



CENTRALE BANK VAN ARUBA

The CBA decided to decrease the reserve requirement rate to 21.5 percent as of April 1, 2024.

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 March 22, 2024, the MPC decided to reduce the reserve requirement rate from 22.0 percent to 21.5 percent as of April 1, 2024. Accordingly, commercial banks must hold a minimum balance at the CBA equal to 21.5 percent of their clients' liquid deposits¹. The decision to lower the reserve requirement rate was based on the official reserves having expanded and remaining adequate according to the International Monetary Fund (IMF) Assessing Reserve Adequacy (ARA) metric monitored by the CBA. 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, increased by Afl. 144.9 million as of March 1, 2024, compared to December 29, 2023 (Chart 1). Official reserves expanded by Afl. 145.2 million, while the foreign reserves at the commercial banks edged down by Afl. 0.2 million. Consequently, as of March 1, 2024, official and international reserves amounted to Afl. 2,790.8 million and Afl. 3,206.9 million, respectively.

Conserving reserve adequacy is critical in maintaining the fixed exchange rate between the Aruban florin and the US dollar. In this regard, international reserves stayed comfortably above the minimum required three months of current account payments as of March 1, 2024. 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 IMF ARA metric (Table 1).

¹ Demand deposits, time deposits with a maturity equal to or shorter than two years, time deposits of the government, time deposits of deposit money banks, and savings.

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

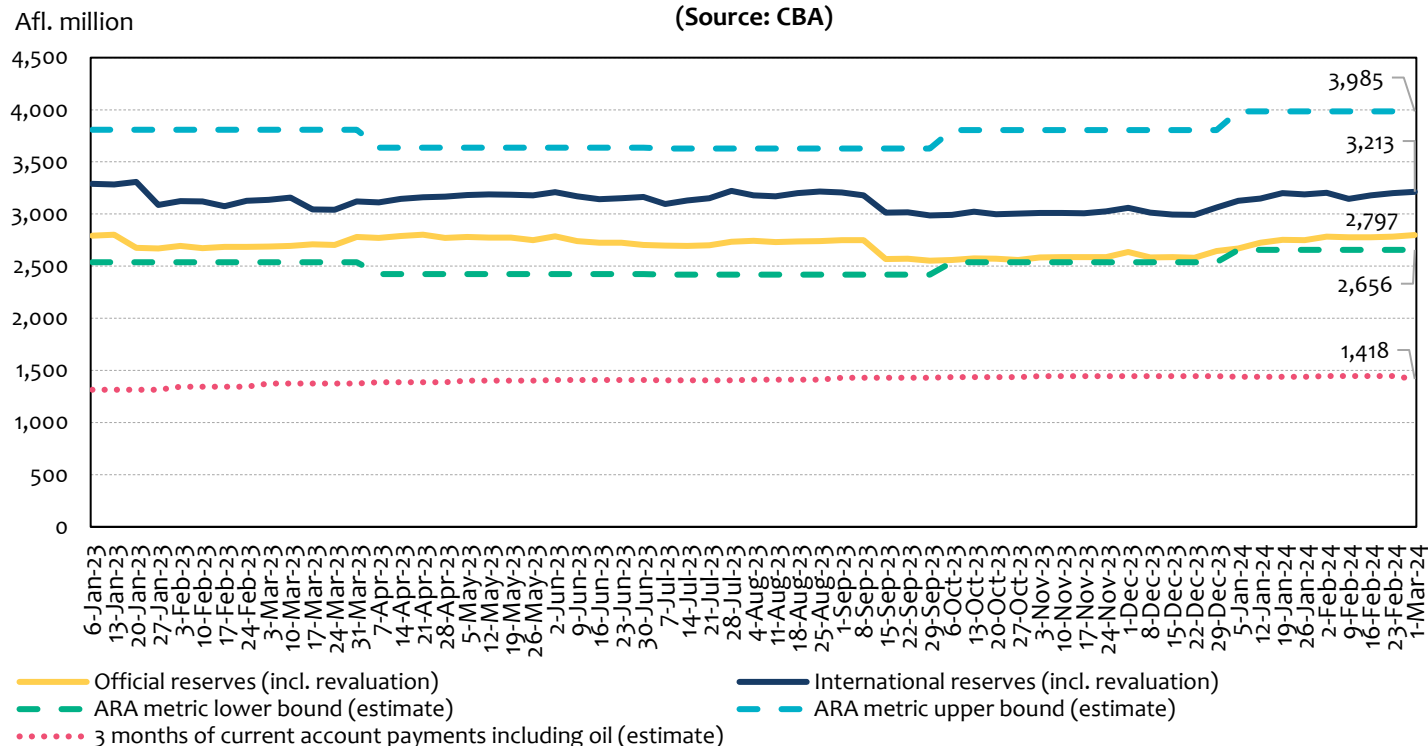


Table 1: Reserve benchmarks monitored over the past 12 months

	2023												2024	
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar 1	
Estimated current account coverage ratio ¹	6.8	6.9	6.8	6.8	6.9	6.8	6.3	6.3	6.3	6.4	6.6	6.6	6.8	
Estimated IMF ARA Metric ²	109.4	114.7	113.3	111.6	114.5	113.6	105.5	101.5	101.9	104.2	103.5	104.8	105.1	

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.

