OPERATIONAL REPORT 2023

CENTRALE BANK VAN ARUBA

Cover story

As dynamic and ever-changing as the waves that kiss the shore, each wave, whether gentle or fierce, symbolizes daily operations.

By balancing the ebb and flow of daily operations, while navigating the ever-changing tides and coastline with precision and foresight, the CBA continues to execute its mandate and deliver on its strategic plan, thereby serving the Aruban community.

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List of Abbreviations

AC	Audit Committee
AML/CFT	Anti-Money Laundering and Combatting Financing of Terrorism
ARA	Assessing Reserve Adequacy
BoSD	Board of Supervisory Directors
CBA	Centrale Bank van Aruba (the Central Bank of Aruba)
CBO	Central Bank Ordinance
CFATF	Caribbean Financial Action Task Force
CSR	Corporate Social Responsibility
EC	Executive Committee
FEC	Foreign Exchange Commission
FOMC	Federal Open Market Committee
FPN	Foro di Pago Nacional
GOA	Government of Aruba
IC	Investment Committee
IMF	International Monetary Fund
IT	Information Technology
MPC	Monetary Policy Committee
RAS	Risk Assessment Survey
RIFS	Redesign and Innovate our Financial System
RMCC	Risk Management & Compliance Committee
R&C	Risk & Compliance
RR	Reserve Requirement
SOFET	State Ordinance on Foreign Exchange Transactions
US	United States
USD	US Dollar
US Treasuries	United States Treasuries

Chapter 1. Introduction

The purpose of the Operational Report is to provide information on the financial results of the Centrale Bank van Aruba (CBA) for 2023, the main developments and achievements relating to four core responsibilities i.e., monetary policy, reserve management, payment systems, and banker and advisor to the Government of Aruba (GOA), as well as strategic, governance and risk management related (policy-making) activities. The CBA's fifth core responsibility, i.e., supervision, is covered in the *Financial Sector Supervision Report,* published separately on an annual basis.

The CBA contributes to financial stability and economic well-being of the Aruban community through the execution of its five core responsibilities (see Figure 1) derived from its legal mandate, as defined in the Central Bank Ordinance (CBO), as well as of the relevant ordinances.

This report also briefly expands on personnel data, key strategic activities, and strategic accomplishments of 2023, as well as on the focuses for 2024. Before diving into the next chapters, a highlight of the organizational structure and selected statistics on the heart of the organization, the employees, can be found below.

1.1 Organizational structure

The CBA has an Executive Committee (EC) consisting of the President and two Executive Directors. There are four Division Managers, each overseeing 3 to 6 departments. In total there are 21 departments. See Figure 2 for the organization chart with more specifications.

The Board of Supervisory Directors (BoSD), consisting of 5 members by the end of 2023, oversees CBA's operations, management of its property, and funds entrusted to it. The term of one member ended in 2023, and two new members were appointed in 2023. The members of the BoSD have specializations in, among other areas, the financial, legal, economic, and corporate governance fields.

Figure 1. Five core responsibilities of the CBA

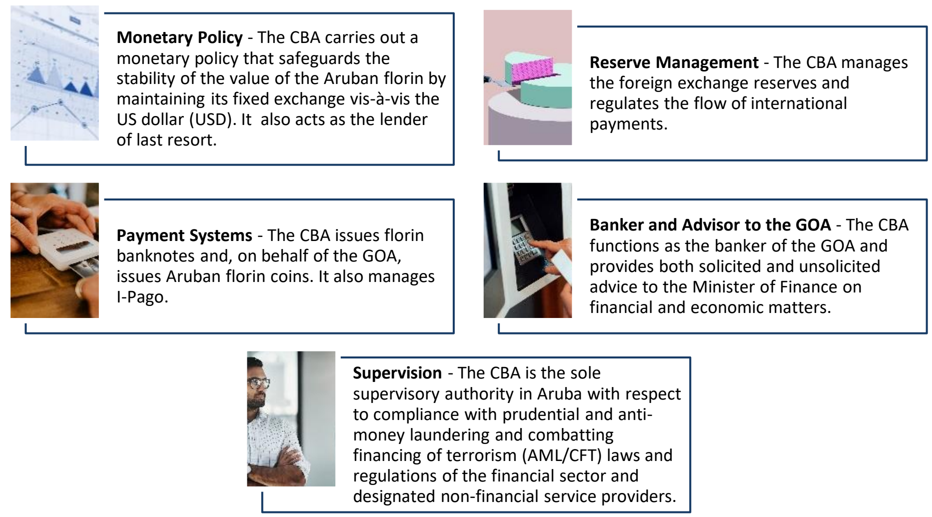
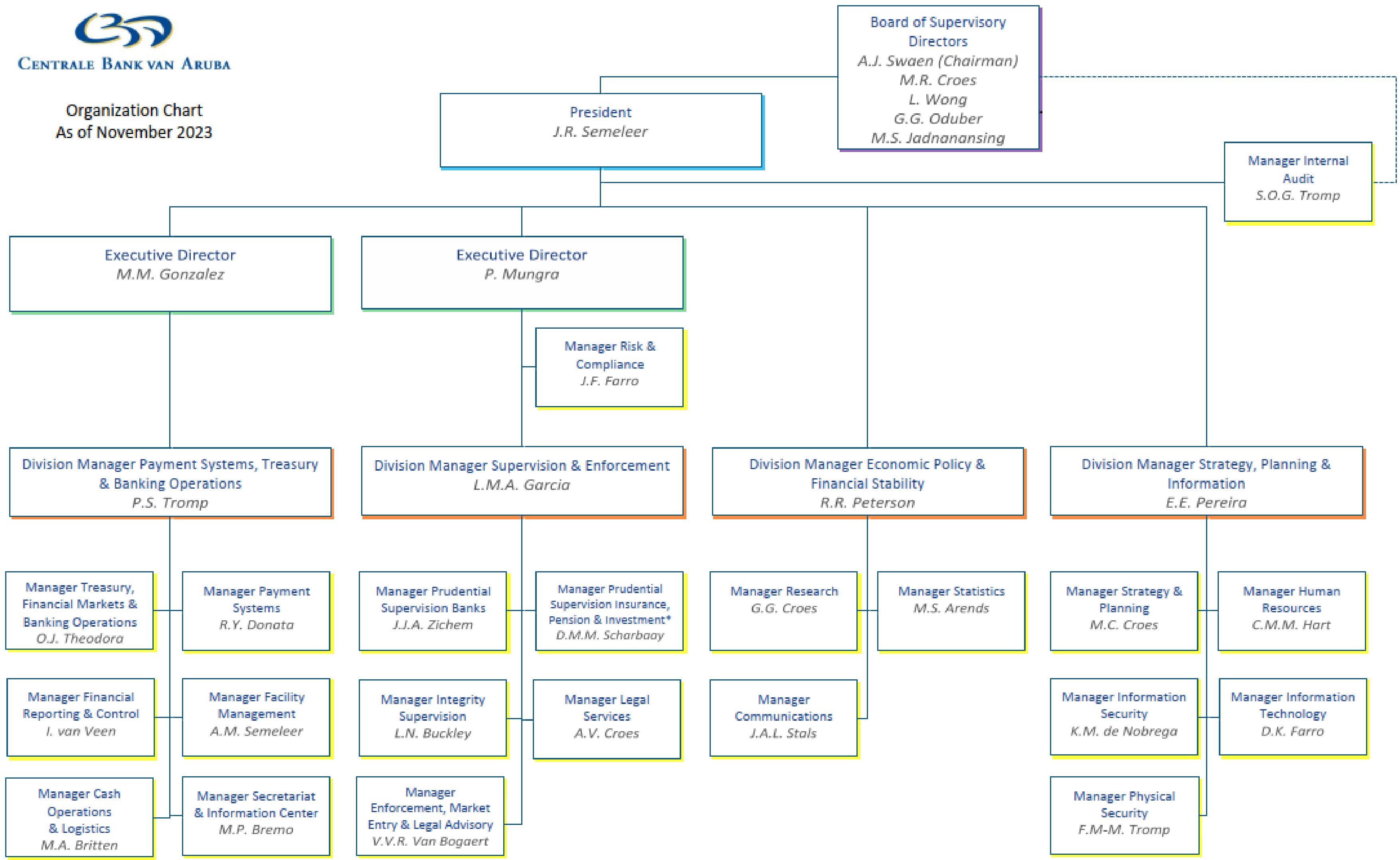


Figure 2. Organizational chart



*Manager Prudential Supervision Insurance Companies, Pension Funds & Investment Institutions

Besides the core responsibilities of each department, the CBA also has several cross-functional teams, such as think tanks, working groups, and committees responsible for preparing, reviewing, advising, and deciding on various relevant policy matters related to, among others, financial investments, corporate information security, foreign exchange policy, risk management, monetary policy, and payment systems. See chapter 11, Governance, for additional information on committees.

1.2 Employee statistics

Employees are the driving force behind full compliance with the legal mandate and actions toward achieving inclusive resilience.

By the end of 2023, the CBA had 108 permanent employees, with an average age of 45 years and an average tenure of nearly 13 years. The gender distribution among employees is predominantly female.

In 2023, the CBA welcomed eight new permanent employees while nine permanent employees departed the organization. The average age of the recruited employees is 40 years, and 75 percent are female.

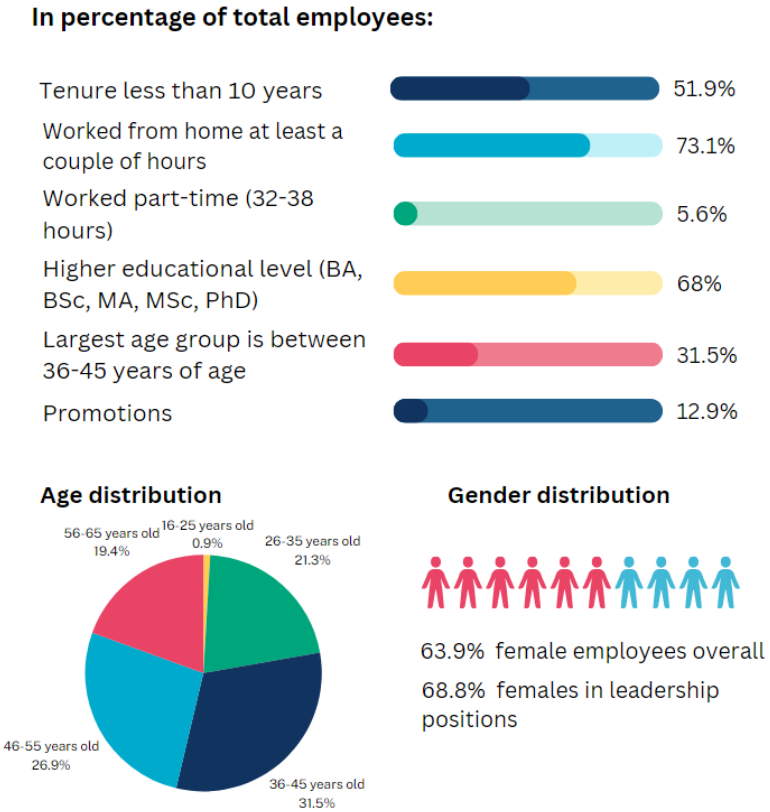
Although the CBA received many applications through its Working at the CBA portal and filled eight positions, 2023 brought additional challenges in recruiting employees due to the specialized nature of the job roles, especially for the supervisory functions. In 2024, the CBA aims to fill the open positions with new hires, which will also contribute positively to its endeavours.

In addition to ensuring diversity in gender, tenure, and age, employees have diverse backgrounds and birthplaces. Although most employees are born in Aruba, the CBA also has employees who were born in Belgium, Bulgaria, China, Curaçao, Dominican Republic, the Netherlands, Panama, Sint Maarten, Slovakia, Suriname, United States, Uruguay, and Venezuela. In this regard, the CBA's employees represent the general Aruban community, which is rich in cultural differences.

