CENTRALE BANK VAN ARUBA

The CBA maintains the reserve requirement rate at 25.5 percent as of March 1, 2023.

Press Release

In line with the Monetary Policy Committee's (MPC) task to evaluate, determine, and provide transparency on the monetary policy actions of the Central Bank of Aruba (CBA), the CBA communicates the following. During its meeting on February 16, 2023, the MPC decided to maintain the reserve requirement rate at 25.5 percent as of March 1, 2023. Accordingly, commercial banks must hold a minimum balance at the CBA equal to 25.5 percent of their clients' liquid deposits. The decision to maintain the reserve requirement rate unchanged at 25.5 percent was based on the significant drop in the estimate of excess liquidity in January 2023 compared to December 2022. The CBA will continue to monitor the developments of excess liquidity in the coming months and stands ready to again change the reserve requirement rate, if deemed necessary.

The MPC considered the following information and analysis during its deliberations:

International and official reserves

The international reserves, comprising the official reserves of the CBA and foreign reserves held by the commercial banks, decreased by Afl. 117.3 million as of February 3, 2023, compared to end-December 2022 (Graph 1). Official reserves declined by Afl. 97.6 million, while the foreign reserves at the commercial banks contracted by Afl. 19.7 million. Consequently, as of February 3, 2023, official and international reserves amounted to Afl. 2,693.3 million and Afl. 3,123.9 million, respectively.

Maintaining reserve adequacy is critical to keeping the fixed exchange rate between the Aruban florin and the US dollar. In this regard, international reserves remained comfortably above the minimum required three months of current account payments during the first month of 2023. Current account payments consist, among others, of import payments, interest payments made to investors, and foreign transfers such as money remittances by foreign workers. Official reserves also stayed within an adequate range when benchmarked against the International Monetary Fund's (IMF) Assessing Reserve Adequacy (ARA) metric (Table 1).

