CENTRALE BANK VAN ARUBA

The reserve requirement was raised by two percentage points as of June 1st, 2022

Press Release

In line with the Monetary Policy Committee's (MPC) task to evaluate, determine and provide transparency on the monetary policy of the Central Bank of Aruba (CBA), the CBA communicates the following. During its meeting of May 24, 2022, the MPC decided to raise the reserve requirement rate from 20.0 percent to 22.0 percent as of June 1st, 2022. Accordingly, commercial banks must hold a minimum balance at the CBA that is equal to 22.0 percent of their clients' short-term deposits. The decision to raise the reserve requirement was primarily based on the persistent elevated level of excess liquidity at the commercial banks, as well as the continued rise in inflationary pressures.

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

International reserves

International reserves, comprising the official reserves of the CBA and foreign reserves held by the commercial banks, widened by Afl. 398.9 million (Graph 1) on April 29, 2022, compared to end-December 2021. The subcomponent official reserves also rose by Afl. 319.7 million in that same period, while those held by the commercial banks grew by Afl. 79.2 million. Consequently, on April 29, 2022, official and international reserves stood at Afl. 3,064.6 million and Afl. 3,528.5 million, respectively. For the remainder of 2022, bolstered official and international reserves are expected as a result of more foreign exchange inflows from tourism, foreign borrowings, as well as incoming foreign direct investments. Therefore, international reserves are anticipated to stay well-above the benchmark of 3 months of current account payments (which include import payments, payments made to foreign investors, and foreign transfers such as remittances). Official reserves are also forecasted to stay within an adequate range of the International Monetary Fund's (IMF) Assessing Reserve Adequacy (ARA) metric (Table 1). The IMF ARA metric is based on a weighted average of broad money, intercompany lending, external debt, and export of goods and services.

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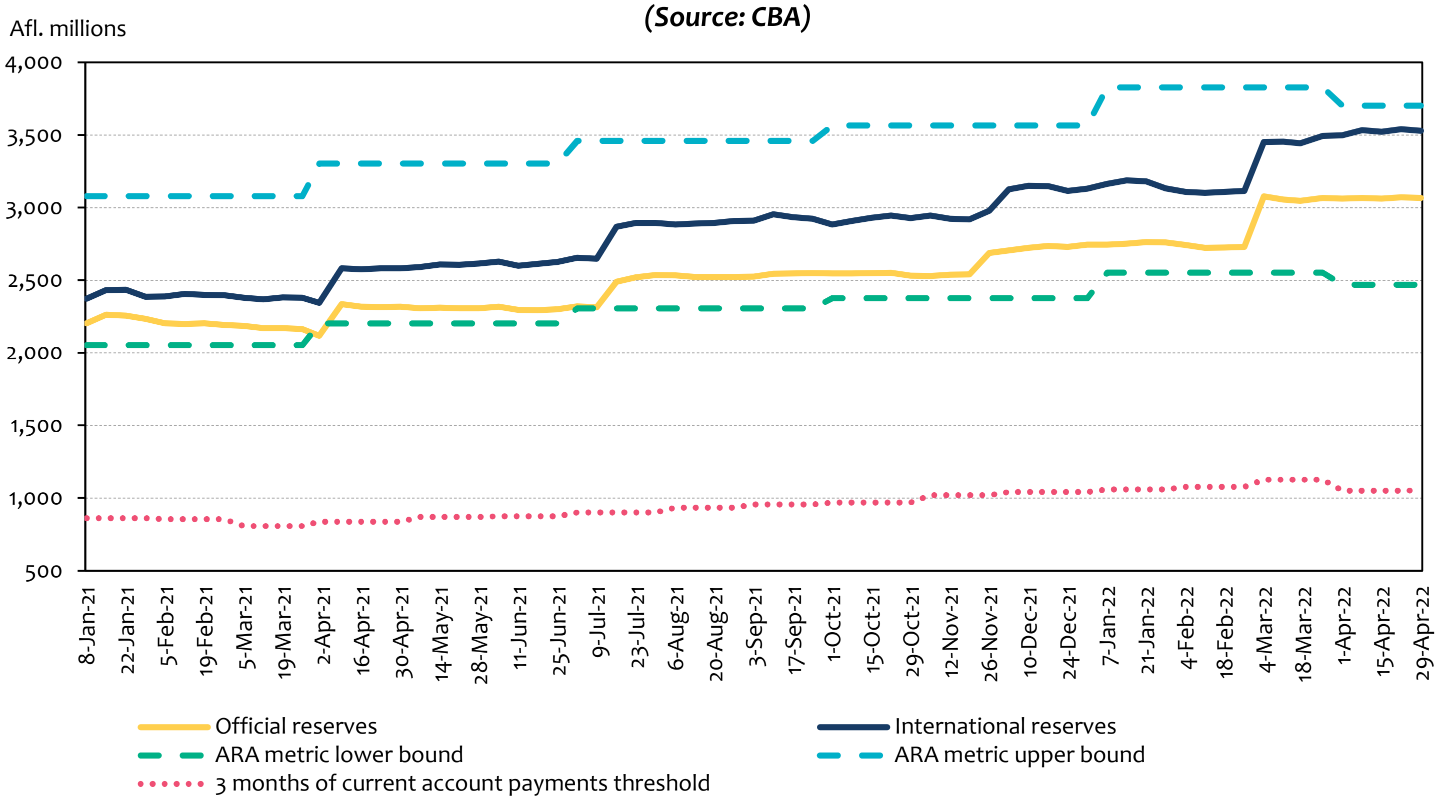
Graph 1: Official- and international reserves including revaluation differences
(Source: CBA)



