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## Media Release

### **INFLATION SLOWS FOR THE THIRD CONSECUTIVE MONTH IN AUGUST: CENTRAL BANK REDUCES REPO RATE TO 2.75 PER CENT**

According to data from the Central Statistical Office, there was a slowdown in **headline inflation** for the third consecutive month in August 2012 to **7.9 per cent** (year-on-year) from 10.8 per cent in July, and from 11.0 per cent in June. On a month-on-month basis, headline inflation declined by 1.2 per cent in August 2012, following an increase of 0.8 per cent in the previous month.

The principal factor behind the decline in headline inflation was a sharp deceleration in food prices. In August, food price inflation declined to 15.4 per cent (year-on-year) from an average of over 20 per cent in the previous six months. The easing of food inflation mainly reflected a slowdown in price increases for vegetables (26.8 per cent compared with 35.5 per cent in July) and fruits (10.2 per cent compared with 41.0 per cent in July). Slower price increases were also recorded for bread and cereals, milk, cheese and eggs and fish, although there was some acceleration in retail prices of meat as well as oils and fats.

Meanwhile **core inflation**, which excludes the impact of food prices, remained steady, measuring **2.7 per cent** (year-on-year) in August compared with 2.8 per cent in the previous month. Recorded price movements in the major categories of non-food items were either unchanged or slowed marginally, as in the cases of alcoholic beverages and tobacco, health and clothing and footwear.

Credit continued to expand slowly in July 2012. On a year-on-year basis, **private sector credit** granted by the consolidated financial system grew by **2.9 per cent** following an increase of 3.1 per cent in June 2012. **Lending to consumers**, which has been lethargic over the past few months, grew by **0.8 per cent** in July. The rate of expansion of **real estate mortgage lending** remained robust at just under **10 per cent**. Business lending meanwhile grew by 5.1 per cent in July compared with 5.7 per cent in June.

With the pace of deposit growth outstripping credit expansion, liquidity levels in the financial system remained relatively high during September. Commercial banks' reserve balances held at the Central Bank in excess of the statutory requirement averaged \$3,771 million over the first three weeks of September, compared with \$3,802 million in August 2012. Given the comfortable liquidity position, there was limited activity on the inter-bank market, and commercial banks had no need to access the Central Bank's repo facility. An upcoming Central Government bond issue at end-September is expected to remove, albeit temporarily, some of the excess liquidity in the banking system.

In the liquid banking environment, short-term interest rates dipped in September. The three-month treasury bill rate slipped to 0.52 per cent in mid-September from 0.60 per cent in August, while the rate on the six-month bill declined to 0.58 per cent from 0.63 per cent in July. As a consequence, the differential between the TT and US three-month treasury bill rates narrowed to 41 basis points as at September 19<sup>th</sup> from 51 basis points at the end of August.

While there have been incipient signs of a pickup in economic activity in some non-energy sectors through mid-2012, continued maintenance work in the energy sector has affected output of energy and energy-based products. Moreover, the international economic environment which remains challenging, is continuing to dampen consumer and business confidence. In order to support a sustained recovery of the domestic economy, while taking into account inflationary developments, the Central Bank has decided to reduce the 'Repo' rate from 3.00 per cent to 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 October 26, 2012.**

**September 21, 2012.**

## APPENDIX

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

	Month-on-Month		Year-on-Year	
	July 2012	Aug 2012	July 2012	Aug 2012
Headline Inflation	0.8	(1.2)	10.8	7.9
Food Prices and Non-Alcoholic Beverages	0.8	(2.6)	22.6	15.4
Bread and Cereals	0.0	(0.2)	3.1	1.9
Meat	1.4	0.1	5.9	6.4
Fish	(0.2)	(1.6)	8.2	3.1
Vegetables	0.5	(4.0)	35.5	26.8
Fruits	1.6	(9.8)	41.0	10.2
Milk, Cheese & Eggs	0.0	(0.1)	4.6	3.6
Oils and Fats	0.3	1.0	13.2	13.5
Sugar, Jam, Confectionery, etc.	0.0	0.3	5.3	5.3
Core Inflation	0.8	(0.1)	2.8	2.7
Alcoholic Beverages & Tobacco	0.5	(0.1)	4.8	4.6
Clothing and Footwear	2.3	(0.6)	3.4	3.0
Furnishings, Household Equipment and Routine Maintenance	1.3	0.0	2.2	2.2
Health	1.3	(0.1)	2.6	2.4
<i>Of which:</i> Medical Services	3.0	0.0	7.0	7.0
Housing, Water, Electricity, Gas & Other Fuels	0.3	0.0	2.7	2.7
<i>Of which:</i> Rent	2.2	0.0	6.5	6.5
Home Ownership	0.1	0.0	2.9	2.9
Education	0.0	0.0	1.7	1.7
Recreation & Culture	3.0	0.0	6.0	6.0
Hotels, Cafes & Restaurants	2.4	0.0	3.5	3.5
Transport	0.0	0.0	1.5	1.5

*Source: Central Statistical Office.*

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