



## CENTRAL BANK OF TRINIDAD & TOBAGO

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# INFLATION RISES IN APRIL: CENTRAL BANK MAINTAINS REPO RATE AT 5.0 PER CENT

According to the latest data released by the Central Statistical Office (CSO), inflation continued on an upward trend for the fourth consecutive month. **Headline inflation**, measured by the 12-month increase in the Index of Retail Prices, rose to **7.3 per cent** in April 2010 from 5.1 per cent in March. On a monthly basis, headline inflation increased by 3.2 per cent in April compared to an average increase of 1.1 per cent for the first three months of 2010. The monthly increase in April is the largest recorded since January 1990.

The faster rate of growth in **food prices** was the main contributor to the higher headline inflation rate. In the twelve months to April, food prices rose by 12.7 per cent from 6.9 per cent in March and from a low-point of 2.7 per cent in January. Food prices rose by a brisk 6.2 per cent during the month of April led by increases in the prices of domestic produce, largely fruits and vegetables. On a 12-month basis, the prices of **fruit and vegetables** were respectively **60.2 per cent** and **9.4 per cent** higher than in April 2009. The intense drought, which affected domestic food crop production over the past three months, has been mainly responsible for the increase in local food prices.

**Core inflation**, which filters out the impact of food prices, edged up to **4.4 per cent** in the twelve months to April from 4.1 per cent in the previous month. The rise in the core inflation rate largely reflected increases in the transportation and recreation and culture sub-indices, which together account for around one-third of the weight in the core inflation index. On a year-on-year basis to April, the transportation sub-index increased by 11.8 per cent compared with 9.5 per cent in March, while the recreation and culture sub-index rose by 7.8 per cent compared to 3.1 per cent in the previous month. The rise in the price of new motor vehicles (3.8 per cent) was the main factor driving the increase in the transportation sub-index while higher airfares (13.8 per cent) associated with increased jet fuel costs were behind the increase in the recreation and culture sub-index.

The steady rise in inflation over the past few months is occurring against the background of continued sluggishness in domestic demand and weak economic activity. On a year-on-year basis to March 2010, **private sector credit** by the consolidated financial system contracted **by 2.6 per cent**, following declines of 4.1 per cent and 3.6 per cent in January and February, respectively. **Consumer and business credit** posted year-on-year declines of **2.5 per cent** and **2.9 per cent**, respectively in March, following declines of 3.1 per cent and 5.4 per cent in the previous month. **Real estate mortgage lending**, however, has continued to remain quite robust growing by **7.4 per cent** in March from 6.5 per cent in February.

**High net fiscal injections** and **declining bank credit** have contributed to a sharp build-up in liquidity in the domestic financial system, with excess commercial bank balances at the Central Bank averaging just over TT\$2.0 billion in May. This accumulation in excess liquid

balances in the financial system has served to keep short-term interest rates at record lows with the **three and six-month treasury bill rates** declining to **1.11 per cent** and **1.27 per cent**, respectively on May 25 from 1.36 per cent and 1.48 per cent in January.

Looking ahead, the widespread flooding already being experienced since the start of the rainy season, combined with the expected increase in some international commodity prices, will continue to exert upward pressure on food prices. Domestic demand may pick up slowly now that the election uncertainties are over. However, the abundant spare capacity should help to contain any major increase in core inflation.

The Bank is of the view that the immediate policy challenge is to help promote economic recovery while keeping an eye on the course of headline inflation. In these circumstances, **the Bank has decided to maintain the 'Repo' rate at 5.0 per cent.**

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

**The next 'Repo' rate announcement is scheduled for June 25, 2010.**

**May 28, 2010.**

## APPENDIX

### MOVEMENT OF SELECTED CATEGORIES OF THE INDEX OF RETAIL PRICES

/Percentage Change/

	Monthly		Year-on-Year	
	March 2010	April 2010	March 2010	April 2010
Headline Inflation	0.6	3.2	5.1	7.3
Food Prices	1.3	6.2	6.9	12.7
Bread and Cereals	(0.1)	0.4	(5.7)	(5.2)
Meat	(0.1)	2.4	(2.9)	(0.3)
Fish	1.4	(2.3)	(3.2)	(1.9)
Vegetables	(2.9)	10.2	1.7	9.4
Fruits	10.1	6.6	60.8	60.2
Milk, Cheese & Eggs	0.4	0.8	(8.3)	(6.3)
Oils and Fats	(0.3)	0.6	(2.0)	(2.3)
Sugar, Jam, Confectionery, etc.	1.8	(0.5)	3.7	3.5
Core Inflation	0.1	1.6	4.1	4.4
Alcoholic Beverages & Tobacco	(0.1)	0.1	12.2	12.2
Clothing and Footwear	1.2	(0.3)	(0.5)	0.0
Furnishings, Household Equipment and Routine Maintenance	0.0	(0.1)	1.0	(0.2)
Health	0.1	2.2	6.1	4.4
<i>Of which:</i> Medical Services	0.0	5.0	14.0	9.6
Housing, Water, Electricity, Gas & Other Fuels	0.0	(0.2)	1.1	(0.2)
<i>Of which::</i> Rent	0.0	1.6	6.5	7.6
Home Ownership	0.0	(0.6)	(0.2)	(2.3)
Water, Electricity, Gas & Other Fuels	0.0	0.0	2.9	2.9
Education	0.0	1.2	3.2	2.9
Recreation & Culture	0.0	10.4	3.1	7.8
Hotels, Cafes & Restaurants	0.0	0.3	3.0	2.1
Transport	0.0	1.9	9.5	11.8

*Source: Central Statistical Office.*