As of May 1, 2023, the CBA retains the reserve requirement rate at 25.5 percent.

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 April 25, 2023, the MPC decided to retain the reserve requirement rate at 25.5 percent as of May 1, 2023. Accordingly, commercial banks must hold a minimum balance at the CBA equal to 25.5 percent of their clients' liquid deposits. The decision to maintain the reserve requirement rate unchanged at 25.5 percent was based primarily on the contraction in the estimated excess liquidity of the commercial banking sector as of March 31, 2023 compared to December 2022. The CBA continues to monitor the excess liquidity developments and stands ready to change the reserve requirement rate, 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, declined by Afl. 149.4 million as of March 31, 2023, compared to end-December 2022 (Graph 1). Official reserves fell by Afl. 40.1 million, while the foreign reserves at the commercial banks contracted by Afl. 109.3 million. Consequently, as of March 31, 2023, official and international reserves amounted to Afl. 2,750.8 million and Afl. 3,091.9 million, respectively.

Maintaining adequate reserves is critical to keeping the fixed exchange rate between the Aruban florin and the US dollar. In this regard, despite aforementioned decline, international reserves remained comfortably above the minimum required three months of current account payments during March 2023. Current account payments consist, among others, of import payments, interest payments made to investors, and foreign transfers, such as money remittances by foreign workers. Official reserves also stayed within an adequate range when benchmarked against the International Monetary Fund’s (IMF) Assessing Reserve Adequacy (ARA) metric (Table 1).
Inflation

The End-of-Period (EOP) inflation rate stood at 7.1 percent in February 2023 (January 2023: 6.6 percent) (Graph 2). The consumer price index (CPI) jump in February 2023, compared to February 2022, was mainly the result of higher utility prices, which continued to affect the ‘housing’ component (3.1 percentage points contribution). Moreover, gasoline prices and the purchase prices of vehicles surged, impacting the ‘transport’ component (1.6 percentage points contribution), while prices in the ‘food and non-alcoholic beverages’ component also accelerated (1.3 percentage points contribution).
The 12-month average inflation rose to 6.1 percent in February 2023, up from 5.8 percent in January 2023. The inflationary pressures were due to the elevated oil price in international markets, as well as the hikes in water and electricity tariffs as of August 2022. Furthermore, Aruba imported much of the soaring prices from its trading partners, particularly the United States and Europe.

Meanwhile, in February 2023, EOP core inflation (excluding energy and food) reached 3.0 percent (January 2023: 2.5 percent). On a twelve-month average basis, core inflation amounted to 2.4 percent (January 2023: 2.3 percent).

**Graph 2: Inflation based on the consumer price index of Aruba**
(Source: CBS, February 2023)

Commercial bank excess liquidity
Aggregated excess liquidity of commercial banks fell from Afl. 819.7 million in December 2022 to Afl. 725.3 million in February 2023, continuing the declining trend observed during 2022 (Graph 3). Furthermore, preliminary estimates of excess liquidity in March 2023 showed a further contraction of Afl. 69.2 million compared to February 2023. Nevertheless, excess liquidity remained above (+ Afl. 354.3 million) the estimated level the commercial banks may want to hold as additional liquidity cushion.
Aggregated excess liquidity commercial banks
(Source: CBA)

Centrale Bank van Aruba
May 9, 2023