



CENTRALE BANK VAN ARUBA

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

During its meeting on June 13, 2025, the Monetary Policy Committee (MPC) of the Centrale Bank van Aruba (CBA) maintained the reserve requirement rate at 12.5% as of July 1, 2025. Central to this decision were:

- i. Global economic uncertainty
Current global uncertainties may impact foreign exchange reserves and inflation, potentially causing deviations from the latest baseline projections.
- ii. Adequate foreign reserves despite credit growth
Up to April 2025, foreign reserves were amply above the benchmarks monitored by the MPC, even amid increased credit activity. Moreover, foreign reserves are expected to stay adequate and continue to grow.
- iii. A low inflation environment
In April 2025, the end-of-period (EOP) and period average inflation prevailed at low levels of 0.4% and 1.3%, respectively.
- iv. Elevated excess liquidity
Excess liquidity remains elevated despite decreasing in May 2025.

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

1. Global economic uncertainty
According to the June 2025 Economic Outlook by the OECD, global economic prospects are weakening. Increased trade restrictions, tighter financial conditions, declining business and consumer confidence, and elevated policy uncertainty all pose significant risks to growth. Given the small, open economy of Aruba, those risks may cause deviations from current baseline projections of foreign exchange reserves and inflation, among others.
2. Increase in official and international reserves up to April 2025
The international reserves (including revaluation differences of gold and foreign exchange holdings) rose by Afl. 469.0 million as of April 2025, compared to end December 2024. This increase resulted from expanded official reserves of the CBA (+Afl. 391.1 million), which were amplified by an uptick in foreign exchange reserves held by the commercial banks (+Afl. 78.0 million).

Given these developments, as of April, 2025, the official and international reserves (including revaluation differences) stood at Afl. 3,694.7 million and Afl. 4,135.5 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 (145.9%), as measured by the CBA.

3. The EOP inflation rate increased to 0.4% in April 2025

The EOP inflation rose from 0.1% in March 2025 to 0.4% in April 2025, mainly due to a higher contribution of household appliances (from -0.2 percentage point to 0.6 percentage point).

As of April 2025, the period average inflation eased to 1.3%, down from 1.4% in the previous month. Several of the inflationary pressures in March 2025 persisted in April 2025. These included telephone and telefax services (from +0.3 percentage point to +0.4 percentage point contribution), along with maintenance and repair of the dwelling (remaining at +0.3 percentage point contribution).

Meanwhile, in April 2025, EOP core inflation (excluding energy and food) advanced to 1.3%, up from 0.7% in March 2025. On a period average basis, core inflation inched down from 1.6% to 1.5%.

4. Preliminary excess liquidity contracted in May 2025

Preliminary data show that the excess liquidity (including undisbursed loan funds and other commitments) of commercial banks fell to Afl. 1,132.5 million on May 30, 2025, down from Afl. 1,183.8 million at the end of April 2025. Nevertheless, the level of excess liquidity stays elevated, with year-to-date excess liquidity growth exceeding credit expansion up to April 2025.

5. Overall credit grew modestly up to April 2025

The overall resident loan portfolio of the commercial banks grew by Afl. 38.5 million (+0.8%) to Afl. 4,729.5 million in April 2025, up from Afl. 4,691.0 million in December 2024. This expansion was mostly driven by the Afl. 28.2 million increase in loans to individuals, mostly related to housing 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 current global uncertainties on foreign exchange reserves and inflation. Currently, the MPC observes an adequate level of official and international reserves in terms of the IMF ARA metric and the current account coverage ratio. On inflation, the EOP and period average inflation remained at low levels of, respectively, 0.4% and 1.3% in April 2025. Excess liquidity remains elevated with its year-to-date growth outpacing credit expansion up to April 2025.

The CBA monitors monetary and economic indicators and adjusts 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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