CENTRALE BANK VAN ARUBA

International reserves remain adequate

Press Release

During its meeting of November 13, 2020 and 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 October 30, 2020, strengthened by Afl. 285.0 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 that was attributed to an increase in the market price of gold on the international market. Official reserves increased by Afl. 345.6 million. Consequently, the official and international reserves grew to, respectively, Afl. 2,110.3 million and Afl. 2,184.5 million as of October 30, 2020. Accordingly, the level of reserves remained adequate when benchmarked against the current account import payments and the ARA[2] metric by the IMF (Figure 1). At the end of October 2020, international reserves covered 9.1 months of current account import payments, while official reserves covered 106.6 percent of the ARA metric.

[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.

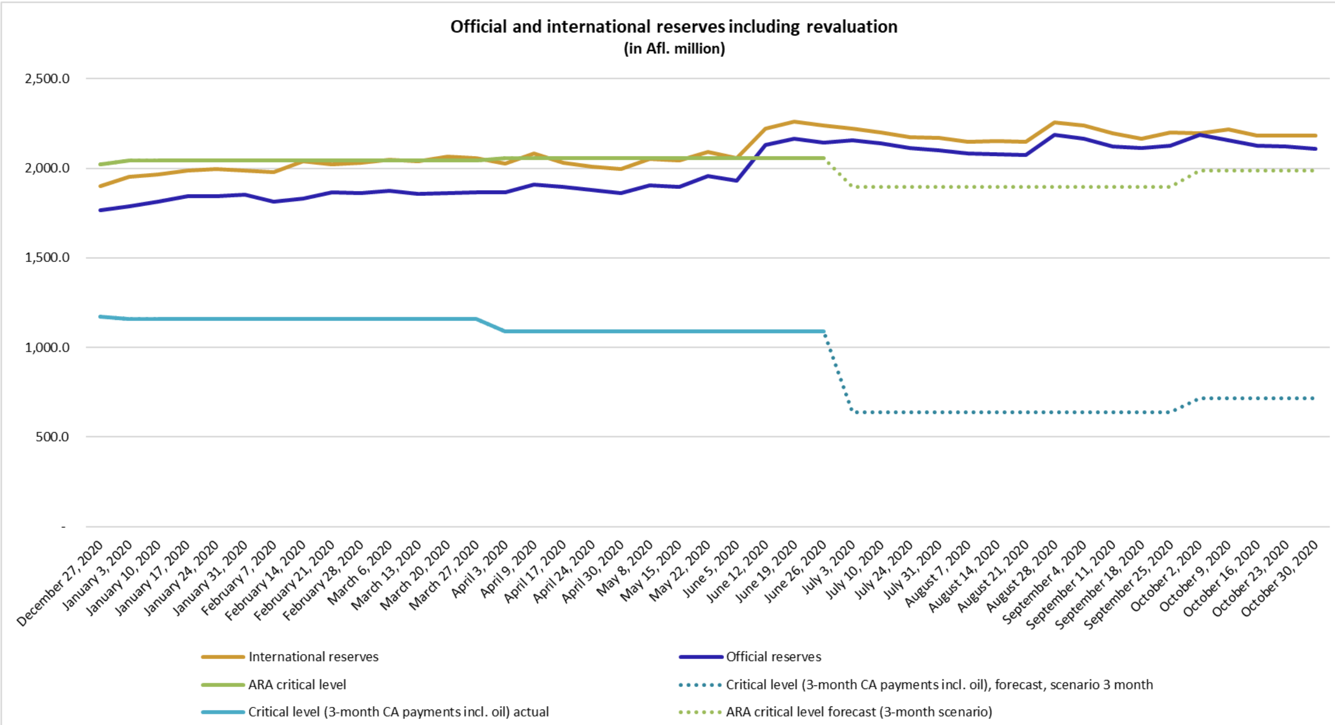

Figure 1: Reserves

Credit developments

In September 2020, total credit rose by Afl. 62.6 million or 1.6 percent, when compared to the end of 2019. This was mainly driven by the category "business loans", which recorded an expansion of Afl. 38.4 million (+2.5 percent). Additionally, the component "loans to individuals" contributed to the increase in total credit (+Afl. 33.2 million/+1.7 percent). In contrast, the category "other" decreased by Afl. 9.0 million (-1.6 percent), the result of the expiration of government bonds held by the commercial banks.

Inflation

The CPI was 0.9 percent higher in September 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 2.7 percent in September 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 during the remainder of the year, due to reduced electricity tariffs as of January 1, 2020, and assuming a lower and more stable price of oil and no tax increases. When excluding energy and food, the 12-month average core inflation rate stood at 3.0 percent in September 2020.

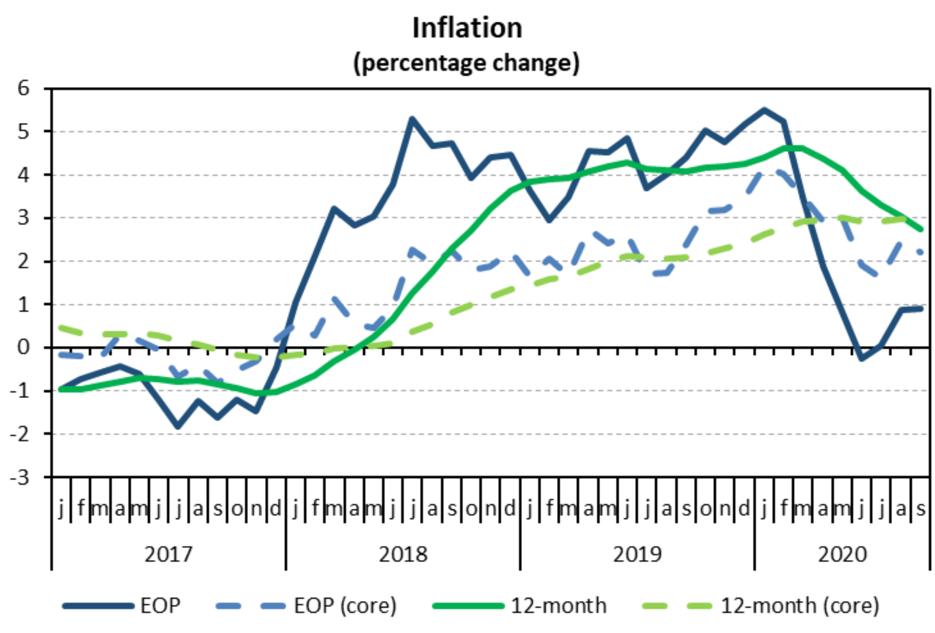

Figure 2: Inflation

Prudential liquidity

The prudential liquidity of commercial banks (31.3 percent), which measures the amount of their liquid assets to their total net assets, remained at a very comfortably level, compared to the minimum required prudential liquidity ratio (15.0 percent).

Centrale Bank van Aruba
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