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MONETARY POLICY ANNOUNCEMENT

September 27, 2019

CENTRAL BANK MAINTAINS REPO RATE AT 5.00 PER CENT

International economic conditions remain delicate amidst rising global risks. In addition to ongoing trade tensions between the United States and China, rising geopolitical pressures in the Middle East threaten stability in oil markets, while Brexit discussions in the UK are coming to a head. The International Monetary Fund, in its July 2019 World Economic Outlook Update, revised global growth projections for 2019 further downward by 0.1 per cent to 3.2 per cent. Since then, faced with a slowdown of the US economy, the US Federal Reserve cut the Federal funds rate by 25 basis points in July and September 2019. These actions precipitated policy rate cuts by several central banks, which eased capital outflow and exchange rate pressures, especially among emerging market and developing economies. Meanwhile, in global energy markets over the past few months the price of oil trended higher surpassing US$60 per barrel in September while the price of natural gas remained relatively stable.

Domestically, unplanned shutdowns at Atlantic LNG during the second quarter of 2019 adversely impacted natural gas production, while crude oil production had stabilized at just over 59 thousand barrels per day. Heading into the third quarter, preliminary data suggest that natural gas production has normalized and crude oil output remained steady. In the non-energy sector, preliminary data for indicators monitored by the Central Bank point to improved performances in the distribution and finance sectors during the second quarter. However, the expected spillovers from the pick-up in government capital spending on the manufacturing and private construction sectors are not yet evident.

Data from the Central Statistical Office show that headline inflation remained well contained at 1.2 per cent in the twelve months to August 2019. Core inflation was anchored at 1.0 per cent, but higher prices for vegetables (10.9 per cent) caused food prices to accelerate to 2.0 per cent – the highest rate of increase thus far for 2019. It is likely that severe flooding in September would lead to a further uptick in the price of some domestic produce. Meanwhile, labour market conditions may be softening. Data from the Ministry of Labour, Small and Micro Enterprises showed that the number of persons retrenched during the first six months of 2019 rose on a year-on-year basis.

Private sector credit extended by the consolidated financial system expanded moderately to 4.5 per cent in July 2019 (year-on-year) compared with 3.5 per cent in March 2019. However, business credit continued to decline (-2.8 per cent), but the fall-off was shallower than in previous months. Consumer credit, driven by double-digit increases in lending for debt consolidation and refinancing, grew by 6.5 per cent and real estate mortgage loans increased by a steady 8.6 per cent. Commercial banks' daily excess reserves at the Central Bank have averaged just over $4.5 billion thus far in September 2019 after somewhat tighter conditions earlier in the year. The Central Bank has had to carefully balance the public sector's financing requirements and credit and inflationary conditions in calibrating its liquidity operations. As such, net maturities of open market operations injected $2,180 million into the financial system during June-August 2019.

Although declining US rates have improved the interest rate gap between short term TT-US treasury securities, the differential for three-month instruments remained below parity at -67 basis points at the end of August 2019. Meanwhile, there continues to be some disequilibrium in the foreign exchange market and the Central Bank maintained its fortnightly sales of foreign currency to authorised dealers.

The Monetary Policy Committee (MPC) in its deliberations considered the changes in the external environment, especially slowing global growth and policy actions by major central banks. Locally, the available indicators suggest that the economic recovery is not yet broad-based, inflation remains low, the demand for business credit is sluggish and external balance has not yet been restored. Taking these factors into consideration, **the MPC agreed to maintain the repo rate at 5.00 per cent**. The Bank will continue to carefully monitor and analyze international and domestic developments.

The next Monetary Policy Announcement is scheduled for December 27, 2019.

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