

MONETARY POLICY ANNOUNCEMENT

September 26, 2025

CENTRAL BANK MAINTAINS REPO RATE AT 3.50 PER CENT

Global economic uncertainty persists as a combination of heightened geopolitical tensions and trade policy uncertainty is contributing to a slowdown in growth prospects for the world's major economies. The IMF, in its July 2025 *World Economic Outlook Update*, projected an expansion in world output of 3.0 per cent in 2025, down from 3.3 per cent in 2024. The anticipated downshift in global demand is being reflected in the energy commodity markets. Crude oil prices (West Texas Intermediate) averaged US\$64.08 per barrel (bbl) in August 2025 compared with US\$75.55/bbl a year earlier. Natural gas prices (Japan Korea Market and National Balancing Point) have also come down from the levels recorded earlier in 2025.

Global monetary policy actions in 2025 reflected a generalised trend of easing, but many central banks remain cautious about possible inflationary pressures induced by trade policy uncertainty. In this regard, a number of central banks maintained their policy rates at recent meetings in August and September 2025. However, the United States (US) Federal Reserve (Fed) reduced the federal funds target range to 4.00 to 4.25 per cent in September, amidst softening labour market conditions. Before this adjustment, US treasury yields started to slip in August 2025. Conversely, interest rates on Trinidad and Tobago (TT) 3-month treasuries rose because of tighter liquidity conditions. As a result, the (negative) TT-US interest rate differential on 3-month treasuries narrowed to -175 basis points in August 2025 from -222 basis points in May 2025.

Domestically, according to data from the Central Statistical Office (CSO), real GDP contracted by 2.1 per cent (year-on-year) during the first quarter of 2025, with output declines in both the energy and non-energy sectors of 4.8 per cent and 1.0 per cent, respectively. Preliminary data from the Ministry of Energy and Energy Industries suggests mixed performances heading into the second quarter. In April 2025, the production of natural gas fell by 2.1 per cent (year-on-year), while crude oil production registered a small increase of 0.3 per cent. The petrochemical industry recorded expansions in ammonia (6.9 per cent) and urea (26.7 per cent), but there was a notable decline in methanol output (-28.1 per cent). Meanwhile, the trend of sluggish non-energy sector activity may have persisted during the second quarter of 2025. Indicators monitored by the Central Bank suggest that the continued positive performance of the distribution sector, albeit at a slower pace, may have been countered by tepid activity in the construction and manufacturing sectors.

Domestic price pressures remain relatively contained. Headline inflation, as measured by the CSO's Consumer Price Index, measured 1.4 per cent (year-on-year) in August 2025 – unchanged from the rate three months earlier. Core inflation (which excludes food prices) rose marginally to 1.0 per cent while food price increases, influenced by a decline in vegetable prices, decelerated to 2.9 per cent. Building material prices and wholesale prices rose by 2.4 per cent and 1.2 per cent (year-on-year), respectively, in the second quarter of 2025.

Financial conditions were broadly favourable but market liquidity continued to be somewhat volatile. Commercial banks' excess reserves at the Central Bank averaged \$4.2 billion in August 2025, before slipping to \$3.9 billion in the first half of September 2025. Liquidity conditions have been impacted by government financing operations, robust credit growth and (indirectly) by central bank sales of foreign exchange to authorised dealers. Tighter liquidity appeared to affect the pace of credit expansion. Overall financial sector private sector credit rose by 7.7 per cent (year-on-year) in July 2025, down from growth of 9.1 per cent in April 2025. Business credit expanded by 8.1 per cent, driven by loans to the distribution, finance and manufacturing sectors. Consumer lending grew by 9.9 per cent, but there was a slowdown in loans for motor vehicles and bridging finance. Real estate mortgage loans increased by 6.3 per cent.

The Monetary Policy Committee (MPC) notes that global economic uncertainty appears more acute, especially with geopolitical tensions rising in the territorial spaces adjacent to Trinidad and Tobago. While inflation is likely to remain low in the near-term, growth prospects seem tentative. The anticipated boost to energy production in the second quarter of 2025 from two new natural gas fields may be countered by lacklustre non-energy sector activity. Credit growth may continue to moderate and labour market conditions may loosen, both likely to be impacted by the restructuring of government employment programmes. These factors point to some moderation in aggregate demand. On the external accounts, pressures may moderate as tariff uncertainty eases with further trade agreements. Further, short-term interest rate differentials are likely to improve should softer labour conditions persist in US, forcing the US Fed to lower its monetary policy rate and at a faster pace.

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

The next Monetary Policy Announcement is scheduled for December 31, 2025.

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