



CENTRAL BANK OF TRINIDAD & TOBAGO

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Media Release

INFLATION RISES TO 3.7 PER CENT IN OCTOBER: CENTRAL BANK MAINTAINS REPO RATE AT 3.00 PER CENT

The latest data released by the Central Statistical Office indicate that inflation continued on an upward trend in October 2011. **Headline inflation**, measured by the 12-month increase in the Index of Retail Prices, rose to **3.7 per cent** in October from 2.5 per cent in September.

The main impetus to the pick-up in the headline inflation rate has come from **food prices**, which increased to **6.9 per cent** (year-on-year) in October, up from 4.3 per cent in the previous month. Poor weather conditions and accompanying floods have disrupted food supply in some agricultural districts and, together with higher international prices, have begun to impact domestic food inflation. The **price of vegetables**, which had been declining for the past four months, rose on a twelve-month basis to **3.7 per cent** in October while **fruit prices** maintained a robust pace of increase, rising by **34.1 per cent** in the twelve months to October.

Faster year-on-year price increases were also recorded for **bread and cereals** (6.7 per cent in October compared with 6.2 per cent in September), **oils and fats** (9.8 per cent in October compared with 8.8 per cent in September) and **sugar and confectionery products**

(8.9 per cent in October compared with 8.2 per cent in September). In contrast, lower price increases were recorded for **meat, fish and milk, cheese and eggs**.

Core inflation, which excludes the impact of food prices, inched up to **1.6 per cent** (year-on-year) in October from 1.3 per cent in the previous month. The slight upward movement in the core rate came mainly from price increases in the sub-indices for **housing** (2.5 per cent), **hotels, cafes and restaurants** (3.0 per cent) and **household furnishings** (1.6 per cent).

The lack of buoyancy in economic activity has continued to hinder credit growth, especially to the business sector. On a year-on-year basis, **private sector credit** granted by the consolidated financial system rose by **0.1 per cent** in September compared with 1.0 per cent in August. Of the three major categories of private sector credit, **consumer credit** slowed to 3.9 per cent (year-on-year) in September from 4.2 per cent in August while **real estate lending** maintained a robust growth rate of **9.8 per cent**. Meanwhile, **business lending** resumed the downward trend in September, falling by **1.4 per cent** (year-on-year) after a brief hiatus in August when it had remained relatively flat. A more detailed examination of the sectoral distribution of bank credit to the business sector revealed that loans to the **distribution** and **other services** sub-groups declined by **4.8 per cent** and **10.6 per cent**, respectively in September. **Business lending** to the manufacturing sector was however up by **18 per cent** in the twelve months to September.

High net fiscal injections along with relatively slack credit demand, particularly by business firms, kept liquidity levels in the financial system quite buoyant. **Commercial banks' excess balances** at the Central Bank climbed to an average of **TT\$5.5 billion** during the first three weeks of November from an average of **TT\$4.6 billion** in August. The recent issue of a **TT\$1.5 billion** Government bond, which was heavily oversubscribed, has however helped to withdraw some of this excess liquidity from the system. As at November 22 (the

settlement date for the bond), commercial banks' excess reserve balances at the Central Bank have declined to TT\$4.3 billion.

The significant build-up in excess reserve balances has kept **short-term interest rates** at **record lows** with the three and six-month treasury bill yields declining to 0.22 per cent and 0.32 per cent, respectively in November from 0.25 per cent and 0.38 per cent in September. The **differential between the TT and US 3-month treasury bill rates** also narrowed sharply to **20 basis points** in November from 71 basis points in August.

While inflationary pressures remain well contained for the time being, heightened uncertainty in the global environment and weak business confidence at home continue to retard a stronger recovery in economic activity. In the context of a still sluggish economy, the Central Bank views its present accommodative monetary stance as appropriate and 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 December 30, 2011.

November 25, 2011

APPENDIX

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

| | Monthly | | Year-on-Year | |
|--|----------------|--------------|----------------|--------------|
| | September 2011 | October 2011 | September 2011 | October 2011 |
| Headline Inflation | 1.3 | (0.1) | 2.5 | 3.7 |
| Food Prices | 3.0 | (1.1) | 4.3 | 6.9 |
| Bread and Cereals | 0.5 | 0.7 | 6.2 | 6.7 |
| Meat | 0.6 | 0.0 | 7.6 | 5.2 |
| Fish | 0.2 | (0.1) | 5.4 | 4.3 |
| Vegetables | 0.1 | 3.2 | (7.5) | 3.7 |
| Fruits | 4.0 | (8.4) | 39.2 | 34.1 |
| Milk, Cheese & Eggs | 1.0 | (0.6) | 8.4 | 7.4 |
| Oils and Fats | 1.6 | 0.9 | 8.8 | 9.8 |
| Sugar, Jam, Confectionery, etc. | 1.2 | 0.9 | 8.2 | 8.9 |
| | | | | |
| Core Inflation | 0.1 | 0.6 | 1.3 | 1.6 |
| Alcoholic Beverages & Tobacco | 0.2 | 0.2 | 6.2 | 4.6 |
| Clothing and Footwear | 1.7 | (0.8) | 3.0 | 1.9 |
| Furnishings, Household Equipment and Routine Maintenance | 0.0 | 1.0 | 0.9 | 1.6 |
| Health | 0.0 | (0.1) | 1.7 | 1.2 |
| <i>Of which:</i> Medical Services | 0.0 | 0.0 | 1.2 | 1.0 |
| Housing, Water, Electricity, Gas & Other Fuels | 0.0 | 1.7 | 1.2 | 2.5 |
| <i>Of which:</i> Rent | 0.0 | 3.6 | 6.0 | 9.4 |
| Home Ownership | 0.0 | 2.0 | 0.9 | 2.3 |
| Education | 0.0 | (0.2) | 2.6 | 1.7 |
| Recreation & Culture | 0.0 | (0.2) | (0.2) | (0.6) |
| Hotels, Cafes & Restaurants | 0.0 | 0.3 | 2.6 | 3.0 |
| Transport | 0.0 | 0.0 | 0.6 | 0.6 |

Source: Central Statistical Office.