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MONETARY POLICYANNOUNCEMENT

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CENTRAL BANK MAINTAINS REPO RATE AT 4.75 PER CENT

The volatility in international financial and commodity markets experienced at the end of 2015 persisted into January 2016. Despite steady economic activity and stable unemployment, concern about global developments prompted the US Federal Reserve to keep interest rates on hold in January following the first rate increase since 2008. Commodity prices remained soft, with energy prices in particular tumbling to a 10-year low in early January 2016.

Domestically, crude oil and natural gas production fell during the period October-November 2015, with the slippage in gas output in particular continuing to negatively impact the downstream industries. Available data over this period also allude to tepid activity in some of the non-energy sectors, most notably distribution and construction. Although there have been recent reports of lay-offs across the construction, manufacturing and energy sectors, labour market conditions still appear broadly favourable, with demand for low to semi-skilled workers remaining relatively buoyant. The persistence of low oil prices suggests that fiscal stimulus to the economy is likely to be severely constrained in coming months.

Meanwhile, headline inflation continued to decelerate. According to the Central Statistical Office's Retail Price Index (RPI), headline inflation measured 1.5 per cent in December 2015 and 1.4 per cent in November 2015[1]. This represented a slowdown from 3.2 per cent in October 2015. In the final quarter of 2015, core inflation hovered around 2.3 per cent, slightly above the levels experienced over the first nine months of the year, due in part to an increase in fuel prices announced in the 2015/2016 Budget. On the other hand, food inflation

[1] It should be noted that the calculated year-on-year headline inflation rates for November and December 2015 are below the rates for core and food inflation primarily due to technical reasons related to rebasing of the RPI from 2003 to 2015.

slowed significantly to 2.7 per cent in December compared with 6.1 per cent in October, and 14.6 per cent in January 2015. While aggregate demand conditions are expected to be contained, the inflationary outlook for 2016 will also be affected by the net impact of a reduction of the VAT rate to 12.5 per cent from 15 per cent alongside an increase in the VAT-eligible items. Weather-related shocks could also affect the behaviour of food prices.

Recent commercial bank statistics show relatively high liquidity levels in December 2015 to late January 2016; banks' excess reserves at the Central Bank averaged $3.4 billion in December and $4.0 billion for most of January 2016. The Central Bank continued to utilize its various instruments, principally open market operations, Treasury bills and special deposits offered to commercial banks, to address the liquidity situation. On the interest rate front, with long-term rates in the United States slipping as investors sought safe haven instruments in the wake of financial market volatility, there was a widening of the TT/US 10-year Treasury yield from 161 basis points in December to 187 basis points as at January 25th 2016. However, there was simultaneously some compression at the shorter end of the yield curve, with the differential on 91-day securities narrowing from 84 to 69 basis points.

Taking into account the prevailing economic climate and the short-term outlook, at its January 2016 meeting the Central Bank's Monetary Policy Committee decided to maintain the "Repo" rate at 4.75 per cent. The Bank will continue to carefully analyse domestic and international economic developments in its deliberations and decisions.

The next Monetary Policy Announcement is scheduled for March 24th 2016.

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