



**Press release 2020-002**

### **Monetary policy adaptations**

WILLEMSTAD/PHILIPSBURG - In light of the continuing excess liquidity in the banking system and the declining trend in official reserves<sup>1</sup>, the CBCS reintroduced biweekly auctions of Certificates of Deposit (CDs) in mid-August 2019. However, since the third auction, the banks did not fully subscribe to the amounts offered. Consequently, the excess liquidity remained higher than targeted.

To absorb part of the excess liquidity of the banks that was not mopped up because of the shortfalls in the CD auctions, the reserve requirement percentage will be increased from 18.00% to 19.00% as of the reserve requirement period of February 17 – March 15, 2020. This will absorb approximately NAf 70 million of liquidity. The reserve requirement is an instrument through which the banks have to hold a percentage of their deposit base on a blocked account with the CBCS that does not pay interest. As a result, these funds cannot be used for domestic credit extension or investments abroad.

In addition, the CBCS is preparing some reforms of the reserve requirement that were discussed during the technical assistance mission of the IMF on the monetary policy instruments of the central bank that took place by the end of 2019. These reforms aim to improve the effectiveness of this instrument as well as offering the banks more flexibility in the management of their liquidity. The details of these reforms will be worked out during the coming months.

Also the CD auctions will be reformed on the basis of the recommendations by the IMF. New is the introduction of weekly auctions of CDs with a shorter term of 2 weeks. The CBCS only announces the interest rate it is willing to pay and the banks can subscribe at any amount. These CDs replace the current CDs with a term of 4 weeks. In addition, the biweekly auctions of CDs with terms of 12, 26 and 52 weeks will be continued. In these auctions, the CBCS announces the total amount of liquidity it wants to absorb and the banks indicate for what amounts, terms and interest rates they are prepared to subscribe. Based on the desired interest rates, the CBCS decides which subscriptions will be accepted. The reforms of the CD auctions became effective as of the auction on January 31, 2020.

**CENTRALE BANK VAN CURAÇAO EN SINT MAARTEN**

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<sup>1</sup> The excess liquidity of the banks is measured by the surplus in current account balances with the central bank over and above what is needed to settle daily transactions and to absorb a temporary shortage of liquidity. This surplus could translate quickly in a strong increase in credit extension and investments abroad. Both strong credit growth - through higher spending and imports- as well as investments abroad result in a decline in foreign exchange reserves and, therefore, can put the official reserves under pressure.