Graph 1: Developments in foreign reserves

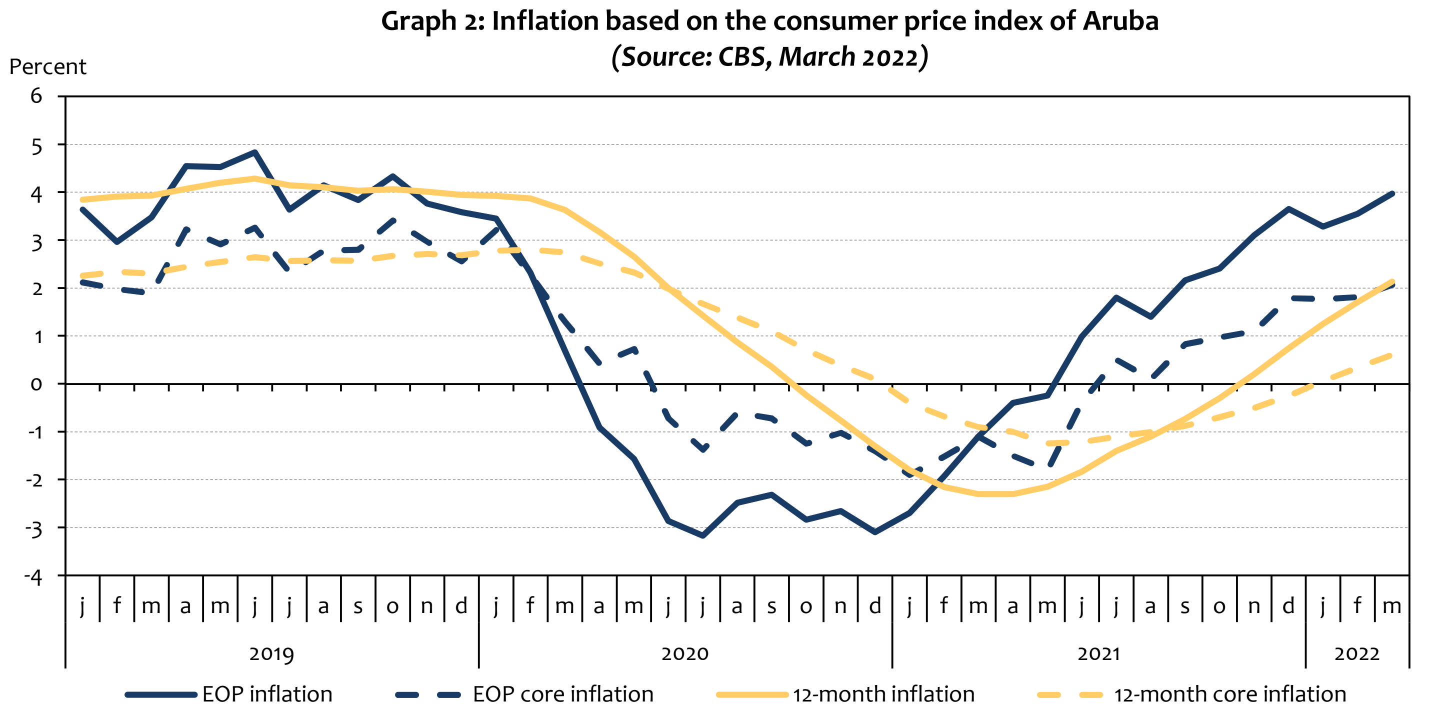
Table 1: Reserve benchmarks monitored in 2022

