



**CENTRAL BANK OF  
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## **INFLATION FALLS TO 1.3 PERCENT; CENTRAL BANK REDUCES REPO RATE BY 25 BASIS POINTS TO 5.0 PER CENT**

The final inflation figures for 2009 released by the Central Statistical Office indicate that **headline inflation** slowed to **1.3 per cent** in the twelve months to December 2009 from 1.5 per cent in November and 14.5 per cent a year earlier.

**Food prices were 0.2 per cent** lower than in December 2008. The reductions were largely in the prices of **bread and cereals (-7.7 per cent)**, **milk, cheese and eggs (-10.2 per cent)**, **oil and fats (-0.7 per cent)** and **vegetables (-1.3 per cent)**. There were offsetting increases in the prices for **fish (3.7 per cent)** and **fruits (28.5 per cent)**.

**Core inflation**, which excludes the impact of food prices, was **2.2 per cent** (year-on-year) in December compared with 7.1 percent in December 2008. A major contributor to the deceleration over the course of the year was slower price increases for **household services** (1.4 per cent compared to 7.9 per cent). The sharp decline in inflation during 2009 is mainly attributable to the **slack in domestic demand** resulting from the economic downturn.

During the year, bank credit expansion to the private sector decelerated steadily and by November 2009, credit outstanding was **4.2 per cent** lower than a year earlier. With the exception of real estate mortgage lending, all the major categories of private sector credit weakened substantially. **Consumer credit**, which had been falling since around the middle of 2009, posted a year-on-year decline of **4.9 per cent** in November while **business credit** contracted by **1.3 per cent** in November following growth of 1.8 per cent in the previous month. Real estate mortgage lending remained resilient, increasing by 8.4 per cent in the twelve months to November.

Higher net fiscal injections along with the sharp contraction in bank credit expansion have contributed to a rise in excess reserves balances in the financial system that persisted into 2010. While for the year to date commercial banks' excess balances have averaged around TT\$1.4 billion, the payment of approximately \$805 million in quarterly taxes in early January 2010 has helped to drain some of these excess balances from the financial system. Additional sales of foreign exchange have also helped with liquidity absorption.

In the face of significant excess liquidity, short-term interest rates have remained generally depressed with the three-month and six-month Treasury bill rates declining to 1.36 per cent and 1.47 per cent respectively in January from 6.22 per cent and 6.95 per cent in January 2009. There has also been a sharp narrowing in the **differential between TT and US short-term interest rates**, which declined to **130 basis points** in January 2010 from around 607 basis points at the start of 2009.

While the short-term prognosis is for a recovery in economic activity in 2010, private sector demand still remains subdued and is perhaps not likely to strengthen before the second quarter of 2010. With inflationary pressures currently contained, there is room for monetary policy to continue to stimulate domestic demand in order to lay a firm foundation for resumption in economic growth. Against this background, **the Bank has decided to lower its main policy rate – the “Repo rate” – by 25 basis points to 5.00 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 February 26, 2010.**

**January 22, 2010.**

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

	Monthly		Year-on-Year	
	November 2009	December 2009	November 2009	December 2009
Headline Inflation	(0.9)	(0.1)	1.5	1.3
Food Prices	(2.5)	(0.3)	0.4	(0.2)
Bread and Cereals	(1.4)	(0.9)	(9.3)	(7.7)
Meat	(1.2)	(0.2)	(0.3)	(1.0)
Fish	(0.2)	4.2	0.8	3.7
Vegetables	(2.2)	(0.1)	(1.5)	(1.3)
Fruits	(5.7)	0.4	27.3	28.5
Milk, Cheese & Eggs	0.5	(0.4)	(9.7)	(10.2)
Oils and Fats	0.0	(0.8)	0.7	(0.7)
Sugar, Jam, Confectionery, etc.	2.4	0.2	2.3	1.7
Core Inflation	(0.1)	0.1	2.1	2.2
Alcoholic Beverages & Tobacco	0.4	0.6	13.0	14.0
Clothing and Footwear	(0.2)	0.1	(1.7)	(1.5)
Furnishings, Household Equipment and Routine Maintenance	0.0	0.0	2.2	2.2
Health	0.0	0.1	6.8	6.7
<i>Of which:</i> Medical Services	0.0	0.0	14.1	14.1
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	1.4	1.4
<i>Of which::</i> Rent	0.0	0.0	2.8	2.8
Home Ownership	0.0	0.0	0.7	0.7
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	0.0	(5.7)	(5.7)
Hotels, Cafes & Restaurants	0.0	0.0	3.8	3.8
Transport	0.0	0.0	4.3	4.3

Source: Central Statistical Office.