,207	99,109	102,149				
w.	Growth in population	1.0%	1.8%	1.4%	2.4%	3.0%	3.1%				
x.	Personnel government/ population Aruba	4.8%	4.7%	4.8%	4.9%	5.0%	4.9%				

Related Footnotes from CBA annual report to basic table:

1) All are Preliminary figures on a cash basis, including imputed noncash transactions, such as the transactions related to the hotel guarantee issue and the APFA debt conversion. Includes transactions related to foreign development cooperation.(Table has been adjusted)

2) In 2003, government financial data were revised to reflect the debt forgiveness amounting to Afl. 172 million (US$ 96 million) granted by SACE to the government as part of the settlement of the hotel guarantee issue. This amount is registered in the item "other nontax revenue".(Table has been adjusted)

3) In 2004, an agreement between the government and APFA was reached on a debt conversion pertaining largely to existing arrears in premiums, cost of living allowances, and interest payments. The settlement of these arrears was recorded as imputed expenditures in the categories personnel-related outlays, items n.i.e., and interest payments, respectively.(Table has been adjusted)

4) Excluding the imputed amount related to the APFA debt conversion, the personnel-related outlays were Afl. 478.7 million in 2004. (Table has been adjusted)

5) Excluding the imputed amount related to the APFA debt conversion, the interest payments were Afl. 62.2 million in 2004.(Table has been adjusted)

6) Excluding the imputed amount related to the APFA debt conversion, the items n.i.e. (not included elsewhere) were Afl. 74.6 million in 2004.(Table has been adjusted)

7) Budget cash translation of accrual budget

Basic Table: SCENARIO B

With BBO effects, plus policy change decreasing AZV transfers, plus lowered spending, plus moderate GDP growth

