

EDITOR'S NOTE

The objective of this publication, which is issued on a quarterly basis, is to provide you with the economic and investment development of Aruba, which could be used as an instrument to support important business decisions or important decisions related to a project.

This quarter the topic chosen to be presented in the Investment Trends is the sustainability of the Caribbean Tourism. This in light of the developments in the travelers industry, not to mention the sub-prime crisis in the US which also could have a negative (lagged) impact on the Caribbean Tourism, which is why it is very important to invest in the sustainability thereof.

AIB's quarterly consumer survey, on the shopping behavior and spending patterns of the population, is presented in the Consumer Trends section. Last quarter we have added the analysis on Consumer Confidence, which has led to the calculation of the index for the second quarter of 2008. The analysis of the index is displayed in the Consumer Trends.

The current development in tourism, inflation, trade, taxes as well as an outlook of the GDP is showed in the Economic Trends section. Highlight in this section remains the high inflation, which amongst others led to a revision in the real GDP for 2008. Official tourism figures are not yet available for 2008, however estimations based on foreign arrivals are displayed in the Economic Trends.

The cover page is intended for those not familiar with Aruba and provides more general information on Aruba's economic structure.

Aruba, September 2008 AIB EIT Issue 6

Contents

Investment Trends	2
Consumer Trends	4
Economic Trends	7
Summary Table	10

ARUBA'S ECONOMY BRIEFLY

The Economy

Aruba is a small, open economy and, like many other small economies, the island's economy is relatively undiversified. Prior to 1986, the economy was primarily centered around the operations of the oil refinery, then owned by Exxon. When that refinery closed in 1985, the economy was readjusted towards other products and services, principally tourism. Currently, despite the reopening of the refinery by Coastal in 1991, the substantial majority of Aruba's GDP is provided by service activities, while agricultural and industrial activities (including manufacturing and construction) and public utilities (including oil refining activities) contribute a much smaller portion to the GDP.

Tourism

Tourism as the greatest contributor to the economy, contributes an amount greater than 50% of the nominal GDP. In the 1990's Aruba was experiencing double digit growth in tourist levels, while now this is stabilizing. Since the year 2002, tourist arrivals in Aruba have increased on average approximately 2.2% per annum, with tourism receipts increasing on average approximately 6.2% per annum. Aruba's visitors comprise around 1.3 million yearly, of which 62% are stay-over visitors and 38% are cruise visitors. In 2007, 68% of these stay-over visitors are from the US, followed by 12% from Venezuela & 5% from the Netherlands. There are over 7,300 hotel rooms on the island and there are various additional hotel rooms, time-share and condominiums in the pipeline. The condominium development is the most recent real estate development of Aruba and since Aruba has a very high percentage of repeat visitors, the trend for second home visitors appears to be increasing. Currently, the development policy for tourism in Aruba entails the further enhancement of the quality of tourist coming to Aruba, which is reflected on the high level hotel rooms offered on the island.

Other business activities

Other important contributors to Aruba's economy include the following sectors: Construction, Real Estate, Trade and Other Business Services. It is estimated by the CBS that the Construction sector contributes 8.6% to the GDP of Aruba. The booming economy of Aruba has attracted a lot of investment related activities on the island. Real Estate activities have increased tremendously in the last few years, due to the increased construction activities, housing projects, condominium projects and commercial centers. It is now estimated to contribute 12.6% to the GDP of Aruba. Trade activities in Aruba comprise 14.2% of the GDP of Aruba, and include all retail and wholesale activities. The increased population, including the transient population (tourism), and the increasing demand for a wider variety of products and competition have contributed to the further development of this sector. There are however some concerns of market saturation in some areas, but the free-enterprise policy let's the business sector be driven by the demand supply mechanism that tends to correct itself in time.

Other Business Services, include car rentals, tours, equipment rental, water-sports companies, etc... This sector has widened further because of the influence of tourism on the island and the fringe effects on the population of Aruba as well as on the recreational activities of Aruba. These together comprise 16.1% of the GDP. Other contributors to Aruba's economy include the oil refinery (Valero), the health sector, education and the public administration.

Inflation

Since the 1990s inflation has been relatively steady in Aruba, where in 2006 the average inflation was 3.6%. However, in 2007 the 12 month average inflation was reported 6.0% due to the introduction of the turnover tax and the higher international oil price, which influenced the local water and electricity price significantly. The inflation of Aruba is also greatly driven by the international trade partners, as Aruba imports most of its products from abroad. The US, Latin-America and the Netherlands are the most important trade partners of Aruba.

INVESTING TO MAINTAIN SUSTAINABILITY OF THE CARIBBEAN TOURISM

- Profile of Caribbean Tourists

American tourists: Their intake on traveling

According to a US Travel Market Research conducted in April of this year by Y Partnership, the percentage of adults planning on taking a leisure trip within the next 6 months fell from 80% in April of 2007 to 74% in April of 2008. Translate that into absolute numbers, and we are talking about a decrease of 5.2 million fewer people who plan to take a vacation in the immediate future. Even though this is a decrease in numbers, for a market the size of US, we are still looking at 166.9 million Americans who are still considering taking a trip within the next 6 months, of which 12% (20 million Americans) mentioned their interest in visiting the Caribbean as their travel destination.

