CENTRALE BANK VAN ARUBA

The CBA decided to maintain the reserve requirement at 24.0 percent as of August 1, 2022.

Press Release

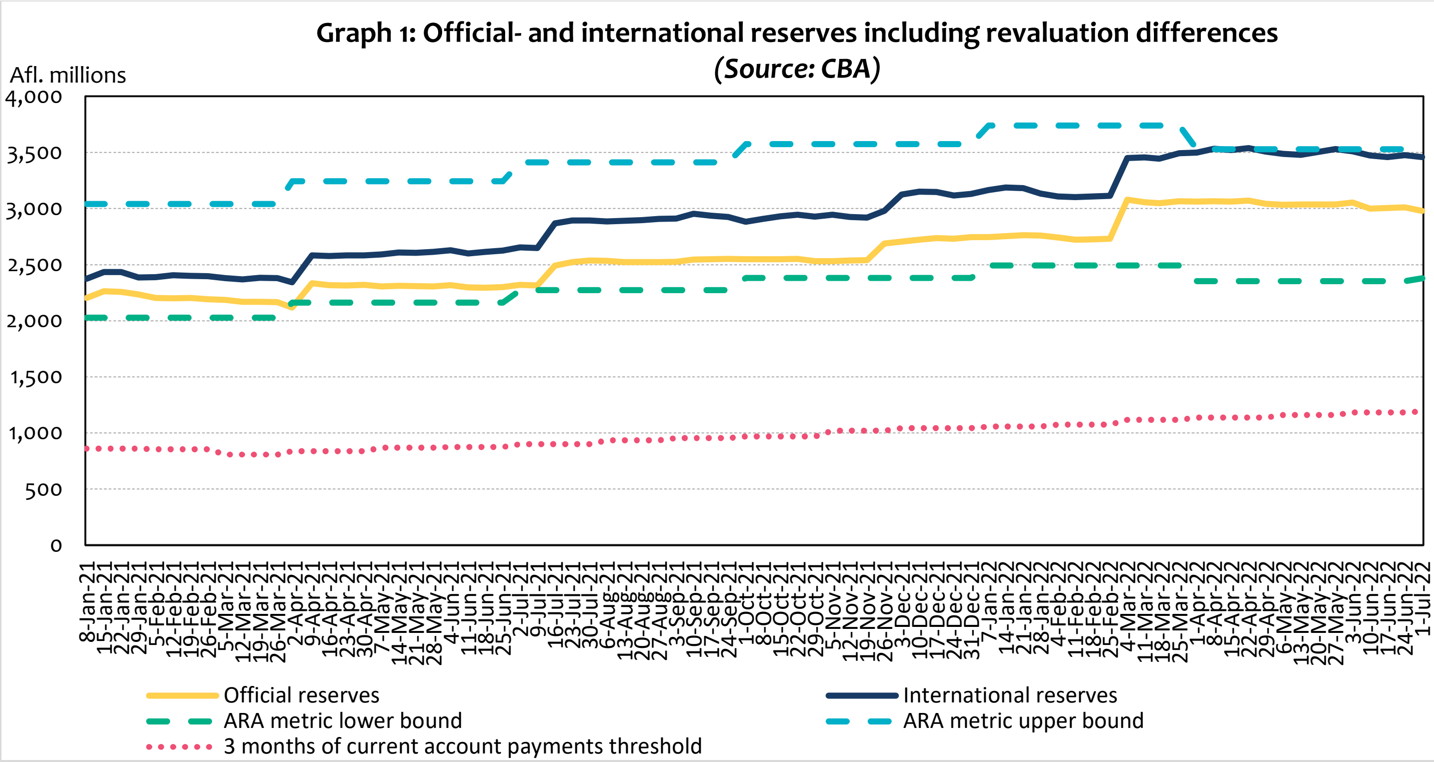
In line with the Monetary Policy Committee's (MPC) task to evaluate, determine, and provide transparency on the monetary policy actions of the Central Bank of Aruba (CBA), the CBA communicates the following. During its meeting on July 20, 2022, the MPC decided to keep the reserve requirement at 24.0 percent as of August 1, 2022. Accordingly, commercial banks must hold a minimum balance at the CBA equal to 24.0 percent of their clients' short-term deposits. This decision was mainly taken due to the drop and expected continuation in the downward trend in the excess liquidity of the commercial banks.

