



**CENTRAL BANK OF
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**MONETARY POLICY ANNOUNCEMENT
March 31, 2017**

CENTRAL BANK MAINTAINS REPO RATE AT 4.75 PER CENT

At its March 2017 meeting, the Monetary Policy Committee (MPC) considered the evolution of international macroeconomic and financial developments, in particular the trajectory of interest rates, as well as the condition of the domestic economy.

Global economic prospects for 2017 continue to improve but risks persist. In March 2017, the US Federal Reserve (Fed) increased interest rates by 25 basis points – the second hike in three months – signaling that economic gains in the US are becoming increasingly durable. Inflation surpassed the Fed’s target of 2.0 per cent in February and US economic growth is hovering around 2.0 per cent. The situation is less clear outside of the United States: the United Kingdom has started on its path to exiting the European Union, geopolitical tensions remain elevated, particularly in the Middle East, and policies on global trade are being reassessed.

In the current environment, international financial market preoccupations with investment returns and safety are likely to put additional pressure on exchange rates and interest rates in emerging economies. In the sphere of energy, after rising above US\$50 per barrel early this year in response to OPEC production cuts, West Texas Intermediate crude oil prices retreated somewhat, averaging US\$49.50 per barrel in March.

Domestically, the performance of the energy sector has been mixed. Exploration picked up in January and crude oil production pushed marginally past levels observed a year earlier, but natural gas output and associated downstream activity remain very subdued. Nonetheless, there are solid prospects for a boost in gas output from the third quarter. In the non-energy sectors, the latest available data on production, sales, trade and credit show that there is yet to be a recovery in construction and distribution activities.

Inflation crept up in January 2017 to 3.6 per cent year-on-year from 3.1 per cent the previous month, influenced in the main by higher prices for food items such as fish, meat and dairy products. This is consistent with the movement in global food prices: the latest Food and

Agriculture Organization (FAO) Food Price Index shows that globally traded prices for meat and dairy increased by 9.5 per cent and 36.8 per cent, respectively, in the 12 months to February 2017. Core inflation, meanwhile, measured 2.7 per cent (12-month basis) in January. Other domestic price indicators, including at the wholesale level and for building materials, have registered very little movement in recent months.

Liquidity in the banking system has been fairly buoyant in February and March 2017, in the context of a deceleration in credit demand. Commercial banks' excess reserves at the Central Bank averaged \$3,893 million in February before expanding to \$4,400 million by March 27. Credit granted by the consolidated financial system to the private sector grew by 1.9 per cent (year-on-year) in January 2017 — the slowest growth rate since January 2013 — with loans to businesses declining by 2.0 per cent.

In its deliberations, the Monetary Policy Committee expressed concern about the already significant narrowing of the differential between the Trinidad and Tobago and US short-term (three-month) Treasury instruments — from 68 basis points at end January to 41 basis points by late March 2017 — given its implications for the direction of capital flows. At the same time, the Committee took note of the available evidence on the continued sluggishness of the domestic economy in the context of still low inflation. In carefully balancing these considerations, the MPC decided to maintain the Repo rate at 4.75 per cent. The Bank will continue to monitor and analyze international and domestic developments in its deliberations.

The next Monetary Policy Announcement is scheduled for May 26, 2017.

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