



CENTRALE BANK VAN ARUBA

As of February 1, 2024, the CBA maintained the reserve requirement rate at 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 January 29, 2024, the MPC decided to maintain the reserve requirement at 22.0 percent as of February 1, 2024. Accordingly, commercial banks must hold a minimum balance at the CBA equal to 22.0 percent of their clients' liquid deposits. The decision to maintain the reserve requirement rate was based primarily on the official reserves getting closer to the lower bound of the ARA metric, even though both the official and international reserves are still adequate and are foreseen to remain so during 2024. Furthermore, excess liquidity held at the commercial banks has been on an upward trend in recent months. Finally, maintaining the reserve requirement at its current level is considered prudent, given the continued uptick in loans and its potential effect on the international reserves. 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. 207.8 million as of December 29, 2023, compared to end-December 2022 (Graph 1). Official reserves fell by Afl. 173.7 million, while the foreign reserves at the commercial banks dropped by Afl. 34.1 million. Consequently, as of December 29, 2023, official and international reserves amounted to Afl. 2,617.2 million and Afl. 3,033.5 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 the aforementioned decline, international reserves stayed comfortably above the minimum required three months of current account payments as of December 29, 2023. Current account payments consist, among others, of import payments, dividend payments made to foreign 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)

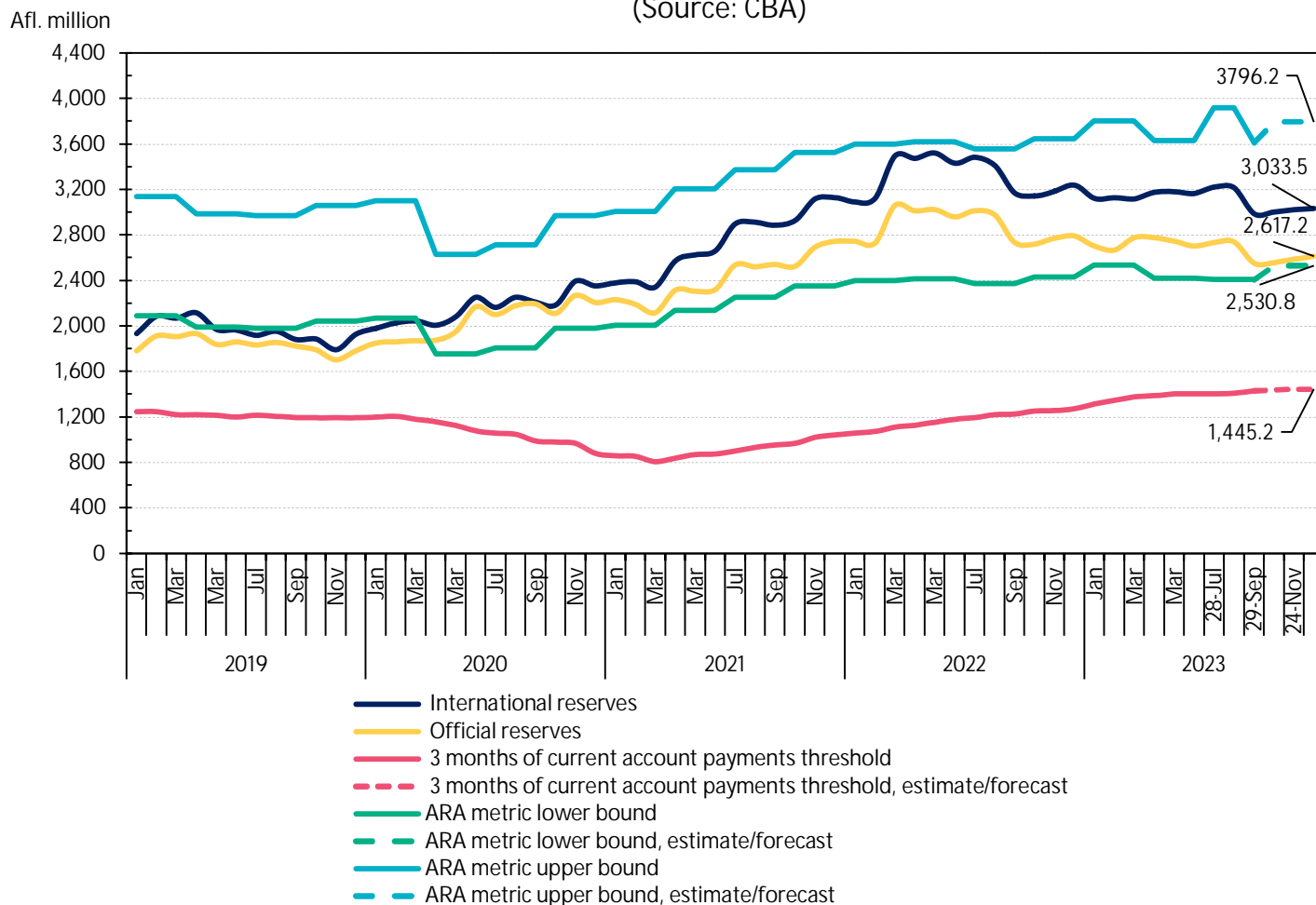


Table 1: Reserve benchmarks monitored in 2023

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
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	6.3	6.3
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	102.2	103.4

