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MONETARY POLICY ANNOUNCEMENT

December 27, 2024

CENTRAL BANK MAINTAINS REPO RATE AT 3.50 PER CENT

Global economic growth remained stable in 2024 despite ongoing geopolitical conflicts in Eastern Europe and the Middle East. The International Monetary Fund in its October 2024 World Economic Outlook forecasts global activity to expand by 3.2 per cent in 2024, slightly lower than the 3.3 per cent registered in 2023. General progress toward inflation targets allowed major central banks to initiate monetary policy easing during the second half of 2024. In December, the United States Federal Reserve (US Fed) reduced its target range for the federal funds rate by 25 basis points from 4.25 to 4.50 per cent – its third rate cut for the year.

In Trinidad and Tobago, Central Statistical Office (CSO) data showed that real GDP expanded by 1.5 per cent (year-on-year) during the first quarter of 2024. This reflected a resilient non-energy sector, alongside a marginal rise in energy sector output. According to subsequent indicators monitored by the Central Bank, constraints in natural gas availability negatively affected the energy sector during the second and third quarters. At the same time, non-energy production appears to have strengthened, notably in the trade, transportation and storage and construction sub-sectors. Meanwhile, the unemployment rate measured 4.8 per cent in the second quarter of 2024 compared with 5.1 per cent one quarter earlier and 3.7 per cent in the corresponding quarter one year earlier.

Headline inflation remained very low, and was recorded at 0.5 per cent in November, up from 0.2 per cent in the previous month. Core inflation, which excludes food prices, was unchanged at -0.3 per cent while food inflation rose to 3.1 per cent from 2.4 per cent over the two-month period.

Financial system liquidity was quite comfortable throughout the second half of 2024, following the reduction of the reserve requirement in July from 14 to 10 per cent of applicable deposits. Commercial banks' excess reserves at the Central Bank averaged $6.4 billion in the first two weeks of December.

The momentum in private sector credit accelerated in September 2024, with the growth in business loans outpacing consumer lending. The rise in credit to businesses was fairly broad based (manufacturing, distribution, agriculture, construction, and finance areas) while the growth in consumer financing was concentrated on durables, notably automobiles. Relatively high domestic Government financing helped to push up local treasury bill rates. Combined with the policy rate cuts by the US Fed in late 2024, this resulted in a narrowing of the (negative) TT/US interest differential on 3 month treasuries by 63 basis points to -233 basis points in November 2024.

In its deliberations, the Monetary Policy Committee (MPC) acknowledged the steady expansion in the world economy, albeit in an environment of significant economic policy uncertainty. Low inflation, buoyant credit conditions, ample liquidity and a continued measured expansion of non-energy output formed key components of the domestic backdrop. The MPC recognized, however, that close vigilance remained essential as developments could change rapidly. Taking all factors into account, **the Committee decided to maintain the repo rate at its current level of 3.50 per cent**. The Central Bank will continue to monitor international and domestic developments and will take further actions as necessary.

The next Monetary Policy Announcement is scheduled for March 28, 2025.

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