



## CENTRAL BANK OF TRINIDAD & TOBAGO

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### CENTRAL BANK LOWERS REPO RATE BY 50 BASIS POINTS TO 4.5 PER CENT TO HELP STIMULATE DOMESTIC DEMAND

Recent data released by the Central Statistical Office indicate that inflation continued its upward trajectory in the face of persistent adverse weather conditions. **Headline inflation**, measured by the twelve-month increase in the Index of Retail Prices, rose to **14.1 per cent** in July from 13.7 per cent last month. **Food Inflation**, measured on a twelve-month basis, increased to **33.3 per cent** in July from 31.1 per cent in June. **Core inflation**, which filters out the impact of food prices, declined to **4.1 per cent** (year-on-year) in July from 4.3 per cent in the previous month. The continued steadiness of the core inflation rate suggests that the underlying inflationary pressures are still relatively contained.

The rise in food prices was led by **fruits (38.0 per cent)** and **vegetables (63.1 per cent)**, but there were also increases in the sub-indices for **meat (4.1 per cent)**, **milk, cheese and eggs (2.3 per cent)** and **sugar and confectionery products (8.3 per cent)**. The floods, which have accompanied the persistent rainy weather, have disrupted domestic food crop production in many agricultural districts.

Available indicators suggest that aggregate demand continues to be sluggish. In the twelve months to June 2010, **private sector credit** by the consolidated financial system declined for the tenth consecutive month by **6.1 per cent**. Among the major categories of private sector credit, **business credit** contracted sharply by **10.0 per cent** (year-on-year) in June, outpacing the rate of decline in **consumer credit (-0.6 per cent)**. Although real estate mortgage lending has been somewhat more resilient over the past several months, the rate of growth of existing **real estate mortgage loans** slowed to **5.7 per cent** in June 2010 from around 8.0 per cent at the start of the year.

An analysis of the sectoral distribution of business credit reveals that there were notable year-on-year declines in credit to the **distribution (-17.2 per cent)**, **manufacturing (-12.2 per cent)** and **construction (-5.7 per cent)** sectors. Within the consumer grouping, there were also sharp declines in loans for **home improvement and renovations (-8.4 per cent)** and for the purchase of **motor vehicles (-6.5 per cent)**. The sharp fall-off in credit growth is associated with a build-up in liquidity, with commercial banks' balances at the Central Bank in excess of the reserves requirement averaging around TT\$2.5 billion since May 2010.

Although short-term interest rates have continued to plummet to new lows, there has been some lag in the reduction in commercial bank lending rates. The **three-month treasury bill rate** has declined to **0.48 per cent** in August 2010 from 1.36 per cent in December 2009 while **commercial banks' weighted average loan rates** fell to **10.58 per cent** in June 2010 from 11.46 per cent in December 2009.

Production data for the first half of 2010 show that most of the increase in economic activity has been concentrated in the energy sector. By contrast, activity in the non-energy sector still remains quite weak. Notwithstanding the availability of surplus funds in the banking system, the low appetite for new investments in the non-energy sector continues to limit the strength of the economic recovery.

In these circumstances, **the Bank has decided to reduce the 'Repo' rate by 50 basis points to 4.5 per cent to help stimulate domestic demand.**

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

**The next 'Repo' rate announcement is scheduled for September 23, 2010.**

**August 27, 2010.**

## APPENDIX

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

	Monthly		Year-on-Year	
	June 2010	July 2010	June 2010	July 2010
Headline Inflation	3.7	0.5	13.7	14.1
Food Prices	9.6	0.5	31.1	33.3
Bread and Cereals	(0.1)	(0.1)	(3.8)	(4.0)
Meat	2.6	2.4	2.4	4.1
Fish	(2.2)	(1.8)	13.5	7.6
Vegetables	21.4	2.5	51.9	63.1
Fruits	0.1	(9.7)	48.0	38.0
Milk, Cheese & Eggs	4.2	0.1	1.2	2.3
Oils and Fats	(0.4)	(1.3)	(2.8)	(4.0)
Sugar, Jam, Confectionery, etc.	(0.9)	0.6	6.5	8.3
Core Inflation	0.0	0.4	4.3	4.1
Alcoholic Beverages & Tobacco	0.0	(0.2)	12.2	11.3
Clothing and Footwear	(0.6)	(0.9)	0.3	(1.3)
Furnishings, Household Equipment and Routine Maintenance	0.0	0.4	(0.2)	1.1
Health	0.2	0.3	4.7	5.0
<i>Of which:</i> Medical Services	0.0	0.5	9.6	10.1
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	(0.2)	0.3
<i>Of which::</i> Rent	0.0	0.6	7.6	6.6
Home Ownership	0.0	(0.1)	(2.3)	(1.4)
Education	0.0	0.0	2.9	2.9
Recreation & Culture	0.0	3.3	7.8	4.6
Hotels, Cafes & Restaurants	0.0	0.2	2.1	1.4
Transport	0.0	0.0	11.8	11.8

*Source: Central Statistical Office.*

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