CENTRAL BANK OF
TRINIDAD & TOBAGO
POST OFFICE BOX 1250 PORT-OF-SPAIN, TRINIDAD, WEST INDIES
TELE: 621-2288 or 235-2288, FAX: (868) 627-4696
E-Mail Address: info@central-bank.org.tt

MONETARY POLICY ANNOUNCEMENT

March 29, 2019

CENTRAL BANK MAINTAINS REPO RATE AT 5.00 PER CENT

The growth momentum internationally appears to be slowing. In the United States, the Federal Reserve's continued pause in rate hikes and its evaluation of some sluggishness in the US economy has already had a profound effect on financial markets. Many analysts consider the recent inversion of the US yield curve — due to a lowering of longer term yields in the face of higher investor demand to lock in returns on these instruments — as a sign of a darkening outlook for the US, if not a future recession. Further complicating the external scenario facing Trinidad and Tobago are developments in Venezuela, Brexit uncertainty and US-China trade difficulties.

Domestically, the recovery in the energy sector continued into the final quarter of 2018, albeit at a slower pace than in the first half of the year. The boost to natural gas output is expected to persist into 2019 as a result of the Angelin and other investments, with positive spinoffs on downstream activities which had been adversely affected by natural gas shortages. At the same time, petroleum production is anticipated to remain on its downward trajectory due to the maturation of oil fields, compounded in the short run by the reorganization of the Petrotrin refinery operations.

Outside of energy, the Central Statistical Office's Index of Domestic Production showed a 26.7 per cent increase (year-on-year) in non-energy production in the final quarter of 2018; the increase was concentrated in the food manufacturing, beverages and tobacco industries. Other available indicators monitored by the Central Bank — such as retail sales, new car registrations and production of mined aggregates — point to a general steadiness of non-energy activity at the end of 2018 into early 2019. The impact of the acceleration of several public sector works on investment is likely to be felt in coming quarters.

At just 1.2 per cent year-on-year in February 2019, headline inflation remains very low, the result of a combination of monetary policy, demand conditions and low imported inflation. Interestingly, the historically volatile food prices have been remarkably slow-moving in recent months, with slight declines recorded for meat, fruits and vegetables; this however could change in the wake of a forecasted very harsh dry season.

Despite the public sector's tapping of domestic markets for budget financing in FY2017/18 and in the first half of the current financial year, it appears that it is the demand for credit by businesses — as against crowding out by the public sector reducing credit availability — which has resulted in the slowdown of bank credit to businesses. In January 2019, bank credit to businesses declined by -3.8 per cent (year-on-year), with overall credit rising by 3.2 per cent. Meanwhile, there was a tightening of bank interest spreads over the second half of 2018 as weighted average loan rates declined from 8.13 to 8.01 per cent, while deposit rates edged up.

In its deliberations, the Monetary Policy Committee (MPC) took note of the domestic economic situation and the low inflation conditions. The MPC also observed the more complicated external environment and the consensus that the path of interest rates in the US and other advanced economies would be much shallower than anticipated in mid 2018. Taking all factors into consideration, the Committee decided to **maintain the repo rate at 5 per cent**.

The Central Bank will continue to carefully monitor and analyze international and domestic developments. The next Monetary Policy announcement is scheduled for June 28, 2019.

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