	Government Financial Operations [1]	2000	adjustments	2001	adjustments	2002	adjustments	2003	adjustments	2004	adjustments	2005	adjustments	*budget* [7] *2006*	2007	2008	2009
1	**Government Revenue**	**729.3**		**735.7**		**717.3**		**786.9**		**804.8**		**881.3**		**971.2**	1,017.6	1,099.6	1,155.7
	a. Tax Revenue	624.5		606.3		609.6		687.4		707.1		779.4		847.8	889.7	965.1	1,014.3
	b. Other non-tax Revenue [2]	104.8		129.4		107.7		99.5	-171.7	97.7		101.9		123.4	128.0	134.5	141.4
2.1	**Current Expenditures (excluding interest payments)**	**567.6**		**506.8**		**580.8**		**591.3**		**669.8**		**658.1**		**689.1**	695.0	714.3	734.1
	a. Personnel [4]	374.9		370.9		431.4		437.8		478.7	-87.6	505.2		519.4	536.0	552.0	568.6
	b. Goods and services [3]	192.7		135.9		149.4		153.5		191.1		152.9		169.7	159.1	162.3	165.5
	c. Interest payments [5]	41.6		47.2		49.6		45.6		62.9	-23	84.4		94.7	110.4	106.6	98.0
2.2	**Current Expenditures (including interest payments)**	**609.2**		**554**		**630.4**		**636.9**		**732.7**		**742.5**		**783.8**	805.4	820.9	832.1
3.1	**Current Balance (before deduction of interest rate)**	**161.70**		**228.90**		**136.50**		**195.60**		**135.00**		**223.20**		**282.10**	322.6	385.3	421.6
3.2	**Current Balance (after deduction of interest rates)**	**120.10**		**181.70**		**86.90**		**150.00**		**72.10**		**138.80**		**187.40**	212.2	278.7	323.6
4	**Transfers (a+b+c)**	**-70.2**		**-191.6**		**-181.3**		**-187.7**		**-174.3**		**-199.5**		**-216.2**	-183.4	-188.7	-193.9
	a. Grants	16.9		0		37.4		30.1		31.1		28.4		25.4	23.0	20.7	18.8
	b. General Health Transfers	0		-120		-129.9		-132.7		-130.8		-130.4		-126.1	-102.5	-104.6	-106.6
	c. Items n.i.e. (transfers, subsidie, other) [6]	-87.1		-71.6		-88.8		-85.1	22.1	-74.6	64.7	-97.5		-115.5	-103.9	-104.9	-106.0
5	**Basic Current Balance (3.2+4)**	**49.9**		**(9.9)**		**(94.4)**		**(37.7)**		**(102.2)**		**(60.7)**		**(28.8)**	28.8	90.0	129.7
6	**Investment (Including FDA)**	**28.3**		**18.4**		**17.0**		**42.6**		**66.8**		**64.1**		**69.0**	54.3	58.3	62.3
	a. Development Fund Spending	0		0		3.7		16.2		32.6		20.9		49.4	27.0	31.0	35.0
	b. Investment	28.3		18.4		13.3		26.4		34.2		43.2		19.6	27.34	27.34	27.34
7	**TOTAL GOVERNMENT EXPENDITURE** (2.2 - 4.b - 4.c + 6)	**724.6**		**764.0**		**866.1**		**897.3**		**1,004.9**		**1,034.5**		**1,094.4**	1,066.2	1,088.7	1,107.1
8	**Basic Surplus (deficit) (5-6)**	**21.6**		**(28.3)**		**(111.4)**		**(80.3)**		**(169.0)**		**(124.8)**		**(97.8)**	(25.6)	31.7	67.4
9	**Lending minus repayment**																
	Lending	19.9		3.7		15.5		19.1		10.2		17.0		27.0	17.8	17.8	17.8
	Repayments	(3.7)		(4.1)		(53.9)		-	122.2	(1.0)		(7.3)	9	(19.9)	-16.4	-16.4	-16.4
	Net Lending	16.2		(0.4)		(38.4)		19.1		9.2		9.7		7.1	1.3	1.3	1.3
10	**Actual Deficit (7-8)**	**5.4**		**(27.9)**		**(73.0)**		**(99.4)**		**(178.2)**		**(134.5)**		**(104.9)**	(26.9)	30.3	66.0
	compared to CBA prior to adjustments for incidentals	*5.3*		*(28.1)*		*(73.0)*		*172.3*		*(353.6)*		*(125.6)*		*(131.9)*			
11	**Financing**																
	a. Foreign Borrowings	34.9		38.6		106.7		-200.6		95.6		47.1		52.7	-20.6	-43.0	-17.0
	a1 Loans received	73.4		49.3		136		293.6		119.5		266.4		93.4	51.4	35.8	20.9
	a2 Repayments on loans	-75.4		-47.5		-66.1		-71.1	55	-23.9		-210.4		-40.7	-72.0	-78.8	-37.9
	a3 Other financial transaction	36.8		36.8		36.8		-196.5	171.7	0		-8.9		0	0	0	0
	b Domestic Borrowings	-26.8		14.2		2.5		9		236.7		55.7		109.7	47.5	12.6	-49.1
	b1 Loans received	28.5		24.6		33		49.2		329.6		122.5		133.8	51.4	35.8	20.9
	b2 Repayments on loans	-55.3		-10.4		-30.5		-30.3		-74.9		-70.3		-24.1	-3.9	-23.2	-70
	b3 Other financial transaction	0		0		0		-10		-18		3.4		0	0	0	0
12	**Net recourse to Monetary Sector**	**13.4**		**24.7**		**36.2**		**-19.3**		**-21.3**		**-22.8**		**30.5**	0	0	0