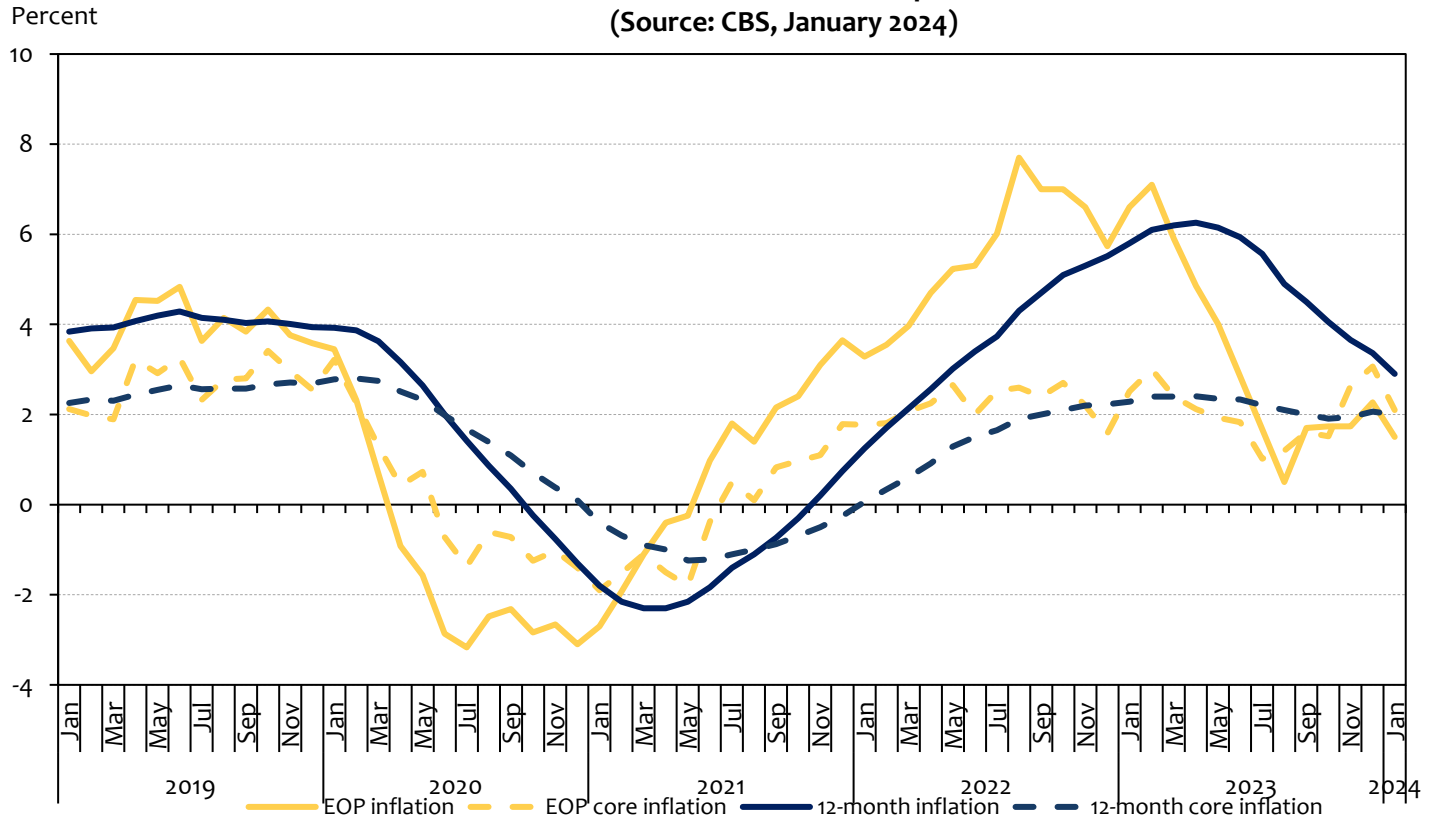
Inflation

The end-of-period inflation (EOP) stood at 1.5 percent in January 2024, down from 2.3 percent in December 2023 (Chart 2). The main contributors to the EOP inflation in January 2024 were ‘communication’ (+1.5 percentage points contribution), ‘miscellaneous goods and services’ (+0.3 percentage point contribution), and ‘food and non-alcoholic beverages’ (+0.3 percentage point contribution). On the other hand, the transport component mitigated (-1.1 percentage points contribution) the EOP inflation in January 2024.