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. 329.0 million (Graph 1) on July 1, 2022, compared to end-December 2021. Official reserves also rose by Afl. 233.5 million, while the reserves held by the commercial banks grew by Afl. 95.5 million. Consequently, on July 1, 2022, official and international reserves stood at Afl. 2,978.4 million and Afl. 3,458.6 million, respectively. For the rest of 2022, the CBA expects strengthened official and international reserves because of increased foreign exchange inflows from tourism, and a pick-up in foreign direct investments. Maintaining reserve adequacy (through, among others, the reserve requirement) is critical to maintaining the fixed exchange rate between the Aruban florin and the US dollar. In this regard, the CBA anticipates international reserves to remain comfortably above the minimum required three months of current account payments (including import payments, interest payments made to investors, and foreign transfers such as money remittances by foreign workers).

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). Currently, the level of foreign exchange reserves remained adequate due to foreign inflows received by the Government of Aruba (GoA) in March 2022, in addition to the continued strong performance of the tourism sector. In the latter part of the year, the GoA will use the aforementioned inflows to make repayments of international loans that have become due.



Graph 1: Developments in foreign reserves

Table 1: Reserve benchmarks monitored in 2022

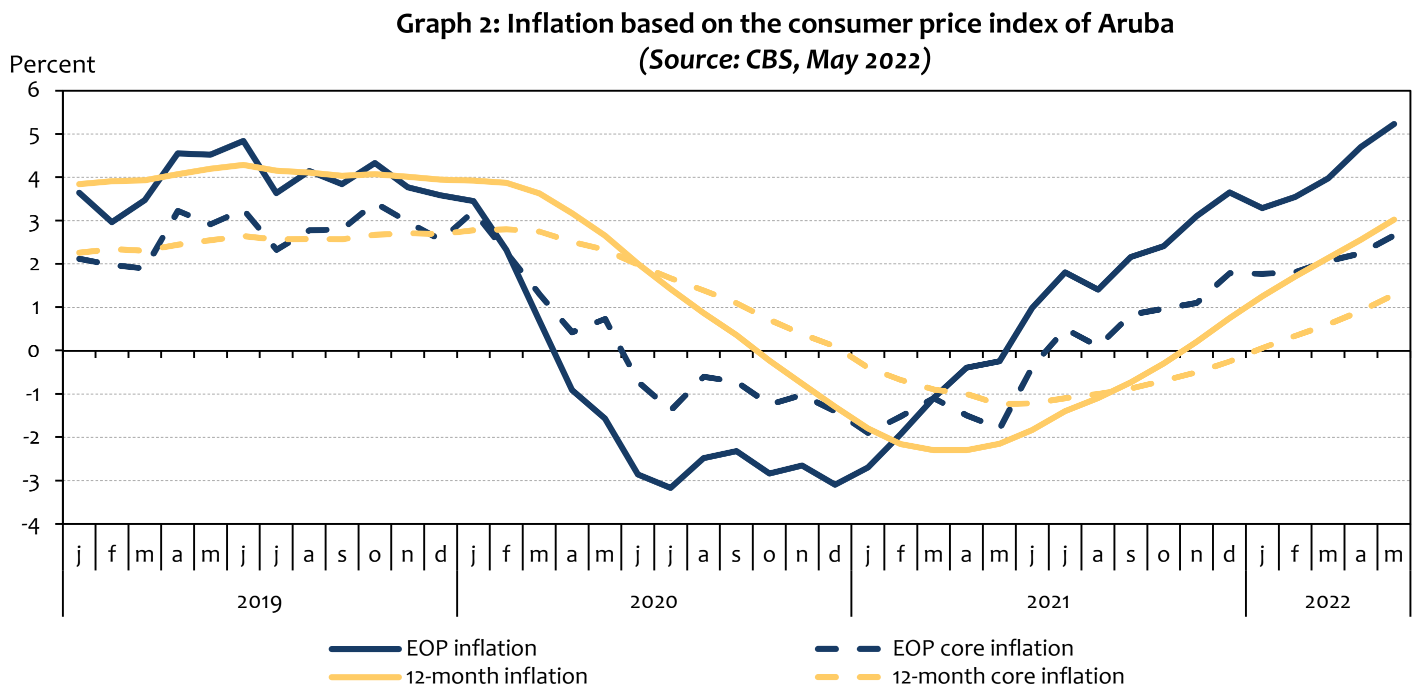
	Jan	Feb	Mar	Apr	May	June
Current account coverage ratio[1]	8.8	8.7	9.4	9.2	9.1	8.8
IMF ARA Metric[2]	110.1	109.5	122.8	128.0	128.6	126.6

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 May 2022, the year-over-year Consumer Price Index (CPI) rose by 5.2 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). Increases in other components also drove up inflation. These are the components' food and non-alcoholic beverages' (1.0 percentage point contribution), 'household operation' (0.5 percentage point contribution), 'clothing and footwear' (0.3 percentage point), 'restaurant and hotels' (0.3 percentage point contribution), and 'miscellaneous goods' (0.3 percentage point contribution).

