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Media Release

INFLATION SLOWS TO 5.9 PER CENT IN FEBRUARY: CENTRAL BANK MAINTAINS REPO RATE AT 2.75 PER CENT

Recent data released by the Central Statistical Office show that on a twelve month basis **headline inflation fell to 5.9 per cent in February 2013** from 7.3 per cent in the previous month. On a monthly basis, headline inflation slowed to 0.3 per cent following an increase of 2.6 per cent in January 2013.

A deceleration in food prices contributed to the decline in headline inflation during February as **food price inflation eased to 10.6 per cent** from 13.8 per cent in January 2013 (both year-on-year). This partly reflected a slowdown in the price increases for vegetables (to 17.8 per cent in February compared with 27.6 per cent in January) and meat (to 6.9 per cent compared with 9.6 per cent in January). At the same time, there were slight declines in the prices of fruit, milk, cheese and eggs, as well as sugar and confectionary items in February 2013 relative to levels in February, 2012.

Core inflation, which excludes movements in food prices, also slipped further to 2.1 per cent (year-on- year) in February 2013 from 2.2 per cent in January. Slower price increases were recorded for alcoholic beverages and tobacco, as well as clothing and footwear, while there was a marginal acceleration in prices for recreation and culture.

Latest available statistics show that **credit to the private sector remained subdued in early 2013**. On a year-on-year basis to January, credit granted by the consolidated financial system slowed to 1.9 per cent from 2.1 per cent in December 2012. Loans to consumers expanded by 3.2 per cent while real estate mortgage lending continued to be very robust, increasing by 11.6 per cent (year-on-year) in January. On the other hand, credit to private businesses declined for the second consecutive month, by 1.9 per cent in January from 0.8 per cent in December 2012 despite the softening of loan interest rates over the past few months.

On account of significant net domestic fiscal injections and relatively low demand for credit, liquidity in the financial system continued to increase. Commercial banks' holdings of excess reserves at the Central Bank rose to a daily average of \$5,961.9 million in March 2013 from \$5,125.5 million in the previous month. In the context of addressing the liquidity situation, the Central Bank rolled over for one year \$1.5 billion in fixed deposits which the commercial bank held at the Bank. Central Bank foreign exchange sales to authorised dealers also helped to remove \$415 million from the banking system. The Central Bank stands ready to employ additional measures in coming months based on the evolution of financial system liquidity.

Short-term interest rates fell further during the month of March, with the rate on three-month treasury bills declining by 6 basis points to 0.18 per cent as at March 18. Meanwhile, the US three-month treasury rate reached 0.10 per cent, resulting in a narrowing of the differential between TT and US three-month treasury rates to 0.08 per cent in March from 0.11 per cent in the previous month.

The stability of core inflation supports the view that underlying price pressures remain subdued at present. While the domestic economy is expected to improve over the course of 2013, available indicators suggest that private sector demand for credit was relatively slow in the early months of the year. In the circumstances, **the Bank views the present accommodative monetary policy stance as appropriate and has decided to maintain the 'Repo' rate at 2.75 per cent.**

The Bank will continue to keep economic and monetary conditions under close review in the coming months.

The next 'repo' rate announcement is scheduled for April 26, 2013.

March 22, 2013

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

	Weights	Monthly		Year-on-Year	
		Jan 2013	Feb 2013	Jan 2013	Feb 2013
Headline Inflation	1,000.00	2.6	0.3	7.3	5.9
Food and Non-Alcoholic Beverages	180.00	6.2	0.8	13.8	10.6
Bread and Cereals	31.21	0.0	(0.5)	0.6	0.0
Meat	29.21	0.6	(0.8)	9.6	6.9
Fish	11.37	1.8	3.5	6.5	4.8
Vegetables	21.84	8.2	0.2	27.6	17.8
Fruits	14.28	5.7	6.8	(3.3)	(1.6)
Milk, Cheese & Eggs	19.05	0.5	(0.5)	0.9	(1.2)
Oils and Fats	9.07	0.6	0.3	2.8	1.6
Sugar, Jam, Confectionery, etc.	7.66	(0.4)	(0.1)	0.4	(1.5)
Food Products NEC	12.51	15.3	(3.8)	24.4	31.9
Non-Alcoholic Beverages	23.80	(0.7)	0.3	(1.0)	(0.4)
Core Inflation	820.00	(0.4)	(0.1)	2.2	2.1
Alcoholic Beverages & Tobacco	25.00	(0.2)	(0.4)	2.5	2.0
Clothing and Footwear	53.00	0.9	(1.1)	2.9	1.7
Furnishings, Household Equipment and Routine Maintenance	54.00	0.1	0.0	1.3	1.3
Health	51.00	0.5	0.0	6.1	6.1
<i>Of which:</i> Medical Services	19.91	0.5	0.0	12.6	12.6
Housing, Water, Electricity, Gas & Other Fuels	262.00	(0.8)	0.0	0.1	0.1
<i>Of which:</i> Rent	24.00	(0.8)	0.0	2.0	2.0
Home Ownership	180.00	(1.0)	0.0	(0.2)	(0.2)
Education	16.00	0.0	0.0	6.3	6.3
Recreation & Culture	85.00	(1.9)	0.0	2.1	2.1
Hotels, Cafes & Restaurants	30.00	0.2	0.0	4.0	4.0
Transport	167.00	0.2	0.0	3.8	3.8
Communication	41.00	0.0	0.0	0.1	0.1
Miscellaneous Goods and Other Services	36.00	(0.7)	0.0	1.1	1.1

Source: Central Statistical Office.

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