Memorandum items Scenario B

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
a.	GDP in current prices	3,326	3,399	3,421	3,599	3,819	4,041	4,259.21	4,606.8	4,841.7	5,088.6
	nominal growth		2.2%	0.6%	5.2%	6.1%	5.8%	5.4	8.2	5.1	5.1
b.	Real GDP growth rate	3.7	-0.7	-2.6	1.4	3.5	2.4	1.0	0.7	1.3	1.3
c.	CPI, percentage change	4	2.9	3.3	3.6	2.5	3.5	4.4	7.5	3.8	3.8
d.	Unmet financing requirements	152.5	269.4	275.8	285.5	156.7	183.2	183.2	183.2	183.2	183.2
e.	Financial deficit (including change in d. unmet)	-31.2	(144.80)	(79.40)	(109.10)	(49.40)	(161.00)	(104.90)	(26.90)	30.32	66.03
f.	Financial deficit (excluding change in d. unmet, = row 10)	5.4	(27.9)	(73.0)	(99.4)	(178.2)	(134.5)	(104.9)	(26.9)	30.3	66.0
g.	Total outstanding debt	1,276.9	1,455.2	1,595.2	1,499.6	1,701.0	1,862.1	1,967.0	1,993.9	1,963.6	1,897.5
	Domestic	571.5	718.3	717.4	775.5	864.7	1012.4				
	Foreign	705.4	736.9	877.8	724.1	836.3	849.7				
h.	Total debt percentage of GDP	38.4%	42.8%	46.6%	41.7%	44.5%	46.1%	46.2%	43.3%	40.6%	37.3%
i.	Government revenue/ GDP	21.9%	21.6%	21.0%	21.9%	21.1%	21.8%	22.8%	22.1%	22.7%	22.7%
j.1	Government tax revenue/ GDP	18.8%	17.8%	17.8%	19.1%	18.5%	19.3%	19.9%	19.3%	19.9%	19.9%
j.2	Government non-tax revenue/GDP	3.2%	3.8%	3.1%	2.8%	2.6%	2.5%	2.9%	2.8%	2.8%	2.8%
k.	Government current expenditure (excl. interest and transfers)/ GDP	17.1%	14.9%	17.0%	16.4%	17.5%	16.3%	16.2%	15.1%	14.8%	14.4%
l.	Government current expenditure (incl. interest excl. transfers)/ GDP	18.3%	16.3%	18.4%	17.7%	19.2%	18.4%	18.4%	17.5%	17.0%	16.4%
m.	Government investment/ GDP	0.9%	0.5%	0.5%	1.2%	1.7%	1.6%	1.6%	1.2%	1.2%	1.2%
n.	Government current balance/ GDP	4.9%	6.7%	4.0%	5.4%	3.5%	5.5%	6.6%	7.0%	8.0%	8.3%
o.	Government basic current balance/ GDP	1.5%	-0.3%	-2.8%	-1.0%	-2.7%	-1.5%	-0.7%	0.6%	1.9%	2.5%
p.	Government personnel costs/ Government current expenditure (excluding interest and transfers)	66.1%	73.2%	74.3%	74.0%	71.5%	76.8%	75.4%	77.1%	77.3%	77.5%
q.	Interest payment/ GDP	1.3%	1.4%	1.4%	1.3%	1.6%	2.1%	2.2%	2.4%	2.2%	1.9%
r.	Interest payment/ current expenditures (incl. interest excl. transfers)	6.8%	8.5%	7.9%	7.2%	8.6%	11.4%	12.1%	13.7%	13.0%	11.8%
s.	Total Government Expenditure/ GDP	21.8%	22.5%	25.3%	24.9%	26.3%	25.6%	25.7%	23.1%	22.5%	21.8%
t.	Personnel employed by the government	4,388	4,332	4,468	4,723	4,969	4,963				
u.	Growth in government personnel	5.3%	-1.3%	3.1%	5.7%	5.2%	-0.1%				
v.	Population Aruba	91,064	92,676	93,945	96,207	99,109	102,149				
w.	Growth in population	1.0%	1.8%	1.4%	2.4%	3.0%	3.1%				
x.	Personnel government/ population Aruba	4.8%	4.7%	4.8%	4.9%	5.0%	4.9%				

Related Footnotes from CBA annual report to basic table:

