CENTRAL BANK OF
TRINIDAD & TOBAGO

Monetary Policy Report

October 2006

Volume VI Number 2

MONETARY POLICY REPORT

OCTOBER 2006

VOLUME VI NUMBER 2

The Central Bank of Trinidad and Tobago conducts a monetary policy geared towards the promotion of low inflation and a stable exchange market. This is conducive to sustained growth in output and employment. This Report provides an account of how recent monetary policy actions were designed to support this objective, in the light of recent economic developments.

MONETARY POLICY REPORT

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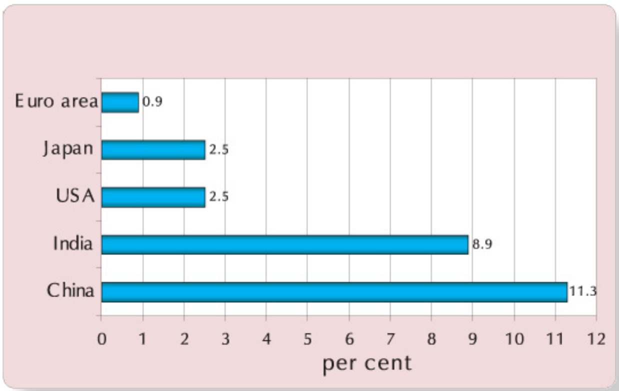
Part 1- Overview

1. The International Setting

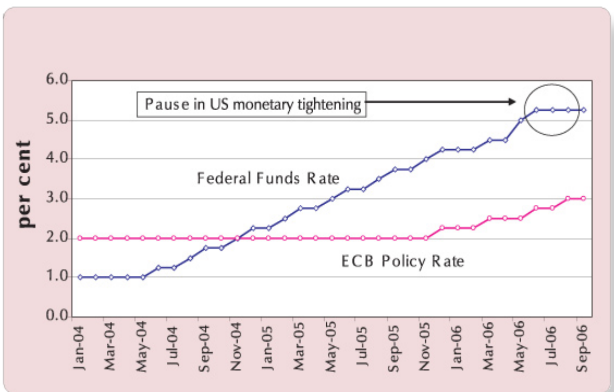
Against the background of high energy prices and concerns about rising inflationary pressures, the global economy maintained a steady growth momentum in the first half of 2006. While economic growth strengthened in the Eurozone area as well as in China, Japan and Latin America, the pace of economic expansion in the United States showed signs of a slowdown. Overall, the economies in the Caribbean recorded improved activity in the first half of 2006, buoyed mainly by strong growth in the tourism and construction sectors, the latter related to next year's cricket world cup.

Chart 1
Selected Country Growth Rates
Quarter Ending June 2006



In the **United States**, the economic expansion slowed to 2.5 per cent in the second quarter reflecting a contraction in home-building and slower growth in consumer spending. Economic activity was expected to be relatively subdued for the balance of the year, bringing projected growth for 2006 to 3.5 per cent. In the **Eurozone**, the latest data point to a strong broad-based recovery mainly supported by domestic demand. Looking ahead, the projection for 2006 is for fairly robust growth slightly higher than the "potential rate"of 2 per cent (Chart 1).

Chart 2
Federal Funds Rate and ECB Policy Rate



In the **US, headline inflation** moderated to 2.1 per cent (year-on-year) in September, (from 3.8 per cent in August) reflecting a substantial slowing of the increase in energy prices. Core inflation (which excludes energy prices) measured 2.9 per cent somewhat higher than in 2005.

At its September meeting, the Federal Reserve again left its benchmark federal funds rate unchanged at 5.25 per cent following 17 consecutive monthly increases (of 25 basis points each) which ended in July 2006. In its September statement, the Federal Reserve underscored its concern about continuing "inflation risks". However,

Chart 3
Inflation in the US and Eurozone

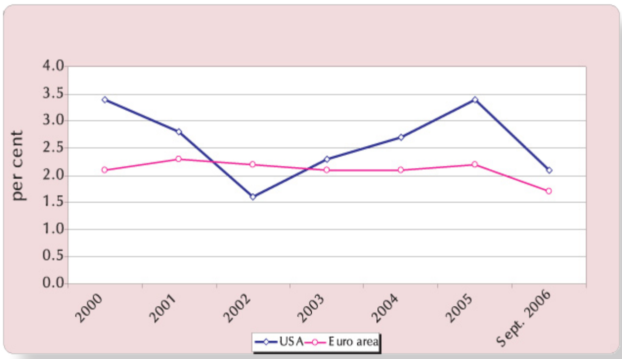


Chart 4
Selected CARICOM Headline Inflation Rates

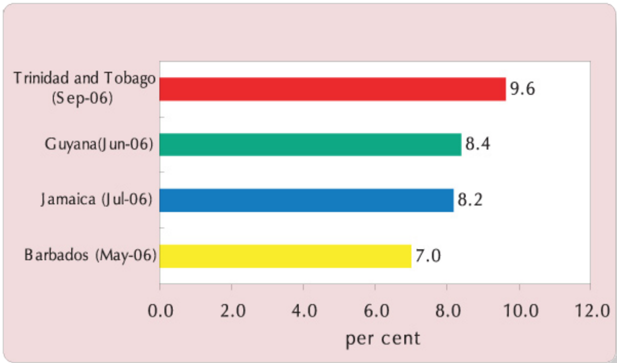
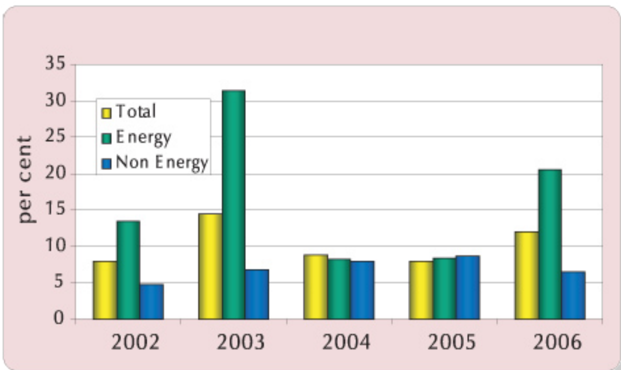


Chart 5
Growth in Real GDP



it indicated that the extent and timing of any measures needed to address these risks would depend on the evolution of the upcoming data on both inflation and economic growth (Chart 2).

In the **Eurozone, headline inflation** declined sharply to 1.8 per cent in September (year-on-year) from 2.3 per cent in August, largely because of the significant decline in oil prices. A statement from the European Central Bank (ECB) notes that based on quotations in the futures markets, energy prices are expected to rise again boosting the inflation rate above the 2 per cent target by year-end. Accordingly, on October 05, 2006, the ECB increased its policy interest rate by 25 basis points to 3.25 per cent hoping to dampen domestic demand and keep inflationary expectations in check.

Economies in the **CARICOM** region have also been experiencing rising inflationary pressures. Inflation in **Jamaica** measured 8.2 per cent in the twelve months to July down from 12.5 per cent at the end of 2005. The decline in the inflation rate was due to the tightening of monetary policy, in part, through open market operations and foreign exchange sales. In **Barbados**, consumer prices rose by 7.1 per cent in May from a year ago (Chart 4). To contain inflationary pressures in March 2006, the Central Bank of Barbados increased its discount rate (the rate payable by commercial banks on temporary advances from the Central Bank) to 12 per cent from 10 per cent.

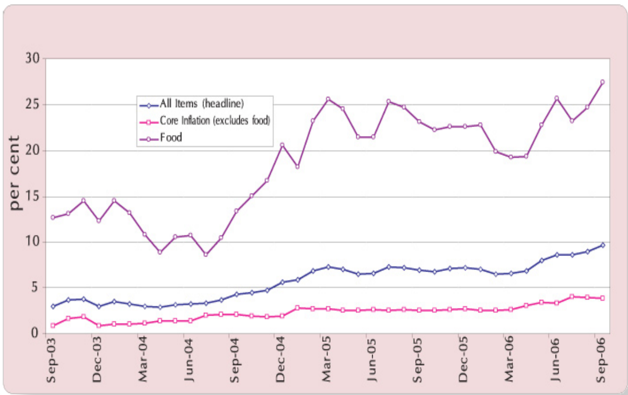
2. Domestic Economy

Growth and Inflation

In 2006, **real GDP growth** is projected to be in double-digits, the second time in five years. The projected 12 per cent rate follows upon an increase of 14.4 per cent in 2003 and will bring the average growth rate over the last five years to 10.2 per cent (Chart 5).

The main driver of economic growth has been the performance of the **energy sector**, which expanded by an estimated 31 per cent in 2003 and is projected to

Chart 6
Retail Price Index
Year-on-Year per cent change

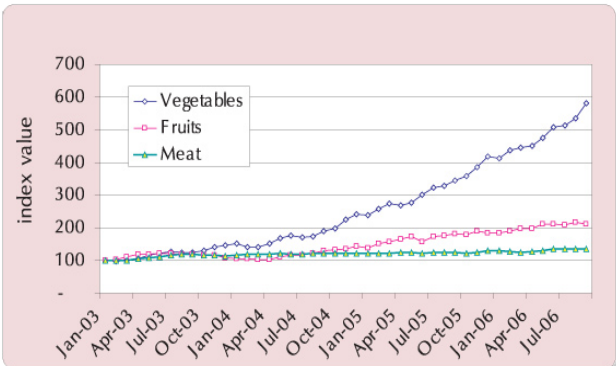


by 20 per cent this year. Buoyed by rising government expenditures financed by increasing oil revenues, growth in the **non-energy sector** has also been fairly strong averaging 7.5 percent in the period 2003-2006. The **construction** and **services** sectors have been the main contributors to non-energy sector growth. In contrast, value added in **agriculture** has declined in three of the last five years.

While the energy sector is very capital intensive, the expansion of economic activity in the non-energy sector has been accompanied by a steady rise in **employment**. Accordingly, the unemployment rate has fallen sharply to 7.2 per cent in the second quarter of 2006 from 10.2 per cent, four years ago. This has resulted from the creation of 55,700 jobs, an average of 14,000 a year.

There is strong evidence that the rapid rate of economic growth has severely reduced **spare capacity** in the economy. The capacity constraints are now reflected in greater transportation and port bottlenecks, labour shortages in certain sectors (particularly construction and services) and job categories (skilled labour, technical and managerial), and shortage of selected construction materials. These constraints, combined with rising domestic demand, have fuelled strong inflationary pressures.

Chart 7
Selected Sub-Categories of the Food Index
Year-on-Year per cent change



The inflation momentum began in 2004 when **headline inflation** almost doubled to 5.6 per cent in December 2004 (year-on-year) from 3 per cent in December 2003. Notwithstanding a steady tightening of monetary policy, headline inflation accelerated further to 7.2 per cent as at December 2005. The main driver of inflation over the past two and a half years has been food prices which registered increases of 20.6 per cent in 2004 and 22.6 per cent in 2005. **Core inflation** which excludes the volatile food category, rose by 2 per cent in 2004, and 2.7 per cent in 2005 (Chart 6).

In the 12 months through September 2006 headline inflation accelerated to 9.6 per cent. The food and non-alcoholic beverages sub-index increased by a staggering 27.4 per cent, while core inflation was 3.9 per cent.

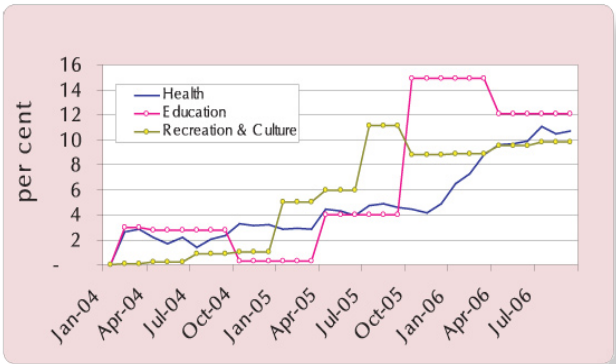
Table 1
Increases in Food Prices
/Year-on-Year per cent change /

	Weight	September 2004	September 2005	September 2006
Headline Inflation		4.3	6.9	9.6
Food & Non-Alcoholic Beverages	**180.00**	13.3	23.1	27.4
of which Fruits	**14.28**	8.0	2.5	17.3
Vegetables	**21.84**	50.3	4.4	69.3
Meat	**29.21**	2.3	2.0	10.2
Fish	**11.37**	1.7	11.3	38.0

Source: Central Statistical Office.

A closer examination of the food prices sub-index reveals that the increases were concentrated in four main categories which account for 43 per cent of the food basket. These were fruits, whose prices increased by 17.3 per cent (year-on-year), vegetables (69.3 per cent), fish (38 per cent), and meat (10.2 per cent) (Appendix A). The prices of other items in the food category increased, on average, by 8.6 per cent in the 12-month period (Table 1 and Chart 7).

