



CENTRAL BANK OF TRINIDAD & TOBAGO

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MONETARY POLICY ANNOUNCEMENT September 28, 2018

CENTRAL BANK MAINTAINS REPO RATE AT 5.00 PER CENT

Rising trade tensions threaten the medium-term growth outlook, and the resumption of interest rate rises in the United States (US) and the prospect for further increases will affect international financial markets in coming months. Although the International Monetary Fund in its July 2018 update maintained its global growth projections at 3.9 per cent for 2018 and 2019, the escalating tariff war between the US and China, and uncertainty around Brexit heighten downside risks to the forecast. Moreover, following a mid-year pause the US Federal Reserve raised its benchmark rate to between 2.00-2.25 per cent on September 26, 2018.

Domestically, activity in the energy sector continued to pick up in the second quarter of 2018. Natural gas production benefitted from the implementation of the Juniper project with positive spillovers to methanol output. Recent data show a reversal of the trend of falling cement sales, but it is too early to tell whether this represents the start of a recovery in construction and in the non-energy sector as a whole. Meanwhile, price pressures stayed well contained, with headline inflation registering 1.1 per cent in August 2018.

Lending to the private sector continued to grow in 2018, reaching 7.1 per cent in July (year-on-year). However, this reflected mainly loans for refinancing and debt consolidation, with credit to businesses rising by a more modest 2.7 per cent. Over the first half of the year there was a 1.2 per cent decline in the interest spread of commercial banks, the result of a simultaneous decrease in the average lending rate alongside a rise in the average deposit rate.

In the third quarter, following the increase in the Central Bank's repo rate in June, there is initial evidence of transmission to other rates—with announcements by some banks of increases in their prime lending rates as well as higher term deposit rates. There was nonetheless a widening of the negative differential between Trinidad and Tobago and US 3-month treasury

yields over the third quarter from -83 to -86 basis points, the result of faster increases in US yields on these instruments.

There was a temporary spike in excess reserves of commercial banks at the Central Bank in July-August in the context of widespread investor interest in a public sector bond arrangement. The Central Bank's removal of the 2 per cent secondary reserve requirement on banks' deposit liabilities in August also boosted liquidity. This action was in keeping with the Bank's objective to progressively rely on more market-based policy measures, including open market operations.

In its deliberations, the Monetary Policy Committee (MPC) took note of the domestic situation, including the growth that remained concentrated in the energy sector, the low inflation numbers and the gradual transmission of the June 2018 repo rate increase. The Committee also observed the ongoing normalization of monetary policy in the US and wider trade and growth developments. Taking all factors into consideration, the MPC decided to **maintain the repo rate at 5.00 per cent**. The Bank will continue to carefully monitor and analyze international and domestic developments.

The next Monetary Policy Announcement is scheduled for December 28, 2018.

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