CENTRALE BANK VAN ARUBA

The CBA decided to lower the reserve requirement rate to 20.5 percent as of June 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 monthly meeting on May 16, 2024, the MPC decided to reduce the reserve requirement rate from 21.5 percent to 20.5 percent as of June 1, 2024. Accordingly, commercial banks must hold a minimum balance at the CBA equal to 20.5 percent of their clients' liquid deposits[1]. The decision to lower the reserve requirement rate was based mainly on the expanded and adequate level of official reserves according to the CBA monitored Assessing Reserve Adequacy (ARA) metric of the International Monetary Fund (IMF). In addition, the inflation rate was moderate, and the pace of credit growth was relatively low.

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

Official and international reserves continued to increase

The official reserves (including revaluation differences of gold and foreign exchange holdings) expanded by Afl. 214.6 million as of April 19, 2024, compared to December 29, 2023. Foreign reserves held by the commercial banks rose by Afl. 17.8 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. 232.4 million. Given the mentioned increases, the official and international reserves amounted to Afl. 2,860.3 million and Afl. 3,294.4 million, respectively (Graph 1).

Conserving reserve adequacy is critical for maintaining the fixed exchange rate between the Aruban florin and the US dollar. In this regard, official reserves stood 11.3 percent above the minimum adequacy level according the IMF ARA metric (Table 1). Moreover, international reserves covered 6.8 months of current account payments as of April 19, 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.

Graph 1: Official- and international reserves including revaluation differences
(Source: CBA)

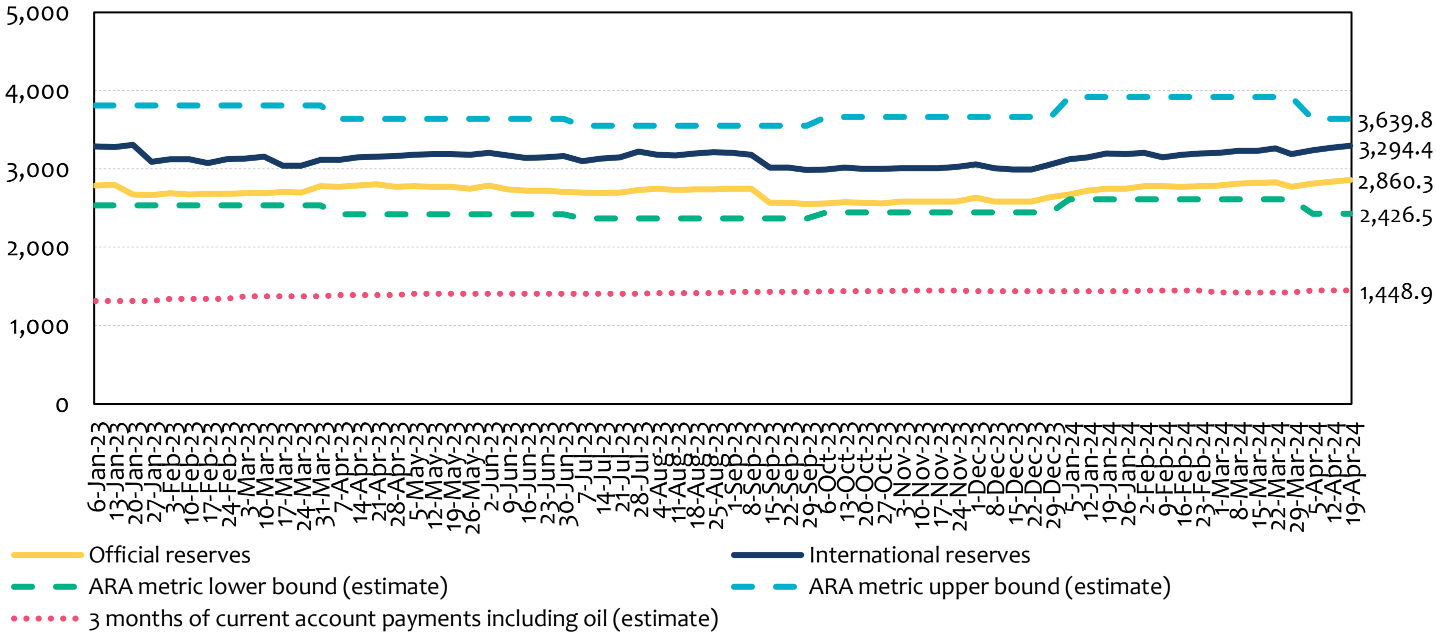

Table 1: Reserve benchmarks monitored over the past 12 months

	2023									2024			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Estimated current account coverage ratio[1]	6.9	6.8	6.8	6.9	6.8	6.3	6.3	6.3	6.4	6.7	6.6	6.9	6.8
Estimated IMF ARA Metric[2]	111.2	111.5	111.6	115.1	115.2	107.8	107.6	109.1	108.3	110.2	109.3	108.9	111.3

[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 1.8 percent in March 2024

The end-of-period (EOP) inflation recorded 1.8 percent in March 2024, up from 0.9 percent in February 2024. The main contributors to the EOP inflation in March 2024 were communication (+1.5 percentage points contribution), house maintenance and repair (+0.7 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, lower vehicle prices (-1.3 percentage points contribution) and electricity prices (-0.6 percentage point contribution) partly mitigated the inflationary pressures in March 2024. The latter relates to the decreased electricity tariff in May 2023.

As of March 2024, the 12-month average inflation rate decelerated to 2.1 percent, down from 2.4 percent in February 2024. The inflationary pressures in March 2024 were primarily due to housing (+1.0 percentage point contribution) and communication (+0.8 percentage point contribution). The housing inflation reflected hikes in maintenance and repair prices (+0.5 percentage point contribution), and the water tariff in August 2022 (+0.3 percentage point contribution). Furthermore, food (+0.4 percentage point contribution) registered higher prices.

Meanwhile, in March 2024, EOP core inflation (excluding energy and food) was 2.2 percent, compared to 1.7 percent in February 2024. On a twelve-month average basis, core inflation amounted to 1.9 percent in March 2024, compared to 1.9 percent again in February 2024.

Excess liquidity surged up to April 29, 2024, albeit with uneven distribution

Preliminary data show that the excess liquidity (including undisbursed loan funds and other commitments) of the commercial banks jumped to Afl. 709.6 million on April 29, 2024, up from Afl. 519.4 million at the end of December 2023. This uptick mainly resulted from the strong performance of the tourism sector. However, excess liquidity remains unevenly distributed across commercial banks.

Overall credit expanded up until March 2024 due to sizeable one-off loans

The overall resident loan portfolio of the commercial banks grew by Afl. 97.7 million (+2.3 percent) to Afl. 4,407.4 million in March 2024, compared to December 2023. This growth was predominantly driven by the Afl. 89.3 million increase in business loans, as commercial banks partially financed a hotel share purchase. Nevertheless, credit growth is subdued if these loans are omitted.

Centrale Bank van Aruba
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