



CENTRAL BANK OF
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INFLATION REMAINS UNDER 5.0 PER CENT: CENTRAL BANK MAINTAINS REPO RATE AT 6.25 PER CENT

The latest data released by the Central Statistical Office indicate that inflation edged up in September following four consecutive months of decline. **Headline inflation**, measured by the twelve-month increase in the Index of Retail Prices, rose to **4.9 per cent** in September from **4.3 per cent** in the previous month, reflecting higher food prices.

Food price inflation, the main contributor to headline inflation measured **6.8 per cent** in the twelve months to September compared with **5.2 per cent** in August. Increases in the food sub-index came mainly from **fruits** and **sugar and confectionery products**.

Core inflation, which excludes food prices, also inched up to **3.9 per cent** in the twelve months to September from 3.8 per cent in August. The rise reflected increases in the prices of alcohol and tobacco following the imposition of higher taxes announced in the 2009 /2010 budget.

The main factor behind the subdued inflation performance continues to be the decline in economic activity and domestic demand. Available indicators suggest that while the economic downturn may be levelling off, consumer confidence and private spending remain depressed.

Higher net domestic fiscal injections along with the continued deceleration in credit to the private sector have contributed to an unusually high level of liquidity in the financial system. **Excess reserve balances** held by commercial banks in the past three months averaged **TT\$2.1 billion** dollars representing a three-fold increase compared to the corresponding period of 2008. Faced with sizeable excess balances, commercial banks have had little need to access the inter-bank market or the repurchase facility at the Central Bank. In the coming weeks, the Bank will be introducing additional measures designed to absorb excess liquidity from the domestic financial system.

In the twelve months to August, the **growth in private sector credit** from the consolidated financial system slowed to **2.1 per cent** from **5.3 per cent** in June and from **13.7 per cent** a year earlier. With aggregate demand remaining weak in a subdued economic climate, consumer credit contracted by 1.4 per cent on a year-on-year basis to August after having expanded by 1.3 per cent in the previous month. **Credit to businesses** and **real estate mortgage lending** also posted slower rates of increase of **9.7 per cent** each in the twelve months to August, compared to 10.8 per cent and 10.2 per cent respectively in July 2009.

Short-term interest rates have continued to decline steadily in the easier liquidity environment. The **discount rate on three-month treasury bills** fell to **1.49 per cent** in October from 1.85 per cent at the end of September and from 6.2 per cent in January 2009. As a consequence, the **differential** between the **TT and US dollar 3-month treasury bill rates** narrowed to **141 basis points** in October from 175 basis points in September and 607 basis points in January.

In the face of sluggish economic activity, monetary policy has been more accommodative since March 2009 and the “Repo” rate has been reduced, on a cumulative basis, by 250 basis points between February and September 2009. The Bank is in the process of assessing the impact of the recent round of rate cuts and has decided to **maintain the “Repo” rate at 6.25 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 November 20, 2009.

October 23, 2009.

APPENDIX

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

	Monthly		Year-on-Year	
	August 2009	September 2009	August 2009	September 2009
Headline Inflation	0.4	2.1	4.3	4.9
Food Prices	0.9	6.0	5.2	6.8
Bread and Cereals	(1.2)	(0.9)	(5.1)	(7.1)
Meat	(0.7)	1.5	2.2	2.5
Fish	1.8	0.6	10.7	3.5
Vegetables	4.0	6.0	(1.1)	0.8
Fruits	4.2	9.9	44.3	40.2
Milk, Cheese & Eggs	(2.7)	(2.3)	(6.4)	(9.2)
Oils and Fats	(0.7)	(0.4)	6.2	4.2
Sugar, Jam, Confectionery, etc.	(0.6)	2.2	3.5	5.2
Core Inflation	0.1	0.0	3.8	3.9
Alcoholic Beverages & Tobacco	(0.1)	2.1	4.1	6.3
Clothing and Footwear	0.9	(0.1)	(0.7)	(1.0)
Furnishings, Household Equipment and Routine Maintenance	0.0	0.0	3.5	3.5
Health	0.1	(0.1)	5.6	5.2
<i>Of which:</i> Medical Services	0.0	0.0	10.0	10.0
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	2.0	2.7
<i>Of which::</i> Rent	0.0	0.0	4.2	4.2
Home Ownership	0.0	0.0	3.3	3.3
Water, Electricity, Gas & Other Fuels	0.0	0.0	(2.9)	0.0
Education	0.0	0.0	6.8	6.8
Recreation & Culture	0.0	0.0	1.7	1.7
Hotels, Cafes & Restaurants	0.0	0.0	8.2	8.2
Transport	0.0	0.0	6.6	6.6

Source: Central Statistical Office.