



CENTRALE BANK VAN ARUBA

Level of international reserves strengthened during 2020

Press Release

During its meeting of January 28, 2021 and after reviewing the most recent economic and monetary data, the Monetary Policy Committee (MPC)¹ of the Centrale Bank van Aruba (CBA) decided to keep the reserve requirement at 7.0 percent. The reserve requirement refers to the minimum amount of reserves that commercial banks must hold at the CBA and is equal to 7.0 percent of their liabilities with a maturity less than 2 years. The following information and analysis were considered in reaching this decision.

International reserves

International reserves (including revaluation differences of gold and foreign exchange holdings), up to and including December 31, 2020, strengthened by Afl. 428.6 million compared to the end of December 2019. This expansion was the result of a sharp drop in imports due to reduced tourist and domestic demand, external financing received by the government, the foreign exchange measures taken by the CBA, and a revaluation of the gold holdings of the CBA following an increase in the market price of gold on the international market. Official reserves increased by Afl. 423.1 million. Consequently, the official and international reserves grew to, respectively, Afl. 2,207.9 million and Afl. 2,356.6 million as of the end of December 2020. Accordingly, the level of reserves remained adequate when benchmarked against the current account payments and the ARA² metric by the IMF (Figure 1).

¹ The MPC was instituted in May 2010 to periodically evaluate and determine the monetary policy of the CBA. In addition, the MPC aims at improving the transparency of the monetary policy.

² The IMF ARA metric refers to "Assessing Reserve Adequacy Metric" from the International Monetary Fund, which measures the adequacy of official reserves by benchmarking these against a weighted average of broad money, intercompany lending, short-term and long-term debt, and export of goods and services.

