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MONETARY POLICY ANNOUNCEMENT

March 29, 2018

CENTRAL BANK MAINTAINS REPO RATE AT 4.75 PER CENT

Since the last meeting of the Monetary Policy Committee (MPC) in November 2017, global growth prospects have continued to strengthen. In January 2018, the International Monetary Fund marginally raised its projections for global growth in 2018 and 2019, partly to take into account tax changes in the United States (US), while noting the risks from a possible rise in global trade protectionism. Monetary policy actions in advanced economies have been muted thus far in 2018 with the exception of the US, where the Federal Reserve increased the Federal Funds rate in March—representing the first in a series of rate hikes expected this year.

Domestically, headline inflation measured 0.9 per cent in February 2018 (year-on-year) with core inflation (which excludes food prices) even lower at 0.5 per cent. Inflationary pressures have eased considerably, symptomatic of tepid demand conditions. While production indicators suggest a pick-up in economic activity in the energy sector during the second half of 2017, activity in the non-energy sector remained lacklustre. Within the energy sector, natural gas production rose year-on-year by 10.0 per cent in the second half of 2017, mainly owing to new gas output from the BpTT Juniper field, while petroleum output improved by just 0.9 per cent. The increase in natural gas output helped to alleviate the gas shortages in the downstream sector, facilitating higher output of methanol and liquefied natural gas.

Private sector credit growth rose in January 2018 by 6.2 per cent (year-on-year) compared with 3.7 per cent in November 2017 based partly on a recorded pickup in business lending, but it is not clear whether this momentum will be sustained. Liquidity levels drifted upward during the first two months of 2018 facilitating government borrowing from the financial system in the first quarter. Commercial banks' daily excess reserves at the Central Bank averaged $3,725 million in February before dipping just below $3 billion in March. Meanwhile, rising interest rates in the US combined with relatively stable rates domestically have pulled the TT-US yield differential on three-month Treasuries further below parity. The differential stood at negative 51 basis points in late March.

The MPC in its deliberations noted that domestic inflation was low, there appeared to be little price pressures in the short term, and the nascent recovery in late 2017 in the energy sector had not yet been reflected in a boost to non-energy activities. At the same time, the Committee remained concerned about the potential impact of the US Fed's anticipated actions in coming months on TT-US interest rate differentials and consequently on Trinidad and Tobago's external balance. Considering these factors, **the MPC agreed to hold the repo rate at 4.75 per cent**. The Bank will continue to carefully monitor and analyze international and domestic developments.

The next Monetary Policy Announcement is scheduled for June 29, 2018[i].

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[i] At the November 2017 meeting a decision was taken to adjust the periodicity of the regular MPC meetings from bi-monthly to quarterly from 2018.