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MONETARY POLICY ANNOUNCEMENT

November 25, 2016

CENTRAL BANK MAINTAINS REPO RATE AT 4.75 PER CENT

Since the last Monetary Policy Announcement in September 2016, oil prices rallied to a 15-month high of near US\$50 dollars per barrel (WTI) in October, but have declined since. Though oil prices generally remained low, they improved in the third quarter of 2016 and averaged US\$44.9 compared to US\$39.4 in the first half of the year. Meanwhile, production of crude oil and natural gas, as well as some downstream products, continued to be affected by maintenance and other stoppages by energy companies, leading to curtailed energy sector output relative to the first three quarters of 2015. At the same time, early indicators of non-energy sector activity in the third quarter suggest on-going softening within the construction and distribution sectors. The latest labour force information from the Central Statistical Office (CSO) put the unemployment rate at 4.4 per cent during the second quarter of 2016 compared with 3.2 per cent in the corresponding quarter of 2015.

Overall price pressures remained well contained up to September 2016. According to the CSO's Index of Retail Prices (RPI), headline inflation slowed slightly to 3.0 per cent on a year-on-year basis in September 2016 from 3.1 per cent in August. Core inflation, which excludes food prices, edged upwards to 2.3 per cent in September 2016 from 2.2 per cent in August. Faster price increases within the health and clothing and footwear sub-indices led the pickup in core inflation. Conversely, food inflation slowed to 6.2 per cent by September 2016 compared with 7.2 per cent in August.

After falling in October, liquidity in the financial system rose slightly in November 2016, with commercial banks' excess reserves averaging \$3.4 billion daily during the period November 1-21, 2016. The Central Bank removed \$725.0 million from the system through open market operations while the Bank's sales of foreign exchange to authorized dealers indirectly extracted roughly \$500 million.

Private sector credit growth remained sluggish in September 2016, as lending to businesses declined for the fourth consecutive month when compared with similar months in 2015. In August and September, business lending registered year-on-year declines of 2.8 per cent and 1.9 per cent, respectively. Credit to the private sector by the consolidated financial sector rose to 3.5 per cent in September 2016 from 3.1 per cent in August. As at November 14, 2016, yield differentials between TT and US 91-day and 10-year Treasury securities stood at 65 basis points and 216 basis points, respectively compared with 86 basis points and 255 basis points, respectively at the end of October 2016. Meanwhile, there is a growing consensus among global financial analysts that the United States Federal Reserve will increase interest rates in the near future.

At its meeting in November, 2016, the Monetary Policy Committee of the Central Bank took note of the overall economic conditions, the weak inflationary pressures and the current and anticipated trajectory of external interest rates. **Against this backdrop, the Committee decided to maintain the “Repo” rate at 4.75 per cent.** 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 January 27th, 2017.

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