



CENTRAL BANK OF TRINIDAD & TOBAGO

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Media Release

HEADLINE INFLATION FALLS TO 9.4 PER CENT: CENTRAL BANK MAINTAINS 'REPO' RATE AT 3.25 PER CENT

The latest data released by the Central Statistical Office indicate that inflation fell in March for the third consecutive month. **Headline inflation**, measured by the 12-month increase in the Index of Retail Prices, declined to **9.4 per cent** in March 2011 from 10.7 per cent in the previous month. This is the first time since May 2010 that the headline rate has fallen to a single-digit figure. On a monthly basis, headline inflation fell by 0.7 per cent in March following a decline of a similar magnitude in February.

Food inflation, the main influence on headline inflation, slowed to **21.3 per cent** in the twelve months to March 2011 from 25.1 per cent in the previous month. Within the food sub-index, there was a decline in the year-on-year increase for **fruits (31.4 per cent** compared with 33.3 per cent in February) and **vegetables (31.1 per cent** compared with 33.3 per cent in February). In contrast, the sub-indices for **milk, cheese and eggs; meat;** and **sugar and confectionery products** posted year-on-year increases of **12.5 per cent** (from 11.5 per cent in February), **10.7 per cent** (from 9.9 per cent in February) and **4.4 per cent** (from 3.7 per cent in February), respectively.

Core inflation, which excludes the impact of food prices, fell marginally to **2.7** per cent (year-on-year) in March from 2.8 per cent in February. This slight reduction in the core inflation rate was mainly due to a decrease in the prices of **clothing and footwear (-1.5 per cent)**. The subdued rate of core inflation testifies to the sluggishness of domestic demand in conditions of ample spare capacity.

Available indicators suggest that the steady decline in bank credit outstanding for the past 18 months has begun to bottom out. In the twelve months to February 2011, the rate of decline of **private sector credit** by the consolidated financial system slowed to **1.7 per cent** from 2.3 per cent in January and from an average rate of decline of 3.4 per cent in 2010. Among the major categories of private sector credit, **consumer credit** continued to strengthen for the fifth consecutive month, rising by 3.9 per cent (year-on-year) in February while real estate lending maintained a robust rate of increase of 7.7 per cent. **Business lending** was the only category that continued to register a decline (**-4.8 per cent** on a year-on-year basis), albeit at a much slower pace than in previous months. **However, it is important to note that on a monthly basis, credit to the business sector grew by 1.9 per cent in February – the most significant monthly increase since September 2010.**

In recent months, lower **net domestic fiscal injections** along with the liquidity absorption measures adopted by the Central Bank have helped to reduce excess liquidity in the financial system. In April so far, **commercial banks' excess reserve balances** at the Central Bank (i.e. excess liquidity) have averaged **\$1.1 billion** compared with **\$1.9 billion** in December 2010. As at April 28 2011, these excess reserve balances had declined to **\$400 million** prompting an increase in activity in the inter-bank market. The repurchase window at the Central Bank was also accessed to meet short-term financing needs.

In the somewhat tighter liquidity environment, short-term interest rates have begun to inch up from the record lows that were reached during the final quarter of 2010. The **yields on three-month and six month treasury bills** rose to **0.40 per cent** and **0.55 per cent** respectively in March 2011 from 0.28 per cent and 0.50 per cent in October 2010.

The pace of inflation reduction in the coming months is uncertain due to the upside risks arising from the surge in energy and international food prices. The full impact of the latter has not yet been reflected in domestic food prices. In addition, inflationary expectations at the domestic level are being influenced by the loss of acreage for food crop cultivation in certain agricultural districts.

In recent months, the cycle of reductions in the 'Repo' rate has led to a fall in commercial banks' prime lending rates and provided some stimulus to consumer credit and real estate lending. The nascent recovery in business credit is also a signal that these reductions in the 'Repo' rate are still working their way through the financial system. As such, **the Bank has decided to maintain the 'Repo' rate at 3.25 per cent.**

The Bank will continue to keep economic and monetary conditions under close review.

The next 'Repo' rate announcement is scheduled for May 27, 2011.

April 29, 2011

APPENDIX

MOVEMENT OF SELECTED CATEGORIES OF THE INDEX OF RETAIL PRICES /Percentage Change/

	Monthly		Year-on-Year	
	February 2011	March 2011	February 2011	March 2011
Headline Inflation	(0.7)	(0.7)	10.7	9.4
Food Prices	(1.7)	(1.7)	25.1	21.3
Bread and Cereals	0.4	0.6	0.2	0.8
Meat	(2.1)	0.6	9.9	10.7
Fish	1.0	1.0	7.7	7.3
Vegetables	(6.4)	(4.5)	33.3	31.1
Fruits	10.8	8.6	33.3	31.4
Milk, Cheese & Eggs	0.3	1.3	11.5	12.5
Oils and Fats	0.8	0.5	(2.6)	(1.8)
Sugar, Jam, Confectionery, etc.	2.3	2.6	3.7	4.4
Core Inflation	0.1	0.0	2.8	2.7
Alcoholic Beverages & Tobacco	0.4	0.0	6.1	6.2
Clothing and Footwear	0.5	(0.1)	(0.2)	(1.5)
Furnishings, Household Equipment and Routine Maintenance	0.0	0.0	0.6	0.6
Health	0.0	0.1	3.7	3.7
<i>Of which:</i> Medical Services	0.0	0.0	5.7	5.7
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	0.7	0.7
<i>Of which:</i> Rent	0.0	0.0	5.9	5.9
Home Ownership	0.0	0.0	0.1	0.1
Education	0.0	0.0	1.9	1.9
Recreation & Culture	0.0	0.0	14.0	14.0
Hotels, Cafes & Restaurants	0.0	0.0	0.4	0.4
Transport	0.0	0.0	1.9	1.9

Source: Central Statistical Office.