	Jan	Feb	Mar	Apr
Current account coverage ratio[1]	8.7	8.7	9.3	10.2
IMF ARA Metric[2]	107.6	107.0	111.6	124.2

[1]The number of months of current account payments that is covered by the international reserves.
[2]The ratio between the level of official reserves and the minimum adequate level (following IMF), in percent.

Inflation

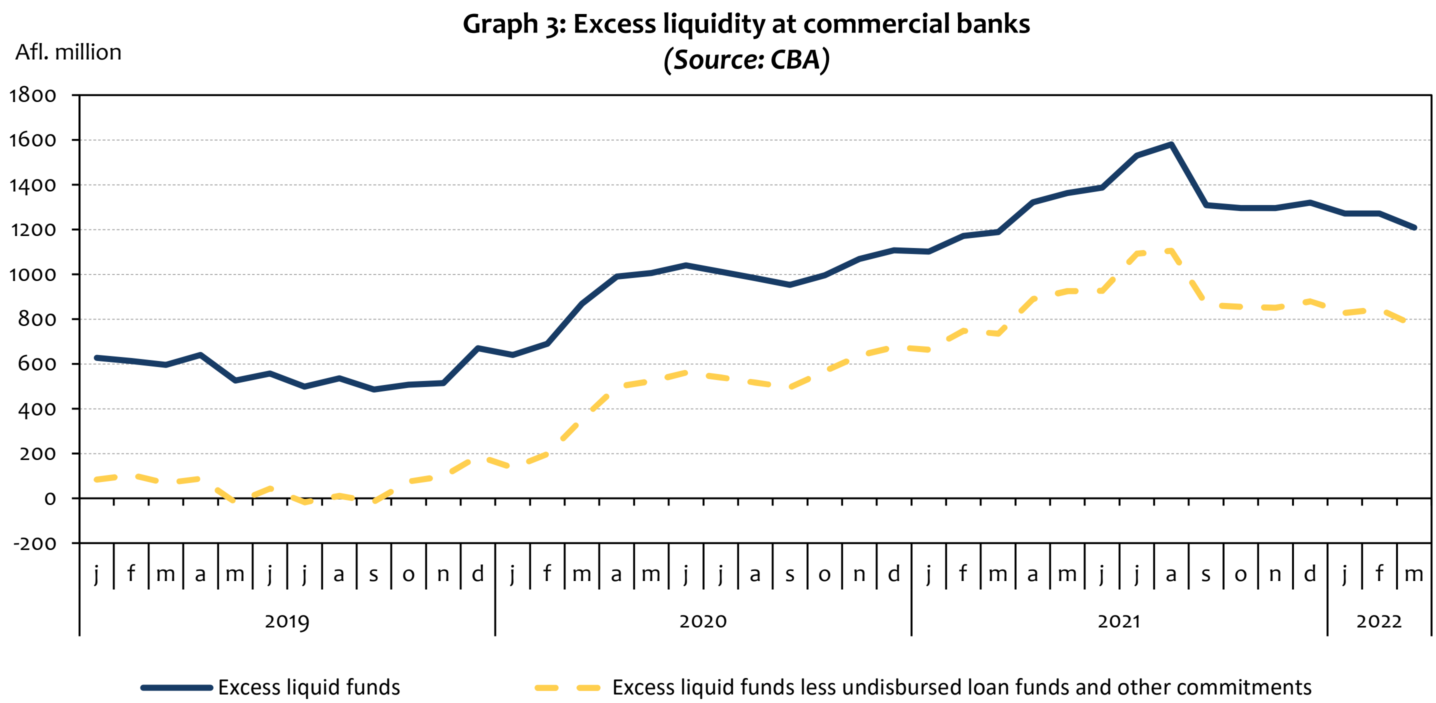
In March 2022, the year-over-year CPI rose by 4.0 percent compared to the same month a year earlier (Graph 2), up from 3.5 percent in February 2022. The jump in the CPI compared to a year earlier was caused mainly by higher gasoline prices, impacting thereby the 'transport' component (1.8 percentage points contribution). Gains in other components also drove up inflation, i.e., the components 'food and non-alcoholic beverages' (0.8 percentage point contribution), 'clothing and footwear' (0.4 percentage point contribution), 'recreation and culture' (0.3 percentage point contribution), and 'housing' (0.3 percentage point contribution). The 12-month average inflation for March 2022 climbed to 2.1 percent, and is likely to continue to increase throughout 2022. This expectation is based on the soaring price level particularly in the United States and Europe, which is the result of (1) rising oil prices, (2) the enduring logistical problems hampering production and the supply chain, and (3) persistently higher demand. Meanwhile, in March 2022, core inflation reached 2.1 percent on a year-over-year basis, and 0.6 percent on a 12-month average basis.



Graph 2: Inflation developments

Commercial bank excess liquidity

