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MONETARY POLICY ANNOUNCEMENT

June 27, 2025

CENTRAL BANK MAINTAINS REPO RATE AT 3.50 PER CENT

The recent escalation of tensions in the Middle East has further added to global economic uncertainty. The susceptibility of oil supplies to potential disruption on account of the military action in that area resulted in a spike in crude oil prices. Brent crude oil prices reached a high of US$76 per barrel (bbl), but subsequently fell below US$70/bbl following the announcement of a ceasefire. Financial markets nonetheless remain on edge in a very fluid situation. Higher energy prices and a possible escalation of hostilities pose risks for growth and inflation across the world, although energy exporters could benefit from the terms of trade shock. According to the International Monetary Fund's (IMF) April 2025 *World Economic Outlook*, world growth was already projected to soften to 2.8 per cent in 2025 from 3.3 per cent a year earlier with inflation decelerating to 4.3 per cent in 2025.

In terms of monetary policy, a number of central banks have continued their easing cycles, while a few others have held policy rates steady in order to safeguard against inflation risks. In June 2025, the US Federal Reserve (Fed) maintained its federal funds target range of 4.25 per cent to 4.50 per cent for the fourth consecutive meeting. US treasury yields inched up and the US dollar strengthened. Conversely, interest rates on 3-month treasuries in Trinidad and Tobago (TT) have softened partly because of favourable liquidity conditions. As a result, the (negative) TT-US interest rate differential on 3-month treasuries widened to -222 basis points in May 2025 – up from -200 basis points in January 2025.

Data from the Ministry of Energy and Energy Industries pointed to a year-on-year reduction in the production of natural gas (-5.9 per cent) during the first quarter of 2025. Crude oil production improved (6.1 per cent), while the performance of the petrochemical industry was mixed. Expansions in ammonia (4.7 per cent) and urea (12.5 per cent) were countered by a notable decline in methanol output (-15.3 per cent). Momentum in the non-energy sector appears to be slowing, but overall activity remains positive. Indicators monitored by the Central Bank suggest that positive performances in the manufacturing, distribution and finance sectors were somewhat offset by sluggishness in the construction and utilities sectors.

Inflation remains contained. Headline inflation, as measured by the Central Statistical Office's Consumer Price Index, rose to 1.4 per cent (year-on-year) in May 2025 from 0.7 per cent in January 2025. Core inflation (which excludes food prices) rose by 0.7 per cent, while food prices increased by 4.1 per cent in May. Food prices have been driven by higher prices for meat and for imported items such as butter, margarine and edible oils. Meanwhile, building material prices rose by 2.3 per cent (year-on-year) in the first quarter of 2025 compared with 2.5 per cent the previous quarter.

On the financial front, credit extended to the private sector continued to expand robustly. Private sector credit from the consolidated financial sector rose by 9.1 per cent (year-on-year) in April 2025. Business credit expanded by 11.4 per cent, driven by loans to the finance and manufacturing sectors. Consumer lending grew by 10.8 per cent, while real estate mortgage loans increased by 6.9 per cent. On the former, there was slowdown in lending for motor vehicles, but a pickup in credit for the purchase of land and real estate. Credit expansion was supported by ample domestic liquidity. Commercial banks' excess reserves at the Central Bank averaged $6.6 billion in May 2025, before slipping to $5.3 billion in early June.

The Monetary Policy Committee (MPC) considered the uncertain outlook for global growth and inflation amidst trade policy developments and Middle East tensions. The MPC also noted the various reactions of central banks in the circumstances. Domestically, low inflation and favourable financial conditions have supported credit expansion. At the same time, the MPC noted the need for continued vigilance on credit quality given the increase in bank lending. The Committee also considered that in the coming months, the path of domestic fiscal financing would have important implications for liquidity management.

Taking all these factors into account, **the MPC agreed to maintain the repo rate at 3.50 per cent.** The Central Bank will continue to carefully examine and analyse international and domestic developments and prospects.

The next Monetary Policy Announcement is scheduled for September 26, 2025.

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