



**CENTRAL BANK OF
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MONETARY POLICY ANNOUNCEMENT

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CENTRAL BANK MAINTAINS REPO RATE AT 3.50 PER CENT

Overall global economic performance continues to recover, underpinned by widespread vaccination efforts, easing of pandemic restrictions and accommodative fiscal and monetary policies. Nonetheless, the pace of recovery across countries is very uneven, given varied access to vaccines and the resurgence of the virus in many areas. Control of COVID-19 and its variants by way of herd immunity is also being hampered by the reluctance of some individuals to be vaccinated, even when vaccines are available. Several central banks in emerging market and developing economies have begun to raise policy rates as inflation surged past target levels. The United States Federal Reserve also indicated its disposition to gradually tighten monetary policy—a path that will impact interest rates, currency values and capital flows worldwide. Meanwhile, geopolitical developments and concerns related to the real estate sector in China and elsewhere are fostering some volatility in equity markets.

On the domestic front, supply-side factors—notably a surge in international commodity prices such as sugar, wheat and vegetable oils; higher shipping costs; transportation delays; and adverse weather conditions—have led to a discernible increase in food prices. The latest information from the Central Statistical Office shows that food inflation (year-on-year) rose from 3.2 per cent in January to 4.9 per cent in July 2021. The largest increases were recorded for vegetables, fruits, milk, cheese and eggs. Core inflation (which excludes food items) remained relatively contained at 1.6 per cent in July 2021, with headline inflation measuring 2.2 per cent, but these could rise further in coming months in light of recently announced increases in transportation fares.

During the second quarter, shortfalls in natural gas availability hampered production of liquefied natural gas and ammonia, while methanol output surpassed levels of the corresponding period of the previous year when several facilities had been shut down. Nationwide restrictions on

movement and on permissible activities in order to curb the spread of the virus severely impacted production and distribution of many non-energy goods and services in recent months. Despite this, improvements occurred in the electricity, water, finance and real estate subsectors. The relaxation of restrictions in the context of higher levels of vaccinations is expected to lead to a resumption in non-energy production—in particular construction, distribution and food services—in the final quarter.

Monetary and financial indicators point to ample liquidity and signs of an incipient recovery in credit demand in some sectors. Commercial banks' unremunerated excess reserves at the Central Bank amounted to \$8.3 billion in mid-September 2021, up from \$7.5 billion at the end of March. The annual growth rate in credit to the private sector has been positive since April 2021, with some substitution away from consumer and business credit towards real estate mortgage loans. On the business side, there has been a noticeable rise in loans for construction, alongside a decline in financing for services. With respect to interest rates, the TT/US differential on 3 month treasuries stood at 28 basis points at the end of August, compared to 30 basis points at the end of May. The differential on 10 year instruments increased from 321 basis points to 351 basis points between May and August. Meanwhile, Trinidad and Tobago's international reserves rose to US\$7.0 billion at September 17, 2021, (over 8 months of prospective imports) partly due to the inclusion of US\$644 million from the International Monetary Fund's general allocation of Special Drawing Rights (SDRs) in late August.

In its deliberations, the Monetary Policy Committee (MPC) reviewed domestic developments to date, the supply-side factors that were leading to an increase in prices and the prospects for a gradual recovery as business activity resumes. The MPC also took note of the evolution of global financial conditions, notably the prospects for monetary tightening in advanced economies. Taking all factors into account, the Committee decided to maintain the repo rate at 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 December 31, 2021.

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