



## CENTRAL BANK OF TRINIDAD & TOBAGO

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# Media Release

## HEADLINE INFLATION RATE FALLS TO 6.4 PER CENT: CENTRAL BANK MAINTAINS REPO RATE AT 3.25 PER CENT

Recent data on retail prices released by the Central Statistical Office indicate that there was a sharp drop in **headline inflation** in April 2011 to **6.4 per cent** (year-on-year) from 9.4 per cent in March. Much of this decline is explained in terms of the “base effect” reflecting the sharp spurt in the Index of Retail Prices in April 2010. This increase, which forms the basis of the year-on-year comparisons, has led to a slower annual rate of growth in the Index. On a monthly basis however, headline inflation rose by 0.4 per cent in April following two consecutive months of decline in February and March.

**Food inflation**, which had ranged between 20-30 per cent since the beginning of 2011, declined sharply to **15.0 per cent** (year-on-year) in April – the lowest rate of increase since May 2010. The easing of food inflation was mainly due to slower price increases for **vegetables** (**18.5** per cent in April compared with 31.1 per cent in March), **fruits** (**26.5** per cent compared with 31.4 per cent in March) and **meat** (**9.9** per cent compared with 10.7 per cent in March). However prices accelerated for **fish** (**12.1 per cent**), **sugar and confectionery** (**5.6 per cent**) and **bread and cereals** (**1.3 per cent**).

**Core inflation**, which excludes food prices, fell to **1.3** per cent (year-on-year) in April from 2.7 per cent in March. This has been the first time since 2004 that the core inflation

rate has fallen below 2.0 per cent. The slowdown in the core rate was mainly attributed to slower price increases in the **health** (2.0 per cent compared with 3.7 per cent in March) and **recreation and culture** (3.4 per cent compared with 14.0 per cent in March) sub-indices.

It should be noted that the sharp fall in inflation coincided with improved credit conditions. On a year-on-year basis, the rate of decline in private sector credit extended by the consolidated financial system slowed to 1.6 per cent in March from 2.3 per cent in January. **Consumer credit** has continued on a steady path of recovery expanding for the sixth consecutive month, by **5.1 per cent** (year-on-year) while real estate mortgage lending accelerated to **8.4 per cent** in the twelve months to March, up from 7.6 per cent in January. In contrast, **business lending** has continued to languish, declining in March for the seventeenth consecutive month, by 5.4 per cent. On a sectoral basis, commercial bank lending to the manufacturing, distribution and construction sectors, which represented just over one-third of overall business lending, declined by 0.8 per cent, 4.2 per cent and 14.1 per cent, respectively in March 2011.

Smaller **net domestic fiscal injections** together with the various liquidity absorption measures undertaken by the Central Bank have helped to contain excess liquid balances in the financial system. Central Bank actions in the government securities and foreign exchange markets withdrew approximately \$1.0 billion from the financial system in May. As a consequence, commercial banks' balances in excess of the statutory requirement averaged \$1.4 billion in May compared with \$1.7 billion in March.

Short-term interest rates continued to rise in the tighter liquidity environment with the yield on 3-month treasury bills rising to 0.68 per cent as at May 23 from 0.47 per cent in April. With the slight fall in US 3-month treasury bill yields, the spread between domestic and US short-term rates widened to 62 basis points in May from 26 basis points in January.

Overall, underlying inflationary pressures appear well contained for the time being. Nonetheless, the Bank remains cautious about the inflation outlook and considers the risks to be still tilted towards the upside as credit demand picks up and international energy and food prices continue to surge. In these circumstances, **the Bank has decided to maintain the Repo rate at 3.25 per cent.**

The Bank will continue to keep economic and monetary conditions under close review.

**The next 'Repo' rate announcement is scheduled for June 24, 2011.**

**May 27, 2011**

## APPENDIX

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

	Monthly		Year-on-Year	
	March 2011	April 2011	March 2011	April 2011
Headline Inflation	(0.7)	0.4	9.4	6.4
Food Prices	(1.7)	0.7	21.3	15.0
Bread and Cereals	0.6	0.8	0.8	1.3
Meat	0.6	1.7	10.7	9.9
Fish	1.0	2.1	7.3	12.1
Vegetables	(4.5)	(0.4)	31.1	18.5
Fruits	8.6	2.6	31.4	26.5
Milk, Cheese & Eggs	1.3	0.8	12.5	12.5
Oils and Fats	0.5	1.2	(1.8)	(1.2)
Sugar, Jam, Confectionery, etc.	2.6	0.7	4.4	5.6
Core Inflation	0.0	0.2	2.7	1.3
Alcoholic Beverages & Tobacco	0.0	(0.2)	6.2	6.0
Clothing and Footwear	(0.1)	(0.3)	(1.5)	(1.5)
Furnishings, Household Equipment and Routine Maintenance	0.0	0.2	0.6	1.0
Health	0.1	0.5	3.7	2.0
<i>Of which:</i> Medical Services	0.0	1.0	5.7	1.6
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.1	0.7	1.0
<i>Of which:</i> Rent	0.0	0.6	5.9	4.8
Home Ownership	0.0	0.0	0.1	0.7
Education	0.0	1.9	1.9	2.6
Recreation & Culture	0.0	0.1	14.0	3.4
Hotels, Cafes & Restaurants	0.0	1.8	0.4	1.9
Transport	0.0	0.0	1.9	0.0

*Source: Central Statistical Office.*