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## Media Release

### **INFLATION RISES TO 12.6 PER CENT IN MAY: CENTRAL BANK MAINTAINS REPO RATE AT 3.00 PER CENT**

Recent data released by the Central Statistical Office indicate that headline inflation, measured by the twelve-month increase in the Index of Retail Prices, rose to 12.6 per cent in May 2012 from 11.8 per cent in the previous month. When measured on a monthly basis, the rate of increase in the overall price level was 0.3 per cent in May compared with an increase of 2.8 per cent in April.

**Food inflation**, which remained the main driver of the headline inflation rate, accelerated to **28.3 per cent** in May 2012, up from 26.1 per cent in April. The high inflation in the food category of the Index continued to primarily reflect movements in the prices of fruits and vegetables at the retail level. On a twelve-month basis, **fruit and vegetable prices** rose by **41.4 per cent and 45.2 per cent**, respectively in May (compared with 48 per cent and 34.3 per cent in April). While higher price increases were also recorded for meat (6.1 per cent compared with 4.1 per cent in April 2012), there was some deceleration in the price increases recorded for several items, including bread and cereals; milk, cheese and eggs; fish; and oils and fats.

**Core inflation**, which filters out the effect of food prices, measured **2.2 per cent** in the twelve months to May 2012, the same rate as in the previous month. The sub-indices for Health and Clothing and Footwear posted slight year-on-year increases of 1.7 per cent and 2.7 per cent, respectively in May.

Latest data point to some slowdown in the rate of growth of private sector credit in the financial system. On a year-on-year basis to April 2012, private sector credit from the consolidated financial system grew by 1.3 per cent, slower than the 3.1 per cent recorded in the previous month. Among the major categories of private sector credit, the value of outstanding loans to consumers declined by 0.5 per cent (on a 12-month basis) compared with an increase of 2.2 per cent in March 2012. Meanwhile, business credit continued to expand, albeit at a marginally slower rate, growing by 4.5 per cent in April 2012 compared with 4.8 per cent in March 2012. Real estate mortgage lending remained strong, increasing by 10.4 per cent on a year-on-year basis in April.

Excess liquidity in the financial system contracted for the third consecutive month to June 2012. In the first three and a half weeks of June, commercial banks' holdings of excess reserves at the Central Bank fell to a daily average of \$2.2 billion from \$2.5 billion in May and \$3.4 billion in April. Despite a substantial pickup in net fiscal injections (\$1.4 billion in June compared with \$175 million in May), Central Bank operations removed \$1.8 billion from the financial system and kept excess liquidity in check.

The moderation in liquidity levels was associated with an upturn in short-term interest rates. After reaching a low of 0.04 per cent in March, the 91-day treasury bill rate rose to 0.31 per cent in May and to 0.50 per cent in June 2012. With TT 91-day treasury-bill rates on the rise and comparative US rates still low, the TT/US interest differential on these instruments widened to 40 basis points in June 2012 from 22 basis points in May and zero

in April. Lower liquidity levels re-ignited some activity in the inter-bank market following nine months of inactivity, while the Central Bank's repo facility remained unutilized.

Although the rise in headline inflation is a cause for concern, it has largely reflected increases in food prices. Available data suggest that underlying demand pressures remain relatively contained for the time being. In the current economic climate, there is still room for further expansion in private sector credit to support an economic recovery. Against this background, **the Central 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 July 27, 2012.**

**June 29, 2012.**

## APPENDIX

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

	Monthly		Year-on-Year	
	April 2012	May 2012	April 2012	May 2012
Headline Inflation	2.8	0.3	11.8	12.6
Food Prices and Non-Alcoholic Beverages	5.6	0.7	26.1	28.3
Bread and Cereals	0.4	0.1	4.8	4.2
Meat	(0.9)	2.3	4.1	6.1
Fish	3.5	(13.8)	14.1	5.3
Vegetables	13.7	5.4	34.3	45.2
Fruits	(5.0)	0.1	48.0	41.4
Milk, Cheese & Eggs	0.2	(0.4)	6.9	5.7
Oils and Fats	(0.8)	0.4	16.8	14.0
Sugar, Jam, Confectionery, etc.	1.2	(1.5)	7.2	5.8
Core Inflation	0.7	0.0	2.2	2.2
Alcoholic Beverages & Tobacco	(0.2)	0.1	2.3	2.6
Clothing and Footwear	(0.5)	0.3	2.8	2.7
Furnishings, Household Equipment and Routine Maintenance	(0.2)	0.0	1.3	1.3
Health	2.0	(0.3)	2.4	1.7
<i>Of which:</i> Medical Services	3.7	0.0	3.9	3.9
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	2.6	2.6
<i>Of which:</i> Rent	0.0	0.0	6.1	6.1
Home Ownership	0.0	0.0	2.9	2.9
Education	1.8	0.0	1.7	1.7
Recreation & Culture	2.0	0.0	2.6	2.6
Hotels, Cafes & Restaurants	0.3	0.0	1.9	1.9
Transport	1.5	0.0	2.1	2.1

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