Centrale Bank van Aruba

Jan. – Sept. 2012*

STATE OF THE ECONOMY

Contents

Overview:

During the first three quarters of 2012, the Aruban economy was impacted by the uncertainties related to the future of the oil refinery. An unclear situation at the beginning of the year soon turned into increased optimism due to a possible take-over announcement, which in September faded to a minimum with the publication of contract termination of most of full-time employees by mid-November. Buoyant tourism partly cushioned the output loss related to oil refining activities. However, the effect of the indefinite suspension of these activities was still major. Based on CBA's estimates, the economy contracted by slightly more than 4 percent in the first six months of 2012, while the underlying growth (i.e., excluding the effect of the refinery closure) was on the positive side. Government finances remained on a fragile path requiring continuous prudent fiscal management, while the balance of payments recorded a deficit in the first half of 2012 for the first time since 2005. On a positive note, inflationary pressures abated significantly associated with major structural reduction in water and electricity tariffs. Furthermore, monetary and prudential indicators continued to be at adequate levels.

I Domestic developments

In the grip of a refinery crisis

The year 2012 started with growing uncertainty surrounding the future of the Valero refinery. The operational shut-down between July 2009 and December 2010 was still fresh in the minds of the public, when on March 19, 2012, the Valero Energy Corporation (VEC) announced the suspension of its refining operations in Aruba by the end of that month[1], "…because of the refinery's inability to generate positive cash flows on a sustained basis subsequent to its restart in January 2011 and

[1] Valero Energy Corporation (2012). "Valero energy to suspend refining operation at Aruba". Press release of March 19, 2012.

* *The cut-off date for information published in the State of the Economy is December 27, 2012.*

the sensitivity of its profitability to sour crude oil differentials …"[2] This announcement did not fully come as a surprise, given the pertinent speculations in local media, starting in December 2011, that the refinery was not economically feasible.

In the meantime, three-party negotiations between the VEC, the PetroChina Company Limited (PetroChina) and the Government of Aruba continued for a possible sale and restart of the refinery. The VEC announced on May 8, 2012 that it had received a US$ 350 million purchase offer for the refinery in Aruba, which it accepted.[3] Yet, according to the VEC, there was no certainty as to whether the refinery would be sold to the interested party (or to any other party at all), or that the refinery would be sold for mentioned amount.[4]

On September 3, 2012, the VEC announced that it had decided to further scale down operations and reorganize the site as a refined products terminal, in response to the withdrawal of PetroChina on August 14, 2012 to purchase the refinery.[5] As a consequence, 495 employees were notified in September 2012 that their employment was going to be terminated by mid-November 2012. The employees were offered a lay-off package implying a severance liability on the VEC of US$ 41 million (Afl. 73.8 million)[6].

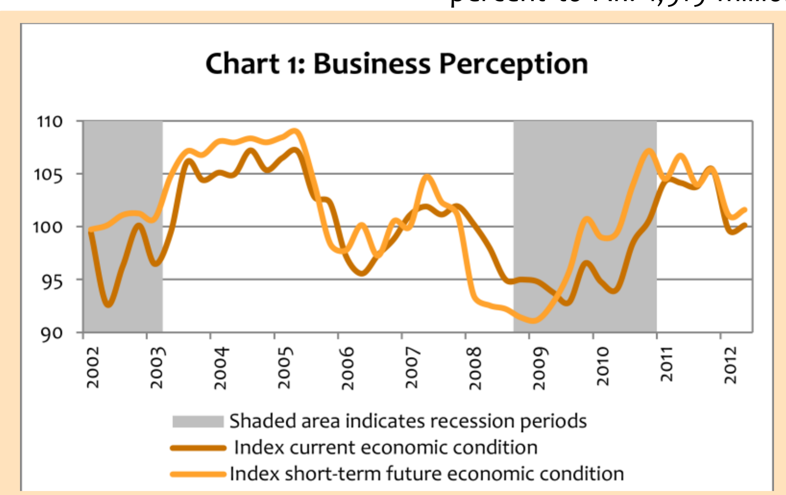
The current state of the refinery is not considered by the VEC as a discontinued operation, but is maintained to allow it to be restarted in the near future, if and when a new buyer materializes. [7] The new terminal operation of Valero will require a considerably smaller workforce. This will have economic repercussions, which, together with mentioned mass layoff, could not be adequately assessed at the time of writing of this report. It is possible, for

[2] Valero Energy Corporation. 10Q Quarterly report pursuant to section 13 or 15 (d) of the securities exchange Act of 1934. August 8, 2012. p. 9.
[3] Valero Energy Corporation (2012) 10Q Quarterly report pursuant to section 13 or 15 (d) of the securities exchange Act of 1934. May 8, 2012. Although the report does not explicitly mention PetroChina, it is likely that this offer came from that company.
[4] Valero Energy Corporation. 10Q Quarterly report pursuant to section 13 or 15 (d) of the securities exchange Act of 1934. August 8, 2012. p. 9.
[5] Valero Energy Corporation (2012) 10-Q Quarterly report pursuant to sections 13 or 15 (d). Filed on November 6, 2012.
[6] Valero Energy Corporation (2012) 10-Q Quarterly report pursuant to sections 13 or 15 (d). Filed on November 6, 2012.
[7] Valero Energy Corporation (2012) 10-Q Quarterly report pursuant to sections 13 or 15 (d). Filed on November 6, 2012.

example, that a significant number of employees could decide to abandon the island for a better future abroad, which could to some extent mitigate the effect of the mass lay-off on the labor market. The CBA is working with several stakeholders to gather more information in order to have a better view on the possible effects of the closure of the refinery.

