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MONETARY POLICY ANNOUNCEMENT

March 28, 2025

CENTRAL BANK MAINTAINS REPO RATE AT 3.50 PER CENT

The current international economic setting is marked by significant policy uncertainty, amid the threat of tariff wars significantly impacting global trade and leading to a resurgence of inflation. According to the International Monetary Fund's January 2025 World Economic Outlook Update, world growth for this year is projected to remain relatively steady at 3.3 per cent, but with large downside risks. The IMF's forecast of global inflation at 4.2 per cent in 2025, compared with 5.7 per cent in 2024, also appears optimistic given present trade tensions.

On the monetary policy front, while several central banks have continued their easing cycles, others have held policy rates steady in order to safeguard against a possible resurgence of inflation. In March 2025, while the European Central Bank cut its policy rate by 25 basis points to 2.5 per cent (the sixth rate cut since June 2024), the US Federal Reserve (Fed) maintained its federal funds target range of 4.25 per cent to 4.50 per cent. As a result, US treasury yields remained stable in early 2025. Similarly, there was little movement in interest rates on 3-month treasuries in Trinidad and Tobago (TT) over this period. As a result, the TT-US interest differential on 3-month treasuries settled at -201 basis points in February 2025 – unchanged from the previous month, but significantly lower than the differential of -432 basis points twelve months earlier.

Data from the Central Statistical Office (CSO) showed that domestic price pressures are well contained. Headline inflation, as measured by the Consumer Price Index, rose to 0.7 per cent (year-on-year) in February 2025 from 0.5 per cent in December 2024. Core inflation (which excludes food prices) fell by 0.1 per cent, while food prices rose by 3.9 per cent in February. Both domestic and international factors contributed to the upward drift in food prices faced by local consumers. Other available price indicators, such as at the wholesale level and for building materials also demonstrated sluggishness, increasing by 0.2 per cent and 0.6 per cent, respectively in the twelve months to September 2024. The recent 7 per cent increase in the price of cement is nonetheless expected to have an important knock on effect on construction costs.

On the growth front, the decline in oil and natural gas output, based on maturing fields, continued to pose a challenge to overall production of energy-based exports over the short run. Data from the Ministry of Energy and Energy Industries (MEEI) pointed to a year-on-year reduction in the production of crude oil (-1.9 per cent) and natural gas (-0.8 per cent) during the third quarter of 2024. However, petrochemical output improved with ammonia and methanol production rising by 16.1 per cent and 1.1 per cent, respectively. Meanwhile in the non-energy sector, the latest available GDP data from the CSO for the first half of 2024 highlighted positive performances in the manufacturing and finance sectors, but these were somewhat offset by declines in the construction and accommodation services sectors. More recent indicators, including on distribution, finance, new car sales and visitor arrivals for Carnival 2025, point to relative buoyancy in non-energy activities.

Domestic financial system liquidity remained ample in the first quarter of 2025. Commercial banks' excess reserves at the Central Bank averaged $4.8 billion in January before climbing to $6.6 billion in February 2025. Data up to March 14 highlighted further increases, with excess liquidity reaching $7.2 billion. In this context, banks did not access the interbank market or the repurchase facility during March 2025. While the Government tapped the domestic market for budget financing, banks were simultaneously able to boost their lending to the private sector. Private sector credit from the consolidated financial sector rose by 8.4 per cent (year-on-year) in January 2025 compared with 8.0 per cent a month earlier. Consumer loans grew by 11.6 per cent compared with 9.7 per cent for business credit and 6.4 per cent for real estate mortgage loans.

In its assessment of external economic conditions, the Monetary Policy Committee (MPC) took note of the prevailing trade policy uncertainties, possible risks to global inflation, and the more measured monetary policy actions by major central banks. Domestically, the MPC took into account the combination of low inflation, the mixed growth picture and supportive financial conditions, while emphasizing the need for vigilance on credit quality given the increase in bank lending.

Taking all these factors into account, **the MPC agreed to maintain the repo rate at 3.50 per cent.** The Central Bank will continue to carefully examine and analyse international and domestic developments and prospects.

The next Monetary Policy Announcement is scheduled for June 27, 2025.

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