CENTRALE BANK VAN ARUBA

The CBA decided to lower the reserve requirement rate to 19.5 percent as of July 1, 2024.

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 June 13, 2024, the MPC decided to reduce the reserve requirement rate from 20.5 percent to 19.5 percent as of July 1, 2024. Accordingly, commercial banks must hold a minimum balance at the CBA equal to 19.5 percent of their clients' liquid deposits[1]. The decision to lower the reserve requirement rate was based mainly on the adequacy of the reserves according to the benchmarks monitored by the CBA. Furthermore, inflation was moderate, and the pace of credit growth (excluding incidentals) remained relatively flat.

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

Official and international reserves increased up to May 17, 2024

The official reserves (including revaluation differences of gold and foreign exchange holdings) expanded by Afl. 268.6 million as of May 17, 2024, compared to December 29, 2023. Foreign reserves held by the commercial banks rose by Afl. 7.6 million in the same period. Consequently, the international reserves (including revaluation differences of gold and foreign exchange holdings), comprising the official reserves of the CBA and foreign reserves held by the commercial banks, increased by Afl. 276.2 million. Given the mentioned increases, the official and international reserves amounted to Afl. 2,914.3 million and Afl. 3,338.3 million, respectively as of May 17, 2024 (Graph 1).

Conserving reserve adequacy is critical in maintaining the fixed exchange rate between the Aruban florin and the US dollar. In this regard, official reserves stood 16.0 percent above the minimum adequacy level according the IMF ARA metric (Table 1). Moreover, international reserves covered 6.9 months of current account payments as of May 17, 2024, and thus resided comfortably above the minimum of three months. Current account payments consist, among others, of import payments, interest payments made to investors, and foreign transfers, such as remittances by foreign workers.

[1] Demand deposits, time deposits with a maturity equal to or shorter than two years, time deposits of the government, time deposits of other deposit money banks, and savings.

