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

During its meeting held on August 26, 2026, the Monetary Policy Committee (MPC) of the Centrale Bank van Aruba (CBA) kept the reserve requirement rate at 12.5% as of September 1, 2026. Central to this decision were the following considerations:

i. **Adequate foreign reserves**
As of July 24, 2026, foreign reserves remained amply above the benchmarks monitored by the CBA. International reserves equaled 9.5 months of import coverage. Moreover, the CBA expects foreign reserves to stay adequate.

ii. **A rising inflation environment**
Both end-of-period inflation and 12-month average inflation increased, reaching 2.4% and 0.5%, respectively, in June 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. Adequate official and international reserves up to July 2026

The international reserves (including revaluation differences of gold and foreign exchange holdings) rose by Afl. 585.0 million between end-December 2025 and July 24, 2026. This increase resulted mainly from an expansion in official reserves (+Afl. 638.0 million). On the other hand, a decrease in foreign exchange reserves held by the commercial banks (-Afl. 53.0 million), related to a resident purchase of non-resident hotel shares, dampened the growth in international reserves.

Given these developments, the official and international reserves (including revaluation differences) stood at Afl. 4,691.0 million and Afl. 5,094.3 million, respectively, as of July 24, 2026. Consequently, the international and official reserves remained more than adequate, benchmarked against the current account coverage ratio (9.5 months) and the IMF ARA metric (175.3%).

2. Rising inflation environment

The end-of-period inflation increased from 2.1% in May 2026 to 2.4% in June 2026, largely due to higher transportation prices (+1.3 percentage point), related to higher fuel costs.

As of June 2026, the period average inflation recorded 0.5%, an uptick compared to 0.4% in May 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 predominantly the prices for household operation (-0.4 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. Additionally, the trade tariff developments have resurfaced, causing uncertainty to remain high. 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, amongst others.

4. Preliminary excess liquidity expanded up to July 24, 2026

Preliminary data indicated that the excess liquidity of the commercial banks amounted to Afl. 1,100.9 million as per July 24, 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 June 2026

The overall resident loan portfolio of the commercial banks grew by Afl. 299.3 million (+5.8%) per end-June 2026, up from Afl. 5,162.6 million at end-December 2025. This expansion was driven mainly by business loans (+Afl. 220.7 million) and loans to individuals (+Afl. 78.9 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. Meanwhile, the end-of-period inflation (2.4%) and 12-month average inflation (0.5%) recorded rises leading up to June 2026. These considerations 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.

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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