CENTRALE BANK VAN ARUBA

International reserves remain adequate and cover 10 months of current account payments

Press Release

After reviewing the most recent economic and monetary data, the Monetary Policy Committee (MPC)[1] of the Centrale Bank van Aruba (CBA) decided to keep the reserve requirement at 7.0 percent. The reserve requirement refers to the minimum amount of reserves that commercial banks must hold at the CBA and is equal to 7.0 percent of their liabilities with maturity less than 2 years. The following information and analysis were considered in reaching this decision.

International reserves

International reserves (including revaluation differences of gold and foreign exchange holdings) up to and including September 4, 2020, strengthened by Afl. 338.6 million compared to the end of December 2019. This expansion was the result of a sharp drop in imports due to reduced tourist and domestic demand, external financing received by the government, the foreign exchange measures taken by the CBA, and a revaluation of the gold holdings of the CBA attributed to an increase in the market price of gold on the international market. Official reserves increased by Afl. 400.8 million. Consequently, the official reserves and the international reserves grew to, respectively, Afl. 2,165.6 million and Afl. 2,238.2 million as of September 4, 2020. Accordingly, the level of reserves remained adequate when benchmarked against the critical level of 3 months of current account payments and the ARA[2] metric by the IMF (Figure 1). At the end of August 2020, international reserves covered 10.6 months of current account payments, while official reserves covered 104.4 percent of the ARA.

[1] 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.

[2] The IMF ARA metric refers to "Assessing Reserve Adequacy Metric" from the International Monetary Fund, which measures the adequacy of official reserves by benchmarking these against a weighted average of broad money, intercompany lending, short-term and long-term debt, and export of goods and services.

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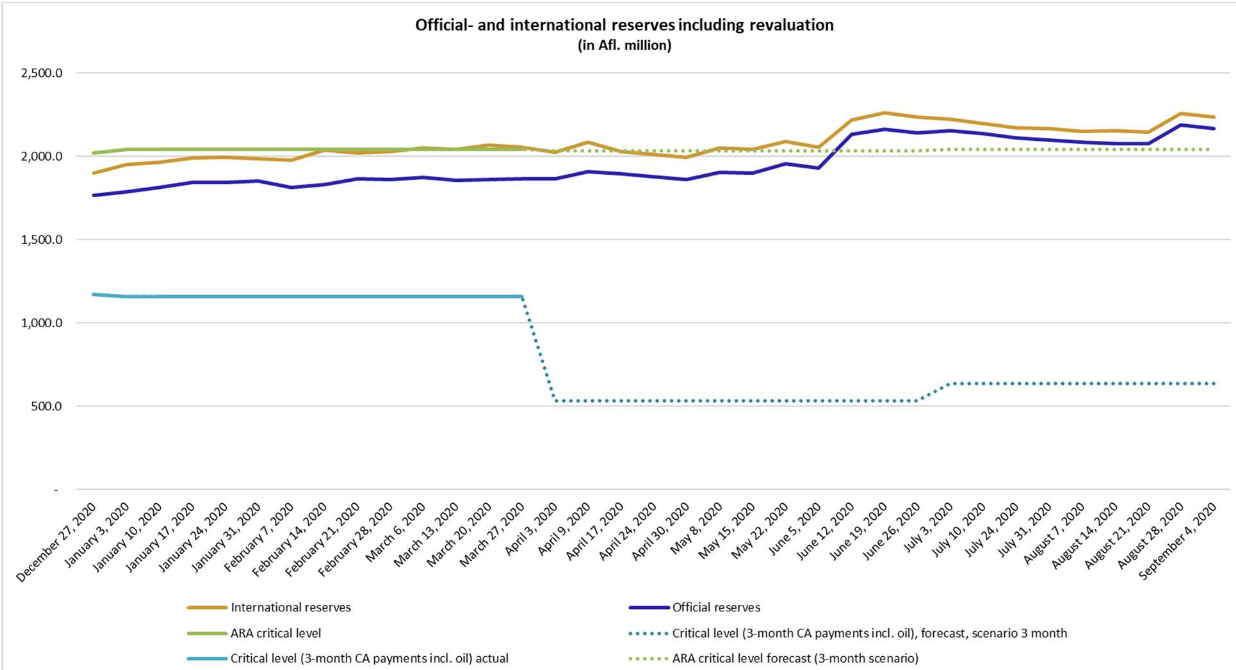

