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MONETARY POLICYANNOUNCEMENT
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CENTRAL BANK RAISES REPO RATE BY 25 BASIS POINTS TO 4 ½ PERCENT

At its September 2015 meeting, the Central Bank's Monetary Policy Committee (MPC) agreed to increase the 'Repo' rate for a seventh consecutive time by 25 basis points to 4 ½ percent. The most influential factor behind the MPC's decision remains the normalization of US monetary policy which could reduce capital flows to many emerging market economies, including Trinidad and Tobago, which is already adjusting to persistently low energy prices. The MPC also judged the domestic monetary policy stance as still very accommodative in the context of a contracting non-energy sector and moderate inflationary pressures.

Since the July 2015 meeting of the MPC, the global growth outlook has worsened with the emergence of new risks. These risks included spillbacks associated with an abrupt slowdown in the Chinese economy and a surprise devaluation of the renminbi, both of which contributed to the US Fed keeping its policy rate unchanged at its September 2015 meeting. This delay to the start of normalization of US monetary policy has added to the uncertainty in an already volatile global environment. Markets now expect an increase in the Fed funds rate to take place sometime in the remaining three months of 2015, especially given the strengthening US economy. Over the past few months, the interest differential has widened between TT$ assets and US$ assets, but this fairly comfortable position could easily reverse, given the sharp fluctuations in US interest rates in 2015. The MPC judged higher domestic interest rates are necessary to mitigate potential capital outflows.

Trinidad and Tobago's domestic economic outlook has deteriorated. Provisional estimates indicate the domestic economy contracted by close to 2 percent in the first half of 2015. Continued shortfalls in natural gas production saw the energy sector decline by an estimated 3 ½ percent in the first six months of 2015. The non-energy sector, which has provided support to the overall economy for the past few years lost momentum, declining by around 1 percent in the first half of 2015. This decline was mainly due to a slowdown in construction, distribution and manufacturing. Early indicators point to continued sluggish economic performance in the third quarter of 2015.

Domestic inflationary pressures have not materialized as initially expected. On a year-on-year basis to August 2015, headline inflation slowed to 4 percent from just over 5 ½ percent in July 2015. Core inflation was stable at just over 1 ½ percent, while food inflation decelerated to around 8 percent from double-digit territory of 11 ½ percent in July 2015. Although current price pressures seem contained, disruptions to domestic agricultural supply and higher production costs facing select food industries could lead to rising food inflation. Increased consumer spending driven in part by recently concluded public sector wage agreements, as well as robust consumer borrowing, could also push up inflationary pressures.

With excess liquidity remaining at a comfortable daily average of $3.3 billion over the past three months (July – September 21, 2015), the MPC also decided to maintain an aggressive liquidity management programme so as to strengthen the impact of rising interest rates throughout the financial system. As at mid-September 2015, the median commercial bank prime lending rate had increased to 8 ½ percent from 8 ¼ percent in July 2015.

The next Monetary Policy Announcement is scheduled for November 27th 2015.

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