



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 FALLS TO 2.7 PER CENT: CENTRAL BANK LOWERS REPO RATE BY 50 BASIS POINTS TO 5.75 PER CENT

Recent data on the Retail Prices Index (RPI) released by the Central Statistical Office show a marked deceleration in the rate of inflation. On a year-on-year basis to October 2009, headline inflation decelerated to **2.7 per cent** – the lowest rate since January 2003 – from **4.9 per cent** in September 2009.

Food Inflation, the main driver of the headline inflation rate, slowed to **3.5 per cent** in the twelve months to October from **6.8 per cent** in the previous month. This was the first occasion that food inflation dipped below 4.0 per cent since late 1999. On a year-on-year basis to October 2009, slower price increases were recorded for meat, oils and fats, fruits, sugar and confectionery items in comparison to September 2009, while the rate of increase in the prices of fish and vegetables was somewhat higher. At the same time, the 12-month decline in the prices of bread and cereals as well as in milk, cheese and eggs evident in September was more pronounced in October 2009.

Core inflation, which excludes food prices, also slowed in October. On a year-on-year basis, the rate of core inflation fell to **2.2 per cent** from **3.9 per cent** in the previous month (and 7.4 per cent a year earlier). The sub-indices for recreation and culture as well as clothing and footwear posted year-on-year declines: 5.8 per cent in the case of the former (compared to 1.8 per cent increase in September) and 1.6 per cent for the latter category (compared to 1.0 per cent decline in September). There was also a broad-based slowdown in most other non-food

categories with the exception of health and alcoholic beverages and tobacco. On a year-on-year basis, the cost of health services rose by 6.8 percent in October reflecting increased medical fees (17.4 per cent in October compared with 12.3 per cent the previous month) while increases in the prices of alcoholic beverages and tobacco reflected, in the main, price adjustments by retailers to the tax changes announced in the budget for fiscal 2010.

The decline in economic activity and the delayed impact of lower international commodity prices, particularly of food items, have contributed to the sharp fall in the inflation rate. In the more subdued economic environment, **private sector credit** by the consolidated financial system contracted by **0.4 per cent** – the first time in seven years - compared with growth of 11.8 per cent in the same time period one year ago. Lending to consumers continued to decline, falling by 2.1 per cent on a year- on- year basis to September. Information at a more disaggregated level reveals that consumer borrowing for the purchase of motor vehicles and for investments in financial assets has slowed sharply. Both **business credit** and **real estate mortgage lending** also lost momentum slowing to **6.5 per cent** and **9.0 per cent**, respectively in the twelve months to September from 9.8 per cent in the previous month.

The decline in credit to the private sector, combined with higher net fiscal injections contributed to elevated levels of **liquidity** in the financial system. With excess reserve balances hovering around TT\$2.5 billion, commercial banks, in early November, were requested to deposit TT\$2.0 billion in interest-bearing accounts at the Central Bank for a period of one year to eighteen months. Sales of foreign exchange by the Bank also helped to drain excess reserve balances from the financial system.

Against the background of a continuing contraction in domestic economic activity, declining credit demand and low inflation, **the Bank has decided to lower its main policy rate – the “Repo rate” – by 50 basis points to 5.75 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 December 23, 2009.

November 20, 2009

APPENDIX

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

	Monthly		Year-on-Year	
	September 2009	October 2009	September 2009	October 2009
Headline Inflation	2.1	(0.7)	4.9	2.7
Food Prices	6.0	(1.6)	6.8	3.5
Bread and Cereals	(0.9)	0.5	(7.1)	(7.6)
Meat	1.5	1.5	2.5	1.3
Fish	0.6	5.2	3.5	7.3
Vegetables	6.0	(0.7)	0.8	1.7
Fruits	9.9	(7.6)	40.2	29.3
Milk, Cheese & Eggs	(2.3)	(0.8)	(9.2)	(9.8)
Oils and Fats	(0.4)	(1.0)	4.2	3.0
Sugar, Jam, Confectionery, etc.	2.2	(0.4)	5.2	0.1
Core Inflation	0.0	(0.2)	3.9	2.2
Alcoholic Beverages & Tobacco	2.1	7.7	6.3	12.6
Clothing and Footwear	(0.1)	(0.9)	(1.0)	(1.6)
Furnishings, Household Equipment and Routine Maintenance	0.0	0.4	3.5	2.2
Health	(0.1)	1.8	5.2	6.8
<i>Of which: Medical Services</i>	0.0	4.0	10.0	14.1
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.7	2.7	1.4
<i>Of which:: Rent</i>	0.0	0.1	4.2	2.8
Home Ownership	0.0	0.0	3.4	0.7
Water, Electricity, Gas & Other Fuels	0.0	2.8	0.0	2.9
Education	0.0	1.7	6.8	3.1
Recreation & Culture	0.0	(8.0)	1.8	(5.8)
Hotels, Cafes & Restaurants	0.0	0.5	8.2	3.8
Transport	0.0	(0.3)	6.6	4.4

Source: Central Statistical Office.

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