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

During its meeting held on June 15, 2026, the Monetary Policy Committee (MPC) of the Centrale Bank van Aruba (CBA) kept the reserve requirement rate at 12.5% as of July 1, 2026. Central to this decision were the following considerations:

i. **Adequate foreign reserves**
As of May 22, 2026, foreign reserves remained amply above the benchmarks monitored by the CBA. Moreover, the CBA expects foreign reserves to stay adequate.

ii. **A low inflation environment**
Both end-of-period inflation and 12-month average inflation remained at low levels of, respectively, 0.8% and 0.2% in April 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. 812.3 million between end-December 2025 and May 22,2026. This increase resulted mainly from expanded official reserves (+Afl. 724.1 million). An uptick in foreign exchange reserves held by the commercial banks (+Afl. 88.2 million) also contributed to the growth in international reserves.

Given these developments, the official and international reserves (including revaluation differences) stood at Afl. 4,777.1 million and Afl. 5,321.6 million, respectively, as of May 22, 2026. Consequently, the international and official reserves remained more than adequate, benchmarked against the current account coverage ratio (10.0 months) and the International Monetary Fund (IMF) Assessing Reserve Adequacy (ARA) metric (174.4%).

2. A low inflation environment

The end-of-period inflation decreased from 1.1% in March 2026 to 0.8% in April 2026, largely due to lower prices for household operation (-0.8 percentage point), and health (-0.1 percentage point). Pushing up inflation were the components food and non-alcoholic beverages (0.4 percentage point), transport (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 April 2026, the period average inflation recorded 0.2%, as it did in March 2026. The main inflationary pressures stemmed from the components restaurants and hotels (0.3 percentage point), housing (0.2 percentage point), communication (0.2 percentage point), and food and non-alcoholic beverages (0.2 percentage point). Exerting downward pressure on the period average inflation were the prices for household operation (-0.2 percentage point), transport (-0.2 percentage point), recreation and culture (-0.2 percentage point), and clothing and footwear (-0.1 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. While the conflict may be nearing its end with the recent agreement between the United States and Iran, the uncertainty surrounding the global oil supply and oil prices, and their effect on inflation expectations and growth prospects across the globe will take time before returning to normal. The potential economic and financial repercussions for Aruba are still uncertain at this time. 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 May 22, 2026**

Preliminary data indicated that the excess liquidity of the commercial banks amounted to Afl. 1,251.9 million as per May 22, 2026, up from Afl. 917.9 million at the end of December 2025. Buoyant tourism activity mainly drove the uptick.

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

The overall resident loan portfolio of the commercial banks grew by Afl. 96.2 million (+1.9%) as per end-April 2026, up from Afl. 5,167.6 million at end-December 2025. This expansion was driven by loans to individuals (+Afl. 50.1 million) and business loans (+Afl. 45.7 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. This consideration outweighed the fact that 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 (0.8%) and 12-month average inflation (0.2%) remained at relatively low levels in April 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.

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Centrale Bank van Aruba

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