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MONETARY POLICY ANNOUNCEMENT
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CENTRAL BANK MAINTAINS REPO RATE AT 4.75 PER CENT

At its January 2017 meeting, the Monetary Policy Committee took careful note of a range of recent international financial developments alongside a domestic economic environment characterized by continued sluggishness, but with positive energy prospects for 2017.

On the global front, interest rates have started on an upward trajectory. In December 2016, the United States (US) Federal Reserve (Fed) increased interest rates for the first time since December 2015. With the US economy near full employment and inflation close to the Fed's target of 2.0 percent, financial markets are factoring in further rate increases over the course of this year. In this context, the differential between Trinidad and Tobago and US short-term (three-month) Treasury instruments narrowed by 27 basis points over the past six months, from 94 basis points at the end of June 2016 to 67 basis points at mid-January 2017. At the same time, there has been a recent revival of international energy prices, with the price of West Texas Intermediate crude petroleum averaging US$52.4 per barrel over the first three weeks in January 2017 compared to US$39.4 per barrel in the first half of 2016. With respect to trade, while the firming of the US economy would pull up demand, there are signs that policy adjustments in the US could lead to a weakening of international trade flows over the short and possibly medium term.

Domestically, available data show that energy production declined markedly in 2016, due to a combination of factors including maturation of oil and gas fields and maintenance work which reduced gas feedstock to the downstream industries. For the period October-November 2016, oil and gas output were 7.5 per cent and 10.5 per cent lower, respectively than in the corresponding months of 2015. However, the prospects for 2017 appear brighter and both oil and gas output are expected to recover somewhat as new fields are put into operation and there are fewer stoppages for maintenance. Meanwhile, latest available data on retail sales, cement sales and production of mined aggregates, such as gravel and sand, suggest that the distribution and construction sectors remain very subdued.

Inflation continues to be low. On a year-on-year basis, headline inflation in November 2016 was 2.9 per cent, with core inflation at 2.1 per cent. On average, inflation in 2016 (January to November) measured 3.1 per cent, compared with 4.7 per cent for all of 2015. Liquidity in the financial system has moderated, with commercial bank excess reserves at the Central Bank averaging just over $2 billion over the first half of January 2017 compared with $3.5 billion in the final quarter of 2016. Credit growth has also been moderate—credit by the consolidated financial system to the private sector grew by 3.8 per cent (year-on-year) in November 2016. This was slightly above the 3.0 per cent recorded in the previous month. Conditions in the foreign exchange market remained tight in early January 2017, with some reduction in trade demand from the end-of-year highs normally experienced in November and December.

In balancing the considerations of the international financial dynamics and domestic economic performance and prospects evident in early 2017, the MPC decided to retain the Repo rate at 4.75 per cent. The Bank will continue to carefully monitor and analyze international and domestic developments to facilitate timely policy actions.

The next Monetary Policy Announcement is scheduled for March 31, 2017.

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