Reserve requirement decision and considerations of the May 2026 Monetary Policy Committee Meeting

During its meeting held on May 8, 2026, the Monetary Policy Committee (MPC) of the Centrale Bank van Aruba (CBA) kept the reserve requirement rate at 12.5% as of June 1, 2026. Central to this decision were the following considerations:

i. **Adequate foreign reserves**
As of April 3, 2026, foreign reserves remained amply above the benchmarks monitored by the CBA. Moreover, the CBA expects foreign reserves to stay adequate and continue to grow.

ii. **A low inflation environment**
Both end-of-period inflation and 12-month average inflation remained at low levels of, respectively, 1.1% and 0.2% in March 2026.

iii. **Global economic uncertainty**
Current global uncertainties, in particular the conflict in the Middle East, may impact foreign exchange reserves and inflation, potentially causing deviations from the current baseline projections.

The main considerations of the MPC to maintain the reserve requirement unchanged were:

1. **Increase in official and international reserves up to March 2026**
The international reserves (including revaluation differences of gold and foreign exchange holdings) rose by Afl. 363.4 million between end-December 2025 and end-March 2026. This increase resulted mainly from expanded official reserves (+Afl. 289.9 million). An uptick in foreign exchange reserves held by the commercial banks (+Afl. 73.5 million) also contributed to the growth in international reserves.

Given these developments, the official and international reserves (including revaluation differences) stood at Afl. 4,342.9 million and Afl. 4,872.7 million, respectively, at the end of March 2026. Consequently, the international and official reserves remained more than adequate, benchmarked against the current account coverage ratio (8.4 months) and the International Monetary Fund (IMF) Assessing Reserve Adequacy (ARA) metric (153.5%).

2. A low inflation environment

The end-of-period inflation increased from 0.7% in February 2026 to 1.1% in March 2026, largely due to higher prices for food and non-alcoholic beverages (0.4 percentage point), communication (0.3 percentage point), restaurants and hotels (0.3 percentage point), and miscellaneous goods and services components (0.3 percentage point).

As of March 2026, the period average inflation reached 0.2%, which is slightly higher than the 0.1% registered in February 2026. The main inflationary pressures stemmed from the components housing (0.2 percentage point), communication (0.2 percentage point), and restaurants and hotels (0.2 percentage point).

3. Global economic uncertainty

Geopolitical tensions, particularly the conflict in the Middle East and its impact on global oil prices, continue to drive global uncertainty. Given Aruba's small, open economy, its reliance on the U.S. economy, and tourism as its main source of income, this uncertainty may cause deviations from current baseline projections of foreign exchange reserves and inflation, among others.

4. Preliminary excess liquidity expanded up to April 3, 2026

Preliminary data indicated that the excess liquidity of the commercial banks amounted to Afl. 1,167.0 million as per April 3, 2026, up from Afl. 917.9 million at the end of December 2025. Buoyant tourism activity and, in particular, public sector deposits at commercial banks mainly drove the uptick.

5. **Overall credit grew up to March 2026**

The overall resident loan portfolio of the commercial banks grew by Afl. 79.6 million (+1.5%) to Afl. 5,242.2 million per end-March 2026, up from Afl. 5,162.6 million at end-December 2025. This expansion was driven by business loans (+Afl. 42.2 million) and loans to individuals (+Afl. 39.9 million).

6. **Decision**

The MPC decided to hold the reserve requirement rate at 12.5%. The MPC largely based this decision on the potential impact of current global uncertainties on foreign exchange reserves and inflation. At the same time, the MPC observed a more than adequate level of official and international reserves as measured by the IMF ARA metric and the current account coverage ratio. Meanwhile, the end-of-period inflation (1.1%) and 12-month average inflation (0.2%) remained at relatively low levels in March 2026.

The CBA monitors the monetary and economic indicators and adjusts its monetary policy stance as needed to maintain the fixed exchange rate between the florin and the U.S. dollar.

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

Centrale Bank van Aruba

July 28, 2026