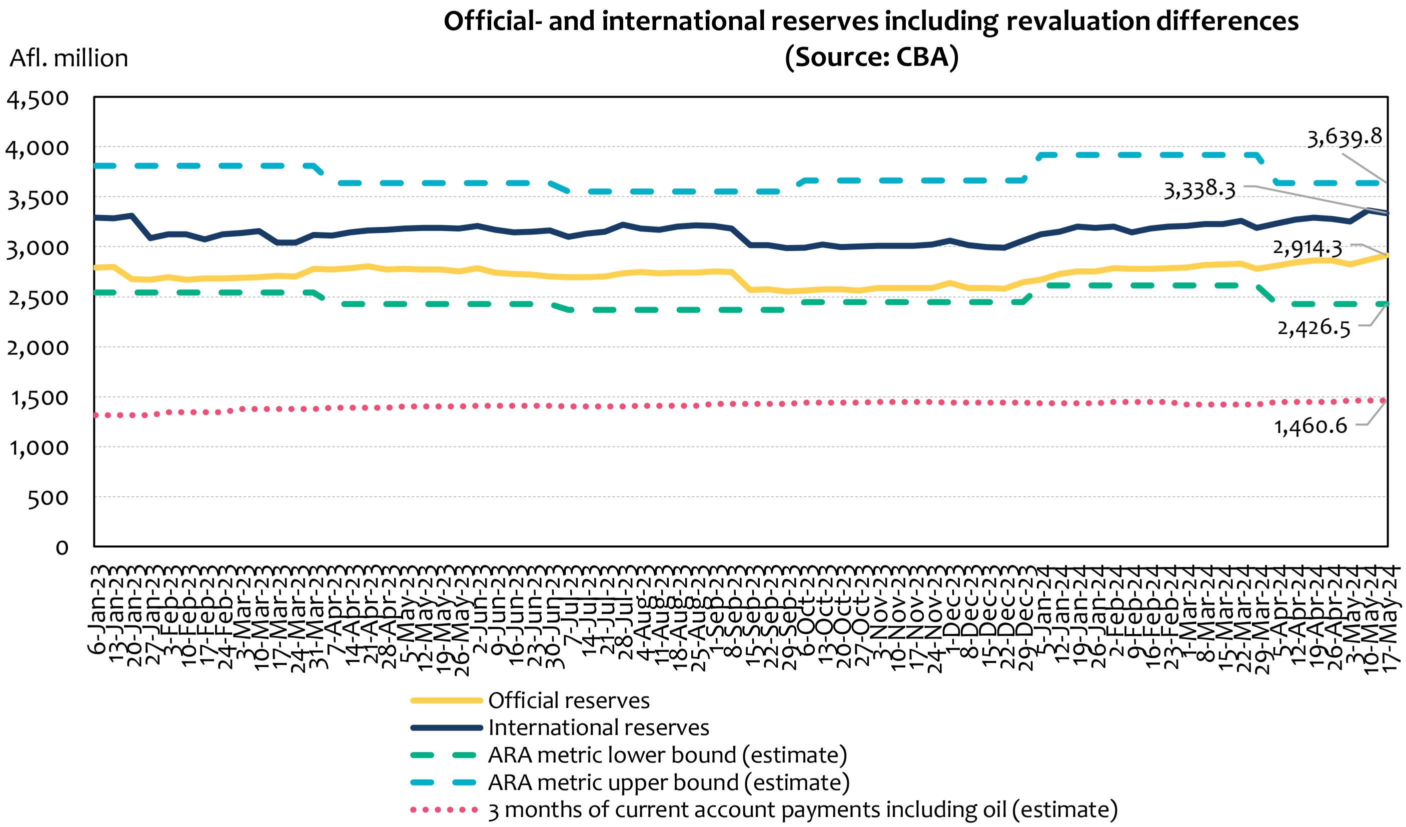

Table 1: Reserve benchmarks monitored over the past 12 months

	2023								2024				
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May 17
Estimated current account coverage ratio[1]	6.8	6.8	6.9	6.8	6.3	6.3	6.3	6.4	6.7	6.6	6.9	6.8	6.9
Estimated IMF ARA Metric[2]	111.5	111.6	115.1	115.2	107.8	107.6	109.1	108.3	110.2	109.3	108.9	111.3	116.0

[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 the IMF), in percent.

The end-of-period inflation stood at 2.2 percent in April 2024

The end-of-period (EOP) inflation reached 2.2 percent in April 2024, up from 1.9 percent in March 2024. The main contributors to the EOP inflation in April 2024 were communication (+1.5 percentage points contribution), food and non-alcoholic beverages (+0.3 percentage point contribution), housing (+0.3 percentage point contribution), and miscellaneous goods and services (+0.3 percentage point contribution). On the other hand, lower prices for transport (-0.5 percentage point contribution), household operation (-0.3 percentage point contribution), and clothing and footwear (-0.1 percentage point contribution) partly mitigated the inflationary pressures in April 2024.

As of April 2024, the 12-month average inflation rate amounted to 1.9 percent, down from 2.1 percent in March 2024. The inflationary pressures in April 2024 were primarily due to communication (+0.9 percentage point contribution), housing (+0.8 percentage point contribution) and food and non-alcoholic beverages (+0.4 percentage point contribution).

Meanwhile, in April 2024, EOP core inflation (excluding energy and food) was 2.4 percent. On a twelve-month average basis, core inflation amounted to 1.9 percent.

Excess liquidity expanded up to May 31, 2024, albeit with uneven distribution

Preliminary data show that the excess liquidity (including undisbursed loan funds and other commitments) of the commercial banks rose to Afl. 611.1 million on May 31, 2024, up from Afl. 519.4 million at the end of December 2023. This uptick mainly resulted from the performance of the tourism sector. However, excess liquidity remains unevenly distributed across commercial banks.

Overall credit increased up until April 2024 due to a sizeable one-off loan

The overall resident loan portfolio of the commercial banks grew by Afl. 101.2 million (+2.3 percent) to Afl. 4,411.0 million in April 2024, compared to December 2023. This growth was predominantly driven by the Afl. 98.7 million increase in business loans, mostly due to one large loan transaction. When excluding the latter, credit growth was subdued.

Centrale Bank van Aruba
July 29, 2024