



CENTRAL BANK OF
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Media Release

INFLATIONARY PRESSURES CONTINUE TO MODERATE IN SEPTEMBER: CENTRAL BANK MAINTAINS REPO RATE AT 2.75 PER CENT

Recent data released by the Central Statistical Office indicate some further moderation in inflationary pressures, with **headline inflation**, measured by the 12-month change in the Index of Retail Prices, slowing to **7.7 per cent** in September 2012 from 7.9 per cent in the previous month. On a monthly basis, however, headline inflation rose by 1.1 per cent in September, following a decline of 1.2 per cent in August.

The moderation in headline inflation was due primarily to a slowdown in food inflation, which eased to 14.7 per cent (year-on-year) in September from 15.4 per cent in August. Among the major food items, slower price increases were recorded for **bread and cereals (1.6 per cent** compared with 1.9 per cent in August), **milk, cheese and eggs (3.4 per cent** compared with 3.6 per cent in August) and **oils and fats (12.8 per cent** compared with 13.5 per cent in August). There was however a marked deceleration in the year-on-year increase in **fruit prices to 4.3 per cent** in September from 10.2 per cent in August and 41.0 per cent in July. In contrast, price increases quickened in September 2012 for **vegetables (31.5 per cent** up from 26.8 per cent) and **meat (8.2 per cent** up from 6.4 per cent). There is yet no clear evidence of a strong pass-through of recent increases in global prices of some key food staples such as corn and soya to domestic food prices.

Core inflation, which excludes food prices, rose marginally to **2.8 per cent** (year-on-year) in September from 2.7 per cent in the previous month. There were small upticks in September in the price increases for **alcoholic beverages and tobacco** (4.7 per cent from 4.6 per cent in August) and **health** (2.5 per cent from 2.4 per cent in August).

Credit growth, on the whole, remained modest. On a year-on-year basis, **private sector credit** granted by the consolidated financial system rose by **2.7 per cent** in August 2012, slightly slower than the rate of 2.9 per cent recorded in the previous month. **Consumer lending**, which has been quite lethargic over the past two months, picked up momentum, rising by **2.2 per cent** (year-on-year) in August. **Real estate mortgage lending** also continued to expand at a robust pace of **10.3 per cent** in August. In contrast, **business lending**, which had been staging a moderate recovery since March 2012, appeared to have lost some impetus and slowed to an increase of **2.3 per cent** in August.

Liquidity levels in the financial system retreated in early October from the highs of September following the issuance by the Central Government of a \$2.5 billion bond and the payment of taxes. Commercial banks' excess reserves at the Central Bank fell to \$1,341 million on October 1, 2012 from a daily average of \$3,850 million in September. Since then, however, liquidity levels have rebounded with excess reserves rising to a daily average of \$2,705 million in the month to October 23, 2012. Given the liquid environment, commercial banks have had no need to access financing either through the inter-bank market or the Central Bank's repo facility.

Short-term treasury bill rates have remained quite low. At October 24, 2012, the Trinidad and Tobago **3-month treasury bill** rate was 0.53 per cent, resulting in a 43 basis point differential relative to the US t-bill rate of equivalent maturity. Meanwhile, since the 25 basis point reduction in the Central Bank's 'Repo' rate in September 2012, some commercial banks have begun to lower their prime lending rates.

Concerns about the Euro area and the impending fiscal cliff in the US have tempered expectations about a sustained global recovery and affected business confidence worldwide, including in Trinidad and Tobago. Against this background, and with the effects of the last 'Repo' rate reduction still working its way through the banking system, the Bank has decided to **maintain the 'Repo' rate at 2.75 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 30, 2012.

October 26, 2012

APPENDIX

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

	Monthly		Year-on-Year	
	Aug 2012	Sep 2012	Aug 2012	Sep 2012
Headline Inflation	(1.2)	1.1	7.9	7.7
Food and Non-Alcoholic Beverages	(2.6)	2.4	15.4	14.7
Bread and Cereals	(0.2)	0.2	1.9	1.6
Meat	0.1	2.3	6.4	8.2
Fish	(1.6)	2.3	3.1	5.3
Vegetables	(4.0)	3.8	26.8	31.5
Fruits	(9.8)	(1.6)	10.2	4.3
Milk, Cheese & Eggs	(0.1)	0.7	3.6	3.4
Oils and Fats	1.0	1.0	13.5	12.8
Sugar, Jam, Confectionery, etc.	0.3	(0.5)	5.3	3.4
Core Inflation	(0.1)	0.1	2.7	2.8
Alcoholic Beverages & Tobacco	(0.1)	0.3	4.6	4.7
Clothing and Footwear	(0.6)	0.9	3.0	2.1
Furnishings, Household Equipment and Routine Maintenance	0.0	0.0	2.2	2.2
Health	(0.1)	0.1	2.4	2.5
<i>Of which: Medical Services</i>	0.0	0.0	7.0	7.0
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	2.7	2.7
<i>Of which: Rent</i>	0.0	0.0	6.5	6.5
Home Ownership	0.0	0.0	2.9	2.9
Education	0.0	0.0	1.7	1.7
Recreation & Culture	0.0	0.0	6.0	6.0
Hotels, Cafes & Restaurants	0.0	0.0	3.5	3.5
Transport	0.0	0.0	1.5	1.5

Source: Central Statistical Office.

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