Oil sector statistics reflected the suspended refining operations

The implications of the suspended refining operations were noted in the oil sector statistics of the first nine months of 2012. The value of both oil exports and crude oil imports contracted by, respectively, 71.0 percent to Afl. 1,919 million and by 81.3 percent to Afl. 1,353 million. The quantity of refined oil fell by 76.8 percent to 9.9 million barrels.



At the end of September 2012, the refinery employed 574 persons (excluding personnel employed by contractors) compared to 611 at the end of 2011. This is the lowest level since the first quarter of 2002, before the VEC began operating the refinery. With the previously-mentioned lay-off, this number would have contracted to below one hundred by the end of November 2012.

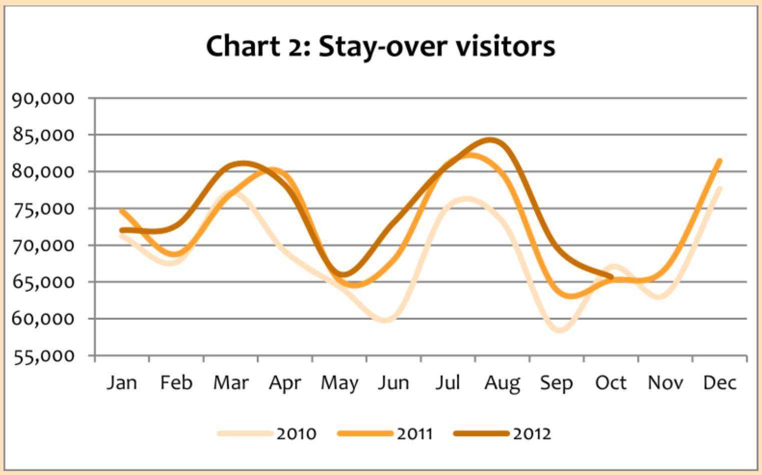
Uncertain refinery future is reflected in business and consumer perceptions

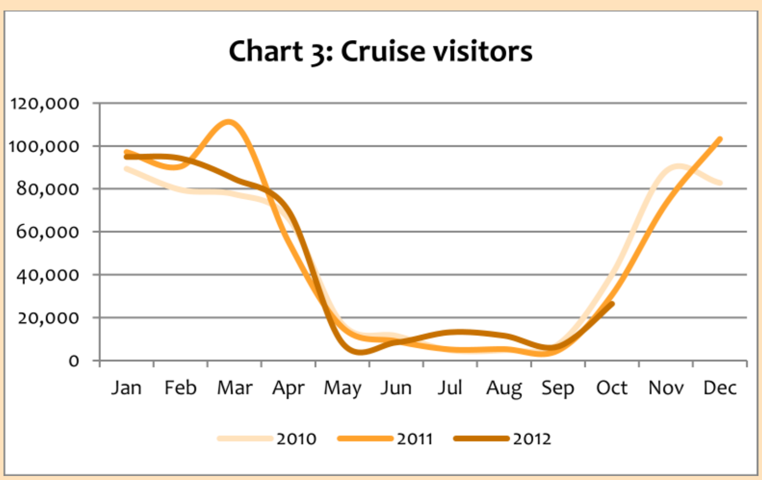
The uncertainty on the status of the refinery and the subsequent suspension of refining activities were reflected on the economic perceptions of both businesses and consumers. The Business Perception Index on current economic conditions showed a slight pessimism in the first quarter of 2012 (index= 99.7; 2011-I: 104.3), climbing slightly upwards to a neutral level (index=100.1; 2011-II: 104.1) in the second quarter of 2012 (Chart 1). This probably reflected increased hopes at that time that PetroChina would soon purchase and restart the refinery. Approximately half of the responding businesses indicated no change in general economic conditions in the first quarter of 2012, declining to 32.4 percent in the subsequent quarter. Respondents had a somewhat similar view with respect to the activities of their own businesses. Furthermore, 55.6 percent of them indicated no change in their investment activities in the first quarter of 2012, while only 47.1 percent reported the same way in the next quarter. Notably, more noted a worsening in their business investments in the second quarter of 2012, which may indicate that businesses were still cautious about the developing economic conditions. While some 61.1 percent of the respondents indicated no change in their business' employment conditions in the first quarter of 2012, this group shrank to 50.0 percent in the following quarter. This has to do in part with more businesses indicating improved employment conditions during the latter period, probably anticipating on better economic conditions with a restart of the refinery.

The Consumer Confidence Index showed slight pessimism in the first nine months of 2012 (on average 96.6, which is below the 100.0 neutral level). Consumers were somewhat pessimistic about the economic conditions in the first three quarters of 2012 (average index: 95.5), but expected these to improve in the next 6 months (average index: 100.3), probably boosted by positive news at that time on a possible restart of the refinery by PetroChina. However, consumer expectations dimmed again in the last part of the period under review (from 101.2 in the second quarter of 2012 to 100.6 in the third quarter of 2012), as it became clear that the deal with PetroChina was called off. On average, 45.5 percent of the respondents indicated that the business and economic conditions were worse than during the previous six months. However, the results show that this perception had been decreasing since the first quarter of 2012. Only about 1/3 of the respondents expected improvement in the following six months. Moreover, slightly more than two-third did not find the timing appropriate for purchasing a car, while an almost similar fraction found it unsuitable to enter into a loan at the moment (67.7 percent found it inappropriate to apply for a mortgage loan).

