



**CENTRAL BANK OF
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MONETARY POLICY ANNOUNCEMENT

July 29, 2016

CENTRAL BANK MAINTAINS REPO RATE AT 4.75 PER CENT

Available data indicate that output in the energy sector declined in the first half of 2016 on a year-on-year basis. Production of natural gas and crude petroleum fell by 11.6 per cent and 9.5 per cent respectively in January-May 2016 compared to the similar period in 2015, driven primarily by maintenance and upgrade programs of energy companies. On the non-energy side, construction also slowed, as evidenced by lower cement sales and production of mined aggregates such as sand and gravel, in the context of a reduced pace of execution of public sector projects. Meanwhile, although the financial sector did demonstrate some buoyancy, a dip in retail sales suggests that distribution activity remained sluggish.

According to the Central Statistical Office's Index of Retail Prices, headline inflation measured 3.4 per cent on a year-on-year basis in June 2016 – the same rate recorded in the previous month. Core inflation, which excludes food prices, rose slightly to 2.2 per cent in June from 2.1 per cent in May. Meanwhile, food inflation slowed to 9.4 per cent in June 2016 from 9.6 per cent in May. There were slower price increases in the meat and vegetable sub-indices, while the milk, cheese and eggs sub-index declined. Other gauges of price movements, such as the Building Materials and Producer Price Indices showed negligible changes, reflecting overall subdued aggregate demand.

Since the last Monetary Policy Announcement at the end of May, financial system liquidity has declined. Over the period July 1 – 25, 2016 commercial banks' excess reserves fell to a daily average of \$3.9 billion compared with \$6.4 billion in May and \$5.6 billion in June. Banks' excess reserves were elevated in May and June 2016, as investors held liquid funds in anticipation of Government domestic borrowing. Thus far in July 2016, Government operations resulted in a net domestic fiscal withdrawal of \$790.7 million, while the Central Bank's net open

market operations removed \$32.3 million and sales of foreign exchange the equivalent of a further \$1.3 billion.

Meanwhile, private sector credit growth slowed to 5.9 per cent (year-on-year) in May 2016 compared with growth of 6.7 per cent in the previous month. As at July 27, 2016, yield differentials between TT and US 91-day and 10-year Treasury securities stood at 89 basis points and 291 basis points, respectively compared with 94 basis points and 294 basis points, respectively at the end of June 2016. There has been some volatility in international financial markets over the past two months, notably in the wake of the UK referendum on EU membership, while the US Federal Reserve continued to delay policy rate increases.

Against the backdrop of muted domestic economic activity, low inflation and an uncertain global economic outlook, the Central Bank's Monetary Policy Committee decided to maintain the "Repo" rate at 4.75 per cent at its July 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 September 30, 2016.

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