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MONETARY POLICY ANNOUNCEMENT

June 26, 2020

CENTRAL BANK MAINTAINS REPO RATE AT 3.50 PER CENT

In the context of the global pandemic situation, at its mid-March 2020 meeting the Monetary Policy Committee (MPC) of the Central Bank of Trinidad and Tobago lowered the Repo rate by an unprecedented 150 basis points, and reduced the reserve requirement by 3 per cent to 14 per cent of banks' deposit liabilities. Almost immediately, commercial banks cut their prime lending rates, from an average of 9.25 per cent to 7.50 per cent. Available information to the end of March shows a decline in the weighted average loan rate to 7.52 per cent from 7.72 per cent three months earlier and a marginal narrowing of interest spreads to 6.84 per cent from 7.05 per cent over this period. Liquidity surged, with excess reserves at the Central Bank reaching over TT$10 billion in mid-June 2020, and there is little indication that there has yet been a significant pickup in private sector credit as businesses await a recovery in demand. Based on historical experience, the impact of the monetary policy actions will take several months to fully filter into interest rates and credit.

Economic activity in Trinidad and Tobago is gradually resuming, following several months of lockdown. Not unexpectedly, earlier stay-at-home requirements resulted in a lull in activity in most sectors and a reduction in disposable incomes. Meanwhile, the inflation rate remained near zero — 0.4 per cent year-on-year in March 2020 according to available Central Statistical Office data. The latest financial indicators show that lending to businesses declined by 5.70 per cent year-on-year in March 2020, reflecting a pre-pandemic trend evident for several months. Despite the gloomy environment, the country's international reserves position remained strong at US$6.8 billion on June 19, 2020 (around 8 months of import cover), boosted by a recent US$400 million drawdown from the Heritage and Stabilization Fund. Falling interest rates in the US market resulted in an improvement of the TT-US rate differential to 81 basis points on the three month treasuries in late June.

The situation and outlook on the international front warrant concern. The International Monetary Fund, in its June update, projects that the global economy could contract by as much as 4.9 per cent in 2020, with soaring public debt and a contraction in global trade by 11.9 per cent. While many countries are slowly reopening their economies, there is a rising threat of a second wave of Covid-19 infections and deaths as new hotspots emerge, including in neighboring Latin American countries. As a result, stock markets have oscillated as assessments take into account the news on reopenings and massive public support on the one hand, against rising infection numbers on the other. The macroeconomic policy environment across the globe can best be described as intense and uncertain, constrained for the most part by the fiscal space available to governments. On the monetary side, Central Banks have adopted an accommodative approach, lowering interest rates, increasing asset purchases, and providing liquidity support.

The MPC evaluated the foregoing factors carefully, in particular the substantial liquidity in the domestic system and the expectation that the March 2020 monetary policy actions will have a stronger effect on credit as the domestic economy opens up. On this basis, the MPC decided to **maintain the repo rate at 3.50 per cent**. The Central Bank continues to monitor and analyse developments and will take further action as necessary.

The next Monetary Policy Announcement is scheduled for September 25, 2020.

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