Despite specific changes in its workforce and challenges such as limited resources and outflow of expert knowledge, the CBA made significant progress on many important fronts. Details are shared in the following chapters of this report. The CBA is proud to be taking steps that have a positive impact both inside the organization and the Aruban economy and community, as a whole.

See Figure 3 for additional employee statistics.

Figure 3 – Workforce highlights in 2023



Chapter 2. Key Figures at Year-End 2023

Financial data CBA (assets, liabilities, income, and expenses)

- Net income: Afl. 23.9 million
- Net interest revenues as percentage of total income: 62.2 percent
- Total assets: Afl. 2,701.7 million
- Personnel expenses: Alf. 19.7 million
- Total gold and foreign reserves: Afl. 2,669.7 million
- Gold holdings: Afl. 410.9 million
- Total deposits of residents: Afl. 1,946.4 million
- Total capital and reserves: Afl. 113.1 million

Monetary data

- Reserve requirement: 22.0 percent
- Total foreign exchange reserves: Afl. 2,258.8 million

Foreign exchange licenses data

- Total value of foreign exchange licenses issued: Afl. 1,529.5 million
- Total number of foreign exchange licenses issued: 782 licenses
- Net value of declarations for dividend distribution issued: Afl. 528.4 million
- Total number of declarations for dividend distribution issued: 73 declarations

Payment systems

- Total value of coins in circulation: Afl. 40.5 million
- Total value of banknotes in circulation: Afl. 315.4 million (excl. banknote series 1990/1993)
- Total number of transactions through I-Pago: 3.1 million
- Total value of transactions through I-Pago: Afl. 12.9 billion

GOA reference rate

- Average yield on the GOA bonds issues in 2023: 5.82 percent
- Average yield of the 3-month GOA treasury bills: 1.23 percent
- Average yield of the 6-month GOA cash loans: 1.35 percent

Chapter 3. President's Statement

3.1 Cautiously optimistic

In 2023, in the aftermath of turbulent weather, the Aruban economy finally experienced somewhat calmer waters. For the short and medium term, the forecast for the economy remains partly sunny with downside risks related to the strength of the U.S. economy, geopolitical disturbances, volatility in the oil price, stability of international trade, domestic labour market and productivity, and last but not least climate change.

After peaking at a record level in 2020, for the first time in four years, the government's financial deficit turned into a significant surplus at end-2023. The implementation of a (partial) tax reform, the strict oversight by the Dutch government through the "College Aruba financieel toezicht" (CAft), and the buoyant performance of the tourism sector were the key drivers behind this turnaround.

The Aruban economy showed resilience in the face of the lingering effects of the Covid-19 pandemic, the Russian-Ukrainian war, and the challenges engulfing each event. The supply-chain disruptions triggered by the pandemic and the price hike in commodities pushed by the recovery of the world economy and exacerbated by the Russian-Ukrainian war, in combination with domestic tax reforms, drove inflation in Aruba. However, as global inflation subsided in 2023, so did domestic inflation.

3.2 Economic recovery

Despite the many challenges and uncertain times, the Aruban economy remained resilient and continued on its steady path to full recovery in 2023. Economic growth was spurred by a continued robust expansion in tourist arrivals and the further rise in tourist spending, as well as adequate economic policies, ample liquidity at commercial banks, and commodious foreign exchange reserves.

At end-2023, the level of international reserves was well above the benchmarks monitored by the CBA, while excess liquidity within the banking system recovered to adequate levels, and inflationary pressures subsided. The Monetary Policy Committee (MPC) loosened its monetary policy stance by lowering the reserve requirement (RR) rate, due to a steady decline in excess liquidity at the commercial banks, i.e., from Afl. 690.3 million in January 2023 to Afl. 341.5 million in August 2023, while the foreign reserves level remained amply suitable according to the relevant benchmarks (the International Monetary Fund Assessing Reserve Adequacy (ARA) and the months of current account payments coverage) monitored by the CBA. The contraction in excess liquidity was mainly the result of the local refinancing of foreign loans and dividend payments to abroad.

Consequently, the easing of the RR rate (from 25.5 percent per August 2023 to 22 percent per December 2023) injected Afl. 210.9 million in liquidity in the commercial banking sector in the span of four months. In December 2023, the ARA ratio stood at 110.5 percent and the current account payments coverage at 6.3 months, despite a drop in foreign reserves. Both ratios were above their respective minimum for adequacy, i.e., 100 percent for the ARA ratio and 3 months for the current account coverage.

3.3 Financial result of the CBA

The financial result of the CBA improved significantly, i.e., from a net result of Afl. 11.8 million in 2022 to Afl. 23.9 million in 2023. The higher net result was largely due to elevated net interest income. When compared to the previous year, the expansion in the category ‘net interest revenues’ was primarily attributable to an increase in the net interest income earned by the securities portfolio (+ Afl. 27.2 million), as well as a rise in the interest received on current account deposits (+ Afl. 1.8 million). The increase in the interest income on the CBA’s investment portfolio reflected the prevailing high interest rates in the international financial markets, following the aggressive tightening of the monetary policy by the Federal Open Market Committee (FOMC) to bring down US inflation. In addition, interest income benefitted from the portfolio restructuring operations by the CBA in 2023, which were undertaken to increase the income-generating capacity of the investment portfolio, as well as reduce unrealized losses.

3.4 Strategic actions

The year 2023 marked the halfway point of the CBA’s strategic plan ‘Dilanti Biento’. It is, therefore, a pivotal tipping point that determines how the CBA moves forward in coming years. In light hereof, both operational tasks and strategic actions are actively monitored, taking due account of the risk environment, to ensure that, if necessary, the course of its strategic plan ‘Dilanti Biento’ is adapted to fulfil its purpose.

In line with its strategic plan, the CBA advocates regeneration and transformation to fostering an inclusive and resilient Aruban community. In 2023, internally, critical milestones were also achieved, including the implementation of the Redesign and Innovate our Financial System (RIFS) project that integrated banking, financial, and order management software, as well as digitalized related processes.

Furthermore, besides draft laws submitted to the GOA to regulate and supervise the payment system, modernization of the payment system in Aruba is ongoing. We successfully closed 2023 with an inaugural meeting of the ‘Foro di Pago Nacional’, focussed on digital financial inclusion in Aruba. In close collaboration with our stakeholders, we can strengthen financial inclusion and modernize the payment system to the benefit of the Aruban community.

Jeanette R. Semeleer, President Centrale Bank van Aruba

Chapter 4. Financial Developments 2023

Total assets fell by Afl. 132.4 million to Afl. 2,701.7 million (- 4.7 percent) at year-end 2023, compared to Afl. 2,834.1 million at year-end 2022. This contraction was attributed mainly to a decline in foreign currency assets, i.e., by Afl. 180.4 million (- 7.4 percent), which was partially offset by an increase in the value of the gold holdings of Afl. 49.8 million (+ 13.8 percent). The decrease in the foreign currency assets was largely the result of a decline of Afl. 99.0 million (- 4.3 percent) in 'Government and other papers' and a drop in 'due from banks and other financial institutions' of Afl. 86.9 million (- 56.7 percent), respectively (see Table 1).

Table 1: Assets on the condensed balance sheet (before allocation of net results) (in Afl.)

	As of December 31, 2023	**As of December 31, 2022**
Assets		
1. Gold	**410,864,224**	**361,050,124**
2. Foreign currency assets	**2,258,822,085**	**2,439,242,870**
2.1 Due from banks and other financial institutions	66,429,287	153,336,837
2.2 Government and other papers	2,177,504,396	2,276,486,089
2.3 Other	14,888,402	9,419,944
3. Other assets	**31,969,710**	**33,774,568**
3.1 Receivables	10,722,066	11,285,821
3.2 Due from local banks	640,140	0
3.3 Stock of coins and printing cost banknotes	1,087,978	2,165,936
3.4 Fixed assets	16,913,093	13,449,920
3.5 Project in progress	2,606,433	6,872,891
Total assets	**2,701,656,019**	**2,834,067,562**

4.1 Government and other papers

The aforementioned decrease of Afl. 99.0 million was mainly attributed to net cash transfers in the amount of Afl. 204.1 million from the investment portfolio to the current account held at a financial institution in the United States (US) to meet the foreign currency liquidity needs of the GOA and the commercial banks. In addition, the item 'Government and other papers' was negatively impacted by a net realized capital loss of Afl. 39.7 million. In May and December 2023, the CBA executed two restructuring operations to mitigate the interest rate risk and further reduce the unrealized loss position of the investment portfolio, while aiming to maximize the income-generating capacity of the portfolio for the coming years. The effect of these movements was partly offset by the net change in the market value of the investment portfolio (revaluation account) (+ Afl. 80.1 million) and interest income received (+ Afl. 64.8 million). As of end-December 2023, the yields on the 2-year US Treasuries and 3-year US Treasuries were, respectively, 18 basis points and 21 basis points lower compared to end-December 2022, resulting in yields of 4.23 percent and 4.01 percent, respectively. This drop in yields was the result of the financial markets expectation that the Federal Reserve will start cutting interest rates by summer 2024.

4.2 Due from banks and other financial institutions

The net decrease of Afl. 86.9 million in the item 'due from banks and other financial institutions' is related mainly to drops in the current account held at the Federal Reserve New York (FRNY) (- Afl. 48.5 million) and the Centrale Bank van Curaçao en Sint Maarten (CBCS) (- Afl. 22.4 million), as well as in the time deposits held at a financial institution in Colombia (- Afl. 17.9 million) as of December 31, 2023, compared to December 31, 2022. On the other hand, the current account held at De Nederlandsche Bank (DNB) increased by Afl. 1.5 million. The aforementioned declines were related to the financing of the liquidity needs denominated in foreign currency of the GOA and the commercial banks.

4.3 Gold holdings of the CBA

On December 31, 2023, the market price of gold stood at USD 2,062.40 (Afl. 3,691.70) per fine troy ounce, up from USD 1,812.35 (Afl. 3,244.11) per fine troy ounce as of December 31, 2022. This increase of USD 250.05 (Afl. 447.59) per fine troy ounce pushed up the value of gold holdings by Afl. 49.8 million to Afl. 410.9 million at year-end 2023, when compared to year end 2022.

The decrease in the liabilities and equity at year-end 2023, compared to year-end 2022, was largely the result of a sharp decline in the item 'deposits of residents' (- Afl. 320.9 million or -14.2 percent). The latter was partly offset by an increase in the revaluation account (+ Afl. 129.9 million or + 100.0 percent) (see Table 2).

Table 2: Liabilities and equity of the condensed balance sheet (before allocation of net result) (in Afl.)

	As of December 31, 2023	As of December 31, 2022
Liabilities and equity		
1. Banknotes in circulation	**315,408,515**	**297,790,515**
2. Deposits of residents	**1,946,419,522**	**2,267,284,147**
2.1 Government	82,270,482	69,639,855
2.2 Commercial banks	1,861,460,794	2,193,704,582
2.3 Other	2,688,246	3,939,710
3. Deposits of nonresidents	**23,939,357**	**9,405,081**
4. Money in custody	**2,164,953**	**2,163,863**
5. Payables and accrued expenses	**16,394,137**	**4,481,091**
6. Employee savings fund liability	**578,941**	**0**
7. Revaluation account	**259,727,006**	**129,833,734**
8. Capital and reserves	**113,109,131**	**111,289,844**
8.1 Capital	10,000,000	10,000,000
8.2 General reserve	103,109,131	101,289,844
Net result for the year	**23,914,457**	**11,819,287**
Total liabilities and equity	**2,701,656,019**	**2,834,067,562**

4.4 Deposits of residents

The decrease of Afl. 320.9 million in the deposits of residents was primarily led by a contraction of Afl. 332.2 million (- 15.1 percent) in the deposits of commercial banks held with the CBA, which was partly offset by a surge of Afl. 12.6 million (+ 18.1 percent) in government deposits. The marked decrease in commercial banks' deposits was predominantly related to declines in the current accounts of the commercial banks (- Afl. 195.5 million or 22.9 percent), the mandatory deposits held at the CBA in connection with the RR (- Afl. 111.8 million or -9.2 percent), and time deposits held at the CBA (- Afl. 25.0 million or -20.0 percent).

