



CENTRAL BANK OF TRINIDAD & TOBAGO

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INFLATION SLOWS: CENTRAL BANK MAINTAINS REPO RATE AT 8.75 PER CENT

Recent data released by the Central Statistical Office indicate that **headline inflation** slowed markedly to **11.7 per cent** in the twelve months to January 2009 from **14.5 per cent** in December 2008 and from a high of **15.4 per cent** in September 2008. The **monthly headline inflation rate** registered a **0.4 per cent decline** in January 2009, the first fall in the past eleven months. The slowdown has occurred in both food prices and core inflation.

The increase in **food prices** which measured 30.6 per cent year-on-year in December 2008, **slowed to 25.9 per cent** in the twelve months to January 2009. The moderation in food inflation covered about 90 per cent of the items in the food sub-index. The marked reduction in international commodity prices was the main factor behind lower domestic food prices. However, a decline in the prices of some local food produce also contributed to lower food inflation.

On a monthly basis, **food prices** fell by **1.5 per cent** in January 2009 compared with an increase of 0.3 per cent in the previous month. There were notable declines in the prices of **vegetables (3.8 per cent)** and **milk, cheese and eggs (0.6 per cent)**. However, the prices of **fruits, sugar and confectionery products** and **fish** registered monthly increases of **4.6 per cent, 1.5 per cent** and **8.0 per cent**, respectively.

Core inflation, which had also been climbing steadily during 2008, slowed sharply to **5.2 per cent** on a year-on-year basis in January 2009 from 7.1 per cent in December 2008. The sub-indices for home ownership and clothing and footwear showed little or no increase in January. On a monthly basis, a reduction in **recreation and culture (8.8 per cent)** emanating from a sizeable fall in the “package holiday” component of the sub-index also contributed to the lower core inflation rate. The fall in core inflation is partly due to the slowing in domestic economic activity and domestic demand.

Net fiscal injections have been slightly lower for the year to date, while bank credit expansion continues to slow. **Private sector credit** expansion by the consolidated financial system slowed to **10.4 per cent** on a year-on-year basis to December 2008 from 16.1 per cent in December 2007. This slowdown has been especially pronounced in **consumer credit**, which grew on a year-on-year basis to December 2008 by **5.7 per cent** compared to 21.3 per cent in December 2007. **Business credit**, however, grew twice as fast as consumer credit on a year-on-year basis to December 2008.

The contraction in bank credit expansion has resulted in a rise in excess reserve balances of the banking system and has impacted short-term interest rates. The **three-month treasury bill rate** fell to **4.37 per cent** in February 2009 from 7.05 per cent in December 2008 resulting in a sharp narrowing in the differential between US and TT short-term interest rates. This **differential** fell to **404 basis points** in February 2009 from 700 basis points in December 2008.

In the period ahead, slower economic growth and reduced credit expansion should help contain domestic demand. Recent announcements of a 20-30 per cent reduction in the price of rice along with the suspension or removal of the common external tariff on sugar, cheese and soya-bean oil should also have a dampening effect on food prices in the coming months. In this environment, inflation risks are tilted more towards the downside.

The Bank has decided to maintain the **'Repo' rate** at **8.75 per cent**. The Bank will continue to keep a close watch on international, regional and domestic economic developments and is prepared to take appropriate monetary policy action if circumstances so warrant.

The next 'Repo' rate announcement is scheduled for March 27, 2009.

February 20, 2009.

Appendix

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

	Monthly		Year-on-Year	
	December 2008	January 2009	December 2008	January 2009
Headline Inflation	0.1	(0.4)	14.5	11.7
Food Prices	0.3	(1.5)	30.6	25.9
Bread and Cereals	(2.5)	(1.3)	57.0	49.7
Meat	0.5	0.7	10.1	9.3
Fish	1.2	8.0	22.5	30.6
Vegetables	(0.3)	(3.8)	32.0	22.6
Fruits	(0.5)	4.6	31.4	31.1
Milk, Cheese & Eggs	0.1	(0.6)	8.4	6.4
Oils and Fats	0.6	1.0	32.3	31.7
Sugar, Jam, Confectionery, etc.	0.9	1.5	17.0	18.3
Core Inflation	0.0	0.2	7.1	5.2
Alcoholic Beverages & Tobacco	(0.4)	0.1	6.6	5.5
Clothing and Footwear	(0.1)	0.2	1.5	1.4
Furnishings, Household Equipment and Routine Maintenance	0.0	1.5	4.2	5.3
Health	0.2	0.4	6.1	4.3
Of which: Medical Services	0.0	0.4	6.5	2.8
Rent	0.0	0.6	5.9	6.5
Home Ownership	0.0	0.1	5.4	5.1
Water, Electricity, Gas & Other Fuels	0.0	0.0	17.6	17.7
Education	0.0	0.0	9.2	9.2
Recreation & Culture	0.0	(8.8)	12.9	(8.9)
Of Which: Package Holidays	0.0	(25.1)	32.4	(30.5)
Hotels, Cafes & Restaurants	0.0	1.3	21.8	20.5
Transport	0.0	4.9	3.6	7.8

Source: Central Statistical Office.