Tourism remained strong

While the economy was negatively affected by the closure of the refinery, tourism remained buoyant in the first nine months of 2012 despite a slowdown in growth. The number of stay-over visitors rose by 3.0 percent during this period, compared to a 6.7 percent increase in the similar timespan a year earlier. The Venezuelan market continued to be the key driver of the expansion in stay-over tourism (+18.5 percent), compensating for an almost flat performance of the U.S. market (-0.2 percent). The first sign of problems in the U.S. market can be traced back to the second half of 2010, where monthly decreases predominated. This situation persisted in almost all months of 2011. However, available data for other Caribbean destinations show a majority of islands having experienced growth in their U.S. market so far in 2012.[8] Considering the developments in the U.S. market, the Aruba Tourism Authority appointed a new Area Director for North America in April 2012 to reposition Aruba within this competitive tourism market segment.[9] It is still too early to have a clear view of the effectiveness of this strategic move, because the number of U.S. visitors is still showing mixed results. For example, while the August and September figures indicated improved returns (respectively +4.3 percent and +7.8 percent), the October U.S. arrivals contracted by 4.3 percent (probably reflecting the effects of the devastation of hurricane Sandy on the



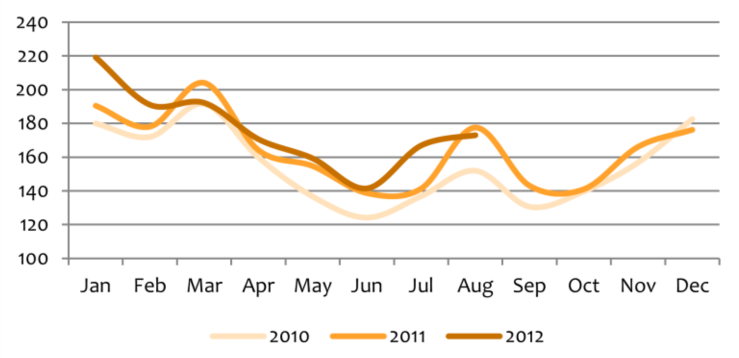


[8] Source: The Caribbean Tourism Organization (www.onecaribbean.org). Retrieved on November 20, 2012.
[9] Aruba Tourism Authority (April 2012). Neville Every New Area Director for North America. The official newsletter of the Aruba Ministry of Tourism. Volume 5, April 2012, p. 17.

Northeastern part of the United States). The November 2012 outcome was 9.9 percent higher than the same month of last year.

The Venezuelan market has been performing very well since January 2011, following several years of notable contractions. Our neighbor, Curaçao, which is also geographically close to Venezuela, has been experiencing a similar upsurge in Venezuelan visitors since early 2011[10], indicating a systemic development in this market. There are indications that Venezuelan citizens are more eager to travel abroad, which is being facilitated by more availability of foreign currency in that country.

Chart 4: Tourism receipts
(In Afl. million)



The number of cruise visitors in the first nine months of 2012 was 0.4 percent lower than the corresponding period of last year. However, this outcome was much influenced by a record high number of cruise visitors in March 2011 (+42.4 percent), with 60 ship calls and 110,363 passengers. When correcting for this result, the number of cruise visitors (excluding March 2011/2012) grew by 8.6 percent.

Overall, tourism receipts posted a 3.2 percent growth in the first half of 2012, the highest level ever recorded in the history of tourism in Aruba. Preliminary tourism receipts data obtained from the foreign exchange reports of the commercial banks for January-August 2012 showed a 4.8 percent increase, indicative that tourism continued to perform well after the first six months of 2012. Estimates by the CBA indicate that prices for tourism-related goods and services increased on average by 2.7 percent in the first nine months of 2012, explaining an important fraction of the increase in tourism receipts.

Construction sector on the move

Aggregate data on construction sector activities generally showed movement in different directions in the first six months of 2012.

[10] In the first eight months of 2012, some 44 percent more Venezuelan visitors were welcomed on this island.

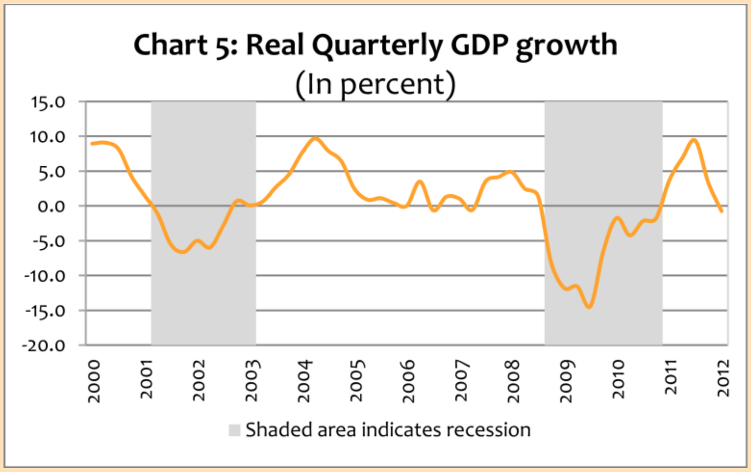
Although businesses in this sector were neutral in terms of their perception on economic conditions, their view on short-term economic conditions improved. There was a contraction in the number of construction permits granted during this period (-12.8 percent), but the value of these permits grew by 69.7 percent, owed largely to two construction permits granted for, respectively, a condominium and an apartment project. Total imported cement, however, contracted by 9.4 percent, reflecting particularly lower imports of this product in the second quarter of 2012. This probably had to do with projects that were implemented during last year, but were either finished in the period under review or were in the completion phase. Also, some ongoing projects (like school renovations) required less cement than other projects. Available data from the commercial banks indicate a 13.9 percent (Afl. 5.1 million) increase in loans to the construction sector in the first 6 months of 2012, compared to almost no growth in the corresponding period of 2011.

