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MONETARY POLICY ANNOUNCEMENT

September 26, 2014

CENTRAL BANK RAISES REPO RATE BY 25 BASIS POINTS TO 3.00 PER CENT

The Monetary Policy Committee (MPC) of the Central Bank of Trinidad and Tobago in its September 2014 meeting resolved to increase the 'Repo' rate by 25 basis points to 3.00 per cent, effective immediately. This increase is now necessary to pre-empt a potential rise in inflationary pressures and to mitigate higher portfolio outflows. The change in the policy rate comes after the Central Bank adopted an accommodative monetary stance for the past four years. This accommodative monetary stance helped stimulate economic growth and encourage business and consumer lending. It included holding the Repo rate at an historical low of 2 ¾ per cent since September 2012.

The MPC's decision to raise the Repo rate was based on the following:

- On September 17th 2014, forward guidance from the Federal Open Market Committee (FOMC) altered market expectations about the time frame for the end of quantitative easing and the start to an increase in policy interest rates. The communication from the FOMC suggested the Federal Reserve's monetary policy actions would come sooner than anticipated. The Fed is now expected to end its quantitative easing programme before the end of 2014 and gradually increase its policy interest rate around the middle of 2015. In anticipation of these monetary actions, yields on US Treasury securities jumped almost immediately, making US dollar assets even more attractive relative to TT dollar assets. It has become necessary to enhance the appeal of TT dollar assets which have lower returns in

relation to US dollar assets, as returns on the latter will be bolstered when the Fed's expected monetary policy actions are realized.

- Headline inflation accelerated in August 2014. A sharp uptick in food prices pushed headline inflation up to 7 ½ per cent in August 2014 from 3.0 per cent in June 2014. Looking ahead, higher public spending through the expansionary 2014/2015 Budget is likely to add to already elevated liquidity levels (currently around $7 billion), and potentially push up inflation in the coming year. Core inflation, which has remained low and stable for some time, could also accelerate as a result of sustained and strong growth in consumer loans and real estate mortgages. Consumer loans rose by 6 per cent in July 2014, mostly for purchases of motor vehicles, home improvement/ renovation and credit cards. Real estate mortgage lending maintained its double-digit rate of increase, rising by over 11.0 per cent in July 2014.

- The non-energy sector registered slow but steady growth for 11 consecutive quarters to June 2014, despite ongoing supply disruptions in the energy sector which have slowed the overall pace of economic recovery. Local sales of cement and sales of new cars – proxy indicators of activity in the construction and distribution sectors – expanded strongly by almost 20 per cent and nearly 10 per cent, respectively, in the first half of the 2014. The near-term outlook is for continued steady performance in non-energy production and a return to normalcy in energy output.

Based on these primary factors, the MPC judged the Central Bank to have enough room to relax the accommodative monetary policy stance it has adopted for the last four years.

The next Monetary Policy Announcement is scheduled for November 28, 2014.