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

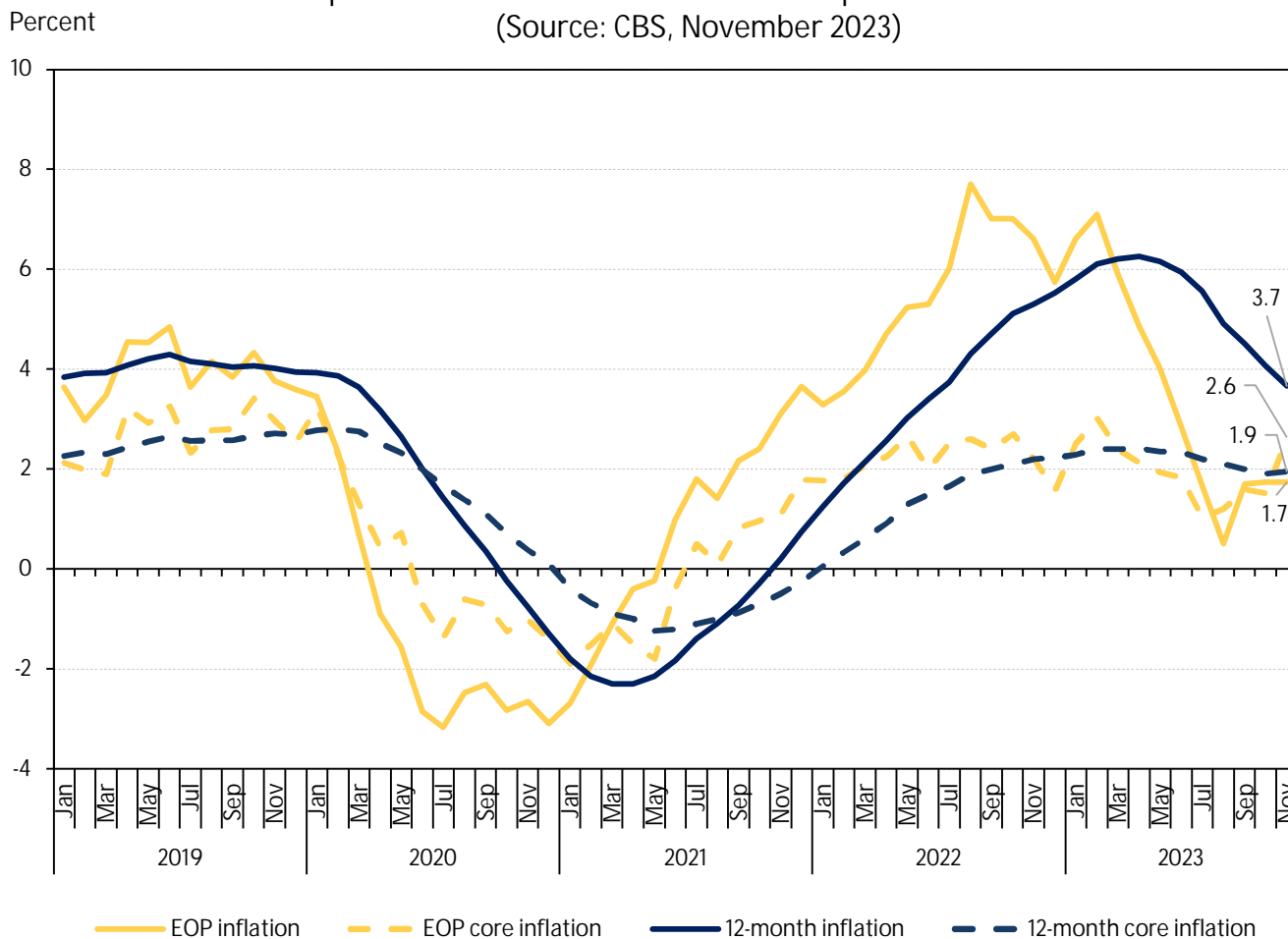
The end-of-period inflation (EOP) stood at 1.7 percent in November 2023 (Graph 2). The main contributors to the EOP inflation in November 2023 were 'communication' (+1.5 percentage point contribution), 'miscellaneous goods and services' (+0.4 percentage point contribution), and 'housing' (+0.4 percentage point contribution). On the other hand, the transport component (-1.1 percentage point contribution) mitigated the EOP inflation in November 2023.

