



# CENTRAL BANK OF TRINIDAD & TOBAGO

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## INFLATION RECORDED AT 1.4 PER CENT IN JULY: CENTRAL BANK MAINTAINS REPO RATE AT 3 PER CENT

The latest data released by the Central Statistical Office indicate that inflation has remained well contained. On a year-on-year basis, **headline inflation measured 1.4 per cent in July 2011**, compared with 0.8 per cent in the previous month. On a monthly basis, headline inflation rose by 1.1 per cent in July, slightly faster than the 0.6 per cent rise in June.

Higher food prices were primarily responsible for the slight pick-up in headline inflation. **Food inflation measured 1.6 per cent** in July (year-on-year) compared with 0.1 per cent in June. Higher international prices of agricultural commodities such as wheat are beginning to be passed through to domestic prices. For example, the prices of **breads and cereals rose to 3.7 per cent** (12-month basis) in July from 2.3 per cent in June. There were also faster increases for **fruits** (24.6 per cent compared with 18.8 per cent) and **fish** (10.3 per cent compared with 5.4 per cent). In contrast, the price increase for **meats** slowed to 8.5 per cent from 10.5 per cent in the previous month, while **vegetable** prices continued to decline, though at a slower pace (-9.5 per cent compared with -12.1 per cent in June).

**Core inflation**, which excludes food prices, was unchanged in July from the previous month at **1.4 per cent** (year-on-year) as underlying demand pressures remained subdued. The **alcoholic beverages and tobacco** sub-index recorded the largest price increase of 6.1 per cent. Annual (year-on-year) price increases in most other major categories remained in

the low single digits, viz.: **health** (2.1 per cent), **clothing and footwear** (1.9 per cent), **housing** (1.2 per cent) and **transportation** (0.6 per cent).

Credit conditions have continued to improve. On a year-on-year basis, **private sector credit** granted by the consolidated financial system grew by **1.5 per cent** in June 2011 following growth of 0.9 per cent in May. The recovery in **consumer lending** appears to have gained traction, with the increase in loans outstanding to consumers rising in June to 5.4 per cent (year-on-year) — the ninth consecutive month of increase. Loans for the acquisition of new vehicles rose by 11 per cent, while consumers expanded their financing of purchases via credit cards by 9.6 per cent. In addition, growth in **real estate mortgage loans** remained relatively strong at around 10 per cent.

Meanwhile, the decline in business lending continues, albeit at a much slower pace. **Credit to businesses** by the consolidated financial system contracted by 1.5 per cent (year-on-year) in June 2011, substantially slower than the 5.7 per cent decline recorded in January and the 9.0 per cent reduction in June 2010.

Liquidity in the banking system rose during the third quarter of 2011 in line with the acceleration of the government's capital spending. In the first three weeks in August 2011, **commercial banks' excess reserves** at the Central Bank averaged \$3.7 billion, up from \$2.6 billion in July and an average of \$1.3 billion over the period January – June 2011. In an environment of higher liquidity, banks reduced their reliance on inter-bank financing, resulting in a fall in activity in this market to a daily average of \$18 million in August from \$62 million in July.

The rise in liquidity contributed to a decline in the yield on **3-month treasury bills** to **0.73 per cent** in late August from 0.94 per cent at the end of July. As a result, despite US

short-term rates declining to near zero, the differential between TT and US 3-month treasury bill rates narrowed to **71 basis points** in August from 88 basis points in July.

With economic activity remaining sluggish and with inflation seemingly contained, the Central Bank views the present accommodative monetary stance as still appropriate. In the current circumstances the Bank has decided to **maintain the 'repo' rate at 3.00 per cent**, which was established in July.

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 September 30, 2011.**

**August 26, 2011**

## APPENDIX

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

	Monthly		Year-on-Year	
	June 2011	July 2011	June 2011	July 2011
Headline Inflation	0.6	1.1	0.8	1.4
Food Prices	1.4	2.1	0.1	1.6
Bread and Cereals	0.4	1.4	2.3	3.7
Meat	1.2	0.5	10.5	8.5
Fish	(4.1)	2.7	5.4	10.3
Vegetables	1.3	5.5	(12.1)	(9.5)
Fruits	(0.7)	(5.3)	18.8	24.6
Milk, Cheese & Eggs	1.1	0.2	7.2	7.3
Oils and Fats	1.9	0.1	4.2	5.6
Sugar, Jam, Confectionery, etc.	0.2	0.1	6.5	6.0
Core Inflation	0.0	0.4	1.4	1.4
Alcoholic Beverages & Tobacco	(0.3)	0.4	5.4	6.1
Clothing and Footwear	(0.3)	1.7	(0.6)	1.9
Furnishings, Household Equipment and Routine Maintenance	0.0	0.3	1.0	0.9
Health	0.4	0.0	2.4	2.1
<i>Of which:</i> Medical Services	0.0	0.0	1.6	1.2
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.3	1.0	1.2
<i>Of which:</i> Rent	0.0	1.8	4.8	6.0
Home Ownership	0.0	0.1	0.7	0.9
Education	0.0	0.0	2.6	2.6
Recreation & Culture	0.0	(0.4)	3.4	(0.2)
Hotels, Cafes & Restaurants	0.0	0.8	1.9	2.6
Transport	0.0	0.6	0.0	0.6

Source: Central Statistical Office.