CENTRALE BANK VAN ARUBA

# The CBA decided to raise the reserve requirement by two percentage points as of July 1, 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 June 17, 2022, the MPC decided to further raise the reserve requirement rate, i.e., from 22.0 percent to 24.0 percent as of July 1, 2022. Accordingly, commercial banks must hold a minimum balance at the CBA that is equal to 24.0 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 during its deliberation:

***International reserves***

International reserves, comprising the official reserves of the CBA and foreign reserves held by the commercial banks, widened by Afl. 385.0 million (Graph 1) on June 3, 2022, compared to the end of December 2021. The subcomponent official reserves also rose by Afl. 308.0 million, while those held by the commercial banks grew by Afl. 77.0 million. Consequently, on June 3, 2022, official and international reserves stood at Afl. 3,052.9 million and Afl. 3,514.6 million, respectively. For the rest of 2022, the CBA expects bolstered official and international reserves because of increased foreign exchange inflows from tourism, foreign borrowings, and a pick-up in foreign direct investments. Therefore, the CBA anticipates international reserves to amply hover above the minimum required three months of current account payments (including import payments, payments made to investors, and foreign transfers such as remittances). Official reserves are also forecasted to stay within an adequate range when benchmarked against 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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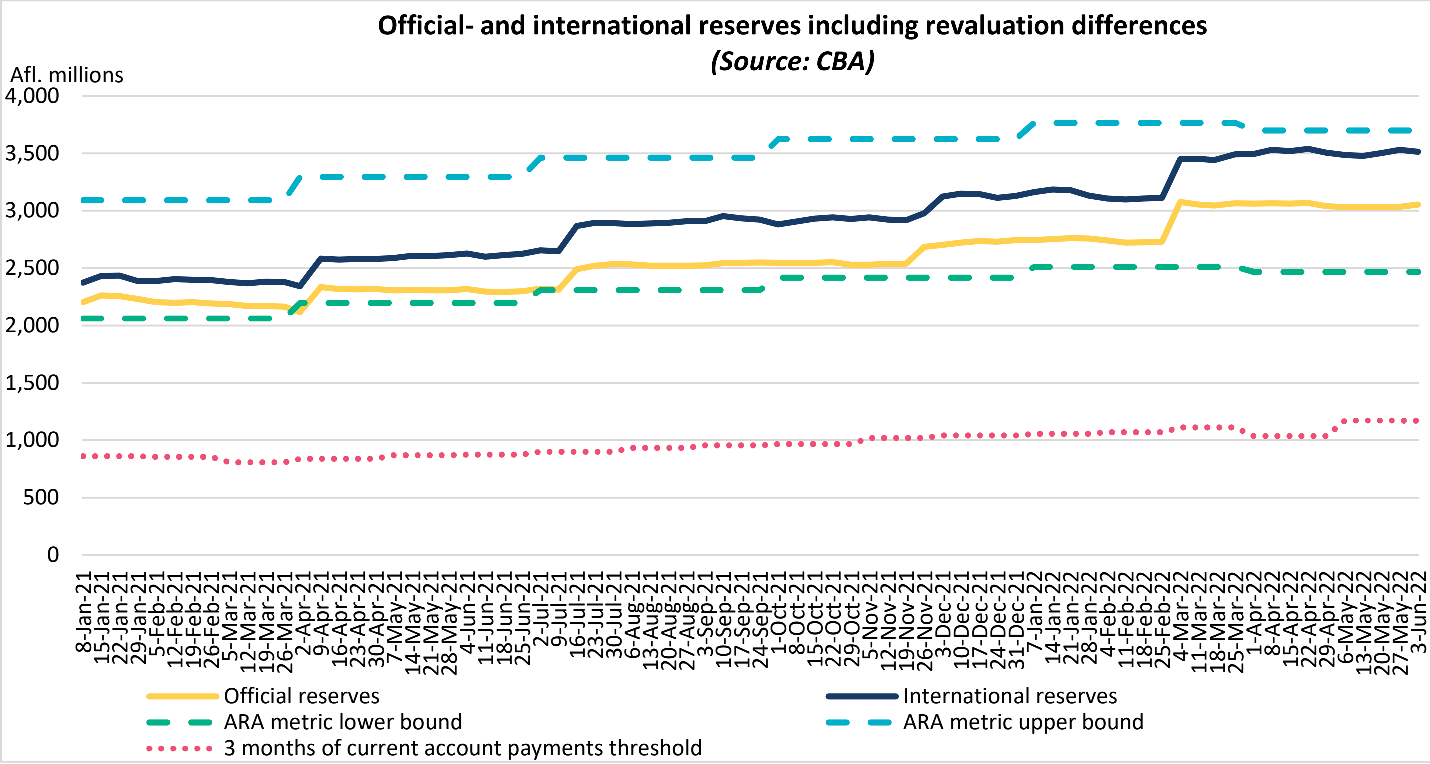



