



CENTRAL BANK OF TRINIDAD & TOBAGO

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Media Release

HEADLINE INFLATION RATE FALLS TO 3.9 PER CENT: CENTRAL BANK MAINTAINS 'REPO' RATE AT 3.25 PER CENT

Recent data released by the Central Statistical Office indicate that inflation continued on a downward trajectory in May for the fifth consecutive month. On a year-on-year basis, **headline inflation** slowed to **3.9 per cent** in May from 6.4 per cent in the previous month. Headline inflation is now at the lowest level since January 2010 when the rate measured 3.7 per cent. On a monthly basis, the Index of Retail Prices fell by 0.4 per cent in May following an increase of a similar magnitude in the previous month. **Core inflation**, which excludes the impact of food prices, measured **1.3 per cent** (year-on-year) in May, the same rate as in the previous month.

The marked slowdown in headline inflation is due, in large measure, to the sharp decline in **food inflation** which fell to **8.2 per cent** in May from 15.0 per cent in April. This decline reflected the “base effect” associated with the surge in food prices in May 2010 as well as the 1.0 per cent decline in food prices during the month of May 2011. On a monthly basis, the fall in prices in May for **fish (-6.7 per cent)**, **vegetables (-2.5 per cent)** and **sugar and confectionery products (-0.2 per cent)** compensated for price increases in other major food groups such as **oils and fats (2.9 per cent)**, **fruits (4.8 per cent)**, **bread and cereals (0.6 per cent)** and **meat (0.4 per cent)**.

The Bank continues to be cautious about the outlook for domestic inflation given the steady increase in the global price of some key grains such as corn and soya meal which are major inputs in some main domestic food groups such as dairy products and poultry.

Over the last four months, credit conditions in the financial system have shown incipient signs of a weak recovery. In the twelve months to April 2011, **private sector credit** extended by the consolidated financial system fell by **0.8 per cent** (year-on-year) following declines of 1.4 per cent in March and 2.3 per cent at the start of the year. Within the financial sector, commercial bank lending to the private sector rose by 1.6 per cent in April (year-on-year) while credit extended by non-bank financial institutions recorded a 13.3 per cent decline.

Both **consumer credit and real estate mortgage lending** have been the major drivers behind the improvement in overall credit, growing by relatively robust rates of **6.7 per cent and 8.8 per cent**, respectively in the twelve months to April 2011. **Business lending** still remains relatively sluggish and declined for the eighteenth consecutive month by **5.9 per cent**.

In recent months, lower net fiscal injections along with the liquidity absorption measures employed by the Central Bank have helped to reduce liquidity in the financial system. In June, actions by the Central Bank in the government securities and foreign exchange markets withdrew approximately **\$125 million** from the financial system. Commercial banks' excess reserve balances at the Central Bank have averaged \$1.3 billion in June so far compared with \$2.0 billion in December 2010. As liquidity conditions tightened, some commercial banks tapped the inter-bank market as well as the 'Repo' window at the Central Bank to meet their short-term funding requirements.

In the somewhat tighter liquidity environment, short-term interest rates continued to increase with the **yield on 3-month treasury bills** rising to **0.98 per cent** in June, up from 0.68 per cent in May and 0.47 per cent in April. As a consequence, the differential between local and US short-term interest rates widened to 93 basis points in June from 62 basis points in May.

With the recovery in credit gaining steady momentum and with underlying inflationary pressures remaining well contained for the time being, **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 July 29, 2011.

June 24, 2011.

APPENDIX

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

	Monthly		Year-on-Year	
	April 2011	May 2011	April 2011	May 2011
Headline Inflation	0.4	(0.4)	6.4	3.9
Food Prices	0.7	(1.0)	15.0	8.2
Bread and Cereals	0.8	0.6	1.3	1.7
Meat	1.7	0.4	9.9	12.0
Fish	2.1	(6.7)	12.1	7.6
Vegetables	(0.4)	(2.5)	18.5	5.4
Fruits	2.6	4.8	26.5	19.7
Milk, Cheese & Eggs	0.8	0.7	12.5	10.5
Oils and Fats	1.2	2.9	(1.2)	1.9
Sugar, Jam, Confectionery, etc.	0.7	(0.2)	5.6	5.3
Core Inflation	0.2	0.0	1.3	1.3
Alcoholic Beverages & Tobacco	(0.2)	(0.2)	6.0	5.8
Clothing and Footwear	(0.3)	0.4	(1.5)	(1.0)
Furnishings, Household Equipment and Routine Maintenance	0.2	0.0	1.0	1.0
Health	0.5	0.3	2.0	2.2
<i>Of which:</i> Medical Services	1.0	0.0	1.6	1.6
Housing, Water, Electricity, Gas & Other Fuels	0.1	0.0	1.0	1.0
<i>Of which:</i> Rent	0.6	0.0	4.8	4.8
Home Ownership	0.0	0.0	0.7	0.7
Education	1.9	0.0	2.6	2.6
Recreation & Culture	0.1	0.0	3.4	3.4
Hotels, Cafes & Restaurants	1.8	0.0	1.9	1.9
Transport	0.0	0.0	0.0	0.0

Source: Central Statistical Office.

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