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MONETARY POLICY ANNOUNCEMENT

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CENTRAL BANK MAINTAINS REPO RATE AT 3.50 PER CENT

With inflation easing faster than anticipated and prospects for a 'soft landing' gaining momentum across several advanced and emerging market economies, international macroeconomic conditions appear relatively less constrained towards the end of 2023. This has prompted several Central Banks to pause further interest rates hikes or reduce rates. For example, the United States Federal Reserve (Fed) maintained its federal funds target range of 5.25 per cent to 5.50 per cent during the fourth quarter of 2023, with financial markets anticipating interest rate cuts in 2024 from as early as the first few months of the year. Notwithstanding recent positive developments, major downside risks prevail. In particular, the unsettled geopolitical landscape, accentuated by the conflict in the Middle East and a slew of national elections scheduled for 2024, has heightened economic uncertainty. According to the International Monetary Fund's October 2023 World Economic Outlook, global growth is forecast to slow to 2.9 per cent in 2024 compared to 3.0 per cent in 2023.

On the domestic front, the latest data from the Central Statistical Office (CSO) indicated that real GDP expanded by 3.0 per cent (year-on-year) during the first quarter of 2023. Indicators monitored by the Central Bank suggest steady economic recovery during the first nine months of 2023, led by the non-energy sector. Activity in the Transportation and Storage, Wholesale and Retail Trade (excluding Energy), Electricity and Water (excluding Gas) and Construction sectors continued to underpin the non-energy sector's positive performance. Labour market statistics show that the unemployment rate declined to 3.7 per cent in the second quarter of 2023 compared with 4.9 per cent one quarter earlier.

Meanwhile, inflation continued to moderate. According to the CSO, headline inflation measured 1.1 per cent (year-on-year) in November 2023 compared with 4.1 per cent three months earlier. The deceleration was driven by lower food inflation which slowed to 0.8 per cent from 5.6 per cent over the same period. Core inflation (which excludes food items) slowed to 1.2 per cent from 3.7 per cent, as the full pass-through of higher fuel prices implemented in late 2022 was complete. However, there was an uptick in producer prices (2.6 per cent) in the twelve months to June 2023 from 2.0 per cent in March, while price increases for building materials (3.1 per cent) continued to decelerate over this quarter.

With respect to financial indicators, liquidity remains ample. Commercial banks' excess reserves at the Central Bank stood at a daily average of $4.9 billion in November 2023 and hovered around this level up until December 22, 2023. However, a recent uptick in government domestic financing operations has added to the variability of excess liquidity. In this context, there was a significant pick-up in interbank activity during the fourth quarter of 2023. The repo window was also accessed on one occasion at the end of November 2023 – the first time since January 2022.

The momentum in private sector credit was sustained. In the twelve months to October 2023, financial system credit grew by 7.7 per cent. Spurred in part by a resurgence in motor vehicle loans, consumer lending growth reached 8.9 per cent in October 2023 – surpassing the rate of business credit expansion in August 2023. Business lending increased by 7.6 per cent during the same period, while real estate mortgage credit growth slowed somewhat (5.8 per cent in October 2023 compared with 6.8 per cent in August 2023).

There is evidence that short-term interest rate differentials are narrowing. Heightened government activity on the domestic capital market contributed to a slight upward shift in shorter term domestic rates. The differential between interest rates on three-month treasuries in Trinidad and Tobago and the United States moved to -440 basis points in November 2023 from -464 basis points in August 2023.

In reviewing external developments, the Monetary Policy Committee (MPC) took particular note of the rapid slowdown in global inflation and the less aggressive monetary stance adopted by major Central Banks. However, ongoing and emerging geopolitical factors are clouding the external economic policy outlook for 2024. Domestically, macroeconomic conditions appear favourable based on the retreat of inflation, sustained private sector credit growth and robust non-energy sector activity. Short-term TT/US interest rate differentials remain a concern as regards external balance, but could narrow further based on the projected downward path of foreign rates. Taking all these factors into account, **the MPC agreed to maintain the repo rate at 3.50 per cent**. At the same time, the MPC considered that the dynamic nature of external economic developments in 2023, their repercussions on Trinidad and Tobago's open economy, and the expected continuation of that situation in 2024 warranted continued vigilance and agility on the part of the Central Bank to potentially rapidly changing circumstances. The Central Bank will continue to carefully monitor and analyse international and domestic developments and prospects.

The next Monetary Policy Announcement is scheduled for March 28, 2024.

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