



**CENTRAL BANK OF
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Media Release

INFLATION FALLS: CENTRAL BANK LOWERS REPO RATE BY 50 BASIS POINTS TO 7.5 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 **10.3 per cent** in May 2009 from 11.9 per cent in the previous month. **Food price inflation**, the main contributor to headline inflation, measured **19.6 per cent** in the twelve months to May compared with **25.2 per cent** in April. **Core inflation**, which filters out the impact of food prices, remained virtually unchanged from the previous month at **5.8 per cent** (year-on-year). On a **monthly basis**, **headline inflation** fell by **0.2 per cent** in **May**, reversing the upward trend of the previous two months.

With respect to food price inflation, slower year-on-year price increases were recorded for **bread and cereals** (**20.4 per cent** compared with 31.9 in April), **fish** (**5.0 per cent** compared with 13.3 per cent in April), **oils and fats** (**18.0 per cent** compared with 21.1 per cent in April), **vegetables** (**23.6 per cent** compared with 35.7 per cent in April) and **sugar, jams and confectionery** (**11.3 per cent** compared with 15.5 per cent in April). In contrast, the sub-indices for **fruits** and **meat** posted year-on-year increases of **41.1 per cent** and **8.3 per cent**, respectively.

As noted above, the reduction in food inflation reflected movements in a wide range of items. It is, however, too early to say whether this reduction marks the start of a trend deriving from structural factors (such as increased production) and the delayed pass-through of international commodity price decreases.

As regards **core inflation**, the sub-indices for **health and alcoholic beverages and tobacco** posted year-on-year increases of **7.9** and **7.7 per cent**, respectively. The increase in the cost of health services reflected higher prices for pharmaceutical products. The stickiness in the rate of core inflation, which has been hovering in the 5-6 per cent range since the beginning of the year, suggests that underlying inflationary pressures have not yet been fully contained.

Against the background of a more subdued economic climate, there continues to be a steady contraction in bank **credit expansion**. On a year-on-year basis to April, the growth in **private sector credit** measured **1.2 per cent** compared with 8.4 per cent in January and 19.7 per cent a year ago. Of the three major categories of private sector credit, the largest deceleration occurred in **consumer lending**, with the year-on-year rate slowing markedly to **0.2 per cent** in April from 2.0 per cent in the previous month and from around 20 per cent a year earlier. Meanwhile, the rate of growth of **credit to businesses** and **lending for real estate mortgages** slowed to **7.4 per cent** and **13.3 per cent**, respectively.

Net fiscal injections for the first nine months of fiscal year 2009 were approximately **21 per cent** higher than in the corresponding period a year earlier. The high level of fiscal injections combined with sluggish credit demand has led to significant excess liquidity in the banking system. The sharp increase in foreign exchange sales by the Central Bank as well as two bond auctions (**a TT\$280 million 7-year bond and a TT\$600 million 11-year bond**) scheduled for June 26, will assist in mopping up some of this excess liquidity.

As noted, the Bank is still uncertain as to whether the significant reduction in inflation is the start of a downward trend. At the same time, there continues to be strong evidence of a slowing in domestic economic activity. Under these circumstances, the Bank has decided to **reduce the “Repo” rate by 50 basis points to 7.50 per cent.**

The Bank will continue to keep a close watch on domestic, regional and international economic developments and is prepared to take further monetary policy action if circumstances so warrant.

The next ‘Repo’ rate announcement is scheduled for July 24, 2009.

June 26, 2009.

APPENDIX

MOVEMENT OF SELECTED CATEGORIES OF THE INDEX OF RETAIL PRICES

/Percentage Change/

	Monthly		Year-on-Year	
	April 2009	May 2009	April 2009	May 2009
Headline Inflation	1.1	(0.2)	11.9	10.3
Food Prices	0.7	(0.7)	25.2	19.6
Bread and Cereals	(0.2)	(1.5)	31.9	20.4
Meat	(0.2)	0.1	7.9	8.3
Fish	(3.6)	(12.2)	13.3	5.0
Vegetables	2.5	(4.2)	35.7	23.6
Fruits	7.0	19.4	36.6	41.1
Milk, Cheese & Eggs	(1.4)	(0.7)	0.3	(0.8)
Oils and Fats	0.9	(0.2)	21.1	18.0
Sugar, Jam, Confectionery, etc.	(0.3)	(1.3)	15.5	11.3
Core Inflation	1.3	0.1	5.8	5.8
Alcoholic Beverages & Tobacco	0.1	0.1	7.6	7.7
Clothing and Footwear	(0.8)	0.5	(0.5)	(0.3)
Furnishings, Household Equipment and Routine Maintenance	0.9	0.0	(7.0)	(7.0)
Health	3.8	0.0	7.7	7.9
Of which: Medical Services	9.2	0.0	11.3	11.3
Rent	0.5	0.0	4.2	4.2
Home Ownership	1.6	0.0	6.6	6.6
Water, Electricity, Gas & Other Fuels	0.0	0.0	16.3	8.4
Education	1.4	0.0	6.8	6.8
Recreation & Culture	5.5	0.0	1.7	1.7
Of Which: Package Holidays	10.9	0.0	(9.0)	(9.0)
Hotels, Cafes & Restaurants	1.1	0.0	15.9	15.9
Transport	(0.2)	0.0	7.5	7.5

Source: Central Statistical Office.