



CENTRAL BANK OF TRINIDAD & TOBAGO

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MONETARY POLICY ANNOUNCEMENT

September 29, 2023

CENTRAL BANK MAINTAINS REPO RATE AT 3.50 PER CENT

Despite some signs of resilience earlier in the year, continued though slowing inflationary pressures, still relatively high interest rates and the impact of geopolitical tensions pose immediate constraints to global economic activity. The latest (July 2023) International Monetary Fund's forecast is for global growth to slow to 3.0 per cent in 2023 from 3.5 per cent in 2022. Headline inflation in many countries has declined on account of lower food and energy commodity prices along with the easing of supply chain issues. Several Central Banks paused interest rate hikes at the end of the third quarter of 2023 — for example, in September 2023, the United States Federal Reserve (Fed) maintained its federal funds target range of 5.25 per cent to 5.50 per cent and the Bank of England also kept its benchmark rate unchanged. At the same time, the Fed signalled that the tightening cycle may not be at an end as inflation was still above target levels.

Domestically, data from the Central Statistical Office (CSO) indicate that real GDP grew by 3.0 per cent (year-on-year) in the first quarter of 2023 reflecting strong expansion in the non-energy sector (4.2 per cent) accompanied by marginal growth in the energy sector (0.3 per cent). In the second quarter of 2023, indicators monitored by the Central Bank point to a steady rise in activity in major non-energy sectors including Transportation and Storage, Wholesale and Retail Trade (excluding Energy), Electricity and Water (excluding Gas) and Construction. The unemployment rate increased to 4.9 per cent in the first quarter of 2023 from 4.7 per cent in the fourth quarter of 2022.

Headline inflation eased further in August 2023 to 4.1 per cent (year-on-year), down from 4.7 per cent recorded in July 2023. The deceleration in headline inflation came from slower price movements in food as core inflation remained unchanged. Food inflation slowed to 5.6 per cent while core inflation (which excludes food items) remained at 3.7 per cent.

The steady growth momentum in credit continued in the second quarter of 2023 as overall financial system credit grew by 7.8 per cent in the twelve months to June 2023, up from 6.4 per cent in March 2023. The main loan subcategories all accelerated — business lending to 7.3 per cent, consumer loans to 8.1 per cent, and real estate mortgage loans to 6.3 per cent (all year-on-year). Banking system liquidity remained elevated thus far for the year, with commercial banks' reserves at the Central Bank in excess of required levels reaching a daily average of \$6.3 billion by the end of August 2023. The differential between short term interest rates in Trinidad and Tobago and the United States narrowed as domestic rates edged up and the Fed paused its rate increases — the differential on 3-month treasuries (TT/US) reached -464 basis points in August 2023 from -476 basis points in May 2023. Meanwhile on the longer term, the 10-year differential moved to +107 basis points from +153 basis points over the same period.

In its deliberations on international developments, the Monetary Policy Committee (MPC) noted the continued uncertainty on the global inflation front and the impact that future monetary tightening may have on the TT/US interest differential. The Committee considered that domestically, the buoyancy in private sector credit, alongside the sustained deceleration in inflation, were helping to foster a steady revival of economic activity without demand pressures at this time. Taking all factors into consideration, **the MPC agreed to hold the repo rate at its current level of 3.50 per cent.** The Central Bank will continue to carefully monitor and analyse international and domestic developments and will take further actions as necessary.

The next Monetary Policy Announcement is scheduled for December 29, 2023.

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