The high price of gas is the main reason (53%) as to why Americans are canceling their travel plans. Of those that still plan on traveling, 50% say they would spend less overall, as they adjust to the combination of higher cost of travel and reduced discretionary income. We can derive from these statements that not only will there be fewer travelers, but they will also be spending less. About half of the Caribbean islands are over 50% dependant on American tourists, while the average market share of the US in the Caribbean is around 43%. In the first few months of 2008, 7 islands reported a decrease in number of American tourists, compared to the same period of time last year, while 14 of the Caribbean islands actually reported an increase in the number of American visitors. Countries, which had registered their information with CTO, and are most dependant on US visitors are Cayman Islands, Bahamas and Puerto Rico.

International Tourism grew by 5% during the first 4 months of the year, compared to the same period last year. All sub regions had positive growth with the fastest growth experienced in Middle East, North-East and South Asia, Central and South America. According to the World Tourism Organization, International Tourism will continue to grow, but at a slower pace. In the Caribbean, of the 24 islands/countries that reported to the Caribbean Tourism Organization, 14 experienced a growth in tourist arrivals for the first few months of 2008, compared to the same months last year. The larger destinations such as Jamaica, Dominican Republic, Cuba, and the Bahamas continued to thrive.

The only large destination in the Caribbean experiencing a decline in the total number of arrivals in the first few months of 2008 compared to 2007 was Puerto Rico. Of the smaller destinations the development of the number of arrivals was mixed as some destinations experienced growth, such as Curacao (40.8%), St. Maarten, and St. Lucia, while others experienced declines such as Martinique, Bermuda, and Anguilla. Some destinations, such as Aruba, have not yet registered any number of arrivals for the year 2008. Tourism is an important factor for many economies around the world. The Caribbean however, according to industry experts, is 4 times more dependent on tourism than any other part of the world. This fact alone makes it imperative that Caribbean Islands invest both locally as well as regionally in Tourism and its sustainability throughout the Caribbean region.

The Caribbean region has many factors that work against the sustainability of the tourism market amongst the various islands. As it has been mentioned on various occasions, the high price of oil is the main culprit that affects many areas of the travel and tourism industry. The increasing price of oil has led to higher airfares and even cancellation of flights, such as American Airlines which cancelled many of its hub flights through San Juan, PR. American Airlines actually delivers close to 60% of visitors to the Caribbean. Islands that are highly dependant on these flights will most certainly feel the effects of reduced flight schedules. The added fuel charges implemented by various airlines swindles as the price of oil changes continually.

The economic slowdown in the US as well as an overall low global consumer confidence, affects the industry as there will be fewer travelers and those that do travel, will not spend as much as they used to in previous years. Therefore, diversification of the markets is very important for this region.

The Middle East and countries of Asia Pacific team up in creating a regional marketing strategy and regional marketing funds and in return have experienced significant growth in 2008 as a result. The Caribbean islands should take this as an example and join in their promotional efforts by creating synergy.

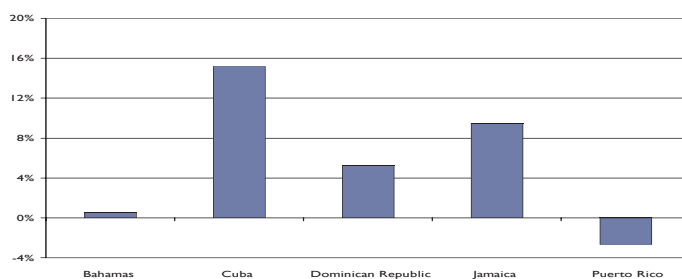
Tourism data is also vital for timely and effective decision making. Therefore, Caribbean islands need to ensure that their data is accurate and up-to-date. However, currently various Caribbean destinations, including Aruba, are running behind with their data processing.

Cruise tourism is experiencing tremendous growth amongst almost all of the islands with cruise ports. While the cost of promoting cruise tourism and the infrastructure required to carry these added passengers are often high, they are rarely offset with profits as tourists spend most of their monies on the ships rather than on the islands they visit, according to data presented by International Air Transport Association. Cruise tourism overall contributes less to the local economies than air travelers, as cruise ship passengers are not burdened with government induced charges such as room tax, departure/airport tax etc.

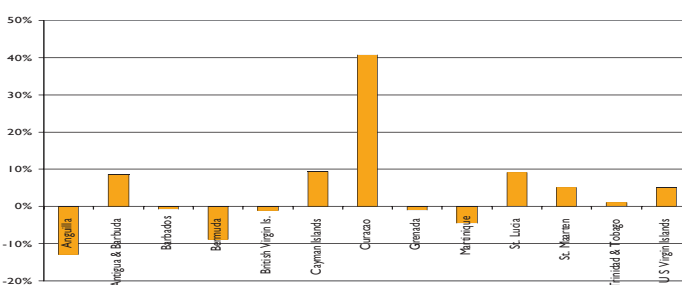
Next to the already stringent regional competition, the Caribbean is also experiencing an increase in competition of domestic marketing in North America and Europe where consumers are being encouraged to spend their vacation dollars at home. Companies in North America and Europe are desperately fighting over the consumer dollars of the locals.

Even though there are some factors that pressure the sustainability of

Large Caribbean destinations



Smaller Caribbean destinations



the tourism industry in the Caribbean, most of the islands, according to data from CTO, are still experiencing growth. There are various reasons why the demand for Caribbean vacations is set forth; especially among Americans. One of the reasons is the fact the local currency is pegged to the dollar, and several dollars as well as Euros are accepted everywhere. This helps to keep the destination "affordable" for the American tourists (as opposed to a vacation in Europe for example) and also easier when handling with their money instead of having to recalculate everything back into their own currency.

