



**CENTRAL BANK OF
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MONETARY POLICY ANNOUNCEMENT

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CENTRAL BANK MAINTAINS REPO RATE AT 3.50 PER CENT

The global economy is on a recovery path in 2021 as the deep shocks precipitated by the COVID-19 pandemic gradually subside. Updated projections from the International Monetary Fund point to a global economic contraction of 3.5 per cent in 2020 followed by an estimated 5.5 per cent expansion in 2021. Within this setting, the pace of implementation of national COVID-19 vaccination programs is expected to have a strong influence on growth rates in individual territories. Strong fiscal support has continued worldwide in order to deal with the health and economic challenges brought about by the pandemic—the medium term effects of such expenditure on public sector debt dynamics are already engaging the international financial community. Central banks in developed countries have maintained extraordinary monetary policy support, mainly through sizeable asset purchase operations. In emerging markets, a few monetary authorities raised their policy rates in March 2021 amidst concerns about looming inflation.

Domestic economic conditions are yet to fully stabilize from the COVID-19 shock. During the fourth quarter of 2020, the energy sector experienced significant year-on-year production falloffs for natural gas, liquefied natural gas and petrochemicals. On the other hand, indicators monitored by the Central Bank suggest that non-energy sector activity is slowly recovering, fueled by the construction and finance and insurance sectors. Headline inflation remained contained at 0.8 per cent (year-on-year) in February 2021, with food inflation decelerating to 2.3 per cent after surging to 5.1 per cent in November 2020. However, the recent increase in animal feed costs and unseasonal weather patterns may provide some upward impetus for prices in the coming months. With respect to the country's external accounts, the level of official international reserves slipped from US\$6.95 billion at the end of 2020 to US\$6.66 billion in mid-March 2021 (about 8 months of import cover).

The Central Bank of Trinidad and Tobago's monetary policy actions of March 2020 have had a year to work their way through the financial system. Liquidity remains elevated, but has come down to a daily average of around \$8 billion in March 2021 from record high levels of close to \$15 billion in late 2020, mainly on account of government borrowing operations. Interest rates have continued to decline, with the commercial banks' weighted average lending rate falling to 7.29 per cent by December 2020. However, lower interest rates and ample liquidity have not elicited a very strong private sector credit response. Credit granted by the consolidated banking system declined by 0.9 per cent (year-on-year) in December 2020, with business and consumer credit contracting by 4.7 per cent and 2.1 per cent, respectively. Within the rubric of business credit however, there was evidence of heightened loan activity in the construction sector and food, drink and tobacco manufacturing. Meanwhile, real estate mortgage loans have been resilient, growing by 3.7 per cent. Overall, many individuals and businesses seem reluctant to increase their debt commitments in an economic climate still marked by uncertainty, while on the supply side banks remain cautious in assessing clients' repayment capacity.

In the context of an improving international outlook, the Monetary Policy Committee (MPC) retained the view that the deep declines experienced by the domestic energy sector in 2020 were not expected to persist in 2021 and the non-energy sector appears to be in an early phase of correction. The Committee's assessment was that current financial conditions allowed further room for credit expansion without undue demand pressures on inflation. At the same time, Trinidad and Tobago's external balance situation was also carefully considered, as reflected in some foreign exchange tightness and low interest rate differentials—16 basis points between domestic and US 3-month treasuries. Taking all factors into account, **the MPC agreed to maintain the repo rate at 3.50 per cent.**

The Central Bank will continue to carefully monitor and analyse international and domestic developments. **The next Monetary Policy Announcement is scheduled for June 25, 2021.**

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