CENTRALE BANK VAN ARUBA

The CBA raised the reserve requirement rate by 0.5 percentage point as of January 1, 2023.

Press Release

In line with the Monetary Policy Committee's (MPC) task to evaluate, direct, and provide transparency on the monetary policy actions of the Central Bank of Aruba (CBA), the CBA informs the following. During its meeting on December 16, 2022, the MPC decided to increase the reserve requirement rate by 0.5 percentage point to 25.5 percent as of January 1, 2023. Accordingly, commercial banks must hold a minimum balance at the CBA equal to 25.5 percent of their clients' short-term deposits. The decision to raise the reserve requirement rate by 0.5 percentage point was based on the still ample level of excess liquidity at the commercial banks, that persisted well above the pre-pandemic level, and the diminished pace of decline in excess liquidity with preliminary data for November 2022 again recording an uptick. The 0.5 percentage point rise in the reserve requirement aims to ensure a gradual decrease of excess liquidity at all commercial banks, but the CBA is determined, dependent on the developments of excess liquidity in the coming months, to further increase the rate of increments, if deemed necessary.

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

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. 68.4 million (Graph 1) as of November 18, 2022, compared to end-December 2021. Official reserves contracted by Afl. 1.3 million, while the foreign reserves held by the commercial banks widened by Afl. 69.7 million. Consequently, as of November 18, 2022, official and international reserves stood at Afl. 2,743.6 million and Afl. 3,198.0 million, respectively.

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, amongst others. 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)

