



**CENTRAL BANK OF
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MONETARY POLICY ANNOUNCEMENT

September 29, 2017

CENTRAL BANK MAINTAINS REPO RATE AT 4.75 PER CENT

At its September 2017 meeting the Monetary Policy Committee (MPC) took note of the improvement in the global economy, the steps towards normalization of monetary policy in several advanced economies and domestic developments and near term prospects.

The economic environment in both advanced and emerging economies continues to improve, with generally positive growth being recorded and inflation approaching target ranges. Within this context, authorities in some advanced nations have begun to more actively address monetary policy normalization. In the US, the Federal Reserve will gradually reduce its holdings of securities starting October 2017, and there is anticipation that another hike in the Fed Fund's rate will occur this December. There are signals that the Bank of England may also increase interest rates within the next few months. Meanwhile in the rest of the world, particularly in Asia, the Middle East and the Caribbean, geopolitical tensions and recent natural disasters have put severe strains on public and private sector economic management.

The Trinidad and Tobago economy remains growth-challenged at present but early signs of improvement have appeared in the energy sector, as exploration activity picked up in the third quarter and output of natural gas is expected to rise with the coming on-stream of the Juniper project. Growth in energy and energy-related production is expected to eventually pull up activity in other (non-energy) sectors which is still subdued. Available indicators on construction and distribution point to continued sluggishness in these areas, while official statistics however suggest that the unemployment rate has remained relatively steady at just under 4 per cent on average in 2016.

The rate of increase in general prices in Trinidad and Tobago has stayed low. Data from the Central Statistical Office point to headline inflation of just 1.4 per cent in July 2017 (12 month basis), with core inflation—which excludes food prices—also at 1.4 per cent. The average for both these measures over the year to July was 2.2 and 2.1 per cent respectively. Food inflation measured 1.4 per cent in July 2017 compared to 0.5 per cent in June.

Interest rates in the banking system have remained virtually unchanged for the year so far. The strongest loan categories in July 2017 were for consumers (4.1 per cent growth year-on-year), including the sub components for real estate mortgages (5.0 per cent) and credit cards (8.3 per cent), while credit to businesses rose by just 0.3 per cent. Liquidity in the commercial banking system remained steady in the third quarter of 2017 with banks' excess reserves at the Central Bank averaging around \$2.8 to \$3 billion. There was a small increase in the TT-US interest rate differential on 3-month Treasuries from 14 to 16 basis points between July and mid-September 2017.

In its deliberations, the MPC continued to note the very narrow TT-US differential and the prospect of US rate rises at the end of the year. At the same time, the Committee observed that the nascent signs of recovery in the energy sector had not yet translated into a boost to other sectors and that inflationary pressures were currently not substantial. In balancing these considerations, the MPC decided to hold the repo rate at its current level of 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 November 24, 2017.

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