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Media Release

INFLATION AT 9.1 PER CENT IN MARCH: CENTRAL BANK MAINTAINS REPO RATE AT 3.00 PER CENT

The latest data released by the Central Statistical Office indicate that **headline inflation**, measured by the twelve-month increase in the Index of Retail Prices, slowed slightly to **9.1 per cent** in March 2012 from 9.2 per cent in February. On a monthly basis however, the overall price level decreased by 0.7 per cent in March following an increase of 1.6 per cent in February.

Food price inflation, which has been the principal cause of the relatively high headline inflation rate, increased marginally to **20.3 per cent** in the twelve months to March from 20.2 per cent in February. The main contributors to food price inflation were increases in the prices of **fruits (59.9 per cent)** and **vegetables (17.7 per cent)**. Faster price increases were also recorded for **oils and fats (19.1 per cent** in March compared with 17.9 per cent in February). The rate of price increases however, slowed for **bread and cereals (5.2 per cent** compared with 5.9 per cent in February), **fish (12.6 per cent** compared with 13.6 per cent in February) and **milk, cheese and eggs (7.5 per cent** compared with 8.6 per cent in February).

Core inflation, which excludes movements in food prices, has remained relatively unchanged indicating that underlying inflationary pressures have been contained so far. On a year-on-year basis, the **core inflation** rate measured **1.8 per cent** in March 2012, the same rate as in the previous two months. The sub-indices for clothing and footwear and alcoholic beverages posted increases of 2.9 per cent and 2.4 per cent respectively, somewhat slightly higher than in previous months.

Private sector credit continued to expand in February 2012, albeit at a slower pace than in the previous two months. Credit granted by the consolidated financial system to the private sector slowed to 2.3 per cent (year-on-year) in February from 3.4 per cent and 3.7 per cent in January 2012 and December 2011, respectively. Among the major categories of private sector credit, **consumer credit** and **business lending** slowed in February to **2.2 per cent** and **2.8 per cent** (year-on-year) respectively from 2.5 per cent and 5.7 per cent in January. **Real estate mortgage lending**, on the other hand, continued to maintain its robust pace of expansion, increasing by **9.4 per cent** (year-on-year) in February from 8.7 per cent in January.

Liquidity in the domestic financial system retreated significantly in April from the high levels recorded in previous months mainly as a result of the liquidity absorption measures adopted by the Central Bank in March as well as a relatively small net domestic fiscal injection in April. Commercial banks' holdings of excess reserves at the Central Bank averaged \$3.5 billion daily in the first three and a half weeks of April compared with \$5.6 billion in March 2012.

While short-term interest rates are still quite low, the reduction in the level of excess liquidity in April prompted a small upturn in short-term treasury rates. The three-month treasury bill rate rose to 0.10 per cent in April after having fallen to an historic low of 0.04 per cent in March. As a consequence, the interest rate differential between the TT and US three-month treasury bill rates which had turned negative in March became positive (0.02 per cent) again in April.

Although headline inflation is just below double digits, most of the increase in the headline rate has been driven by food inflation, which is influenced by inclement weather conditions. By contrast, core inflation, which provides a better gauge of underlying demand pressures, has remained contained for the year thus far. Recent trends in credit, especially to consumers and businesses, suggest that the pace of recovery in private sector demand is still relatively sluggish. Against this background, the Bank has decided to maintain the 'Repo' rate at 3.00 per cent.

The Bank will continue to keep economic and monetary conditions under close review in the coming months.

The next 'Repo' rate announcement is scheduled for May 25, 2012.

April 27, 2012.

APPENDIX

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

	Monthly		Year-on-Year	
	February 2012	March 2012	February 2012	March 2012
Headline Inflation	1.6	(0.7)	9.2	9.1
Food Prices and Non-Alcoholic Beverages	3.6	(1.6)	20.2	20.3
Bread and Cereals	0.1	(0.2)	5.9	5.2
Meat	1.8	0.6	6.9	6.9
Fish	5.2	0.0	13.6	12.6
Vegetables	8.5	(9.7)	24.5	17.7
Fruits	5.0	12.8	53.9	59.9
Milk, Cheese & Eggs	1.6	0.2	8.6	7.5
Oils and Fats	1.5	1.6	17.9	19.1
Sugar, Jam, Confectionery, etc.	1.8	0.4	9.0	6.7
Core Inflation	0.0	0.0	1.8	1.8
Alcoholic Beverages & Tobacco	0.1	0.2	2.2	2.4
Clothing and Footwear	0.1	0.0	2.8	2.9
Furnishings, Household Equipment and Routine Maintenance	0.0	0.0	1.8	1.8
Health	0.0	0.0	0.9	0.9
<i>Of which:</i> Medical Services	0.0	0.1	1.2	1.2
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	2.7	2.7
<i>Of which:</i> Rent	0.0	0.0	6.7	6.7
Home Ownership	0.0	0.0	2.9	2.9
Education	0.0	0.0	1.7	1.7
Recreation & Culture	0.0	0.0	0.6	0.6
Hotels, Cafes & Restaurants	0.0	0.0	3.4	3.4
Transport	0.0	0.0	0.6	0.6

Source: Central Statistical Office.

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