CENTRALE BANK VAN ARUBA

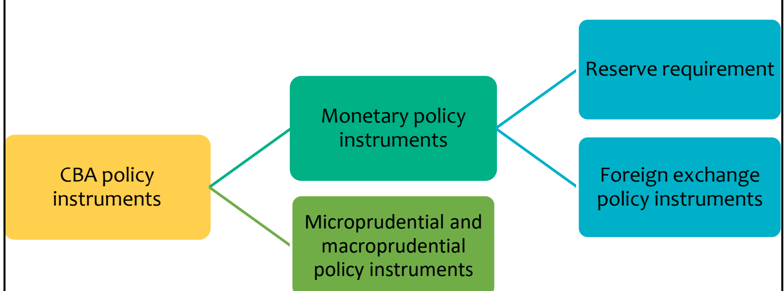
Press Release

Considering positive economic developments and revocation of COVID-related foreign exchange measures, the CBA tightened monetary policy to safeguard foreign exchange reserve adequacy.

1. Developments impacting Monetary Policy

The Centrale Bank van Aruba (CBA) has several instruments available for an effective execution of its monetary policy (see Figure 1). One of its most important instruments is the reserve requirement, which is used to either mop up from or inject liquidity into the banking sector to ultimately promote financial stability. Last year in March 2020, to lessen the adverse financial and economic impact related to the (lockdown) measures imposed by the government of Aruba to mitigate the contagion risk of COVID-19, the CBA, amongst others, lowered the reserve requirement by 1 percentage point from 12 percent to 11 percent, and subsequently to 7 percent in April 2020. This provided the commercial banks with an additional Afl. 200 million in liquidity to meet financial obligations, taking into consideration also an anticipated growth in credit demand (see CBA Public Announcement, March 17, 2020, and April 7, 2020).

Figure 1. Various CBA policy instruments



In view of the continued recovery of Aruba's economy and the positive economic outlook, especially with regard to the strong rebound in tourism arrivals and related foreign exchange earnings, as well as the fact that the foreign exchange reserves are at an adequate level, as of June 1, 2021 the CBA started to gradually rescind the foreign exchange restrictions taken in March 2020. As of September 1, 2021 all remaining foreign exchange restrictions were revoked (see CBA Public Announcement, June 1, 2021, August 1, 2021, and September 1, 2021). Consequently, due to the relaxation of these restrictions and the upturn in the imports of goods and services, foreign exchange outflows are expected to expand commensurately and normalize to pre-COVID-19 levels before the end of year.

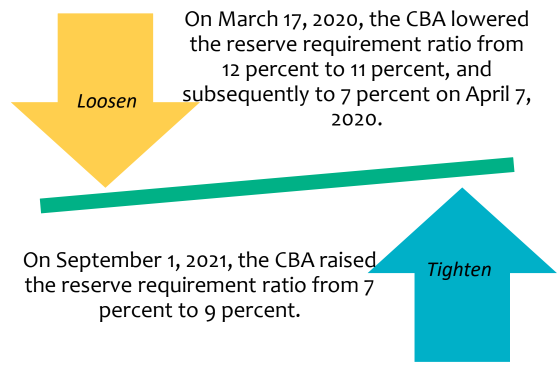
2. Monetary Policy Committee decision on reserve requirement

Considering a foreseen increase in foreign exchange outflows and the ample excess liquidity of the commercial banks, in due time and as needed, the CBA anticipates, in conjunction with the full revocation of the aforementioned foreign exchange restrictions, to progressively raise the reserve requirement rate to pre-pandemic levels. In doing so, the CBA will continue to closely monitor relevant macro- and microeconomic data, including the critical foreign exchange reserve thresholds, in order to prudently balance the de-escalation of the March 2020 imposed foreign exchange restrictions with preserving adequate reserve buffers to maintain monetary stability and the fixed exchange rate between the Aruban florin and the US dollar.

During its meeting of August 5, 2021, in reviewing the most recent economic developments and monetary data, and considering the anticipated pressures on the foreign exchange reserve adequacy, the Monetary Policy Committee (MPC) of the CBA decided to raise the reserve requirement rate by 2 percentage points, i.e., from 7.0 percent to 9.0 percent.

This decision took effect as of September 1, 2021.