A trend that is developing in Aruba and helps with a more sustainable tourism development is the fact that the percentage of visitors with an income level above US\$50,000 is increasing, while the groups of visitors with an average yearly household income level below US\$30,000 is decreasing.

While these are positive developments, we cannot sit back and expect that tourists will automatically keep on coming. It is crucial to invest both locally as well as regionally in developing strategies that will contribute to sustaining the tourism industry in the region and Aruba as destination.

Investments in Niche Tourism are one way of attracting new visitors as it adds to the traditional sun, sea and sand formula. Some examples are eco-tourism, sport-tourism, wedding and honeymoons etc. This has been recommended by various experts and has been incorporated in government policies. However, it is not yet very visible in Aruba. Some islands are heavily investing in marinas in order to attract yacht enthusiasts, while others are investing in casino's to attract gamblers. The Caribbean Tourism Organization states that "Niche markets are good for diversifying the product, minimizing the effects of seasonality, and reducing pressure on "honey pot" areas by distributing tourists to lesser-visited places on the islands".

In 2007 the Latin American tourism market grew with 44% in Aruba and in Curacao with over 100% due to more aggressive marketing

campaigns and increase in airlift. This explosive growth from other markets is a clear sign that other regions of the world need to be targeted, such as Europe, Latin America and also the Inter-Caribbean market. It cannot go without saying that targeting these markets

without the development of appropriate airlift from these markets would be a wasted effort. Additionally, a model can be adopted where departure and other tourism related taxes can be waived for Caribbean nationals, in order to promote inter-island tourism.

The thought of adopting a unified regional marketing campaign is more likely in theory than it is in practice. The islands however should work towards the establishment of a regional marketing fund through which the islands can collectively reach a greater market audience that they would on their own.

Investments in new technologies are vital in order to maintain and gain market awareness amongst the intended travelers. According to the survey conducted by Y Partnership, 54% of Americans who were interested in visiting the Caribbean, turned to websites of online travel agencies (such as Expedia, Travelocity etc) when considering a vacation destination. Additionally, at least 71% of the same group used the internet or an online service for a leisure trip in the last year to obtain travel information and prices and 67% used the internet to make actual travel reservations. Investing in these technologies (such as search engine optimization) will increase the market awareness amongst those looking for a destination alternative.

Other opportunities for investment alternatives are investments in effective airline services, such as diversification of airlift sources, ownership of airlift capability, and development of proper hub and spoke system with well-integrated timetables to final destinations. Furthermore, the destinations should invest in their most important assets, which are their people by investing in education systems and therefore upgrading their service level. Also by investing in greening of Caribbean hospitality a niche can be created for the environmentally conscious tourist.

CONSUMER SHOPPING BEHAVIOR

Introduction

The consumer behavior is the study of how, what, when, and where people buy, which is affected by current economic development and other situations. In July of this year our second consumer survey was conducted for the year 2008. The main topic of the first consumer survey of 2008 was the consumer confidence, which is an important indicator of a country's economic condition. The consumer confidence is defined as the degree of optimism regarding the current state of the economy that consumers are expressing through their

spending (or savings) activities. For the second quarter, 100 Aruban households were surveyed with the same questions as the consumer confidence survey held in the first quarter to indicate the possible trends and changes in the consumer confidence. The survey was conducted from the end of June to the first weeks of July.

Every quarter a different sample group is used for the survey, therefore the survey results can merely be viewed as an indication of the situation in a particular point in time as variations from one quarter to the next are likely.

Profile of survey participants

According to the latest census, Aruba has a total of 36,000 households of which 100 were surveyed over 6 regions as seen in figure 1. The majority of respondents resided in North with 24%, followed by Oranjestad with 21% and in third place San Nicolas with 19%. The average household size surveyed was 3.5. The total household income distributions amongst the respondents were as follow: 35% have a gross monthly income between Afl 1,500 and Afl 3,000, followed by 27% between Afl. 3,000 and Afl. 4,500. Table 2 shows the total household income distribution amongst the respondents. The average age of households surveyed was mostly in the category of 55 years of age and above amounting to 62% of the household surveyed. This is probably related to the fact that this group spends more time at home compared to the younger age group.

Table 1: Regional distribution of survey participants

Noord	24%
Oranjestad	21%
San Nicolas	19%
Santa Cruz	15%
Paradera	17%
Savaneta	4%
Total	100%

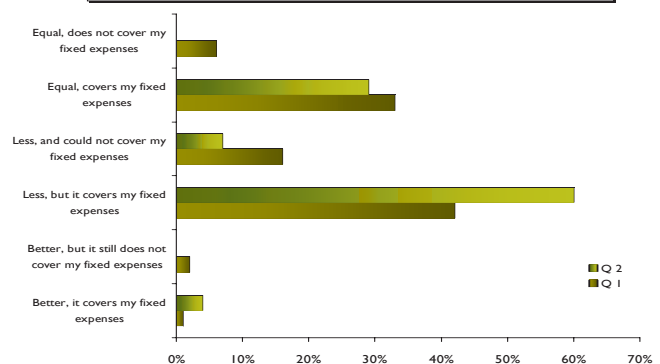
Table 2: Total gross monthly income per household in Afl.

