Monetary Policy (October 2017)

Press Release¹

During its meeting of October 5, 2017, the Monetary Policy Committee (MPC)² of the Centrale Bank van Aruba (CBA) decided to keep the reserve requirement at 11.0 percent and to uphold the advance rate at 1.0 percent, after reviewing the most recent economic and monetary data. The following information and analysis were considered in reaching this decision, based on August 2017 data.

International reserves

The international reserves (including revaluation differences of gold and foreign exchange holdings) and official reserves remained at adequate levels. Contractions noted in the net foreign assets during August led to a fall in the international reserves (−Afl. 14.8 million or −0.8 percent) when compared to December 2016, whereas the official reserves expanded (+Afl. 13.9 million or +0.8 percent), due mainly to higher revaluation differences (Chart 1). Consequently, the international reserves and the official reserves reached, respectively, Afl. 1,877.6 million and Afl. 1,687.1 million.

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¹ The English text prevails.
² The MPC was instituted in May 2010 to periodically evaluate and determine the monetary policy of the CBA. In addition, the MPC aims at improving the transparency of the monetary policy.
Credit developments
Overall credit growth within the domestic commercial banking sector continued to be robust (+5.2 percent) compared to December 2016. Notwithstanding the decrease registered in consumer credit (−1.4 percent), overall commercial banking sector credit remained positive, due to expansions in housing mortgages (+3.3 percent), business loans (+1.9 percent), and an Afl. 111.5 million net purchase of government bonds by the commercial banks.

Inflation
In both the end of period (−0.7 percent) and the 12-month average price level (−0.4 percent), there has been a decline as measured by the Consumer Price Index (CPI). Both decreases were primarily the result of a reduction (−14.0 percent) in electricity tariffs in January 2017. The 12-month core inflation (excluding energy and food) reached 0.3 percent, mainly reflecting an increase in the housing and hotel & restaurant components.

Tourism
During the first eight months of 2017, the weakness in the Venezuelan tourism market continued to weigh on tourist arrivals (−6.8 percent) and visitor nights (−3.1 percent). On the other hand, a growth was observed in cruise visitors (+22.8 percent), while the U.S. tourism market performed favorably, reflected in an upturn in tourism receipts recorded at the commercial banks (+5.5 percent).

Money supply
Money supply registered a slight decrease of Afl. 3.1 million to Afl. 4,164.5 million, compared to end-December 2016. This resulted from a contraction in the net foreign assets (−Afl. 36.6 million, excluding revaluation differences), partly offset by an increase in the net domestic assets (+Afl. 33.4 million). The growth in the domestic component of the money supply resulted from surges in credit to private (+Afl. 115.0 million) and public (+Afl. 60.5 million) sectors, which were offset by a fall in the non-credit related balance sheet items (−Afl. 142.0 million). On the other hand, the drop in the net
foreign assets stemmed mostly from transactions associated with the import of goods, the payments of other services, and transfers to foreign accounts. This was largely counter-balanced by foreign exchange inflows related to tourism activities.

Financial markets
Contractions were recorded in the weighted average interest rate on new loans (−1.4 percentage points to 5.9 percent) and in the weighted average interest rate on new deposits (−0.5 percentage point to 1.4 percent), when compared to the previous month. Consequently, the weighted average interest rate margin on new loans and deposits fell by 1.0 percentage point to 4.5 percent.

Advance rate
The determinants of the CBA’s advance rate stayed stable. The margin between the CBA’s advance rate and the Federal Funds rate stood at 0.16 percentage point. Consequently, there was no need to change the CBA’s advance rate.

Centrale Bank van Aruba
December 20, 2017