1) All are Preliminary figures on a cash basis, including imputed noncash transactions, such as the transactions related to the hotel guarantee issue and the APFA debt conversion. Includes transactions related to foreign development cooperation.(Table has been adjusted)

2) In 2003, government financial data were revised to reflect the debt forgiveness amounting to Afl. 172 million (US$ 96 million) granted by SACE to the government as part of the settlement of the hotel guarantee issue. This amount is registered in the item "other nontax revenue".(Table has been adjusted)

3) In 2004, an agreement between the government and APFA was reached on a debt conversion pertaining largely to existing arrears in premiums, cost of living allowances, and interest payments. The settlement of these arrears was recorded as imputed expenditures in the categories personnel-related outlays, items n.i.e., and interest payments, respectively.(Table has been adjusted)

4) Excluding the imputed amount related to the APFA debt conversion, the personnel-related outlays were Afl. 478.7 million in 2004. (Table has been adjusted)

5) Excluding the imputed amount related to the APFA debt conversion, the interest payments were Afl. 62.2 million in 2004.(Table has been adjusted)

6) Excluding the imputed amount related to the APFA debt conversion, the items n.i.e. (not included elsewhere) were Afl. 74.6 million in 2004.(Table has been adjusted)

7) Budget cash translation of accrual budget

Basic Table: SCENARIO C

With BBO effects, plus policy change decreasing AZV transfers, plus lowered spending, plus investment, plus moderate GDP growth

