CENTRALE BANK VAN ARUBA

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

During its meeting on April 11, 2025, the Monetary Policy Committee (MPC) of the Centrale Bank van Aruba (CBA) maintained the reserve requirement rate at 12.5% as of May 1, 2025. Central to this decision were:

i. Heighted global uncertainties
U.S. trade policy uncertainties and ambiguities, as well as elevated global trade risks have the potential to directly and indirectly affect Aruba's economy. However, the specific materialization of economic repercussions for Aruba are subject to multiple contingencies, considering the volatile and evolving nature of trade policy actions and subsequent global developments.

ii. Adequate foreign reserves despite credit growth
As per March 28, 2025, foreign reserves were substantially above the benchmarks monitored by the MPC, despite an uptick in credit growth. Considering the robust reserve adequacy and ample reserve buffer, foreign reserves are expected to remain sufficiently adequate throughout 2025

iii. Excess Liquidity
In 2024 and up to February 2025, growth in commercial bank excess liquidity (EL) exceeded overall credit growth, with expectations of a continued increase in EL in the medium term.

iv. A low inflation environment
The 12-month average inflation remained at 1.6% in February 2025, combined with an end-of-period (EOP) inflation of 0.5%.

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

1. Current global uncertainties
Heightened incertitude regarding U.S. trade policy decisions is rapidly fueling geopolitical and economic instability, as well as lower global economic growth. These developments may impact Aruba's foreign exchange reserves and inflation.

2. Increase in official and international reserves up to March 28, 2025
   The international reserves (including revaluation differences of gold and foreign exchange holdings) rose by Afl. 354.8 million as of March 28, 2025, compared to end December 2024. This increase resulted from expanded official reserves of the CBA (+Afl. 268.7 million), in addition to a rise in foreign exchange reserves held by the commercial banks (+Afl. 86.1 million).

   Considering these developments, as of March 28, 2025, the official and international reserves stood at Afl. 3,572.4 million and Afl. 4,021.3 million, respectively. Consequently, the international and official reserves remained adequate according to the current account coverage ratio (7.9 months) and the International Monetary Fund (IMF) Assessing Reserve Adequacy (ARA) metric (132.8%), as measured by the CBA.

3. The EOP inflation rate edged up to 0.5% in February 2025
   The end-of-period (EOP) inflation rose from 0.3% in January 2025 to 0.5% in February 2025, due mainly to less negative contributions from recreation and culture (from -0.5 to -0.3 percentage point contribution) and housing (from -0.2 to 0.0 percentage point contribution).

   As of February 2025, the 12-month average inflation remained at 1.6%, unchanged from the previous month. The same inflationary pressures from January 2025 persisted in February 2025, namely, communication (+0.7 percentage point contribution), housing (+0.3 percentage point contribution) and food and non-alcoholic beverages (+0.3 percentage point contribution), and miscellaneous goods and services (+0.3 percentage point contribution).

   Meanwhile, in February 2025, EOP core inflation (excluding energy and food) was 0.8%, up from o.6% in January 2025. On a twelve-month average basis, core inflation inched down from 1.8% to 1.7%.

4. Excess liquidity expanded up to March 28, 2025
   Preliminary data show that the excess liquidity (including undisbursed loan funds and other commitments) of the commercial banks rose to Afl. 1,163.0 million as of March 28, 2025, up from Afl. 1,044.1 million at the end of February 2025. This jump mainly stemmed from the lowering of the reserve requirement rate and buoyant performance of the tourism sector.

5. Overall credit growth persisted in February 2025
   The overall resident loan portfolio of the commercial banks grew by Afl. 62.1 million (+1.3%) to Afl. 4,753.1 million in February 2025, compared to December 2024. This uptick was predominantly driven by the Afl. 51.1 million increase in business loans, resulting mostly from term loans greater than 2 years.

6. Decision

   The MPC decided to hold the reserve requirement rate at 12.5%. This decision was largely based on the impact the current global economic uncertainties may have on foreign exchange reserves and inflation. Moreover, in 2024 and up to February 2025, growth in excess liquidity (EL) exceeded overall credit growth, and EL is likely to expand in the medium term. Meanwhile, the MPC observes an adequate level of official and international reserves in terms of the IMF ARA metric and the current account coverage ratio, despite an upturn in credit growth. Furthermore, inflation, as measured by the 12-month average, remained at 1.6%, while the EOP inflation rose slightly, reaching 0.5%.

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

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Centrale Bank van Aruba
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