Utilities sector fairly stable

The utilities sector remained fairly stable in the first half of 2012. Water consumption (in m^3) in the first two quarters of 2012 rose by 2.6 percent, after seven consecutive quarters of decreases. Electricity consumption, on the other hand, contracted by 5.3 percent in the first six months of 2012, despite increases in the number of connections (0.3 percent) and users (0.2 percent). With the exception of the fourth quarter of 2011, electricity consumption has been showing a decreasing pattern since the fourth quarter of 2010. Household gas consumption rose by 1.0 percent.

Balance of trade: overall improvement

Merchandise trade activities in the first six months of 2012 resulted in an Afl. 55.7 million improvement in the trade balance. Merchandise imports contracted by Afl. 51.7 million or 5.2 percent, mainly the result of incidentally higher imports from Finland in the first quarter of 2011, associated with large investment projects. Excluding the import from this Northern European country, overall merchandise imports grew by 2.4 percent (Afl. 22.5 million), while the trade deficit would have expanded by Afl. 18.5 million.



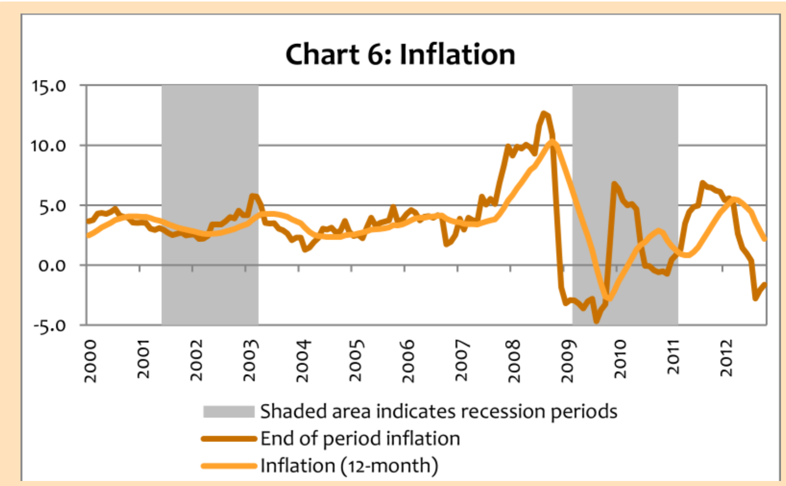
The economy contracted by slightly more than 4 percent

Preliminary estimations by the CBA showed that the economy contracted by 4.2 percent (in real terms) in the first six months of 2012, reflecting particularly the effect of the suspension of refinery activities as of the end of the first quarter of 2012. Estimations by the CBA indicate that the economy has been contracting since March 2012. While in the first quarter of 2012 the economy shrunk by 0.7 percent, the reduction in the second quarter of 2012 was larger (-7.6 percent). When comparing these results with certain forms of taxes (turnover tax, wage tax, and import duties), there are important differences visible.[11] The gap in development between both types of indicators may be explained by the magnitude of the effect of the refinery on the Aruban economy. When excluding this effect (direct and indirect) of the refinery, the economic impact of the other sectors (the so-called underlying growth) is positive. The CBA currently projects a contraction of the economy of 1.2 percent in 2012, but when excluding the effect of the shutdown of the refinery, the forecasted underlying growth would be 4.9 percent.

Inflationary pressures are weakening

Average inflation in the first ten months of 2012 stood at 1.5 percent[12], compared to 4.0 percent in the analogous period of 2011. Measured over a period of 12 months, the average inflation reached 2.2 percent in October 2012 (Oct. 2011: 3.2 percent). Increases were noted particularly in the categories food (+0.4 percent), housing (+1.0 percent), and transport (+0.6 percent), while clothing (-0.4 percent) and household operations (-0.3 percent) registered a decrease. Adjustments in water and electricity tariffs in April 2011 (13.3 percent) and August 2011 (12.5 percent) led to a so-called level effect after April 2012. Together with the tariff reductions in water (as of August 2012),

[11] BBO revenues (Feb.-Oct. 2012) grew by 3.1 percent. Wage taxes (Feb.-Oct. 2012) rose 0.5 percent, while import duties (Jan.-Sep. 2012) went up by 1.1 percent.
[12] Average of the end of period inflation of January-October 2012.



and electricity (as of November 2012), following the recently-held Social Dialogue, this will likely result, all else remaining equal, in decreases in prices in the remaining months of this year. The CBA currently estimates the average inflation to reach 0.6 percent in 2012.

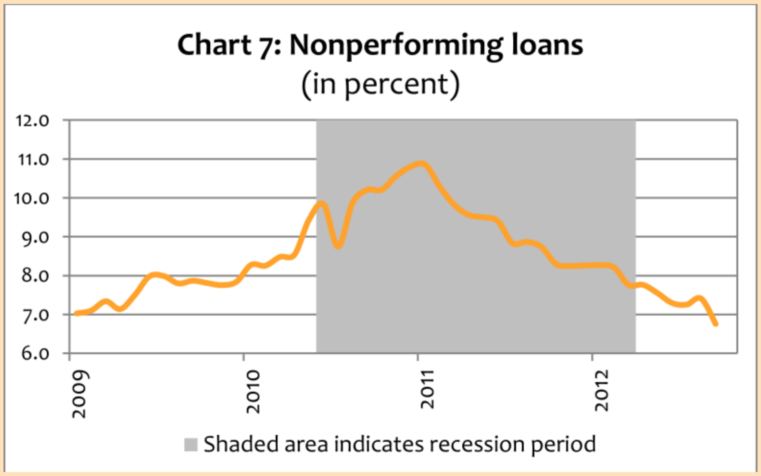
Measured over a period of ten months (Jan.-Oct.), the average core inflation[13] was only 0.2 percent, down by 0.9 percentage point compared to the same period of 2011. The differential in core inflation between Aruba and the United States went from -0.5 percent to -1.9 percent in the period under review.

