CENTRAL BANK OF TRINIDAD & TOBAGO

POST OFFICE BOX 1250 PORT-OF-SPAIN, TRINIDAD, WEST INDIES
TEL: 621-2288, FAX: (868) 612-6396
E-Mail Address: info@central-bank.org.tt

MONETARY POLICY ANNOUNCEMENT

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CENTRAL BANK MAINTAINS REPO RATE AT 3.50 PER CENT

Global economic growth and inflation were fairly steady during the third quarter of 2024. Demand continues to pick up at a steady pace from the depths of the COVID-19 pandemic, with little evidence of overheating to date. Inflationary pressures are generally dissipating from the highs in 2023, in the absence of widespread wage-price spirals. As a result, many central banks have lowered their policy rates, albeit at different rhythms. In September 2024, the United States Federal Reserve lowered its target range for the federal funds rate by 50 basis points to 4.75 to 5.0 per cent – its first rate cut since March 2020. The Bank of England trimmed its benchmark rate by 25 basis points to 5.0 per cent in August 2024, keeping it at this level in the following month, while the European Central Bank dropped the interest rate on its main refinancing operations by 85 basis points to 3.65 per cent over June and September 2024. Many other central banks had begun their easing cycles earlier, while some, such as the Central Bank of Brazil, recently raised their rates in light of higher domestic inflation numbers. Meanwhile geopolitical tensions remain very high in the Middle East, alongside the ongoing Russia-Ukraine war, significantly adding to uncertainties on the short to medium term global economic outlook.

In Trinidad and Tobago, inflation remains low. Recent data from the Central Statistical Office show that headline inflation slid to 0.4 per cent (year-on-year) in August 2024 from 0.7 per cent in June 2024. Food inflation eased in August, slipping to 1.5 per cent from 2.3 per cent in June. Core inflation, which excludes the influence of food prices, decreased slightly to 0.1 per cent in August from 0.2 per cent in June.

In terms of economic activity, available indicators point to relatively buoyant non-energy output, alongside maintenance-related decreases in some energy products. Performance in non-energy activities was fairly broad based, with output statistics showing increases in the Wholesale and Retail Trade (excluding Energy), Transportation and Storage, Construction and Manufacturing (excluding Refining and Petrochemicals) subsectors. Data from the Ministry of Energy and

Energy Industries show declines in the second quarter of 2024 in crude oil (-11.4 per cent) and natural gas (-10.2 per cent) output, largely due to planned maintenance projects. The lack of available natural gas feedstock also affected refining and downstream production of liquefied natural gas, ammonia and methanol, while urea production rose marginally.

Immediately following the July 2024 reduction in the reserve requirement from 14 to 10 per cent, banking system liquidity (as measured by commercial banks excess reserves at the Central Bank) rose by about $3 billion. Liquidity then fluctuated as banks adjusted their portfolios in the context of Central Bank open market operations and public sector borrowing. More recently, excess reserves reached a daily average of $6.3 billion in mid-September 2024. The growth in financial system credit to the private sector has been relatively strong in recent months. Consumer lending in particular grew by over 10 per cent (year-on-year) in the months of March to June 2024, with a concentration on loans for motor vehicles, refinancing and debt consolidation. Meanwhile, business and real estate mortgage lending rose by a monthly average of 9.2 per cent and 5.1 per cent, respectively over the March to June 2024 period. The continued rise in domestic interest rates on treasury bills in light of the sustained public sector financing requirements, alongside the decline in external interest rates, led to a narrowing of the (negative) TT/US short-term interest differentials. This measure of relative rates on 3 month treasuries moved from -349 basis points to -271 basis points between June and mid-September 2024.

The Monetary Policy Committee (MPC) took note of the global setting, characterised by geopolitical volatility and the prospects for further monetary easing if external price stability persists. Key considerations domestically included the combination of low inflation, a measured economic revival focused on non-energy sectors, and the prospects for a further narrowing of the negative short-term TT/US interest differential. At the same time, the Committee observed that consumer credit was growing at a double digit pace and needed to be closely monitored in coming months. Taking all factors into account, **the MPC agreed to maintain the repo rate at 3.50 per cent**. The Central Bank will continue to keep international and domestic developments under close review.

The next Monetary Policy Announcement is scheduled for December 30, 2024.

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