Chart 8
Selected Components of Core Inflation



Core inflation, which had fluctuated between 2.5 – 2.8 per cent since the beginning of 2005 has risen steadily since April 2006 to reach 3.9 per cent in September. The steady rise in core inflation has been mainly attributable to increases in the following categories :- pharmaceuticals (10 per cent), recreation and culture (10 per cent), and education (largely private-school tuition) (12 per cent). There have also been sizeable increases in alcoholic beverages (15 per cent) but this has a very small weight in the index (Chart 8 and Table 2). With the heavy subsidies on fuel and electricity, the transport and housing sub-indices have risen by 1 and 4 per cent, respectively.

Table 2
Increases in Major Components of Core Inflation
/Per Cent/

	Weight	September 2004	September 2005	September 2006
Core Inflation	820	2.1	2.6	3.9
Alcoholic Beverages	25	3.9	2.7	15.1
Health	51	2.4	4.6	10.7
Education	16	2.8	4.0	12.0
Recreation and Culture	85	0.9	11.1	9.8
Housing, Water, Electricity, Gas and Other Fuels	262	3.0	1.8	3.5

Source: Central Statistical Office.

3. Main Factors Affecting Inflation

Central Bank's research suggests that, in addition to agricultural supply constraints, there are several factors that bear importantly on inflation, from the demand side. These include the growth in government expenditure (as reflected in the non-energy fiscal deficit), bank credit expansion and wage settlements that exceed productivity increases. Import prices and changes in mark-ups also affect the rate of inflation. It is, however, difficult to get reliable estimates on the latter.

Domestic Agriculture

Data obtained from the Agricultural authorities point to sluggish production of many important domestic agricultural commodities (Table 3). The main factors cited are flooding, labour shortages and praedial larceny. While in many cases, shortages have been met by imports from regional territories, these have been at higher prices. The data also suggest that while the increase in production costs has contributed to higher prices, an equally (or in some cases) a more important factor has been the level of retail margins (Chart 9).

Chart 9
Wholesale and Retail Prices of Selected Agricultural Commodities - 2005

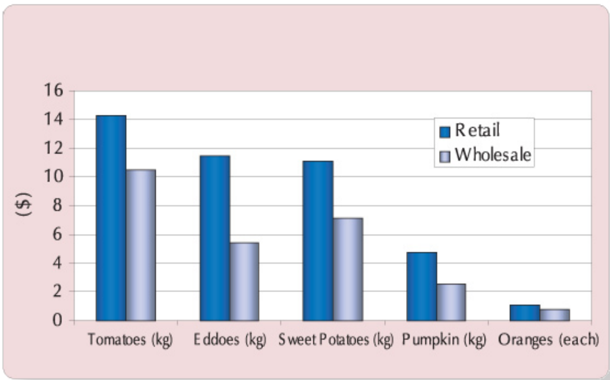


Table 3
Production of Selected Crops[1]
/000s kgs, unless otherwise specified/

Weight	2002	2003	2004	2005	Jan-Sept 2006
Tomato	1,235.0	1,811.0	1,975.0	1,645.2	687.1
Cabbage	1,780.0	2,225.0	1,036.6	990.8	241.5
Cucumber	3,607.0	1,888.9	2,709.9	4,589.6	202.3
Melongene	1,933.0	2,975.8	2,587.6	2,232.4	120.9
Lettuce (head)	4,172.0	3,590.9	3,324.5	3,709.5	351.9
Pumpkin	5,799.0	3,718.3	2,298.3	2,171.4	1,760.3
Dasheen Bush (bundle)	3,891.0	488.1	418.1	269.1	168.7
Sweet Potato	297.0	216.2	199.1	81.4	415.3

Source: National Agricultural Marketing Development Company (NAMDEVCO).
[1] Estimated: refers to crops harvested in Trinidad only. Represents output from 313 farms monitored by NAMDEVCO.

Table 4
Summary of Central Government Fiscal Operations
Per Cent of GDP

	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	Budgeted 2006/2007
Revenue	**24.6**	**23.6**	**25.8**	**31.2**	**33.5**	**28.4**
of which Oil Sector	5.8	8.7	9.6	14.6	18.6	13.4[1]
Non-Oil Sector	18.9	15.1	16.3	16.6	14.9	15.1
Expenditure	**25.3**	**22.3**	**24.0**	**25.9**	**30.3**	**28.4**
Overall Balance	**-0.6**	**1.4**	**1.9**	**5.3**	**3.3**	**..**
Non-Oil Fiscal Deficit	**-6.5**	**-7.2**	**-7.7**	**-9.3**	**-15.4**	**-13.3**

Source: Ministry of Finance.
[1]Energy sector revenue estimates are based on a notional price of US$45 per barrel.
.. Negligible.

Chart 10
Non-Oil Deficit and Overall Fiscal Balance in Per Cent of GDP

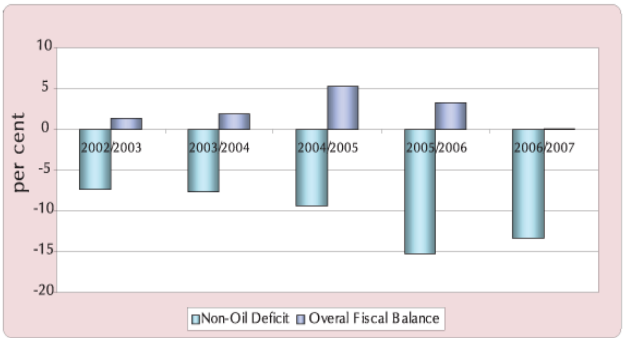
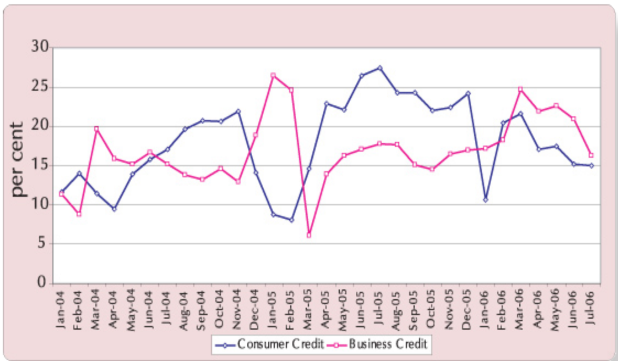


Chart 11
Credit to Businesses and Consumers by the Consolidated Financial System



The Non-Oil Fiscal Deficit

The main factor operating on the demand side has been the steady increase in the level of Government expenditure which has resulted in an increase in the **non-oil fiscal deficit** and sharply rising excess liquidity levels. With Government expenditure increasing from the equivalent of 25.9 per cent to 30.3 per cent of GDP, the non-oil deficit rose from 6.5 per cent of GDP in 2001/2002 to 15.4 per cent of GDP in 2005/2006 (Chart 10). This deficit is financed by drawdowns of Government deposits at the Central Bank which add to liquidity pressures (Table 4).

Credit to the Private Sector

Credit to the private sector by the consolidated financial system has been slowing (9.2 per cent in the twelve months to July 2006 from 20.3 per cent in January 2006). Over the same period, the growth in loans to business firms decelerated to 16.3 per cent from 17.2 per cent and the increase in consumer lending dropped to 15 per cent from 25.1 per cent (Chart 11).

Wages

The available data show that over the past few years, basic wage increases in the non-energy sector have been generally subdued at around 3-4 per cent each year. The three-year wage settlements registered in 2005 show a marginal rise in the annual basic increases to about 5 per cent. These basic increases underestimate the overall adjustments in incomes since they exclude various add-ons, including in some cases, cost-of-living adjustments.

Table 5
Increase in Wages in the Construction Sector
/dollars/

Labour Category	Wages Per Day 2004	Wages Per Day 2005	% Increase 2005
Plumbers	150.00	250.00	67
Electricians	175.00	300.00	71
Masons	125.00	250.00	100
Carpenters	125.00	250.00	100
Tilers	150.00	300.00	100
Painters	175.00	300.00	71
Unskilled Labourers	90.00	150.00	67
Roofers	200.00	300.00	50

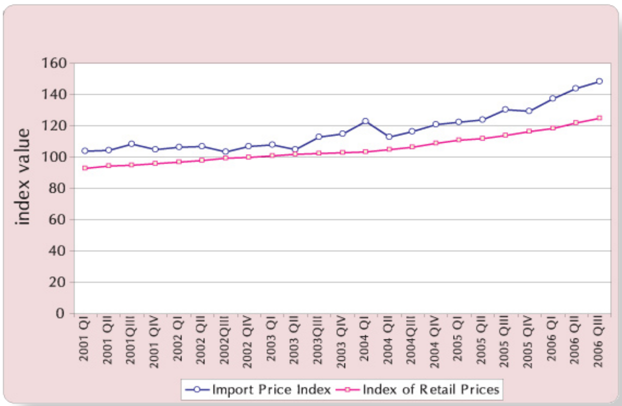
Source: Housing Development Corporation.

Outside the unionised sector, there have been significant increases in wages in the construction sector (for both skilled and unskilled workers) (Table 5). As a general rule, it is not possible to judge whether wage increases have been compensated by increases in productivity.

Import Prices

The rise in import prices is also making an important contribution to domestic inflation. In the period 2002-2005, the import price index increased at an annual average rate of about 6½ per cent. This picked up markedly in the first half of 2006 reflecting the impact of high energy prices and price increases of other commodities, particularly wheat. For the 12 months ended June 2006, the increase in import prices was 16 per cent (Chart 12).

Chart 12
Indices of Import and Retail Prices



4. Monetary Policy

To address rising inflation, the Central Bank has continued to tighten monetary policy through the use of the following measures:

(i) An increase in **open market operations** to absorb liquidity and reduce the banks' capacity to extend credit;

(ii) A faster adjustment in the policy interest rate, **the Repo rate,** with a view to increasing interest rates throughout the financial system. In principle, the increase in the structure of interest rates is expected to dampen credit demand;

Chart 13
Monetary Policy Responses

Changes To The Central Bank Policy Rate

Jan. 2006:	'Repo' rate increased to 6.25 per cent.
Feb. 2006:	'Repo' rate increased to 6.50 per cent.
Mar. 2006:	'Repo' rate increased to 6.75 per cent.
April 2006:	'Repo' rate maintained at 6.75 per cent.
May 2006:	'Repo' rate increased to 7.00 per cent.
June 2006:	'Repo' rate increased to 7.25 per cent.
July 2006:	'Repo' rate increased to 7.50 per cent.
August 2006:	'Repo' rate increased to 7.75 per cent.
Sept. 2006:	'Repo' rate increased to 8.00 per cent.

(iii) A significant increase in **Central Bank foreign exchange sales** which are also an instrument of liquidity absorption.

Moreover, with the liquidity overhang becoming more of a challenge over the past year, the Central Bank needed to have recourse to additional measures viz: (a) a **compulsory deposit facility** for the commercial banks and (b) the introduction, on a temporary basis, of a **secondary reserve requirement**.

Open Market Operations

In the first nine months of 2006, **the volume of open market operations** amounted to $1,413.0 million compared with $1,356.4 million in the corresponding period of the previous year. The increase succeeded in tightening bank liquidity but as net fiscal injections increased, excess liquidity climbed to unacceptable levels.

During the second quarter, as the legal ceiling on treasury securities was reached, the Bank needed to have recourse to **Central Bank instruments** for open market operations on a temporary basis. In early September, Parliament approved an increase in the ceiling on open market securities from $8 billion to $15 billion to facilitate the conduct of open market operations by the Bank.

The 'Repo' Rate

During the first nine months of 2006, the Central Bank raised the '**Repo' rate** on eight occasions, each time by twenty-five basis points. With these adjustments, the 'Repo' rate moved from 6.25 per cent in January 2006, to 8 per cent as at September 2006. The steady rise in the 'Repo' rate, supported by the increase in open market operations had an impact on **inter-bank rates**, which rose from around 5 per cent to 7 per cent, and on money market interest rates (Chart 13). Regarding the latter, the rate on **3-month treasury bills** rose from around 5.5 per cent to 6.8 per cent, and on **6-month bills** from 5.7 per cent to 7.3 per cent. Rates on long-term government securities have increased at a more rapid

Chart 14
Yield Curve Comparison: October 2006 / October 2005

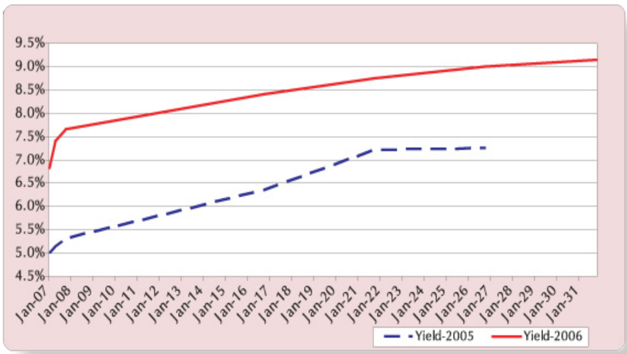
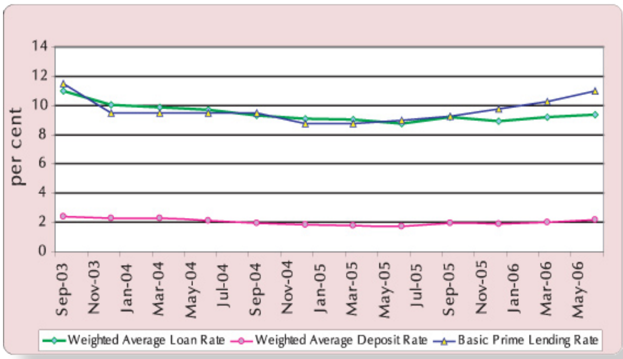


Chart 15
Selected Interest Rates



pace moving from 7.00 per cent to 8.75 per cent at the end of September 2006. The upward sloping yield curve reflects in part high inflation expectations (Chart 14).