*Graph 1: Developments in foreign reserves*

**Table 1: Reserve benchmarks monitored in 2022**

| | Jan | Feb | Mar | Apr | May |
|---|---|---|---|---|---|
| Current account coverage ratio[1] | 8.7 | 8.7 | 9.3 | 10.2 | 9.0 |
| IMF ARA Metric[2] | 107.6 | 107.0 | 111.6 | 124.2 | 122.9 |

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

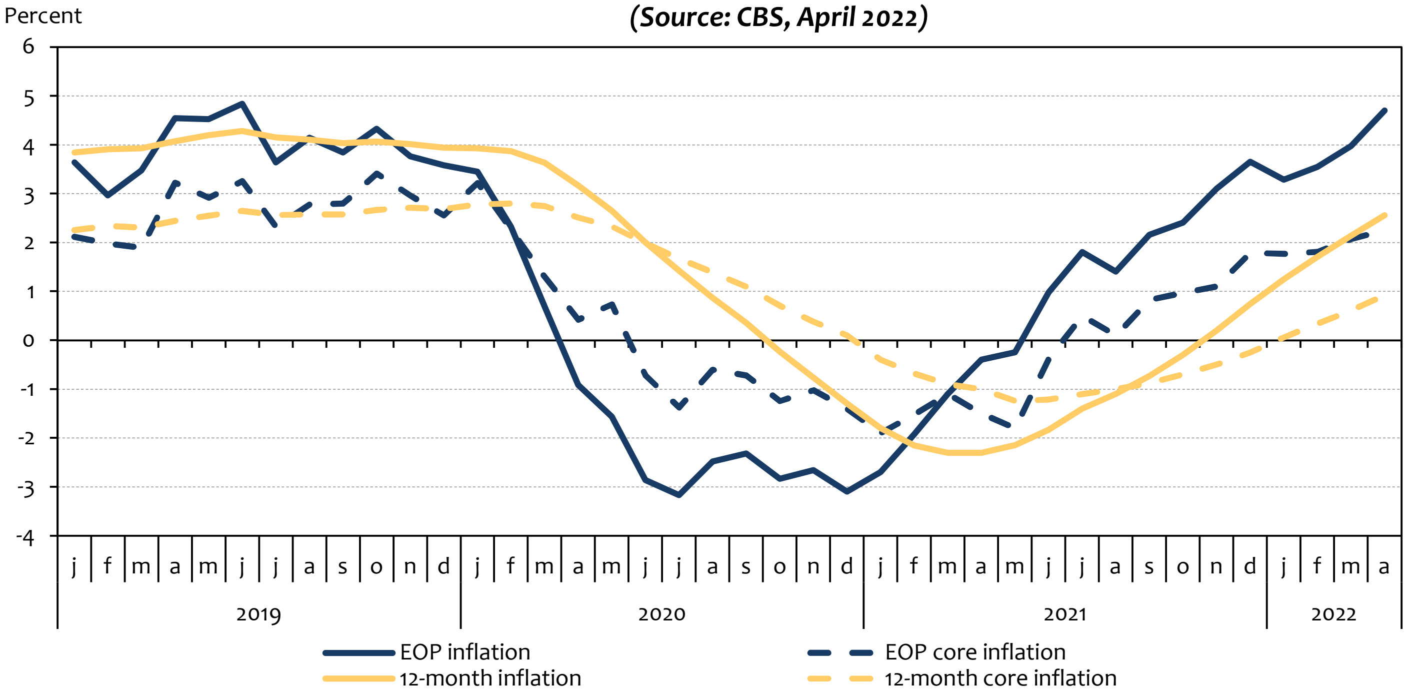
***Inflation***

In April 2022, the year-over-year Consumer Price Index (CPI) rose by 4.7 percent compared to the same month a year earlier (Graph 2). The jump in the CPI compared to a year earlier was caused mainly by gasoline prices, affecting the 'transport' category (2.6 percentage points contribution). Gains in other components also drove up inflation. These are the components 'food and non-alcoholic beverages' (0.9 percentage point contribution), 'recreation and culture' (0.4 percentage point contribution), 'restaurant and hotels' (0.3 percentage point contribution), and 'miscellaneous goods' (0.3 percentage point contribution).

The 12-month average inflation for April 2022 climbed to 2.6 percent and is expected to continue to increase throughout 2022. This expectation is based on the persistently soaring prices, particularly in the United States and

Europe. Surging inflation in these parts of the world results from (1) rising oil prices and (2) the enduring logistical problems hampering production and the supply chain. Meanwhile, in April 2022, core inflation reached 2.2 percent on a year-over-year basis and 0.9 percent on a 12-month average basis.

