CENTRAL BANK OF TRINIDAD & TOBAGO

POST OFFICE BOX 1250 PORT-OF-SPAIN, TRINIDAD, WEST INDIES
TELE: 625-4835, FAX: (868) 623-1955
E-Mail Address: info@central-bank.org.tt
Website Address: www.central-bank.org.tt

MONETARY POLICY ANNOUNCEMENT

July 31st 2015

At its July 2015 meeting, Central Bank's Monetary Policy Committee (MPC) agreed to raise the 'Repo' rate for a sixth consecutive time by 25 basis points to 4 ¼ percent. The MPC based its decision on three factors. The first and most influential factor was recent forward guidance by the US Fed on the start of normalization of U.S. monetary policy. The second factor was the potential for domestic core inflationary pressures to pick up over the next few months. The third factor upon which the MPC deliberated was weaker-than-anticipated growth in the non-energy sector in the first half of 2015.

Since the previous meeting of the MPC, uncertainty related to the Greek debt crisis and the sharp correction in Chinese equity markets dominated sentiment in global financial markets. Even though near term risks from these events appear to have dissipated somewhat for now, risks associated with the timing of the first increase in the US Fed funds rate still persist. In her mid-July 2015 testimony to Congress, US Fed Chairwoman Janet Yellen reiterated the Fed remains on track to raise rates this year, as long as the U.S. economy evolves as expected. At its July 28-29th meeting, the FOMC hinted the U.S. labor market is reaching a position where a rate hike could be possible this year. Over the past few months, improving U.S. economic conditions and rising expectations for a Fed rate increase have led to increasing yields on the benchmark 10-year US Treasury. As a result, the interest rate differential between TT – US 10- year Treasuries narrowed substantially to 69 basis points at the end of July 2015 from 82 basis points at the end of May 2015. Higher domestic rates are necessary to enhance yields of TT$ instruments to mitigate potential capital outflows.

Locally, rising inflationary pressures remain a concern for the MPC. Headline inflation held steady at just over 5 ½ percent in June 2015, while core inflation slowed marginally to just below 2 percent. However, the MPC expects inflationary pressures to pick up in the remaining months of 2015 due to a number of factors:

- Food inflation accelerated for the first time in 2015 spurred by rising input costs (specifically poultry) and falling supply associated with the outbreak of a pest in the Dominican Republic, a major source market for fruits and vegetables. In June 2015, food inflation rose to 9.7 percent. The advent of the rainy season raises the possibility of flooding and may lead to additional disruptions to domestic agricultural supply, further pushing up food inflation, which drives headline inflation.

- Consumer credit continues to grow at a fairly strong pace, increasing by 7 ½ percent in May 2015. Recently concluded public sector wage agreements are expected to lift consumer spending and inflationary pressures.

- Central Government maintained an expansionary fiscal stance in the first eight months of FY2015. Capital expenditure, in particular, increased by nearly 9 ½ percent due to a pick-up in the pace of project implementation as well as the settlement of some outstanding commitments. The MPC expects public spending to ramp up in the remaining four months of fiscal 2015, boosted by higher public sector wages and ongoing capital infrastructure projects ahead of the general elections.

The Repo rate increased by 150 basis points since September 2014, but this is still below its longer term average. The MPC, therefore, views the monetary policy stance as supportive to economic growth. Despite slower -than- expected- growth in the non-energy sector in the first half of 2015, the MPC anticipates a respectable performance in the non-energy sector in the second half of 2015.

With liquidity levels falling to a daily average of $3.2 billion over the past three months (May – July 2015), the MPC agreed to continue with an aggressive programme to absorb excess liquidity and strengthen the impact of higher interest rates throughout the financial system. Commercial banks' median prime lending rate increased to 8 ¼ percent in July 2015 from 8.00 percent in May 2015. Commercial banks are expected to further increase their interest rates in coming months.

The next Monetary Policy Announcement is scheduled for September 25th 2015.

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