



**CENTRAL BANK OF
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MONETARY POLICY ANNOUNCEMENT

December 27, 2019

CENTRAL BANK MAINTAINS REPO RATE AT 5.00 PER CENT

Global growth softened towards the end of 2019, with the International Monetary Fund (IMF) lowering its annual projection to 3.0 per cent, 0.2 per cent below its mid-year estimate. Recent political developments in the United Kingdom and United States have added to policy uncertainty in these major countries, including on the trade front. Meanwhile, there has been a generalized move towards economic stimulus in many nations - the US Federal Reserve cut the Federal funds rate by 25 basis points in October 2019, the third reduction in six months, prompting monetary easing in several Latin American countries such as Brazil, Chile, Mexico and Peru. In Europe, some economies are also being encouraged to ramp up fiscal stimulus to support economic growth. In global energy markets, natural gas prices (Henry Hub) remained below US\$3 per mmbtu and West Texas Intermediate (WTI) oil prices hovered around US\$60 per barrel in December.

Domestically, in the third quarter of 2019 natural gas production increased to 3,604 million cubic feet per day (mmcf/d), 3.7 per cent above output in the same quarter of 2018, despite maintenance shutdowns at two large natural gas platforms. This spurred year-on-year increases in petrochemicals (23.3 per cent) and liquefied natural gas (8.0 per cent). At the same time, over the third quarter of 2019, crude oil production remained at its level of just under 60,000 barrels per day during the first half of the year, compared with a daily average of around 64,000 barrels in calendar 2018, a reflection of the ongoing maturation of the oil fields. In the non-energy sectors, preliminary data for indicators monitored by the Central Bank point to modest expansions in the distribution and finance sectors during the third quarter. An uptick in local sales of cement suggests that construction activity is responding to the rise in public sector infrastructural investments.

According to data from the Central Statistical Office, headline inflation slowed to 0.3 per cent in the twelve months to November 2019, with core inflation (which excludes food prices) also decelerating to 0.6 per cent. Meanwhile, the food sub-index as a whole registered a year-on-year decline of -1.1 per cent in November 2019, reflecting reductions in the measured prices of vegetable items in the Index. On the labour front, the Ministry of Labour and Small Enterprise Development reported that the number of persons retrenched during January to October 2019 rose by 27 per cent year-on-year.

The growth in private sector credit extended by the consolidated financial system slowed to 4.3 per cent in September 2019 (year-on-year) compared with 4.5 per cent in July 2019. The contraction in business credit deepened to 5.5 per cent but consumer credit, driven by debt consolidation and refinancing, grew by 5.9 per cent while real estate mortgage loan growth accelerated to 10.9 per cent. Commercial banks' daily excess reserves at the Central Bank averaged around \$5.5 billion in November 2019. The Central Bank's liquidity management operations have balanced the public sector's financing requirements with prevailing credit and inflationary conditions.

The interest rate gap between three-month TT and US treasury securities has remained negative, but narrowed to -51 basis points at the end of November 2019. TT short term rates fell by 24 basis points since August 2019 in the context of the excess liquidity conditions, but equivalent US rates decreased by 40 basis points during the same period. Meanwhile, the Central Bank maintained its fortnightly sales of foreign currency to authorised dealers and official international reserves were US\$6.93 billion at the end of November 2019, US\$640 million lower than at the start of the year.

The Monetary Policy Committee (MPC) considered the shifting external conditions, especially on the trade and geopolitical fronts. Domestically, available indicators suggest that while there remains room for macroeconomic policy support towards a durable economic recovery, external balance has not yet been restored. Taking these factors into consideration, **the MPC agreed 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 March 27, 2020.

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