



CENTRAL BANK OF TRINIDAD & TOBAGO

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Media Release

FOOD PRICES PUSH INFLATION TO 6.8 PER CENT IN JANUARY 2012: CENTRAL BANK MAINTAINS REPO RATE AT 3.0 PER CENT

The latest 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 **6.8 per cent** in January 2012 from 5.3 per cent in December 2011. The headline inflation rate registered a monthly increase of 2.5 per cent in January 2012 - the highest monthly increase since June 2010.

The continuing rise in food prices was the main reason behind the pick up in the headline inflation rate. On a year-on-year basis, **food prices** rose by **14.0 per cent** in January 2012 from 10.9 per cent in the previous month. The increase in the food index was led mainly by **fruits, vegetables** and **fish** which rose by **62.4 per cent, 7.5 per cent and 9.1 per cent**, respectively in the twelve months to January 2012. Besides the sharp increase in these categories, higher international prices may have begun to impact some categories in the domestic food basket, particularly **oils and fats (17.1 per cent), dairy-based products (7.2 per cent), bread and cereals (6.2 per cent)** and **meat (2.8 per cent)**.

Core inflation, which filters out the impact of food prices, edged upwards to **1.8 per cent** (year-on-year) in January 2012 from 1.5 per cent in December 2011. The sub-indices for housing, clothing and footwear and hotels, cafes and restaurants posted year-on-year increases of 2.7 per cent, 3.2 per cent and 3.4 per cent, respectively.

Available data show that credit continued its modest recovery in December 2011. On a year-on-year basis to December, private sector credit granted by the consolidated financial system grew by **3.7 per cent** somewhat faster than the 2.5 per cent increase recorded in November. Loans for real estate mortgages and to business firms were the main areas in which growth was evident. The expansion in **real estate mortgage lending** maintained its momentum at close to **9.0 per cent** (year on year) in December. Meanwhile, from a position of continuous decline over most of 2011, **business lending** rose by **6.9 per cent** (year on year) in December, up from 2.7 per cent in November, as some large companies in the energy and construction sectors obtained project financing from local banks. At the same time, credit to consumers continued to expand, albeit more slowly in December (1.9 per cent, year on year), compared to the 4.3 per cent recorded in November.

Liquidity in the domestic financial system has remained very high. Commercial bank balances at the Central Bank in excess of the required levels averaged TT\$5.0 billion over the first three weeks of February, 2012 partly due to an increase in the pace of government expenditure. The abundant liquidity has served to drive short-term interest rates to new lows. The **TT three-month treasury bill rate** declined to **0.20 per cent** in February 22, 2012 from 0.22 per cent in January 2012, forcing down the differential with the US three-month treasury rate to 11 basis points. Deposit and loan rates of commercial banks also continued to slip. Over the last three months of 2011, the weighted average deposit rate lost 4 basis points to reach 0.61 per cent while the weighted average lending rate declined by 3 basis points to 9.16 per cent.

The signs of an incipient recovery in credit to the business sector are encouraging, although it is too early to ascertain whether this will result in a sustained boost to private demand. At the same time, there is little evidence so far to suggest that the uptick in core inflation represents a generalized increase in demand pressures in the economy. In this

context, the Central Bank views the present accommodative 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 March 23, 2012.

February 24, 2012

APPENDIX

Table 2

MOVEMENT OF SELECTED CATEGORIES OF THE RETAIL PRICE INDEX

/Percentage Change/

	Monthly		Year-on-Year	
	December 2011	January 2012	December 2011	January 2012
Headline Inflation	0.1	2.5	5.3	6.8
Food Prices and Non-Alcoholic Beverages	0.1	5.2	10.9	14.0
Bread and Cereals	0.1	0.1	6.3	6.2
Meat	0.2	(0.4)	3.2	2.8
Fish	3.4	3.5	8.1	9.1
Vegetables	(3.2)	7.6	4.2	7.5
Fruits	8.9	6.3	62.9	62.4
Milk, Cheese & Eggs	0.5	(0.1)	7.2	7.2
Oils and Fats	0.3	0.5	16.5	17.1
Sugar, Jam, Confectionery, etc.	0.2	0.9	8.9	9.5
Core Inflation	0.0	0.5	1.5	1.8
Alcoholic Beverages & Tobacco	1.6	0.4	2.3	2.5
Clothing and Footwear	(0.6)	1.0	2.6	3.2
Furnishings, Household Equipment and Routine Maintenance	0.0	0.2	1.6	1.8
Health	0.5	0.0	0.9	0.9
<i>Of which:</i> Medical Services	0.0	0.2	1.0	1.2
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.6	2.5	2.7
<i>Of which:</i> Rent	0.0	0.6	9.4	6.7
Home Ownership	0.0	0.8	2.3	2.9
Education	0.0	0.0	1.7	1.7
Recreation & Culture	0.1	1.0	(0.5)	0.6
Hotels, Cafes & Restaurants	0.0	0.4	3.0	3.4
Transport	0.0	0.0	0.6	0.6

Source: Central Statistical Office.