	Government Financial Operations [1]	2000	adjustments	2001	adjustments	2002	adjustments	2003	adjustments	2004	adjustments	2005	adjustments	*2006* (*budget* [7])	2007	2008	2009
1	**Government Revenue**	**729.3**		**735.7**		**717.3**		**786.9**		**804.8**		**881.3**		**971.2**	**1,017.6**	**1,099.6**	**1,155.7**
	a. Tax Revenue	624.5		606.3		609.6		687.4		707.1		779.4		847.8	889.7	965.1	1,014.3
	b. Other non-tax Revenue [2]	104.8		129.4		107.7		99.5	-171.7	97.7		101.9		123.4	128.0	134.5	141.4
2.1	**Current Expenditures (excluding interest payments)**	**567.6**		**506.8**		**580.8**		**591.3**		**669.8**		**658.1**		**689.1**	**695.0**	**714.3**	**734.1**
	a. Personnel [4]	374.9		370.9		431.4		437.8		478.7	-87.6	505.2		519.4	536.0	552.0	568.6
	b. Goods and services [3]	192.7		135.9		149.4		153.5		191.1		152.9		169.7	159.1	162.3	165.5
	c. Interest payments [5]	41.6		47.2		49.6		45.6		62.9	-23	84.4		94.7	110.4	107.5	100.7
2.2	**Current Expenditures (including interest payments)**	**609.2**		**554**		**630.4**		**636.9**		**732.7**		**742.5**		**783.8**	805.4	821.8	834.8
3.1	**Current Balance (before deduction of interest rate)**	**161.70**		**228.90**		**136.50**		**195.60**		**135.00**		**223.20**		**282.10**	**322.6**	**385.3**	**421.6**
3.2	**Current Balance (after deduction of interest rates)**	**120.10**		**181.70**		**86.90**		**150.00**		**72.10**		**138.80**		**187.40**	**212.2**	**277.8**	**320.9**
4	**Transfers (a+b+c)**	**-70.2**		**-191.6**		**-181.3**		**-187.7**		**-174.3**		**-199.5**		**-216.2**	**-183.4**	**-188.7**	**-193.9**
	a. Grants	16.9		0		37.4		30.1		31.1		28.4		25.4	23.0	20.7	18.8
	b. General Health Transfers	0		-120		-129.9		-132.7		-130.8		-130.4		-126.1	-102.5	-104.6	-106.6
	c. Items n.i.e. (transfers, subsidie, other) [6]	-87.1		-71.6		-88.8		-85.1	22.1	-74.6	64.7	-97.5		-115.5	-103.9	-104.9	-106.0
5	**Basic Current Balance (3.2+4)**	**49.9**		**(9.9)**		**(94.4)**		**(37.7)**		**(102.2)**		**(60.7)**		**(28.8)**	**28.8**	**89.0**	**127.0**
6	**Investment (Including FDA)**	**28.3**		**18.4**		**17.0**		**42.6**		**66.8**		**64.1**		**69.0**	**67.0**	**81.0**	**100.0**
	a. Development Fund Spending	0		0		3.7		16.2		32.6		20.9		49.4	27.0	31.0	35.0
	b. Investment	28.3		18.4		13.3		26.4		34.2		43.2		19.6	40.0	50.0	65.0
7	**TOTAL GOVERNMENT EXPENDITURE** (2.2 - 4.b - 4.c + 6)	**724.6**		**764.0**		**866.1**		**897.3**		**1,004.9**		**1,034.5**		**1,094.4**	**1,078.8**	**1,112.3**	**1,147.5**
8	**Basic Surplus (deficit) (5-6)**	**21.6**		**(28.3)**		**(111.4)**		**(80.3)**		**(169.0)**		**(124.8)**		**(97.8)**	**(38.2)**	**8.0**	**27.0**
9	**Lending minus repayment**																
	Lending	19.9		3.7		15.5		19.1		10.2		17.0		27.0	17.8	17.8	17.8
	Repayments	(3.7)		(4.1)		(53.9)		-	122.2	(1.0)		(7.3)	9	(19.9)	-16.4	-16.4	-16.4
	Net Lending	16.2		(0.4)		(38.4)		19.1		9.2		9.7		7.1	1.3	1.3	1.3
10	**Actual Deficit (7-8)**	**5.4**		**(27.9)**		**(73.0)**		**(99.4)**		**(178.2)**		**(134.5)**		**(104.9)**	**(39.6)**	**6.7**	**25.7**
	compared to CBA prior to adjustments for incidentals	*5.3*		*(28.1)*		*(73.0)*		*172.3*		*(353.6)*		*(125.6)*		*(131.9)*			
11	**Financing**																
	a. Foreign Borrowings	34.9		38.6		106.7		-200.6		95.6		47.1		52.7	-14.3	-31.2	3.2
	a1 Loans received	73.4		49.3		136		293.6		119.5		266.4		93.4	57.7	47.6	41.1
	a2 Repayments on loans	-75.4		-47.5		-66.1		-71.1	55	-23.9		-210.4		-40.7	-72.0	-78.8	-37.9
	a3 Other financial transaction	36.8		36.8		36.8		-196.5	171.7	0		-8.9		0	0	0	0
	b Domestic Borrowings	-26.8		14.2		2.5		9		236.7		55.7		109.7	53.8	24.4	-28.9
	b1 Loans received	28.5		24.6		33		49.2		329.6		122.5		133.8	57.7	47.6	41.1
	b2 Repayments on loans	-55.3		-10.4		-30.5		-30.3		-74.9		-70.3		-24.1	-3.9	-23.2	-70
	b3 Other financial transaction	0		0		0		-10		-18		3.4		0	0	0	0
12	**Net recourse to Monetary Sector**	**13.4**		**24.7**		**36.2**		**-19.3**		**-21.3**		**-22.8**		**30.5**	**0**	**0**	**0**