> 1,500	13%
1,500 - 3,000	35%
3,000 - 4,500	27%
4,500 - 6,000	14%
6,000 - 7,500	5%
< 7,500	4%
n/a	2%
Total	100%

Survey analysis: Consumer Behavior

There are many mixed views of current spending behavior which flows along with international and national economic developments and uncertainties. The inability to keep up with fixed monthly expenses is certainly a major reason of concern. The randomly selected group of survey participants was therefore asked to describe their current ability to cover their fixed monthly expenses and as a result 60% indicated their ability to be less, but can still cover their fixed expenses, which is 18% more than the previous conducted survey. However, the respondents that are feeling the ability less and can't cover their fixed expenses is more than in the previous quarter.

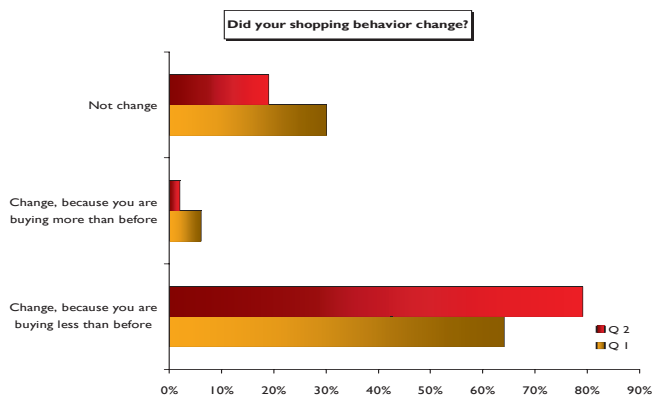
Your income's ability to cover your monthly fixed expenses



Something for your hotel?.....Sustainable solutions for green hotels

A few tips on sustainable practices that hotels can implement.

1. Start a linen (both towels and sheets) reuse program in all guest rooms.
2. Install low-flow showerheads and sink aerators.
3. Switch to low-flow toilets or install toilet-tank fill diverters. Switch to compact fluorescent light bulbs in guestrooms, lobbies, and hallways. Use sensors and/or timers for areas that are infrequently used.
4. Whenever possible, buy food and guest amenities in bulk (i.e., use refillable hair and skin care dispensers).....Continued on page 9



The ability to cover the household monthly fixed expenses may have a direct impact on the shopping behavior of the consumers. According to the survey responses, 79% are buying fewer products, which are mainly due to external factors such as price changes and economic developments, as stated by 95% of respondents. From all survey participants, only 19% mentioned that they are buying the same amount of products as the quarter before.

“The fool wanders, a wise man travels”, by Thomas Fuller.

Consumer Spending

The average monthly grocery spending per household for the second quarter was Afl. 810 according to the survey results, which is 2.4% higher than the previous quarter. However, it is important to remark that the CPI for the 'Food' category in the month of June 2008 according to the Central Bureau of Statistics was 0.6%, conducting to a year-to-date increase of 4.5%.

The average utility bill per household of the survey respondents was Afl. 621, which is also significantly higher than the Afl. 545 calculated in the previous quarter. The subcategories which most influenced the CPI in June were water supply and domestic fuel & energy due to their steep increase and weight in the basket of goods and services, which could be an explanation for the increase of the average utility bill of the households surveyed. The fuel surcharge was practically the same for all the months of the second quarter with exception of the month of June. The quarterly price average for electricity increased with 1.33% in the second quarter of 2008 compared with the first quarter of the year (based on a household consumption of 600 kWh p/m). It is important to note that during the execution of the survey the increase of fuel surcharge in June wasn't included in the utility bills as the bills for June are received with a backlog of one month.

The monthly non-essential expenses was claimed by 60% of respondents to be less than Afl. 100 or nothing due to restriction on the monthly income caused by the increase of monthly fixed expenses. Still, the average monthly non-essential expenditure calculated based on the response of the survey was Afl. 368. Higher prices for gas as well as food are leaving households with less money to spend on non-essential items.

An overview of the household expenditure on groceries, utilities and non-essential expenses can be seen in table 3.

Table 3: Average monthly expenditures on groceries, utilities and non-essential expenses

Groceries		Utilities		Non-essentials	
Afl. p/m	%	Afl. p/m	%	Afl. p/m	%
≤200	2%	≤150	4%	≤100	60%
201-400	18%	151-300	15%	101-200	11%
401-600	20%	301-450	16%	201-300	10%
601-800	14%	451-600	24%	301-400	7%
801-1000	18%	601-750	8%	401-500	5%
≥1001	13%	751-900	12%	≥501	7%
Unknown	15%	≥901	19%		
		Unknown	2%		

Consumer Confidence Index

The first quarter of 2008 was the first time the consumer confidence was measured and this will then serve as the base period for the Consumer Confidence Index.

Table 4: Consumer Confidence Index

Base period Q1 2008	Q2 2008	change Q2/ Q1
CCI	70.7	-29.3
Present situation	80.4	-19.6
Expectation	64.2	-35.8

The index fell by 29.33% indicating a drop in consumer confidence during the second quarter of 2008 compared to previous quarter. Since the Consumer Confidence Index is new, a trend can not yet be deduced. Since data for the previous quarters are missing, the current information is insufficient to state a trend in the confidence of the consumer. However, it can be remarked that in general the consumer confidence index shows a downturn trend, the economy is showing a slow growth rate and the consumers are more likely to slow their spending.

Present situation:

Consumer assessment of current conditions indicates a change of 19.64% in the confidence of the surveyed consumers regarding the present situation. The confidence of the current condition suggests that there has been a significant deterioration in current financial situation compared to the previous quarter.

The perception of the present condition at the moment the survey was conducted can be considered to be formed mainly by the continuous oil price increase, which consequently led to increase in prices of consumer products. The average price for fuel increased with 12.9% over the second quarter, which is a significant increase compared to the previous quarter, which experienced an increase of 3.2%. During the month of June 2008, the month in which the survey was conducted, average prices in Aruba increased by 1.5% compared to the previous month according to the CBS.