For the most part, commercial bank interest rates did not move in parallel with interbank and money market rates. While banks generally adjusted their quoted **prime lending rates** in line with the Repo rate the increases were not passed through to the entire structure of commercial banks' interest rate. Specifically, while interest rates on **business loans** have risen, rates on **retail loans** have been held down contributing to strong growth in consumer credit and in personal debt. Mortgage rates have also remained well below the prime lending rate (7.5-8.5 per cent). This reflects the increased competition in this segment of the market and the influence of the government mortgage institutions in keeping rates down (Chart 15).

Also, increases in deposit rates have lagged behind that of loans, in part because of abundant liquidity which has obviated the need for banks to compete for funds. With the disparate trends in loans and deposits, bank spreads have begun to widen (Table 6). The steady rise in domestic interest rates against the background of a pause in further monetary tightening by the US Fed has resulted in a widening of the differential between TT and US short-term interest rates to 193 basis points in September from 61 basis points in February.

Table 6
Commercial Banks: Selected Interest Rates
/Per Cent/

	June 2005	September 2005	December 2005	March 2006	June 2006	September 2006
Weighted Average Loan Rate	8.76	9.19	8.90	9.19	9.35	n.a.
Weighted Average Deposit Rate	1.73	1.98	1.89	2.01	2.16	n.a.
Spread	7.03	7.21	7.01	7.17	7.18	n.a.
Prime Lending Rate	9.00	9.50	9.75	10.50	11.00	11.75

Source: Central Bank of Trinidad and Tobago.

Chart 16
Monetary Policy Responses

Liquidity Management Measures

Dec. 2005: Commercial banks deposited TT$1 billion in an interest-bearing account at the Central Bank for a minimum period of one year.

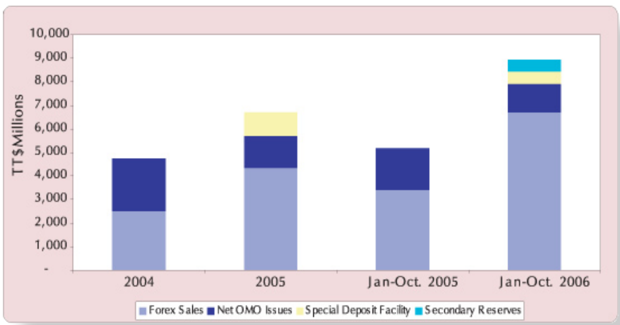
Special Deposit rate reduced to zero.

June 2006: Commercial banks deposited TT$500 million in an interest-bearing account at the Central Bank for a minimum period of one year.

Sept. 2006: Commercial banks were required to hold, on a temporary basis, a secondary reserve requirement of 2 per cent of their prescribed liabilities, effective October 4 2006 remunerated at 350 basis points below the 'Repo' rate.

Sept 2006: Parliament approved an increase in open market securities for government borrowing from $8 billion to $15 billion.

Chart 17
Liquidity Absorption



Additional Monetary Measures

There are certain structural features of the money market that tend to impede its smooth functioning. For example, self-imposed limits on banks' exposure to each other may preclude transactions in the inter-bank market. Also, insufficient co-ordination between central government and other public sector bond issues has sometimes impacted on the effectiveness of open market operations. These factors, combined with a chronic liquidity overhang, prompted the adoption of additional temporary measures to help deal with excess liquidity. Thus, in December 2005, the Bank moved to mop up liquidity by requesting commercial banks to deposit TT$1 billion in a **compulsory interest-bearing account** at the Central Bank. In June 2006, commercial banks were required to make a similar deposit in an amount of TT$500 million. In September 2006, the Bank introduced a **secondary reserve requirement** equivalent to 2 percent of prescribed liabilities. These secondary reserve balances are being remunerated at an interest rate that is 350 basis points below the current 'Repo' rate.

Central Bank Foreign Exchange Sales

Intensified Central Bank intervention in the foreign exchange market has also had liquidity absorption as one of its objectives. Through October 25, 2006 the Central Bank sold US$1,105.1 million to the market compared with US$545 million in the corresponding period of 2005. Central Bank foreign exchange sales have contributed significantly to liquidity absorption (Tables 7, 8 and Chart 17).

Table 7
Foreign Exchange Purchases and Sales
/US$ Million/

Year	Commercial Banks' Purchases	Commercial Banks' Sales	Central Bank Net Sales
2005: January	192.1	298.7	30.0
February	213. 5	226.5	25.0
March	272.1	313.9	25.0
April	202.8	318.8	30.0
May	181.1	272.2	50.0
June	280.3	279.2	40.0
July	219.8	406.6	40.0
August	159.1	311.0	85.0
September	226.0	271.0	75.0
October	147.0	289.2	145.0
Jan. – Oct. 2005	**2,093.7**	**2,987.2**	**545.0**
2006: January	222.7	265.6	110.0
February	167.9	352.1	200.1
March	284.4	340.4	60.0
April	276.1	296.4	65.0
May	190.5	336.5	95.0
June	291.3	330.6	60.0
July	251.0	340.0	90.0
August	169.5	348.0	145.0
September	278.9	337.6	110.0
October	213.0	347.7	170.0
Jan. – Oct. 2006[1]	**2,345.5**	**3,294.9**	**1,105.1**

Source: Central Bank of Trinidad and Tobago.
[1]As at October 25, 2006.

Table 8
Addition to Official Reserves and Foreign Exchange Sales
/US$ Million/

	2002	2003	2004	2005	Jan-Oct 06
Change in Gross Official Reserves (net of RSF)	47.4	247.4	531.6	1,475.8	1,233.9[1]
Central Bank Net Sales	315.0	505.0	400.0	695.0	1,105.1
Additions to Revenue Stabilization Fund	0.2	86.8	203.6	416.9	501.6

Source: Central Bank of Tinidad and Tobago.
[1]As at October 25, 2006.

5. Short-Term Outlook

With the likelihood that oil prices will remain high for the foreseeable future, the inflation risk should remain strong both in the US and in the Eurozone. On this basis, the prospect for further increases in the Federal Funds and the ECB policy interest rates cannot be ruled out.

In **Trinidad and Tobago,** while economic growth is expected to remain robust, inflation will continue to be the economy's main challenge. With headline inflation at 9.6 per cent as at end September 2006, the Government's target is for a reduction to 7 per cent by September 2008 and to 5 per cent by the end of the next fiscal year. This will imply reducing the increase in food prices from the end September year-on year rate of 27 per cent to 10 per cent by September 2008. It would also mean keeping core inflation under 4 per cent . The Bank believes that this is feasible and achievable.

The expectation that oil prices will remain high along with the recent surge in other commodity prices, including wheat, suggests that import prices will continue to have a significant effect on the domestic price level. In the 2007 budget, the Government announced a series of measures to revive the domestic agricultural sector. It is not clear how quickly some of these critical actions could be put in place nor whether a meaningful supply response could be expected during the fiscal year. As a short term measure, an increase in imports of selected agricultural commodities will go a long way to easing price pressures. The reduction in import duties on some agricultural products announced in the Budget will also help in this regard.

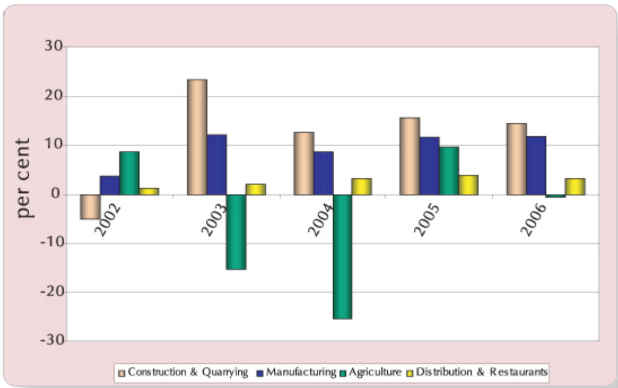
The 2007 Budget provides for a decline in central government total expenditure in terms of GDP from 30.3 per cent to 28.4 per cent. As a result, the non-oil fiscal deficit is projected to decrease from 15.4 per cent to 13.3 per cent of GDP, given that non-oil revenues are projected to remain virtually unchanged (from 14.9 per cent to 15 per cent of GDP). Last year there was an enormous increase in this deficit from 9.3 per cent of GDP to 15.4 per cent of GDP. Further expenditure reduce the strain on monetary policy and ease pressures on domestic interest rates.

Given the current fiscal stance, monetary policy during the coming year would aim at financing the bulk of the non-energy fiscal deficit through open market operations so as to limit the monetization of oil receipts. The plan would be to issue a range of medium-term maturities to meet the portfolio needs of the financial sector and institutional investors. The increase in government issues will also help in the development of the secondary market. Given the strong anti-inflationary policy bias, some further increase in market interest rates could be expected. The Central Bank will also maintain its liberal foreign exchange sales policy to eliminate uncertainty in the market and to help in liquidity absorption.

Along with government expenditure, **rising inflationary expectations** constitute a real threat to reducing inflation to the 7 per cent target. These expectations are now being reflected in increasing tensions in industrial relations, in a marked rise in the level of increases being requested in wage negotiations and in the widespread perception that, in the context of buoyant consumer demand, distribution markups are being increased. Past experience shows that inflationary expectations are only dampened when there are clear signs that inflation is on a downward trend. Examples from the Caribbean (specifically Barbados and Jamaica) have also shown that some type of social pact, involving Government, Labour and Business can go a long way in breaking the vicious cycle.

This may be the right time to seek such an accord.

Chart 18
Growth in Real GDP by Major Sub-sectors



Part 2 - Recent Economic Developments

1. Real GDP

The Trinidad and Tobago economy continued to experience buoyant conditions in 2006 with real GDP projected to expand by 12 per cent in 2006. This heightened activity (the second highest on record) should be powered mainly by growth of 20.6 per cent in the energy sector which reflected increased production as a result of the commissioning of two new plants (the Atlantic LNG Train IV and the M5000 methanol facility) in the last quarter of 2005.

Although projected to be somewhat lower than the previous year (8.7 per cent), growth in the non-energy sector is estimated at 6.5 per cent. The construction and manufacturing sectors are projected to be the main contributors to this performance as continued work on private and public sector projects (erection of commercial and residential buildings and the maintenance of roads and bridges) pushes growth in the construction industry to 14.5 per cent. Output in the manufacturing sector is expected to expand by 11.8 per cent, reflecting largely increased activity in the Food, Beverages and Tobacco (19 per cent) and Assembly-Type Industries (11.1 per cent). Positive outturns are also expected to be recorded in Finance, Insurance and Real Estate (7.5 per cent), Education and Cultural Services (9.4 per cent), and Transport, Storage and Communications (4 per cent) (Chart 18). The Agriculture sector is estimated to perform poorly, with output contracting by 0.6 per cent adversely affected by inclement weather, praedial larceny and low sugar and citrus production (Table 9).

Table 9
Selected Economic Indicators, 2003-2006
/Per Cent/

	2003	2004	2005	2006
GDP Growth	14.4	8.8	8.0	12.0[p]
Inflation[1] : Headline	3.0	5.6	7.2	9.6[2]
Core	0.9	2.0	2.7	3.9[2]
Nos. Employed ('000)	534.2	562.4	574.0	582.9[3]
Unemployment Rate	10.5	8.4	8.0	7.2[3]

Source: Central Statistical Office.
[1] end of period.
[2] as at September 2006.
[3] as at the end of the second quarter 2006.

Chart 19
Trends in Labour Force and Unemployment

2. Employment

Conditions in the labour market continued to be tight reflecting the robust activity currently prevailing in the economy. With unemployment rates at historically low levels, firms, particularly in the construction sector have had to source skilled personnel regionally and internationally. During the first six months of 2006, the unemployment rate averaged 7 per cent, significantly below the level of a year ago (8.5 per cent). A comparison with the corresponding period of 2005 showed that while the labour force increased by only 5.4 thousand persons, 14.3 thousand jobs were created over this period (Chart 19). Consequently, the number of unemployed persons fell by 8.9 thousand (Table 10).

The services sector generated the largest number of jobs (7.7 thousand) from a year ago, with the Distribution and Finance, Insurance and Real Estate sub-sectors employing an additional 2.4 thousand and 2.8 thousand persons, respectively. In Construction, 2.9 thousand workers found employment while in Manufacturing, 800 jobs were created. However, the sugar industry cut its workforce by 500 persons.

