



**CENTRAL BANK OF
TRINIDAD & TOBAGO**

POST OFFICE BOX 1250 PORT-OF-SPAIN, TRINIDAD, WEST INDIES

TELE: 625-4835, FAX: (868) 623-1955

E-Mail Address: info@central-bank.org.tt

Website: www.central-bank.org.tt

Monetary Policy Announcement

NON ENERGY SECTOR DRIVES ACTIVITY, CORE INFLATION STILL STABLE: CENTRAL BANK MAINTAINS REPO RATE AT 2.75 PER CENT

There are encouraging signs that the domestic economy appears to be on a path of recovery, as evidenced by four consecutive quarters of slow but steady year-on-year growth from July 2012 to June 2013. Growth has been mainly driven by the non-energy sector and this trend is expected to continue into the second half of 2013 as the planned maintenance of gas and downstream plants, which began in September 2013, is likely to impact the performance of the energy sector. While core inflation demonstrated a slight uptick in August 2013, underlying inflationary pressures still remain well contained. Of concern, however, is the eighth successive month of decline in business lending in July 2013 and elevated liquidity levels, both of which reflect continued caution on the part of the private sector. Even though the U.S. Federal Reserve decided at its September 2013 meeting to not begin tapering of its quantitative easing program, changes in market expectations about the future path of U.S. monetary policy are influencing the trajectory of global interest rates. **Against this backdrop, the Central Bank views the present accommodative monetary policy stance as appropriate to support the ongoing recovery, and has decided to maintain the ‘Repo’ rate at 2.75 per cent.**

According to the Central Bank's Quarterly Real GDP Index, economic activity is estimated to have expanded at an average rate of 1.7 per cent (year-on-year) for four successive quarters from July 2012 to June 2013, compared with a contraction which averaged 1.6 per cent in the preceding four quarters. This turnaround was driven by the non-energy sector where output rose at an average pace of nearly 2 ½ per cent in the four quarters to end-June 2013. The energy sector expanded at a much slower average rate of 0.7 per cent (year-on-year) in the period, as intensified maintenance work and security upgrades posed a severe drag on the sector's performance.

Overall private sector credit growth though slow, has been relatively steady thus far in 2013. On a year-on-year basis, private sector credit granted by the consolidated financial system grew by 3.0 per cent in July 2013 compared with just over 2 ½ per cent in June 2013. Consumer lending continued to strengthen, increasing by almost 6 ½ per cent (year-on-year) in July from 6.2 per cent in June 2013. On the other hand, business loans contracted for the eighth consecutive month, falling by 5.0 per cent in July 2013. Real estate mortgage loans maintained its strong double digit growth.

Large net domestic fiscal injections along with weak credit demand contributed to a rapid build-up of liquidity levels in the financial system over the past few months. Commercial banks' excess reserves at the Central Bank rose from a daily average of \$5.4 billion in July 2013 to a daily average of \$6.3 billion in August. Excess reserves increased even further to a record daily average of \$8.3 billion over the first three weeks of September. While a \$1 billion Central Government treasury bond offered in early August 2013 was undersubscribed, the allotment of almost \$560 million helped to reduce some of the excess liquidity. Central Bank open market operations and sales of the foreign exchange also removed some of the excess liquidity from the system in July-September 2013.

Latest available data from the Central Statistical Office showed that, on a year-on-year basis, headline inflation rose to 5.1 per cent in August 2013 from 3.8 per cent in July 2013 and 7.9 per cent one year earlier. This was mainly due to a rise in food inflation, which increased to 7.7 per cent in August 2013 from a low of 4.8 per cent in the previous month. Core inflation inched slightly upwards but remains stable at a little over 3.0 per cent in August 2013.

The substantial expansion in liquidity has kept short-term, domestic treasury rates at record low levels, with the discount rate on 3-month treasury bills holding at 0.14 per cent in the final week of September 2013. Meanwhile the rate on US 3-month treasury bills fell to 0.02 per cent in the last week of September. As a result, the differential between the TT and US 3-month treasury rates widened to 12 basis points up from 10 basis points in August 2013.

The Central Bank will continue to nurture financial conditions supportive of the recovery, while keeping economic and monetary conditions under close review in the coming months.

The next Monetary Policy Announcement is scheduled for November 29, 2013.

September 27, 2013