



CENTRALE BANK VAN ARUBA

As of October 1, 2023, the CBA lowered the reserve requirement rate by 1 percentage point to 23.5 percent.

Press Release

*In line with the Monetary Policy Committee's (MPC) task to evaluate, determine, and provide transparency on the monetary policy actions of the Central Bank of Aruba (CBA), the CBA communicates the following. During its meeting of September 14, 2023, the MPC decided to reduce the reserve requirement rate by 1.0 percentage point to 23.5 percent as of October 1, 2023. Accordingly, commercial banks must hold a minimum balance at the CBA equal to 23.5 percent of their clients' liquid deposits. The decision to reduce the reserve requirement rate was based primarily on the steady decline in the estimated excess liquidity of the banking sector compared to December 2022, mostly due to increased credit, while official and international reserves, albeit incurring decreases, continued at an adequate level. The CBA continues to monitor the excess liquidity developments and stands ready to adjust the reserve requirement rate, if deemed necessary.*

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

#### *International and official reserves*

The international reserves, comprising the official reserves of the CBA and foreign reserves held by the commercial banks, declined by Afl. 25.2 million as of August 25, 2023, compared to end-December 2022 (Graph 1). Official reserves fell by Afl. 49.6 million, while the foreign reserves at the commercial banks rose by Afl. 24.3 million. Consequently, as of August 25, 2023, official and international reserves amounted to Afl. 2,741.3 million and Afl. 3,216.0 million, respectively.