4.5 Revaluation account

The revaluation account expanded by Afl. 129.9 million in 2023, mostly due to an Afl. 80.1 million decline in the unrealized losses of the securities in the investment portfolio. This decline stems from the aforementioned restructuring operations in May and December 2023, as well as the drop in the yield on the 3-year and 2-year US Treasuries as of December 31, 2023, compared to December 31, 2022. In addition, the surge in the market price of gold at year-end 2023, compared to year-end 2022, positively impacted the value of the revaluation account as of December 31, 2023.

4.6 Net income

As indicated in Table 3, the net result for 2023 climbed up by Afl. 12.1 million or 102.3 percent to Afl. 23.9 million compared to 2022 (Afl. 11.8 million). This rise was mainly caused by an increase in the item 'net interest revenues' (+ Afl. 13.2 million or + 63.6 percent), which was partially offset by a rise in 'total expenses' of Afl. 2.0 million (+ 6.8 percent) (see Table 3).

Table 3: Condensed profit and loss account (in Afl.)

	2023	2022
1. Net interest revenues	33,911,030	20,728,036
2. Other revenues	20,641,742	19,777,566
Total income	**54,552,772**	**40,505,602**
3. Amortization of stock of banknotes	1,101,249	1,101,249
4. Personnel expenses	19,680,260	19,107,069
5. Operating expenses	6,292,978	6,258,384
6. Depreciation expenses	3,563,828	2,219,613
Total expenses	**30,638,315**	**28,686,315**
Net result	**23,914,457**	**11,819,287**

4.7 Composition of total income

In 2023, net interest revenues continued to be the most significant income stream for the CBA, increasing to 62.2 percent of total income in 2023 (see Chart 1), up from 51.2 percent in 2022 (see Chart 2). Please refer to paragraph 4.8 Net interest revenues for additional information. Income from the exchange rate margin compensation rose compared to 2022, but as a share of total income it decreased by 5.3 percent. Foreign exchange income fell in comparison to 2022, mainly because the GOA did not acquire any foreign loans in 2023.

Chart 1: Composition of CBA income 2023

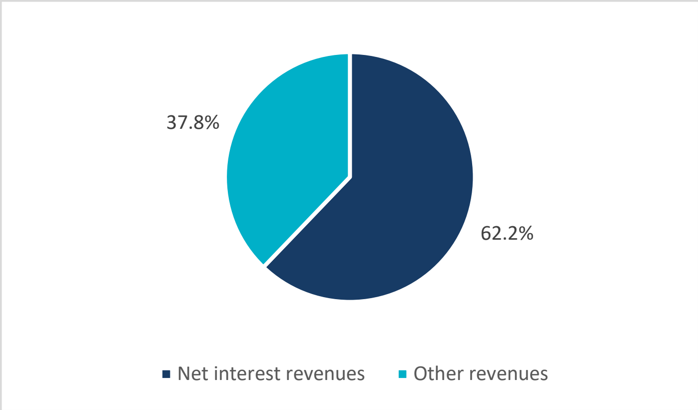
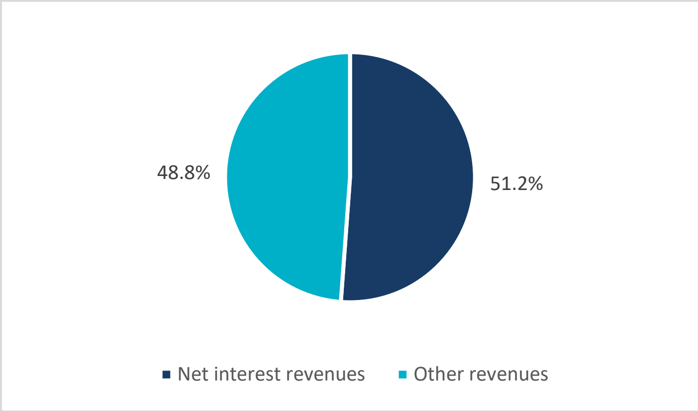


Chart 2: Composition of the CBA income 2022



4.8 Net interest revenues

The expansion in the category 'net interest revenues' in 2023, compared to the previous year, was primarily attributable to an increase in the interest income earned by the investment portfolio (+ Afl. 27.2 million), as well as an Afl. 1.8 million rise in the interest on current account deposits. The increase in the interest income on the investment portfolio reflected the prevailing high interest rates on the international financial markets, following the aggressive monetary policy tightening by the FOMC focusing on bringing down the US inflation, as well as the portfolio restructuring operations by the CBA in 2023 to increase the income generating capacity of the investment portfolio. The proceeds from the restructuring operations and matured securities were reinvested in securities with notably higher coupon rates. The expansion in the interest earned on current account deposits during 2023 was also caused by the monetary policy tightening cycle of the FOMC, thereby pushing interest rates on deposits in current accounts higher during 2023. The aforementioned increases were partly offset by a rise of Afl. 16.7 million in the net realized losses on the investment portfolio, which were largely the result of the portfolio restructuring operations realized in May and December 2023.

4.9 Composition of total expenses

In 2023, personnel expenses remained the main cost driver, slightly declining from 66.6 percent of total expenses in 2022 to 64.2 percent in 2023 (see Chart 3). In addition, the share of the depreciation expenses widened by 3.9 percent to 11.6 percent in 2023, when compared to 2022 (see Chart 4). For more information, please refer to paragraphs 4.10 Personnel expenses and 4.11 Depreciation expenses.

Chart 3: Composition of the CBA expenses 2023

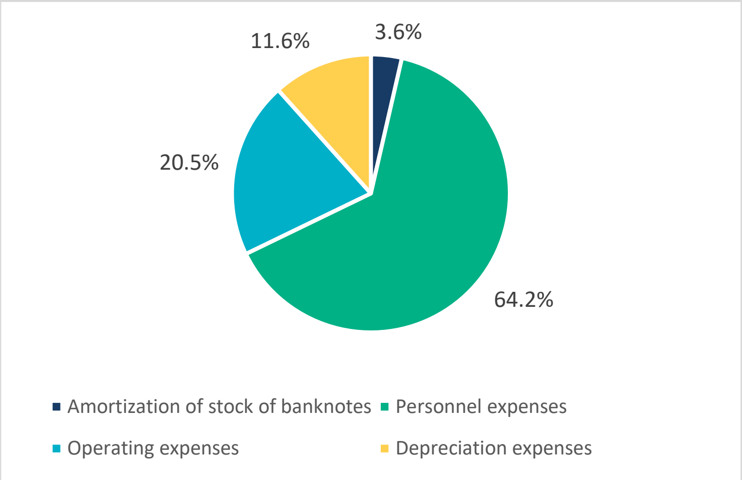
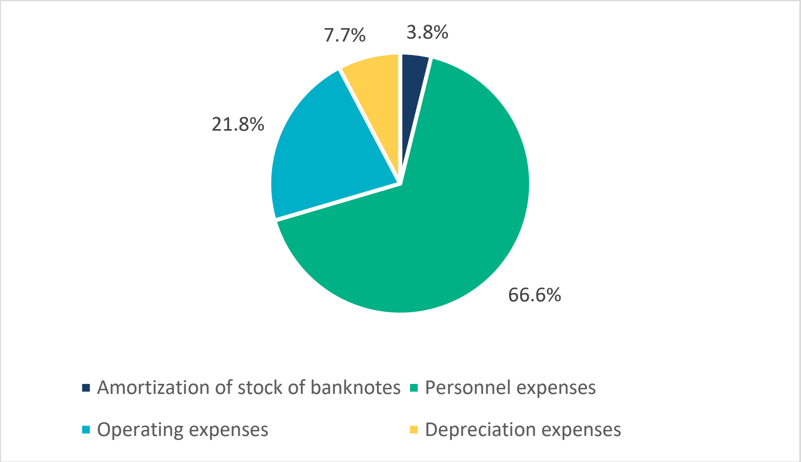


Chart 4: Composition of the CBA expenses 2022



4.10 Personnel expenses

The Afl. 0.6 million (+ 3.0 percent) rise in personnel expenses in 2023 was primarily due to salary adjustments for the year 2023, as well as an increase in costs related to courses, seminars, and conferences.

4.11 Depreciation expenses

The depreciation expenses increased by Afl. 1.3 million (+ 60.6 percent) in 2023 compared to 2022. This was driven by the write-off of costs related to a data warehouse project, as well as the capitalization of the new financial software that was put into use as of May 1, 2023.

Chapter 5. Board of Supervisory Directors Statement

5.1 Introduction

In accordance with the CBO, the BoSD performed its supervision function by examining the way in which the CBA's policies relating to its core tasks and internal operations were carried out.

5.2 Composition and appointments

In accordance with Article 23 of the CBO, the BoSD consists of at least three and at most five members, including the Chairman (*Regeringscommissaris*).

In 2023, the following appointments took place.

1. As of October 1, 2023 Mr. Gerard G. Oduber was appointed as member of the BoSD. Mr. Oduber had previously served as member of the BoSD from September 9, 2005 until February 28, 2011.

2. As of October 1, 2023, effective November 1, 2023, Ms. Madhu S. Jadnanansing was appointed as member of the BoSD to replace Mrs. Yvonne H.M. Escalona, who stepped down after being a member of the the BoSD since December 1, 2014.

At the beginning of 2023 the BoSD consisted of Mr. Andries J. Swaen, Chairman, Mr. Marcial R. Croes, Mrs. Escalona, and Mr. Ling L. Wong. After the changes during 2023 the BoSD consisted at the end of 2023 of Mr. Swaen (Master in Law), Mr. Croes (Accountant), Mr. Wong (Economist), Mrs. Jadnanansing (Accountant) and Mr. Oduber (Economist).

5.3 Meetings

Pursuant to Article 25 of the CBO, the BoSD should meet at least once per quarter of the year with the EC. The BoSD met a total of four times with the EC during 2023.

The Chairman had 26 weekly consultations with the President of the CBA about issues concerning the BoSD's work and main developments regarding the CBA.

The BoSD held 15 internal meetings with a high average attendance. None of the members were regularly absent.

The Audit Committee (AC) accompanied by other members of the BoSD met periodically with the Manager of the Internal Audit department of the CBA.

5.4 Duties

The BoSD supervises the actions of the EC, the management of the assets of the CBA, as well as the funds entrusted to it and advises the EC.

At its meetings with the EC, the BoSD addressed the most important developments in CBA's areas of responsibility, derived from the periodic update on current issues, as well as meetings with key (international) stakeholders.

The EC needs approval of the BoSD for its annual budget and annual financial accounts and for certain important decisions on subjects listed in the CBO.

A major point of discussion in 2023 was the investment policy of the CBA. Because of the repositioning of the CBA's investment portfolio, substantial losses were realized. Outside expertise was brought in by the BoSD who elucidated to the BoSD that the repositioning is aimed at curving potential risks and optimizing future profits based on developments in the US economy and interest rate in global financial markets.

In 2023, the BoSD also discussed other relevant and important current affairs with themes such as accommodation, information, and cyber security. The digital agenda, including the implementation of IT projects, has a priority status. A delay in the implementation of IT projects was noted.

5.5 Audit Committee

The AC assists the BoSD in fulfilling its oversight responsibilities with the primary role of advising on the financial statements and monitoring the financial reporting process.

