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## Media Release

### CENTRAL BANK LOWERS REPO RATE BY 50 BASIS POINTS TO 8.00 PER CENT

According to the latest data released by the Central Statistical Office, **headline inflation**, measured by the twelve-month change in the Index of Retail Prices, declined to **11.3 per cent** in March from 11.7 per cent in the February 2009.

**Food price inflation**, which has been an important contributor to headline inflation, slowed to 24.5 per cent year-on-year in March 2009 from 25.9 per cent in February. The slowdown in food prices reflected lower price increases for bread and cereals (40.9 per cent in March compared with 45.8 per cent in February), fish (16.3 per cent in March compared with 23.5 per cent in February) and fruits (29.5 per cent in March compared with 36.9 per cent in February). To date the reduction in domestic prices of many imported food items has been fairly limited.

On a monthly basis, **headline inflation** rose by 0.3 per cent following a decline of 0.2 per cent in February 2009. This monthly increase was driven by slightly higher prices for vegetables as well as sugar, jam and confectionery, which registered increases of 4.5 per cent and 1.4 per cent, respectively.

**Core inflation**, which excludes the food component, measured 5.3 per cent, the same rate as in the previous month. Although this rate remained unchanged, there were notable movements

in some sub-components of the Index. In particular, the sub-indices for tobacco and alcoholic beverages as well as health showed increases on a year-on-year basis to 7.6 per cent and 4.5 per cent, respectively and these were offset by reductions in the rate of increase in the largest sub-component of the core basket - housing, water, electricity and gas – which fell to 7.5 per cent.

Over the last three months, liquidity in the financial system has been unusually high with excess reserves averaging around \$2.2 billion. However, credit growth has remained subdued. In the twelve months to February 2009, growth in **private sector credit by the consolidated financial system** slowed to 7.1 per cent from 8.4 per cent in January 2009 and 18.7 per cent a year earlier. Nevertheless, private sector credit to businesses and lending for real estate mortgages have increased by 11.8 per cent and 17.4 per cent, respectively on a year-on-year basis to February 2009.

The recent issue of a 15-year bond by the Government which raised \$1.5 billion will help to address the very liquid conditions in the market. This bond was heavily oversubscribed which indicates that there is still a considerable amount of liquidity in the market. The Bank will therefore continue to promote measures to absorb the excess liquidity in the system.

These developments are taking place in the context of a slowdown in the global economy. The International Monetary Fund now projects that world output will decline by 1.3 per cent in 2009. This weakness is expected to be more severe in the advanced economies where the projection is for a decline of 3.8 per cent. This weaker outlook will have some impact on growth prospects in the domestic economy. Under these conditions, monetary policy will need to strike the right balance between providing support for economic growth and containing inflation.

Against this background, the Central Bank has decided to make a further cut in the “repo” rate by 50 basis points to 8.00 per cent.

The Bank will continue to monitor domestic and international economic developments in order to take further monetary policy action as required.

**The next 'Repo' rate announcement is scheduled for May 29, 2009.**

**April 24, 2009.**

## APPENDICES

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

/Percentage Change/

	Monthly		Year-on-Year	
	February 2009	March 2009	February 2009	March 2009
Headline Inflation	(0.2)	0.3	11.7	11.3
Food Prices	(0.7)	0.8	25.9	24.5
Bread and Cereals	(0.5)	(0.8)	45.8	40.9
Meat	(0.9)	(0.6)	8.1	6.4
Fish	4.9	(0.5)	23.5	16.3
Vegetables	(2.1)	4.5	26.1	28.6
Fruits	2.4	(3.6)	36.9	29.5
Milk, Cheese & Eggs	(0.3)	(0.7)	3.3	2.1
Oils and Fats	0.4	0.1	28.7	26.3
Sugar, Jam, Confectionery, etc.	(0.1)	1.4	18.0	19.1
Core Inflation	0.1	0.1	5.3	5.3
Alcoholic Beverages & Tobacco	0.1	1.9	5.8	7.6
Clothing and Footwear	(0.1)	(0.2)	0.9	1.3
Furnishings, Household Equipment and Routine Maintenance	0.0	0.0	5.3	5.3
Health	0.1	0.3	4.2	4.5
Of which: Medical Services	0.0	0.0	2.8	2.8
Rent	0.0	0.0	6.5	6.5
Home Ownership	0.0	0.0	5.1	5.1
Water, Electricity, Gas & Other Fuels	0.0	0.0	17.1	16.4
Education	0.0	0.0	9.2	9.2
Recreation & Culture	0.0	0.0	(8.9)	(8.9)
Of Which: Package Holidays	0.0	0.0	(30.5)	(30.5)
Hotels, Cafes & Restaurants	0.0	0.0	20.5	20.5
Transport	0.0	0.0	7.8	7.8

Source: Central Statistical Office