



CENTRAL BANK OF TRINIDAD & TOBAGO

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Media Release

INFLATION CONTINUES DOWNWARD TREND: CENTRAL BANK LOWERS REPO RATE BY 50 BASIS POINTS TO 6.25 PER CENT

According to the latest data released by the Central Statistical Office, inflation continued on a downward trend for the fourth consecutive month. **Headline Inflation**, measured by the 12-month increase in the Index of Retail prices, fell to **4.3 per cent** in August 2009 from 5.9 per cent in the previous month and from 11.6 per cent at the start of the year. Over the first eight months of the year, the Index of Retail Prices has increased by 1.0 per cent compared to 10.8 per cent over the corresponding period of 2008.

There was a notable decline in **food inflation**, which measured **5.2 per cent** on a year-on-year basis to August compared with 10.1 per cent in July. Within the food sub-index, slower year-on-year increases were recorded for **meat (2.2 per cent** in August compared with 8.1 per cent in July); **oils and fats (6.2 per cent** compared with 11.1 per cent in July); and **sugar and confectionery (3.5 per cent** compared with 4.6 per cent in July). The sub-indices for **bread and cereals, vegetables and milk, cheese and eggs** posted year-on-year declines in August of **5.1 per cent, 1.1 per cent and 6.4 per cent**, respectively. However, faster year-on-year increases were recorded for **fish (10.7 per cent)** and **fruits (44.3 per cent)**.

Core Inflation, which excludes the impact of food prices, remained unchanged at **3.8 per cent**. In August, the sub-indices for **Health and Alcoholic Beverages and Tobacco** posted year-on-year increases of **5.6 per cent and 4.1 per cent**, respectively.

Liquidity in the banking system remained high partly on account of increased net domestic fiscal injections with excess reserves balances held by commercial banks averaging around TT\$2.0 billion over the last two months. The upcoming TT\$500 million Trinidad and Tobago Mortgage Finance Company Limited 15-year fixed rate bond should help to initially drain some of this excess liquidity from the system.

Credit growth has remained sluggish in the face of the sharp reduction in domestic demand resulting from the more subdued economic environment. On a year-on-year basis to July, the growth in **private sector credit** by the consolidated financial system slowed to **4.0 per cent** from 5.3 per cent in the previous month and from 12.4 per cent a year ago. Of the three major categories of private sector credit, **consumer credit** has recorded the largest deceleration with the year-on-year rate slowing to **1.3 per cent** in July from an average of 3.0 per cent in the first three months of 2009 and from 11.3 per cent, a year ago. Both **business credit** and **real estate mortgage lending** also lost some momentum and slowed to **10.8 per cent** and **10.2 per cent**, respectively in the twelve months to July from 13.1 per cent and 12.4 per cent in the previous month.

The significant liquidity overhang in the domestic financial system has helped to depress short-term interest rates, which have continued to fall steadily over the past two months. The **3-month treasury bill rate** fell to **1.85 per cent** in September from 2.50 per cent in July while the **6-month treasury bill rate** declined to **2.56 per cent** from 2.86 per cent. As a consequence, there has been a sharp narrowing in the **differential between the TT and US 3-month treasury bill rates** to **175 basis points** in late September from 232 basis points in July and from 607 basis points at the start of the year.

While the current outlook is for a reduction in the pace of inflation for the remainder of the year, risks to this outlook still exist especially in light of the expansionary 2009/2010 central government budget, which provides for a fiscal deficit of around 6 per cent of GDP and includes higher taxes on alcohol and tobacco, which have taken effect from early September 2009. The situation could be compounded further by current liquidity levels and seasonal weather patterns that affect the supply of some major agricultural produce.

In the context of strong evidence of a continuing contraction in domestic economic activity that is being accompanied by sluggish credit demand, **the Bank has decided to lower its main policy rate – the “Repo rate” – by 50 basis points to 6.25 per cent.**

The Bank will continue to keep a close watch on domestic, regional and international economic developments.

The next ‘Repo’ rate announcement is scheduled for October 23, 2009.

September 25, 2009

APPENDIX

MOVEMENT OF SELECTED CATEGORIES OF THE INDEX OF RETAIL PRICES

/Percentage Change/

	Monthly		Year-on-Year	
	July 2009	August 2009	July 2009	August 2009
Headline Inflation	0.0	0.4	5.9	4.3
Food Prices	(1.1)	0.9	10.1	5.2
Bread and Cereals	0.1	(1.2)	0.0	(5.1)
Meat	0.7	(0.7)	8.1	2.2
Fish	3.6	1.8	8.2	10.7
Vegetables	(4.6)	4.0	8.2	(1.1)
Fruits	(3.2)	4.2	28.7	44.3
Milk, Cheese & Eggs	(1.0)	(2.7)	(3.3)	(6.4)
Oils and Fats	(0.1)	(0.7)	11.1	6.2
Sugar, Jam, Confectionery, etc.	(1.1)	(0.6)	4.6	3.5
Core Inflation	0.6	0.1	3.8	3.8
Alcoholic Beverages & Tobacco	0.5	(0.1)	7.6	4.1
Clothing and Footwear	0.6	0.9	(1.3)	(0.7)
Furnishings, Household Equipment and Routine Maintenance	(0.7)	0.0	3.5	3.5
Health	0.1	0.1	6.3	5.6
<i>Of which:</i> Medical Services	0.0	0.0	10.0	10.0
Housing, Water, Electricity, Gas & Other Fuels	(0.6)	0.0	2.0	2.0
<i>Of which::</i> Rent	1.6	0.0	4.2	4.2
Home Ownership	(1.0)	0.0	3.3	3.3
Water, Electricity, Gas & Other Fuels	0.0	0.0	(2.9)	(2.9)
Education	0.0	0.0	6.8	6.8
Recreation & Culture	6.5	0.0	1.7	1.7
Hotels, Cafes & Restaurants	0.8	0.0	8.2	8.2
Transport	0.0	0.0	6.6	6.6

Source: Central Statistical Office.