CENTRALE BANK VAN ARUBA

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

During its meeting on February 20, 2025, the Monetary Policy Committee (MPC) of the Centrale Bank van Aruba (CBA) lowered the reserve requirement rate from 13.5% to 12.5% as of March 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 12-month average inflation reached 1.7%. Moreover, there is a deceleration in the end-of-period (EOP) inflation and an 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 January 24, 2025

   The international reserves (including revaluation differences of gold and foreign exchange holdings) rose by Afl. 68.8 million as of January 24, 2025, compared to end December 2024. This increase resulted from expanded official reserves of the CBA (+Afl. 67.1 million), which were amplified in part by an uptick in foreign exchange reserves held by the commercial banks (+Afl. 1.7 million).

   Given these developments, as of January 24, 2025, the official and international reserves stood at Afl. 3,370.8 million and Afl. 3,735.3 million, respectively. Consequently, the international and official reserves remained adequate according to the current account coverage ratio (7.4 months) and the International Monetary Fund (IMF) Assessing Reserve Adequacy (ARA) metric (130.0%), as measured by the CBA.

2. The EOP inflation rate fell to 0.3% in December 2024

   The end-of-period (EOP) inflation fell from 0.8% in November 2024 to 0.3% in December 2024, due mainly to lower contributions from holidays (from -0.1 to -0.4 percentage point contribution) and household appliances (from -0.1 to -0.3 percentage point contribution).

   As of December 2024, the 12-month average inflation rate reached 1.7%, down from 1.9% in the previous month. The inflationary pressures observed in September, October, and November 2024 persisted in December 2024, namely, communication (+0.9 percentage point contribution), housing (+0.3 percentage point contribution) and food and non-alcoholic beverages (+0.3 percentage point contribution).

Meanwhile, in December 2024, EOP core inflation (excluding energy and food) was 0.4%, down from 1.1% in November 2024. On a twelve-month average basis, core inflation inched down from 2.2% to 1.9%.

3. Excess liquidity expanded up to January 31, 2025
   Preliminary data show that the excess liquidity (including undisbursed loan funds and other commitments) of the commercial banks rose to Afl. 987.4 million on January 31, 2025, up from Afl. 936.0 million at the end of December 2024. This uptick mainly stemmed from the lowering of the reserve requirement rate and strong performance of the tourism sector.

4. Overall credit growth persisted in December 2024
   The overall resident loan portfolio of the commercial banks grew by Afl. 381.2 million (+8.8%) to Afl. 4,691.0 million in December 2024, compared to December 2023. This uptick was predominantly driven by the Afl. 244.2 million increase in business loans, resulting mostly from a large and incidental loan. When omitting this incidental, credit growth amounted to 7.0%.

5. Decision
   The MPC decided to lower the reserve requirement rate by 1.0 percentage point to 12.5%. This decision was largely based on an adequate level of official and international reserves in terms of the IMF ARA metric and the current account coverage ratio, despite a recent upturn in credit growth. Furthermore, inflation, as measured by the 12-month average, slowed down from 1.9% to 1.7%, while the EOP inflation continued to decline, reaching 0.3%. Additionally, inflation is currently projected to decelerate further 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

Centrale Bank van Aruba
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