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

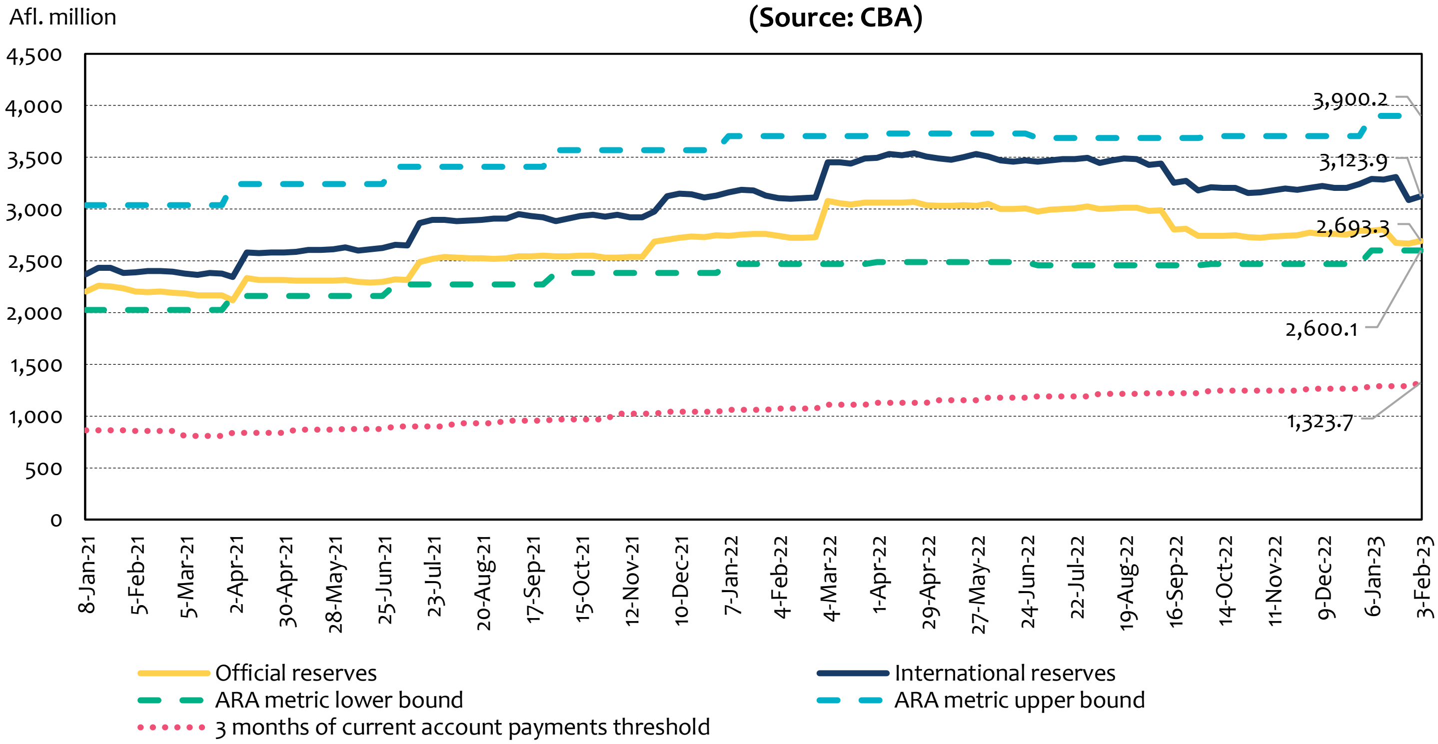


Table 1: Reserve benchmarks monitored in 2023

	Jan
Estimated current account coverage ratio[1]	7.3
Estimated IMF ARA Metric[2]	103.9

1 The number of months of current account payments covered by the international reserves.

2 The ratio between the level of official reserves and the minimum adequate level (following IMF), in percent.

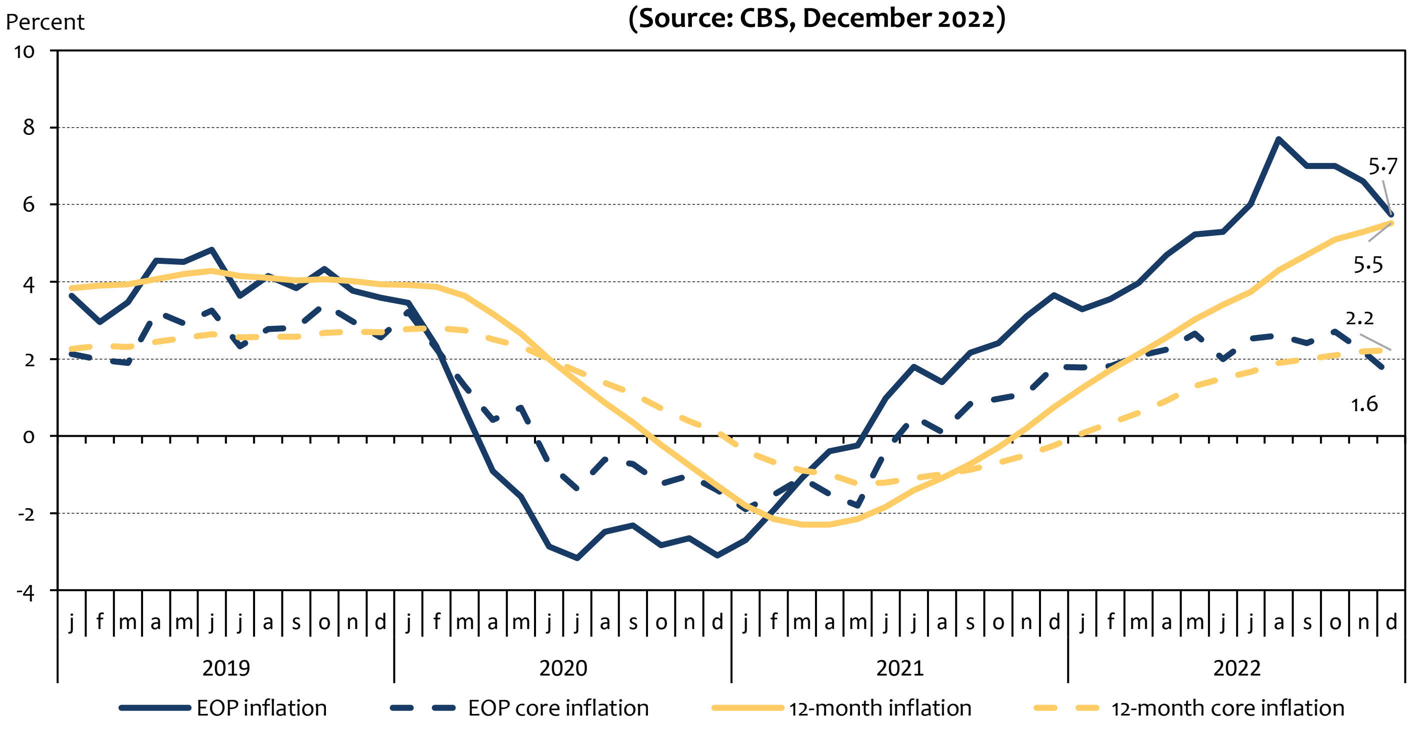
Inflation

The End-of-Period (EOP) inflation rate stood at 5.7 percent in December 2022 (November 2022: 6.6 percent) (Graph 2). The consumer price index (CPI) jump in December 2022 compared to December 2021 was caused by higher utility prices, which affected the 'housing' component (3.0 percentage points contribution). Moreover, gasoline prices surged, mainly impacting the 'transport' component (1.5 percentage points contribution), while prices in the 'food and non-alcoholic beverages' component also accelerated (1.5 percentage points contribution).