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

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

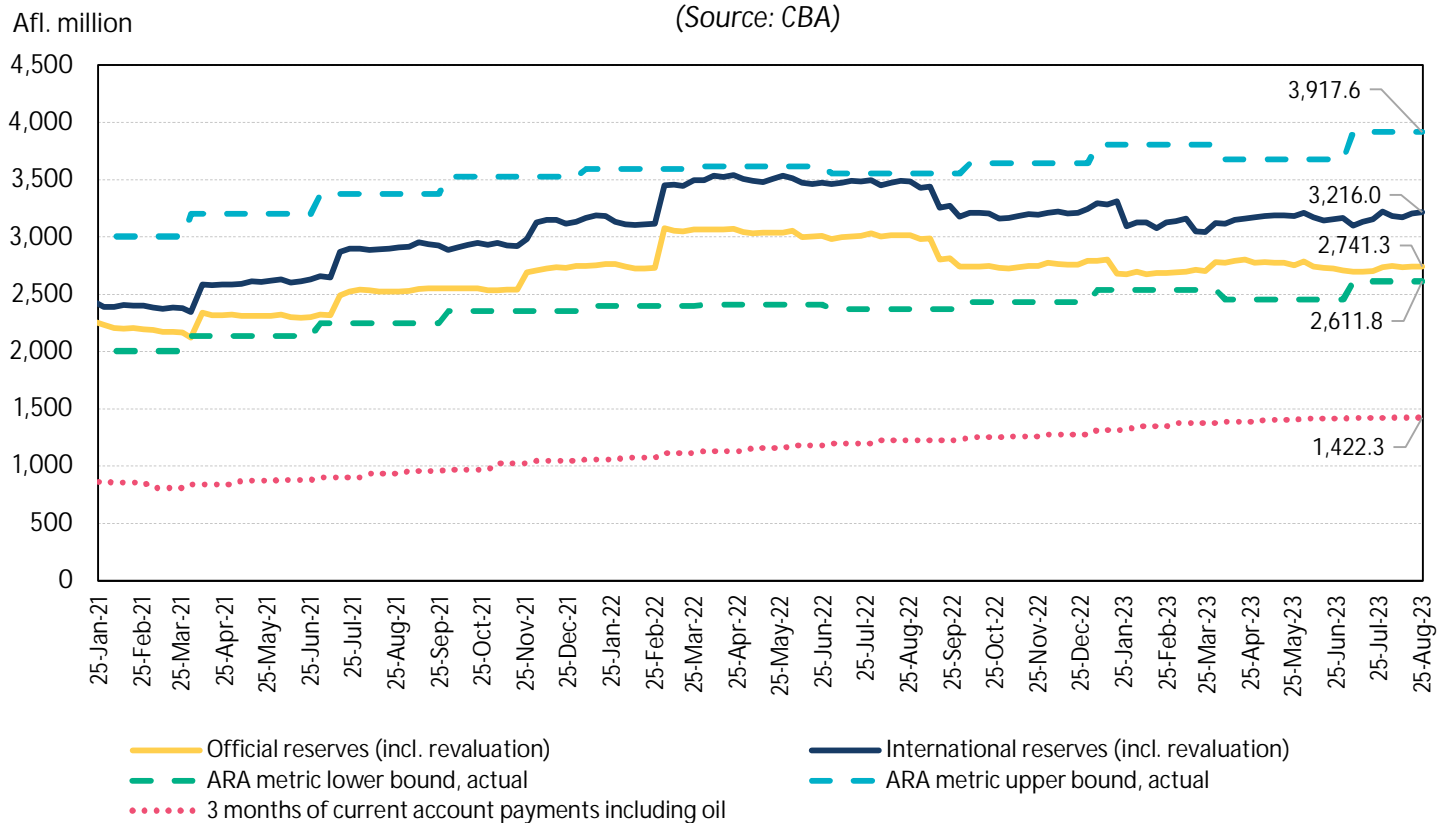


Table 1: Reserve benchmarks monitored in 2023

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Estimated current account coverage ratio <sup>1</sup>	7.1	7.0	6.8	6.9	6.8	6.7	6.8	6.8
Estimated IMF ARA Metric <sup>2</sup>	106.6	105.3	109.6	113.4	112.2	110.3	104.7	105.0

<sup>1</sup> The number of months of current account payments covered by the international reserves.

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

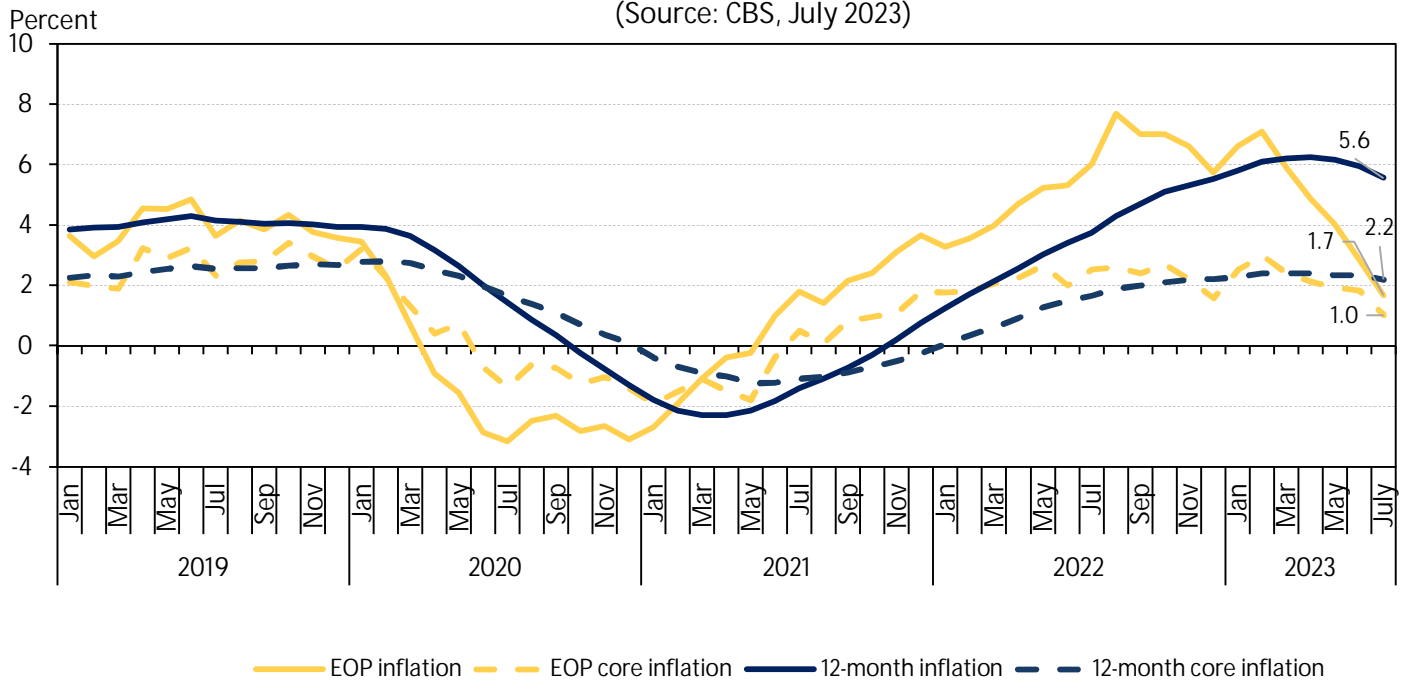
### Inflation

The End-of-Period (EOP) inflation rate eased to 1.7 percent in July 2023, down from 2.8 percent in June 2023 (Graph 2). The 1.7 percent increase in consumer prices in July 2023 was mainly the result of higher utility prices, which continued to affect the 'housing' component (+2.3 percentage points contribution). To a lesser degree, 'food and non-alcoholic beverages' (+0.7 percentage point contribution), 'communication' (+0.6 percentage point contribution), 'household operation' (+0.4 percentage point contribution), 'restaurants and hotels' (+0.4 percentage point contribution), and 'miscellaneous goods and services' (+0.4 percentage point contribution) also contributed to the EOP inflation in July 2023.