Table 10
Unemployment Rates – 1988-2006
/Per Cent/

	March	June	September	December
1988	22.7	21.4	21.6	22.4
1989	22.5	22.3	22.4	20.8
1990	20.1	20.3	20.6	19.2
1991	20.4	17.6	18.5	17.4
1992	19.8	20.6	18.7	19.2
1993	21.1	19.5	19.0	19.4
1994	19.7	18.1	17.9	17.9
1995	18.1	16.5	17.8	16.3
1996	17.1	15.1	16.9	15.9
1997	17.2	14.5	14.9	13.5
1998	14.6	13.4	13.8	15.1
1999	14.1	11.7	13.6	13.2
2000	12.5	..	12.1	11.9
2001	10.7	10.8	10.1	11.7
2002	10.3	10.1	10.6	10.6
2003	11.0	10.2	10.5	10.2
2004	10.2	7.8	7.7	7.8
2005	9.0	8.0	8.2	6.7
2006	6.8	7.2	n.a.	n.a.

Source: Central Statistical Office.

3. Inflation

Headline inflation has been gathering momentum in the face of more buoyant domestic demand and supply-side bottlenecks. On a year-on-year basis to September 2006, headline inflation measured 9.6 per cent compared to 6.9 per cent, one year earlier. The persistent increase in food prices since the last quarter of 2005 has been the main impetus behind the sharp monthly increases in headline inflation. A closer examination of the food prices sub-index reveals that over the last nine months, food prices have increased on average by 1.9 per cent on a monthly basis. In the twelve months to September 2006, food prices increased by 27.4 per cent reflecting sharp increases in the prices of fruits, vegetables, fish and meat. Meanwhile, core inflation, which had remained relatively subdued at around 2.5 per cent at the beginning of 2006, also began creeping upwards from around the second quarter of 2006. In the twelve months to April 2006, core inflation measured 3.1 per cent before rising to 3.9 per cent in September. The pick-up in core inflation is indicative of an increase in the prices of many of the non-food items of the retail prices basket. The sharp increase in core inflation resulted by and large from increases in the cost of health services, recreation and leisure, meals out, rent and household equipment and maintenance (Table 11). Appendix A contains data illustrating the geographical distribution of food inflation for 2006. Surprisingly, the data show that food inflation was lower in urban areas than in rural communities where fruits and vegetables are cultivated.

Table 11
Index of Retail Prices (January 2003=100)

	ALL ITEMS			CORE		FOOD		
Date	Index	Mthly %	Y-o-Y %	Index	Y-o-Y %	Index	Mthly %	Y-o-Y %
Jan-05	109.40	0.46	5.91	103.69	2.83	135.40	-0.44	18.25
Feb-05	110.50	1.01	6.87	103.70	2.77	141.50	4.51	23.26
Mar-05	111.20	0.63	7.34	103.80	2.76	144.90	2.40	25.56
Apr-05	111.60	0.36	7.00	104.27	2.58	145.00	0.07	24.57
May-05	111.70	0.09	6.48	104.19	2.59	145.90	0.62	21.48
Jun-05	112.10	0.36	6.56	104.26	2.64	147.80	1.30	21.45
Jul-05	113.50	1.25	7.28	105.09	2.59	151.80	2.71	25.35
Aug-05	113.80	0.26	7.26	105.20	2.67	153.00	0.79	24.69
Sep-05	114.10	0.26	6.94	105.14	2.57	154.90	1.24	23.13
Oct-05	114.80	0.61	6.79	105.67	2.57	156.40	0.97	22.28
Nov-05	115.70	0.78	7.03	105.62	2.65	161.60	3.32	22.61
Dec-05	116.70	0.86	7.16	105.72	2.69	166.70	3.16	22.57
Jan-06	117.10	0.34	7.04	106.30	2.52	166.3	-0.24	22.82
Feb-06	117.70	0.51	6.52	106.31	2.52	169.6	1.98	19.86
Mar-06	118.50	0.68	6.56	106.58	2.68	172.8	1.89	19.25
Apr-06	119.30	0.68	6.90	107.49	3.09	173.10	0.17	19.38
May-06	120.60	1.09	7.97	107.76	3.42	179.10	3.47	22.76
Jun-06	121.80	1.00	8.65	107.75	3.35	185.80	3.74	25.71
Jul-06	123.30	1.23	8.63	109.32	4.02	187.00	0.65	23.19
Aug-06	124.00	0.57	8.96	109.34	3.94	190.80	2.03	24.71
Sep-06	125.10	0.89	9.64	109.23	3.89	197.40	3.46	27.44

Source: Central Statistical Office.

Chart 20
Index of Retail Sales (2000=100)
Year-on-Year change

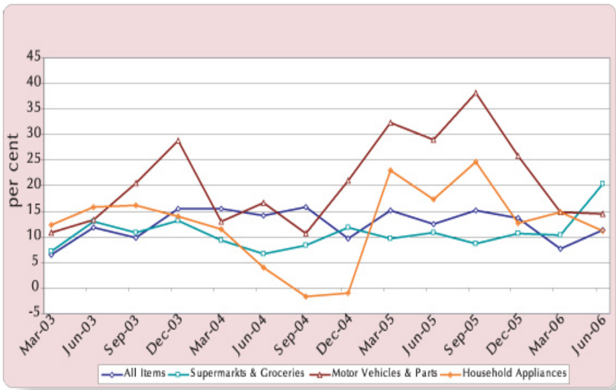
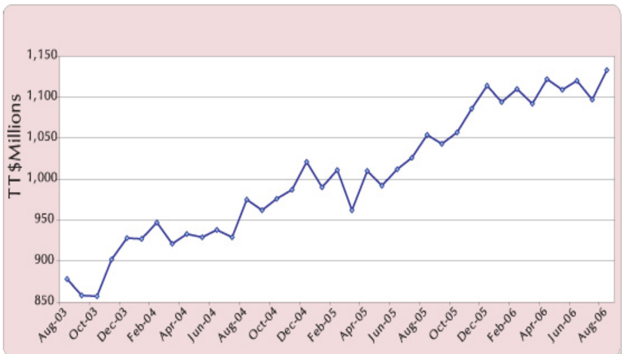


Chart 21
Commercial Banks' Credit Card Loans Outstanding



The pace of consumer spending remained strong in line with the continued buoyancy of domestic economic activity. While quarterly consumption estimates are not readily available, the Bank utilises trends in the Retail Sales Index and its various components to gauge movements in some key areas of consumer spending. This Index rose by 9.5 per cent during the first half of the year, reflecting increased sales of construction materials and hardware (20.9 per cent) and motor vehicles and parts (9.4 per cent) as well as purchases at dry goods stores (17.5 per cent) and supermarkets and groceries (15.3 per cent) (Chart 20). With respect to motor vehicles, there was a sharp increase in the importation of foreign-used vehicles because of fears that budgetary measures would place a ban or raise taxes on these vehicles. Data on credit card debt show that outstanding loan balances were $1,133 million at the end of August 2006, 7.5 per cent higher than a year ago (Chart 21).

Chart 22
Index of Retail Prices of Building Materials

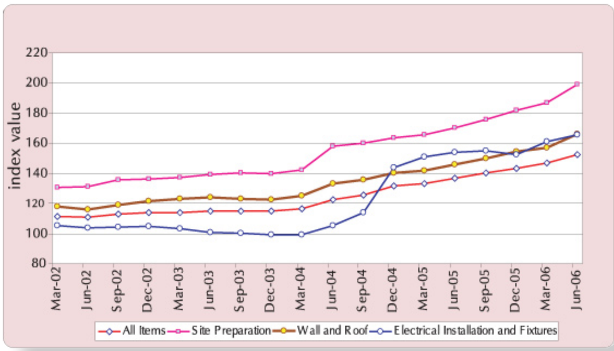
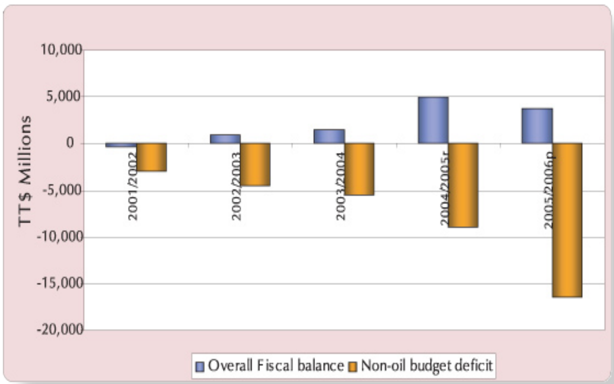


Chart 23
Non-Energy Fiscal Deficit



Index of Retail Prices of Building Materials

The Index of Retail Prices of Building Materials is one of the main indicators utilised by the Bank to gauge trends in the cost of building materials and services. Since 2003, this Index has been increasing steadily rising from 4.1 per cent on a year-on-year basis in June 2003 to 11.6 per cent in June 2006. Contributing to the sharp increase in building material prices were the cost of site preparation (16.9 per cent), construction of walls and roofs (13.9 per cent) and electrical installation (7.6 per cent) (Chart 22 and Appendix C).

4. Fiscal Developments

Provisional data for the fiscal year 2005/2006 showed that the central government recorded a surplus of $3,740 million, somewhat less than the surplus ($5,006.9 million) of a year ago. Revenue amounted to $38,406.5 million, 29.5 per cent higher than a year ago, reflecting the implementation of the new oil tax legislation as well as higher energy prices. In addition, receipts were boosted by larger collections from non-oil companies, individuals, value-added taxes and import duties. Expenditure also rose to $34,666.5 million, 40.7 per cent above the amount spent in the previous fiscal year. Spending increased in most areas - wages and salaries (4.1 per cent), goods and services (21.4 per cent), and transfers and subsidies (64 per cent) (Table 12). The government transferred $3,159.9 million to the Revenue Stabilization Fund which stood at $7,947.4 million at the end of the fiscal year. The non-oil fiscal deficit amounted to $17,559.5 million for fiscal year 2005/2006, almost three times the deficit incurred in the previous fiscal year ($8,898.9 million) (Chart 23).

Table 12
Summary of Central Government Fiscal Position
/$million/

	Actual 2004/2005	Budgeted 2005/2006	Provisional 2005/2006	Budgeted 2006/2007
Total Revenue and Grants	**29,647.9**	**33,813.9**	**38,406.5**	**35,082.6**
Current	**29,638.8**	**33,789.8**	**38,392.3**	**35,038.2**
Oil	13,905.8	19,617.1	21,299.5	16,480.5
Non-Oil	15,733.0	14,172.7	17,092.8	18,557.7
Capital and Grants	**9.1**	**24.1**	**14.2**	**44.4**
Total Expenditure and Net Lending	**24,641.0**	**31,941.3**	**34,666.5**	**35,054.2**
Current	**21,737.4**	**28,456.2**	**29,382.6**	**28,704.6**
Wages and Salaries	5,309.2	6,520.7	5,528.3	6,372.5
Other Goods and Services	3,170.1	4,511.6	3,848.4	4,592.5
Interest Payments	2,541.5	2,625.3	2,430.9	2,534.7
Transfers & Subsidies*	10,716.6	14,798.6	17,575.0	15,204.9
Capital and Net Lending	**2,903.6**	**3,485.1**	**5,283.9**	**6,349.6**
Public Sector Investment Programme	3,053.9	1,500.0	2,072.7	3,400.0
Infrastructure Development Fund	0.0	2,300.0	3,179.0	2,692.9
Current Balance	**7,901.4**	**5,333.6**	**9,009.7**	**6,333.6**
Overall Balance	**5,006.9**	**1,872.6**	**3,740.0**	**28.4**
Overall Balance adjusted for transfers to RSF	**2,413.8**	**9.8**	**580.1**	**28.4**
Financing	**-5,006.9**	**-1,872.6**	**-3,740.0**	**-28.4**
Foreign financing	-1,273.3	2,307.5	-214.4	20.1
Disbursements	285.4	2,841.3	321.3	1,323.3
Repayments	-1,558.7	-533.8	-535.7	-1,303.2
Memo Item				
Transfers to the Revenue Stabilization Fund	2,593.1	1,862.8	3,159.9	0.0

Source: Ministry of Finance and Central Bank of Trinidad and Tobago.

[r] Revised

* Adjusted for Transfers to the Revenue Stabilization Fund and Infrastructure Development Fund.

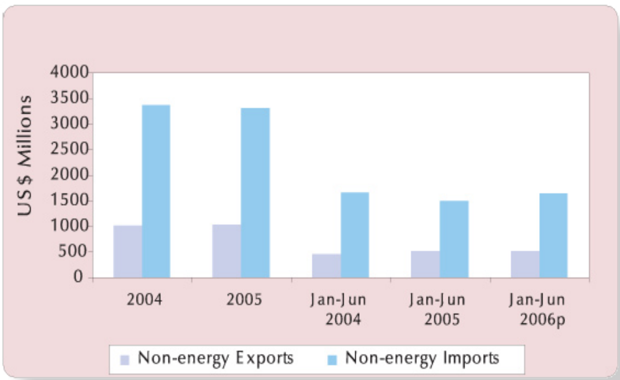
Box I
Implications of the 2006/2007 Budget

On October 4 2006, the national budget for fiscal year 2006/2007 was presented in the Parliament of Trinidad and Tobago. This budget provides for a small fiscal surplus of $28.4 million or 0.02 per cent of GDP, based on an estimated oil price of US$45 per barrel. The outturn for the previous year which was based on an oil price of US$62 per barrel resulted in an accumulated surplus of 3.3 per cent of GDP. This surplus allowed the Government to transfer $3.2 billion to the Interim Revenue Stabilization Fund.

