

The CBA maintains the reserve requirement at 24.0 percent as of October 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 September 14, 2022, the MPC decided to keep the reserve requirement at 24.0 percent as of October 1, 2022. Accordingly, commercial banks must hold a minimum balance at the CBA equal to 24.0 percent of their clients' short-term deposits. The decision to maintain the reserve requirement at 24.0 percent was based mainly on the continued downward trend in the commercial banks' excess liquidity, as well as an adequate level of official and international reserves.

The MPC considered the following information and analysis during its deliberation:

International and official reserves

The international reserves, comprising the official reserves of the CBA and foreign reserves held by the commercial banks, widened by Afl. 355.0 million (Graph 1) on August 26, 2022, compared to end-December 2021. Official reserves rose by Afl. 269.0 million, while the reserves held by the commercial banks grew by Afl. 86.0 million. Consequently, on August 26, 2022, international and official reserves stood at Afl. 3,484.6 million and Afl. 3,013.9 million, respectively. For the rest of 2022, the CBA expects strengthened official and international reserves due to increased foreign exchange inflows from tourism and a pick-up in foreign direct investments. Maintaining reserve adequacy is critical to keeping 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. Current account payments consist of import payments, interest payments made to investors, and foreign transfers such as money remittances by foreign workers. Official reserves are forecasted to stay within an adequate range when benchmarked against the International Monetary Fund's (IMF) Assessing Reserve Adequacy (ARA) metric (Table 1).

Graph 1: Official- and international reserves including revaluation differences

(Source: CBA)

