



CENTRAL BANK OF  
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## CENTRAL BANK MAINTAINS REPO RATE AT 8.75 PER CENT

The final inflation figures released by the Central Statistical Office for 2008 indicate that **headline inflation** edged up to **14.5 per cent** on a year-on-year basis to December from 14.3 per cent in the previous month. **Food price inflation**, the key driver of the headline inflation rate, measured **30.6 per cent** on a year-on-year basis to December compared with 29.8 per cent in the previous month. **Core inflation** nudged slightly downwards to **7.1 per cent** in the twelve months to December from 7.2 per cent in November.

On a **monthly basis**, however, **headline inflation measured 0.1 per cent** in December, the slowest rate of increase for 2008. Food prices increased by 0.3 per cent in December compared with a high of 5.6 per cent in August and last month's rate of 0.6 per cent.

**Food prices**, in all the major categories, were lower in December than in November 2008. There were small declines in the prices of bread and cereals, vegetables and fruits. The December data suggest that while there are initial signs of the globally-induced decline in food prices, this is occurring much more slowly than was originally envisaged.

The decline in **core inflation** resulted from price reductions in the sub-indices for **Alcoholic Beverages and Tobacco** as well as **Clothing and Footwear**. In the twelve months to December, these sub-indices posted slower increases of **6.6 per cent** and **1.5 per cent**, respectively compared with increases of 8.0 per cent and 2.1 per cent in November. In contrast, the **Health**

**sub-index** rose by **6.1 per cent** largely on account of a 7.3 per cent increase in the cost of pharmaceutical products.

During 2008, **net fiscal injections** remained generally high and contributed to relatively elevated levels of liquidity in the domestic financial system. Nevertheless, the tight monetary policy stance pursued by the Bank helped to restrain credit growth. In the twelve months to November, private sector credit by the consolidated financial system slowed to 11.9 per cent from an average of 18.0 per cent during the first half of 2008. Consumer and business credit also displayed similar trends slowing to 9.9 per cent and 13.1 per cent, respectively on a year-on-year basis to November from averages of 19.4 per cent and 16.1 per cent in the first six months of 2008. The declining trend in bank credit has contributed in part to an increase in bank liquidity.

Following the steep decline in energy prices from around the third quarter of 2008, the Government undertook two formal reviews of its budget for fiscal 2009 and made a number of adjustments to its recurrent and capital spending plans. The revised budget now anticipates an overall revenue shortfall of TT\$7.6 billion and a small overall deficit equivalent to around 1.3 per cent of Gross Domestic Product. The re-prioritization in Government's spending plans should help to suppress domestic liquidity pressures and contain aggregate demand.

In the wake of a protracted slowdown in the global economy, the prognosis for the domestic economy in 2009 is for lower export earnings, reduced Government revenues, a compression in aggregate demand and relatively low economic growth (around 1-2 per cent). Increased output from the two model farms – Tucker Valley and PCS Nitrogen - should however boost domestic food production; in addition lower international food prices and a more restrained credit environment, should lead to some abatement in inflationary pressures in the coming months.

The slow down of bank credit expansion has led to an abundance of excess liquidity which has begun to put downward pressure on short term interest rates. An issue of \$500 million in long term bonds by the Housing Development Corporation should help to absorb some of the liquidity.

Against this background, 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 February 20, 2009.**

**January 30, 2009.**

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

|  | Monthly          |                  | Year-on-Year     |                  |
|--|------------------|------------------|------------------|------------------|
|  | November<br>2008 | December<br>2008 | November<br>2008 | December<br>2008 |
| <b>Headline Inflation</b>                                      | 0.3              | 0.1              | 14.3             | 14.5             |
| Food Prices  | 0.6              | 0.3              | 29.8             | 30.6             |
| Bread and Cereals  | 0.4              | (2.5)            | 63.3             | 57.0             |
| Meat   | 0.5              | 0.5              | 12.6             | 10.1             |
| Fish   | 6.3              | 1.2              | 27.3             | 22.5             |
| Vegetables   | 0.9              | (0.3)            | 29.6             | 32.0             |
| Fruits   | (4.2)            | (0.5)            | 25.7             | 31.4             |
| Milk, Cheese & Eggs  | 0.4              | 0.1              | 10.0             | 8.4              |
| Oils and Fats  | 2.2              | 0.6              | 34.4             | 32.3             |
| Sugar, Jam, Confectionery, etc.                                | 0.2              | 0.9              | 17.0             | 17.0             |
| <b>Core Inflation</b>  | 0.1              | 0.0              | 7.2              | 7.1              |
| Alcoholic Beverages &<br>Tobacco                               | 0.1              | (0.4)            | 8.0              | 6.6              |
| Clothing and Footwear  | (0.2)            | (0.1)            | 2.1              | 1.5              |
| Furnishings, Household<br>Equipment and Routine<br>Maintenance | 0.0              | 0.0              | 4.2              | 4.2              |
| Health   | 0.1              | 0.2              | 5.8              | 6.1              |
| Of which: Medical Services                                     | 0.0              | 0.0              | 6.5              | 6.5              |
| Rent   | 0.0              | 0.0              | 5.9              | 5.9              |
| Home Ownership   | 0.0              | 0.0              | 5.4              | 5.4              |
| Water, Electricity, Gas & Other<br>Fuels                       | 0.0              | 0.0              | 17.8             | 17.6             |
| Education  | 0.0              | 0.0              | 9.2              | 9.2              |
| Recreation & Culture   | 0.0              | 0.0              | 12.9             | 12.9             |
| Of Which: Package Holidays                                     | 0.0              | 0.0              | 32.4             | 32.4             |
| Hotels, Cafes & Restaurants                                    | 0.0              | 0.0              | 21.8             | 21.8             |
| Transport  | 0.0              | 0.0              | 3.6              | 3.6              |

Source: Central Statistical Office.