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INFLATION FALLS TO 1.5 PER CENT: CENTRAL BANK LOWERS REPO RATE BY 50 BASIS POINTS TO 5.25 PER CENT

The latest data released by the Central Statistical Office indicate that the pace of inflation has continued to decelerate. **Headline inflation**, measured by the 12-month change in the Index of Retail Prices (RPI), decelerated to **1.5 per cent** (on a year-on-year basis) in November 2009, from 2.7 per cent in October, and 14.3 per cent one year earlier.

It should be recalled that there was an unusual surge in prices in the latter part of 2008. The resulting elevated price level now forms the base for measuring current inflation, and affects the inflation calculations which are done on a year-on-year basis. However, even excluding the "base" effect, inflation during the period January to November 2009 fell to 1.4 per cent compared with 13.6 per cent for the corresponding period of 2008.

Food inflation, which has been a major driver of the headline inflation rate, fell sharply to 0.4 per cent (year-on-year) in November from 3.5 per cent in October. The decrease in food price inflation was led by declines in the prices of milk, cheese and eggs (-9.7 per cent), bread and cereals (-9.3 per cent), vegetables (-1.5 per cent) and meat (-0.3 per cent). The sugar and confectionery group of the food prices sub-index was the only category which experienced a faster rate of growth in November (2.3 per cent compared to 0.1 per cent in October). This increase coincided with a rise in the price of sugar on international markets.

Core inflation, which excludes movements in food prices, declined slightly to 2.1 per cent on a year-on-year basis to November from 2.2 per cent in the preceding month. The marginal fall in the core inflation rate was mainly attributed to a decline in the price of clothing and footwear (-1.7 per cent). In contrast, the alcoholic beverages and tobacco sub-index posted an increase of 13.0 per cent (year-on-year) in November.

A continued slump in domestic private demand in 2009 has been the principal factor behind the sharp fall in inflation. **Private sector credit** by the consolidated financial system fell by 2.0 per cent on a year-on-year basis to October following a decline of 0.4 per cent in the previous month. **Consumer credit** contracted by 3.1 per cent in October following less pronounced declines in the previous two months while lending to businesses slowed sharply to 1.8 per cent in October from 6.5 per cent in September. **Real estate mortgage lending** has remained rather resilient thus far to the uncertain economic environment, rising by 10.6 per cent (year-on-year) in October from 9.0 per cent in September.

The reduction in credit expansion in combination with higher **net fiscal injections** has been reflected in an increase in **banking system liquidity**. For the period October – November 2009, excess reserves averaged close to TT$3.0 billion, three times more than the average for the corresponding period in 2008. To address a persistent liquidity overhang, in November the Central Bank requested commercial banks to deposit TT$2.0 billion in interest-bearing accounts at the Bank for a minimum period of 1 year. Increased sales of foreign exchange also helped to drain excess reserve balances from the financial system. In the upcoming weeks, additional measures will be introduced to absorb excess liquidity in the domestic financial system.

The high level of excess liquidity has helped to suppress **short-term interest rates**, with the discount rate on the three-month treasury bill falling to 1.42 per cent in mid-December 2009 from 1.85 per cent in September. As a consequence, the differential between the TT and US 3-month treasury bill rates has narrowed sharply to 138 basis points in mid-December from 173 basis points in September.

The persistent slowdown in the economy, against a background of subdued inflation, provides additional scope for monetary policy that is geared to boosting private sector economic activity. Accordingly, **the Bank has decided to lower its main policy rate – the 'Repo' rate – by 50 basis points to 5.25 per cent**.

The Bank will continue to keep a close watch on economic developments and stands ready to take early action to restrain inflationary pressures if circumstances so warrant.

The next 'Repo' rate announcement is scheduled for January 22, 2010.

December 23, 2009.

APPENDIX

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

	Monthly		Year-on-Year	
	October 2009	**November 2009**	**October 2009**	**November 2009**
Headline Inflation	(0.7)	(0.9)	2.7	1.5
Food Prices	(1.6)	(2.5)	3.5	0.4
Bread and Cereals	0.5	(1.4)	(7.6)	(9.3)
Meat	1.5	(1.2)	1.3	(0.3)
Fish	5.2	(0.2)	7.3	0.8
Vegetables	(0.7)	(2.2)	1.7	(1.5)
Fruits	(7.6)	(5.7)	29.3	27.3
Milk, Cheese & Eggs	(0.8)	0.5	(9.8)	(9.7)
Oils and Fats	(1.0)	0.0	3.0	0.7
Sugar, Jam, Confectionery, etc.	(0.4)	2.4	0.1	2.3
Core Inflation	(0.2)	(0.1)	2.2	2.1
Alcoholic Beverages & Tobacco	7.7	0.4	12.6	13.0
Clothing and Footwear	(0.9)	(0.2)	(1.6)	(1.7)
Furnishings, Household Equipment and Routine Maintenance	0.4	0.0	2.2	2.2
Health	1.8	0.0	6.8	6.8
Of which: Medical Services	4.0	0.0	14.1	14.1
Housing, Water, Electricity, Gas & Other Fuels	0.7	0.0	1.4	1.4
Of which:: Rent	0.1	0.0	2.8	2.8
Home Ownership	0.0	0.0	0.7	0.7
Water, Electricity, Gas & Other Fuels	2.8	0.0	2.9	2.9
Education	1.7	0.0	3.2	3.2
Recreation & Culture	(8.0)	0.0	(5.7)	(5.7)
Hotels, Cafes & Restaurants	0.5	0.0	3.8	3.8
Transport	(0.3)	0.0	4.3	4.3

Source: Central Statistical Office.