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MONETARY POLICY ANNOUNCEMENT

September 25, 2020

CENTRAL BANK MAINTAINS REPO RATE AT 3.50 PER CENT

Globally, there is little sign of an overall deceleration in the pace of infections of the Covid-19 virus. The economies of many developed and developing countries contracted in the second quarter of 2020, despite significant fiscal and monetary policy actions as authorities implemented restrictions to curb the spread of the virus. In the Caribbean region in particular the tourism-dependent countries have been especially hard hit in the context of marked declines in persons willing to take overseas vacations and travel restrictions.

Central banks' actions across the world remained in accommodative mode—in this regard, the US Federal Reserve suggested that it may keep the Federal Funds rate at near zero until 2023. In the current circumstances, however, complementary fiscal policies have taken a greater role, with more direct and immediate consequences on funding expanded health care, reviving lagging sectors and making transfers to communities disadvantaged by the pandemic.

The strong policy actions by the Central Bank of Trinidad and Tobago in March 2020—simultaneous 3 per cent drop in the reserve requirement and 1.5 per cent reduction in the repo rate—are still working their way through the financial system. Interest rates have fallen somewhat: the average prime lending rate from 9.25 to 7.50 per cent while average loan rates declined from 7.52 to 7.40 per cent, and average deposit rates from 0.68 to 0.64 per cent over the second quarter. Despite a significant boost to liquidity, credit growth stayed slow, with business credit contracting by 6.1 per cent year-on-year in June 2020. The weak credit response is due to both demand and supply factors as businesses seem reluctant to borrow more given the uncertain environment, while banks are cautious about assuring the quality of fresh loans.

The Monetary Policy Committee (MPC) examined recent developments in the real sectors and observed that activity in the energy sector contracted in the second quarter of 2020 due to the idling of several methanol and ammonia plants and lower natural gas production. In the nonenergy sectors, early indicators also pointed to sluggishness in some areas such as distribution, manufacturing and construction while finance, insurance and real estate remained more buoyant. In noting the lags in the official inflation and labour statistics—latest available to March 2020 and the third quarter of 2018 respectively—the MPC considered that monitoring high frequency data was particularly essential at this time, but acknowledged that the present environment likely affected data compilation.

The MPC evaluated the foregoing factors carefully, in particular the substantial liquidity in the domestic system amidst the slow pace of business credit, and the wider domestic and international macroeconomic environment. On this basis, the MPC decided to **maintain the repo rate at 3.50 per cent**. The Central Bank continues to monitor and analyse developments, and will take further action as necessary.

The next Monetary Policy announcement is scheduled for **December 30, 2020**.

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