



## CENTRAL BANK OF TRINIDAD & TOBAGO

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# Media Release

## CENTRAL BANK MAINTAINS REPO RATE AT 8.0 PER CENT

The latest statistics on retail prices released by the Central Statistical Office show a moderate increase in the domestic inflation rate. **Headline inflation**, measured by the 12-month increase in the Index of Retail Prices, rose to **11.9 per cent** in April 2009 from 11.3 per cent in March.

**Food inflation**, the key driver of the headline inflation rate, rose by **25.2 per cent** in the twelve months to April 2009 from 24.5 per cent in the previous month. The increase reflected, for the most part, higher prices for **fruits (36.6 per cent)** and **vegetables (35.7 per cent)**, which together account for twenty per cent of the food sub-index. The rate of price increases however slowed for **bread and cereals (31.9 per cent in April 2009 compared with 40.9 per cent in March 2009)**, **oils and fats (21.1 per cent compared with 26.3 per cent)**, **milk, cheese and eggs (0.3 per cent compared with 2.1 per cent)** and **fish (13.3 per cent compared with 16.3 per cent)**.

On a **monthly basis**, **headline inflation** rose by **1.1 per cent**, after posting declines in the first two months of the year. For the month of April, food inflation rose by 0.7 per cent, slightly below the 0.8 per cent monthly increase recorded in March. The sub-indices for **fruits** and **vegetables** posted monthly increases of **7.0 per cent** and **2.5 per cent**, respectively.

**Core inflation**, which filters the out the impact of food prices, rose by **5.8 per cent** on a year-on-year basis to April from 5.3 per cent in March 2009. The sub-indices for **Health** and **Housing** posted year-on-year increases of **7.7 per cent** and **8.4 per cent**, respectively, somewhat higher than in recent months.

In **April 2009**, **core inflation** rose by **1.3 per cent** from 0.1 per cent in the previous month. This surge in the monthly core inflation rate resulted, in large measure, from increases in the sub-indices for **health (3.8 per cent)**, **recreation and cultural services (5.5 per cent)** and **home ownership (1.6 per cent)**.

**Net fiscal injections** during the first half of the fiscal year 2009 were 24 per cent higher than in the corresponding period of the previous fiscal year and this has impacted liquidity in the financial system. Liquidity continues to be quite high with excess reserves averaging close to TT\$1.5 billion during the last two months. This build-up in excess reserve balances is partly reflective of the sharp contraction in bank credit expansion as consumers and business firms have adopted a more cautious approach to borrowing in the face of slower economic activity. The recent issuance of a TT\$300 million WASA 5-year bond along with more intensified open market operations should assist in mopping up some of these excess reserve balances.

In the twelve months to March 2009, **private sector credit by the consolidated financial system** slowed to **3.1 per cent** from 8.4 per cent at the beginning of the year and from 18.0 per cent a year earlier. **Consumer credit expansion** also slowed sharply to **2.0 per cent** (year-on-year) in March 2009 from 3.4 per cent in January and 18.4 per cent in March 2008. **Credit to businesses** and **lending for real estate mortgage loans** have posted increases of **9.7 per cent** and **14.9 per cent**, respectively in the twelve months to March 2009.

The slowdown in bank credit expansion and the resultant increase in excess reserve balances held by commercial banks have served to depress short-term market rates. The **three-**

**month treasury bill rate** declined to **2.50 per cent** in May 2009 from 6.22 per cent in January 2009 resulting in a narrowing in the differential between short-term US and TT interest rates. This differential declined to 230 basis points in May 2009 from 607 basis points in January 2009.

Monetary policy continues to face the dual challenge of containing inflation which remains stubbornly in double-digits while moderating the pace of the economic slowdown in the domestic economy.

Against this background, the **Bank has decided to maintain the “Repo” rate at 8.00 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 June 26, 2009.**

**May 29, 2009.**

## APPENDIX

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

	Monthly		Year-on-Year	
	March 2009	April 2009	March 2009	April 2009
Headline Inflation	0.3	1.1	11.3	11.9
Food Prices	0.8	0.7	24.5	25.2
Bread and Cereals	(0.8)	(0.2)	40.9	31.9
Meat	(0.6)	(0.2)	6.4	7.9
Fish	(0.5)	(3.6)	16.3	13.3
Vegetables	4.5	2.5	28.6	35.7
Fruits	(3.6)	7.0	29.5	36.6
Milk, Cheese & Eggs	(0.7)	(1.4)	2.1	0.3
Oils and Fats	0.1	0.9	26.3	21.1
Sugar, Jam, Confectionery, etc.	1.4	(0.3)	19.1	15.5
Core Inflation	0.1	1.3	5.3	5.8
Alcoholic Beverages & Tobacco	1.9	0.1	7.6	7.6
Clothing and Footwear	(0.2)	(0.8)	1.3	(0.5)
Furnishings, Household Equipment and Routine Maintenance	0.0	0.9	5.3	(7.0)
Health	0.3	3.8	4.5	7.7
Of which: Medical Services	0.0	9.2	2.8	11.3
Rent	0.0	0.5	6.5	4.2
Home Ownership	0.0	1.6	5.1	6.6
Water, Electricity, Gas & Other Fuels	0.0	0.0	16.4	16.3
Education	0.0	1.4	9.2	6.8
Recreation & Culture	0.0	5.5	(8.9)	1.7
Hotels, Cafes & Restaurants	0.0	1.1	20.5	15.9
Transport	0.0	(0.2)	7.8	7.5

Source: Central Statistical Office.