



CENTRALE BANK VAN ARUBA

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

During its meeting on November 22, 2024, the Monetary Policy Committee (MPC) of the Centrale Bank van Aruba (CBA) decided to lower the reserve requirement rate from 16.5% to 15.5% as of December 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 inflation level 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 November 1, 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. 651.8 million as of November 1, 2024, compared to December 29, 2023. The official reserves (including revaluation differences of gold and foreign exchange holdings) expanded by Afl. 678.5 million, while the foreign exchange reserves held by the commercial banks contracted by Afl. 26.8 million. As of November 1, 2024, the official and international reserves stood at Afl. 3,324.2 million and Afl. 3,713.8 million, respectively. Consequently, the international and official reserves remained adequate according to the current account coverage ratio (i.e., 7.2 months) and the IMF ARA metric (i.e., 132.7%) measured by the CBA.

2. The end-of-period inflation rate decreased to 1.5% in September 2024

The end-of-period (EOP) inflation fell to 1.5% in September 2024, down from 2.9% in August 2024, reversing the upward trend observed since February 2024. The lower EOP inflation was due mainly to smaller contributions by the components maintenance and repair of dwellings (from +0.7 to +0.1 percentage point contribution) and gasoline (from -0.2 to -0.6 percentage point contribution).

As of September 2024, the 12-month average inflation rate reached 2.0%, unchanged from August 2024. The same inflationary pressures in August 2024 were observed in September 2024, that is, communication (+1.2 percentage points contribution), housing (+0.4 percentage point contribution) and food and non-alcoholic beverages (+0.3 percentage point contribution).

Meanwhile, in September 2024, EOP core inflation (excluding energy and food) was 1.9%, down from 2.8% in August 2024. On a twelve-month average basis, core inflation

amounted to 2.3%, equal to the previous month's value. Inflation is projected to continue losing pace in the medium term.

3. Excess liquidity surged up to October 25, 2024

Preliminary data show that the excess liquidity (including undisbursed loan funds and other commitments) of the commercial banks rose to Afl. 898.1 million on October 25, 2024, up from Afl. 519.4 million at the end of December 2023. This uptick resulted mainly from the strong performance of the tourism sector.

4. Overall credit growth persisted in September 2024

The overall resident loan portfolio of the commercial banks grew by Afl. 271.9 million (+6.3%) to Afl. 4,581.7 million in September 2024, compared to December 2023. This gain was predominantly driven by the Afl. 182.9 million increase in business loans, resulting primarily from a large one-off loan related to the hotel sector. When omitting incidental credit transactions, credit growth was moderate (+2.6%).

5. Decision

The MPC decided to lower the reserve requirement rate by 1 percentage point to 15.5%. This decision was based on the official and international 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 remained stable at 2.0%, while the end-of-period inflation declined to 1.5%. Furthermore, inflation is currently projected to decelerate in the coming months.

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

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