

As of September 1, 2023, the CBA lowered the reserve requirement rate by 1 percentage point to 24.5 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 of August 21, 2023, the MPC decided to reduce the reserve requirement rate to 24.5 percent as of September 1, 2023. Accordingly, commercial banks must hold a minimum balance at the CBA equal to 24.5 percent of their clients' liquid deposits. The decision to reduce the reserve requirement rate to 24.5 percent was based primarily on the steady contraction in the estimated excess liquidity of the banking sector compared to December 2022, mostly due to increased credit, while official and international reserves, albeit incurring decreases, remained at an adequate level. 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. 78.6 million as of June 30, 2023, compared to end-December 2022 (Graph 1). Official reserves fell by Afl. 86.3 million, while the foreign reserves at the commercial banks rose by Afl. 7.7 million. Consequently, as of June 30, 2023, official and international reserves amounted to Afl. 2,704.6 million and Afl. 3,162.6 million, respectively.

Maintaining reserve adequacy 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 as of June 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).

Graph 1: Official- and international reserves including revaluation differences
(Source: CBA)

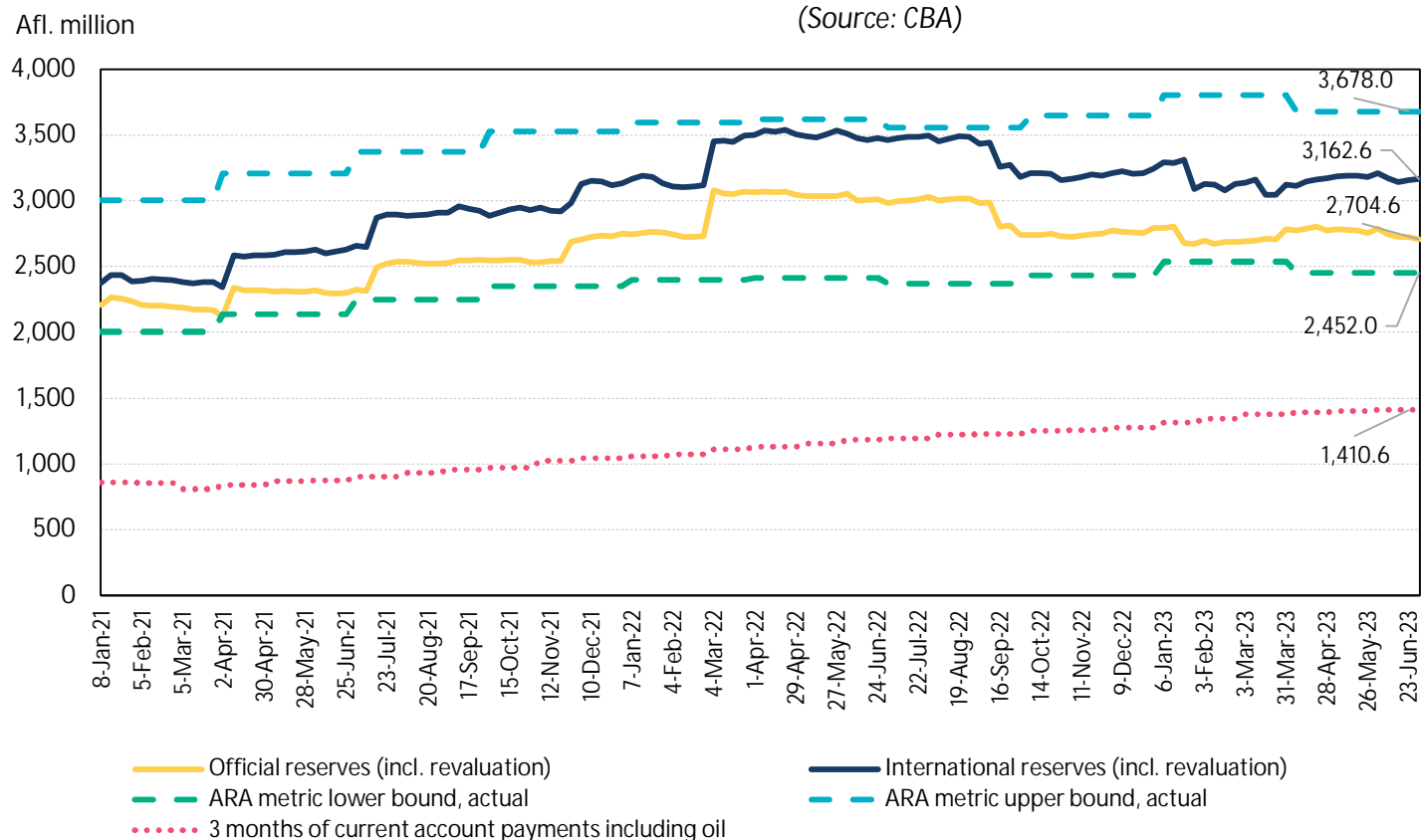


Table 1: Reserve benchmarks monitored in 2023

	Jan	Feb	Mar	Apr	May	Jun
Estimated current account coverage ratio ¹	7.1	7.0	6.8	6.9	6.8	6.7
Estimated IMF ARA Metric ²	106.6	105.3	109.6	113.4	112.2	110.3

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.