Aggregated excess liquidity fell from Afl. 1,320.5 million in December 2021 to Afl. 1,208.0 million in March 2022 (Graph 3). This drop in excess liquidity was mainly due to the consecutive hikes in the reserve requirement in the first three months of 2022. Nevertheless, the level of excess liquidity remained significantly above pre-pandemic levels, because of a heightened level of liquid funds held by the local commercial banks, exacerbated by the continuously subdued credit demand. Liquid funds comprise cash, government bonds, and other liquid assets.



Graph 3: Excess liquidity developments

Credit developments

In March 2022, total credit extended by the commercial banks contracted by Afl. 41.2 million (or 1.1 percent) to Afl. 3,783.7 million, when compared to December 2021. This decline was mostly caused by a downturn in 'business loans' (Afl. 22.7 million). Furthermore, the components 'other' and 'loans to individuals' put additional downward pressure on credit during the period under review, considering their respective declines of Afl. 10.4 million and Afl. 8.0 million. For the remainder of 2022, credit is expected to stay relatively flat. Therefore, the level of excess liquidity remains unaltered, giving cause to raise the reserve requirement.

Developments in commercial bank deposits

In March 2022, overall deposits at the local commercial banks (excluding deposits of the GoA and interbank deposits) stood at an elevated level of Afl. 5,118.2 million, up from Afl. 5,079.0 million registered in December 2021. Deposits climbed due to expanding demand deposits (Afl. 135.7 million), as well as an inching up in savings (Afl. 12.8 million), although mitigated by a reduction in time deposits (Afl. 109.3 million).

Centrale Bank van Aruba
August 9, 2022