Different companies, such as American Airlines in Aruba, have informed the public of cutting their personnel, because of fierce competition and high fuel prices. These developments weigh on the confidence of the consumers.

Expected situation:

Next to the current situation, the respondents gave a general idea of their expectation for the future financial situation. Many indicated oil prices and fixed expenses, such as utility to be their major concern

now and in the future. In June 2008, the fuel surcharge increased by 8.7%. However, since the peak measured in oil price early July, the oil price has dropped considerably. It remains uncertain if the oil price would maintain at this lower level that this decrease could be felt on future utility bills.

Consumer Confidence Index comparison:

Consumer confidence is showing negative signs in different countries around the globe. The U.S. sub-prime crisis is affecting not only the American market, but also other countries. A world wide slowdown in the consumer spending was expected. In the Netherlands the consumer confidence fell by 31 in July compared with 19 in June, which is the largest decline ever recorded by the Statistics Bureau in the Netherlands. According to the Conference Board in the US, the consumer confidence for the US in June dropped further to 50.4 from 58.1 in the previous month (which is the lowest since 1992).

Table 5: Consumer Confidence Index in the US

Base 1985=100	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08
Consumer Confidence Index	87.3	76.4	65.9	62.8	58.1	50.4
- Present condition	114.3	104.0	90.6	81.9	74.2	64.5
- Expected condition (6 months)	69.3	58.0	49.4	50.0	47.3	41.0

Conclusion

BBO, which was introduced in January of 2007, is still a popular word in the mouth of the majority of individuals. However, slowly many people's concerns are heading to another level after realizing the effect of the global economy on the economy of Aruba. The continuous increase of oil prices have become a threat for many households, since gasoline and utility prices are greatly dependent on the latter mentioned. Next to this, a negative impact on the US economy may affect the spending power of the US tourist, which is the largest market to visit our island. This perception causes major concerns under the population.

A respondent stated; "The future is still uncertain, because global economic developments are also uncertain, meanwhile that's all we can depend on".

After adding the global developments next to the BBO, many individuals are now more concerned about the future expectations. The

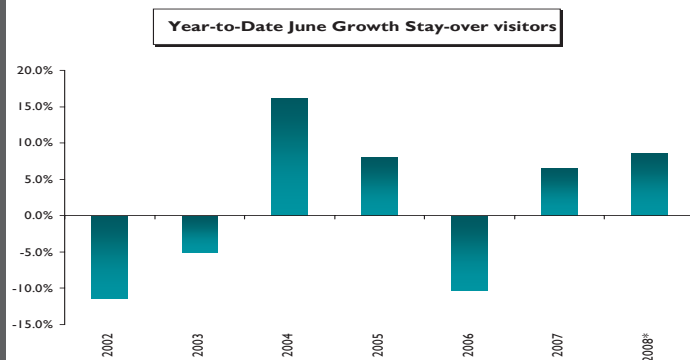
results of the survey of the second quarter compared to the first quarter indicate the probability that more individuals are moving from an uncertain state to a gloomier view of the current and future economic and financial situation on the island. This can be concluded from the drop registered in the consumer confidence index in the second quarter.

Many of the respondents have indicated to be adapting their shopping behavior constantly. BBO is still a popular topic, however people are starting to adapt with the presence of the BBO. What's more difficult is that people are also trying to cope with unstable changes in the global economy, such as the US sub-prime crisis, oil fluctuations and gold value moving downwards.

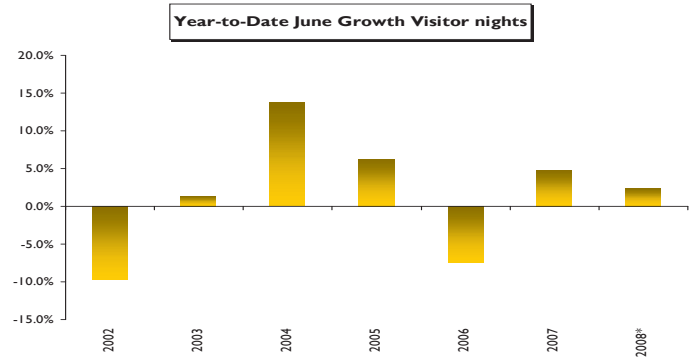
Taking all these changes during the second quarter into consideration, the government decided to expand the list of basic products, for which the maximum prices are determined, including frozen fruits and vegetables, preserved vegetables and fruits, wheat meal, liquid milk and preserved daily meat to try to ease the effect of inflation.

TOURISM ESTIMATIONS

Stay-over tourism in 2007 increased with 11.2% after a decline of 5.6% reported in 2006 and a meager growth of 0.6% in 2005. The increase in 2007 is mainly due to significant increases in the Venezuelan market and the US market, which increased respectively by 35,052 and 27,100 tourists over 2007. Moreover, the aggregated European market increased especially Spain and the United Kingdom with 2,500 and 3,093 respectively. The Canadian market and the market of Curacao reported an increase as well of 3,083 and 2,650 tourists respectively in 2007. In 2008, the positive trend is expected to continue. According to CBS, the foreign arrivals, which can be used as a leading indicator to the stay-over visitors, increased by 18.4% to 498,580 in the first 6 months of 2008. The stay-over visitors in 2007 accounted for around 80% of the foreign airport arrivals and when taking this into consideration the stay-over visitors for the first half of the year could be estimated at around 398,864, which would mean an increase of 8.7% compared to the same period of the previous year.