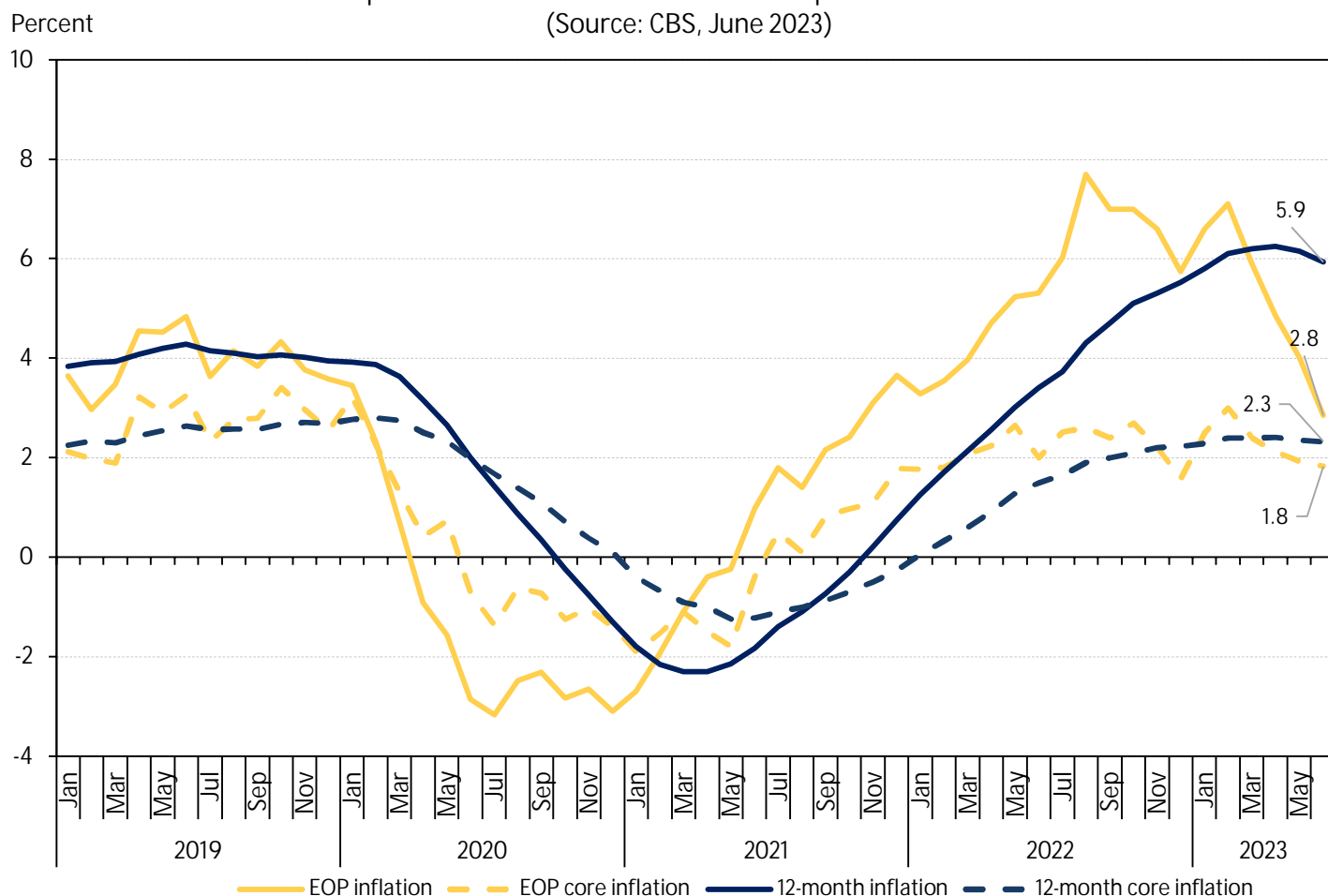
Inflation

The End-of-Period (EOP) inflation rate fell to 2.8 percent in June 2023, down from 4.0 percent in May 2023 (Graph 2). The 2.8 percent increase in consumer prices in June 2023 was mainly the result of higher utility prices, which continued to affect the 'housing' component (+2.5 percentage points contribution). Moreover, prices in the 'food and non-alcoholic beverages' accelerated (+0.7 percentage point contribution). To a lesser degree, 'miscellaneous goods and services' (+0.4 percentage point contribution) and 'restaurants and hotels' (+0.3 percentage point contribution) also contributed to the EOP inflation in June 2023.

