CENTRALE BANK VAN ARUBA

The Central Bank of Aruba raised the reserve requirement rate by two percentage points as of April 1, 2022, to reduce commercial banks' excess liquidity.

Press Release

During its meeting of March 16, 2022, the Monetary Policy Committee (MPC)[1] of the Centrale Bank van Aruba (CBA) decided to raise the reserve requirement rate[2] from 16.0 percent to 18.0 percent as of April 1st, 2022. This decision was primarily based on the elevated level of excess liquidity at the commercial banks in addition to rising inflationary pressures, as well as the modest reduction in excess liquidity that resulted from the previous increase of the reserve requirement rate.

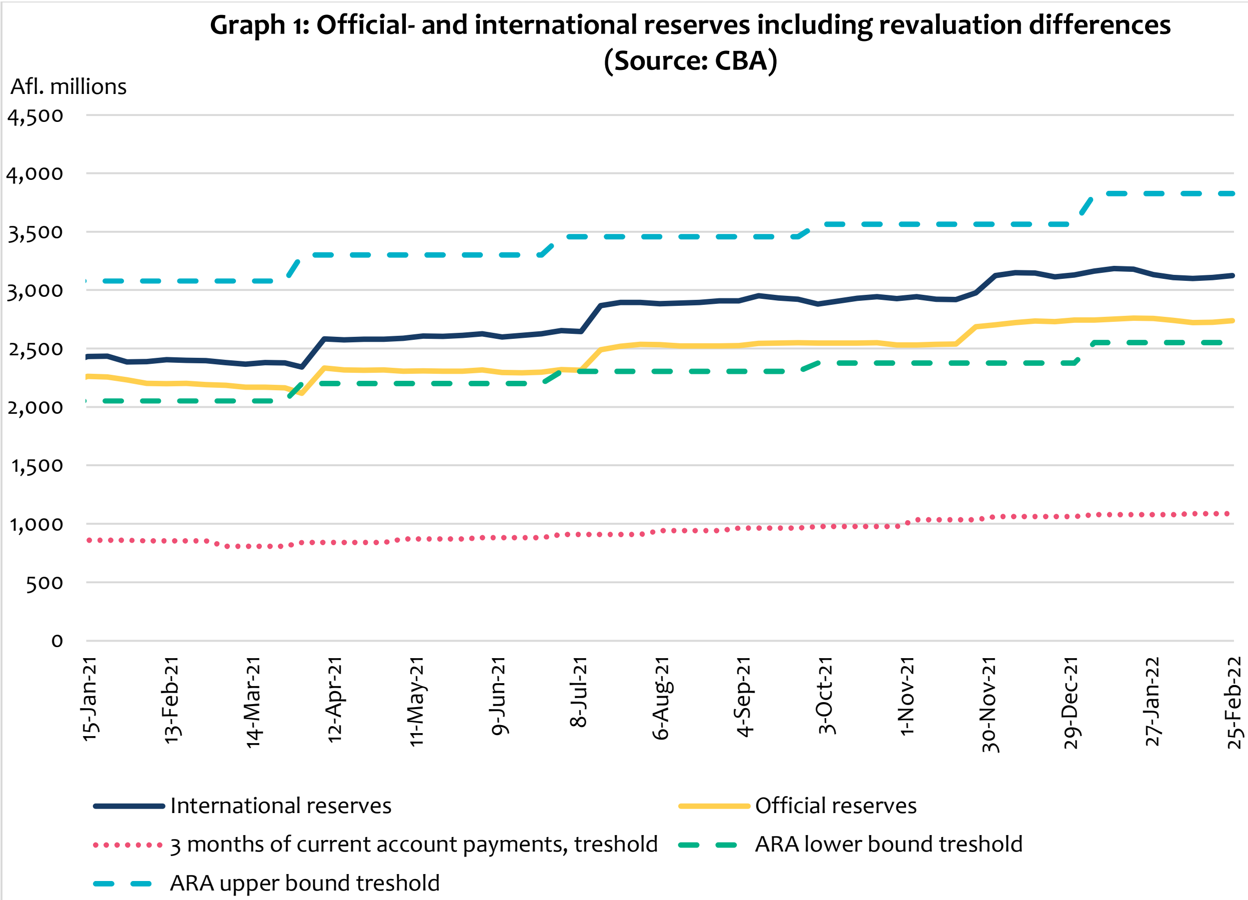
The MPC considered the following information and analysis in reaching its decision:

International reserves

International reserves, comprising official reserves and reserves held by the commercial banks, slightly decreased by Afl. 6.0 million (Graph 1). Similarly, total official reserves per February 25, 2022, (including revaluation differences of gold and foreign exchange holdings) edged down by Afl. 5.5 million on February 25, 2022, compared to end-December 2021. Consequently, on February 25, 2022, the official reserves and the international reserves stood at Afl. 2,739.4 million and Afl. 3,123.6 million, respectively. For the remainder of 2022, increases in official and international reserves are expected as a result of tourism inflows, foreign borrowings, as well as (incoming) foreign direct investments.