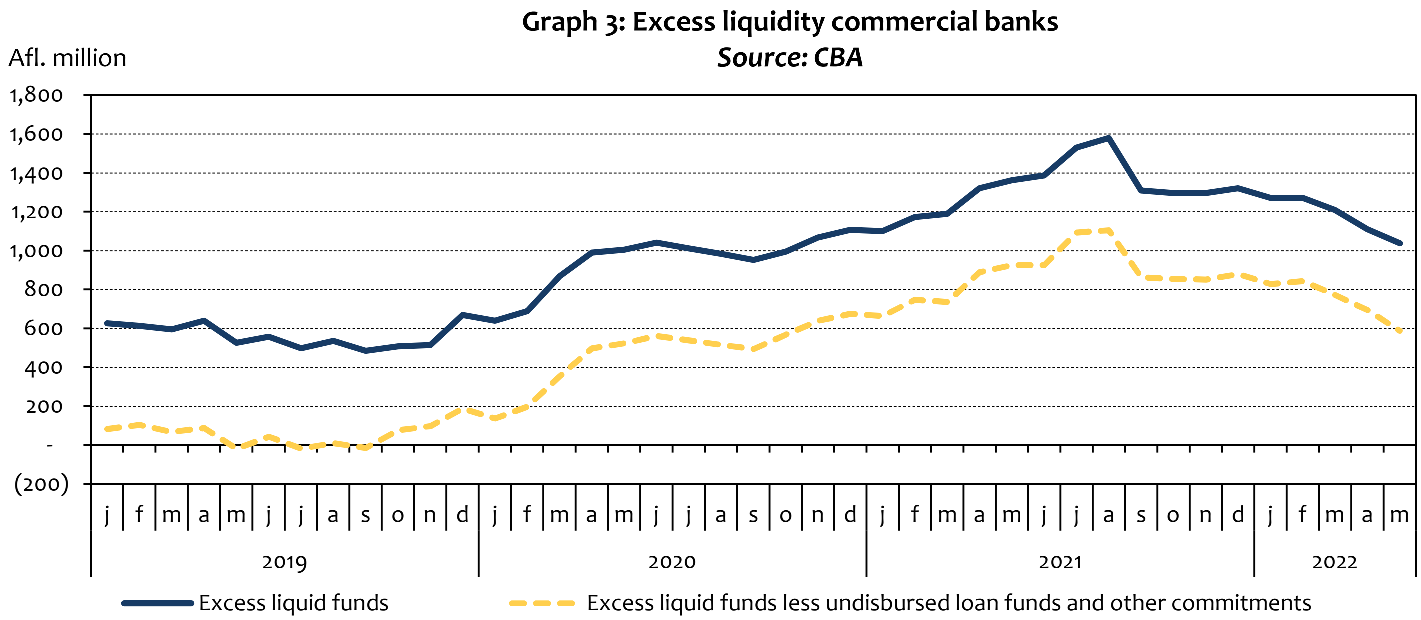
The 12-month average inflation for May 2022 climbed to 3.0 percent. It will likely continue to increase throughout the remainder of 2022 unless major central banks succeed to tame inflation soon and supply-side issues are being resolved. Meanwhile, in May 2022, core inflation reached 2.7 percent on a year-over-year basis and 1.3 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. 1,037.7 million in May 2022 (Graph 3). This significant drop in excess liquidity was primarily due to the CBA's consecutive hikes in the reserve requirement in the first five months of 2022. Nevertheless, excess liquidity remained significantly above pre-pandemic levels (+ Afl. 348.6 million). The heightened level is due to ample liquid funds (including cash, government bonds, and other liquid assets) held by the local commercial banks, exacerbated by the subdued credit demand. However, local financing of tourism projects will likely pick up significantly in the second half of 2022. This will likely put additional downward pressure on the excess liquidity of commercial banks.



Graph 3: Excess liquidity developments

Centrale Bank van Aruba
September 21, 2022