The 12-month average inflation decelerated to 5.9 percent in June 2023, down from 6.1 percent in May 2023. The inflationary pressures were due to the elevated oil price on the international markets, costlier vehicles, as well as the hikes in water and electricity tariffs as of August 2022. Furthermore, Aruba imported much of the rising prices from its trading partners, particularly the United States and Europe.

Meanwhile, in June 2023, EOP core inflation (excluding energy and food) was 2.3 percent (May 2023: 2.3 percent). On a twelve-month average basis, core inflation amounted to 1.8 percent (May 2023: 1.9 percent).

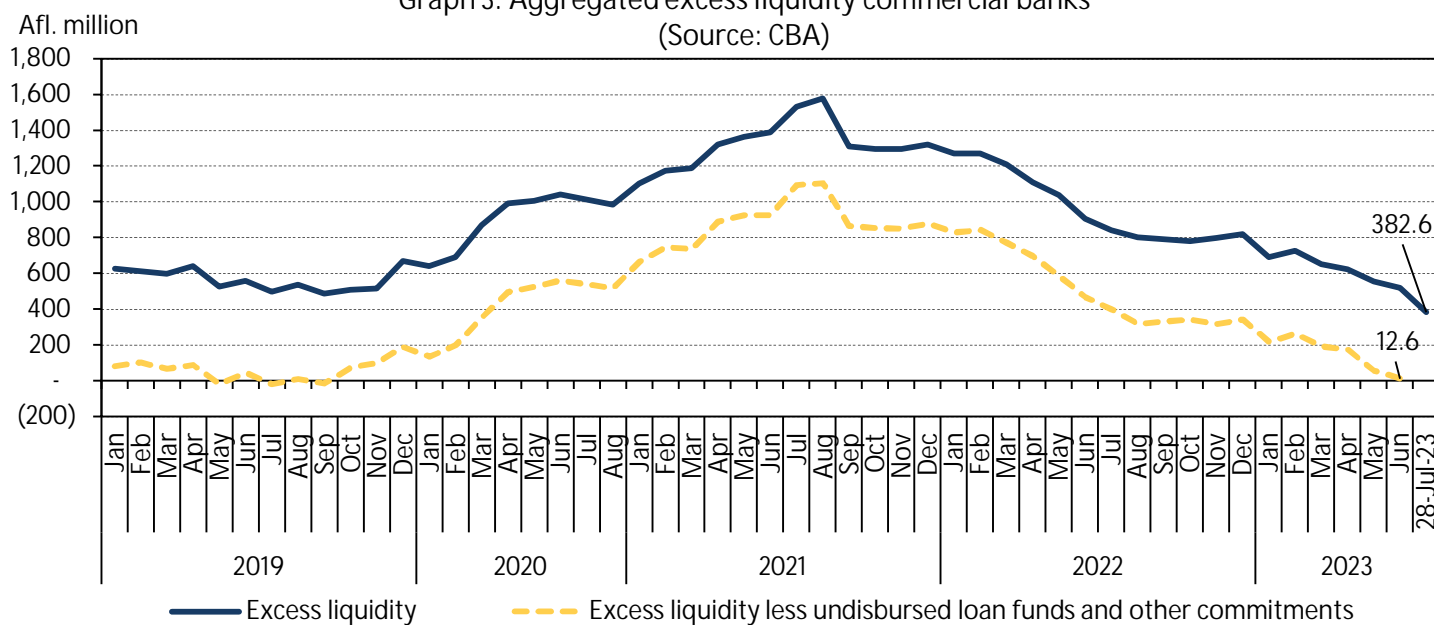
Graph 2: Inflation based on the consumer price index of Aruba
(Source: CBS, June 2023)



Excess liquidity

Based on weekly data, preliminary estimated excess liquidity (including undisbursed loan funds and other commitments) stood at Afl. 382.6 million on July 28, 2023, and was Afl. 437.2 million lower compared to end-December 2022.

Graph 3: Aggregated excess liquidity commercial banks
(Source: CBA)



Centrale Bank van Aruba

September 25, 2023