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MONETARY POLICY ANNOUNCEMENT

December 31, 2025

CENTRAL BANK MAINTAINS REPO RATE AT 3.50 PER CENT

Global economic prospects remain modest as persistent geopolitical tensions and trade policy uncertainty dampen economic activity. The International Monetary Fund, in its October 2025 *World Economic Outlook*, projected world output to expand by 3.2 per cent in 2025, marginally down from 3.3 per cent in 2024. Economic growth in the United States (US) has shown durability, despite challenges in the labour market and above-target inflation. On the other hand, other major economies are experiencing softer economic growth combined with stubbornly elevated inflation. International energy commodity prices have served as a barometer of overall economic conditions. Crude oil prices (West Texas Intermediate) slipped below US$60 per barrel (bbl), averaging US$59.57/bbl in November 2025, and remained below US$60/bbl during December 2025. Natural gas prices (Japan Korea Market and National Balancing Point) continued to soften from the levels recorded earlier in 2025.

Global monetary policy actions in 2025 continue to reflect an easing trend, with monetary authorities prioritising support for economic growth as opposed to strict adherence to inflation targets. In this regard, a number of central banks reduced their policy rates at recent meetings over the period October to December 2025. In particular, the US Federal Reserve (Fed) reduced the federal funds target range by 0.25 per cent to 3.50 to 3.75 per cent in December and decided to commence buy-backs of short-term government bonds in the amount of US$40 billion per month to support market liquidity. Short-term US treasury yields continued to soften while interest rates on Trinidad and Tobago (TT) 3-month treasuries firmed. As a result, the (negative) TT-US interest rate differential on 3-month treasuries narrowed to -74 basis points as at December 26, 2025 from -230 basis points in July 2025.

Domestically, a boost to natural gas production in the second quarter of 2025, with first gas from bpTT's Cypre and bpTT/EOG's Mento fields, underpinned a resurgence in energy sector output (10.4 per cent year-on-year). According to data from the Ministry of Energy and Energy Industries for the second quarter of 2025, the production of natural gas rose by 11.7 per cent (year-on-year), while crude oil production increased by 8.9 per cent. The petrochemical industry recorded expansions in ammonia (23.6 per cent) and urea (51.3 per cent), while methanol output continued to decline (-12.7 per cent). Meanwhile, the slowdown in non-energy sector activity is estimated to have persisted during the second quarter of 2025. Indicators monitored by the Central Bank suggest softer performances for the distribution, construction and manufacturing sectors, which countered gains in the finance and utilities sectors.

Domestic inflation has held firm at the lower end of single digits during the second half of 2025. Headline inflation, as measured by the Central Statistical Office's Consumer Price Index, measured 0.5 per cent (year-on-year) in November 2025 compared with 1.5 per cent in June 2025. Core inflation (which excludes food prices) rose by 0.5 per cent while food inflation decelerated to 0.8 per cent, pulled down by lower international food prices and few weather-related disruptions to domestic agricultural supplies. Building material price increases slowed to 1.5 per cent (year-on-year) during the third quarter of 2025 compared with 2.2 per cent the previous quarter.

Domestic financial conditions are finely balanced. System liquidity constraints have eased in recent months, despite continued government borrowing activity and notable upticks in interbank and repo market activity. After declining to $3.5 billion in October 2025, commercial banks' excess reserves at the Central Bank averaged $4.4 billion in November 2025, and rose further to $5.3 billion by mid-December 2025. Conversely, the pace of private sector credit expansion has slowed. Private sector credit rose by 6.3 per cent (year-on-year) in October

2025, down from growth of 8.6 per cent in June 2025. The slowdown was primarily influenced by more modest business credit growth (6.6 per cent in October compared with 11.8 per cent in June 2025). Consumer lending growth slowed to 8.0 per cent from 9.7 per cent over the same period, driven by lower loan demand for credit cards, motor vehicles and bridging finance. Real estate mortgage loans increased by 5.8 per cent.

The Monetary Policy Committee (MPC) noted that global inflationary pressures have fared much better, though not fully contained, than initial expectations when the US reciprocal tariff regime was first announced in April 2025. This has created the space for major advanced economies' central banks to pivot their monetary stance to focus on the soft economic conditions. Domestically, the fluid geopolitical tension between the US and neighbouring Venezuela is contributing to building economic uncertainty. Nonetheless, inflation is well contained, credit growth is still reasonable, and liquidity conditions have improved. However, economic growth is somewhat tentative. The positive effect of higher energy production in the second quarter of 2025, driven by two new natural gas fields, may be partially offset by a non-energy sector that is losing momentum across several sub-sectors. This suggests that the domestic economy is still in need of support to engender a sustained recovery.

The MPC also considered that aggregate demand may increase as household incomes are perched to receive a boost in the coming months. Against this backdrop, given Trinidad and Tobago's high propensity to import, safeguarding the country's international reserves becomes paramount. Trinidad and Tobago's foreign reserves stabilised in recent months, moving from US$4.6 billion in October 2025 to US$5.3 billion as at December 19, 2025. However, conventional international indicators of reserve adequacy suggest close monitoring is warranted.

Given the softness in the non-energy sector, reflected in part by slowing business credit growth, and in the context of low inflation and the narrowing of the TT-US short term interest rate differential, **the MPC agreed to maintain the repo rate at 3.50 per cent.** The MPC will actively monitor the likely effects of recent wage adjustments on aggregate demand and import growth in the coming months. The MPC is prepared to take the necessary monetary policy actions to maintain a prudent balance between safeguarding the foreign reserves and fostering favourable funding conditions supportive of domestic economic activity.

The next Monetary Policy Announcement is scheduled for March 27, 2026.

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