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Research Update:

Aruba 'A-/A-2' Sovereign Credit Rating Affirmed, Outlook Remains Stable

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Overview

- We affirmed our 'A-/A-2' sovereign credit ratings on Aruba.
- The stable outlook on Aruba reflects our expectation that the government will be able to return shortly to its medium-term fiscal plan to reduce the central government deficit towards 3% of GDP in 2014.
- We expect that the government would implement further measures to contain fiscal slippage in the event the reopening of the island's oil refinery is delayed beyond a couple of months.

Rating Action

On June 8, 2012, Standard & Poor's Ratings Services affirmed its 'A-/A-2' sovereign credit rating on Aruba. The outlook on the ratings is stable. Standard & Poor's 'A-' transfer and convertibility assessment remains unchanged.

Rationale

Aruba's prosperous economy with per capita GDP of about $25,000, stable democracy, high level of social development, and strong government balance sheet support its creditworthiness. A narrow economic base, limited monetary and external flexibility, and a sizeable gross general government debt burden (which is more than offset by public sector pension assets) are credit constraints.

The Aruban economy had been recovering rapidly since the recession of 2009 and 2010, with growth approaching 9% in real terms last year. The recent decision by Valero, the owner of the island's oil refinery, to suspend operations was a setback to the economy and to the government's fiscal plans to reduce its deficit in coming years. The refinery, which directly and indirectly employs about 5% of the island's workforce, is the largest single private-sector employer. A potential closure of the refinery would, absent substantial fiscal adjustment, hinder the government's intent to reduce its fiscal deficit towards 3% of GDP in 2014 (one year later than originally planned) from an estimated 6.8% of GDP this year. A potential closure would also weaken external liquidity.

We expect that the combination of the reopening of the oil refinery, favorable growth prospects in the coming year, and various other minor fiscal measures are likely to restrain the recent rise in the general government's gross debt burden and stabilize it around 50% of GDP in the coming couple of years. (In its calculation of gross debt, Standard & Poor's excludes central government debt that public sector pension and social welfare plans hold.)

Outlook

The stable outlook reflects our expectation that the government will be able to reduce the central government fiscal deficit towards 3% of GDP in 2014 from an estimated 6.8% of GDP this year. We expect that the government would implement further measures to contain fiscal slippage in the event the reopening of the refinery is delayed beyond a couple of months.

The rating could fall if slower economic growth and the prolonged suspension of the refinery results in a higher debt burden. The closure of the refinery could also negatively impact exports more than imports, possibly contributing to a fall in foreign exchange reserves and an increase in the country's net external liability position.

Over the long term, the rating could rise if successful resolution of the refinery issue, along with other policies, contributes to a more favorable-than-expected fiscal and debt trajectory and higher-than-expected GDP growth beyond 2012. That, combined with improving external liquidity to strengthen the pillars sustaining confidence in the fixed exchange rate, could result in a higher rating.

Related Criteria And Research

- Aruba, Dec. 16, 2011
- Sovereign Government Rating Methodology and Assumptions, June 30, 2011

Ratings List

Ratings Affirmed

Aruba	
Sovereign Credit Rating	A-/Stable/A-2
Transfer & Convertibility Assessment	
Local Currency	A-
Senior Unsecured	A-

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.