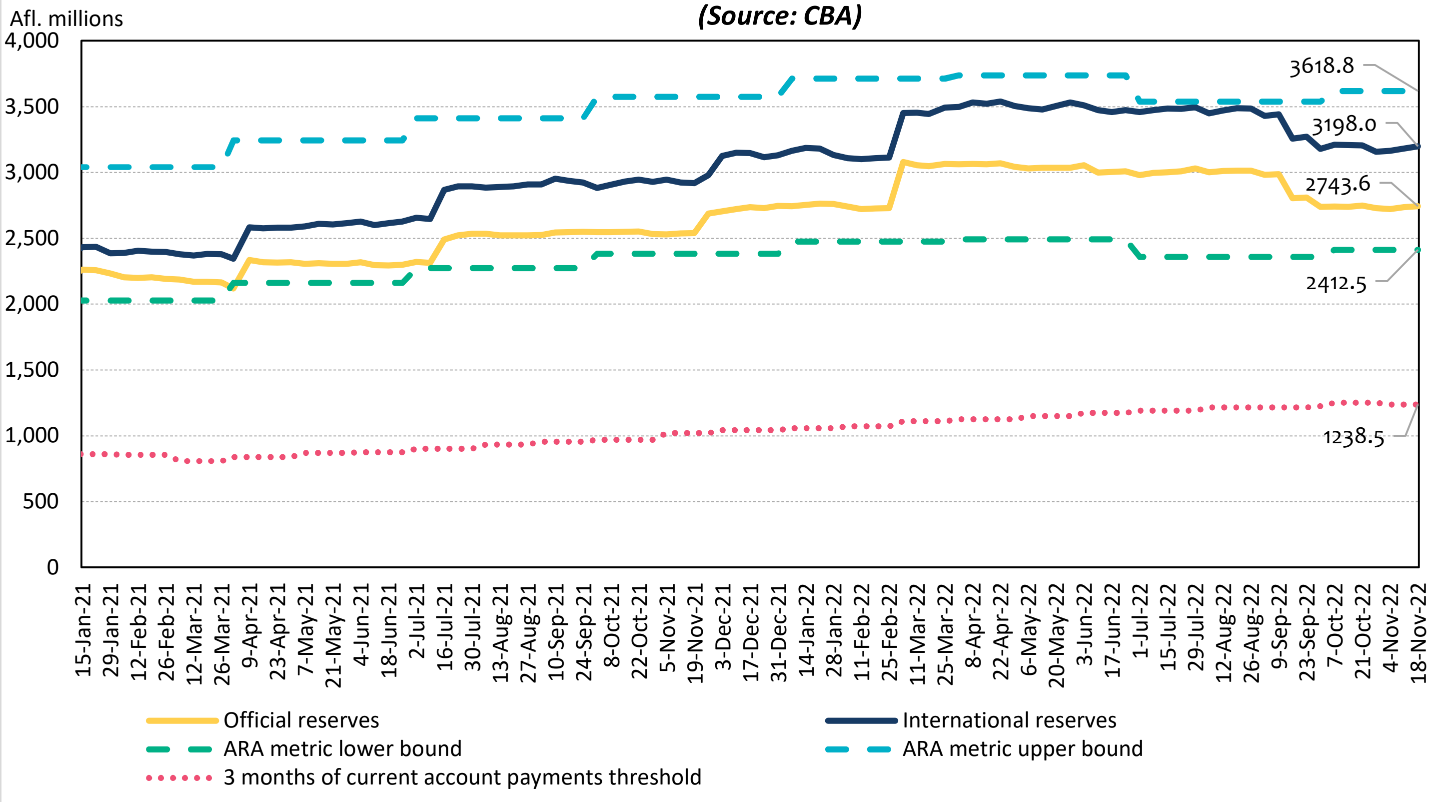


Table 1: Reserve benchmarks monitored in 2022

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct
Current account coverage ratio[1]	8.8	8.7	9.4	9.3	9.2	8.8	8.8	8.4	7.8	7.5
IMF ARA Metric[2]	110.9	110.2	123.7	120.9	121.4	118.8	128.9	127.2	116.9	112.8

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.

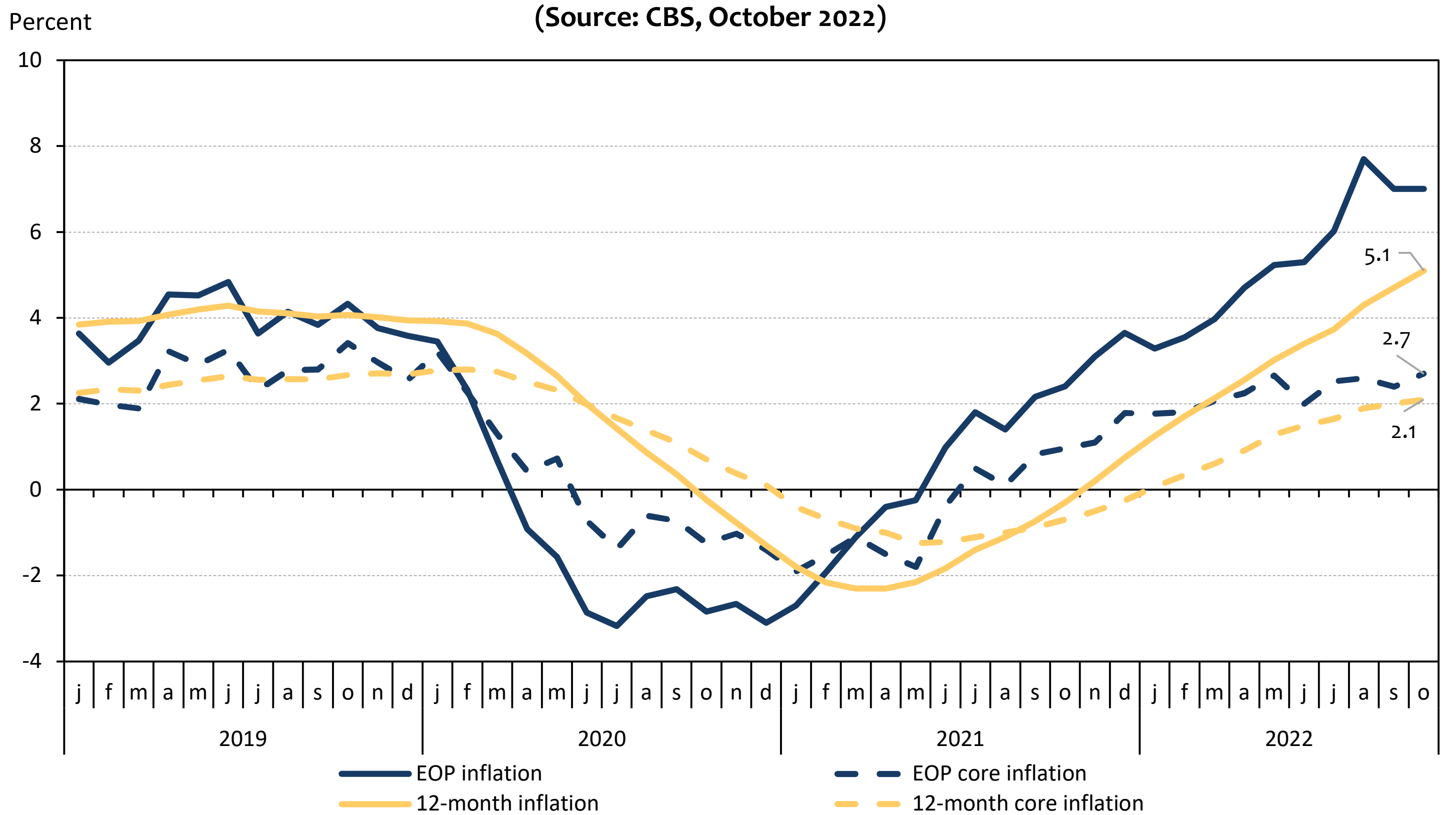
Inflation

In October 2022, the consumer price index (CPI) jumped by 7.0 percent compared to the same month of the previous year (Graph 2), unchanged from the end-of-period inflation rate recorded at end September 2022. This jump in the CPI was caused by higher utility prices, which affected the 'housing' component (2.9 percentage points contribution). Moreover, gasoline prices rose, mainly impacting the 'transport' component (1.6 percentage points contribution) and the 'food and non-alcoholic beverages' component (1.4 percentage points contribution).