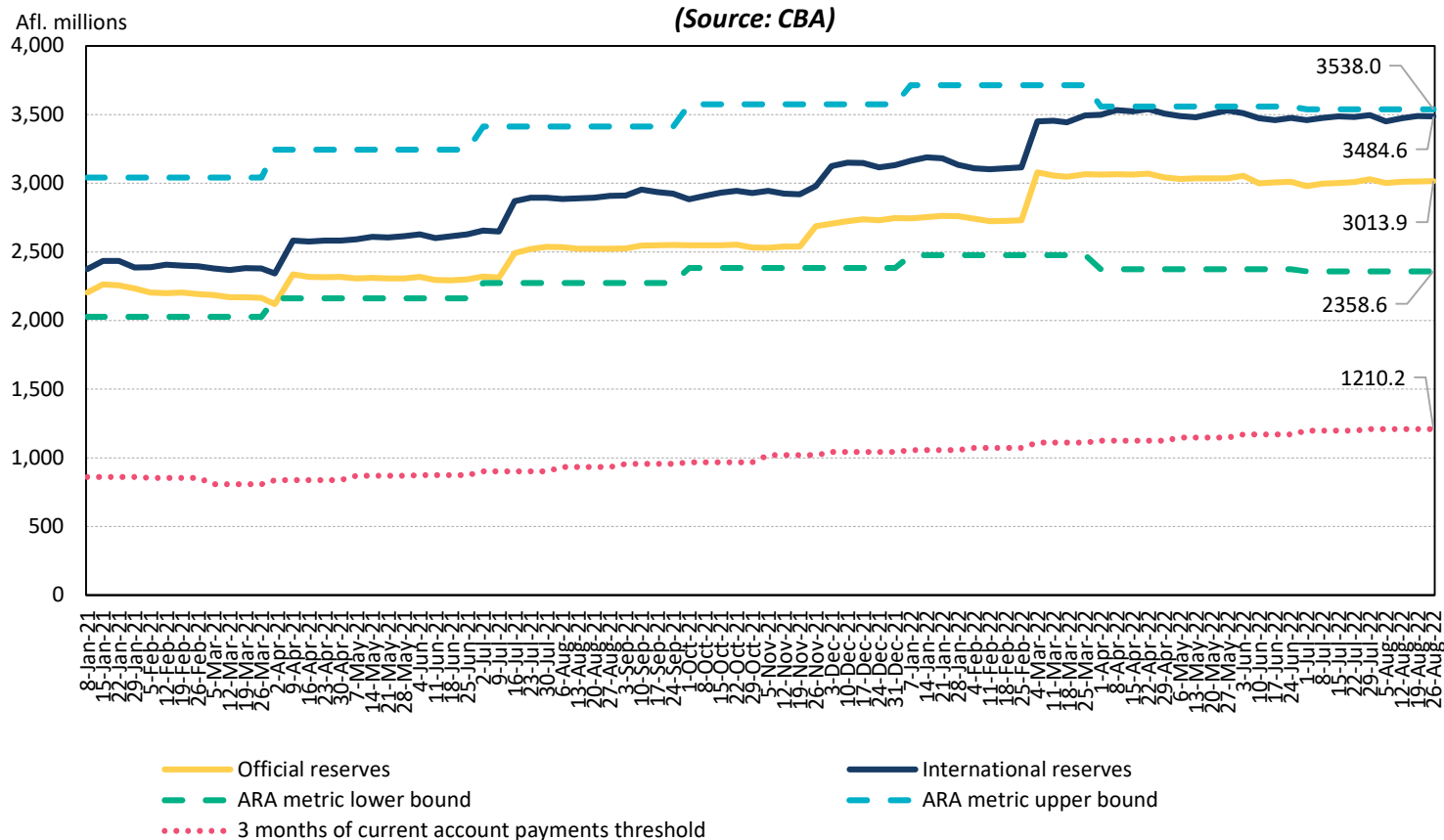


Table 1: Reserve benchmarks monitored in 2022

	Jan	Feb	Mar	Apr	May	June	July
Current account coverage ratio ¹	8.8	8.7	9.4	9.3	9.2	8.8	8.7
IMF ARA Metric ²	110.9	110.2	123.7	127.0	127.5	124.7	127.8

¹ The number of months of current account payments covered by the international reserves.

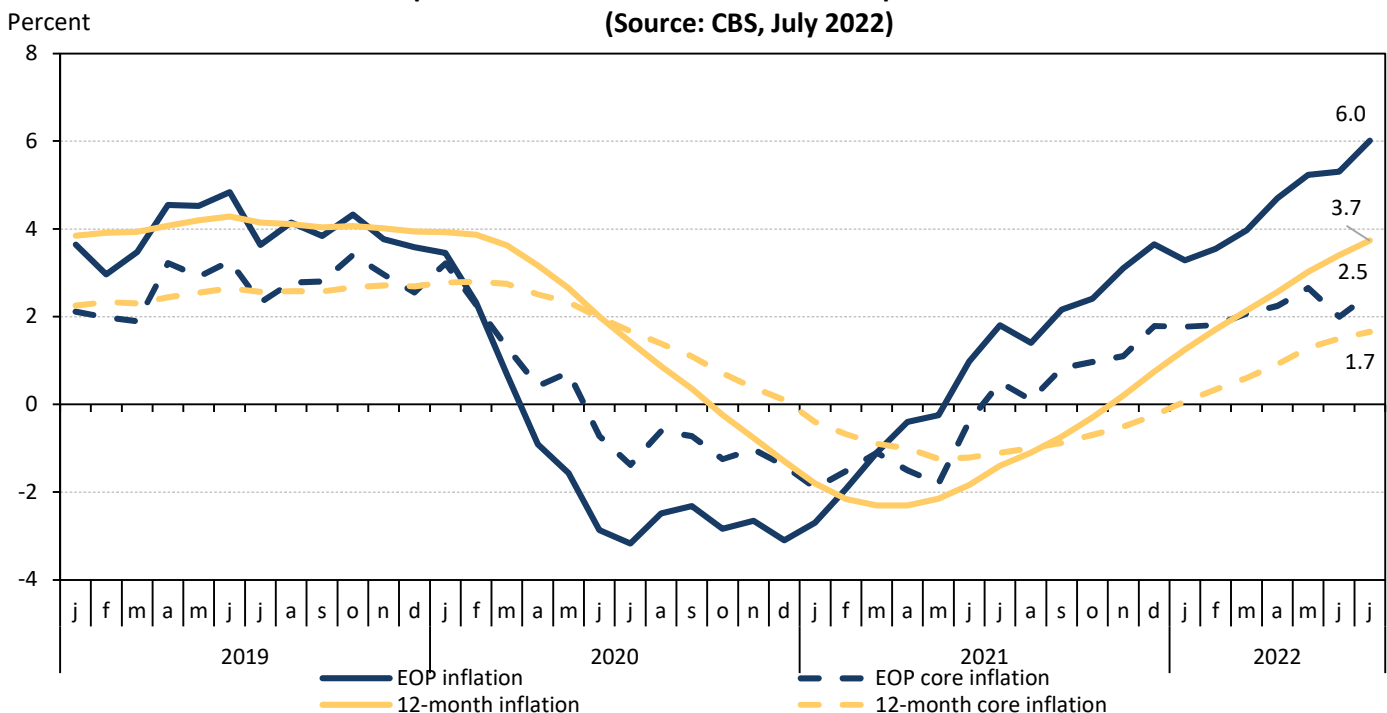
² The ratio between the level of official reserves and the minimum adequate level (following IMF), in percent.

Inflation

In July 2022, the consumer price index (CPI) rose by 6.0 percent compared to the same month of the previous year (Graph 2). The jump in the CPI compared to a year earlier was caused by higher gasoline prices, which affected the ‘transport’ component (3.4 percentage points contribution). Increases in the categories ‘food and non-alcoholic beverages’ (1.2 percentage points contribution), ‘household operation’ (0.5 percentage point contribution), ‘recreation and culture’ (0.4 percentage point contribution), ‘restaurants and hotels’ (0.3 percentage point contribution) and ‘miscellaneous goods and services’ (0.3 percentage point contribution) also pushed up inflation. Meanwhile, the 12-month average inflation climbed to 3.7 percent. The CBA expects inflationary pressures to persist for the remainder of 2022. This expectation is based on the elevated oil price on international markets, as well as the August 2022 and September 2022 increases in the water and electricity tariffs. Furthermore, Aruba imports much of the soaring prices from its export partners, particularly the United States and Europe.