The AC, together with other members of the BoSD, met with the Internal Auditor, and the external auditors to extensively discuss the draft budget and draft financial statements. The AC advised the BoSD to approve the 2024 budget and the draft financial statements for 2023 with a few adjustments.

In the year under review, the AC consisted of Mr. Croes and Mrs. Escalona, who was replaced by Mrs. Jadnanansing, after she stepped down as member of the BoSD.

5.6 Statement on Independence

Members of the BoSD are not employed by the CBA, and were not a CBA employee at any time, nor do they have any relationship with the CBA from which they could obtain personal gain. BoSD members receive a fixed monthly compensation that is not related to CBA's financial results in any given year.

5.7 Concluding words

The BoSD looks back on an eventful year in which the economy of Aruba rebounded strongly. The economy and inflation rate in the US remain factors of attention for the CBA.

The BoSD notes that over the past year the CBA maintained its commitment to the performance of its core tasks and internal operational management. The BoSD would like to thank the CBA's staff and the EC for their contribution to the prosperity in Aruba, and looks forward to its continued cooperation with the EC in 2024.

The BoSD:

- Andries Swaen (Chairman/Regeringscommissaris)
- Marcial Croes
- Gerard Oduber
- Ling Wong
- Madhu Jadnanansing

Chapter 6. Monetary Policy

In line with Article 10 of the CBO, the CBA is responsible for the stability of the value of the Aruban florin and determines the monetary policy aimed at preserving said stability. The CBA ensures this stability by maintaining the fixed exchange rate of the Aruban florin vis-à-vis the USD through an adequate level of international reserves.

6.1 Monetary Policy Committee

To this end, the CBA instituted a Monetary Policy Committee (MPC) in 2010 to periodically evaluate and determine the monetary policy stance of the CBA and to improve the transparency of monetary policy decisions. The MPC generally conducts monetary policy by altering its primary monetary policy tool, the RR rate. The latter refers to the portion of the liquid deposits that commercial banks must hold – in the form of unremunerated deposits – at the CBA. Therefore, any movement in the RR rate can affect (excess) liquidity, and, subsequently, the credit supply of the commercial banks. In turn, credit may affect import and, thereby, the level of international reserves.

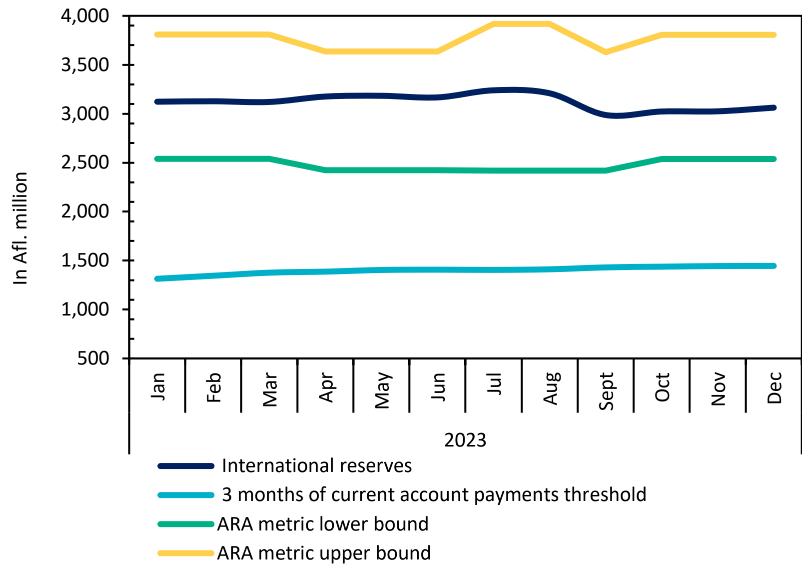
During the MPC meetings, based upon data presented by the Research department, the members assess relevant trends and projections in monetary and economic fundamentals against pre-set benchmarks. Indicators analyzed include but are not limited to international reserves, credit, interest rates, excess liquidity, and inflation. After reviewing the most recent data, relevant projections, and policy proposal, the MPC decides whether any change in CBA's monetary stance is necessary.

Looking back at the onset of the COVID-19 pandemic, in March 2020, the CBA promptly lowered the RR rate by 5 percentage points to 7 percent and simultaneously imposed foreign exchange restrictions. The significant cutback in the RR rate was to provide commercial banks with ample liquidity to meet financial obligations during the crisis, and to possibly meet an anticipated growth in credit demand. On the other hand, the imposed foreign exchange restrictions were to safeguard international reserves in light of the absence of tourism revenue due to the lockdown measures imposed by the GOA. As of June 1, 2021, the CBA started gradually rescinding the foreign exchange restrictions taken in March 2020. The potential downside impact of this rescission on the international reserves, coupled with sizeable excess liquidity at that time, spurred the CBA to raise the RR rate progressively between September 2021 and January 2023.

In 2023, the MPC held a total of ten meetings. Effective January 1, 2023, the CBA hiked the RR rate by 0.5 percentage point to 25.5 percent in light of still extensive excess liquidity that persisted well above the pre-COVID-19 level (based on November 25th, 2022, data against February 2020 data: Afl. 855.2 million vis-à-vis Afl. 689.1 million). The RR rate remained unchanged from January to August 2023 at 25.5 percent.

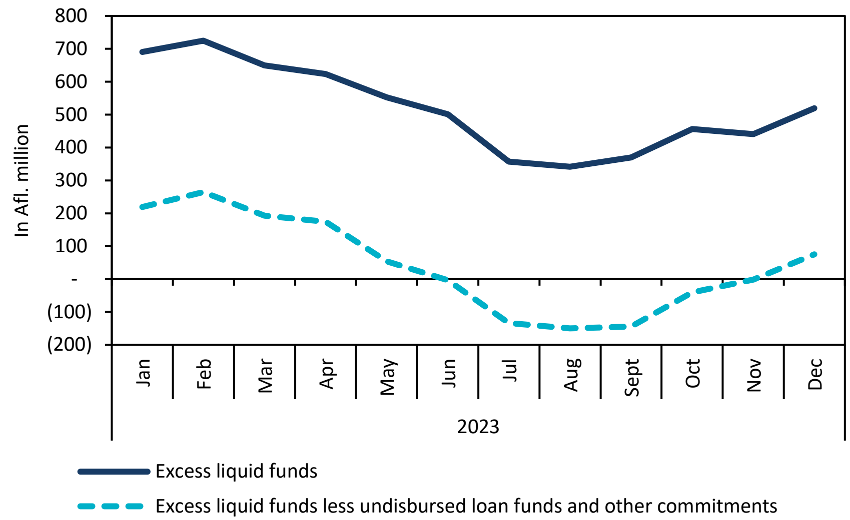
As per September 1, 2023, the MPC loosened its monetary policy stance by implementing a one-percentage point reduction in the RR rate to 24.5 percent. This decision was motivated by a steady decline in excess liquidity at the commercial banks – from Afl. 690.3 million in January 2023 to Afl. 341.5 million in August 2023, while the level of international reserves remained adequate, according to the relevant benchmarks (the IMF ARA and months of current import payments) monitored by the CBA (see Charts 5 and 6). Further reductions in the RR, driven by the year-to-date contractions in excess liquidity was mainly pushed down by the local refinancing of foreign loans and a jump in dividend payments to abroad, were, subsequently, implemented in October (1 percentage point), November (1 percentage point), and December 2023 (0.5 percentage point). In total, the unwinding of the RR rate injected Afl. 210.9 million in the commercial banking sector in the span of four months. In December 2023, the ARA ratio stood at 110.5 percent, and the current account payments coverage at 6.3 months.

Chart 5: International reserves (including revaluation differences)



Note: November and December are based on weekly data.

Chart 6: Aggregated excess liquidity commercial banks



Chapter 7. Reserve Management

In managing the foreign exchange reserves of Aruba, the CBA disposes of various policy tools, such as monetary policy and foreign exchange instruments.

7.1 Management of the foreign exchange reserves

7.1.1 Foreign exchange reserves

The principle monetary policy tool is the RR, which sets the minimum balance commercial banks are obliged to hold at the CBA, as stated in the previous chapter. On the other hand, various foreign exchange instruments are used to regulate foreign asset holdings, which are the following:

- The application of the 40-60 percent investment rule for institutional investors, requiring investors to invest at least 60 percent of their funds domestically.
- The issuance of foreign exchange licenses to residents for, among others, lending to and borrowing from abroad, portfolio investments abroad, and transfers to foreign accounts.
- The implementation of the B9 regulation that allows commercial banks to hold a maximum amount of foreign exchange reserves as working balance for the settlement of the foreign exchange transactions of their clients.

Furthermore, the CBA closely monitors the foreign currency liquidity needs of the banking sector and the GOA, while managing its foreign exchange reserve holdings to adequately meet liquidity needs at all times.

The CBA investment portfolio consists of three portfolios categorized by their duration position:

- One liquid portfolio managed internally, and
- Two medium-term fixed income portfolios with an average duration of 1-3 years managed by external asset management companies.

The liquid portfolio comprises current accounts and short-term time deposits denominated in USD, ANG, GBP, and Euro. The fixed income portfolios are consisting of securities denominated solely in USD, that have high credit quality and a short-term duration (1-3 years) in the following asset classes:

- US government and US agency securities (including mortgage-backed securities).
- Asset-backed securities.
- Corporate bonds, which are limited to the financial services sector, specifically banks and financial institutions, as well as industrial companies
- Sovereigns and supranational securities.
- Money market instruments, such as short-term funds with maturities ranging from overnight to 1 year, e.g., certificates of deposits, time deposits, and treasury bills.

The Investment Committee (IC) closely monitors the developments in the investment portfolio, and advises the President on the overall investment policy and ensuing investment guidelines designed to optimize return, while simultaneously keeping financial risks as low as possible.

7.1.2 Gold held by the CBA

With the incessant geopolitical tensions, elevated inflation, and a slowdown in China's economy, demand for gold reached record highs in 2023, propelling gold prices higher, reaching USD 2,062.40 per troy ounce at year-end 2023. Contributing factors also included central banks' gold purchases that exceeded 1,000 tons, for the second consecutive year. Additionally, the Federal Reserve's pause in interest rates hikes, as well as the expectation of an easing of its monetary policy with three cuts in 2024, have propelled a remarkable rally in gold prices. These led to an increase in the value of the CBA's gold holdings in 2023.

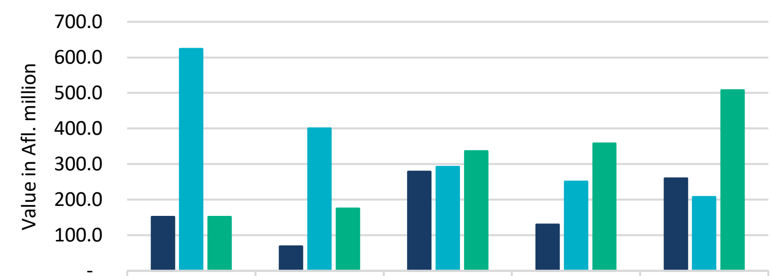
7.2 Management of international payments

7.2.1 Foreign exchange regulations and licensing

In managing Aruba's foreign exchange reserves, the CBA regulates the flow of international payments in accordance with the CBO, as further set out in the State Ordinance on Foreign Exchange Transactions (SOFET). Capital transactions on the one hand, and dividend- and profit payments on the other, can only be effectuated through, respectively, a special foreign exchange license and a declaration granted by the CBA. As of January 1, 2023, the annual upper limit for executing capital transactions without any administrative restrictions was increased from Afl. 300,000 to Afl. 600,000 for resident natural persons and from Afl. 750,000 to Afl. 1,500,000 for resident legal entities (excluding commercial banks).