The 12-month average inflation climbed from 4.3 percent to 5.1 percent in October 2022. The CBA estimates elevated inflationary pressures for the remainder of 2022, due to the elevated oil price in 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.

In October 2022, end-of-period core inflation (excluding energy and food) accelerated from 2.4 percent to 2.7 percent on a year-over-year basis. On a twelve-month average basis, core inflation amounted to 2.1 percent, up from 1.9 precent, at end-October 2022.

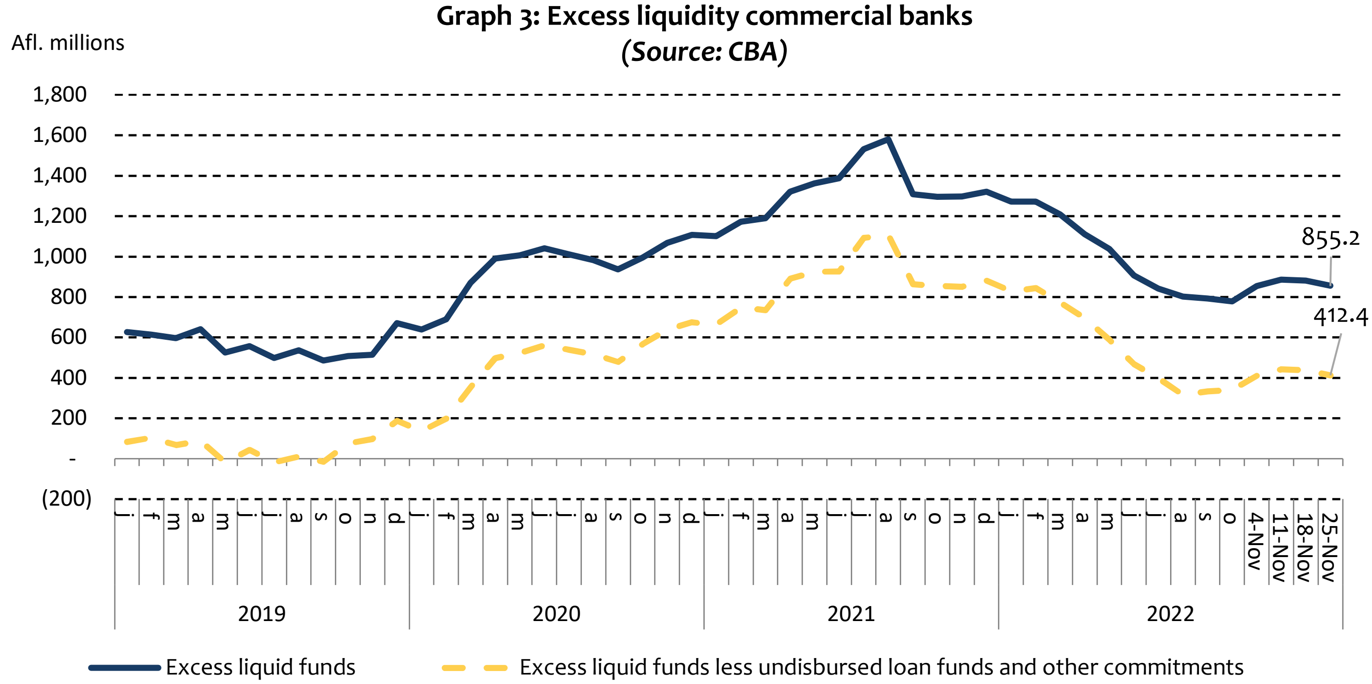
Graph 2: Inflation based on the consumer price index of Aruba
(Source: CBS, October 2022)



Commercial bank excess liquidity

Aggregated excess liquidity fell from Afl. 1,320.5 million in December 2021 to Afl. 778.3 million in October 2022 (Graph 3). This drop was principally due to the consecutive hikes in the reserve requirement in the period January 2022 up to and including July 2022. In October 2022, excess liquidity contracted further, although at a decreasing pace. Moreover, weekly data for November 2022 showed an uptick in excess liquidity. Furthermore, excess liquidity remained above the pre-pandemic level of February 2020 (+Afl. 89.2 million). The heightened level of excess liquidity resulted from the subdued credit expansion, the recovery in the tourism sector and further increase in deposits.

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



Centrale Bank van Aruba
February 15, 2023