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**MONETARY POLICY ANNOUNCEMENT
December 30, 2020**

CENTRAL BANK MAINTAINS REPO RATE AT 3.50 PER CENT

International economic conditions improved during the second half of 2020 on account of extraordinary policy actions on the monetary and fiscal fronts in response to the Covid-19 pandemic. The International Monetary Fund updated its global growth projection for 2020 to -4.4 per cent, compared to its mid-year estimate of -4.9 per cent. Central banks in developed countries did not adjust policy rates at their recent meetings in November, opting instead to increase asset purchase programs as in the case of the United States and the United Kingdom. Meanwhile, recovery in developing countries is being led by China where economic activity expanded by 4.9 per cent during the third quarter. However, economic resuscitation is yet to hit the shores of the Caribbean, with tourism-dependent economies, in particular, continuing to record double-digit declines in output. Burgeoning optimism for a durable global rebound in 2021 following the development, approval and deployment of Covid-19 vaccines is being tempered by the emergence of new strains of the virus in Europe and parts of Africa.

Domestically, while the economy remained subdued during the third quarter of 2020, there were signs of resurgence in construction—notably public works and home repairs—as well as manufacturing. As the year comes to a close, there are also indications that a number of financial institutions and other private businesses are successfully adapting their processes to streamline operations and boost sales, notwithstanding the shadows cast by the pandemic.

Headline inflation remained contained, measuring 0.9 per cent in the 12 months to November 2020. However, there has been a notable uptick in food inflation to 5.1 per cent in November compared with 2.1 per cent in August, possibly related to Covid-19 disruptions in supply from domestic and imported sources.

The Central Bank's monetary policy actions in March continue to work their way through the financial system. While liquidity remains at record highs and interest rates have continued to decline, the credit response has been sluggish. Credit growth measured 0.6 per cent (year-on-year) in September 2020, with business credit contracting by 4.6 per cent in September, slower than the 6.1 per cent decline three months earlier. The tapering of domestic interest rates has contributed to a substantial narrowing of domestic/foreign interest differentials: the TT- US yield differential on 3-month Treasuries moved from 85 basis points to 6 basis points between August and November 2020.

The Monetary Policy Committee (MPC) evaluated domestic developments and the fluid international conditions. The deep declines experienced by the energy sector in 2020 are not expected to persist at the same pace in 2021 and the non-energy sector appears to be in an early phase of correction. At the same time, the Committee acknowledged the large degree of uncertainty characterizing the outlook for the year ahead, and the ongoing need for monetary policy to be poised to react quickly to evolving circumstances in close coordination with fiscal and structural policies. Taking all factors into consideration, **the MPC agreed to maintain the repo rate at 3.50 per cent.** The Bank continues to monitor and analyse international and domestic developments, and will take further actions as necessary.

The next Monetary Policy Announcement is scheduled for March 26, 2021.

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