



CENTRALE BANK VAN ARUBA

As of December 1, 2023, the CBA lowered the reserve requirement rate by 0.5 percentage point to 22.0 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 November 27, 2023, the MPC decided to reduce the reserve requirement rate by 0.5 percentage point to 22.0 percent as of December 1, 2023. Accordingly, commercial banks must hold a minimum balance at the CBA equal to 22.0 percent of their clients' liquid deposits. The decision to reduce the reserve requirement rate was based primarily on the official and international reserves remaining at an adequate level, despite incurring a decrease up until October 13 2023 when compared to end-2022. Furthermore, official and international reserves are foreseen to stay adequate and increase during the remainder of 2023. Additionally, aggregated excess liquidity within the commercial banking sector declined in October 2023 compared to December 2022, mostly due to increased credit. The CBA continues to monitor reserves and the excess liquidity developments, and stands ready to adjust 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. 218.7 million as of October 13, 2023, compared to end-December 2022 (Graph 1). Official reserves fell by Afl. 215.3 million, while the foreign reserves at the commercial banks went down by Afl. 3.4 million. Consequently, as of October 13, 2023, official and international reserves amounted to Afl. 2,575.6 million and Afl. 3,021.7 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 stayed comfortably above the minimum required three months of current account payments as of October 13, 2023. Current account payments consist, among others, of import payments, interest payments made to investors, and foreign transfers, such as 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)

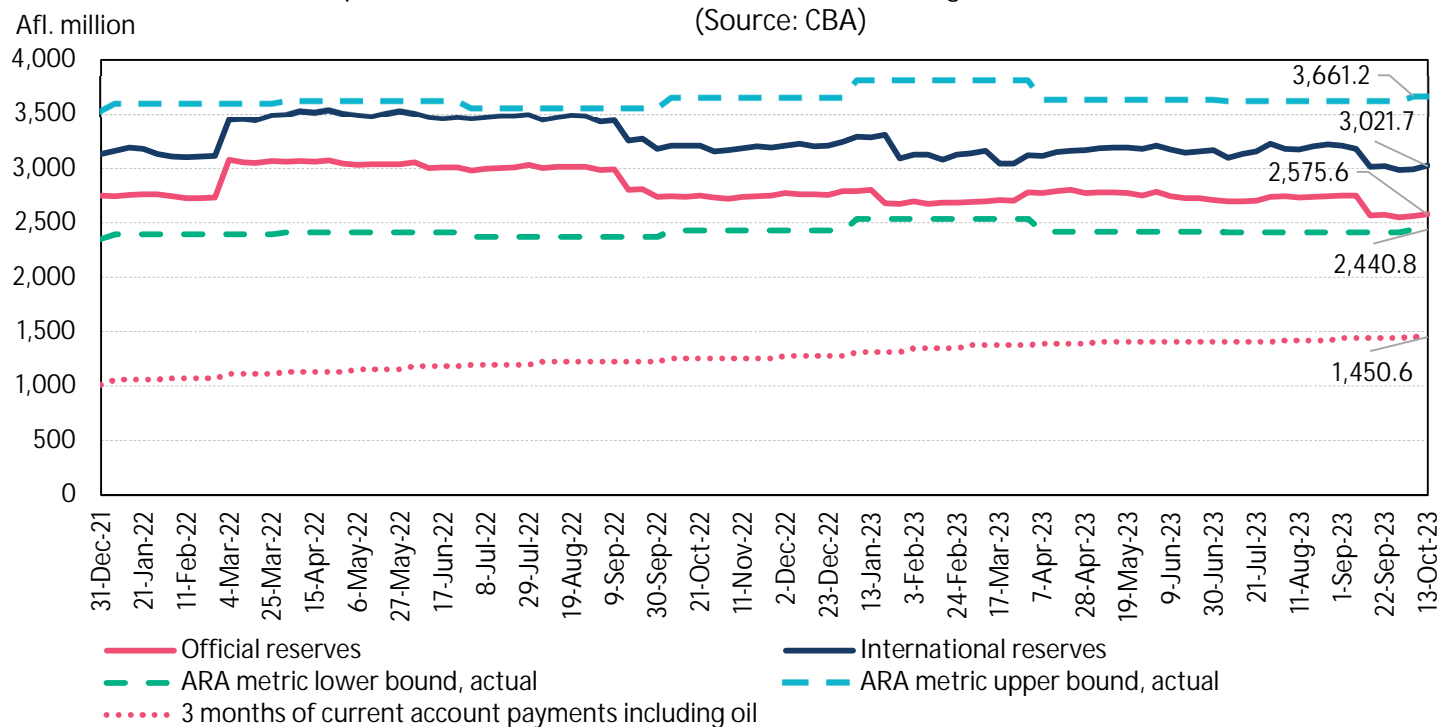


Table 1: Reserve benchmarks monitored in 2023

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	13-Oct
Estimated current account coverage ratio ¹	7.1	7.0	6.8	6.9	6.8	6.7	6.9	6.8	6.2	6.2
Estimated IMF ARA Metric ²	106.6	105.3	109.6	114.9	113.5	111.8	113.4	113.7	105.9	105.5