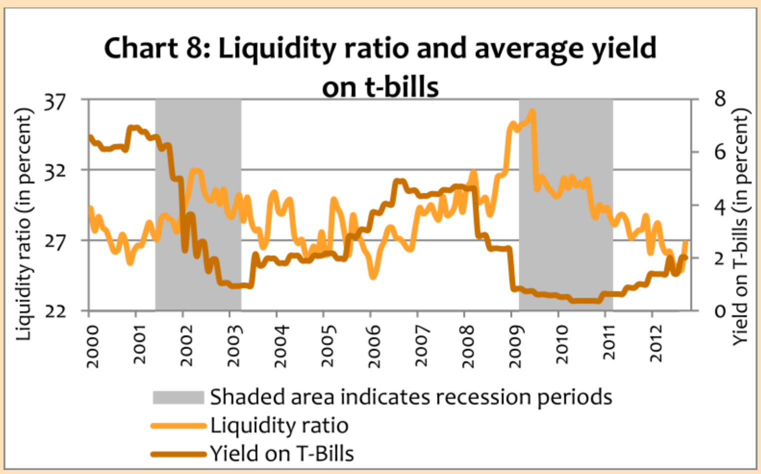
Monetary indicators remained adequate

In the first nine months of 2012, total net foreign assets (excluding revaluation differences of gold, official foreign exchange and security holdings) expanded by Afl. 157.0 million or 12.2 percent to Afl. 1,443.1 million, particularly because of the receipt of US$ 253 million (Afl. 452.9 million) from a foreign bonds issue by the Aruban government on the international capital market to cover its financial deficit and maturing debts. This increase was to some extent diluted by three large incidental transactions of the oil sector, resulting in a net outflow of Afl. 205.9 million (US$ 115 million). The foreign bond receipt brought some relief to the net international reserves position, which has been under pressure since February 2012. The level of these reserves remained adequate, based by their position relative to the minimum level of required net foreign assets of 3 months of current account payments coverage (Afl. 919.9 million).

Net domestic assets contracted by Afl. 52.7 million (2.8 percent) in the first nine months of 2012, mainly reflecting the receipt of the government bond mentioned previously, which had an abating effect on total claims of the banking sector on the government. In

[13] Inflation excluding food and energy components (i.e., water, electricity, and gasoline).





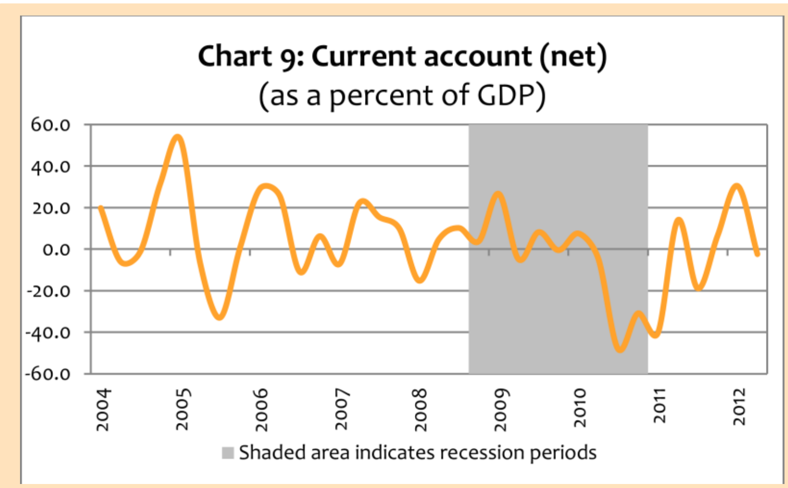
contrast, claims of the banking sector on the private sector rose by Afl. 67.0 million, mirroring increases in business loans (+Afl. 39.5 million) and housing mortgages (+Afl. 31.7 million) on the one hand, and lower consumer credit (-Afl. 2.0 million) on the other hand.

Prudential indicators remained sound

The quality of the commercial banking sector portfolio continued to improve, with the nonperforming loans ratio reaching 6.8 percent in September 2012. This is 4.1 percentage points lower than the 10.9 percent peak reached in January 2011 (Chart 7). Other prudential indicators of the commercial banking sector stayed sound. The banks' risk-weighted capital asset ratio remained above 20 percent (required minimum = 14.0 percent) in the first nine months of 2012. The loans-to-deposit ratio stayed at 70.4 percent (maximum= 80.0 percent), while the prudential liquidity ratio of the commercial banks reached an average of 26.3 percent in the period January-September 2012 (minimum requirement = 15.0 percent). This is 1.9 percentage points lower than the average in the corresponding period of 2011 (28.2 percent), and signals a decreasing pattern in available liquidity since early 2009 (Chart 8). The latter has had an upward effect on the interest rates, for example on the average yields of treasury bills.

Activities of the Monetary Policy Committee

In the first nine months of 2012, the Monetary Policy Committee of the CBA met six times (February, March, June, July, August and September), and decided at those meetings to maintain the CBA's main monetary policy tool, the reserve requirement, unchanged at 11 percent, while the advance rate was kept at 1 percent. These decisions were based on available domestic indicators and developments in the international economic environment.