Figure 1: Reserves

Credit developments

In August 2020, total credit decreased by Afl. 12.3 million or 0.3 percent, when compared to the end of 2019. This was mainly driven by a decrease in government bonds (-13.8 percent), which is recorded in the loan category "other". This contraction was the result of the expiration of government bonds held by the commercial banks. In contrast, loans to individuals rose (+1.6 percent) and was attributed to an expansion (+2.7 percent) in housing mortgages. For the same period, a rise (+0.9 percent) was noted in business loans, reflecting an increase in term loans above 2 years and in commercial mortgages.

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Inflation

Inflation based upon the CPI was 0.9 percent in August 2020, compared to the corresponding month a year earlier (Figure 2). This was mainly attributed to the component 'recreation and culture'. The 12-month average inflation rate slowed down to 3.0 percent in August 2020, down from a peak of 4.6 percent reached in February and March 2020. The deceleration in 12-month average inflation was due to diminishing contributions of the food and energy components. The 12-month average inflation is expected to further decrease in the remainder of the year, due to a cut in electricity tariffs since January 1, 2020, and assuming a lower and more stable price in oil and no tax increases. When excluding energy and food, the 12-month average core inflation rate stood at 3.0 percent in August 2020. The inflation rate excluding energy and food was equal to the overall inflation rate, because the contribution of the food component to inflation offset the contribution of the energy component.

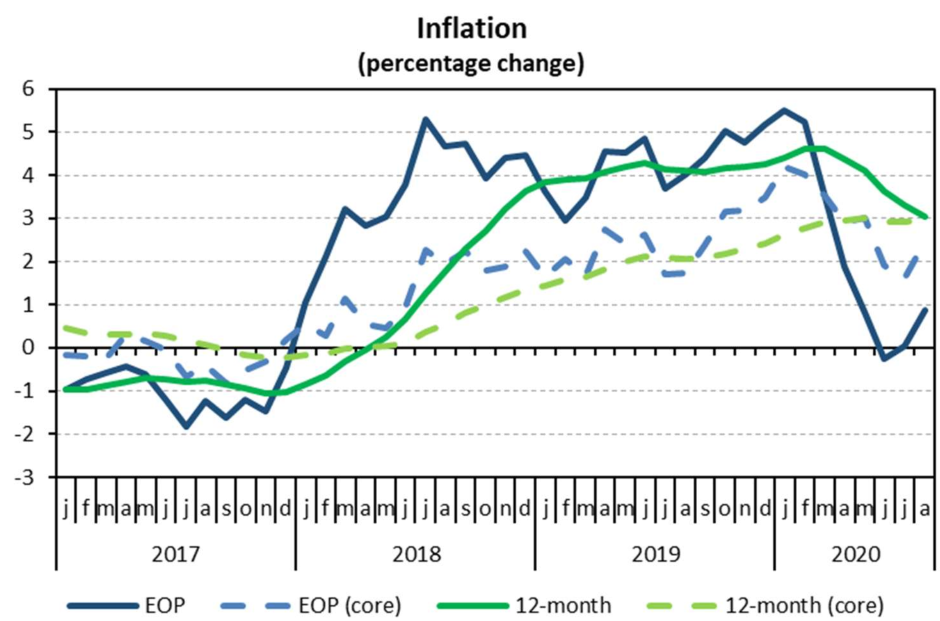

Figure 2: Inflation

Prudential liquidity

The prudential liquidity of commercial banks (31.8 percent), which measures the amount of their liquid assets to their total net assets, remained comfortably adequate in August 2020, compared to the minimum required prudential liquidity (15.0 percent).

Centrale Bank van Aruba

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