



CENTRALE BANK VAN ARUBA

Reserve requirement decision and considerations of the September 2024 Monetary Policy Committee Meeting

During its meeting on September 13, 2024, the Monetary Policy Committee (MPC) of the Centrale Bank van Aruba (CBA) decided to lower the reserve requirement rate from 18.5 percent to 17.5 percent as of October 1, 2024. Central to this decision were:

1. The official reserves are adequate in terms of the International Monetary Fund (IMF) Assessing Reserve Adequacy (ARA) metric, despite a pick up in credit growth during the last few months compared to the beginning of 2024.
2. In July 2024, the 12-month average inflation reached 1.8 percent. Furthermore, although the end-of-period inflation rose to 2.8 percent, inflation is currently projected to decelerate in the coming months.

Below are the main considerations of the MPC decision to lower the reserve requirement:

1. Increase in official and international reserves up to August 23, 2024

The international reserves (including revaluation differences of gold and foreign exchange holdings), comprising the official reserves of the CBA and foreign exchange reserves held by the commercial banks, increased by Afl. 470.9 million as of August 23, 2024, compared to December 29, 2023. The official reserves (including revaluation differences of gold and foreign exchange holdings) expanded by Afl. 445.4 million, while the foreign exchange reserves held by the commercial banks rose by Afl. 25.4 million. As of August 23, 2024, the official and international reserves stood at Afl. 3,091.1 million and Afl. 3,532.9 million, respectively. Consequently, the international and official reserves remained adequate according to the current account coverage ratio (i.e., 7.0 months) and the IMF ARA metric (i.e., 126.4 percent) measured by the CBA.

2. The 12-month average inflation stood at 1.8 percent in July 2024

As of July 2024, the 12-month average inflation rate reached 1.8 percent, up from 1.7 percent in June 2024. The inflationary pressures in July 2024 are primarily due to the communication (+1.2 percentage points contribution) and housing (+0.4 percentage point contribution) components. The uptick in communication mirrors increasing prices for telephone services (+1.2 percentage points contribution). The housing inflation reflected hikes in house maintenance and repair prices (+0.7 percentage point contribution).

The end-of-period (EOP) inflation reached 2.8 percent in July 2024, continuing its upward trend since falling to 0.9 percent in February 2024. The main contributors to the EOP inflation in July 2024 were housing (+0.8 percentage point contribution), communication

(+0.5 percentage point contribution), transport (+0.5 percentage point contribution), miscellaneous goods and services (+0.3 percentage point contribution), and food and non-alcoholic beverages (+0.3 percentage point contribution). On the other hand, household operation (-0.2 percentage point contribution) partly mitigated the inflationary pressures.

Meanwhile, in July 2024, EOP core inflation (excluding energy and food) was 2.6 percent, up from 2.1 percent in June 2024. On a twelve-month average basis, core inflation amounted to 2.1 percent, inching up compared to the previous month.

3. Excess liquidity

Preliminary data show that the excess liquidity (including undisbursed loan funds and other commitments) of the commercial banks rose to Afl. 730.3 million as of August 30, 2024, up from Afl. 519.4 million at the end of December 2023. This uptick mainly resulted from the performance of the tourism sector.

4. Overall credit growth persisted in July 2024

The overall resident loan portfolio of the commercial banks grew by Afl. 223.2 million (+5.2 percent) to Afl. 4,532.9 million in July 2024, compared to December 2023. This uptick was predominantly driven by the Afl. 152.2 million increase in business loans, resulting mainly from a large one-off loan related to the hotel sector. When omitting this one-off loan credit growth was moderate (+2.7 percent).

5. Decision

The MPC decided to lower the reserve requirement rate by 1 percentage point to 17.5 percent. This decision was based on the official reserves being adequate in terms of the IMF ARA metric, despite an upturn in credit growth during the last few months compared to the beginning of 2024. Furthermore, inflation as measured by the 12-month average inflation rate reached 1.8 percent, and even though the EOP inflation rose to 2.8 percent, inflation is currently projected to decelerate in the coming months.

The CBA will continue to monitor economic indicators and adjust its monetary policy stance as needed to maintain the value of the florin.

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