CENTRALE BANK VAN ARUBA

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

During its meeting on May 16, 2025, the Monetary Policy Committee (MPC) of the Centrale Bank van Aruba (CBA) maintained the reserve requirement rate at 12.5% as of June 1, 2025. Central to this decision were:

i. Heightened 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 2025, foreign reserves were substantially above the benchmarks monitored by the MPC, despite an uptick in credit growth. Considering the ample reserve buffer, foreign reserves are expected to remain adequate throughout 2025.

iii. Excess Liquidity
In 2024 and up to mid-April 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 reached 1.4% in March 2025, combined with an end-of-period (EOP) inflation of 0.1%.

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 2025
The international reserves (including revaluation differences of gold and foreign exchange holdings) rose by Afl. 441.9 million as of March 2025, compared to end

December 2024. This increase resulted from expanded official reserves of the CBA (+Afl. 345.8 million), which were amplified in part by an uptick in foreign exchange reserves held by the commercial banks (+Afl. 96.0 million).

Given these developments, as of March, 2025, the official and international reserves stood at Afl. 3,649.5 million and Afl. 4,108.4 million, respectively. Consequently, the international and official reserves remained adequate according to the current account coverage ratio (8.1 months) and the International Monetary Fund (IMF) Assessing Reserve Adequacy (ARA) metric (137.3%), as measured by the CBA.

3. The EOP inflation rate decreased to 0.1% in March 2025
   The end-of-period (EOP) inflation fell from 0.5% in February 2025 to 0.1% in March 2025, mainly due to a more negative contribution from recreation and culture (from -0.3% to -0.5%) and a smaller contribution from transport (from +0.5% to +0.2%).

   As of March 2025, the 12-month average inflation reached 1.4%, down from 1.6% in the previous month. Several of the inflationary pressures in February 2025 persisted in March 2025, namely, communication (+0.6 percentage point contribution), housing (+0.3 percentage point contribution), and miscellaneous goods and services (+0.3 percentage point contribution).

   Meanwhile, in March 2025, EOP core inflation (excluding energy and food) was 0.7%, down from 0.8% in February 2025. On a twelve-month average basis, core inflation inched down from 1.7% to 1.6%.

4. Excess liquidity expanded up to April 17, 2025
   Preliminary data show that the excess liquidity (including undisbursed loan funds and other commitments) of the commercial banks rose to Afl. 1,160.9 million on April 17, 2025, up from Afl. 1,152.5 million at the end of March 2025. This increase stemmed from inflows related to tourism. Moreover, excess liquidity increased by Afl. 224.9 million (+24.0%), compared to December 2024.

5. Overall credit growth persisted in March 2025
   The overall resident loan portfolio of the commercial banks grew by Afl. 79.8 million (+1.7%) to Afl. 4,770.8 million in March 2025, compared to December 2024. This increase was predominantly driven by the Afl. 48.0 million increase in business loans, resulting mostly from term loans greater than 2 years and commercial mortgages.

6. Decision

   The MPC decided to hold the reserve requirement rate at 12.5%. This decision was largely based on the potential impact of the current global economic uncertainties on foreign exchange reserves and inflation. Moreover, in 2024 and up to mid-April 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, reached 1.4%, while the EOP stood at 0.1%.

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

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

Centrale Bank van Aruba
July 15, 2025