



CENTRAL BANK OF TRINIDAD & TOBAGO

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MONETARY POLICY ANNOUNCEMENT

May 27, 2016

CENTRAL BANK MAINTAINS REPO RATE AT 4.75 PER CENT

In light of low global energy prices and reduced energy sector output, domestic economic conditions continue to be challenging. Output data show a decline in energy sector production in the final quarter of 2015 which continued into the first three months of 2016 and is unlikely to have been offset by a compensating rise in the non-energy sector. The unemployment rate rose slightly to 3.5 per cent at the end of 2015, and there were further job losses in the energy, manufacturing and construction sectors in early 2016, despite reports of labour shortages in specific private sector activities.

According to the CSO's Index of Retail Prices (RPI), headline inflation measured 3.5 per cent on a year-on-year basis in April 2016 compared with 3.3 per cent in March and 5.8 per cent one year earlier. Despite a pickup in the transportation sub-index (4.2 per cent in April compared with 1.0 per cent in March) due to the rise in the prices of super gasoline and diesel fuel, core inflation remained steady at just over 2 per cent. Meanwhile, food inflation measured 9.9 per cent in April 2016 from 8.6 per cent in March, as faster price increases were recorded within the meat, fruits, vegetables and bread and cereals sub-indices.

Liquidity levels have fluctuated over the first five months of 2016. Commercial banks' excess reserves averaged roughly \$3.9 billion daily in the first four months of 2016 but jumped to a daily average of \$6.6 billion over most of May in the lead up to a Central Government \$1 billion bond issue. The Central Bank continued to utilize open market operations as well as fixed deposits requested of commercial banks in managing liquidity, taking into account market dynamics associated with public sector financing activities. Private sector lending was resilient in the first quarter of 2016 with private sector credit by the consolidated banking system rising by 6.2 per cent year-on-year in March compared with growth of 5.8 per cent in February. The differential between TT

and US Treasury instruments declined slightly in the case of 91-day Treasuries from 99 basis points at the end of March to 85 basis points as at May 23, 2016, but on 10-year Treasuries rose from 243 to 251 basis points over the same period.

Although monetary policy in advanced economies remains broadly accommodative in light of low inflation, there may be some divergence in the policy paths going forward, with the US Federal Reserve signalling a hike in rates over the course of this year. Meanwhile overall global growth remains tepid and there are signs of a slowdown in many emerging markets in the wake of continued softness in commodity prices.

Against a backdrop of slow domestic economic activity and low inflation, the Central Bank's Monetary Policy Committee at its May 2016 meeting 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 July 29, 2016.

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