As of January 2024, the 12-month average inflation fell to 2.9 percent, down from 3.4 percent in December 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 January 2024, EOP core inflation (which excludes energy and food) was 2.1 percent. On a twelve-month average basis, core inflation amounted to 2.0 percent.

Chart 2: Inflation based on the consumer price index of Aruba
(Source: CBS, January 2024)



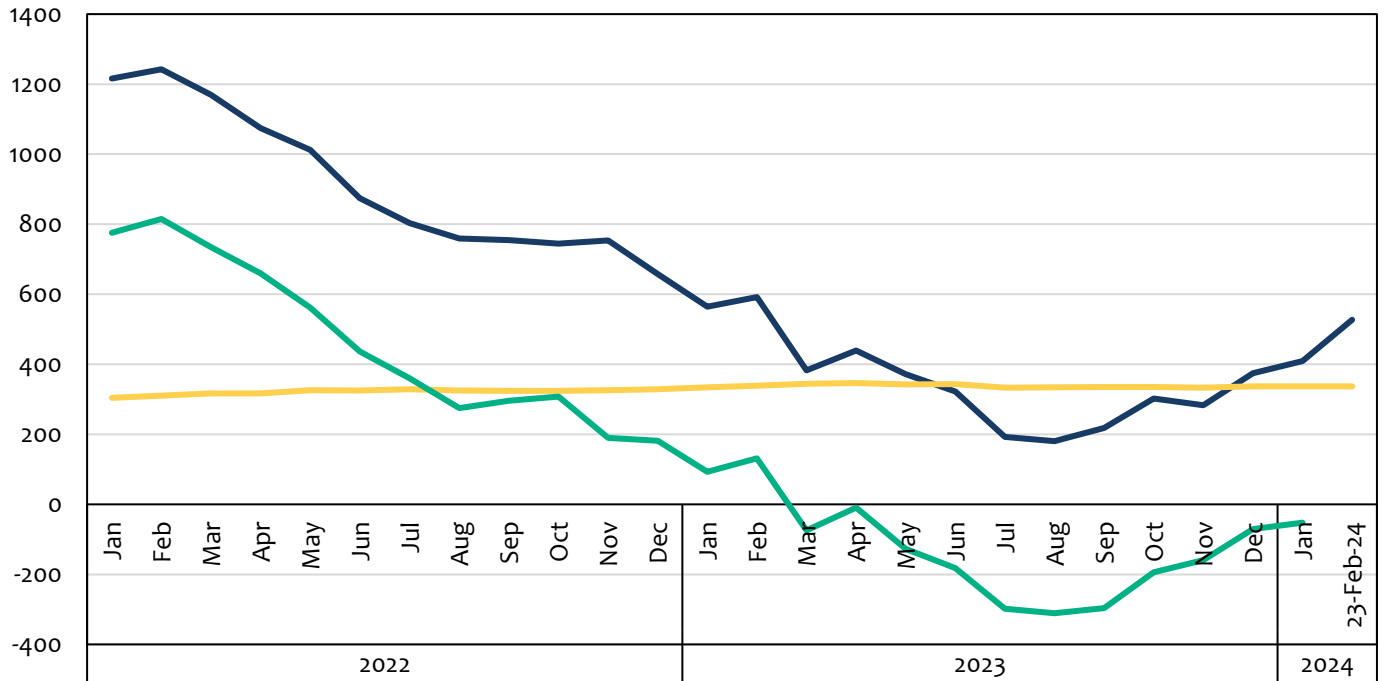
Excess liquidity of the commercial banks

Excess liquidity (including undisbursed loan funds and other commitments) of the commercial banks stood at Afl. 409.3 million at end-January 2024, i.e., an Afl. 35.2 million upturn compared to December 2023 (Chart 3). This uptick was mainly due to the performance of the tourism sector. In addition, preliminary data shows that excess liquidity is estimated to have increased by Afl. 152.9 million in the week ending on February 23, 2024, compared to end-December 2023.

Chart 3L Aggregated commercial banks - excess liquidity

Source: CBA

Afl. million



- Excess liquidity
- Excess liquidity (precautionary level)
- Excess liquidity less undisbursed loan funds and other commitments

Centrale Bank van Aruba

May 30, 2024