



CENTRAL BANK OF TRINIDAD & TOBAGO

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Media Release

CENTRAL BANK LOWERS REPO RATE BY 25 BASIS POINTS TO 4.0 PER CENT

The latest data released by the Central Statistical Office indicate that **headline inflation** measured **13.2 per cent** (year-on-year) in September 2010 compared with 16.2 per cent in the previous month. **Food price inflation**, the main driver of the headline inflation rate, slowed to **29.2 per cent** in the twelve months to September from 39.1 per cent in August 2010. **Core inflation**, which excludes the influence of food prices, measured **4.1 per cent** on a year-on-year basis and has remained unchanged for the past three months.

The slower rise in the food prices index reflects the decline in the sub-indices for **bread and cereals (-2.8 per cent)** and **oils and fats (-3.5 per cent)**. There was also some moderation of price increases for **fruits (29.5 per cent** compared with 37.8 per cent in August), **vegetables (48.6 per cent** compared with 63.4 per cent in August), **meat (4.4 per cent** compared with 5.1 per cent) and **sugar and confectionery products (5.9 per cent** compared with 8.5 per cent). The short-term outlook for food prices remains uncertain especially in light of rising commodity prices at the global level.

The stickiness of core inflation at the level of 4.0 per cent, in the face of weak demand conditions and significant spare capacity, continues to be of some concern.

Sluggish economic activity along with rising unemployment continues to dampen credit demand, a situation that has obtained for the past twelve months. On a year-on-year basis to August 2010, **private sector credit** by the consolidated financial system fell by **5.5 per cent**, following declines of 6.2 and 6.1 per cent in the two previous months.

Among the major categories of private sector credit, **business credit** continued to register double-digit contractions as firms seem to be wary of accumulating new debt. **Business loans** declined for the tenth consecutive month in August by **10.1 per cent** (year-on-year).

On the other hand, the decline in **consumer credit**, evident since August 2009, seemed to have bottomed out with such credit rising by **0.1 per cent** in August 2010 on the heels of an increase of 0.4 per cent in July. However, further analysis of the consumer credit information at a more disaggregated level indicates that the improvement is more related to debt consolidation and refinancing by consumers in the lower interest rate environment rather than to the contracting of new consumer loans. Meanwhile, **real estate mortgage lending** remained resilient rising by **7.1 per cent** in August 2010, about the same rate as in the previous month.

Depressed credit demand along with the availability of limited investment alternatives has kept excess reserves in the commercial banking sector at record high levels. For the month of October 2010, excess reserve balances at commercial banks climbed to TT\$3.3 billion, the highest level for the year so far. Net open market operations along with the sale of foreign exchange have however helped to withdraw close to TT\$1.0 billion in liquidity from the financial system. Given the relatively high levels of liquidity, banks had no need to resort to borrowing either from the inter-bank market or the “repo window” at the Central Bank to meet their financing needs.

Short-term interest rates have continued to fall in the face of sluggish credit demand and buoyant liquidity conditions. The increase demand for Government securities has pushed the **three-month treasury bill rate to 0.35 per cent** in October 2010, down from 1.35 per cent at the start of the year. Consequently, the **differential between TT and US short-term interest rates** has narrowed sharply to **22 basis points** from around 130 basis points in January.

Weak consumer and business confidence are still placing a drag on activity in the non-energy sector, which still shows no sign of any sustained resurgence. In these circumstances, the Bank has decided to **reduce the repo rate by 25 basis points to 4.00 per cent** so as to provide further stimulus to domestic demand and private investment.

The Bank will continue to keep economic and monetary conditions under close review.

The next 'Repo' rate announcement is scheduled for November 26, 2010.

October 29, 2010.

APPENDIX

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

	Monthly		Year-on-Year	
	August 2010	September 2010	August 2010	September 2010
Headline Inflation	2.2	(0.6)	16.2	13.2
Food Prices	5.4	(1.5)	39.1	29.2
Bread and Cereals	(0.6)	(0.3)	(3.4)	(2.8)
Meat	0.2	0.8	5.1	4.4
Fish	6.2	1.9	12.2	13.7
Vegetables	4.2	(3.6)	63.4	48.6
Fruits	4.0	3.3	37.8	29.5
Milk, Cheese & Eggs	0.6	0.1	5.7	8.4
Oils and Fats	(0.1)	(0.5)	(3.3)	(3.5)
Sugar, Jam, Confectionery, etc.	(0.4)	(0.2)	8.5	5.9
Core Inflation	0.1	0.1	4.1	4.1
Alcoholic Beverages & Tobacco	0.2	0.1	11.7	9.4
Clothing and Footwear	(0.2)	0.5	(2.3)	(1.7)
Furnishings, Household Equipment and Routine Maintenance	0.0	0.0	1.1	1.1
Health	0.0	0.4	5.0	5.4
<i>Of which:</i> Medical Services	0.0	0.0	10.1	10.1
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.0	0.3	0.3
<i>Of which::</i> Rent	0.0	0.0	6.6	6.6
Home Ownership	0.0	0.0	(1.4)	(1.4)
Education	0.0	0.0	2.9	2.9
Recreation & Culture	0.0	0.0	4.6	4.6
Hotels, Cafes & Restaurants	0.0	0.0	1.4	1.4
Transport	0.0	0.0	11.8	11.8

Source: Central Statistical Office.

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