As of July 2023, the 12-month average inflation decelerated to 5.6 percent, down from 5.9 percent in the previous month. The inflationary pressures were due to the hikes in water and electricity tariffs as of August 2022, costlier vehicles, and higher food prices. Furthermore, Aruba imported much of the rising prices from its trading partners, particularly the United States and Europe.

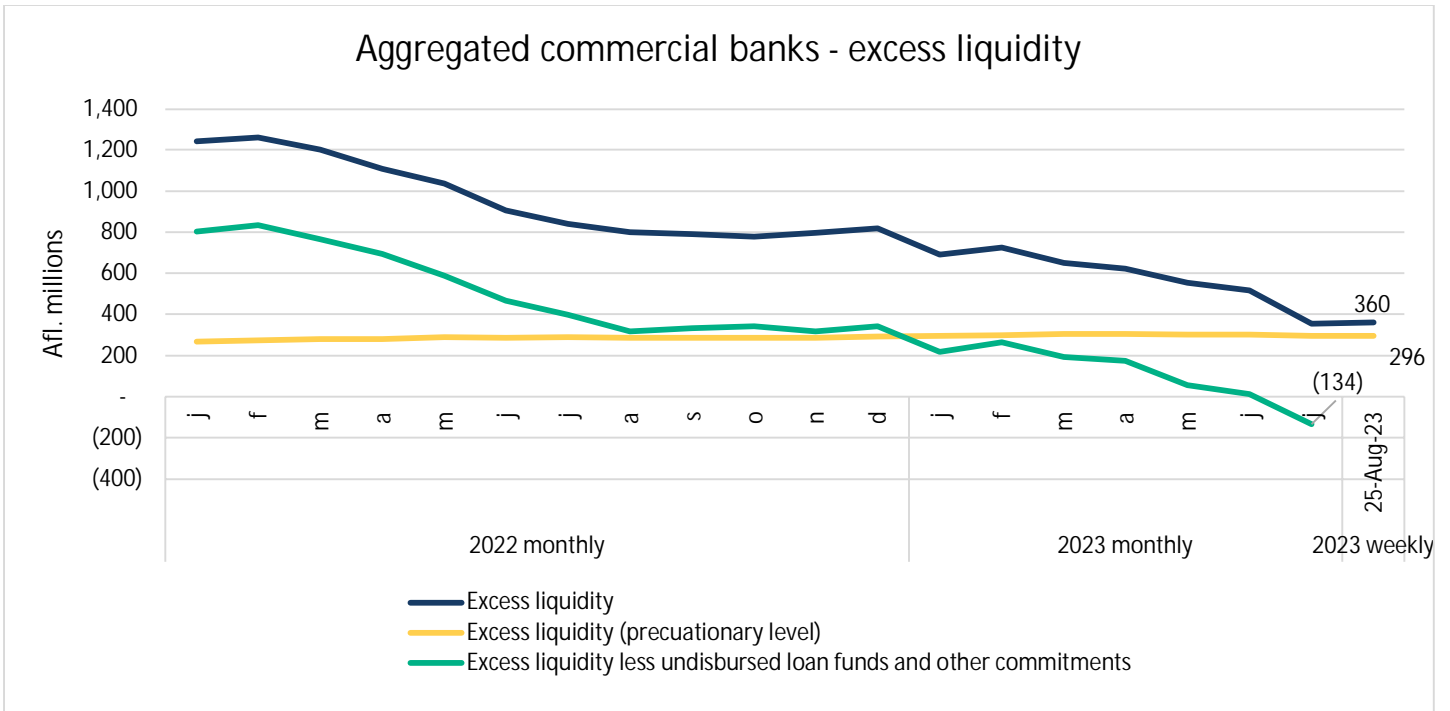
Meanwhile, in July 2023, EOP core inflation (excluding energy and food) was 1.0 percent (June 2023: 1.8 percent). On a twelve-month average basis, core inflation amounted to 2.2 percent (June 2023: 2.3 percent).

Graph 2: Inflation based on the consumer price index of Aruba  
(Source: CBS, July 2023)



### Excess liquidity of the commercial banks

Based on weekly data, preliminary estimated excess liquidity of the commercial banks (including undisbursed loan funds and other commitments) was Afl. 359.9 million on August 25, 2023, i.e., Afl. 459.9 million lower compared to end-December 2022. This drop was mainly due to local refinancing of foreign loans and government bond purchases.



Centrale Bank van Aruba  
 November 8, 2023