Centrale Bank van Aruba

The CBA raised the reserve requirement by 1.0 percentage point as of December 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 November 22, 2022, the MPC decided to increase the reserve requirement from 24.0 percent to 25.0 percent as of December 1, 2022. Accordingly, commercial banks must hold a minimum balance at the CBA equal to 25.0 percent of their clients' short-term deposits. The decision to expand the reserve requirement to 25.0 percent was based mainly on the diminished pace of decline in the commercial banks' excess liquidity, as well as the still ample level of excess liquidity at the commercial banks, which persists well above the pre-pandemic and precautionary levels.

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, grew by Afl. 42.0 million (Graph 1) on November 4, 2022, compared to end-December 2021. Official reserves contracted by Afl. 16.4 million, while the foreign reserves held by the commercial banks widened by Afl. 58.5 million. Consequently, on November 4, 2022, official and international reserves stood at Afl. 2,728.5 million and Afl. 3,171.6 million, respectively. For the rest of 2022, the CBA expects strengthened international and official reserves due to increased foreign exchange inflows from tourism.

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. Among others, 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).

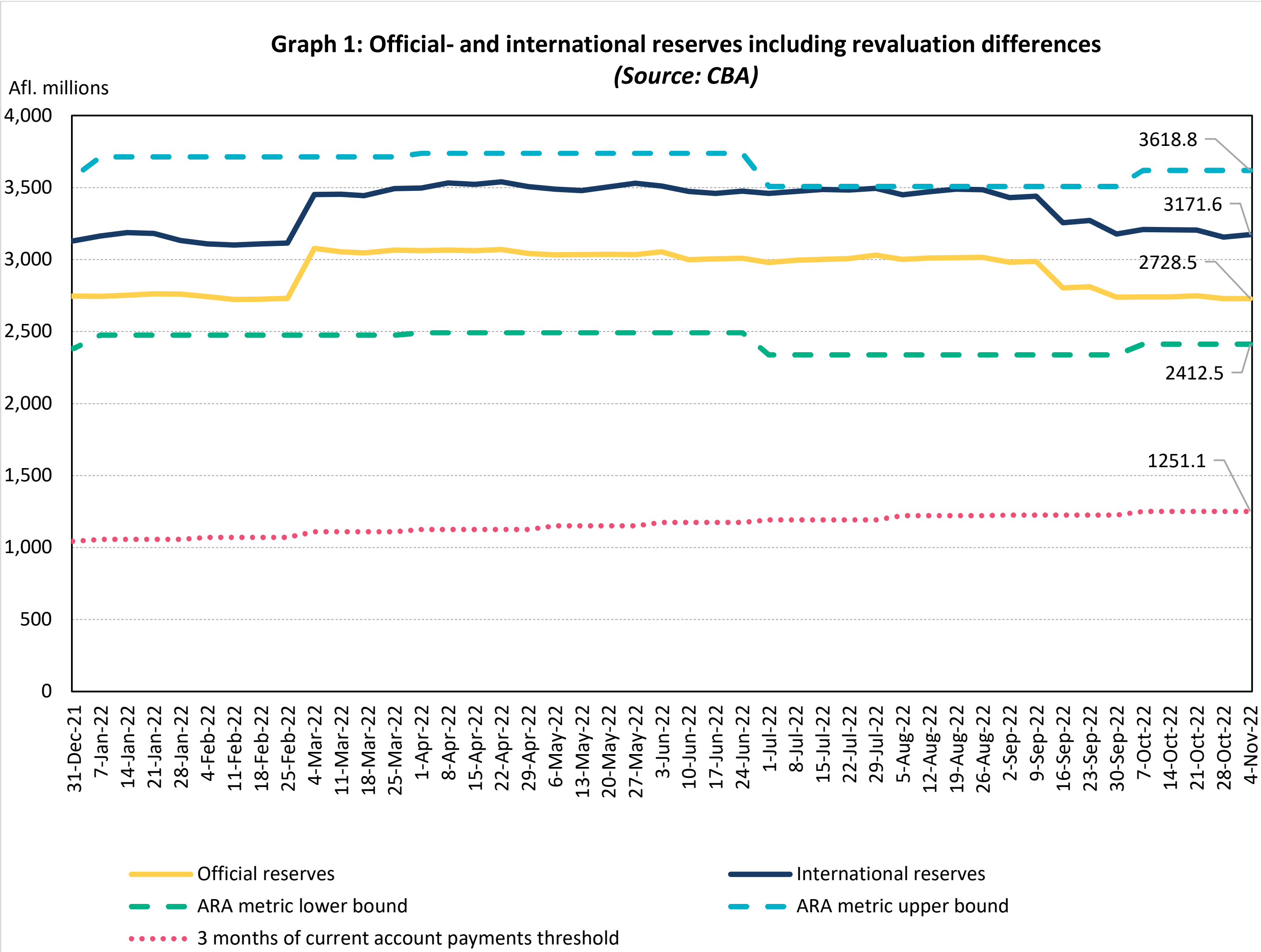


Table 1: Reserve benchmarks monitored in 2022

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep
Current account coverage ratio[1]	8.8	8.7	9.4	9.3	9.2	8.8	8.8	8.4	7.8
IMF ARA Metric[2]	110.9	110.2	123.7	120.9	121.4	118.8	128.9	127.2	116.9

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.

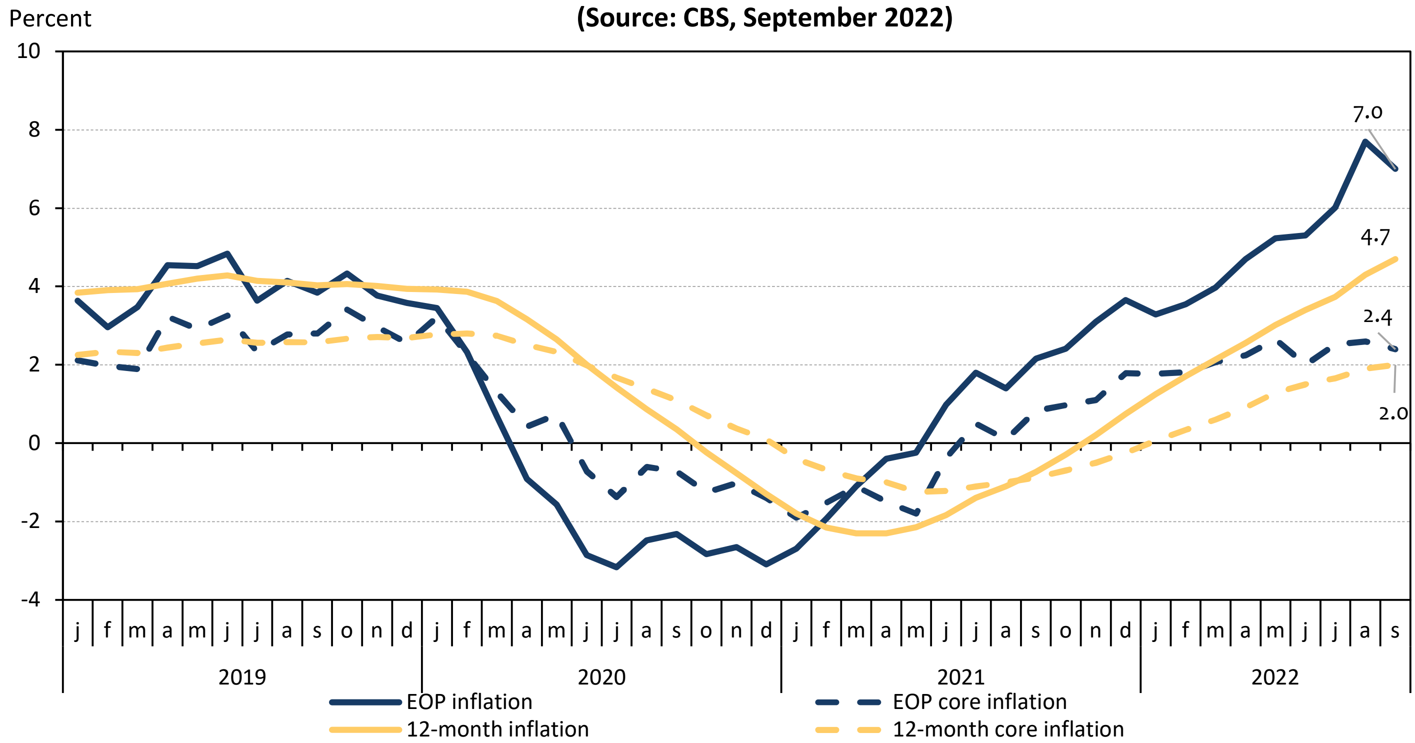
Inflation

In September 2022, the consumer price index (CPI) rose by 7.0 percent compared to the same month of the previous year (Graph 2). This jump in the CPI was caused by higher utility prices, which affected the 'housing' component (2.9 percentage points contribution). Moreover, gasoline prices, mainly influencing the 'transport' component (1.6 percentage points contribution), and the 'food' component rose (1.2 percentage points contribution).

