CENTRALE BANK VAN ARUBA

Reserve requirement decision and considerations of the January 2025 Monetary Policy Committee Meeting

During its meeting on January 24, 2025, the Monetary Policy Committee (MPC) of the Centrale Bank van Aruba (CBA) lowered the reserve requirement rate from 14.5% to 13.5% as of February 1, 2025. 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 the adequacy of the international reserves reflected by 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 to lower levels in 2025.

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

1. Increase in official and international reserves up to December 20, 2024

The official reserves (including revaluation differences of gold and foreign exchange holdings) expanded by Afl. 650.3 million as of December 20, 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. 643.8 million in the same period.

As of December 20, 2024, the official and international reserves stood at Afl. 3,296.0 million and Afl. 3,705.8 million, respectively. Consequently, foreign reserves remained adequate according to CBA benchmarks, which include the current account coverage ratio (7.4 months) and the International Monetary Fund (IMF) Assessing Reserve Adequacy (ARA) metric (129.3%).

2. The EOP inflation rate decreased to 0.8% in November 2024

The end-of-period (EOP) inflation fell from 1.0% in October 2024 to 0.8% in November 2024, due mainly to lower contributions from telephone and telefax services (from +0.5 to +0.0 percentage point contribution) and electricity, gas and other fuels (from +0.3 to +0.0 percentage point contribution). However, the contribution of personal transport equipment shifted from -0.9 to -0.1 percentage point.

As of November 2024, the 12-month average inflation rate reached 1.9%, practically unchanged from the previous three months. The same inflationary pressures in August, September and October 2024 persisted in November 2024, namely, communication (+1.1

percentage points contribution), housing (+0.4 percentage point contribution) and food and non-alcoholic beverages (+0.3 percentage point contribution).

Meanwhile, in November 2024, EOP core inflation (excluding energy and food) was 1.1%, down from 1.7% in October 2024. On a twelve-month average basis, core inflation inched down from 2.3% to 2.2%.

3. **Excess liquidity surged up to December 27, 2024**
   Preliminary data show that the excess liquidity (including undisbursed loan funds and other commitments) of the commercial banks rose to Afl. 977.8 million on December 27, 2024, up from Afl. 519.4 million at the end of December 2023. This uptick resulted from the lowering of the reserve requirement rate and the strong performance of the tourism sector.

4. **Overall credit growth persisted in November 2024**
   The overall resident loan portfolio of the commercial banks grew by Afl. 365.9 million (+8.5%) to Afl. 4,675.7 million in November 2024, compared to December 2023. This uptick was predominantly driven by the Afl. 227.1 million increase in business loans, resulting mainly from a large and incidental loan. When omitting this incidental, credit growth amounted to 6.8%.

5. **Decision**
   The MPC decided to lower the reserve requirement rate by 1 percentage point to 13.5%. This decision was based on an adequate level the official and international reserves 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, remained relatively stable at 1.9%, while the end-of-period inflation declined to 0.8%. Furthermore, inflation is currently projected to further decelerate to lower levels in 2025.

The CBA will continue to monitor monetary and economic indicators and adjust its monetary policy stance as needed to maintain the fixed exchange rate between the florin and the US dollar.

For further information, please email: communications@cbaruba.org