Consequently, international reserves are anticipated to stay well-above the benchmark of 3 months of current account payments (including oil) in 2022. Official reserves are also forecasted to stay within the optimal range of the IMF ARA[3] metric (Table 1).

[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 reserve requirement refers to the minimum amount of reserves that commercial banks must hold at the CBA and is (currently) equal to 18.0 percent of their liabilities with a maturity less than 2 years.
[3] 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.



Graph 1: Developments in official and international reserves

Table 1: Reserve benchmarks monitored in 2022

	Jan	Feb[3]
CA Coverage Ratio[1]	8.6	8.1
IMF ARA Metric[2]	107.6	106.9

[1]In months

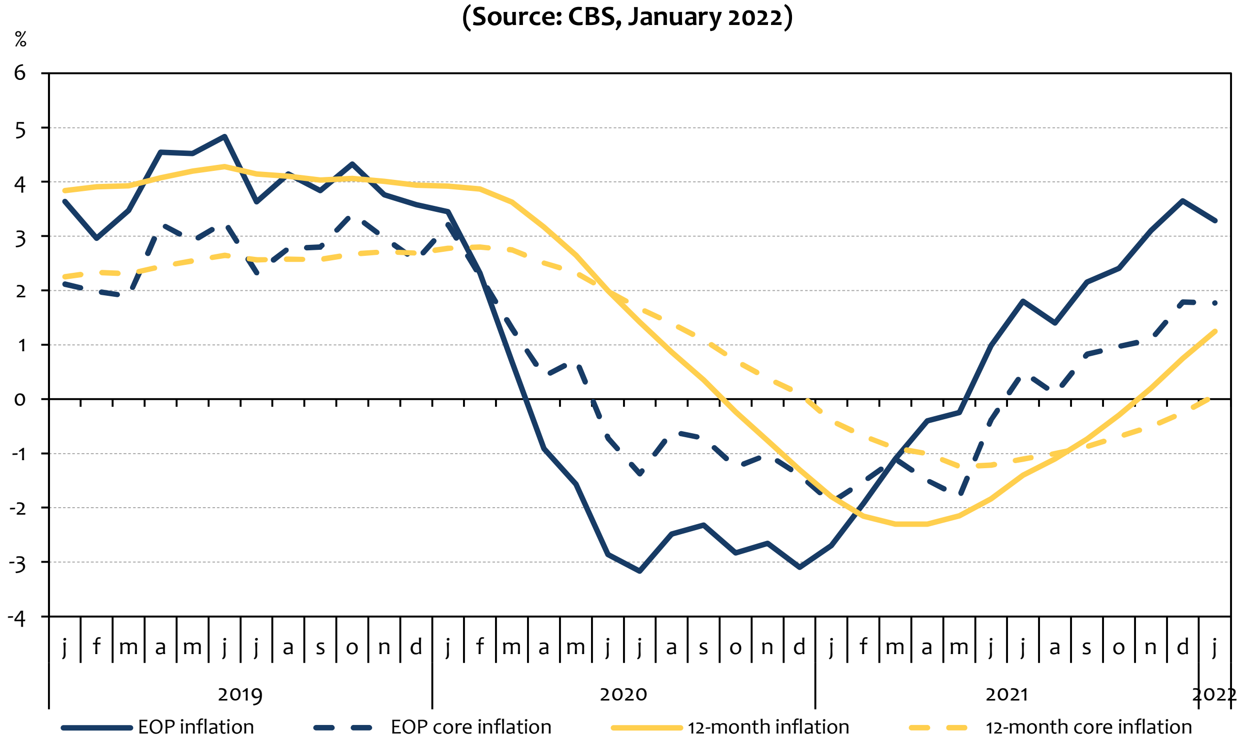
[2]In percent

[3] On the 25th of February, 2022

Inflation

In January 2022, the CPI rose by 3.3 percent, compared to the corresponding month a year earlier (Graph 2). The rise in the CPI compared to a year earlier was caused mainly by higher gasoline prices, which also affected the 'transport' component (1.5 percentage points contribution). This CPI hike was amplified by higher prices for the components 'food and non-alcoholic beverages' (0.5 percentage point contribution), clothing and footwear, housing, and household operations (all 0.3 percentage point contribution). The 12-month average inflation climbed to 1.2 percent, and is expected to continue to accelerate throughout 2022. This expectation is based on the rising price level particularly in the United States and Europe, which is the result of (1) the war in Ukraine, (2) the (partial) lockdown of cities in China, and (3) the ongoing logistical problems hampering production and the supply chain.

