



**CENTRAL BANK OF
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**MONETARY POLICY ANNOUNCEMENT
June 28, 2019**

CENTRAL BANK MAINTAINS REPO RATE AT 5.00 PER CENT

International economic prospects appear less optimistic since the last meeting of the Monetary Policy Committee (MPC) in March 2019. The International Monetary Fund, in its April 2019 *World Economic Outlook*, revised global growth projections for 2019 downward to 3.3 per cent from 3.5 per cent. Further escalation of United States (US)-China trade frictions and rising tensions between the US and Iran have dampened economic sentiment and clouded the short term outlook for energy prices. Meanwhile, in the face of concerns regarding a potential slowdown of the US economy, the US Federal Reserve has adopted a much more dovish stance on monetary policy. Most market analysts are now predicting a cut in the US Fed funds rate, perhaps as early as July 2019, a stark reversal of market sentiment just a few months ago.

Domestically, there is evidence of an energy-led recovery driven by the boost to natural gas production from the Juniper and more recently Angelin projects. This has helped to stimulate the production of petrochemicals, which had been earlier impacted by natural gas shortages. However, crude oil production has continued to steadily decline due to mature acreages. While available information suggests that the recovery of the non-energy sector is not yet fully established, some key sectors including construction are expected to respond positively to the stimulus provided by the announced acceleration in capital spending by the government in the second half of the current fiscal year (April-September 2019).

Low inflationary conditions persisted over the first five months of 2019. There was a momentary uptick to 1.6 per cent in March 2019 (year-on-year) before headline inflation settled at 1.2 per cent in May. The short term perspective is for continued low inflation in the next few months, although adverse weather conditions could disturb output of domestic food crops and lead to a jump in prices of affected produce.

The growth in private sector credit by the consolidated financial system slowed to 3.5 per cent in March 2019 (year-on-year) from 4.3 per cent in December 2018. In this context, one concern is that business credit has been on the decline—the year-on-year growth rate was -4.3 per cent in March 2019—while consumer credit grew by 6.0 per cent, and mortgage credit growth remained buoyant at 8.8 per cent. Liquidity among banks has been very comfortable. Commercial banks' daily excess reserves at the Central Bank averaged \$3,969 million in May compared with \$2,762 million in March 2019. The Bank is keeping a careful watch on the evolution of liquidity, taking into account the dynamics of the public sector financing requirements, credit conditions and the still subdued inflationary pressures.

The MPC in its deliberations noted that the nascent domestic recovery was still concentrated on the energy sector, in an environment of low inflation. On the external front, the change in the trajectory of US interest rates could release some of the pressure for defensive rate hikes that many emerging markets were experiencing. At the same time, other aspects of the external environment for Trinidad and Tobago remain quite complex in light of the US-China trade tensions, the unfolding situation with Iran and the economic spillovers from neighboring Venezuela. Taking these factors into consideration, **the MPC agreed to maintain the repo rate at 5.00 per cent.** The Bank will continue to carefully monitor and analyze international and domestic developments.

The next Monetary Policy Announcement is scheduled for September 27, 2019.

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