



**CENTRAL BANK OF
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MONETARY POLICY ANNOUNCEMENT

July 28, 2017

CENTRAL BANK MAINTAINS REPO RATE AT 4.75 PER CENT

At its meeting in July 2017, the Monetary Policy Committee (MPC) carefully reviewed international economic and financial developments and the evolution of the domestic economy thus far in 2017.

In July the International Monetary Fund (IMF) maintained its forecast for global economic growth of 3.5 per cent for 2017 as prospects generally remained solid in advanced and emerging economies. Expectations for growth have been lowered in the US but were revised upward in Japan, the Euro area and China. In the US, the firming economy and two increases in the Fed's funds rate have led to rising bond yields in 2017, and consequently, narrowing differentials between the TT and US 91-day Treasury securities. By mid-July this differential measured 14 basis points, compared to 67 basis points at the end of January 2017. However, financial markets have now toned down their expectations of further hikes in the Fed's funds rate in 2017.

Economic activity in Trinidad and Tobago remained subdued in the first quarter of 2017. Energy sector output has not yet begun to recover strongly, in particular oil and natural gas production. However, exploratory activity was up, with higher rig days and depth drilled being reported, and this is expected to boost energy sector going forward. Available indicators on sales, production and sectoral credit point to continued weakness in construction and distribution into the second quarter.

Inflationary pressures have been well contained with the overall inflation rate measuring 1.7 per cent (year-on-year) in May 2017; both food and core inflation remained in the single digits at 1.8 and 1.7 per cent, respectively. Liquidity in the banking system is still comfortable, as commercial banks excess reserves averaged around \$3.1 billion over May to July 2017, but there is evidence of some tightening in the context of rising Government domestic financing. Credit expansion is muted: in May 2017 credit to businesses granted by the consolidated financial system rose marginally by 0.3 per cent while loans to consumers eased to 4.5 per cent and lending for real estate mortgages was stable at 4.4 per cent.

In its deliberations, the MPC noted with concern the narrowing of the differential between the Trinidad and Tobago and US Treasury three-month rates, while also considering the reduced market expectations for further increases in the Fed's funds rate in 2017. At the same time, inflation and credit growth were very low, while both energy and non-energy statistics pointed to continued sluggishness in the domestic economy. In light of these factors, the MPC decided to maintain the repo rate at 4.75 per cent. The Bank will continue to carefully monitor and analyze international and domestic developments in its deliberations.

The next Monetary Policy Announcement is scheduled for September 29, 2017.

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