Visitor nights in 2007 increased with 7.5% to 5,879,888. The average length of stay in 2007 decreased with 0.3 nights to 7.6 nights as compared to the previous year. According to CBS, the room nights sold up to June 2008 were 949,731 and based on an average occupancy of 3.1 (2007) tourists per room the visitor nights could be estimated at around 2,944,166, which would be an increase of 2.5% compared to the same period of the previous year. From the estimated stay-over visitors and visitor nights it can be deduced that the average length of stay could have further decreased in the first half of 2008. The occupancy rate of accommodation in the first 6 months of 2008 increased with 2.7 percentage points to 80.8% from 78.1% reported in the same period of 2007.



According to the Caribbean Tourism Organization (CTO) the overall stay-over tourism in the Caribbean region widened in 2007, considering all countries which reported for the entire year. First figures reported by CTO indicate an upward trend in stay-over tourism in the first months of 2008 for major destinations, except for Puerto Rico, while smaller destinations experienced decreases. Overall the cruise tourism in the Caribbean increased in the first months of 2008, however major destinations like Cayman Islands, Jamaica and St. Maarten experienced significant decreases.

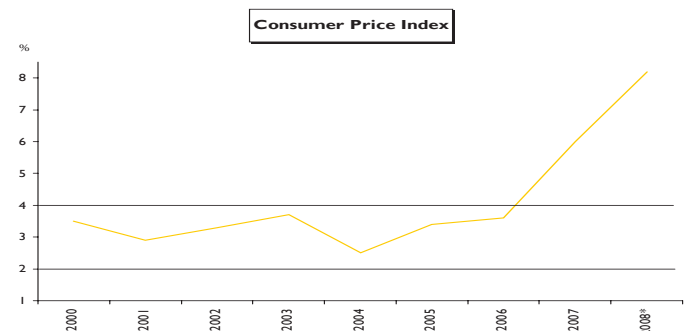
While **Cruise tourism**, in Aruba, in the first 7 months experienced a significant increase of 24.8% as compared to the same period of the previous year, it is noteworthy to mention that in May and June the cruise tourism in Aruba experienced significant decreases of 39.4% and 34.4% respectively despite the fact that the levels reported in 2007 for May and June were already on the low side. In July 2008, cruise tourism also reported a decrease of 1.1%. The decreases reported in the last three months are probably due to summer recess of a few cruise lines in the Caribbean region. However, it must be noted that the Aida Cruises, which used Aruba as home port in the 2007/2008 cruise season will not be porting in Aruba for the next cruise season but in La Romana (Dominican Republic), according to the itineraries provided on the official webpage of Aida.

Tourism receipts, according to the Central Bank of Aruba increased with 21.8% to Afl. 739.6 million up to the first quarter of 2008 compared to the same period 2007.

THE INCREASE CONTINUES

Year-to-date July the **inflation** increased with 6.1%, while the year-over-year inflation increased with 10.2%, mainly due to increases in the category Food, Transport & Communication and Housing, which increased with 1.25%, 2.28% and 3.8% respectively as compared to the same month of the previous year. The latter is greatly influenced by the category Domestic Fuel & Power and Water Supply, which increased significantly due to the soaring oil prices. Noteworthy is that oil is driving the production and transportation costs but also add to the demand for corn and soybeans used to produce alternative energy, which in turn has an impact on food prices. Escalating food costs could present greater problem for the economy. According to the Income and Expenditure Survey food (incl. non alcoholic beverages) on average accounts for about 8.4% of household spending as compared to a 4.1% direct usage for gasoline. Moreover, rising food prices can be particularly corrosive to con-

sumer confidence because the consumers are so frequently exposed to the food cost increases. However, it must be noted that the households spent on average 8.7% of household spending on utilities, which is also greatly influenced by soaring oil prices.



VOLUME DECREASING

According to our Foreign **Trade** Statistics, the volume of merchandise import in Aruba for the first 6 months of 2008 decreased by 9.1%, while the value of imported goods & services decreased by merely 0.9%, indicating a more modest increase in prices as compared to what was experienced in 2007, where the value of merchandise import increased by 8%, while the volume decreased by 21.8%. The decrease of Afl. 8 million, over the first half year of 2008 as compared to the same period of the previous year, in imported goods & services is mainly attributed to a decline of Afl. 30 million in the imported merchandise in the construction sector; followed by a decline of Afl. 12 million in the retail trade. Also, imported goods & services in the sector real estate, renting & other business activities and other community services experienced a decline of Afl. 7 million and Afl. 5 million respectively. These declines were mainly counterbalanced by an increase of Afl. 18 million in imported merchandise in the sector quarrying, mining and utilities.

Import duties in the first 7 months of 2008 increased with 4.8% as compared to the same period in 2007, despite the decrease in value of the imported goods & services. This is probably the effect of the tariff changes, which were introduced in the beginning of 2007.

"Like all great travelers, I have seen more than I remember and remember more than I have seen", by Benjamin Disraeli.

"In traveling, a man must carry knowledge with him, if he would bring home knowledge", by Samuel Johnson.

