



CENTRAL BANK OF TRINIDAD & TOBAGO

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Media Release

INFLATION FALLS TO UNDER 6 PER CENT: CENTRAL BANK LOWERS REPO RATE BY 50 BASIS POINTS TO 6.75 PER CENT

The latest data released by the Central Statistical Office show that inflation in Trinidad and Tobago continues to decelerate. **Headline inflation**, measured by the twelve-month change in the Index of Retail Prices, declined sharply to **5.9 per cent** in July from 8.4 per cent in June and down from a peak of 15.4 per cent in October 2008. Headline inflation is now at the lowest level since January 2005.

The rate of headline inflation has slowed markedly since the beginning of 2009. The cumulative monthly inflation rate between January and July 2009 was 0.6 per cent compared to 8.4 per cent in the corresponding period of 2008.

Food price inflation, which has been the main contributor to headline inflation, declined significantly to 10.1 per cent year-on-year in July 2009 compared with 16.5 per cent in June 2009 and down from a high of 34.6 per cent in September 2008. The current rate of food price inflation is the lowest recorded since July 2004. Measured on a year-on-year basis to July 2009, there were absolute declines in the prices for Bread and Cereals and Milk, Cheese and Eggs. Four other categories recorded lower price increases. Slower year-on-year increases were recorded for Oils and Fats (11.1 per cent compared with 14.5 per cent), Fruits (28.7 per cent compared with 36.7 per cent), Vegetables (8.2 per cent compared with 23.3 per cent) and Sugar, Jam, Honey, Syrups, Chocolate and Confectionery (4.6 per cent compared with 7.4 per cent).

Core inflation, which excludes the food component, also trended downwards in July. On a year-on-year basis, the rate of core inflation fell to **3.8 per cent** from 4.5 per cent in June 2009. Most of the sub-categories of core inflation registered a slowdown in growth. The rate of increase in the Housing, Water, Electricity, Gas and Other Fuels sub-index slowed to 2.0 per cent compared with 4.2 per cent in June, while the Hotels, Cafés and Restaurants sub-index declined to 8.2 per cent from 15.9 per cent in the previous month.

The sharp deceleration in headline inflation since the beginning of the year could be traced to the reduction in domestic demand consequent on a pronounced slowdown in the economy, the delayed pass-through effects of some commodity prices as well as increasing agricultural supplies.

Credit growth has remained subdued. In the twelve months to June 2009, growth in **private sector credit by the commercial banking system** slowed to 4.3 per cent from 18.4 per cent in June 2008. This decline largely reflects a sharp reduction in consumer credit. Commercial bank credit to businesses and lending for real estate mortgages increased modestly in the month, but also remained well below the levels of 2008.

As a result of the deceleration in credit growth, there has been a build-up in liquidity in the domestic banking system which has helped to push down short-term interest rates. The three-month Treasury bill rate now stands at 2.3 per cent in August 2009 down from 6.9 per cent in December 2008, while the six-month Treasury bill rate fell to 2.9 per cent compared with 7.3 per cent over the similar period.

Based on the current economic outlook, aggregate demand is expected to remain soft throughout the rest of the year, in which case inflation should continue to be subdued. It must be noted however, that the Index of Retail Prices is extremely responsive to changes in international

commodity prices and domestic agricultural supply. Accordingly, the recent widespread flooding could have some impact on food prices and affect the trend in headline inflation. Nevertheless, the overall prospect is for inflation to remain contained for the rest the year.

Against this background **the Central Bank has decided to lower the “Repo” rate by 50 basis points to 6.75 per cent.** At the same time, in order to guard against a re-emergence of inflationary expectations, the Bank will continue to keep under close review the trend in bank liquidity and the rate of credit resurgence.

The next ‘Repo’ rate announcement is scheduled for September 25, 2009.

August 28, 2009.

APPENDICES

MOVEMENT OF SELECTED CATEGORIES OF THE RETAIL PRICE INDEX

/Percentage Change/

	Monthly		Year-on-Year	
	June 2009	July 2009	June 2009	July 2009
Headline Inflation	(0.1)	0.0	8.4	5.9
Food Prices	(0.1)	(1.1)	16.5	10.1
Bread and Cereals	0.1	0.1	12.5	0.0
Meat	(1.7)	0.7	7.1	8.1
Fish	(6.3)	3.6	(0.9)	8.2
Vegetables	0.0	(4.6)	23.3	8.2
Fruits	0.4	(3.2)	36.7	28.7
Milk, Cheese & Eggs	(0.3)	(1.0)	(2.1)	(3.3)
Oils and Fats	0.0	(0.1)	14.5	11.1
Sugar, Jam, Confectionery, etc.	(2.4)	(1.1)	7.4	4.6
Core Inflation	0.0	0.6	4.5	3.8
Alcoholic Beverages & Tobacco	(0.1)	0.5	7.6	7.6
Clothing and Footwear	(1.5)	0.6	(1.4)	(1.3)
Furnishings, Household Equipment and Routine Maintenance	0.0	(0.7)	(7.0)	3.5
Health	0.0	0.1	7.0	6.3
<i>Of which:</i> Medical Services	0.0	0.0	11.3	10.0
Housing, Water, Electricity, Gas & Other Fuels	0.0	(0.6)	4.2	2.0
<i>Of which::</i> Rent	0.0	1.6	4.2	4.2
Home Ownership	0.0	(1.0)	6.6	3.3
Water, Electricity, Gas & Other Fuels	0.0	0.0	(2.9)	(2.9)
Education	0.0	0.0	6.8	6.8
Recreation & Culture	0.0	6.5	1.7	1.7
Hotels, Cafes & Restaurants	0.0	0.8	15.9	8.2
Transport	0.0	0.0	7.5	6.6

Source: Central Statistical Office