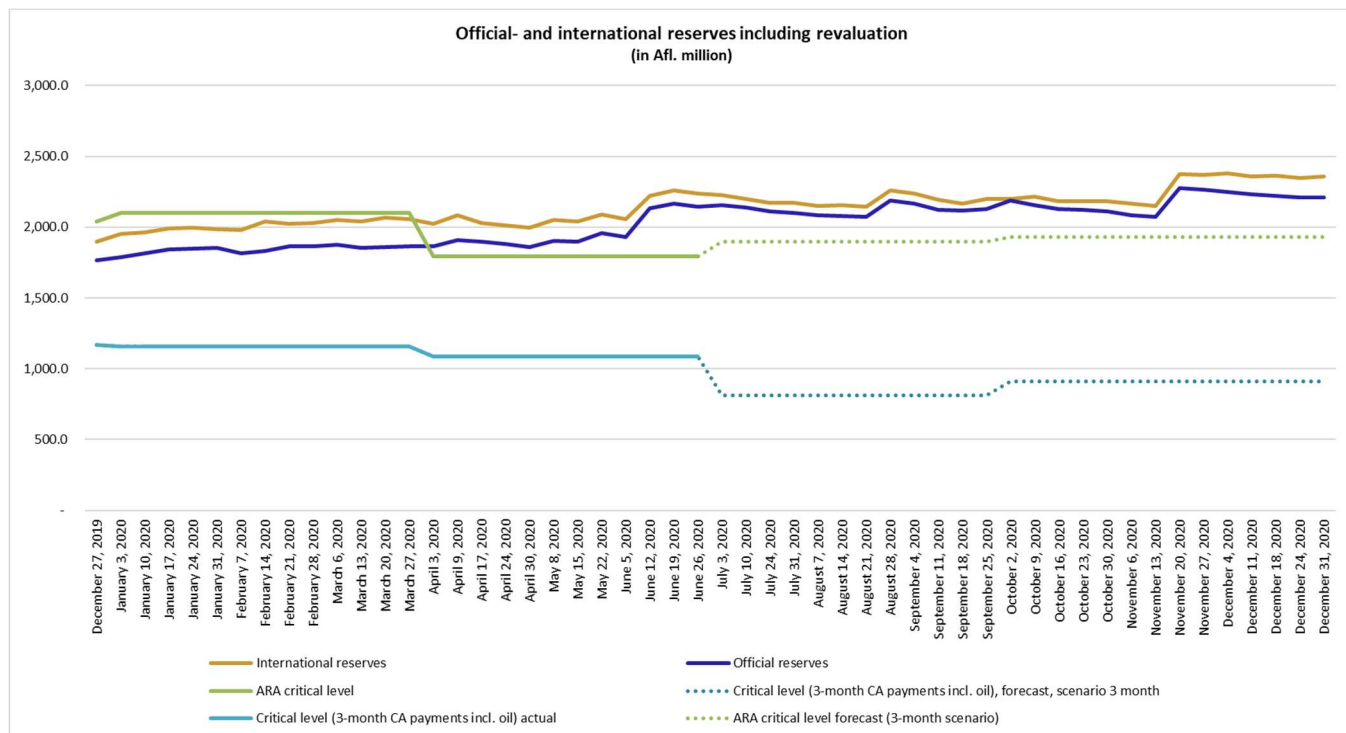


Figure 1: Reserves

Credit developments

In December 2020, total credit declined by Afl. 50.6 million or 1.3 percent, when compared to the end of 2019. This was mainly driven by the category ‘other’, which recorded a contraction of Afl. 59.2 million (-10.3 percent), as government bonds held by the commercial banks expired. Contrarily, the component ‘loans to individuals’ contributed positively to total credit (+Afl. 18.6 million/+1.0 percent), pushed up by housing mortgages. The category ‘business loans’ decreased by Afl. 10.1 million (-0.7 percent), the result of contractions in current account loans.

Inflation

The CPI was 2.7 percent lower in November 2020, compared to the corresponding month a year earlier (Figure 2). This was mainly attributed to lower prices for gasoline and a reduction in electricity tariffs. The 12-month average inflation rate reached -0.8 percent in November 2020, down from the peak of 4.3 percent reached in June 2019. When excluding energy and food, the 12-month average core inflation rate stood at 0.4 percent in November 2020.

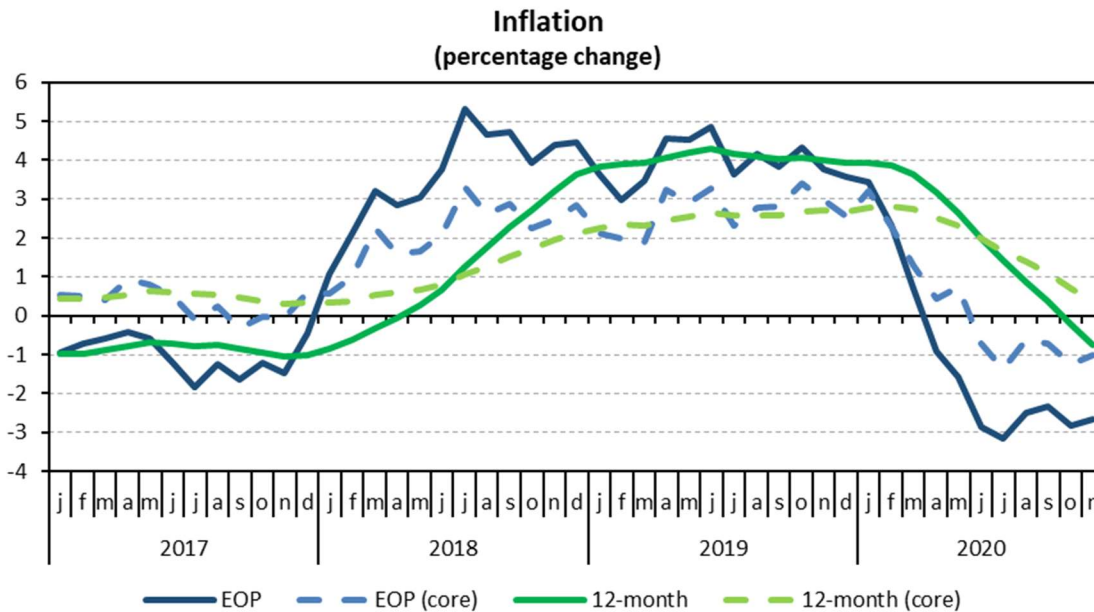


Figure 2: Inflation

Prudential liquidity

The prudential liquidity of commercial banks (33.0 percent), which measures the amount of their liquid assets to their total net assets, remained at a comfortable level in November 2020, far above the minimum required prudential liquidity ratio (15.0 percent).

Centrale Bank van Aruba

March 8, 2021