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MONETARY POLICY ANNOUNCEMENT

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CENTRAL BANK MAINTAINS REPO RATE AT 4.75 PER CENT

Trinidad and Tobago continues to face the economic challenges posed by lower energy prices, operational issues and maintenance-related activities in the domestic energy sector. Initial estimates suggest that the energy sector contracted by around 5.0 per cent (year-on-year) in the fourth quarter of 2015, while provisional information also allude to anaemic activity in the non-energy sector. Early indications for 2016, including a slowdown in new car sales and cement, are that the lull in economic activity may have continued into the new year.

In other developments, the latest official statistics from the Central Statistical Office indicated that the unemployment rate increased to 3.4 per cent in the third quarter of 2015, up from 3.2 per cent recorded in the previous three-month period. Subsequent evidence of job cuts in the energy-related and construction sectors could point to potential dips in overall employment in 2016 unless compensated by absorption of the displaced workers in other areas.

Although an increase was registered in February 2016, headline inflation remained well contained by historical standards. According to the Central Statistical Office's Index of Retail Prices (RPI), on a year-on-year basis, headline inflation measured 3.4 per cent in February 2016 when compared to 2.4 per cent recorded in the previous month, and 6.2 per cent registered in February 2015. Despite the reduction in VAT to 12.5 per cent from 15.0 per cent, the widening of the range of items subject to the sales tax effective February 1st 2016, may have contributed in part to an increase in food prices. On a year-on-year basis, food inflation measured 9.4 per cent when compared to 4.5 per cent in January 2016. On the other hand, core inflation was relatively unchanged, measuring 2.1 per cent in February 2016, when compared with 2.0 per cent in the previous month. Relatedly, reflective of supply and demand conditions in the foreign exchange market, the TT dollar exchange rate against the US dollar depreciated by roughly 3.0 per cent over the three-month period January – March 21, 2016. Based on historical patterns 'pass through' effects to domestic prices could take about 2 to 3 months.

Liquidity in the domestic banking system remained at relatively comfortable levels over the first three months of 2016. Commercial banks' excess reserves at the Central Bank averaged \$3.8 billion daily during January and February 2016 rising to just over \$4 billion in the first half of March. The Central Bank utilized its various instruments to manage banking sector liquidity. Over the period January to mid-March 2016, the Bank withdrew roughly \$1.5 billion via net open market operations, and rolled over a commercial bank fixed deposit valued at \$1.5 billion on March 14 2016. Since the last Monetary Policy Announcement at the end of January 2016, TT-US interest rate differentials have been broadly favourable. The differential on the 91-day Treasury securities stood at 86 basis points as at March 15 2016, from the 67 basis points at the end of January 2016. On the other hand, the differential on the 10-year Treasuries held steady at 197 basis points, from the 196 basis points over the same period.

On the global front, at its March 2016 Federal Open Market Committee (FOMC) meeting, the US Federal Reserve (Fed) decided to keep policy rates unchanged for the second consecutive occasion. Moreover, citing the challenges to the US economy from weaker global economic growth and international financial market volatility, the Fed lowered its expectations for the frequency of future policy rate increases. This decision was in line with its central banking counterparts in Europe and Japan. Specifically, the European Central Bank lowered its policy rate to zero per cent in March 2016, while the Bank of Japan introduced negative interest rates in January 2016.

Against a backdrop of somewhat tepid domestic economic activity, low inflation and slow global growth, the Central Bank's Monetary Policy Committee decided to maintain the "Repo" rate at 4.75 per cent at its March 2016 meeting. The Bank will continue to carefully analyse domestic and international economic developments in its deliberations and decisions.

The next Monetary Policy Announcement is scheduled for May 27, 2016.

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