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MONETARY POLICY ANNOUNCEMENT

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NON-ENERGY SECTOR MAINTAINS MOMENTUM, CORE INFLATION STABLE; CENTRAL BANK MAINTAINS REPO RATE AT 2.75 PER CENT

In the context of a more favourable domestic economic outlook and subdued core inflation, the Central Bank has decided to intensify open market operations in order to absorb excess liquidity in the banking system in the period ahead, while holding the "Repo" rate at 2.75 per cent.

Heading into mid-2014, global financial tensions have eased, but the world economic recovery appears to be subdued. Economic performance in the United States was weaker than expected in the first quarter of 2014, while there was growth in the United Kingdom, Europe and Japan. Growth is slowing in the larger emerging market economies, especially China, which is likely to pose a drag on the global recovery. The Russia-Ukraine conflict, which started early this year, has added a new dimension of uncertainty to global economic prospects, even though to date contagion effects have been limited to those countries with direct trade and financial links to the Eastern European region.

Of the central banks in the advanced economies, only the United States Federal Reserve has started the process of scaling back its unconventional, expansionary monetary policy which has been in place over the past few years. The European Central Bank, on the other hand, indicated that concerns regarding low inflation and risks to economic growth may lead it to undertake further monetary easing. In some emerging economies, concerns about the impact of US quantitative easing have resulted in central banks increasing their key policy rates.

After growing at a slightly faster-than-expected pace in 2013, economic performance was mixed in the first three months of 2014. While the non-energy sector maintained its growth momentum into 2014, the rebound in the energy sector in the fourth quarter of 2013 did not fully carry over into early 2014. Borrowing by businesses also encouragingly picked during the first quarter of 2014 from a year-long decline. Core inflation remained low and stable in April 2014. Nevertheless, with strengthening economic activity and increasing consumption, inflationary pressures are likely to build in the coming year.

Two events temporarily affected energy production in the first two months of 2014. BPTT took down its Savonette Platform to accommodate drilling at another well and Petrotrin undertook planned maintenance at its Pointe-a-Pierre oil refinery. However, energy output bounced back by March 2014. As a result, natural gas output fell 2 ½ per cent (year-on-year) during the first quarter of 2014 while crude oil output slipped by just over 2 ½ per cent over the same period. Meanwhile, both methanol and fertilizer experienced higher production in the first quarter of 2014. Initial indicators suggest a favorable outturn in the non-energy sector in the first three months of 2014. Local sales of cement increased by around 7 ½ per cent and new car sales rose by more than 12 ½ per cent in the first quarter of 2014, suggesting that the construction and distribution sectors maintained their growth momentum.

Private sector credit growth has strengthened and became more balanced so far in 2014. On a year-on-year basis, private sector credit granted by the consolidated financial system grew by almost 6.0 per cent in March 2014, up from an increase of 2 ½ per cent one year earlier. Notably, as a sign of improving corporate activity, business lending emerged from a year-long decline, posting growth of a little over 2.0 per cent in February 2014 and increasing further by close to 3 ½ per cent in March 2014. Consumer loans maintained a relatively robust rate of expansion, growing by nearly 6.0 per cent in March 2014. Consumer lending was driven by motor vehicle loans and loans for home renovations, while there was a pick-up in outstanding credit card balances. Real estate mortgage lending continued to post double-digit growth rates in February and March 2014.

Following the Gazetting of Parliament's approval of increased borrowing limits under the Treasury Bills and Treasury Notes Acts, the Central Bank expanded its open market operations to remove excess liquidity in April 2014. Central Bank's net open market operations withdrew approximately $1.2 billion from the banking system in April 2014. As a result, commercial

banks' excess reserves fell to a daily average of $6.3 billion in April 2014 from $7.2 billion in March 2014. However, the maturity of a $1 billion Central Government bond at the end of April 2014 pushed liquidity levels higher. Subsequently, in the period May 1 – 27, 2014, commercial banks' excess reserves rose to a daily average of $8.4 billion.

In the period January – May 27, 2014, purchases from the public by authorized dealers amounted to US$2,152 million, while sales to the public totalled $2,615 million. The shortfall of US$463 million was completely off-set by Central Bank's sales to authorized dealers of US$610 million in the first five months of 2014.

With the expansion in the Central Bank's open market operations in April 2014, short-term Treasury rates have picked up. The three-month Treasury bill rate rose to 0.14 per cent in May 2014 from 0.06 per cent in April 2014. Hence, the TT-US interest differential on three-month Treasury bills widened to 11 basis points in May 2014 from 3 basis points at the end of April 2014. Meanwhile, weak economic data in the US for the first quarter of 2014 and investors returning to safe haven assets in the wake of the geopolitical tensions in Ukraine pushed longer term US Treasury yields downwards. As a result, the interest rate differential between the TT and US 10-year Treasury yields moved into positive territory (roughly 11 basis points as at May 27) for the first time since mid-2013.

Headline inflation has been relatively subdued in the first four months of 2014. The latest available data from the Central Statistical Office indicate that on a year-on-year basis headline inflation slowed to 3.3 per cent in April 2014. Following an up-tick in March 2014 to 2.7 per cent, core inflation slowed slightly to 2.6 per cent in April 2014, but was still higher than the 2.0 per cent recorded at the end of 2013. Food inflation continued to slow, measuring 4.1 per cent in April 2014 compared with 6.7 per cent and 10.2 per cent in March 2014 and December 2013, respectively.

The Central Bank will continue to monitor economic developments and will make any further adjustments to monetary policy, as necessary.

The next Monetary Policy Announcement is scheduled for July 25, 2014