



## CENTRAL BANK OF TRINIDAD & TOBAGO

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# Media Release

## INFLATION SLOWS TO 12.5 PER CENT: CENTRAL BANK LOWERS REPO RATE TO 3.25 PER CENT

Recent data released by the Central Statistical Office indicate that **headline inflation** measured by the 12-month increase in the Index of Retail Prices slowed to **12.5 per cent** in January 2011 from 13.4 per cent in December 2010. **Core inflation**, which had remained virtually unchanged for the past several months, declined to **2.6 per cent** (year-on-year) in January from 4.7 per cent in the previous month.

On a year-on-year basis, **food prices** increased by **30.9 per cent** in January, slightly up from 29.5 per cent in December. The rise in food prices was led mainly by **vegetables (51.0 per cent)** and **meat (10.2 per cent)**. Within the vegetables sub-index, significant price increases were recorded for **tomatoes (92.6 per cent)**, **green pigeon peas (103.0 per cent)**, **christophene (106.9 per cent)** and **ochroes (77.0 per cent)**. The rate of price increases however slowed for **fruits (26.3 per cent** in January compared with 32.4 per cent in December) and **fish (7.2 per cent** in January compared with 7.9 per cent).

The slower rate of increase in **core inflation** reflected movements in the transportation sub-index, largely due to technical factors. There was a surge in this sub-index in January 2010 following the inclusion of cumulative increases (between January and December 2009) in the prices of fuels and lubricants. This elevated level, which forms the

base for the year-on-year comparison, now gives rise to a significantly slower annual rate of increase in the **transportation sub-index** in January 2011 (**1.9 per cent**) compared with the average of 11.3 per cent throughout 2010. Besides this “base effect”, there were also slower price increases in other non-food categories including **Health** and **Furnishings and Household Equipment**.

Underlying demand pressures continue to be fairly subdued as reflected by credit developments. In the twelve months to December 2010, **private sector credit** by the consolidated financial system contracted by **2.3 per cent** led by **business credit**, which declined for the fourteenth consecutive month by **7.2 per cent**. Information at a more disaggregated level reveals that there was a decline in lending to all the major business sectors including **manufacturing** (-0.4 per cent), **construction** (-8.9 per cent) and **distribution** (-11.4 per cent). It should be noted however that **consumer credit** has begun to recover and, after monthly increases of just above 1.0 per cent in the past two months, has strengthened significantly in December 2010, rising to 4.2 per cent.

Net fiscal injections, the major source of domestic liquidity, have been somewhat lower for the first five months of the fiscal year and, combined with the liquidity absorption measures undertaken by the Central Bank, have served to reduce **excess liquidity**. For the month of February thus far, commercial banks’ reserve balances held at the Central Bank in excess of the statutory limit averaged \$1.4 billion daily compared with \$2 billion in December 2010.

In the somewhat tighter liquidity environment, the **three-month treasury bill** has inched up over the past few months from its historic low of 0.28 per cent in October 2010 to **0.47 per cent** in February 2011.

**Inflation risks** are likely to remain on the upside in the coming months following the sharp increases in the global prices of some key food staples such as wheat, maize, sugar and edible oils. Several of these price increases have not yet begun to impact domestic food prices. In addition, there are indications that private demand has begun to pick up. The Bank will keep a close watch on the evolution of the credit and liquidity aggregates which have implications for aggregate demand and core inflation.

Meanwhile with the recovery of the non-energy sector activity remaining an urgent priority, the Bank has decided to **reduce the 'Repo' rate by 25 basis points to 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 March 25, 2011.**

**February 25, 2011.**

## APPENDIX

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

	Monthly		Year-on-Year	
	December 2010	January 2011	December 2010	January 2011
Headline Inflation	0.5	1.1	13.4	12.5
Food Prices	1.3	2.4	29.5	30.9
Bread and Cereals	0.5	0.2	(0.7)	(0.4)
Meat	4.5	0.0	9.4	10.2
Fish	2.1	2.6	7.9	7.2
Vegetables	0.3	4.3	42.5	51.0
Fruits	1.6	6.6	32.4	26.3
Milk, Cheese & Eggs	1.5	0.0	11.3	11.3
Oils and Fats	(1.1)	0.0	(2.8)	(3.1)
Sugar, Jam, Confectionery, etc.	0.2	0.4	4.1	3.9
Core Inflation	(0.1)	0.2	4.7	2.6
Alcoholic Beverages & Tobacco	0.1	0.3	6.0	6.2
Clothing and Footwear	(0.8)	0.5	(1.5)	(1.7)
Furnishings, Household Equipment and Routine Maintenance	0.0	0.0	1.0	0.6
Health	0.0	0.1	3.8	3.7
<i>Of which:</i> Medical Services	0.0	0.0	6.0	5.7
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.4	0.2	0.7
<i>Of which:</i> Rent	0.0	3.1	7.0	5.9
Home Ownership	0.0	0.1	(0.8)	0.1
Education	0.0	0.0	1.9	1.9
Recreation & Culture	0.0	0.0	13.7	14.0
Hotels, Cafes & Restaurants	0.0	0.1	0.8	0.4
Transport	0.0	0.0	12.1	1.9

Source: Central Statistical Office.