Figure 2. Loosening and tightening of monetary policy by the CBA



Consistent with the prudent monetary policy of the CBA to keep confidence in the Aruban florin, the decision of the MPC to raise the reserve requirement rate also took into consideration the compounding effect of the following key economic and financial developments:

1. The robust economic recovery forecasted at +12.7 percent real GDP growth in 2021.
2. The accelerated YTD 2021 rebound in tourism credits and merchandise trade imports at +80 percent of 2019-levels.
3. The surge in (international) energy, food, and transportation prices, which could spike cost-push domestic inflationary pressures (+1.1 percent, January to June, 2021).
4. The continued build-up of commercial bank excess liquidity (+22 percent, January to June, 2021).

3. International reserves

Total international reserves (including revaluation differences) expanded by Afl. 511.1 million for the week ending on July 16, 2021 (+21.7 percent) on a year-to-date basis. This surge was primarily due to a strong pick-up in tourism credit inflows, as well as new liquidity support from the Netherlands to the Government of Aruba. Consequently, the international reserves reached Afl. 2,867.6 million on July 16,

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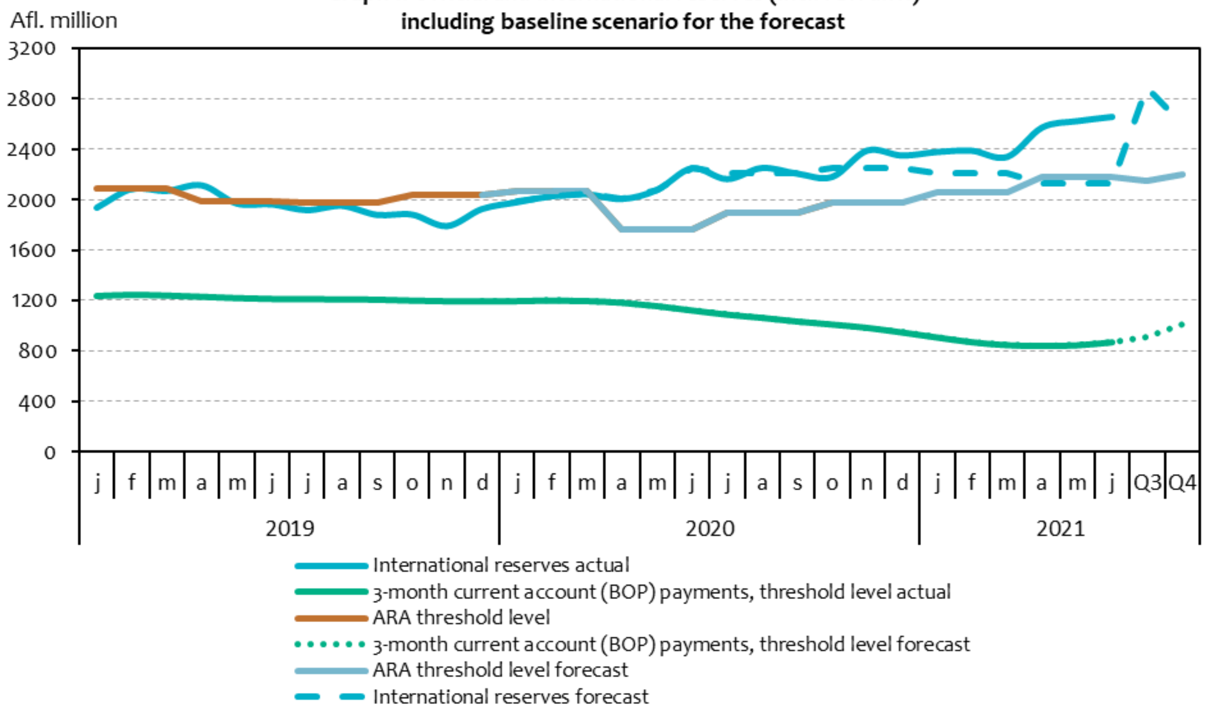
2021. As a result, the current level of international reserves remains above the Assessing Reserve Adequacy (ARA) metric used by the IMF for small open economies.

