



CENTRAL BANK OF
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Media Release

CENTRAL BANK LOWERS REPO RATE BY 25 BASIS POINTS TO 8.50 PER CENT

The latest data released by the Central Statistical Office indicate that in the twelve months to February 2009, **headline inflation** measured **11.7 per cent**, the same rate as in January 2009. In 2008, headline inflation had reached as high as 14.7 per cent. On a monthly basis, **headline inflation** fell by **0.2 per cent** in February 2009 following a decline of **0.4 per cent** in the previous month.

Food price inflation, which registered a year-on-year increase of **25.9 per cent** in February 2009, remained unchanged from the previous month. After slowing sharply in January 2009 to 5.2 per cent, **core inflation**, edged upwards increasing to **5.3 per cent** on a year-on-year basis to February 2009.

An analysis of the monthly inflation figures indicate that **food price inflation** fell by **0.7 per cent** in February following a decline of 1.5 per cent in January 2009. The major areas of decline were in the prices of **bread and cereals (0.5 per cent)**, **meat (0.9 per cent)**, **vegetables (2.1 per cent)** and **milk, cheese and eggs (0.3 per cent)**. Slower monthly increases were recorded for **fish (4.9 per cent** in February compared to 8.0 per cent in January), **fruits (2.4 per cent** in February compared with 4.6 per cent in January) and **oils and fats (0.4 per cent** in February compared with 1.0 per cent in January).

The decline in international food prices has resulted in a sharp reduction in domestic food inflation in many countries. While there has been some decline in food inflation in the local economy within recent months, food prices are still significantly higher than a year earlier. In February 2009, the prices of **bread and cereals, oils and fats, fruits and vegetables** were **45.8 per cent, 28.7 per cent, 36.9 per cent and 26.1 per cent** higher than a year earlier.

The sharp slowdown in global growth has dampened consumer and business optimism and is leading to a broad-based softening in domestic economic activity. With energy prices and global aggregate demand projected to remain depressed for several months, consumers and business firms have become somewhat more cautious about the outlook for the domestic economy in 2009. Accordingly, many local firms are in the process of re-evaluating their spending plans and cutting costs. Some of these adjustments have already begun to negatively impact employment especially in the energy and services sectors.

The decline in domestic demand is partly reflected in the behaviour of credit markets. In the twelve months to January 2009, **private sector credit by the consolidated financial system** slowed to **8.4 per cent** from 10.4 per cent in December 2008 and 18.4 per cent a year earlier. **Consumer credit** has also declined to **3.4 per cent** in January 2009 from 5.7 per cent in the previous month and 22.1 per cent in January 2008. Business credit has displayed a similar trend although it continues to outpace consumer credit expansion.

With the slowdown in bank credit expansion, **excess reserves in the financial system** have increased to unprecedented levels. Plans are well advanced for the issue of a long-term liquidity bond to mop up excess liquidity.

The significant build-up in excess liquidity has impacted **short-term interest rates** which have declined substantially in recent months. The **3-month treasury bill rate** declined by 296 basis points to **3.26 per cent** in March 2009 from 6.22 per cent in January while the **6-month rate** fell to **3.88 per cent** in March from 6.95 per cent in January. As yet, there have been no corresponding reductions in bank interest rates.

Monetary policy faces the dual challenge of addressing double-digit inflation while trying to moderate the economic slowdown and contain the negative employment impact. In order to provide the signal for the lowering of bank lending rates, especially to businesses, the Central Bank has reduced the '**Repo**' rate by 25 basis points to **8.50 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 April 24, 2009.

March 27, 2009.

Appendix

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

	Monthly		Year-on-Year	
	January 2009	February 2009	January 2009	February 2009
Headline Inflation	(0.4)	(0.2)	11.7	11.7
Food Prices	(1.5)	(0.7)	25.9	25.9
Bread and Cereals	(1.3)	(0.5)	49.7	45.8
Meat	0.7	(0.9)	9.3	8.1
Fish	8.0	4.9	30.6	23.5
Vegetables	(3.8)	(2.1)	22.6	26.1
Fruits	4.6	2.4	31.1	36.9
Milk, Cheese & Eggs	(0.6)	(0.3)	6.4	3.3
Oils and Fats	1.0	0.4	31.7	28.7
Sugar, Jam, Confectionery, etc.	1.5	(0.1)	18.3	18.0
Core Inflation	0.2	0.1	5.2	5.3
Alcoholic Beverages & Tobacco	0.1	0.1	5.5	5.8
Clothing and Footwear	0.2	(0.1)	1.4	0.9
Furnishings, Household Equipment and Routine Maintenance	1.5	0.0	5.3	5.3
Health	0.4	0.1	4.3	4.2
Of which: Medical Services	0.4	0.0	2.8	2.8
Rent	0.6	0.0	6.5	6.5
Home Ownership	0.1	0.0	5.1	5.1
Water, Electricity, Gas & Other Fuels	0.0	0.0	17.7	17.1
Education	0.0	0.0	9.2	9.2
Recreation & Culture	(8.8)	0.0	(8.9)	(8.9)
Of Which: Package Holidays	(25.1)	0.0	(30.5)	(30.5)
Hotels, Cafes & Restaurants	1.3	0.0	20.5	20.5
Transport	4.9	0.0	7.8	7.8

Source: Central Statistical Office.