Implications of Fiscal Measures:

- Expenditure as a per cent of GDP is budgeted to decline to 28.4 per cent in 2006/2007 from 30.3 per cent in 2005/2006 in sharp contrast to increases in spending over the last three fiscal years;
- If oil prices reach US$60 per barrel as occurred in the last fiscal year, the formula for the Revenue Stabilization Fund provides for a transfer of $1,652 million to the Fund;
- The compression in the growth of expenditure should result largely from a reduction in spending on URP and other such labour support programmes;
- The non-oil fiscal deficit is projected to decline in 2006/2007.

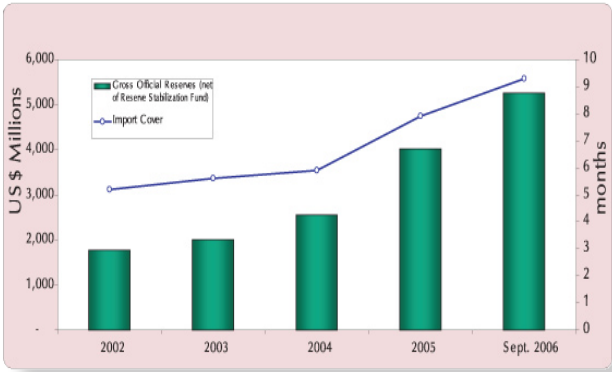
Chart 24
Non-Energy Imports and Exports



5. External Accounts

Preliminary data indicated that there was a surplus of US$1.6 billion on the balance of payments for the first nine months of 2006. Available information for the first half of the year indicated that the current account registered a surplus of US$3,340.1 million (18.3 per cent of GDP). This was due largely to a merchandise trade surplus of US$3.2 billion compared with US$1.8 billion over the same period of 2005. Total exports increased by 46.8 per cent to reach US$6.5 billion, mirroring significant increases in the value of exports of mineral fuels and lubricants and chemicals. Energy sector exports almost doubled while non-energy exports increased to US$518.4 million. Total imports (US$3,268.3 million) increased by 22.6 per cent in the first six months of 2006, reflecting increases in both energy and non-energy imports of US$452.8 million and US$149.2 million, respectively (Chart 24). The large current account

Chart 25
Gross Official Reserves and Import Cover



was partly offset by a deficit of US$2,069.6 million on the capital account as the private sector built up balances abroad. Nevertheless, the overall balance of payments still climbed to US$1.3 billion in the first six months of 2006 compared with US$634.4 million over the same period in 2005 (Table 13).

The level of reserves (excluding balances in the Revenue Stabilization Fund) amounted to US$5,248.9 million as at the end of September 2006, or 9.3 months of prospective imports of goods and non-factor services (Chart 25).

Table 13
Trinidad and Tobago: Summary Balance of Payments
/US$million/

	2004	2005	Jan-Jun 2005	Jan-Jun 2006p
Current Account Balance	**1,788.1**	**3,972.3**	**1,903.2**	**3,340.1**
Trade Balance	1,508.7	3,947.7	1,760.8	3,231.9
Exports	6,402.9	9,672.3	4,427.1	6,500.2
Energy	5,384.4	8,630.6	3,913.8	5,981.8
Non-energy	1,018.5	1,041.7	513.3	518.4
Imports	4,894.2	5,724.6	2,666.3	3,268.3
Energy	1,520.7	2,412.5	1,162.9	1,615.7
Non-energy	3,373.5	3,312.1	1,503.4	1,652.6
Services (Net)	671.4	526.5	282.3	308.0
Income (Net)	- 446.2	-554.4	-168.6	-222.5
Current Transfers (Net)	54.2	52.5	28.7	22.7
Capital and Financial Account *	**-1,054.1**	**-2,079.3**	**-1,268.8**	**-2,069.6**
Overall Balance	**734.0**	**1,893.0**	**634.4**	**1,270.5**
Memo Items				
Gross Official Reserves	2,993.0	4,885.7	3,567.6	6,152.0
Gross Official Reserves (Net of RSF)	2,539.1	4,014.9	3,113.2	5,285.5
Import Cover (Net of RSF)	5.9	7.1	6.7	9.4

Source: Central Bank of Trinidad and Tobago.
p - Provisional
* - Includes errors and omissions.

6. Financial Sector Developments

Money and Credit

The monetary aggregates expanded in the twelve months to July 2006, in line with the buoyant conditions in the economy. Narrow money, M-1A, grew by 27 per cent from a year ago, reflecting increases in both components, currency in active circulation (16.4 per cent) and demand deposits (30.2 per cent). The broader measure, M2, (defined as M-1A plus savings and time

Chart 26
Growth in Monetary Aggregates
Year-on-Year changes

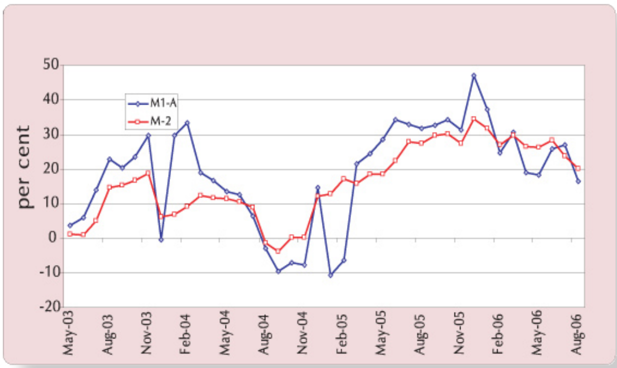


Chart 27
Selected Interest Rates

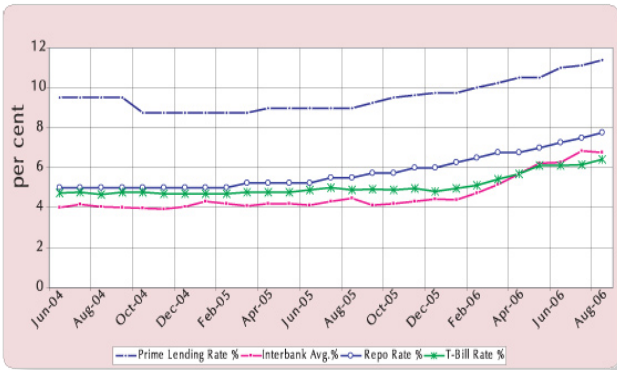
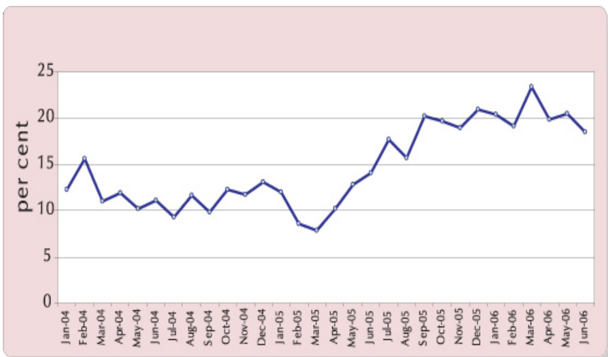


Chart 28
Credit to the Private Sector by the Consolidated Financial System
Year-on-Year changes



deposits) expanded by 23.7 per cent which reflected not only the increase in M-1A, but also growth of 21.6 per cent in quasi money (time and savings deposits) (Chart 26). Meanwhile, although foreign currency deposits rose modestly by 1.7 per cent in July from a year ago, the share of foreign currency deposits in total deposits fell to 24.6 per cent from 26.9 per cent in July 2005.

The Central Bank continued to raise the 'Repo' rate in increments of 25 basis points in the second quarter to August with a pause in the month of April. The commercial banks responded by raising the prime lending rate on each occasion from 10.50 per cent in March to 11.50 per cent in August (Chart 27). The weighted average loan rate also moved upward by 45 basis points to 9.35 per cent in the second quarter from 8.90 per cent at the end of December 2005. The weighted average deposit rate increased by 27 basis points to 2.16 per cent over the same period which led to a widening of the spread to 718 basis points from 701 basis points at the end of 2005.

Private sector credit expansion by the consolidated financial system slowed in the twelve months to July 2006 to 9.2 per cent, perhaps reflecting in part the cumulative impact of monetary tightening by the Central Bank. By comparison, credit expanded by 13.6 per cent and 15.5 per cent in June 2006 and May 2006, respectively. Growth in consumer loans also slowed to 15 per cent from 27.4 per cent a year ago and 15.2 per cent in the twelve months to June 2006. Business lending followed a similar trend with an increase of 16.3 per cent in July, following an expansion of 21 per cent in the previous month and 17.7 per cent in the twelve months to July 2005 (Chart 28).

Growth in private sector loans by commercial banks began to trend downward in April 2006 (27.2 per cent) to 23.1 per cent in July. Bank lending to consumers and businesses also increased at a slower pace of 15.8 per cent and 19.8 per cent, respectively from 18.6 per cent and 24.2 per cent in the twelve months to May 2006. Data for the second quarter of 2006 showed that about 64 per cent of loans outstanding fell below the prime lending rate, marginally less (67 per cent) than for the

Table 14
Commercial Banks Distribution of Loans by Interest Rate Bands
/'000/

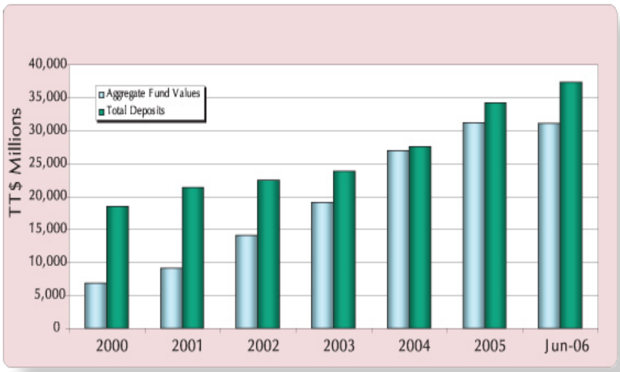
Rate Bands (%)	Value	Distribution (%)	Cumulative Distribution (%)
		2003	
0 - 5	1,040,392	8.8	8.8
5 - 7	1,850,303	15.7	24.6
7 - 8	720,620	6.1	30.7
8 - 9	1,279,112	10.9	41.6
9 -10	1,779,507	15.1	56.7
10-12	2,338,529	19.9	76.6
Over 12	2,757,664	23.4	100.0
Total	11,766,127	100.0	
		2004	
0 - 5	1,420,927	9.1	9.1
5 - 7	3,051,336	19.6	28.7
7 - 8	1,352,881	8.7	37.4
8 - 9	3,865,359	24.8	62.2
9 -10	1,690,535	10.8	73.0
10-12	2,134,681	13.7	86.7
Over 12	2,069,949	13.3	100.0
Total	15,585,668	100.0	
		2005	
0 - 5	2,393,207	10.9	10.9
5 - 7	3,608,305	16.5	27.4
7 - 8	2,899,504	13.2	40.7
8 - 9	3,693,480	16.9	57.5
9 -10	3,674,888	16.8	74.3
10 -12	3,168,305	14.5	88.8
Over 12	2,450,528	11.2	100.0
Total	21,888,217	100.0	
		2005 - QII	
0 - 5	2,157,590	11.6	11.6
5 - 7	3,509,807	18.9	30.5
7 - 8	1,995,299	10.7	41.2
8 - 9	4,721,985	25.4	66.6
9 -10	1,766,573	9.5	76.1
10 -12	2,321,612	12.5	88.5
Over 12	2,131,545	11.5	100.0
Total	18,604,411	100.0	
		2006 - QII	
0 - 5	2,050,589	8.9	8.9
5 - 7	3,139,451	13.6	22.5
7 - 8	3,365,099	14.6	37.0
8 - 9	4,326,321	18.7	55.8
9 - 10	1,802,389	7.8	63.6
10 - 12	4,494,929	19.5	83.0
Over 12	3,915,727	17.0	100.0
Total	23,094,505	100.0	

Source: Central Bank of Trinidad and Tobago.

Mutual Funds

The mutual fund industry experienced a noticeable fall in funds under management in the second quarter of 2006 to TT$31.1 billion. This represented declines of 1.29 per cent and 0.67 per cent over the first quarter of 2006 and the last quarter of 2005, respectively. The last time this occurred was in the second quarter of 2003. In the previous quarters, the growth in the Money Market segment was sufficient to outweigh the declines in the Income and Growth Funds, but this was not the case in the second quarter as both classes recorded a marked decline in total funds under management. Money Market

Chart 29
Mutual Funds and Commercial Bank Deposits



Funds decreased by 0.95 per cent to TT$25.5 billion with average returns marginally above 5.0 per cent. In addition, the dismal performance of the stock market continued to impact negatively on the performance of the Income and Growth segment as funds under management decreased by 2.8 per cent to TT$5.6 billion. Aggregate fund values were $31.1 billion at the end of June 2006 compared with commercial bank deposits of $37.4 billion. By comparison, at the end of 2005, aggregate fund values amounted to $31.3 billion with commercial bank deposits at $34.3 billion (Chart 29).