Memorandum items Scenario C

		2000	2001	2002	2003	2004	2005	*2006*	2007	2008	2009
a.	GDP in current prices	3,326	3,399	3,421	3,599	3,819	4,041	4,259.21	4,606.8	4,841.7	5,088.6
	nominal growth		2.2%	0.6%	5.2%	6.1%	5.8%	5.4	8.2	5.1	5.1
b.	Real GDP growth rate	3.7	-0.7	-2.6	1.4	3.5	2.4	1.0	0.7	1.3	1.3
c.	CPI, percentage change	4	2.9	3.3	3.6	2.5	3.5	4.4	7.5	3.8	3.8
d.	Unmet financing requirements	152.5	269.4	275.8	285.5	156.7	183.2	183.2	183.2	183.2	183.2
e.	Financial deficit (including change in d. unmet)	-31.2	(144.80)	(79.40)	(109.10)	(49.40)	(161.00)	(104.90)	(39.56)	6.71	25.65
f.	Financial deficit (excluding change in d. unmet, = row 10)	5.4	(27.9)	(73.0)	(99.4)	(178.2)	(134.5)	(104.9)	(39.6)	6.7	25.7
g.	Total outstanding debt	1,276.9	1,455.2	1,595.2	1,499.6	1,701.0	1,862.1	1,967.0	2,006.6	1,999.8	1,974.2
	Domestic	571.5	718.3	717.4	775.5	864.7	1012.4				
	Foreign	705.4	736.9	877.8	724.1	836.3	849.7				
h.	Total debt percentage of GDP	38.4%	42.8%	46.6%	41.7%	44.5%	46.1%	46.2%	43.6%	41.3%	38.8%
i.	Government revenue/ GDP	21.9%	21.6%	21.0%	21.9%	21.1%	21.8%	22.8%	22.1%	22.7%	22.7%
j.1	Government tax revenue/ GDP	18.8%	17.8%	17.8%	19.1%	18.5%	19.3%	19.9%	19.3%	19.9%	19.9%
j.2	Government non-tax revenue/GDP	3.2%	3.8%	3.1%	2.8%	2.6%	2.5%	2.9%	2.8%	2.8%	2.8%
k.	Government current expenditure (excl. interest and transfers)/ GDP	17.1%	14.9%	17.0%	16.4%	17.5%	16.3%	16.2%	15.1%	14.8%	14.4%
l.	Government current expenditure (incl. interest excl. transfers)/ GDP	18.3%	16.3%	18.4%	17.7%	19.2%	18.4%	18.4%	17.5%	17.0%	16.4%
m.	Government investment/ GDP	0.9%	0.5%	0.5%	1.2%	1.7%	1.6%	1.6%	1.5%	1.7%	2.0%
n.	Government current balance/ GDP	4.9%	6.7%	4.0%	5.4%	3.5%	5.5%	6.6%	7.0%	8.0%	8.3%
o.	Government basic current balance/ GDP	1.5%	-0.3%	-2.8%	-1.0%	-2.7%	-1.5%	-0.7%	0.6%	1.8%	2.5%
p.	Government personnel costs/ Government current expenditure (excluding interest and transfers)	66.1%	73.2%	74.3%	74.0%	71.5%	76.8%	75.4%	77.1%	77.3%	77.5%
q.	Interest payment/ GDP	1.3%	1.4%	1.4%	1.3%	1.6%	2.1%	2.2%	2.4%	2.2%	2.0%
r.	Interest payment/ current expenditures (incl. interest excl. transfers)	6.8%	8.5%	7.9%	7.2%	8.6%	11.4%	12.1%	13.7%	13.1%	12.1%
s.	Total Government Expenditure/ GDP	21.8%	22.5%	25.3%	24.9%	26.3%	25.6%	25.7%	23.4%	23.0%	22.5%
t.	Personnel employed by the government	4,388	4,332	4,468	4,723	4,969	4,963				
u.	Growth in government personnel	5.3%	-1.3%	3.1%	5.7%	5.2%	-0.1%				
v.	Population Aruba	91,064	92,676	93,945	96,207	99,109	102,149				
w.	Growth in population	1.0%	1.8%	1.4%	2.4%	3.0%	3.1%				
x.	Personnel government/ population Aruba	4.8%	4.7%	4.8%	4.9%	5.0%	4.9%				

Related Footnotes from CBA annual report to basic table:

1) All are Preliminary figures on a cash basis, including imputed noncash transactions, such as the transactions related to the hotel guarantee issue and the APFA debt conversion. Includes transactions related to foreign development cooperation.(Table has been adjusted)

