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Media Release

INFLATION RISES TO 9.4 PER CENT IN OCTOBER: CENTRAL BANK MAINTAINS REPO RATE AT 2.75 PER CENT

The latest data released by the Central Statistical Office show that headline inflation picked up in October 2012, after falling for four consecutive months. **Headline inflation**, measured by the 12-month increase in the Index of Retail Prices, accelerated to 9.4 per cent in October 2012, up from 7.7 per cent in September and 3.7 percent one year ago. On a monthly basis, headline inflation rose by 1.4 per cent in October 2012, compared with an increase of 1.1 per cent in the previous month.

Higher food prices, particularly for vegetables and fruit, were mainly responsible for the acceleration in headline inflation. On a year-on-year basis, food price inflation reached 18.2 per cent in October 2012 from 14.7 per cent in September. Key components in the food basket which recorded faster price increases included **vegetables (34.9 per cent** up from 31.5 per cent in September), **fruits (5.7 per cent** up from 4.3 per cent in September), **meat (10.5 per cent** up from 8.2 per cent) and **fish (8 per cent** up from 5.3 per cent). At the same time, there was a slight deceleration in the year-on-year price increases for bread and cereals (1.1 per cent compared with 1.6 per cent), milk, cheese and eggs (2.6 per cent compared with 3.4 per cent) and oils and fats (12 per cent compared with 12.8 per cent). The impact of the removal of Value Added Taxes (VAT) on a range of food items has not been reflected in the inflation data for October 2012.

Despite the pick-up in headline inflation, there is evidence that underlying inflationary pressures remain relatively stable. Core inflation, which excludes food prices, stood at 3.1 per cent in October 2012, up from 2.8 per cent in the previous month as the announced rise in the price of premium gasoline went into effect. Due to higher prices of new motor vehicles and driving fees as well as the partial reduction in the subsidy on premium gasoline, the transportation sub-index rose by 3.6 per cent in October (year-on-year) from 1.5 per cent in September. There were also faster price increases in several sub-categories including clothing and footwear and health, which were offset by price decelerations in other areas such as furnishings, household equipment, recreation and housing

Available data to September 2012 point to steady but measured expansion in credit to the private sector. On a year-on-year basis, private sector credit granted by the consolidated financial system increased by 3.2 per cent in September 2012, slightly up from the increase of 2.7 per cent in August. Lending for real estate mortgages remained one of the strongest credit categories, growing by 10.9 per cent in September. Meanwhile, lending to consumers rose by 2.8 per cent (year-on-year) in September 2012, somewhat above the pace of the previous few months. On the other hand, business credit continued to lose momentum, rising by just 1 per cent in September 2012, compared with 2.3 per cent in August and 5.1 per cent in July.

On account of high net fiscal injections, liquidity levels in the financial system rebounded in November from the low levels reached in early October following the issuance of the Central Government \$2.5 billion bond. For the period November 1-27, commercial bank balances at the Central Bank in excess of the statutory requirement, climbed to a daily average of \$3,308 million from \$2,770 million in October. Open market operations together with sales of foreign exchange helped to absorb around \$1,356 million in excess funds from the system. In the very liquid financial environment, there was no recourse to

the inter-bank market and the 'repo' facility remained unutilized.

High liquidity levels continued to suppress short-term interest rates. The three-month treasury bill rate declined to **0.46 per cent** as at November 26, 2012 from 0.54 per cent in October. With the US three-month treasury bill rate also dipping to 0.10 per cent from 0.13 per cent in October, the differential between the TT and US three-month treasury bill rates narrowed to 36 basis points in November from 41 basis points in October.

Notwithstanding the increase in headline inflation, there is evidence that underlying inflationary pressures remain contained. Although current financial conditions provide a strong enough basis for an expansion of private investment, business demand for credit remains relatively subdued. Against this background, the Central Bank has decided to maintain the 'repo' rate at 2.75 per cent.

The Bank will continue to keep economic and monetary conditions under close review in the coming months.

The next 'repo' rate announcement is scheduled for December 21, 2012.

November 30, 2012

APPENDIX

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

	Monthly		Year-on-Year	
	Sep 2012	Oct 2012	Sep 2012	Oct 2012
Headline Inflation	1.1	1.4	7.7	9.4
Food and Non-Alcoholic Beverages	2.4	2.0	14.7	18.2
Bread and Cereals	0.2	0.1	1.6	1.1
Meat	2.3	2.2	8.2	10.5
Fish	2.3	2.4	5.3	8.0
Vegetables	3.8	5.8	31.5	34.9
Fruits	(1.6)	(7.1)	4.3	5.7
Milk, Cheese & Eggs	0.7	(1.3)	3.4	2.6
Oils and Fats	1.0	0.2	12.8	12.0
Sugar, Jam, Confectionery, etc.	(0.5)	0.7	3.4	3.1
Core Inflation	0.1	1.0	2.8	3.1
Alcoholic Beverages & Tobacco	0.3	0.1	4.7	4.6
Clothing and Footwear	0.9	0.6	2.1	3.5
Furnishings, Household Equipment and Routine Maintenance	0.0	0.2	2.2	1.4
Health	0.1	2.3	2.5	5.1
<i>Of which:</i> Medical Services	0.0	4.9	7.0	12.3
Housing, Water, Electricity, Gas & Other Fuels	0.0	0.5	2.7	1.5
<i>Of which:</i> Rent	0.0	0.6	6.5	3.4
Home Ownership	0.0	0.7	3.0	1.6
Education	0.0	4.3	1.7	6.3
Recreation & Culture	0.0	(0.9)	6.0	5.2
Hotels, Cafes & Restaurants	0.0	1.1	3.5	4.3
Transport	0.0	2.1	1.5	3.6

Source: Central Statistical Office.