Bond Market

During the first eight months of 2006, activity in the bond market was somewhat subdued as there were 10 placements compared with 21 in the corresponding period of 2005. These issues raised $1.7 billion with statutory corporations issuing 4 bonds valued at $1billion. Of the remaining six, one bond was issued by a regional sovereign (the Government of the Turks and Caicos Islands in the sum of US$5 million) and the other five were private sector placements. The Water and Sewerage Authority raised $360 million in June (with a tenor of

Table 15
Primary Bond Market Activity
January – July 2006

Period Issued	Borrower	(Face Value) $Mn	Period to Maturity	Interest Rate	Placement Type
January	UDeCOTT	192.00	12 yrs.	Fixed rate 7.00% p.a.	Auction
February	Knights Investments Limited/Cadel Trading Limited	53.00	15 yrs.	Fixed rate 8.25% p.a.to change after 2 years to commercial prime less margin of 175 bps	Private
March	Housing Development Corporation	464.23	25 yrs.	Fixed rate 7.75 % p.a.	Private
	Misons Industries Limited	25.00	10 yrs.	Fixed rate 7.50% p.a.	Private
	Government of Turks & Caicos	US 5.00	12 yrs.	Fixed rate 7.98% p.a.	Private
	La Vallee Greens Limited	US 50.00	5 yrs.	Fixed rate 9.50% p.a.	Private
April	Prestige Holdings Limited	92.00	10 yrs.	Fixed rate 7.75% p.a.	Private
June	Water & Sewerage Authority (WASA)	360.00	10 yrs.	Fixed rate 7.50% p.a	Auction
	Home Mortgage Bank Limited	30.06	8 yrs.	Tax Free Fixed rate 6.75% p.a	Private

10 years) at a coupon rate of 7.5 per cent. Bond yields continued to trend upwards ranging between 8.00 – 8.75 per cent, while the tenors were between 5 and 25 years (Table 15).

Stock Market

The decline in the stock market which started in the second half of 2005 continued into the first nine months of 2006. The Composite Stock Price Index (CPI 1983=100) fell by 18.6 per cent to 868.7, the lowest level since May 2004. The All Trinidad and Tobago Index (ATI, 1999=100) fell by 17.6 per cent over the same period (Chart 30). All the sub-indices declined with the Manufacturing I segment falling significantly by 41.5 per cent (Chart 31). In addition to the negative impact of the absence of institutional investors from the market, investors' interest in equities was also affected by the disappointing financial results from several of the major companies on the stock exchange. Latest available data showed that the number of shares traded between January and September amounted to 102.2 million, 33.6 per cent below the level in the first nine months of 2005. Market capitalization also fell sharply by $19.6 billion to close at $87.9 billion at the end of September.

The Real Estate Mortgage Market

During the first seven months of 2006, the real estate mortgage market continued to experience heightened activity. Loans for real estate purposes granted by deposit-taking institutions exhibited strong growth (16.0 per cent), increasing to $6,116.5 million compared to $5,271.7 million a year ago (Chart 32).

Chart 30
Stock Price Indices

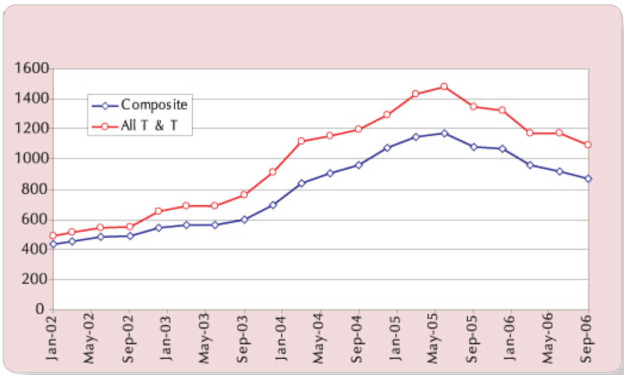


Chart 31
Trinidad and Tobago Stock Price Indices
Selected Sub-sectors

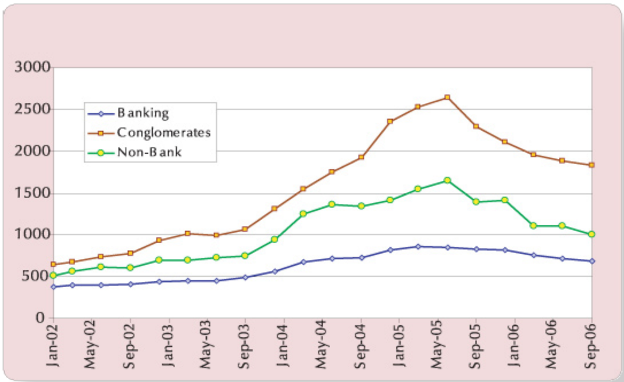
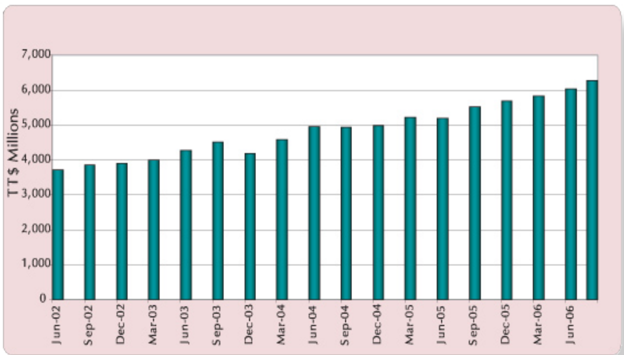


Chart 32
Mortgage Loans Outstanding by
Deposit-Taking Institutions



Appendices:

Tables

Appendix A
Price Movements in the Major Categories of the Food Sub-Index of the RPI, 2006

(Year-on-Year Per cent Change)

	Weight	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06
FOOD SUB INDEX	**180.00**	**19.38**	**22.76**	**25.71**	**23.18**	**24.70**	**27.45**
Bread And Cereals	31.21	**(0.97)**	**(0.77)**	**0.53**	**1.40**	**1.08**	**2.34**
Bread	5.51	0.01	0.01	0.01	0.01	0.01	3.29
Cereals (Includes rice and flour)	18.74	(2.63)	(2.48)	(0.65)	0.62	0.07	0.54
Pasta Products	1.38	(0.35)	(0.61)	0.17	0.76	0.11	1.55
Pastry Cooked Products	5.27	3.85	4.61	5.37	5.78	6.07	7.88
Meat	29.21	**1.60**	**5.19**	**10.19**	**8.59**	**9.39**	**10.15**
Fresh, Chilled or Frozen Beef	3.09	13.87	13.26	15.73	16.92	17.79	19.42
Fresh, Chilled or Frozen Lamb or Goat	1.13	9.73	15.50	14.45	12.22	13.85	14.40
Fresh Chilled or Frozen Pork	2.34	2.51	1.03	1.27	(0.30)	1.39	1.59
Fresh, Chilled or Frozen Poultry	18.18	(1.43)	3.75	11.23	9.01	9.64	10.57
Dried, Salted or Smoked Meat	4.10	5.34	6.44	6.61	6.03	6.92	6.64
Fish	11.37	**26.20**	**20.57**	**31.90**	**33.61**	**34.39**	**38.00**
Fresh, Chilled or Frozen Fish	7.21	34.67	25.93	41.21	46.82	45.28	53.29
Fresh, Chilled or Frozen Seafood	1.83	10.29	13.17	21.12	9.62	19.23	11.30
Other Preserved or Processed Fish	1.03	2.21	5.12	5.01	7.36	6.17	10.96
Milk, Cheese And Eggs	19.05	**8.50**	**8.24**	**7.57**	**7.67**	**7.58**	**7.67**
Whole Milk	1.75	4.42	4.63	3.34	2.07	0.89	(1.19)
Preserved Milk	9.22	13.19	12.77	12.18	12.34	11.97	12.20
Cheese, Yogurt & MilkProducts	6.34	4.18	3.99	3.25	2.93	3.36	2.75
Eggs	1.74	2.65	2.32	1.71	3.81	4.32	7.34
Oils And Fats	9.07	**3.21**	**4.07**	**4.34**	**4.44**	**4.45**	**3.67**
Butter	0.82	5.24	4.90	4.86	5.05	4.51	3.64
Margarine and Other Vegetable Fats	2.56	5.97	9.62	9.13	9.46	8.27	7.01
Edible Oils and Animal Fats	5.69	1.85	1.77	2.38	2.38	2.92	2.34
Fruit	14.28	**19.40**	**21.48**	**33.54**	**20.74**	**23.37**	**17.27**
Vegetables	21.84	**67.75**	**71.63**	**67.89**	**58.53**	**62.44**	**69.28**
Fresh or Chilled Vegetables	12.09	37.73	29.66	27.25	18.91	26.38	35.28
Dried Vegetables	2.42	9.62	7.63	6.59	11.10	11.32	9.40
Fresh or Chilled Tuber Vegetables	7.33	99.64	110.62	104.10	95.29	95.62	97.79
Sugar, Jam, Honey, Syrups, Chocolateand Confectionery	7.66	**10.12**	**9.18**	**8.91**	**8.78**	**9.47**	**9.23**
Non-Alcoholic Beverages	23.80						
Coffee, Tea and Cocoa	3.06	5.56	7.10	8.15	7.90	7.83	5.51
Soft Drinks	13.33	5.61	7.15	7.29	7.96	9.83	12.34
Juices	7.40	5.11	6.42	6.51	6.20	6.18	4.89
Other	12.51	(9.59)	6.18	11.25	14.34	13.25	19.8

Source: Central Statistical Office.

Table B
Index of Retail Prices by Area
/Per Cent/

ITEMS	Trinidad &Tobago		Port of Spain		San Fernando		Arima Borough	
	Weight	Sep '06/ Sep '05	Weight	Sep '06/ Sep '05	Weight	Sep '06/ Sep '05	Weight	Sep '06/ Sep '05
FOOD AND NON-ALCOHOLIC BEVERAGES	180.00	**27.45**	27.25	**18.56**	17.27	**22.65**	8.13	**14.89**
FOOD	156.20	**24.84**	22.74	**20.24**	14.79	**24.24**	7.15	**15.24**
BREAD AND CEREALS	31.21	**2.30**	4.00	**0.80**	2.79	**0.57**	1.30	**1.86**
MEAT	29.21	**10.20**	3.21	**11.60**	2.45	**6.00**	1.43	**12.83**
FISH	11.37	**38.00**	1.81	**42.67**	1.00	**44.74**	0.44	**91.20**
MILK, CHEESE AND EGGS	19.05	**7.70**	3.24	**6.69**	1.87	**7.88**	0.79	**8.48**
OILS AND FATS	9.07	**3.70**	1.20	**1.35**	0.85	**8.20**	0.33	**1.77**
FRUIT	14.28	**17.30**	2.94	**28.71**	1.53	**20.08**	0.72	**(23.20)**
VEGETABLES	21.84	**69.30**	3.32	**23.90**	2.28	**51.32**	1.17	**47.97**
SUGAR, JAM, HONEY, SYRUPS, CHOCOLATE AND CONFECTIONERY	7.66	**9.20**	1.33	**7.26**	0.68	**10.84**	0.44	**10.06**
FOOD PRODUCTS N.E.C*	12.51	**19.80**	1.69	**28.07**	1.34	**12.39**	0.53	**11.13**
NON-ALCOHOLIC BEVERAGES	23.80	**9.10**	4.51	**2.36**	2.48	**7.71**	0.98	**10.65**

Source: Central Statistical Office.

*N.E.C. - Not Elsewhere Classified.

Table B (continued)
Index of Retail Prices by Area
/Per Cent/

ITEMS	Diego Martin		St. Anns (San Juan)		Tacarigua (Tunapuna)		Chaguanas Borough	
	Weight	Sep '06/ Sep '05	Weight	Sep '06/ Sep '05	Weight	Sep '06/ Sep '05	Weight	Sep '06/ Sep '05
FOOD AND NON-ALCOHOLIC BEVERAGES	12.00	**38.61**	17.92	**29.75**	20.23	**9.30**	19.75	**32.19**
FOOD	10.37	**41.92**	15.41	**32.02**	17.46	**9.07**	17.33	**33.85**
BREAD AND CEREALS	2.34	**4.02**	3.02	**3.01**	3.50	**4.44**	3.27	**3.74**
MEAT	1.99	**10.79**	2.57	**9.24**	3.52	**8.85**	3.32	**14.35**
FISH	0.72	**0.39**	1.17	**24.90**	1.13	**10.99**	1.22	**20.20**
MILK, CHEESE AND EGGS	1.56	**4.56**	2.08	**9.96**	2.28	**3.45**	1.87	**8.77**
OILS AND FATS	0.52	**1.52**	0.91	**8.29**	0.99	**7.98**	1.16	**1.87**
FRUIT	1.12	**5.60**	1.60	**71.06**	1.35	**17.02**	1.75	**7.88**
VEGETABLES	0.93	**140.30**	2.03	**72.27**	2.36	**12.42**	2.47	**87.51**
SUGAR, JAM, HONEY, SYRUPS, CHOCOLATE AND CONFECTIONERY	0.44	**1.41**	0.85	**4.36**	0.84	**17.94**	0.70	**2.63**
FOOD PRODUCTS N.E.C*	0.75	**6.67**	1.18	**19.42**	1.49	**5.85**	1.57	**28.71**
NON-ALCOHOLIC BEVERAGES	1.63	**8.96**	2.51	**9.61**	2.77	**11.09**	2.42	**0.14**

Source: Central Statistical Office.