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

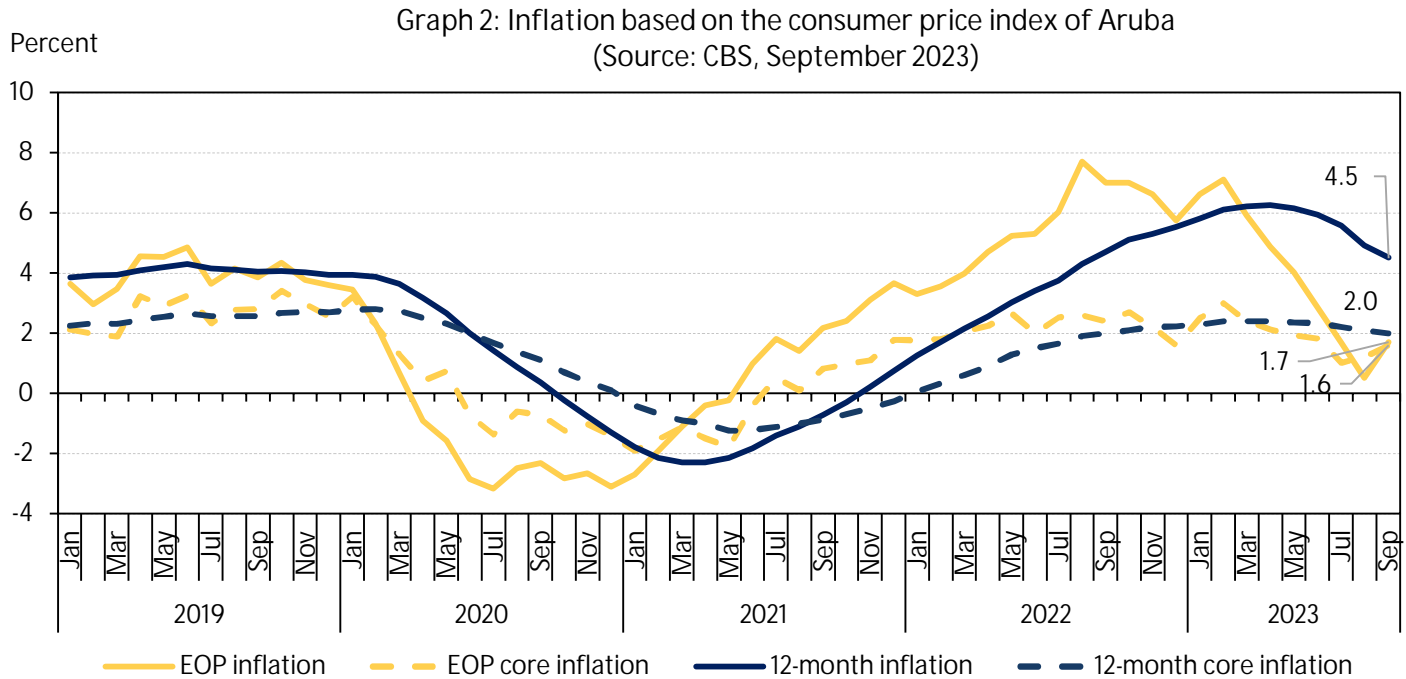
² The ratio between the level of official reserves and the minimum adequate level (following the IMF), in percent.

Inflation

The end-of-period inflation (EOP) accelerated from 0.5 percent in August 2023 to 1.7 percent in September 2023 (Graph 2). The main contributors to the EOP inflation in September 2023 were 'communication' (+0.6 percentage point contribution) and 'food and non-alcoholic beverages' (+0.5 percentage point contribution). Albeit to a lesser degree, 'miscellaneous goods and services' (+0.4 percentage point contribution), and 'housing' (+0.4 percentage point contribution) also contributed to the EOP inflation in September 2023.

As of September 2023, the 12-month average inflation reached to 4.5 percent, down from 4.9 percent in August 2023. The inflationary pressures were mostly due to the hikes in water and electricity tariffs as of August 2022 and higher prices of food and non-alcoholic beverages. Furthermore, Aruba imported much of the rising prices from its trading partners, particularly the United States and Europe.