2) In 2003, government financial data were revised to reflect the debt forgiveness amounting to Afl. 172 million (US$ 96 million) granted by SACE to the government as part of the settlement of the hotel guarantee issue. This amount is registered in the item “other nontax revenue”.(Table has been adjusted)

3) In 2004, an agreement between the government and APFA was reached on a debt conversion pertaining largely to existing arrears in premiums, cost of living allowances, and interest payments. The settlement of these arrears was recorded as imputed expenditures in the categories personnel-related outlays, items n.i.e., and interest payments, respectively.(Table has been adjusted)

4) Excluding the imputed amount related to the APFA debt conversion, the personnel-related outlays were Afl. 478.7 million in 2004. (Table has been adjusted)

5) Excluding the imputed amount related to the APFA debt conversion, the interest payments were Afl. 62.2 million in 2004.(Table has been adjusted)

6) Excluding the imputed amount related to the APFA debt conversion, the items n.i.e. (not included elsewhere) were Afl. 74.6 million in 2004.(Table has been adjusted)

7) Budget cash translation of accrual budget

xi. Benchmarking table

<u>The benchmarking table</u>

The benchmarking table, also called the "comparative table", presents Aruba with those main macroeconomic data of a number of small open economies for the year 2005. The countries, often referred to as the "peer group" or "comparable countries", used in this comparative table are, the Bahamas, Barbados, Cyprus, Malta and The Eastern Caribbean Currency Union (ECCU) which consists of Anguilla, Antigua & Barbuda, Dominica, Grenada, Montserrat, St. Kitts & Nevis, Saint Lucia and St. Vincent & the Grenadines. The data used in the table have been collected from sources such as central banks and official statistical offices of those countries. Special care was taken to ensure the definitions of the macroeconomic variables used are identical and that the ratios calculated are comparable across the country sample.

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Table: Benchmarking ratios (2005)

