CENTRALE BANK VAN ARUBA

As of September 1, 2024, the CBA decided to lower the reserve requirement rate to 18.5 percent

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 meeting on August 15, 2024, the MPC decided to reduce the reserve requirement rate from 19.5 percent to 18.5 percent as of September 1, 2024. Accordingly, commercial banks must hold a minimum balance at the CBA equal to 18.5 percent of their clients' liquid deposits[1]. The decision to lower the reserve requirement rate was based mainly on the adequacy of the reserves according to the benchmarks monitored by the CBA. Furthermore, the pace of credit growth (excluding incidentals) was moderate, and inflation is well below the levels of 2022 and 2023.

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

Official and international reserves increased up to July 26, 2024

The official reserves (including revaluation differences of gold and foreign exchange holdings) expanded by Afl. 408.7 million as of July 26, 2024, compared to December 29, 2023. Foreign exchange reserves held by the commercial banks rose by Afl. 36.8 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 exchange reserves held by the commercial banks, increased by Afl. 445.4 million. Given the mentioned increases, the official and international reserves stood at Afl. 3,054.3 million and Afl. 3,507.4 million, respectively as of July 26, 2024 (Graph 1).

Conserving reserve adequacy is critical in maintaining the fixed exchange rate between the Aruban florin and the US dollar. In this regard, official reserves stood 25.8 percent above the minimum adequacy level according to the IMF ARA metric (Table 1). Moreover, international reserves covered 7.0 months of current account payments as of July 26, 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)

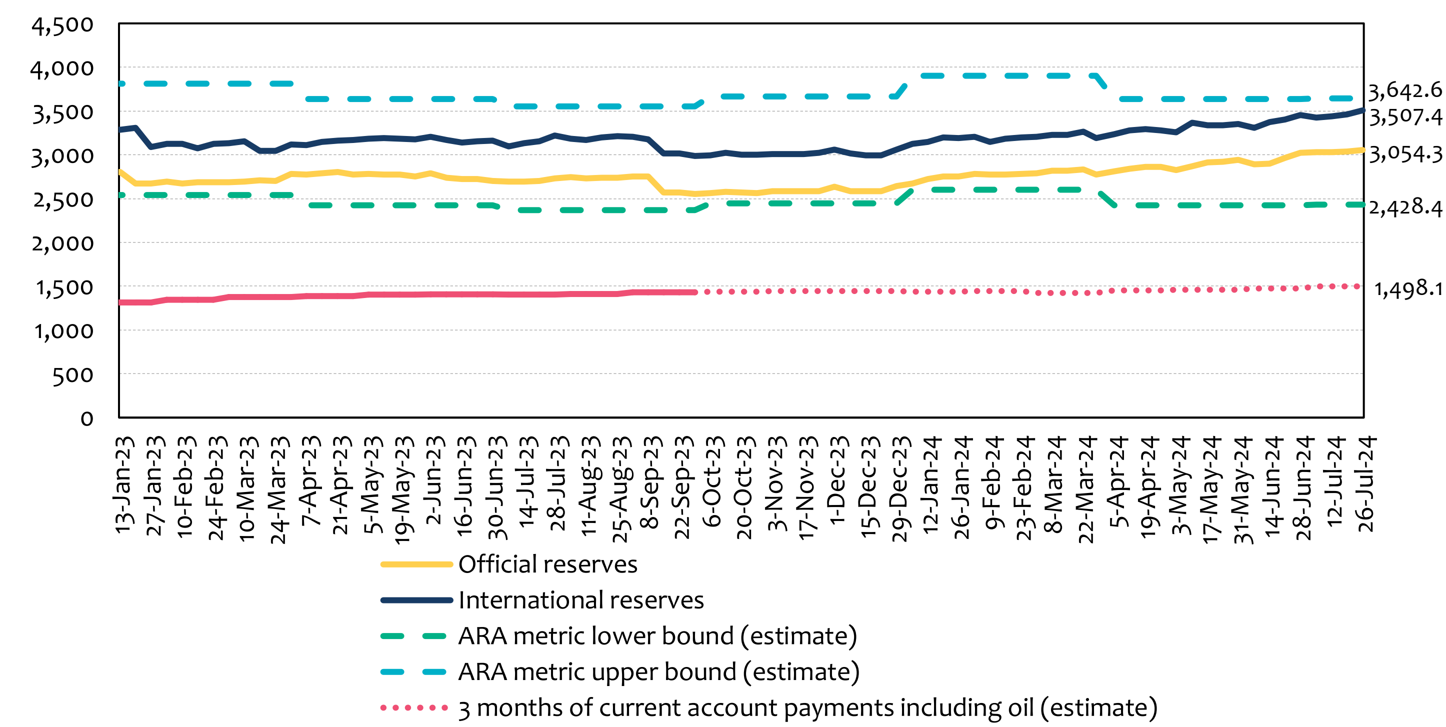

Table 1: Reserve benchmarks monitored over the past 12 months

	2023						2024						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	July 26
Estimated current account coverage ratio[1]	6.9	6.8	6.3	6.3	6.3	6.4	6.7	6.6	6.9	6.8	6.9	6.2	7.0
Estimated IMF ARA Metric[2]	115.1	115.2	107.8	107.6	109.1	108.3	110.2	109.3	108.9	111.3	118.0	124.7	125.8

[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 2.4 percent in June 2024

The end-of-period (EOP) inflation reached 2.4 percent in June 2024, continuing its upward trend since falling to 0.9 percent in February 2024. The main contributors to the EOP inflation in June 2024 were communication (+1.5 percentage points contribution), housing (+0.7 percentage point contribution), food and non-alcoholic beverages (+0.3 percentage point contribution), restaurants and hotels (+0.3 percentage point contribution), and miscellaneous goods and services (+0.3 percentage point contribution). On the other hand, lower prices for transport (-0.7 percentage point contribution), household operation (-0.2 percentage point contribution), and clothing and footwear (-0.1 percentage point contribution) partly mitigated the inflationary pressures in June 2024.

As of June 2024, the 12-month average inflation rate continued on its downward trajectory amounting to 1.7 percent. The inflationary pressures in June 2024 were primarily due to communication (+1.2 percentage points contribution), housing (+0.5 percentage point contribution), and food and non-alcoholic beverages (+0.4 percentage point contribution).

Meanwhile, in June 2024, EOP core inflation (excluding energy and food) was 2.1 percent, down from 2.4 percent in May 2024. On a twelve-month average basis, core inflation amounted to 2.0 percent, remaining steady as compared to the previous month.

Excess liquidity expanded up to July 19, 2024

Preliminary data show that the excess liquidity (including undisbursed loan funds and other commitments) of the commercial banks rose to Afl. 704.9 million on July 19, 2024, up from Afl. 519.4 million at the end of December 2023. This uptick mainly resulted from the performance of the tourism sector.

Overall credit increased up until June 2024 due to a sizeable one-off loan

The overall resident loan portfolio of the commercial banks grew by Afl. 212.2 million (+4.9 percent) to Afl. 4,521.9 million in June 2024, compared to December 2023. This growth was predominantly driven by an Afl. 141.0 million increase in business loans, mostly due to a one-off transaction. When excluding the latter loan, credit growth was moderate at 3.0 percent, mainly driven by loans to the real estate and property development industries.

Centrale Bank van Aruba
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