Meanwhile, in September 2023, EOP core inflation (which excludes energy and food) was 1.6 percent (1.2 percent in August 2023). On a twelve-month average basis, core inflation amounted to 2.0 percent (2.1 percent in August 2023).

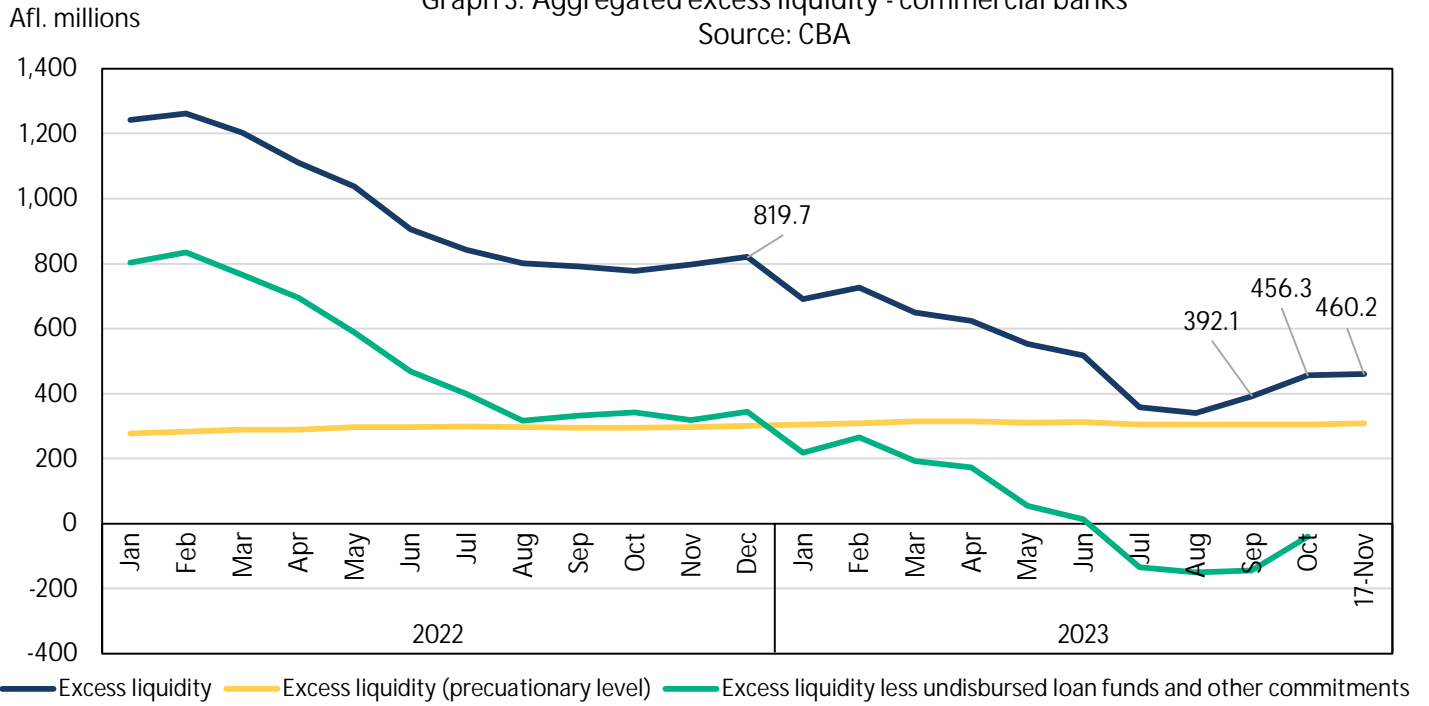


Excess liquidity of the commercial banks

Excess liquidity (including undisbursed loan funds and other commitments) of the commercial banks stood at Afl. 456.3 million as of October 2023, i.e., an Afl. 64.2 million uptick compared to September 2023 (Graph 3). This expansion was due in part to the 1 percentage point decrease in the reserve requirement rate as of the 1st of October 2023. However, when compared to end-December 2022, excess liquidity reflected a contraction of Afl. 363.4 million. This drop was mainly due to local refinancing of foreign loans and government bond purchases by institutional investors. Meanwhile, preliminary estimates for excess liquidity suggested a rise up until November 17, 2023 compared to October 31, 2023.

Graph 3: Aggregated excess liquidity - commercial banks

Source: CBA



Centrale Bank van Aruba
 January 24, 2024