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## Media Release

### **INFLATION ENDS 2011 AT 5.3 PER CENT: CENTRAL BANK MAINTAINS REPO RATE AT 3.00 PER CENT**

The final figures released by the Central Statistical Office for 2011 indicate that **headline inflation** slowed to **5.3 per cent** on a year-on-year basis in December from 5.7 per cent in the previous month. On a monthly basis, headline inflation increased by just 0.1 per cent in December compared to an increase of 1.2 per cent in November.

**Food prices** rose by **10.9 per cent** (year-on-year) in December 2011 following the 12.3 per cent increase in November. Over the course of the year there had been a notable volatility in the movement of food prices, initially characterized by a steep deceleration in the 12-month rate from 30.9 per cent in January to -0.3 per cent by August. The subsequent up-tick was largely associated with flooding in several agricultural districts. The December data showed that the fastest rises in food prices occurred for fruits (62.9 per cent on a 12-month basis), while prices of oils and fats rose by 16.5 per cent, fish by 8.1 per cent and milk, cheese and vegetables by 7.2 per cent.

**Core inflation**, which excludes food prices, remained relatively steady over the course of 2011, edging up to **1.5 per cent** (year-on-year) in December from 1.4 per cent in November. Since the middle of 2011, core inflation has stayed under 2.0 per cent reflecting weak underlying demand pressures in the economy.

Private sector credit demand, an important yardstick of demand conditions in the economy, has continued a slow but steady rate of expansion since the second quarter of 2011. On a year-on-year basis, **private sector credit** granted by the consolidated financial system grew by **2.5 per cent** in November 2011, up from 1.4 per cent in October. Among the major categories of lending, **consumer credit** continued its steady path of recovery growing by **4.3 per cent** while **real estate mortgage lending** maintained a robust rate of growth, expanding by **9.1 per cent** in the twelve months to November. **Business lending**, which recorded in October 2011 its first year-on-year increase in twenty-three months, picked up momentum in November, rising by **2.7 per cent** (year-on-year).

The financial system has continued to exhibit very high levels of liquidity, with excess commercial bank deposits at the Central Bank averaging over TT\$5 billion in the months of November and December. More recently, liquidity has contracted somewhat in the context of a bulge in tax payments to the Government at the start of 2012. Over the first three and a half weeks of January 2012, **commercial banks' excess reserves** fell to a daily average of **TT\$4.1 billion**.

In the face of significant excess liquidity, short-term interest rates have continued to slip to record lows. The **three- and six-month treasury bill rates** declined to **0.22 per cent and 0.28 per cent**, respectively by January 24, 2012 from 0.28 per cent and 0.32 per cent in December. With the TT 91-day treasury bill discount rate falling and the US 91-day treasury rate inching up to 0.04 per cent in January, the differential between the TT and US 3-month treasury rates narrowed to 18 basis points from 25 basis points in December 2011.

There is as yet no reliable evidence of a solid recovery in economic conditions, although the nascent improvement in financial system credit to the private sector is encouraging. If core inflation is taken as a guide, inflationary pressures remain well contained for the time being. Under these circumstances, **the Central Bank continues to view the present accommodative monetary policy 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 upcoming months.

**The next 'Repo' rate announcement is scheduled for February 24, 2012.**

**January 27, 2012.**

## APPENDIX

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

	Monthly		Year-on-Year	
	November 2011	December 2011	November 2011	December 2011
Headline Inflation	1.2	0.1	5.7	5.3
Food Prices and Non-Alcoholic Beverages	3.0	0.1	12.3	10.9
Bread and Cereals	(0.4)	0.1	6.7	6.3
Meat	0.4	0.2	7.7	3.2
Fish	3.1	3.4	6.7	8.1
Vegetables	5.0	(3.2)	8.1	4.2
Fruits	4.8	8.9	51.9	62.9
Milk, Cheese & Eggs	1.0	0.5	8.3	7.2
Oils and Fats	4.7	0.3	14.9	16.5
Sugar, Jam, Confectionery, etc.	(0.1)	0.2	8.8	8.9
Core Inflation	(0.0)	0.0	1.4	1.5
Alcoholic Beverages & Tobacco	(0.2)	1.6	0.8	2.4
Clothing and Footwear	0.3	(0.6)	2.4	2.6
Furnishings, Household Equipment and Routine Maintenance	0.0	0.0	1.6	1.6
Health	(0.7)	0.5	0.5	0.9
<i>Of which:</i> Medical Services	0.0	0.0	1.0	1.0
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	2.5	2.5
<i>Of which:</i> Rent	0.0	0.0	9.4	9.4
Home Ownership	0.0	0.0	2.3	2.3
Education	0.0	0.0	1.7	1.7
Recreation & Culture	0.1	0.1	(0.5)	(0.5)
Hotels, Cafes & Restaurants	0.0	0.0	3.0	3.0
Transport	0.0	0.0	0.6	0.6

*Source: Central Statistical Office.*

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