In 2023, the CBA granted 782 foreign exchange licenses, against 827 in 2022. The drop in the total number of licenses issued in 2023 is partly the result of the annual upper limit increase for executing capital transactions without any administrative restrictions as mentioned earlier. In addition, the total value of all foreign exchange transactions fell from Afl. 1,775.4 million in 2022 to Afl. 1,529.5 million in 2023 (see Chart 7), caused mainly by an Afl. 472.6 million decrease in (re)financing activities abroad due to the high interest rates environment mainly in the United States.

Chart 7: Value of foreign exchange licenses issued (amounts in Afl. million)



	Lending / Borrowing abroad	Portfolio investment abroad	Real estate	Notified foreign accounts	Other capital transactions
2021	151.7	69.1	279.0	130.3	259.9
2022	624.3	400.8	291.9	251.0	207.3
2023	151.8	175.0	336.5	358.4	507.8

The total number of declarations granted for dividend distribution- and profit payments rose from 40 declarations in 2022 to 73 declarations in 2023 (see Chart 8). The (net) value of dividend distribution- and profit payments spiked from Afl. 78.7 million in 2022 to Afl. 528.4 million in 2023. Dividend distribution abroad picked up again in 2023, as the CBA revoked all foreign exchange restrictions imposed during the Covid-19 pandemic as of September 1, 2021. Most of these dividend distribution payments relate to accumulated dividends from previous years, which were paid out during 2023.

Chart 8: Volume and value of dividend declarations issued (amounts in Afl. million)

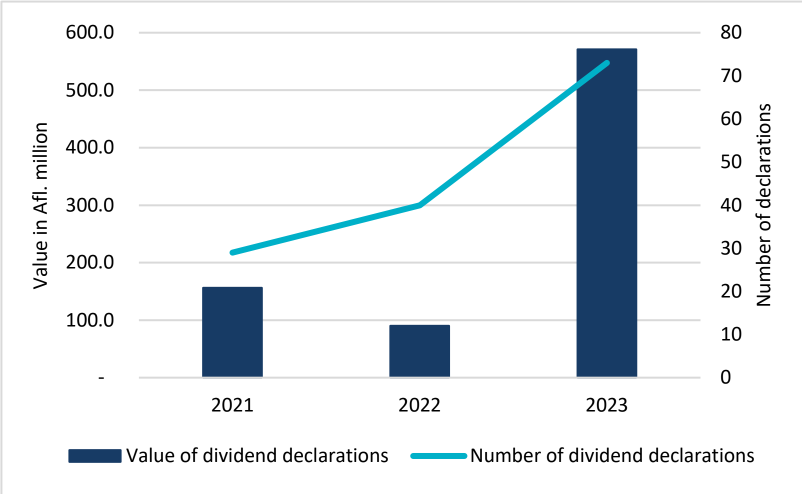
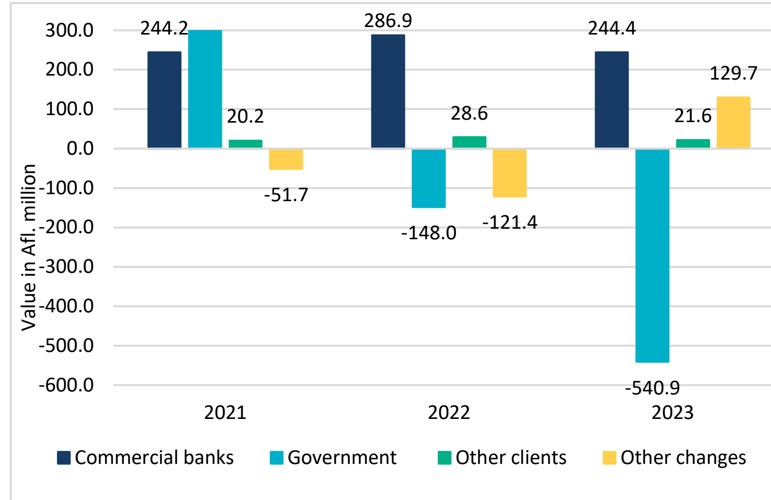


Chart 9: Movements in foreign exchange reserves (amounts in Afl. million)



7.2.2 Movements in foreign exchange reserves

The foreign exchange reserves held by the CBA decreased by Afl. 180.4 million to Afl. 2,258.8 million in 2023 compared to 2022 (Afl. 2,439.2 million) (see Chart 9). They were predominantly impacted by the GOA's net purchase of foreign currency in the net amount of Afl. 540.9 million from the CBA to cover its external debt repayments and interest payments, as well as other operational expenses denominated in foreign currency, compared to the net amount of Afl. 148.0 million in 2022. The decline in the foreign exchange reserves was largely mitigated by the net Afl. 129.9 million increase in the market value of the CBA's gold and investment portfolio in 2023, resulting mainly from higher interest income earned from newly purchased security following the portfolio restructuring operations in 2022 and 2023, as well as the sale of foreign currency by the commercial banks (net amount of Afl. 244.4 million) to the CBA, mainly from higher tourism receipts, due to a continued strong rebound in tourist arrivals and spending in 2023.

7.2.3 Foreign exchange rates

The Aruban florin is pegged to the USD at Afl. 1.79 per 1 USD. The CBA's official buying and selling rates for the USD from and to the commercial banks remained fixed at Afl. 1.7895 and Afl. 1.7905, respectively. In addition, the CBA also publishes, on a daily basis, quotations for nine other currencies on its website.

Chapter 8. Payment: Cash and Non-Cash

In accordance with Article 7 of the CBO, the CBA is solely mandated to issue Aruban florin banknotes, as well as to issue Aruban florin coins, on behalf of the GOA. Part of the cash-related operations involves distributing Aruban florin banknotes and coins to commercial banks to meet the public's demand, redeeming surplus banknotes from commercial banks, and taking both unfit banknotes and coins out of circulation in order to have only high-quality banknotes and coins in circulation. Furthermore, the CBA manages a safe and efficient payment platform, thereby promoting innovative payment systems aligned with international standards in the areas of efficiency, reliability and security. It also operates the I-Pago clearing and settlement system for fast and secure interbank transactions, and is developing a regulatory framework to oversee compliance with international best practices.

8.1 Cash operations

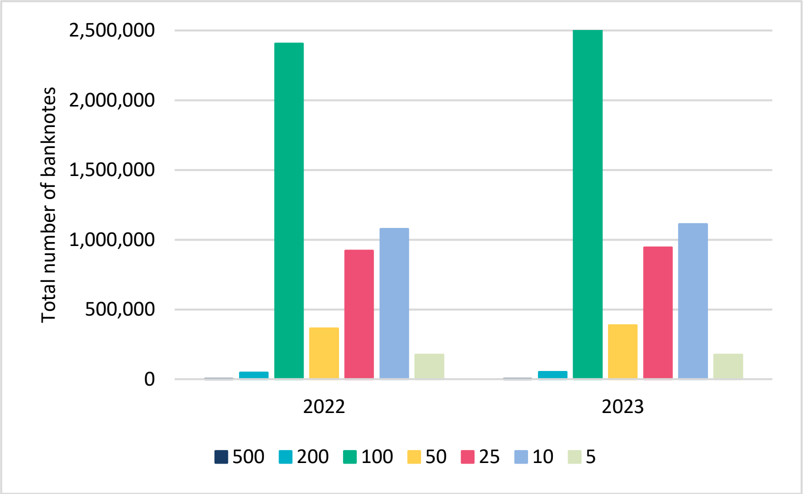
8.1.1 Counterfeit Florin banknotes

The number of counterfeit florin banknotes was relatively low over the years. The CBA provides extensive information on its website (https://www.cbaruba.org), mobile app 'Aruba su Florin', social media accounts, as well as through brochures via commercial banks, to help the public verify the authenticity of the Aruban florin banknotes, thereby maintaining confidence in the Aruban florin banknotes. No cases of counterfeit florin banknotes were registered in 2023.

8.1.2 Currency in circulation

The total number of banknotes brought into circulation increased by 4.7 percent in 2023 compared to 2022. Consequently, the total value of banknotes in circulation experienced a slight growth, rising by 5.8 percent compared to a year earlier to Afl. 322 million (including banknote series 1990/1993) at the end of 2023. Despite the widespread use of payment cards, including debit and credit cards, and electronic payments through online banking, the use of the florin banknotes to make payments continued to grow in 2023. The Afl. 100 remained the largest share of all banknotes issued, comprising 48.9 percent of the total banknotes in circulation (see Chart 10).

Chart 10: Banknotes in circulation by denomination

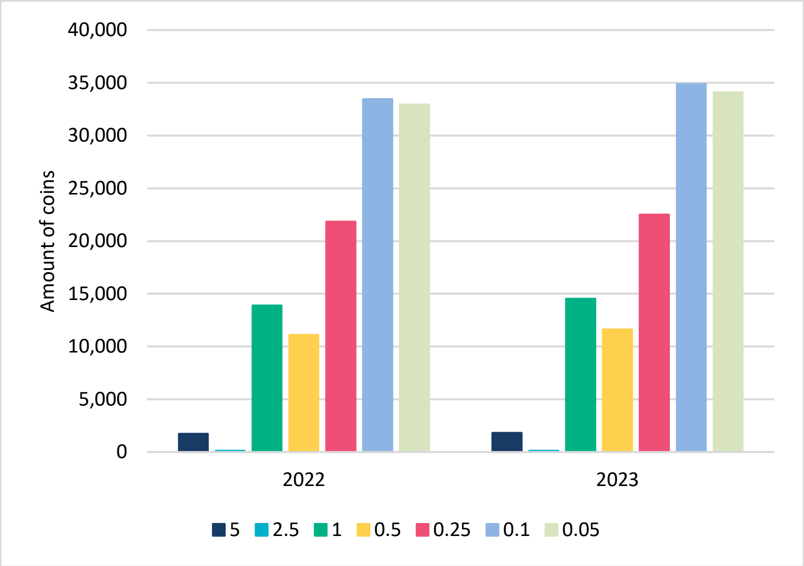


Banknote series that are no longer legal tender but are still in circulation can be exchanged at the CBA until the following deadlines:

- January 31, 2034 for the 1990/1993 series florin banknotes, and
- August 12, 2049 for the 2003 series florin banknotes.

The total value of coins in circulation in 2023, which are included in the financial account of the GOA, excluding commemorative coins, increased by Afl. 1.7 million (4.4 percent) to Afl. 40.5 million (2022: Afl. 38.8 million). The two smallest coin denominations, i.e., the 5-cent and 10-cent coins, are the largest in circulation, together representing 57.7 percent, followed by the 25-cent coin (see Chart 11).

Chart 11: Coins in circulation by denomination



8.1.3 Commemorative coins

In 2023, on behalf of the GOA, the CBA issued one silver commemorative proof-quality coin with a nominal face value of Afl. 5 (see Figure 4). The theme was the 100th anniversary of aviation in Aruba to commemorate that, on August 18, 1923, the first two planes landed in the Paardenbaai Harbor of Oranjestad, Aruba.

Figure 4: Special edition commemorative coin 2023

This milestone was celebrated in an event held on August 18, 2023, which also marked another important event — the first time that a florin commemorative coin was struck by an Aruban dignitary, Mrs. X. Maduro, Minister of Finance and Culture (see Figure 5).

