



**CENTRAL BANK OF
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MONETARY POLICY ANNOUNCEMENT

September 30, 2016

CENTRAL BANK MAINTAINS REPO RATE AT 4.75 PER CENT

Provisional information for the first seven months of 2016 showed that domestic economic activity remained subdued. In the energy sector, output of both natural gas and crude oil declined by just over 10.0 per cent, partly due to continued maintenance and upgrade programs of major energy companies. Available indicators on construction and distribution also suggest sluggish non-energy sector activity into the third quarter of 2016, although finance maintained some buoyancy. The latest official labour statistics point to a small rise in the unemployment rate from 3.5 per cent in the final quarter of 2015 to 3.8 per cent in the first three months of 2016.

In the context of muted aggregate demand, price pressures were moderate while reflecting to some extent the impact of the 4.2 per cent depreciation of the domestic currency relative to the US dollar since the start of the year. Headline inflation rose slightly to 3.1 per cent on a year-on-year basis in August 2016 from 2.9 per cent in July. Core inflation, which excludes food prices, increased from 2.0 per cent to 2.2 per cent between July and August while food inflation rose from 6.8 per cent to 7.2 per cent.

Liquidity in the financial system remained relatively steady during the third quarter, with commercial banks' excess reserves at the Central Bank averaging around \$3.2 billion daily. The Central Bank stepped up its open market operations in September, with net issues of around \$1.2 billion in the month to September 26. In addition, the Bank's sales of foreign exchange extracted the equivalent of roughly \$1.0 billion from the system.

Growth in private sector credit lost some momentum in recent months due in part to a fall-off in lending to businesses. Credit to the private sector by the consolidated financial sector

rose by 4.9 per cent in July 2016 (year-on-year), while lending to businesses slipped by -0.2 per cent; this compares with growth rates of 6.4 per cent (overall credit) and 4.2 per cent (business lending) in January 2016. As at September 26, 2016, yield differentials between TT and US 91-day and 10-year Treasury securities stood at 95 basis points and 283 basis points, respectively compared with 87 basis points and 284 basis points, respectively at the end of August 2016.

Against this backdrop the Central Bank's Monetary Policy Committee decided to maintain the "Repo" rate at 4.75 per cent at its September 2016 meeting. The Bank will continue to carefully analyse domestic and international economic developments in its deliberations and decisions.

The next Monetary Policy Announcement is scheduled for November 25, 2016.

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