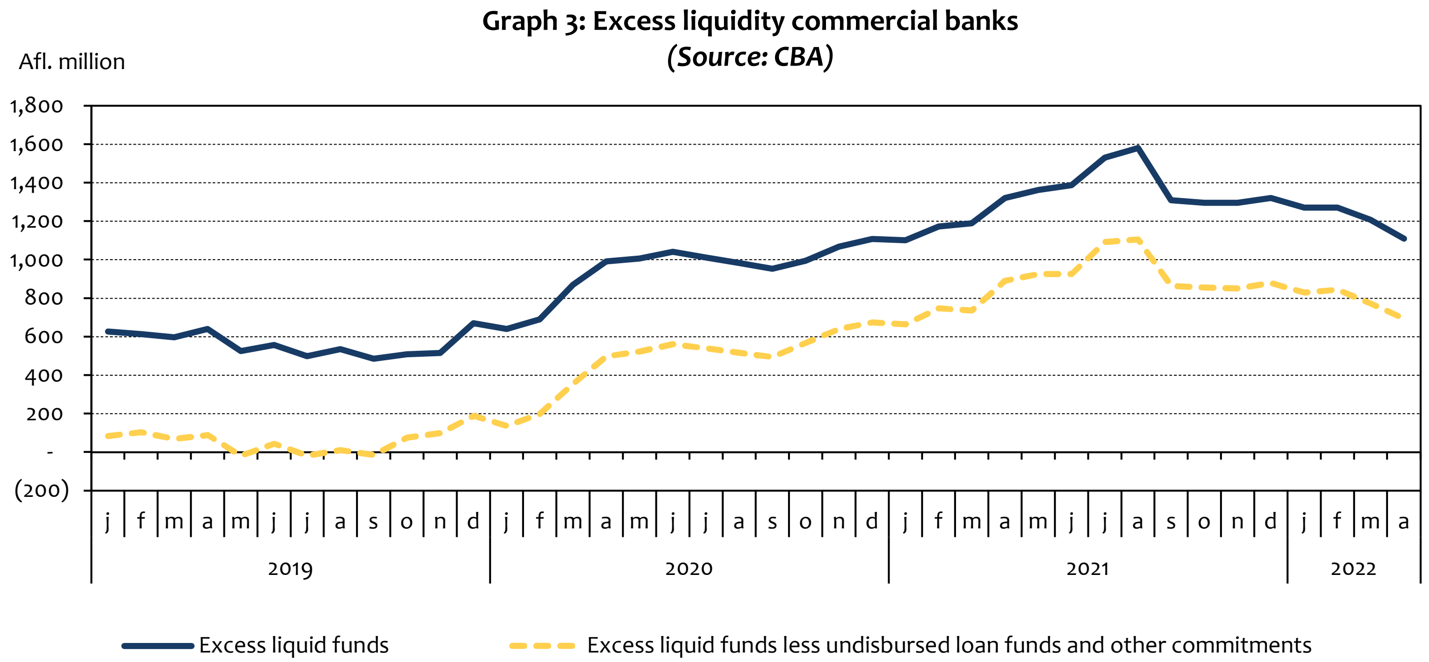
**Graph 2: Inflation based on the consumer price index of Aruba**
***(Source: CBS, April 2022)***




*Graph 2: Inflation developments*

***Commercial bank excess liquidity***

Aggregated excess liquidity fell from Afl. 1,320.5 million in December 2021 to Afl. 1,109.5 million in April 2022 (Graph 3). This drop in excess liquidity was primarily due to the consecutive hikes in the reserve requirement by the CBA in the first four months of 2022. Nevertheless, the level of excess liquidity remained significantly above pre-pandemic levels (+ Afl. 420.4 million), 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 April 2022, total extended credit by the commercial banks contracted by Afl. 34.9 million (or 0.9 percent) to Afl. 3,790.0 million, when compared to December 2021. This decline in credit was caused mainly by a downturn in 'business loans' (Afl. 25.0 million). Moreover, the component 'other' added more downward pressure on credit, dropping by Afl. 10.3 million. However, the category 'credit to individuals' inched up by Afl. 0.5 million. For the rest of 2022, the CBA expects credit to stay relatively unchanged. In that case, excess liquidity would remain high, giving cause to further raise the reserve requirement.

***Developments in commercial bank deposits***

In April 2022, overall resident deposits at the local commercial banks (excluding deposits of the Government of Aruba and interbank deposits) stood at an elevated level of Afl. 5,136.7 million, up from Afl. 5,079.0 million registered in December 2021. Resident deposits climbed due to expanding demand deposits (Afl. 150.0 million) as well as an inching up in savings (Afl. 6.7 million), although partly mitigated by a cutback in time deposits (Afl. 99.1 million).

Centrale Bank van Aruba
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