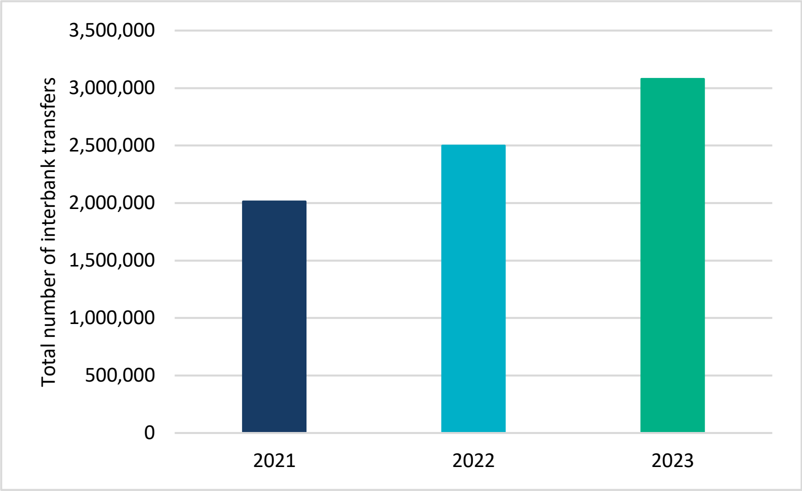
Figure 5: Special edition coin being struck by the Minister of Finance and Culture

8.2 Non-cash operations

8.2.1 I-Pago

In 2023, 3.1 million interbank transfers were processed via the I-Pago (instant payments) system (see Chart 12). This is equivalent to a hike of 23.2 percent compared to the total number of interbank transfers processed in 2022 (2.5 million). Given the total population for Aruba in the fourth quarter of 2023 (107,566 inhabitants), the number of interbank transfers processed in 2023 translates into approximately 29 interbank transfers per capita, an increase of six interbank transfers per capita compared to 2022.

Chart 12: Total number of interbank transfers per year



8.2.2 Regulatory framework

The CBA submitted two draft State Ordinances on payments to the Minister of Finance and Culture in September 2023. These are the State Ordinance on the Supervision of Payment Service Providers and the State Ordinance on the Supervision of Providers of Payment Systems. These State Ordinances aim to institute the legal framework needed to regulate market entry with room for new initiatives in digital payments, thereby strengthening the protection of consumers, enhancing safe and secure payment systems, as well as regulating fees for certain payment transactions.

8.2.3 Foro Di Pago Nacional

The CBA established the Foro di Pago Nacional (FPN) in 2023. The inaugural meeting took place in November 2023, with the participation of more than 30 stakeholders, setting the stage for open dialogue and collaboration in the area of payments. The meeting fostered discussions on issues related to Aruba's payments landscape, including its social and economic impact. This event marked the start of a focused effort to promote understanding, gain support, and adapt to the evolving dynamics of the payments infrastructure in both Aruba and internationally.

Figure 6: Logo Foro di Pago Nacional

Foro Di Pago Nacional

INNOVACION, COLABORACION, DESAROYO

Two meeting were scheduled in 2024, offering valuable opportunities for stakeholder engagement and collaboration. The first meeting in April took place in a smaller working group setting. This format fostered more active discussions, enabling participants to delve deeply into specific topics and address challenges within Aruba's payments landscape. The November meeting will continue to provide a platform for broader dialogue and strategic planning, allowing stakeholders to collectively shape the direction of initiatives to enhance the efficiency, accessibility, and security of the payment infrastructure. Each gathering is a pivotal moment for stakeholders to contribute their insights, exchange ideas, and collaboratively chart the course for Aruba's evolving payment ecosystem.

Chapter 9. Banker and Advisor of the Government of Aruba

Pursuant to Article 14 of the CBO, the CBA acts as the banker for the GOA. In complying with this function, the Department of Finance (DOF) and the Departamento di Impuesto (DIMP) hold funds on current accounts at the CBA. These funds finance local and international payment services carried out by the CBA on behalf of the GOA. Additionally, the CBA acts as the issuing bank for the GOA's domestic debt issuance and settlement, as well as levies and collects the Foreign Exchange Commission (FEC) on behalf of the GOA.

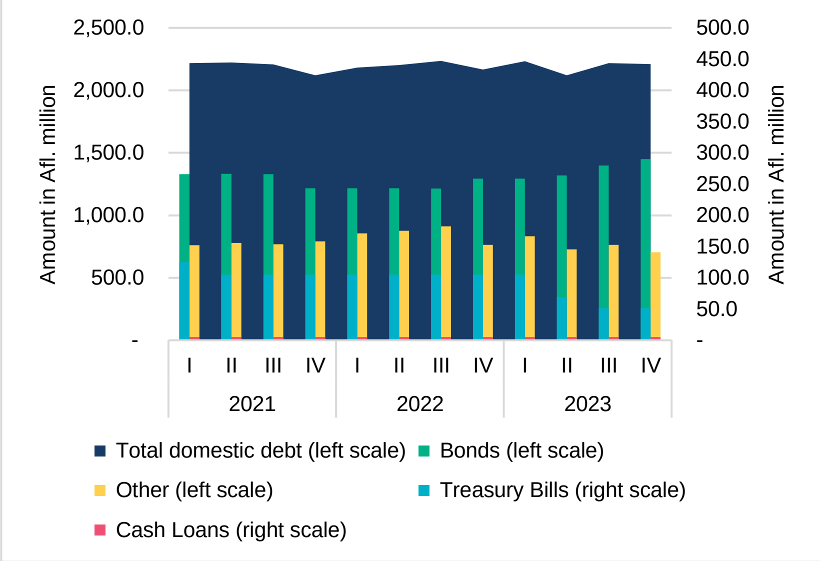
9.1 GOA securities issuance during 2023

In 2023, the CBA led three bond issuances on behalf of the GOA, through a tender system on the domestic market for a total amount of Afl. 413.0 million. These bonds have yearly coupon rates of 6.25 percent for maturities of 8 and 9 years, and 6.50 percent for a maturity of 13 years. The proceeds from these issuances were used to cover the GOA's financing needs ensuing from the execution of its 2023 budget.

In addition, the CBA assisted with the renewal of twelve 3-month treasury bills issues for the outstanding amount of Afl. 51.3 million at year-end 2023, as well as the issuance of two 6-month cash loans for the total outstanding amount of Afl. 5 million at year-end 2023.

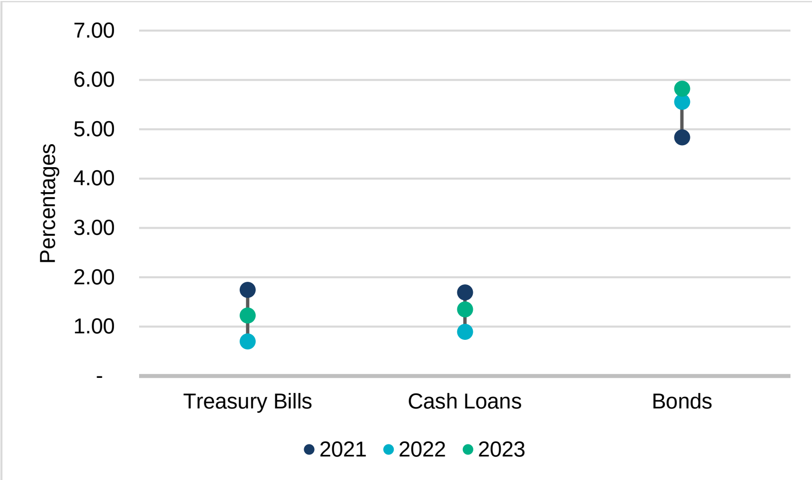
The GOA's outstanding domestic debt expanded slightly, i.e., from Afl. 2,154.1 million by year-end 2022 to Afl. 2,210.1 million by year-end 2023 (see Chart 13). This was due to a greater number of bonds issued on the domestic market in 2023.

Chart 13: Overview of the GOA's outstanding domestic debt (amounts in Afl. million)



The average yield on the 3-month treasury bills and that of the 6-month cash loans increased from, respectively, 0.70 percent to 1.23 percent and from 0.90 percent to 1.35 percent in 2023, compared to 2022 (see Chart 14). This development reflected a drop in the liquidity position of the commercial banks, as well as a lower demand for these short-term papers.

Chart 14: Average yields of the GOA securities issuance during 2023



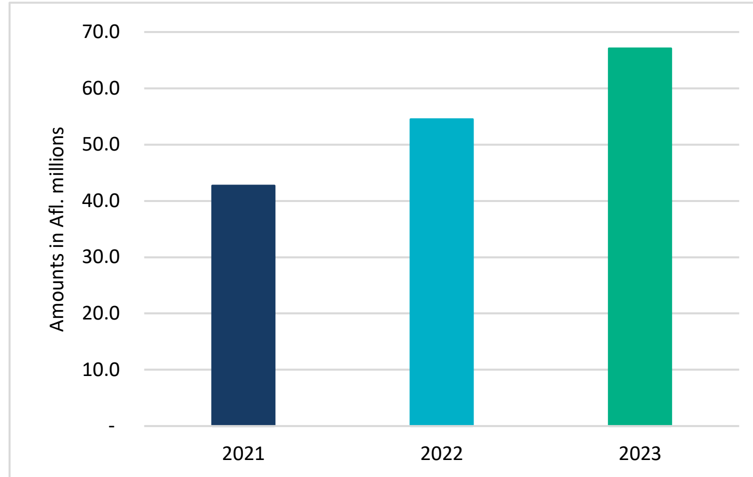
Furthermore, the average yield on the GOA bonds issued in 2023 reached 5.82 percent, which is higher than the average yield of 5.56 percent on those bonds issued in 2022. The higher average yield on the GOA bonds issued in 2023 is related to the high interest rates on the international financial markets.

9.2 Foreign exchange commission

The FEC is a commission paid by residents to the GOA for payments to non-residents. The CBA credits the GOA's current account held at the CBA for the full amount collected.

In 2023, the CBA accrued approximately Afl. 66.9 million in FEC (see Chart 15). This amount is Afl. 12.4 million higher in comparison to 2022 (Afl. 54.5 million), as foreign exchange transactions picked up again, mainly driven by a higher rate of economic growth during 2023 compared to 2022, as well as the revocation of all foreign exchange restrictions imposed by the CBA during the Covid-19 pandemic as of September 1, 2021.

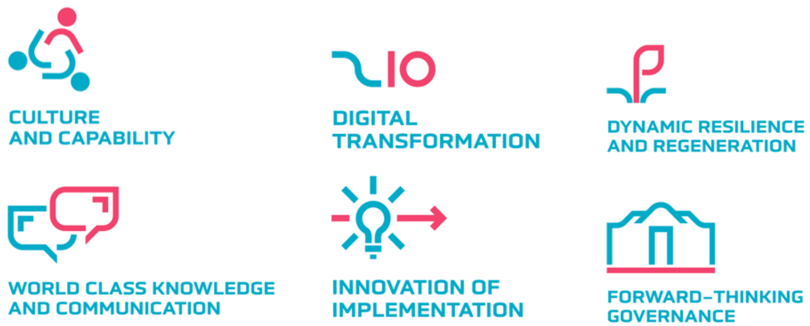
Chart 15: Collected FEC on behalf of the GOA (amounts in Afl. million)



Chapter 10. Taking Impactful Steps

In complying with its legal mandate, the CBA has positive impact on Aruba's financial and economic landscape. In most recent years, it has extended and also goes beyond this by executing pivotal strategic projects and actions linked to one or more of the strategic pillars of its strategic plan Dilanti Biento (see Figure 7).

Figure 7: Strategic Pillars



In 2023, the CBA worked diligently to fulfil its mandate and execute its operational tasks. Despite certain constraints, such as limited resources, the departments, cross-functional teams, and committees took necessary steps to make progress on several strategic actions possible, bringing the CBA closer to its intended vision.

Although the operational conditions of the CBA continues to be challenging, it also keeps providing possibilities for meaningful developments and contributions. The CBA provides services (banking and treasury to the GOA and commercial banks), it also executes different laws (supervisory and regulatory) based on policy and guidelines.

10.1 Strategic progress 2023 and actions for 2024

Some of the CBA's most noteworthy accomplishments of 2023 and objectives for 2024 relate to the six strategic pillars described in the following paragraphs.