Graph 1. Official and international reserves (incl. rev. diff.) including baseline scenario for the forecast



4. Credit developments and commercial bank liquidity

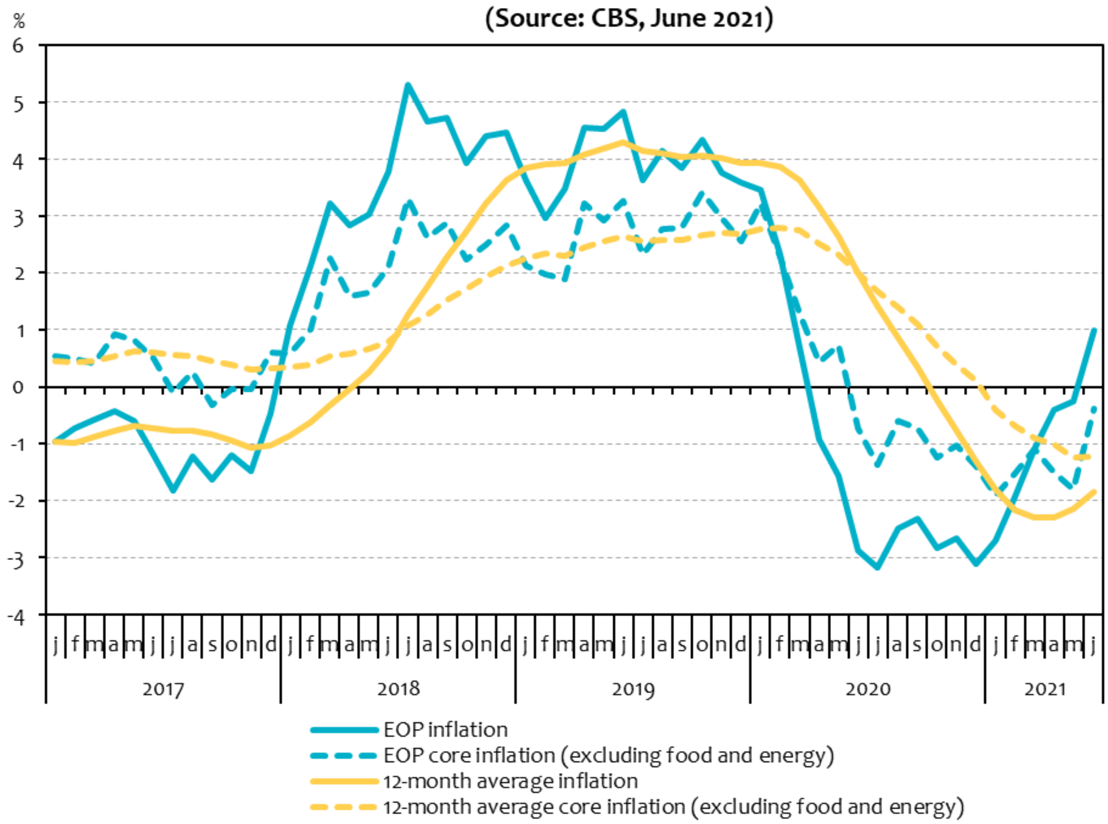
Overall commercial bank loans decreased by 1.3 percent in June 2021 compared to December 2020, mainly caused by declines in both consumer credit (-5.7 percent) and business loans (-1.1 percent). Although an uptick in business term loans (+0.1 percent) as well as housing mortgages (+0.3 percent) was noted, these were insufficient to offset reductions in other loan components. In addition to CBA's March 2020 measures to amplify commercial bank liquidity, the apparent lack of credit appetite that led to a contraction in total loans, the rise in loan repayments due to the expiration of commercial bank moratoria, the continued business liquidity support by the government, as well as the unchanged average interest rates on new loans at pre-Covid level, could have attributed to the continued build-up of commercial banks' excess liquidity during the first six months of 2021.

5. Inflation

In June 2021, the CPI index rose by 1.0 percent compared to June 2020. On balance, this was mainly driven by an increase in gas prices, which had its effect on the transport component of the CPI. Likewise, year-to-date June 2021 saw a hike in CPI components of housing, household operations, and alcoholic beverages. In terms of the CPI food component, noticeable upticks were recorded for meats, dairy products, and fruit.

At the end of June 2021, the twelve-month average inflation rate stood at -1.8 percent, down from 2.0 percent a year earlier. This decline was due to the significant drop in the (end-of-period) inflation during the first half of 2020, which was largely caused by several interrelated factors in the light of the COVID-19 pandemic and government measures, the plunge in tourism demand, the fall in international oil prices, as well as the decline in domestic consumption. The twelve-month average *core* inflation rate fell, for the period from July 2020 through June 2021, from 2.0 percent to -1.2 percent.

Graph 2. Inflation based on the consumer price index of Aruba
(Source: CBS, June 2021)



September 17, 2021

Oranjestad, Aruba