*N.E.C. - Not Elsewhere Classified.

Table B (continued)
Index of Retail Prices by Area
/Per Cent/

ITEMS	Couva		Cocal (Rio Claro)		Manzanilla/Turere (Sangre Grande)		Naparima (Debe)	
	Weight	Sep '06/ Sep '05	Weight	Sep '06/ Sep '05	Weight	Sep '06/ Sep '05	Weight	Sep '06/ Sep '05
FOOD AND NON-ALCOHOLIC BEVERAGES	7.61	**82.85**	1.04	**7.42**	4.68	**19.11**	4.73	**39.96**
FOOD	6.75	**87.83**	0.95	**7.42**	4.17	**18.28**	4.10	**41.46**
BREAD AND CEREALS	1.28	**1.56**	0.25	**(0.13)**	0.85	**1.65**	0.96	**(0.75)**
MEAT	1.75	**5.55**	0.21	**11.59**	0.96	**8.79**	1.07	**28.76**
FISH	0.63	**(5.81)**	0.09	**15.44**	0.29	**5.67**	0.26	**(4.72)**
MILK, CHEESE AND EGGS	0.56	**7.24**	0.04	**5.44**	0.45	**5.59**	0.38	**5.60**
OILS AND FATS	0.43	**(1.50)**	0.07	**1.29**	0.26	**2.97**	0.23	**0.24**
FRUIT	0.56	**0.19**	0.10	**3.39**	0.30	**16.50**	0.17	**106.02**
VEGETABLES	0.77	**201.05**	0.09	**10.95**	0.62	**41.68**	0.57	**71.66**
SUGAR, JAM, HONEY, SYRUPS, CHOCOLATE AND CONFECTIONERY	0.25	**3.65**	0.03	**19.73**	0.16	**8.44**	0.14	**9.35**
FOOD PRODUCTS N.E.C*	0.52	**6.23**	0.07	**24.11**	0.28	**28.07**	0.32	**4.58**
NON-ALCOHOLIC BEVERAGES	0.86	**12.53**	0.09	**7.44**	0.51	**30.36**	0.63	**24.78**

Source: Central Statistical Office.

*N.E.C. - Not Elsewhere Classified.

Table B (continued)
Index of Retail Prices by Area
/Per Cent/

ITEMS	Savana Grande (Princess Town)		Siparia		Pt. Fortin		Tobago (Scarborough)	
	Weight	Sep '06/ Sep '05	Weight	Sep '06/ Sep '05	Weight	Sep '06/ Sep '05	Weight	Sep '06/ Sep '05
FOOD AND NON-ALCOHOLIC BEVERAGES	8.30	**22.21**	10.80	**20.33**	6.25	**47.89**	14.04	**30.41**
FOOD	7.33	**23.43**	9.79	**21.32**	5.52	**50.90**	12.34	**32.73**
BREAD AND CEREALS	1.73	**4.23**	2.26	**(1.67)**	1.14	**12.81**	2.52	**(0.05)**
MEAT	1.40	**15.65**	1.99	**8.23**	1.28	**7.30**	2.06	**0.30**
FISH	0.26	**17.09**	0.60	**27.12**	0.32	**10.15**	1.43	**101.06**
MILK, CHEESE AND EGGS	0.79	**9.47**	0.84	**12.31**	0.62	**8.67**	1.68	**11.07**
OILS AND FATS	0.46	**2.48**	0.62	**5.06**	0.25	**2.99**	0.79	**2.70**
FRUIT	0.56	**42.30**	0.67	**(3.35)**	0.33	**9.02**	0.58	**(23.75)**
VEGETABLES	1.21	**56.01**	1.58	**68.25**	0.90	**112.46**	1.54	**58.27**
SUGAR, JAM, HONEY, SYRUPS, CHOCOLATE AND CONFECTIONERY	0.30	**4.47**	0.46	**15.17**	0.26	**4.38**	0.78	**18.64**
FOOD PRODUCTS N.E.C*	0.62	**14.08**	0.77	**9.15**	0.42	**21.14**	0.96	**28.15**
NON-ALCOHOLIC BEVERAGES	0.97	**10.07**	1.01	**6.55**	0.73	**10.73**	1.70	**5.01**

Source: Central Statistical Office.

*N.E.C. - Not Elsewhere Classified.

Appendix C
Index of Retail Prices of Building Materials
Base Period: Average of 4 Quarters 1996=100 (REVISED)

		ALL SECTIONS			SITE PREPARATION, STRUCTURE & CONCRETE FRAME			WALLS AND ROOF			ELECTRICAL INSTALLATION AND FIXTURES		
Date		Index	Qtrly %	Y-o-Y %	Index	Qtrly %	Y-o-Y %	Index	Qtrly %	Y-o-Y %	Index	Qtrly %	Y-o-Y %
2002	I	111.5	0.09	-0.71	130.7	0.38	-0.31	118.2	-0.17	-0.34	105.6	2.52	-1.58
	II	110.7	-0.72	-1.42	131.1	0.31	0.00	116.2	-1.69	-2.11	103.8	-1.70	-3.08
	III	112.8	1.90	0.80	135.6	3.43	3.67	119.3	2.67	0.59	104.5	0.67	0.10
	IV	113.8	0.89	2.15	136.4	0.59	4.76	121.8	2.10	2.87	105.0	0.48	1.94
2003	I	114.0	0.18	2.24	137.4	0.73	5.13	122.9	0.90	3.98	103.3	-1.62	-2.18
	II	115.2	1.05	4.07	139.2	1.31	6.18	123.9	0.81	6.63	100.9	-2.32	-2.79
	III	115.1	-0.09	2.04	140.2	0.72	3.39	123.0	-0.73	3.10	100.5	-0.40	-3.83
	IV	114.8	-0.26	0.88	139.9	-0.21	2.57	122.8	-0.16	0.82	99.3	-1.19	-5.43
2004	I	116.3	1.31	2.02	142.6	1.93	3.78	124.9	1.71	1.63	99.4	0.10	-3.78
	II	122.6	5.42	6.42	158.3	11.01	13.72	133.1	6.57	7.43	105.3	5.94	4.36
	III	125.9	2.69	9.38	160.0	1.07	14.12	136.0	2.18	10.57	114.2	8.45	13.63
	IV	131.7	4.61	14.72	163.9	2.44	17.16	140.3	3.16	14.25	143.7	25.83	44.71
2005	I	133.2	1.14	14.53	165.5	0.98	16.06	141.7	1.00	13.45	151.2	5.22	52.11
	II	136.8	2.70	11.58	170.5	3.02	7.71	145.7	2.82	9.47	153.9	1.79	46.15
	III	140.3	2.56	11.44	175.8	3.11	9.88	150.2	3.09	10.44	155.2	0.85	35.91
	IV	143.3	2.14	8.81	181.8	3.41	10.92	154.6	2.93	10.19	152.3	-1.87	5.98
2006	I	147.2	2.72	10.51	187.2	2.98	13.11	157.1	1.62	10.87	161.1	5.78	6.55
	II	152.7	3.74	11.62	199.3	6.46	16.89	166.0	5.67	13.93	165.6	2.79	7.60

		PLUMBING & FIXTURES			WINDOWS, DOORS & BALAUSTRADING			FINISHING, JOINERY UNITS AND PAINTING & EXTERNAL WORKS		
Date		Index	Qtrly %	Y-o-Y %	Index	Qtrly %	Y-o-Y %	Index	Qtrly %	Y-o-Y %
2002	I	103.9	4.21	0.97	105.9	-2.40	-2.04	89.1	-0.78	-1.44
	II	103.8	-0.10	1.07	105.8	-0.09	-2.40	89.8	0.79	-0.33
	III	104.6	0.77	3.16	105.9	0.09	-2.40	90.3	0.56	0.11
	IV	104.7	0.10	5.02	105.9	0.00	-2.40	89.8	-0.55	0.00
2003	I	104.0	-0.67	0.10	102.8	-2.93	-2.93	90.5	0.78	1.57
	II	103.1	-0.87	-0.67	107.9	4.96	1.98	91.5	1.10	1.89
	III	104.6	1.45	0.00	107.4	-0.46	1.42	92.0	0.55	1.88
	IV	105.1	0.48	0.38	107.8	0.37	1.79	91.5	-0.54	1.89
2004	I	105.0	-0.10	0.96	108.0	0.19	5.06	92.7	1.31	2.43
	II	105.7	0.67	2.52	108.1	0.09	0.19	92.8	0.11	1.42
	III	106.9	1.14	2.20	114.2	5.64	6.33	94.0	1.29	2.17
	IV	106.7	-0.19	1.52	114.8	0.53	6.49	97.0	3.19	6.01
2005	I	107.7	0.94	2.57	115.3	0.44	6.76	97.1	0.10	4.75
	II	109.1	1.30	3.22	115.6	0.26	6.94	101.3	4.33	9.16
	III	111.9	2.57	4.68	116.4	0.69	1.93	104.2	2.86	10.85
	IV	113.7	1.61	6.56	117.2	0.69	2.09	106.4	2.11	9.69
2006	I	114.4	0.62	6.22	118.6	1.19	2.86	108.1	1.60	11.33
	II	115.8	1.22	6.14	119.5	0.76	3.37	109.4	1.20	8.00

Source: Central Statistical Office.

Monetary Policy Report

Appendices:

Media Releases on the 'Repo' Rate from May 2006 to September 2006

1 **Media Release dated May 23, 2006 -**
Central Bank Raises 'Repo' Rate to 7.0 Per cent

2 **Media Release dated June 23, 2006 -**
Central Bank Raises 'Repo' Rate to 7.25 Per cent and Intensifies Action to Reduce Liquidity

3 **Media Release dated July 28, 2006 -**
Central Bank Raises 'Repo' Rate to 7.50 Per cent

4 **Media Release dated August 25, 2006 -**
Central Bank Raises 'Repo' Rate to 7.75 Per cent

5 **Media Release dated September 29, 2006 -**
Central Bank Raises 'Repo' Rate to 8.0 Per cent and Introduces Secondary Reserve Requirement to Tighten Liquidity Conditions

CENTRAL BANK OF
TRINIDAD & TOBAGO
POST OFFICE BOX 1250 PORT-OF-SPAIN, TRINIDAD, WEST INDIES
TELE: 625-4835, FAX: (868) 623-1955
E-Mail Address: info@central-bank.org.tt

Media Release

CENTRAL BANK RAISES 'REPO' RATE TO 7.0 PER CENT

The latest data released by the Central Statistical Office suggest that inflation continues to be a major economic challenge.

On a year-on-year basis to April, **headline inflation** nudged up to 6.9 per cent from 6.6 per cent in March. The increase in **food prices** measured 19.4 per cent, roughly unchanged from last month. However, **core inflation** year-on-year posted an increase of 3.1 per cent, up from 2.7 per cent last month.

There is continuing evidence that demand pressures may be straining available absorptive capacity in the economy. One indicator is the substantial increase in housing costs over the last quarter (while food prices are measured on a monthly basis, **housing costs** are only monitored on a quarterly basis).

Increases in lending rates are only now beginning to dampen credit demand. The year-on-year increase in **credit to the private sector** slowed to 15.7 per cent compared with 21 per cent at the end of last year.

Notwithstanding expenditure shortfalls compared to budget, the **non-energy deficit** for the first half of the fiscal year was 56 percent higher than in the corresponding period of the previous fiscal year. This increase constitutes a major source of liquidity injection.

The Central Bank will continue its focus on absorbing liquidity with a view to reducing demand, dampening the growth of bank credit and containing the spillover into foreign exchange demand.

In light of the pick-up in inflation, evidence of continuing strong demand stimulus in the economy and the relatively narrow spread between domestic and US interest rates, the Central Bank has decided to increase the 'Repo' rate by 25 basis points to 7.0 per cent.

The next 'Repo' rate announcement is scheduled for June 23, 2006.

May 23, 2006.

- End -

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Media Release

CENTRAL BANK RAISES 'REPO' RATE T0 7.25 PER CENT AND INTENSIFIES ACTION TO REDUCE LIQUIDITY

Recent data released by the Central Statistical Office indicate a further strong increase in inflation in the domestic economy in May. Headline inflation climbed to **7.97 per cent** on a year-on-year basis from 6.90 per cent at the end of the previous month. The increase in food prices, which measured 19.4 per cent in April, accelerated to 22.8 per cent at the end of May and continued to drive headline inflation. Contributing to the jump in food prices were increases in the prices of vegetables (71.6 per cent), fruit (21.5 per cent), fish (20.6 per cent) and root crops (110.6 per cent).