Nurturing more human-centric ways of working

As a knowledge organization with many specialized functions, the CBA invests in the continuous professional development of its employees to assist them in reaching their full potential. In 2023, multiple internal trainings and workshops were organized for employees, including a (follow-up) Belbin Team Roles training and a human-centric leadership training. The CBA applies the Belbin Team Roles model to improve team performance and is working toward the rollout of a leadership development program catering to the current and aspiring leaders within the organization. An organization-related project was initiated to ensure that the organization is fit-for-future with the appropriate organization design and required workforce. This project will be finalized in 2024, and a roadmap will be drawn up based on the recommendations. Furthermore, in 2024, the CBA will continue delivering on its strategic HR plan.

One of the impactful steps that the CBA has made in recent years is to provide employees with the flexibility to work from home, as well as flexible working hours. These help employees reach a more effective work-life balance.

Part of the culture and identity the CBA fosters internally is collaboration, excellence, and giving back to the community. This is reflected in the CBA's corporate core values, especially: Doing it Together, Going Beyond, and Striving for the Greater Good.

Besides the annual internal Emergency Response Team (ERT) training and drills, in 2023, the CBA reinforced its outside perimeters by installing additional bollards and further upgrading the physical security skillset. Efforts are made continuously to safeguard the safety and security of employees, visitors, and systems.

Treading along the path of digital transformation

The CBA works incessantly on the necessary improvements in the IT infrastructure and cyber security by carrying out different initiatives that contribute to its envisioned digital transformation. In 2023, the CBA further strengthened its cyber security defences through continued internal cyber resilience testing and ongoing participation in international training. The responsible departments shared gained insights with the financial sector and critical infrastructure partners. An internal cloud services policy was also implemented in 2023.

One of the most significant milestones related to digital transformation was the go-live of the first phase of the project “RIFS” in May 2023. This project started in 2020, and in 2023, the project team was able to replace CBA’s legacy core banking and financial application, and establish an integrated economic administrative environment with two applications. After going live, by gaining the needed work experience, employees improved their ability to better use these applications, vendors were informed about the new order management process, and certain details were fine-tuned. In 2024, the project team will continue working on phase 2, which entails the implementation of a bond auction module and invoice handling.

Furthermore, in the fourth quarter of 2023, the Statistics department, in collaboration with the Information Security and Information Technology departments, started the PHOENIX project. Project PHOENIX involves the development of a new and advanced database environment to improve the collection, processing, and distribution of data from various data pipelines within the CBA. A new data warehouse, new web portal, new loaders, as well as data validations are all part of this project. The Statistics department aims to finalize this project by 2025.

Creating a positive impact

The CBA, in line with its prominent position in the Aruban community, leads by example with regard to corporate social responsibility (CSR) by establishing a vision on CSR aimed at contributing toward a more sustainable workplace and island. Moreover, the CBA works on strengthening Aruba’s resilience by conducting high-impact, economically relevant research that is valuable to local policy makers, such as Governing from the Future, which has two published editions. In 2024, the CBA will go one step further with the third edition related to the theme of Leading Inclusive Resilience.

The CBA’s commitment to the Aruban community is evident in its social activities, including the participation in community events, such as beach clean-ups (see Figure 8), the Aruba Doet project in March, as well as several other giving-back-to-the-community events during December, through collaboration with service organizations. Each year, the CBA allocates resources for donations. In 2023, the three main categories donations were granted to were education, charity, and environment.

The CBA has in place best-practice methods to conserve water and electricity, transitioning into an environmentally friendlier workplace environment. In 2023, the available electric vehicle (EV) fleet was expanded, while staff can use the EV charging station at a set price, thus providing flexibility to those driving their EVs to work. In addition, the CBA will continue to adopt policies and practices that support sustainability, societal, and other ethical ends.

Figure 8: Beach clean-up

Figure 9: Giving back December event

Communicating relevant knowledge in a timely manner

The CBA remains committed to contributing to financial literacy and financial education through numerous relevant publications, participations in fora and symposia, and sharing information on its website and social media channels. The online presence of the CBA grew noticeably in 2023.

Furthermore, the CBA gave back to the community through knowledge-sharing and integration of cyber security training, online vigilance, and digital skills into an eight-week Cyber School program in 2023. The Working Group responsible for the program approached several school boards and individual secondary schools with the request to conduct the program on their own.

The CBA collaborated for the first time with ''Buki di Pret'' to offer a group of 50 children a fun and educational event on cyber security and "Nos Florin", the Aruban florin banknote series 2019 and its security features. To enhance the overall experience during the ''Buki di Pret'' Summer Program in 2023, the children also participated in an interactive escape room, fostering teamwork, and unforgettable moments. Just as in previous years, the CBA also gave presentations on "Nos Florin" to students at different schools.

In addition, the CBA continued raising awareness amongst supervised financial institutions and designated non-financial businesses and professions by organizing various information sessions and bilateral meetings in 2023. Topics discussed with the different sectors entailed, among other things, AML/CFT framework, Directive on Sound Business Operations, human trafficking, unusual transactions reporting, key findings of on-site examinations conducted, overall results of AML/CFT and Sound Business Operations questionnaires, and results of Caribbean Financial Action Task Force (CFATF) Mutual Evaluation of Aruba.

Apart from regular stakeholders, several employees also gave interviews on personal finance with Fundacion Plan di Bida by TeleAruba, as well as presentations on the gross domestic product (GDP) forecast for a labour union, the economic outlook for a service organization, and the general Aruban economy to a non-profit organization.

In addition to be relevant and impactful through its external communication, the CBA is also committed to sharing relevant information within the organization. In 2023, the CBA provided ample information to its employees on ongoing projects, events, and accomplishments through its company newsletters, such as 'The Recap', and intradepartmental presentations called 'CBA Spotlight', thereby fostering knowledge sharing.

Implementing innovations and improvements

In 2023, possibilities for further modernization of the payments landscape in Aruba were explored. Vendor research was conducted for the three potential use cases, i.e. person-to-person payments, in-store payments, and e-commerce payments, identified in the second position paper that can be implemented using the I-Pago payment infrastructure. In addition, in 2023, the 'Foro di Pago Nacional' was launched in Aruba. This forum provides an opportunity to meet with stakeholders from the private and public sectors to discuss ideas and opportunities regarding the payment landscape in Aruba. Efforts will continue in 2024.

A group of employees also worked on developments and innovations with their Lean Green Belt improvement projects. In 2024, other Lean improvement projects are planned to start. Additionally, the CBA designed and implemented a 'data analytics sandbox' that provides a controlled environment for testing and experimenting with new data analytics models and technologies, thereby developing new insights and capabilities more quickly and increasing its data analytics capacity.

Chapter 11. Governance

The CBA operates autonomously as mandated by law within the public sector and the management of the CBA's operations, assets, and entrusted funds rests with the EC. Moreover, oversight of the activities falls under the purview of the BoSD. This framework was established by the CBO. The CBA also uses other tools to continue its oversight and ensure corporate governance of the CBA's operations, such as collaborative meetings between the BoSD and the EC and mandated committees.

11.1 Board of Supervisory Directors

The BoSD consisted of five members as per year-end 2023. All members, including the Chairman, are appointed by the Governor of Aruba. While the Chairman serves indefinitely, other members serve a five-year term. The BoSD has the authority to approve the budget and the financial statements, and is responsible for selecting the external auditor. Ernst & Young Aruba was appointed as the CBA's external auditor for the year 2023.

11.1.1 Collaborative Meetings

Throughout 2023, the BoSD and/or the Chairman of the BoSD convened several meetings with the EC or President to discuss various matters, including financial statements, budget planning, ongoing projects, and economic developments. Weekly meetings also were held between the Chairman of the BoSD and the President to address ongoing concerns.

11.2 Commitment to Robust Corporate Governance

The CBA is committed to establishing robust corporate governance processes aligned with international standards and best practices. This encompasses setting up checks and balances, ensuring due process, fostering accountability, and maintaining transparency while upholding institutional independence. The Internal Audit (IA) department plays a pivotal role in this commitment to ensuring that governance practices are sound, and deficiencies are identified and addressed.

11.3 Supportive Committees and Working Groups

Ten committees support the EC with its responsibilities. These committees have been established within the CBA to oversee various areas, such as monetary policy, foreign exchange policy, investment strategy, risk management and compliance, strategic planning, payment systems, budgeting, project management, and information security.

11.3.1 Mandates of Committees

The mandates of these committees are as follow:

1. MPC ensures that an effective monetary policy is carried out with the aim of maintaining the peg between the Aruban florin vis-à-vis the USD.
2. Foreign Exchange Policy Committee sees to it that effective foreign exchange policies, procedures, and measures are in place to manage international reserves.

3. IC advises the President on required changes regarding the overall investment strategies and policies related to its financial assets and the investment guidelines to safeguard those financial assets.
4. Risk Management & Compliance Committee (RMCC) sees that all material risks to which the CBA is exposed are correctly identified and effectively managed, with the overarching aim of fostering compliance with the CBA's legal mandate and achieve its strategic objectives.
5. The Strategic Committee provides guidance and monitors the implementation of Dilanti Biento.
6. The Payment System Committee promotes an efficient, reliable, and secure payment system, which contributes to maintaining financial stability. Furthermore, it advices the EC on policies, procedures, and measures in the payments domain.
7. The Budget Committee prepares the CBA's annual budget. After approval by the EC, the budget is sent for review and approval to the BoSD.
8. The Project Committee advises the EC on the feasibility, priority, and planning of enterprise-wide projects and monitors the progress of the projects.
9. The Corporate Information Security Committee (CIS-C) ensures that an effective strategic information security framework is in place that meets international standards, thereby also striving to improve the CBA's information security posture on an ongoing basis.
10. The Pension Committee advises the EC on the extent to which the current CBA pension plan complies with the applicable laws and regulations and compares it with alternative pension plans. The overarching aim is to obtain the best possible pension plan for the CBA personnel within the applicable legal boundaries.

Additionally, the organization boasts several working groups. Some assist the committees' endeavours, such as the Foreign Exchange Working Group and the Corporate Information Security Working Group, while others concentrate on strategic initiatives aligned with Dilanti di Biento, like Information Governance Working Group and the Working Group Processes.

The CBA also utilizes Think Tanks to generate innovative recommendations aligned with strategic objectives. Each Think Tank, led by a Division Manager, contributes insights to achieve the goals outlined in the strategic Plan Dilanti Biento.

Chapter 12. Risk Management

In pursuit of its legal mandate and strategic plan Dilanti Biento, the CBA is exposed to several types of risks, ranging from strategic, financial to operational risks, including reputational risks. In order to ensure the adequate execution of the legal mandate and the realization of the strategic objectives, the CBA has a comprehensive risk management framework in place to properly and effectively identify the risks to which it is exposed, and to ensure that these risks are mitigated within its risk appetite. The CBA's risk management system is shown below in Figure 10:

Figure 10: CBA's risk management system

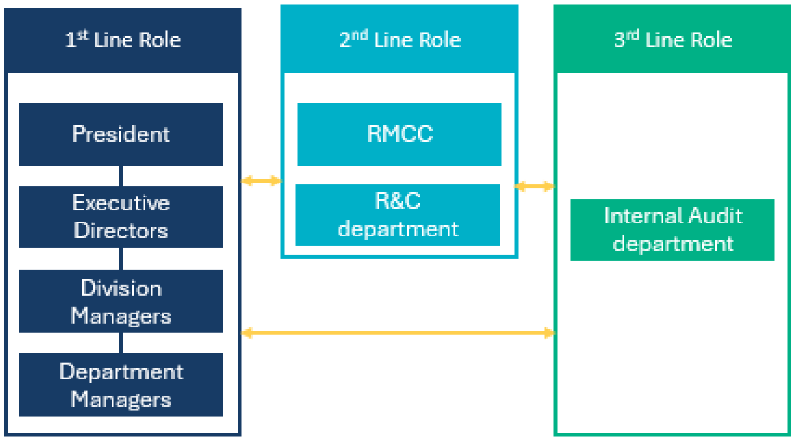
12.1 Risk governance

The CBA applies the three lines model in managing its risks (see Figure 11). The EC has overall responsibility for the proper management of the risks the CBA is exposed to. The RMCC, together with the Risk & Compliance (R&C) department, are responsible for implementing and maintaining an effective Enterprise-wide Risk Management System (ERMS) for the CBA. The ultimate goal hereof is to safeguard the achievement of CBA's legal mandate and strategic objectives, whilst also ensuring compliance with applicable laws, regulations, and internal policies and procedures.