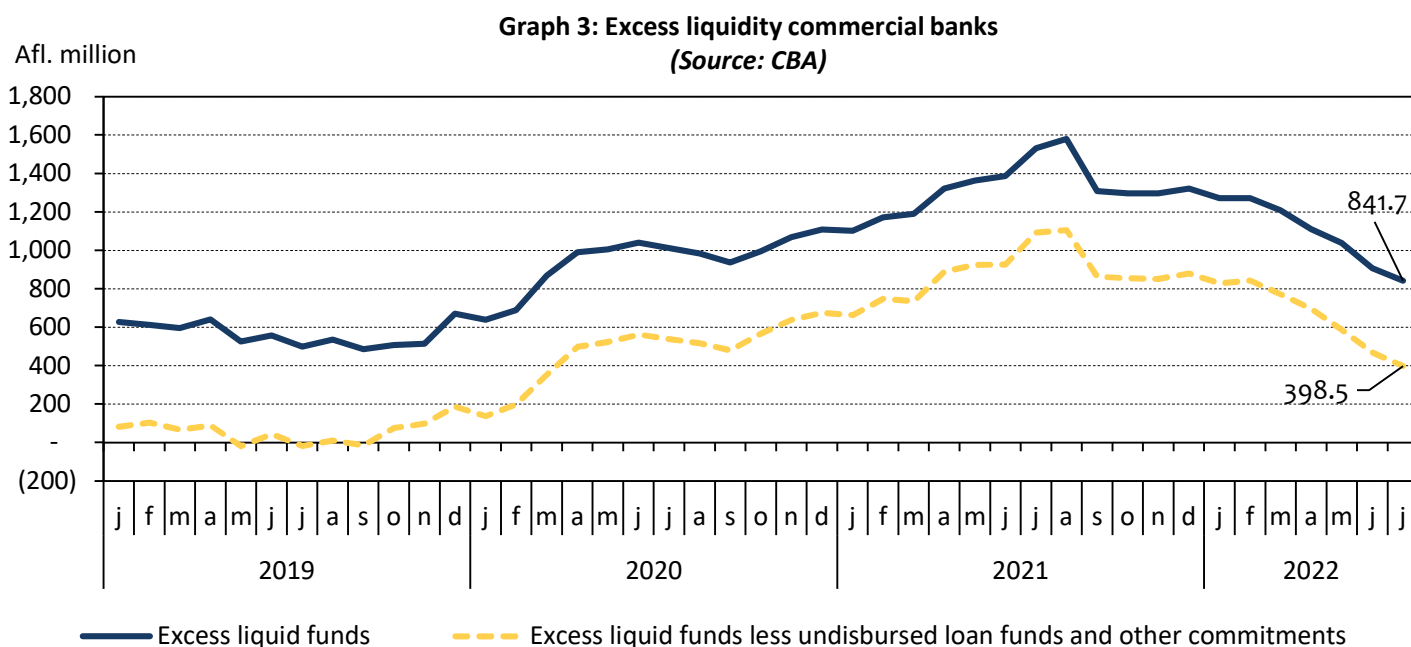
In July 2022, core inflation (i.e., excluding food and energy prices) reached 2.5 percent on a year-over-year basis. The year-over-year core inflation was driven mainly by the ‘transport’ component (1.0 percentage point contribution), resulting from rising car prices (0.8 percentage point contribution). The components ‘household operation’ (0.5 percentage point contribution), ‘recreation and culture’ (0.4 percentage point contribution), ‘restaurants and hotels’ (0.3 percentage point contribution), ‘miscellaneous goods and services’ (0.3 percentage point contribution), and ‘food and non-alcoholic beverages’ (0.1 percentage point contribution) also contributed to the year-over-year core inflation. On a twelve-month average basis, core inflation stood at 1.7 percent.

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



Commercial bank excess liquidity

Aggregated excess liquidity fell from Afl. 1,320.5 million in December 2021 to Afl. 841.7 million in July 2022 (Graph 3). This drop in excess liquidity was due to the consecutive hikes in the reserve requirement in the first six months of 2022. Nevertheless, excess liquidity remained above pre-pandemic levels (+Afl. 152.6 million). The heightened level of excess liquidity results from ample liquid funds (including cash, government bonds, and other liquid assets) held by the local commercial banks, exacerbated by the subdued credit expansion. However, local financing of tourism projects and businesses will likely pick up significantly in the second half of 2022, resulting in a lowering of the commercial banks' excess liquidity.



Centrale Bank van Aruba

November 1, 2022