



CENTRAL BANK OF TRINIDAD & TOBAGO

POST OFFICE BOX 1250 PORT-OF-SPAIN, TRINIDAD, WEST INDIES
TELE: 625-4835, FAX: (868) 623-1955
E-Mail Address: info@central-bank.org.tt

INFLATION TRENDS UPWARD: CENTRAL BANK MAINTAINS REPO RATE AT 5.0 PER CENT

The latest data released by the Central Statistical Office indicate that **headline inflation**, measured by the 12-month increase in the Index of Retail Prices, rose to **4.8 per cent** in February 2010 from **3.7 per cent** in the previous month. The main influence on the headline rate has come from food prices which rose by **2.8 per cent** during the month of February. On a year-on-year basis to February, **food inflation** measured **6.3 per cent**, up from 2.7 per cent in January. Much of the increase represented higher prices for **fruits and vegetables**. After rising by 11.7 percent in January, fruit prices rose by a further **5 per cent** in February. Vegetable prices rose by **6.1 per cent** in February after declining by 1.6 per cent in January. The rise in food inflation suggests that the severe drought is already beginning to have an effect on domestic food prices. This impact is likely to continue and even intensify in the next few months.

Core inflation, which excludes food prices, slowed to 4.0 per cent (year-on-year) in February from 4.2 per cent a month earlier. The main factor contributing to the deceleration in the core rate was a reduction in the prices of **clothing and footwear** which fell by **1.9 per cent** in February following a decrease of 1.0 per cent in January.

The rise in inflation is taking place against the background of a protracted weakness in private sector credit demand. In the twelve months to January 2010, **private sector credit** by the consolidated financial system declined by **4.1 per cent** as loans to business and consumers contracted. On a year-on-year basis, **consumer credit** fell for the sixth consecutive month in January by **2.9 per cent** while **business credit** declined for the third consecutive month by an even larger rate (**-3.8 per cent**). The only category of credit that has remained resilient to the more fragile economic environment is real estate mortgage lending. This sub-group rose by 8 per cent (year-on-year) in January following increases of similar magnitudes in the previous two months.

High net fiscal injections, along with the sharp fall in bank credit, have kept excess liquidity in the financial system at elevated levels (averaging TT\$1.6 billion during the first quarter of 2010). The recent issuance of a TT\$600 million 15-year central government bond has helped to contain the rapid build-up in excess liquidity. In the coming weeks, the issuance of a government bond should also assist in draining some of the excess liquid balances from the system.

The relatively high levels of excess liquidity over the past several months have helped to suppress short-term interest rates which have plunged to record lows. The **three-month and six-month treasury bill rates** declined to **1.28 per cent** and **1.44 per cent**, respectively in March from 1.85 per cent and 2.56 per cent in September 2009. As a consequence, the **differential** between the TT and US three-month treasury bill rates has narrowed to **108 basis points** in March from 173 basis points in September 2009.

Monetary policy is now required to face the reality of sluggish economic activity and rising inflation. There is also concern that a continued rise in food prices could result in heightened inflation expectations. These factors could present challenges as to when to reverse the current neutral monetary policy stance. Against this background, **the Bank has decided to maintain the 'Repo' rate at 5.0 per cent.**

The Bank will continue to keep a close watch on economic developments and stands ready to take early action to restrain inflationary pressures if circumstances so warrant.

The next 'Repo' rate announcement is scheduled for April 23, 2010.

March 26, 2010

APPENDIX

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

	Monthly		Year-on-Year	
	January 2010	February 2010	January 2010	February 2010
Headline Inflation	1.9	0.9	3.7	4.8
Food Prices	1.3	2.8	2.7	6.3
Bread and Cereals	(0.2)	(0.2)	(6.6)	(6.3)
Meat	(0.8)	(1.9)	(2.4)	(3.4)
Fish	3.2	0.6	(0.8)	(4.9)
Vegetables	(1.6)	6.1	1.0	9.4
Fruits	11.7	5.0	37.2	40.7
Milk, Cheese & Eggs	(0.1)	0.1	(9.7)	(9.3)
Oils and Fats	0.3	0.3	(1.5)	(1.6)
Sugar, Jam, Confectionery, etc.	0.6	2.5	0.7	3.3
Core Inflation	2.2	(0.1)	4.2	4.0
Alcoholic Beverages & Tobacco	0.1	0.4	14.0	14.4
Clothing and Footwear	0.7	(1.0)	(1.0)	(1.9)
Furnishings, Household Equipment and Routine Maintenance	0.3	0.0	1.0	1.0
Health	0.2	(0.1)	6.6	6.3
<i>Of which:</i> Medical Services	0.4	0.0	14.0	14.0
Housing, Water, Electricity, Gas & Other Fuels	(0.1)	0.0	1.1	1.1
<i>Of which::</i> Rent	4.2	0.0	6.5	6.5
Home Ownership	(0.8)	0.0	(0.2)	(0.2)
Water, Electricity, Gas & Other Fuels	0.0	0.0	2.9	2.9
Education	0.0	0.0	3.2	3.2
Recreation & Culture	(0.3)	0.0	3.1	3.1
Hotels, Cafes & Restaurants	0.5	0.0	3.0	3.0
Transport	10.0	0.0	9.5	9.5

Source: Central Statistical Office.