The 12-month average inflation amounted to 4.7 percent. The CBA anticipates increasing inflationary pressures for the remainder of 2022, due to the elevated oil price on international markets, as well as the recent hikes in utility tariffs. Furthermore, the expectation is that Aruba will import much of the soaring prices from its export partners, particularly the United States and Europe.

Meanwhile, in September 2022, core inflation (excluding energy and food) reached 2.4 percent on a year-over-year basis, driven mainly by the 'transport' component (1.2 percentage points contribution). On a twelve-month average basis, core inflation amounted to 2.0 percent.

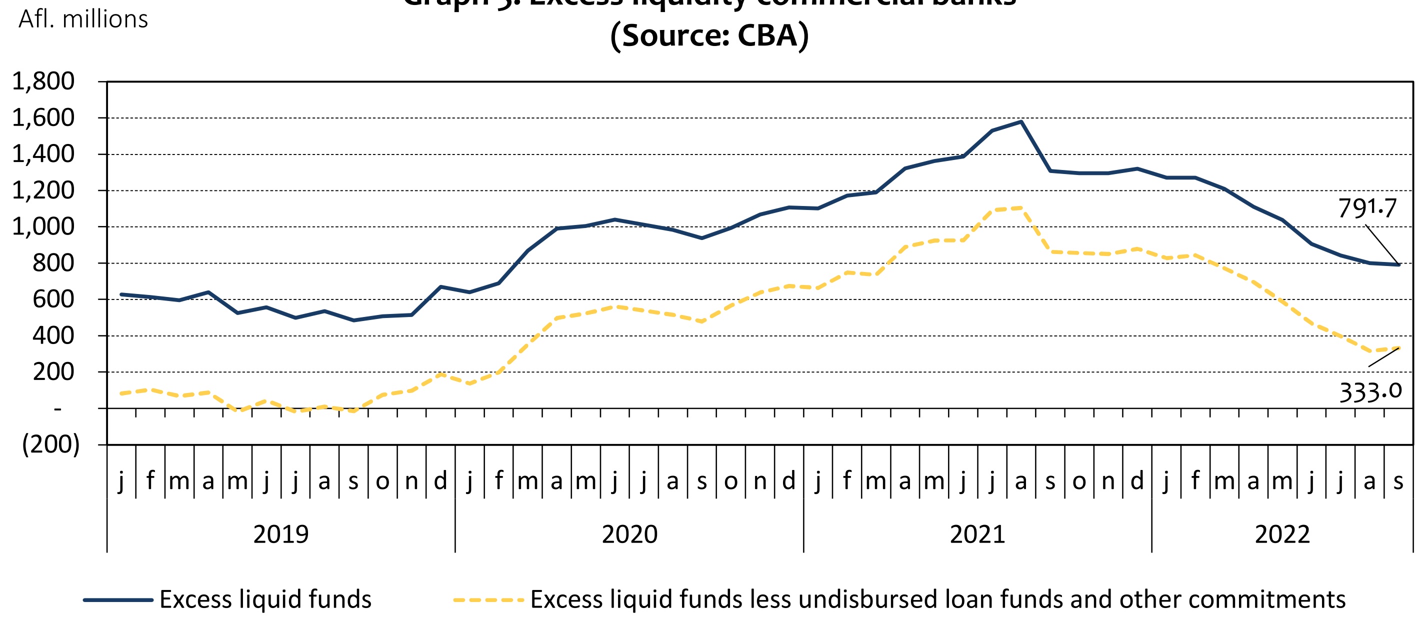
Graph 2: Inflation based on the consumer price index of Aruba
(Source: CBS, September 2022)



Commercial bank excess liquidity

Aggregated excess liquidity fell from Afl. 1,320.5 million in December 2021 to Afl. 791.7 million in September 2022 (Graph 3). This drop was principally due to the consecutive hikes in the reserve requirement from January 2022 to July 2022. In September 2022, excess liquidity contracted further, albeit at a decreasing pace. Furthermore, excess liquidity remained above the pre-pandemic level of February 2020 (+Afl. 102.6 million) as well as the levels of liquidity needed for precautionary motives. The heightened level of excess liquidity likely resulted from the subdued credit expansion and the recovery in the tourism sector.

Graph 3: Excess liquidity commercial banks (Source: CBA)



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December 28, 2022