



**CENTRAL BANK OF
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MONETARY POLICY ANNOUNCEMENT

March 17, 2020

**CENTRAL BANK REDUCES REPO RATE BY 150 BASIS POINTS; LOWERS RESERVE
REQUIREMENT BY 3 PER CENT**

The Monetary Policy Committee (MPC) of the Central Bank of Trinidad and Tobago held a special sitting on March 17, 2020, bringing forward the meeting previously scheduled for March 27, 2020.

The major preoccupation globally is the impact of the Covid-19 virus on lives and economies. This coronavirus outbreak has already upturned financial markets, created supply chain disruptions, driven energy prices to very low levels and led to the increasing self-isolation of several countries. A compounding factor is the tremendous uncertainty regarding the path of future infections, the timing of the turning point, and the extent of the ripple effects. In response, many central banks have already lowered their policy rates, expanded quantitative easing, and added new financing programs in an effort to stimulate economic activity at a time when many businesses have been forced to cease operations. For example, the US Federal Reserve, in two extraordinary meetings on March 3 and 15, 2020, lowered the Federal Funds Rate to 0-0.25 per cent. Complementary fiscal actions are also underway to shore up health care systems and support incomes in many countries.

One significant fallout of the pandemic has been the dramatic drop in energy prices as the demand for fuel declined on account of the slowdown of industrial production and sharp reduction in airline carriage. This coupled with discord among the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC countries has resulted in the West Texas Intermediate (WTI) oil price hovering around the US\$30 price point in March 2020 compared to US\$50-US\$60 earlier in the year.

As an energy exporter, Trinidad and Tobago is feeling the effects of both shocks. The impacts on the fiscal and external balances will likely spill over to the growth outlook depending on the duration of the events. At the same time, inflation remains quite low, at 0.4 per cent (year-on-year) in January 2020. While overall private sector credit from the financial system grew by 4.6 per cent in January, the business lending category continued to slip. Excess liquidity in the banking system in mid-March was \$4.8 billion. Falling interest rates in the US market resulted in an improvement of the TT-US differential, with the differential turning positive in March 2020 at all tenors.

Taking these factors into account, the MPC decided to reduce the repo rate by 150 basis points to 3.5 per cent and to lower the primary reserve requirement on commercial bank deposits by 3 per cent to 14 per cent. The MPC considered that such actions would amplify system liquidity in the short run—approximately \$2.6 billion in the case of the lower reserve requirement—and allow for a reduction in interest rate spreads by lowering commercial banks’ cost of funds. The MPC also considered that the unprecedented nature and magnitude of the pandemic, exacerbated by the energy price drop, highlighted the underlying need for coordinated monetary, fiscal and structural policies.

The Central Bank will continue to carefully monitor and analyse international and domestic developments.

The next Monetary Policy Announcement is scheduled for June 26, 2020.

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