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**MONETARY POLICY ANNOUNCEMENT  
May 26, 2017**

**CENTRAL BANK MAINTAINS REPO RATE AT 4.75 PER CENT**

At its May 2017 meeting, the Monetary Policy Committee (MPC) examined the backdrop of recent international economic developments, notably the growing optimism on global growth alongside the prospects for rising interest rates. The International Monetary Fund recently revised upward its forecast for global growth from 3.4 to 3.5 per cent in 2017, while cautioning that downside risks were elevated in an atmosphere of economic policy uncertainty and geopolitical tensions. Latest data show that the United States is on course for a solid economic performance in 2017, inflation was above the Federal Reserve's target of 2.0 per cent and labour market conditions have firmed. As a result, the Fed is likely to continue its cycle of interest rate increases in the near-term. In this context, the MPC noted that the upward movement in international interest rates had not been matched by a commensurate movement in domestic rates—for example, the differential between the Trinidad and Tobago and US short-term (three-month) Treasury instruments narrowed to 29 basis points in mid-May compared with 43 basis points at end-March 2017.

The Committee also assessed the evolving situation in the domestic economy. Oil production in the first quarter of 2017 was higher than over the previous three quarters, albeit 1.6 per cent lower than in the first quarter of 2016. There was also evidence of a pick-up in energy exploration activity which is expected to bolster output in the short to medium term. Meanwhile, natural gas production has yet to recover, with output in January to March 2017 recorded at 8.4 per cent lower than the year-earlier period. Other available non-energy statistics suggest that construction and distribution activities were very subdued in early 2017.

Inflation has remained low: the 12-month headline rate in March 2017 was 2.8 per cent, up from 2.6 per cent in the previous month and close to the 3.0 per cent averaged over the past 6 months. Core inflation was 2.6 per cent (year-on-year) in March. The weak inflationary pressures were also reflected in the indices of producer prices and building material prices (an increase of 2.8 per cent and a decline of 0.6 per cent on a 12-month basis respectively, in March 2017).

The liquidity situation of the financial sector was relatively comfortable. Commercial banks' excess reserves at the Central Bank averaged \$3,441 million in April 2017 and have hovered around this level for much of May 2017. Credit growth, however, has continued to slow. Credit granted by the consolidated financial system to the private sector grew by 2.6 percent (year-on-year) in March 2017 compared with 3.2 per cent a month earlier, with loans to businesses actually declining by 0.7 per cent in the year to March.

In its deliberations, the MPC noted that the domestic economy continued to need support toward recovery, and that the risk of overheating did not appear imminent in light of the recent information on inflation. At the same time, the narrowing of interest differentials between Trinidad and Tobago and the US has implications for the balance of payments. In light of these factors, the MPC decided to maintain the Repo rate at 4.75 per cent. The Bank will continue to carefully monitor and analyze international and domestic developments in its deliberations.

**The next Monetary Policy Announcement is scheduled for July 28<sup>th</sup>, 2017.**

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