



**CENTRAL BANK OF
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**MONETARY POLICY ANNOUNCEMENT
June 29, 2018**

CENTRAL BANK RAISES REPO RATE TO 5.00 PER CENT

Global growth prospects continued to strengthen since the last meeting of the Monetary Policy Committee (MPC) in March 2018. The International Monetary Fund, in its April 2018 World Economic Outlook, raised projections for global growth in 2018 and 2019. However, the escalation of trade frictions among major economies could undermine the growth momentum moving forward. Meanwhile, some emerging market and developing economies (EMDE) are facing tighter financial conditions, accelerated capital outflows and adverse currency movements as the United States Federal Reserve (US Fed) normalizes its monetary policy. In June 2018 the Fed hiked its key policy rate for the second time in 2018.

On the domestic front growth in the first five months of 2018 has been concentrated in the energy sector. This is expected to spill over into non-energy activities, and there are already encouraging signs in distribution and a recovery of business credit, although construction remains sluggish. Meanwhile, headline inflation continued to be low, measuring 1.1 per cent (year-on-year) in April 2018, up from 0.8 per cent in the previous month.

Private sector credit growth maintained its positive momentum, rising in April by 5.8 per cent (year-on-year). Lending continued to be driven by loans for refinancing and debt consolidation, while some rebound in business credit suggests that private sector confidence could be strengthening. Further, the commercial banks' weighted average lending rate has been falling since December 2017 and stood at 8.15 per cent at end-March 2018. Liquidity levels trended lower but remain comfortable.

Rising interest rates in the US combined with relatively stable rates domestically have pushed the TT-US yield differential on three-month Treasuries further below parity. The differential currently stands at -74 basis points. The US Fed has signaled that further hikes are planned in the context of the solid US growth outlook. Should this materialize it could further widen the negative TT-US interest rate differential if domestic interest rates remain unchanged.

The MPC in its deliberations noted the growth in early 2018 led by the energy sector, the pickup in private sector credit and the still low inflation. The Committee also took note of the implication of the strong upward trajectory of external interest rates, particularly in the US, for Trinidad and Tobago's external balance. Taking all factors into consideration, **the MPC took the decision to raise the repo rate by 25 basis points to 5.00 per cent.** The Bank will continue to carefully monitor and analyze international and domestic developments.

The next Monetary Policy Announcement is scheduled for September 28, 2018¹.

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¹ At the November 2017 meeting a decision was taken to adjust the periodicity of the regular MPC meetings from bi-monthly to quarterly in 2018, while allowing for the ability to convene extraordinary meetings if circumstances warrant.