



CENTRAL BANK OF TRINIDAD & TOBAGO

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INFLATION RISES: CENTRAL BANK MAINTAINS REPO RATE AT 5.0 PER CENT

Recent data released by the Central Statistical Office indicate that **headline inflation** rose by **3.7 per cent** in the twelve months to January 2010 from 1.3 per cent a month earlier. The January increase represents a reversal from the steady decline in inflation from 10.3 per cent in May 2009.

Food price inflation, rose by **2.7 per cent** on a year-on-year basis in January following a decline of 0.2 per cent in December 2009. On a monthly basis, food inflation increased in January by 1.3 per cent – the first monthly increase since September 2009. The rise in food inflation in January came largely from price increases for **fruits (11.7 per cent)** and **fish (3.2 per cent)**.

Core inflation, which excludes the impact of food prices, rose to **4.2 per cent** (year-on-year) in January from **2.2 per cent** in December. On a monthly basis, core inflation rose by 2.2 per cent in January 2010, following an increase of 0.1 per cent in December 2009 and three consecutive monthly declines. The increase in core inflation in January was spread over several categories – alcoholic beverages, clothing and footwear, rent and, most notably, in

transportation. In the case of the transportation sub-index, the increase of 10 per cent in January partly reflects the inclusion of cumulative increases in the prices of fuels and lubricants since January 2009.

The sudden rise in inflation in January does not seem to be a response to any major changes in the underlying fundamentals.

Domestic demand remains depressed with **private sector credit** by the consolidated financial system declining by **4.1 per cent** in the twelve months to December 2009. All the major credit categories, save real estate mortgage lending, continue to show weaknesses. **Consumer and business credit** fell by **3.3 per cent** and **2.5 per cent**, respectively in December following declines of **4.9 per cent** and **1.3 per cent** in the previous month. **Real estate mortgage lending**, however, remained quite robust growing by **7.8 per cent** on a year-on-year basis to December.

Excess liquidity in the financial system has remained high reflecting weak credit expansion. Notwithstanding the recent issuance by the central government of a TT\$600 million 15-year bond in early February, excess reserve balances held by commercial banks averaged around TT\$1.3 billion significantly above the normal range of TT\$400 million – TT\$600 million.

The sharp build-up in excess liquidity over the past several months has served to depress short-term interest rates, with the **three-month treasury bill rate** declining to **1.29 per cent** in February from 1.36 per cent in January and from 4.4 per cent a year ago. Long-term bond rates as well as the entire structure of commercial bank interest rates have also trended downwards.

It is not clear whether the sudden jump in inflation in January represents a resurgence of underlying inflationary pressures. At the same time, available indicators suggest that economic activity seems depressed in the context of significant spare capacity. In these circumstances, **the Bank has decided to maintain its main policy rate – the “Repo rate” – at 5.0 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 March 26, 2010.

February 26, 2010

APPENDIX

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

	Monthly		Year-on-Year	
	December 2009	January 2010	December 2009	January 2010
Headline Inflation	(0.1)	1.9	1.3	3.7
Food Prices	(0.3)	1.3	(0.2)	2.7
Bread and Cereals	(0.9)	(0.2)	(7.7)	(6.6)
Meat	(0.2)	(0.8)	(1.0)	(2.4)
Fish	4.2	3.2	3.7	(0.8)
Vegetables	(0.1)	(1.6)	(1.3)	1.0
Fruits	0.4	11.7	28.5	37.2
Milk, Cheese & Eggs	(0.4)	(0.1)	(10.2)	(9.7)
Oils and Fats	(0.8)	0.3	(0.7)	(1.5)
Sugar, Jam, Confectionery, etc.	0.2	0.6	1.7	0.7
Core Inflation	0.1	2.2	2.2	4.2
Alcoholic Beverages & Tobacco	0.6	0.1	14.0	14.0
Clothing and Footwear	0.1	0.7	(1.5)	(1.0)
Furnishings, Household Equipment and Routine Maintenance	0.0	0.3	2.2	1.0
Health	0.1	0.2	6.7	6.6
<i>Of which:</i> Medical Services	0.0	0.4	14.1	14.0
Housing, Water, Electricity, Gas & Other Fuels	0.0	(0.1)	1.4	1.1
<i>Of which:</i> Rent	0.0	4.2	2.8	6.5
Home Ownership	0.0	(0.8)	0.7	(0.2)
Water, Electricity, Gas & Other Fuels	0.0	0.0	2.9	2.9
Education	0.0	0.0	3.2	3.2
Recreation & Culture	0.0	(0.3)	(5.7)	3.1
Hotels, Cafes & Restaurants	0.0	0.5	3.8	3.0
Transport	0.0	10.0	4.3	9.5

Source: Central Statistical Office.

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