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MONETARY POLICY ANNOUNCEMENT

March 31, 2023

CENTRAL BANK MAINTAINS REPO RATE AT 3.50 PER CENT

The global economy is rebounding faster than earlier anticipated from the COVID-19 pandemic. However, the headwinds of persistent inflation, ongoing geopolitical tensions and fresh financial stability concerns in early 2023 cloud the outlook. The failure of a few banks in the United States as well as one international bank prompted coordinated action by financial authorities to avoid widespread contagion. At the same time, monetary policy tightening continued, albeit with a more guarded orientation on future rate increases. For example, in March 2023, the US Federal Reserve increased the target range for the federal funds rate by 25 basis points to 4.75–5.00 per cent. With some of the supply-side impulses to inflation tapering off, there is an expectation that global inflation will moderate later in 2023. Energy prices have already demonstrated some softening. West Texas Intermediate (WTI) crude oil prices moved from an average of US$76.52 in December 2022 to US$67.64 per barrel at mid-March 2023. Natural gas prices (Henry Hub) fell from US$5.50 per mmbtu to US$2.24 per mmbtu over this period.

Domestic inflation moderated in January. According to the Central Statistical Office, headline inflation decelerated to 8.3 per cent in January 2023 (year-on-year) compared with 8.7 per cent a month earlier. Food inflation remained unchanged at 17.3 per cent, with slower price increases for fish, breads and cereals. Core inflation (which excludes food items) slowed to 6.1 per cent from 6.7 per cent, as price increases eased for housing, communication and furnishings. The rate of price increases for building materials also decelerated.

In terms of economic activity in Trinidad and Tobago, latest estimates put growth in 2022 at around 2.5 per cent. This reflected a relatively favourable performance in the energy sector alongside a gradual revival in non-energy production. There is some early evidence of improving labour market conditions based on observed increases in labour force participation in the third quarter of 2022 and the decline in the number of persons retrenched during the second half of 2022. The outlook for 2023 looks favourable, barring major external shocks.

With respect to financial indicators, liquidity remains ample and credit buoyant, while interest differentials widened. Commercial banks' excess reserves at the Central Bank fell by around $400 million, from $6.7 billion at the end of December 2022 to $6.2 billion at March 28, 2023. Contributing to the decline were more extensive open market operations—net treasury bill sales of around TT$1 billion—and US$300 million in foreign exchange interventions by the Central Bank. Financial system lending to businesses expanded by 9.8 per cent in December 2022 (year-on-year). Credit growth to the construction and manufacturing sectors (18 and 11 per cent respectively) were particularly robust, while consumer credit gathered momentum. Meanwhile, the differential between interest rates on three-month treasures in Trinidad and Tobago and the United States moved to -429 basis points in February 2023. This compares to –392 basis points at the end of December 2022 in the context of US Fed tightening. There is evidence of a slight upward movement in domestic interest rates in recent months; the rise in average rates on loans exceeded those on deposits resulting in an expansion in the loan/deposit spread by 5 basis points to 6.36 per cent.

In reviewing external developments, the Monetary Policy Committee (MPC) took particular note of the recent banking problems and the potential repercussions on global financial stability. While domestic inflation had shown signs of slowing down, the MPC acknowledged that unanticipated external impulses and second round effects of the adjustment to local fuel prices could temper further reductions in inflation in the short run. The current buoyancy in credit was welcome in fostering growth that was still at an early stage, but needed to be closely monitored given the implications for demand pressures and the quality of bank assets. The MPC also noted the impact that the Bank's recent open market operations had been having on financial system liquidity. 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 monitor and analyse international and domestic developments and prospects.

The next Monetary Policy Announcement is scheduled for June 30, 2023.

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