



**CENTRAL BANK OF  
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**MONETARY POLICY ANNOUNCEMENT**

**March 25, 2022**

**CENTRAL BANK MAINTAINS REPO RATE AT 3.50 PER CENT**

Global economic uncertainty accelerated in the first quarter of 2022 in the wake of Russia's invasion of Ukraine and its likely impact on already surging inflation across the world. The 4.4 percent global growth for this year forecasted by the International Monetary Fund in January 2022 is likely to be downgraded based on current developments. One of the early impacts of the war is the jump in energy prices: crude oil prices (West Texas Intermediate measure) moved from an average of US\$71.50 per barrel in December 2021 to an average of US\$103 per barrel as at mid-March 2022 as sanctions on Russia disrupted supply.

Monetary policy responses have largely been in the direction of tightening. Earlier this month, the United States Federal Reserve and the Bank of England hiked their respective policy rates by 25 basis points. Concern regarding higher domestic inflation, external price pressures on the energy front, and the impact of higher interest rates in advanced economies on potential capital flows and currency movements prompted several other Central Banks to also raise interest rates.

Domestically, headline inflation stood at 3.8 per cent (year-on-year) in January 2022 compared with 3.9 per cent in October 2021. Food inflation eased to 6.6 per cent from 7.6 per cent in October, partly due to the zero-rating of Value Added Tax on additional food items from November 2021. Core inflation (which excludes food items) remained steady at around 3 per cent. Indications are, however, that imported inflation will continue to push up local prices of food and other items in coming months.

Preliminary estimates from the Central Bank's Quarterly Index of Economic Activity (QIEA) suggest that higher crude oil and petrochemical production spearheaded a return to positive growth in energy sector activity during the fourth quarter of 2021. Although

indicators of non-energy sector activity point to continued softness, the continued rollback of COVID-19 restrictions has boosted business operations, supported by bank financing. On a year-on-year basis to December 2021, business lending increased by 4.5 per cent, compared to the 2.2 per cent decline averaged over the first three quarters of that year. Business lending was particularly strong in the construction and ‘other services’ sectors. The rise in credit to companies reflected some switch away from lending to consumers which slipped by 2.4 per cent over the course of 2021. Credit worthiness of consumers may have suffered in a climate of sluggish employment conditions--the latest official labour statistics show an unemployment rate of 6.1 per cent in the third quarter of 2020 that may have persisted into later quarters.

Financial system liquidity remains ample, with commercial banks’ excess reserves at the Central Bank averaging around \$6 billion in early March 2022. With interest rates domestically remaining relatively steady, the rise in global rates was reflected in a marked change in interest differentials. Specifically, the differential between Trinidad and Tobago and US 90-day treasury securities moved from +27 basis points in November 2021 to -20 basis points in March 2022.

The Monetary Policy Committee (MPC) considered the increasing weight of external factors on current and short-term developments in Trinidad and Tobago. While higher energy prices will augment fiscal revenues, wider supply disruptions and higher prices of food commodities will add to imported inflation. The consensus view among international analysts regarding further interest rate adjustments in the US and elsewhere was also considered. At the same time, the Committee took account of the early signs of a domestic economic recovery facilitated by some expansion in credit, alongside still relatively low supply-driven inflation. 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 June 24, 2022.**

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