As of November 2023, the 12-month average inflation fell to 3.7 percent, down from 4.1 percent in October 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 November 2023, EOP core inflation (which excludes energy and food) was 2.6 percent (1.5 percent in October 2023). On a twelve-month average basis, core inflation amounted to 1.9 percent (1.9 percent in October 2023).

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

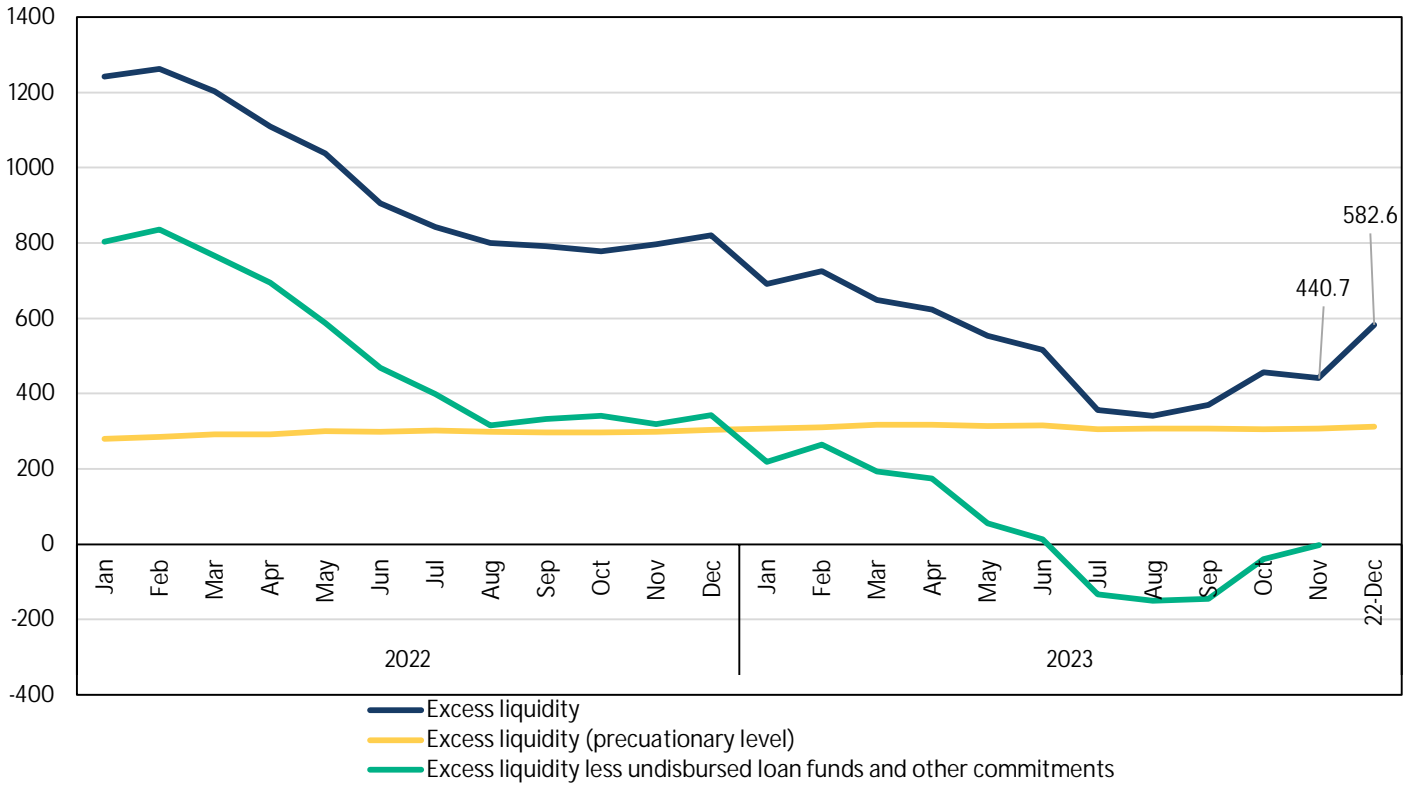


Excess liquidity of the commercial banks

Excess liquidity (including undisbursed loan funds and other commitments) of the commercial banks stood at Afl. 440.7 million as of November 2023, i.e., an Afl. 15.7 million decrease compared to October 2023 (Graph 3). When compared to end-December 2022, excess liquidity reflected a contraction of Afl. 379.1 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 suggest an Afl. 141.9 million rise until December 22, 2023 compared to November 30, 2023.

Graph 3: Aggregated excess liquidity - commercial banks
 Source: CBA

Afl. million



Centrale Bank van Aruba
 March 14, 2024