Core inflation increased, albeit at a slower rate, from 3.09 per cent (year-on-year) in April to 3.42 per cent at the end of May. Since the start of the year, increases in the cost of health services, housing and rents have influenced the upward trend in the core inflation rate. Moreover, high energy prices, which have started to affect prices in global markets, have also begun to influence inflationary expectations locally.

Net fiscal injections continued at a high level and while growth in credit to the private sector by the consolidated financial system has been slowing down, it is still at an uncomfortably high level. The year-on-year increase in private sector credit slowed to 14.8 per cent compared with 20.3 per cent in January. Nevertheless, consumer credit remained relatively strong growing by 17.1 per cent in the twelve months to April. In the meantime, demand in the foreign exchange market remained buoyant.

Given that inflationary pressures have begun to emerge in the US, step increases in the Fed Funds rate are expected to continue. It is therefore important that measures be taken to ensure that the differential between TT and US short-term interest rates, which is already at a minimal level, is not further eroded.

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In light of rising inflationary pressures, strong growth in consumer credit and the potential for further narrowing of the differential between TT and US short-term interest rates, the Bank is taking intensified action on two fronts with a view to reducing liquidity and dampening demand.
These actions entail:

- Increasing the "Repo" rate by **25 basis points** from 7.0 per cent to **7.25 per cent** with effect from June 23, 2006.

- Withdrawal of **TT$500 million** from the banking system through a special interest **bearing deposit** which is to be lodged at the Central Bank for a minimum period of one year.

The Bank will continue to keep monetary conditions under active review.

The next 'Repo' rate announcement is scheduled for July 28, 2006.

June 23, 2006.

- End -

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Media Release

CENTRAL BANK RAISES 'REPO' RATE T0 7.50 PER CENT

The latest data released by the Central Statistical Office indicate that the domestic economy continues to experience inflationary pressures. On a year-on-year basis to June, **headline inflation** increased by 8.65 per cent from 7.97 per cent in the previous month. **Food prices**, which continue to drive headline inflation, rose by 3.7 per cent in June and on a year-on-year basis by 25.7 per cent. Contributing to the sharp rise in food prices were increases in the prices of vegetables (67.9 per cent), fruit (33.5 per cent), fish (31.9 per cent) and meat (10.2 per cent).

Core inflation, which excludes food, remained relatively unchanged at 3.35 per cent. Over the last twelve months, the rise in core inflation has been the result of increases in the cost of services in education (12 per cent), health (9.9 per cent), recreation and culture (9.5 per cent) and hotels and restaurants (6.8 per cent).

MOVEMENT OF SELECTED CATEGORIES OF THE INDEX OF RETAIL PRICES

/Percentage Change/

	Monthly		Year-on-Year	
	May 2006	June 2006	May 2006	June 2006
Headline Inflation	**1.1**	**1.0**	**7.97**	**8.7**
Food Prices	3.5	3.7	22.8	25.7
Meat	2.5	3.3	5.2	10.2
Fish	-3.5	5.8	20.6	31.9
Vegetables	5.8	6.9	71.6	67.9
Fruits	5.8	0.1	21.5	33.5
Milk, Cheese & Eggs	0.04	1.2	8.2	7.8
Core Inflation	**0.3**	**-**	**3.4**	**3.4**
Health	0.1	0.4	9.6	9.9
Rent	-	-	4.4	4.4
Education	-	-	12.0	12.0
Recreation & Culture	-	-	9.5	9.5
Hotels, Cafes & Restaurants	-	-	6.8	6.8

Source: Central Statistical Office.

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These inflationary pressures are being heavily influenced by continued rapid economic growth, an increase in domestic demand and a tightening of productive capacity.

Net fiscal injections continue to add to liquidity in the financial system and **private sector credit**, which has been levelling off since the start of the year, still remains at a relatively high level. On a year-on-year basis to June, credit to the private sector grew by 14.6 per cent with consumer credit increasing by 17.5 per cent.

The Bank has stepped up its sales of open market bills and has implemented additional measures to mop up excess liquidity and dampen domestic demand. In addition, short-term interest rates have increased markedly in recent months. Currently, rates on **three-month treasury bills** stand at 6.21 per cent (up from 5.48 per cent in February 2006). The rate on **six-month treasury bills** increased to 6.7 per cent from 5.73 per cent in February while that on **one-year bills** increased to 7.05 per cent (from 6.02 per cent). Although there are lags in the system, the increases in interest rates are beginning to impact on bank credit and are serving to prevent an erosion of the differential between domestic and foreign interest rates. This differential has a direct impact on foreign exchange demand.

The Bank is very concerned that the sustained rise in food prices has begun to feed **inflationary expectations.** The expected increase in electricity rates and rising inflation abroad linked to high crude oil prices, are also adding to this inflationary psychology. This, in turn, could lead to an increase in wage pressures.

Against this background, the Bank is committed to continue to tighten monetary policy. Accordingly, the Bank has decided to raise its overnight **'Repo'** rate by 25 basis points to **7.50 per cent** with effect from July 28, 2006.

The Bank will continue to keep monetary conditions under close review.

The next 'Repo' rate announcement is scheduled for August 25, 2006.

July 28, 2006.

- End -

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Media Release

CENTRAL BANK RAISES 'REPO' RATE T0 7.75 PER CENT

The latest inflation numbers released by the Central Statistical Office indicate that **headline inflation** measured 8.6 per cent on a year-on-year basis to July, roughly the same rate reported last month. **Core inflation**, which measured 3.35 per cent in June (year-on-year), rose to 4.0 per cent in the twelve months to July. For the month of July, core inflation increased by 1.45 per cent, the largest monthly increase recorded for the year so far.

Increases in the prices of fruit, vegetables and fish continue to be the main drivers of the rise in the cost of the food basket.

The jump in core inflation reflected increases in the cost of health services (11 per cent), education (12 per cent) and recreation and culture (9.8 per cent). In the health services category, the increases are for pharmaceutical products (prescription drugs) largely, while for educational services, they are related to tuition fees. The impact on the consumer of these increases in tuition fees is not yet clear in light of the widespread availability of free education, including at the tertiary level.

MOVEMENT OF SELECTED CATEGORIES OF THE INDEX OF RETAIL PRICES

/Percentage Change/

	Monthly		Year-on-Year	
	June 2006	July 2006	June 2006	July 2006
Headline Inflation	**1.0**	**1.2**	**8.7**	**8.6**
Food Prices	3.7	0.7	25.7	23.2
Meat	3.3	(0.2)	10.2	8.6
Fish	5.8	1.2	31.9	33.6
Vegetables	6.9	0.9	67.9	58.5
Fruits	0.1	(1.1)	33.5	20.7
Milk, Cheese & Eggs	1.2	0.9	7.8	7.7
Core Inflation	**-**	**1.5**	**3.4**	**4.0**
Health	0.4	1.9	9.9	11.0
Of which: Phamaceutical Products	1.0	4.3	6.8	11.0
Rent	-	0.3	4.4	3.6
Home Ownership	-	1.8	2.5	4.3
Education	-	-	12.0	12.0
Recreation & Culture	-	5.7	9.5	9.8
Hotels, Cafes & Restaurants	-	1.8	6.8	5.4

Source: Central Statistical Office.

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There was a sizeable increase in liquidity during August which was due in part to the disbursement of fuel subsidies. The Bank has stepped up open market operations to absorb excess liquidity. Sales of foreign exchange have also contributed to the reduction in excess liquidity.

The sustained increase in the 'Repo' rate is continuing to impact on short-term interest rates and private sector credit. On a year-on-year basis to June, the growth in private sector credit slowed to 13.6 per cent from 17 per cent in January. Although overall credit growth has been slowing, consumer credit remains relatively strong. Loans to the real estate sector rose by 17 per cent in the twelve months to June compared with 12.3 per cent in March.

Over the course of the last eight months, short-term interest rates have begun to respond to the tighter monetary policy stance adopted by the Bank. Yields on three-month, six-month and one-year treasury bills have been increasing steadily and currently stand at 6.53 per cent, 7.25 per cent and 7.52 per cent, respectively. This steady rise in domestic interest rates against the background of a pause in further monetary tightening by the US Fed has resulted in some widening of the differential between TT and US short-term rates to 126 basis points in August from 61 basis points in March. This differential is still considerably below the average of the last two years.

In light of persistent inflationary pressures, the Bank has decided to raise its overnight 'Repo' rate by 25 basis points to 7.75 per cent with effect from August 25, 2006.

The Bank will continue to keep monetary conditions under close review.

The next 'Repo' rate announcement is scheduled for September 29, 2006.

August 25, 2006.

- End -

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Media Release

CENTRAL BANK RAISES 'REPO' RATE TO 8.0 PER CENT AND INTRODUCES SECONDARY RESERVE REQUIREMENT TO TIGHTEN LIQUIDITY CONDITIONS

Recent data released by the Central Statistical Office indicate that inflationary pressures continue to persist in the domestic economy. Headline inflation increased to 9.0 per cent on a year-on-year basis to August, from 8.6 per cent in the previous month. Food prices continued to drive headline inflation rising by 24.7 per cent in the twelve months to August. Sharp increases in the prices of fruits (23.4 per cent), vegetables (62.4 per cent) and fish (34.4 per cent) were mainly responsible for the rise in food inflation.

Core inflation, which strips out the volatile movement in food prices, slowed to 3.9 per cent after having posted an increase of 4.0 per cent in the twelve months to July 2006. The slowing in the core rate of inflation in August has been traced, by and large, to a decline in the cost of health services.

The rise in headline inflation during 2006 has been particularly rapid with the 12-month rate accelerating from 7.2 per cent as at the end of 2005 to the current level of 9.0 per cent. While food prices have been the main driver, core inflation has also moved from 2.7 per cent as at the end of 2005 to 3.9 per cent as at the end of August 2006.

There is strong evidence of a marked increase in inflationary expectations. Among the indicators are the recent hike in maxi taxi fares, an increase in the price of bread and, more importantly, rising industrial relations tensions and increasing wage demands. These latter trends are likely to moderate only if it is evident that strong and credible steps are being taken to reduce inflation.

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Recent data also indicate that the net fiscal injection continues to expand. While one contributory factor may be the end-of-the-year fiscal spending rush, the main factor is the overall budgetary stance. The growth in credit to the private sector has continued to decelerate on a year-on-year basis to 9.1 per cent in July from 17.5 per cent in May 2006. However, year-on-year growth in consumer credit has continued to be strong measuring 15.0 per cent as at the end of July 2006.

Yields on short-term treasury securities have risen steadily in line with the sustained increase in the Bank's policy rate. Yields on three-month and six month treasury bills currently stand at 6.8 per cent and 7.3 per cent, respectively. With the pause in monetary tightening by the US Federal Reserve, rising domestic short-term interest rates have resulted in a widening of the differential between US and TT short-term interest rates. This differential increased to 193 basis points in September from 61 basis points in February.

While any sustained decline in food prices could only be achieved over time, the Bank is committed to using all the available instruments to tighten liquidity, increase the structure of interest rates and dampen inflationary expectations.

On this basis, the Bank has taken the following actions:

1. Raised the "Repo" rate by 25 basis points to 8 per cent.
2. Introduced, on a temporary basis, a secondary reserve requirement of 2.0 per cent of the prescribed liabilities of commercial banks.

The secondary reserve is in addition to the existing primary reserve ratio of 11 per cent. Balances held as secondary reserves will be remunerated at an interest rate which is 350 basis points below the "Repo" rate. The **secondary reserve requirement** will take effect from **October 4, 2006.**

The Bank will continue to intensify open market operations. To help the commercial banks with their liquidity management, the Bank will also increase the range of instruments used in open market operations by introducing instruments of very short maturities.

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The Bank will continue to keep a close watch on economic developments and particularly on the factors that have a bearing on inflation and inflationary expectations, and will be prepared to take any additional action as needed.

The next 'Repo' rate announcement is scheduled for October 27, 2006.

September 29, 2006.

MOVEMENT OF SELECTED CATEGORIES OF THE INDEX OF RETAIL PRICES

/Percentage Change/

	Monthly		Year-on-Year	
	July 2006	August 2006	July 2006	August 2006
Headline Inflation	**1.2**	**0.6**	**8.6**	**9.0**
Food Prices	0.7	2.0	23.2	24.7
Meat	(0.2)	0.1	8.6	9.4
Fish	1.2	0.0	33.6	34.4
Vegetables	0.9	4.3	58.5	62.4
Fruits	(1.1)	4.6	20.7	23.4
Milk, Cheese & Eggs	0.9	0.2	7.7	7.6
Core Inflation	**1.5**	**0.0**	**4.0**	**3.9**
Health	1.9	(0.1)	11.0	10.5
Of which: Phamaceutical Products	4.3	(0.2)	11.0	9.7
Rent	0.3	0.0	3.6	3.6
Home Ownership	1.8	0.0	4.3	4.3
Education	0.0	0.0	12.0	12.0
Recreation & Culture	5.7	0.0	9.8	9.8
Hotels, Cafes & Restaurants	1.8	0.0	5.4	5.4

Source: Central Statistical Office.

- End -

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ISSN 1817-9959