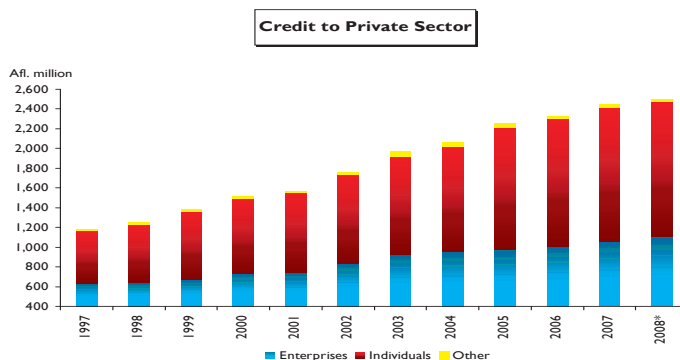
TAXES RISING

Government **tax** revenue increased in the first 7 months of 2008 with around Afl. 84.9 million to Afl. 576.2 million, which is an increase of 17.3% as compared to the same period of the year before. Turnover tax is the main cause of the increase in the government tax revenue, which contributed with an increase of Afl. 33.1 million, followed by profit tax, wage tax and foreign exchange tax with an increase of respectively Afl. 18.3, Afl. 17.4 and Afl. 11.7 million. The latter is due to foreign exchange sale of the oil sector and sale of government bonds. Decreases were reported in the income tax and in the excises. The decrease of excises is partly attributed to the decrease of excises on gasoline from Afl. 71.40 to Afl. 61.40 per HI.

"Traveling is like gambling: it is always connected with winning and losing, and generally where it is least expected we receive, more or less than what we hoped for," Johann Wolfgang Von Goethe.

BANK LOANS

Overall the **credit** to the private sector increased by Afl. 13.3 million (0.5%) to Afl. 2,498.1 million in July 2008 as compared to the previous month. The increase is distributed over an increase of Afl. 9.4 million (0.9%) on credit to enterprises and an increase of Afl. 4.3 million (0.3%) on credit for individuals, of which the consumer credit and the mortgages grew respectively with Afl. 1 million (0.2%) and Afl. 3.3 million (0.4%). The other credits to the private sector decreased with Afl. 0.3 million (1%) to Afl. 29 million in July 2008 as compared to the previous month of the same year.



GDP EXPECTATIONS

New projections by the Department of Economic Affairs, Commerce and Industry show a real growth of 1.2% in real GDP for 2007, which is 8 bps lower than the 2.0% previously projected. The new decelerated growth projections are mainly attributed to pitfalls in private investments. Also, the real growth projections for 2008 have been revised down to 1.6%. The projections of 2008 are based amongst others on a higher than previously expected inflation of

9.4% revised up from 3.9% previously estimated and a stay-over tourism growth of 9% as compared to 2007, which has been revised up from 7.3%. Furthermore, the private investments in 2008 are expected to remain the same as in 2007, while the private consumption is expected to decrease in 2008 due to higher inflation and the (lag) effect of the lower investments in 2007.

"The average tourist wants to go to places where there are no tourists", by Sam Ewing.



Our Services

Corporate Lending

- Senior Debt
- Mezzanine Financing
- Project Financing
- Bridge Loan
- Syndication/ Underwriting
- Bank Guarantees

Program & Project Management

- Regulations Setup
- Funds Administration
- Funds Placement
- Project Management
- Effect Disimbursement

Economic & Financial Services

- Feasibility Studies
- Economic Impact Studies
- Surveys and Research
- Mergers & Acquisitions
- Venture Capital
- Capital Raising
- Valuation
- SME Program
- Advisory to the Government

Information

For more information please visit our website www.aib-bank.com or contact the AIB BANK N.V. at 297-582-7327. If you have any questions regarding the publication please contact the AIB Economic and Financial Services (AIB EFS) or send us an e-mail at msw@aib-bank.com.

Eco Corner:

Google's philanthropic arm, Google.org, is investing USD 10.25 million in two companies working on a new way to tap into the heat beneath the earth's surface. The companies are AltaRock Energy, which gets USD 6.25 million, and Porter Drilling, which gets USD 4 million. Additionally, the Geothermal Laboratory at Southern Methodist University, which is working on locating geothermal sources in North America, will receive a grant of about USD 490,000. The money comes from Google's RE<C (Develop Renewable Energy Cheaper Than Coal initiative, which seeks to develop renewable energy sources that are cheaper than electricity produced from coal. Unlike the traditional geothermal systems that have been providing power for more than a century, the technology that Google is investing in does not require naturally occurring geysers or hot springs. An "enhanced geothermal system" works by injecting water into hot rocks deep in the earth's crust, and then bringing the steam back up to power turbines.

According to a report from the Climate Group, **China leads the world in installed renewable energy** and is overtaking more developed countries in developing sustainable technologies. The Climate Group, a nonprofit group backed by a several large corporations and regional and local governments around the world, found that China has reached 152 gigawatts of up-and-running renewable energy capacity, thanks to the world's largest hydroelectric capacity and the fifth-largest wind-power capacity. The country plans to double its renewable energy output to 15 per cent by 2020. China is also a major exporter of renewable-energy technologies. It is second only to Japan in output of solar photovoltaic technology, and its output has doubled for each of the past four years. According to the report, China will become the world's leading exporter of wind turbines by 2009. It is also becoming a leader in solar water heaters, energy-efficient appliances, and rechargeable batteries.

