



## CENTRAL BANK OF TRINIDAD & TOBAGO

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# Media Release

## **NON-ENERGY SECTOR RECORDS GROWTH, CORE INFLATION REMAINS STABLE: CENTRAL BANK MAINTAINS REPO RATE AT 2.75 PER CENT**

So far into 2013, indications are that the economic recovery appears to be heavily dependent on the slow but steady performance of the non-energy sector, as significant downside risks to growth stem from the energy sector. Core inflation remains relatively stable, indicating that underlying inflationary pressures are well contained. Business lending, however, contracted for the sixth consecutive month in May 2013, suggesting that the low interest rate environment is yet to encourage a strong enough revival in private sector investment. **Against this backdrop, the Central Bank views the present accommodative monetary policy stance as appropriate and has decided to maintain the 'Repo' rate at 2.75 per cent.**

According to the Central Bank's Quarterly Real GDP Index, the domestic economy grew by 1.6 per cent (year-on-year) in the first quarter of 2013. This represented the third consecutive quarter of economic growth, which was driven mainly by the non-energy sector where activity increased by 2.5 per cent. It is quite likely the non-energy sector further consolidated its performance in the second quarter of 2013. Production of mined aggregates, local sales of cement and new motor vehicle sales all registered strong growth in April-June 2013. Nevertheless, supply constraints arising from ongoing maintenance and security upgrades at energy companies, especially works planned for this September,

continue to weigh heavily on the overall speed of the economic recovery for 2013. The energy sector recorded only a marginal increase of 0.5 per cent in the first three months of 2013.

Despite lower interest rates, overall growth in private sector credit remains subdued. In the twelve months to May 2013, private sector credit by the consolidated financial system grew by 3 per cent compared with 2 per cent in December 2012. Consumer lending has picked up in recent months, growing by over 6 per cent in May 2013 compared with 4.5 per cent in April and just over 3 per cent at the beginning of the year. Meanwhile, real estate mortgage loans maintained its robust expansion, increasing by more than 16 per cent in May 2013. On the other hand, business lending remained weak, contracting by over 5 per cent in May 2013, the sixth consecutive month of decline.

In the first three weeks of July 2013, financial system liquidity, while still elevated, has fallen from the highs observed earlier in the year. Over the period July 1 – 22, commercial banks' excess reserves reached a daily average of \$5.3 billion, down from a daily average of \$6.2 billion in June 2013. The issue of a \$1 billion Central Government bond in May, the proceeds of which were sterilized at the Central Bank, as well as the impact of tax payments in late June/early July, helped to remove some of the excess liquidity. Net domestic fiscal injections, which are usually the major source of liquidity, resulted in a withdrawal of liquidity of roughly \$0.8 billion in the first three weeks of July 2013. Central Bank operations (including sales of foreign exchange to authorized dealers) removed \$508 million from the system.

To further contain liquidity, the Central Bank has opened for auction another Central Government bond whose proceeds will be sterilized at the Bank. This Treasury bond will be issued on August 6, 2013 and is expected to withdraw approximately \$1 billion from the system.

Latest data from the Central Statistical Office indicate that headline inflation accelerated in June 2013, even though core inflation remained low and stable.

Headline inflation rose to 6.8 per cent in June 2013 compared with 5.6 per cent in May 2013. Core inflation, which excludes food prices, slowed to 2.2 per cent in June 2013 from 2.4 per cent in May 2013. After slowing to single digit territory in April-May 2013, food inflation regained momentum in June 2013, accelerating on a year-on-year basis to 12.6 per cent from 9.6 per cent and 9.4 per cent in May and April 2013, respectively.

Over the past month, there has been growing sentiment in global financial markets that interest rates would increase in the short to medium term following statements by the Federal Reserve Chairman about the possibility of an earlier-than-expected start to the reduction of monetary stimulus in the United States. A rise in international interest rates is expected to influence the trajectory of rates in Trinidad and Tobago given the country's open capital account.

The Bank will continue to keep economic and monetary conditions under close review, including those related to the tapering off of quantitative easing in the United States.

**The next 'Repo' rate announcement is scheduled for September 27, 2013.**

**July 26, 2013**

## APPENDIX

### MOVEMENT OF SELECTED CATEGORIES OF THE RETAIL PRICE INDEX /Percentage Change/

	Weights	Monthly		Year-on-Year	
		May 2013	June 2013	May 2013	June 2013
Headline Inflation	1,000.00	0.5	0.3	5.6	6.8
Food and Non-Alcoholic Beverages	180.00	1.0	0.7	9.6	12.6
Bread and Cereals	31.21	0.2	0.1	0.4	(0.2)
Meat	29.21	1.0	1.4	3.8	5.1
Fish	11.37	(2.5)	1.7	10.6	11.1
Vegetables	21.84	3.8	6.0	11.8	19.4
Fruits	14.28	(0.5)	(9.0)	8.9	7.3
Milk, Cheese & Eggs	19.05	0.3	0.0	(0.9)	(1.1)
Oils and Fats	9.07	(0.2)	(0.2)	1.1	0.0
Sugar, Jam, Confectionery, etc.	7.66	0.3	(0.3)	(2.1)	(2.2)
Food Products NEC	12.51	(3.9)	(2.3)	24.5	25.3
Non-Alcoholic Beverages	23.80	0.0	(0.1)	(0.6)	(0.6)
Core Inflation	820.00	0.0	(0.1)	2.4	2.2
Alcoholic Beverages & Tobacco	25.00	(0.1)	(0.2)	4.8	2.7
Clothing and Footwear	53.00	(0.5)	(1.4)	1.4	0.3
Furnishings, Household Equipment and Routine Maintenance	54.00	0.0	0.0	1.7	1.7
Health	51.00	(0.1)	(0.1)	5.3	5.5
<i>Of which: Medical Services</i>	19.91	0.0	0.0	10.7	10.7
Housing, Water, Electricity, Gas & Other Fuels	262.00	0.0	0.0	0.4	0.4
<i>Of which: Rent</i>	24.00	0.0	0.0	1.7	1.7
Home Ownership	180.00	0.0	0.0	0.2	0.2
Education	16.00	0.0	0.0	5.2	5.2
Recreation & Culture	85.00	0.0	0.0	3.0	3.0
Hotels, Cafes & Restaurants	30.00	0.0	0.0	4.3	4.3
Transport	167.00	0.0	0.0	2.3	2.3
Communication	41.00	0.0	0.0	0.0	0.0
Miscellaneous Goods and Other Services	36.00	0.0	0.0	6.5	6.5

Source: Central Statistical Office.