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## Media Release

### **INFLATION RISES TO 9.2 PER CENT IN FEBRUARY: CENTRAL BANK MAINTAINS REPO RATE AT 3.00 PER CENT**

According to data from the Central Statistical Office, there was a marked acceleration in the inflation rate in February 2012, reflecting a broad-based increase in food prices. **Headline inflation**, as measured by the twelve-month increase in the Index of Retail Prices, rose to **9.2 per cent** in February from 6.8 per cent in the previous month. On a monthly basis, the overall price level increased by 1.6 per cent in February 2012, following an increase of 2.5 per cent in January.

The dominant factor behind the rise in the overall inflation rate continued to be food prices. On a year-on-year basis, **food inflation** reached **20.2 per cent** in February 2012, compared with 14.0 per cent in January. The lingering effects of adverse weather conditions in earlier months on supplies of domestically-produced crops continued to be reflected in the prices of vegetables and fruits. At the same time, international price developments appear to have been gradually affecting domestic prices either directly in the case of dairy products or indirectly via higher costs of animal feed. As a consequence, in February, the 12-month increase in the price of fruit was 53.9 per cent, vegetables 24.5 per cent, milk, cheese and eggs 8.6 per cent, and meat 6.9 per cent. Reported reductions in fish catches also contributed to the 13.6 per cent rise in the selling price of fish.

The data show that, so far, prices of other goods and services have not generally mirrored the movements in food prices. **Core inflation**, which filters out the impact of food prices, **remained unchanged** in February from the previous month at **1.8 per cent** (year-on-year basis), but there was a slight decline in the 12-month rate of increase in the sub-indices for clothing and footwear and for alcoholic beverages and tobacco in February (2.8 and 2.2 per cent, respectively) relative to January (3.2 and 2.5 per cent, respectively).

The recovery in private sector credit continued into January 2012, albeit at a slightly slower pace. On a year-on-year basis, **credit granted by the consolidated financial system** to the private sector grew by **3.4 per cent** in January, following an increase of 3.7 per cent in December 2011. As regards the major categories of lending, the recorded 12-month increase in January was **8.7 per cent for real estate mortgage lending, 5.7 per cent for business credit, and 2.5 per cent for consumer credit**. Lower interest rates and more active marketing by banks geared to sustaining their loan portfolios contributed to the buoyancy in private sector credit.

Despite some expansion in credit, liquidity in the domestic financial system remained very high. Commercial bank balances at the Central Bank in excess of required levels averaged just over TT\$5.1 billion in February 2012, peaking at over TT\$6.5 billion in early March. The rise in liquidity levels was due in part to net domestic fiscal injections which reached approximately TT\$3 billion in the period February to mid March. In an effort to mop up some of this liquidity, the Central Bank withdrew TT\$1.5 billion through voluntary deposits by the commercial banks on March 16, 2012. The Bank will be employing additional liquidity absorption measures over the next few months to contain excess liquidity levels.

In the highly liquid environment, short-term interest rates sank further. The three-and six-month treasury bill rates declined to 0.04 per cent and 0.14 per cent, respectively in the

third week of March from 0.10 per cent and 0.28 per cent, respectively in February. As a result, the interest rate differential between TT and US three-month treasury bills actually turned negative. By March 21 2012, the **differential** was recorded at **-0.06 per cent**, compared with 0.25 per cent at the end of 2011.

The rise in headline inflation warrants close and continuous monitoring. So far, the volatile food component has driven overall inflation, while the steadiness of core inflation suggests that underlying demand pressures continue to be contained. While credit conditions have been improving, there is little evidence as yet of a sustained recovery in private demand. Against this background, the Central Bank 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 April 27, 2012.**

**March 23, 2012.**

## APPENDIX

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

	Monthly		Year-on-Year	
	January 2012	February 2012	January 2012	February 2012
Headline Inflation	2.5	1.6	6.8	9.2
Food Prices	5.2	3.6	14.0	20.2
Bread and Cereals	0.1	0.1	6.2	5.9
Meat	(0.4)	1.8	2.8	6.9
Fish	3.5	5.2	9.1	13.6
Vegetables	7.6	8.5	7.5	24.5
Fruits	6.3	5.0	62.4	53.9
Milk, Cheese & Eggs	(0.1)	1.6	7.2	8.6
Oils and Fats	0.5	1.5	17.1	17.9
Sugar, Jam, Confectionery, etc.	0.9	1.8	9.5	9.0
Core Inflation	0.5	0.0	1.8	1.8
Alcoholic Beverages & Tobacco	0.4	0.1	2.5	2.2
Clothing and Footwear	1.0	0.1	3.2	2.8
Furnishings, Household Equipment and Routine Maintenance	0.2	0.0	1.8	1.8
Health	0.0	0.0	0.9	0.9
<i>Of which:</i> Medical Services	0.2	0.0	1.2	1.2
Housing, Water, Electricity, Gas & Other Fuels	0.6	0.0	2.7	2.7
<i>Of which:</i> Rent	0.6	0.0	6.7	6.7
Home Ownership	0.8	0.0	2.9	2.9
Education	0.0	0.0	1.7	1.7
Recreation & Culture	1.0	0.0	0.6	0.6
Hotels, Cafes & Restaurants	0.4	0.0	3.4	3.4
Transport	0.0	0.0	0.6	0.6

*Source: Central Statistical Office.*