



CENTRAL BANK OF TRINIDAD & TOBAGO

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INFLATION RISES TO 2.5 PER CENT: CENTRAL BANK MAINTAINS REPO RATE AT 3.00 PER CENT

Recent data released by the Central Statistical Office indicate that there was a slight pick-up in domestic inflation in September. **Headline Inflation**, measured by the 12-month increase in the Index of Retail Prices, rose to 2.5 per cent in September 2011 after having slowed to an historic low of 0.6 per cent in August 2011. On a monthly basis, headline inflation increased by 1.3 per cent in September following an increase of 1.4 per cent in August.

The increase in food prices was largely responsible for the pick-up in the headline inflation rate. On a year-on-year basis to September, **food inflation** rose by 4.3 per cent after declining by 0.3 per cent in August. Higher international prices may have begun to impact several categories of the domestic food basket. Faster year-on-year price increases were recorded for **bread and cereals (6.2 per cent** in September from 5.3 per cent in August), **milk, cheese and eggs (8.4 per cent** from 7.5 per cent in August), **oils and fats (8.8 per cent** from 6.5 per cent) and **sugar and confectionery products (8.2 per cent** from 6.7 per cent). The fruits sub-index, which had been increasing at a strong pace for some time now, also accelerated to **39.2 per cent** (year-on-year) in September from 38.4 per cent in the previous month. In contrast, prices slowed for **meat (7.6 per cent)** and **fish (5.4 per cent)** and declined for **vegetables (-7.5 per cent)**.

Core inflation, which excludes the influence of food prices, edged up to 1.3 per cent in September from 1.2 per cent in August 2011. The sub-indices for **alcoholic beverages and tobacco** and **clothing and footwear** posted faster year-on-year increases of 6.2 per cent and 3.0 per cent, respectively.

Credit conditions have continued to improve steadily although economic activity particularly in the non-energy sector is still quite lethargic. On a year-on-year basis to August, private sector credit extended by the consolidated financial system rose for the fourth consecutive month by 1.0 per cent, albeit at a slightly slower pace than in July. Among the major categories of lending, **consumer lending** rose by **4.2 per cent** in August while **real estate mortgage lending** maintained a robust growth momentum of **9.6 per cent**. Meanwhile, the level of business lending remained unchanged in August from a year ago, suggesting that the sharp rate of decline in business loans experienced for the past several months might finally be bottoming out.

As the pace of Government's capital spending gathered momentum, substantial net fiscal injections during the last two months of fiscal year 2010/2011 resulted in an unprecedented build-up of financial system liquidity. Commercial banks' excess reserves, which averaged TT\$1.7 billion in June, reached an average of TT\$4.5 billion in the first three weeks of October. Given the sharp build up in liquidity, there was no activity on the inter-bank market nor were there repo transactions with the Central Bank.

In the face of significant excess liquidity, short-term interest rates have declined with the three-month treasury bill rate falling to 0.25 per cent in October from 0.73 per cent in July. The differential between the TT and US 3-month treasury bill rates also narrowed to 0.23 basis points in October from 71 basis points in August.

With inflationary pressures remaining well contained so far and credit conditions improving, the Bank views the present accommodative stance to be 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 November 25, 2011.

October 28, 2011

APPENDIX

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

| | Monthly | | Year-on-Year | |
|--|-------------|----------------|--------------|----------------|
| | August 2011 | September 2011 | August 2011 | September 2011 |
| Headline Inflation | 1.4 | 1.3 | 0.6 | 2.5 |
| Food Prices | 3.4 | 3.0 | (0.3) | 4.3 |
| Bread and Cereals | 0.9 | 0.5 | 5.3 | 6.2 |
| Meat | (0.4) | 0.6 | 7.8 | 7.6 |
| Fish | 3.2 | 0.2 | 7.1 | 5.4 |
| Vegetables | 2.6 | 0.1 | (10.9) | (7.5) |
| Fruits | 15.5 | 4.0 | 38.4 | 39.2 |
| Milk, Cheese & Eggs | 0.8 | 1.0 | 7.5 | 8.4 |
| Oils and Fats | 0.8 | 1.6 | 6.5 | 8.8 |
| Sugar, Jam, Confectionery, etc. | 0.3 | 1.2 | 6.7 | 8.2 |
| | | | | |
| Core Inflation | 0.0 | 0.1 | 1.2 | 1.3 |
| Alcoholic Beverages & Tobacco | 0.1 | 0.2 | 6.0 | 6.2 |
| Clothing and Footwear | (0.4) | 1.7 | 1.7 | 3.0 |
| Furnishings, Household Equipment and Routine Maintenance | 0.0 | 0.0 | 0.9 | 0.9 |
| Health | 0.0 | 0.0 | 2.0 | 1.7 |
| <i>Of which:</i> Medical Services | 0.0 | 0.0 | 1.2 | 1.2 |
| Housing, Water, Electricity, Gas & Other Fuels | 0.0 | 0.0 | 1.2 | 1.2 |
| <i>Of which:</i> Rent | 0.0 | 0.0 | 6.0 | 6.0 |
| Home Ownership | 0.0 | 0.0 | 0.9 | 0.9 |
| Education | 0.0 | 0.0 | 2.6 | 2.6 |
| Recreation & Culture | 0.0 | 0.0 | (0.2) | (0.2) |
| Hotels, Cafes & Restaurants | 0.0 | 0.0 | 2.6 | 2.6 |
| Transport | 0.0 | 0.0 | 0.6 | 0.6 |

Source: Central Statistical Office.