Continued.....Something for your hotel?.....**Sustainable solutions for green hotels**

5. Educate your staff to turn off lights and turn down air conditioning when rooms are unoccupied. Also, to close the drapes.
6. Install window film to lower cooling loads and reduce glare in guestrooms.
7. Buy office and guest amenity products that contain recycled material.
8. Use recycled paper products that are either unbleached or bleached using a chlorine-free process. Minimize the amount of paper used for each guest (i.e., reduce paper size of invoices, etc.).
9. Use nontoxic or least toxic cleaners, sanitizers, paints, pesticides, etc. throughout the hotel.
10. Purchase "Energy Star" appliances wherever possible. If applicable, replace old washing machines with both water and energy conserving models.
11. Use daylight exclusively in your lobby, bar, and restaurant for as much of the day as possible. Consider installing skylights if needed.

Summary Economic Indicators

As of and for the year ended December 31,

2002 2003 2004 2005 2006 2007 2008*

(in millions of Afl. except percentages and where otherwise noted)

DOMESTIC SECTOR

Population	93,945	96,207	99,109	102,149	103,484	104,494	105,078
Nominal GDP**	3,475	3,618	3,983	4,159	4,334	4,584	4,959
Nominal GDP per Capita** (in Afl. per person)	36,990	37,606	40,188	40,715	41,881	43,869	47,194
Percentage Change in Real GDP**	-2.1	0.5	7.4	1.0	0.3	1.2	1.6
Inflation (percentage change in Consumer Price Index) ⁽³⁾	3.3	3.7	2.5	3.4	3.6	6.0	8.2
Unemployment Rate ⁽¹⁾ (percentage)	8.1	7.8	7.3	6.9	n.a.	n.a.	n.a.

TOURISM

Tourism receipts ⁽²⁾	1,616.7	1,523.9	1,889.6	1,953.0	1,925.1	2,242.3	739.6
Total Visitor Arrivals (in thousands) ⁽⁹⁾	1,197.6	1,184.2	1,304.5	1,285.3	1,285.8	1,253.8	758.4
Stay-over Visitors (in thousands) ⁽¹⁰⁾	615.4	641.9	728.2	732.5	694.4	772.1	398.9
Visitor nights (in thousands) ⁽¹¹⁾	4,862.6	5,097.6	5,639.9	5,692.7	5,470.5	5,879.9	2,899.6
Cruise Visitors (in thousands) ⁽³⁾	582.2	542.3	576.3	552.8	591.5	481.8	359.5

EXTERNAL SECTOR

Total exports (F.O.B.) (excluding oil sector exports) ⁽⁴⁾	229.58	146.96	142.25	182.20	195.05	175.22	83.42
Total imports (C.I.F.) (excluding oil sector imports) ⁽⁵⁾	1,507.42	1,515.18	1,563.59	1,840.88	1,863.99	1,995.42	955.65

PUBLIC FINANCE

Total Revenue ⁽³⁾	754.7	988.6	836.1	909.1	985.2	1,033.3	642.8
Total Expenditure	866.0	919.3	1,180.4	1,034.0	1,097.6	1,077.1	309.5
Overall Surplus/(Deficit) ⁽⁶⁾	-76.1	150.9	-237.4	-174.7	-43.3	-100.2	-0.9
Overall Surplus/(Deficit) as a Percentage of GDP ⁽⁷⁾	-2.2%	4.2%	-6.0%	-4.2%	-1.0%	-2.2%	0.0%

PUBLIC DEBT AND INTERNATIONAL RESERVE

Total Public Sector Debt ⁽⁸⁾	1,611.72	1,477.60	1,712.10	1,890.30	2,019.50	2,143.00	2,124.10
Total Public sector Debt ⁽⁸⁾ as a Percentage of GDP ⁽⁷⁾	47.1%	41.1%	43.0%	45.5%	46.6%	46.7%	46.3%
Net International Reserves in months of imports	7	6.6	6.2	5.5	5.1	5.7	6.5

PARTIAL ECONOMIC ACTIVITY INDEX (PEAI)

Utilities	100.3	101.9	105.3	111.1	109.8	109.0	n.a.
Construction	113.3	115.5	116.2	120.6	120.6	123.7	n.a.
Trade	82.4	93.8	87.6	128.2	124.7	112.2	n.a.
Hotels & Restaurants	87.1	83.2	86.0	82.8	79.9	88.1	n.a.
Transport	101.5	105.5	116.1	118.0	115.1	120.9	n.a.
Housing	107.3	105.0	114.5	112.1	112.1	110.2	n.a.
Public administration & Education	113.6	116.5	119.5	123.5	127.6	131.0	n.a.
	104.2	104.3	106.2	109.6	106.2	93.7	n.a.

Source: Central Bureau of Statistics Aruba, Central Bank of Aruba, Aruba Tourism Authority, Cruise Tourism Authority.

* year-to-date up to March 2008, unless otherwise stated in this table (including for the charts in Economic Trends)

** 2007 estimate DEACI and 2008 projections DEACI

(1) Includes all persons without jobs, whether actively seeking employment or not.

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

(3) Up until July 2008.

(4) Recorded on a "Free on Board", or "F.O.B.", basis as sold at the time the exported goods are shipped. Up to June 2008.

(5) Recorded on a "Cost, Insurance and Freight", or "C.I.F.", basis. Up to June 2008.

(6) including the change in unmet financing requirements.

(7) Measured against nominal GDP estimates of 2007.

(8) Debt totals are maintained by the Ministry of Finance and Economic Affairs and the information on outstanding debt is provided 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.

(9) Results of the sum of cruise tourism up until July and estimated stay-over tourism up to June.

(10) Estimations by AIB EFS up to June 2008 based on foreign airport arrivals.

(11) Estimations by AIB EFS up to June 2008 based on occupied room nights assuming avg. occupancy per room of 3.1 tourists.