In 2023, the RMCC met three times and discussed the following topics: the annual self-evaluation of the performance of the RMCC and its charter over the year 2022, the design of the risk appetite statement, the organization of risk awareness workshops, the execution of the Risk Assessment Survey (RAS), the review of the Incident Policy & Procedures, the evaluation of the draft internal AML/CFT policy, and the creation of a dashboard for monitoring financial risk at the CBA.

The responsibility for day-to-day risk management lies primarily with the Division Managers and Department Managers. They are responsible for ensuring that the risks that fall within the scope of the activities of their division or department are adequately managed.

Figure 11: Three lines risk management model



The R&C department is responsible for the design and implementation of the risk management framework and provides guidance and tools to support the first-line roles in managing their risks.

The IA department is responsible for assessing the adequacy of the design and operational effectiveness of the risk management framework, reports directly to the President, and also has periodic meetings with the AC of the BoSD during which risk management issues may be discussed.

To oversee the management of some specific risks, the CBA also installed other committees, such as the IC, which advises the President on the management of the investment portfolio risks, the CIS-C, which oversees the management of information security risks, including cybersecurity risks, the Strategic Committee, which monitors the implementation of the CBA's strategic plan, and the Project Committee, which advises the EC on the feasibility, priority, and planning of enterprise-wide projects, and monitors the progress of these projects. Reference is also made to Chapter 11 Governance for an overview and description of all the existing committees within the CBA.

12.2 Risk appetite

Risk appetite is defined as the level of risk the CBA is willing to take in pursuit of its legal mandate and strategic objectives. Overall, the CBA is risk-averse and prudent when taking and mitigating risks. With regard to compliance with applicable laws and regulations, integrity, and fraud, the CBA has a zero-risk appetite. It aims to safeguard the trust of stakeholders at all times. This is also essential for an adequate execution of its legal mandate.

12.3 Risk identification, analysis, and evaluation

12.3.1 General

Periodically, a RAS is conducted, to monitor and assess the most significant risks the CBA is exposed. All divisions, as well as the departments that fall under each division, are required to identify and prioritize the most significant risks and assess them on a rating scale from very low, low, medium, high, to very high, before and after considering the existing control measures. The R&C department reviews and discusses the collected data with the departments and divisions, and reports its findings and recommendations to the RMCC and EC.

12.3.2 Strategic-project risks

In the last quarter of 2023, the most significant risks related to the implementation of the CBA's strategic plan were identified and discussed during workshops for each division within the CBA. Moreover, the identified strategic-project risks are, namely, the absence of sufficient dedicated human resources to execute strategic-projects, inadequate project management, and lack of financial resources. The related recommendations are, among others, lowering the number of planned strategic and other projects per year through a process of selection and prioritization, while maintaining a balance between running and changing the business simultaneously, freeing staff members involved in the execution of projects to enable them to focus on the assigned project, and providing training on proper planning, management, and execution of projects.

12.3.3 Financial risk

At the CBA, the risk of incurring financial losses is mainly related to its foreign exchange investment activities, which include credit, market, and liquidity risks. These risks are monitored strictly by the IC through the investment rules and guidelines for the capital and reserves established by the BoSD, the general investment policy, and the ensuing investment guidelines agreed upon with the external asset managers, who manage CBA's fixed income portfolios.

On a weekly basis, the IC discusses, among other things, matters related to both domestic and international financial market trends and economic developments that could impact the securities held by the CBA. The IC also periodically evaluates the investment performance of its asset managers and advises the President on the adequacy of the investment policy and investment guidelines.

The most significant financial risks the CBA is exposed to are the following:

- **Credit risk** is the risk of a loss if the counterparty fails to meet its agreed-upon financial obligations to the CBA. To mitigate this risk, the asset managers must comply with strict investment guidelines regarding minimum credit quality and maximum allocation per type of security.
- **Market risk** entails the risk of losses due to movements in market prices. At the CBA it mainly encompasses interest rate and foreign exchange risk. Interest rate risk refers to the risk of losses due to changes in interest rates. To mitigate these risks, the CBA monitors very closely a mix of key indicators (weighted average coupon, average duration, and unrealized loss position), the financial market developments, and other issues related to its investment portfolio to identify unfavorable developments and act swiftly. Also, the CBA keeps an eye on ongoing compliance with its investment guidelines by its asset managers. Foreign exchange risk is the risk of a loss due to currency fluctuations. The CBA contains this risk by maintaining limited amounts in foreign currencies and by investing only in securities denominated in USD.
- **Liquidity risk** relates to the ability of the CBA to meet financial obligations in foreign currency when becoming due, without incurring unacceptable losses. The CBA is exposed to two types of liquidity risk: the ability of the CBA to provide Aruban florin to the banking system and the public and the ability of the CBA to provide foreign currency to commercial banks and the Government of Aruba (GOA). Since the CBA is the sole issuer of Aruban florins and the source of liquid funds denominated in Aruban florin, the liquidity risk for the Aruban florin is considered nil. In supporting a smooth process of selling and buying foreign currencies to and from the commercial banks and GOA, the CBA duly keeps track of their liquidity needs. It, therefore, maintains adequate levels of liquid foreign assets on hand, which are mostly USD securities that can be liquidated at a minimum loss to comply with the anticipated liquidity demand.

To further mitigate these financial risks, the CBA applies a prudent investment policy strategy that only allows to invest in USD fixed-income securities. To optimize the income-generating capacity of its investment portfolio, the CBA monitors, in close cooperation with its asset managers, the opportunities on the international money and capital markets, while complying with investment guidelines and maintaining sufficient liquidity. The IC closely monitors the performance of investments according to the investment guidelines and against the set benchmarks, and on a regular basis reports its findings to the President and the BoSD.

12.3.4 Operational risk

Operational risk is the negative effect on the CBA's assets, resources, and/or operations due to inadequate processes, people, systems, or external factors. Operational risks, if materialized, may impede the CBA to adequately carry out its legal mandate and/or achieve its strategic objectives. The two most significant operational risks at the CBA are cybersecurity risk and human capital risk.

Cybersecurity risk relates to the loss of confidentiality, integrity, and/or availability of the CBA's data and/or information systems. The CBA is constantly improving its cybersecurity posture through, first, the employment of knowledgeable and capable professionals who keep themselves up to date on emerging cybersecurity risks by participating, amongst others, in intelligence groups, workshops, seminars, and training programs. The CBA also heavily invests in technological and software solutions, which contribute to the mitigation of its cybersecurity risk. To manage its cybersecurity risks, the CBA follows best practices and international standards and frameworks like National Institute of Standards and Technology (NIST), Center of Internet Security (CIS), and the local framework Technology Risk Management (TRM). It also maintains close relationships with key stakeholders, including national and international organizations, intelligence organizations, relevant platforms and other central banks, on cybersecurity. Additionally, the CBA participates in national and international workshops, trainings, and seminars to keep itself abreast of developments in the area of risk management.

Human capital risk relates to the limited availability of qualified candidates in Aruba's labor market. As a result of the tight domestic labor market, it has become more difficult to attract highly qualified and skilled personnel to meet CBA's operational needs. Also, the competition with the private sector has become much fiercer. The introduction of State Ordinance AB 2022 no. 91 as per July 1, 2022 containing rules regarding the maximum remuneration, salaries, and related allowances for top officials in the public and semi-public sector further contributes to this human capital risk.

All departments and divisions are responsible for identifying, on an ongoing basis, emerging risks that fall within the scope of their responsibility. Also, the reporting of operational incidents contributes to the identification of existing vulnerabilities within the CBA and, thereby, providing valuable information on the adequacy of the risk management framework in place. In 2023, information sessions regarding the CBA Incident Policy & Procedures, effective since November 1, 2022, were facilitated for all employees on the purpose of this policy, the definition of a CBA-incident, and the responsibilities and roles in relation to CBA-incidents.

As shown in the tables below, in 2023, fewer internal CBA-incidents were reported compared to 2022. Most CBA-incidents reported were caused by human errors. To prevent these types of incidents from re-occurring, the CBA provided awareness sessions to its staff and management to become even more vigilant.

Table 4: Reported CBA-incidents

Impact area	# of incidents reported that qualify as an incident according to the definition in the CBA Incident Policy	
	2022	2023
Financial	-	-
Operational	6	2
Reputational	14	6
Total	**20**	**8**

Root cause category	# of incidents reported that qualify as an incident according to the definition in the CBA Incident Policy	
	2022	2023
People	13	7
Technology	6	1
External	1	-
Total	**20**	**8**

12.4 Risk treatment

Identified risks that are not consistent with the CBA's risk appetite are either managed and brought in alignment herewith, insured, or avoided/not accepted. Decisions on risk treatment are discussed in depth within the organization.

To mitigate specific CBA-wide risks, several policies, procedures, and mechanisms have been put in place, e.g., the Compliance Statement Policy & Procedures to contain integrity risk, the General Information Security Policy to keep in check information security risk, IT General Controls to mitigate IT risk, and investment guidelines to mitigate financial risks related to the CBA's investment portfolio.

The CBA is not subject to the local AML/CFT State Ordinance to which the financial sector and designated non-financial businesses and professions in Aruba are subject to. However, it underpins the importance of having internal AML/CFT/CPF policies and procedures in place regarding the execution of local and international transactions on behalf of itself, its employees, and its customers. To mitigate the risk of being misused for money laundering or the financing of terrorism and proliferation, the CBA is formulating policies and procedures in one internal AML/CFT/CPF policy document. This policy document describes, among other items, when and how the CBA will conduct due diligence, the ongoing screening of existing and new customers, the screening of transactions, and the reporting of unusual transactions to the Financial Intelligence Unit of Aruba.

12.5 Risk monitoring and reporting

The CBA constantly strives to improve its risk management process, including monitoring and reporting on risk management. The divisions and departments, including committees like the IC and CIS-C, monitor the identified risks regularly. To improve the identification, assessment, and monitoring of the risks the CBA is exposed to and the reporting on these risks to the RMCC and EC, in 2023, the R&C department started the process of designing a comprehensive enterprise-wide risk management framework. At the request of the RMCC, the R&C department is also exploring the possibilities of designing a dashboard to monitor the financial risks related to the CBA's investment portfolio. Both projects are tabled for 2024.

12.6 Risk and ethical culture

A strong and sound risk awareness and ethical culture is fundamental to managing risks, starting with the tone at the top. In this respect, the EC and the Division Managers consistently communicate the importance of staying vigilant of existing and emerging risks and considering risk-taking boundaries, risk assessments, and risk mitigation actions in each key decision-making process.

Compliance with applicable laws, regulations, internal policies, and procedures is closely monitored. The CBA's management and staff are required to submit a compliance statement each year, in which they must state whether they comply with the CBA's Code of Conduct and disclose their external activities, financial interests that (may) conflict(s) with their tasks and responsibilities at the CBA, and any (potential) conflict of interest they are aware of. The CBA strives to organize on a regular basis CBA-wide workshops and trainings in the area of integrity, ethics, and compliance aimed at fostering sound and ethical business operations. Additionally, bi-yearly risk awareness sessions are organized for all employees to maintain a high level of knowledge and awareness in this area.

Open communication about risks is encouraged among and between all layers of the organization, using Courageous Honesty, and Curiosity and Openness, which are two of the five core values at the CBA. Also, effective compliance with the internal Code of Conduct contributes to an ethical culture within the CBA by setting expectations and norms with respect to ethical behaviour.

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