



## The reserve requirement

The reserve requirement is an instrument of monetary policy aimed primarily at influencing the money creating capacity of the domestic banking system. Under the reserve requirement, commercial banks have to place a non-interest bearing deposit ('reserve requirement') on a blocked account with the Bank for a certain period of time.

The reserve requirement period starts the first business day after the 15th day of the calendar month and will end only when the next reserve requirement period begins. The size of the reserve requirement is calculated by multiplying the adjusted domestic debt of each individual bank by the reserve requirement percentage.

The domestic debt is calculated by taking the totals of the resident columns of account categories 2101, 2102, 2103, 2202 and account 24 of the Chart of Accounts as recorded in supporting schedule 40 "*Reserve requirement*", two month-end reporting dates prior to the start of the reserve requirement period. To get to the adjusted domestic debt:

- The domestic debt is reduced by the amount of long term deposits (>2 years to maturity, as recorded on Supporting Schedule 46 "*Maturity of Time Deposits*", row 40, columns 1 and 2)<sup>1</sup>.

The Bank will announce the reserve requirement percentage<sup>2</sup> and the size of the reserve requirement two working days prior to the beginning of a reserve requirement period. The reserve requirement percentage will be fixed for one-month. Consequently, the size of the reserve requirement will be determined on a monthly basis.

The reserve requirement may force commercial banks into (structural) debit balances on their Naf.-accounts. Debit balances on US\$-accounts with the Bank are not allowed. Commercial banks are required to fund US\$-balances immediately. In case of incidental debit balances, a debit rate equal to the pledging rate plus 100 basis-points will be charged on US\$-accounts, regardless of the existence of compensating balances or collateral.

The Bank allows (structural) Naf.-debit balances if they are collateralized by:

- CDs or TDs issued by the Bank and held by the commercial bank;
- Negotiable securities issued by the government of Curaçao and the government of Sint Maarten;
- Negotiable securities issued by foreign states with an investment grade rating according to Moody's and/or Standard & Poor's.

If the government securities, which a commercial bank holds for its own account, are registered in the name of that commercial bank in the register of government securities, the securities can be pledged by signing a deed ('akte van cessie') to the Bank. Government securities in bearer form

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<sup>1</sup> Whenever the total amount of time deposits reported on Supporting Schedule 46 does not reconcile with the total reported on the balance sheet, no reduction of domestic debt will be applied.

<sup>2</sup> The Bank determines the percentage based on the level of official reserves, the commercial banks' balances with the Bank, and recent developments in domestic credit extension.

('CF-stukken'), which a commercial bank holds, will qualify as collateral by signing a pledging form and depositing the securities at the Bank. Therefore, the existing deeds and/or pledging forms will remain in effect.

If securities of foreign states, which a commercial bank holds for its own account, are used as collateral, then those should be pledged by signing a deed ('akte van cessie') to the Bank. The acceptance of these securities is subject to the Bank's approval.

The CDs and TDs issued by the Bank serve as 100% collateral. For CDs and TDs, the same pledging procedure as in the case of government securities and securities of foreign states is in effect.

Advances against the collateral of pledged government securities and securities of foreign states with a remaining term to maturity of no more than one and a half year will be limited to 90% of their nominal value. In case of a pledge with government securities and securities of foreign states with a remaining maturity of more than one and a half year but no more than three years, the maximum advance given will be 80% of the nominal value. In addition, a pledge with government securities and securities of foreign states with a remaining maturity of more than three years but no more than five years, the maximum advance given will be 70% of the nominal value. Government securities and securities of foreign states with a remaining term to maturity of more than five years do not qualify as collateral for debit positions. Please note that pledged securities, CDs, and TDs may not be traded without prior approval of the Bank.

As stated in Monetary Circular 2001-02, dated August 21, 2001, the Bank will, in principle, limit the total amount of advances provided to each commercial bank to NAf. 20 million. In case commercial banks want to borrow more, the Bank will increase its lending rate (i.e., the pledging rate) by 2.00%.

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CENTRALE BANK VAN CURACAO EN SINT MAARTEN