The balance of payments recorded a deficit for the first time since 2005

For the first time since 2005, the balance of payments posted an Afl. 202.0 million deficit or 8.6 percent of the GDP in the first six months of 2012 (first six months of 2011: an Afl. 12.1 million surplus). This deterioration was caused mainly by the external transactions of the oil sector, which contributed Afl. 194.6 million negatively to the overall outcome on the balance of payments. In addition, international transactions of the nonoil sector registered an Afl. 7.4 million overall deficit thereby exacerbating the adverse impact of the oil sector.

Contrary to the previous two years, the oil sector ran a current account surplus of Afl. 255.9 million in the first half of 2012. This surplus was caused by a sharper decline in merchandise imports than in merchandise exports of this sector, resulting in a surplus on the goods account. These declines were associated with the 63.2 percent drop in oil production in that period. Part of the oil sector's exports was sold on credit, thereby increasing the oil sector's net claims on nonresidents, and together with oil imports purchased on credit, these contributed to a deficit on the financial account of this sector. Transactions of the oil sector led to an overall Afl. 194.6 million deficit on the oil sector's balance of payments.

For the fourth consecutive year, the nonoil sector registered a current account surplus during the first half of 2012. The current account surplus of the nonoil sector widened from Afl. 9.8 million in the first half of 2011 to Afl. 78.5 million (3.4 percent of the first half 2012 GDP). Merchandise imports were lower compared to the first six months of 2011, reflecting lower imports of investment and consumer goods. Note that imports in the first quarter of 2011 included the purchase of machinery for the investment project of the water and power company (WEB). The overall positive performance in the tourism sector led to a 3.2 percent rise in tourism receipts.

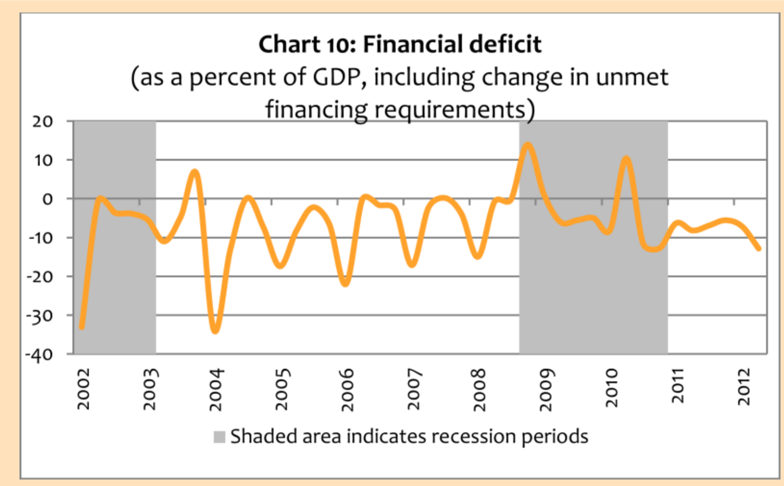
In the first half of 2012, institutional investors liquidated part of their investments in equity securities, resulting in an inflow of portfolio investment and a outflow of other investments of the nonoil sector. The latter led to an increase in the external deposits of this sector. All in all, the nonoil sector posted an Afl. 107.1 million deficit on its capital and financial account.

Total net foreign assets rose by Afl. 359.0 million in the third quarter of 2012, reflecting an overall surplus of the equivalent amount on the balance of payments. This surplus was largely the receipts of the proceeds from an Afl. 452.9 million (U.S.$ 253 million) government bond issue on the international capital market in September 2012.

Government finances remain fragile

Efficiency gains achieved by the Tax Collector's Office, together with the implementation of tax settlement programs, contributed largely to an Afl. 50.7 million or 8.2 percent rise in tax revenues in the first nine months of 2012. Total tax revenues stood at 19.5 percent of the GDP in the corresponding period, compared to 18.1 percent of the GDP in the same period a year earlier. The share of profit taxes in the increase in tax revenues was 58.2 percent. Other important contributors to the increased tax revenues were receipts from land tax (+Afl. 10.9 million) and succession tax (+Afl. 4.8 million). In contrast, nontax revenues contracted by Afl. 23.2 million, largely due to lower dividend payments and distribution of profits.

The realized tax revenues in the first nine months of 2012 were somewhat lower than ¾ of the budgeted tax revenues, i.e., 69.1 percent. The government expects to reach its budgeted tax revenues, largely as a result of higher revenues due to the tax settlement programs. Nontax revenues were 37.9 percent of the budgeted amount. These revenues are expected to pick up markedly in the last quarter of 2012, as the planned sale of the hospital building would generate about Afl. 39.9 million in revenues according to the 2012 budget.



Total expenditures on a cash-adjusted basis expanded from 28.9 percent of the GDP in the first nine months of 2011 to 29.9 percent of the GDP in the corresponding period of 2012. This outcome represents an Afl. 36.5 million (3.7 percent) expansion, largely due to increases in the personnel-related expenditure (+Afl. 33.6 million), investment outlays (+Afl. 30.8 million), transfer to AZV (+Afl. 20.4 million) and expenses on goods and services (+Afl. 7.4 million), which were offset in part by an Afl. 54.8 million decline in items n.i.e. Total expenditures in the nine months of 2012 were equal to 73.3 percent of the budgeted expenditures for 2012.

Available data since 1996 show that the government has been recording financial deficits in the first and second quarters of each year, with the exception of the first quarter of 2009 and the second quarter of 2010 (Chart 10). The government registered a financial deficit (on a cash-adjusted basis) of Afl. 307.7 million (8.9 percent of GDP of the respective period) in the first nine months of 2012, up from Afl. 295.7 million (8.6 percent of GDP of the respective period) in the previous year. Mentioned deficit is higher than the initially budgeted deficit of Afl. 270.0 million. At the date closure of this publication, the Parliament has approved a supplementary budget request, which will result in a deficit of Afl. 271.9 million in 2012. Moreover, the government has the intention to reduce its deficit to Afl. 250 million in 2013.

