



CENTRALE BANK VAN ARUBA

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

During its meeting on October 18, 2024, the Monetary Policy Committee (MPC) of the Centrale Bank van Aruba (CBA) decided to lower the reserve requirement rate from 17.5% to 16.5% as of November 1, 2024. Central to this decision were:

1. The adequacy of official reserves in terms of the International Monetary Fund (IMF) Assessing Reserve Adequacy (ARA) metric and current account coverage ratio.
2. The moderate short-run uptick in inflation with expected deceleration in the medium term.

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

1. Increase in official and international reserves up to September 27, 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. 698.1 million as of September 27, 2024, compared to December 29, 2023. The official reserves (including revaluation differences of gold and foreign exchange holdings) expanded by Afl. 686.1 million, while the foreign exchange reserves held by the commercial banks rose by Afl. 12.1 million. As of September 27, 2024, the official and international reserves stood at Afl. 3,331.8 million and Afl. 3,760.2 million, respectively. Consequently, the international and official reserves remained adequate according to the current account coverage ratio (i.e., 7.4 months) and the IMF ARA metric (i.e., 137.2%) measured by the CBA.

2. The 12-month average inflation rate stood at 2.0% in August 2024

As of August 2024, the 12-month average inflation rate climbed to 2.0%, up from 1.8% in July 2024. The inflationary pressures in August 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 and telefax services (+1.2 percentage points contribution). The housing inflation reflected hikes in house maintenance and repair costs (+0.7 percentage point contribution).

The end-of-period (EOP) inflation accelerated to 2.9% in August 2024, continuing its upward trend since March 2024. The main contributors to the EOP inflation in August 2024 were housing (+0.8 percentage point contribution), communication (+0.5 percentage point contribution), miscellaneous goods and services (+0.4 percentage

point contribution). On the other hand, recreation and culture (-0.1 percentage point contribution) partly mitigated the inflationary pressures.

Meanwhile, in August 2024, EOP core inflation (excluding energy and food) was 2.8%, up from 2.6% in July 2024. On a twelve-month average basis, core inflation amounted to 2.3%, up slightly from the previous month. Inflation is, however, projected to soften in the medium term.

3. Excess liquidity rose up to September 20, 2024

Preliminary data show that the excess liquidity (including undisbursed loan funds and other commitments) of the commercial banks rose to Afl. 749.7 million on September 20, 2024, up from Afl. 519.4 million at the end of December 2023. This mainly resulted from the strong 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. 242.3 million (+5.6%) to Afl. 4,552.1 million in August 2024, compared to December 2023. This gain was predominantly driven by the Afl. 155.9 million increase in business loans, resulting mainly from a large one-off loan related to the hotel sector. When omitting total incidentals, credit growth was moderate (+2.3%).

5. Decision

The MPC decided to lower the reserve requirement rate by 1 percentage point to 16.5%. This decision was based on the official reserves being adequate in terms of the IMF ARA metric and current account coverage ratio, 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 2.0%, and even though the end-of-period inflation rose to 2.9%, inflation is currently projected to decelerate in the coming months.

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

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