



CENTRALE BANK VAN ARUBA

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

During its meeting on December 19, 2024, the Monetary Policy Committee (MPC) of the Centrale Bank van Aruba (CBA) decided to lower the reserve requirement rate from 15.5% to 14.5% as of January 1, 2025. Central to this decision were:

1. The adequacy of the level of foreign reserves reflected in the International Monetary Fund (IMF) Assessing Reserve Adequacy (ARA) metric and the current account coverage ratio.
2. The stable 12-month average inflation level in combination with the deceleration in end-of-period (EOP) inflation and the expected continuation of this downward path 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 November 22, 2024

The official reserves (including revaluation differences of gold and foreign exchange holdings) expanded by Afl. 652.2 million as of November 22, 2024, compared to December 29, 2023. Similarly, 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. 626.6 million in the same period.

As of November 22, 2024, the official and international reserves stood at Afl. 3,311.7 million and Afl. 3,825.0 million, respectively. Consequently, the international and official reserves remained adequate according to the current account coverage ratio (i.e., 7.1 months) and the IMF ARA metric (i.e., 133.3%) measured by the CBA.

2. The EOP inflation rate decreased to 1.0% in October 2024

The EOP inflation fell to 1.0% in October 2024, down from 1.5% in September 2024. The lower EOP inflation was due mainly to the reduced contribution of gasoline (from -0.6 to -0.9 percentage point contribution).

As of October 2024, the 12-month average inflation rate reached 2.0%, unchanged from September 2024. The same inflationary pressures in September 2024 were observed in October 2024, particularly in the following categories: 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 October 2024, EOP core inflation (excluding energy and food) was 1.7%, down from 1.9% in September 2024. On a twelve-month average basis, core inflation amounted to 2.3%, equal to the previous month's inflation. Inflation is projected to continue losing pace in the coming months.

3. Excess liquidity surged up to November 22, 2024

Preliminary data show that the excess liquidity (including undisbursed loan funds and other commitments) of the commercial banks rose to Afl. 861.5 million on November 22, 2024, up from Afl. 519.4 million at the end of December 2023. This uptick resulted from the lowering of the reserve requirement and the strong performance of the tourism sector.

4. Overall credit growth persisted in October 2024

The overall resident loan portfolio of the commercial banks grew by Afl. 307.6 million (+7.1%) to Afl. 4,647.1 million in October 2024, compared to December 2023. This rise was driven predominantly by the Afl. 205.3 million increase in business loans, resulting mainly from a large one-off loan. When omitting this incidental transaction, credit growth was moderate (+3.1%).

5. Decision

The MPC decided to lower the reserve requirement rate by 1 percentage point to 14.5%. This decision was based on the official and international reserves being adequate in terms of the IMF ARA metric and the 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 1.0%. Furthermore, inflation is currently projected to decelerate in the coming months.

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

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Centrale Bank van Aruba

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