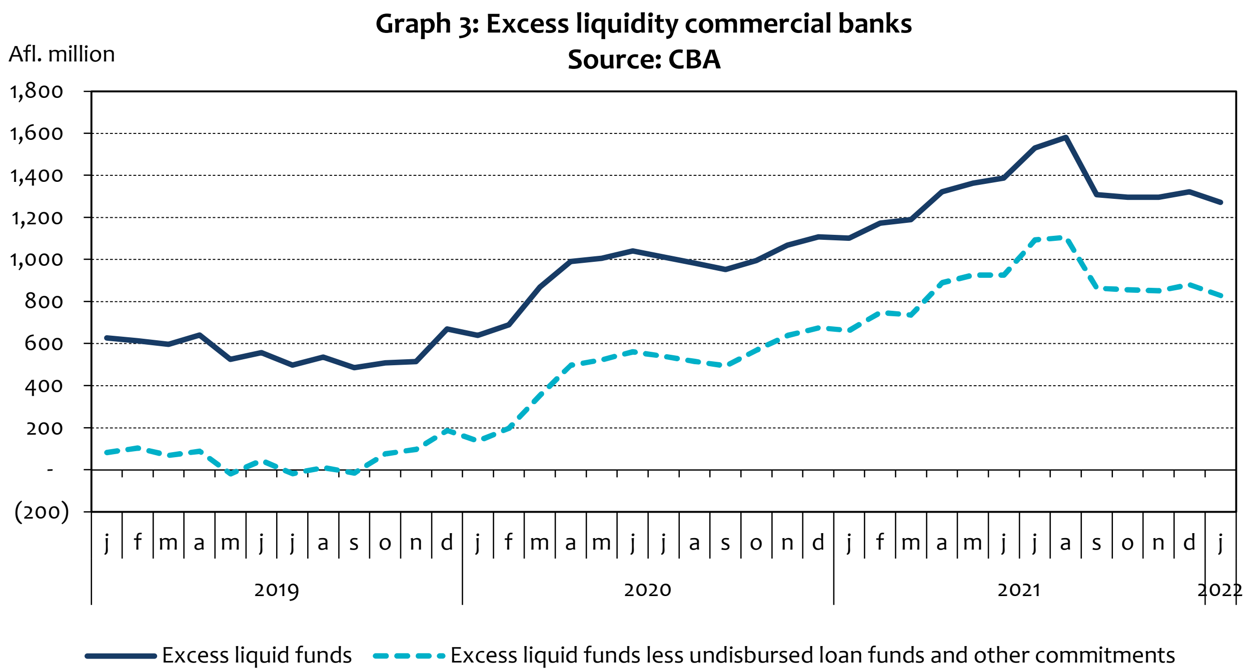
Graph 2. Inflation based on the consumer price index of Aruba
(Source: CBS, January 2022)



Graph 2: Inflation developments

Commercial bank liquidity

Aggregated excess liquidity fell from Afl. 1,320.5 million in December 2021 to Afl. 1,270.9 million in January 2022 (Graph 3). This drop was mainly due to the one percentage point uptick in the reserve requirement on the 1st of January 2022, which mopped up Afl. 48.1 million of excess liquidity. Nevertheless, the level of excess liquidity remained significantly above pre-pandemic levels. The elevated level of excess liquidity is the result of the continued subdued credit demand at local commercial banks, in addition to a heightened level of liquid funds held by commercial banks[4].



Graph 3: Excess liquidity developments

[4] Liquid funds comprise of cash, short-term securities, government bonds and other securities held by commercial banks; as well as their current account balance and time deposits at the CBA. Other components of liquid funds are interbank demand deposits and short-term time deposits.

Credit developments

In January 2022, total credit of the commercial banks contracted by Afl. 16.5 million or 0.4 percent to Afl. 3,808.4 million, when compared to December 2021. This decline was mostly caused by a downturn in ‘business loans’ (Afl. 11.9 million/ 0.8 percent), which largely resulted from dwindling current account loans (Afl. 5.4 million) and term loans with a maturity longer than 2 years (Afl. 4.0 million). In addition, faltering ‘loans to individuals’ (Afl. 5.0 million/ 0.3 percent) also contributed to lower overall credit. In particular, its subcomponent ‘consumer credit’ shrunk by Afl. 4.9 million. For the remainder of 2022, credit is expected to stay flat.

Developments in commercial bank deposits

In January 2022, overall resident deposits stood at an elevated level of Afl. 5,132.3 million, although time deposits lessened by Afl. 38.0 million compared to December 2021. Furthermore, whereas savings edged down by Afl. 1.9 million, demand deposits inched up by Afl. 3.7 million.

Centrale Bank van Aruba
June 16, 2022