Decreased unmet financing requirements caused the government domestic debt to decline from Afl. 1,636.4 million at the end of December 2011 to Afl. 1,630.3 million at the end of September 2012, despite the fact that the government borrowed Afl. 25 million through two private placements on the domestic capital market in July 2012. The government repaid Afl. 70.4 million in maturing foreign debt. In September 2012, it issued U.S.$ 253 million in government bonds in the international capital market. It is expected that the proceeds of this bond issue will be used to cover repayment of maturing debt as well as for general budgetary purposes. Consequently, total foreign debt rose to Afl. 1,534.9 million at end-September 2012 (December 2011: Afl. 1,174.8 million). Total government debt amounted to Afl. 3.2 billion or 67.5 percent of GDP at the end of September 2012 (December 2011: 60.1 percent). This level is at the high end of what is considered sustainable taking into account the small size of our economy. Total financing needs were Afl. 434.6 million in the nine months of 2012. These financing needs were covered by the drawing down of government deposits in the first half of 2012, the proceeds of the private placements in July 2012 and part of the proceeds of the government bond issue in September 2012.

II International developments

According to the IMF, the global economy was deteriorated further. Activity and unemployment indicators reveal increasing and broad-based economic sluggishness in the first half of 2012 and no significant improvement in the third quarter. Financial market and sovereign stress in the euro area periphery have flared up again, while economic activity in the United States and the United Kingdom has also been disappointing. Additionally, growth in a number of major emerging market economies has been lower than anticipated. Consequently, the IMF lowered its growth forecast for the world economy from 3.5 percent to 3.3 percent in 2012 and from 3.9 percent to 3.6 percent in 2013. In a number of advanced economies, persistent weakness in consumer and business confidence, fragile labor markets and ongoing balance sheet repair will continue to restrain the rate of economic growth. Spillovers from advanced economies and domestic difficulties have held back activity in emerging markets and developing economies. Moreover, an important part of the lower growth in these economies is due to homegrown factors, such as constraints on the sustainability of the high pace of growth and building financial imbalances (too much liquidity compared with the number of safe investment opportunities). In addition, unemployment in advanced economies remained high, dampening aggregate demand and impeding the pace of economic recovery. Global inflation has eased in most countries in 2012, resulting primarily from a decline in energy prices. However, in recent months inflation picked up slightly as energy prices began to edge up. Core inflation, on the other hand, continued to ease.

In the United States, the economic momentum is ebbing as of the second quarter of 2012. This is due to negative spillovers from the euro area, slowing growth in emerging markets and the fear of a U.S. "fiscal cliff", which are hurting business and consumer confidence. The offsetting factors, such as a stabilizing housing market, falling gasoline prices and expanding bank credit, are not enough to push economic growth to a robust pace. The unemployment rate in the United States stood at 7.9 percent at the end of October 2012. While it has subsided from its peak of 10 percent reached in the final quarter of 2009, it is still elevated compared to the level of 5 percent at the onset of the recession in 2008.

Economic growth in the euro area has remained weak so far during 2012 with heightened uncertainty weighing on confidence according to the ECB. Stress in the financial markets escalated again, prompted by augmented political and financial uncertainty in Greece, banking sector problems in Spain and doubts about their governments' ability to implement fiscal adjustment and reform and the willingness of partner countries to help. Not surprisingly, labor market conditions in the euro area deteriorated further with unemployment reaching 11.6 percent at the end of September 2012. In the latest bid to keep the euro intact in November 2012, the finance ministers of the European Union eased the terms on emergency aid for Greece by cutting interest rates on bailout loans, suspending interest payments for a decade and giving Greece more time to repay

Growth momentum has also decelerated in several emerging market economies during the first half of 2012, primarily Brazil, China and India. This development partly reflects deterioration in the external environment, but also a drop in domestic demand resulting from capacity constraints and policy tightening. Increases in investor risk aversion and perceived growth uncertainty have also impacted a number of emerging market economies, leading to capital outflows and currency depreciation.

In early 2012, improved sentiment in high-income European countries and the related improvements in market expectations triggered a robust rebound in capital flows, equity markets and regional currencies. However, in the second quarter of 2012, tensions in the advanced economies resurfaced. The ensuing declines in commodity prices and capital inflows again started causing difficulties for the economies of Latin America and the Caribbean. In addition, policy tightening to contain inflation and measures to moderate credit growth in Brazil weighed on growth in Latin America. Consequently, the IMF revised its projections for GDP growth in Latin America and the Caribbean down from 3.4 percent to 3.2 percent in 2012 and from 4.2 percent to 3.9 percent in 2013.