The 12-month average inflation rose to 5.5 percent, up from 5.3 percent in November 2022. The inflationary pressures were due to the elevated oil price in international markets, as well as the hikes in water and electricity tariffs as of August 2022. Furthermore, Aruba imported much of the soaring prices from its trading partners, particularly the United States and Europe.

Meanwhile, in December 2022, EOP core inflation (excluding energy and food) reached 1.6 percent. On a twelve-month average basis, core inflation amounted to 2.2 percent.

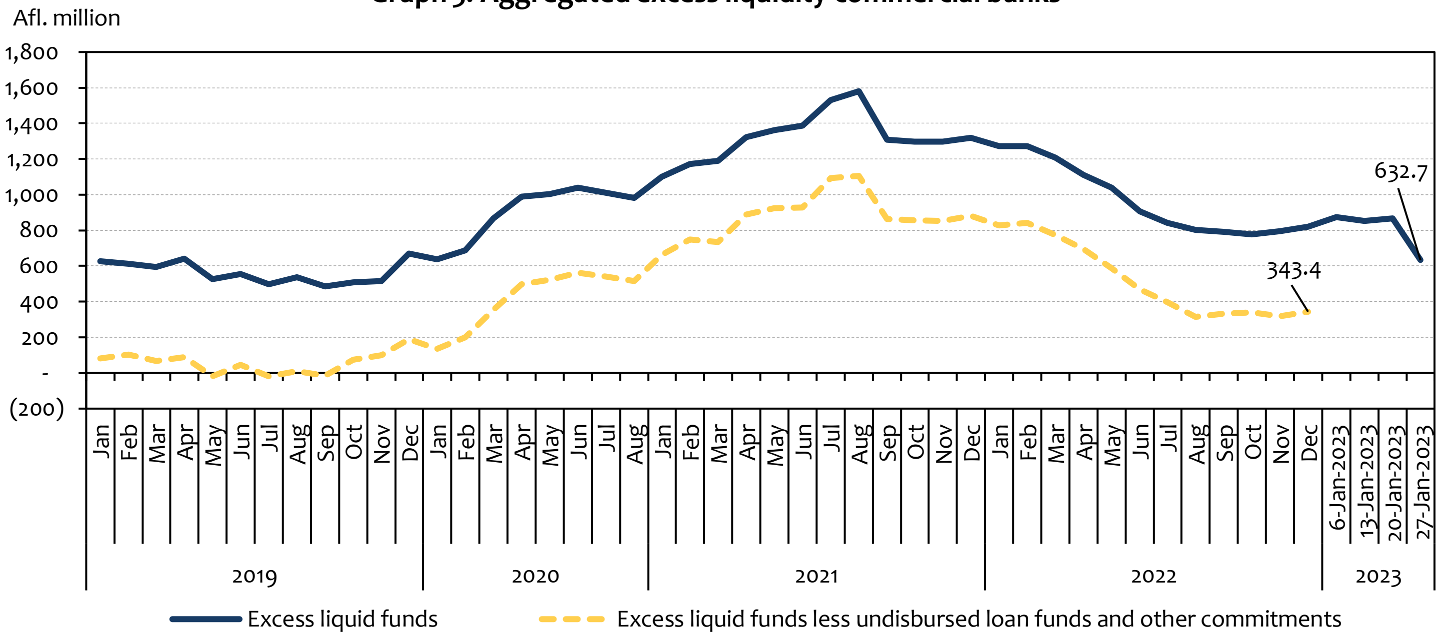
Graph 2: Inflation based on the consumer price index of Aruba (Source: CBS, December 2022)



Commercial bank excess liquidity

Aggregated excess liquidity fell from Afl. 1,320.5 million in December 2021 to Afl. 819.7 million in December 2022 (Graph 3). This drop was principally due to consecutive hikes in the reserve requirement from January 2022 up to and including July 2022. Moreover, preliminary estimates of excess liquidity in January 2023 showed a further contraction of Afl. 187.1 million compared to December 2022. Nevertheless, excess liquidity remained above (+Afl. 350.0 million) the estimated level the commercial banks may wish to hold as a safeguard.

Graph 3: Aggregated excess liquidity commercial banks



Centrale Bank van Aruba

March 27, 2023