



**CENTRAL BANK OF
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**MONETARY POLICY ANNOUNCEMENT
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CENTRAL BANK MAINTAINS REPO RATE AT 3.50 PER CENT

The outlook for the global economy is less upbeat than at the beginning of this year. Indications that the conflict between Russia and Ukraine will be protracted point to longer supply disruptions in energy, grain and fertilizer markets. The inflationary impact has spread worldwide, compounded in some countries by demand pressures related to earlier significant monetary and fiscal policy expansions to deal with the COVID-19 pandemic. A number of central banks have reversed course and raised interest rates; monetary authorities in Japan and China, however, have not followed suit, prioritizing support for domestic recoveries. Recent volatility in global stock markets has been exacerbated by concerns that sharply higher interest rates could plunge some economies, including the United States, into recession.

High energy prices have persisted despite the gradual pick up in supplies from OPEC+. Crude oil prices (West Texas Intermediate) moved from an average of US\$108.49 per barrel in March 2022 to US\$120.93 per barrel at mid-June 2022. Natural gas prices (Henry Hub) have been equally robust, rising from US\$4.88 per mmbtu to US\$8.96 per mmbtu over the same period. While the future is uncertain, such price developments have benefitted Trinidad and Tobago's fiscal and external accounts to date.

On the production front, energy output for the first quarter of 2022 has been mixed: on a year-on-year basis, crude oil rose by 2.2 percent while natural gas and petrochemicals declined by 5.6 per cent and 6.2 per cent, respectively. Available non-energy sector indicators signal a gradual recovery in 2022, in the context of the lifting of all restrictions on business activity compared to most of 2021. With respect to the labour market response, the latest Central Statistical Office data show that the unemployment rate may have started to trend down earlier, reaching 5.4 per cent in the third quarter of 2021, from the 7.2 per

cent high at the end of 2020. At the same time, this rate was higher than the 4.7 per cent published for Q2 2021 and may incorporate some decline in the number of people in the labour market as opposed to just new jobs.

Headline inflation rose to 5.1 per cent (year-on-year) in April 2022 compared with 4.1 per cent a month earlier. Food inflation picked up to 8.7 per cent from 7.9 per cent, reflecting higher prices for rice, margarine, edible oils and meat. Core inflation (which excludes food items) rose to 4.1 per cent from 3.2 per cent in the previous month, partly due to the adjustment to domestic fuel prices. Prices of building materials have also shown relatively significant increases according to available data, especially on imported components.

Business lending continued to accelerate, expanding by 7.4 per cent in March 2022, and driven by increased loans to the construction (17.5 per cent), manufacturing (12.3 per cent) and 'other services' (10.9 per cent) sectors. Meanwhile, the fall in consumer lending appeared to have bottomed out in March 2022, signaling that a return of consumer demand to pre-pandemic levels may be on the horizon. In particular, credit card loan growth turned positive (0.8 per cent) in March after falling off since the onset of the pandemic. Financial system liquidity remains ample, with commercial banks' excess reserves at the Central Bank averaging \$5.3 billion in early June 2022.

The Monetary Policy Committee (MPC) assessed the evolving global financial environment alongside the specific developments in Trinidad and Tobago and the short to medium term outlook. The MPC noted that higher international interest rates were already being reflected in interest differentials: US 3-month treasuries were about 73 basis points higher than equivalent domestic instruments in May 2022. International inflation had also spilled over to Trinidad and Tobago and was expected to continue its upward path. At the same time, the impulses to domestic prices were currently externally generated and the statistics on credit and real sector activity pointed to a recovery that was underway but yet to be firmly established. Taking all factors into account, **the MPC agreed to maintain the repo rate at 3.50 per cent.** The Central Bank will continue to carefully monitor and analyze international and domestic developments and prospects.

The next Monetary Policy Announcement is scheduled for September 30, 2022.

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