Key economic figures	2007	2008	2009	2010	2011	Jan.- Sep. 2011	Jan.- Sep. 2012
Real GDP (percent) 1]	2.0	0.2	-11.0	-3.2	5.6	5.2	-4.2
Prices							
Inflation (period average)	5.4	9.0	-2.1	2.1	4.4	3.7	1.8
Core inflation (period average) 2]	3.0	3.3	1.8	-0.3	1.2	1.8	-0.4
Inflation (end of period)	9.9	-1.9	6.8	-0.7	6.1	3.9	-0.4
Inflation United States (period average)	2.9	3.8	-0.4	1.6	3.2	3.1	2.1
Inflation differential with the USA (period average, percentage points) 2]	2.5	5.2	-1.7	0.5	1.2	0.6	-0.3
Core inflation differential with the USA (period average, percentage points) 2]	0.7	1.0	0.1	-1.3	-0.5	0.3	-2.6
Tourism							
Stay-over tourism	772,073	826,774	812,623	824,702	871,316	657,835	677,095
Cruise tourism	481,775	556,090	606,768	569,424	599,893	392,959	391,396
Tourism receipts (in Afl. million) 1]	2,162.4	2,412.8	2,183.6	2,236.2	2,414.6	1,274.1	1,315.3
Tourism receipts in percent of GDP 3]	46.2	49.1	48.8	51.8	51.6	54.6	56.3
Tourism price index	107.8	110.6	112.6	108.8	116.0	94.7	97.5
Monetary developments							
Money supply (in Afl. million)	2,566.4	2,990.3	3,163.5	3,160.0	3,600.0	3,202.2	3,264.3
Net domestic assests (in Afl. million)	1,849.8	1,721.4	1,688.4	1,873.9	1,873.9	1,979.1	1,821.2
Credit (percentage change) 4]	3.7	4.0	-0.9	1.1	3.5	1.6	2.5
Businesses (percentage change) 4]	2.4	7.1	-3.2	-0.5	5.7	1.5	3.4
Individuals (percentage change) 4]	5.4	2.3	1.0	2.2	2.4	1.9	2.0
Consumer credit (percentage change) 4]	5.8	4.1	-1.9	-2.9	-1.1	-1.0	-0.4
Housing mortgages (percentage change) 4]	5.1	1.0	3.2	5.8	4.6	3.7	3.5
Net foreign assets (Excluding revaluation differences, in Afl. million)	716.6	1,268.9	1,475.1	1,309.3	1,286.2	1,223.1	1,443.1
Net foreign assets in months of current account payments (Excluding oil sector) 1]	3.0	3.8	5.9	6.2	4.7	4.8	4.6
Balance of payments							
Current account (net) 1]	467.3	18.7	334.2	-760.4	-433.6	-305.3	334.4
Current account in percent of GDP 1] 3]	10.0	0.4	7.5	-17.6	-9.3	-13.1	14.3
Capital and financial account (net) 1] 5]	-404.3	533.6	-128.0	594.6	410.5	317.4	-536.6
Net foreign direct investment in percent of GDP 1] 3]	-19.6	0.3	-1.5	6.1	17.6	30.1	-18.6
Overall balance (in Afl. million) 1] 6]	63.0	552.3	206.2	-165.8	-23.1	12.1	-202.0

Key economic figures *(continued)*

	2007	2008	2009	2010	2011	Jan.- Sep. 2011	Jan.- Sep. 2012
Government financial operations 7]							
Revenue and grants	1,034.0	1,365.1	1,108.9	1,183.9	978.4	713.6	741.1
Revenues and grants in percent of GDP 3]	22.1	27.8	24.8	27.4	20.9	20.7	21.5
Expenditure	1,084.2	1,290.5	1,229.1	1,337.1	1,282.5	978.8	1,068.1
Expenditure in percent of GDP 3]	23.2	26.3	27.4	31.0	27.4	28.4	31.0
Interest expenses in percent of GDP 3]	2.3	2.8	2.6	2.9	2.9	2.9	3.0
Lending minus repayments 8]	21.3	23.1	42.9	35.4	21.1	16.7	19.4
Financial deficit (-)	-71.4	51.4	-163.1	-188.7	-325.5	-281.9	-346.5
Financial deficit in percent of GDP 3]	-1.5	1.0	-3.6	-4.4	-7.0	-8.2	-10.0
Memorandum items							
Unmet financing requirements 9]	196.4	64.4	63.8	60.1	97.1	74.0	58.4
Expenditures (incl. net lending) on a cash-adj. basis 10]	1,121.2	1,181.6	1,271.3	1,368.6	1,340.9	1,009.6	1,058.4
Financial deficit (-) 10]	-108.4	183.4	-162.6	-184.9	-362.2	-295.7	-307.7
Total debt	2,140.0	2,049.7	2,226.1	2,394.3	2,811.2	2,572.8	3,165.2
Domestic debt	1,115.9	980.8	1,139.6	1,275.2	1,636.4	1,457.0	1,630.3
Foreign debt 11]	1,024.2	1,068.9	1,086.5	1,119.2	1,174.8	1,115.8	1,534.9
Debt-to-GDP ratio (percent)	45.7	41.7	49.7	55.5	60.0	55.0	67.5
Domestic debt to GDP (percent) 3]	23.8	20.0	25.4	29.6	35.0	31.3	47.3
Foreign debt to GDP (percent) 3] 11]	21.9	21.8	24.3	25.9	25.1	24.0	32.7

Source: CBA; Aruba Tourism Authority; Cruise Tourism Authority; Central Bureau of Statistics; US Bureau of Labor Statistics; Department of Finance; Tax Collector's Office; APFA.

1] Jan. - Jun. figure.
2] Excluding food and energy components.
3] As a percentage of the nominal GDP estimated by the CBA.
4] Compared to December of previous year.
5] Including items not yet classified.
6] Excluding revaluation differences of gold and official foreign exchange holdings.
7] Preliminary figures on a cash basis, including imputed noncash transactions.
8] Includes payment arrears due to loans made and equities purchased from official entities, minus receipts and repayments and equities sold to these entities. A (-) sign indicates that extended loans were less than the repayments received.
9] At the end of the period. The unmet financing requirements comprise all unsettled payment obligations to other sectors, irrespective of the time frame in which they mature, registered by the Department of Finance.
10] Including the change in unmet financing requirements.
11] At end-of-period exchange rates.