	Aruba	Bahamas	Barbados	Cyprus	Malta	ECCU	Avg. excl. AUA
1 Government Revenue/ GDP	21.8	17.3	34.2 [2),12)]	30.8 [1)]	39.6 [11)]	27.1	29.8
2 Government Current Expenditures[13)] (excl. interest and transfers)/ GDP	16.3	11.0	14.4	13.3 [1)]	12.2	17.3	13.6
3 Interest payment in percent of GDP	2.1	2.0	4.6	4.9 [1)]	3.9	3.9	3.8
4 Government Current Expenditures[13)] (incl. interest excl. transfers)/ GDP	18.4	13.0	19.0	18.2 [1)]	16.0	21.2	17.5
5 Interest payment in percent of Government Current Expenditures[13)] (incl.interest excl. transfers)	11.3	15.0	24.4	27.1 [1)]	24.0	18.2	21.8
6 Government Current Expenditures[13)] (incl. interest excl. transfers)/ Current Revenues	84.2	75.8	55.6	59.1 [1)]	49.1	79.7	63.9
7 Government Capital Expenditures/ GDP	1.6	1.5	3.7	2.9 [1)]	6.7	7.1	4.4
8 Government Investment/ GDP	1.6		4.1 [3)]	2.9 [1)]	4.1		
9 Total Government Expenditures/ GDP	25.5	19.0	35.1	33.9 [1)]	50.8	33.4	34.4
10 Government Overall Balance/ GDP	-3.1	-2.9	-2.4	-2.4 [1)]	-4.6	-3.0	-3.1
11 Government Personnel Expenditure/ Government Current Expenditures[13)] (excl. interest and transfers)	76.8	68.2	74.7	79.8 [1)]	85.0	66.7	74.9
12 Government Personnel Expenditure/ GDP	12.5	7.5	11.0	10.6	10.4	11.6	10.2
13 Direct taxes/ Government Revenue	47.2	27.2	40.9	33.4 [1)]	33.4	21.3	31.3
14 Indirect taxes/ Government Revenue	41.0	63.2	53.7	50.6 [1)]	37.4	66.6	54.3
15 Direct Taxes/ GDP	10.3	4.7	14.0	10.3	13.3	5.8	9.6
16 Indirect Taxes/ GDP	8.9	10.9	18.4	15.6	14.8	18.0	15.5
17 Total Taxes/ GDP	19.2	15.6	32.3	25.9	28.1	23.8	25.1
18 Government Current Expenditures[13)] (excl. interest and transfers)/ Population (in thsnd USD)	3.60	2.05	1.71	2.55	1.63	1.04	1.8
19 Government Current Expenditures[13)] (incl. interest excl. transfers)/ Population (in thsnd USD)	4.06	2.42	2.26	3.50	2.14	1.27	2.3
20 Direct Taxes/ Population (in thsnd USD)	2.28	0.88	1.66	1.98	1.77	0.35	1.3
21 Indirect Taxes/ Population (in thsnd USD)	1.98	2.03	2.18	2.99	1.98	1.08	2.1
22 Total Taxes/ Population (in thsnd USD)	4.25	2.91	3.84	4.97	3.75	1.43	3.4
23 Total Government Debt / Population (in thsnd USD)	10.22	6.51	9.68	13.50	9.67	5.99	9.1
24 Total export earnings from tourism/ Population (in thsnd USD)	10.70	5.83	0.00	2.49	2.94	1.79	3.3
25 Government Personnel Expenditure/ Population (in thsnd USD)	2.76	1.40	1.27	2.03	1.38	0.69	1.4
26 Government Personnel/ Population	6.4		10.2	5.7	7.5		7.8
27 Broad money to net foreign assets	4.3	6.8	4.7	4.6	3.2	3.0	4.5
28 Official reserves in months of imports	5.5	3.5	3.5	7.6	7.2	4.8 [4)]	5.3
29 Total Government Debt in percent of GDP	46.3	34.9	81.6 [5)]	70.3 [6)]	72.3 [7)]	100.0 [8)]	71.8
30 Final Consumption Expenditures in percent of GDP	79.0 [4)]	79.8	83.4	83.3	88.9	73.8	81.9
31 Gross Capital Formation in percent of GDP	31.6 [4)]	30.7	17.4	20.5	21.2	32.9	24.5
32 Average Real GDP Growth Rate	2.4	3.8	3.0	3.8	1.5	5.8	3.6
33 Average Inflation Rate	3.5	2.6	5.9	2.6	3.1	4.3	3.7
34 Per Capita Income (in USD)	22,434	18,526	11,478	20,214	13,737	5,042	13,799
35 Population	102,149	323,000 [9)]	270,000 [9)]	835,000 [9)]	402,000 [9)]	603,000 [9)]	486,600
36 Total export earnings from tourism (in million USD)	1,093	1,884 [10)]	n.a.	2,082	1,183	1,082	1,558
37 Current Account deficit in percent of GDP	-11.5	-10.3	-12	-5.9	-11.0	-22.7	-12.4

Source: IMF, CBA, ECCB, Central Banks

1) Data for Cyprus refer to the general government sector (incl. local government but excl. social security funds). The data for the other countries refer to the central government (excl. social security funds)
2) Inclusive grants.
3) IMF Staff report 2006.
4) IMF Staff projection.
5) Including government guaranteed debt and central government debt with NIS.
6) General Government, Excludes intragovernmental & short-term liabilities of the Central Bank.
7) Made up of Treasury Bills issued and outstanding, Government Stock and Foreign Borrowing.
8) Includes arrears of principal.
9) Source: IFS online.
10) Data for 2004.
11) Health care funded by general taxes
12) Barbados has a Government Health Care System, The Government transfers an avg. of 18% of its revenues to the Ministry of Health, Source: PAHO Country Health Profile
13) Government Current Expenditure is defined as the government personnel costs and the costs for goods & services

xii. Sources, references

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